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Bulgaria: Recent Economic Developments and Statistical Appendix

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BULGARIA

Recent Economic Developments and Statistical Appendix

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Approved by the European 1 Department

February 4, 1999

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Bulgaria: Basic Data

Area (square kilometer)	110,630
GDP per capita (1997)	US$1,228
Population (1997)	8,283,200
Growth rate (in percent, 1997)	-0.69
Life expectancy (1997)	70.6
Male	67.1
Female	74.9
Infant mortality per 1,000 live births (1997)	17.5
Physicians per 100,000 (1995)	345
Enrollment in higher education institutions (per 1,000, 1995)	27
Illiteracy rate (in percent, 1995)	2
Poverty rate (population with income at or below 50 percent of the average gross income in 1995, in percent)	20

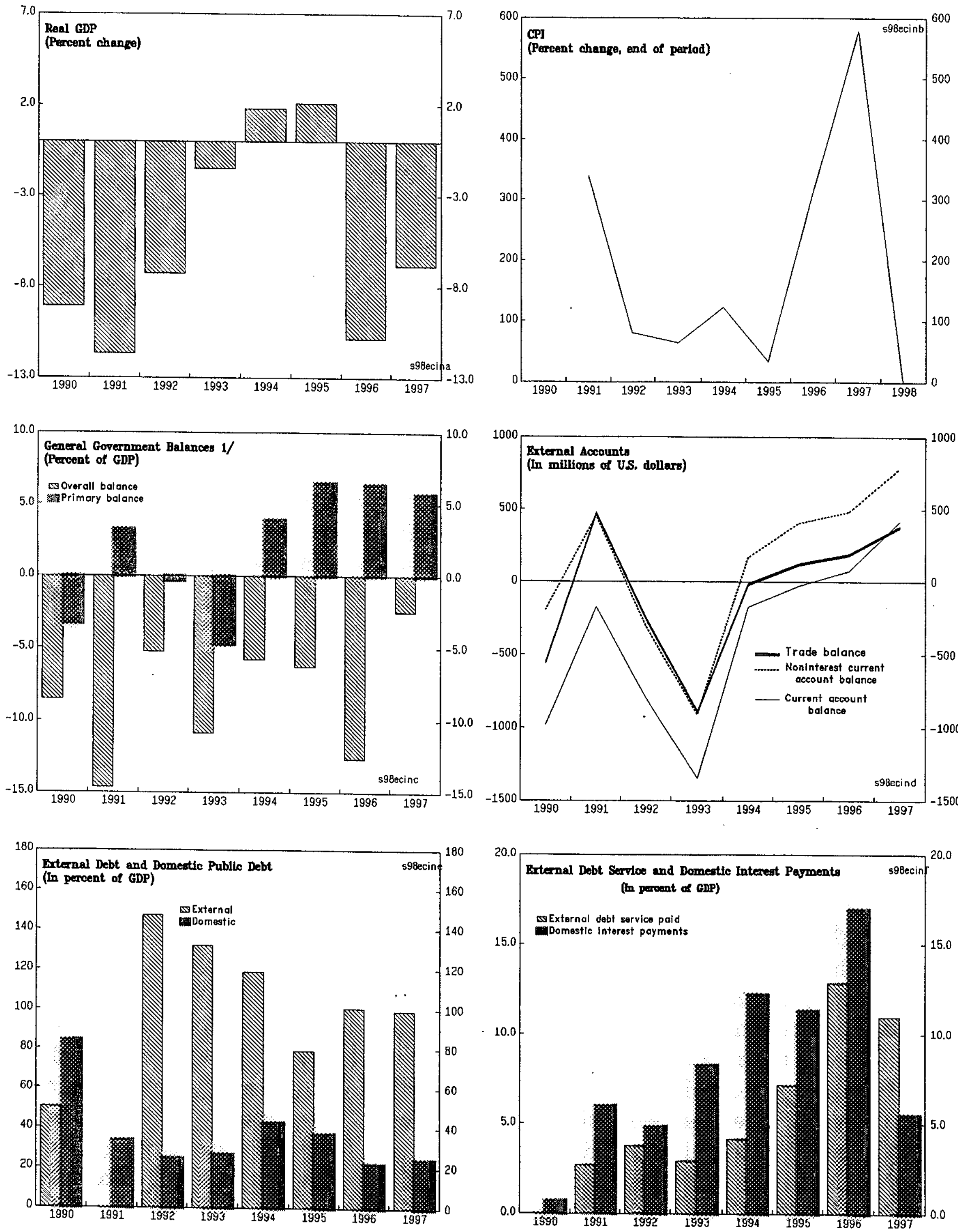
I. INTRODUCTION

1. **Bulgaria's macroeconomic performance during 1990–97 was weaker than in most transition countries in the region** (Figures 1 and 2 and Tables 17 and 18). With economic activity declining significantly during most years, the cumulative fall in real output over this period amounted to 37 percent. As a result, Bulgaria's per capita GDP remains far behind that of most of its peers in central and eastern Europe. The inflation outcomes have been equally disappointing as the 12-month CPI increase was in high double or triple digits virtually throughout the period.

2. **Although Bulgaria's difficult initial conditions and adverse external shocks played a role, the weak performance mainly reflected the stop-and-go nature of stabilization policies and the slow pace of structural reform.** Already in the second half of the 1980s, Bulgaria had been living beyond its means, financed by massive external borrowing from official and private sources. Throughout most of the 1990s, dealing with the ensuing debt burden, the disruption associated with the start of the transition, the collapse of CMEA markets, and the effects of the Gulf and Yugoslav crises proved too much for a succession of fractured and half-heartedly reform-minded governments. To be sure, there were fitful attempts at stabilization, but these were unsuccessful owing to lack of persistence with structural reform. In particular, the failure to establish market-oriented discipline at the microeconomic level fostered a soft-budget constraint, rent-seeking culture that repeatedly fed back onto the public finances and destabilized the situation further. Meanwhile, time was bought on the external side through a debt moratorium and rescheduling, and on the internal side through the continued depletion of the country's capital stock as the assets and profits of state-owned enterprises and banks were being stripped by vested interest groups and, in some cases, criminal elements.

3. **Bulgaria's economic problems culminated in a severe banking and foreign exchange crisis in 1996 and early 1997.** A last-ditch attempt at stabilization and reform was made in the summer of 1996. As before, a money-based approach was chosen because Bulgaria's official reserves were deemed insufficient and its banking sector too weak to support the exchange rate as a nominal anchor. The country's poor track record in policy implementation also made significant up-front external financing unavailable. In the event, the adjustment program aimed at stabilization and jumpstarting structural reforms was derailed in a few months owing to delays in the implementation of enterprise restructuring and a loss of confidence in the banking system. The ensuing sharp increase in interest rates proved fiscally unsustainable and could not halt the collapse of money demand and rapid capital flight. Increasing social tensions led to the fall of the government in December 1996. In the subsequent political stalemate a full-blown economic crisis erupted, culminating in February 1997 with a collapse of output, a rapidly depreciating lev, and a monthly inflation rate of 240 percent, which wiped out the savings of a significant proportion of the population.

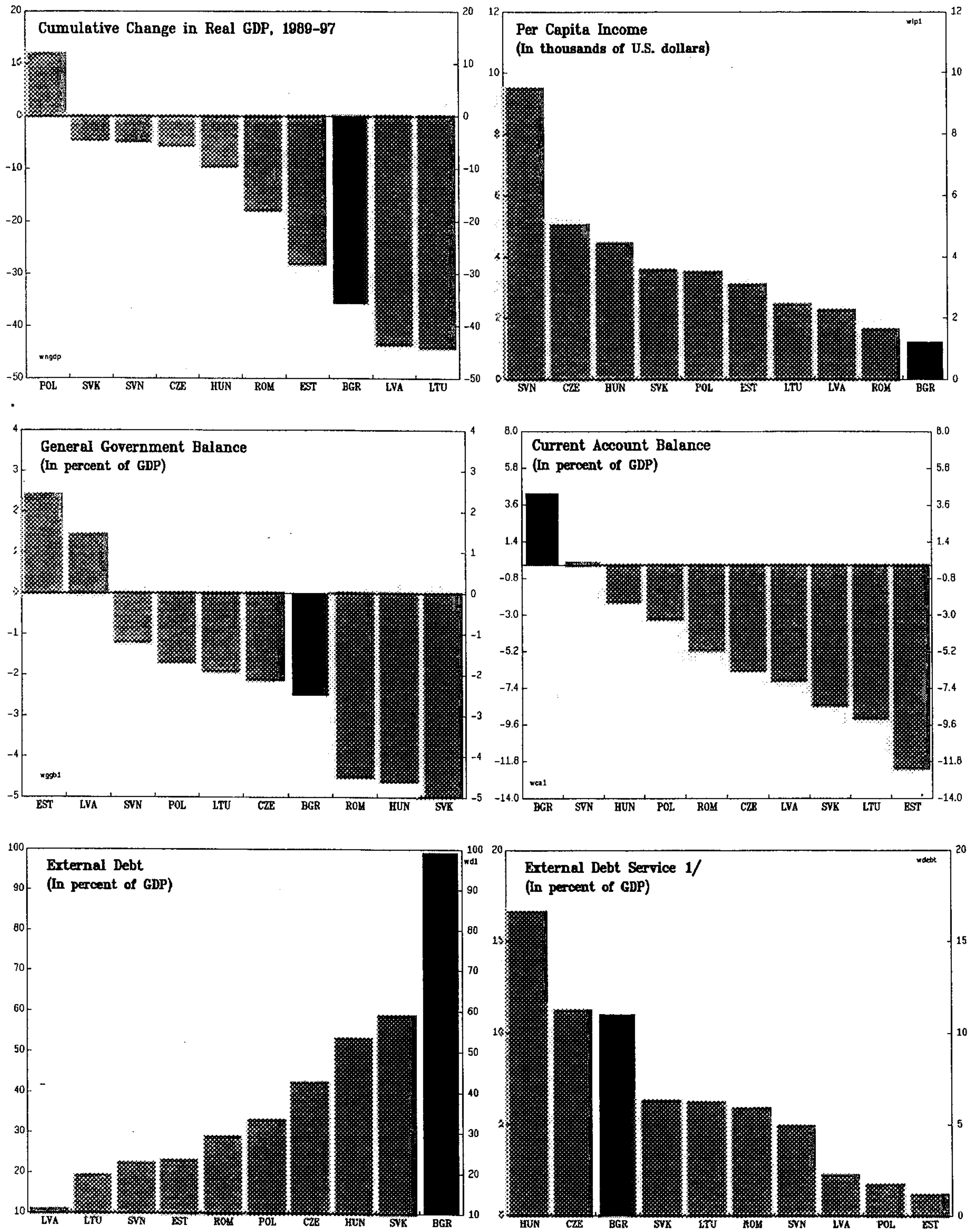
Figure 1. Bulgaria: Selected Economic Indicators



Sources: Bulgarian authorities; and staff estimates.

1/ Excluding deferrals of interest due to the London Club.

Figure 2. Bulgaria: International Comparisons, 1997



' Source: World Economic Outlook.

Note: BGR, Bulgaria; CZE, Czech Republic; EST, Estonia; HUN, Hungary; LVA, Latvia; LTU, Lithuania; POL, Poland; ROM, Romania; SVK, Slovak Republic; and SVN, Slovenia.

1/ Debt service for Hungary excludes prepayment of principal.

4. **Since mid-1997, Bulgaria has implemented a stabilization strategy based on a currency board arrangement (CBA), so far with considerable success.** Because of its severity, the 1996–97 crisis made the bankruptcy of past approaches to reform evident to all, and opened a window of opportunity for radical reforms. A complete regime change centered on a CBA was deemed necessary to restore confidence in public institutions and bestow credibility on monetary and fiscal policies and the commitment to deep-seated reform. With IMF support, a reformist government that emerged following the crisis put in place a CBA with effect from July 1, 1997, and started to implement a strategy that includes a cautious fiscal stance and accelerated structural reforms. The initial results were remarkable: confidence was restored quickly, real interest rates fell sharply, reducing the fiscal deficit to sustainable levels, and inflation declined dramatically. The low-inflation environment has continued through 1998, with the CPI increasing by just 1 percent during the year. As for economic activity, continued fiscal prudence and strong structural measures have by now firmly established the private sector as the main engine of growth. Although annual GDP continued to fall in 1997, by 7 percent, economic activity and incomes have been on an upward trend since mid-1997, and a significantly positive GDP growth rate is expected to be recorded in 1998, despite the adverse effects of the global crises. Thus, Bulgaria should be well placed for sustained rapid growth provided prudent fiscal policy continues to be coupled with forceful structural reforms.

5. **This report covers the period since 1995, focussing on the main sectoral developments and policy initiatives.** Developments through the mid-1990s were covered in Bulgaria: Recent Economic Developments (SM/95/306, December 11, 1995). The main topics discussed in this report are: developments in economic activity, labor markets, and inflation; progress in enterprise reform; fiscal issues and developments; social protection and other social sector issues; monetary developments; financial sector reform; and external sector developments.

II. Real Sector Developments

A. Overview

6. **Since the mid-1990s, Bulgaria's economic activity has been on a roller coaster.** Following a period of relative macroeconomic stability in 1995, the economy slid into a devastating foreign exchange and banking crisis culminating in a collapse of output and hyperinflation in early 1997, before a still-continuing period of growth and low inflation started in mid-1997. Specifically, real GDP declined by 10.9 percent in 1996 and by about 18 percent (year on year) in the first half of 1997. A recovery started subsequently, but annual GDP fell by 6.9 percent nevertheless. The recovery continued in 1998, although the 12 percent growth rate in the first half of 1998 compared to the same period of 1997 was in part due to the low base. Throughout the period since 1995, agriculture has fared much better than industry and services, and growth in the emerging private sector has been more rapid than in the public sector. On the aggregate demand side, investment was particularly hard hit by the crisis. The income accounts show a significant but temporary decline in the share of labor compensation during the crisis, and substantial gains in the private sector's share of total income generation from 1997 owing to the accelerated pace of privatization.

B. Components of GDP

Sectoral developments

7. **A sharp fall in total industrial output between 1995 and 1998 masks a massive decline in the state-owned sector offset in part by a more than doubling of industrial output by the private sector.** Real value added in industry declined by a cumulative 27 percent in 1995–97, with practically all branches of industry adversely affected (Tables 19 and 20). This was followed by a sharp recovery in the first half of 1998. The share of state-owned enterprises (SOEs) in industrial output has declined from 81 percent in 1994 to 60 percent in mid-1998, reflecting in part privatization and in part faster growth in private sector companies than in the SOEs. Overall, industry now accounts for less than 30 percent of GDP, down from about 40 percent at the beginning of the decade.

8. **The performance of the services sector has been mixed** (Tables 21 and 22). Communications and transportation have generally been growth sectors, while the crisis in 1996–97 seems to have caused a sharp decline in both retail and wholesale trade.[1] The private sector has become dominant in trade and other services (including education, health, and financial services), but its share in communications has remained below 20 percent. As in industry, the private sector has generally outperformed the public sector. The first half of 1998 brought a strong increase in both gross output and value added, which, if sustained

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[1]It should be kept in mind, however, that National Statistical Institute (NSI) survey results pointing to an increase in informal trading suggest that official data may overstate the decline in trade during the crisis.

throughout the year would bring back GDP produced in the services sector to approximately the level of 1994. Total services now account for about half of GDP.

9. **Output in agriculture has grown rapidly except for 1996 when excessive government intervention and bad weather caused a temporary setback** (Tables 23–25). Both gross output and value added registered double-digit increases in 1995 and 1997. In contrast, agricultural output fell by percent in 1996 when excessive and misguided government micro management of agricultural demand and supply through price controls and large state interventions compounded the effect of adverse weather conditions (Box 1). Throughout 1995–98, private and public agriculture fared about equally well, reflecting important common determinants including the weather, the extent of government intervention in the price and trade systems, a market structure dominated by monopolies, the degree of trade protection, and lingering uncertainties related to land restitution. The share of agriculture in the economy is presently about 13 percent.

Expenditures, savings, and incomes

10. **The severe downturn in output during 1996–97 mainly affected government consumption and investment** (Table 17). Poor macroeconomic policies and the large external debt burden contributed to weak foreign investor interest, exacerbating the adverse effect on corporate investment of the increasingly inadequate levels of depreciation allowances.[2] Under these circumstances, the observed negative real interest rates failed to spur investment activity. Household consumption held up relatively well during 1995–96 but fell sharply in 1997, followed by a rapid recovery in the first half of 1998. The decline in government consumption on the other hand was more pronounced in the first two years, leaving the share of total consumption in GDP remarkably stable at around 85 percent throughout 1995–98. Net exports remained positive after 1995 despite a 10 percent decline in export volume in 1996 owing to financing constraints and a massive, exchange rate-driven import compression in the first quarter of 1997. Export growth in 1997–98 was hampered by restrictive trade practices, and a lack of high quality export products owing to slow progress in enterprise restructuring.

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[2]Since fixed asset book values had not been adjusted for four years, their real value was wiped out by high inflation, leading to low levels of depreciation. The January 1, 1998 revaluation—which was optional for enterprises—was inadequate to ensure the accumulation of sufficient funds at enterprises to finance the necessary level of corporate investment, while fiscal constraints severely limited the amount of public investment until the second half of 1998.

Box 1. Agriculture

By all indications, Bulgaria should have a strong comparative advantage in agriculture, but this potential has so far not been fully exploited. In 1995–97, agriculture continued to suffer from sluggish privatization and land restitution, and from a maze of government-imposed barriers to efficient resource allocation, including export taxes, high and selective import tariffs, an extensive ex ante licensing system inhibiting trade, price margin controls, and regulatory and institutional impediments to a functioning land market. A concentrated market structure with several large monopolies controlling the sectors upstream (for example, those providing seeds and fertilizers) and downstream (for example, grain storage and certain food processing industries) contributed to the poor performance. Structural reforms proceeded sluggishly owing to concerns about food security and opposition from vested interests. Thus, while the previous agricultural system based on large mechanized state-owned or cooperative units was largely eliminated, the way was not cleared for the emergence of efficient private production units. In 1996, government manipulation of the restrictive trade regime and of pervasive "monitored prices" coupled with regional droughts resulted in grossly distorted incentives, especially in grain production, leading to shortages. The government's response to the shortage was to devise centrally controlled barter transactions involving Neftochim, the country's largest refinery, but this only led to further distortions and severe losses for Neftochim. Through 1997, the agriculture sector continued to require large implicit subsidies, and to this day has not been able to attract substantial foreign investment.

The deep crisis of 1996–97 and the change of government had a salutary effect on agricultural reforms. The pace of privatization picked up, and by mid-1998 all 63 wine and brewing enterprises, and most SOEs in the canning, edible oil, and sugar sectors were privatized, as was 48 percent of state grain milling capacity and 43 percent of feed mill capacity. By end-1998, only about a third of grain storage capacity remained state property. In addition, the schedule for land restitution was accelerated, agricultural prices were largely liberalized, and export taxes were lowered. Finally, in order to provide an impetus to the emergence of a functioning market in land and enhance the role played by banks in rural finance, the legal framework for collateral was upgraded, and a focussed effort was launched to improve the process of land registration, set up a land cadastre, and put in place essential elements of a warehouse receipts system.

11. **The relative stability of domestic savings during 1995–1998 masked substantial movements in government and nongovernment savings** (Table 1). The modest level of domestic savings (averaging 14 percent of GDP) reflected a lack of confidence in the banking system, low real income levels, and adverse demographic dynamics. The relative shares of government and nongovernment savings were affected by the increased profitability of SOEs during the high inflation period, sharp changes in real interest rates, and precautionary savings by the private sector in light of the crisis situation. The wide swings in budgetary interest expenditures also played an important role, since the non-government sector tended to save the inflationary component of ballooning interest payments, then dissaved as this component was eliminated following the CBA. A less than full, but substantial offset is in line with

observations from a wide range of countries, lowering but not eliminating the effect of higher public savings on total savings.

Table 1. Bulgaria: Government and Nongovernment Savings

	1994	1995	1996	1997	1998 H1
	(Levels, in percent of GDP)				
Gross domestic savings	8.8	14.1	11.5	15.9	15.1
Government savings	-3.0	-1.9	-8.6	1.5	8.5
Nongovernment savings	11.8	15.9	20.1	14.4	6.6
	(Cumulative change from 1995, percentage points of GDP)				
Gross domestic savings	...	...	-2.6	1.8	1.0
Government savings	...	...	-6.7	3.3	10.3
Nongovernment savings	...	...	4.2	-1.5	-9.3

12. **The growing weight of the private sector and large swings in the share of labor compensation have dominated recent developments in the income accounts** (Table 27). The share of the private sector in gross value added has grown fourfold since 1991, and doubled since 1994. Following a sharp drop in 1996, the state sector's share of employee compensation in gross value added has returned to historic highs at the expense of the gross operating surplus. Comparison with the share of private sector employee compensation in value added is complicated by a significant downward bias in wage statistics stemming from the widespread practice of private enterprises reporting only payment of compensation at the legally allowed minimum level.

C. Wages, Employment, and Labor Market

13. **The relentless decline in real wages until 1997 serves as a stark example of the costs of delayed macroeconomic adjustment and reform.** State sector real wages declined every year from 1993 through 1997, at double digit rates in most years.[3] Despite a sizable increase in 1998, real wages in mid-1998 still remained almost 30 percent below the 1994 level (Table 28). The decline was broad based, the only exception being public utilities, where a massive increase granted by the government in 1997 restored the real wage to its 1994 level.

[3]In February 1997, the deepest point in the crisis, average monthly wages for workers in the budgetary sector and those in SOEs hit US$11 and US$32, respectively, down from their average 1995 levels of US$88 and US$143, respectively.

Reliable wage data for the private sector are not available, but indirect evidence suggests that the economy-wide drop in real wages may have been smaller than suggested by public sector wage statistics. It should also be borne in mind that there were mitigating factors even in the case of state-sector workers, including substantial in-kind benefits, such as free or subsidized housing, heating, other utilities, and day care; social assistance; and unemployment benefits. In addition, an NSI survey on the hidden economy found that in 1996–97 unobserved economic activity accounted for supplementary income ranging from 40 to 80 percent of earned wages for employees in various sectors of the formal economy.

14. **In contrast to the behavior of real wages, employment has been relatively stable since the mid-1990** (Table 29). Total employment increased marginally in 1995–96 following a strong downward trend in the first half of the 1990s, then declined by 4 percent in 1997. Employment in the public sector has been on a sharply declining trend, and in 1997 its share for the first time fell below that of the private sector. Reflecting the stability of employment, the unemployment rate has not fluctuated as much as might have been expected on the basis of the marked changes in output—since 1995 it has generally been in the 11–14 percent range, and ended 1998 at 12 percent.

15. **These wage and employment developments were strongly influenced by institutional and structural factors.** Bulgaria's labor market is segmented into three distinct sectors. First, in the budgetary sector wages and employment are determined as part of the annual budget process. In recent years, efforts to contain the wage bill have been focussed primarily on keeping the nominal wage increases moderate rather than reducing employment, even though budgetary employment was cut by some 10 percent between 1996 and 1998. Second, the nonbudgetary public sector (SOEs) has throughout 1995–98 been subjected to a formal incomes policy, with a view to imposing financial discipline and harder budget constraints on SOEs (Box 2). While incomes policy has been only partially successful in fulfilling its objectives, it (together with control over budgetary sector wages through the annual budgets) has contributed to containing wage pressures and, from mid-1997, to avoiding an accumulation of large quasi-fiscal losses that could have undermined the CBA. Privatization has reduced employment in the SOEs significantly (this process has involved mainly medium- and small-scale enterprises, and by mid-1998 has yet to reach the most important flagships of Bulgarian industry; see section III.B), but many of the remaining SOEs have still been able to operate under rather soft budget constraints.[4] Reflecting this, and given the various rigidities thwarting the reallocation of labor, output losses in these companies have seldom resulted in corresponding cuts in employment. Finally, there is an emerging private and hidden sector with highly flexible labor practices. This sector has absorbed much of the released labor, albeit at lower wages and with a loss of job security.

[4]While SOEs have faced constraints on bank borrowing, they have been able to obtain financing by running up inter-enterprise arrears, estimated at 5 percent of GDP at end-September 1998. Key SOEs have also benefitted from budgetary subsidies and large offset operations.

Box 2. Incomes Policy for SOEs

Incomes policy has been aimed at addressing the lack of SOE financial discipline, a key problem in the Bulgarian economy during 1995–98. Without the discipline, loss making SOEs tend not to reduce their wage bills, opting for decapitalization and a buildup of arrears instead. Recognizing this, during much of the 1990s the government, representatives of SOEs, and trade unions have negotiated tripartite incomes policy agreements designed to maintain competitiveness while limiting real wage erosion by managing increases in the wage bill.

Recent incomes policy agreements have taken the form of constraints on the total wage bill. Focussing on the wage bill, rather than average wages has allowed SOEs to be flexible in setting their wage and employment levels, and trade off lower wages against changes in employment in periods when they incurred losses. Wage bill ceilings have been adjusted according to inflation, with explicit backward looking inflation indexation in 1995 and 1996 (reducing indexation to 70 percent in 1996). In 1997, adjustments were made based on inflation expectations, and indexation was completely abandoned in 1998. Instead, wage bill increases were tied to profitability and increases in productivity (defined as real sales per employee), encouraging better financial performance. In addition, SOEs performing well according to other criteria, for example not having arrears or reducing losses, could use a higher coefficient to increase their wage bills per percentage point increase in productivity. Poor-performing SOEs faced tighter limits, strengthening their budget constraints. In fact, the 1998 incomes policy precluded loss making SOEs that had reduced productivity from increasing their wage bills.

Incomes policy has so far been only partially successful, because a large share of SOEs have remained unconstrained, and weak performers often have not complied with the regulations. SOEs that had reported profits and were current on their payments obligations—some 40 percent of all the SOEs covered by the incomes policy in the first three quarters of 1998—were free to set their wage and employment levels. Enforcement was lax for the remaining SOEs, and various loopholes remained in the regulations including asymmetric adjustment coefficients with a bias against wage bill reduction, categorization based on quarterly (unaudited) enterprise accounts, and the lack of enforcement action on SOEs that had been privatized. Ministry of Labor incomes policy implementation data show that in the third quarter of 1998 SOEs that had diminishing losses (12.8 percent of all SOEs) were supposed to decrease their total wage bill on average around 3 percent during the quarter, but increased it by over 4 percent instead; and three SOEs accounting for a tenth of the total wage bill increased their wage bills by 6 percent despite a prescribed wage bill freeze. The government tightened enforcement and raised penalties on SOEs violating incomes policy regulations from mid-1998. Measures included firing 18 enterprise directors, improved monitoring of compliance and tighter control by tax administration. However, wage bill increases exceeding allowable limits that had already taken place were generally not reversed.

D. Inflation

16. **Bulgaria's poor growth performance through 1997 coincided with high and variable rates of inflation.** 12-month CPI inflation had reached a transition-era trough of 33 percent in 1995, but then accelerated to 310 and 580 percent in the subsequent two years, peaking at 2,040 percent in March 1997 (Table 32). Despite the massive increase in the price level, some relative price distortions remain, owing to the monopoly position of large SOEs in energy, agriculture, heavy manufacturing, and other sectors; the remaining restrictive features of the foreign trade regime; and a sizable, albeit decreasing set of administered prices. The following prices remain regulated by the government from January 1, 1999: electricity, central heating, telephone services, postal services, cigarettes, coal, briquettes, and gas. The share of these items in the CPI is 13 percent.

17. **The introduction of the CBA from July 1, 1997 quickly stopped inflation on its tracks.** Remarkably, while the CPI increased close to 500 percent in the first half of 1997, the increase was limited to only 16 percent in the second half (Table 2). To be sure, average monthly inflation remained at 4 percent in the quarter immediately following the introduction of the currency board (driven by nominal depreciation against the U.S. dollar in July and August 1997, the lagged effects of earlier large increases in administered prices of energy, transport and telecommunications, and some, albeit rapidly declining, inertia in inflationary expectations), but it fell to under 1 percent in the fourth quarter of 1997. In 1998, end-period inflation came to a mere 1 percent, despite sharp administered price adjustments in September when coal and district heating prices were raised significantly, contributing to a monthly CPI increase of 3 percent. The factors contributing to the low inflation outcome included: an abundant harvest (which is important given that food items have more than a 50 percent weight in the CPI); appropriately tight fiscal policy; a drop in

inflationary expectations[5] owing to the currency peg; a decline in world commodity prices; and the reduced monopoly power of large SOEs owing to trade and price liberalization.[6]

Table 2. Bulgaria: CPI During Six Months Preceding and Subsequent to the CBA

(End-period change in percent)

	6 months ending June 1997	6 months from end-June 1997
Total	484.2	16.2
Food	504.9	17.5
Non-food	425.4	12.4
Services	529.6	16.2

18. **Disaggregated and higher frequency data reveal important patterns.** While inflation rates for the food, non-food, and services components of the CPI have shared the same underlying trend, the price of services has tended to grow at a faster pace during non-inflationary periods (Table 3). Turning to monthly data, inflation during 1995–97 in the service sector was characterized by sharp step increases owing to the large role played by administered prices which were adjusted in a discrete manner. During the crisis, administered prices failed to keep up with market prices, magnifying the pre-existing relative price misalignment while food and non-food inflation have been consistently lower than inflation in services since September 1997, reflecting a realignment of relative prices in part owing to the liberalization of administered prices.[7] There was also a tendency for food and non-food inflation to move together, although food prices were more volatile since they were heavily influenced by seasonal factors and the abundance of the

[5]As indicated by the low level of interest rates and the sharp turn in the tenor of responses to the monthly business survey question on expected industrial price developments compared to early 1997 reported in the NSI's May 1998 Current Economic Indicators publication.

[6]A quantitative analysis presented in "Free Trade versus Protectionism" by Radoslav Krustev, Agency for Economic Analysis and Forecasting, August 1998 shows the extreme degree of concentration based on 1996 NSI data for 40,000 enterprises: for over 40 percent of all branches in the economy, the top four enterprises accounted for 80 percent or more of both assets and revenues. The paper argues that progress had been made toward increasing competition in the economy by 1998, affecting the price level, but that substantial limitations still exist.

[7]For example, in February 1997, when overall monthly inflation hit 243 percent, inflation in the services sector was only at 71 percent. In contrast, the increase in prices in the services sector during 1998 tended to be higher than inflation in the other sectors.

agricultural harvest. Owing to the high weight of foods in the CPI, the overall index also has displayed significant seasonality.

Table 3. Bulgaria: Monthly Average Changes in the Main Components of CPI in Percent

	Food	Non-food	Services
1995	1.8	2.6	4.0
1996	12.8	13.3	12.9
1997	29.2	26.9	21.2
1998	-0.4	0.0	1.7

III. Enterprise Reform

19. **Enterprise restructuring and the attainment of a competitive enterprise sector remain pivotal components of Bulgaria's economic reforms.** The period leading up to the crisis in 1996–97 was characterized by an inconsistent approach to reforms in the enterprise sector resulting from the lack of political commitment. Meager progress was thus made in economic restructuring, which was a key reason for the lackluster growth performance. Since the crisis, significant progress has been made, in particular in privatizing small- and medium-size enterprises. However, much remains to be done before financial discipline has been imposed on all economic agents. By end-1998, the privatization of large SOEs had hardly started, and the Isolation Program, the first systematic effort to impose financial discipline on SOEs, was still to be completed. Also, serious restructuring of the important energy sector was only in the initial stages.

A. Privatization

20. **Until late 1996, progress in Bulgaria's privatization was extremely slow.** This phase included only short-lived bursts of increased activity, such as the one following the agreement with London Club creditors in late 1994, when for a short period debt-equity swaps at very advantageous terms for foreign buyers became possible. Several institutions were jointly designated to manage parts of the privatization process, including the Privatization Agency (PA), the Center for Mass Privatization (CMP), and the branch ministries. However, practically no progress was made in privatizing large enterprises in heavy industry, manufacturing, or infrastructure, although small-scale privatization proceeded, particularly in trade, tourism, and food processing. Apart from the lack of political will, the process was poorly coordinated, and there was little interest from foreign strategic investors, owing to the unstable macroeconomic situation and an inadequate legal framework (for example, legal issues related to restitution of property and SOE debt remained unresolved).

21. **Increased awareness of the costs of slow privatization prompted the authorities to adopt a strengthened ownership transformation strategy from late 1996 onward.** By this time, policymakers had recognized that delays in privatization were leading to a rapid loss in the value of state assets and contributed to growing subsidy needs. In addition, the worsening fiscal situation in 1996 had elevated the importance of increasing cash privatization receipts. In response, in the second half of 1996 the government reoriented its efforts toward privatizing large enterprises for cash. Following several large deals concluded through direct negotiations (including the Pirdop copper refinery, the Devnya cement plant, and Sodi Devnya, Bulgaria's largets producer of soda ash), the government decided on a more systematic approach. The main channels for privatization were to be the sale of major enterprises to strategic buyers with the assistance of privatization consultants (the PATA program),[1] the sale of groups of large enterprises with similar profiles (pools),[2] the sale of

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[1]EU funding was made available to help finance the work of Privatization Advisors and

(continued...)

smaller enterprises through auctions organized by supervising ministries, and from September 1997, with the reopening of the Bulgaria Stock Exchange Sofia (BSE), the sale of packets of shares on the BSE. Potential buyers included Bulgarian and foreign entities, including local pension funds and manager-employee buyout (MEBO) teams. In each case, the PA or the branch ministry determined the portion of the enterprise—typically less than 100 percent—to be sold through the various channels.

22. **Under the new strategy, progress in removing enterprises from the public sector has been uneven.** A number of large transactions were completed in 1997, lifting privatization proceeds to the budget to some US$340 million, and ministries began a steady flow of small SOE divestitures through the sale of enterprises, individual assets and in selected cases through entering enterprises into liquidation proceedings. Measured by the number of transactions concluded, 1998 saw a further acceleration. However, few large deals were closed in 1998, and privatization receipts to the budget fell to about US$150 million. The somewhat disappointing outcome reflected legal obstacles, reduced foreign investor interest in the wake of the Asian and Russian crises, and the difficulty of privatizing large chemical and steel plants against the background of falling commodity prices on the world market. Also, contrary to expectations, none of the PATAs completed the privatization process for their respective SOEs during 1998. The reasons included frictions with the Privatization Agency (which preferred a meticulous hands-on approach), incentive problems stemming from early PATA contracts specifying a stream of payments throughout the process, and legal red tape.[3] Moreover, the BSE did not play a significant role in privatization.

23. **The encouraging number of transactions notwithstanding, the quality of privatization leaves something to be desired.** The authorities have so far seen privatization more as a source of budget financing and an instrument to garner political support (mass

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[1](...continued)
Transaction Agents (PATAs). The task of the PATAs was to privatize or, in case this proved impossible, liquidate 27 large SOEs in 7 sectors of the economy over a period of 20 months through end-1998. Several of these SOEs were in Group B of the Isolation Program (see section III.B). The government undertook to provide all necessary information and legal support to expedite the process, pay a success fee upon its completion, and promptly enter any SOE into liquidation if its privatization proved infeasible.

[2]Pools are groups of enterprises with a similar profile bundled together for the purpose of privatization by an expert advisor hired through tenders, as in the PATA program. Pools—which were not constrained to be sold in a single package—typically consist of four to eight large SOEs in the same sector, e.g. machine building or chemical engineering. Advisors for 14 pools had been contracted by the summer of 1998.

[3]The incentive problems have already been addressed in contracts for pool privatization written in 1997–98. These contracts specify a shorter period to complete the process and place emphasis on success fees in order to strengthen the incentives for early completion.

privatization) than as a means of improving corporate governance. This attitude has been evident in the proliferation of MEBOs which have typically had little positive impact on corporate governance (Box 3). The quality of privatization has also suffered because of the large number of intermediaries and weaknesses in the coordination of their activities which have led to segmentation of the privatization process. Also, the decision to sell only partial stakes in most SOEs has resulted in fragmented ownership of many privatized enterprises, with adverse consequences for corporate governance. Finally, foreign participation in privatization has been hampered by the lack of a stable policy environment and of a fair, transparent legislative framework. To improve the quality of privatization, the authorities during 1998 clarified the legal framework, and have taken measures to eliminate conflicts of competence and incompatibility of incentives among the various bodies responsible for privatization.

Box 3. Definition and Legal Aspects of Privatization

What consitutes privatization? Privatization refers to the transfer of ownership from the state to the private sector, implying a transfer of the right to make strategic decisions, including to downsize or liquidate the enterprise, or to issue additional shares. However, most sales of SOEs in Bulgaria so far involved the transfer of only a part of the shares to a private entity, raising the issue of the proper threshold to use in defining privatization. While the Privatization Agency considers the sale of 51 percent of an enterprises as privatization, (the definition underlying Table 38), the World Bank counts an enterprise privatized only if over two thirds of its shares have been divested because under Bulgarian corporate law, the owner of 33 percent of the shares can block decisions concerning the enterprise. Thus, the state can block strategic decisions in an enterprise that the Privatization Agency considers privatized if it held on to more than a third of its shares.

Legal framework and MEBOs. The 1992 Transformation and Privatization of State-Owned and Municipal-Owned Enterprises Act (TPSMEA), which underwent its 15th round of amendments in January 1999, lays out the legal framework for privatization. The main principle is that the privatization of small and medium-sized SOEs is the responsibility of branch ministries; the Privatization Agency deals with the privatization of large SOEs and with coordinating the overall process, while municipalities privatize municipal enterprises, most of which are small or medium size. Since late 1994, the TPSMEA allowed for preferential terms for MEBOs, including allowing MEBOs to pay only 10 percent of the purchase price upfront with payment of the remainder in installments over 10 years, and the comparison of competing bids at face value. MEBOs were frequently able to outbid other buyers because of these advantages, but many have subsequently not been able to improve their financial positions because they lacked the technological know-how and the financial capacity to make much-needed investments, and failed to deliver improvements in corporate governance. In addition, most were not able to receive bank credit due to the lack of collateral or a credible financial program. In some instances, sales to MEBO teams have led to serious asset stripping. The most recent round of amendments to the TPSMEA has helped to level the playing field in privatization by appropriately discounting the value of installment payments. Parliament has also adopted a list of major enterprises for which deferred payments are not allowed.

24. **On balance, while much remains to be done, privatization has made significant headway, with the state sector losing its dominance in terms of its share in GDP and employment** (Table 33). Wine production, brewing, the cement industry, and a large portion of the sugar industry have been privatized. Privatization is well under way in non-ferrous metallurgy, pharmaceuticals, and 50 percent of tourist facilities are in private hands. Around 150 of Bulgaria's biggest enterprises accounting for 25 percent of Bulgaria's output have been put up for sale in 1998, including the Bulgarian Telecommunications Company, Kremikovtsi, Neftochim, Petrol, and 25 military plants, and preparatory work has been largely completed for a second wave of mass privatization (Box 4).

Box 4. Mass Privatization

The first wave of mass privatization was largely successful. This wave, modeled on the voucher privatization program in the Czech Republic, was conducted from late 1996 to mid-1997. It was not originally intended as the channel for privatizing the bulk of SOEs as there was a pressing need for budgetary cash receipts and external debt reduction through debt-equity swaps. There were also concerns about post-privatization enterprise governance in enterprises with diffuse ownership. Nevertheless, the first wave of mass privatization constitutes the single most important form of transferring ownership to the private sector to date, and played an important role in securing political support for continued structural reforms. It mainly achieved the transfer of ownership in small enterprises or of small stakes in large ones.

How was the first wave conducted? During the first half of 1996, about 3 million people—approximately half of all those eligible—applied for vouchers, resulting in the issue of about leva 75 billion of vouchers, the bulk of which was invested in 81 privatization funds participating in centralized auctions organized to sell approximately a sixth of long-term fixed assets (LTFA) owned by the government. Privatization funds were eligible to buy up to a third of the shares in a single company, empowering them to block strategic decisions in the enterprise. In centralized Dutch auctions bidders—including individuals—submitted bids for a specified number of shares at a price exceeding the minimum price set by the Auction Commission. The price was dropped in three successive rounds if needed, until all shares were allocated. By mid-1997, over 10 percent of LTFA had been transferred to the private sector through mass privatization. In the event, while this method accounted for half of all LTFA privatized through December 1998, the benefits in terms of improved corporate governance were limited; and by transferring partial ownership in large enterprises potentially attractive to strategic investors, mass privatization may have actually complicated the task of attracting such investors, who typically prefer full control of acquired enterprises.

Preparations have now been completed for the launching of the second wave of mass privatization in early 1999. This wave has been designed to be a complementary channel of privatization with a clearly defined list of assets to be made available. The government, wishing to concentrate on cash privatization of large enterprises, intends to use the second wave to sell a large number of small- and medium-sized enterprises and to dispose of residual shares owned by the state. The second wave will also be used to launch private pension funds, and the knock-on effect on the fledgling BSE may be significant, since traders expect lively secondary trading of shares newly acquired in such auctions owing to the rule that the trade of vouchers is prohibited prior to their use in centralized auctions. However, the impact on the pace of privatization is not yet quantifiable because the total supply of assets for mass privatization remains uncertain, the take-up rate by eligible citizens is not known in advance, and vouchers are also issued in conjunction with land or commercial property restitution.

B. Financial Discipline

25. **Despite some recent improvement, poor governance and soft budget constraints have remained a pervasive problem in the SOE sector, as reflected in the weak financial performance of SOEs throughout the 1995–98 period.** To be sure, the SOE sector recorded significant book profits in 1996 and 1997, following two years of small losses (Table 34). However, the profits were achieved in large part by making use of shortcomings in Bulgarian accounting practices on the valuation of assets and the calculation of profits and losses (see paragraph 27 below); in 1996 exchange rate gains and in 1997 a good export performance also contributed. But there were also signs of somewhat improved financial discipline. An important sign was the fall in SOE liabilities to banks from 62 percent of GDP at end-1996 to just 7 percent at end-1997, owing to a write-off of liabilities, mainly to closed banks, and a very limited increase in credit to SOEs during the year (Table 35). Preliminary data for the first half of 1998 indicate deteriorating financial performance, reflecting the phasing in of higher depreciation costs, continued significant increases in the wage bill, sharply declining sales, and the tendency of recent privatizations to include relatively more profitable enterprises. Throughout 1995-98, over 60 percent of SOEs were unable to meet cash costs from revenues, although the share has been drifting downward from 78 percent in 1995 (Table 36); and the largest 100 lossmakers accounted for between a fifth and a third of total SOE revenues and expenditures (Table 37).

26. **Throughout the period, but decreasingly so, financial discipline has been undermined by asset stripping.** Over the years, a significant transfer of income and assets has occurred from SOEs to managers and related private enterprises acting as suppliers or buyers of the enterprise's products. This transfer has been effected through various means, including transfer pricing and running up payment arrears to SOEs. The asset stripping was greatly facilitated by the flow of large direct and indirect state subsidies to the SOE sector. These subsidies (measured on a GFS basis) amounted to 6.7 percent of GDP in 1996 and 2.0 percent of GDP in 1997, and they took the form of recurring large budgetary write-offs of arrears as well as budgetary and extrabudgetary subsidies needed to cover losses. In addition, part of essential repairs or investment at SOEs were also financed from the budget. The large-scale asset stripping created a strong constituency against rapid and transparent privatization of SOEs, contributing to the slow pace of ownership transformation through late 1996.

27. **The remaining key obstacles to improved financial discipline include inadequate exit policy and shortcomings in accounting practices.** Although some 60 SOEs were liquidated in a World Bank-sponsored program undertaken during 1996–97, many large- and medium-size SOEs continue to operate at sharply reduced levels of production in increasingly difficult financial circumstances. End-1998 estimates put the number of such SOEs and of those that have effectively ceased operations and thus were obvious candidates for liquidation at around 350, even though some remain solvent under Bulgarian accounting standards. Legislation on bankruptcy and insolvency has been improved in recent years but its application remained largely ineffective, mainly owing to judicial and procedural constraints (Box 5).

Box 5. Legal Aspects of Enterprise Bankruptcy, Liquidation, and Collateral

Bankruptcy and liquidation procedures. Bulgarian Law distinguishes the liquidation of solvent enterprises—whose assets exceed liabilities as calculated under Bulgarian accounting standards—and the bankruptcy of insolvent enterprises. For the former group, the process is guided by Chapter 17 of the Commercial Code and the provisions of Article 1(3) 2 and Chapter 6 of the Act on the Transformation and Privatization of State-Owned and Municipal Enterprises. For the latter group, the process is defined in the 1994 Bankruptcy Law contained in Part IV of the Commercial Code. Since liquidation proceedings for solvent SOEs do not need to involve the courts, supervising ministries as representatives of the owner, the state, can initiate and implement liquidation procedures. Bankruptcy procedures on the other hand have to be initiated by courts and implemented under their supervision.

Poor record of implementation. Progress in implementing these laws has been hampered by the unreliability of the balance sheet test of solvency in the absence of uniform, internationally accepted accounting, asset valuation and appraisal standards; ambiguities in the wording of legislation and a lack of experience in its application; legal constraints on writing off SOEs' Zunk-related liabilities; and, at times, the large tax liabilities on debt written off. A lack of trained bankruptcy judges and incentive problems of court-appointed liquidators who receive a fixed salary as long as the bankruptcy proceedings are underway further complicate the process. As a result, only a limited number of liquidations of solvent enterprises, and no successful case of a SOE stabilization or reorganization, let alone a completed SOE liquidation, had been achieved through November 1998.

Problems with collateral. The related regime for secured lending is adequate for personal property, but not for real estate serving as collateral. A modern Law on Registered Pledges following Article 9 of the U.S. Uniform Commercial Code has been enacted in 1998, and a Registry of Secured Interests in Personal Property has been established within the Ministry of Justice. However, through end-1998, land and related mortgage registrations remained highly decentralized, with records unautomated and not based on plot descriptions following cadastral surveying, resulting in an extremely slow and burdensome process of foreclosing on real estate collateral.

Enterprise financial discipline is also compromised by shortcomings in Bulgarian accounting practices on the valuation of assets and the calculation of profits and losses. In the latter case, a significant source of soft budget constraints has been that revaluation coefficients for fixed assets increasingly failed to reflect inflationary developments since end-1993, the last time fixed assets had been revalued. Consequently, many SOEs were able to show profits by decapitalizing themselves through grossly insufficient depreciation charges based on the limited increase in the book value of fixed assets. A revaluation in 1998 alleviated, but did not eliminate, the problem: a number of SOEs decided to apply a revaluation coefficient below the allowed maximum, and even the maximum revaluation appears to have been insufficient for certain types of fixed assets, especially buildings. Another problem complicating the assessment of true financial results arises from the remaining significant price distortions for a number of SOEs stemming from administered input or output prices, primarily in the energy sector (see section III.C).

28. **The ongoing Isolation Program gives promise of major further improvements in financial discipline.** This program aimed at addressing the largest loss-making SOEs was launched in 1996. The Isolation Program (IP) was designed to cut off 30 state-owned utilities (Group A) and 41 large state-owned commercial enterprises (Group B) from bank credit, thereby forcing a fundamental restructuring of their operations, with a view to achieving eventual financial solvency of Group A enterprises, and privatization or liquidation of Group B enterprises. The isolated enterprises accounted for approximately 50 percent of SOE sector losses in 1995. The original deadline for completing the program was end-1998. However, delays in implementing the reorganization plans of SOEs under the IP, the lack of resolve in forcing liquidations of major SOEs in Group B that could not be privatized, adverse changes in the external environment resulting in lower interest of foreign strategic buyers in Group B enterprises, and the modalities of enterprise privatization through the PATA and Pool programs have made it unavoidable to extend the program through mid-1999. Nevertheless, although implementation fell short of the original goals, significant progress has already been made under the Isolation Program. In Group A, the program led to a reexamination of the massive redistribution of funds through the Energy Resource Fund (see section III.C) and eventually its closure at end-1998; a gradual raising of district heating prices in order to phase out subsidies to district heating companies (DHCs); the implementation of a far-reaching restructuring plan for the state railways and preparing the ground for one involving the Sofia Transport Company; and the launch of a program to close loss-making coal mines. Twenty-two enterprises have already exited from Group B by end-July 1998, and the need to liquidate major SOEs which are losing hope for being privatized has been accepted.

C. Energy Sector

29. **Energy is a key sector in Bulgaria's highly energy-intensive economy and one which has epitomized the difficulties highlighted in the previous section.** Barely touched by the restructuring efforts prior to 1998, the enrgy sector had deep-rooted problems in several sub-sectors: large, uncontested vertically integrated monopolies in electricity (NEK) and gas (Bulgargas); high levels of protection and centralization in oil refining; an inefficient and extremely costly district heating system; and a heavy losses in coal mining. The key causes of this situation were the reluctance to give up state control in this crucial sector to private operators and the failure to liberalize key energy prices or at least keep them at proximate market levels. Policymakers tended to view private operators as unable or unwilling to reliably and efficiently cater to the needs of industry and the household sector at an acceptable price. Moreover, they wanted to keep energy prices low to avoid further worsening SOEs' already precarious financial position, and to protect the socially vulnerable parts of the population.

30. **In early 1998 the authorities made the first serious efforts at addressing the main problems.** They developed a comprehensive medium-term strategy for the energy sector and began to implement it in September 1998. The strategy focusses on electricity, coal, and

district heating, and it contains the essential elements necessary to improve the overall efficiency of the energy sector. Although it will take several years to implement some strategically important measures, including large-scale privatization, and the strategy does not cover the gas sector, it was a significant and promising start. The strategy envisages the phasing out of energy subsidies over a period of three years, which was begun in September 1998. It also prepares the ground for breaking up NEK into separate corporate entities dealing with generation, transmission and dispatch, and distribution in the electricity subsector, and launches an effort to restructure coal mining and to confront the deep-seated structural problems related to district heating (Box 6). A key component of the strategy is the preparation and submission to parliament of a modern Energy Law providing the legal and regulatory framework for the market-based development of the energy sector and for an independent regulatory agency for the remaining monopolies.

31. **Pervasive government intervention in the energy sector has maintained an inefficient and centralized market structure.** Through end-1998, the profit taxes paid by NEK and the bulk of its profits—extracted by the state as dividends—were channeled through the Energy Resource Fund (ERF), an extrabudgetary fund, to district heating companies and coal mines in a large government-operated cross-subsidization scheme. The ERF—together with the implicit subsidy provided to DHCs in the form of free deliveries of gas through 1998 related to the Yamburg agreement[4]—avoided a breakdown of district heating and thus averted major social problems. However, it achieved this at the cost of compressing NEK's maintenance and investment expenditures and contributed to complacency about the need to raise administered prices for district heating as revenues lagged further and further behind costs.

[4]The Yamburg agreement involved annual deliveries of natural gas from Russia as payment for services provided in the past by Bulgaria in the construction of the gas pipeline from the Yamburg gas field in Russia.

Box 6. District Heating

Operations. As of 1998, Bulgaria had 22 independent district heating companies (DHCs), supplying about 19 percent of the population—exclusively in large cities—with heat, mainly using imported natural gas as their primary fuel. Until end-1998, all were owned by the central government with the exception of the Sofia DHC, which accounted for over half of the total heating capacity and was owned by the Municipality of Sofia. About two thirds of sales were to households, a fifth to industry (including 12 percent delivered as steam) and the rest to budgetary organizations. Nine of the 22 systems also had the capacity to produce electricity jointly, with Sofia accounting for half of the total.

Performance problems. Estimated heat losses in the district heating systems are about 17 percent of the heat in generation and an additional 20 percent in transmission and distribution, compared with 13 and 8 percent, respectively, in Finland where district heating is also extensively used. With little metering of consumption, and a dilapidated control system for heat transmission and distribution, losses may be substantially underestimated. DHCs charge costs plus 7 percent for industrial users and a low administered price for households. Since 1995, revenues have increasingly failed to cover costs, leading to large financial losses and consequent subsidy needs in excess of one percent of GDP annually, mainly through the Energy Resource Fund.

Planned solutions. The authorities have decided to raise district heating prices, separate heat generation and delivery activities where feasible, put in place a regulatory framework, and eliminate DHC subsidy needs by 2001. Heating prices for households could not be raised immediately to full cost recovery levels owing to the low level of household incomes, the lack of metering and control devices, and the relatively high estimated elasticity of demand for district heating. Also, a sharp drop in demand for district heating could have exacerbated the financial situation of DHCs which operate with very high fixed costs, and the scope for continuing large cross-subsidies was limited by the ability of industrial customers to produce their own heat. The strategy also envisages conveying ownership of DHCs from the central government to municipalities; using World Bank financing to install metering and control devices and to rehabilitate many large DHCs; fostering a reduction of demand through better insulation and other energy saving measures; and allowing regional pricing of district heating services. As a first step, district heating prices were increased by 30 percent in September 1998, covering the fuel component in costs.

32. **The National Electric Company maintains a virtual monopoly over the electricity subsector**. It controls power generation (including substantial nuclear capacities) with the exception of co-generation capacity, all transmission and dispatch operations, and distribution. Following disastrous losses stemming from the November 1996 freezing of public utility tariffs, administered electricity prices were raised and maintained at close to marginal cost from mid-1997, allowing NEK—which was included in Group A of the Isolation Program—to generate significant profits, albeit in part owing to artificially low depreciation charges. NEK's position was further bolstered by relatively tight management which led to a low level of unpaid receivables, and its role as a significant exporter of electricity. As of end-1998, NEK had an ambitious investment program aimed at rehabilitating coal based power generation, further enhancing the safety of its nuclear operations, and developing its role as a

major exporter. NEK concluded a major international joint venture agreement in October 1998,[5] and made progress in accounting separation of its various activities. The restructuring program for NEK includes raising the average tariff for electricity on January 1, 1999 by 14 percent for households and 7 percent for non-households, further increases in subsequent years to cover long-run costs, and the creation of separate corporate entities for the generation, transmission, and distribution of electricity, with a view to privatizing larger hydro and thermal power generation plants, retail services, and power distribution from 1999.

33. **With price liberalization, the coal sector should be viable.** Much of coal mining—the open-pit mines supplying input to electricity generation—operates with low costs, and thus would be economically viable at fully liberalized prices. However, low administered prices on domestic coal and briquettes, and the threat of acute social problems caused by closing loss-making mines in towns where they are among the most important employers, have severely limited progress in restructuring and led to continuing losses and decaying physical equipment. As a first step in implementing the energy strategy, coal and briquette prices for households were raised by 30 percent in September 1998, several hundred employees were dismissed, and decisions were made to detach auxiliary activities from mining SOEs in preparation for their privatization and to close down severely loss-making deep-pit mines. The medium-term objective is to allow coal mines to survive or fail without government intervention.

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[5]Entergy, the fourth largest U.S. electricity supplier for domestic use, with branches in Australia, Europe, and the Americas, acquired 66 percent of the Maritsa Iztok 3 power station with 880 MW of power generation capacity. NEK provided in-kind contributions toward the capital of the joint venture which has the task of rehabilitating the power plant in the framework of a long-term cooperation between the partners. NEK also guaranteed the supply of coal from the adjacent lignite mine and the marketing of the electricity produced.

IV. PUBLIC FINANCE

34. In part because of structural weakness but principally as the result of quasi-fiscal deficits and general lack of confidence in government policies, fiscal policy lost effectiveness during 1996–97, but fiscal consolidation was achieved rapidly after the CBA-centered adjustment program was launched. Despite a decline in revenues during 1995–early 1997 stemming from incoherent tax policy and tax administration measures and the severe economic recession, primary surpluses rose sharply in an attempt to limit the adverse impact on the deficit of ballooning interest expenditure. The sharp compression of non-interest expenditure, brought about by galloping inflation, proved socially unacceptable and economically unsustainable. Quasi-fiscal deficits had contributed to a large build-up in public debt, raising doubts about the government's ability to service its debt. Following the crisis of early 1997, the adoption of a comprehensive package of reforms restored confidence, brought interest rates down, and allowed non-interest expenditures to return to acceptable levels. At the same time, reforms to address weaknesses in tax administration and public expenditure management systems were initiated. The results of these measures were, inter alia, reflected in the overall budget surplus recorded in 1998. Further reforms to enhance fiscal transparency and ensure medium-term fiscal sustainability were initiated with the 1999 budget.

A. Structure of the Public Sector and Transparency of Fiscal Operations

35. **The public sector comprises the state and municipally owned enterprises,[1] and the general government which encompasses three functional sectors:** the central government; the social security system; and local governments (Box 7). It also includes a large number of extrabudgetary funds (EBFs), largely financed by earmarked revenues.

36. **The structure of the state budget is characterized by an excessive degree of fragmentation** and by the presence of some 150 first-tier spending units, of which only 14 are line ministries.[2] The state budget incorporates the budgets of the general state or *republican budget*, and the budgets of other state institutions (i.e., ministries and other central institutions, regional administrations, and the National Audit Office). The budgets of the judicial authorities, universities and the Bulgarian Academy of Science, social security institutions, and municipalities are excluded from the State budget.

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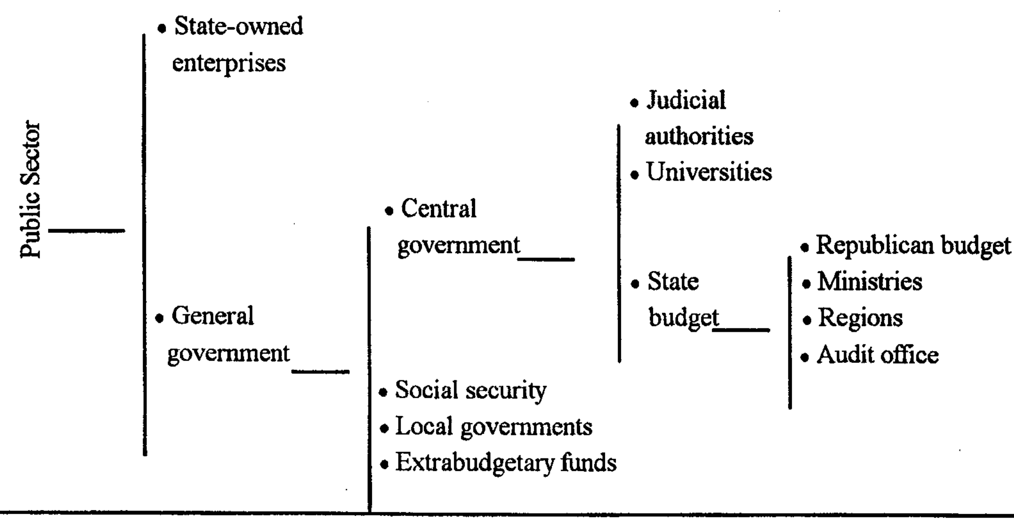
[1]See chapter II.

[2]The term "spending unit" covers all entities in the republican budget that receive republican budgetary revenues, whether directly as first-tier units, or as second-, third- or fourth-tier units whose budgetary revenues are allocated to them by a higher tier unit.

Box 7. Structure of the Public Sector



37. **The republican budget** consists of government revenues (VAT, income taxes, customs and excise), interest payments, and transfers to municipalities and extrabudgetary funds, while the budgets of other state institutions consist of appropriations to the state authorities for administrative purposes and capital expenditures. The **social security system** includes the Social Security Fund—administered through the National Institute for Social Security (NSSI)— and the Unemployment and Retraining Fund. Social security is financed by social security contributions and by transfers from the state budget (see chapter IV).

38. **Local governments consist of 258 municipalities, 3,881 settlements and nine regions, although these last ones have no autonomous budget and retain limited functions.**[3] Since 1992, municipalities have their own budgets. Local governments have major responsibility in health and education, and for funding social assistance cash transfers and services, housing, utilities (including water, sanitation, electricity and heating), road maintenance and local administration. Accordingly, education and health comprise the largest share of municipal budgets, followed by housing and communal services, social assistance services, and local administration. **Municipality councils allocate their budgets within the framework of centrally set guidelines.** Their deficits, which cannot exceed 10 percent of their revenue, can be financed by issuing securities and bonds or by borrowing from financial institutions. Upon a resolution of municipal councils, temporary revenue shortfalls can be

[3]Prior to 1987, 28 districts (okrag) were the main administrative units in the country. In 1987, the 28 districts were consolidated into 9 regions. In 1991, municipalities became the basic administrative units. Sofia, the capital of Bulgaria, with nearly 1.2 million inhabitants, is both a region and a municipality with greater Sofia including 24 municipalities.

covered by short-term loans from commercial banks, the central government budget, or other municipalities. Interest-free loans from the republican budget can be provided under exceptional circumstances and according to conditions determined by the Minister of Finance.

