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Macroeconomic Developments and Problems in the Transition Process of the Bulgarian Economy

by

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Athens **St. Andrews** **Berlin** **Potsdam** **Szczecin** **Warsaw** **Sofia**

Industrial and Social Policies in Countries in Transition

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Macroeconomic Developments and Problems in the Transition Process of the Bulgarian Economy[1]

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1. Introduction

This paper analyses the macroeconomic developments which have taken place in the Bulgarian economy in the period 1993-1997. The paper also looks at the institutional arrangements and the process of eocnomic policy-making in the country. In this context the problems the Bulgarian economy has experienced in the transition process towards a market-oriented economy are also studied.

The paper proceeds as follows: Section 2 looks at the institutional arrangements and the process of econoomic policy-making through 1995. Section 3 studies the deep eocnomic crisis in 1996 and points out what went wrong in that period. Section 4 continues studying the economic crisis of the Bulgarian economy as well as the problems in the transition process during the first half of 1997. Section 5 looks at the economic developments during the second half of 1997 and points to the prospects for growth in 1998. Section 6 deals with the Bulgarian financial institutions and the existing institutional arrangements. Finally, Section 7 concludes the paper.

[1] A grant Phare-ACE Programme P 96-6227-R of the European Union is gratefully acknowledged. An earlier draft of this paper was presented at the Programme's Workshop in Kazimierz, Poland, May 21-24, 1998. We thank Professor Hans-Georg Petersen, the coordinator in the Programme, *"An Integrated Analysis of Industrial Policies and Social Security Systems in Countries in Transition"*, for his continuous encouragement in this endeavor. We are grateful to Professor Mileti Mladenov of the University of National and World Economy for providing us with data, biliography and written comments on the structure and workings of the Bulgarian economy.

2. Institutional arrangements and the process of economic policy-making: Period through 1995

Reforms towards a market-oriented economy were launched in Bulgaria beginning 1989. By mid-1992 much of the legal framework was in place. Before the beginning of reforms, the private sector in Bulgaria was contributing less than 5% of gross domestic product (GDP) and private enterprises were not even legal before the end of 1981.[2] Economic growth since the beginning of reforms in 1989 through the year 1993 was negative.

After five years of recession 1989-1993, the economy began to recover in 1994; GDP increased by 1.4% followed by an increase of 2.6% in 1995.[3]

- Early in 1994 the International Monetary Fund (IMF), The World Bank and Western commercial banks agreed on a global assistance package for the country: (i) IMF approved a twelve-month Stand-by Arrangement worth $97 million associated with a Systematic Transformation Facility of $324 million; (ii) in September 1994, IMF and the World Bank increased the financial aid by $225 million; (iii) in April 1994, a rescheduling arrangement was agreed with official creditors (Paris Club); (iv) in July 1994, a debt and debt service reduction programme (DDSR) was agreed with Western Commercial Banks.
- In November 1994 the IMF suspended its assistance and failed to reach a new agreement with the Bulgarian authorities for further funding in 1995; the Bulgarian government refused to comply with the Fund's and the World Bank's macroeconomic and structural adjustment conditions.
- In 1995, the newly elected government (December 1994 elections) launched an unambiguous economic programme: its objective was both to eliminate excess demand and minimise the social costs of the country's economic transformation by delaying privatisation and adopting a socially acceptable social safety net.
- As a result, structural reforms on privatisation and the financial sector did not accelerate; progress in terms of stabilization and economic growth was modest throughout 1995. The lack of credibility in the government's programme led to a declining of confidence of the

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[2] Mladenov (1998).
[3] European Economy, Supplement A, No. 10/11 (1996), No 1 (1997). Bulgarian National Bank (1996), Annual Report.

International Financial Institutions.[4] Thus unfavorable economic conditions led to a dramatic worsening of the country's external financial position at the end of 1995 and the beginning of 1996.

Foreign exchange reserves declined from $ 1354 million in 1995 IV to $487 million in 1996 IV; foreign direct investment had been very low; the exchange rate of the Lev/$, which showed a remarkable stability in 1994 and 1995 fell from 70.7 in 1995 IV to 487.1 in 1996 IV; at the same time the inflation rate, which had fallen to 28.6% by early 1996 due mostly to observed stability in the exchange rate during 1995, increased dramatically from 36.3% in 1995 IV on an annual basis to 251.1% at the end of 1996 (Figures 2, 13, 17; Tables 2, 13, 17)[5]. These developments have brought Bulgaria again to the edge of an external payment crisis (the country's obligations for 1996 and beyond exceeded $ 1 billion/year).

3. Deep economic crisis in 1996

At the beginning of 1996, however, the incomplete progress in the process of structural reform, the inconsistent macroeconomic policies, and the increasing losses, both in the real and the financial sectors, created the conditions for a new financial crisis and loss of public confidence in the national currency and the banking system.[6] This crisis led to a significant decrease in GDP by 10,9% in 1996.

The crisis of 1996 is evident in the negative evolution of the main macroeconomic magnitudes (real growth, inflation, unemployment, exchange rate, foreign exchange reserves, interest rates, budgetary requirements, imports, exports, etc.). Analytically:

Real sector

By the second half of 1995, there were increasing signs that the economic situation was unsustainable.

- Consumer price inflation accelerated during the year 1996 reaching a peak at 251% in the fourth quarter of 1996. The acceleration continued throughout the first half of 1997 (Figure 2; Table 2). The acceleration in the inflation rate reflected the massive depreciation of the currency (Figure 13; Table 13).

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4 On the optimal ordering of the reform process in countries in transition, see Demopoulos (1991).
5 They are prepared by the authors of this report.

- Having peaked at over 163% of the labour force in early 1994, the unemployment rate fell to under 11.2% in mid-1995, 10.4% in mid-1996, and increased to 11.9% at the end of 1996 (Figure 4; Table 4).
- Wages in the public sector increased moderately reaching an average of 20.608 Lev at the end of the year on a quarterly basis, from only of 8723 Lev for the first quarter of 1996 (Figure 3; Table 3).
- On the other hand, employment in the public sector continued decreasing throughout the year at a moderate pace.
- As it is shown in Figure 2 and Table 2, the wholesale price index increased considerably in mid-1996 due probably to price and mark-up adjustments of the industrial sector.

The increase in wages and pensions could not keep pace with the decline in the country's real output growth by 11%. Living standards were seriously affected: Real spending per head on food fell during the second half of 1996. The relative expansion of the private sector into industry and agriculture during the year reflected a slow restructuring of ownership in these two sectors. These sectors required huge investment in fixed capital (Figure 1; Table 1).

Financial sector

There has been a bank crisis in 1996 and early 1997. Domestic financial markets were not in balance. Due to the deep depreciation of the Lev (it fell to 155.4 Lev/$ in the mid-1996, and to 487.3 at the end of the year on a quarterly basis (Figure 13; Table 13) the Bulgarian National Bank (BNB) tried to support domestic currency by increasing interest rates and intervening in the foreign exchange market, but without success. As a result, individuals withdrew their savings from commercial banks and converted their holdings of Lev into the $, which were kept outside banks. The confidence in banks was restored with the introduction of a currency board in July 1997. We elaborate on these points below.

- Broad money (M3) rose considerably in the first months of 1996, reaching a growth of 17.1% by the fourth quarter of the year. Its trend reached a peak at 38% in the first three months of 1997. The high-liquid money (M1) followed an almost similar path of growth. There was also a significant growth of the reserve money after the first quarter of 1996. This growth reflects the money multiplier (Figure 5; Table 5).

[6] Mladenov (1998).

- Domestic credit to the government, public and private sectors rose considerably through out the year 1996 and the first quarter in 1997 (Figure 6; Table 6). This growth exceeded significantly the growth of the broad money (M3) at the expense of the country's deteriorating net foreign reserves. Domestic credit growth is primarily attributable to the devaluation of the Lev.
- Average quarterly interest rates on short-term credits and on one-month deposits started increasing through out the year 1996 (Figure 7; Table 7), due to eroded confidence in the banking sector and the Lev as well as the dramatic drop in incomes, the rate of deposits withdraw was sustained in the first months and by the end of the year (Figure 9; Table 9). Nonetheless, despite their real negative value throughout most of the year, nominal interest rates on credit increased dramatically (Figure 7; Table 7), exercising a further pressure on the private sector's initiatives.

