BULGARIAN NATIONAL BANK

ANNUAL REPORT • 1993

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

In accordance with the provisions of the Law on the Bulgarian National Bank, Article 1, paragraph 2, the Bulgarian National Bank reports its activities before the National Assembly. Pursuant to Article 54 of this Law, I have the honor to submit the 1993 annual report of the Bulgarian National Bank.

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

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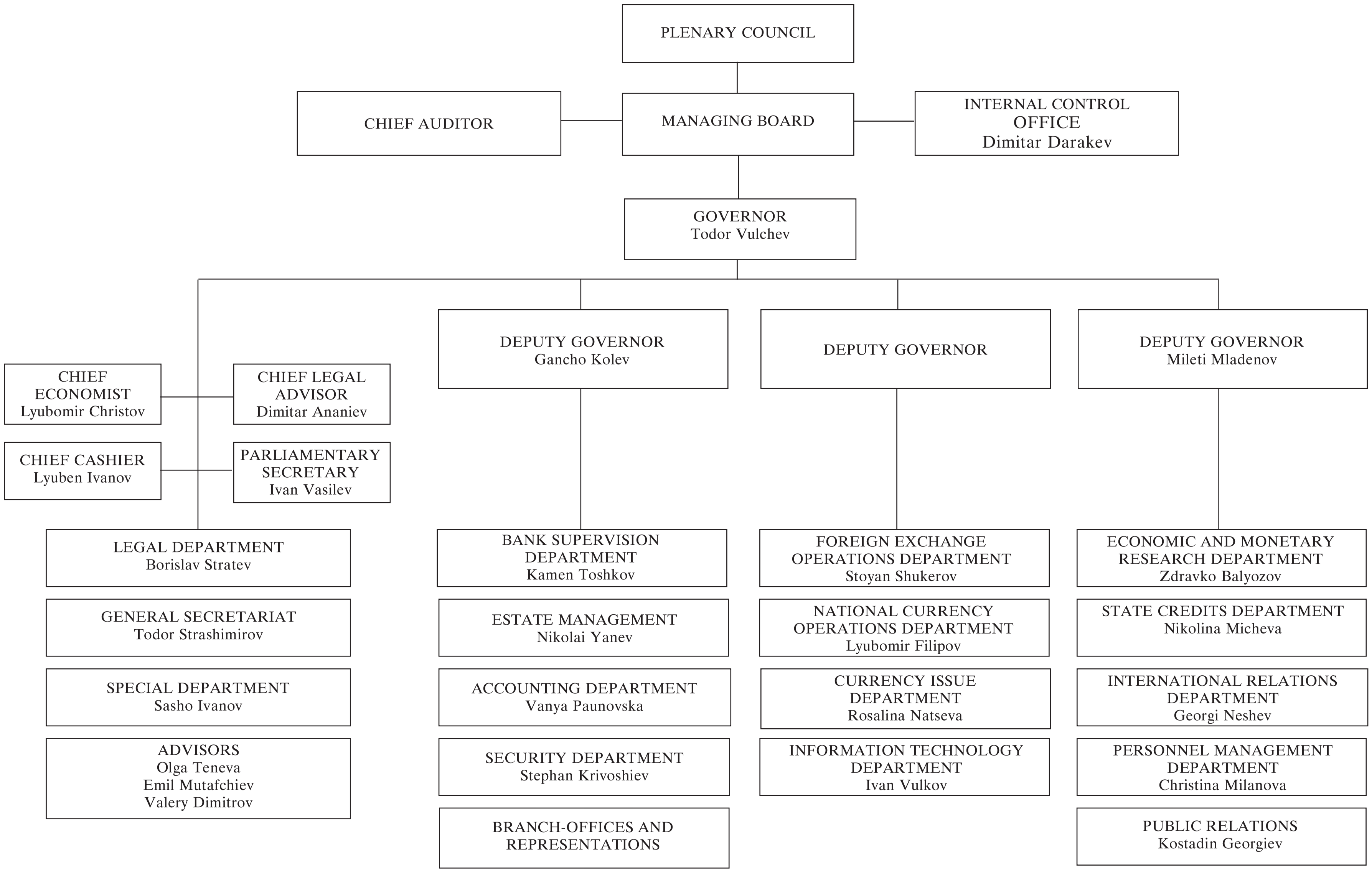
* Emil Harsev resigned on 1 August 1993.

Organizational Structure of the BNB

(as of 31 March 1994)



Contents

I. Major Trends in the Development of the World Economy

In 1993, the Bulgarian economy was adversely affected by a plethora of external and internal factors. Domestic problems, coupled with world business conditions and global economic processes, continued to hinder developments in the national economy.

The past year did not see a reverse in the general trends of the world economy, which had taken shape and developed at the end of the 80's and the onset of the 90's. The year 1993 was characterized by an insignificant growth in world output and foreign trade. (Output was below the average 4% in the period between 1970 and 1992.) Inflationary processes slightly slowed their pace, and unemployment grew. Globally, trade and economic imbalances deepened, resulting in the resurrection of regionalism, despite the successful finalization of the Uruguay Round of negotiations on the General Agreement on Tariffs and Trade (GATT). Most of the developed countries remained in deep recession. At the same time, reforms in the transition economies did not progress as brightly as initially anticipated.

1. Transition Economies

Unfavorable developments in global economic processes were the main factors responsible for the setbacks and delays in the transition underway in Central and East European countries and those from the former USSR, which form a significant share of Bulgaria's foreign trade. In 1993, differences and peculiarities among the separate representatives of these groups increased. In each of these countries transformation processes continued to develop in a specific way as a consequence of the different starting points and priorities set in the process of stabilization, privatization and transformation of their economies.

East European Countries

Poland was the only country in the region which, after a long and difficult period of structural adjustment, managed to recover its economic growth. Real GDP growth rate in 1993 ran at about 4% (versus 1% in 1992). However, growth did not solve automatically the remainder of macroeconomic problems in the country. Inflation and discount rates, though reduced, ran at an unacceptably high 35% – 40% in annual terms. Unemployment in 1993 stood among the highest in Eastern Europe.

The Czech Republic succeeded in keeping inflation within the lowest levels in the region by conducting a cautious fiscal policy, which did not cause imbalances in the government budget. This country has the lead in Eastern Europe in accomplishing its privatization program. As a result, the Czech crown became the strongest East European currency.

Hungary marked a slight slide in its macroeconomic indicators. The drop in output continued, despite a zero growth estimate; compared with 1992, inflation slightly accelerated. Despite these negative trends, Hungary attracted foreign investments that significantly surpassed investments in its former partners from the region.

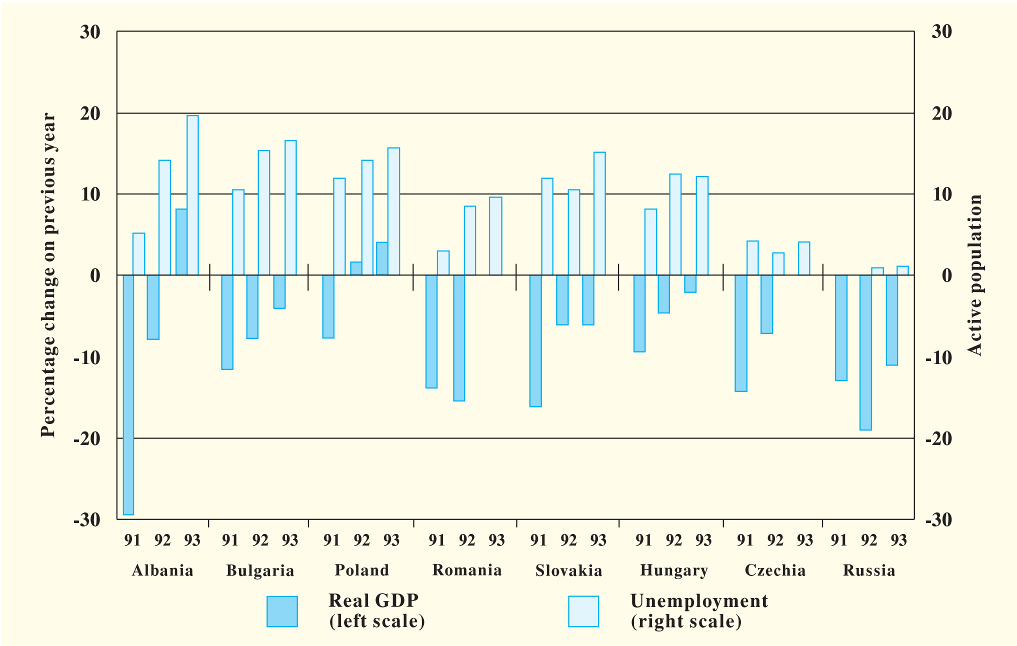
For Slovakia differences widened with the other countries from the "Vishegrad Four". Its selected macroeconomic indicators showed values closer to those of Bulgaria and Romania. Among the three, Slovakia had the lowest inflation and the largest drop in output.

Romania faced grave problems in its efforts to curb inflation and stop depreciation of the national currency, while its real GDP growth is estimated at zero.

Albania, the region's country which in 1991 reported the poorest macroeconomic indicators, gave the first signs of recovery: its real GDP growth was estimated at 8% in 1993 and retail price increase had been reduced to 31%. The unemployment rate, 19.5% of the labor force, remained the highest in the region, although a decline in unemployment was very likely, since a saturation level had been reached.

REAL GDP GROWTH AND UNEMPLOYMENT IN CENTRAL AND EAST EUROPEAN COUNTRIES

(%)



Source: IMF, EBRD, UN Economic Commission for Europe (ECE), BNB.

The economies of the warring republics of former Yugoslavia are devastated, with collapse and hyperinflation raging there. Macedonia's economic problems are serious, despite the preserved peace. Only Slovenia (partly Croatia, despite its engagement in military operations) made certain progress in the stabilization process.

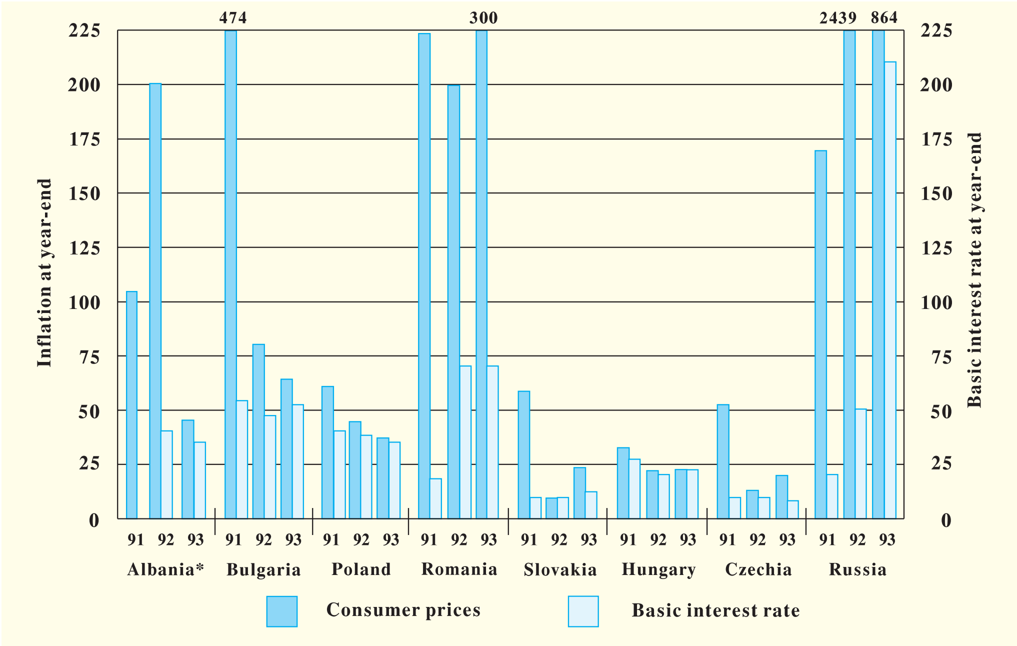
Former Soviet Union Republics

Russia, Ukraine and Kazakhstan preserved their key roles in Bulgaria's economy and foreign trade turnover, especially in relation to imports of raw materials and energy resources. Economic developments in these countries, however, do not provide any ground for optimism. Russia's macroeconomic imbalances were not overcome in 1993. Price liberalization was effected in a piecemeal way, the practice of subsidizing loss-making state enterprises was not sharply discontinued. All these factors contributed to a monthly rate of inflation reaching 12% at end-1993; as a result, maintaining a relatively stable exchange rate of the rouble became almost impossible, and new inflationary waves could occur in the near future. It is difficult to review undergoing economic processes in the other former USSR republics, because of the specific problems and emerging differences characterizing the separate regions and states. Since their role as Bulgaria's foreign trade partners is insignificant, their economic effects on this country's national economy will be limited.

Most transition economies, despite their achievements to date, still have to face the complex problems of a bad debt legacy, growing budget deficits, and chronic negative or zero balances on the current accounts in their balance of payments, which might seriously threaten macroeconomic indicators.

INFLATION AND BASIC INTEREST RATE IN
CENTRAL AND EAST EUROPEAN COUNTRIES

(%)



* The BNB has no data on the basic interest rate in Albania for 1991.

Source: IMF, EBRD, ECE, BNB.

2. Developed Countries

Diverging cycles of developed countries' economies led to greater differences in their macroeconomic indicators.

European Community

The conclusion drawn on the ground of undergoing processes in 1993 is that expectations for a fast return to economic growth are falling short. Actually, recovery from recession has lagged behind significantly.

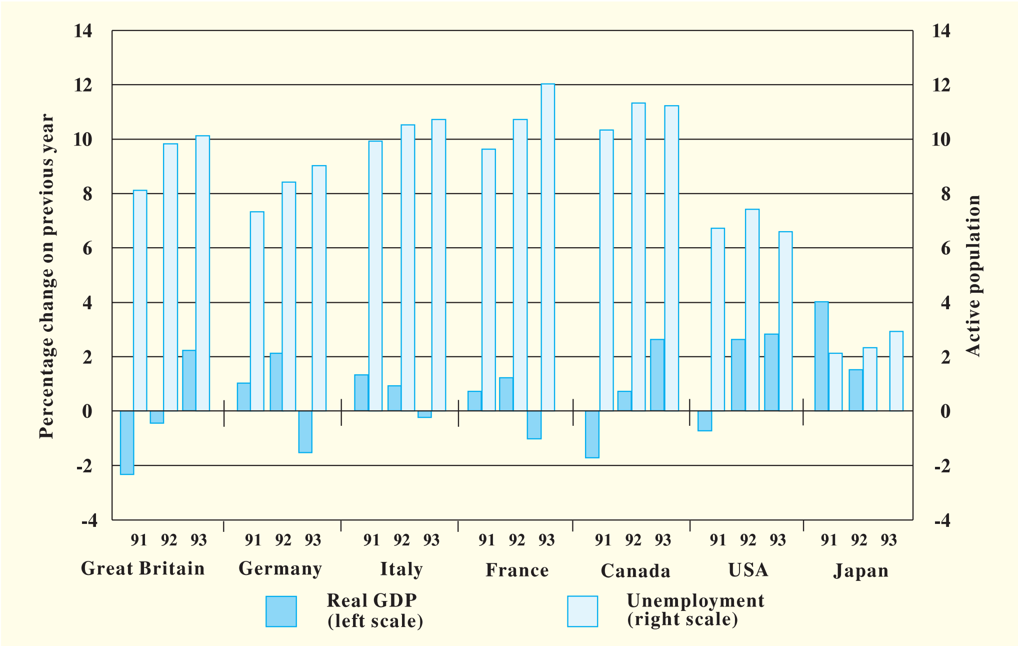
In 1993, a negative growth was registered in three of the four leading West European economies. Contradictions among the countries from inland Europe deepened, though slowly, due to objective reasons of economic and national aspects, and the pursuit of a uniform economic policy was very difficult. Under the financial market pressure on the European Foreign Exchange Mechanism, Paris and Bonn, proponents of the idea for a Unified Europe, went through severe trials.

Germany had to choose between European interests and its national interests. The 1993 real drop in GDP approximated 2%. Eastern provinces' growth averaged 6%, not high enough though, to offset the decline in output in the Western part. Unemployment rose monthly, reaching an unprecedented level for the country despite signs of a modest recovery in the Eastern provinces, and despite the measures undertaken to boost job creation (through negotiations between government and trade unions). The negative trends in inflation processes were offset and their rate of increase was significantly slowed. This enabled Germany's central bank to cut gradually and continuously the discount rate; which is expected to have a beneficial effect of a faster ending of the recession nationwide and in the whole of Western Europe.

France also reported a negative growth over the year, despite a slight economic rally during the second and third quarters, the result of increased household consumption. It is too early, it seems, to hope for a fast recovery. Unemployment has been increasingly growing for the last two years and proved to be a major problem. It stood much higher than that of the G-7 countries. The ongoing trend of a slower price rise and widening of the exchange rate band of the currencies in the European Foreign Exchange Mechanism are responsible for the gradual fall in the short-term interest rates, despite the fact that the French central bank's discount rate has remained unchanged for years. Ease of monetary restriction is projected to fall in line with money supply processes in Germany, which are expected to have a benign effect on household and corporate behavior and outlook.

REAL GDP GROWTH AND UNEMPLOYMENT IN MAJOR DEVELOPED COUNTRIES

(%)



Source: IMF, OECD, BNB.

Italy's assessment of GDP included a zero growth and a minimum drop. This performance is mainly derived from a sharp decline in domestic demand, offset in large measure by a significant growth in net exports. The economy of the country was affected by an adjustment program, started in the autumn of 1992. Inflation fell significantly below the high levels from the two previous years, the discount rate was reduced, yet the high unemployment rate might have adverse macroeconomic effects.

Great Britain was the only country among the developed European economies to experience economic recovery, after having set the pace for a cyclical recession in the early 90's (and the first to bottom out of it). GDP was growing modestly, retail price growth lagged behind, short-term interest rates dropped, contributing additionally to the real sector recovery. Unemployment in the labor force surpassed 10% at the end of 1993, but given the momentum the economy had gained, projected turnaround of this negative trend is very probable.

USA

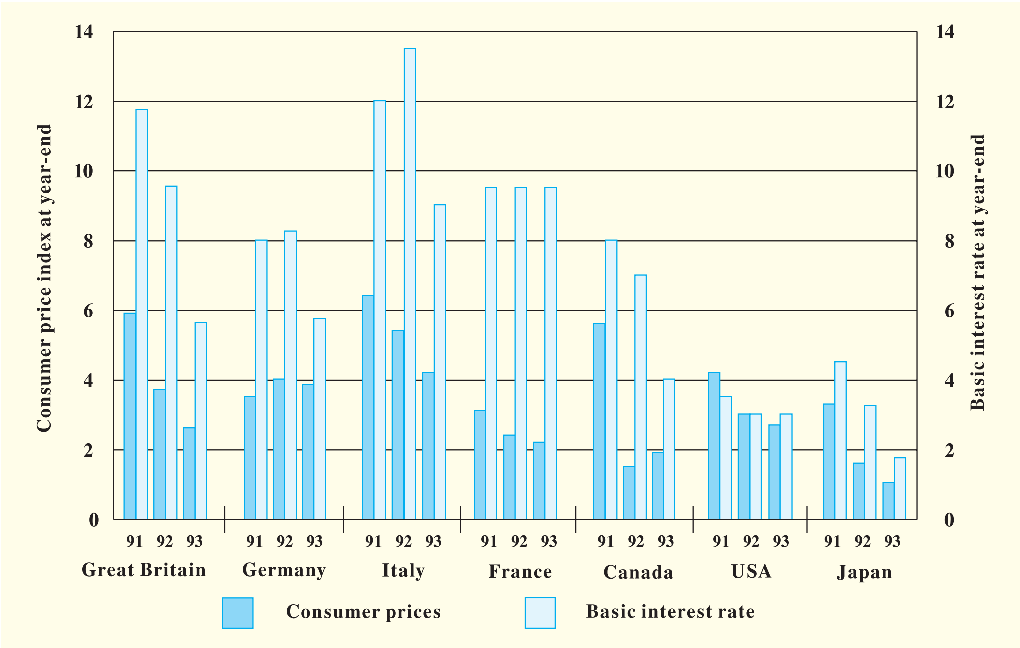
The USA chalked up economic growth in 1993. Recovery of the American economy in the wake of recession, particularly in the second half of the year, progressed faster than expected. These processes had beneficial macroeconomic effects: inflation slowed, unemployment dropped, interest rates retained record low levels for the USA. The nominal rally of USD in international markets was a logical consequence of the healthy trends characterizing the American economy during the period under review.

Japan

Various obstacles blocked efforts to curb the downward trend in the Japanese economic growth. Assessment of real GDP showed a zero growth against a growth rate of 3% – 6% per annum throughout the 80's. Simultaneously, a modest drop in inflation and interest rates occurred and unemployment rate in the labor force increased, hitting record highs after June 1987 (2.9%). Measures were discussed and applied to boost economic recovery in the country several times during the year, though anticipated effects are not yet discernible.

INFLATION AND BASIC INTEREST RATE IN MAJOR DEVELOPED COUNTRIES

(%)



Source: IMF, OECD, BNB.

3. Developing Countries

Under conditions of ongoing transformation of the former COMECON partner countries and deep recession in most of the developed Western countries, the role that developing countries had to play in foreign trade and economic recovery of East European countries (Bulgaria included) increased. The markets of raw materials, energy resources and export of finished stock provided by developing countries may offset (at least temporarily) evolving adverse tendencies in the developed countries' markets. In the wake of a record growth marked in the last decade, a 6.1% growth of real GDP (on average) was reported in 1992, with estimates for 1993 and projections for 1994 reaching a 5% growth which was to boost East European export production. Differences in this group of countries remained extremely large; as a result of that opportunities of transition economies to export output proved to be the highest with the fast developing economies of China and the new industrialized countries of South East Asia.

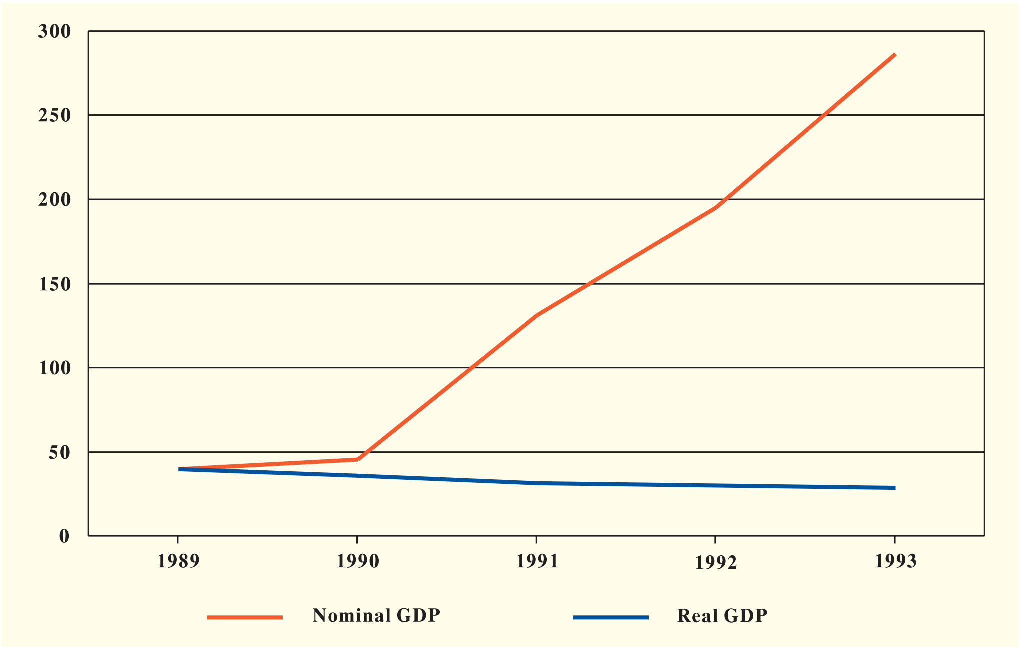
II. General Characteristics of the Economy

1. Gross Domestic Product

In 1993, the nominal GDP of the Republic of Bulgaria reached BGL 286.1 billion.[1] As per NSI estimates real GDP in 1993 was 4.2% less than in the previous year. The downward tendency in GDP that started as early as 1989 continued, though at a slower pace in the last two years. The real decline in GDP throughout 1993 is only 1.5 percentage points less than in 1992.[2] The downward tendency reveals the continuing crisis in the Bulgarian economy, though comparisons in real terms are difficult to make in transition periods.

GDP GROWTH, 1989 – 1993

(billion BGL)



Source: NSI, BNB.

GDP by Type of Final Demand

Final demand in 1993 amounted to BGL 311.5 billion.

Consumption. In 1993, developments and the structure of aggregate domestic demand remained the major factors contributing to the decrease in GDP. Household consumption totaled BGL 204 billion, showing an increase of 0.3% in real terms compared to 1992. Government consumption approximated BGL 62.3 billion, which is 12.2% less in real terms.

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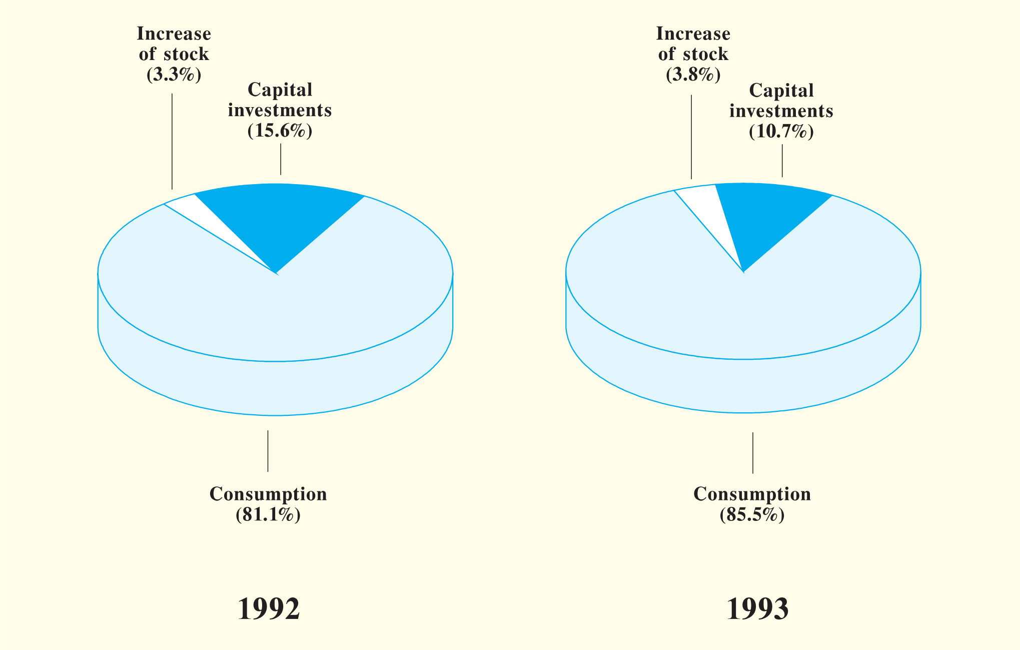
[1] As per National Statistical Institute (NSI) estimates. The figures seem to be understated due to imperfections in methods of collecting and summarizing information about both national accounts and estimates about final consumption elements in real terms. Inconsistency between monetary and commodity flows, which appears using NSI estimates about GDP, additionally contributed to this effect.

[2] Rates of change in GDP for each of the three years are calculated at prices of the previous year.

Investment. In 1993, gross investments in the economy approximated BGL 45.2 billion at current prices; in real terms they were 21.6% less than in the previous year. The bulk of gross investments were a result of the increased capital depreciation after revaluation. Over 50% real cut in investment during the last three years resulted in a decrease of the net value of enterprises, due to the volatile economic situation, the policy of drastic curtailment of budget expenditure for investment, as well as accumulation of new bad loans in the economy and a delay in the actual settlement of the problem of nonperforming loans negotiated till end-1990. Consequently, this will reduce the revenue from the coming privatization and will lessen the anticipated positive macroeconomic effect.

STRUCTURE OF FINAL DEMAND



Source: NSI, BNB.

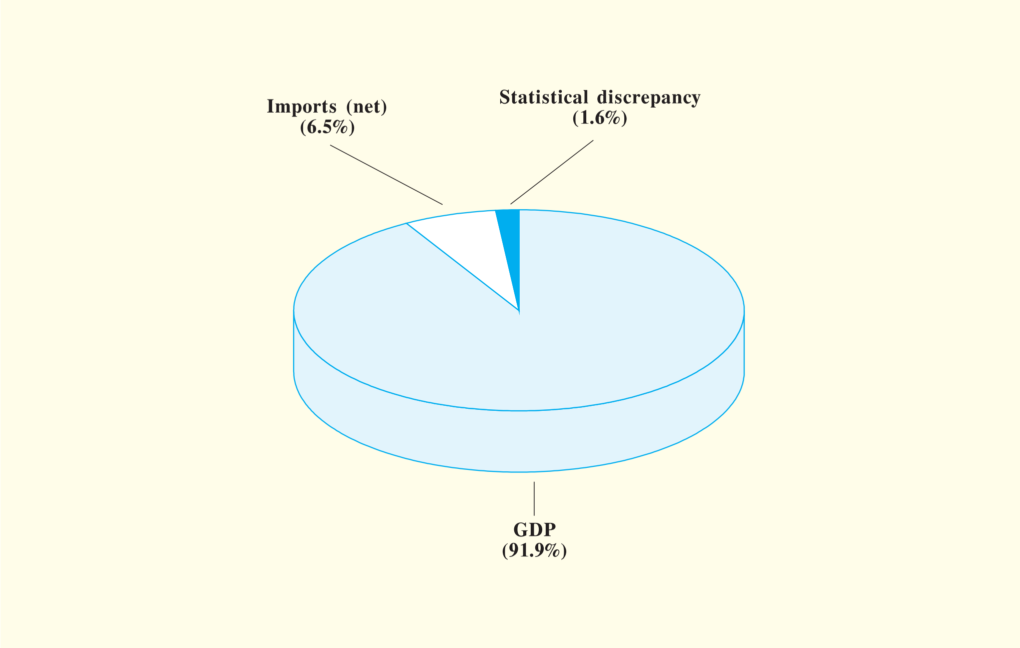
Different developments of final demand component rates in 1993 led to certain changes in the structure. Consumption share continued to increase (by 4.4 percentage points compared to 1992) reaching 85.5%. Capital investment share declined dramatically, a decrease of 4.9 percentage points compared to 1992. The share of investment in inventories grew 0.5 percentage points throughout 1993.

Difference between Final Demand and GDP

Net imports. Inflation process developments in 1993, with the BGL being relatively stable in the domestic forex market, caused a real appreciation of the national currency. This further weakened competitiveness of Bulgarian producers in international markets. The deep economic crisis in some of Bulgaria's traditional foreign trade partners and difficulties in Bulgarian exports caused by the UN embargo on Yugoslavia resulted in a deficit of BGL 20.2 billion in the foreign trade balance. The changes made in foreign trade and customs regimes throughout the year failed to offset the foreign trade balance.

The gap between final demand and GDP increased in 1993. GDP comprised 91.9% of the amount of final demand. The share of net imports accounted for 6.5% and the negative statistical discrepancy was 1.6%. Lack of a balance between imports and exports of nonfactor services in NSI data and the statistical discrepancy between final demand and GDP in 1993 evidence a possible understating of GDP data.

DIFFERENCE BETWEEN FINAL DEMAND AND GDP IN 1993

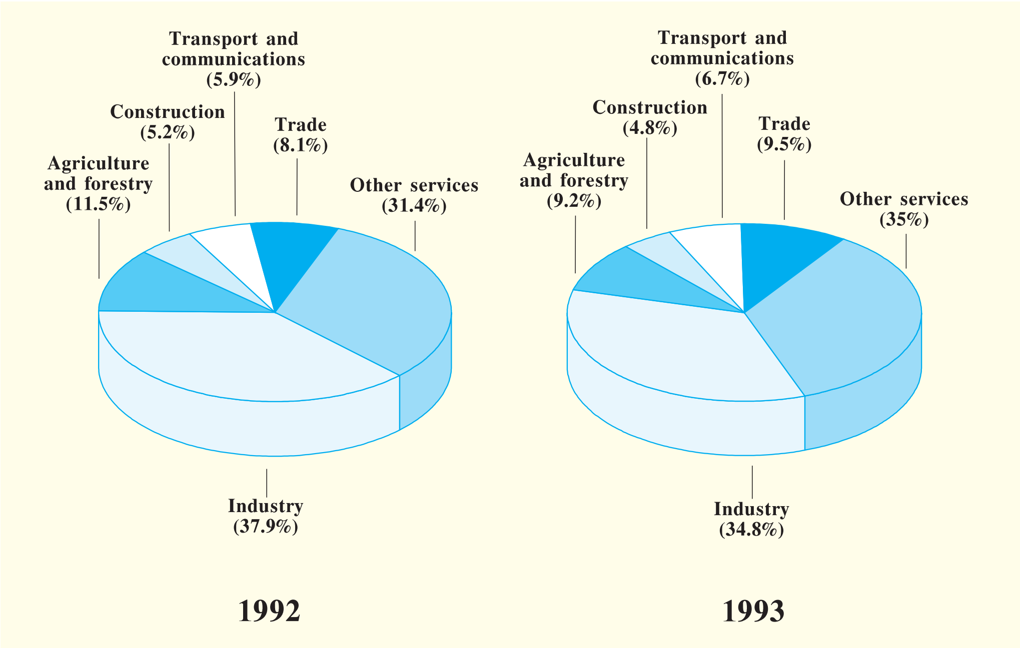


Source: NSI, BNB.

GDP Structure by Branch of Economy

Changes in external and internal demand in 1993 altered the GDP structure by branch of economy. The decline in industry by 1.6% versus 1992 contributed considerably to the real GDP decrease. The share of industry continued to decrease (by 3.1 percentage points versus 1992) reaching 34.8%. As in the previous year, the notable contraction in industry was caused by falling industrial output sales of the following industries: machine building and metal processing, electrical and electronic, and food industries. All these industry branches are directly linked to final household consumption and purchases by the government. Yet the decline was slower in 1993 versus 1992, due to the real increases in output sales of ferrous metallurgy, nonferrous metallurgy, and chemical and oil-processing industry, selling mainly in foreign markets.

STRUCTURE OF GDP BY BRANCH OF ECONOMY



Source: NSI, BNB

A considerable decline of approximately 17.1% versus 1992 was expected in agriculture, relating primarily to the unfavorable weather conditions. Delay in restitution of land to its former owners also significantly contributed to this decline. Consequently, the share of agriculture and forestry in the GDP structure accounted for 9.2%, a decrease of 2.3 percentage points.

A tendency toward an increased share of services in GDP has occurred throughout the last two years. The fall in transport and trade was overcome in 1993, turning into an increase of 2.1% and 0.5%. Their share in GDP reached 4.7% and 9.5%, respectively. The amount of the so-called "Other Services"[3] was progressively growing, following the inclusion of imputed rent of owner-occupied homes at market prices. As a result, the share of "Other Services" in GDP produced in 1993 increased to 35%.

Sectoral Structure of GDP

The private sector in the Bulgarian economy continued to gradually expand, contributing BGL 55.5 billion at current prices to the 1993 GDP. As a result, its share in the country's GDP increased 4.1 percentage points versus 1992, reaching 19.4%. In 1993, the private sector registered again the fastest growth in services (9.2% of GDP). The share of private sector continued to grow in industry – from 4% in 1992 to 4.9% in 1993. The development of the private sector in agriculture and forestry was relatively slow, due to the lagging land reform.

SHARE OF PRIVATE SECTOR IN GDP

(%)

Indicators	1990	1991	1992	1993*
Private sector – total	9.1	11.8	15.3	19.4
Agriculture and forestry	6.0	5.5	5.7	5.3
Industry	1.9	2.8	4.0	4.9
Services	1.2	3.5	5.6	9.2

* Preliminary data calculated at current prices.

Source: NSI, BNB.

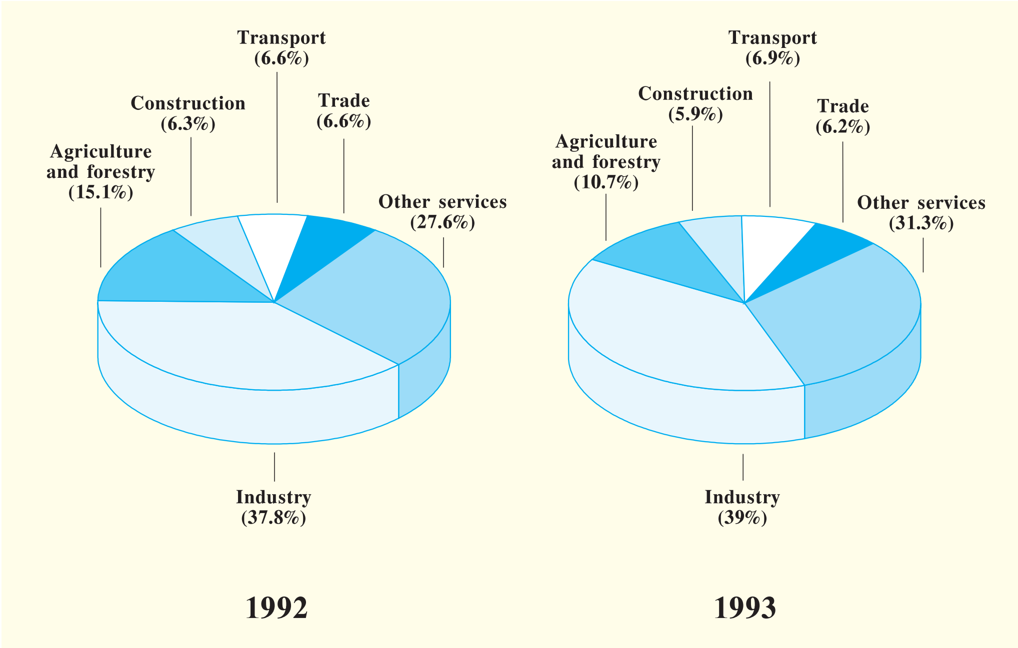
2. Employment

The stagnation of the national economy which continued in 1993 had an adverse effect on employment. According to NSI data, the number of employed in the public sector (state and cooperative) decreased by 297,700; and the decline in employment averaged 13.5% compared to 1992. Expansion of the private sector logically resulted in an increase of employment in this sector over the last three years. Despite the lack of comprehensive data, employed in the private sector totaled 742,000 in 1993, according to NSI preliminary estimates. Average registered number of employed almost retained that of 1992, totaling 3,035,000 (private sector included). Employment decline by branch showed strong differentiations and depended on restructuring processes and adjustment to the changing economic environment. Employment in industry branches decreased most dramatically (18.9%), while the decline in services was much slower (5.7%)[4].

[3] The sector "Other Services" includes the following: public utilities, science and scientific services, education, culture and arts, health care, social security, sports, recreation and tourism, finance, credit and insurance, management.

[4] Due to lack of information about employment by branch in the private sector, analysis and conclusions about structural changes in employment refer to the public (state and cooperative) sector of the national economy only.

STRUCTURE OF EMPLOYMENT BY BRANCH OF ECONOMY



Source: NSI, BNB.

Industry

In 1993, average payroll industrial employment dropped by 110,000 people, which accounted for 37% of the total decline in the public sector. A 10% contraction in industry resulted in an 11% drop in employment in that sector. In the absence of a Bankruptcy Law, this may be considered the beginning of a restructuring process targeting a more effective use of labor force.

The following industry branches showed the greatest drop in employment: electrical and electronic industry (23.7%), other industry branches (26.6%), construction materials production (15.2%), cellulose and paper industry (12%), and machine building and metal processing (11.6%). Loss of markets in the former COMECON member countries and in the countries of the Near East, coupled with the lack of cheap raw materials, contributed considerably to the contraction of non-competitive industries, and consequently to their dramatic labor dismissal. At the same time, there were three industry branches with increased employment: government subsidies and frequent price adjustments of electricity and thermal power generation allowed an increment of over 1,300 people in electricity and thermal power production; employment in oil and gas extraction and printing and publishing industry grew over 2.7 times and 1.6%, respectively.

Agriculture and Forestry

In 1993, over 156,000 people were dismissed from agriculture and forestry. This is the branch showing the largest decline in employment (38.9%). This was due to the intensive liquidation of collective farms and restitution of land to its former owners, resulting in a shift of employed from the public into the private sector. Employment in agriculture and forestry was additionally lowered by both lack of coverage of part-time employed in the branch and self-employed farmers.

Construction

The economic crisis dramatically reduced investment opportunities which in turn was strongly reflected in a decrease in employment. In 1993, this sector lost 32,000 jobs, a decrease of 19% compared to 1992. The faster decline in the number of employed in construction, compared to the average drop in the public sector, predetermined further decrease in the share of this branch in the structure of total employment. At the same time, employment in the private sector increased, due to the boost of entrepreneurship in construction in big cities.

Transport

In 1993, the decline (8.7%) in employment in transport was slower than the total decline in the public sector. Consequently, its employment share in the national economy increased from 6.6% in 1992 to 6.9% in 1993. The considerable growth in private transportation services gives ground to presume a labor shift from the public into the private sector.

Trade

The tendency toward a faster decline in employment in trade (18.5%) compared to the total decline in employment (13.5%) in the public sector, continued in 1993. Processes of privatization and restitution to a great extent predetermined the rapid development of trade in the private sector. Private sector share in trade accounted for 60% of the volume of trade at the end of 1993. This presupposes a significant growth in employment in the private sector, thus leading to an overall employment growth in trade, despite the decreased relative share in the public sector.