39. **More than half of municipalities' budgets is financed by sharing revenues from the profit and personal income taxes.** In addition to a 10 percent *municipal tax* levied on companies' accounting profits (adjusted for tax purposes), the 30 percent standard profit tax rate is levied on all state enterprises under local jurisdiction, i.e., with more than 50 percent municipal ownership. Municipalities' share of the *individual income tax*—determined every year in the budget law—was reduced from 70 percent to 50 percent in 1996. Within *local taxes*, property taxes have always played a relatively minor role, mostly because until 1996 municipalities did not have direct control over rates and assessments, which were valued at historical costs. Since 1998, assessment are based on market-related values. *Transfers* from the central government, 80 percent of which are for general purposes, account for more than a third of municipalities' revenue and are determined in annual budgets for each municipality according to a formula taking into account local needs and redistributive mechanisms.

40. **Prior to the 1999 budget, there were more than one hundred extra budgetary funds.** About 25 funds were under the control of the Ministry of Finance (MoF); the balances of their accounts, which had to be deposited at the central bank, could be used by the MoF, provided that the funds were repaid within the year. Another 30 to 35 funds were specified in individual laws, which prevented the MoF from accessing their balances. Some 50 minor funds were under the control of individual ministries, while a few others were part of the system of social security.

41. **Many extrabudgetary funds were financed by earmarking tax revenues and privatization receipts.** The Energy Resource Fund (ERF), for instance, was financed by diverting profit tax liabilities of the National Electricity Company (NEK) from the state budget to the ERF. Twenty percent of receipts from fully divested enterprises were earmarked for a mutual fund used to finance pension payments; the remaining 80 percent was earmarked as follows: 7 percent to cover operating costs of the privatization agency; 26 percent to the Agriculture Fund; 4 percent to the Tobacco Fund; 5 percent to an Ecology Fund; and 58 percent to the State Fund for Reconstruction and Development (SFRD).[4] In case of partial privatization, 20 percent of receipts went to the mutual fund, while 80 percent would be retained by the enterprise.

42. **As large state-owned enterprises encountered increasing difficulties in meeting tax payments in 1996 and 1997, tax administration allowed the offsetting of revenues**

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[4]The SFRD was created in 1991 to support production and trade by lending to finance investment in priority sectors of the economy. Its funds were held at the BNB and managed by a board including all the ministers from the economic ministries. The State Budget Act permitted the MoF to draw up to three month interest-free loans from the SFRD.

and debts of government and third parties.[5] As funds ultimately do not change hands between the taxpayer and the tax administration under such arrangements, the government's net cash position is no better than if the offset had not taken place, with the result that tax administration's collection enforcement powers are effectively compromised.

43. **General government banking arrangements still reflect the structure inherited from centrally-planned economies.** The government bank accounts—estimated at several tens of thousands and held at the BNB and twelve correspondent banks—are excessive in number and complexity. Each of thousands of spending units has a minimum of three, often five, and sometimes more accounts, including transit accounts, separate accounts for lev- and foreign exchange-denominated transactions, and a number of off-budget accounts, including suspense accounts. All account categories, except a few term deposits and those in foreign currency, are kept in pairs—one for debit and one for credit—and balances are maintained cumulatively through the year. As a result of these banking arrangements, substantial unremunerated cash resources are deposited in the commercial banking system on any given day, adding to the government's costs and borrowing needs, while subsidizing the banking sector in a non transparent manner.

44. **The 1999 budget marks a departure from past practices and a decisive step toward enhancing transparency of government operations.** The number of first level spending units has been reduced from 150 to 33. All but 28 extrabudgetary funds and accounts have been closed. All extrabudgetary accounts for second and third level spending units have been closed and their balances transferred to the responsible first level spending unit accounts held at the BNB. Only first level spending units are now allowed to hold bank accounts in foreign currency. A Treasury Single Account (TSA) has been introduced for all first level spending units and the number of correspondent banks has been reduced from 12 to 6. The earmarking of tax revenue and privatization receipts has been eliminated. The possibility of offsetting revenues and debts of government and third parties has been discontinued. The government has also taken action to monitor in a transparent manner government guarantees—the primary form of contingent liabilities.[6] In July 1998, a public registry of all government guaranteed loans was established and a decree was issued stating specific criteria for determining the reasonableness of the loan and the required government

[5]These provisions, contained in budget documents, were initially limited to District Heating Companies' (DHCs) commercial liabilities against liabilities of Bulgargas to the budget for the period January 1996–March 1997 on account of gas sold under the Yamburg agreement. The 1998 budget extended that possibility for DHCs' commercial liabilities to Bulgargas accrued in the period January–March 1998. Energy companies were also allowed to offset sums of receivables from the budget with executable receivables or obligations due—e.g., tax liabilities—to the budget by energy companies.

[6]Under currently existing legislation, external loans to state entities, including municipalities, state-owned enterprises and banks, are not guaranteed by the Republic of Bulgaria unless approved by an act of parliament.

guarantee. The 1999 budget also sets annual limits on issuing debt guarantees, both external and domestic, and on the outstanding amount of guarantees.[7]

B. Fiscal Policy

45. **Fiscal balances deteriorated progressively through the financial crisis of late 1996–early 1997, but recovered rapidly once the CBA was adopted, and posted a surplus in 1998.** The root causes of fiscal deterioration were a secular decline in revenue and rising debt service costs (Figure 3). While the former was a common feature of many transition economies, the latter had its origin in the quasi-fiscal nature of Bulgaria's public debt as the government repeatedly assumed nonperforming credits contracted by state-owned banks. Declining revenue and rising interest cost forced the government to curtail non-interest expenditure. However, despite running very large primary surpluses, the overall deficit widened while public debt became rapidly unsustainable. The fiscal crisis was resolved when the policy package centered on the adoption of a CBA provided a credible nominal anchor and rapidly reduced interest costs. It was followed by sound fiscal policies which ensured fiscal consolidation.

The emergence of the fiscal crisis

46. **In spite of a significant improvement in the 1994 and 1995 fiscal accounts, the seeds of the looming fiscal crisis were already evident.** Although the secular decline in revenue started at the outset of the transition had been temporarily reversed in 1994—largely reflecting the successful introduction of a value added tax (VAT) and the return of revenues from profit taxes to more normal levels after companies fixed assets had been revalued at end-1992—revenue collections of the consolidated government declined by 4 percentage points of GDP in 1995, despite the favorable macroeconomic developments. Restrained non-interest spending more than offset substantial increases in interest payments (Tables 39 and 40). The VAT performed significantly below budgetary expectations, largely as a result of difficulties in administering the tax (see below) and nontax collections also fell, largely owing to a sharp decline in profit transfers from the BNB, reflecting its need to provision for losses in the banking system and its support to ailing banks.

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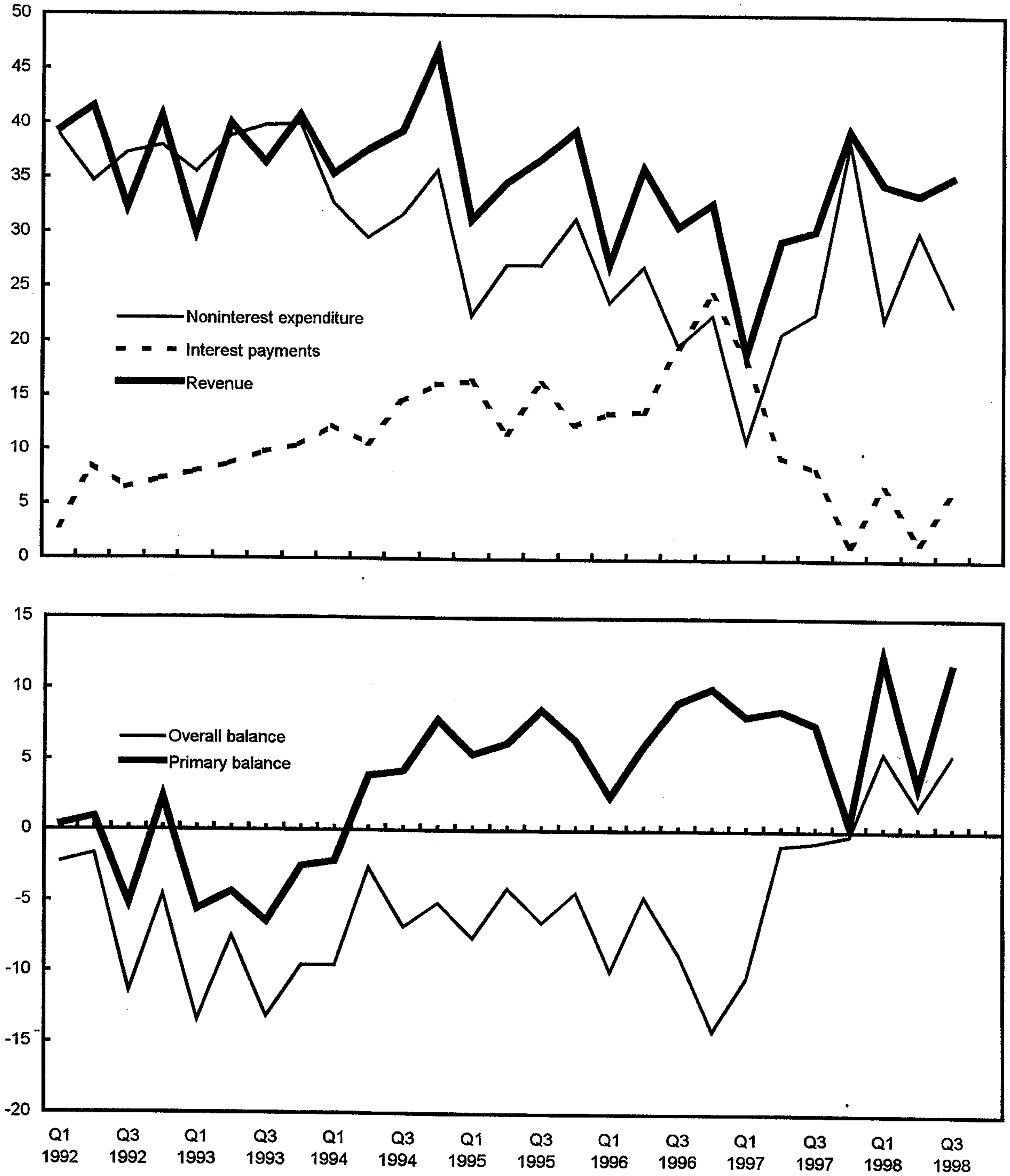
[7]Within the fiscal year, the total volume of state guarantees may not exceed leva 897 billion (less than 13 percent of tax revenue budgeted for 1999); outstanding guarantees may not exceed leva 4,962 billion (20 percent of the GDP underlying the 1999 budget). As of June 1998, domestic guarantees—mostly deposits of the State Savings Bank—amounted to leva 923 billion in June 1998 (4 percent of GDP).

Figure 3. Bulgaria: Fiscal Developments, 1992-98 1/
(In percent of GDP)



Source: Bulgaria Ministry of Finance.
1/ Consolidated central government, excluding extrabudgetary funds.

47. **The 1996 budget aimed at a further reduction of the overall deficit predicated on substantial savings on interest expenditures.** All areas of non-interest spending, except subsidies, were budgeted to increase, to partly compensate cutbacks in previous years. On the revenue side, the budget forecast improvements in VAT and excise tax collections and social insurance contributions, offset by a decline in profit taxes, income taxes, and customs duties. Nontax revenues were expected to decline, largely as a result of a decline in profit transfers from the BNB. Several measures were proposed to improve tax structure and raise revenues, including doubling specific excises on gambling, increasing the excise duties on fuel, and expanding the base to which excises on fuel and alcohol would apply. In the course of the year, Parliament approved changes in the personal income tax aimed at strengthening the ability to collect taxes from sole proprietors and civil contractors.[8] The tax treatment of public and private enterprises was unified; companies were allowed to deduct interest payments on bank loans; and tax holidays were granted to privatized companies.[9]

48. **Declining revenue and rising debt service costs came to a critical conjuncture in 1996.** Although the government adopted in the middle of the year a number of measures aimed at preventing a further decline in revenue collections, the macroeconomic situation deteriorated and the budget became untenable.[10] In spite of a primary surplus that reached 10 percent of GDP, the overall deficit widened to 14 percent of GDP in the last quarter of the year. (The unsustainable nature of the fiscal stance was evident by observing the operational balance, as discussed in Box 8.) At the same time, the contraction of non-interest expenditures no longer became economically feasible and socially acceptable, with the immediate consequence that arrears emerged. Increases in administered prices for energy, utilities, and transportation helped contain subsidies within budgeted levels. In December 1996, parliament approved a supplementary bill, mainly to raise budgetary ceilings on interest payments. However, delays in passing

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[8]Important changes had also been introduced in the social security system (see the following chapter). The 1996 budget, was based on the enactment of these tax measures so that their later approval did not result in any significant increase in revenues.

[9]The standard tax rate was set at 36 percent; a reduced 26 percent tax rate applied to small private enterprises (with less than lev 1.5 million per year in profits); a 2 percent supplemental levy earmarked to the irrigation fund was maintained. Privatized commercial enterprises in which the state retained an interest not exceeding 33 percent were exempt from tax in the first three years after privatization; a 50 percent exemption was applied in the following two years, provided that at least 50 percent of tax savings were reinvested in fixed assets.

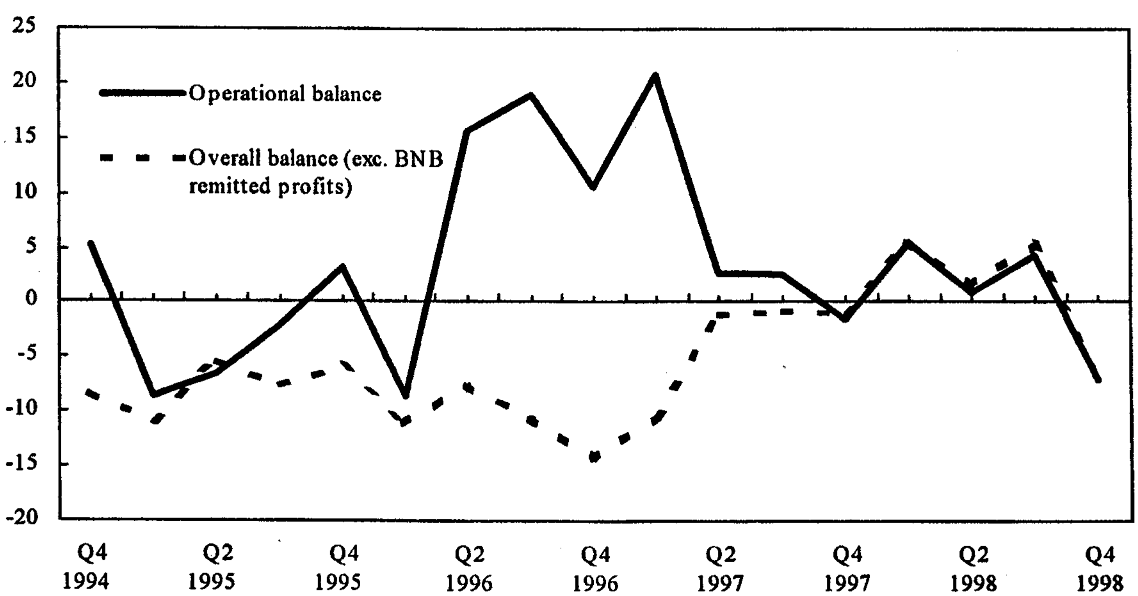
[10]These measures included increasing the rate of the value-added tax from 18 to 22 percent; requiring enterprises that are not regular exporters to carry forward value-added tax refunds; increasing excise taxes on beer, wine, hard liquor, and tobacco; and imposing a temporary import surcharge of 5 percent that exempted investment goods and important intermediate goods such as energy imports.

Box 8. The Operational Balance

In presence of high inflation it is often argued that the operational balance can shed light on the sustainability of the real change in public sector indebtedness. The operational budget eliminates the inflationary components of interest payments from the overall balance as this inflation-induced part of the nominal interest bill is in effect an amortization payment compensating bondholders for the erosion of the real value of the stock of debt. In practice, negative real interest rates increase the measure of the operational surplus for they amount to an implicit tax on domestic debt holdings. However, when inflation is high and volatile and real interest rates are a function of expected inflation, unanticipated inflationary shocks can lead to large negative ex-post real interest. In that case, the operational balance would tend to overestimate a fiscal policy tightening and/or its sustainability, to the extent that its usefulness both as a basis for policy assessment and as a guide for policy prescription would be much reduced.

Figure 4 below summarizes how the operational balance differed from the conventional balance during the 1995–98 period in which inflation accelerated and the real interest rate became negative. The real interest rate has been calculated by deflating the simple (annualized) yield on 3-month government securities with the end-of-period CPI. Because of the high degree of volatility of inflation and real interest rates, quarterly flows have been added together to produce more accurate annual figures rather than using annual summary figures. As inflation accelerated in 1996, accompanied by currency devaluation, and real interest rates became negative the operational balance moved from a 3 percent deficit in 1995 into an 11 percent surplus in 1996. In the first quarter of 1997 the operational surplus reached 21 percent of GDP. As inflation eased following the introduction of the currency board arrangement, the operational surplus declined to 1 percent, on average, in the remaining quarters of 1997 and was virtually equal to the overall balance in 1998.

Figure 4. Bulgaria: Operational and Overall Balances, 1994–98



(In percent of GDP)

Source: Staff calculations.

the budget impeded the BNB from further extending credit to the government. Coupled with the government's inability to place maturing issues in the primary market, this led to the effective default on government debt held by the BNB on December 18. The amount owed was paid on December 19 when the government began borrowing from the SFRD.

50. **The government's resignation on December 21, 1996, led to a period of extreme uncertainty and at the turn of the year, an interim 1997 budget automatically went into effect.** Expenditures were set by rules that severely constrained non-interest expenditures and allowable deficit financing. As revenue collection fell below 20 percent of GDP in the first quarter of 1997, non-interest expenditures were compressed even further (Table 41). Monthly wages of government employees fell in dollar terms from an average of US$52 in 1996 to US$25 by end-March, below what was considered to be a subsistence wage; the average pension fell from US$23 to US$11 during the same period, leaving most pensioners destitute. This led many embassies to open soup kitchens while the EU promptly released an ECU 20 million grant to provide social assistance to about 500,000 households. The low level of non-interest expenditures resulted in the accumulation of some arrears which, in turn, had some bearing on the accumulation of tax arrears and on the proliferation of offsetting operations. In the first quarter of 1997 the accumulation of tax arrears jumped from 3 to 5 percent of the quarterly GDP. Mainly because of a reduced burden of domestic debt service, the primary surplus remained high (8 percent of GDP) while the overall deficit eased to 10 percent of GDP from 14 percent in the last quarter of 1996.

Fiscal recovery and consolidation under the currency board arrangement

51. **The caretaker government that was formed in February decided to adopt a currency board arrangement in order to stabilize the economy.** Along with the decision to hold early elections in April, the anticipation of a currency board helped restore confidence: the exchange rate appreciated, and inflation and interest rates declined rapidly. The 1997 budget which passed in April did not rely on bank financing but rather assumed a buildup of balances in the banking system, largely owing to the receipt of privatization revenues and foreign financing. The budget, which envisaged a sharp reduction in the primary surplus and in the overall deficit, focused on short-term tax administration measures aimed at preventing a further revenue decline. Such measures included restricting the use of temporary importation zones and abolishing the temporary importation of alcohol and tobacco; establishing a large taxpayer's unit; raising the VAT threshold, and deregistering taxpayers below that threshold to reduce fraudulent refund claims. On the expenditure side, the key measure was a reduction of public sector employment by 58,000 workers in 1997, which implied overall savings despite World Bank–financed severance payments. In an effort to enhance the transparency of government operations, the budget also included an expenditure contingency of 0.7 percent for possible increases in subsidies to utilities under the isolation program and for financial operations of quasi-fiscal origin.

52. **The elected government that came into power in May submitted a budget for the remainder of 1997 to further support the currency board arrangement.** The new 1997 budget—passed at end-June—aimed at increasing the real level of disposable incomes by cutting personal income taxes, via an increase of the exempt threshold, and by raising pensions and wages. Although poor VAT collections in the first few months of the year had been partly offset by continuing buoyant revenues from the profit tax, tax revenues were revised downward compared with the April budget, leading to a postponement of an overdue revaluation of fixed assets and inventories—not revalued since 1992. To protect the level of revenues, the government raised all penalties, fines, fees, patents, and charges expressed in the legislation in nominal terms to fully reflect inflationary developments both at the state and municipality levels; introduced an excise duty on all licensed gambling equipment; and strengthened the collection of outstanding tax liabilities by allowing tax administration to seize receivables or bank accounts of delinquent taxpayers. On the expenditure side, higher pensions and wages would be offset by cuts in maintenance and operations and, to a lesser extent, defense.

53. **In the event, the 1997 fiscal outcome was better than budgeted reflecting a rebound in revenues and a sharp decline in domestic interest payments—a result of the erosion of the real value of lev-denominated debt and lower nominal interest rates.** This permitted a recovery of non-interest expenditures (wages, pensions, and social assistance) to more adequate levels, partly offset by the largely unspent contingency allocation. Revenue over performed reflecting higher-than-envisaged wage levels and larger nontax revenues (including a transfer of profits from the BNB). After falling by 9 percentage points of GDP in the second quarter of 1997, the overall balance remained virtually in balance for the remaining three quarters of the year so that by year-end the deficit was down to 2.5 percent of GDP (Table 42). The primary effort remained initially at 9 percent and then subsided at just above 5 percent on average. Despite the good performance, the protracted crisis had exacerbated weaknesses in the tax system and its administration, and in the public expenditure management system, to the point that reforms could no longer be delayed.

54. **In the middle of 1997, the attention of the government shifted to tax reform, which became the focus of the 1998 budget.** Because the reforms entailed a broadening of the tax base by eliminating most tax holidays and incentives, the government argued that tax cuts were instrumental in making the whole tax reform package acceptable to parliament and to the public at large (the 1998 tax reform is discussed in detail in the next section). However, the government was also concerned about the revenue implications of the reform, in particular about revaluing enterprises' long-term fixed assets. In addition, social spending, which had been excessively compressed in 1997, had to be restored to more appropriate levels. Despite an earlier announcement of a balanced budget and an expected sharp decline in interest expenses, the budget entailed an overall deficit of 1.6 percent of GDP (2 percent for the consolidated budget), implying a reduction of more than a point of GDP in the primary effort. The budget incorporated a 1.3 percent contingency allocation to reflect the cost of quasi-fiscal operation, including likely privatization costs for the national airline and other costs related to the operations of state-owned enterprises in the energy sector.

55. **As in 1997, the fiscal performance was better than expected and the budget (excluding the contingency allocation) recorded a surplus—the first one since the beginning of the transition.** The fiscal stance in the first half of 1998 was particularly strong, with the overall balance recording a surplus of 5 percent (on an annual basis), sustained by unexpectedly high revenues—although one-off factors accounted for about one half of the higher-than-programmed tax revenues[11]—while expenditures were kept in line with the budget. Despite the unwinding of one-off factors, revenue remained buoyant in the second half of the year, spurred by collections from property taxes and local fees, and the new patent regime that had been delayed until the third quarter because of technical and constitutional problems. Larger expenditures in the last month of the year reflected a one-off increase due to an extra month of budgetary wages and pensions as a way of mitigating the effects of substantial adjustments to administered prices.

C. Revenue Developments, Tax Reform, and Tax Administration

56. **Revenue developments in Bulgaria have been influenced by an excessive emphasis on tax policy measures unaccompanied by parallel reform of tax administration.** Similar to other countries in the region, Bulgaria's secular revenue decline had its origins in the transition from a centrally planned system to a market oriented economy (Box 9). The persistence of high inflation in particular triggered a real loss in revenues reflecting collection lags, the inadequacy of the tax system and its administration in dealing with high inflation rates, and deterioration in compliance. From the tax administration viewpoint, the erosion of the real value of exempt minimum thresholds for the individual income tax and for VAT dramatically increased the number of taxpayers required to register and file returns, with a consequent additional burden on tax administration. In this regard, delays in adapting the tax system and its administration to the changed economic environment were very costly, as illustrated by the difficulties encountered in administering the VAT.

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[11]These included late payments of tax liabilities accrued in December 1997, higher VAT collections resulting from the mandatory deregistration of VAT filers below the revised threshold, and the lengthening of the period for processing VAT refunds. Profits taxes were boosted by the reintegration of over provisioning by financial institutions, unexpected profits remitted by the central bank, and overpayment of estimated taxes by enterprises.

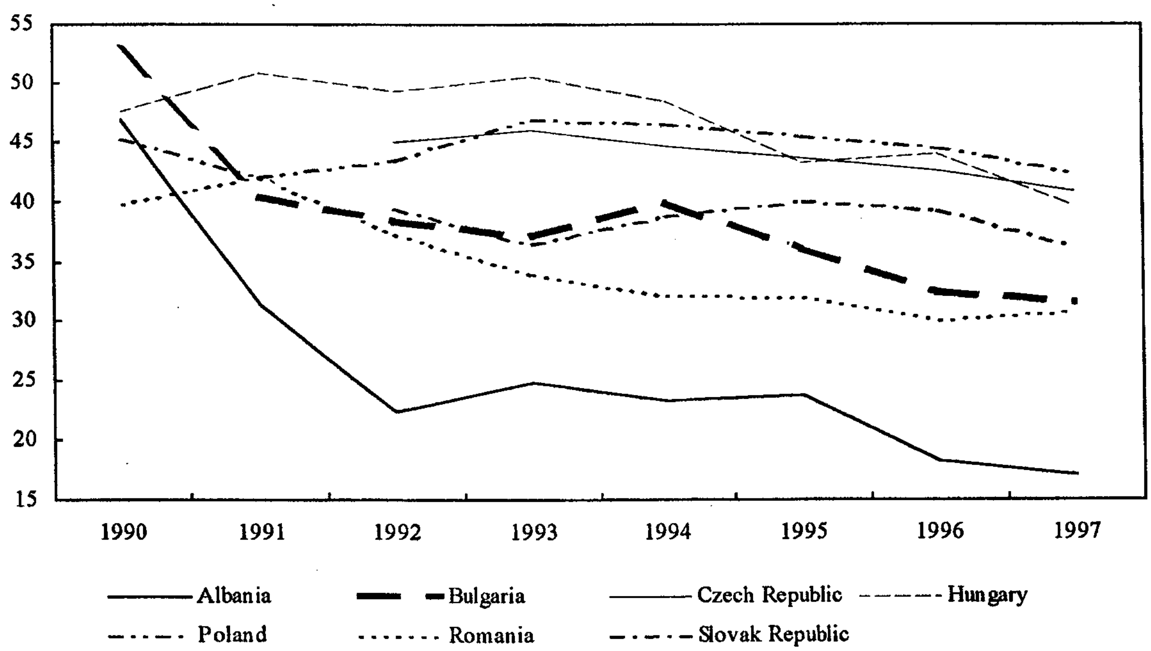
Box 9. Revenue Decline in Transition Economies

In most Eastern European transition economies, the share of tax revenue in GDP has declined over the 1990–1997 period (Figure 5). Albania suffered the most severe erosion over this period, with tax revenues dropping from 47 percent of GDP in 1990 to 17 percent in 1997. Bulgaria and Romania experienced a similar decline, although the decline in Romania appears to have bottomed out in the past few years. Despite its relative stability at the start of the transition, the tax share continues to erode in Hungary and in the Czech and Slovak Republics. Poland experienced a sharp decline from 1990 to 1991 and since then has increased the tax share, though it is still lower than in 1990.

The causes for such decline have been insufficient progress in reducing tax exemptions and moving to a more market-oriented tax system with broader tax bases and lower rates; a shift of economic activity from traditionally highly taxed state-owned enterprises to hard-to-tax private sector activities; and weak tax administration, with excessive tolerance of tax arrears and offsetting operations that lead to widespread tax evasion.

To counter this revenue decline, the standard IMF advice has been to broaden the tax bases of VAT, income and profit taxes by removing exemptions and unwarranted preferences. Countries that have fared relatively well are those that saw a substantial shift toward a western-type tax structure, coupled with efforts aimed at strengthening tax administration. The Czech Republic and Hungary certainly fall in that category.

Figure 5. Revenue Collections in Selected Eastern European Countries
(In percent of GDP)



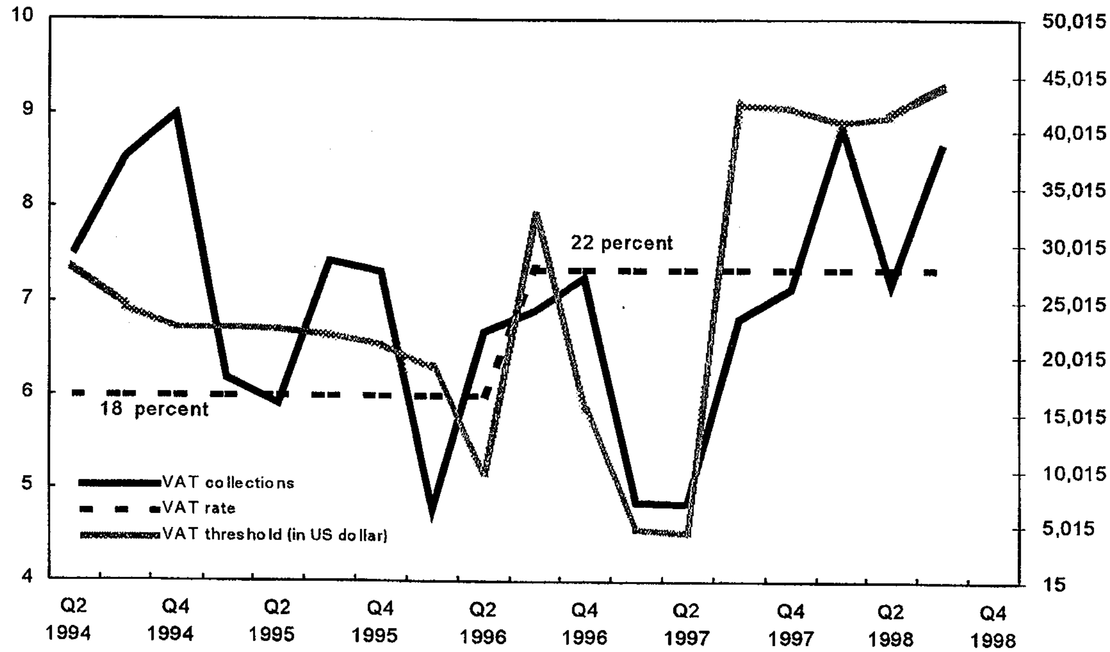
Rise, fall, and recovery of the VAT

57. **In April 1994, a VAT was introduced at a single 18 percent tax–inclusive rate.** The registration threshold below which taxpayers were obliged to register was set at leva 1.5 million (US$ 30,000). The VAT structure was relatively simple and straightforward. Exports were zero rated—the legislation classified as exporters, businesses who consistently export more than 50 percent of their total turnover. Exemptions were limited compared to other countries in the region. Besides the EU standard exemptions—postal services, medical care, dental care, charitable work, education, noncommercial activities of nonprofit organizations, cultural services, radio and TV broadcasting, insurance and reinsurance, lotteries and gambling, letting of immovable property, supply of land and buildings, and financial services—basic food items were initially exempted for a five-year period.

58. **Despite a good start—collections from turnover taxes and VAT doubled as a share of GDP in 1994—tax administration faced increasing difficulties in administering the VAT as the economic situation deteriorated.** There were three main reasons: (a) the registration threshold declined rapidly in real terms, forcing an increasing number of small taxpayers to register; (b) a lack of appropriate methods for dealing with VAT refund claims; and (c) clear weaknesses in the VAT audit program. In mid-1996, as VAT collections began to fall, the threshold—which had been eroded in dollar terms to below US$10,000—was raised to lev 7.5 million (US$ 32,000), and the rate was increased to 22 percent (Figure 6). These measures, however, did not have much of an impact. Collections fell from 7.1 percent of GDP in 1995 to 6.8 percent of GDP in 1996, mainly reflecting increasing problems in controlling the VAT refunds.

59. **The erosion of the exempt threshold in real terms and the processing of refunds were eventually addressed in July 1997.** In order to reduce the number of taxpayers, the threshold—which in dollar terms had declined to about US$4,000 during the first half of 1997, the lowest in the region—was raised to lev 75 million (US$41,000). Taxpayers whose turnovers were below the threshold were allowed to deregister on a voluntary basis by end-1997, and on an *ex-officio* basis starting January 1998. The period for processing exporters' refund claims was extended from 15 to 45 days and nonexporters were required to carry forward their VAT credits for a period of six months before submitting a refund claim. Along with macroeconomic stabilization, these measures reduced the number of registered VAT taxpayers from more than 100,000 in June 1997 to the current 50,000 and greatly facilitated the control of VAT refunds: during the first half of 1998, the amount of refund claims decreased from 51.7 percent of the gross VAT collection in 1997 to 43.3 percent, and the amount of pending refund claims (claims to be processed) doubled in leva terms. Progress in implementing a modern audit strategy has not been as tangible. Although the VAT law has been amended to eliminate the obligation for the tax administration to verify all refund claims, in practice, these audits are still extended to all VAT liabilities—80 percent of these audits are performed in the taxpayers' premises.

Figure 6. Bulgaria: VAT Developments, 1994–98



Source: Bulgaria Ministry of Finance.

Inflation and collection lags

60. **The persistence of high inflation was among the main causes of the revenue decline in Bulgaria.** Since the Bulgarian tax systems was—and still is— set according to nominal values, the presence of high inflation complicated considerably the correct measurement of taxable incomes and exacerbated losses of real revenues because of collection lags (Box 10). Although it is difficult to disentangle the revenue loss associated with high inflation from losses associated with the deteriorating macroeconomic situation, undoubtedly delays in amending tax legislation exacerbated tax administration problems, including delays in revising the levels of monetary penalties and interest charges. **Measures introduced in 1994 and 1995 initially helped the Bulgarian tax system absorb part of the negative impact of inflation.** Most excise duties were replaced by a VAT in April 1994, with the remaining ones—mostly on energy products—replaced with *ad valorem* rates in 1995. Toward the end of 1994, the government introduced a system of advanced income tax payments on civil contract wages which strengthened the existing pay-as-you-earn (PAYE) system, therefore minimizing collections lags. Nonetheless, subsequent delays in adjusting the personal income tax schedule pushed taxpayers into higher tax brackets while the erosion of the tax exempt threshold excessively increased the number of taxpayers required to file.

Box 10. Revenue Loss, Collections Lags, and Inflation

Inflation affects tax systems mainly in three ways: (i) it erodes the tax bases in real terms; (ii) it distorts resource allocations; and (iii) it introduces inequities. While revenue losses are generally associated with indirect, property and personal income taxes, the impact of inflation on collections from the corporate sector is less clear cut. In the presence of high inflation, **monetary penalties and interest charges** can quickly lose their effectiveness, with adverse consequences for tax compliance. Similarly, long appeal procedures that must be followed before overdue tax liabilities can be collected will also undermine compliance.

Taxes levied at specific rates become rapidly irrelevant if not frequently adjusted. The typical recommendation would be to replace them with *ad valorem* rates. As to VAT, long collection lags between purchase of inputs and sales of products tend to inflate value added. Property taxes decline rapidly as property values are generally assessed at historic costs. **Inflation distorts personal income tax brackets and tax–exempt thresholds.** As taxpayers move up into higher tax brackets (bracket creep), during period of high inflation revenues from wage earners often account for an unusually large share of income revenues. Declining tax–exempt thresholds in real terms excessively increase the number of taxpayers required to file.

As corporate tax liabilities are generally based on a measure of profits derived from historic cost accounts, inflation usually increases tax liabilities. Profits tend to be over reported because: (i) the real value of depreciation allowances and other deductible expenses declines; (ii) the real value of loss carry forward provisions is reduced; (iii) under FIFO accounting, increases in the value of stock inventories are treated as income, with no allowance for that part of the increased value due to inflation (the opposite is true under LIFO); and, (iv) since asset are valued at the beginning of the assessment period at historic costs, capital gains are also over reported.

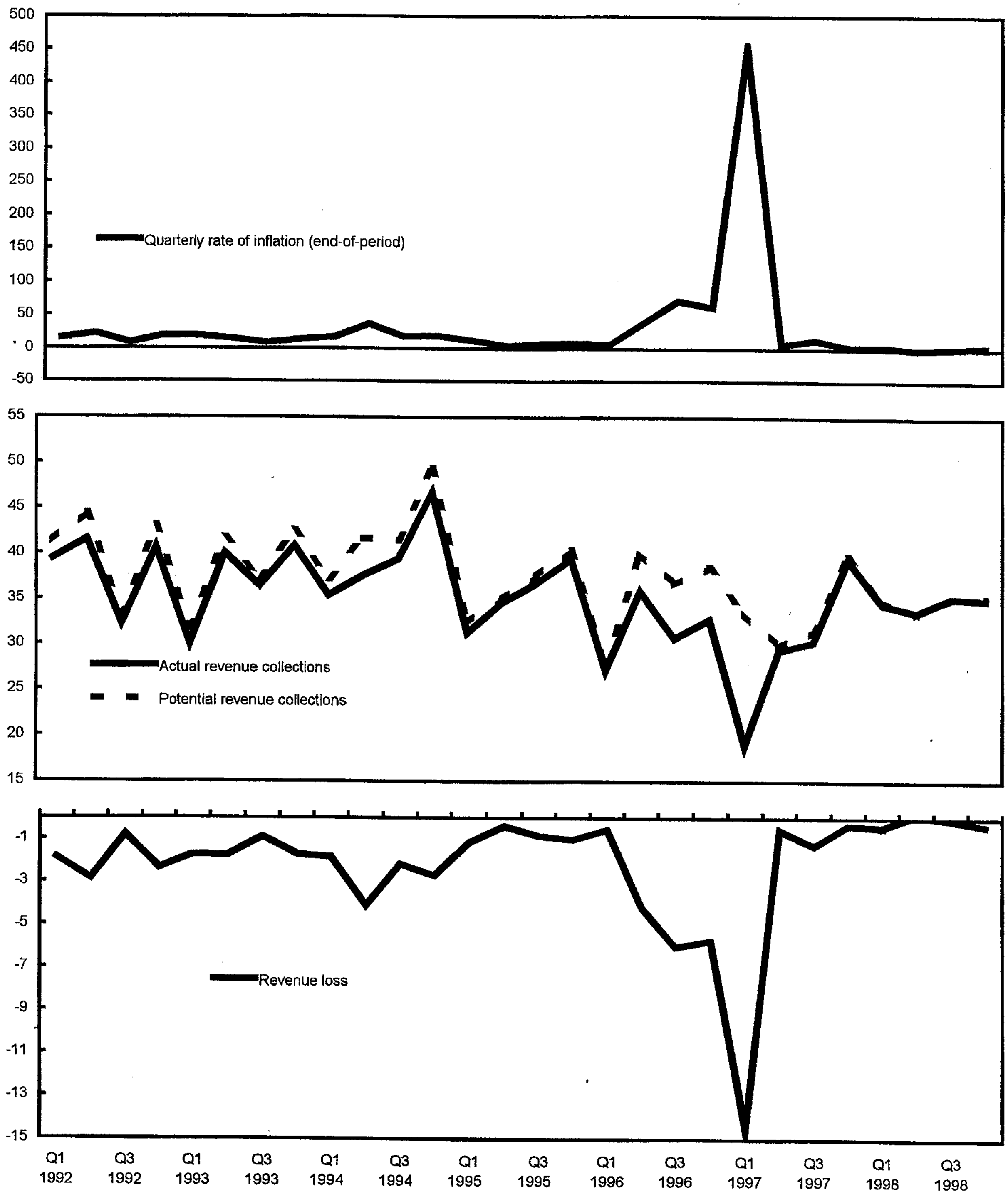
Deductibility of nominal interest payments and taxation of nominal interest receipts—Overall, this effect tends to produce a fall in revenue as nominal interest payments are fully deductible whereas interest payments received typically by small savers in the form of interest on bank accounts tend to be taxed at withholding taxes whose rates are typically lower than the corporate tax rate. The full deducibility of nominal interest costs implicitly allows firms to deduct part of principal repayment, over and above the real cost of debt financing, leading firms toward activities that minimize their tax liabilities rather than optimize resource allocation by encouraging debt rather than equity financing, and favoring short-term assets as opposed to those with a longer useful life.

Frequency of payments, payment periods and advance payments—The loss of real revenue (also known as the Olivera-Tanzi effect) is larger, the higher the inflation rate, the lower the frequency of provisional payments, and the longer the assessment period. For any given collection lag, the revenue loss induced by inflation can be approximated by multiplying the tax unit by: $1/(1 + p)^n$, where p is the monthly rate of inflation and n is the collection lag, expressed in months. If we assume that unitary tax elasticity prevails, the effect of inflation on tax revenue calculated as a share of GDP can be deduced from:

$$T_x = \frac{T_0}{(1+x)^{n/12}}$$

where T_0 is the ratio of tax revenue to GDP in the absence of inflation, T_x is that ratio when the annual rate of inflation is x, and n is the collection lag. By inverting the above formula, it is possible to calculate the underlying tax ratio in the absence of inflation. Figure 7 presents the result of the exercise. The average collection lag in Bulgaria has been estimated at one month per quarter. Not surprisingly, the revenue losses sharply increased during the 1996–97 crisis, reaching close to 15 percent of the quarterly GDP in the first quarter of 1997. By adding up the quarters, estimated revenue loss was 4 percent of GDP in 1996 and somewhat less than 2 percent of GDP in 1997.

Figure 7. Bulgaria: Revenue Losses due to Collection Lags, 1992-98
(In percent of GDP)



Source: Staff calculations.

The 1998 tax reforms

61. **The 1998 tax reforms tried to address some of the inflation-induced distortions by simplifying and broadening the tax base while reducing marginal rates and allowing enterprises to revalue their long-term tangible assets**—still on their books at 1992 prices. The combined corporate tax rate (profits and municipal tax rates) was reduced from 40.2 percent to 37 percent.[12] The new profits tax act provided accelerated depreciation for new machinery and equipment and eliminated double taxation of foreign source income by adopting foreign tax credits. The taxation of gains and losses on foreign exchange assets and liabilities was shifted from cash to accrual basis. The tax base was broadened by repealing tax holidays—via a sunset provision; taxing employees' fringe benefits at a 20 percent rate;[13] limiting the deductibility of interest expense via substantially simplified thin capitalization rules; tightening transfer pricing provisions; and limiting the deductibility of banks' reserves for bad loans to 70 percent.

62. **Amendments to the personal income tax act represented a major step toward a global income tax**. Employment and nonemployment incomes were combined under a unified rate schedule. The number of income brackets was reduced from eight to four and deductions for social expenses based on minimum wages were eliminated. To partly offset these changes the basic exemption was raised from lev 50,000 to lev 60,000 while the bottom and top marginal rates were kept at 20 and 40 percent, respectively. The existing system of taxing employees under a final monthly withholding system was retained, but employees who also have nonemployment income are now required to file a return to account for all their income. The act also introduced a key provision to presume business expenses for small enterprises (30 percent of gross income), and adopted an expanded patent regime for taxing small enterprises and a number of occupations on a presumptive basis. While this regime does not pretend to account for income perfectly, it does represent a substantial simplification for the large majority of personal-service providers.

63. **Amendments to the VAT legislation refined the definition of taxable operations, extended the period for processing refunds from one to three months (from 15 to 45 days for exporters), and improved auditing procedures.** A grace period for registering under the VAT was also introduced to reduce the frequency of businesses operating near the

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[12]A 10 percent municipal tax is deductible in computing taxable income prior to applying the standard 30 percent profits tax rate, so that the combined marginal rate is 37 percent. In 1997, the municipal and standard rates were 6.5 percent and 36 percent, respectively, so that the combined marginal rate was 40.2 percent.

[13]Prior to the 1998 tax reform, the Bulgarian tax system lacked a guiding principle for the taxation of noncash transfers from employers. The new 20 percent employer-level tax on fringe benefits acts as a surrogate for employee taxation on fringe benefits in excess of exempted amounts. It is withheld at the source as a final payment; to further increase administrability, noncash transfers are valued at the employer's cost.

turnover threshold having to deregister and re-register. The **customs code** was brought in line with the EU model, and coordination between customs and VAT administrations was also improved.

64. **Tax reforms also tightened tax administration, and hence enforcement, for VAT, customs, and small business, by substantially simplifying reporting and filing requirements under both the profits and personal income tax acts**. The profits tax act incorporates a much simplified system for calculating advance payments based on a fixed coefficient rather than on incomes from previous tax periods. Since April 1, 1998, advance payments are no longer based on the financial result reported for the previous quarter but on the basis of 1/12 of the annual taxable profits for the previous fiscal year adjusted with a fixed coefficient identified each year in the State Budget Law. For the first quarter of 1998, the corporate law established a transitory regime whereby the first quarter of 1997 was the base in determining the amount of the advance payment for the first quarter of 1998.

65. **Despite the elimination of tax holidays and incentives from the profits tax act, the Foreign Investment Act—passed in late 1997—introduced VAT exemptions and partial tax holidays for priority investment projects**. In particular, capital contributions made by foreign partners were granted VAT, duty, and charges exemption. Companies registered in Bulgaria whose objective was the realization of priority investment projects, were allowed to deduct 50 percent of the amount of the profit tax due to the Republican budget for 10 consecutive years. Priority investment projects were defined as those meeting *at least one* of the following requirements: amount of investment exceeding US$5 million; creating at least one hundred (100) new jobs; and investment in regions with levels of unemployment exceeding the country's average unemployment rate.

Tax measures for 1999

66. **Tax measures introduced in 1999 carried on the reforms introduced in 1998 by further broadening the tax base and lowering of marginal tax rates**. Tax holidays and incentives were removed from the Foreign Investment Act and partially offset by a 10 percent regional tax investment credit under the profits tax act. The combined corporate tax rate (inclusive of the 10 percent municipal rate) was reduced from 37 percent to 34¼ percent. Thin capitalization rules were streamlined by adopting a *safe harbor* provision and the definition of repair expenses was rationalized. The VAT rate was reduced from 22 percent to 20 percent and exemptions for basic foods were eliminated. Exporters are now defined as those whose export activities account for 30 percent—earlier was 50 percent—of their turnovers. As part of the first phase of health care reforms (see next chapter), a 6 percent payroll tax has been introduced—effective July 1, 1999—to finance the National Health Insurance Fund (NHIF); its impact on the tax on labor will be broadly offset by a reduction in social security and unemployment fund contribution rates and by raising the personal income tax–exempt threshold.

Tax administration reform

67. **Although tax administration reform has been at the forefront of the reform agenda since 1990, progress has been lacking and tax administration has fallen behind the tax reforms introduced in recent years, rasing doubts about their successful implementation.** The reform was initially concentrated on consolidating the administration of all taxes in one organization, the General Tax Administration Department (GTAD). Emphasis was initially devoted at recruiting, training, and allocating staff—GTAD staff more than doubled from approximately 4,000 to 10,000 between 1991 and 1995,—and at developing computer-based systems to support basic tax administration processes and procedures. The reorganization strategy followed a bottom-up approach in which priority was given to restructuring the tax offices and bureaus. However, this approach has left headquarters with only 1 percent of staff positions allocated to headquarters, far below international norms (about 5 percent), while the vacancy rate (17 percent) has reached alarming levels. Key functions, such as audit and collection of arrears, are fragmented across various departments.

68. **Prior to 1999, tax administration was organized by types of taxes, resulting in duplication of activities and misuse of resources, poor exchange of information between tax offices, and increased compliance costs for taxpayers.** Although with substantial delay, tax offices were recently reorganized into units based on administrative functions,[14] and their number substantially reduced. Nonetheless, tax administration structure remains excessively complex with too many tax offices, distributed across a network of 28 territorial directorates, 118 tax offices (including five large taxpayer offices), and 100 tax bureaus. The tax offices administer some 683,000 registered businesses (140,000 legal entities and 543,000 sole proprietors), whereas the tax bureaus are responsible for managing about 6,200,000 individuals who are subject to property taxes, and other fees and licenses. In addition, effective systems for selecting taxpayers for audits are still missing, while the notion of 100 percent audit coverage persists.

69. **In the last two years, two measures have been key in modernizing tax administration: establishing large taxpayer offices and adopting a unique identification number.** In July 1997, the authorities established five **large taxpayer offices** (LTOs). The successful operation of the LTOs was, however, seriously impeded initially by the excessive number of enterprises selected as large taxpayers; the maintaining of a double line of reporting; and the lack of appropriate accommodations, equipment (including computers and basic communication facilities), staffing, and budget. Large taxpayers were initially identified as those with a turnover above lev 1 billion. This amount, however, proved to be too low. Indeed, instead of the recommended 500–600 large taxpayers, 1,215 enterprises were identified as large taxpayers: 644 of them directly monitored by the LTOs in the major regions, whereas the remaining 571 large taxpayers were temporarily covered by "satellite"

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[14]Each of these offices now comprises four units that are responsible for: (i) registration and taxpayer service; (ii) accounting and processing tax returns and payments; (iii) audit; and (iv) collection of arrears.

offices spread among the 23 other regions.[15] As of May 1998, the large taxpayers controlled by the five LTOs accounted for 58.6 percent of the total amount of taxes collected by the tax administration; those controlled by the satellites accounted for an additional 15.7 percent. To improve the effectiveness of the LTOs and facilitate the extension of their jurisdictions to other regions, in August 1998 GTAD decided to modify these criteria and reduce the number of enterprises classified as large taxpayers and to disband the satellite offices, granting therefore the existing five LTOs appropriate tax jurisdiction.[16]

70. **The adoption of a unique identification number (UIN) by all Bulgarian businesses has been actively discussed within the government for the last three years.** Several business identification codes are currently in use by various government agencies: (i) the GTAD uses its own tax identification number (TIN) as a primary identifier but also records the National Statistical Institute (NSI) Bulstat number in its files; (ii) the social security administration uses the Bulstat number and also records the TIN in its files; (iii) the NSI uses its Bulstat number; and (iv) the customs administration processes three numbers (the TIN, the NSI Bulstat number, and the customs importer number, with the latter used as the primary identifier). In July 1998, a Council of Ministers' decree gave a mandate to the NSI to develop a UIN. The NSI, who would own the UIN register and its associated number, developed an implementation plan and the UIN was officially adopted in January 1999.

D. Expenditure Policies and Management

71. **As mentioned earlier, the most striking feature of the expenditure side of the state budget was the growing burden of interest expenditures.** Interest expenses increased from 11 percent of GDP in 1995 to 20 percent in 1996, wholly on account of domestic interest expenses which rose from 11 percent of GDP to 17 percent of GDP over the same period. Non-interest expenditures declined by 5 percentage points of GDP in 1996. As the fiscal problems intensified, municipalities' support from central transfers declined progressively, reaching 36 percent in 1997. A positive development was the reduction in subsidies to state enterprises. Subsidies from the general government fell from over 15 percent at the beginning of the transition to below 2 percent in 1996. Their rebound in 1997 reflected the severe financial problems faced by energy companies because of the sharp devaluation of the currency.

72. **The crowding out of non-interest expenditure became acute at the peak of the financial crisis when needs for social protection sharply increased.** Although this pattern was common to most expenditure items, it was more accentuated for social spending—social security and welfare, health, and education—which declined from 19 percent of GDP in 1995

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[15]The Sofia LTO was established in April 1997, prior to the adoption of the currency board.

[16]The criteria are the following: (i) annual turnovers above lev 2.5 billion; (ii) annual tax liabilities above lev 100 million; and (iii) assets above lev 1 billion. Based on these criteria, GTAD identified 700 large taxpayers out of the 1,215 enterprises covered by the LTOs.

to 16 percent in 1996–97 (Table 4). Average pensions in real terms, which had fallen by a cumulative 105 percent between end-1990 and end-1995, declined by an additional 47 percent in 1996. Wages and salaries in the government sector fared a bit better. Between 1993 and 1996 wages in the budgetary sector almost halved in real terms; by February 1997, the average wage was worth US$5 dollar against averages of US$50 dollars in 1996 and US$96 in 1993. Despite the loss in the real value of wages, employment in the budgetary sphere remained fairly stable at around 550,000, including the elimination of about 58,000 positions, including 20,000 employees, in 1997.

Public expenditure management

73. **Although significant progress had been made in improving budget execution since the start of the transition, the 1996–97 crisis brought to light weaknesses in public expenditure management.** Many of the established procedures deteriorated under the pressures of the economic crisis and, for the first time, substantial expenditure arrears emerged. This was due to three main reasons. First, the MoF's oversight of budget execution was principally focused on the state budget and directed at securing control at a first-tier spending unit level. Second, the expenditure control system relied entirely on cash limits, with no financial control over expenditure commitments (i.e., contracts or other agreements that will lead to later cash expenditures) being incurred by spending agencies. In such an environment, ministries were not required to contain expenditure commitments so as to be consistent either with these monthly allocations or even the annual appropriations. Third, the division of responsibilities for budget execution between spending units, line ministries, commercial banks and the MoF was—and remains—inappropriate, with the government banking arrangements (described in section A) remaining a feature inherited directly from the old central planning system.

74. **The preparatory phases prior to the introduction of the currency board were utilized—with assistance from the Fund—to overcome the crisis and to lay down a strategy aimed at strengthening budget execution and the existing treasury functions.** The remarkable expertise developed in cash management by the MoF was essential in maintaining expenditure under control during the first half of 1997. One of the main purposes of the daily cash flow forecast was—and still is—to guide the release of transfers and subsidies from the MoF to other budgetary institutions included under the republican budget. Nonetheless, expenditure arrears emerged, although in most cases they were a consequence of high unanticipated inflation and unexpected depreciation rather than a diversion by spending agencies of available cash resources to non-priority items.[17] Expenditure control mechanisms

[17]For example, in 1996, the Ministry of Health conducted tenders for drugs supplies and entered into commitments to purchase drugs for a period of years. As a result, by early 1997, the Ministry had incurred large arrears as most drugs were invoiced in foreign currencies.

Table 4. Bulgaria: Social Expenditure Structure, 1991-97

(In percent of GDP)

	1991	1992	1993	1994	1995	1996	1997	Average 1991-97
Social Assistance	**0.75**	**0.96**	**1.15**	**0.94**	**0.84**	**0.72**	**0.78**	**0.88**
Monthly and occasional benefits	0.13	0.28	0.39	0.23	0.09	0.07	0.08	0.18
Child allowance	0.01	0.01	0.01	0.02	0.07	0.06	0.07	0.04
Maternity leave	0.16	0.21	0.30	0.27	0.20	0.12	0.18	0.21
Birth grants	0.00	0.00	0.00	0.01	0.01	0.00	0.01	0.00
Cash and in-kind for the disabled	0.06	0.07	0.07	0.06	0.04	0.03	0.03	0.05
Energy subsidies	...	...	...	...	0.07	0.15	0.09	...
Social care services	0.40	0.38	0.38	0.36	0.30	0.24	0.27	0.33
Adminstrative costs	...	...	...	...	0.07	0.05	0.05	...
Labor markets	**0.51**	**0.63**	**0.95**	**0.70**	**0.60**	**0.51**	**0.30**	**0.60**
Unemployment benefits	0.51	0.59	0.69	0.51	0.33	0.24	0.24	0.44
Unemployment assistance for school leaver	...	...	0.07	0.05	0.04	0.03	...	...
Unemployment assistance	...	...	...	...	0.05	0.04	...	...
Vocational training	0.00	0.01	0.01	0.01	0.01	0.01	...	0.01
Public employment programs	...	...	0.04	0.03	0.06	0.07	...	...
Operational expenses	...	0.03	0.11	0.09	0.10	0.08	0.06	0.08
Severance pay	...	...	0.03	0.01	0.02	0.04	...	...
Other	...	...	...	...	...	0.02	...	...
Pensions	**8.86**	**10.56**	**11.39**	**10.01**	**8.16**	**6.87**	**6.30**	**8.88**
Old age pensions	7.64	8.56	9.34	8.30	6.78	5.84	...	7.74
Occupational plans	0.02	0.07	0.08	0.07	0.06	0.05	...	0.06
Farmers pensions	0.36	0.92	0.88	0.69	0.51	0.36	...	0.62
Social pensions	0.06	0.17	0.19	0.17	0.15	0.11	...	0.14
Special pensions	0.01	0.01	0.01	0.01	0.01	0.01	...	0.01
Disability pensions	0.77	0.83	0.89	0.78	0.65	0.50	...	0.74
Family benefits (through the NSSI)	**2.85**	**2.52**	**2.15**	**1.72**	**1.43**	**1.04**	**1.14**	**1.83**
Child allowances	2.09	1.60	1.27	0.97	0.75	0.52	0.58	1.11
Birth grants	0.01	0.01	0.00	0.02	0.02	0.01	0.02	0.01
Sickness benefits	0.51	0.64	0.61	0.54	0.47	0.36	0.35	0.50
Care for sick child	0.05	0.06	0.06	0.05	0.05	0.04	0.05	0.05
Maternity benefits	0.15	0.15	0.14	0.10	0.08	0.06	0.07	0.11
Administrative expenses	0.04	0.06	0.07	0.04	0.06	0.06	0.07	0.06
Health	**4.00**	**5.20**	**4.70**	**4.00**	**3.70**	**3.20**	**3.60**	**4.06**
Total social assistance	***16.97***	***19.87***	***20.34***	***17.37***	***14.73***	***12.35***	***12.11***	***16.25***
Education	**5.20**	**5.80**	**5.50**	**4.50**	**4.10**	**3.60**	**3.80**	**4.64**
Total social expenditure	***22.17***	***25.67***	***25.84***	***21.87***	***18.83***	***15.95***	***15.91***	***20.89***

Sources: Bulgaria Ministry of Finance; health and expenditure data from *Government Finance Statistics*.

introduced with the 1997 budget—and replicated in the 1998 budget—limited the transfers of appropriations to first–level spending units in an effort to limit expenditure commitments. The 1999 budget has strengthened these mechanisms by extending their applicability to the Ministries of Defense, Internal Affairs, and Health (Box 11).

Box 11. Expenditure Control Mechanisms

The 1998 State Budget Law limits subsidies to state bodies, ministries and agencies (Art. 5 (2)), state universities (Art. 7 (2)), regional government administration (Art. 9 (2)), and local governments (Art. 11 (2)) to the amount of 90 percent of the sums allocated. The balance of 10 percent would be provided only in case the budget deficit is not exceeded. The above limitations did not apply to the Ministries of Defense, Internal Affairs, and Health. The 1999 budget eliminated these exceptions.

In addition, Art. 13 of the 1998 State Budget Law establishes that:

(1) the expenditures from the general government will not exceed the amount of the revenues on the accounts held in the bank;

(2) the Ministry of Finance periodically allocates the revenues observing the following priorities: government debt; transfers for social security and municipalities; subsidies for the judicial power budget; payments for ministries, agencies, and other spending authorities; and subsidies for production stimulation;

(3) the ministries, agencies, and other bodies in spending their budget funds will give priorities to medicines, wages, scholarships, pensions, social allowances and assistance, food, heat, electricity and other costs associated with running the social, health care, and education entities.

Art. 14 (2) also limits municipalities' capacity to finance expenditures for acquisition of fixed assets outside the budgeted allocations to 10 percent of their own resources.

E. Public Debt and Economic Growth

75. **Bulgaria's public debt-to-GDP ratio has fluctuated considerably during the 1990s and concerns about the country's ability to service its public and external debt have dominated a large part of its transition history thus far.**[18] Much of Bulgaria's external debt was inherited from pre-transition days. It fell significantly as a result of Paris and London Club reschedulings and has remained fairly constant in dollar terms since 1995. Since

[18]The analysis in this section is limited to debt of the budgetary public sector and the BNB. It excludes consideration of the liabilities of state owned enterprises and banks.

the hyperinflation of early 1997 wiped out most of the domestic debt related to deficit financing, the bulk of the existing stock of domestic debt represents the recognition of quasi-fiscal losses. The macroeconomic stabilization and structural reform program initiated in 1997 established fiscal discipline and is addressing the causes of quasi-fiscal losses. Debt dynamics have become favorable but continued financial discipline will be needed to ensure debt sustainability and relatively high external debt service is likely to constrain economic growth.

