BULGARIAN NATIONAL BANK

ANNUAL REPORT 1990

Abbreviations

BNB	–	Bulgarian National Bank
CMEA	–	Council for Mutual Economic Assistance
GDP	–	Gross Domestic Product
GDR	–	German Democratic Republic
FRG	–	Federal Republic of Germany
IMF	–	International Monetary Fund
OECD	–	Organization for Economic Co-operation and Development
SDRs	–	Special Drawing Rights
Lv	–	Leva

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Honourable Chairmanship of the Grand National Assembly! Honourable Members of Parliament!

In accordance with the Constitution of Bulgaria, Art.29, Par.2, which states that the Bulgarian National Bank is accountable to the National Assembly, allow me, in my capacity as Governor of the Bank, to present to Your attention the BNB's annual report for 1990. I beg you to remember that the former management of the BNB that you discharged by vote in January 1991 had to work and take decisions in a state of perfect dependence on the Government and the ruling party.

In 1990 the situation in the country was characterized by aggravating economic and political crisis. Industrial output and the Gross National Product contracted abruptly. Inflation accelerated. The Government announced a moratorium on the external debt payments because of the enormous external debt and the exhaustion of foreign reserves. Foreign trade was reduced in both directions. A disintegration of the previous relations with the CMEA countries was in process. The country suffered economic damages due to the Persian Gulf War, too.

Under those difficult circumstances, the BNB management started to reform the banking system on a narrow scale, by reducing the excess credits and adjusting the foreign exchange policy. At the same time it worked hard on preparing the Bulgaria's admittance to the International Monetary Fund and the World Bank membership.

In 1990 the BNB continued the reform initiated in 1987, intended to establish a two-tier banking system. The Bank was released from its former irrelevant commercial bank obligations and began to work on its functions of a central bank. The investment banks established several years ago, specialized by industrial branches, were turned into universal banks. The state monopoly over banking was abolished and the first private banks appeared. Pursuing that basically correct – although slowly and indecisively implemented policy, in 1990 the BNB's branch-offices around the country were transformed into too many independent commercial banks most of them small and financially weak, which we consider to have been an erroneous step. That will enforce in 1991, in line with the Program submitted by the World Bank, large-scale mergers to turn them into branch-offices of a few big commercial banks with consolidated balance sheets. On this safer ground the privatization of a part of the banking system can take place.

In keeping with the old-dated practices, the BNB continued to concentrate the free credit resources in its hands and to use them for budget *deficit financing, the only difference being now that it was executed under the supervision of the Grand National Assembly.*

The foreign exchange policy was too volatile and in some aspects even erroneous. The decisions were taken outside the Bulgarian National Bank. The foreign reserves were still treasured and managed by the Bulgarian Foreign Trade Bank and in 1990 were nearly exhausted. In March 1990 the country appeared practically without any reserves and the Government had no choice but to announce a moratorium over the repayment of the debt. The access of the country and the commercial banks to the international money and capital markets was cut off. In the course of more than a year our economy has been working virtually with no net inflow of financial resources from abroad (with the exception of the modest amount of the first tranche on the International Monetary Fund's stand-by credit, disbursed in March 1991). Several adjustments were carried out in the field of exchange rates but the vicious practice to support a multiplicity of exchange rates was not abandoned.

There were no serious changes in the issue policy. Money (M1) grew up by Lv 6.8 billion, and money in circulation itself increased by Lv 1.7 billion. That was related to the rise in prices and should not be considered as the major source of inflation. The preparation of issuing new notes of larger denominations was under way. The previous state symbols were abandoned but new symbols were not considered as the Grand National Assembly had not approved the new national emblem.

After Bulgaria was admitted as a member of the two biggest international monetary and financial organizations, the BNB participated in the drawing up of the stabilization program and the Letter of Intent. The International Monetary Fund approved those documents and allowed the commitment of the first stand-by credit to Bulgaria.

To sum it up, in 1990 the BNB made attempts to influence some negative economic processes and to develop further the banking system reform but its policy failed to be sufficiently powerful and consistent.

Since the mid-January 1991 the BNB has had a new management elected by the Grand National Assembly. Its activities will not be treated in this report. But it should be noted that in the past four months the BNB has continued its policy of credit restrictions, changed some of its methods and instruments, and raised the base interest rate in order to achieve an anti-inflationary effect. Budget deficit financing is suspended for the time being excluding the loans granted to the "State Social Security Fund" to pay off pensions. Significant changes in the foreign exchange policy are marked by the introduction of a single exchange rate and the creation of an interbank foreign exchange market. A portion of the IMF loan has been used to replenish the foreign reserves. Together with some ministry departments the BNB seeks a satisfactory solution to the problem of the excess indebtedness of the enterprises which under the current high level of interest rates hampers their economic performance. The co-operation with the International Monetary Fund and the World Bank is going on. The stabilization program indicators have been reviewed and adjusted with the help of the Fund's representatives. The program for economic reconstruction including the banking system reform is nearly accomplished with the assistance of the World Bank. The BNB participates in the settlement of the relations with our external creditors but the hardest efforts in this field *are made by the Commission for External Debt Management Co-ordination. An agreement has been concluded with the Paris Club and forthcoming is a series of talks with commercial bank creditors (the London Club) on the liabilities of the country and the debt burden relief. There are, of course, numerous problems to deal with more energetically.*

It should be noted that the submitted report contains a lot of data and supplementary statistical information unjustifiably considered classified in the past. A fairly large general section traces the economic development of Bulgaria and is addressed to the attention of the banking community abroad.

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

BULGARIAN NATIONAL BANK
MANAGEMENT

From Jan. 1 to Dec. 31, 1990	From Jan. 16, 1991*

GOVERNOR

Ivan Dragnevski	Prof. Dr. Todor Vulchev

DEPUTY GOVERNORS

Todor Tchavdarov	Gancho Kolev
Gancho Kolev	Mileti Mladenov, Ph.D.
Katerina Zarkova	

DEPUTY GOVERNOR
EXECUTIVE DIRECTOR

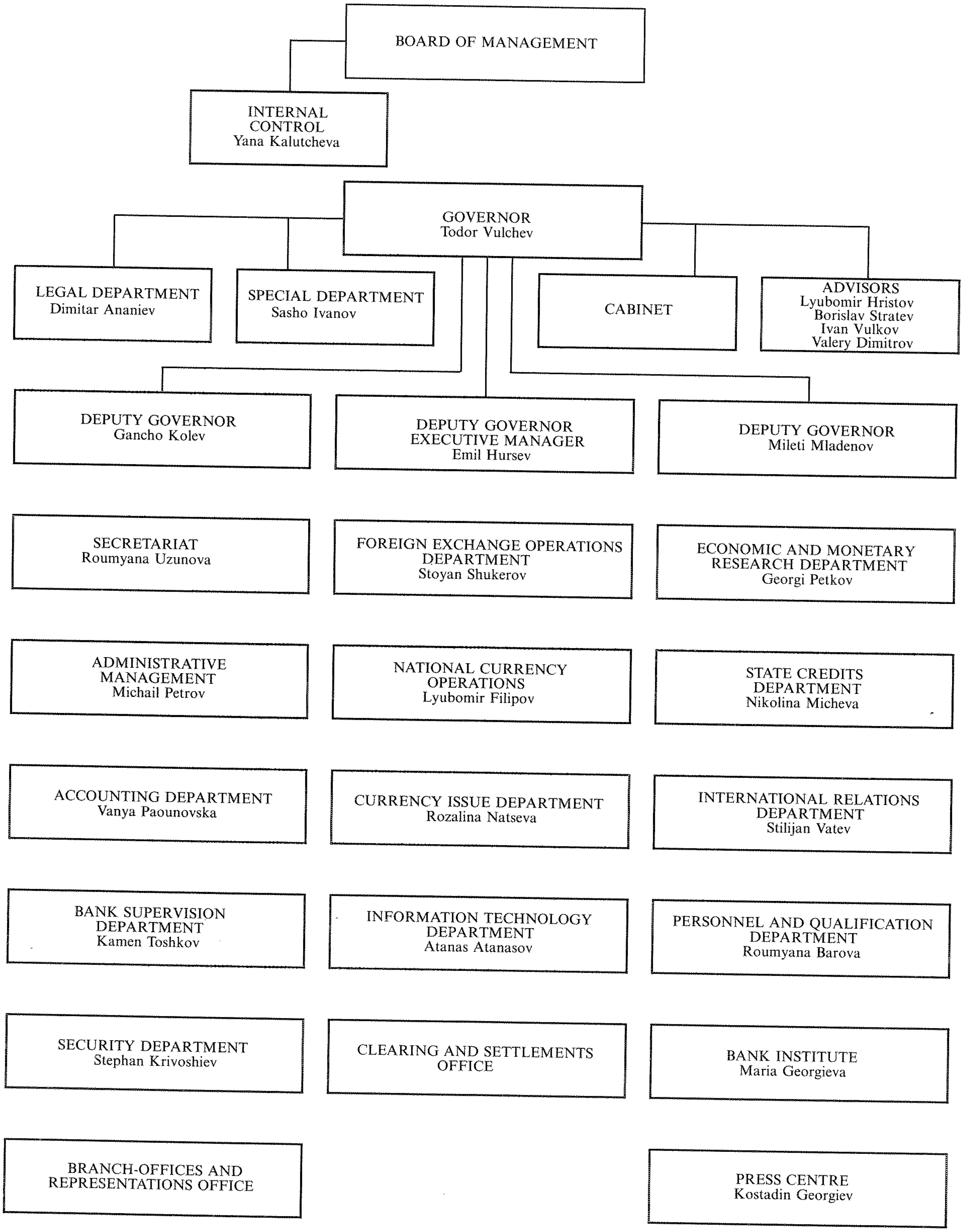
	Emil Hursev, Ph.D.

HEADS OF DEPARTMENTS

Dimitar Ananiev	Dimitar Ananiev
Georgi Petkov	Georgi Petkov
Atanas Atanasov, Ph.D.	Atanas Atanasov, Ph.D.
Sasho Ivanov	Sasho Ivanov
Roumyana Barova	Roumyana Barova
Stefan Krivoshiev	Stefan Krivoshiev
Atila Djagarov	Nikolina Micheva
Lyubomir Filipov	Lyubomir Filipov
Yana Kalucheva	Yana Kalucheva
Stefan Mluzev	Mariya Georgieva
Vanya Paunovska	Vanya Paunovska
Rozalina Natseva, Ph.D.	Rozalina Natseva, Ph.D.
Vladimir Vladimirov	Kamen Toshkov
Stiliyan Vatev	Stiliyan Vatev
	Mihail Petrov
	Stoyan Shukerov
	Kostadin Georgiev
	Roumyana Uzunova

*The new managers were appointed at different moments of time after January 16, 1991.

Organizational Structure of the BNB



Contents

I. Economic Development until 1989

1. 1920 – 1944.
A Relative Progress

The Bulgarian economy passed through a period of recovery after the First World War. The state approved an adequate legislation to protect and encourage the industry. As a result, a significant increase in industrial output was achieved. For the period 1920 – 1930 the annual growth rate was 15.6 percent. The chemical industry, the construction materials production, the metallurgy and the textile industry marked the highest growth rates throughout the period.

In the 1930s, notwithstanding the serious constraints imposed by the depression in the world economy, the economic development in Bulgaria was successful. The loss of the export foodstuffs markets due to the depression restricted the imports of industrial goods. The reaction was a development of import-substituting manufacture to avoid the stagnation and decline in output common to the most of the European countries. From 1929 to 1939 the average annual growth rate in industry was 4.8 percent – much higher than the average growth rate in Europe of 1.1 percent. The state industry also developed rapidly – especially mining and infrastructure. For the period 1929 – 1939 the turnover of the state-owned enterprises grew by 60 percent and their share in the national economy was increased. Agriculture also developed successfully at an annual growth rate of 9 percent per capita for the period 1931 – 1935 and 22 percent in 1936 – 1938.

The economic depression in Europe, the insufficient experience and the low competitiveness of Bulgarian exports forced the country to seek an alternative of the shrinking European market by concluding bilateral clearing agreements with Germany. That guaranteed the sales of Bulgarian agricultural products but at the same time bound the national economy excessively to the German economy. The clearing proportion reached 88 percent in 1939. That separation of the young Bulgarian industry from the free trade zone, deepened during the Second World War, and led to its isolation from the structural and price changes on-goings in the European economy.

During that period the State Control over the economy was substantial: to a smaller extent in industry and more pronounced in agriculture, finance and foreign trade.

2. 1945 – 1958.
Nationalization and Collectivization

Following the end of the Second World War, Bulgaria fell in the Soviet Union sphere of influence. A mono-party political system was established and economic development was subjected to the Communist Party economic doctrine. The Government gradually assumed direct control over the entire economy. Agricultural trade was nationalized and the first co-operative farms were created. The financial sector was also fully nationalized. At the end of 1947 complete nationalization of private industry was undertaken. That was the beginning of the transition to the centrally planned and managed economy where the Government determined the allocation of resources and of output at all levels of production. The first three five-year-plans (1948 – 1960) followed the strategy of extensive growth by means of high accumulation. Step by step the machine-building and the chemical industry developed as the dominant industrial branches and dictated the industrial growth rate. Significant structural changes had taken place by the end of the period. The share of industry in material output rose from 23 to 48 percent and the share of agriculture fell from 59 to 27 percent.

The Council for Mutual Economic Assistance (CMEA) was founded in 1949 as a continuation of the Soviet autarchic growth strategy. In the second half of the 1950s about 50-55 percent of the total Bulgaria's foreign trade turnover was with the Soviet Union and about 30-35 percent with the other CMEA countries (especially the German Democratic Republic and Czechoslovakia). This structure remained unchanged until the end of the 1980s.

3. 1959 – 1989.

Central Planning and Reforms

The end of the process of collectivization in agriculture in 1958 was treated as the end of the period of transition to the centrally planned economy. The era of economic revolution came to an end. That was an era of mass mobilization of efforts and of political enthusiasm – factors that could not be exploited for ever.

The new economic system began to show some of its short comings as early as the end of the 1950s. In the process of rapid integration of small private enterprises into large state-owned organizations the work force, drawn from the agricultural sector, was lacking adequate training and experience. The same was true about the engineering and technical staff and the administration whose professional qualifications were not necessarily a major consideration. The machines imported were technologically obsolete which rendered their maintenance practically impossible. The five-year-plan targets were rarely hit.

The unsatisfactory economic performance enforced a series of reforms aimed at modifying and improving the system. The first reform was in 1964. New management system was introduced in some enterprises producing consumer goods. Wages, premiums and enterprise funds were formed according to profits. Investments were secured by bank credit, not from the state budget. The number of plan targets was reduced. Three types of prices were introduced – pegged, flexible and free. This system was gradually extended and in 1967 it encompassed two-thirds of the industrial enterprises.

The vertical integration of agricultural and industrial entities into the so-called agro-industrial complexes started in 1970. The objective was to industrialize agricultural production and to obtain economies of scale by horizontal integration of state and co-operative farms, to create capital-intensive production and to promote export foods processing.

The reforms continued in the 1970s. Their main feature was the further amalgamation of the existing enterprises, thus reducing their number to facilitate supervision over their activities. This resulted in enterprises with a level of output concentration higher than that in Western Europe.

At the end of the 1970s "New Economic Mechanism" was introduced with the aim to create self-financing entities at all hierarchy levels of production. Wages were no longer considered to be a production cost but a residual fund (after enterprise's payments on liabilities to the government and to the bank) and could raise only with the increase in labour productivity. The task was to give a different interpretation of the indicators of economic success and distribution of profits. The "New Economic Mechanism" failed to produce the desired growth in productivity and efficiency. On the contrary, the rate of economic development slowed down and the system proved inadequate to respond to the challenge of scientific and technological progress.

During the 1980s, despite several attempts at institutional reforms, the state was still the largest owner of industrial property. In 1988 the state-owned enterprises produced 97.9 percent of the total industrial output, the co-operative sector about 2 percent and the private sector – just 0.1 percent. Employment was 93.5 percent, 5.7 percent and 0.8 percent, respectively. In 1986 – 1989 the number of plan targets controlled by Ministries was reduced, again the aim being to raise efficiency. Attempts were made to turn the national plan into an indicative plan and to leave enterprise management function at a firm level. The Government issued state orders for some goods to meet the CMEA export requirements and to provide staples for the domestic market.

A new reform started in 1989. It was the most decisive step in separating the administrative central planning from the firm management. It provided conditions for the equality and the development of all forms of property ownership and the entry of foreign firms in the economy. It granted considerate autonomy to the enterprises in determining their wages and prices, presumed the possibility of bankruptcy and abolished the issuing of state orders.

II. The Economic Situation in 1990

Since the end of 1989 output had declined abruptly. Problems that had been accumulated for years burst out. For a first time after the Second World War an absolute reduction in Gross Domestic Product (GDP) appeared. Like the other East-European countries Bulgaria chose the difficult transition to democracy and to market economy that exacerbated the negative trends in the economy in 1990. The country fell into a deep economic crisis due to the substantial macroeconomic disequilibrium – budget and external deficit, demand overstepping supply, sizable savings and free money with no commodity cover, an external debt enormous for the capacity of the country.

The economic difficulties came out against the background of complex internal and external situation. The country's internal life was characterized by a series of social and political obstacles to the reform of the social and economic system. The terms of trade deteriorated after the breakdown of the CMEA system.

1. Gross Domestic Product – Production and Use

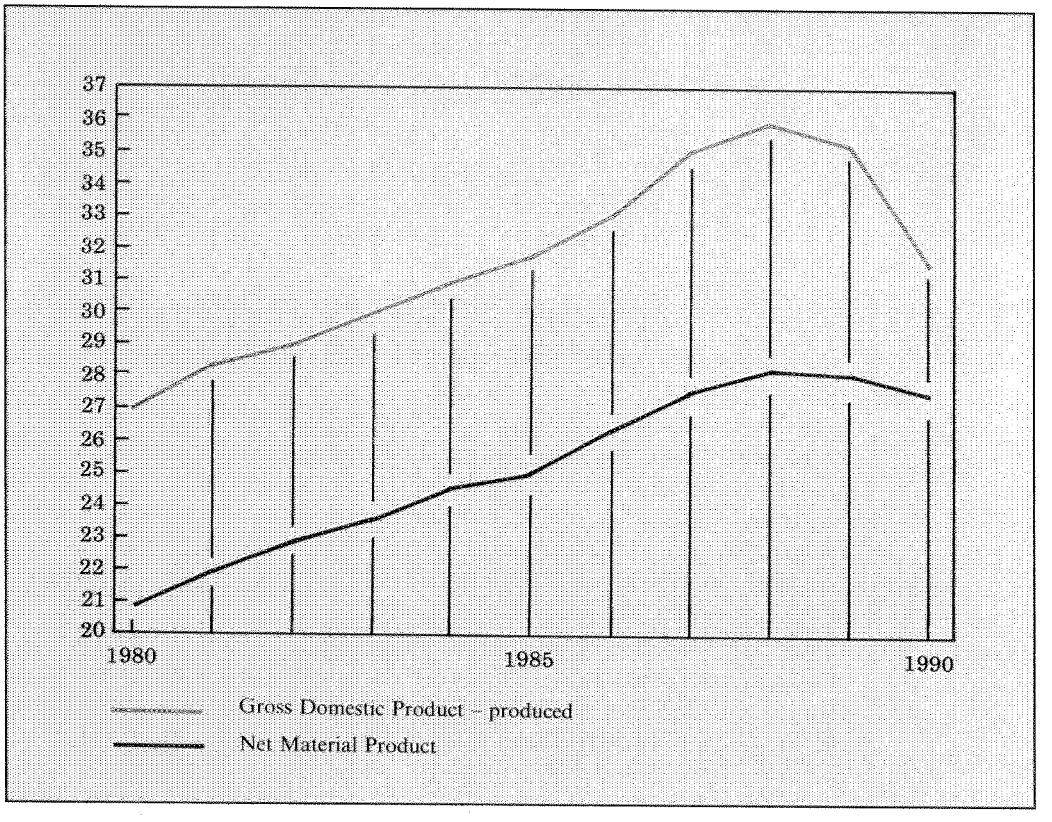
The crisis at the end of 1989 brought about a GDP decrease of 1.9 percent as compared to 1988 at constant prices and an increase of 3.2 percent at current prices. In 1990 followed a new GDP drop at constant prices of 11-13 percent (preliminary estimations) and an increment of 6.1 percent at current prices. The net material product reduced at constant prices by 3 percent, respectively*.

The chief reasons for output decrease were the growing imbalance in the national economy (largely in terms of absence of resources), social and political upheavals and external restrictions caused by the CMEA breakdown. The most important was the crisis in the supply of resources, which accounted for about 52 percent of the decline in output. The difficulties with the deliveries of fuels, metals, timber, cotton, etc. from the USSR, and the Gulf Crisis, practically, deprived the domestic industry of its mineral resources. Other reasons were related to the poor adaptation of producers to dramatically changing circumstances. The uneffected commodity sales, within CMEA as well, resulted in a 10 percent decrease in production. The greatest part of the Bulgarian exports was not competitive at the Western markets and the collapse of the guaranteed CMEA markets was fatal for many exporters. About 20 percent of the contraction in output was due to discontinued products and unfulfilled co-operative deliveries. The political problems and the strikes added up to the description.

The inflationary expectations of manufacturers and businessmen were enhanced by the initial liberalization of some prices and the awaited subsequent liberalization of all prices, the jump of the US dollar exchange rate and the disequilibrium on the market, especially towards the end of the year. This led to the deliberate retention of goods in the store-houses, which resulted in further price-rises.

*Preliminary data by the Central Board of Statistics.

GROSS DOMESTIC PRODUCT AND NET MATERIAL PRODUCT in billions of leva – constant prices



The greatest retrenchment was in industry – about 20-22 percent. Until 1988 the industrial production marked a steady growth and dominated the economy, manifesting high rates at constant and current prices. Its relative share in GDP increased at constant prices and reached 64.4 percent for the period 1980 – 1989. That was due to the continuous decrease in the share of agriculture and the initial drop (followed by stabilization) of the share of services. Compared to the share at constant prices, the share at current prices of industry was smaller. It reached 64 percent in 1986 – its maximum for the decade, and afterwards fell down to 59.4 percent in 1989. The share of services increased from 23.1 percent in 1986 to 29.3 percent in 1989 at the expense of industry. The share of agriculture remained unchanged.