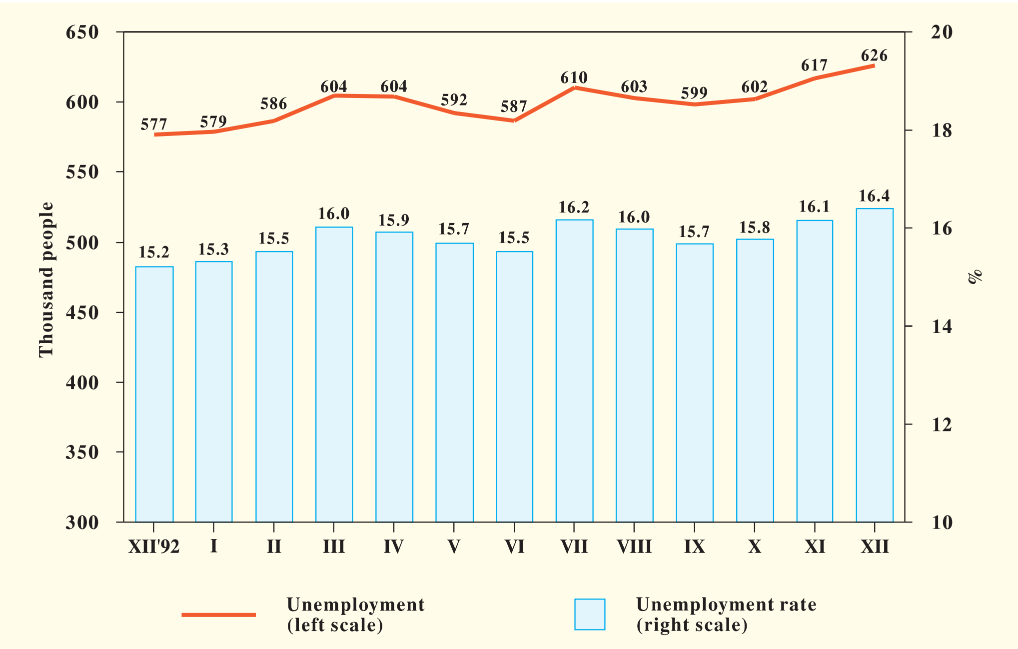
Other Services

In 1993, the average payroll employment in this economic branch dropped by 12,000 people only. The rate of reduction in this branch was over 10 times slower than in the other industry branches. This helped preserve the steady growth of the share of employed in "Other Services" from 27.6% in 1992 to 31.3% in 1993. From a structural aspect, employment fell most rapidly in science and scientific services (9,700 people or 19.5%) and in culture and arts (2,100 people or 7.1%). The cut in the number of employed slowed down in education (0.9%) and in health care (1.3%). Their relatively high share influenced both the slower rate of decrease in employment in the field of services and the increase in the share of employed in this branch. Throughout 1993, the number of employed in managerial staff increased dramatically by almost 9,000 or 20.1%. This is due to the methodical transfer of over 6,000 employees from the tax administration (included in the Finance, credit and insurance group) to the Management group. The increase was 5.8% compared to 1992, a dramatic rise within a total public sector contraction.

Unemployment

The number of registered unemployed at end-1993 reached 626,141, an increase of 49,248 compared to 1992. The economic crisis and the adjustment of the economy to market principles were the major factors determining the level of, and developments in, unemployment.

UNEMPLOYMENT IN 1993



Source: Ministry of Labor and Social Security (MLSS).

According to data of the Ministry of Labor and Social Security, the share of unemployed, calculated as a ratio between the registered unemployed and the total labor force (employed plus unemployed), rose from 15.3% at end-January to 16.4% at end-December 1993. The monthly growth rate in unemployment (0.7%) evidenced a steady unemployment level, on the one hand, and lack of essential structural changes, on the other.

In 1993, as in 1992, the developments in unemployment were uneven and showed analogous seasonal character. March (3%), July (4.1%) and November (2.4%) witnessed the fastest growth rate in unemployment. These peaks were caused by the large number of young people seasonally passing from the army and the educational system into the group of those looking for a job. A significant growth in the share of unemployed young people under the age of 30 was typical during these periods.

NUMBER OF UNEMPLOYED AND COMPENSATION, BENEFIT AND RETRAINING EXPENDITURE

Indicators	December 1990	December 1991	December 1992	December 1993
Unemployed (number)	65,079	419,123	576,893	626,141
Unemployed receiving compensation (number)	32,307	173,185	198,510	195,422
Relative share of unemployed receiving compensation (%)	49.6	41.3	34.4	31.2
Compensation and benefit expenditure per one unemployed (BGL)	169	486	630	1,065
Retraining expenditure per one unemployed (BGL)	0.15	2.41	6.05	7.50

Source: MLSS, BNB.

Major Trends

From a structural aspect, the following major trends in unemployment were clearly distinguished in 1993:

• The share of unemployed under the age of 30 remained extremely high, despite the decrease from 44.8% at the end of 1992 to 43% at the end of 1993. Stagnation of the economy, resulting in a slack demand for labor, most strongly reduced the opportunities for young people to find a job.

• The level of unemployed specialists remained stable throughout 1993. Compared to the end of 1992, there was even a decrease of 1,029 people by the end of 1993. Among these, only the share of engineers and technicians, and specialists from the health care field (primarily people without university degree) grew by 2.5% and 11%, respectively. The remaining categories of unemployed specialists showed a variable rate of decrease.

• The number of unemployed university graduates dramatically dropped in 1993. At the end of 1993 there were 4,565 (13.1%) less than at the end of 1992. Over the same period their share decreased from 6.1% to 4.8% of the total number of unemployed.

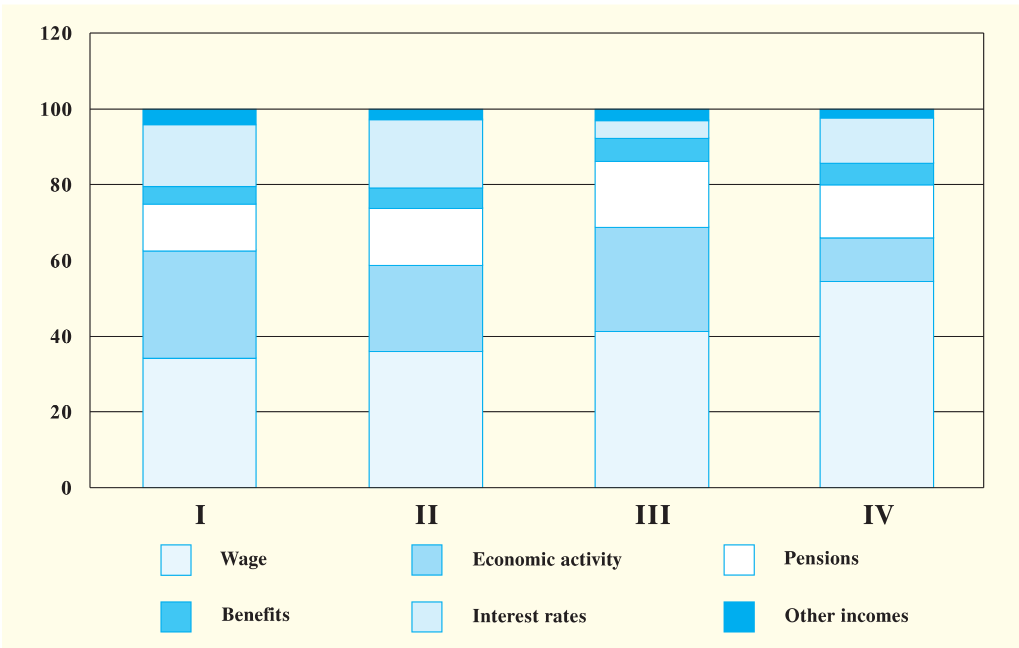
• Despite the slowdown in unemployment among women, the share of unemployed women compared to men in total unemployment continued to grow in 1993.

3. Income and Consumption

In 1993, nominal monetary income of the population[5] grew 48.1% compared to 1992, according to NSI preliminary data. The dramatic rise in the average annual inflation rate over the reviewed period significantly reduced (14.3%) the real purchasing power of monetary income. The drop in real monetary income of the population (approximately 50% versus 1990), continuing for a fourth year, had an adverse effect on the reform, further intensifying social aspects of the crisis. The different types of monetary income demonstrated different dynamics. Income from wages and pensions increased faster (55.6% and 64.4%, respectively) than the average growth rate, thus increasing their relative weight in total monetary income from 53.6% in 1992 to 57.1% in 1993. The growth in income from other economic activities[6] slowed down (41.9%), followed by the income from interest (30.2%). The share of income from private economic activity fell from 22.8% in 1992 to 21.8% in 1993, and income from interest on deposits dropped from 14.4% to 12.6%. In 1993, the growth of various types of monetary incomes, irrespective of their different developments, did not reach the growth rate of consumer prices. The loss in the real purchasing power of each type of income varied from 4.8% for pensions up to 56% for remunerations on insurances. In contrast to the previous two years, 1993 saw an increase in the share of social income (pensions and benefits) and wage at the expense of the decreased share of income from entrepreneurship. This fact causes suspicion about the direction and pace of the economic reform currently pursued. This conclusion should be very cautiously assumed, given the doubtful accuracy of the data on income from other economic activities and interest.

STRUCTURE OF MONETARY INCOME OF THE POPULATION IN 1993
(quarterly data)

(%)



Source: NSI, BNB.

[5] The data analyzed was derived from quarterly NSI monitoring of balances on monetary income and expenditure of the population.

[6] Income from other economic activities includes income from private entrepreneurship, sale of agricultural produce to the population, rent and dividend.

Wage

In 1993, the average monthly wage[7] in the state and cooperative sectors reached BGL 3,000, a nominal increase of 54.5% versus 1992. Despite the drastic cut in employment, it lost 10.6% of its real magnitude, unlike the 3% growth registered in 1992. This was due to the sharply reduced wage funds. In 1993, they grew 36.9% only, versus an annual inflation of 72.8%[8] (which amounts to almost double). Despite the relatively liberal wage bill regulation by the government, where wage formation is based on the real change in the inflationary level, the wage bill ceilings for remunerations appeared to be insufficient, due to the deepening economic crisis in the state and cooperative sectors continuing for a fourth year.

A decline in the average wage was registered in most branches of industry. The only exceptions were observed in printing and publishing industry (+5.4%), and finance, credit and insurance (+11.8%). Within a sectoral context, a substantial differentiation in the average wage was retained in 1993 as well. Branches subsidized by the government again were paid the highest wages. Workers employed in electricity production and thermal power generation earned wages which were 84.6% above the average in the country. High wages were also paid in coal-mining industry, 83.5%, ferrous metallurgy (including ore output), 68.1%, nonferrous metallurgy (including ore output), 54.9%. On the other extreme were the branches receiving no subsidies from the state budget. The average wage paid in sewing industry was 42.9% below the average wage in the country, followed by fur, leather and footwear – 31.3%, agriculture and forestry – 30.6% and other industry branches – 51.2%. In the branches directly supported by the state budget, lower than the average wage was paid; except for Management, where the average wage exceeded the average wage in the country by 19.5%. Traditionally high wages were paid in finance, credit and insurance branch, where the average wage was twice the average in the country.

Pensions

In 1993, BGL 32.7 billion were paid in pensions. Throughout the year the number of pensioners stabilized around 2,440,000 people. The ratio between employed in the public and private sectors and the pensioners continued to worsen, though at a slower pace (from 1.28 in 1992 to 1.24 in 1993). The average monthly pension grew 62.5% versus 1992, reaching BGL 1,089. At the same time, it lost another 5.9% of its purchasing power and, if added to the previous two-year decline, the drop was 50%. It became more difficult for the state budget to provide indexation to the low pensions. At the same time, the delay of the Law on Pension impeded the reform in this area. Pension funds independent from the state budget would be an alternative for the social security provision of pensioners.

The falling real amount of all types of incomes resulted in impoverishment of large groups of the population in relative and real terms. Given the existenz-minimum of BGL 17,480 for 1993, approximately 45% of Bulgaria’s citizens had a monthly income at this limit or below.

Expenditure

The predominant monetary expenditure of the population in 1993 was for the purchase of goods and payment of services. Compared to the preceding year, these increased by 63.8% and their share in total monetary expenditure increased from 62.8% in 1992 to 69.4% in 1993. Expenditure for payment of taxes and fees (21%) and savings (20.9%)[9] grew slower. Their shares contracted from 8.1% and 24.3% in 1992 to 6.8% and 19.8% in 1993, respectively. Reduction in savings growth is a clear indication of peoples’ inability to save money in the environment of economic recession, when most money is spent for vital needs. Expenditure for payment of services dramatically rose (76%). In 1993, people had to pay for services in education and health care which had been free of charge previously. Inability to buy new household utilities made the use of repair services unavoidable.

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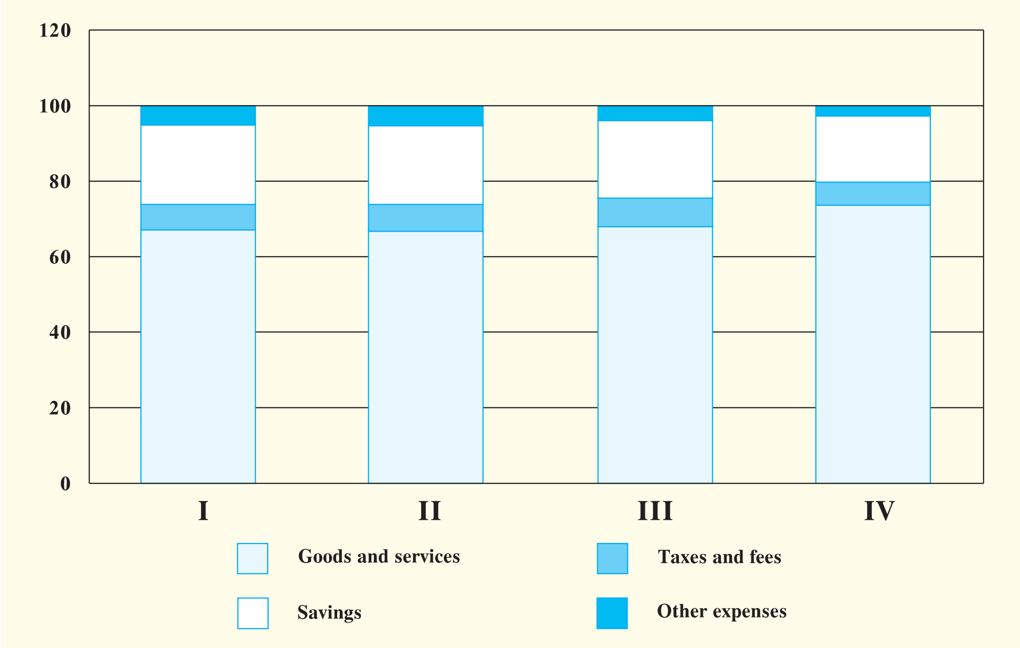
[7] According to preliminary data, including women on maternity leave.

[8] Calculated on a constant basis, using average monthly indices of consumer prices.

[9] These data are also disputable, given the savings growth reported by the bank statistics.

STRUCTURE OF MONETARY EXPENDITURE OF HOUSEHOLDS IN 1993
(quarterly data)

(%)



Source: NSI, BNB.

STRUCTURE OF TOTAL HOUSEHOLD EXPENDITURE

(%)

Indicators	1992	1993
Total expenditure	100	100
Foodstuffs	46.9	42.9
Liquor products	3.0	2.1
Tobacco products	1.7	2.2
Housing	3.2	4.2
Home furniture	4.3	4.7
Clothing, footwear and haberdashery	7.6	8.1
Personal hygiene and health care	1.8	2.5
Education and leisure	3.2	3.5
Transport and communications	7.0	7.9
Other expenditure	21.3	21.9

Source: NSI.

Consumption

Data from household monitoring, carried out by the NSI confirmed the tendency of the last two years toward changes in the structure of total consumption expenditure. The share of expenditure on food significantly decreased (by 4 percentage points) versus 1992, despite the traditionally high share for the country (42.9%). Expenditure on liquor dropped by 2.1% of total expenditure, in absolute and relative terms. Simultaneously, a new model of consumption with a larger share of expenditure on transport, communication services and housing became more typical for the country. Funds spent on housing and housing furniture in 1993 increased 86.2% or 7.7% in real terms. The growth in the share of expenditure on transport and communications approximated 1 percentage point. These types of services have an important role in peoples' everyday life, so in most cases they cannot limit their use. Despite government monitoring of most of these services, their prices showed a dramatic growth in 1993. Telephone services, for instance, rose 2.3 times.

4. Prices

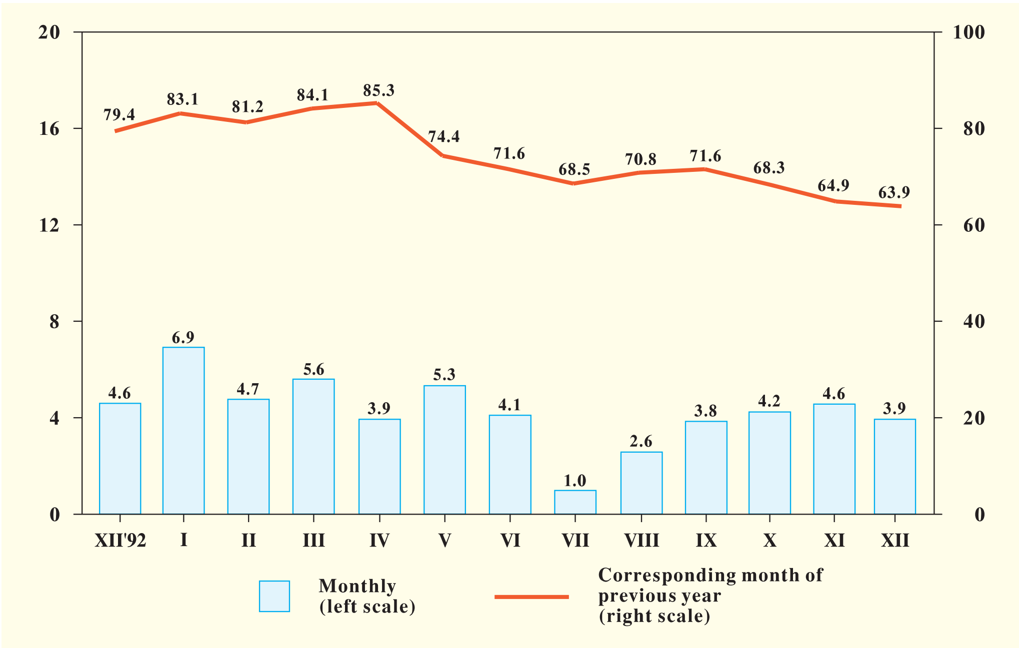
The policy of step-by-step liberalization of prices and their gradual transformation into signs for regulation of the processes of the economic reform, was further pursued in 1993. In 1993, 90% of GDP was formed on the basis of market prices. However, this gives no ground to claim that the country's economy has adjusted to the external and internal shocks. In addition, this is also borne out by the slow structural changes ongoing in production and employment.

Consumer Prices[10]

In December 1993, the price of the NSI consumer basket (acknowledged as the only official measure of inflationary processes in the country) was 63.9% higher than in December 1992. This is 15.5 percentage points less than in the corresponding 1992 period. In 1993, the consumer price index rose 72.8% annually, but this was 18.5 percentage points less than in 1992.

CONSUMER PRICE GROWTH IN 1993

(%)



Source: NSI, BNB.

The average rate of increase in consumer prices in 1993 was again high (4.2%), with half of the monthly rates exceeding the average one. Monthly changes in consumer prices fluctuated between 1% and 6.9%, being smoother than in 1992 (1.2% – 11.9%). This indicates that even in the absence of clearly pronounced price jumps, the constant inflationary pressure on the economy continued in 1993.

Monthly fluctuations in consumer prices (respectively, the annual inflation rate) were decreased by postponement or incomplete adoption of the projected measures at each stage of the price liberalization of some goods with universal application in the economy (fuels, electricity and thermal power) and a number of services where the government was the monopolist (communications and some transportation services). These were the major prerequisites contributing to the increased inflationary expectations for 1994.

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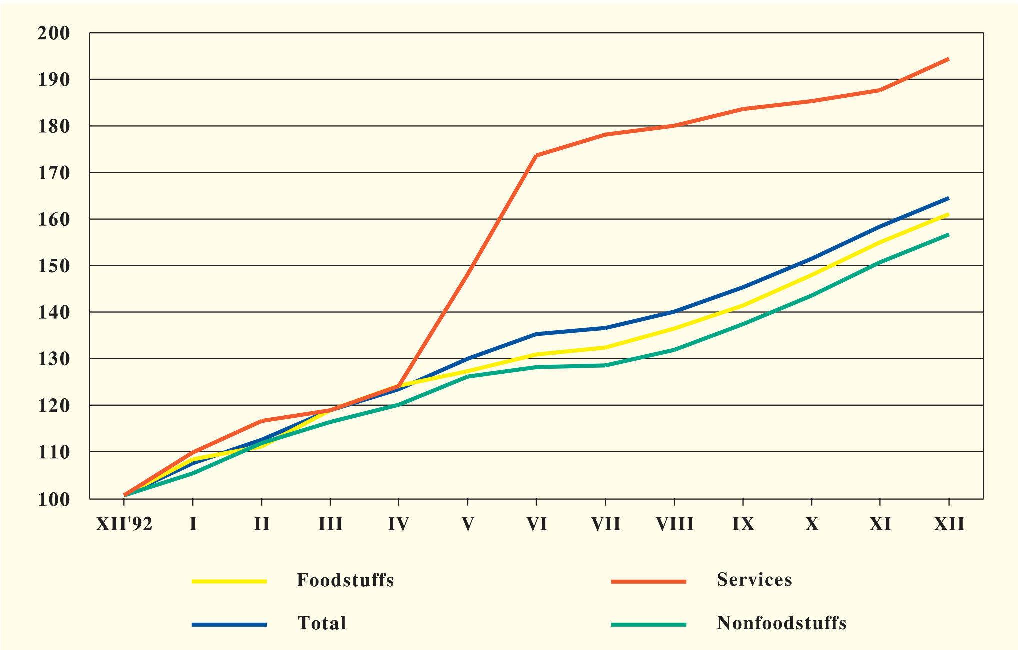
[10] As of early 1993, the NSI changed calculation methods of consumer price indices in order to overcome imperfections of previously applied methods. Consumer price developments for the previous periods were not revalued in accordance with the new methods. This impedes comparisons and causes ambiguous interpretations. Since 1993 the NSI has not released information about retail price developments.

The price index of services showed the largest increase within total CPI. In December 1993, prices of services were 93.7% higher on a year earlier level. Over the same period, foodstuff prices grew 60.4%, followed by nonfoodstuff prices, 55.9%. The price index of foodstuffs, due to their large share in the structure of the consumer basket (49.8%), was again the most essential factor contributing to the growth in total CPI in 1993. The price index of foodstuffs being very close to total CPI, did not exceed the latter (in contrast to 1992).

In 1993, a greater dispersion of group indices around total CPI was registered compared to 1992. Sharp fluctuations in prices of services are indicative of both phenomena: relief of price control policy in this area and still slack competition. The dynamics of nonfoodstuff prices were strongly influenced by the changes in the customs and import regimes which were made during the second half of 1993, and the easing of incomes policy as well. Consequently, this brought about changes in the structure of relative prices of consumer goods.

CONSUMER PRICE INDEX IN 1993
(December 1992 = 100)



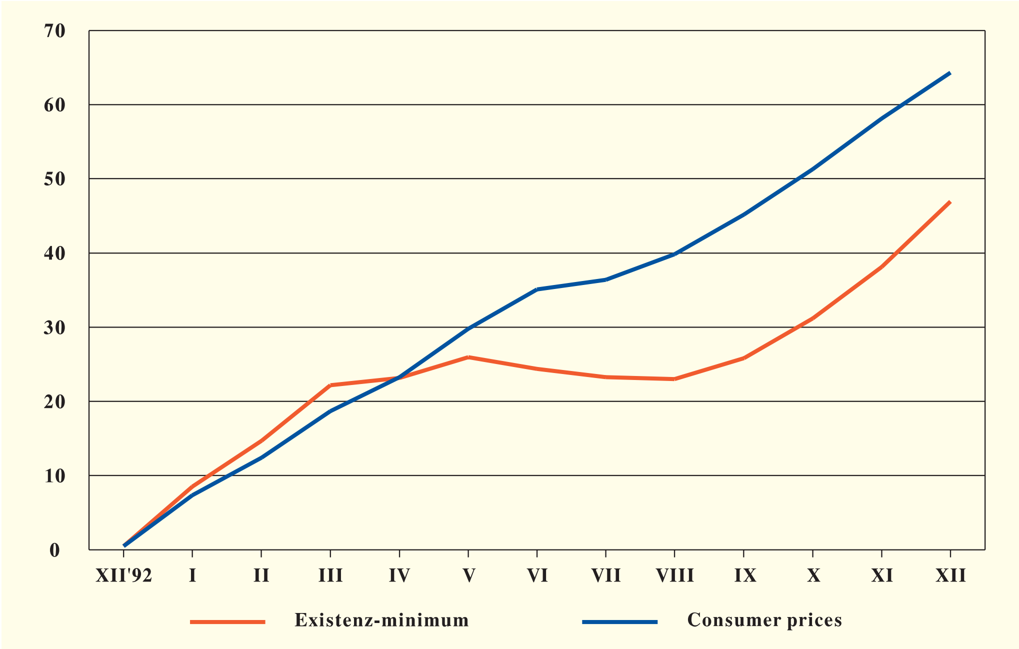
Source: NSI, BNB.

Minimum Cost of Living

Analysis of the cost of living in 1993, developed on the basis of a price index at normatively fixed weights (existenz-minimum), showed a 46.5% increase in the cost of living of lowest-income groups. The gap of over 17 percentage points compared to CPI was due to the specific content of the consumer basket. It includes only staple goods and services representing just-sufficient consumption of the lowest-income groups of the population. Prices of these commodities and services are relatively less dynamic and the significant share of fruit and vegetables even reduced the cost of living in the summer by 2.3%.

EXISTENZ-MINIMUM DYNAMICS IN 1993

(%)

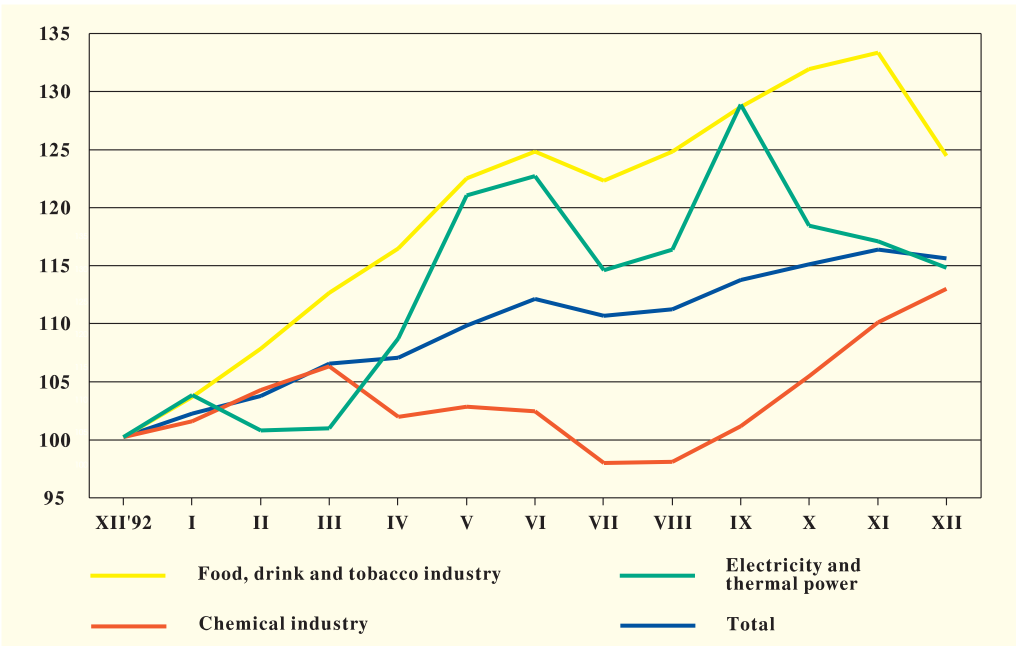


Source: NSI, BNB.

Producer Prices[11]

In 1993, producer prices of industrial output grew again at a slower pace compared to consumer prices.[12] Annual growth of producer prices of industrial output averaged 26.9%. The main reason for the gap between producer prices of industrial output and consumer prices was primarily in the slowdown of structural reforms.

INDICES OF INDUSTRIAL OUTPUT PRODUCER PRICES IN 1993



Source: NSI, BNB.

[11] The NSI again did not construct producer price index in 1993. Only producer price indices of industrial output were published. Methods applied in constructing producer price indices of industrial output remained unchanged.

[12] The comparison between consumer price indices and producer price indices of industrial output is more precise than the comparison between total indices, since the sample on which calculations of producer price indices of industrial output have been made, does not include services.

The 1993 price policy, implying distribution of the burden from the increased number of controlled prices (mainly fuels and energy) among producers and customers, also impeded channeling of funds to the more effective branches of the economy. This resulted in a smaller dispersion between indices for separate branches and total producer price index of industrial output compared to 1992.

5. Foreign Trade

In 1993 Europe, and especially the Balkans, were characterized again by economic and political tensions. Under the conditions of a complicated economic, political, and geographic environment on the Balkan peninsula coupled with the global economic recession, the Bulgarian economy, strongly dependent on importation of energy resources and raw materials and traditionally open to world markets, appeared to be the most injured economy among former COMECON member countries. Bulgaria's economy experienced serious losses as a result of the UN trade embargo on Yugoslavia. In addition, Bulgaria lost an important trade partner, and the shortest (cheapest) land road to Europe was closed. Increasing protectionist barriers, due to the continuing economic recession and the loss of Bulgaria's competitive position on some western markets as a result of the preference to some Central European competitors from the former COMECON member countries, essentially contributed to the negative effects. Under the circumstances of a deep crisis, the Bulgarian economy had to rely only on its own production and export potential, and had to make efforts to recapture its traditional markets and gain new ones.

Developments in Exports and Imports

According to preliminary customs data, Bulgaria's foreign trade turnover in 1993 totaled BGL 218.3 billion at current prices. Compared to 1992, the volume of foreign trade registered a growth of approximately BGL 23 billion or 11.5%. Exports totaled BGL 99 billion at current prices (versus BGL 91.5 billion in 1992) and imports, BGL 119.3 billion (versus BGL 104.2 billion in 1992). In 1993, the value of exports (at current prices) exceeded 1992 registered exports by BGL 7.5 billion or 8.2% and imports over BGL 15 billion or 14.4%. Foreign trade deficit was BGL 20.3 billion in 1993. (In 1992 the trade balance reported a deficit of BGL 12.7 billion.)

Increasing deficit in the foreign trade balance in 1993 outlined a negative tendency, which was a result of the delay in structural changes in the economy and the unfavorable external economic environment. Chronic foreign trade deficits from the middle 80's may be overcome by improving export and production potential of the national economy. Thorough consideration of priorities in exports and production regarding the country's comparable advantages, and modernization of the production/trade chain which will significantly improve the quality of exported goods, are the only alternatives for Bulgaria to gain more space in the markets of developed countries, especially in Europe, even in a more favorable situation in the future.

The share of Bulgaria's foreign trade in 1993 recovered to the traditionally high rates of 75% – 80% of GDP, compared to the equal values of foreign trade and GDP in 1992, and in contrast to the sharp shrinkage of foreign trade in GDP (less than half of GDP) in 1990. The open character of the Bulgarian economy made it strongly dependent on developments in international markets, which explains to a great extent the serious difficulties the country was experiencing throughout 1993. The situation in 1992 and 1993 was quite different from the situation in 1991, when the share of exports exceeded over 10 percentage points the share of imports. This proves once again the weakness of Bulgarian exporters in 1993, and the necessity of crucial measures to encourage exports.

In 1993, quarterly results in foreign trade also deteriorated. No trade surplus was reported in any 1993 quarter, in contrast to 1991 (as per customs data) when an insignificant trade deficit was registered only in the first quarter (due to seasonal reasons), and in contrast to 1992 when there was a trade deficit in the first, second and fourth quarters.

FOREIGN TRADE
(GDP=100)

(%)

Indicators	1989	1990	1991	1992	1993
Exports	34.5	23.3	43.8	46.9	34.6
Imports	32.3	22.7	34.4	53.5	41.7
Turnover	66.8	46.0	78.2	100.4	76.3

Source: NSI, BNB.

Commodity Structure of Exports and Imports[13]

There were no essential changes evolving in the commodity structure of exports in 1993. Compared to 1992, 1993 may be considered relatively stable. Due to the decrease in the shares of two commodity groups (animal and vegetable products, food, liquor and tobacco from 26.7% to 21%; machines, transport facilities, appliances and tools from 18.7% to 15.2%), the shares of the remaining 5 commodity groups grew. Despite the fall in the share of animal and vegetable products, foodstuffs, liquor and tobacco, this group ranked first in total exports. Exports of base metals and their products were second in significance in total Bulgaria's exports in 1993, followed by the group of chemicals, plastics and rubber. Having reached slightly over 60% of total exports in 1987 and 1988, the share of machines, transport facilities, appliances and tools showed a fall for a sixth consecutive year. Consequently, this group lost its role of a priority and strategic economic branch in Bulgaria's exports, which it had maintained within COMECON.

EXPORTS AND IMPORTS DYNAMICS ON A QUARTERLY BASIS
(customs data)

(million BGL at current prices)

Indicators	Quarters			
	I	II	III	IV
		1991		
Trade balance	-705.3	3,236.0	6,774.7	2,930.5
Exports	5,271.5	15,970.0	16,077.9	20,048.9
Imports*	5,976.8	12,734.0	9,303.2	17,118.4
		1992		
Trade balance	-5610.4	-842.2	5,454.2	-11,749.9
Exports	16,896.9	22,098.9	25,496.4	27,040.7
Imports*	22,507.3	22,941.1	20,042.2	38,790.6
		1993		
Trade balance	-5,178.5	-5,415.9	-667.7	-8,982.9
Exports	14,847.7	18,989.0	30,631.1	34,575.3
Imports*	20,026.2	24,404.9	31,298.8	43,558.2

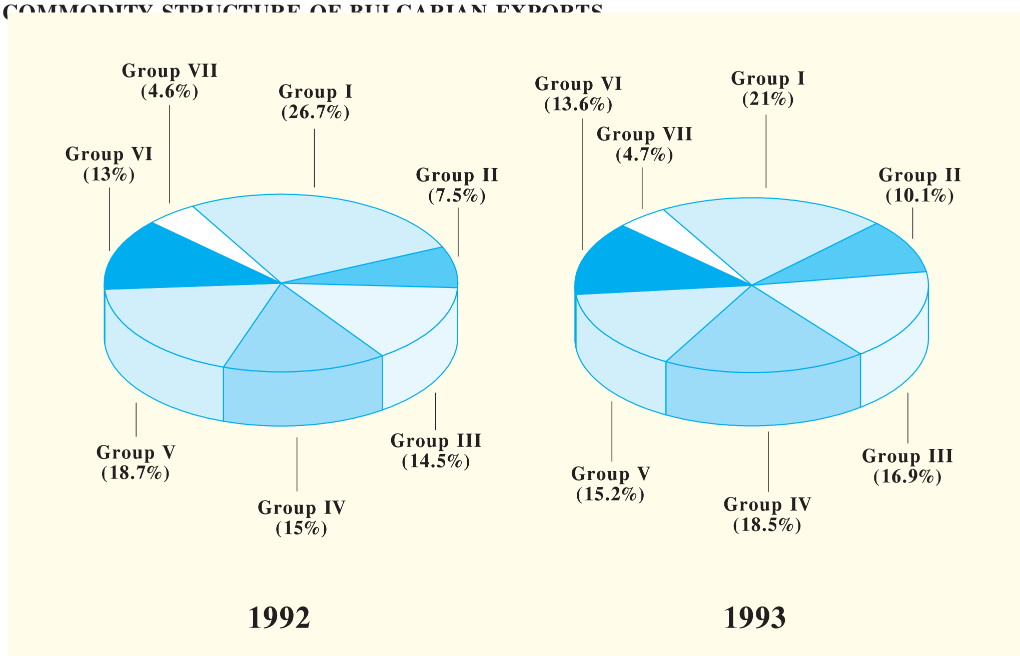
* Imports are reported at FOB prices for 1991 and at CIF prices for 1992 and 1993.
Source: NSI, BNB.

Stabilization in the structure of imports by commodity group is more pronounced than in exports. The most essential structural change, registered in 1992 and 1993, was a 50% decrease in imports of machines, transport facilities, appliances and tools, compared to the end of the 80's. As a result of this drop (compared to the end of the 80's), the share of other commodity groups increased (twice in

[13] As in the January – June 1993 report, here, for the purposes of analysis, the classifications of the Ministry of Trade were used, incorporating 21 sections of the harmonized system in 7 large groups.

chemicals, plastics, rubber).

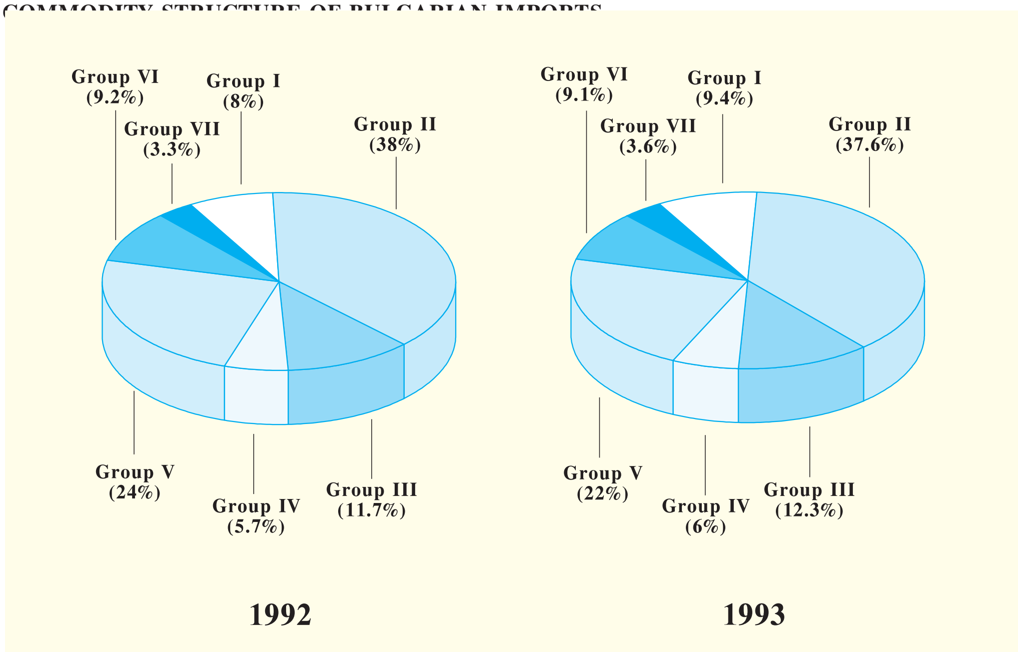
COMMODITY STRUCTURE OF BULGARIAN EXPORTS



Group I – Animal and vegetable products, foodstuffs, liquor and tobacco products;
Group II – Mineral products, fuel;
Group III – Chemical products, plastics and rubber;
Group IV – Base metals and their products;
Group V – Machines, transport facilities, appliances and tools;
Group VI – Textile and leather materials, clothing, footwear, furniture and other industrial consumer goods;
Group VII – Wood, paper, earthenware and glass products.

Source: Ministry of Trade (MT), BNB.

COMMODITY STRUCTURE OF BULGARIAN IMPORTS



Group I – Animal and vegetable products, foodstuffs, liquor and tobacco products;
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Group V – Machines, transport facilities, appliances and tools;
Group VI – Textile and leather materials, clothing, footwear, furniture and other industrial consumer goods;
Group VII – Wood, paper, earthenware and glass products.

Source: MT, BNB.

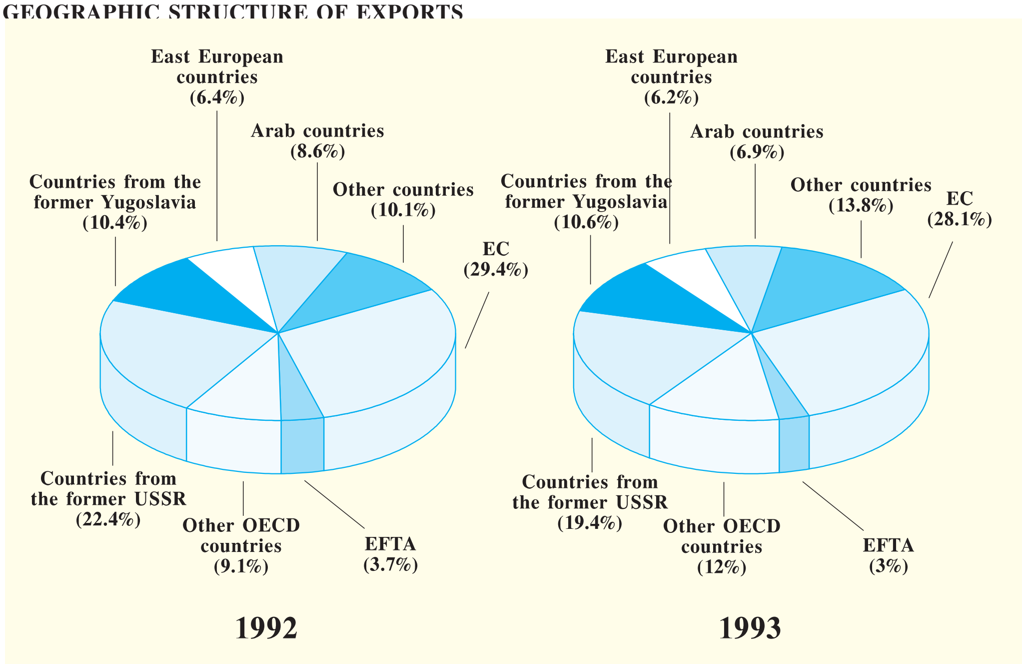
The share of mineral products and fuels occupied a leading position in the structure of total Bulgaria's imports in 1993. As in 1992, it was slightly below 40%. Next ranked the group of machines, transport facilities, appliances and tools irrespective of the dramatic fall (2 percentage point versus 1992) compared to the shares of other commodity groups. Chemicals, plastics and rubber ranked third in the line of imports. The groups of animal and vegetable products, foodstuffs, liquor, tobacco, textile, fur, clothes, footwear, furniture and other industrial consumer goods followed with shares of less than 10%.

Geographic Structure of Exports and Imports

The geographic structure of Bulgarian foreign trade was less stable than the commodity structure. With the background of relatively constant shares of the separate regions in total structure, only the "Other Countries" group[14] and OECD member countries (which are not members of EC and EFTA) registered a significant growth (especially in exports). A logical explanation of these processes can be found in both the continuing structural crisis and unfinished reforms in the former socialist countries, and ongoing cyclic recession causing protectionist leanings in Bulgaria's major West European partners.