Public sector

- By the end of 1996 revenues amounted to 21.1% of the reported GDP, while expenditures/GDP reached the level of 32.6%. Excessive budget deficits in the years 1994-1996 were in part directly financed by the BNB and have contributed to persistent inflation, which the central bank tried to moderate by regular intervention in the foreign exchange market to stabilise the exchange rate of the Lev (Figures 10-11; Tables 10-11).

Foreign sector

- Foreign exchange reserves decreased dramatically throughout the year 1996 (Figure 13; Table 13); foreign debt service payments also increased (Figure 16; Table 16). On the other hand, the inconsistency between fiscal, monetary and exchange rate policies put pressure on the exchange rate of the Lev whenever financial markets perceived that the BNB did not have adequate foreign exchange reserves to continue supporting the national currency. As a result, the exchange rate of the currency collapsed from 78.8 Lev/$ at the start of the year to 487.3 Lev/$ in the fourth quarter of 1996 (Figure 13; Table 13).
- Meanwhile, the sharp devaluation of the Lev contributed to an improvement of the exports in 1995 and 1996. Imports failed to keep pace with the former and, therefore, the economy's foreign trade surplus expanded a little, for the first time since 1994. Due

probably to positive invisible current transactions, the current account as a whole improved a little.

In contrast, aggregate domestic demand remained subdued in the somehow diverging trends of demand and in the origin side of the gross domestic products leading to a fall of 10.9% from the previous year.

3.1. What went wrong ?

The deep economic crisis in 1996 was the consequence of inconsistent macroeconomic policies followed by the Bulgarian government and the poor progress in the process of structural reforms the country had to make in the public and private sectors of the economy.

Though much of the legal framework on reforms was in place by mid-1992, practical implementation did not match this progress:[7]

- A number of price control systems were reintroduced. These were monitoring of approximately 50% of goods and remained in force through 1996.
- Though a mass (voucher) privatisation programme has got under way in 1996, a clear political support for enterprise privatization and restructuring was lacking.
- Though enterprise restructuring accelerated somewhat as the government initiated action to deal with the largest loss-making state enterprises, commercial banks lending to loss-making state-owned enterprises increased, so banks run out of liquidity, and as a result, the financial sector could not carry out financial services; the money of small savers was blocked.
- Though the mid-1996, the progress in banking reforms and interest rate liberalization was moderate. Approximately one-third of the banks were closed in 1996. However, banking supervision remained poor. Similarly, liberalization in the securities market and non-bank financial institutions proceeded very slow.
- Though trade and foreign exchange regimes were generally liberalized by mid-1996, price liberalization and competition policy did not advance much.
- Though effectiveness of legal rules on investment was most advanced, liberal foreign direct investment legislation adopted in 1992, was partly tightened in late 1996.

- Though the Central Bank way nominally independent, on occasion it had to provide considerable volumes of credit to finance the government's budget.
- Though a quasi-free floating exchange rate regime was introduced in 1991, it has been subject to substantial intervention by the country's central bank to support national currency.

Meanwhile, excessive large budget deficits financed in part by the central bank, contributed to persistent inflation (Figures 5, 10, 11; Tables 5, 10, 11). The central bank tried to moderate inflation by regular intervention in the foreign exchange to stabilise the exchange rate of the Lev (Figure 13 ; Table 13;). This inconsistency between fiscal, monetary and exchange rate policies caused exchange rate tensions whenever financial markets perceived that the central bank did not have adequate foreign exchange reserves to continue supporting the currency.

The government attempted to reverse the situation and stabilise the economy during the second half of 1996 without success. The IMF supported stabilisation programme (a twelve-month Stand-by Arrangement approved in 1994) did not work since the Bulgarian authorities could not stop the destabilisation, and proved unable to relaunche structural reforms.

In late 1996 the Prime Minister had to resign along with his government following the victory of the opposition candidate in the presidential elections in November. The country was left without a government at a critical time.

With these negative developments the Bulgarian State approached 1997.

4. Deep economic crisis continues: First half of 1997

The economic situation worsened sharply beginning 1997. No credible budget could be adopted since the country was left without a government since late December 1996.

Quarter-on-quarter inflation reached over 1452% and 1777% in 1997I and 1997II respectively reflecting a massive depreciation of the Lev. The exchange rate fell from 487 Lev/$ at the fourth quarter in 1996 to 1588.7 Lev/$ in the first quarter of 1997, and to 1718.6 Lev/$ in the second quarter of the year. In other words, inflation accelerated into full-blown hyper-rinflation and the exchange rate collapsed (Figure 13; Table 13)

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[7] European Economy, Supplement A, No. 4 (1997), No1/2 (1998). Bulgarian National Bank (1997), Report January - June.

Foreign reserves fell to less than 500 million $ by the end of the first quarter. This level of reserves was insufficient to insure debt service payments given the need to finance imports for grain and fuels in February and March (Figure14; Table 14).

Increases in wages and pensions could not keep pace with these developments: Household income had collapsed to an average of less than $10 per month; gross domestic product declined following the drop of 10.9% in 1996.

Social unrest and political crisis continued. Trade unions called for weekly pay increases and for monthly negotiations on wage levels. Socialists were forced in February 1997 to agree to early parliamentary elections to be held by mid April. A take-over government was appointed for the period February-April with the Mayor of Sofia, Mr. Stefan Sofianski, as a Prime Minister. The new government was authorised to:

- Proceed with wide-ranging of reforms.
- Negotiate with the IMF to secure external financial support to back the currency.

These developments had a positive impact on both the economic and political stability.

5. Positive developments and prospects: Second half of 1997 and beyond

During the second half of 1997 improvements in the institutional and legislative framework have taken place:[8]

- A new Currency Board was established on July 1st. The new law on BNB on June 5th limited the central bank's powers to design and implement a discretionary monetary policy. The BNB has been transformed into a Currency Board.[9] The International Monetary Fund proposed, along with the establishment of the Currency Board, a new stabilisation programme for the economy.
- Privatisation accelerated: large, small and medium-sized enterprises kept being on sale.
- Price liberalisation was advanced since price controls were removed in mid-1997.

[8] European Economy, Supplement A, No. 4 (1997). Bulgarian National Bank (1997), Report January - June.
[9] We elaborate on this as well as on the reforms directly related to financial institutions below.

- Legislation on foreign investment was revised allowing joint ventures with foreign participation to purchase land.

- Reforms on financial institutions - banking, securities market and non-bank financial institutions - were put into operation[10].

To understand the positive economic developments since the implementation by the government of stability-oriented macroeconomic policies under the guidance of the IMF and the establishment of the Currency Board in July, a brief outline of the Board's functions is given here:[11]

- The exchange rate was fixed at 1.000 Lev per DM, and the local currency is freely exchanged at the specific rate in unlimited quantities. This rule restricts the domestic money supply to the equivalent of the central bank's stock of foreign reserves.

- The central bank cannot finance the government or commercial banks, unless the collapse of the bank would be likely to undermine the banking system as a whole.

The established rules of the Currency Board enhanced immediately the credibility of the authorities' commitment to economic stabilisation.[12]

- Inflation rate started to decline from the hyper-inflation period (Figure 2; Table 2). There was a corresponding fall in interest rates. Interest rates on short-term credit fell to 1% at the fourth quarter from an over 17% in the first quarter of the year (Figure 7; Table 7). At the same time, interest rates on short-term government debt, which had been as high as 668% in the first quarter in 1997 fell to less than 8% on quarterly basis at the end of the year (Figure 8; Table 8).

However, Figure 6 and Table 6 demonstrate that credit extended to the private sector kept decreasing in the last three quarters of 1997. This inconsistency between the former and the latter probably suggests weaknesses in the institutional arrangements and the workings of the banking sector. We deal with this issue in Section 6.

The slowdown in inflation and low interest rates, on the other hand, provided favourable conditions for an increase in investment spending, which was estimated at 12% of gross

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10 A detailed analysis on these structural reforms is given in another section below.

