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Bulgaria: Selected Issues and Statistical Appendix

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BULGARIA

Selected Issues and Statistical Appendix

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Approved by the European Department

May 27, 2004

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I. Bulgaria's Credit Boom: Characteristics, Consequences, and Policy Options[1]

A. Introduction

1. **One of the most apparent economic developments in Bulgaria in recent years is a surge in bank credit**. In the aftermath of the 1996/97 economic and financial crisis, credit growth was initially very subdued, reflecting low credit demand and risk-averse behavior by banks. The banking sector was completely restructured after the crisis, with virtually the entire banking system now in private hands and three-quarters foreign owned. As confidence returned, credit demand increased and banks began to lend again. While this catch-up process was initially very slow, the past two years have seen a dramatic acceleration.

2. **The rapid credit expansion has not yet raised significant financial stability issues, but it has been a key factor in the sharp weakening of the external current account**. Increased financial intermediation is welcome from a growth perspective, as it increases output and demand and raises efficiency, and so far, it has not led to a weakening of prudential indicators. Indeed, banks' asset quality, liquidity, profitability, and capitalization remain very high. However, concurrent with the surge in bank credit, the external current account has weakened, reaching a deficit of 8½ percent of GDP in 2003, up from 5½ percent in 2002. While the deficit has been mostly financed by foreign direct investment (FDI) inflows in recent years, deficits of this magnitude cannot be sustained as privatization inflows will dry up with the completion of the government's privatization program. Indeed, given reasonable assumptions on greenfield investment, the debt-stabilizing non-interest current account deficit amounts to about 7¼ percent of GDP.[2]

3. **Credit growth is unlikely to slow substantially without measures to contain it**. While banks' loan portfolios will eventually grow in line with growth in funding sources, the banking system remains liquid in the aggregate, and able to fund sustained rapid credit expansion from abroad. Moreover, Bulgaria's level of financial intermediation is still low and further catch-up is to be expected. For example, Cottarelli *et al*. (2003) estimate that the post-transition equilibrium level of the credit-to-GDP ratio for a country with Bulgaria's fundamentals is about 50 percent, nearly twice the current level.

4. **To the extent that credit growth is driving the external deficit, policies aimed at reducing bank lending growth—as part of a broader package of measures including tighter fiscal policy and structural reforms—are an appropriate response to these developments**. While the levels of monetization and financial intermediation remain low

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[1] Prepared by Christoph Duenwald and Bikas Joshi.

[2] See Chapter II.

compared with other countries in the region, there is a concern that the pace with which they have risen is not sustainable from a macroeconomic perspective. However, the currency board arrangement (CBA) and the open capital account strongly curtail monetary actions to reduce credit growth. Indeed, the efficacy of most measures on the credit side depends on the responsiveness of capital flows to domestic monetary conditions.

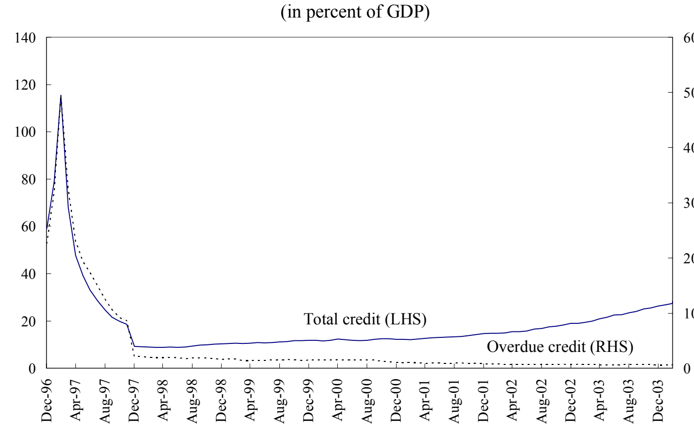
5. **The objective of this chapter is to answer the following three questions**:

- What are the causes and characteristics of the credit boom?[3]
- What risks does it pose?
- What policy options are available to dampen the boom?

B. Causes and Characteristics of the Credit Boom

Background and causes of the credit boom

Figure 1. Developments in Credit, 1996-2004
(in percent of GDP)



6. **Bulgaria suffered a severe economic and financial crisis in 1996-97**. The activities of commercial banks were central to the crisis; for much longer than in most other transition countries, state-owned commercial banks remained instruments of government policy, administering soft loans to loss-making state-owned enterprises (SOEs). The banks were in turn refinanced by the central bank, which enabled rapid loan expansion to the new private sector as well. Thus, by end-1996, Bulgaria's nongovernment sector credit-to-GDP ratio (hereafter, NGCR),[4] at 60 percent (and briefly much higher), was

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[3] In this chapter, the term "credit boom" is not used in a technical sense, as sometimes defined in the literature. For instance, IMF (2004) identifies a credit boom as a credit expansion that exceeds a given threshold (equivalent to 1.75 times the standard deviation of the country's average credit fluctuation around trend). Given this definition, the term "credit boom" does not apply to Bulgaria. However, such a threshold is fairly arbitrary—Gourinchas *et al*. (2001) and Tornell and Westermann (2002) use different methodologies to arrive at their samples of credit boom periods—and using the Hodrick-Prescott filter to arrive at a notional equilibrium credit ratio in a transition economy may be misleading given the frequent structural changes.

higher than in most other Eastern European countries (Figure 1).[5] With the unreformed SOEs making losses, nonperforming loans rose sharply, and, with the growing decapitalization of banks and a number of failed pyramid schemes, public confidence in the financial system evaporated in late 1995. Mass bank runs followed the exchange rate crisis in spring 1996. In the meantime, the health of the banking sector had reached new lows: in early 1996, 70 percent of outstanding loans were classified as nonperforming, and the negative net worth of the banking system was estimated at 10 percent of GDP. Bank lending ground to a halt, with the NGCR falling to 9 percent by end-1997, a precipitous drop of 50 percentage points from a year earlier.

7. **The period after the crisis saw a gradual revival of commercial banking**. Following the crisis, banks, now operating in a new regime and with different incentives, initially invested mostly in government securities, and generally maintained high cash balances. This risk-averse behavior in part reflected a lack of information (including too short a credit history) about prospective borrowers, doubts about contract enforcement, and the loss of a large client base as the CBA (with the prohibition to lend to banks and the government) had severed the close link between the banks and SOEs. Gradually, and aided by economic recovery, a return of confidence, strengthening of bank balance sheets, and privatization of state banks (in many cases to foreign investors), this risk averse behavior gave way to increased lending. At the same time, the legal, supervisory, and accounting framework banks were operating in was strengthened, laying the foundation for increased bank lending. The framework was strengthened by (i) expanding the regulatory powers of the Bulgarian National Bank (BNB); (ii) strengthening prudential regulations and supervision, including an increase in minimum capital adequacy requirements; (iii) increasing creditors' rights; and (iv) introducing international accounting standards.

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[4] In the official credit statistics, the nongovernment sector includes the following types of borrowers: nonfinancial public corporations, nonfinancial private corporations, and households (including nonprofit institutions serving households, which comprise political and charitable organizations).

[5] The Organization for Economic Co-Operation and Development (1999, p. 59) notes that, until 1996, "commercial credit was expanded to the nonfinancial sector in Bulgaria to a degree that was unprecedented relative to any other European transition economy." It should be pointed out that private banks—the emergence of which was facilitated by soft entry regulations—were also actively extending credit at the time.

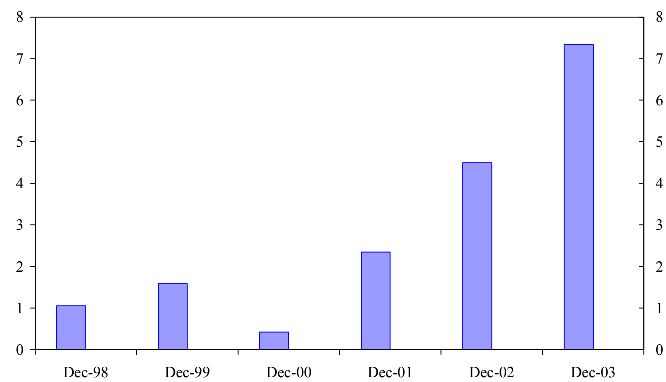
8. **Since mid-2002, what had been a gradual revival of financial intermediation has turned into a credit boom**. The post-crisis period witnessed a return of macroeconomic stability, robust real GDP growth (4¼ percent on average) and moderate inflation (Table 1). Against this favorable macroeconomic background, the NGCR rose by roughly 1½ percentage points (annual average) between end-1997 and end-2001 (Figure 2). Thereafter, credit growth accelerated, with the NGCR rising by 6 percentage points per year on average between end-2001 and end-2003, and by a further 2 percentage points in the first quarter of 2004 alone.

Table 1. Selected Macroeconomic Indicators, 1999-2003

	1999	2000	2001	2002	2003
Real GDP (percent change)	2.3	5.4	4.1	4.9	4.3
CPI Inflation (average)	2.6	10.4	7.5	5.8	2.3
CPI Inflation (end of period)	7.0	11.4	4.8	3.8	5.6
Credit-to-GDP ratio (end of period)	11.8	12.2	14.5	19.0	26.4
Broad Money (in percent of GDP)	31.7	36.8	41.7	42.9	48.1
Current Account (in percent of GDP)	-4.8	-5.6	-7.3	-5.6	-8.5

Sources: Bulgarian National Bank; National Statistical Institute, and staff estimates.

Figure 2. Change in Credit-to-GDP Ratio, 1998-2003
(from previous year, in percentage points)



9. **Bulgaria's credit growth is broadly comparable to other countries that have experienced or are experiencing credit booms** (Figure 3). Cottarelli *et al*. (2003) classify Bulgaria among the "early birds"—along with Croatia, Estonia, Hungary, Latvia, Poland, and Slovenia—having bank credit to the nongovernment sector rising for at least five years at an annual average rate exceeding 1½ percentage points of GDP. More recent credit developments in Bulgaria would classify the country more appropriately as a "fast riser."

Figure 3. Change in Credit-to-GDP Ratio, 1998-2003
(from previous year, in percentage points)

Figure 3a: Bulgaria and the Baltic Countries

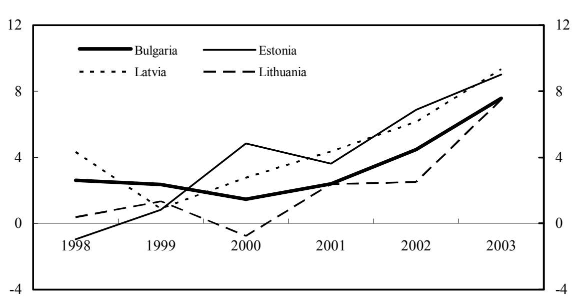
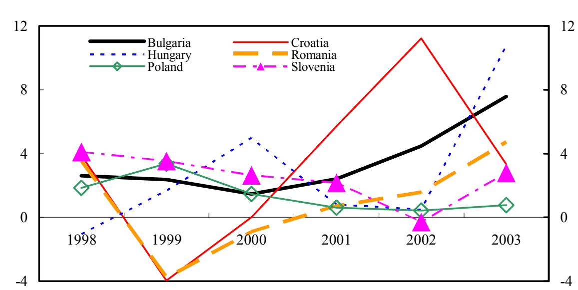


Figure 3b: Bulgaria and Selected Other European Countries



Source: Bulgarian National Bank, National Statistical Institute, WEO, and staff estimates.

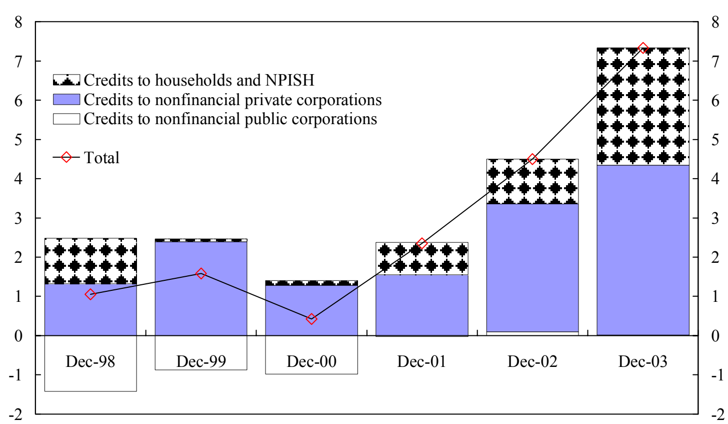
10. **The boom reflects a mix of supply- and demand-side factors**. In broad terms, the credit boom reflects a catching-up from depressed levels of post-crisis bank lending, and is thus part of a process of financial deepening. More specifically:

- Banks' ability to fund loan expansion has been boosted by strong capital inflows, partly through the banking system, amid high global liquidity, low interest rates, and increased confidence associated with Bulgaria's prospective EU accession.

- The newly privatized banks were keen to boost profitability and market share. With high capital adequacy ratios, banks managed to increase profitability by shifting the composition of their assets towards loans. This more aggressive stance on the part of the banks has been actively encouraged by their foreign parents. Many of the banks' foreign owners are domiciled in less profitable markets, so parents have encouraged their subsidiaries to pursue aggressive loan portfolio expansion to improve consolidated results. With most banks pursuing this strategy, there has been a race between banks to maintain market share, which contributed to the acceleration of credit.

- The greater supply of credit has been matched by increased demand from both businesses and households (Figure 4). For the former, a newfound confidence in Bulgaria's future—prompted in part by strong EU accession prospects—boosted investment intentions and demand for credit. Consumer and mortgage credit has taken off partly because the banks offered new products, and partly because household demand for durables and real estate increased from previously depressed levels as they have felt more confident in their ability to service debt. These developments are reflected in real sector indicators, with private consumption and fixed investment growing rapidly last year (Table 2).

Figure 4. Change in Credit-to-GDP Ratio by Borrower, 1998-2003
(from previous year, in percentage points)



- Finally, an additional factor explaining the credit boom may be crowding-in: bank credit to the public sector has declined substantially (Figure 4), reflecting low general government fiscal deficits and the privatization of nonfinancial public corporations.

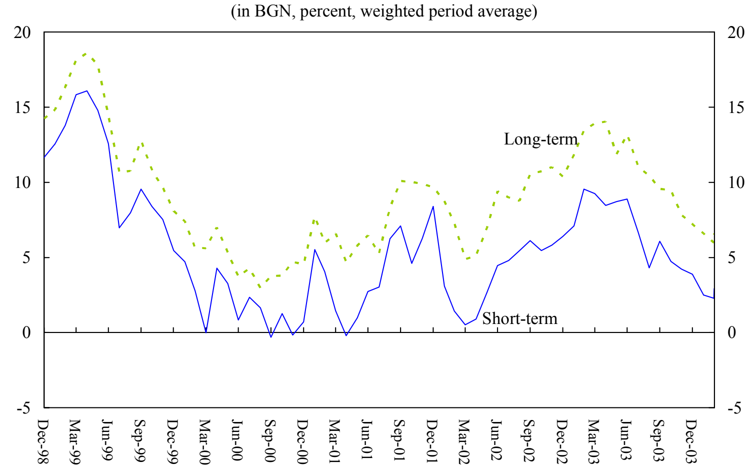
Table 2. Contribution to Real GDP Growth, 1999-2003

	1999	2000	2001	2002	2003
			(In percent)		
Real GDP	**2.3**	**5.4**	**4.1**	**4.9**	**4.3**
Final consumption	**7.3**	**5.0**	**3.8**	**3.2**	**5.7**
Private consumption	6.5	3.1	3.6	2.5	4.4
Public consumption	0.8	1.9	0.2	0.7	1.3
Gross capital formation	**1.7**	**2.3**	**3.7**	**0.9**	**3.2**
Net exports	**-6.7**	**-2.0**	**-3.5**	**0.8**	**-4.6**
Exports of goods and services	-2.4	7.4	5.6	3.9	4.3
Imports of goods and services	-4.3	-9.4	-9.0	-3.1	-8.9
Memorandum items					
Share of domestic demand in nominal GDP	105.8	105.4	107.6	106.6	109.8
Share of net exports in nominal GDP	-5.8	-5.4	-7.6	-6.6	-9.8
Nominal GDP (in millions of leva)	23,790	26,753	29,709	32,335	34,410

Sources: National Statistical Institute and staff estimates.

11. **The sustained decline in real lending rates suggests that demand for credit is still catching up with ample supply**. While nominal rates have stabilized in recent months, both short- and long-term real lending rates fell in 2003 (Figure 5). The implied yield curve has remained broadly stable. The spread between lending and deposit rates has fallen, but at around 950 basis points it remains very high.[6]

Figure 5. Real Lending Rates, 1998-2003
(in BGN, percent, weighted period average)

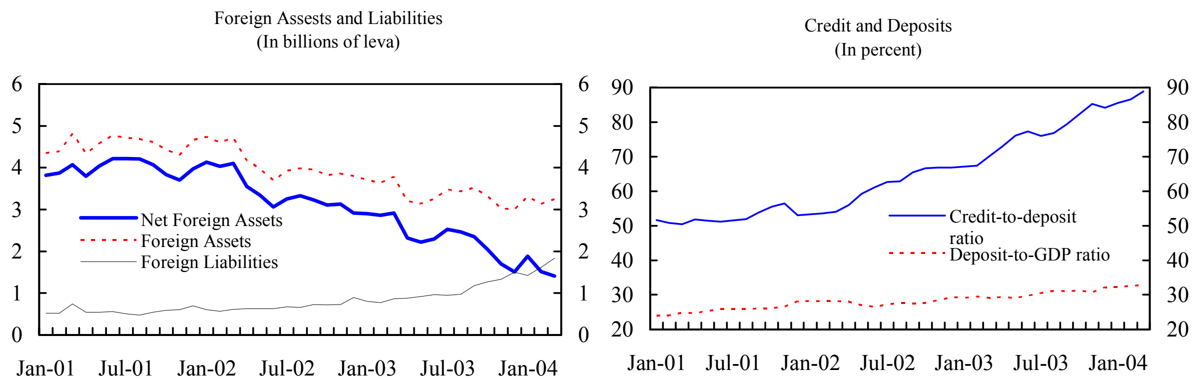


12. **Banks have funded the expansion of credit through three main channels** (Figure 6): (i) deposit growth has been relatively quick, owing to reintermediation and improved confidence; (ii) a reduction of foreign assets abroad, reflecting low global interest rates; and, more recently, (iii) borrowing from abroad (increasing foreign liabilities). While the first has led to a dramatic rise of the credit-to-deposit ratio, from 53 percent at end-2001

[6] An important caveat here is that, given the hard peg, banks are limited in the extent to which they can raise rates. Also, given the CBA, banks can in principle face relatively high interest rate volatility. While volatility was indeed high in 1999-2001, the last two years have seen a reduction, a reflection of steadier capital flows.

to 84 percent at end-2003, the latter two have resulted in a very sharp drop in banks' net foreign assets. To a lesser extent, additional capital—either from the parent bank or through issuance of subordinated debt—has also been a source, but only for banks whose capital adequacy ratios were near the regulatory minimum of 12 percent.

Figure 6. Sources of Credit Expansion, 2001-2004



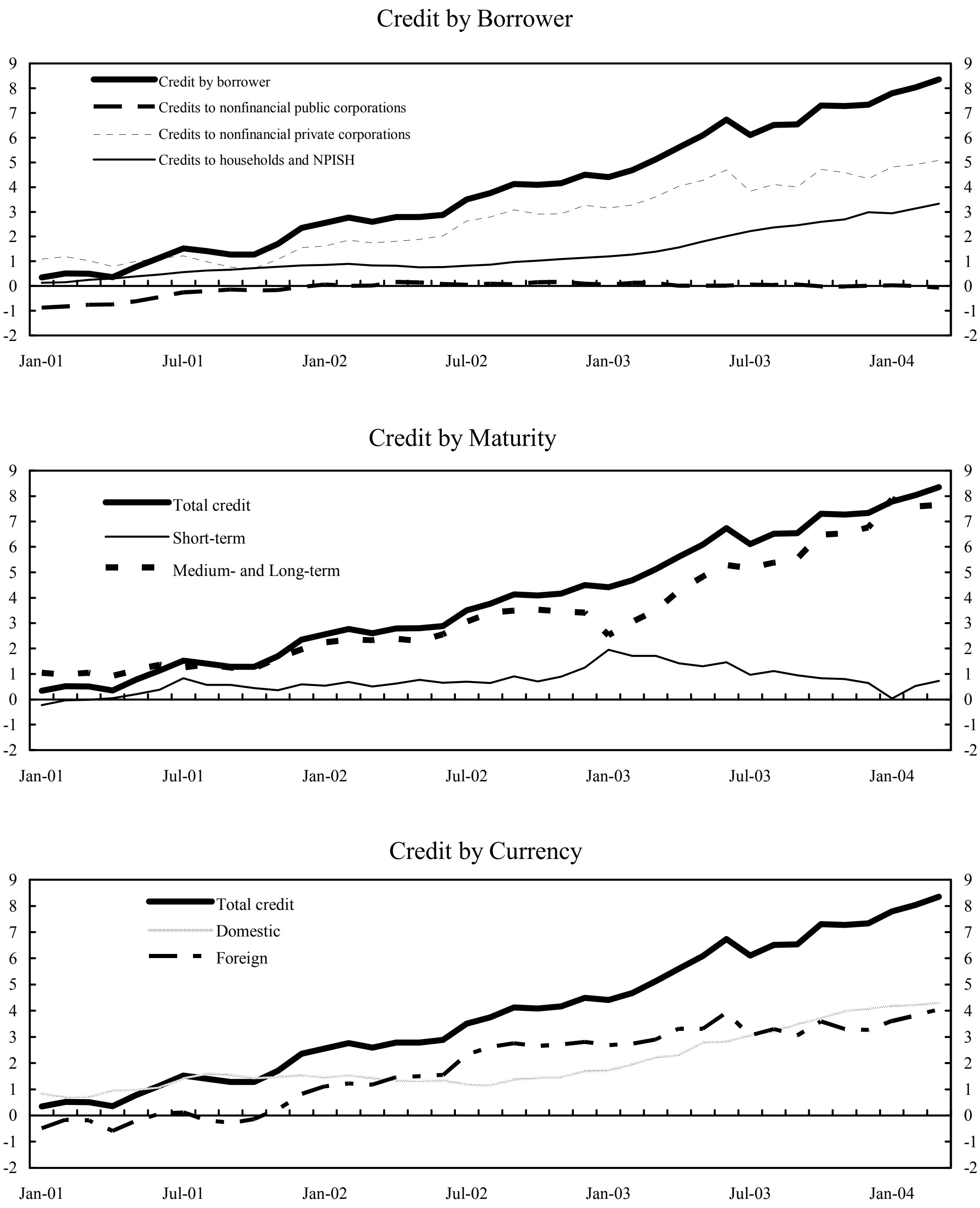
Source: Bulgarian National Bank and staff estimates.

Characteristics of the credit boom

13. **As noted, in the post-crisis period, bank credit to the nongovernment sector initially rose gradually, but accelerated after 2001** (Figure 7 and Table 3). The largest contributor to the average annual 6 percentage point increase in the NGCR in 2002-03 was the nonfinancial corporate sector with 3¾ percentage points. The average increase in the NGCR for households amounted to about 2 percentage points, while that for nonfinancial public corporations remained unchanged (after having dropped by ¾ percentage point a year on average in 1998-2001). The 2002-03 pick-up in growth was concentrated in medium- and long-term credit, which rose on average by 5 percentage points of GDP per year.[7] Finally, while domestic and foreign currency credit were equal contributors to credit growth in the later period, the contribution of foreign currency credit rose dramatically in this period relative to the earlier period. There are a number of other noteworthy trends:

[7] The BNB uses the following maturity breakdown: less than one year, between one year and five years, and over five years. For the purposes of this chapter, the first category is short-term credit, and the sum of the latter two is medium- and long-term credit. Overdrafts are assumed to be short-term credits.

Figure 7. Changes in Credit-to-GDP Ratio, 2001-2004
(in percentage points of GDP, year-on-year)



Sources: Bulgarian National Bank and staff estimates.

Table 3. Change in Credit-to-GDP Ratio

	Dec-98	Dec-99	Dec-00	Dec-01	Dec-02	Dec-03	Mar-04 1/
	(From previous year, in percentage points)						
Total	1.1	1.6	0.4	2.3	4.5	7.3	2.0
By borrower							
Credits to nonfinancial public corporations	-1.4	-0.9	-1.0	0.0	0.1	0.0	0.0
Credits to nonfinancial private corporations	1.3	2.4	1.3	1.5	3.3	4.3	1.3
Credits to households and NPISH	1.2	0.1	0.1	0.8	1.1	3.0	0.7
By maturity							
ST	-0.5	0.3	-0.2	0.6	1.2	0.6	0.6
o/w overdraft	0.5	0.2	0.3	0.2	0.5	0.7	0.4
MLT	2.0	1.4	1.1	2.0	3.4	6.8	1.4
Memo item: Overdue	-0.5	-0.1	-0.4	-0.2	-0.2	-0.1	0.0
By currency							
Domestic	1.8	0.9	0.8	1.5	1.7	4.1	0.8
Foreign	-0.7	0.7	-0.3	0.8	2.8	3.3	1.2

	Average 1998-2001	Average 2002-2003	Average 1998-2003
Total	1.4	5.9	2.9
By borrower			
Credits to nonfinancial public corporations	-0.8	0.1	-0.5
Credits to nonfinancial private corporations	1.6	3.8	2.4
Credits to households and NPISH	0.5	2.1	1.1
By maturity			
ST	0.0	0.9	0.3
o/w overdraft	0.3	0.6	0.4
MLT	1.6	5.1	2.8
Memo item: Overdue	-0.3	-0.1	-0.3
By currency			
Domestic	1.2	2.9	1.8
Foreign	0.1	3.0	1.1

Source: Calculations based on data provided by the Bulgarian National Bank.

1/ Relative to end-2003.

- The share of nonfinancial public corporations in nongovernment credit has declined sharply, from around 40 percent at end-1997 to 3½ percent at end-2001. Most of this decline occurred during 1998-2000, reflecting major progress in privatization and increased reluctance by the banks to lend to SOEs. Reflecting a slowdown in privatization, the share has not changed much since then, reaching 2½ percent at end-2003. The relative shares of businesses and households have also shifted, with the household share rising relatively faster: at end-1997, the shares were about 56 percent and 5 percent, respectively, and at end-2001 they were 74½ percent and 21½ percent. Since end-2001, there has been a further change, with the share of private corporations falling to about 70 percent and households rising further to 27 percent. This trend has continued in the first quarter of 2004.

- At end-1997, short-term credit accounted for 50 percent of the total. By end-2001, this share had fallen to nearly 33 percent, and by end-2003 to about 25 percent. The corresponding gain was in the medium- and long-term category, which moved from around 16 percent at end-1997 to 72½ percent in 2003. The shift from short- to longer-term lending is a reflection of increased confidence of both creditors and debtors. In addition, the share of overdues in the total, which stood at 23 percent in 1997, has dropped to about 2 percent in 2003.

- The relative shares of domestic and foreign currency credit have also shifted substantially. In 1997, foreign currency credit accounted for about 51½ percent of the total, and by 2001 this share had fallen to 35½ percent, a reflection of rising confidence in the lev. However, since then there has been a reversal of this trend, with the foreign currency share rising to 42½ percent by end-2003. It is likely that the latter reflected the relatively lower interest rate on euro-denominated loans.[8]

C. Consequences of the Credit Boom

The economic growth-financial intermediation nexus

14. **An increase in the level of financial intermediation is associated with an increase in the long-run growth rate of the economy**. The theoretical and empirical literature generally supports the view that financial sector development increases economic growth.[9] There are various channels though which financial development can contribute to economic growth, including by collecting information and thereby improving the allocation of capital; risk sharing; and pooling savings and raising the efficiency of financial intermediation.

15. **From a structural perspective, the increase in financial intermediation could therefore be considered beneficial**. Bulgaria's per capita GDP is still well below the average of Central and Eastern Europe. To the extent that financial deepening raises the country's potential growth rate—through increases in the marginal productivity of capital and higher private savings—recent developments should in principle be welcome.

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[8] The spread between lev and euro long-term interest rates averaged 335 basis points in 2003.

[9] IMF (2004) provides a summary of the state of play in the literature; a more extensive discussion of both the theory and empirics regarding finance and growth can be found in Levine (2003).

What are the risks?

16. **While potentially beneficial, rapid financial deepening can carry with it risks** (Box 1).[10] The risks can be grouped into two broad categories: (i) prudential, i.e., overly rapid credit growth can threaten the stability of the financial system; and (ii) macroeconomic, i.e., rapid credit growth can lead to macroeconomic imbalances, both domestic and external.[11] In the first group of risks, banks' ability to manage risk typically declines as the volume of loans increases. As the number of borrowers rises (e.g., in the expansionary phase of the business cycle), banks may find it profitable to attract customers by reducing collateral requirements, trading off borrower quality for increased market share. This easing of lending standards may lead to a deterioration of banks' portfolios, thus increasing the risk of financial instability.[12] In the second group of risks, domestic risks relate to increased inflation of goods and asset prices. Typically, lending booms have been associated with rapid increases in asset prices, eventually leading to a financial bubble. A painful recession often follows the inevitable bursting of this bubble, as agents' balance sheets are re-adjusted. External risks relate to a deterioration of the external current account, as the credit boom finances imports. To the extent that the wider external current account balance is not financed by inflows of foreign direct investment (FDI), gross external debt would tend to rise, increasing the country's vulnerability to exogenous shocks. When credit spurs an import boom, the composition of imports will matter; if a large part of imports are investment goods that are used to increase the country's export capacity, there may be fewer reasons for concern. In contrast, if credit finances primarily imports of consumer goods or investment in the nontradables sector, there may be more reasons for concern as this type of import boom is not self-financing.

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[10] While the probability of a credit boom leading to a banking crisis is low, Gourinchas *et al*. (2001) and Tornell and Westermann (2002) find that most banking crises are preceded by a credit boom.

[11] The distinction between prudential and macroeconomic risks is made for expository purposes. The two types of risk may be causally linked: an episode of financial instability can quickly produce macroeconomic imbalances, while macroeconomic shocks can produce financial instability. The vicious spiral that may result is outlined in Kaminsky and Reinhart (1999).

[12] A model consistent with these insights is presented in Dell'Ariccia and Marquez (2003).

Box 1: Channels for Financial Intermediation

Increases in financial intermediation—lending booms being one manifestation—may occur due to various factors. According to Gourinchas *et al*. (2001), explicit or implicit bailout guarantees may spur lending as projects are priced under a "best possible scenario." The pace of credit growth may also be affected by a poorly regulated financial market, a terms of trade shock that affects consumption or investment, or an inflow of capital from abroad due to external reasons.

Lending booms can be amplified by the "credit channel" of the economy. The financial accelerator model of Bernanke and Gertler (1990, 1995)—supplemented by a survey of empirical support in Bernanke, Gertler and Gilchrist (1996)—is generally used to explain this development. This model argues that credit market conditions amplify and propagate effects of initial monetary or real shocks, thus magnifying the volatility of macroeconomic variables. This approach rests on the assumption that the external finance premium—the difference in cost of funds raised externally by issuing equity or debt and internally by retaining earnings—varies inversely with the borrower's net worth, his internal funds and collateral value of his illiquid assets. A boom in the real sector raises the net worth of the borrower, thus reducing his external finance premium and increasing his demand for loans. The subsequent increase in asset prices causes a further reduction of the borrower's external finance premium (by increasing his net worth), and spurs further lending.

Within the financial accelerator model, the positive feedback can be easily reversed. A change in monetary policy or the real sector that increases the interest rate may—through the balance sheet channel (by reducing net worth) or the bank lending channel (by reducing credit)—increase the external finance premium of the borrower. As a result, his access to credit is reduced and, in addition, due to the fall in his net worth, his ability to service his debt may be compromised. In this case, through the negative feedback effect, the economy may face a recession.

17. **Prudential risks do not appear to be an issue at present**. Despite the rapid increase in lending, there is no evidence that the stability of Bulgaria's financial system is currently threatened.[13] Indeed, prudential indicators suggest a healthy banking system (Table 4), with low non-performing loans (NPLs), high capital adequacy (almost twice the required minimum of 12 percent), high liquidity, and strong profitability. Moreover, indicators for individual banks do not point to isolated systemic problems. Admittedly, these indicators tend to provide lagging signals of future problems; in particular, in a lending boom, the NPL

[13] Chapter IV summarizes the FSAP follow-up, including the results of banking system stress tests.

ratio initially drops as the volume of loans (the denominator) rises. The deterioration in loan quality (the numerator) would tend to show up later. Nevertheless, it is important to monitor developments closely for any signs of deterioration.

Table 4. Financial Soundness Indicators, 1999-2003
(In percent)

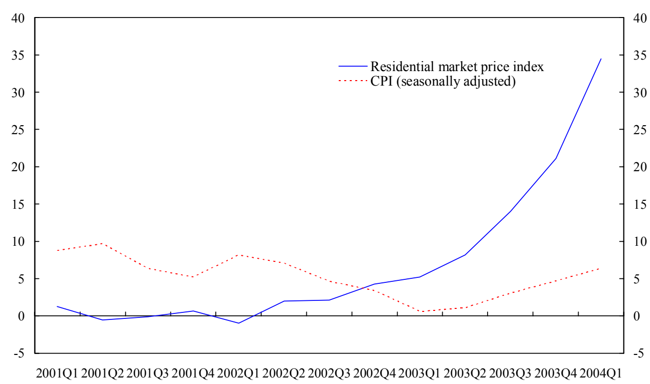
	1999	2000	2001	2002	2003
Regulatory capital to risk-weighted assts	41.8	35.6	31.1	25.2	22.0
Nonperforming loans to total loans 1/	26.7	17.3	13.1	8.6	7.3
NPLs net of provisions to capital	7.0	2.5	2.4	2.7	3.1
Return on assets	2.7	3.1	2.9	2.1	2.4
Return on equity	18.8	22.5	22.0	16.4	21.7
Liquid assets to total assets	63.2	54.2	47.9	40.3	27.5

Source: Bulgarian National Bank.

1/ Non-performing loans including the watch, substandard, doubtful, and loss categories.

18. **There is, however, evidence of heightened macroeconomic risks** (Box 2). While rapid credit growth has not been reflected in CPI inflation—the recent uptick largely reflects temporary factors related to food prices—real estate price inflation has accelerated since last year, coinciding with increased credit growth (Figure 8).[14] While worth monitoring going forward, it may be premature to focus on this phenomenon at this time as it may be driven by fundamental factors, such as a catch-up to price levels prevailing in neighboring countries, or external interest in anticipation of EU accession.[15] Of more concern is the

Figure 8. Real Estate Price Index and CPI Index, 2001-03
(in percent change, year-on-year)



[14] The index, available on a quarterly basis from the National Statistical Institute, measures the average price of one-, two-, and three-bedroom apartments in all administrative districts of the country.

[15] In support of this contention, the increase in real estate prices is concentrated in large cities (such as Sofia and Plovdiv) and towns on the Black Sea coast.

Box 2: Credit Growth and Current Account in Financial Programming

The analytics of the link between the current account and credit growth can be described in a simple financial programming model (based on Dornbusch 1980). The starting point is the observation that the current account (*CA*) represents a change in the net foreign asset position (*NFA*) of a country:

$$CA \equiv \Delta NFA$$

The right hand side encompasses all sectors of the economy—the central bank (NFA^{CB}), commercial banks (NFA^{B}), the government (NFA^{G}), and the nonbank private sector (NFA^{NB}). As the central bank is prevented by the currency board arrangement from issuing domestic credit, changes in the net foreign assets of the central bank have to equal changes in base money (*H*):

$$\Delta NFA^{CB} = \Delta H$$

Any change in the reserves of the central bank is, thus, automatically translated to a change in the monetary base (as also described in Lewis (2002)).

For the consolidated banking system, the balance sheet identity can be written as:

$$\Delta NFA^{B} = \Delta M2 - \Delta DC$$

where *M2* is broad money and *DC* is domestic credit . Since total change in *DC* can be expressed as the sum of changes in domestic credit to the government and the nonbank public—$\Delta DC = \Delta DC^{G} + \Delta DC^{NG}$—and since any excess of expenditure of the government over tax revenue has to be financed by taking on more domestic credit or reducing its net foreign asset position—$G - T = \Delta DC^{G} - \Delta NFA^{G}$—the above equation can be rewritten as:

$$\Delta NFA^{B} = (T - G - \Delta NFA^{G}) + (\Delta M2 - \Delta DC^{NB})$$

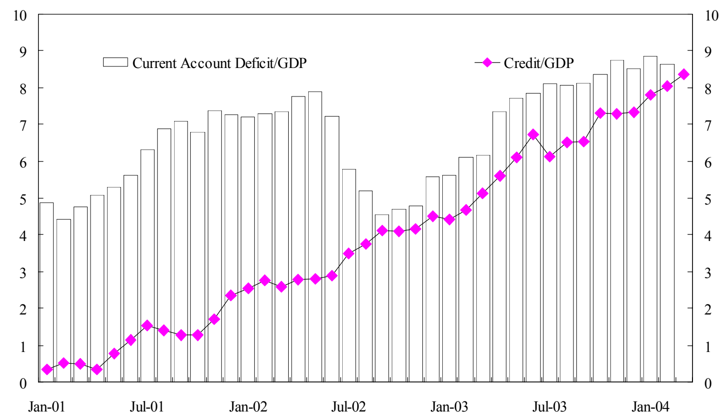
This gives a link between the banking system's net asset changes and the government's deficit financing. Inserting the value for ΔNFA^{B} in the current account equation gives:

$$CA = \Delta M2 + (T - G) - (\Delta DC^{NB} - \Delta NFA^{NB})$$

The equation above links both fiscal policy and changes in credit to the nongovernment sector to the current account balance. For a given change in broad money, a higher fiscal deficit or an increase in credit to the nongovernment sector (that is not met by a decline in the net foreign assets of the nonbanking sector) leads to worsening of the current account. The equation further highlights the role played by currency-to-deposit ratios and reserve requirements in a currency board environment; for a given change in base money, changes in the currency-to-deposit ratio or the reserve requirement would bring about the required change in M2, which is then reflected in the current account.

weakening of the external current account which reflects a credit-induced import boom (Figure 9).[16] The rise in imports has been relatively broadly based, with imports of raw materials, investment goods, and consumer goods all rising strongly.

Figure 9. Credit and Current Account Deficit to GDP Ratio, 2001-03
(12-month cumulative change)



19. **Although there are mitigating factors, on balance, the weaker current account has increased macroeconomic risks**. The current account deficit has been largely financed by FDI (82 percent coverage last year), and, combined with other capital inflows, international reserves have continued to rise. However, FDI is not without risks. Not only can it stop suddenly and even go into reverse, it may also represent investment in sectors that do not produce primarily for export. In the case of Bulgaria, as discussed in Chapter II, it is estimated that two-thirds of FDI went into the nontradables sector last year. In addition, even if it does not stop suddenly, privatization-related FDI is certain to dry up in a few years. If it is not replaced by other types of FDI, a continued high current account deficit would result in higher external debt and/or lower international reserves, increasing Bulgaria's external vulnerability.[17]

D. Policy Options

20. **It is likely that credit growth will moderate, even in the absence of measures**, owing to a number of factors, including:

- Some banks may become liquidity-constrained, reducing their ability to lend.
- The share of loans in total assets has risen dramatically, and is bound to slow.
- Credit growth has outstripped one of its key funding sources, deposits, resulting in a very sharp rise the credit-to-deposit ratio (see Figure 6). This may not continue.

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[16] A recent survey of early warning system models by Berg *et al*. (2004) reports widespread use of the current account as one of the predictive variables. For instance, Goldstein *et al*. (2000) find the current account deficit to be among the best indicators for predicting currency crises.

[17] The Baltic countries are commonly cited as examples of why high current account deficits can be sustained. However, these countries were more advanced with structural reform and consequently attracted very high FDI inflows on a sustained basis.

- Banks' foreign assets have fallen substantially, partly because of low foreign interest rates. With U.S. dollar interest rates likely to move higher, there will be less of an incentive to repatriate or borrow abroad. In any event, a minimum level of foreign assets is required for banks' foreign operations, putting a ceiling on how much can be repatriated and some banks may reach exposure limits for their parent banks or other foreign lenders.

21. **However, any deceleration in credit growth from these factors is unlikely to be substantial in the near term**. Consequently, credit growth will need to be reduced to moderate domestic demand. Combined with reducing demand in the short run, economic policy needs to aim at strengthening supply in the medium to long run. Given Bulgaria's policy framework, the following mix of policies could be considered:

- **Tightening fiscal policy**. The authorities have already tightened their fiscal stance in response to the current account developments and are maintaining a prudent wage policy. However, a significant increase in government saving would be needed to fully offset the private saving-investment imbalance. A large additional fiscal tightening is difficult to justify, given that (i) the widening of the external imbalance is likely to partly reflect transition to a new equilibrium with increased financial intermediation that fiscal policy should not attempt to fully offset; (ii) fiscal policy is already prudent—the general government deficit has averaged only ¾ percent of GDP in recent years, and there are no evident fiscal sustainability problems; and (iii) there would be output costs to doing so, not to mention the political difficulty of such actions one year before parliamentary elections.

- **Reinvigorating structural reforms**. Reforms are necessary to increase the economy's productive potential, including export capacity. In the short run, there should be a focus on maintaining privatization inflows at a high level to satisfy external financing requirements. Beyond the short-term considerations, however, structural reforms are likely to have an impact—in the sense of stimulating a supply response—only with a considerable lag.

- **Reducing banking system liquidity**. A tightening of reserve requirements and shifting of government deposits in commercial banks to the BNB—as the authorities are already doing—is likely to have an impact in the short run.[18] However, given the

[18] The tightening of reserve requirements consists of the following two measures: (i) subjecting 50 percent of cash in vault to reserve requirements; and (ii) broadening the base of liabilities subject to reserve requirements by including deposits and securities above two years' maturity and repos (excluding those of commercial banks), at a rate of 4 percent. Both measures could be tightened further by making all cash in vault subject to reserve requirements and subjecting longer-term liabilities to the full 8 percent reserve requirement

(continued)

open capital account and banks' ability to borrow from abroad, further repatriate foreign assets, and access capital directly from their parents, the withdrawn liquidity might be replaced.[19] The key question in this regard is how fast and to what extent it will be replaced; while the answer is uncertain, it is likely that market imperfections will prevent capital from being perfectly mobile in this case.

22. **A number of other—somewhat more controversial—measures could be considered**:

- **Regulatory and supervisory measures**. The authorities have been implementing a strategy of phased supervisory measures to slow credit growth.[20] So far, this strategy has not produced the hoped for reduction in credit growth. This is perhaps not surprising as supervisory measures aim to preserve bank asset quality. If, as a result of tighter prudential standards, banks lend less, this would be merely a by-product of such measures. The scope for further measures is limited by the fact that regulatory and supervisory practices already are at, or exceed, best international practice. However, one element in the BNB's strategy—minimum liquid asset ratios—has not yet been implemented. A more stringent measure would be the imposition of credit ceilings.[21] These types of measures, if implemented, should be considered temporary as they are distortionary and may impede bank competition.

- **Domestic bond issuance by the government**. By selling domestic bonds—over and above rollover or deficit financing requirements—to commercial banks, the government could help soak up liquidity. This measure has the advantage of being more market based than some of the alternatives. However, there are disadvantages: such an operation (i) would amount to a quasi-monetary policy action that is not in conformity with the spirit of the CBA; and (ii) could be costly from a fiscal perspective, particularly if the banks are reluctant buyers of government paper (given

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rate. An actual increase in the reserve requirement rate is currently not being considered by the BNB as it goes in the opposite direction of EU harmonization.

[19] Such an offset is more likely where banks are predominantly foreign owned, such as in Bulgaria.

[20] See Chapter IV.

[21] Other possible measures include dynamic provisioning, where additional provisions are set aside in lending booms, rather than in downturns when loan quality deteriorates. See for example Bank for International Settlements (2001).

that it is more lucrative to lend to the private sector).[22] Nevertheless, this measure could be considered if credit growth remains at a very high level. More generally, the government's debt management strategy can help develop the domestic securities market, which would provide banks (and private pension funds) with alternative investment opportunities.

- **Price-based controls on capital inflows**. A measure of this nature should be considered only as a last resort. While potentially effective—Chile (and, more recently, Malaysia) being the oft-quoted examples—such a measure has several disadvantages: (i) the controls may eventually be circumvented; (ii) it may undermine financial market confidence; and (iii) capital controls tend to be distortionary (especially over the medium term).

E. Concluding Remarks

23. **In many respects, the credit boom in Bulgaria is a welcome development**. Increased financial intermediation will likely boost long-run economic growth and efficiency. From this perspective, the widening of the external current account deficit is partly a reflection of a transition to a new equilibrium characterized by greater financial intermediation and has alleviated financing constraints for investment and consumption. In addition, relatively rapid credit growth is likely to continue into the foreseeable future.

24. **However, the recent pace of credit expansion has increased macroeconomic vulnerabilities**. The large increase in private domestic demand and imports associated with the credit boom has resulted in a sharp widening of the external imbalance. While FDI inflows have mostly covered the growing deficit, this cannot be assured in the future. If FDI inflows were to slow significantly, a continued high current account deficit would increase external debt and/or lower international reserves. In such a case, financial markets could quickly change their hitherto benign view of Bulgaria's prospects.

25. **If the authorities want to reduce the external imbalance, credit growth should be lowered**. Measures to reduce bank liquidity and prudent fiscal policy would contain domestic demand, while reinvigorated structural reform would boost the economy's productive potential. Further measures, particularly on the credit side, may be needed if this strategy were to prove ineffective.

[22] It could be argued that the costs of reducing credit growth should not be borne by the public sector, but rather by the private sector which is the source of the imbalances.

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II. BULGARIA—EXTERNAL SUSTAINABILITY AND VULNERABILITY[23]

A. Introduction

26. **Bulgaria's external current account deficit has sharply increased in the space of one year, diverging substantially from the average current account deficits of about 5½ percent of GDP during 1999-2002**. At the same time, coverage of the deficit by non-debt creating inflows has declined from above 100 percent on average during 1999-2002 to about 82 percent in 2003. As a result, the external debt-to-GDP ratio (excluding the effect of exchange rate changes) has declined only marginally in 2003. Similarly, net external debt (again excluding exchange rate changes) has remained constant.

27. **This chapter assesses Bulgaria's external sustainability and vulnerability.** It argues that, for a variety of reasons, recent developments in the current account are not as worrying as they appear, but that, on the other hand, external vulnerabilities have increased and can be expected to remain larger than hitherto. Nevertheless, an analysis of sectoral asset and liability positions indicates that overall Bulgaria has—at least for the time being—sufficient buffers to manage a potential drop in confidence. A comparison with the Baltic countries (Box 1) also indicates that Bulgaria is relatively well-placed from a vulnerability viewpoint.

B. Analytical Framework

28. **An assessment of external sustainability is in essence one of external debt sustainability.** Assessing sustainability in the first instance means forming a view of how outstanding stocks of liabilities are likely to evolve over time. The question of external sustainability thereby turns into one of whether the external debt can be serviced without an unrealistically large future correction in the balance of income and expenditure. In essence, this becomes a question of whether the external debt stock remains constant (or is falling) as a share of GDP. The key determinants of the evolution of the stock of external liabilities over time are the current account deficit and the net inflows of non-debt creating financing.

29. **External sustainability is closely linked to vulnerability.**[24] Therefore, not only does debt financing matter, but also the amount of non-debt financing, i.e., the size of the external current account deficit, and the risks to these financing flows. The larger the imbalance between income and absorption, the larger is in principle the vulnerability of the economy to a loss of confidence, or other shocks. Furthermore, for an assessment of vulnerability, the composition of non-debt financing, as well as the level and composition of the external debt

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[23] Prepared by Alexander Pitt.

[24] The latter requirement captures the notion that the social and political willingness to service debt has limits.

stock are important. Therefore, even if external sustainability appears sound, this does not necessarily imply that vulnerability is low.

30. **In assessing vulnerability, a useful complement to the analysis of flow variables is the perspective of the balance sheet approach.**[25] It permits an analysis of existing currency and maturity mismatches and thus related liquidity and solvency risks. It also allows to gauge the transmission mechanism and impact of a devaluation of the domestic currency. Thereby, it helps to shed light on the economy's vulnerability to external shocks and, consequently, policy choices should such shocks occur.[26]

C. External Sustainability

Level and composition of the current account deficit

31. **Bulgaria's 12-month current account deficit has increased sharply since late 2002, and reached 8.5 percent of GDP at end-2003.** The main contributing factor (almost 90 percent of the deterioration) was the merchandise trade balance, itself the result of a rapid rise in imports (Figure 1).