Almost equal shares of East European and OECD member countries in the 1992 structure of exports were disrupted in 1993: East European countries lost 3 percentage points of their share in total exports versus 1992, while OECD countries (including non-European member countries) added another 3 percentage points. Within OECD the shares of EFTA and EC slightly decreased, and the remaining countries of the organization were of greater significance for Bulgarian exports. The share of the "Other Countries" group showed an increase of 4 percentage points, while a certain decline in the share of Arab countries was registered.

GEOGRAPHIC STRUCTURE OF EXPORTS



Source: NSI, BNB.

Compared to the geographic structure of exports typical for the late 80's, important changes occurred in this structure over 1993. The drop in the share of COMECON European member countries more than tripled. At the same time, a 5-fold growth was registered in the share of EC. The share of non-European OECD

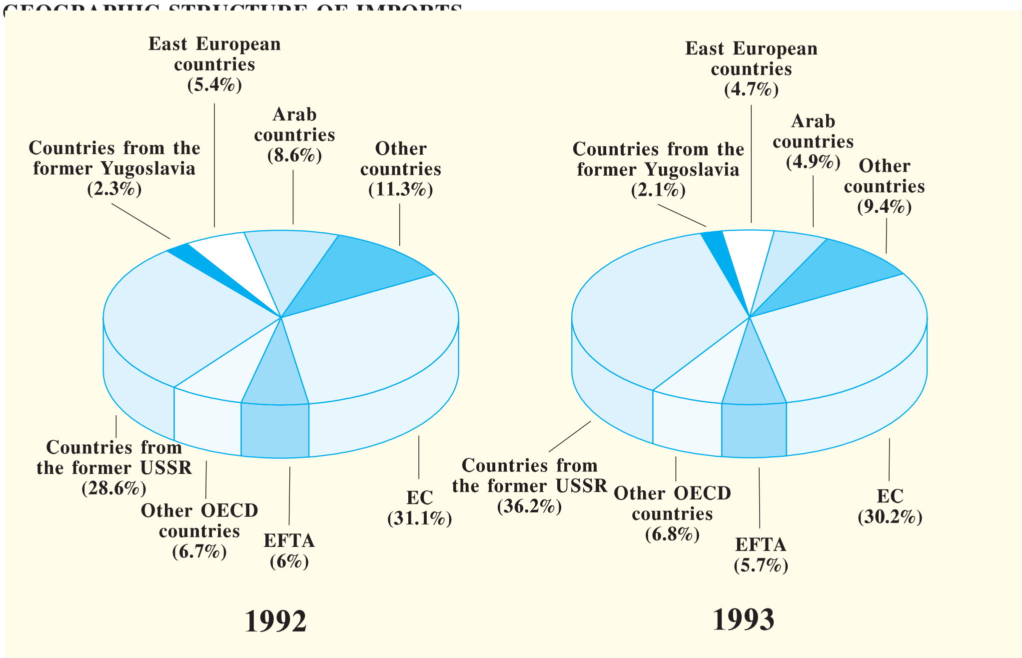
[14] China and Thailand (respectively 2.9% and 1.1% of Bulgaria's total exports in 1993) registered the largest shares in exports and Iran (3.5% of Bulgaria's imports in 1993) the largest share in imports in this group.

countries increased over 10 times and the share of EFTA countries doubled. The shares of countries which had not been COMECON or OECD members approximately doubled, with an increase (though approximately evenly distributed) being recorded more strongly in non-Arab countries.

Given the marked increase in the share of CIS and Ukraine in total Bulgarian imports, former COMECON partners restored to some extent their recently lost significance in the Bulgarian economy, sharing the leading position in Bulgarian imports with OECD countries (with shares of approximately 43%). Compared to 1992 their share in total imports were 5 percentage points higher. The share of OECD countries dropped over 1 percentage point, due to decreased shares of EC and EFTA. A fall of approximately 4 percentage points was registered in the share of Arab countries.

Compared to the geographic structure of Bulgarian imports typical for the late 80's, the share of European partners from the former COMECON member countries almost halved, the share of EC tripled, and that of EFTA member countries doubled. In 1993, the share of non-European OECD member countries more than doubled and that of Arab countries remained at its 5% level, traditional for Bulgarian imports in the late 80's.

GEOGRAPHIC STRUCTURE OF IMPORTS



Source: NSI, BNB.

6. Balance of Payments

Due to different methods applied[15], comparison and analysis of the respective items in Bulgaria's balance of payments for 1991, 1992 and 1993 should be done cautiously and with certain reservations. Given the continuing changes in the banking system and in the entire economy, errors and omissions in reporting payments on foreign trade operations in goods, services and financial assets are likely to occur. Despite these problems the general trend in the major items of Bulgaria's bal-

[15] The 1991 and 1992 data on imports and exports are according to bank statistics, and the 1993 data according to customs statistics.

ance of payments has been clearly outlined.

BALANCE OF PAYMENTS

(million USD)

Indicators	1991	1992	1993
Current account	-77.0	451.6	-900.4
Trade balance[1]	-32.0	484.5	-695.1
Exports of goods, FOB	3,737.0	5,093.0	3,635.3
Imports of goods, FOB[2]	3,769.0	4,608.5	4,330.4
Services, net[3]	-114.0	-75.8	-242.2
Transfers (private), net	50.1	39.7	36.9
Official unrequited transfers	19.0	3.1	0.0
Capital account	115.0	-31.5	148.4
Direct investment, net	55.9	41.5	55.4
Medium- and long-term loans received, net	-48.1	42.1	-46.3
Loans extended, net[4]	294.9	32.5	207.3
Short-term debt	-187.7	-147.6	-68.0
Errors and omissions	26.2	-94.0	263.2
Overall balance	64.2	326.1	-488.8

[1] Trade balance data for 1993 are based on customs statistics, including trade of special products and repayments in gas under the Yamburg pipeline agreement. Reported exports and imports of banks in 1993 totaled USD 4,700.6 million and USD 4,567.1 million, respectively.

[2] CIF in 1993.

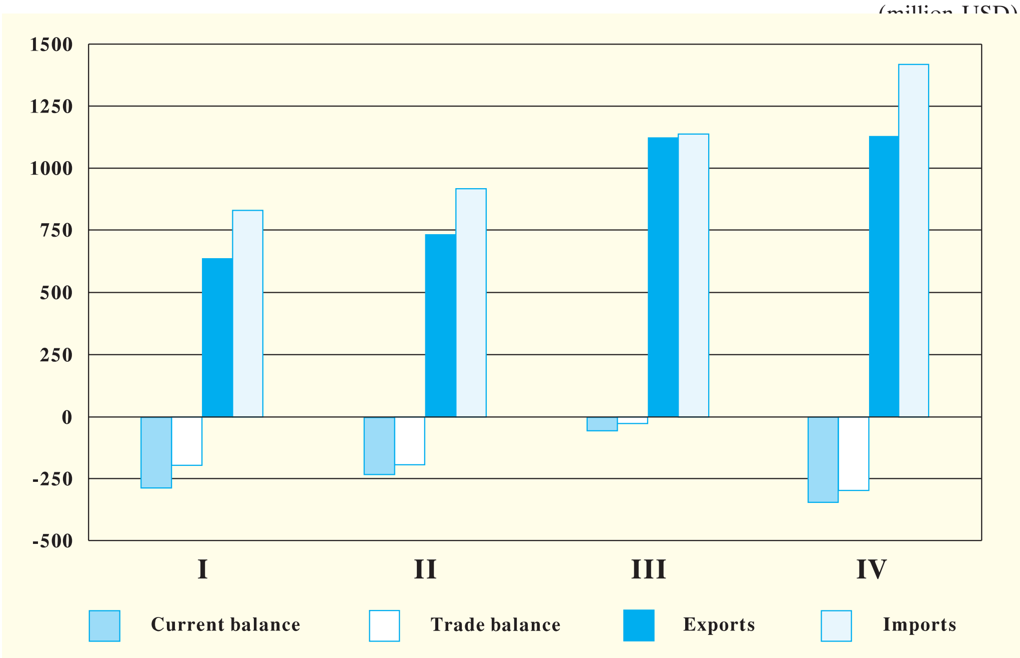
[3] Including actually paid interest.

[4] Repayment in gas from the former USSR under the Yamburg pipeline agreement is included.

Source: BNB.

BALANCE OF PAYMENTS IN 1993
(quarterly data)

(million USD)



Source: BNB.

The balance of payments seriously deteriorated, due to the growing deficit on the current account, which is impossible to be financed through net flows on the capital account. This process resulted in dramatic losses of reserves under the conditions of virtually discontinued foreign financing, so it proved impossible to go on any longer. This statement was confirmed by the increasing tension in the forex market in late 1993 and early 1994. The country faced two extreme alternatives. The first alternative was to launch intensive and purposeful restructuring of the national economy by conducting proper structural, foreign trade and foreign exchange policies, in order to establish a powerful production and export potential competitive in international markets. The second alternative was to restrict imports to the same amounts as decreasing exports; in the absence of positive changes, this would prove to be as unavoidable as it was in 1991. In the latter case, the opportunity to use external demand as a motivating force for the revival of the national economy would be missed.

Current Account

After the fragile balance attained in 1991 and the surplus of USD 0.5 billion in 1992 (due to the drastic lev depreciation compared to 1990, which encouraged exporters, and due to discontinued foreign debt service), balance of payments current account registered a deficit of over USD 900 million in 1993.

Quarterly developments contributing to this final result were characterized by continuous deficits on the trade balance, current account and on the balance of services. Even in the third quarter, when exports reached traditional peaks due to seasonal reasons and imports hit the bottom, the balance on the current account was negative. Surpluses in tourism and private transfers, registered in each 1993 quarter, proved to be quite insufficient to offset the negative tendencies in the other items of the current account.

In 1993, the trade balance was again the key factor influencing the formation of the current account balance. During all quarters it was negative, running a deficit of USD 695.1 million[16] in 1993. The dramatic nominal decline in exports (over 25%) contributed critically to this deficit. Imports also slightly declined (approximately 6%). These developments in the foreign trade were prompted by both unfavorable external factors (tightened UN sanctions on Yugoslavia and deepening recession in Western Europe), and the negative internal processes (delay in the structural reform and lack of a consistent policy relating to Bulgaria's output and export potential).

Similar to 1991 and 1992, the balance on services remained negative in 1993. Balances on shipments and interest payments (negative over the four quarters unlike the positive balance on travel) predetermined the deficit in services (the balance on "Other" item was somewhat offset). The developments in private transfers remained relatively stable. They showed insignificant surpluses on a quarterly basis and in the whole of 1993.

Capital Account

No dynamic changes evolved in financial flows on the balance of payments capital account. Bulgaria's financial isolation additionally aggravated the macroeconomic situation in the country.

In 1993, the balance on capital operations was positive, totaling USD 148.4 million. Compared to the preceding year, an increase of USD 180 million was registered. However, this amount was insufficient to offset the huge deficit on the current account. The balance on the capital account was a result of both the positive balance on loans extended by Bulgaria (net) including repayment in natural gas, reported under the Yamburg pipeline agreement (USD 161.2 million), and

[16] It should be mentioned that per bank statistics, which report bank payments to and from abroad, the 1993 trade balance registered a surplus of USD 133.5 million. On a quarterly basis, trade balance dynamics do not coincide with the trade balance registered by customs statistics. The trade balance remained more or less in balance in the four quarters of 1993 (respectively USD –5.7, 60.4, 164.1 and –85.3 million). There are a number of hypothetical causes for these differences, but they could hardly be captured and measured by statistics, so it is difficult to judge which data is more reliable.

the net inflow of foreign investments (USD 55.4 million). Negative balances on Bulgaria's medium- and long-term drawings (net) and on short-term debt had a reverse effect.

Overall Balance

For the first time after the start of the reform, a significantly negative overall balance was registered. At the same time, foreign financing was merely symbolic. Over the year, only two loans were extended: USD 44.1 million as a fourth credit tranche of the Second Stand-by Agreement with the IMF, and USD 32 million borrowed from the Swiss government within the aid of G-24. Under these circumstances, the greater part of the negative overall balance was funded at the expense of domestic sources. The BNB had to spend part of the national foreign currency reserves in support of the depreciating BGL, due to the excess of demand over supply in the domestic forex market. Besides, foreign exchange resources of commercial banks dropped as a result of increased import expenses and smaller receipts.

III. Fiscal Policy

Fiscal policy in 1993 proved to be one of the major factors responsible for maintaining macroeconomic balance in the country under the prevailing conditions of social and economic reform. At the end of 1992, the newly elected government declared its intention to follow a more socially oriented policy in implementing the radical economic reforms, which inevitably led to pressures on fiscal policy.

Another factor adversely affecting fiscal policy was a belated adoption of the Budget Law (not until mid-year). Up to that moment it was very difficult to harmonize BNB monetary policy and fiscal policy of the government, because the latter had no clear guidelines. At the end of the year, the forced increase in the expenditure side of the budget put monetary policies under pressure which inevitably led to easing of monetary restriction. The lack of efficient coordination between fiscal and monetary policies throughout most of 1993 had an unfavorable impact on macroeconomic developments in the country, and at year-end shook up the fragile financial stability in the country.

1. Consolidated State Budget

The 1993 State Budget Law of the Republic of Bulgaria (SBL) adopted only portion of the consolidated budget, including the central government budget and transfers to cover the deficits of the other budgets, the social security budget, and the legal system budget. The overall cash deficit was concentrated in the central government budget. Throughout the year, however, due to balances on budget accounts, the deficit in the consolidated budget differed from the central government budget deficit; they are equal only after closing of the budget accounts at the end of the year.

As of 31 December 1993, revenue on the consolidated state budget totaled BGL 117,696.3 million, obtained after deduction of intrabudgetary transfers and funds for financing of the budget deficit; expenditure accounted for BGL 150,233.2 million. Revenue and expenditure of the central government budget had the largest share in the expenditure and revenue side of the consolidated state budget, 46.9% and 45.3% respectively, followed by 27.3% and 25.9% of the social security budget. As of 31 December 1993, the cash deficit of the consolidated state budget was BGL 32,536.9 million or 11.4% of GDP.

2. Budget Deficit

Delay in the structural reform and maintenance of inefficient economic structures led to accumulation of a chain of financial problems – nonexecution of projected proceeds and significant widening of the budget deficit over the year against SBL projections. This led to the December update in the SBL, which endorsed a cash deficit of the central government budget (CGB) of BGL 33,054.4 million.

As of 31 December 1993, overall revenue received in the central government budget totaled BGL 55,139.6 million or 77.3% of the projections envisaged in the amendment to the SBL. Corporate tax from financial institutions had the smallest contribution in the revenue side of the central government budget, only 14.5% of SBL projections.

Expenditure in the CGB was BGL 88,159.9 million or 84.4% of projections in the revised 1993 SBL. Transfers of central government budget, which covered the deficit of the other budgets, had the largest share in the revenue structure. Projected transfers in the revised SBL constituted 53.4% of overall revenue, and those reported at 31 December 1993 were 56.6%. The share of transfers to cover the deficit in the social security budget (76% alone) was the smallest. The reason responsible for this was reduced funding of the Social Security Department in the amount of BGL 1,758.2 million to repay an interim loan to the Ministry of Finance.

Central budget expenditure increased faster than revenue, and the mechanism applied for compensation of incomes in the budget sphere in 1993 limited the government's capability to pursue a restrictive fiscal policy. Consequently, throughout the whole reporting period, the central government budget formed a primary deficit, running at BGL 5,217.5 million at the end of the year, versus SBL projections for a primary surplus of BGL 5,254.4 million, and a primary deficit of BGL 216 million in the revised SBL. The primary deficit of the central government budget was four times higher than in 1992.

As of 31 December 1993, after taking into account transactions of the budget with domestic creditors, an internal deficit of BGL 29,894 million was chalked up (or 10.4% of GDP). Compared to 1992, the internal deficit increased nominally 3.5 times. This was mainly due to repayment of substantial internal interest totaling BGL 24,676.5 million in 1993.

The cash deficit of the central government budget reached BGL 33,020.2 million as of 31 December 1993, i.e. 99.9% of the revised 1993 State Budget Law, and 11.5% of GDP.

3. Budget Deficit Financing

The State Budget Law and the revised 1993 SBL included the following operations in regard to budget deficit financing: foreign operations in the amount of BGL -3,986.8 million, government securities operations (net) totaling a minimum of BGL 21,255.8 million, and direct funding from financial institutions (net) up to BGL 15,785.4 million.

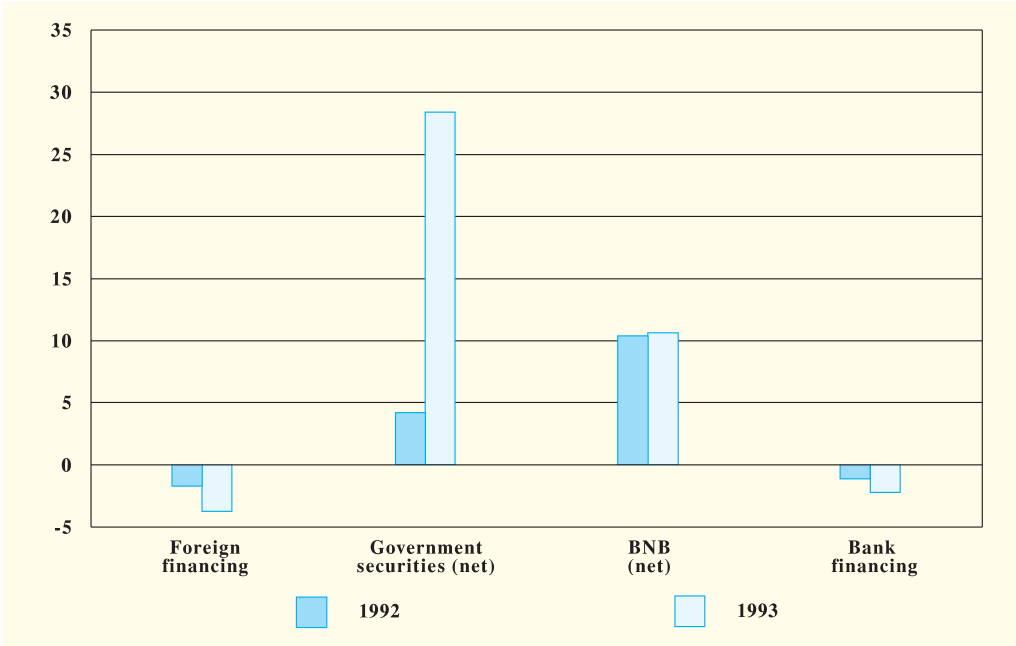
As of 31 December 1993, the reported net amount of transactions with abroad was negative (BGL -3,665.7 million) or 91.9% of the Law projections. Of these, estimated payments in part to recover BFTB reserves of BGL 2,202 million and those to finance clearing operations in transferable roubles with the former USSR countries in the amount of BGL 903 million were fully made. In contrast, the 1992 fulfillment of net foreign financing against SBL was a mere 54.7%, and reduced servicing of the foreign debt did not result in a decrease in the reported cash deficit.

As of 31 December 1993, net domestic financing totaled BGL 36,685.9 million, including BGL 28,278.6 million in government securities operations, BGL 8,402.2 million in net bank financing and BGL 5 million from repayment of municipal loans, used during the previous years.

In 1993, 65 issues of book-entry government securities (56 issues of government treasury bills and 9 issues of government treasury bonds) totaling BGL 61,106.6 million nominal value were effected. Of these, 43 issues of government securities (34 of treasury bills and 9 of treasury bonds) totaling BGL 38,321.5 million nominal value remained in circulation. The minimum net amount for government securities financing was fulfilled – 133% of the projections in the revised SBL. Issues of government securities brought BGL 52,744.6 million into the state budget, i.e. four times the amount of the previous year. Repayments on government securities maturing in 1993 totaled BGL 24,465.9 million, including BGL 5,144.4 million from repayments of government securities issued in 1992. BGL 9,499.1 million were used to repay government securities which had matured in 1992.

BUDGET DEFICIT FINANCING

(billion BGL)



Source: BNB.

In the first eight months of 1993, treasury bill auctions were held in compliance with the terms and procedures of Regulations No. 5 of 1992 of the Ministry of Finance and the BNB on Issuance, Sale and Redemption of Short-term Book-entry Government Securities. Incremental development of the government securities market, combined with a growing necessity to reschedule the debt over a longer period of time, and increased nonbank financing of the budget deficit required the rules for participation in the auctions to be supplemented. As a result of this, in September 1993 the sale of government securities was accomplished under Regulations No. 5 of 1993 on Issuance of Book-entry Government Securities and the Procedure for Their Acquisition and Redemption. The new Regulations enabled the Ministry of Finance to issue, in addition to the short-term government securities (sold at discount from their nominal value), interest-bearing government securities – treasury bills and treasury bonds. The total nominal value of the government securities to be issued in 1993 amounted to BGL 73,979.5 million, including BGL 66,479.5 million treasury bills and BGL 7,500 million treasury bonds.

Demand for treasury bills significantly exceeded the amount supplied by the Ministry of Finance, particularly in the first half-year; of the auction bids received in the amount of BGL 76,001 million, treasury bills worth BGL 33,240.5 million were sold. Participants in the primary market opted for treasury bills, sold at discount of their nominal value, and an average coverage coefficient of 1.43. Commercial banks were more inclined to invest in government securities during the first half-year because no other profitable alternatives existed – the real sector remained in deep recession, and the forex market was relatively calm. During the second half of the year, and particularly at the end of it, the BGL depreciated fast, consequently the interest of commercial banks in government securities subsided.

Regardless of the fact that yield from interest accrued on bonds was free of profits tax under the acting fiscal regulations, financial institutions were reluctant to buy issues of treasury bonds during the reporting period, since interest repayment on these bond issues started in 1994. As a result of this, financial institutions purchased treasury bonds in the amount of BGL 5,081 million.

Enhanced demand for government securities in early 1994 led to a rise in the auction average selling prices against the minimum acceptable prices of the Ministry of Finance. Consequently, one third of the treasury bills were effected at average selling prices whose annual yield was lower than the basic interest rate effective during the respective period. Reluctance of financial institutions to invest in government securities at the end of the year led to a smaller difference between the minimum acceptable price and the average selling price of the treasury bills, and to the sale of treasury bonds only at the minimum acceptable price fixed by the Ministry of Finance.

In 1993, the larger part of government securities issues had an average annual yield higher than, or equal to, the basic interest rate. In the first place, this was a result of the policy pursued by the Ministry of Finance to boost development of the government securities market, and second, it reflected the level of demand and supply over the year.

During the period under review, government securities operations in the secondary interbank market significantly increased. In contrast to 1992, when only one treasury bills operation was effected in the secondary market in the amount of BGL 2 million, in 1993 government securities traded among financial institutions at 807 occasions totaled BGL 69,736.4 million. The BNB was the main participant in the secondary market operations, effecting 725 such operations in the amount of BGL 63,289.5 million. Activity in the government securities secondary market speeded up during the second half-year, which considerably reduced commercial bank demand for Lombard loans against collateralized government securities.

Direct bank financing (net) comprised 53.2% of the projections in the revised SBL, including BGL 10,527.6 million (net) from BNB funding, and BGL 2,125.4 million for debt repayment to the SSB, the State Insurance Institute and other banks.

According to the SBL, the central bank could extend long-term loans to the budget up to BGL 17,910.2 million (net). As of 31 December 1993, the BNB granted long-term loans to the Ministry of Finance to fund the budget deficit, totaling BGL 12,540 million. Moreover, the Ministry of Finance, during different periods, used interim loans ranging from BGL 800 million to BGL 1,800 million to cover temporary shortfalls in the budget funds under Article 46 of the Law on the BNB. Upon maturity, the Ministry of Finance proposed a portion of these (BGL 6,500 million) to be assumed as long-term debts to finance the budget deficit within SBL projections. At the same time, redemption of long-term loans totaled BGL 1,746 million, and BGL 1,800 million from short-term loans; BGL 266.4 million were repaid to recover a portion of the loans used. Thus, BNB net financing of the budget deficit as of 31 December accounted for BGL 10,527.6 million, or 58.8% of the Law projections, and the Ministry of Finance debt to the BNB reached BGL 33,446.6 million (45.9% more than in late 1992).

The smaller amount of direct bank credit used by the Ministry of Finance against Law projections led to reduced budget spending on loans. Interest on the loans extended by the BNB was BGL 14,335.4 million according to Law projections, against BGL 13,929.4 million (a decrease of BGL 406 million) reported as of 31 December 1993, provided that the Ministry of Finance effected regular payments.

Reported sources of budget deficit financing in 1993 included 77.1% government securities operations (net) and 22.9% direct financing from financial institutions (net). In the revised SBL they are estimated to be at least 57.4% in government securities operations, and up to 42.6% in direct funding from financial institutions (in 1992 these estimates were 50% for both sources, while the ratio reported at the end of 1992 was 31% against 69%). The reduced share of direct bank financing against Law projections could be considered a positive trend during the period under review, if it were accompanied by increased nonbank financing. The bulk of government securities was purchased by financial institutions, the SSB retaining its leading position, though reluctant to lend credits to the nongovernment sector. Nonbank financing of the budget deficit through government securities operations totaled BGL 4,085 million (including BGL 32.6 million from government securities purchased with noncompetitive bids by firms and individuals), i.e. a mere 14.4% of total government securities financing (net). When government securities yield equaled deposit yield, households were reluctant to purchase government securities, since the latter were not liquid enough, and traditionally opted for deposits.

Nevertheless, secondary market operations among financial institutions and their clients (firms and individuals) were brisk at the end of the year. Issues maturing in early 1994 (Nos. 16, 17, 32 and 33) and ensuring tax preferences constituted the target issues.

Absence of an issuing schedule in early 1993, hence uneven budget deficit financing, predominantly through government securities, led to an appreciable increase in the liabilities of the 1994 budget. The structure of government securities issues was the main reason responsible for this, with short-term government securities maturing in 1994 having the largest share. The share of long-term government securities maturing in two or more years was only 8.31% of all issued government securities as of 31 December 1993. Consequently, throughout different periods of time, it was more reasonable to tap the opportunity provided by the SBL to finance the budget deficit by way of direct BNB credit, since it is repayable within 10 years and debt service payment is extended for a longer period of time.

An auction for reverse repurchase of government securities was held on 3 December 1993, aimed at rescheduling the government debt. The Ministry of Finance offered to repurchase nine-month treasury bills, issue No. 26 of 1993, maturing on 29 March 1994. Those financial institutions which took part in the reverse repurchase auction were offered one-year interest-bearing treasury bills, issue No. 57 of 1993 totaling BGL 177.3 million, ensuring yield equal to the basic interest rate plus 4 percentage points.

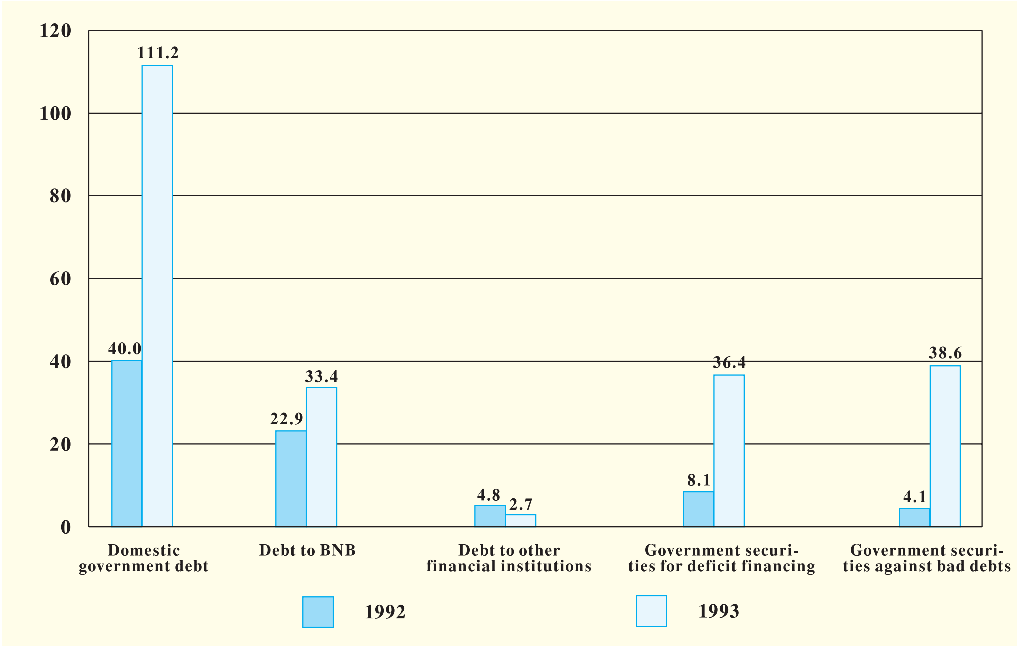
In 1993, the Ministry of Finance was the largest borrower of credits from the BNB. This directly affected BNB monetary policy. Absence of estimates by the Ministry of Finance for possible deficit changes throughout the year, coupled with lack of timetable about the sources for its financing, impeded the BNB in designing an efficient current policy to harmonize it with fiscal policy. Secondly, this led to ineffective management of budget funds. Throughout different periods, the Ministry of Finance held relatively large average daily resources with its BNB accounts, which induced increases in the budget expenditure, reflecting the gap between the interest accrued on these accounts and the interest paid along with the discount on the credits and the government securities issued. The resources bear interest equal to that on current accounts, 14% per annum, fixed under the Tariff for the interest rates, fees and commissions charged by the BNB and applied to its domestic operations. Besides, the average annual interest and discount paid by the Ministry of Finance on government securities issued and bank credits used, was within the range of the BNB basic interest rate (plus/minus up to 4 percentage points).

4. Domestic Government Debt

Significant changes evolved in the volume and structure of the domestic government debt as a result of the new method used in 1993 to finance the budget deficit. As of 31 December 1993, the domestic government debt reached BGL 111,161.6 million (BGL 39,999.5 million in early 1993), including a debt of BGL 26,383.2 million on long-term government bonds issued in exchange for nonperforming credits (pursuant to the Law on Settlement of Nonperforming Credits Negotiated till 31 December 1990), and BGL 1,888.9 million on long-term government bonds issued in compliance with the terms of Decree No. 3 of 18 January 1994 of the Council of Ministers. On a year earlier level (31 December 1992) it rose 277.9%. Direct credit to financial institutions increased BGL 8,402.3 million, or 30.3%. Debt on government securities issued to finance the budget deficit rose BGL 28,278.2 million or 4.5-fold. Structurally, direct debt to financial institutions declined from 69.3% (of total government debt) in early 1993 to 32.5% at the end of the year, while the share of the debt on government securities issued to finance the budget deficit rose from 20.4% to 32.7%; the debt on government securities issued to cover bad debts picked up from 10.3% to 34.7%.

STRUCTURE OF THE DOMESTIC GOVERNMENT DEBT

(billion BGL)



Source: BNB.

The domestic debt increase, combined with a huge foreign debt serviced by domestic resources, pose serious issues relating to the application of reasonable economic methods in order to profitably utilize sources for budget deficit financing, as well as those concerned with the design of a new strategy for efficient management and service of the debt. Solutions to these problems necessitate a permanent coordination between the BNB monetary policy and the fiscal policy of the government, especially in the field of joint forecasts about the budget deficit financing and the way this could be fulfilled.

IV. Monetary Policy

Throughout 1993 the BNB continued to implement a monetary policy aimed at maintaining financial stability in the country. The specific external and internal economic and financial conditions under which the BNB had to operate were as follows:

• Decelerating decline in the real sector;

• Certain easing of incomes policy following the signing of a tripartite agreement among the government, employers and trade unions for public-sector wage compensation, in line with actually registered and not projected inflation;

• Belated parliamentary approval of the state budget, projecting a substantial deficit. Due to sluggish revenue collection, the cash deficit was growing faster than projected and was additionally raised at the end of the year;

• Inflationary expectations, a consequence of price adjustment of some energy products and overall political uncertainty in this country;

• Sharp contraction of foreign financing, resulting from the absence of an agreement with the IMF, which had elapsed in the first quarter of 1993;

• Unfavorable foreign trade and political environment, i.e. the UN embargo on Yugoslavia, which virtually blocked Bulgarian exports to Western markets.

In such an environment the monetary policy pursued by the central bank was an important factor in repressing inflationary sources and maintaining the internal and external stability of the national currency. This policy was implemented by using various monetary instruments, aiming at stabilization of the financial system. Since the government's fiscal and incomes policies were not restrictive enough, BNB monetary policy failed to significantly decrease inflation. Decreased inflation would have been a prerequisite for a greater cut in the basic interest rate, thus smoothing its depressive effects on the real sector.

1. Money Supply

Broad Money

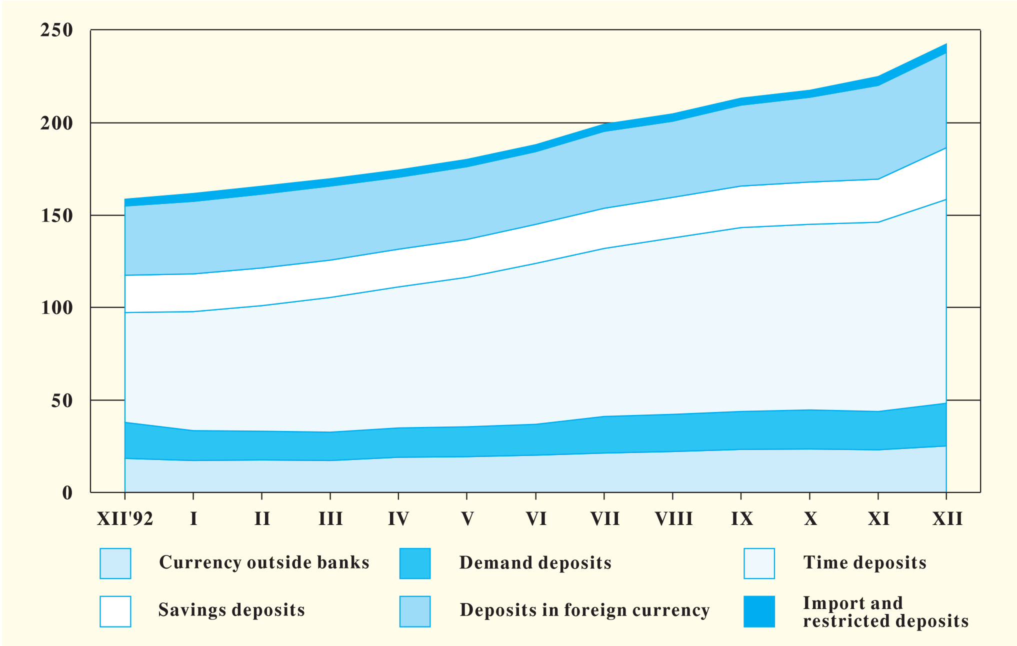
At the end of 1993, estimated money supply (broad money), including currency outside banks and all types of deposits, totaled BGL 242.8 billion, an increase of BGL 84.2 billion, or 53.1%. Money supply growth lagged over 10 percentage points behind the registered inflation over the same period, which gives ground to assume that monetary policy pursued by the BNB in 1993 was moderately restrictive. Compared to 1992, monetary restriction was significantly eased (the difference between money growth and inflation approximated 30 percentage points in 1992).

Money supply growth exceeded approximately 10 percentage points the GDP nominal increase. The greater difference compared to the previous year was due to the stronger GDP real contraction in 1992. Data evidenced a certain delay in the velocity of money circulation, which is hard to be found directly in the banking sector. The above noted discrepancy suggests a possible understating of the 1993 GDP data.

The greater increase in money supply was attributable to the lev component, which increased BGL 69.5 billion or 59.1%. In 1993, the foreign exchange component contributed more significantly (over 35% versus 10% in 1992) to money supply growth, a result of exchange rate fluctuations. The slight acceleration in money growth throughout 1993 was prompted by the national currency's nominal depreciation, despite the BNB attempts to offset this process by tightening monetary restriction.

DEVELOPMENTS IN MONETARY AGGREGATES IN 1993

(billion BGL)



Source: BNB.

MONETARY AGGREGATES GROWTH

Indicators	1992 billion BGL	1992 XII'91=100%	1993 billion BGL	1993 XII'92=100%
Money supply (broad money)	52.4	49.4	84.2	53.1
Monetary aggregate M1	10.9	40.7	10.3	27.3
Currency outside banks	6.4	54.0	6.9	37.8
Demand deposits	4.5	30.2	3.4	17.5
Quasi-money	41.5	54.8	72.8	62.1
Time deposits	33.5	129.7	50.8	85.6
Savings deposits	4.3	26.8	7.8	38.7
Deposits in foreign currency	3.7	10.8	14.1	37.6

Source: BNB.

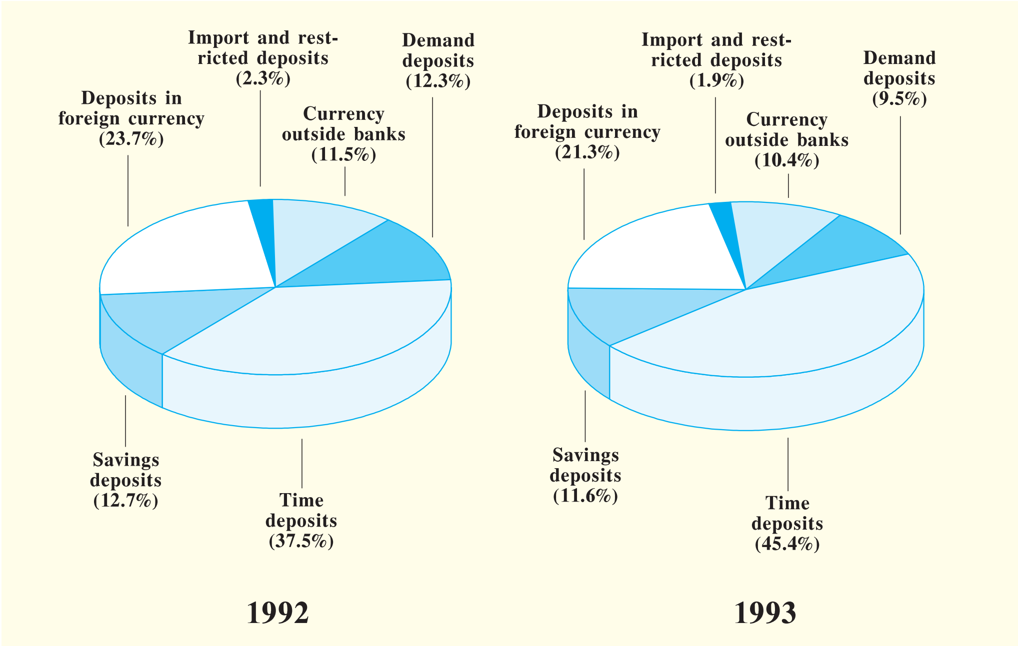
Throughout 1993, money supply had gradually increased from 7% in the first quarter to 13.7% in the last quarter. This was due to both seasonal factors and a growing budget deficit, followed by certain easing of the monetary restriction in order to avoid a complete depression of the real sector. At the same time, the effects of the rising exchange rate should not be underestimated, since the lev component grew several percentage points less than the foreign exchange component over the last six months of 1993.

M1 Monetary Aggregate

In 1993, M1 monetary aggregate, which includes high-liquid money (currency outside banks and demand deposits), grew by BGL 10.3 billion or 27.3%, i. e. BGL 0.6 billion less (over 13 percentage points) than in 1992. This gives ground to conclude that, under the conditions of high inflation, economic agents continued to make efforts to save highly liquid resources, due to the high cost of holding them.

Similar to 1992, currency outside banks continued to increase at a faster rate (BGL 6.9 billion or 37.8%). Given the seasonal reasons, it was most apparent in the summer and in December, when households preferred to hold more cash for current consumption. In 1993, currency outside banks grew only about BGL 500 million, a slowdown of over 16 percentage points compared to the previous year. This evidenced a significant acceleration of cash circulation in 1993.

STRUCTURE OF MONEY SUPPLY



Source: BNB.

In 1993, funds held in demand deposits rose BGL 3.4 billion or 17.5%, a decrease of over BGL 1 billion (approximately 15 percentage points) versus 1992. This upward tendency can be explained by the continuing economic decline, though at a slower pace. As a consequence of the faster growth rate of currency outside banks, the share of funds on demand deposits in M1 monetary aggregate dropped from 51.7% in December 1992 to 47.7% in one year. These data prove that preferences for cash settlements further intensified in 1993. There are two major reasons for this tendency to emerge: shaken confidence in customers' solvency and attempts to conceal real economic flows for tax evasion purposes.

Quasi-money

In 1993, quasi-money (including time, savings and foreign currency deposits) recorded a growth of BGL 72.8 billion or 62.1%. The increase versus 1992 was over BGL 31 billion, i. e. more than 7 percentage points. Over the past year, the gap between growth rates of M1 monetary aggregate and quasi-money dramatically rose, resulting in an increase of the quasi-money share (from 73.9% at end-1992 to 78.2% at end-1993) in the 1993 total money supply.

Over the reviewed period, time deposits registered again the largest growth. It was BGL 50.8 billion, up BGL 17.3 billion compared to 1992. However, time deposit growth slowed down in relative terms, falling from 129.7% in 1992 to 85.6% in 1993. This tendency was evident over the year, an increase of 22.7% in the first quarter and a decline up to 10.8% in the fourth quarter. This slowdown can be partially attributed to a seasonal reason: household savings dramatically fell at year-end. In contrast to 1992, disruptions in the forex market significantly contributed to this effect. After the first disruption in July, for the first time foreign exchange deposit growth outstripped time deposit growth as a result of BGL nominal depreciation. Over October – November, time deposits grew less than 3%, and foreign exchange deposits over 15% (or approximately 5% in USD equivalent). Since time deposit growth remained over 3 percentage points below the interest accrued for the reviewed period, it could be concluded that there was a shift of funds from lev to foreign currency deposits. This tendency existed for a short time until tension in the forex market was curbed.

However, over the whole of the past year, time deposit growth exceeded both interest accrued and registered inflation. This is an indication that banks were capable to attract new funds, though less than a year ago. The volume of time deposits continued to grow in real terms. This is attributable to the fact that small savers had no better alternative for financial investments. At the end of 1993, the confidence in the national currency was restored to a great extent, but November disruptions warned that a tense forex market may adversely affect the amount and structure of the deposit base.

In 1993, savings deposits grew 38.7%, an increase of 10 percentage points versus 1992. The peak was marked in December when interest was accrued but the growth over the remaining months proved that savings deposit formation seemed to continue.

