

IV. Monetary Policy

During the first six months of 1994, BNB monetary policy was aimed at maintaining financial stability. The numerical guidelines set for its implementation were within performance criteria contained in the third stand-by agreement with the IMF.

Despite the restrictive character of monetary policy, the rate of inflation accelerated over that of 1993. This was due mainly to a more complicated environment in which the BNB had to operate as well as to inefficient use of some monetary instruments.

In contrast to 1993, cumulative tension in the forex market led to a sharp devaluation of the national currency, which in turn resulted in higher prices and shaken confidence in the lev by the end of the first quarter of 1994. Despite a tighter monetary policy, the BNB failed to dramatically cut commercial bank refinancing as this may have caused liquidity shortfalls in the banking system. Moreover, credit ceilings, because of their limited scope, were ineffective in containing credit expansion.

Under such conditions, and with no direct pressure from fiscal and incomes policy, monetary restriction was inadequate in providing for compliance with all IMF performance criteria. Money supply growth surpassed forecasts and despite increased BNB net foreign assets, net domestic assets of the banking system exceeded the value agreed upon with the IMF.

1. Money Supply

According to preliminary data, money supply (broad money), including cash outside banks and all types of deposits, reached BGL 328.6 billion at the end of June 1994, an increase of BGL 86.1 billion, or 35.5% over the first six months of the year. This is 28.9 percentage points less than the rate of inflation in the same period as measured by the consumer price index. Thus, the real money supply decreased 15% from late 1993. In comparison, broad money rose 18.6% in nominal terms, but contracted 11.9% in real terms during the first half of 1993. This data suggests that BNB monetary policy was moderately restrictive.

MONETARY AGGREGATES GROWTH

Indicators	January – June'93		January – June'94	
	billion BGL	Dec.'92=100%	billion BGL	Dec.'93=100%
Broad money	29.5	18.6	86.1	35.5
High-liquid money (M1)	-0.9	-2.4	6.7	13.9
Currency outside banks	1.9	10.6	5.1	20.3
Demand deposits	-2.8	-14.5	1.6	6.8
Quasi-money	30.3	25.9	78.1	41.1
Time deposits	27.7	46.6	25.9	23.4
Savings deposits	0.8	4.1	1.9	6.8
Deposits in foreign currency	1.8	4.7	50.2	97.5

Source: BNB.

Between January and June, the overall growth in money supply was rather uneven, reflecting dramatic movements in the exchange rate which led to irregular changes in the forex component. Broad money rose 30.5% over the first quarter, in March only 21.3%. The sharp devaluation of the lev between January and March accounted for 98.5% of the increase in the first quarter, for 73.8% of the increase in March. During the second quarter, money supply grew a mere 4%. In April, the

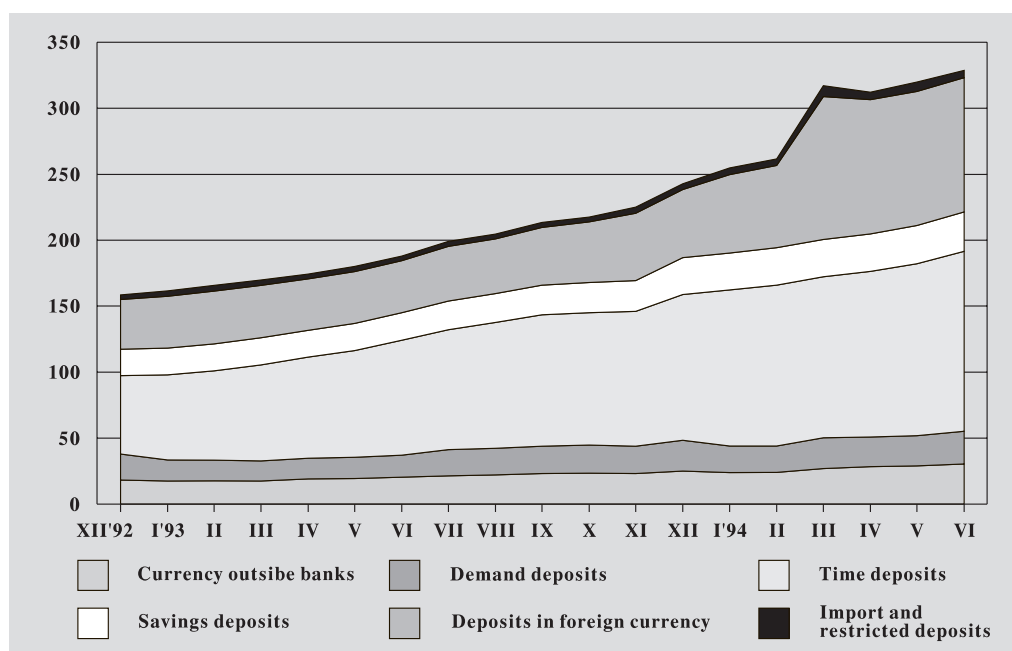
money supply shrank by 1.5% due primarily to a 17.4% rise over the first quarter (12.4% in April alone) in the value of the lev.

Money supply grew at a 74.7% annual rate during the first six months of 1994. In real terms, it contracted 10%. Broad money contracted 9% in real terms in 1993, which suggests that the BNB did not follow a severely restrictive monetary policy during the period under consideration. The lack of positive changes in the real sector between April and June 1994 necessitated a gradual adjustment in BNB anti-inflationary monetary policy to ensure liquidity in the banking system. Consequently, inflationary expectations in the economy remain.

During the first six months of 1994, the lev component of broad money grew BGL 34.7 billion, or 18.5% (52.3% annual rate), versus 23.8% (59% annual rate) in the same period last year. Data indicates that the BNB tightened the lev component; at the same time, increased pressure in the forex component did not have much the same effect on overall money supply.

DEVELOPMENTS IN MONETARY AGGREGATES

(billion BGL)



Source: BNB.

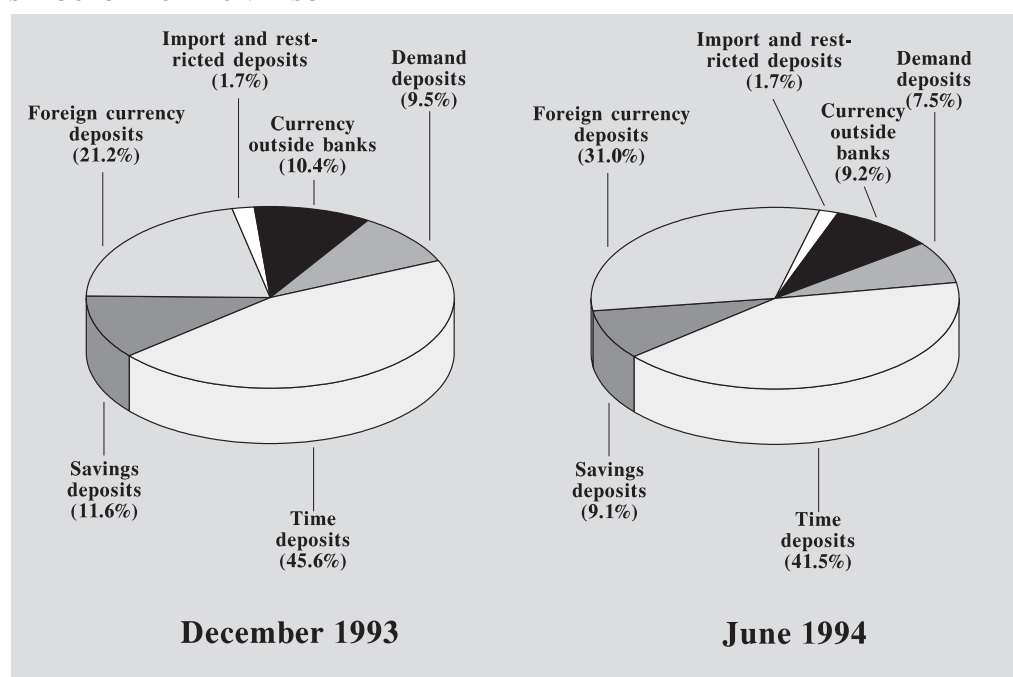
Owing to a higher rate of inflation during the period under review, the growth rate of M1 (high-liquid money, including cash outside the banks and current accounts in lev) exceeded the year-ago rate. Cash outside banks increased faster than current account balances. Consequently, the share of cash outside banks accounted for 55% of the monetary aggregate M1, versus 52.1% in late 1993. This percentage share was close to that reported in June 1993 (54.7%), and indicates that economic agents still generally prefer to make cash payments.

During the six-month period, quasi-money, including time, savings and foreign currency deposits, rose BGL 78.1 billion, or 41.1%. Compared with the first six months of last year, quasi-money grew 15.2 percentage points, this growth attributable primarily to a depreciation in the lev.

During the period under consideration, time deposits increased BGL 25.9 billion, or 23.4%. This increase was BGL 2 billion less than the increase one year ago, with a halved rate of growth. There are several reasons for this lower rate of growth: weakened confidence in the lev in the wake of a forex crisis at the end of March and substantially negative real interest rates following the April price surges, declines in real income and increasingly vigorous advertising for stock investments (this, despite the absence of laws regulating the capital market).

During the first six months of 1994, the value of time deposits grew more slowly than the interest which accrued over the period, as banks were unable to attract new deposits. Moreover, a portion of the interest was withdrawn to meet current consumption needs or to be exchanged for foreign currency. Net interest withdrawals occurred in both quarters: in the first quarter BGL 1.8 billion was withdrawn, and in the second quarter BGL 1.7 billion. Throughout the half-year withdrawals by households and companies varied considerably. Confidence in the lev peaked in January when time deposits rose BGL 7.7 billion (7%) and bottomed out in March, when time deposits increased only BGL 48 million or less than 0.1%. Not until June did time deposits exceed the level of interest accrued. By June, the value of time deposits exceeded the level of interest accrued by BGL 329 million, which suggests renewed confidence in the lev.

STRUCTURE OF MONEY SUPPLY



Source: BNB.

During the half-year, foreign exchange deposits grew BGL 50.2 billion, or 97.5%, the highest growth rate of all deposits. This was basically a result of the sharp depreciation of the lev with respect to major foreign currencies. During the period under review, foreign currency deposits rose USD 321 million, or 20.4%. This was appreciably more than interest accrued over the period and evidence that foreign currency deposits are a preferred form of investment. This was clearly evident in the wake of the March forex crisis – in April foreign currency deposits increased USD 112 million. In January and June nearly equal levels of foreign currency deposits of approximately USD 70 million were reported, suggesting confidence in the lev has slowly revived.

2. Domestic Credit

Between January and June 1994, net foreign assets fell 70.1%; assets rose 112%, liabilities 78.1%. The sharp devaluation of the lev was the primary reason for the more vigorous dynamics relative to the same period last year. However, the effects of restored foreign funding should not be underestimated as they also led to growing foreign assets and liabilities.

DOMESTIC CREDIT GROWTH

Indicators	January – June'93		January – June'94	
	billion BGL	Dec.'92=100%	billion BGL	Dec.'93=100%
Domestic credit	61.5	25.4	159.4	40.2
BGL	15.0	17.6	38.0	30.2
foreign currency	23.2	19.3	137.9	71.8
Credit to the government	27.4	30.5	97.5	50.3
BGL	15.6	51.3	6.7	6.5
foreign currency	11.8	19.9	90.8	100.4
Credit to nonfinancial public enterprises	28.4	21.1	42.1	25.3
BGL	17.0	23.0	9.4	12.5
foreign currency	11.4	18.7	32.7	35.9
Credit to private sector	5.7	32.3	19.7	54.9
BGL			5.3	21.0
foreign currency			14.4	136.4

Source: BNB.

During the period under consideration, domestic credit grew 40%, i.e. 4.5 percentage points more than the growth in money supply. This was similar to the situation in June 1993 when the gap was 6 percentage points. At the end of the first six months of 1994, domestic credit had grown at an 83% annual rate, or 8.3 percentage points more than money supply growth. Near equality in the two growth rates demonstrates that in the absence of external sources for domestic borrowing, BNB monetary restraint affected the supply of credit as much as it did the total money supply.

During the first six months of 1994, lev credit grew a mere BGL 21.5 billion, or 10.5%, one third less than the growth in the same 1993 period. In recent months, credit grew less than 1% as enforcement of LSNC suspended the automatic accrual of interest due on these credits. The main sources for domestic credit growth were new credits extended both to the government sector and to state-owned and private companies.

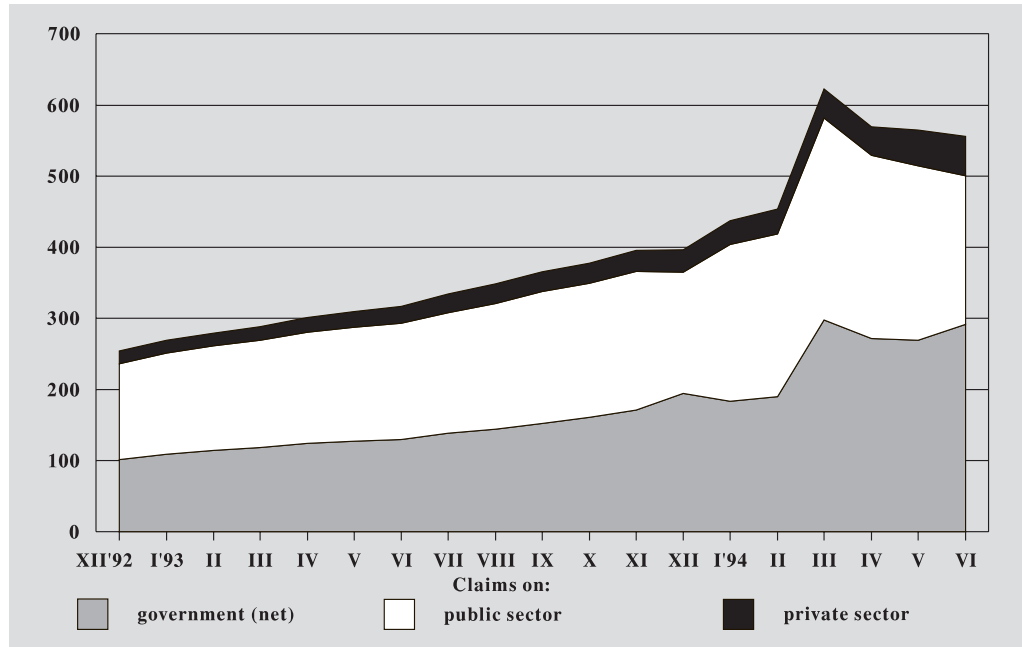
In contrast to 1993, forex component growth during the first half of 1994 was a sizable 71.8%. This was mainly a result of lev devaluation; however, growth of the forex component in dollar terms was USD 278 million, or 4.7%. This dollar amount almost equals interest accrued, although with structural changes in the economy it is likely that new forex credits were in recent months extended to both state-owned and private companies.

Enforcement of LSNC during the first six months of 1994 had a strong impact on the allocation of the domestic credit in both the government and nongovernment sectors. While lev credits were taken into account in the final bank balance sheets for 1993, the accounting of forex credits began only in June. This resulted in irregular reallocation of receivables in foreign currency between the sectors at the end of the half-year period, which hampered comparability of data with previous periods.

Credit to the government rose BGL 97.6 billion, or 50.3% due mainly to a BGL 90.8 billion (100.4%) increase in the forex component. The latter increase occurred as a result of the sharp devaluation of the lev and LSNC enforcement. In dollar terms, credit to the government totaled USD 613 million; including USD 443 million from the sale of government securities denominated in foreign currency. This indicates that less than one fourth of the forex credits under LSNC were transformed in June.

DEVELOPMENTS IN DOMESTIC CREDIT

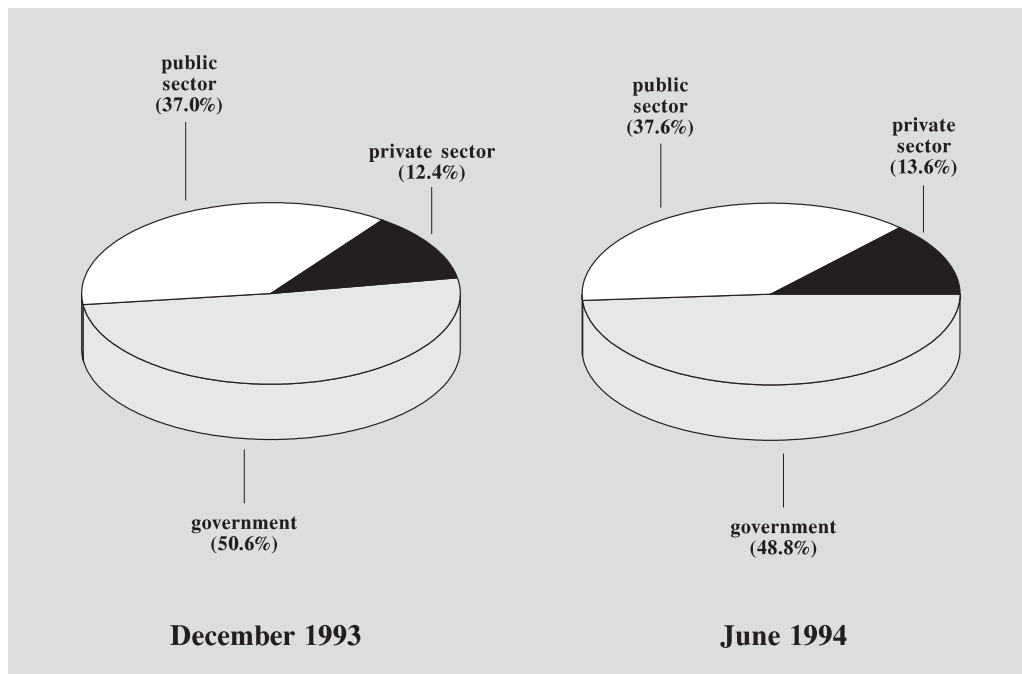
(billion BGL)



Source: BNB.

During the period under review, net lev claims on the government sector increased BGL 6.7 billion, or 6.5%. Compared with year-earlier levels, borrowing requirements declined BGL 8.9 billion, or 44.8 percentage points, a sizable reduction. Data indicates that crowding out of the nongovernment sector from the credit market was sharply relieved. The slowdown in the growth rate of credit to the government can be attributed not only to increased budget revenues but to a number of deferred expenses as well. As a result, the budget deficit may put monetary policy under heavy pressure during the second half of the year.

**STRUCTURE OF DOMESTIC CREDIT
(lev component)**



Source: BNB.

Between January and June, credit to the nongovernment sector rose BGL 61.9 billion, or 30.5%. In contrast to 1993, the forex component rose faster than the lev component, 46.3% versus 14.6%. Credits to the private sector also increased: lev claims rose BGL 5.3 billion (21%), and forex claims BGL 14.4 billion (136.4%). In dollar terms, forex claims grew USD 142 million (44.1%), displaying one major sphere of commercial bank activity relating to placement of earnings from increases in foreign currency deposits.

During the first six months of 1994, claims on nonfinancial state enterprises increased BGL 42.1 billion, or about 25%. The rate of lev claims grew two times more slowly than the overall growth rate, and its size was BGL 9.4 billion. Forex claims grew BGL 32.7 billion (35.9%) but in dollar terms it contracted USD 477 million, due mainly to LSNC enforcement. This growth in credit to nonfinancial state enterprises could be considered sufficient for the time being, given the ongoing, though, delayed, contraction of the public sector in the national economy.

In contrast to 1993, the credit market during the first six months of 1994 did not experience crowding out of the real sector by the government. This was due mainly to decreased government demand for credit. At the same time, the rapidly developing private sector attracted ever increasing credits, both lev and foreign currency. This is a positive trend which, if retained, would help promote economic recovery.

3. Monetary Instruments and the Money Market

Refinancing

As of 30 June 1994, funds extended by the BNB to refinance commercial banks totaled BGL 26,593 million, including overdraft of BGL 361 million. This was the largest amount extended to commercial banks by the BNB in the past three years. This attempt to improve bank liquidity represents an increase of BGL 10,835 million, or 68.75% over the amount extended on 31 December 1993.