- **The merchandise trade balance, which has been in a large deficit for some time, widened further to 12½ percent of GDP.** Exports increased markedly in euro terms (10 percent, or €600 million), and even more so in volume terms (17 percent), but were outpaced by import growth (14 percent or €1.1 billion in euro terms, and 20 percent in volume terms).[27]

- **The nonfactor services balance remained unchanged.** An increase in tourist arrivals by 18 percent and the associated increase of net tourism receipts by 0.7 percent of GDP offset a decline in net non-travel receipts.[28]

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[25] See "Debt-Related Vulnerabilities and Financial Crises—An Application of the Balance Sheet Approach to Emerging Market Countries" (forthcoming).

[26] There are limitations to balance sheet analysis. The division of the economy in only three sectors (public sector, financial private sector, and nonfinancial private sector) implies a high level of aggregation, which could obscure within-sector vulnerabilities. Furthermore, data limitations generally limit the reliability of analysis. In Bulgaria, data availability and quality are broadly sufficient for the purpose of this exercise.

[27] Part of this increase may be due to efforts at improving customs control.

[28] However, the method used by the authorities to compile tourism revenue—based on an estimated amount of nominal euro receipts per traveler (unchanged since 1999)—risks increasing underreporting over time, as this implies assumed zero inflation for this type of expenditure at a time when inflation both in Bulgaria and the Eurozone—where most

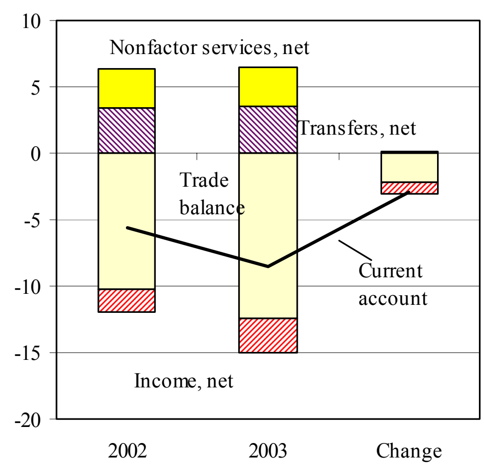
(continued)

- **The income balance declined somewhat.** Lower interest payments due to low rates were more than offset by a large one-off profit remittance (about ½ percent of GDP).

- **Transfers remained broadly unchanged in net terms.** Net private transfers rose strongly, while official transfers declined somewhat on account of a doubling of government transfers abroad.

32. **A factor complicating the analysis is the reliability of data.** Net errors and omissions exhibit large changes from one year to the next. However, most of these swings are likely to be concentrated in the capital account.

Figure 1. Bulgaria: Current Account
(In percent of GDP)



Source: Bulgarian authorities.

Sources of the current account deterioration

33. **The main underlying source of the strong rise in imports was the rapid growth of credit to the private sector.** Credit outstanding to the non-government sector (which includes public enterprises) has increased by 48 percent in nominal terms at end-2003, compared to a year before. The expansion of credit has fueled in broadly equal parts a rise in investment (from 20 percent of GDP in 2002 to 22 percent in 2003) and a consumption boom. This is also reflected in the import composition, where the shares of investment and consumption goods in total imports have remained broadly constant.

34. **Increasing FDI inflows are unlikely to be the main source of high import growth.** The increase in non-privatization inflows amounted to only €95 million, less than a third of the rise in imports of investment goods. However, while non-privatization equity inflows declined, reinvested earnings and loans from parent companies, which arguably have a somewhat higher import propensity than equity investment, grew by €265 million.

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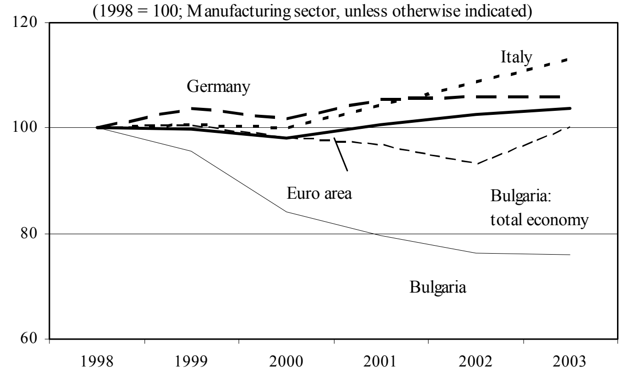
travelers originate—was positive. Yet, there are also downward pressures on revenues per tourist: (i) strong competition in the travel business is likely to have compressed price increases, and (ii) Bulgaria is a relatively cheap destination and may be selected especially by price-conscious holidaymakers. Furthermore, the same methodology is applied on the debit side, which partly counteracts this effect, even though inflows are more than twice as high as outflows.

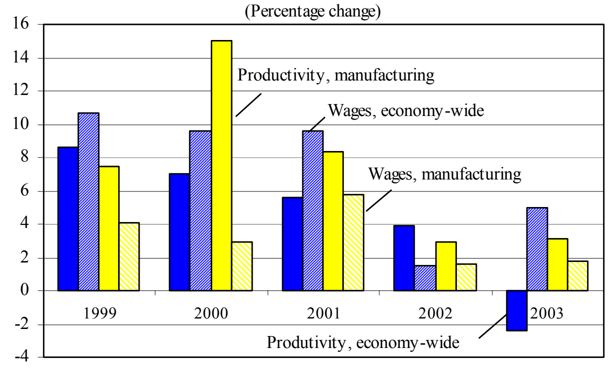
35. **Competitiveness does not appear to have been a significant factor in the deterioration of the trade balance, though the evolution of competitiveness indicators requires careful monitoring.** Since the euro started appreciating in late-2002, Bulgaria's CPI-based REER has appreciated more than those of other Central and Eastern European (CEE) countries whose exchange rates are not rigidly pegged to the euro. However, while the position relative to other CEE countries has deteriorated to some extent, a comparison with the Eurozone indicates that unit labor costs in manufacturing, in particular relative to major trading partners like Germany and Italy, have declined strongly (Figure 2). Further, while economy-wide productivity growth turned negative in 2003, this can be attributed partly to the government-sponsored employment creation program. Productivity declined only in the services sector, where the publicly-funded employment was generated, while productivity in the manufacturing sector—albeit slowing down recently—has continued to increase, above the rate of real wage growth (calculated by deflating nominal wages by the Eurozone CPI). Nevertheless, declining rates of productivity growth in all sectors warrant caution (Figure 3). On the other hand, Bulgaria's market share in the world as well as in the European Union has continued to increase.

Figure 2: Unit Labor Costs
(1998 = 100; Manufacturing sector, unless otherwise indicated)



Sources: Bulgarian authorities, and WEO

Figure 3: Productivity and Wages
(Percentage change)



Sources: Bulgarian authorities, and Fund staff estiamtes.

Financing of the current account deficit

36. **Critical for the assessment of sustainability is the financing of the current account deficit.** The main criterion for sustainability is therefore whether the current account can be financed while still retaining room for reserves to continue to increase at a pace allowing to compensate for the private sector's foreign exchange mismatches (see below) and for the external debt-to-GDP ratio to be further reduced.

37. **The balance of payments has been in surplus every year since 1999.** Correspondingly, gross international reserves have increased from €2.6 billion (23 percent of GDP) at end-1998 to €5.3 billion (30 percent of GDP) at end-2003. In that year, despite a record current account deficit, reserves rose by another €817 million. The capital account has

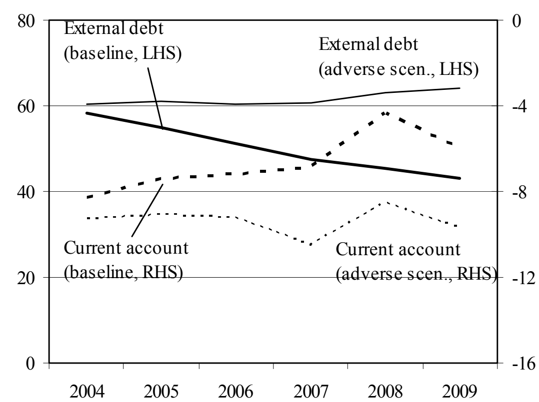
been bolstered by a large increase in FDI (including privatization), though the FDI-current account ratio declined from over 100 percent in 2002 to 82 percent in 2003, by net external borrowing by the public sector, and by continued large repatriations of foreign assets by domestic banks. Meanwhile, the non-bank private sector decreased its net borrowing, compared to 2002.

38. **As the coverage of the current account deficit by FDI inflows has declined, the rapid reduction of the external debt stock observed in recent years has almost come to a halt.** After decreasing from about 89 percent of GDP in 1999 to 65 percent at end-2002), the reduction in the external-debt to GDP ratio by 6¼ percentage points in 2003 is almost exclusively due to exchange rate effects—at constant exchange rates, the decline would have been less than one percentage point. Similarly, the net external debt ratio, while declining by 6 percentage points, would have remained virtually unchanged at constant exchange rates, at about 26 percent of GDP.

Outlook

39. **The debt-stabilizing non-interest current account deficit is currently at around 7¼ percent of GDP.**[29] This is around the level projected for 2004, but higher than in the medium term. Furthermore, with the authorities' privatization plans, projected inflows of FDI during 2004-07 are forecast to generally exceed current levels. Both factors are expected to permit a further reduction of external debt (albeit gradually) and a further reserve build-up. Both are needed to reduce external vulnerability.

Figure 4. Bulgaria: Scenarios 1/
(In percent of GDP)



Source: Fund staff projections.

1/ The temporary decline in the current account deficit in 2008 arises from the overlap in pre- and post accession transfers from the EU.

40. **However, there are risks to this scenario.** Slower external demand—mainly if the medium-term performance in the EU is not as envisaged—and a failure to implement productivity-improving structural reforms could keep the trade deficit at high levels.[30] At the same time, lower non-privatization FDI—again due to lagging structural reforms—and a possible failure of major privatizations would lead to a declining coverage of the current account by non-debt creating inflows. In a scenario where these risks materialize (Figure 4), the external debt-to-GDP ratio would not decline but

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[29] Based on the assumption that key variables, including nominal GDP growth, non-debt creating inflows (in percent of GDP), and interest rates remain constant at their 2003 levels.

[30] Higher oil prices are also a source of risks. An oil price higher by US$1 implies a deterioration of the current account by 0.2 percentage points of GDP.

start to embark on an explosive path, or reserves would need to be drawn down. While the baseline scenario is rather conservative, this adverse scenario is not extreme, indicating that the borders of sustainability are easily being reached. However, the main risks relate less to potential external shocks but rather to policy failures. Therefore, it is in the authorities' hands to minimize the probability of adverse debt or reserve dynamics.

41. **If structural and macroeconomic policies are sound, therefore, medium-term sustainability looks reasonably assured, despite the recent widening of the current account deficit and the much smaller reduction of external debt in 2003 than hitherto.**

D. Vulnerability

42. **However, while sustainability seems quite solid, vulnerability has increased.** First, while total external debt has decreased as a share of GDP, short-term external debt has increased. Second, even FDI, while reducing sustainability concerns as "credit" risk is transferred to the foreign investor, gives rise to vulnerability in a similar way as debt. Third, the balance sheets of individual economic sectors exhibit substantial currency and maturity mismatches.

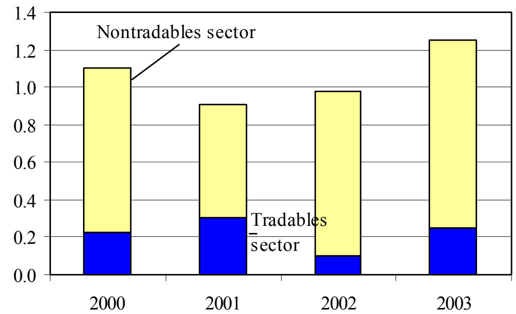
External debt

43. **The external debt stock amounted to 59 percent of GDP at end-2003.** This level of external debt is still relatively high.[31] While 48 percent of this stock consists of debt to multilateral creditors and Brady bonds, the share of short-term debt has increased steadily, even as the total external debt stock has declined. Short-term external debt stands now at 19 percent of the total (by original maturity; 23 percent by remaining maturity), implying a steady rise from 9 percent of GDP in 2001 to 11 percent (by original maturity) at end-2003, increasing rollover risks (though part of this increase may be due to trade credits, which are less subject to rollover risk). On the other hand, the increase in short-term debt has been accompanied by an increase in foreign reserves of the central bank, keeping the coverage of short-term debt (by original maturity) by reserves at over 250 percent (though the coverage by excess reserves—i.e., reserves over and above the amount required to cover the monetary base under the currency board arrangement—declined somewhat, from 144 percent in 1999 to 133 percent at end-2003).

[31] In 47 percent of sovereign defaults over the past 30 years, the external debt was below 60 percent of GNP, but in only 17 percent of defaults below 40 percent (Reinhart, Rogoff and Savastano, "Debt Intolerance," in *Brookings Papers on Economic Activity: 1,* Brookings Institution 2003, pp. 1-62).

44. **The government is considering to pre-pay some of its external debt.** While this would lower the external debt-to-GDP ratio, and decrease net interest payments, it would not reduce the net external debt stock. Also, it would lower the stock of freely available reserves, which are a useful buffer against risks arising from the private sector's overall short position in foreign currency (see below).

Figure 5. Bulgaria: FDI
(In billions of euro)



Source: Bulgarian authorities, and Fund staff estimates.

Foreign direct investment

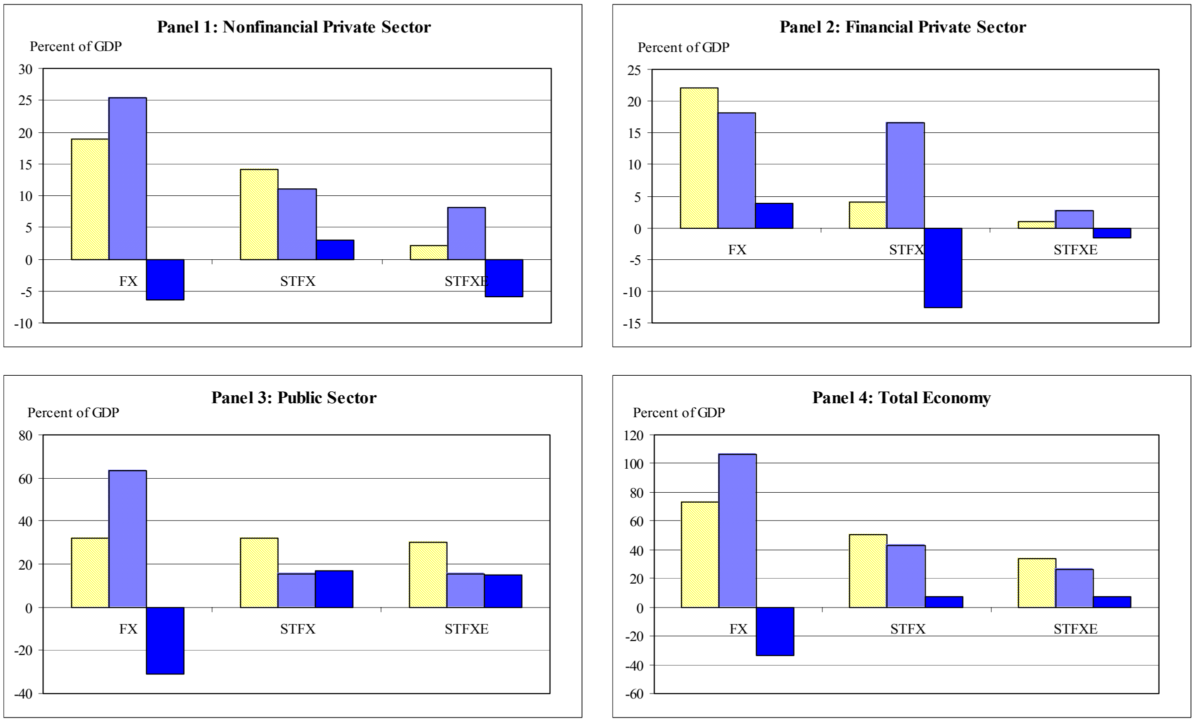
45. **FDI is often viewed as a financing panacea.** The key advantage of FDI over debt financing is that the future obligations it creates (profit remittances) are directly linked to the "capacity to repay", i.e., actual profits. The risk of "repayment" is therefore borne by the investor, even in the case of loans from parent companies that are subsumed under FDI. Furthermore, FDI inflows are generally thought to encompass a longer-term commitment and are viewed as a sign of confidence in the economy.

46. **However, FDI is not without risks.** It can stop or reverse in a relatively short time frame, depending on the confidence of investors. Further, and more importantly, the outflows generated by profit remittances (and repayment of intra-company loans), like other outflows, are generating pressure on foreign exchange reserves, if the investment is not in sectors that produce primarily for export (only FDI in export sectors is naturally hedged). In Bulgaria, recent FDI has been concentrated in the nontradables sector: FDI in manufacturing has been less than 20 percent of the total during 2000-03, while two-thirds of FDI went into the financial, real estate, communications, and wholesale and retail trade sectors (Figure 5). Should foreign investors lose confidence in the stability of the exchange rate on which they have based their earnings forecasts, they are bound to seek to protect their earnings in foreign currency by hedging their expected domestic-currency revenues. Therefore, while FDI financing is supporting sustainability, it gives rise to vulnerability.

Balance sheets

47. **At end-2003, there were sizable currency and maturity mismatches in individual sectors, though they were contained at the aggregate level** (Figure 6 and Table 1). Short-term external liabilities in foreign currency exceeded liquid external foreign-currency assets of the private sector (both financial and nonfinancial). However, this short position was more than outweighed by the public sector's net liquid foreign assets.

Figure 6. Bulgaria: Balance Sheet Indicators



FX: Foreign currency; STFX: Short-term position in foreign currency; STFXE: Short-term external position in foreign currency.
FX columns: Assets, liabilities, and mismatch;
STFX columns: Liquid foreign currency-denominated assets, short-term foreign currency-denominated liabilities, mismatch;

STFXE columns: Liquid external assets, short-term external liabilities, mismatch.

- For the *nonfinancial private sector (NFPS)*, overall foreign-currency liabilities (medium- and long-term as well as short-term) exceeded assets, but *short-term* foreign-currency assets exceeded liabilities. However, short-term *external* liabilities in foreign currency exceeded liquid external foreign-currency assets by a sizable margin (about 6 percent of GDP; Figure 6, Panel 1). This implies that potential pressures on the short-term external position of the NFPS—e.g., from reduced rollover of credit lines—would be transmitted to the domestic banking sector, as foreign-currency denominated liquid liabilities of the banking sector to the NFPS would likely be called.

- The *financial private sector (FPS)* had a long overall *foreign-currency* position, but its short-term foreign-currency liabilities exceeded liquid foreign-currency assets by a wide margin (12½ percent of GDP), deriving from the financial intermediation role of the sector, and the considerable degree of euroization (48 percent of the sector's liabilities are in foreign currency, mostly euros). Meanwhile, short-term *external* liabilities in foreign currency exceeded liquid external foreign-currency assets only by a small amount (Figure 6, Panel 2). This suggests that, though some risks arise from the banks' own balance sheets, the larger risk to the banking system arises from the domestic NFPS, with its sizable potential demand on banks' foreign exchange.

- The *public sector's* short overall foreign-currency position derives from its large external debt. However, this debt is all medium and long-term (by original maturities), and there is thus little short-term refinancing risk.[32] This is reflected in liquid foreign-currency assets exceeding short-term foreign-currency liabilities by a wide margin: even if the coverage of the monetary base by foreign exchange (required by the currency board) is treated as a foreign-currency liability, liquid foreign-currency denominated assets exceeded short-term foreign-currency liabilities by more than 11 percent of GDP. The situation is similar for the external short-term foreign currency position (Figure 6, Panel 3).

48. **Therefore, the public external short-term foreign currency position is strong enough to offset weaknesses in the private sector** (Figure 6, Panel 4). Should the nonfinancial private sector withdraw deposits from banks (to meet external payments obligations), the public sector could support the banking system. This reduces the risk of potential rollover difficulties of firms in the NFPS (which is unlikely to be uniform across firms) being transmitted via the banking system to the entire economy. In the banking sector itself, this reduces the risks from one of foreign-currency positions to one of the usual maturity mismatches that financial intermediation creates, regardless of currency.

49. **However, this insurance is neither complete nor costless.** The transfer of risks across sectors, and in particular to the public sector, is not without cost. First, there are the opportunity costs of holding large lowly-remunerated reserves. Second, and perhaps more importantly, there is a moral hazard problem as the private sector relies on the public sector to assume the burden of providing insurance for the risks to the economy created by banks and corporations. These drawbacks need to be weighed against the (potential) cost of providing no or more limited insurance.

50. **There are also risks going forward.** Continued high current account deficits put pressure on both the public and private sectors' external positions. The current account will need to be financed by drawing down foreign assets and/or increasing foreign liabilities, weakening the private sector's external position (though long-term foreign credit, e.g., from parent banks, could mitigate the effect on the short-term external position) and increasing demands on the public sector to compensate for this deterioration. At the same time, the accumulation of additional foreign exchange reserves is becoming more difficult.

51. **In summary, the strength of the short-term external foreign currency position in Bulgaria depends on the public sector.** At present, the cushion of official reserves is

[32] The amortization of medium- and long-term external debt falling due in 2004 is €241 million (1.4 percent of GDP).

sufficient to counterbalance weaknesses in the private sector's balance sheets, but this comes at a cost and involves moral hazard. In addition, credit developments are likely to weaken private sector balance sheets further, putting greater demands on public reserves and requiring continued reserve build-up through inflows on non-debt creating financing, while at the same time aggravating moral hazard, as well as political and budgetary costs.

Table 1. Bulgaria: Intersectoral Asset and Liability Position (end-December 2003, in millions of euros)

	Holder of Liability (Creditor)			
Issuer of Liability (Debtor)	Government Sector (I)	Financial Private Sector 1/ (II)	Nonfinancial Private Sector (III)	Rest of the World (IV)
Government and BNB				
Monetary Base		1,981	712	0
Total Other Liabilities		1,049	1,132	7,201
Short-term		27	88	0
Domestic Currency		27	88	0
Foreign Currency		0	0	0
Medium- and Long-Term		1,022	1,044	7,201
Domestic Currency		575	248	0
Foreign Currency		447	796	7,201
Financial Private Sector 1/				
Total Liabilities	934		4,978	766
Short-term	907		4,909	536
Domestic Currency	553		2,812	68
Foreign Currency	354		2,097	468
Medium- and Long-Term	27		69	230
Domestic Currency	24		28	0
Foreign Currency	3		41	230
Equity	0		0	0
Nonfinancial Private Sector				
Total Liabilities	...	4,532		2,514
Short-term	...	1,162		1,418
Domestic Currency	...	634		0
Foreign Currency	...	528		1,418
Medium- and Long-Term	...	3,370		1,096
Domestic Currency	...	1,959		0
Foreign Currency	...	1,411		1,096
Equity	...	14		4,785
Rest of the World				
Total Liabilities	5,308	1,503	389	
Currency and Short-term	5,308	185	389	
Medium- and Long-Term	0	1,318	0	
Equity	...	1	...	

Sources: BNB, MoF, and Fund staff estimates.

1/ Excludes insurance sector.

E. Conclusions

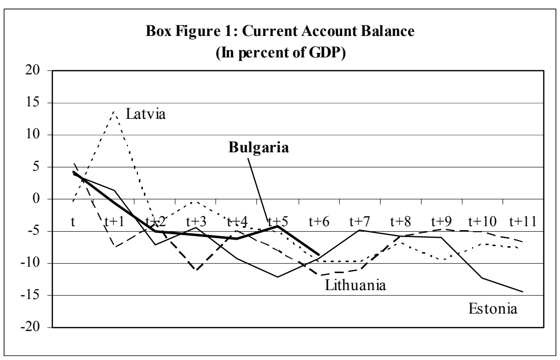
52. **Recent developments indicate that external sustainability is not in immediate jeopardy, but risks have increased.** While the current account deficit has increased considerably and is projected to remain relatively high for some time, non-debt financing has been sizable and can be expected to continue, in particular as EU accession approaches. On the other hand, the slowing pace of decline in the external debt-to GDP ratio indicates that the boundaries of sustainability are being reached.

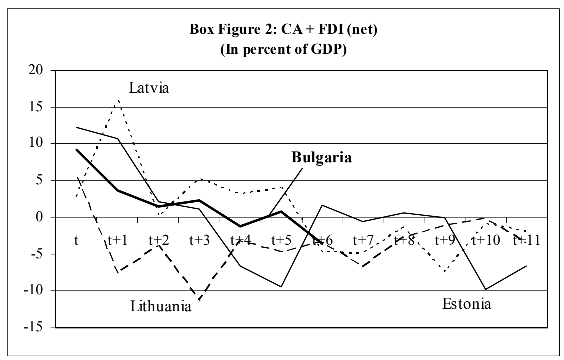
53. **Vulnerability has increased overall.** Increased financing requirements, both due to the widening current account deficit and increasing short-term debt levels, imply greater vulnerability to a potential loss of confidence. Likewise, FDI, while it mitigates some risks, does not represent a cure-all. Also, the still high degree of euroization is a risk to the balance sheets of the private sector. On the other hand, the short-term foreign-exchange position of the public sector is still strong enough to mitigate those risks, and thereby bolster confidence. However, this implicit insurance is not without cost.

Box 1. Comparing Bulgaria with the Baltic Countries[1]

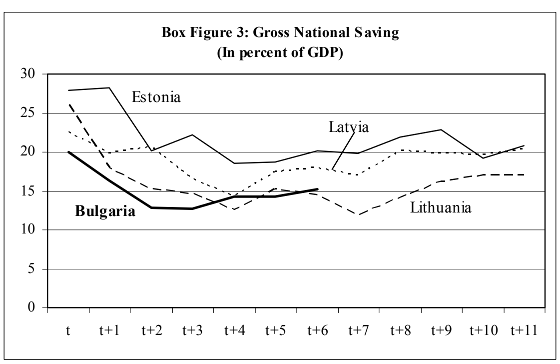
A comparison of external indicators with the Baltic first-wave accession countries indicates that Bulgaria, in some respects, is stronger positioned, while it also exhibits weaknesses. This section focuses on comparisons with the Baltic countries, as they have either currency board arrangements (Estonia and Lithuania), or a hard peg (Latvia), which makes their policy constraints similar to those faced by Bulgaria. In comparing Bulgaria with the Baltics, it is important to bear in mind that Bulgaria's most recent systemic crisis was in 1997, while the Baltic countries experienced their most severe output contraction in 1991/92 (though GDP continued to shrink in 1993).[2] Therefore, the comparison does not only compare the state of the respective economies in a given year, but also looks at their evolution since their most recent crises.

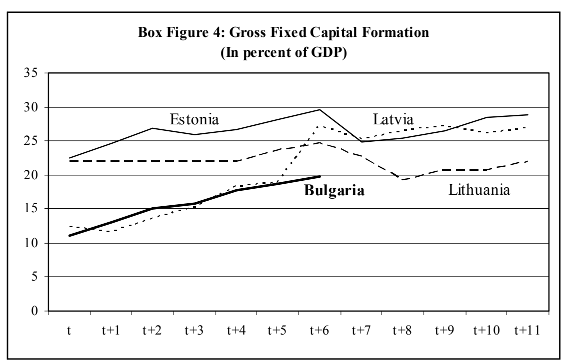
Bulgaria's current account, as well as its financing by FDI, broadly follows the same trends as in the Baltics (Box Figure 1). The current account (CA) balances of the Baltics, after significant surpluses through 1992 (and in Latvia, through 1993), deteriorated rapidly, reaching or surpassing deficits of 10 percent of GDP. If the scales are normalized, with *t* indicating the last crisis year (1992 for the Baltics, and 1997 for Bulgaria), current account developments are similar, with Bulgaria showing relatively modest deficits so far. Taking the current account and FDI together, developments show a similar pattern (Box Figure 2). In the initial years after their respective crises, current account deficits were more than covered by FDI, but this declined as economies recovered and current account deficits widened.





At the same time, Bulgaria is lagging in saving and investment performance. As current account deficits are similar, Bulgaria' s relatively low savings rate translates into low investment (Box Figures 3 and 4). Correspondingly, output growth in the Baltics has shifted to some 6-8 percent per year after the 1999 crisis, after an initial burst of 7-10 percent in 1997 (Box Figure 5). Bulgaria has not reached that stage after its systemic crisis yet, but the rather low saving and investment rates need to be raised to increase future growth.



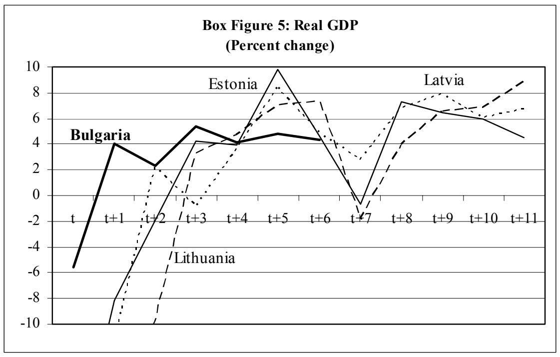


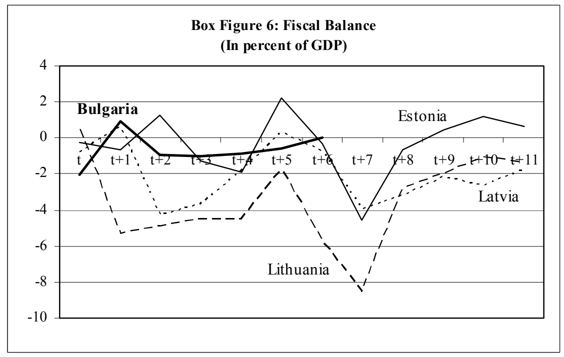
[1] Source: WEO.

[2] In this context, the recession in 1999 (due to the 1998 Russian crisis) is not viewed as a systemic crisis. Indeed, all the Baltic countries weathered this shock rather well.

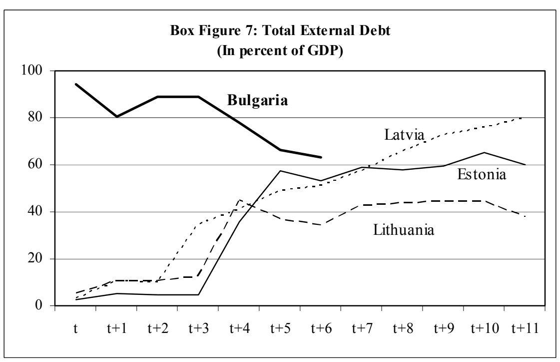
Box 1. Comparing Bulgaria with the Baltic Countries (continued)

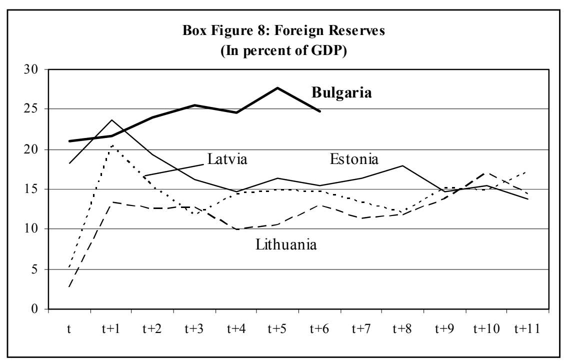
Both Bulgaria and the Baltics adopted fiscal discipline with the introduction of currency boards (in 1992 in Estonia, in 1994 in Latvia and Lithuania). However, there are surprisingly large variations (Box Figure 6). In all Baltic countries, the fiscal balance deteriorated significantly in the 1999 recession, reaching 8 percent of GDP in Lithuania. Overall, Bulgaria is one of the best performers, with its fiscal deficit never exceeding one percent of GDP (in cash terms), comparable only to Estonia.





Bulgaria started with a very large external debt stock, which it managed to bring down substantially. In contrast, the Baltics began with zero external debt, but their debt stocks (public and private combined) rose to levels now observed in Bulgaria (with the exception of Lithuania; Box Figure 7). At the same time, Bulgaria's external reserves remained high at over 20 percent of GDP, while the Baltics' are substantially lower (Box Figure 8).





Overall, Bulgaria exhibits many similarities to the Baltic countries. From a vulnerability viewpoint, Bulgaria appears well-placed. However, savings and investment are relatively low and must be raised to ensure future growth.

III. Bulgaria—Medium-term Fiscal Framework and Sustainability and Implications of EU Accession[33]

A. Introduction

54. **In the aftermath of the 1996 crisis, Bulgaria adopted a currency board arrangement (CBA) supported by a tight fiscal policy**. Since 1997 fiscal deficits have not exceeded 1 percent of GDP, the public debt-to-GDP ratio has been more than halved, and government saving has more than covered government investment. At the same time, government deposits in the banking system—the fiscal reserve account (FRA)—have risen to cover almost three times annual debt service. However, in 2003 a stronger than expected recovery in credit growth has exacerbated private sector demand pressure, resulting in a sharp deterioration of the current account deficit and raising the requirement for fiscal adjustment in the context of the CBA.

55. **The adequacy of fiscal policy going forward remains an issue and, in this regard, a number of questions appear worth asking**. Is the fiscal stance underlying the medium-term fiscal framework (MTFF) appropriate and how does EU accession fit in? What are the risks to the MTFF? While fiscal sustainability is less of a concern now, could it become a problem in the medium term? Answering these questions would help assess the adequacy of the MTFF and allow to draw lessons for fiscal policy in the period ahead.

B. Medium-Term Fiscal Framework and Policy

Main elements of Medium-term Fiscal Framework

56. **Fiscal policy has been appropriately tight, but opportunities have been missed to strengthen it further and create more room for priority spending**. Since 1998 Bulgaria has operated under an implicit fiscal rule of not exceeding a cash deficit of 1 percent of GDP, with recent efforts to achieve balance being motivated by the need to offset private sector-led demand pressures resulting in part from a surge of bank credit. However, the government's objective to curtail current spending to free up room to increase capital outlays and broaden the social safety net has not been fully achieved. In fact, there has been no success in reducing non-interest spending. The primary balance declined from an average of 2.9 percent of GDP in 1999-2001 to an average of 1.6 percent in 2002-03. During the same periods, on average, capital spending decreased by one point to 3.3 percent of GDP. In this respect, the opportunity presented by historically low interest rates to accelerate reforms while limiting spending cuts was lost.

57. **The MTFF envisages a balanced budget, with the exception of 2007, the expected year of EU accession** (Table 1). As the authorities are still forming a view on fiscal policy

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[33] Prepared by Philippe Egoumé-Bossogo.

post-EU accession, the MTFF discussed below is a combination of the authorities' broad plans up to 2006 and a normative projection for 2007-09. In response to the deterioration in the current account deficit, the authorities this year decided to cut budgeted spending by 0.7 percent of GDP to revert to a broadly neutral fiscal stance in 2004 with a deficit of 0.4 ercent of GDP. Further, they decided to devote any revenue overperformance (above about 0.1 percent of GDP pre-committed under the budget for higher subsidies) to achieving a balanced budget. A further tightening could be envisaged if the current account deficit threatens to exceed current projections. The projected gradual contraction of the current account deficit in the medium term (see Chapter II) is predicated on balanced budgets, except in 2007. As discussed in section II, new spending requirements upon accession could burden the budget by up to 3 percent of GDP in 2007 and slightly more than 1½ percent of GDP thereafter. The authorities are still discussing how to accommodate this spending, but considerations of external sustainability and vulnerability suggest to accommodate this spending partially only in 2007. Section 1.3 analyzes these points further.

58. **Revenue projections are based on lower tax and nontax revenue and higher grants.** Tax revenue is projected to decline gradually, reflecting the government's objective to reduce tax rates to promote investment. While the tax system has maintained generally low rates and few exemptions, tax policy has focused in recent years on shifting from direct to indirect taxation (Box 1). In 2004, the profit tax was reduced from 23.5 percent to 19.5 percent and the personal income tax rate for the lowest income brackets from 15 to 12 percent. In 2005, the government envisages to further lower these tax rates to 15 percent and 10 percent, respectively, while increasing the minimum taxable income threshold. Plans are also being considered to provide tax breaks to families with children. To offset the revenue loss, excises will be further increased toward minimum EU levels consistent with EU harmonization requirements. However, as this offset may be only partial and given spending constrains, particularly associated with the EU, the planned reduction in direct taxation may need to be less ambitious. For the remainder of the medium term, tax revenue is projected to decline slightly in relation to GDP, reflecting inter alia a higher transfer of social security contributions to the privately-operated second pillar of the pension system. Nontax revenue would continue to decline before stabilizing from 2005, as privatization would entail dwindling dividend revenue. Grants—mostly from the EU—would rise slightly until 2006, reflecting improvement in the absorption capacity, and jump from 2007 with the receipt of post-accession funds.

Table 1. Bulgaria: Medium-Term Fiscal Framework 1/
(In percent of GDP)

	2002	2003	2004 Proj.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.	2009 Proj.
Total revenue and grants	36.5	37.9	35.4	35.0	35.0	36.2	37.8	37.2
Tax revenue	27.4	29.7	28.0	27.9	27.9	27.8	27.7	27.6
Profit tax	3.0	3.0	2.5	2.3	2.3	2.3	2.3	2.3
Income tax	3.3	3.3	2.9	3.0	3.0	3.0	3.0	3.0
VAT	8.3	9.0	8.8	8.7	8.7	8.7	8.7	8.7
Excises	4.1	4.5	4.6	4.7	4.8	4.8	4.8	4.8
Customs duties	0.6	0.7	0.5	0.5	0.5	0.5	0.5	0.5
Social insurance contributions	7.3	8.2	7.8	7.7	7.6	7.5	7.4	7.4
Other taxes	0.9	1.0	0.9	0.9	0.9	0.9	0.9	0.9
Nontax revenues	8.1	7.3	6.2	5.8	5.8	5.8	5.8	5.7
Grants and donations	0.9	0.9	1.2	1.3	1.3	2.7	4.3	3.9
Total expenditure and net lending	37.2	38.4	35.8	35.0	35.0	37.1	37.8	37.2
Noninterest expenditure and contingency	34.9	36.2	33.9	33.0	32.8	34.9	35.8	35.5
Current noninterest expenditure	31.1	32.5	30.0	28.2	27.8	29.3	29.6	29.5
Compensation	4.3	4.5	4.1	3.9	3.7	3.5	3.3	3.2
Maintenance and operations	6.8	6.9	6.0	5.8	5.8	5.8	5.8	5.8
Defense and security	3.3	3.2	3.1	3.0	3.0	3.0	3.0	3.0
Subsidies	2.4	2.6	1.8	1.5	1.4	2.0	2.5	2.4
Social expenditures	14.3	14.8	14.6	14.0	14.0	13.9	13.9	14.1
Transfers 2/		0.4	0.4			1.1	1.1	1.0
Capital expenditure	3.2	3.5	3.4	4.2	4.4	5.1	5.7	5.5
Contingency	0.6	0.3	0.5	0.6	0.5	0.4	0.5	0.5
Primary balance	1.6	1.7	1.6	2.0	2.3	1.4	2.0	1.7
Interest	2.2	2.1	1.9	2.0	2.3	2.2	2.0	1.7
Overall balance 2/	-0.6	-0.4	-0.4	0.0	0.0	-0.8	0.0	0.0
Financing	0.6	0.4	0.4	0.0	0.0	0.8	0.0	0.0
Privatization	0.9	1.1	4.1	1.6	0.2	0.2	0.0	0.0
External (net)	1.5	0.0	0.9	0.3	-1.9	-3.3	-2.2	-1.5
Domestic (net)	-1.7	-0.7	-4.6	-1.9	1.7	4.0	2.2	1.4
Memorandum item:								
Nominal GDP in millions of leva	32,324	34,410	37,973	41,226	44,801	48,685	53,006	57,711

Sources: Ministry of Finance; and Fund staff projections.

1/ Prior to 2003 the fiscal balance does not include transfer made below the line.
2/ Under the 2003 and 2004 budget, these transfers were envisaged to be made below the line for various purposes. From 2007 includes contribution to the EU budget.

Box 1. Bulgaria: Summary of Tax Rates as of April 2004

Tax	Rates in 2000[1]	Rates in 2004	Remarks on current taxes
VAT	20 percent	20 percent	Uniform rate, exports zero-rated.
Excise	Various specific and ad valorem rates	Various specific and ad valorem rates	Increasing gradually to at least minimum EU levels according to a pre-established schedule. Applies to alcoholic beverages, coffee, tea, cars, tobacco, certain fuels, and gambling.
Profit tax	32 percent (effective average)	19.5 percent (effective average)	A tax break of 10 percent of the amount spent to create a new company or to increase capital. Different rates apply for various miscellaneous activities. E.g., insurance companies pay 7 percent of premiums (2 percent for life insurance). Total exemption is given to companies created in municipalities where the unemployment rate exceeded the national average by 50 percent the year prior to establishment.
Personal income tax (PIT)	graduated scale with rates of 0, 20, 26, 32, 40 percent	graduated scale with rates of 0, 12, 22, 26, 29 percent	Bulgarian citizens on worldwide income and foreign citizens on income derived from Bulgarian sources. Capital gains, interest from banks and state securities, income from mandatory pensions, health schemes and from social security are exempt. 100 percent of PIT revenues accrue to municipalities.
Social Security	45.7 percent (standard rate)	42.7 percent (standard rate)	Applies to the 3rd category of worker (covering 90 percent of workers). The rate comprises pension (29 percent, of which 3 percentage points transferred to the second pillar for workers born after 12/31/1959); health insurance (6 percent); unemployment (4 percent); general illness and maternity leave (3 percent); labor injury and personal diseases (0.7 percent). For the first and second categories of workers (10 percent of workers) whose jobs are classified as dangerous and for whom early retirement is possible rates are 48.7 and 43.7 percent, respectively.
Local taxes	Various rates	Various rates	Including taxes for real estate, inheritance, gifts, property transfers, fees for administrative services, garbage collection, etc.
Import duties	Effective average rate of 3 percent	Effective average rate of 1.7 percent	Expected to be replaced by the common external tariff upon EU accession

[1]From B. Horvath and I. Szekely (2000), IMF WP/00/11.

59. **The improvements in tax and customs administrations are beginning to pay dividends through higher buoyancy of taxes and the MTFF assumes this trend will continue**. Quarterly revenue series—available only from 1999—are not long enough to estimate tax buoyancy and elasticity. However, simpler indicators point to improved tax buoyancy. In 2003, nominal GDP grew by 6½ percent, whereas tax revenue rose by 15¼ percent. While the surge in imports explains most revenue growth in 2003, efforts to improve collection are beginning to bear fruit, especially in the customs administration. The latter calculated that, correcting for increases in excises, the rise in customs revenue attributable to Customs' effort to fight smuggling and fraud amounted to 3.6 percent.

60. **Expenditure restructuring is a key element of the MTFF, pointing to the need to augment government saving to boost investment** (Table 2)**.** The MTFF envisages a continued lowering of current spending until 2006, mainly by allowing the wage bill to grow only by average CPI inflation, further reducing subsidies through the implementation of structural reforms in the railways, energy, and health sectors, while keeping spending for social benefits, pensions and active labor market policies in check. From 2007, EU accession-related requirements, particularly for agricultural subsidies, would reverse this trend somewhat, but Bulgaria could accommodate some of the additional outlays by curtailing lower priority spending. Government saving would increase gradually to finance rising capital outlays needed to upgrade and build infrastructure.

Table 2. Bulgaria: Macroeconomic Framework, 2002-2009

	2002	2003	2004	2005	2006	2007	2008	2009
			Projections					
Saving and investment (in percent of GDP)								
Foreign saving 1/	7.3	9.5	9.6	8.7	7.8	7.3	7.2	7.1
Gross national saving	14.2	13.2	14.1	15.4	15.9	16.6	19.9	18.6
Gross domestic saving 2/	12.5	12.2	12.8	14.1	15.3	16.2	17.0	17.4
Government	4.3	4.7	4.4	5.9	6.2	6.0	7.2	6.8
Non-government	8.2	7.6	8.4	8.2	9.1	10.3	9.8	10.6
Gross domestic investment	19.8	21.7	22.4	22.8	23.1	23.5	24.2	24.5
Government	3.2	3.5	3.4	4.2	4.4	5.1	5.7	5.5
Non-government	16.6	18.3	19.0	18.6	18.7	18.4	18.5	19.0
Government S-I balance	1.0	1.2	1.0	1.7	1.8	0.9	1.5	1.3
Non-government S-I balance	-8.3	-10.7	-10.6	-10.4	-9.6	-8.1	-8.7	-8.4
Memorandum items								
Total public debt	61.3	53.4	47.3	44.6	41.5	37.1	33.8	31.1
Of which: External	54.8	46.8	40.1	37.0	33.5	29.1	25.9	23.4
External debt/GDP (in percent)	65.1	58.7	58.2	54.8	50.7	46.2	43.8	41.9
Current account balance (in percent of	-5.6	-8.5	-8.2	-7.4	-7.2	-6.9	-4.3	-5.9
Real GDP	4.9	4.3	5.0	5.2	5.3	5.3	5.5	5.5
GDP deflator	3.8	2.1	5.1	3.2	3.2	3.2	3.2	3.2
CPI (end of period)	3.8	5.6	3.2	3.6	3.5	3.5	3.5	3.5
(period average)	5.8	2.3	5.8	3.6	3.5	3.5	3.5	3.5

Sources: Bulgarian authorities; and Fund staff projections.

1/ Net imports of goods and nonfactor services.

2/ Gross domestic saving equals gross national saving less net factor income and transfers from abroad. The government contributions to gross domestic saving equals revenues less current expenditures, excluding external interest payments.

61. **In undertaking public investment, Bulgaria faces important policy options, which could affect fiscal sustainability**. The authorities have expressed interest in financing the construction of new expressways notably through PPP-type schemes. The general

principles of public investment call for, on the one hand, cost-benefit analysis and the highest level of return to guide project selection and, on the other hand, project financing to avoid saddling the government with contingent liabilities. Since PPPs involve the private sector and the latter has a different objective function than the government, proper selection is very important. PPPs also raise issues regarding the government's exposure and proper fiscal accounting of these operations. Recent Board papers recommend that "until an internationally accepted accounting and reporting standard for PPPs is developed, the actual and potential costs for the government implied by a PPP contract should be taken into account when undertaking debt sustainability analysis" (www.imf.org) and argue that the recording of PPP operations in fiscal accounts depends on the assessment of risks incurred by the government (www.imf.org). PPPs can be very complex and both ESA95 and GFS2001 provide only partial guidance on their fiscal accounting, leaving considerable scope for interpretation, which if not conservative could result in governments incurring large contingent liabilities. In addition to these considerations, in the road sector, Bulgaria faces a choice between giving priority to renovating and upgrading the existing road network or building new expressways. Such decisions will determine how projected capital expenditures are allocated and may have far-reaching implications for fiscal sustainability.

62. **Ongoing institutional strengthening will support the MTFF**. Previous technical assistance, including through the posting of resident advisors, as well as the establishment of the Public Finance School in the Ministry of Finance have considerably enhanced capacity to prepare and conduct fiscal policy. Further progress is needed, however. Budget preparation starts early during the previous year, while an increasing number of line ministries are preparing program budgets (for the time being only to build this capacity) so that from 2007 the state's budget would completely be program-based. However, lack of technical expertise constrains the ability of line ministries to prepare three-year rolling budgets in a timely manner, as required by the Ministry of Finance. Technical assistance may be necessary in moving to accrual accounting. Further progress is sought in improving tax administration and expenditure management (see paragraph 72).