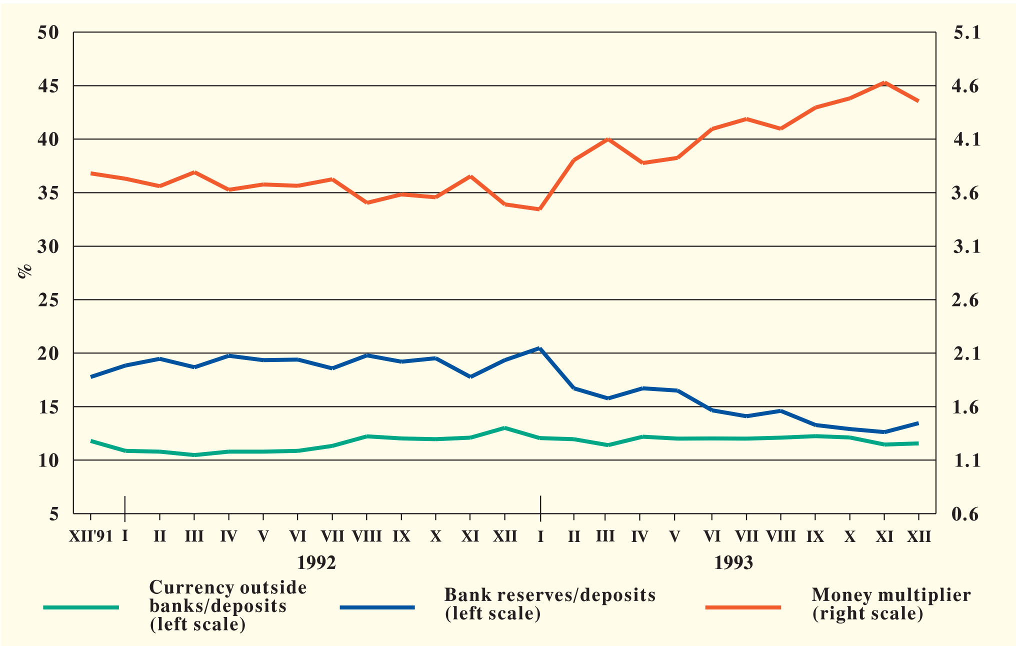
During the year, foreign currency deposits increased 37.6% versus 10.8% in 1992. This was a consequence of the greater BGL nominal depreciation in 1993 (33.6%) versus 1992 (12.3%). Nevertheless, over the past year, foreign exchange deposits increased USD 50 million (3.1%) compared to approximately a USD 20 million decline (1.3%) in 1992. It should be noted, though with certain reservations, that contraction in the interest rate differential on lev and foreign exchange deposits resulted in a smaller difference between growth rates of these deposits.

Different growth rates of money supply components brought about several changes in the structure of money supply at the end of 1993, compared to the same period of the previous year.

Money Multiplier

In 1993, the money multiplier, measured through money supply/reserve money ratio, characterized the multiplying effect of commercial banks' activities; it showed an increment from 3.49 to 4.46. This increase was in contrast to the previous year, when the money multiplier was relatively more stable, fluctuating within the range of 3.5 to 3.7. The upward tendency was clearly pronounced throughout the whole year: in January – June it increased, reaching 4.2, and in November hit the height of 4.63.

MONEY MULTIPLIER



Source: BNB.

The growth in money multiplier in 1993 was a result of two opposite factors. The ratio between currency outside banks and deposits, characterizing economic agents' intention to hold liquid funds, remained approximately 12% (except for March, November and December). This exceeded by 1 percentage point the level of the first seven months of 1992. This factor contributed to a decrease in money multiplier since cash outside banks could not multiply. This impact was counterbalanced by a drop in the bank reserves/deposits ratio, which reflected commercial banks' liquidity preferences. It was clearly demonstrated beginning February until the year-end, showing a drop from 20.5% to 13.5%. This drop is an indication of commercial banks' intention to use their resources more efficiently. Due to the stronger influence exerted by this factor, an overall money multiplier increase was observed.

The tendencies influencing money multiplier showed a lack of necessary conditions for a more stable money multiplier. This impeded forecasts and limited BNB opportunities to control money supply through reserve money. It can be explained by insufficient stability of reserve money dynamics, which was due to a great extent to the legal framework for determination of reserve money. The general rule regulating minimum reserve requirements was still accompanied by a number of supplements and exceptions, significantly influencing reserve money dynamics.

2. Domestic Credit

At the end of 1993, estimated domestic credit including receivables of banks from the major nonfinancial sectors (the government, state-owned enterprises and private firms and the public) totaled BGL 419.7 billion. Throughout the year, an increase of BGL 165.6 billion was observed, an excess of BGL 81.4 billion over money supply growth for the same period. This could be attributed primarily to the continuing decline in foreign assets (net), a result of accrued interest on the foreign debt and reduced foreign funding. In 1993, foreign assets (net) contracted 44.4% (assets rose only 1.1% and liabilities, 34.3%).

Domestic credit grew 65.2% in relative terms, which exceeded 12 percentage points in money supply growth and 1.4 percentage points in registered inflation. The data prove that, irrespective of the BNB restrictive monetary policy expressed through real money supply cuts, a real credit expansion (though minimal) was observed for the first time after the start of the economic reform. However, it could have an adverse effect on the real sector as it was formed by interest accrual on old nonperforming loans and was not prompted by extension of new loans to economically effective enterprises and activities.

DOMESTIC CREDIT GROWTH

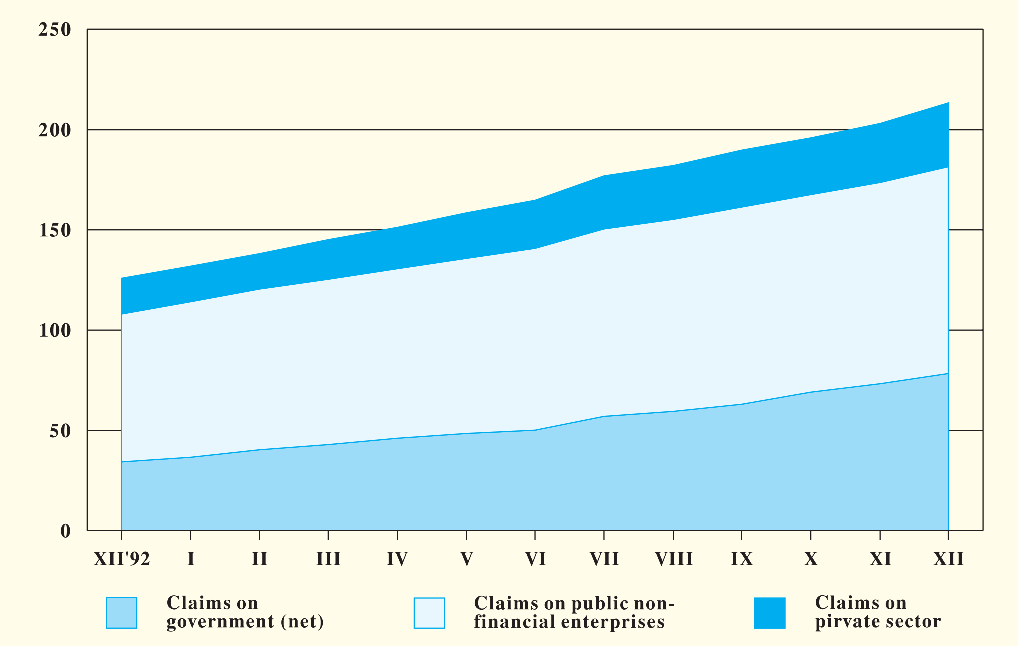
Indicators	1992		1993	
	billion BGL	XII'91=100%	billion BGL	XII'92=100%
Domestic credit	86.4	51.5	165.6	65.2
BGL	40.8	47.9	87.4	69.4
foreign currency	45.6	55.3	78.2	61.0
Credit to the government	48.4	91.3	81.1	79.7
BGL	18.0	111.0	44.0	128.6
foreign currency	30.3	82.5	37.0	55.2
Credit to nonfinancial public enterprises	33.1	32.6	70.6	52.4
BGL	17.9	32.0	29.4	39.9
foreign currency	15.2	33.3	41.2	67.5
Credit to private sector	4.9	37.4	14.0	78.3

Source: BNB.

In January – June, domestic credit grew less (24.7%) than in July – December (32.5%). Given the inflation for the respective periods, there was a real drop of over 7% in the first half of the year and a real growth of approximately 9% in the second half of 1993. The data indicated a real credit expansion throughout the second half of the year, mainly in July, August and September, when inflation is traditionally low (due to seasonal reasons) and demand for credits high.

DEVELOPMENTS IN DOMESTIC CREDIT IN 1993
(lev component)

(billion BGL)



Source: BNB.

In contrast to the preceding year, in 1993 the greater portion of the growth in domestic credit was attributable to the lev component increasing BGL 87.4 billion or 69.4%. This exceeded over 8 percentage points the growth of the foreign exchange component (versus a 7.5 percentage point drop in 1992). It reflected the fact that under the conditions of almost discontinued foreign financing, a result of the absence of a stand-by agreement with the IMF, the BNB had to ease monetary restriction in order to maintain domestic credit within limits, providing functioning of the government and the real sector.

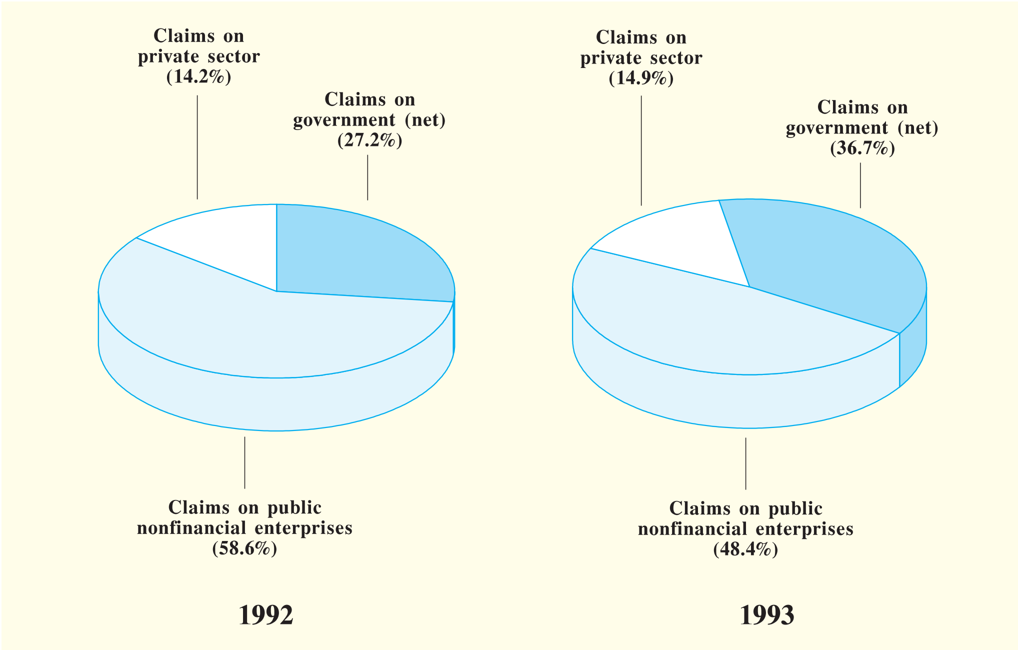
Claims on the Government

Credit to the government continued to grow at faster rates. Throughout 1993, it increased BGL 81.1 billion (or 79.7%), consuming approximately half of the total credit growth. Analogous data for 1992 were as follows: an increase of BGL 50.6 billion (or 98.9%), which constituted 60% of domestic credit growth. The largest increase of approximately BGL 30 billion (20%) was registered again in the fourth quarter. This was BGL 1 billion more than in the first six months but 2 percentage points less than in October – December 1992.

Given the lack of foreign financing, credit in national currency remained the main source for the increase in claims on the government. In 1993, it increased over BGL 44 billion (128.6%) versus BGL 18 billion (111%) in 1992. The main cause for this phenomenon was a rapidly growing cash deficit of the state budget, prompting a rise in its initially projected value in December. Transformation of the debt of state enterprises, approximating BGL 6 billion into claims on the government, additionally contributed to this effect. The impact of this factor will further intensify after completion of the accounting entries of the operations relating to enactment of the Law on the Settlement of Nonperforming Credits Negotiated till 31 December 1990. Throughout 1993, lending in BGL to the government was more steady compared to 1992. The intensive lending to the government sector was the major reason for the real credit expansion registered at the end of the year.

The growth in foreign currency component of the claims on the government was 55.2%, i.e. 27 percentage points less than in 1992. It was the result of overdue interest and exchange rate valuation adjustments. This increase should not be underestimated, as it approximated USD 1,076 million or over 20%.

STRUCTURE OF DOMESTIC CREDIT
(lev component)



Source: BNB.

Claims on the Nongovernment Sector

In 1993, the growth in credit to the nongovernment sector lagged behind that to the government by over 24 percentage points (compared to over 55 percentage points in 1992). The difference in lev component growth remained unchanged: 79.9 percentage points in 1993 versus 77.9 percentage points in 1992. In real terms, total claims on the nongovernment sector contracted only about 6% (versus over 35% in 1992) and those on lev credits about 10% (versus over 35% in 1992). These data prove that irrespective of the minimal credit expansion, the BNB significantly eased the credit restriction on the real sector over the past year, but still was unable to meet completely its credit demand. However, the continuing real contraction in the credit to the real sector does not cause much concern. Under the conditions of slow structural changes, the bulk of credit resources may be received by economically ineffective enterprises.

In 1993, claims on nonfinancial public enterprises increased BGL 70.6 billion or 52.4%. Compared to 1992, this was an excess of almost 20 percentage points, but in real terms there was a contraction of approximately 10%. Claims in foreign currency increased more substantially – over 67%. Expressed in USD, it exceeded USD 630 million. The greater portion of this growth was due to compounding of unpaid interest on nonperforming credits extended prior to 31 December 1990.

The lev component of claims on nonfinancial public enterprises rose BGL 29.4 billion, which constituted approximately 2/3 of the lev credit to the government sector. In relative terms, this was a growth of 39.9%, i.e. 7.9 percentage points more than in 1992 but 23.9 percentage points less than inflation in 1993. Over the past year, this growth was comparatively moderate: the slowdown registered in October – December resulted to a great extent from the transformed debt of public enterprises into claims on the government.

Claims on the private sector represented the most dynamic component in the credit to the nongovernment sector. Throughout 1993, they grew approximately BGL 14 billion, reaching BGL 31.8 billion. An increase of over 78% in relative terms was registered, i.e. 40 percentage points more than in 1992, or 9% in real terms. However, the share of the private sector in claims on the nongovernment sector remained below 14%, and continued to lag behind its 20% contribution to GDP. Unlike 1992, in 1993 lending to private businesses visibly recovered. This positive trend showed that the 3-year monetary restriction did not completely depress the real sector.

Crowding-out of the Real Economy

The crowding-out effect of the real sector by the government intensified in the credit market in 1993. The share of the credit to the real sector dropped from 72.8% in December 1992 to 63.3% in December 1993. *Under the conditions of entire credit restriction (in order to avoid pro-inflationary effects), the price of credit resources increased, which additionally burdened the depressed national economy.*

3. Monetary Instruments and Money Market

In 1993, the BNB continued to apply the direct and indirect instruments established in the last two years to regulate money supply and credit, aiming at achieving the tasks and goals of its monetary policy. The year 1993 was characterized by use of open market operations as a real instrument for the regulation of commercial bank liquidity and evolved qualitative and quantitative changes in the interbank money market, the major source providing necessary resources under the conditions of a market economy.

Interrelations between the BNB and Commercial Banks

The central bank used various direct and indirect instruments to influence commercial bank liquidity, while the money market reflected the demand for credit resources.

Credit Ceilings

The economic situation in 1993 enforced the use of credit ceilings as the main instrument for restricting commercial bank credit expansion and regulating money supply. Some modifications were made to improve the efficiency of this type of monetary policy instrument. The improved method for credit ceiling calculation included two more indicators: the share of commercial banks' fixed assets and the share of high-liquid assets.

To stimulate the government securities market and nonbank financing of the state budget, each commercial bank was allowed to exceed its credit ceiling on the credits extended for economic activity up to the full amount of the government securities the particular bank had sold to both companies and individuals. By the end of the year these sales amounted to BGL 1,635 million. Certain preferences were extended with regard to the provision of financial support for agriculture.

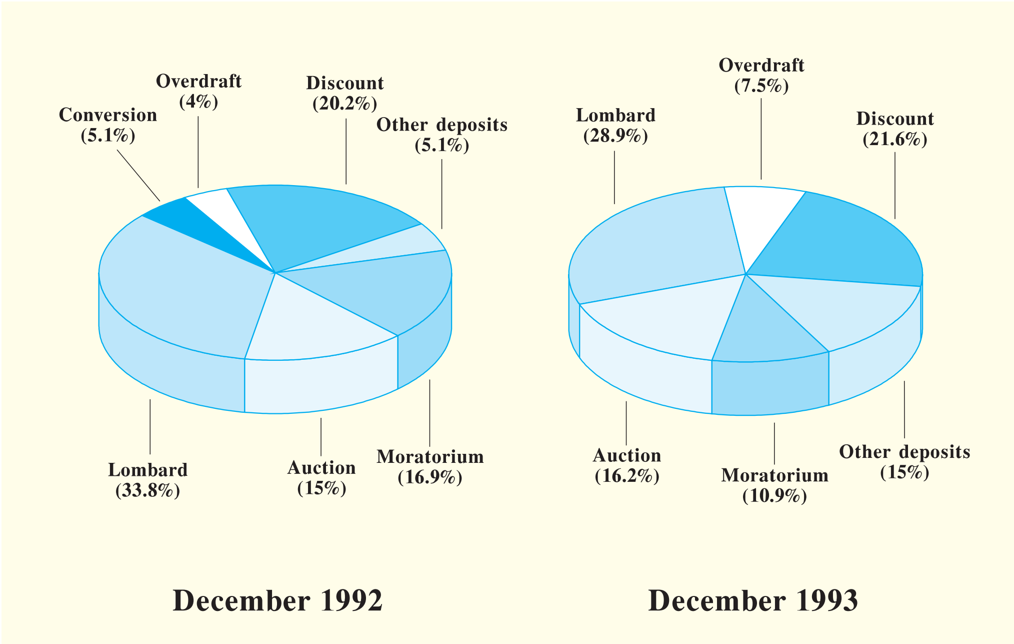
The maximum commercial bank arrears were determined by resolution of the BNB Board in accordance with the government program. At the end of 1993, they reached a growth of 22% compared to the 31 December 1992 base. Amounts in excess of the fixed credit ceilings (after deduction of preferential credits) of commercial banks were sanctioned up to 8 percentage points over the operative rate for minimum reserve requirements on attracted resources. Sanctions of different amounts were imposed on a number of banks throughout 1993: sanctions totaling BGL 906,847,000 were imposed on 7 banks in September, sanctions totaling BGL 740,226,000 were imposed on 11 banks in October, and only 3 banks were sanctioned in December in the amount of BGL 462,584,000.

Refinancing

As of 31 December 1993, the resources which the BNB provided to refinance commercial banks totaled BGL 15,758 million including overdraft of BGL 1,186 million. Structurally, the share of loans extended against collateral ranked first (28.9%), followed by discount loans (21.6%), funds extended at the interbank deposit auction (16.2%), and other deposits disbursed under Resolution No. 273 of 1 October 1992 of the BNB Board in relation with introduced settlement (15%). The smallest share (10.9%) was the one of deposits extended to cover the debt on rescheduled credits under government decisions (moratorium).

Total resources provided for commercial banks refinancing amounted to BGL 1,029 million (including overdraft), an increase of 6.9% compared to December 1992. Other deposits extended (totaling BGL 1,615 million) tripled, showing the largest growth. This was a consequence of the BNB Board resolution pursuant to Article 30, para. 3 of the Law on the BNB about extension of deposits to commercial banks as necessary as it was to meet liquidity requirements. Resources placed at the auction in the amount of BGL 348 million (15.8%) and discount loans in the amount of BGL 419 million (14.1%) also registered a significant increase. This was mainly a result of discounted promissory notes of commercial banks against loans disbursed by them in compliance with the Law on Financial Provision of Agriculture in 1993.

STRUCTURE OF ACTUAL DEPOSIT AND LOAN ARREARS OF COMMERCIAL BANKS



Source: BNB.

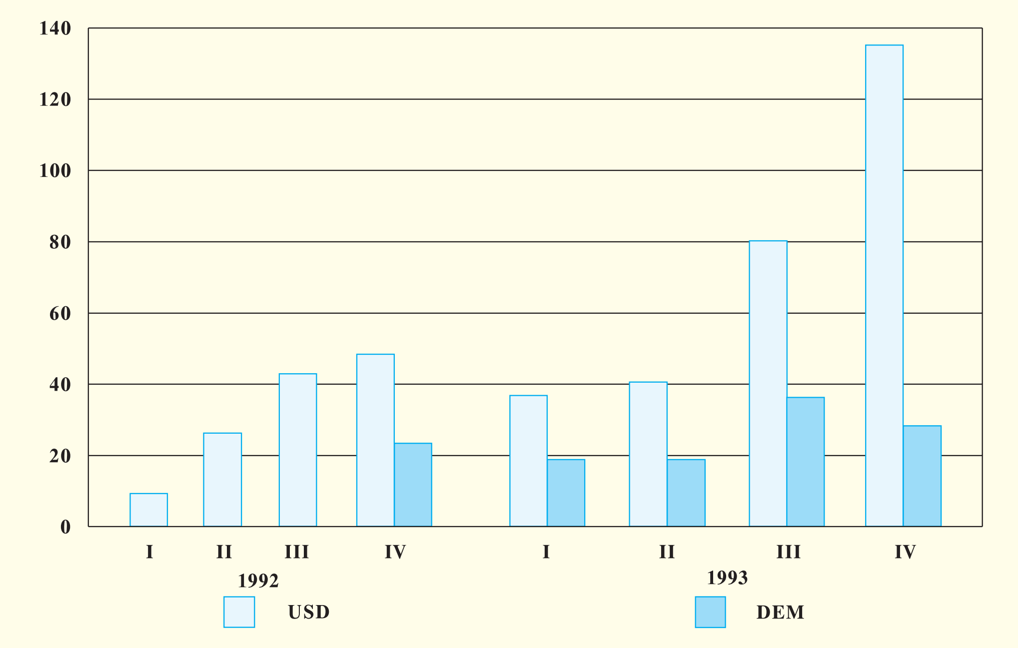
Refinancing resources extended by the BNB at year-end satisfied 11.5% of commercial banks' needs for credit resources.

Refinancing in Foreign Currency

Given the lack of a special financial institution involved in crediting of import and export operations, the BNB continued to refinance commercial banks in foreign currency against a pledge of trade bills (promissory notes) with a 3-month term of maturity. Under the conditions of insufficient foreign funding, this type of operation registered a considerable growth compared to the previous year, especially in the third and fourth quarters. USD and DEM were the currencies used for these loans. At year-end, loans in USD totaled 134.9 million and those in DEM, 28 million. The interest rate on foreign exchange loans remained stable: 7.5% – 8% (per annum) for refinancing in USD and 9% (per annum) for refinancing in DEM. Most commercial banks used the opportunity for refinancing in foreign currency. Among them were: Economic Bank, Mineralbank, Balkanbank, First Private Bank, Central Cooperative Bank, Slavyani Bank, Expressbank and Blagoevgrad Commercial Bank. Loans disbursed by these banks were for importation of oil and transport facilities, for shipbuilding and light industry.

REFINANCING OF COMMERCIAL BANKS IN FOREIGN CURRENCY
(quarterly data)

(million)

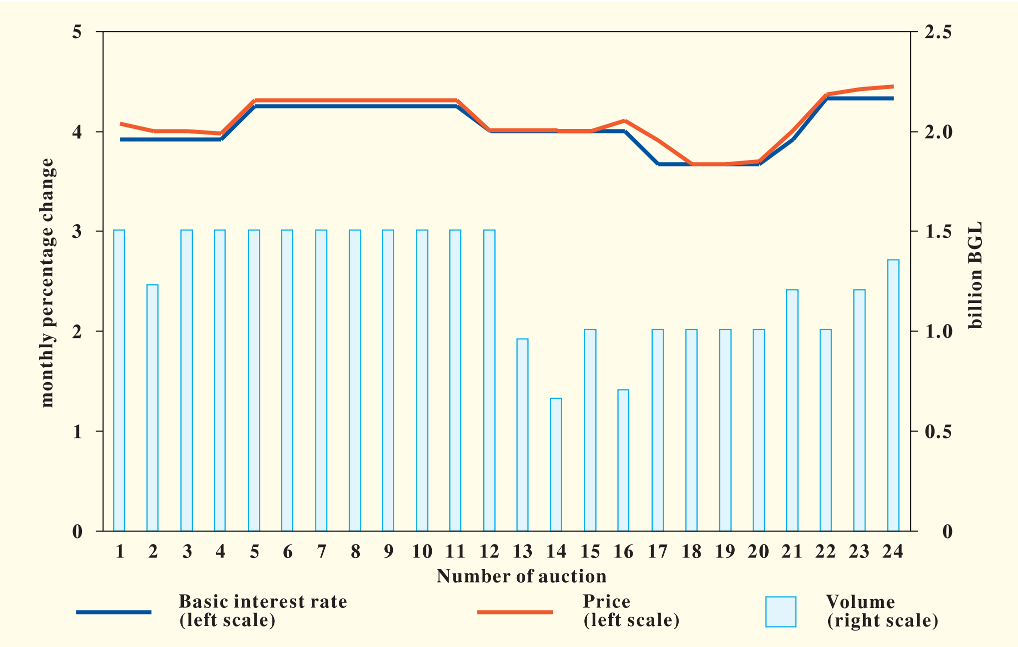


Source: BNB.

Foreign Currency Deposits

Besides credits the BNB continued to extend foreign currency deposits to commercial banks in 1993. BNB deposits with commercial banks totaled (with certain fluctuations throughout the year) USD 58.1 million and DEM 5 million at the end of 1993. Interest rates on these deposits varied within a range of 6% – 7.5% (per annum) over the past year.

INTERBANK LEV DEPOSIT AUCTIONS IN 1993



Source: BNB.

Deposit Auctions

Throughout 1993, the BNB held 24 interbank lev deposit auctions. Deposits totaling BGL 29,783 million were placed through the auctions. This accounted for 52.2% of deposits placed in 1992. The deposits were provided in full by the BNB. Commercial banks preferred to place their temporarily free resources through the interbank money market, mainly because of its higher flexibility enabling them to negotiate deposits with shorter terms.

Following the consolidation of 46 commercial banks (UBB, Hebros, Expressbank and Balkanbank) the number of commercial banks participating in the auction dramatically dropped. Throughout 1993, 14 banks placing 21 bids on average participated in each auction. Deposits were extended to 12 commercial banks with 16 bids on average.

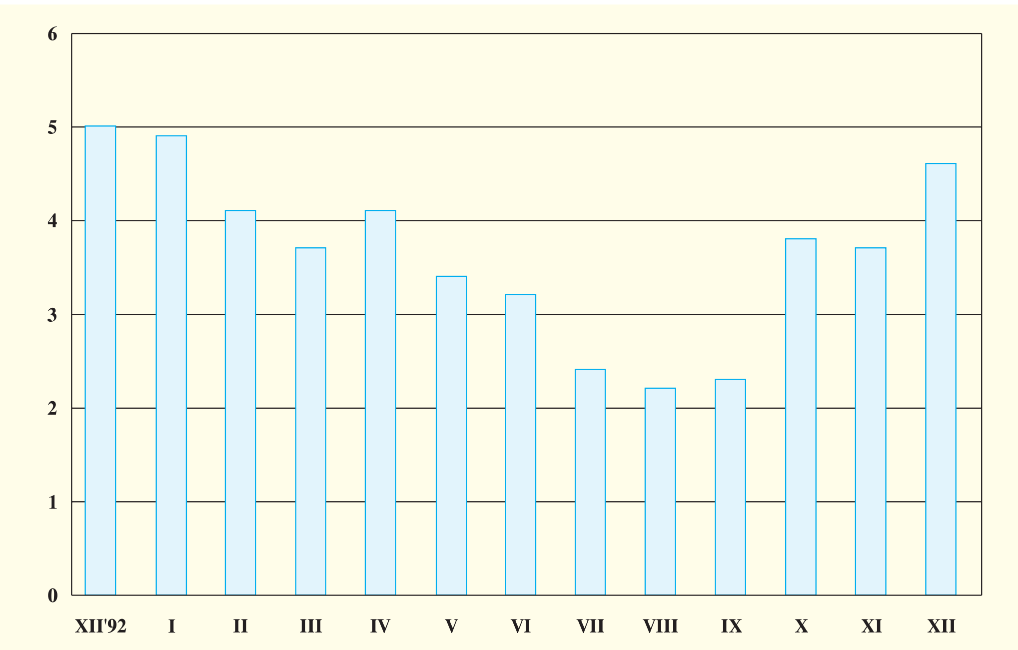
Irrespective of a comparatively high selling price (on average 49.56% simple annual interest rate exceeding by 1.37 percentage points the average basic interest rate for the year), interbank lev deposit auctions remained a useful form for refinancing of commercial banks, providing 16.2% of total refinancing by the BNB.

Lombard Loans

In 1993, the BNB continued to extend loans against collateral, which established themselves as a basic form for commercial bank refinancing. Over the year, commercial banks participated actively in 65 primary auctions for sale of government securities held by the BNB. This enabled them to form substantial government securities portfolios as well as to use them in preferable operations: Lombard loans against pledges of government securities, open market operations with the BNB or operations in the secondary market. Throughout 1993, 226 Lombard loans totaling BGL 9,210.7 million were extended. Of these 192 loans in the amount of BGL 5,049 million were extended against a pledge of government securities, issued by the Ministry of Finance to cover the budget deficit of BGL 7,189 million nominal value. This constituted 37.8% of total nominal value of government securities purchased by commercial banks at the auction; 1 loan against a pledge of gold in the amount of BGL 80.6 million; 2 loans against a pledge of foreign currency in the amount of BGL 476.6 million; and 1 loan against a pledge of BGL 50 million on a deposit account.

LOMBARD LOAN GROWTH IN 1993

(billion BGL)



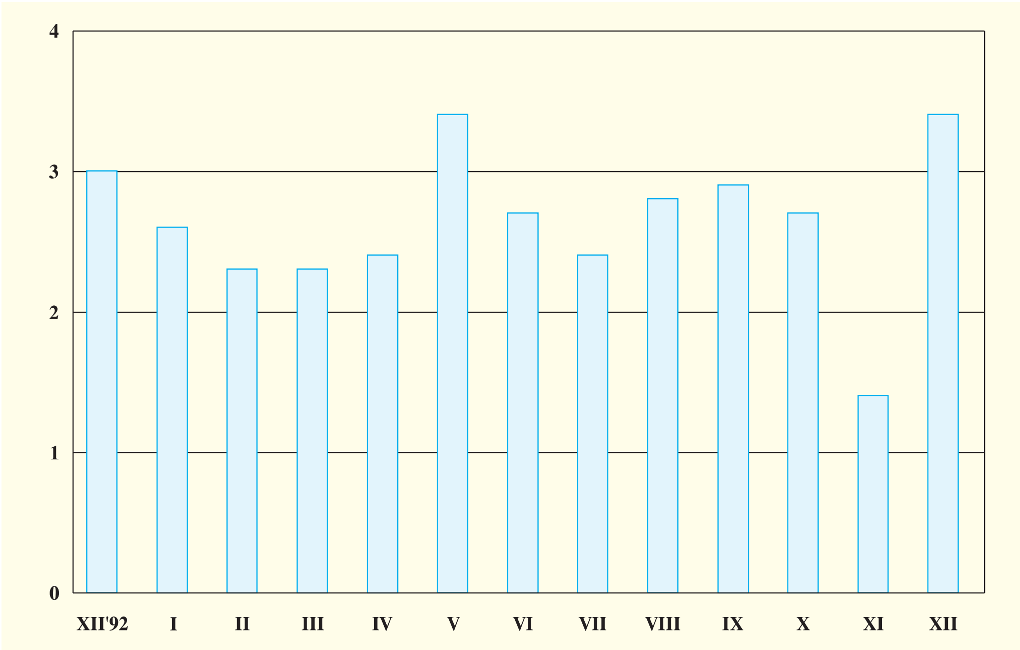
Source: BNB.

Discount Operations

Throughout 1993, 113 promissory notes totaling BGL 11,148 million were discounted, including 6 promissory notes in the amount of BGL 237 million for ore output, 5 promissory notes in the amount of BGL 894 million for energy, and 48 promissory notes in the amount of BGL 4,142 million for agriculture. Over the same period, 154 discount loans totaling BGL 10,780 million were repaid.

DISCOUNT LOAN GROWTH IN 1993

(billion BGL)



Source: BNB.

Short-term Deposits

Despite the opportunities that provide necessary credit resources to commercial banks (through various forms of direct refinancing from the BNB and through open market and interbank money market operations), some commercial banks faced difficulties covering temporary short- and long-term liquidity deficiencies. In this setting, banks were impelled to use the provision (established by Resolution No. 273 of 1992 of the BNB Board) of deposits from the BNB as a lender of last resort. In compliance with the above mentioned Resolution, 251 unsecured short-term deposits totaling BGL 51,322 million were extended to commercial banks. Of these 117 deposits totaling BGL 33,961 million were extended in November – December, relating to forex market problems when the central bank restricted the liquidity in the banking system. The majority of deposits used had terms of one to three days. Some banks used deposits of this type with longer maturity terms irrespective of their high price. As of 31 December 1993, 2 deposits in the amount of BGL 563 million remained unpaid due to a later maturity term.

Open Market Operations

With a view to encourage the development of indirect monetary instruments as a more up-to-date and progressive method to implement the monetary policy under the conditions of a transition to a market economy, open market operations were introduced by Resolution No. 349 of 26 November of 1992 of the BNB Board.

Over the period under review, open market operations were effected daily, aimed at providing liquidity of the government securities issued, on the one hand, and more efficient short-term bank liquidity management, on the other. A year-long experience of conducting open market operations evidenced that in early 1993 the liquidity of only a few banks was regulated due to considerably smaller amount of open market operations. At the end of 1993, however, open market operations proved to be a real monetary instrument capable to influence the liquidity of the entire banking system over very short periods.

Of the total amount of open market operations in 1993, final purchases comprised 6.56%, final sales – 5.11%, repo-purchases – 45.02% and repo-sales – 43.31%. 402 transactions with 24 financial institutions, including 31 purchases, 47 sales, 167 repo-purchases and 157 repo-sales were concluded. The BNB monthly government securities portfolio averaged 2.4% of the total issued government securities .

Further development of the interbank government securities market and the secondary market, respectively, will reduce the volume of unsecured interbank deposits, thus helping stabilize the banking system. To encourage the development of this market, the terms for conducting repo-operations should be changed, passing from transactions with prior price agreements to repo-operations with an interest rate.

Minimum Reserve Requirements

The BNB continued to apply minimum reserve requirements as an instrument of its monetary policy. Since no changes were made, the level of minimum reserve requirements remained 7%[17]. The absolute growth in the amount of attracted resources, over 50% compared to 1992, resulted in a respective growth in the resources placed with the BNB as minimum reserve requirements. The exchange rate of USD to BGL (its central rate reached BGL 32.711 per 1 USD on 31 December 1993) also added to this growth.

Some changes relating to coverage of accounts necessary for the calculation of attracted resources, were made in early 1993. In conformity with a resolution of the BNB Board, a step-by-step transformation of the minimum reserve requirements from foreign currency into national currency started. The BNB continued to allow overdraft on commercial banks' current accounts up to the amount of deposited noninterest-bearing minimum reserve requirements (including in foreign currency), with interest accrued under the Tariff for the interest rates applied by the BNB to its domestic operations.

Interrelations between Commercial Banks

The resources provided through the interbank money market throughout 1993 exceeded over 3 times commercial bank refinancing resources provided by the BNB, ensuring approximately 35% of commercial bank needs of credit resources. This confirmed the importance of the interbank market as a major source providing credit resources under the conditions of a market economy.

Credit Resources in the Interbank Market

Resources in the amount of BGL 235,196 million, of which BGL 17,196 million (7.31% of total amount) in credits were placed and negotiated through the interbank money market in 1993.

Compared to credit resources placed in 1992 (BGL 159,551 million, including BGL 28,867 million in credits or 18.09% of the total amount), an increase of 47.4% (including a 40.43% drop in credits) was recorded in 1993. The decline in the share of disbursed credits was a result of discontinued extension of resources (as of August 1993) in the form of credits by the SSB's branches, following the decision of the SSB central management department for extension of resources only in the form of deposits. Compared to resources placed in 1991, this was an increment of 285.33% (BGL 82,430 million). Reporting these dramatic increases, it should be taken into account that 46 commercial banks were consolidated into 4 commercial banks in 1993. Consequently, branches of consolidated commercial banks placed resources among themselves. As a result, smaller amounts were placed through the interbank money market, since internally placed amounts had not been reported.

The most essential qualitative change in the interbank money market in 1993 proved to be the dramatic increase in the amount of resources placed for a term of up to one week. This is an indication of the proper policy pursued by commercial banks aimed at flexible day-to-day credit resources control and management. While

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[17] By Resolution of April 1994 of the BNB Board, the minimum reserve requirements level was raised to 8% in order to curb the tense forex market.

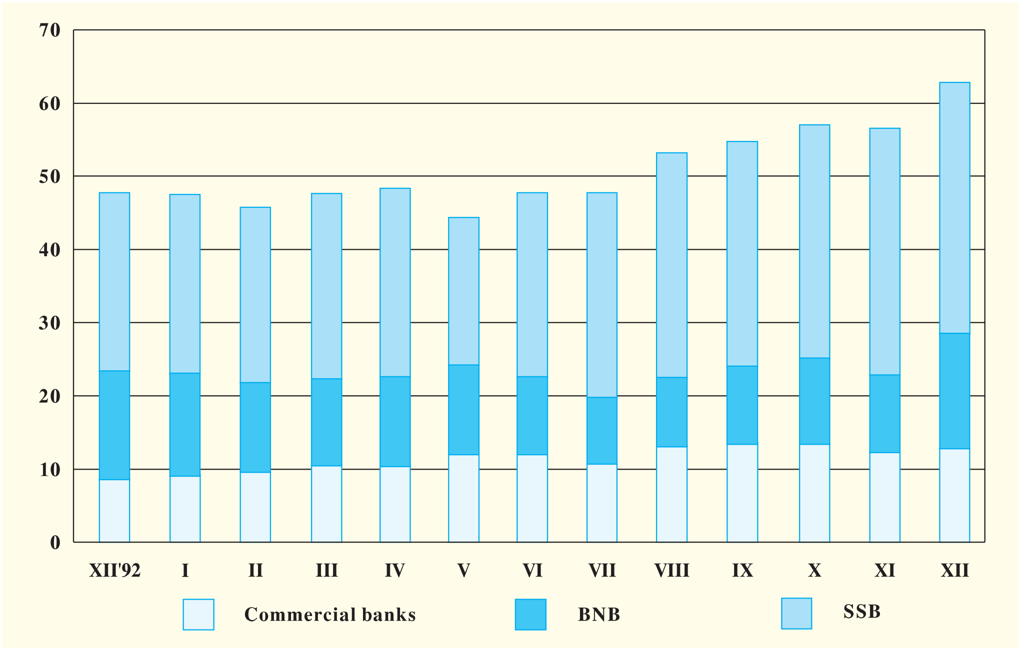
in 1992 the share of credit resources extended with a term of up to one week was 12.2%, in 1993 it reached 19.9%, showing the largest increases of 25.3%, 35.3% and 41.2% during the last three months, respectively.

Resources with a term of one week to one month (72.6%) still comprised the largest share (versus 75.1% in 1992) within total resources placed.

The following banks participated most actively in the interbank money market during the past year: SSB (19.75% of total deposits extended), Sofia Commercial Bank (15.91%), United Bulgarian Bank (9.9%), and Bulgarian Post Bank (8.05%).

VOLUME OF MONEY MARKET IN 1993

(billion BGL)



Source: BNB.

The decrease of 4.23 percentage points versus 1992 (23.98%) in the share of SSB in the interbank market was a result of rechanneling a part of SSB resources from the interbank market into investment in government securities. At the end of 1993, the debt on deposits placed through the interbank market was BGL 47,234 million, an increase of BGL 14,197 million or 42.97% compared to 1992 (BGL 33,037 million). SSB accounted for the largest share of resources placed, BGL 34,350 million or 72.72% of the total; compared to the end of 1992, an increase of 40.67% was registered.

Interest Rate in the Interbank Market

The average interest rate on credit resources placed through the interbank money market in 1993 was 48.64%, 0.45 percentage point over the 1993 average basic interest rate, 48.19% (the basic interest rate was adjusted 5 times), but 0.92 percentage point less than the average interest rate reached at the interbank lev deposit auction (49.56%).

The analysis of the interbank market interest rate showed a margin of plus/minus 0.5 percentage point over the basic interest rate during the year. The only exceptions occurred at the end of the year when the margin over the basic interest rate reached 1.25 percentage points, mainly as a result of BNB measures in November, intended to stabilize the forex market. Stronger demand for resources at the end of the year, due to dramatically contracted liquidity in the banking system, as well as the increased interest of commercial banks to invest in government securities contributed to the significant price rise in credit resources placed through the interbank market. By the end of the year, commercial banks, including the SSB, invested over BGL 33 billion in government securities. However, over the past year a number of commercial banks placed credit resources, applying an interest rate below the average monthly basic interest rate, mostly for short terms of 2 – 3 days.

4. Interest Rates on Commercial Bank Operations

In 1993, the BNB continued to apply a flexible interest rate policy, an important instrument to repress inflationary expectations and to conduct monetary restriction. In contrast to 1992, there were smoother deviations from the registered inflation, which diminished its redistributing effect on resources from depositors to borrowers through credit.

Basic Interest Rate

Given the seasonally higher inflation rate in January and February, the basic interest rate was gradually raised from 41% simple annual interest (at the end of 1992) to 51%. In early June it was decreased to 48%, hence postponing the traditional summer decrease for end-August (44%), one month after the first disruption of the forex market in 1993. Following the second drastic national currency depreciation in November, the basic interest rate was raised twice: initially up to 47% and later to 52%[18].