Public debt: recent developments and structure

76. **The dynamics of Bulgaria's public debt-to-GDP ratio were influenced mainly by the sharp contraction of GDP following the transition, wide fluctuations in the real exchange rate, a significant number of debt operations (reschedulings, bank recapitalization, deposit guarantees), sizeable primary fiscal surpluses after 1993, and more recently, privatization proceeds.** Shortly after the beginning of the transition, Bulgaria's public debt-to-GDP ratio soared to unprecedented heights as a result of the sharp contraction of GDP, real exchange rate depreciation, and bank recapitalization operations. At end-1993, total debt amounted to about 150 percent of GDP, of which 115 percentage points were accounted for by external debt (Table 43). Despite the London Club rescheduling which cut some 33 points off the debt-to-GDP ratio in 1994, total debt remained at about the same level (Table 5), owing to further bank recapitalization operations—adding about 19 percentage points to the ratio—and unfavorable macroeconomic conditions reflected in a large excess of the effective interest rate over GDP growth (measured in U.S. dollars) (Box 12). In 1995, a sizeable primary surplus and the sharp, if unsustainable, real appreciation of the exchange rate significantly reduced the public debt ratio: external debt fell from 107 percent of GDP at end-1994 to 69 percent at end-1995 and domestic debt fell by 5 percentage points of GDP. In 1996, the impact on public debt of the recapitalization of the banking sector and depositor protection was more than offset by the inflation induced erosion of domestic currency denominated debt. The domestic debt- to-GDP ratio fell to 22 percent, but with the real exchange rate depreciating, external debt rose to 90 percent of GDP. In 1997, inflation continued to erode leva denominated debt, but significant privatization proceeds (in cash and debt instruments and a sizeable primary surplus contributed to a decline in the debt ratio. While these factors continued to play a similar, but smaller role during the first nine months of 1998, the improvement in macroeconomic conditions made a larger contribution to the decline in the debt-to-GDP ratio which reached 76 percent.

77. **At various moments in Bulgaria's recent transition history public debt dynamics were unsustainable.** Equation 4 in Box 12 implies that for the debt-to-GDP ratio to stabilize the primary surplus as a share of GDP has to be larger than $(i-g)d_{t-1}/(1+g)$, assuming no contribution from non-deficit related factors. Applying this methodology, it can be seen that the actual primary surplus was less than the required primary surplus in 1994 and 1996, an indication of a rising and thus ultimately unsustainable debt-to-GDP ratio (Table 6). In 1997, the actual primary surplus rose above the required surplus, thus contributing to a declining debt burden, while in 1998 macroeconomic developments were very favorable and a primary surplus would not have been required to stabilize the debt-to-GDP ratio.

Table 5. Bulgaria: Contributions to Changes in the Public Debt/GDP Ratio, 1992–98

	1992	1993	1994	1995	1996	1997	1998 Sep.
Change in public debt/GDP	10.2	-11.1	0.6	-43.6	5.4	-7.4	-28.4
Primary deficit (minus=surplus)	-1.2	1.5	-7.7	-9.4	-9.3	-5.8	-5.2
Bank recapitalization and deposit guarantees	2.1	10.9	18.7	0.1	1.9	1.6	0.0
London Club arrears and debt reduction	13.5	2.6	-32.7	0.0	0.0	0.0	0.0
Privatization including use of debt instruments	0.0	0.0	0.0	-1.0	-0.6	-4.7	-1.9
Use of government deposits	0.1	3.6	6.0	-0.2	1.0	6.9	0.8
Other debt related operations 1/	-0.5	-0.1	1.4	-0.4	-2.8	-3.9	-1.5
Macroeconomic effects 2/	-3.7	-29.7	14.9	-32.6	15.2	-1.5	-20.6
Memorandum items:							
Effective interest rate (in U.S. dollar)	4.0	7.3	8.1	12.7	13.9	7.3	4.7
Nominal GDP growth (in U.S. dollar)	13.2	25.9	-10.4	35.0	-25.0	3.5	24.3

Source: Staff calculations.
1/ Paris Club, CMEA, and BNB restructuring in 1997.
2/ Impact of economic growth and interest rates, calculated as residual.

Table 6. Bulgaria: Debt Sustainability, 1994–98

	1994	1995	1996	1997	1998 Sep.
Debt/GDP	149.9	106.4	111.8	104.4	76.0
Effective interest rate (i)	8.1	12.7	13.9	7.3	4.7
Nominal GDP growth rate (g)	-10.4	35.0	-25.0	3.5	24.3
(i-g)	18.5	-22.3	38.9	3.8	-19.7
Required primary surplus	30.8	-24.8	55.1	4.1	-16.5
Actual primary surplus	7.7	9.4	9.3	5.8	5.2

Source: Staff estimates.

Box 12. Determinants of Public Debt Dynamics

The change in debt can be expressed as follows:

$$\Delta D = (I-P) + A \qquad (1)$$

where I is interest payments, P the primary surplus, and A other items besides the budget deficit that affect the public sector's indebtedness, for example, issuance of recapitalization bonds, the coverage of deposit guarantees, privatization receipts, and valuation changes. Time subscripts for current period variables have been omitted.

To facilitate the analysis of debt dynamics and debt sustainability it is useful to rewrite this equation in terms of ratios to GDP (Y). Define

$$I = iD_{t-1} \quad (2a) \qquad \text{and} \qquad Y = (1+g)Y_{t-1} \quad (2b)$$

where I is the nominal interest rate and g is the growth rate of nominal GDP. The change in the debt as a ratio to GDP can be written as:

$$D/Y - D_{t-1}/(1+g)Y_{t-1} = iD_{t-1}/(1+g)Y_{t-1} - P/Y + A/Y \qquad (3)$$

or, with $d=D/Y$, $p=P/Y$, and $a=A/Y$:

$$\Delta d = -p + (i-g)d_{t-1}/(1+g) + a \qquad (4)$$

The changes in the debt-to-GDP ratio are seen to depend on the primary surplus as a share of GDP; a term summarizing macroeconomic developments reflecting the difference between the nominal effective interest rate on debt and the nominal growth rate of GDP, the level of debt in the previous period, and the growth rate of GDP; and other factors.

Table 5 uses this equation to analyze the various factors contributing to changes in Bulgaria's public debt-to-GDP ratio, breaking down the residual (a) in a number of components given its relative importance. Highly volatile exchange rates, inflation, and interest rates throughout the period under review made it very difficult to compute a meaningful macroeconomic term $(i-g)d_{t-1}/(1+g)$. To address this problem, at least partially, the analysis was done after converting all aggregates to US dollars (flows at the period average exchange rate and stocks at the end-of-period rate) and by calculating the macroeconomic term as a residual. This approach yields consistent results except in 1997 (the year with the largest nominal changes) where the magnitudes of the effective interest rate and nominal growth rate indicate a positive contribution of macroeconomic effects to the debt-to-GDP ratio whereas the calculated residual is negative. Intra period changes in key variables affecting the calculated effective interest rate are the likely culprit.

78. **At present, the structure of Bulgaria's debt is fairly rigid, with most of the debt foreign currency denominated, at long maturities and variable interest rates, but with a low effective interest cost.** Aside from domestic deficit financing bills and bonds which constitute less than 5 percent of total debt, all debt is of medium and long-term maturity. However, new issues in the domestic market are still concentrated at the shorter maturities (up to 12 months) and international private market access has not yet been restored. The

effective interest rate on public debt is relatively low—an estimated 5.5 percent in 1998: most of the debt is at variable rates linked to Libor and part of the Brady bonds (FLIRBs) and the debt to official creditors are at lower interest rates. Even so, interest payments make up 13 percent of total budgetary expenditure in 1998. The amortization profile of external debt over the next few years is uneven: it is projected to jump from 2.5 percent of GDP in 1999–2000 to 4.3 percent in 2001 and stay at around 3 percent of GDP in the two subsequent years.

79. **Even though public debt appears very high, two attenuating factors must be observed which contribute to a lower net debt and net foreign liability position of the public sector.** First, successful implementation of the government's reform program over the past 20 months has permitted a significant buildup in official reserves of the budget: they reached US$1.1 billion at end-September 1998. Second, the principal of discount Brady bonds is fully collateralized. Taking these factors into account, net public debt amounted to about 60 percent of GDP at end-September 1998 and net external public debt to 42 percent of GDP. Against these favorable factors, there are still contingent liabilities which are difficult to quantify and mostly related to foreign debt of state owned enterprises to multilateral institutions and deposit guarantees of the State Savings Bank.

External debt and economic growth

80. **While successful transition economies have been able to rely on significant foreign financial inflows, Bulgaria remained broadly in financial autarky since the beginning of its transition and the significant resource transfer abroad associated with external debt service reduced resources available for investment.** As confirmed by the moratorium on external public debt declared at the outset of the transition, foreign creditors did not expect that Bulgaria would be in a position to service its external debt.[19] Even after the London club rescheduling in 1994, doubts lingered and Bulgaria remained cut off from international financial markets. Only official lending continued intermittently, permitting Bulgaria to service its external debt at times at the expense of severe expenditure compression. External debt service was quite onerous, averaging nearly 10 percent of GDP per annum during 1995–98. As a result, public investment all but disappeared and in the absence of inflation adjustment of depreciation allowances enterprise earnings were largely siphoned off to the budget. Reflecting the external borrowing constraint and the resource transfer abroad, Bulgaria's external current account has been in surplus on average during 1995–98 while the non-interest current account surplus averaged about 4.3 percent of GDP per year. Consequently, the decline in domestic savings—typical for transition economies—resulted in the case of Bulgaria in a sharp fall in investment to levels too low to replace the obsolescent capital stock, jeopardizing medium-term economic growth.

81. **Bulgaria's external debt remains high compared to most transition countries.** Despite favorable macroeconomic developments and prudent fiscal policies over the past

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[19]More than 90 percent of external debt was debt of the budgetary public sector.

18 months, Bulgaria's gross external debt remains the highest of the central and eastern European transition economies: at about 80 percent of GDP it is more than twice the group average of 35.9 percent.[20] Only Hungary and the Slovak Republic have ratios in excess of 50 percent of GDP. Mainly owing to a longer maturity profile of its external debt, Bulgaria's debt service is lower than that of Hungary and the Czech Republic but at least twice as high as the other transition economies.

82. **Despite significant inflows of foreign direct investment, including related to privatization, Bulgaria has been a net investor abroad during 1996 to mid-1998 as good domestic investment opportunities remained scarce, awaiting further progress in structural reforms.** During 1996, the net outflows were caused by capital flight associated with the banking crisis while during 1997 and the first half of 1998 they reflected mostly the build up of official reserves and to a lesser extent increases in domestic banks' net foreign assets.

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[20]This group includes Albania, Croatia, Czech Republic, FYR Macedonia, Hungary, Poland, Romania, Slovak Republic, and Slovenia. Data for this group is at end-1997.

V. THE SOCIAL PROTECTION SYSTEM, HEALTH, AND EDUCATION

83. **The challenges of economic reform have placed extraordinary demands on Bulgaria's social assistance system.** The pre-transition social protection system—based on universal coverage, generous family allowances and early retirement options for laid-off workers, and free provisions of health and education—has remained virtually intact, with the exception of unemployment insurance and welfare programs introduced to help households cope with transition-related shocks. However, broad coverage and overlapping authority on the part of the main arms of social protection have resulted in a set of duplicate and poorly targeted programs that provide a limited level of transfers to those in genuine need. As a result, Bulgaria's social protection system has not been able to protect the most vulnerable. The weakening link between contributions and benefits has also led to a deterioration in contribution compliance for social insurance, exacerbating the fiscal position of the social insurance system.

84. The **incidence of poverty increased** between 1995 and 1997. The World Bank has calculated that the share of population below the poverty line (head count ratio) increased from 2.9 percent in 1995 to 20.2 percent in 1997.[1] Of this increase, about two thirds can be attributed to a contraction in household consumption—a direct consequence of the fall in real output—while the remaining one third was due to rising inequality as suggested by the increase in the Gini coefficient from 27.1 in 1995 to 31.4 in 1997. This increase in poverty and inequality was not unusual compared to other transition economies. Poverty rates are estimated to have increased in most transition economies, with the increase greater in the Balkans, the Baltics, and the Former Soviet Union.[2] Household budget surveys indicate that the average income Gini coefficient rose from 24 in the pre-transition period to 33 in the post-transition period, approaching income disparity levels found in western Europe.

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[1]The World Bank defines a low poverty line as 50 percent of the average per capita consumption in 1997. It defines a higher poverty line based on 66.7 percent of the average per capita consumption in 1997. The intensity of poverty, as measured by a shortfall in the index of average consumption as a proportion of the poverty line, increased from 0.9 to 5.9 while the severity of poverty—the average squared consumption shortfall in the population as a proportion of the poverty line— increased from 0.4 in 1995 to 2.7 in 1997.

[2]Milanovic, Branko, 1997, *Income Inequality and Poverty During the Transition from Plan to Market Economy*, Washington, The World Bank.

Box 13. Demographic Trends

Population is aging rapidly in Bulgaria. The population's natural rate of growth has been declining since the late 1980s and this trend has accelerated in recent years. In 1997, the birth rate was among the lowest in the region. As a result, Bulgaria's elderly dependency ratio—the share of the population 60 years of age and older to the working age population of age 18–59—is among the highest of all transition economies, including the FSU. In 1995 this ratio was 34.0 in Bulgaria while the weighted regional average was 28. The policy implications are evident: increasingly fewer individuals are contributing to the social insurance system while more are receiving benefits. Similarly, aging population is putting pressure on health expenditure while the declining number of births results in a shrinking number of new school entrants, with implications for the size of the school system.

Bulgaria: Selected Demographic Indicators, 1989–96

	1989	1990	1991	1992	1993	1994	1995	1996
Life expectancy								
. Males	69.0	68.1	68.0	68.0	67.7	67.3	67.1	67.1
. Females	75.1	74.8	74.7	74.5	74.6	74.9	74.9	74.6
Total fertility rate	1.90	1.81	1.65	1.54	1.45	1.37	1.23	1.24
Population rate of growth	0.7	-0.3	-1.6	-2.1	-2.9	-3.8	-5.0	-5.3
Elderly dependency ratio (60+/18-59)	31.0	31.2	31.7	32.0	32.4	32.7	34.0	34.1
Infant mortality rate	14.4	14.8	16.9	15.9	15.5	16.3	14.8	15.6

Source: National Statistical Institute.

A. Social Security

85. **Public pensions in Bulgaria are provided via a traditional defined–benefit pay–as–you–go (PAYG) system.** The NSSI, established in 1995, is responsible for administering the Social Security Fund. The PAYG system covers all employees in the public and private sector as well as self-employed. Retirement age is 60 for men and 55 for women but early retirement with full pensions of up to ten years is quite common for those working in certain occupations. These are known as category I and II, where category I contains workers in the most strenuous jobs and category II workers in somewhat less strenuous jobs. Category III workers include everyone else. In 1997, categories I and II represented 16 percent of pensioners and 22 percent of pensions paid. In order to qualify for an old-age

benefit, workers must satisfy age and length-of-service requirements that depend on worker's category and gender.[3]

86. **The NSSI is financed mainly via payroll taxes**. Transfers from the republican budget cover social assistance programs carried out by the NSSI on behalf of the government. In addition, the NSSI relies on its own resources, mainly interest, on government subsidies, and on loans from commercial banks. The contribution rates are 52, 47, and 37 percent of gross wages, depending on workers' categories, on the employers;[4] employees pay a 2 percent tax which is deductible from the personal income tax. Self-employed pay a 32 percent tax on their taxable income—comprised between one and eight times the minimum wage—to cover all insurance risks, and 22 percent for old age pensions. In 1998, the weighted average pension contribution rate was 42 percent, which is high compared with other countries in the region and to European standards.

87. **High contribution rates and a weak link between contribution and benefits provide limited incentive to comply, so that under reporting is pervasive, particularly in the emerging private sector**. Self-employed account for only 6 percent of contributors and more than 90 percent of them contribute 22 percent of the minimum wage. In spite of increased compliance since a new data base on individuals' wages was established in late 1997, social security contributions' arrears remain high; at end-June 1998, they amounted to leva 145 billion (about 0.6 percent of GDP), concentrated in state-owned enterprises. Tax administration is responsible for enforcing collection on behalf of the NSSI. However, despite penalties and interest for late payments that are regularly applied, enforcement remains poor.

88. **Since April 1996, old age pension benefits are calculated by multiplying an individual coefficient, a length-of-service factor, and the average wage in the economy over the preceding three years.**[5] Individual coefficients are determined as the ratio of the individual's actual wage divided by the average wage in the economy. The averaging period is the highest wage in the three years prior to 1997 plus every nonzero month after 1996, so that eventually individual coefficients would be based on a career average. However, since the benefit levels resulting from the formula were greater than could have been afforded during the 1996–97 crisis, the formula was temporarily abandoned in 1997 and 1998. **Social pensions** are paid from the general fund at the rate of 65 percent of the minimum wage to individuals above age 70 who do not have any other pension. Benefits are subject to a

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[3]For instance, males belonging to category I can retire at age 52 after 15 years of service, whereas males in category III are allowed to retire at age 60 with 25 years of service.

[4]These were raised in April 1996 from 50, 45, and 35 percent, respectively.

[5]Prior to April 1996, old age pension benefits were calculated as 55 percent of average earnings for the highest three consecutive years (not adjusted for inflation or wage growth) out of the last 15 years, plus 1.1 percent for each year of service above the minimum requirement.

retirement test. Workers, who earn above the minimum wage, have their pensions reduced by .35 lev for each lev of gross earnings. The **minimum pension** is 90 percent of the social pension and the maximum is three times the social pension. **Survivors' benefits** are available to widows if they were dependent on the worker and over age 50, disabled, or caring for a child under age 16. Widowers are eligible for benefits if they were dependent on the worker and either disabled or over 60. Children are eligible for survivors' benefits. Survivors' pensions are calculated as a percent of old-age pension—50 percent for one survivor, 75 percent for two survivors, and 100 percent for three or more.

89. **Similar to other countries in the region, Bulgaria saw a deterioration of its pension system at the beginning of the transition.** Besides the normal increase of retirees during the early phases of the transition, the number of pensioners rose because of the government's policy of offering generous early retirement to those laid off by restructuring firms.[6] As a result, the system dependency ratio—pensioners over contributors—rapidly increased from 55 percent in 1990 to 82 percent in 1994, while the PAYG notional cash balance—the difference between actual collections of pension contributions and payments of pension benefits—moved into deficit. Restricting eligibility criteria along with a rapid decline in the unemployment rate reduced the system dependency ratio to 74 percent by 1998 (still well above the 55 percent ratio recorded at the beginning of the decade) and helped restore the PAYG notional cash surplus. However, the single factor explaining the turnaround in the financial balance of the social security system was a drastic reduction of pension benefit levels, as discussed in the previous section. Measures were taken in 1997 to clear up arrears to the social security fund, introduce individual accounts, and eliminate non-insurance related programs such as the provision of special dietary food supplements.

90. **Over the past two years, the government has been actively pursuing a comprehensive pension reform plan aimed at reestablishing a close link between pension benefits and contributions and at substantially reducing contribution rates.** Efforts have initially been concentrated on restructuring the existing PAYG by reducing the size of early retirement categories, progressively raising retirement age, and modifying the indexation formula.[7] While workers will be reclassified, effective January 2000, decisions regarding increasing the statutory retirement age and the indexation formula are expected by June 1999. Pension contribution rates are planned to be reduced over the next year to offset the introduction of a new payroll tax to finance the health insurance fund (see below). Privately managed pension funds are already operating in Bulgaria. A law providing an adequate framework has been submitted to parliament. The government is also actively considering the opportunity of introducing a second mandatory pillar.

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[6]By 1993, about 30 percent of employees in the state sector worked in occupations where early retirement was possible.

[7]The government has announced that effective January 1, 2000, workers will be reclassified so that the share of those eligible for early retirement would fall to less than 6 percent of pensioners.

91. **Unemployment benefits are administered through the Unemployed and Retraining Fund** (UFR). Established in 1989, the UFR receives funds from two main sources: an earmarked payroll tax, and transfers from the budget. The unemployment contribution rate is now set at 4½ percent, split on the basis of a 1:5 ratio between employees and employers.[8] Budgetary transfers reimburse the UFR for unemployment benefit payments for those in the budgetary sector and for the non-insurance benefits (see below). Benefits are equal to 60 percent of the unemployed's average earnings over the last six months, with a maximum of 150 percent of the minimum wage and a minimum of 90 percent of the minimum wage. The length of payment period is determined by length of service and age, ranging from six months for those with less than six months of service to twelve months for those with twenty years of service or more who are more than 56 years of age (51 for women). An unemployed person has the right to receive all benefits in a lump sum if a proposal for starting a business is presented to the Labor office.

92. **The UFR also pays a number of social benefits which are not, strictly speaking, insurance benefits**. School graduates receive a "social benefit" equal to the minimum wage for three to six months. UFR covers child allowances for households where there is no working parent but unemployment assistance is being received. UFR also finances programs to help the unemployed such as labor exchange services, counseling, and training programs. **The UFR also manages severance payments**. Between 1997 and 1998 about leva 15 billion were disbursed by the UFR for severance payments. These payments amounted to US$250 up to March 1998. Since then, the amount has been raised to leva 1 million (about US$550). Employees dismissed because of liquidation or financial rehabilitation may opt to withdraw a one-time payment or to receive the standard unemployment allowances.

B. Social Assistance and Welfare

93. **Social assistance in Bulgaria consists of a large number of programs, each of them managed by various institutions, poorly targeted, and rather generous by international standard.** The fragmentary nature of social assistance means that only a small portion of households benefit from individual programs although 81 percent of the population receives some sort of social benefit, including pensions and unemployment. Many of these programs, which include family benefits, such as child allowances and maternity benefits, and cash and in-kind assistance, such as maternity grants and energy vouchers stem from the 1968 State Decree for Birth Promotion, whose aim was to stimulate higher birth rates in face of Bulgaria's unfavorable demographics. Since 1993, most of the social assistance programs are administered by municipalities and financed through block grants from the central government.

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[8]From 7 percent at the beginning of the decade, the rate was reduced to 5 percent in 1997 and it is planned to be further reduced to 4 percent, effective July 1, 1999.

94. **Bulgaria's main poverty alleviation program is a monthly income support.** It reaches less than 5 percent of the population in the non-winter months, increasing to 15 percent in the winter during the last two winters, through an **energy voucher scheme** for low-income households funded by the EU Emergency Social Aid Program. Expenditures on these two programs amounted to approximately 0.2–0.3 percent of GDP in the last two years.

95. **Child allowance is the largest family benefit program, amounting to about 0.6 percent of GDP**. It provides universal coverage and is managed by three different agencies: the NSSI pays monthly child allowances, on behalf of the central government, through the social insurance system; the Ministry of Labor and Social Protection (MOLSP) provides child allowances to about 201,000 families through social assistance channels; and the Ministry of Education pays allowances to low income students. Child allowances in 1998 amounted to leva 3,885 per month per child (slightly above US$2) and are paid for all children of 16 years of age and younger (18 years if the child is a student). All families receive lump sum birth grants, paid through the social insurance system for the insured, and the MOLSP for the uninsured.

96. **The existing scheme for maternity benefits exceeds international standards**. Mothers are entitled to three years of leave with a reemployment guarantee. From 45 days before birth to 180 days after, mothers are eligible to receive 100 percent of prior earnings. Afterwards, maternity leave is initially paid at the minimum wage and later entitled to leave without pay. Uninsured mothers are also eligible for maternity leave, for up to two years at the minimum wage, and a smaller allowance in the third year. For those who are insured, maternity benefits are paid from the Social Security Fund; for those who are not insured, the program is financed by the social assistance budget. About a quarter of mothers in the existing program are in better-off households. In 1996 expenditures on maternity leave for the uninsured amounted to more than twice what was spent on the monthly income support program. Maternity grants are paid by the MOLSP in case of uninsured mothers, or by the social security fund for insured mothers.

97. **Programs providing assistance to the disabled overlap between the Ministry of Labor and the NSSI**. The 1995 Act for Protection, Rehabilitation and Social Integration of the Disabled introduced a range of new cash transfers and in-kind benefits for the disabled, including subsidies for transportation, communication, and medical services. Expenditures on these new programs far exceeded what was spent on regular social assistance. In addition, until 1997 the NSSI supported programs providing benefits in-kind for the disabled, including durable medical equipment and special dietary meals.

98. **The fiscal recovery and consolidation have provided the government an opportunity to streamline and rationalize social assistance programs**. The objective is the creation of a single, well-targeted, poverty alleviation program for low-income households. The new Social Assistance regulations, which became effective in November 1997, consolidate the eligibility criteria for the monthly income support program and the energy supplement program creating a single, better targeted, income guarantee scheme. Under the

new arrangements, benefits are paid based upon two separate income levels with unified eligibility criteria. The Social Welfare Act, approved in March 1998, recognizes separate criteria and functions for social assistance and social care; clearly defines central and local governments' roles in providing social assistance; and envisages an increased role for NGOs. In order to further consolidate the monthly income support program as the minimum survival benefit, in-kind fuel benefits have been converted to a cash equivalent. With the approval of the 1999 budget, the Government has also eliminated duplicative child allowance payments from the Professional Qualification and Unemployment Fund and has shifted the administration and financing of universal child allowances—which have been frozen in nominal terms since May 1997—and birth grants from the social insurance to the social assistance system, thus freeing the NSSI of non-insurance based benefits. Also, beginning in 1999, various benefits are no longer linked to the minimum wage. Instead they are linked to the basic guaranteed minimum income (BGMI) which is established by the Council of Ministers. For 1999, the BGMI has been set at leva 37,300 per month.

C. Public Health[9]

99. **Bulgaria's health system closely resembles that of neighboring transition economies**. Under the socialist system, Bulgaria established an extensive state health care system, and few structural changes were introduced during the transition. The 1991 constitution establishes universal access to health care and guarantees access to free care as a right for all citizens. Health care centers are largely run by local governments, although there are a number of national hospitals and other health services, including spas and medical colleges, which are run by the Ministry of Health (MoH) together with the Ministry of Finance. Health expenditures declined steadily between 1992 and 1996, capital expenditures in particular, and despite a rebound in 1997, they remain are among the lowest in the region.[10]

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[9]This and the following sections draw from Ringold, Dena, 1998, *Trends in Health and Education Spending in Bulgaria During the Transition,* background paper for the World Bank Poverty Assessment.

[10]Health expenditure in Bulgaria is closer to countries (Poland and Romania) which continue to fund health from general taxation. Other countries (the Czech Republic and Hungary) that introduced health insurance systems based on payroll contributions spend relatively more.

Table 7. Bulgaria: Public Expenditures on Health in Selected Eastern and Central European Countries, 1991–97

	1991	1992	1993	1994	1995	1996	1997
Health							
Bulgaria	4	5.2	4.7	4	3.7	3.2	3.6
Romania	3.3	3.5	3.1	3.6	4	2.9	2.9
Czech Republic	5.1	5.1	6.9	7.1	6.9	6.6	6.4
Poland	4.8	5	4.6	4.1	4.4	4.6	4.9
Hungary	...	6.6	4.8	5.2	4.9	4.7	4.5

Source: Ringold (1998).

100. **Bulgaria's health system remains one of the most inefficient in the region.** The emphasis on hospital care translates into high rates of doctors and inpatient beds per 1,000 population, and a high average length of stay in comparison with other countries in the region. Occupancy rates of inpatient beds—59 percent in 1997—are also extremely low in comparison with other countries in the region.

Table 8. Bulgaria: Health Services in Selected Eastern and Central European Countries, 1996

	Doctors per population ('000)	Inpatient beds per population ('000)	Average length of stay
Bulgaria	3.3	10.0	13.0
Hungary	3.8	9.0	10.3
Czech Republic	2.9	6.7	10.0
Poland	2.4	6.2	10.6
Romania	1.8	7.4	10.2

Source: Ringold (1998).

101. **More than half of total health expenditure is carried out by local governments, with the rest being distributed among a number of central government ministries.**[11] Personnel costs absorb the largest share of health expenditures, followed by pharmaceuticals and administrative expenses. The sharp decline in the share of personnel spending since 1995 reflected the reduction in real wages rather than a reduction in employment. After falling to 2.3 percent of total health spending, the share of capital expenditures rose to nearly 7 percent of total health expenditures, higher than any previous year. In contrast to the rapid downturn in investments and personnel expenses, pharmaceutical expenditures increased during the 1996–97, due to the rise in the cost of medicines most of which have to imported from abroad.

102. **Plans for health sector reform are centered around three laws**: the National Health Insurance Fund (NHIF) Law, the Health Care Facilities Act, and the Doctors and Dentists Professional Qualifications Act. The NHIF Law was passed in June 1998; the other two bills are still pending. The **NHIF Law** establishes an independent health insurance fund with 28 regional branches which will contract with public health care providers for a specified package of health services. The NHIF will be financed, effective July 1999, by of a new 6 percent payroll tax, equally shared by employers and employees. To offset this new payroll tax and maintain the overall payroll tax constant over the medium term, other social security contribution rates will be reduced. Personal income taxes have also been reduced—by raising the tax exempt threshold—in order to offset the employees' share. The Health Care Facilities Act, and the Doctors and Dentists Professional Qualifications Act would develop an **accreditation process** of health care facilities and health care professionals based upon their activities, functions, and equipment, which should reduce overcapacity and overlapping delivery.[12] Significant numbers of health professionals are entering private practice.

D. Education

103. **At the outset of transition, Bulgaria inherited a fully developed education system and a highly educated population.** The 1992 census showed that 47 percent of the population had completed secondary education or above. Since then, there have been no major structural changes to the education system. In 1991, parliament passed an Education Law, which stated the government's commitment to providing equality of access to education, compulsory education for ages 7–14, and the right to continue on to secondary school. After compulsory education, students have the option of continuing on general academic courses, or

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[11]Mainly the Ministries of Health and Finance, although other ministries maintain separate health systems, including the Ministry of Defense, the Ministry of the Interior, the Ministry of Transport, and the Ministry of Justice.

[12]Already, some 31,000 beds have been eliminated from the system through the closure of smaller hospitals. This has allowed the MoH to cut staffing by some 10 percent since September 1997. The MoH will depend on hospital managers to reduce staff in the larger regional hospitals (800–2,000 beds) and bed capacity by some 35 percent.

to enroll in specialized gymnasiums for foreign languages or mathematics, or in vocational secondary schools. Tertiary education in Bulgaria includes university courses which grant bachelors (four years) and masters (five years) degrees.

104. **Aggregate enrollment figures indicate a decline of approximately 5 percent for basic education between 1989 and 1996.**[13] Recent studies suggest that the decline was due to the increase in costs to families of sending children to school. A number of regulatory measures are in place to encourage school attendance, but none are particularly effective. Municipalities can impose fines for nonattendance, but inflation has eroded the fine to less than 10 percent of the minimum wage, discouraging collection. Although school attendance is an eligibility criterion for receipt of child allowances for children at the secondary level, the real value of child allowances is so low that they are unlikely to have any affect on attendance. School services, earlier freely provided, are now being charged to families. By contrast, enrollment rates at the tertiary level nearly doubled between 1989 and 1996.

105. **Municipalities finance nearly all schools through the secondary level.** Personnel costs as a share of education expenditures declined sharply in 1996–97 (Table 9). Regardless a steady increases in the number of teachers since 1991, Bulgaria's student teacher ratio for basic school is among the lowest in the region and by Western European standards.[14] Similar to health, trends in education expenditures reveal a shift away from capital investments, although capital expenditures did rebound significantly in 1997.[15] As in the health system, expenditures on utilities have increased in recent years, due to rising energy prices, to the point that the Ministry of Education closed a number of schools for two months during the 1996/97 winter.

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[13]However, these data may mask actual trends. Gross enrollment rates include overage children; therefore, they are imperfect measures of actual trends in access to education.

[14]Student/teacher ratios for primary education range from 24 in Ireland, to 10 in Norway.

[15]This is in contrast to OECD countries, where, on average, capital expenditures for education amount to 8 percent of total education spending.

Table 9. Bulgaria: Current and Capital Expenditures on Education, 1991–97

	1991	1992	1993	1994	1995	1996	1997
Total expenditure on education	100	100	100	100	100	100	100
Current expenditure	95.7	95.6	95.7	96.2	96.5	97.4	95.6
Of which: . Personnel	51.7	57.2	62	62.4	63.3	61.6	51.7
. Administration	14	12.5	11.1	11.8	11.8	14.7	29.5
. Maintenance	1.9	2.6	2.3	1.7	2.5	1.9	0.8
Capital expenditure	4.3	4.4	4.3	3.8	3.5	2.6	4.4

Source: Ringold (1998).

VI. MONETARY DEVELOPMENTS AND POLICY

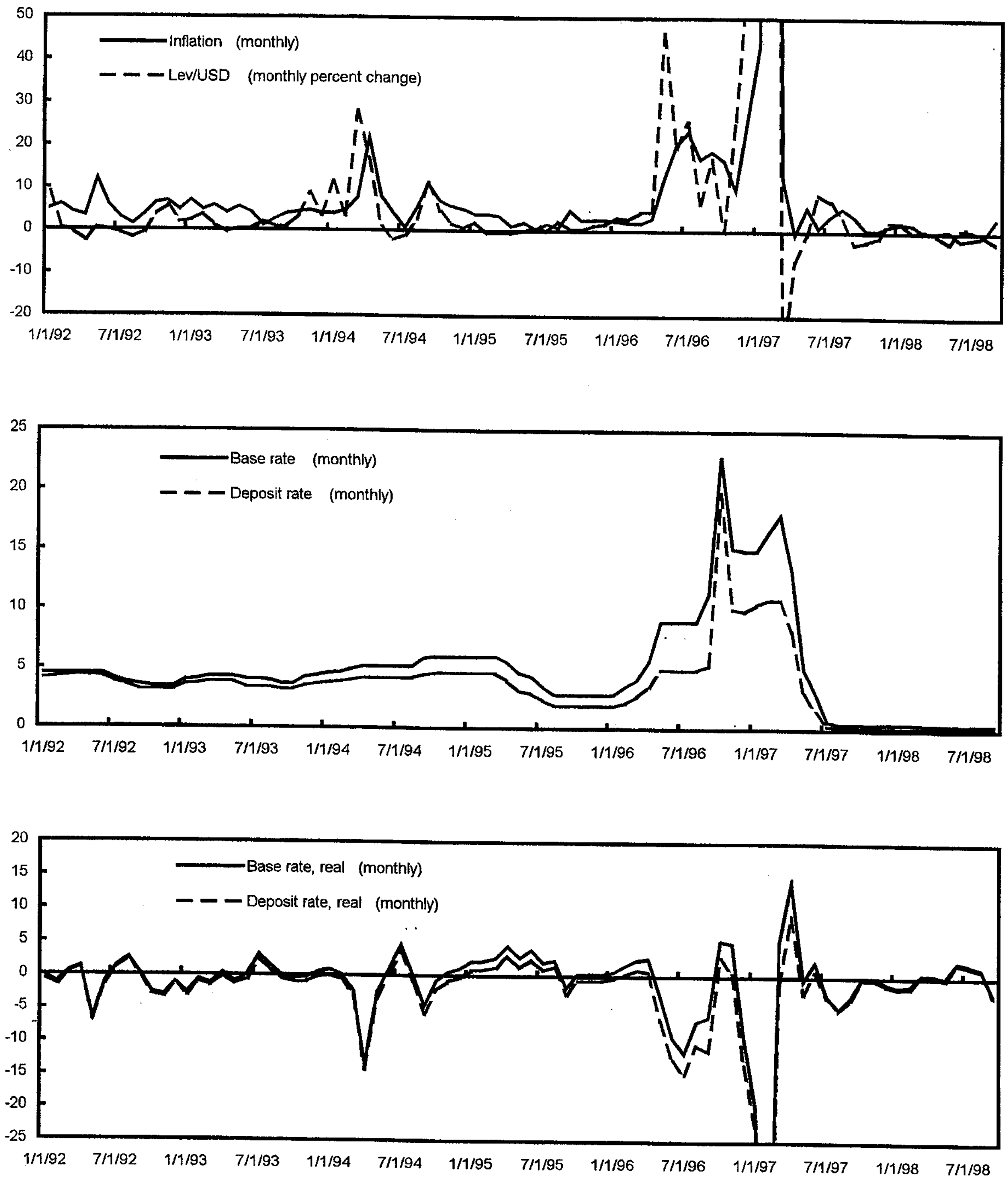
106. **The failure of discretionary monetary policy to prevent accelerating inflation during 1995–97 led to the adoption of a CBA in mid-1997, which legally constrained monetary policy and successfully helped restore confidence.** After a brief episode of relative tranquility during the first half of 1995, the onset of the banking crisis placed the BNB before the classic dilemma: weakening confidence in the lev could not be countered with interest rate increases which would further harm an already weak banking system and put pressure on the budget. At the same time liquidity had to be provided to ailing and solvent banks facing withdrawals in an attempt to prevent the crisis from becoming systemic. However, even within this constraint, monetary policy was flawed and ultimately aggravated the inflationary consequences of the banking crisis. The BNB's attempt to use the exchange rate as a nominal anchor while providing large amounts of uncollateralized refinancing to insolvent banks—rather than to solvent banks—caused an irreversible depletion of official reserves. Once this carefully watched indicator fell below a certain threshold, the banking crisis turned into a general confidence crisis and belated attempts—in September 1996—to use the interest rate to stabilize money demand failed—even as drastic action against the banking crisis was taken. In the ensuing political turmoil, monetary control remained elusive as increasingly large portions of the budget's financing needs had to be met from central bank credit, culminating in the hyperinflation of February 1997. This removed the remaining liquidity overhang and together with the decision to adopt a CBA and sound macroeconomic policies rapidly restored stability and drastically lowered inflation and interest rates during the remainder of 1997.

A. Loss of Monetary Control

107. **After a crisis-ridden 1994, stability returned to financial markets during the first half of 1995** (Figures 8 and 9). Confidence in the lev was restored following the elections in December 1994 on expectation that sounder macroeconomic policies would be implemented. Official reserves increased and the lev stabilized until mid-1995 (see SM/95/306). Meanwhile, inflation, which was around 120 percent end-1994, slowed down to 60 percent, and the basic interest rate was reduced gradually from 101 percent in December 1994 to 66½ percent by mid-1995. Concurrently, currency outside banks increased more than 5 percent in real terms, real lev deposits increased more than 12 percent, helped by the favorable uncovered interest differentials, while foreign currency deposits remained stable in U.S. dollar terms. As a result, the ratio of broad money to GDP reached 57 percent at mid-1995 (Tables 44 and 45).

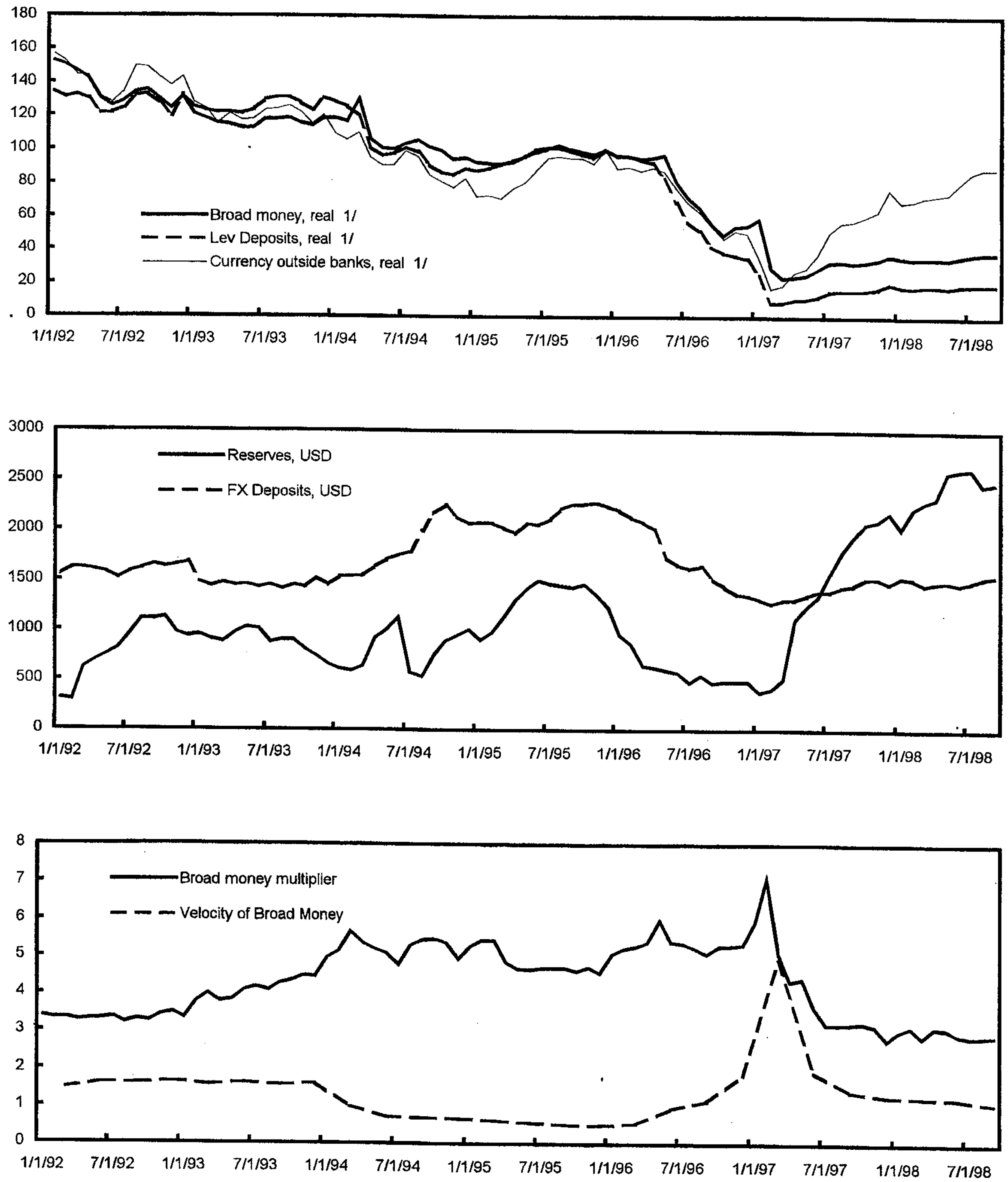
108. **While the increase in monetary aggregates was partially due to the recovery of real money demand, the BNB's policy was a significant source of monetary expansion.** The BNB resisted nominal appreciation pressures that appeared in the first half of 1995 and intervened heavily in the foreign exchange market. The official reserves rose from US$1 billion at end-1994 to US$1.5 billion by mid-1995 (Table 46). Another source of money creation was the refinancing of two ailing banks by the BNB: in the first half of 1995, the

Figure 8. Bulgaria: Inflation, the Exchange Rate, and the Interest Rates, 1992-1998



Sources: The BNB, and staff calculations.

Figure 9. Bulgaria: Monetary Indicators, 1992-1998



Sources: The BNB, and staff calculations.

BNB injected US$0.3 billion into these two banks. The BNB tried unsuccessfully to curb the resulting liquidity expansion through sterilization and increases in the minimum reserve requirement. However, the portfolio of securities used in sterilization operations was quickly exhausted and the subsequent stepwise increases in the reserve requirement ratio in March and April from 10 percent to 12 percent had limited effect. Consequently, net domestic assets of the BNB increased by 20 percent within the first half of 1995 (Table 47).

109. **The refinancing needs of the banking system intensified in the second half of 1995.** Most banks were continuing the lax credit policies toward the state and private enterprises that were incurring losses. The lack of financial discipline and the resulting bank losses decreased the confidence in the financial system. Finally, a rumor that the leading private bank was insolvent triggered a run on that bank. This run was elongated for more than 6 months, as the BNB provided substantial refinancing. However, runs on smaller banks also emerged within a short period, requiring the BNB to inject further resources into the banking system. By December 1995, total net lev credit had increased more than 50 percent over December 1994 (Figure 10).

110. **The fragility of the banking system led to a large credit expansion and prevented the BNB from raising the interest rates, which would also have imposed large costs on the budget.** Instead, the basic interest rate was kept constant, and with increasing inflation, the real interest rates approached zero in the last quarter of 1995 (Tables 48 and 49). By November, the BNB admitted that the direct refinancing of the commercial banks caused "difficulties in curbing money supply growth;" money increased more than 30 percent in 1995 (Figure 11). The steep climb of the gross reserves of the BNB ended, signaling a deterioration of confidence in the lev, and reserves started to decline rapidly at the end of 1995.

B. Loss of Confidence—Early 1996

111. **Scepticism about the ability of the government to meet its obligations, especially its debt service, and growing awareness of general insolvency of the banking system,[1] developed into fears that foreign exchange deposits would be blocked.** These conditions further fueled speculation against the lev. Queues of depositors seeking to withdraw their foreign exchange deposits developed outside most banks and even solvent banks had to ration withdrawals to allow them sufficient time to liquidate foreign exchange assets and physically ship in currency. Doubts about the banks' ability to honor their foreign exchange deposit liabilities were grounded in the fact that banks had reduced their positions in liquid foreign exchange denominated assets relative to their liabilities in 1995 when interest conditions favored leva-denominated assets and foreign exchange denominated loans became nonperforming.

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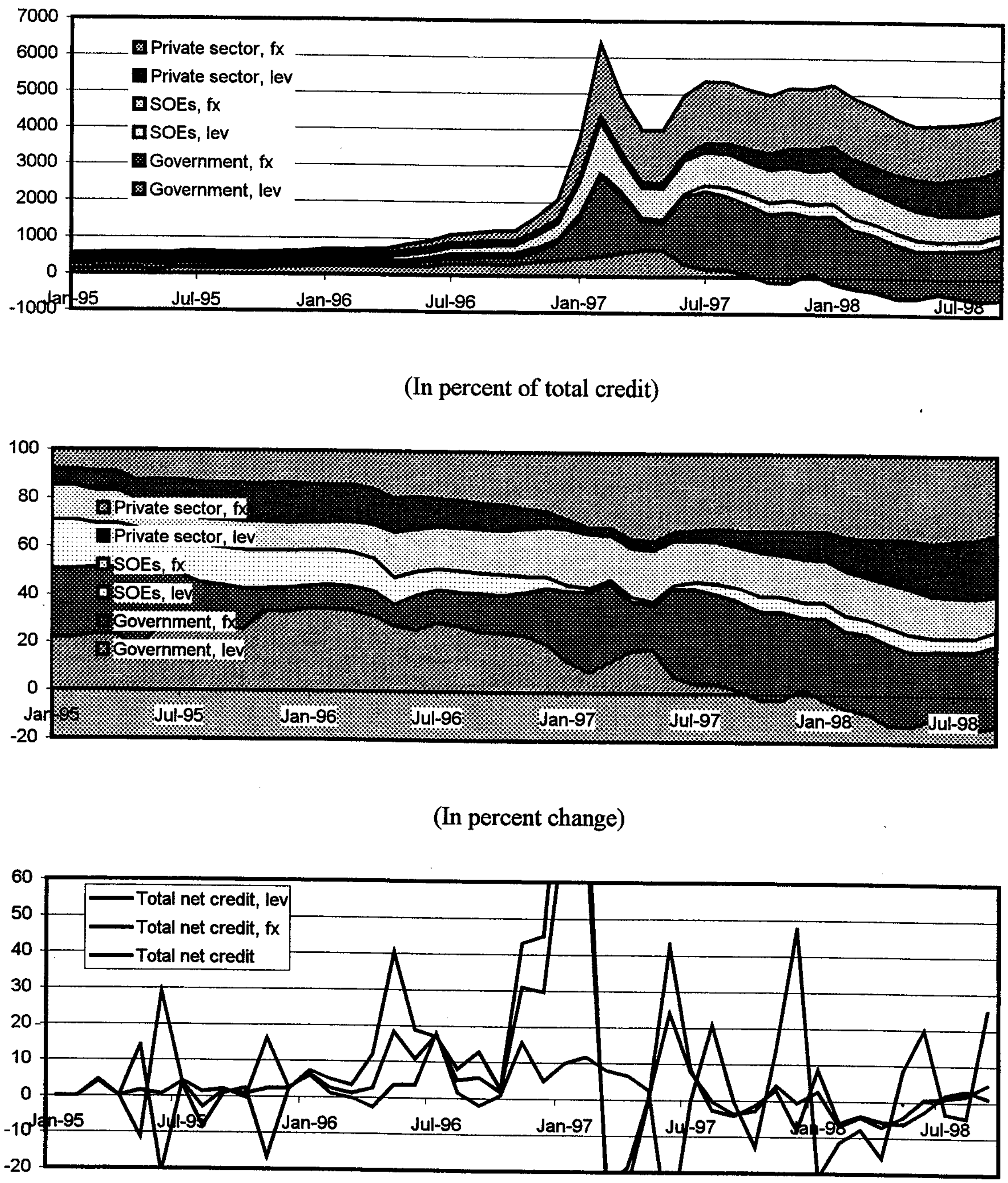
[1]See chapter VI, section B, for a description of the banking crisis.

Figure 10 .Bulgaria: Components of Total Net Credit, 1995-1998

(In billions of leva)

(In percent of total credit)

(In percent change)



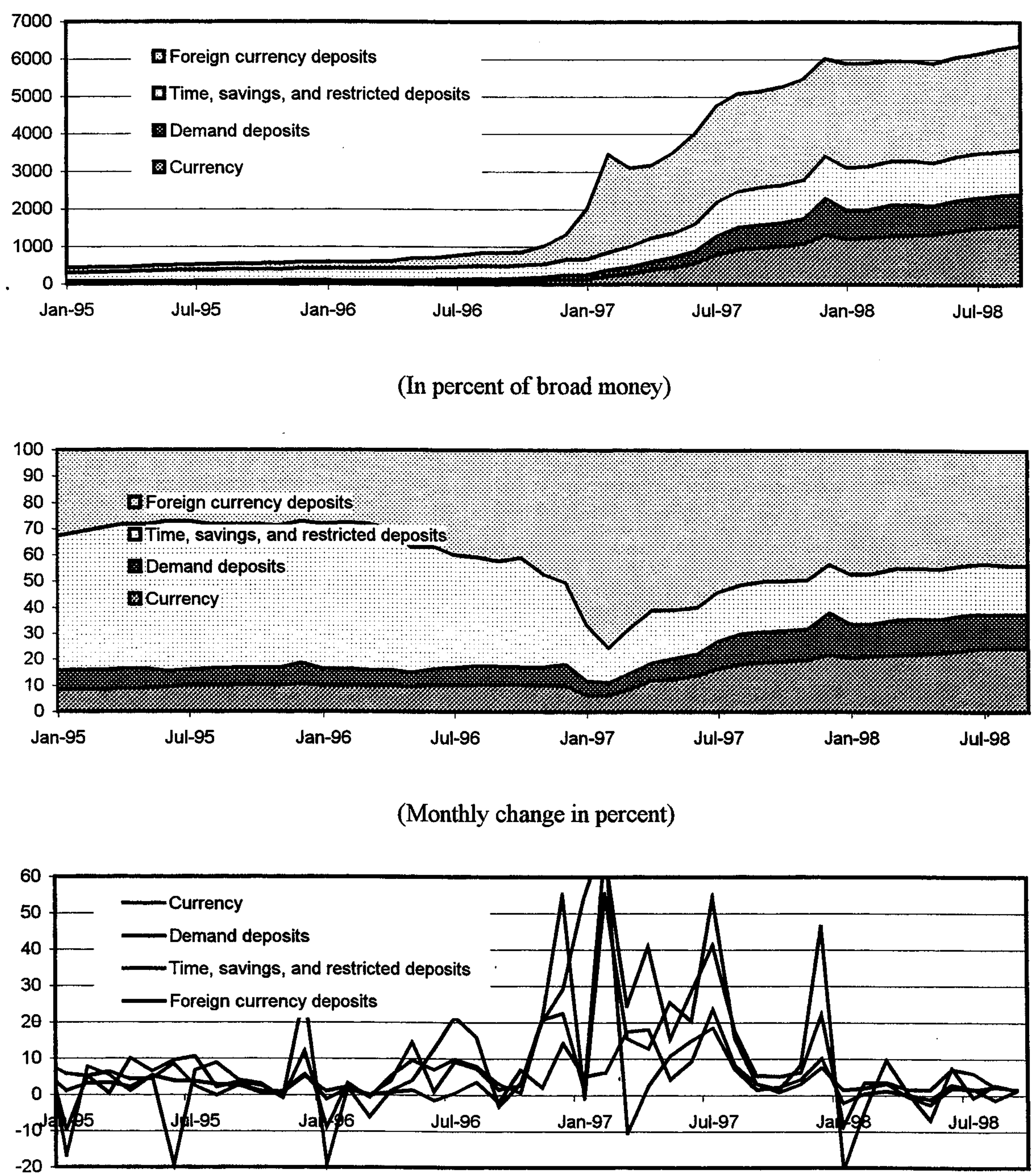
Sources: The BNB and the staff calculations.

Figure 11. Bulgaria: Composition of Broad Money, 1995-1998

(In billions of leva)

(In percent of broad money)

(Monthly change in percent)



Sources: The BNB, and staff calculations.

112. **The demand for real money and its components, which was stable throughout 1995 started to decline rapidly in 1996.** Within the first half of the year, currency outside banks declined more than 20 percent in real terms, real lev deposits declined more than 30 percent, and the foreign currency deposits declined more than 25 percent in U.S. dollar terms. During the same period, the reserves halved to US$573.4 million (5½ weeks of imports of GNFS).

113. **With a full-blown banking crisis developing, the BNB was unable to respond appropriately to shore up lev money demand.** Faced with bank runs, the BNB continuously extended unsecured loans to the ailing banks. Concurrently, to bring some stability to the lev, this liquidity was partially retracted through open market operations and foreign exchange market interventions. The open market operations pushed interest rates upward, but not enough to alleviate the pressure on the lev. Higher interest rates increased ailing banks' costs, as the expensive BNB refinancing replaced the cheaper deposits, leading to chronic losses. In turn these losses required further liquidity injections, which completed the vicious circle.

C. Towards Hyperinflation: Mid-1996–Early 1997

114. **As official reserves declined to a critical point in May, the BNB stopped intervening in the forex market and initiated a series of different monetary policy actions aimed at restoring confidence in the lev.** In May and June, the BNB tried to tighten monetary policy via interest rate and reserve requirement ratio hikes. In May it almost doubled the basic interest rate to 108 percent. However, with surging inflation, the real rate became negative. The one-month nominal and real deposit rates followed a similar pattern. In June, the minimum reserve requirement was raised by 1.5 percentage points. Even with the conservatorship proceedings initiated against five banks to tackle the underlying banking crisis, these measures were not sufficient to change market sentiment and stop the speculation against the lev, which depreciated sharply by close to 35 percent in May only, and 55 percent in the May–July period. Real money demand continued to decline at the same rate as before May.

115. **In July, the adoption of a stabilization program brought temporary stability to the markets.** Official reserves temporarily increased in August, with the funding from the European Community under a loan agreement. The depreciation of the lev slowed down considerably in August, and foreign currency deposits stopped declining. But this stability turned out to be short-lived, as it became clear that the stabilization program was not being implemented as envisaged. In early September, foreign exchange reserves of the BNB dipped below US$500 million for the second time in three months while the lev depreciated by more than 10 percent.

116. **In late September, the BNB unsuccessfully tried to restore confidence in the lev and the banking system with the announcement of a package that included conservatorship for several nonviable banks, increases of interest rates to reach positive real rate, and support for viable banks.** In addition, for this package to be effective in

bringing confidence back to the financial system, the government was to initiate rapid privatization of banks and restore access to official foreign financing. The increase in the basic interest rate to 300 percent stabilized the lev in October, but the government's commitment to structural reforms faltered. Finally, as foreign financing did not resume, the lev plummeted in the second half of November, at which point the BNB stood by passively.

117. **The resignation of the government in December and the supplementary budget law requiring the BNB to fill in the budget financing gap removed any prospect of stabilizing the value of the lev in the near term, leading to hyper-inflation.** The size of the budget gap was much larger than the limit of the short-term loans that the Law on the Bulgarian National Bank allowed the BNB to extend to the government. Nevertheless, the amendments to the State Budget Law provided for securitizing these loans through issues of government securities, and let the government obtain a long-term loan to the budget amounting leva 115 billion by end-1996. With the addition of securitized short-term loans at the same time, these direct net financing of the budget summed up to more than 9 percent of GDP. The news that the fiscal deficit would be monetized fueled the erosion of confidence in the lev and the financial system, triggering hyper-inflation. From December 1996 to February 1997, demand for real lev currency, as well as real lev deposits, shrunk by more than 60 percent, and velocity of money skyrocketed (Figure 11). The drop in money demand was simultaneous with the net lev credit increase to the government, showing the importance of expectations in money demand formation. At the peak of the crisis, the ratio of broad money to GDP had fallen to about one third of its pre-crisis level.

D. Switch in Monetary Regime

118. **During the fall of 1996, it had become clear that, in order to restore confidence in lev, a dramatic shift in policy was inevitable.** With the obvious failure of money-based stabilization policies in mind, discussions began on the setup of a currency board, which would guarantee to redeem on demand base money for foreign currency at a fixed exchange rate. It was argued that a currency board would restore confidence in the monetary system for several reasons. First, it would guarantee convertibility. Second, it would instill macroeconomic discipline by eliminating any central bank financing of fiscal or quasi-fiscal deficits. Third, it would be a break from the past, because the exchange rate would be the anchor, a sensible choice for an open, small economy like Bulgaria. Finally, it was thought that the interest rates would respond favorably much quicker to a currency board setup, thus minimizing the required fiscal adjustment. Alternatives required a large-scale write-down of government debt, which was not acceptable to the government, and bank deposits, which would diminish further confidence in the banking system.

119. **In April 1997, the caretaker government started to implement a macroeconomic stabilization program centered on the adoption of a currency board and signs of a revival of confidence started to emerge already before the CBA became operational.** One important start-up requirement for the currency board was sufficient reserves to back the monetary base. Generally, it is difficult to satisfy this requirement because most countries

witness a substantial drop in their reserves during financial crises. This was not a major impediment to setting up the currency board in Bulgaria, because, similar to the case in Argentina, during the crisis, real money demand had dwindled to 20 percent of the level prevailing before the crisis. Moreover, the policy package had been positively received by economic agents and confidence in the lev returned. The real demand for lev currency started to rebound, and made up for the drop in the first quarter of 1997 by end-July. The lev stabilized below the 1,000 mark against the DM, and even appreciated somewhat in April. This allowed the BNB to purchase foreign exchange in the second quarter of 1998 without depreciating the exchange rate. By end-June, net international reserves doubled to more than US$1.6 billion. Interest rates declined sharply; in particular, the base rate dropped from 18 percent per month in March to 3 percent in June. Similar patterns were observed in lending rates and government security yields.

E. Modalities and Set-up of Bulgaria's CBA

120. Bulgaria's CBA was put in place as a key element of a macroeconomic stabilization program characterized by a move to a transparent, rule based approach to policy making. As a result, **the CBA and all of its relevant parameters were determined in the new Law on the Bulgarian National Bank, which entered into force on June 10, 1997, and effectively established the CBA on July 1, 1997**. The law determined, inter alia, the rate at which the lev was fixed to the peg currency—leva 1,000 per deutsche mark—and the restrictions on the financial relations between the BNB and the State and state agencies and the BNB and the banking system.

121. **Bulgaria's CBA is a narrow currency board that ensures full cover of the monetary base** (currency and settlement accounts) as stipulated in the law (Article 28):

> "The aggregate amount of monetary liabilities of the BNB shall not exceed the lev equivalent of the gross international foreign exchange reserves and the lev equivalent shall be determined on the basis of the official exchange rate against the DM."

This effectively prevents the BNB from extending credit, except on the basis of any excess of international foreign exchange reserves over the amount required to cover the monetary base. However, even this opportunity is tightly regulated by law which explicitly states that the BNB shall not extend credit to banks, except in a narrowly defined role as lender of last resort, or to the state or to any state agency, except against purchases of special drawing rights from the IMF. Consistent with this setup, the BNB had ceased open-market operations and eliminated the repurchase facility on June 13, 1997.