GDP GROWTH RATE (percent, at constant prices)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
GDP	4.9	2.3	3.4	3.4	2.7	4.2	6.0	2.6	-1.9	-12
Industry	5.5	9.3	7.6	6.1	5.1	5.2	5.3	2.4	-0.3	-
Agriculture	4.5	5.7	-16.0	11.6	-20.6	22.0	-14.6	-1.7	-2.3	-
Services	4.1	-12.6	7.3	-7.4	11.3	-6.5	20.4	4.9	-5.5	-

In 1990 the industrial branches with the highest output decrease were metallurgy, chemical industry, oil processing, machine-building, cellulose and paper, textile industry. The reasons were the limited mineral resources from the USSR arising from their domestic problems and the reduced capacities of our country to meet the exports for the Soviet Union. The decrease in machine-building was due to the loss of the formerly safe CMEA markets. The reduction in electronics was significant.

In 1990 the agricultural output was at its lowest level after the collectivization and after a secular decline since the mid–1980s. The decrease in agriculture in 1990 was about 15 percent at constant prices, including 23 percent in plant-growing and a detention in stock-breeding. At current prices the decrease was lessened by the liberalization of prices for the greater part of the products and the enhancement in the buying up prices of state-controlled products. In physical terms the garden produce output reduced, excluding tomatoes, the areas under crops shrank and fruits output fell. Feed grain areas were reduced to such extent that it became impossible to meet the needs for fodder. In stock-breeding the number of flocks, herds and poultry diminished sharply.

The reasons for the adverse trends in agriculture lay in the year-long neglecting of this branch on the account of the over-estimation of industry. Farm work was considered unattractive, the migration from villages to towns caused a real demographic crisis and a decrease in the lands under cultivation. In 1990 the problems were further aggravated as the people expected new agricultural legislation related to agricultural lands re-privatization. Another factor was the strive for self-sufficiency and hoarding due to the general crisis. The ecological imperatives gained importance and together with the restrictions in the imports of herbycides added to the deteriorating state of agriculture.

GDP utilization in the 1980s is illustrated by the folowing table. The relative share of final consumption fluctuated to reach its maximum in 1990. The household consumption relative share was nearly constant up to 1989, marking a significant increase in 1990. At the end of 1989 the consumers were already conscious of the coming crisis. They reacted to the decrease in output, accompanied by considerable unsatisfied solvent demand, and to the high inflationary expectations by hoarding and buying up unusually large quantities of goods. In 1990 the substantial drop in output, the sharp decrease in imports capacities, the enlarged "shadow economy" and the social upheavals upset the market disequilibrium further to the point of its actual collapse. The inflation (50.6 percent from May to December) that had not been offset in due time, together with the introduction of a coupon system for a number of goods led to a drastic restriction in consumption.

GDP USE (percent, at current prices)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
GDP-used	100	100	100	100	100	100	100	100	100	100	100
Final consumption	66.6	65.7	66.8	67.8	67.2	68.5	66.2	67.8	66.5	68.1	72.6
Households	61.1	59.7	59.8	60.1	59.8	60.2	58.1	60.6	59.5	61.3	64.1
Public spending	5.5	6.0	7.0	7.7	6.4	8.3	8.1	7.2	7.0	6.8	8.5
Gross accumulation	33.4	34.3	33.2	32.2	32.8	31.5	33.8	32.2	33.5	31.9	27.4
Capital investment	27.7	26.7	26.7	26.1	25.3	25.9	25.4	26.2	26.1	25.1	20.2
Change in inventories	5.7	7.6	6.5	6.1	7.5	5.6	8.4	6.0	7.4	6.8	7.2

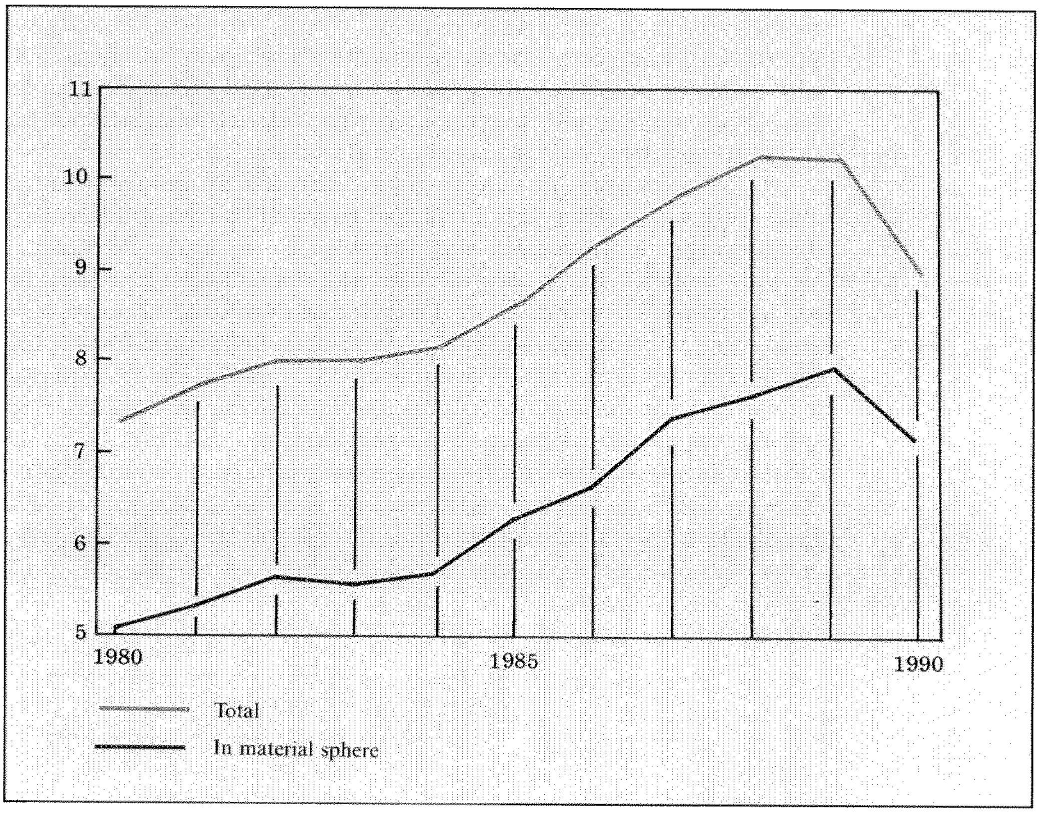
2. Accumulation and Investment

In the 1980s the gross accumulation retained its stable and high relative share in GDP at current prices. Until 1987 the same was also true for the accumulation at constant prices. Its rate at current and at constant prices was nearly equal. However, in 1988 the gross accumulation at current prices was Lv 13.2 billion while at constant prices it was Lv 8.9 billion, i.e. there was an increase in comparison to 1987 at current prices of 9.8 percent and a decrease at constant prices of 28 percent, respectively. The same was true in 1989. The decrease of gross accumulation at current prices was 0.8 percent while at constant it was 54.1 percent. In 1990 the gross accumulation reduction in absolute figures continued and reached 5.7 percent at current prices.

The relative share of investment in GDP was stable. In 1990 its absolute value diminished after years of permanent growth.

The slow-down in investment corresponded to the general crisis in 1990. The investment decisions were influenced by the atmosphere of instability and uncertainty, the ambiguous strategy for the transition to market economy and the cumbersome process of adaptation. On the one hand, the decrease in output, the absence of mineral resources and the loss of the safe CMEA markets restrained investments. On the other hand, the changes in the organizational structures of the state-owned enterprises were not conducive to large-scale investment. The negative trend was further influenced by the uncertainty in the settlement of property ownership problems, the methods of privatization and re-privatization, as well as the unstable legislation. The absence of foreign credits supplemented the picture.

GROSS CAPITAL INVESTMENTS in billions of leva – current prices



At the same time private investments were at an embryonic stage. In 1989 the foundation of private firms was permitted but with some restrictions. In 1990 the restrictions were abolished and a great number of private firms sprang up, starting from zero and on small credits. Most private firms at this stage did not possess free capital to make substantial investments and did not concentrate on capital-intensive projects. They invested their capitals most of all in the sphere of services. A capital assets market did not exist, too.

Foreign investments were insignificant and mainly in the form of direct investments in joint-ventures. The existence of such firms was legalized in 1980. The restrictions on them were eased in 1989 so that they could be used as a basis for the development of free market ideas. They were relied upon as a source of foreign currency and modern technologies and the intentions were to incorporate them as an important element of the transition to market economy. A Government permission was not necessary for joint-ventures with a share of foreign participation up to 49 percent for the limited liability companies and up to 20 percent for the joint-stock companies. The profits of the joint-ventures could be transferred abroad in the currency they were received in.

Some foreign firms were initially interested, attracted by the availability of a potential market with high unsatisfied demand and where there is a good supply of rather qualified and underpaid work force. But soon the joint-ventures ran up against numerous obstacles due to differences in traditions, interests and balance between the partners. The problems exacerbated because of the underdeveloped free market and the still existing central planning, i.e. inadequate price system, lack of convertibility, inflexibility of the contractors to the Government, bureaucracy. That was why foreign investors preferred to wait for the formation of a clear cut market system, adequate legislation and privatization. That lowered the share of foreign investments significantly and the already invested foreign capitals couldn't work efficiently.

Duty-free economic zones were set up to encourage the formation of joint-ventures and to engage them in the transition to the market economy. In these zones the profits were not taxed during the first five years. The regulation of these zones has not been settled yet. The proposed alleviations for the joint-ventures in terms of customs duties, capital and profit transfers, labour legislation were insufficient and the role of the duty-free zones was practically invisible.

The high gross accumulation relative share was due to the high share of inventories growth. Their share was too high at current and at constant prices for the period under consideration and the share at constant prices was greater. It was up to 10.2 percent in 1986 and respectively 9.5 percent and 8.4 percent in 1988 and 1989. Such high growth rate of inventories was typical for the centrally planned East-European economies, whose enterprises worked in the condition of soft budget constraints. The uncertain deliveries and the general deficit determined the high rate of overstocking. As a result in 1980 – 1989 the inventories in the material sphere had grown up by 87.8 percent and in the households they had increased 2.2 times. For the same period inventories in industry increased 2.5 times, in trade by 50.5 percent and in agriculture by 44 percent. In 1990 the high inflationary expectations added up to the other reasons.

GROWTH RATE (percent, at constant prices)

	1981	1982	1983	1984	1985	1986	1987	1988	1989
Gross accumulation	8.4	13.1	-6.2	-5.0	-7.5	9.3	38.2	-27.9	-54.1
Capital investment	1.0	25.2	-7.7	-14.7	-2.7	-6.5	75.7	-42.5	-70.8
Growth in inventories	34.7	-19.3	-0.3	32.4	-19.3	56.0	-28.4	35.8	-23.2

3. Employment

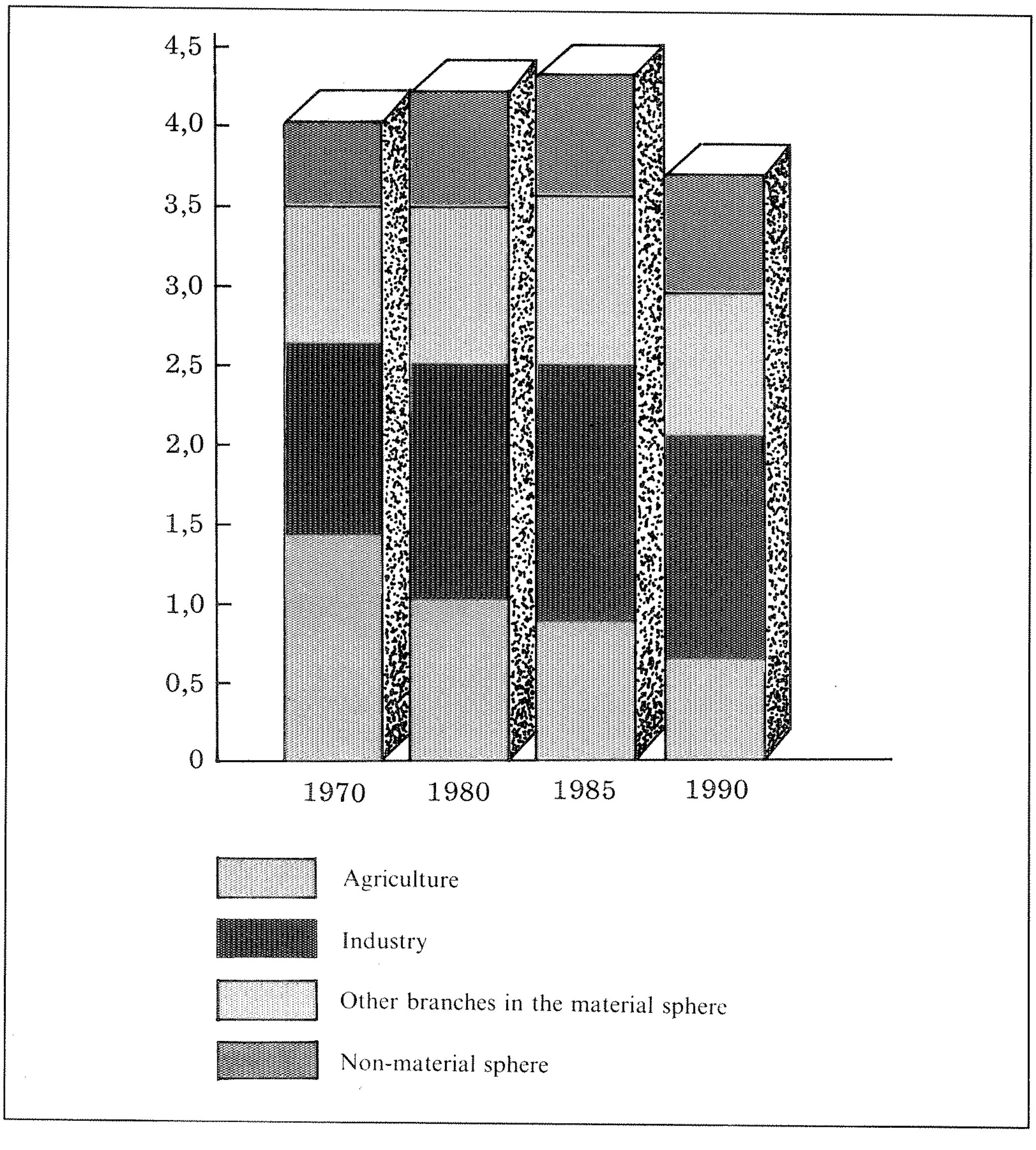
In the early and the mid-1980s the rate of employment was kept high and stable in Bulgaria. The whole active population was practically employed. Most of the retirees continued to work forced by the low pensions and their physical ability to do it because of the low retirement age in Bulgaria – 60 years of age for men and 55 years of age for women (for some professions it was even lower). The labour force was managed by central administrative instruments. There was no labour market, the enterprise managers were not free to hire and dismiss workers. The labour force policy adhered to the principle of achieving full employment at the expense of low efficiency and state subsidies. Unemployment was impossible and unknown phenomenon. On the contrary, some industrial branches as agriculture and construction suffered a permanent shortage of labour force. Amidst incessant worsening of the demographic situation – declining, even negative, population growth rates, low birth rates, aging – the employment rate overrode the working-age population growth. In 1980 – 1987 the average annual growth rate of the employees was 0.4 percent while the active population decreased by an annual rate of 0.3 percent. This ratio determined the shortages in working force as a limit to the development of several industrial branches and products.

POPULATION AND EMPLOYMENT (in thousands of people)

	1980	1985	1986	1987	1988	1989	1990
Population-total	8489.6	8861.5	8960.4	8957.6	8971.3	8981.3	8990.7
Under working-age	2082.5	2057.2	2013.5	2036.7	2024.4	2008.7	2021.6
At working-age	5094.0	5034.2	5027.6	5006.6	5000.7	4996.4	5010.1
Beyond working-age	1685.0	1869.0	1916.5	1928.0	1956.3	1984.4	1957.4
Employees-total	4363.9	4459.5	4473.3	4486.9	4467.8	4365.0	–
Retirees	2042.0	2212.0	2249.0	2293.0	2326.0	2308.0	–

The work force structure was characterized by a high relative share of employees in the material sphere, slowly declining by the end of the decade. By branches the highest was the share of employees in industry. It gradually increased in the 1980s at the expense of agriculture in line with the continued policy of industrialization and neglect of agriculture. The employment in the other branches did not change in the period. Up to 1989 the employment structure by types of enterprises was also stable, dominated by the high employment level in the state-owned enterprises (87.4 percent).

STRUCTURE OF EMPLOYMENT BY BRANCHES in millions of people



Despite the weak incentives to work, the employees in Bulgaria possessed good qualification and education. About half of them had at least primary and higher education, and 8 percent had university education.

The political changes in 1990 were followed by a high emigration wave due to the free travel regime. It embraced the working-age population and diminished the labour supply. So, in the middle of the year, together with a mass dismissing of workers in the transition to market economy, labour shortages appeared and the number of vacancies exceeded the number of registered unemployed.

In the last quarter of the year that ratio changed drastically. The decrease in output, the closing of inefficient or ecologically irrelevant enterprises laid out 65.1 thousand employees while the vacancies were 28.4 thousand.

NUMBER OF UNEMPLOYED AND OF VACANCIES

	1990						1991		
Months	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Unemployed (thousand)	31.0	32.8	38.9	48.4	59.1	65.1	74.1	103.2	124.1
Growth rates (percent)		5.8	18.6	24.4	22.1	10.1	13.8	39.3	20.2
Vacancies (thousand)	58.2	47.9	42.1	35.1	28.8	28.4	22.0	11.6	11.3
Growth rates (percent)		-17.7	-12.1	-16.7	-18.0	-1.4	-22.5	-47.3	-2.6

At the beginning of 1991 the output contraction continued, triggered by the first steps of the reform accompanied by the introduction of hard budget constraints and the enormous jump in interest rates. The financial restrictions on budget organizations provoked serious discharge of employees in the fields of science, art, culture and state management. At the same time the high interest rate, still missing foreign investments and privatization legislation hampered the opening of new working places. Thus the gap between unemployment and labour demand enlarged and in March 1991 the registered unemployed were 124.1 thousand (3 percent rate of unemployment) and the vacancies were ten times less. Possibly, the number of unemployed was much higher than the registered at the labour bureaus because such offices were new and inexperienced and people looking for work did not always address them.

4. Prices and Wages

During the whole period of administrative central planning prices in Bulgaria were kept apart from the international prices and they did not relevantly express the production costs. Though the objective of the incessant reforms was to provide an adequate mechanism for restructuring prices in accordance with the international or at least to internal proportions, this objective was not achieved.

By means of budget subsidies the retail price system maintained artificially low prices of electric power, public utilities, transportation, staple foodstuffs, in order to provide a minimum standard of living for all people. At the same time a great number of goods – chiefly durables such as lodgings, cars, household electrical appliances – were overvalued to absorb the growing solvent demand of the population. Subsidizing was essential in the price formation of capital goods due to sustained low efficiency or to the promotion of export or anti-import oriented production. Extremely inadequate price relations existed in the economy. In 1990 the budget subsidies were 22 percent of all public spending.

WHOLESALE AND RETAIL PRICES

(chain index)

	1981	1982	1983	1984	1985	1986	1987	1988	1989
Wholesale prices	105.3	107.2	100.6	100.8	100.5	100.9	100.7	103.7	103.1
Retail prices	100.5	100.3	101.5	100.7	101.8	103.9	100.1	101.2	105.6

Wholesale prices changed insignificantly for the 1981 – 1989 period. After some increase in the first two years of the period they remained stable for five years up to 1987 with an annual change of less than 1 percent. At the end of the period there was a slight increase which in 1988 was due to the 14 percent rise in agricultural prices and in 1989 to the combined effect of 4.1 percent increase in agriculture and 7.6 percent increase in construction.

Retail prices did not shift significantly. The average annual growth rate was 1 percent except in 1986 and 1989 when the service prices and the retail prices increased by 3.9 percent and 5.6 percent, respectively.

The above indicators, however, lower the price indices. The methodology of their calculation underrates the real price increase, especially in the retail prices. The index does not reflect the so-called "new" goods by which the producers invisibly increase the prices through a change in names and labels for commodities without a higher but even with an inferior quality than before. The index does not register the shortages of goods and the active "shadow economy" where the prices are much higher.

In 1990 there was an enormous suppressed inflationary potential generated by the budget deficit, the negative real interest rate and the availability of large money stock in the households along with the utter deficit on the consumer goods market. The interest rate on deposits of households at the State Savings Bank was 1 percent annually, much lower than the officially announced and undervalued consumer goods price index – 5.6 percent in 1989 in relation to 1988. The resulting negative real interest rate reduced the propensity to save and enhanced the pressure on the consumer market.

There were no substantial movements in the retail prices by the middle of 1990 in spite of complete shortage of consumer goods. The reasons were the high social tension and the coming elections. In the second half of the year the market collapse induced the Government to liberalize a great number of prices and to increase prices subjected to its control. As a result the prices start rising rapidly, frequently and speculatively. The Bulgarian lev depreciated against the foreign currencies. Inflation accelerated, especially in August and December of 1990. In the second half of the year foodstuffs prices grew by 30.4 percent, non-food prices increased by 54.4 percent, services – by 21.9 percent. Since January 1991 the new Government has liberalized and freed from its control nearly all prices. It has increased substantially the prices of the limited number of goods that are still subjected to Government control. These have been some of the instruments of the starting economic reform.

CONSUMER PRICE INDEX

(May 1990 = 100)

	1990								1991	
Months	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb
Percent	100.0	104.1	107.8	119.5	124.9	130.0	136.4	150.6	170.1	379.2

Until 1989 the nominal and real wage growth rate increased moderately following the slow increase in the price index. The real wage rose by 2.6 percent annually for the period of 1980 – 1988. Both indices – the real wage rate and the price index, do not reveal the real changes in the standard of living because of the overall deficit on the consumer goods market.