11 For the theoretical and institutional functions of the Currency Board, see Section 6.

12 European Economy, Supplement A, No 2 (1998).

domestic product. As a result, though gross domestic product fell by almost 10% in the first half of the year, the reduction for the year was estimated at 7.4%.[13]

- Foreign direct investment (FDI) has risen to $273 million during the second quarter of the year; its trend continued increasing in the fourth quarter (Figure 17; Table 17). This increased flow resulted probably from the sales of small, medium and large-sized enterprises (including one bank) and from the improved confidence of the international society in the economy's future. Also, a trade surplus of $421 million recorded in the first half of 1997 (Figure 14; Table 14); this resulted from weak demand for imports due to the decline in the real gross domestic product rather then a strong export performance (Figure 14; Table 14). Meanwhile, an internal capital inflight is observed since the mid of the year. These developments led to a remarkable increase in the central bank's stock of foreign reserves. These have increased from $435 million in the first quarter to $2385 million by the last quarter of 1997 (Figure 13; Table 13). At the same time, foreign debt payments/GDP fell leading to a reduction in the budget deficit at the end of the year (Figures 15, 10; Tables 15, 10).[14]

By the end of 1997, Bulgaria made good progress towards stabilization. The deep economic crisis it suffered in late 1996 and the first half of 1997 was over. The rapid recovery of the economy was mainly due to the implementation by the government of stability-oriented macroeconomic policies under the guidance of the IMF as well to the structural reforms introduced but not yet completed.

The key element of the authorities' strong stabilisation programme was the establishment of the Currency Board from July 1997, which introduced a fixed exchange rate of the Lev to the DM. Confidence of the international society in the economy's future was restored. The government has initiated discussions with the IMF on a three-year Extended Financing Facility to be implemented when the current Stand-by Arrangement is completed in Spring 1998.[15]

The prospects are that the Bulgarian economy should return to growth in 1998. However, much remains to be done in the privatisation process and fundamental restructuring of different sectors of the economy, in order to consolidate further domestic and international confidence.

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13 Ibid., p.3.
14 See also, European Economy, Supplement A, No 4 (1997).

6. The Bulgarian financial institutions and the existing institutional arrangements[16]

Bulgaria has not yet a fully developed financial system. At the centre of the Bulgarian financial system is the Bulgarian National Bank (BNB), the country's central bank.[17] Around it there is a "thin" net of private and governmental financial institutions which include commercial banks, state-owned specialized institutions and the Stock Exchange. There is rather a small and non-efficient system of insurance companies; pension funds are already in operation. There are, however, no private investment and mortgage banks. Some banks are called "investment banks" (for instance, Bulgarian Investment Bank, Bulgarian Russian Investment Bank, etc) but in fact they are commercial banks.

Non-Banking institutions do not seem to play an important role in financing investment mainly due to the underdeveloped nature of the capital market. Thus, the banking system is the most important institutionalised means of mobilising and allocating private and public financial resources.

The Bulgarian banking system consists of:

(1) the Bulgarian National Bank (BNB);

(2) the newly established Currency Board;

(3) 33 commercial banks, 6 of which are state-owned, 16 private and 11 foreign;

(4) there are no private investment and mortgage banks;

(5) one specialized credit institution.

6.1. The Bulgarian monetary authorities

The Bulgarian National Bank (BNB) was established in 1879. It exercises the country's monetary policy and exchange rate policy. The primary of objective of BNB as a central bank is to guarantee price and exchange rate stability. It also controls and supervises the activities of commercial banks and other financial institutions. Instruments, such as, discount rate, open

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15 European Economy, Supplement A, No 2, (1998).

16 This section is thoroughly based on information supplied to us by Professor Mileti Mladenov. We have rearranged his text and we added Section 6.2.

17 Since July 1997 the BNB has been transformed into a Currency Board. We elaborated on this below.

market operations, credit ceilings, required reserves have been used occasionally; some are still in operation today.

The central bank's foreign exchange policy has been directed to external stability of the Lev. A floating exchange rate system was adopted at the beginning of the reforms in 1989 and the foreign exchange market developed.

The dramatic hyper-inflation observed in 1996 along with the sharp reduction in the country's foreign exchange reserves, the exchange rate crisis and the loss of confidence in the banking system that followed, convinced the Bulgarian authorities to accept the IMF's proposal in establishing a Currency Board in July 1997.

6.2. The Currency Board

The country's central bank (BNB) has been transformed into a Currency Board since July 1997. The Currency Board's arrangementts are:[18]

- The exchange rate is fixed (in the Bulgarian case at 1000 Lev per a DM) and the local currency is freely exchanged at the specific rate in unlimited quantities.
- This rule restricts the domestic money supply to the equivalent of the central bank's stock of foreign reserves.
- The central bank cannot finance the government by purchasing government bonds, or commercial banks, unless the collapse of the bank would be likely to undermine the banking system as a whole.
- A currency board arrangement is usually tightened to a stabilisation programme. But stabilisation and a pegged exchange rate, aimed at braking hyper-inflation, will fail if there is no control over the central bank's lending. Also, stabilization and a pegged exchange rate in a Currency Board arrangement is similar to a kind of policy before the economy is entering a complete monetary union.
- The government preserves the right to change the arrangements of the Currency Board if needed in the future.

[18] See Mundell (1997).

- Since the arrangements of a Currency Board rules out changes in the exchange rate, the spot and forward exchange rates converge to those of the currency to which the national currency is fixed.

6.3. Private and state-owned financial institutions

(a) *Commercial banks*

Among the 11 foreign banks there are 6 branches, 1 bank with limited operations and 4 licensed as Bulgarian banks with activities in Bulgaria and abroad.

(b) *Investment banks*

There are no private investment and mortgage banks; however, commercial banks are allowed to conduct investment operations.

In the context of the Law of the Securities Commission, there is another new type of financial institutions, called "investment intermediaries", similar to an investment bank. There are about 20 specialized "investment intermediaries". Most of them are small organisations, not very active because of the small trade in the volume of securities.

(c) *Specialised credit institutions*

There is only one savings bank, the State Savings Bank (SSB), established in early 1950s. The SSB has been collecting small savings from all over the country; savings were directed in buying government securities and/or used for internal market operations Also, it extended credit for mortgage purposes. It is expected that the SSB will be transformed into a commercial state-owned bank in a two-year period.

A Bulgarian Post Bank, a small savings bank is in the process of being privatized.

(d) *Insurance companies*

There are many insurance companies, but most of them are small and inefficient. There has been a process of restructuring this sector since April 1998. Some foreign insurance companies are operating in the country.

(e) *Pension funds*

Several pension funds are already operating; nonetheless, this is another new part of the financial sector of the economy that needs to be developed.

6.4. The capital market

The primary securities market-government securities market operates within the banking system. The secondary securities market, where stockbrokers can engage in securities transactions, operates in the Stock Exchange which was established at the end of 1997. There has a very limited volume of transactions which will probably grow with the advancement of privatisation.

7. Concluding remarks

Reforms towards a market-oriented economy were launched in Bulgaria beginning 1989. By mid-1992 much of the legal framework was in place. However, practical implementation did not match the progress made in the establishment of the legal framework. In addition a clear political support for enterprise privatisation and restructuring was very much lacking. As a result, economic growth through 1993 was negative.

Economic growth in 1994 and 1995 was modest. However, structural reforms on privatisation did not accelerate; progress in terms of stabilisation had fallen behind; the lack of credibility in the government's programme led to a declining of confidence of the international financial institutions.

This unfavorable economic conditions led to a dramatic worsening of the country's external financial position at the end of 1995 and the beginning of 1996. The exchange rate of the Lev to a dollar fell dramatically, while inflation started accelerating to a hyper-inflation. These developments brought Bulgaria again to the edge of an external payment crisis.

The crisis of 1996 continued throughout the first half of 1997. The acceleration in the inflation rate was reflected in massive depreciation of the country's currency. The central bank – the Bulgarian National Bank (BNB) – tried to support domestic currency by increasing interest rates and intervening in the foreign exchange market, but without success. The economic situation worsened sharply. No credible budget could be adopted since the country was left without a government since late December 1996.

The elected government in April 1997 proceeded with wide-range of reforms, and an agreement with the IMF to secure the external financial support to back the currency. The Bulgarian authorities accepted also the establishment of a Currency Board and the implementation of a new stabilisation programme.