122. The **conduct of monetary policy is severely limited** under the CBA. The only instruments left at the discretion of the BNB are the level of and conditions for access to the minimum required reserves. Since the start of the CBA banks have been required to continue to hold 11 percent of their deposit base on settlement accounts at the BNB. The conditions for access to the minimum required reserves were eased in early April 1998 when daily averaging was introduced, allowing banks access to 100 percent of required reserves on any given day, up from 15 percent when the CBA was established.

123. The **operation of the currency board is also enshrined in the law**, which states that on demand, the BNB shall be bound to purchase and sell any amount of deutsche marks against leva in the territory of the country on the basis of spot exchange rates that shall not depart from the official exchange rate by more than 0.5 percent, inclusive of any fees, commissions, and other charges to the customer. In practice the BNB purchases and sells respectively, at leva 995 and leva 1,000 per DM.

124. **Since one of the key objectives of the CBA was to contribute to the transparency of the policy regime, it was decided to create two principal financial departments within the BNB** following the Bank of England model[2] and to organize the BNB's balance sheet accordingly (Table 10):

Table 10. Bulgaria: Structure of Bulgarian National Bank Accounts Under the Currency Board Arrangement

Assets	Liabilities
Issue Department	
Foreign reserves	Monetary liabilities
Foreign currency assets	Notes and coins issued
Domestic monetary gold	Commercial bank settlement accounts
	Commercial bank required reserves
	Government deposits
	Other deposits
Accrued interest receivable	Accrued interest payable
	Banking Department deposit
Banking Department	
Deposit at Issue Department	Credit from the IMF
Claims on government	Other long-term liabilities
Claims on banks net of provisions	
Accrued interest receivable	Accrued interest payable
Other assets (including non-monetary gold, participations in international financial institutions, and fixed assets)	Capital and reserves

[2]Estonia and Lithuania follow a similar design, while other currency board arrangements such as Argentina and Hong Kong maintain a unified organization and balance sheet of their monetary authorities.

- **The Issue Department holds all the BNB's monetary liabilities**, comprising banknotes and coins, deposits of banks and other nongovernmental depositors, government deposits—the majority of which comprise the fiscal reserve account—and the deposit of the Banking Department.[3] These must be covered at all times by foreign exchange assets and gold[4] and redeemed for the peg currency at the official exchange rate on demand and without limit. The monetary liabilities are themselves interchangeable (thus banknotes are interchangeable with deposits, and vice versa). The Issue Department invests the BNB's foreign assets subject to restrictions in terms of quality and liquidity explicitly stated in the law on the BNB. The Issue Department has no other functions. Its balance sheet is published weekly.

- The **Banking Department** has at its disposal a deposit with the Issue Department, for the purpose of **collateralized lending to commercial banks in circumstances where the banking system as a whole is at systemic risk.** To safeguard confidence in the CBA, these loans are to be limited to the amounts deemed necessary and deployed only in exceptional circumstances.[5] The BNB can lend only to solvent banks lev-denominated credits with maturity of up to three months, provided that they are fully collateralized by gold, foreign currency or other such highly liquid assets. The Banking Department is also responsible for enforcing reserve requirements, monitoring financial markets and the payment system, with a view to minimizing the risk of liquidity problems, and holds all other BNB assets, including claims on banks and government, as well as long-term liabilities. These claims and liabilities (except those related to the Fund and to the lender of last resort functions described above) cannot be added to under the current BNB law.

125. Even though most foreign exchange transactions in Bulgaria are denominated in U.S. dollars, the **deutsche mark was chosen as peg currency to reinforce the political objective of EU accession, and taking into account the preponderance of Western Europe in**

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[3]"Monetary liabilities" includes all financial liabilities except those to the Fund, and credits incurred by the BNB prior to the CBA with greater than two years' original maturity.

[4]Fluctuations in the price of gold affect the cover of the currency board. At the outset, the price of gold was set at DM 500 per ounce, a price that was deemed to represent a safety margin against changes in the market price. However, with the secular decline in the gold price over the past 18 months, the market value has on occasion dropped below this price, triggering the requirement to mark gold reserves to market and creating a shortfall in the currency board cover. In this case, the shortfall is made up through a transfer of resources from the Banking Department to the Issue Department.

[5]Should such a loan be extended, the effect would be a reduction in the Banking Department's deposit at the Issue Department, a corresponding credit to the account of the relevant commercial bank at the Issue Department, and an equivalent claim on the commercial bank recorded in the assets of the Banking Department.

Bulgaria's trade. The Law on the Bulgarian National Bank anticipated the advent of the euro and explicitly provided for the switch of the peg currency to the **Euro** when the latter became legal tender in Germany. In accordance with the law, the new parity has been determined by the official exchange rate of conversion of the deutsche mark to the Euro.

126. **The choice of the level of the peg—leva 1,000 per DM—reconciled the objectives of consolidating the gains on inflation and preserving external competitiveness** while ensuring full cover of the CBA's monetary liabilities. On balance, the real exchange rate was not considered to be misaligned in mid-1997 and Bulgaria's economic crisis of 1996/97 did not find its roots in a lack of cost competitiveness. Thus a rate close to the market rate prevailing prior to the adoption of the CBA (leva 927 per DM during March–May 1997) rounded to a simple figure was a logical choice. At this rate some excess cover was available to support the banking system should the need arise.

127. The **resources available for the lender of last resort** role of the BNB **are equivalent to the deposit of the Banking Department** with the Issue Department. At the start of the CBA, these resources amounted to somewhat above US$300 million, an amount that covered about 51 percent of the deposits in the banking system and all of the deposits at the State Savings Bank, thus contributing to confidence in the banking system. Coverage of total deposits including foreign exchange denominated accounts, net of banks reserves at the BNB, was about 18 percent, but besides their reserves at the BNB, commercial banks held significant liquid foreign exchange assets. Cover ratios declined during the six months following the adoption of the CBA since the increase in the deposit of the Banking Department—reflecting net income of the BNB—could not keep pace with the strong remonetization.[6] Concerns about this decline prompted the BNB to retain in August 1998 one of the purchases from the Fund made under the 1997 stand-by. Together with net income, this boosted the Banking Department deposit to US$459 million at end-September 1998, restoring coverage to 18 percent of total deposits net of settlement accounts, while commercial banks slightly increased their foreign assets.

128. **The financial soundness of the BNB had to be ensured before adopting a CBA.** The existing BNB claims on the government were restructured prior to July 1, 1997 to match the non-monetary liabilities of the BNB, so that it could service these liabilities, including repurchases to the Fund, without undermining its liquidity or CBA cover. Essentially, the MoF agreed to service the liabilities of the BNB to the Fund in lieu of its outstanding domestic liabilities to the BNB and took over Brady bond collateral held by the BNB to complete the separation of BNB and State accounts.

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[6] Unremunerated liabilities (currency and banks settlement accounts) exceed unremunerated assets (gold) by a substantial margin, allowing the BNB to generate income even after operating expenses. Collection on fully provisioned nonperforming pre-CBA assets also contributed.

129. **The BNB continues to act as fiscal agent for the Ministry of Finance through a specially created Fiscal Services Department** (FSD). The MoF maintains most of its reserves on accounts at the BNB where they are a liability of the Issue Department that must be fully and continuously covered by foreign assets.[7] The FSD is also responsible for organizing government security auctions and providing other financial management services to the government. The Banking Department in its role as fiscal agent for Bulgaria with the Fund, registers outstanding purchases from the Fund as a liability and may on-lend these purchases to the government (in SDRs), or deposit them with the Issue Department.

130. **The annual budget of the BNB is subject to approval by parliament**. Three quarters of any net income of the BNB is to be transferred to the government, and one quarter is to be added to the reserve fund of the BNB.

F. Developments Since Adoption of the CBA

131. **Once the currency board became operational, it took about six months for the initial remonetization to be complete but monetary aggregates never returned to pre-crisis level, except for lev currency.** The demand for deposits remained weak as the financial disintermediation intensified with the banks becoming very cautious after the banking crisis. Lending opportunities were perceived to be limited. At the same time, private financial savings were lower, because real consumption had revived and real taxation was heavier.

132. **After the initial rapid return of confidence, and the ensuing adjustments, markets have remained stable.** Real money demand followed a moderate upward trend in 1998, besides the seasonal fluctuations, consistent with real activity and interest rates. In fact, as inflation and interest rates remained low, the ratio of foreign exchange deposits to GDP that had peaked at the beginning of 1998, started a slow decline. Even the global financial turmoil triggered by the Russian crisis had no discernable impact on the public's relative holdings of lev and foreign currency denominated deposits, confirming the confidence in the currency board. The banks remained liquid, and the yield on short-term treasury bills, which had declined sharply at the beginning of the currency board to around 6 percent, declined further marginally to its current level of just above 5 percent.

133. **Banks have been cautious in lending.** Credit to non-government sector has grown only moderately in 1998 after it recovered rapidly in the second half of 1997, and nonfinancial state enterprises have witnessed a continuous decline, partially owing to privatization. The notable exception has been the rapid credit expansion to households by the State Savings Bank.

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[7]As a result of this set up, a use of its deposits at the BNB by the government will appear as an increase in net claims on the government, while the government is in fact using its own foreign asset.

134. Against this background of stability of the financial system and high liquidity of banks, **no monetary policy actions have been undertaken since the start of the CBA**, except for an easing of conditions for access to the minimum reserve requirement. Other than improving bank profitability at the margin by allowing better liquidity management, this action was inconsequential.

VII. Financial Sector

135. **Bulgaria's financial system, dominated by the banking sector throughout the transition period, was at the heart of the severe economic crisis that gripped the country in 1996 and early 1997.** Years of misuse of credit, lack of appropriate supervision, and delays in structural reform culminated in the banking crisis of 1996 when runs on banks exposed the general insolvency of the banking system. Through a combination of closures, recapitalization, privatization, strengthened supervision, and the adoption of sound macroeconomic policies confidence in the banking system was restored. These reforms had a significant impact on the sector: the banking system is now solvent and compliance with supervisory regulations has improved markedly; privatization and consolidation are under way; a limited self-financing deposit insurance system will soon be in place; and the stage has been set for the development of sound financial intermediation. Still some further consolidation of the banking sector would be beneficial and, with limited new lending activity, core profitability of most operating banks is low. Domestic financial markets for government securities, interbank money, and foreign exchange were disrupted by the banking crisis, but resumed normal operation following the stabilization in 1997. Stock markets have so far failed to play a meaningful role in the economy, but as progress in structural reform continues, prospects are favorable. A properly regulated unified Bulgarian stock exchange (BSE) began operating in early 1998.

A. Structure of the Financial Sector

136. The **banking system consist of a relatively large number of banks but a handful of state-owned banks dominate, even though recent progress in bank privatization is increasing the role of private banks.** As in other transition economies, Bulgaria's mono-banking system was broken up into a two-tiered system at the beginning of the transition, consisting of a central bank and largely specialized sectoral banks. But a liberal licensing regime contributed to the proliferation of mostly small private banks. By the end of 1994, 10 state banks, 23 private banks, 2 foreign banks and 3 branches of foreign banks were operating. Bank closures in the aftermath of the 1996 banking crisis, privatization of two state-owned banks, and some private sector consolidation, reduced the number of state-owned banks to 6 and domestically owned private banks to 19 by end-1998.[1] Two foreign banks continue to operate, while the number of branches of foreign banks has risen to 7. At end-September 1998, state and municipally owned and controlled banks (excluding Postbank whose privatization was finalized in November 1998) held 59.5 percent of banking system assets, down from 82 percent at end-1994.

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[1]Even though insolvent banks stopped operations in 1996, it took until March 1998 before all closed banks were declared bankrupt. Liquidation of these bankrupt banks is being hampered by lengthy court procedures without specific deadlines. Reports on the banking sector must be interpreted with care since some data—such as the officially published monetary survey—includes bankrupt banks.

137. **The banking system is highly concentrated and relatively specialized.** Seven former and currently state-owned banks, including the State Savings Bank (SSB) and the privatized Postbank and United Bulgarian Bank (UBB), held 73 percent of banking system assets and 76 percent of deposits at end-September 1998. In this group, Bulbank—the former foreign trade bank—is nearly three times as large as the second largest bank and accounts for about 33 percent of banking assets. Bulbank has a small lending portfolio, however, and is mostly invested in government securities and assets abroad. The SSB—the former monopoly in household deposit taking—is the second largest bank with 12 percent of assets and is now being transformed into a commercial bank. So far, it could take only leva denominated deposits and lend to households and small enterprises. UBB and Postbank, the third and fourth largest banks, respectively, are retail banks that have begun diversifying their lending operations. The three other banks in this group are more specialized lenders, either sectorally or regionally. Domestic private banks serve narrow interests and account for 19 percent and 16 percent of assets and deposits, respectively. Foreign banks and branches hold 8 percent of each, and deal mainly with foreign direct and portfolio investors.

138. **The development of the non-bank financial sector was hampered by erratic and insufficient progress in structural reform during most of the 1990s, but recently the foundation has been put in place for the sustainable and sound development of the sector**. Following the liberalization of the foreign exchange market in 1991, foreign exchange bureaus were the most important non-bank financial institutions until the adoption of the currency board in July 1997, after which their number and activity declined substantially. In the context of the first wave of mass privatization, which started in 1996, privatization funds emerged which were subsequently converted into investment funds and are in the process of being listed on the stock exchange. Voluntary pension funds have been in existence for a while but have been acting mainly as mutual funds and are of insignificant size. The recently adopted new pension law clarifies their role and supervisory regime—and the reform of the pension system which is about to begin are likely to boost the importance of pension funds over the next few years. Financial brokerage houses flourished in the early 1990s with the proliferation of stock exchanges but the 1996 economic crisis and the closure of most stock exchanges shifted their role towards the marketing of domestic government securities to portfolio investors, including from abroad, and issues targeted to the public.

B. Banking Crisis of 1996

139. **The Bulgarian banking crisis of 1996 resulted from a combination of the weaknesses in governance in banks and enterprises which allowed asset stripping and the establishment of private banks to engage in insider lending; the general economic instability during the transition period; and ineffective recapitalization.** The misuse of credit—to finance consumption, income transfers, price subsidies, and inefficient production—was endemic during 1990–96. Unsound and unsustainable lending practices and led in 1996 to a system-wide crisis and shake out in the banking sector. The crisis was resolved through a combination of bank closures, recapitalization of some banks, bank privatization, and the strengthening of supervision. These measures came too late, however,

to prevent a complete loss of confidence in the banking system and a significant reduction in financial intermediation from which the system still has not recovered.

140. **Non-performing loans inherited from central planning and extended in the first half of the 1990s were at the heart of Bulgaria's banking crisis.** Following a limited transformation of bank claims on SOEs into public debt in 1991, all loans extended to SOEs prior to December 31, 1990 and in arrears of more than 180 days, were replaced with government securities beginning in late 1993. Claims on SOEs were transferred to the MoF and restructured through negotiation, thus reducing the moral hazard implications of the operation by not providing full debt forgiveness.[2] However, commercial banks continued to hold regionally and sectorally concentrated portfolios and did not develop adequate banking skills. Without significant structural reforms in the enterprise sector, many enterprises continued to be unable to service their debts and most state-owned banks continued to roll over outstanding credits to these SOEs, while capitalizing interest payments.

141. **Private banks were established in the early 1990s under a lax supervisory regime.** Banks were licensed with less than the required minimum capital actually paid-in. Profits were to increase capital over time, but banks were allowed pay out dividends up to 50 percent or more of profits before paying in the minimum capital requirement. Many private banks invested lavishly in fixed assets and vehicles. Management was closely connected with their debtors, mainly private companies and individuals economically related to the shareholders of the bank. As a result, the share of non-performing loans in private banks rose rapidly and with acquiescence of the political establishment and supervisory authorities, a class of "credit millionaires" was created at the expense of depositors and ultimately the taxpayer.

142. **The absence of an effective regulatory and legal environment and market discipline was one of the key factors contributing to the banking crisis.** Banks had been explicitly excluded from the insolvency law of July 1994 (as were insurance companies and state-owned monopolies). Instead, it was believed that for state-owned banks, the state-owner would be able to close the bank if necessary and that for other banks the withdrawal of the license by the BNB would be sufficient to do so and to make the court appoint a liquidator. Legislation in effect prior to the banking crisis gave the banking supervision department of the BNB only limited tools to implement regulations. However, a more important problem was that banking supervision had not developed and implemented procedures for a rapid and predictable response to violations of prudential regulations. Consequently supervisory discipline was weak and prudential regulations were flouted extensively, systematically, and

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[2]The operation was formalized by the passage of the Law on the Settlement of Non-performing Credits (Zunk) in December 1993. Two types of government securities were issued: leva-denominated credits were replaced by 25-year leva denominated bonds, with 5-year grace and semi-annual interest payments gradually rising to market rates over a period of 6 years; and foreign currency denominated credits were replaced by 25-year U.S. dollar denominated bonds, with 5-year grace and with semi-annual interest payments at 6-month Libor.

with impunity. Moreover, in the absence of uniform accounting standards and disclosure requirements, market discipline remained elusive. As a result, at the end of 1995, 70 percent of bank loans in Bulgaria were classified.

143. **A few state-owned banks displayed sustained liquidity problems in 1994 and early 1995**, receiving significant refinancing from the BNB and the SSB. The difficulties of these banks were public knowledge, at least by early 1995, when **the BNB proposed a recapitalization** operation. However, the new government, elected in late 1994, did not accept the proposal and delayed implementation until May 1995. At that time, Zunk bonds in the portfolios of Mineral bank and Economic Bank were converted at face value into short-term government lev-denominated securities at market interest rates and used to extinguish the debts of these two banks to the BNB and the SSB. The total nominal face value of Zunk bonds exchanged amounted to US$ 824.3 million, effecting a recapitalization of about US$80 million.[3]

144. **Without changes in underlying fundamentals**, however, the recapitalization failed to inspire confidence and soon **insolvency turned into illiquidity**. By late 1995 many public and private banks were ailing and the BNB proposal to institute a deposit protection scheme backfired as it raised the prospect that banks could be closed and that deposits would not be fully covered. While providing banks with liquidity to meet the ensuing deposit withdrawals, the BNB depleted its reserves in an attempt to maintain a stable exchange rate. Once reserves fell below a threshold, runs on banks took on a more systemic nature induced by fears of a freeze of foreign currency deposits; these deposits—which had been increasing until end-1995—fell by one fourth by end-May 1996. Interbank payment difficulties occurred, but other than revoking the licenses of two small banks on March 7, the BNB felt obliged to continue to provide liquidity. Between September 1995 and May 1996 liquidity equivalent to 5.8 percent of GDP was injected, a clearly unsustainable development.

145. **In response, the BNB placed five banks in conservatorship on May 17, 1996, including the largest private bank**, a smaller state-owned bank, and three smaller private banks, and applied to the courts to institute bankruptcy proceedings against these banks. This action was made possible by the rushed passage earlier in May 1996 of amendments to the law on banks and credit activity, establishing conservatorship and bankruptcy procedures for banks. It was **accompanied by the establishment of a depositor protection scheme and measures to strengthen the remaining state-owned banks and increase supervision over the banking system**. Under an ad hoc scheme, the government fully guaranteed household deposits and half of enterprise deposits. The guarantee also covered foreign exchange deposits which were to be made available over a two year period in equal semi-annual installments.

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[3]The official face value of dollar denominated Zunks was 90 percent. The market value was much lower: given the similarities in maturity, currency denomination, and interest payments, the stripped price of Brady discount bonds is a good proxy.

146. **Seven state-owned banks were recapitalized** to bring them to non-negative capital adequacy. The scheme consisted of a purchase at a 55 percent discount of Zunk bonds with face value of US$400 million from Bulbank by the State Fund for Reconstruction and Development (SFRD); the placement by Bulbank of most of the proceeds from this sale (US$180 million) on deposit at the BNB to prevent depletion of official reserves; and the transfer without quid pro quo of the Zunks from the SFRD to the Bank Consolidation Company (BCC) which in turn transferred them to individual state-owned banks to increase their capital as needed. **All of the recapitalized banks and seven private banks with negative capital adequacy were required to sign special Memoranda of Understanding with the BNB** detailing their business plan to achieve 4 percent capital adequacy by end-1996. These memoranda, inter alia, set limits on lending and targets for loan collection and were monitored on a monthly basis.

147. **Four months later, it became clear that the loss of confidence in the banking system was more far-reaching than had been hoped.** Contributing factors were the slow resolution of banks placed in conservatorship in May and the realization that recapitalization resources had been spread too thinly. Monetary control could not be regained: between end-May and September 20, 1996 BNB net refinancing amounted to 2 percent of GDP. In addition, the BNB made outright purchases of Zunk bonds to provide liquidity to banks in difficulty. To turn the tide, **a second wave of conservatorship proceedings was initiated for another 9 banks on September 23, 1996**, including three more state-owned banks. Negative capital and insufficient liquidity to withstand a run on deposits were the criteria used to select these banks. A significant feature of the September actions was that they were seen as sufficiently bold to address the problem and thus provided the foundation for the restoration of confidence in banks that remained open. However, with the failure to implement supporting measures (bank privatization and closure of loss-making enterprises), the return of confidence did not happen until the resolution of the general financial crisis in early 1997. Two systemically insignificant private banks were closed in early 1997 and the weakest surviving state-owned bank was recapitalized in April 1997 at a cost to the budget of US$50 million.

148. **The banking crisis imposed a significant cost on the Bulgarian economy.** While its impact is difficult to disentangle from the effects of lack of reform in other areas, the crisis contributed to the sharp fall in GDP—by the first quarter of 1997 real GDP had fallen by 23 percent from its 1995 level and it is still 13 percent below that level; a dramatic redistribution of wealth—the negative real return on leva deposits reduced their value by almost 90 percent; and a significant permanent decline in the size of the financial system—the ratio of deposits to GDP fell from 54 percent at end-1995 to 16 percent and recovered to only 21 percent by end-September 1998. In addition, bank recapitalization and deposit guarantees contributed 35 percentage points to the public-debt to GDP ratio since the start of the transition.[4]

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[4]The outstanding stock of debt attributable to these factors at end-September is only 7.3 percent of GDP, as inflation and use of Zunk bonds in privatization reduced its value over

(continued...)

C. Establishing a Viable Banking Sector

149. **Following the banking crisis, the authorities adopted a comprehensive strategy to revitalize the banking sector cast against the currency board framework.** Its main components were: swift privatization of state-owned banks to strategic investors so as to attract additional capital and assist the development of proper risk evaluation and prudent lending skills; strengthening supervision; establishing a new deposit protection scheme; and the transformation of the SSB into a commercial bank in preparation for privatization. Somewhat paradoxically, the financial crisis had created favourable starting conditions to implement this strategy as banks had net long foreign exchange positions and the real value of their lev-denominated liabilities was vastly reduced by the high inflation in the first quarter of 1997. Recognizing that the improvement in the balance sheet of the consolidated banking system was largely the result of one-off factors, great emphasis was placed on avoiding a recurrence of the conditions that had lead to the crisis. The currency board framework contributed by effectively outlawing more than exceptional and temporary reliance on BNB credit.

Privatization

150. **Two of the seven state-owned banks have been privatized so far, for two others agents have been appointed to assist in privatization, for a fifth marketing has begun and for the remaining two restructuring in preparation for ultimate privatization is getting under way.** UBB—the third largest bank—was privatized in July 1997 to a consortium consisting of the EBRD, a foreign strategic partner, and Bulbank. Postbank's privatization to a private foreign investor was completed in November 1998. Foreign agents were appointed to mediate the sale of Expressbank (August 1998)—after a failed attempt to sell it during late 1997—and Bulbank (November 1998). The BCC began the marketing of Hebrosbank in the fall of 1998. Biochim was involved in a twinning arrangement with a foreign bank since the summer of 1997 and placed under a restrictive memorandum of understanding agreed with the BNB Bank Supervision Department. Different foreign agents are set to take over the management of the bank in early 1999 in preparation for its privatization over the next two years. The SSB is to be transformed into a conventional commercial bank under an EU-PHARE financed project that will place foreign experts in key management roles over the next two years.

Strengthening banking supervision

151. The program to **improve bank supervision** had several elements. The first was the issuance of the new Law on the BNB and the Law on Banks that clarified and strengthened the BNB's role in bank supervision. Later came a series of implementing regulations to detail

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[4](...continued)
time.

the new principles enshrined in the law. Concurrently, a large commitment to technical assistance was made on behalf of the Fund, USAID, and the EU under the PHARE program, including the provision of resident foreign experts to train staff in on and off-site supervision. This was viewed as essential since previous Bulgarian experience had shown that lack of effective enforcement and a passive supervision—more than inadequate legislation and regulation—had allowed the banking crisis to develop into a systemic problem.

152. **The new Law on Banks and BNB law (July 1997), introducing the currency board, contained several essential elements designed to raise the effectiveness of banking supervision**. These included a requirement that the BNB revoke the license of any bank deemed insolvent; a tight regime on large exposures with very limited exceptions; strengthened capacity to control the issuance of new licenses through provisions in the law; a reduction in the rights to appeal decisions of the BNB Board; and a ten fold increase in the minimum capital requirement (effective end-June 1998).

153. The BNB issued **two key regulations o July 15, 1997 governing capital adequacy and loan classification and provisioning**. The capital adequacy regulation established a risk-based measure of required minimum capital in line with the Basle Committee recommendations. The minimum capital ratio was set at 8 percent, to rise to 10 percent at end-1998 and 12 percent at end-1999 with at least half of the capital being classified as "primary". The regulation on provisioning established an aggressive timetable for the categorization and provisioning against problem loans. This replaced a system whereby banks were restricted to provisioning only up to their profits as shown in the profit and loss statement which had led to under provisioning throughout most of 1997. The new regulation calls for exposures to be classified as "watch", with 25 percent provisioning after a delay in servicing of 31 days and, after intermediate steps, full provisioning as "loss" after a passage of 180 days. These elapsed periods are maximums as other conditions could call for an earlier classification and larger provisioning. Furthermore, the BNB has the right to require changes to classifications and provisioning if it disagrees with the bank's internal classification. The regulation also introduced mark-to-market pricing for securities holdings with provisions to be made against the difference between cost and market value.

154. Subsequent regulations included those on **liquidity management** (December 1997), **open foreign exchange positions** (January 1998), and establishing a **central credit registry for banks** (August 1998). Regulations currently under revision include those on **bank licensing, large exposures, and internal control** while new regulations on **consolidated bank supervision and insider lending** are in the development stage.

155. MAE **technical assistance missions** visited Bulgaria regularly during the period 1996–97 (seven missions), complemented by several independent expert visits. A Fund resident bank supervision coordination advisor took up his post in September 1997 with the intent to act as a bridge between the USAID financed on-site supervision team and the EU financed program to enhance off-site supervision. In the event, the arrival of the off-site advisors was delayed until August/September 1998 and, as a consequence, the Fund advisor

attempted to fill the gap in off-site supervision as well as providing advice on general policy issues.

156. The **on-site supervision project** began in October 1997. The objectives were to assist the BNB to undertake an annual schedule of bank examinations, develop a formal training program and training materials for on-site examinations, train a core group of BNB examiners to undertake examinations according to the existing prudential regulations, and develop a basic on-site examination manual based upon the CAMELS criteria. Results accomplished after the first year of the project reflected a relatively greater emphasis on hands-on training in actual inspections that was largely a function of the authorities' request to have **enhanced inspections of several banks of systemic importance.** These were the SSB, in order to devise a restrictive supervisory Memorandum of Understanding that will guide its development into a commercial bank; and Biochim and Hebros bank, with a view toward assessing their suitability for either a foreign management contract and/or privatization. In all, the advisors participated in 11 bank inspections during the year and developed a detailed structure for the examination process. As a result, the BNB was able to undertake **18 full supervisory inspections during 1998**, of which 13 have been completed; 11 banks received CAMELS ratings.

157. Despite the delay in the arrival of the off-site advisors, **an Early Warning System was established to enable early identification of problem banks**. The first priorities of the new team are to assist in the process of moving all banks to compliance with international accounting standards (for end-1998 accounts) and assessing the completeness and suitability of the existing regulatory returns. They are also to assist the BNB to fulfill its role under the new Law on Money Laundering.

Deposit insurance

158. **The authorities also put in place a new deposit insurance law, to become effective on January 1, 1999, with the intent to reduce the potential fiscal cost of bank failure** but also, importantly, to place more of the onus of monitoring bank soundness on the depositor and thereby **limiting the moral hazard associated with all insurance schemes.** Under the scheme, deposits for up to leva 2 million (DM 2000) are guaranteed for 95 percent while deposits between leva 2 million and leva 5 million are guaranteed for 80 percent. A deposit insurance fund will be funded from initiation fees paid by banks, annual premia contributed by the banks, calculated on the total deposit base, investment income, and the fund's share of closed banks' assets in case of subrogation. The deposit insurance fund has been set up as a separate legal entity with the possibility to borrow in the event that claims exceed resources. The terms and conditions of obligations issued by the fund are to be determined by regulation of the BNB.

Transforming the State Savings Bank

159. The SSB—formerly the monopoly in household deposit taking and still the largest bank in terms of staff, branches, and clients—held about 30 percent of total deposits at the end of 1994, of which about half were invested in government securities and the other half in interbank deposits. The banking crisis of 1996 made the bulk of these interbank deposits non-performing, causing significant losses for the SSB. Since it could not take foreign exchange deposits, **the crisis significantly reduced the SSB's relative and absolute importance**: at end-March 1997, the SSB held only 13 percent of total deposits (Table 11). Since then, its share has risen to 18 percent. **More importantly the SSB has become very active in the market for household credits**: its loans to households rose rapidly from virtually nothing in June 1997 to leva 440 billion at end-September 1998. Most loans are very small, below leva 1 million and are collateralized by the wages of the main borrower and four signatories which the SSB has the right to garnish. In line with restrictions on its activities (see next paragraph), the SSB has **limited credits to small and medium-scale enterprises.**[5] Even so, by end-September 1998 the SSB's total loans had grown to almost 54 percent of its total assets—significantly above the sector average of 27 percent. Since October 1998, the expansion of credit to households has stopped.

160. **In April 1998, the law initiating the transformation of the State Savings Bank into a commercial bank became** effective. The SSB will be registered as a joint-stock company, fully owned by the state, with a capital of leva 70 billion. In August 1998, agreement was reached between the BNB and the SSB on restrictions on the SSB's activities until it has the capacity to conduct all normal commercial bank operations and its state guarantee on deposits is lifted.[6] For a transitional period which lasts until May 2000, lev deposits at the SSB will—as in the past—continue to benefit from a full government guarantee. The SSB has until the end of 1998 to comply with all prudential banking regulations. The transformation of the SSB is supported under an EU-PHARE project that will place foreign experts in key management roles over the next two years.

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[5]For the 1997 harvest, the SSB was forced to extend large credits to the agricultural sector guaranteed by the government.

[6]These restrictions include that the SSB will seek prior approval from the BNB for engagement in new activities; that it will not extend loans in foreign exchange; that the outstanding stock of loans extended to businesses will not exceed 80 percent of the SSB's capital by end-1998 and 100 percent by end-1999; and that large loans will be defined as loans exceeding 1 percent of the SSB's capital.

Table 11. Bulgaria: State Savings Bank Summary Indicators

	1996	1997 Mar.	1997 June	1997 Sep.	1997 Dec.	1998 Mar.	1998 June	1998 Sep.
	(In billions of leva)							
Total Assets	398.3	567.1	646.0	832.3	916.6	928.2	958.8	944.2
Government securities	209.5	370.6	415.6	359.1	332.7	345.0	272.9	264.4
BNB settlement accounts	27.9	36.3	135.9	156.4	79.5	87.0	138.9	72.5
Credits to commercial entities	9.2	2.5	1.8	103.0	134.2	118.8	82.2	60.7
Of which: Agriculture	0.0	0.0	0.0	0.0	102.2	83.0	4.9	20.2
Credits to households	1.9	1.3	1.2	58.4	154.9	229.4	339.2	439.9
Other assets	149.8	156.3	91.5	155.3	215.2	148.0	125.6	106.7
Total Liabilities	398.3	567.1	646.0	832.3	916.6	928.2	958.8	944.2
Households deposits	271.4	337.3	438.5	577.5	678.0	736.8	749.8	743.8
Savings and time	266.8	332.3	429.8	560.2	652.6	709.0	718.3	707.5
Demand and other	4.6	5.1	8.7	17.3	25.4	27.8	31.5	36.3
Enterprises deposits	11.1	13.5	26.5	38.2	55.3	59.7	55.3	52.0
Other liabilities	115.8	216.2	181.0	216.7	183.2	131.6	153.7	139.1
	(In percent)							
Market shares of banking system:								
Government securities	28.1	17.4	19.0	17.3	14.8	15.1	12.2	11.1
Credits to non-government	1.6	0.7	0.7	5.6	8.0	9.3	11.6	13.9
Credits to households	45.2	18.8	12.4	89.9	91.3	93.4	92.6	93.6
Deposits: Total	25.4	13.0	14.4	15.6	16.7	17.9	19.1	18.6
Deposits: Leva	54.8	48.2	45.7	40.2	37.3	42.1	44.1	43.2
Marginal cost of funds (end of period)	202.4	225.6	32.2	12.0	13.0	9.8	9.9	10.6
Capital adequacy: Total	18.5	20.4	24.2	9.4	6.8	23.1	21.8	19.4

Source: State Savings Bank

D. Current Health of the Banking System

161. Following completion of the process of closing insolvent banks, recapitalization of a number of large state banks that remained open (primarily through devaluation and capital gains on dollar denominated government bonds), institution of a CBA at the beginning of July,

and promulgation of a strengthened new banking law, confidence in the banking system returned in the second half of 1997. **Banks are now adequately capitalized, highly liquid, and complying with prudential standards** (summarized in Table 12), **except for some violations of regulations on open foreign exchange positions and individual large loan exposures, but they are facing the challenges of restructuring balance sheets containing high levels of problem loans, developing sustainable sources of earnings, and implementing cost reduction measures.**

Table 12. Bulgaria: Summary of Main Prudential Standards as of December 1998

Minimum capital	leva 10 billion
Capital adequacy ratio	10% at end-1998; 12% at end-1999
Tier 1 Capital/RAA 1/	6%
Large exposure: single party 2/	25% of own funds
Large exposure: aggregate 2/	8 times bank's own capital
Exposure to connected parties: aggregate	10% of capital
Equity in non-financial companies: single party	50% of capital
Equity in non-financial companies: aggregate	75% of capital
Open foreign exchange positions	30% of bank's capital per currency except deutsche mark; 60% of bank's capital for aggregate exposure to foreign currencies
Minimum required reserves	11% of deposit base

Source: Bulgarian National Bank.
1/ Risk adjusted assets, as defined as EC Directive 89/647.
2/ Large exposures defined as those which exceed 10 percent of bank capital.

162. **All banks have met the required increase to 10 billion leva in their minimum capital** (effective June), albeit 3 only after a delay of 2 months, **and are currently in compliance with the end-1998 floor on the capital to risk-based assets ratio (10 percent)** (Table 50). Banks as a whole have been able to increase their capital adequacy ratios since mid-1997 as a result of overall positive earnings as well as through shifts in their asset portfolios away from high risk-weighted assets towards low ones, mainly government securities.[7] Banks, especially large state-owned banks, tended to remain long in foreign

[7]A substantial portion of loan growth also consisted in loans to finance the wheat crop, which were guaranteed by the government, and therefore accorded a zero risk weight. Eight

(continued...)

currency throughout 1997, in part because of significant stocks of dollar-denominated Zunk bonds on which they realized substantial revaluation gains resulting from the huge depreciation of the lev in early 1997 and the significant increase in the market price of Zunk bonds.[8] A substantial portion of these valuation gains were offset by heavy loan loss provisioning, forced in part by more rigorous supervisory requirements. Even so, capital adequacy ratios improved and reached 32 percent as of end-September 1998, a sizeable increase from the 11 percent observed one year earlier. Given the prominent role of revaluation gains (in excess of provisioning), most of the increase was reflected in tier 2 capital.

163. **The system is highly liquid** with banks appearing to take a fairly cautious attitude toward the extension of new credits (Table 51). However, a considerable increase in lending, over a depressed base at the beginning of 1998 has occurred. Loans to the non-financial sector (net of provisions) have increased by almost 28 percent through end-September for an annualized rate of growth of almost 39 percent. Approximately 40 percent of the increase in credit has been in the portfolio of the SSB with the bulk of the latter lending being consumer credit or small business credit taking the form of consumer, i.e. personal, credit.

164. While growth of credit at this pace would clearly be a source of concern were they to continue in the current low inflation environment, **the financial sector would not be viable without a significant growth over the medium term in high quality lending** to develop a sustainable source of earnings **and cost reduction measures**. Indeed, the authorities are well aware that the capital improvement in the sector as a whole largely resulted from one-time revaluation gains made during 1997 which were capitalized in 1998 following the end of the financial year (Table 52). Bulgarian banks remain, in general, poorly structured and organized; burdened by excessive staff, branches and other overhead; possessed of inadequate risk management systems; and in need of significant investment in new information technology. Privatization to foreign strategic investors is expected to play a key role in dealing with these issues.

165. For the first time since the introduction of the currency board, **all banks are observing the aggregate limit on large loans in relation to capital**, with this measure of overall exposure concentration falling considerably and steadily. The higher year end capital reduced loan concentrations relative to capital, thus facilitating compliance with this

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[7](...continued)
commercial banks extended about leva 215 billion to finance the purchase of the 1997 wheat harvest. As international grain prices fell to 20 year lows over the period, traders sustained losses, market liquidity evaporated, and farmers were unwilling to sell grain from the subsequent harvest at low prices. The bulk of the credits have been repaid but as of the end of October, 5 banks were still owed approximately leva 40 billion. The government is expected to begin making payments on these arrears.

[8]Bulgarian regulations include with a 100 percent risk weight the net open forex position.

regulation. However, 16 banks are **out of compliance with the limit on credit exposure to single borrowers** (regulations 9) which is particularly troublesome in light of the difficulties having surfaced with certain large enterprises facing privatization/liquidation. This represents little improvement over the situation one year earlier when 17 banks were out of compliance. Regulation number 9, which regulates loan classification and provisioning treats exposures net of "highly liquid collateral". Among assets eligible for this type of collateral are those properties secured with a first mortgage (albeit at half its value). The problem is that such assets are very difficult to value in Bulgaria and can be considered liquid only in limited circumstances. The risk is that banks may be holding claims on enterprises with significant negative net worth that might be forced into liquidation or—if the balance sheet items were assessed at real market value—bankruptcy. In such cases banks could find themselves without adequate provisions if they are unable to sell the collateral at current valuations.

166. **Compliance with the regulation on foreign exchange open positions improved considerably in the past year**, but nine banks—down from 23—remain out of compliance. Given the wide open positions following the 1997 crisis, a transitional arrangement is in place which allows banks to achieve compliance gradually by end-1998. While all of the noncomplying banks had reduced their level of exposure during the second quarter of 1998 (with the exception of two branches of large well-reputed foreign banks), the situation did not improve during the third quarter. As of end-September, the same 9 banks out of compliance at end-June remained out of compliance and 6 had increased their exposure.

167. **Provisioning overall appears to be adequate, although there remain concerns about the quality of the underlying data reported to the BNB as well as the accuracy of banks' exposure classification**. The BNB has had to require reclassifications in a number of cases. Theoretical provisions while lower than actual provisions (for the system as a whole) at end-1997 have been somewhat below actual provisions during 1998 (Table 13).

Table 13. Bulgaria: Actual and Theoretical Provisions in the Banking Sector

	December 1997	March 1998	June 1998	September 1998
Loans (millions)	3,805,501	3,897,757	4,267,481	4,540,840
Standard (in percent)	78.8	80.7	83.3	84.9
Watch (in percent)	3.7	3.8	2.8	3.3
Substandard (in percent)	2.7	2.4	2.7	1.7
Doubtful (in percent)	2.0	1.8	0.6	0.5
Loss (in percent)	12.9	11.2	10.6	9.5
Provisions 1/ (Theoretical)	19.8	17.9	16.4	14.9
Provisions (Actual)	22.7	16.0	13.8	12.5

Source: BNB and staff calculations.
1/ Based on 4 percent for standard, 25 percent for watch, 50 percent for substandard, 75 percent for doubtful, and 100 percent for loss.

168. **Non-performing loans as a percent of total loans stand at 10 percent at end-September 1998 a reduction from approximately 15 percent at end-December 1997.** Loans rated as standard rose to almost 85 percent from slightly below 80 percent over the same time period (Table 53). Interpretation of these statistics must take into account the rapid rise in new exposures over the period and the fact that new exposures are less likely, on average, to be classified as non-performing than are older exposures. Consequently, such "positive" trends are likely to be observed whatever the underlying quality of the new credits vis-á-vis the old credits.

169. **The vulnerability of the banking system to external shocks was tested at the time of the Russian crisis in August 1998.** The crisis had mainly an indirect impact on the banking system, associated with the fall in the market value of bank holdings of Bulgarian government debt. Banks were quick to mark-to-market their holdings and made provisions to cover the decline in market value. As a result, the system's capital adequacy fell from 34 percent at end-June 1998 to 32 percent at end-September. Losses in income were estimated at leva 130 billion, leading to a quarterly loss of about leva 75 billion which roughly offset profits accumulated during the first half of 1998. However, the decline in the market value of Bulgarian debt was temporary and it is expected that banks will be able to reverse a sizeable portion of the charges to income taken in the third quarter. One bank had significant direct exposure to Russia and suffered significant losses. The authorities have withdrawn the bank's license and placed the bank in conservatorship.

E. Domestic Financial Markets

170. The development of **domestic financial markets** since the beginning of Bulgaria's transition was **strongly affected by repeated bouts of macroeconomic instability and associated foreign exchange crises, the deficit financing needs of the budget, the banking crisis of 1996, and the hesitant approach to structural reform.** While there were no operational breakdowns of financial markets during the period under review, the 1996/97 crisis severely diminished their economic significance. The crisis caused a dramatic shortening of the maturities of newly issued government securities; a substantial drop in the volumes in the interbank money and foreign exchange markets; and a switch from deposits to fully collateralized repos in the interbank market which ceased to operate altogether at the peak of the crisis. The successful macroeconomic stabilization program launched in April 1997 initiated the recovery of all of these markets. However, secondary market transactions in government securities have remained insignificant while lack of direction and progress in structural reform marginalized the role of the stock exchange, kept institutional and foreign investors away, and prevented the development of a market for corporate debt.

Government securities market

171. **Institutional arrangements** for the operation of the primary and secondary markets for government securities were put in place in the early nineties. Auctions are conducted by

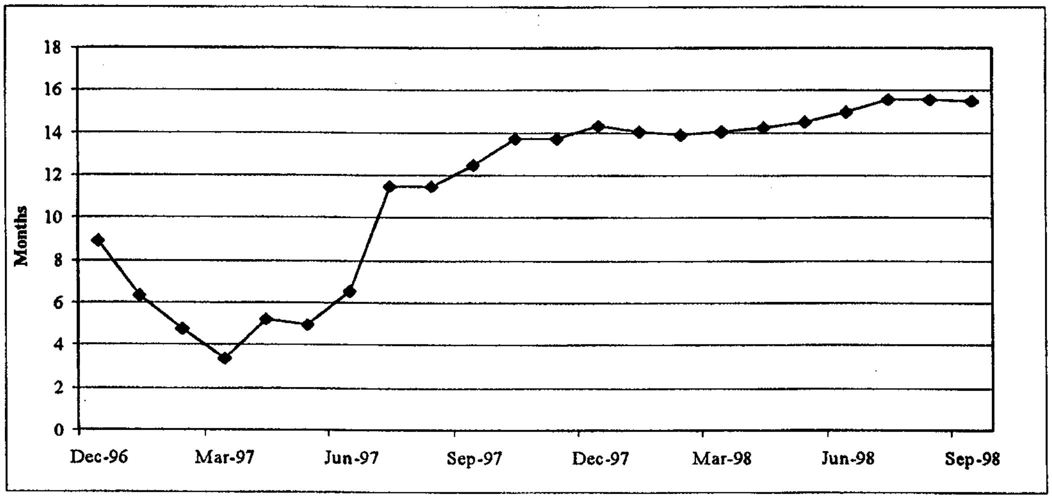
the BNB on behalf of the MoF. Starting from April 1996, a system of primary dealers was introduced to encourage further the development of the primary and secondary markets in terms of volumes, depth, transparency, and liquidity. Primary dealers are licensed for a period of three months and can be banks or non-bank financial institutions. Since the middle of 1997 auctions are held on a regular weekly basis for t-bills: every auction includes 3-month bills while 6-month and 12-month bills alternate. The auction calendar with the amounts on offer is announced for a period of three months ahead. In addition, occasional auctions of longer-maturity bonds are held.

172. **Since its inception in 1992, the primary securities market expanded rapidly reflecting the soaring credit needs of the government as the result of a widening budget deficit.** The share of the deficit financed directly in the market rose to 77 percent in 1994, with the residual financed directly by the BNB. In 1995, the BNB suspended the extension of direct credit to the government thus forcing the entire deficit to be financed in the market. However, the onset of the financial crisis of 1996 marked a reversal: banks' liquidity evaporated and market participants reluctance to participate in primary auctions drove up debt servicing costs and forced the budget to rely again on BNB credit. The further erosion of confidence led, inter alia, to a dramatic shrinking of the maturity of new issues of securities: in January 1997 7-day and 4-week t-bills had to be introduced and the average maturity of outstanding leva-denominated deficit financing securities fell from 8.9 months at the end-December 1996 to 3.4 months by end-March 1997 (Figure 12). Subsequently, the successful macroeconomic stabilization in the context of the adoption of the CBA restored confidence in the government: by June 1997 the shortest maturity of new issues was 3 months and by September 1998 the average maturity of outstanding deficit financing issues exceeded 15½ months. Under the CBA, the BNB no longer extends credit to the budget (other than onlending of Fund purchases).

173. **In 1995, the MoF began selling the so-called target issues to households at a yield slightly above the yield at primary auctions, but the volume of these issues has remained relatively insignificant**. Their share in total outstanding deficit financing debt fell from 3 percent at end-1995 to less than 1 percent during the first half of 1997 before surging to 5.6 percent at end-1997. Since then relatively low returns reduced interest and the outstanding stock fell by more than half by end-September 1998. Briefly, in late 1996, some of these issues were indexed to the cost of living to attract demand in the face of rising inflation.

174. **Secondary market transactions in government securities have been relatively unimportant, but domestic securities have been used actively as collateral for interbank transactions and Zunk bonds have recently gained importance in privatization deals.** The former development reflected the BNB's increasing resort to open market operations in 1995 and rising systemic risk during 1996 when lack of confidence induced banks to switch from uncollateralized interbank deposits and credits to collateralized repos. The latter became possible after the government lifted price restrictions on Zunk bonds in early 1997, increasing interest because of higher yields and the option of using these bonds at face value in privatization transactions. In early 1997, banks also traded Zunks to redistribute liquidity.

Figure 12. Bulgaria: Average Maturity of Domestic Debt Financing Securities
(December 1996-September 1998)



Source: Bulgarian National Bank.

Interbank money market

175. **Developments in the interbank money market were closely linked to those in the market of government securities and strongly affected by the banking crisis.** The very active interbank market during 1991-1995 fizzled with the emergence of bank insolvencies. In the middle of 1995 interbank deposits fell because of the forced conversion of SSB interbank claims on Economic Bank and Mineral Bank into long-term securities. In early 1996, deteriorating bank liquidity and the shaken confidence among banks triggered a downward trend in the use of interbank deposits (Figure 13a). Ten banks were unable to raise funds in the interbank market (up from 4 in 1995) and the spread of interbank yields over the basic interest rate rose from 3 to 3.5 percent in 1995 to 4.6 percent by May 1996 (Figure 13a). More than half of interbank deposits were frozen in banks that were put into conservatorship by the BNB, inflicting significant losses on several other banks, especially the SSB. Towards the end of 1996 when it became clear that no further bank closures were imminent, trade among banks resumed and yields on interbank deposits briefly dipped below the basic interest rate. However, doubts about the government's ability to service its domestic debt in early 1997 ground the interbank money market to a complete halt: only bilateral transactions between banks and the BNB took place. In preparations for the CBA, the BNB stopped open market operations on June 13, 1997.

176. **Financial stabilization following the introduction of the CBA fostered the reemergence of the interbank money market and the peg to the DM initiated a trend towards integration of Bulgaria's interbank market with European financial markets.** Initially, increased bank liquidity and uncertainties as to the implications of the new monetary regime for bank operations kept volumes relatively low. Banks held large amounts of unremunerated excess reserves on settlement accounts with the BNB and interbank yields fell to an all-time low (Figure 14b). However, as liquidity management improved banks began placing resources abroad. This trend was reinforced when DM positions were excluded from open foreign exchange position limitations, effective January 13, 1998, and further when, effective April 1, 1998, conditions for access to minimum required reserves were eased. Consequently, money market interest rates moved closer to rates prevailing in the international DM money market.

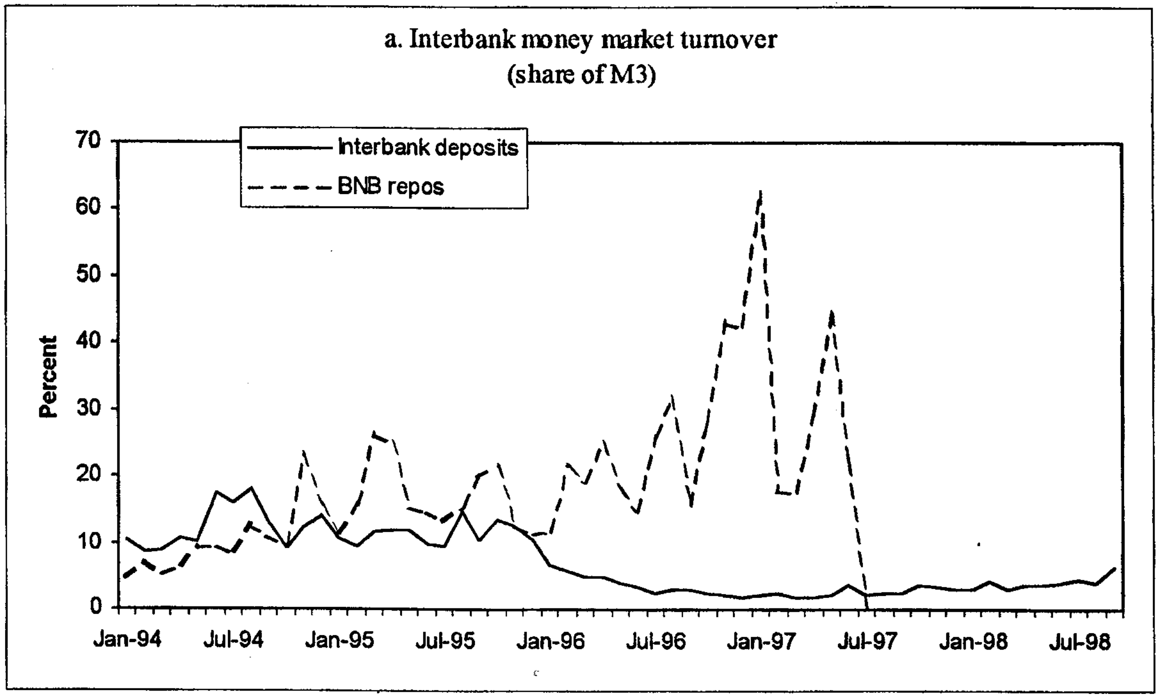
Foreign exchange market

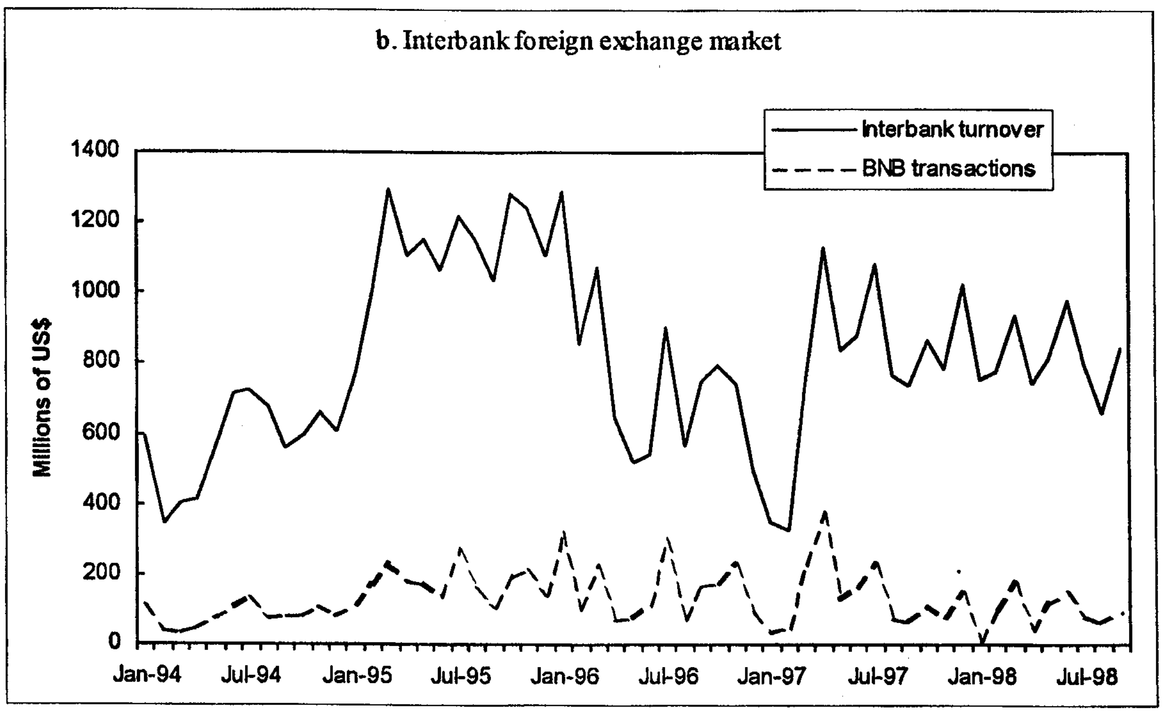
177. **Given the relatively open character of the Bulgarian economy, the large share of deposits held in foreign exchange, and anecdotal evidence on extensive holdings of foreign exchange cash by the broad public, the foreign exchange market plays an important role for the Bulgarian economy.** In addition to the formal interbank market, foreign exchange bureaus dominated the street scenes in all major cities prior to the adoption of the CBA and many banks had long-standing relationships with customers engaged in foreign trade. After soaring to record levels in 1995 when the economy grew moderately for the second year in a row, activity in the interbank foreign exchange market suffered a dramatic drop at the onset of the banking crisis: total volume fell by more than one third (Figure 13b). Following the implementation of the macroeconomic stabilization program and CBA in 1997, activity returned to pre-crisis levels and the BNB assumed a passive role. While the bulk of the transactions in the foreign exchange market are still in U.S. dollars, the peg to the DM has begun a gradual increase in the use of DM and other European currencies.

Stock market

178. **The Bulgarian Securities Exchange-Sofia (BSES)—now the only stock exchange in Bulgaria—is still embryonic but expected to gain in importance.** Following the consolidation in 1997 of several stock exchanges that proliferated in early 1990s, the BSES was established. It is segmented into official and free markets, with stringent listing requirements for the official market. While few companies are listed and market capitalization is small, it has facilitated the consolidation of ownership process that followed privatization, typical for transition economies. Its role in the economy is expected to gain importance with the second wave of privatization and rising investor confidence.

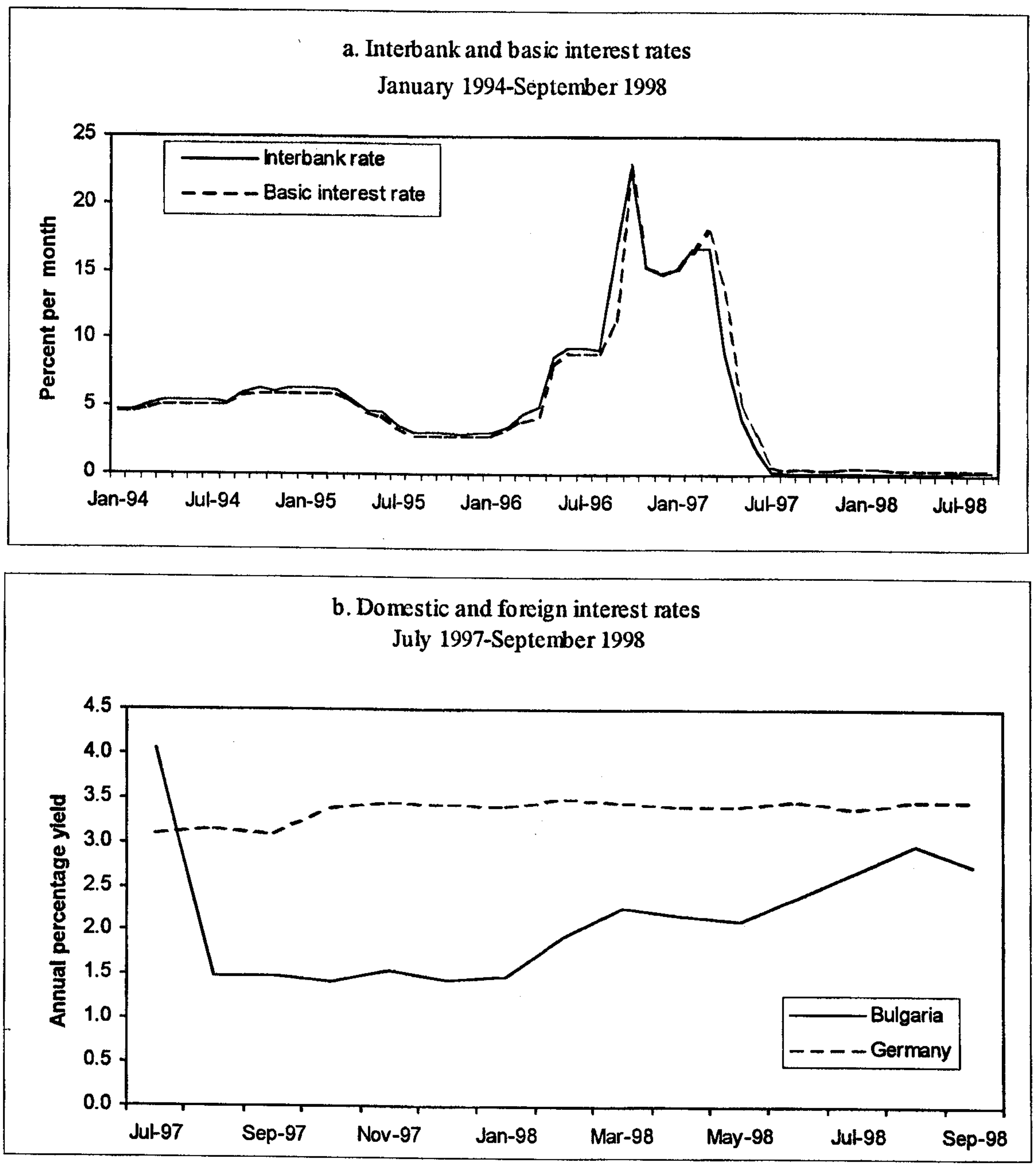
Figure 13. Bulgaria: Interbank Money and Foreign Exchange Markets
January 1994-September 1998





Source: Bulgarian National Bank.

Figure 14. Bulgaria: Money Market Interest Rates



Source: Bulgarian National Bank.

179. Soon after the first organized trading of securities started in November 1991 when the First Bulgarian Stock Exchange was officially registered **a proliferation of Stock exchanges began**. Four months later the Sofia stock exchange was established, followed a year later by the Danube Free stock exchange. In 1994, 20 stock exchanges and stock exchange subdivisions were operating, but with minor economic significance (Table 14).

Table 14. Bulgaria: Indicators of the Early Stock Markets

	Listings	Turnover Shares (1,000)	Market Value (Million leva)	Capitalization	BSE Index
1993	n.a.	169	60.1	n.a	n.a.
1994	16	166	116.6	3,451	113.6
1995	18	520	298.7	4,389	105.0
1996	12	32	4.7	2,847	77.6

Source: BSES.