REAL WAGE GROWTH INDEX (1980 = 100)

	1980	1985	1986	1987	1988
Average	100	111	112	117	123
Material sphere					
Industry	100	113	115	120	127
Construction	100	110	111	114	119
Agriculture	100	110	113	116	127
Trade	100	107	106	110	117
Non-material sphere					
Science and education	100	118	117	123	129
Culture and art	100	107	106	108	113
Public health	100	113	111	114	115

The wage share in the households total income declined in 1980 – 1990 and represented nearly a half of it in 1990. At the same time numerous factors influenced systematically the increase of that portion of income not covered by commodities or services. The major factors were the growing amount of construction in process and stockpiling, the worsening in the terms of trade, the writing off of the financial liabilities of the inefficient enterprises to the Government.

In the course of the last ten years personal income exceeded personal spending. The greatest portion of the income was transformed into imposed delayed consumption due to the chronic consumer market disequilibrium and in this way put considerable pressure on the market. The savings of the households rose 2.2 times during the 1980 – 1989.

At the end of 1989 and the beginning of 1990 under the pressure of social changes, the Government increased wages and salaries in several professions. For the first quarter of 1990 the average wages were 19 percent higher in comparison of the first quarter of 1989. The most significant increase was in the non-material sphere, mainly education and public health after years of neglect.

In the second half of the year the steep increase in the consumer goods prices jeopardized the standard of living of large groups of people. That necessitated the introduction of compensatory social mechanisms such as wage indexation in proportion to the rate of inflation.

5. Foreign Trade

For many years the Bulgarian foreign trade was subjected to the strategy and priorities adopted by the CMEA. Though attempts were made in the last few years to promote links outside that organization, the CMEA remained the external environment of the Bulgarian economy to a much greater extent than it was for the other CMEA member countries in Eastern Europe.

In the 1980s the relative share of exports to the socialist countries was too high – about two thirds, reaching its maximum of 72.7 percent of the total exports in 1986, and it comprised exclusively of exports for the CMEA countries. Only 1-1.5 percent of the total exports was directed to the non-CMEA socialist countries (Albania, China, Kampuchea, People's Democratic Republic of Korea, Laos, Yugoslavia).

The USSR received the major part of our exports to the CMEA countries – about three fourths. The other important partners were the GDR – 7 percent, Czechoslovakia – 5 percent, Poland – 5 percent.

Since the second half of the 1970s the developing countries had received a relatively high share of our exports – about 16-20 percent in the different years, reaching a maximum of 19.5 percent in 1985. Our main trading partners were Libya with a relative share between 20 and 30 percent and Iraq with a share of 15 to 25 percent in the total amount of exports to the developing countries.

The share of the developed countries in our exports was negligible. In the second half of the 1980s it was hardly 11-12 percent of the total exports. Only in 1989 there was an increase - 17.3 percent. About two thirds of those exports were for the European Community countries, mostly for the FRG, Italy, Greece. The exports to the FRG ranged from 17 to 24 percent of the total exports to the developed countries. The exports to Italy were about 10-14 percent. In the recent years the exports to Greece reached the share of the exports to the FRG. Bulgaria exported goods only to two developed countries outside the European Community – Switzerland and the USA.

Re-exports took a relatively larger share. After the mid-1980s it shifted around and above 10 percent with a maximum of 12.7 percent in 1985 and a minimum of 3 percent in 1989.

The comparison between the import composition and the export composition showed a decline in the share of the socialist countries. In 1985 their share in Bulgarian imports was 69.1 percent and declined to 57.1 percent in 1988 and 52.9 percent in 1989. Similar to the exports, the share of imports from countries outside the CMEA was about 1 percent of the total imports.

The industrially developed as well as the developing countries changed their places in the import composition, too. The share of the developed countries became higher. During decade it was more than 20 percent, at the end of the period it raised abruptly reaching 28.5 percent in 1988 and 32.2 percent in 1989. The FRG was again the main exporter to Bulgaria whose share in the total imports was 50 percent at the end of the period. Italy ranked second with a share of 15 percent, followed by the Great Britain – 13 percent. The imports from the European Community equalled three fifths of the total imports from the developed countries. The other two fifths were formed mostly by Switzerland, Austria and Japan.

The relative share of imports from the developing countries in the total imports moved between 10 and 14 percent in the 1980s and was mostly from Libya, Iraq and Iran.

In 1990 external environment changed radically. The profound political reforms in Eastern Europe brought about the disintegration of the year-long relations within the CMEA countries. Most of them started a process of new orientation toward trade with the West. The growth rate in most CMEA economies stagnated or became negative and that influenced the external relations. The negotiated deliveries were deferred or failed to be executed. There was no interest in entering new agreements.

ANNUAL AVERAGE GROWTH RATES OF EXPORTS IN NON-CONVERTIBLE CURRENCY (percent)

	1986	1987	1988	1989	1990
Total	4.9	2.6	6.5	-4.7	-25.3
Licences and services	4.2	-16.0	52.3	18.7	-31.6
Machinery and equipment	7.6	7.1	6.9	-3.2	-26.2
Fuels, minerals, metals	0.6	-10.7	23.7	-27.6	-2.8
Chemical products, fertilizers	6.0	-7.5	18.4	-14.4	-21.5
Construction materials	8.1	-6.9	5.3	0.5	-28.3
Capital goods	-1.7	-1.8	24.1	-14.9	-45.6
Raw materials for the food processing industry	4.4	-0.5	-14.2	-29.5	-28.7
Foodstuffs	-6.4	-7.3	0.1	-4.4	-19.7
Industrial consumer goods	7.9	1.1	5.2	-0.5	-30.7

The share of capital goods increased from 53 percent in 1980 to 65 percent in 1989. The greatest increase was in electronics. On the contrary, the share of foodstuffs and agricultural products fell down from 25 percent to 13 percent, respectively, due to the low yields in agriculture.

ANNUAL AVERAGE GROWTH RATES OF IMPORTS IN NON-CONVERTIBLE CURRENCY (percent)

	1986	1987	1988	1989	1990
Total	4.3	-0.1	-5.3	-7.6	-18.8
Licences and services	13.9	-4.1	31.9	-19.4	-28.0
Machinery and equipment	13.1	5.9	6.3	-8.2	-12.4
Fuels, minerals, metals	-1.1	-6.4	-19.3	-5.2	-26.9
Chemical products, fertilizers	7.6	-1.3	18.2	-17.6	19.1
Construction materials	21.3	-4.2	0.0	-19.6	-24.3
Capital goods	-0.4	0.9	4.3	-17.3	-27.4
Raw materials for the food processing industry	-7.8	7.3	-19.9	9.8	-46.4
Industrial consumer	-28.1	19.6	5.5	-15.5	-10.2
Industrial consumer goods	8.8	8.7	3.5	-10.1	2.6

The share of capital goods in imports increased from 39 percent in 1980 to 48 percent in 1989. That could be explained by the serious foreign currency problems of the country in the second half of the 1980s in relation to the West markets. The share of raw materials grew up to 50 percent in 1985 and diminished to 36 percent in 1989 as a result of the gradual decrease in the Soviet Union oil prices and the reduced amount of deliveries in 1988 and 1989. Complementary deliveries were received through the Middle East oil import expansion on contracted trade credits from Bulgaria.

At the beginning of the 1980s Bulgaria achieved a steady positive trade balance with the non-socialist countries under the impact of two major factors. The first factor being the arrangement of industrial goods exports to the developing countries on trade transactions, financed on concession basis by the Bulgarian Government. The second factor being the re-export of Soviet Union oil. Thus in 1980 the raw materials constituted 91 percent of the total exports. After 1985 the situation deteriorated and the current deficit increased from US$ 78 million in 1985 to US$ 1 billion in 1989. The continuous decline in manufacturing sector competitiveness and the growing amount of output produced on the basis of hard currency imports of components and elements, exported afterwards to the Eastern market, accompanied by the decrease of oil re-export volume and prices and growing insolvency of the developing countries on their debt to Bulgaria, determined the negative trends in the trade balance of the country.

ANNUAL AVERAGE GROWTH RATES OF EXPORTS IN CONVERTIBLE CURRENCY (percent)

	1986	1987	1988	1989	1990
Total	-21.8	15.8	-1.9	-8.6	-5.4
Licences and services	-63.2	-36.1	4.3	-43.0	85.4
Machinery and equipment	-2.9	27.4	-11.9	-42.0	21.7
Fuels, minerals, metals	-27.0	1.1	-9.0	33.8	-29.5
Chemical products, fertilizers	38.8	6.3	19.5	12.9	2.6
Construction materials	0.0	54.5	17.6	-10.0	50.0
Capital goods	-7.8	39.8	7.3	15.3	-22.1
Raw materials for food processing industry	-51.6	26.1	42.2	9.7	7.2
Foodstuffs	-5.3	25.8	9.3	-14.4	-16.8
Industrial consumer goods	16.4	15.8	11.7	-10.9	-3.1

The composition of exports in convertible currency was unstable. In 1989 raw materials contributed to 30 percent and capital goods to 25 percent of the export returns. After the USSR oil deliveries shrank from the mid-1980s, the raw materials share dropped from 41 percent to 22 percent in 1988 followed by an increase in 1989.That increase was due to the grown up Middle East deliveries at the expense of repayments against Bulgarian goods. The capital goods fluctuated starting with a share of 24 percent in 1980, followed by 41 percent in 1986 and 24 percent at the end of the decade. The greatest part of those exports was oriented towards the developing countries whose import absorption capacities decreased at the end of the 1980s.

ANNUAL AVERAGE GROWTH RATES OF IMPORTS IN CONVERTIBLE CURRENCY (percent)

	1986	1987	1988	1989	1990
Total	11.5	-8.4	20.5	-10.9	-21.2
Licences and services	5.5	21.1	-30.4	-40.6	-53.0
Machinery and equipment	38.3	1.0	-7.6	9.7	-11.3
Fuels, minerals, metals	8.9	-35.6	56.2	-37.8	-4.9
Chemical products, fertilizers	-2.9	27.9	2.2	-14.6	-32.5
Construction materials	6.7	3.1	-6.2	-11.5	-31.5
Capital goods	1.4	16.4	23.8	-6.5	-33.4
Raw materials for the food processing industry	-17.0	-26.3	46.8	24.0	-69.9
Foodstuffs	64.7	10.7	59.7	28.3	-16.5
Industrial consumer goods	24.3	37.7	25.8	3.2	-5.1

The composition of imports in convertible currency was comparatively stable in the 1980s. The raw materials and the capital goods hold a dominant position. In the past few years, against the background of decreasing imports, there was a small absolute value increase in consumer and agricultural goods import as a result of the insufficient domestic agricultural output and the year-long underrating of consumer goods production.

6. External Debt and the Balance of Payments

The system of foreign trade and settlement of payments in Bulgaria consisted of two distinct parts. The trade and payments with the CMEA countries (their share in the foreign trade turnover was about 65 percent) was the one and the other was trade and payments with the OECD countries (about 25 percent) and with the developing countries (about 10 percent). Trade and payments with the CMEA countries (by 31 December 1990) were settled in transferable rubles and with the rest of the world – in convertible currency. The trends in trade and payments with the CMEA countries were quite different from the trends in trade and payments with the other countries.

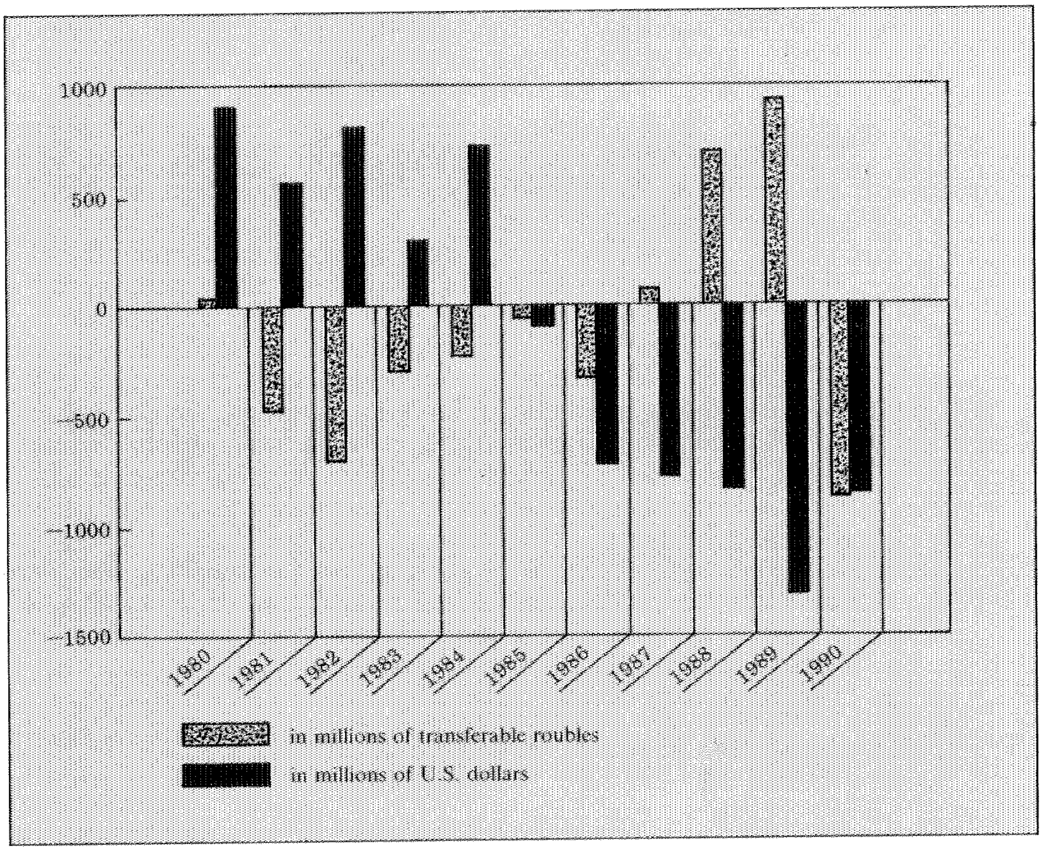
The balance of payments in Bulgaria, as well as in the other East-European countries, was constituted in two parts in accordance with the two different types of payments and trade relations: the first in convertible currency, the second in transferable rubles. After the end of the first quarter of 1991 the balance of payments will be drawn up in convertible currency only as payments among the former CMEA countries are to be arranged in convertible currency.

Current account

Current accounts in convertible and non-convertible currencies exhibit opposite trends in their development in the 1980s. Current account in non-convertible currency closed on deficit during the whole period of 1981 – 1986 and on increasing surplus balance in 1987 – 1989. The deficit in the first period moved in the range of

3.1 percent to GDP in 1982 and 0.2 percent in 1985. The current account surplus balance in transferable rubles reached 2.4 percent and 3.1 percent to GDP in 1988 and 1989, respectively.

CURRENT ACCOUNT BALANCE



For the 1980 – 1984 period the current account in convertible currency closed on a surplus balance in the range of 1 percent in 1983 and 2.2 percent to GDP in 1984. From 1985 to 1989 there existed a gradually rising current account deficit balance in convertible currency up to 2.8 percent to GDP in 1989.

In 1990 the current account closed on a significant deficit both in convertible currency (US$ 850 million) so in non-convertible currency (Transf. Rbles 897 million). It was a reflection of the 1990 deep crisis in the Bulgarian economy exaggerated by internal and external factors.

The most important internal factor in 1990 was the delay in the outset of the reform, which reinforced the negative economic trends already existing at the end of the 1980s. Of special significance for the balance of payments was the foreign reserves exhaustion and, as a consequence, the moratorium on principal payments on the foreign debt announced on the 21 of March 1990 and, subsequently, on the interest payments, too. That cut off the access of the country to the international financial market and of the producers to the foreign trade credits and caused a pick down in the imports from the OECD countries. The repercussion effect was the overall disturbance in production and a drop in imports.

The external factors that worsened the current account in convertible and non-convertible currency were the political changes and economic problems in the East-European countries, especially in the USSR, and the Persian Gulf Crisis. Bulgaria faced sizable energy deficit that heavily affected production and transportation, and, as a consequence, the exports.

The trends in the current account were determined by the state in the trade balance.

Foreign trade balance

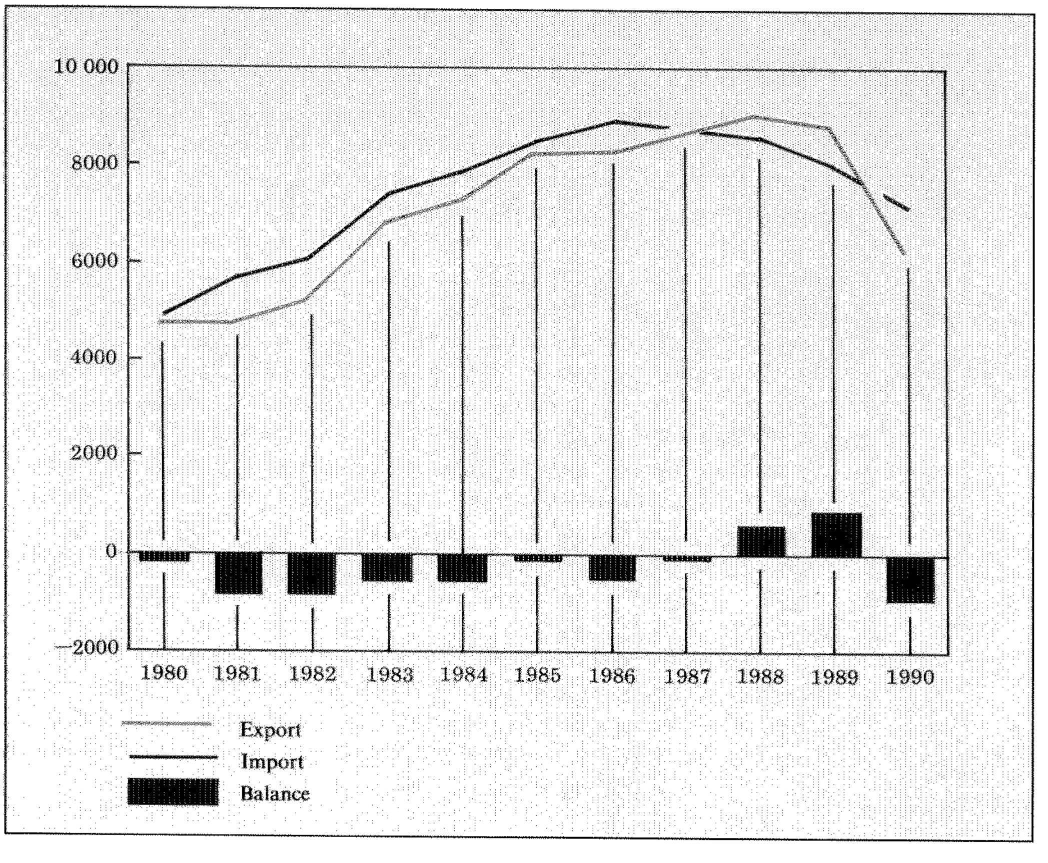
Bulgaria realized around 65 percent of her foreign trade turnover with the CMEA countries including more than 50 percent with the USSR only. In the past eight years the country had a deficit trade balance with the CMEA countries at maximum value of Transf.Rbles 836 million or 3.7 percent to GDP in 1982 and gradually decreasing to the insignificant value of Transf.Rbles 70 million in 1987. The large trade deficit at the beginning of the 1980s was due to the deteriorated terms of trade with the CMEA countries and especially with the USSR. A substantial portion of imports consisted of oil and other raw materials and minerals. During the 1980 – 1985 about 45-50 percent of the imports from the CMEA countries comprised fuels, mineral resources and metals. The prices used in the CMEA limits were fixed in proportion to the international prices by the so-called "Bucharest formula". They were defined annually as an average of the world market prices for the past five years. In this way the second oil shock in 1979 – 1980 was entirely absorbed in the CMEA foreign trade prices in 1984 – 1985.

In 1988 and 1989 the non-convertible currency trade balance was considerably improved. The achieved surplus balance was 2 percent and 2.5 percent to GDP, respectively. This turnabout was caused by the supported exports level, the improvement in the terms of trade in non-convertible currency and the decrease in imports. The surplus was used for repayment of our accumulated in the 1980s liabilities to the International Bank for Economic Co-operation.

On the first of January 1991 Bulgaria had a surplus balance of Transf.Rbles 330.8 million on the CMEA payments account, including Transf.Rbles 575.5 million with USSR and Cuba together with a minimal negative balance with the other CMEA countries.

The speedy decline in the non-convertible currency inflow continued in 1990. In 1989 the imports decreased by 6.3 percent compared to the preceding year and in 1990 by additional 10.4 percent. At the same time, the non-convertible currency exports decreased in 1990 by 29.4 percent in relation to 1989. The result was a deficit balance of 2.2 percent to GDP.

