BULGARIAN NATIONAL BANK

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

In accordance with the provisions of the Law on the Bulgarian National Bank, Article 1, paragraph 2, the Bulgarian National Bank reports its activities before the National Assembly. Pursuant to Article 50 of this Law, I have the honor to submit the semiannual report of the Bulgarian National Bank for the period ending 30 June 1997.

Svetoslav Gavriiski
Governor of the Bulgarian
National Bank

BULGARIAN NATIONAL BANK MANAGEMENT

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Lubomir Filipov
Dimitar Dimitrov
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[1] Svetoslav Gavriiski is Governor and a member of the Managing Board of the BNB as of 11 June 1997, Martin Zaimov, Emilia Milanova and Valentin Tzvetanov – Deputy Governors and members of the Managing Board of the BNB as of 13 June 1997, and Rumen Avramov, Garabed Minasyan and Georgi Petrov – members of the Managing Board of the BNB as of 13 June 1997.

[2] As per § 12 of the Transitional and Final Provisions of the new Law on the BNB operative until 10 June 1997.

[3] As per § 3 of the Transitional and Final Provisions of the new Law on the BNB operative until 13 June 1997.

Contents

Abbreviations

ASBL	*Amendment to the State Budget Law*
BGL (Lev)	*National Currency of the Republic of Bulgaria*
BISERA	*Banking Integrated System for Electronic Transfer*
BNB	*Bulgarian National Bank*
CEE	*Central and Eastern Europe*
CEFTA	*Central European Free Trade Association*
CM	*Council of Ministers*
COMECON	*Council for Mutual Economic Assistance*
CSB	*Consolidated State Budget*
EBRD	*European Bank for Reconstruction and Development*
ECU	*European Currency Unit*
EFTA	*European Free Trade Association*
EIB	*European Investment Bank*
EU	*European Union*
GDP	*Gross Domestic Product*
IBID	*International Bank for Investment and Development*
IBEC	*International Bank for Economic Cooperation*
IIB	*International Investment Bank*
IMF	*International Monetary Fund*
MF	*Ministry of Finance*
NSI	*National Statistical Institute*
OECD	*Organization for Economic Cooperation and Development*
PRUF	*Professional Retraining and Unemployment Fund*
SBL	*State Budget Law*
SDR	*Special Drawing Rights*
SFRD	*State Fund for Reconstruction and Development*
SII	*State Insurance Institute*
SSB	*State Savings Bank*
VAT	*Value Added Tax*
WB	*World Bank (International Bank for Reconstruction and Development – IBRD)*
ZUNK	*Bulgarian Abbreviation of the Law on Settlement of Nonperforming Credits Negotiated prior to 31 December 1990 (LSNC)*

I. Major Trends in the Development of the World Economy

According to IMF forecasts[1] world output in 1997 and 1998 is estimated to grow at a comparatively rapid rate of 4.5% on average per annum. Factors behind this optimistic outlook are: continuous, steady economic growth and low inflation in the USA and the UK; strengthening of nascent recovery in Japan and Canada; further progress in recovery processes in the EU countries despite the still weaker domestic demand displayed by some of the biggest member countries; elimination of output decline and accelerating return to growth in Russia and the whole group of transition economies; high and steady rates of growth in most developing countries, notably in China and other countries from the Asian region.

Although world growth rates are expected to moderate to a lower equilibrium level, favorable macroeconomic conditions give grounds for optimism that the period of accelerated growth is unlikely to be followed by deep recession and could be sustained by the start of the next century. One reason for this is seen in the lack of disturbing signals of serious imbalances in international markets: inflation is under control and central banks are determined to stifle it; inflationary expectations and the general level of interest rates will benefit from reduced fiscal deficits; the exchange rates of benchmark international currencies, though strongly volatile, remain within acceptable ranges from a long-term perspective. The second key factor behind sustainable economic growth is seen in the diverging business cycle of developed countries as production capacity in most west European countries and Japan has not yet approached potential, holding prospects for a boost in economic activity and demand, which in turn will make up for anticipated delay in the mature economies. Finally, the process of recovery underway in transition economies is expanding and accelerating and should contribute to an increase in global trade flows and market stabilization.

The optimistic outlook should be regarded cautiously in view of the challenges facing individual countries and regions which might have serious implications on global trends. The major problem stems from the danger of ‘overheating’ which threatens commodity and labor markets and financial markets. Another serious concern is uncertainty over the introduction and operation of the single European currency and its impact on global financial and economic relations. A third challenge, probably the most relevant for Bulgaria, is the development of transition economies, and even more important will be the steady inflow of capital and its efficient use in the medium and long-term perspective.

1. Developed Countries

The USA

In 1997 the upsurge in the US economy continued, consistent with steady rates of output and employment growth, low inflation and reduced budget deficit. Real GDP growth is estimated at 3.8%, inflation at 2.4% and unemployment at 5.1%. Factors behind this performance are: balanced macroeconomic policy bolstering enhanced economic activity in the private sector and greater flexibility in the labor market. At the same time the danger of ‘overheating’ should not be considered completely eliminated. This is likely to result in tightening of monetary policy in order to achieve stable macroeconomic indicators in the following year. In 1998 economic growth is expected to slow to moderate levels of 2.5%; inflation and unemployment are projected to rise slightly: to 2.8% and 5.3%. Steady economic growth will allow the reduction of budget deficit to zero in the year 2002, and fiscal policy will be geared toward further restructuring of revenue and expenditure to encourage national saving and reduce foreign debt.

[1] World Economic Outlook: Perspectives and Problems, September 1997.

Japan

At the turn of 1996 and the start of 1997 recovery in Japan gained momentum, consistent with moderate growth in domestic demand and increased net exports, a result of the continuously adjusting exchange rate of the yen following its marked 1995 appreciation. Yet the pace of economic growth is expected to slow, consistent with a tightening of fiscal policy. Estimates for 1997 point to a real GDP growth of 2.3%, inflation at 1.5%, and unemployment at 3.2%. Prospects for 1998 look even more optimistic. In the absence of inflationary pressures and the adverse effects of some tax rises, Japanese monetary policy will be able to boost economic recovery, which should produce a stronger yen and a shrinking trade balance surplus. 1998 GDP growth is estimated at 2.8%, and inflation and unemployment are projected to fall to 1.3% and 3% respectively.

The European Union

Economic development of EU member countries has improved since recent years. In 1997 *Germany* started recovering from the difficulties experienced in 1995 and 1996. The driving force behind this recovery were exports, while domestic demand slumped and unemployment was excessively high. The turnround is attributable to a further easing of monetary policy expressed in low interest rate levels and a gradual devaluation of the local currency. Inflationary pressure has not surfaced so far and long-term interest rates are lower than in the USA. Estimates for 1997 are for a GDP growth of 2.3%, inflation at 1.6% and unemployment at 11.3%. Forecasts for 1998 do not envisage any substantial change: GDP growth is projected at 2.6%, inflation at 1.9% and unemployment at 11.1%.

Unlike the setbacks experienced by western European economies, *the UK* witnessed sustainable growth estimated to hit 3.3% in 1997 and a 6% fall in unemployment. This performance is driven by growing domestic demand which entirely offsets the effect of the appreciating British pound. Inflation is under control and is forecast at 2.5% in 1997, even though economic expansion progressively limits the possibility of better utilization of production capacity. The rise in short-term interest rates in May combined with an appreciation of the British pound give evidence of restrictive monetary policy which might be tightened further in order to achieve the inflation target, even more so if the efforts to cut budget deficit fail or a devaluation of the pound occurs. Major economic indicators for the UK in 1998 are for a GDP growth of 2.6%, 2.7% inflation and 5.7% unemployment.

With a few exceptions, the remaining west European countries enjoyed steady growth rates and low inflation. *Italy's* economic development slowed somewhat and remains unclear against a background of a sharply reduced budget deficit to the limit set for joining the European Monetary Union. At the same time, *Ireland* has held the top spot with the highest GDP growth; *Denmark*, *the Netherlands* and *Norway* are already approaching the ultimate phase of economic expansion with maximum utilization of production capacity; in *Finland*, *Sweden*, *Spain* and *Portugal* fiscal consolidation prompted revival in economic activity and confidence. *Austria*, *Belgium*, and especially *Switzerland*, are at an earlier stage of the business cycle, and their perceived recovery will broadly depend on the economic development of Germany and France.

General economic conditions in the developed industrial countries could facilitate Bulgaria's return to economic growth. Sustainable GDP growth and low inflation should boost Bulgarian exports, which are seen as the driving force behind economic recovery. At the same time, the relatively low level of interest rates provides for an improvement of the investment climate in the country after pegging the lev at a fixed exchange rate to the Deutschemark, and for an increased inflow of foreign investment. Intensive commercial, financial and other contacts with developed countries and particularly with EU member countries are and will continue to be a major factor in Bulgaria's rapid development and integration into European structures.

2. Transition Economies

For the first time since the onset of reforms transition economies are expected to post a significant real GDP growth of 2.5% in 1997. Reviving economic growth combined with comparatively low inflation in a number of countries give encouraging signals that reform implementation is moving in the right direction and at an adequate pace: firmly and resolutely on the path of growth. Against the background of generally favorable developments, macroeconomic stability in some of the countries in this group (including Bulgaria) remains vulnerable to external and internal shocks due to delayed reforms resulting in relatively underdeveloped markets and market instruments.

A number of countries, among them *Poland, the Czech Republic, Slovakia, Hungary, Estonia, Latvia, Lithuania, Slovenia* and *Croatia*, where deep reforms are underway, experienced sustainable economic growth, moderate inflation and a gradual integration within the international economic and financial system over the past three years. 1997 GDP growth in these countries is estimated to range from two percent (in the Czech Republic) to 5.5% (in Poland and Croatia), and inflation is set to stay at between four percent (in Croatia) and 18% (in Hungary). Reforms in this group of countries may be deemed irreversible; possible disturbances could be resolved by taking remedial measures, but deep financial and economic crises are unlikely. A telling example is the attack on the Czech crown.

The pace of reform in the other countries from this group, like *Albania* and *Romania*[2], slowed to a certain extent, a result of less favorable conditions at the start of transition, delayed structural changes (particularly in privatization) and inconsistent policies. Emerging macroeconomic stabilization proved to be short-lived and the deep financial crises of 1996 – 97 effectively blocked economic growth. Reforms in these countries were renewed by new governments; nevertheless, 1997 results are forecast to stay far behind the average for transition economies: Romania's GDP growth is estimated at 1.5% with inflation at 109%, and Albania's GDP decline is projected at ten percent with inflation at 52%.

Among other transition economies, *Russia* merits special attention. Thanks to its strong economic policy, the country witnessed a resurgence in economic activity and further fall in inflation: GDP growth is projected at 1.5% and inflation at 14%. Market reforms in the Ukraine and Belarus moved rather slowly, generating mixed results. 1997 GDP growth in *Belarus* is forecast at five percent and inflation at 76%, and *Ukraine's* relevant estimates point to a three percent decline in GDP and inflation at 22%.

Enhanced economic activity in most transition economies will have a positive impact on Bulgaria's development. On the one hand Bulgaria will be able to accelerate the pace of restructuring, drawing on the experience of countries at a more advanced stage of reform; on the other enhanced external demand for Bulgarian goods will foster production and exports. To this end Bulgaria should move to swiftly restore its position in the Russian market, which will help boost economic activity and achieve sustainable, export-led economic growth in the medium-term.

3. Developing Countries

Most of the group of developing countries experienced further economic growth. Average real GDP growth is projected at 6.5% and is likely to be preserved for the coming year. Relatively moderate economic expansion of Asian countries was matched by enhanced economic activity in the western hemisphere and other regions. In most developing countries inflation stood low or decelerated mainly as a result of tighter fiscal and monetary policies. At the same time external imbalances

[2] Bulgaria belongs to this group.

in some countries in South East Asia were not eliminated and even deteriorated, affected by the dollar's appreciation and weak banking systems. This prompted financial instability, devaluation of local currencies and the introduction of more flexible currency regimes.

Developing countries' rapid development is also seen as a positive factor for the resurgence of economic growth in Bulgaria. Although Bulgaria's relationships with these countries are very limited, some of the challenges that these countries are dealing with now (especially those with a fixed exchange rate regime) might face Bulgaria in the foreseeable future as well. Besides, intensification of trade ties with individual countries from this group may help boost Bulgarian exports.

II. General Characteristics of the Economy

1. Gross Domestic Product

During the first half of 1997 the nominal gross domestic product (GDP) of the Republic of Bulgaria reached BGL 5,982 billion[3]. In real terms GDP declined by some eight percent compared with the same period of 1996, indicating the most dramatic fall after the start of market driven reforms. Following the relative financial and economic stabilization between January and June 1997, the trend is expected to reverse during the second six months of 1997 although economic growth could hardly be anticipated by year-end.

GDP by Component of Final Demand

Domestic demand remained a key factor determining GDP. Final demand of households between January and June 1997 approximated BGL 4,690 billion, or 78.4% of GDP. Compared with the first half of 1996 final demand fell by nine percent at constant prices. Between January and June 1997 retail turnover experienced a 48% real fall from the 1996 first half-year which is indicative of both low solvent demand and natural consumption.

Other components of domestic demand experienced more significant real decline: government purchases and investment in fixed capital decreased by some 15% compared with the same period of 1996. The falls are due to the fact that the greater part of state spending is earmarked for servicing public debt and other economic agents are reluctant to make investments under the existing ownership structure in the country's economy.

Following the start of financial stabilization in the second quarter the investment climate improved significantly: in the second quarter alone the real decline in investments almost matched GDP overall decline (approximately nine percent).

Dramatic fluctuations in exchange rates seriously hit foreign trade particularly in the first quarter of 1997. Consequently, a more dramatic real decrease occurred both in imports and exports of goods and services. The volumes of imports and exports of goods and services experienced a certain recovery in real terms during the second quarter, with the volume of exports even indicating a real growth. In general net exports are positive in the first half of 1997, comprising 4.8% of GDP.

GDP Structure by Economic Sector

Amid general economic and financial instability in the first half of 1997, real added value declined in all sectors and activities. Added value attained in industry (the biggest branch of the economy) approximated BGL 2,421.4 billion, a 10% decline relative to the same period of 1996 in real terms. Agriculture was also having difficultly adjusting to the adverse macroeconomic conditions. Added value attained in agriculture in the first six months of 1997 totaled BGL 644.4 billion at current prices, or 8% less than in the first half of 1996 at constant prices.

Sectoral Structure of GDP

Between January and June 1997 private sector share in the country's economy continued to increase though at a slower-than-expected pace. Private sector added value totaled approximately BGL 2,090 billion at current prices, and its share in GDP accounted for about 40% for the first six months of 1997. Private sector growth enhanced more significantly in the second quarter of 1997 reflecting mainly the increased output in newly privatized enterprises. Added value in services comprised the largest share of private sector total added value. Private sector added value in industry and agriculture grew much slower, since these sectors require larger investments in fixed capital than the services sector.

[3] According to NSI estimates.

2. Employment

Worsened economic conditions in 1996 and in the first quarter of 1997 affected employment. The general trend in employment could be outlined indirectly based on unemployment growth in the country, since there is no comparable data about current changes in the number of employed by economic sector. It would be true enough to assume that overall employment by the end of June 1997 fell by four percent from end-June 1996. Accelerated privatization shifted a considerable number of jobs from the public into the private sector, rendering sectoral analysis inapplicable.

In June 1997 the number of persons employed was 1,852,700; of this 1,551,600 was in the public sector and 301,100 in the private sector[4]. The private sector data does not include the number of employed by companies operating under one-sided balance sheet and those working on their own account. According to preliminary data their number has surpassed 1,200,000. This group also includes the employed persons in the so-called 'shadow economy'. The bulk of them work on part-time contracts hired mostly by private entrepreneurs, or on their own account without labor contracts and social security.

Structurally, employment in the public sector industry continued to fall while the number of employed in services grew[5]. Between January and June 1997 employment declined most dramatically in the following industries: cellulose and paper (21.3%), clothing and sewing (15.2%), electrical machines (14%), wood processing (13.7%), textile and knitwear (10.9%). Favorable economic conditions coupled with higher flexibility in some instances led to increased employment in some industries. In the January – June 1997 period the greatest number of jobs were created in forestry, including wood industry, hunting and fishing (20.2%); public utilities (16.7%); and hotels, hospitality (13.2%).

Most private sector industries saw significant employment growth. At the other extreme were education, metallurgy and the retail trade, car and home equipment repairs, which between February and June 1997 showed employment falls of 12.5%, 8.2% and 5.7% respectively. Concurrently, some industries more than doubled the number of jobs: communications, vehicle production, production of articles from nonmetal mineral resources, etc.

Unemployment

In June 1997 according to the Ministry of Labor and Social Policy data the number of registered unemployed totaled 542,000 or 161,000 more than at end-June 1996. The share of unemployment in the country's labor force increased from 9.95% to 14.2% during the period under review. Increased rates of unemployment during the first six months of 1997 reflected mostly the new stage of economic crisis reached in 1996 and early 1997.

In structural terms the following major trends evolved:

1. Compared with end-1996 the number of unemployed women increased slower than the number of unemployed men. Consequently, serious imbalances on a gender basis were gradually eliminated.

2. The number of unemployed laborers and these with low qualifications continued to increase at a faster rate. During the first six months of 1997 the number of jobless specialists rose almost three times slower than the general unemployment rate; the share of unemployed university graduates grew just 1.7%.

3. The share of unemployed receiving compensations and social benefits decreased by 11.5% relative to December 1996. The short average period of receiving compensations and small number of jobs offered by labor offices (only 12,000 in June 1997) discouraged the unemployed from re-registering which led to an artificially decreased number of unemployed.

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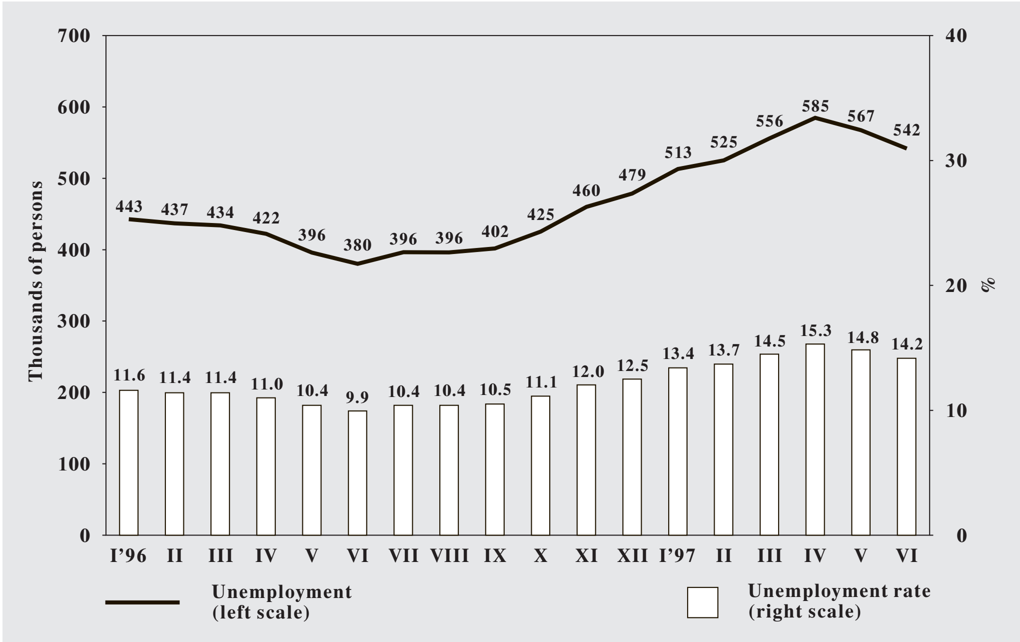
[4] Employed under labor contracts in companies keeping double-entry accountancy.

[5] To a greater extent these trends are based on the mechanical shift of employment from one sector into another following the privatization of a particular enterprise from the respective sector.

UNEMPLOYMENT



Source: Ministry of Labor and Social Policy and BNB.

3. Household Income and Expenditure

In the January – June 1997 period public incomes experienced a new significant real fall. Since early 1997 gross income (monetary and natural) rose by 449.5% in nominal terms. However, high inflation in the first quarter of 1997 seriously eroded incomes' purchasing power reflecting a 36.7% real decline.

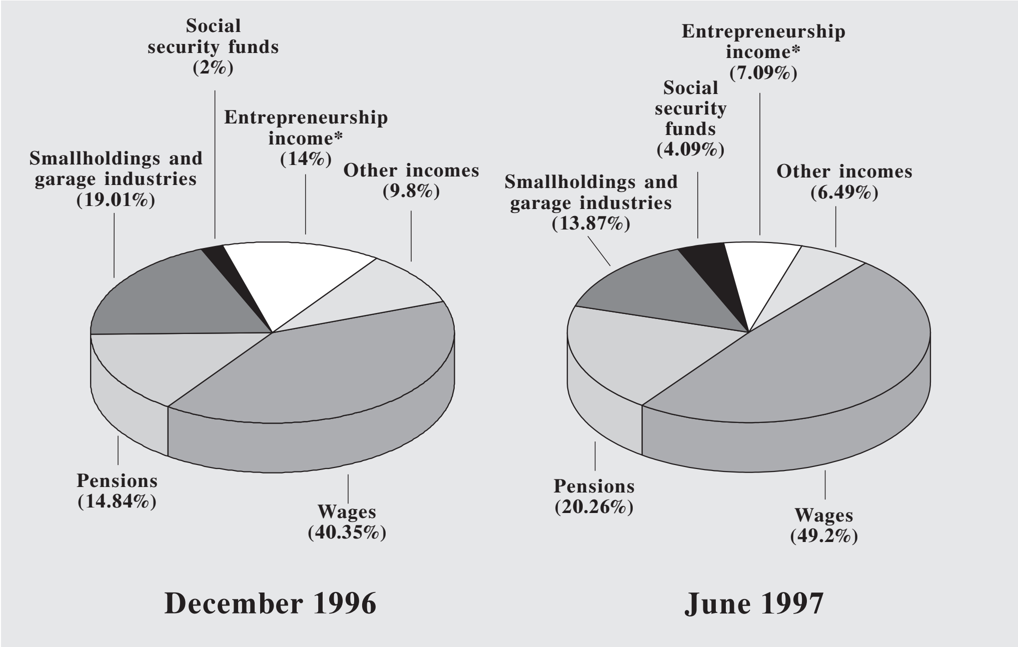
Significant changes occurred in the structure of gross income during the first six months of 1997. As in 1996 wages, pensions, smallholdings and garage industries made the largest portion of the cost of living, increasing their share by four percentage points. In June 1997 four out of every five levs of income was earned from these three sources. The increased share of social payments and wages (the so-called 'fixed incomes') and a fall in incomes from smallholdings and garage industries and incomes associated with other economic activities (incomes from sales, entrepreneurship and ownership) cause concern. The slow growth in the latter sources of income underlies the impoverishment of the population.

Between January and June 1997 the high price index dramatically reduced the purchasing power of most types of incomes (between 30% and 60%). Incomes from scholarships, social benefits and compensations indicated real growth although they met less than three percent of the total cost of living.

Compared with the first six months of 1996 gross incomes displayed more than an eightfold nominal increase. Nevertheless the purchasing power of the population more than halved due to the significantly increased cost of living. Over the last twelve months all income groups indicated a fall in real terms.

During the first half of 1997 nominal monetary income of the population grew by almost four percentage points faster than gross income. However, it is too early to assume that there is a trend toward a sustainable reduction of nonmonetary incomes in the cost of living. Over the last twelve months monetary incomes grew slower than gross income. The economic crisis in the last twelve months found direct reflection in the faster growth of natural incomes which under the conditions of an economic crisis and poor agricultural output ensured survival for several groups in the public.

STRUCTURE OH HOUSEHOLDS' GROSS INCOME



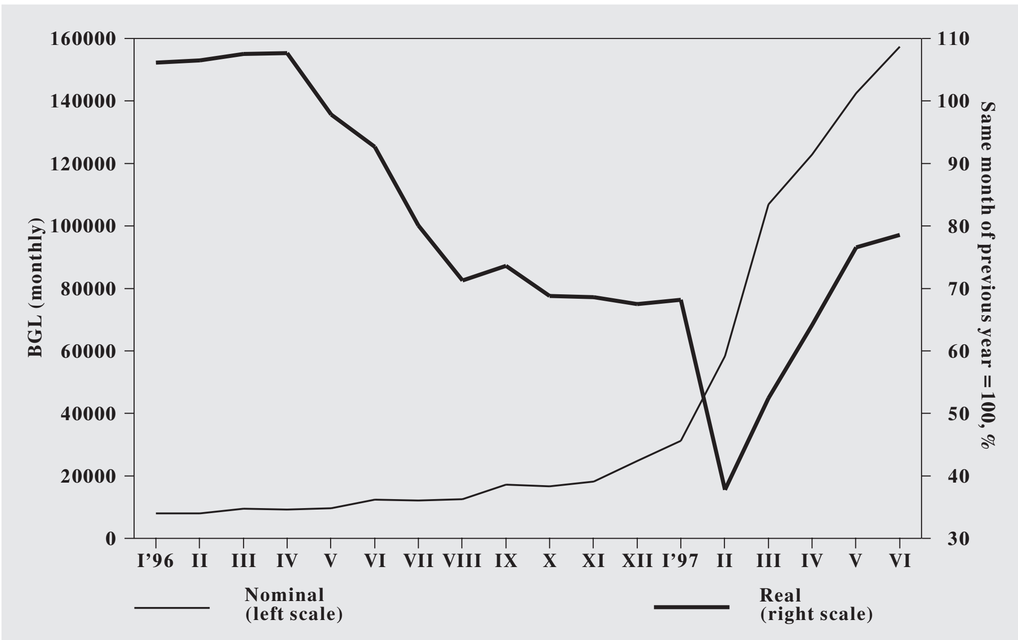
* This group includes incomes from entrepreneurship, rent and property sale as well as incomes from business activity other than wages.

Source: NSI, BNB.

Wages

During the first half of 1997 the share of wages in monetary incomes increased by 6.4 percentage points. In June 1997 wages provided 55.6% of all monetary income of households. At the same time the share of wages in households' gross income rose by eight percentage points and became a major source toward meeting the cost of living.

AVERAGE WAGE IN THE PUBLIC SECTOR



Source: NSI, BNB.

Average monthly pay during the first half of 1997 reached BGL 103,232, more than an elevenfold increase relative to the same period of 1996. However, the high inflation rate over the last twelve months significantly exceeded wage growth; as a result wages lost 36.6% of their purchasing power. Between January and June 1997 wages by economic sector indicated divergent developments. Wages grew most significantly in sectors with lower nominal wage levels, i.e. budget-supported organizations, construction, agriculture and forestry, including wood processing, hunting and fishing. These sectors compensated for their lag in the previous year and by the end of June dramatically disturbed wage differentials between different sectors were restored. Despite significantly increased nominal pay, households could hardly cover basic expenditure. In spite of the key position of wages in households' incomes most people sought additional income sources.

Pensions

During the first half of 1997 the National Insurance Institute paid BGL 312.7 billion in pensions, an almost threefold increase compared with the whole of 1996. The number of pensioners indicated a slow decline. During the first six months of 1997 pensioners numbered 2,375,000. Nevertheless, the ratio of employed to pensioners did not change significantly (1.35 – 1.40:1). This continued to affect significantly the country's social security system and impeded the faster growth of the average pension.

Between January and June 1997 a month's pension averaged BGL 31,810: up five times from 1996. However, the high growth of consumer prices (particularly in the first three months of 1997) eroded its purchasing power by more than 30% relative to 1996. Pensions being for most pensioners the only source of income, their low purchasing power, forced the government to project additional social compensations for this group of people.

Household Consumption and Expenditure

During the first six months of 1997 household gross expenditure grew approximately four times relative to the previous six months and almost eight times compared with the first half of 1996. Despite the significant nominal growth from the first 1996 half-year (at constant prices), household expenditures fell by 54.5% with the four-fifths of this fall reported in the last six months when the inflation rate hit record highs.

Significant changes have occurred in the structure of gross expenditures since early 1997. The shares of the so-called rigid expenditures (housing and household energy) and expenditures of low elasticity (food and smallholdings and garage industries) increased. Dramatically reduced incomes predetermined a significant decline in households' consumption. This pertains mostly to nonfood and goods of durable use since additional expenses are needed for repairs and maintenance. Spending on education, transport, clothing and furniture indicated a significant fall in the structure of gross expenditure. Monetary expenditure displayed a significant real decline. This suggests that the share of nonmonetary expenditures of households increased which removes the country from market economy principles and threatens the successful implementation of market reform.

STRUCTURE OF HOUSEHOLDS' GROSS EXPENDITURE

(%)

Indicators	December 1996	June 1997
Gross expenditure	100.0	100.0
Food	51.2	54.2
Drink	3.2	1.1
Tobacco	1.8	1.8
Housing	1.8	2.2
Household energy	7.1	7.8
Home furniture	2.9	2.2
Clothing, footwear and haberdashery	6.2	5.1
Hygiene and healthcare	3.3	3.3
Education and leisure	2.4	1.2
Transport and communications	7.6	5.5
Smallholdings and garage industries	1.8	4.4
Other expenditure	10.7	11.7

Source: NSI.

4. Prices

The 1996 monetary policy measures were not underpinned by fast structural changes in the real economy and banking sector. Bottlenecks occurred in the economy and the signals sent through the relative prices were distorted. Design and implementation of the monetary policy was additionally impeded by several factors: lags which were difficult to assess, a number of shocks in the financial system and lack of support from fiscal policy. Sometimes monetary policy also reacted inadequately. This caused dramatic and divergent price fluctuations in the first half of 1997 and entailed a restriction on the central bank's powers through an introduction of a currency board arrangement as of 1 July 1997.

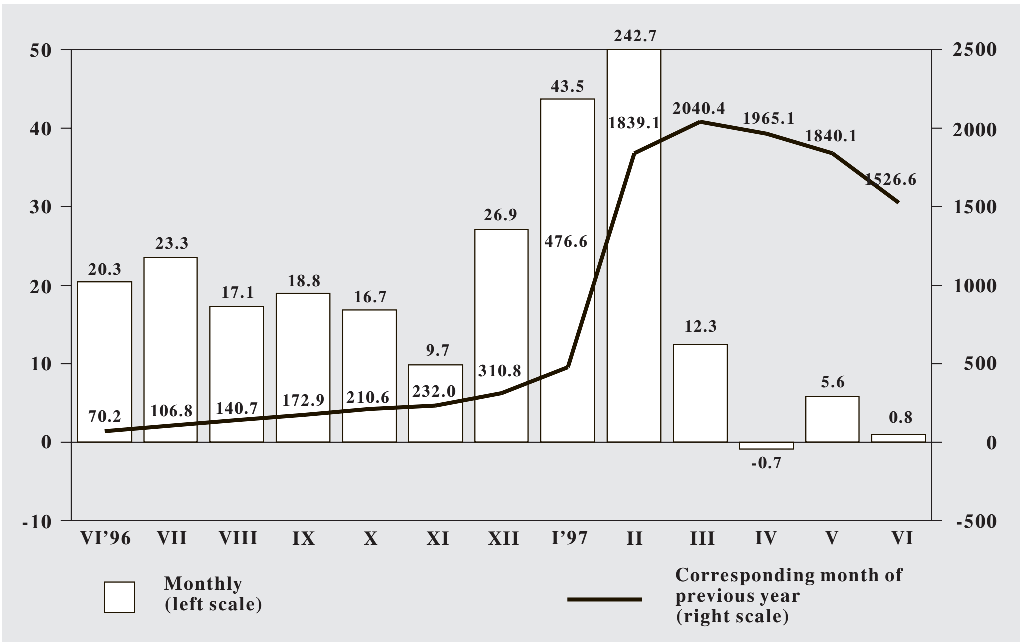
In early 1997 Bulgaria experienced a price shock. In February monthly inflation jumped to 242.7%, sparking hyperinflation. Stabilization began in March after the political stalemate was resolved. As a result, by the end of the 1997 first half-year, on the eve of a currency board introduction, the monthly inflation rate fell below 1%.

Consumer Prices[6]

In June 1997 the price of the consumer basket had risen by 484.2% compared with December 1996. This was the highest six-month increase in consumer prices since the 1991 price liberalization, when January – June inflation was 316.9%. Inflation in the first half of 1997 outstripped by more than ten times its value for the previous year. Month-by-month rises in the general consumer price index between January and June 1997 increased as well. The highest monthly growth in consumer prices (342.7%) occurred in February; April witnessed a monthly low of 99.3%. Consumer price dynamics differed significantly from those reported in previous years' six-month periods since the start of reform.

CONSUMER PRICE GROWTH

(%)



Source: NSI, BNB.

Food prices rose by 504.9%, nonfood prices by 425.4% and services prices by 529.6% compared with end-1996. Development in food prices in the first six months of 1997 played a key role in the general consumer price index since food had the largest share (50.7%) in the consumer basket. Food price movements are attribut-

[6] In 1997 the NSI updated weights: household budgets for 1996 instead of those for 1995 have been used in computing the weights.

able mostly to the accumulation of shocks prompted by the changes in the fixed prices of fuel, energy, some services by monopoly companies and inability of producers to adjust flexibly to the changes in demand. Undoubtedly food price dynamics reflect general macroeconomic instability and volatile economic expectations. Food prices increased comparatively slower than prices in the two other groups. The major reason behind this is stabilization of the exchange rate started in the second half of February, and determination of the reserve currency and the exchange rate of the lev well in advance of the introduction of a currency board[7]. During the first half of 1997 prices of services adjusted to general price dynamics with a certain lag. Service prices grew relatively faster than those of foods and nonfoods. However, they did not affect significantly the general consumer price index due to their small share in the consumer basket (15.1%).

Producer Prices[8]

During the first half of 1997 monthly industrial producer price indices were close to the level of consumer price indices[9] as they had been in the previous year; in particular months (March, April, June) they even exceeded it. February was the only exception as producer price rises lagged behind consumer price rises by more than 100 percentage points. As a result, during the December 1996 – June 1997 period industrial producer prices grew by 381.5%, or 100 percentage points less than consumer prices.

As in the previous year, producer price dynamics during the first half of 1997 almost matched consumer price dynamics. Movements in the exchange rate and external demand for Bulgarian exports were the major factors responsible for developments in industrial producer price indices against the background of a weak domestic demand during the period under review.

Significant departures of monthly producer price indices of various industry branches from the overall price index suggest the following: industrial companies have not established permanent foreign trade relations yet and exchange rate movements may only lead to a temporary rise in their competitiveness in international markets, while expenditure management is much more difficult. The specifics of the index itself, i.e. the Paasche index, also contributed to the dramatic fluctuations of producer price indices in various industry branches, since it reflects fluctuations in output.

5. Foreign Trade

According to preliminary data[10], **exports** (FOB) in the first half of 1997 totaled USD 2,403.6 million, down USD 15.5 million (0.6%) on the corresponding period of 1996. **Imports** (FOB) amounted to USD 1,982.6 million, down USD 362.1 million (15.4%)[11]. **The trade balance** ran a surplus (USD 421 million), but a fall occurred in the last two months of the half-year, and in June it was negative (USD -26.2 million).

Compared with January – June 1996, when the trade balance was slightly positive (USD 74.3 million), in the first half of 1997 it improved by USD 346.7 million, attributable mainly to a considerable balance in the first quarter (USD 319.7 million).

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[7] Compared with other groups included in the consumer basket, the number of 'tradable goods' is largest among nonfoods.

[8] During 1997 the NSI did not change the methods of calculation of industrial producer price indices. This index is a narrow and not very reliable source of information on processes in the real sector.

[9] It should be noted that commodity industrial output producer price indices do not reflect changes in production services prices. Comparing, though conditionally, commodity industrial output producer price indices with consumer price indices is relevant, since the latter are determined to a large extent by price indices of goods in the consumer basket.

[10] MF Computing Center and NSI 1996 final data based on customs declarations. MF Computing Center preliminary data for the January – June 1997 period (at 19 September 1997).

[11] As foreign trade is reported in dollar terms, the falls in imports and exports in terms of value are due partly to the depreciation of some benchmark currencies (Deutschemark, Italian lira) used in international settlements against the US dollar. By June 1997, relative to December 1996, the Deutschemark and the Italian lira had depreciated against the US dollar by 12.1% and 11.4% respectively.

Economic conditions prompted a dramatic decline in domestic demand in the first quarter of 1997, and hence a considerable drop in foreign trade (13.8%) compared with the same quarter last year. The sharp devaluation of the lev in the first quarter contributed to an overall decline in domestic demand and a shift of consumption from imported to domestic goods (ones with high elasticity of demand and existing domestic substitutes). As a result, imports (FOB) fell to USD 862.7 million in the first quarter (a decline of USD 315 million, or 26.7%). Exports (FOB) in the first quarter totaled USD 1,182.4 million (a decline of USD 11.3 million, or 0.9%).

Imports in the second quarter totaled USD 1,119.9 million. A major factor behind the drop in imports (4%, or USD 47.1 million) in the second quarter compared with the same quarter of 1996 was weaker domestic demand. By the end of the second quarter, budget expenditures were significantly reduced. Compared with the first half of 1996, overall budget expenditures fell by 52% in real terms, noninterest expenditures decreasing faster (61.1%) within the structure of overall expenditure, given higher interest expenditures.

Exports in the second quarter of 1997 totaled USD 1,221.1 million (a decrease of 0.3%, or USD 3.2 million). Factors in exports were: a shortage of working capital, an output decline prompted by a marked drop in imports of raw and other materials, uncertainty about the potential level of sales revenue, and external demand developments. Germany's weaker-than-anticipated domestic demand[12] caused Bulgarian exports to this country to grow below potential. Growth in exports to the European Union was not so much a result of stronger external demand but rather reflected lower production costs. Bulgaria's exports to its major trading partners continued to be influenced entirely by the advantages of the real effective exchange rate and relatively low labor costs which, however, did not result from higher productivity[13].

Trade balances by major trading partner (Germany, Italy, Russia) improved considerably from the first half of 1996 due to a stronger import drop. As exports to Balkan countries decreased, Bulgaria's balances with those trading partners worsened.

Commodity Structure of Exports

Between January and June 1997 the aggregate commodity group of animal and vegetable products experienced a further drop in exports (26.5%, or USD 111.1 million) due to a significant output decline in foodstuffs, drinks and tobacco (27%)[14]. A substantial drop occurred in the machines aggregate commodity group (7.8%, or USD 29.9 million). Weaker demand for fertilizers, combined with a drop in their prices, contributed to an export drop of 23.6% (USD 35.6 million).

A significant increase in exports occurred within the following aggregate commodity groups: mineral products and fuels (26.9%, or USD 52.7 million), metals (7.9%, or USD 37 million), particularly in the cast-iron, iron and steel group (26.5%, or USD 52.1 million), and the textile, leather materials, clothing, footwear, *et alia* aggregate commodity group (11.7%, or USD 39.3 million).

Geographic Structure of Exports

As regards the geographic structure of exports, the trend toward a shift of exports to western and central Europe was sustained, whereby the share of the European Union grew to 43.7% in the January – June 1997 period from 39% in the same period of 1996. Although European Union countries exhibited a slower than projected GDP growth in early 1997, exports to this region grew by 11.4% (USD 107.7 million), by 10.6% (USD 4.6 million) to CEFTA, and by 28.1% (USD 72.7 million) to the Other OECD countries. Exports to Balkan countries fell (a decrease of 47.8%, or USD 133.3 million, including a 57.2% decrease in exports to Yugoslavia). The value of exports to former Soviet republics also fell (by 4.7%, or USD 20.7 million; and Russia's alone by 24.7%).

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[12] Until 1996, Germany's market share in Bulgarian exports within the EU countries had been the highest: 11%.

[13] Sometimes, as is the case in steel production, Bulgarian production is inconsistent with European standards which require the social cost of pollutant technologies to be paid by producers.

[14] Source: NSI.

Commodity Structure of Imports

The greatest import drop in the first half of 1997 occurred in the machines and transport facilities group, 34.5% (USD 185.1 million). A significant import drop occurred in the chemical products group (USD 74.9 million, or 21.6%) compared with the same period of 1996. An import growth was registered only in the cereals group (USD 30.6 million, or 92.8%) within the animal and vegetable products aggregate group, and in the aggregate commodity group of textile, leather materials, clothing, footwear, *et alia* (9.1%, or USD 27.7 million). Within the structure of imports in terms of use, the greatest decline recorded was in investment goods (USD 148.2 million, or 30.1%) and raw materials (USD 111 million, or 11.3%). In the second quarter of 1997, there was an import growth in machines within the investment goods group as compared with the previous quarter of 1997 and the same quarter of 1996. Consumer goods experienced the greatest decline (30.5%).

Geographic Structure of Imports

An overall decline in imports from all regions occurred, the most significant being that from the EU (19.3%, or USD 192.4 million, including an import drop of 22.4% from Germany and an import drop of 19.2% from Greece). Imports from former Soviet republics fell by 11.2% (USD 89.1 million, including a drop of 12.9%, or USD 91.1 million in imports from Russia).