By the end of 1997, the Bulgarian economy made good progress towards stabilisation. The key element of the authorities' strong stabilisation programme was the establishment of the Currency Board in July 1997, which introduced a fixed exchange rate of the currency to the DM. Confidence has been restored and there are prospects that the Bulgarian economy will return to growth in 1998.

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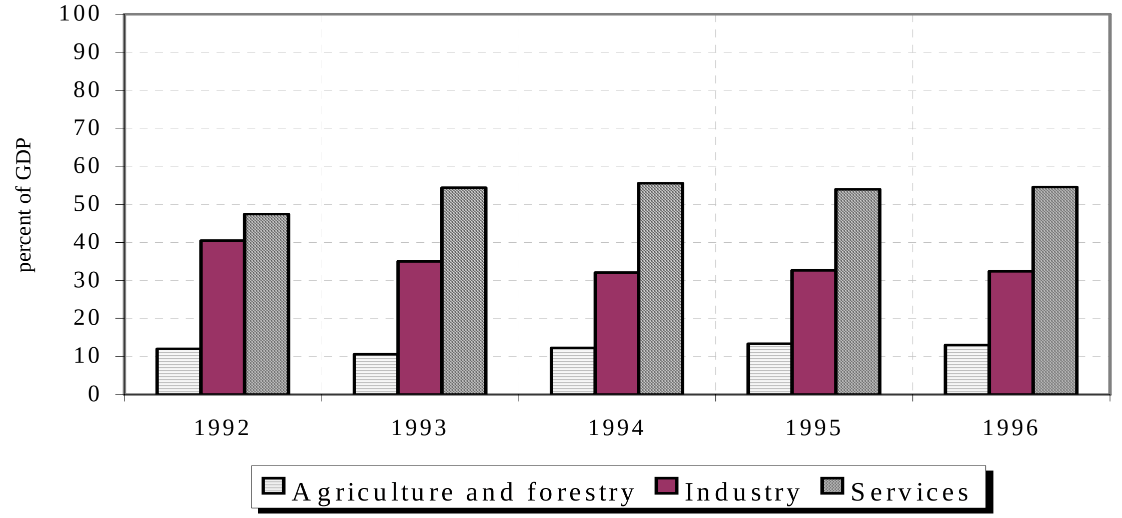
Abbreviations

Lev	:	National Currency of the Republic of Bulgaria
BNB	:	Bulgarian National Bank
MF	:	Ministry of Finance
NLO	:	National Labor Office
NSI	:	National Statistical Institute.

Figure 1: GDP Structure



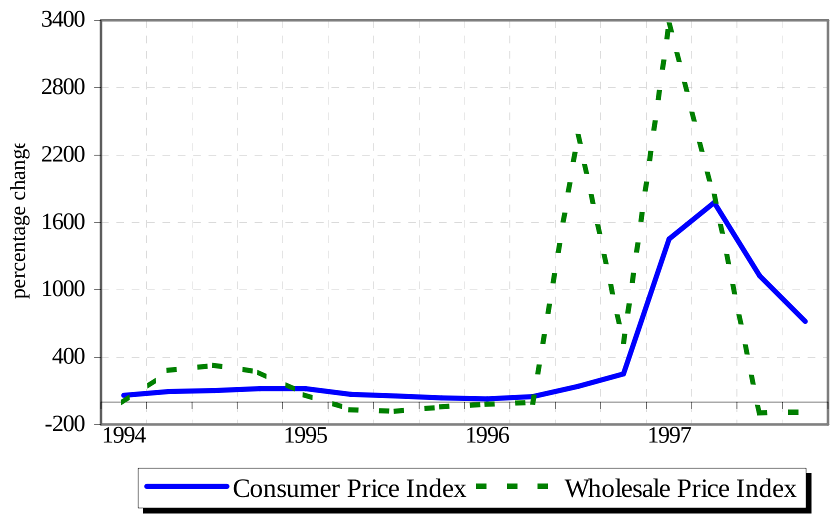
Source: NSI.

Table 1: GDP Structure

Year	Agriculture and forestry / GDP	Industry / GDP	Services / GDP
1992	12,04	40,47	47,49
1993	10,64	35,00	54,36
1994	12,32	32,11	55,57
1995	13,35	32,69	53,96
1996	13,09	32,37	54,54

Source: NSI.

Figure 2: Inflationary Trends



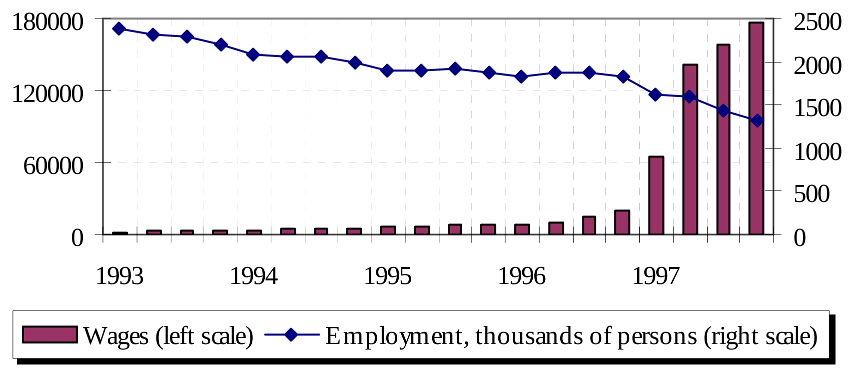
Source: NSI.

Table 2: Inflationary Trends

Year	Consumer Price Index	Wholesale Price Index
	(percent change previous year)	
1994I	59,83	-2,99
1994II	92,40	281,75
1994III	101,27	328,25
1994IV	119,73	266,06
1995I	118,20	64,41
1995II	67,63	-68,96
1995III	54,20	-83,25
1995IV	36,30	-44,12
1996I	28,60	-20,52
1996II	47,07	-2,97
1996III	140,10	2364,38
1996IV	251,10	538,75
1997I	1452,03	3356,60
1997II	1777,37	1832,05
1997III	1124,80	-98,71
1997IV	717,80	-88,09

Source: NSI.

Figure 3: Wages and Employment in the Public Sector

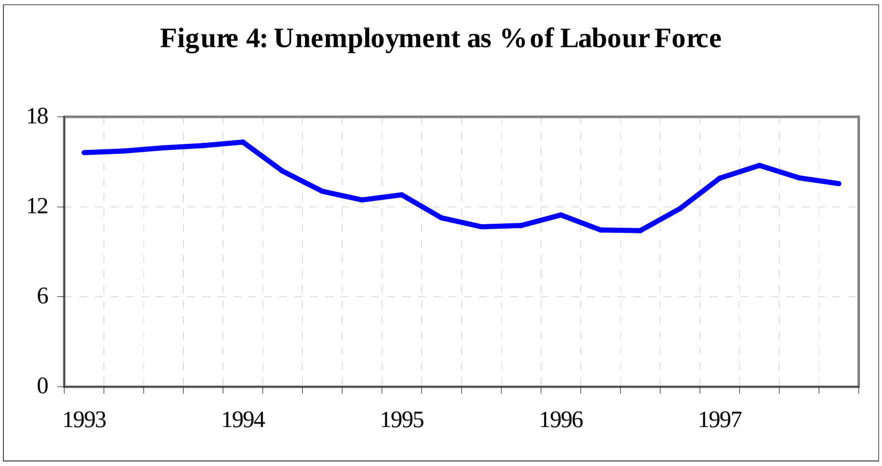


Sources: NLO and NSI.