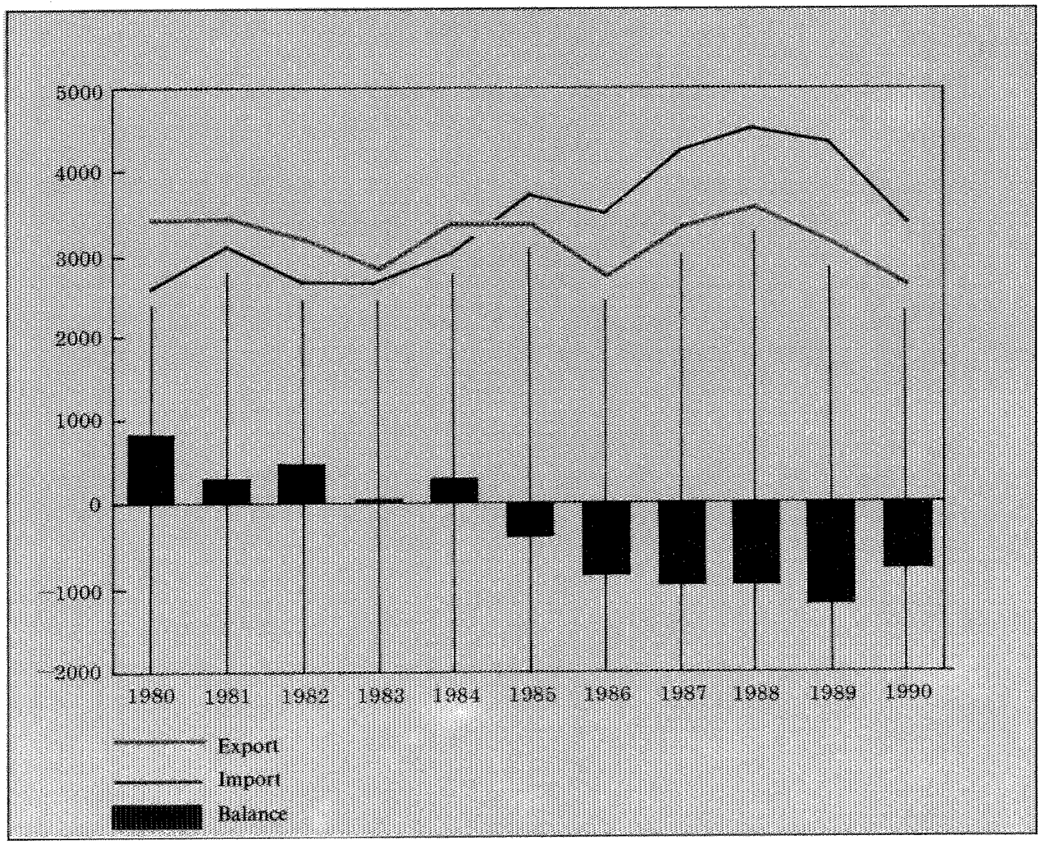
TRADE BALANCE IN NON-CONVERTIBLE CURRENCY in millions of transferable rubles



The reasons for the curtailment in the exports to the CMEA countries was the reduction in output due to shortages in raw materials, fuel and energy caused by retrenchment in the oil import from the Soviet Union and from Iraq after the 2 August 1990. The decrease in convertible currency imports was due to the same reasons. The economic stagnation in our main CMEA foreign trade partners added up to the above description. The diminution in the exports to the former GDR (by 60 percent in comparison to 1989) and to Poland (49 percent) was especially dramatic.

During 1980 – 1984 the convertible currency trade balance with the OECD countries and with some developing Middle East countries closed on surplus, sometimes significant. During that period imports and exports fluctuated around a definite level of US$ 3 to 3.3 billion annually for exports and US$ 2.5 – 3 billion for imports. Two factors were instrumental in sustaining exports. One was the manufactured goods export expansion for the developing countries on bilateral trade transactions and the oil re-export. The fuels, mineral resources and metals constituted 40.8 percent of the exports to the non-socialist countries in 1980. Their share gradually went down to 29.1 percent in 1985.

TRADE BALANCE IN CONVERTIBLE CURRENCY in millions of U.S. dollars



After 1985 the convertible trade balance worsened rapidly and the deficit rose from US$ 85 million to US$ 1.3 billion in 1989 and to US$ 900 million in 1990. That proceeded from the hard to sustain export level and the increase in imports to US$ 4.2 and 4.5 billion in 1987 – 1989. In 1989 the nominal export returns were at their 1981 level while the expenditures for imports rose by 41 percent in comparison to the same year.

The rapid deterioration in the convertible currency trade balance in the second half of the 1980s should be explained by the failure of the economic policy of that period to achieve a long-term adjustment of the economy to the changing terms of trade. The surplus trade balance at the beginning of the period was due mostly to a restriction in imports rather than to a successful export expansion.

The outlined description of the trade balance performance was influenced by several very important factors. The exports reflected the continuous deterioration in the competitiveness of the Bulgarian manufactured goods, the drop in both physical and value volumes of oil re-export, the growing inability of the developing countries to meet their accumulated liabilities to Bulgaria. The decrease in the real value of oil limited the import capacity of the countries in the Middle East which were the traditional markets for the Bulgarian goods. In terms of imports the main factor here was the erroneous structural policy encouraging the development of the so-called "progressive" branches as electronics, chemical industry, heavy machine-building, inconsistent with the capacities of our country. The artificial stimulation of those industrial branches became increasingly dependent on the convertible currency import of raw materials, components and spare parts while their output was sold on the East-European markets.

In 1990 the foreign trade turnover in convertible currency fell down dramatically – the exports by 17 percent and the imports by 23 percent. The result was a deficit trade balance of US$ 757 million. The exports to both OECD and developing countries decreased. The long-term trends of a reducing exports to the OECD countries were exacerbated in 1990 by the production crisis and the shortages in raw materials and spare parts. Impairment in exports to the developing countries was due to the decreased export financing from Bulgaria together with the decelerating growth rates in those countries. Essential for the retrenchment in exports to the developing countries was the Persian Gulf Crisis.

In 1990 the liabilities of our country on the debt service in convertible currency accumulated while the developing countries debt to Bulgaria remained outstanding. The foreign reserves were used to meet the maturing loans. When they reached the value of US$ 200 million at the end of the first quarter of 1990 the Government announced a moratorium on the repayment of the foreign debt. As a result of the drastic decline in external financing and exports the imports in convertible currency contracted too. The shortages in raw materials and in spare parts deepened the recession in 1990 and created an extremely unfavourable conditions for the economic reform launched by Dimitar Popov's Government at the beginning of 1991.

Services and transfers

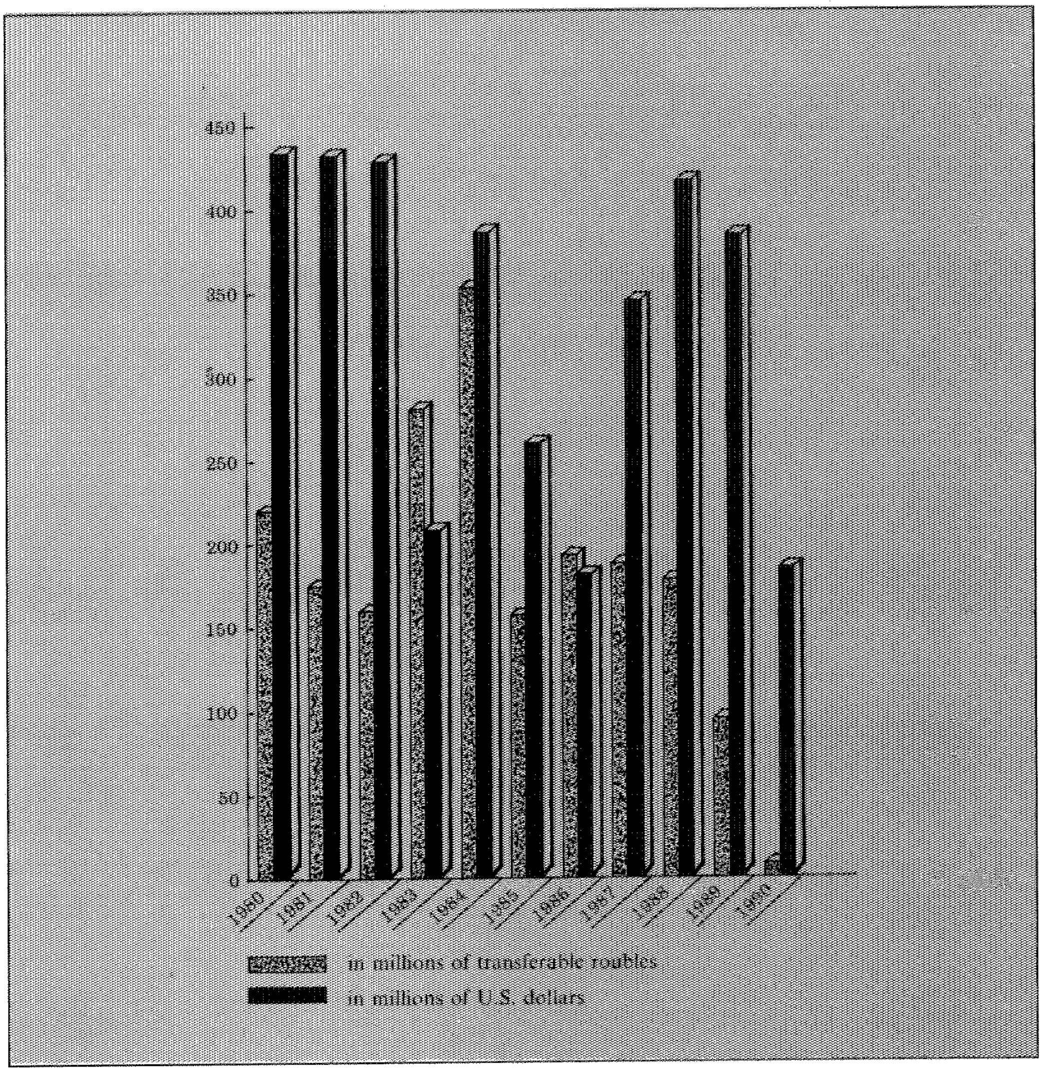
During 1980 – 1988 Bulgaria supported a small positive balance on the service and transfer accounts in convertible and non-convertible currency.

The greatest contribution to the positive "invisible" balance in non-convertible currency was that of tourism. The returns doubled during the observed period due to the inflow of tourists from the USSR and the GDR. Interest payments in the 1980s exceeded interest receipts due to the loans in non-convertible currency received at the beginning of the period. In the early 1990 the net interest revenues in non-convertible currency became positive after the repayment of debt in non-convertible currency. Transportation outlays in non-convertible currency typically exceeded the revenues because of the transit transportation fees, paid to Romania.

In 1990, for the first time in a period of eleven successive years, a small but negative "invisible" balance of Transf.Rbles 5 million was registered. The main reason was the drop by 70 percent in non-convertible currency revenues from tourism, provoked by the economic and political changes in Eastern Europe.

Until 1988 Bulgaria had a positive "invisible" balance in convertible currency. Its sources were tourism, international motor transport, engineering and construction activities in the developing countries. However, in 1988 and 1989 the "invisible" balance changed to negative and reached the value of US$ 170 million and US$ 211 million, respectively. The main reason was the fast rise in interest payments on the increasing external debt in convertible currency. At the same time the income from transportation, engineering and construction fell down because of the Gulf Crisis in 1990. Bulgaria received the greatest part of her transport service revenues for the transit transportation of goods from Western Europe to the Middle East. The outstanding liabilities of several developing countries on Bulgarian credits added to the negative balance.

INVISIBLE BALANCE
net returns from services



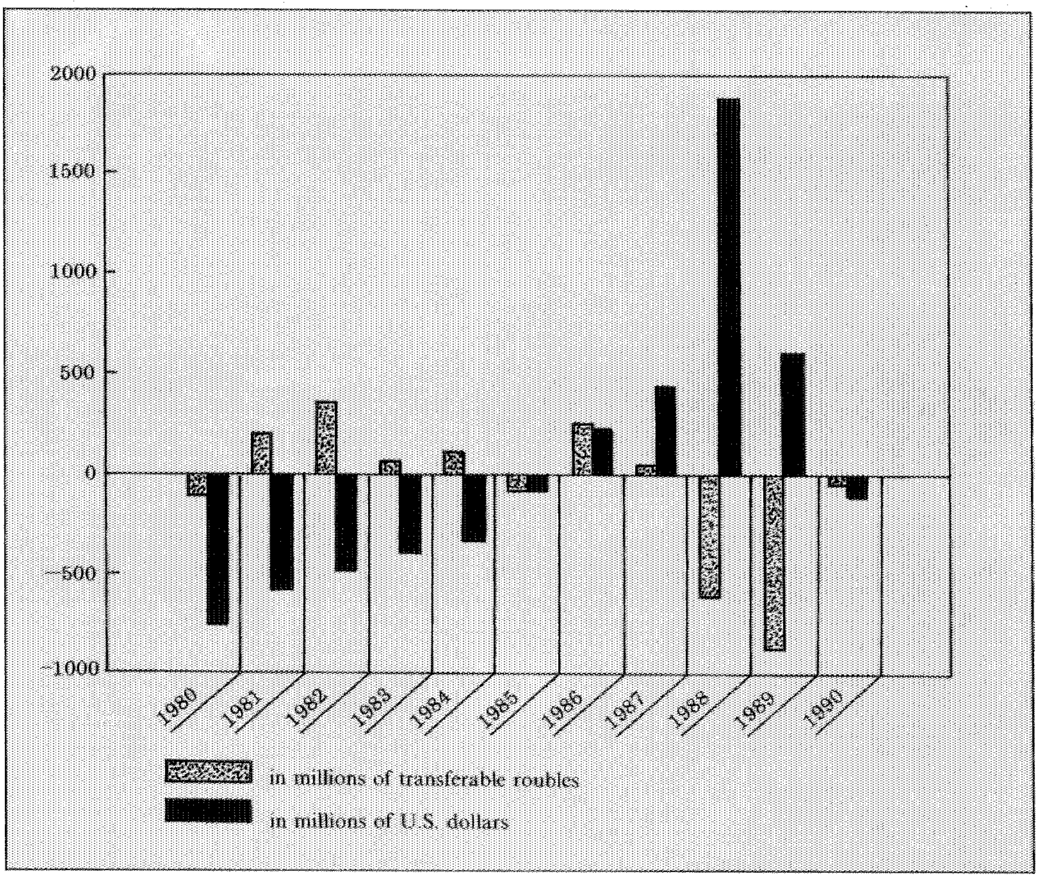
Capital account

Capital flows in non-convertible currency during the 1980s reflected the trends in the non-convertible currency current account. So the capital account in non-convertible currency turned from positive until 1987 into negative after that year due to the faster reduction in imports from the socialist countries in comparison with the exports for them.

The capital account balance in convertible currency during the first half of the 1980s reflected the Government policy of reducing the external debt accumulated in the late 1970s. The gross debt decreased from US$ 4.9 billion in 1980 to US$ 2.9 billion in 1984. That was achieved by restricting imports in convertible currency. This tendency could no longer be sustained after 1985. Till the end of the decade the country received a gross capital inflow of US$ 3 billion annually. The long-term and the short-term credits were used to finance the imports of equipment, the trade credits were used to finance the imports of mineral resources and raw materials and the short-term deposits were used to improve the external liquidity.

During the second half of the 1980s the capital outflow was in the range of US$ 2.5-3 billion annually. Its sources were two. The first source was the annual servicing of the short-term and medium-term loans that rose from US$ 1.2 billion in 1984 to US$ 2.3 billion in 1989 and amounted to US$ 3.9 billion in 1990. The second source was the relatively large export credits to the developing countries. From 1984 to 1988 they were about US$ 400-600 million annually – an unusually high value in comparison to the country's access to the world capital markets. At the same time the repayments of the credits granted by Bulgaria and the interests on them were lagging behind in comparison to the new credits. In 1989 the debt service to Bulgaria fell down to the symbolic value of US$ 50 million.

CAPITAL ACCOUNT BALANCE



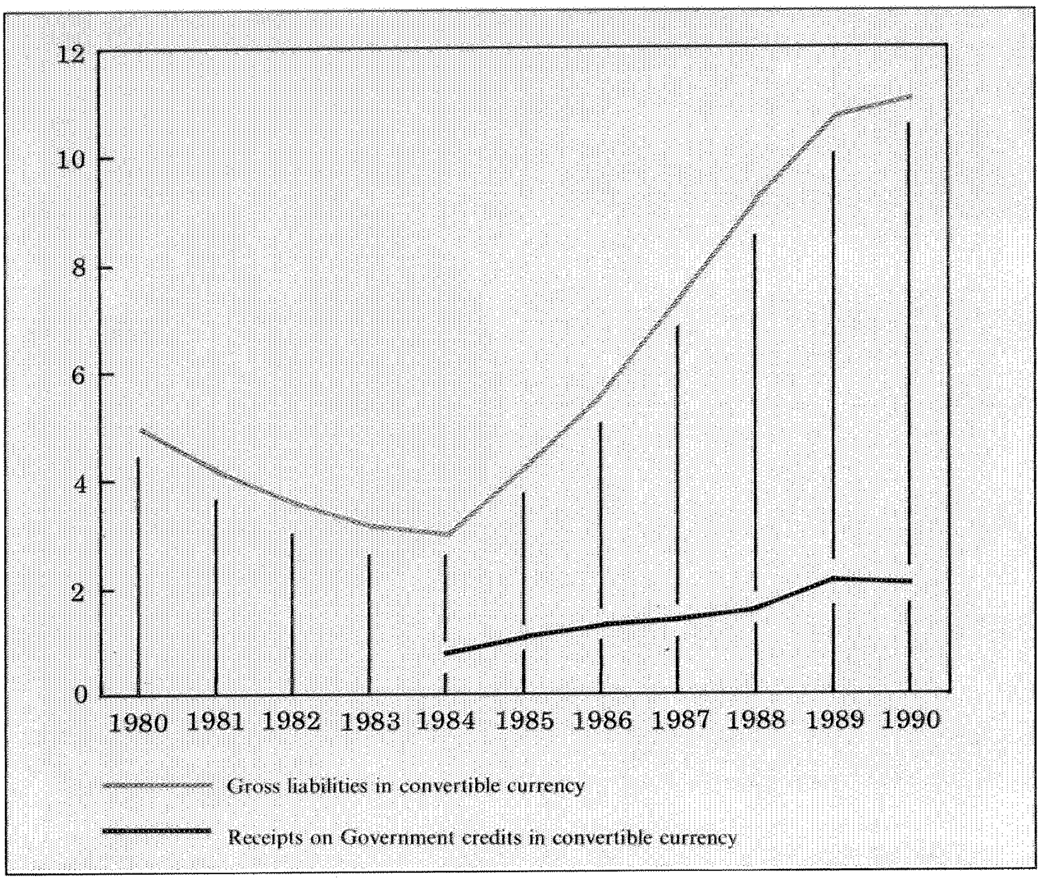
In 1990 the situation on the capital account was reversed. By the end of the first quarter of 1990 Bulgaria repaid all her maturing debts. The moratorium over the payments on principal and later of the interests on the long-term and the short-term loans, announced at the end of March 1990, practically checked the access of the country to the world financial market. As a result, long-term and short-term credit items on the capital account registered a negative balance of US$ 400 billion in 1990. At the same time arrears accumulated for more than US$ 3 billion. In 1990 practically no credits were granted to the developing countries. The interest and the principal payments on past credits from Bulgaria were US$ 299 million in 1990.

External debt

At the end of the 1980s Bulgaria's situation as a debtor worsened. Using its access to the international financial markets in the course of five years the country nearly tripled its gross liabilities in convertible currency – from US$ 4 billion in 1985 to US$ 11.2 billion in 1990. About half of the debt consisted of short-term financial and trade credits.

As of 1990 almost half of the debt was denominated in US dollars, about 30 percent in Deutschemarks, 8 percent in Swiss franks, 5 percent in Japanese yens and the rest in other West-European countries currencies.

EXTERNAL DEBT OF BULGARIA in billions of U.S. dollars



The major problems in the servicing of the debt came from:

● The rapid fall of exports in convertible currency together with the fast accumulating external liabilities increased the debt-export ratio in convertible currency from 80 percent in 1985 to nearly 300 percent in 1990. After the partial remission of the Polish debt only Hungary was in a more disadvantageous position with a debt-export ratio of 319 percent.

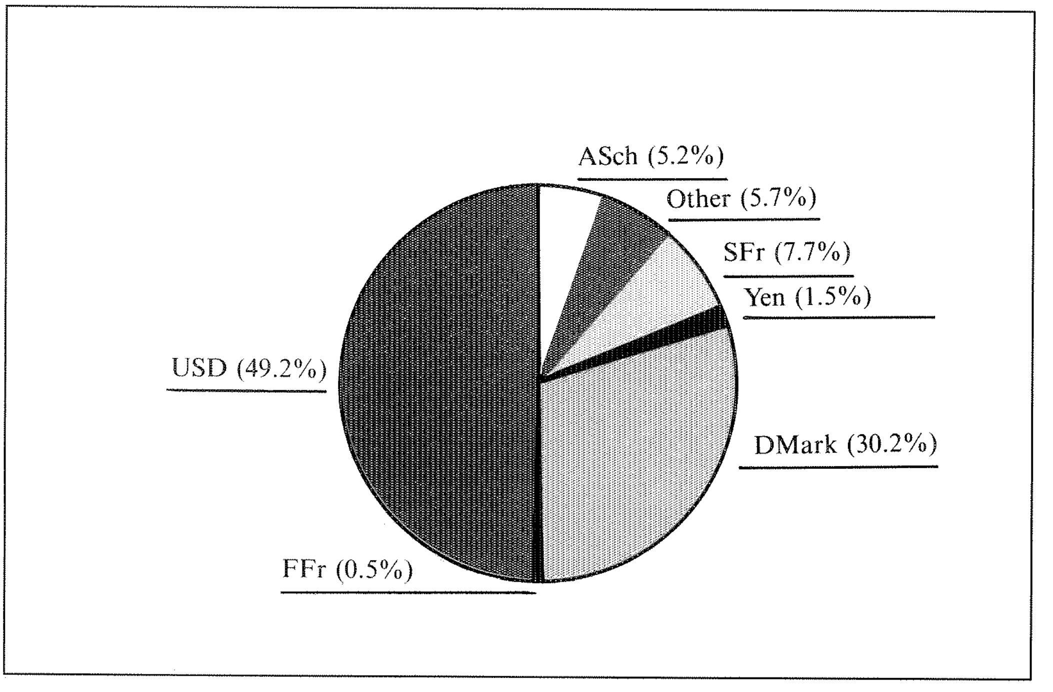
● More than 43 percent of the Bulgarian debt was denominated in Deutschemarks, Swiss franks and Japanese yens. The increase in external liabilities in 1990 was partially due to the appreciation of these currencies to the US dollar.

● A specific source of problems in debt servicing was its unfavourable structure in terms of liquidity. The size of the short-term liabilities in the total debt was unprecedented. About 40 percent of the Bulgarian Foreign Trade Bank's liabilities were due in 1990. That bank was the only one authorized to handle operations in convertible currencies.