180. **With the adoption of the law on securities, stock exchanges, and investment companies in July 1995**—the first serious attempt to regulate capital markets—**a process of consolidation began**. Five regional stock exchanges merged into the First Bulgarian Stock Exchange and its name was changed to Bulgarian Stock Exchange in (BSE) December 1995. It took another year, however, before two key market institutions were established: the securities and stock exchange commission (SSEC) and the central depository. The SSEC introduced the requirement that all listed stocks must have their prospectuses approved by the SSEC in order to trade on the BSE. Since no company complied, trading was effectively suspended on October 23, 1996. The economic and financial crisis of late 1996/early 1997 prevented any further development of Bulgaria's capital markets. In July 1997, the government decided to set up a national stock exchange and forced the Bulgarian Stock Exchange and the Sofia Stock Exchange to merge. As a result, the Bulgarian Stock Exchange-Sofia (BSES) started operation on October 21, 1997.

181. **The BSES consists of a tightly regulated official market and a less regulated free market**. The official market is divided into Segments A, B (Parallel), C (Provisional), and the bond market. The listing requirements get less stringent going from Segment A to Segment C, but all the companies in the official market are required to have prospectuses approved by the SSEC and to be registered with the Central Depository (Table 15). For the free market, the

requirements are limited to a prospectus and free negotiability of shares.[9] Every transaction in these markets has to be done through an investment intermediary that is a member of the BSES. As of October 1998, around 80 privatization funds and 80 brokers, and several foreign investors participated in the market. **Initially**, separate from these two markets, **block trading was also allowed within the BSES**. These transactions consisted of transfers of blocks of shares acquired in mass privatization among privatization funds and other participants, and formed the only significant trade in the first three months of the BSES. As of May 18, 1998 trades of this type have been prohibited, on the grounds that they do not allow a realistic price determination since the trades are negotiated and public information about the companies traded is not usually available.

Table 15. Bulgaria: Listing Requirements for Stock Exchange

	Segment A (Equity)	Segment B (Equity)	Segment C (Equity)	Bond market (Corporate bonds)
Years in business	5	3	1	3
Market capitalization (in leva)	2 billion	1 billion	500 million	100 million
Publicly traded share	25	10	10	25
Minimum number of shareholders	500	250	n.a.	n.a.
Minimum years of positive financial results	3	1	n.a.	n.a.
Dividend distributed in last three years	once	n.a.	n.a.	n.a.
Prospectus	yes	yes	yes	yes
Listed with central depository	yes	yes	yes	yes
All shares, bonds and other securities transferable without limitations	yes	yes	yes	yes

Source: BSES.

182. **So far trading on the BSES has remained limited and illiquid** (Table 16). Trade on the official market started on January 12, 1998 with the initial public offering of Elkabel, while trade on Segment C did not begin until June 22, 1998 when the Bulgarian-Russian Investment Bank was listed. As of October 12, 1998, two companies are listed in Segment A, none in Segment B, 9 companies in Segment C, and 979 companies in the free market. Although companies listed in the official market are larger than those in the free market, total capitalization in the official market is only 20 percent of the latter. There is currently no

[9]The prospectus requirement has been waived until end-1998.

trading in the bonds market, but corporate bonds are planned to be introduced to the market in 1999.

Table 16. Bulgarian Stock Exchange

		Official market						
		Segment A		Segment C		Free market		Block Trade
		Market Capital (Bn leva)	No.of traded shares (1,000)	Market Capital (Bn leva)	No.of traded shares (1,000)	Market Capital (Bn leva)	No.of traded shares (1,000)	
1997	Oct.					0.3		
	Nov.							3,394
	Dec.					0.2	6	4,377
1998	Jan.	102	97			634	18	2,182
	Feb.	90	51			1,104	899	3,922
	Mar.	99	107			1,211	668	518
	Apr.	94	92			1,781	1,060	354
	May	83	195		1	2,791	1,793	1,430
	June	70	80	68	5	2,593	2,454	
	July	74	19	130	183	2,218	1,257	
	Aug.	66	6	70	95	1,942	1,085	
	Sep.	71	23	123	161	1,565	877	

Source: BSES.

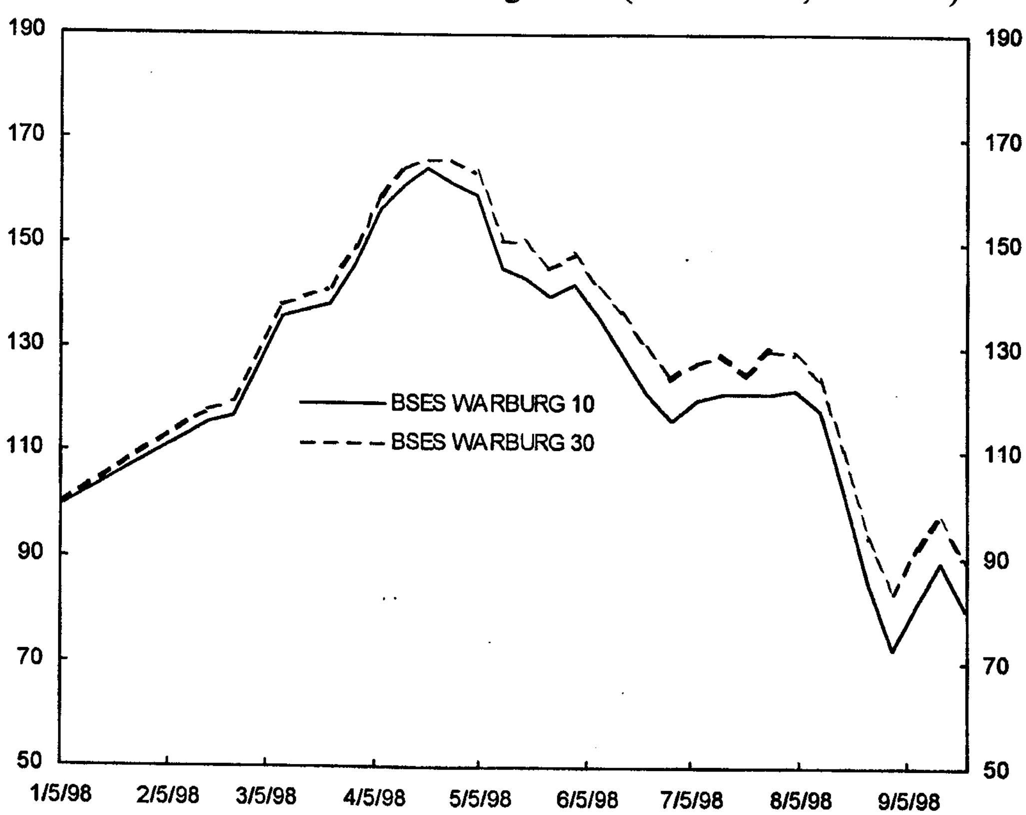
183. **Share values have been volatile during 1998.** They rose throughout the first four months of 1998, with the BSESW 10 increasing by more than 60 percent (Figure 15).[10] In May a long downward trend began. Most types of share baskets, including those that cover

[10]Although there are several indices that track the share values, the most widely followed ones are the BSES Warburg 10 and 30 (BSESW 10 and 30), which were created on December 31, 1997.

fertilizers, chemicals, metals, steel and tobacco, fell between 60 and 40 percent by October, while the pharmaceuticals and engineering baskets increased. In parallel, trading slowed down, with the number of shares traded in the free market in September falling to one third of the level attained in June.

184. **Prospects for the development of the BSES are favorable**. The market capitalization of the BSES is likely to increase with the second wave of mass privatization, as the number of listed companies rises. International and domestic investor interest should rebound following the emerging market crisis and improvements in transparency as a result of the adoption of better and clearer disclosure rules and rules to protect small investors. Still it will take time to improve corporate accounting standards and information disclosure and local managers will need to be educated to use the stock market effectively, including for raising capital. Bringing the laws closer to the requirements of the European legislation on capital markets is also likely to boost international investor confidence.

Figure 15. Bulgaria: Stock Exchange Index (December 31, 1997=100)



Source: Warburg Dillon Read.

VIII. External Sector Developments[1]

A. Overview

185. **During 1996–98, developments in the balance of payments were dominated by the impact of the 1996–97 financial crisis and the subsequent stabilization and recovery of the economy.** In addition, during 1998, the adverse repercussions of the Asian and Russian crises were increasingly felt. The **overall balance of payments position** strengthened markedly in **1995** (from a deficit of 4.3 percent of GDP in 1994 to a surplus of 2.6 percent of GDP), reflecting favorable terms of trade, improved competitiveness, and beneficial effects of a strengthening of the fiscal position, and short-term capital inflows (Table 54). The subsequent slide into financial crisis during **1996** manifested itself in a contraction in trade, substantial capital flight from the banking system, and an associated deterioration in the balance of payments to an overall deficit of 8.5 percent of GDP. The rapidly worsening balance of payments position was arrested in **1997** when the economy ran up against a binding foreign exchange constraint that was reflected in a severe compression of imports early in the year and a rise in exports as enterprises sought to generate foreign exchange. A stabilization program centered on the mid-year introduction of the CBA and a major privatization effort supported a resumption of capital inflows including substantial inward direct investment, and the overall balance of payments improved sharply to reach a surplus of 10.7 percent of GDP by end-year. Preliminary data for **1998** point to the overall balance of payments surplus declining to a more normal level of around 1.2 percent of GDP and the current account shifting from a surplus of 4.2 percent of GDP in 1997 (a testament to the depth of the crisis) to a deficit of around 1 percent of GDP in 1998. A downturn in world commodity prices and demand exacerbated financial weaknesses in traditional export sectors while the real exchange rate appreciation that took place over 1997–98 also weakened export profitability and stimulated demand for imports. In addition, the capital account surplus is estimated to have declined from 6.5 percent of GDP in 1997 to 1.9 percent of GDP in 1998. While inflows of official finance increased significantly, both a loss of domestic momentum with respect to privatization and the loss of international investor confidence in emerging markets led to lower inflows of direct and portfolio investment.

186. **Bulgaria's export performance has been considerably weaker than that of other central and eastern European countries (CEECs) over 1994–97, with the result that Bulgaria has lost ground in key export markets.** Bulgaria's relatively slow pace of export growth is not adequately explained by economy-wide developments in competitiveness. Part of the explanation is likely to lie in Bulgaria's delayed start in the transition and in country-specific factors such as a relatively less favorable initial position (in the form of a heavily commodity-oriented economic structure) and a relatively greater adverse impact from the Yugoslav crisis. The effects of delayed restructuring are reflected in wide divergences

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[1]This section primarily focusses on developments during 1995–98. For a more detailed account of external sector developments during the early years of the transition, see SM/95/306.

between the productivity performance and wage behavior of traditional export sectors and those of emerging export sectors. The marked concentration in traditional sectors of a combination of productivity losses, rising real wages, and stagnation or contraction of exports in 1998 suggests a pattern of failure to adjust by these sectors. An important implication is that Bulgaria's export performance is likely to remain weak until the processes of privatization and restructuring take place in earnest in these sectors.

187. **The magnitude of the turnaround in the overall balance of payments position in 1997—by almost 20 percentage points of GDP—tends to mask the extent of Bulgaria's still significant external vulnerability.** While gross official reserves have recovered from the equivalent of less than one month of imports of goods and non-factor services at end-March 1997 to reach almost US$3 billion, or about six months of imports, by end 1998, the external debt and debt service ratios (at around 80 percent and 9 percent of GDP, respectively, in 1998) remain higher than those of most other transition economies. Nonetheless, Bulgaria made important progress over 1997–98 in addressing long-standing issues with creditors, and thereby facilitated a strengthening in financial relations with a number of important partners.

188. **Multilateral, regional, and bilateral trade agreements were the principal vehicles for trade liberalization during 1995–98.** Up until mid-1997 trade policies aimed at sheltering certain sectors and at maintaining an active role for the government in influencing trade flows. Import tariff protection remained moderately high overall during this period and heavily skewed toward protection of the agricultural sector, but an import surcharge in effect since mid-1996 was abolished at end-1998, 18 months ahead of schedule. From mid-1997, the emphasis of trade policies shifted toward a more liberal and stable trade regime.

B. Current Account Developments

Current account

189. **With the exception of 1997 when the financial crisis led to a sizable current account surplus, the external current account was broadly stable between 1994 and 1998, in contrast to the early years of the transition when Bulgaria ran large external deficits.** The current account balance moved from a deficit of 1.7 percent of GDP in **1994** to close to balance in **1995** and to a surplus of 0.8 percent of GDP in **1996** (Table 55). The banking and foreign exchange crisis resulted in a sharp rise in domestic savings in **1997** with the current account reaching a surplus of 4.2 percent of GDP. This outcome is expected to have been more than reversed in **1998**, when the current account is estimated to have shifted to a deficit of about 1 percent of GDP, a level within the range of current account outcomes during 1994–96.

190. **In large part, the improvement in the current account performance during 1994–98 stemmed from surpluses on the trade account.** The shift to a trade surplus of almost 1 percent of GDP in **1995** was underpinned by an improvement in world prices for Bulgaria's commodity exports and a substantial depreciation in the real exchange rate during

1994 (by some 40 percent on a unit labor cost basis). The strengthening of the trade surplus to 1.9 percent of GDP **in 1996** reflected a larger contraction in imports than in exports as the financial crisis emerged. While both imports and exports fell sharply in 1996 with the onset of the financial crisis, the decline in domestic demand had a greater impact on imports than did the credit crunch and associated financial difficulties in the enterprise sector on exports. The **trade surplus** strengthened to almost 4 percent of GDP in **1997**, as imports fell and exports rose in response to the severe contraction in domestic demand. These developments were particularly marked in the first half of 1997 as the lack of foreign exchange became a binding constraint on the ability to import and as producers sought to diversify sales and maintain cash flow. While imports began to strengthen again in the second half of the year, the level of imports for the year as a whole never recovered from the collapse in the first quarter.

191. **Preliminary data for 1998 point to the trade account declining by some 6 percentage points of GDP to a deficit of about 2 percent of GDP.** Import volumes recovered rapidly from their compressed levels of 1996–97, reflecting the recovery of economic activity and incomes and the rebound of the real effective exchange rate over 1997–98. Exports were adversely affected by the downturn in world commodity prices, weakening partner demand, and some impact on competitiveness from both real currency appreciation and continued weak financial discipline in certain traditional export sectors.

192. **While the current account balance averaged a surplus of about 0.5 percent of GDP over 1994–98, the non-interest current account averaged a surplus of almost 4 percent of GDP over the same period.** The **services account** was in deficit throughout this period reflecting Bulgaria's large external interest burden. In 1998, the services account improved over 1997, reflecting lower net interest payments and higher net travel receipts. **Net transfer** income averaged some 1.7 percent of GDP during 1994–98, a significantly higher level than in earlier years, and contributed to the improvement in the current account during this period. A marked increase in **unrequited transfer receipts** in 1996–97 is believed to have reflected a rise in both foreign currency savings held outside the banking system and foreign currency earnings from informal economic activity. In 1998, net transfer income is expected to decline as unrequited transfers return to more normal levels.

Exports[2]

193. **Bulgaria's export performance was decidedly mixed during 1995–98.** Exports (which remain around 50 percent commodity-based) grew by only around 11 percent in dollar terms between 1994 and 1998, with staff estimates indicating that **export volumes** increased by 15 percent while **export prices** fell by 4 percent (Table 56). Despite the marked improvement in export volume growth over the 2 percent decline during 1993–94, **partner demand** in Bulgaria's export markets also grew more rapidly over 1995–98 than over

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[2]See also section VIII.C below for a comparison of Bulgaria's export performance and competitiveness with other selected central and eastern European economies and for an analysis of the limited information available on sectoral competitiveness in Bulgaria.

1993–94. As a result, Bulgaria is estimated to have lost **market share** of some 13 percent, during both 1993–94 and 1995–98. The largest growth in export volumes (25 percent) took place in 1995—a year of exceptionally strong demand growth (11 percent) in Bulgaria's main trading partners and a year following a sharp depreciation of the real effective exchange rate in 1994 (Table 57). Export volumes are estimated to have grown by considerably less (some 3 percent) over the 1997–98 period, despite the more stable domestic policy environment and continued—albeit slower—growth (of some 12 percent in cumulative terms) in foreign demand. In 1997, the volume of exports rose by almost 6 percent, with the majority of this growth taking place in the first half of the year during the peak of the financial crisis and reflecting the scramble for foreign exchange early in the year as capital flowed out of the country, the exchange rate plummeted and official reserves fell. In contrast, preliminary estimates indicate that export volumes are likely to have fallen by around 3 percent in 1998.

194. **Strong export performance by non-traditional sectors during 1995–98, together with the downturn in world commodity prices, led to a more diversified export base,** but the pace of growth in emerging export sectors slowed markedly in 1997–98. Exports by sectors such as clothing and footwear, pharmaceuticals, wood products, oils and perfumes, cereals, zinc, rubber, and optical instruments expanded rapidly in dollar terms over 1995–98 (Table 58). At the same time, sharp declines in world prices have been an important factor driving down the shares in exports of refined fuels, steel, copper, fertilizers, and chemicals. As a result, the composition of exports shifted away from traditional commodity-based sectors during 1995–98, and Bulgaria's export base is now more diversified than it was in 1994, with the number of product groups that contribute more than 1 percent of total exports growing from around 19 in 1994 to around 23 in 1998. While emerging sectors increasingly led export growth over 1995–98, the pace of growth in these sectors slowed notably over 1997–98, explaining part of the weakness apparent in aggregate export performance over this period. While demand in foreign markets slackened during 1997–98, the slowdown in export growth in these sectors may also reflect some weakening in competitiveness following the sizable real effective exchange rate appreciation over the period.

195. **The direction of exports has steadily shifted toward developed countries, which now account for around 63 percent of total exports compared to 46 percent in 1994 (Table 59).** In 1994, Russia was Bulgaria's most important individual export market, accounting for 12 percent of exports, but Italy and Germany have now become the most important trading partners, accounting for 13 percent and 10 percent of exports, respectively. The share of exports to European Union (EU) countries as a group has risen from 35 percent in 1994 to more than 50 percent in 1998, while that of CEFTA member countries has risen from 4 percent to 5 percent.

Imports

196. **Despite the contraction in economic activity, imports grew rapidly during 1995–98.** Imports expanded by around 16 percent in dollar terms between 1994 and 1998, with staff estimates indicating that **import volumes** increased by almost 23 percent, while

import prices fell by 5 percent (Table 56). Like exports, to which a large proportion of imports are closely linked, the fastest growth in import volumes (25 percent) was in 1995. During the crisis-induced slump in both economic activity and the exchange rate in 1996–97, imports volumes fell by some 14 percent. From mid-1997 through 1998, imports began to recover this ground, reflecting both the rebound in domestic demand and real currency appreciation.

197. **Imports of intermediate products increased and those of capital goods fell in relation to other imports during 1995–97, while in 1998 the composition of imports was affected by both the sharp decline in world fuel prices and strong volume growth in non-energy imports.** Reflecting the close linkage between exports and **intermediate imports** such as ores, textiles, chemicals, plastics, and rubber, the largest increase in imports of these products took place in 1995 when the volume of **exports** expanded rapidly (Tables 60 and 61). Following a crisis-induced decline in 1996–early 1997, the pace of volume growth in **non-energy imports** is estimated to have strengthened considerably in 1998. The expansion in the shares of **consumer and capital imports** in 1998 reflected the sharply lower value of fuel imports in the wake of falling **world fuel prices**, but also a rebound from the compressed levels to which these imports fell during the financial crisis in 1996–97 and, in the case of consumer imports, the rapid expansion in **consumer credit** that took place from the second half of 1997 through late 1998.

198. **The shift toward developed country trading partners has been less rapid in the case of imports than exports,** although almost 55 percent of imports are now sourced in these countries compared to 45 percent in 1994 (Table 59). In 1994, Russia and Germany were Bulgaria's most important import markets, accounting for 26 percent and 13 percent of imports respectively, and they remain the most important in 1998, providing some 21 percent and 13 percent of imports, respectively. The share of imports originating in the EU has risen from 37 percent in 1994 to 45 percent in 1998, while the share of imports originating in CEFTA member countries has remained unchanged at 5 percent.

Tourism[3]

199. **Tourism began to recover from major shocks to the economy during 1996 and early 1997 and to Bulgaria's image as a holiday destination, but the Russian crisis in 1998 was a setback for the travel industry (Table 62).** Total visitor numbers peaked at almost 3.9 million in 1994 with a massive influx of visitors from the Baltics, Russia and other former soviet countries (BRO) as opportunities for travel by BRO residents to affordable and customary destinations such as Bulgaria improved. Visitor numbers fell by 11 percent in 1995 reflecting weaker economic conditions in the BRO countries, Romania, and Greece, and by a further 20 percent in 1996 as the domestic financial crisis led to a collapse in visitors from virtually all major markets. The stabilization of financial policies helped to support growth of

[3]While the purpose of the majority of visitors to Bulgaria is tourism, the developments and data discussed in this section relate to inward travel for both tourism and business purposes.

almost 7 percent in visitor numbers in 1997 despite a further sharp fall in visitors from the former Yugoslavia, but the total (2.98 million) has yet to climb back above the three million visitors per year level that Bulgaria regularly exceeded during 1993–95. Preliminary data for 1998 indicate that visitor numbers for the year as a whole are likely to be down on 1997, mostly as a result of the economic crisis in Russia which was reflected in a sharp reduction in visitors from that country.

200. **The composition of Bulgaria's main tourism markets shifted during 1995–98.** The share of visitors from central and eastern European markets fell from more than 70 percent in 1994 to 53 percent in 1997, reflecting a collapse in visitors from the former Yugoslavia (which traditionally provided some 40–50 percent of total visitors) in 1996–97 and sharp declines in the number of visitors from Romania in 1995–96. Over the same period, the share of visitors from Bulgaria's most important western European markets (Germany, Greece, the United Kingdom and Scandinavia) grew from less than 13 percent to almost 18 percent. In 1998, there were signs both of rapid growth in travel from neighboring countries such as Greece, Macedonia, and Romania as regional economic integration deepened, and continuing penetration by Bulgaria of higher-income markets such as the United Kingdom.

201. **Despite low visitor numbers, travel earnings grew during 1995–98, reflecting growth in average expenditure per visitor. Gross travel earnings** averaged 3.8 percent of GDP annually during 1995–98 compared to 3.3 percent of GDP over 1993–94, despite the fact that visitor numbers over the period were almost 15 percent lower on average.[4] While the level of **average expenditure per visitor** remained comparatively low (reflecting Bulgaria's market position as a high volume, inexpensive, short-stay destination), average expenditure per visitor is estimated to have grown from some US$95 per visit during 1993–94 to US$140 per visit during 1995–98, probably as a result of the rising share of visitors from western European markets over the period.

C. Comparative Export Performance and Developments in Competitiveness

202. **Bulgaria's export performance has been weak in recent years and much of the explanation is likely to lie in the slow pace of transformation in Bulgaria's commodity-intensive industrial base.** The slow pace of export growth in Bulgaria relative to other CEECs over 1994–97 is not adequately explained by economy-wide developments in macroeconomic variables such as the real effective exchange rate, wages, productivity or unit labor costs. Much of the explanation is likely to lie in the slow pace of restructuring and transition, together with both a relatively greater adverse impact from the Yugoslav crisis and a relatively greater geographic distance from major western European centers than some other CEECs. The importance of structural impediments is evident in the relatively less favorable economic structure (weighted towards commodity-based heavy industries) with which Bulgaria was endowed by the communist era and in the wide divergences between the

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[4]Net travel earnings average 1.9 percent of GDP during 1995–98 and 0.8 percent of GDP over 1993–94.

productivity performance and wage behavior of these traditionally important export sectors and those of emerging export sectors. The marked concentration in traditional sectors of a combination of productivity losses, rising real wages, and stagnation or contraction of exports in 1998 in part reflects the failure to adjust by these sectors. An important implication is that Bulgaria's export performance is likely to remain weak until the processes of privatization and restructuring of enterprises, labor retrenchment and wage discipline, and re-orientation of products and markets take place in these sectors.

Comparative export performance

203. **Bulgaria's export performance was weak compared to that of other CEECs between 1994 and 1997 (Table 63).**[5] **Exports in Deutsche mark (DM) terms** grew by around 40 percent, a significantly slower rate than achieved by Hungary (154 percent) and Poland (123 percent) in particular, but also slower than that achieved by the Czech Republic (64 percent), Latvia (74 percent), and Romania (80 percent). Moreover, Bulgaria's penetration of key regional export markets was sluggish relative to this group, with the growth of **exports to the EU** (86 percent) slower than each of these countries, with the exception of Poland (67 percent). Export performance within the central European region was also relatively weak, with Bulgaria's **exports to CEFTA** members growing faster only than those of Latvia (70 percent versus 21 percent) and, even in this case, Latvia out-performed Bulgaria in this market during 1996–97.

204. **As a result, Bulgaria lost ground to other CEECs in terms of export market share.** Its share of exports in EU imports increased by only 23 percent between 1993 and 1997 (from 0.13 percent to 0.16 percent), a pace of growth that was exceeded by each of these countries with the exception of Poland. During the same period, Latvia's strong export performance resulted in its share in EU imports almost catching up with that of Bulgaria's. While Bulgaria's **share of EU exports in total exports** rose from 29 percent to 43 percent in 1997, it is notable that Bulgaria's exports were less oriented toward the EU market over this period than exports of the rest of this group; with the exception of Poland, more than half of all exports were destined for the EU.

Comparative economy-wide competitiveness indicators

205. **Appreciation in the real exchange rate does not appear to be a key explanation for Bulgaria's poor relative export performance during 1994–97 (Table 64).** The real effective exchange rate appreciated by some 7 percent on a consumer price basis between 1993 and 1997, a significantly slower rate than the 21–22 percent experienced by the Czech Republic, Latvia and Poland. On a unit labor cost basis, Bulgaria's real effective exchange rate is estimated to have depreciated significantly during this period. The significant real exchange

[5]Given the well-known limitations on the quality of economic data in most CEECs, the comparative trends discussed in this section and the following section should be interpreted with an appropriate degree of caution.

rate appreciation that has taken place during 1997–98—around 40 percent on both a consumer price and unit labor cost basis—in part represents a rebound from an initially over-depreciated rate in early 1997, but the further appreciation during 1998 is likely to have had some adverse impact on export profitability.

206. **Similarly, economy-wide growth in wage costs does not explain Bulgaria's relative export performance over this period.** Average wages fell in DM terms by some 9 percent between 1993 and 1997, while wages in the Czech Republic and Poland grew by 68–78 percent and those in Latvia grew by around 230 percent. In real terms, wages in Bulgaria fell by some 37 percent over this period, while those of the other CEECs in this group rose or, in the case of Hungary and Romania, fell by considerably less.[6] Moreover, a recent cross-country study found that wages in Bulgaria remain well below an estimate of their long-term equilibrium level.[7]

207. **Neither movements in labor productivity nor unit labor costs appear to offer an explanation for Bulgaria's relative export performance. Labor productivity** growth in Bulgaria (45 percent) was broadly comparable on an economy-wide basis to that in these other CEECs between 1993 and 1997. **Unit labor costs** are estimated to have fallen by 37 percent on an economy-wide basis over this period, more rapidly than those of the other CEECs in this group.

Sectoral competitiveness in Bulgaria

208. **On the basis of the limited data available, developments in competitiveness indicators varied widely across sectors in 1998.**[8] In traditional export sectors, productivity performance and wage behavior diverged, while in emerging export sectors, productivity performance and wage behavior were substantially more supportive of maintaining competitiveness and these sectors led export growth in 1998. Clearly, the cyclical downturn in world commodity markets is likely to explain a significant part of these differences in sectoral performance, as are one-time factors—such as the partial shutdown of production at the only refinery for much of the year in order to effect repairs. However, these divergences in economic performance in 1998 are also likely to be indicative of deeply rooted differences in wage and productivity behavior across sectors in recent years and to provide part of the explanation for Bulgaria's poor export performance.

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[6]Average monthly wages in domestic currencies deflated by the respective domestic CPI.

[7]See Krajnyák, K. and J. Zettelmeyer, Competitiveness in Transition Economies: What Scope for Real Appreciation?, (Staff Papers, Vol. 45 (1998), pp. 309–362).

[8]Given the limitations in the quality of Bulgaria's sectoral economic data (available for 1997 and 1998 only), caution should be exercised in interpreting the trends discussed in this section.

209. **Traditional export sectors experienced both productivity losses and real wage growth in excess of productivity performance in 1998 (Table 65).** An indicator of **productivity** in export production is estimated to have fallen in traditional sectors (food, beverages, tobacco, mineral fuels, machinery, chemicals, metals, transport and electrical equipment) with the exception of the metals sector.[9] **Real wages** in these important sectors (which accounted for almost 75 percent of exports in 1997–98) either grew by up to 16 percent (the machinery sector) or fell by up to 7 percent (the chemicals sector), but in virtually all of these sectors real wage movements in 1998 diverged from movements in productivity. During the same period, the **volume of exports** by these sectors is estimated to have either contracted (transport and electrical equipment) or remained stable (the machinery and metals sectors).

210. **In contrast, emerging export sectors both increased productivity in 1998 and constrained real wage growth well within the improvement in productivity.** Export **productivity** is estimated to have increased significantly in 1998 in the textiles and apparel, agriculture, wood products, rubber and plastics sectors. **Real wages** in these emerging export sectors (which accounted for some 23 percent of exports in 1997–98) either fell by up to 12 percent (the wood products sector) or grew in the case of the agricultural sector (by some 20 percent) but, in each of these sectors, real wage movements were substantially smaller than the gains made in productivity. During the same period, the **volume of exports** by these sectors rose by between 26 percent (the rubber and plastics sector) and 29 percent (textiles and apparel).

D. Capital Account Developments and External Debt[10]

211. **Movements in the capital account balance during 1995–98 closely reflected domestic policy developments.** Weak financial policies in 1996 and early 1997 were associated with both a withdrawal of official financial support and outflows of short-term capital that reflected a loss of confidence domestically. The sustained reform effort of 1997–98 was reflected in a resumption of official financing, reflows of short-term capital and, prior to the international financial crisis and the slowdown in privatization momentum, sizable inward private investment. While **foreign investment** flows into Bulgaria remain small relative to those into a number of other CEECs, they have grown over 1997–98 compared to the early years of the transition, mainly as a result of increased privatization. At end-1998,

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[9]Due to the lack of statistics on aggregate production volumes by sector, the only available indicator of productivity on a sectoral basis is estimated export output produced per employee. The use of export production may bias these productivity estimates. This bias will be small to the extent that exports represent a large share of total production of the sector. Using this indicator to compare outcomes over a short period (between 1997 and 1998) rather than over a long time horizon (when shifts in production between domestic and export markets might be expected to play a significant role) would also lessen any bias.

[10]See also chapter IV, section E above for a discussion of public debt and economic growth.

Bulgaria's relatively high **external debt and debt service burden** remained broadly unchanged from the level in 1995 and continued to comprise predominantly medium- and long-term public debt.

Capital account

212. **With the exception of the 1996 and 1997 when capital outflows and direct investment inflows, respectively, were unusually high, capital account surpluses of about 2 percent of GDP were the norm over 1994–98.** In **1995**, a short-lived tightening in domestic financial policies was associated with a return to positive net flows of short-term capital as savings held outside the banking system returned. This helped to offset a larger deficit on medium- and long-term financial capital than in 1994, when high inflows reflected part of the international effort surrounding Bulgaria's Paris Club rescheduling and London Club agreement, and contributed to a capital account surplus of 2.8 percent of GDP (Table 66). The banking and foreign exchange crisis in **1996** resulted in massive outflows of short-term capital (amounting to almost 10 percent of GDP) as residents withdrew savings from the banking system, and in a capital account deficit of some 9.4 percent of GDP. In **1997**, substantial inflows of foreign direct investment were associated with the government's successful push forward with privatization. Together with the return of some short-term flight capital, privatization receipts underpinned a capital account surplus of 6.5 percent of GDP. In **1998**, the capital account is estimated to have returned to a surplus of some 2 percent of GDP. Sizable inflows of official financial support in 1998 helped to offset the adverse effects on inward investment of both international investors' loss of confidence in emerging financial markets and some loss of privatization momentum domestically, as well as the impact of the winding down of repayments by Russia of short term trade credits extended by Bulgaria in the context of the now expired Yamburg agreement.

Foreign investment

213. **Both direct and portfolio investment flows have grown, particularly during 1997–98.** Inward direct investment rose from a level averaging some US$100 million (about 1 percent of GDP) per year during 1994–96 to a level of more than US$500 million (5 percent of GDP) in 1997 (Table 67). However, the rapid pace of privatization achieved in 1997 was not sustained in 1998. Inward direct investment fell to US$155 million during January–September 1998 (some 1.5 percent of GDP on an annual basis), nonetheless a higher level than was achieved in 1994–96. Inward **portfolio investment** was negative in 1994–96, but became positive and significant in 1997, reaching almost US$200 million during January–September (about 2 percent of GDP on an annual basis) before the full impact of the crisis in emerging markets became apparent. During the remainder of 1997 inward portfolio investment declined, resulting in a total of a little less than US$150 million (1.2 percent of GDP) for the year as a whole. The decline was concentrated in lev-denominated government securities and Zunk bonds, while equity investment rose from zero in the first three quarters of the year to over US$50 million by end 1997 reflecting the start of trading on the unified stock exchange in October. In 1998, adverse conditions in international financial markets were

reflected in foreign investors selling off some US$128 million in Bulgarian securities by end-September. Again however, while the Zunk and lev-denominated government securities markets were negatively affected, inward equity investment continued at a modest rate.

214. **Privatization was the main factor driving direct investment inflows during 1995–98, while industrial enterprises were the prime investment target and EU-based investors the principal source of direct investment. Privatization** sales accounted for two thirds of all inward direct investment during 1995–98 and an even higher proportion during 1997–98. It is notable that **direct purchases** (i.e. purchases unrelated to privatization deals) by foreign investors dried up completely in 1998, probably mostly a result of increased uncertainty surrounding the global economic climate but perhaps also a reflection of ongoing uncertainty during the year regarding the taxation regime applicable to foreign investment. Industrial, trade, and financial enterprises attracted the most foreign investment over 1995–98, with the **industrial sector** alone receiving over one half of all inward foreign investment (Table 68). Belgium, Germany, and the United States provided the highest proportions of inward investment during 1995-98 (around 18 percent, 10 percent and 9 percent, respectively), while **EU-based investors** in total accounted for around two thirds of all foreign investment inflows.

215. **Reflecting Bulgaria's delayed start to financial stabilization and economic reform, direct investment was slower over 1993–97 than in a number of other CEECs. Estonia, Hungary** and **Latvia** each attracted substantially higher flows of inward foreign direct investment relative to GDP (41 percent, 36 percent, and 28 percent, respectively) than Bulgaria (9 percent) over this period, while the **Czech Republic** also achieved a faster rate of inward foreign investment (14 percent of GDP) (Table 69). **Poland** and **Romania**, although receiving somewhat smaller flows of inward direct investment (some 7 percent and 6 percent of GDP, respectively) than Bulgaria, each has a substantially larger domestic economic base from which to generate investment resources. The success achieved by Bulgaria with privatization and associated foreign investment in 1997 contributed more than one half of the foreign direct investment flows received during 1993–97 and represented a significant 'catch-up' to the CEECs in this group. From a comparative perspective, the reduced inflows of foreign investment in 1998 represented a setback.

External debt and debt service

216. **Bulgaria's relatively high external debt and debt service burden (78 percent and 9 percent of GDP, respectively) remained broadly unchanged in 1998 from the level in 1995 (Tables 70 and 71).** During this period, the proportion of medium-and long-term debt outstanding to **official creditors** rose marginally (from 31 percent of GDP in 1995 to an estimated 34 percent) relative to that to **private creditors** (which declined from 45 percent of GDP to an estimated 42 percent). This was mirrored in a small increase in the share of outstanding **public external debt** which rose from almost 90 percent of total external debt in 1995 to an estimated 94 percent in 1998. Over 1996–98 the **currency composition of**

outstanding external debt was broadly stable, with around 70 percent of all debt continuing to be denominated in dollars (Table 72). At end-September 1998, the **average maturity** of outstanding external debt stood at almost 11.7 years (Table 73).

217. **Bulgaria's access to private finance remained extremely limited over 1995–98 and official multilateral creditors were effectively the only source of significant new financing flows.** The **Fund** was the largest source of official finance in gross terms, with Bulgaria making purchases totaling some US$910 million over 1995–98. The **World Bank** disbursed some US$375 million (US$210 million in balance of payments support and US$165 million in project finance) over the same period, while the **EU** provided around US$343 million in balance of payments support and the **EIB and EBRD** disbursed some US$230 million in project finance. With the exception of the Fund (which made over half of its total disbursements during the period in 1997), the largest flows from these creditors took place in 1998. Despite these disbursements, the stock of debt outstanding to these official multilateral creditors rose only modestly (from around US$2.27 billion in total at end-1994 to around US$2.49 billion at end-September 1998) reflecting the fact that significant repayments fell due over the period, principally to the Fund and to the EU.

218. **Bulgaria made progress during 1995–98 (and particularly in 1998) toward settlement of a number of long-standing debt issues.** The outstanding balances on a number of former clearing accounts were settled and the accounts closed (Table 74). In the case of the balance owed to the former GDR, an agreement was reached in 1998 between Bulgaria and Germany to restructure this debt and, as a result, an outstanding bilateral agreement with Germany related to Bulgaria's 1994 Paris Club rescheduling was able to be signed. Disputes with Spain and Italy related to debts of the former Economic and Mineral Banks were resolved during 1998 in the case of Spain and significantly advanced in the case of Italy. The progress achieved in respect of these disputes involving Germany, Spain, and Italy improved Bulgaria's financial relations with the EU and facilitated the disbursement in 1998 of EU balance of payments support as discussed above. An obligation that had been in arrears to the National Bank of Poland for some years was restructured over a 12 year repayment term by mutual agreement in 1998. Bulgaria made progress toward reaching agreement with two former CMEA lending institutions—the International Investment Bank of Moscow (IIBM) and the International Bank for Economic Cooperation (IBEC)—on a swap of claims that would ultimately extinguish Bulgaria's long-standing obligations (in arrears) to these creditors. In contrast, Bulgaria has been able to achieve little progress in receiving settlement in respect of its net creditor position in convertible currencies with a number of developing countries, although analysis is hampered by incomplete data in 1997–98 (Table 75).

E. Trade Policy Developments

219. **Multilateral, regional, and bilateral trade arrangements were the principal vehicles for trade liberalization during 1995–98.** Until mid-1997 trade policies were generally aimed at sheltering certain sectors and at maintaining an active role for the government in determining the composition and level of trade flows. Import tariff protection

was moderate for industrial producers but significant for the agricultural sector over this period. An import surcharge imposed in mid-1996 was abolished at end-1998. From mid-1997 and increasingly in 1998, the emphasis of trade policies shifted toward a more open and stable trade regime with the removal of most export taxes and prohibitions and the liberalization of many non-tariff elements of the system.

Trade agreements

220. **A significant milestone was reached in the liberalization of multilateral trade relations with Bulgaria's accession to the World Trade Organization (WTO) in December 1996 (Table 76).** WTO membership brought with it the automatic extension of MFN status to all other WTO members. Moreover, all tariff rates were bound (at rates of between zero and 40 percent for most industrial products), a schedule of reductions in bound rates for both industrial and agricultural products was agreed through 2002 (from an unweighted average of 25 percent in 1998 to 24 percent in the case of industrial products, and from 59 percent to 46 percent in the case of agricultural products) and commitments were scheduled to liberalize trade in a number of services sectors. In addition, an agreement was reached in 1998 to join **CEFTA** and Bulgaria's accession took effect from 1 January 1999. Like the 1993 agreements with the EU and the EFTA countries which provide for free trade in industrial products from 2002 and for unchanging maximum agricultural tariffs on Bulgaria's part (27 percent and 25 percent on average, respectively), the agreements with CEFTA members provide for free trade in industrial products from 2002, and for unchanging maximum agricultural tariffs on Bulgaria's part of 24 percent on average.

221. **Bilateral agreements providing for MFN treatment were reached with a number of non-WTO members,** including Azerbaijan, Belarus, Georgia, Lithuania, Serbia/Montenegro, and Ukraine in 1996; Tajikistan in 1997; and, Armenia, Lebanon, Syria and Uzbekistan in 1998. In addition, a **free trade agreement** with Turkey was negotiated in 1998 and came into effect on 1 January 1999. Like the EU agreement, this arrangement provides for free trade in industrial products from 2002, and for unchanging maximum agricultural tariffs on Bulgaria's part of 27 percent on average.

Trade regime

222. **Tariff protection was moderate for industrial producers but significant for the agricultural sector during 1995–98.** The unweighted average MFN tariff rate for industrial imports was 15–16 percent during the period, while that for agricultural products was 25–28 percent (Table 77). On a trade-weighted basis, the WTO estimates that the average MFN tariff in 1996-97 was some 9–10 percent for industrial products and 21–22 percent for agricultural goods. In addition to scheduled tariffs, an import surcharge of 5 percent was imposed in mid-1996 on goods accounting for about 50 percent of imports (exemptions from the surcharge for certain raw materials and intermediate inputs concentrated its impact on final products). This surcharge was reduced to 4 percent in July 1997 and to 2 percent in July 1998. At end-1998 it was abolished, 18 months ahead of schedule.

223. **Protection of the agricultural sector increased during the period.** Agricultural tariff dispersion rose sharply in 1997–98 when the maximum agricultural tariff was increased from 55 percent during 1995–96 to 110–120 percent. In addition, the number of agricultural tariff lines more than doubled from 1,054 in 1997 to 2,509 in 1998. Finally, the relative protection received by the agricultural sector was higher than suggested by MFN tariffs because of the sizable (and growing) wedge between the industrial and agricultural tariff rates applying to trade with increasingly important preferential partners such as the EU.

224. **Between 1995 and 1997, non-tariff policies were characterized by a highly activist, discretionary and restrictive approach,** with extensive reliance on export bans and quotas, licensing requirements, and import tariff exemptions. A wide-ranging system of prohibitions and quotas restricted exports of many agricultural, metals, and other products during this period (Table 78). In addition, taxes and licensing requirements applied to an extensive range of export categories and licensing requirements to a smaller but still substantial group of imports. Temporary import quotas and temporary import tariff exemptions applied to hundreds of products and were often subject to variation on a quarterly basis. The purpose of these measures was two-fold: (i) to monitor and regulate the volume of imports and exports of certain products that were viewed as essential for domestic consumption purposes, such as cereals and cooking oil; and (ii) to restrict exports of raw materials and intermediate inputs used by domestic producers in certain priority sectors.

225. **From mid-1997 and to a greater extent in 1998, the authorities began dismantling this commodity monitoring and intervention system and liberalizing the non-tariff elements of the trade regime which had been its principal supports.** In July 1997, following disastrous cereal shortages that had arisen under the system during the previous year, taxes and prohibitions on the export of a number of cereals products were removed. This process was accelerated for cereals and extended to other export products from end-1997, when export prohibitions were removed (with the exception of a ban on unprocessed tobacco exports and bans on the export of a small range of other products for conservation, health and safety reasons) and export taxes on a range of products were lowered. At end-1998, export taxes were abolished with the temporary exception of certain unprocessed timber products for which they will remain while a stumpage fee system is developed. Progress was also made during 1997–98 in reducing the number of products subject to non-automatic licensing requirements, and at end-1998 the authorities reviewed and sharply curtailed the range of goods requiring automatic licenses. In a significant break with past practice, the authorities abandoned the system of quarterly variations in numerous import tariff quotas and exemptions from August 1998 (with the exception of cases where changes are required under international agreements) and at end-1998 temporary tariff quotas and exemptions outside these agreements were abolished completely.

Table 17. Bulgaria: National Accounts, 1991-98 1/

	1991 2/	1992 2/	1993 2/	1994 2/	1994	1995	1996	1997	1998 H1 3/
				(GDP in current prices, billion leva)					
Agriculture and forestry	20.9	23.3	29.7	60.4	60.4	111.4	216.0	3,987.3	1,274.0
Industry	53.9	78.4	97.7	182.3	157.4	272.7	534.3	4,482.9	2,730.8
Manufacturing and mining	46.1	63.0	75.5	145.5	120.9	212.5	427.8	4,060.7	2,451.3
Construction	6.4	11.7	16.2	25.5	25.1	41.6	73.4	422.2	279.5
Other 4/	1.5	3.7	6.1	11.4	11.4	18.7	33.1	0.0	0.0
Services	69.5	92.0	151.7	272.4	272.4	450.2	900.1	6,766.0	4,279.2
Trade	11.8	18.0	26.6	52.9	52.9	101.8	178.5	1,282.8	711.6
Transport	7.4	10.1	13.9	25.2	25.2	37.5	83.5	826.1	471.8
Communications	1.6	2.4	4.8	8.8	8.8	12.2	30.4	298.8	232.7
Other (non-material)	48.7	61.5	106.4	185.4	185.4	298.7	607.7	4,358.3	2,863.1
Taxes on products	11.4	16.6	27.1	26.9	26.9	24.5	62.0	1,867.2	1,255.1
Adjustment	-20.0	-9.5	-7.3	8.5	8.5	21.4	36.3	0.0	0.0
GDP	135.7	200.8	298.9	550.5	525.6	880.3	1,748.7	17,103.4	9,539.1
Household consumption	73.2	131.2	218.9	387.7	389.1	622.1	1,340.2	12,274.1	7,463.6
Government consumption	26.1	41.3	57.1	91.8	90.3	134.4	207.5	2,115.7	613.6
Gross fixed investment	24.6	32.6	38.7	72.3	72.3	134.3	238.5	1,931.6	982.4
Changes in stocks	6.0	7.4	7.0	2.0	-23.0	3.5	-91.6	93.4	312.3
Net exports	5.8	-11.7	-22.8	-3.3	-3.3	-14.0	54.1	948.8	205.7
Exports	59.0	94.6	114.2	236.8	236.8	393.2	1,100.0	10,478.3	4,939.1
Imports	53.2	106.3	137.0	240.1	240.1	407.2	1,045.8	9,529.5	4,733.4
Statistical discrepancy	...	...	...	...	...	...	...	-260.2	-63.4
				(Growth rate in prices of previous year, in percent)					
GDP	-11.7	-7.3	-1.5	1.8	...	2.1	-10.9	-6.9	11.9
Agriculture and forestry	4.3	-14.8	-30.2	9.5	...	14.5	-7.3	26.2	8.0
Industry	-21.0	-6.4	-6.2	6.0	...	-5.4	-11.8	-13.1	19.5
Services	-26.9	-20.7	0.6	-3.1	...	4.0	-9.3	-23.6	4.8
Household consumption	-15.7	1.0	-0.7	-2.6	...	-1.8	-2.1	-15.7	12.5
Government consumption	-10.3	-14.6	-12.6	-11.5	...	-7.4	-28.7	-11.5	2.4
Gross fixed investment	-19.9	-7.3	-17.5	1.1	...	8.8	-21.3	-22.1	-5.5
				(Percentage change)					
Memorandum items:									
GDP deflator	238.6	59.6	15.1	80.0	...	64.1	122.9	950.2	21.9
				(In percent of GDP)					
Agriculture and forestry	15.4	11.6	9.9	11.0	11.5	12.7	12.4	23.3	13.4
Industry	39.7	39.0	32.7	33.1	29.9	31.0	30.6	26.2	28.6
Services	51.2	45.8	50.8	49.5	51.8	51.1	51.5	39.6	44.9
Taxes on products	8.4	8.3	9.1	4.9	5.1	2.8	3.5	10.9	13.2
Adjustment	-14.7	-4.7	-2.4	1.5	1.6	2.4	2.1	0.0	0.0
Household consumption	53.9	65.3	73.2	70.4	74.0	70.7	76.6	71.8	78.2
Government consumption	19.2	20.6	19.1	16.7	17.2	15.3	11.9	12.4	6.4
Gross fixed investment	18.1	16.2	12.9	13.1	13.8	15.3	13.6	11.3	10.3
Net exports	4.3	-5.8	-7.6	-0.6	-0.6	-1.6	3.1	5.5	2.2
Exports	43.5	47.1	38.2	43.0	45.1	44.7	62.9	61.3	51.8
Imports	39.2	52.9	45.8	43.6	45.7	46.3	59.8	55.7	49.6

Sources: National Statistical Institute; and staff estimates.

1/ The values by branch and economic sector are presented at basic price.

2/ Including holding gains.

3/ Preliminary data.

4/ Included in other headings from 1997.

Table 18: Bulgaria: Selected Transition Economies: Cumulative Change in GDP, 1989-97

(In percent)

	1989-97	Peak decline since 1989 1/
Albania	-20.3	-40
Bulgaria	-36.8	-37
Czech Republic	-8.0	-21
Hungary	-9.6	-18
Poland	11.8	-18
Romania	-19.3	-26
Average (unweighted)	-13.7	-27

Source: Staff calculations based on national accounts statistics in each country.

1/ Indicates the lowest level of GDP since the beginning of the transition.

Table 19. Bulgaria: Industrial Sector, 1991-98 1/

	1991 2/	1992 2/	1993 2/	1994 2/	1994	1995	1996	1997	1998 H1 3/
	(In current prices, billion leva)								
Industry value added									
Total	53.9	78.4	97.7	182.3	157.4	272.7	534.3	4,482.9	2730.8
Manufacturing and mining	46.1	63.0	75.5	145.5	120.9	212.5	427.8	4,060.7	2451.3
Construction	6.4	11.7	16.1	25.4	25.1	41.6	73.4	422.2	279.5
Unincorporated activities 4/	1.4	3.7	6.1	11.4	11.4	18.7	33.1	...	...
State	50.4	70.0	79.8	47.8	122.9	197.1	381.0	2,569.5	1638.6
Manufacturing and mining	45.0	61.2	70.3	135.5	110.9	181.9	353.4	2,443.1	1551.7
Construction	5.4	8.8	9.5	12.3	12.0	15.3	27.6	126.4	86.9
Private	3.5	8.4	17.9	34.5	34.5	75.6	153.3	1,913.4	1092.2
Manufacturing and mining	1.1	1.8	5.2	10.0	10.0	30.6	74.4	1,617.6	899.7
Construction	1.0	2.9	6.6	13.1	13.1	26.3	45.8	295.7	192.5
Unincorporated activities 4/	1.4	3.7	6.1	11.4	11.4	18.7	33.1	...	...
	(Growth rate in prices of previous year, in percent)								
Total	...	6.4	-6.2	6.0	...	-5.4	-11.8	-13.1	19.5
Manufacturing and mining	...	10.1	-6.6	6.9	...	-8.0	-12.9	-9.4	19.8
Construction	...	12.5	-7.3	-0.3	...	2.2	-20.8	-36.0	16.5
Unincorporated activities 4/	...	27.9	3.5	10.8	...	6.5	21.2	...	...
State	...	-9.2	-12.7	3.7	...	-16.2	-11.6	-59.6	9.6
Manufacturing and mining	...	-10.4	-10.6	6.7	...	-15.6	-9.8	-83.0	8.7
Construction	...	0.7	-27.1	-18.5	...	-21.1	-32.4	-40.0	33.4
Private	...	33.6	47.7	16.2	...	33.1	1.9	49.4	39.7
Manufacturing and mining	...	0.8	133.5	10.1	...	76.3	4.8	101.8	46.8
Construction	...	79.7	52.5	26.1	...	23.3	-15.1	-34.3	9.2
Unincorporated activities 4/	...	27.9	3.5	10.8	...	6.5	21.2	...	...
	(Percentage)								
Share of economy (gross value added)									
Total industry	37.4	40.5	35.0	35.4	32.1	32.7	32.4	29.4	33.0
Of which:									
Manufacturing and mining	31.9	32.6	27.0	28.3	24.7	25.5	25.9	26.6	29.6
Construction	45.0	6.0	5.8	4.9	5.1	5.0	4.5	2.8	3.4
Unincorporated activities 4/	1.0	1.9	2.2	2.2	2.3	2.2	2.0	...	...
Share of state sector									
in total industry	93.5	89.3	81.7	81.1	78.1	72.3	71.3	57.3	60.0
Manufacturing and mining	97.6	97.1	93.1	93.1	91.7	85.6	82.6	60.2	63.3
Construction	84.4	75.2	59.0	48.4	47.8	36.7	37.6	29.9	31.1
Share of private sector									
in total industry	6.5	10.7	18.3	18.9	21.9	27.7	28.7	42.7	40.0
Manufacturing and mining	2.4	2.9	6.9	6.9	8.3	14.4	17.4	39.8	36.7
Construction	15.6	24.8	41.0	51.6	52.2	63.3	62.4	70.1	68.9

Sources: National Statistical Institute; and staff estimates.

1/ Includes state and private sectors, using the SNA methodology.
2/ Including holding gains/losses.
3/ Preliminary data; growth rates are relative to first half of 1997.
4/ Self-employed and other small private unincorporated firms engaged in market production; included in other headings from 1997.

Table 20. Bulgaria: Manufacturing and Mining Production by Branch, 1992-96 1/

	1992	1993	1994	1995	1996	1992	1993	1994 2/	1994 2/	1995	1996
	(Growth rate at prices of previous year, in percent)					(In current prices, billions of leva)					
Gross output—Total manufacturing and mining	-17.0	-11.8	7.8	9.8	-9.1	223.2	253.5	480.3	455.7	777.8	1,725.9
Electrical and thermal power	-17.7	-11.6	-3.1	5.7	1.5	21.1	25.6	35.1	35.1	58.3	169.0
Coal	-4.1	-0.7	-3.4	8.2	2.5	6.2	6.8	8.8	8.8	12.8	36.5
Oil and gas extraction	-1.1	51.1	10.2	55.0	-48.0	0.2	0.4	0.7	0.6	1.2	1.5
Ferrous metallurgy	-43.7	28.8	24.9	16.0	-20.0	8.8	13.6	29.9	28.6	51.0	100.5
Nonferrous metallurgy	-1.5	13.9	11.0	4.0	-12.5	9.0	103	26.8	24.8	44.8	94.9
Chemicals and oil processing	-21.7	-20.1	-3.7	14.4	-21.1	26.4	30.0	52.4	47.4	82.9	166.2
Mechanical engineering	-32.3	-5.5	-4.4	13.2	-18.1	13.8	14.2	24.9	22.8	38.2	70.3
Electrical/electronic industry	-16.6	-11.4	37.1	21.7	2.9	44.0	45.7	113.7	108.0	185.2	479.2
Building materials	-19.4	0.1	15.5	7.4	-2.8	4.9	6.4	12.5	12.2	20.2	44.7
Timber processing	-11.9	-8.5	11.4	0.4	-10.9	6.3	8.2	14.2	13.9	23.4	44.9
Pulp and paper	-9.6	-10.6	12.4	20.0	-18.5	2.9	3.3	7.0	6.8	15.6	25.3
Glass and ceramics	-17.5	-4.1	23.1	7.7	-12.7	2.7	3.3	7.1	6.8	14.2	26.4
Textiles	-12.3	-17.1	2.9	-0.3	-14.2	9.3	9.9	19.2	17.7	27.8	56.6
Clothing	-10.7	-8.7	12.6	-12.5	-6.3	3.5	4.4	8.2	8.0	12.7	27.4
Leather, fur, and footwear	-9.8	-14.8	2.7	-9.8	-9.4	3.2	3.8	7.8	7.2	10.5	21.9
Printing and publishing	-16.9	26.5	12.9	-14.7	-19.9	1.8	3.0	6.7	6.6	10.7	22.2
Foods, beverages, and tobacco	-11.2	-26.6	-1.2	4.3	-12.6	54.2	57.6	98.1	93.0	159.5	319.4
Other branches	29.9	13.9	-38.6	-19.5	-11.1	4.8	6.9	7.4	7.3	8.9	19.0
Intermediate consumption	-19.5	-13.8	8.2	16.2	-7.7	160.2	178.0	336.3	334.8	565.3	1,298.1
Gross value added	-10.1	-6.6	6.9	-8.0	-12.9	63.0	75.5	144	120.9	212.5	427.8
Employment (1,000 persons) 3/	-13.3	-8.3	-3.7	-2.2	-1.9	1,067	979	943	943	922	911

Table 20. (cont.) Bulgaria: Manufacturing and Mining Production by Branch, 1997-98H1 1/

	1997	1998H1	1996	1997	1998 H1
	(Growth rate at prices of previous year, in percent)		(In current prices, billions of leva)		
Gross output					
Total manufacturing, mining, and electricity, gas, and water supply	-11.4	-3.1	1,734.3	15,650.2	8,269.2
Mining and quarrying	-4.1	5.1	86.9	859.1	420.5
Manufacturing	-13.6	-4.2	1,458.7	12,923.6	6,627.0
Electricity, gas, and water supply	2.8	0.7	188.7	1,867.5	1,221.7
Intermediate consumption	-12	-10	1,306.7	11,589.5	5,817.8
Gross value added					
Total manufacturing, mining, and electricity, gas, and water supply	-9.4	19.8	427.6	4,060.7	2,451.4
Mining and quarrying	-1.1	40.9	29.2	323.3	147.9
Manufacturing	-14.4	16.5	345.8	3,134.2	1,785.7
Electricity, gas and water supply	19	24.7	52.6	603.2	517.8
Employment (1,000 persons) 3/	-3.8	...	905.0	871.0	...

Sources: National Statistical Institute; and staff estimates.

1/ Owing to a change in methodology, a preliminary update for 1997 and 1998H1 can only be provided in more aggregate format; see lower panel. Growth rates for 1998 H1 are relative to 1997 H1.

2/ First 1994 column is inclusive of holding gains/losses, and is comparable with 1993. Second column excludes holding gains/losses, and is comparable with 1995.

3/ Employment is according to the Classification of Branches of National Economy through 1995, and to the National Classification of Economic Activities, Rev. 1 thereafter. Only annual data are available.

Table 21. Bulgaria: Services Sector: Total, State, and Private, 1991-98 1/

	1991 2/	1992 2/	1993 2/	1994	1995	1996	1997	1998 H1 3/
	(In current prices, billion leva)							
Value added in service								
Total	69.5	92.0	151.7	272.4	450.2	900.1	6,766.0	4,279.2
Trade	11.8	18.0	26.6	52.9	101.8	178.5	1,282.8	711.5
Transport	7.4	10.1	13.9	25.3	37.5	83.5	826.1	471.8
Communications	1.6	2.4	4.8	8.8	12.2	30.4	298.8	232.7
Other 4/	48.7	61.5	106.4	185.4	298.7	607.7	4,358.3	2,863.2
State	55.1	62.4	85.4	149.8	198.5	428.2	2,514.2	1,598.0
Trade	9.6	10.5	12.2	20.3	26.3	46.7	243.2	157.3
Transport	7.0	8.6	10.5	18.7	22.5	42.4	375.7	245.9
Communications	1.6	2.4	4.8	8.7	11.8	28.8	277.1	190.5
Other 4/	36.9	40.9	57.9	102.1	137.9	310.3	1,618.3	1,004.3
Private	14.4	29.6	66.3	122.6	257.2	548.2	4,251.8	2,681.2
Trade	2.2	7.5	14.4	32.6	75.5	132.1	1,039.6	554.3
Transport	0.4	1.5	3.4	6.6	15.0	31.0	450.4	225.8
Communications	...	...	...	0.1	0.4	2.2	21.7	42.2
Other 4/	11.8	20.6	48.5	83.3	166.3	382.8	2,740.0	1,858.9
	(Growth rate in prices of previous year, in percent)							
Total	-26.9	-20.7	0.6	-3.1	4.0	-9.3	-23.6	4.8
Trade	-19.2	-13.8	0.4	7.6	2.1	-21.5	-37.1	18.0
Transport	3.9	3.8	8.5	3.1	39.8	0.0	8.6	-7.1
Communications	2.9	5.7	8.0	0.9	32.5	8.1	-6.9	39.1
Other 4/	-34.4	-28.4	-0.9	-6.7	-1.7	-7.0	-25.3	1.4
State	-37.9	-27.4	-9.8	-8.3	-10.5	-3.3	-29.2	15.4
Trade	-44.3	-38.3	-22.0	-9.6	-25.5	-20.2	-42.2	55.7
Transport	-2.8	-6.7	-2.2	-2.2	21.6	-18.6	-4.3	-2.9
Communications	2.9	5.7	7.2	0.7	29.3	39.0	-7.5	21.6
Other 4/	-44.7	-30.0	-9.2	-9.8	-16.7	-1.2	-36.6	14.3
Private	15.4	51.6	22.4	3.7	24.3	-5.9	-20.3	-0.9
Trade	87.0	89.5	32.0	22.1	19.2	-21.4	-35.9	10.6
Transport	139.8	160.5	69.7	19.3	91.6	-14.1	19.4	-11.4
Communications	...	...	...	13.6	357.6	149.9	1.0	253.9
Other 4/	-2.0	-9.3	15.4	-3.0	20.6	-21.4	-18.6	-5.1
	(Percentage)							
Share of economy (gross value added)								
Total services	48.2	47.5	54.4	55.6	53.9	54.5	44.4	51.7
Trade	8.2	9.3	9.6	10.8	12.2	10.8	8.4	8.6
Transport	5.1	5.2	5.0	5.2	4.5	5.1	5.4	5.7
Communications	1.0	1.2	1.7	1.8	1.5	1.8	2.0	2.8
Other 4/	33.9	31.8	38.1	37.8	35.7	36.8	28.6	34.6
Share of state service in total service	79.3	67.8	56.3	55.0	47.1	47.9	37.2	37.3
Trade	81.4	58.3	45.9	38.4	29.8	25.8	19.0	22.1
Transport	94.6	85.1	75.5	73.9	60.0	61.4	45.5	52.1
Communications	100.0	100.0	100.0	98.9	96.7	95.7	92.7	81.9
Other 4/	75.8	66.5	54.4	55.1	48.6	50.5	37.1	35.1
Share of private service in total service	20.7	32.2	43.7	45.0	52.9	51.1	62.8	62.7
Trade	18.6	41.7	54.1	61.6	70.2	74.2	81.0	77.9
Transport	5.4	14.9	24.5	26.1	40.0	38.6	54.5	47.9
Communications	...	...	...	1.1	3.3	4.3	7.3	18.1
Other 4/	24.2	33.5	45.6	44.9	51.4	49.5	62.9	64.9

Sources: National Statistical Institute; and staff estimates.