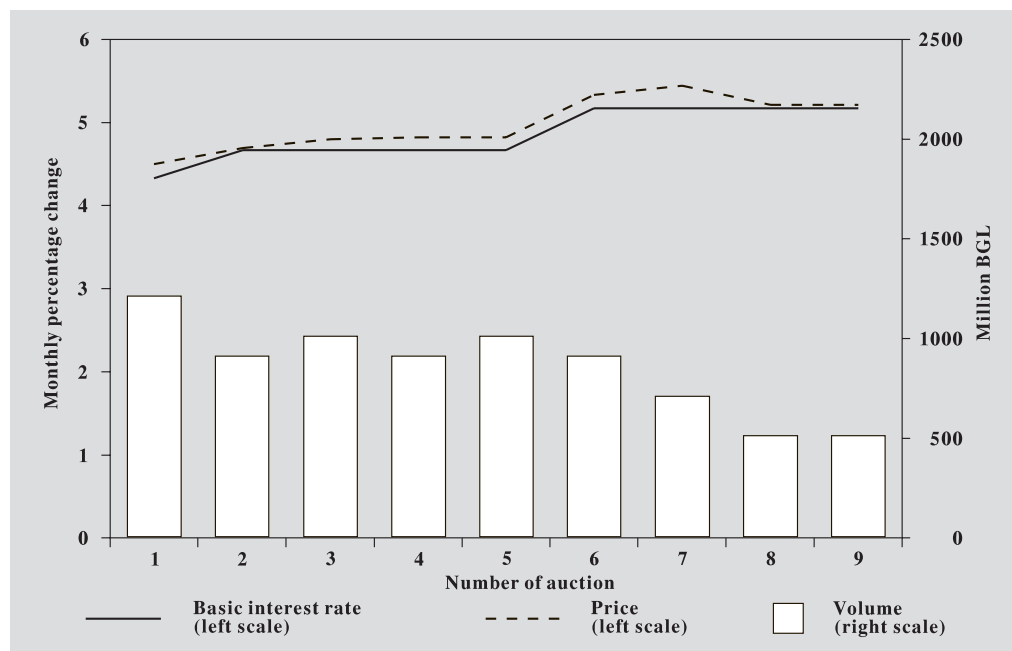
An analysis of bank refinancing in the first half of 1994 indicates that 40% of commercial banks maintained their liquidity without borrowing from the BNB. On the other hand, BGL 20 billion, or approximately 77% of total refinancing funds were extended to only three commercial banks which received over BGL 12 billion more than in late 1993.

In structural aspect, the share of loans granted against collateral was the largest (54.1%), followed by discount loans and advances against bank promissory notes (27.4%). The share of unsecured deposits accounted for 18%, including funds from the auction for interbank deposits, 1.9%, overdraft used, 1.5%, and other deposits concerning particular resolutions of the BNB Board (including also Resolution No. 273 of 1 October 1992 on the temporary liquidity deficiency), accounting for 15.1%.

Deposit Auctions

Throughout January – June 1994, the BNB held only 9 interbank lev deposit auctions. Unsecured deposits totaling BGL 7,600 million were extended to commercial banks by the BNB. This accounted for 42.9% of deposits placed in the first half of 1993. As of 30 June 1994, deposits placed through auctions totaled only BGL 500 million, a more than five-fold decline from the BGL 2,550 million level of one year ago. Given the development of open market operations, including May auctions for repo-agreements for purchase and reverse repurchase of government securities, interbank deposit auctions will cease as a form of unsecured commercial bank refinancing.

INTERBANK DEPOSIT AUCTIONS, JANUARY – JUNE 1994



Source: BNB.

Lombard Loans

Dramatic changes evolved in the volume and structure of Lombard loans during the first six months of 1994.

Pursuant to LSNC, adopted by Parliament on 20 December 1993, 17 commercial banks with over 50% state participation were granted book-entry lev bonds worth of BGL 26.3 billion to exchange nonperforming lev credits (as of 30 June 1994) over 180 days, which were negotiated with state-owned enterprises, firms and commercial companies with over 50% state participation till 31 December 1990. Given the deteriorated liquidity of some commercial banks, the BNB in March began to extend Lombard loans against a pledge of lev bonds issued under LSNC; and as of June 1994, against a pledge of bonds denominated in US dollars.

Throughout the first half-year of 1994, 136 Lombard loans in the amount of BGL 23 billion were extended and Lombard loans in the amount of BGL 13 billion were repaid. As a result, the volume of Lombard loans increased from BGL 4,548 million on 31 December 1993 to BGL 14,459 million (317.9%) at the end of June 1994.

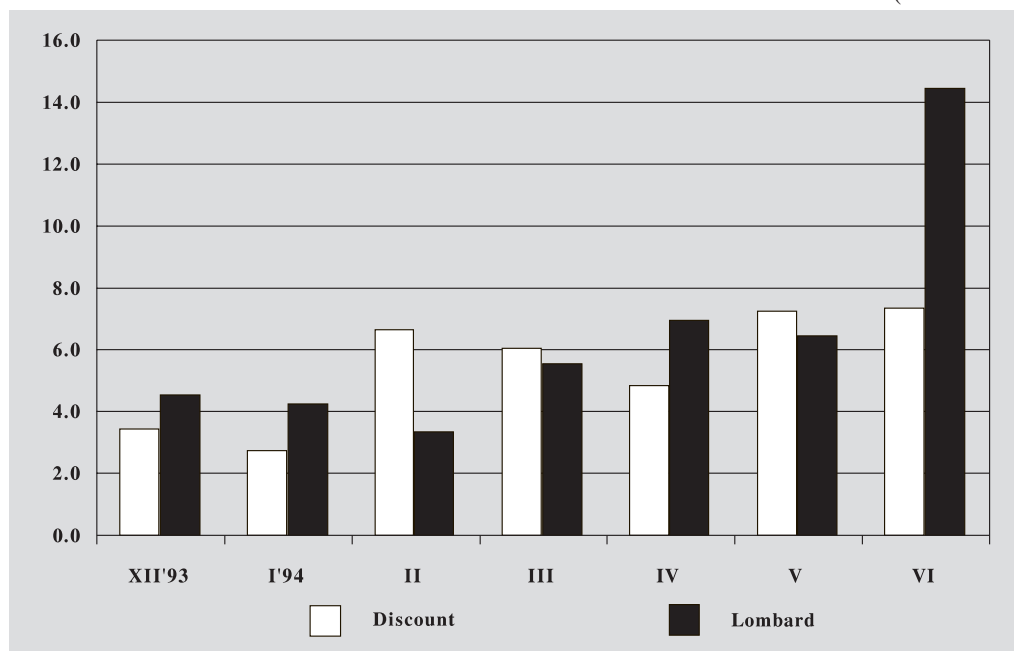
Structurally, as of 30 June 1994, Lombard loans were allocated as follows: loans extended against a pledge of bonds under LSNC, 89.3%; loans extended against a pledge of bonds under Decree Nos. 244 and 186, 7.2%; loans extended against a pledge of treasury bills and bonds issued by the MF to cover the budget deficit, 3.5%.

Discount Loans

As of 30 June 1994, discount loans totaled BGL 7,345 million. This accounted for 27.6% of the total refinancing amount. Discount loans rose by BGL 3,946 million, or 116% compared to December 1993. This increase was attributable to discounted promissory notes issued by commercial banks for drawing credit resources in the form of advances, and for the financing of agriculture in 1993/1994 crop year. Moreover, the number and amount of rediscounted commercial securities issued by firms rose. As a result, discount loans grew BGL 4,633 million, or 170% from one year earlier. In the January – June 1994 period, 227 discount loans totaling BGL 31,878 million were extended.

DISCOUNT AND LOMBARD LOANS GROWTH

(billion BGL)



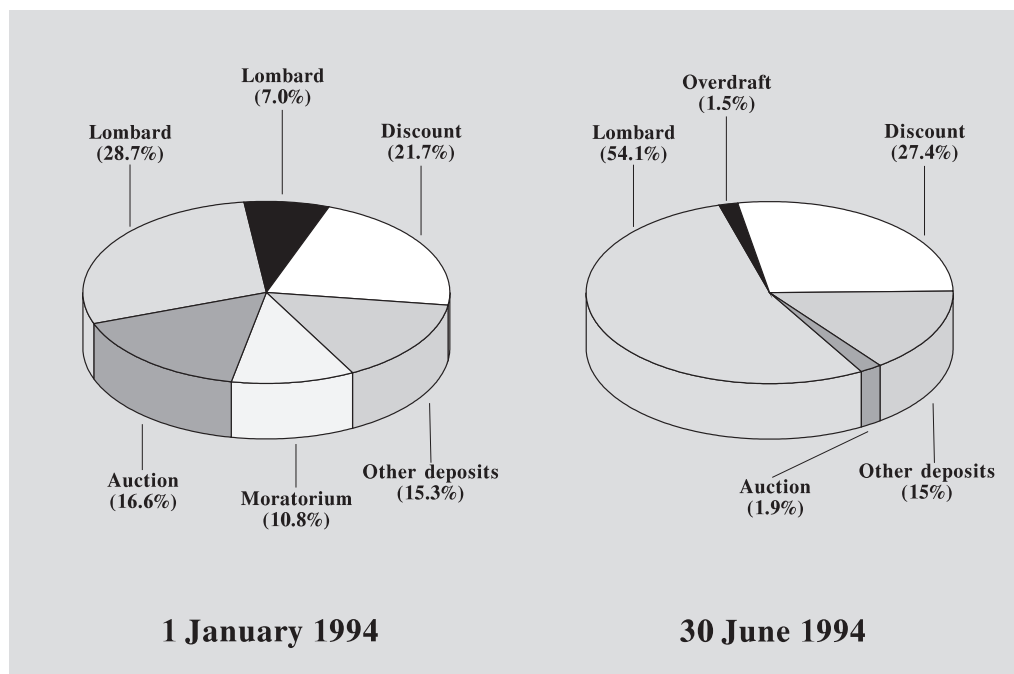
Source: BNB.

Short-term Deposits

Serious liquidity problems experienced by some commercial banks coupled with a delay in the issuance of long-term government bonds denominated in US dollars which were to be collateralized against Lombard loans, brought about an expansion in the volume of short-term unsecured deposits in the first half of 1994.

From January to June 1994, the BNB extended 377 short-term unsecured deposits totaling BGL 300,917 million to commercial banks. Of these, 358 short-term deposits of BGL 282,385 million were extended to cover temporary liquidity deficiencies pursuant to BNB Board Resolution No. 273 of 1 October 1992. As of 30 June 1994, 4 deposits in the amount of BGL 205 million were unpaid.

STRUCTURE OF ACTUAL DEPOSIT AND LOAN ARREARS OF COMMERCIAL BANKS



Source: BNB.

The bulk of the short-term unsecured deposits had terms of one to three days. Some banks used these deposits over the whole six-month period even when the interest rate hit a high of 120%.

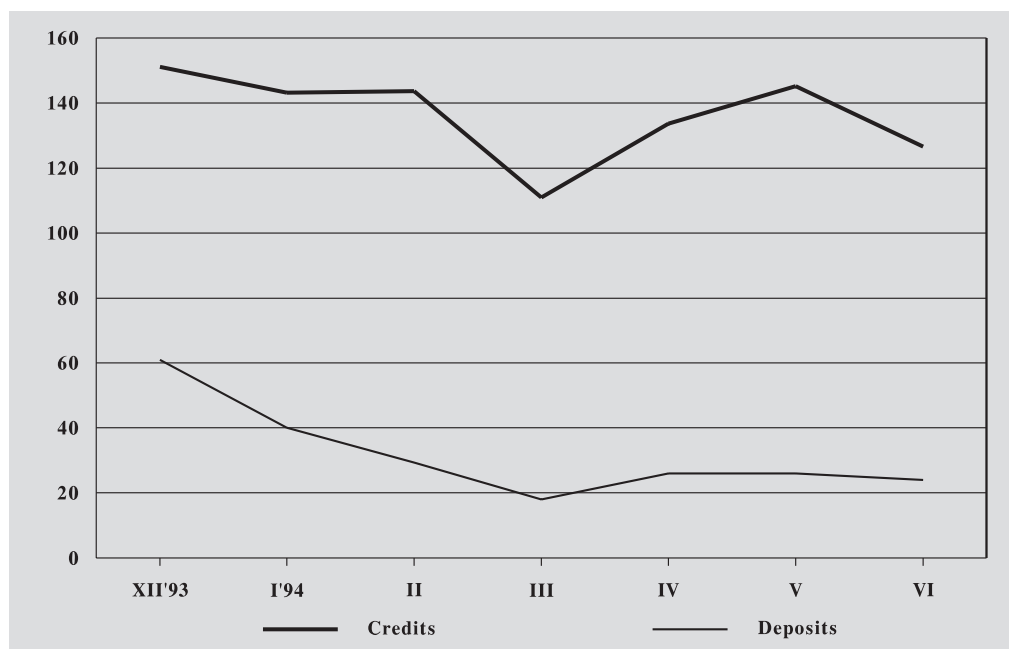
Pursuant to Article 30, paragraph 3 of the Law on the BNB and as per a decision of the BNB Board, 4 commercial banks were granted 19 short-term unsecured deposits worth of BGL 18,532 million to comply with liquidity requirements. As of 30 June 1994, 5 deposits in the amount of BGL 3,662 million remained unpaid due to later maturity term.

Forex Refinancing

In the absence of a special financial institution for funding import/export operations, the BNB continued to refinance commercial banks in foreign exchange against pledges of 3-month commercial securities (promissory notes). The volume of forex refinancing over January – June period tended to decline slightly, except for one large decline in March. By the end of June, the amount of forex credits extended to commercial banks totaled USD 126.6 million versus USD 151.1 million at the end of 1993, a decrease of USD 24.5 million, or 16.2%. The US dollar and Deutschemark were those currencies used for forex credits. A 9% annual interest rate was applied to credits denominated in US dollars and Deutschemarks. Compared with one year ago, interest rates for USD-denominated credits increased 1.5 percentage points, while interest rates on DEM-denominated credits remained unchanged.

REFINANCING OF COMMERCIAL BANKS IN FOREIGN CURRENCY

(million USD)



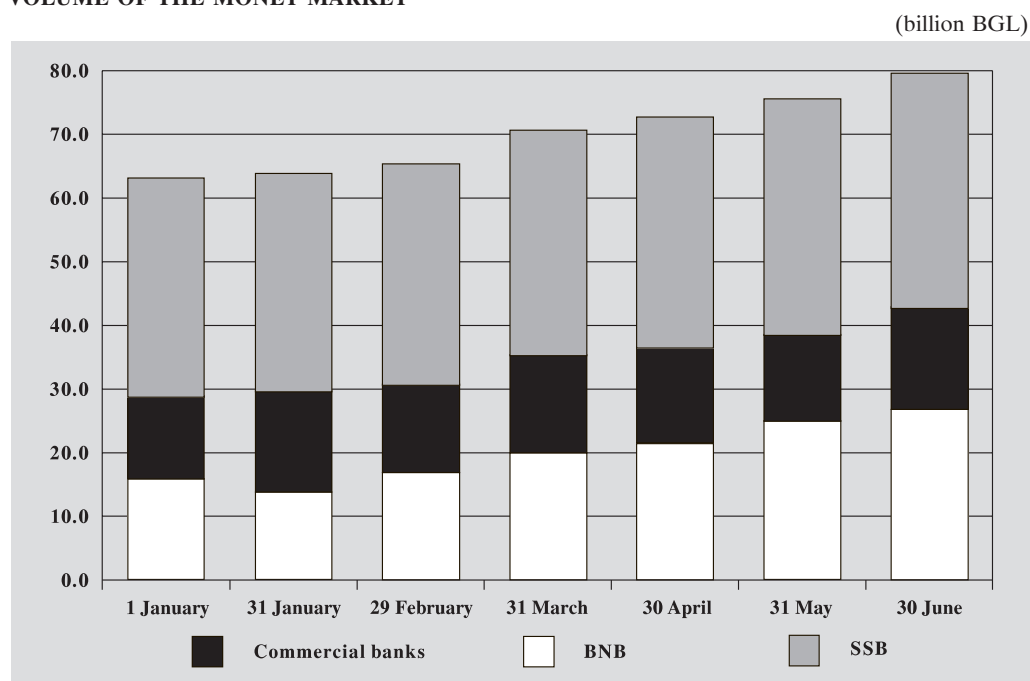
Source: BNB.

In addition, the BNB continued to extend forex deposits to commercial banks in 1994. After some fluctuation in 1993, the volume of BNB forex deposits with banks has gradually decreased (except for a growth of USD 2 million in April), a trend even more pronounced than for that of forex credits. By the end of June 1994, forex deposits totaled USD 24 million versus USD 61 million at the end of 1993, a fall of USD 37 million, or 60.6%. Forex deposits were also extended in US dollars and Deutschemarks. Annual interest rates were 6.5% – 8% on USD-denominated deposits and 7% – 9% on DEM-denominated deposits, compared with interest rates of 6.5% – 7% for both types of deposits in 1993.

Open Market Operations

With their increased use and larger number of participants, open market operations have become a major tool for bank liquidity regulation. In the period under review, the volume of open market operations totaled BGL 247,079 million. Of the total amount of open market operations, purchases (final and repo-operations) comprised BGL 124,169 million and sales (final and repo-operations) – BGL 122,910 million, i.e. the BNB daily turnover in the secondary market averaged BGL 1,373 million. The BNB monthly government securities portfolio accounted for 5.6% of total government securities issued. The share of participants (commercial banks) in the open market reached 70% with some banks regularly using open market operations to daily manage their liquidity.

VOLUME OF THE MONEY MARKET



Source: BNB.

Following the adoption of the Rules on BNB open market operations, repo-agreement auctions were introduced in May 1994, in addition to daily operations. Although the efficiency of the three auctions held before the end of June was unclear, they could be considered a positive step in the replacement of unsecured by secured refinancing.

Minimum Reserve Requirements and Credit Ceilings

For the first time since the start of reform, the BNB used minimum reserve requirements as an instrument of its monetary policy. At the end of March 1994, the minimum reserve requirements were raised from 7% to 8% to help curb forex market crisis.

Determination of monthly credit ceilings continued throughout January – June 1994. However, their role in limiting credit to the nongovernment sector was significantly reduced due to expanded open market operations and an increased number of forex credits. As a result, credit ceilings were no longer employed after June 1994.

Interrelations between Commercial Banks

Credit Resources in the Interbank Market

During the first six months of 1994, the interbank market proved to be the most developed sector of the money market, providing adequate resources to commercial banks. As of 30 June 1994, the debt of BGL 53,322 million on disbursed interbank deposits doubled the amount of resources extended by the BNB to commercial banks. The debt on resources extended by the SSB totaled BGL 37,442 million, the largest share (70.2%) of the total debt.

Two important changes occurred in the interbank market during the first six months of 1994. First, the share of resources extended with a term of up to 1 week and 1 day reached 40.6% in June alone compared with 17.4% one year earlier. Second, after reviewing their recent experience, some banks started demanding guarantees against extended resources. More flexible and guaranteed operations were indicative of positive changes occurring in the interbank market.

Interest Rate in the Interbank Market

In January – June 1994, interbank credit resources maintained a spread of 1.5 – 3 percentage points over the basic interest rate. This spread was above 1993 levels with a high of 1.2 percentage points registered in December. The high spread was prompted by increased demand for resources due to the BNB restrictive policy aimed at the reduction of bank liquidity, in order to stabilize forex market. Even in those periods when supply exceeded demand, the price of resources remained almost unchanged, as the improved liquidity appeared to be of short duration.

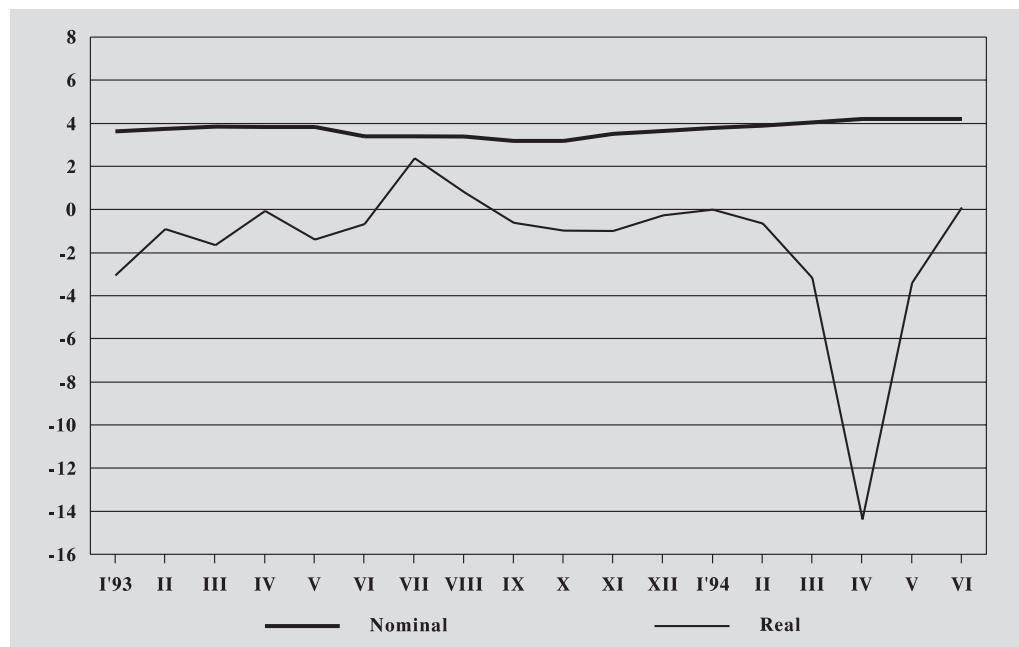
4. Interest Rates on Commercial Bank Operations

As in recent years, commercial bank lending and deposit rates in the first half of 1994 were strongly dependent on BNB interest rate policy. Despite the greater influence of demand and supply on credit resources, the basic interest rate fixed by the BNB was the main determinant of interest rates for commercial bank operations.