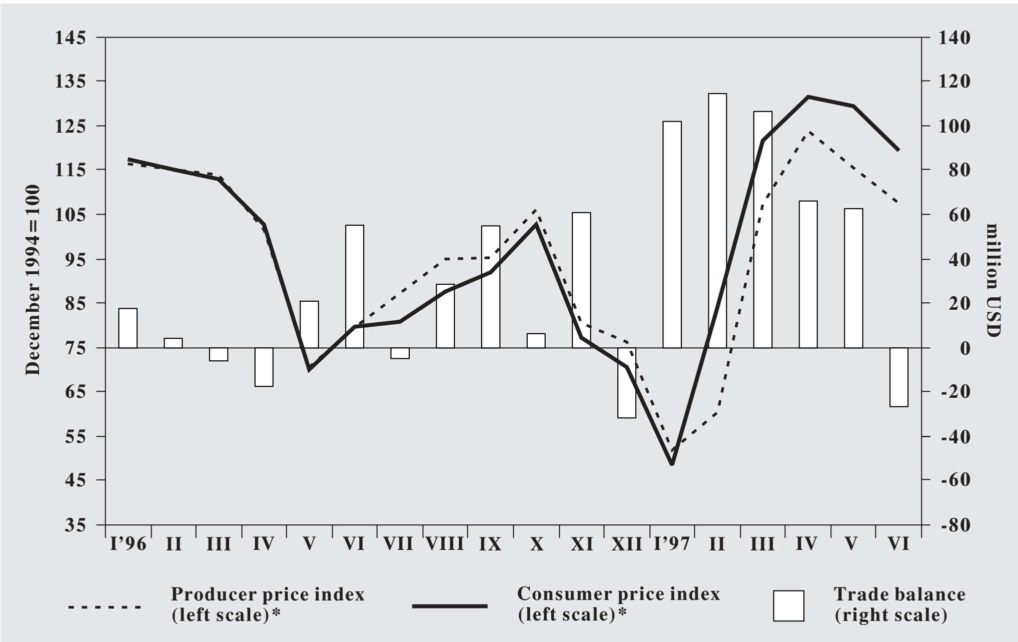
6. Balance of Payments

Developments in the balance of payments in the first half of 1997 reflected completely different economic processes ongoing over individual quarters.

Current Account

The current account ended the first half of 1997 in surplus (USD 321 million), while in the same period of 1996 it ran a deficit (USD -89.1 million). The major factor behind the current account surplus was the positive trade balance of USD 421 million[15].

REAL EFFECTIVE EXCHANGE RATE INDICES AND TRADE BALANCE



* Indices above 100 indicate appreciation, and those under 100 – depreciation. Real effective exchange rate index is calculated based on a basket of three currencies distributed as follows: USD – 75%, DEM – 20%, CHF – 5%.

Source: BNB, NSI, MF Computing Center.

[15] MF Computing Center preliminary data for the January – June 1997 period (at 19 September 1997) based on customs declarations. Practice shows that the balance of payments is often revised as a result of regular and substantial revisions of import and export data. As a rule, monthly data on imports and exports is revised several times in subsequent periods; usually imports increase more substantially than exports.

The balance on services ended in deficit (USD -166.8 million) during the first half of 1997 reflecting negative net interest revenue (USD -166.3 million), on the one hand, and a negative balance on nonfactor services (USD -22.3 million)[16], on the other. Nevertheless, the balance on services improved by USD 74.5 million from the first half of 1996 when it amounted to USD -241.3 million. The improvement was attributable to lower interest paid and due to be paid (a decrease of 10.5% from the first half of 1996), and a drop in transportation expenditure (11.9%). The balance on the *Other income* item, including received and paid compensations of employees, was positive in the first half of 1997 (USD 21.8 million).

Capital Account

The capital account ended in surplus (USD 221.5 million) in the first half of 1997, given the calm forex market, receipt of credit after the conclusion of a new standby agreement with the IMF and growing foreign direct and portfolio investments, while in the same period of 1996 it ended in deficit (USD -549.5 million). In the first quarter, due to sizable foreign debt payments (USD 163 million on principal), low portfolio and direct investment inflow and resident capital outflow, the capital account ran a deficit (USD -48.8 million).

Direct investment (net) during the reporting period totaled USD 285.5 million, against USD 48.2 million in the same period of 1996. Direct investment in the country amounted to USD 282.2 million. In the second quarter alone, as a result of the finalization of the Sodi Devnya privatization deal (USD 150 million revenue) and the privatization of Devnya Ciment OOD (USD 44.6 million revenue in April) direct investment in the country rose by USD 241.8 million. Direct investment growth by investor regional structure became extremely concentrated as a result of the two big privatization deals. In terms of overall investment growth, Belgium contributed 54.3% and Spain 16.1%. Austria and Cyprus were the other big investors in the country in the first half of 1997.

DIRECT INVESTMENT GROWTH, JANUARY – JUNE 1997

Country	Direct investment, net (million USD)	Relative share (%)
1. Belgium	150.3	54.3
2. Spain	44.6	16.1
3. Cyprus	18.3	6.6
4. Austria	18.1	6.6
5. Germany	15.5	5.6
6. USA	12.7	4.6
7. Luxembourg	11.2	4.1
TOTAL (1 ÷ 7)	270.7	97.9
TOTAL	276.6	100.0

Source: MF and Agency for Privatization.

Portfolio investment (net) totaled USD 148.6 million (USD -30.8 million in the same period of 1996) primarily reflecting nonresidents' purchase of government securities (USD 154.5 million)[17].

Bulgaria's long-term obligations to foreign creditors fell net by USD 47.9 million. Long-term obligations to official creditors rose by USD 34.1 million (funds from the IMF excluded). *Short-term* obligations fell net by USD 8.9 million due to large repayments on short-term credits.

Bulgaria's claims on previously extended loans to other countries fell net by USD 129.3 million reflecting repayments in natural gas deliveries from Russia under the Yamburg Agreement.

[16] Nonfactor services include all services other than interest repayment and compensations of employees (*Transport, Travel* and *Other services* items).
[17] In accordance with IMF methodological requirements portfolio investment is reported at market value.

Commercial banks' deposits abroad increased by USD 319.6 million in the first half of 1997, while in the same period of 1996 they decreased by USD 154 million. In the first quarter of 1997 alone, commercial banks' deposits abroad increased by USD 98.6 million, entirely due to the highly positive trade balance. This, in combination with nonresidents' purchase of government securities, and a gradually returning public confidence in banks, contributed to a USD 220.9 million increase in commercial banks' deposits in the second quarter.

In January and February *resident capital outflow* gained momentum. Political and macroeconomic instability in combination with expectations about lev devaluation contributed to a USD 74.4 million decrease in forex deposits of individuals and companies between January and February alone. In March the trend was reversed for the first time in fourteen months[18] and capital flight was mastered, consistent with political stabilization and agreement with the IMF, lower inflation and high real income on lev deposits. As a result, foreign currency deposits of individuals and companies in the first half of 1997 rose by USD 37.5 million, USD 61 million having being deposited in the second quarter alone.

Overall balance in the first half of 1997 ran a surplus of USD 648.7 million, against a deficit of USD 626 million in the same period of 1996. In the first quarter of 1997 the overall balance was slightly positive (USD 33.4 million) due to the relatively big weight of the positive trade balance, which made up for the deficiency in the interest balance and the negative capital account. Overall balance improvement in the first half of 1997 is related primarily to surpluses in the current and capital accounts in the second quarter (USD 153.4 million and USD 270.3 million respectively).

Revision of Bulgaria's Balance of Payments Data: Principles and Causes

It is common practice for all countries to revise balance of payments preliminary data over certain periods of time until their final publication. Data adjustment is required in view of the wide range of sources of information and differing quality and scope of provided data. The scope and frequency of revisions depend on the practical and methodological problems encountered in collecting the necessary information as well as on the frequency of reporting and publication of the balance of payments.

Revisions of Bulgaria's balance of payments data as published by the Bulgarian National Bank are related to methodological aspects (for example, changes in IMF methodology), and the inclusion of data from new sources in order to improve statistics quality and scope[*]. In view of Bulgaria's association to the European Union and ensuing commitments, the BNB should take into account the Eurostat recommendations (to all European Union member countries) concerning the methodology of current account reporting, which will inevitably lead to subsequent changes in the way of reporting individual balance items.

Over recent years the most significant and frequent revisions of Bulgaria's balance of payments have been the result of incomplete preliminary data on imports and exports of goods and their subsequent adjustment (export and import values occupy the highest share in the country's current account)[**]. For example, as per the data received in September, imports in February 1997 were 65.4% higher than the preliminary data (received in April) and 38.8% higher for exports. Data for May was also significantly revised: for import data was 29% higher than preliminary data and for exports it was 21.7% higher. Such problems also existed in 1995 and 1996. Frequent and substantial changes in import and export data force the BNB to make frequent revisions of the country's balance of payments. Otherwise, the balance of payments may serve as an unsound basis for taking sound decisions concerning macroeconomic policies.

The adjustment of foreign trade data, particularly import data, is most likely due to problems associated with the timely processing of customs declarations, including simplified customs declarations.

Bulgaria's balance of payments is published quarterly by the Bulgarian National Bank, with monthly breakdowns available in the Monthly Bulletin. These publications reflect changes occurring in the balance of payments during the preceding periods.

[*] The International Monetary Fund designs the methodology of balance of payments reporting.

[**] Data on imports and exports included in the country's balance of payments is obtained from customs declarations. The BNB is a consumer of this information.

[18] During this period forex deposits of individuals and companies increased only in July (USD 6.6 million), but this was insignificant compared with the decrease over the other months of the year.

In the first quarter, given the sizable foreign debt payments (USD 355.6 million), *BNB forex reserves* increased slightly (by USD 33.6 million). Strongly positive current and capital accounts in the second quarter and credits drawn from the IMF (USD 178.4 million) in April contributed to a USD 827.4 million increase in forex reserves. Over the six months of 1997, reserves grew by a total of USD 860.9 million, with USD 133 million being net increase in credit drawings from the Fund. In January – June 1996, given the strongly negative current and capital accounts, forex reserves fell by USD 663.2 million.

7. Gross Foreign Debt

Gross Foreign Debt Service

According to preliminary data, payments on the gross foreign debt service in the first half of 1997 totaled USD 482.1 million, including principal repayments of USD 265.5 million and interest repayments of USD 216.6 million.

Principal repayments in the first quarter totaled USD 163 million, and USD 102.5 million in the second quarter. Interest repayments in the first quarter of 1997 totaled USD 192.4 million and USD 24.2 million in the second quarter.

GROSS FOREIGN DEBT SERVICE, JANUARY – JUNE 1997*

(million USD)

Quarter	Principal	Interest	Total
I	163.0	192.4	355.4
II	102.5	24.2	126.7
TOTAL	265.5	216.6	482.1

* Preliminary data.

Gross Foreign Debt Amount and Structure

According to preliminary data, Bulgaria's gross foreign debt by end-June totaled USD 9,742.6 million, an increase of USD 171.2 million (1.8%) from 31 December 1996.

GROSS FOREIGN DEBT[1]

(million USD)

Creditors	31 Dec. 1996	31 March 1997	30 June 1997
GROSS FOREIGN DEBT (A+B)[2]	**9571.4**	**9397.0**	**9742.6**
A. Long-term debt	8530.8	8281.3	8427.2
Public and publicly guaranteed	8334.3	8104.2	8271.5
Nonguaranteed	196.4	177.1	155.8
I. Official creditors	3164.3	2968.4	3131.5
1. International financial institutions	1959.8	1864.2	2023.9
IMF	584.6	528.4	701.4
World Bank	455.8	457.8	480.9
European Union	495.5	463.0	441.7
EIB and EBRD[3]	178.6	169.7	164.1
International Investment Bank	245.3	245.3	235.8
2. Bilateral credits	1204.5	1104.2	1107.6
Paris Club and nonrescheduled debt	1034.5	946.3	946.1
Other bilateral credits	170.0	157.9	161.5
II. Private creditors	5366.4	5313.0	5295.7
Brady bonds	4984.0	4984.0	4984.0
Bulbank bonds	147.2	117.2	126.8
Commercial banks	155.9	135.0	111.7
Other private creditors	79.3	76.8	73.2
B. Short-term debt[4]	1040.6	1115.6	1315.4

[1] Preliminary data.
[2] In convertible currencies.
[3] Debt to the EIB and EBRD.
[4] Including nonresidents' deposits at local commercial banks, nonresidents' purchases of government securities, and overdue obligations.

Source: MF, Bulbank, BNB.

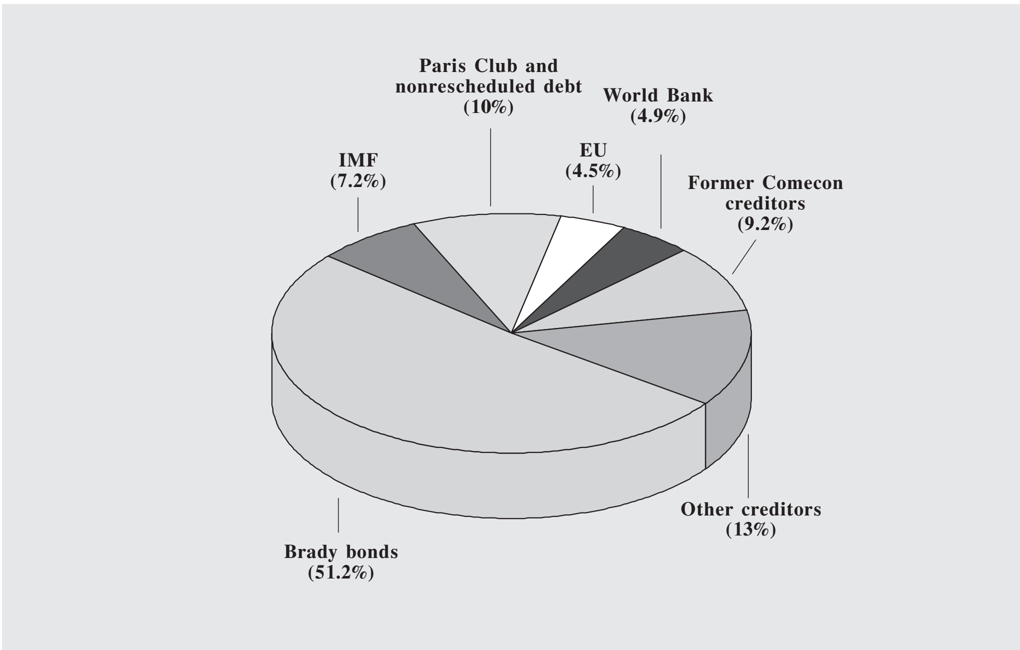
Long-term obligations amounted to USD 8,427.2 million in total (86.5% of the gross foreign debt); of this, long-term obligations to official creditors accounted for USD 3,131.5 million and USD 5,295.7 million to private creditors. Compared with 31 December 1996, long-term foreign debt declined by USD 103.1 million (1.2%).

The bulk of the country's long-term obligations was to private creditors on Bulgarian Brady bonds, USD 4,984 million (51.2% of the total gross foreign debt). Obligations to former Comecon creditor countries amounted to USD 895.7 million (9.2% of the total debt amount), USD 235.8 million being long-term. Obligations to the Paris Club and on nonrescheduled debt to official creditors accounted for USD 970.4 million (10% of the gross foreign debt), USD 946.1 million being long-term. Combined obligations to international financial institutions totaled USD 2,023.9 million: USD 701.4 million to the International Monetary Fund (7.1% of the foreign debt), USD 480.9 million to the World Bank (4.9%), USD 441.7 million to the European Union (4.5%).

Short-term obligations at 30 June 1997 totaled USD 1,315.4 million (13.5% of the gross foreign debt). Compared with 31 December 1996 the short-term foreign debt rose by USD 274.8 million (26.4%). The increase in short-term obligations was entirely due to the increased amount of nonresidents' purchases of government securities (an increase of USD 260.2 million).

As of 30 June 1997, 95.1% of the country's gross foreign debt was *public and publicly guaranteed*. As of 31 December 1996, the share of public and publicly guaranteed gross foreign debt came to 94.4%.

GROSS FOREIGN DEBT AS OF 30 JUNE 1997



Source: BNB.

III. Fiscal Policy[19]

Unstable macroeconomic conditions in the country in combination with problems in the financial sphere in early 1997 called for the pursuit of a restrictive fiscal policy aiming to curb the impact of proinflationary factors to the maximum extent possible. In order to prevent an unjustifiable budget deficit increase, the Law on the Budget Performance, in force until enactment of the 1997 Law on the State Budget of the Republic of Bulgaria, set out a number of restrictions on the amount and structure of expenditures. The Law sets a 95% limit on noninterest expenditures and transfers to individual budgets in proportion to revenues. As a result of tight budget constraints noninterest expenditures and transfers at the end of the first half of 1997 fell to 57.8% of central government budget revenue. Furthermore, the Law limited budget deficit up to the amount of interest expenditures on government debt service. As of 30 June 1997, actual cash deficit on the central government budget accounted for 53.6% of interest repayments on the government debt. According to this Law, the general borrowing requirements of the budget will be financed not only by government securities issues but also through a direct bank credit from the BNB to be redeemed within 20 years. At the same time, with a view to curbing government debt increases, the Law introduced the requirement for government credit not exceeding actual expenses on its service.

The 1997 State Budget Law of the Republic of Bulgaria (SBL), adopted at the end of the reporting period, is in conformity with the new Law on the BNB which incorporates the basic principles of the currency board. By law, short-term financing of the cash deficit by the central bank is discontinued, and the government's only opportunity to draw credit is against purchase of SDRs from the IMF.

1. Consolidated State Budget

The consolidated state budget (CSB) includes the government budget, social security and local budgets, and some extrabudgetary accounts and funds. Pursuant to Article 4, para. 1 of the Law on Government Budget Organization, the government budget includes the central government budget, budgets of ministries and government agencies, and the legal system budget. Consequently the 1997 State Budget Law of the Republic of Bulgaria adopted the central government budget, the budget of the Committee on Mutual Provision of TPK members, legal system and the National Audit Chamber budgets, revenues and expenditures of ministries, government agencies and regional municipal administration budgets, as well as the relationship between the general government budget and municipal budgets. For the first time the social security budget was detached from the government budget by specific statute: the 1997 Law on the Social Security Fund. In view of negotiated agreements with the IMF and in order to achieve a more efficient management of budget flows, 12 extrabudgetary accounts and funds were included in the consolidated state budget.

Net revenue on the consolidated state budget (obtained after the deduction of intrabudgetary transfers and funds for budget deficit financing) in the first half of 1997 totaled BGL 1,783,758.2 million, or 11% of forecast GDP[20], and net expenditure accounted for BGL 2,069,713.4 million, or 12.8% of forecast GDP. During the same period a year ago, the proportion of net revenue and expenditure in reported GDP[21] was 11.1% and 13.5% respectively.

Revenues and expenditures in the general government budget accounted for the largest share in CSB. Compared with the first half of 1996, in the first half of

[19] Information on the cash basis reporting of the consolidated state budget is based on BNB data unconfirmed by the MF, and is preliminary.
[20] Forecast GDP is BGL 16,150 billion.
[21] Reported GDP by the end of 1996 totaled BGL 1,660.2 billion.

1997 there was a mild reduction in the share of general government budget revenues in the total revenue on the CSB: from 57.5% in 1996 to 52.2% in 1997. In contrast, the share of general government budget expenditures in total CSB expenditure in the first half of 1997 was higher than in the same period of 1996: 59.5% in 1997 against 57.3% in 1996. The amount and structure of general government budget revenues and expenditures directly reflected the amount and structure of central government budget expenditures and revenues[22]. As of 30 June 1997 revenues in the central government budget totaled BGL 915,898 million, or 35.8% of SBL estimates and 5.7% of forecast GDP. In the same period of 1996 revenues accounted for 29.5% of ASBL and their share in reported GDP was 6.4%. Value added tax (VAT) was the major source of central government budget revenues. As of 30 June 1997, these revenues totaled BGL 321,399.7 million, 31% of SBL estimates.

As of 30 June 1997, central government budget expenditures totaled BGL 1,362,489 million, 39% of SBL estimates and 8.4% of forecast GDP. By comparison, in the first half of 1996 expenditures in the central government budget comprised 25.3% of ASBL and 8.6% of reported GDP. Current expenditures accounted for the largest share in central government budget expenditures. Compared with the first half of 1996, in the same period of 1997 the share of current expenditures in total expenditures has increased, from 59.7% to 64.1%, a result of increased interest payments. As of 30 June 1997 expenditures on interest payments comprised 61.1% of total central government budget expenditures, while in 1996 they accounted for 52.6%. Much of the increase in interest payments related to comparatively high base interest rate level, the exchange rate, and to the modified structure of domestic government debt. As of 30 June 1997 interest payments totaled BGL 833,058.3 million, 5.2% of forecast GDP. By comparison, interest payments in 1996's same period totaled BGL 75,252.8 million, 4.5% of reported GDP. Transfers to cover deficits on other budgets and extrabudgetary funds and accounts accounted for a significant share in general government budget expenditures. As of 30 June 1997 these netted a total of BGL 488,843.7 million, 30.5% of GDP estimates.

2. Budget Deficit

As a result of government restrictive fiscal policy and the MF method of reporting temporary noninterest-bearing loans from extrabudgetary accounts as transfers, as of 30 June 1997 a primary surplus of BGL 386,467.3 million was reported on central government budget, or 63.3% of SBL estimates. The primary surplus accounted for 2.4% in the first half of 1997, against 2.3% in 1996's same period.

However, the large primary surplus on the central government budget proved insufficient to cover the sizable interest payments on domestic debt service. After taking into account the relationships of the budget and domestic creditors, an internal deficit of BGL 293,681.1 million was reported, 65.2% of SBL estimates and 1.8% of forecast GDP. In the same period a year before the internal deficit accounted for 1.4% of reported GDP.

As of 30 June 1997 the cash deficit on the central government budget amounted to BGL 446,591.2 million, 47.7% of SBL estimates and 2.8% of forecast GDP. In the same period of 1996 the cash deficit share of reported GDP was 2.2%.

As of 30 June 1997 the cash deficit on the CSB totaled BGL 285,955.2 million, 1.8% of forecast GDP.

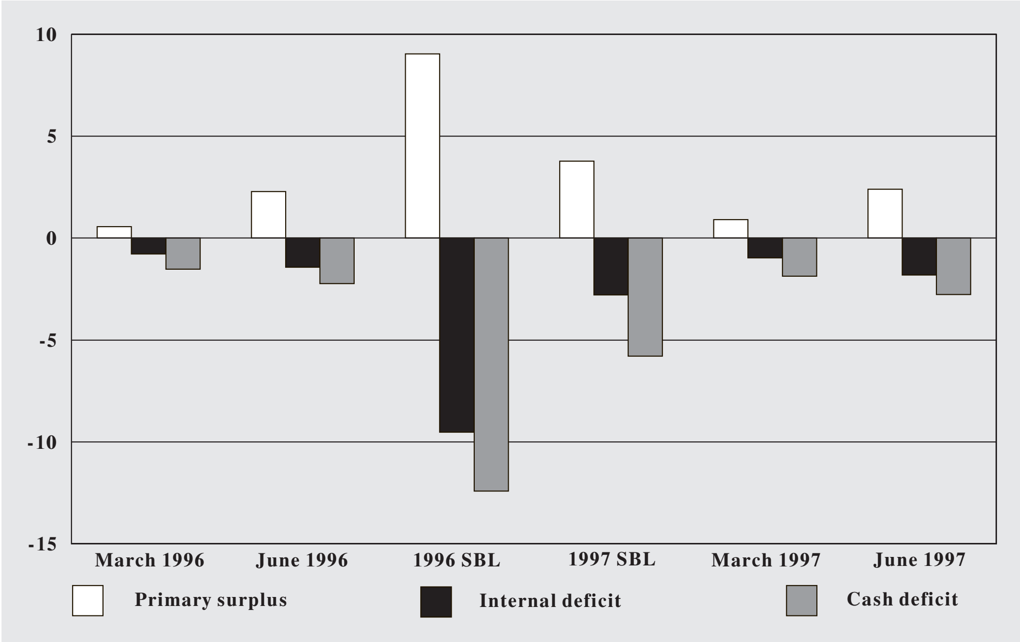
Dramatically increased credit indebtedness of the budget to domestic lenders coupled with a changed maturity structure of the debt resulted in a substantial growth in general borrowing requirements on the general government budget. As of 30 June 1997 general borrowing requirements totaled BGL 4,178,858.8 million, 25.9% of forecast GDP. As of 30 June 1996 their share in reported GDP accounted for 9% alone. The trend to continuously growing general borrowing requirements

[22] 1997 data also includes foreign currency accounts of the central government budget.

further intensified the problems relating to the provision of funds to service government debt.

CENTRAL GOVERNMENT BUDGET

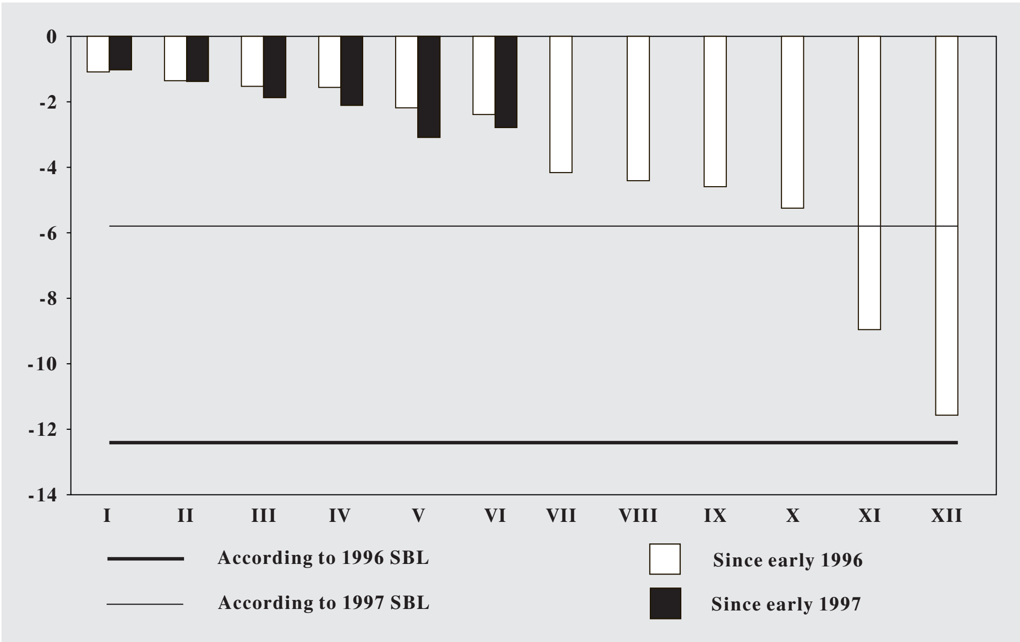
(% of GDP)



Source: BNB.

CASH DEFICIT OF GENERAL GOVERNMENT BUDGET

(% of GDP)



Source: BNB.

3. Budget Deficit Financing

At the end of the first half of 1997 a negative net foreign financing was reported, totaling BGL -59,593.5 million, 44.7% of SBL estimates. By comparison, in 1996's same period the net result from overseas operations was negative, totaling BGL -6,858.5 million, 13.2% of ASBL estimates.

As of 30 June 1997 net domestic financing of the central government budget accounted for BGL 506,184.7 million. Government securities operations were the major source of budget deficit financing. By the end of the reporting period government securities operations netted a total of BGL 579,154.8 million, 122% of SBL estimates.

Direct bank credits to cover temporary cash deficits of the budget and for cash deficit financing were used as another source to finance budget borrowing needs in the first half of 1997. During the reporting period the MF used temporary credits (advances) of BGL 60,000 million under the terms and procedure of Article 46 of the Law on the BNB (in force till 10 June 1997). These were paid off at 30 June 1997. Moreover, in the first half of 1997 the MF drew long-term credits of BGL 66,800 million. At the same time BGL 1,621.8 million were repaid by the budget in regular installments on the debt to financial institutions.

Other sources used to finance the cash deficit were: the transitional balance from the 1996 central government budget of BGL 20,864.6 million and privatization receipts of BGL 295,142 million. By the end of the reporting period the budget deposit (comprising available lev and foreign currency accounts of the central government budget) accounted for BGL 350,293.8 million.

During the first half of 1997 the following sources were used to finance the general government budget: government securities operations (net), 87%; direct credits extended by the BNB, 3%; revenue from privatization, 7%; funds from the SFRD, 2.3%; and transitional balances, 0.7%.

The bulk of government securities sales were realized through auctions. Since early 1997 daily auctions of one-week and four-week discount treasury bills have been held. Where necessary, special three-month, six-month, nine-month and twelve-month treasury bills were issued. Between January and June 1997 the Ministry of Finance offered for sale government securities with a total nominal value of BGL 4,188,776.4 million, and financial institutions' bids totaled BGL 5,483,867.5 million.

Between January and June 1997, 299 issues of book-entry government securities were sold at the auctions for budget deficit financing with a total nominal value of BGL 3,801,993.3 million, including 253 discount treasury bills issues, 41 interest-bearing treasury bills issues, and four treasury bond issues. Government securities purchased with noncompetitive bids totaled BGL 338,651.1 million, or 8.9% of the total amount of government securities bought at auctions. As of 30 June 1997, 139 issues were in circulation (76 issues of treasury bills and 63 issues of treasury bonds) with a total nominal value of BGL 878,914.1 million, including seven issues under the Law on the State Protection of Deposits in support of the SSB totaling BGL 25,200.7 million. The average annual yield of the bulk of government securities issues ensured equal to or higher than the base interest rate operative in the respective period.

During the reporting period participants in the primary market preferred to invest in treasury bills. The State Savings Bank remained a major investor in treasury bonds.

According to the BNB register government securities bought by nonbank financial institutions, companies and individuals totaled BGL 281,745 million nominal value, or 32.1% of outstanding issues by 30 June 1997. Compared with the corresponding period of 1996 government securities sales amounted to BGL 47,255 million, or 26% of issues in circulation.

During the period under review the share of government securities purchased by foreign investors significantly increased. By 30 June foreign investors' purchases totaled BGL 121,963.6 million in government securities issued to finance the budget deficit, or 13.9% of outstanding issues. In addition, foreign investors bought forex-denominated government securities issued under ZUNK in the amount of USD 201.4 million, and government securities issued on nonperforming credits in levs totaling BGL 5,512 million.

The Ministry of Finance continued the established practice of weekly issue of government securities targeted at nonfinancial institutions: individuals and legal entities. The Ministry of Finance offered for sale interest-bearing treasury bills from the target issues with maturity of three, six and 12 months, and one-month discount issues since February. As of May interest-bearing three-month bills were replaced by discount treasury bills. Between January and June the Ministry of Finance also offered for sale six-month index-linked treasury bills. These issues were sold at nominal value beginning on the 15th day of each month until the 14th day of the following month. The yield is tied to the six-month consumer price inflation index plus two percent interest for the period. During the first half of 1997 treasury bills issues earmarked for direct sale to individuals and nonfinancial institutions totaled BGL 97,009.8 million nominal value, including BGL 1,517.1 million index-linked treasury bills; of this, treasury bills of BGL 75,290.3 million nominal value were in circulation by end-June 1997. A portion of these government securities were bought by nonfinancial institutions in the secondary market. As a result government securities purchased by nonfinancial institutions and individuals from target issues by 30 June 1997 totaled BGL 55,524 million nominal value, including index-linked treasury bills.

4. Domestic Government Debt

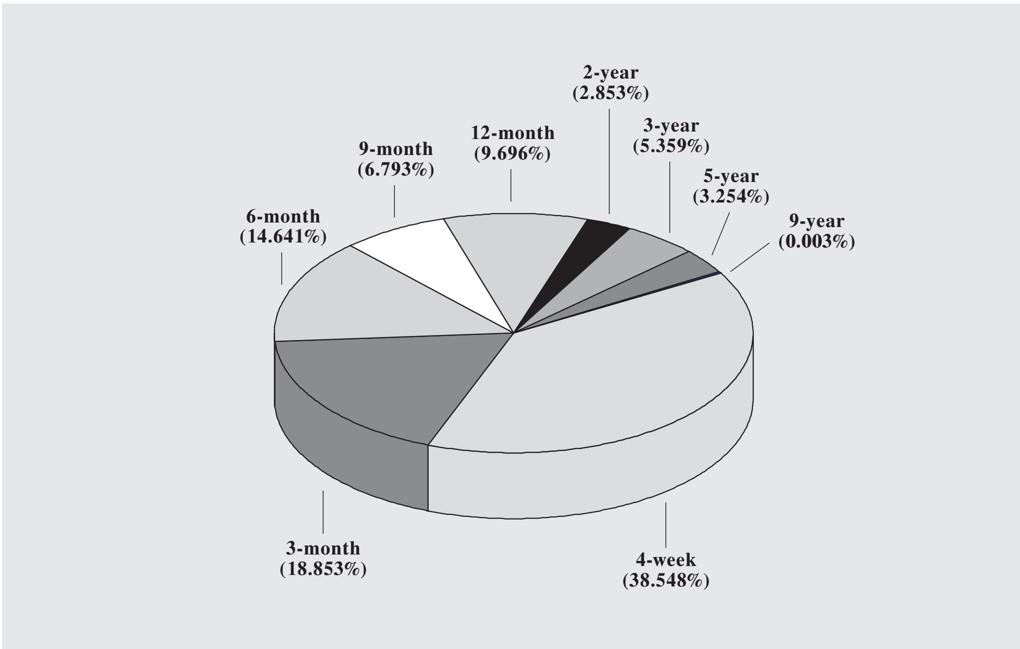
The amount and structure of domestic government debt depended directly on the government's general borrowing requirements, budget deficit, changes in the base interest rate and exchange rate, as well as on the government's issuing policy. During the period under review domestic government debt dynamics was substantially affected by the restructuring of government debt according to the BNB balance sheet, in line with the Law on the BNB and State Budget Law, associated with the introduction of a currency board arrangement.

Given the above factors, the amount of domestic government debt increased by 3.6 times from end-1996, reaching BGL 3,813,466.1 million by 30 June 1997. Concurrently, the trend toward a continuously increasing share of the debt to GDP, typical of recent years, was reversed. For the first time the share of debt to projected GDP by 30 June 1997 decreased from the same period of 1996, from 29.4% to 23.6% respectively. This will facilitate service of domestic debt and will allow for limiting its growth.

The country's financial problems prompted serious changes in the structure of debt. The share of debt on government securities issued for budget deficit financing fell in total debt from 28.6% by end-1996 to 22.7% by 30 June 1997. The share of this debt to GDP declined as well: from 11.9% by end-June 1996 to 5.4% by end-June 1997. In absolute terms, debt on government securities issued for budget deficit financing totaled BGL 865,052.5 million by 30 June 1997. The major reason behind the increase in this debt compared with December 1996 was the Ministry of Finance policy of issuing mostly short-term (up to one year) and extra short-term (one and four-week) government securities for budget deficit financing, including target issues and index-linked treasury bills earmarked to individuals and companies. This policy was predetermined by enhanced investors' interest in this type of debt instrument due to the volatile market, a result of dramatic movements in the base interest rate and exchange rate, and attempts to minimize losses incurred by them. Government securities in the BNB portfolio totaling BGL 31,675.2 million were written off and transferred to the MF account due to government debt restructuring according to the BNB balance sheet. Given debt restructuring and new government securities sales, the maturity structure of outstanding government securities issued under Regulation No. 5 significantly changed: government securities with a term of up to one year, BGL 765,833.9 million (88.5%); and government securities with a term of over one year, BGL 99,218.6 million (11.5%). By the end of 1996 this ratio was 74.7% to 25.3% respectively.

During the period under review the share of debt to financial institutions increased markedly: from 13.2% by the end of 1996 to 30% of total debt by 30 June 1997. In absolute terms, by end-June 1997 the amount of debt to financial institutions reached BGL 1,144,436.6 million (an increase of 8.2 times relative to end-1996), accounting for 7.1% of GDP projections. For comparison direct debt to financial institutions by end-June 1996 comprised a mere 1.9% of GDP. As a result of restructuring of direct debt to the BNB into a new SDR-denominated debt, government indebtedness to the BNB rose from BGL 138,060.8 million by end-1996 to BGL 1,143,298.1 million by 30 June 1997, or 8.5 times. Due to regular repayment installments during the first six months of 1997, direct debt to SSB fell from BGL 1,264.9 million in early 1997 to BGL 1,138.4 million by end-June 1997, or 10%.

OUTSTANDING GOVERNMENT SECURITIES ISSUED FOR BUDGET DEFICIT FINANCING AS OF 30 JUNE 1997

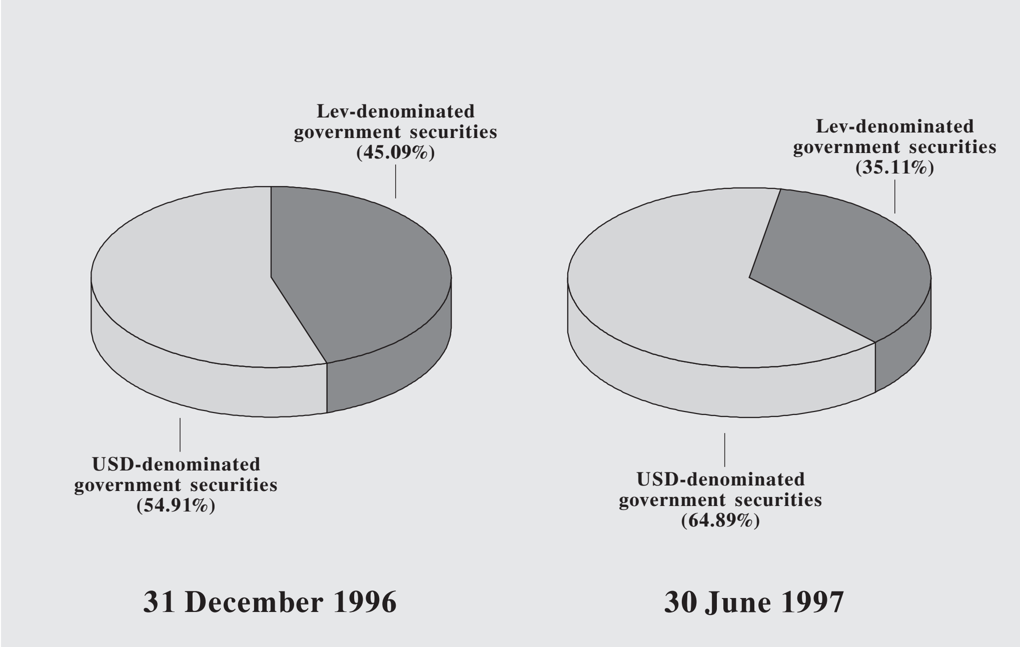


Source: BNB.

Debt on long-term government bonds issued to convert the nonperforming debts of state companies to banks into government debt, outstanding debts from municipalities on SSB house-building loans, and outstanding debt on government securities issued under the Law on State Protection of Deposits (government securities for the structural reform) accounted for the largest share (47.3%) in total domestic debt. During the period under review the share of this debt in projected GDP declined to 11.2% against 15.7% in the first half of 1996. In absolute terms, this debt tripled: from BGL 612,424.6 million in early 1997 to BGL 1,803,977 million in mid-1997. This increase is primarily attributable to the forex component, newly issued long-term government bonds under the Law on State Protection of Deposits, as well as the newly issued government bonds of USD 50 million for financing the stabilization program of one state-owned bank in accordance with the agreements with the IMF within the March 1997 Memorandum on the Economic Policy of the Government of the Republic of Bulgaria. Concurrently, this debt decreased by BGL 47,327.8 million as a result of these government securities' use in privatization deals, for repayment of nonperforming state-owned enterprises' obligations converted into government debt, and writing-off of government securities from the BNB portfolio as per the agreement on debt restructuring.

Between January and June 1997 significant changes occurred in the proportion of debt on government securities denominated in levs and US dollars. As a result of the lev devaluation, the share of USD-denominated government securities reached some 65% of total outstanding government securities, against 55% by end-1996.

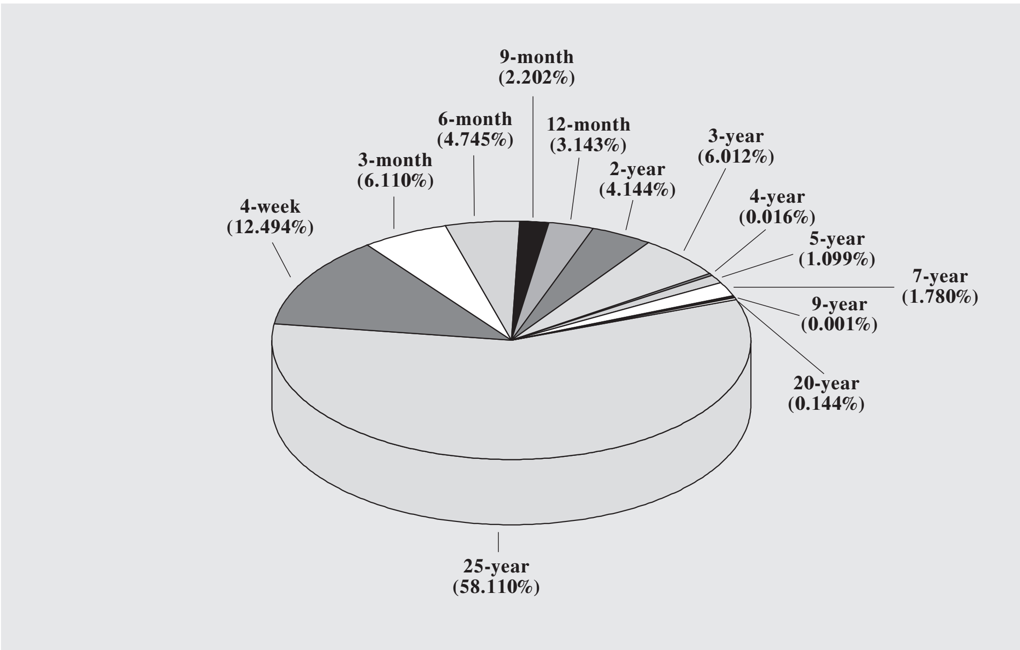
STRUCTURE OF GOVERNMENT SECURITIES DENOMINATED IN LEVS AND US DOLLARS



Source: BNB.