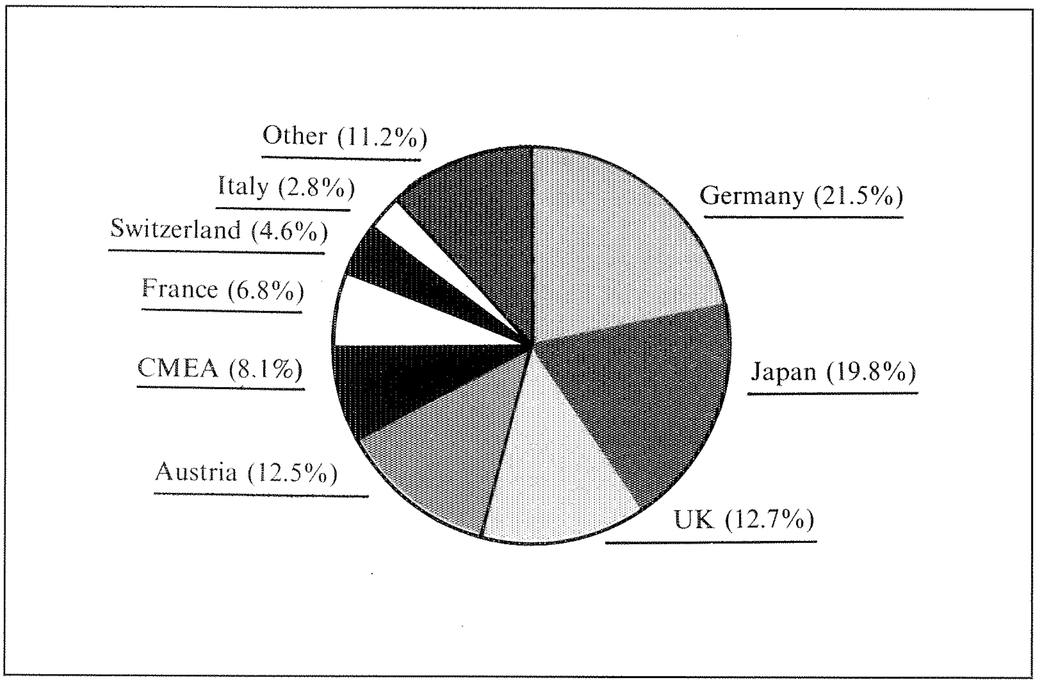
● The debt servicing was hampered by the arrears of the developing countries debt to Bulgaria. The biggest debtors were Iraq and Libya. The Gulf Crisis and the Bulgaria's support and adherence to the economic sanctions against Iraq in the second half of the 1990 prevented the country from receiving the amount of oil, contracted earlier in 1990 in settlement of the Iraq's debt. That had a highly unfavourable impact on the overall economic situation in the country.

● The profound crisis in output and exports, exacerbated by the consequences of the Gulf War and also the transition of the CMEA countries to convertible currency payments at the beginning of 1991 made impossible the due debt servicing.

EXTERNAL DEBT OF BULGARIA IN FOREIGN CURRENCIES AS OF DECEMBER 31, 1990



EXTERNAL DEBT OF BULGARIA BY CREDITOR-COUNTRIES



If, in the next two or three years, Bulgaria does not take a breath of fresh air by rescheduling or even a partial forgiveness of her debt, including interest payments, this may seriously threaten the process of democratization of the political and social life and the economic reform started at the beginning of 1991, oriented to create a market economy in the country.

III. State Finance

1. The Implementation of the State Budget

State Budget deficits became traditional, especially in the last few years. The budget plan was balanced, but in the course of the year government expenditures often exceeded revenues. That was not considered troublesome, as the automatic coverage of the deficit by the BNB's credits was an accepted practice.

The State Budget Law approved a deficit budget plan in 1990 and that set a new development in budget planning. In consequence, the central bank imposed strict control over the budget expenditures accounts to prevent their exceeding the available means. In observance of the above law, the Bulgarian National Bank was obliged to commit credits to the Ministry of Finance up to the amount of the approved budget deficit. As a result, already at the end of September, the initially planned deficit of Lv 1.2 billion was reached and covered by central bank credit, respectively.

At the closing of the fiscal year, the actual budget deficit was more than Lv 3 billion. Following the Grand National Assembly decision, the Bulgarian National Bank granted a new credit for covering the overall deficit.

As a whole the receipts side of the budget plan was implemented. Revenues from the profit tax on firms, banks and insurance institutions, as well as from social security contributions were less but that was offset by other tax and charge receipts from the firms and the households. The actual budget deficit exceeded the planned one as a result of the augmentation in expenditures for boosting the production (almost Lv 1 billion), for general state use (nearly Lv 700 million), as well as covering unforeseen expenses due to coefficient differences on corporate accounts in non-convertible currency.

2. Credits from "State Investment Credits Fund"

The "State Investment Credits Fund" was set up in 1987. Its purpose was to replace budget subsidizing of firms and enterprises in the material sphere. The fund was financed by the state budget. In fact, the budget share in the fund resources was symbolic and came from the "Meliorations Fund". At the end of 1990 the available means on the fund account, amounting Lv 5931 million, were provided by the following sources:

- State Savings Bank's loans – Lv 2082 million;
- Bulgarian National Bank's loans – Lv 2416 million;
- State Insurance Institute's loans – Lv 1100 million;
- "Meliorations Fund" – Lv 148 million;
- interest payments – Lv 185 million.

The net liabilities of the firms to the "State Investment Credits Fund" were up to Lv 5612 million. The biggest debtors were the firms and organizations in power engineering (Lv 3290 million), metallurgy (Lv 841 million), heavy machine-building

(Lv 315 million), construction (Lv 286 million), chemical industry (Lv 225 million), etc.

There are no chances the debts on the "State Investment Credits Fund" to be reimbursed. In principle, the fund's resources were allocated to activities and enterprises that could not answer the necessary bank credit requirements. Those were also enterprises in a bad financial state further deteriorated by the government support of low prices for their goods, leading to their low profitableness. They are the bearers of unpaid bank loans. It is obvious that the problem of enterprises' indebtedness should be resolved at a government level in a way enabling them to begin operating efficiently.

IV. Development of the Banking System

1. Banking Activities until 1989

Banking activities in Bulgaria are one of the youngest in Europe. The Bulgarian National Bank was founded in 1878 after the separation of the country from the Turkish Empire. In the same year the so-called Banks of General Use, existing before the Liberation, were restored and entitled Agrarian Banks. These two state credit institutions laid the foundations of the Bulgarian banking system.

Favourable conditions for bank development were created by the economical progress of the country and the expanding market relations. The role of the state was of principle importance. In 1896 the Post Savings Bank was established, in 1903 the Bulgarian Agrarian Bank was founded on the basis of the Agrarian Banks. In 1927 the Bulgarian Mortgage Bank appeared. Two years later a bank called Bulgarian Credit was founded. In 1934 the Bulgarian Agrarian bank got incorporated with the Bulgarian Central Co-operative Bank and the Bulgarian Agrarian and Co-operative Bank was established.

Private banking also developed at a high speed. In 1906 there already existed 35 joint-stock banks, three of them with foreign capitals. The number of private banks grew up to 137 on the eve of the Great Depression in 1929 – 1933. After the crisis, the number of the private banks diminished to 82. In the middle of 1934 there were only 34 joint-stock banks in Bulgaria and they existed up to the end of the Second World War.

The end of the Second World War earmarked the beginning of a complete reorganization of the Bulgarian banking system as a new social system was built up. The nationalization of industrial enterprises, mines and private banks was carried out in 1947. The only bank that continued to exist was the Bulgarian National Bank, which apart from currency issue, engaged in short-term crediting of enterprises current operations. A new bank was founded for crediting the long-term investments, called the Bulgarian Investment Bank. The Post Credit Bank was the only other banking institution preserved.

There followed years of incessant administrative changes in the structure and functions of the banking system, most of them without a clearly defined purpose. In 1951 the Post Credit bank was closed. The functions of households bank service passed to the State Savings Bank. In 1964 the Bulgarian Foreign Trade Bank was founded to service all foreign currency operations and financial relations with the rest of the world. The Bulgarian Investment Bank was closed in 1967 and its functions were transferred to the Bulgarian National Bank and the State Savings Bank. In 1969 specialized banks were established – the Bulgarian Industrial Bank and Bulgarian Agricultural and Trade Bank. They existed only to the end of the following year. In 1981 "Mineralbank" was founded, transformed the next year into the Bank for Economical Projects "Mineralbank".

Until the summer of 1987, when the latest reform of the banking system was in progress, there were four banks with clearly specialized functions:

– the Bulgarian National Bank combined the functions of a state central bank, carrying out the direct supervision over the whole banking system, and the functions of a universal commercial bank, handling the operations of the firms and organizations in the material and non-material spheres;

– the Bulgarian Foreign Trade Bank;

– the State Savings Bank, handling mainly the savings and the credit operations of households;

– the Bank for Economical Projects "Mineralbank" was specialized in financing and crediting the small and middle scale enterprises, and also all other small-scale business initiatives.

The Bulgarian National Bank and the State Savings Bank were the only ones with a network of branch-offices around the country. The other two banks excercised their functions and made their contacts with their clients through the branch-offices of the Bulgarian National Bank.

In 1987 a new reform was initiated, whose purpose was to decentralize the banking activities. Seven new commercial banks were formed, and together with the Bank for Economical Projects "Mineralbank" they handled the investment activities of the firms in the production sphere. Along with the functions of an investment bank, each bank was specialized in servicing a concrete industrial branch. These banks had no branch-offices in the country. Their direct contacts with the clients were carried out by the branch-offices of the Bulgarian National Bank on commission basis.

The building up of a two-tier banking system began towards the end of 1989.

2. The Banking System in 1990

As of January 1st 1990, the Headquarters of the Bulgarian National Bank were constituted as an autonomous state central bank, released from the direct servicing of the economy.

A part of the former BNB's branch-offices in the country were separated into independent regional commercial banks. The smaller ones remained as branch-offices of the newly created commercial banks or passed as branch-offices of the specialized commercial banks. The existing specialized commercial banks started setting up branch-offices around the country in the regions where they had lasting interest.

As a result of these changes, 67 commercial banks were set up along with the Bulgarian National Bank, the State Savings Bank and the Bulgarian Foreign Trade Bank. In the meantime two new banks came into existence – the Bank for Agricultural Credits and the First Private Bank. The former works with foreign capitals and is specialized for crediting private agricultural initiative, while the latter operates only on private joint-stock capital. Both banks are building up their own networks throughout the country. Preparations for setting up new banks are going on. Some of them will be founded entirely with foreign capital, others only partially.

All banks have been established on the joint-stock principle with the exception of the Bulgarian National Bank and the State Savings Bank. The new commercial banks, founded on the basis of the former BNB's branch-offices were initially constituted on the BNB's capital, offered afterwards to other shareholders.

Following the adopted principles of giving greater independence to the banks and limiting its intervention in their work to the extent it was authorized to, the Bulgarian National Bank announced a public sale of its shares in commercial banks. At the beginning, only state-owned enterprises were allowed to become shareholders, but in the autumn changes in the Bank Rules were performed to the effect that the private capital should also participate in the sales.

In the absence of organized stock market shares were sold at nominal value estimated on the basis of the banks ownership capital balance value as of the date of their foundation. The Bulgarian National Bank suspended temporarily those sales, in view of the current and expected changes in the economy and the growing rate of inflation (consumer prices had grown by 50 percent for the past eight months of 1990). The new market prices of the shares should be settled after the revaluation of the actual assets and liabilities of each bank, and that values should be used as an initial price at the open auctions.

The participation of the Bulgarian National Bank in the commercial banks capital amounted at the value of Lv 846.4 million as per balance sheet data at the end of the year.

Only eleven banks were authorized to perform all kinds of bank operations in Bulgaria and abroad. The newly created commercial banks suffered some restrictions on foreign currency operations and mostly of operating on their own at the world capital assets markets.

V. Banking Activities in 1990

The economic crisis was further aggravated in 1990. Under these circumstances the banks had to manoeuvre their narrow credit resources in order to assist the restructuring of the economy and to find out the ways of overcoming the difficulties.

1. Relations with the International Financial Community

A lot of work has been done by the Bulgarian National Bank in connection with the approval and admittance of Bulgaria as a member of the International Monetary Fund and the International Bank for Reconstruction and Development. The complete set of documents, meeting the standards of these financial institutions, was prepared after processing an enormous amount of data.

Bulgaria was admitted as a member of the IMF in September 1990. The BNB was instrumental in preparing the economic program underlying the agreement concluded with the Fund. But the complicated internal political situation and especially the government crisis, caused the program to be completed as late as the end of January 1991. The stand-by arrangement was concluded on the 15 of March 1991, after the basic stabilization elements of the program were actually realized.

The IMF will grant the resources to Bulgaria along two lines. First, in the course of 12 months a part of the Fund's resources will be used, equal to SDRs 279 million (about US$ 400 million). The first tranche of SDRs 77.5 million (US$ 107.7 million) has already been committed, and other four tranches are forthcoming, each at the amount of SDRs 50.38 million. On the second place is the so-called compensatory financing and the first credit of SDRs 66.6 million (US$ 85.8 million) was received at the end of February 1991 as compensatory for the increase in oil prices due to the Gulf Crisis. In the following 12 months another SDRs 32.6 million for this purpose will be received.

A program is being worked out for crediting projects for structural changes in our economy by the World Bank. The preliminary estimations show that this credit might be about US$ 250 million.

2. Credits

For many years the leading principle in our crediting policy had been the assumption that credit expansion increased the influence of the state and its control over the activities of the economic units. That principle allowed the easy expansion of the credit liability of the economy. In the presence of chronic budget deficit the budget financing of investments was substituted by bank credits. The positive differences in revaluation of inventories were automatically covered by credits, the differences themselves being entered as budget revenues. The free resources on the fund accounts of the enterprises were systematically captured by the budget, whereas the needs for additional financing of their operations were satisfied by credits.

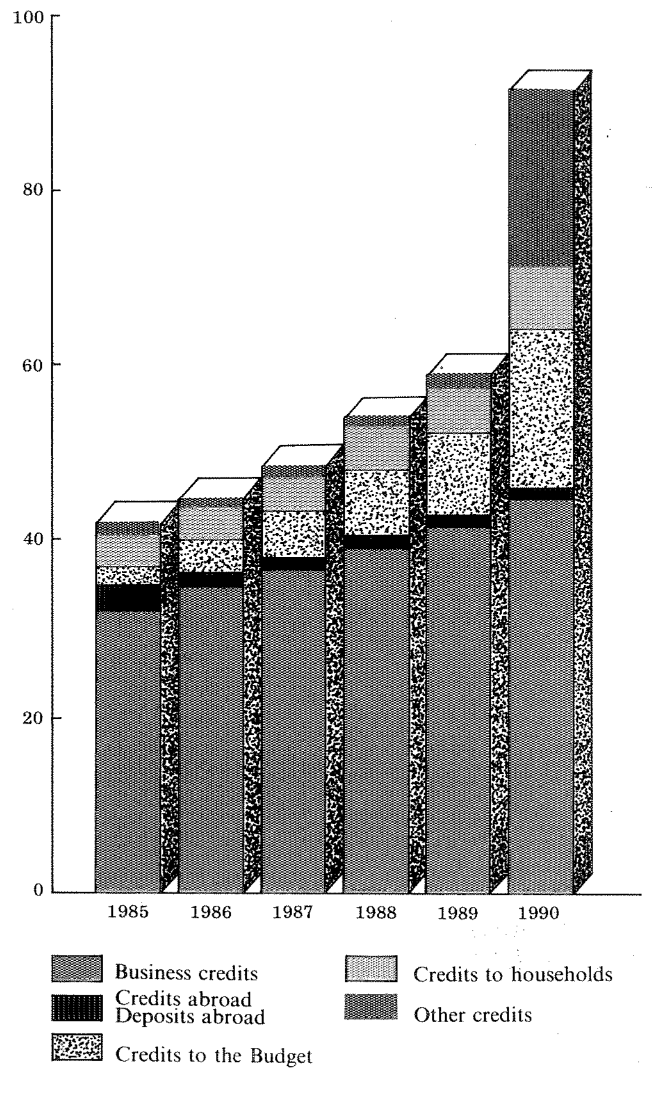
Though in recent years many attempts to restrict bank credit expansion were made, the liabilities of firms and organizations continued to grow due to shortages in their own resources. In 1990 the net bank credits increased, compared to the balance as at the end of 1989, by more than Lv 32 billion (155 percent) entirely due to the increase in foreign credits.

The augmentation of the net foreign credits was caused by the devaluation of the lev in May to all convertible currencies on the basis of 3 leva per US dollar. That was the main reason for tripling the lev value of the liabilities on foreign credits. The announced moratorium over the reimbursements of the foreign debt of the country by the Government froze nearly all bank operations in convertible currency. The result was a small increase in net credits by Lv 100 thousand, during the second half of the year.

Business sector credits grew by 7 percent as a whole. The balance of the credits in leva diminished in comparison to the previous year by Lv 385 million (0.9 percent).

BANK CREDITS

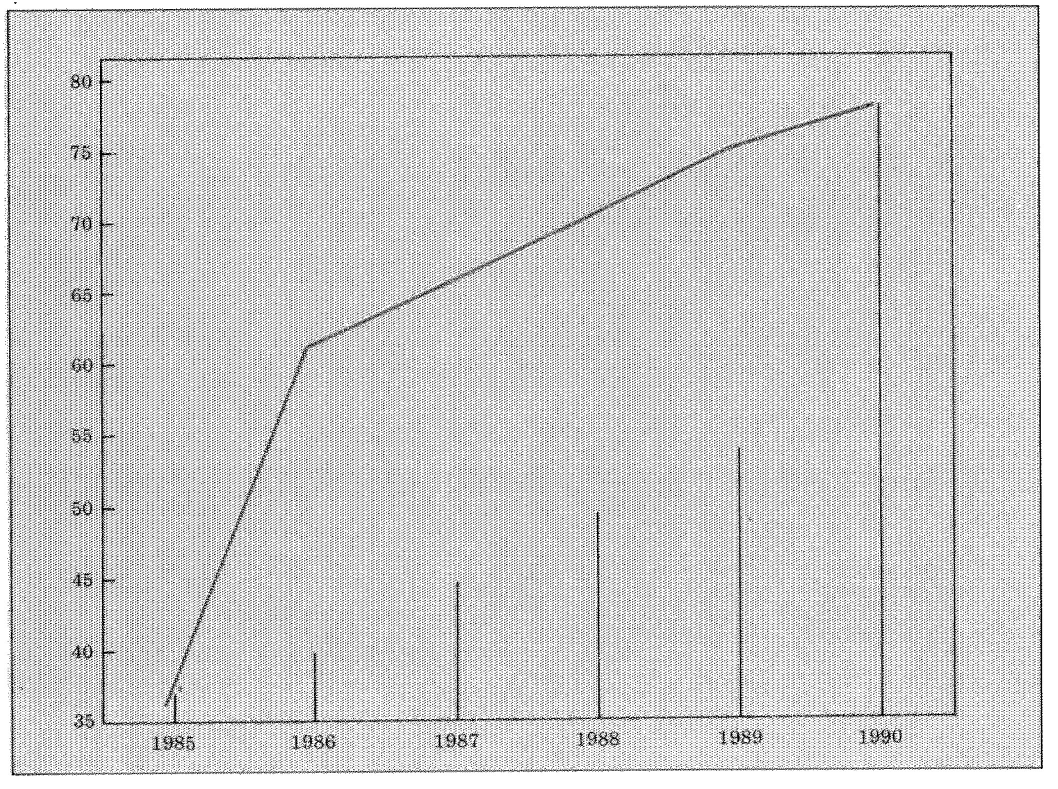
in billions of leva



Short-term credits increased by 4.4 percent, the credits in leva fell down by 2 percent. Regardless of the reduction in the objects of crediting – a number of economic units decreased or discontinued their production, there were enormous inventories in the enterprises, purchased by bank credits. The liberalization of some prices led to an increase in the demand for credits, mainly on the part of trade and buying up organizations.

Short-term and long-term credits grew by 11.5 percent while the credits in leva decreased by 2.7 percent, as a result of the conversion of the agricultural organizations' debt into a state debt.

CREDITS in billions of leva



The amount of credits granted to the private sector reached nearly Lv 767 million – a significant sum in comparison to the only Lv 3 million at the end of 1989.

The credits to the households also marked a substantial growth by 130.9 percent, because of the large housing loans.