1/ The SNA 1993 methodology has been used by the NSI from 1991 onwards.

2/ Including holding gains/losses.

3/ Preliminary data.

4/ Includes: housing and municipal services; business services; science; education, culture and art; health and social security, sports recreation and tourism; finance, credit and insurance; government; and other sectors of non-material production.

Table 22. Bulgaria: Services by Branches, 1992-1998

	1992	1993	1994	1995	1996	1997 1/	1998 H1 /1	1992	1993	1994	1995	1996	1997 1/	1998 H1 1/
	Growth rate in prices of previous year, in percent)							(In current prices, billions of leva)						
Gross value added - Total services	-26.9	0.6	-3.1	4.0	-9.3	-23.6	62.1	92.0	151.7	272.3	450.2	900.1	6,766.0	8,284.0
Transport	3.9	8.5	3.1	39.9	0.0	8.6	-7.1	10.1	13.9	25.2	37.5	83.5	826.1	471.8
Communications	2.9	8.0	0.9	32.5	8.1	-6.9	39.1	2.4	4.8	8.8	12.2	30.4	298.8	232.7
Trade	-19.2	0.4	7.6	2.1	-21.5	-37.1	18.0	18.0	-26.6	52.9	101.8	178.5	1,282.8	711.5
Business services	-51.7	176.6	0.0	-0.5	-18.2	...	...	1.3	5.9	11.0	18.1	31.3	...	...
Housing, public utilities, and amenities	-5.0	2.1	-4.3	0.7	0.7	...	...	19.9	42.6	72.6	121.5	281.2	...	...
Sciences	-34.4	-22.8	-26.7	-22.8	-26.3	...	...	1.7	2.1	2.9	3.5	5.7	...	...
Education	6.4	-2.1	-23.1	-10.8	-25.6	...	...	7.8	12.1	17.2	25.0	39.2	...	...
Culture and arts	-13.2	5.6	-12.0	-4.5	-36.4	...	...	1.1	1.9	3.2	5.0	7.6	...	...
Health, social welfare, sports, and tourism	0.1	2.2	-22.8	-11.0	-5.7	...	...	6.7	10.7	15.6	22.6	37.1	...	...
Finance, credit, and insurance	-71.6	-22.7	20.6	-0.7	8.3	-80.7	3.1	14.0	16.9	40.1	64.4	148.3	305.7	232.0
General government	6.8	2.5	-19.7	4.1	-33.7	...	...	8.6	13.8	22.2	37.5	56.1	...	...
Other branches of non-material sphere	-27.4	-15.9	-10.1	19.3	-27.6	...	...	0.3	0.3	0.6	1.1	1.2	...	...
Intermediate consumption	6.1	-5.3	11.9	13.8	-10.3	-9.3	-4.3	62.0	86.3	172.8	291.6	593.0	5,528.8	11,097.3
Gross output	-16.2	-1.8	2.4	7.8	-9.7	-18.0	4.3	154.0	238.0	445.2	741.8	1,493.1	12,294.8	19,381.3
Memorandum items:														
Gross value added per employee (thousand leva)	-22.6	-1.6	-5.4	-4.3	-6.9	-25.9	49.6	70	115	203	324	645	5,023	11,351
Gross output per employee (thousand leva)	-11.2	-2.8	1.0	-0.8	-10.0	-18.8	92.6	118	180	332	534	1,070	9,128	26,558
Employment in services (1,000)	-5.6	1.0	1.4	3.8	0.4	-3.4	8.4	1,308	1,321	1,339	1,390	1,395	1,347	1,460

Sources: National Statistical Institute; and staff estimates.

1/ Preliminary data according to the National Classification of Economic Activities; missing figures not yet available. In memorandum items, employment is average for the first half of 1998, gross value added and gross output per employee are annualized.

Table 23. Bulgaria: Total and Private Agricultural Production, 1991-98

	1991	1992	1993	1994	1995	1996	1997 1/	1998 H1 1/
	(In billions of leva)							
Total agriculture								
Gross output	37.2	51.1	69.8	132.8	236.3	489.4	8,222.6	2,969.6
Crops	17.6	24.2	31.3	60.9	108.2	249.2	3,563.4	...
Livestock	14.9	22.1	33.7	62.9	113.0	198.3	2,787.1	...
Services and other	4.7	4.8	4.8	9.0	15.1	41.9	649.1	...
Secondary activities of households	...	...	...	...	...	...	1,223.0	...
Intermediate consumption	16.6	28.4	41.2	73.8	127.4	305.7	4,283.9	1,726.6
Gross value added	20.6	22.7	28.7	59.0	108.9	183.7	3,938.7	1,243.1
Private agriculture								
Gross output	10.3	25.6	44.5	101.1	178.1	357.6	8,019.8	2,898.6
Intermediate consumption	3.0	12.2	23.1	51.1	89.0	200.2	4,145.0	1,676.1
Gross value added	7.3	13.4	21.4	49.9	89.1	157.4	3,874.8	1,222.5
	(Growth rate in prices of previous year, in percent)							
Total agriculture								
Gross output	...	-6.3	-19.4	7.1	16.0	-11.5	17.4	11.9
Crops	...	0.2	-26.3	21.7	21.9	-22.6	39.0	...
Livestock	...	-2.7	.8.0	-6.5	10.7	-3.0	0.7	...
Services and other	...	-41.5	-37.2	7.9	13.3	4.4	2.9	...
Secondary activities of households	...	...	...	...	...	...	5.2	...
Intermediate consumption	...	5.4	-9.9	5.2	17.3	-14.8	7.7	16.1
Gross value added	...	-15.7	-31.3	10.0	14.4	-7.7	30.3	7.0
Private agriculture	...							
Gross output	...	55.2	-5.7	22.5	11.8	-9.8	19.8	12.8
Intermediate consumption	...	251.8	13.5	28.7	16.4	-13.2	11.4	17.6
Gross value added	...	15.0	-23.2	15.8	7.0	-6.4	30.5	7.5

Source: National Statistical Institute; and staff estimates.

1/ According to National Classification of Economic Activities; 1998 H1 is preliminary.

Table 24. Bulgaria: Production and Average Yields of Selected Agricultural Crops, 1988-98

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 1/
					(Production in thousand of tons)						
Wheat	4,743	5,425	5,292	4,497	3,443	3,618	3,754	3,435	1,802	3,575	3,223
Maize	1,557	2,265	1,221	2,775	1,742	983	1,384	1,817	1,042	1,659	1,355
Barley	1,313	1,572	1,387	1,502	1,195	933	1,143	1,173	457	810	722
Sunflower seeds	374	458	389	434	595	432	602	767	526	438	534
Sugar beets	626	966	584	856	304	95	112	157	87	79	58
Tobacco	90	65	57	57	53	36	26	12	31	49	29
Tomatoes	775	837	813	610	413	325	461	515	306	227	485
Green peppers	226	175	197	206	199	153	218	252	206	174	239
Potatoes	358	554	433	498	566	357	497	649	319	463	483
Apples	335	458	411	145	221	110	76	149	204	161	140
Peaches	63	99	80	72	76	54	57	72	69	50	41
Cherries	73	83	72	54	66	32	48	75	57	36	35
Grapes	922	743	731	748	787	482	516	699	661	636	443
					(Average yield - tons/hectare)						
Wheat	4.01	4.77	4.55	3.74	3.11	1.84	2.84	2.91	1.88	2.95	2.84
Maize	3.17	4.00	2.87	4.92	2.81	1.86	2.72	3.76	2.18	3.58	2.84
Barley	3.80	4.36	3.85	3.90	3.05	2.57	2.92	2.95	1.75	2.78	2.50
Sunflower seeds	1.57	1.90	1.39	1.61	1.25	0.92	1.21	1.27	1.05	0.97	0.99
Sugar beets	16.08	24.58	16.67	23.36	17.78	9.30	13.90	17.10	10.40	15.58	13.91
Tobacco	1.24	1.08	1.34	1.31	1.27	1.14	1.15	1.41	1.34	1.50	1.12
Tomatoes	25.41	27.18	29.14	24.83	23.84	18.80	18.40	16.80	16.90	11.38	17.05
Green peppers	14.41	12.43	14.36	12.71	12.80	10.89	11.40	11.70	12.10	9.99	11.61
Potatoes	9.73	13.68	10.47	11.66	11.80	9.01	10.10	11.50	7.52	10.37	9.45
Apples	11.20	16.69	15.39	3.78	7.71	4.15	2.39	4.47	9.02	6.76	6.68
Peaches	7.06	10.61	7.51	6.34	5.99	4.80	3.55	3.00	4.70	3.36	3.47
Cherries	3.31	3.91	3.06	2.19	2.87	1.66	1.75	2.66	2.52	1.69	2.14
Grapes	5.80	4.61	4.46	4.68	4.95	3.69	3.71	5.23	5.52	5.32	3.42

Source: National Statistical Institute.

1/ Estimate.

Table 25. Bulgaria: Production and Yields of Selected Livestock Products, 1988-98

		1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998 HI 1/
Milk, total	Million liters	2,493	2,438	2,385	2,005	1,806	1,531	1,420	1,404	1,390	1,436	858
Cows	Million liters	2,123	2,090	2,060	1,728	1,560	1,316	1,176	1,142	1,140	1,172	664
Sheep	Million liters	294	277	263	219	180	144	129	119	111	107	92
Goats	Million liters	76	71	62	58	66	71	115	143	139	157	102
Eggs, total	Million	2,874	2,726	2,460	1,866	1,639	1,624	1,751	1,955	1,734	1,583	881
Wool, greasy	Thousand tons	31	29	28	23	19	14	12	9	9	7	7
Meat in carcass, total	Thousand tons	800	820	791	659	650	565	445	469	498	448	...
Of which:												
Cattle	Thousand tons	130	130	126	115	154	122	96	66	80	57	...
Sheep and goats	Thousand tons	91	87	73	78	84	65	56	50	60	50	...
Pigs	Thousand tons	394	413	408	362	319	277	207	256	252	227	...
Poultry	Thousand tons	183	188	182	100	89	97	82	92	99	101	...
Other	Thousand tons	2	2	2	4	4	4	4	5	7	13	...
Milk yield per cow	Liters	3,397	3,354	3,367	2,968	2,833	2,783	2,985	3,135	3,074	3,102	1,644
Eggs per hen	Number	170	173	170	157	161	164	185	181	177	175	98
Wool clip per sheep	Grams	4,192	4,097	4,125	3,628	3,485	3,392	3,179	3,232	3,187	3,253	...

Source: National Statistical Institute.

1/ Preliminary data; only annual data are compiled for missing figures.

Table 26. Bulgaria: Acquisition of Tangible Fixed Assets, 1990-98 1/

	1990	1991	1992	1993	1994	1995	1996	1996 /2	1997	1998 H1 3/
					(In millions of leva; at current prices)					
Total	9,793	24,778	43,627	43,547	84,208	125,876	240,000	268,207	2,363,918	973,446
Agriculture	960	1,826	1,978	1,164	1,543	2,889	2,751	5,570	58,925	1,273
Forestry	5	6	10	8	10	92	95	1,452	7,129	...
Manufacturing and mining	4,735	13,895	22,438	20,006	30,932	38,367	84,667	103,788	707,626	143,828
Construction	443	646	1,374	1,925	1,717	4,905	9,025	6,587	32,456	17,846
Transport	792	1,197	3,279	3,024	7,840	9,293	17,320	22,961	553,313	130,347
Trade	376	1,778	5,725	5,901	19,033	10,058	20,223	20,065	147,098	18,567
Communications	233	571	674	899	2,977	6,780	14,808	14,698	131,824	...
Other in material sphere	65	124	281	546	421	714	1,411	2,143	21,442	74,805
Housing, municipal, and										
consumer services	1,606	3,497	4,847	5,289	6,126	19,185	26,946	41,605	324,300	56,883
Of which: Housing	926	2,146	2,890	2,540	2,809	13,461	23,906	32,189	234,845	18,056
Science	60	82	256	152	166	250	343	283	4,771	...
Health/sport/leisure	164	385	687	1,232	1,586	3,101	4,618	4,127	32,393	962
Education	111	365	777	876	1,487	2,326	3,556	3,020	38,842	4,169
Culture and arts	35	29	67	189	396	659	1,121	1,198	11,981	...
Other in non-material sphere	208	377	1,134	2,336	9,974	27,257	53,116	40,710	291,818	66,606
					(In percent of GDP)					
Total	21.6	18.3	21.7	14.6	16.0	14.3	13.7	15.3	13.8	10.2
Agriculture	2.1	1.3	1.0	0.4	0.3	0.3	0.2	0.3	0.3	...
Forestry	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	...
Manufacturing and mining	10.4	10.2	11.2	6.7	5.9	4.4	4.8	5.9	4.1	...
Construction	1.0	0.5	0.7	0.6	0.3	0.6	0.5	0.4	0.2	...
Transport	1.7	0.9	1.6	1.0	1.5	1.1	1.0	1.3	3.2	...
Trade	0.8	1.3	2.9	2.0	3.6	1.1	1.2	1.1	0.9	...
Communications	0.5	0.4	0.3	0.3	0.6	0.8	0.8	0.8	0.8	...
Other in material sphere	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	...
Housing, municipal, and	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...
consumer services	3.5	2.6	2.4	1.8	1.2	2.2	1.5	2.4	1.9	...
Of which: Housing	2.0	1.6	1.4	0.8	0.5	1.5	1.4	1.8	1.4	...
Science	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	...
Health/sport/leisure	0.4	0.3	0.3	0.4	0.3	0.4	0.3	0.2	0.2	...
Education	0.2	0.3	0.4	0.3	0.3	0.3	0.2	0.2	0.2	...
Culture and arts	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	...
Other in non-material sphere	0.5	0.3	0.6	0.8	1.9	3.1	3.0	2.3	1.7	...
Memorandum item:										
GDP in Billions of leva	45.4	135.7	200.8	298.9	525.6	880.3	1,748.7	1,748.7	17,103.4	9,514.2

1/ These data are not consistent with gross fixed investment in Table 1, as they include purchases of existing assets.

2/ Based on new National Classification of Economic Activities; sectoral data not directly comparable to earlier periods.

3/ The total figure for 1998 H1 covers the whole economy and is thus comparable to the previous years. The detailed breakdown, summing to 515,285 covers the public sector only, with only the sum provided for agriculture and forestry; for transport and communications; and for health, science and culture. The remainder, 458,161 is the total figure for the private sector, for which no breakdown is available. Hence, the percentage of GDP is only provided for the total using GDP corresponding to the first half of 1998.

Table 27. Bulgaria: Income Accounts, 1991-98

	1991 1/	1992 1/	1993 1/	1994 1/	1994	1995	1996	1997 2/	1998 H1 2/	1991 1/	1992 1/	1993 1/	1994 1/	1994	1995	1996	1997 2/	1998 H1 2/
	(In billions of leva)									(In percent of GDP)								
GDP	135.7	200.8	298.9	550.5	525.6	880.3	1748.7	17103.4	9514.2	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Gross value added	155.7	210.3	306.2	542.0	517.1	858.9	1712.4	15791.9	8564.7	...	...	...	...	...	...	...	...	...
Compensation of employees	56.1	106.4	155.9	238.7	238.7	368.6	646.0	5518.9	3695.0	41.3	53.0	52.2	43.4	45.4	41.9	36.9	32.3	38.8
Wages and salaries	42.5	74.8	112.1	171.4	171.4	267.2	465.4	3970	2605.1	31.3	37.3	37.5	31.1	32.6	30.4	26.6	23.2	27.4
Social contributions	13.6	31.6	43.8	67.3	67.3	101.4	180.6	1548.9	1089.9	10.0	15.7	14.7	12.2	12.8	11.5	10.3	9.1	11.5
Net taxes on production	9.2	13.5	18.9	20.5	20.5	14.4	47.7	420.9	152.8	6.8	6.7	6.3	3.7	3.9	1.6	2.7	2.5	1.6
Turnover taxes and excises 3/	11.9	17.1	27.6	27.5	27.5	25.1	62.4	555.8	280.7	8.8	8.5	9.2	5.0	5.2	2.9	3.6	3.2	3.0
Subsidies	2.7	3.6	8.7	7.0	7.0	10.7	14.7	134.9	127.9	2.0	1.8	2.9	1.3	1.3	1.2	0.8	0.8	1.3
Gross operating surplus	90.4	90.4	131.4	282.8	257.9	475.9	1018.7	9852.1	4716.9	66.6	45.0	44.0	51.4	49.1	54.1	58.3	57.6	49.6
Consumption of fixed capital	19.0	26.0	39.7	53.6	53.6	76.8	143.3	...	...	14.0	12.9	13.3	9.7	10.2	8.7	8.2	...	...
Net operating surplus	59.7	42.1	50.4	141.7	116.8	242.9	655.8	...	...	44.0	21.0	16.9	25.7	22.2	27.6	37.5	...	...
Mixed income, net	11.7	22.3	41.3	87.5	87.5	156.2	219.6	...	...	8.6	11.1	13.8	15.9	16.6	17.7	12.6	...	...
Adjustments	-20.0	-9.5	-7.3	8.5	8.5	21.4	36.3	1311.5	949.5	-14.7	-4.7	-2.4	1.5	1.6	2.4	2.1	7.7	10.0
Import duties	1.0	4.0	9.1	15.0	15.0	20.2	38.1	368.1	218.8	0.7	2.0	3.0	2.7	2.9	2.3	2.2	2.2	2.3
Less Financial intermediation 4/	-21.0	-13.5	-16.4	-37.5	-37.5	-65.8	-137.4	-255.7	-204.8	-15.5	-6.7	-5.5	-6.8	-7.1	-7.5	-7.9	-1.5	-2.2
VAT	...	...	...	31.0	31.0	67.0	135.6	1199.1	935.5	...	...	...	5.6	5.9	7.6	7.8	7.0	9.8
	(In billions of leva)									(Private share of total income generation, in percent)								
Of which: Private sector																		
GVA at basic prices	25.2	51.4	105.7	207.1	207.1	422.5	856.5	10054.7	4997.4	16.2	24.4	34.5	38.2	40.1	49.2	50.0	63.7	58.3
Compensation of employees	1.8	6.9	19.5	40.5	40.5	74.8	137.6	1633.7	1291.8	3.2	6.5	12.5	17.0	17.0	20.3	21.3	29.6	35.0
Wages and salaries	1.6	4.7	14.6	31.1	31.1	54.4	104.2	1217.8	925.6	3.8	6.3	13.0	18.1	18.1	20.4	22.4	30.7	35.5
Social contributions	0.2	2.2	4.9	9.4	9.4	20.4	33.4	415.9	366.2	1.5	7.0	11.2	14.0	14.0	20.1	18.5	26.9	33.6
Net taxes on production	...	...	...	...	...	-0.1	-0.1	-0.6	...	...	...	...	...	...	-0.7	-0.2	-0.1	...
Tax on increase of salary	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Subsidies	...	...	...	...	...	0.1	0.1	0.6	...	...	...	...	...	...	0.9	0.7	0.4	...
Gross operating surplus	23.4	44.5	86.2	166.6	166.6	347.8	719	8421.6	3705.6	25.9	49.2	65.6	58.9	64.6	73.1	70.6	85.5	78.6
Consumption of fixed capital	1.9	5.0	9.4	17.1	17.1	29.7	65.3	...	...	10.0	19.2	23.7	31.9	31.9	38.7	45.6	...	...
Net operating surplus	9.8	17.2	35.5	62.0	62.0	161.9	434.1	...	...	16.4	40.9	70.4	43.8	53.1	66.7	66.2	...	...
Mixed income, net	11.7	22.3	41.3	87.5	87.5	156.2	219.6	...	...	100.0	100.0	100.0	100.0	100.0	100.0	100.0	...	...
	(Structure of state GVA, in percent)									(Structure of private GVA, in percent)								
Gross value added at basic prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Compensation of employees	45.6	69.9	78.7	64.4	70.0	71.3	64.0	75.0	73.1	7.1	13.4	18.4	19.6	19.6	17.7	16.1	16.2	25.8
Wages and salaries	34.3	49.2	56.2	45.6	49.6	51.7	45.5	53.1	51.1	6.3	9.1	13.8	15.0	15.0	12.9	12.2	12.1	18.5
Social contributions	11.3	20.7	22.4	18.8	20.5	19.7	18.5	21.9	22.0	0.8	4.3	4.6	4.5	4.5	4.8	3.9	4.1	7.3
Net taxes on production	-1.8	-2.1	-4.7	-2.1	-2.3	-2.4	-1.8	-2.6	-3.9	...	...	...	...	...	...	...	...	...
Tax on increase of salary	0.4	0.4	0.3	0.2	0.2	0.1	0.1	...	...	...	...	...	...	...	...	...	...	...
Subsidies	2.3	2.5	5.0	2.3	2.5	2.6	1.8	2.6	3.9	...	...	...	...	...	...	...	...	...
Gross operating surplus	56.3	32.2	26.1	37.7	32.3	31.1	37.8	27.6	30.8	92.9	86.6	81.6	80.4	80.4	82.3	83.9	83.8	74.2
Consumption of fixed capital	14.4	14.7	17.5	11.9	12.9	11.4	9.8	...	...	7.5	9.7	8.9	8.3	8.3	7.0	7.6	...	...
Net operating surplus	41.9	17.5	8.6	25.9	19.4	19.7	27.9	...	...	38.9	33.5	33.6	29.9	29.9	38.3	50.7	...	...
Mixed income, net	...	...	...	...	...	...	...	...	...	46.4	43.4	39.1	42.3	42.3	37.0	25.6	...	...

Source: Main macro-economic indicators 1997, NSI.

1/ Including holding gains/losses

2/ Preliminary data

3/ Data are available for the total economy only.

4/ Indirectly measured value of financial intermediation services, which is calculated as interest receivables by financial intermediaries, less interest payable.

Table 28. Bulgaria: Average Monthly Earnings in the State Sector, 1992-98

	1992	1993	1994	1995	1996	1997	1998 H1	1992	1993	1994	1995	1996	1997	1998 H1	1992	1993	1994	1995	1996	1997	1998 H1
	(In leva)							(In 1994 prices, deflated by consumer price index)							(In 1994 prices, deflated by producer price index)						
Total	2,047	3,231	4,960	7,597	13,596	135,511	187,438	6,933	6,332	4,960	4,687	3,761	3,171	3,556	4,546	5,654	4,960	4,975	4,414	4,124	4,882
Material sphere	2,110	3,326	5,193	8,089	15,035	138,948	180,428	7,147	6,519	5,193	4,990	4,159	3,252	3,423	4,686	5,820	5,193	5,297	4,882	4,228	4,699
Industry	2,244	3,481	5,356	8,448	17,062	195,831	270,540	7,601	6,822	5,356	5,211	4,720	4,583	5,132	4,984	6,092	5,356	5,532	5,540	5,959	7,046
Agriculture	1,558	2,290	3,462	5,339	10,531	110,069	148,870	5,277	4,488	3,462	3,294	2,913	2,576	2,824	3,460	4,007	3,462	3,496	3,419	3,349	3,877
Construction	2,346	3,504	5,533	7,836	12,667	123,570	179,652	7,946	6,867	5,533	4,834	3,504	2,892	3,408	5,210	6,132	5,533	5,132	4,113	3,760	4,679
Forestry	1,517	2,366	3,431	5,333	7,715	112,807	144,705	5,138	4,637	3,431	3,290	2,134	2,640	2,745	3,369	4,140	3,431	3,492	2,505	3,433	3,769
Transport	2,371	3,884	6,050	9,112	16,312	183,333	238,696	8,031	7,612	6,050	5,621	4,513	4,290	4,528	5,266	6,797	6,050	5,967	5,296	5,579	6,217
Communications	2,158	3,486	5,510	8,002	12,945	158,768	213,404	7,309	6,832	5,510	4,936	3,581	3,715	4,048	4,793	6,100	5,510	5,240	4,203	4,831	5,558
Trade	2,015	3,168	4,886	7,827	13,399	155,232	224,899	6,825	6,209	4,886	4,828	3,707	3,633	4,266	4,475	5,544	4,886	5,126	4,350	4,724	5,857
Other	2,618	3,799	5,537	6,613	12,143	167,007	223,941	8,867	7,446	5,537	4,079	3,359	3,908	4,248	5,814	6,648	5,537	4,331	3,943	5,082	5,832
Non-material sphere	1,865	2,999	4,453	6,613	10,075	106,634	162,479	6,317	5,878	4,453	4,079	2,787	2,495	3,082	4,142	5,248	4,453	4,331	3,271	3,245	4,232
Education	1,671	2,633	3,834	5,653	8,779	86,154	130,175	5,660	5,160	3,834	3,487	2,429	2,016	2,469	3,711	4,608	3,834	3,702	2,850	2,622	3,390
Health	1,757	2,810	4,053	5,864	8,507	78,787	121,952	5,951	5,507	4,053	3,617	2,353	1,844	2,313	3,902	4,917	4,053	3,840	2,762	2,397	3,176
Public utilities	2,089	3,229	4,933	7,125	11,413	211,185	318,071	7,076	6,328	4,933	4,395	3,157	4,942	6,034	4,639	5,651	4,933	4,666	3,706	6,426	8,284
Science	2,033	3,200	5,029	7,596	11,051	105,812	153,374	6,886	6,272	5,029	4,686	3,057	2,476	2,909	4,515	5,600	5,029	4,974	3,588	3,220	3,994
Culture and arts	1,597	2,514	3,745	6,004	8,642	90,847	138,938	5,409	4,927	3,745	3,704	2,391	2,126	2,636	3,547	4,399	3,745	3,932	2,806	2,764	3,619
Finance and insurance	3,274	6,333	9,404	14,267	21,923	200,593	277,459	11,089	12,412	9,404	8,801	6,065	4,694	5,263	7,271	11,083	9,404	9,343	7,118	6,104	7,226
Administration	2,194	3,752	5,652	8,205	10,588	110,665	175,422	7,431	7,353	5,652	5,062	2,929	2,590	3,328	4,873	6,566	5,652	5,373	3,438	3,367	4,569
Other	2,074	3,793	5,258	8,274	11,498	111,451	172,216	7,025	7,434	5,258	5,104	3,181	2,608	3,267	4,606	6,638	5,258	5,418	3,733	3,391	4,485
Wage bill - state sector	62.1	84.0	114.3	169.3	274.1	198.7	237.2	210.3	164.6	114.3	104.4	75.8	4.6	4.5	60.1	111.6	114.3	180.9	202.8	13.8	14.1
	(Percentage change)							(Percentage change)							(Percentage change)						
Total	113.5	57.8	53.5	53.2	79.0	896.7	38.3	17.3	-8.7	-21.7	-5.5	-19.7	-15.7	12.1	36.9	24.4	-12.3	0.3	-11.3	-6.6	18.4
Material sphere	117.5	57.6	56.1	55.8	85.9	824.2	29.9	19.5	-8.8	-20.3	-3.9	-16.6	-21.8	5.3	39.5	24.2	-10.8	2.0	-7.8	-13.4	11.1
Industry	132.8	55.1	53.9	57.7	102.0	1,047.8	38.1	27.9	-10.2	-21.5	-2.7	-9.4	-2.9	12.0	49.3	22.2	-12.1	3.3	0.1	7.6	18.2
Agriculture	65.9	47.0	51.2	54.2	97.3	945.2	35.3	-8.8	-15.0	-22.9	-4.9	-11.5	-11.6	9.6	6.4	15.8	-13.6	1.0	-2.2	-2.0	15.8
Construction	109.7	49.4	57.9	41.6	61.6	875.5	45.4	15.2	-13.6	-19.4	-12.6	-27.5	-17.5	17.8	34.5	17.7	-9.8	-7.3	-19.9	-8.6	24.4
Forestry	96.8	56.0	45.0	55.4	44.7	1,362.2	28.3	8.1	-9.8	-26.0	-4.1	-35.1	23.7	4.0	26.2	22.9	-17.1	1.8	-28.3	37.0	9.8
Transport	126.2	63.8	55.8	50.6	79.0	1,023.9	30.2	24.3	-5.2	-20.5	-7.1	-19.7	-4.9	5.5	45.1	29.1	-11.0	-1.4	-11.2	5.3	11.4
Communications	114.7	61.5	58.1	45.2	61.8	1,126.5	34.4	18.0	-6.5	-19.4	-10.4	-27.5	3.8	9.0	37.7	27.3	-9.7	-4.9	-19.8	14.9	15.0
Trade	113.8	57.2	54.2	60.2	71.2	1,058.5	44.9	28.5	-9.0	-21.3	-1.2	-23.2	-2.0	17.4	49.9	23.9	-11.9	4.9	-15.1	8.6	24.0
Other	144.2	45.1	45.7	19.4	83.6	1,275.3	34.1	34.2	-16.0	-25.6	-26.3	-17.7	16.3	8.7	56.6	14.3	-16.7	-21.8	-9.0	28.9	14.8
Non-material sphere	102.3	60.8	48.5	48.5	52.4	958.4	52.4	11.2	-7.0	-24.2	-8.4	-31.7	-10.5	23.5	29.7	26.7	-15.2	-2.7	-24.5	-0.8	30.4
Education	90.8	57.6	45.6	47.4	55.3	881.3	51.1	4.8	-8.8	-25.7	-9.0	-30.4	-17.0	22.5	22.4	24.2	-16.8	-3.4	-23.0	-8.0	29.3
Health	98.5	59.9	44.2	44.7	45.1	826.1	54.8	9.1	-7.5	-26.4	-10.7	-34.9	-21.7	25.5	27.3	26.0	-17.6	-5.3	-28.1	-13.2	32.5
Public utilities	119.2	54.6	52.8	44.4	60.2	1,750.4	50.6	20.5	-10.6	-22.1	-10.9	-28.2	56.5	22.1	40.6	21.8	-12.7	-5.4	-20.6	73.4	28.9
Science	108.5	57.4	57.2	51.0	45.5	857.5	44.9	14.6	-8.9	-19.8	-6.8	-34.8	-19.0	17.5	33.7	24.0	-10.2	-1.1	-27.9	-10.3	24.1
Culture and arts	89.4	57.4	49.0	60.3	43.9	951.2	52.9	4.1	-8.9	-24.0	-1.1	-35.5	-11.1	24.0	21.5	24.0	-14.9	5.0	-28.6	-1.5	30.9
Finance and insurance	143.6	93.4	48.5	51.7	53.7	815.0	38.3	33.9	11.9	-24.2	-6.4	-31.1	-22.6	12.1	56.3	52.4	-15.1	-0.6	-23.8	-14.2	18.4
Administration	105.6	71.0	50.6	45.2	29.0	945.2	58.5	13.0	-1.0	-23.1	-10.4	-42.1	-11.6	28.5	31.9	34.8	-13.9	-4.9	-36.0	-2.0	35.7
Other	131.0	82.9	38.6	57.4	39.0	869.3	54.5	26.9	5.8	-29.3	-2.9	-37.7	-18.0		48.1	44.1	-20.8	3.1	-31.1	-9.2	32.3

Sources: National Statistical Institute; and staff calculations.

Table 29. Bulgaria: Labor Force, Employment, and Unemployment, 1990-98

	1990	1991	1992	1993	1994	1995	1996	1997	1998 H1 1/
					(In thousands)				
Population	8,718.3	8,632.3	8,540.1	8,472.3	8,427.4	8,384.7	8,340.9	8,283.2	8,253.6
Of working age 2/	4,822.2	4,793.3	4,756.8	4,735.7	4,741.2	4,745.4	4,749.2	4,749.5	4,750.0
Pensioners	2,273.4	2,374.4	2,443.3	2,439.8	2,423.7	2,409.2	2,381.1	2,391.8	2,436.0
Total labor force	4,161.9	3,983.1	3,850.6	3,847.9	3,730.0	3,706.0	3,764.7	3,680.9	...
Participation rate (in percent) 3/	86.3	83.1	80.9	81.3	78.7	78.1	79.3	77.6	...
Employment	4,096.8	3,564.0	3,273.7	3,221.8	3,241.6	3,282.2	3,285.9	3,157.4	...
Public	3,855.2	3,204.2	2,693.7	2,309.7	2,066.2	1,949.4	1,728.4	1,412.1	...
Private	241.6	359.8	580.0	912.1	1,175.4	1,332.8	1,557.5	1745.3	...
Share of total employment (in percent)									
Public	94.1	89.9	82.3	71.7	63.7	59.4	52.6	44.7	...
Private	5.9	10.1	17.7	28.3	36.3	40.6	47.4	55.3	...
Registered unemployed	65.1	419.1	576.9	626.1	488.4	423.8	478.8	523.5	434.7
Official unemployment rate (in percent) 4/	1.7	11.1	15.3	16.4	12.8	11.1	12.5	13.7	11.4
Calculated unemployment rate (in percent) 5/	1.6	10.5	15.0	16.3	13.1	11.4	12.7	14.2	...
Unemployment beneficiaries	35.0	171.0	198.5	195.4	167.3	138.9	178.0	157.7	99.7
(in percent)	0.8	4.3	5.2	5.1	4.5	3.7	4.7	4.3	...
					(Percentage change)				
Population	-1.8	-1.0	-1.1	-0.8	-0.5	-0.5	-0.5	-0.7	...
Labor force	-4.7	-4.3	-3.3	-0.1	-3.1	-0.6	1.6	-2.2	...
Employment	-6.1	-13.0	-8.1	-1.6	0.6	1.3	0.1	-3.9	...
Of which: Private	1.3	48.9	61.2	57.3	28.9	13.4	16.9	12.1	...

Sources: National Statistical Institute; and staff estimates.

1/ Preliminary data. Data on labor force and employment are available only annually.
2/ National classification: includes women aged 16-55 and men aged 16-60.
3/ Labor force as a proportion of the working age population.
4/ End of period.
5/ End-of-period rate of unemployed in the total labor force.

Table 30. Bulgaria: Price Indices of Food, Non-Food, and Services, 1993–98

(December 1992 = 100)

		Food Price Index	Change (In percent)	Non-Food Price Index	Change (In percent)	Services Price Index	Change (In percent)
1993	January	107.7	7.7	104.7	4.7	109.2	9.2
	February	110.6	2.6	111.2	6.2	116.0	6.2
	March	118.2	6.9	115.7	4.1	118.2	1.9
	April	123.5	4.5	119.4	3.2	123.4	4.4
	May	126.6	2.5	125.5	5.1	147.4	19.5
	June	130.2	2.9	127.5	1.6	172.9	17.3
	July	131.7	1.1	127.9	0.3	177.4	2.6
	August	135.7	3.1	131.2	2.6	179.3	1.1
	September	140.7	3.7	136.7	4.2	182.9	2.0
	October	147.2	4.6	142.8	4.4	184.6	0.9
	November	154.3	4.8	150.0	5.0	187.0	1.3
	December	160.4	3.9	155.9	4.0	193.7	3.6
1994	January	164.5	2.6	163.5	4.8	203.2	4.9
	February	174.0	5.8	170.0	4.0	205.5	1.1
	March	188.0	8.0	185.2	9.0	208.9	1.7
	April	237.4	26.3	220.4	19.0	241.9	15.8
	May	256.3	7.9	239.0	8.5	254.1	5.1
	June	266.2	3.9	248.2	3.9	267.1	5.1
	July	255.7	-3.9	260.1	4.8	277.9	4.0
	August	275.3	7.7	268.4	3.2	282.7	1.7
	September	315.6	14.6	291.7	8.7	292.4	3.4
	October	338.8	7.4	313.0	7.3	297.2	1.7
	November	360.2	6.3	328.5	4.9	304.1	2.3
	December	384.1	6.6	339.9	3.5	311.0	2.2
1995	January	398.7	3.8	349.9	3.0	328.3	5.6
	February	416.0	4.3	361.6	3.3	334.4	1.9
	March	414.7	-0.3	373.6	3.3	400.8	19.9
	April	414.3	-0.1	381.0	2.0	406.3	1.4
	May	420.2	1.4	391.4	2.7	410.5	1.0
	June	411.8	-2.0	402.8	2.9	419.0	2.1
	July	413.4	0.4	414.4	2.9	426.1	1.7
	August	411.5	-0.5	420.8	1.5	429.9	0.9
	September	430.9	4.7	435.1	3.4	471.6	9.7
	October	443.2	2.9	444.8	2.2	475.5	0.8
	November	458.5	3.5	454.2	2.1	481.4	1.2
	December	474.6	3.5	463.6	2.1	488.4	1.5
1996	January	489.0	3.0	466.9	0.7	505.6	3.5
	February	493.7	1.0	473.1	1.3	540.9	7.0
	March	499.2	1.1	484.8	2.5	548.8	1.5
	April	508.0	1.8	498.2	2.8	591.2	7.7
	May	564.3	11.1	576.2	15.7	651.7	10.2
	June	695.0	23.2	703.2	22.1	700.6	7.5
	July	832.6	19.8	847.1	20.5	1,034.7	47.7
	August	1,012.0	21.5	955.5	12.8	1,188.5	14.9
	September	1,234.2	21.9	1,116.3	16.8	1,338.5	12.6
	October	1,475.6	19.6	1,268.4	13.6	1,518.4	13.4
	November	1,570.4	6.4	1,446.4	14.0	1,685.0	11.0
	December	1,929.7	22.9	1,979.6	36.9	1,986.6	17.9
1997	January	2,815.3	45.9	2,868.5	44.9	2,652.5	33.5
	February	10,622.0	277.3	10,541.4	267.5	4,533.0	70.9
	March	11,259.5	6.0	10,851.6	2.9	9,083.9	100.4
	April	10,821.5	-3.9	10,246.6	-5.6	11,330.1	24.7
	May	11,801.6	9.1	10,201.1	-0.4	11,980.8	5.7
	June	11,673.4	-1.1	10,401.2	2.0	12,506.7	4.4
	July	12,242.7	4.9	10,641.2	2.3	12,753.3	2.0
	August	13,208.5	7.9	10,938.7	2.8	13,075.5	2.5
	September	13,476.4	2.0	11,428.5	4.5	13,915.0	6.4
	October	13,389.5	-0.6	11,569.7	1.2	14,247.4	2.4
	November	13,401.5	0.1	11,667.7	0.8	14,402.2	1.1
	December	13,716.0	2.3	11,686.5	0.2	14,533.2	0.9
1998	January	14,154.9	3.2	11,652.4	-0.3	14,782.3	1.7
	February	14,474.4	2.3	11,659.6	0.1	15,178.6	2.7
	March	14,518.2	0.3	11,453.7	-1.8	15,405.3	1.5
	April	14,460.7	-0.4	11,506.9	0.5	15,582.3	1.1
	May	14,533.2	0.5	11,501.8	0.0	15,771.7	1.2
	June	14,051.1	-3.3	11,423.8	-0.7	15,960.3	1.2
	July	13,608.7	-3.1	11,385.1	-0.3	16,304.9	2.2
	August	13,227.7	-2.8	11,464.8	0.7	16,712.5	2.5
	September	12,989.6	-1.8	11,659.7	1.7	17,297.5	3.5

Source: National Statistical Institute.

Table 31. Bulgaria: Selected Energy Prices, 1991-1998

(In leva per unit, end of period)

	1991	1992	1993	1994	1995	1996	1997	1998 H1
Gasoline A-93, per liter 1/								
Industrial use	2.58	6.93	11.20	21.00	24.50	181.00	999.25	1,069.44
Household use	6.30	7.00	11.20	21.00	24.50	181.00	999.25	1,069.44
Diesel (transportation) per liter								
Industrial use	2.54	5.81	6.30	10.80	12.10	91.00	699.46	630.00
Household use	5.40	6.10	9.40	16.60	18.50	141.00	699.46	630.00
Brown coal, per ton								
Industrial use	485	606	780	2,990	3,300	16,940	91,990	113,950
Household use	173	295	387	1,496	1,652	8,490	54,068	53,976
Electricity, per 1,000 kWh								
Industrial use	461	756	859	1,700	2,760	16,650	121,840	121,840
Household use (day tariff)	284	383	660	850	1,560	9,470	63,420	63,420
Thermal energy, per giga calorie								
Industrial use 2/	281	334	488	700	1,393	6,785	50,857	51,000
Household use	85	115	238	450	810	3,945	29,568	29,568
Memorandum item:								
Leva per U.S. dollar, end of period	21.88	24.49	32.71	66.02	70.70	487.35	1,776.50	1,810.20

Sources: National Statistical Institute, Commission of Prices, State Trade Commission, and staff calculations.

1/ A-95 from 1997.

2/ From 1995, calculated as the same multiple of household price as in 1998 H1, approximating the average of the prices (determined on a cost-plus basis) charged in different regions.

Table 32. Bulgaria: Producer and Consumer Price Indices, 1996-September 1998
(1995 = 100)

	Consumer Price Index	Monthly Change in Percent	12-month Change in Percent	Producer Price Index 1/	Monthly Change in Percent	12-month Change in Percent
1996						
January	115.5	2.3	30.9	114.2	...	...
February	117.7	1.9	28.5	117.9	3.2	...
March	119.7	1.7	26.4	120.8	2.5	...
April	123.2	2.9	28.8	123.4	2.2	...
May	138.6	12.5	42.2	144.1	16.7	...
June	166.6	20.3	70.2	175.8	22.0	...
July	205.5	23.3	106.7	219.2	24.7	...
August	240.6	17.1	140.7	262.0	19.5	...
September	285.7	18.8	172.9	299.5	14.3	...
October	333.3	16.7	210.5	348.7	16.4	...
November	365.5	9.7	232.0	385.8	10.7	...
December	464.0	26.9	310.8	506.9	31.4	...
1997						
January	666.0	43.5	476.6	767.7	51.4	572.5
February	2,282.4	242.7	1,839.1	2,039.1	165.6	1,629.9
March	2,562.4	12.3	2,040.4	2,416.0	18.5	1,900.0
April	2,544.5	-0.7	1,965.1	2,471.3	2.3	1,902.5
May	2,688.2	5.7	1,840.1	2,521.6	2.0	1,650.3
June	2,710.3	0.8	1,526.6	2,604.4	3.3	1,381.7
July	2,809.5	3.7	1,267.2	2,730.9	4.9	1,145.8
August	2,964.3	5.5	1,132.2	2,852.8	4.5	988.7
September	3,070.4	3.6	974.6	2,900.2	1.7	868.3
October	3,086.1	0.5	825.8	2,932.2	1.1	740.9
November	3,102.4	0.5	748.8	2,932.3	0.0	660.0
December	3,148.0	1.5	578.5	2,902.7	-1.0	472.6
1998						
January	3,210.3	2.0	382.0	2,882.1	-0.7	275.4
February	3,266.0	1.7	43.1	2,954.6	2.5	44.9
March	3,264.5	0.0	27.4	2,913.1	-1.4	20.6
April	3,267.9	0.1	28.4	2,920.7	0.3	18.2
May	3,282.9	0.5	22.1	2,949.8	1.0	17.0
June	3,221.6	-1.9	18.9	2,946.7	-0.1	13.1
July	3,174.4	-1.5	13.0	2,916.5	-1.0	6.8
August	3,145.6	-0.9	6.1	2,948.7	1.1	3.4
September	3,240.7	3.0	5.5	2,953.6	0.2	1.8

1/ Since January 1998 National Statistical Institute has changed the PPI methodology. A Laspeyres formula is used, where: (1) the base price is the average price in 1995; and (2) price changes are weighted with the annual sales structure in 1995. Indexes for 1996 and 1997 have been recalculated according to the new methodology.

Table 33. Bulgaria: Estimated Private Sector Share in GDP and Employment in Related Transition Economies, 1991-98

	1991	1992	1993	1994	1995	1996	1997	1998 H1	1991	1992	1993	1994	1995	1996	1997	1998 H1
	(In GDP)								(In employment)							
Private sector share (in percent)																
Bulgaria 1/	19	26	35	39	48	53	59	53	10	18	28	36	41	47	55	...
Croatia 2/	25	35	41	45	45	50	...	55	22	27	37	47	48	51	51	...
Czech Republic 3/	17	28	45	56	64	75	75	75	19	40	60	64	76	78	...	...
Hungary	33	44	52	...	60	70	...	80	...	...	...	...	...	...	...	...
Poland	45	48	54	56	60	78	79	78	51	57	58	60	...	64	64	75
Romania	24	26	32	35	40	60	58	60	34	41	44	51	51	...	...	65
Slovak Republic 4/	...	22	25	44	60	77	83	83	13	18	22	32	...	...	...	...
Slovenia 5/	16	20	...	...	48	45	60	55	12	16	19	22	48	...	...	...

Sources: EBRD Transition Reports 1995, 1996, 1997, 1998. EIU (Economist Intelligence Unit); National Statistical Institute, Bulgaria; State Institute of Macroeconomic Analysis and Forecasting, Croatia; Czech Statistical Office; Hungarian Central Statistical Office.

1/ According to Revised National Classification of Economic Activities from 1996. The change in definition resulted in a step increase of 3.5 percentage points in the share in GDP in that year.

2/ End-of-year data; employment data for the period before 1993 include only 100 percent privately owned firms; from 1993-94 mixed firms with more than 50 percent private ownership and transformed firms are also included. Data for 1996-97 is according to the revised definition of the labor force. Tentative estimates.

3/ Shares in GDP estimates are for the "non-state sector"; private sector employment includes enterprises with mixed ownership.

4/ Before 1994, firms with mixed ownership were excluded from the definition of the private sector. Since 1994, such firms were included in the definition of the private sector.

5/ Excluding socially managed enterprises.

Table 34. Bulgaria: Financial Performance of State-Owned Enterprises, 1991-98

	1991	1992	1993	1994	1995	1996	1997	1998 H1
				(In billions of leva)				
Revenues	309.6	306.4	360.2	643.0	912.1	2,199.1	15,033.6	9,111.9
Operational	297.7	288.6	339.1	596.0	867.4	1,979.2	13,647.3	8,595.5
Financial	6.9	8.2	8.5	26.2	21.4	176.9	1,098.8	412.2
Extraordinary	5.0	9.6	12.7	20.8	23.3	43.0	287.5	104.2
Expenditures	289.8	314.7	391.3	644.1	914.5	2,106.7	13,786.2	8,625.0
Operational	263.8	269.9	335.7	538.7	809.2	1,761.3	11,354.4	8,027.4
Financial	20.7	35.9	43.3	80.5	65.9	274.4	1,888.5	443.7
Interest paid on credits	17.0	29.9	36.9	44.7	48.7	81.8	286.9	132.9
Extraordinary	5.3	8.9	12.2	25.0	39.4	71.0	543.3	153.9
Operational surplus	33.9	18.7	3.3	57.3	58.2	217.9	2,292.9	568.1
Net financial revenues	-13.8	-27.6	-34.8	-54.2	-44.5	-97.5	-789.7	-31.4
Net extraordinary	-0.3	0.7	0.4	-4.1	-16.1	-28.0	-255.8	-49.7
Net revenues	19.8	-8.3	-31.1	-1.1	-2.4	92.4	1,247.4	486.9
Total losses	-5.8	-24.7	-40.9	-38.9	-49.4	-123.6	-489.8	-354.7
Total profits	25.7	16.4	9.8	37.8	47.0	215.9	1,737.2	841.6
				(In percent of GDP)				
Revenue	228.2	152.6	120.5	123.1	103.6	125.8	87.9	95.1
Operational	219.4	143.7	113.4	114.1	98.5	113.2	79.8	89.7
Financial	5.1	4.1	2.8	5.0	2.4	10.1	6.4	4.3
Extraordinary	3.7	4.8	4.2	4.0	2.6	2.5	1.7	1.1
Expenditures	213.6	156.7	130.9	123.3	103.9	120.5	80.6	90.1
Operational	194.4	134.4	112.3	103.2	91.9	100.7	66.4	83.8
Financial	15.3	17.9	14.5	15.4	7.5	15.7	11.0	4.6
Extraordinary	3.9	4.4	4.1	4.8	4.5	4.1	3.2	1.6
Operational surplus	25.0	9.3	1.1	11.0	6.6	12.5	13.4	5.9
Net financial revenues	-10.2	-13.8	-11.7	-10.4	-5.1	-5.6	-4.6	-0.3
Net extraordinary revenues	-0.2	0.3	0.1	-0.8	-1.8	-1.6	-1.5	-0.5
Net revenues	14.6	-4.1	-10.4	-0.2	-0.3	5.3	7.3	5.1
Total losses	-4.3	-12.3	-13.7	-7.4	-5.6	-7.1	-2.9	-3.7
Total profits	18.9	8.2	3.3	7.2	5.3	12.3	10.2	8.8
Memorandum item:								
GDP (billion leva)	135.7	200.8	298.9	522.2	880.3	1,748.7	17,103.4	9,577.6

Sources: National Statistical Institute and Ministry of Finance.

Table 35. Bulgaria: Bank and Nonbank Liabilities of State-Owned Enterprises, 1991–98 1/

	1991	1992	1993	1994	1995	1996	1997	1998 H1 2/
	(Change from previous year; in billion leva)							
Total change in liabilities	90.8	67.2	60.6	131.8	134.5	1,118.9	4,218.0	-387.7
(in percent of GDP)	66.9	33.5	20.3	25.1	15.3	64.0	24.7	-1.8
Changes in bank credit 3/	35.3	21.9	31.7	48.8	35.2	411.7	1,542.4	-167.8
(in percent of GDP)	26.0	10.9	10.6	9.3	4.0	23.5	9.0	-0.8
(in percent of bank liabilities)	50.2	23.8	25.6	28.3	16.9	66.4	65.2	-6.4
Short-term loans	13.2	14.4	14.6	17.6	11.1	104.1	396.0	-85.7
Of which: Arrears	1.0	6.1	7.1	-2.4	18.0	53.4	199.6	...
Long-term loans	22.2	7.5	17.0	8.8	-16.5	137.8	479.2	326.5
Of which: Arrears	11.7	2.1	7.2	-11.7	-0.1	31.5	153.1	...
Other loans	...	...	...	22.4	40.6	169.8	667.2	-408.6
Total change in arrears to banks	12.6	8.3	14.3	-14.1	17.8	98.4	352.7	20.5
(in percent of bank credit)	17.9	9.0	11.5	-8.2	8.6	15.9	14.9	0.8
Total change in nonbank liabilities	55.5	45.3	28.8	83.0	99.3	822.0	2,675.6	-219.9
(in percent of GDP)	40.9	22.6	9.6	15.8	11.3	47.0	15.6	-1.0
(in percent of nonbank liabilities)	78.5	39.1	19.9	36.4	30.4	79.5	67.3	-5.2
Suppliers	25.9	9.9	4.9	27.5	29.6	335.0	914.3	83.5
Personnel	3.1	1.6	3.7	3.4	1.7	29.2	99.9	23.0
Taxes	5.5	8.5	6.8	27.7	24.7	133.4	579.7	69.6
Pensions	1.3	3.3	2.9	3.4	6.9	25.2	61.6	21.8
Other	19.6	22.0	10.6	21.0	36.5	299.2	1,020.1	-417.8
	(Stocks; in billion leva)							
Total stocks	140.9	208.1	268.7	400.5	535.0	1,653.9	6,342.1	6,867.6
(in percent of GDP)	103.8	103.6	89.9	76.2	60.8	94.6	37.1	32.7
Bank credit 3/	70.3	92.1	123.9	172.7	207.9	619.6	2,364.3	2,624.7
(in percent of GDP)	51.8	45.9	41.5	32.9	23.6	35.4	13.8	12.5
(in percent of total stocks)	49.9	44.3	46.1	43.1	38.9	37.5	37.3	38.2
Short-term loans	27.3	41.6	56.3	73.9	85.0	189.1	626.1	597.4
Of which: Arrears	1.8	8.0	15.0	12.6	30.6	84.0	232.5	...
Long-term loans	43.0	50.5	67.5	76.3	59.8	197.6	774.6	1,274.1
Of which: Arrears	12.0	14.1	21.4	9.7	9.6	41.1	192.1	...
Other loans	...	...	0.1	22.5	63.1	232.9	963.5	753.2
Total arrears	13.8	22.1	36.4	22.3	40.1	125.1	424.6	316.2
(in percent of bank credit)	19.6	24.0	29.4	12.9	19.3	20.2	18.0	12.0
Liabilities to non-banks	70.7	116.0	144.7	227.8	327.1	1,034.2	3,977.9	4,242.9
(in percent of GDP)	52.1	57.8	48.4	43.3	37.2	59.1	23.3	20.2
(in percent of total stocks)	50.2	55.7	53.9	56.9	61.1	62.5	62.7	61.8
Suppliers	30.6	40.5	45.4	72.9	102.5	406.0	1,470.5	1,650.5
Personnel	4.2	5.8	9.4	12.8	14.5	39.5	152.6	213.4
Taxes	7.2	15.7	22.5	50.2	74.9	182.0	805.8	999.7
Pensions	1.7	5.0	7.8	11.2	18.1	37.0	107.9	147.2
Other	27.0	49.0	59.6	80.7	117.1	369.7	1,441.0	1,232.1
Memorandum items:								
Credit to SOEs 4/	106.5	139.0	203.3	346.5	329.3	1077.4	1254.1	974.4
(in percent of GDP)	78.5	69.2	68.0	65.9	37.4	61.6	7.3	4.6
Total lev credit	60.8	78.0	112.3	149.0	189.2	183.9	561.0	528.4
Lev credit	56.7	73.9	75.7	111.7	97.6	95.2	336.2	248.9
Lev bad loan bonds	4.1	4.1	36.6	37.2	91.6	88.7	224.8	279.5
Total FX credit	45.7	61.0	91.1	197.5	140.1	797.4	2393.9	2161.2
FX credit	45.7	61.0	91.1	78.2	71.4	429.7	917.8	725.5
FX bad loan bonds	...	...	...	119.4	68.7	367.7	1,476.1	1,435.7
Total FX credit (in US$ billion)	2.1	2.5	2.8	3.0	2.0	4.5	1.4	1.2
GDP (In billions of leva)	135.7	200.8	298.9	525.6	880.3	1,748.7	17,103.4	21,002.4

Sources: National Statistical Institute; Ministry of Finance; Bulgarian National Bank; and staff estimates.

1/ Data for 1997 exclude agriculture. Flows for 1997 are calculated from a comparable base, not the stocks reported in the 1996 column.

2/ Preliminary data. Percentages of GDP are computed using GDP corresponding to the four quarters ending in June 1998 (in last line).

3/ These data are bank claims on enterprises collected by the Ministry of Finance; and thus should be distinguished from data from enterprises collected by the BNB.

4/ These data are bank claims on enterprises collected by the BNB.

Table 36. Bulgaria: State-Owned Enterprises Profitability and Profit Categories, 1992-98 Q2

	1992	1993	1994	1995	1996	1997	1998Q1	1998Q2
Total number of enterprises	5,736	5,119	5,490	5,630	5,492	4,796	3,238	3,284
Group I								
Number	1,243	117	1,065	89	74	80	163	98
Share in Total, in percent	21.7	2.3	19.4	1.6	1.3	1.7	5.0	3.0
Group II								
Number	1,973	2,108	2,247	1,525	1,384	1,310	1,362	993
Share in Total, in percent	34.4	41.2	40.9	27.1	25.2	27.3	42.1	30.2
Group III								
Number	867	766	894	2,754	2,276	1,637	938	932
Share in Total, in percent	15.1	15.0	16.3	48.9	41.4	34.1	29.0	28.4
Subtotal: Groups I - III								
Number	4,083	2,991	4,206	4,368	3,734	3,027	2,463	2,023
Share in Total, in percent	71.2	58.4	76.6	77.6	68.0	63.1	76.1	61.6
Group IV								
Number	410	329	394	353	505	369	94	136
Share in Total, in percent	7.1	6.4	7.2	6.3	9.2	7.7	2.9	4.1
Group V								
Number	1,243	799	890	909	1,253	1,400	681	1,125
Share in Total, in percent	21.7	15.6	16.2	16.2	22.8	29.2	21.0	34.3

Sources: National Statistical Institute and Ministry of Finance.

Group I: Enterprise whose current revenues do not meet current expenditures on material inputs.
Group II: Enterprises that meet the cost of material inputs but nothing else.
Group III: Enterprises that meet the costs of material inputs and wages, but are unable to cover non-operational expenditure.
Group IV: Enterprises that meet all costs excluding depreciation.
Group V: Enteprises that meet all costs.

Table 37. Bulgaria: Share of the 100 Largest Loss-Making State-Owned Enterprises in All State-Owned Enterprises in 1997 and the First Half of 1998 1/

	1997			1998 H1		
	100 Largest loss-making SOEs in billion leva	All other SOEs in billion leva	Largest loss-making SOEs as percentage of all SOEs	100 Largest loss-making SOEs	All other SOEs	Largest loss-making SOEs as percentage of all SOEs
Revenue	4,353.9	16,269.6	26.8	1,511.9	9,111.9	16.6
Operational	4,034.3	14,510.9	27.8	1,431.9	8,595.5	16.7
Financial	262.6	1,422.9	18.5	56.5	412.2	13.7
Extraordinary	57.0	335.8	17.0	23.5	104.2	22.6
Expenditures	4,832.1	14,917.1	32.4	1,819.6	8,625.0	21.1
Operational	3,688.5	11,975.9	30.8	1,653.0	8,027.4	20.6
Financial	881.8	2,248.5	39.2	120.3	443.7	27.1
Extraordinary	261.8	692.7	37.8	46.3	153.9	30.1
Operational surplus	345.8	2,535.0		-221.1	568.1	
Net financial revenues	-619.2	-825.6		-63.8	-31.5	
Net extraordinary revenues	-204.8	-356.9		-22.8	-49.7	
Net profits	-478.2	1,352.5		-307.7	486.9	
Total nonbank liabilities	1,707.8	4,462.9	38.3	1,072.4	4,242.9	25.3
Suppliers	668.8	1,567.0	42.7	478.0	1,650.5	29.0
Personnel	29.7	190.5	15.6	61.7	213.4	28.9
Budget 2/	449.6	930.1	48.3	128.4	999.7	12.8
Other 3/	559.7	1,775.3	31.5	404.3	1,379.3	29.3

1/ Ministry of Finance data assembled from information from the National Statistical Institute. The 100 largest loss-making SOEs include enterprises under Isolation Program.

2/ Includes ZUNK credits transferred from banks to the budget.

3/ This represents a composite grouping of several categories including money received from customers in advance but not recognized as revenue for the year under review; and interest accrued but not actually paid to deposit money banks.