This brought about changes in the term structure of debt in government securities in circulation. The share of long-term government bonds with a maturity of up to 25 years, issued under Articles 4 and 5 of the 1993 ZUNK, CM Decree No. 234 of 1992 and CM Decree No. 3 of 1994, dramatically increased: from 53.6% by end-1996 to 58.1% by 30 June 1997.

MATURITY STRUCTURE OF OUTSTANDING GOVERNMENT SECURITIES AS OF 30 JUNE 1997



Source: BNB.

IV. Monetary Policy

The Bulgarian National Bank faced new challenges in early 1997. Following the government's resignation in 1996, the country slid into a dire political stalemate, provoking further economic and financial instability which rapidly pushed the social cost to the limit of public tolerance. Concurrently, pegging the lev to a benchmark international currency was seen as the only way to revive confidence in the national currency and overcome the financial crisis under the conditions of accelerating inflation and increasing macroeconomic imbalances. Furthermore, the introduction of a currency board arrangement was an explicit requirement by the IMF to continue negotiations for a standby agreement.

In this setting the major goal of BNB monetary policy was to preserve foreign reserves in order to avoid a new foreign debt moratorium, which would have finally isolated the country from the international financial community, resulting in persistent financial instability, economic deadlock and poor living standards. Despite dramatically decreased foreign reserves of a mere USD 483 million (not accounting for gold) by end-1996, BNB net purchases approximated USD 60 million in January. Thus the bank succeeded in making foreign debt payments of USD 162 million, allowing a decline of foreign reserves to USD 380 million. The priority status of foreign reserves over the exchange rate and the political and financial crises in the country caused a dramatic lev devaluation which turned into the first wave of hyperinflation. This was the inevitable cost of delayed structural reform and of BNB efforts to compensate for the lack of political will and consistent actions in the pursuit of monetary policy only by restrictive measures.

After the political stalemate was resolved in mid-February, the BNB supported by the newly appointed caretaker government completely discontinued net financing of the budget and of commercial banks, and continued buying in the forex market. Confidence in the newly elected government combined with restrictive monetary and fiscal policies resulted in lev appreciation which stopped hyperinflation in a relatively short time, but only after sharp price increases. Further developments in monetary and credit aggregates reflected gradually returning confidence in the lev and banks. However, until midyear this could not offset dramatically reduced money demand and decreased internal credit in the first two months of 1997.

Following political agreement on the introduction of a currency board arrangement the BNB started to adjust its monetary policy to the peculiarities of this system. To this end the bank gradually modified and relinquished employment of a number of monetary policy tools and reduced significantly its influence on banking system liquidity. However, the enforced constraints on BNB monetary policy did not affect the bank's efficiency. The major reason behind this was the full support from government which was expressed in voluntary withdrawal from BNB net lending and repletion of fiscal revenue accounts from privatization and a market-based sale of government securities. The March – June period illustrated again that only coordinated efforts by government and the central bank may have a rapid stabilizing effect, with stability and irreversibility depending on the speed and consistency of structural reform.

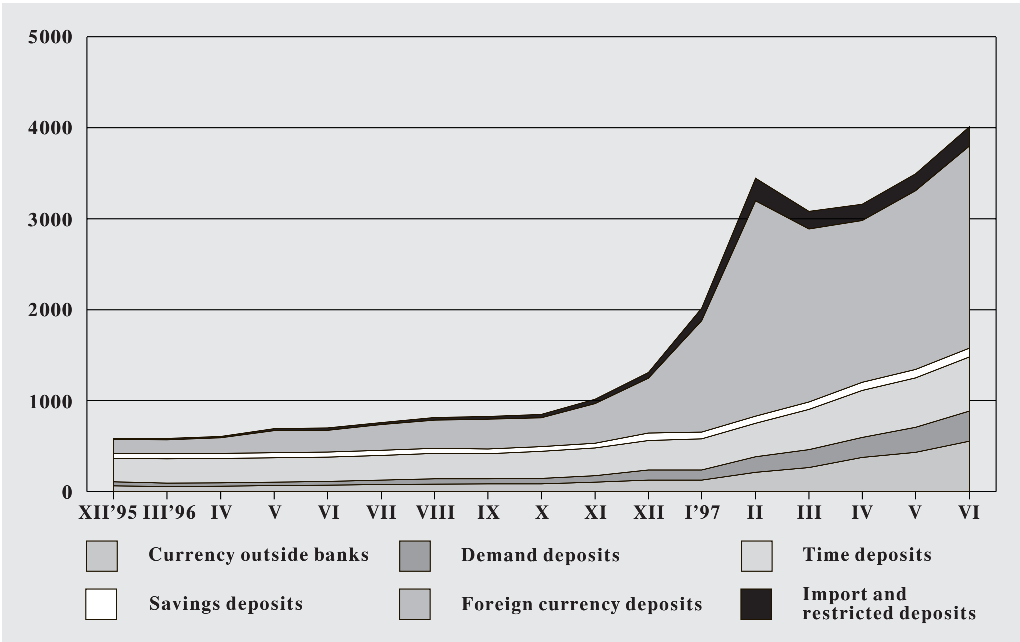
1. Monetary Aggregates

During the first half of 1997 money supply measured through broad money, including currency outside banks and all types of deposits, rose by BGL 2,700 billion nominally, or more than tripled. However, in real terms it fell by almost 48% indicating the depth of eroded confidence in the lev and banks. Between January and June two periods are clearly outlined. In January and February due to deepening political crisis the country's financial instability increased and real money demand fell by over 57%. Between March and June as a result of the resolution of the political crisis coupled with consistency in government fiscal policy and BNB monetary policy, confidence trickled back, reflecting a real broad money growth of 23% in the second quarter of 1997.

Money supply dynamics was seriously impacted by lev exchange rate movements. Initially, the forex component of broad money rose significantly from 50.5% by end-1996 to 75.6% by end-February 1997 due to the dramatic lev devaluation. The follow-on partial lev appreciation combined with enhanced demand for national currency helped strengthen the lev component to 40% by end-June. This structure significantly diverged from that of prior to the crisis at the end of 1995 (73:27 in favor of the national currency). This facilitated further restoration, with the pegging of the lev to the Deutschemark under currency board rules contributing to this effect.

MONETARY AGGREGATES DYNAMICS

(billion BGL)

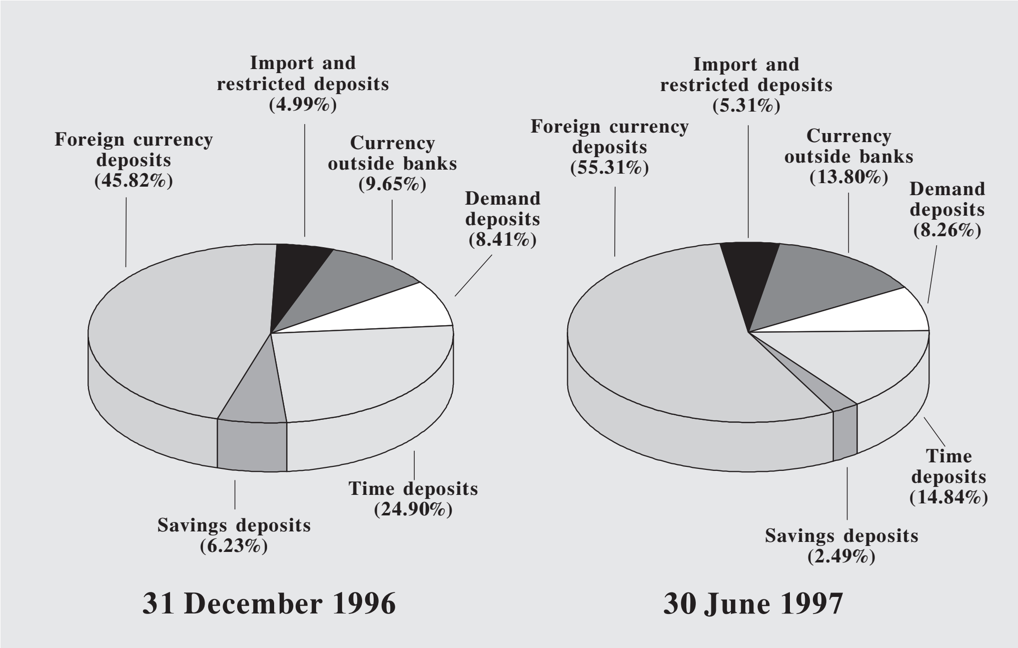


Source: BNB.

Monetary aggregate M1, including highly liquid funds (currency outside banks and demand deposits) increased most substantially. Between January and June monetary aggregate M1 rose by BGL 647.8 billion nominally, or 3.7 times. However, in real terms it declined by 36%, and up to 67% in January and February. Between March and June monetary aggregate M1 was rapidly restored, indicating a real growth of 87%. Both components of high-liquid money indicated similar developments. The same trend is more pronounced in currency outside banks which declined by almost two-thirds in January and February and increased by 110% between March and June. As a result, the 25% real contraction in currency outside banks marked the least decline among monetary aggregates. Comparatively fast restoration of this component reflected both the enhanced need for funds for transactions, consistent with the new price level, and sustained interest of economic agents in cash payments. By end-June demand deposits' real decline stood at over 48% despite a 60% real growth in the last four months. This is ascribable mostly to the still sluggish economic activity due to the unavoidable lag between launch of structural changes and their effect in the real sector.

Between January and June 1997 lev time deposits rose by BGL 268.8 billion, or 82.4%. Given the extremely high inflation, however, they marked a real decrease of more than two-thirds. In January and February 1997 lev time deposits' nominal growth was BGL 42.8 billion: 13.1%, which is 8.5 percentage points less than interest accrued. These figures are indicative of a net withdrawal of over BGL 30 billion. The two major reasons behind the eroded deposit base appeared to be strongly negative real interest rates and a dramatic decline in real incomes, reflecting a run on deposits to meet current expenses. Although slower than other lev monetary aggregates, lev time deposits grew between March and June due to positive interest rates and strengthening trust in the lev and banks: a result of the financial stabilization. During this period lev time deposits rose by BGL 226 billion which exceeded accrued interest by BGL 131 billion.

STRUCTURE OF MONETARY AGGREGATES



Source: BNB.

Foreign currency deposits changed most insignificantly in US dollar terms. During the first half of 1997 they rose by USD 58 million (three percent) following the aforementioned pattern: a decline of USD 75 million in January and February and an increase of USD 133 million between March and June. Should the growth in foreign currency deposits be added to that in lev time deposits, this would make up about one-quarter of the decline reported in 1996, which is a signal of gradually returning confidence in the banking system.

2. Reserve Money and Money Multiplier

With a view to the pending pegging of the lev to a reserve currency in the first half of 1997, the BNB limited the employment of its monetary policy tools. Changes in the employed monetary policy tools along with the sharp initial lev depreciation and the follow-on partial restoration of the lev outlined new trends in the dynamics of reserve money and money multiplier.

Between January and June reserve money rapidly increased, particularly in June. During the first six months reserve money increased by 4.5 times; 40% in June alone. Reserve money growth substantially exceeded broad money growth. As a result, by end-June money multiplier declined by approximately one-third on June 1996.

Increased bank reserves were the major factor behind reserve money growth. Reserve money grew by BGL 435 billion, over 4.6 times. This was a result of increased commercial bank liquidity whose excess reserves on BNB accounts rose from BGL 10 billion by end-1996 to about BGL 260 billion by end-June 1997. This is ascribable to the gradual limiting of BNB open market operations and their stoppage in mid-June, as well as to dramatically contracted borrowing demand by government and the real sector. Changes in commercial bank lending policy also contributed to the unprecedented growth in commercial bank excess reserves, expressed in enhanced cautiousness in disbursing new loans due to pending introduction of a currency board. Under the conditions of a currency board, commercial bank excess reserves will be entirely dependent on banks' policies and will directly impact overall reserve money dynamics.

The bulk of reserve money growth is attributable to currency outside banks. It grew by BGL 427 billion, or 4.4 times but lagged slightly behind total reserve money growth. Since real demand for cash for transactions has not been met under the new price level, currency outside banks is likely to continue increasing, though at a slower pace, fostering further reserve money growth.

RESERVE MONEY AND MONEY MULTIPLIER

Indicators	XII'96	I'97	II	III	IV	V	VI
Broad money (billion BGL)	1,310	2,017	3,445	3,082	3,160	3,494	4,011
Reserve money (billion BGL)	247	341	485	608	729	792	1,109
Money multiplier	5.3	5.9	7.1	5.1	4.3	4.4	3.6
Currency outside banks/deposits (%)	10.7	6.8	6.6	9.4	13.4	14.1	16.0
Bank reserves/deposits (%)	10.2	11.3	8.4	12.2	12.7	11.8	16.1
Broad money change (billion BGL), including:	294	707	1,428	-363	77	334	517
reserve money	286	496	857	873	610	276	1,396
money multiplier	6	153	401	-986	-444	54	-628
both factors	2	58	170	-250	-88	5	-251

Source: BNB.

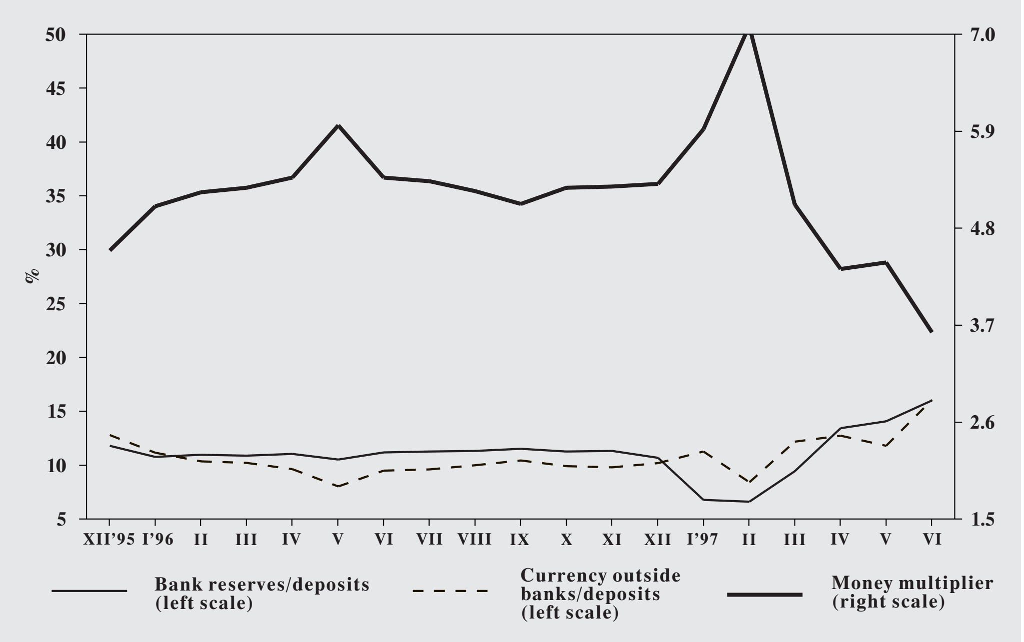
Between January and June money multiplier experienced significant changes. Given a dramatically depreciated lev in January and February, money multiplier increased from 5.3 by end-1996 to 7.1 in February. Later due to rapidly increasing cash and banks' excess reserves, and as a result of lev appreciation, money multiplier fell to 3.62 by end-June. Money multiplier dynamic movements are impacted by the two essential ratios: currency outside banks to deposits and bank reserves to deposits. The first ratio rose from 10.7% to 16% reflecting the enhanced interest of individuals and companies in cash, and the second ratio growing from 10.2% to 16.1% indicated the difficulties of a number of big and smaller commercial banks in placing their free funds.

Factor analysis of broad money growth suggests that reserve money growth played a key role in money multiplier growth. Reserve money growth had the strongest impact in the eve of the currency board introduction in June, and the least effect in May when signs of stabilization in money supply occurred. In February and March reserve money also contributed essentially to broad money movements due to accelerated increase in bank reserves and currency outside banks.

Money multiplier had a divergent impact on money supply: in March, April and June it had a repressive effect and in remaining months fostered money supply growth. The repressive effect was significantly stronger in March due to partial appreciation of the lev, and in June, due to accelerated growth in bank excess reserves. In January and February the combined influence of money supply and reserve money resulted in a record high in broad money growth, while in March the repressive effect of money multiplier played a key role in money supply dynamics despite the sizable growth in reserve money.

Analysis of reserve money sources reveals the role of monetary instruments employed by the BNB. Data indicates that increased net forex reserves, a result of sizable BNB forex purchases between March and June, had the most essential effect. BNB net claims on government, dependent upon employment of various monetary policy tools, had weaker and divergent effect. In January the increased share of government securities in the BNB portfolio coupled with direct lending to the budget prompted an increase in net claims on government, hence an increase in reserve money and money supply. In January under the conditions of severe financial and political crisis, the BNB was exposed to the pressures of fiscal policy and had to ease monetary constraints in order to avoid disruption of financial markets. In the following months, particularly April and May, the decreased government securities portfolio (a result of extensive open market operations) helped halt reserve money growth. In May, however, monetary base rose again due to newly extended direct loans at the request of government.

MONEY MULTIPLIER



Source: BNB.

BNB relations with commercial banks contributed most insignificantly to reserve money developments if the effect of the exchange rate is disregarded. Between January and April all Lombard loans of normally operating commercial banks were gradually redeemed. This helped repress reserve money growth though insignificantly due to the small amount of disbursed credits. The BNB discontinued to refinance commercial banks in support of the government, and this monetary policy instrument stopped to be employed in regulating reserve money growth.

DEVELOPMENTS IN MONEY SUPPLY BY RESERVE MONEY SOURCE IN 1997

(billion BGL)

Indicators	I	II	III	IV	V	VI
Developments in money supply by reserve money source	496	857	873	610	276	1,396
foreign assets, net	106	1,216	1,019	3,043	1,135	4,144
claims on government, net	430	-108	-125	-3,489	-700	2,102
government securities (lev)	207	-9	10	-259	-164	-161
direct credit	63	-73	-2	11	279	-898
claims on commercial banks	717	1,027	-887	-1,152	10	582
Lombard loans	-14	-14	0	5	0	0
other, net	-766	-1,278	866	2,208	-169	-5,432

Source: BNB.

As a conclusion it should be stressed that the BNB's ability to regulate reserve money growth and money multiplier stability was significantly subdued. The reason behind this is in the BNB's intentional and gradual reduction of a number of its monetary policy tools (Lombard loans, repo-operations, auctions for outright sale of government securities, etc.) with a view to providing a smooth adjustment of the central bank to currency board rules. Despite the subdued activity, BNB monetary policy was far more efficient than in most of 1996 which may be explained by synergetic action by central bank and government. During transition the limited activity of BNB monetary policy was offset by improved coordination with government fiscal policy. This helped avoid money supply destabilization due to changes in reserve money and money multiplier and favored the revival of confidence in the lev and banks.

3. Domestic Credit

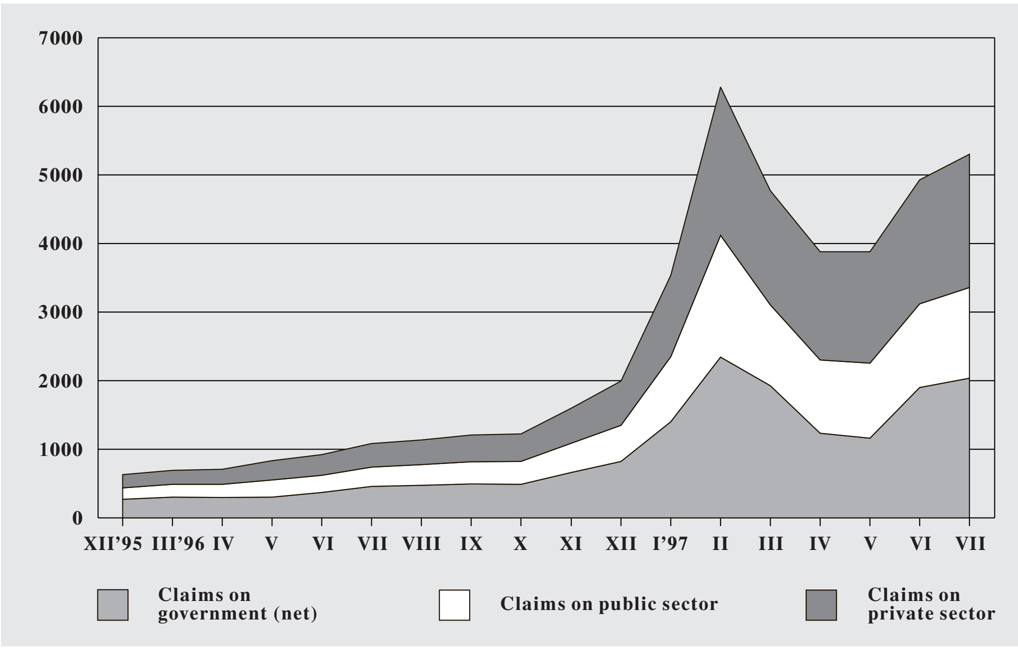
By the end of June in compliance with the newly adopted Law on the BNB, providing for establishment of two relatively autonomous departments within the BNB (Issue Department and Banking Department) and their normal operation under currency board rules, some central bank assets were replaced by other assets equivalent in value, denomination, maturity and interest rate terms, consistent with the country's commitments to the International Monetary Fund. These changes directly impacted statistical data on domestic credit by end-June 1997: domestic credit grew by BGL 553 billion, while net foreign assets and the residual item in domestic assets (other items, net) fell by BGL 378 billion and BGL 175 billion respectively. At the same time the country's obligations to official creditors were written off from the BNB balance sheet, resulting in an increase in net foreign assets (IMF excluded) by BGL 1,077 billion at the expense of contracted other items (net).

Taking into account the above changes, domestic credit growth in the first half of 1997 lagged behind broad money growth by BGL 320 billion. Since foreign assets of the BNB and commercial banks increased at a faster rate, there are grounds for assuming that unlike 1996, lending activity in the 1997 half-year was subdued with free funds being mostly abroad. The turnaround in banks' lending policies reflected their adjustment to the pending enforcement of currency board rules on 1 July 1997. Supply of loanable funds appeared to exceed credit demand, a result of government restrictive fiscal policy and the lack of economic recovery in the real sector.

Domestic credit growth is attributable mostly to the increase in the lev component by BGL 211.5 billion, while the forex component indicated a fall of over USD 700 million. Analogous changes occurred both in the government sector with a fall in net foreign exchange claims on government of about USD 400 million (attributable to increased government sector deposits in foreign currency from privatization and foreign exchange purchases in the domestic market), and in the real sector (due to net repayment of foreign exchange credits by state-owned and private companies).

DEVELOPMENTS IN DOMESTIC CREDIT

(billion BGL)

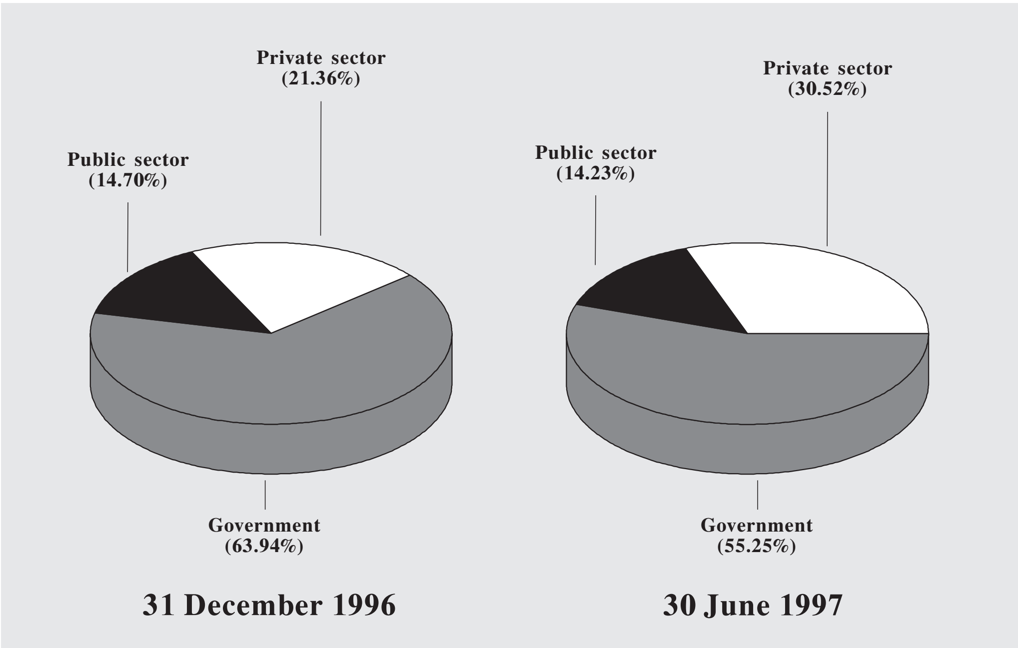


Source: BNB.

Between January and June net lev claims on government rose by BGL 181.8 billion and almost matched the growth of the first half of 1996. The bulk of this growth reflected sustained high nominal interest rates on domestic debt during the first quarter of 1997, responsible for the increased budget deficit. Remaining borrowed funds were used for forex purchases and formation of the BNB deposit for covering foreign debt payments in the second half of 1997. After reporting the inflation rate for the review period and the reduction of BGL 271.4 billion due to replacement of BNB claims on government by new claims (in compliance with the new Law on the BNB), by end-June 1997 banking system net claims on government in levs decreased by eight times in real terms. Given rapidly falling interest rates these claims cannot be treated any longer as a serious burden on the government budget.

Reduced budget borrowing requirements from banks compared with the previous year provided more funds for the real sector. Between January and June 1997 banks' lev claims on the nongovernment sector rose by BGL 29.6 billion, against BGL 13.1 billion in the same period of 1996. Credit to private enterprises increased by BGL 41.6 billion in 1997, against BGL 21.4 billion in 1996. Net repayment of state enterprise credits continued: in 1997 they fell by BGL 11.9 billion, against BGL 8.3 billion in the previous year. During the first half of 1997 a significant net decrease in foreign currency credits was reported: USD 221 million for state companies and USD 94 million for private companies.

STRUCTURE OF DOMESTIC CREDIT
(lev component)



Source: BNB.

Despite a growing amount of lending resources, there is no sign of a credit expansion. There are two reasons for this: first, credit demand is still sluggish due to ongoing economic slowdown, particularly in state enterprises; second, lending remains restricted due to hard measures undertaken to collect payments from banks in respect of which the BNB has petitioned for institution of bankruptcy proceedings, and the enhanced cautiousness of banks in extending new loans.

There are no grounds to assume that the decreased base interest rate in the second quarter of 1997 will automatically solve the complex problems associated with lending to the real sector. Accelerated structural reform through rapid cash privatization of both state enterprises and banks is the only way to tackle these problems. Only after a radical change in property relationships, it might be expected that comparatively low lending rates will favor investments, hence contributing to the achievement of sustainable economic growth under a stable banking system.

4. Monetary Instruments and the Money Market

During the first half of 1997 BNB monetary policy radically changed, reducing its activity as well as the number and *modus operandi* of monetary policy tools employed. The changes were made gradually with a view to pending transition to a pegged exchange rate of the lev to the Deutschemark. The changes most significantly affected interest rate policy, open market operations and commercial bank refinancing. Between January and June the BNB gradually relinquished a number of its monetary policy tools, while the efficiency of central bank monetary policy was based on improved coordination with government fiscal policy.

Interest Rate Policy

Base Interest Rate

When the economic crisis developed into a political crisis at the turn of the year, the central bank stopped employing interest rate as a tool to repress inflation. Despite sparking hyperinflation in January, the BNB did not change the base interest rate. Even drastically raised base interest could not have a sustainable stabilizing effect before the political stalemate had been resolved.

When the political crisis seemed to have been overcome, the BNB Board decided as of 27 January to announce a base interest set on the basis of the average weighted compound monthly yield attained in the previous period at primary auctions for short-term government securities. This significantly changed the principles of BNB interest rate policy. The central bank continued to set the base interest rate discretionally, but unlike previous years when the base interest rate was based on short-run inflationary expectations, it depended directly on demand and supply in the deepest current monetary market (the primary market for seven-day government securities). This was the first and most essential step in limiting BNB interest rate policy, consistent with currency board rules.

In early April the BNB again made changes in the method of setting the base interest rate intended to reduce discretion in favor of a market-based mechanism. As of 7 April 1997 the base interest rate was determined as the average weighted compound monthly yield attained at five consecutive auctions for seven-day discount government securities. As of mid-April the base interest rate was changed weekly in accordance with the method described above, and from June, on the basis of auctions for 28-day government securities. Following the Ministry of Finance decision to stop daily auctions for 28-day government securities and to renew the schedule for daily auctions for three-, six-, twelve-month and long-term government securities, from end-June the base interest rate is equal to the yield of three-month discount government securities.

With the fall of the base interest rate below the level of the same period of the previous year in mid-May, the BNB Board decided to renew the practice of setting base interest rate on an annual basis. This reflects restored normal and bearable interest rate levels due to rapidly returning confidence in the lev and banks, a result of coordinated policy by government and the central bank.

Interest Rates on BNB Operations

BNB interest rate policy followed the changes in the base interest rate in respect of its operations in the country. With a view to relieving banks under the conditions of high interest rate levels in early 1997, the BNB accrued interest on banks' minimum reserve requirements equivalent to two-thirds of the base interest rate; and on excess reserves on banks' current accounts, one-third of the base interest rate. With the fall of the base interest rate, interest rates on these BNB liabilities were decreased more dramatically. By end-June due to adjustment to the introduction of a currency board interest rate levels were sharply cut, and as of 14 July the BNB stopped accruing interest on these funds.

Interest rate levels on deposits of prime-rate budget entities also followed the changes in the base interest rate. BNB interest rate policy on credits and repo-operations followed an analogous pattern.

Penalty interest rates on overdue loans and interest rates on banks with deficient minimum reserve requirements were seriously raised with a view to tightening financial discipline, an essential prerequisite in adjustment to the introduction of a currency board.

Commercial Bank Refinancing in National Currency

By the end of the first half of 1997 funds extended by the BNB to refinance commercial banks totaled BGL 53,433 million, a decrease of 14.3% compared with end-1996 refinancing which had totaled BGL 62,336 million.

Proportionally the share of unsecured loans was the largest (96.3%), followed by Lombard loans (2.9%), discount loans (0.7%) and overdrafts (0.1%).

Two banks of the eleven refinanced by end-1996 repaid their obligations to the BNB entirely during the first half of 1997. Three of remaining nine with debts to the BNB were declared bankrupt, and for the other six banks the Court has instituted bankruptcy proceedings. Due to the inability of these banks to service their loans, the whole amount of liabilities were listed as arrears.

Unsecured Refinancing

In compliance with IMF recommendations and pending introduction of a currency board, in early 1997 unsecured refinancing of commercial banks was halted.

By 30 June 1997 arrears on unsecured loans totaling BGL 51,462 million were entirely provisioned.

Lombard Loans

Between January and June 1997 five Lombard loans of BGL 3,000 million were extended to two commercial banks. By end-April ten performing and two overdue loans (totaling BGL 9,650 million) were repaid. By 30 June 1997 obligations totaling BGL 1,542 million were classified as arrears, with security placed exceeding the amount of debt several times.

Discount Loans

Since early 1997 the central bank did not extend discount loans. Arrears on discount loans (totaling BGL 389 million) were entirely provisioned and belonged to one bank in respect of which the Court has instituted bankruptcy proceedings.

Open Market Operations

In compliance with restrictive monetary policy and pending introduction of a currency board arrangement, during the first half of 1997 the BNB most intensively employed repurchase agreements (repo-operations) in the open market. Their volume totaled BGL 7,917 million, including BGL 3,994 million in reverse resale agreements and BGL 3,993 million in reverse repurchase agreements. Primary and secondary market outright purchases of government securities denominated in levs and foreign currency (issued under Regulation No. 5) accounted for BGL 27,004 million nominal value and USD 25.6 million respectively. Outright sales of lev-denominated government securities totaled BGL 118,069 million; and foreign currency-denominated government securities, USD 19.7 million.

As an element of adjustment to the introduction of a currency board, repo-operations with terms of over two working days were gradually reduced, and as at 13 June 1997 entirely discontinued.

Outright government securities operations in the primary and secondary markets were gradually limited and then entirely stopped.

Following the restructuring of BNB relationships with the Ministry of Finance and commercial banks associated with the introduction of a currency board, the BNB government securities portfolio totaling BGL 67,758 million and USD 241.7 million was cleared on 30 June 1997.

Minimum Reserve Requirements

Between January and June 1997 minimum reserve requirements were maintained at 11% of commercial banks' attracted funds in levs and foreign currency.

To regulate banking system liquidity, commercial banks were allowed to use a portion of funds on minimum reserve requirements in levs in their settlements. In early 1997 the admissible access was up to 30% of minimum reserve requirements. With a view to smoothing the tense forex market, by end-January this access was halted. As of mid-February the access was renewed up to 10%, and from mid-March up to 15%: the level currently effective.

As in the previous year commercial banks were allowed to hold up to 100% of required reserves on attracted foreign exchange funds in foreign currency. Until end-May this was possible, provided that *in lieu* of released lev funds government securities from the BNB portfolio were bought. With discontinued open market operations banks were released from this requirement. In the period under review 60% of actual cash holdings of commercial banks in levs were again recognized as minimum reserve requirements. The remaining 40% which had also been recognized as minimum reserve requirements in 1996, provided that *in lieu* of released funds government securities from the BNB portfolio were bought, was abolished in early June.

Interrelationships between Commercial Banks

Lending in the Interbank Market

By the end of June 1997 debt on interbank deposits totaled BGL 55,637 million, an increase of BGL 8,708 million (18.6%) from end-1996.

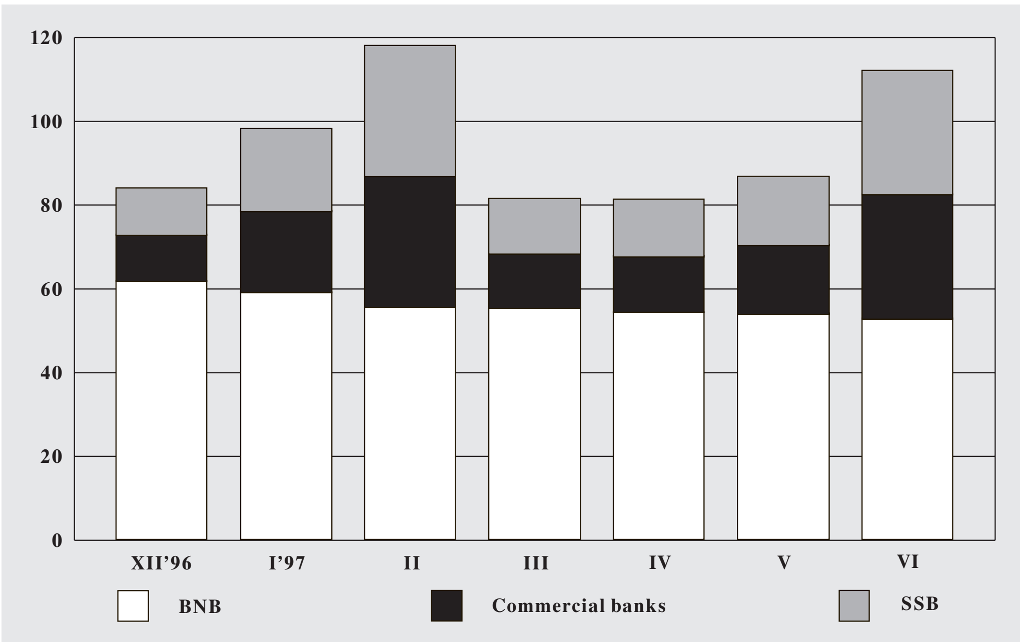
Interbank Market Interest Rates

Data reveals that from March 1997 for the first time in the last eight years interest rates on interbank market operations stayed firmly under the base interest rate.

This was a result of commercial banks' high lev liquidity and limited possibilities for investment of free resources. Discontinued open market operations, continuously falling volumes of government securities issues, as well as the cautiousness (to some extent unreasonable) of banks to lend to the real sector prompted increased supply of resources in the less risky interbank market. The excess of supply over demand undoubtedly led to a decrease in interest rate levels. This trend will probably sustain until the issue of profitability becomes a top priority for commercial banks along with economic stabilization, and they seek for alternative investment of free resources.

VOLUME OF THE MONEY MARKET

(billion BGL)



Source: BNB.

5. Interest Rates on Commercial Bank Operations

Commercial bank interest rate policy in the first half of 1997 continued to be as strongly dependent on changes in the base interest rate as it had been in previous years. Since the base interest rate was determined entirely on a market basis through most of the reporting period, it appears that market principles will have an ever increasing influence on commercial bank interest rates. This facilitated commercial banks' adjustment to currency board conditions where interest rate policy on credits and deposits becomes critical for survival and development.

In contrast to 1996 commercial banks faced new challenges in the first half of 1997. The sharp devaluation of the lev at the start of 1997 and the partial recovery which followed contributed to valuation adjustments greatly exceeding interest income and expenses. At the same time, at the beginning of the second quarter, given the upsurge in loanable funds in the banking system under the impact of reviving confidence, the general level of interest rates fell dramatically which caused a reduction in lending and deposit interest rate spreads. This called for a serious reconsideration and rationalization of overall commercial bank activity in so far as under a currency board regime interest rates are set to stay low and the opportunities to raise incomes from forex operations are severely limited.

During the first half of 1997 commercial bank nominal interest rates on time deposits in levs followed the general trend of change in the base interest rate. Over the first quarter monthly interest rates on one-month deposits rose from 9.94% in late 1996 to 10.94% in March. This rise accounted for just one-third of the three percentage point increase in the base interest rate over the same period (from 15% to 18% monthly). Data indicates that after the increase in the base interest rate commercial banks were reluctant to raise interest rates on deposits, associated with their difficulties in collecting interest on credits which is directly connected to the base interest rate.

With high inflation in the first quarter real interest rates on time deposits turned strongly negative and depositors suffered great losses (more than three-quarters of savings). This, coupled with further pressure by commercial banks, did not threaten the deposit base just because credibility in the banking system and the lev started to return after the resolution of the political stalemate.

During the second quarter nominal interest rates on time deposits fell to 1.51% monthly: half the base interest rate. In real terms, however, interest rates on deposits stood positive thanks to the faster decline in the consumer price index. Between April and June depositors restored 7.13% of their savings but this was far from sufficient to compensate their losses during the first three months of the year. Over the half-year losses accounted for 73.62%, a much higher level than in the same period last year (15%). Apart from low interest rates on deposits, depositors came under further pressure from commercial banks, which severely limited the possibilities of fast revival of confidence in the lev and the banking system.

During the first half of 1997 interest rates on short-term loans followed changes in the base interest rate. Over the first quarter they rose nominally from 15.79% in December 1996 to 19.25% in March 1997. Deflated by the consumer price index, they stood strongly negative in real terms in January and February and positive in March, with an overall change of -70%. Although this prompted a serious devaluation of lev-denominated burden on state and private companies, debt service remained a major concern for most of them, given the further decline in economic activity.

During the second quarter nominal interest rates on short-term loans followed the decrease in the base interest rate and reached 3.8% in June. They stood positive in real terms, at 19.5% for the quarter as a whole. This was a partial compensation for the overall decline in the half-year but did not do much to improve debt service since no significant changes occurred in economic conditions. Therefore, a further reduction in lending interest rates is likely to boost sustainable economic recovery only if parallel rapid privatization is pushed ahead so as to achieve an U-turn in macroeconomic conditions.

During the first six months of 1997 the spread between monthly lending and deposit interest rates narrowed: from 5.85 percentage points in December 1996 to 2.29 percentage points in June 1997. However, relative to the base interest rate, the spread increased, indicating growing challenges for commercial banks: a significant portion of nonperforming loans extended in previous years, inhibited placement of new loans, plummeting yields on other bank operations (government securities operations, forex trade, etc.). Bank survival and development under these conditions is therefore increasingly dependent on the capability of managers to rapidly and efficiently adjust the whole range of bank activities to the rigid operational rules of a currency board.