Throughout January – June 1994, BNB interest rate policy was consistently restrictive as part of the general policy of monetary restriction. In January 1994, the basic interest rate was raised from 52% to 56% per annum. With escalating tension in the forex market in March the basic interest rate was raised again to 62%, the highest since the beginning of economic reform.

MONTHLY INTEREST RATES ON ONE-MONTH DEPOSITS

(%)



Source: BNB.

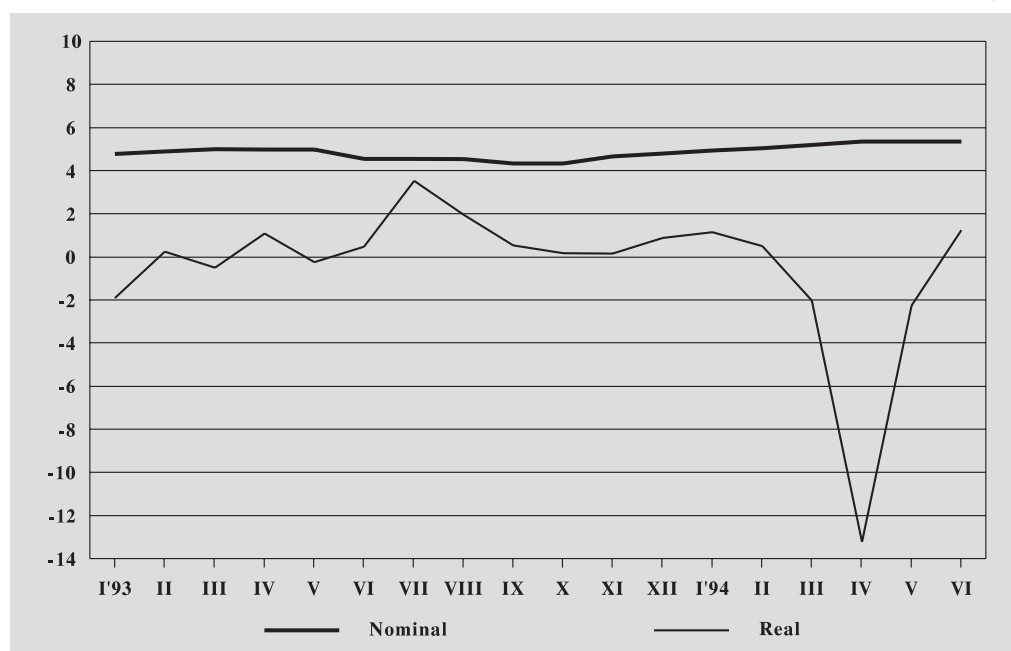
In contrast to previous years, the BNB refrained from its traditional summer reduction of interest rates, consistent with its attempts to offset inflationary expect-

tations. At the same time, the BNB restricted the money supply during the first half of 1994 through control of interest rates on other monetary instruments. During the forex crisis in March, interest rates on overdraft and unsecured deposits had to be drastically raised. After the crisis was overcome, measures to normalize bank liquidity were undertaken.

Throughout January – June 1994, interest rates on commercial bank deposits followed changes in the basic interest rate. In the period under review, monthly interest rates on one-month deposits (the most attractive type of deposits) increased gradually from 3.64% at the end of 1993 to 4.21% at the end of June 1994. The increase of 0.36 percentage points in the interest rates on deposits compared to the first half of 1993 occurred mainly as a result of an increase in the basic interest rate. Growth in the basic interest rate was reported in the first quarter of 1994, but inflationary expectations and the tense forex market undermined the deposit base during the second quarter of 1994, and did not allow any reduction in interest rates on deposits.

MONTHLY INTEREST RATES ON SHORT-TERM CREDITS

(%)



Source: BNB.

Despite the higher nominal deposit rates, savers experienced real losses in January – June 1994; these losses exceeded those of the same period in 1993. The interest rate on one-month deposits deflated by the consumer price index from the NSI basket was negative. June was the only month characterized by a positive interest rate (0.09%) on time deposits. The lowest value was registered in April (-14.37%). Savers' real losses throughout the first half of 1994 reached 20.35%, or 12.8 percentage points more than in the respective 1993 period and 13.08 percentage points more than in all 1993. Negative real rates on deposits coupled with devaluation of the lev were the main factors in undermining the deposit base in the six-month period. Consequently, the nominal interest rates in the summer could not be cut as the seasonal earnings were insufficient to compensate accumulated savers' losses.

Commercial bank lending rates on short-term credits (the major portion of all credits extended) followed changes in the basic interest rate as well. Over the first six months of 1994, lending rates rose from 5.20% in December 1993 to 5.94% in June 1994. Deposit rates in this period stood 0.17 percentage points above deposit rates one year earlier, which resulted in a further increase in the interest rate differential. Despite the lack of change in the basic interest rate, lending rates continued

to grow moderately in the first half of 1994, indicating enhanced demand for credits. At the same time, the nominal interest rates on lev credits led to an increase in forex credits despite lev stabilization in the second 1994 quarter.

The real cost of credit in the first six months of 1994 was significantly lower compared with its real cost in the last year. The interest rate on short-term credits deflated with the inflation index was negative in three months, positive in two months. In April it reached -13%. Over the first quarter of 1994, the accumulated real cost for borrowers was 0.77% (versus -2.21% for the first quarter of 1993), while in the second half-year it dropped to -12.4%, approximately 12 percentage points below June 1993 level. Conditions for lending to the private sector in 1994 are thus more favorable than those which prevailed in 1993, which has led to a growth in private sector borrowing.

Despite slight fluctuations, the interest rate differential for commercial bank loans and deposits continued to increase over the first half of 1994 reaching 1.73 percentage points in June 1994, compared with 1.56 in December, and 1.51 in June 1993. The growth in the interest rate differential may be attributed to losses reported from bad loans, despite the introduction of LSNC. For commercial banks the yield on government bonds comprised barely 1/3 of the basic interest rate, which was less than the cost of attracting deposits. As a result, commercial banks increased the interest rate differential, in an effort to help offset losses. However, the financial condition of the major shareholders of commercial bank stock seriously deteriorated, which threatened the stability of the banking system and limited the ability of the BNB to pursue its monetary policy.

V. Issuing Activities

Volume of Issues

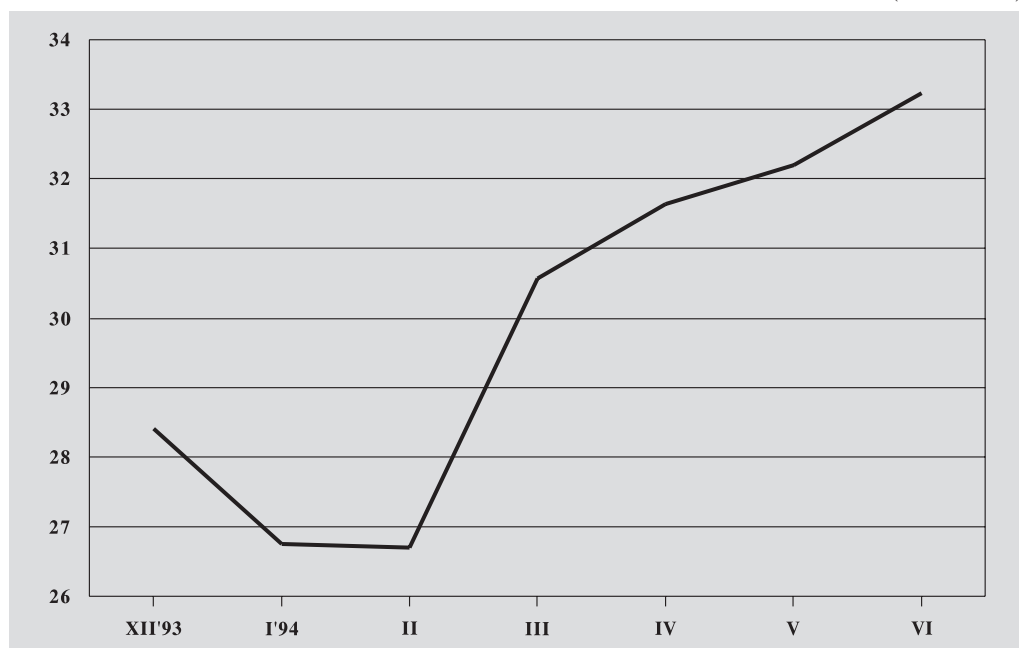
By the end of the first half of 1994, currency in circulation totaled BGL 33.2 billion, an increase of BGL 4.8 billion (17%) compared with one year earlier. Broad money grew 35.5%, i.e. more than doubled currency in circulation. The share of currency in circulation in the total money supply fell from 11.7% at 1993 year-end to 10.1% at the end of June 1994. The reluctance of individuals to hold cash during the first half-year, as well as the greater BNB activity in issuing currency during the second half-year have been clearly displayed.

During the first half of 1994, no significant changes occurred in those factors which have a direct or indirect influence on the amount of currency in circulation: the currency supply remained within normal limits. Several factors remained unchanged: the high rate of inflation, nominal income growth, peculiarities of the country's payments system, increasing indebtedness of companies, an underdeveloped money market, etc. Over the period under review, the consumer price index (59.4) more than tripled the growth of money in circulation, i.e. the bank serviced under changed circumstances using less cash.

An analysis of the dynamics of currency in circulation indicates a decline from the end of 1993 through the first two months of 1994. In March however, the amount of money in circulation rose dramatically reaching BGL 30.6 billion. Compared to 1993 year-end an increase of BGL 2.2 billion (7.6%) was registered. In March alone, it was BGL 3.9 billion, an increase of 14.5%. The high growth rate of money in circulation in March was due mainly to the rise in cash holdings of individuals for the purchase of goods and payment of services, resulting from increased inflationary expectations, the devaluation of the lev in the forex market and the introduction of the VAT on 1 April 1994. In the ensuing months, the growth of currency in circulation was BGL 2.7 billion or BGL 1.2 billion less than in March.

CURRENCY IN CIRCULATION (outside BNB vaults)

(billion BGL)



Source: BNB.

Cash in the vaults of commercial banks totaled BGL 3 billion by the end of June versus BGL 3.3 billion at 1993 year-end, a decrease of BGL 0.3 billion. This data indicates that despite inflation and an extensive network of branches, commercial banks improved their management of cash.

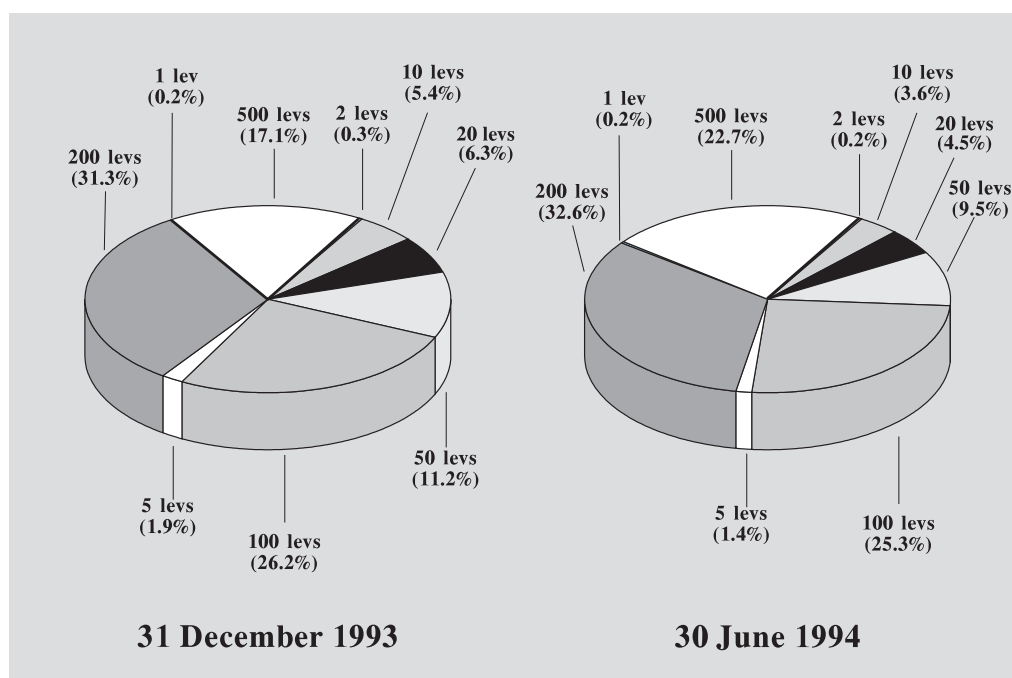
As a result of BNB issuing activities and commercial bank policy regarding cash, money outside banks at the end of June 1994 totaled BGL 30.3 billion, a growth of BGL 5.1 billion (20.3%) compared to 1993 year-end.

Denomination Composition

Changes occurred in the composition of the currency denominations during the first six months of 1994. Banknotes of higher denomination (BGL 100, 200 and 500) proved to be a more convenient form of currency. By the end of June 1994, high denomination banknotes accounted for 80.6% of the total value of denominations against 74.6% at the end of 1993, and 44.4% at the end of 1992. At the same time, the share of banknotes of these denominations in the total amount of banknotes comprised 25.4% at end-June versus 19.6% a year earlier, and 7.1% in 1992.

At the end of the first half of 1994, new-design banknotes issued after 1991, denominated in BGL 20, 50, 100, 200 and 500, reached 85.8% of the value of the banknote issue and 32.8% of the total number of banknotes compared to 79.6% and 24.9% respectively a year earlier.

DENOMINATION COMPOSITION OF THE BANKNOTE ISSUE*



* The relative share of denominations is based on values.

Source: BNB.

The BNB continued to gradually withdraw old-design banknotes after normal wear. Denominations of lower values were withdrawn at higher rate as they wear more quickly.

With regard to improve denomination composition of banknotes in circulation, to create better conditions for the service of bank customers, to maintain clear money circulation, as well as to gradually withdraw banknotes with old symbols, the BNB paid with banknotes of the new issues. Lower-denomination banknotes were replaced by coins of 1992 issue.

The "average banknote" in circulation by the end of June 1994 had a face value of BGL 55 versus BGL 42 at 1993 year-end, and BGL 19 at 1992 year-end. The increase in the face value of the "average banknote" in circulation was a result of the higher denominations in circulation as well as to a decrease in the number of banknotes in circulation during 1993 and the first half of 1994. In the first six months alone, the number of banknotes in circulation fell by 70 million with the withdrawal of worn lower-denomination banknotes. Despite the increase in the value of the "average banknote" in circulation, which reflects increased demand for

higher-denomination banknotes, denomination composition of the money supply was less optimal.

In the January – June 1994 period, issuing activity was carried out in an inflationary environment. The BNB will continue to issue higher-value notes to meet the needs of cash circulation. Circulation of new banknotes tends to optimize issuing activities and money circulation.

Coin Issues

In the period under review, the BNB continued to issue commemorative coins in compliance with the established practice. In accordance with Resolution No. 101 of 24 March 1994, the BNB proposed, and the CM by Protocol No. 31 of 11 April 1994, approved the face value, subject, form and design of a silver coin commemorating the XV-th World Cup, USA'94 "Football net", with a face value BGL 500, and a gold coin commemorating historic St. Alexander Nevski Cathedral, with a face value BGL 10,000.

Precious Metals

By the end of June 1994, the BNB gold reserves reached 1,031,222 troy ounces, an increase of 14,181 troy ounces compared to the end of 1993. This increase was a result of inclusion of the assayed portion of circulated gold in the way to meet the stock market standard.

During the period under review, the increase in BNB circulating gold reserves in the Main Depository continued. As in the previous two years, the growth in gold reserves was effected chiefly through purchases of bullion from domestic producers as well as coin from individuals.

At the end of June 1994, circulating silver in the Main Depository of the BNB decreased compared to 1993 due to the conclusion of foreign transactions.

Platinum increased due to purchases from domestic producers. Sales by domestic producers were symbolic, due to the shrinkage of precious metal production.

PRECIOUS METAL STOCK IN THE BNB

Indicators	(troy ounces)*	
	31 December 1993	30 June 1994
Gold reserves of the BNB**	1,017,041	1,031,222
Circulating precious metals***		
Gold	21,277	32,921
Silver	843,221	757,268
Platinum	4,726	5,228

* One troy ounce is equal to 31.10348 g.

** The gold reserves are in bullion by market standard.

*** The circulating precious metals include gold, silver and platinum of standard type (bullion, band and officially minted coins).

Source: BNB.

VI. Foreign Exchange Policy

During the first half of 1994, BNB foreign exchange policy, an integral part of its monetary policy, was directed at maintaining external stability of the lev. Unfavorable internal and external factors which existed throughout the previous year were still in place during the period under review. These major factors include: economic recession, a negative foreign trade balance and a negative balance of payments in the first quarter, and the embargo on rump Yugoslavia.

In addition, pressures in the forex market during the first quarter gradually increased due to the following factors:

- inability to prevent further lev devaluation due to growing internal inflation;
- reduction of the disposable foreign exchange reserves, the outcome of the National Assembly Resolution requiring a portion of these reserves to be retained in order to make initial payments for service of the foreign debt agreement.
- higher inflationary outlook as a result of the introduction of the VAT on 1 April 1994 and new prices on major energy sources;
- political instability following adoption of the 1994 budget in February.

Under these complex conditions, the BNB was able to maintain relative stability of the lev at the cost of gradually draining its foreign exchange reserves, which reached a crucial level. The sharp devaluation of the lev at the end of March was unavoidable, signaling the end of a strongly underestimated lev; its further nominal devaluation will move closely in line with domestic inflation.

During the second quarter, following tightened monetary restrictions and revived foreign financing, a result of the completion of the third stand-by agreement with the IMF, the lev status improved. Nevertheless, tension in the forex market continued. This was due primarily to enhanced demand from commercial banks which, anticipating financial flows from abroad after conclusion of the perspective foreign debt agreement, preferred to remain conservative in regard to needed forex volumes, and from households and companies which had lost confidence in the lev, opting for investment in foreign currency.

Forex policy had a strong impact on BNB monetary policy. During the first quarter, in an attempt to contain the growing tension in the forex market, the BNB raised the basic interest rate and the prices of a number of monetary instruments, which resulted in much lower liquidity in the banking system. During the second quarter, the central bank took measures to improve liquidity, but tension in the forex market did not allow for a reduction in the basic interest rate.

1. Foreign Exchange Market

Quantitative Parameters

The volume of spot operations effected in the forex market during the first half of 1994, measured by total foreign currency purchases and total foreign currency sales, nearly matched the volume reported in the same period one year earlier, remaining relatively balanced (net sales approximated USD 57.4 million).

Unlike in the first half of 1993, foreign exchange purchased in the interbank market (BNB included) by customers (a negligible fall of 5%) averaged USD 1.5 billion and proved to be less than the forex sold (approximately USD 1.5 billion), with an insignificant increment (5%). On the one hand, this data indicates relative stability in the domestic foreign exchange market following a three-year period of rapid growth after its establishment in February 1991; at the same time, the trend, started in late 1993 and early 1994, toward excess of forex demand over forex supply (insignificant to date) in the real sector of the economy was retained. This is an evidence of continuing weakness in the real sector, although some internal and external incentives for growth in exports, hence inflow of forex receipts from the real to the financial sector, were in place during the first six months of 1994. Both the

half-year and first quarter of 1994 reported net sales (approximately USD 116.5 million) and reduced turnover relative to first quarter of 1993 (10% in purchases and 6.5% in sales).

FOREIGN EXCHANGE SPOT MARKET, JANUARY – JUNE 1994

(million USD)

Volume of the Market	A) bought	B) sold	C) balance
1) BNB with customers	37.9	87.1	-49.2
2) Fully licensed commercial banks	415.9	471.9	-56.0
3) Interbank, fully licensed commercial banks only	765.2	767.6	-*
4) Interbank, BNB included (3+6A)	880.4	882.8	-*
5) BNB total (1+6)	153.1	255.2	-102.1
6) BNB with fully licensed commercial banks	115.2	168.1	-52.9
7) Intercorporate**	9.8	9.8	-
8) Total with customers (1+2+7)	463.6	569.7	-105.2

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

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

Bank Operations with Customers

Bank operations (with or without BNB participation) with customers reported a substantial decline (over two-fold) in the volume of purchases and sales in the forex market from one year earlier. The decline, together with the enhanced role of interbank turnover, was evident in the extremely large share of interbank operations in the forex market as a whole. A negligible increase in operations with customers occurred only in BNB sales, but the proportion was too low to have an overall impact. The balance on bank operations with customers turned negative (USD -105.2 million with BNB and USD -56 million without BNB) during the first half of 1994, from a positive balance (USD 76.2 million) one year ago. Excess of foreign currency demand over supply reflected not only a still weak real economy but high inflationary prospects and shaken confidence in the lev, which put it under heavy pressure.