Compared to 1992, the basic interest rate fluctuated within a smaller range of 44% – 52% (versus 41% – 54% in 1992). At the same time, it was more frequently (5 times) changed than in 1992 (4 times). Throughout 1993, the cut in the interest rate was effected a month earlier than in 1992. This earlier decrease in the basic interest rate proved to be less effective, since the BNB had to raise it as early as in November (instead of January next year). Unlike 1992, when the monthly inflation was the major factor prompting decisions to change the basic interest rate, in 1993 tension in the forex market added to it, very often being the major factor.

In 1993, the dynamics of the interest rates charged on commercial bank operations followed the changes in the basic interest rate, although the gradual adjustment to the market principle continued. Given demand to supply ratio of resources, commercial banks had to bear the burden of nonperforming credits which strongly affected their interest rate policy.

Deposit Rates

Throughout 1993, deposit rates were strongly dependent on the basic interest rate and deposit liquidity. The interest rate on time deposits remained the highest, and this turned these deposits into the most preferable form of investment for individuals, despite the dramatically reduced interest rate differential between time and foreign currency deposits (compared to 1992) and the panic-stricken forex market in early November.

Over the first two months of the year, following the growth in the basic interest rate, the average monthly nominal interest rate on time deposits was raised from 3.16% in December 1992 to 3.74% in February 1993. In March, it continued to increase stabilizing at 3.85% until the first 1993 cut in the basic interest rate in June. In the summer it was comparatively stable (3.37% – 3.40%) and following the second cut in the basic interest rate at end-August, it decreased to 3.18% – 3.19% in September and October. Given the impact of the basic interest rate, the average monthly nominal interest rate on time deposits was raised to 3.51% in November. Due to seasonal reasons this upward tendency continued in December, showing a level of 3.64% (0.01 percentage point higher than in January). Compared to 1992, fluctuations in the average monthly nominal interest rate on time deposits decreased from 1.1 to 0.67 percentage points. Throughout the first eight months of the year it was 0.2 – 0.4 percentage points lower than in 1992 and 0.1 – 0.5 percentage points higher in the remaining months of 1993. The above mentioned differences did not coincide with the differences in the basic interest rate which was an indication that commercial banks did manage to lower the annual nominal interest rates on time deposits by 2 – 3 percentage points. This proved to be possible given the lack of investment alternatives for individuals.

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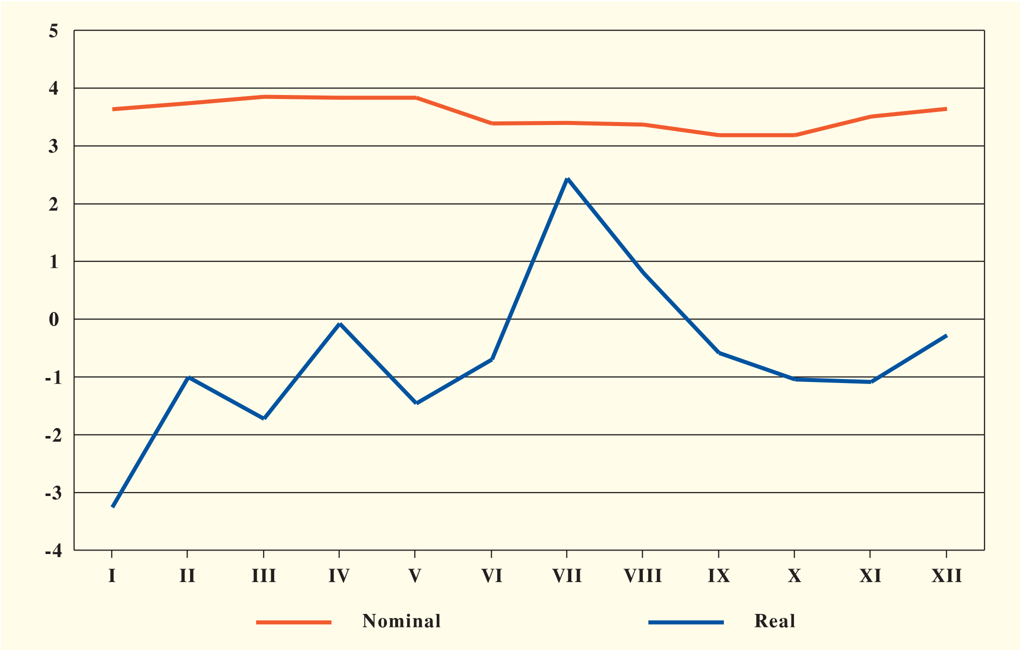
[18] Given the increasing tension in the forex market, as of 10 January 1994 the basic interest rate was raised to 56% and as of 14 March to 62%.

MONTHLY INTEREST RATES ON ONE-MONTH DEPOSITS IN 1993

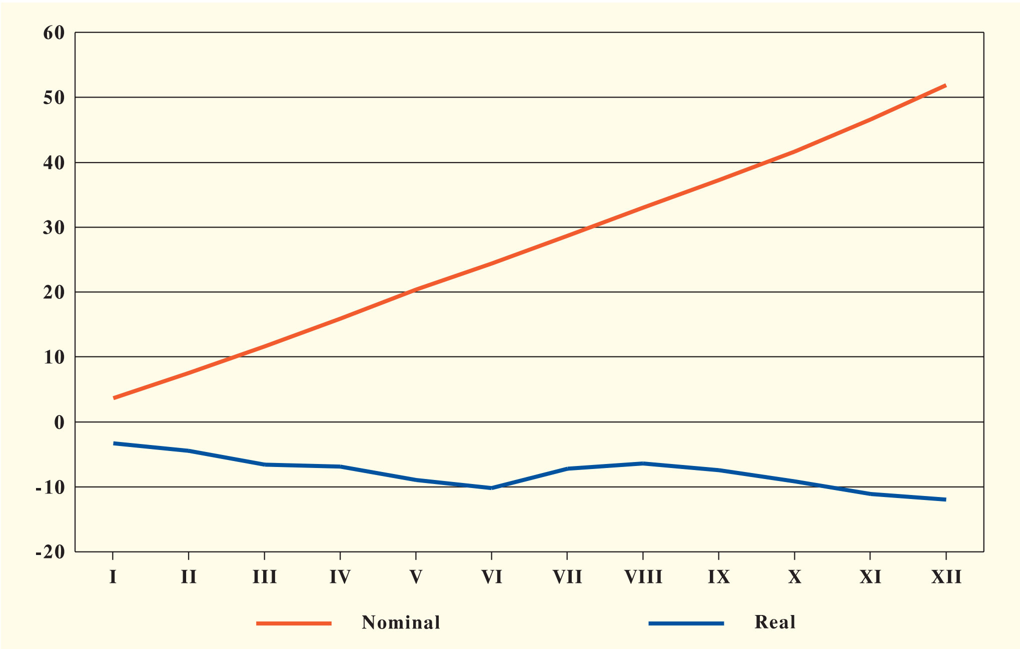
(%)



Source: BNB.

INTEREST RATES ON ONE-MONTH DEPOSITS IN 1993
(cumulative as of January 1993)

(%)



Source: BNB.

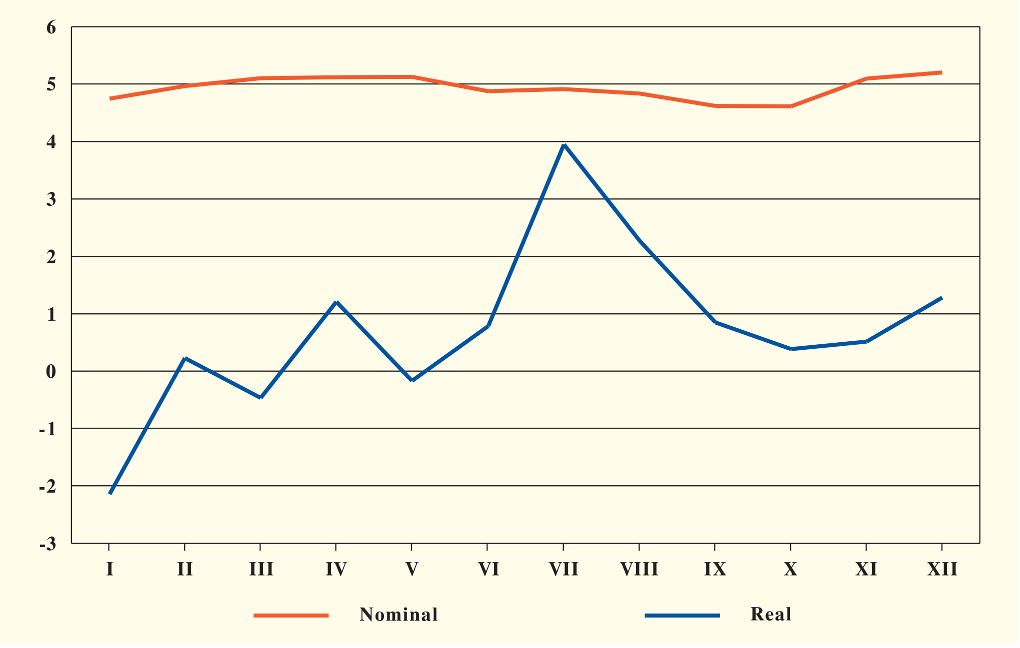
In most 1993 months, the average interest rate on time deposits was moderately negative in real terms. The lowest value (-3.06%) was registered in January. July and August were the only months characterized by a positive interest rate on time deposits, reaching its highest value of 2.38%. In the first half of 1993 accumulated savers' losses were 7.55%, in August they fell to 4.59% and at the end of the year rose again to 7.27%. Compared to 1992 (with analogous data of 9.21%, 6.13% and 13.33%, respectively), certain improvements in depositors' positions were observed, particularly in the second half of the year. However, accumulated interest during 1993 remained negative which contradicted the market principles to encourage savings.

Lending Rates

Commercial bank interest rates on credits followed the changes in the basic interest rate. Over January – May they rose from 4.21% (December 1992) to 5.13% (May 1993). The major factor influencing lending rates was the double increase in the basic interest rate. In the period March – May (at a stable basic interest rate), restricted credit resources to the real sector, as a result of the BNB monetary restriction, brought about an increase of approximately 0.15 percentage point over the February level. Over the following four months, except for July, the lending rate gradually dropped to 4.61%, again prompted by the cut in the basic interest rate. Following the next rise in the basic interest rate, the lending rate reached its highest level (5.2%) for the last two years.

MONTHLY INTEREST RATES ON SHORT-TERM CREDITS IN 1993

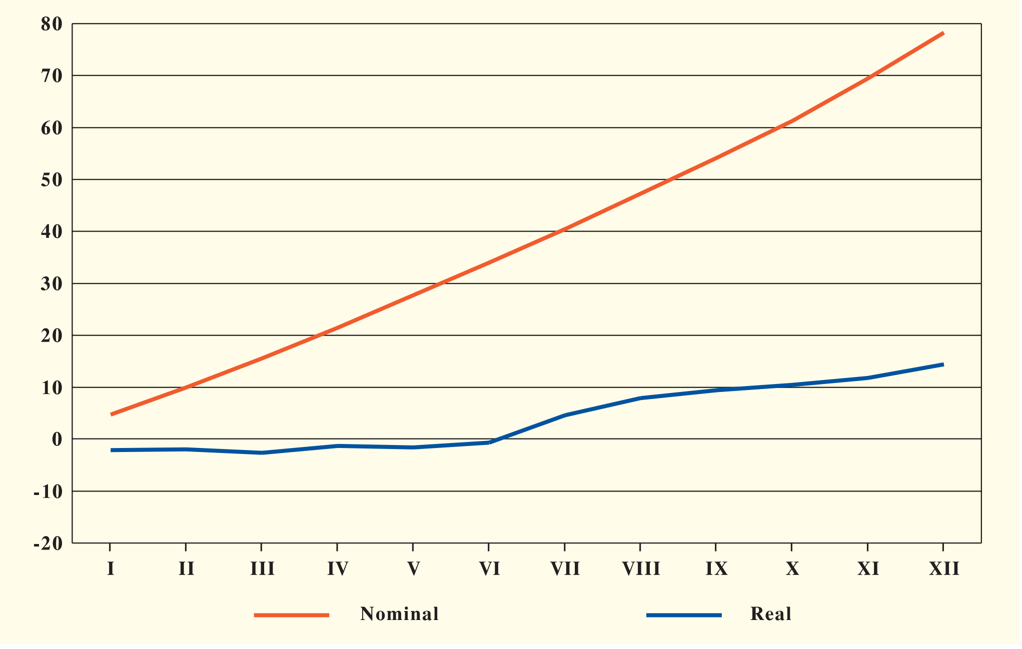
(%)



Source: BNB.

INTEREST RATES ON SHORT-TERM CREDITS IN 1993
(cumulative as of January 1993)

(%)



Source: BNB.

Fluctuations in monthly lending rates, similar to those on deposits, decreased by 0.4 percentage point compared to 1992. Comparison of values during the corresponding months, taking into account the changes in the basic interest rate, indicated an annual increase of 2 – 3 percentage points in the nominal credit price. This could be considered an immediate consequence of the still ongoing crowding out effect of the real sector by the government sector in the credit market.

In real terms, the average monthly lending interest rate was negative only in January, March and May, showing the lowest value of -2.01%. During the remaining months it was positive, hitting its peak of 3.87% in July. Accumulated real credit price was negative during the first half of the year and in the following months steadily increased, reaching 8.82% at the end of the year. Compared to 1992, the burden on the real sector significantly increased: 3.8 percentage points for January – June and over 11 percentage points for the year as a whole.

Interest Rate Differential

Throughout 1993, a tendency toward an increase in the interest rate differential both in nominal and real terms was observed. Nominally, it grew from 1.1 percentage points in January to 1.59 percentage points in November, an increment of approximately 6 percentage points simple annual interest. The real growth showed similar dynamics: from 1.05 percentage points to 1.52 percentage points, an increment of approximately 5 percentage points per annum. However, no growth was registered in total bank profit. A major reason for this was the need for a stronger provisioning against rapidly growing doubtful and nonperforming credits.

V. Issuing Activities

Issuing activities of the BNB were carried out under an environment of continuing inflation; as a result, the BNB had to put into circulation notes and coins of higher nominal values. In 1993, a banknote of BGL 500 nominal value was put into circulation. Banknotes of BGL 1,000 denomination are in the process of preparation, scheduled to be issued in 1994, and banknotes of higher denominations are to be printed as well, depending on inflationary processes. If the rate of inflation stays low the banknotes of higher denominations will not be issued. In 1993, the BNB put into circulation a new issue of circulation coins of 10, 20 and 50 stotinkas and BGL 1, 2, 5 and 10.

Distribution of notes and coins in the total money supply was done on a regular basis, despite the small number of BNB branches, occupying old buildings, and the long distances money had to be shipped.

The BNB continued to gradually withdraw from circulation wasted banknotes with obsolete symbols. In 1994, the banknotes of lower denominations will be withdrawn more intensively as a result of their outdatedness and replaced by coins.

Building of the BNB's own mint is underway. An edifice, meeting all requirements, was purchased. Projects were discussed and partners selected, in order to invest less capital in building the mint, and to avoid the initial problems of adopting new production practices.

In 1993, the BNB branches were upgraded, many of the buildings repaired and modernized to largely meet the specific needs. Modern cash counters were introduced. Preparation has been made to open new BNB branches in Haskovo, Russe and Veliko Turnovo.

Volume of the Issue

By the end of 1993, currency outside the BNB vaults totaled BGL 28.4 billion, an increase of BGL 6.9 billion (31.9%) compared to the previous year. At the end of the first half-year it increased by BGL 1 billion (4.8%). During 1993, broad money growth outstripped by over 20 percentage points the growth of currency outside the BNB vaults. By the end of the half-year, the difference between the two was about 15 percentage points. The share of currency in circulation outside the BNB vaults in the total money supply fell from 13.6% in 1992 year-end to 12% in June, and 11.7% by the end of December 1993. Data indicate that monetary restriction of the BNB eased during the second half of 1993 in regard to both the total money supply and the currency outside the BNB vaults.

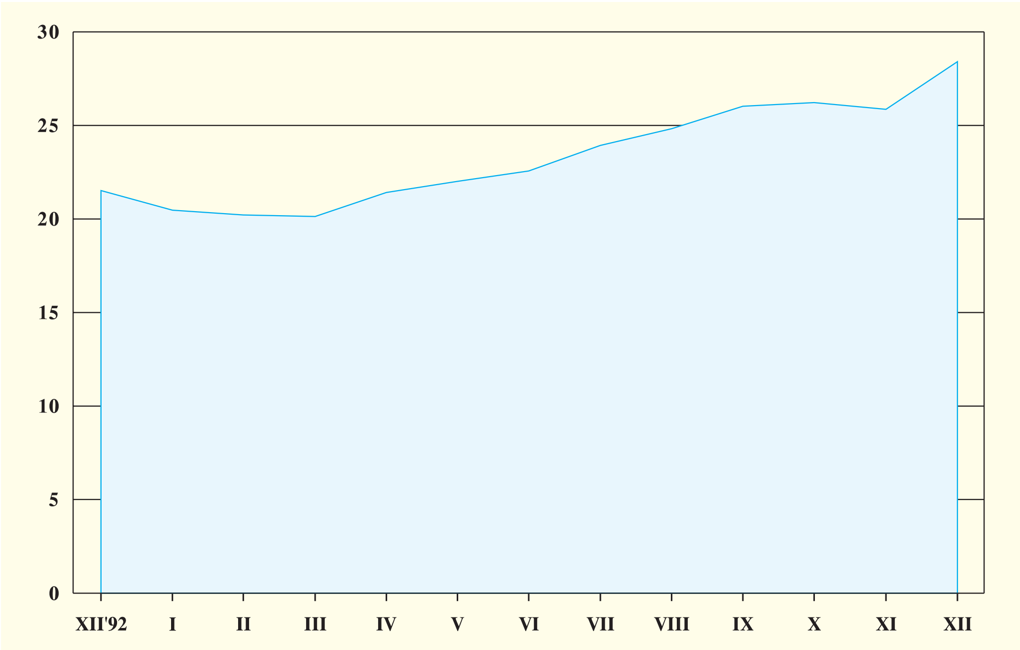
The year 1993 did not see any significant changes in the factors normally regarded as influencing directly or indirectly the amount of currency in circulation: a relatively high rate of inflation, underdeveloped payments system in the country, increasing indebtedness of companies, underdeveloped money market, etc.

Despite the fact that Regulations No. 3 of the BNB on Payments were enforced and the maximum amount to pay in cash was set, a great number of companies and sole traders continued to effect payments in cash, thereby violating regulations (under the impact of aggravated business activity and the dire financial state of most economic subjects, due also to concealment of turnover and income volumes aimed at tax evasion). This was reflected in the currency in circulation.

The analysis of the dynamics of currency outside the BNB vaults in 1993 showed a gradual decrease during the first quarter of 1993 (BGL 1.4 billion less at the end of it), compared with 1992 year-end. By the end of the half-year, currency outside the BNB vaults grew BGL 2.4 billion compared with the first quarter, and BGL 1 billion compared with the previous year-end. Currency outside the BNB vaults continued to grow, showing an increase of BGL 3.5 billion in the third quarter compared with the half-year. During the last quarter of 1993 the dynamics of money supply was most unstable. In October, currency outside the BNB vaults picked up BGL 204 million alone. In November, a decrease in the money supply of BGL 385 million emerged, and in December it increased by BGL 2,562 million; in the period between 17 and 31 December it grew BGL 1,565 million.

CURRENCY OUTSIDE BNB VAULTS IN 1993

(billion BGL)



Source: BNB.

The growth in the currency in circulation was mainly due to the rise in incomes of the population in compliance with Decree No. 40 of 24 February 1993 of the Council of Ministers on compensation of some incomes of the population relating to higher fuel prices; Decree No. 71 of 6 April 1993 on wage adjustment in the budget organizations for inflation; Decree No. 149 of 3 August 1993 on fixing the minimum wage for the country and compensation of some incomes of the population; Decree No. 150 amending the average gross wages in the budget organizations, amending Decree No. 71 of 1993.

The slowdown in the growth rate of the currency outside the BNB vaults in October and the decline in absolute terms in November was mainly due to a volatility in the forex market in the period under review, when there was a shift of BGL in cash to foreign currency. The jump in the money supply growth in the second half of December resulted from the revised 1993 State Budget Law, adopted by the National Assembly on 17 December 1993, which led to a BGL 5.5 billion growth of the budget deficit. Salaries, extra remunerations, scholarships, compensations, benefits, etc., unpaid in the previous months because of shortfalls, were repaid during this period.

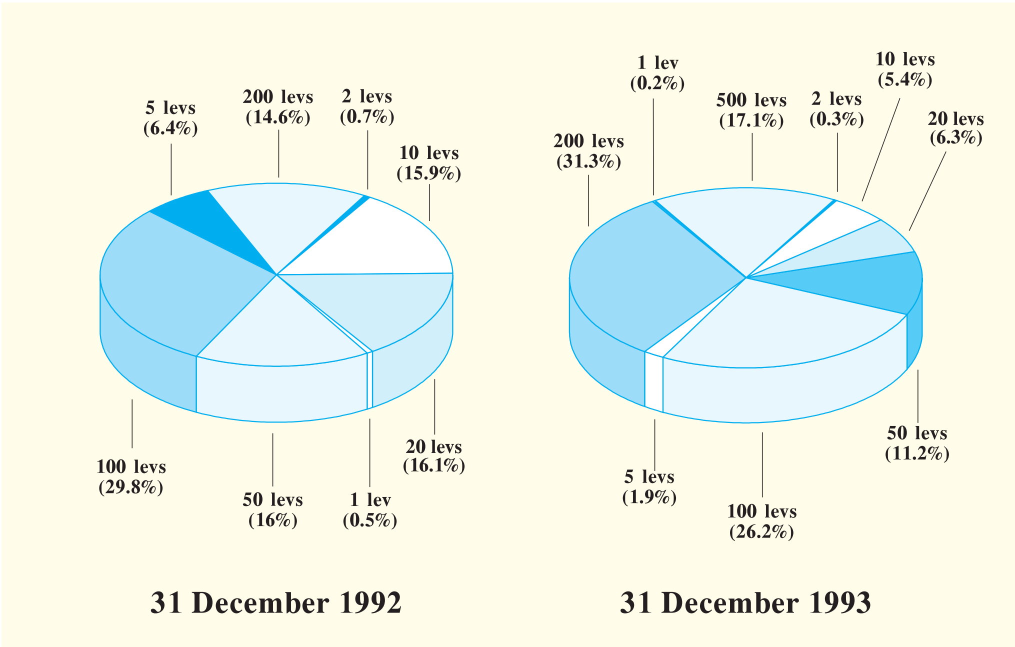
Cash in the vaults of commercial banks, following a decrease of BGL 0.8 billion at the end of the half-year compared with 1992 year-end, reached BGL 3.2 billion by the end of 1993. This level approximated the respective 1992 level, despite the growth in the cash circulation. The decline (though small) in cash in the vaults of commercial banks at the end of the year was prompted by the fact that the commercial banks, not earning any yield on it, tended to manage it better with extensive network of branches and expanded volumes.

Cash outside the vaults of commercial banks totaled BGL 25.2 billion by the end of 1993, an increase of BGL 6.9 billion (37.8%) compared with 1992 year-end. By end-June it grew BGL 1.9 billion (10.6%).

Denomination Composition

In 1993, the BNB continued to pursue a policy aimed at maintenance of optimum denomination composition of the issue at a minimized cost. Denominations of higher nominal values (BGL 100, 200 and 500) proved to be more convenient for normal servicing of cash circulation. By the end of 1993, they accounted for 74.6% of the total value of denominations, compared to 44.4% at the end of 1992. At the same time, the share of banknotes of these denominations in the total amount of banknotes comprised 19.6% in 1993 year-end versus 7.1% a year earlier. The BNB put into circulation a banknote of BGL 500 as of 1 November 1993.

DENOMINATION COMPOSITION OF THE BANKNOTE ISSUE



Note: The relative share of denominations is based on values.

Source: BNB.

The BNB continued to gradually withdraw the banknotes with the symbol "Народна Република България" (People's Republic of Bulgaria) after normal waste, replacing them by banknotes of the new issues. At the end of 1993, the banknotes with the new symbols, issued after 1991, denominated in BGL 20, 50, 100, 200 and 500, reached 79.6% of the value of the banknote issue and 24.9% of the total number of banknotes compared with 50.5% and 9.7% respectively at the end of 1992.

The "average" banknote put into circulation at the end of 1993 was BGL 42 versus BGL 27 in the first half-year and BGL 19 at the end of 1992. The increase in the "average banknote" in circulation is a result of the higher denominations circulated, on the one hand, and to the decrease in the number of banknotes (over 460 million) in circulation in 1993, on the other one. Despite the fact that the "average banknote" in circulation grew, reflecting the need of cash in circulation of higher denominations, denomination composition of the banknotes lagged behind the optimal one. To that end, and considering the future needs of currency in circulation, the BNB Board approved the ideal projects for issuing banknotes of BGL 1,000, 2,000, 5,000 and 10,000 face value, issue 1994, by Resolution No. 211 of 12 July 1993. Pursuant to Article 25, para. 4 of the Law on the BNB, the central bank proposed, and the Council of Ministers approved the face value, subject, form and design of the banknotes by Protocol No. 68 of 29 July 1993. Circulation of the new issue of banknotes will lead to more efficient issuing activities and optimum currency in circulation.

Coin Issues

The BNB put into circulation a new issue of circulation coins of 10, 20 and 50 stotinkas and BGL 1, 2, 5 and 10 as of 1 July 1993.

In 1993, commemorative coins, gold, platinum and silver, of BGL 5,000, 10,000 and 500 face value, were issued, celebrating Bulgaria's association with the European Community, and coins of Olympic, football, environmental and historical subjects of BGL 100 face value, reflecting Bulgaria's participation in international coin programs.

With a view to regulate trade in commemorative coins and to comply with international practices, by Resolution No. 168 of 27 May 1993 of the BNB Board as per Article 26 of the Law on the BNB, the central bank took a decision that all commemorative coins minted from precious or base metals , issues 1962 – 1985 inclusive, will stop being legal tender as of 1 January 1995. The face values of these coins will reduce the state budget debt to the BNB, formed by the repaid face values of the coins put into circulation.

Precious Metals

In 1993, the trend toward an increase in BNB circulating gold continued; 27,640 troy ounces of gold were purchased. As in the previous two years, the growth in gold stemmed basically from amounts bought from domestic producers and from golden coins from individuals. At the same time, as a result of depositing part of the circulating gold with foreign correspondents and allocation of minimal amounts to mint commemorative coins, the circulating gold in the Main Depository of the BNB decreased at the end of 1993 compared with the previous year.

In 1993, part of the gold was assayed and the gold reserves met international standards.

By the end of 1993, circulating silver in the Main Depository of the BNB decreased compared with 1992, due to depositing part of the silver with correspondent banks and to transactions with abroad. Platinum also decreased because of amounts given for minting of a platinum commemorative coin of BGL 10,000 face value, celebrating Bulgaria's Association with the European Community.

In 1993, sales of domestic producers were symbolic, due to shrinkage of productions using precious metals. The BNB is intent on taking measures for a more flexible operation and management of its circulating foreign currency in precious metals, operations abroad included.

PRECIOUS METAL STOCK IN THE BNB

(in troy ounces)[1]

Indicators	31 December 1992	31 December 1993
Gold reserves of the BNB[2]	1,017,041	1,017,041[3]
Circulating precious metals[4]		
Gold	147,013	21,277
Silver	1,768,120	843,221
Platinum	7,039	4,471

[1] One troy ounce is equal to 31.10348 g.
[2] The gold reserves are in bullions, stock market standard.
[3] As of 21 April 1994, the gold reserves totaled 1,031,222 troy ounces.
[4] The circulating precious metals include gold, silver and platinum of standard type (bullion, strip and officially minted coins).

Source: BNB.

VI. Foreign Exchange Policy

In 1993, BNB foreign exchange policy, an integral part of monetary policy, was directed at maintaining external stability of the BGL. The central bank had to operate in a complex and unfavorable internal and external environment.

The situation in the country was characterized by a continued delay in structural reform, which triggered a further decline in the real sector. A slight reduction in inflation (up to 64% per annum) did not set the scene for a stable exchange rate of the BGL due to several reasons – adverse pressures on the foreign trade balance; increased inflationary expectations resulting in distrust in the BGL on the part of households and economic agents; and political tension in the country coupled with motions of no confidence in the government and calls for early elections.

The situation outside the country was also unfavorable. The UN embargo on Serbia and Montenegro and the recession in the West were the basic factors responsible for reduced exports, hence diminished forex receipts. The second stand-by agreement with the IMF was discontinued, the last tranche on it was not received, and a possibility to negotiate a new agreement did not exist in 1993. This deprived the country of substantial foreign financing. The arrangement negotiated in principle with creditor banks from the London Club at the end of the year, on restructuring and reduction of the foreign debt, also had an impact on the foreign exchange policy. The bulk of forex reserves were allocated for debt deal service, by a resolution of the National Assembly.

In 1993, BNB forex policy was directed at:

• Reducing fluctuations in the exchange rate of the BGL;

• Maintaining a relative stability of the BGL, if possible, without affecting competitive points of Bulgarian exports and adding domestic inflationary pressures;

• Careful spending of forex reserves to ensure debt payments to the London and Paris Clubs and maintaining liquidity in the forex market in the period between autumn 1993 and spring 1994 until foreign financing was restored and forex receipts increased.

In 1993, forex policy was discussed at two sessions of the BNB Plenary Council and a gradual depreciation of the BGL was the predominant outlook.

The specified targets were accomplished until September 1993, but not afterwards. As a result of a worsened macroeconomic situation in the country, and some variations in the forex policy conducted during the fourth quarter of 1993, tension in the forex market reached its crucial point. The BNB strove to offset this through massive interventions. In December, it strengthened its support in favor of the BGL, thus significantly depleting BNB reserves.

In the first quarter of 1994, confidence in the BGL was shaken once again, resulting in a sharp depreciation compared to 1993 year-end. At the same time, BNB capacity to intervene in the forex market was limited, since forex reserves reached their crucial minimum. There was ground to assume that the period of a relatively stable BGL exchange rate had passed, and the nominal rate of exchange would keep close to inflation in the short run.

1. Foreign Exchange Market

The statistics of forex spot operations in 1993 revealed a sum total of foreign currency purchases from fully licensed banks (including BNB) – among themselves and from their clients – in the amount of USD 3.4 billion (a 21.4% increase on 1992), and of foreign currency sales of USD 3.4 billion (a 36% increase).

Quantitative Parameters of the Foreign Exchange Market

Foreign currency supplied by the real sector lagged behind in growth from forex demanded by this sector. This led to a decrease in net forex receipts in the market. Foreign currency turnover in the banking system and in intercorporate operations accounted for purchases of USD 2,139 million (an increase of 15.7%), and sales of USD 2,129 million (an increase of 41.6%), i.e. a surplus of USD 10 million. Commercial banks, licensed for foreign exchange operations, purchased from clients (firms and other banks) foreign currency worth USD 1,971 million (an increase of 11.9%), and sold to clients USD 1,848.2 million (an increase of 43.2%), with a surplus of USD 122.8 million (one fourth more than in 1992). The central bank was a net seller of USD 172.2 million, including USD 59.4 million to fully licensed banks and USD 112.8 million to other counterparts. As far as the latter are concerned, their balance with banks accounted for a mere USD 0.6 million, with the bulk being traded mainly with budget organizations to service the foreign debt.

FOREIGN EXCHANGE SPOT MARKET IN 1993

(million USD)

Volume of the Market	A) bought	B) sold	C) balance
1) BNB with customers	119.0	231.8	-112.8
2) Fully licensed commercial banks	1,971.0	1,848.2	122.8
3) Interbank, with fully licensed commercial banks	850.4	861.8	-*
4) Interbank, BNB included	1,072.6	1,084.0	-*
5) BNB total	341.2	513.4	-172.2
6) BNB with fully licensed commercial banks	222.2	281.6	-59.4
7) Intercorporate**	49.0	49.0	-
8) Total with customers (1+2+7)	2,139.0	2,129.0	10.0

* Some imperfections in reporting lead to a minimum difference between purchases and sales which are identical in the interbank market.
** The data are for the minimum volume of the market as currently monitored.
Source: BNB.

Interbank Market

Fully licensed commercial bank operations rose 44.5%; and 68.2%, if the two-way flow of traded currency between these banks and the BNB is taken into account. The volume of interbank operations approximated half the size of purchases by customers and sales to customers (in 1992, when purchases by customers considerably outstripped sales, the share of interbank operations constituted one third of purchases and approximately one half of sales). Interbank market turnover redistributed receipts in the economy from abroad and vice versa, and was a source of profits for banks when there was a multiple turnover of certain amounts in the market, through combination of operations in the domestic (foreign currency against BGL) and in international (one foreign currency against another foreign currency) markets. With a view to limit the speculative element, the spread of interbank bid and offer quotations was narrowed, and interbank operations were made within this range. At the same time, spread proved to be a major indicator of the market, widening when tension rose. The orientation of big firms toward an exchange rate close or equal to interbank quotations contributed to the spread to be narrowed. Development of the interbank market, arbitrage operations included, helped form the price of the BGL against foreign benchmark currencies.

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

(%)

Interbank turnover/forex bought from customers (commercial banks)	43.7
Interbank turnover/forex sold to customers (commercial banks)	46.6
Interbank turnover/forex bought from customers (commercial banks and BNB)	51.8
Interbank turnover/forex sold to customers (commercial banks and BNB)	52.1
Net BNB sales/total bank sales to customers	8.3
Net BNB sales/balance of banks with customers	-1,722.0

Source: BNB.

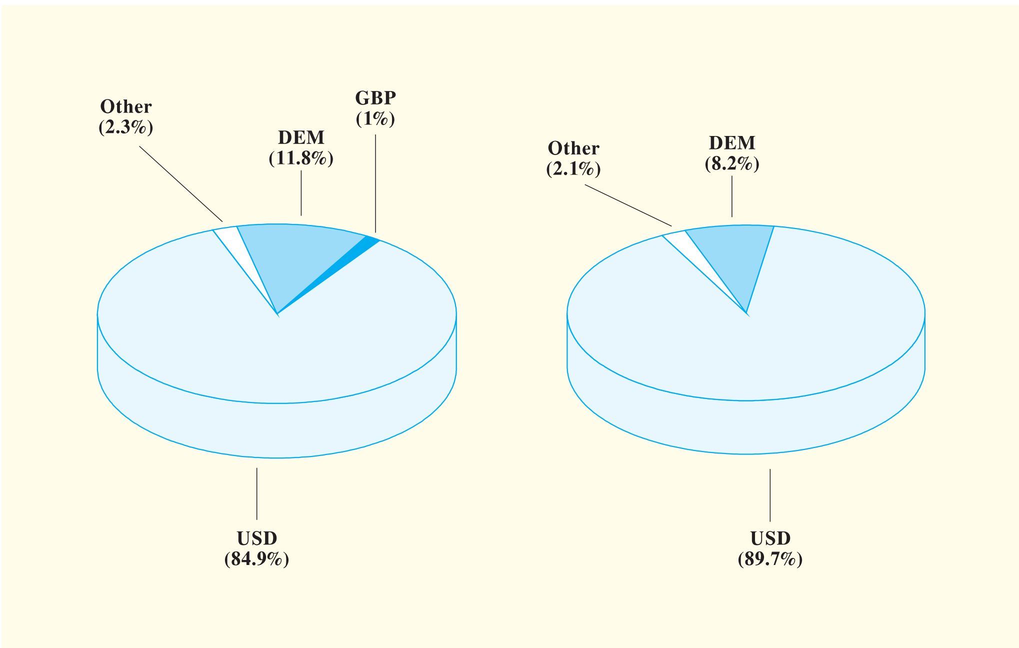
Market Position of the BNB

BNB operations with other partners increased several times compared to 1992. This could be attributable to the greater number of banks licensed to operate domestically, which took an active part in the forex market (central bank' balance in operations with these banks and brokers was almost zero – purchases of USD 97.9 million and sales of USD 98.5 million, respectively). The BNB sold to the Ministry of Finance USD 95.7 million to effect payments with foreign creditors. This amount was USD 7.1 million more than in 1992 and (even if the BNB purchase of USD 21.1 million from the Privatization Agency and the State Fund for Reconstruction and Development was deducted) exerted greater pressure on the forex turnover as a result of decreased receipts (net) from the real sector. (The sale of forex by the central bank to service the debt overlapped with purchases made only when the market was calm.) Given the fixed level of foreign purchases for foreign debt payment, the reduction in the overall amount of foreign currency, bought by the government agencies from the central bank, was at the expense of budget organizations whose purchases accounted for USD 37.6 million (approximately half the amount of 1992).

Intercorporate Market

Turnover in the intercorporate market was the same as that in the previous year, though during the second half-year of 1993 it was less than during its first half (it is not possible to make a comprehensive juxtaposition, since this market segment was introduced only in early 1992).

STRUCTURE OF FOREIGN EXCHANGE MARKET (TOTAL) AND INTERBANK FOREIGN EXCHANGE MARKET IN 1993

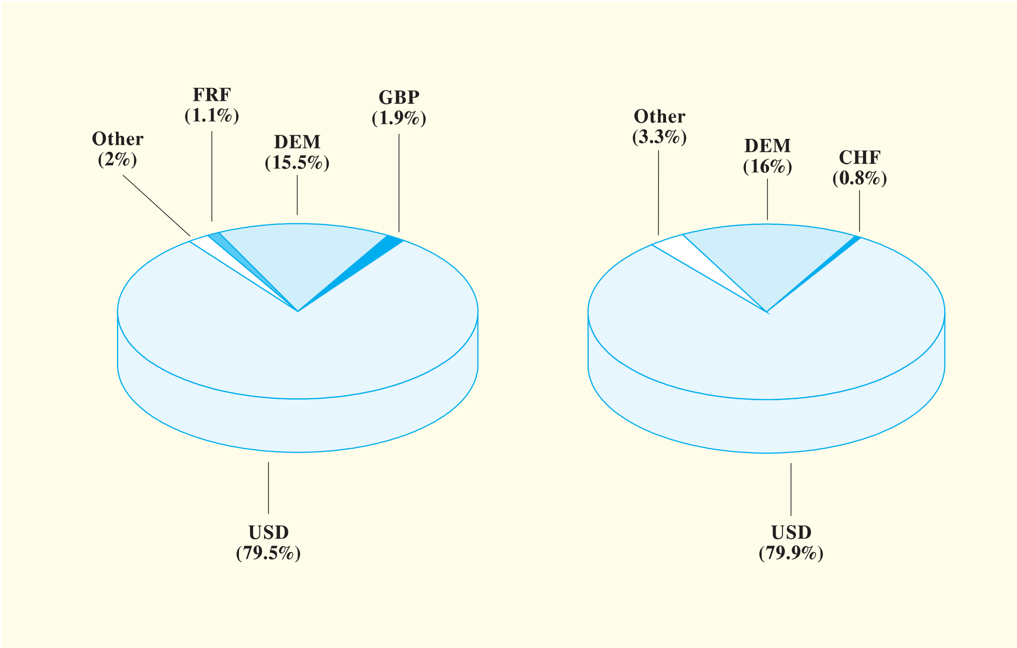


Source: BNB.

Currency Breakdown of the Market

The USD dominated the currency structure. Its share in the overall volume of forex spot operations rose to 85% (against 80% in 1992), basically at the expense of interbank operations, where the USD share rose from 84% to 90%. The second important currency, DEM, followed with a drop from 14% to 8%. The share of the other currencies in sales and in purchases remained insignificant, as it had been in 1992.

PURCHASES FROM CUSTOMERS AND SALES TO CUSTOMERS IN 1993



Source: BNB.

Development of the Foreign Exchange Market

Domestic forex market was established three years ago. Data about this period, though covering only a short time, and affected by the play of different internal and external factors, still make it possible for the year 1993 to be compared with the preceding two years, and the following conclusions can be drawn:

• The upward trend of the market volume persisted in 1993, though at a slower pace; in 1992, the growth rate was 145% compared to the previous year, and 30% in 1993.

• The BNB retained its share in the forex market, while in 1992 it dropped from 21.7% to 14.5%. Under conditions of continuing expansion of the market the steady position of the central bank in it could be considered a stabilization of the market structure.

• Demand for forex considerably exceeded its supply in 1993. BNB interventions (USD 513 million sold and USD 341 million purchased) were prompted by a thin market. This necessitated hefty sales to provide the market and to maintain the BGL exchange rate, particularly in the last few months of the year.

• Despite the central bank's efforts, through some monetary instruments (forex refinancing and forex deposits with local banks), to limit the seasonal movements in the forex market volumes and its participation in this market, the impact of seasonal factors could not be offset. For three consecutive years the BNB had to intervene in support of the BGL during the winter.

• The number of participants in the forex market largely increased in 1993, due to granted licenses (permits) to over 70 brokerage houses and growth in the number of exchange bureaus. Regardless of the fact that there were no more than 10 non-bank financial institutions which significantly influenced sales and purchases, it was hard to span and control the market in times of crisis. At the end of the year a lot of physical persons emerged in the market; this had not only psychological but immediate effects (local physical persons raised their forex deposits with banks by USD 70 million) in the fourth quarter. The evolving critical situation in late 1993 and early 1994 revealed the necessity to keep closer to the forex regime requirements.