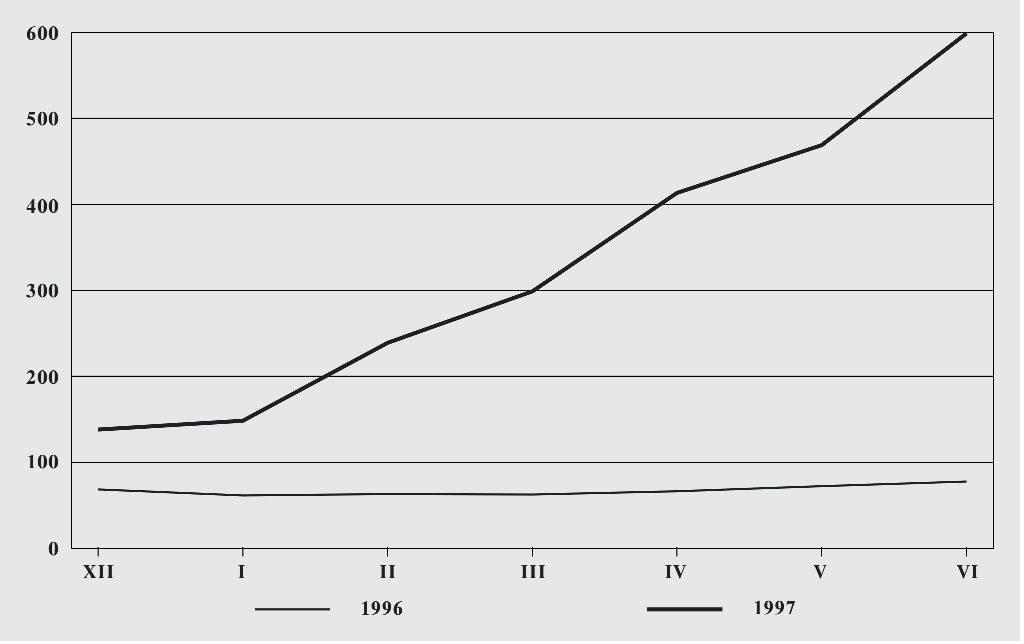
6. Issuing Activities

Volume of Issues

By the end of the half-year currency in circulation, including currency in the vaults of commercial banks and outside them, reached BGL 599 billion. It rose by BGL 460.8 billion (333.4%) compared with end-1996, growing 127.3 percentage points faster than broad money. The share of currency in circulation relative to broad money rose from 10.5% at the end of 1996 to 14.9% by the end of June 1997. The increase in currency in circulation lagged behind consumer price growth by 50.8 percentage points.

CURRENCY IN CIRCULATION
(outside BNB vaults)

(billion BGL)



Source: BNB.

During the first six months of 1997 major factors in currency in circulation were: further intensifying inflationary processes, particularly strong in January and February, complex macroeconomic conditions, the specifics of the Bulgarian settlement system, the traditionally high proportion of households' incomes and spending in cash, corporate indebtedness, an underdeveloped money market, etc. Analysis of developments in currency in circulation indicates a rapid increase over the first quarter of 1997, reaching BGL 298.9 billion by the end of March. Compared with the end of 1996, this marks an increase of BGL 160.8 billion. In the second quarter currency in circulation increased by yet another BGL 300.1 billion.

During the first half of 1997 the BNB sought to meet the needs for currency in circulation despite inflationary developments. In April, given the increased needs for currency in circulation to service currency turnover, the central bank was forced to put into circulation almost the whole amount of money available in its main vault. Despite some short-lived deficiencies, the central bank took measures and continued to smoothly service cash payments.

Major factors behind the increase in currency in circulation over the period under review were: high price levels of goods and services and concomitant nominal increases in household incomes due to wage fund rises, pensions, compensations, benefits, scholarships, etc.[23] The sharp decrease in interest rate levels applied by commercial banks on deposits, the instability of the forex market in January and February, and the slowly reviving confidence in the banking system also contributed.

Companies continued to pay for deliveries of goods and services predominantly in cash. Dramatically changed price structure and problems in settlement forced the BNB to raise the maximum amount of cash payments to BGL 5 million, which also added to the increased amount of currency in circulation.

Cash in commercial banks' vaults rose considerably: from BGL 11.7 billion at the end of 1996 to BGL 45.8 billion by the end of the first half of 1997, an increase of BGL 34.1 billion, or 291.5%. Currency outside banks reached BGL 553.2 billion by the end of the half-year, an increase of BGL 426.7 billion, or 373.3% from 1996 year-end. The increase in currency outside banks surpassed currency in circulation growth by 39.9 percentage points, and broad money growth by 167.2 percentage points.

Denomination Composition

Developments in currency turnover over the first six months of 1997 brought about changes in the composition of currency denominations. Compared with end-1996, banknotes of higher denominations (BGL 2,000, 5,000, 10,000, and 50,000) proved more convenient. By the end of the period in review high denomination banknotes accounted for 77.4% of the total value of denominations, against 39.7% at 1996 year-end. The share of these denominations in the total amount of banknotes comprised 9.2%, against 3.6% at 1996 year-end.

During the period in review the BNB continued to withdraw old-design banknotes after normal wear. The BGL 20 banknote (1962 and 1974 issues) and BGL 50 banknote (1989 issue) were withdrawn, as well as the circulating coins of 10, 20 and 50 stotinkas (1962, 1974, 1979, 1980, 1981, 1988, 1989, and 1990 issues) and BGL 1, 20 and 50 banknotes (1962, 1979, 1980, 1981, 1988, 1989, and 1990 issues). Banknotes and circulating coins of these issues will remain in circulation until 31 December 1997. After this date and until the end of 1999 they will be exchanged only at BNB tills.

The 'average' banknote in circulation by the end of the first half of 1997 was BGL 753, against BGL 254 at the end of 1996: an almost threefold increase. The increase in the 'average' banknote was a result of higher denominations in circulation on the one hand, and withdrawal of worn banknotes of smaller denominations, on the other.

By the end of June 1997 the number of banknotes in circulation totaled 794 million, against 521 million at the end of the same period in 1996 and 540 million at 1996 year-end. The number of banknotes increased by 273 million (52.4%) by 30 June 1997 from 30 June 1996, and by 254 million (47%) from 1996 year-end. Factors behind the increased number of banknotes were escalating inflation at the start of 1997 and eroded confidence in the banking system.

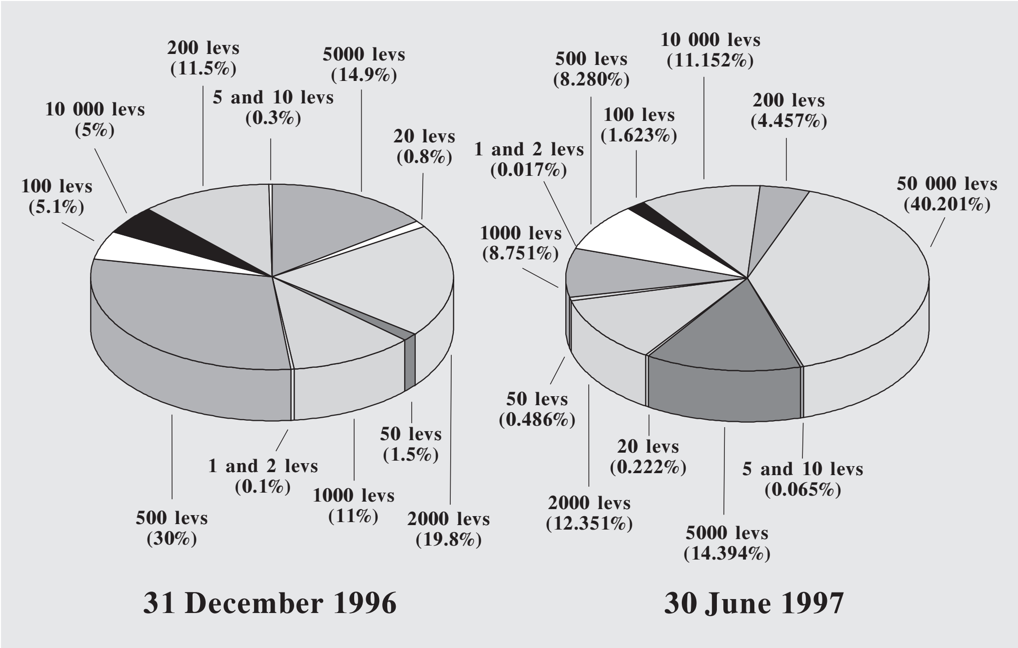
Banknotes and coins of extremely small denominations are currently in circulation. By the end of the first half of 1997 the number of banknotes with a nominal value of up to BGL 500 inclusive accounted for more than 80% of the total amount of circulating banknotes, and banknotes of BGL 100, 200 and 500 comprised 47% of the total number in circulation.

Following the steep jump in prices a portion of circulating coins practically stopped servicing the circulation turnover. Currently circulating coins of 10, 20 and

[23] For example, the average wage rose from BGL 24,814 in December 1996 to BGL 157,420 in June 1997: more than a sixfold increase.

50 stotinkas and BGL 1, 2 and 5 remain in the vaults of commercial banks and the BNB due to lack of demand. The size and weight of the BGL 10 coin, 1992 issue, proved inconvenient to clients at the new price level.

DENOMINATION COMPOSITION IN THE BANKNOTE ISSUE*



* The share of denominations is based on values.

Source: BNB.

During the period under review the BNB continued its efforts aimed at optimizing the denomination composition of currency in circulation and meeting the nominal increase in currency turnover by issuing banknotes and coins of higher denominations. To meet the needs for currency in circulation, the BNB put into circulation a banknote of BGL 50,000 on 8 May 1997. The Managing Board of the BNB made a decision in principle for the launch of preparations on a new design of a new set of circulating coins with a nominal value of BGL 10, 20 and 50, 1997 issue. The BNB put into circulation a circulating coin of BGL 10 on 8 May 1997 and a circulating coin of BGL 50 on 1 August 1997. The Managing Board of the BNB made a decision in principle for the launch of preparations on a new design of circulating coins with a nominal value of BGL 100, 200 and 500. To meet the needs of currency turnover, in 1997 the BNB will continue the process of design, issue and launch into circulation of new higher denomination banknotes and coins.

Commemorative Coin Issues

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

Precious Metals

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

The BNB purchased precious metals from domestic producers and gold coins from individuals. At the same time the needs of domestic consumers for precious metals were met in accordance with the established procedure.

PRECIOUS METAL STOCK IN THE BNB

(in troy ounces)[1]

Indicators	31.XII.1996	30.VI.1997
Gold reserves of the BNB[2]	1,031,222	1,031,222
Circulating precious metals[3]		
Gold	59,996	74,380
Silver	867,326	824,672
Platinum	12,239	12,273

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

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

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

Source: BNB.

7. Foreign Exchange Policy

Forex Market

Extremely thin forex market against the background of further intensifying political crisis forced the BNB to temporarily alter the method of daily fixing of the exchange rate. Effective 6 January 1997, the BNB began to determine the central exchange rates of hard currencies to the Bulgarian lev on the basis of daily volumes of forex purchases and sales exceeding USD 10 million each, and in case this condition could not be fulfilled the central bank did not alter the fixing. Still later, effective 24 January 1997, this line of policy was supplemented by another decision: if required volumes were not attained in three consecutive business days, the BNB was to determine the central exchange rate of the lev to the US dollar on the basis of the total volume of forex purchases and sales during those days. In mid-March, when daily trading volumes on the forex market were restored as a result of the solution to the political stalemate, the BNB resumed the use of the previous method of fixing the lev to benchmark hard currencies on a daily basis. Changes in the method of fixing the lev exchange rate to the US dollar removed the fixing far from market levels for a short period of time. Therefore time series for that period do not provide a sound basis for comparison with other data.

Foreign exchange in the banking system was supplied by the chemical and pharmaceutical industry, nonferrous and ferrous metallurgy, the textile and sewing industry, wine producing, the tobacco industry, etc.

Final buyers of foreign exchange were oil processors, power generators, some branches of the food industry, etc.

Foreign exchange was supplied and demanded by the following industries: engineering, metal-processing, oil companies, etc. Foreign investors sold US dollars and Deutschemarks against levs to purchase debt instruments denominated in levs, and bought foreign exchange when withdrawing from investments.

The volume of forex market operations between domestic participants registered by the BNB (prior to deleting possible double entries) totaled USD 2.3 billion in bank purchases and USD 1.9 billion in sales. Compared with the first half of 1996, the volume of purchases was preserved, while the volume of sales decreased by one-fourth.

Within the biggest market sector (operations of fully licensed banks with customers) the volume of bank purchases declined from the same periods of 1996 and 1995 in particular, but compared with the same periods of 1993 and 1994 it rose, growing much stronger in comparison with the same period of 1992. The volume of fully licensed banks' sales to customers declined significantly, and stood higher only in comparison with the first half of 1992. Commercial banks' positive balance of USD 473.8 million comprised 42.8% of their purchases from domestic customers. Thus weaker demand for foreign currency by customers combined with sustained supply from customers (e.g. bank purchases) proved to be a factor for the return of foreign exchange into banks in 1997, which had been withdrawn in the previous year. The trend of banks' purchases from customers exceeding forex sales to customers was sustained even in the period of deep forex crisis when the dollar appreciated sharply against the lev and the market was thin. In January only in six days did forex sales of fully licensed commercial banks to customers exceed their purchases from customers, three in February, one in March, two in April, five in May and three in June.

FOREIGN EXCHANGE SPOT TRANSACTIONS

(million USD)

Market volume	A. Bought	B. Sold	C. Balance
1. BNB with customers,	137.3	207.9	-70.6
incl.:			
domestically licensed commercial banks	33.6	-	33.6
companies	91.4	2.6	88.8
budget organizations	0.1	6.3	-6.2
MF for foreign debt	-	56.5	-56.5
other transactions with MF	-	135.1	-135.1
government funds	10.0	7.4	2.6
Agency for Privatization	1.6	-	1.6
other	0.6	-	0.6
2. Fully licensed commercial banks with customers	1,107.4	633.6	473.8
3. Interbank, fully licensed commercial banks	390.3	391.5	-[1]
4. Interbank, BNB included (3+6B)	396.5	397.7	-[1]
5. BNB, total (1+6)	764.5	214.1	550.4
6. BNB with fully licensed commercial banks	627.2	6.2	621.0
7. Intercorporate[2]	18.2	18.2	-
8. Total with customers (1+2+7),	1,262.9	859.7	403.2
incl.:			
commercial banks with customers (1+2)	1,244.7	841.5	403.2
9. Fully licensed commercial banks with foreign investors	106.4	33.4	73.0

Note: Including today, tom value and spot transactions of commercial banks whose operations are reported for the needs of central exchange rate calculation.
[1] Some imperfections in reporting lead to a minimum difference between purchases and sales which are identical in the interbank market.
[2] The data is for the minimum volume of the market as currently monitored.

Source: BNB.

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

(%)

Interbank turnover/forex bought from customers (commercial banks)	35.4
Interbank turnover/forex sold to customers (commercial banks)	61.8
Interbank turnover/forex bought from customers (commercial banks and BNB)	32.0
Interbank turnover/forex sold to customers (commercial banks and BNB)	47.3
Net BNB purchases/total purchases from customers (commercial banks and BNB)	44.2
Net BNB purchases/forex bought from customers and foreign investors (commercial banks and BNB)	40.7
Net BNB purchases/balance with customers (commercial banks and BNB)	136.5
Net BNB purchases/balance with customers and foreign investors (commercial banks and BNB)	115.6

* The actual volume of these operations was bigger as some of them were effected through banks whose transactions were not reported for the purpose of the central exchange rate and hence remained outside forex market statistics.

Source: BNB.

Even healthier than the balance of fully licensed commercial banks with customers was the amount of these banks' forex sales to the central bank, totaling USD 621 million. The difference between this amount and BNB gross purchases is insignificant due to the small volume of BNB forex sales to fully licensed commercial banks: USD 6.2 million. By adding BNB net purchases to its gross purchases, the figure of BNB sales in practice reflects the two-way exchange of foreign currencies between fully licensed commercial banks and the central bank. The small amount of BNB sales (BNB operations were predominantly one-way, i.e. purchases) explains the significant decline in the volume of interbank operations in the forex market compared with previous years. A more moderate decline occurred in the volume of foreign currencies exchanged between fully licensed commercial banks, and turnover in the spot market stood close to the level of USD 400 million.

BNB spot operations with other commercial banks (except fully licensed banks) also saw a decline compared with the same period in previous years. As these operations comprised entirely BNB purchases, the central bank's balance was positive: USD 33.6 million.

The volume of BNB operations with corporate customers was even greater than that with domestically licensed banks. In pursuit of its policy aiming at repletion of forex reserves, the BNB extended the 1996 procedure for the purchase of net foreign currency from nonfinancial enterprises. In the first half of 1997 central bank net forex purchases from corporate participants accounted for the record high USD 87.5 million; this fact contributed to a record high volume of BNB purchases in total: USD 550.4 million in net terms and USD 764.5 million in gross terms.

Budget-supported organizations bought and occasionally sold foreign currency. Some major buyers, however, had switched to operations with commercial banks already in the second half of 1996; organizations which are recipients of substantial aids in Ecu and other currencies received the lev equivalent amounts from commercial banks. BNB forex sales to budget organizations in the first half of 1997 equaled the amount in the second half of 1996 but considerably lessened compared with the first half of 1996; purchases (by higher schools) stood modest.

The amount of foreign currency sold by the BNB to the Ministry of Finance for foreign debt payments to foreign bank and government creditors and international financial organizations accounted for a large share in the forex market: USD 191.6 million in dollar terms, one-fifth less than in the first half of 1996. The largest portion of foreign debt payments (in January) was to be repaid out of the privatization receipts from Sodi Devnya. As expected receipts did not come on time, the foreign debt payment was made with funds from the State Fund for Reconstruction and Development and hence BNB forex reserves diminished; the transaction between the BNB and the Ministry of Finance failed. As early as April the BNB sold foreign currency to the Ministry of Finance of USD 135.1 million, since its reserves had increased, a result of receipts from the sale of Sodi Devnya (deposited at the BNB), forex purchases by companies in the interbank market, and IMF funds. The amount purchased by the Ministry of Finance was used to repay the debt to the State Fund for Reconstruction and Development. The purchased amount remained on deposit at the BNB whereby the level of central bank forex reserves as a result of this operation remained unchanged.

The US dollar retained its dominant position in the structure of traded foreign currencies in the domestic forex market, while the share of Deutschemark, the currency ranking second by significance, rose, reflecting its increased share (to one-fifth) in the interbank market turnover. Factors behind this were: introduction of a currency board and fixing of the lev rate to the Deutschemark (until then the share of Deutschemark was smallest in the interbank market and that of the US dollar the largest). In June preparing itself to operate as a currency board the central bank shifted from purchases of US dollars to more sizable purchases of Deutschemarks and at end-month bought only Deutschemarks. Within the structure of commercial bank purchases from customers the share of Deutschemark remained unchanged from the same period last year, while the share of US dollar slightly decreased at the expense of other currencies (a small, yet noticeable share have purchases of Ecu). Obviously the reduced volume of forex sales to customers reflected not only on the sales to energy suppliers because the share of the US dollar within the currency structure did not decrease but rather increased, while the share of Deutschemark fell.

The reported volume of intercorporate transactions for exchange of foreign currency against levs, USD 18.2 million, increased from comparable periods in each of the years following 1993. Financial houses' operations with customers occupied a significant share in these transactions; occasionally operations between financial houses were made; and resale occurred so that above figure involves repetition. Thus participants in the intercorporate market (the registrating bank does not resell but collects charges) were generally financial houses and nonfinancial companies. In fact, intercorporate operations (those between nonfinancial companies) were made outside the intercorporate market; in the first half of 1997 companies traded foreign currency between one another through the intermediation (resale) of commercial banks. This removed the necessity for a bank to buy foreign currency in the interbank market to service its customers (including oil-refiners). These transactions were not reported in the volume of intercorporate operations but were included in the volumes of fully licensed commercial banks with customers, both in sales and purchases.

Forex transactions of domestic banks with foreign investors impacted the domestic forex market, mainly in the context of foreign currency resales from commercial banks to the central bank, and in rare cases as a reason for central bank forex sales to commercial banks. Reported data since 15 March till the end of the half-year on forex operations for exchange of foreign currency against levs between fully licensed domestic banks (mainly subsidiaries of foreign banks) and foreign investors (banks, funds, holdings) point to a total of USD 106.4 million in purchases and USD 33.4 million in sales. Almost the whole balance of USD 73 million was carried over to BNB forex reserves since commercial banks' forex sales to the central bank of USD 69.2 million matched in whole or in part their purchases from foreign investors, and USD 1.8 million sold by the BNB matched the sale made to a foreign investor. The net amount of USD 67.4 million exceeded by one-tenth the net forex amount bought by the BNB in the interbank market (USD 654.6 million, including USD 621 million from fully licensed banks) during the first half-year. Forex sales to foreign investors began in May when supply of foreign currency in the domestic market was restored.

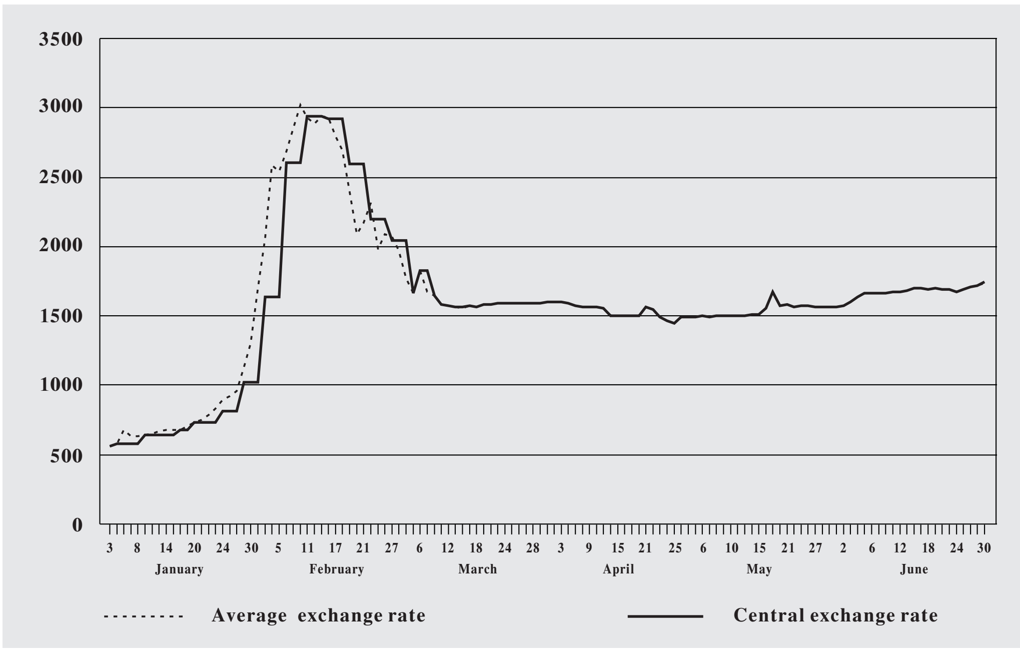
Exchange Rate

The political crisis of early 1997 prompted a sixfold devaluation of the lev, from BGL 500 to BGL 3,000 per one US dollar. After the solution of the political stalemate the exchange rate came back to a level of BGL 1,500 per one US dollar. Later the lev began to gradually depreciate to reach a level of BGL 1,700 per one US dollar by the end of the half-year when a fixed exchange rate of the lev under a currency board arrangement was introduced.

The estimate of the nominal effective exchange rate as far as it is reflected in the lev exchange rate to the IMF special drawing rights ('basket' of currencies universally used in international settlements) points to a lev devaluation of 3.4 times (70.61%) by the end of the half-year from end-1996.

US DOLLAR AVERAGE AND CENTRAL EXCHANGE RATE
JANUARY – JUNE 1997

(BGL/1 USD)



Source: BNB.

The lev's average nominal exchange rate against the aggregate of trading partners' foreign currencies indicated similar movements; however, the depreciation was smaller, reflecting the weakness of some currencies against which the lev depreciated to a lesser extent. Weighted by Bulgaria's foreign trade (the lev equivalent of foreign trade with individual countries over the first quarter of 1997), the exchange rate of the lev in the first half-year fell by 3.2 times (68.79%) against the aggregate of currencies (57) of Bulgaria's trading partners (59). Weighted by Bulgaria's exports (the first quarter of 1997), the lev devalued just 3.2 times (68.36%), and 3.3 times (69.38%) as weighted by Bulgaria's imports.

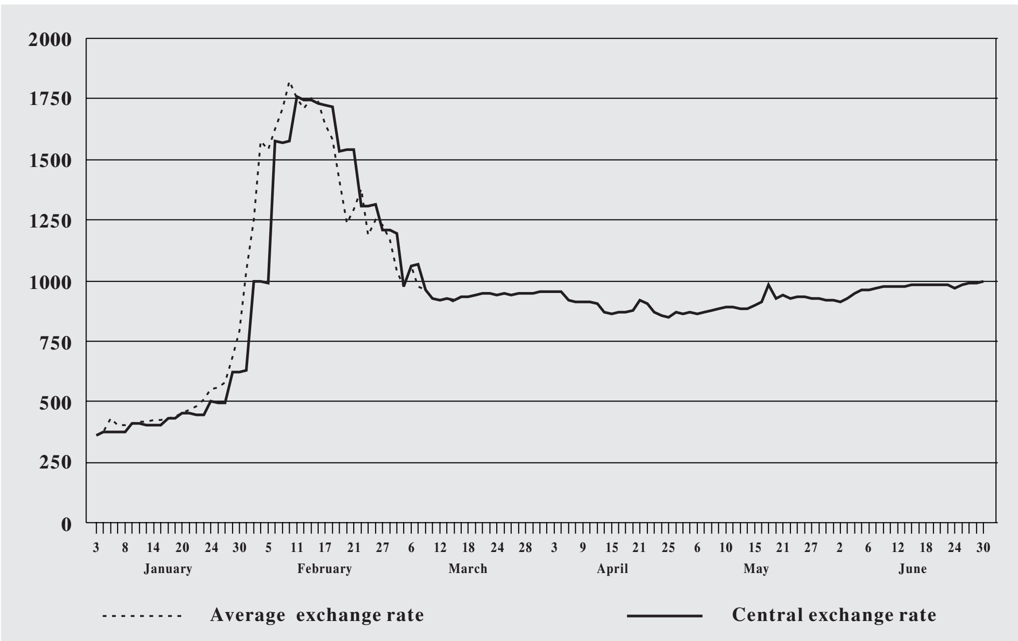
The exchange rate, or bilateral exchange rate, against an individual bank currency varied following the changes in the ratios of individual foreign currencies. However, in most currencies these movements were less significant than the effective devaluation of the lev. Therefore the curves of bilateral exchange rates to the lev are similar.

After the sixfold devaluation and follow-on double appreciation, at the end of the half-year the lev exchange rate to the US dollar was 3.5 times less than at the beginning of the year. Weighted exchange rates of transactions in the domestic forex market on 30 June point to an average exchange rate of the lev to the US dollar of BGL 1,732.4 (a depreciation of 71.38% from 1996 year-end). With the shift to fixing the lev rate to the Deutschemark at BGL 1,000 per one Deutschemark the central exchange rate of the lev to the US dollar (valid for the next day) was BGL 1,744.1 per one US dollar (a depreciation of 71.58% from 1996 year-end). The curve of the lev/US dollar exchange rate resembled, particularly after the exchange rate peak, the curve of the exchange rate of the first half of 1991 (when a new forex market regime was introduced) but of the scale of one to one hundred.

Over the first half of 1997 the lev depreciated against the Deutschemark 3.1 times. On 30 June the average weighted exchange rate of the lev to the US dollar in the domestic market corresponded to a lev exchange rate to the Deutschemark of BGL 993.28 per one Deutschemark (a depreciation of the lev by 67.92% from 1996 year-end). On the same day, to go into effect on 1 July a central exchange rate of BGL 1,000 per one Deutschemark (a depreciation of the lev by 68.14% from 1996 year-end) was fixed. The exchange rate curve was similar to that of the US dollar.

DEUTSCHEMARK AVERAGE AND CENTRAL EXCHANGE RATE
JANUARY – JUNE 1997

(BGL/1 DEM)



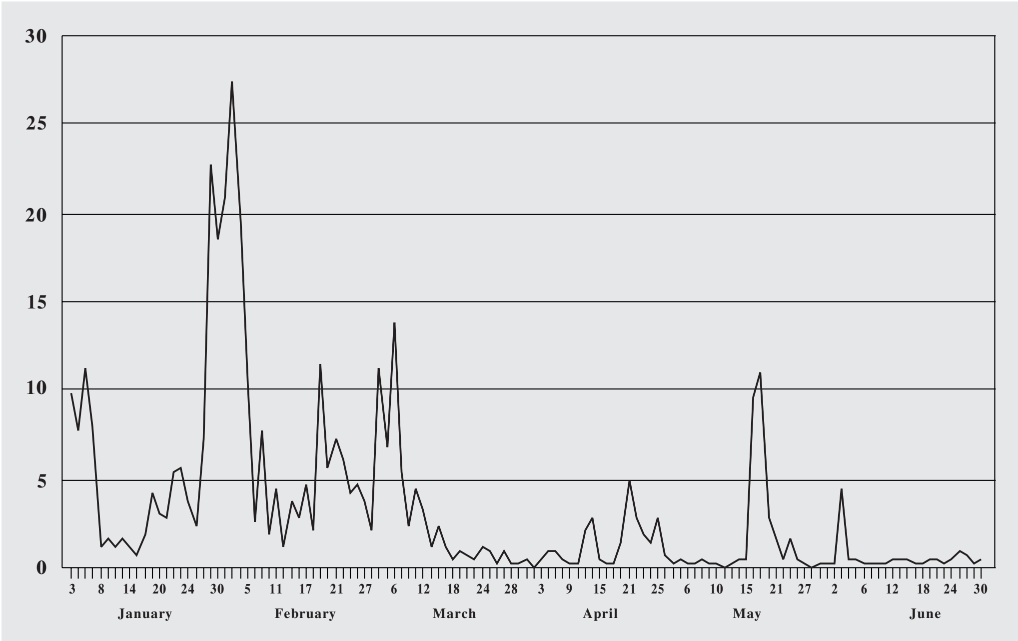
Source: BNB.

Comparison between both curves indicates the shift in orientation from BGL 1,500 per one US dollar to BGL 1,000 per one Deutschemark.

The lev depreciated against Romanian leu and Albanian lek, which were affected by the political crises in those countries, while against all other currencies the depreciation was over three times, including against the weakest currency: the Czech crown.

BGL/USD EXCHANGE RATE VOLATILITY, JANUARY – JUNE 1997

(%)



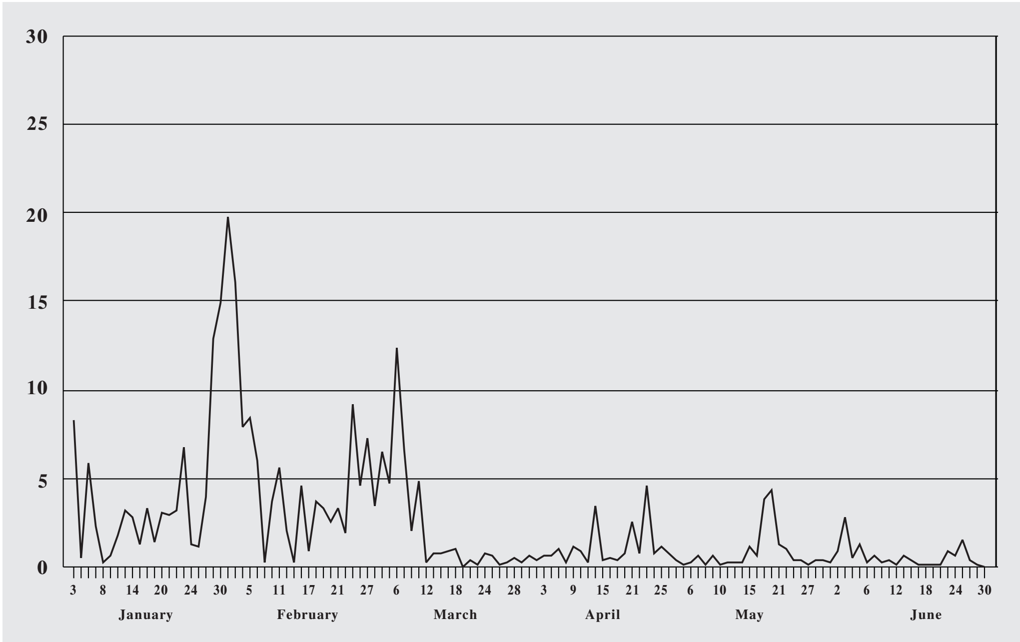
Source: BNB.

The volatility of the BGL/USD exchange rate[24] was particularly strong at the time of the political stalemate in January and February but afterwards decreased. The volatility of the BGL/USD exchange rate increased for short periods of time: in March when the exchange rate dropped below the level of BGL 2,000 per one US dollar (associated with expectations of possible increase in demand for cheaper US dollars by importers), at end-April after the parliamentary elections; at-end May when the base interest rate came down to a level typical of recent years, at 50% simple annual interest, and expectations about impending fixing of the exchange rate at a level well above the market one, BGL 2,000 per one US dollar; and in early June when a gradual movement of the exchange rate to the already known and close to the current rate level of fixing occurred. Further reduction of the base interest rate approaching the hitherto low trough of 34% (as of 1 August 1995), and a week before considerably below it, did not precipitate any significant fluctuations in the exchange rate.

[24] Volatility is computed for each business day by averaging the differences between the highest and the lowest interbank exchange rate for the current day, and between each of them and the average quotation of the previous day. Provided the average value between the US dollar's highest and lowest exchange rate exceeds the exchange rate of the previous day, volatility is the average value of abovementioned components in actual terms. In all other cases the absolute value of the average actual quantities of the differences between the lowest and the highest exchange rate for the current day, and between each of them and the average quotation of the previous day is used. The index is converted into cents or percent by dividing it by the central exchange rate quoted the previous day and valid for the current day.

BGL/DEM EXCHANGE RATE VOLATILITY, JANUARY – JUNE 1997

(%)



Source: BNB.

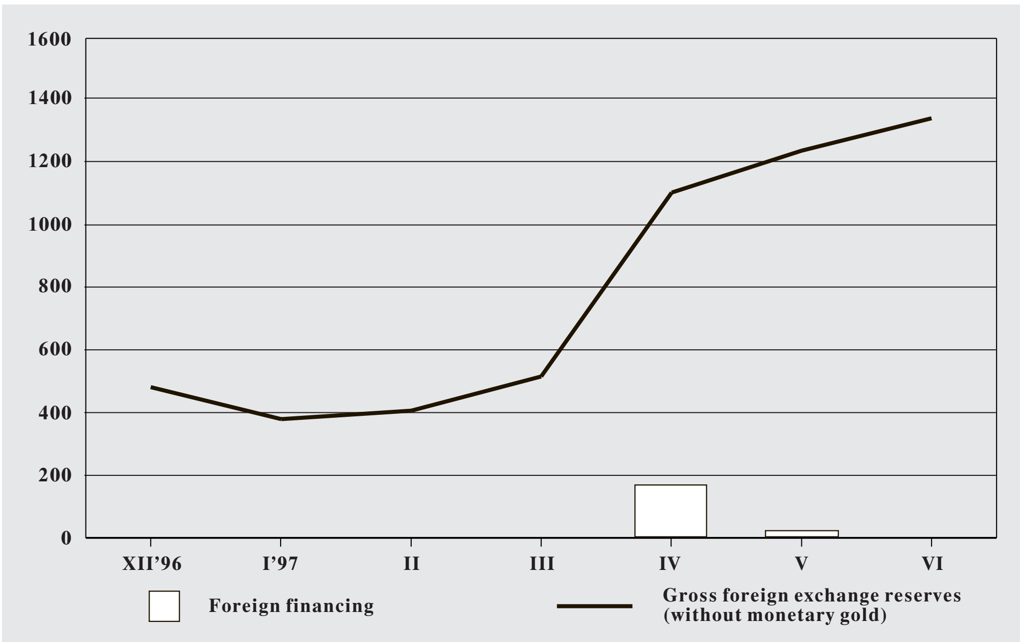
The curve of the BGL/DEM exchange rate displayed similar volatility but the smaller values are due to the comparatively smaller differences between final exchange rates of transactions reflecting a smaller volume of transactions in Deutschemarks as compared with that in US dollars.

Foreign Exchange Reserves

The BNB saw the beginning of 1997 with forex reserves of USD 483.4 million worth in dollar terms and ended the month of June with USD 1,344.3 million. The increase over the half-year totaled USD 860.9 million. A major source for the repletion of forex reserves were BNB forex purchases in the domestic forex market.

GROSS FOREIGN EXCHANGE RESERVES AND FOREIGN FINANCING

(million USD)



Source: BNB.

With the withdrawal of deposited funds by the State Fund for Reconstruction and Development to meet large payment on the foreign debt service, BNB gross forex reserves dropped down to a level of USD 380.6 million by end-January, a record low since February 1992 (USD 305.8 million). The drop in forex reserves was less than the repaid amount as the BNB compensated a portion of the decrease by purchases in the domestic forex market in the same month, and subsequent sales of smaller amounts to the Ministry of Finance for foreign debt payments in February and March were completely covered by BNB purchases. In each of the months following January there was an increase in forex reserves. BNB massive purchases made it possible to gradually restore the level of forex reserves following their withdrawal in 1996. Forex purchases in April combined with the receipt of the first tranche under the fifth standby agreement with the IMF also contributed to the increased reserves; foreign currency receipts from privatization were deposited at the BNB. In May, the BNB bought a comparatively small amount of these receipts and resold the greater portion of it to the State Fund for Reconstruction and Development, but this operation did not affect central bank gross foreign exchange assets.

V. Bank Supervision

1. The Impact of Macroeconomic Conditions on the Banking System

A dramatically worsened macroeconomic environment at the start of 1997 precipitated a marked increase in liquidity, interest and currency risks for the banking system. Businesses' credit demand declined in line with the slowdown in economic activity. Likewise, commercial banks reduced lending in response to uncertainty in the economy. Ineffective legal provision for the collection of claims from unfair borrowers also added to the deterioration of the credit portfolio and the underdeveloped market impeded realization of securities.

As a result of measures taken by the government and the BNB after February 1997 hyperinflation was eliminated contributing to the stabilization of the banking sector. A new standby agreement with the IMF on macroeconomic stabilization was concluded, the most essential part of it being a thorough reconstruction of the banking system through the establishment of a currency board and a fixed exchange rate regime. The currency board system produced a sharp reduction in interest rates following the pegging of the exchange rate, and hence contributed to lower interest and currency risks for the banking system and its stabilization.

In June 1997 the financial state of the banking system improved to a certain extent. Commercial banks became more stable and their liquidity improved dramatically. Bank supervision measures in late 1996 and early 1997 had a strong remedial effect on the banking system, involving memoranda of agreement with 19 commercial banks, placement of 18 banks under conservatorship and court petition for the institution of bankruptcy proceedings, etc. The majority of operating banks improved their capital adequacy ratios and allocated provisions to cover a considerable portion of nonperforming credits. It is important to note that commercial banks were able to increase the level of their provisions for classified loans as a result of net earnings on valuation adjustments arising from lev devaluation. In general, it may be concluded that the banking system is stabilizing after the severe bank crisis.

2. Financial State of the Banking System

For the purposes of financial analysis commercial banks are classified into groups which allows comparability of financial indicators. Size is the basic indicator in the classification (the ratio of the bank's balance-sheet assets to total balance-sheet assets in the banking system). These are the four classifications:

• ***Group I*** includes major banks (seven big state-owned banks) and makes up 76% of the banking system as at the end of June 1997 by balance-sheet figure. Bulbank and the SSB are the biggest in the group;

• ***Group II*** includes small and medium banks, with mostly private shareholder capital (only one bank has majority state capital and one bank has municipal capital). This group comprises 16 banks and makes up ten percent of the banking system;

• ***Group III*** includes all banks and bank branches with foreign shareholder capital. The group comprises four banks and five bank branches and makes up 4.5% of the banking system;

• ***Group IV*** includes all banks in respect of which the BNB has petitioned the institution of bankruptcy proceedings. This group comprises ten banks and makes up 9.4% of the banking system at the end of the half-year.[25]

The above groups do not include bankrupt banks. Data on these banks is not included in the consolidated data for the banking system and is excluded from the financial analysis below as their license has been revoked and they are no longer part of the banking system.

The analysis on banks' financial state focuses on banks in the first two groups and is based on accounting statements and reports required under BNB banking regulations. Methods of assessment based on ratios and methods established worldwide in banking are used. A comparative analysis of data in commercial bank consolidated balance sheets and consolidated income statements for 1996 and June 1997 has not been performed because accounting methods of reporting provisions and interest rates were dramatically changed, making the comparison of data impossible. Data is preliminary.

Solvency

Total capital adequacy ratio at 30 June 1997 was 8.3% for Group I banks and 18% for Group II banks. Compared with 1996, this ratio fell by 11 percentage points in Group I banks and rose by ten percentage points in Group II banks. The fall in the ratio of Group I banks is related mainly to the increase in the total risk component (306%) rather than the capital base (134%). At the same time, it should be borne in mind that banks in this group strongly undervalued the total risk component figure, as evident from the asset degree risk ratio (22% for Group I banks), while in banks from Group II and Group III this ratio accounts for 45% and 52% respectively. Only two banks in Group I reported a capital adequacy ratio below the required eight percent. Four Group II banks reported a capital adequacy ratio under eight percent. Improved capitalization of banks in the first two groups is also evident from their primary capital adequacy ratio: seven percent for Group I banks and 14.3% for Group II banks, an 11 percentage point fall in Group I banks on 1996 and a two percentage point increase in Group II banks.

With a view to a more comprehensive assessment of bank solvency, banks' financial performance was analyzed using the net capital/balance-sheet assets ratio and the degree of asset cover ratio. Net capital of state-owned commercial banks totaled BGL 187 billion, and their net capital/balance-sheet assets ratio accounted for 3.2%, a fall of 3.9% on 1996. The degree of asset cover ratio was 4.6% in 1996 and 1.8% in June 1997. The reason behind this fall is seen in the total amount of assets and balance-sheet assets growing faster than the capital base and net capital. Bearing in mind that all solvency indicators of Group I banks have deteriorated by comparison with end-1996, structural reform and recapitalization of state-owned banks is urgent. Net capital in Group II banks totaled BGL 62 billion, and 8.1% divided by balance-sheet assets which increased by three percentage points on the previous year. The degree of asset cover ratio for small and medium banks comprised 8.1%, an increase of 3.5 percentage points on end-1996. This gives grounds for believing that Group II banks are well capitalized.