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

(%)

Interbank turnover / forex bought from customers (commercial banks)	184.6
Interbank turnover / forex sold to customers (commercial banks)	162.7
Interbank turnover / forex bought from customers (commercial banks and BNB)	194.5
Interbank turnover / forex sold to customers (commercial banks and BNB)	157.9
Net BNB sales / total sales to customers	18.3
Net BNB sales / balance of banks with customers	97.1

Interbank Market

The nearly two-fold increase in the number of operations between fully licensed commercial banks (compared with the first half of 1993) succeeded, to a great extent, in offsetting (in regard to total volume of purchases and sales) the decline in operations with customers. This can be attributed to the unusually large share of interbank operations (with or without BNB participation) in the forex market as a whole, which more than tripled both from a year earlier and from 1993 as a whole, as well as to higher values (approximately USD 15 million) of the average volumes of purchases and sales in the interbank market at the end of the period under review. This data suggests that the interbank market has acquired a greater importance, being an essential component in the domestic forex market, in reallocating receipts in the economy from abroad and vice versa. Consequently, the enhanced role of interbank operations was attributable in large measure to increased arbitration operations reflecting macroeconomic uncertainty and political instability in the first half of the year, in an attempt to hedge against currency risks and profit from speculative operations.

Market Position of the BNB

Compared with the first half of 1994, the number of BNB purchases from fully licensed banks rose insignificantly, while sales to these banks almost tripled. Consequently, the central bank, a net buyer in the first half of 1993 became a net seller (USD 102.1 million), both in terms of its operations with fully licensed banks (USD 52.9 million) and with the nonbank sector (USD 49.2 million). The central bank made net sales (the most sizable in January – USD 74.1 million) during the first four months of the year, while in May, and particularly in June, it was a net buyer (USD 52.3 million). The BNB behavior was identical in the same period in 1993. However, in April 1993 it was a strongly pronounced net buyer, while in early April 1994 the central bank had to intervene massively in support of the sharply depreciated lev at the end of March, which caused a reversal in the typical monthly excess of BNB purchases over sales. Over the half-year, the bulk of forex sold by the BNB to other agents (approximately USD 50 million³²) was purchased by the MF to make payments on the foreign debt of the country.

Intercorporate Market

Turnover in the intercorporate market decreased more than three-fold (to USD 9.8 million³³). This drop is an indication of the improved status of banks as financial intermediaries in the economy, including trade in foreign currencies. In line with the decreasing role of the intercorporate market, the trend towards formation of intercorporate quotations broadly reflecting the daily BNB central exchange rate continued to evolve. During the period under consideration, forex buyers and sellers preserved their traditional role in the context of the history of the domestic forex market and its rather pronounced seasonal character. “Winter” demand for large amounts of forex was displayed by the energy sector, the oil processing industry, and gasoline traders; forex was occasionally demanded by importers of sugar, and banks, whose payments abroad had matured, as well as by budget organizations. During the half-year, forex was irregularly supplied mainly by machine building (especially in the field of transport), air traffic, mountain and sea tourism, chemistry and pharmaceuticals, the food and wine industry, nonferrous and ferrous metallurgy, and exporters of livestock.

Currency Breakdown of the Market

Between January and June 1994, the US dollar dominated in the forex, especially in the interbank market. Its share in the currency structure of the forex market was raised from 84.9% to 86.7%, and in the structure of the interbank market from 89.7% to 93.9% at the expense of other currencies traded. Nevertheless, the relative share of the American currency in operations with customers declined compared with the previous year. The US dollar share fell from 79.5% to 71.2% in the total forex amount purchased by customers, with increased shares of the Deutschemark (from 15.5% to 21.8%), the French franc (from 1.1% to 2%), and other currencies exchanged (from 2% to 5%); its share in the total amount of sales to customers declined from 79.9% to 77.1%, in contrast to increased shares of the Deutschemark (from 16% to 18.1%), the Austrian shilling (to 1.2%) and the other currencies (from 3.3% to 3.7%). The great variety of currencies traded in the domestic forex market reflects the increasing role of monetary units other than the US dollar and Deutschemark, which are used for settlement of Bulgaria’s foreign trade.

2. Exchange Rate

Dynamics of the US dollar Exchange Rate

Following a relatively stable level of BGL 23 – 24 in 1992 and BGL 26 – 27 in 1993 the US dollar experienced considerable appreciation during the first six months of 1994 (similar to that in the same 1991 period). The movement of the central exchange rate in January and February duplicated to a certain extent its movement in the corresponding months of the previous two years, but at a higher

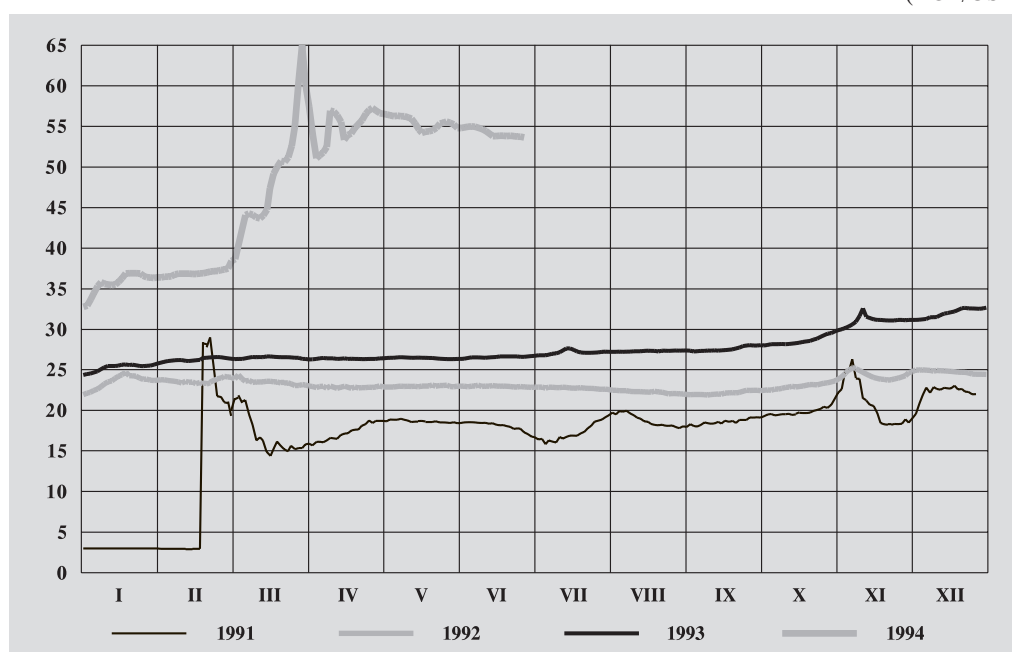
³² USD 58,317,978 calculated using the exchange rate of 6 September 1994.

³³ Owing to the fact that data on the intercorporate market reflects its minimum size based on current monitoring, complete comparability with previous periods is impossible for the time being.

level and with significantly greater fluctuation around the trend. As in the first two months of 1992 and 1993, the US dollar central exchange rate in January 1994 rose quickly, though much more sharply than in the previous two years (monthly fluctuations surpassed BGL 4); its surge slowed with signs of relative stabilization at higher levels in February 1994. Unlike 1992 and 1993, when the US dollar was depreciated slightly in March (particularly during the last week of March), the US dollar/lev central exchange rate in March 1994 gave evidence of most clearly pronounced and dramatic forex crisis in this country since establishment of the interbank market in early 1991. At the end of March 1994, the lev depreciated two-fold relative to late 1993, and approximately 75% against major Western currencies at the end of February, with turnover hitting a record low since the establishment of the interbank forex market. The hitherto unprecedented rates of devaluation of the national currency caused panic among households and companies, which led to initial forex substitution and dollarization of economic relations during the period under review.

CENTRAL EXCHANGE RATE

(BGL/USD)



Source: BNB.

At the beginning of the first quarter, extreme pressure in the forex market was caused by seasonal factors, political instability, and subsequent shaken confidence in the lev. Those fundamental factors like a continuing decline in output, uncontrollable inflation, almost chronic deficits in the current account in the balance of payments and the budget, bad debt legacy (to foreign and domestic creditors) and high unemployment were coupled with a drop in the BNB forex reserves in March (due to massive interventions in support of the sharply depreciating national currency) to the minimum prescribed by Resolution of the Parliament (requiring settlement of the foreign debt agreement); this, under the conditions of complete financial isolation of the country ongoing for 10 months.

To offset the dramatic developments in the forex market, the BNB made use of all instruments available in order to regulate financial processes. The central bank appears to have succeeded to a certain extent in stabilizing the lev, which can be attributed to the interim agreement concluded with major participants in the market, an increase in the basic interest rate as well as in other interest rates (reflecting a strongly restrictive policy in the lev market), as well as to massive sales of foreign currency. In April 1994, following significant receipts from revived official foreign funding, the result of completion of the third stand-by agreement and an IMF loan under the STF, as well as agreement on new rescheduling of the foreign

debt to the countries from the Paris Club, tension in the forex market subsided and the exchange rate subsequently stabilized at lower levels.

After the crisis was contained, the central exchange rate movements in April indicated an initial plunge in the US dollar. A process of gradual (combined with sizable fluctuations in both directions) oscillation around new levels of market equilibrium (within the band of BGL 54 – 56 per USD 1) established itself. In May and especially in June, a gradual rally in the lev developed, with an exchange rate of BGL 53.658 per USD 1 on 30 June 1994. Despite the significant gain (BGL 11.20 per USD 1, or 17.2%) in the lev (at the central exchange rate) during the period under review relative to the end of the first quarter, it remained strongly devalued (BGL 21.03 per USD 1, or 64.3%) relative to the price of the US dollar in late 1993.

Consequently, during the first six months of 1994, the nominal depreciation of the lev outran the rate of inflation (59.4%) by five percentage points which, (recognizing the low rates of inflation in the USA) meant a real depreciation of the lev (on the basis of December 1993) of 2-3 percentage points. A similar trend was not evident in the corresponding periods of 1992 and 1993. This trend may translate into export-oriented growth of the national economy in the short run, provided export incentives were combined immediately with positive changes in the real sector and in economic policy as well as with improved global conditions.

Developments in the Central Exchange Rates of the Major Foreign Currencies

During the first half of 1994, the central exchange rates of the major foreign currencies displayed greater nominal devaluation of the lev relative to year-end 1993. Compared with the end of first 1993 quarter, however, the lev gained less sizably against these currencies than against the US dollar. Compared with late 1993, the lev fall was most sizable against the Japanese yen, 82.4% (due to its rally to all-high postwar levels against the US dollar in the international market). The Swiss franc picked up significantly against the lev (81.4%) during the period under consideration; a little less was the rally in the central exchange rates of the Deutschemark, the French franc, ECU, and the British pound (within the range of 70% – 80%).

At the same time, the lev depreciated against other faster depreciating currencies, including the currencies of the major Bulgarian trade partners – CIS (Russia), Ukraine, rump Yugoslavia, Romania and Poland. This devaluation also boosted Bulgarian exports. Among Bulgaria's major trade partners, only Turkey witnessed a devaluation of its national currency against the lev, which may result in a reduction of Bulgarian exports to that country.

Average Exchange Rates, Fluctuations, Volatility

The average nonweighted central USD/BGL exchange rate was BGL 47.548 per 1 USD. Compared to 1993, it grew BGL 19.90 or 72%. The growth rate of the monthly central exchange rate of the US dollar was atypical for the domestic forex market during the first half of 1994 (especially in January, March and April). The average US dollar exchange rate grew rapidly reaching BGL 55.584, a record high since the establishment of the domestic forex market. June saw the only decrease in the average central exchange rate (BGL 54.362 per 1 USD) throughout the first six months of 1994. Due to the sharp fluctuations in the forex market in January – June 1994 (especially in January, March and April), unusually high values were registered in indicators showing statistical dispersion of central exchange rates and quotations by month and day. During the first six months of 1994, the central exchange rate experienced the strongest fluctuations (BGL 32.187) since forex market establishment in the country, showing the lowest value (BGL 32.755) on 3 January 1994 and the highest value (BGL 64.942) on 31 March 1994. The ever strongest monthly fluctuations were registered in March (BGL 27.416) and April (BGL 8.294). The average monthly volatility of USD/BGL exchange rate³⁴ was 2.17%. Monthly highs of

³⁴ The average monthly indicator is obtained as the arithmetic mean of its daily values. The volatility of the BGL/USD exchange rate for a particular day is calculated as the average mean of the absolute values of the differences between the highest and the lowest exchange rate of interbank transactions, between the daily central exchange rate (fixed on the preceding day) and the highest exchange rate of interbank transactions, and between the daily central exchange rate and the lowest exchange rate of interbank transactions. The average lev value obtained is converted in US dollars by dividing it to the central exchange rate for the respective day.

this indicator were registered in March (5.06%), April (3.56%) and January (2.17%), and monthly lows in June (0.58%), February (0.69%) and May (0.72%).

3. Foreign Exchange Reserves

During the January – June 1994 period, gross foreign exchange reserves of the BNB³⁵ rose USD 469.5 million, or 70.7% versus December 1993. By the end of June 1994, they totaled USD 1,133.2 million showing the highest value after the start of the economic reform in the country. Over five-fold increase was registered compared to the same period of 1993. Following the fall in June 1993 – February 1994 (except for August when a slight increase was registered), in March 1994 the downward tendency reversed.

BNB gross foreign exchange reserves dynamics were characterized by a slight fall in January and February. After April 1992, the lowest level of foreign exchange reserves (USD 592.3 million) was registered in February. The amount of USD 644.2 million reached in March almost restored the level of end-1993 (USD 663.7 million). More significant growth of USD 282.7 million, or 43.9% followed in April. In May and June, gross forex reserves grew modestly. Official foreign funding remained again the major factor responsible for foreign exchange reserves replenishment. Ten-month (April 1993 – March 1994) absence of foreign funding resulted in a drastic depletion of foreign exchange reserves, while the renewed foreign funding, though scarce in March and May and more significant in April 1994, led to a fast accumulation of foreign exchange reserves for a short period of time. Following a year-long complete financial isolation of the country, in March 1994 a loan worth of USD 19.9 million was extended by the government of the Republic of Austria. This loan was disbursed under the agreements for financial aid of EFTA member countries, coordinated by G-24, to support Bulgaria's balance of payments. The essential increase in reserves in April was attributable to the IMF funding, including the first tranches of the third stand-by credit (approximately USD 33 million) and the STF (about USD 165 million), tending to support structural reforms of transition economies. The loan in the amount of USD 17.4 million disbursed by the government of Sweden contributed significantly to the May growth in foreign exchange reserves. BNB net purchases in the interbank forex market are the second factor influencing the level of foreign exchange reserves. The BNB participated in the interbank forex market to offset the sharp fluctuations in foreign exchange rates due to the seasonal character of foreign exchange demand and supply. BNB net sales are typical in the autumn and winter due to the stronger demand for foreign currency by the importers of energy resources, while BNB purchases are typical in the spring and autumn due to greater supply of foreign exchange from the exporters of agricultural products and foodstuffs, as well as from tourist companies. The BNB remained a net seller of foreign exchange in January – April and a net buyer in May and June, although this tradition has been often broken recently. During the January – June 1994 period, BNB net sales totaled USD 102.1 million. Almost half of this amount was bought by the MF to repay interest on Bulgaria's official and commercial debt.

Imbalances registered in the trade, current and overall balance of payments of the country also affected the volumes traded in the domestic forex market, hence influencing the dynamics of foreign exchange reserves.

³⁵ Gross foreign exchange reserves include BNB assets in foreign currency with foreign banks, foreign exchange stock in special drawing rights (SDR), and the reserve position of the country with the IMF. If the BNB gold reserves totaling 1,017,014 troy ounces as per Resolution No. 224 of 1992 of the BNB Board are included, the amount of gold and foreign exchange reserves will be higher than the amount reviewed in this text, and will depend on the respective prices of gold in USD. The BNB gold reserves totaled about USD 400 million, at late 1993 prices. Aside from the gold and foreign exchange reserves, the BNB holds forex deposits with local commercial banks and makes transfers related to their forex refinancing.

GROSS FOREIGN EXCHANGE RESERVES AND FOREIGN FINANCING

(million USD)



Source: BNB.

Accumulated gross foreign exchange reserves by the end of June 1994 registered a record high after the announcement of the moratorium on Bulgaria's debt repayment in 1990. The increased foreign exchange reserves facilitated the conclusion of debt reduction agreement to the creditor banks of the London Club. A portion of foreign exchange reserves will be used to cover lump-sum expenditures on debt reduction and rescheduling operation coordinated with the IMF. Immediate restoration of a positive balance of payments will be of key importance for the regular debt repayment in the future. Foreign exchange receipts on the current account, significant foreign investments and commercial credits are the major factors necessary for the maintenance of a positive balance of payments.

VII. Bank Supervision

During the first half of 1994, the BNB drafted projects to amend and improve bank supervision regulations. This was done to make those regulations feasible, as well as incorporate the recommendations and practices of the World Bank. These projects are to be discussed by the BNB Board and promulgated.

Guidelines and rules for conducting reasonable credit policy have been worked out and furnished to commercial banks.

Work on a "Supervisor's Handbook", which contains the basic rules and techniques for off-site monitoring and conducting on-site inspection of banks, was completed.

Licenses

Since early 1994, there has been growing interest in establishing new banks. In the past six months, more than 10 applications and documents requesting bank licenses were submitted. Among those applying for licenses were foreign shareholders, companies, and foreign banks requesting licenses to establish separate banks or bank branches.

The BNB Board has granted a permit to Raiffeisen Bank, Sofia, to conduct sovereign activity, and to Internationale Nederlanden Bank (ING-Bank), the Netherlands, to open a branch in Sofia. Licenses for making bank transactions were given to the following commercial banks: Elit Ltd., Sofia, Mollov Ltd., Sofia, Corporate Bank Ltd., Sofia.

In the first half of 1994, 325 companies and individuals applied for licenses to operate as exchange bureaus by making transactions in foreign instruments of payment. Two hundred ninety-four licenses were granted. Permits to conduct bank transactions were given to 54 financial houses and 15 brokers.

Recent information indicates that financial houses, brokers, and exchange bureaus do not submit on a regular basis information required, directly or through commercial banks.

Since early 1994, 592 exchange bureaus closed due to the expiration of their licenses. In addition, the licenses of 50 exchange bureaus were rescinded as the required information was not furnished. A portion of defaulters' claims were forwarded to legal authorities for consideration.

Licensing requirements are still inadequate. As a result, Regulations No. 2 on the licenses which prevents establishment of a bank with borrowed capital have been called for. A minimum ratio was fixed for registered shares and those of a bearer (1:1).

Much effort will be needed to formulate stringent rules to control the activity of financial houses so that it will not have a pervasive effect on the exchange rate.

Off-site Inspection

During the period under consideration, expansion of the commercial bank data base has been a major goal of off-site inspection.

Off-site inspection faced tremendous problems which impeded bank supervision activity:

- Information furnished by commercial banks has not been received in a timely fashion. These banks with wide networks are the main defaulters. Delay in the supply of information from one or several banks hampers assessment of bank information in general.

- Data supplied is of low quality. This necessitates telephone calls and the additional provision of details to make revisions.

- The Bank Supervision Department has indirect access to this information which can have a negative effect – information is received with great delay and no inspection or analysis can be carried out in the meantime.

Despite these setbacks, research and analysis of particular and general indicators of commercial bank activity has been conducted.

Future functions of the Bank Supervision Department will depend on the necessity to extend the scope of control. In early 1994, off-site inspection of commer-

cial bank credit portfolios was carried out.

The financial status of Commercial Bank Crystal Bank Ltd. was given due attention. In view of its financial statement, analysis of indicators, and unfavorable trends, a careful inspection of its financial performance and appointment of a receiver is being considered.

Co-inspections and registration of commercial bank lists of loans disbursed and interest unpaid were conducted in compliance with the requirements set forth by LSNC.

The quarterly reporting of banks' off-balance liabilities exceeding BGL 1 million was introduced. The 1994 first quarter data was analyzed and a track record was worked out.