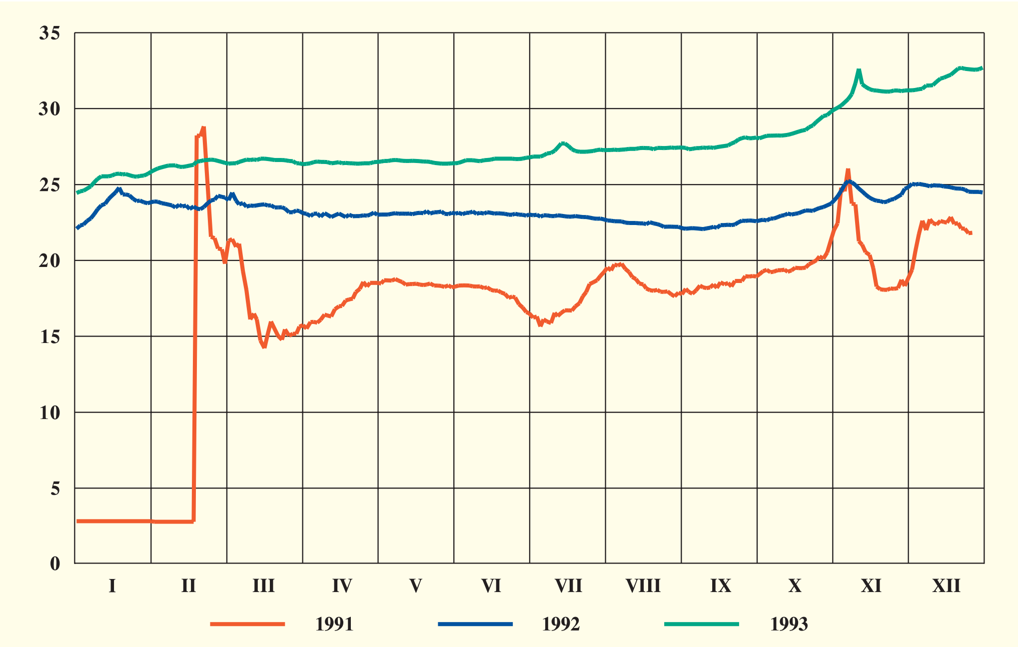
• Unlike previous years, in 1993 and in the first quarter of 1994, factors responsible for meeting forex demand and supply increased by expectations for a higher inflation, even hyperinflation, circulated by mass media; this whetted speculative appetites of most participants in the forex market.

2. Exchange Rate

Under inflationary conditions in the country in 1993, the basic trend of the BGL exchange rate was toward a nominal depreciation against the currencies of Bulgaria's major Western partners, in settlement payments with abroad and trade in the Bulgarian interbank market. Over the year, the BGL devalued by one fourth (25.3%) against the USD, and by one fifth against the ECU and most West European currencies (19.1% against the ECU and 19.9% against the DEM). At the same time, it appreciated against some faster depreciating currencies – TRL, PLZ, ROL, RUR, etc.

CENTRAL EXCHANGE RATE

(BGL/USD)



Source: BNB.

The BGL/USD curve duplicated 1991's and 1992's, displaying a seasonal exchange rate evolution that reflected the seasonal aspects of payments on exports and imports, maturing amounts to abroad, and movement of the BGL liquidity. Simultaneously, this curve went up straighter every year (and the range of the exchange rate fluctuations narrowed), due to expansion of the spot market, the improved set of instrumental behavior of the central bank, and the development of foreign exchange lending (to the extent that its maturities reversely influence the seasonal excess of demand or supply in the spot market).

As in the previous year the BGL/USD curve in 1993 was smoother than the inflation curve. As a result of a worsened balance of payments, the foreign exchange index lagged behind less than the consumer price index. The latter reflected a decrease in exports of livestock and animal products and exhausted possibilities for short-lived exports, which had been caused by a contraction in the domestic consumption. These were additionally affected by expectations about imminent large purchases of foreign currency to service the foreign debt.

The average annual nonweighted central USD/BGL exchange rate was BGL 27.648 per one USD. Compared to it, the average rate of purchases by the central bank (BGL 27.461 per one USD) was 0.7% lower, and that of sales (BGL 28.851 per one USD) 4.4% higher. This resulted in a surplus of BNB operations in the amount of BGL 681.4 million. The average annual weighted exchange rate was BGL 27.810; compared to this, the average rate of BNB purchases was 1.3% lower, and that of BNB sales 3.7% higher, with a surplus of BGL 653.5 million.

Monthly dynamics of the exchange rate in the first half-year did not differ significantly from 1992, when the forex market was relatively sluggish. The seasonal excess of demand over supply in the first quarter was offset by BNB forex sales, but in the second quarter the trend was reversed, thereby allowing the central bank to raise its reserves against those in 1992. Under such conditions, the BGL gradually depreciated from BGL 24.492 per one USD at the end of December 1992 to BGL 26.681 per one USD by the end of June 1993, or 8% (during the first half-year in 1992 the nominal depreciation of the BGL approximated 6%).

At the beginning of the second half-year, however, the forex market was shaken up. Within only a few days the exchange rate picked up by BGL 1 (approximately 4%). This basically stemmed from a worsened trade and current account balance, and the embargo imposed on the former Yugoslavia. After some preliminary statistical estimates for a dramatic fall in the foreign trade balance became known, public discussion concerning the level of the exchange rate took place, which additionally affected it. This situation prompted immediate intervention on the part of the BNB; though tension in the market was still evident in the next several months due to increasingly growing importance of fundamental factors. Consequently, in the third quarter of 1993 the exchange rate did not fall as it had done in 1991 and 1992, but continued the gradual devaluation (BGL 28.026 per one USD at the end of September).

Imbalances between demand and supply increased during the last 1993 quarter, which triggered a new crisis in the forex market at the end of October and the beginning of November. The exchange rate depreciated more than BGL 4 (15%) in less than a month, and reached BGL 32.618 per one USD. This was as much due to growing deficit in the balance of payments, as caused by the short-lived panic which had seized small depositors who strove to turn large amounts of national currency (about BGL 2 billion) into foreign currency. The BNB had to intervene massively, which reflected in the November exchange rate of BGL 31.170 per one USD. In December, forex demand and supply's divergence exerted further pressure which the BNB had to overcome at the cost of large sales. Over the last 1993 quarter, the central bank sold USD 209.9 million net, including USD 100.9 million in December, against USD 172 million net sales during the whole year. As a result of this, the exchange rate stood at BGL 32.711 per one USD, a depreciation of 17% in the period between October and December.

In the first 1994 quarter, tension in the forex market rose due to typically seasonal factors, political instability, and a subsequent and growing distrust in the BGL. In early January alone, the exchange rate fell approximately BGL 3 (or 9%). Later on, as a result of consistent forex sales from the BNB and an interim gentlemen's agreement with forex participants against BGL speculation, the exchange rate in late February reached BGL 37.366 per one USD. The BGL depreciation in January and February 1994 was almost equal to that in the last 1993 quarter, and the price the BNB had to pay was USD 102.4 million net forex sales.

In March, after the 1994 State Budget Law was passed, tension in the forex market dramatically rose and grew into a crisis. At the end of March the highest level of the exchange rate to date has been registered, BGL 64.94 per one USD. Over the first 1994 quarter, the BGL depreciation against the USD almost doubled. In March alone, movement of the exchange rate accounted for BGL 27.50, including a change of BGL 13.75 in the last four days of this month. Inflationary expectations in anticipation of forthcoming changes in the prices of electricity and heating, and the introduction of VAT, combined with BNB depleted reserves to the minimum required to service the foreign debt deal, added to the factors that had already operated.

The BNB tightened its restrictive policies in the lev market in support of the national currency, though this had an unfavorable impact on the liquidity in the banking system, and indicated that it would be difficult to stop depreciation of the BGL in the absence of sufficient foreign exchange reserves.

In April 1994, after a third stand-by agreement with the IMF was signed, and a new agreement to reschedule the foreign debt to the countries from the Paris Club was negotiated, foreign funding of approximately USD 275 million was received. This eased the pressure in the forex market. In mid-April, the exchange rate dropped to BGL 55.53 per one USD, with net forex sales from the BNB in the amount of USD 18.7 million.

3. Foreign Exchange Reserves

In 1993, the dynamics of BNB[19] gross foreign exchange reserves passed through two stages with opposing trends. While during the first half-year reserves – despite fluctuations in their monthly volumes – did not change significantly, during the second half-year a trend toward a speedy and (particularly in the last quarter of 1993) a substantial decline evolved, continuing in the first quarter of 1994.

Developments in the Foreign Exchange Reserves

The first half-year ended with an increase in foreign exchange reserves of USD 68.2 million (or 7.6%) compared with the December 1992 level. Enhanced forex sales from the BNB in support of the BGL in the winter (at this time of the year a seasonal weakening of the national currency has been observed since the interbank market was first introduced) prompted a modest decline in reserves in February and March; January – despite the play of seasonal factors – did not mark a drop in reserves, since the fourth tranche of the second stand-by agreement with the IMF of USD 44.1 million was received, though with a delay. During the second quarter, unlike the first one, forex supply in the domestic market exceeded demand, enabling the BNB to increase its reserves. Another factor contributing to this was a Swiss loan of USD 32 million extended in support of the Bulgarian balance of payments as part of the aid of G-24.

The second half-year started with a reduction in the foreign exchange reserves in July (it was then that the first disruption in the forex market occurred). In August, the BNB was able to slightly increase its reserves, but since September till the end of the year they dropped every month, with the largest monthly drop in December. The decline in the second half-year was mainly due to growing interventions of the central bank (in the absence of foreign funding) in support of the national currency, which had started its devaluation in November 1993. By the end of the year, BNB gross reserves totaled USD 663.7 million.

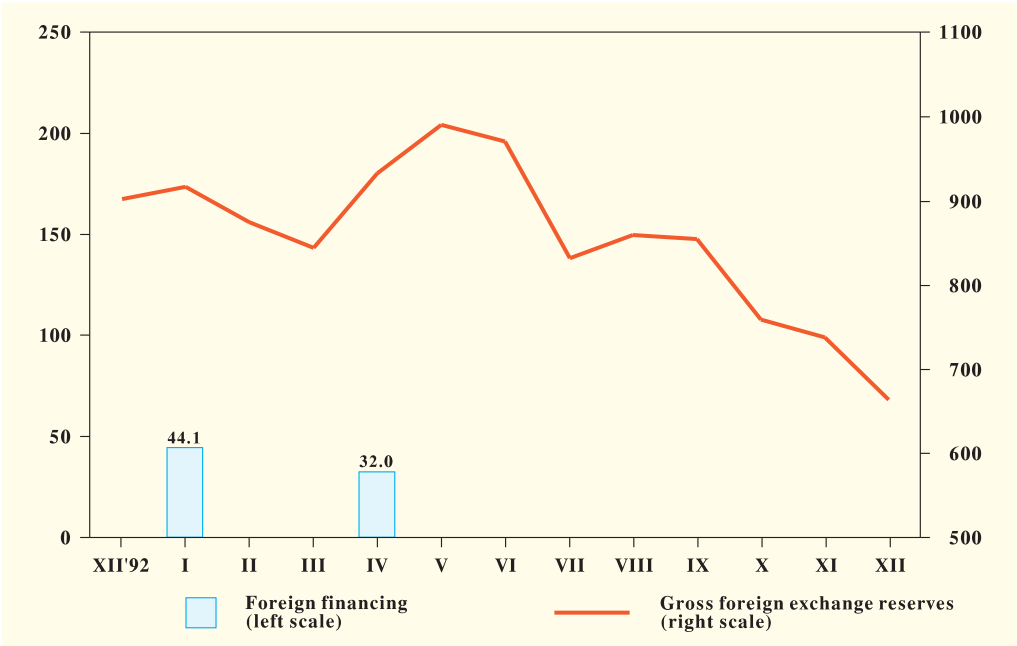
The dynamics of reserves in 1993 once again confirm the conclusion that major factors responsible for the volume of foreign exchange reserves in 1993 (as in 1991 and 1992) remained the BNB net purchases of foreign currency in the domestic interbank market and the volume of forex receipts in the country from international financial institutions. Net central bank's sales of USD 172 million and a scarce foreign funding of USD 76.1 million led to a predictable depletion of reserves. These, coupled with forex purchases by the Ministry of Finance to effect interest payments on the foreign debt to the Paris Club, the deficits in trade, current and overall balances of the country – registered in 1993 as a whole or by quarter –

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

had an impact on reserves, too. In 1993, the BNB repaid interest on external loans drawn in the amount of USD 71.5 million, and received USD 57.2 million from interest payments. Interest paid exceeded interest received by USD 14.3 million, the difference being a result of the interest differential (particularly in USD) between interest on the long-term loans received and interest on BNB short-term placements.

GROSS FOREIGN EXCHANGE RESERVES AND FOREIGN FINANCING IN 1993

(million USD)



Source: BNB.

The average amount of foreign exchange reserves in 1993 corresponded to a two-and-a-half-month level of imports. This situation could be very embarrassing, especially when the serious reduction in the monthly volumes of reserves after August 1993 is taken into account.

Foreign Exchange Reserve Management

Foreign exchange reserves were placed in high liquid assets abroad, including current accounts, deposits, prime-rate government securities and precious metals. The BNB continued to maintain reserves on settlement accounts, to be able to stabilize the domestic forex market. In 1993, the structure of forex assets invested by type of currency was determined by a predominant domestic demand for USD, play of seasonal factors in the forex market, and the need to diversify to limit the risk of foreign currency exchange rate fluctuations.

By a resolution of the BNB Board, its gold reserves were moulded according to market standards. In September and October, gold of 806,094.76 troy ounces was temporarily taken out of the country; the gold in circulation totaling 138,508.30 troy ounces was sent to be moulded in Swiss and English refineries to have a trademark registered on the London Metal Exchange. As of 4 November 1993, gold of 805,997.88 troy ounces were brought back in the country, and the processed circulating gold in the amount of 138,473.8 troy ounces was deposited on metal accounts in four prime-rate banks, and then included in the gross foreign exchange reserves of the country.

By the end of the year, gross foreign exchange reserves in precious metals were equivalent to USD 83.591 million, including gold of USD 59.967 million (153,564.424 troy ounces).

The growing deficit in the balance of payments and discontinued foreign funding in 1993 depleted BNB foreign exchange reserves to the minimum set aside for the service of the foreign debt. Inasmuch as a sharp improvement in the balance of payments was difficult to attain in the short run, the key ingredient for replenishment of this country's foreign exchange reserves remained foreign funding.

VII. Bank Supervision

In 1993, the development of the legal and organizational framework to regulate bank supervision was continued. The BNB Board adopted regulations envisaged in the Law on Banks and Credit Activity (LBCA): Regulations No. 7 on Big Internal Loans of Banks (28 January 1993); Regulations No. 2 on the Permits (Licenses) Granted by the BNB (11 February 1993); Regulations No. 8 on the Capital Adequacy of Banks (18 March 1993); Regulations No. 9 on the Loan Classification and the Formation of Mandatory Special Reserves (Statutory Provisions) by Banks (31 May 1993); Regulations No. 10 on Internal Control in Banks (3 June 1993), and Regulations No. 11 on the Liquidity of Banks (18 June 1993).

Licenses

Applications for 10 licenses required to conduct banking activity were received in 1993. Seven licenses to conduct banking activity (including a license given to a foreign bank branch) were granted to: Slavyani Commercial Bank Ltd., Sofia; Xiosbank Ltd., Athens, Sofia branch; Capitalbank Commercial Bank Ltd., Sofia; First Investment Bank Ltd., Sofia; Bulgarian Commercial and Industrial Bank Ltd., Sofia; Balkan Universal Bank Ltd., Sofia; and Mollov Commercial Bank Ltd., Sofia.

During the reporting period, permits to restructure were granted to 28 commercial banks; as a result of this, 4 newly merged commercial banks were granted universal licenses to conduct banking activity: Balkanbank Ltd., Sofia; Expressbank Ltd., Varna; Hebros Bank Ltd., Plovdiv; and Sofiabank Ltd., Sofia.

Licenses for making banking transactions, supplemented with permits to open bank accounts for settlement with abroad, were given to the following commercial banks: Touristsportbank Ltd., Central Cooperative Bank Ltd., Credit Bank Ltd., Agrobusinessbank Ltd., Teximbank Ltd., Slavyani Ltd.; Capitalbank Ltd.; and First Investment Bank Ltd.

Pursuant to Article 17, para. 2, item 2 of LBCA, a permit was granted to First Private Bank Ltd. to open a branch in Athens, and representative offices in Vienna and Moskow. Balkanbank Commercial Bank Ltd., Touristsportbank Ltd. and Credit Bank Ltd. were authorized to set up a joint Kazakh-Bulgarian bank in Alma Ata, Kazakhstan.

During the first quarter of 1993, pursuant to Regulations No. 2 (28 March 1991) on the purchase and sale of foreign currency, 504 applications for licenses to conduct such activity were filed. Of these, 458 exchange bureaus were licensed; 46 applications were rejected for noncompliance with the terms of these Regulations.

After the new Regulations No. 2 (11 February 1993) were enforced, 576 applications to set up exchange bureaus were received. After examination, 37 of these were provisionally licensed, 362 were completely licensed, 130 remained in process of examination, and 47 applications were rejected for noncompliance with the terms of these Regulations.

In 1993, 140 applications for permits to establish financial houses and 49 applications for brokers were submitted; of these, 74 financial houses and 25 brokers were granted licenses, and 32 financial houses and 15 brokers remained under examination.

Activity throughout 1993 indicated that nonbank financial institutions, licensed by the BNB, did not comply with the terms of the legislative acts; one of the factors responsible for this noncompliance was insufficient control by the BNB.

Slips occurred in the licensing activity of the Bank Supervision Department. As it turned out, the regulatory framework contained imperfections and deficiencies, which necessitated amendments to be made in Regulations No. 2 on the Licenses Granted by the BNB in order to prevent establishment of a bank with borrowed capital. A minimum ratio between registered shares and those of a bearer (1:1) was fixed. The part that pertains to licensing of nonbank institutions had to be upgraded.

Current Control

In 1993, examination and auditing of commercial bank activity were better organized. The National Charter of Accounts No. 16 was drawn up to comply with the bank supervision regulations.

Information furnished by the banks, including major indicators and reporting data on the bank supervision regulations, was supplied with a great delay, and in a number of cases was incomplete and of poor quality.

Foreign exchange operations of commercial banks were not consistently supervised, due to lack of regulations and extensive requirements to banks regarding these issues.

Commercial bank credit portfolios were reviewed throughout the year. At the request of the Council of Ministers, information about the amount of nonperforming credits of state-owned enterprises (as of 31 May 1993, on the credits negotiated till 31 December 1990) was collected and analyzed.

Investigations of the attempts to illegally privatize some state commercial banks (the so-called “White Book”) were carried out. It was found that no large-scale “hidden privatization” was underway, but some banks had made a few infringements, and the central bank had not taken due measures. The BNB did not authorize a raise in the capital of commercial banks with state interest in compliance with the terms and procedures in § 6 of the Transitional and Final Provisions of LBCA.

Meetings with managers of problem banks were held, to discuss their state of affairs and their prospects for the future. The crucial conditions of Private Agricultural Investment Bank, Crystalbank Commercial Bank, etc., were considered in great detail.

In order to achieve the tasks and goals of current control over commercial banks’ financial performance, bank supervision activities in 1993 outlined a more comprehensive policy statement and the need for improved organization.

Auditing

In 1993, call examinations and audits in 10 commercial banks were performed, encompassing loan activity issues, equity capital, organization of internal control, foreign exchange regime, etc.

More than 40 call examinations were done, considering relationships of banks with agencies, clients, and other banks on issues relating to enforcement of the Law on Agricultural Financing. During the last 1993 quarter, 4 audits of commercial banks were launched (Biochim, Private Agricultural Investment Bank, Economic Bank and Mineralbank); two of these were conducted under a resolution of the BNB Board.

The general findings of these audits and examinations could be summarized as follows:

• Deteriorating asset quality in 1993. This trend evolved in the newly established banks as well. The share of overdue credits in commercial banks was too large, 10% – 20% of all assets.

• The relative share of unsecured big and internal loans increased, which heightened bank risks.

• Significant irregularities were observed in the terms fixed for repayment of sources, and in bank resources and the credits lent by the banks.

• Assessment of creditworthiness of borrowers prior to granting credits, and in the process of receiving and repaying them, was insufficient.

• Most commercial banks lacked programs based on strategies and procedures relating to the risk exposure of borrowers.

• Banks had ineffective internal control in terms of commercial bank scope, goals and functions.

• Book and operating accountancy and inside information systems did not meet the needs of bank management.

• Lack of proper organization and procedures for reporting of commercial bank equity capital and some faults and malpractices concerning equity participation in the banks were found.

Qualification

Having in mind that the Bank Supervision Department includes predominantly young experts who in most cases are lacking experience, courses and workshops to improve their qualification were run in 1993 as well. The groundwork on a “Handbook of the Supervisor” continued with the aid of an advisor from the US Treasury. A workshop for young supervisors from Central and Eastern Europe was organized in Varna within the program of the Basle Bank Supervision Committee. In 1993, Bulgaria hosted the fifth regional conference on bank supervision from Central and East European countries.

VIII. Development of the Banking and Settlement System

1. State of the Settlement System

Bankservice Ltd.

The most important step toward a change in the organizational structure of the settlement system was taken when, by a resolution of the BNB Board, the BNB Main Information Center was discontinued and Bankservice Ltd. was set up in its place. It was reported, after a thorough analysis, that the full control exercised by the BNB over Bankservice Ltd. (a 93% interest in its equity capital), did not allow proper restructuring of this organization. Pursuant to its new targets and tasks, emerging as a result of establishment of many new banks and greater activity of the already existent banks, additional restructuring was required. Consequently, it was proposed that all commercial banks to acquire interest in the equity capital of Bankservice Ltd., in proportion to their participation in the payment process, with the BNB share dropping to approximately 38%. This would boost development of the payment system to meet the requirements of a market economy. The BNB retained its blocking quota to be able to intervene, if necessary, in defining the basic tasks and to control operation of the system as a whole.

BORICA

The BNB Board, after analyzing the development of the payment system and services offered by the banks to their clients as well as the lack of payment instruments for noncash payment, chose to develop electronic means of payment prior to introduction and widespread use of payments by check. As a result of this, BORICA Ltd. was created, with an authorized capital of BGL 74 million and a major goal to establish the infrastructure for introduction of bank debit cards in the payment process. A unified nationwide network of cashomats and settlement facilities at the points of sale will be established to facilitate access of individuals to their accounts any time of the day and to ensure noncash payment in the network of shops. An auction was held for an agreement with a company under supervision of the BORICA project, which envisaged introduction of a national system of cashomats and settlement facilities at the points of sale. The auction was won by the Belgian Banxis Company. The first cashomats are expected to be installed by the end of 1994. The cost of the BORICA project is estimated to be BGL 230 million for a term of 5 years.

In 1993, the number of settlement system inputs rose from 415 on 1 January 1993 to 550 as of 31 December 1993, i.e. at the end of the reporting period there was one input per approximately 16,000 persons. According to this indicator, Bulgaria considerably lagged behind developed countries, where one input services from 742 (Belgium) to 2,330 persons (USA).

BISERA

During the reporting period, settlements of BGL 3.5 billion daily were effected through BISERA (Banking Integrated System for Electronic tRAransfer); in annual terms they exceeded more than three times the Gross National Product (GNP)[20]. This indicator varies from 190 times in Switzerland to 10 times in France and Sweden [21].

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[20] GNP is estimated at BGL 320 billion.

[21] Based on data from the Bank for International Settlements, Basle, Switzerland.

Quality of Payment Operations

As for the quality of effecting payment operations by Bankservice Ltd., it should be noted that, if payment is considered to be completely effected at the moment when BISERA has transferred the information for the payment to the bank (bank's branch) of the beneficiary's account, the process of transferring the settlement operation to BISERA up to its completion, takes less than 24 hours. This is best illustrated in the table below, which includes statistical data about the terms of payment operations in May and June.

TERMS OF PAYMENT OPERATIONS

Terms	May		June	
	quantity	%	quantity	%
up to 24 hours	504,145	99.66	539,507	99.82
up to 48 hours	1,494	0.29	995	0.18
over 48 hours	241	0.05	1	-
Total	505,880	100.00	540,503	100.00

Source: Bankservice Ltd.

With a daily volume of payment operations up to 25,000, over 99.66% of all payments are settled within 24 hours, which can be considered satisfactory.

No significant changes occurred in regard to software and hardware upgrading of the payment process. New equipment supplying nonstop functioning of the main computing center was introduced only in the Main Information Center of Bankservice Ltd. It becomes evident, under the 24-hour cycle of transfer processing, that no technological reserves were set up, which causes concern as to the flawless operation of the system as a whole. Some disruptions and setbacks in execution of payment operations for a few hours in several consecutive days reveal a pressing necessity to speed up the process of development of payment system projects and to thoroughly equip Bankservice Ltd. with more up-to-date computing systems.

Designing of the final form of auction documents under the Banknet project, providing introduction of its own telecommunication network to service interbank settlement, proved to be of key importance for further development of the settlement system.

2. Legal Regulation of Bank Activities

Legislative Framework

In 1993, the National Assembly passed the Law on Settlement of Nonperforming Credits Negotiated till 31 December 1990. It provided for overcoming the burden of nonperforming credits in BGL and foreign currencies, negotiated between commercial banks and enterprises, firms and commercial companies with a majority state interest. Credits and interest on them as of 30 June 1993 were exchanged for long-term government bonds. They are freely negotiable and may be used in the process of privatization.

By-law Regulation

During the period under review, the BNB Board adopted legislative acts of principal importance for commercial banking. The adopted regulations further develop and give more definite form to the imperative legal framework, contained in the Law on Banks and Credit Activity (LBCA), pertaining to: permits (licenses) granted by the BNB, the capital adequacy of banks, big and internal loans of banks, classification of loans and establishment of mandatory special reserves (statutory provisions) by banks, and liquidity and internal control in banks. These measures outline the framework of reasonable, adequate and efficient regulation and control over commercial bank activities and persons making banking transactions. In this respect, they are the next step toward an up-to-date banking system in the country.

In the first place, the importance of *Regulations No. 2* on the Permits (Licenses) Granted by the BNB has to be stressed. The regulations incorporate a detailed regulative framework of the terms, conditions and procedures for issuing licenses granting the right to conduct banking activity. The types of licenses and their scope were stipulated. Licensing of a local and of a foreign bank, operating domestically through its local branch, are specified along with licensing of nonbank financial institutions (exchange bureaus, brokers, and financial houses). These Regulations specify the general provisions contained in the LBCA, providing a comprehensive list of bank operations that persons are allowed to perform. The documents required for filing an application for a license, the terms within which these applications are to be reviewed, and licenses granted, are regulated in great detail. These Regulations further stipulate additional requirements to banks and nonbank financial institutions that they have to meet to be able to commence effecting the operations they have been licensed for (having at their disposal the required premises and equipment, meeting the security, safety and protection requirements). Brokers and financial houses are obliged to submit to the BNB a bank guarantee or other surety. Special obligations are prescribed for nonbank financial institutions effecting transactions in foreign instruments of payment.

Regulations No. 8 on the Capital Adequacy of Banks are of profound importance for commercial banks. The strict provisions of this legislative act in regard to banks' capital are in compliance with the recommendations of the Basle Committee. The regulations stipulate, first of all, the minimum required capital for a bank, including the one required for a foreign bank's branch. The minimum equity capital is set at BGL 200 million for operating only domestically, and BGL 500 million for a bank licensed for overseas operations. The structure of equity capital (capital base), including primary capital and additional capital reserves, is specified in detail. Assets and amounts not included in the equity capital were explicitly determined. The general risk component of assets was outlined on the basis of a detailed classification of assets and off-balance-sheet items. The basic characteristics of capital adequacy are determined in relation to the overall risk component of assets. The ratio of general capital cannot be less than 8%, and the ratio of primary capital adequacy – not less than 4%. These Regulations provide for the terms and procedures for exemption of foreign banks' branches from the capital adequacy requirements. The Regulations also set the time limits for the banks to comply with the minimum required capital, as well as the overall adjustment of equity capital, in order to observe the capital adequacy ratios.

Regulations No. 8 are closely interrelated with *Regulations No. 7* on the Big and Internal Loans of Banks. Regulations No. 7 stipulate the rules for determining the amount of big loans. Special credit reserves are to be set up to cover the risks arising from big and internal loans exceeding the amount as provided for by the LBCA. The loans not referred to in these Regulations are comprehensively stipulated. An additional provision specifies that if a branch of a foreign bank is exempt from the capital adequacy requirements, the Regulations apply to the foreign bank as a whole.

Another by-law act of key importance for the bank activity is *Regulations No. 9* on the Loan Classification and the Formation of Mandatory Special Reserves (Statutory Provisions) by Banks. Banks classify their loans in four groups in accordance with the criteria outlined by these Regulations. Loans are grouped as performing, doubtful group A, doubtful group B, and uncollectible (bad) loans. According to the classification of their credits, banks allocate their statutory provisions in amounts corresponding to the principal. Provisions for doubtful loans, groups A and B, amount to 20% and 50% respectively, and for uncollectible ones, to 100%. The utilization of statutory provisions, as well as the rules for entry of free provisions into profit, are also set forth. In addition, these Regulations envisage rules for interest compounding, restructuring and reduction of loans. Possibilities for compensating shortages in statutory provisions are also prescribed. This by-law act also stipulates the terms, conditions and procedures for exemption of foreign banks' branches from the requirements therein.

Regulations No. 11 provide the general framework of requirements to be met for bank liquidity. Detailed rules are provided for grouping assets and liabilities and for determining liquidity indicators and ratios. The banks are obliged to adopt their own rules on liquidity management and submit liquidity reports to the BNB. The BNB makes official assessments of liquidity based on the reports submitted. Particular measures may be prescribed for meeting liquidity requirements, or restrictions may be imposed as to acquisition of financial long-term assets and allocation of dividends on the basis of inspections made, official assessments or liquidity consultations held with the banks.

By Regulations No. 10 on the Internal Control in Banks, the BNB obliged them to establish special bodies to perform such control functions. These Regulations provide in principle the scope and targets of internal control, the terms of reference, obligations and the acts of specialized internal control authorities.

In 1993, new *Regulations No. 5* of the Ministry of Finance and the BNB on Issuance of Book-entry Government Securities and the Procedure for Their Acquisition and Redemption were adopted. These Regulations provide improved procedures for issuance and sale of government securities, including long-term ones, with a period of redemption exceeding one year.

3. Organizational Changes in the Banking System

New Banks

The organizational structure of the banking system in 1993 was continually influenced by two opposing trends, evidenced in the recent two years. The first trend, related to banking sector liberalization and the entry of new participants into it, was more evident than in the previous year. The BNB Board granted licenses to seven banks, including a branch of a foreign bank. This gives ground to assume that the process of establishing private banks has not yet come to an end. At the same time, amendments to Regulations No. 2 on the Permits (Licenses) Granted by the BNB tightened control.

The second trend in the development of the banking system evolved in the process of consolidation already underway. The merger of smaller banks with a majority state interest resulted in a more competitive system as part of the process of transition to a market economy. The minimum capital requirements for a domestic and foreign license, designed to meet European standards, add to this effect. This trend gathered momentum in 1993, which gives ground to assume that consolidation of the state banks was almost completed by the end of the period under review.

Consolidation of the Banking System

In 1993, the process of consolidation of commercial banks with a majority state interest, started in the previous year, continued. It was organized and directed by the Bank Consolidation Company (BCC), registered in the beginning of 1992. The BCC is a joint-stock company with a major objective to promote creation of an efficient banking system in the country, by managing the stocks acquired by the Company as well as by consolidation of state-owned commercial banks.

The project, developed in 1992 for incorporation of the first bank group, the United Bulgarian Bank (UBB), comprising 22 banks, was used as a basis for the establishment of new groups. In April, Balkanbank Ltd. was authorized by the BNB Board to effect a merger with Vidin Commercial Bank, Lyaskovets Commercial Bank and Gorna Oryahovitsa Commercial Bank. In the beginning of June, the BNB Board approved establishment of two new commercial banks through a commercial bank merger:

• Expressbank Commercial Bank Ltd., Varna, a universal successor of 12 merged banks: Varna Commercial Bank, Gotse Delchev Commercial Bank, Transport Bank, Kyustendil Commercial Bank, Smolyan Commercial Bank, Rilabank Commercial Bank, Vazrazhdane Commercial Bank, Razgrad Commercial Bank, Cherven Bryag Commercial Bank, Silistra Commercial Bank, Devin Commercial Bank and Provadia Commercial Bank.

• Hebros Commercial Bank Ltd., Plovdiv, a universal successor of the following 8 merged banks: Agricultural and Cooperative Bank, Plovdiv Commercial Bank, Blagoevgrad Commercial Bank, Veliko Turnovo Commercial Bank, Vitosha Commercial Bank, Mezdra Commercial Bank, Troyan Commercial Bank and Chepelare Commercial Bank.

In December, the BNB Board gave a permit to Hemus Commercial Bank, Sofia Commercial Bank, Elektronika Commercial Bank and Kazanlak Commercial Bank to merge in a new bank, named Sofiabank Ltd.

Pending completion of the consolidation process sets the scene for transition to preprivatization arrangements and follow-up sale of the state interest in these banks. Due to the key role the banking system plays in the economy, and the predominant state participation in it, this process can be viewed only in the context of overall economic development and the requirements and needs of the economic reform. At the same time, various approaches and a recommended model for the preparation of forthcoming privatization of banks will be determined, in large measure, by the accomplishment of such major objectives at the final stage of the bank reform like capital adequacy, modernization and efficient competition in the banking system.

The Plenary Council of the BNB discussed a privatization program; the Law on Privatization and Restructuring of State and Municipal Enterprises is to be amended so as to include the banking system as well. The BNB supports the proposition that privatization should be launched in early 1994.

4. Balance Sheet Results of Commercial Bank Operations

The year 1993 was crucial to the banking system. Commercial banks had to operate under an unfavorable business environment. Actual absence of a structural reform and privatization encumbered their activity inasmuch as their business partners, the state enterprises, continued to incur losses and to be debt-ridden to the banks for many years.

Under conditions of permanently high inflation, monetary restriction and nominally high interest rates, it was a matter of survival for commercial banks to find a solution to the bad debt problem.

Bank Assets[22]

The reserve items of commercial banks reflect their willingness to maintain a portion of their assets in a highly liquid form. Currency in the BNB vaults and reserves of commercial banks held with the BNB and other commercial banks are also included in this item. In 1993, reserves comprised 6.6% of the overall balance sheet value of the assets.

The ratio of reserves in BGL to deposits in BGL, though different for separate banks, reflects the striving of the whole banking system to maintain the level of these resources higher than the mandatory 7%.

RESERVES IN BGL/DEPOSITS RATIO

Indicators	1990	1991	1992	1993
Reserves* (million BGL)	697	1,896	19,513	21,368
Deposits (million BGL)	16,509	37,844	104,246	167,393
Reserves/deposits (%)	4.2	5	18.7	12.8

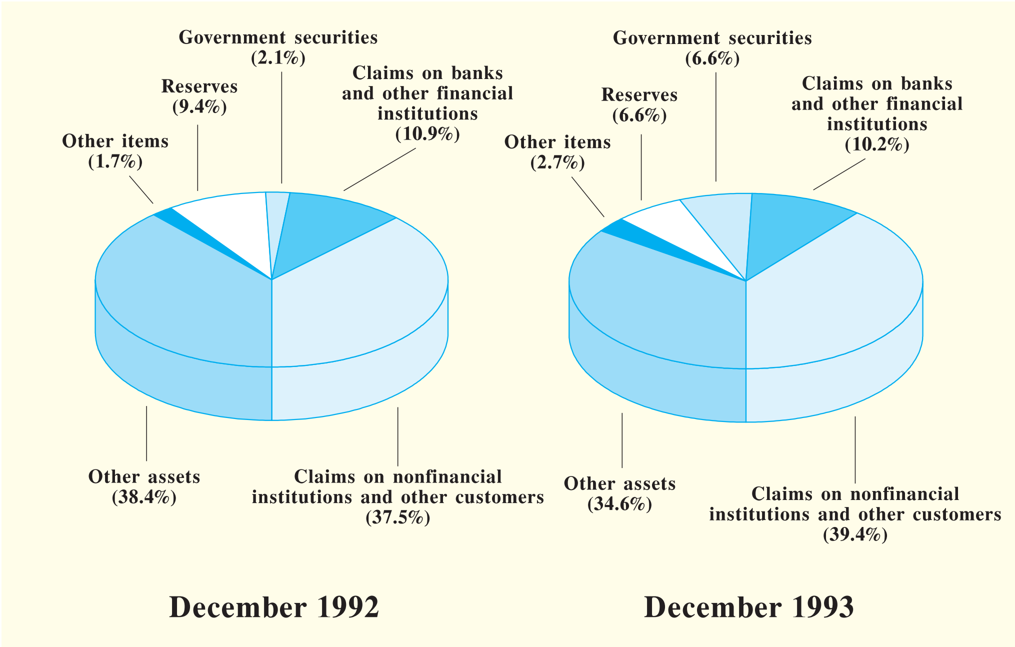
*Reserves include minimum reserve requirements as well (7% on deposits).

Source: BNB.

[22] The 1993 data are based on reports as of 31 December 1993. They do not reflect operations for transformation of credits under the Law on Settlement of Nonperforming Credits Negotiated till 31 December 1990 and follow-up changes in commercial bank financial performance.

Investment in government securities constituted 6.6% of the balance sheet value of the assets. The substantial increase of 339% versus 1992 manifested that these nonrisk investments have a key role in the loan portfolios of banks. This indicator includes long-term government bonds, issued to cover nonperforming credits of state enterprises (BGL 4,127 million in 1992 and BGL 6,210 million in 1993). After striking off the annual balance for 1993 resources on this indicator are estimated to grow approximately BGL 28 billion resulting from issuance of bonds in BGL under the Law on Settlement of Nonperforming Credits Negotiated till 31 December 1990.

STRUCTURE OF COMMERCIAL BANK ASSETS



Source: BNB.

Commercial bank lending policy bore the heavy burden of nonperforming state credits. Increased debt of firms, combined with interest accrued and limited credit ceilings almost exhausted commercial banks' possible means to extend new credits. The increase in claims on nonfinancial institutions and other clients was basically derived by the forex share of this indicator, which marked an increase of 61% per annum against a 33.56% annual depreciation of the BGL. The lev component rose 31.7%.

Other assets still had an important place in the commercial bank balance sheets (34.6%) due to the large share of valuation adjustments reflecting the BGL devaluation in 1991, as reported in the balance sheet of the Bulgarian Foreign Trade Bank.

Bank Liabilities

Dynamics of liabilities operations evolved from movements in the exchange rate, since the forex component was of major importance (66% of all attracted funds) in the banks' balance sheets. Its share in the attracted funds from banks and other financial institutions, where foreign liabilities of the government and the banks are accounted for (91% in the Bulgarian Foreign Trade Bank), was extremely large. If influence of the exchange rate is disregarded, changes in the attracted funds are insignificant, 0.3% of forex funds attracted from banks, and -5.3% in forex funds attracted from nonfinancial institutions. Increase in the funds attracted in BGL from nonfinancial institutions (60.6%), two thirds of these being in time deposits according to bank statistical data, was close to the compounded interest rate on one-month deposits (51.9%).

FUNDS ATTRACTED

(million BGL)

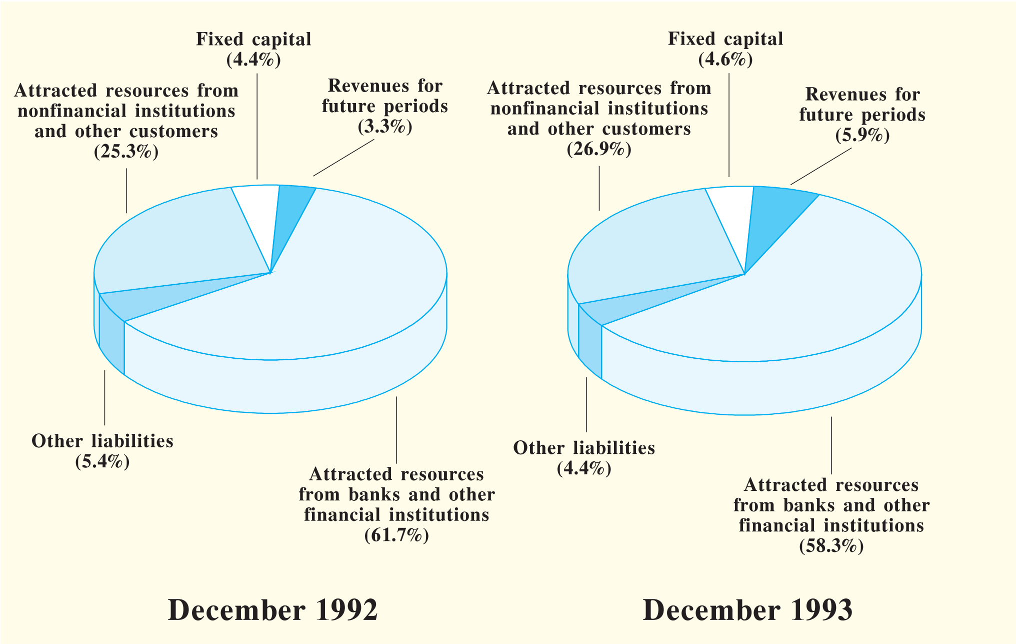
Indicators	1992	1993
Funds attracted from banks, incl.	359,433	480,324
BGL	53,218	70,027
foreign exchange	306,215	410,297
Funds attracted from nonfinancial institutions and other customers, incl.	147,128	221,639
BGL	104,246	167,394
foreign exchange	42,881	54,245

Source: BNB.

The item reflecting future revenue rose significantly (152.7%), directly prompted by a 232% increase in commercial bank losses, since these include interest accrued, but unpaid, on bad loans.

Losses[23] sustained by large state banks from nonperforming loans available in their credit portfolios would not allow a raise in their capital. Bank capital rose 49% compared to 1992. This increase could be attributed mainly to state banks without nonperforming state credits, and to private banks.

STRUCTURE OF COMMERCIAL BANK LIABILITIES



Source: BNB.

Cleansing of loan portfolios of banks, started in 1993, would provide opportunities for larger accumulation of capital and strengthening of the bigger state banks. Nevertheless, commercial banks still have to suffer significant setbacks for the next six years, particularly in the first two years, when the lev government bonds will bear interest considerably below the price that commercial banks pay on funds attracted.

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[23] As a result of the belated settlement of the bad debt problem, a mere BGL 767.2 million entered into the state budget against law projections of BGL 5.3 billion.

5. Relations with International Financial Organizations

In 1993, the BNB continued to develop relations with international financial institutions in close cooperation with the Government of the Republic of Bulgaria.

International Monetary Fund

The fourth tranche of SDR 31 million from the one-year stand-by agreement between Bulgaria and the IMF, approved by IMF Executive Board on 17 April 1992, was received on 4 January 1993. Thus, loans disbursed from the IMF totaled SDR 459.9 million or USD 623 million. Bulgaria failed to receive the last tranche due to incomplete fulfillment of commitments undertaken in the Aide-Memoire attached to this agreement. The term of this agreement elapsed on 16 April 1993.