Table 38. Bulgaria: Privatization of State-Owned Enterprises, 1993-98

	1993	1994	1995	1996	1997	1998 1/	Total
Number of Privatization transactions 2/	115	549	1,522	3,090	914	1,201	7,391
In the state sector	62	165	309	515	590	920	2,561
Of which:							
Privatization agency	11	36	69	146	84	151	497
Ministries/Committees	51	129	240	369	506	769	2,064
In the municipal sector	53	384	1,213	2,575	324	281	4,830
Privatization Proceeds (million leva) 3/	1,220	7,825	7,637	51,102	951,868	860,512	1,880,164
Privatization proceeds (US$ million) 3/	72.2	232.8	181.9	416.6	608.0	530.0	2,041.5
Of which:							
Payments contracted	44.2	144.3	113.7	184.8	571.9	488.2	1,547.0
Corporate Liabilities paid	12.7	33.0	57.6	218.3	35.0	41.8	398.3
Corporate Liabilities assumed	15.2	55.6	10.7	13.5	1.1	0.0	96.2
Long-term assets privatized (billion leva) 4/	2.1	9.5	6.2	23.7	106.5	21.8	169.8
By privatization agency	1.9	8.5	2.9	20.4	13.8	8.8	56.3
By Ministries/Committees	0.3	0.9	3.3	3.3	8.2	13.1	29.1
By Center for Mass Privatization 5/	0.0	0.0	0.0	0.0	84.6	0.0	84.6
Long-term assets privatized (percent of total) 6/	0.4	1.6	1.1	4.1	18.4	3.8	29.3
By privatization agency	0.3	1.5	0.5	3.5	2.4	1.5	9.7
By Ministries/Committees	0.0	0.2	0.6	0.6	1.4	2.3	5.0
By Center for Mass Privatization 5/	0.0	0.0	0.0	0.0	14.6	0.0	14.6

Source: Privatization Agency.

1/ Through December 11, 1998.

2/ Includes privatization of whole enterprises and of parts of enterprises.

3/ Includes cash payments contracted and debt instruments.

4/ At end-1995 accounting valuation.

Table 39. Bulgaria: Consolidated Government, 1992-97

	1992	1993	1994	1995	1996	1997
			(In billions of leva)			
Total revenue	77.1	111.3	209.9	314.1	557.7	5,352.4
Of which: Tax revenue	66.5	86.4	167.1	257.9	463.8	4,546.4
BNB transfers	3.2	9.5	20.0	6.8	22.4	34.0
Total expenditure	87.6	143.8	240.3	363.7	740.4	5,708.0
Of which: Current non-interest	69.0	110.2	161.3	229.5	383.3	3,967.2
Interest	13.0	27.9	70.9	124.1	344.4	1,354.5
External	3.3	3.1	6.6	24.6	47.7	418.7
Domestic	9.7	24.8	64.3	99.5	296.7	935.8
Primary balance	2.5	-4.6	40.5	74.6	161.8	998.9
Primary balance excluding BNB transfers	-0.7	-14.1	20.5	67.8	139.3	964.9
Overall balance	-10.5	-32.6	-30.4	-49.6	-182.7	-355.6
Financing	10.5	32.6	30.4	49.6	182.7	355.6
External financing (net)	-1.5	-3.7	-2.5	-11.7	-50.1	-129.7
Domestic financing (net)	12.0	36.3	32.9	61.3	232.8	-54.0
Banking system	12.1	32.8	29.0	42.9	213.3	-66.5
Nonbank	-0.1	3.5	3.9	18.4	19.5	116.4
Privatization	0.0	0.0	0.0	0.0	0.0	539.3
			(In percent of GDP)			
Total revenue	38.4	37.2	39.9	35.7	31.9	31.3
Of which: Tax revenue	33.1	28.9	31.8	29.3	26.5	26.6
Total expenditure	43.6	48.1	45.7	41.3	42.3	33.4
Of which: Current non-interest	34.4	36.9	30.7	26.1	21.9	23.2
Interest	6.5	9.3	13.5	14.1	19.7	7.9
External	1.6	1.0	1.3	2.8	2.7	2.4
Domestic	4.8	8.3	12.2	11.3	17.0	5.5
Primary balance	1.2	-1.5	7.7	8.5	9.3	5.8
Primary balance excluding BNB transfers	-0.4	-4.7	3.9	7.7	8.0	5.6
Overall balance	-5.2	-10.9	-5.8	-5.6	-10.4	-2.1
Financing	5.2	10.9	5.8	5.6	10.4	2.1
External financing (net)	-0.7	-1.2	-0.5	-1.3	-2.9	-0.8
Domestic financing (net)	6.0	12.1	6.3	7.0	13.3	-0.3
Banking system	6.0	11.0	5.5	4.9	12.2	-0.4
Nonbank	-0.1	1.2	0.7	2.1	1.1	0.7
Privatization	0.0	0.0	0.0	0.0	0.0	3.2
Memorandum items						
Government social insurance contributions 1/						
(In billions of leva)	4.2	6.4	9.9	2.3	22.2	217.1
(In percent of GDP)	2.1	2.2	1.9	1.2	1.3	1.3
Nominal GDP	200.8	298.9	525.6	880.3	1,748.7	17,103.4

Source: Bulgarian Ministry of Finance.

1/ Social insurance contributions paid by government to the social insurance fund.

Table 40. Bulgaria: Consolidated Government Revenue, 1992-97

	1992	1993	1994	1995	1996	1997
			(In billions of leva)			
Total revenue	77.1	111.3	209.9	314.1	557.7	5,352.4
Tax revenue	66.5	86.4	167.1	257.9	463.8	4,546.4
Profit taxes	13.6	6.7	19.4	33.1	74.2	849.2
Nonfinancial enterprises	9.0	5.9	18.9	29.8	62.2	754.9
Financial enterprises	4.6	0.8	0.5	3.4	12.0	94.3
Income taxes	10.9	15.0	23.3	36.5	70.1	680.1
VAT/turnover taxes	7.2	10.4	38.6	59.3	116.9	1,048.6
Excise duties	5.2	11.3	18.0	23.2	26.4	362.0
Customs duties	4.0	9.1	14.8	21.4	38.2	363.4
Social insurance contributions	21.5	30.1	46.9	69.7	121.0	1,175.9
Pension fund	18.5	25.7	40.0	59.4	107.5	1,059.3
Unemployment fund	3.0	4.4	6.8	10.3	13.4	116.6
Other taxes	4.2	3.8	6.2	14.6	17.1	67.2
Nontax revenues	10.6	18.7	40.0	50.0	86.3	745.1
BNB transfers	3.2	9.5	20.0	15.9	22.4	34.0
Other	7.4	9.2	20.0	34.1	63.9	711.1
Extrabudgetary funds	0.0	6.2	2.8	6.2	7.6	0.0
			(In percent of GDP)			
Total revenue	38.4	37.2	39.9	35.7	31.9	31.3
Tax revenue	33.1	28.9	31.8	29.3	26.5	26.6
Profit taxes	6.8	2.2	3.7	3.8	4.2	5.0
Nonfinancial enterprises	4.5	2.0	3.6	3.4	3.6	4.4
Financial enterprises	2.3	0.3	0.1	0.4	0.7	0.6
Income taxes	5.4	5.0	4.4	4.1	4.0	4.0
VAT/turnover taxes	3.6	3.5	7.3	6.7	6.7	6.1
Excise duties	2.6	3.8	3.4	2.6	1.5	2.1
Customs duties	2.0	3.0	2.8	2.4	2.2	2.1
Social insurance contributions	10.7	10.1	8.9	7.9	6.9	6.9
Pension fund	9.2	8.6	7.6	6.8	6.1	6.2
Unemployment fund	1.5	1.5	1.3	1.2	0.8	0.7
Other taxes	2.1	1.3	1.2	1.7	1.0	0.4
Nontax revenues	5.3	6.3	7.6	5.7	4.9	4.4
BNB transfers	1.6	3.2	3.8	1.8	1.3	0.2
Other	3.7	3.1	3.8	3.9	3.7	4.2
Extrabudgetary funds	0.0	2.1	0.5	0.7	0.4	0.0

Source: Bulgarian Ministry of Finance.

1/ Excluding the State Fund for Reconstruction and Development.

Table 41. Bulgaria: Consolidated Government Expenditure, 1992-97

	1992	1993	1994	1995	1996	1997
			(In billions of leva)			
Total expenditure	87.6	143.8	240.3	363.7	740.4	5,708.0
Total non-interest expenditure	74.6	115.9	169.4	239.5	396.0	4,353.5
Current non-interest expenditure	69.0	110.2	161.3	229.5	383.3	3,967.2
Compensation 1/	12.2	19.0	27.6	40.5	61.1	628.6
Wages and salaries	11.6	18.2	26.5	39.6	59.5	613.6
Scholarships	0.6	0.8	1.1	0.8	1.6	12.4
Maintenance/operating	16.1	19.5	33.6	48.1	86.2	1,070.8
Defense/security	8.4	12.0	19.0	31.7	53.1	618.7
Subsidies	3.7	6.5	7.2	9.3	14.3	125.7
Social expenditure	28.6	45.3	68.5	94.6	159.3	1,454.6
Pensions	20.0	32.8	51.3	70.6	122.1	1,077.4
Assistance	7.1	9.6	13.5	18.1	26.6	267.0
EU financed assistance	0.0	0.0	0.0	0.0	0.0	44.2
Unemployment	1.5	2.9	3.7	6.0	8.9	59.3
Severance payments	0.0	0.0	0.0	0.0	1.7	6.7
Extrabudgetary funds	0.0	7.8	5.3	5.3	9.3	35.3
Capital expenditure	5.6	5.7	8.1	10.0	12.6	174.7
Interest	13.0	27.9	70.9	124.1	344.4	1,354.5
External	3.3	3.1	6.6	24.6	47.7	418.7
Domestic	9.7	24.8	64.3	99.5	296.7	935.8
			(In percent of GDP)			
Total expenditure	43.6	48.1	45.7	41.3	42.3	33.4
Total noninterest expenditure	37.2	38.8	32.2	27.2	22.6	25.5
Current noninterest expenditure	34.4	36.9	30.7	26.1	21.9	23.2
Compensation 1/	6.1	6.4	5.3	4.6	3.5	3.7
Wages and salaries	5.8	6.1	5.0	4.5	3.4	3.6
Scholarships	0.3	0.3	0.2	0.1	0.1	0.1
Maintenance/operating	8.0	6.5	6.4	5.5	4.9	6.3
Defense/security	4.2	4.0	3.6	3.6	3.0	3.6
Subsidies	1.8	2.2	1.4	1.1	0.8	0.7
Social expenditure	14.2	15.2	13.0	10.8	9.1	8.5
Pensions	10.0	11.0	9.8	8.0	7.0	6.3
Assistance	3.5	3.2	2.6	2.1	1.5	1.6
EU financed assistance	0.0	0.0	0.0	0.0	0.0	0.3
Unemployment	0.8	1.0	0.7	0.7	0.5	0.3
Severance payments	0.0	0.0	0.0	0.0	0.1	0.0
Extrabudgetary funds	0.0	2.6	1.0	0.6	0.5	0.2
Capital expenditure	2.8	1.9	1.5	1.1	0.7	1.0
Interest	6.5	9.3	13.5	14.1	19.7	7.9
External	1.6	1.0	1.3	2.8	2.7	2.4
Domestic	4.8	8.3	12.2	11.3	17.0	5.5
Memorandum items:						
Government social insurance contributions 2/						
(In billions of leva)	4.2	6.4	9.9	14.3	22.2	217.1
(In percent of GDP)	2.1	2.2	1.9	1.6	1.3	1.3

Source: Bulgarian Ministry of Finance.

1/ Excluding social insurance paid by the government on behalf of its employees.

2/ Social insurance contributions paid by government to the social insurance fund.

Table 42. Bulgaria: General Government, 1995-97

	1995	1996	1997
		(In billions of leva)	
Total revenue	317.7	569.3	5,411.8
Of which: Consolidated budget	314.1	557.7	5,352.4
Total expenditure	373.2	791.1	5,837.7
Non-interest expenditure (consolidated budget)	239.5	396.0	4,353.5
Non-interest expenditure (SFRD)	5.0	39.3	44.8
Interest	128.7	355.9	1,439.4
External	29.2	59.2	503.6
Of which: Consolidated budget	24.6	47.7	418.7
Domestic	99.5	296.7	935.8
Primary balance	73.2	134.1	1,013.5
Overall balance	-55.5	-221.7	-425.9
Financing	55.5	221.8	425.9
External financing (net)	-7.5	-41.3	-218.4
Domestic financing (net)	61.2	260.5	79.8
Banking system	42.8	241.0	-36.6
Nonbank	18.4	19.5	116.4
Privatization	1.8	2.7	564.5
Consolidated budget	0.0	0.0	539.3
SFRD	1.8	2.7	25.2
		(In percent of GDP)	
Total revenue	36.1	32.6	31.6
Of which: Consolidated budget	35.7	31.9	31.3
Total expenditure	42.4	45.2	34.1
Non-interest expenditures (consolidated budget)	27.2	22.6	25.5
Non-interest expenditures (SFRD)	0.6	2.2	0.3
Interest	14.6	20.3	8.4
External	3.3	3.4	2.9
Of which: Consolidated budget	2.8	2.7	2.4
Domestic	11.3	17.0	5.5
Primary balance	8.3	7.7	5.9
Overall balance	-6.3	-12.7	-2.5
Financing	6.3	12.7	2.5
External financing (net)	-0.9	-2.4	-1.3
Domestic financing (net)	7.0	14.9	0.5
Banking system	4.9	13.8	-0.2
Nonbank	2.1	1.1	0.7
Privatization	0.2	0.2	3.3
Memorandum items:			
Government debt (leva billions) 1/	934.9	5,069.1	18,821.6
Domestic debt	345.4	1,052.9	4,399.7
Leva denominated	276.7	551.4	950.6
SDR denominated	0.0	0.0	1,619.1
US$ denominated	68.7	501.5	1,830.0
External debt 2/	589.5	4,016.3	14,421.9
Government debt (in percent of GDP) 1/	100.9	105.8	104.1
Domestic debt	37.3	22.0	24.3
Leva denominated	29.9	11.5	5.3
SDR denominated	0.0	0.0	9.0
US$ denominated	7.4	10.5	10.1
External debt 2/	63.7	83.8	79.8
Nominal GDP (in billions of leva)	880.3	1,748.7	17,103.4

Source: Bulgarian Ministry of Finance.

1/ End of period.

2/ Including obligations of the SFRD and other extrabudgetary funds outside the consolidated budget. Prior to 1995, data for the SFRD are not available on a consistent basis.

Table 43. Bulgaria. Public Debt, 1992–98

	1992	1993	1994	1995	1996	1997	1998 Sep.
	(In millions of U.S. dollar)						
Domestic 1/	1,731	3,717	4,146	4,885	2,160	1,565	1,458
Deficit financing	1,563	2,599	1,774	2,582	904	455	481
Bank recapitalization	169	1,118	2,372	2,303	1,138	886	748
Deposit protection	0	0	0	0	119	224	230
External 2/	12,079	12,464	10,411	9,055	8,831	9,060	8,658
London Club	8,029	8,315	5,137	5,005	4,984	4,924	4,871
Paris Club	1,095	1,100	1,240	1,238	1,035	878	1,016
IFIs, EU, G-24 (excluding IMF)	571	606	1,035	1,130	1,324	1,231	1,311
IMF	590	632	941	717	586	942	980
Other	1,794	1,811	2,058	965	902	1,085	479
Total	13,810	16,181	14,557	13,940	10,991	10,625	10,188
	(In percent of GDP 2/)						
Domestic 1/	20.1	34.3	42.7	37.3	22.0	15.4	10.9
Deficit financing	18.2	24.0	18.3	19.7	9.2	4.5	3.6
Bank recapitalization	2.0	10.3	24.4	17.6	11.6	8.7	5.6
Deposit protection	0.0	0.0	0.0	0.0	1.2	2.2	1.7
External 2/	140.4	115.1	107.2	69.1	89.8	89.8	64.6
London Club	93.3	76.8	52.9	38.2	50.7	48.4	36.3
Paris Club	12.7	10.2	12.8	9.4	10.5	8.6	7.6
IFIs, EU, G-24 (excluding IMF)	6.6	5.6	10.7	8.6	13.5	12.1	9.8
IMF	6.9	5.8	9.7	5.5	6.0	9.3	7.3
Other	20.9	16.7	21.2	7.4	9.2	10.7	3.6
Total	160.5	149.4	149.9	106.4	111.8	104.4	76.0
	(In percent of GDP 2/)						
Memorandum items:							
Government deposits at BNB	0.6	3.4	7.8	5.5	4.0	9.4	8.7
Discount bond collateral	0.0	0.0	19.1	13.1	17.3	16.6	13.4
Net public debt	159.9	146.0	123.0	87.8	90.6	78.4	54.0
Net external public debt	139.8	111.7	80.3	50.5	68.6	63.0	43.1
Deficit financing/Domestic debt	80.6	61.4	27.3	44.8	28.6	18.4	20.7
Share of foreign currency denominated domestic debt	0.0	0.0	43.6	19.9	47.7	65.8	62.0
Share of foreign currency denominated debt	87.5	77.0	83.9	71.9	89.7	95.0	94.6

Sources: Ministry of Finance; Bulgarian National Bank; and staff estimates.

1/ Debt of the government to the BNB as a result of onlending of IMF resources is included in external debt.

2/ Excludes public enterprises debt.

3/ Dollar amount divided by GDP in dollars converted at period average exchange rate.

Table 44. Bulgaria: Monetary Survey, 1991-98

	1991	1992	1993	1994	1995	1996	1997	1998 1/
				(In billions of leva)				
Broad money	103.2	158.6	234.1	418.0	583.7	1,310.3	6,018.6	6,063.9
Lev money	68.7	117.6	186.5	281.6	424.9	649.0	3,394.5	3,405.0
Deposits	56.8	99.3	161.3	243.1	363.3	522.5	2,080.4	1,941.7
Notes and coins	11.9	18.3	25.2	38.5	61.6	126.5	1,314.1	1,463.3
Foreign currency	34.5	41.0	47.6	136.4	158.8	661.3	2,624.1	2,658.9
Net foreign assets	-0.7	-12.0	-23.3	48.8	70.8	158.3	4,851.3	5,226.6
Of which : BNB	0.5	7.3	-0.9	-17.5	12.1	-234.5	2,719.5	3,021.9
Of which : DMB 2/	-1.2	-19.3	-22.4	66.3	58.7	392.8	2,131.8	2,088.9
Net domestic assets	103.9	170.6	257.4	369.2	512.9	1,152.0	1,167.3	953.2
Lev credit	83.5	122.0	204.2	269.2	411.1	651.1	1,035.6	839.8
Government	13.8	30.3	103.1	120.0	207.1	416.5	104.1	-582.6
Bad loan bonds	4.1	4.1	36.6	37.2	91.6	88.7	224.8	279.5
Non-government	69.7	91.7	101.1	149.3	204.0	234.6	931.5	1,422.5
Public enterprise 3/	56.7	73.9	75.7	111.7	97.6	95.2	336.2	277.3
Private sector 3/	13.0	17.8	25.4	37.5	106.4	139.3	595.3	1,145.2
FX credit	78.1	120.4	192.1	278.8	217.4	1,421.5	4,100.9	3,639.9
Government	32.4	59.4	90.4	156.8	62.3	484.8	1,537.5	1,524.5
Bad loan bonds	0.0	0.0	0.0	119.4	68.7	367.7	1,476.1	1,435.7
Non-government	45.7	61.0	101.6	122.1	155.1	936.7	2,563.4	2,115.3
Public enterprise (SOE)	45.7	61.0	91.1	78.2	71.4	429.7	917.8	650.5
Private sector	...	...	10.6	43.9	83.7	507.0	1,645.5	1,464.8
Other items net	-57.7	-71.8	138.9	-178.8	-115.6	-920.6	-3,969.1	-3,526.5
				(Percent change from previous year)				
Broad money	110.0	53.6	47.6	78.6	39.6	124.5	359.3	17.9
Lev money	58.9	71.1	58.6	51.0	50.9	52.7	423.0	32.7
Foreign currency deposits	485.2	18.8	16.2	186.5	16.4	316.5	296.8	29.0
Real broad money	-52.1	-14.4	-9.9	-19.5	5.1	-45.4	-32.2	11.7
Real lev money	-63.8	-4.6	-3.2	-32.0	13.5	62.8	-4.6	25.7
Real lev credit	-66.7	-18.6	2.1	-40.6	14.9	-63.8	-76.8	14.7
				(In millions of U.S. dollars)				
Foreign currency deposits	1,529	1,673	1,455	2,066	2,245	1,357	1,367	1,468
(In percent of broad money)	33.4	25.8	20.3	32.6	27.2	50.5	40.4	40.5
Net foreign assets	-33	-491	-713	740	1,001	325	2,731	3,124
Of which : BNB	21	299	-28	-265	171	-481	1,531	1,806
Of which : DMB 2/	-54	-790	-685	1,004	830	806	1,200	1,248
Foreign exchange credit	3,569	4,915	5,871	4,224	3,075	1,754	2,308	2,175
Government	1,478	2,424	2,765	2,375	881	832	865	911
Bad loan bonds	0	0	0	1,808	971	950	831	858
Non-government	2,091	2,490	3,106	1,849	2,194	1,922	1,443	1,264
Public enterprise (SOE)	...	...	2,784	1,184	1,011	882	517	389
Private sector	...	...	323	665	1,184	1,040	926	875

Sources: Bulgarian National Bank; and staff estimates.

1/ End-September.

2/ Foreign liabilities of DMBs are adjusted to exclude debt of the government, using estimates prior to 1995.

3/ Introduction of a new Chart of Accounts in June 1995 reclassified credit from state enterprise to the private sector.

Table 45. Bulgaria: Composition of Broad Money, 1991-98

		Currency outside banks	Demand deposits	Narrow money (MI)	Savings deposits 1/	Time & other deposits 2/	Lev money	Foreign currency deposit 3/	Broad money (M3)
					(In billion leva)				
1991:	March	7.3	10.6	18.0	14.8	9.3	42.0	25.4	67.4
	June	8.1	10.2	18.2	13.0	13.7	45.0	27.5	72.5
	Sep.	9.3	12.7	22.0	12.1	18.6	52.7	29.0	81.6
	Dec.	11.9	15.0	26.9	15.9	25.9	68.7	34.5	103.2
1992:	March	11.8	12.1	23.9	14.6	37.3	75.9	37.5	113.4
	June	12.8	12.3	25.1	14.7	44.6	84.4	34.8	119.2
	Sep.	16.0	15.9	31.8	15.7	52.8	100.3	37.5	137.8
	Dec.	18.3	19.6	37.8	20.2	59.4	117.4	35.8	153.2
1993:	March	17.4	15.2	32.6	20.3	72.9	125.7	39.1	164.8
	June	20.2	16.7	36.9	21.0	87.2	145.2	38.0	183.2
	Sep.	23.3	20.6	43.8	22.4	99.8	166.0	40.8	206.8
	Dec.	25.2	23.2	48.3	28.0	110.1	186.5	47.6	234.1
1994:	March	26.8	23.3	50.1	28.1	121.1	199.4	100.6	300.0
	June	30.3	24.7	55.0	30.0	136.4	221.4	93.8	315.2
	Sep.	33.3	30.4	63.7	31.2	148.0	242.9	133.1	376.0
	Dec.	38.5	36.6	75.1	40.9	165.6	281.6	136.4	418.0
1995:	March	36.5	34.5	70.9	43.5	199.4	313.8	133.9	447.8
	June	46.6	29.5	76.1	40.2	245.8	362.1	135.8	497.9
	Sep.	54.3	35.5	89.8	42.9	256.1	388.7	154.2	542.9
	Dec.	61.6	46.3	107.9	57.8	259.2	424.9	158.8	583.7
1996:	March	57.3	35.7	93.0	56.2	270.8	420.0	164.2	584.2
	June	70.3	42.1	112.3	54.6	272.7	439.7	258.2	697.9
	Sep.	85.4	57.2	142.7	51.8	281.2	475.7	350.8	826.5
	Dec.	126.5	110.2	236.6	81.6	330.8	649.0	661.3	1,310.3
1997:	March	265.6	197.4	462.9	91.2	506.6	1,060.7	2,089.2	3,149.9
	June	553.2	331.2	884.4	99.9	621.7	1,606.0	2,405.0	4,011.0
	Sep.	966.8	607.0	1,573.8	161.5	809.8	2,545.1	2,579.1	5,124.2
	Dec.	1,314.1	976.2	2,290.3	226.9	877.3	3,394.5	2,624.1	6,018.6
1998:	March	1,285.4	812.1	2,097.5	238.4	935.7	3,271.6	2,686.2	5,957.9
	June	1,416.2	813.6	2,230.0	253.5	902.5	3,386.0	2,659.4	6,045.4
	Sep.	1,463.3	815.8	2,279.0	260.1	865.9	3,405.0	2,658.9	6,063.9
					(In percent of broad money)				
1991:	March	10.9	15.8	26.7	21.9	13.8	62.3	37.7	100.0
	June	11.1	14.0	25.1	18.0	19.0	62.0	38.0	100.0
	Sep.	11.4	15.6	27.0	14.8	22.7	64.5	35.5	100.0
	Dec.	11.5	14.6	26.1	15.4	25.1	66.6	33.4	100.0
1992:	March	10.4	10.7	21.1	12.9	32.9	66.9	33.1	100.0
	June	10.7	10.4	21.0	12.3	37.4	70.8	29.2	100.0
	Sep.	11.6	11.5	23.1	11.4	38.4	72.8	27.2	100.0
	Dec.	11.9	12.8	24.7	13.2	38.7	76.6	23.4	100.0
1993:	March	10.5	9.2	19.8	12.3	44.2	76.3	23.7	100.0
	June	11.0	9.1	20.2	11.5	47.6	79.3	20.7	100.0
	Sep.	11.3	9.9	21.2	10.8	48.3	80.3	19.7	100.0
	Dec.	10.7	9.9	20.6	12.0	47.0	79.7	20.3	100.0
1994:	March	8.9	7.8	16.7	9.4	40.4	66.5	33.5	100.0
	June	9.6	7.8	17.4	9.5	43.3	70.2	29.8	100.0
	Sep.	8.8	8.1	16.9	8.3	39.4	64.6	35.4	100.0
	Dec.	9.2	8.8	18.0	9.8	39.6	67.4	32.6	100.0
1995:	March	8.1	7.7	15.8	9.7	44.5	70.1	29.9	100.0
	June	9.4	5.9	15.3	8.1	49.4	72.7	27.3	100.0
	Sep.	10.0	6.5	16.5	7.9	47.2	71.6	28.4	100.0
	Dec.	10.6	7.9	18.5	9.9	44.4	72.8	27.2	100.0
1996:	March	9.8	6.1	15.9	9.6	46.4	71.9	28.1	100.0
	June	10.1	6.0	16.1	7.8	39.1	63.0	37.0	100.0
	Sep.	10.3	6.9	17.3	6.3	34.0	57.6	42.4	100.0
	Dec.	9.7	8.4	18.1	6.2	25.2	49.5	50.5	100.0
1997:	March	8.6	6.3	14.9	2.6	14.8	32.4	67.6	100.0
	June	13.8	8.3	22.0	2.5	15.5	40.0	60.0	100.0
	Sep.	18.9	11.8	30.7	3.2	15.8	49.7	50.3	100.0
	Dec.	21.8	16.2	38.1	3.8	14.6	56.4	43.6	100.0
1998:	March	21.6	13.6	35.2	4.0	15.7	54.9	45.1	100.0
	June	23.4	13.5	36.9	4.2	14.9	56.0	44.0	100.0
	Sep.	24.1	13.5	37.6	4.3	14.3	56.2	43.8	100.0

Sources: Bulgarian National Bank; and staff estimates.

1/ Saving deposits are held with the government guaranteed State Savings Bank, with a lower interest than time deposits.

2/ Other deposits consist of lev-denominated import and restricted deposits, plus money market instruments denominated in lev, a total of leva 4.0 billion in September 1995.

3/ Includes foreign currency denominated import and restricted deposits, a total of leva 8.9 billion in September 1995.

Table 46. Bulgaria: Foreign Assets of the Banking System, 1991-1998

(In millions of U.S. dollars)

	BNB International Reserves						Deposit Money Banks		Banking System	
	Gross reserves 1/	IMF purchases	Net reserves	Gross liabilities	Net foreign assets	Reserves less gold	Foreign assets 2/	Foreign currency deposits 3/	Foreign assets	Broad money
1991: March	455	186	270	186	270	150	1,352	1,674	1,807	4,446
June	459	248	211	248	211	154	1,428	1,568	1,887	4,131
Sep.	645	327	318	512	133	340	1,664	1,529	2,309	4,308
Dec.	636	414	222	614	21	331	1,477	1,582	2,112	4,732
1992: March	918	461	457	822	96	613	1,434	1,619	2,351	4,893
June	1,118	527	591	916	202	813	1,503	1,512	2,621	5,179
Sep.	1,409	631	778	1,032	376	1,104	1,698	1,656	3,106	6,088
Dec.	1,240	590	649	941	299	935	1,516	1,462	2,755	6,255
1993: March	1,182	643	539	991	191	877	1,390	1,475	2,572	6,215
June	1,316	642	674	1,010	306	1,011	1,247	1,425	2,563	6,867
Sep.	1,200	652	548	1,024	177	895	1,375	1,456	2,575	7,378
Dec.	960	633	328	988	-28	655	1,331	1,455	2,291	7,156
1994: March	941	650	291	1,034	-93	636	1,316	1,548	2,257	4,619
June	1,434	854	580	1,270	164	1,124	1,576	1,748	3,010	5,874
Sep.	1,052	978	73	1,406	-354	742	1,846	2,175	2,897	6,143
Dec.	1,311	941	370	1,576	-265	1,002	1,659	2,066	2,970	6,332
1995: March	1,437	961	476	1,634	-197	1,127	1,674	2,024	3,110	6,768
June	1,809	900	909	1,577	232	1,500	1,381	2,055	3,190	7,537
Sep.	1,743	799	944	1,464	279	1,434	1,554	2,267	3,297	7,982
Dec.	1,546	717	829	1,374	171	1,236	1,426	2,245	2,972	8,255
1996: March	953	630	323	1,277	-324	644	1,447	2,083	2,400	7,411
June	883	566	316	1,209	-326	573	1,192	1,661	2,075	4,489
Sep.	780	625	155	1,320	-540	471	1,235	1,525	2,015	3,594
Dec.	793	585	208	1,274	-481	483	1,248	1,357	2,041	2,689
1997: March	826	528	298	1183	-357	517	1331	1311	2157	1940
June	1654	701	952	1333	321	1344	1547	1399	3201	2334
Sep.	2233	891	1342	891	1342	1923	1721	1461	3954	2917
Dec.	2474	943	1531	943	1531	2164	1603	1477	4077	3388
1998: March	2570	909	1662	909	1662	2260	1613	1465	4183	3249
June	2612	1043	1569	1043	1569	2303	1640	1469	4252	3340
Sep.	2484	982	1502	982	1502	2180	1901	1589	4385	3624

Sources: Bulgarian National Bank; and staff calculations.

1/ Gross reserves net of outstanding purchases from the IMF.

2/ Includes claims in non-convertible curency and other illiquid assets in addition to claims on nonresident banks.

3/ Foreign curency denominated time deposits of households, SOEs, and the private sector.

Table 47. Bulgaria: National Bank Balance Sheet, 1992-98

	1992 Dec.	1993 Dec.	1994 Dec.	1995 Dec.	1996 Mar.	1996 June	1996 Sep.	1996 Dec.	1997 Mar.	1997 June	1997 Sep.	1997 Dec.	1998 Mar.	1998 June	1998 Sep.
	(In billions of leva)														
Reserve money	45.4	52.7	82.8	128.4	111.1	129.9	162.8	247.0	608.3	1,108.6	1,610.5	2,174.2	2,095.0	2,074.2	2044.9
Currency in circulation	22.5	28.4	43.2	68.6	62.7	77.5	96.5	138.2	299.0	599.0	1,032.5	1,419.8	1,360.0	1,490.2	1557.2
DMB reserves (net)	22.9	24.3	39.7	58.2	46.9	51.2	63.8	94.2	279.8	446.6	543.7	683.4	680.6	585.2	487.7
Required reserves (leva)	6.3	11.3	32.4	54.7	48.4	54.3	70.9	85.3	243.2	296.1	396.2	443.7	460.0	513.7	511.5
DMBs reserves (FX)	1.5	0.7	2.2	6.5	5.7	3.5	0.1	0.1	112.7	104.3	122.7	124.3	132.3	133.9	131.5
Excess reserves	4.0	4.3	2.2	3.5	-1.4	-3.1	-7.1	8.9	36.6	150.6	147.5	239.8	220.6	71.5	-23.8
Other	0.1	0.6	0.1	1.5	1.4	1.2	2.5	14.7	29.5	62.9	34.3	71.0	54.4	-1.2	0.0
Net foreign assets	7.3	-0.9	-17.5	12.1	-25.6	-50.7	-124.2	-234.5	-566.2	1578.0	2,364.9	2,719.5	3,060.7	3,355.6	3021.9
Net domestic assets	38.1	53.6	100.3	116.2	136.7	180.6	287.0	481.6	1,174.5	-469.4	-754.5	-545.3	-965.7	-1,281.4	-977.0
Government credit (net)	22.1	34.0	41.4	25.6	59.8	48.9	98.3	222.0	398.2	35.3	-216.7	-71.6	-398.2	-713.4	-390.9
Of which : Securities	...	2.1	13.0	50.6	73.2	78.1	139.7	272.9	523.9	0.0	0.0	0.0	0.0	0.0	0.0
Claims on DMBs (FX)	4.4	10.4	18.6	20.5	24.9	46.4	64.8	113.4	348.2	159.6	159.6	181.9	129.4	117.2	109.6
Claims on DMBs (leva)	15.1	16.8	28.9	24.2	37.0	66.5	79.2	125.4	139.1	152.5	155.4	152.7	154.5	148.3	148.3
Deposits	6.2	6.6	0.1	11.4	29.2	52.9	54.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lombard loans	5.0	4.5	22.5	1.0	3.0	3.9	6.2	6.2	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Discount credit	3.0	3.4	1.3	2.1	1.3	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overdrafts	...	1.2	4.6	5.6	0.3	0.3	0.1	61.1	0.4	0.4	0.4	0.0	0.0	0.0	0.0
Arrears	0.1	0.2	0.3	0.8	1.2	7.0	16.1	56.1	54.8	53.4	53.4	53.4	53.4	53.4	53.4
Other	0.8	0.9	0.0	3.3	2.0	2.0	2.0	2.0	82.9	98.7	101.7	99.3	101.1	94.9	94.9
Other items net	-3.5	-7.6	11.4	45.9	15.0	18.8	44.7	20.8	289.0	-816.8	-852.8	-808.3	-851.4	-833.5	-844.0
Leva per U.S. dollar	24.5	32.7	66.0	70.7	78.8	155.5	230.0	487.4	1,588.7	1,718.6	1,762.8	1,776.5	1,834.0	1,810.2	1673.2
	(Percent change from previous year, or previous quarter from 1995 on)														
Memorandum items:															
Broad money	53.6	47.6	11.2	7.5	0.1	19.5	18.4	58.5	135.2	30.1	27.8	17.5	-1.0	1.5	0.3
Lev money	71.1	58.6	15.9	9.3	-1.2	4.7	8.2	36.4	54.0	60.7	58.5	33.4	-3.6	3.5	0.6
Reserve money	52.7	16.0	19.1	11.0	-13.5	16.9	25.3	51.8	146.3	82.2	45.3	35.0	-3.6	-1.0	-1.4
Contributions to reserve money growth															
NFA	23.1	-18.1	-10.5	-5.9	-29.4	-22.6	-56.5	-67.8	-134.2	352.5	71.0	22.0	15.7	14.1	-16.1
NDA	29.7	34.1	29.6	16.9	15.9	39.6	81.9	119.5	280.4	-270.2	-25.7	13.0	-19.3	-15.1	14.7
Reserve money multiplier															
Broad money	3.5	4.4	4.9	4.5	5.3	5.4	5.1	5.3	5.1	3.6	3.2	2.8	2.6	2.9	3.0
Lev money	2.6	3.5	3.3	3.3	3.8	3.4	2.9	2.6	1.6	1.4	1.6	1.6	1.6	1.6	1.7

Sources: Bulgarian National Bank; and staff estimates.

Table 48. Bulgaria: Nominal Interest Rates and Exchange Rates, 1991-98

(In percent, lev denominated unless otherwise noted)

		BNB basic rate		DMB lending rate		Time deposit rate		Time deposit	Lev per U.S. dollar	
		Monthly	Annual	Monthly	Annual	Monthly	Annual	U.S. dollar 1/	End-month	Month average
1991:	March	3.8	55.5	4.1	62.3	3.0	42.1	...	15.2	15.9
	June	4.2	63.1	4.5	70.4	3.1	44.1	...	17.6	18.1
	Sep.	4.5	69.6	5.0	78.8	3.7	53.8	...	19.0	18.3
	Dec.	4.5	69.6	5.2	83.9	3.9	57.7	...	21.9	21.7
1992:	March	4.5	69.6	5.3	85.2	4.2	64.5	...	23.2	23.6
	June	4.5	69.6	5.3	85.2	4.2	64.6	...	23.0	23.1
	Sep.	3.6	52.5	4.4	68.4	3.1	44.9	...	22.6	22.3
	Dec.	3.4	49.7	4.2	64.6	3.2	45.3	...	24.5	24.8
1993:	March	4.3	64.8	5.2	82.9	3.9	57.4	4.7	26.5	26.6
	June	4.0	60.7	4.9	78.4	3.4	49.2	4.7	26.7	26.6
	Sep.	3.7	54.1	4.6	71.7	3.2	45.6	4.7	28.0	27.6
	Dec.	4.3	66.4	5.2	83.7	3.6	53.6	5.1	32.7	32.0
1994:	March	4.9	77.9	5.7	95.2	4.0	60.8	5.6	64.9	47.2
	June	5.2	83.0	5.9	99.9	4.2	64.0	5.7	53.7	54.4
	Sep.	5.8	97.5	6.4	111.0	4.5	69.0	5.4	61.2	61.3
	Dec.	6.0	101.2	6.7	117.8	4.6	72.3	5.9	66.0	65.5
1995:	March	6.0	101.2	6.8	119.5	4.7	72.7	5.7	66.2	66.0
	June	4.3	66.4	5.1	81.2	2.9	41.4	6.2	66.1	66.1
	July	3.5	51.0	4.2	64.6	2.4	32.6	...	66.2	66.1
	Aug.	2.8	39.8	3.6	52.2	1.9	25.3	...	68.0	67.7
	Sep.	2.8	39.8	3.6	53.2	1.9	25.3	...	68.0	68.0
	Oct.	2.8	39.8	3.5	51.6	1.9	25.3	6.6	68.6	68.2
	Nov.	2.8	39.8	3.6	52.0	1.9	25.3	6.8	69.8	69.1
	Dec.	2.8	39.8	3.5	51.4	1.9	25.3	6.6	70.7	70.3
1996:	Jan.	2.8	39.8	3.5	50.9	1.9	25.0	6.6	73.9	72.5
	Feb.	3.4	49.5	4.0	60.5	2.2	29.4	6.5	76.1	74.6
	March	4.0	59.5	4.6	71.5	2.6	35.3	5.8	78.8	77.9
	April	4.3	66.3	5.0	78.8	2.7	37.7	4.6	89.4	81.5
	May	8.0	151.3	8.4	163.2	4.4	67.8	6.0	147.0	119.5
	June	9.0	181.3	9.8	205.4	5.0	78.8	6.1	155.5	143.1
	July	9.0	181.3	9.7	203.7	4.9	78.4	5.7	187.1	180.1
	Aug.	9.0	181.3	9.7	202.7	4.9	78.4	5.8	202.0	191.8
	Sep.	11.4	264.1	12.1	292.1	5.4	87.3	5.6	230.0	224.6
	Oct.	22.8	1,079.4	24.2	1,246.0	19.9	779.2	4.9	239.6	224.3
	Nov.	15.5	463.6	16.8	546.0	11.0	248.0	4.7	349.9	283.4
	Dec.	15.0	435.0	15.8	480.8	9.9	211.8	4.8	487.4	461.2
1997:	Jan.	15.2	443.5	16.1	502.3	10.5	231.0	4.7	1,021.9	698.6
	Feb.	16.5	525.0	17.9	622.1	10.9	247.6	4.7	2,045.5	2,387.2
	March	18.0	628.8	19.3	727.0	10.9	247.6	4.9	1,588.7	1,660.1
	April	13.4	352.0	15.0	436.7	8.3	161.6	4.6	1,467.8	1,544.1
	May	5.1	81.4	5.9	98.3	3.0	43.0	4.9	1,568.1	1,532.6
	June	3.0	42.7	3.8	56.4	1.5	19.7	4.8	1,718.6	1,668.4
	July	0.7	8.5	1.1	14.4	0.3	4.2	4.1	1,843.8	1,788.1
	Aug.	0.5	5.8	0.9	11.0	0.2	2.8	3.8	1,809.0	1,844.2
	Sep.	0.5	6.3	1.0	12.7	0.2	3.0	3.8	1,762.8	1,791.9
	Oct.	0.5	5.6	0.9	11.2	0.3	3.1	3.8	1,719.0	1,751.2
	Nov.	0.5	5.6	1.0	12.5	0.2	3.0	3.8	1,767.0	1,731.1
	Dec.	0.6	7.0	1.1	13.9	0.2	3.0	4.1	1,776.5	1,774.8
1998:	Jan.	0.5	6.6	1.2	14.9	0.2	3.0	4.0	1,809.2	1,815.7
	Feb.	0.5	5.9	1.1	14.4	0.2	2.9	3.9	1,820.2	1,814.9
	March	0.4	5.5	1.1	13.8	0.2	2.8	3.9	1,834.0	1,826.7
	April	0.4	5.5	1.1	14.6	0.2	2.8	3.8	1,798.0	1,818.2
	May	0.4	5.4	1.2	15.4	0.2	2.7	3.9	1,782.4	1,774.9
	June	0.4	5.3	1.1	14.3	0.2	2.8	3.8	1,810.2	1,790.6
	July	0.4	5.3	1.1	13.9	0.2	3.0	3.8	1,769.0	1,799.2
	Aug.	0.4	5.3	1.0	13.2	0.3	3.3	3.9	1,791.8	1,789.0
	Sep.	0.4	5.2	1.1	13.4	0.3	3.3	3.8	1,673.2	1,707.3

Sources: Bulgarian National Bank; and staff estimates.

1/ Annual interest rate on U.S. dollar denominated deposits with commercial banks.

Table 49. Bulgaria: Real Interest Rates and Uncovered Interest Differentials, 1991-1998

(In percent)

		Lev time deposit rate		CPI inflation 1/		Real time deposit rate		Annual interest on U.S. dollar deposits 2/	Lev per U.S. dollar Appreciation 3/	Uncovered interest differential 4/	
		Monthly	Annual	Monthly	Annual	Monthly	Annual			Monthly	Annual
1991:	March	3.0	42.1	45.7	9,044.7	-20.3	-98.4	6.6	-44.9	-43.6	-99.9
	June	3.1	44.1	2.8	39.3	0.3	3.5	6.2	-2.1	0.4	5.4
	Sep.	3.7	53.8	5.9	98.7	-2.1	-22.6	5.6	-0.3	2.8	39.8
	Dec.	3.9	57.7	3.2	46.4	0.6	7.8	4.6	-5.6	-2.3	-24.2
1992:	March	4.2	64.5	4.8	76.1	-0.6	-6.6	4.4	-2.8	1.0	12.7
	June	4.2	64.6	6.9	122.8	-2.5	-26.1	4.0	0.7	4.7	72.9
	Sep.	3.1	44.9	2.5	33.7	0.7	8.4	3.3	1.2	4.1	61.9
	Dec.	3.2	45.3	5.8	97.4	-2.5	-26.4	3.6	-3.5	-0.7	-8.5
1993:	March	3.9	57.4	5.7	95.2	-1.8	-19.4	4.7	-2.3	1.1	14.1
	June	3.4	49.2	4.4	68.3	-1.0	-11.3	4.7	0.0	3.0	42.4
	Sep.	3.2	45.6	2.4	33.5	0.7	9.0	4.7	-1.2	1.5	19.9
	Dec.	3.6	53.6	4.2	64.3	-0.6	-6.5	5.1	-4.8	-1.8	-19.3
1994:	March	4.0	60.8	5.1	84.7	-1.1	-12.9	5.6	-12.2	-9.0	-67.9
	June	4.2	64.0	11.0	249.1	-6.1	-53.0	5.7	-4.6	-1.0	-11.8
	Sep.	4.5	69.0	5.5	90.9	-1.1	-11.5	5.4	-3.9	-0.1	-0.9
	Dec.	4.6	72.3	5.8	97.1	-1.1	-12.6	5.9	-2.2	1.9	24.7
1995:	March	4.7	72.7	3.7	54.2	1.0	12.0	5.7	-0.2	3.9	58.8
	June	2.9	41.4	1.1	14.3	1.8	23.7	6.2	-0.1	2.8	39.1
	Sep.	1.9	25.3	2.3	30.7	-0.4	-4.2	5.9	-0.9	-1.4	-15.7
	Dec.	1.9	25.3	2.6	35.4	-0.6	-7.5	6.6	-3.8	-2.5	-26.1
1996:	March	2.3	30.7	2.0	26.2	0.3	3.5	5.8	-10.3	-8.7	-66.5
	June	4.5	69.5	11.7	275.3	-6.4	-54.8	6.1	-49.3	-47.3	-100.0
	Sep.	5.1	81.4	19.7	764.7	-12.2	-79.0	5.6	-32.4	-29.3	-98.4
	Dec.	13.3	348.5	17.5	595.2	-3.6	-35.5	4.8	-52.8	-46.7	-99.9
1997:	March	10.8	242.4	76.8	92,936.6	-37.3	-99.6	4.9	-69.3	-66.2	-100.0
	June	4.3	65.7	1.9	25.2	2.4	32.4	4.8	-7.6	-4.0	-38.7
	Sep.	0.3	3.7	4.2	64.7	-3.7	-37.1	3.8	-2.5	-2.5	-26.3
	Dec.	0.3	3.7	0.8	10.5	-0.5	-6.2	4.1	-0.8	-0.8	-9.6
1998:	March	0.2	2.4	1.2	15.6	-1.0	-11.4	3.9	-3.1	-3.2	-32.4
	June	0.2	2.4	-0.4	-5.1	0.6	7.9	3.8	1.3	1.2	15.2
	Sep.	0.3	3.7	0.2	2.3	0.1	1.3	3.8	8.2	8.2	157.1

Sources: Bulgarian National Bank; and staff estimates.

1/ Change in CPI over previous three months, in monthly and annualized terms.

2/ Annual interest rate on U.S. dollar time deposits, or annual rate on three-month LIBOR when this is not available.

3/ Monthly rate of appreciation in lev per U.S. dollar over previous three-month period.

4/ Differential in return on lev and U.S. dollar time deposits, based on three-month rate of exchange rate appreciation (positive if differential in favor of lev).

Table 50. Bulgaria: Capital Adequacy of Commercial Banks

		Major banks 1/			Small and medium sized banks 2/			Foreign banks 3/			All banks		
		Capital base	Risk assets	Capital adequacy	Capital base	Risk assets	Capital adequacy	Capital base	Risk assets	Capital adequacy	Capital base	Risk assets	Capital adequacy
		(In billions of leva)		(Percent)	(In billions of leva)		(Percent)	(In billions of leva)		(Percent)	(In billions of leva)		(Percent)
1997	June	96	1,270	7.54	66	356	18.53	12	69	17.07	174	1,695	10.24
	Sep.	107	1,385	7.69	69	386	17.85	27	89	30.51	203	1,860	10.89
	Dec.	445	1,547	28.61	96	420	22.77	25	147	17.17	566	2,123	26.66
1998	March	433	1,899	22.8	134	550	24.36	37	233	15.98	604	2,682	22.52
	June	742	2,098	35.33	204	634	32.27	59	214	27.42	1,005	2,947	34.10
	Sep.	646	2,001	32.29	229	676	33.95	64	280	22.87	939	2,956	31.78

Source: Bulgarian National Bank.

1/ Group I includes the following banks: Bulbank, SSB, UBB, Bulgarian Post Bank, Biochim Commercial Bank, Expressbank and Hebros Bank.

2/ Group II includes: Central Cooperative Bank, Bulgarian-Russian Investment Bank, Credit Bank, First Investment Bank, Municipal Bank, First East International, St. Nicholas International Orthodox Bank, Unionbank, International Bank for Trade and Development, Private Entrepreneurial Bank Texim, Eurobank, Creditexpress Commercial Bank, Bulgaria-Invest Commercial Bank, Balkan Universal Bank, Corporate Commercial Bank, Bulgarian Investment Bank, Bulgariaan Trade and Industrial Bank, and Trakisbank.

3/ Group III includes: ING Bank - Sofia Branch, BNP - Dresdnerbank, Raiffeisenbank, Ionian Bank - Sofia Branch, Bayerisch-Bulgarische Handelsbank, Xios Commercial Bank - Sofia Branch, Bulgarian-American Credit Bank, National Bank of Greece and Societe Generale - Sofia Branch.

Table 51. Bulgaria: Liquidity Ratios of Commercial Banks, 1997-98

(In percent of deposits)

Commercial bank groups		1997 June	1997 Sep.	1997 Dec.	1998 March	1998 June	1998 Sep.
I. Major 1/	Primary liquidity	14.9	13.0	19.0	20.7	19.7	14.8
	Secondary liquidity	40.9	44.4	56.2	61.9	59.4	54.9
II. Small and medium size 2/	Primary liquidity	39.8	38.4	36.7	25.8	25.3	23.5
	Secondary liquidity	67.9	58.2	56.6	52.8	50.1	45.8
III. Foreign 3/	Primary liquidity	19.6	20.3	27.8	17.6	25.2	18.7
	Secondary liquidity	76.2	71.6	67.8	66.7	61.2	61.3
Total for the banking system	Primary liquidity	17.3	15.5	22.4	21.3	21.2	16.7
	Secondary liquidity	44.8	46.7	57.2	60.8	57.8	53.9

Source: Bulgarian National Bank

1/ Group I includes: the following banks: Bulbank, SSB, UBB, Bulgarian Post Bank, Biochim Commercial Bank, Expressbank and Hebros.

2/ Group II includes: Central Cooperative Bank, Bulgarian-Russian Investment Bank, Credit Bank, First Investment Bank, Municipal Bank, First East International Bank, St. Nicholas International Orthodox Bank, Unionbank, International Bank for Trade and Development, Private Entrepreneurial Bank Texim, Eurobank, Creditexpress Commercial Bank, Bulgaria-Invest Commercial Bank, Balkan Universal Bank, Corporate Commercial Bank, Bulgarian Investment Bank, Bulgarian Trade and Industrial Bank and Trakiabank.

3/ Group III includes: ING Bank - Sofia Branch, BNP - Dresdnerbank, Raiffeisenbank, Ionian Bank - Sofia Branch, Bayerisch-Bulgarische Handelsbank, Xios Commercial Bank, Sofia Branch, Bulgarian-American Credit Bank, National Bank of Greece and Societe Generale - Sofia Branch.

Table 52. Bulgaria: Consolidated Income Statement of Domestic Money Banks, 1997-98

(In billions of leva)

	1997	1998 Q1	1998 Q1+Q2	1998 Jan.-Sep.
Financial expenditure	19,797	1,332	2,547	4,544
Interest on lev operations	368	16	27	41
Interest on foreign exchange operations	95	26	48	79
Capital losses on securities	1,624	110	146	236
Valuation adjustments	16,381	1,096	2,190	3,830
Commission and fees	54	6	16	21
Provisioning	1,272	78	120	335
Other	2	1	0	3
Extraordinary expenditure	60	1	11	18
Operating expenditure	254	76	159	244
Equipment	23	6	11	16
Services	79	21	47	72
Salaries and other remuneration	81	26	49	73
Social securities and benefits	30	9	20	31
Depreciation	7	7	15	23
Other	33	7	18	29
Taxes	196	38	61	41
Profit tax	162	28	45	31
Other taxes	34	10	16	10
Total expenditure	20,307	1,448	2,779	4,847
Result from the reporting period (profit)	406	124	176	91
TOTAL	20,713	1,572	2,955	4,937
Financial revenue	20,558	1,547	2,917	4,898
Interest on lev operations	412	46	96	151
Interest on foreign exchange operations	278	76	136	202
Income from partnerships and equity	1	0	0	3
Capital gains on securities	1,631	91	141	225
Valuation adjustments	17,770	1,171	2,247	3,799
Commissions and fees	117	26	57	91
Other	350	137	240	377
Extraordinary revenue	112	15	30	37
Revenue from nonfinancial services	5	2	4	7
Total revenue	20,676	1,565	2,951	4,892
Result from the reporting period (Losses)	37	7	4	45
TOTAL	20,713	1,572	2,955	4,937

Source: Bulgarian National Bank.

Table 53. Bulgaria: Quality of Credit Portfolio of Commercial Banks

(In percent of loans)

Commercial bank groups		1997 Dec.	1998 March	1998 June	1998 Sep.
I. Major 1/	Total (in billions of leva)	2,921	2,852	3,171	3,343
	Standard	78.7	80.0	82.2	84.0
	Watch	2.2	2.7	2.1	2.6
	Substandard	1.8	1.6	2.3	1.1
	Doubtful	2.3	2.1	0.4	0.5
	Loss	15.0	13.5	13.1	11.9
	Provisions	25.8	18.1	15.5	14.1
II. Small and medium-sized 2/	Total (in billions of leva)	489	629	700	702
	Standard	76.2	82.1	88.3	88.7
	Watch	13.8	9.3	6.7	6.3
	Substandard	0.2	1.2	0.2	0.5
	Doubtful	1.1	0.7	0.5	0.6
	Loss	8.8	6.8	4.3	3.9
	Provisions	14.6	10.7	8.3	8.1
III. Foreign 3/	Total (in billions of leva)	396	416	397	495
	Standard	83.0	83.7	83.8	86.2
	Watch	2.0	2.9	1.4	3.9
	Substandard	11.7	9.8	10.6	8.0
	Doubtful	1.5	1.6	2.4	0.6
	Loss	1.8	2.0	1.8	1.4
	Provisions	10.1	9.6	10.3	8.2
Total	Total (in billions of leva)	3,806	3,898	4,267	4,541
	Standard	78.8	80.7	83.3	84.9
	Watch	3.7	3.8	2.8	3.3
	Substandard	2.7	2.4	2.7	1.7
	Doubtful	2.0	1.8	0.6	0.5
	Loss	12.9	11.2	10.6	9.5
	Provisions	22.7	16.0	13.8	12.5

Source: Bulgarian National Bank.

1/ Group I includes the following banks: Bulbank, SSB, UBB, Bulgarian Post Bank, Biochim Commercial Bank, Expressbank and Hebros Bank, Expressbank and Hebros.

2/ Group II includes: Central Cooperative Bank, Bulgarian-Russian Investment Bank, Credit Bank, First Investment Bank, Municipal Bank, First East International Bank, St. Nicholas International Orthodox Bank, Unionbank, International Bank for Trade and Development, Private Entrepreneurial Bank Texim, Eurobank, Creditexpress Commercial Bank, Bulgaria-Invest Commerical Bank, Balkan Universal Bank, Corporate Commercial Bank, Bulgarian Investment Bank, Bulgarian Trade and Industrial Bank,and Trakiabank.

3/ Group III includes: ING Bank - Sofia Branch, BNP - Dresdnerbank, Raiffeisenbank, Ionian Bank, National Bank of Greece, and Societe Generale - Sofia Branch.

Table 54. Bulgaria: Summary Balance of Payments, 1993-98

	1993	1994	1995	1996	1997	1998 Est.
	(In millions of U.S. dollars)					
Current account balance	-1,345	-169	-25	82	426	-90
Trade balance 1/	-885	-17	121	188	380	-244
Services balance	-497	-326	-279	-276	-191	-55
Transfers, net	37	174	132	170	237	209
Capital account balance	-236	239	366	-921	659	242
Foreign direct investment, net	40	105	98	137	507	185
Portfolio investment, net	...	-10	-66	-129	133	-200
Medium- and long-term financial capital, net	-952	-35	-153	-301	-273	156
Short-term trade credits, net 2/	286	263	293	338	155	-26
Other short-term capital, net 3/	390	-84	194	-967	137	126
Cost of DDSR	0	-716	0	0	0	0
DDSR Resources from IMF and IBRD	0	226	0	0	0	0
Overall balance	-1,581	-420	341	-839	1,085	152
Financing	1,581	420	-341	839	-1,085	-152
Change in BNB gross foreign assets (increase:-)	247	-351	-235	753	-1,675	-583
Obligations deferred/rescheduled	1,226	658	111	90	93	302
Change in arrears	65	-49	29	105	103	0
Use of Fund credit, net	43	162	-246	-108	394	129
Purchases	43	231	0	116	482	312
Repurchases	0	-70	-246	-225	-88	-183
Memorandum items:						
Total medium- and long-term external debt	12,807	10,955	9,958	9,388	9,322	9,578
Gross official reserves (including gold)	960	1,311	1,546	793	2,468	3,051
(in months of imports of GNFS)	(2.2)	(2.4)	(3.1)	(1.6)	(5.2)	(6.3)
(excluding gold, in months of imports of GNFS and interest payments)	(1.2)	(2.1)	(2.1)	(0.9)	(4.2)	(5.2)
(in percent of Currency Board & official debt service) 4/	...	...	(90)	(30)	(116)	(126)
	(In percent of GDP)					
Current account balance	-12.4	-1.7	-0.2	0.8	4.2	-0.7
Capital account balance	-2.2	2.5	2.8	-9.4	6.5	1.9
Overall balance	-14.6	-4.3	2.6	-8.5	10.7	1.2
Total medium- and long-term external debt	118	113	76	95	92	76
Total external debt service (including to IMF)	14.9	10.0	8.0	12.8	10.3	8.8

Sources: Data provided by the Bulgarian authorities; and staff estimates.

1/ Customs basis.

2/ Includes the value of repayments made by Russia in the form of gas provided to Bulgaria under the Jamburg agreement in 1996-97.

3/ Includes the discrepancy between settlements and customs data in the trade account, clearing account transactions, changes in net foreign assets of deposit money banks, other short-term capital flows, and errors and omissions.

4/ Currency Board cover comprises reserve money and the BNB Banking Department's deposit with the Issue Department. Official debt service comprises official external debt service and official domestic interest payments.

Table 55. Bulgaria: Current Account, 1993-98

	1993	1994	1995	1996	1997	1998 Est.
	(In millions of U.S. dollars)					
Current account balance	-1,345	-169	-25	82	426	-90
Trade balance	-885	-17	121	188	380	-244
Exports of goods, f.o.b.	3,726	3,935	5,345	4,890	4,940	4,353
Imports of goods, f.o.b.	4,612	3,952	5,224	4,703	4,559	4,597
Services balance	-497	-326	-279	-276	-191	-55
Receipts	1,264	1,341	1,581	1,547	1,548	1,559
Payments	1,761	1,667	1,860	1,823	1,739	1,614
Of which:						
Transport, net	-72	-90	-37	-47	-57	-43
Receipts	432	376	494	439	449	468
Payments	504	466	531	486	506	511
Travel, net	51	118	278	190	148	253
Receipts	307	362	473	389	369	481
Payments	257	244	195	199	222	229
Interest, net	-440	-337	-432	-400	-363	-311
Receipts	93	84	150	143	158	176
Payments	532	421	582	543	521	487
Other (including income), net	-36	-17	-87	-19	82	46
Receipts	432	520	465	577	572	433
Payments	467	537	552	595	491	387
Transfer income, net	37	174	132	170	237	209
Private transfers, net	37	164	117	68	108	159
Receipts	286	347	242	195	146	184
Payments	249	183	125	127	38	25
Unrequited transfers, net	0	10	15	103	129	50
	(In percent of GDP)					
Memorandum items:						
Current account balance	-12.4	-1.7	-0.2	0.8	4.2	-0.7
Non-interest current account balance	-8.4	1.7	3.1	4.9	7.8	1.7
Trade balance	-8.2	-0.2	0.9	1.9	3.7	-1.9
Services balance	-4.6	-3.4	-2.1	-2.8	-1.9	-0.4
Net transfer income	0.3	1.8	1.0	1.7	2.3	1.7

Sources: Data provided by the Bulgarian authorities; and staff estimates.