Some infringements and negative trends among commercial banks have been found. Meetings with the managers of TSBank, Post Bank, First East International Bank, Economic Bank, and Commercial Bank Mineralbank have been held and measures discussed to rectify these problems. In the first half of 1994, the financial performance and liquidity of Commercial Bank Balkanbank Ltd. were analyzed and discussed.

On the basis of results obtained in the first six months of 1994, the need for significant improvement in the organization of off-site inspection was apparent.

On-site Inspection

The audits of Economic Bank and Commercial Bank Mineralbank, begun in 1993, were completed this year. The results of these audits were made available to the bank managers, which helped in the formulation of rehabilitation programs for these two problem banks. Audits of four banks included in the bank consolidation project were carried out.

Call examination of banks, financial and brokerage houses for the observance of the foreign exchange regime was carried out jointly with Sofia Tax Administration experts.

The general findings of the audits and examinations can be summarized thus:

- Deteriorating financial performance of banks as a whole, a result of their low-profile credit portfolio, which had a negative impact on interest earnings, as well as a need to provision against nonperforming credits at the expense of scarce profits. As a result, most banks fail to comply with those bank regulatory requirements contained in the LBCA and the BNB regulations;
- Credit portfolios of some commercial banks experienced a large balance sheet exposure for large loans and much higher credit risk, which had adverse effects on commercial bank activity. Banks' profitability declined due to the growing share of nonperforming credits.

Programs and actions intended to lower risk exposure and collect overdue receivables were not in place for most banks.

Credit policy and internal rules on credit extension have been formally or partially implemented depending on whether the creditworthiness of borrowers has been assessed; bank control over collateral on issued credits as well as a current review of the state of each extended credit are missing.

Bank internal controls face organizational setbacks and insufficient effectiveness; their objectives and goals are not clearly defined.

Qualification

In order to improve the professional expertise of the newly-recruited staff of the Bank Supervision Department, courses and workshops are being conducted. The most experienced supervisors participate regularly in workshops and retraining courses at various European central banks. On-site inspections have been carried out jointly with supervisors from the Federal Reserve Bank of Chicago.

During the period under review, special recruitment drives were held to hire personnel for the Bank Supervision Department and newly established Foreign Exchange Controls Division.

VIII. Development of the Banking and Settlement System

1. State of the Settlement System

During the period under review, the number of the settlement system inputs continued to increase, from 550 on 1 January 1994 to 655 on 30 June 1994, i.e. at the end of the reporting period there was one input for every 13,500 persons. According to this indicator, Bulgaria lagged far behind the developed countries where one input services 742 persons (Belgium) to 2,330 persons (USA). Approximately BGL 4 billion a day, i. e. 3,142,000 settlements of BGL 540.952 billion, were cleared through BISERA – the system for electronic interbank transfer.

No significant changes in the hardware and software employed in the payment transfer process occurred during the reporting period. Probationary tests for software and technical equipment which will be used in the establishment of a nationwide card-payment system were made.

2. Legal Regulation of Bank Activities

During the period under review, the BNB continued its legislative activity aimed at developing and improving the banking by-law regulatory framework.

Regulations No. 2 on the permits (licences) granted by the BNB (State Gazette, issue 20 of 1994) and Regulations No. 8 on the capital adequacy of banks (State Gazette, issue 19 of 1994) were amended. These amendments were made to prevent the establishment of a bank with borrowed capital or with funds whose legal origin cannot be proved, as well as to improve capital structure by setting forth the minimum amount of stocks with voting right.

Regulations No. 2 introduced additional requirements for bank license applicants. First, persons who have subscribed to more than 1% of the equity capital of a bank shall submit information certifying the origin of the funds used to pay for the subscribed stocks as well as declare that the funds have not been borrowed. Second, legal persons who have subscribed to more than 1% of the capital are not eligible for an application unless they provide at least two annual financial statements. Third, the aggregate nominal value of stocks with voting right shall not be less than 50% of the minimum capital required for a bank. The ratio accommodating stocks with or without voting right applies to established banks as well; Regulations No. 8 stipulate a deadline for the adjustment of banks' articles of association and capital structure to meet the new requirements. Fourth, persons who have subscribed to stocks with no voting right, at a total nominal value exceeding 1% of capital, shall submit documents issued by the tax administration, which contain data on the amount of taxes paid for the last three years as well as other information. Fifth, a license to conduct bank activity shall not be granted if the applicant has not submitted documents certifying that the minimum required capital for a bank has been paid in.

The BNB Board adopted three regulations on enactment of LSNC (State Gazette, issue 110 of 1993).

One of these regulations concerned the procedure for acquisition, service, and redemption of LGB issued in compliance with LSNC, drawn up jointly by the BNB and the CM (CM Decree No. 33 of 14 February 1994 – State Gazette, issue 17 of 1994). The Regulations provide for the acquisition by banks of book-entry LGB issued in compliance with LSNC on the basis of contracts with the MF whereby a particular amount is determined. The Regulations also specify the procedure for the conclusion of transactions in LGB in the secondary market and the terms for re-

demption of the bonds and interest on them. The registration regime of the LGB transactions draws on their book-entry nature.

Regulations No. 12 of 24 March 1994 on the terms and procedures for commercial bank lending to state-owned enterprises, companies, and commercial companies whose liabilities to the state have been written off under the terms of LSNC (State Gazette, issue 30 of 1994) prescribe additional, more stringent criteria on the issuance of new loans to such enterprises. Banks shall not extend new credits to enterprises if they have receivables negotiated after 31 December 1990 which can be classified as nonperforming or doubtful (group B) within the meaning of Regulations No. 9 of 1993 of the BNB on the loan classification and formation of mandatory special reserves (statutory provisions) by banks. Moreover, before allocating new credits, banks shall, in addition to assessing credit risk, analyze the programs for financial rehabilitation and restructuring of enterprises designed and adopted in compliance with LSNC, taking into account the criteria set in these Regulations. In principle, the new loans must be issued in tranches and be dependent on the achievement of particular results. Only real collateral is accepted.

Regulations No. 14 of 12 April 1994 on the sanctions applied to commercial banks incurring losses due to the sale of LGB below their market value (State Gazette, issue 36 of 1994) refer to commercial banks with a majority state holding. This by-law legislative act stipulates how the BNB shall formulate the minimum selling price of the LGB issued under LSNC and specifies measures the BNB may take against those banks which have sold LGB below their minimum price.

Regulations No. 15 of 4 May 1994 on the procedure for auction sale of movables placed as collateral with a bank (State Gazette, issue 41 of 1994), adopted jointly by the BNB and the Attorney General, proved to be essential for commercial banks. This act specifies the procedure that banks may follow to undertake nonofficial execution of movables placed as collateral in favor of those banks that have extended the loan. The movables are to be sold at an auction conducted by a commission assigned by the creditor bank in compliance with the terms and procedures set forth in these Regulations. Provision is made for an appeal against possible illegal action by the auction commission.

3. Balance Sheet Results of Commercial Bank Operations

After LSNC was enforced, and after the state assumed the whole amount of lev and a portion of the foreign exchange credits (the subject of the above Law), an improvement in the financial position of large state-owned banks should have occurred. However, growing economic instability and the failure of the economy to recover had an adverse effect on the banking system. The financial performance of commercial bank operations was poor – only 9 out of 44 banks reported profits at the end of the six-month period. Losses occurred not only in the state-owned banks but also among most private banks established after 1990.

Bank Assets

The most liquid bank assets are bank reserves, including cash in vaults, and other assets held by banks at the BNB or at other commercial banks to meet impending liquidity. An essential part of these reserves are minimum noninterest-bearing reserves set at 8% of all attracted funds. The first half of 1994 witnessed variable rates of liquidity – liquidity overruns occurred when the BNB sterilized idle money resources through its open market operations; liquidity shortfalls took place when continued overdraft positions on commercial bank settlement accounts at the BNB occurred. On both occasions the stability of the national currency was at stake.

RESERVES IN LEVS/DEPOSITS RATIO

(million BGL)

Indicators	1992	June 1993	December 1993	June 1994
Reserves	19,513	16,311	21,028	18,467
Deposits	104,246	131,913	167,457	204,059
%	18.7	12.4	12.6	9.0

The ratio of lev reserves to deposits almost matched the mandatory 8%, reflecting efforts to manage more sparingly idle money resources.

The relative share of government securities in total assets remained below the 31 December 1993 level (9%) and surpassed that from a year ago (3.5%).

During the period under consideration, restructuring of commercial bank credit portfolios took place. Claims on banks and other financial institutions declined, while claims on nonfinancial institutions rose. Lev claims on nonfinancial institutions and other clients increased by 15.9%, and forex claims by 63.9%. The reduction in lev claims was derived from restrictions on credit ceilings, while the growth in foreign exchange claims reflected the depreciation of the lev (64.3% in the reporting period). Moreover, the state of the real sector adversely affected banks' credit activity.

Bank Liabilities

Bank operations in liabilities were primarily related to the funding of investments. These investments are largely dependent on the economic environment as a whole as well as on commercial bank policies. The relative share of the forex component accounted for 73% of all attracted funds, with the lev component contracting (66% at the end of the year) as a result of the lev devaluation. Finalization of the foreign debt agreement is expected to strongly reduce the share of funds attracted in foreign currency, which currently accounts for 64% of all attracted funds.

Certain changes occurred in the structure of attracted funds. The share of funds attracted from banks increased (from 68% to 72%), while the share of funds attracted from nonfinancial institutions and other clients decreased (from 32% to 27%). Lev deposits rose by 27% compared with 1993; this increase matched interest accrued on time deposits in the reporting period.

FUNDS ATTRACTED

(million BGL)

Indicators	December 1993	June 1994
Funds attracted from banks, incl.	474,296	815,332
BGL	67,366	95,422
foreign currency	406,930	719,910
Funds attracted from nonfinancial institutions and other customers, incl.	221,630	309,830
BGL	167,457	204,059
foreign currency	54,173	105,770

Increases in capital accounted for 54% of funds attracted, which is mainly attributable to a faster rate of growth in additional capital (64%); these increases, however, were not high enough to meet the requirement provided for in the Law on Banks and Credit Activity – 1.25% of total balance sheet assets plus guarantee assumed and other collateral.

Increases in the capital base moved in two directions – establishment of new banks (four banks were set up in the reporting period), and increases in the capital of already existing banks. The BNB granted permits to four banks with state holdings to raise their capital at the expense of additional capital.

The capital of the nine banks not included in the consolidated balance sheet totaled BGL 180 million, an average of BGL 20 million each. These banks reported losses or no profits for the first half of 1994, with the banking system and the public sharing the risk of the low capital base.

4. Relations with International Financial Organizations

In the first half of 1994, the BNB continued to develop ties with international financial institutions in close cooperation with the Government of the Republic of Bulgaria.

International Monetary Fund

As a result of successful negotiations with the IMF, the Executive Board of the IMF on 11 April 1994 approved two loans for Bulgaria worth SDR 185.96 million (approximately USD 259 million), including SDR 69.74 million (approximately USD 97 million) under the third one-year stand-by agreement and SDR 116.22 million (approximately USD 162 million) under the STF for transition economies.

Repayment of principal on loans disbursed until 1993 began in 1994 along with regular repayment of interest on debt to the IMF.

In mid-September 1994, the Executive Board is expected to consider a disbursement of additional funds to support the recently concluded debt reduction agreement.

World Bank

The loan for Private Investment and Export Financing (PIEF) offered by the World Bank in late 1992 was concluded on 30 September 1993. The first agreement under PIEF was contracted with the First Private Bank, operative as of 24 January 1994.

In early 1994, the second Sectoral Adjustment Loan (SAL) tranche agreement of USD 100 million was concluded, with the greater portion of the funds becoming available as of mid-April 1994.

Finalization of the Financial and Enterprise Sectoral Adjustment Loan (FESAL) of USD 150 million is in progress. It should be noted that this loan is of primary importance, as its fulfillment is predicated on various conditions ensuring progress of structural reform.

Negotiations for an Agricultural Reform Loan from the World Bank commenced in 1993. According to the contractual terms, Bulgaria should receive approximately USD 50 million in 1994. The loan will provide funds for financing of private farms and businesses engaged in processing of agricultural products. Financing of such projects will be accomplished through the intermediation of Bulgarian commercial banks.

European Bank for Reconstruction and Development

The EBRD Board of Directors approved projects for Bulgaria in the amount of ECU 10 million. Progress has been made in the preinvestment study for establishing of wholesale markets for vegetables and other agricultural products in 12 towns throughout the country. Government guarantee of this long-term investment has been approved. At its annual meeting held on 18 – 19 April in St. Petersburg, the EBRD confirmed that the 1996 annual meeting will be held in Sofia.

The procedure of granting a licence to the Bulgarian Investment Bank with EBRD participation is under way.

The EBRD approved the establishment of a polysectoral investment fund for Bulgaria on 24 March 1994. Projects for the food industry totaling ECU 10.7 million were approved on 24 May 1994.

Of ten projects worth ECU 126.4 million, the bank approved six and concluded contracts totaling ECU 112.7 million, or 89% of projected financing. Of these funds, four credit lines were completely utilized and six credit lines were partly utilized. The balance was ECU 9.1 million, or 8% of the agreed amount. Significant progress has been made in the utilization of the Bank's funds in Bulgaria.

European Investment Bank

The EIB and BNB approved the First Private Bank as mediator of the loan for small- and medium-scale enterprises (APEX) totaling ECU 30 million. The BNB and the First Private Bank concluded a contract for mediation on this loan. The project is open for the participation of other banks.

A group rendering technical assistance to the agent banks handling the loan financed under the PHARE program commenced work. Experts will help find other banks which meet the requirements for mediation.

Technical Assistance for Restructuring of the Banking System

Technical assistance rendered by international financial institutions as well as assistance received on a bilateral basis and under special programs proved to be an important factor for the establishment and functioning of a modern banking system in Bulgaria.

Regular working contacts with the IMF to provide technical assistance for the further development of various activities in the BNB continued. A special mission of the IMF Monetary and Foreign Exchange Policy Division recommended further improvement of monetary policy instruments and development of economic and monetary policy analysis.

To fulfill working programs developed under the PHARE program in 1993, the BNB drew up the following projects: development of Personnel Management Department, Scientific Information and Library in the BNB and BORICA Ltd. The Association of Bulgarian Commercial Banks and the International Banking Institute (IBI) also received technical assistance. Work on projects of nationwide significance such as the Creditworthiness Information System and Deposit Insurance Scheme commenced. Preparatory work on the most important 1994 project under the PHARE program, the auditing of three consolidated commercial banks (Sofiabank, Hebros Bank, and Expressbank) was completed.

In fulfillment of a technical assistance program developed jointly with the American government, the US Treasury commissioned four advisors to the BNB, the IBI, and the United Bulgarian Bank (UBB). Lecturers for the IBI were provided under this program as well.

Group of 24

G-24 did not raise funds for Bulgaria in the first half of 1994. Additional financing for Bulgaria was discussed at a meeting of the group for Bulgaria held on 20 May in Brussels. In late May and early June, a group of the European Commission visited Bulgaria to study conditions for an extension of the second tranche of the loan (ECU 150 million) intended to support Bulgaria's balance of payments. In the first half of 1994, Bulgaria received a portion of those funds projected in 1992: USD 17.4 million from Sweden and USD 19.9 million from Austria.

IX. Financial Results of BNB Activities

The fixed capital of the BNB is BGL 200 million in compliance with Article 7 of the Law on the Bulgarian National Bank. Assets and liabilities in foreign exchange were converted to leva on a daily basis, at the effective BNB central exchange rate.

During the first half of 1994, revaluation of precious metals was done each quarter on the basis of the average price of gold announced in the BNB News Bulletin, pursuant to BNB Board Protocol No. 40 of 24 July 1991.

In the January – June 1994 period, the BNB lent credits to the MF totaling BGL 5,000 million. The MF repaid credits in the amount of BGL 1,631 million. The outstanding credits as of 30 June 1994 were BGL 36,816 million versus BGL 27,746 million in the first half of 1993.

By 30 June 1994, current accounts of commercial banks totaled BGL 595 million.

In the six-month period, interest revenue totaled BGL 18,127 million. Interest revenue on short- and long-term loans drawn up by the MF accounted for the largest portion, 57.73%. Interest on loans made to the government totaled BGL 10,465 million versus BGL 8,447 million in the same period last year. Interest on deposits extended to commercial banks totaled BGL 6,378 million compared to BGL 2,174 million in the first half of 1993. The share of these interest earnings comprised 35.18% of total interest revenue. Interest earnings from forex operations were BGL 1,277 million, or 7.04% of total interest revenue.

BNB expenditure for interest payment in the first half of 1994 totaled BGL 3,814 million versus BGL 3,231 million in 1993. Of these, BGL 338 million were paid on current accounts of the MF, BGL 548 million on deposits of commercial banks and the MF, BGL 1,914 million on commercial bank current accounts, and BGL 152 million on the State Fund for Reconstruction and Development (SFRD).

By 30 June 1994, the BNB had paid into the state budget the balance from the excess of revenue over expenditure in the amount of BGL 10,235.5 million versus BGL 3,947,800 in the corresponding period of 1993.

Expenditure on currency circulation totaled BGL 148 million by 30 June 1994 versus BGL 79 million in 1993. The BNB effected revenues from government securities operations to the amount of BGL 5 million and expenditures to the amount of BGL 4.7 million.

Balance Sheet of the BNB

	30 June 1994	30 June 1993
		<u>million BGL</u>
ASSETS	182,112	92,460
Cash in Bulgarian coins	201	94
Cash in foreign exchange	4	2
Participation in international institutions	2,684	2,379
Cash in foreign securities	26,231	11,672
Deposits and credits extended to banks	82,849	35,030
Credits extended to the state	36,816	27,746
Securities	5,813	1,978
Other assets	27,514	13,559
LIABILITIES	182,112	92,460
Statutory fund	200	200
Reserve and other funds	62,833	22,556
Amount of banknotes in circulation	32,976	22,367
Current and deposit accounts	77,261	40,713
Other liabilities	8,842	6,624

X. Major Trends in Monetary Policy through Year-end

During the first half of 1994, the BNB had to operate under extremely unfavorable economic and financial conditions. Despite the central bank's efforts to maintain stability of the Bulgarian lev, growing pressure in the forex market led to a sharp depreciation of the national currency at the end of March. A high rate of inflation and serious loss of confidence in the lev affected the structure of the demand for money.

In this period, the BNB conducted a moderately restrictive monetary policy. In the wake of a forex crisis it temporarily tightened monetary restrictions, which, along with restored foreign financing, helped boost the value of the lev and curb inflation. While fiscal and incomes policy moved within preliminary nominal targets, monetary restraint proved to be ineffective in restoring confidence in the lev and curbing inflationary expectations; hence the greater demand for money was not offset. There were two major reasons for this. First, the structure of the banking system did not permit stronger constraints due to low liquidity and growing losses in several large state-owned banks which hold the bulk of lev bonds issued under LSNC. Second, with insufficient foreign financial aid for restructuring the foreign debt in June, the BNB effected forced purchases of foreign currency in the domestic forex market. This prevented any possible appreciation of the lev, and, inasmuch as the purchases were not fully sterilized, caused the supply of reserve and broad money to grow. Both factors could lead to higher inflation during the second half of the year.

The BNB short-term targets for the second half of 1994 include reduced inflation and revived confidence in the lev. If the first task is quickly achieved, this would offset pressure for a nominal wage increase as well as help revive confidence in the lev over the longer term. At the same time, the BNB's major concerns lie with the issue of reduced forex reserves after foreign debt restructuring as well as the possibility of political tension in the autumn, which may prompt a new forex crisis.

After fiscal and incomes policy constraint reached its upper level, the efforts to reduce inflation will concentrate on greater monetary restraint in addition to more effective use of those tools needed for its implementation. This course was outlined in a letter sent by the government and BNB to the Executive Board of the IMF, requesting an increase in loan amounts and adjustments in some of the performance criteria contained in the current stand-by agreement with the IMF. As compliance with these criteria at the end of the third and the fourth quarters of 1994 will determine the size of foreign funds from official international creditors, which is essential in replenishing forex reserves, the BNB monetary policy guidelines will underlie those figures negotiated for the performance criteria.

During the second half of 1994, reduction of the rate of inflation to about 2% per month can occur only if the money supply is sharply cut. If the exchange rate remains unchanged by year-end, broad money is projected to grow 11%. If this occurs, broad money for 1994 will have grown about 50%, which, with an annual inflation of 75%, will lead to a 15% real contraction in the money supply. Average annual money growth is projected to almost equal nominal GDP growth and will not affect the velocity of money circulation.