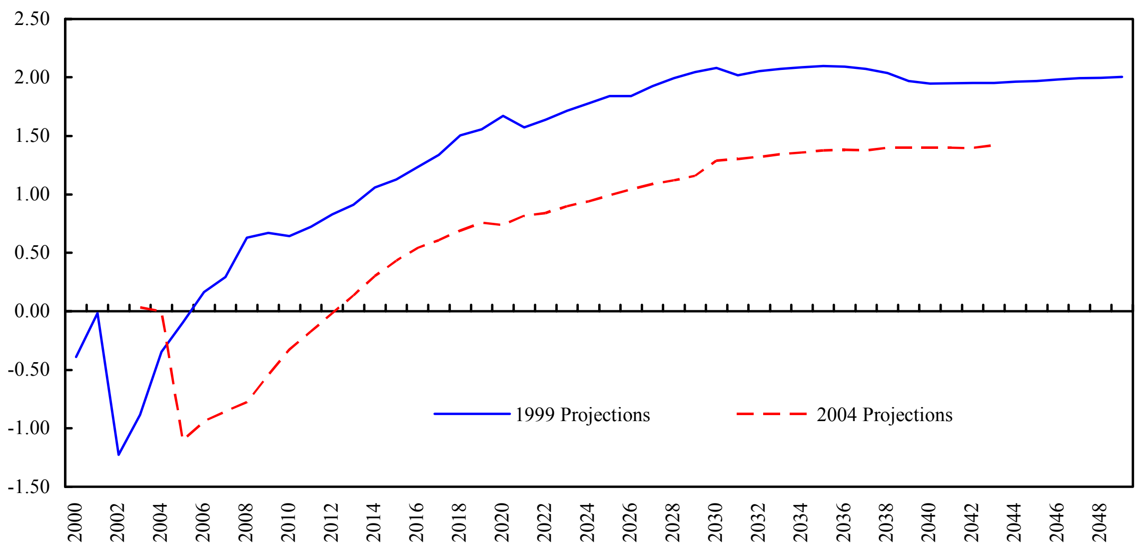
Pension and health spending in the medium-term fiscal framework

63. **Assuming unchanged policies, the pension system should exert a declining pressure on government spending in the medium term, but there are—mainly political—risks** (Figure 1, first panel). The one-off adjustment in the monthly pension ceiling from 240 leva to 420 leva—a level that makes the ceiling almost non-binding—would result in a widening of the deficit of the National Social Security Institute (NSSI).[34] However, going forward, while still high, the dependency ratio is projected to decline until 2020, allowing NSSI's revenue to rise (Figure 2). Underpinning this projection are lower

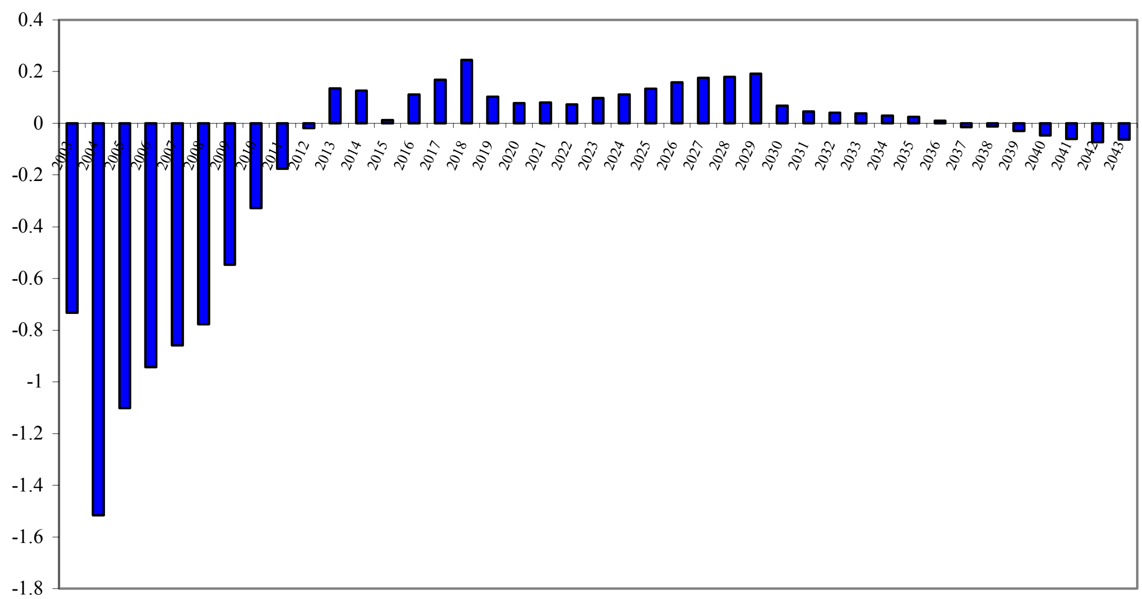
[34] The NSSI comprises the old-age (first and universal pillar of the pension system) and disability pensions; and insurance for sickness and maternity leave, unemployment, and work-related injuries. Other social benefits are administered by the Ministry of Labor and Social Affairs (with the exception of public health insurance).

Figure 1. Bulgaria: NSSI Balances, 2003-2043
(In percent of GDP)

Under unchanged policies



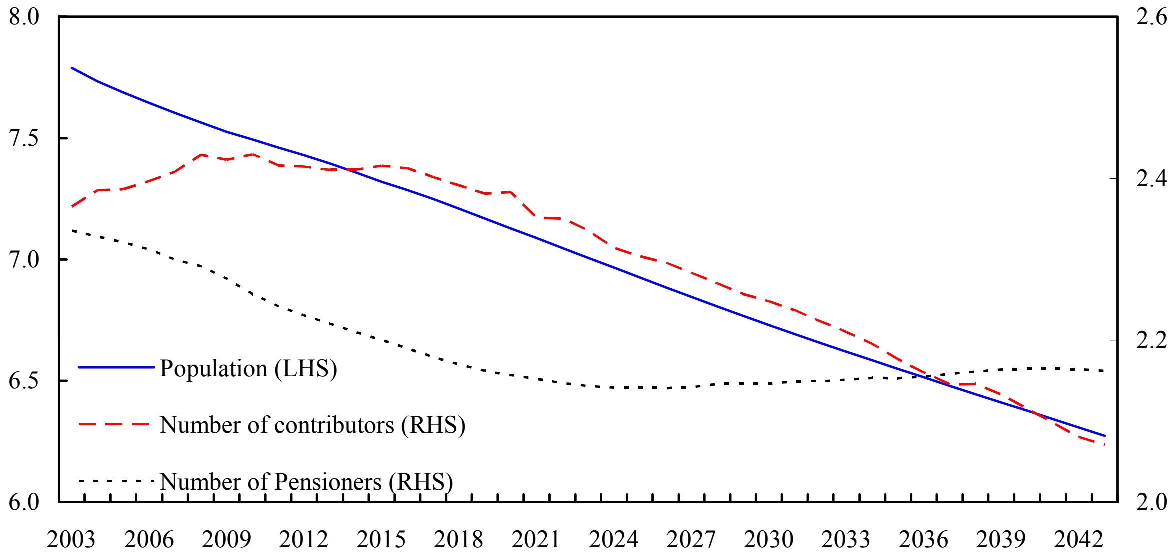
Under changed policies



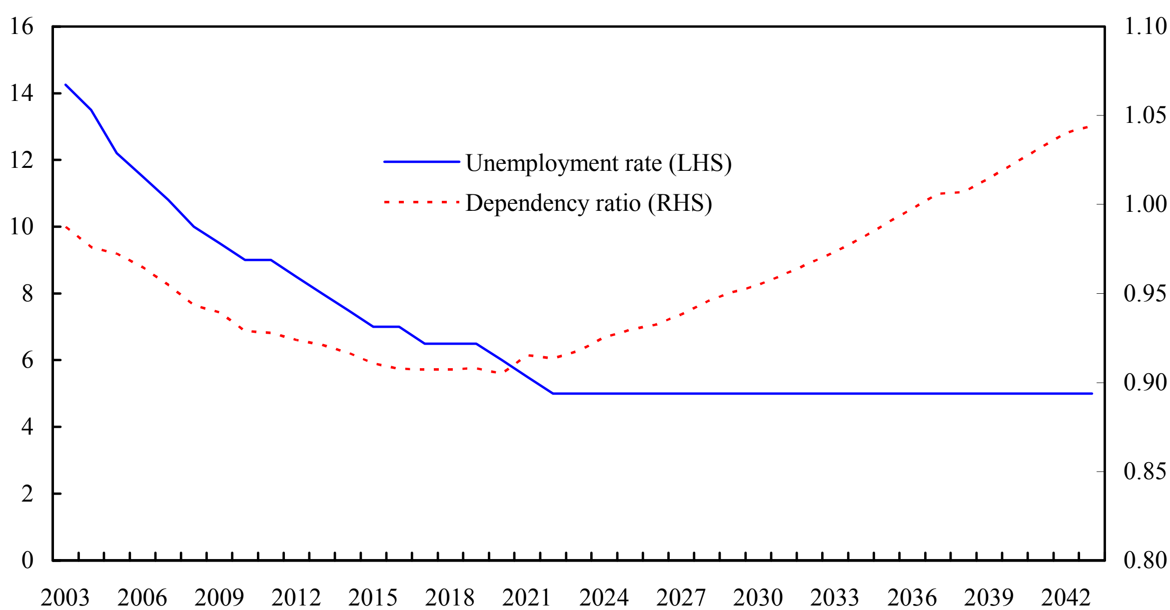
Sources: National Social Security Institute (NSSI) and Staff calculations.

Figure 2. Bulgaria: Demographic and Unemployment Forecasts, 2003-2043

Demographic forecasts
(In millions)



Forecasts of the Unemployment Rate and Dependency Ratio



Sources: National Social Security Institute (NSSI) and Fund staff calculations.

unemployment and higher participation rates, robust economic growth, a decline in the shadow economy, and administrative improvements, notably to increase revenue collection. Expenditures are envisaged to remain under control due to the gradual increase in the retirement age for females (to 60 years) and males (to 65 years) and the strict adjustment of pensions based on an indexation formula, which assigns to inflation and insurable income weights of 75 percent and 25 percent, respectively. Notwithstanding the gradual increase in the transfer to the second pillar to 5 percent by 2007, the deficit of the first pillar is projected to continue to decline toward balance by 2013—instead of 2005, as projected in 1999 when the three-pillar pension system was introduced—and accumulate surpluses thereafter. The delay in reaching balance can be attributed to over-optimistic assumptions, but more importantly reflects political pressure that resulted in new measures boosting spending. Such pressure continues to present a serious risk to the NSSI balance, particularly in light of the low level of pensions and the rapid rise in disability pensions (Table 3). However, it could be mitigated by enshrining in a law the indexation formula for pension and pensionable bases underlying the medium-term projections and by strictly controlling the disability certification process.

64. **Assuming additional policies to strengthen pensions and reduce labor taxation, the NSSI is projected to post a balanced budget in the long run.** In addition to current policies, the following set of measures were simulated, including: (i) a change in pension indexation from the current split of 75 percent inflation and 25 percent growth of insurable income to 50-50 percent from 2013; (ii) further increases in the transfer to the second pillar to 7 percent from 2014, 8 percent from 2020, and 9 percent from 2026; (iii) from 2017, a decrease in the contribution rate by 1 percent, half a point each for employers and employees. However this simulation does not include an increase in the contribution rate for the health insurance fund from 6 to 8 percent—and therefore assumes that such adjustment would not be financed by a reduction in contributions going to the pension system. The simulation presented in Figure 1, second panel, suggests that, the NSSI could achieve and maintain balance or near balance from 2013 onwards, while raising pensions and reducing contribution rates.

65. **The MTFF envisages a stabilization of health spending in relation to GDP, but the delay in completing health sector reforms poses a risk** (Table 4). Compared to the past and the medium term, the 2004 budget estimate for health spending seems low. The authorities had planned to make progress in the health sector reform this year, with a significant expansion of activity-based financing of hospitals and restrictions in the reimbursement of drug expenses and various other claims. The failure to sign a National Framework Agreement with health care providers, however, makes it somewhat difficult that the budget can be strictly adhered to, presenting the risk of spending overruns—as in past years—and of a larger fiscal deficit (on an accrual basis) this year. The MTFF envisages a rise in the revenue of the National Health Insurance Fund (NHIF) in 2006 resulting from an increase in the contribution rate from 6 to 8 percent; but, even with this increase, revenue would fall short of expenditures. The MTFF also envisions that the NHIF would assume a growing share of health care spending covered only partially by subsidies redirected from the

Table 3. Bulgaria: Selected Pension-Related Indicators

	2000	2001	2002	2003
Number of insured				
Insured by employer	1,985,804	1,953,446	1,867,648	2,059,685
Insured - military and police	79,475	88,072	82,458	...
Selfinsured	184,712	190,943	158,288	201,352
Number of pensioners	2,379,324	2,370,871	2,350,900	2,336,806
Number of pensions	2,439,754	2,566,711	2,622,006	2,673,576
Number of contributors	...	...	...	2,365,082
Dependency ratio	...	...	...	**98.8**
Average monthly insurable income (in euros)				
Insured by employers 1/	105.5	110.1	123.6	130.7
Insured - military and police	224.9	245.0	292.9	...
Self insured 1/	82.0	87.0	93.2	103.1
Average insurable income				
Percent of GDP per capita (annual basis)				
Insured by employers 1/	79.2	73.7	72.3	69.5
Insured - military and police	168.9	163.9	171.5	...
Self insured 1/	61.6	58.2	54.6	54.8
Average monthly pension (in euros)	**44.1**	**47.2**	**52.2**	**56.5**
Percent of GDP per capita (annual basis)	**33.1**	**31.6**	**30.6**	**30.1**
Average effective replacement ratio 2/	**41.8**	**42.8**	**42.3**	**43.2**
Disability pensions				
Number of disability pensioners	197,778	235,349	267,357	316,243
Additional pensioners	...	37,571	32,008	48,886
In percent of total pensioners	**8.3**	**9.9**	**11.4**	**13.5**
Cost (millions of leva)	165.8	195.9	246.3	313.4
Costs (in percent of GDP)	**0.6**	**0.7**	**0.8**	**0.9**
Average annual pension (in euros)	428.1	425.1	470.4	506.1
Memorandum item				
GDP per capita (in euros)	1598	1794	2050	2256

Sources: National Social Security Institute and Fund staff calculations

1/ For these two categories, it is believed that wages are significantly underreported to evade taxes.

2/ Based on the income of individuals--90 percent of all workers--working for an employer other than the armed forces.

budget of the Ministry of Health, leaving the NHIF in deficit.[35] Failure to advance the reforms would worsen this deficit—especially given the aging population—putting pressure on the government to loosen fiscal policy, as it would be politically difficult to make cuts in the quality and availability of health services. The authorities have not yet come to grips with this looming problem, which will require strong political commitment to accelerate the reforms.

Table 4. Bulgaria: Health Sector Spending Under the Baseline Scenario
(In percent of GDP)

	2003	2004	2005	2006	2007	2008	2009
		Budget	Projections				
Health Expenditure	**4.8**	**4.3**	**4.6**	**4.6**	**4.6**	**4.6**	**4.6**
Ministry of Health	1.7	1.5	1.6	1.3	1.1	0.9	0.8
National Health Insurance Fund	2.2	2.3	2.6	2.9	3.1	3.3	3.5
Municipalities	0.6	0.3	0.3	0.3	0.3	0.2	0.2
Others	0.3	0.2	0.2	0.1	0.1	0.1	0.1
Of which,							
Hospital care	**2.3**	**1.6**	**2.0**	**2.2**	**2.3**	**2.5**	**2.6**
Ministry of Health	0.9	0.5	0.7	0.6	0.6	0.5	0.5
National Health Insurance Fund	0.6	0.8	1.1	1.4	1.6	1.8	2.0
Municipalities	0.5	0.1	0.1	0.1	0.1	0.1	0.1
Others	0.3	0.2	0.1	0.1	0.1	0.1	0.1
Memorandum							
Reserves of the NHIF	2.2	1.8	1.5	0.8	0.1	-0.5	...

Sources: National Health Insurance Fund and Fund staff calculations.

Appropriateness of and risks to the MTFF

66. **The question of the appropriateness of the MTFF boils down to whether the underlying fiscal stance is adequate**. In the short run and given the CBA, fiscal policy is the central macroeconomic instrument for offsetting the impact of the credit boom. A balanced budget for 2004-05 appears therefore appropriate, but not necessarily sufficient. Indeed, the acceleration in private demand would suggest a need for a bias toward fiscal surpluses. In the longer run, since growth is expected to accelerate toward its annual potential of 5½ percent in 2008, a balanced budget could actually be pro-cyclical.[36] While a surplus might be difficult to achieve because of political constraints, aiming for a balanced budget over the cycle would seem adequate to offset excess demand pressure. Moreover, in the absence of a long-enough series of macroeconomic variables necessary to estimate the structural fiscal balance, an implicit balanced budget rule appears a prudent enough approach that would allow sufficient room for fiscal adjustment in an environment of lack of monetary stabilization tools.

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[35] The NHIF deficit would be financed by its accumulated reserves, which are included in the FRA. However, they would run out before or by 2007, depending on how fast reforms are implemented.

[36] See Bulgaria—Selected Issues and Statistical Appendix, IMF Country Report No. 01/54.

67. **It may not be prudent to allow a significant deviation from a balanced budget upon EU accession**. Bulgaria has announced its intention to enter ERM2 with the current peg under the CBA and to maintain it as the central parity until joining EMU. There is hence no reason to deviate from the tight fiscal policy pursued so far. This would thus imply that Bulgaria should regard the Maastricht fiscal criteria as upper bounds and endeavor to stay below them, despite EU solidarity mechanisms. The need to allow room for counter-cyclical fiscal policy in case of a downturn strengthens the argument for not loosening the fiscal stance. Also, a balanced budget—and associated primary surpluses—would greatly contribute to reducing public debt, which in turn would strengthen fiscal sustainability and help keep interest rates low. Finally, a balanced budget would help bolster public savings needed to finance rising government capital investment.

68. **Whether a fiscal surplus could prevent growth from accelerating to its potential would be an issue, if in fact the authorities were to go that route**. This would depend on how the surplus is generated. Fiscal consolidation has been shown to have non-Keynesian effects, with the composition of the adjustment playing a crucial role in achieving expansion. Alesina and Perotti (1997) argue that fiscal adjustment that relies primarily on tax increases and cuts in public investment tend to last and are contractionary, while cuts in current spending are likely to be expansionary. Tax increases would result in higher unit labor costs and lower competitiveness especially when unions are strong, while cuts in public investment would lower growth. In contrast, credible spending cuts—particularly on the wage bill and transfers—have a favorable effect on growth by increasing competitiveness and lowering interest rates. More recently, Giudice et al. (2004) found strong evidence in favor of these arguments in the EU area. Although the right mix of revenue and expenditure measures when adjusting is country-specific, this suggests that curtailing current spending would be more benign with respect to growth and should therefore be the primary source of adjustment.

69. **Experience in some previous accession countries suggests that a strong fiscal policy could help foster real convergence**. Countries that aspire to join the EU hope that this would result in rapid convergence of real income to EU levels. The experience of Ireland shows that strong fiscal adjustment from initial large deficits could help accelerate real convergence (Honohan, 1999). Bulgaria already implements a strong fiscal policy, which, if maintained after EU accession, would position the country well to attract higher FDI, crucial to achieving sustained rapid growth.

70. **In the context of the CBA, flexibility remains an important element of conducting fiscal policy**. In addition to normal contingencies, Bulgaria has a well-established practice of setting aside roughly 1 percent of GDP by capping discretionary spending across-the-board during the first three quarters of the year. This approach, however, is prone to favor the accumulation of arrears and lead to less-than-desirable adjustment. The practice will change beginning with the 2005 budget through the prior identification of lower priority spending in the budget of each line ministry and other budget entities. By cutting or delaying only such spending, the quality of the adjustment, if in fact needed, would be improved. Also, in 2004 the government will experiment for the first time with quarterly

expenditure ceilings. While not flexible, such ceilings would prevent revenue overperformance, as in the past, to be spent at the end of the year on low-priority items.

71. **Reducing the size of the government is an important objective that could, however, be reversed after EU accession**. The size of government—as measured by the ratio of total government expenditure to GDP—compares well with that in the EU and other countries in the region. Yet, the government has made further downsizing one of its medium-term fiscal objectives, although it has not been successful in recent years. From 2007, the size of the government may increase again, reflecting EU grants and related spending. In fact, previous EU accession rounds have shown that the size of government in new EU member countries tends to converge toward the average EU level (e.g., Greece). Nevertheless, consistent with the government's objective the MTFF does assume some substitution so that expenditure will increase by less than would have been the case otherwise. Abstracting from EU grants and related spending, the size of the general government would decline steadily during the medium term to 33¼ percent of GDP in 2009, but this crucially hinges on whether remaining structural reforms are implemented.

72. **Delays in completing structural reforms could increase pressure to deviate from the MTFF path**. Reforms in the energy sector have made strides with the passage of the energy law underpinning the liberalization of the sector. The railways sector, on the other hand, is still quite inefficient, with freight subsidizing passenger traffic and many idle lines still open. Both sectors continue to receive subsidies totaling about ½ percent of GDP, but the MTFF assumes some reduction. Tax administration is expected to improve notably with the introduction of the National Revenue Agency, which would consolidate the collection of taxes and social security contributions. Expenditure management would be enhanced through consolidation of budgetary entities' accounts in the Treasury Single Account and the introduction of the Financial Management Information System. The latter would allow better control of expenditure commitments. These reforms are crucial for implementing the MTFF and delay would make it difficult to achieve its objectives. After the recent slowdown of reforms, a new impetus is needed.

73. **The MTFF faces other risks**. In the immediate future, the general elections may lead to a weakening of policies either before, to "buy votes," or afterwards, if a new government decides to follow a somewhat looser fiscal policy. Slow EU growth, further substantial oil price increases and appreciation of the euro are potential occurrences that may make it more difficult to achieve the objectives of MTFF.[37] A delay in EU accession could result in significant market volatility, if it is interpreted as putting in question accession altogether. In addition, there could be pressure on the CBA associated with questions regarding the exit strategy.

[37] Shocks to the MTFF are analyzed in Section C.

74. **Financing of the MTFF is not an issue, but completing privatizations would provide added comfort**. While external debt service requirements would be large from 2006, with a spike in 2007, ample international reserves would allow repayments without threatening coverage of base money, although the current cushion would thin out. Although the baseline scenario takes a prudent approach to projecting privatization receipts, the latter could be as much as 4½ percentage points of (projected 2005) GDP higher cumulatively over 2005-07, further bolstering the FRA and international reserves. Completing these privatizations should therefore be one of the government's priorities. The government can smooth out the debt service spike in 2007 through debt operations.

C. Fiscal Implications of Pre- and Post-EU Accession and NATO Requirements

75. **Until 2006, Bulgaria would be able to manage the requirement for counterpart funds for EU accession**. Since 1999 approved EU pre-accession funds have averaged 1½ percent of GDP, but implementation capacity has averaged only 50 percent. Co-financing has typically amounted to 20-25 percent of these funds and the government has been able to provide for this requirement within the fiscal envelope. The main reasons for low implementation include lack of technical expertise for timely project preparation and implementation, legislative and regulatory impediments, and inadequate staffing. The authorities have taken steps to address these shortcomings and implementation capacity is expected to gradually increase. Despite this improvement, until 2006 co-financing is not expected to constrain the government's ability to post a balanced budget.

76. **From 2007, however, EU requirements would make it more difficult to achieve a balanced budget** (Table 5). Upon accession, Bulgaria will start making contributions to the EU budget averaging 1.1 percent of GDP yearly. Spending requirements associated with adoption of the *acquis communautaire* will increase, leaving a domestic financing gap of slightly more than 1½ percent of GDP per year. In 2007 specifically, advanced payment—with a transfer from the EU due only in 2008—of common agricultural policy (CAP) subsidies to Bulgarian farmers amounting to 0.8 percent of GDP will temporarily increase the gap to almost 3 percent of GDP. The authorities are still mulling whether to increase the deficit by the full amount of these gaps. But for reasons discussed in paragraph 67, it would be prudent to cut other spending to accommodate EU requirements, with the possible exception of the one-off advanced payment of CAP subsidies in 2007. The MTFF reflects this policy line.

Table 5. Bulgaria: EU Accession-Related Transfers and Spending
(In percent of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009
Transfers from the EU (gross)	**2.0**	**1.5**	**1.3**	**1.6**	**1.6**	**3.0**	**4.6**	**3.9**
Pre-EU accession funds allocated	2.0	1.5	1.3	1.6	1.6	1.3	1.2	...
Post-EU accession funds allocated	...	...	...	...	...	1.7	3.4	3.9
EU related expenditure	**0.8**	**1.6**	**1.6**	**1.6**	**1.9**	**5.9**	**6.3**	**5.5**
Related to pre-accession funds	0.8	1.4	1.2	1.2	1.5	1.6	1.2	...
Co-financing of pre-accesion projects	0.0	0.2	0.4	0.4	0.4	0.4	...	...
Related to post-accession funds	...	...	...	...	...	2.5	3.6	3.9
Co-financing of post-accession projects	...	...	...	...	...	0.3	0.5	0.6
Contribution to the EU budget	...	...	...	...	...	1.1	1.1	1.0
Net cash flow	**1.2**	**-0.1**	**-0.2**	**0.0**	**-0.2**	**-2.9**	**-1.7**	**-1.6**
Memorandum items								
Net transfers from the EU	2.0	1.5	1.3	1.6	1.6	1.9	3.6	2.8
Nominal GDP (millions of leva)	32,324	34,410	37,973	41,226	44,801	48,685	53,006	57,711

Sources: Bulgarian authorities.

77. **Harmonization of indirect taxation with the EU presents less of a challenge than the adoption of the common external tariff (CET)**. At 20 percent, the VAT rate is comparable to levels in the EU and excises have been rising gradually and are at 60-70 percent of minimum EU levels, although the gap for cigarette and fuel excises remains quite wide. Bulgaria has a lower tariff protection than the EU, with the effective import duties rate averaging 1.7 percent (Box 1). Bulgaria also has free-trade agreements with many countries, some of which may not have such agreements with the EU as a group. The CET may therefore increase trade protection, which may dampen further efficiency gains in the tradable sectors—such as textiles—where Bulgaria still enjoys a comparative advantage. Furthermore, trade protection may have price effects on production factors and consumer goods with welfare losses.

78. **The CAP would lead to a significant increase in subsidies**. Direct subsidies would rise from 1½ percent of GDP in 2007 to 2 percent of GDP in 2009, while additional implicit subsidies would result from trade barriers against non-EU producers under the CET. The latter, however, would be limited by production quotas. The MTFF assumes that the overall level of subsidies would increase only by a fraction of these transfers, implying that the other subsidies would have been reduced through reforms.[38] However, if substitution were not to take place the overall level of subsidies would increase significantly.

79. **NATO accession requirements seem to represent a lesser fiscal challenge**. Upon NATO accession, Bulgaria committed to spend 2.6 percent of GDP on defense and law enforcement annually. This amount is in line with what the country already spends in this sector, so that the additional burden appears negligible.

D. Medium-Term Fiscal Sustainability

80. **Fiscal sustainability is assessed based upon projected levels of public debt in the medium term**. According to IMF (2003), the sustainable public debt level for a typical emerging market country could be as low as 25 percent of GDP, since such countries could be subject to significant interest rate and capital volatility. Upon EU accession, solidarity mechanisms would allow Bulgaria to afford a higher debt ratio. Schadler et al. (2003) estimate that such a level could be around 45 percent of GDP for the most recent EU members. But accession is expected to take place only in 2007, with some probability that this date could slip, pointing to the need for Bulgaria to remain focused on continuing to lower its public debt ratio.

81. **Public debt dynamics under the baseline scenario are favorable** (Table 6). The public debt-to-GDP ratio declined steadily from 83 percent of GDP in 1999 to 53½ percent of

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[38] Agriculture accounted for 15 percent of GDP in 2003 and will likely continue to represent a significant share of the Bulgarian economy after EU accession.

GDP in 2003. It is projected to drop to 31 percent of GDP by 2009, well below the level determined to be prudent for the newest EU members, which points to strong medium-term fiscal sustainability. While external debt would gradually contract, domestic debt is projected to pick up from 2005, reflecting debt management policies.

Table 6. Bulgaria: Public Debt Under the Baseline Scenario

	2002	2003	2004	2005	2006	2007	2008	2009
			Projections					
			(In millions of leva)					
External								
Stock	17,710	16,092	15,230	15,240	15,008	14,150	13,741	13,483
Disbursement	540	841	1,298	1,235	1,093	1,028	799	801
Amortization	1,210	758	726	1,110	1,303	1,861	1,181	1,032
Domestic								
Stock	2,148	2,271	2,732	3,160	3,562	3,934	4,194	4,445
New Issue	902	879	724	843	923	913	815	925
Amortization	568	683	238	416	521	541	554	674
Total								
Stock	19,858	18,364	17,962	18,400	18,570	18,084	17,936	17,928
Disbursement	1,442	1,720	2,022	2,078	2,017	1,941	1,614	1,726
Amortization	1,778	1,441	964	1,525	1,824	2,401	1,735	1,706
Interest payments	729	747	743	825	1,016	1,067	1,019	970
External	622	629	609	671	828	834	759	697
Domestic	107	118	134	154	188	232	261	272
			(In percent of GDP)					
External								
Stock	54.8	46.8	40.1	37.0	33.5	29.1	25.9	23.4
Disbursement	1.7	2.4	3.4	3.0	2.4	2.1	1.5	1.4
Amortization	3.7	2.2	1.9	2.7	2.9	3.8	2.2	1.8
Domestic								
Stock	6.6	6.6	7.2	7.7	8.0	8.1	7.9	7.7
New Issue	2.8	2.6	1.9	2.0	2.1	1.9	1.5	1.6
Amortization	1.8	2.0	0.6	1.0	1.2	1.1	1.0	1.2
Total								
Stock	**61.4**	**53.4**	**47.3**	**44.6**	**41.5**	**37.1**	**33.8**	**31.1**
Disbursement	4.5	5.0	5.3	5.0	4.5	4.0	3.0	3.0
Amortization	5.5	4.2	2.5	3.7	4.1	4.9	3.3	3.0
Interest payments	2.3	2.2	2.0	2.0	2.3	2.2	1.9	1.7
External	1.9	1.8	1.6	1.6	1.8	1.7	1.4	1.2
Domestic	0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.5
Memorandum item								
Nominal GDP	32,324	34,410	37,973	41,226	44,801	48,685	53,006	57,711

Sources: Bulgarian authorities and Fund staff calculations.

82. **Public debt management objectives have supported the reduction and restructuring of public debt**.[39] These objectives include the reduction of the share of U.S. dollar-denominated and floating interest rate debt, lengthening the maturity of debt and smoothing the repayment schedule. Given the peg to the euro and the fact that Bulgaria's trade with the EU amounts to more than 60 percent of its total trade, it makes sense to shift debt to euro and leva, the domestic currency. Moreover, the increase in domestic debt is also meant to provide additional financial instruments to domestic investors, notably pension funds, thereby deepening the financial system. To achieve these objectives, Bulgaria has at its disposal a wide array of instruments including debt swaps, buybacks, and prepayments. Some of these were used in the past, particularly the Brady bonds swap that reduced U.S. dollar-denominated debt by 16 percentage points in 2002.

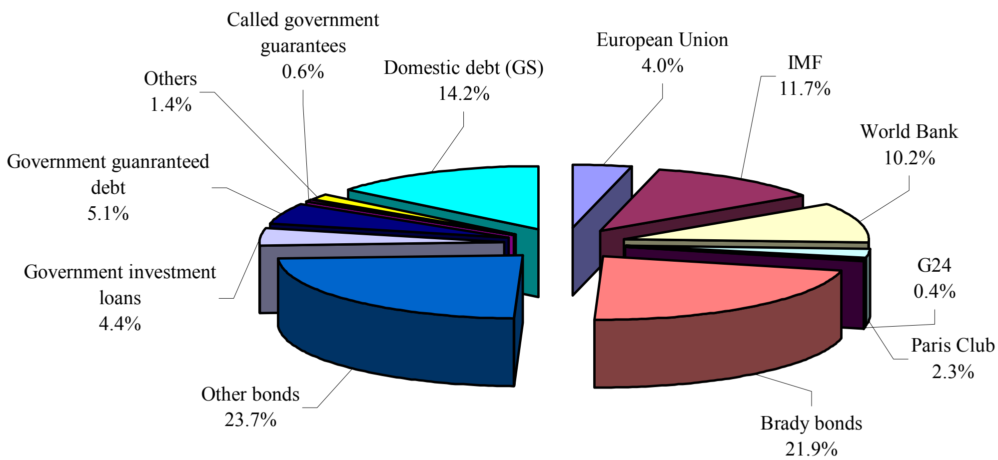
83. **The composition of public debt suggests that there remains room to undertake further debt operations to minimize risks** (Figure 3). Foreign currency debt represents 86 percent of total public debt. US dollar-denominated debt amounts to 42 percent of the total and is subject to exchange rate fluctuations. The recent appreciation of the euro vis-à-vis the US dollar was a windfall, but since a depreciation would have increased the debt burden, the objective of lowering the US dollar share is remains sensible—although the timing of debt operations is crucial for taking full advantage of opportunities. Debt with fixed interest rates represents 43 percent, while longer-term debt (with a maturity of over 10 years) represents 40 percent of the total. These ratios could be further increased. Short-term debt (with a maturity of up to one year), however, equals only about 1 percent of the total. As can be seen in Table 1, principal repayments will jump in 2006-09, with a peak in 2007. Debt operations could be very useful in smoothing the debt service profile. For this purpose, the authorities can use the resources in the FRA subject to maintaining an adequate international reserve cover.

84. **A public debt sustainability analysis shows that even under extreme conditions, the public debt-to-GDP ratio would continue to decline and stay below the Maastricht limit of 60 percent** (Table 7). Stress tests include the following shocks in 2004-05: higher real interest rates, lower GDP growth, lower primary balance, a substantial increase in debt creating inflows, and a 30-percent depreciation. Only the latter would result in a large increase (close to 20 percentage points) of the public debt ratio in 2005 followed by a gradual decrease to a level almost identical to the ratio in 2003. Lower growth would also lead to a less steep decline in the public debt ratio, highlighting the importance of growth for debt sustainability. In all the other cases, the public debt ratio would contract rapidly.

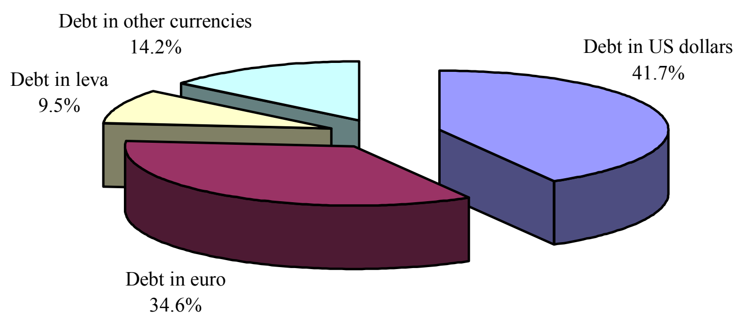
[39] See IMF Country Report No. 02/173 for a discussion of debt management and composition in Bulgaria.

Figure 3. Bulgaria: Public Debt Data as of End-March 2004

By Creditors

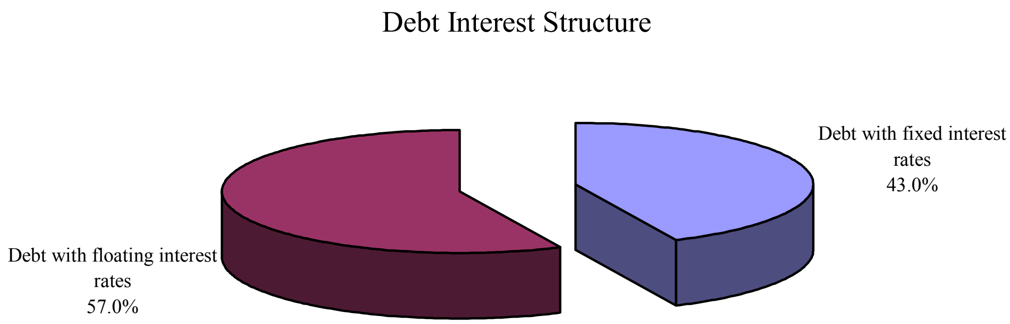


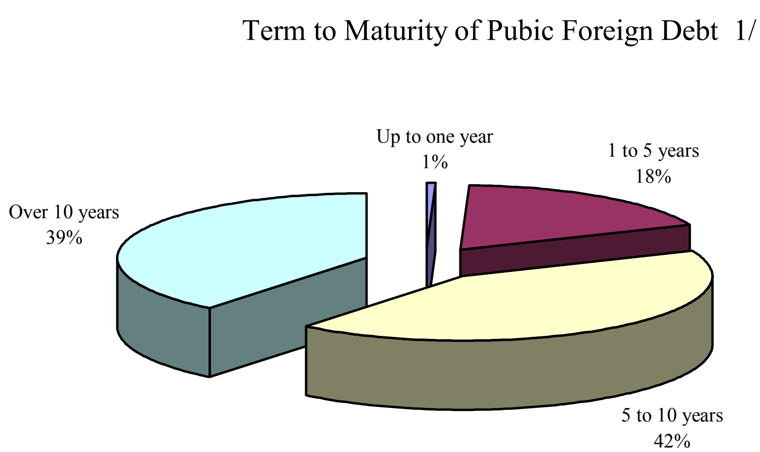
By Currency



Sources: Ministry of Finance and Fund staff calculations.

Figure 3. Bulgaria: Public Debt Data as of End-March 2004, (continued)





Sources: Ministry of Finance and Fund staff calculations.
1/ The average-weighted residual term to maturity of the foreign debt is nine years and eight months.

Table 7. Bulgaria: Public Sector Debt Sustainability Framework, 1998-2009
(In percent of GDP, unless otherwise indicated)

		Actual							Projections							
		1998	1999	2000	2001	2002			2003	2004	2005	2006	2007	2008	2009	Debt-stabilizing primary balance 9/
1	**Public sector debt 1/**	83.2	86.7	77.1	69.9	61.3			**53.4**	**47.3**	**44.6**	**41.5**	**37.1**	**33.8**	**31.1**	**2.2**
	o/w foreign-currency denominated	78.8	78.8	70.1	66.5	58.0			49.3	43.3	39.7	36.2	31.9	28.1	25.4	
2	Change in public sector debt	-30.3	3.5	-9.6	-7.1	-8.6			-7.9	-6.1	-2.7	-3.2	-4.3	-3.3	-2.8	
3	Identified debt-creating flows (4+7+12)	-11.8	2.1	-5.6	-5.5	-2.6			-2.4	-6.7	-3.5	-2.0	-1.1	-1.6	0.2	
4	Primary deficit	-5.2	-2.8	-3.0	-2.8	-1.6			-1.7	-1.6	-2.0	-2.3	-1.4	-2.0	-1.7	
5	Revenue and grants	35.4	38.5	38.7	37.6	36.5			37.9	35.4	35.0	35.0	36.2	37.8	37.2	
6	Primary (noninterest) expenditure	30.2	35.7	35.7	34.7	34.9			36.2	33.9	33.0	32.8	34.9	35.8	35.5	
7	Automatic debt dynamics 2/	-12.3	-0.9	-5.6	-3.9	-3.5			-1.6	-3.1	-1.7	-1.3	-1.1	-1.0	-1.1	
8	Contribution from interest rate/growth differential 3/	-21.0	-1.0	-5.6	-3.9	-3.5			-1.6	-3.1	-1.7	-1.3	-1.1	-1.0	-1.1	
9	Of which contribution from real interest rate	-17.5	0.8	-1.4	-1.1	-0.3			0.9	-0.7	0.5	0.9	0.9	0.8	0.6	
10	Of which contribution from real GDP growth	-3.5	-1.8	-4.2	-2.8	-3.1			-2.5	-2.4	-2.3	-2.2	-2.0	-1.9	-1.7	
11	Contribution from exchange rate depreciation 4/	8.8	0.1	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	
12	Other identified debt-creating flows	5.6	5.9	3.0	1.3	2.5			0.9	-2.1	0.3	1.5	1.3	1.4	3.0	
13	Privatization receipts (negative)	-1.5	-2.1	-1.3	-2.9	-0.9			-1.1	-4.1	-1.6	-0.2	-0.2	0.0	0.0	
14	Recognition of implicit or contingent liabilities	7.1	8.0	4.3	4.2	3.3			2.0	2.0	1.9	1.7	1.5	1.4	1.3	
15	Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	1.7	
16	Residual, including asset changes (2-3)	-18.5	1.4	-4.0	-1.6	-6.1			-5.6	0.6	0.8	-1.1	-3.2	-1.7	-3.0	
	Public sector debt-to-revenue ratio 1/	235.1	225.0	199.0	186.1	168.0			140.7	133.5	127.4	118.3	102.5	89.5	83.5	
	Gross financing need 5/	8.9	7.6	7.0	6.1	4.8			4.1	2.4	2.5	2.9	4.7	2.8	2.5	
	in billions of euros	1.0	0.9	1.0	0.9	0.8			0.7	0.5	0.5	0.7	1.2	0.7	0.7	
							5-Year Historical Average	5-Year Standard Deviation								Projected Average
	Key Macroeconomic and Fiscal Assumptions															
	Real GDP growth (in percent)	4.0	2.3	5.4	4.1	4.9	4.1	1.2	4.3	5.0	5.2	5.3	5.3	5.5	5.5	5.2
	Average nominal interest rate on public debt (in percent) 6/	4.8	4.8	5.3	5.4	3.4	4.7	0.8	3.7	4.0	4.6	5.5	5.7	5.9	5.4	5.0
	Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-18.9	1.1	-1.4	-1.3	-0.3	-4.2	8.3	1.6	-1.1	1.4	2.3	2.5	2.7	2.2	1.7
	Nominal appreciation (increase in euro value of local currency, in percent)	-9.1	-0.1	0.0	0.0	0.0	-1.8	4.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Inflation rate (GDP deflator, in percent)	23.7	3.7	6.7	6.7	3.8	8.9	8.4	2.1	5.1	3.2	3.2	3.2	3.2	3.2	3.3
	Growth of real primary spending (deflated by GDP deflator, in percent)	25.9	20.7	5.4	1.3	5.5	11.8	10.8	8.2	-1.9	2.5	4.6	12.1	8.3	4.6	5.5
	Primary deficit	-5.2	-2.8	-3.0	-2.8	-1.6	-3.1	1.3	-1.7	-1.6	-2.0	-2.3	-1.4	-2.0	-1.7	-1.8
									II. Stress Tests for Public Debt Ratio							Debt-stabilizing primary balance 9/
	A. Alternative Scenario															
	A1. Key variables are at their historical averages in 2004-08 7/								**53.4**	**44.7**	**39.2**	**33.4**	**25.8**	**20.4**	**15.7**	**1.9**
	B. Bound Tests															
	B1. Real interest rate is at historical average plus two standard deviations in 2004 and 2005								**53.4**	**53.8**	**56.3**	**52.8**	**48.2**	**44.5**	**41.4**	**1.7**
	B2. Real GDP growth is at historical average minus two standard deviations in 2004 and 2005								**53.4**	**49.9**	**51.0**	**49.8**	**47.5**	**46.3**	**45.4**	**1.8**
	B3. Primary balance is at historical average minus two standard deviations in 2004 and 2005								**53.4**	**48.4**	**47.2**	**43.9**	**39.5**	**36.1**	**33.3**	**2.0**
	B4. Combination of 2-4 using one standard deviation shocks								**53.4**	**50.6**	**50.5**	**47.1**	**42.6**	**39.1**	**36.2**	**2.0**
	B5. One time 30 percent real depreciation in 2004 8/								**53.4**	**72.2**	**68.6**	**64.7**	**59.8**	**55.8**	**52.3**	**1.4**
	B6. 10 percent of GDP increase in other debt-creating flows in 2004								**53.4**	**57.3**	**54.3**	**50.8**	**46.2**	**42.7**	**39.6**	**1.8**

Source: Bulgarian authorities and Fund staff calculations.

1/ This represents gross public sector debt, and thus is different from general government debt figures shown elsewhere.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of euro).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi (1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

6/ Derived as nominal interest expenditure divided by previous period debt stock.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Real depreciation is defined as nominal depreciation (measured by percentage fall in euro value of local currency) minus domestic inflation (based on GDP deflator).

9/ Assumes that key variables (real GDP growth, real interest rate, and primary balance) remain at the level in percent of GDP/growth rate of the last projection year.

E. Concluding Remarks

85. **The MTFF reflects constraints arising from the CBA and the need to respond to increased external vulnerability, but it faces risks**. In the context of the CBA, fiscal policy is the central instrument for adjustment. The relatively high level of the current account deficit projected in the medium term and the need to maintain fiscal flexibility justify the implicit balanced budget rule. The latter would require proceeding cautiously with tax cuts and reducing current expenditures further so as to accommodate higher spending associated with EU accession, notably for public investment. However, delays in implementing reforms would make it increasingly difficult to restructure expenditures and would increase pressure to loosen fiscal policy.

86. **The EU accession poses challenges to the MTFF**. Until 2006, EU pre-accession related spending would not prevent achieving a balanced budget. From 2007, however, the large gap between transfers from the EU and spending related to the adoption of the *acquis communautaire* would entail difficult policy choices with regard to prioritization of expenditures. The implicit fiscal rule underlying the MTFF would call for efforts in advance of EU accession to create the needed fiscal room, notably through expediting reforms.

87. **Fiscal sustainability in the medium term appears strong**. An overall balanced budget and strong growth would ensure favorable public debt dynamics. Even under extreme conditions, the public debt-to-GDP would continue to decline to levels well below the Maastricht criterion of 60 percent by 2009. Debt management operations contemplated by the authorities would further improve the composition of public debt and reduce risks.

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IV. BULGARIA—FSAP FOLLOW-UP[40]

88. **For financial surveillance purposes, a follow-up of the 2001/02 FSAP was conducted during the 2004 Article IV consultation mission**. The main purpose of this work was to assess the vulnerability of the financial sector in light of recent developments, in particular fast credit growth, and examine how these developments may alter the risk profile of Bulgaria's financial sector in the near future. In addition, the FSAP follow-up presents a factual description of the main measures that the authorities have taken in response to FSAP recommendations in the banking and nonbanking sectors. A summary table that lists the main FSAP recommendations (see IMF Country Report No. 02/188) and steps taken by the authorities to implement the recommendations is presented in Appendix I.

A. Financial Sector Vulnerability Assessment

Recent developments in the banking sector

89. **Overall, the banking sector, which represents over 90 percent of total financial sector assets, continues to operate in an environment of high capital, profitability and liquidity levels.** The stability of Bulgaria's banking system is further supported by four main contributing factors: (i) a strong supervisory and regulatory framework; (ii) the dominance of a core group of large, highly liquid and capitalized, and mostly foreign-owned banks, which perform their activities under close scrutiny from their parent company; (iii) a fully privatized banking system, with the exception of two small banks which, together, represent less than 3 percent of total banking sector assets; and (iv) relatively traditional scope of banking activities, where most of the risk continues to be concentrated in credit risk and related areas. The structure of the financial sector is presented in Table 1.

90. To assess the soundness of individual financial institutions, the BNB Banking Supervision Department (BSD) divides the banks into three groups: Group I, comprising of the 10 biggest banks; Group II, composed of the other 19 medium and small banks; and Group III, including the six branches of foreign banks. The BSD no longer differentiates between its now ten local and 25 foreign-owned banks, as was the case at the time of the FSAP. According to the BSD, this differentiation is no longer relevant for analytical purposes, as asset size seems to represent a better proxy for characterizing a bank's risk management or investment strategy than its ownership structure.

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[40] Prepared by Andrea M. Maechler.