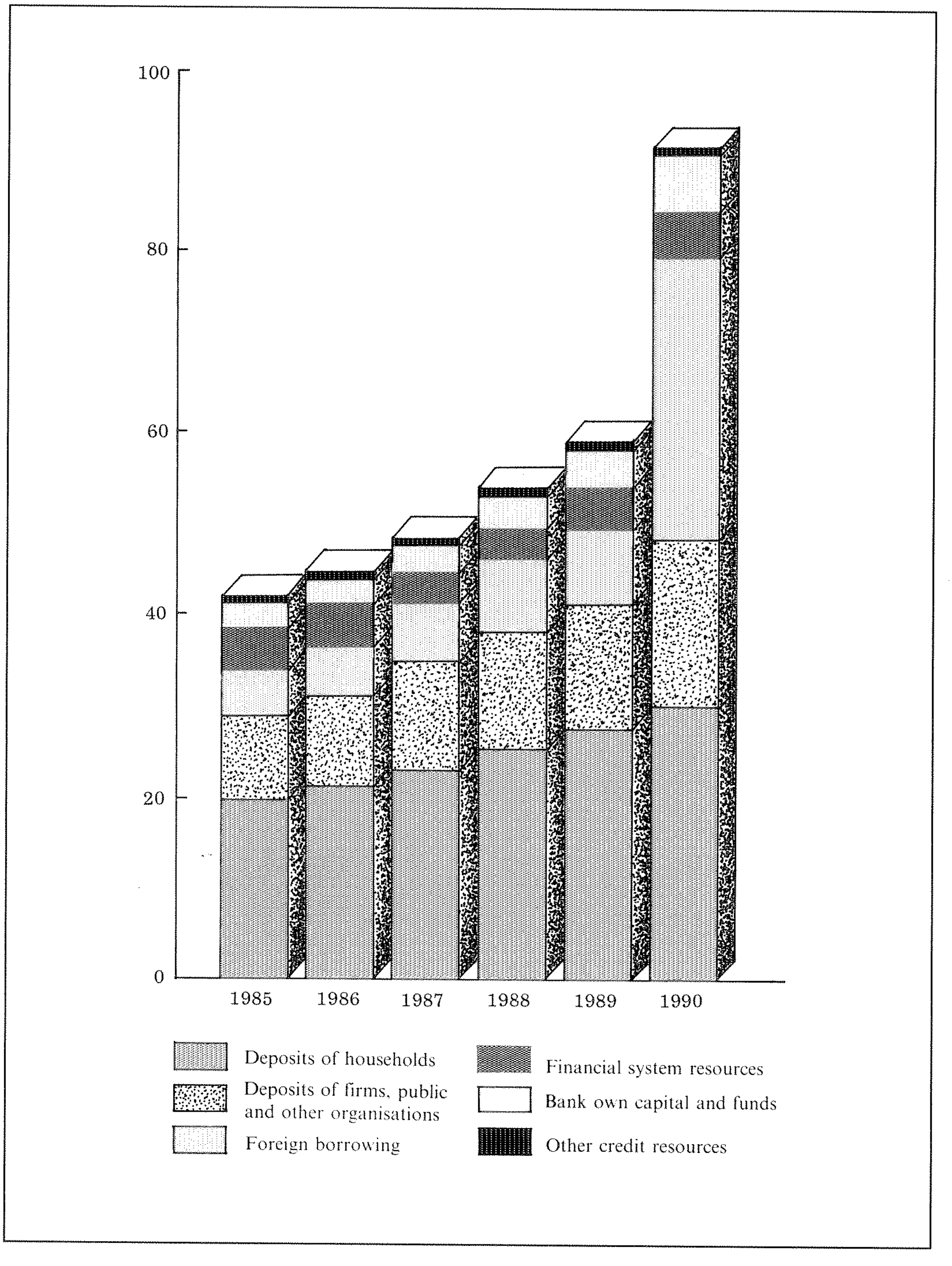
The growth of the Government liabilities to the banks was considerable (90 percent). That was due, first, to the conversion of the agricultural organizations' debt into a state debt at the amount of Lv 1925 million, second, to the committed extra credits (about Lv 300 million) from the State Savings Bank to replenish the "State Investment Credits Fund", third, a sum of Lv 1200 million from the Bulgarian National Bank (according to the State Budget Law) covered the budget deficit, and, finally, a sum of Lv 2600 million,voted by the Grand National Assembly. A part of the last sum of Lv 2600 million was transferred to the "State Investment Credits Fund" (Lv 560 million), and the rest – for covering the budget deficit. The residual was due to the revaluation of the Ministry of Finance's liabilities for repayments of foreign investment credits, accounted by the Bulgarian Foreign Trade Bank.

3. Credit Resources

The credit resources rose as a whole by 55 percent in comparison to the end of the previous year – by 11.8 percent in leva and by 240.6 percent in foreign currency (because of the depreciation of the lev and the establishment of a new exchange rate of the lev to the US dollar).

Households savings and demand deposits continued to grow (by 8.9 percent). The banks' own capital also increased after shares were issued to the firms and to the households. The increment in the funds of companies, public and other organizations was significant (more than 30 percent, on the lev accounts alone – about 16 percent). The other resources remained at their level of the previous year.

BANK CREDIT RESOURCES in billions of leva



4. Balance Results of the Bank Activities

The main item in the Bulgarian National Bank's assets were the credits to the banks (63.4 percent). The reason was that by the end of 1990 the BNB re-financed the greatest part of the credit resources in the country. Due to the same fact was that the dominant share in the BNB's liabilities consisted of current accounts and deposits of the Bulgarian Foreign Trade Bank, the State Savings Bank and the insurance institutions with the BNB. The credits to the Government formed another significant assets item (33.6 percent). The participation in other banks and corporations was about 2.5 percent and would continue to fall with the sale of the BNB's shares in the commercial banks capital.

In the commercial banks' assets the biggest part was that of the credits in leva (44.7 percent), followed by the share of the deposit and current accounts in other banks in foreign currency (14.3 percent) and in leva (8.5 percent), the credits to the "State Investment Credits Fund" (6.3 percent), the credits in foreign currency and other credits. The banks' sources were their own capital and funds (3.3 percent), credits from other banks (25.8 percent), foreign credits (34.3 percent), deposits and other funds of the firms, organizations and the households in leva (18.2 percent) and in foreign currency (11.3 percent).

5. Money Regulators

The policy of interest rates

The dynamics of the economic processes in the country required an active interest rate policy to soften inflation and the goods markets deficits through an active bank intervention. According to the existing regulations the Government was authorized to define the level of the base interest rate. But in 1990 due to the indecisiveness of the Government, the base interest rate remained unchanged at the level of 4.5 percent. The interest rates on the savings deposits, demand deposits, current accounts and fund accounts of the firms and the households also were left unchanged. In other words, the so-called policy of "cheap money", implemented for years, was still in practice.

Compared to 1989 the average interest rate on bank credits rose by 0.92 percentage points (from 4.69 percent up to 5.61 percent), while for the preceding five years (1985–1989) the rate rose only by 0.20 percentage points. The relatively high growth of the interest rate in 1990 was due to the restriction in the commitment of credits on preferential interest rate.

The different credits had a special dynamics of their interest rates. In the period of 1987–1989 the investment credits had a substantial reduction in the average interest rate compared to the previous period (for example, in 1989 they were by 0.77 percentage points lower than in 1986). The chief reason was the Government policy of preferential interest rates for credits in some industrial branches and activities. In this case, the increment in 1990 of the interest rate by 1.2 percentage points in relation to the previous year didn't lead to a substantial increase in the level of the rates. The level of interest rate reached was only 0.35 percentage points higher than that of 1986.

The tendency to raise the interest rates was stable about the credits for working capital turnover. Their average level grew in the first nine months by 0.73 percentage points in comparison with 1989, and by 1.62 percentage points in relation to 1985.

The interest rates on the deposits of firms and other organizations were not settled on free market but remained pegged at the level of 3 percent for time deposits and 1 percent for savings deposits.

The interest rates on credits to the households also remained pegged and ranged from 2 to 4 percent depending on the different kinds of credit. The interest rates in the State Savings Bank were at the level of 1 and 2 percent for the savings and time deposits, respectively. There were some movements in the interest rates in the last three months of the year after the commercial banks were allowed to attain deposits from the households. They started offering more favourable interest rates, especially for the time deposits, but not more than 4 percent annually.

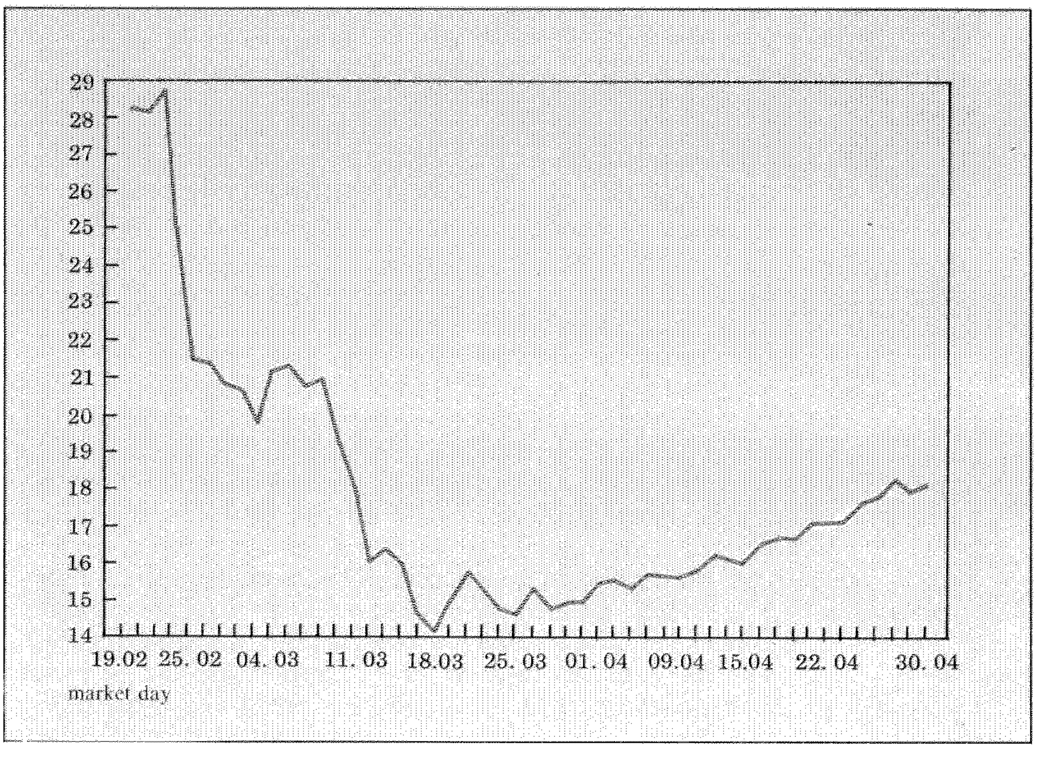
Significant changes in the interest rate policy occurred after mid-January 1991 as the Government fixed a new level of the base interest rate at 15 percent and transferred the exclusive right of its management to the Bulgarian National Bank. Two weeks later, by a decision of the BNB's Board of Management, the base annual interest rate was confirmed 45 percents. The result was that the inflationary impact of the price liberalization from the first of February 1991 was smoothed and a tendency to overcome the shortages at the goods markets appeared.

Exchange rates

In 1990 the exchange rate policy was indecisive. At the beginning of the year a high rate of the lev to the other foreign currencies was maintained, especially, one US dollar was counted equal to 0.80 leva. That exchange rate favoured the imports and restricted the exports. The practice of granting export premium continued to offset the consequences of the high exchange rate and the US dollar was equal to about 2.50 leva with the bonus.

To overcome the negative results of the co-existence of numerous unreal exchange rates, the Government tried to reform the exchange rate system after April 1990. As a fact, the number of the exchange rates multiplied. A process was started of transforming foreign currency deposits of the Bulgarian residents and foreign currency accounts of the Bulgarian firms into corresponding foreign currencies. The "official exchange rate" and the methodology of its determination remained intact until that process was completed. The counting units "foreign currency lev" and "exchange rate with premium" were dropped and the "exchange rate" (buying and selling) remained.

BNB OFFICIAL EXCHANGE RATE AFTER THE 19 OF FEBRUARY, 1991 leva per U.S. dollar



At the same time base and market exchange rates were introduced. The base exchange rate was applied to the commodity and non-commercial payments between juridical and physical persons. Initially, it was determined on the basis of 3 leva per US dollar and the Bulgarian National Bank was changing it in line with the movements of the exchange rate of the US dollar and the other convertible currencies at the international exchange and credit markets. The market exchange rate expressed exchange rates fixed at the exchange auctions, organized by the Bulgarian Foreign Trade Bank, in the process of adjusting the demand for and the supply of foreign currencies. The BFTB offered foreign currencies to the amount it had received by taxation of export returns of the firms and other organizations.

Actually, there existed four different exchange rates for different purposes. This complicated system was abolished in the second half of February 1991 and a single exchange rate was adopted. It was determined at the interbank exchange market.

The policy of re-financing

In 1990 continued the practice of the recent years to hold all free resources of the State Savings Bank, the State Insurance Institute and the Bulgarian Foreign Trade Bank as deposits at the Bulgarian National Bank. That was the way to centralize the prevailing part of the credit resources in the country and together with the money issue the BNB re-financed them in the form of credits to the commercial banks.

Another feature of the practice of re-financing was the lack of efficient mechanism for allocation of resources and control over their use. The banks could use as much resources as they needed and that was executed nearly automatically.

In the second half of the year a new regulation was introduced for these BNB's activities. The commitment of resources was done on three months contracts observing the determined credit ceilings for each bank. Each bank had its current account with the BNB. So the possibility to exercise the necessary control was created but that was not enough for the everyday control, aimed at preventing the overshooting of the available credits over the available means on the current account and the approved credit limit for each bank.

At the beginning of 1991 the BNB gave up its monopolistic rights of allocating credit resources among the banks. It continued to provide resources in the form of deposits only to the amount of 20 percent of the planned credits for the year. The remaining part should be provided at the interbank money market.

Restrictive credit policy

The enormous dependence of the Bulgarian economy on bank credits was due to the policy of concentrating the major part of business profits in the state budget – a policy that was followed for many years. The net material product in 1990 covered 75 percent of all liabilities of the economy to the banks. In recent years about 20-25 percent of the investment spending and about 55-60 percent of the working capital were provided by bank credits.

These facts predetermined the restrictive policy introduced by the Bulgarian National Bank in 1990. By a decision of the BNB's Board of Management a staggering schedule (quarterly) was devised to reduce by the end of the year the net credit on working capital turnover which was to reach 95 percent of its level as at the end of 1989. The net investment credits should remain at the level of 1989.

There was a reduction in the net credits but the BNB's preliminary restraints were not achieved. Additional loans were given to the military enterprises for the conversion of their production and also considerable credits were committed to the private business sector. At the same time the relative share of the credits decreased against the background of the accelerating inflation.

Another restrictive policy instrument was introduced by the BNB – the reserve requirements, the commercial banks were obliged to deposit at the BNB without interest payments on them. Up to November the required reserves were 5 percent of the total holdings of the banks. Since December it has been risen to 7 percent. The sum on which the reserves were calculated excluded the resources received at the interbank credit markets.

In 1990 the Bulgarian National Bank adopted a number of money regulators, largely used by the central banks in the countries with developed market economies. Most of those tools were devised to support and regulate the stability and liquidity of the different banks and of the banking system as a whole.

One of the obligatory indicator was the minimum amount of credits covered by the bank's own resources. In 1990 it was 4 percent. Most of the banks were beyond that indicator. That was why it was increased in 1991 up to 5 percent and now corresponds to the standard requirements in most of the countries.

A restriction was introduced over the maximum amount of credit for a single firm at the level of 500 percent of its own capital. The level of this indicator was 20 percent for the newly built firms. That was a very important indicator for the solvency of the banks from view point of their dependence on the financial state of their debtors. With few exceptions, all banks were much under that level.

6. Trends in Money Supply

In 1990 a rapid increase in the money stock was observed (money aggregate M2, including M1 and quasi-money) – by more than Lv 8 billion (18.5 percent). Significant was the augment in currency (M1) – by Lv 6.8 billion (31 percent), including the currency in circulation – by Lv 1.7 billion or 28.4 percent, and the savings deposits (including the current accounts of firms and the households) – by Lv 5.1 billion or 32 percent.

Quasi-money, including time, savings and foreign currency deposits of firms and the households, grew up by Lv 1.2 billion. In fact they were diminishing bearing in mind the depreciation of the domestic currency.

A feature of our economic development in the last few years was the continuing increase in excess liquidity. That could be traced through the changes in the ratio of money stock to gross domestic product, stated in the following table:

(million leva)

	1986	1987	1988	1989	1990
Gross domestic product	34424	36531	38345	39579	42000
Money (M2)	33511	35473	39133	43250	51267
Money (M2)/GDP	97.4	97.1	102.1	109.6	125.4

Such a development was a logical consequence of the entire economic situation in the country. The accelerating inflation needed a greater money supply. The shortages in the goods market together with the peculiarities of the payments system in Bulgaria, based on dominating cash payments, required an adequate currency in circulation to be sustained. The existing cumbersome interest rate policy aggravated the situation by discouraging savings. As a result, the rapid devaluation of money due to inflation stirred up the money to attack the goods markets and to extent the shortages.

The BNB tried not to create additional obstacles to the available cash money turnover. The increase in the currency issue was economically grounded (126 percent) and at the end of the year reached Lv 8987.2 million. The money denomination also changed and the share of notes with high denomination (10 and more leva) increased from 76.8 percent up to 79.4 percent. There was an issue of 50 leva notes whose share in the currency in circulation reached 7 percent at the end of the year.

7. BNB and the Legal Regulation of the Economy

1990 and the first months of 1991 were marked by the attempts of the Bulgarian legislative body to change the existing centrally planned economy. Some of the principles, laid down in the Bulgarian Constitution were changed. According to the main law of the country the economic system was based on the freedom of the forms of property ownership, free business initiative and competition. The right to private property was restored. Thus the constitutional state monopoly over the economic activities as well as the state regulation of foreign trade was abolished. Foreign trade activities could be freely undertaken by individuals and organizations.

The current legislation provided for the further liberalization of business activities by removing a number of restrictions. The requirements for legal residence in the capital and in some bigger towns that hampered individual business initiative were abolished. Profit tax was reduced. The prices of goods and services were liberalized and formed at the market. Several Government Statements provided special measures to protect competition and to prevent the advantages of a monopoly at the market.

Parallel to the liberalization of prices was the liberalization of the interest rates and their formation in accordance with the demand for and the supply of money in the economy. The exchange rate regime was also liberalized to some extent.

The Government adopted special legal acts for the development of the private initiative in trade, services and tourism. Units of state and municipal property were sold out or leased.

A new Accounting Law was adopted. It adjusted the national book-keeping operations to the international standards. The Law for the Private Ownership and the Use of the Agricultural Land was of great importance, because it allowed every resident of the country to own agricultural land. The law restored the proprietary rights of those landowners, who had been illegally deprived of their lands, taken by state farms or by actually state-owned co-operative farms.

Of great significance for the banking system was the elimination of those texts in the Constitution that decreed the exclusive state ownership of banks. That was the legal basis for abolishing the state monopoly in the banking activities. The commercial banks could turn into actual "entrepreneurs". The first private banks appeared. Foreigners can also open new banks or affiliations in the country. Commercial credits have been introduced and the right to choose a servicing bank.

The banking activity was ruled mainly by the Decree for Economic Activity (Decree No. 56), The Rules for the Execution of Decree No. 56, the Bank Rules, the Law for the Arrangement of Past Liabilities on bank credits.

The preparation of the Trade Law, the Banking Bill, Taxation Bill and Foreign Investments Bill, is under way.

8. Updating of the Bank Technical Operations

Before the banking reform, the data processing was done outside the BNB by a specialized organization for bank operations automatization using computing systems. After the transformation of the BNB into a state central bank, most of the data processing is done on individual personal computers. Data from the commercial banks are received on leased telephone lines of a specialized organization. These lines are used for interbank transfers. The specialized organization sums up the data from all regions in the country. Data of individual banks are sent to the BNB on flexible disks for personal computers. Personal computer data processing might be done centrally or individually by the final consumers of the information.

The Central Board of Statistics sends the data of the financial and economic indicators of the accounting units on flexible disks. This data can be processed again on the personal computers of the bank staff.

The technical devices for the cash bank operations are unsatisfactory both in quantity and by quality.

The main problem now is the great delay in receiving the information after the accounting period is closed. The reasons for this are the unreliability of communications and the lack of complexity in the commercial banks automatization, which makes the drawing up of their reports quite difficult. Interim decisions are sought for overcoming these obstacles until complete automatizaion of the banks.

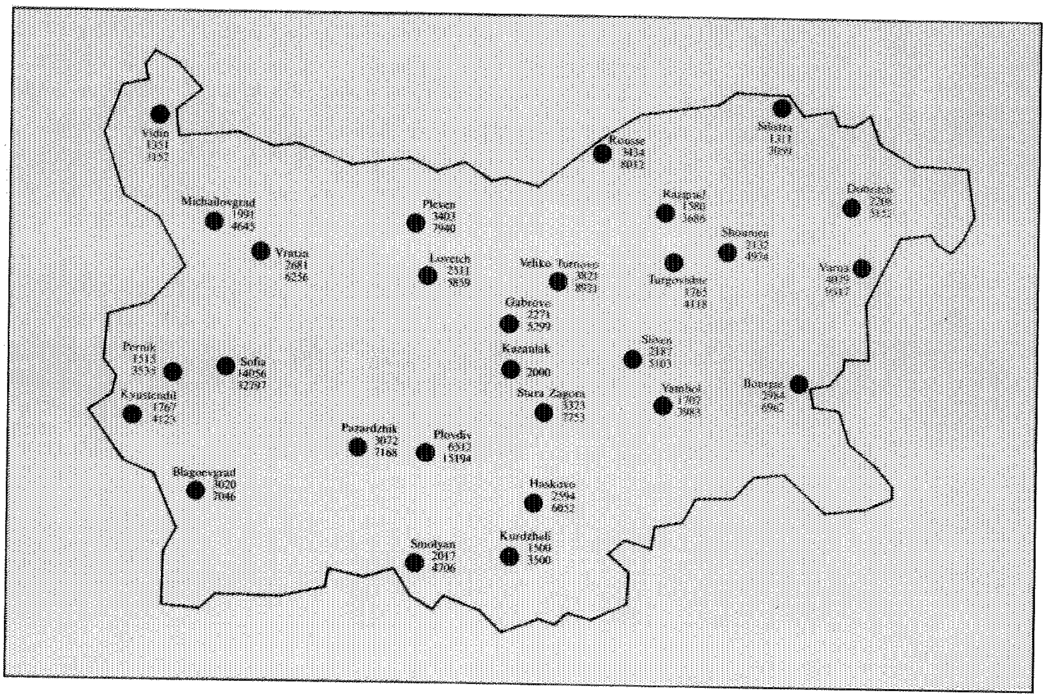
A great number of banks are included in an automatized bank transfers system. The system is exploited by an interbank incorporated firm "Bankservice". It works on the automatization of the bank accounting in the banks and their branch-offices. The firm has 28 regional computing centres in the former county centres. They are equipped with ECM "SM-4", "VAX" and "WANG". A small number of banks own computers for automatization of the accounting and they are connected with the regional "Bankservice" Inc. centres for carrying out the interbank transfers.

The time for an interbank transfer is different and depends on the definite case:

– if the banks are served by a regional centre the transfers and the clients account actualization is done in the course of 24 hours. There are no transactions to the Chief Computing Centre;

– if the banks are served by different regional centres, the transfers are done through the Chief Computing Centre in the course of 48 hours. The regional centres are connected to the Chief Computing Centre through leased telephone lines on the "star" scheme;

– if the bank is not connected with the automatized interbank transfers, the transfers are done through the post and the time equals the time of a post-run.



Daily-average number of operations for 1990. The above figure shows transfer operations, the figure below – local and regional operations.

The distribution of the IF "Bankservice" computing centres around the country is shown on the applied map. The average number of daily transactions is indicated for each centre – on the first row are shown the transactions to the Chief Computing Centre, on the second – those transactions that are done in the framework of the Regional Computing Centre.