During the second half of 1994, the BNB will make significant changes in monetary instruments it employs to improve its efficiency in conducting monetary policy. In July, the Board of the BNB concluded that credit ceilings have lost their usefulness as the share of credit extended to the nongovernment sector continued to decline. The BNB Board thus decided to phase out the use of credit ceilings and switch to reserve money management as its major tool for controlling the money supply. Implementation of this task will be encumbered by the variability and unpredictability of the money multiplier and shaken confidence in the lev, which has an immediate impact on the demand for money.

To this end, numerical guidelines for measuring movements in reserve money relative to set targets and levels for money supply were established. If relative stability in the money multiplier is assumed, the reserve money can be limited to the desired level of the money supply. To this end, the BNB is establishing a system for daily control of reserve money, and has formed a special working group for analysis and forecasting in order to choose and prescribe monetary instruments and monitor reserve money and broad money.

Implementation and dosage of all monetary policy instruments will be aimed at accomplishing those guidelines set for reserve and broad money. In July, the Board of the BNB increased the minimum reserve requirement for attracted resources, from 8% to 9% for July, and to 10% for August. In addition, the Board in August required that up to 20% of the mandatory reserves on attracted forex funds should be paid in foreign exchange. The BNB is intent on reducing funds for the refinancing of commercial banks by the end of the year. To this end, the central bank in early August purchased at nominal value the lev bonds of the Economic Bank. These bonds were issued in compliance with LSNC and their purchase contributes to the reduction of Lombard loans. In addition, the BNB will restrain from net lending to the government. Open market operations will be a major instrument used for maintaining liquidity in the banking system and managing reserve money. These operations will also be used to sterilize the lev money supply needed for BNB net purchases of foreign currency.

BNB foreign exchange policy will be directed toward maintaining the external viability of the national currency. When necessary the BNB will intervene in the domestic forex market in order to level sharp fluctuations in the exchange rate (depending on the demand to supply ratio for foreign currency). The exchange rate attained at the end of the first half of 1994 boosted Bulgarian exports, almost equaling levels achieved in late 1993.

The BNB interest rate policy is directed at achieving the general goals of monetary policy. Sustained tension in the forex market does not allow for a cut in the basic interest rate, in spite of a seasonal fall in the inflation rate. In June, the interest rates on deposits became slightly positive and should stay positive for a period of two months or more until improved confidence in the lev and lower inflation occur. Simultaneously, the BNB will use interest rates on commercial bank transaction accounts to monitor their liquidity and gain control over possible disruptions in the forex market.

To achieve monetary policy goals and comply with performance criteria set under the current stand-by agreement with the IMF, the BNB must be able to coordinate its actions in the lev and forex market. Moreover, consistency among governmental fiscal and incomes policies and central bank monetary policy is of great importance. Close cooperation between parliament, government, and the BNB is needed to maintain and improve financial stability in the country as well as create the conditions for economic growth following structural reform in the real sector.

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PRODUCTION AND RECEIPTS FROM SALES BY ECONOMIC BRANCH*
(AT CORRESPONDING 1993 MONTHLY PRICES)

Branches	Production				Receipts from sales	
	1993		1994		1994	
	Jan. - June	Jan. - June	Jan. - June	Jan. - June	Jan. - June	Jan. - June
Industry	107447	106663	96343	96150		
Construction	6849	5158	6770	4989		
Transport	13805	12838	13755	13686		
Trade	7846	7247	33017	26711		
Others	4557	3098	4691	4588		
TOTAL	140504	135004	154576	146125		

* Only state and cooperative sectors are included. Data is obtained before final accounting entries.
Source: NSI, BNB.

EMPLOYMENT, WAGE FUNDS AND AVERAGE WAGE IN THE PUBLIC SECTOR

Branches	1993						1994					
	Registered number of employed* (persons)		Wage funds (thousand BGL)		Average monthly wage (BGL)		Registered number of employed* (persons)		Wage funds (thousand BGL)		Average monthly wage (BGL)	
	Jan. - March	Jan. - June	Jan. - March	Jan. - June	Jan. - March	Jan. - June	Jan. - March	Jan. - June	Jan. - March	Jan. - June	Jan. - March	Jan. - June
Total	2257979	2215920	16699271	36416123	2465	2739	2001070	1989644	22944188	49397715	3822	4138
Industry	880385	853817	7369957	15715268	2790	3068	789988	783390	9964683	21474782	4205	4569
Construction	142399	136091	1044406	2337760	2445	2863	114016	112145	1241215	2756707	3629	4097
Agriculture	229209	221975	1104667	2481393	1606	1863	137291	138942	1063017	2363371	2581	2835
Forestry	11849	17947	51872	158612	1459	1473	12718	15631	97672	213797	2560	2280
Other industries	13577	12656	127132	260036	3121	3425	10940	10612	145798	308219	4442	4841
Services	980560	973435	7001237	15463054	2380	2648	936117	928923	10431803	22280839	3715	3998
Transport	162460	158690	1522255	3265548	3123	3430	147480	145402	2014163	4497028	4552	5155
Communications	43150	43150	374194	782568	2891	3023	43298	43392	534217	1159112	4113	4452
Trade	140161	134884	985343	2134239	2343	2637	117998	113914	1266786	2699616	3579	3950
Other services	634789	636711	4119445	9280699	2163	2429	627341	626215	6616637	13925083	3516	3706
Public utilities	46241	48178	366470	805473	2642	2786	47084	49744	537103	1193838	3802	4000
Science	40589	39111	281871	602395	2315	2567	31964	30296	357512	739827	3728	4070
Education	252802	253468	1473620	3319172	1943	2183	248569	247084	2270825	4749723	3045	3204
Art, culture	27626	27317	151504	333777	1828	2036	27936	27537	248917	512813	2970	3104
Health care	188073	187671	1104817	2524228	1958	2242	185378	185053	1849431	3857834	3326	3475
Finance, credit, insurance	25286	26622	362307	796786	4776	4988	30002	29395	643789	1380282	7153	7826
Management	51497	51777	358283	854371	2319	2750	53934	54662	677355	1423540	4186	4340
Other	2673	2567	20573	44497	2566	2889	2474	2443	31705	67226	4272	4586

* Women on maternity leave excluded.
Source: NSI.

**BALANCE OF MONETARY INCOME
AND EXPENDITURE OF THE POPULATION**

**STRUCTURE OF MONETARY INCOME
AND EXPENDITURE OF THE POPULATION**

Indicators	(million BGL)				Real change			(%)	
	January – June '93	January – March '94	April – June '94	January – June '94	Nominal change	Real change	January – June '93	January – June '94	
Income	104879	70308	86370	156678	49.4	-15.7	100.0	100.0	
Wage	37143	23425	32628	56053	50.9	-14.9	35.4	35.8	
Income from other economic activity	26500	19163	17741	36904	39.3	-21.4	25.3	23.6	
Pensions	14437	11846	11914	23760	64.6	-7.2	13.8	15.2	
Benefits	5288	3066	3615	6681	26.3	-28.7	5.0	4.3	
Scholarships	500	400	272	672	34.4	-24.2	0.5	0.4	
Insurance indemnifications	843	872	600	1472	74.6	-1.5	0.8	0.9	
Loans	668	302	300	602	-9.9	-49.2	0.6	0.4	
Interest	18000	10000	17300	27300	51.7	-14.4	17.2	17.4	
Other income	1500	1234	2000	3234	115.6	21.6	1.4	2.1	
Expenditure	104879	70308	86370	156678	49.4	-15.7	100.0	100.0	
Purchase of goods	50705	30000	40000	70000	38.1	-22.1	48.3	44.7	
Payment for services	19761	16686	20000	36686	85.6	4.7	18.8	23.4	
Taxes and fees	7160	5004	7000	12004	67.7	-5.4	6.8	7.7	
Insurance and security contributions	1887	2052	1440	3492	85.1	4.4	1.8	2.2	
Membership fees and equity contributions	94	40	30	70	-25.5	-58.0	0.1	0.0	
Repayment of loans	1600	653	400	1053	-34.2	-62.9	1.5	0.7	
Interest and fines	630	469	500	969	53.8	-13.2	0.6	0.6	
Other expenditure	1050	804	1000	1804	71.8	-3.1	1.0	1.2	
Savings	21992	14600	16000	30600	39.1	-21.5	21.0	19.5	

Source: NSI.

CONSUMER PRICE INDICES
(previous month = 100)

Commodity (services) groups	1993						1994					
	January	February	March	April	May	June	January	February	March	April	May	June
Consumer price index	106.9	104.7	105.6	103.9	105.3	104.1	103.8	104.6	107.5	121.7	107.9	104.1
Foodstuffs	107.7	102.6	107.0	104.5	102.5	102.9	102.6	105.8	108.0	126.3	107.9	103.9
Nonfoodstuffs	104.7	106.2	104.1	103.2	105.1	101.6	104.8	104.0	109.0	119.0	108.5	103.9
Services	109.2	106.2	102.0	104.4	119.5	117.3	104.9	101.1	101.7	115.8	105.1	105.1
Food*	108.0	103.3	107.5	104.5	102.3	103.0	102.6	105.8	107.7	125.6	108.3	103.8
Liquor products	103.0	103.6	108.5	104.4	105.9	105.5	105.4	103.0	104.4	119.1	104.7	106.0
Tobacco products	102.8	100.2	102.5	104.0	120.9	104.8	103.8	103.7	123.7	115.2	106.3	100.3
Housing, heating, electricity	105.8	107.2	101.6	107.9	107.9	102.8	108.7	101.8	104.8	122.4	106.0	104.7
Energy for households	111.5	102.1	100.8	100.4	137.7	100.6	100.1	100.0	100.6	125.5	106.8	100.0
Home furniture	104.2	106.4	104.4	102.0	105.5	101.2	106.7	103.4	105.5	116.2	109.0	104.6
Clothing and footwear	105.0	105.2	108.1	103.9	101.4	101.2	105.9	101.5	105.0	114.3	107.9	105.8
Hygiene and health care	103.2	105.7	108.1	103.6	103.8	107.2	106.6	105.0	108.3	112.7	104.9	104.9
Education and leisure	115.3	107.7	103.6	102.2	101.0	106.0	106.7	109.8	110.2	114.9	102.3	104.4
Transport and communications	102.2	110.1	106.3	103.3	102.1	114.2	102.8	105.1	110.1	121.8	111.2	103.3
Other	110.7	103.6	103.1	105.6	106.0	106.1	102.2	102.4	101.7	108.8	101.2	164.7

Source: NSI.

CONSUMER PRICE INDICES

Commodity (services) groups	1993						1994					
	January	February	March	April	May	June	January	February	March	April	May	June
Consumer price index	106.9	112.0	118.2	122.8	129.3	134.6	103.8	108.5	116.6	141.9	153.1	159.4
Foodstuffs	107.7	110.5	118.2	123.5	126.6	130.2	102.6	108.5	117.2	148.0	159.8	166.0
Nonfoodstuffs	104.7	111.2	115.7	119.4	125.5	127.5	104.8	109.0	118.8	141.3	153.3	159.2
Services	109.2	116.0	118.2	123.4	147.4	172.9	104.9	106.1	107.9	124.9	131.2	137.9
Food*	108.0	111.6	119.9	125.3	128.2	132.0	102.6	108.5	116.9	146.8	159.0	165.0
Liquor products	103.0	106.7	115.7	120.8	128.0	135.0	105.4	108.5	113.3	135.0	141.4	149.9
Tobacco products	102.8	103.0	105.6	109.9	132.8	139.2	103.8	107.7	133.2	153.4	163.1	163.6
Housing, heating, electricity	105.8	113.4	115.2	124.4	134.2	138.0	108.7	110.6	115.9	141.9	150.4	157.4
Energy for households	111.5	113.9	114.8	115.2	158.7	159.6	100.1	100.2	100.8	126.5	135.2	135.1
Home furniture	104.2	110.9	115.7	118.0	124.5	126.0	106.7	110.3	116.4	135.2	147.3	154.2
Clothing and footwear	105.0	110.4	112.6	117.0	118.7	120.1	105.9	107.5	112.9	129.0	139.2	147.3
Hygiene and health care	103.2	109.0	117.9	122.1	126.7	135.9	106.6	112.0	121.3	136.8	143.5	150.5
Education and leisure	115.3	124.1	128.5	131.3	132.6	140.6	106.7	117.1	129.1	148.4	151.7	158.4
Transport and communications	102.2	112.6	119.6	123.6	126.3	144.2	102.8	108.1	118.9	144.9	161.1	166.4
Other	110.7	114.7	118.3	124.8	132.3	140.4	102.2	104.6	106.4	115.8	117.1	192.9

* Incl. prices in catering establishments.

Source: NSI.

EXPORTS BY GROUP OF COUNTRIES

Countries	Jan. – June 1991	Jan. – June 1992	Jan. – June 1993	Jan. – June 1994	Jan. – June 1991	Jan. – June 1992	Jan. – June 1993	Jan. – June 1994
	(million BGL – current prices)				(%)			
Total	21241.5	38995.8	49821.8	75281.2	100.0	100.0	100.0	100.0
Central and Eastern European countries	11714.3	13580.4	17088.0	24523.3	55.1	34.8	34.3	32.6
Countries from the former USSR	10311.9	7344.3	10265.2	10865.8	48.5	18.8	20.6	14.4
Countries from the former Yugoslavia	608.1	3652.4	4076.1	10357.0	2.9	9.4	8.2	13.8
Other Central and Eastern European countries	794.3	2583.7	2746.7	3300.5	3.7	6.6	5.5	4.4
OECD countries	5648.7	17925.5	20363.3	31995.1	26.6	46.0	40.9	42.5
EU countries	3474.0	13115.7	13293.5	23840.0	16.4	33.6	26.7	31.7
EFTA countries	787.1	1619.9	1583.7	1647.3	3.7	4.2	3.2	2.2
Other OECD countries	1387.6	3189.9	5486.1	6507.8	6.5	8.2	11.0	8.6
Arab countries	1828.5	3874.3	3575.0	5301.2	8.6	9.9	7.2	7.0
Other countries	2050.0	3615.6	8795.5	13461.6	9.7	9.3	17.7	17.9

Source: NSI, BNB.

IMPORTS BY GROUP OF COUNTRIES

Countries	Jan. – June 1991	Jan. – June 1992	Jan. – June 1993	Jan. – June 1994	Jan. – June 1991	Jan. – June 1992	Jan. – June 1993	Jan. – June 1994
	(million BGL – current prices)				(%)			
Total	18710.8	45448.4	64005.4	66985.6	100.0	100.0	100.0	100.0
Central and Eastern European countries	9478.9	16631.8	28899.3	21279.0	50.7	36.6	45.2	31.8
Countries from the former USSR	8708.5	13270.2	25086.0	16058.5	46.5	29.2	39.2	24.0
Countries from the former Yugoslavia	357.0	1321.8	1145.4	2374.4	1.9	2.9	1.8	3.5
Other Central and Eastern European countries	413.4	2039.8	2667.9	2846.1	2.2	4.5	4.2	4.2
OECD countries	6778.8	20843.1	24846.1	34482.4	36.2	45.9	38.8	51.5
EU countries	4374.1	14356.6	17250.4	25503.9	23.4	31.6	27.0	38.1
EFTA countries	1646.9	3072.8	3408.5	4214.2	8.8	6.8	5.3	6.3
Other OECD countries	757.8	3413.7	4187.2	4764.3	4.1	7.5	6.5	7.1
Arab countries	844.0	3337.0	4211.5	1375.3	4.5	7.3	6.6	2.1
Other countries	1609.1	4636.5	6048.5	9848.9	8.6	10.2	9.4	14.7

Source: NSI, BNB.

STRUCTURE OF EXPORTS AND IMPORTS BY GROUP OF COUNTRIES

Countries	January – June 1991	January – June 1992	January – June 1993	January – June 1994
Total	1.1	0.9	0.8	1.1
Central and Eastern European countries	1.2	0.8	0.6	1.2
Countries from the former USSR	1.2	0.6	0.4	0.7
Countries from the former Yugoslavia	1.7	2.8	3.6	4.4
Other Central and Eastern European countries	1.9	1.3	1.0	1.2
OECD countries	0.8	0.9	0.8	0.9
EU countries	0.8	0.9	0.8	0.9
EFTA countries	0.5	0.5	0.5	0.4
Other OECD countries	1.8	0.9	1.3	1.4
Arab countries	2.2	1.2	0.8	3.9
Other countries	1.3	0.8	1.5	1.4

Source: NSI, BNB.

COMMODITY STRUCTURE OF EXPORTS AND IMPORTS

Commodity groups	January – June 1993	1993	January – June 1994
Total	0.8	0.8	1.1
Animal and vegetable products, foodstuffs, liquor and tobacco products (01, 02, 03, 04)*	2.5	1.8	1.9
Mineral products and fuel (05)	0.1	0.2	0.4
Chemical products, plastics and rubber (06, 07)	1.2	1.1	1.4
Base metals and their products (15)	2.6	2.5	2.7
Machines, transport facilities, appliances and tools (16, 17, 18, 19)	0.6	0.6	0.5
Textile and leather materials, clothing, footwear, furniture and other industrial consumer goods (08, 11, 12, 14, 20, 21)	1.2	1.2	1.1
Wood, paper, earthenware and glass products (09, 10, 13)	1.1	1.1	1.3

* Codes in brackets show the respective sections in the Customs' Tariff.

Source: Ministry of Trade, BNB.

BALANCE OF PAYMENTS

(million USD)

Indicators	1992		1992		1992		1992		1993		1993		1994	
	I quarter	II quarter	III quarter	IV quarter	Total	I quarter	II quarter	III quarter	IV quarter	Total	I quarter	II quarter	I quarter	II quarter
CURRENT ACCOUNT¹														
Trade balance ²	-258.6	1.0	207.1	-310.0	-360.5	-164.3	-158.0	105.3	-306.3	-523.3	-36.7	314.1		
Exports of goods, FOB	-177.5	22.3	193.2	-250.3	-212.4	-61.6	-126.3	65.3	-207.1	-329.7	-38.8	232.6		
Imports of goods, FOB	902.5	941.6	1041.3	1226.2	3956.4	931.8	737.4	1138.8	1163.2	3971.2	718.0	845.2		
Services, net	-86.8	-38.5	848.1	1476.5	4168.8	993.4	863.7	1073.5	1370.3	4300.9	756.8	612.6		
Receipts, of which:														
Shipments ²	157.4	235.5	520.1	-57.5	-191.0	-102.2	-37.4	25.6	-116.4	-230.5	-32.8	28.0		
Travel ³	51.6	133.1	244.6	281.9	1194.9	177.7	281.4	567.2	250.0	1276.4	288.9	442.7		
Interest	18.9	37.1	137.3	78.3	507.5	65.7	85.4	221.4	71.9	444.5	35.9	42.3		
Other	14.3	29.7	30.7	21.2	214.5	23.9	60.7	205.6	17.2	307.4	25.8	55.9		
Payments, of which:														
Shipments ²	72.6	35.6	107.5	132.1	347.8	60.7	115.5	117.6	138.1	431.9	207.4	338.1		
Travel ³	244.2	274.0	528.3	339.4	1385.9	279.9	318.9	541.6	366.4	1506.9	321.7	414.7		
Interest paid ⁴	91.8	107.8	165.2	145.2	510.0	98.1	97.1	169.3	133.2	497.7	60.6	53.3		
by BNB	31.3	56.3	187.3	38.3	313.2	25.7	46.2	154.1	30.9	256.9	27.8	40.2		
by BFTB	38.0	26.7	74.5	81.5	220.7	93.4	53.6	67.0	70.9	284.9	92.1	21.6		
by commercial banks	0.0	0.0	11.3	19.5	30.8	25.7	8.2	16.6	20.8	71.3	20.7	0.0		
Other	16.4	11.1	46.6	50.4	124.5	59.7	30.3	39.6	36.8	166.4	60.4	9.2		
Transfers, net (private)	21.6	15.6	16.6	11.6	65.4	8.0	15.1	10.8	13.3	47.2	11.0	12.4		
Receipts	83.1	83.2	101.3	74.4	342.0	62.8	122.0	151.2	131.4	467.4	141.2	299.6		
Payments	5.8	17.1	22.2	-5.3	39.7	-0.5	5.8	17.2	17.2	36.9	34.9	53.6		
Interofficial unrequited transfers	14.3	29.1	38.2	29.4	111.0	49.0	52.7	76.4	107.8	285.9	83.7	104.0		
	8.5	12.0	16.0	34.7	71.2	49.5	46.9	62.0	90.6	249.0	48.8	50.4		
	0.0	0.0	0.0	3.1	3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
CAPITAL ACCOUNT														
Direct investments in Bulgaria, net	314.3	206.6	-111.1	351.2	760.9	29.6	56.6	-98.5	139.9	127.6	144.4	38.7		
Medium- and long-term loans received, net	7.4	8.3	18.2	7.6	41.5	10.7	11.3	13.5	19.9	55.4	14.5	10.6		
Drawings	1.8	10.9	19.5	9.9	42.1	54.1	-28.5	-20.0	-51.9	-46.3	-25.1	58.9		
Repayments	32.4	84.2	72.8	43.0	232.4	67.6	22.0	7.0	0.6	97.2	0.0	65.8		
Loans extended, net	30.6	73.3	53.3	33.1	190.3	13.5	50.5	27.0	52.5	143.5	25.1	6.9		
of which:														
Developing countries, net	83.1	70.7	79.4	74.5	307.6	92.7	75.4	91.5	87.7	347.3	68.0	34.6		
Drawings	12.0	2.3	9.2	-0.1	23.4	14.6	0.2	19.3	0.9	35.0	7.8	1.3		
Repayments	1.5	0.0	0.0	2.2	3.7	0.0	0.0	1.6	0.0	1.6	0.0	0.0		
Yamburg pipeline ⁵	13.5	2.3	9.2	2.1	27.1	14.6	0.2	20.9	0.9	36.6	7.8	1.3		
Short-term debt	71.1	68.4	70.2	74.6	284.2	78.1	75.2	72.2	86.8	312.3	60.2	33.3		
of which:														
Deposits and loans	-67.1	-59.7	14.6	-35.4	-147.6	-24.9	8.9	-8.5	24.4	-0.1	32.0	-2.6		
Clearing accounts ⁶	36.6	-0.8	19.9	-2.7	53.0	-24.8	-4.7	-24.8	-13.8	-68.1	32.0	-2.4		
	-103.7	-58.9	-5.3	-32.7	-200.6	-0.1	13.6	16.3	38.2	68.0	0.0	-0.2		

