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CHESAPEAKE ASSOCIATES

2717 CHESAPEAKE STREET, N.W.

WASHINGTON, D.C. 20008 USA

TEL. 202-966-4471

FAX. 202-966-4456

March 8, 1994

**TO: John Wiles, Roy Grohs
Project Officers
Agency for International Development
Room 6723 EUR/PDP/PD
Washington, D.C. 20523-0071**

**FROM: Margot E. Machol
President
Chesapeake Associates**

**RE: Sixth Quarterly Progress Report
and Trip Report, March 2-6**

I had an excellent trip to Bulgaria and am pleased to report the Institute is doing very well indeed. They are writing useful papers, working closely with senior government officials in the executive branch and Parliament, getting involved in the policy process, and generating significant amounts of non-AID dollars.

NON-AID FUNDS RAISED AND PROJECTS ORGANIZED

They have signed a contract with the Bulgarian-American Enterprise Fund to do a study on procedures in Bulgarian stock exchanges and on major securities traders (about \$400 a month for 1 year) (see attachment 1).

They have been announced as the speaker at the next meeting of the Bulgarian International Business Association (BIBA). They have spoken to the Association's Executive Director about entering into a contract with them to provide regular analysis on the economic/political situation in Bulgaria for their monthly meetings. They hope to have that resolved when BIBA finalizes its budget.

They have arranged with Salomon Brothers to provide (for \$1000) economic/political analysis for a group of potential investors Salomon is bringing to

Bulgaria later this month (see attachment 2). They have talked to Salomon about developing an ongoing relationship to provide this same type of analysis, and hope it will be arranged after their visit.

The Institute has been invited to join ICEG, the International Centers for Economic Growth, an organization of economic policy institutes around the world. They will be invited to participate in a July meeting of ICEG's members throughout Eastern Europe.

The Institute has been invited to join a group of policy-oriented institutions across Eastern Europe organized by a foundation established by RJR Nabisco.

They are continuing discussions with the French Government about a 4-year project (for \$3000/year) on market reforms during the last 150 years.

They have been asked by the German Government to distribute 100,000 DM for small projects across Bulgaria on local financing, local investment policies, and the outlook for the tourism sector. They will receive 1400 DM/month for overhead. This is a one-year project, but they hope it will be renewed. As part of this project, they have received money from Germany for a project on the feasibility of establishing an energy-efficient investment fund (about 4000 DM). This is a joint venture between IME and the Energy Efficiency Foundation, funded by AID.

They have a verbal agreement that they will receive funding from the German Ministry of International Cooperation to set up a library of current economic publications (25,000 DM one-time funding).

They are negotiating with the Bulgarian Ministry of Finance to do a study of the portfolios of small and medium enterprises. The Institute is also negotiating a project on aggregating information on uncollectible loans of the State sector.

They are receiving a grant from USIS to translate and publish 3 economics books (\$7000). The contracts with the translators and publishing houses have been negotiated.

PAPERS PUBLISHED

The Institute has prepared its first report on foreign investment (see attachment 3). It will be published and presented to BIBA. At a later date, this paper will be expanded. This is the first step in organizing a major conference on this subject for the end of this year.

The Institute has organized a course on securities trading, to be presented in Gabrovo. It came about as the result of a suggestion made at an AID meeting for grantees, and will be the first such course presented in the rural area of the country.

Everything You Wanted to Know About Economics and Prosperity, by Gwartney and Stroup, has been translated. It will be published in two weeks (see attachment 4). Arrangements have been made for Jim Gwartney to visit the Institute in May and teach a course for the Institute at the New Bulgarian University.

"Privatizing the Privatization Process" was published as the lead article in Banker Newspaper (see attachment 5).

"Economic Predictions for 1994" was published in Economics Newspaper (see attachment 6).

"Bulgaria: Island of Stability" was published in Capitol Press Newspaper (see attachment 7).

At the request of Demokratizatsiya: Journal of Post-Soviet Democratization, co-sponsored by American University and Moscow University, the Institute wrote an article, "Bulgaria's Political Economy of Transition" (see attachment 8).

At the request of the Bulgarian Association of Commercial Banks, the Institute is writing a concept paper on how to organize the sharing of communication among banks, without violating laws, on people applying for credit.

For Montreal University's publication of a textbook which will be used in Canadian and American universities, the Institute was asked to write a chapter on the process of creating constitutions in Central and Eastern Europe.

The Institute is working on a project on bank privatization. A paper on the subject is in draft. Doug Kruse of the Banking and Finance Assistance Center of the East-West Center will visit the Institute the week of April 25.

The Institute's major project has been securities legislation. Ivanka gave a one-week course to the First Bulgarian Stock Exchange in January for broker/dealers on how to operate. Krassen and Ivanka worked very hard to help organize the conference on securities legislation, which I attended. Following the conference, Walter Stahr prepared an article which was translated and published in 24-Hours Newspaper. Securities legislation will continue to be a significant effort, as they work with the Ministry of Justice, experts from the Central Bank and Ministry of Finance, the

Parliament and stock exchanges to shape the securities legislation for their country. This is discussed in more detail below.

The Institute now has an official brochure (see attachment 9). They have already begun distributing it widely in Bulgaria. I have sent it to 35 U.S. companies doing business in Bulgaria as a first step in fundraising.

TRIP REPORT

The main purpose of my trip, in addition to ongoing planning and budgeting with IME, was attending the conference on securities legislation held at the Council of Ministers. The Institute, especially Ivanka Petkova, and Walter Stahr of the SEC (who has been working on this project pro bono) did an extraordinary job.