Table 1. Bulgaria. Financial Sector Structure, 1999-2003

	1999	2000	2001	2002	2003
			(Number of institutions)		
Banks	35	35	35	34	35
Foreign-owned banks	20	23	25	24	25
Domestic banks	15	12	10	10	10
Private banks	8	8	6	7	8
Public banks	7	4	4	3	2
Group I (large banks)	7	8	9	10	10
Group II (medium & small banks)	21	19	19	18	19
Group III (foreign branches)	7	8	7	6	6
Non-bank financial institutions					
Securities firms	76	69	65	70	67
Finance companies	48	62	63	67	81
Collective investment schemes 1/	6	4	3	4	5
Insurance companies 5/	30	32	32	32	31
General (non-life) insurance	18	20	20	20	20
Life insurance	12	12	12	12	11
Pension funds 2/ 3/ 5/	-	9	8	8	8
			(Assets in millions of leva)		
Total financial sector	8,810.9	10,563.6	13,138.9	15,754.4	18,785.5
Banks	8,186.0	9,774.0	12,221.0	14,557.0	17,324.0
Group I (large banks)	5,750.0	7,017.0	8,722.0	10,746.0	12,716.0
Group II (medium & small banks)	1,925.0	2,012.0	2,506.0	2,924.0	3,679.0
Group III (foreign branches)	511.0	745.0	993.0	887.0	929.0
Nonbank financial institutions	624.9	789.6	917.9	1,197.4	1,461.5
Securities firms 4/ 6/	-	-	-	-	183.6
Finance companies	70.8	73.7	26.9	27.0	24.3
Collective investment schemes 6/	16.2	10.8	10.7	13.0	18.0
Insurance companies 5/ 6/	538.0	618.6	691.0	820.0	750.1
General (non-life) insurance	349.7	422.1	462.3	571.9	495.9
Life insurance	188.3	196.5	228.7	248.1	254.2
Pension funds 2/ 3/ 5/ 6/	-	86.6	189.3	337.4	485.5
Of *which* : mandatory	-	-	-	41.7	93.7
Of *which* : occupational	-	-	51.5	95.2	131.4
Of *which* : voluntary	-	-	135.3	195.5	228.4
			(Assets in percent of total)		
Banks	92.9	92.5	93.0	92.4	92.2
Group I (large banks)	65.3	66.4	66.4	68.2	67.7
Group II (medium & small banks)	21.8	19.0	19.1	18.6	19.6
Group III (foreign branches)	5.8	7.1	7.6	5.6	4.9
Nonbank financial institutions	7.1	7.5	7.0	7.6	7.8
Securities firms 4/					1.0
Finance companies	0.8	0.7	0.2	0.2	0.1
Collective investment schemes	0.2	0.1	0.1	0.1	0.1
Insurance companies 5/	6.1	5.9	5.3	5.2	4.0
General (non-life) insurance	4.0	4.0	3.5	3.6	2.6
Life insurance	2.1	1.9	1.7	1.6	1.4
Pension funds 2/ 3/ 5/	-	0.8	1.4	2.1	2.6
Of *which* : mandatory	-	-	-	0.3	0.5
Of *which* : occupational	-	-	0.4	0.7	0.8
Of which : voluntary	-	-	1.6	1.8	1.8
Memorandum items					
Nominal GDP			29,709.2	32,335.1	34,410.2
In millions of US$			13,599.9	15,565.4	19,866.4
Real GDP (annual growth rate, year-on-year)			4.1	4.9	4.3
Exchange rate US$ (average)			2,184.5	2,077.4	1,732.1

Sources: BNB and FSC.

1/ Under the Bulgarian legislation the CIS are open-end investment companies and closed-end investment companies.

2/ Under the Bulgarian legislation each pension company manages up to 3 pension funds, one fund for mandatory pension insurance, one fund for occupational pension insurance and one fund for voluntary pension insurance. The data refers to the number of pension companies.

3/ The first pension companies in Bulgaria were licensed in 2000.

4/ The Financial Supervision Commission (FSC) has no consolidated data on securities firms for 1999-2002.

5/ The data about the insurance companies for 2003 is as of end-Q3

91. **Group I dominates the banking system, with a market share of approximately 75 percent of total assets, total deposits, total loans, and total capital** (Table 2). Although the market position of the large banks has been increasing slightly, it has remained relatively stable over the last few years. Competition among the three largest banks, at least in the lending market, appears to have increased, with their market share falling from 39 percent to 33 percent between 2000 and 2003. However, this may also suggest that the largest banks have adopted a more prudent lending strategy than some of the smaller banks eager to gain market share.

Financial soundness indicators

92. **Financial soundness indicators suggest that the banking sector remains sound and does not show particular signs of financial stability concerns** (Table 3). In particular:

- Banks continue to be highly capitalized, with an overall capital adequacy ratio of 22 percent at end-2003. This strong capital position is shared by both the largest banks (Group I) and the medium and small banks (Group II).

- The quality of assets remains good. Classified loans (i.e., loans past due over 31 days) as a share of total loans continued to fall, reaching 7.3 percent at end-2003, or almost seven percentage points lower than two years earlier.

- Banks' profitability remains strong, largely due to the expansion of profitable lending activities, which have translated into high net interest income and higher fee and commission income. In 2003, the return on assets reached 2.4 percent, while the return on equity was 21.7 percent.

- Banks' liquidity remains sufficient, although there are signs that the sharp credit growth may have absorbed banks' excess liquidity and that a further credit expansion would require banks to adjust their liquidity management and find new funding sources.

- Although higher than in 2001, foreign currency substitution has remained stable in 2003. The ratio of foreign currency loans (deposits) to total loans (deposits) was 43.6 percent (51.7 percent) at end-2003.

Risk analysis and monitoring

Credit risk

93. **The speed of credit growth, exceeding 50 percent on a twelve-month basis in early 2004, remains the highest concern.** So far, asset quality remains adequate, with nonperforming loans (i.e., past 90 days) continuing their decline and currently standing at 3 percent of total loans, in contrast to 6 percent at end-2001 (Table 4). The loan portfolio

Table 2. Bulgaria. Bank Market Structure, 1999-2003
(number, in millions of leva)

	1999	2000	2001	2002	2003
	(In millions of leva unless indicated otherwise)				
Banking system					
Total assets	8,186	9,774	12,221	14,557	17,324
of which: three largest banks	4,242	4,874	5,634	6,296	7,018
Total deposits	6,112	7,116	9,555	11,282	13,594
of which: three largest banks	3,168	3,645	4,598	5,027	5,696
Total private credit	1,928	2,659	3,475	4,926	9,351
of which: three largest banks	372	614	784	1,194	3,238
Capital and reserves	1,283	1,500	1,655	1,936	2,281
of which: three largest banks	701	792	811	964	1,138
Number of institutions	35	35	35	34	35
Group I (large banks)					
Total assets	5,749	7,017	8,722	10,746	12,716
Total deposits	4,389	5,335	7,006	8,425	10,188
Total private credit	964	1,337	1,922	3,287	6,831
Capital and reserves	910	1,081	1,215	1,465	1,739
Number of institutions	7	8	9	10	10
Group II (medium & small banks)					
Total assets	1,925	2,012	2,506	2,924	3,679
Total deposits	1,319	1,247	1,791	2,077	2,567
Total private credit	725	888	971	1,081	1,926
Capital and reserves	363	399	412	438	511
Number of institutions	21	19	19	18	19
Group III (foreign branches)					
Total assets	511	745	993	887	928
Total deposits	404	534	758	780	839
Total private credit	240	434	582	557	594
Capital and reserves	10	20	28	33	31
Number of institutions	7	8	7	6	6
	(In percent of total banking sector)				
3 largest banks					
Total assets	51.8	49.9	46.1	43.3	40.5
Total deposits	74.7	72.8	78.2	77.5	78.5
Total private credit	38.7	37.3	37.6	34.5	32.9
Capital and reserves	23.6	27.2	28.4	33.8	54.0
Group I (large banks)					
Total assets	70.2	71.8	71.4	73.8	73.4
Total deposits	71.8	75.0	73.3	74.7	74.9
Total private credit	50.0	50.3	55.3	66.7	73.1
Capital and reserves	70.9	72.1	73.4	75.7	76.2
Group II (medium & small banks)					
Total assets	23.5	20.6	20.5	20.1	21.2
Total deposits	21.6	17.5	18.7	18.4	18.9
Total private credit	37.6	33.4	27.9	21.9	20.6
Capital and reserves	28.3	26.6	24.9	22.6	22.4
Group III (foreign branches)					
Total assets	6.2	7.6	8.1	6.1	5.4
Total deposits	6.6	7.5	7.9	6.9	6.2
Total private credit	12.4	16.3	16.7	11.3	6.4
Capital and reserves	0.8	1.3	1.7	1.7	1.4

Source: BNB

Table 3. Bulgaria. Financial Soundness Indicators, 1999–2003

	1999			2000			2001			2002			2003		
	Large	Medium and small	Total	Large	Medium and small	Total	Large	Medium and small	Total	Large	Medium and small	Total	Large	Medium and small	Total
Core Indicators															
Capital Adequacy															
Capital to risk-weighted assets	44.0	37.3	41.8	36.6	33.3	35.6	30.8	32.6	31.3	24.3	28.3	25.2	21.8	22.8	22.0
Tier 1 capital to risk-weighted assets	30.1	31.2	30.5	23.8	28.3	25.1	20.3	26.8	22.0	15.2	23.4	17.1	13.3	18.1	14.4
Asset Quality															
Nonperforming loans to total gross loans	22.5	7.4	14.8	11.3	6.8	8.8	5.9	7.7	6.1	3.6	5.5	3.7	3.2	3.9	3.2
Nonperforming loans net of provisions to capital	7.6	5.6	7.0	2.1	3.6	2.5	1.5	4.9	2.4	2.1	4.4	2.7	3.0	3.3	3.1
Commercial loans to total loans	89.0	97.8	93.3	72.1	96.9	82.5	70.8	95.8	80.8	74.5	93.8	80.4	70.3	95.0	77.2
Large exposures to capital	46.9	163.8	81.3	37.3	125.9	61.8	44.2	102.3	60.4	86.2	107.8	91.7	77.8	148.3	94.7
Earnings and Profitability															
Return on assets	3.2	1.3	2.7	3.8	1.3	3.1	3.7	1.0	2.9	2.5	1.1	2.1	2.7	1.6	2.4
Return on equity	23.4	7.3	18.8	28.4	7.2	22.5	27.5	5.6	22.0	19.7	6.6	16.4	25.2	11.6	21.7
Net interest income to gross income	49.1	66.8	53.0	43.5	60.3	47.5	46.8	62.6	50.0	57.1	47.3	55.5	66.5	60.5	64.4
Noninterest expense to gross income	57.6	90.9	65.1	45.8	82.5	53.8	48.0	100.2	56.9	58.3	83.2	64.1	57.3	76.7	61.4
Personnel expense to total income	26.0	32.3	26.9	20.6	30.6	22.4	19.5	39.5	22.4	23.0	32.9	24.8	21.7	30.4	23.1
Trading and fee income to total income 1/	30.3	20.8	28.2	21.0	23.5	21.8	19.1	35.7	21.8	23.2	30.7	24.7	30.4	41.1	32.6
Liquidity															
Liquid assets to total assets 2/	68.5	53.0	63.2	59.6	39.1	54.2	51.5	40.8	47.9	41.8	37.6	40.3	25.7	35.3	27.5
Liquid assets to short-term liabilities 3/	89.8	77.3	84.7	76.7	51.8	69.8	63.4	51.8	58.8	51.0	47.6	49.2	31.2	43.3	33.2
Encouraged Indicators 4/															
Deposit-taking institutions															
Capital to assets	14.6	17.9	15.4	14.1	18.8	15.2	12.6	17.1	13.6	12.1	15.1	12.8	13.0	14.1	13.2
Trading income to total income	-	-	-	-	-	-	-	-	-	-	-	-	2.4	7.7	3.5
Personnel expenses to noninterest expenses	45.1	35.5	41.3	45.1	37.1	41.7	40.6	39.4	39.3	39.4	39.5	38.7	37.8	39.6	37.6
Spread between reference lending and deposit rate in leva	-	-	9.2	-	-	8.9	-	-	9.8	-	-	7.0	-	-	6.4
Spread between reference lending and deposit rate in euro	-	-	5.9	-	-	8.3	-	-	5.8	-	-	7.2	-	-	4.7
Customer deposits to total (non-interbank) loans	249.4	124.6	194.6	255.0	103.1	187.4	241.4	133.0	191.7	173.7	132.4	157.2	71.4	91.1	77.4
Foreign currency denominated loans to total loans	14.4	59.4	35.1	19.5	56.3	35.8	25.8	54.3	36.8	39.3	54.8	43.9	39.1	51.9	43.6
Foreign currency denominated liabilities to total liabilities	47.8	64.9	54.0	51.9	55.8	54.8	58.0	55.9	58.2	57.1	51.2	56.6	52.2	54.3	51.7
Net open position in equities to capital	1.2	0.5	1.0	1.5	0.7	1.3	1.7	3.1	2.1	1.1	2.5	1.5	0.7	4.0	1.5

Sources: BNB Banking Supervision Department and Credit Registry.

1/ Only fee and commission income until end 2002.

2/ Marketable assets to total assets, where marketable assets include cash, interbank demand deposits, interbank time deposits with less than 30 days maturity, trading assets, repos and exclude pledged assets and classified bank claims.

3/ Marketable assets to attracted fund, where attracted funds are total liabilities minus trading liabilities, hedging derivatives, off-balance sheets provisions and "other" liabilities).

4/ No capital for branches.

quality is significantly worse in the medium and small banks (where 12 percent of loans are classified) than in the Group I banks and three largest banks, where classified loans represent, respectively, 6 percent and less than 1 percent of their loan portfolio. Large exposures remain well below the prudential limits and the BSD monitors their development closely, with a particular focus on the quality of loans above BGN 1 million and BGN 20 million. At the system's level, there does not seem to be excessive overexposure to particular economic sectors or foreign currency. The sectoral composition of loans appears to be well diversified and the currency composition of bank lending is shifting slowly toward the domestic currency (Tables 5a and 5b).[41]

94. **This relatively favorable risk assessment reflects partly banks' sound credit screening and risk management practices and the BSD's strict and efficient supervisory framework.** As was noted in the FSAP report, in some areas the regulatory framework applies relatively stricter standards than those of many other countries, as in the case of provisioning and loan classification. Furthermore, the BSD has recently strengthened its monitoring, with more frequent full and targeted on-site inspections, new reporting requirements for the most aggressive lenders, and in-depth monthly off-site analysis of the risk profiles of these higher-risk banks.

95. **Nevertheless, credit developments need to be monitored closely.** Asset quality is a backward-looking indicator that does not provide early warning signals for the emergence of potential problems. The transmission mechanism between loan growth and loan quality tends to be particularly slow when credit expands rapidly, as is the case in Bulgaria, often creating a false sense of optimism regarding the soundness of banks' loan portfolio. Furthermore, credit expansion was strongest in new markets, such as consumer and mortgage lending (Table 6). If sustained, these developments could give rise to new sources of vulnerabilities.

Foreign exchange risk

96. **The foreign exchange risk remains low but could rise if the envisaged liquidity-reducing measures were to induce capital inflows**. The total net open currency position of the banking system is short (6 percent), at a level which remains well within the limits of sound prudential requirements (Table 7). The prudential limit on net open foreign currency positions, however, excludes euro positions.[42] This exclusion may have seemed reasonable

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[41] According to the BNB credit registry, which currently includes all loans above BGN 10,000.

[42] At end-2003, for example, 11 (6) banks had net long (short) positions in euro in excess of prudential limits.

Table 4. Bulgaria. Quality of Banks' Loan Portfolio, 1999-2003

	1999	2000	2001	2002	2003
	(in millions of leva)				
Total	2,464	3,375	4,491	6,383	9,372
Standard	1,805	2,788	3,857	5,759	8,689
Watch 1/	229	218	278	290	288
Sub-standard 2/	53	101	95	99	100
Nonperforming (past 90 days)	377	268	262	237	295
Doubtful 3/	80	69	59	53	63
Loss 4/	297	199	203	184	232
3 largest banks	629	1,189	1,512	2,194	3,240
Standard	513	1,063	1,392	2,104	3,131
Watch 1/	53	51	40	31	29
Sub-standard 2/	18	24	22	5	8
Nonperforming (past 90 days)	45	51	58	53	72
Group I (big banks)	1,469	1,984	2,792	4,591	6,849
Standard	1,009	1,651	2,474	4,236	6,409
Watch 1/	120	111	115	153	173
Sub-standard 2/	28	36	52	35	48
Nonperforming (past 90 days)	312	187	151	167	219
Group II (medium and small banks)	690	956	1,062	1,199	1,929
Standard	546	754	791	998	1,705
Watch 1/	62	103	150	70	98
Sub-standard 2/	22	26	38	60	51
Nonperforming (past 90 days)	60	73	83	71	75
Group III (Foreign branches)	303	435	639	594	595
Standard	249	383	592	526	575
Watch 1/	48	4	14	66	17
Sub-standard 2/	2	40	5	2	2
Nonperforming (past 90 days)	4	8	27	0	1
	(in percent of total loans)				
Total	100.0	100.0	100.0	100.0	100.0
Standard	73.3	82.6	85.9	90.2	92.7
Watch 1/	9.3	6.5	6.2	4.5	3.1
Sub-standard 2/	2.2	3.0	2.1	1.6	1.1
Nonperforming (past 91 days)	15.3	7.9	5.8	3.7	3.1
Doubtful 3/	3.2	2.0	1.3	0.8	0.7
Loss 4/	12.1	5.9	4.5	2.9	2.5
Nonstandard loans minus LLR to capital	28.1	23.4	26.0	22.4	22.9
Large exposures to capital	81.7	89.1	99.5	139.6	144.7
3 largest banks					
Standard	20.8	31.5	31.0	33.0	33.4
Watch 1/	2.2	1.5	0.9	0.5	0.3
Sub-standard 2/	0.7	0.7	0.5	0.1	0.1
Nonperforming (past 90 days)	1.8	1.5	1.3	0.8	0.8
Group I (big banks)					
Standard	40.9	48.9	55.1	66.4	68.4
Watch 1/	4.9	3.3	2.6	2.4	1.8
Sub-standard 2/	1.1	1.1	1.2	0.5	0.5
Nonperforming (past 90 days)	12.7	5.5	3.4	2.6	2.3
Group II (medium and small banks)					
Standard	22.2	22.3	17.6	15.6	18.2
Watch 1/	2.5	3.1	3.3	1.1	1.0
Sub-standard 2/	0.9	0.8	0.8	0.9	0.5
Nonperforming (past 90 days)	2.4	2.2	1.8	1.1	0.8
Group III (Foreign branches)					
Standard	10.1	11.3	13.2	8.2	6.1
Watch 1/	1.9	0.1	0.3	1.0	0.2
Sub-standard 2/	0.1	1.2	0.1	0.0	0.0
Nonperforming (past 90 days)	0.2	0.2	0.6	0.0	0.0

Source: BNB.

1/ Past due 31-60 days.

2/ Past due 61-90 days.

3/ Past due 91-120 days.

4/ Past due over 120 days.

5/ General provision - on a portfolio basis, as well as for country risk according IAS since 2003

6/ Specific provisions - as a result of impairment

7/ Definition of large exposures - see T7.

Table 5a. Bulgaria. Sectoral Distribution of Commercial Banks' Loans Registered in the Credit Registry. 1/
(in millions of leva)

	2002 Total	2002 Percent	2003 Total	2003 Percent	Annual percent change
Consumer loans 2/	208.3	2.1	845.6	7.3	333.23
Agriculture and forestry	194.3	2.0	311.7	2.7	84.40
Mining	301.0	3.1	245.0	2.1	-19.31
Manufacturing	1,808.8	18.3	2,239.6	19.4	31.63
Energy and energy resources	211.8	2.1	423.0	3.7	178.07
Building	283.0	2.9	421.3	3.6	73.88
Trade, maintenance and technical equipment	2,197.2	22.3	3,365.1	29.1	63.38
Hotels and restaurants	335.1	3.4	434.3	3.8	18.05
Transport, warehousing and communications	466.6	4.7	356.3	3.1	-25.40
Financial intermediaries	1,861.9	18.9	544.8	4.7	-55.59
Real estate	129.2	1.3	194.1	1.7	36.68
State government and defense	56.7	0.6	47.2	0.4	-4.89
Education	1.4	0.0	2.0	0.0	33.98
Healthcare and social activities	51.5	0.5	60.5	0.5	58.11
Other activities	1,683.0	17.1	2,006.8	17.3	23.91
Exterritorial organizations and agencies	74.6	0.8	75.2	0.6	14.41
TOTAL	9,864.5	100.0	11,572.5	100.0	32.27

Source: BNB Credit Registry.

Table 5b. Bulgaria. Currency Breakdown of Commercial Banks' Loans Registered in the Credit Registry 1/
(in millions of leva)

	2002 Total	2002 Percent	2003 Total	2003 Percent	Annual percent change
Bulgarian Lev	4,424	44.8	6,012	52.0	46.50
Euro	3,612	36.6	4,057	35.1	41.11
US Dollar	1,799	18.2	1,461	12.6	-21.20
Swiss Francs	13	0.1	13	0.1	-59.22
British Pound	16	0.2	30	0.3	103.84
TOTAL	9,864	100.0	11,572	100.0	32.27

Source: BNB Credit Registry.

1/ All loans above 10,000 leva are to be registered in the Credit Registry.

2/ Information from banks on consumer loans (less than 10,000 leva).

Table 6. Bulgaria. Commercial Banks' Credit Structure, 1999-2003. 1/

	1999	2000	2001	2002	2003
			(In millions of leva)		
By maturity	2,819	3,289	4,375	6,251	9,200
up to 1 year	1,157	1,202	1,516	2,046	2,374
of which : in foreign currency	501	419	563	782	1,074
over 1 year up to 5 years 2/ 3/	1,331	1,636	2,218	3,173	5,172
of which : in foreign currency	502	567	723	1,298	2,037
over 5 years	331	451	641	1,032	1,654
of which : in foreign currency	125	194	289	561	873
By borrower type	2,820	3,287	4,375	6,251	9,200
of which : in foreign currency	1,128	1,180	1,575	2,641	3,984
Nonfinancial corporations	2,281	2,645	3,389	4,774	6,575
of which : in foreign currency	1,107	1,140	1,485	2,472	3,639
Nonbank financial corporations 4/	17	24	52	92	123
of which : in foreign currency	14	21	44	70	122
Households 4/	522	618	934	1,385	2,497
of which : in foreign currency	8	20	46	100	218
By sector	2,818	3,285	4,368	6,229	9,121
Commercial loans 5/	2,297	2,670	3,441	4,866	6,698
Consumer loans	427	471	684	960	1,675
Housing mortgage to households	84	106	154	233	399
Other loans	10	38	89	170	349
			(In percent of total credit)		
In foreign currency	40.0	35.9	36.0	42.2	43.3
By maturity	100.0	100.0	100.0	100.0	100.0
up to 1 year	41.0	36.5	34.7	32.7	25.8
over 1 year up to 5 years 2/ 3/	47.2	49.7	50.7	50.8	56.2
over 5 years	11.7	13.7	14.7	16.5	18.0
By borrower type					
Nonfinancial corporations	80.9	80.5	77.5	76.4	71.5
Nonbank financial corporations 4/	0.6	0.7	1.2	1.5	1.3
Households 4/	18.5	18.8	21.3	22.2	27.1
By sector					
Commercial loans 5/	81.5	81.3	78.8	78.1	73.4
Consumer loans	15.2	14.3	15.7	15.4	18.4
Housing mortgage to households	3.0	3.2	3.5	3.7	4.4
Other loans	0.4	1.2	2.0	2.7	3.8
			(Annual percent growth)		
By maturity		16.6	33.1	42.9	47.2
up to 1 year		3.9	26.1	35.0	16.0
over 1 year up to 5 years 2/ 3/		22.9	35.6	43.1	63.0
over 5 years		0.6	0.5	0.9	0.6
By borrower type					
Nonfinancial corporations		16.0	28.1	40.9	37.7
Nonbank financial corporations 4/		41.2	116.7	76.9	33.7
Households 4/		18.4	51.1	48.3	80.3
By sector					
Commercial loans 5/		16.2	28.9	41.4	37.6
Consumer loans		10.3	45.2	40.4	74.5
Housing mortgage to households		26.2	45.3	51.3	71.2
Other loans		280.0	134.2	91.0	105.3
Memorandum items:	(In millions of leva, unless otherwise indicated)				
Deposits of nonfinancial private sector	5,129	6,063	8,162	9,369	11,132
Credit to deposit ratio	55.0	54.2	53.6	66.7	82.6
Deposit to asset ratio	62.7	62.0	66.8	64.4	64.3
Credit to asset ratio	34.4	33.7	35.8	42.9	53.1
Total domestic credit 6/	5,094	5,329	7,003	9,768	13,134
in percent of GDP			14.7	19.3	26.7

Source: BNB.

1/ Data obtained from banks' analytical accounts including loans to non-bank financial corporations, nonfinancial corporations and households.

2/ Includes all long-term credits which are overdue.

3/ For 1999-2002 repurchase agreements are part of credits. Starting January 2003, repos reported in separate 'Repurchase agreements' item.

4/ For 1999-2002, NPISHs were included in households.

5/ Includes all loans to nonfinancial corporations and nonbank financial corporations.

6/ Includes loans to general government, commercial banks, nonfinancial corporations, nonbank financial corporations, households and NPISHs.

Table 7. Bulgaria. Prudential Ratio Requirements, December 2003
(In percent unless specified otherwise)

	Required	Actual			
		Total	Group 1	Group II	Group III
Open foreign currency positions of banks 1/					
Net open position	up to 30	-5.82	-5.87	-1.86	-
Open position in any particular currency	up to 15	-	-	-	-
Big exposures of commercial banks 2/					
Exposure to one person	up to 25	-	-		
Total big exposures	up to 800	94.69	77.77	148.32	-
Capital adequacy of banks 3/					
Total capital adequacy ratio	min 12	22.97	22.64	24.11	-
Primary capital adequacy ratio	min 6	15.59	14.46	19.42	-
Assets coverage ratio	min 6	13.41	12.92	15.23	-
Minimum equity capital base at any time	min 10 mln.				
Investment in fixed tangible assets 4/					
Investment in fixed tangible assets	max. 50	26.83	27.7	24	-
Investment in fixed tangible assets plus stakes in nonbanks	max.100	28.74	28.78	28.61	-
Connected lending 5/					
Loans to connected persons	up to 10	-	-	-	-
Loans to employees	up to 3	-	-	-	-
Liquidity of commercial banks 6/	-	25.48	25.72	27.77	14.19
High liquidity asset ratios (share of deposits) 7/					
Primary liquidity 8/	-	11.98	11.35	15.08	10.23
Secondary liquidity 9/	-	25.48	25.72	27.77	14.19

Source: BNB

1/ Regulation 4 of BNB. In percent of capital base. Excluding foreign exchange position in euros.

2/ Regulation 7 of BNB. In percent of capital base.

3/ Regulation 8 of BNB. In percent of capital base.

4/ Article 30 of Banking Law. In percent of equity base. Reporting requirement included in Reg. 7.

5/ Article 47 of Banking Law. In percent of capital base. Reporting requirement included in Reg. 7.

6/ Regulation 11 of BNB. No required liquid assets to total assets ratio. Only detailed reporting requirements.

7/ As share of deposits. These indicators are part of government securities primary dealer selection mechanism (23 out of 35 banks as of March 2004).

8/ Cash / total attracted funds, where total attracted funds include total liabilities minus trading liabilities, hedging derivatives and off-balance sheet provisions.

9/ Liquid assets / total attracted funds, where liquid assets include cash, interbank demand deposits, interbank time deposits with maturity less than 30 days, trading assets, repos and exclude pledged assets and classified bank claims.

so far, given that the system has been enjoying a comfortable long position in euros. But if banks are to sustain further credit growth, as they are planning to do, they will need to attract new resources, including from abroad. With the exclusion of euro positions from the prudential open foreign currency position limit, it is possible that they will try to fulfill their liquidity demand disproportionately with euro-denominated borrowing. It is important that the BSD monitors these developments closely.

Interest rate risk

97. **Interest rate risk remains moderate, although it is likely to increase somewhat with the observed maturity lengthening of banks' balance sheets and limited shift to fixed interest rate contracts**. These developments are largely related to banks' increasing desire to provide longer-term mortgage lending to households. At present, however, the risks are well contained as these developments remain limited in magnitude.

Liquidity risk

98. **The system's exposure to liquidity risk remains low but could rise slightly with the introduction of new credit products, which may change the maturity structure of banks' balance sheets.** Currently, the BSD does not require banks to satisfy a particular liquid asset ratio, although it monitors closely banks' liquidity positions through a detailed reporting system. This may have been satisfactory practice so far, given that banks enjoyed ample liquidity and were able to fund their short-term lending activities with their short-term (but stable) deposit base. But as banks are increasingly extending longer-term credit, their balance sheets are likely to exhibit a widening maturity mismatch, which will need to be monitored closely and, if necessary, regulated.

99. **Some liquidity indicators suggest that the recent credit boom has been reducing slowly banks' excess loanable funds** (Table 8). The credit to deposit ratio, for example, rose by almost 30 percentage points in three years, reaching 83 percent at end-2003. Similarly, banks' net foreign asset position fell from 31 percent of total assets at end-2001 to 8 percent at end-2003, where it seems to have stabilized in early 2004, suggesting that banks have little room to further fund their planned credit expansion by drawing down their deposits held abroad. As domestic deposit growth is not likely to expand much beyond the current 20 percent as of end-2003 (Table 9), banks will need to adopt new funding strategies, including borrowing from abroad. One possible strategy, especially for longer-term credit, is to issue mortgage bonds.[43] So far, only a few such mortgage bond issuances has taken place

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[43] In 2001, a special mortgage law was passed to establish the regulatory framework for the securitization of (highly collateralized) mortgage loans through special purpose vehicles (SPVs).

Table 8. Bulgaria. Loanable Resources of Commercial Banks, 1999-2003

	1998 Dec.	1999 Dec.	2000 Dec.	2001 Dec.	2002 Dec.	2003 Dec.	2004 Jan.
	(In millions of leva unless specified otherwise)						
Net foreign assets	2,247.4	2,570.0	3,534.7	3,968.5	2,909.5	1,504.3	1,886.5
Cash	92.8	162.4	131.6	409.4	185.0	238.7	203.2
Net deposits	2,075.9	2,180.6	3,207.6	3,184.3	2,209.1	878.5	1,166.6
Net credits	14.6	-71.8	-146.6	-219.4	-221.8	-406.3	-380.7
Securities other than shares	60.8	297.5	341.1	594.0	737.0	807.0	911.3
Shares and other equity	3.3	1.2	0.9	0.3	0.3	2.5	2.2
Debt securities issued	0.0	0.0	0.0	0.0	0.0	-16.1	-16.1
Reserves	643.8	745.3	598.1	864.4	1,071.2	1,388.2	897.7
Total domestic credit 1/	2,322.7	2,821.6	3,290.4	4,380.0	6,259.2	9,327.8	9,570.0
Total assets	8,310.3	8,858.7	10,362.0	12,852.7	15,155.9	18,097.8	18,289.0
Total deposits 2/	4,482.3	4,999.0	5,914.4	8,026.0	9,234.4	10,708.2	10,859.4
Total liabilities	8,310.3	8,858.7	10,362.0	12,852.7	15,155.9	18,097.8	18,289.0
	(In annual percentage change)						
Net foreign assets (NFA)		14.4	37.5	12.3	-26.7	-48.3	-
Cash		75.1	-19.0	211.0	-54.8	29.0	-
Net deposits		5.0	47.1	-0.7	-30.6	-60.2	-
Net credits		-590.6	104.2	49.7	1.1	83.1	-
Securities other than shares		389.0	14.6	74.2	24.1	9.5	-
Shares and other equity		-64.1	-24.1	-68.9	-3.9	838.7	-
Debt securities issued		-	-	-	-	-	-
Reserves		15.8	-19.8	44.5	23.9	29.6	-
Total domestic credit 1/		21.5	16.6	33.1	42.9	49.0	-
Total assets		6.6	17.0	24.0	17.9	19.4	-
Total deposits		11.5	18.3	35.7	15.1	16.0	-
Total liabilities		6.6	17.0	24.0	17.9	19.4	-
Memorandum items:							
NFA (in percent of total assets)	27.0	29.0	34.1	30.9	19.2	8.3	10.3
Foreign currency domestic credit (in percent of domestic credit)	39.2	40.0	35.9	36.0	42.2	43.4	44.1
Foreign currency deposits (in percent of total deposits)	52.5	52.0	53.7	56.7	53.3	49.9	50.9
Domestic credit to total assets	27.9	31.9	31.8	34.1	41.3	51.5	52.3
Domestic credit to total deposits	51.8	56.4	55.6	54.6	67.8	87.1	88.1

Source: BNB.

1/ Excluding interbank credits.

2/ Excluding interbank deposits.

Table 9. Bulgaria. Deposit Structure, 1999-2003 1/

	1999	2000	2001	2002	2003 Est.
			(In millions of leva)		
Total deposits	6,252	7,457	9,943	11,684	14,065
of which : foreign-currency	3,488	4,190	5,822	6,618	7,472
Owners of deposits	6,252	7,457	9,943	11,684	14,064
Residents	5,918	6,910	9,246	10,790	12,625
Financial institutions	367	459	547	750	568
General government	322	313	457	580	927
Nonfinancial corporations	2,169	2,337	2,905	3,410	3,884
Financial corporations	61	141	203	237	312
Households 2/	2,899	3,585	5,054	5,722	6,840
NPISHs					96
Nonresidents	334	547	697	894	1,439
of which : EU residents	-	-	-	-	572
Type of deposits	6,253	7,457	9,943	11,683	14,065
Overnight deposits	2,037	2,386	2,997	3,464	4,361
Deposits redeemable at notice, up to 3 months	816	961	1,250	1,398	1,647
Deposits with agreed maturity, up to 2 years 3/	3,311	3,909	5,405	6,424	7,371
Deposits with agreed maturity, over 2 years 3/	89	201	291	397	686
			(Annual percent growth)		
Total deposits		19.3	33.3	17.5	20.4
of which : foreign-currency		20.1	38.9	13.7	12.9
Owners of deposits					
Residents		9.9	23.4	15.4	18.4
Financial institutions		25.1	19.2	37.1	-24.3
General government		-2.8	46.0	26.9	59.8
Nonfinancial corporations		7.7	24.3	17.4	13.9
Financial corporations		131.1	44.0	16.7	31.6
Households 2/		23.7	41.0	13.2	19.5
Nonresidents		63.8	27.4	28.3	61.0
Type of deposits					
Overnight deposits		17.1	25.6	15.6	25.9
Deposits redeemable at notice, up to 3 months		17.8	30.1	11.8	17.8
Deposits with agreed maturity, up to 2 years 3/		18.1	38.3	18.9	14.7
Deposits with agreed maturity, over 2 years 3/		125.8	44.8	36.4	72.8
Total deposits			(In percent of total deposits)		
of which : foreign-currency	55.8	56.2	58.6	56.6	53.1
Owners of deposits					
Residents	94.7	92.7	93.0	92.3	89.8
Financial institutions	5.9	6.2	5.5	6.4	4.0
General government	5.2	4.2	4.6	5.0	6.6
Nonfinancial corporations	34.7	31.3	29.2	29.2	27.6
Financial corporations	13.2	11.6	8.0	7.5	6.3
Households 2/	46.4	48.1	50.8	49.0	48.6
NPISHs	0.0	0.0	0.0	0.0	0.7
Nonresidents	5.3	7.3	7.0	7.7	10.2
Type of deposits					
Overnight deposits	32.6	32.0	30.1	29.6	31.0
Deposits redeemable at notice, up to 3 months	13.0	12.9	12.6	12.0	11.7
Deposits with agreed maturity, up to 2 years 3/	53.0	52.4	54.4	55.0	52.4
Deposits with agreed maturity, over 2 years 3/	1.4	2.7	2.9	3.4	4.9

Source: BNB.

1) Data are obtained from commercial banks' analytical accounts.

2) For 1999-2002 NPISHs are included in households.

3) Includes time deposits, restricted deposits (deposits, withdrawals of which are restricted on the basis of legal, regulatory, commercial or other requirements) and credits received.

and for an insignificant amount. According to the BSD, six banks have organized a total of 11 such issues, for an amount equivalent to BGN 118 million, or 7 percent of banks' total investment portfolio. The typical maturity of these bonds is three years and over half of the amount issued was denominated in euros. The authorities will need to monitor closely these developments, including the structure of banks' balance sheets.

Market risk

100. **Market risk remains limited as banks' investment portfolio is dominated by government and first grade foreign securities (representing 72 percent of total investment). Banks do not conduct off-balance sheet financial operations for hedging purposes, such as swaps or derivatives**. In the case of foreign-owned banks, these activities are often strictly limited by their parent companies, which prefer to conduct their more complex risk management activities (such as VAR models) from their headquarters. Most of banks' off-balance sheet operations consist of traditional activities, such as credit substitutes and other commitments, which accounted for almost 20 percent of banks' total assets at end-2003.

101. **In line with new EU regulations, the BSD is planning to develop its ability to assess banks' sensitivity to market risk.** In particular, it plans to hire additional staff with special market risk expertise and improve the quality of information collected from banks on this topic. Consistent with FSAP recommendations, the BSD has already hired one additional information technology (IT) specialist to assess banks' IT-based risk management framework and, more broadly, monitor the soundness of IT developments in Bulgaria's banking environment. However, given the scope and importance of this task, the BSD may need to hire additional staff.

BSD's stress test results

102. **Stress test results confirm the overall soundness of the banking sector.** The BSD conducts stress tests on individual institutions and the banking sector as a whole on a quarterly basis. The tests are based on the methodology that was applied to the FSAP stress testing exercise and that calibrates shocks equivalent to those experienced during the 1996–97 banking crisis. Overall, the stress test results are consistent with the risk analysis presented above. According to the BSD simulations, a credit shock equivalent to reclassifying 5 percent of standard loans, 30 percent of watch loans, and 50 percent of substandard loans into loss loans would make two banks insolvent and reduce the capital adequacy ratio of four banks below the standard eight percent limit. Overall, however, the system would be able to absorb the shock, as its capital adequacy ratio would fall by 6 percentage points to 16 percent, still well above the international capital adequacy ratio lower limit of 8 percent. In fact, the credit shock would need to be at least twice as large as the one experienced in 1996–97 to threaten the stability of the banking system. Banks' exposure to interest rate risk is smaller than that for credit risk, although it would threaten the soundness of one bank and weaken the financial

standing of two more banks.[44] These results suggest that overall banks are able to weather significant changes in interest rate changes without becoming inadequately capitalized. Banks' exposure to foreign exchange risk remains negligible. A foreign exchange shock equivalent to a one-day 60 percent change in the banks' net open foreign exchange position would reduce the system's capital adequacy ratio by less than one percent.

Compliance with supervisory requirements

103. In 2003, there were isolated cases of deviations from the prudential requirements, in particular with respect to large single exposures (one case) and investment in fixed assets (one case). Other cases of violations were related to inappropriate classification and provisioning of classified loans and large exposures. These non-compliance cases were promptly addressed and did not threaten the stability of the system. Prudential requirements and their actual levels at end-2003 are presented in Table 7.

Supervisory response to credit growth

104. **The authorities' credit reducing strategy will help ensure the soundness of banks' balance sheets but may not prove effective in reducing the speed of credit expansion, at least not to the targeted levels.** In view of recent rapid credit growth expansion, the BSD has launched a stepwise supervisory strategy to slow down credit growth to a range between 20 and 30 percent. Overall, it is not likely that this strategy will achieve this objective. Banks continue to be highly capitalized and exhibit high profit margins and the interest rate margin between lending and deposit rates has been falling progressively, with no sign of immediate trend reversal (Figures 1 and 2). Similarly on the demand side, per capita income and enterprise profits are expected to rise, all of which point to a further sustained private sector demand for credit.

105. **The strategy, which was launched in mid-2003, is composed of three phases**:

Exerting moral suasion. The first phase consisted of exerting moral influence on the banking sector to reduce credit growth, largely through public statements and meetings with banks, especially those exhibiting particularly aggressive lending behavior. The BSD considerably intensified its supervisory activity by increasing the frequency of on-site inspections and conducting targeted reviews of aggressive lenders, including monthly analysis of their loan portfolios. The BSD also started to discuss banks' medium and long-term individual credit strategies and is trying to ensure that these strategies reflect a 20 percent annual growth target. If needed, the BSD will require banks to perform their own stress tests on credit and liquidity risk and report the results to the BSD. So far, stress testing has been conducted in-house at the BSD.

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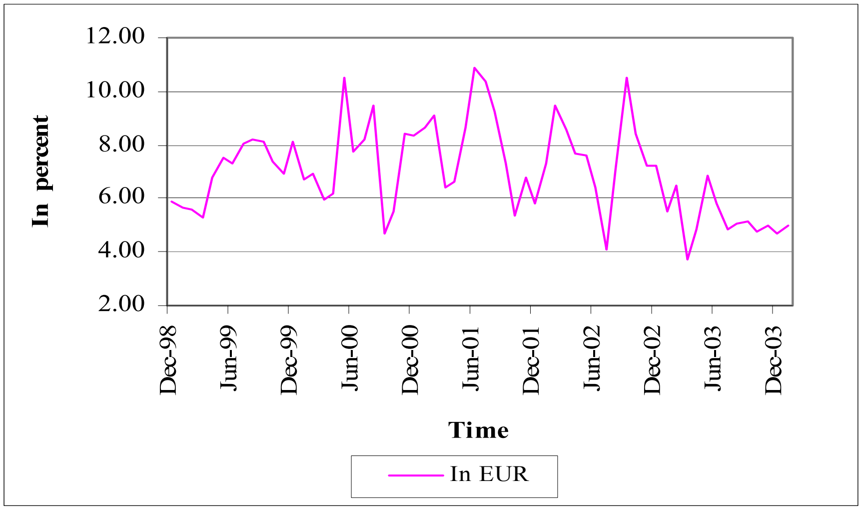
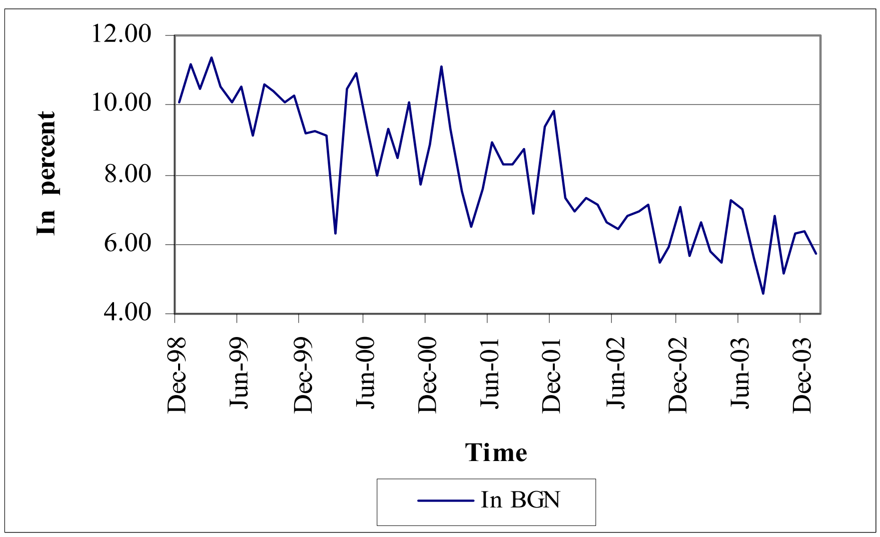
[44] This test is based on a 192 percent daily variation in the interest rate in lev, 2 percent variation in euro and U.S. dollar interest rates, and 5 percent variation in interest rates on other foreign currencies.

Figure 1. Bulgaria. Interest Rate Spread in Euros, 1999–2003 1/



1/ Short-term lending rate minus time deposit rate.

Figure 2. Bulgaria. Interest Rate Spread in Leva, 1999–2003 1/



1/ Short-term lending rate minus time deposit rate.

- **Implementing direct supervisory measures.** As credit growth has not yet shown signs of significant deceleration, the authorities have started to implement the second phase of their strategy, which is based on three direct measures:

Tightening provisioning requirements on classified loans. On April 1, 2004, the BNB raised provisioning requirements for: (i) loans overdue by 61-90 days ("substandard" loans) from 30 percent to 50 percent; and (ii) loans overdue by 91 to 120 days ("doubtful" loans) from 75 percent to 100 percent, bringing them in line with "loss" loans (overdue over 121 days). While these rules are stricter than those applied in many other countries, their impact on banks' capital adequacy may not be significant. Banks tend to overprovision the first category of classified loans (past 30 days), which reduces the impact of higher provisioning requirements, and doubtful loans (for which provisioning requirement was raised from 75 percent to 100 percent) represent less than 1 percent of total loans. According to BSD simulations, these two measures would require a 12 percent increase in provisioning, or the equivalent of 13 percent of end-2003 net profits, which many banks will be able to satisfy without significantly affecting their lending capacity.

- **Strengthening information on retail lending conditions, including on the overall bank indebtedness of particular households.** As of June 2004, the BSD credit registry will register all loans, including retail loans, which were exempted so far under the minimum BGN 10,000 registration limit. In addition, an upgrade of the system will be completed, allowing for easier on-line information access by banks. These measures will greatly help reduce information asymmetries between creditors and debtors, especially regarding the overall indebtedness of a borrower and the soundness of pledged collateral. In particular, the new system will allow banks to determine whether a particular borrower has several outstanding loans across different banks and whether the same collateral or guarantee is used for different contracts. However, it is not clear whether more information on debtors will help raise or reduce credit growth, as banks will be able to make more informed decisions before allocating credit.

- **Introducing stricter treatment of profit for the calculation of own capital in line with EU regulation** (EU/2000/12). In June 2004, banks will be able to include their current profits in their capital base only after auditors' verification and net of any taxes and dividends that are to be distributed at the end of the year. The BSD simulated the worse-case impact of this measure by excluding the entire current profits from bank's capital base, which is a much stronger measure than the actual one. According to these simulations, the new profit treatment would reduce the system's total capital adequacy ratio from 22 percent to 19 percent and bring the capital adequacy ratio of four banks under the 12 percent prudential limit. Two of these banks, however, have already raised their capital.[45]

- **Introducing credit ceilings.** If further tightening is needed, the authorities are willing to introduce credit ceilings, either on the level or rate of increase of credit, and/or a liquid asset ratio. At present, however, the authorities have not formalized the exact condition under which these measures would be implemented and if so, the form they would take. Instead they are trying to reduce credit growth by tightening reserve requirements and shifting government deposits from commercial banks to the BNB.[46]

Recommendations

106. **The authorities' envisaged liquidity management measures should be combined with appropriate prudential controls.** Overall, there appears to be little immediate threat to the stability of the financial system. Nevertheless, external risks have intensified: the current account deficit has continued to widen and the rapid growth in lending shows no sign of abatement. In an effort to address these risks and dampen credit growth, the authorities have decided to implement a number of liquidity-absorbing measures (see Chapter I of this volume).

107. **Typically, stricter prudential measures are not effective in closely controlling the volume of credit, as opposed to ensuring its quality.** In the present context, however, any measures that tighten domestic liquidity may induce two new types of risks, both of which could weaken the soundness of Bulgaria's financial sector: (i) they will raise interbank rates, which, in the context of Bulgaria's open capital account regime, may induce foreign capital inflows; and (ii) they may encourage banks to shift their credit activities out of the banking system into the nonbank financial sector, a sector that is much less regulated and exhibits a significantly weaker supervisory capacity.[47] The latter trend is already emerging and could be accelerated, e.g., with banks starting to acquire leasing companies (Box 1).

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[45] Some intergovernmental agencies, such as the EBRD, have granted foreign credit lines conditional on a minimum capital adequacy ratio of 15 percent, requiring some banks to maintain a higher than required capital adequacy ratio.

[46] See Chapter I of this volume and discussion in Staff Report for the 2004 Article IV Consultation.

[47] In addition, imposing stricter prudential measures may raise moral hazard, if they take away banks' incentives to manage their own risks appropriately and imply some sort of guarantee from the authorities if problems were to arise subsequently.

Box 1. Monitoring Leasing Activities

From a financial stability perspective, leasing activities represent an additional channel through which credit can be provided to the private sector. Currently, however, it is not possible to assess the overall impact of leasing activities on Bulgaria's financial system. Leasing companies are neither regulated (beyond the Commercial Code) nor supervised and are not subject to special reporting requirements. This is particularly worrisome as banks may respond to further credit tightening by shifting their traditionally bank-based credit activities toward (nonbank) leasing activities. Thus, it is important for the authorities to be able to monitor developments in this area, at least to the extent that they are relevant to the analysis of growth and the overall indebtedness of the private sector.

Banks are starting to create and/or acquire shares in leasing companies. At end-2003, leasing activities were believed to represent only an insignificant share of total bank lending (less than 1 percent). But this number includes only the leasing activities of banks that have acquired a significant equity participation (more than 10 percent) in a leasing company or conduct leasing activities directly.1/ As long as banks keep their equity participation below 10 percent, they do not have to report their activities on a consolidated basis to the BNB, in which case their leasing activities go unreported. In practice, banks do not have to acquire or invest directly in a leasing company to shift credit activities to the nonbank financial sector; they could design formal or informal partnerships with leasing companies, allowing them to refer their customers to a particular leasing company in return for a given profit-sharing or fee.