(continued)

(continued)

Indicators	1992		1992		1992		1992		1993		1993		1993		1994			
	I quarter	II quarter	III quarter	IV quarter	Total	I quarter	II quarter	III quarter	IV quarter	Total	I quarter	II quarter	III quarter	IV quarter	Total	I quarter	II quarter	
Nonclassified capital	289.1	176.4	-242.8	294.6	517.3	-103.0	-10.5	-175.0	59.8	-228.7	55.0	-62.8						
Errors and omissions	-33.1	-24.4	144.5	-238.4	-151.3	-29.6	138.2	36.1	-110.2	34.5	-186.0	123.8						
OVERALL BALANCE	22.6	183.2	240.5	-197.2	249.1	-164.4	36.9	42.9	-276.6	-361.2	-78.3	476.6						
Change in reserves (increment:-)	-22.6	-183.2	-240.5	197.2	-249.1	164.4	-36.9	-42.9	276.6	361.2	78.3	-476.6						
of which:																		
Gross BNB reserves	-238.6	-226.4	-274.4	164.3	-575.1	69.6	-157.5	67.3	252.8	232.2	36.0	-466.1						
BNB gold (USD 300 per oz)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-4.4						
Foreign exchange of BFTB	24.9	9.8	13.5	-66.4	-18.2	37.0	81.0	-64.7	-33.9	19.4	-57.8	-33.1						
Foreign exchange of commercial banks	-16.1	-33.0	-95.4	99.3	-45.2	13.7	7.6	-45.5	57.7	33.5	71.1	-200.1						
Use of IMF credit	47.0	66.4	103.8	0.0	217.2	44.1	0.0	0.0	0.0	44.1	0.0	191.9						
EU loan	160.2	0.0	12.0	0.0	172.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0						
EFTA loan	0.0	0.0	0.0	0.0	0.0	0.0	32.0	0.0	0.0	32.0	17.2	16.2						
Valuation adjustments of BNB reserves											11.8	19.0						

¹ Includes NSI revised data for 1992 and I and II quarters of 1993. Imports report repayments in natural gas under the Yambour pipeline agreement calculated at international market prices.

² Include data for 1992 and 1993 on item "Other travel operations (Travel services)" reported by the NSI and the Committee on Tourism.

³ Include estimates for 1992 and 1993 reported by the Committee on Tourism and the NSI. For I and II quarters of 1994, BNB estimates are used.

⁴ Actually paid interest.

⁵ Loan repayment in natural gas by the former USSR is calculated at international market prices.

⁶ Include repayments on clearing accounts with the former COMECON member countries (USD 67.9 million in 1993 and USD 1 million in 1994).

Repayments are converted from roubles into US dollars at the exchange rate of RUR 1 = BGL 3.5.

* Trade balance is based on settlement as reported by bank statistics:

Trade balance	145.7	288.8	38.8	11.2	484.5	-5.7	60.4	164.1	-85.3	133.5	20.1	174.0						
Exports, FOB	1060.1	1230.3	1052.4	1750.2	5093.0	861.5	1053.1	1217.7	1568.3	4700.6	1928.4	2005.7						
Imports, FOB	914.4	941.5	1013.6	1739.0	4608.5	867.2	992.7	1053.6	1653.6	4567.1	1908.3	1831.7						

Source: BNB.

CONSOLIDATED STATE BUDGET

(million BGL)

Indicators	Consolidated state budget				Government budget****				Legal institutions							
	30 June 1993		30 June 1994		30 June 1993		30 June 1994		30 June 1993		30 June 1994					
	Reporting***	% of GDP*	Reporting	% of GDP**	Reporting	Relative share	% of GDP**	Reporting	Relative share	% of GDP**	Reporting	Relative share	% of GDP**			
Revenue (net)	444516.0	15.6	87739.4	17.5	21931.3	49.3	7.7	52119.6	59.4	10.4	491.3	1.1	0.2	753.7	0.9	0.2
Expenditure (net)	57955.4	20.3	100274.3	20.0	26314.3	45.4	9.2	50278.8	50.1	10.0	334.7	0.6	0.1	367.6	0.4	0.1
Changes in balances on extrabudgetary accounts	0.0	0.0	0.0	0.0			0.0			0.0						0.0
Government transfers	0.0	0.0	0.0	0.0	9998.2		3.5	13593.3		2.7	-118.2			0.0		0.0
Budget deficit	-13439.4	4.7	-12534.9	2.5	-14381.2		5.0	-11752.5		2.3	274.8			386.1		0.1
Financing (net)	13439.4	4.7	12534.9	2.5	14381.2		5.0	11752.5		2.3	-274.8			-386.1		0.1
Foreign financing (net)	-400.5	0.1	-1482.3	0.3	-400.5		0.1	-1482.3		0.3						0.0
Domestic financing (net) including:	13839.9	4.8	14017.2	2.8	14781.7		5.2	13234.8		2.6	-274.8			-386.1		0.1
Operations in government securities (net)	12859.1	4.5	19187.9	3.8	12859.1		4.5	19187.9		3.8	0.0			0.0		0.0
Bank (net)	921.8	0.3	-5170.7	1.0	1863.9		0.7	-5953.1		1.2	-274.8			-386.1		0.1
BNB (net)	2232.5	0.8	-5644.8	1.1	2356.4		0.8	-5321.8		1.1	0.0			-238.3		0.0
Long-term loans	3500.0	1.2	5000.0	1.0	3500.0		1.2	5000.0		1.0	0.0			0.0		0.0
Repayments	-873.0	0.3	-1630.7	0.3	-873.0		0.3	-1630.7		0.3	0.0			0.0		0.0
Temporary loans	4000.0	1.4	0.0	0.0	4000.0		1.4	0.0		0.0	0.0			0.0		0.0
Repayments	-1800.0	0.6	0.0	0.0	-1800.0		0.6	0.0		0.0	0.0			0.0		0.0
Resources on accounts (net)	-2594.5	0.9	-9014.1	1.8	-2470.6		0.9	-8691.1		1.7	0.0			-238.3		0.0
Balances from past periods	16.1	0.0	6.0	0.0	0.0		0.0	0.0		0.0	0.0			0.0		0.0
Balances on accounts (net)	-2610.6	0.9	-9020.1	1.8	-2470.6		0.9	-8691.1		1.7	0.0			-238.3		0.0
Other banks and financial institutions (net)	-1310.7	0.5	474.1	0.1	-492.5		0.2	-631.3		0.1	-274.8			-147.8		0.0
Credits extended	7.0	0.0	0.0	0.0	7.0		0.0	0.0		0.0	0.0			0.0		0.0
Repayments	-428.8	0.1	-236.5	0.0	-236.5		0.1	-236.5		0.0	0.0			0.0		0.0
Loans repaid by municipal councils	0.0	0.0	0.0	0.0	0.0		0.0	0.0		0.0	0.0			0.0		0.0
Resources on accounts (net)	-888.9	0.3	710.6	0.1	-263.0		0.1	-394.8		0.1	-274.8			-147.8		0.0
Balances from past periods	134.4	0.0	2155.2	0.4	0.0		0.0	0.0		0.0	0.0			0.0		0.0
Balances on accounts	-1023.3	0.4	-1444.6	0.3	-263.0		0.1	-394.8		0.1	-274.8			-147.8		0.0
Other financing	59.0	0.0	0.0	0.0	58.7		0.0	0.0		0.0	0.0			0.0		0.0

(continued)

(continued)

(million BGL)

	Social security and CMMI				Municipal councils				Extrabudgetary accounts						
	30 June 1993		30 June 1994		30 June 1993		30 June 1994		30 June 1993		30 June 1994				
	Reporting	Relative share	% of GDP**	Reporting	Relative share	% of GDP**	Reporting	Relative share	% of GDP**	Reporting	Relative share	% of GDP**			
Revenue (net)	13594.1	30.5	4.8	20233.9	23.1	4.0	8499.3	19.1	3.0	11870.6	13.5	2.4	2761.6	3.1	0.6
Expenditure (net)	17363.5	30.0	6.1	27474.1	27.4	5.5	13942.9	24.1	4.9	19958.2	19.9	4.0	2195.6	2.2	0.4
Changes in balances on extrabudgetary accounts			0.0	-2208.3		0.4			0.0			0.0		2208.3	0.4
Government transfers	-4000.0		1.4	-5163.7		1.0	-5880.0		2.1	-8429.6		1.7			0.0
Budget deficit	230.6		0.1	131.8		0.0	436.4		0.2	342.0		0.1		-1642.3	0.3
Financing (net)	-230.6		0.1	-131.8		0.0	-436.4		0.2	-342.0		0.1		1642.3	0.3
Foreign financing (net)			0.0			0.0			0.0			0.0			0.0
Domestic financing (net)	-230.6		0.1	-131.8		0.0	-436.4		0.2	-342.0		0.1		1642.3	0.3
including:															
Operations in government securities (net)	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0		0.0	0.0
Bank (net)	-272.6		0.1	-131.8		0.0	-394.7		0.1	-342.0		0.1		1642.3	0.3
BNB (net)	-123.9		0.0	-84.7		0.0	0.0		0.0	0.0		0.0		0.0	0.0
Long-term loans	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0		0.0	0.0
Repayments	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0		0.0	0.0
Temporary loans	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0		0.0	0.0
Repayments	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0		0.0	0.0
Resources on accounts (net)	-123.9		0.0	-84.7		0.0	0.0		0.0	0.0		0.0		0.0	0.0
Balances from past periods	16.1		0.0	6.0		0.0	0.0		0.0	0.0		0.0		0.0	0.0
Balances on accounts	-140.0		0.0	-90.7		0.0	0.0		0.0	0.0		0.0		0.0	0.0
Other banks and financial institutions	-148.7		0.1	-47.1		0.0	-394.7		0.1	-342.0		0.1		1642.3	0.3
Credits extended	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0		0.0	0.0
Repayments	0.0		0.0	0.0		0.0	-192.3		0.1	0.0		0.0		0.0	0.0
Loans repaid from municipal councils	0.0		0.0	0.0		0.0	0.0		0.0	0.0		0.0		0.0	0.0
Resources on accounts (net)	-148.7		0.1	-47.1		0.0	-202.4		0.1	-342.0		0.1		1642.3	0.3
Balances from past periods	0.0		0.0	0.0		0.0	134.4		0.0	190.7		0.0		1964.5	0.4
Balances on accounts	-148.7		0.1	-47.1		0.0	-336.8		0.1	-532.7		0.1		-322.2	0.1
Other financing	42.0		0.0	0.0		0.0	-41.7		0.0	0.0		0.0		0.0	0.0

* The annual amount of the reported GDP for 1993 used in the table is BGL 286.134 million.

** The annual amount of the projected GDP for 1994 used in the table is BGL 501.000 million.

*** Consolidated state budget for the first half of 1993 does not include extrabudgetary accounts.

**** Government budget includes central government budget, budgets of ministries and municipal councils.

Source: BNB, MF.

CASH BASIS REPORTING OF THE CENTRAL GOVERNMENT BUDGET

(million BGL)

Indicators	1993			1994			
	State Budget Law	Reporting 30 June	% of the Law	State Budget Law	Reporting 30 June	% of the Law	% of GDP
I. Total revenue							
1. Tax revenues	71349.7	21930.9	30.7	100167.0	52068.8	52.0	10.4
including:	54840.5	16372.3	29.9	80153.5	38209.4	47.7	7.6
– corporate tax from financial institutions	5300.0	486.2	9.2	3000.0	396.2	13.2	0.1
– corporate tax from nonfinancial institutions	5065.0	1943.9	38.4	6920.0	4218.1	61.0	0.8
– turnover tax (VAT)	8496.0	2242.3	26.4	26854.8	12799.8	47.7	2.6
– duties and fees	12324.0	3678.4	29.8	13050.0	6270.6	48.1	1.3
2. Nontax revenues	16509.2	5558.6	33.7	20013.5	13859.5	69.3	2.8
including:							
– BNB – excess of revenue over expenditure	9000.0	3947.8	43.9	11500.0	10235.5	89.0	2.0
– interest revenue	832.5	290.0	34.8	782.5	428.6	54.8	0.1
– other nontax revenues	0.0	0.0	0.0	5165.5	0.0	0.0	0.0
II. Total expenditure							
1. Current expenditures	104404.1	36670.1	35.1	133836.6	64588.6	48.3	12.9
including:	47937.0	14514.7	30.3	58018.3	31412.1	54.1	6.3
– other expenditures	5151.7	258.9	5.0	4176.3	902.6	21.6	0.2
– subsidies – total	6550.0	2372.1	36.2	6220.6	3014.4	48.5	0.6
– interest – total	32838.4	11041.1	33.6	42734.6	26041.1	60.9	5.2
interest on external loans	4943.0	1473.5	29.8	9128.0	2350.6	25.8	0.5
interest on internal loans	27895.4	9567.6	34.3	33606.6	23690.4	70.5	4.7
2. Capital investments	681.6	38.2	5.6	780.1	273.7	35.1	0.1
3. Transfers – total	55785.2	22117.2	39.6	75038.2	32902.8	43.8	6.6
3.1. Subsidies	56496.4	12177.1	21.6	75524.8	28211.2	37.4	5.6
3.2. Temporary loans from government budget to		10028.6	3.5		4744.9	0.9	0.0
– municipal councils		5968.6	2.1		0.0	0.0	0.0
– regional municipal councils		0.0	0.0		0.0	0.0	0.0
– ministries and other government institutions		60.0	0.0		55.6	0.0	0.0
– Social Security		4000.0	1.4		4689.3	0.9	0.0
3.3. Loans repaid by Social Security from previous years							
3.4. Government budget contributions	-7111.2	-88.5		-486.6	-53.3	10.9	0.0
III. Deficit(-) / Surplus(+)							
1. Primary deficit/surplus	-216.0	-3698.1	0.0	9065.0	13521.2		-2.7
Interest paid on internal loans	27895.4	9567.6	34.3	33606.6	23690.4	70.5	4.7
2. Internal deficit	-28111.4	-13265.7	47.2	-24541.6	-10169.2	41.4	2.0
Interest paid on external loans	4943.0	1473.5	29.8	9128.0	2350.6	25.8	0.5
3. Cash deficit	-33054.4	-14739.2	44.6	-33669.6	-12519.8	37.2	2.5
4. Overall demand for credit resources	-46870.6	-29760.6	63.5	-40287.1	-49737.6	123.5	9.9

(continued)

(continued)

Indicators	1993			1994			
	State Budget Law	Reporting 30 June	% of the Law	State Budget Law	Reporting 30 June	% of the Law	% of GDP
IV. Cash deficit financing							
1. Foreign financing (operations abroad)	33054.4	14739.2	44.6	33669.6	12519.8	37.2	2.5
1.1. Repayments on extended credits to other countries	-3986.8	-400.5	10.0	-3766.1	-1482.3	39.4	0.3
1.2. Repayments on clearing account balances for 1991	813.0	56.4		38.0	23.0	60.5	0.0
1.3. Export of government credit	-10.0	0.0		-870.1	-870.1	100.0	
1.4. Repayments on external loans	-1226.0	-282.8		-1225.0	-370.3	30.2	0.1
1.5. Overdue payments to the Paris Club	-458.8	-26.1		-612.5	-0.4	0.1	0.0
1.6. Expenditures for the partial recovery of BFTB reserves	-2202.0	0.0		0.0	0.0	0.0	0.0
1.7. Repayments of trade deficit in transferable roubles with the former COMECON countries	-903.0	-148.0		-1096.5	-264.5	24.1	0.1
2. Domestic financing	37041.2	15139.7	40.9	37435.7	14002.1	37.4	2.8
2.1. Operations in government securities (net)	21255.8	12859.1	60.5	30364.4	19187.9	63.2	3.8
2.1.1. Issue of government securities in the current year (net)	26401.4	17002.8		53283.8	35236.0	66.1	7.0
- issue of treasury bills		22209.2		21403.1	10348.8	48.4	
- issue of bonds		-9350.1		-44322.5	-26396.9	59.6	5.3
Repayment of government securities in the current year - total		-5206.4			-9289.0		1.9
- repayment of government securities issued in the current year		-4143.7			-17107.9		3.4
- repayment of government securities issued in previous years	-5145.6			7071.3			
2.2. Bank financing (net)	15785.4	4590.5	29.1	7544.3	3132.8	44.3	0.6
2.2.1. BNB	17910.2	4827.0	27.0	7544.3	3369.3	44.7	0.7
- long-term loans	19656.2	3500.0	17.8	10754.8	5000.0	46.5	1.0
- repayment on long-term loans	-1746.0	-873.0	50.0	-3210.5	-1630.7	50.8	0.3
- temporary loans		4000.0			0.0		0.0
- repayment on temporary loans		-1800.0			0.0		0.0
2.2.2. Other banks and financial institutions (SSB and SII)	-2124.8	-236.5	11.1	-473.0	-236.5	50.0	0.0
- repayment on SSB credits	-253.2	-126.5	50.0	0.0	-126.5	0.0	0.0
- repayment on SII credits	-219.6	-110.0	50.1	0.0	-110.0	0.0	0.0
- repayment to other banks	-1652.0	0.0		0.0	0.0	0.0	0.0
2.3. Loans repaid by municipal councils from previous years				0.0	0.0		0.0
2.4. Government deposit				0.0	0.0		0.0
2.5. Budget deposit				0.0	-3000.0	0.0	0.6
2.6. Temporary noninterest-bearing loans extended to the central government budget from other extrabudgetary financial resources		-2309.9		0.0	-5318.5	0.0	1.1
		0.0	0.0	0.0	0.0	0.0	0.0

Notes:

- The information on cash basis reporting of the central government budget is based on the cable accountability received by commercial banks and the Bulgarian Foreign Trade Bank (BFTB) and is classified according to the method applied by the MF.
- Distribution of the expenditure accepted with the Law is according to the data of the MF.
- The annual amount of the reported GDP for 1993 used in the table is BGL 286,134 million.
- The annual amount of the projected GDP for 1994 used in the table is BGL 501,000 million.

Source: BNB, MF.