Table 3: Wages and Employment in the Public Sector

Year	Wages	Employment
		(thousands of persons)
1993I	2467,33	2374,79
1993II	2966,67	2324,38
1993III	3310,00	2281,43
1993IV	3645,33	2193,41
1994I	3822,67	2086,16
1994II	4428,33	2068,83
1994III	4904,33	2053,05
1994IV	5674,00	1994,69
1995I	6178,00	1899,74
1995II	7133,33	1907,54
1995III	7717,00	1916,37
1995IV	8241,00	1885,46
1996I	8723,00	1837,96
1996II	10724,33	1869,77
1996III	14328,67	1875,76
1996IV	20608,00	1825,34
1997I	65511,00	1623,99
1997II	140954,33	1603,25
1997III	158182,67	1446,57
1997IV	177396,67	1330,50

Sources: *NLO and NSI.*



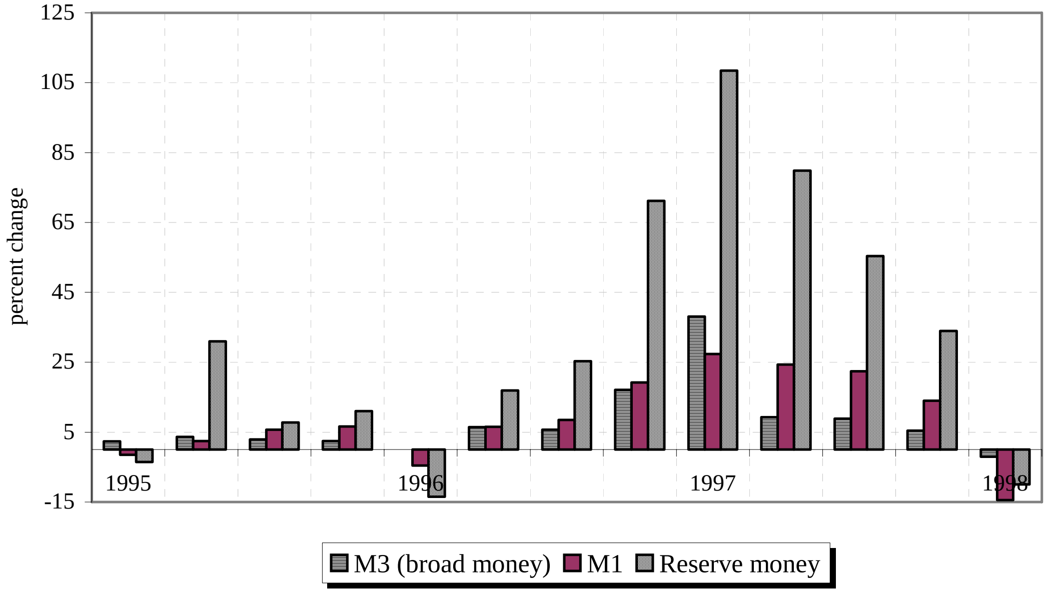
Source: NLO.

Table 4: Unemployment as % of Labour Force

Year	Unemployment rate
1993I	15,61
1993II	15,73
1993III	15,92
1993IV	16,09
1994I	16,32
1994II	14,38
1994III	13,04
1994IV	12,45
1995I	12,80
1995II	11,26
1995III	10,67
1995IV	10,76
1996I	11,45
1996II	10,45
1996III	10,41
1996IV	11,89
1997I	13,90
1997II	14,77
1997III	13,94
1997IV	13,55

Source: NLO.

Figure 5: Money Supply Measures



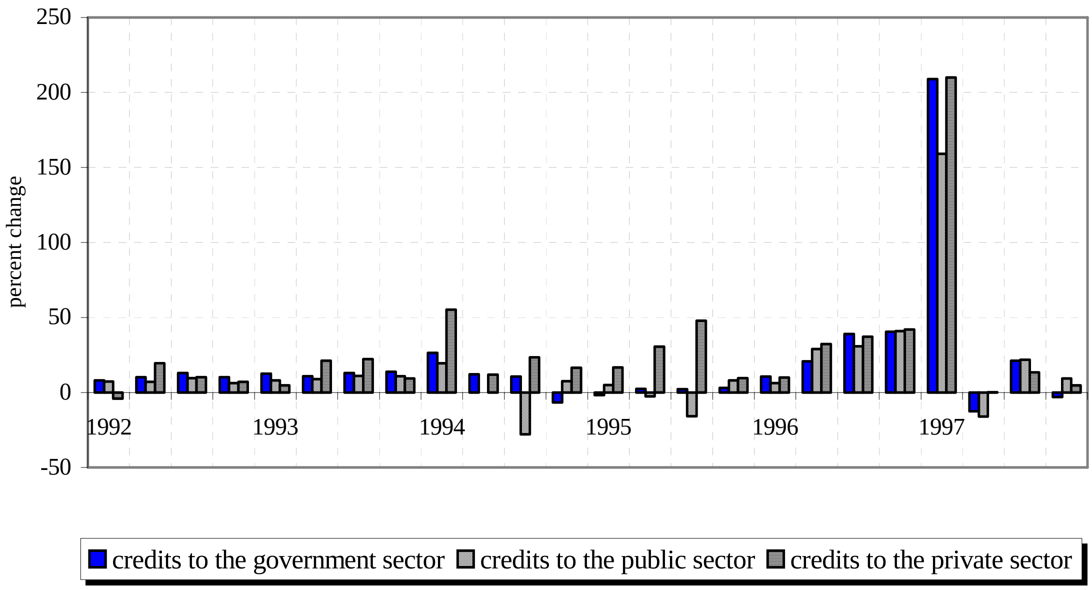
Source: BNB.
Note: the data for the first quarter of 1998 concern only the first month.

Table 5: Money Supply Measures

Year	M3 (broad money)	M1	Reserve money
	(percent change)		
1995I	2,33	-1,52	-3,53
1995II	3,61	2,49	30,98
1995III	2,93	5,70	7,73
1995IV	2,47	6,62	10,98
1996I	0,03	-4,60	-13,47
1996II	6,42	6,54	16,92
1996III	5,69	8,44	25,33
1996IV	17,13	19,20	71,19
1997I	38,07	27,36	108,47
1997II	9,29	24,35	79,81
1997III	8,86	22,40	55,40
1997IV	5,44	13,96	33,92
1998I	-2,08	-14,46	-9,94

Source: BNB.
Note: the data for the first quarter of 1998 concern only the first month

Figure 6: Domestic Credit Structure



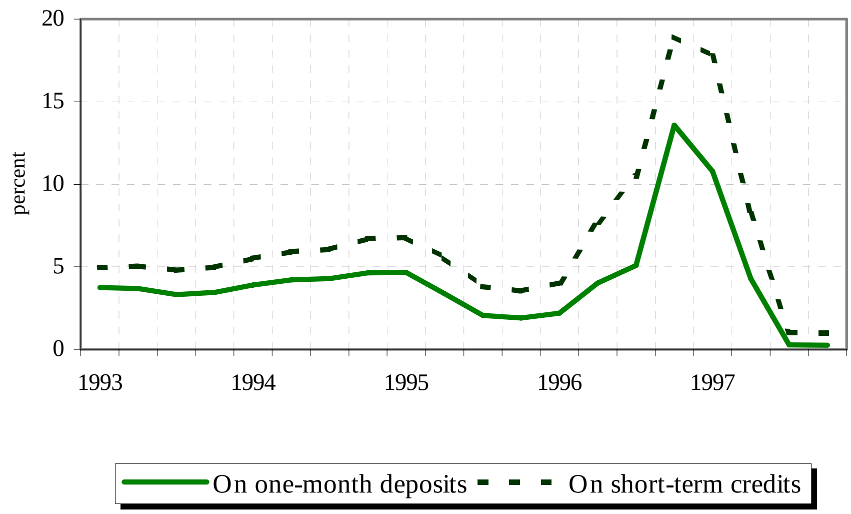
Source: BNB.

Table 6: Domestic Credit Structure

Year	Government sector	Public sector	Private sector
	(percent change)		
1993I	12,47	8,08	4,74
1993II	10,90	8,88	21,14
1993III	13,00	10,96	22,28
1993IV	13,76	10,83	9,36
1994I	26,32	19,42	55,18
1994II	12,05	-0,07	11,95
1994III	10,59	-27,82	23,41
1994IV	-6,79	7,52	16,54
1995I	-1,78	5,08	16,57
1995II	2,48	-2,67	30,44
1995III	2,20	-15,77	47,76
1995IV	3,02	7,90	9,54
1996I	10,66	6,19	10,02
1996II	20,81	29,10	32,34
1996III	39,07	30,66	37,14
1996IV	40,49	41,01	41,97
1997I	208,77	159,05	209,88
1997II	-12,52	-16,04	0,23
1997III	21,11	21,87	13,35
1997IV	-3,10	9,21	4,71

Source: BNB.