Table 56. Bulgaria: Trade Volumes and Prices, 1993-98

(Percentage changes in U.S. dollar indices, 1991=100)

	1993	1994	1995	1996	1997	1998 Est.	Cumulative 1993-94	Cumulative 1995-98	Cumulative 1993-98
Export value	-5.0	5.6	35.8	-8.5	0.7	-11.7	0.3	10.6	11.0
Export price 1/	-1.8	4.3	8.6	2.0	-4.6	-9.2	2.4	-4.1	-1.8
Export volume	-3.2	1.3	25.1	-10.3	5.6	-2.7	-2.0	15.3	13.1
Import value	10.6	-14.3	32.2	-10.0	-3.1	0.9	-5.2	16.3	10.3
Import price 2/	-12.9	-8.0	5.5	4.6	-2.6	-11.8	-19.9	-5.2	-24.1
Import volume	27.0	-6.8	25.3	-13.9	-0.5	14.4	18.4	22.7	45.3
Non-energy import value	9.0	-7.5	34.2	-20.0	0.8	14.8	0.8	24.4	25.3
Non-energy import price 3/	-1.2	5.3	8.9	0.8	-5.0	-7.9	4.0	-4.0	-0.1
Non-energy import volume	10.2	-12.1	23.2	-20.6	6.2	24.7	-3.1	29.5	25.4
Terms of trade	12.7	13.4	2.9	-2.5	-2.1	3.0	31.6	-1.7	29.3
Memorandum items:									
Exports of goods:									
Volume growth in Bulgaria's export markets 4/	6.5	6.8	11.3	7.0	8.3	3.2	13.7	33.1	51.4
Volume growth in Bulgaria's exports	-3.2	1.3	25.1	-10.3	5.6	-2.7	-2.0	15.3	13.1
Change in Bulgaria's market share	-9.1	-5.2	12.4	-16.1	-2.5	-5.7	-13.8	-13.4	-25.3
Imports of goods:									
Real GDP growth in Bulgaria	-1.5	1.8	2.1	-10.9	-6.9	5.0	0.3	-11.0	-10.8
Volume growth in Bulgaria's imports	27.0	-6.8	25.3	-13.9	-0.5	14.4	18.4	22.7	45.3

Sources: Data provided by the Bulgarian authorities; IMF *World Economic Outlook*; and IMF staff estimates.

1/ Bulgarian export-weighted average change in non-fuel commodities prices, export unit values for manufactured goods of industrialized economies, and fuel commodities' prices, all in U.S. dollar terms.

2/ Bulgarian import-weighted average change in non-fuel commodities prices, export unit values for manufactured goods of industrialized economies, and fuel commodities' prices, all in U.S. dollar terms.

3/ Bulgarian import-weighted average change in non-fuel commodities prices and export unit values for manufactured goods of industrialized economies, both in U.S. dollar terms.

4/ Bulgarian export-weighted average change in partners' (all countries) real imports of goods (including oil) in U.S. dollar terms.

Table 57. Bulgaria: Exchange Rates, 1993-98

	Nominal exchange rates 1/		Real effective exchange rates 2/	
	BGL:DM	BGL:US$	CPI-basis	ULC-basis
1993	16.7	27.6	98.5	176.2
1994	33.7	54.1	89.2	111.3
1995	46.9	67.2	100.0	100.0
1996	117.4	177.9	86.1	82.5
1997	967.3	1,681.0	105.1	84.5
1998 3/	1,000.0	1,766.7	122.4	113.5
1995				
January	43.6	66.8	96.1	92.4
February	44.2	66.4	98.8	91.1
March	46.9	66.0	98.2	91.9
April	47.6	65.6	97.7	93.3
May	46.6	65.6	99.1	97.5
June	47.2	66.1	98.3	99.3
July	47.6	66.1	98.8	100.0
August	46.9	67.7	99.0	101.1
September	46.5	68.0	102.6	104.0
October	48.3	68.2	102.6	107.3
November	48.8	69.1	103.6	106.8
December	48.8	70.3	105.1	103.9
1996				
January	49.6	72.5	104.1	99.8
February	50.9	74.6	103.1	98.2
March	52.7	77.9	100.3	101.3
April	54.1	81.5	99.0	103.2
May	78.0	119.5	76.2	96.0
June	93.7	143.1	76.1	85.0
July	119.7	180.1	73.4	71.3
August	129.3	191.8	79.5	65.6
September	149.2	224.6	80.9	65.2
October	146.8	224.3	94.5	70.6
November	187.5	283.4	81.5	71.8
December	297.2	461.2	64.2	61.9
1997				
January	435.5	698.6	62.4	52.3
February	1,425.5	2,387.2	64.4	43.8
March	978.3	1,660.1	104.0	54.1
April	902.5	1,544.1	111.1	71.1
May	899.8	1,532.6	117.2	90.7
June	965.9	1,668.4	109.0	97.4
July	1,000.0	1,788.1	107.4	93.3
August	1,000.0	1,844.2	111.9	91.8
September	1,000.0	1,791.9	117.1	94.0
October	1,000.0	1,751.2	118.3	102.6
November	1,000.0	1,731.1	119.0	110.0
December	1,000.0	1,774.8	119.2	112.5
1998				
January	1,000.0	1,815.7	120.5	101.7
February	1,000.0	1,814.9	122.1	99.4
March	1,000.0	1,826.7	122.3	100.5
April	1,000.0	1,818.2	123.0	107.2
May	1,000.0	1,774.9	124.5	113.9
June	1,000.0	1,790.6	121.2	117.0
July	1,000.0	1,799.2	119.7	115.0
August	1,000.0	1,789.0	119.0	115.7
September	1,000.0	1,745.9	119.6	125.0
October	1,000.0	1,647.5	127.9	139.2
November	1,000.0	1,702.6	126.6	...
December	1,000.0	1,675.1	...	...

Sources: Data provided by the Bulgarian authorities; and IMF staff estimates.

1/ Period average data.

2/ Indices, 1995 = 100.

3/ 1998 averages through November and October, respectively, for the real effective exchange rate indices on a CPI-basis and ULC-basis.

Table 58. Bulgaria: Commodity Composition of Exports, 1993-98

	1993	1994	1995	1996	1997	1997 Jan.-Sep.	1998 Jan.-Sep. 1/	Cumulative 1995-98	1997-98
	(In percent of total)							(In percent)	
Exports, f.o.b.	**100**	**100**	**100**	**100**	**100**	**100**	**100**	...	...
Metal products	18.2	19.8	19.6	17.7	21.3	21.3	20.9	5.4	17.9
Of which: Iron and steel products (72,73)	11.2	12.7	11.6	9.0	11.5	11.6	12.3	-3.1	37.1
Copper products (74)	4.0	4.7	5.2	5.4	5.8	5.6	5.0	8.2	-6.1
Zinc products (79)	1.5	1.0	1.1	1.3	0.8	0.8	1.6	61.3	22.1
Chemical products	16.8	15.5	18.4	20.0	18.5	19.1	15.6	0.6	-21.7
Of which: Organic and inorganic chemicals (28, 29)	4.5	5.1	5.7	5.6	6.1	6.2	5.0	-1.8	-10.1
Fertilizers (31)	2.7	2.9	4.6	5.6	3.5	4.0	2.2	-24.1	-60.7
Plastic products (39)	2.3	2.7	2.8	2.5	2.5	2.6	2.3	-12.2	-7.5
Pharmaceutical products (30)	4.1	1.9	1.7	2.0	2.5	2.3	2.1	10.2	1.4
Essential oils, perfumes, toiletries (33)	0.9	1.0	1.4	1.9	1.9	2.1	1.8	90.3	-3.6
Rubber products (40)	1.2	1.0	1.1	1.2	1.0	1.0	1.2	13.1	-4.0
Textiles	13.4	12.6	12.8	14.7	16.2	16.1	20.1	59.2	36.5
Of which: Clothing and accessories (61, 62)	4.6	4.3	4.5	5.7	7.1	7.0	10.2	136.8	78.4
Footwear, etc (64)	2.2	2.2	1.8	2.3	2.5	2.5	2.7	27.1	20.2
Machinery and equipment	16.1	17.0	14.1	15.2	14.6	14.6	15.4	-9.4	1.4
Of which: Nuclear reactors, boilers, machinery, etc (84)	6.9	6.0	5.6	6.1	5.3	5.2	6.2	3.3	2.8
Electrical machines, equipment, etc (85)	5.0	4.7	3.5	3.9	3.6	3.6	3.3	-28.5	-14.1
Ships and boats (89)	0.8	1.2	1.4	1.7	1.5	1.8	1.7	45.9	2.5
Optical instruments and appliances (90)	0.3	0.3	0.3	0.4	0.4	0.3	0.5	60.3	17.8
Animal and vegetable products	20.3	20.6	21.9	18.7	14.2	13.6	14.9	-27.6	-20.4
Of which: Tobacco products (24)	6.3	5.6	5.7	5.2	3.3	3.1	2.3	-58.7	-55.6
Beverages, etc (22)	3.2	3.8	3.6	3.7	2.9	2.9	3.6	-7.3	-4.7
Cereals (10)	0.4	0.1	2.3	0.1	0.3	0.1	1.6	1,203.1	1,752.1
Fruit and vegetables (07, 08)	1.1	2.7	1.4	1.2	0.9	0.9	1.2	-58.1	-6.4
Mineral products	10.5	9.6	8.3	9.0	10.4	10.5	7.8	-18.9	-13.9
Of which: Mineral fuels, oils and products, etc (27)	8.4	7.3	6.1	6.5	7.6	7.4	5.9	-19.3	-9.0
Wood, paper, earthenware, glass, etc	4.7	4.8	4.8	4.6	4.9	4.9	5.3	9.1	13.7
Of which: Wood products (44)	2.2	1.8	1.4	1.6	1.0	1.1	2.0	15.5	28.0

Source: Data provided by the Bulgarian authorities.

1/ Preliminary data.

Table 59. Bulgaria: Direction of Trade, 1993-98

(In percent of total)

	1993		1994		1995		1996		1997		1997 Jan-Sep		1998 Jan-Sep 1/	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Developed countries	43.5	46.0	46.1	45.2	50.6	45.3	51.7	42.6	58.1	47.0	58.0	46.6	62.9	54.8
Of which:														
Austria	1.2	2.6	1.3	2.8	0.9	2.8	1.0	2.4	1.1	2.4	1.0	2.5	1.5	2.9
Belgium	1.2	0.9	2.0	1.1	1.5	1.3	1.5	1.2	1.5	1.3	1.6	1.3	3.6	1.8
France	2.6	2.4	2.5	2.7	2.9	2.8	2.6	3.2	2.7	3.2	2.6	3.2	3.3	4.6
Germany	6.7	11.1	8.1	12.5	8.6	12.4	9.0	11.3	9.5	11.8	8.9	11.5	10.2	13.6
Greece	5.7	3.4	7.4	4.6	6.9	4.4	7.1	3.9	8.2	4.2	8.0	4.1	9.3	6.0
Italy	6.0	4.4	6.9	5.2	8.2	5.8	10.1	6.3	11.7	7.2	12.0	7.2	12.9	7.3
Japan	0.4	1.3	0.4	0.9	0.3	0.8	0.5	0.7	0.8	0.8	0.9	0.8	0.9	0.8
Netherlands	1.5	1.7	2.1	1.9	1.9	2.0	1.6	1.8	1.5	1.9	1.6	1.9	1.9	2.1
Spain	0.5	0.3	0.9	0.5	2.5	0.5	2.3	0.5	2.6	0.5	2.8	0.5	3.1	1.0
Turkey	7.7	1.5	4.6	1.8	7.2	1.8	7.9	1.9	9.0	2.1	9.2	2.1	7.3	2.3
United States	3.4	3.7	4.8	3.1	3.0	2.1	2.3	2.2	2.6	3.7	2.4	3.7	2.5	4.2
United Kingdom	3.1	5.6	2.5	3.2	3.1	2.6	2.9	2.1	2.7	2.6	2.8	2.7	2.6	2.4
Developing countries	56.5	54.0	53.9	54.8	49.4	54.7	48.3	57.4	41.9	53.0	42.0	53.4	37.1	45.2
Of which:														
Czech Republic	0.6	1.3	0.4	1.3	0.3	1.3	0.5	1.3	0.4	1.3	0.4	1.1	0.4	1.8
Hungary	0.6	0.4	0.5	0.7	0.4	0.7	0.5	0.7	0.5	0.9	0.4	1.0	0.8	0.8
Macedonia	6.3	1.6	9.2	2.9	8.2	3.1	3.0	0.6	2.0	0.5	1.9	0.6	2.2	0.7
Poland	0.7	0.5	0.4	1.1	0.5	0.5	0.6	0.7	0.6	1.2	0.6	1.2	1.5	0.9
Romania	2.5	2.1	1.4	1.9	1.8	1.1	1.5	1.4	1.3	1.0	1.2	1.1	1.3	1.1
Russia	13.8	26.5	12.2	25.7	10.0	28.1	9.8	33.4	7.9	28.0	8.1	28.0	6.0	20.9
Serbia/Montenegro	3.3	0.1	3.4	0.0	1.6	0.1	4.7	1.1	2.5	0.8	2.3	0.7	2.4	0.8
Ukraine	3.2	5.1	3.0	4.1	3.6	3.3	3.4	2.4	3.0	3.7	2.9	3.8	2.8	4.0
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Memorandum items:														
European Union	29.9	34.2	34.6	37.0	37.6	37.2	39.1	35.1	43.2	37.7	42.9	37.1	50.3	44.6
CEFTA members 2/	4.7	4.5	3.8	5.4	3.6	4.2	3.5	4.5	3.4	5.0	3.1	5.0	4.9	5.4

Source: Data provided by the Bulgarian authorities.

1/ Preliminary data.
2/ Includes Czech Republic, Hungary, Poland, Romania, Slovak Republic, and Slovenia.

Table 60. Bulgaria: Commodity Composition of Imports, 1993-98

	1993	1994	1995	1996	1997	1997 Jan.-Sep.	1998 Jan.-Sep. 1/	Cumulative 1995-98	Cumulative 1997-98
	(In percent of total)							(In percent)	
Imports, c.i.f.	**100**	**100**	**100**	**100**	**100**	**100**	**100**	...	...
Metal products	5.7	7.1	7.6	5.8	6.7	6.7	7.2	0.4	23.5
Of which: Iron and steel products (72,73)	4.1	4.5	3.7	3.2	3.8	3.9	4.5	-0.9	38.4
Aluminium products (76)	0.7	1.1	1.7	1.3	1.5	1.5	1.4	23.9	1.4
Chemical products	11.3	12.2	15.4	13.5	13.2	13.3	16.7	36.9	23.3
Of which: Organic and inorganic chemicals (28, 29)	3.8	3.4	5.4	3.8	4.1	4.2	5.1	52.0	33.8
Plastic products (39)	2.0	2.4	2.7	2.5	2.3	2.3	2.8	18.7	15.3
Pharmaceutical products (30)	1.3	1.2	1.6	1.6	1.8	1.8	2.1	76.6	36.9
Miscellaneous chemical products (38)	1.4	1.7	1.7	1.8	1.5	1.7	2.0	16.4	8.9
Rubber products (40)	0.8	1.0	1.2	1.2	1.2	1.1	1.5	49.1	25.3
Textiles, leather, clothing, footwear, etc	13.8	11.3	12.3	12.7	15.6	15.7	16.7	47.6	31.6
Of which: Clothing and accessories (61, 62)	1.0	1.1	1.1	1.4	2.0	1.9	2.8	153.7	104.0
Synthetic and artificial fibers (54, 55)	1.9	3.1	3.1	3.0	3.5	3.5	3.6	18.0	21.5
Cotton (52)	1.2	2.0	2.2	2.0	2.7	2.7	2.6	29.8	32.9
Wool, etc (51)	0.4	0.8	0.7	1.0	1.3	1.5	1.5	93.2	51.8
Machines, transport facilities, appliances, and tools	20.7	26.0	24.1	21.1	19.6	18.9	23.7	-9.0	12.2
Of which: Nuclear reactors, boilers, machinery, etc (84)	8.3	10.9	10.1	8.8	9.8	10.0	9.9	-9.2	12.3
Electrical machines, equipment, etc (85)	3.4	4.7	5.1	4.4	4.4	3.9	5.7	22.9	28.8
Automobile transport (87)	6.5	5.6	4.8	3.4	2.8	2.4	4.4	-21.9	29.2
Optical instruments and appliances (90)	2.0	1.9	2.2	1.9	1.7	1.6	2.0	4.5	6.2
Animal and vegetable products, food, drinks, tobacco, etc	9.0	11.5	8.7	8.6	9.4	9.5	8.4	-27.1	-2.3
Of which: Sugar products (17)	1.5	2.8	2.7	2.1	2.4	2.4	1.5	-46.9	-30.2
Mineral products and fuels	36.1	35.6	34.0	41.4	39.3	39.6	30.8	-13.5	-25.5
Of which: Mineral fuels, oils and products, etc (27)	34.1	30.7	29.2	36.4	32.9	32.9	23.5	-23.4	-35.3
Ores, slag, and ash (26)	1.5	1.6	2.4	2.5	3.5	3.7	4.4	177.3	81.0
Wood, paper, earthenware, and glass products	3.4	4.7	5.9	4.8	4.5	4.3	4.9	5.7	3.0
Of which: Paper and cardboard products (48)	1.6	2.5	3.4	2.6	2.2	2.2	2.7	4.8	3.6

Source: Data provided by the Bulgarian authorities.

1/ Preliminary data.

Table 61. Bulgaria: Economic Classification of Imports, 1993-98

	1993	1994	1995	1996	1997	1997 Jan.-Sep.	1998 Jan.-Sep. 1/	Cumulative 1995-98	Cumulative 1997-98
	(In percent of total)							(In percent)	
Imports, c.i.f.	**100**	**100**	**100**	**100**	**100**	**100**	**100**	...	...
Consumption goods	14.1	13.6	12.4	10.4	11.3	10.4	14.5	6.9	39.0
Of which:									
Food, beverages, and tobacco	4.8	5.2	3.2	2.2	2.8	2.4	3.7	-28.9	66.0
Clothing and footwear	2.0	1.9	2.0	2.3	3.0	2.9	3.7	91.3	59.0
Furniture and household appliances	2.5	2.0	2.6	1.7	1.3	1.2	1.7	-16.1	2.1
Medicines and cosmetics	1.6	1.5	1.9	2.0	1.9	1.8	2.6	69.8	32.2
Automobiles	1.8	1.3	1.0	0.7	0.6	0.5	0.9	-34.8	29.8
Capital goods	17.3	21.5	19.7	18.2	17.5	17.0	20.4	-5.2	12.2
Of which:									
Machines and equipment	5.7	7.4	6.5	6.1	7.2	7.5	7.0	-5.7	14.2
Electrical machines	1.9	2.6	2.7	2.2	2.4	1.9	3.3	30.3	49.9
Vehicles	4.2	3.6	2.7	2.1	1.8	1.7	3.0	-17.8	42.2
Spare parts and equipment	3.1	3.4	3.5	2.9	2.6	2.6	3.2	-5.5	9.6
Fuels	34.1	30.7	28.8	35.4	32.3	32.4	23.6	-23.3	-33.4
Of which:									
Crude oil	18.5	15.6	16.0	18.1	15.6	15.0	9.7	-37.7	-46.4
Coal	1.8	1.5	1.3	3.6	3.4	3.1	3.5	139.6	-2.4
Natural gas	7.6	8.5	8.5	10.8	9.8	10.6	6.8	-19.9	-36.3
Other intermediate goods	34.4	34.2	39.1	36.0	39.0	40.1	41.5	21.4	15.3
Of which:									
Ores	1.5	1.5	2.2	2.3	3.2	3.4	4.1	177.5	80.1
Iron and steel	3.2	3.2	2.5	1.9	2.2	2.2	2.7	-16.2	39.9
Textiles	4.5	6.6	7.2	7.3	9.0	9.1	9.3	40.9	28.1
Chemicals	5.1	4.5	6.5	5.1	5.1	5.4	6.5	43.1	27.6
Plastics and rubber	2.7	3.1	3.6	3.3	3.2	3.1	3.9	26.8	17.5
Wood products	2.2	2.9	3.7	2.8	2.5	2.4	2.9	-0.2	4.4
Cereals and others intermediate food products	3.6	5.0	4.2	5.5	5.5	6.1	3.5	-28.5	-35.4

Source: Data provided by the Bulgarian authorities.

1/ Preliminary data.

Table 62. Bulgaria: Tourism Indicators, 1993-98

	1993	1994	1995	1996	1997	1997 Jan.-Sep.	1998 Jan.-Sep. 1/
				(In thousands)			
Total foreign visitors 2/	**3,182**	**3,895**	**3,466**	**2,795**	**2,980**	**2,367**	**2,174**
Of which, visitors from:				(In percent of total)			
BRO	6.0	24.7	14.8	27.7	26.8	...	...
Former SFRY	53.1	40.2	53.8	39.1	21.8	...	...
Germany	6.9	3.8	5.6	4.2	7.3	7.4	8.4
Greece	6.1	6.5	4.4	3.3	5.7	5.2	10.8
Macedonia	...	...	...	...	...	10.1	16.7
Romania	4.9	5.5	3.5	3.4	4.4	4.6	6.6
Russia	...	...	...	...	...	12.8	8.2
Scandinavian countries	1.4	0.9	1.3	1.3	2.3	2.4	2.4
United Kingdom	3.7	1.5	1.4	1.4	2.6	2.7	3.3
				(Annual percent change)			
Total foreign visitors 2/	**...**	**22.4**	**-11.0**	**-19.4**	**6.6**	**...**	**-8.2**
Of which, visitors from:							
BRO	...	407.4	-46.7	50.8	3.0	...	...
Former SFRY	...	-7.3	19.0	-41.4	-40.5	...	...
Germany	...	-32.3	30.9	-39.5	85.6	...	3.4
Greece	...	31.1	-39.1	-40.3	83.7	...	91.1
Macedonia	...	...	...	...	...	...	52.5
Romania	...	36.9	-44.2	-20.0	37.5	...	33.3
Russia	...	...	...	...	...	...	-41.4
Scandinavian countries	...	-23.9	31.4	-19.6	86.5	...	-8.8
United Kingdom	...	-52.1	-15.8	-18.8	97.4	...	12.5
Memorandum items:							
Travel receipts 3/	307	362	473	389	369	272	354
Average number of nights per visit	...	...	...	2.9	2.9	2.9	2.9
Average expenditure per visitor 4/	...	...	...	161.0	167.5	167.5	169.0
Average expenditure per visitor 5/	96.6	92.8	136.4	139.0	123.9	114.9	162.8

Source: Data provided by the Bulgarian authorities.

1/ Preliminary data.

2/ Includes visitors for both tourism and business purposes, and excludes transit visitors.

3/ Balance of payments data, in millions of U.S. dollars.

4/ Per visit, in U.S. dollars, excluding airfares, as estimated by the Ministry of Trade and Tourism.

5/ Per visit, in U.S. dollars excluding airfares, as implied by balance of payments data.

Table 63. Bulgaria: Selected Central and Eastern European Countries: Export Performance, 1993-97 1/

	1993	1994	1995	1996	1997	Cumulative		
						1994-95	1996-97	1994-97
	(Deutsche mark indices, 1993 = 100)					(In percent)		
Growth of exports:								
Bulgaria	**100**	**104**	**124**	**119**	**140**	**24.0**	**12.9**	**40.0**
Czech Republic	100	110	131	139	164	31.0	25.2	64.0
Hungary	100	92	137	159	254	37.0	85.4	154.0
Latvia	100	95	112	128	174	12.0	55.4	74.0
Poland	100	125	160	182	223	60.0	39.4	123.0
Romania	100	122	140	152	180	40.0	28.6	80.0
Growth of exports to EU:								
Bulgaria	**100**	**141**	**160**	**160**	**186**	**60.0**	**16.3**	**86.0**
Czech Republic	100	116	127	183	203	27.0	59.8	103.0
Hungary	100	134	141	150	252	41.0	78.7	152.0
Latvia	100	114	147	171	480	47.0	226.5	380.0
Poland	100	120	142	151	167	42.0	17.6	67.0
Romania	100	144	188	192	246	88.0	30.9	146.0
Growth of exports to CEFTA:								
Bulgaria	**100**	**171**	**163**	**166**	**170**	**63.0**	**4.3**	**70.0**
Czech Republic	100	114	125	152	192	25.0	53.6	92.0
Hungary	100	148	175	208	264	75.0	50.9	164.0
Latvia	100	67	108	86	121	8.0	12.0	21.0
Poland	100	122	209	254	318	109.0	52.2	218.0
Romania	100	165	141	151	221	41.0	56.7	121.0
	(In percent)					(In percent)		
EU market share: 2/								
Bulgaria	**0.13**	**0.16**	**0.17**	**0.16**	**0.16**	**30.8**	**-5.9**	**23.1**
Czech Republic	0.77	0.78	0.79	1.08	1.04	2.6	31.6	35.1
Hungary	0.60	0.71	0.69	0.70	0.94	15.0	36.2	56.7
Latvia	0.04	0.04	0.05	0.05	0.13	25.0	160.0	225.0
Poland	1.18	1.25	1.37	1.38	1.31	16.1	-4.4	11.0
Romania	0.24	0.31	0.38	0.36	0.42	58.3	10.5	75.0
Exports to EU as a share of all exports:								
Bulgaria	**29**	**35**	**38**	**39**	**43**	**28.3**	**14.9**	**47.4**
Czech Republic	45	47	43	59	56	-3.6	29.2	24.6
Hungary	61	89	63	58	57	2.3	-9.4	-7.3
Latvia	32	38	42	42	88	30.9	111.3	176.7
Poland	62	59	55	52	46	-11.3	-15.6	-25.2
Romania	42	49	56	52	59	34.2	6.3	42.7
	(In percent of GDP)					(In percentage points of GDP)		
Share of exports in GDP:								
Bulgaria	**34**	**41**	**41**	**50**	**48**	**6.4**	**7.6**	**14.0**
Czech Republic	41	40	42	38	43	0.9	0.4	1.4
Hungary	21	18	29	32	44	8.0	14.9	22.9
Latvia	49	28	29	28	30	-19.7	1.2	-18.4
Poland	18	22	24	23	24	6.2	-0.1	6.1
Romania	19	20	22	23	21	3.6	-0.8	2.7

Sources: SM/98/158, June 26, 1998; and IMF, *World Economic Outlook;* IMF, *Direction of Trade Statistics.*

1/ Exports of goods.

2/ Index of individual country exports to EU, divided by the index of all EU imports (excluding intra-EU trade).

Table 64. Bulgaria: Selected Central and Eastern European Countries: Competitiveness Indicators, 1993-97

	1993	1994	1995	1996	1997	Cumulative		
						1994-95	1996-97	1994-97
	(Indices: 1993=100, unless otherwise indicated)					(In percent)		
Real effective exchange rate index: 1/								
Bulgaria	**100**	**91**	**102**	**87**	**107**	**1.5**	**5.1**	**6.7**
Czech Republic	100	119	122	121	121	22.0	-0.8	21.0
Hungary	100	99	95	97	101	-5.0	6.3	1.0
Latvia	100	113	115	113	121	15.0	5.2	21.0
Poland	100	101	109	119	122	9.0	11.9	22.0
Romania	100	108	103	93	108	3.0	4.9	8.0
Average wages, DM per month: 2/								
Bulgaria	**203**	**153**	**176**	**145**	**185**	**-13.2**	**5.2**	**-8.7**
Czech Republic	324	377	424	514	576	30.9	35.8	77.8
Hungary	473	494	442	465	523	-6.6	18.3	10.6
Latvia	120	232	279	334	396	132.5	41.9	230.0
Poland	330	353	388	480	555	17.6	43.0	68.2
Romania	119	129	147	158	134	23.5	-8.8	12.6
Real wage index: 2/ 3/								
Bulgaria	**100**	**78**	**77**	**71**	**63**	**-23.2**	**-17.7**	**-36.8**
Czech Republic	100	106	115	124	130	14.5	13.7	30.2
Hungary	100	102	97	95	96	-3.3	-0.5	-3.8
Latvia	100	120	124	125	125	23.5	1.3	25.0
Poland	100	103	107	117	124	7.4	15.9	24.4
Romania	100	102	122	136	93	21.7	-24.0	-7.4
Labor productivity index: 4/								
Bulgaria	**100**	**128**	**146**	**156**	**145**	**45.6**	**-0.4**	**45.0**
Czech Republic	100	105	117	128	142	17.0	21.4	42.0
Hungary	100	107	119	130	145	19.0	21.8	45.0
Latvia	100	109	108	122	127	8.0	17.6	27.0
Poland	100	114	122	134	153	22.0	25.4	53.0
Romania	100	113	135	158	158	35.0	17.0	58.0
Unit labor cost index: 5/								
Bulgaria	**100**	**59**	**60**	**46**	**63**	**-40.4**	**5.6**	**-37.1**
Czech Republic	100	111	112	124	125	11.8	11.9	25.2
Hungary	100	98	79	76	76	-21.5	-2.9	-23.7
Latvia	100	177	215	228	260	115.3	20.7	159.8
Poland	100	94	96	109	110	-3.6	14.1	9.9
Romania	100	96	92	84	71	-8.5	-22.1	-28.7

Sources: Data provided by the Bulgarian authorities; SM/98/158, June 26, 1998; IMF, *World Economic Outlook*; and IMF staff estimates.

1/ Period average nominal effective exchange rate deflated by the CPI.

2/ Average monthly industrial wages in Bulgaria, Croatia, Czech Republic, Slovak Republic, Slovenia, and average monthly manufacturing wages in Hungary, Poland, and Romania.

3/ Average wages deflated by the CPI.

4/ Based on gross output.

5/ Index of average DM wages deflated by the productivity index.

Table 65. Bulgaria: Indicators of Sectoral Competitiveness and Export Performance, 1998 1/

(Annual average percent change) 2/

	Export Share 5/	Average Monthly Wages 3/		Productivity Indicator 7/	Unit Labor Cost Indicator 8/	Export Performance 4/		
		Nominal	Real 6/			Value	Volume	Price 9/
Sectors:								
Metals	21.1	51.5	2.9	6.5	42.3	-14.3	1.2	-15.3
Textiles and apparel	18.1	42.6	-3.1	17.8	21.1	9.3	28.6	-15.0
Apparel	11.2	42.0	-3.6	-7.4	53.4	-5.3	11.4	-15.0
Textiles	6.9	43.4	-2.6	55.0	-7.5	19.5	40.6	-15.0
Chemicals, fertilizers	12.9	36.9	-7.0	-20.3	71.8	-30.2	-20.9	-11.7
Food, beverages, tobacco	12.4	67.6	13.9	-18.0	104.4	-15.9	-6.6	-10.0
Machinery	9.4	70.2	15.6	-9.3	87.6	-3.1	-0.2	-2.9
Mineral fuels	9.1	42.3	-3.4	-0.5	43.0	-34.9	-2.9	-33.0
Electrical equipment	3.8	62.1	10.1	-5.0	70.7	-14.5	-11.9	-2.9
Rubber and plastics	3.6	40.9	-4.3	19.4	18.0	7.5	26.0	-14.7
Agriculture	1.9	77.4	20.5	189.9	-38.8	142.9	186.0	-15.0
Transport equipment	1.8	61.2	9.5	-9.7	78.5	-17.9	-15.4	-2.9
Wood products	1.5	29.6	-12.0	96.6	-34.1	67.8	109.8	-20.0

Sources: Data provided by the Bulgarian authorities; IMF, *World Economic Outlook*; and IMF staff estimates.

1/ Data unavailable on a sectoral basis for years prior to 1997.

2/ Average of monthly data for November 1997 through October 1998 compared to average of monthly data for November 1996 through October '1997, unless otherwise indicated.

3/ Percent change in average wage for public sector employees (including state-owned enterprises) in these sectors.

4/ Percent change in the value of exports by these sectors, and estimated percent changes in export volume and prices (January-September years).

5/ Average of January-September 1997 and January-September 1998 shares in total exports.

6/ Percent change in the average wage deflated by the CPI.

7/ Percent change in export volume per employee, based on total employment (public and private) in these sectors.

8/ Percent change in the average wage deflated by the productivity indicator.

9/ Based on movements in world market prices as monitored by the IMF's Research Department.

Table 66. Bulgaria: Capital Account, 1993-98

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997	1998 Est.
Capital account balance	-236	239	366	-921	659	242
Foreign direct investment, net	40	105	98	137	507	185
Portfolio investment, net	...	-10	-66	-129	133	-200
Medium- and long-term financial capital	-952	-35	-153	-301	-273	156
Disbursements	129	445	68	190	164	600
Official project finance	3	295	64	73	117	140
Official policy-based lending (excluding IMF)	32	144	0	81	40	432
World Bank	0	0	0	30	40	140
EU	0	86	0	51	0	292
G-24 (including JEXIM)	32	58	0	0	0	0
Private disbursements	94	6	3	37	6	28
Amortization	1,081	480	220	491	436	444
Short-term trade credits	286	263	293	338	155	-26
Gas credits, net	286	263	293	338	139	-28
Other trade credits, net	0	0	0	0	16	2
Other short-term capital	390	-84	194	-967	137	126
Change in DMBs' net foreign assets (increase: -)	464	-679	78	13	-457	-1
Change in clearing account balances, net	68	-6	-6	-1	24	-201
Short-term loans, net	-68	23	-3	-59	-19	25
Other sectors' deposits, net 1/	...	...	...	41	15	4
Other short-term capital, net 2/	427	307	-14	-1,016	256	96
Errors and omissions, net	-501	270	139	56	318	203
			(In percent of GDP)			
Memorandum items:						
Capital account balance	-2.2	2.5	2.8	-9.4	6.5	1.9
Foreign direct investment, net	0.4	1.1	0.8	1.4	5.0	1.5
Portfolio investment, net	...	-0.1	-0.5	-1.3	1.3	-1.6
Disbursements	1.2	4.6	0.5	1.9	1.6	4.7
Amortization	10.0	4.9	1.7	5.0	4.3	3.5
Short-term trade credits	2.6	2.7	2.2	3.4	1.5	-0.2
Other short-term capital	3.6	-0.9	1.5	-9.8	1.3	1.0
Errors and omissions, net	-4.6	2.8	1.1	0.6	3.1	1.6

Sources: Data provided by the Bulgarian authorities; and staff estimates.

1/ Deposits of Bulgarian companies abroad.

2/ Includes an item recommended by the IMFs Statistics Department that reflects changes in households' and enterprises' foreign currency deposits with the banking system.

Table 67. Bulgaria: Direct and Portfolio Investment, 1993-98

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997	1997 Jan.-Sep.	1998 Jan.-Sep.
Inward direct investment 1/	**40**	**105**	**90**	**109**	**505**	**405**	**155**
Privatization purchases	3	28	63	36	340	255	136
Direct (non-privatization) purchases	37	78	28	73	152	131	-1
Reinvested earnings	...	...	...	...	0	0	7
Other changes in ownership by non-residents	...	...	...	...	13	18	13
Inward portfolio investment	**...**	**-10**	**-75**	**-122**	**146**	**197**	**-128**
Equity securities	...	...	...	...	52	0	34
Brady bonds	...	...	...	...	-21	-14	-38
Bulbank bonds	...	...	...	...	-51	-20	-19
Government securities	...	...	...	...	58	109	-45
Zunk bonds	...	...	...	...	109	122	-83
Other portfolio investment by non-residents	...	...	...	...	...	...	23
				(In percent of GDP)			
Memorandum items:							
Inward direct investment	0.5	1.2	0.8	1.1	3.9	...	...
Inward portfolio investment	...	-0.1	-0.7	-1.3	1.1	...	...

Source: Data provided by the Bulgarian authorities.

1/ Measured on a balance of payments basis.

Table 68. Bulgaria: Foreign Direct Investment by Sector and Country of Origin, 1993-98 1/

(In millions of U.S. dollars)

	1993	1994	1995	1996	1997	1998 2/
Foreign direct investment by sector:						
Industry	21	28	95	172	458	234
Trade	70	60	20	32	46	121
Finance	2	19	32	15	64	69
Tourism	1	43	10	23	6	18
Telecommunications	4	0	0	1	4	16
Transportation	2	55	1	5	3	10
Construction	0	5	1	1	6	4
Agriculture	0	0	0	1	5	0
Other sectors	3	1	3	5	44	4
Total	**102**	**211**	**163**	**256**	**636**	**475**
Foreign direct investment by country of origin:						
Belgium	0	0	10	1	264	7
Germany	57	111	16	53	31	57
United States	10	16	16	21	47	58
EBRD	0	4	5	3	45	40
Greece	5	3	30	15	16	25
Netherlands	1	38	1	46	11	25
Cyprus	1	0	1	8	21	46
United Kingdom	6	2	14	7	16	31
Switzerland	7	0	8	23	31	2
Spain	0	0	0	0	50	14
Korea	0	0	0	22	23	2
Luxembourg	10	1	14	7	10	14
France	0	4	5	7	1	31
Austria	1	15	15	1	12	12
Turkey	1	1	0	0	12	21
Other countries	5	15	38	43	312	97
Total	**102**	**211**	**163**	**256**	**636**	**475**
Memorandum items:						
Foreign direct investment inflow (BoP basis) 3/	40	105	90	109	505	185
Foreign direct investment stock (BoP basis) 3/ 4/	136	242	332	441	946	1,131
(In percent of GDP)	1.3	2.5	2.5	4.5	9.3	8.9

Sources: Data provided by the Bulgarian authorities; and staff estimates.

1/ As measured by the Bulgarian Foreign Investment Agency on the basis of contracted amounts and using nominal values for any amounts to be paid in the form of securities such as Zunk bonds.

2/ Preliminary estimates.

3/ As measured in the balance of payments on the basis of amounts remitted and using market values for any amounts paid in the form of securities such as Zunk bonds.

4/ Stock calculated from 1991.

Table 69. Selected Central and Eastern European Countries: Foreign Direct Investment, 1993-97

	Annual inflow					Cumulative
	1993	1994	1995	1996	1997	1993-97
	(In millions of deutsche mark)					
Bulgaria	**66**	**171**	**130**	**164**	**875**	**1,406**
Czech Republic	1,080	1,409	3,672	2,149	1,758	10,068
Estonia	255	344	290	226	459	1,574
Hungary	3,885	1,857	6,476	2,983	3,706	18,907
Latvia	84	252	257	574	730	1,897
Poland	959	880	1,625	4,125	4,482	12,071
Romania	155	553	583	643	786	2,720
	(In percent of GDP)					
Bulgaria	0.4	1.1	0.7	1.1	5.0	**8.2**
Czech Republic	1.9	2.2	5.1	2.5	1.9	13.6
Estonia	9.7	8.7	5.6	3.4	5.5	32.9
Hungary	6.0	2.7	10.1	4.4	4.7	27.9
Latvia	2.4	4.3	3.8	7.1	7.2	24.8
Poland	0.7	0.6	1.0	2.0	1.9	6.2
Romania	0.4	1.1	1.1	1.2	1.2	5.0

Sources: Data provided by the Bulgarian authorities; IMF *World Economic Outlook*; and staff estimates.

Table 70. Bulgaria: External Debt Stock, 1993-98 1/

	1993	1994	1995	1996	1997	1998 End-Sep.
	(In millions of U.S. dollars)					
Total external debt	13,836	11,339	10,147	9,514	9,733	9,819
Of which: Total public external debt 2/	11,889	10,014	9,006	8,836	9,131	9,199
Medium- and long-term debt 3/	12,807	10,955	9,958	9,388	9,322	9,578
Of which: Public medium- and long-term debt	11,889	10,014	9,006	8,821	8,886	9,118
Official creditors	3,008	4,048	4,001	3,837	3,962	4,247
IMF	632	941	717	586	942	980
World Bank	155	396	411	456	540	660
IIBM	422	525	587	532	557	567
IBEC	137	169	178	215	218	228
EIB	7	23	39	118	165	181
EBRD	6	21	30	84	87	109
EU	357	444	461	496	286	279
Paris Club	1,100	1,240	1,238	1,035	878	1,016
Paris Club I	...	...	615	537	475	425
Paris Club II	...	...	195	172	154	157
Paris Club III	...	...	224	207	185	395
Non-rescheduled debt	406	243	203	119	64	40
G-24 (incl. JEXIM)	81	151	190	170	152	142
Former GDR 4/	58	65	70	64	56	0
Poland	53	73	81	82	80	85
Private creditors	9,800	6,907	5,957	5,551	5,360	5,330
London Club 5/	8,315	5,137	5,005	4,984	4,924	4,871
Other private bond-holders	402	402	410	147	81	59
Russian commercial banks	566	829	0	0	0	0
Debt of Bulgarian commercial banks	511	505	474	340	270	281
Other private medium- and long-term debt	6	34	68	79	85	119
Short-term debt	1,029	384	189	126	411	241
Non-resident deposits with commercial banks	1,028	379	168	83	85	66
Non-resident holdings of government securities	0	0	0	15	245	81
Leva denominated securities	0	0	0	0	51	3
Non-leva denominated securities	0	0	0	15	194	78
Other private short-term debt	1	5	21	28	81	94
Memorandum items:	(In percent of GDP)					
Total external debt	128	117	77	97	96	78
Total public external debt	110	103	69	90	90	73
Medium- and long-term debt	118	113	76	95	92	76
Public medium- and long-term debt	110	103	69	90	87	72
Medium- and long-term debt to official creditors	28	42	31	39	39	34
Medium- and long-term debt to private creditors	90	71	45	56	53	42
Short-term debt	9	4	1	1	4	2

Sources: Data provided by the Bulgarian authorities; and staff estimates.

1/ Valued at end-period exchange rates.
2/ Public medium- and long-term debt plus non-resident holdings of government securities.
3/ Including principal and interest arrears.
4/ Included in Paris Club III from April 1998.
5/ In the form of Brady bonds from 1994.

Table 71. Bulgaria: External Debt Service, 1993-98 1/

	1993	1994	1995	1996	1997	1998 Est.
	(In millions of U.S. dollars)					
Total debt service	1,613	970	1,049	1,259	1,046	1,114
Interest	532	421	582	543	521	487
Official creditors	167	184	242	213	196	187
IMF	37	40	50	29	31	46
World Bank, EIB, EBRD	12	18	30	37	42	62
Former CMEA creditors	49	50	27	29	32	3
EU	...	...	...	21	19	11
Paris Club	70	77	135	90	66	58
G-24 (incl. JEXIM)	...	...	...	6	7	7
Private creditors	365	237	340	330	326	300
London Club	291	160	273	262	265	267
Privately placed bonds	24	24	28	26	8	4
Private debtors	50	53	40	43	53	29
Amortization 2/	1,081	549	467	716	524	627
Official creditors	165	257	381	384	389	554
IMF	0	70	246	225	88	183
World Bank, EIB, EBRD	0	0	0	14	26	43
Former CMEA creditors	54	86	53	61	61	61
EU	0	0	0	0	154	164
Paris Club	111	102	82	76	52	94
G-24 (incl. JEXIM)	0	0	0	9	8	11
Private creditors	916	293	85	332	135	73
London Club	841	231	0	0	0	0
Privately placed bonds	0	0	25	251	51	47
Private debtors	75	62	60	81	84	26
Memorandum items:	(In percent of GDP)					
Total debt service	14.9	10.0	8.0	12.8	10.3	8.8
Interest	4.9	4.3	4.4	5.5	5.1	3.8
Amortization	10.0	5.7	3.6	7.3	5.2	5.0
	(In percent of exports of goods and nonfactor services)					
Total debt service	32.9	18.7	15.5	20.0	16.5	19.4
Interest	10.9	8.1	8.6	8.6	8.2	8.5
Amortization	22.1	10.6	6.9	11.4	8.3	10.9

Sources: Data provided by the Bulgarian authorities; and staff estimates.

1/ On an accrual basis.
2/ Including repurchases to the IMF.

Table 72. Bulgaria: Currency Composition of External Debt, 1996-98 1/

(In percent of medium- and long-term debt; end of period)

	1996	1997	1998 2/
Total	**100.0**	**100.0**	**100.0**
U.S. dollars	68.9	72.7	70.2
Deutsche marks	6.2	5.5	7.9
ECU	6.4	4.2	4.2
SDRs	6.1	9.3	10.1
Japanese yen	5.7	4.3	3.6
Austrian schillings	2.5	2.0	2.1
Swiss francs	1.1	1.0	1.0
French francs	0.5	0.5	0.4
Pounds sterling	0.3	0.3	0.2
Other currencies	2.3	0.3	0.3

Source: Data provided by the Bulgarian authorities.

1/ Data unavailable prior to 1996.
2/ As at September 30, 1998.

Table 73. Bulgaria: Average Maturity of External Debt, 1997-98 1/

(In years, end of period)

	1997	1998 2/
Weighted average maturity	**11.77**	**11.65**
IMF	5.10	4.20
World Bank	13.30	14.10
IIBM & IBEC 3/	0.00	0.00
EIB and EBRD	10.30	9.30
EU	2.00	6.30
Paris Club 4/	4.20	7.10
G-24 (incl. JEXIM)	6.00	5.10
Former GDR 4/	0.00	...
Poland 5/	0.00	11.20
London Club (Brady bonds)	18.20	17.30
Other private bond-holders	1.10	0.20
Debt of Bulgarian commercial banks 6/	0.02	0.02
Other private medium- and long-term debt	3.00	4.70

Sources: Data provided by the Bulgarian authorities; and staff estimates.

1/ Average residual maturity of medium- and long-term external debt. Data unavailable prior to 1997.
2/ As at September 30, 1998.
3/ Debt in arrears.
4/ Debt to former GDR is included in Paris Club debt from 1998.
5/ Debt in arrears in 1997 that was restructured in 1998.
6/ Of this debt, around 98 percent is debt of Mineralbank and Economic Bank which is in arrears, while the remainder has an average residual maturity of about one year.

Table 74. Bulgaria: Clearing Account Balances with Former CMEA Partners, 1993-98 1/

(In millions of transferable rubles)

	1993	1994	1995	1996	1997	1998 2/
Total	**-177.1**	**-70.2**	**-37.1**	**-5.5**	**-495.6**	**67.4**
Poland	-205.1	-158.2	-125.1	-119.3	-18.2	0.0
Hungary	-85.9	-85.9	-85.9	-84.9	-37.8	0.0
Former CSFR	-103.0	0.0	0.0	0.0	0.0	0.0
GDR	-531.9	-531.9	-531.9	-507.1	-507.0	0.0
Romania	-22.0	-22.0	-22.0	-22.0	-22.0	-22.0
Cuba	93.3	91.8	91.8	91.8	91.8	91.8
Mongolia	-2.4	-2.4	-2.4	-2.4	-2.4	-2.4
BRO 3/	680.0	638.4	638.4	638.4	0.0	0.0

Source: Data provided by the Bulgarian authorities.

1/ End of period. A minus sign indicates a Bulgarian liability.

2/ As at September 30, 1998.

3/ Baltics, Russia, and other countries of the former Soviet Union.

Table 75. Bulgaria: Convertible Currency Position with Developing Countries 1994–98 1/

(In millions of U.S. dollars)

	Claims of Bulgaria					Claims on Bulgaria					Balance 2/				
	1994	1995	1996	1997	1998 3/	1994	1995	1996	1997	1998 3/	1994	1995	1996	1997	1998 3/
Afghanistan	42.3	43.7	45.3	...	...	0.1	0.1	0.1	...	...	42.2	43.6	45.2	...	32.3
Algeria	52.6	39.5	34.5	...	...	0.0	0.0	0.0	...	...	52.6	39.5	34.5	...	18.1
Angola	84.0	86.1	88.3	...	...	0.0	0.0	0.0	...	...	84.0	86.1	88.3	...	21.5
Bangladesh	0.3	0.7	0.3	...	...	0.6	0.0	0.0	...	...	-0.3	0.7	0.3	...	...
Congo	1.3	1.3	1.3	...	...	0.0	0.0	0.0	...	...	1.3	1.3	1.3	...	...
Egypt	7.0	0.3	0.3	...	...	0.0	0.0	0.0	...	...	7.0	0.3	0.3	...	0.2
Ethiopia	55.4	55.5	55.6	...	...	0.6	0.6	0.6	...	...	54.8	54.9	55.0	...	49.3
Ghana	—	0.0	0.0	...	...	8.6	8.6	8.6	...	...	-8.6	-8.6	-8.6	...	...
Guinea	9.4	9.6	9.9	...	...	0.0	0.0	0.0	...	...	9.4	9.6	9.9	...	10.4
Guyana	0.3	0.3	0.9	...	...	0.0	0.0	0.0	...	...	0.3	0.3	0.9	...	...
India	0.2	0.2	0.2	...	...	0.0	0.0	0.0	...	...	0.2	0.2	0.2	...	...
Indonesia	0.6	0.5	0.4	...	...	0.0	0.0	0.0	...	...	0.6	0.5	0.4	...	...
Iran	0.9	0.9	0.6	...	...	0.0	0.0	0.0	...	...	0.9	0.9	0.6	...	...
Iraq	1,283.8	1,327.9	1,358.1	...	...	0.0	0.0	0.0	...	...	1,283.8	1,327.9	1,358.1	...	...
Libya	50.0	50.5	51.1	...	...	0.0	0.0	0.0	...	...	50.0	50.5	51.1	...	52.1
Nicaragua	224.5	226.4	228.4	...	...	0.0	0.0	0.0	...	...	224.5	226.4	228.4	...	202.4
Nigeria	66.2	58.9	38.8	...	...	0.0	0.0	0.0	...	...	66.2	58.9	38.8	...	31.7
Mozambique	25.4	30.1	33.3	...	...	0.0	0.0	0.0	...	...	25.4	30.1	33.3	...	...
Pakistan	0.0	0.0	0.0	...	...	1.3	0.3	0.3	...	...	-1.3	-0.3	-0.3	...	...
Peru	0.3	0.3	0.3	...	...	0.0	0.0	0.0	...	...	0.3	0.3	0.3	...	0.2
Somalia	7.4	7.5	7.7	...	...	0.0	0.0	0.0	...	...	7.4	7.5	7.7	...	7.9
Syria	78.0	78.2	78.4	...	...	0.0	0.0	0.0	...	...	78.0	78.2	78.4	...	74.3
Tanzania	26.0	26.8	22.3	...	...	0.0	0.3	0.3	...	...	26.0	26.5	22.0	...	23.5
Tunisia	0.3	0.2	0.2	...	...	0.0	0.0	0.0	...	...	0.3	0.2	0.2	...	...
Yemen	83.3	85.0	86.8	...	...	0.0	0.0	0.0	...	...	83.3	85.0	86.8	...	85.2
Zambia	4.0	4.3	4.5	...	...	0.0	0.0	0.0	...	...	4.0	4.3	4.5	...	5.0
Total	**2,103.5**	**2,134.8**	**2,147.6**	**...**	**...**	**11.2**	**9.9**	**9.9**	**...**	**...**	**2,092.2**	**2,124.9**	**2,137.6**	**...**	**...**

Source: Data provided by the Bulgarian authorities.

1/ Government credits and clearing and barter arrangements; end of period.

2/ A negative sign indicates a net debtor position of Bulgaria.

3/ As at September 30, 1998.

Table 76. Bulgaria: Trade Arrangements
(As at January 1, 1999)

A. Multilateral Trade Arrangements

EU
- Trade & Cooperation Agreement (November 1990)
- Interim Agreement (December 1993)
- Association (Europe) Agreement (February 1995)

EFTA (July 1993)

WTO (December 1996)

Annex 1A:	Multilateral Agreements on Trade in Goods
Annex 1B:	General Agreement on Trade in Services
Annex 1C:	Agreement on Trade-Related Aspects of Intellectual Property Rights
Annex 2:	Understanding on Rules and Procedures Governing the Settlement of Disputes
Annex 3:	Trade Policy Review Mechanism
Annex 4:	Agreement on Trade in Civil Aircraft

CEFTA (January 1999)

B. Bilateral Trade Arrangements

Free Trade Agreements
- Turkey (January 1999)

Bilateral agreements that provide for MFN treatment 1/
- Albania (August 1994)
- Armenia (December 1998)
- Azerbaijan (February 1996)
- Belarus (April 1996)
- Congo (November 1970)
- Croatia (July 1993)
- Ethiopia (February 1977)
- Georgia (May 1996)
- Kazakhstan (February 1994)
- Lebanon (July 1998)
- Lithuania (June 1996)
- Moldova (January 1995)
- Serbia/Montenegro (January 1996)
- Syria (February 1998)
- Tajikistan (September 1997)
- Ukraine (January 1996)
- Uzbekistan (September 1998)

Other Preferential Trade Agreements
- Afghanistan (April 1973)
- Algeria (January 1978)
- China (October 1990)
- Jordan (July 1977)
- Korea (DPR) (June 1993)
- Libya (February 1971)
- Nepal (October 1969)
- Russia (October 1991)
- Sudan (June 1970)
- Vietnam (March 1993)
- Yemen (April 1964)

Source: Information provided by the Bulgarian authorities.

1/ In addition to these countries, as a WTO member, Bulgaria has extended MFN status to all other WTO members.

Table 77. Bulgaria: Import Tariffs, 1995-98 1/

(In percent unless otherwise indicated)

	1995	1996	1997	1998
All products:				
Minimum MFN tariff rate	5	5	0	0
Maximum MFN tariff rate	55	55	120	110
Simple average MFN tariff rate 2/ 3/	17.38	17.23	16.84	18.06
Number of tariff lines 2/	9,180	9,273	9,374	10,901
Industrial products:				
Minimum MFN tariff rate	5	5	0	0
Maximum MFN tariff rate	40	40	40	40
Simple average MFN tariff rate	16.37	16.10	15.48	15.25
Number of tariff lines 2/	8,147	8,229	8,320	8,392
Agricultural products:				
Minimum MFN tariff rate	5	5	0	0
Maximum MFN tariff rate	55	55	120	110
Simple average MFN tariff rate	25.35	26.18	27.58	27.45
Number of tariff lines 2/	1,034	1,044	1,054	2,509
Memorandum item:				
Import surcharge 4/	1	5	4	2

Sources: Data provided by the Bulgarian authorities; and staff estimates.

1/ Applied ad valorem tariffs as at 1 January each year.

2/ This item is estimated for 1995.

3/ The weighted average (by number of tariff lines) of the simple average tariff rates for industrial and agricultural products.

4/ The 5 percent rate became effective on 1 June 1996, while the 4 percent and 2 percent rates became effective on 1 July 1997 and 1998, respectively.

Table 78. Bulgaria: Products Subject to Export Prohibitions, 1995-97 1/

1995	1996	1997
10 Wheat and meslin 1001 (from June) 2/ Ray 1002 (from December) Barley for the brewing industry 1003002 2/ Oats 1004 (from December) Maize 1005	**10** Wheat and meslin 1001 Ray 1002 Barley 1003 Oats 1004 Maize ex. 10051, ex. 10059	**10** Wheat and meslin ex. 1001 3/ Ray 1002 3/ Barley 1003 ex. 100300101 3/ Oats 1004 3/ Maize ex. 1005 3/
11 Wheat or meslin flour, other cereal flours 1101, 1102 (from October) Cereal groats, meal and pellets 1103 (from December) Cereal grains otherwise worked, germ of cereals, whole, rolled, flaked or ground 1104 (from October)	**11** Wheat or meslin flour, other cereal flours 1101, 1102 Cereal groats, meal and pellets 1103 Cereal grains otherwise worked, germ of cereals, whole, rolled, flaked or ground 1104	**11** Wheat or meslin flour, other cereal flours 1101, 1102 3/ Cereal groats, meal and pellets 1103 3/ Cereal grains otherwise worked, germ of cereals, whole, rolled, flaked or ground 1104 3/
12 Sunflower seeds 1206 ex. 12060092 (from December)	**12** Soya beans 1201 Sunflower seeds ex. 120600001, 120600004, 120600009	**12** Soya beans 1201 (January through May) Sunflower seeds 1206 ex. 120600001, 120600004, 12060009) 3/
15 Crude sunflower oil ex. 151211 (from December) Refined sunflower oil ex. 151219 (from December)	**15** Crude sunflower oil, ex. 151211 4/ Refined sunflower oil, ex. 151219 4/ Other mixtures or preparations of vegetable fats or oils 151790001 Soya bean oil, not chemically modified 1507	**15** Crude sunflower oil ex. 151211 3/ Refined sunflower oil ex. 151219 3/ Other mixtures or preparations of vegetable fats or oils 151790001 3/ Soya bean oil, not chemically modified 1507 (January through May)
	19 Pasta ex. 1902 (from September)	
23 Bran, sharps etc derived from milling of maize, wheat and other cereals 23021, 23023, 23024 (from December) Oil-cake and other solid residues, resulting from the extraction of soy-bean oil 2304 (from December) Oil-cake and other solid residues, resulting from the extraction of sunflower seeds 23063 (from December) Preparations used in animal feeding, ex. 23099 (from December)	**23** Bran, sharps etc derived from milling of maize, wheat and other cereals 23021, 23023, 23024 Residues of starch manufacture, beet-pulp, other waste of sugar manufacture, brewing or distilling 2303 Oil-cake and other solid residues, resulting from the extraction of soy-bean oil 2304 Oil-cake and other solid residues, resulting from the extraction of sunflower seeds 23063 Preparations of a kind used in animal feeding ex. 23099	**23** Bran, sharps etc derived from milling of maize, wheat and other cereals 23021, 23023, 23024 3/ Residues of starch manufacture, beet-pulp, other waste of sugar manufacture, brewing or distilling 2303 (January through May) Oil-cake and other solid residues, resulting from the extraction of soy-bean oil 2304 (January through May) Oil-cake and other solid residues, resulting from the extraction of sunflower seeds 23063 3/ Preparations of a kind used in animal feeding ex. 23099 3/
		27 Fuels: aviation, automobile, kerosine, diesel, heavy fuels, propane-butane, ex. 271, 2711 (February through April)
28 Potassium iodate/iodide and iodised salt ex 2829908, 28276, 25010091	**28** Potassium iodate/iodide and iodised salt ex 2829908, 28276, 25010091	**28** Potassium iodate/iodide and iodised salt ex. 2829908, 28276, 25010091
72 Ferrous waste and scrap (5 lines)	**72** Ferrous waste and scrap 72041, 72043, 720441, 720449, 72045 ex. 720450101 5/	**72** Ferrous waste and scrap 72041, 72043, 720441, 720449, 72045 ex. 720450101 6/
74 Non-ferrous waste and scrap (1 line) Ingots, billets of copper 7402001, 740313, 740319	**74** Non-ferrous waste and scrap (1 line) Ingots, billets of copper (2 lines)	**74** Non-ferrous waste and scrap (1 line) Ingots, billets of copper 740313, 740319
75 Non-ferrous waste and scrap (1 line)		
76 Non-ferrous waste and scrap (1 line)		
78 Non-ferrous waste and scrap (1 line)	**78** Non-ferrous waste and scrap (1 line)	**78** Non-ferrous waste and scrap (1 line)
79 Non-ferrous waste and scrap (1 line)		
80 Non-ferrous waste and scrap (1 line)	**80** Non-ferrous waste and scrap (1 line)	**80** Non-ferrous waste and scrap (1 line)
	85 Waste and scrap of primary and spent cells, batteries, and accumulators 85481	**85** Waste and scrap of primary and spent cells, batteries, and accumulators 85481
	93 Anti-personnel land mines 9306901	**93** Anti-personnel land mines 9306901

Source: Information supplied by the Bulgarian authorities.

1/ In addition to the products listed in the table, the following products were subject to export prohibitions for the purposes of conservation of exhaustible natural resources or protection of human, animal or plant life or health, in compliance with Article XX of GATT 1994: goods received as humanitarian aid, blood globulin, human blood, sera and haemoglobin, and natural mud for medicinal purposes. Exports of unfermented and unprocessed tobacco were also prohibited in 1995-97. In 1998, the only products subject to export prohibitions were those listed in this footnote together with anti-personnel land mines (9306901).

2/ Excluding an export quota for certain wheat (1001109, 1001909) and barley (1003 excluding 100300101) items.

3/ Abolished as of 1 July, 1997.

4/ Excluding export quotas of 30,000 tonnes for 151211 and 151219 between August 1996 and February 1997.

5/ Excluding an export quota of 75,000 tonnes for 7204 (excluding 7204211, 720419, 720429, 720450101).

6/ Excluding an export quota of 150,000 tonnes for 7204 (excluding 7204211, 720419, 720429, 720450101).