MONEY SUPPLY

	Dec.'92	Jan.'93	Feb.'93	March'93	Apr.'93	May'93	June'93	Dec.'93	Jan.'94	Feb.'94	March'94	Apr.'94	May'94	June'94
Exchange rate: BGL/1 USD	24.492	25.583	26.61	26.522	26.395	26.412	26.681	32.711	36.323	37.366	64.942	56.883	55.593	53.658
BROAD MONEY	158567	161660	165649	169725	174361	180145	188110	242539	254905	261372	317055	312147	319923	328618
BGL	117585	118354	121567	125960	131885	137337	145548	187009	190378	194636	200754	205458	211644	221784
convertible currency	40542	42880	43640	43257	41687	42080	41477	54221	63177	65597	114695	105125	106635	104519
nonconvertible currency	440	426	442	508	789	728	1085	1309	1350	1139	1606	1564	1644	2315
MONEY (M2)	154982	157365	161418	165736	170579	176231	184395	238389	249855	256677	308924	306473	312802	323142
MONEY (M1)	37833	33480	33106	32577	34845	35567	36924	48303	44127	43920	50148	50558	51597	54995
Currency outside banks	18268	17401	17699	17383	18962	19331	20202	25151	23707	23931	26801	28126	28911	30259
Demand deposits	19565	16079	15407	15194	15883	16236	16722	23152	20420	19989	23347	22432	22686	24736
QUASI MONEY	117149	123885	128312	133159	135734	140664	147471	190086	205728	212757	258776	255915	261205	268147
Time deposits	59409	64292	67930	72884	76386	80798	87123	110507	117970	122111	122159	125858	130574	136400
Savings deposits	20217	20357	20356	20274	20318	20534	21045	28049	28136	28278	28132	28640	29093	29970
Foreign currency deposits	37523	39236	40026	40001	39030	39332	39303	51530	59622	62368	108485	101417	101538	101777
convertible currency	37084	38811	39585	39494	38242	38604	38218	50221	58272	61229	106879	99853	99894	99462
nonconvertible currency	439	425	441	507	788	728	1085	1309	1350	1139	1606	1564	1644	2315
IMPORT AND RESTRICTED DEPOSITS	3585	4295	4231	3989	3782	3914	3715	4150	5050	4695	8131	5674	7121	5476
BGL	126	225	175	225	336	438	456	150	145	327	315	402	269	312
convertible currency	3458	4069	4055	3763	3445	3476	3259	4000	4905	4368	7816	5272	6852	5164
nonconvertible currency	1	1	1	1	1	0	0	0	0	0	0	0	0	0

DOMESTIC CREDIT

	Dec.'92	Jan.'93	Feb.'93	March'93	Apr.'93	May'93	June'93	Dec.'93	Jan.'94	Feb.'94	March'94	Apr.'94	May'94	June'94
Exchange rate: BGL/1 USD	24.492	25.583	26.61	26.522	26.395	26.412	26.681	32.711	36.323	37.366	64.942	56.883	55.593	53.658
DOMESTIC CREDIT	254022	269088	278894	288692	301169	309881	316794	396819	437095	453787	622393	569192	565006	556226
BGL	125923	131927	138189	145123	151355	158544	164556	204768	221162	227428	223537	224603	225970	226273
convertible currency	128099	137161	140705	143569	149814	151337	152238	192051	215933	226359	398856	344589	339036	329953
CLAIMS ON GOVERNMENT (net)	101354	108755	114425	118544	124538	127682	129968	194120	183368	189800	298195	271696	269082	291670
levs	34250	36515	40231	43056	45853	48315	50114	103678	81730	83160	112708	111872	111671	110419
convertible currency	67104	72240	74194	75488	78685	79367	79854	90442	101638	106640	185487	159824	157411	181251
CLAIMS on nonfinancial														
public enterprises	134827	142464	146784	150508	155991	159569	163231	166735	203111	223296	276757	248702	245082	208860
BGL	73832	77543	80273	82427	84862	87599	90847	75682	100988	116836	82441	83194	84791	85112
convertible currency	60995	64921	66511	68081	71129	71970	72384	91053	102123	106460	194316	165508	160291	123748
CLAIMS ON PRIVATE SECTOR	17841	17869	17685	19640	20640	22630	23595	35964	50616	40691	47441	48794	50842	55696
BGL								25408	38444	27432	28388	29537	29508	30742
convertible currency								10556	12172	13259	19053	19257	21334	24954

Source: BNB.

(million BGL)

(million BGL)

INTEREST RATES ON ONE-MONTH DEPOSITS IN 1994

Months	Nominal						Real*					
	January	February	March	April	May	June	January	February	March	April	May	June
January	3.78						-0.02					
February	7.82	3.89					-0.63	-0.64				
March	12.17	8.09	4.04				-3.78	-3.79	-3.17			
April	16.88	12.63	8.41	4.20			-17.61	-17.62	-17.09	-14.37		
May	21.80	17.37	12.97	8.59	4.21		-20.41	-20.42	-19.91	-17.29	-3.40	
June	26.93	22.31	17.73	13.16	8.60	4.21	-20.35	-20.35	-19.84	-17.21	-3.32	0.09

INTEREST RATES ON SHORT-TERM CREDITS IN 1994

Months	Nominal						Real*					
	January	February	March	April	May	June	January	February	March	April	May	June
January	5.43						1.57					
February	11.11	5.39					2.41	0.79				
March	17.48	11.43	5.73				0.77	-0.82	-1.60			
April	24.38	17.97	11.94	5.87			-12.33	-13.71	-14.39	-13.00		
May	31.76	24.98	18.59	12.16	5.94		-13.91	-15.27	-15.93	-14.56	-1.80	
June	39.59	32.40	25.63	18.82	12.23	5.94	-12.40	-13.78	-14.46	-13.07	-0.08	1.75

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

Source: BNB.

DENOMINATION COMPOSITION IN NOTES AND COINS

(BGL)

	30 June 1993	31 December 1993	30 June 1994
Notes, total	27 830 943 481	37 989 011 785	43 956 657 062
500 levs		6 500 000 000	9 999 900 000
200 levs	7 279 959 800	11 878 210 900	14 314 972 300
100 levs	7 921 875 550	9 959 387 550	11 117 253 300
50 levs	4 215 445 525	4 257 221 425	4 185 920 750
20 levs	3 914 036 652	2 405 244 152	1 991 118 902
10 levs	3 150 763 247	2 047 250 917	1 568 193 567
5 levs	1 110 319 224	740 651 424	593 976 667
2 levs	138 395 188	107 039 150	96 137 413
1 lev	100 148 295	94 006 267	89 184 163
Coins, total	294 026 526	358 038 083	453 655 263
50 levs	15 000 000	15 000 000	15 000 000
20 levs	5 999 980	5 999 980	5 999 980
10 levs		8 310 000	14 610 000
5 levs		50 075 000	91 075 000
2 levs		10 000 000	20 760 000
1 lev	16 616 387	17 417 544	18 104 544
50 stotinkas	40 655 845	44 605 845	44 605 845
20 stotinkas	39 220 079	42 155 279	48 184 079
10 stotinkas	29 333 958	33 337 158	33 337 158
5 stotinkas	12 559 503	12 559 503	12 148 103
2 stotinkas	10 971 502	10 971 502	10 941 622
1 stotinka	8 984 869	8 984 869	8 786 029
Jubilee	114 684 403	98 621 403	130 102 903
Notes and coins, total	28 124 970 007	38 347 049 868	44 410 312 325

Source: BNB.

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

Indicators	XII'93	I'94	II	III	IV	V	VI
Average monthly exchange rate, BGL/1 USD	31.983	35.678	36.851	47.201	55.178	55.584	54.362
End of month exchange rate							
BGL/1 USD	32.711	36.323	37.366	64.942	56.883	55.593	53.658
BGL/1 DEM	18.985	21.057	21.890	38.711	34.027	33.785	33.978
BGL/1 CHF	22.192	24.802	26.090	45.605	39.778	39.647	40.405
Monthly volume of forex bought (million USD)	294.5	251.1	158.0	195.8	205.7	288.5	395.6
Monthly volume of forex sold (million USD)	328.4	326.3	186.7	208.4	213.1	285.3	332.3
Gross foreign exchange reserves (million USD)*	663.7	618.5	593.2	644.2	926.9	1008.9	1133.2

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

Source: BNB.

**CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS
AS OF 30 JUNE 1994**

(million BGL)

ASSETS	
A. FINANCIAL ASSETS	738001
Reserves	86756
Government securities	109219
Claims on banks and other financial institutions	119875
Claims on nonfinancial institutions and other clients	412472
Bonds and other securities with fixed yield in trading portfolio	2661
Shares and other securities with variable yield in trading portfolio	866
Financial long-term assets	6152
B. NONFINANCIAL ASSETS	11008
C. FUTURE EXPENDITURE	1363
D. RIGHTS TO EQUITY SUBSCRIPTION	184
E. OTHER ASSETS	563350
F. REPORTED LOSSES	8305
TOTAL ASSETS	1322211
G. OFF-BALANCE ASSETS	110275
LIABILITIES	
A. ATTRACTED RESOURCES	1125162
Attracted resources from banks and other financial institutions	815332
Attracted resources from nonfinancial institutions and other clients	309830
B. FUTURE REVENUE	51464
C. OTHER LIABILITIES	90128
D. FIXED CAPITAL	55457
Profit	1338
Capital	42472
Reserves	11647
TOTAL LIABILITIES	1322211
E. OFF-BALANCE LIABILITIES	110275

Source: BNB.

Major Resolutions of the Managing Board of the Bulgarian National Bank

- 7 January** The BNB fixed a 56% basic interest rate per annum, beginning 10 January 1994.
- The Tariff for the interest rates, fees, and commissions charged by the BNB and applied to its domestic operations was amended as of 10 January 1994 as follows:
“Section I, group 2, code 1230 – Unsecured deposits up to 1 month extended to banks with temporary liquidity deficiency – monthly interest rate equal to the last auction’s interest rate plus 0.8% per month;
Section I, group 9, code 1910 – Up to 3-day overdraft on a current account – basic interest rate plus 20% per annum;
Section I, group 9, code 1920 – Over 3-day overdraft on a current account – basic interest rate plus 20% per annum”.
- 13 January** The Tariff for the interest rates, fees, and commissions charged by the BNB and applied to its domestic operations was amended as of 14 January 1994 as follows:
“Section II, group 2, code 2220 – On 1-week deposits – 51% per annum”.
- 21 January** The BNB granted a permit (licence) to Corporative Commercial Bank Ltd., Sofia, to conduct bank activity domestically and abroad.
- 28 January** The BNB permitted commercial banks to transfer 25% of the minimum reserve requirements on the attracted forex funds in foreign currency.
- 10 February** The BNB adopted the following Bank Unified Standards (BUS):
BUS 5194 Payment by Direct Transfer;
BUS 5294 Payment by Letter of Credit;
BUS 5494 Payment by Cheque;
BUS 5594 Bulk Payments;
BUS 9094 Electronic Access and Data Transfer through BISERA.
- The BNB granted permits (licences) for conducting bank transactions to 21 financial houses as per Article 1, para. 2, items 3, 4 (precious metals transactions excluded), 6, 7, 9 and 10, and to 7 brokers as per Article 1, para. 2, items 4 (precious metals transactions excluded), 6 and 9 of the LBCA.
- 24 February** Regulations No. 2 of 11 February 1993 of the BNB on the Permits (Licences) Granted by the BNB were amended. (Published in the State Gazette, issue 20 of 8 March 1994.)
- Regulations No. 8 of 18 March 1993 of the BNB on the Capital Adequacy of Banks were amended. (Published in the State Gazette, issue 19 of 2 March 1994.)

- 2 March** The BNB granted permits (licences) for conducting bank transactions to 27 financial houses as per Article 1, para. 2, items 3, 4 (precious metals transactions excluded), 6, 7, 9 and 10; and to 6 brokers as per Article 1, para. 2, items 4 (precious metals transactions excluded), 6 and 9 of the LBCA.
- 9 March** The Tariff for the interest rates, fees, and commissions charged by the BNB and applied to its domestic operations was amended as follows:
 “Section I, code 1230 – Unsecured deposits up to 1 month extended to banks with temporary liquidity deficiency – annual interest rate of 120%;
 Section I, code 1910 – Up to 3-day overdraft on a current account – annual interest rate 150%;
 Section I, code 1920 – Over 3-day overdraft on a current account – annual interest rate of 150%;
 Section I, code 1930 – Overdraft on minimum reserve requirements – annual interest rate of 150%”.
- 10 March** Amendments to Regulations No. 4 of 1991 for Holding Auctions of Interbank Deposits in Levs were adopted. (Published in the State Gazette, issue 23 of 18 March 1994.)
- The BNB fixed a 62% interest rate per annum, beginning 14 March 1994.
- The Tariff for the interest rates, fees, and commissions charged by the BNB and applied to its domestic operations was amended as follows:
 “Section II, Interest rates on attracted lev resources, code 2220 – On 1-week deposits – 51% per annum”.
- The BNB Board approved publishing of a monthly bulletin on the state debt management, which is jointly prepared by the State Credits Department of the BNB and the Treasury and Debt Department of the MF.
- 22 March** The minimum reserve requirements of commercial banks shall be raised from 7% to 8% as of April 1994.
- The Tariff for the interest rates, fees, and commissions charged by the BNB and applied to its domestic operations was amended as of 23 March 1994 as follows:
 “Section II, Interest rates on attracted lev resources, code 2220 – On 1-week deposits – from 51% to 57% per annum”.
- 24 March**
1. After the expiration of the term (20 April 1994) of agreements for deposits on moratorium credits concluded with commercial banks, the BNB shall not extend unsecured deposits on these credits.
 2. In case of liquidity deficiency of commercial banks the BNB, as a lender of last resort, may extend credits against collateral of issued long-term government bonds. The BNB shall fix terms and amounts of the credits, dependent on the goals of BNB monetary and lending policy at that stage.
 3. Credits under item 2 shall be allowed with a 1-month term amounting to 40% of the nominal value of collateralized bonds and interest, equal to the simple annual interest of the last lev interbank deposit auction plus 2 percentage points per annum.
- In accordance with these terms and procedures the BNB shall extend Lombard loans against collateral of bonds acquired in compliance with Decrees No. 244 of 29 December 1991, No. 186 of 24 September 1993, and No. 3 of 18 January 1994 of the CM.
- The BNB Board adopted Regulations No. 13 on Commercial Bank Refinancing against Collateral of Long-term Government Bonds, issued in compliance with LSNC.

The BNB Board adopted Regulations No. 12 of 24 March 1994 on the terms and procedures for lending credits by commercial banks to state enterprises, companies and commercial companies, whose state debt was written off in compliance with LSNC. (Published in the State Gazette, issue 30 of 8 April 1994.)

31 March The Bulgarian National Bank and the Central Bank of the Russian Federation signed an Agreement on use of the national currencies for payments and clearing in international economic relations.

Pursuant to Article 1, para. 4, item 3.1 of the Law on the 1994 Budget of the Republic of Bulgaria, the interim loan (advance) granted to the MF in the amount of BGL 5 billion, value date 3 January 1994, maturing 3 April 1994, shall be transformed into a long-term loan to fund the budget deficit, value date 1 April 1994, repayable within 10 years, effective as of 1 January 1995. Interest on the loan will be accrued at the basic interest rate operative during the respective period.

7 April Commercial banks may transfer in foreign exchange up to 100% of minimum reserve requirements on attracted resources in foreign currency.

Foreign Exchange Operations Controls Division was established in the Bank Supervision Department.

12 April Regulations No. 14 of 12 April 1994 of the BNB on the sanctions imposed on commercial banks for losses incurred by the sale of long-term government securities below their market price were adopted. (Published in the State Gazette, issue 36 of 29 April 1994.)

Credit ceiling growth of commercial banks for business lending (in levs) in the second 1994 quarter compared to the base of 31 December 1993, was fixed as follows: April – 105%, May – 106.5%, June – 108%.

14 April As of 15 April 1994 the Tariff for the interest rates, fees, and commissions charged by the BNB and applied to its domestic operations was amended as follows:
“Section I, group 2, code 1230 – Unsecured deposits up to 1 month extended to banks with temporary liquidity deficiency – annual interest rate of 85%;
Section I, group 9, code 1910 – Up to 3-day overdraft on a current account – annual interest rate of 95%;
Section I, group 9, code 1920 – Over 3-day overdraft on a current account – annual interest rate of 95%;
Section I, group 9, code 1930 – Overdraft on minimum reserve requirements – annual interest rate of 95%”.

18 April Interim Rules on BNB open market operations were adopted.

21 April BNB gold reserves rose from 1,017,041 troy ounces to 1,031,222 troy ounces due to processed circulating gold of standard type.

29 April Pursuant to Article 17, para. 2, item 4 of LBCA, a permit was granted to Commercial Bank Purvomay Ltd. to effect a merger with Commercial Bank Hebros Ltd., Plovdiv.

4 May Bankservice Ltd. was authorized to introduce interbank information system for commercial bank borrowers in the region of Haskovo. Multiplication of the system in the remaining 27 regions will be effected by the end of this year, after the BNB Board has adopted a report on the results of the system's functioning in the region of Haskovo.

Regulations No. 15 of 4 May 1994 on the Procedure for Auction Sale of Movables, Placed as Bank Security were adopted. (Published in the State Gazette, issue 41 of 17 May 1994.)

The BNB Board, considering the issue of 572 traders owning 702 exchange bureaus, who had not submitted information relating to the type, quantity and the exchange rate of the forex purchased and sold, thereby violating Article 16, item 3 of Regulations No. 2 of 1993 of the BNB Board on the Permits (Licences) Granted by the BNB, pursuant to Article 56, para. 1, item 7 and Article 19, para. 1, item 4 in compliance with Article 1, para. 4 of the LBCA, rescinded their licences for conducting banking operations in foreign instruments of payment. The resolution may be appealed before the Supreme Court of the Republic of Bulgaria within a 7-day notice as per the Law on Administrative Procedures.

The Resolution of 12 April 1994 of the BNB Board was amended in the following way: "Credit ceiling growth of commercial bank lending in levs for economic activity in the second 1994 quarter, against the base of 31 December 1993, was fixed as follows: April – 105%; May – 105.5%; June – 106%."

9 May On 17 May 1994 the BNB was to hold the first auction for open market repo-agreements, pursuant to the Interim Rules on BNB Open Market Operations. To this end, the regular auction, scheduled for 16 May 1994, for granting short-term interbank deposits in levs under the terms of Regulations No. 4 of 1991 was canceled.

The BNB fixed the interest rate on Lombard credits extended by the BNB to be equal to the average interest rate attained at the last auction for repurchase and reverse repurchase agreements, plus 1% annual interest.

Provided that the Open Market Supervising Commission has decided to cancel the auction as per Article 20, para. 2, item 3 of the Interim Rules on BNB Open Market Operations, Lombard credits shall be extended at the BNB basic interest rate, operative at that moment, plus 2 percentage points.

26 May The BNB granted permits for conducting bank transactions to 5 financial houses as per Article 1, para. 2, items 3, 4 (precious metals operations excluded), 6, 7 and 10 of the LBCA, and to 2 brokers as per Article 1, para. 2, items 4 (precious metals operations excluded) and 6 of LBCA.

The Tariff for the interest rates, fees, and commissions, charged by the BNB and applied to its domestic operations, was amended in the following way:

"Section I, group 2, code 1230 – Unsecured deposits up to 1 month extended to banks with a temporary liquidity deficiency – basic interest rate plus 7% per annum;

Section I, group 9, code 1910 – Up to 3-day overdraft on a current account – basic interest rate plus 18% per annum;

Section I, group 9, code 1920 – Over 3-day overdraft on a current account – basic interest rate plus 18% per annum;

Section I, group 9, code 1930 – Overdraft on minimum reserve requirements – basic interest rate plus 18% per annum".

2 June The BNB put into circulation as of 3 June 1994 a silver commemorative coin, issue 1994, on football subject.

The BNB was to finally sell from its portfolio, as an exception and at their nominal value, long-term government securities issued to transform nonperforming credits into a government debt. In view with monitoring liquidity, the Lev Operations Department shall make reverse repurchase transactions in compliance with the BNB effective interest rate policy.

The Bulgarian Foreign Trade Bank Ltd. was authorized to change its name to Bulbank (Bulgarian Foreign Trade Bank) Ltd.

16 June Commercial banks are allowed to exceed their credit ceilings by the amount of the long-term government securities issued in levs under LSNC, sold to nonbank companies and/or to physical persons and accounted for at their nominal value.

The BNB Board approved the commercial bank cash holdings in levs up to the amount of 60% of the actual cash holdings at a 10% monthly rate of increase to be recognized as minimum noninterest-bearing reserves, effective as of July until December 1994.

Pursuant to Article 9, para. 1 of the LBCA, Raiffeisenbank, Ltd., Bulgaria, (in process of registration), headquartered in Sofia and with a registered capital of BGL 500 million, was authorized to make all bank transactions under Article 1, para. 2 of LBCA domestically and abroad.

The BNB Board gave a permit to ING Bank, the Netherlands, to make bank transactions through opening its own branch in Sofia.

23 June Under the terms and procedures of Regulations No. 6 on Refinancing against Collateral and through Rediscounting (Discounting) Marketable Securities, the BNB is to lend credits to the commercial banks against collateral of the long-term government bonds, denominated in US dollars, received in compliance with LSNC, up to 40% of the lev equivalent of the collateralized bonds, using the BNB central exchange rate of the US dollar effective on the particular day the credit has been extended. The credits shall be granted for a term of up to one month at an interest rate equal to the BNB average interest rate of the last government securities repurchase, plus 1 percentage point.

The BNB Board did not alter the minimum prices of long-term government bonds issued in compliance with LSNC, operative during the second quarter of 1994, which in the period between 1 July and 30 September remain as follows:

- bonds denominated in levs – BGL 665.60 per BGL 1,000 nominal value;
- bonds denominated in US dollars – USD 91.77 per USD 100 nominal value.