Repayment of loan principal will start in mid-1994 and will continue to the year 2000. Interest on the IMF debt shall be repaid quarterly. In 1993, Bulgaria paid interest of SDR 26.5 million (approximately USD 35.9 million) for using IMF resources.

A new stand-by agreement would mean not only a change in the legislative framework (including the adoption of laws on VAT, on Bankruptcy and Protective Concordat), but comprehensive, all-sweeping activity to achieve substantial progress in accomplishment of the structural reform. In December 1993, on the basis of the Letter of Intent and Aide-Memoire on the economic policy of the government, a project for a new stand-by agreement was drawn up, which the IMF Executive Board was to find eligible for consideration. An IMF agreement would be a precondition to accomplish contracted terms and receive the already negotiated funds in support of the balance of payments from the World Bank and the OECD countries (G-24), as well as to provide the necessary funds for the service of the foreign debt deal.

The new stand-by agreement will be coupled with the extension in 1993 of a loan under the newly established credit facility for transition economies (estimated at SDR 232.5 million or approximately USD 328 million).

World Bank

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

In early 1994, the second tranche agreement of the Sectoral Adjustment Loan (SAL) of USD 100 million was finalized; the greater portion of these funds to be effective as of mid-April 1994.

The Financial and Enterprise Sectoral Adjustment Loan (FESAL) of USD 150 million is in process of finalization. It should be noted here that this loan is of primary importance, since its fulfillment is predetermined by various conditions ensuring progress of the structural reform.

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

European Bank for Reconstruction and Development

The EBRD Board of Directors approved, and the National Assembly of the Republic of Bulgaria ratified, loan agreements for infrastructural projects in Bulgaria with EBRD participation, totaling ECU 108.7 million, as follows:

• Reconstruction and expansion of “Maritsa Iztok II” electric power station (ECU 40 million of ECU 114 million);

• Reconstruction and expansion of Bulgarian telecommunications network (ECU 34 million of ECU 186 million);

• Construction of 32 km of the Trans-European Highway (from Plovdiv to Orizovo), and repair of 800 km of the road network in the country (ECU 34.7 million of ECU 82.3 million).

The EBRD, the World Bank and the European Investment Bank (EIB) participated in three joint infrastructural projects.

The following preinvestment study is underway:

• Reconstruction of the country's railways;

• Trans-European Highway;

• Design of a comprehensive project for water supply and for environmental solution of the sewerage problem in Sofia;

• Opportunities for establishment of wholesale market places for vegetables and other agricultural products in 12 towns in the country;

• Layout of Varna seaport;

• Layout of public transport in Sofia, including construction of Sofia subway.

As of 24 March 1994, out of the total EBRD funds worth ECU 126.8 million, agreements for ECU 115.3 million were signed (or 91% of the projected amount). Of these, initial payment of ECU 4.2 million was effected, or 3% of the contracted amount. These funds were intended for infrastructure projects guaranteed by the government (88.5%) and for private sector projects (11.5%). The ratio of total contracted funds for the public and private sector projects is the same. One of the factors responsible for such distribution is the practice undertaken by the Bank to demand government guarantees on the resources invested. Another factor appreciably contributing to this is the lack of local private capital and foreign investors willing to co-finance the EBRD projects for the private sector development. 81% of the funds intended for the private sector (ECU 14.6 million in total) was in capital participation, and agreements of ECU 3.1 million were concluded (21% of projections). The projected funds cover only one such project and no disbursement on it has yet been made.

The following projects were developed in the financial sector: EBRD interest in the UBB capital, establishment of Bulgarian Investment Bank, of Risk Investment Fund in small- and large-scale enterprises, and establishment of Joint Insurance Company. In 1993, the project of primary importance for Bulgaria, the UBB project, was not given the final go-ahead. The UBB underwent organizational and financial auditing but the results of these were not presented to the concerned Bulgarian party. Regarding the Bulgarian Investment Bank project, due to various reasons (inability on the part of the EBRD to find a foreign partner), the terms set for the bank to be established (end of 1993) were not observed.

European Investment Bank

The final talks on signing a loan agreement on small- and medium-scale enterprises were held on 27 – 28 May 1993. Agreement for a government loan of ECU 30 million from the EIB was signed in Luxemburg on 16 July 1993. The debt will be managed by the BNB. The loan is for investment purposes and the funds are to be allocated by 31 July 1996. Interest will be paid twice a year, and the principal is to be repaid in 20 equal installments between 1999 and 2008.

The BNB and EIB agreed the First Private Bank to be the mediator on the loan. The project is open for other banks to participate as well. The Bank for Agricultural Credit and Balkanbank, chosen in principle by EIB to be financial mediators on the loan for small- and medium-scale enterprises (APEX), do not fully meet the EIB requirements for participation in the credit line.

Preparatory work was initiated on a project for technical assistance to establish credit analysis units in the banks, potential and actual mediators on the loan.

Parallel to these positive aspects (fixed, relatively low interest rate, flexible currency of payment, taking advantage of experience in credit valuation) there are a number of problems stemming basically from the existing controversy between the BNB tasks as a central bank and the commercial nature of its relations with the commercial banks, mediators on the loan.

Technical Assistance for Restructuring of the Banking System

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

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

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

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

Group of 24

In 1991, G-24 extended financial aid in support of Bulgaria's balance of payments worth USD 748 million. By the end of 1993, the country received USD 348 million from the European Community and USD 32 million from Switzerland. The remainder of funds under the terms of an agreement with the IMF were not received, i.e. USD 100 million from Japan, USD 19.9 million from Austria[24]; USD 17.4 million from Sweden; USD 13 million from Norway; USD 10 million from Finland, and USD 7.42 million from Canada[25].

6. Personnel and Qualification

The total number of BNB personnel accounted for 939 as of 31 December 1993.

PERSONNEL OF THE BULGARIAN NATIONAL BANK

(number of people)

BNB	617
Branches	226
Plovdiv	61
Varna	39
Bourgas	61
Pleven	65
Resort centers	96
Total	939

Source: BNB.

The major criteria adopted by the bank in selecting and recruiting its personnel were expertise and professional knowledge of the applicants.

[24] Received with a delay in 1994.
[25] The USD equivalent is calculated at an exchange rate ECU 1 = USD 1.2, ATS 1 = USD 0.09, CAD 1 = USD 0.74.

Remuneration of the bank staff and their social securities were in compliance with the Collective Labor Agreement and other legislation specific to this area.

In 1993, a PHARE financed project on promotion of human resources management in the BNB was launched. The project includes the following essential issues: updating of the functional characteristics and designing of a system for job classification and assessment, application of modern methods in recruiting personnel, improvement of wage payment system and assessment of staff achievements.

The BNB, in order to fulfill its policy relating to personnel management, continued to invest funds for training to be able to meet the new requirements and trends in the development of the banking system.

In the past year, technical assistance for training, extended to the BNB by other countries' central banks (Austria, Great Britain, Japan, Italy, Switzerland, USA, etc.) and other specialized international institutions and organizations (the IMF Institute, the United Vienna Institute, etc.) increased. Training covered the following areas: economic and monetary analysis, monetary policy, forex operations, bank supervision, bank management, information technologies, etc. In 1993, 100 BNB employees participated in various forms of training abroad. English and computer courses (Microsoft Word 5.5 and Quattro Pro 3.01) were considered of primary importance for training in the country. Many bank employees attended seminars on central banking organized by the IBI.

IX. Financial Results of the BNB Activities

The annual balance sheet and the closing of accounts as of 31 December 1993 were done after assets, liabilities and resultant foreign exchange accounts were transferred in BGL at the exchange rate of 31 December 1993.

The fixed capital of the BNB is BGL 200 million in compliance with Article 7 of the Law on the Bulgarian National Bank. Pursuant to Article 8 of the Law on the BNB, the Bank shall build up reserve fund in the amount of 25% of the annual excess of revenue over expenditure and 1% for other special funds, including 0.95% for other special reserves and 0.05% for the BNB health fund.

In 1993, the BNB lent credits to the Ministry of Finance totaling BGL 14,340 million. The Ministry of Finance repaid in part credits in the amount of BGL 1,746 million, completely redeemed the temporary credit totaling BGL 1,800 million and refunded BGL 266 million of total credits used. As a result, the total indebtedness of the Ministry of Finance to the BNB as of 31 December 1993 amounted to BGL 33,447 million.

Equity participation of the Republic of Bulgaria in the international financial institutions totaled BGL 2,379 million (with equal shares of the BNB and the Ministry of Finance in the IMF, the EBRD and the International Financial Corporation), as follows:

(million BGL)

European Bank for Reconstruction and Development	320.2
International Monetary Fund	2,017.7
International Financial Corporation	31.5
National Numbering Agencies (ANNA) for Securities	0.4
Multilateral Agency for Investment Guarantees	8.9
TOTAL	2,378.7

Source: BNB.

The BNB equity in the Bank Consolidation Company (BCC) and other companies totaled BGL 1,570 million. BNB equity participation in BCC increased from BGL 1,391 million in 1992 to BGL 1,399 million in 1993. During the past year the BNB acquired in addition 7 shares in Bulstrad Ltd. and 185 shares in Bankservice Ltd.

BNB PARTICIPATION IN OTHER ORGANIZATIONS AS OF 31 DECEMBER 1993

(BGL)

BIS	955,577
Bulstrad Ltd.	2,700,000
Borica Ltd.	74,000,000
Botevgrad Cherry	425,837
Bankservice Ltd.	78,185,237
Mint Ltd.	14,153,954
International Banking Institute	1,000,000
Bank Consolidation Company	1,399,154,000
TOTAL	1,570,574,605

Source: BNB.

The BNB fixed capital and shares are valued at their nominal value. The money resources in BGL are valued at their nominal value, and in foreign exchange – at the exchange rate fixed as of 31 December 1993.

As a result of its activities, the BNB effected revenue of BGL 20,680,027,000 and expenditure of BGL 8,269,306,000. Annual surplus of revenue over expenditure of the BNB is as follows:

BNB REVENUE AND EXPENDITURE IN 1993

(thousand BGL)

I. BNB revenue	20,680,027
II. BNB expenditure	8,269,306
III. Balance (I – II)	12,410,721
Amount to be distributed	12,410,721
1. Reserve fund (25%)	3,102,680
2. Other special reserves (0.95%)	117,902
3. Health fund (0.05%)	6,205
4. Balance to be paid in the budget	9,183,934
IV. Balance of revenue over expenditure as of 31 December 1993 to be paid in the budget	9,456,770
V. Amount overpaid in the budget	272,836

Source: BNB.

Financial Revenue

In 1993, revenue from interest totaled BGL 19,927,812,000, compared to BGL 11,294 million in 1992. The increase of BGL 8,633,812,000 is due to a hike in the basic interest rate from 47% in early 1993 to 52% at the end of the period under review. The share of interest earnings from short- and long-term credits extended to the Ministry of Finance, 69.9%, was the largest. Revenue from interest on deposits extended to commercial banks comprised 23.88%. Interest earnings of 6.2% came from forex operations, and 0.02% from unduly transferred minimum noninterest-bearing reserves.

Throughout the year, the BNB effected revenue from government securities operations in the amount of BGL 649.464 million, compared to BGL 24 million in 1992. The BNB reported other financial revenue of BGL 87.294 million, compared to BGL 28 million in 1992.

Financial Expenditure

BNB expenditure for interest payment in 1993 totaled BGL 7,208.15 million compared to BGL 8,765 million in 1992. Interest paid on SSB deposits and other ministries accounted for BGL 5,041.281 million compared to BGL 6,635 million in 1992.

BNB paid interest of BGL 350 million on current accounts of the Ministry of Finance, compared to BGL 385 million in the previous year. Interest paid on commercial bank current accounts was BGL 476 million, compared to BGL 612 million in 1992.

Expenditure for lev government securities operations totaled BGL 525 million, and expenditure for government securities operations in foreign currency was BGL 7 million.

Expenditure for support of currency in circulation accounted for BGL 225 million, a decrease of BGL 122 million compared to 1992.

In 1993, expenditure for labor and social securities totaled BGL 100 million or 1.2% of the total expenditure.

Reserves

From the annual positive balance of revenue over expenditure, the BNB has allocated resources to the Reserve Fund and other special reserves totaling BGL 3,277 million (26%) with the remaining BGL 9,184 million to be paid in the budget. The BNB deposited BGL 9,457 million to the account of the Ministry of Finance, an excess of BGL 273 million. The excess amount was debited in January 1994.

Budget of the BNB

By Resolution of 30 March 1993 of the Plenary Council of the BNB, the 1993 budget of the BNB in the amount of BGL 639,910,000 for support of current activities and BGL 1,589,115,000 for investment in long-term assets, was adopted.

In practice BGL 440,333,000 (or 68.81% of the amount projected) were spent for support of BNB current activities.

PERFORMANCE OF THE 1993 BUDGET OF THE BNB

Indicators	Budget	Performance	
	(million BGL)	(million BGL)	(%)
Section I. Expenditure for support of current activities of the BNB	639.9	440.3	68.81
Expenditure for support of currency in circulation	273.5	224.8	82.19
Expenditure for labor and social securities	97.7	100.1	102.40
Expenditure for materials, services and overhauls	240.9	98.3	40.80
Expenditure for social activities in the BNB	27.7	17.0	61.37
Section II. Investment in tangible and intangible assets	1,589.1	492.8	31.01
Expenditure for acquisition of long-term assets	1,589.1	492.8	31.01

Source: BNB.

Balance Sheet of the Bulgarian National Bank

million BGL

	1992	**1993**
ASSETS		
Holdings in Bulgarian coins	57	**132**
Holdings in foreign exchange	3	**3**
Participation in international institutions	2,253	**2,380**
Holdings in foreign securities	7,641	**2,497**
Deposits and loans extended to commercial banks	37,966	**51,411**
Loans extended to the government	22,919	**33,447**
Securities	1,475	**3,636**
Other assets	10,780	**14,914**
Total	83,094	**108,420**

	1992	**1993**
LIABILITIES		
Statutory fund	200	**200**
Reserve and other funds	17,038	**30,337**
Banknotes in circulation	21,341	**28,181**
Current and deposit accounts	39,155	**44,285**
Other liabilities	5,360	**5,417**
Total	83,094	**108,420**

X. Major Trends of Monetary Policy in 1994

The year 1993 saw no improvement in the country's macroeconomic situation. Faltering structural reform and privatization, prompting a further decline in the real sector, strongly pressured the country's financial stability. Given the negative balance of payments, insufficient foreign financing, negative real interest rate on deposits and increased inflationary expectations, the tension and disruptions in the forex market were unavoidable. Irrespective of the BNB restrictive monetary policy and interventions in the forex market in support of the BGL, at the end of 1993 and in early 1994, the overall financial situation drastically aggravated, which will undoubtedly reflect in the BNB policy in the current year.

The downdrift of the real sector in 1993 affected the banking system as well. A number of big commercial banks with over 50% state participation closed their accounts, reporting losses due to the growing capitalized interest on nonperforming credits. The adoption of the Law on the Settlement of Nonperforming Credits Negotiated till 31 December 1990 partially eased the pressure on the commercial banks which had extended these credits. However, their financial recovery will start only after a successful sale of the bonds in the course of privatization. The progress in this process will be crucially important for the banking sector.

In 1994, the BNB will continue to pursue a monetary policy aimed at maintenance of internal and external stability of the national currency, consistent with the Law on the BNB. This objective will be accomplished in accordance with the current state of major macroeconomic parameters, the agreements in the macroeconomic frame of the 1994 SBL, and the commitments of the Stand-by Agreement with the IMF. The close coordination of intents and actions between the BNB and the government will be the major prerequisite for the successful implementation of the BNB monetary policy, needed in order to implement more consistent monetary, fiscal, foreign trade and incomes policies targeted to achieve and maintain financial stability at reasonable cost.

Major Goal of Monetary Policy

Further curb of inflation will be the major goal of BNB monetary policy in 1994. Given the complicated financial set-up at the end of the first quarter of 1994, the achievement of the inflation rate projected in the macroeconomic frame of the 1994 SBL and the third Stand-by Agreement with the IMF will be possible only by strictly adhering to the budget deficit limits, and after discontinuation of the real sector decline. BNB monetary policy is not directly dependent on the above mentioned conditions but it will be affected in case of unfavorable developments.

BNB monetary policy will remain restrictive in 1994. To avoid further depression of the national economy, BNB monetary policy will be conducted consistent with the anticipated changes in prices, prompted by VAT introduction (effective as of 1 April 1994), as well as the schedule of projected changes in the administrated prices and seasonal factors.

Money Supply

Money supply dynamics will be the major indicator of the extent to which monetary restriction is conducted. Forecasts of money supply growth throughout the year will be impeded, given the uncertainty in intervals of anticipated changes in nominal GDP growth. In line with the intent to conduct moderate monetary restriction, money supply growth should be reduced several percentage points below GDP nominal growth. Given the excessive growth in the forex component of money supply over inflation during the first quarter of 1994, total restriction could only be achieved through tightening the restriction on the lev component. To this end, the projections implied in the Agreement with the IMF will be the general reference point, with their accomplishment depending on the development of the macroeconomic situation in the country during the course of the year.

Domestic Credit

Projected growth in lev money supply, and opportunities to increase BNB foreign exchange reserves, will limit lev domestic credit growth. Since the amount of credit to the government sector directly depends on bank financing of the cash deficit projected in the SBL, the resultant credit to the real sector will also be limited. Under the strict conditions of the general financial programming scheme, any additional budget borrowing requirement will crowd out the real sector from the credit market, triggering all possible negative effects for the economy.

Accomplishment of SBL projections relating to the cut of the budget deficit in GDP by several percentage points and the growth in nonbank financing of budget deficit will result in a nominal government credit growth close to projected inflation. Consequently, the volume of credit resources for the real sector will remain unchanged in real terms, which is considered to be sufficient in the current situation. The effects from enactment of the Law on Settlement of Nonperforming Credits Negotiated till 31 December 1990, enabling the investment of new funds in the national economy, are expected to be positive.

Foreign Exchange Policy

Despite the difficulties relating to disrupted internal forex market stability and the country's comparatively small foreign exchange reserves at end-March 1994, the BNB foreign exchange policy will be again directed to maintain external BGL stability. The central bank will not restrict the already liberalized foreign exchange regime. At the same time, enactment of by-laws regulating banking sector activities will help strengthen the controls over foreign exchange operations, in order to prevent illegal speculations which may destabilize the forex market.

There is ground to expect further increase in the volume of foreign currency traded in the forex market in 1994, with the BNB preserving its share in it. BNB interventions will be again directed to offset exchange rate fluctuations. At the same time, the BNB has no intention to counteract the fundamental trends in forex market development.

Following the faster nominal BGL depreciation than inflation during the first 1994 quarter, at the end of March the real BGL appreciation (registered in 1992 and 1993) was almost offset. After the restoration of foreign financing in early April, the exchange rate slided, fluctuating around a level higher than projected in the budget macroeconomic frame. If this level is considered to be favorable for balance of payments stabilization by encouraging exports and limiting imports and if there will be no additional inflationary pressure, BNB foreign exchange policy will be aimed at avoidance of further real nominal BGL depreciation.

If foreign financing in the current year be sufficient to cover the expenses on the foreign debt servicing transaction and if even a small balance of payments surplus is recorded, the central bank will be able to replenish its foreign exchange reserves, with a view to partially compensate their 1993 fall. In addition, this will establish new opportunities for the BNB to implement its foreign exchange policy and help strengthen the confidence in the national currency, thus contributing to the exchange rate stabilization.

Interest Rate Policy

Interest rate policy will be further used as an instrument to execute and regulate monetary restriction and as a factor repressing inflation. Under the conditions of high inflationary expectations, the basic interest rate level will be regulated according to the projected monthly inflation dynamics and the expenses on debt servicing. Savers' heightened sensibility to the BGL interest rate policy during the last few months, resulting in a conversion (though sporadic and inconsistent) of national currency into foreign exchange, will also add to these reasons. Within the context of the current situation, the real basic interest rate should not be maintained at a lower level than in 1993, in order to guarantee the stability of the BGL deposit base. At the same time, cleansing of bad loans from commercial bank balance sheets is expected to reduce the spread over interest rates on credits, and thereby release interest rate burdens on the real sector.

Monetary Instruments

Under the conditions of high inflation rates and inflationary expectations, credit ceilings will preserve their important role as a major instrument to limit credit expansion, with the BNB recognizing its nonmarket character. Application of this instrument alone may result in a serious deviation from the market allocation of credit resources, thus impeding the normal development of the financial sector. To this end, in the recent 1 – 2 years the BNB has made efforts to extend the role of indirect monetary instruments and reserve money management, which will remain an important monetary policy goal in 1994 as well.

The BNB intends to increase its open market operations using them as a major instrument for the current implementation of the monetary policy. These projections are based on the available prerequisites relating to both government securities issued and the system for electronic settlement among commercial banks. Instruments for commercial bank refinancing will be further restructured in 1994. The amount of resources placed at deposit auctions will be decreased, targeting to reorient the commercial banks toward BNB open market operations and the interbank market. The price of Lombard loans will be raised compared to the basic interest rate, which will make them less attractive, given the growing amount of government securities held by commercial banks. The BNB will gradually limit and stop extending short-term unsecured deposits. The BNB function as a lender of last resort will be performed through loan disbursement against a pledge of government bonds issued pursuant to the Law on Settlement of Nonperforming Credits Negotiated till 31 December 1990.

As of 1994, BNB foreign exchange deposits with local banks, and foreign exchange refinancing of commercial banks, will be contracted with a view to replenish the country's foreign exchange reserves. Since there is no specialized financial institution involved in crediting import and export operations, the central bank will retain this atypical function yet significantly reduced.

To improve reliability in the regulation of the banking sector liquidity, certain changes are projected in reporting minimum reserve requirements and opportunities for overdraft of commercial banks. At the same time, the BNB will continue the work within the technical assistance rendered by the IMF and the US Treasury relating to reserve money forecasting. The results will be used to determine BNB actions and monetary instruments will be required through which money supply dynamics will be maintained within initially outlined direction. Consequently, this will create prerequisites for better coordination of BNB interventions in the money and foreign exchange markets, an important condition not only to achieve the goals but to increase the efficiency of the monetary policy pursued.

Appendix

Contents

GROSS DOMESTIC PRODUCT

Indicators	1990	1991	1992	1993[1]	1991	1992	1993[1]	1991	1992	1993[1]
	(million BGL – current prices)				(million BGL – previous year prices)			(rate of change[2], %)		
GDP	45390	131058	195000	286134	42253	123632	187689	88.3	94.3	95.8
Industry and construction	23149	63045	87061	119258	18947	55970	85511	81.4	88.8	96.1
Agriculture	8316	20260	22239	26273	8675	17467	18504	107.7	86.2	83.7
Services	14023	59902	89294	136170	14631	53879	83149	88.7	89.9	94.0
Final demand	47385	135916	211750	311467	42429	121600	203440			
Final consumption	33585	99305	171750	266240	30788	94600	163890	91.7	95.3	97.2
Population	25330	78759	129850	203986	23380	70200	127111	84.3	89.1	100.3
Government expenditure	8255	20546	41900	62254	7408	24400	36779	89.7	103.0	87.8
Gross investment	13800	36611	40000	45227	11641	27000	31377	84.4	73.7	78.4
Fixed investment	9652	24777	33000	33363	7728	25000	23204	80.1	81.5	
Inventory investment	4148	11834	7000	11864	3913	2000	8173	94.3	50.3	
Foreign trade balance, losses and statistical discrepancy	-1995	-4858	-16750	-25333	-176	2032	-15751			

[1] Preliminary data.
[2] Rates are calculated according to methodologically comparable volumes.

Source: NSI.

EMPLOYMENT IN THE PUBLIC SECTOR BY ECONOMIC BRANCH

Indicators	1989	1990	1991	1992	1993	Indices, 1989 = 100				Employment rate				
	(thousands of people)					1990	1991	1992	1993	1989	1990	1991	1992	1993
						(%)				(%)				
Total	4365	3824	3205	2653	2294	87.6	73.4	60.8	52.5	100.0	100.0	100.0	100.0	100.0
Industry	1646	1457	1195	1004	894	88.5	72.6	61.0	54.3	37.7	38.1	37.3	37.8	39.0
Agriculture and forestry	814	672	570	401	245	82.6	70.0	49.3	30.1	18.6	17.6	17.8	15.1	10.7
Construction	361	312	222	168	136	86.4	61.5	46.5	37.7	8.3	8.2	6.9	6.3	5.9
Services	1544	1383	1218	1080	1018	89.6	78.9	69.9	66.0	35.4	36.2	38.0	40.7	44.4
Transport	247	231	201	174	159	93.5	81.4	70.4	64.3	5.7	6.0	6.3	6.6	6.9
Trade	395	311	240	175	143	78.7	60.8	44.3	36.1	9.0	8.1	7.5	6.6	6.2
Communications	44	45	45	43	45	102.3	102.3	97.7	101.3	1.0	1.2	1.4	1.6	1.9
Other services	858	796	732	688	673	92.8	85.3	80.2	78.4	19.7	20.8	22.8	25.9	29.3
Public utilities	97	58	57	49	50	59.8	58.8	50.5	51.3	2.2	1.5	1.8	1.8	2.2
Science	97	88	65	49	40	90.7	67.0	50.5	41.0	2.2	2.3	2.0	1.8	1.7
Education	277	276	270	263	261	99.6	97.5	94.9	94.2	6.3	7.2	8.4	9.9	11.4
Art, culture	46	44	36	31	29	95.7	78.3	67.4	62.0	1.1	1.2	1.1	1.2	1.2
Health care	215	215	204	199	196	100.0	94.9	92.6	91.4	4.9	5.6	6.4	7.5	8.6
Finance, credit, insurance	26	25	25	32	28	96.2	96.2	123.1	106.5	0.6	0.7	0.8	1.2	1.2
Management	61	51	47	45	54	83.6	77.0	73.8	87.8	1.4	1.3	1.5	1.7	2.3
Other	39	39	28	20	16	100.0	71.8	51.3	40.6	0.9	1.0	0.9	0.8	0.7

Source: NSI.

WAGES AND EXISTENZ-MINIMUM IN 1993

(BGL)

Indicators	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	1993
Minimum wage	890	890	1200	1200	1200	1200	1343	1343	1343	1414	1414	1414	1238
Average wage	2144	2215	2705	2650	2754	3081	3038	3075	3378	3287	3422	3764	3000
Existenz-minimum (average)	1281	1347	1420	1447	1481	1457	1443	1440	1473	1536	1618	1721	1457
Children	1204	1263	1340	1402	1425	1412	1416	1415	1439	1497	1572	1663	1422
Employed	1400	1495	1597	1560	1604	1573	1554	1550	1589	1661	1754	1871	1572
Pensioners	1080	1123	1165	1223	1249	1230	1214	1210	1240	1286	1350	1436	1227

Source: NSI, BNB.

BALANCE OF MONETARY INCOME AND EXPENDITURE OF THE POPULATION

(million BGL)

Indicators	1992	January – March'93	January – June'93	January – Sept.'93	1993*	1993 to 1992 (%)
Income	149804	49301	104879	158219	221900	48.1
Wage	60405	17010	37143	59249	94000	55.6
Income from other economic activity	34110	14000	26500	41153	48410	41.9
Pensions	19880	5991	14437	23701	32690	64.4
Benefits	8678	2300	5288	8547	12200	40.6
Scholarships	632	200	500	581	800	26.6
Insurance indemnifications	1973	300	843	1188	1500	-24.0
Loans	1071	500	668	1300	1800	68.1
Interest	21499	8000	18000	20500	28000	30.2
Other income	1556	1000	1500	2000	2500	60.7
Expenditure	149804	49301	104879	158219	221900	48.1
Purchase of goods	69000	22606	50705	75900	110000	59.4
Payment for services	24999	10555	19761	31011	44000	76.0
Taxes and fees	12171	3330	7160	11117	15000	23.2
Insurance and security contributions	2756	800	1887	2325	2500	-9.3
Membership fees and equity contributions	206	50	94	150	200	-2.9
Repayment of loans	1495	720	1600	2223	3000	100.7
Interest and fines	1032	210	630	880	1000	-3.1
Other expenditures	1742	600	1050	1613	2200	26.3
Savings	36403	10430	21992	33000	44000	20.9

* Preliminary data.

Source: NSI.

STRUCTURE OF MONETARY INCOME AND EXPENDITURE OF THE POPULATION

(%)

Indicators	1992	January – March'93	January – June'93	January – Sept.'93	1993
Income	100.0	100.0	100.0	100.0	100.0
Wage	40.3	34.5	35.4	37.4	42.4
Income from other economic activity	22.8	28.4	25.3	26.0	21.8
Pensions	13.3	12.2	13.8	15.0	14.7
Benefits	5.8	4.7	5.0	5.4	5.5
Scholarships	0.4	0.4	0.5	0.4	0.4
Insurance indemnifications	1.3	0.6	0.8	0.8	0.7
Loans	0.7	1.0	0.6	0.8	0.8
Interest	14.4	16.2	17.2	13.0	12.6
Other income	1.0	2.0	1.4	1.3	1.1
Expenditure	100.0	100.0	100.0	100.0	100.0
Purchase of goods	46.1	45.9	48.3	48.0	49.6
Payment for services	16.7	21.4	18.8	19.6	19.8
Taxes and fees	8.1	6.8	6.8	7.0	6.8
Insurance and security contributions	1.8	1.6	1.8	1.5	1.1
Membership fees and equity contributions	0.1	0.1	0.1	0.1	0.1
Repayment of loans	1.0	1.5	1.5	1.4	1.4
Interest and fines	0.7	0.4	0.6	0.6	0.5
Other expenditures	1.2	1.2	1.0	1.0	1.0
Savings	24.3	21.2	21.0	20.9	19.8

EMPLOYMENT AND WAGES IN 1993, QUARTERLY DATA[1]

Branches	Registered number of employed (people)				Wage funds (thousand BGL)				Average monthly wage[2] (BGL)				
	I	II	III	IV	I	II	III	IV	I	II	III	IV	1993
Total	2374792	2324381	2281427	2193409	16699271	19716852	21645987	22950478	2344	2828	3163	3488	3000
Manufacturing industry	1714593	1662998	1620344	1538559	12579826	14555598	15770096	16389941	2446	2918	3244	3551	3062
Industry	937277	905628	878868	853986	7369957	8345311	8931736	9448646	2621	3072	3388	3688	3213
Electricity and thermal power generation	36466	36671	37029	37405	519121	578752	632982	667519	4745	5261	5698	5949	5538
Coal-mining	38534	38619	38272	37633	542558	611852	657478	708480	4693	5281	5726	6275	5506
Oil and natural gas	1417	1378	1435	1460	13328	14914	17127	18791	3136	3609	3977	4289	3835
Iron and steel (incl. ore mining)	26463	25832	25919	25962	318641	386619	416740	460428	4014	4989	5360	5911	5043
Nonferrous metallurgy (incl. ore mining)	33799	32943	32680	32425	401889	449794	464333	505084	3964	4551	4736	5192	4646
Machine building and metal processing	190288	184632	179177	174094	1399213	1598406	1720650	1827078	2451	2886	3201	3498	3040
Electrical and electronic industry	99967	91900	85037	80584	608542	676865	681275	700411	2029	2455	2670	2897	2482
Chemical and oil processing	82808	81745	81161	79962	941721	1018994	1121241	1197728	3791	4155	4605	4993	4425
Construction materials	29952	29910	29493	28175	229327	290107	318821	317289	2552	3233	3603	3754	3349
Wood and woodworking	49217	47775	46420	44828	292019	332352	366868	375687	1978	2319	2634	2794	2472
Cellulose and paper	12387	11619	11441	11122	76522	94562	94800	103896	2059	2713	2762	3114	2711
Glass, china and earthenware	17580	17176	16897	16831	121834	128571	149767	162381	2310	2495	2954	3216	2769
Textile and knitted goods	72592	68635	66602	64337	397806	425394	440602	473890	1827	2066	2205	2455	2144
Sewing industry	51119	49802	48713	47451	207781	237230	269793	276316	1355	1588	1846	1941	1713
Leather, fur, footwear	24164	23274	22636	22130	118154	131418	155876	158083	1630	1882	2295	2381	2062
Printing and publishing	6550	6192	6114	6040	61130	67317	77557	87397	3111	3624	4228	4823	4028
Foodstuff	115476	111593	108452	104427	947100	1105549	1145518	1197001	2734	3302	3521	3821	3374
Other industries	48382	45935	41344	39120	173271	196615	199292	211187	1194	1427	1607	1799	1464
Construction	145692	139102	133791	126251	1044406	1293354	1400552	1425564	2390	3099	3489	3764	3175
Agriculture	243965	235548	237006	203135	1104667	1376726	1657848	1499651	1509	1948	2332	2461	2097
Forestry	12405	18581	15861	13055	51872	106740	91317	97443	1394	1915	1919	2488	2039
Transport	164846	160955	157040	152207	1522255	1743293	1865999	1986032	3078	3610	3961	4349	3777
Communications	44538	44500	44699	44626	374194	408374	467591	496742	2801	3059	3487	3710	3245
Trade, input procurement and purchase of produce	151589	145353	140259	132933	985343	1148896	1213743	1288496	2167	2635	2885	3231	2776
Other manufacturing industries	14280	13331	12820	12364	127132	132904	141310	147367	2968	3323	3674	3973	3536
Other services	660199	661383	661083	654850	4119445	5161254	5875891	6560537	2080	2601	2963	3339	2847
Public utilities	48032	49800	52738	48623	366470	439003	502546	499199	2543	2938	3176	3422	3026
Science	42704	40970	39138	36260	281871	320524	356378	380234	2200	2608	3035	3495	2779
Education	262838	263062	258936	259069	1473620	1845552	2048948	2296193	1869	2339	2638	2954	2511
Culture, art	28668	28312	28084	28994	151504	182273	207185	238134	1762	2146	2459	2738	2472
Health care, social security, sports and tourism	196251	195933	197543	196051	1104817	1419411	1659471	1820327	1877	2415	2800	3095	2663
Finance, credit and insurance	26255	27689	28176	28679	362307	434479	496661	628928	4600	5230	5876	7310	5995
Management	52695	52980	53847	54588	358283	496088	577987	667203	2266	3121	3578	4074	3585
Other sectors in services	2756	2638	2622	2584	20573	23924	26715	30319	2488	3023	3397	3911	3419

[1] Preliminary data.

[2] Incl. women on maternity leave.

Source: NSI.

CONSUMER PRICE INDEX IN 1993
(previous month = 100)

(%)

Commodity (services) groups	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Consumer price index	106.9	104.7	105.6	103.9	105.3	104.1	101.0	102.6	103.8	104.2	104.6	103.9
Foodstuffs	107.7	102.6	107.0	104.5	102.5	102.9	101.1	103.1	103.7	104.6	104.8	103.9
Nonfoodstuffs	104.7	106.2	104.1	103.2	105.1	101.6	100.3	102.6	104.2	104.5	105.0	104.0
Services	109.2	106.2	102.0	104.4	119.5	117.3	102.6	101.1	102.0	100.9	101.3	103.6
Food*	108.0	103.3	107.5	104.5	102.3	103.0	101.3	102.9	103.9	104.9	105.1	103.8
Liquor products	103.0	103.6	108.5	104.4	105.9	105.5	102.8	100.9	100.5	103.9	100.1	104.5
Tobacco products	102.8	100.2	102.5	104.0	120.9	104.8	99.6	100.1	105.9	111.5	105.9	104.2
Housing, heating, electricity	105.8	107.2	101.6	107.9	107.9	102.8	101.9	101.4	102.9	102.4	102.2	101.8
Energy for households	111.5	102.1	100.8	100.4	137.7	100.6	99.8	100.7	100.7	100.7	101.3	101.1
Home furniture	104.2	106.4	104.4	102.0	105.5	101.2	102.7	101.7	105.2	103.8	103.1	105.0
Clothing and footwear	105.0	105.2	102.0	103.9	101.4	101.2	100.6	103.3	104.7	106.6	104.8	104.4
Hygiene and health care	103.2	105.7	108.1	103.6	103.8	107.2	102.0	102.8	103.4	103.6	105.8	109.1
Education and leasure	115.3	107.7	103.6	102.2	101.0	106.0	100.0	102.1	104.1	101.7	105.5	107.2
Transport and communications	102.2	110.1	106.3	103.3	102.1	114.2	99.2	103.2	104.2	101.2	105.5	103.0
Other	110.7	103.6	103.1	105.6	106.0	106.1	100.6	102.9	102.4	104.1	102.1	104.0

Source: NSI.

CONSUMER PRICE INDEX IN 1993
(December 1992 = 100)

(%)

Commodity (services) groups	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Consumer price index	106.9	112.0	118.2	122.8	129.3	134.6	135.9	139.4	144.7	150.8	157.7	163.9
Foodstuffs	107.7	110.5	118.2	123.5	126.6	130.2	131.7	135.7	140.7	147.2	154.3	160.4
Nonfoodstuffs	104.7	111.2	115.7	119.4	125.5	127.5	127.9	131.2	136.7	142.8	150.0	155.9
Services	109.2	116.0	118.2	123.4	147.4	172.9	177.4	179.3	182.9	184.6	187.0	193.7
Food*	108.0	111.6	119.9	125.3	128.2	132.0	133.7	137.6	142.9	150.0	157.6	163.6
Liquor products	103.0	106.7	115.7	120.8	128.0	135.0	138.8	140.1	140.8	146.2	146.4	153.0
Tobacco products	102.8	103.0	105.6	109.9	132.8	139.2	138.6	138.7	146.9	163.8	173.5	180.8
Housing, heating, electricity	105.8	113.4	115.2	124.4	134.2	138.0	140.6	142.6	146.7	150.3	153.6	156.3
Energy for households	111.5	113.9	114.8	115.2	158.7	159.6	159.2	160.3	161.5	162.6	164.7	166.5
Home furniture	104.2	110.9	115.7	118.0	124.5	126.0	129.4	131.6	138.4	143.7	148.1	155.6
Clothing and footwear	105.0	110.4	112.6	117.0	118.7	120.1	120.9	124.8	130.7	139.3	146.0	152.5
Hygiene and health care	103.2	109.0	117.9	122.1	126.7	135.9	138.6	142.5	147.3	152.6	161.5	176.2
Education and leasure	115.3	124.1	128.5	131.3	132.6	140.6	140.6	143.5	149.4	152.0	160.3	171.9
Transport and communications	102.2	112.6	119.6	123.6	126.3	144.2	143.1	147.6	153.8	155.7	164.2	169.2
Other	110.7	114.7	118.3	124.8	132.3	140.4	141.2	145.3	148.8	154.9	158.1	164.5

* Incl. prices in catering establishments.
Source: NSI.

COMMODITY STRUCTURE OF EXPORTS AND IMPORTS*

(%)

Commodity groups	Exports 1992	Exports 1993	Imports 1992	Imports 1993
Total	100.0	100.0	100.0	100.0
Animal and vegetable products, foodstuffs, liquor and tobacco products (01, 02, 03, 04)*	26.7	21.0	8.0	9.4
Mineral products and fuel (05)	7.5	10.1	38.0	37.6
Chemical products, plastics and rubber (06, 07)	14.5	16.9	11.7	12.3
Base metals and their products (15)	15.0	18.5	5.7	6.0
Machines, transport facilities, appliances and tools (16, 17, 18, 19)	18.7	15.2	24.0	22.0
Textile and leather materials, clothing, footwear, furniture and other industrial consumer goods (08, 11, 12, 14, 20, 21)	13.0	13.6	9.2	9.1
Wood, paper, earthenware and glass products (09, 10, 13)	4.6	4.7	3.3	3.6

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

Source: Ministry of Trade, BNB.

EXPORTS BY GROUP OF COUNTRIES

Countries	1989	1990	1991	1992	1993	1989	1990	1991	1992	1993
	(million BGL – current prices)					(%)				
Total	13672.9	10559.5	57368.3	91532.9	99043.1	100.0	100.0	100.0	100.0	100.0
Countries from the former COMECON[1]	11484.1	8495.2	31637.1	26543.5	25529.5	84.0	80.5	55.1	29.0	25.8
Countries from the former USSR	8917.9	6762.9	28552.4	20530.0	19245.0	65.2	64.0	49.8	22.4	19.4
Central and East European countries[1]	2566.3	1732.4	3084.7	5890.0	6154.9	18.8	16.4	5.4	6.4	6.2
Countries from the former Yugoslavia	135.0	104.3	1585.3	9478.5	10498.6	1.0	1.0	2.8	10.4	10.6
OECD countries[2]	1105.3	948.5	15078.9	38623.2	42647.5	8.1	9.0	26.3	42.2	43.1
EC countries[2]	758.4	525.7	8981.3	26896.7	27806.4	5.5	5.0	15.7	29.4	28.1
EFTA countries	207.7	163.0	1936.2	3358.8	2945.4	1.5	1.5	3.4	3.7	3.0
Other OECD countries	139.2	259.8	4161.4	8367.7	11895.7	1.0	2.5	7.3	9.1	12.0
Arab countries	571.1	643.4	4746.3	7842.2	6881.3	4.2	6.1	8.3	8.6	6.9
Other countries	377.4	368.1	4320.7	9045.5	13486.2	2.8	3.5	7.5	9.9	13.6

[1] 1989 and 1990 data include exports to the former GDR (respectively BGL 752.4 million, or 5.5%, and BGL 304.6 million, or 2.9%).
[2] 1989 and 1990 data do not include exports to the former GDR (respectively BGL 752.4 million, or 5.5%, and BGL 304.6 million, or 2.9%).

Source: NSI, BNB.

IMPORTS BY GROUP OF COUNTRIES

Countries	1989	1990	1991	1992	1993	1989	1990	1991	1992	1993
	(million BGL – current prices)					(%)				
Total	12795.8	10314.9	45132.4	104281.2	119288.1	100.0	100.0	100.0	100.0	100.0
Countries from the former COMECON[1]	9424.3	7878.3	21135.1	38399.0	51466.2	73.7	76.4	46.8	36.8	43.1
Countries from the former USSR	6767.0	5826.7	19508.5	29818.5	43136.3	52.9	56.5	43.2	28.6	36.2
Central and East European countries[1]	2657.3	2051.6	1626.6	5603.2	5552.0	20.8	19.9	3.6	5.4	4.7
Countries from the former Yugoslavia	112.4	87.8	880.3	2413.5	2544.9	0.9	0.9	2.0	2.3	2.1
OECD countries[2]	2206.1	1538.8	14812.0	45666.4	50834.1	17.2	14.9	32.8	43.8	42.6
EC countries[2]	1323.7	993.6	9322.6	32398.1	35974.1	10.3	9.6	20.7	31.1	30.2
EFTA countries	495.6	333.3	3523.8	6262.2	6771.0	3.9	3.2	7.8	6.0	5.7
Other OECD countries	386.8	211.9	1965.6	7006.1	8089.0	3.0	2.1	4.4	6.7	6.8
Arab countries	616.2	439.7	2048.1	8964.8	5873.3	4.8	4.3	4.5	8.6	4.9
Other countries	436.8	370.3	6256.9	8837.5	8569.6	3.4	3.6	13.9	8.5	7.2

[1] 1989 and 1990 data include imports from the former GDR (respectively BGL 738 million, or 5.8%, and BGL 686 million, or 6.7%).
[2] 1989 and 1990 data do not include imports from the former GDR (respectively BGL 738 million, or 5.8%, and BGL 686 million, or 6.7%).
Source: NSI, BNB.