The same conclusion may be drawn for Group III banks. June solvency ratios of foreign banks improved in comparison with end-1996: total capital adequacy rose from 15.2% to 19.3%, the degree of asset cover increased from 6.5% to 10.1%, and net capital divided by balance-sheet assets picked up from -8.7% to 6.7%.

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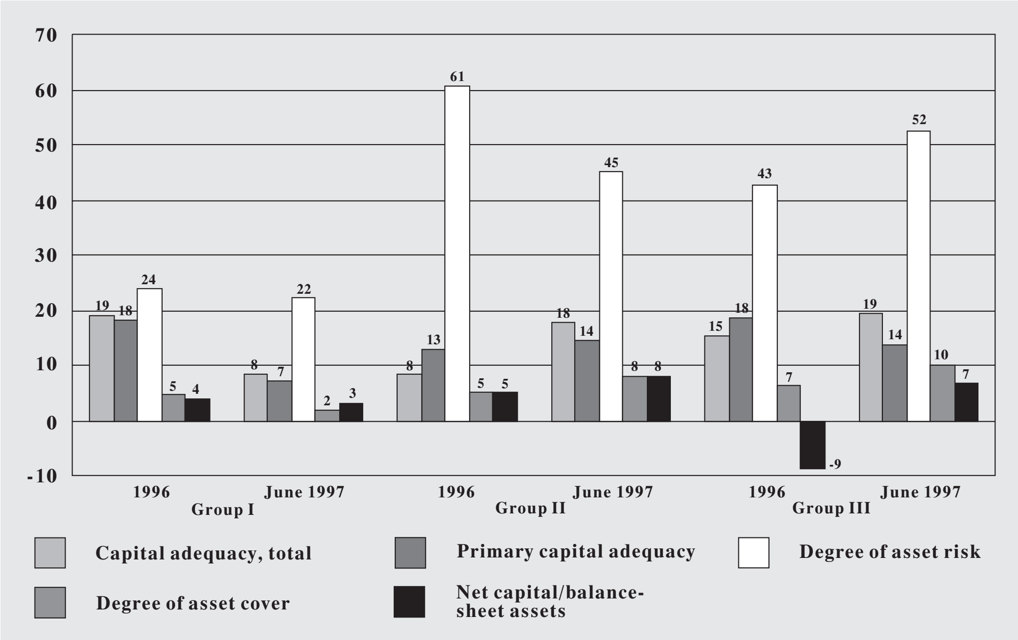
[25] ***Group I*** includes the following banks: United Bulgarian Bank, Expressbank, Bulbank, SSB, Biochim Commercial Bank, Hebros Commercial Bank, and the Bulgarian Post Bank. ***Group II*** includes: Bulgarian Commercial and Industrial Bank, Saint Nicholas International Orthodox Bank, Metropolitan Municipal Bank, First Investment Bank, Unionbank, Corporate Bank, Creditexpress Commercial Bank, Trakiabank, First East International Bank, Texim Bank, Bulgaria-Invest Commercial Bank, Balkan Universal Bank, Credit Bank, Central Cooperative Bank, Bulgarian-Russian Investment Bank, and the International Bank for Trade and Development. ***Group III*** includes: Bayerisch-Bulgarische Handelsbank, Sofia Branch, ING Bank, Sofia Branch, Raiffeisenbank, Eurobank, Xios Commercial Bank, Sofia Branch, National Bank of Greece, BNP Dresdnerbank, Bulgarian Investment Bank, and the Ionian Bank, Sofia Branch. ***Group IV*** includes: Businessbank, Elite Commercial Bank, Dobrudjanska Commercial Bank, Capitalbank, Bank for Agricultural Credit, International Bank for Investments and Development, Balkanbank, Agrobusinessbank, Economic Bank, and the First Private Bank. The latter are banks in respect of which the BNB has petitioned the institution of bankruptcy proceedings but court ruling is still pending.

BANK REGULATIONS UNDER BNB REGULATION No. 8 ON THE CAPITAL ADEQUACY

(%)



Source: BNB.

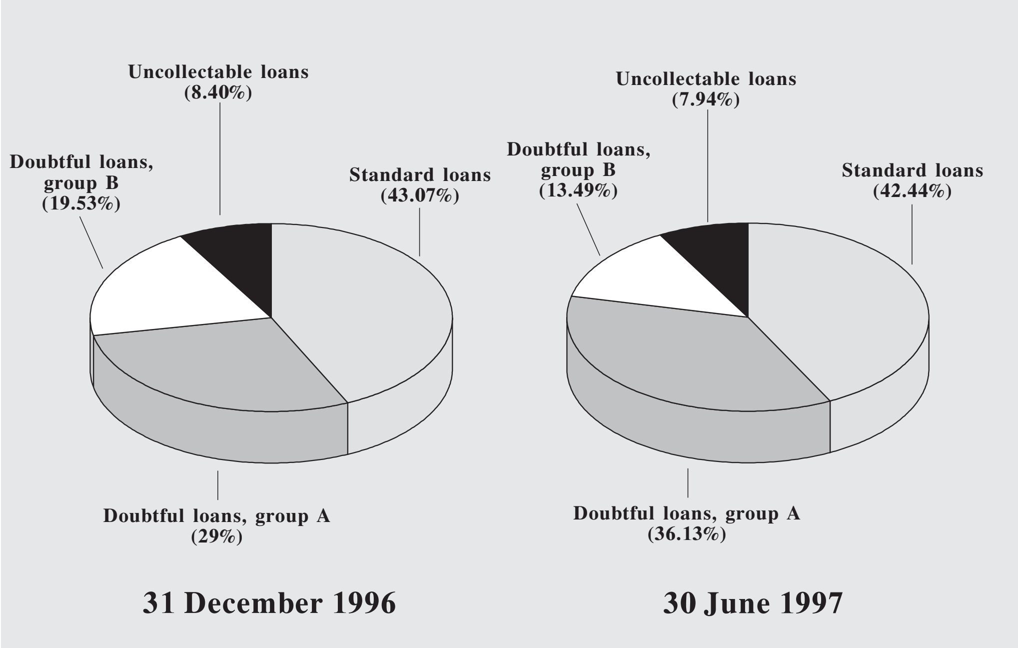
With regard to commercial banks' solvency, the analysis indicates that the period of crisis in the banking system is over and the systemic risk has been significantly reduced for the time being.

Credit Risk

Loan classification and allocation of mandatory special provisions under Regulation No. 9. Regulation No. 9 loans in big banks rose almost threefold, reaching BGL 5,463 billion, and those in Group II banks increased almost fivefold to BGL 590 billion. The reason behind the sizeable increase in loans by Group I banks is exchange rate movement. Out of the BGL 2,318 billion standard loans by the banks in the first three groups, BGL 2,272 billion (98%) were concentrated at Bulbank. Loans of small and medium banks and in the banks with a majority foreign stake marked a considerable growth: four and five times respectively, exceeding the index of lev devaluation. The latter fact is related to foreign banks' efforts to establish themselves firmly in the Bulgarian financial market and attract clients from banks with liquidity problems. As of June 1997 the share of Group II and Group III loans under Regulation No. 9 accounted for 9% and 3% respectively (6% and 2% in 1996) of the total loans of the three groups.

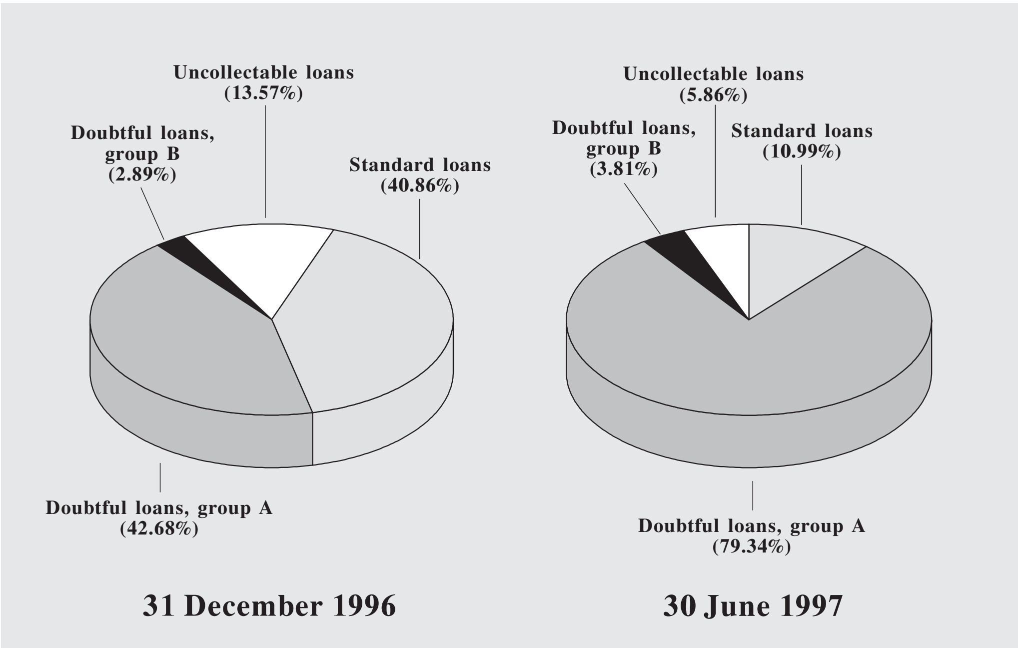
Doubtful Group A loans increased most significantly, with their share growing by seven percentage points to 36% in Group I banks, by 36 percentage points to 79% in Group II banks and by ten percentage points to 87% in Group III banks. The share of loans classified as Group B doubtful and uncollectable loans decreased in the three groups of banks: by six percentage points to 21% in Group I banks, by eight percentage points to ten percent in Group II banks and by 11 percentage points to 11% in Group III banks. Also the share of standard loans decreased in the first two groups of banks: by one percentage point to 42% in Group I banks and by 30 percentage points to 11% in Group II banks. The share of standard loans in Group III banks was very small (2.6%). In spite of the improved credit portfolio structure, a great number of loans still pose major problems that need addressing. This has led to a decline in revenue from loans and in their market price, and hence to the danger of reducing the level of commercial bank capital adequacy. It should be noted that the increase in statutory provisions is in part due to the revaluation of bad loans denominated in foreign exchange and the increased amount of uncollected interest.

LOAN CLASSIFICATION UNDER BNB REGULATION No. 9, GROUP I



Source: BNB.

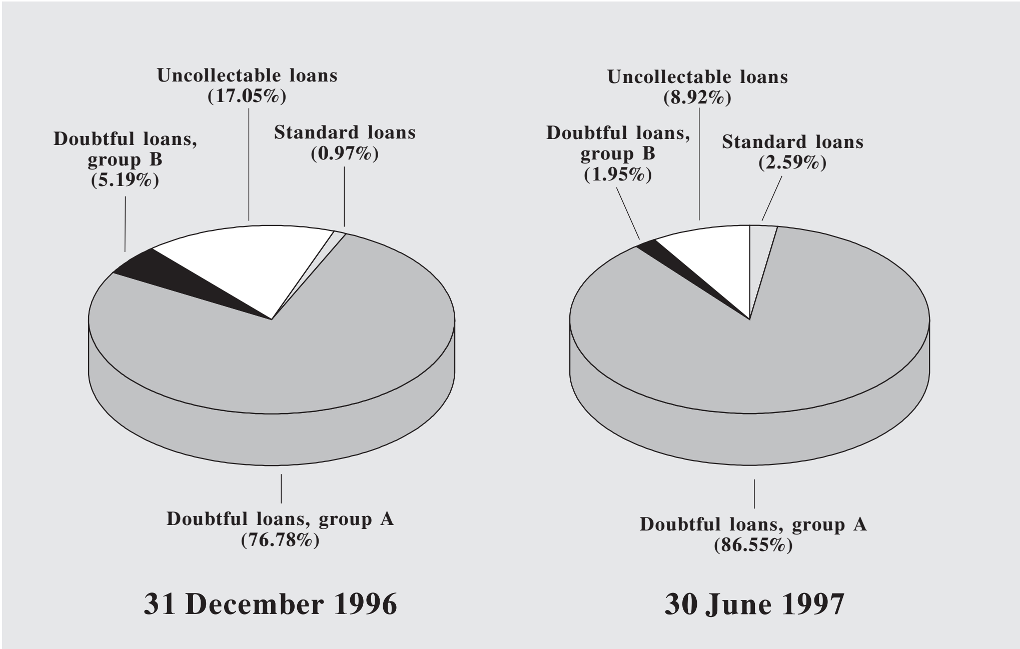
LOAN CLASSIFICATION UNDER BNB REGULATION No. 9, GROUP II



Source: BNB.

Reported revenue, due in large part to valuation adjustments, allowed banks to allocate more provisions. As a result their provisions rose substantially: by 298% in Group I banks, by 277% in Group II banks and by 316% in Group III banks. At the start of 1997 the accounting method of reporting statutory provisions was modified which provides for the treatment of statutory provisions as mandatory financial expenditure, while banks are obliged to allocate provisions for risk exposure irrespective of financial performance. As a result indicators of required and reported provisions are no longer in use. Banks are obliged to allocate provisions for doubtful claims to the full amount required under bank regulations and, if necessary, report losses and a reduction in capital. If allowance is made for the comparatively big amount of loans classified as Group A doubtful and the latest amendments enforced in early 1997 providing for a change in the amount of provisions for forex denominated ZUNK bonds, and for the new requirements for making loss provisions for interest accrued but unpaid on unserviced loans, then the value of special statutory provisions would be even greater.

LOAN CLASSIFICATION UNDER BNB REGULATION No. 9, GROUP III



Source: BNB.

Big Loans

Big loans by banks in Group I rose 3.5 times to BGL 326 billion, by 50% for the small and medium banks group, and by a mere 12% for the foreign banks group. The total amount of big loans extended by big state-owned Group I banks exceeded their own funds three times. One of the Group I banks reported a total amount of big loans exceeding the legally set maximum limit of eight times the bank's own funds. Two of the small and medium banks group do not meet regulatory requirements. In one of the foreign banks the amount of big loans exceeded eight times the bank's own funds.

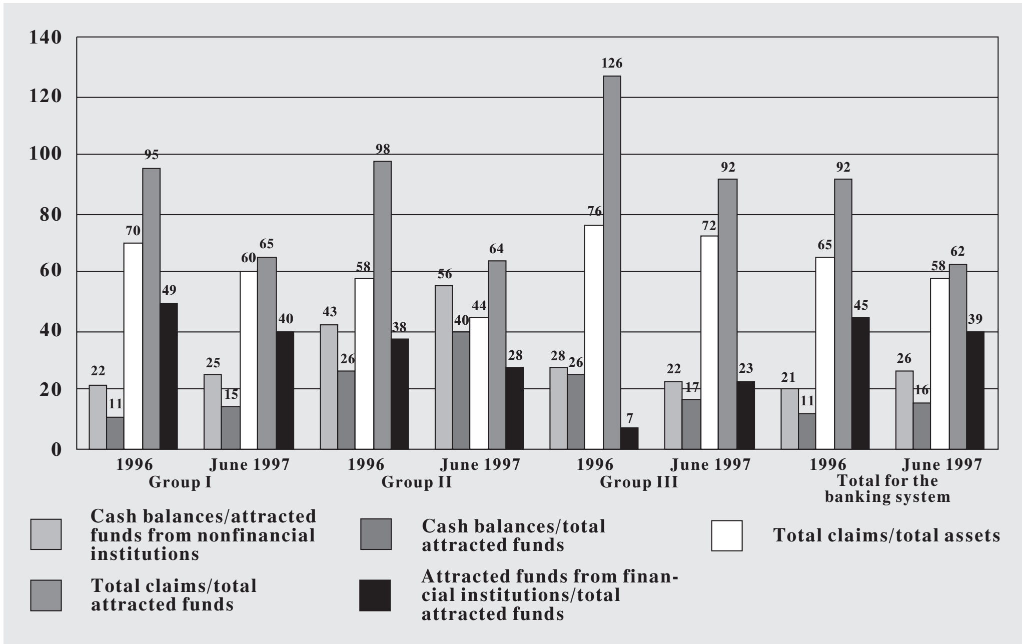
A number of banks did not correctly determine the total sum of collateral. Collateral must give first mortgage on a chattel, be unencumbered, have an ascertainable market value, be offered for safekeeping at the bank and be fully covered by insurance: but these requirements were not always duly observed.

Liquidity

Commercial bank liquidity improved in June 1997. This became apparent from the significant increase in the ratio of cash balances to attracted funds from nonfinancial institutions and the ratio of cash balances to total attracted funds. These increases occurred in the three groups of banks. Both ratios increased in the group of state-owned banks: from 22% at end-1996 to 25% in June 1997. The increase in the group of small and medium banks is from 43% at end-1996 to 56% in June 1997 and from 26% to 40% respectively. Overall for the banking system the ratio of cash balances to attracted funds from nonfinancial institutions rose from 21% at end-1996 to 26% in June 1997, and the ratio of cash balances to total attracted funds increased from 11% at end-1996 to 16% in June 1997.

LIQUIDITY

(%)



Source: BNB.

The improvement in banking system liquidity is evidenced by the analysis of other indicators reporting the general state of banks' liquidity. The share of claims in total assets decreased in all groups of banks: by ten percentage points (to 60%) in Group I, by 14 percentage points (to 44%) in Group II and by seven percentage points (to 58%) for the total banking system. The 'Total claims on attracted funds' indicator also reported a fall: by 30 percentage points (to 65%) in Group I, by 34 percentage points (to 64%) in Group II and by 30 percentage points (to 62%) for the total banking system. The share of attracted funds from financial institutions in total attracted funds diminished: by nine percentage points (to 40%) in Group I, by ten percentage points (to 28%) in Group II and by six percentage points (to 39%) for the total banking system. This signals a reduced degree of bank dependence on the interbank market. Obviously the major factors behind improved banking system liquidity by midyear are: reduced lending (due both to the economic crisis and the actions of the BNB and government) and real devaluation of bank debts, a result of hyperinflation in 1996 and early 1997.

Throughout 1996 a number of banks faced difficulties in covering current payments, while in June 1997 most banks experienced exactly the opposite problem: the bulk of operating banks reported excess liquidity and faced a challenge in investing free liquid resources. This is evidenced by the data on the interbank settlement system as of 30 June 1997: banks' own funds totaled BGL 120,041 million, while amounts used from the admissible minimum reserves and queuing payments accounted for just BGL 8,530 million and BGL 3,158 million respectively.

Attracted funds, totaling BGL 7127 billion, rose by 176%, and their share in liabilities increased to 93% by end-June, against 71% by end-1996. An upturn in their relative weight occurred in all groups. Small and medium banks reported lower values for this indicator: 70%. The increase in attracted funds reflected the revaluation of attracted funds in foreign currency comprising 80% of total attracted funds, against 70% in 1996. The slower rate of increase in attracted funds in levs, 82% (against an inflation rate of 484% in the first half of 1997), and enhanced growth in attracted funds in foreign currency, 216% (against a 300% depreciation of the lev against the US dollar) reflected still unrestored credibility in the banking system.

Attracted funds from banks and other financial institutions indicated a lower growth (141%) than funds attracted from nonfinancial institutions (204%), reaching 39% of total attracted funds. This suggests a revival of confidence in the banking system but it should be stressed that this is just the beginning of the process.

Currency Risk

Review of foreign currency positions in a number of banks and nonbank financial institutions revealed that an unfavorable turn in exchange rate movements and interest rates may cause losses for these institutions as they have large open foreign currency positions. In accordance with Regulation No. 4 a fully licensed bank must maintain a net open foreign currency position up to 30% of its own funds and up to 15% for a bank licensed to operate only domestically. In fact the open foreign currency position of Group I banks was 289% and 50% for Group II banks by 30 June 1997. State-owned banks reported a long balance-sheet open foreign currency position of USD 311 million, and that of medium and small banks was USD 17 million. Also of note is the big share of foreign currency assets in the total amount of assets: 61% in Group I and 66% in Group II. Under a currency board arrangement currency risk is minimized. Notwithstanding this, losses may be incurred from valuation adjustments due to fluctuations in cross rates of convertible currencies, particularly the USD/DEM exchange rate. The following violations were found: attraction of deposits and disbursement of loans by nonbank financial institutions; conduct of bank operations without a bank license; commercial bank lending to financial houses without due grounds; false documentation on foreign exchange transactions effected by exchange bureaux.

Income

The income statement as of 30 June 1997 displays the following trends: profit totaled BGL 87 billion, while losses of banks accounted for BGL 410 billion, with the bulk of them incurred by banks under conservatorship (BGL 390 billion). Banks included in Group I are particularly indicative: the profit in the first half of 1997 accounted for BGL 67 billion and no loss was reported by any bank. The pre-tax profit/capital base ratio (ROE) rose from 50.9% in 1996 to 102% in June 1997, and the pre-tax profit/total assets ratio (ROA) slightly decreased from 2.5% in 1996 to two percent in 1997. The profits of banks in Group II totaled BGL 17 billion, and losses were less than BGL 6 billion. The pre-tax profit/capital base ratio fell from 51.4% to 31%, and the pre-tax profit/total assets ratio from 3.6% to three percent. The profits of banks in Group III amounted to BGL 6.8 billion. The pre-tax profit/capital base ratio was 40%, and the pre-tax profit/total assets ratio was four percent. The revenues and expenditures from valuation adjustments indicated the largest growth due to the dramatically devalued national currency against the US dollar and other convertible currencies. Despite higher interest rate levels, the share of revenues rose to 81% and the share of expenditures to 90%, against 78% and 66% respectively in 1996. The share of noninterest revenue in total revenues totaled 96% in Group I and 95% in Group II. This is attributable to intensive inflationary processes in the economy throughout 1996.

The income statement as of 30 June 1997 reported high positive balances between revenues and expenditures from valuation adjustments, worth BGL 1,594 billion, and between surpluses and deficits from operations in government securities, worth BGL 18 billion. Financial results from major operations indicated a surplus: the balance between interest revenues and expenditures totaled BGL 106 billion. It should be taken into account that their share in total revenues is small: 3.1% and 2.6% respectively. Interest revenues (net) reported by banks in Groups I, II and III showed a growth of BGL 62 billion, BGL 6 billion and BGL 8.6 billion respectively. The share of net interest revenues in balance-sheet assets is small: 1.1% in Group I and 0.8% in Group II. The ratio of expenditures on economic elements to total expenditures declined: from 0.7% to 0.5% in Group I; from 1.99% to one percent in Group II. Significant net revenues from valuation adjustments enabled banks to increase allocated statutory provisions dramatically: by BGL 2,048 billion. However, it should be taken into account that a significant portion of valuation adjustments resulted from revaluation of uncollectable claims which seriously distorted the picture of reported results.

The analysis shows that commercial bank income declined throughout the first half of 1997. This is ascribable to reduced lending and dramatically cut interest rates, phenomena which normally occur in periods of sharply lowered inflation.

3. Bank Supervision Measures To Overcome Instability in the Banking System

A New Legal Framework

During the first half of 1997 radical changes were made in laws concerning bank supervision. In May and June 1997 the National Assembly adopted a new Law on the BNB (establishing a currency board arrangement) and a new Law on Banks. The Banking Supervision Department made proposals and exchanged opinions during the Bill stage. The adoption of new fundamental laws on the activities of the BNB and commercial banks is aimed at creating a new legal regime on banking as well as a new regulatory base for BNB bank supervision. New legislation gives enhanced powers to the Deputy Governor heading the Banking Supervision Department to supervise commercial banks and increases the range of supervisory measures to be applied on commercial banks by the BNB.

The procedure for granting licenses to commercial banks and declaring banks bankrupt has also been changed. The procedure for revoking bank licenses and declaring banks insolvent was simplified. These radical changes enable the Banking Supervision Department to impose stricter sanctions on banks with poor financial performance or insolvent commercial banks.

Supervisory Measures To Strengthen the Banking System

As early as the beginning of 1996 bank supervision took serious measures in respect of individual banks and nonbank financial institutions in dire financial straits. These measures were coordinated with representatives of the IMF and World Bank within the framework of the agreement for macroeconomic and financial stabilization. The most significant measure was the placement of 18 banks under conservatorship. Later the BNB applied to the Court to institute bankruptcy proceedings against most of these banks. Approximately 24% of banking system assets are concentrated in these banks.

Between January and June 1997 the banking crisis was gradually overcome and first signs of bank stabilization occurred. As a result restrictions imposed on most commercial banks under the 1996 memoranda of agreement were abandoned. At the same time the Banking Supervision Department continued to impose restrictions on banks in dire financial strait.

Basic measures involved are:

• a petition to Court for institution of bankruptcy proceedings against three more banks: Elite Bank Ltd., Capitalbank Ltd., and Bank for Agricultural Credit;

• placement under conservatorship of the International Bank for Investments and Development;

• court ruling on bankruptcy of six commercial banks: Mineralbank Ltd., Trade and Savings Bank Ltd., Slavyani Commercial Bank Ltd., Bulgarian Agricultural and Industrial Bank Ltd., Crystalbank Ltd., Private Agricultural and Investment Bank;

• revocation of licenses to conduct bank operations of 12 financial and brokerage houses and 54 exchange bureaux;

• the policy of enhanced frequency and scope of examinations (inspections) of commercial banks by the Inspections Division continued: in the first half of 1997 ten banks were completely examined and on-site target examinations were made in eleven banks;

• the policy of increased frequency and scope of data required from banks in an unstable financial state by the Off-site Control Division continued.

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

• the ban on extension of loans in foreign exchange was removed;

• restrictions imposed on 17 commercial banks under the 1996 memoranda of agreement were removed. Constraints still apply to two commercial banks;

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

The joint project between the Supervision Policy Division and Coopers and Lybrand for harmonization of national accounting standards with international standards is in progress. In cooperation with the US Kirschmann Corporation unified software for synchronizing reports under bank supervision regulations with commercial bank accountancy is projected to be developed.

Adoption of new Regulations, the observance of which is controlled by the Banking Supervision Department is underway: a new Regulation on licenses granted by the BNB, a new Regulation on capital adequacy of banks, a new Regulation on the evaluation of risk exposures of banks and the allocation of provisions to cover the risk related thereto, a new Regulation on foreign currency position of banks, a new Regulation on the liquidity of banks, etc.

The currency board limits the support for banks in dire financial strait, hence possibilities for refinancing from the BNB are sharply reduced. This entails the establishment of more stringent requirements for sound bank activity in bank regulations, as well as enhanced supervisory sanctions against commercial banks violating bank regulations.

VI. Financial Results of BNB Activities

In compliance with Article 7 of the Law on the BNB, passed by the 38-th National Assembly, as of 30 June 1997 BNB fixed capital is BGL 20 billion. The increase from BGL 200 million to BGL 20 billion is at the expense of BNB Reserve Fund.

Financial reports conform to the Law on the BNB, the Law on the Accountancy and major International Accounting Standards.

Major aspects of BNB accounting practice:

BNB balance-sheet assets and liabilities in foreign currency are translated on a daily basis into levs at the central exchange rate. Precious metals are revalued daily in compliance with a resolution by the BNB Managing Board, at the central exchange rate corresponding to the London Stock Exchange price of gold. As of 30 June 1997 the central bank's monetary gold is valued at DEM 500 per one troy ounce in compliance with Article 28, para. 2, item 6 of the Law on the BNB; gold in circulation and other precious metals are valued at end-of-month market rates. Gains and losses arising from purchases and sales of foreign exchange are reported in the half-year income statement.

Accrual of interest is in compliance with Bulgarian law, made at 30 June 1997 using the cumulative accrual method. Provisions are made against unpaid overdue interest.

Investment securities and trading portfolio securities are tradable, stated at acquisition cost and revalued on a daily basis in compliance with National Accounting Standard No. 16.

Loans are carried at net value in the balance sheet, i.e. net of allocated provisions for those loans classified as uncollectable and substandard.

Fixed assets are recorded at acquisition cost in the balance sheet. No amortizations have been accrued in conformity with ordinances in force.

Such Bulgarian participation in financial institutions which has the character of capital investment is valued at historical cost. Bulgaria's membership quota in the International Monetary Fund is revalued daily.

With the introduction of the currency board and pursuant to § 10 of the Transitional and Final Provisions of the Law on the BNB all Ministry of Finance liabilities to the BNB were restructured. They total BGL 1,166,126 million. This amount represents a new debt by the government to the IMF, denominated in SDR.

Current accounts of commercial banks in the BNB balance sheet at 30 June 1997 came to BGL 342,649 million, including BGL 191,781 million of minimum reserve requirements, against BGL 48,167 million in the corresponding period of 1996.

Financial Revenue

BNB financial revenue totaled BGL 1,946,188 million, against BGL 80,038 million for the first half of 1996, distributed by source as follows:

(million BGL)

Indicators	June 1996	June 1997
Interest	28,633	327,347
Valuation adjustments	1,119	14,282
Gains on securities	50,165	1,422,744
Commissions and fees	32	208
Other financial revenue	89	4,686
Other extra revenue	0	176,921

Source: BNB.

Interest revenue is split as follows: BGL 102,812 million or 31.41% of the total interest from short and long-term credits extended to the Ministry of Finance; BGL 47,103 million or 14.39% from credits extended to commercial banks; BGL 58,911 million or 18% from interest from forex operations; BGL 117,192 million or 35.80% of total interest revenue from government securities. Of the interest accrued at 30 June 1997, commercial bank unrepaid interest on lev and forex credits totaled BGL 54,428 million, which is provisioned at 100%.

Financial Expenditure

BNB financial expenditure totaled BGL 1,692,028 million, against BGL 62,746 million in 1996, distributed as follows:

(million BGL)

Indicators	June 1996	June 1997
Interest	5,152	124,885
Fees and commissions	8	2,821
Valuation adjustments	1,203	32,045
Securities operations	56,382	1,424,533
Provisioning	0	89,678
Other financial expenditure	1	18,066

Source: BNB.

BNB interest expenditure is split as follows: BGL 12,356 million or 9.89% of total interest expenditure from Ministry of Finance current accounts; BGL 10,850 million or 8.69% from commercial bank deposit accounts; BGL 40,604 million or 32.51% from forex operations; BGL 58,198 million or 46.6% from commercial bank settlement accounts; BGL 2,877 million or 2.31% of total interest expenditure from the State Fund for Reconstruction and Development.

The net negative result from government securities operations (repo-operations) for the first half of 1997 totaled BGL 1,789 million.

Expenditure for current support of BNB activities accounted for BGL 14,019 million or 0.82% of total expenditure.

Expenditure on currency in circulation over the first half-year totaled BGL 8,683 million or 61.94% of BNB expenditure on support of current activities.

Expenditure on labor and social securities of BNB personnel and security staff salaries accounted for BGL 2,617 million or 18.67% of BNB expenditure on support of current activities.

During the first half of 1997 BNB investment expenditure accounted for BGL 53,396 million, including BGL 42,113 million for the construction of the Printing Works or 78.87% of total investment expenditure. BGL 28,981 million were invested in technical equipment for the Printing Works and BGL 13,132 million for its design and refurbishment. BGL 2,920 million were invested in refurbishment of the BNB building at 7, Moskovska Street in Sofia where the Banking Supervision Department is to move by the end of September. Expenditures made on the reconstruction of BNB head office at 1, Alexander Battenberg Square in Sofia totaled BGL 688 million. Expenditures were made for the maintenance and extension of the BNB branch network, automation of banking activity, supply of security systems, etc.

Balance Sheet of the Bulgarian National Bank

million BGL

	30 June 1996	**30 June 1997**
ASSETS		
Holdings in Bulgarian coins	695	**754**
Holdings in foreign exchange	53	**4,236**
Participation in international institutions	16,238	**1,221,509**
Holdings in foreign securities	55,475	**1,641,799**
Deposits and loans extended to commercial banks	209,344	**865,165**
Loans extended to the government	30,056	**1,166,126**
Securities	59,215	**2,503**
Other assets	79,118	**809,288**
Total	450,194	**5,711,380**
LIABILITIES		
Statutory fund	200	**20,000**
Reserve and other funds	183,995	**871,743**
Banknotes in circulation	76,850	**597,734**
Current and deposit accounts	170,013	**3,909,048**
Other liabilities	19,136	**312,855**
Total	450,194	**5,711,380**

VII. Development of the Banking and Settlement System

1. Settlement System State

In the first half of 1997 settlement system input points continued to decline. From 962 on 1 January 1997 they fell to 895 in July 1997 reflecting difficulties in the banking system. At the same time a great number of bank branches did not participate in settlement as many of them were under conservatorship, their payment operations being taken over by their head offices or other banks.

During the period under review 4,646,060 interbank settlements to BGL 8,306 billion were cleared through BISERA (electronic interbank transfers system). Average daily settlements were BGL 66.985 billion.

A slight, though insignificant, decline (about 10%) occurred in the number of electronic settlements compared with the same period of 1996.

A major factor contributing to the modest decline in interbank transfers was the increase in intrabank transfers being effected through the branch network of a number of big banks.

After commissioning new backup facilities a noticeable stabilization in technical performance of the settlement system occurred in January.

The card system marked a modest increase: total number of transactions over the period in review was 558,029 to BGL 9.8 billion; the number of international transactions rose.

2. Legal Regulation of Bank Activities

Legal Framework

The first half of 1997 saw important changes in banking laws and regulations. A new Law on the BNB was passed which replaced the Law on the BNB of 1991, and the Law on Banks which replaced the Law on Banks and Credit Activity of 1992.

The new Law on the BNB provides for the legal status and functions of the central bank under a currency board arrangement.

The structure and management of the BNB are modified. Three main departments are created within it: an Issue Department, a Banking Department and a Banking Supervision Department, each headed by a Deputy Governor elected by the National Assembly.

The main task of the Issue Department will be to maintain full foreign exchange cover for the total amount of BNB monetary liabilities, by efficient management of BNB international assets. The Banking Department will perform the lender of last resort function under the terms and procedure set forth in law or in regulations adopted by the Managing Board. Supervision of the banking system will be performed by the Deputy Governor heading the Banking Supervision Department who is entitled to enforce measures and sanctions mandated in law independently.

Under a currency board arrangement and in view of the enhanced independence of Deputy Governors in charge of the main BNB departments, the powers of the Managing Board and Governor are significantly modified. In broad terms they become authorities responsible for the central bank's organizational and functional integrity. The Managing Board has powers to adopt ordinances on the enactment of the Law on the BNB and the Law on Banks; to determine the level of minimum reserve requirements for commercial banks; the conditions and requirements for its observance; to adopt the annual budget; the annual balance sheet; and report on the bank's activity. The Governor organizes, administers and controls all bank activities except those explicitly mandated to Deputy Governors.

Introduction of a currency board thoroughly revised the central bank's monetary functions and operations, and its relationships with commercial banks and the government.

The national currency, the lev, was pegged to the Deutschemark, and the official exchange rate is fixed by law at BGL 1,000 per DEM 1. In conformity with the Law on the BNB monetary liabilities shall be fully backed by gross foreign exchange reserves. The assets included in these reserves are comprehensively listed in the Law. The central bank is bound to sell and purchase Deutschemarks against levs up to any amount within the territory of this country on the basis of spot exchange rates, which may not depart from the official exchange rate by more than 0.5%, inclusive of any fees, commissions and other charges to the customer.

The Bulgarian National Bank may not extend loans to banks except in case of an emergence of a liquidity risk which may affect the stability of the banking system. Such loans may be extended solely up to the amount of the excess of the lev equivalent of the gross foreign exchange reserves over the total amount of monetary liabilities of the central bank. The bank may not extend credits in any form whatsoever to government, or to any government agency, except loans against purchases of special drawing rights from the International Monetary Fund under the terms provided in the Law.

The Law on Banks preserves a number of legal provisions of the repealed Law on Banks and Credit Activity. At the same time it improves and supplements the legal framework of commercial banking.

The new Law is a statute establishing the activity of major financial institutions: universal commercial banks. The activity of nonbank financial institutions is beyond its scope. The latter may be subject of this Law, provided they are participants in a bank group, or financial holding company. In the said case supervision on a consolidated basis shall be exercised by the central bank. In contrast to the repealed Law on Banks and Credit Activity, the Law on Banks establishes more precisely the content and scope of bank activity through legal definitions of 'deposit', 'publicly accepted deposits' and 'bank'. The Law establishes stricter requirements for bank managers. They must have a university degree in economics or law, requisite qualifications and professional experience in banking, which must be ascertained with a certificate issued by the central bank. Bank licensing is more precisely regulated. The Law establishes stricter requirements for bank shareholders and administrators. Revocation of bank licenses is regulated in a completely new manner. The Law provides for a mandatory revocation of the license if the bank is found insolvent. In this case the central bank must file a petition to Court to institute bankruptcy proceedings against the bank. The license may be also revoked due to other violations of bank legislation, but in this case the bank is subject to forced liquidation. The central bank's decision to revoke the license of a bank must come into effect forthwith and may not be appealed before Court. A separate Chapter of the Law establishes fiduciary obligations and disclosure of conflicts of interest.

For the first time this Law defines the principles of internal control in banks. Stricter requirements are introduced in auditing. Banks may be audited solely by a specialized auditing company, included in a list kept by the central bank.

The central bank may apply a wide range of supervisory measures which are not subject to Court appeal. Instructions for the enforcement of these measures are issued by the Deputy Governor heading the Banking Supervision Department, except instructions on granting and revocation of licenses which are issued by the BNB Governor. Due attention is paid to the conservator. The Law on Banks precisely establishes the requirements for conservator's appointment and his powers.

Provisions concerning bank bankruptcy are well elaborated and precise. Banks are declared bankrupt by the Court, but the central bank's decision to revoke the license is determinant. Forced liquidation of a bank is regulated and described in detail.

Bylaw Regulation

During the first half of 1997 amendments were made to Regulation No. 3 on payments, Regulation No. 5 on the terms and procedure for issuance, acquisition and redemption of book-entry government securities, Regulation No. 9 on the loan classification and the formation of mandatory special reserves (statutory provisions) by banks and Regulation No. 19 on the government securities central depository.

The amendments to **Regulation No. 3** update the admissible amount for cash payments, as well as the amount of withdrawals in cash, of which banks must notify the central bank.

The amendments to **Regulation No. 5** define the phrases ‘primary dealer’ and ‘nonprimary dealer’. A new Chapter is created where government securities transactions between primary and nonprimary dealers are regulated. Any primary dealer must keep a book of the government securities acquired by clients of his who are nonprimary dealers. Required information to be included in the book is specified, and the procedure for making government securities transactions between primary and nonprimary dealers is precisely described. Changes were made in the provisions regulating transactions between primary dealers and individual and legal entities.

The amendments to **Regulation No. 9** specify claims that are to be classified as doubtful.

Regulation No. 19 has been significantly improved concerning the procedure for registration of book-entry government securities and transactions therein. Besides, the amendments to Regulation No. 19 provide for the establishment of an Arbitration Committee at the Central Depository and specify its powers.

3. Relations with International Financial Institutions

The International Monetary Fund

In early 1997 negotiations for conclusion of the fifth standby agreement were held with the IMF mission. The introduction of a currency board arrangement, aimed at economic stabilization and strengthening financial discipline, was a priority in the agreement. Financial clauses of the fifth standby agreement include disbursement of SDR 371.9 million (80% of the country’s quota in the IMF) in six tranches. The first tranche of SDR 23.2 million was disbursed on 16 April. In addition, the IMF extended Cereals Compensation Financial Facility (CCFF) totaling SDR 107.6 million (23% of the quota).

The technical mission of the IMF Monetary and Foreign Exchange Policy Division rendered consultations in preparing the package of laws on banking system reform (the Law on the BNB and Law on Banks).

The World Bank

Cooperation between the BNB and the World Bank involves BNB performance as APEX agent on servicing the two credit lines extended by the Bank: Private Investment and Export Financing of Small and Medium Enterprises (PIEF) and the Agriculture Development Project (ADP).

Under the PIEF credit line, between 1994 and June 1997 funds totaling USD 12,653,145.89 and USD 1,443,430 were disbursed for investment projects and export financing respectively. No funds were extended under the ADP credit line. The BNB continued to assist government in negotiations with the World Bank on Financial and Enterprise Sectoral Adjustment Loan (FESAL). An agreement under FESAL is expected to be concluded by end-October 1997.

The European Investment Bank

The term for disbursement of funds under the credit line extended by the European Investment Bank was prolonged until 1 September 1998.

Projects in the amount of USD 3,895,000 have been financed under this credit line.

The IBEC and the IIB

Between 5 and 7 May 1997 the 88-th regular session of the IBEC Council and the 65-th regular session of the IIB Council were held in Moscow. Reports of the banks' activities in 1996, budgets on administrative and management expenditures for 1997 and the major principles of IIB's lending and interest rate policy were approved.

The Commission of the European Union

Credit Line under the PHARE Program. In compliance with the 1992 Financial Memorandum through the PHARE Program, funds worth Ecu 4.3 million, were disbursed under the credit line for small and medium enterprises. Loans totaling Ecu 351,738 were extended during the first six months of 1997.

Technical Assistance under the PHARE Program for Restructuring of the Banking System. Between January and June 1997 work on the program for EU technical assistance in restructuring Bulgaria's banking, funded by the PHARE Program, continued.