Figure 7: Nominal Interest Rates



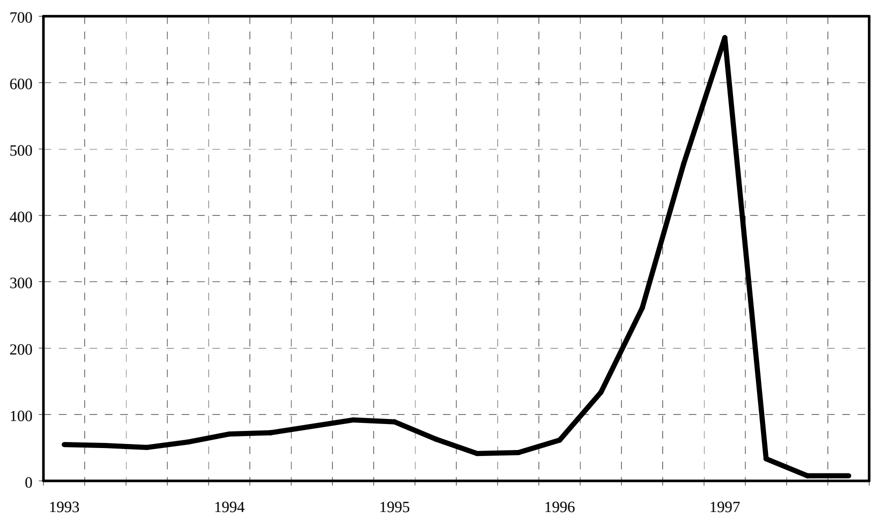
Source: BNB.

Table 7: Nominal Interest Rates

Year	On one-month deposits	On short-term credits
1993I	3,74	4,94
1993II	3,69	5,04
1993III	3,32	4,79
1993IV	3,45	4,97
1994I	3,90	5,52
1994II	4,21	5,92
1994III	4,30	6,05
1994IV	4,64	6,71
1995I	4,65	6,77
1995II	3,37	5,55
1995III	2,06	3,81
1995IV	1,90	3,53
1996I	2,20	4,04
1996II	4,02	7,70
1996III	5,08	10,48
1996IV	13,58	18,93
1997I	10,79	17,77
1997II	4,29	8,23
1997III	0,28	1,00
1997IV	0,25	0,99

Source: BNB.

Figure 8: Yield curve of government securities



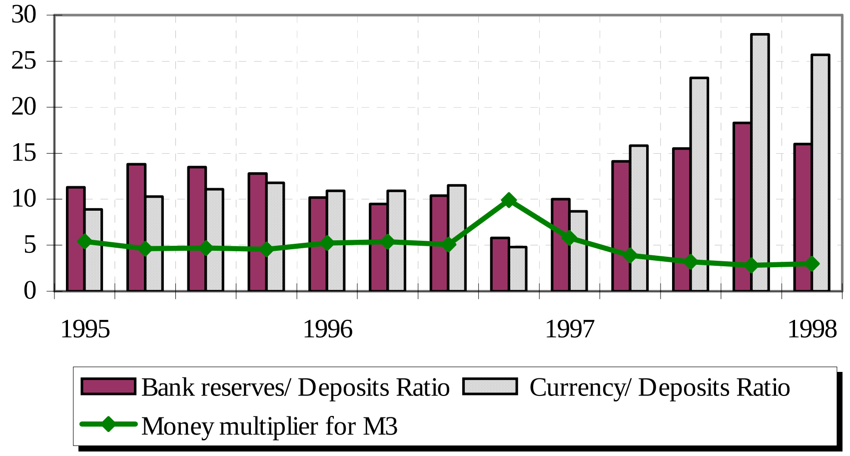
Source: BNB
Note: Average annual yield of government securities issues.

Table 8: Yield curve of government securities, %

Year	Yield curve
1993I	54,59
1993II	53,12
1993III	50,36
1993IV	58,44
1994I	70,53
1994II	72,69
1994III	82,33
1994IV	92,04
1995I	88,81
1995II	63,03
1995III	41,15
1995IV	42,73
1996I	61,26
1996II	133,42
1996III	260,41
1996IV	477,23
1997I	667,63
1997II	33,42
1997III	7,76
1997IV	7,91

Source: BNB.
Note: Average annual yield of government securities issues.

Figure 9: Monetary Policy Stance and Banking Activity



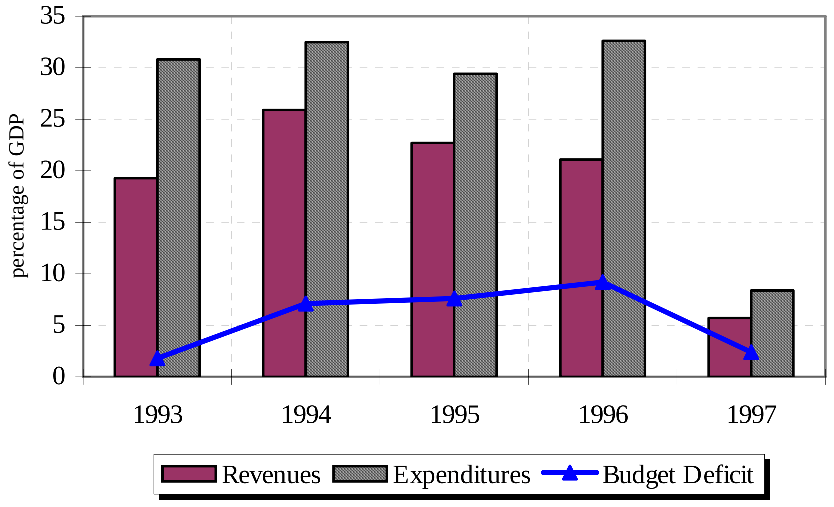
Source: BNB.
Note: the data for the first quarter of 1998 concern only the half of the quarter.

Table 9: Monetary Policy Stance and Banking Activity

Year	Bank reserves/Deposits Ratio	Currency/Deposits Ratio	Money multiplier for M3(times)
1995I	11,30	8,90	5,41
1995II	13,80	10,30	4,63
1995III	13,50	11,10	4,69
1995IV	12,80	11,80	4,55
1996I	10,20	10,90	5,26
1996II	9,50	10,90	5,40
1996III	10,40	11,50	5,08
1996IV	5,80	4,80	9,90
1997I	10,00	8,70	5,80
1997II	14,10	15,80	3,90
1997III	15,50	23,20	3,20
1997IV	18,30	27,90	2,80
1998I	16,00	25,70	3,00

Source: BNB.
Note: the data for the first quarter of 1998 concern only the half of the quarter

Figure 10: Budgetary Developments

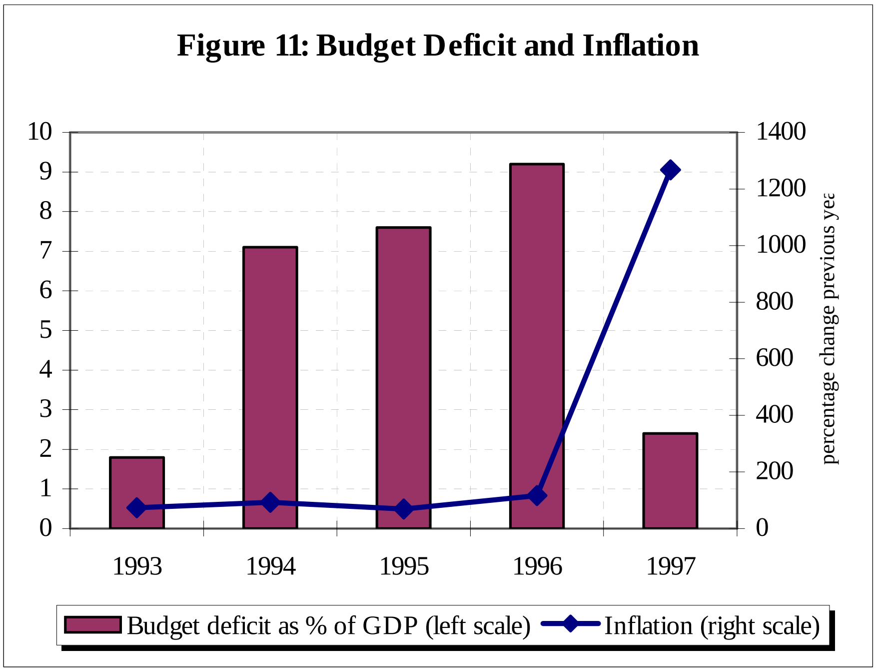


Source: BNB.
Note: the data for 1997 concern only the first semester.