The existing automatized interbank transfers system does not satisfy the needs in terms of time for effecting a transfer and the approach to clearing and settlement. That's why it is going to be changed radically.

There are projects to build up an independent Computing Centre, equipped with powerful computers, to satisfy the BNB's demands. On this basis all BNB's units will be integrated through a free access to a common data base and differentiated network to all working units. There will be an "on line" relation among all departments and unit that send to and receive information from the BNB.

A modern dealer's equipment is being installed in the BNB now.

9. Staff and Staff Policy

At the end of 1990 about 18 000 people were employed in the banking system of Bulgaria. At the BNB they were 249, in the commercial banks – 10 152, and 7 600 at the State Savings Bank. Their number has risen in comparison with the previous year by 832.

The BNB's staff was formed in the years of the mono-bank system, common to all East-European countries (former socialist countries), when the National Bank performed universal bank functions through its branch-offices. For this reason the experience and the qualification of the bank staff encompasses the commercial banking and administering. That presents a real obstacle in the BNB's restructuring and transformation into a central bank.

Since 1990 attempts have been made for personnel upgrading by means of courses, seminars, language education and other forms of rising the qualification. The BNB's specialists are sent on short-term or long-term courses abroad. Enormous is the help from the IMF's "Central Banks" department. In 1990 and the beginning of 1991 it sent missions to consult and help the BNB in the process of its transformation into a central bank. There are going to be two other missions by the end of 1991.

The commercial banks need qualified and trained staff badly. The BNB renders assistance, including the foundation of the Banking Institute with the participation of the commercial banks.

VI. The Balance Sheet of the Bulgarian National Bank as at 31 December 1990

Balance Sheet of the Bulgarian National Bank as at the 31 December 1990

ASSETS	(million leva)
In Bulgarian currency	46
In international institutions	1
Claims on banks	21270
Claims on Government	11279
Securities-participation in banks and corporations	845
Other assets	106
TOTAL	**33547**

LIABILITIES	
Ownership capital	150
Reserves	1464
Other funds	72
Participation in banks and corporations	846
Currency in circulation*	7666
Current and deposit accounts of:	21488
• Bulgarian Foreign Trade Bank	5264
• State Savings Bank	14009
• Insurance Institutions	489
• Commercial banks-reserve requirements (minimum)	996
• Commercial banks – current accounts	230
• Commercial banks – deposits	500
Other liabilities	1861
TOTAL	**33547**

*Outside bank vaults

Summary Accounts
of the Commercial Banks as at 31 December 1990

ASSETS	(million leva)
Currency in vault	697
Gold, silver	24
Participation and corporations	591
Deposits and current account at other banks – in leva	7681
Deposits and current account at other banks – in foreign currency	12929
Investment and working capital turnover credits – in leva	40487
Credits in foreign currency	4365
Investment credits from "State Investment Credits Fund"	5698
Bank property	83
Securities	92
Other assets	17973
TOTAL	**90620**

LIABILITIES	
Ownership capital and funds of the banks	3018
Savings and demand deposits of the households	1226
Current accounts, funds, deposits and other accounts of firms and organizations – in leva	15283
Bank credits from other banks	23405
Current accounts, funds, deposits and other accounts of firms and organizations – in foreign currency	10202
Foreign credits	31106
Credits in foreign currency received from other commercial banks	470
"State Investment Credits Fund"	5371
Participation and corporations	433
Other liabilities	106
TOTAL	**90620**

Appendix

Contents

GROSS DOMESTIC PRODUCT

(million leva – at current prices)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
GDP – produced	25791.0	27818.0	29013.0	29814.6	31670.9	32595.3	34423.8	36531.3	38345.1	39579.2	42000
Industry	13868.7	14448.2	16801.6	17984.1	18987.8	20382.3	22034.4	22453.6	23378.7	23507.0	–
Agriculture	3718.7	4624.9	4983.8	4317.0	5008.0	3868.6	4447.4	4309.3	4394.1	4330.7	–
Services	8203.6	8744.9	7227.6	7513.5	7675.1	8344.4	7941.8	9768.4	10572.3	11741.5	–
GDP – used	26274.0	28818.0	29835.0	30472.4	32097.0	33282.7	36551.3	37392.6	39359.7	41093.2	45212
Final consumption	17506.0	18946.0	19933.0	20665.5	21581.2	22787.9	24201.3	25372.4	26162.3	27998.7	32856
Households	16049.0	17217.0	17837.0	18309.5	19197.7	20031.4	21247.2	22659.6	23417.8	25179.7	28986
Public spending	1457.0	1729.0	2096.0	2356.0	2383.5	2756.5	2954.1	2712.8	2744.5	2819.0	3870
Gross accumulation	8768.0	9872.0	9902.0	9806.9	10515.8	10494.8	12350.0	12020.2	13197.4	13104.5	12356
Capital investment	7289.0	7690.0	7973.0	7974.9	8111.7	8612.8	9290.9	9817.3	10260.0	10328.2	9145
Change in inventories	1479.0	2182.0	1929.0	1832.0	2404.1	1882.0	3059.1	2202.9	2937.4	2776.3	3211
Exports	6673.0	7027.7	7945.5	8227.1	8956.9	9119.4	10024.7	10225.3	12482.0	–	–
Imports	6870.4	8193.6	8724.6	9251.1	10014.6	10715.5	12335.2	12080.7	13119.2	–	–
Foreign trade balance	-197.4	-1165.9	-779.1	-1024.0	-1057.7	-1596.1	-2310.5	-1855.4	-637.2	–	–
Statistical discrepancy	-285.6	165.9	-42.9	366.2	631.6	908.7	183.0	994.1	-377.4	–	–

GROSS DOMESTIC PRODUCT

(million leva – at constant prices)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
GDP – produced	27026.8	28351.2	29013.0	30008.2	31027.5	31860.1	33200.6	35210.7	36131.2	35452.9
Industry	14568.8	15365.5	16801.6	18085.0	19193.9	20171.7	21219.2	22359.4	22903.5	22828.4
Agriculture	4509.4	4710.9	4983.8	4169.6	4656.7	3696.6	4511.5	3851.2	3785.2	3695.9
Services	7948.6	8274.8	7227.6	7753.6	7176.9	7991.8	7469.9	9000.1	9442.5	8928.6
GDP – used	26347.3	27977.5	29835.0	29773.4	30298.3	29947.0	31431.8	35839.5	32929.3	28539.2
Final consumption	18271.1	19220.6	19933.0	20492.2	21479.5	21790.8	22520.4	23523.4	24050.2	24461.1
Households	16403.0	17216.8	17837.0	18284.4	19129.5	19183.0	19684.5	20474.4	20970.8	21318.4
Public spending	1868.1	2003.8	2096.0	2207.8	2350.0	2607.8	2835.9	3049.0	3079.4	3142.7
Gross accumulation	8076.2	8756.9	9902.0	9281.2	8818.8	8156.2	8911.4	12316.1	8879.1	4078.1
Capital investment	6301.5	6365.9	7973.0	7358.1	6271.1	6099.1	5702.6	10018.2	5757.9	1680.8
Change in inventories	1774.7	2391.0	1929.0	1923.1	2547.7	2057.1	3208.8	2297.9	3121.2	2397.3
Exports	6752.1	6789.1	7945.5	7953.7	8241.2	8559.4	9464.4	9573.6	11700.9	11688.3
Imports	7820.9	8521.7	8724.6	9015.4	9263.5	9947.3	11627.8	11766.4	13627.3	12598.9
Foreign trade balance	-1068.8	-1732.6	-779.1	-1061.7	-1022.3	-1387.9	-2163.4	-2192.8	-1926.4	-910.6
Statistical discrepancy	1748.3	2106.3	-42.9	1296.5	1751.5	3301.0	3932.2	1564.0	5128.3	7824.3

NET MATERIAL PRODUCT

(million leva – at current prices)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Net material product	20508.6	21933.1	22849.5	23479.0	24907.0	25450.5	26851.4	28338.0	29422.6	30839.7	31371.6
By origin											
Agriculture	3384.0	4185.6	4519.8	3864.3	4511.8	3425.1	3957.2	3712.1	3712.0	3798.2	6166.9
Industry	9938.8	10441.2	12237.6	13265.4	14090.7	15169.9	16676.8	16649.7	17088.3	17624.5	16075.0
Construction	1904.5	2063.0	2207.7	2270.4	2366.8	2489.6	2564.3	2674.7	2780.3	2859.1	2740.5
Trade and buying up	2820.5	2766.9	1383.6	1528.5	1328.0	1801.0	1227.0	2499.8	2471.2	2910.3	2848.2
Others	2460.8	2476.4	2500.8	2550.4	2609.7	2564.9	2426.1	2801.7	3370.8	3647.6	3541.0
By use											
Personal consumption	13716.9	14574.5	15140.6	15768.4	16484.2	17054.4	18030.2	18823.2	19473.1	21024.0	23319.8
Social consumption	1988.1	2143.6	2391.6	2530.4	2663.3	3008.2	3320.4	3577.7	3623.3	3784.5	4668.2
Accumulation	5208.7	6139.4	6102.3	5796.0	6155.3	6030.3	7588.9	6765.5	7305.5	7515.1	6555.7
Net investment	3111.3	3143.2	3936.6	3633.0	3096.3	3011.4	2815.6	4946.4	2842.9	2524.6	1544.6
Change in inventories	1478.6	2181.9	1928.6	1832.0	2404.1	1882.0	3059.1	2202.9	2937.4	2776.3	3211.1
Construction in process	618.8	814.4	237.1	331.0	654.9	1136.9	1714.2	-383.8	1525.2	2214.2	1800.0
Foreign trade balance and losses	-405.1	-924.4	-785	-615.8	-395.8	-642.4	-2088.1	-828.4	-979.3	-1483.9	-3172.1

NET MATERIAL PRODUCT

(million leva – at constant prices)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Net material product	20815.9	21856.3	22770.1	23453.2	24525.0	24972.6	26306.9	27542.7	28194.2	28122.1	27284.5
By origin											
Agriculture	3933.0	4108.8	4346.8	3636.7	4061.5	3224.1	3934.9	3359.0	3301.4	3141.6	3251.2
Industry	10686.7	11216.7	12313.2	13359.7	14221.7	14953.9	15809.3	16676.0	17040.1	16591.4	15623.9
Construction	1904.5	2063.0	2207.7	2270.4	2366.8	2479.6	2529.5	2648.3	2754.5	2751.6	2662.1
Trade and buying up	2036.3	2056.7	1383.6	1648.0	1296.3	1732.0	1425.6	2061.8	2058.4	2433.5	2493.1
Others	2255.4	2411.1	2518.8	2538.4	2578.7	2583.0	2607.6	2797.6	3039.9	3204.0	3254.2
By use											
Personal consumption	13909.2	14599.3	15125.2	15504.6	16221.2	16266.6	16691.8	17361.6	17782.6	18288.1	19209.6
Social consumption	2131.6	2286.4	2391.6	2519.2	2681.4	2975.6	3235.9	3479.0	3513.7	3631.5	4317.7
Accumulation	5347.0	6135.9	5931.2	5716.1	6072.4	6022.4	7453.3	6656.2	7211.8	7166.4	5814.4
Net investment	3111.3	3143.1	3936.6	3633.0	3096.3	3011.4	2815.6	4946.4	2842.9	2524.6	1544.6
Change in inventories	1616.9	2178.4	1757.5	1752.1	2321.2	1874.2	2923.5	2093.6	2843.7	2427.6	2469.8
Construction in process	618.8	814.4	237.1	331.0	654.9	1136.9	1714.2	383.8	1525.2	2214.2	1800.0
Foreign trade balance and losses	-571.9	-1165.3	-677.9	-286.7	-450.0	-292.0	-1074.1	45.9	-313.9	-963.9	-2057.2

GROSS INVESTMENT

(million leva – at current prices)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Material sphere	5075.1	5311.9	5633.2	5568.3	5679.5	6279.7	6634.0	7383.0	7625.7	7940.4	7173.3
Agriculture	893.9	622.9	617.3	627.3	643.3	694.7	610.9	690.3	868.1	869.4	922.4
Forestry	1.5	8.6	9.5	12.2	10.8	13.5	8.7	9.0	6.7	4.1	8.5
Industry	3012.8	3254.0	3581.6	3466.6	3617.5	4059.2	4537.7	4926.8	5128.1	5191.8	4539.4
Construction	117.2	210.4	227.4	267.5	261.0	325.9	337.3	346.8	370.5	505.1	523.5
Transport	698.9	860.1	779.0	754.9	734.7	737.8	654.6	1009.4	763.4	618.1	778.9
Trade	218.5	232.4	268.5	280.2	248.2	283.6	308.0	230.8	282.0	445.1	160.8
Others	132.3	123.5	149.9	159.6	164.0	165.0	176.8	169.9	206.9	306.8	239.8
Non-material sphere	2213.9	2378.1	2339.8	2406.6	2432.2	2333.1	2656.9	2434.3	2634.3	1284.6	942.7
Public utilities	954.7	1026.4	1056.1	1113.0	1113.1	1108.4	1220.0	1195.8	1205.2	976.5	736.6
Others	1259.2	1351.7	1283.7	1293.6	1319.1	1224.7	1436.9	1238.5	1429.1	308.1	206.1
Total	7289.0	7690.0	7973.0	7974.9	8111.7	8612.8	9290.9	9817.3	10260.0	9225.0	8116.0

CHANGES OF INVENTORIES

(million leva – at current prices)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Material sphere	1187.2	1808.1	1713.8	825.2	1209.3	994.2	1731.0	1221.8	1968.6	2251.6
Agriculture	164.5	337.2	360.0	172.9	213.9	-115.1	132.2	-176.4	16.5	-3.1
Forestry	45.2	49.3	45.2	46.7	49.0	52.7	53.1	24.1	3.8	-3.3
Industry	394.6	933.6	1005.0	-53.2	1203.0	617.9	1273.3	1145.9	1228.0	1479.5
Construction	88.3	51.5	37.5	-3.5	80.2	52.4	43.3	46.4	63.4	92.4
Transport	19.5	22.1	24.8	17.5	12.9	35.3	40.3	10.7	39.5	36.3
Trade	459.1	413.6	242.0	640.1	-363.0	334.5	172.8	149.0	606.4	629.4
Others	9.8	2.4	-3.7	4.4	11.8	13.3	12.2	17.8	6.8	11.9
Non-material sphere	291.4	373.8	214.8	1006.8	1194.8	887.8	1328.1	981.1	968.8	524.7
Public utilities	5.5	3.4	4.6	2.5	1.7	6.2	4.5	4.7	17.0	5.2
Others	285.9	370.4	210.2	1004.3	1193.1	881.6	1323.6	976.4	951.8	519.5
Total	1478.6	2181.9	1928.6	1832.0	2404.1	1882.0	3059.1	2202.9	2937.4	2776.3

INVENTORIES AS AT THE END OF THE YEAR IN THE MATERIAL SPHERE

(million leva, current prices)

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Material sphere	17816.3	18940.8	21716.7	22538.5	25592.7	26039.0	28080.3	29102.0	31260.6	33497.8
Agriculture	3849.5	3465.3	4567.5	4746.2	5602.7	5468.7	5656.0	5660.3	5581.9	5571.1
Forestry	705.3	754.6	799.8	846.5	895.5	948.2	1001.3	1009.3	1017.8	1013.8
Industry	6556.0	7326.3	8700.1	8619.4	10968.4	11082.3	12794.0	13641.9	15110.1	16589.5
Construction	819.4	871.9	921.1	942.1	1040.9	1078.3	1120.9	1165.4	1241.4	1348.7
Transport	265.3	291.7	344.0	346.6	359.8	395.1	413.0	408.6	447.6	493.6
Trade	5561.8	6174.2	6330.6	6979.3	6662.1	6962.9	7019.0	7118.4	7759.0	8369.5
Others	59.0	56.8	53.6	58.4	63.3	103.5	76.1	98.1	102.8	111.6

EMPLOYMENT BY BRANCHES (in thousands)

	1970	1980	1985	1986	1987	1988	1989	1990
Material sphere	3606.6	3623.3	3664.9	3670.0	3672.8	3641.0	3531.8	3055.8
Agriculture	1462.4	1039.1	910.0	890.2	859.0	833.9	789.1	649.9
Forestry	21.9	17.8	16.3	24.3	25.7	26.7	25.1	22.3
Industry	1258.6	1535.0	1662.2	1682.7	1708.4	1699.1	1645.7	1456.5
Construction	349.0	357.0	374.7	374.6	374.1	370.4	361.3	312.4
Transport	215.6	258.1	254.9	258.2	257.6	257.1	246.7	231.0
Trade	254.1	351.5	372.8	374.5	381.3	386.8	395.2	311.1
Others	45.0	64.8	74.0	65.5	66.7	67.0	68.7	72.6
Non-material sphere	543.9	740.8	794.6	803.4	813.8	826.7	833.1	768.2
Public utilities	85.9	92.6	97.3	97.5	98.5	101.4	96.6	57.8
Science	46.7	66.2	81.2	82.1	83.7	88.9	97.4	88.0
Education	177.1	245.5	267.5	272.3	271.8	276.4	276.9	275.6
Art, culture	29.6	45.2	47.5	48.1	47	45.6	45.6	44.2
Public health	113.1	187	202.5	203.3	208.7	212.6	214.5	215.2
Banking	16.2	20.4	22.1	22.3	23.2	25.1	25.5	25.0
Managemengt	61.7	65.7	59	58.9	62.6	60.6	60.7	50.5
Others	13.6	18.2	17.5	18.9	18.3	16.1	15.9	11.9
Total	4150.5	4364.1	4459.5	4473.4	4486.6	4467.7	4364.9	3824.0

INDUSTRIAL COMPOSITION OF EMPLOYMENT (percent)

	1970	1980	1985	1986	1987	1988	1989	1990
Material sphere	86.9	83.0	82.2	82.0	81.9	81.5	80.9	79.9
Agriculture	35.2	23.8	20.4	19.9	19.1	18.7	18.1	17.0
Forestry	0.5	0.4	0.4	0.5	0.6	0.6	0.6	0.6
Industry	30.3	35.2	37.3	37.6	38.1	38.0	37.7	38.1
Construction	8.4	8.2	8.4	8.4	8.3	8.3	8.3	8.2
Transport	5.2	5.9	5.7	5.8	5.7	5.8	5.7	6.0
Trade	6.1	8.1	8.4	8.4	8.5	8.7	9.1	8.1
Others	1.1	1.5	1.7	1.5	1.5	1.5	1.6	1.9
Non-material sphere	13.1	17.0	17.8	18.0	18.1	18.5	19.1	20.1
Public utilities	2.1	2.1	2.2	2.2	2.2	2.3	2.2	1.5
Science	1.1	1.5	1.8	1.8	1.9	2.0	2.2	2.3
Education	4.3	5.6	6.0	6.1	6.1	6.2	6.3	7.2
Art, culture	0.7	1.0	1.1	1.1	1.0	1.0	1.0	1.2
Public health	2.7	4.3	4.5	4.5	4.7	4.8	4.9	5.6
Banking	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.7
Management	1.5	1.5	1.3	1.3	1.4	1.4	1.4	1.3
Others	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

IMPORTS FROM DEVELOPED AND DEVELOPING COUNTRIES (million US dollars)

	1985	1986	1987	1988	1989	1990
Total	3163	3529	3234	3900	3473	2737
Licences, know-how, services	36	38	46	32	19	18
Machinery and equipment	684	946	955	882	968	859
Fuels, minerals, metals	1193	1299	836	1306	812	772
Chemical products, fertilizers	372	361	462	472	403	272
Construction materials	59	63	65	61	54	37
Capital goods	355	360	419	519	485	323
Livestock	4	5	2	2	3	3
Raw materials for food processing	311	258	190	279	346	104
Foodstuffs	34	56	62	99	127	106
Industrial consumer goods	115	143	197	248	256	243

EXPORTS TO DEVELOPED AND DEVELOPING COUNTRIES

(million US dollars)

	1985	1986	1987	1988	1989	1990
Total	3088	2416	2798	2746	2510	2375
Licences, know-how, services	294	108	69	72	41	76
Machinery and equipment	931	904	1152	1014	588	716
Fuels, minerals, metals	899	656	663	603	807	569
Chemical products, fertilizers	260	159	169	202	228	234
Construction materials	11	11	17	20	18	27
Capital goods	128	118	165	177	204	159
Livestock	21	1	2	2	15	17
Raw materials for food processing	190	92	116	165	181	194
Foodstuffs	208	197	248	271	232	193
Industrial consumer goods	146	170	197	220	196	190

IMPORTS FROM THE SOCIALIST COUNTRIES

(million transferable rubles)

	1985	1986	1987	1988	1989	1990
Total	8328	8686	8679	8217	7589	6163
Licences, know-how, services	43	49	47	62	50	36
Machinery and equipment	3056	3455	3662	3893	3572	3130
Fuels, minerals, metals	4137	4093	3832	3093	2931	2143
Chemical products, fertilizers	222	239	236	279	230	186
Construction materials	61	48	46	46	37	28
Capital goods	232	231	233	243	201	146
Livestock	4	3	3	3	3	3
Raw materials for food processing	193	178	191	153	168	90
Foodstuffs	64	46	55	58	49	44
Industrial consumer goods	316	344	374	387	348	357

EXPORTS TO THE SOCIALIST COUNTRIES

(million transferable rubles)

	1985	1986	1987	1988	1989	1990
Total	8138	8540	8764	9332	8890	6640
Licences, know-how, services	24	25	21	32	38	26
Machinery and equipment	4915	5291	5668	6061	5869	4333
Fuels, minerals, metals	352	354	316	391	283	275
Chemical products, fertilizers	215	228	211	250	214	168
Construction materials	186	201	187	197	198	142
Capital goods	56	55	54	67	57	31
Livestock	1	0	0	1	1	0
Raw materials for food processing	183	191	190	163	115	82
Foodstuffs	1296	1213	1124	1125	1075	863
Industrial consumer goods	910	982	993	1045	1040	720

EXPORTS AND IMPORTS BY DIRECTIONS

(percent, current prices)