Under this memorandum, as of September 1996 three projects for technical assistance for consolidated banks were in progress: two long-term cooperation agreements[26] between Biochim Commercial Bank Ltd. and ABN-AMRO, the Netherlands, and the United Bulgarian Bank Ltd. and AIB, Ireland; the third, Horizontal In-house Bank Training Project is financed by a consortium, headed by the Centre de Formation de la Profession Bancaire and is aimed to improve bank employees' professional qualification. The total amount of the three projects amounts to Ecu 3 million.

[26] The projects are of the Twinning Arrangements type.

VIII. Major Trends in Monetary Policy through Year-end

Significant changes occurred in BNB monetary policy between January and June 1997. Following the resolution of the political crisis and the agreement between political parties on pegging the lev under currency board rules, monetary policy activity was intentionally and gradually subdued. A number of BNB monetary policy tools were excluded and central bank monetary activity was reduced to foreign exchange purchases in the interbank market and their partial sterilization through repo-operations in the open market. However, in contrast to the previous year repo-operations were effected at lower interest rates and appeared to be a temporary outlet for commercial banks' placing free funds. As of end-January the BNB commenced setting the base interest rate on the basis of the yield attained at primary auctions for government securities, and from mid-June open market operations were discontinued. Despite subdued activity, in the first months of 1997 BNB monetary policy was far more efficient compared with the previous year. This is due both to the consistently applied principle of stopping net financing to the budget and commercial banks and the government policy of reforms which radically changed expectations after the political stalemate had been democratically resolved. In most of the half-year under review, the BNB was practically functioning under currency board rules prior to the adoption of respective laws. This successfully implemented policy resulted in financial stabilization as it was underpinned by structural changes based on rapid privatization initiated by government. This helped benefit in advance from traditional currency board advantages: swiftly declining inflation and interest rates, strengthening of the balance of payments and correspondingly of foreign exchange reserves.

Pursuant to the newly adopted Law on the BNB by the National Assembly, as of 1 July 1997 BNB policy will be pursued in accordance with currency board rules. In compliance with the Law, the BNB shall maintain external stability of the national currency by strict enforcement of its rules, providing full foreign exchange cover for the lev at a fixed exchange rate of the lev to the Deutschemark. This, along with increased banking supervision for maintaining the stability of the banking system underlie BNB activity under currency board arrangements.

The Law excludes the employment of a number of BNB monetary policy instruments: repo-operations in government securities, budget financing (allowed only for purchases of SDR from the IMF), commercial banks may be refinanced only against security and up to a particular amount of foreign exchange reserves. The BNB sustains its function of setting and regulating minimum reserve requirements, though this instrument will be sparingly used. In this setting, the key role in maintaining the country's financial stability is assigned to government through its fiscal and incomes policies. At the same time, sustainable macroeconomic stabilization may be achieved by recovery of economic growth based on fast and extensive structural reform in the real sector. The latter is of particular importance for success of the currency board, since changes in the balance of payments under a fixed exchange rate have a direct impact on money supply and economic activity respectively.

In compliance with the Law, the bank's balance sheet is divided into two comparatively independent parts: the balance sheet of the Issue Department and that of the Banking Department. The Issue Department takes the function of a currency board. The assets of the Issue Department include foreign exchange reserves of the central bank. The liabilities contain all BNB short-term obligations: currency in circulation, banks' reserves (minimum reserve requirements, excess reserves), government deposits (government and local budgets, extrabudgetary accounts, government funds, including the SFRD).

On 1 July foreign exchange reserves exceeded above liabilities by DEM 493.8 million as per the fixed exchange rate of BGL 1,000 per DEM 1 set by the Law.

Excess foreign exchange cover may be used by the Banking Department to provide collateralized refinancing in a capacity of lender of last resort in case of danger of a bank crisis. The excess foreign exchange provides funds for the Banking Department deposit which is included in liabilities of the Issue Department and in assets of the Banking Department.

The assets of the Banking Department include also less liquid foreign exchange assets of the BNB, claims on government, claims on commercial banks and other assets. The liabilities contain BNB long-term obligations to the IMF, the capital and additional reserves. In compliance with the Law on the BNB, prior to the scheduled start of the currency board the BNB claims on the government (direct credit and government securities in levs and foreign currency) and some other foreign assets were replaced by new claims on the government denominated in SDR, which completely correspond to the obligations to the IMF by amount, maturity and interest rate terms.

The results of the first three months of the BNB functioning as a currency board indicated gradually reviving confidence in the lev and banking system. In July foreign exchange reserves grew by DEM 641 million, in August by DEM 290 million and in September by DEM 185 million. The increase approximated 40% for the July – September period. Over the same period money demand recovered, reflecting an increase in broad money of about 30%, with the lev component alone growing by approximately 60%. The base interest rate was cut from 10.12% simple annual rate by end-June to 5.42% by end-July. Following a certain increase in August and in the first half of September, the base interest rate fell again to 5.12% in mid-October.

Despite the positive results reported in the first months of the currency board operation, the country's stability is still fragile. With a view to achieving irreversible macroeconomic stability without threatening the general principles of the monetary system employed, accelerating real sector restructuring based on privatization with broad foreign investors' participation will be of crucial importance. Only with fast recovery of export-oriented economic growth and tight fiscal and incomes policies, ensuring Bulgaria's output competitiveness, will the currency board boost economic activity and social welfare. Higher-than-projected inflation in the third quarter may be curbed primarily by the government's anti-inflationary policy. Should the average monthly growth of consumer prices between October – December be reduced to about 1.5%, the overall 1997 increase will be less than 600%.

If the inflationary expectations caused by the Deutschemark movements in the international financial markets is disregarded, imbalances between the volume of output and services and money supply will remain the only internal inflationary factor. Since issue of money for financing of the budget or commercial banks is not allowed under currency board rules, it may be assumed that increasingly growing broad money in recent months pertains completely to enhanced money demand, a result of restoring confidence in the lev and commercial banks. However, to avoid inflationary pressure structural reform in the real and banking sectors needs to be accelerated. A fast and profound change in ownership relations would be a prerequisite for economic recovery and the efficient use of increasing inflowing resources into the banking system.

Under a currency board arrangement, interest rates are free and are set on a market basis. Comparatively low interest rate levels reflect both the method of setting and demand/supply ratio in financial markets. Low lending and deposit rates are predetermined by the demand/supply ratio, since the base interest rate and commercial bank interest rate policy has been closely tied yet. Lending rates encourage borrowers, with the government budget being the major one, but discourage savings to some extent.

Fiscal policy will have a significant effect on interest rates. Budget deficit reduction to the amount of SBL projections will be instrumental in achieving the anti-inflationary target and will help sustain interest rates at bearable levels for borrowers. Financing of the budget deficit through privatization revenue, from the nonbank sector and external sources will provide sufficient credit funds for real sector development, which is of crucial importance for the successful operation of the currency board.

With regard to the economic recession and the need to turn to an export-oriented growth, incomes policy assumes a greater importance. Direct dependence of incomes on the enterprises' financial performance and efficiency growth will help maintain Bulgaria's exports competitive and repress inflationary expectations. Otherwise, incomes and prices will be balanced under currency board rules at low economic activity and high social cost.

Under a currency board arrangement, BNB functions involve neither control over reserve money and money supply, nor over foreign exchange reserves. In contrast to previous years, the major anti-inflationary goal will be pursued by strictly observing currency board rules, which will ensure lev stability.

Revival of confidence in the lev and banks in recent months is expected to continue, prompting a real growth in money supply in the second half of 1997. Remonetization of the economy is a slow process, however. Should GDP be close to the projections in the macroeconomic frame, the ratio of the average annual value of broad money to GDP in 1997 would approximate 27%. For comparison, this ratio in 1996 was 47% and in 1995, 58%.

Due to unchanged interest rate differential, the lev component of broad money will continue to increase at a faster rate, irrespective of comparatively low general interest rate levels. The real growth of money supply in national currency during the second half of 1997 will increase the lev component in broad money to approximately 55%, against 50% in 1996. This favorable trend reflects restoring confidence in the lev but the share of lev component by end-1997 will lag significantly behind that of 1995 (73%).

Until year-end domestic credit will continue growing slower than broad money, while bank net foreign assets will increase. Distribution of domestic credit between the BNB and commercial banks will reflect both the degree of utilized resources for lending to government and real sector and possibilities to make new investments in reserve currency abroad. Further restoration of confidence in the lev and banks will foster the increase in BNB forex reserves, and by the end of 1997 they are expected to exceed DEM 4 billion.

Current performance of the budget gives grounds to expect that the cash deficit by the end of 1997 will be approximately two percentage points less than SBL projections and it will be financed mainly through privatization revenue, nonbank and external sources. Concurrently, sufficient resources will be provided for development of the real sector. Under the new environment, crowding out of the real sector by the government sector from the credit market is eliminated, and lev credit to public and private enterprises in the second half of 1997 will grow in real terms. However, given the low nominal growth and high inflation in the first six months of 1997, a real decrease of about 40% in the lev credit is expected for the whole 1997. Enhanced banking supervision, intended primarily to maintain the stability of the banking system, will play a decisive role in further strengthening confidence in banks and the national currency. Given the favorable developments in macroeconomic conditions reflecting low interest rates and an inflow of funds in the banking system, it would be of crucial importance for currency board success to avoid credit expansion followed by a new wave of bad loans. To this end, a number of BNB regulations (on capital adequacy, loan classification and formation of mandatory special reserves, liquidity, foreign currency positions of banks) need to be improved to provide for tighter rules of prudential banking, consistent with currency board principles and provisions of the new Law on Banks.

As a shareholder in the Bank Consolidation Company, the BNB will continue to support the government in privatization of state banks. The sale of the United Bulgarian Bank in July was the first step in changing ownership relations, intended to transform commercial banks into market-based financial intermediaries between savers and investors. In achieving this goal, it would be of particular importance to sell state banks to strategic foreign investors. This way the country will have the chance to acquire new bank technologies and products, as well as valuable experience of successfully functioning banks under a developed market economy.

Attraction of a greater number of prime-rate foreign banks in privatization will favor the strengthening of the banking system under a currency board arrangement. Given a reduced BNB ability to function as lender of last resort, this role could be partly performed by foreign banks provided with significant credit lines from their headquarters.

Despite the lack of legislative initiative, the BNB will participate in development of a new statute on protection of individuals' deposits. Unlike the current law establishing deposit protection under a bank crisis, the new statute will provide for deposit protection up to a particular amount at the expense of a special fund, raised by regular contributions from commercial banks. Adoption of this statute by year-end will contribute to the further strengthening of the banking system.

Irreversibility of macroeconomic stabilization will strongly depend on international financial support for Bulgaria's reforms. Relations with the country's official creditors will be the clearest assessment criterion of foreign investors about changes made in the country and future intentions. In addition, foreign financing will help strengthen the balance of payments, hence the confidence in the currency board and banking system, and create monetary prerequisites for sustainable economic growth. To this end, the BNB will continue to support the government in fulfilling the commitments under the fifth standby agreement. Government actions, combining tight fiscal and incomes policies and fast structural reform in the real sector would be of decisive significance in the fulfillment of behavior criteria. This will help the BNB preserve the fixed exchange rate of the lev to the Deutschemark by strictly following currency board rules, and maintain banking system stability through efficient banking supervision, without the use of its lender-of-last-resort function. Well coordinated government and BNB policies will lay the ground for the finalization of negotiations on FESAL with the World Bank and a new loan agreement with the European Union.

Appendix

Contents

GROSS DOMESTIC PRODUCT

Indicators	1996	January – June 1997[1]	January – June 1997[1]
	(current prices, billion BGL)		(growth rate on the same period of 1996[2], %)
GDP	493.2	5982.0	-8.0
Industry	118.2	2421.4	-10.0
Agriculture	27.3	644.4	-8.2
Services	189.6	2534.0	-
Adjustment[3]	158.1	382.2	
FINAL DEMAND			
Final consumption	441.5	5195.0	
Public	369.8	4632.0	-9.0
Government spending	71.7	563.0	-25.0
Gross investment	46.0	585.3	-
Capital investment	62.9	860.9	-14.9
Inventory growth	-16.9	-275.6	-
Foreign trade balance[4]	9.7	413.5	-
Statistical discrepancy	-4.0	-211.8	-

[1] NSI preliminary data.
[2] Rates are calculated according to methodologically comparable volumes.
[3] Including conditional added value of financial intermediaries, value added tax and import duties.
[4] Net exports of goods and services, travel services excluded.

Source: NSI.

CONSUMER PRICE INDICES
(previous month = 100)

Commodity (services) groups	1996						1997					
	I	II	III	IV	V	VI	I	II	III	IV	V	VI
Consumer price index	102.3	101.9	101.7	102.9	112.5	120.2	143.5	342.7	112.3	99.3	105.6	100.8
Food	103.0	101.0	101.1	101.8	111.1	123.2	145.9	377.3	106.0	96.1	109.1	98.9
Nonfood	100.7	101.3	102.5	102.8	115.7	122.1	144.9	367.5	102.9	94.4	99.6	102.0
Services	103.5	107.0	101.5	107.7	110.2	107.5	133.5	170.9	200.4	124.7	105.7	104.4
Food*	103.1	101.1	101.2	101.6	110.6	121.9	145.8	371.3	107.2	96.6	109.3	99.0
Drink	101.7	100.4	103.0	107.2	115.5	136.0	136.5	413.6	111.4	96.2	104.6	109.8
Tobacco products	100.6	100.1	100.3	102.0	115.9	121.1	152.4	423.8	102.0	86.5	97.7	103.9
Housing	106.0	101.2	101.9	101.7	108.6	112.7	154.5	345.0	112.1	101.2	99.5	104.8
Household energy	100.4	100.3	100.8	115.4	116.9	103.6	131.1	132.1	254.4	133.6	103.9	102.0
Home furniture	101.0	100.9	102.4	102.2	117.9	120.9	152.7	391.0	84.8	94.3	96.3	102.3
Clothing and footwear	100.8	101.0	101.6	102.3	110.8	109.3	143.6	388.9	90.9	94.3	99.7	102.4
Hygiene and healthcare	100.9	102.6	102.5	103.2	107.1	122.1	140.4	431.1	102.9	96.2	102.7	103.1
Education and leisure	101.5	103.4	101.7	99.2	118.8	115.2	140.0	233.0	100.8	120.3	109.1	105.3
Transport and communication	101.5	109.1	104.1	104.5	116.9	134.2	136.1	255.9	158.0	96.3	101.6	101.8
Other	105.0	101.2	101.5	100.7	106.4	110.9	131.1	206.7	126.4	165.9	120.6	109.8

CONSUMER PRICE INDICES

Commodity (services) groups	1996 December 1995 = 100						1997 December 1996 = 100					
	I	II	III	IV	V	VI	I	II	III	IV	V	VI
Consumer price index	102.3	104.2	106.0	109.0	122.7	147.5	143.5	491.9	552.3	548.4	579.4	584.2
Food	103.0	104.0	105.1	107.0	118.9	146.5	145.9	550.5	583.5	560.8	611.6	604.9
Nonfood	100.7	102.0	104.6	107.5	124.4	151.8	144.9	532.5	548.2	517.6	515.3	525.4
Services	103.5	110.7	112.4	121.0	133.4	143.4	133.5	228.2	457.3	570.3	603.1	629.6
Food*	103.1	104.2	105.4	107.1	118.5	144.4	145.8	541.2	580.5	560.5	612.4	606.1
Drink	101.7	102.1	105.2	112.8	130.3	177.2	136.5	564.4	629.0	604.8	632.8	694.9
Tobacco products	100.6	100.7	101.0	103.0	119.4	144.6	152.4	645.7	658.6	569.7	556.7	578.3
Housing	106.0	107.3	109.3	111.2	120.8	136.1	154.5	533.1	597.9	604.9	601.7	630.5
Household energy	100.4	100.7	101.5	117.1	136.9	141.8	131.1	173.3	440.7	588.6	611.5	623.8
Home furniture	101.0	101.9	104.4	106.7	125.8	152.1	152.7	596.9	506.2	477.5	459.8	470.6
Clothing and footwear	100.8	101.8	103.5	105.8	117.2	128.1	143.6	558.4	507.9	478.7	477.3	488.7
Hygiene and healthcare	100.9	103.5	106.1	109.5	117.3	143.2	140.4	605.1	622.9	599.5	615.8	634.9
Education and leisure	101.5	104.9	106.8	106.0	125.9	145.1	140.0	326.2	328.9	395.5	431.6	454.4
Transport and communication	101.5	110.7	115.3	120.5	140.9	189.2	136.1	348.3	550.5	530.2	538.8	548.5
Other	105.0	106.3	107.9	108.6	115.6	128.2	131.1	271.0	342.7	568.4	685.2	752.2

* Including prices in catering establishments.

Source: NSI.

COMMODITY STRUCTURE OF EXPORTS

Commodity groups[1]	January – June 1996		January – June 1997		Change on the same period of previous year	
	million USD	rel. share, %	million USD	rel. share, %	million USD	%
Base metals and their products	469.9	19.4	506.9	21.1	37.0	7.9
including:						
Cast-iron, iron and steel	196.2	8.1	248.3	10.3	52.1	26.5
Copper and its products	149.3	6.2	137.3	5.7	-12.0	-8.0
Zinc and its products	35.4	1.5	35.8	1.5	0.4	1.2
Chemical products, plastics and rubber	503.6	20.8	495.3	20.6	-8.3	-1.6
including:						
Fertilizers	151.3	6.3	115.7	4.8	-35.6	-23.6
Organic chemical products	74.5	3.1	96.2	4.0	21.7	29.1
Plastics and plastic products	60.4	2.5	68.5	2.9	8.1	13.4
Inorganic chemical products	69.9	2.9	60.6	2.5	-9.3	-13.3
Pharmaceutic products	45.6	1.9	53.8	2.2	8.2	17.9
Essential oils, perfumes and toiletries	48.0	2.0	52.7	2.2	4.7	9.9
Textile, leather materials, clothing, footwear and other consumer goods	335.6	13.9	374.9	15.6	39.3	11.7
including:						
Clothing and accessories to clothing other than knitwear	83.7	3.5	100.6	4.2	16.9	20.2
Clothing and accessories to clothing from knitwear	44.5	1.8	55.4	2.3	10.8	24.3
Shoes, gaiters and similar articles; their components	48.8	2.0	54.3	2.3	5.5	11.3
Animal and vegetable products, food, drink and tobacco	418.5	17.3	307.4	12.8	-111.1	-26.5
including:						
Tobacco and processed substitutes	110.2	4.6	66.1	2.7	-44.1	-40.0
Soft and alcoholic drinks and vinegars	92.7	3.8	69.4	2.9	-23.3	-25.1
Meat and edible offals	22.5	0.9	29.6	1.2	7.1	31.6
Machines, transport facilities, appliances, tools and weapons	384.7	15.9	354.8	14.8	-29.9	-7.8
including:						
Nuclear reactors, boilers, machines, appliances and machinery; spare parts	152.9	6.3	126.7	5.3	-26.2	-17.1
Electrical machines and appliances	95.5	3.9	86.0	3.6	-9.4	-9.9
Sea and river shipping	40.2	1.7	42.8	1.8	2.6	6.5
Mineral products and fuels	195.8	8.1	248.6	10.3	52.7	26.9
including:						
Mineral fuels, mineral oils and distilled products	135.6	5.6	174.0	7.2	38.4	28.3
Salt; sulphur; soil and stones; plaster, lime and cement	36.0	1.5	36.6	1.5	0.6	1.6
Wood, paper, earthenware and glass products	110.9	4.6	115.6	4.8	4.7	4.2
including:						
Wood and wood products; wood coal	34.6	1.4	40.2	1.7	5.6	16.2
EXPORTS, TOTAL (FOB)	2419.1	100.0	2403.6	100.0	-15.5	-0.6

[1] Commodity groups include chapters from the Harmonized System for Commodity Description and Coding.

Sources: For 1996 – NSI and MF Computing Center, final data.
For 1997 – MF Computing Center, preliminary data as of 19 September 1997.

COMMODITY STRUCTURE OF IMPORTS

Commodity groups[1]	January – June 1996		January – June 1997		Change on the same period of previous year	
	million USD	rel. share, %	million USD	rel. share, %	million USD	%
Mineral products and fuels	820.9	32.4	794.4	37.2	-26.5	-3.2
including:						
Mineral fuels, mineral oils and distilled products	702.4	27.8	656.6	30.7	-45.8	-6.5
Ores, slags and ashes	62.7	2.5	73.1	3.4	10.4	16.6
Machines, transport facilities, appliances, tools and weapons	536.7	21.2	351.6	16.4	-185.1	-34.5
including:						
Nuclear reactors, boilers, machines, appliances and machinery; spare parts	244.9	9.7	190.2	8.9	-54.7	-22.3
Electrical machines and appliances	112.8	4.5	73.0	3.4	-39.8	-35.3
Automobile transport	106.5	4.2	43.0	2.0	-63.5	-59.6
Textile, leather materials, clothing, footwear and other consumer goods	304.7	12.0	332.4	15.5	27.7	9.1
including:						
Cotton	45.0	1.8	61.9	2.9	16.9	37.5
Staple synthetic and artificial fibres	48.8	1.9	49.7	2.3	0.9	1.9
Wool, sheer and coarse filaments; yarns and fabrics from manes and tails	25.4	1.0	32.4	1.5	7.0	27.4
Leather (other than furs)	26.6	1.1	29.5	1.4	3.0	11.2
Chemical products, plastics and rubber	347.0	13.7	272.1	12.7	-74.9	-21.6
including:						
Inorganic chemical products	31.0	1.2	44.4	2.1	13.4	43.4
Organic chemical products	58.2	2.3	46.4	2.2	-11.8	-20.3
Plastics and plastic products	60.6	2.4	42.7	2.0	-17.9	-29.6
Miscellaneous products of chemical industry	55.0	2.2	40.9	1.9	-14.1	-25.7
Pharmaceutic products	42.1	1.7	34.2	1.6	-8.0	-18.9
Animal and vegetable products, food, drink and tobacco	241.6	9.5	179.9	8.4	-61.7	-25.5
including:						
Cereals	33.0	1.3	63.5	3.0	30.6	92.8
Base metals and their products	155.7	6.2	123.2	5.8	-32.4	-20.8
including:						
Cast-iron, iron and steel	57.1	2.3	43.5	2.0	-13.7	-23.9
Wood, paper, earthenware and glass products	124.2	4.9	84.1	3.9	-40.1	-32.3
including:						
Paper and cardboard; products of cellulose, paper and cardboard	66.5	2.6	43.1	2.0	-23.4	-35.2
IMPORTS, TOTAL (CIF)	2530.8	100.0	2137.7	100.0	-393.1	-15.5
(-) Freight expenditure	186.1		155.1			
IMPORTS, TOTAL (FOB)	2344.7		1982.6		-362.1	-15.4

[1] Commodity groups include chapters from the Harmonized System for Commodity Description and Coding.

Sources: For 1996 – NSI and MF Computing Center, final data.
For 1997 – MF Computing Center, preliminary data as of 19 September 1997.

GEOGRAPHIC STRUCTURE OF EXPORTS

Regions	January – June 1996		January – June 1997		Change on the same period of previous year	
	million USD	rel. share, %	million USD	rel. share, %	million USD	%
European Union	942.8	39.0	1050.5	43.7	107.7	11.4
including:						
Italy	258.0	10.7	301.8	12.6	43.9	17.0
Germany	199.7	8.3	217.3	9.0	17.6	8.8
Greece	166.5	6.9	196.1	8.2	29.7	17.8
United Kingdom	65.3	2.7	70.9	3.0	5.7	8.7
France	67.1	2.8	62.9	2.6	-4.3	-6.3
Spain	57.5	2.4	60.4	2.5	2.9	5.1
Belgium	38.7	1.6	43.9	1.8	5.2	13.6
Netherlands	44.5	1.8	33.0	1.4	-11.5	-25.8
EFTA	27.7	1.1	16.6	0.7	-11.0	-39.9
Other OECD countries[1]	259.1	10.7	331.8	13.8	72.7	28.1
including:						
Turkey	184.2	7.6	211.5	8.8	27.2	14.8
USA	45.0	1.9	62.2	2.6	17.2	38.3
Canada	17.8	0.7	31.7	1.3	13.9	78.1
Balkan countries[2]	279.1	11.5	145.8	6.1	-133.3	-47.8
including:						
Yugoslavia	131.5	5.4	56.3	2.3	-75.3	-57.2
Macedonia	77.0	3.2	44.0	1.8	-33.1	-42.9
CEFTA	43.1	1.8	47.7	2.0	4.6	10.6
Former USSR countries	443.5	18.3	422.8	17.6	-20.7	-4.7
including:						
Russia	244.0	10.1	183.7	7.6	-60.3	-24.7
Ukraine	76.5	3.2	73.8	3.1	-2.7	-3.5
Georgia	21.7	0.9	65.1	2.7	43.5	200.7
Moldova	43.7	1.8	40.0	1.7	-3.6	-8.3
Other countries	423.8	17.5	388.3	16.2	-35.5	-8.4
EXPORTS, TOTAL (FOB)	2419.1	100.0	2403.6	100.0	-15.5	-0.6

[1] Australia, Canada, New Zealand, USA, Turkey and Japan are included.
[2] Albania, Bosnia and Herzegovina, Macedonia, Romania, Croatia and Yugoslavia are included.

Sources: For 1996 – NSI and MF Computing Center, final data.
For 1997 – MF Computing Center, preliminary data as of 19 September 1997.

GEOGRAPHIC STRUCTURE OF IMPORTS

Regions	January – June 1996		January – June 1997		Change on the same period of previous year	
	million USD	rel. share, %	million USD	rel. share, %	million USD	%
European Union	994.9	39.3	802.4	37.5	-192.4	-19.3
including:						
Germany	319.6	12.6	248.0	11.6	-71.7	-22.4
Italy	173.6	6.9	155.5	7.3	-18.1	-10.4
Greece	112.1	4.4	90.6	4.2	-21.5	-19.2
France	92.0	3.6	76.2	3.6	-15.8	-17.2
United Kingdom	57.5	2.3	56.1	2.6	-1.3	-2.3
Austria	71.9	2.8	55.1	2.6	-16.7	-23.3
Netherlands	50.3	2.0	40.1	1.9	-10.3	-20.4
EFTA	49.7	2.0	44.2	2.1	-5.5	-11.0
including:						
Switzerland	46.3	1.8	41.3	1.9	-5.0	-10.8
Other OECD countries[1]	150.4	5.9	149.9	7.0	-0.5	-0.3
including:						
USA	66.3	2.6	68.2	3.2	1.9	2.9
Turkey	43.9	1.7	48.2	2.3	4.3	9.9
Balkan countries[2]	78.4	3.1	50.7	2.4	-27.8	-35.4
CEFTA	89.6	3.5	84.3	3.9	-5.3	-5.9
including:						
Poland	18.5	0.7	28.9	1.4	10.5	56.6
Former USSR countries	797.9	31.5	708.8	33.2	-89.1	-11.2
including:						
Russia	707.0	27.9	615.8	28.8	-91.1	-12.9
Ukraine	62.4	2.5	70.5	3.3	8.1	13.0
Other countries	370.0	14.6	297.4	13.9	-72.6	-19.6
IMPORTS, TOTAL (CIF)	2530.8	100.0	2137.7	100.0	-393.1	-15.5

[1] Australia, Canada, New Zealand, USA, Turkey and Japan are included.
[2] Albania, Bosnia and Herzegovina, Macedonia, Romania, Croatia and Yugoslavia are included.

Sources: For 1996 – NSI and MF Computing Center, final data.
For 1997 – MF Computing Center, preliminary data as of 19 September 1997.

COMMODITY AND GEOGRAPHIC STRUCTURE OF EXPORTS
(share of countries' exports in commodity groups)

(%)

Regions		Base metals and their products		Chemical products, plastics and rubber		Textile, leather materials, clothing, footwear and other consumer goods		Animal and vegetable products, food, drink and tobacco		Machines, transport facilities, appliances, tools and weapons		Mineral products and fuels		Wood, paper, earthenware and glass products		Total (FOB)	
		January – June		January – June		January – June		January – June		January – June		January – June		January – June		January – June	
		1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997
OECD	European Union	50.1	52.2	33.7	37.5	70.4	74.7	22.6	25.6	31.1	31.1	17.5	27.9	47.8	53.5	39.0	43.7
	EFTA	1.5	0.1	0.8	0.1	2.4	1.3	1.6	1.6	0.5	1.6	0.0	0.1	0.1	0.1	1.1	0.7
	Other OECD countries	17.8	21.2	11.7	15.6	9.0	10.4	6.7	8.8	4.9	4.3	16.1	24.6	7.0	4.3	10.7	13.8
OECD, total		69.4	73.4	46.2	53.2	81.7	86.3	30.9	36.0	36.5	37.0	33.6	52.6	54.9	58.0	50.8	58.2
CEE	Balkan countries	11.4	4.1	13.1	8.9	4.6	3.1	13.4	6.8	5.8	5.6	25.2	7.2	14.7	9.3	11.5	6.1
	CEFTA	1.0	1.8	1.6	1.7	1.4	1.2	2.5	2.5	3.6	4.2	0.1	0.7	1.1	1.1	1.8	2.0
	Former USSR countries	2.4	2.4	18.0	19.8	7.1	4.6	47.4	47.4	20.5	16.3	9.4	27.6	20.0	20.1	18.3	17.6
CEE, total		14.8	8.3	32.7	30.4	13.1	8.9	63.3	56.8	30.0	26.1	34.7	35.5	35.7	30.5	31.7	25.6
Other countries		15.9	18.3	21.1	16.4	5.2	4.8	5.7	7.2	33.6	37.0	31.7	11.8	9.4	11.5	17.5	16.2
Total (FOB)		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: For 1996 – NSI and MF Computing Center, final data. For 1997 – MF Computing Center, preliminary data as of 19 September 1997.

COMMODITY AND GEOGRAPHIC STRUCTURE OF IMPORTS
(share of countries' imports in commodity groups)

(%)

Regions		Mineral products and fuels		Machines, transport facilities, appliances, tools and weapons		Textile, leather materials, clothing, footwear and other consumer goods		Chemical products, plastics and rubber		Animal and vegetable products, food, drink and tobacco		Base metals and their products		Wood, paper, earthenware and glass products		Total (CIF)	
		January – June		January – June		January – June		January – June		January – June		January – June		January – June		January – June	
		1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996	1997
OECD	European Union	1.4	1.6	62.0	61.4	78.6	80.6	58.2	51.5	28.0	30.9	44.7	46.8	58.0	63.1	39.3	37.5
	EFTA	0.0	0.0	3.1	5.0	0.8	1.4	5.8	4.9	1.1	0.9	1.2	0.5	4.4	7.5	2.0	2.1
	Other OECD countries	0.7	3.7	11.0	14.2	6.2	5.2	7.5	9.4	12.5	9.8	2.4	3.2	5.5	7.3	5.9	7.0
OECD, total		2.1	5.3	76.2	80.6	85.6	87.1	71.6	65.8	41.6	41.5	48.3	50.5	67.9	77.9	47.2	46.6
CEE	Balkan countries	0.9	1.0	1.1	0.8	1.4	1.5	4.0	4.2	8.0	2.9	15.4	12.4	2.8	4.3	3.1	2.4
	CEFTA	0.6	0.4	5.1	4.5	2.5	1.1	6.9	6.2	1.9	15.4	8.5	9.5	6.7	6.0	3.5	3.9
	Former USSR countries	74.5	71.5	9.5	7.0	4.4	4.9	12.1	18.5	5.9	6.5	25.2	23.7	21.0	10.6	31.5	33.2
CEE, total		76.0	72.9	15.8	12.3	8.3	7.5	23.0	28.9	15.8	24.8	49.0	45.6	30.5	20.9	38.2	39.5
Other countries		21.9	21.8	8.0	7.1	6.1	5.4	5.4	5.3	42.6	33.7	2.7	4.0	1.5	1.2	14.6	13.9
Total (CIF)		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: For 1996 – NSI and MF Computing Center, final data. For 1997 – MF Computing Center, preliminary data as of 19 September 1997.

BALANCE OF PAYMENTS*

(million USD)

Indicators	1996																		1997								
	Jan	Feb	March	QI	April	May	June	QII	Jan – June	July	Aug	Sep	QIII	Oct	Nov	Dec	QIV	Total	Jan	Feb	March	QI	April	May	June	QII	Jan – June
CURRENT ACCOUNT[1]	-90.2	0.0	-33.0	-123.1	-15.1	21.6	27.6	34.1	-89.1	-4.2	106.2	52.8	154.8	9.5	63.9	-57.2	16.1	81.8	-3.2	83.8	86.9	167.6	82.9	71.8	-1.3	153.4	321.0
Trade balance[2, 12]	17.5	4.2	-5.8	15.9	-17.1	20.8	54.7	58.4	74.3	-4.8	28.4	54.3	77.9	6.4	60.3	-31.3	35.4	187.6	101.0	113.3	105.3	319.7	65.4	62.1	-26.2	101.3	421.0
Exports, FOB	367.2	408.3	418.1	1193.6	384.1	402.3	439.0	1225.4	2419.0	409.9	404.2	409.0	1223.1	440.0	433.8	374.3	1248.1	4890.2	393.2	381.2	408.0	1182.4	406.7	435.4	379.1	1221.2	2403.6
Imports, FOB	349.7	404.1	423.9	1177.7	401.2	381.5	384.3	1167.0	2344.7	414.7	375.8	354.7	1145.2	433.6	373.5	405.6	1212.7	4702.6	292.2	267.9	302.6	862.7	341.3	373.3	405.3	1119.9	1982.6
Services, net	-125.3	-20.9	-40.0	-186.2	-10.3	-10.4	-34.5	-55.2	-241.3	-80.9	67.6	7.7	-5.6	2.1	1.5	-32.9	-29.2	-276.1	-110.3	-33.1	-44.8	-188.2	4.7	1.8	15.0	21.4	-166.8
Receipts	121.4	97.8	103.6	322.8	93.8	92.8	117.0	303.7	626.5	170.2	194.3	166.1	530.5	127.8	151.2	110.9	389.8	1546.9	118.4	82.8	97.8	299.1	107.7	115.4	112.5	335.5	634.6
transport[3]	30.4	32.3	29.6	92.3	27.9	30.8	41.5	100.2	192.5	48.3	55.5	40.4	144.2	35.4	35.8	31.2	102.4	439.1	30.9	27.3	30.5	88.7	30.2	33.3	30.9	94.4	183.1
travel[4]	21.8	21.6	12.4	55.8	12.8	19.4	41.6	73.8	129.6	61.4	81.2	43.7	186.2	25.0	25.2	22.5	72.7	388.5	16.5	10.9	12.5	40.0	13.1	17.4	18.3	48.8	88.8
interest[5]	31.7	13.7	9.3	54.6	8.9	10.0	8.0	26.9	81.5	24.4	5.4	10.7	40.5	6.5	8.1	6.1	20.7	142.7	29.2	6.3	7.9	43.4	7.1	5.0	26.6	38.6	82.1
other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.6	7.8	18.4	7.7	6.8	5.4	19.8	38.3	8.2	5.0	9.4	22.5	3.2	3.6	3.1	9.9	32.5
other	37.6	30.2	52.4	120.2	44.2	32.7	25.9	102.7	222.9	36.1	41.6	63.5	141.2	53.3	75.3	45.6	174.3	538.3	33.7	33.2	37.5	104.4	54.0	56.1	33.6	143.7	248.1
Payments	246.7	118.7	143.6	509.1	104.1	103.2	151.5	358.9	867.9	251.1	126.7	158.3	536.1	125.7	149.6	143.7	419.0	1823.1	228.7	115.9	142.7	487.3	103.0	113.6	97.5	314.1	801.4
transport[3]	36.0	38.4	42.2	116.6	42.4	38.6	39.4	120.4	236.9	44.7	42.0	37.6	124.3	43.8	39.5	41.5	124.8	486.0	31.2	32.8	32.8	96.8	32.2	37.7	41.9	111.8	208.6
travel[4]	14.2	10.1	13.9	38.2	17.5	14.1	14.9	46.5	84.6	19.8	22.2	18.2	60.2	18.1	18.2	17.5	53.8	198.6	15.8	21.3	17.0	54.1	9.4	12.7	13.0	35.1	89.2
interest[5]	151.2	36.1	33.8	221.1	7.1	18.4	31.1	56.6	277.6	146.2	25.9	38.0	210.2	4.1	14.6	36.9	55.5	543.4	142.4	21.9	42.7	207.1	11.8	10.2	19.3	41.3	248.4
other income	0.0	0.0	0.1	0.1	0.0	0.0	0.3	0.3	0.4	0.0	3.0	9.3	12.3	10.7	6.8	4.0	21.5	34.2	4.1	3.2	1.7	9.0	0.4	0.4	0.9	1.7	10.6
other	45.4	34.1	53.7	133.2	37.2	32.2	66.1	135.5	268.7	40.4	33.5	55.2	129.1	49.0	70.6	43.9	163.4	561.2	35.2	36.8	48.4	120.4	49.2	52.7	22.3	124.2	244.6
Transfers net (private)	16.4	15.4	11.9	43.6	11.7	10.5	6.8	28.9	72.6	15.5	-0.4	-9.3	5.7	-2.7	-6.2	-1.8	-10.7	67.5	-0.9	2.2	4.4	5.6	6.3	7.3	9.1	22.7	28.3
Receipts	23.7	24.8	21.3	69.7	21.6	16.5	16.5	54.6	124.3	25.2	7.3	10.5	43.0	10.3	7.4	9.8	27.5	194.8	8.9	6.7	8.4	24.0	7.7	8.7	10.6	27.0	51.0
Payments	7.3	9.4	9.4	26.1	10.0	6.0	9.7	25.7	51.7	9.7	7.7	19.8	37.3	13.0	13.7	11.6	38.3	127.2	9.9	4.5	4.0	18.4	1.4	1.5	1.4	4.3	22.7
Unrequited transfers[6]	1.2	1.3	1.0	3.5	0.6	0.7	0.5	1.9	5.4	66.1	10.6	0.1	76.8	3.6	8.3	8.7	20.6	102.8	7.0	1.5	22.1	30.6	6.5	0.7	0.8	7.9	38.5
CAPITAL ACCOUNT[1, 7]	-109.3	-49.8	-163.5	-322.6	-1.3	-175.4	-50.2	-226.9	-549.5	-91.7	-31.7	-75.2	-198.6	16.6	36.6	-20.3	32.9	-715.2	-49.8	-18.7	19.6	-48.8	247.2	71.8	-48.8	270.3	221.5
Direct investment in Bulgaria[8]	9.2	2.7	1.2	13.0	6.5	0.4	2.4	9.3	22.3	6.6	2.3	7.8	16.7	6.6	49.2	14.2	70.0	109.0	14.9	8.3	17.3	40.5	152.5	46.5	42.7	241.8	282.2
Direct investment abroad	21.9	0.1	1.0	23.1	0.7	1.7	0.4	2.8	25.9	0.9	-0.3	0.3	0.9	0.1	0.6	1.1	1.7	28.5	-0.2	0.2	-0.1	0.0	3.2	0.0	0.0	3.3	3.2
Portfolio investment, net	-2.3	12.1	-46.2	-36.4	-10.1	5.2	10.6	5.6	-30.8	-128.6	10.1	2.6	-115.9	36.6	1.4	-20.6	17.4	-129.3	2.0	8.9	9.5	20.4	64.8	49.2	14.2	128.2	148.6
Assets	0.1	7.1	-18.8	-11.6	-4.4	-4.4	4.3	-4.5	-16.1	-14.8	-2.7	-0.2	-17.7	23.1	2.6	1.1	26.7	-7.1	2.4	1.1	-8.4	-4.8	-0.7	-0.4	0.1	-1.1	-5.9
Liabilities	-2.5	5.0	-27.4	-24.8	-5.7	9.5	6.3	10.1	-14.7	-113.8	12.8	2.9	-98.2	13.5	-1.2	-21.7	-9.4	-122.3	-0.4	7.8	17.8	25.2	65.5	49.7	14.2	129.3	154.5
Medium- and long-term loans, net	-14.5	-9.3	-27.1	-50.9	-0.1	1.3	-46.8	-45.6	-96.5	-9.3	-7.0	-17.9	-34.2	11.5	29.2	-0.2	40.5	-90.2	-16.4	-9.3	-14.2	-39.9	-7.8	-5.1	4.9	-8.0	-47.9
Drawings	1.4	4.3	4.5	10.2	14.1	14.9	7.3	36.3	46.5	3.6	9.8	1.1	14.4	25.8	39.1	13.5	78.4	139.4	5.1	2.0	4.5	11.6	6.6	5.1	11.1	22.9	34.5
Official	0.7	3.6	4.4	8.7	8.7	13.3	1.3	23.3	32.0	1.3	8.6	0.7	10.6	16.8	38.7	4.6	60.1	102.7	5.1	1.7	4.4	11.2	6.6	5.1	11.1	22.9	34.1
Private	0.7	0.7	0.1	1.5	5.4	1.6	6.0	13.0	14.5	2.3	1.2	0.4	3.8	9.0	0.4	8.9	18.3	36.7	0.0	0.3	0.1	0.4	0.0	0.0	0.0	0.0	0.4
Repayments	15.9	13.6	31.6	61.1	14.2	13.6	54.1	81.9	143.0	13.0	16.7	19.0	48.7	14.3	9.9	13.7	37.9	229.6	21.5	11.3	18.8	51.5	14.4	10.2	6.2	30.9	82.4
Balance of payments support	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	50.9	0.0	50.9	0.0	0.0	0.0	0.0	50.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EU loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	50.9	0.0	50.9	0.0	0.0	0.0	0.0	50.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EFTA loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans extended, net	24.0	40.6	24.8	89.3	26.1	25.0	27.5	78.6	167.9	26.8	38.1	25.9	90.9	26.4	26.3	26.8	79.4	338.2	29.7	26.5	34.0	90.2	15.0	24.3	-0.2	39.1	129.3
Drawings	0.2	0.0	0.0	0.2	0.1	0.0	0.0	0.1	0.3	0.0	0.0	0.1	0.1	0.6	0.3	0.2	1.1	1.5	0.1	0.0	0.0	0.1	9.5	0.0	0.3	9.8	9.9
Repayments[9]	24.1	40.6	24.8	89.5	26.2	25.0	27.5	78.7	168.2	26.8	38.1	26.0	90.9	27.0	26.6	27.0	80.6	339.7	29.8	26.5	34.0	90.3	24.5	24.3	0.1	48.9	139.2
Short-term debt, net	1.3	2.0	-8.0	-4.6	-4.2	-4.6	-0.6	-9.4	-14.0	-0.7	1.1	-36.4	-36.0	-0.3	-9.5	-0.6	-10.3	-60.4	-3.6	-0.3	0.6	-3.2	22.1	-5.6	-22.1	-5.6	-8.9
Trade credits, net												0.6	0.6	-0.5	0.2	0.0	-0.3	0.2	1.3	-0.9	3.0	3.4	11.7	1.9	0.8	14.3	17.6
Short-term loans, net	1.3	2.0	-8.0	-4.6	-3.1	-4.6	-0.6	-8.3	-13.0	-0.7	1.1	-37.0	-36.6	0.2	-9.6	-0.4	-9.8	-59.3	-4.9	0.6	-2.3	-6.6	10.4	-7.5	-22.9	-19.9	-26.5
Drawings	1.8	4.3	0.0	6.1	0.0	0.1	0.4	0.5	6.6	1.1	5.1	0.8	7.0	41.7	29.6	29.2	100.5	114.1	21.3	24.8	26.3	72.4	28.8	29.8	9.4	67.9	140.3
Repayments	0.5	2.2	8.0	10.7	3.1	4.7	1.1	8.8	19.6	1.8	4.0	37.8	43.6	41.4	39.2	29.6	110.3	173.4	26.2	24.2	28.6	79.0	18.4	37.2	32.3	87.9	166.9