Table 10: Budgetary Developments

Year	Revenues / GDP	Expenditures / GDP	Budget Deficit / GDP
1993	19,30	30,80	1,80
1994	25,90	32,50	7,10
1995	22,70	29,40	7,60
1996	21,10	32,60	9,20
1997	5,70	8,40	2,40

Source: *BNB.*
Note: *the data for 1997 concern only the first semester.*



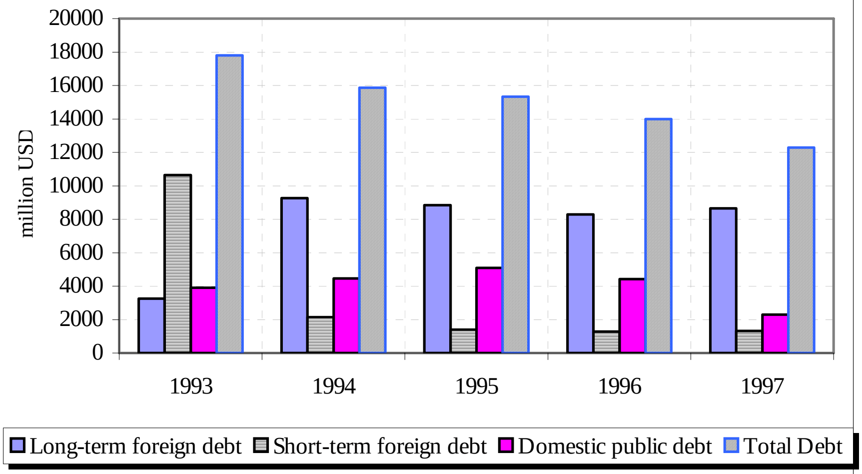
Sources: BNB and NSI..
Note: the data for the budget deficit in 1997 concern only the first semester.

Table 11: Budget Deficit and Inflation

Year	Budget deficit / GDP	Inflation
1993	10,90	73,93
1994	5,80	93,31
1995	6,60	69,08
1996	10,90	116,72
1997	2,80	1268,00

Sources: BNB and NSI.
Note: the data for the budget deficit in 1997 concern only the first semester.

Figure 12: Debt Structure



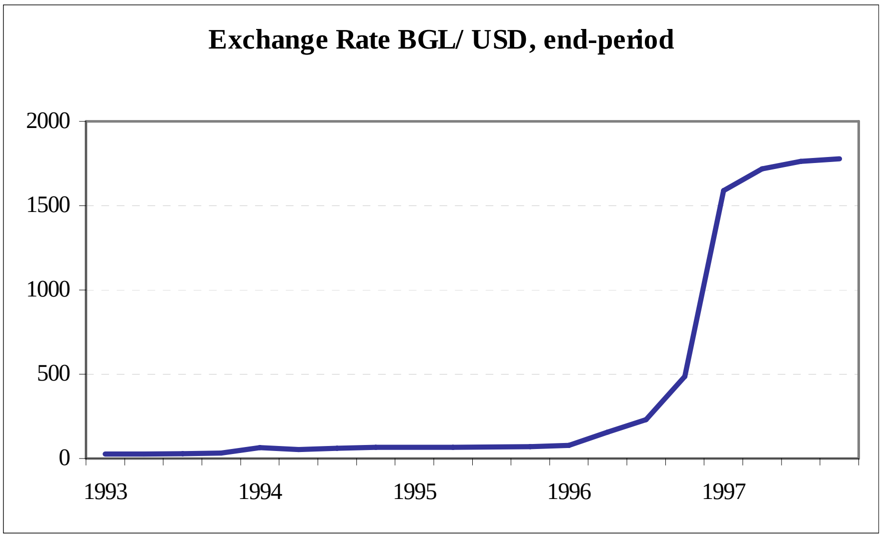
Source: BNB.

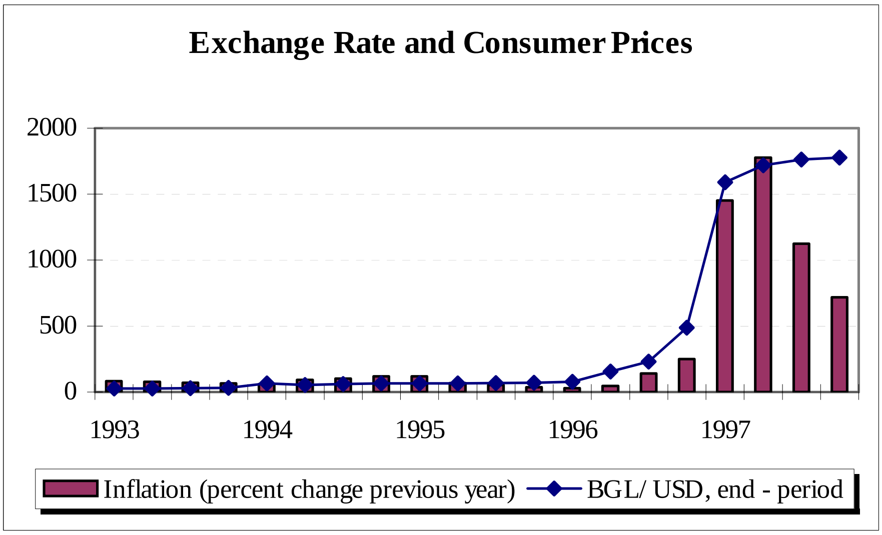
Table 12: Debt Structure, USD mln

Year	Long-term foreign debt	Short-term foreign debt	Domestic public debt	Total Debt
1993	3256,60	10632,80	3903,81	17793,21
1994	9267,90	2143,50	4453,74	15865,14
1995	8841,30	1387,90	5099,28	15328,48
1996	8285,40	1285,90	4425,72	13997,02
1997	8659,80	1330,00	2306,11	12295,91

Source: BNB.

Figure 13



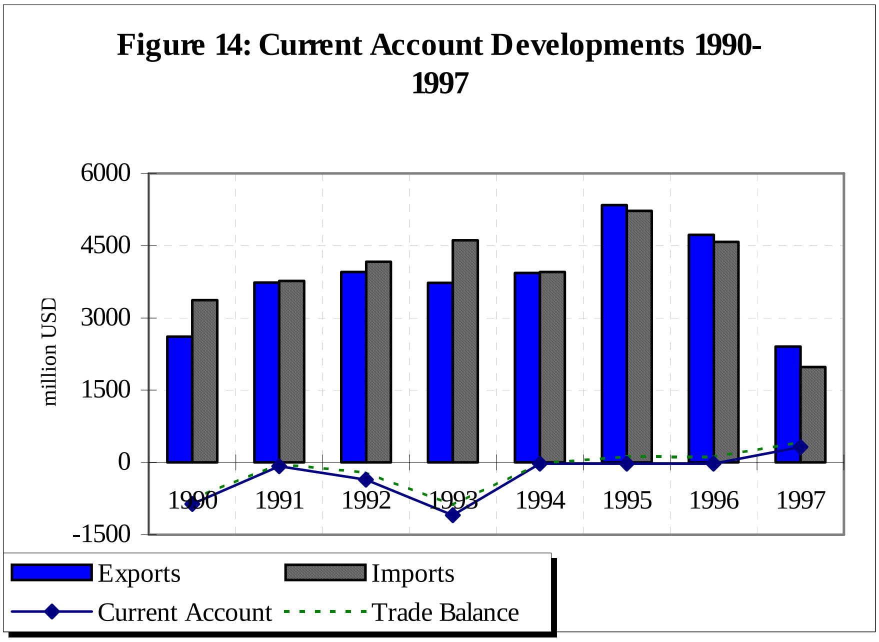


Sources: BNB and NSI.