	1980	1985	1986	1987	1988	1989
Exports	100	100	100	100	100	100
Socialist countries	61.9	69.1	72.7	71.8	68.2	68.9
Industrially developed countries	20.6	11.4	11.3	11	12.9	17.3
Developing countries	17.5	19.5	16.1	17.2	18.9	13.9
Imports	100	100	100	100	100	100
Socialist countries	71.4	69.1	64.9	68.6	57.1	52.9
Industrially developed countries	23.3	20.4	23.6	24.3	28.5	32.2
Developing countries	5.3	10.5	11.4	7.1	14.5	14.9

WHOLESALE PRICE INDEX OF THE PUBLIC AND THE CO-OPERATIVE INDUSTRIAL BRANCHES

(1980 = 100)

	1981	1983	1984	1985	1986	1987	1988	1989
Overall	104.6	114.0	114.8	115.2	116.2	116.9	119.9	123.3
Electric and thermal power generation	99.1	102.5	102.6	103.4	104.8	105.3	112.3	113.6
Coal-mining	100.7	102.5	103.0	102.6	102.2	102.4	102.5	100.8
Oil and gas	100.0	100.0	100.0	100.0	100.0	99.8	99.8	99.8
Iron and steel industry	100.1	104.3	105.0	104.3	105.0	104.6	108.2	108.9
Non-ferrous metallurgy	119.9	125.5	125.6	125.4	124.5	124.2	146.7	146.7
Machine-building and metal working	103.7	108.7	110.5	112.4	114.5	115.2	117.2	122.0
Electrical and electronic industry	105.6	106.5	107.3	107.4	108.7	109.7	111.1	113.3
Chemical and rubber industry	107.7	112.7	112.9	113.6	114.3	115.3	112.3	112.2
Construction materials	110.6	114.2	114.9	113.5	114.2	114.9	115.5	129.0
Wood and woodprocessing industry	105.4	111.6	111.8	112.5	115.6	118.6	123.2	134.5
Cellulose and paper	105.0	105.2	105.2	105.8	105.6	105.2	112.7	116.3
Glass, china and faience	99.7	104.7	105.3	105.6	106.0	105.3	123.8	131.0
Textile and knitted goods	102.8	122.4	122.8	122.9	123.6	124.0	126.4	129.0
Sewing industry	102.6	133.4	138.3	139.9	146.7	154.6	158.1	160.9
Leather, furriery, shoe industry	102.2	107.9	107.0	106.8	107.6	109.6	113.4	128.4
Printing and publishing industry	107.6	111.7	119.7	121.9	126.1	126.3	136.8	155.1
Food, wine and tobacco industry	101.2	124.4	125.0	124.4	124.0	123.7	129.6	134.1
Other industries	100.7	101.1	102.5	102.9	107.3	111.2	112.7	113.0

BALANCE OF PAYMENTS IN NON-CONVERTIBLE CURRENCY

(million transferable rubles)

Year	Current Balance										Capital Balance				Errors and Omissions	Overall Balance
		Trade Balance			Services (net)				Interest Payments (net)	Private Transfers (net)						
			Exports fob	Imports fob		Transport	Tourism	Other				Credits Received (net)	Credits Granted (net)	Short-term Debt		
1980	46	-158	4706	4864	222	-46	145	123	-18	0	-113	-112	-1	0	68	1
1981	-468	-631	4783	5614	177	-96	190	83	-22	8	196	-46	-9	251	274	2
1982	-697	-836	5246	6082	160	-104	229	40	-29	8	360	-125	-22	507	339	2
1983	-285	-528	6843	7371	282	-82	262	102	-45	6	53	-102	-7	162	233	1
1984	-222	-541	7405	7946	355	-83	259	179	-44	8	109	335	-6	-220	115	2
1985	-61	-140	8338	8478	156	-114	275	-5	-81	4	-88	17	-22	-83	150	1
1986	-320	-475	8393	8868	193	-106	290	9	-46	8	248	531	-33	-250	73	1
1987	64	-70	8692	8762	186	-114	304	-4	-79	27	43	-205	-17	265	-105	2
1988	696	582	9135	8553	179	-145	323	1	-105	40	-619	-293	-12	-314	-77	0
1989	933	879	8892	8013	94	-143	369	-132	-65	25	-874	-327	-110	-437	-60	-2
1990	-872	-897	6282	7179	7	-113	92	28	-12	30	-57	-306	-34	283	929	0

BALANCE OF PAYMENTS IN CONVERTIBLE CURRENCY

(million US dollars)

Year	Current Balance	Trade Balance			Services (net)				Interest Payments* (net)	Private Transfers (net)	Capital Balance				Errors and Omissions	Overall Balance
			Exports fob	Imports fob		Transport	Tourism	Other				Credits Received (net)	Credits Granted (net)	Short-term Debt		
1980	907	806	3338	2532	437	221	154	62	-394	58	-756	-280	-129	-347	84	235
1981	562	286	3360	3074	434	217	118	99	-240	82	-580	-505	-66	-9	-343	-361
1982	813	473	3103	2630	431	197	156	78	-186	95	-385	-384	-36	35	-302	126
1983	292	66	2719	2653	209	121	141	-53	-87	104	-395	-216	-38	-141	315	212
1984	727	288	3299	3011	387	106	134	147	-22	74	-332	-7	-327	2	22	417
1985	-85	-387	3307	3694	261	44	130	87	-29	70	-90	495	-305	-280	473	298
1986	-715	-832	2656	3488	184	36	110	38	-128	61	228	664	-436	0	-398	-885
1987	-773	-955	3277	4232	346	81	179	86	-250	86	440	553	-442	329	-164	-497
1988	-840	-972	3539	4511	417	120	207	90	-363	78	1882	2139	-445	188	-385	657
1989	-1306	-1199	3138	4337	385	108	169	108	-555	63	596	712	-167	51	276	-434
1990	-860	-757	2615	3372	185	51	78	56	-396	108	-117	-414	299	-20	127	-850

* Sums actually received or paid (overdues excluded)

GROSS DEBT IN CONVERTIBLE CURRENCY

YEARS	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Millions of US dollars	4865.4	4080.9	3500.1	3068.5	2922.9	4119.7	5511.6	7404.0	9125.7	10656.9	11049.6

BANK CREDITS

(million leva, as at the end of the period)

ITEMS	1985	1986	1987	1988	1989	1990
Net credits – total	42107	44821	48654	53850	58971	91145
– in leva	37781	40736	45478	50134	54725	79748
– in foreign currency	4326	4085	3176	3716	4246	11397
in that:						
I. Business activity	32033	34505	37074	39119	41809	44743
– in leva	31745	34066	36520	38371	40798	40413
– in foreign currency	288	439	554	748	1011	4330
1. Short-term credits:	17567	19430	21443	22953	24775	25865
– public sector	17567	19430	21443	22953	24774	25567
– in leva	17481	19298	21278	22662	24329	23762
– in foreign currency	86	132	165	291	445	1805
– private sector	–	–	–	–	1	298
2. Medium- and long-term credits:	14466	15075	15631	16166	17036	18878
– public sector	14466	15075	15631	16166	17035	18409
– in leva	14264	14768	15242	15709	16469	15884
– in foreign currency	202	307	389	457	566	2525
– private sector	–	–	–	–	1	469
II. Deposits, financial and other credits abroad	2951	1845	1086	1470	955	1448
III. Credits to the budget	2218	3639	5237	7586	9578	18198
– in leva	1935	2615	4150	6491	8497	14524
– in foreign currency	283	1024	1087	1095	1081	3674
IV. Credits to individuals for housing and current needs	3380	3775	4037	4810	5051	6608
V. Other credits	1525	1057	1220	865	1578	20148
– in leva	721	280	771	462	379	18203
– in foreign currency	804	777	449	403	1199	1945

BANK CREDIT RESOURCES

(million leva, as at the end of the period)

ITEMS	1985	1986	1987	1988	1989	1990
Net credit resources – total	42107	44821	48654	53850	58971	91145
– in leva	32245	35433	38138	41741	47632	53266
– in foreign currency	9862	9388	10516	12109	11339	37879
in them:						
Individuals' savings deposits	19783	21284	22963	25227	27345	29786
– in leva	19472	20959	22598	24836	26883	28575
– in foreign currency	311	325	365	391	462	1211
Firms' and other public organizations' deposits	9001	9886	11751	13055	14066	18515
– in leva	5739	7713	9589	10779	12854	14970
– in foreign currency	3262	2173	2162	2276	1212	3545
Foreign borrowing	5115	5582	6526	7906	8136	31106
Financial system's deposits	4772	4405	3360	3457	4644	4925
Bank funds	2232	2361	2593	2862	2951	4440
– in leva	1058	1053	1130	1326	1422	3083
– in foreign currency	1174	1308	1463	1536	1529	1357
Banks' own capital	320	320	585	675	1134	1713
Other resources	884	983	876	668	695	660

BANK CREDIT INTEREST RATES (percent)

CREDITS BY TYPE	1985	1986	1987	1988	1989	1990
Average interest rate on credits in leva	4.49	4.63	4.41	4.45	4.69	5.61
On medium- and long-term credits	4.48	4.49	3.69	3.80	3.72	4.84
– including arrears	8.78	9.34	8.24	9.88	9.74	9.36
On short-term credits	4.49	4.85	4.92	4.91	5.38	6.11
– including arrears	9.86	11.34	12.46	10.68	9.34	8.67

MONEY STOCK (milion leva, as at the end of the period)

	1986	1987	1988	1989	1990
Broad money – M2	33511	35473	39133	43250	51267
Money (M1)	14880	16804	19003	21900	28691
– Currency in circulation	3378	4014	4731	5969	7666*
– Demand deposits	11502	12790	14272	15931	21025
Quasi-money	18631	18669	20130	21350	22576

* Including cash in commercial banks vaults

DENOMINATION COMPOSITION IN NOTES AND COINS (in leva)

	31.12.1989	31.12.1990	30.03.1991
I. NOTES – total	6909381629.00	8758495545.00	9159685522.00
In that:			
In 50 leva	x	618999900.00	918999900.00
In 20 leva	2621660632.00	3393558442.00	3478493102.00
In 10 leva	2681566077.00	2938978197.00	2955587547.00
In 5 leva	1211541029.00	1386351309.00	1385020289.00
In 2 leva	244718596.00	262369255.00	263035563.00
In 1 lev	149895295.00	158238442.00	158549121.00
II. COINS – total	222578619.64	228734595.17	230161785.02
In that:			
In 50 leva	15000000.00	15000000.00	15000000.00
In 20 leva	5999980.00	5999980.00	5999980.00
In 1 lev	6040099.00	6461099.00	6461099.00
In 50 stotinki	30629132.00	30828497.50	30828497.50
In 20 stotinki	37198937.80	37614739.80	37614739.80
In 10 stotinki	26836102.70	27545187.90	28140187.90
In 5 stotinki	11432248.80	11928132.25	12559522.10
In 2 stotinki	10590869.04	10971508.44	10971508.44
In 1 stotinki	8306872.30	8864072.28	9010872.28
Jubilee	70544378.00	73521378.00	73575378.00

EXCHANGE RATE IN 1990 (LEVA PER 100 US DOLLARS)

	01.01.1990	31.03.1990	01.04.1990	30.06.1990	30.09.1990	31.12.1990
Official rate	80.90	80.10	80.50	79.70	76.26	74.46
Base rate	x	x	x	297.02	284.20	284.20
Coefficient rate	242.70	240.30	241.50	x	x	x
Rate with bonus	242.70	240.30	x	x	x	x
Rate with fee	247.55	245.11	x	x	x	x
Exchange rate						
buying	x	x	950.00	710.00	710.00	710.00
selling	x	x	969.00	724.20	724.20	724.20
Market rate						
buying	x	x	x	699.50	699.50	699.50
selling	x	x	x	713.49	713.49	713.49

BNB CENTRAL EXCHANGE RATE IN LEVA after the 19th of February 1991

Date	US dollar	Deutsche mark	Swiss frank
19.02	28.25	19.06	23.54
20.02	28.18	18.93	22.06
21.02	28.82	19.34	22.63
22.02	24.75	16.60	20.63
25.02	21.56	13.51	16.91
26.02	21.47	14.16	16.55
27.02	20.79	13.63	15.90
28.02	20.74	13.61	15.80
01.03	19.80	13.03	15.02
04.03	21.29	13.86	15.99
05.03	21.40	12.92	16.06
06.03	20.89	13.68	15.74
07.03	21.11	13.68	15.72
08.03	19.30	12.51	14.31
11.03	18.05	11.60	13.31
12.03	16.13	10.26	11.80
13.03	16.50	10.53	12.14
14.03	16.13	10.24	11.80
15.03	14.74	9.35	10.79
18.03	14.22	8.98	10.36
19.03	15.21	9.41	10.89
20.03	15.97	9.78	11.37
21.03	15.47	9.33	10.82
22.03	15.02	9.18	10.65
25.03	14.78	8.98	10.45
26.03	15.46	9.24	10.80
27.03	15.03	8.90	10.44
28.03	15.16	8.88	10.45
29.03	15.17	8.85	10.40
01.04	15.64	9.21	10.85
02.04	15.75	9.33	10.97
03.04	15.50	9.12	10.50
04.04	15.93	9.52	11.24
05.04	15.95	9.48	11.23
09.04	15.90	9.54	11.33
10.04	16.09	9.66	11.46
11.04	16.44	9.84	11.61
12.04	16.37	9.75	11.50
15.04	16.30	9.75	11.53
16.04	16.80	10.02	11.83
17.04	16.96	10.21	12.00
18.04	17.00	10.20	11.97
19.04	17.36	10.32	12.10
22.04	17.43	10.12	11.95
23.04	17.48	9.95	11.87
24.04	17.92	10.18	12.16
25.04	18.12	10.46	12.47
26.04	18.58	10.59	12.62
29.04	18.27	10.45	12.40
30.04	18.50	10.43	12.41

COMMERCIAL BANKS

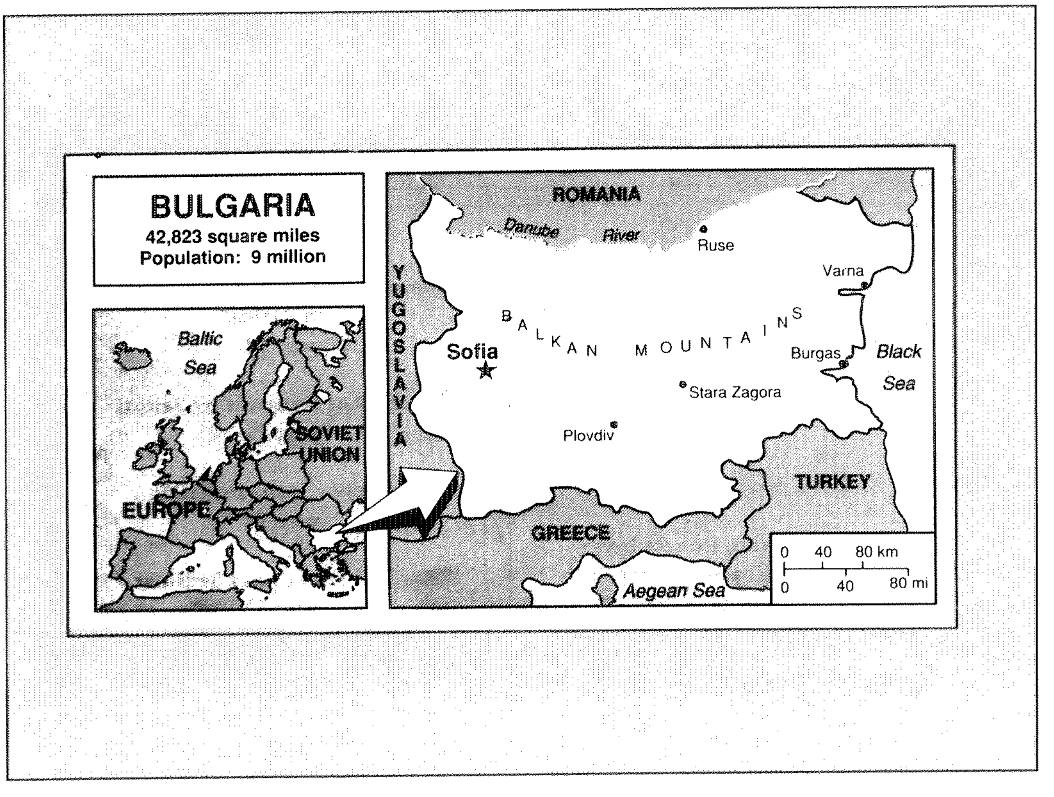
Title	Town	Ownership capital (thousand leva)
1 Bulgarian Foreign Trade Bank	Sofia	320000
2 Economics Bank	Sofia	117000
3 Bank for Economic Projects "Mineralbank"	Sofia	180000
4 "Balkanbank"	Sofia	100000
5 "Biochim"	Sofia	100000
6 "Electronika"	Sofia	75000
7 Stroibank	Sofia	30000
8 Agrarian and Co-operative Bank	Plovdiv	75000
9 Transport Bank	Varna	30000
10 Bank for Agricultural Credits	Sofia	150000
11 First Private Bank	Sofia	100000
12 CB of Plovdiv Inc.	Plovdiv	62470
13 CB "Doverie"	Sofia	41600
14 CB of Varna Inc.	Varna	36500
15 "Hemus"	Sofia	35600
16 CB of Stara Zagora	Stara Zagora	35430
17 CB of Rousse Inc.	Rousse	35400
18 CB of Pleven Inc.	Pleven	32130
19 CB of Bourgas Inc.	Bourgas	24950
20 CB of Dobritch Inc.	Dobritch	23450
21 CB of Karlovo Inc.	Karlovo	21790
22 CB of Veliko Turnovo Inc.	Veliko Turnovo	20600
23 CB of Vratza Inc.	Vratza	20600
24 CB of Shumen Inc.	Shumen	19150
25 CB of Kyustendil Inc.	Kyustendil	18400
26 CB of Blagoevgrad Inc.	Blagoevgrad	18000
27 CB of Dimitrovgrad Inc.	Dimitrovgrad	16900
28 CB of Gabrovo Inc.	Gabrovo	15590
29 CB of Haskovo Inc.	Haskovo	15030
30 "Sofia" Inc.	Sofia	14050
31 CB of Kazanlak Inc.	Kazanlak	13710
32 CB of Pernik Inc.	Pernik	13600
33 CB of Silistra Inc.	Silistra	13130
34 CB of Yambol Inc.	Yambol	13090
35 "Vazrajdane" Inc.	Sofia	13000
36 CB of Razgrad Inc.	Razgrad	12670
37 CB of Sliven Inc.	Sliven	12650
38 CB of Pazardzhik Inc.	Pazardzhik	12640
39 CB of Vidin Inc.	Vidin	12170
40 "Sredetz" Inc.	Sofia	12000
41 CB of Michailovgrad Inc.	Michailovgrad	11860
42 CB of Lovetch Inc.	Lovetch	11160
43 "Kremikovtzi" Inc.	Sofia	9820
44 "Vitosha" Inc.	Sofia	9600
45 CB of Gorna Oryahovitza Inc.	Oryahovitza	9510
46 CB of Kurdzhali Inc.	Kurdzhali	8920
47 CB of Turgovishte Inc.	Turgovishte	8810
48 "Iskar" Inc.	Sofia	8200
49 CB of Smolyan Inc.	Smolyan	7000
50 CB of Mezdra Inc.	Mezdra	7000
51 CB of Samokov Inc.	Samokov	7000
52 CB of Nova Zagora Inc.	Nova Zagora	7000
53 CB of Elhovo Inc.	Elhovo	7000
54 CB of Popovo Inc.	Popovo	7000
55 CB of Elin Pelin Inc.	Elin Pelin	7000
56 CB of Bobov dol Inc.	Bobov dol	7000
57 CB of Troyan Inc.	Troyan	7000
58 CB of Tcherven bryag Inc.	Tcherven bryag	7000
59 CB of Lyaskovetz Inc.	Lyaskovetz	7000
60 CB of Peshtera Inc.	Peshtera	7000
61 CB of Devin Inc.	Devin	7000
62 CB of Tchepelare Inc.	Tchepelare	7000
63 CB of Assenovgrad Inc.	Assenovgrad	7000
64 "Chrystalbank" Inc.	Madan	7000
65 CB of Purvomay Inc.	Purvomay	7000
66 CB of Botevgrad Inc.	Botevgrad	7000
67 CB of Stanke Dimitrov Inc.	Stanke Dimitrov	7000
68 CB of Provadia Inc.	Provadia	7000
69 CB of Petritch Inc.	Petritch	7000
70 CB of Gotze Deltchev Inc.	Gotze Deltchev	7000

Geographical and Historical Note

The Republic of Bulgaria is situated in the North-East of the Balkan Peninsula. The capital city of the country is Sofia. The main roads, connecting Western Europe and the Middle East cross its territory. It is one of the small countries in Europe, covering an area of 110 912 square kilometres, with a population of 9 million. The climate is moderate continental but in the south east region it is Mediterranean. Its relief as a whole is mountainous, which lessens the area under cultivation. Corn, tobacco, fruits, vegetables and sunflower are grown in the most fertile north-eastern and southern regions. Poultry and different species of cattle are bred in the country – sheep, swine, calves. The country is poor in mineral resources.

The population is comparatively homogeneous. The ethnic Bulgarians are more than 85 percent. In 1988 the urban population constituted 66 percent.

The contemporary Bulgarian state goes back to 681 A.D. when the first Bulgarian Kingdom was founded. In 1396 it was conquered by the Ottoman Empire. After the Russian-Turkish War in 1878 Bulgaria was liberated and became an independent state. In 1944 the Bulgarian Communist Party came into power and the country became a part of the socialist community. After the 10 of November 1989 the Communist party gave up its monopoly as a ruling party and Bulgaria like the other East-European countries started on the road of its political and economic democratization.


BULGARIA
42,823 square miles
Population: 9 million
Baltic
Sea
SOVIET
UNION
EUROPE
ROMANIA
Danube
River
Ruse
Varna
YUGOSLAVIA
BALKAN MOUNTAINS
Sofia
Burgas
Black
Sea
Stara Zagora
Plovdiv
TURKEY
GREECE
Aegean Sea
0 40 80 km
0 40 80 mi