BALANCE OF PAYMENTS

(million USD)

Indicators	1991	1992	1993
Current account	-77.0	451.6	-900.4
Trade balance[1]	-32.0	484.5	-695.1
Exports of goods, FOB	3737.0	5093.0	3635.3
Imports of goods, FOB[2]	3769.0	4608.5	4330.4
Services, net	-114.0	-75.8	-242.2
Receipts, of which:	455.5	883.4	1131.0
Shipments	199.4	361.3	496.3
Travel	43.7	49.2	110.2
Interest	55.6	125.1	92.6
Other	156.8	347.8	431.9
Payments, of which:	569.5	959.2	1373.2
Shipments	213.2	393.0	580.2
Travel	127.9	23.1	40.7
Interest paid[3]	83.7	201.2	284.9
by BFTB	35.9	124.5	166.4
by commercial banks	47.8	65.4	47.2
Other	144.7	342.0	467.4
Transfers, net (private)	50.1	39.7	36.9
Receipts	104.4	111.0	285.9
Payments	54.3	71.2	249.0
Interofficial unrequited transfers	19.0	3.1	0.0
Capital account	115.0	-31.5	148.4
Direct investments in Bulgaria, net	55.9	41.5	55.4
Medium- and long-term loans received, net	-48.1	42.1	-46.3
Drawings	108.0	232.4	97.2
Repayments	156.1	190.3	143.5
Loans extended, net	294.9	32.5	207.3
of which:			
Developing countries, net	92.4	23.4	46.1
Drawings	12.1	3.7	-9.5
Repayments	104.5	27.1	36.6
Yamburg pipeline[4]	202.5	9.1	161.2
Short-term debt	-187.7	-147.6	-68.0
of which:			
Deposits and loans	-85.2	53.0	-68.1
Clearing account with the former USSR	-102.5	-197.5	-3.8
Clearing account with Russia	-	-3.1	3.9
Errors and omissions	26.2	-94.0	263.2
Overall balance	64.2	326.1	-488.8
Change in reserves (increment:-),	-64.2	-326.1	488.8
of which:			
Gross BNB reserves	-358.0	-575.1	232.2
BNB gold (USD 300 per oz)	0.0	0.0	0.0
Foreign exchange of BFTB	-70.9	-55.0	20.4
Foreign exchange of commercial banks	-213.4	-85.4	160.1
Use of IMF credit	385.6	217.2	44.1
Use of Swiss loan	-	-	32.0
EC loan	192.5	172.2	0.0

[1] The 1993 trade balance data are based on customs' statistics, including special trade and repayments in natural gas under the Yamburg pipeline agreement. In 1993, banks reported exports and imports respectively of USD 4,700.6 million and USD 4,567.1 million.

[2] CIF in 1993.

[3] Actually paid interest.

[4] Repayments in gas from the former USSR included.

Source: BNB.

CASH BASIS REPORTING OF THE CENTRAL GOVERNMENT BUDGET

(million BGL)

Indicators	1992 State Budget Law	1992 % of GDP*	1992 Reporting 31 Dec.	1992 % of the Law	1992 % of GDP	1993 State Budget Law	1993 % of GDP*	1993 Reporting 31 Dec.	1993 % of the Law	1993 % of GDP
I. Total revenue	44124.3	20.6	39584.5	89.7	20.3	71349.7	20.7	55139.6	77.3	19.3
1. Tax revenue	36271.4	16.9	30878.4	85.1	15.8	54840.5	15.9	41013.2	74.8	14.3
including:										
corporate tax from financial institutions	5447.8	2.5	4797.1	88.1	2.5	5300.0	1.5	767.2	14.5	0.3
corporate tax from nonfinancial institutions	11154.8	5.2	5476.9	49.1	2.8	5065.0	1.5	4124.7	81.4	1.4
2. Nontax revenue	7852.9	3.7	8706.1	110.9	4.5	16509.2	4.8	14126.4	85.6	4.9
including:										
BNB – excess of revenue over expenditure	5728.8	2.7	3220.0	56.2	1.7	9000.0	2.6	9456.8	105.1	3.3
interest revenue	815.4	0.4	741.2	90.9	0.4	832.5	0.2	619.7	74.4	0.2
mark-up on securities								27.6		
II. Total expenditure	55143.0	25.8	51307.4	93.0	26.3	104404.1	30.3	88159.9	84.4	30.8
1. Current expenditure	24475.2	11.4	19015.5	77.7	9.8	47937.0	13.9	37875.7	79.0	13.2
including:										
other expenditure	2214.4	1.0	1636.7	73.9	0.8	5151.7	1.5	1493.8	29.0	0.5
subsidies – total	3673.6	1.7	2868.4	78.1	1.5	6550.0	1.9	5797.8	88.5	2.0
interest – total	13371.9	6.2	12966.2	97.0	6.6	32838.4	9.5	27802.8	84.7	9.7
interest on external loans	4338.6	2.0	3276.7	75.5	1.7	4943.0	1.4	3126.3	63.2	1.1
interest on internal loans	9033.3	4.2	9689.5	107.3	5.0	27895.4	8.1	24676.5	88.5	8.6
2. Capital investments	166.1	0.1	96.6	58.2	0.0	681.6	0.2	385.3	56.5	0.1
3. Transfers – total	30501.7	14.3	32195.3	105.6	16.5	55785.2	16.2	49898.9	89.4	17.4
3.1. Subsidies	30501.7	14.3	31257.8	102.5	16.0	56496.4	16.4	52351.0	92.7	18.3
3.2. Temporary loans from government budget			1291.7					10.0		
including:										
to municipal councils			744.4					0.0		
to regional municipal councils								0.0		
to ministries and other institutions			5.0					10.0		
to Social Security			542.3					0.0		
3.3. Temporary loans repaid from previous years								-1758.2		
3.4. Central government budget contributions		0.0	-354.2		0.2	-711.2	0.2	-703.9	99.0	0.2
III. Deficit (–) / Surplus (+)										
1. Primary deficit/surplus	2353.2	1.1	-1243.3			-216.0	0.1	-5217.5		
Interest paid on internal loans	9033.3	4.2	9689.5	107.3	5.0	27895.4	8.1	24676.5	88.5	8.6
2. Internal deficit	-6680.1	3.1	-8446.2	126.4	4.3	-28111.4	8.2	-29894.0	106.3	10.4
Interest paid on external loans	4338.6	2.0	3276.7	75.5	1.7	4943.0	1.4	3126.3	63.2	1.1
3. Cash deficit	-11018.7	5.1	-11722.9	106.4	6.0	-33054.4	9.6	-33020.2	99.9	11.5
4. Overall demand of credit resources	17846.3		25782.0			41725.0		67032.9		

(continued)

Indicators	1992					1993				
	State Budget Law	% of GDP*	Reporting 31 Dec.	% of the Law	% of GDP	State Budget Law	% of GDP*	Reporting 31 Dec.	% of the Law	% of GDP
IV. Cash deficit financing	11018.7	5.1	11722.9	106.4	6.0	33054.4	9.6	33020.2	99.9	11.5
1. Foreign financing (operations abroad)	-2961.6	1.4	-1618.9	54.7	0.8	-3986.8	1.2	-3665.7	91.9	1.3
2. Domestic financing	13980.3	6.5	13341.8	95.4	6.8	37041.2	10.7	36685.9	99.0	12.8
2.1. Operations in government securities (net)	3250.0	1.5	4116.3	126.7	2.1	21255.8	6.2	28278.6	133.0	9.9
2.1.1. Issue of government securities in the current year (net)	7257.7	3.4	8141.3	112.2	4.2	26401.4	7.7	33422.3	126.6	11.7
Issue of government securities in the current year			13615.4					52744.6		
Repayment of government securities in the current year (total)			-9499.1					-24465.9		
Repayment of government securities issued in the current year			-5474.1					-19321.5		
Repayment of government securities issued in previous years	-4007.7	1.9	-4025.0	100.4	2.1	-5145.6	1.5	-5144.4	100.0	1.8
2.2. Bank financing (net)	10730.3	5.0	9225.5	86.0	4.7	15785.4	4.6	8402.2	53.2	2.9
2.2.1. BNB	11203.3	5.2	10277.0	91.7	5.3	17910.2	5.2	10527.6	58.8	3.7
long-term loans	11856.3	5.5	10930.0	92.2	5.6	19656.2	5.7	12273.6	62.4	4.3
repayment on long-term loans	-653.0	0.3	-653.0	100.0	0.3	-1746.0	0.5	-1746.0	100.0	0.6
temporary loans			600.0					1800.0		
repayment on temporary loans			-600.0					-1800.0		
2.2.2. Other banks and financial institutions (SSB and State Insurance Company)	-473.0	0.2	-1051.5	222.3	0.5	-2124.8	0.6	-2125.4	100.0	0.7
repayment on SSB credits	-253.0	0.1	-253.0	100.0	0.1	-253.2	0.1	-253.0	99.9	0.1
repayment on State Insurance Company credits	-220.0	0.1	-220.0	100.0	0.1	-219.6	0.1	-220.0	100.2	0.1
repayment to other banks		0.0	-578.5		0.3	-1652.0	0.5	-1652.3	100.0	0.6
2.3. Loans repaid by municipal councils from previous years	0.0		0.0			0.0		5.0		

* GDP projection in the macroeconomic frame of the government for 1992 is BGL 214 billion, and for 1993 – BGL 344.8 billion.

Source: Ministry of Finance, BNB.

CONSOLIDATED STATE BUDGET

(million BGL)

Indicators	Consolidated State budget				Government budget				Legal institutions				Social security				Municipal councils				Extrabudgetary accounts			
	1992		1993		1992		1993		1992		1993		1992		1993		1992		1993		1992		1993	
	Re-port-ing	% of GDP	Re-port-ing	% of GDP	Re-port-ing	% of GDP	Re-port-ing	% of GDP	Re-port-ing	% of GDP	Re-port-ing	% of GDP	Re-port-ing	% of GDP	Re-port-ing	% of GDP	Re-port-ing	% of GDP	Re-port-ing	% of GDP	Re-port-ing	% of GDP	Re-port-ing	% of GDP
Revenue (net)	81229.3	41.7	117696.3	41.1	39642.6	20.3	55205.8	19.3	638.7	0.3	1176.1	0.4	22752.0	11.7	32136.1	11.2	15215.8	7.8	18654.6	6.5	2980.2	1.5	10523.7	3.7
Expenditure (net)	92404.1	47.4	150233.2	52.5	39321.6	20.2	67987.8	23.8	554.7	0.3	572.8	0.2	24927.8	12.8	38979.7	13.6	26065.1	13.4	33695.1	11.8	1534.9	0.8	8997.8	3.1
Changes in balances on extrabudgetary accounts	631.4	0.3																			631.4	0.3		
Loans from "Professional training and unemployment" fund															-1291.7	0.5							1291.7	0.5
Government transfers					12063.4	6.2	20237.1	7.1	84.0		603.3	0.2	-2179.8	1.1	-5541.8	1.9	-9967.7	5.1	-15298.6	5.3				
Budget deficit	-10543.4	5.4	-32536.9	11.4	-11742.4	6.0	-33019.1	11.5					4.0		-10.1		-881.6	0.5	258.1	0.1	2076.7	1.1	234.2	0.1
Financing (net)	10543.4	5.4	32536.9	11.4	11742.3	6.0	33019.1	11.5					-4.0		10.1		881.6	0.5	-258.1	0.1	-2076.7	1.1	-234.2	0.1
Foreign financing (net)	-1618.9	0.8	-3665.7	1.3	-1618.9	0.8	-3665.7	1.3																
Domestic financing (net)	12162.2	6.2	36202.6	12.7	13361.2	6.9	36684.8	12.8					-4.0		10.1		881.6	0.5	-258.1	0.1	-2076.7	1.1	-234.2	0.1
including:																								
Operations in government securities (net)	4117.0	2.1	28277.5	9.9	4116.3	2.1	28277.5	9.9									0.7							
Bank (net)	10121.9	5.2	7957.9	2.8	9244.9	4.7	8407.3	2.9					-4.0		10.1		880.9	0.5	-225.3	0.1			-234.2	0.1
BNB (net)	11026.1	5.7	10303.5	3.6	10296.4	5.3	10527.6	3.7					-4.0		10.1		733.6	0.4					-234.2	0.1
Long-term loans	11028.2	5.7	12273.6	4.3	10930.0	5.6	12273.6	4.3									98.2	0.1						
Repayments	-653.0	0.3	-1746.0	0.6	-653.0	0.3	-1746.0	0.6																
Temporary loans	600.0	0.3	1800.0	0.6	600.0	0.3	1800.0	0.6																
Repayments	-600.0	0.3	-1800.0	0.6	-600.0	0.3	-1800.0	0.6																
Resources on bank accounts (net)	650.9	0.3	-224.1	0.1	19.4								-4.0		10.1		635.4	0.3					-234.2	0.1
Balances from past periods	383.3	0.2	2400.2	0.8									12.1		16.1		371.2	0.2					2384.1	0.8
Balances on accounts	267.6	0.1	-2624.3	0.9	19.4								-16.1		-6.0		264.2	0.1					-2618.3	0.9
Other banks and financial institutions (net)	-904.2	0.5	-2345.6	0.8	-1051.5	0.5	-2120.4	0.7									147.3	0.1	-225.3	0.1				
Credits extended	281.4	0.1	30.7														281.4	0.1	30.7					
Repayments	-1051.5	0.5	-2325.3	0.8	-1051.5	0.5	-2125.4	0.7											-200.0	0.1				
Loans repaid by municipal councils							5.0												-5.0					
Resources on bank accounts (net)	-134.1	0.1	-51.0														-134.1	0.1	-51.0					
Balances from past periods	-134.1	0.1	139.7														-134.1	0.1	139.7					
Balances on accounts			190.7	0.1															190.7	0.1				
Other financing	-2076.7	1.1	-32.8																-32.8		-2076.7	1.1		

Source: MF, BNB.

CENTRAL EXCHANGE RATE, VOLUME OF THE INTERBANK FOREIGN EXCHANGE MARKET AND GROSS FOREIGN EXCHANGE RESERVES IN 1993

Indicators	XII'92	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Average monthly exchange rate, BGL/1 USD	24.800	25.329	26.265	26.568	26.427	26.522	26.570	27.118	27.348	27.575	28.476	30.942	31.983
End of month exchange rate													
BGL/1 USD	24.492	25.583	26.610	26.522	26.395	26.412	26.681	27.206	27.420	28.026	29.512	31.170	32.711
BGL/1 DEM	15.170	16.230	16.283	16.292	16.721	16.547	15.723	15.832	16.439	17.425	17.481	18.164	18.985
BGL/1 CHF	16.789	17.662	17.559	17.640	18.477	18.505	17.681	17.993	18.657	19.898	19.813	20.776	22.192
Monthly volume of forex bought (million USD)	260.3	188.8	235.7	245.8	297.0	278.0	326.6	345.1	291.7	302.9	298.9	299.6	294.5
Monthly volume of forex sold (million USD)	262.1	213.9	268.8	289.0	229.1	234.3	242.5	322.1	263.0	306.4	333.6	354.8	328.4
Gross foreign exchange reserves (million USD)*	902.0	916.6	874.2	843.9	932.1	989.7	970.2	831.4	859.0	854.6	758.5	737.6	663.7

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

Source: BNB.

MONEY SUPPLY IN 1993

(million BGL)

Indicators	XII'92	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Exchange rate, BGL/1 USD	24.49	25.58	26.61	26.52	26.40	26.41	26.68	27.21	27.42	28.03	29.51	31.17	32.71
Broad money	158567	161660	165649	169725	174361	180145	188110	199244	204753	213398	217480	224962	242778
BGL	117585	118354	121567	125960	131885	137337	145548	154242	160087	166342	168509	170004	187127
convertible currency	40542	42880	43640	43257	41687	42080	41477	43994	43907	45942	47940	52797	54179
nonconvertible currency	440	426	442	508	789	728	1085	1008	759	1114	1031	2161	1472
Money (M2)	154982	157365	161418	165736	170579	176231	184395	195325	200982	209573	213891	220254	238110
Money (M1)	37833	33480	33106	32577	34845	35567	36924	41109	42243	43820	44586	43754	48161
Currency outside banks	18268	17401	17699	17383	18962	19331	20202	21370	22069	23269	23486	23141	25165
Demand deposits	19565	16079	15407	15194	15883	16236	16722	19739	20174	20551	21100	20613	22996
Potential (quasi) money	117149	123885	128312	133159	135734	140664	147471	154216	158739	165753	169305	176500	189949
Time deposits	59409	64292	67930	72884	76386	80798	87123	91093	95500	99594	100455	102410	110249
Savings deposits	20217	20357	20356	20274	20318	20534	21045	21527	21846	22358	22937	23283	28049
Foreign currency deposits	37523	39236	40026	40001	39030	39332	39303	41596	41393	43801	45913	50807	51651
Import and restricted deposits	3585	4295	4231	3989	3782	3914	3715	3919	3771	3825	3589	4708	4668
BGL	126	225	175	225	336	438	456	513	498	570	531	557	668
convertible currency	3458	4069	4055	3763	3445	3476	3259	3406	3273	3255	3058	4151	4000
nonconvertible currency	1	1	1	1	1	0	0	0	0	0	0	0	0

Source: BNB.

DOMESTIC CREDIT

(million BGL)

Indicators	XII'92	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Exchange rate BGL/1 USD	24.49	25.58	26.61	26.52	26.40	26.41	26.68	27.21	27.42	28.03	29.51	31.17	32.71
Net domestic credit	254022	269088	278894	288692	301169	309881	316794	334385	348515	365569	377482	395568	419658
BGL	125923	131927	138189	145123	151355	158544	164556	176982	182236	189749	195737	202957	213364
convertible currency	128099	137161	140705	143569	149814	151337	152238	157403	166279	175820	181745	192611	206294
Claims on government (net)	101354	108755	114425	118544	124538	127682	129968	138867	143971	152602	161057	171012	182427
BGL	34250	36515	40231	43056	45853	48315	50114	56985	59386	62983	68847	73226	78294
convertible currency	67104	72240	74194	75488	78685	79367	79854	81882	84585	89619	92210	97786	104133
State budget	101757	109160	114829	118969	124966	128112	130417	139317	144329	152973	161422	171387	182855
BGL	34653	36920	40635	43481	46281	48745	50563	57435	59744	63354	69212	73601	78722
convertible currency	67104	72240	74194	75488	78685	79367	79854	81882	84585	89619	92210	97786	104133
Extrabudgetary accounts	-403	-405	-404	-425	-428	-430	-449	-450	-358	-371	-365	-375	-428
Claims on nongovernment sector	152668	160333	164469	170148	176631	182199	186826	195518	204544	212967	216425	224556	237230
BGL	91673	95412	97958	102067	105502	110229	114442	119997	122850	126766	126890	129731	135069
convertible currency	60995	64921	66511	68081	71129	71970	72384	75521	81694	86201	89535	94825	102161
Claims on nonfinancial public enterprises	134827	142464	146784	150508	155991	159569	163231	168956	177478	184833	188167	195208	205423
BGL	73832	77543	80273	82427	84862	87599	90847	93435	95784	98632	98632	100383	103262
convertible currency	60995	64921	66511	68081	71129	71970	72384	75521	81694	86201	89535	94825	102161
Claims on private sector	17841	17869	17685	19640	20640	22630	23595	26562	27066	28134	28258	29348	31807

Source: BNB.

NOMINAL INTEREST RATES ON ONE-MONTH DEPOSITS IN 1993

Months	XII'92	I	II	III	IV	V	VI	VII	VIII	IX	X	XI
January	3.63											
February	7.51	3.74										
March	11.64	7.73	3.85									
April	15.92	11.86	7.83	3.83								
May	20.37	16.16	11.97	7.82	3.84							
June	24.45	20.09	15.76	11.47	7.36	3.39						
July	28.68	24.18	19.70	15.26	11.01	6.91	3.40					
August	33.02	28.36	23.73	19.15	14.75	10.51	6.88	3.37				
September	37.25	32.44	27.67	22.94	18.40	14.02	10.28	6.66	3.18			
October	41.63	36.67	31.74	26.86	22.18	17.66	13.80	10.06	6.47	3.19		
November	46.60	41.47	36.37	31.31	26.47	21.79	17.80	13.92	10.21	6.81	3.51	
December	51.94	46.61	41.33	36.09	31.07	26.22	22.08	18.07	14.22	10.70	7.28	3.64

Source: BNB.

REAL INTEREST RATES ON ONE-MONTH DEPOSITS IN 1993*

Months	XII'92	I	II	III	IV	V	VI	VII	VIII	IX	X	XI
January	-3.06											
February	-3.95	-0.92										
March	-5.54	-2.56	-1.66									
April	-5.60	-2.62	-1.72	-0.07								
May	-6.91	-3.97	-3.09	-1.45	-1.39							
June	-7.55	-4.63	-3.75	-2.13	-2.06	-0.68						
July	-5.35	-2.36	-1.46	0.20	0.27	1.68	2.38					
August	-4.59	-1.58	-0.67	1.00	1.07	2.49	3.19	0.80				
September	-5.19	-2.20	-1.29	0.37	0.44	1.85	2.55	0.17	-0.63			
October	-6.08	-3.12	-2.22	-0.57	-0.51	0.89	1.58	-0.81	-1.60	-0.98		
November	-7.02	-4.08	-3.19	-1.56	-1.50	-0.11	0.57	-1.80	-2.58	-1.96	-0.99	
December	-7.27	-4.34	-3.45	-1.83	-1.76	-0.38	0.30	-2.06	-2.84	-2.23	-1.26	-0.27

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

Source: BNB.

NOMINAL INTEREST RATES ON SHORT-TERM CREDITS IN 1993

Months	XII'92	I	II	III	IV	V	VI	VII	VIII	IX	X	XI
January	4.75											
February	9.96	4.97										
March	15.57	10.33	5.11									
April	21.49	15.98	10.49	5.12								
May	27.72	21.93	16.16	10.51	5.13							
June	33.96	27.88	21.83	15.91	10.26	4.88						
July	40.54	34.16	27.81	21.60	15.67	10.03	4.91					
August	47.34	40.66	34.00	27.48	21.27	15.36	9.99	4.84				
September	54.14	47.15	40.19	33.37	26.88	20.68	15.07	9.68	4.62			
October	61.25	53.94	46.65	39.52	32.72	26.25	20.37	14.74	9.44	4.61		
November	69.47	61.79	54.13	46.64	39.49	32.69	26.51	20.59	15.02	9.95	5.10	
December	78.29	70.20	62.14	54.26	46.75	39.59	33.09	26.86	21.01	15.66	10.57	5.20

Source: BNB.

REAL INTEREST RATES ON SHORT-TERM CREDITS IN 1993*

Months	XII'92	I	II	III	IV	V	VI	VII	VIII	IX	X	XI
January	-2.01											
February	-1.76	0.26										
March	-2.21	-0.21	-0.46									
April	-1.07	0.96	0.70	1.17								
May	-1.23	0.80	0.54	1.01	-0.16							
June	-0.49	1.56	1.30	1.77	0.59	0.75						
July	3.37	5.49	5.22	5.71	4.48	4.65	3.87					
August	5.67	7.84	7.57	8.07	6.81	6.99	6.19	2.23				
September	6.48	8.66	8.38	8.89	7.63	7.80	7.00	3.01	0.76			
October	6.93	9.12	8.85	9.35	8.08	8.26	7.45	3.41	1.15	0.38		
November	7.49	9.70	9.42	9.93	8.65	8.83	8.01	3.95	1.68	0.91	0.53	
December	8.82	11.05	10.77	11.28	9.99	10.17	9.34	5.23	2.93	2.15	1.76	1.23

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

Source: BNB.

DENOMINATION COMPOSITION IN NOTES AND COINS

(BGL)

	31 December 1992	30 June 1993	31 December 1993
Notes, total	26 610 804 745	27 830 943 481	37 989 011 785
500 levs			6 500 000 000
200 levs	3 880 000 000	7 279 959 800	11 878 210 900
100 levs	7 928 523 750	7 921 875 550	9 959 387 550
50 levs	4 270 402 050	4 215 445 525	4 257 221 425
20 levs	4 275 885 702	3 914 036 652	2 405 244 152
10 levs	4 224 347 132	3 150 763 247	2 047 250 917
5 levs	1 707 113 899	1 110 319 224	740 651 424
2 levs	196 499 713	138 395 188	107 039 150
1 lev	128 032 499	100 148 295	94 006 267
Coins, total	249 584 515	294 026 526	358 038 083
50 levs	15 000 000	15 000 000	15 000 000
20 levs	5 999 980	5 999 980	5 999 980
10 levs			8 310 000
5 levs			50 075 000
2 levs			10 000 000
1 lev	13 136 387	16 616 387	17 417 544
50 stotinkas	38 695 995	40 655 845	44 605 845
20 stotinkas	38 735 339	39 220 079	42 155 279
10 stotinkas	28 900 388	29 333 958	33 337 158
5 stotinkas	12 559 518	12 559 503	12 559 503
2 stotinkas	10 971 508	10 971 502	10 971 502
1 stotinka	8 984 872	8 984 869	8 984 869
Jubilee	76 600 528	114 684 403	98 621 403
Notes and coins, total	26 860 389 260	28 124 970 007	38 347 049 868

Source: BNB.

CONSOLIDATED BALANCE SHEET OF COMMERCIAL BANKS AS OF 31 DECEMBER 1993

(million BGL)

ASSETS	
A. FINANCIAL ASSETS	521653
Reserves	53995
Government securities	54005
Claims on banks and other financial institutions	84272
Claims on nonfinancial institutions and other clients	324426
Bonds and other securities with fixed yield in trading portfolio	1522
Shares and other securities with variable yield in trading portfolio	424
Financial long-term assets	3009
B. NONFINANCIAL ASSETS	7304
C. FUTURE EXPENDITURE	1263
D. RIGHTS TO EQUITY SUBSCRIPTION	1501
E. OTHER ASSETS	284969
F. REPORTED LOSSES	7616
TOTAL ASSETS	824306
G. OFF-BALANCE ASSETS	86097

LIABILITIES	
A. ATTRACTED RESOURCES	701963
Attracted resources from banks and other financial institutions	480324
Attracted resources from nonfinancial institutions and other clients	221639
B. FUTURE REVENUES	48432
C. OTHER LIABILITIES	36130
D. FIXED CAPITAL	37781
Profit	2917
Capital	27777
Reserves	7087
TOTAL LIABILITIES	824306
E. OFF-BALANCE LIABILITIES	86097

Source: BNB.

Major Economic and Political Events in 1993

21 January The 36-th National Assembly adopted Law on ratification of bilateral agreements for rescheduling the foreign debt of the Republic of Bulgaria. This Law regulates relations regarding this country's financial commitments to some official creditor countries: Canada, Belgium, Japan.

16 March The National Assembly adopted Law on the financial provision of agriculture in 1993. Farmers are allowed to draw preferential loans to finance autumn and spring agricultural activities. 1/3 of the interest agreed with the state commercial banks will be paid by the debtor and the remaining 2/3 by the Ministry of Finance.

6 April The Council of Ministers adopted Decree No. 72 on export and import regime, effective as of 10 April 1993, which abolished Decree No. 264 of 1992 of the Council of Ministers on export and import regime. This Decree regulates the regime of registration and permits for some commodity groups, determines export and import quotas, as well as import and export fees for other commodities. The new export and import regime does not significantly differ from the previous one.

15 April The National Assembly adopted Law on ratification of the European Treaty for Bulgaria's association with the European Communities and their member countries, and of the Interim agreement for trade with the EEC. By these agreements Bulgaria's association with European economic structures was launched. This provides the country's access to the EC markets and the Interim agreement determines Bulgaria's steel and coal trade quotas.

11 June The National Assembly adopted the 1993 State Budget Law of the Republic of Bulgaria. The 1993 central government budget deficit totaled BGL 27,584 million with projected direct financing (net) by the BNB totaling BGL 17,910 million.

16 June The National Assembly adopted Law on ratification of guarantee agreements between the Republic of Bulgaria and the European Investment Bank and the European Bank for Reconstruction and Development. These agreements provide loans of ECU 102 million from both financial institutions for upgrading and improvement of the Bulgarian communication system.

24 June The Council of Ministers adopted Decree No. 121 on revision of the Customs' regime for some goods imported by legal persons and sole traders, effective as of 1 July 1993. The Decree amended the Customs' tariff for taxation of goods imported by legal persons and sole traders, adopted by Decree No. 35 of 1992 of the Council of Ministers. By this Decree seasonal duties and a temporary import fee were introduced, duty-free import quotas were fixed, and particular goods were exempted from duties.

7 July The National Assembly adopted Law on ratification of the Joint Protocol on debt consolidation of the Republic of Bulgaria. Thus the country acknowledged its commitments to the Paris Club official creditors as a state debt.

30 July The National Assembly adopted Resolution for election of governor and deputy governors of the BNB, since BNB managing staff had been elected prior to enactment of the Law on the BNB of 1991. Todor Vulchev was elected Governor and Gancho Kolev and Mileti Mladenov Deputy Governors of the BNB.

15 September The Council of Ministers adopted Decree No. 180 for exercising control over Bulgaria's imports. It sets forth measures to protect the domestic market against importation of goods in detriment to the country's produce. The relevant measures include import quotas, extra duties, introduction of registrative or permissive regime on imported goods, revocation and revision of import licenses.

The Council of Ministers adopted Decree No. 181 on protection of the domestic market against importation of goods at dumped or subsidized prices. The Decree sets forth the terms and procedures applied to ensure protection against dumped or subsidized import goods of the exporting country or the origin country, and introduces antidumping and countervailing duties.

7 October The National Assembly adopted Law on value added tax. VAT replaced the turnover tax as of 1 April 1994, and is estimated to bring increased fiscal revenue. Its basic characteristics is a unified 18% rate and a strict tax regime.

16 December The National Assembly ratified the Loan Agreement between the International Bank for Reconstruction and Development and the Republic of Bulgaria. The loan of USD 100 million is intended for project financing of private investment and exports.

The National Assembly ratified the Loan Agreement with the European Investment Bank. The loan of ECU 30 million is intended for financing of newly emerging small- and medium-scale enterprises.

17 December The National Assembly adopted Amendment to the State Budget Law. The central government budget deficit increased BGL 5,470 million; the Social Security Department was subsidized by the same amount. The increased revenue is completely covered by new issues of government securities.

20 December The National Assembly adopted Amendment to the Law on Banks and Credit Activity. The term set for the banks with a majority state holding to raise their equity capital, after a permit has been granted by the BNB and their assets have been revalued, is extended for another year.

The National Assembly adopted Law on Settlement of Nonperforming Credits Negotiated till 31 December 1990. The 180-day overdue credits, extended to state-owned enterprises till the end of 1990 by the state commercial banks, are transformed into a government debt and exchanged for long-term bonds yielding interest lower than the market-determined one during the first six years. The Ministry of Finance issued one-off bonds up to the amount of BGL 32 billion and USD 1,808 million.

23 December The Council of Ministers adopted Decree No. 241 on export and import regime, effective as of 1 January 1994. The registrative and permissive regime in foreign trade is retained. Import quotas, interim exemption from duty, duty-free or reduced duty on some commodity groups, export fee, reference (minimum) level of import prices and ban on exports have been introduced for particular goods and commodity groups.

Major Resolutions of the Managing Board of the Bulgarian National Bank

28 January The Board of the BNB adopted Regulations No. 7 on Big and Internal Loans of Banks.

Credit ceilings of the commercial banks for crediting economic activity in the first quarter of the current year will be raised, compared to the ones as of 31 December 1992 by 102% in January, 105% in February, 108% in March.

4 February Banking payments by cards are to be effected by debit cards with on-line authorization. BORICA (Bank Organization for Repayments by Cards), a Limited liability company of the Bulgarian National Bank, was established with BGL 74 million capital. The project for the constitution of a payment servicing system, using debit cards with identifier in the documentation and archives of the BNB was approved as a separate sub-project within the project for Banking Integrated System for Electronic Transfer (BISERA).

18 February The BNB fixed 51% annual basic interest rate, beginning 22 February 1993.

11 March Pursuant to Article 1, para. 2 of the Law on Banks and Credit Activity, a licence was granted to Slavyani Bank Ltd. for conducting banking activity in the country.

18 March The BNB Board adopted Regulations No. 8 on the Capital Adequacy of Banks.

A license was granted to Xiosbank, Athens, for conducting banking activity through a branch in Sofia, pursuant to the Law on Banks and Credit Activity as per Article 1, para. 2 on making banking transactions.

1 April A license was granted to the commercial banks in Vidin, Lyaskovetz and Gorna Oryahovitza for effecting a merger into Balkanbank Ltd.

8 April The BNB Board fixed the level of credit ceilings on credits extended by commercial banks for economic activity for the second quarter of 1993 against the base of 31 December 1992, as follows: April – 110%, May – 112%, June – 114%.

On the date of ratification of the Agreement of Bulgaria's Association with the European Communities by the Parliament, the Bulgarian National Bank put into circulation a set of coins – gold, platinum and silver of BGL 5,000; 10,000 and 500 face value.

29 April On 1 May 1993 the BNB put into circulation commemorative silver coins on Olympic and football subjects, issue 1993.

31 May The BNB Board adopted Regulations No. 9 on the Loan Classification and Formation of Mandatory Special Reserves (Statutory Provisions) by Banks.

The BNB changed the basic interest rate from 51% to 48% per annum as of 4 June 1993.

3 June Pursuant to Article 17, para. 2, item 4 of the Law on Banks and Credit Activity a permit was granted to Varna Commercial Bank, Gotze Delchev Commercial Bank, Transport Commercial Bank, Kustendil Commercial Bank, Smolyan Commercial Bank, Rila Commercial Bank, Vazrazhdane Commercial Bank, Razgrad Commercial Bank, Cherven Bryag Commercial Bank, Silistra Commercial Bank, Devin Commercial Bank, and Provadia Commercial Bank, to effect a merger into a new bank – Expressbank Ltd., Varna.

Pursuant to Article 17, para. 2, item 4 of the Law on Banks and Credit Activity, a permit was granted to Agricultural and Cooperative Commercial Bank, Plovdiv Commercial Bank, Blagoevgrad Commercial Bank, Veliko Turnovo Commercial Bank, Vitosha Commercial Bank, Mezdra Commercial Bank, Troyan Commercial Bank, and Chepelare Commercial Bank to effect a merger into a new bank – Hebros Commercial Bank Ltd., Plovdiv.

The BNB Board adopted Regulations No. 10 on Internal Control in Banks.

18 June The BNB put into circulation as of 1 July 1993 a new issue of circulation coins of 10, 20 and 50 stotinkas and BGL 1, 2, 5 and 10 face value, 1992 issue.

The BNB Board adopted Regulations No. 11 on the Liquidity of Banks.

1 July The BNB Board authorized commercial banks to exceed their credit ceilings up to 80% over the increase in real terms for purchasing and processing of agricultural products as compared to those used during the same period in 1992. The remaining 20% must be provided for by commercial banks through the sale of government securities to companies and individuals or through purchase of commercial banks' free credit ceilings.

15 July Credit ceilings of commercial banks for crediting economic activity in the third quarter of 1993 on the basis of 31 December 1992 were determined, as follows: July – 116%, August – 117.5%, September – 119%.

Licenses for conducting banking activity were granted to 24 financial houses as per Article 1, para. 2, items 3, 4, 6, 7, 9 and 10 of the Law on Banks and Credit Activity and to 2 brokers as per Article 1, para. 2, items 4, 6 and 9 of the same law.

The BNB Board passed the decision to start building a printing-press for issuance of banknotes and government securities in Sofia.

22 July Pursuant to Article 1, para. 2, items 3, 4, 6, 7, 9 and 10 of the Law on Banks and Credit Activity, permits were granted to 17 financial houses to conduct banking activity and to 2 brokers as per Article 1, para. 2, items 4, 6 and 9 of the same law.

29 July The BNB put into circulation as of 1 August 1993 three silver commemorative coins, issue 1992: "Ski-slalom" commemorating the XVII Winter Olympic Games in Norway, 1994; "Eagle" – of the "Endangered Wild Animals" set of coins; and "Radetski Vessel".

5 August Pursuant to Article 1, para. 2, items 3, 4, 6, 7, 9 and 10 of the Law on Banks and Credit Activity, permits were granted to 8 financial houses to conduct banking activity and to 5 brokers as per Article 1, para. 2, items 4, 6 and 9 of the same law.

9 August The BNB Board adopted Regulations No. 5 on Issuance of Book-entry Government Securities and the Procedure for their Acquisition and Redemption.

12 August The BNB granted a permit to Capitalbank Ltd. for making all types of banking transactions in the country as per Article 1, para. 2 of the Law an Banks and Credit Activity.

19 August The BNB Board changed the basic interest rate from 48% to 44% per annum, effective as of 23 August 1993.

26 August In addition to Resolution No. 349 of 26 November 1992, in case a necessity for provision of banks' liquidity arises, the Lev Operations Department shall conduct transactions in the open market with interest-bearing government securities through repurchase agreements (repo) for a term of up to one month at the basic interest rate. The BNB Liquidity Management Committee shall raise or reduce the interest rate by up to 2 percentage points annual interest, taking into account the state of liquidity.

9 September Pursuant to Article 1, para. 2, items 3, 4, 6, 7, 9 and 10 of the Law on Banks and Credit Activity, permits were granted to 17 financial houses to conduct banking activity and to 5 brokers as per Article 1, para. 2, items 4, 6 and 9 of the same law.

1 October Pursuant to Article 1, para. 2 of the Law on Banks and Credit Activity, a permit was granted to First Investment Bank Ltd., Sofia to make banking transactions in the country.

7 October The BNB Board approved the following variant on the functions, structural and capital management of Bankservice Ltd., including an increase in its capital through issuance of new registered shares offered for sale to commercial banks. The BNB retained the amount of its capital with Bankservice Ltd. in absolute nominal value, adjusted to the value of the reserves.

A new separate unit, Government Securities Depository, is being established in the State Credits Department, which will perform accounting operations and make changes in the register relating to government securities operations conducted by State Credits and Lev Operations Departments.

8 October The BNB Board set the commercial bank credit ceilings in lev lending for economic activity over the fourth quarter of 1993 on the basis of 31 December 1992 , as follows: October – 120%, in advance for November and December – 121% and 122%, respectively.

14 October Pursuant to Article 1, para. 2, items 3, 4, 6, 7, 9 and 10 of the Law on Banks and Credit Activity, 21 financial houses were granted permits for making banking transactions.

A banknote of BGL 500 face value, issue 1993, was put into circulation by the central bank and announced legal tender as of 1 November 1993.

The central bank announced legal tender and put into circulation as of 1 November 1993 two silver commemorative coins, issue 1993: "The House of Parliament" and "Wild Goat" of "Endangered Wild Animals" set of coins.

28 October The central bank was to start receiving auction bids from individuals as of November 1993, pursuant to Regulations No. 5 of 1993 of the Ministry of Finance and the BNB on Issuance of Book-entry Government Securities and the Procedure for their Acquisition and Redemption.

The BNB fixed 47% annual basic interest rate, beginning 1 November 1993.

8 November The BNB fixed 52% annual basic interest rate, beginning 10 November 1993.

11 November The Tariff for the interest rates, fees and commissions charged by the BNB and applied to its domestic operations was amended, effective as of 12 November 1993, as follows:
Section I, group 2, item 1230 "Unsecured deposits up to one month extended to banks with temporary liquidity deficiency" – monthly interest rate equal to the last auction's interest rate plus 2% per month.
Section I, group 9, item 1910 "Up to 3-day overdraft on a current account" – basic interest rate plus 38% per annum.
Section I, group 9, item 1920 „Over 3-day overdraft on a current account" – basic interest rate plus 38% per annum.

12 November Pursuant to Article 1, para. 2, items 3, 4, 6, 7, 9 and 10 of the Law on Banks and Credit Activity, permits were granted to 24 financial houses to conduct banking activity and to 7 brokers as per Article 1, para. 2, items 4, 6 and 9 of the same law.

26 November The BNB Board authorized the establishment of BNB branches in Veliko Turnovo, Russe, Blagoevgrad and Haskovo.

2 December A permit to effect a merger was granted to Hemus Commercial Bank Ltd., Sofia Commercial Bank Ltd., Electronica Commercial Bank Ltd. and Kazanluk Commercial Bank. The name of the newly merged bank is Sofiabank Ltd. with headquarters in Sofia.

As of 3 December 1993, the Tariff for the interest rates, fees and commissions charged by the BNB and applied to its domestic operations was amended, as follows:
Section I, group 2, item 1230 "Unsecured deposits up to one month extended to banks with temporary liquidity deficiency" – monthly interest rate equal to the last auction's interest rate plus 0.2% per month.
Section I, group 9, item 1910 „Up to 3-day overdraft on a current account" – basic interest rate plus 7% per annum.
Section I, group 9, item 1920 „Over 3-day overdraft on a current account" – basic interest rate plus 18% per annum.

23 December Pursuant to Article 1, para. 2, items 3, 4, 6, 7, 9 and 10 of the Law on Banks and Credit Activity, permits were granted to 32 financial houses to conduct banking activity and to 13 brokers as per Article 1, para. 2, items 4, 6 and 9 of the same law.

29 December Pursuant to Article 1, para. 3 of the Law on Settlement of Nonperforming Credits, the annual interest rate on the outstanding credits specified in Article 1, para. 1, item 1 of the same law, was set at 30%, effective as of 1 March 1994.

The BNB Board set the commercial bank credit ceilings for lev credits, extended for economic activity during the first 1994 quarter against the base of 31 December 1993, as follows: January – 101%, February – 102%, March – 103%.