The need to account for leasing activities was already noted in the FSAP report. In line with FSAP recommendations, the authorities have taken a few steps but more needs to be done. The BNB, which has the right to inspect any company if there is a suspicion that this company may be engaging in banking activities, has conducted a few focused inspections in leasing companies to review the types of contracts offered and any suspicious money laundering or tax-related transactions. Some of these leasing companies were found to charge excessively high interest rates and there is a draft proposal to amend the consumer protection law in this regard, possibly introducing a maximum consumer interest rate, in line with EU regulations. This type of activities, however, represents only a very small share of total leasing activities and the authorities' ability to monitor leasing activities remains very limited.

1/ If a bank acquires more than 10 percent of a leasing company (or any other entity), standard prudential requirements for significant equity participation apply, such as capital deductions, connected lending, consolidated disclosure, etc., in line with international best practices and EU directives.

108. **To mitigate the prudential risks associated with capital inflows, the authorities may wish to monitor closely developments in the maturity and currency structure of banks' balance sheets.** If necessary, the authorities may wish to consider requiring banks to balance the currency denomination between their liquid assets and liabilities.

109. **To monitor credit developments on a system-wide basis, the authorities may wish to collect reliable data on corporate and consumer indebtedness.** Presently, the authorities do not have adequate tools to monitor credit activities across banks and nonbank financial institutions. Yet, the expansion in consumer credit could become a major source of concern if borrowers were unable to service their loans, as this could spark a system-wide banking crisis and problems with external debt service. The upgrade of BNB's credit registry will help reduce information asymmetries, particularly in the case of bank-based consumer lending. The emergence of private credit bureaus, which intend to provide consumer credit reports by end-2005, is another welcome development that will further help raise the level of transparency on consumers' creditworthiness and thereby help banks make their credit allocation decisions. It is important to monitor how the envisaged liquidity reducing measures affect not only the volume of credit in the banking sector but also its composition across the

banking and nonbank financial sectors. For this, the authorities should compute and monitor indicators that assess household indebtedness (e.g., household debt to GDP, household debt service and principal payment to income, real estate price index) and corporate indebtedness (e.g., debt to equity, return on equity, earnings to interest and principal expenses). These indicators should encompass credit activities of banks, nonbanks and leasing companies.

110. **Some countries facing similar high consumer credit growth patterns have introduced a debt-service to income ratio ceiling in their consumer credit law.** [48] This idea is to control credit growth by putting an upper limit on consumers' ability to borrow, regardless of the type of credit, rather than restricting particular market participants, such as banks, to extend credit, as this may only induce them to redirect their credit activities to the nonbank financial sector. Such ceilings, which are stated in terms of debt-service (as opposed to debt level), may be particularly effective in preventing serious cases of consumer abuse, such as certain predatory lending practices observed by the authorities, mostly in the nonbank financial sector. Their implementation, however, requires reliable information on consumer debt service and income, neither of which are readily available at present. Ultimately, their effectiveness will depend largely on the quality of the data; lenders' ability to access this data; consumers' ability to circumvent the ceilings; and authorities' ability to enforce the regulation.

B. Implementation of Main FSAP Recommendations[49]

Financial sector surveillance framework

111. **In line with FSAP recommendations, the authorities have created a Council for Financial Stability, which is composed of representatives from the Ministry of Finance and the respective bank and nonbank supervisory agencies.** This Council meets on a quarterly basis and is planning to publish a Financial Stability Report, which would be a welcome initiative. The creation of this Council has facilitated inter-agency cooperation, as indicated by the signing of Memoranda of Understandings (MoUs) on important issues, such as information exchange and joint on-site inspections. Nevertheless, the Council does not provide a formal framework to monitor the soundness of the financial system on an aggregate basis.

112. **The existing financial sector surveillance framework focuses primarily on safeguarding the health of individual financial institutions as opposed to the stability of the financial system as a whole.** No entity seems to have the explicit mandate and resources to examine cross-sectoral linkages between the various economic sectors and assess how

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[48] Romania, for example, has recently amended its consumer credit law to lower the maximum debt service to income ratio of consumers from 40 percent to 30 percent.

[49] The main measures taken by the authorities in response to FSAP recommendations are summarized in Appendix I.

developments in a particular sector may affect another sector of the financial system. For example, it remains difficult to collect the necessary information to assess how developments in, say, the corporate or real estate sector may affect the banking sector or how a tightening in the banking sector may affect the nonbank financial sector. Ultimately, the supervisory agencies should be responsible for monitoring the health of their respective supervised entities, whereas the responsibility of financial stability should be assigned to a specific entity, such as a BNB research group or another external entity. A clear division of responsibility would help differentiate between the analysis of sources of vulnerabilities that may affect the soundness of particular financial institutions and those that affect the stability of the financial system as a whole, such as macroeconomic imbalances or external shocks. Such an entity should have access to information on the various economic sectors, without necessarily receiving in-depth information on particular institutions, except maybe on the systemically important ones.

Banking Sector

Resolving problem banks

113. **The authorities have introduced a new and more effective bank insolvency regime.** So far, however, its implementation has remained either largely untested (no new case of bank insolvency) or slow (in the case of existing problem banks). The FSAP urged the authorities to introduce a new regulatory framework to deal with insolvent banking institutions and to resolve promptly the status of the problem banks left over from the 1996–97 banking crisis. In line with FSAP recommendations, the authorities have:

- **Introduced a new bank insolvency regime.** A new bank insolvency law was adopted in the Fall of 2002. This law aims at providing faster and more efficient bankruptcy proceedings against insolvent credit institutions. It also put the liquidation procedure of insolvent institutions under the control of the Deposit Insurance Fund (DIF), as a public statutory authority over the trustees in charge of liquidating the insolvent banks. The law has also set specific guidelines for the remuneration of the trustees and subjected the liquidation operations to the monthly control of the DIF. So far, however, the new insolvency law, including activation of DIF, has not been put into practice, as there has been no new bankruptcy.

- **Strengthened the role of the DIF.** The participation in the DIF is mandatory and banks must contribute an annual fixed 0.5 percent of their total deposits. Once DIF's portfolio reaches 5 percent of the banking system's deposit base, it will be possible to amend the contribution system, possibly moving to a risk-based system. At present, the DIF portfolio contains BGN 244.2 million, or 2.3 percent of total deposits. The insurance coverage, which is currently BGN 15,000 (approx. 7,500 euros), is to be raised progressively to BGN 39,200 (approx. 20,000 euros) by the end of 2006, in line with the EU minimum deposit guarantee. To allow prompt reaction, the DIF has signed a MoU with the BNB that allows the BSD to inform the DIF of possible problems with a particular bank or group of banks.

- **Worked toward the resolution of problem banks**. Since the last FSAP, the authorities have completed successfully the bankruptcy proceedings of five insolvent banks. Two of them were acquired by the Public Receivables Agency (PRA), now transferred under the control of the DIF, and the other three banks were bought by other commercial banks. At present, there still remain four insolvent banks from the 1996–97 banking crisis. Apparently, the authorities received a few offers from commercial banks to acquire these banks at the beginning of 2004, pointing to a possible resolution in the near future.

Identifying ownership structure of banks

114. **In line with FSAP recommendations, the authorities amended the banking law to raise the BSD's ability to monitor the identity and assess the soundness of banks' ownership structure**. In line with EU regulations, banks must now report to the BSD within seven days after a shareholder has acquired (or sold) more than 3 percent of the bank's equity. The BSD is now empowered to request additional information on the financial soundness of the new shareholders' structure and, if necessary, apply supervisory measures to ensure full information on and quality of shareholders' structure. It also started to conduct targeted on-site inspections in 5 banks, 8 financial houses, and one joint stock company in the last quarter of 2003. The inspections were initiated because either the ownership structure was too opaque, with prevailing interests off-shore, or the financial condition of the shareholders was believed to be too weak. A process of capital restructuring and, where necessary, replacement of off-shore shareholders, was initiated.

Nonbank financial sector

115. **The nonbank financial sector continues to represent a small share of Bulgaria's financial sector assets (less than 8 percent of financial system's assets) and is not likely to affect significantly the stability of the financial sector** (Table 1). At end-2003, the nonbank financial sector was composed of 31 insurance companies (representing 4 percent of total assets); 8 pension fund companies (2.6 percent of total assets); 67 securities firms (1 percent of total assets); and a large number of small finance companies and collective investment schemes. Selected financial sector indicators of the nonbank financial sector are presented in Table 10.

116. **The authorities created a single agency for nonbank financial institutions, the Financial Sector Commission (FSC).** Much effort is needed to further strengthen its supervisory capacity, regulatory framework, and enforcement powers, with a particular focus on the insurance sector. The FSAP had noted significant weaknesses in the supporting legislation and supervision of the nonbank financial sector and the creation of the new agency, which has required substantive cooperation and harmonization efforts, has not necessarily helped address the identified weaknesses. There remain large differences in the quality and effectiveness of supervision across the different types of nonbank financial institutions. Currently, each of the wings continues to operate relatively independently, making it difficult to conduct effective common on-site inspections, share information on off-site examinations, and analyze developments in the nonbank financial sector on an aggregate basis.

117. **The ownership structure of nonbank financial institutions remains opaque.** Sound supervision requires a proper knowledge of the ownership structure of the supervised entities. According to the FSC, however, it remains difficult to identify and monitor the ownership structure of nonbank financial institutions. Similar to the means given and efforts undertaken by the BSD, the FSC needs to be given adequate enforcement powers and capacity to identify and assess the soundness of owners of nonbank financial institutions.

118. **The authorities are working toward establishing a framework for consolidated supervision.** Since 2003, Bulgaria has one financial group, whose largest shareholders are an insurance company (47 percent) and a bank (25 percent). In an attempt to supervise this group on a consolidated basis, the BNB and FSC have signed a special MoU to conduct common on-site inspections and share relevant information. The first common on-site inspection was being conducted at the time of the mission visit.

Recent developments

Insurance sector

119. **The insurance sector remains very small, accounting for only 4 percent of financial sector assets.** The sector is composed of 20 nonlife insurance companies and 11 life insurance companies. Approximately half of these companies have a significant foreign equity participation. Profitability in the insurance sector is low (Table 10). Insurance companies appear to conduct a relatively conservative investment strategy, with almost 50 percent of their investment portfolio invested in government securities (30 percent) and bank deposits (17 percent).

120. **There seems to be limited risk transfer between the banks and insurance companies.** The role of insurance companies as borrowers and lenders is very small. Based on data for the first nine months of 2003, insurance companies borrowed BGN 1.5 million from banks (less than 0.1 percent of total bank credit to the private sector) and extended BGN 11.8 million credit (less than 2 percent of total bank credit to the private sector), mostly in the form of advances against life insurance policies. Similarly, the involvement of (non-life) insurance companies in credit insurance activities is extremely limited (1.7 percent of total non-life premium income).

Table 10. Bulgaria. Non-Bank Financial Sector, 1999-2003
(in millions of leva unless specified otherwise)

	1999	2000	2001	2002	2003 Sept.
Insurance sector					
Number of companies	30	32	32	32	31
of which : majority foreign-owned	10	13	13	15	15
Non-life	18	20	20	20	20
Life	12	12	12	12	11
Total assets	538.0	615.7	691.0	820.0	750.1
Non-life	349.7	419.2	462.3	571.9	495.9
Life	188.3	196.5	228.7	248.1	254.2
Total loans	2.8	0.1	0.5	1.1	1.5
Non-life	1.7	0.1	0.5	1.1	0.8
Life	1.1	0.0	0.0	0.0	0.7
Assets (in percent of GDP)	2.4	2.4	2.3	2.6	-
Non-life	1.5	1.6	1.6	1.8	1.4
Life	0.8	0.7	0.8	0.8	0.7
Expenses 1/					
Non-life	501.2	661.8	761.3	868.5	518.9
Life	80.6	89.1	141.4	213.8	64.6
Income 2/					
Non-life	47.5	664.4	769.7	887.3	528.9
Life	81.5	9.4	143.7	218.9	62.8
Premium income					
Non-life	279.1	343.4	390.9	466.8	399.9
Life	31.6	44.2	87.3	148.7	46.2
Life insurance penetration rate 3/	0.1	0.2	0.3	0.5	-
Pension funds					
Number of funds	-	9	8	8	8
Total assets	-	86.6	189.3	337.4	485.5
Mandatory	-	-	-	41.7	93.7
Occupational	-	-	51.5	95.2	131.4
Voluntary	-	-	135.3	195.5	228.4
Assets (in percent of GDP)	-	0.3	0.6	1.0	1.4
Average rate of return on assets	-				
Mandatory	-	-	-	14.1	11.0
Occupational	-	-	-	6.5	11.0
Voluntary	-	-	-	9.4	10.0
Number of insured persons (in thousands)	-				
Mandatory	-	-	-	1,164.5	1,518.4
Occupational	-	-	145.0	155.2	161.9
Voluntary	-	-	451.8	484.8	497.0
Securities sector					
Securities firms					
Number of securities firms	76	69	65	70	67
Assets of securities firms	-	-	-	-	183.6
Investment firms					
Number of investment firms	6	4	3	4	5
Assets of investment firms	16.2	10.8	10.7	13.0	18.0
Assets of investment firms (in percent of GDP)	0.1	0.0	0.0	0.0	0.1
Bulgarian Stock Exchange (BSE)					
Number of listed companies on the official market	33	46	30	31	35
Number of companies admitted for trading on unofficial n	828	478	372	325	303
Number of traded securities	21165	42944	70926	311800	688355
Turnover on BSE	133.8	133.8	161.1	416.4	688.4
Stock exchange capitalization	-	1,288.3	1,112.6	1,375.2	2,722.0
Stock exchange capitalization (in percent of GDP)	-	4.8	4.2	4.3	7.9
Stock exchange index value 4/	-	106.7	118.6	183.1	454.3

Source: FSC.

1/ Total technical expenses.

2/ Total technical income.

3/ The ratio of gross premium income to GDP.

4/ Base=100 on October 17, 2000.

121. **The FSAP noted serious shortcomings in the regulatory and supervisory framework of the insurance sector.** As a result, the authorities enhanced the supervisory powers of the insurance wing of the FSC. The FSC has been given the power to verify the solvency margin, equity and reserves; issue or revoke a license; and impose administrative measures in the case of prudential violations, including dismissing a member of the management board. Supervised entities need prior approval from the FSC to change the structure of their ownership and the regulatory framework for insolvent insurance companies has been strengthened, putting the trustees in charge of the liquidation under the control of the FSC. Nevertheless, it remains difficult for the FSC to assess the level of inter-company indebtedness (i.e., settlement of claims and disputes) and an effective dispute resolution mechanism should be established to help assess the financial soundness of supervised entities.

122. **Many of the FSAP recommendations, however, still need to be addressed**. In particular, the authorities should:

- Streamline existing insurance regulations into a single Code of Insurance and further eliminate regulatory gaps between life insurance products and voluntary pension funds.

- Strengthen prudential standards, which will need to be raised significantly before they comply with EU accession requirements, including in the areas of minimum capital requirements and provisioning levels.

- Complete the review of the fiscal regime of insurance companies and eliminate any differential tax treatments between life insurance companies and voluntary pension funds. Insurance companies are currently taxed on the basis of their net premium collected (seven percent). Last year, the insurance companies tried to align their tax structure to a standard corporate tax on profits. Given the low profitability of the sector, this proposal was rejected by Parliament. Next year, a draft proposal is to be discussed, probably on the basis of a hybrid system that would subject the insurance companies to a combination of the standard corporate tax and a tax on gross premiums collected.

- Raise the quality of insurance companies' asset liability management, including through the development of the actuarial profession.

Pension fund sector

123. **Bulgaria's pension fund sector is very small, accounting for 2.6 percent of financial sector assets and 1.5 percent of GDP as of September 2003.** The pension fund sector covers two pillars: mandatory pension funds (Pillar II), which contains both universal

and occupational pension funds, and voluntary pension funds (Pillar III).[50] The highest expansion rate is expected with universal pension funds, which represent currently 20 percent of total pension fund assets and cover 1.5 million participants. Contribution rates are relatively low (3 percent of net income) and are to be raised to 5 percent by 2007. To prevent excessive risk-taking by individual pension fund managers, there is a minimum guaranteed rate of return for mandatory pension funds, which is set at 60 percent of the industry's average rate of return. Occupational funds have higher contribution rates (12 percent in the case of high-risk professions and 7 percent otherwise) but insure only a limited number of employees (less then 200,000). Voluntary pension funds cover approximately 500,000 people and account for almost 50 percent of total pension fund assets. As of July 1, 2004, all voluntary policies are to be transformed into unit-linked policies. As of September 2003, the average rates of return on assets were constant at 11 percent across all three categories of pension funds.

124. **In contrast to the insurance sector, most of the FSAP recommendations relative to the pension fund sector have been addressed and implemented.** Most importantly, the authorities enacted a single Code of Pension Funds that merged all legislations and regulations that were previously scattered in different pieces of legislations. This new code became effective on May 1, 2004. Overall, representatives of pension fund companies seemed satisfied with the quality and coverage of the new regulatory and supervisory framework. They expressed the desire for greater investment diversification opportunities, as recommended in the FSAP report.

Securities market

125. **After three years of relative stagnation, the Bulgaria Stock Exchange (BSE) grew sharply in 2003.** In the first nine months of 2003, the stock exchange capitalization more than doubled, accounting for almost 8 percent of GDP, as compared to 4.3 percent at end-2002 (Table 10). During the same period, the number of traded shares more than doubled (increasing by 121 percent), whereas the turnover rose by 65 percent. The development of the BSE remains closely linked to the privatization of state-owned companies. In 2003, the BSE executed 43 privatization deals with a record turnover of BGN 300 million. This trend, however, is likely to decrease, as the privatization process comes slowly to an end.

126. **The main regulatory change was the amendment of the law of public offering of securities in 2002, in line with FSAP recommendations.** The new regulatory framework appears to be sound and largely in line with EU regulations; the main challenge remains in its implementation. The material changes introduced in the new law include: (i) provisions to increase capital of publicly listed companies; (ii) stricter public information disclosure

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[50] The mandatory pay-as-you-go Pillar I is supported by the National Social Security Institute (see Chapter III in this volume).

requirements; (iii) explicit regulations regarding modalities of capital increases, including prior approval by the FSC and stronger protection of minority shareholders; and (iv) greater enforcement powers of the FSC. In particular, the FSC is now empowered to take certain coercive actions regarding the content and information disclosed during a general shareholders' meeting. It can also revoke decisions taken during a shareholders' meeting in violation with the law. If needed, the FSC can also take judicial actions. Since the enactment of the law, the FSC has initiated several lawsuits against majority shareholders, some of which it has won. Nevertheless, weaknesses in the judicial system and the judges' overall lack of experience in capital market issues have made court outcomes lengthy and unpredictable.

127. **The authorities have also introduced a number of measures to raise corporate governance.** For example, publicly listed companies are required to adopt the OECD International Standards on Corporate Governance and appoint an "investor relations contact person," whose role it is to facilitate information between shareholders, prospective investors, and the management of the company. While these measures will help improve corporate governance in the medium term, they were often introduced with limited guidelines on how they are to be implemented, significantly reducing their short-term impact.

Payment system

128. **In June 2003, the BNB launched the Real time INterbank Gross Settlement system (RINGS).** The implementation required significant amendments in the legal framework, existing infrastructure, and operating system. RINGS allows participants to monitor in real-time their settlement account, the status of each payment, and the queue of pending transactions through a web-based monitoring station. RINGS' pricing mechanism is based on a full cost recovery principle. Differentiated tariffs encourage banks to initiate payments early in the working day. According to a EU/ECB self-assessment of compliance with international standards, RINGS' legal framework and payment process achieve high compliance with EU regulations and practices of the central banks in Europe. The system is also compatible with TARGET, and will allow the processing of cross-border payments in euro.

Anti-money laundering

129. **The authorities are currently being evaluated under the FATF standards by MONEYVAL.** A first evaluation round was conducted in 1999 and the report of the second round was expected to be finalized in May 2004. The third and final round of evaluation is planned for early 2006.

130. **Since the 2002 FSAP report, three main legislative reforms were passed**:

- In 2003, the law on anti-money laundering (AML) was amended considerably and brought in full compliance with EU standards.

- The Financial Intelligence Agency (FIA) was created and given functional independence from the Ministry of Finance. For this, adequate supervisory and accountability mechanisms were established, whereby the FIA Director must report on the activities of the FIA to a General Inspector (the Deputy Minister of Finance), who has the right to check all FIA files and records but is not allowed to give operational instructions to the FIA Director.
- In 2003, a new law of financing terrorist activities was enacted.
- The Penal Code was amended to criminalize AML activities, including the preparation of and provocation to AML activities. This amendment came in force in March 2004. Nevertheless, it remains difficult to prove that cases are related to AML activities.

131. **In line with FSAP recommendations, inter-agency cooperation was strengthened considerably**:

- In September 2003, a Liaison Officer from the Ministry of the Interior was appointed to work in the FIA.
- In March 2003, full information exchange, including information protected under the bank secrecy laws, was established between the Ministry of the Interior and the FIA.
- A MoU was signed between the FIA and the BNB, including modalities for information exchange and joint on-site inspections, and introducing reporting requirement for cash transactions above BGN 30,000.

132. **In 2003, 236 operational files were opened, almost twice as many as in 2001**. Of 45 investigations conducted in 2003, 22 were finalized, of which four were sent to courts (no conviction yet), 7 were sent to prosecutors to request their suspension, and 11 were sent to prosecutors with a request for termination.

IMPLEMENTATION OF MAIN FSAP RECOMMENDATIONS

Recommended actions	Steps taken
Improving the legal and institutional framework 2002	
• Enactment of amendment to the bankruptcy provisions (Part IV) of the Commercial Code	• Note done. Multi-sector working group is drafting amendments to the Commercial Code.
• Giving greater powers to creditors throughout the proceedings	• Addressed with amendments to the Civil Procedure Code to improve and speed up executive civil procedures and with new Law on Registered Pledges to strengthen creditors' rights, including collection-related actions. Implementation remains weak.
• Enactment of an Accounting and Auditing Law	• Addressed with implementation of International Accounting Standards (IAS) starting January 2003 for financial sector and January 2005 for corporate sector; new Law of Independent Financial Audit was passed, requiring special registration for bank auditors.
• Development of a plan for financial sector tax reforms to address tax distortions	• Not done. Partial consumer tax benefits harmonization between life insurance and pension fund products. Review of insurance sector tax regime needed.
• Development of Credit Information and Ratings System	• Done. Upgrade and expansion of Credit Registry planned for June 2004, including registration of all consumer loans, and emergence of private-sector credit bureaus aimed at providing rating facilities and credit assessments.
2003	
• Enactment of amendments to the foreclosure provisions of the Civil Procedure Code	• Addressed with amendments to Civil Procedure Code. In addition, a Asset Forfeiture Law draft has been approved by the government and is being presented to Parliament.
• Enactment of legislation to improve the legal framework for mortgage lending	• Not able to collect necessary information.
• Enforcement of the application of international standards in accounting and auditing	• Done with implementation of International Accounting Standards (IAS) by January 2003 for financial sector and January 2005 for corporate sector.
2004	
• Implementation of tax reform in the financial sector	• No information available.
• Enactment of amendments to the Anti-money Laundering Law	• Addressed with amendments to harmonize Anti-Money Laundering Law with relevant EU Directives (effective April 2003) and new Law for the Measures against Funding of Terrorism (effective February 2003). Further inter-agency cooperation between BNB, FIA, and Ministry of the Interior is needed. No conviction yet.
Sustaining Banking Reform 2002	
• Privatization of Biochim Bank	• Done (beginning of 2003).
• Rationalization of Business Promotion Bank	• Not done. Last state-owned bank. Despite plans to transform entity into nonbank financial institution, it continues to conduct banking activities with focus on

Recommended actions	Steps taken
	SMEs. Nevertheless, limited market share (less than 1 percent of total assets).
• Upgrade credit registry at BNB	• Addressed with inclusion of all loans, including consumer loans, in Credit Registry starting June 2004 and further technological upgrade allowing banks to access information on-line.
• The BNB needs more powers to be able to obtain more information and assess the suitability of the ultimate owners or beneficial owners of banks	• Addressed with amendments to the Banking Law (2002).
• The BNB is encouraged to continue its dialogue with the banks on their risk management practices, which means for some banks that they need to go beyond simple application of the BNB's loan classification and provisioning rules	• On-going. BNB is reviewing banks' investment and risk management strategies. No recommendations issued yet.
• In order to monitor increasing use by banks of IT based risk management systems, and increased IT risk in banking, the BNB should consider a unit to study IT issues in banking	• Addressed partially with hiring of one IT specialist. However, additional IT specialists necessary to support on-site supervision teams.
• Expedient passage of the Bank Bankruptcy Law, including the provision allowing application of the new law to the ongoing liquidations	• Addressed with adoption of Bank Bankruptcy Law in Fall of 2002. Implementation remains slow, with four banks remaining to be liquidated since 1999.
• Provide the BNB with legal authority to introduce regulations on good corporate governance in banks	• Not done. Corporate governance provisions were introduced in Law on Commerce. No special regulations for commercial banks and nonbank financial institutions.
• Preparation of procedures to allow seamless taking over of control over the bank by conservator and trustee, minimizing opportunities for looting	• Addressed with new Bank Bankruptcy Law, although no new cases to test effectiveness of new legislation.
• Consider removing the 11 banks from the current trustees and entrusting liquidation to other agencies, for instance the Deposit Insurance Fund (DIF) or the Agency for State Claims	• Partially done. All bank bankruptcy proceedings under the control of the DIF, in accordance to new Bank Bankruptcy Law. Implementation remains slow with four of eleven banks still waiting to be liquidated since 1999.
2003	
• Privatization of State Savings Bank	• Completed with creation of DSK Bank PLC, fully private Hungarian-owned commercial bank.
Developing Capital Markets	
2003	
• Enactment of Amendments to the Law on Public Offering of Securities to improve minority shareholder rights, to authorize the Bulgarian National Securities Commission (BNSC) to take court action on behalf of disadvantaged shareholders in civil actions, to give more power to general shareholder meetings over certain corporate decisions, and to provide new rules for taking companies out of the register of publicly traded companies.	• Addressed with substantial amendments to Law on Public Offering of Securities in 2002 in view of improving minority shareholder rights. Enforcement powers of new supervisory agency, the Financial Sector Commission (FSC), have been strengthened, although effectiveness of these powers only at initial stages of implementation and ultimately rely on weak judicial system.

Recommended actions	Steps taken
Developing the Insurance Sector 2002 • Privatization of the State Insurance Institute (DZI) • Enactment of amendments to the Insurance Act to strengthen insurance supervisor • Develop institutional development plan for the insurance supervisor • Review insurance regulations toward eliminating gaps in the regulatory framework • Develop the actuarial profession 2003 • Reform inconsistencies in tax treatment of certain insurance products and institutions	• Completed in 2002. Company was listed on stock exchange in 2003. • Not done. • Not done. • Not done. Project to merge various legislations into unified Code on Insurance. • Not done. An ordinance regulating functions and activities of actuaries was passed but implemented only in the context of pension funds (February 2004). • Not done. Limited harmonization in tax incentives between life insurance products and voluntary pension funds. Ongoing discussions to reform tax regime of insurance companies.
Developing the Pension Funds 2002 • Development of institutional development plan for the State Insurance Supervision Agency (SISA) • Upgrade the regulatory framework for pension funds including allowing greater opportunities for diversification 2003 • Enactment of amendments to the Mandatory Social Insurance Code and the Voluntary Pension Code, strengthening pension fund governance and SISA supervision capacity • Upgrading regulations of private pension funds	• Addressed with the creation of joint supervisory body for nonbank financial institutions, the Financial Sector Commission (FSC) (March 2003). • Regulatory framework has been upgraded with new Code on Social Insurance, without, however, relaxing investment diversification rules. • Addressed with introduction of new Code on Social Insurance (implemented in 2003), covering both mandatory and voluntary pension fund activities, and creation of new supervisory body for nonbank financial institutions, the FSC. • Addressed with introduction of new Code on Social Insurance (implemented in 2003).
Developing leasing 2002 Improve legal and institutional framework for repossession of leased assets • Address VAT issues • Conform accounting standards with International Accounting Standards (IAS)	• Not done. No specific legislation for leasing activities. Banks can engage in leasing activities directly or indirectly by acquiring a leasing company. If a leasing company is majority-owned by a bank, these activities are reported on consolidated basis in banks' financial statements. • Not done. • Not done. IAS will be implemented on all non-financial companies starting January 2005.
Agricultural Credit 2002 • Ensure that license for deposit taking is only limited	• Not done. Although in practice, agricultural credit

Recommended actions	Steps taken
to commercial banks	unions, which are not subject to the same prudential regulations as those applied to banks, are not allowed to accept deposits, this restriction is not yet enshrined in the law. It is important that the government does not yield to pressures to relax this restriction, as was already recommended in the FSAP. • Without a deposit taking function, there is no case for establishing a special supervisory regime for these credit institutions. • This issue, however, will be addressed when the authorities transpose Chapter III (provisions of financial services) of the EU accession negotiations, which provisions are to be implemented upon entry to EU planned for 2007.
Improving Financial Supervision Coordination 2002 • Establishment of a financial supervision coordination committee	• Completed with creation of Council for Financial Stability, comprised of representatives of Ministry of Finance, BNB, and FSC, and meeting on a quarterly basis. Coordination between BNB and FSC further strengthened with signing of MoUs regarding information exchange and joint on-site inspections.
Strengthen anti-money laundering 2002 • Expand the Law's scope to lawyers • Improve the options for freezing assets during the pre-trial phase • Strengthen the independence and resources of the Bureau and other AML services • Provide feedback to reporting institutions on use of the suspicious transaction reports	• Addressed with amendments to Anti-Money Laundering Law (Art.3(28)), requiring lawyers to report suspicious activities to the Financial Investigation Agency (FIA). • Addressed with amendments to Anti-Money Laundering Law (Art.12), allowing to freeze assets for three days, during which time suspicious activities are reported to the courts, which are required to issue decision within 24 hours. Implementation remains slow due to lengthy investigation proceedings; no prosecution conducted so far. • Addressed with creation of functionally independent Financial Investigation Agency (FIA) in April 2003. • Not done. Ongoing work in context of the Twinning Project of the EU PHARE Program, *Fighting Money Laundering*. No feedback on case-by-case base, only general information exchange between banks' compliance officers and FIA.
Upgrading payments system 2002 • Upgrading payments system	• Addressed with successful introduction of Real-time INterbank Gross Settlement system (RINGS) in June 2003, a system in compliance with EU directives and compatible with TARGET.
Improving Corporate Governance	

Recommended actions	Steps taken
2002	
• Strengthen Commercial Code to include provisions on protection of minority shareholder rights, better definition of responsibility of supervisory boards, improved disclosure	• Addressed with amendments to Law on Commerce (see Arts. 221, 223-4, 236-8, 240 and 243) and, in the case of listed companies, to Law on Public Offering of Securities.
• Strengthen Law on public offering of securities to provide BNSC with authority to supervise joint stock companies with more than a certain number shareholders and to initiate lawsuits on behalf of shareholders	• Done. Lawsuits have been initiated but results of legal actions are not clear yet.
• Develop code of corporate governance and establish Institute of Directors	• Not done.
• Provide the financial regulators with authority to issue guidelines on the operation, structure and functioning of (supervisory) boards of directors of their respective commercial banks, insurance companies and pension insurance companies	• Not done. No specific legislation for financial institutions, in addition to general amendments to provisions in Law on Commerce.

Sources: IMF Country Report No. 02/188 and Bulgarian authorities.

Table A1. Bulgaria: National Accounts, 1999-2003
(NCEA, based on NACE, Rev.1)

	1999	2000	2001	2002	2003 1/
	(Gross value added) (In current prices, in millions of leva)				
Agriculture and forestry	3,458	3,301	3,533	3,459	3,435
Agriculture, forestry and hunting	3,445	3,289	3,520	3,445	3,422
Fishing	12	12	13	14	13
Industry	6,124	7,122	7,804	8,289	9,020
Mining and quarrying	403	386	403	412	440
Manufacturing	3,582	4,213	4,606	4,966	5,519
Electricity, gas and water supply	1,070	1,437	1,591	1,634	1,720
Construction	1,069	1,087	1,203	1,276	1,341
Services	11,624	13,273	15,019	16,777	17,633
Trade, repair of motor vehicles, personal and household appliances	1,505	1,731	1,937	2,105	2,142
Transport	1,316	1,656	1,953	2,131	2,225
Communications	801	1,061	1,433	1,819	2,006
Financial intermediation and insurance	602	706	831	986	1,105
Other services 2/	7,400	8,119	8,865	9,737	10,155
Total of economic activity groupings	21,205	23,697	26,356	28,526	30,089
Adjustments	2,585	3,056	3,354	3,809	4,321
GDP at market prices	23,790	26,753	29,709	32,335	34,410
Household consumption	16,964	18,506	20,642	22,238	23,772
Government consumption	3,937	4,786	5,177	5,832	6,532
Gross fixed capital formation	3,600	4,206	5,415	5,909	6,733
Changes in inventories	662	688	726	497	743
Net exports	-1,373	-1,432	-2,250	-2,140	-3,356
Exports of goods and services	10,601	14,902	16,510	17,180	18,314
Imports of goods and services	11,974	16,334	18,760	19,321	21,670
Statistical discrepancy	0	0	0	0	-13
	(Growth rate in prices of previous year, in percent)				
GDP at market prices	2.3	5.4	4.1	4.9	4.3
Agriculture and forestry	5.5	-10.3	0.3	5.5	-1.3
Industry	-6.8	11.1	4.1	4.6	7.1
Services	5.9	6.4	4.7	5.1	3.5
Household consumption	9.6	4.4	5.2	3.5	6.4
Government consumption	5.0	11.7	1.4	4.1	7.1
Gross fixed capital formation	20.8	15.4	23.3	8.5	13.8
	(Percent change)				
Implicit GDP deflator	3.7	6.7	6.7	3.8	2.1
	(In percent of GDP)				
Agriculture and forestry	14.5	12.3	11.9	10.7	10.0
Industry	25.7	26.7	26.3	25.6	26.2
Services	48.9	49.6	50.6	51.9	51.2
Total of economic activity groupings	89.1	88.6	88.8	88.2	87.4
Adjustments	10.9	11.4	11.2	11.8	12.6
GDP at market prices	100.0	100.0	100.0	100.0	100
Final consumption	87.9	87.1	86.9	86.8	88.1
Individual consumption	79.0	77.4	77.4	76.8	77.8
Households expenditures	70.9	68.8	69.0	68.3	68.7
NPISHs expenditures	0.4	0.4	0.4	0.4	0.4
Government expenditures	7.7	8.2	8.0	8	8.7
Collective consumption	8.9	9.7	9.5	10.0	10.3
Gross fixed capital formation	15.1	15.7	18.3	18.3	21.7
Changes in inventories	2.8	2.6	2.4	1.5	19.6
Net exports	-5.8	-5.4	-7.6	-6.6	2.2
Exports of goods and services	44.5	55.7	55.6	53.1	-9.8
Imports of goods and services	50.3	61.1	63.2	59.8	53.2
Statistical discrepancy	0.0	0.0	0.0	0	0

Source: National Statistical Institute.
1/ Preliminary.
2/ Includes: hotels and restaurants; real estate, renting and business activities, health and education; public administration and defense.

Table A2: Bulgaria: Selected Transition Economies: Cumulative Change in GDP, 1989-2003

	1989-2003 1/	Peak Decline Since 1989 2/
Albania	6	-40
Bulgaria	-13	-32 for 1997
Czech Republic	1	-14
Hungary	9	-18
Poland	34	-14
Romania	-16	-25
Average (unweighted)	2	-24

Sources: NSI - Bulgaria's data; WEO.
1/ Preliminary data.
2/ Compares the GDP in the year of its lowest level since the beginning of the transition with the level of 1989.

Table A3. Bulgaria: Gross Value Added in the Industrial Sector, 1999-2003
(NCEA, based on NACE, Rev.1)

	1999	2000	2001	2002	2003 1/
	(In current prices, in millions of leva)				
Total	6124	7122	7804	8289	9020
Mining and quarrying	403	386	403	412	440
Manufacturing	3582	4213	4606	4966	5519
Electricity, gas and water supply	1070	1437	1591	1634	1720
Construction	1069	1087	1203	1276	1341
Public	2899	2305	2255	2163	2170
Mining and quarrying	360	224	219	206	215
Manufacturing	1267	501	415	311	303
Electricity, gas and water supply	1064	1417	1511	1539	1568
Construction	207	163	110	108	85
Private	3225	4817	5548	6126	6850
Mining and quarrying	42	161	184	206	225
Manufacturing	2315	3712	4191	4656	5216
Electricity, gas and water supply	5	20	80	96	152
Construction	862	924	1093	1168	1256
	(Growth rate in prices of previous year, in percent)				
Total	-7	11	4	5	7
Mining and quarrying	-6	-9	-2	1	6
Manufacturing	-6	11	4	7	11
Electricity, gas and water supply	-19	29	5	1	-2
Construction	3	1	4	3	3
Public	-19	-24	-7	-5	-5
Mining and quarrying	-9	-39	-11	-9	1
Manufacturing	-22	-63	-19	-27	-4
Electricity, gas and water supply	-19	28	1	1	-5
Construction	-10	-22	-35	-4	-24
Private	7	42	9	9	11
Mining and quarrying	23	251	10	13	12
Manufacturing	6	51	7	10	12
Electricity, gas and water supply	0	281	308	3	46
Construction	7	7	11	4	5
	(In 5.6 percent of gross value added))				
Share of economy					
Total	29	30	30	29	30
Mining and quarrying	2	2	2	1	2
Manufacturing	17	18	18	17	18
Electricity, gas and water supply	5	6	6	6	6
Construction	5	5	5	5	5
Share of public sector					
in total industry	47	32	29	26	24
Mining and quarrying	90	58	54	50	49
Manufacturing	35	12	9	6	6
Electricity, gas and water supply	100	99	95	94	91
Construction	19	15	9	9	6
Share of private sector					
in total industry	53	68	71	74	76
Mining and quarrying	11	42	46	50	51
Manufacturing	65	88	91	94	95
Electricity, gas and water supply	1	1	5	6	9
Construction	81	85	91	92	94

Source: National Statistical Institute.
1/ Preliminary.

Table A4. Bulgaria: Gross Value Added in the Services Sector, 1999-2003

	1999	2000	2001	2002	2003 1/
	(In current prices, in millions of leva)				
Total	11623.6	13273.1	15019.3	16777.5	17633.4
Trade 2/	1504.6	1731.3	1937.2	2105.2	2142.1
Transport	1316.2	1656.5	1953.2	2131.2	2225.0
Communications	801.1	1060.6	1432.5	1819.0	2006.0
Othee 3/	8001.8	8824.7	9696.4	10722.1	11260.2
Public	4636.3	4852.4	5224.0	5512.7	5817.3
Trade 2/	110.9	24.2	26.3	23.4	19.8
Transport	532.5	599.0	668.1	702.5	671.8
Communications	572.3	654.2	709.7	725.5	705.8
Other 3/	3420.6	3574.9	3819.9	4061.3	4419.9
Private	6987.3	8420.7	9795.3	11264.8	11816.1
Trade 2/	1393.7	1707.1	1910.9	2081.7	2122.4
Transport	783.7	1057.4	1285.1	1428.7	1553.1
Communications	228.8	406.4	722.9	1093.5	1300.2
Other 3/	4581.2	5249.8	5876.4	6660.8	6840.4
	(Growth rate in prices of previous year, in percent)				
Total	5.9	6.4	4.7	5.0	3.5
Trade 2/	13.9	7.8	8.9	5.0	4.4
Transport	3.3	2.2	3.8	6.8	3.6
Communications	30.3	21.9	21.4	18.2	10.5
Other 3/	3.1	5.3	2.0	2.7	2.1
Public	0.9	-3.3	-0.1	-1.9	1.2
Trade 2/	-7.7	-78.7	2.7	-13.4	-13.8
Transport	-13.0	-7.2	0.2	0.3	-4.8
Communications	10.2	5.3	-0.9	-4.7	-3.6
Other 3/	2.7	-1.7	0.0	-1.7	3.1
Private	9.3	12.8	7.4	8.7	4.7
Trade 2/	16.2	14.6	8.9	5.2	4.6
Transport	20.1	8.6	5.8	10.1	7.80
Communications	158.4	63.2	57.4	40.8	19.80
Other 3/	3.3	10.5	3.4	5.6	1.6
Gross value added	1.8	5.0	3.9	5.0	4.0
	(In percent of gross value added)				
Share of economy					
Total services	54.8	56.0	57.0	58.8	58.6
Trade 2/	7.1	7.3	7.4	7.4	7.1
Transport	6.2	7.0	7.4	7.5	7.4
Communications	3.8	4.5	5.4	6.4	6.7
Other 3/	37.7	37.2	36.8	37.6	37.4
Share of public sector	39.9	36.6	34.8	32.9	33.0
Trade 2/	7.4	1.4	1.4	1.1	0.9
Transport	40.5	36.2	34.2	33.0	30.2
Communications	71.4	61.7	49.5	39.9	35.2
Other 3/	42.7	40.5	39.4	37.9	39.3
Share of private sector	60.1	63.4	65.2	67.1	67.0
Trade 2/	92.6	98.6	98.6	98.9	99.1
Transport	59.5	63.8	65.8	67.0	69.8
Communications	28.6	38.3	50.5	60.1	64.8
Other 3/	57.3	59.5	60.6	62.1	60.7

Source: National Statistical Institute

1/ Preliminary.

2/ Including repairs of motor vehicles and personal and household appliances.

3/ 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 NPISNs.

Table A5. Bulgaria: Gross Output of Services by Branches, 1999-2003
(NCEA, based on NACE, Rev.1)

	1999	2000	2001	2002	2003 1/	1999	2000	2001	2002	2003 1/
	(Growth rate in prices of previous year, in percent)					(In current prices, in millions of leva)				
Gross value added - Total services	5.9	6.4	4.7	5.0	3.5	11624	13273	15019	16777	17633
Trade, repair of motor vehicles, personal										
and household appliances	13.9	7.8	8.9	5.0	4.4	1505	1731	1937	2105	2142
Hotels and restaurants	12.0	5.2	3.4	2.8	5.4	486	500	535	563	621
Transport and communications	11.2	9.6	10.7	11.6	6.8	2117	2717	3386	3950	4231
Transport	3.3	2.2	3.8	6.8	3.6	1316	1656	1953	2131	2225
Communications	30.3	21.9	21.4	18.2	10.5	801	1061	1433	1819	2006
Financial intermediation and insurance	15.7	9.1	11.6	11.5	8.8	602	706	831	986	1105
Real estate, renting and business activities	-1.4	2.6	0.5	0.1	0.8	3775	4012	4391	4751	4798
of which										
imputed rent of owner occupied dwellings	-1.2	0.4	-5.3	-1.6	0.0	2794	2850	3142	3298	3268
Public administration and defense,										
compulsory social security	2.6	7.0	2.7	3.5	3.8	1428	1633	1754	1958	2111
Education	5.8	12.7	-1.8	-0.7	1.4	827	996	1073	1127	1235
Health, social work and veterinary activities	3.4	1.6	0.8	11.2	-5.7	562	590	661	858	877
Other community, social and personal										
service activities of NGOs	14.4	9.5	7.6	3.9	6.6	321	390	450	480	513
Intermediate consumption	3.8	10.2	7.0	6.7	5.6	8437	10533	12062	13359	14280
Gross output	9.1	8.0	5.7	5.7	4.5	20060	23806	27081	30136	31913

Source: National Statistical Institute.
1/ Preliminary.

Table A6. Bulgaria: Total and Private Agricultural Production, 1999-2003 1/

	1999	2000	2001	2002	2003 2/
	(In current prices, in millions of leva)				
Total agriculture					
Gross output	7,390	7,396	8,073	7,761	7,674
Crops	2,911	2,650	2,974	3,158	3,399
Livestock	2,603	2,783	2,945	2,283	2,041
Services and other	538	576	648	606	599
Secondary activities of households	1,338	1,387	1,505	1,713	1,634
Intermediate consumption	4,020	4,165	4,599	4,370	4,316
Gross value added	3,370	3,231	3,473	3,391	3,358
Private agriculture					
Gross output	7,272	7,302	7,938	7,631	7,547
Intermediate consumption	3,938	4,094	4,497	4,273	4,221
Gross value added	3,334	3,208	3,441	3,357	3,326
	(Growth rate in prices of previous year, in percent)				
Total agriculture					
Gross output	2.7	-9.1	-0.1	4.2	-1.4
Crops	4.2	-19.1	7.6	15.5	-0.2
Livestock	0.7	-5.0	-9.9	-7.8	-3.8
Services and other	-1.2	-2.5	5.5	-6.6	-0.7
Secondary activities of households	5.9	1.8	2.7	10.1	-0.7
Intermediate consumption	0.2	-8.4	-0.5	3.2	-1.3
Gross value added	5.5	-10.0	0.5	5.5	-1.6
Private agriculture					
Gross output	3.1	-8.8	-0.6	4.2	-1.4
Intermediate consumption	0.8	-8.1	-1.1	3.2	-1.2
Gross value added	5.7	-9.8	0.2	5.5	-1.6

Source: National Statistical Institute.

1/ According to National Classification of Economic Activities.

2/ Preliminary.

Table A7. Bulgaria: Production and Average Yields of Selected Agricultural Crops, 1999-2003

	1999	2000	2001	2002	2003 1/
	(Production in thousands of tons)				
Wheat	3,155	3,406	4,077	4,123	2,004
Maize	1,991	1,098	873	1,288	1,159
Barley	627	636	931	1,211	485
Sunflower seeds	803	599	405	645	761
Sugar beets	53	23	19	51	10
Tobacco	55	48	58	62	...
Tomatoes 2/	446	410	273	245	300
Green peppers 2/ 3/	196	182	144	167	200
Potatoes	566	398	600	627	606
Apples 2/	92	89	43	26	24
Peaches 2/	39	42	13	10	15
Cherries 2/	32	28	28	16	21
Grapes 2/	372	451	433	409	374
	(Average yield-tons/hectare)				
Wheat	2.83	3.04	3.01	3.01	2.38
Maize	4.08	1.90	2.47	4.24	2.80
Barley	2.57	2.81	3.19	3.12	1.94
Sunflower seeds	1.17	1.01	1.04	1.37	1.22
Sugar beets	16.77	10.45	14.1	23.74	23.05
Tobacco	1.32	1.13	1.27	1.58	...
Tomatoes 2/	14.45	13.46	16.73	15.21	16.00
Green peppers 2/ 3/	9.74	9.07	11.39	12.73	12.80
Potatoes	10.85	7.53	12.39	12.09	11.00
Apples 2/	4.42	4.56	4.33	4.34	4.40
Peaches 2/	3.46	4.40	2.91	2.51	3.20
Cherries 2/	2.16	2.33	2.94	2.27	3.00
Grapes 2/	...	...	3.35	3.56	3.45

Sources: Ministry of Agriculture and Forestry.
1/ Preliminary data.
2/ For the years 1999 and 2000 source is NSI.
3/ Including red peppers.

Table A8. Bulgaria: Acquisition of Tangible Fixed Assets, 1999-2003 1/

	1999	2000	2001 2/	2002	2003 3/
	(In current prices, in millions of leva)				
Total	4601	5409	6694	7221	7042
Agriculture	107	111	146	205	182
Mining and quarrying	115	116	103	115	83
Manufacturing	1025	1291	1549	1921	1800
Construction	311	343	419	410	356
Electricity, gas, and water supply	418	573	528	503	644
Transport	1157	1232	1740	1379	1506
Trade	553	778	880	1151	1174
Hotels and restaurants	198	233	337	439	301
Financial intermediation	107	124	160	130	124
Real estate, renting, and business activities	152	224	368	451	313
Public administration; compulsory social security	281	208	166	129	281
Housing, municipal, and consumer services	…	…	…	…	…
Of which:					
Health/sport/leisure	43	55	109	104	85
Education	42	32	44	63	52
Other community, social, and personal service activities	95	92	145	221	142
	(In percent of GDP)				
Total	19.3	20.2	22.5	22.3	20.5
Agriculture	0.4	0.4	0.5	0.6	0.5
Mining and quarrying	0.5	0.4	0.3	0.4	0.2
Manufacturing	4.3	4.8	5.2	5.9	5.2
Construction	1.3	1.3	1.4	1.3	1.0
Electricity, gas, and water supply	1.8	2.1	1.8	1.6	1.9
Transport	4.9	4.6	5.9	4.3	4.4
Trade	2.3	2.9	3.0	3.6	3.4
Hotels and restaurants	0.8	0.9	1.1	1.4	0.9
Financial intermediation	0.4	0.5	0.5	0.4	0.4
Real estate, renting, and business activities	0.6	0.8	1.2	1.4	0.9
Public administration; compulsory	1.2	0.8	0.6	0.4	0.8
social security	0.0	0.0	0.0	0.0	0.0
Housing, municipal, and	0.0	0.0	0.0	0.0	0.0
consumer services	...	….	….		
Of which:					
Health/sport/leisure	0.2	0.2	0.4	0.3	0.2
Education	0.2	0.1	0.1	0.2	0.1
Other community, social, and personal service activities	0.4	0.3	0.5	0.7	0.4
Memorandum item:					
GDP in millions of leva	23,790.4	26,752.8	29,709.2	32,335.1	34,410.2

Source: National Statistical Institute.