(continued)

(continued) (million USD)

Indicators	1996																		1997								
	Jan	Feb	March	QI	April	May	June	QII	Jan – June	July	Aug	Sep	QIII	Oct	Nov	Dec	QIV	Total	Jan	Feb	March	QI	April	May	June	QII	Jan – June
Clearing accounts	0.0	0.0	0.0	0.0	-1.1	0.0	0.0	-1.1	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-0.2	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other capital	-107.2	-108.9	-127.0	-343.1	-17.5	-185.8	-27.9	-231.3	-574.4	28.5	-133.2	-61.6	-166.2	-68.5	-52.8	-44.6	-165.9	-906.5	-39.2	-49.7	-30.6	-119.5	-16.1	-48.4	-90.5	-155.1	-274.6
Domestic banks forex deposits	45.7	22.5	-49.3	18.9	26.4	78.8	30.0	135.1	154.0	21.9	-116.7	31.5	-63.3	-26.0	32.1	-28.7	-22.6	68.2	-15.4	-3.4	-79.8	-98.6	-9.6	-81.6	-129.6	-220.9	-319.6
Corporate forex deposits												0.6	0.6	46.9	-2.7	-3.5	40.7	41.3	6.0	-1.7	-1.7	2.7	1.1	0.3	3.4	4.8	7.5
Other short-term capital (net)[10]	-152.9	-131.4	-77.7	-362.0	-43.9	-264.6	-57.9	-366.4	-728.4	6.6	-16.5	-93.7	-103.6	-89.4	-82.2	-12.4	-184.0	-1016.0	-29.8	-44.6	50.9	-23.5	-7.6	32.9	35.7	61.0	37.5
Other investment	-41.6	10.8	17.8	-13.0	-2.7	-18.5	-15.7	-36.9	-49.9	-15.9	6.2	4.1	-5.6	4.3	-7.8	3.6	0.1	-55.4	-37.0	-3.3	3.2	-37.2	13.5	10.9	2.2	26.6	-10.6
Other assets	-43.4	0.0	-1.3	-44.8	41.3	15.8	-1.2	55.9	11.1	-15.7	0.0	-3.1	-18.8	0.0	0.4	7.5	8.0	0.2	-36.4	0.6	0.0	-35.8	8.9	12.0	-1.1	19.9	-16.0
Other liabilities	1.8	10.8	19.1	31.8	-44.0	-34.3	-14.5	-92.8	-61.0	-0.2	6.2	7.2	13.2	4.3	-8.2	-3.9	-7.8	-55.6	-0.6	-3.9	3.2	-1.4	4.5	-1.1	3.3	6.7	5.4
Errors and omissions	-81.3	-45.7	36.0	-91.1	-3.5	115.2	-8.1	103.7	12.6	-106.8	-7.3	-24.2	-138.3	-10.4	-107.3	135.0	17.4	-108.3	-50.1	-32.8	-2.5	-85.4	63.1	-17.0	145.6	191.7	106.3
OVERALL BALANCE	-280.8	-95.5	-160.5	-536.8	-19.8	-38.6	-30.7	-89.1	-626.0	-202.7	67.2	-46.6	-182.1	15.7	-6.8	57.5	66.4	-741.7	-103.0	32.4	104.0	33.4	393.2	126.6	95.5	615.3	648.7
FINANCING[11]	280.8	95.5	160.5	536.8	19.8	38.6	30.7	89.1	626.0	202.7	-67.2	46.6	182.1	-15.7	6.8	-57.5	-66.4	741.7	103.0	-32.4	-104.0	-33.4	-393.2	-126.6	-95.5	-615.3	-648.7
BNB reserves (increase:-)	280.5	95.9	216.5	592.9	15.8	27.6	26.9	70.3	663.2	93.7	-68.4	77.0	102.3	-19.3	0.3	6.6	-12.4	753.1	102.9	-27.0	-109.4	-33.6	-588.7	-135.0	-103.7	-827.4	-860.9
Monetary gold	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Holdings in SDR	8.2	13.2	2.9	24.3	-7.0	8.3	-9.6	-8.3	16.0	0.8	12.2	-8.3	4.7	7.4	0.2	-10.5	-2.9	17.8	-2.4	6.4	-2.2	1.8	8.9	0.9	-15.2	-5.4	-3.6
Reserve position with the IMF	1.1	-0.5	0.2	0.8	0.4	0.3	0.0	0.7	1.5	-0.7	0.2	0.5	0.0	-0.1	-0.1	0.4	0.2	1.7	1.3	0.4	-0.1	1.6	0.8	-0.9	0.1	0.0	1.5
Use of Fund credit, net	-7.5	-5.7	-61.4	-74.6	-7.5	-1.9	-46.6	-55.9	-130.5	103.4	-5.6	-37.5	60.3	-7.5	-1.9	-28.3	-37.7	-107.9	-12.6	-5.4	-18.6	-36.6	171.3	-1.8	0.0	169.5	133.0

As of 15 October 1997.
* In accordance with IMF 4-th edition of the Balance of Payments Manual.
[1] The data for 1997 is preliminary.
[2] The data for 1996 is final. Source: The MF Computing Center and NSI.
The preliminary foreign trade data for 1997 is revised. Data is provided by the MF Computing Center and adjusted by the BNB.
[3] BNB estimates.
[4] NSI data and BNB estimates.
[5] The data is on a due basis.
[6] Including data provided by the Agency for Foreign Aid and Bulgarian Red Cross.
[7] For assets, a minus sign denotes an increase in holdings and a positive figure represents a decrease.
For liabilities, a positive sign shows an increase and a negative figure shows a decrease.
[8] Data of the Ministry of Finance and Agency for Privatization.
[9] Includes gas deliveries under the Yamburg Agreement.
[10] Including change of deposits of the population and the private companies as well as other short-term capital.
[11] Including rescheduled payments and arrears.
[12] Settlement data received from commercial banks:

Trade balance	-116.1	-47.3	-8.7	-172.2	61.9	14.4	-76.4	-0.1	-172.2	-23.0	59.2	68.6	104.8	75.8	16.5	63.0	155.3	87.9	35.2	65.7	50.8	151.7	52.7	25.7	59.1	137.5	289.2
Exports, FOB	467.2	464.0	502.4	1433.6	541.2	416.2	343.7	1301.1	2734.7	352.3	343.7	343.7	1039.6	355.2	301.8	321.4	978.5	4752.7	272.8	274.4	318.9	866.1	317.7	347.7	338.8	1004.1	1870.3
Imports, FOB	583.3	511.3	511.1	1605.8	479.3	401.8	420.1	1301.2	2907.0	375.3	284.4	275.0	934.8	279.4	285.4	258.4	823.1	4664.9	237.6	208.7	268.2	714.5	265.0	321.9	279.6	866.6	1581.1

BALANCE OF PAYMENTS*

(million USD)

Indicators	1996																		1997								
	Jan	Feb	March	QI	April	May	June	QII	Jan – June	July	Aug	Sep	QIII	Oct	Nov	Dec	QIV	Total	Jan	Feb	March	QI	April	May	June	QII	Jan – June
Current account[1]	-90.2	0.0	-33.0	-123.1	-15.1	21.6	27.6	34.1	-89.0	-70.1	106.2	52.7	88.8	9.5	63.9	-57.2	16.1	15.9	-3.2	83.8	86.9	167.6	82.9	71.8	-1.3	153.4	321.0
Goods, services and income, net	-107.7	-16.7	-45.8	-170.2	-27.4	10.4	20.2	3.2	-167.0	-85.7	96.0	62.0	72.3	8.6	61.8	-64.2	6.2	-88.5	-9.3	80.2	60.5	131.4	70.1	63.9	-11.2	122.7	254.2
credit	488.6	506.1	521.7	1516.4	477.9	495.1	556.0	1529.1	3045.5	580.1	598.5	575.1	1753.6	567.8	585.0	485.2	1637.9	6437.1	511.7	464.0	505.8	1481.5	514.4	550.8	491.6	1556.7	3038.2
debit	-596.4	-522.8	-567.5	-1686.7	-505.3	-484.7	-535.8	-1525.9	-3212.5	-665.8	-502.5	-513.0	-1681.3	-559.2	-523.1	-549.3	-1631.7	-6525.5	-520.9	-383.8	-445.3	-1350.0	-444.2	-486.9	-502.8	-1434.0	-2784.0
Goods, net[2, 11]	17.5	4.2	-5.8	15.9	-17.1	20.8	54.7	58.4	74.3	-4.8	28.4	54.3	77.9	6.4	60.3	-31.3	35.4	187.6	101.0	113.3	105.3	319.7	65.4	62.1	-26.2	101.3	421.0
credit	367.2	408.3	418.1	1193.6	384.1	402.3	439.0	1225.4	2419.0	409.9	404.2	409.0	1223.1	440.0	433.8	374.3	1248.1	4890.2	393.2	381.2	408.0	1182.4	406.7	435.4	379.1	1221.2	2403.6
debit	-349.7	-404.1	-423.9	-1177.7	-401.2	-381.5	-384.3	-1167.0	-2344.7	-414.7	-375.8	-354.7	-1145.2	-433.6	-373.5	-405.6	-1212.7	-4702.6	-292.2	-267.9	-302.6	-862.7	-341.3	-373.3	-405.3	-1119.9	-1982.6
Services, net	-5.8	1.6	-15.5	-19.7	-12.1	-2.0	-11.4	-25.5	-45.2	40.9	80.5	36.5	158.0	2.8	8.1	-3.6	7.3	120.1	-1.1	-19.3	-17.7	-38.1	6.5	3.7	5.6	15.8	-22.3
credit	89.8	84.2	94.3	268.2	84.9	82.9	109.0	276.8	545.0	145.8	178.3	147.5	471.6	113.7	136.3	99.3	349.3	1365.9	81.1	71.5	80.5	233.1	97.3	106.8	82.8	287.0	520.1
Transportation[3]	30.4	32.3	29.6	92.3	27.9	30.8	41.5	100.2	192.5	48.3	55.5	40.4	144.2	35.4	35.8	31.2	102.4	439.1	30.9	27.3	30.5	88.7	30.2	33.3	30.9	94.4	183.1
Travel[4]	21.8	21.6	12.4	55.8	12.8	19.4	41.6	73.8	129.6	61.4	81.2	43.7	186.2	25.0	25.2	22.5	72.7	388.5	16.5	10.9	12.5	40.0	13.1	17.4	18.3	48.8	88.8
Other servives	37.6	30.2	52.4	120.2	44.2	32.7	25.9	102.7	222.9	36.1	41.6	63.5	141.2	53.3	75.3	45.6	174.3	538.3	33.7	33.2	37.5	104.4	54.0	56.1	33.6	143.7	248.1
debit	-95.5	-82.6	-109.8	-287.9	-97.0	-84.9	-120.4	-302.3	-590.2	-104.8	-97.8	-111.0	-313.6	-110.9	-128.2	-102.9	-342.0	-1245.8	-82.2	-90.9	-98.2	-271.3	-90.8	-103.1	-77.3	-271.2	-542.4
Transportation[3]	-36.0	-38.4	-42.2	-116.6	-42.4	-38.6	-39.4	-120.4	-236.9	-44.7	-42.0	-37.6	-124.3	-43.8	-39.5	-41.5	-124.8	-486.0	-31.2	-32.8	-32.8	-96.8	-32.2	-37.7	-41.9	-111.8	-208.6
Travel[4]	-14.2	-10.1	-13.9	-38.2	-17.5	-14.1	-14.9	-46.5	-84.6	-19.8	-22.2	-18.2	-60.2	-18.1	-18.1	-17.5	-53.7	-198.6	-15.8	-21.3	-17.0	-54.1	-9.4	-12.7	-13.0	-35.1	-89.2
Other services	-45.4	-34.1	-53.7	-133.2	-37.2	-32.2	-66.1	-135.5	-268.7	-40.4	-33.5	-55.2	-129.1	-49.0	-70.6	-43.9	-163.4	-561.2	-35.2	-36.8	-48.4	-120.4	-49.2	-52.7	-22.3	-124.2	-244.6
Income, net	-119.5	-22.4	-24.5	-166.4	1.8	-8.4	-23.0	-29.6	-196.1	-121.8	-13.0	-28.8	-163.6	-0.6	-6.6	-29.3	-36.5	-396.2	-109.2	-13.8	-27.1	-150.1	-1.8	-2.0	9.4	5.6	-144.5
credit	31.7	13.7	9.3	54.6	8.9	10.0	8.0	26.9	81.5	24.4	15.9	18.6	58.9	14.1	14.9	11.5	40.5	181.0	37.3	11.3	17.3	66.0	10.3	8.5	29.7	48.6	114.5
Monetary authorities	4.7	0.7	6.3	11.7	4.0	4.3	4.2	12.5	24.2	2.2	2.4	2.3	6.8	1.2	1.3	1.2	3.7	34.7	3.7	3.9	5.0	12.6	3.9	1.1	14.5	19.5	32.1
General government	23.5	0.0	0.0	23.5	0.0	0.0	0.0	0.0	23.5	19.2	0.0	3.1	22.3	0.0	0.0	0.0	0.0	45.8	22.7	0.0	0.0	22.7	0.0	0.0	0.0	0.0	22.7
Banks	3.5	13.0	3.0	19.4	4.9	5.7	3.9	14.5	33.9	3.0	2.0	5.3	10.3	3.9	6.2	4.7	14.8	59.0	2.8	2.4	2.9	8.1	3.2	3.9	12.0	19.2	27.3
Other sectors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.6	7.8	19.5	9.0	7.4	5.6	22.0	41.4	8.2	5.0	9.4	22.5	3.2	3.6	3.1	9.9	32.5
debit	-151.1	-36.1	-33.8	-221.0	-7.1	-18.4	-31.1	-56.6	-277.6	-146.2	-28.9	-47.4	-222.5	-14.8	-21.4	-40.8	-77.0	-577.1	-146.5	-25.1	-44.5	-216.1	-12.2	-10.5	-20.3	-42.9	-259.0
Monetary authorities	0.0	-8.6	0.0	-8.6	0.0	-6.8	0.0	-6.8	-15.4	0.0	-6.9	0.0	-6.9	0.0	-7.2	0.0	-7.2	-29.5	0.0	-6.3	0.0	-6.3	0.0	-6.1	0.0	-6.1	-12.3
General government	-139.3	-16.8	-31.1	-187.2	-2.9	-5.5	-28.2	-36.6	-223.8	-142.3	-16.6	-31.9	-190.8	-1.6	-3.2	-19.8	-24.6	-439.2	-139.3	-15.4	-40.9	-195.5	-10.5	-3.8	-18.4	-32.7	-228.3
Banks	-11.8	-10.7	-2.6	-25.2	-4.2	-6.1	-2.6	-12.9	-38.0	-3.9	-2.4	-6.1	-12.5	-2.5	-4.2	-17.1	-23.7	-74.2	-3.1	-0.3	-1.9	-5.2	-1.3	-0.3	-0.9	-2.5	-7.8
Other sectors	0.0	0.0	-0.1	-0.1	0.0	0.0	-0.3	-0.3	-0.4	0.0	-3.0	-9.3	-12.3	-10.7	-6.8	-4.0	-21.5	-34.2	-4.1	-3.2	-1.7	-9.0	-0.4	-0.4	-0.9	-1.7	-10.6
Current transfers, net	17.6	16.7	12.9	47.1	12.3	11.2	7.3	30.8	78.0	15.6	10.2	-9.3	16.5	0.9	2.1	6.9	9.9	104.4	6.1	3.7	26.4	36.2	12.8	8.0	9.9	30.6	66.8
credit	24.9	26.1	22.3	73.2	22.3	17.2	17.0	56.5	129.7	25.3	17.9	10.6	53.8	14.0	15.7	18.5	48.2	231.8	16.0	8.2	30.5	54.7	14.2	9.9	11.3	35.5	90.1
General government[5]	1.2	1.3	1.0	3.5	0.6	0.7	0.5	1.9	5.4	0.1	10.6	0.1	10.9	3.7	8.3	8.7	20.7	37.0	7.0	1.5	22.1	30.6	6.5	1.2	0.8	8.5	39.1
Other sectors	23.7	24.8	21.3	69.7	21.6	16.5	16.5	54.6	124.3	25.2	7.3	10.5	43.0	10.3	7.4	9.8	27.5	194.8	8.9	6.7	8.4	24.0	7.7	8.7	10.6	27.0	51.0
debit	-7.3	-9.4	-9.4	-26.1	-10.0	-6.0	-9.7	-25.7	-51.7	-9.7	-7.7	-19.9	-37.3	-13.1	-13.7	-11.6	-38.4	-127.4	-9.9	-4.5	-4.1	-18.5	-1.4	-2.0	-1.4	-4.8	-23.3
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	-0.1	-0.2	0.0	0.0	0.0	-0.1	0.0	-0.5	0.0	-0.5	-0.6
Other sectors	-7.3	-9.4	-9.4	-26.1	-10.0	-6.0	-9.7	-25.7	-51.7	-9.7	-7.7	-19.8	-37.3	-13.0	-13.7	-11.6	-38.3	-127.2	-9.9	-4.5	-4.0	-18.4	-1.4	-1.5	-1.4	-4.3	-22.7
Capital and financial account[1, 6]	**170.5**	**46.2**	**-3.3**	**213.3**	**18.1**	**-137.1**	**-19.5**	**-138.4**	**74.9**	**177.6**	**-99.1**	**-29.1**	**49.4**	**0.9**	**43.5**	**-78.0**	**-33.6**	**90.8**	**51.9**	**-51.4**	**-84.3**	**-83.8**	**-146.7**	**-54.0**	**-144.3**	**-344.9**	**-428.8**
Capital account	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***65.9***	***0.0***	***0.0***	***65.9***	***0.0***	***0.0***	***0.0***	***0.0***	***65.9***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***	***0.0***
Capital transfers, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	65.9	0.0	0.0	65.9	0.0	0.0	0.0	0.0	65.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	***170.5***	***46.2***	***-3.3***	***213.3***	***18.1***	***-137.1***	***-19.5***	***-138.4***	***74.9***	***111.7***	***-99.1***	***-29.1***	***-16.5***	***0.9***	***43.5***	***-78.0***	***-33.6***	***24.8***	***51.9***	***-51.4***	***-84.3***	***-83.8***	***-146.7***	***-54.0***	***-144.3***	***-344.9***	***-428.8***
Direct investment	31.1	2.8	2.2	36.1	7.2	2.0	2.8	12.1	48.2	7.5	2.0	8.1	17.6	6.6	49.8	15.2	71.6	137.5	14.7	8.5	17.2	40.4	155.8	46.6	42.7	245.0	285.5
Abroad	21.9	0.1	1.0	23.1	0.7	1.7	0.4	2.8	25.9	0.9	-0.3	0.3	0.9	0.1	0.6	1.1	1.7	28.5	-0.2	0.2	-0.1	0.0	3.2	0.0	0.0	3.3	3.2
In reporting country[7]	9.2	2.7	1.2	13.0	6.5	0.4	2.4	9.3	22.3	6.6	2.3	7.8	16.7	6.6	49.2	14.2	70.0	109.0	14.9	8.3	17.3	40.5	152.5	46.5	42.7	241.8	282.2

(continued)

(continued) (million USD)

Indicators	1996																		1997								
	Jan	Feb	March	QI	April	May	June	QII	Jan – June	July	Aug	Sep	QIII	Oct	Nov	Dec	QIV	Total	Jan	Feb	March	QI	April	May	June	QII	Jan – June
Portfolio investment	-2.3	12.1	-46.2	-36.4	-10.1	5.2	10.6	5.6	-30.8	-128.6	10.1	2.6	-115.9	36.6	1.4	-20.6	17.4	-129.3	2.0	8.9	9.5	20.4	64.8	49.2	14.2	128.2	148.6
Assets	0.1	7.1	-18.8	-11.6	-4.4	-4.4	4.3	-4.5	-16.1	-14.8	-2.7	-0.2	-17.7	23.1	2.6	1.1	26.7	-7.1	2.4	1.1	-8.4	-4.8	-0.7	-0.4	0.1	-1.1	-5.9
Liabilities	-2.5	5.0	-27.4	-24.8	-5.7	9.5	6.3	10.1	-14.7	-113.8	12.8	2.9	-98.2	13.5	-1.2	-21.7	-9.4	-122.3	-0.4	7.8	17.8	25.2	65.5	49.7	14.2	129.3	154.5
Other investment	-137.7	-65.2	-175.5	-378.4	5.6	-171.6	-59.8	-225.7	-604.1	138.4	-42.6	-116.3	-20.5	-23.0	-8.0	-78.8	-109.9	-734.5	-66.3	-41.5	-1.7	-109.5	222.1	-15.6	-97.5	109.1	-0.4
Assets	-126.7	-68.4	-103.5	-298.6	49.9	-145.0	-1.6	-96.8	-395.4	39.6	-95.1	-38.7	-94.2	-42.0	-26.1	-10.3	-78.5	-568.0	-45.9	-22.5	3.3	-65.1	7.8	-12.1	-91.8	-96.1	-161.2
Trade credits, net												-0.1	-0.1	-0.3	-0.3	-0.2	-0.9	-1.0	-0.1	0.0	0.0	*-0.1*	-9.5	9.6	0.1	0.2	0.1
Loans	24.0	40.6	24.8	89.3	26.1	25.0	27.5	78.6	167.9	26.8	38.1	26.0	90.9	26.7	26.6	27.1	80.4	339.2	29.8	26.5	34.0	90.3	24.5	14.7	-0.3	39.0	129.2
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government[8]	24.1	40.6	24.8	89.5	26.2	25.0	27.5	78.7	168.2	26.8	38.1	26.0	90.9	27.0	26.6	26.9	80.4	339.5	29.6	26.5	33.8	89.9	24.5	14.6	0.0	39.1	128.9
Long-term	24.1	40.6	24.8	89.5	26.2	25.0	27.5	78.7	168.2	26.8	38.1	26.0	90.9	27.0	26.6	26.9	80.4	339.5	29.6	26.5	33.8	89.9	24.5	14.6	0.0	39.1	128.9
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks	-0.2	0.0	0.0	-0.2	-0.1	0.0	0.0	-0.1	-0.3	0.0	0.0	0.0	0.0	-0.2	0.0	0.0	-0.2	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term	-0.2	0.0	0.0	-0.2	-0.1	0.0	0.0	-0.1	-0.3	0.0	0.0	0.0	0.0	-0.2	0.0	0.0	-0.2	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors												0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.0	0.2	0.4	0.0	0.1	-0.3	-0.1	0.3
Currency and deposits	45.7	22.5	-49.3	18.9	26.4	78.8	30.0	135.1	154.0	21.9	-116.7	32.1	-62.6	20.9	29.4	-32.2	18.1	109.5	-9.4	-5.1	-81.5	-96.0	-8.5	-81.3	-126.2	-216.1	-312.1
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks	45.7	22.5	-49.3	18.9	26.4	78.8	30.0	135.1	154.0	21.9	-116.7	31.5	-63.3	-26.0	32.1	-28.7	-22.6	68.2	-15.4	-3.4	-79.8	-98.6	-9.6	-81.6	-129.6	-220.9	-319.6
Other sectors												0.6	0.6	46.9	-2.7	-3.5	40.7	41.3	6.0	-1.7	-1.7	2.7	1.1	0.3	3.4	4.8	7.5
Other assets	-43.4	0.0	-1.3	-44.8	41.3	15.8	-1.2	55.9	11.1	-15.7	0.0	-3.1	-18.8	0.0	0.4	7.5	8.0	0.2	-36.4	0.6	0.0	-35.8	8.9	12.0	-1.1	19.9	-16.0
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	-23.5	0.0	0.0	-23.5	0.0	0.0	0.0	0.0	-23.5	-19.2	0.0	-3.1	-22.3	0.0	0.0	0.0	0.0	-45.8	-22.7	0.0	0.0	-22.7	0.0	0.0	0.0	0.0	-22.7
Banks	-19.9	0.0	-1.3	-21.3	41.3	15.8	-1.2	55.9	34.6	3.5	0.0	0.0	3.5	0.0	0.4	7.5	8.0	46.0	-13.7	0.6	0.0	-13.1	8.9	12.0	-1.1	19.9	6.7
Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term	-19.9	0.0	-1.3	-21.3	41.3	15.8	-1.2	55.9	34.6	3.5	0.0	0.0	3.5	0.0	0.4	7.5	8.0	46.0	-13.7	0.6	0.0	-13.1	8.9	12.0	-1.1	19.9	6.7
Other[9]	-152.9	-131.4	-77.7	-362.0	-43.9	-264.6	-57.9	-366.4	-728.4	6.6	-16.5	-93.7	-103.6	-89.4	-82.2	-12.4	-184.0	-1016.0	-29.8	-44.6	50.9	-23.5	-7.6	32.9	35.7	61.0	37.5
Liabilities	-11.0	3.2	-72.0	-79.8	-44.2	-26.5	-58.1	-128.9	-208.7	98.8	52.5	-77.6	73.7	19.1	18.1	-68.5	-31.4	-166.4	-20.3	-18.9	-5.1	-44.3	214.3	-3.5	-5.7	205.2	160.8
Trade credits, net												0.6	0.6	-0.5	0.2	0.0	-0.3	0.2	1.3	-0.9	3.0	*3.4*	11.7	1.9	0.8	14.3	17.6
Loans	-20.0	-12.9	-96.5	-129.5	-10.2	-5.1	-94.1	-109.3	-238.8	93.4	41.0	-91.9	42.4	4.2	17.7	-28.9	-7.0	-203.3	-33.0	-14.1	-34.5	-81.5	174.0	-13.7	-17.9	142.4	60.8
Monetary authorities	-7.5	-5.7	-61.4	-74.6	-7.5	-1.9	-46.6	-55.9	-130.5	103.4	-5.6	-37.5	60.3	-7.5	-1.9	-28.3	-37.7	-107.9	-12.6	-5.4	-18.6	-36.6	171.3	-1.8	0.0	169.5	133.0
Use of Fund credit	-7.5	-5.7	-61.4	-74.6	-7.5	-1.9	-46.6	-55.9	-130.5	103.4	-5.6	-37.5	60.3	-7.5	-1.9	-28.3	-37.7	-107.9	-12.6	-5.4	-18.6	-36.6	171.3	-1.8	0.0	169.5	133.0
Drawings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	116.7	0.0	0.0	116.7	0.0	0.0	0.0	0.0	116.7	0.0	0.0	0.0	0.0	178.4	0.0	0.0	178.4	178.4
Repayments	-7.5	-5.7	-61.4	-74.6	-7.5	-1.9	-46.6	-55.9	-130.5	-13.3	-5.6	-37.5	-56.4	-7.5	-1.9	-28.3	-37.7	-224.6	-12.6	-5.4	-18.6	-36.6	-7.0	-1.8	0.0	-8.8	-45.4
General government	-8.4	-7.7	-23.9	-40.0	2.8	9.0	-1.7	10.1	-29.9	-6.0	48.4	-14.6	27.8	11.3	34.6	0.2	46.1	44.0	-2.7	-8.1	-11.5	-22.3	-7.8	-2.9	9.2	-1.4	-23.7
Long-term	-8.4	-7.7	-23.9	-40.0	2.8	9.0	-1.7	10.1	-29.9	-6.0	48.4	-14.6	27.8	11.3	34.6	0.2	46.1	44.0	-2.7	-8.1	-11.5	-22.3	-7.8	-2.9	9.2	-1.4	-23.7
Drawings	0.7	3.6	4.4	8.7	8.7	13.3	1.3	23.3	32.0	1.3	59.5	0.7	61.5	16.8	38.7	4.6	60.1	153.6	5.1	1.7	4.4	11.2	6.6	5.1	11.1	22.9	34.1
Repayments	-9.1	-11.3	-28.3	-48.7	-5.9	-4.3	-3.0	-13.2	-61.9	-7.3	-11.1	-15.3	-33.7	-5.5	-4.1	-4.4	-14.0	-109.6	-7.8	-9.8	-15.9	-33.5	-14.4	-8.0	-1.9	-24.3	-57.7
Short-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks	-4.5	-3.5	-9.0	-17.0	-10.3	-13.0	-48.9	-72.3	-89.3	-6.9	-0.2	-5.1	-12.3	-4.6	-5.7	-7.8	-18.1	-119.7	-12.3	0.0	-2.2	-14.5	-0.9	-3.8	-1.5	-6.2	-20.7
Long-term	-5.6	-2.3	-2.4	-10.3	-7.7	-8.8	-49.3	-65.8	-76.1	-5.6	-0.8	-1.8	-8.2	-8.1	-5.6	-7.8	-21.5	-105.9	-12.3	0.0	-1.9	-14.2	0.0	-1.5	-1.5	-3.0	-17.2
Drawings[10]	1.2	0.0	0.0	1.2	0.5	0.3	0.0	0.9	2.1	0.0	1.5	0.5	2.0	0.0	0.0	0.0	0.0	4.1	0.9	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.9
Repayments	-6.8	-2.3	-2.4	-11.5	-8.3	-9.2	-49.3	-66.7	-78.2	-5.6	-2.3	-2.3	-10.2	-8.1	-5.6	-7.8	-21.5	-110.0	-13.2	0.0	-1.9	-15.1	0.0	-1.5	-1.5	-3.0	-18.1
Short-term	1.1	-1.2	-6.6	-6.7	-2.6	-4.2	0.3	-6.5	-13.2	-1.3	0.6	-3.3	-4.1	3.5	0.0	0.0	3.4	-13.8	0.0	0.0	-0.3	-0.3	-0.9	-2.3	0.0	-3.2	-3.5
Other sectors	0.4	4.0	-2.2	2.1	4.9	0.8	3.2	8.8	10.9	2.9	-1.6	-34.7	-33.4	5.0	-9.3	7.0	2.8	-19.7	-5.4	-0.6	-2.2	-8.2	11.3	-5.2	-25.7	-19.6	-27.8
Long-term	0.2	0.7	-0.8	0.1	5.4	1.2	4.1	10.7	10.7	2.3	-2.2	-1.0	-0.9	8.3	0.3	7.4	16.0	25.8	-0.5	-1.2	-0.9	-2.5	0.0	-0.8	-2.8	-3.6	-6.1
Drawings	0.2	0.7	0.1	1.0	5.4	1.3	6.0	12.7	13.6	2.3	1.2	0.4	3.8	9.0	0.4	8.9	18.3	35.8	0.0	0.3	0.1	0.4	0.0	0.0	0.0	0.0	0.4
Repayments	0.0	0.0	-0.9	-0.9	0.0	-0.1	-1.9	-2.0	-2.9	0.0	-3.3	-1.4	-4.8	-0.7	-0.1	-1.5	-2.3	-10.0	-0.5	-1.4	-1.0	-2.9	0.0	-0.8	-2.8	-3.6	-6.5
Short-term	0.2	3.3	-1.4	2.1	-0.5	-0.4	-1.0	-1.9	0.2	0.6	0.6	-33.7	-32.5	-3.2	-9.6	-0.4	-13.2	-45.5	-4.9	0.6	-1.4	-5.6	11.3	-4.4	-22.9	-16.0	-21.6
Currency and deposits	1.8	-8.6	19.1	12.4	-45.0	-34.3	-14.5	-93.8	-81.4	-0.2	0.1	-0.1	-0.2	-1.2	-8.2	-3.9	-13.3	-94.9	-0.6	-3.9	2.9	-1.6	4.5	-1.1	3.3	6.7	5.1
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks	1.8	-8.6	19.1	12.4	-45.0	-34.3	-14.5	-93.8	-81.4	-0.2	0.1	-0.1	-0.2	-1.2	-8.2	-3.9	-13.3	-94.9	-0.6	-3.9	2.9	-1.6	4.5	-1.1	3.3	6.7	5.1

(continued)

(continued) (million USD)

Indicators	1996																		1997								
	Jan	Feb	March	QI	April	May	June	QII	Jan – June	July	Aug	Sep	QIII	Oct	Nov	Dec	QIV	Total	Jan	Feb	March	QI	April	May	June	QII	Jan – June
Other liabilities	7.2	24.7	5.4	37.3	11.0	12.9	50.4	74.3	111.5	5.6	11.4	13.9	30.9	16.5	8.4	-35.8	-10.9	131.6	11.9	0.0	23.6	35.5	24.1	9.4	8.2	41.8	77.2
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	21.1	21.1	23.2	10.1	5.9	39.2	60.3
Banks	7.2	24.7	5.4	37.3	11.0	12.9	50.4	74.3	111.5	5.6	11.4	13.9	30.9	16.5	8.4	-35.8	-10.9	131.6	11.9	0.0	2.5	14.4	0.9	-0.7	2.3	2.5	16.9
Long-term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term[10]	7.2	24.7	5.4	37.3	11.0	12.9	50.4	74.3	111.5	5.6	11.4	13.9	30.9	16.5	8.4	-35.8	-10.9	131.6	11.9	0.0	2.5	14.4	0.9	-0.7	2.3	2.5	16.9
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BNB reserves (increase:-)	279.4	96.4	216.2	592.0	15.4	27.3	26.9	69.6	661.6	94.4	-68.6	76.5	102.3	-19.3	0.4	6.2	-12.7	751.2	101.5	-27.4	-109.3	-35.2	-589.4	-134.2	-103.7	-827.3	-862.5
Monetary gold	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Special drawing rights	8.2	13.2	2.9	24.3	-7.0	8.3	-9.6	-8.3	16.0	0.8	12.2	-8.3	4.7	7.4	0.2	-10.5	-2.9	17.8	-2.4	6.4	-2.2	1.8	8.9	0.9	-15.2	-5.4	-3.6
Reserve position in the IMF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign exchange reserves	271.2	83.2	213.3	567.7	22.4	19.0	36.5	77.9	645.6	93.6	-80.8	84.8	97.6	-26.7	0.2	16.7	-9.8	733.4	103.9	-33.8	-107.1	-37.0	-598.3	-135.1	-88.5	-821.9	-858.9
Errors and omissions	-80.3	-46.2	36.3	-90.2	-3.1	115.5	-8.1	104.4	14.1	-107.5	-7.1	-23.6	-138.2	-10.4	-107.4	135.2	17.4	-106.7	-48.7	-32.4	-2.6	-83.8	63.9	-17.8	145.6	191.6	107.8

As of 15 October 1997.

* In accordance with IMF 5-th edition of the Balance of Payments Manual.

[1] The data for 1997 is preliminary.

[2] Foreign trade data for 1996 is final. Source: The MF Computing Center and NSI.
The preliminary trade data for 1997 is revised. Data is provided by the MF Computing Center and adjusted by the BNB.

[3] BNB estimates.

[4] NSI data and BNB estimates.

[5] Including data provided by the Agency for Foreign Aid and Bulgarian Red Cross.

[6] For assets, a minus sign denotes an increase in holdings and a positive figure represents a decrease.
For liabilities, a positive sign shows an increase and a negative figure shows a decrease.

[7] Data of the Ministry of Finance and Agency for Privatization.

[8] Includes gas deliveries under the Yamburg Agreement.

[9] Including change of deposits of the population and the private companies as well as other short-term capital.

[10] Including rescheduled payments and arrears.