Table 13

Year	**Exchange rate BGL/USD**	**International Reserves**	**Inflation**
	(end - period)	**(USD mln)**	**(percent change previous year)**
1993I	26,52	878,23	82,60
1993II	26,68	964,00	77,13
1993III	28,03	848,33	70,30
1993IV	32,71	719,93	65,70
1994I	64,94	610,13	59,83
1994II	53,66	1014,30	92,40
1994III	61,20	614,67	101,27
1994IV	66,01	945,17	119,73
1995I	66,16	1001,23	118,20
1995II	66,06	1408,47	67,63
1995III	68,02	1449,97	54,20
1995IV	70,70	1354,80	36,30
1996I	78,83	819,70	28,60
1996II	155,46	600,43	47,07
1996III	229,98	499,53	140,10
1996IV	487,35	487,93	251,10
1997I	1588,70	435,33	1452,03
1997II	1718,60	1243,67	1777,37
1997III	1762,80	2055,67	1124,80
1997IV	1776,50	2385,00	717,80

Sources: *BNB and NSI.*

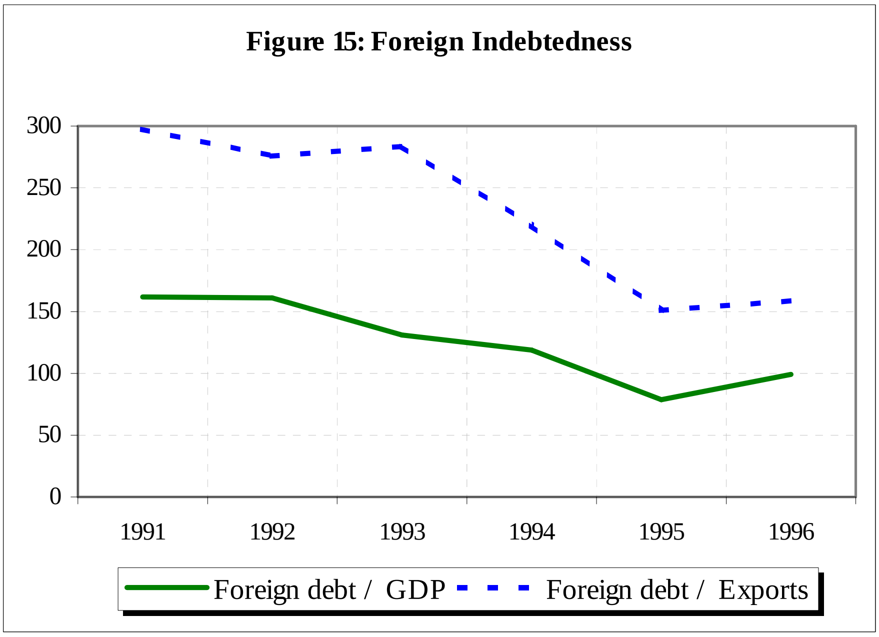


Sources: BNB and NSI..
Note: the data for 1997 concern only the first semester.

Table 14: Current Account Developments, USD mln

Year	Exports	Imports	Current Account	Trade Balance
1990	2615,00	3372,00	-860,00	-757,00
1991	3737,00	3769,00	-76,90	-32,00
1992	3956,40	4168,80	-360,50	-212,40
1993	3726,50	4611,90	-1098,00	-885,40
1994	3935,10	3952,00	-24,80	-16,90
1995	5345,00	5224,00	-25,60	121,00
1996	4723,80	4579,50	-22,30	114,30
1997	2403,60	1982,60	321,00	421,00

Sources: *BNB and NSI.*
Note: *the data for 1997 concern only the first semester.*

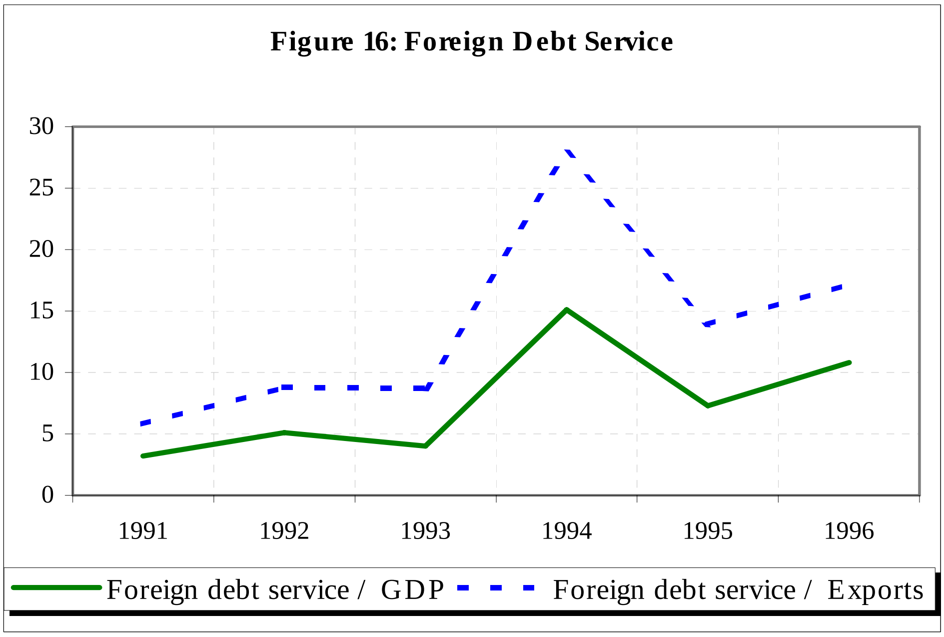


Source: BNB.

Table 15: Foreign Idebtedness

Year	Foreign debt / GDP	Foreign debt / Exports
1991	161,90	297,40
1992	161,10	275,70
1993	131,00	283,60
1994	118,90	219,80
1995	78,70	151,00
1996	99,10	158,80

Source: BNB.

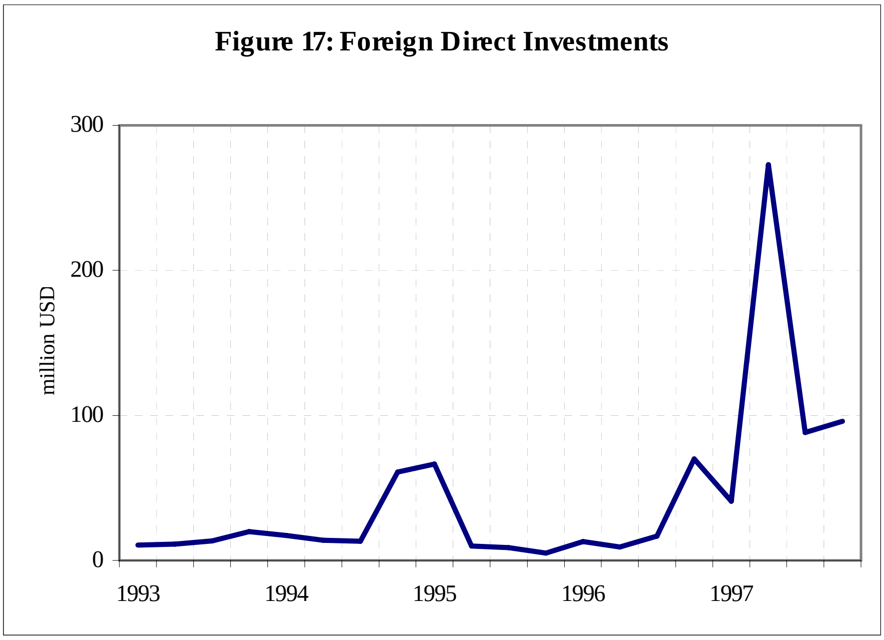


Source: BNB.

Table 16: Foreign Debt Service

Year	Foreign debt service / GDP	Foreign debt service / Exports
1991	3,20	5,80
1992	5,10	8,80
1993	4,00	8,70
1994	15,10	27,90
1995	7,30	13,90
1996	10,80	17,20

Source: BNB.



Sources: MF, NSI, and BNB.

Table 17: Foreign Direct Investments

Year	FDI
1993I	10,70
1993II	11,30
1993III	13,50
1993IV	19,90
1994I	17,20
1994II	13,90
1994III	13,20
1994IV	61,10
1995I	66,60
1995II	10,00
1995III	8,80
1995IV	5,00
1996I	13,00
1996II	9,30
1996III	16,70
1996IV	70,00
1997I	41,00
1997II	272,90
1997III	88,30
1997IV	95,90

Sources: *BNB, MF and NSI.*

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