1/ These data do not equal gross fixed investment, as they include purchases of existing assets.

2/ Including purchase of land since 2001.

3/ Preliminary data.

Table A9. Bulgaria: National Income Accounts, 1999-2003

	1999	2000	2001	2002	2003 1/	1999	2000	2001	2002	2003 1/
	(In current prices, in millions of leva)					(In percent)				
GDP	23790	26753	29709	32335	34410	100	100	100	100	100
Gross value added at basic prices	21205	23697	26356	28526	30089	89	89	89	88	87
Compensation of employees	8800	9245	10381	11034	11756	37	35	35	34	34
Wages and salaries	6313	6792	7785	8315	8741	27	25	26	26	25
Social contributions	2487	2453	2596	2719	3015	11	9	9	8	9
Net taxes on production [2]	-239	-347	-365	-435	-616	-1	-1	-1	-1	-2
Other taxes on production	…	…	138	173	119	0	0	1	1	0
Subsidies	239	347	503	608	735	1	1	2	2	2
Gross operating surplus	12644	14798	16340	17927	18949	53	55	55	55	55
Consumption of fixed capital	2785	2920	3365	4060	…	12	11	11	13	…
Net operating surplus	6009	8945	9616	10695	…	25	33	32	33	…
Mixed income, net	3851	2932	3359	3172	…	16	11	11	10	…
Adjustments	2585	3056	3354	3809	4321	11	11	11	12	13
Import duties	259	221	195	188	231	1	1	1	1	1
FIZIM	-359	-475	-539	-596	-751	-2	-2	-2	-2	-2
VAT	1981	2467	2641	3000	3407	8	9	9	9	10
Net taxes on products [3]	705	844	1057	1216	1435	3	3	4	4	4
Of which:										
Private sector										
GVA at basic prices	13574	16481	18823	20813	…	64	70	71	73	…
Compensation of employees	3455	4086	4740	5322	…	39	44	46	48	…
Wages and salaries	2522	3056	3655	4123	…	40	45	47	50	…
Social contributions	933	1030	1085	1199	…	38	42	42	44	…
Net taxes on production [2]	-38	-54	21	-23	…	16	16	-6	5	…
Other taxes on production	...	...	59	88	…	…	…	43	51	…
Subsidies	38	54	38	110	…	16	16	8	18	…
Gross operating surplus	10158	12449	14062	15513	…	80	84	86	87	…
Consumption of fixed capital	1482	1727	1934	2446	…	53	59	58	60	…
Net operating surplus	4824	7790	8769	9895	…	80	87	91	93	…
Mixed income, net	3851	2932	3359	3172	…	100	100	100	100	…
Gross value added at basic prices	100.0	100.0	100.0	100.0	…	100.0	100.0	100.0	100.0	…
Compensation of employees	70.0	71.5	74.9	74.1	…	25.5	24.8	25.2	25.6	…
Wages and salaries	49.7	51.8	54.8	54.4	…	18.6	18.5	19.4	19.8	…
Social contributions	20.4	19.7	20.1	19.7	…	6.9	6.2	5.8	5.8	…
Net taxes on production [2]	-2.6	-4.1	-5.1	-5.4	…	-0.3	-0.3	0.1	-0.1	…
Other taxes on production	0.0	0.0	1.1	1.1	…	0.0	0.0	0.3	0.4	…
Subsidies	2.6	4.1	6.2	6.5	…	0.3	0.3	0.2	0.5	…
Gross operating surplus	32.6	32.6	30.2	31.3	…	74.8	75.5	74.7	74.5	…
Consumption of fixed capital	17.1	16.5	19.0	20.9	…	10.9	10.5	10.3	11.8	…
Net operating surplus	15.5	16.0	11.2	10.4	…	35.5	47.3	46.6	47.5	…
Mixed income, net	...	...	...	…	…	28.4	17.8	17.8	15.2	…

Source: National Statistical Institute.

1/ Preliminary.

2/ Net taxes on production include: subsidies (-), other taxes on production (+)-- other subsidies on production (-)

3/ Net taxes on products include: - taxes on products (+)--- subsidies on products (-)

Table A10 Bulgaria: Average Monthly Earnings in the State Sector, 1999-2003

	1999	2000	2001	2002	2003 1/	2000	2001	2002	2003 1/
	(In leva)					(Percent change, deflated by CPI)			
Total	229	263	291	323	343	4.0	2.9	4.8	3.9
Agriculture, hunting and forestry & fishing	167	194	216	243	248	5.3	3.9	6.3	-0.3
Mining and quarrying of energy-producing materials	310	385	410	458	470	12.4	-0.9	5.6	0.3
Mining and quarrying, except energy producing materials	306	315	227	242	268	-6.7	-32.9	0.8	8.2
Manufacture of food products, beverages and tobacco	305	376	479	518	560	11.5	18.7	2.3	5.6
Manufacture of textiles and textile products	122	142	142	151	152	5.6	-6.9	0.6	-1.7
Manufacture of leather and leather products	178	213	237	251	247	8.2	3.3	0.4	-4.0
Manufacture of wood and wood products	126	156	151	185	187	12.3	-9.7	15.6	-1.2
Manufacture of pulp, paper and paper products; publishing and printing	296	387	481	507	515	18.4	15.8	-0.2	-0.8
Manufacture of coke, refined petroleum products and nuclear fuel	530	…	…			…	…	…	…
Manufacture of chemicals, chemical products and man-made fibers	311	350	315	318	330	1.9	-16.2	-4.6	1.5
Manufacture of rubber and plastic products	216	185	173	170	195	-22.2	-13.2	-7.1	12.2
Manufacture of other non-metallic mineral products	211	244	294	294	342	4.7	12.1	-5.3	13.7
Manufacture of basic metals and fabricated metal products	304	336	394	318	318	0.1	9.2	-23.7	-2.2
Manufacture of machinery and equipment n.e.c.	203	236	274	283	276	5.2	8.2	-2.4	-4.6
Manufacture of electrical and optical equipment	182	208	227	293	279	3.7	1.4	22.3	-7.0
Manufacture of transport equipment	237	243	272	295	323	-7.0	4.1	2.4	7.2
Manufacturing n.e.c.	160	178	194	203	277	1.0	1.2	-1.2	33.6
Electricity, gas and water supply	406	414	448	467	511	-7.6	0.6	-1.3	6.9
Construction	248	239	265	278	278	-12.6	3.3	-0.9	-2.2
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	286	330	371	369	394	4.6	4.5	-5.9	4.4
Hotels and restaurants	190	185	212	237	254	-11.5	6.3	5.6	4.9
Transport, storage and communication	271	302	335	353	381	0.8	3.3	-0.4	5.6
Financial intermediation	381	462	490	578	592	9.9	-1.2	11.5	0.0
Real estate, renting and business activities	219	260	268	288	303	7.4	-4.0	1.5	2.9
Public administration and defense; compulsory social security	243	305	336	395	434	13.4	2.7	11.0	7.5
Education	171	212	230	267	296	12.8	1.0	9.7	8.2
Health and social work	156	194	226	267	315	13.0	8.2	11.9	15.1
Other community, social and personal service activities	146	190	211	229	175	17.6	3.2	2.7	-25.2

Source: National Statistical Institute.

1/ Preliminary.

Table A11. Bulgaria: Average Monthly Earnings in the Private Sector, 1999-2003

	1999	2000	2001	2002	20031/	2000	2001	2002	20031/
	(In leva)					(Percent change, deflated by CPI)			
Total	168	193	204	218	248	4.1	-1.2	0.7	11.3
Agriculture, hunting and forestry & fishing	164	177	180	185	203	-1.9	-5.3	-2.9	7.3
Mining and quarrying of energy-producing materials	180	86	73	267	298	-56.8	-20.4	243.9	9.2
Mining and quarrying, except energy producing materials	259	348	369	392	398	21.9	-1.2	0.2	-0.7
Manufacture of food products, beverages and tobacco	177	191	193	200	224	-2.4	-5.9	-1.8	9.5
Manufacture of textiles and textile products	133	147	155	164	177	0.3	-1.4	-0.4	5.7
Manufacture of leather and leather products	128	137	146	157	162	-3.2	-0.9	1.7	1.0
Manufacture of wood and wood products	138	153	160	172	196	0.6	-2.7	1.7	11.3
Manufacture of pulp, paper and paper products; publishing and printing	188	209	235	253	286	0.8	4.9	1.5	10.7
Manufacture of coke, refined petroleum products and nuclear fuel	261	540	580	618	658	87.5	0.0	0.7	4.1
Manufacture of chemicals, chemical products and man-made fibers	267	309	335	352	375	4.8	0.7	-0.7	4.2
Manufacture of rubber and plastic products	183	197	201	216	250	-2.2	-5.1	1.3	13.3
Manufacture of other non-metallic mineral products	235	247	256	280	312	-4.6	-3.8	3.6	8.8
Manufacture of basic metals and fabricated metal products	209	283	289	320	336	22.7	-4.8	4.6	2.6
Manufacture of machinery and equipment n.e.c.	209	231	240	264	285	-0.1	-3.2	4.2	5.4
Manufacture of electrical and optical equipment	198	224	249	249	295	2.8	3.5	-5.4	15.7
Manufacture of transport equipment	236	261	263	279	304	0.3	-6.0	0.0	6.7
Manufacturing n.e.c.	138	151	158	166	185	-0.9	-2.7	-0.7	9.0
Electricity, gas and water supply	186	293	391	428	488	43.0	24.3	3.4	11.5
Construction	178	191	197	201	226	-2.8	-4.1	-3.3	9.7
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	138	150	161	178	219	-1.6	-0.1	4.5	20.4
Hotels and restaurants	131	132	141	145	179	-8.3	-0.6	-3.0	20.6
Transport, storage and communication	175	198	209	230	299	2.6	-1.6	4.2	27.0
Financial intermediation	336	419	524	545	660	12.8	16.4	-1.6	18.3
Real estate, renting and business activities	152	186	210	220	251	11.5	4.8	-0.9	11.5
Public administration and defense; compulsory social security	…	…	…	…	…	…	…	…	…
Education	218	265	305	343	402	10.1	7.1	6.5	14.5
Health and social work	126	104	133	154	214	-25.4	19.7	9.5	35.5
Other community, social and personal service activities	147	182	207	225	264	12.4	5.7	2.6	15.0

Source: National Statistical Institute.
1/ Preliminary.

Table A12. Bulgaria: Average Monthly Earnings in the Public and Private Sector, 1999-2003

	1999	2000	2001	2002	2003 1/	2000	2001	2002	2003 1/
	(In leva)					(Percent change, deflated by CPI)			
Total	**201**	**225**	**240**	**258**	**284**	**1.2**	**-0.5**	**1.6**	**7.6**
Agriculture, hunting and forestry & fishing	165	181	185	192	210	-0.6	-4.6	-1.9	6.9
Mining and quarrying of energy-producing materials	310	385	410	439	453	12.5	-0.9	1.2	0.9
Mining and quarrying, except energy producing materials	292	343	360	387	396	6.3	-2.3	1.6	0.0
Manufacture of food products, beverages and tobacco	203	219	226	232	253	-1.9	-4.0	-3.0	6.6
Manufacture of textiles and textile products	132	147	155	164	177	0.6	-1.5	0.0	5.5
Manufacture of leather and leather products	132	142	146	157	162	-2.5	-4.1	1.6	0.9
Manufacture of wood and wood products	137	153	160	172	196	1.2	-2.8	1.6	11.4
Manufacture of pulp, paper and paper products; publishing and printing	207	233	259	273	308	2.2	3.4	-0.4	10.3
Manufacture of coke, refined petroleum products and nuclear fuel	481	540	580	618	658	1.8	-0.1	0.7	4.1
Manufacture of chemicals, chemical products and man-made fibres	287	318	333	350	373	0.2	-2.4	-0.7	4.2
Manufacture of rubber and plastic products	191	196	200	215	249	-6.6	-5.2	1.6	13.2
Manufacture of other non-metallic mineral products	231	247	258	281	313	-3.0	-2.8	2.9	8.9
Manufacture of basic metals and fabricated metal products	264	293	301	320	335	0.3	-4.2	0.5	2.3
Manufacture of machinery and equipment n.e.c.	206	232	248	268	283	2.1	-0.5	2.1	3.2
Manufacture of electrical and optical equipment	193	221	246	253	294	3.7	3.6	-2.8	13.6
Manufacture of transport equipment	236	256	265	281	306	-1.7	-3.8	0.2	6.4
Manufacturing n.e.c.	140	153	159	167	187	-1.4	-3.0	-0.7	9.5
Electricity, gas and water supply	406	412	444	464	509	-8.1	0.5	-1.2	7.2
Construction	203	204	213	215	233	-9.0	-2.9	-4.6	5.9
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	151	158	167	180	220	-5.2	-1.4	1.9	19.5
Hotels and restaurants	147	140	150	155	186	-13.6	-0.1	-2.3	17.3
Transport, storage and communication	249	271	294	310	352	-1.4	1.0	-0.3	11.0
Financial intermediation	361	442	510	553	648	10.9	7.6	2.5	14.5
Real estate, renting and business activities	180	213	228	240	265	6.9	-0.1	-0.5	7.9
Public administration and defense; compulsory social security	243	305	336	395	434	13	3	11	7.4
Education	171	213	232	269	299	12.8	1.3	9.6	8.7
Health and social work	156	190	218	255	303	10.4	7.0	10.6	16.2
Other community, social and personal service activities	147	187	209	227	202	15.3	4.3	2.7	-13.0

Source: National Statistical Institute.
1/ Preliminary.

Table A13 Bulgaria: Labor Force, Employment, and Unemployment, 1999-2003

	1999	2000	2001	2002	2003
			(In thousands)		
Population 1/	8,190.9	8,149.5	7,891.1	7,845.8	7,801.3.6 4/
Total labor force 2/	3,387.9	3,272.2	3,264.7	3,248.6	3,237.1
Activity rate (in percent) 3/	49.2	47.5	48.1	48.4	48.5
Employment 2/	2,811.0	2,735.5	2,628.2	2,704.4	2,825.6
Public	1,446.5	1,277.0	1,037.4	1,005.2	964.7
Private	1,354.6	1,445.1	1,584.9	1,694.1	1,854.7
Unknown	9.9	13.4	5.9	5.1	6.2
Share of total employmentm (in percent)					
Public	51.5	46.7	39.5	37.2	34.1
Private	48.2	52.8	60.3	62.6	65.6
Unknown	0.4	0.5	0.2	0.2	0.2
Unemployed persons 2/	576.9	536.7	636.5	544.2	411.4
Unemployment rate (in percent) 2/	17.0	16.4	19.5	16.8	12.7
Registered unemployed 1/	610.6	682.8	662.3	602.5	500.7
Official unemployment rate (in percent) 1/	16.0	17.9	17.3	16.3	13.5
Unemployment beneficiaries 1/	178.4	196.9	160.6	116.3	87.2
In percent of registered unemployed	29.2	28.8	24.2	19.3	17.4
In percent of labor force (LFS)	5.3	6.0	4.9	3.6	2.7
			(Percent change)		
Population	-0.5	-0.5	-3.2	-0.6	-0.6 4/
Labor force	-2.6	-3.4	-0.2	-0.5	-0.4
Employment	-3.8	-2.7	-3.9	2.9	4.5
Of which : Private	6.4	6.7	9.7	6.9	9.5

Sources: National Statistical Institute; and National Employment Service.
1/ Labor force as a proportion of the population aged 15 and over.
2/ End of period.
3/ Data are from the labor force survey; data refers to November 1999, December 2000, December 2001, December 2002, and the fourth Quarter of 2003.
4/ Data for 2003 are provisional .

Table A14. Bulgaria: Price Indices of Food, Non-Food, and Services, 1999–2004
(1995=100)

		Food Price Index	Monthly Change (In percent)	Non-Food Price Index	Monthly Change (In percent)	Services Price Index	Monthly Change (In percent)
1999	January	2,880.3	1.6	2,844.4	0.5	4,423.0	7.0
	February	2,830.9	-1.7	2,829.4	-0.5	4,463.3	0.9
	March	2,768.5	-2.2	2,813.4	-0.6	4,497.4	0.8
	April	2,711.2	-2.1	2,828.5	0.5	4,525.7	0.6
	May	2,650.6	-2.2	2,832.2	0.1	4,533.2	0.2
	June	2,595.3	-2.1	2,827.8	-0.2	4,548.0	0.3
	July	2,673.7	3.0	2,896.6	2.4	4,805.0	5.7
	August	2,678.3	0.2	2,931.8	1.2	4,847.8	0.9
	September	2,734.1	2.1	2,955.6	0.8	4,911.6	1.3
	October	2,776.9	1.6	2,955.0	0.0	4,999.4	1.8
	November	2,795.8	0.7	2,966.4	0.4	5,009.9	0.2
	December	2,865.1	2.5	2,976.7	0.3	5,039.2	0.6
2000	January	2,956.1	3.2	2,985.4	0.3	5,232.7	3.8
	February	3,008.2	1.8	2,999.0	0.5	5,270.8	0.7
	March	2,961.5	-1.6	3,021.0	0.7	5,300.6	0.6
	April	2,889.2	-2.4	3,014.5	-0.2	5,316.4	0.3
	May	2,868.8	-0.7	3,052.1	1.2	5,330.8	0.3
	June	2,868.9	0.0	3,069.4	0.6	5,345.0	0.3
	July	2,908.5	1.4	3,059.8	-0.3	5,373.0	0.5
	August	3,067.2	5.5	3,069.1	0.3	5,479.2	2.0
	September	3,142.9	2.5	3,140.2	2.3	5,572.1	1.7
	October	3,184.5	1.3	3,175.7	1.1	5,629.8	1.0
	November	3,189.1	0.1	3,202.6	0.8	5,730.3	1.8
	December	3,231.0	1.3	3,185.0	-0.5	5,724.6	-0.1
2001	January	3,253.3	0.7	3,186.0	0.0	5,791.6	1.2
	February	3,244.4	-0.3	3,211.4	0.8	5,842.6	0.9
	March	3,236.8	-0.2	3,213.2	0.1	5,872.4	0.5
	April	3,210.7	-0.8	3,242.1	0.9	5,853.5	-0.3
	May	3,193.8	-0.5	3,256.6	0.4	5,891.8	0.7
	June	3,183.9	-0.3	3,250.0	-0.2	5,918.6	0.5
	July	3,150.3	-1.1	3,278.3	0.9	5,925.8	0.1
	August	3,127.0	-0.7	3,345.0	2.0	5,937.4	0.2
	September	3,196.1	2.2	3,377.7	1.0	5,945.2	0.1
	October	3,222.0	0.8	3,365.5	-0.4	6,292.1	5.8
	November	3,235.5	0.4	3,362.8	-0.1	6,302.7	0.2
	December	3,317.1	2.5	3,362.7	0.0	6,189.0	-1.8
2002	January	3,414.6	2.9	3,450.1	2.6	6,346.0	2.5
	February	3,447.6	1.0	3,586.8	4.0	6,376.8	0.5
	March	3,454.4	0.2	3,668.8	2.3	6,393.6	0.3
	April	3,425.3	-0.8	3,694.0	0.7	6,412.3	0.3
	May	3,266.5	-4.6	3,681.4	-0.3	6,435.6	0.4
	June	3,145.6	-3.7	3,669.8	-0.3	6,433.6	0.0
	July	3,032.7	-3.6	3,664.6	-0.1	6,852.0	6.5
	August	2,994.7	-1.3	3,642.0	-0.6	6,853.6	0.0
	September	3,040.0	1.5	3,660.6	0.5	6,858.9	0.1
	October	3,095.9	1.8	3,682.6	0.6	6,872.9	0.2
	November	3,090.0	-0.2	3,685.0	0.1	6,925.4	0.8
	December	3,176.1	2.8	3,712.3	0.7	6,895.7	-0.4
2003	January	3,193.2	0.5	3,732.9	0.6	6,952.9	0.8
	February	3,207.3	0.4	3,719.9	-0.3	6,959.9	0.1
	March	3,227.2	0.6	3,731.5	0.3	6,969.5	0.1
	April	3,254.6	0.8	3,703.7	-0.7	7,003.9	0.5
	May	3,229.3	-0.8	3,657.6	-1.2	7,010.9	0.1
	June	3,060.9	-5.2	3,635.1	-0.6	7,036.2	0.4
	July	3,005.0	-1.8	3,638.4	0.1	7,424.2	5.5
	August	3,046.3	1.4	3,652.0	0.4	7,454.9	0.4
	September	3,112.9	2.2	3,666.9	0.4	7,453.1	0.0
	October	3,155.2	1.4	3,685.9	0.5	7,457.0	0.1
	November	3,303.8	4.7	3,690.5	0.1	7,438.4	-0.2
	December	3,441.4	4.2	3,702.4	0.3	7,436.6	0.0
2004	January	3,486.3	1.3	3,792.5	2.4	7,467.0	0.4
	February	3,498.3	0.3	3,826.3	0.9	7,452.1	-0.2
	March	3,488.4	-0.3	3,825.3	0.0	7,462.8	0.1
	April						
	May						

Source: National Statistical Institute.

Table A15. Bulgaria: Consumer and Producer Price Indices, 1999-2004

	1995=100			2000=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
1999						
January	3,126.4	2.4	1.9	81.5	-0.8	0.4
February	3,105.8	-0.7	-0.1	81.1	-0.5	-3.1
March	3,075.5	-1.0	-1.2	80.4	-0.9	-2.9
April	3,056.2	-0.6	-2.2	80.8	0.5	-2.8
May	3,029.0	-0.9	-1.5	82.4	2.0	-1.1
June	3,001.5	-0.9	1.2	82.8	0.5	-0.4
July	3,103.0	3.4	5.4	84.1	1.5	2.0
August	3,126.0	0.7	5.8	87.4	4.0	5.2
September	3,173.1	1.5	4.1	88.4	1.1	6.7
October	3,209.5	1.1	4.9	88.9	0.6	7.6
November	3,224.0	0.5	6.0	90.7	2.0	9.8
December	3,267.1	1.3	7.0	92.5	2.0	12.5
2000						
January	3,345.8	2.4	7.0	93.6	1.3	14.9
February	3,382.5	1.1	8.9	94.2	0.5	16.1
March	3,372.0	-0.3	9.6	96.8	2.8	20.4
April	3,337.2	-1.0	9.2	96.3	-0.5	19.2
May	3,341.6	0.1	10.3	98.6	2.3	19.6
June	3,349.8	0.2	11.6	98.4	-0.2	18.8
July	3,370.5	0.6	8.6	100.4	2.0	19.4
August	3,470.8	3.0	11.0	100.7	0.3	15.1
September	3,548.9	2.2	11.8	105.3	4.6	19.1
October	3,591.8	1.2	11.9	106.8	1.4	20.1
November	3,619.3	0.8	12.3	105.6	-1.1	16.5
December	3,635.0	0.4	11.3	103.5	-2.0	11.9
2001						
January	3,657.4	0.6	9.3	101.9	-1.5	8.9
February	3,669.5	0.3	8.5	103.4	1.5	9.9
March	3,671.4	0.1	8.9	103.8	0.4	7.3
April	3,664.7	-0.2	9.8	103.7	-0.1	7.7
May	3,666.9	0.1	9.7	104.1	0.4	5.7
June	3,664.0	-0.1	9.4	104.2	0.1	6.0
July	3,657.0	-0.2	8.5	104.0	-0.2	3.6
August	3,668.4	0.3	5.7	104.3	0.3	3.6
September	3,714.9	1.3	4.7	105.3	0.9	0.0
October	3,778.7	1.7	5.2	104.1	-1.1	-2.5
November	3,787.0	0.2	4.6	103.5	-0.6	-2.0
December	3,810.3	0.6	4.8	101.6	-1.8	-1.8
2002						
January	3,912.9	2.7	7.0	102.0	0.3	0.0
February	3,976.6	1.6	8.4	103.1	1.2	-0.3
March	4,007.6	0.8	9.2	104.1	0.9	0.2
April	4,003.0	-0.1	9.2	105.1	1.0	1.4
May	3,920.0	-2.1	6.9	104.5	-0.6	0.3
June	3,853.8	-1.7	5.2	104.0	-0.5	-0.3
July	3,857.9	0.1	5.5	104.4	0.4	0.3
August	3,832.4	-0.7	4.5	105.1	0.7	0.8
September	3,862.7	0.8	4.0	106.4	1.2	1.1
October	3,900.8	1.0	3.2	107.0	0.5	2.8
November	3,907.1	0.2	3.2	106.5	-0.5	2.9
December	3,955.6	1.2	3.8	108.0	1.4	6.3
2003						
January	3,981.3	0.6	1.7	109.9	1.8	7.8
February	3,986.4	0.1	0.2	111.4	1.3	8.0
March	4,001.4	0.4	-0.2	112.5	1.0	8.1
April	4,013.0	0.3	0.2	108.4	-3.7	3.1
May	3,988.4	-0.6	1.7	107.2	-1.1	2.6
June	3,902.0	-2.2	1.2	108.4	1.2	4.3
July	3,936.5	0.9	2.0	108.8	0.4	4.3
August	3,966.1	0.8	3.5	109.6	0.8	4.3
September	4,003.5	0.9	3.6	110.4	0.7	3.8
October	4,031.3	0.7	3.3	111.4	0.9	4.1
November	4,105.5	1.8	5.1	111.7	0.2	4.8
December	4,178.6	1.8	5.6	112.6	0.9	4.3
2004						
January	4,235.8	1.4	6.4	113.4	0.7	3.2
February	4,250.7	0.3	6.6	112.5	-0.8	1.0
March	4,247.6	-0.1	6.2			
April						
May						

Source: National Statistical Institute.

1/ Since January 2003 National Statistical Institute has changed the base year for the producer price index. The new base year is 2000 and all historical data was recalculated back to 1995 following internationally accepted technique.

Table A16. Bulgaria: Estimated Private Sector Share in GDP in Selected Transition Economies, 1999-2003

	1999	2000	2001	2002	2003
			(In percent)		
Bulgaria 1/	57	62	63	64	64
Croatia	60	60	60	60	n.a.
Czech Republic	80	80	80	80	n.a.
Hungary	80	80	80	80	n.a.
Poland	65	70	75	75	n.a.
Romania	60	60	65	65	n.a.
Slovak Republic	75	80	80	80	n.a.
Slovenia	60	65	65	65	n.a.

Sources: NSI - Bulgaria's figures; EBRD Transition report.

1/ Preliminary data for 2003.

Table A17. Bulgaria: Financial Performance of State-Owned Enterprises, 1999-2003

	1999	2000	2001	2002	2003 Prel.
			(In millions of leva)		
Revenues	15,243	12,889	13,682	12,966	13,396
Operational	13,872	11,425	12,740	12,335	12,576
Financial	502	1,185	460	623	796
Extraordinary	869	278	483	9	23
Expenditures	15,724	11,974	13,409	11,986	12,229
Operational	13,489	10,872	12,371	11,597	11,892
Financial	1,252	758	627	373	329
Interest paid on credits	198	137	137	107	...
Extraordinary	982	344	411	17	9
Operational surplus	383	553	369	738	684
Net financial revenues	-750	427	-167	251	467
Net extraordinary	-114	-66	72	-8	14
Net revenues	-481	915	273	980	1,166
Total losses	-1,425	-633	683	275	579
Total profits	944	1,549	955	1,256	1,745
			(In percent of GDP)		
Revenue	66.9	48.2	46.1	40.1	38.9
Operational	60.9	42.7	42.9	38.2	36.5
Financial	2.2	4.4	1.5	1.9	2.3
Extraordinary	3.8	1.0	1.6	0.0	0.1
Expenditures	69.0	44.8	45.1	37.1	35.5
Operational	59.2	40.6	41.6	35.9	34.6
Financial	5.5	2.8	2.1	1.2	1.0
Extraordinary	4.3	1.3	1.4	0.1	0.0
Operational surplus	1.7	2.1	1.2	2.3	2.0
Net financial revenues	-3.3	1.6	-0.6	0.8	1.4
Net extraordinary revenues	-0.5	-0.2	0.2	0.0	0.0
Net revenues	-2.1	3.4	0.9	3.0	3.4
Total losses	-6.3	-2.4	2.3	0.9	1.7
Total profits	4.1	5.8	3.2	3.9	5.1
Memorandum item:					
GDP (million leva)	22,776	26,753	29,709	32,324	34,410

Sources: National Statistical Institute and Ministry of Finance.

Table A18. Bulgaria: Bank and Nonbank Liabilities of State-Owned Enterprises, 1999-2003

	1999 1/	2000 1/	2001	2002	2003 Prel.
	(Change from previous year, in millions of leva)				
Total change in liabilities	-392	-1,040	907	-1,564	-113
(in percent of GDP)	-1.7	-3.9	3.1	-4.8	-0.3
Changes in bank credit	-770	-652	640	-457	20
(in percent of GDP)	-3.4	-2.4	2.2	-1.4	0.1
(in percent of bank liabilities)	-40.2	-51.5	33.6	-31.5	1.4
Short-term loans	57	-268	8	-83	16
Of which : Arrears	49	-25	-60	-79	2
Long-term loans	116	-384	632	-374	4
Of which : Arrears	-314	-10	156	-203	5
Other loans	-161	98	-151	226	-178
Total change in arrears to banks	-264	-35	96	-282	7
(in percent of bank credit)	-13.8	-2.8	5.0	-19.5	0.4
Total change in nonbank liabilities	-404	-486	419	-1,334	45
(in percent of GDP)	-1.8	-1.8	1.4	-4.1	0.1
(in percent of nonbank liabilities)	-9.4	-12.7	9.9	-45.8	1.5
Suppliers	-56	-462	919	-737	81
Personnel	4	39	38	-58	-8
Taxes	-346	-220	-109	-94	-96
Pensions	55	-94	-5	-14	14
Other	-61	252	-424	-431	55
	(Stocks in millions of leva)				
Total stocks	7,011	5,971	6,879	5,314	5,202
(in percent of GDP)	30.8	22.3	23.2	16.4	15.1
Bank credit	1,918	1,266	1,905	1,449	1,469
(in percent of GDP)	8.4	4.7	6.4	4.5	4.3
(in percent of total stocks)	27.4	21.2	27.7	27.3	28.2
Short-term loans	599	331	339	256	273
Of which : Arrears	164	139	79	...	2
Long-term loans	1,319	935	1,567	1,192	1,196
Of which : Arrears	57	47	203	...	5
Other loans	782	880	729	955	777
Total arrears	221	186	282	0	7
(in percent of bank credit)	11.5	14.7	14.8	0.0	0.4
Liabilities to non-banks	4,311	3,825	4,244	2,911	2,956
(in percent of GDP)	18.9	14.3	14.3	9.0	8.6
(in percent of total stocks)	61.5	64.1	61.7	54.8	56.8
Suppliers	1,599	1,137	2,055	1,318	1,399
Personnel	197	236	274	216	208
Taxes	971	750	641	547	450
Pensions	264	171	166	152	167
Other	1,280	1,532	1,108	677	732
Memorandum items:					
Credit to SOEs	1,319	901	832	715	870
(in percent of GDP)	5.8	3.4	2.8	2.2	2.5
Total lev credit	168	109	137	289	277
Lev credit	145	91	123	277	266
Lev bad loan bonds	23	19	15	12	11
Total FX credit	1,151	792	695	426	593
FX credit	255	96	80	57	76
FX bad loan bonds	896	696	615	369	518
Total FX credit (in US$ billion)	…	…	…	…	…
GDP (In billions of leva)	22,776	26,753	29,709	32,324	34,410

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

1/ Excluding agriculture.

Table A19. Bulgaria: State-Owned Enterprises Profitability
and Profit Categories, 1999-2003

	1999	2000	2001	2002	2003
Total number of enterprises 1/	2,274	2,569	2,246	1,816	1691
Group I					
Number	31	239	103	27	23
Share in Total, in percent	1.4	9.3	4.6	1.5	1.4
Group II					
Number	743	805	691	268	366
Share in Total, in percent	32.7	31.3	30.8	14.8	21.6
Group III					
Number	737	670	133	265	197
Share in Total, in percent	32.4	26.1	5.9	14.6	11.6
Subtotal: Groups I - III					
Number	1,511	1,714	927	560	586
Share in Total, in percent	66.4	66.7	41.3	30.8	34.7
Group IV					
Number	163	237	280	249	224
Share in Total, in percent	7.2	9.2	12.5	13.7	13.2
Group V					
Number	600	618	1,039	1,007	881
Share in Total, in percent	26.4	24.1	46.3	55.5	52.1

Sources: National Statistical Institute and Ministry of Finance.
1/ Excluding agriculture.

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 A20. Bulgaria: Share of the 100 Largest Loss-Making State-Owned Enterprises
in all State-Owned Enterprises, 1999-2002 1/
(In millions of leva, unless otherwise indicated)

	1999			2000			2001			2002		
	100 Largest loss-making SOEs in millions of leva	All other SOEs in millions of leva	Largest loss-making SOEs as percentage of all SOEs	100 Largest loss-making SOEs in millions of leva	All other SOEs in millions of leva	Largest loss-making SOEs as percentage of all SOEs	100 Largest loss-making SOEs in millions of leva	All other SOEs in millions of leva	Largest loss-making SOEs as percentage of all SOEs	100 Largest loss-making SOEs in millions of leva	All other SOEs in millions of leva	Largest loss-making SOEs as percentage of all SOEs
Revenue	5,772	15,243	37.9	2,885	12,889	22.4	2,043	13,682	14.9	1,903	12,966	14.7
Operational	5,073	13,872	36.6	2,521	11,425	22.1	1,768	12,740	13.9	1,846	12,335	15.0
Financial	228	502	45.3	261	1,185	22.0	176	460	38.2	55	623	8.8
Extraordinary	472	869	54.3	103	278	36.9	99	483	20.5	2	9	24.4
Expenditures	7,129	15,724	45.3	3,479	11,974	29.1	2,653	13,409	19.8	2,152	11,986	18.0
Operational	5,426	13,489	40.2	2,862	10,872	26.3	2,208	12,371	17.9	2,082	11,597	18.0
Financial	863	1,253	68.9	433	758	57.1	292	627	46.6	57	373	15.4
Extraordinary	840	983	85.5	184	344	53.6	152	411	37.1	12	17	71.7
Operational surplus	-353	383	-92.2	-341	554	-61.6	-440	369	-119.3	-237	738	-32.1
Net financial revenues	-635	-750	84.7	-172	427	-40.2	-117	-167	69.7	-3	251	-1.0
Net extraordinary revenues	-368	-114	323.6	-82	-66	124.5	-54	72	-74.8	-10	-8	122.5
Net profits	-1,356	-481		-594	915		-610	273		-249	980	
Total nonbank liabilities	2,396	4,311	55.6	1,522	3,825	39.8	1,550	4,078	38.0	717	2,758	26.0
Suppliers	1,000	1,599	62.6	453	1,137	39.9	823	2,055	40.0	369	1,318	28.0
Personnel	65	197	33.1	76	236	32.3	80	274	29.1	66	216	30.5
Budget 2/	639	971	65.8	311	750	41.4	292	641	45.6	169	547	30.9
Other 3/	691	1,544	44.7	682	1,702	40.1	356	1,108	32.1	113	677	16.6

Sources: National Statistical Institute and Ministry of Finance.
1/ The 100 largest loss-making SOEs include enterprises under Isolation Program.
2/ Excludes 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 A21. Bulgaria: Privatization of State-Owned Enterprises, 1999-2004 1/

	1999	2000	2001	2002	2003	2004
Number of Privatization transactions 2/						
In the state sector	1211	590	231	103	118	31
Of which:						
Privatization agency	230	93	83	76	116	31
Ministries/Committees	981	497	148	27	2	0
Privatization proceeds (US$ million) 3/	1,153	441	178	198	268	406
Of which:						
Payments contracted	654	396	176	163	267	317
Corporate Liabilities assumed	498	45	3	35	1	89
Corporate Liabilities paid	1	0	0	0	0	0
Long-term assets privatized (billion leva) 4/	98	26	6	7	8	9
By privatization agency	81	13	4	6	8	9
By Ministries/Committees	17	12	2	1	0	0
By Center for Mass Privatization 5/	0	0	0	0	0	0
Long-term assets privatized (percent of total) 6/	17.0	4.4	1.0	1.2	1.4	1.5
By privatization agency	14.0	2.3	0.6	1.0	1.4	1.5
By Ministries/Committees	3.0	2.1	0.4	0.2	0.0	0.0
By Center for Mass Privatization 5/	0.0	0.0	0.0	0.0	0.0	0.0

Source: Privatization Agency.

1/2004 - as of 29.02.2004.
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.
5/ Voucher privatization.

Table A22. Bulgaria: General Government, 1999-2003 1/

	1999	2000	2001	2002	2003
			(In millions of leva)		
Total revenue 2/	9,164	10,361	11,164	11,799	13,222
Of which: Tax revenue	6,955	8,005	8,517	8,873	10,267
BNB transfers	90	137	175	173	133
Total expenditure 2/	9,124	10,532	11,344	12,009	13,221
Of which: Current non-interest	7,067	8,287	9,001	10,071	11,138
Interest	898	1,083	1,106	713	724
External	690	818	853	544	561
Domestic	208	265	253	169	163
Primary balance	2,097	2,075	2,163	1,728	2,084
Primary balance excluding BNB transfers	2,007	1,938	1,988	1,556	1,951
Overall balance	40	-170	-180	-209	1
Financing	-40	170	180	209	-1
External financing (net)	283	-404	-96	481	-2
Domestic financing (net)	-583	328	-506	-492	-250
Banking system	-583	328	-506	-492	-250
Nonbank					
Net acquisition and net lending	260	246	102	221	39
o.w.: revenue from privatization	523	345	181	286	189
GSM license and BCC divident (net)	...	...	680	...	...
Receipts from BCC related to bank privatization	...	...	...	...	212
			(In percent of GDP)		
Total revenue 2/	38.5	38.7	37.6	36.5	38.4
Of which: Tax revenue	29.2	29.9	28.7	27.4	29.8
Total expenditure 2/	38.4	39.4	38.2	37.2	38.4
Of which: Current non-interest	29.7	31.0	30.3	31.2	32.4
Interest	3.8	4.0	3.7	2.2	2.1
External	2.9	3.1	2.9	1.7	1.6
Domestic	0.9	1.0	0.9	0.5	0.5
Primary balance	8.8	7.8	7.3	5.3	6.1
Primary balance excluding BNB transfers	8.4	7.2	6.7	4.8	5.7
Overall balance	0.2	-0.6	-0.6	-0.6	0.0
Financing	-0.2	0.6	0.6	0.6	0.0
External financing (net)	1.2	-1.5	-0.3	1.5	0.0
Domestic financing (net)	-2.5	1.2	-1.7	-1.5	-0.7
Banking system	-2.5	1.2	-1.7	-1.5	-0.7
Nonbank	...	...	...	...	...
Net acquisition and net lending	1.1	0.9	0.3	0.7	0.1
o.w.: revenue from privatization	2.2	1.3	0.6	0.9	0.5
GSM license and BCC divident (net)	...	...	2.3	...	...
Receipts from BCC related to bank privatization	...	...	...	...	0.6
Memorandum items					
Government social insurance contributions					
(in millions of leva)	550	702	674	724	0.1
(in percent of GDP)	2.3	2.6	2.3	2.2	2.5
Nominal GDP (in millions of leva)	23,790	26,753	29,709	32,324	34,410

Source: Bulgarian Ministry of Finance.

1/ Consolidated government from 1998 includes extrabudgetary accounts.
2/ Excluding social insurance contributions paid by the general government on behalf of its employees.

Table A23. Bulgaria: General Government Revenue, 1999-2003 1/

	1999	2000	2001	2002	2003
			(In millions of leva)		
Total revenue 2/	9,164	10,361	11,164	11,799	13,222
Tax revenue 2/	6,955	8,005	8,517	8,873	10,267
Profit taxes	748	736	1,150	976	1,085
Nonfinancial enterprises	636	619	812	871	952
Financial enterprises	112	117	339	105	133
Income taxes	1,056	1,098	1,063	1,052	1,140
VAT/turnover taxes	1,927	2,359	2,454	2,688	3,101
Excise duties (inc.fuel fees)	910	1,131	1,107	1,314	1,544
Customs duties	259	221	195	188	231
Social insurance contributions 2/	1,846	2,242	2,311	2,352	2,806
Pension fund	1,682	1,795	1,822	1,839	2,192
Health Insurance fund	165	446	489	513	614
Other taxes	210	218	236	303	359
Nontax revenues	2,006	2,153	2,284	2,625	2,644
BNB transfers	90	137	175	173	133
Other	1,916	2,016	2,109	2,452	2,512
Assistance	203	204	363	302	311
			(In percent of GDP)		
Total revenue 2/	38.5	38.7	37.6	36.5	38.4
Tax revenue 2/	29.2	29.9	28.7	27.4	29.8
Profit taxes	3.1	2.8	3.9	3.0	3.2
Nonfinancial enterprises	2.7	2.3	2.7	2.7	2.8
Financial enterprises	0.5	0.4	1.1	0.3	0.4
Income taxes	4.4	4.1	3.6	3.3	3.3
VAT/turnover taxes	8.1	8.8	8.3	8.3	9.0
Excise duties (inc.fuel fees)	3.8	4.2	3.7	4.1	4.5
Customs duties	1.1	0.8	0.7	0.6	0.7
Social insurance contributions 2/	7.8	8.4	7.8	7.3	8.2
Pension fund	7.1	6.7	6.1	5.7	6.4
Health Insurance fund	0.7	1.7	1.6	1.6	1.8
Other taxes	0.9	0.8	0.8	0.9	1.0
Nontax revenues	8.4	8.0	7.7	8.1	7.7
BNB transfers	0.4	0.5	0.6	0.5	0.4
Other	8.1	7.5	7.1	7.6	7.3
Assistance	0.9	0.8	1.2	0.9	0.9
Memorandum item					
Nominal GDP (in millions of leva)	23,790	26,753	29,709	32,324	34,410

Source: Bulgarian Ministry of Finance.

1/ Consolidated government from 1998 includes extrabudgetary accounts.
2/ Excluding social insurance contributions paid by the general government on behalf of its employees.

Table A24. Bulgaria; General Government Expenditure, 1999-2003 1/

	1999	2000	2001	2002	2003
			(In millions of leva)		
Total expenditure 2/	9,124	10,532	11,344	12,008	13,221
Total non-interest expenditure	8,226	9,448	10,238	11,296	12,497
Current non-interest expenditure	7,067	8,287	9,001	10,071	11,138
Compensation 2/	1,208	1,283	1,196	1,379	1,552
Wages and salaries	1,182	1,256	1,159	1,338	1,506
Scholarships	26	28	37	41	45
Maintenance/operating	1,697	2,037	1,950	2,154	2,408
Defense/security	962	896	957	1,066	1,107
Subsidies	391	295	292	303	439
Subsidies for healt activities	...	62	417	469	501
Social expenditure	2,808	3,713	4,189	4,701	5,131
Pensions	1,953	2,536	2,702	2,944	3,161
Assistance and unemployment	703	901	858	1,007	1,004
Other social security expenditure	59	172	225	185	211
Health Insurance fund	93	104	404	565	755
Capital expenditure (inc.state reserve gain and natural disasters)	1,159	1,161	1,237	1,225	1,359
Interest	898	1,083	1,106	713	724
External	690	818	853	544	561
Domestic	208	265	253	169	163
			(In percent of GDP)		
Total expenditure 2/	38.4	39.4	38.2	37.2	38.4
Total non-interest expenditure	34.6	35.3	34.5	34.9	36.3
Current non-interest expenditure	29.7	31.0	30.3	31.2	32.4
Compensation 2/	5.1	4.8	4.0	4.3	4.5
Wages and salaries	5.0	4.7	3.9	4.1	4.4
Scholarships	0.1	0.1	0.1	0.1	0.1
Maintenance/operating	7.1	7.6	6.6	6.7	7.0
Defense/security	4.0	3.3	3.2	3.3	3.2
Subsidies	1.6	1.1	1.0	0.9	1.3
Subsidies for healt activities	...	0.2	1.4	1.5	1.5
Social expenditure	11.8	13.9	14.1	14.5	14.9
Pensions	8.2	9.5	9.1	9.1	9.2
Assistance and unemployment	3.0	3.4	2.9	3.1	2.9
Other social security expenditure	0.2	0.6	0.8	0.6	0.6
Health Insurance fund	0.4	0.4	1.4	1.7	2.2
Capital expenditure (inc.state reserve gain and natural disasters)	4.9	4.3	4.2	3.8	3.9
Interest	3.8	4.0	3.7	2.2	2.1
External	2.9	3.1	2.9	1.7	1.6
Domestic	0.9	1.0	0.9	0.5	0.5
Memorandum item					
Nominal GDP (in millions of leva)	23,790	26,753	29,709	32,324	34,410

Source: Bulgarian Ministry of Finance.
1/ Consolidated government from 1998 includes extrabudgetary accounts.
2/ Excluding social insurance contributions paid by the general government on behalf of its employees.

Table A25. Bulgaria: Cash Flow Statement -- Consolidated General Government (GFSM 2001 Definition), 1999-2003

	1999	2000	2001	2002	2003 Prel.
			(In millions of leva)		
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from operating activities	9,161	10,311	11,467	12,415	13,817
Taxes	5,108	5,763	6,206	6,666	7,634
Social contributions	2,132	2,469	2,498	3,075	3,654
Grants	201	200	348	302	311
Other receipts	1,720	1,879	2,416	2,372	2,218
Cash payments for operating activities	8,349	9,656	10,413	11,662	12,907
Compensation of employees	1,635	1,560	1,483	1,946	2,313
Purchases of goods and services	2,743	2,845	2,718	3,292	3,509
Interest	894	1,077	1,106	712	724
Subsidies	....	....	....	772	940
Grants	1	8	51	0	0
Social benefits	....	....	....	4,696	5,128
Other payments	....	....	....	244	293
Net cash inflow from operating activities	812	655	1,055	753	910
CASH FLOWS FROM INVESTMENTS IN NONFINANCIAL ASSETS					
Net cash outflow from investments in nonfinancial assets	772	822	994	961	909
Fixed assets	632	677	834	978	985
Change in inventories	-22	1	-1	13	-13
Valuables	0	0	0	0	0
Nonproduced assets	9	9	13	-30	-63
Cash surplus / deficit	40	-167	60	-208	1
CASH FLOWS FROM FINANCING ACTIVITIES					
Net Acquisition of Financial Assets other than Cash	-251	-260	-557	-1,223	-312
Domestic	-242	-234	-530	-211	-250
Foreign	-10	-26	-26	-1,012	-62
Monetary gold and SDRs	0	0	0	0	0
Net Incurrence of Liabilities	255	-359	-323	-383	237
Domestic	-18	74	-201	132	324
Foreign	273	-433	-122	-514	-87
Net cash inflow from financing activities	506	-99	234	840	549
Net change in the stock of cash	547	-266	294	632	550
			(In percent of GDP)		
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from operating activities	38.5	38.5	38.6	38.4	40.2
Taxes	21.5	21.5	20.9	20.6	22.2
Social contributions	9.0	9.2	8.4	9.5	10.6
Grants	0.8	0.7	1.2	0.9	0.9
Other receipts	7.2	7.0	8.1	7.3	6.4
Cash payments for operating activities	35.1	36.1	35.0	36.1	37.5
Compensation of employees	6.9	5.8	5.0	6.0	6.7
Purchases of goods and services	11.5	10.6	9.1	10.2	10.2
Interest	3.8	4.0	3.7	2.2	2.1
Subsidies	....	....	....	2.4	2.7
Grants	0.0	0.0	0.2	0.0	0.0
Social benefits	....	....	....	14.5	14.9
Other payments	....	....	....	0.8	0.9
Net cash inflow from operating activities	3.4	2.4	3.5	2.3	2.6
CASH FLOWS FROM INVESTMENTS IN NONFINANCIAL ASSETS					
Net cash outflow from investments in nonfinancial assets	3.2	3.1	3.3	3.0	2.6
Fixed assets	2.7	2.5	2.8	3.0	2.9
Change in inventories	-0.1	0.0	0.0	0.0	0.0
Valuables	0.0	0.0	0.0	0.0	0.0
Nonproduced assets	0.0	0.0	0.0	-0.1	-0.2
Cash surplus / deficit	0.2	-0.6	0.2	-0.6	0.0
CASH FLOWS FROM FINANCING ACTIVITIES					
Net Acquisition of Financial Assets other than Cash	-1.1	-1.0	-1.9	-3.8	-0.9
Domestic	-1.0	-0.9	-1.8	-0.7	-0.7
Foreign	0.0	-0.1	-0.1	-3.1	-0.2
Monetary gold and SDRs	0.0	0.0	0.0	0.0	0.0
Net Incurrence of Liabilities	1.1	-1.3	-1.1	-1.2	0.7
Domestic	-0.1	0.3	-0.7	0.4	0.9
Foreign	1.1	-1.6	-0.4	-1.6	-0.3
Net cash inflow from financing activities	2.1	-0.4	0.8	2.6	1.6
Net change in the stock of cash	2.3	-1.0	1.0	2.0	1.6
Nominal GDP (in millions of leva)	23,790	26,753	29,709	32,324	34,410

Source: Ministry of Finance.