[11] Settlement data received from commercial banks:

Goods, net	-116.1	-47.3	-8.7	-172.2	61.9	14.4	-76.4	-0.1	-172.2	-23.0	59.2	68.6	104.8	75.8	16.5	63.0	155.3	87.9	35.2	65.7	50.8	151.7	52.7	25.7	59.1	137.5	289.2
Credit	467.2	464.0	502.4	1433.6	541.2	416.2	343.7	1301.1	2734.7	352.3	343.7	343.7	1039.6	355.2	301.8	321.4	978.5	4752.7	272.8	274.4	318.9	866.1	317.7	347.7	338.8	1004.1	1870.3
Debit	-583.3	-511.3	-511.1	-1605.8	-479.3	-401.8	-420.1	-1301.2	-2907.0	-375.3	-284.4	-275.0	-934.8	-279.4	-285.4	-258.4	-823.1	-4664.9	-237.6	-208.7	-268.2	-714.5	-265.0	-321.9	-279.6	-866.6	-1581.1

CONSOLIDATED STATE BUDGET

(million BGL)

Indicators	Consolidated State Budget				General Government Budget						Legal Institutions					
	30 June 1996		30 June 1997		30 June 1996			30 June 1997			30 June 1996			30 June 1997		
	Reporting	% of GDP	Reporting	% of GDP	Reporting	Perc. share	% of GDP	Reporting	Perc. share	% of GDP	Reporting	Perc. share	% of GDP	Reporting	Perc. share	% of GDP
Net revenue	183813.8	11.1	1783758.2	11.0	105767.5	57.5	6.4	930705.3	52.2	5.8	1484.5	0.8	0.1	5643.3	0.3	0.0
Net expenditure	223496.1	13.5	2069713.4	12.8	128169.6	57.3	7.7	1231030.9	59.5	7.6	1438.6	0.6	0.1	10682.6	0.5	0.1
Loans extended from PRUF																
Government transfers	0.0		0.0		13905.9		0.8	135429.9		0.8	-165.0		0.0	-5536.0		0.0
Budget deficit	-39682.4	2.4	-285955.2	1.8	-36308.0		2.2	-435755.5		2.7	210.9		0.0	496.7		0.0
Financing, net	39682.4	2.4	285955.2	1.8	36308.0		2.2	435755.5		2.7	-210.9		0.0	-496.7		0.0
Foreign financing, net	-6858.5	0.4	155930.1	1.0	-6858.5		0.4	-59593.4		0.4			0.0			0.0
Domestic financing, net	46540.9	2.8	130025.1	0.8	43166.5		2.6	495349.0		3.1	-210.9		0.0	-496.7		0.0
Operations in government securities, net	42464.8		579154.8		42464.8			579154.8								
Bank, net	2824.5		-773982.3		222.4			-275138.7			-210.9			-496.7		
BNB, net	-1767.7		-315870.6		443.7			-267911.2			-210.9			-70.1		
Long-term loans	0.0		66800.0		0.0			66800.0			0.0			0.0		
Repayments	-1495.3		-1495.3		-1495.3			-1495.3			0.0			0.0		
Temporary loans	34000.0		60000.0		34000.0			60000.0			0.0			0.0		
Repayments	-28500.0		-60000.0		-28500.0			-60000.0			0.0			0.0		
Balances on lev accounts	-14672.2		-102144.7		-7273.7			-53002.7			-395.0			-194.5		
Balances on forex accounts – lev equivalent	0.0		-272077.8					-272077.8			0.0			0.0		
Time deposits in levs	0.0		-29000.0					-29000.0			0.0			0.0		
Balances from past periods	8899.8		22047.2		3712.7			20864.6			184.1			124.4		
Other banks and financial institutions, net	4592.2		-458111.7		-221.3			-7227.5			0.0			-426.6		
Credits extended	0.0		0.0					0.0			0.0			0.0		
Repayments	-414.1		-126.5		-236.5			-126.5			0.0			0.0		
Loans repaid from regional municipal councils	35.2				35.2						0.0					
Resources on accounts, net	4971.1		-457985.2		-20.0			-7101.0			0.0			-426.6		
Balances from past periods	10467.9		166006.2		0.0			73.8			0.0			207.9		
Balances on accounts	-5496.8		-623991.4		-20.0			-7174.8			0.0			-634.5		
Other financing	765.5		-380.5		479.3			-103809.1			0.0			0.0		
Loans from SFRD, net	0.0		-103861.1					-103861.1								
Privatization	485.0		325233.1					295142.0								
Issue of municipal bonds	1.1															

(continued)

(continued)

(million BGL)

Indicators	Social Security						Municipal Councils						Extrabudgetary Accounts					
	30 June 1996			30 June 1997			30 June 1996			30 June 1997			30 June 1996			30 June 1997		
	Reporting	Perc. share	% of GDP	Reporting	Perc. share	% of GDP	Reporting	Perc. share	% of GDP	Reporting	Perc. share	% of GDP	Reporting	Perc. share	% of GDP	Reporting	Perc. share	% of GDP
Net revenue	43678.2	23.8	2.6	425515.2	23.9	2.6	24279.4	13.2	1.5	224489.8	12.6	1.4	8604.2	4.7	0.5	197404.6	11.1	1.2
Net expenditure	51587.0	23.1	3.1	398769.2	19.3	2.5	37616.0	16.8	2.3	297611.2	14.4	1.8	4684.9	2.1	0.3	131619.5	6.4	0.8
Loans extended from PRUF	-7361.0												7361.0		0.4			
Government transfers	-2303.6		0.1	-21171.8		0.1	-13887.2		0.8	-89917.6		0.6	2450.0		0.1	-18804.5		0.1
Budget deficit	1755.8		0.1	47917.8		0.3	550.6		0.0	16796.2		0.1	-5891.7		0.4	84589.6		0.5
Financing, net	-1755.8		0.1	-47917.8		0.3	-550.6		0.0	-16796.2		0.1	5891.7		0.4	-84589.7		5.2
Foreign financing, net			0.0						0.0			0.0			0.0	215523.5		1.3
Domestic financing, net	-1755.8		0.1	-47917.8		0.3	-550.6		0.0	-16796.2		0.1	5891.7		0.4	-300113.2		1.9
Operations in government securities, net																		
Bank, net	-2240.8			-47917.8			-837.9			-16796.2			5891.7			-433632.9		
BNB, net	-2240.8			-47889.3			0.0			0.0			240.3			0.0		
Long-term loans	0.0			0.0			0.0			0.0			0.0			0.0		
Repayments	0.0			0.0			0.0			0.0			0.0			0.0		
Temporary loans	0.0			0.0			0.0			0.0			0.0			0.0		
Repayments	0.0			0.0			0.0			0.0			0.0			0.0		
Balances on lev accounts	-3277.3			-48947.5			0.0			0.0			-3726.2					
Balances on forex accounts – lev equivalent	0.0			0.0			0.0			0.0			0.0			0.0		
Time deposits in levs	0.0			0.0			0.0			0.0			0.0			0.0		
Balances from past periods	1036.5			1058.2			0.0			0.0			3966.5					
Other banks and financial institutions, net	0.0			-28.5			-837.9			-16796.2			5651.4			-433632.9		
Credits extended	0.0			0.0			0.0			0.0			0.0			0.0		
Repayments	0.0			0.0			-177.6			0.0			0.0			0.0		
Loans repaid from regional municipal councils	0.0			0.0						0.0			0.0			0.0		
Resources on accounts, net	0.0			-28.5			-660.3			-16796.2			5651.4			-433632.9		
Balances from past periods	0.0			0.0			321.0			651.9			10146.9			165072.6		
Balances on accounts	0.0			-28.5			-981.3			-17448.1			-4495.5			-598705.5		
Other financing	0.0			0.0			286.2			0.0						103428.6		
Loans from SFRD, net							0.0			0.0								
Privatization	485.0															30091.1		
Issue of municipal bonds							1.1											

Notes:
1. For calculating the percentage of GDP, the amount of GDP underlying the 1996 budget macroframework (BGL 1,660.2 billion) is used.
2. For calculating the percentage of GDP, the amount of GDP underlying the 1997 budget macroframework (BGL 16,150 billion) is used.
3. General government budget includes central government budget, budgets of ministries and agencies, budgets of regional municipal councils, and the budget of the National Audit Chamber.

Source: BNB and MF Monthly Bulletin ‘The Budget’.

CASH BASIS REPORTING OF THE CENTRAL GOVERNMENT BUDGET

(million BGL)

Indicators	1996				1997			
	SBL	Reporting 30 June	% of the Law	% of GDP	SBL	Reporting 30 June	% of the Law	% of GDP
Total revenue	358216.9	105767.5	29.5	6.4	2560288.3	915898.0	35.8	5.7
Current revenues	358216.9	105767.5			2560288.3	915097.0	35.7	5.7
Tax revenues	302533.6	82926.2	27.4	5.0	2265849.2	833606.4	36.8	5.2
corporate tax from financial institutions	20600.0	3687.1	17.9	0.2	108986.1	38733.5	35.5	0.2
corporate tax from nonfinancial institutions	29628.9	9140.2	30.8	0.6	343389.0	194041.6	56.5	1.2
customs duties and fees	46000.0	10385.0	22.6	0.6	344156.8	113581.4	33.0	0.7
VAT	113300.0	32006.4	28.2	1.9	1037400.0	321399.7	31.0	2.0
Nontax revenues	55683.3	22841.3	41.0	1.4	294439.1	81490.6	27.7	0.5
including:								
BNB – excess of revenue over expenditure	17000.0	11686.7	68.7	0.7	34000.0	0.0	0.0	0.0
interest revenue	3164.8	379.0	12.0	0.0	10720.0	18422.2	171.8	0.1
Revenue from sale of state property						800.8		0.0
Total expenditure	564238.0	142922.2	25.3	8.6	3496873.2	1362489.0	39.0	8.4
Current expenditures	397294.7	85335.9	21.5	5.1	1736877.4	872742.7	50.2	5.4
including:								
other expenditures	9866.3	1947.7	19.7	0.1	55104.1	7186.2	13.0	0.0
subsidies – total	10495.8	4514.4	43.0	0.3	79641.0	25987.7	32.6	0.2
interest – total	356308.7	75252.8	21.1	4.5	1547320.5	833058.3	53.8	5.2
interest on external loans	47843.5	13388.6	28.0	0.8	486456.0	152909.9	31.4	0.9
interest on internal loans	308465.2	61864.2	20.1	3.7	1060864.5	680148.4	64.1	4.2
including:								
on government securities for deficit financing (interest and discounts)	147209.2	34545.4	23.5	2.1	787938.8	504623.2	64.0	3.1
on government securities – noncash issues	79067.5	20186.8	25.5	1.2	141061.0	80656.7	57.2	0.5
on BNB loans	62282.3	6425.5	10.3	0.4	129520.0	93397.2	72.1	0.6
Capital expenditures and state reserve growth	2166.5	527.5	24.3		11723.0	652.0	5.6	0.0
Structural reform and rehabilitation program				0.0	145400.0	250.6	0.2	0.0
Transfers from CGB to other budgets	164776.8	59508.8	36.1	3.6	1525316.0	446168.7	29.3	2.8
Subsidies	165550.8	59522.1	36.0	3.6	1534099.4	445955.8	29.1	2.8
Temporary loans from general government budget to		191.5		0.0		1090.7		
municipal councils		126.5		0.0		-409.3		
regional municipal councils		0.0		0.0		0.0		
ministries and other government institutions		0.0		0.0		1500.0		
Social Security		0.0		0.0		0.0		
extrabudgetary accounts and funds		65.0				0.0		
legal authorities		0.0		0.0		0.0		
special agencies		0.0				0.0		
state higher schools		0.0				0.0		
General government budget contributions	-774.0	-204.9	26.5	0.0	-8783.4	-877.8	10.0	0.1
Transfers from CGB to extrabudgetary accounts					77556.8	46375.0	59.8	0.3
Temporary noninterest loans to CGB from extrabudgetary funds and accounts		-2450.0				-3700.0		0.0
Deficit (-) / Surplus (+)								
Primary deficit/surplus	150287.6	38098.1	25.4	2.3	610735.6	386467.3	63.3	2.4
Interest paid on internal loans	308465.2	61864.2	20.1	3.7	1060864.5	680148.4	64.1	4.2
Internal deficit	-158177.6	-23766.1	15.0	1.4	-450128.9	-293681.1	65.2	1.8
Interest paid on external loans	47843.5	13388.6	28.0	0.8	486456.0	152909.9	31.4	0.9
Cash deficit	-206021.1	-37154.7	18.0	2.2	-936585.0	-446591.2	47.7	2.8
Cash deficit financing	206021.1	37154.7	18.0	2.2	936585.0	446591.2	47.7	2.8
Foreign financing (operations abroad)	-51891.3	-6858.5	13.2	0.4	133247.8	-59593.5	44.7	0.4
External loans	2400.0				373660.0	0.0		
Repayments on credits extended to other countries	79.9	59.8	74.8		14.0	199.2	1422.9	
Repayments on external loans	-47931.6	-5910.6	12.3		-208346.2	-49939.0		
Overdue payments	-3915.5	-876.5	22.4		-16930.0	-8429.7	49.8	
Repayments on trade deficit in transferable roubles with the former Comecon countries	-2524.0	-131.2	5.2		-15000.0	-1424.0	9.5	
Lev bills					-150.0	0.0	0.0	
Domestic financing	257912.4	44013.2	17.1	2.7	803337.2	506184.7	63.0	3.1
Operations in government securities, net	142663.4	42464.8	29.8		474724.4	579154.8	122.0	
Issue of government securities in the current year, net	248127.9	102900.0	41.5			777488.7		
issue of treasury bills		96813.0				3574425.6		
issue of bonds		13754.0				62550.0		

(continued)

(continued) (million BGL)

Indicators	1996 SBL	1996 Reporting 30 June	1996 % of the Law	1996 % of GDP	1997 SBL	1997 Reporting 30 June	1997 % of the Law	1997 % of GDP
Repayment of government securities in the current year – total		-68102.2				-3057820.8		
repayment of government securities issued in the current year		-7667.0				-2859486.9		
repayment of government securities issued in previous years	-105464.5	-60435.2	57.3			-198333.9		
Bank, net	111536.3	3768.2	3.4					
BNB, net	112009.3	4004.7	3.6		-8985.5	65304.7	726.8	
long-term loans	115000.0	0.0			66800.0	66800.0		
repayments on long-term loans	-2990.7	-1495.3	50.0		-75785.5	-1495.3	2.0	
temporary loans		34000.0				60000.0		
repayments on temporary loans		-28500.0				-60000.0		
Repayments on credits from SSB (SII)	-473.0	-236.5	50.0		-253.0	-126.5		
Deposits, net	3712.7	-2255.0			-98368.1	-329429.2		
balances from past periods	3712.7	3712.7			20803.5	20864.6		
balances on accounts by end of period		-5967.7			-119171.6	-350293.8		
budget deposit in levs		-5967.7				-49216.0		
time deposit in levs						-29000.0		
forex budget deposit (lev equivalent)						-272077.8		
Other financing	0.0	35.2			-103922.6	-103861.1		
Loans to budget from SFRD, net						-103861.1		
loans to budget from SFRD						98877.4		
repayments on loans from SFRD						-202738.6		
Loans repaid by municipal councils from previous years		35.2						
Privatization			0.0		540142.0	295142.0		

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

Source: BNB.

DOMESTIC GOVERNMENT DEBT AMOUNT AND STRUCTURE

(million BGL)

Structure	Amount as of 31 Dec. 1996	Change in 1997		Amount as of 30 June 1997
		Increase	Decrease	
I. DEBT ON GOVERNMENT SECURITIES ISSUED FOR BUDGET DEFICIT FINANCING				
1. Government securities issued in 1994	6 200.0		2 840.6	3 359.4
incl. 3- year	3 945.4		1 603.1	2 342.3
5-year	1 017.1			1 017.1
8-year*	1 237.5		1 237.5	0.0
2. Government securities issued in 1995	43 097.5		26 951.8	16 145.7
incl. 2-year	10 790.9		9 331.1	1 459.8
3-year	8 379.2		4.9	8 374.3
5-year	13 905.4		7 618.8	6 286.6
9-year*	10 022.0		9 997.0	25.0
3. Government securities issued in 1996	251 820.1		197 820.7	53 999.3
3.1. Short-term	224 734.5		187 898.7	36 835.8
incl. 3-month	70 142.0		70 142.0	0.0
6-month	49 249.9		49 249.9	0.0
9-month	49 650.7		24 734.5	24 916.2
12-month	55 691.8		43 772.3	11 919.5
3.2. Medium-term	27 085.6		9 922.0	17 163.6
incl. 2-year	14 594.1		3 922.0	10 672.0
3-year	11 645.8		6 000.0	5 645.8
5-year	845.8			845.8
4. Government securities issued in 1997		3 652 848.9	2 861 300.8	791 548.1
4.1. Short-term		3 590 298.9	2 861 300.8	728 998.1
incl. 1-week		1 129 178.9	1 129 178.9	0.0
4-week		1 928 364.4	1 594 906.9	333 457.5
3-month		298 485.6	135 401.1	163 084.5
6-month		127 623.7	972.7	126 651.0
9-month		33 846.4		33 846.4
12-month		72 799.9	841.2	71 958.7
4.2. Medium-term		62 550.0		62 550.0
incl. 2-year		12 550.0		12 550.0
3-year		30 000.0		30 000.0
5-year		20 000.0		20 000.0
TOTAL (I)	301 117.6	3 652 848.9	3 088 913.9	865 052.5
II. DIRECT DEBT TO FINANCIAL INSTITUTIONS				
1. Bulgarian National Bank	138 060.8	1 270 098.1	264 860.8	1 143 298.1
incl. long-term credits	138 060.8	66 800.0	204 860.8	0.0
short-term credits		60 000.0	60 000.0	0.0
new debt issued in SDR as per § 10 of the Transitional and Final Provisions of the Law on the BNB of 1997		482.1		
incl. USD equivalent of SDR		665.2		
lev equivalent of SDR		1 143 298.1		1 143 298.1
2. State Savings Bank	1 264.9		126.5	1 138.4
TOTAL (II)	139 325.8	1 270 098.1	264 987.3	1 144 436.6
III. DEBT ON OTHER GOVERNMENT SECURITIES ISSUED PURSUANT TO CM DECREES AND LAWS				
A1. Long-term government bonds issued pursuant to CM Decree No. 244 of 1991	4 127.6		275.2	3 852.4
A2. Long-term government bonds issued pursuant to CM Decree No. 234 of 1992	4 797.9		1 208.8	3 589.1
A3. Long-term government bonds issued pursuant to Articles 4 and 5 of ZUNK of 1993				
in BGL	20 048.5		6 566.3	13 482.2
denominated in USD	950.2		58.2	892.0
(in BGL at the current exchange rate)	463 070.8			1 532 978.0
A4. Long-term government bonds issued pursuant to CM Decree No. 3 of 1994	1 431.2		499.9	931.3
TOTAL (A)	493 476.0	0.0	8 550.2	1 554 833.0

(continued)

(continued)

Structure	Amount as of 31 Dec. 1996	Change in 1997		Amount as of 30 June 1997
		Increase	Decrease	
B1. Government bonds issued pursuant to Article 2 of CM Decree No. 89 of 1995	58 314.8		35 994.5	22 320.3
Issue No. 200 (7-year)	22 051.2		12 730.9	9 320.3
Issue No. 201 (7-year)	36 263.5		23 263.5	13 000.0
B2. Government bonds issued pursuant to CM Decree No. 193 of 1995	2 600.0			2 600.0
Issue No. 202 (5-year)	1 176.0			1 176.0
Issue No. 203 (3-year)	1 000.0			1 000.0
Issue No. 204 (4-year)	424.0			424.0
B3. USD-denominated government bonds issued pursuant to CM Decree No. 145 of 1997				85 930.0
Issue No. 300 (18-month)		50.0		50.0
(in BGL at the current exchange rate)				85 930.0
TOTAL (B)	60 914.8	0.0	35 994.5	110 850.3
C. Government bonds issued pursuant to Articles 8 and 9 of Law on State Protection of Deposits and Accounts of 1996				
in BGL	19 481.9	8 502.2	2 783.1	25 200.8
Issue No. 402 (7-year)	6 000.0		857.1	5 142.9
Issue No. 403 (7-year)	6 338.7		905.5	5 433.2
Issue No. 404 (7-year)	6 301.2		900.2	5 401.0
Issue No. 405 (7-year)	793.1		113.3	679.8
Issue No. 406 (7-year)	18.2		2.6	15.6
Issue No. 407 (7-year)	30.6		4.4	26.2
Issue No. 418 (7-year)		8 502.2		8 502.2
denominated in USD	38 551.9			113 092.9
Issue No. 314 (3-year)	50.0		15.2	34.8
(in BGL at the current exchange rate)	24 367.5			59 807.3
Issue No. 315 (3-year)	28.2		7.2	20.9
(in BGL at the current exchange rate)	13 719.5			35 967.4
Issue No. 329 (3-year)	1.0			1.0
(in BGL at the current exchange rate)	464.8			1 639.2
Issue No. 400 (3-year)		9.1		9.1
(in BGL at the current exchange rate)				15 679.0
TOTAL (C)	58 033.8	8 502.2	2 783.1	138 293.7
TOTAL (III)	612 424.6	8 502.2	47 327.8	1 803 977.0
DOMESTIC GOVERNMENT DEBT, TOTAL	1 052 868.0	4 931 449.2	3 401 229.0	3 813 466.1

* MF securitized direct debt to the BNB.
Debt on government securities does not include government securities on the MF account.

Source: BNB.

MONEY SUPPLY

(million BGL)

Indicators	XII'95	III'96	VI'96	IX'96	XII'96	I'97	II'97	III'97	IV'97	V'97	VI'97
Exchange rate, BGL/1 USD	70.704	78.828	155.46	229.98	487.35	1021.9	2045.5	1588.7	1467.8	1568.1	1718.6
Broad money	583663	584179	697932	826461	1310275	2017184	3445481	3082321	3160166	3494038	4010967
BGL	424899	419999	439688	475709	648989	669785	841599	999166	1228321	1367837	1605984
foreign currency	158764	164180	258244	350752	661286	1347399	2603882	2083155	1931845	2126201	2404983
Money (M2)	571305	570067	675140	794400	1244566	1878540	3195229	2887235	2981749	3307733	3796921
Money (M1)	107886	93011	112365	142668	236628	236749	382520	460688	593816	706577	884416
Currency outside banks	61615	57262	70257	85433	126461	127775	213366	265585	374106	431100	553211
Demand deposits	46271	35749	42108	57235	110167	108974	169154	195103	219710	275477	331205
Quasi-money	463419	477056	562775	651732	1007938	1641791	2812709	2426547	2387933	2601156	2912505
Time deposits	255570	266137	268541	275370	326153	342821	368996	442342	519565	543294	594903
Savings deposits	57819	56205	54589	51822	81606	76764	76610	81099	88534	91463	99915
Foreign currency deposits	150030	154714	239645	324540	600179	1222206	2367103	1903106	1779834	1966399	2217687
Import and restricted deposits	12288	14044	22652	31887	65398	138082	249121	194150	177515	185347	212835
BGL	3562	4581	4130	5789	4522	13372	13310	14851	26197	26285	26351
foreign currency	8726	9463	18522	26098	60876	124710	235811	179299	151318	159062	186484

Source: BNB.

DOMESTIC CREDIT

(million BGL)

Indicators	XII'95	III'96	VI'96	IX'96	XII'96	I'97	II'97	III'97	IV'97	V'97	VI'97
Exchange rate, BGL/1 USD	70.704	78.828	155.46	229.98	487.35	1021.9	2045.5	1588.7	1467.8	1568.1	1718.6
Net domestic credit	628485	690128	922139	1208581	1994407	3534004	6282885	4771389	3878726	3879172	4925621
BGL	411077	437531	454264	539797	652219	717019	776508	826823	880852	901809	592636
foreign currency	217408	252597	467875	668784	1342188	2816985	5506377	3944566	2997874	2977363	4332985
Claims on government, net	269378	301869	370483	494711	822520	1401363	2341704	1927585	1233501	1161935	1898870
BGL	207108	233075	237178	301026	417010	471194	515723	592907	659203	686810	327443
foreign currency	62270	68794	133305	193685	405510	930169	1825981	1334678	574298	475125	1571427
Claims on nongovernment sector, net	359107	388259	551656	713870	1171887	2132641	3941181	2843804	2645225	2717237	3026751
BGL	203969	204456	217086	238771	235209	245825	260785	233916	221649	214999	265193
foreign currency	155138	183803	334570	475099	936678	1886816	3680396	2609888	2423576	2502238	2761558
Claims on nonfinancial public enterprises	169023	185512	249357	320615	525589	946617	1780339	1176458	1069142	1095073	1220747
BGL	97576	97663	89300	102541	95880	89054	92372	76596	74160	63120	84309
foreign currency	71447	87849	160057	218074	429709	857563	1687967	1099862	994982	1031953	1136438
Claims on private sector	190084	202747	302299	393255	646298	1186024	2160842	1667346	1576083	1622164	1806004
BGL	106393	106793	127786	136230	139329	156771	168413	157320	147489	151879	180884
foreign currency	83691	95954	174513	257025	506969	1029253	1992429	1510026	1428594	1470285	1625120

Source: BNB.

INTEREST RATES ON SHORT-TERM CREDITS, JANUARY – JUNE 1997

Months	Nominal						Real*					
	I	II	III	IV	V	VI	I	II	III	IV	V	VI
January	16.14						-19.09					
February	36.94	17.91					-72.16	-65.59				
March	63.29	40.60	19.25				-70.43	-63.46	6.21			
April	87.83	61.74	37.17	15.03			-65.75	-57.67	23.04	15.84		
May	98.86	71.23	45.22	21.78	5.87		-65.68	-57.58	23.30	16.08	0.21	
June	106.42	77.74	50.74	26.41	9.89	3.80	-64.66	-56.33	26.94	19.51	3.17	2.95

INTEREST RATES ON ONE-MONTH DEPOSITS, JANUARY – JUNE 1997

Months	Nominal						Real*					
	I	II	III	IV	V	VI	I	II	III	IV	V	VI
January	10.49						-23.02					
February	22.58	10.94					-75.08	-67.63				
March	35.99	23.07	10.94				-75.38	-68.01	-1.18			
April	47.33	33.34	20.20	8.34			-73.13	-65.10	7.82	9.11		
May	51.79	37.38	23.84	11.62	3.03		-73.80	-65.97	5.14	6.40	-2.48	
June	54.09	39.46	25.71	13.31	4.59	1.51	-73.62	-65.73	5.86	7.13	-1.81	0.69

* Interest rates are deflated by the consumer price index.

Source: BNB.

DENOMINATION COMPOSITION IN NOTES AND COINS

(BGL)

	30 June 1996	31 December 1996	30 June 1997
Notes, total	150 563 319 390	201 237 588 058	896 662 289 718
50 000 levs			351 500 000 000
10 000 levs		10 000 000 000	100 000 000 000
5 000 levs	10 000 000 000	30 000 000 000	120 100 000 000
2 000 levs	39 856 000 000	39 775 568 000	110 748 920 000
1 000 levs	12 256 995 500	22 550 450 000	78 466 981 000
500 levs	53 390 248 500	60 261 723 250	74 245 417 250
200 levs	19 399 148 300	23 043 550 100	39 968 495 800
100 levs	9 767 542 400	10 216 653 500	14 550 067 800
50 levs	3 213 405 875	2 914 815 600	4 361 436 125
20 levs	1 691 135 322	1 697 190 707	1 991 735 167
10 levs	562 993 842	404 674 672	372 074 472
5 levs	266 799 536	220 772 174	207 272 092
2 levs	77 051 093	73 411 089	72 171 061
1 lev	81 999 022	78 778 966	77 718 951
Coins, total	1 317 602 317	1 728 702 017	2 007 086 717
50 levs	11 260 000	11 260 000	11 260 000
20 levs	4 714 960	4 714 960	4 714 960
10 levs	171 465 000	472 830 000	636 770 000
5 levs	198 660 000	273 450 000	332 663 950
2 levs	160 545 000	160 545 000	160 545 000
1 lev	130 492 651	137 230 651	137 230 651
50 stotinkas	55 588 358	55 588 358	55 588 358
20 stotinkas	47 632 861	47 644 061	47 644 061
10 stotinkas	33 336 493	33 336 493	33 336 493
5 stotinkas	12 083 009	12 083 009	12 083 009
2 stotinkas	10 862 659	10 862 659	10 862 659
1 stotinka	8 644 520	8 644 520	8 644 521
Commemorative	472 316 806	500 512 306	555 743 056
Notes and coins, total	151 880 921 707	202 966 290 075	898 669 376 435

Source: BNB.

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

Indicators	XII'96	1997					
		I	II	III	IV	V	VI
Average monthly exchange rate							
BGL/1 USD	461.16	698.65	2387.16	1660.07	1546.23	1532.63	1668.45
BGL/1 DEM	297.71	435.35	1425.71	978.89	906.75	899.52	967.25
BGL/1 CHF	348.45	501.66	1644.36	1133.69	1059.84	1069.51	1158.84
End of month exchange rate							
BGL/1 USD	487.35	1021.90	2045.50	1588.70	1467.80	1568.10	1718.60
BGL/1 DEM	313.79	622.92	1211.80	947.63	854.17	921.54	992.66
BGL/1 CHF	361.81	715.97	1386.40	1097.20	1001.10	1108.20	1192.50
Monthly volume of forex bought (million USD)	284.7	185.2	161.8	417.4	553.5	433.6	496.1
Monthly volume of forex sold (million USD)	201.7	167.4	123.6	318.6	531.3	353.8	352.8
Gross foreign exchange reserves (million USD)*	483.4	380.6	407.6	517.0	1105.6	1240.7	1344.3

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

Source: BNB.

CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS AS OF 30 JUNE 1997

(billion BGL)

Indicators	Group I			Group II			Group III			Total for the banking system		
	carrying value	adjustment	balance sheet value	carrying value	adjustment	balance sheet value	carrying value	adjustment	balance sheet value	carrying value	adjustment	balance sheet value
FINANCIAL ASSETS	7033	1373	5661	739	117	623	364	44	320	9675	2472	7203
RESERVES	898	95	803	228	14	214	52	5	47	1257	114	1143
BGL	327	6	320	39	0	39	7	0	7	382	6	376
foreign currency	552	69	483	188	14	174	45	5	40	855	88	767
GOVERNMENT SECURITIES	1829	471	1359	62	7	55	27	1	26	2013	478	1535
BGL	629	6	622	26	0	25	15	0	15	672	7	666
foreign currency	1200	463	736	36	6	30	12	1	11	1340	470	870
CLAIMS ON BANKS AND OTHER FINANCIAL INSTITUTIONS	1797	402	1396	167	25	142	170	10	160	2211	451	1761
BGL	34	3	31	13	0	13	4	0	4	63	9	54
foreign currency	1694	330	1364	154	25	129	166	10	156	2080	374	1706
CLAIMS ON NONFINANCIAL INSTITUTIONS AND OTHER CLIENTS	2504	405	2099	267	70	196	115	28	87	4117	1428	2689
BGL	1178	36	1142	55	19	36	10	4	6	1318	126	1193
foreign currency	1326	369	957	209	49	160	105	24	81	2744	1248	1496
BONDS AND OTHER SECURITIES WITH FIXED YIELD IN TRADING PORTFOLIO	0	0	0	7	1	6	0	0	0	51	1	50
BGL	0	0	0	0	0	0	0	0	0	2	0	2
foreign currency	0	0	0	7	1	6	0	0	0	49	1	49
SHARES AND OTHER SECURITIES WITH VARIABLE YIELD IN TRADING PORTFOLIO	0	0	0	3	0	3	0	0	0	3	0	3
BGL	0	0	0	0	0	0	0	0	0	0	0	0
foreign currency	0	0	0	3	0	3	0	0	0	3	0	3
LONG-TERM FINANCIAL ASSSETS	4	0	4	7	0	7	0	0	0	23	1	22
Partnerships	0	0	0	0	0	0	0	0	0	1	0	1
Equity	1	0	1	0	0	0	0	0	0	5	1	4
Shares	4	0	4	7	0	7	0	0	0	16	0	16
Bonds	0	0	0	0	0	0	0	0	0	0	0	0
NONFINANCIAL ASSETS	59	4	55	25	1	23	3	0	3	104	8	95
SHORT-TERM NONFINANCIAL ASSETS	2	0	2	2	0	2	0	0	0	5	0	5
LONG-TERM NONFINANCIAL ASSETS	57	4	53	23	1	21	3	0	3	99	8	91
Intangible	1	0	1	1	0	1	1	0	0	3	1	2
Tangible	56	4	52	22	1	21	3	0	3	96	8	89
FUTURE EXPENDITURE	14	0	14	8	0	8	4	0	4	30	0	30
RIGHTS TO EQUITY SUBSCRIPTION	0	0	0	95	0	95	0	0	0	133	0	133
OTHER ASSETS	87	5	82	12	0	12	14	0	14	185	11	173
LOSSES	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL ASSETS	7193	1382	5812	879	118	761	385	44	341	10126	2492	7634
OFF-BALANCE-SHEET ASSETS	4379	0	4379	1651	0	1651	801	0	801	9109	0	9109
ATTRACTED RESOURCES	5380	0	5380	530	0	530	270	0	270	7121	0	7121
ATTRACTED RESOURCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS	2162	0	2162	147	0	147	62	0	62	2800	0	2800
BGL	20	0	20	29	0	29	25	0	25	178	0	178
foreign currency	2142	0	2142	118	0	118	38	0	38	2621	0	2621
ATTRACTED RESOURCES FROM NONFINANCIAL INSTITUTIONS AND OTHER CLIENTS	3218	0	3218	383	0	383	208	0	208	4322	0	4322
BGL	1027	0	1027	122	0	122	20	0	20	1230	0	1230
foreign currency	2192	0	2192	261	0	261	188	0	188	3092	0	3092
FUTURE REVENUE	24	0	24	10	0	10	6	0	6	43	0	43
OTHER LIABLILITIES	206	0	206	57	0	57	39	0	39	393	0	393
OWN FUNDS	201	0	201	165	0	165	27	0	27	77	0	77
PROFIT	90	0	90	7	0	7	-7	0	-7	-322	0	-322
Retained earnings from previous years	0	0	0	0	0	0	1	0	1	1	0	1
Profit for the current year	93	0	93	17	0	17	7	0	7	117	0	117
Uncovered losses from past periods	-4	0	-4	-3	0	-3	-1	0	-1	-29	0	-29
Losses in the current year	0	0	0	-6	0	-6	-15	0	-15	-411	0	-411

(continued)

(continued) (billion BGL)

Indicators	Group I			Group II			Group III			Total for the banking system		
	carrying value	adjustment	balance sheet value	carrying value	adjustment	balance sheet value	carrying value	adjustment	balance sheet value	carrying value	adjustment	balance sheet value
CAPITAL	77	0	77	156	0	156	17	0	17	346	0	346
Fixed	70	0	70	148	0	148	17	0	17	312	0	312
Supplementary	7	0	7	8	0	8	0	0	0	34	0	34
RESERVES	35	0	35	2	0	2	17	0	17	53	0	53
TOTAL LIABILITIES	5812	0	5812	761	0	761	341	0	341	7634	0	7634
OFF-BALANCE-SHEET LIABILITIES	4379	0	4379	1651	0	1651	801	0	801	9109	0	9109

Source: BNB.

CONSOLIDATED INCOME STATEMENT OF COMMERCIAL BANKS AS OF 30 JUNE 1997

(billion BGL)

Indicators	Group I	Group II	Group III	Total for the banking system
I. FINANCIAL EXPENDITURE	13732	2116	291	22263
Interest on lev operations	363	79	12	525
Interest on foreign exchange operations	33	14	2	70
Capital losses on securities	930	389	4	1328
Valuation adjustments	11360	1537	218	18275
Commissions and fees	8	7	1	16
Expenditures on provisioning	1037	91	54	2048
Other financial expenditure	1	0	0	1
II. EXTRA EXPENDITURE	4	1	0	27
III. EXPENDITURE BY ECONOMIC ELEMENT	68	19	9	110
Equipment	7	2	0	10
External services	18	8	5	37
Salaries and other remuneration	24	5	2	34
Social securities and benefits	9	2	1	13
Depreciation	1	1	0	2
Other expenditure	9	2	1	14
IV. TAXES	44	1	1	46
Profit tax	41	1	1	44
Other taxes	2	0	0	3
TOTAL EXPENDITURE (I+II+III+IV)	13847	2137	302	22447
V. RESULT FROM THE REPORTING PERIOD (PROFIT)	64	17	7	87
TOTAL EXPENDITURE (I+II+III+IV+V)	13911	2154	309	22534
I. FINANCIAL REVENUE	13785	2137	293	21962
Interest on lev operations	376	69	13	506
Interest on foreign exchange operations	82	30	9	196
Income from partnerships and equity	1	0	0	1
Capital gains on securities	919	410	12	1346
Valuation adjustments	12383	1614	254	19869
Commissions and fees	24	13	5	44
Other financial revenues	0	0	0	0
II. EXTRA REVENUE	124	10	0	159
III. REVENUE FROM NONFINANCIAL SERVICES	1	0	0	2
TOTAL REVENUE (I+II+III)	13911	2148	294	22123
IV. RESULT FROM THE REPORTING PERIOD (LOSSES)	0	6	15	411
TOTAL REVENUE (I+II+III+IV)	13911	2154	309	22534

Source: BNB.

BIG LOANS OF COMMERCIAL BANKS
(as per Regulation No. 7 of the BNB)

Indicators	Group I		Group II		Group III	
	1996	VI'97	1996	VI'97	1996	VI'97
Big loans, billion BGL	92	326	47	70	16	18
Capital base, billion BGL	79	106	13	58	3	12
Big loans/capital base, %	117	308	350	121	578	151

Source: BNB.

CAPITAL ADEQUACY OF COMMERCIAL BANKS
(as per Regulation No. 8 of the BNB)

Indicators	Group I		Group II		Group III	
	1996	VI'97	1996	VI'97	1996	VI'97
Capital base, billion BGL	79	106	11	58	3	20
Primary capital, billion BGL	76	89	17	46	3	14
Total risk component, billion BGL	414	1270	132	321	18	105
Total assets, billion BGL	1732	5755	218	711	43	200
Total capital adequacy, %	19.1	8.3	8.2	18.0	15.2	19.3
Primary capital adequacy, %	18.3	7.0	12.8	14.3	18.4	13.6
Degree of asset risk, %	23.9	22.1	60.6	45.1	42.8	52.3
Degree of asset cover, %	4.6	1.8	5.0	8.1	6.5	10.1
Net capital/balance-sheet assets, %	3.9	3.2	4.5	8.1	-8.7	6.7

Note: Net capital = Total assets – Losses – Rights to equity subscription – Future expenditure – Future revenue – Attracted resources – Other liabilities – Required provisions (only for 1996).

Source: BNB.

CONSOLIDATED REPORT OF COMMERCIAL BANKS
(as per Regulation No. 9 of the BNB)

(billion BGL)

Indicators	Standard loans		Doubtful loans, group A		Loans not subject to provisioning		Doubtful loans, group B		Uncollectable loans		Loans as per Regulation No. 9, total		Statutory provisions, total	
	1996	VI'97	1996	VI'97	1996	VI'97	1996	VI'97	1996	VI'97	1996	VI'97	1996	VI'97
Group I	789	2318	531	1974	104	51	358	737	154	434	1832	5463	428	1273
Group II	52	65	54	468	44	239	4	23	17	35	126	590	42	116
Group III	0	5	34	160	12	102	2	4	8	16	45	185	14	43

Source: BNB.

TRANSFERS IN THE BANKING SYSTEM

Year, month	Number of bank branches	Monthly		Daily			
		Number	Amount, BGL	Average number	Maximum number	Average amount	Maximum amount
1996							
January – June	961	5 072 375	1 102 244 559 897	41 239	84 556	8 961 337 885	12 883 459 032
1997							
January	934	699 347	534 223 827 846	33 302	66 485	25 439 229 897	33 497 032 563
February	911	726 188	903 230 047 064	36 309	88 326	45 161 502 353	55 987 962 945
March	894	764 114	1 186 330 532 800	38 206	81 106	59 316 526 640	72 540 018 566
April	896	807 452	1 608 859 904 502	42 497	71 971	84 676 837 079	116 130 206 523
May	892	848 096	2 063 802 606 568	36 874	73 024	89 730 548 112	113 616 992 083
June	895	800 863	2 009 814 859 443	38 136	90 104	95 705 469 497	136 190 770 223
Total for the period		4 646 060	8 306 261 778 224	37 468	90 104	66 985 982 082	136 190 770 223

Source: BNB.

Major Resolutions of the Managing Board of the Bulgarian National Bank

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

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

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

15 January Pursuant to Article 46 of the Law on the BNB, an interim loan of BGL 7 billion with value date 15 January and a redemption period of three months was extended to the MF.

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

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

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

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

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

27 January The BNB set the base interest rate on the basis of the average weighted compound monthly yield obtained at the primary auctions for 7-day government securities, the best developed market to date, taking into account the impact of the yield obtained on 28-day government securities. A change in the base interest rate was to be made in case strong aberrations from market terms of short-term government securities occurred.

Effective 28 January 1997, the BNB Board set the base interest rate at 16.5% per month.

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

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

4 February Pursuant to Article 46 of the Law on the BNB, an interim loan in the amount of up to BGL 24 billion with value date 5 February 1997 and a redemption period of three months was extended to the MF. The loan was to accrue interest equal to the effective base interest rate for the respective period.

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

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

12 February Pursuant to Article 46 of the Law on the BNB, an interim loan of BGL 24 billion with value date 12 February 1997 and a redemption period of three months was extended to the MF. The loan was to accrue interest equal to the effective base interest rate for the respective period.

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

27 February Effective 1 March 1997, the BNB Board set the base interest rate at 18% per month.

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

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

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

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

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

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

3 April The BNB set the base interest rate on the basis of the average weighted compound monthly yield (computed to the second digit after the decimal point) obtained at five consecutive auctions for 7-day discount issues of government securities held by the MF until Thursday inclusive, and when the working cycle was disturbed until the penultimate working day before Monday, effective as of the first Monday following the day of its setting. Until the end of April 1997, the base interest rate was changed every two weeks, and from the beginning of May weekly.

Effective 7 April 1997, the BNB Board set the monthly base interest rate at 17.14%.

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

Effective 14 April 1997, the BNB Board set the monthly base interest rate at 14.15%.

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

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

17 April Effective 21 April 1997, the BNB Board set the monthly base interest rate at 8.03%.

The BNB set the base interest rate on the basis of the average weighted compound monthly yield obtained at the auctions for 7-day and 28-day discount government securities held by the MF in five consecutive days until Thursday inclusive, and when the working cycle was disturbed until the penultimate working day before Monday, effective as of the first Monday following the day of its setting.

24 April Effective 28 April 1997, the BNB Board set the monthly base interest rate at 6.20%, the simple annual interest on this basis at 74.40% and the compound annual interest on a monthly basis at 105.82%.

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

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

8 May Effective 12 May 1997, the BNB Board set the monthly base interest rate at 5.20% (62.40% simple annual rate, 83.73% effective annual rate on a monthly basis).

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

Effective 19 May 1997, the BNB Board set the base interest rate at 65.54% effective annual interest with monthly capitalization (51.48% simple annual rate).

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

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

22 May Effective 26 May 1997, the BNB Board set the base interest rate at 52.69% effective annual interest rate on a monthly basis (43.08% simple annual rate).

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

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

Effective 2 June 1997, the BNB Board set the base interest rate at 61.22% effective annual interest on a monthly basis (48.72% simple annual rate).

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

Yambol Commercial Bank Ltd. was renamed to BULGARIA-INVEST Commercial Bank Ltd.

5 June As of 9 June 1997, the base interest rate was set at 59% effective annual interest on a monthly basis (47.28% simple annual interest) from the rate of 61.22% effective annual interest on a monthly basis (48.72% simple annual interest).

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

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

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

12 June As of 16 June 1997, the base interest rate was set at 42.24% effective annual interest on a monthly basis (35.76% simple annual interest) from the rate of 59% (47.28%).

20 June As of 23 June 1997, the base interest rate was set at 16.30% annual interest on a compound monthly basis. The base interest rate was set on the basis of the yield attained at the auction for three-month noninterest-bearing bills held on 16 June 1997.

26 June As of 30 June 1997, the base interest rate was set at 10.60% effective annual interest (10.12% simple annual interest).

As of 1 July 1997, BNB selling exchange rate was set at BGL 1,000 per DEM 1 and the buying exchange rate at BGL 995 per DEM 1. The BNB quoted daily central exchange rates for foreign currencies to the Bulgarian lev for the next working day based on the fixing set on the Frankfurt Exchange by 3 p.m. Bulgarian time, the rate of exchange of the Deutschemark to the other currencies and the official rate of BGL 1,000 per DEM 1.

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5 June The National Assembly passed the new Law on the Bulgarian National Bank.

11 – 13 June Pursuant to Article 12, § 3 and § 5 of the Transitional and Final Provisions of the Law on the BNB, the National Assembly elected the Governor and the three Deputy Governors of the BNB, and the President appointed the other three members of the BNB Managing Board.

30 June Pursuant to § 10 of the Transitional and Final Provisions of the Law on the BNB, the central bank's claims on the government and other assets of the bank relating to government obligations to foreign creditors were rescheduled in accordance with agreements signed by the BNB Governor and the Minister of Finance.