Table A26. Bulgaria: Revenue -- Consolidated Central Government (GFSM 2001 Definition), 1999-2003

	1999	2000	2001	2002	2003 Prel.
			(In millions of leva)		
Revenue	8,096	9,228	10,199	11,116	12,484
Taxes	4,260	4,899	5,185	5,438	6,527
Taxes on income, profits, and capital gains	1,029	1,045	1,277	1,088	1,477
Taxes on goods and services	2,634	3,530	3,604	4,159	4,813
General taxes on goods and services	1,927	2,359	2,454	2,688	3,101
Excises	691	1,131	1,107	1,314	1,544
Taxes on specific services	16	40	43	25	24
Other taxes on goods and services	0	0	0	132	144
Taxes on international trade and transactions	258	221	195	188	231
Other taxes	339	104	109	3	6
Social contributions	2,132	2,469	2,498	3,075	3,654
Social security contributions	1,883	2,242	2,310	3,075	3,654
Employee contributions	176	435	453	588	665
Employer contributions	1,507	1,428	1,439	2,126	2,576
Self-employed or nonemployed contributions	89	148	189	360	412
Unallocable contributions	111	231	228	0	0
Other social contributions	249	227	188	0	0
Grants	214	215	394	432	306
From foreign governments	191	200	348	0	0
From international organizations	9	0	0	291	303
From other general government units	13	16	46	140	2
Other revenue	1,490	1,645	2,122	2,171	1,998
Property income	271	480	973	825	765
Sales of goods and services	689	731	837	557	500
Fines, penalties, and forfeits	424	353	270	295	247
Miscellaneous and unidentified revenue	105	81	42	493	486
			(In percent of GDP)		
Revenue	34.0	34.5	34.3	34.4	36.3
Taxes	17.9	18.3	17.5	16.8	19.0
Taxes on income, profits, and capital gains	4.3	3.9	4.3	3.4	4.3
Taxes on goods and services	11.1	13.2	12.1	12.9	14.0
General taxes on goods and services	8.1	8.8	8.3	8.3	9.0
Excises	2.9	4.2	3.7	4.1	4.5
Taxes on specific services	0.1	0.1	0.1	0.1	0.1
Taxes on use of goods and on permission to use goods	0.0	0.0	0.0	0.0	0.0
Other taxes on goods and services	0.0	0.0	0.0	0.4	0.4
Taxes on international trade and transactions	1.1	0.8	0.7	0.6	0.7
Other taxes	1.4	0.4	0.4	0.0	0.0
Social contributions	9.0	9.2	8.4	9.5	10.6
Social security contributions	7.9	8.4	7.8	9.5	10.6
Employee contributions	0.7	1.6	1.5	1.8	1.9
Employer contributions	6.3	5.3	4.8	6.6	7.5
Self-employed or nonemployed contributions	0.4	0.6	0.6	1.1	1.2
Unallocable contributions	0.5	0.9	0.8	0.0	0.0
Other social contributions	1.0	0.8	0.6	0.0	0.0
Grants	0.9	0.8	1.3	1.3	0.9
From foreign governments	0.8	0.7	1.2	0.0	0.0
From international organizations	0.0	0.0	0.0	0.9	0.9
From other general government units	0.1	0.1	0.2	0.4	0.0
Other revenue	6.3	6.1	7.1	6.7	5.8
Property income	1.1	1.8	3.3	2.6	2.2
Sales of goods and services	2.9	2.7	2.8	1.7	1.5
Fines, penalties, and forfeits	1.8	1.3	0.9	0.9	0.7
Miscellaneous and unidentified revenue	0.4	0.3	0.1	1.5	1.4
Memorandum item					
Nominal GDP (in millions of leva)	23,790	26,753	29,709	32,324	34,410

Source: Ministry of Finance.

Table A27. Bulgaria: Total Outlays -- Consolidated Centrall Government (GFSM 2001 Definition), 1999-2003

	1999	2000	2001	2002	2003 Prel.
			(In millions of leva)		
Total outlays	7,999	9,333	10,139	11,293	12,417
General public services	2,395	2,678	2,475	2,399	2,293
Public debt transactions n.e.c.	893	1,067	1,096	702	721
Transfers of general character between levels of government	722	836	672	1,011	758
Defense	681	644	622	821	815
Public order and safety	533	509	554	865	949
Economic affairs	817	915	1,157	1,318	1,477
Agriculture, forestry, fishing and hunting	148	165	202	322	368
Fuel and energy	189	104	96	55	57
Mining, manufacturing, and construction	1	0	0	0	0
Transport	327	516	490	515	551
Housing and community amenities	109	134	193	105	87
Health	410	524	985	1,228	1,479
Recreation, culture and religion	142	154	143	151	195
Education	348	426	456	568	651
Social protection	2,689	3,461	3,622	3,892	4,637
Statistical discrepancy (sales of nonfinancial assets)	*-124*	*-112*	*-68*	*-54*	*-165*
Expense	7,380	8,645	9,293	10,533	11,712
Compensation of employees	645	740	783	1,123	1,356
Wages and salaries	645	740	783	856	1,027
Social contributions	0	0	0	267	328
Actual social contributions	0	0	0	267	328
Imputed social contributions	0	0	0	0	0
Use of goods and services	2,068	2,112	2,088	2,535	2,740
Interest	893	1,067	1,096	701	721
Subsidies	388	255	543	587	738
Grants	736	844	723	1,011	758
To foreign governments	14	8	51	0	0
To other general government units	722	836	672	1,011	758
Social benefits	2,514	3,491	3,945	4,349	5,122
Social security benefits	....	....	....	3,672	4,121
Social assistance benefits	....	....	....	250	665
Employer social benefits	....	....	....	427	336
Other expense	136	135	115	227	276
Net Acquisition of Nonfinancial Assets	619	688	846	759	706
Fixed assets	632	677	834	748	721
Change in inventories	-22	1	-1	13	-12
Nonproduced assets	9	9	13	-1	-3
			(In percent of GDP)		
Total outlays	33.6	34.9	34.1	34.9	36.1
General public services	10.1	10.0	8.3	7.4	6.7
Public debt transactions n.e.c.	3.8	4.0	3.7	2.2	2.1
Transfers of general character between levels of government	3.0	3.1	2.3	3.1	2.2
Defense	2.9	2.4	2.1	2.5	2.4
Public order and safety	2.2	1.9	1.9	2.7	2.8
Economic affairs	3.4	3.4	3.9	4.1	4.3
Agriculture, forestry, fishing and hunting	0.6	0.6	0.7	1.0	1.1
Fuel and energy	0.8	0.4	0.3	0.2	0.2
Mining, manufacturing, and construction	0.0	0.0	0.0	0.0	0.0
Transport	1.4	1.9	1.6	1.6	1.6
Housing and community amenities	0.5	0.5	0.6	0.3	0.3
Health	1.7	2.0	3.3	3.8	4.3
Recreation, culture and religion	0.6	0.6	0.5	0.5	0.6
Education	1.5	1.6	1.5	1.8	1.9
Social protection	11.3	12.9	12.2	12.0	13.5
Statistical discrepancy (sales of nonfinancial assets)	-0.5	-0.4	-0.2	-0.2	-0.5
Expense	31.0	32.3	31.3	32.6	34.0
Compensation of employees	2.7	2.8	2.6	3.5	3.9
Wages and salaries	2.7	2.8	2.6	2.6	3.0
Social contributions	0.0	0.0	0.0	0.8	1.0
Use of goods and services	8.7	7.9	7.0	7.8	8.0
Interest	3.8	4.0	3.7	2.2	2.1
Subsidies	1.6	1.0	1.8	1.8	2.1
Grants	3.1	3.2	2.4	3.1	2.2
To foreign governments	0.1	0.0	0.2	0.0	0.0
To international organizations	0.0	0.0	0.0	0.0	0.0
To other general government units	3.0	3.1	2.3	3.1	2.2
Social benefits	10.6	13.1	13.3	13.5	14.9
Social security benefits	....	....	....	11.4	12.0
Social assistance benefits	....	....	....	0.8	1.9
Employer social benefits	....	....	....	1.3	1.0
Other expense	0.6	0.5	0.4	0.7	0.8
Net Acquisition of Nonfinancial Assets	2.6	2.6	2.8	2.3	2.1
Fixed assets	2.7	2.5	2.8	2.3	2.1
Change in inventories	-0.1	0.0	0.0	0.0	0.0
Nonproduced assets	0.0	0.0	0.0	0.0	0.0
Memorandum item					
Nominal GDP (in millions of leva)	23,790	26,753	29,709	32,324	34,410

Source: Ministry of Finance.

Table A28 Bulgaria: Cash Flow Statement -- Budgetary Central Government (GFSM 2001 Definition), 1999-2003

	1999	2000	2001	2002	2003 Prel.
			(In millions of leva)		
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from operating activities	5,410	6,228	6,940	7,922	8,505
Taxes	4,018	4,805	5,132	5,437	6,527
Social contributions	4	0	0	0	0
Grants	181	67	52	496	61
Other receipts	1,206	1,355	1,756	1,989	1,916
Cash payments for operating activities	4,432	5,832	6,626	7,294	8,030
Compensation of employees	595	700	733	1,082	1,308
Purchases of goods and services	1,789	1,863	1,902	2,425	2,640
Interest	890	1,057	1,094	700	720
Subsidies	326	240	502	552	684
Grants	736	1,710	2,168	2,136	1,958
Social benefits	14	169	134	238	554
Other payments	82	94	93	161	166
Net cash inflow from operating activities	978	396	314	628	475
CASH FLOWS FROM INVESTMENTS IN NONFINANCIAL ASSETS					
Net cash outflow from investments in nonfinancial assets	308	516	677	598	562
Fixed assets	324	503	665	587	577
Change in inventories	-15	2	0	13	-12
Nonproduced assets	-1	11	13	-1	-3
Cash surplus / deficit	670	-120	-363	30	-86
CASH FLOWS FROM FINANCING ACTIVITIES					
Net Acquisition of Financial Assets other than Cash	-288	-297	-533	-1,140	-317
Domestic	-278	-271	-506	-128	-256
Foreign	-10	-26	-26	-1,012	-62
Net Incurrence of Liabilities	115	-513	-318	-402	214
Domestic	59	15	-215	127	304
Foreign	56	-528	-103	-529	-90
Net cash inflow from financing activities	403	-216	215	738	531
Net change in the stock of cash	1,073	-337	-148	768	445
			(In percent of GDP)		
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from operating activities	22.7	23.3	23.4	24.5	24.7
Taxes	16.9	18.0	17.3	16.8	19.0
Social contributions	0.0	0.0	0.0	0.0	0.0
Grants	0.8	0.3	0.2	1.5	0.2
Other receipts	5.1	5.1	5.9	6.2	5.6
Cash payments for operating activities	18.6	21.8	22.3	22.6	23.3
Compensation of employees	2.5	2.6	2.5	3.3	3.8
Purchases of goods and services	7.5	7.0	6.4	7.5	7.7
Interest	3.7	3.9	3.7	2.2	2.1
Subsidies	1.4	0.9	1.7	1.7	2.0
Grants	3.1	6.4	7.3	6.6	5.7
Social benefits	0.1	0.6	0.4	0.7	1.6
Other payments	0.3	0.3	0.3	0.5	0.5
Net cash inflow from operating activities	4.1	1.5	1.1	1.9	1.4
CASH FLOWS FROM INVESTMENTS IN NONFINANCIAL ASSETS					
Net cash outflow from investments in nonfinancial assets	1.3	1.9	2.3	1.9	1.6
Fixed assets	1.4	1.9	2.2	1.8	1.7
Change in inventories	-0.1	0.0	0.0	0.0	0.0
Nonproduced assets	0.0	0.0	0.0	0.0	0.0
Cash surplus / deficit	2.8	-0.5	-1.2	0.1	-0.3
CASH FLOWS FROM FINANCING ACTIVITIES					
Net Acquisition of Financial Assets other than Cash	-1.2	-1.1	-1.8	-3.5	-0.9
Domestic	-1.2	-1.0	-1.7	-0.4	-0.7
Foreign	0.0	-0.1	-0.1	-3.1	-0.2
Net Incurrence of Liabilities	0.5	-1.9	-1.1	-1.2	0.6
Domestic	0.2	0.1	-0.7	0.4	0.9
Foreign	0.2	-2.0	-0.3	-1.6	-0.3
Net cash inflow from financing activities	1.7	-0.8	0.7	2.3	1.5
Net change in the stock of cash	4.5	-1.3	-0.5	2.4	1.3
Memorandum item					
Nominal GDP (in millions of leva)	23,790	26,753	29,709	32,324	34,410

Source: Ministry of Finance.

Table A28a. Bulgaria: Cash Flow Statement -- Extrabudgetary Accounts (GFSM 2001 Definition), 1999-2003

	1999	2000	2001	2002	2003 Prel.
			(In millions of leva)		
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from operating activities	665	376	637	390	546
Taxes	243	94	53	2	0
Social contributions	8	0	0	0	0
Grants	194	148	395	369	532
Other receipts	220	134	189	19	14
Cash payments for operating activities	1,121	522	281	527	257
Compensation of employees	27	7	10	7	5
Purchases of goods and services	191	219	153	88	78
Interest	2	9	0	0	0
Subsidies	62	14	40	36	54
Grants	733	213	38	330	9
Social benefits	52	18	19	0	0
Other payments	54	42	22	66	110
Net cash inflow from operating activities	-456	-146	356	-137	289
CASH FLOWS FROM INVESTMENTS IN NONFINANCIAL ASSETS					
Net cash outflow from investments in nonfinancial assets	212	144	151	157	142
Fixed assets	221	147	153	157	142
Change in inventories	-7	-1	0	0	0
Nonproduced assets	-1	-2	-1	0	0
Cash surplus / deficit	-668	-290	205	-294	146
CASH FLOWS FROM FINANCING ACTIVITIES					
Net Acquisition of Financial Assets other than Cash	37	37	33	-27	60
Domestic	37	37	33	-27	60
Net Incurrence of Liabilities	97	76	40	39	-1
Domestic	-9	-8	2	0	-2
Foreign	107	84	38	39	0
Net cash inflow from financing activities	61	39	7	66	-61
Net change in the stock of cash	-608	-251	212	-228	85
			(In percent of GDP)		
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from operating activities	2.8	1.4	2.1	1.2	1.6
Taxes	1.0	0.4	0.2	0.0	0.0
Social contributions	0.0	0.0	0.0	0.0	0.0
Grants	0.8	0.6	1.3	1.1	1.5
Other receipts	0.9	0.5	0.6	0.1	0.0
Cash payments for operating activities	4.7	2.0	0.9	1.6	0.7
Compensation of employees	0.1	0.0	0.0	0.0	0.0
Purchases of goods and services	0.8	0.8	0.5	0.3	0.2
Interest	0.0	0.0	0.0	0.0	0.0
Subsidies	0.3	0.1	0.1	0.1	0.2
Grants	3.1	0.8	0.1	1.0	0.0
Social benefits	0.2	0.1	0.1	0.0	0.0
Other payments	0.2	0.2	0.1	0.2	0.3
Net cash inflow from operating activities	-1.9	-0.5	1.2	-0.4	0.8
CASH FLOWS FROM INVESTMENTS IN NONFINANCIAL ASSETS					
Net cash outflow from investments in nonfinancial assets	0.9	0.5	0.5	0.5	0.4
Fixed assets	0.9	0.6	0.5	0.5	0.4
Change in inventories	0.0	0.0	0.0	0.0	0.0
Nonproduced assets	0.0	0.0	0.0	0.0	0.0
Cash surplus / deficit	-2.8	-1.1	0.7	-0.9	0.4
CASH FLOWS FROM FINANCING ACTIVITIES					
Net Acquisition of Financial Assets other than Cash	0.2	0.1	0.1	-0.1	0.2
Domestic	0.2	0.1	0.1	-0.1	0.2
Net Incurrence of Liabilities	0.4	0.3	0.1	0.1	0.0
Domestic	0.0	0.0	0.0	0.0	0.0
Foreign	0.4	0.3	0.1	0.1	0.0
Net cash inflow from financing activities	0.3	0.1	0.0	0.2	-0.2
Net change in the stock of cash	-2.6	-0.9	0.7	-0.7	0.2
Memorandum item					
Nominal GDP (in millions of leva)	23,790	26,753	29,709	32,324	34,410

Source: Ministry of Finance.

Table A29. Bulgaria: Cash Flow Statement -- Social Security Funds (GFSM 2001 Definition), 1999-2003

	1999	2000	2001	2002	2003 Prel.
			(In millions of leva)		
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from operating activities	2,754	3,703	4,105	4,264	4,646
Taxes	0	0	0	0	0
Social contributions	2,119	2,469	2,498	3,075	3,654
Grants	572	1,078	1,430	1,027	925
Other receipts	63	156	177	162	67
Cash payments for operating activities	2,560	3,370	3,869	4,173	4,637
Compensation of employees	23	34	41	34	43
Purchases of goods and services	88	30	34	21	22
Interest	0	1	2	1	1
Grants	0	0	0	5	4
Social benefits	2,448	3,305	3,793	4,111	4,568
Other payments	0	0	0	0	0
Net cash inflow from operating activities	194	333	235	91	9
CASH FLOWS FROM INVESTMENTS IN NONFINANCIAL ASSETS					
Net cash outflow from investments in nonfinancial assets	98	28	18	4	2
Fixed assets	87	27	17	4	2
Change in inventories	0	0	0	0	0
Valuables	0	0	0	0	0
Nonproduced assets	11	0	1	0	0
Cash surplus / deficit	96	306	218	87	7
CASH FLOWS FROM FINANCING ACTIVITIES					
Net Acquisition of Financial Assets other than Cash	0	0	0	2	-1
Domestic	0	0	0	2	-1
Net Incurrence of Liabilities	15	6	1	-1	-9
Domestic	0	-5	-11	0	2
Foreign	15	11	13	-1	-12
Net cash inflow from financing activities	15	6	1	-3	-8
Net change in the stock of cash	111	312	219	84	-1
			(In percent of GDP)		
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from operating activities	11.6	13.8	13.8	13.2	13.5
Taxes	0.0	0.0	0.0	0.0	0.0
Social contributions	8.9	9.2	8.4	9.5	10.6
Grants	2.4	4.0	4.8	3.2	2.7
Other receipts	0.3	0.6	0.6	0.5	0.2
Cash payments for operating activities	10.8	12.6	13.0	12.9	13.5
Compensation of employees	0.1	0.1	0.1	0.1	0.1
Purchases of goods and services	0.4	0.1	0.1	0.1	0.1
Interest	0.0	0.0	0.0	0.0	0.0
Grants	0.0	0.0	0.0	0.0	0.0
Social benefits	10.3	12.4	12.8	12.7	13.3
Other payments	0.0	0.0	0.0	0.0	0.0
Net cash inflow from operating activities	0.8	1.2	0.8	0.3	0.0
CASH FLOWS FROM INVESTMENTS IN NONFINANCIAL ASSETS					
Net cash outflow from investments in nonfinancial assets	0.4	0.1	0.1	0.0	0.0
Fixed assets	0.4	0.1	0.1	0.0	0.0
Change in inventories	0.0	0.0	0.0	0.0	0.0
Valuables	0.0	0.0	0.0	0.0	0.0
Nonproduced assets	0.0	0.0	0.0	0.0	0.0
Cash surplus / deficit	0.4	1.1	0.7	0.3	0.0
CASH FLOWS FROM FINANCING ACTIVITIES					
Net Acquisition of Financial Assets other than Cash	0.0	0.0	0.0	0.0	0.0
Domestic	0.0	0.0	0.0	0.0	0.0
Net Incurrence of Liabilities	0.1	0.0	0.0	0.0	0.0
Domestic	0.0	0.0	0.0	0.0	0.0
Foreign	0.1	0.0	0.0	0.0	0.0
Net cash inflow from financing activities	0.1	0.0	0.0	0.0	0.0
Net change in the stock of cash	0.5	1.2	0.7	0.3	0.0
Memorandum item					
Nominal GDP (in millions of leva)	23,790	26,753	29,709	32,324	34,410

Source: Ministry of Finance.

Table A30. Bulgaria: Cash Flow Statement -- Local Governments (GFSM 2001 Definition), 1999-2003

	1999	2000	2001	2002	2003 Prel.
	(In millions of leva)				
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from operating activities	1,800	1,935	1,987	2,451	2,093
Taxes	848	865	1,020	1,227	1,107
Social contributions	0	0	0	0	0
Grants	722	836	673	1,022	766
Other receipts	230	234	294	202	220
Cash payments for operating activities	1,704	1,863	1,839	2,281	1,955
Compensation of employees	990	820	700	823	957
Purchases of goods and services	675	733	630	758	769
Interest	1	10	10	11	2
Subsidies	....	....	....	185	202
Grants	0	16	46	141	2
Social benefits	....	....	....	347	6
Other payments	....	....	....	17	17
Net cash inflow from operating activities	96	72	149	170	138
CASH FLOWS FROM INVESTMENTS IN NONFINANCIAL ASSETS					
Net cash outflow from investments in nonfinancial assets	153	134	148	201	204
Fixed assets	0	0	0	230	264
Nonproduced assets	0	0	0	-29	-60
Cash surplus / deficit	-57	-62	1	-31	-66
CASH FLOWS FROM FINANCING ACTIVITIES					
Net Acquisition of Financial Assets other than Cash	0	-1	-56	-53	-55
Domestic	0	-1	-56	-53	-55
Net Incurrence of Liabilities	28	71	-46	-14	33
Domestic	-68	71	24	10	17
Foreign	96	0	-70	-24	15
Net cash inflow from financing activities	28	72	10	39	87
Net change in the stock of cash	-29	9	11	8	21
	(In percent of GDP)				
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from operating activities	7.6	7.2	6.7	7.6	6.1
Taxes	3.6	3.2	3.4	3.8	3.2
Social contributions	0.0	0.0	0.0	0.0	0.0
Grants	3.0	3.1	2.3	3.2	2.2
Other receipts	1.0	0.9	1.0	0.6	0.6
Cash payments for operating activities	7.2	7.0	6.2	7.1	5.7
Compensation of employees	4.2	3.1	2.4	2.5	2.8
Purchases of goods and services	2.8	2.7	2.1	2.3	2.2
Interest	0.0	0.0	0.0	0.0	0.0
Subsidies	....	....	....	0.6	0.6
Grants	0.0	0.1	0.2	0.4	0.0
Social benefits	....	....	....	1.1	0.0
Other payments	....	....	....	0.1	0.1
Net cash inflow from operating activities	0.4	0.3	0.5	0.5	0.4
CASH FLOWS FROM INVESTMENTS IN NONFINANCIAL ASSETS					
Net cash outflow from investments in nonfinancial assets	0.6	0.5	0.5	0.6	0.6
Fixed assets	0.0	0.0	0.0	0.7	0.8
Nonproduced assets	0.0	0.0	0.0	-0.1	-0.2
Cash surplus / deficit	-0.2	-0.2	0.0	-0.1	-0.2
CASH FLOWS FROM FINANCING ACTIVITIES					
Net Acquisition of Financial Assets other than Cash	0.0	0.0	-0.2	-0.2	-0.2
Domestic	0.0	0.0	-0.2	-0.2	-0.2
Net Incurrence of Liabilities	0.1	0.3	-0.2	0.0	0.1
Domestic	-0.3	0.3	0.1	0.0	0.1
Foreign	0.4	0.0	-0.2	-0.1	0.0
Net cash inflow from financing activities	0.1	0.3	0.0	0.1	0.3
Net change in the stock of cash	-0.1	0.0	0.0	0.0	0.1
Memorandum item					
Nominal GDP (in millions of leva)	23,790	26,753	29,709	32,324	34,410

Source: Ministry of Finance.

Table A31. Bulgaria: Monetary Survey, 1998-2003

	1998	1999	2000	2001	2002	2003
	(In millions of leva)					
Broad money 1/	6,647	7,536	9,857	12,401	13,857	16,566
Currency outside banks	1,743	1,962	2,374	3,081	3,335	3,874
Deposits	4,904	5,574	7,483	9,319	10,519	12,591
in levs	2,395	2,772	3,438	4,400	5,302	6,514
in foreign currency	2,509	2,802	4,044	4,919	5,218	6,077
Repos and debt securities issued	...	...	...	...	3	102
in levs	...	...	...	...	3	86
in foreign currency	...	...	...	...	0	16
Long term financial liabilities	...	...	...	2,888	3,402	3,982
Deposits 2/	...	...	...	15	94	202
in levs	...	...	...	12	74	118
in foreign currency	...	...	...	2	20	84
Debt securities issued	...	...	...	6	16	54
in levs	...	...	...	0	5	5
in foreign currency	...	...	...	6	11	49
Capital and reserves	2,051	2,303	2,684	2,867	3,293	3,726
Net foreign assets	5,638	6,566	8,196	9,454	9,892	10,049
BNB	3,390	3,996	4,661	5,485	6,982	8,545
DMB	2,247	2,570	3,535	3,969	2,910	1,504
Net domestic assets	3,060	3,273	4,345	5,835	7,368	10,499
Domestic credit	3,503	3,640	4,770	6,009	7,656	10,251
Lev credit	1,628	1,335	2,153	3,002	4,227	5,643
Government (net) 3/	179	-402	-19	138	472	218
Non-government	1,449	1,737	2,171	2,864	3,755	5,425
Nonfinancial corporations	976	1,220	1,564	1,960	2,437	3,086
Nonbank financial corporations	2	3	9	15	33	60
Households and NPISHs	472	514	599	888	1,285	2,279
Foreign currency credit	1,874	2,305	2,618	3,006	3,430	4,608
Government (net) 3/	957	1,168	1,426	1,427	788	546
Non-government	917	1,137	1,191	1,579	2,642	4,062
Nonfinancial corporations	904	1,116	1,151	1,489	2,472	3,646
Nonbank financial corporations	10	14	21	44	70	194
Households and NPISHs	4	8	20	46	100	223
Fixed assets	599	674	759	879	951	1,183
Other items net	-1,042	-1,042	-1,185	-1,052	-1,239	-935
	(Percent change from previous year)					
Broad money	11.8	13.4	30.8	25.8	11.7	19.6
Lev deposits	9.1	15.7	24.1	28.0	20.5	22.9
Foreign currency deposits	3.0	11.7	44.3	21.6	6.1	16.5
Real broad money	9.9	6.0	17.4	20.0	7.6	13.2
Domestic credit	-3.4	3.9	31.0	26.0	27.4	33.9
Government	-43.2	-32.6	83.8	11.2	-19.6	-39.3
Non-government	45.5	21.4	17.0	32.1	44.0	48.3
Nonfinancial corporations	29.5	24.3	16.2	27.1	42.3	37.1
Nonbank financial corporations	46.5	41.0	74.2	104.7	73.1	146.8
Households and NPISHs	184.4	9.7	18.5	51.0	48.3	80.7
	(In millions of euros)					
Foreign currency deposits	1,284	1,433	2,068	2,515	2,668	3,107
(In percent of broad money)	37.7	37.2	41.0	39.7	37.7	36.7
Net foreign assets	2,885	3,357	4,190	4,834	5,058	5,138
BNB	1,735	2,043	2,383	2,805	3,570	4,369
DMB	1,150	1,314	1,807	2,029	1,488	769

Sources: Bulgarian National Bank; and Fund staff estimates.

1/ In February 2004, monetary data were recast to further harmonize with ECB requirements. Among the changes is the creation of a new category outside broad money called long-term financial liabilities.
2/ Long-term deposits include deposits with agreed maturity over 2 years and deposits redeemable at notice over 3 months which are not included in broad money.
3/ Includes net claims on central government and gross claims on local government and SSF's.

Table A32. Bulgaria: Foreign Assets of the Banking System, 1998-2003

		BNB International Reserves							Deposit Money Banks		Banking System	
		Foreign assets	International reserves	IMF purchases	Net reserves 1/	Foreign liabilities	Net foreign assets	Reserves less gold	Foreign assets 2/	Foreign currency deposits 3/	Foreign assets	Broad money
		(In millions of U.S. dollars)										
1998:	March	2,733	2,570	901	1,669	901	1,832	2,219	1,382	1,274	3,952	3,241
	June	2,978	2,897	1,042	1,855	1,042	1,936	2,540	1,410	1,283	4,307	3,347
	Sep.	2,871	2,788	981	1,808	981	1,890	2,401	1,473	1,338	4,261	3,630
	Dec.	3,139	3,056	1,115	1,941	1,115	2,024	2,684	1,469	1,339	4,525	3,968
1999:	March	2,860	2,780	1,115	1,665	1,115	1,745	2,428	1,369	1,245	4,149	3,454
	June	2,804	2,726	1,132	1,594	1,132	1,673	2,391	1,335	1,101	4,061	3,291
	Sep.	2,961	2,882	1,219	1,662	1,219	1,742	2,532	1,615	1,365	4,496	3,683
	Dec.	3,302	3,222	1,249	1,972	1,249	2,052	2,892	1,492	1,252	4,713	3,871
2000:	March	2,951	2,875	1,209	1,666	1,209	1,742	2,561	1,755	1,495	4,630	3,765
	June	3,223	3,145	1,314	1,831	1,314	1,909	2,832	1,768	1,445	4,913	3,728
	Sep.	3,038	2,959	1,316	1,643	1,316	1,722	2,671	2,064	1,764	5,023	3,967
	Dec.	3,540	3,460	1,323	2,137	1,323	2,218	3,155	1,942	1,700	5,402	4,689
2001:	March	3,163	3,080	1,284	1,796	1,284	1,879	2,790	2,173	1,834	5,252	4,617
	June	3,123	3,040	1,261	1,779	1,261	1,862	2,761	2,069	1,826	5,108	4,537
	Sep.	3,203	3,120	1,221	1,899	1,221	1,982	2,820	2,154	1,800	5,274	5,183
	Dec.	3,581	3,580	1,109	2,471	1,109	2,472	3,291	2,102	1,629	5,682	5,588
2002:	March	3,210	3,210	1,073	2,137	1,073	2,137	2,924	2,103	1,626	5,313	5,500
	June	4,034	4,033	1,060	2,974	1,060	2,974	3,706	1,882	1,399	5,915	6,173
	Sep.	4,284	4,283	1,065	3,219	1,065	3,219	3,960	1,992	1,512	6,276	6,460
	Dec.	4,747	4,747	1,043	3,704	1,043	3,704	4,407	2,018	1,479	6,764	7,352
2003:	March	4,793	4,792	1,069	3,724	1,069	3,724	4,435	2,108	1,538	6,900	7,611
	June	5,522	5,522	1,085	4,437	1,085	4,438	5,148	1,899	1,356	7,421	8,371
	Sep.	5,888	5,887	1,169	4,718	1,169	4,719	5,505	2,097	1,443	7,985	9,081
	Dec.	6,705	6,705	1,188	5,517	1,188	5,518	6,291	1,939	1,197	8,644	10,698

Sources: Bulgarian National Bank; and staff calculations.

1/ International reserves net of outstanding purchases from the IMF.
2/ Includes claims in non-convertible currency and other illiquid assets in addition to claims on nonresident banks.
3/ Includes overnight deposits, deposits with agreed maturity and deposits redeemable at notice in foreign currency with non-residents (to date, the latter category has been zero).

Table A33. Bulgaria: Composition of Broad Money, 1998-2003

	Currency	Overnight deposits			Narrow	Deposits with agreed maturity up to 2 years			Deposits redeemable at notice up to 3 months				Repurchase	Debt securities	Broad money
	outside banks	in lev	in foreign currency	total	money (MI)	in lev	in foreign currency	total	in lev	in foreign currency	total	M2	agreements	issued up to 2 years	(M3)
							(In millions of leva)								
1998: March	1,287	933	829	1,762	3,048	928	1,358	2,285	236	375	611	5,945	...	...	5,945
June	1,417	914	829	1,743	3,161	912	1,363	2,275	252	370	622	6,058	...	...	6,058
Sep.	1,464	898	904	1,803	3,267	883	1,309	2,191	258	357	614	6,073	...	...	6,073
Dec.	1,743	1,218	745	1,963	3,706	886	1,384	2,270	291	380	671	6,647	...	...	6,647
1999: March	1,568	1,034	759	1,793	3,361	873	1,364	2,237	306	385	691	6,289	...	...	6,289
June	1,480	1,025	769	1,795	3,275	818	1,436	2,254	311	393	704	6,233	...	...	6,233
Sep.	1,688	1,145	761	1,905	3,593	907	1,530	2,437	339	385	725	6,755	...	...	6,755
Dec.	1,962	1,344	733	2,077	4,038	1,041	1,659	2,700	387	410	797	7,536	...	...	7,536
2000: March	1,825	1,386	881	2,267	4,092	1,035	1,752	2,786	405	424	830	7,708	...	...	7,708
June	1,876	1,181	835	2,017	3,892	1,058	1,837	2,895	408	433	842	7,629	...	...	7,629
Sep.	2,111	1,429	897	2,326	4,437	1,475	2,029	3,504	425	485	911	8,851	...	...	8,851
Dec.	2,374	1,602	821	2,423	4,797	1,385	2,733	4,118	451	490	942	9,857	...	...	9,857
2001: March	2,225	1,785	899	2,684	4,909	1,474	2,859	4,333	471	512	983	10,225	...	...	10,225
June	2,428	1,610	1,001	2,612	5,039	1,804	2,576	4,380	488	557	1,045	10,464	...	...	10,464
Sep.	2,602	1,672	1,042	2,714	5,316	1,901	2,798	4,699	509	579	1,088	11,102	...	...	11,102
Dec.	3,081	1,802	1,150	2,952	6,033	2,050	3,085	5,135	548	684	1,232	12,401	...	...	12,401
2002: March	2,855	1,737	1,069	2,806	5,661	2,075	3,345	5,420	566	682	1,248	12,330	...	...	12,330
June	2,828	1,573	1,135	2,708	5,537	2,247	3,094	5,342	564	660	1,223	12,101	...	2	12,103
Sep.	3,022	1,781	1,166	2,947	5,969	2,230	3,314	5,544	590	710	1,300	12,813	...	2	12,815
Dec.	3,335	2,207	1,154	3,361	6,696	2,449	3,333	5,782	645	731	1,376	13,854	...	3	13,857
2003: March	3,088	1,999	1,187	3,186	6,274	2,434	3,435	5,870	655	742	1,397	13,542	118	3	13,662
June	3,356	2,227	1,251	3,479	6,834	2,530	3,385	5,915	687	761	1,448	14,197	128	2	14,328
Sep.	3,624	2,437	1,356	3,792	7,416	2,646	3,481	6,127	728	802	1,530	15,073	165	5	15,243
Dec.	3,874	2,927	1,229	4,156	8,030	2,797	4,018	6,815	790	830	1,620	16,465	99	2	16,566
								(In percent of broad money)							
1998: March	21.6	15.7	13.9	29.6	51.3	15.6	22.8	38.4	4.0	6.3	10.3	100.0	...	...	100.0
June	23.4	15.1	13.7	28.8	52.2	15.1	22.5	37.6	4.2	6.1	10.3	100.0	...	...	100.0
Sep.	24.1	14.8	14.9	29.7	53.8	14.5	21.5	36.1	4.2	5.9	10.1	100.0	...	...	100.0
Dec.	26.2	18.3	11.2	29.5	55.8	13.3	20.8	34.1	4.4	5.7	10.1	100.0	...	...	100.0
1999: March	24.9	16.4	12.1	28.5	53.4	13.9	21.7	35.6	4.9	6.1	11.0	100.0	...	...	100.0
June	23.8	16.5	12.3	28.8	52.5	13.1	23.0	36.2	5.0	6.3	11.3	100.0	...	...	100.0
Sep.	25.0	16.9	11.3	28.2	53.2	13.4	22.6	36.1	5.0	5.7	10.7	100.0	...	...	100.0
Dec.	26.0	17.8	9.7	27.6	53.6	13.8	22.0	35.8	5.1	5.4	10.6	100.0	...	...	100.0
2000: March	23.7	18.0	11.4	29.4	53.1	13.4	22.7	36.1	5.3	5.5	10.8	100.0	...	...	100.0
June	24.6	15.5	10.9	26.4	51.0	13.9	24.1	38.0	5.4	5.7	11.0	100.0	...	...	100.0
Sep.	23.9	16.1	10.1	26.3	50.1	16.7	22.9	39.6	4.8	5.5	10.3	100.0	...	...	100.0
Dec.	24.1	16.3	8.3	24.6	48.7	14.1	27.7	41.8	4.6	5.0	9.6	100.0	...	...	100.0
2001: March	21.8	17.5	8.8	26.2	48.0	14.4	28.0	42.4	4.6	5.0	9.6	100.0	...	...	100.0
June	23.2	15.4	9.6	25.0	48.2	17.2	24.6	41.9	4.7	5.3	10.0	100.0	...	...	100.0
Sep.	23.4	15.1	9.4	24.4	47.9	17.1	25.2	42.3	4.6	5.2	9.8	100.0	...	...	100.0
Dec.	24.8	14.5	9.3	23.8	48.7	16.5	24.9	41.4	4.4	5.5	9.9	100.0	...	...	100.0
2002: March	23.2	14.1	8.7	22.8	45.9	16.8	27.1	44.0	4.6	5.5	10.1	100.0	...	...	100.0
June	23.4	13.0	9.4	22.4	45.7	18.6	25.6	44.1	4.7	5.5	10.1	100.0	...	0.0	100.0
Sep.	23.6	13.9	9.1	23.0	46.6	17.4	25.9	43.3	4.6	5.5	10.1	100.0	...	0.0	100.0
Dec.	24.1	15.9	8.3	24.3	48.3	17.7	24.1	41.7	4.7	5.3	9.9	100.0	...	0.0	100.0
2003: March	22.6	14.6	8.7	23.3	45.9	17.8	25.1	43.0	4.8	5.4	10.2	99.1	0.9	0.0	100.0
June	23.4	15.5	8.7	24.3	47.7	17.7	23.6	41.3	4.8	5.3	10.1	99.1	0.9	0.0	100.0
Sep.	23.8	16.0	8.9	24.9	48.7	17.4	22.8	40.2	4.8	5.3	10.0	98.9	1.1	0.0	100.0
Dec.	23.4	17.7	7.4	25.1	48.5	16.9	24.3	41.1	4.8	5.0	9.8	99.4	0.6	0.0	100.0

Sources: Bulgarian National Bank; and Fund staff estimates.

Table A34. Bulgaria: Nominal Interest Rates and Exchange Rates, 1998-2004

		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	End-month	Month average
		(In percent, lev denominated unless otherwise noted)								
1998:	Jan.	0.5	6.6	1.2	14.9	0.2	3.0	4.0	1.8092	1.8121
	Feb.	0.5	5.9	1.1	14.4	0.2	2.9	3.9	1.8202	1.8149
	Mar.	0.4	5.5	1.1	13.8	0.2	2.8	3.9	1.8340	1.8264
	Apr.	0.4	5.5	1.1	14.6	0.2	2.8	3.8	1.7980	1.8179
	May	0.4	5.4	1.2	15.4	0.2	2.7	3.9	1.7824	1.7756
	Jun.	0.4	5.3	1.1	14.3	0.2	2.7	3.8	1.8102	1.7906
	Jul.	0.4	5.3	1.1	13.9	0.2	3.0	3.8	1.7690	1.7992
	Aug.	0.4	5.3	1.0	13.2	0.3	3.3	3.9	1.7918	1.7890
	Sep.	0.4	5.2	1.1	13.4	0.3	3.3	3.8	1.6732	1.7076
	Oct.	0.4	5.3	1.1	14.1	0.3	3.3	3.7	1.6475	1.6389
	Nov.	0.4	5.4	1.1	14.1	0.3	3.3	3.7	1.7026	1.6792
	Dec.	0.4	5.2	1.1	13.5	0.3	3.3	3.8	1.6751	1.6703
1999:	Jan.	0.4	5.2	1.1	14.4	0.3	3.3	3.6	1.7181	1.6846
	Feb.	0.4	5.1	1.1	13.7	0.3	3.3	3.5	1.7751	1.7453
	Mar.	0.4	5.0	1.1	14.6	0.3	3.3	3.5	1.8157	1.7973
	Apr.	0.4	4.8	1.1	13.8	0.3	3.3	3.5	1.8456	1.8279
	May	0.4	4.6	1.0	13.3	0.3	3.3	3.4	1.8705	1.8425
	Jun.	0.4	4.5	1.1	13.8	0.3	3.3	3.5	1.8937	1.8847
	Jul.	0.4	4.9	1.0	12.4	0.3	3.3	3.5	1.8289	1.8899
	Aug.	0.4	4.9	1.1	13.8	0.3	3.2	3.5	1.8498	1.8447
	Sep.	0.4	4.8	1.1	13.6	0.3	3.2	3.5	1.8339	1.8631
	Oct.	0.4	4.5	1.1	13.4	0.3	3.2	3.5	1.8711	1.8266
	Nov.	0.4	4.5	1.1	13.5	0.3	3.2	3.5	1.9370	1.8922
	Dec.	0.4	4.6	1.0	12.4	0.3	3.2	3.5	1.9469	1.9356
2000:	Jan.	0.4	4.4	1.0	12.5	0.3	3.2	3.5	1.9976	1.9303
	Feb.	0.3	3.5	0.9	11.9	0.2	2.8	4.3	2.0134	1.9890
	Mar.	0.3	3.3	0.8	9.5	0.3	3.3	4.4	2.0474	2.0276
	Apr.	0.3	3.7	1.1	13.6	0.3	3.1	4.5	2.1528	2.0680
	May	0.3	3.6	1.1	13.8	0.2	2.9	4.7	2.1024	2.1588
	Jun.	0.3	3.7	1.0	12.5	0.3	3.3	4.7	2.0467	2.0608
	Jul.	0.3	3.8	0.9	11.0	0.2	3.0	4.6	2.1160	2.0817
	Aug.	0.3	3.6	1.0	12.7	0.3	3.4	4.6	2.1961	2.1636
	Sep.	0.3	4.0	0.9	11.7	0.3	3.3	4.7	2.2314	2.2469
	Oct.	0.3	4.2	1.0	13.3	0.3	3.2	4.6	2.3237	2.2871
	Nov.	0.4	4.6	0.9	11.2	0.3	3.5	4.8	2.2522	2.2841
	Dec.	0.4	4.7	1.0	12.2	0.3	3.3	4.8	2.1019	2.1745
2001:	Jan.	0.4	4.6	1.1	14.2	0.3	3.1	4.2	2.1046	2.0855
	Feb.	0.3	4.2	1.0	12.5	0.3	3.2	4.1	2.1149	2.1223
	Mar.	0.3	4.3	0.8	10.6	0.3	3.1	4.0	2.2145	2.1513
	Apr.	0.4	4.4	0.8	9.7	0.3	3.2	3.6	2.1676	2.1928
	May	0.4	4.5	0.8	10.7	0.3	3.1	3.3	2.3064	2.2351
	Jun.	0.4	4.6	1.0	12.2	0.3	3.3	3.1	2.3064	2.2925
	Jul.	0.4	4.6	0.9	11.7	0.3	3.4	2.9	2.2350	2.2730
	Aug.	0.4	4.7	1.0	12.1	0.3	3.8	2.8	2.1357	2.1734
	Sep.	0.4	4.8	0.9	11.8	0.2	3.0	2.3	2.1420	2.1464
	Oct.	0.4	4.7	0.8	9.8	0.2	2.9	2.1	2.1631	2.1594
	Nov.	0.4	4.8	0.9	11.9	0.2	2.5	1.8	2.1981	2.2020
	Dec.	0.4	4.8	1.0	13.2	0.3	3.4	1.7	2.2193	2.1903
2002:	Jan.	0.4	4.9	0.8	10.1	0.2	2.7	1.7	2.2645	2.2149
	Feb.	0.4	4.7	0.8	9.8	0.2	2.9	1.6	2.2608	2.2480
	Mar.	0.4	4.5	0.8	9.7	0.2	2.4	1.7	2.2419	2.2337
	Apr.	0.3	4.2	0.8	10.1	0.3	3.1	1.6	2.1712	2.2096
	May.	0.3	4.0	0.8	9.6	0.2	3.0	1.6	2.0836	2.1418
	Jun.	0.3	3.8	0.8	9.7	0.3	3.2	1.7	1.9607	2.0478
	Jul.	0.3	3.7	0.8	10.3	0.3	3.5	1.6	1.9992	1.9715
	Aug.	0.3	3.8	0.8	9.9	0.2	3.0	1.7	1.9891	2.0004
	Sep.	0.3	3.8	0.8	10.1	0.2	3.0	1.7	1.9836	1.9954
	Oct.	0.3	3.8	0.7	8.7	0.3	3.2	1.6	1.9828	1.9935
	Nov.	0.3	3.8	0.7	9.0	0.3	3.1	1.5	1.9702	1.9533
	Dec.	0.3	3.4	0.8	10.2	0.3	3.2	1.6	1.8850	1.9245
2003:	Jan.	0.3	3.3	0.7	8.8	0.3	3.2	1.5	1.8083	1.8417
	Feb.	0.2	2.5	0.8	9.8	0.3	3.2	1.5	1.8140	1.8155
	Mar.	0.2	2.6	0.7	9.1	0.3	3.3	1.4	1.7952	1.8103
	Apr.	0.2	2.6	0.7	8.7	0.3	3.2	1.4	1.7571	1.8035
	May	0.2	3.0	0.8	10.5	0.3	3.2	1.5	1.6544	1.6836
	Jun.	0.2	2.9	0.8	10.1	0.3	3.2	1.6	1.7116	1.6772
	Jul.	0.2	2.5	0.7	8.7	0.3	3.1	1.5	1.7281	1.7200
	Aug.	0.2	2.6	0.6	7.8	0.3	3.2	1.5	1.7899	1.7564
	Sep.	0.2	2.6	0.8	9.7	0.2	2.9	1.5	1.6785	1.7455
	Oct.	0.2	2.6	0.7	8.1	0.2	2.9	1.6	1.6829	1.6729
	Nov.	0.2	2.6	0.7	9.3	0.2	3.0	1.6	1.6307	1.6718
	Dec.	0.2	2.7	0.8	9.5	0.3	3.2	1.8	1.5486	1.5931
2004:	Jan.	0.2	2.8	0.7	8.9	0.3	3.2	1.8	1.5793	1.5499
	Feb.	0.2	2.5	0.7	8.9	0.3	3.2	1.8	1.5750	1.5467
	Mar	0.2	2.4	0.7	9.1	0.3	3.1	1.7	1.6000	1.5945
	Apr	0.2	2.6	0.7	8.6	0.3	3.2	1.7	1.6371	1.6335

Sources: Bulgarian National Bank.

Table A35. Bulgaria: Real Interest Rates and Uncovered Interest Differentials, 1998-2004

	Lev time deposit rate		CPI inflation 1/		Real time deposit rate		Annual interest on	Lev per U.S. dollar	Uncovered interest differential 4/	
	Monthly	Annual	Monthly	Annual	Monthly	Annual	U.S. dollar deposits 2/	Appreciation 3/	Monthly	Annual
					(In percent)					
1998: Mar.	0.2	2.8	0.2	15.5	0.1	-11.0	4.1	-8.1	-8.2	-64.2
Jun.	0.2	2.7	-3.5	-17.6	3.9	24.6	4.3	-3.9	-4.0	-38.5
Sep.	0.3	3.3	3.2	11.7	-2.9	-7.5	4.0	3.3	3.2	46.1
Dec.	0.3	3.3	0.4	0.8	-0.1	2.5	3.9	-5.8	-5.9	-51.5
1999: Mar.	0.3	3.3	-1.0	2.8	1.3	0.5	3.8	-8.0	-8.0	-63.4
Jun.	0.3	3.3	-0.9	-9.3	1.2	13.8	3.7	-3.9	-3.9	-37.9
Sep.	0.3	3.3	1.5	24.9	-1.2	-17.3	3.7	3.3	3.2	46.4
Dec.	0.3	3.3	1.3	12.4	-1.1	-8.1	4.1	-5.8	-5.9	-51.6
2000: Mar.	0.3	3.3	-0.6	13.1	0.8	-8.7	4.4	-4.9	-5.0	-45.9
Jun.	0.3	3.3	0.1	-2.0	0.1	5.4	4.7	0.0	-0.1	-1.0
Sep.	0.3	3.3	2.4	26.5	-2.1	-18.4	4.7	-8.3	-8.4	-65.0
Dec.	0.3	3.3	1.4	10.0	-1.1	-6.1	4.8	6.2	6.0	102.0
2001: Mar.	0.3	3.1	0.1	4.1	0.2	-0.9	4.0	-5.1	-5.2	-47.0
Jun.	0.3	3.3	-0.1	-0.8	0.3	4.1	3.1	-4.0	-4.0	-38.5
Sep.	0.2	3.0	1.3	5.7	-1.0	-2.5	2.3	7.7	7.7	144.6
Dec.	0.3	3.4	0.6	10.7	-0.3	-6.6	1.7	-3.5	-3.4	-33.6
2002: Mar.	0.2	2.4	0.8	22.4	-0.6	-16.4	1.7	-1.0	-1.0	-10.9
Jun.	0.3	3.2	-1.7	-14.5	2.0	20.7	1.7	14.3	14.5	406.8
Sep.	0.2	3.0	0.8	0.9	-0.5	2.0	1.7	-1.2	-1.0	-11.8
Dec.	0.3	3.2	1.2	10.0	-1.0	-6.2	1.6	5.2	5.4	87.4
2003: Mar.	0.3	3.3	0.4	4.7	-0.1	-1.4	1.4	5.0	5.2	82.9
Jun.	0.3	3.2	-2.2	-9.6	2.5	14.1	1.6	4.9	5.0	79.9
Sep.	0.2	2.9	0.9	10.8	-0.7	-7.2	1.5	2.0	2.1	28.0
Dec.	0.3	3.2	1.8	18.7	-1.5	-13.1	1.8	8.4	8.5	166.5
2004: Mar.	0.3	3.1	-0.1	6.8	0.3	-3.4	1.7	-3.2	-3.1	-31.5

Sources: Bulgarian National Bank; and Fund 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 A36. Bulgaria: National Bank Balance Sheet, 1998-2003

	1998				1999				2000				2001				2002				2003			
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
(In millions of leva)																								
Reserve money	2,094	2,071	2,045	2,387	2,200	2,163	2,289	2,725	2,581	2,611	2,769	3,021	2,928	3,085	3,367	4,033	3,794	3,692	3,841	4,482	4,089	4,304	4,605	5,266
Currency in circulation	1,360	1,490	1,557	1,845	1,659	1,587	1,796	2,083	1,921	1,974	2,223	2,505	2,348	2,553	2,746	3,263	3,019	3,023	3,250	3,628	3,329	3,618	3,919	4,264
DMB reserves (net)	734	581	488	542	541	576	493	642	661	637	546	516	580	533	620	770	775	669	591	854	760	686	686	1,002
Net foreign assets	3,359	3,505	3,162	3,390	3,176	3,168	3,194	3,996	3,567	3,907	3,843	4,661	4,162	4,294	4,244	5,485	4,791	5,831	6,385	6,982	6,685	7,596	7,921	8,545
Net domestic assets	-1,266	-1,434	-1,117	-1,003	-976	-1,005	-905	-1,271	-986	-1,296	-1,074	-1,640	-1,234	-1,209	-878	-1,453	-997	-2,139	-2,544	-2,500	-2,596	-3,292	-3,315	-3,278
Government credit (net)	-309	-631	-337	-142	-51	-150	28	-243	104	-487	223	531	941	454	1,027	536	958	-195	-360	-251	-358	-1,051	-1,068	-508
Claims on DMBs (FX)	111	98	92	91	86	86	79	79	79	79	76	49	49	32	32	18	18	18	15	15	6	6	6	6
Claims on DMBs (leva)	55	55	55	54	53	52	49	47	46	46	46	24	24	22	22	18	9	9	9	9	0	0	0	0
Other items net	-1,122	-956	-927	-1,006	-1,065	-993	-1,061	-1,155	-1,214	-934	-1,419	-2,245	-2,249	-1,717	-1,958	-2,025	-1,983	-1,972	-2,208	-2,273	-2,244	-2,247	-2,254	-2,777
(Percent change from previous quarter)																								
Memorandum items:																								
Broad money	0.0	1.9	0.2	9.4	-5.4	-0.9	8.4	11.6	2.3	-1.0	16.0	11.4	3.7	2.3	6.1	11.7	-0.6	-1.8	5.9	8.1	-1.4	4.9	6.4	8.7
Lev money	-3.6	3.3	0.2	18.1	-8.6	-3.9	12.2	16.0	-1.7	-2.7	20.3	6.8	2.5	6.3	5.6	11.9	-3.3	-0.3	5.7	13.3	-4.0	7.5	7.0	9.8
Reserve money	-3.3	-1.1	-1.3	16.7	-7.8	-1.7	5.8	19.0	-5.3	1.1	6.0	9.1	-3.1	5.4	9.1	19.8	-5.9	-2.7	4.0	16.7	-8.8	5.2	7.0	14.4
Contributions to reserve money growth																								
NFA	11.7	4.3	-9.8	7.2	-6.3	-0.3	0.8	25.1	-10.7	9.5	-1.7	21.3	-10.7	3.2	-1.2	29.2	-12.7	21.7	9.5	9.3	-4.3	13.6	4.3	7.9
NDA	50.2	13.3	-22.1	-10.2	-2.7	3.0	-10.0	40.5	-22.5	31.5	-17.2	52.8	-24.8	-2.0	-27.4	65.5	-31.4	114.6	18.9	-1.7	3.8	26.8	0.7	-1.1
Reserve money multiplier (Ratio)																								
Broad money	2.8	2.9	3.0	2.8	2.9	2.9	3.0	2.8	3.0	2.9	3.2	3.3	3.5	3.4	3.3	3.1	3.2	3.3	3.3	3.1	3.3	3.3	3.3	3.1

Sources: Bulgarian National Bank; and Fund staff estimates.

Table A37. Bulgaria: Commercial Bank Indicators, 1998-2003

	1998	1999	2000	2001	2002				2003			
	Dec.	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
Liquidity Ratios and Capital Adequcy												
Primary liquidity, percent of deposits 1/	17.1	15.0	10.4	13.5	10.0	10.3	9.0	11.2	9.0	9.8	9.3	12.0
Secondary liquidity, percent of deposits 2/	57.4	35.2	26.0	25.5	24.3	26.2	26.9	29.3	27.1	26.0	24.3	25.5
Capital base (in billions of leva)	1,002	1,182	1,378	1,538	1,542	1,613	1,665	1,742	1,830	1,959	2,057	2,150
Total risk component (in billions of leva)	2,728	2,828	3,866	4,911	5,222	5,565	6,202	6,907	7,526	8,207	8,954	9,762
Total capital adequacy (in percent)	36.7	41.8	35.6	31.3	29.5	29.0	26.8	25.2	24.3	23.9	23.0	22.0
Quality of Credit Portfolio												
Total (in billions of leva)	5,946	5,042	7,395	8,642	8,964	8,423	9,512	9,957	10,286	10,547	11,393	11,949
Standard (in percent)	86.6	86.2	91.8	93.1	93.5	93.9	94.4	94.5	93.9	94.0	94.1	94.2
Watch (in percent)	3.6	4.4	2.8	2.9	2.8	2.4	2.2	2.3	2.8	2.8	2.6	2.5
Substandard (in percent)	1.9	1.4	1.2	0.8	0.8	0.9	0.8	0.9	0.9	0.8	0.9	0.8
Doubtful (in percent)	0.6	0.9	0.8	0.6	0.8	0.6	0.6	0.5	0.6	0.6	0.8	0.5
Loss (in percent)	7.3	7.2	3.4	2.7	2.1	2.2	1.9	1.8	1.9	1.9	1.8	2.0
Provisions (in percent)	…	10.0	6.5	5.2	4.6	4.6	4.2	4.1	3.3	3.2	3.2	3.0

Source: Bulgarian National Bank.

1/ Primary liquidity is defined as the sum of cash, balances on settlement accounts with BNB, and the minimum reserves over the deposit base.

2/ Secondary liquidity is defined as primary liquidity plus the balances on settlement accounts with other commercial banks, overnight bank deposits, and government securities with maturity of up to 3 months.

Table A38. Bulgaria: Consolidated Income Statement of the Banking System, 2000-03

	2000	2001				2002				2003			
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
	(in millions of leva, cumulative)												
Interest Income	601	164	336	510	687	169	343	533	738	223	466	726	1,015
on Banks and Other Financial Institutions	193	54	105	152	187	27	55	81	106	17	32	46	60
on Loans and Advances to Non-Financial Institutions													
and other Clients	368	100	214	330	465	132	266	416	582	172	358	564	799
Income on Investment Securities	40	9	18	27	35	9	22	35	50	34	76	115	153
Divident income	0	0	0	0	0	0	0	0	0	0	0	2	2
Interest Expense	187	51	105	159	212	50	103	161	222	59	121	188	261
on Deposits by Banks and Other Financial Institutions	32	8	10	14	21	8	19	33	45	9	18	26	38
on Deposits by Non-Financial Institutions													
and Other Clients	139	25	50	78	103	36	73	113	155	44	90	141	194
on Borrowings	16	3	2	18	23	5	11	15	22	6	13	20	29
Net Interest Income	414	113	231	350	475	119	240	372	516	164	346	538	753
Net Interest and Trading and Revaluation Income	682	268	401	578	744	146	319	483	701	247	451	623	829
Of which: Trading and Revaluation Profit/Loss	332	41	81	121	178	36	65	117	198	33	56	66	65
Less: Provisions for Credit Losses	65	-115	-89	-107	-91	9	-14	7	13	-50	-49	-18	-12
Operating Income/Loss Before Tax and Extraordinary Items	403	198	244	350	409	71	163	248	333	152	263	349	452
Other Non-Interest Income	190	45	92	146	207	52	113	172	229	65	143	233	340
Operating Income Before Expenses	872	313	493	724	950	198	432	655	930	...	...	...	...
Overhead Expenses	469	116	249	374	541	128	269	407	597	160	331	507	717
Net Profit/Loss	283	158	203	275	319	57	133	202	267	125	218	294	380
Revaluation Extraordinary Gain/Loss	14	19	35	26	34	4	9	12	14	9	18	30	38
Profit/Loss Before Taxation	417	217	279	376	443	74	172	259	348	161	281	379	489

Source: Bulgarian National Bank.

Table A39 a. Bulgaria: Summary Balance of Payments, 1999-2003
(In millions of euros)

	1999	2000	2001	2002	2003
CURRENT ACCOUNT	-587	-761	-1,102	-925	-1,498
Trade balance	-1,008	-1,280	-1,778	-1,692	-2,196
Exports (f.o.b.)	3,734	5,253	5,714	6,063	6,663
y-o-y change (in percent)	0	41	9	6	10
Imports (f.o.b.)	-4,741	-6,533	-7,493	-7,755	-8,859
y-o-y change (in percent)	16	38	15	3	14
Services, net	306	548	455	486	524
Of which: Exports of travel services	881	1,168	1,084	1,203	1,460
Income, net	-167	-345	-340	-285	-439
Of which: Income to direct investors	20	-116	-166	-237	-346
Current transfers, net	282	316	562	566	613
CAPITAL AND FINANCIAL ACCOUNT	712	924	755	1,843	1,594
Capital transfers, net	-2	25	0	0	0
Foreign direct investment, net	759	1,100	893	951	1,235
Of which: Privatization receipts					
Portfolio investment, net	-186	-192	94	-99	-192
Other investment, net	142	-10	-232	991	552
General government	-97	-243	-343	-144	-96
Domestic banks	28	-387	-31	532	546
Other private sector	211	620	142	603	102
Errors and omissions	-20	26	772	-200	535
OVERALL BALANCE	105	188	425	717	630
FINANCING	-105	-188	-425	-717	-630
Gross international reserves (increase: -) 1/	-521	-492	-318	-578	-817
Use of Fund credit, net	156	151	-185	-155	35
Purchases	272	303	150	116	130
Repurchases	-116	-153	-336	-270	-95
Exceptional financing, net	260	153	78	15	151
MEMORANDUM ITEMS					
Gross international reserves (stock, e.o.p.) 2/	3,207	3,719	4,063	4,575	5,309
In months of prospective GNFS imports	4.6	4.7	5.0	4.9	...
In percent of short-term debt	254	239	294	260	269
Current account + FDI	172	338	-209	26	-264
(in percent of GDP)	1.4	2.5	-1.4	0.2	-1.5
Current account (in percent of GDP)	-4.8	-5.6	-7.3	-5.6	-8.5
Merchandise trade account (in percent of GDP)	-8.3	-9.4	-11.7	-10.2	-12.5
Merchandise exports (in percent of GDP)	30.7	38.5	37.6	36.7	37.9
Merchandise imports (in percent of GDP)	-39.0	-47.9	49.3	46.9	50.4
Export volume (year-on-year change)	-3.7	20.6	11.5	11.6	11.8
Import volume (year-on-year change)	11.0	19.6	15.3	6.9	18.0
Gross external debt (stock, e.o.p.)	10,864	12,038	12,046	10,769	10,330
(In percent of annual GDP)	89.5	88.2	79.3	65.1	58.7
Public	9,411	10,006	9,789	7,961	7,156
Private	1,453	2,032	2,257	2,808	3,174
Short-term debt (in percent of total debt, e.o.p.)	11.6	12.9	11.5	16.5	19.1
Net external debt (in percent of GDP) 3/	50.8	45.7	36.9	26.1	20.2
GDP	12,145	13,646	15,184	16,533	17,594

Sources: BNB, and Fund staff estimates.

1/ Excluding valuation changes.
2/ Including valuation changes.
3/ External debt minus gross foreign assets of the banking system.

Table A39 b. Bulgaria: Summary Balance of Payments, 1999-2003
(In millions of U.S. dollars)

	1999	2000	2001	2002	2003
CURRENT ACCOUNT	-652	-702	-984	-827	-1,666
Trade balance	-1,081	-1,176	-1,580	-1,594	-2,474
Exports (f.o.b.)	4,006	4,825	5,113	5,692	7,439
y-o-y change (in percent)	-4	20	6	11	31
Imports (f.o.b.)	-5,087	-6,000	-6,693	-7,287	-9,912
y-o-y change (in percent)	11	18	12	9	36
Services, net	314	506	402	482	600
Of which: Exports of travel services	932	1,074	963	1,154	1,658
Income, net	-185	-321	-304	-261	-485
Of which: Income to direct investors	22	-107	-149	-228	-388
Current transfers, net	300	290	498	547	692
CAPITAL AND FINANCIAL ACCOUNT	731	713	663	1,750	1,853
Capital transfers, net	-2	25	0	0	0
Foreign direct investment, net	802	1,003	803	876	1,398
Of which: Privatization receipts	227	366	19	136	370
Portfolio investment, net	-199	-179	82	-77	-208
Other investment, net	131	-137	-223	951	663
General government	-105	-224	-310	-131	-105
Domestic banks	33	-386	-26	514	663
Other private sector	203	473	113	567	106
Errors and omissions	17	126	694	-208	546
OVERALL BALANCE	96	137	373	715	732
FINANCING	-96	-137	-373	-715	-732
Gross international reserves (increase: -) 1/	-527	-409	-275	-586	-932
Use of Fund credit, net	162	136	-169	-142	36
Purchases	287	274	132	109	144
Repurchases	-125	-138	-301	-251	-107
Exceptional financing, net	270	136	71	13	164
MEMORANDUM ITEMS					
Gross international reserves (stock, e.o.p.) 2/	3,222	3,460	3,580	4,747	6,705
In months of prospective GNFS imports	5.0	4.9	4.7	4.6	...
In percent of short-term debt	254	239	294	258	269
Current account + FDI	150	302	-181	50	-269
(in percent of GDP)	1.2	2.4	-1.3	0.3	-1.3
Current account (in percent of GDP)	-5.0	-5.6	-7.2	-5.3	-8.4
Merchandise trade account (in percent of GDP)	-8.3	-9.3	-11.6	-10.2	-12.4
Merchandise exports (in percent of GDP)	30.9	38.3	37.6	36.3	37.3
Merchandise imports (in percent of GDP)	-39.3	-47.6	49.2	46.4	49.7
Export volume (year-on-year change)	-3.7	20.6	11.5	11.6	11.8
Import volume (year-on-year change)	11.0	19.6	15.3	6.9	18.0
Gross external debt (stock, e.o.p.)	10,914	11,202	10,616	11,245	13,032
(In percent of annual GDP)	84.2	88.9	78.1	71.6	65.3
Public	9,454	9,311	8,627	8,331	9,024
Private	1,459	1,891	1,989	2,914	4,008
Short-term debt (in percent of total debt, e.o.p.)	12	13	11	16	19
Net external debt (in percent of GDP) 3/	47.9	46.0	36.3	28.9	22.4
GDP 4/	12,956	12,605	13,600	15,694	19,954

Sources: BNB, and Fund staff estimates.

1/ Excluding valuation changes.
2/ Including valuation changes.
3/ External debt minus gross foreign assets of the banking system.
4/ Based on quarterly average exchange rates.

Table A40. Bulgaria: Current Account, 1999-2003
(In millions of euros)

	1999	2000	2001	2002	2003
Current Account	-587	-761	-1,102	-925	-1,498
Goods, services, and income, net	-869	-1,078	-1,663	-1,491	-2,111
Credit	5,669	7,958	8,492	8,874	9,743
Debit	-6,538	-9,036	-10,156	-10,365	-11,854
Goods, net	-1,008	-1,280	-1,778	-1,692	-2,196
Credit	3,734	5,253	5,714	6,063	6,663
Debit	-4,741	-6,533	-7,493	-7,755	-8,859
Services, net	306	548	455	486	524
Credit	1,686	2,366	2,385	2,479	2,791
Transportation	490	687	710	762	834
Travel	881	1,168	1,084	1,203	1,460
Other services	315	511	591	514	497
Debit	-1,381	-1,819	-1,930	-1,993	-2,267
Transportation	-603	-798	-849	-892	-1,019
Travel	-496	-587	-510	-561	-661
Other services	-282	-433	-571	-539	-586
Income, net	-167	-345	-340	-285	-439
Credit	249	339	393	332	290
Monetary authorities	...	106	113	126	145
General government	...	78	82	64	48
Banks	...	76	78	56	25
Other sectors	...	79	121	86	72
Debit	-416	-684	-733	-617	-729
Monetary authorities	...	-6	-5	-1	0
General government	...	-470	-499	-310	-316
Banks	...	-26	-197	-115	-135
Other sectors	...	-182	-32	-191	-278
Current transfers, net	282	316	562	566	613
Credit	310	386	674	677	762
General government	...	80	202	146	149
Other sectors	...	306	472	530	613
Debit	-27	-70	-112	-111	-150
General government	...	-21	-46	-16	-28
Other sectors	...	-49	-66	-95	-122
Memorandum items:			(In percent of GDP)		
Goods, services, and income, net	-7.1	-7.9	-11.0	-9.0	-12.0
Goods, net	-8.3	-9.4	-11.7	-10.2	-12.5
Services, net	2.5	4.0	3.0	2.9	3.0
Income, net	-1.4	-2.5	-2.2	-1.7	-2.5
Current transfers, net	2.3	2.3	3.7	3.4	3.5

Sources: BNB, and Fund staff estimates.

Table A41. Bulgaria: Trade Volumes and Prices, 1999-2003
(percentage changes in euro indices)

	1999	2000	2001	2002	2003 1/
Export value	-0.3	40.7	8.8	6.1	9.9
Export price	3.5	16.7	-2.4	-4.9	-1.7
Export volume	-3.7	20.6	11.5	11.6	11.8
Import value	16.3	37.8	14.7	3.5	14.2
Import price	4.8	15.2	-0.6	-3.2	-3.2
Import volume	11.0	19.6	15.3	6.9	18.0
Terms of trade	-1.3	1.3	-1.9	-1.8	1.6
Memorandum items:					
Exports of goods:					
Volume growth in Bulgaria's export markets	0.6	13.2	-1.3	2.3	4.6
Volume growth in Bulgaria's exports	-3.7	20.6	11.5	11.6	11.8
Change in Bulgaria's market share	-4.3	6.5	13.0	9.0	6.9
Imports of goods:					
Real GDP growth in Bulgaria	2.3	5.4	4.1	4.9	4.3
Volume growth in Bulgaria's imports	11.0	19.6	15.3	6.9	18.0
Change in foreign suppliers' share of Bulgarian market	8.5	13.5	10.8	1.9	13.2

Sources: National Statistical Institute, and Fund staff estimates.

1/ Data for 2003 are preliminary.

Table A42. Bulgaria: Commodity Composition of Exports, 1999-2003

	In millions of euros					In percent of total exports				
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003
Consumer goods	1249	1564	1917	2134	2440	33.4	29.8	33.5	35.2	36.6
Food	182	172	219	247	299	4.9	3.3	3.8	4.1	4.5
Tobacco	35	36	21	16	17	0.9	0.7	0.4	0.3	0.3
Beverages	86	83	77	75	73	2.3	1.6	1.4	1.2	1.1
Clothing and footwear	620	858	1140	1258	1458	16.6	16.3	20.0	20.8	21.9
Medicines and cosmetics	137	178	180	168	163	3.7	3.4	3.1	2.8	2.4
Furniture and household appliances	93	114	147	211	246	2.5	2.2	2.6	3.5	3.7
Others	96	125	132	159	184	2.6	2.4	2.3	2.6	2.8
Raw materials	1567	2322	2331	2535	2755	42.0	44.2	40.8	41.8	41.3
Iron and steel	246	420	396	393	541	6.6	8.0	6.9	6.5	8.1
Other metals	263	536	475	470	535	7.0	10.2	8.3	7.8	8.0
Chemicals	140	216	226	216	228	3.8	4.1	3.9	3.6	3.4
Plastics and rubber	113	136	144	153	172	3.0	2.6	2.5	2.5	2.6
Fertilizers	34	104	97	63	80	0.9	2.0	1.7	1.0	1.2
Textiles	128	158	206	240	278	3.4	3.0	3.6	4.0	4.2
Raw materials for the food industry	183	146	172	321	218	4.9	2.8	3.0	5.3	3.3
Wood products, paper and paperboard	123	147	142	158	197	3.3	2.8	2.5	2.6	3.0
Cement	25	36	33	29	29	0.7	0.7	0.6	0.5	0.4
Raw tobacco	60	50	45	50	50	1.6	1.0	0.8	0.8	0.7
Others	253	374	395	443	426	6.8	7.1	6.9	7.3	6.4
Investment goods	571	600	699	802	912	15.3	11.4	12.2	13.2	13.7
Machines and equipment	199	234	263	298	310	5.3	4.5	4.6	4.9	4.7
Electrical machines	53	67	82	67	112	1.4	1.3	1.4	1.1	1.7
Vehicles	44	24	36	68	69	1.2	0.5	0.6	1.1	1.0
Spare parts and equipment	86	119	156	171	192	2.3	2.3	2.7	2.8	2.9
Others	189	155	163	199	228	5.1	3.0	2.8	3.3	3.4
Total non energy commodities	3387	4486	4947	5472	6106	90.7	85.4	86.6	90.3	91.6
Mineral fuels, oils and electricity	346	767	767	591	556	9.3	14.6	13.4	9.7	8.4
Petroleum products	272	588	507	358	385	7.3	11.2	8.9	5.9	5.8
Others	74	179	261	233	172	2.0	3.4	4.6	3.8	2.6
TOTAL EXPORTS, FOB	3734	5253	5714	6063	6663	100.0	100.0	100.0	100.0	100.0

Source: BNB.

Table A43. Bulgaria: Commodity Composition of Imports, 1999-2003

	In millions of euros					In percent of total imports				
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003
Consumer goods	693	864	1140.0	1252.6	1474.3	13.5	12.2	14.0	14.9	15.4
Food, drinks and tobacco	136	172	208.6	235.2	264.1	2.6	2.4	2.6	2.8	2.8
Furniture and household appliances	130	161	206.1	250.6	320.1	2.5	2.3	2.5	3.0	3.3
Medicines and cosmetics	156	204	285.6	294.6	315.1	3.0	2.9	3.5	3.5	3.3
Clothing and footwear	33	38	49.5	78.4	109.5	0.6	0.5	0.6	0.9	1.1
Automobiles	122	158	214.1	204.0	244.3	2.4	2.2	2.6	2.4	2.5
Others	117	132	176.0	189.9	221.2	2.3	1.9	2.2	2.3	2.3
Raw materials	1886	2557	3129.6	3266.6	3845.5	36.7	36.1	38.5	38.8	40.1
Ores	157	237	278.3	208.7	312.6	3.1	3.3	3.4	2.5	3.3
Iron and steel	86	144	164.7	166.5	247.7	1.7	2.0	2.0	2.0	2.6
Other metals	36	70	90.5	83.1	96.1	0.7	1.0	1.1	1.0	1.0
Textiles	589	812	1060.1	1162.6	1319.9	11.5	11.5	13.0	13.8	13.7
Wood products, paper and paperboard	126	169	189.3	198.0	211.9	2.5	2.4	2.3	2.4	2.2
Chemicals	152	187	206.8	215.5	232.1	3.0	2.6	2.5	2.6	2.4
Plastics and rubber	205	265	319.5	362.6	439.1	4.0	3.7	3.9	4.3	4.6
Raw materials for the food industry	124	151	172.4	191.7	196.2	2.4	2.1	2.1	2.3	2.0
Raw skins	40	60	88.1	86.3	101.2	0.8	0.8	1.1	1.0	1.1
Raw tobacco	31	30	28.8	30.5	20.4	0.6	0.4	0.4	0.4	0.2
Others	341	433	531.0	561.1	668.3	6.6	6.1	6.5	6.7	7.0
Investment goods	1407	1729	2037.6	2110.3	2461.4	27.4	24.4	25.1	25.1	25.6
Machines and equipment	555	667	705.0	809.8	937.0	10.8	9.4	8.7	9.6	9.8
Electrical machines	199	206	356.6	282.0	316.7	3.9	2.9	4.4	3.4	3.3
Vehicles	299	354	453.1	438.0	541.5	5.8	5.0	5.6	5.2	5.6
Spare parts and equipment	194	224	273.4	309.9	360.1	3.8	3.2	3.4	3.7	3.8
Others	161	278	249.5	270.7	306.2	3.1	3.9	3.1	3.2	3.2
Total non energy commodities	3986	5150	6307.2	6629.5	7781.3	77.6	72.7	77.6	78.8	81.1
Mineral fuels, oils and electricity	1154	1935	1820.6	1674.6	1691.3	22.4	27.3	22.4	19.9	17.6
Fuels	1102	1772	1610.7	1573.7	1531.0	21.4	25.0	19.8	18.7	15.9
Crude oil and Natural gas	932	1572	1389.6	1362.1	1302.3	18.1	22.2	17.1	16.2	13.6
Coal	106	141	169.7	162.2	183.8	2.1	2.0	2.1	1.9	1.9
Others	64	60	210.0	100.9	160.3	1.2	0.8	2.6	1.2	1.7
Others	52	163	210.0	100.9	160.3	1.0	2.3	2.6	1.2	1.7
TOTAL IMPORT, CIF	5140	7085	8127.8	8411.2	9600.5	100.0	100.0	100.0	100.0	100.0

Source: BNB.

Table A44. Bulgaria: Direction of Trade, 1999-2003 1/

(In percent of total)

	1999		2000		2001		2002		2003	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
OECD countries 2/	66.4	59.0	67.9	53.4	69.2	57.1	71.0	59.1	72.0	62.3
Of which:										
Austria	1.7	3.0	1.4	2.2	1.7	2.0	1.7	2.1	2.0	2.2
Belgium	4.4	1.7	6.2	1.3	4.9	1.5	4.8	1.4	6.1	1.4
France	4.5	5.2	4.8	4.9	5.6	6.0	5.3	5.7	5.1	5.6
Germany	9.8	14.9	9.0	13.9	9.5	15.3	9.5	14.3	10.8	14.3
Greece	8.6	5.6	7.8	4.9	8.8	5.7	9.2	6.0	10.4	6.6
Italy	13.9	8.4	14.2	8.5	15.0	9.6	15.4	11.3	14.0	10.2
Japan	0.6	1.2	0.4	1.0	0.3	1.1	0.2	1.1	0.2	1.3
Netherlands	2.1	2.0	1.8	1.7	1.6	1.8	1.8	2.0	1.5	1.8
Spain	2.7	1.4	2.1	1.5	3.3	1.7	3.4	1.9	2.7	2.2
Turkey	7.3	3.0	10.3	3.3	8.1	3.8	9.3	4.9	9.2	6.1
United States	3.7	3.5	3.9	2.9	5.6	2.6	4.7	2.2	4.5	2.6
United Kingdom	2.5	2.4	2.4	2.1	2.6	2.5	2.9	2.6	2.5	2.5
Non-OECD countries	33.6	41.0	32.1	46.6	30.8	42.9	29.0	40.9	28.0	37.7
Of which:										
Czech Republic	0.4	1.8	0.3	1.8	0.4	1.6	0.5	1.6	0.6	1.6
Hungary	0.6	0.9	0.6	0.9	0.6	1.1	0.7	1.3	0.8	1.2
Macedonia	2.6	0.5	2.3	0.4	2.2	0.3	2.2	0.2	2.1	0.2
Poland	0.7	1.4	0.6	1.4	0.7	1.5	0.7	1.3	0.8	1.4
Romania	1.4	1.3	1.8	3.6	2.5	2.4	2.8	2.0	3.0	2.4
Russia	4.7	20.2	2.5	24.4	2.3	20.0	1.6	14.7	1.4	12.6
Serbia/Montenegro	4.2	0.3	7.8	0.3	4.1	0.3	3.0	0.3	3.3	0.3
Ukraine	1.7	2.6	1.2	2.8	1.2	3.2	0.9	3.1	0.8	3.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Memorandum items:										
European Union	52.0	48.4	51.1	44.0	54.8	49.4	55.7	50.3	56.6	49.5
CEFTA members 3/	4.4	6.4	4.0	8.8	4.8	7.6	5.4	7.3	5.9	7.9

Source: BNB, for 2001 - 2003 in Euro and 1999 - 2000 in US dollars.

1/ Imports and exports recorded according to the date at which goods cross the border.
2/ Excluding Czech Republic, Hungary, Poland, and Slovak Republic.
3/ Excluding new entrants (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, Slovenia).
Includes Czech Republic, Hungary, Poland, Romania, Slovak Republic, and Slovenia.

Table A45. Bulgaria: Tourism Indicators, 1999-2003

	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003
	(Thousands)					(Percent change)				
Number of tourist arrivals	2,085	2,354	2,756	2,993	3,532	5.7	12.9	17.1	8.6	18.0
Of which:										
European Union	672	797	1,008	1,243	1,558	11.1	18.6	26.5	23.4	25.3
Of which:										
Greece	294	321	344	391	548	15.3	9.2	7.2	13.8	40.0
Germany	206	263	374	480	535	19.1	27.7	42.2	28.5	11.4
United Kingdom	53	52	69	111	159	-22.1	-2.1	32.9	60.7	43.4
Russia	…	106	131	99	121	…	…	23.9	-24.0	21.7
Macedonia	…	658	643	622	672	…	…	-2.3	-3.3	8.1
Serbia and Montenegro	…	218	359	535	592	…	…	64.6	49.0	10.7
Memorandum item:										
Travel receipts (in millions of euros)	881	1,168	1,084	1203.3 1/	1460 1/	-8.8	32.6	-7.2	11.0	21.3
	(In percent of total)									
European Union	32.2	33.9	36.6	41.6	44.1					
Of which:										
Greece	14.1	13.6	12.5	13.1	15.5					
Germany	9.9	11.2	13.6	16.1	15.1					
United Kingdom	2.5	2.2	2.5	3.7	4.5					
Russia	…	4.5	4.7	3.3	3.4					
Macedonia	…	28.0	23.3	20.8	19.0					
FR Yugoslavia	…	9.3	13.0	17.9	16.8					

Source: Ministry of Economy.

Table A46. Bulgaria: Financial Account, 1999-2003
(In millions of euros)

	1999	2000	2001	2002	2003
Financial Account	715	898	755	1,843	1,594
Direct investment abroad	-16	-4	-11	-29	-19
Direct investment in Bulgaria	775	1,103	903	980	1,254
Portfolio investment assets	-195	-56	-25	227	-69
Equity securities	0	-10	-40	-15	-13
Debt securities	-195	-46	16	243	-56
Portfolio investment liabilities	9	-135	119	-326	-123
Equity securities	2	5	-10	-24	-22
Debt securities	7	-140	129	-302	-101
Other investment assets	-50	-342	-117	332	139
Trade credits	-1	121	0	-2	0
Loans	11	-8	18	-18	-29
General Government	0	0	0	0	0
Banks	0	-8	0	-44	-31
Other sectors	11	0	18	26	2
Currency and deposits	-47	-446	-108	333	181
General Government	0	0	0	0	0
Banks	17	-498	-149	346	281
Other sectors	-64	51	41	-13	-101
Other forex deposits	0	0	0	0	0
Other assets	-13	-9	-27	18	-12
Other	0	0	0	0	0
Other investment liabilities	192	333	-115	659	413
Trade credits	104	146	-130	204	-83
Loans	70	67	-193	161	149
Monetary authorities	0	0	0	0	0
General Government	-97	-235	-340	-144	-96
Banks	0	42	9	42	41
Other sectors	167	260	138	263	205
Currency and deposits	41	75	47	98	259
Other liabilities	-23	44	161	196	88
Other	0	0	0	0	0

Source: BNB.

Table A47. Bulgaria: Foreign Direct Investment by Sector and Country of Origin, 1999-2003
(In percent of total)

	1999	2000	2001	2002	2003
Foreign direct investment by sector:					
Financial intermediation	11.9	44.9	15.1	14.8	34.6
Transport, storage and communication	2.0	6.9	27.5	23.1	13.3
Wholesale and retail trade; repair of motor vehicles, motorcyc	16.4	11.6	14.5	25.2	15.2
Manufacturing	53.5	18.2	31.7	8.4	18.2
Electricity, gas and water supply	-0.6	-2.0	0.3	7.4	2.7
Hotels and restaurants	1.9	1.5	2.2	0.9	1.4
Real estate, renting and business activities	4.8	4.3	1.6	6.2	6.3
Construction	2.4	4.8	2.1	3.4	0.8
Other	7.5	9.8	4.9	10.5	7.4
Total	100.0	100.0	100.0	100.0	100.0
Foreign direct investment by country of origin:					
Austria	9.1	7.0	11.5	17.8	5.0
Belgium and Luxembourg	0.0	10.0	7.5	0.0	1.2
Cyprus	19.8	7.5	2.2	-0.9	4.4
France	9.5	3.7	1.9	1.0	0.3
Germany	4.9	3.9	8.3	9.4	2.6
Greece	0.3	9.9	29.6	24.2	16.2
Hungary	0.9	0.2	0.1	1.1	28.1
Italy	0.8	33.8	18.0	2.8	6.3
Korea	0.5	0.4	-1.1	0.0	0.0
Netherlands	12.9	-1.0	9.9	3.4	14.8
Spain	0.4	0.1	0.6	0.0	0.3
Switzerland	1.1	2.5	4.1	4.0	8.3
Turkey	1.5	2.5	-1.2	1.7	0.6
United Kingdom	3.4	-0.3	2.5	0.1	3.8
United States	6.7	5.8	5.5	6.2	2.7
Other countries	28.1	14.1	0.7	29.2	5.5
Total	100.0	100.0	100.0	100.0	100.0
Foreign direct investment by capital type:					
Equity capital	61.1	75.4	69.7	65.0	52.4
Of which: from privatization	27.7	36.5	2.4	15.0	26.1
Other capital	42.9	18.8	29.5	25.7	40.3
Reinvested earnings	-4.0	5.8	0.8	9.3	7.3
Total	100.0	100.0	100.0	100.0	100.0
Memorandum items:					
Inward direct investment (in millions of euros)	775	1103	903	980	1254
Bulgarian direct investment abroad (in millions of euros)	16	4	11	29	19

Sources: BNB.

Table A48. Bulgaria: External Debt Stock, 1999-2003 1/
(in millions of euros)

	1999	2000	2001	2002	2003
			(By Debtor)		
Gross External Debt Stock	10,864	12,038	12,046	10,769	10,330
Public Sector	9,411	10,006	9,789	7,961	7,156
Government Debt	8,331	8,849	9,225	7,746	6,903
Loans	3,377	3,502	3,578	3,099	2,978
Bonds	4,955	5,348	5,647	4,646	3,925
Government-guaranteed Debt	579	680	371	383	396
Loans	579	680	371	383	396
Monetary Authorities	116	111	75	20	0
Other Public Debt	384	366	118	-188	-143
Municipalities	27	28	15	0	7
Loans	0	0	0	0	7
Bonds	27	28	15	0	0
Commercial Banks	200	115	10	8	15
Loans	169	108	3	7	15
Non-residents' Deposits	31	8	7	1	0
Companies	79	124	106	89	127
Intra Company Loans	0	0	0	1	2
Other Loans	28	55	54	32	77
Trade credits	51	69	52	56	48
Other	78	98	-13	-284	-293
Private Sector	1,453	2,032	2,257	2,808	3,174
Commercial Banks	147	289	347	440	659
Intra Company Loans	45	64	68	41	30
Other Loans	3	46	53	103	133
Bonds	0	0	0	0	0
Non-residents' Deposits	98	180	226	297	497
Companies	1,306	1,743	1,910	2,368	2,514
Intra Company Loans	330	397	601	635	970
Other Loans	320	515	553	682	763
Trade credits	655	831	756	1,050	778
Bonds	0	0	0	0	3
			(By Creditor)		
Gross External Debt Stock	10,864	12,038	12,046	10,769	10,330
Long-term Debt	9,602	10,480	10,663	8,996	8,358
Official creditors	4,026	4,236	3,882	3,291	3,115
International financial institutions	2,878	3,237	3,121	2,710	2,628
International Monetary Fund	1,243	1,421	1,259	1,005	940
International Bank for Reconstruction and Develop	892	986	1,078	972	1,003
European Union	400	460	390	390	350
Other international financial institutions	343	369	394	343	335
Bilateral	1,148	999	761	582	486
Paris Club and nonrescheduled debt	811	645	434	285	219
Other bilateral	337	354	327	297	268
Private creditors	5,576	6,244	6,781	5,705	5,244
Brady Bonds	4,955	5,348	5,400	2,399	1,890
Eurobonds	0	0	247	247	247
Global Bonds	...	...	...	2,001	1,788
Other Bonds	27	28	15	0	0
Other treasury securities	78	98	-13	-284	-293
To commercial banks	46	100	113	137	171
To companies	470	670	1,020	1,206	1,440
Financial credits	433	634	954	1,155	1,427
Trade credits	37	36	66	50	11
Bonds				0	3
Short-term Debt	1,262	1,558	1,383	1,772	1,972
Official creditors	0	0	0	0	0
Private creditors	1,262	1,558	1,383	1,772	1,972
To commercial banks	301	304	244	311	503
To companies	961	1,254	1,138	1,461	1,468
Financial credits	292	390	396	406	653
Trade credits	669	864	743	1,055	815
Treasury securities	0	0	0	0	0

Sources: BNB, and Fund staff estimates.

Table A49. Bulgaria: External Debt Service, 1999-2003 1/
(In millions of euros)

	Amortizations					Interest					Total				
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003
GROSS EXTERNAL DEBT	525	709	1102	1026	798	454	558	587	377	388	980	1267	1690	1403	1186
Long term debt	423	513	871	821	597	431	553	581	366	370	854	1066	1452	1188	967
Official creditors	348	441	745	543	354	166	213	214	143	108	514	653	959	686	462
International financial institutions	168	230	498	388	275	108	159	165	118	92	276	389	663	506	367
IMF	116	150	336	270	95	41	67	63	35	22	158	217	399	305	117
World Bank	21	36	44	47	46	35	48	51	42	33	56	85	95	89	79
EU	0	0	70	0	40	11	15	21	14	10	11	15	91	14	50
Other IFI	31	44	48	71	94	20	28	29	27	28	51	72	77	98	122
Bilateral creditors	179	211	247	155	79	58	54	49	25	16	238	264	297	180	95
Paris Club and nonrescheduled debt	155	167	209	143	62	48	44	39	17	10	203	210	248	160	72
Others	25	44	39	11	17	10	10	10	8	6	35	54	48	19	23
Private creditors	75	72	126	278	243	265	341	367	224	261	340	413	493	502	505
Brady Bonds	0	0	18	87	93	243	304	328	175	56	243	304	346	262	148
Other bonds	33	0	6	25	2	1	12	8	15	167	35	12	14	40	169
Commercial banks	0	0	23	46	22	1	4	9	6	6	1	4	32	52	28
Companies	42	72	79	121	126	21	21	22	28	32	62	92	100	148	159
Short-term Debt	103	196	231	205	201	23	4	6	10	18	126	201	238	215	218

Sources: BNB, and Fund staff estimates.

Table A50. Bulgaria: Currency Composition of External Debt, 1999-2003
(In percent of total; end of period)

	1999	2000	2001	2002	2003
Gross external debt					
Euro	...	...	21.3	38.1	47.6
U.S. Dollar	...	...	64.0	48.6	39.4
SDR	...	...	11.2	9.8	9.0
Japanese Yen	...	...	2.6	2.4	2.1
Other	...	...	0.8	1.1	1.8
Public sector					
Euro	15.4	16.6	17.5	31.8	38.5
U.S. Dollar	65.5	65.6	66.2	52.2	45.2
SDR	13.8	13.6	12.9	12.7	13.1
Japanese Yen	4.1	3.4	3.0	3.1	3.0
Other	1.2	0.8	0.3	0.2	0.2
Private sector, total					
Euro	...	...	48.9	59.0	67.8
U.S. Dollar	...	...	47.1	37.0	26.6
BGN	...	...	2.9	2.0	3.3
CHF	...	...	0.6	1.2	1.2
Other	...	...	0.6	0.9	1.1
Private sector, commercial banks					
Euro	...	...	49.8	54.7	69.6
U.S. Dollar	...	...	38.2	30.8	13.1
BGN	...	...	11.0	10.2	11.3
CHF	...	...	0.4	3.6	3.9
Other	...	...	0.6	0.7	2.1
Private sector, companies					
Euro	...	...	48.4	59.5	67.4
U.S. Dollar	...	...	50.3	38.3	29.9
Other	...	...	1.3	2.2	2.7

Source: BNB, and Ministry of Finance.

Table A51. Bulgaria: Convertible Currency Position with Developing Countries 1999–2003 1/
(In millions of U.S. dollars)

	Claims of Bulgaria					Claims on Bulgaria					Balance 2/				
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003
Afghanistan	44.1	44.9	45.5	46.0	46.5	0.1	0.1	0.1	0.1	0.1	44.0	44.8	45.4	45.9	46.4
Algeria	32.2	29.0	29.0	27.2	21.9	0.0	0.0	0.0	0.0	0.0	32.2	29.0	29.0	27.2	21.9
Angola	94.8	96.9	99.1	101.3	102.4	0.0	0.0	0.0	0.0	0.0	94.8	96.9	99.1	101.3	102.4
Bangladesh	0.3	0.3	0.3	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.3	0.3
Congo	1.3	1.3	1.3	1.3	1.3	0.0	0.0	0.0	0.0	0.0	1.3	1.3	1.3	1.3	1.3
Egypt	0.3	0.3	0.3	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.3	0.3	0.3
Ethiopia	56.1	56.1	55.9	56.7	0.0	0.6	0.6	0.6	0.6	0.0	55.5	55.5	55.3	56.1	0.0
Ghana	0.0	0.0	0.0	0.0	0.0	8.6	2.1	0.0	0.0	0.0	-8.6	-2.1	0.0	0.0	0.0
Guinea	10.6	10.9	11.1	11.4	11.5	0.0	0.0	0.0	0.0	0.0	10.6	10.9	11.1	11.4	11.5
Guyana	1.0	1.1	1.2	1.3	1.3	0.0	0.0	0.0	0.0	0.0	1.0	1.1	1.2	1.3	1.3
India	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Indonesia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Iran	0.7	0.7	0.7	0.7	0.7	0.0	0.0	0.0	0.0	0.0	0.7	0.7	0.7	0.7	0.7
Iraq	1,447.2	1,476.9	1,506.6	1,536.4	1,582.0	0.0	0.0	0.0	0.0	0.0	1,447.2	1,476.9	1,506.6	1,536.4	1,582.0
Libya	52.6	53.1	53.6	54.0	54.6	0.0	0.0	0.0	0.0	0.0	52.6	53.1	53.6	54.0	54.6
Nicaragua	237.9	239.1	241.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	237.9	239.1	241.0	0.0	0.0
Nigeria	35.6	31.3	26.9	26.9	26.9	0.0	0.0	0.0	0.0	0.0	35.6	31.3	26.9	26.9	26.9
Mozambique	34.4	41.3	42.7	45.5	47.7	0.0	0.0	0.0	0.0	0.0	34.4	41.3	42.7	45.5	47.7
Pakistan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Peru	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.0	0.0	0.0
Somalia	8.0	8.1	8.2	8.4	8.5	0.0	0.0	0.0	0.0	0.0	8.0	8.1	8.2	8.4	8.5
Syria	82.6	82.7	82.9	82.9	82.9	0.0	0.0	0.0	0.0	0.0	82.6	82.7	82.9	82.9	82.9
Tanzania	27.3	27.3	26.1	29.7	30.5	0.3	0.3	0.3	0.3	0.3	27.0	27.0	25.8	29.4	30.2
Tunisia	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Yemen	95.4	95.4	97.0	97.0	97.9	0.0	0.0	0.0	0.0	0.0	95.4	95.4	97.0	97.0	97.9
Zambia	5.7	5.7	5.7	6.5	6.7	0.0	0.0	0.0	0.0	0.0	5.7	5.7	5.7	6.50	6.7
Total	2,268.7	2,302.8	2,335.2	2,133.9	2,124.0	9.6	3.1	1.0	1.0	0.4	2,259.1	2,299.7	2,334.2	2,132.9	2,123.6

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.

Table A52. Bulgaria: Import Tariffs, 1999-2003 1/
(In percent unless otherwise indicated)

	1999	2000	2001	2002	2003
All products:					
Minimum MFN tariff rate	0	0	0	0	0
Maximum MFN tariff rate	74	74	74	74	75
Simple average MFN tariff rate 2/	15.4	13.8	12.4	11.1	10.5
Number of tariff lines	10,765	10,538	10,499	10,620	10,373
Industrial products:					
Minimum MFN tariff rate	0	0	0	0	0
Maximum MFN tariff rate	35	30	30	40	27
Simple average MFN tariff rate 2/	12.6	11.0	10.0	8.6	8.6
Number of tariff lines	8,254	8,130	8,112	8,179	7,962
Agricultural products:					
Minimum MFN tariff rate	0	0	0	0	0
Maximum MFN tariff rate	74	74	74	74	75
Simple average MFN tariff rate 2/	24.6	24.0	21.9	21.3	22.9
Number of tariff lines	2,511	2,408	2,387	2,441	2,411

Sources: Customs agency, and Fund staff estimates

1/ Applied ad valorem tariffs as at 1 January each year.
2/ Excluding the ad-valorem equivalent of mixed tariffs.