The Institute had been asked last summer by the head of the First Bulgarian Stock Exchange, Victor Poposov, to offer an alternative to the proposal by a World Bank-funded group, based on the Frankfurt Stock Exchange. Herrs Weimersch, Dreiling and Schwartz prepared two lengthy draft papers which are extremely heavy-handed and administrative ("a stock exchange must be organized as a joint stock company, with X members on their Board of Directors, approved in a specific manner, etc.) Understandably, many Bulgarians object to the lack of freedom incorporated in the German model. In other places, the vagueness of the German draft made the Bulgarians nervous (a license for operating a stock exchange may be revoked "if it is detrimental to investors").

We met for a day and a half (their national holiday and Saturday!) with 35 very senior government and private sector representatives (see attachment 10). Walter had prepared an excellent analysis of the 11 major substantive areas of disagreement between the drafts (e.g., the definition of securities, licensing of securities firms, organization of a securities agency, etc.) (see attachment 11). Due to Ivanka's urging, this was used as the agenda for the discussion.

A few areas of disagreement were resolved--all, I should add, in favor of Walter's draft. Examples include whether trading on insider information should only be prohibited if the information is detailed (it shouldn't) or whether insider trading should only be prohibited for officers and directors (no, employees should be included). However, most of the disputes were left unresolved. Deputy Minister of Justice Nadelchev agreed that a small group of experts--which we expect will include Ivanka--will work to resolve differences. They plan to have legislation submitted to the Parliament by early May.

The Institute has done an excellent job in this area, translating drafts, coordinating with all the policymakers involved in the project, trying to get the best possible securities legislation prepared for their country. With little money and in a very short time, they have draft legislation far superior--and and more responsive to Bulgaria's needs--than the extremely costly, time-consuming World Bank-financed drafts. I am proud of their efforts to date.

**cc: Jerry Zaar
Mission Director, AID-Sofia**

- Attachment 1: Draft Study for BAEF**
- Attachment 2: Paper for Salomon Brothers**
- Attachment 3: Paper on Foreign Investment**
- Attachment 4: Title Page of Gwartney & Stroup Book**
- Attachment 5: Banker Article**
- Attachment 6: Economics Article**
- Attachment 7: Capitol Press Article**
- Attachment 8: Demokratizatsiya Article**
- Attachment 9: IME Brochure**
- Attachment 10: List of Conference Attendees**
- Attachment 11: Stahr's Comparison of Securities Drafts**

**LISTING AND TRADING IN BULGARIAN STOCKS
A PRACTICAL GUIDE FOR POTENTIAL USERS AND
INVESTORS**

OUTLINE OF PROPOSED MONOGRAPH

INSTITUTE OF MARKET ECONOMICS / BAEF

GENERAL TERMS

Bulgaria is still lacking laws on securities trading and on stock exchanges. Primary issues or secondary trading are under the regulation of two main state institutions the Ministry of Finance and the Bulgarian National Bank. They however are not authorized in the sense of the US SEC' responsibilities.

a/ Ministry of Finance

- o Corporations are not due to file prospectus to the Ministry.
- o The Ministry has specific printing requirements to the securities to be issued.
- o Insufficient fulfillment of obligations of the court when registering firms let the Ministry to check the identity of the issuers.
- o Additionally they may require an application from the issuer.

b/ Bulgarian National Bank

- o Issuing securities is not considered as a banking transaction by occupation. Thus, a permit is not needed to be granted by the BNB.
- o The issue of securities in Bulgaria is allowed only in Bulgarian Lev. A necessity of granting a permit can arise when the issue involves a clause regarding foreign currencies (denomination, effective payments etc.).

I. WHAT COMPANIES ARE TRADED:

1. What have been their principal characteristics (mix of current and historical data - to be completed as data availability permits):

- o initial offering date;
- o volume;
- o price range;
- o typical offering spread;
- o earnings and dividend history;

2. What does "listing" mean

There are no general law provisions for stocks to be listed. Some of the stock exchanges create their own rules for this. In some cases the Rules involve terms (like distribution of a prospectus) which does not incorporate their Western meaning.

According to the Rules of the First Bulgarian Stock Exchange (FBSE), the Registration Committee is the entitled body applying the procedures for securities registration and signing a contract with the issuer. Every issue is to be registered separately.

a/ The requirements for the companies to become listed:

- o The stocks have to grant equal rights to all holders (with no restrictions for trading with them; with equal voting rights and rights for receiving dividends);
- o If registered on an other stock exchange the documents for this registration shall be accompanied with the new registration contract;
- o The issuer shall prepare a circular letter (prospectus) and shall send it to the potential buyers. The prospectus shall involve the following information:
 - total volume of all securities issued;

- quantity, face value; specific terms of the issue to be registered; ratio of the stocks for public offering; preferences; voting rights; expected dividends and how often they will be paid; intended use of the proceeds; distribution and commissions for the offering; the business of the issuer; (including its subsidiaries and affiliates); competition and risks for the issuer; relations with the banking system; ratio between domestic production and production abroad; current state and future development of the personal; business relations which if breaking off will subsequently influence the development of the joint stock company; directors, officers and other key employees whose relieve or discharge will have the same consequences;
- current directors (education, professional experience, previous activities; stocks and other types of ownership; relations between these persons and the issuer and possible conflicts of interests; salaries of the directors and other employers;
- percentage share of the public issue; minimal quantity of the securities traded on the stock exchange; personality of investors who own 20% or more of the issue (could such an ownership be considered as control ownership);
- balance sheet, profit and loss statement for the most recent fiscal year and additional information required by the contract between the FBSE and the issuer;
- financial data on every year since the previous 5- years period, including the quantity of stocks which value has been paid; capital; dividends paid (total value and on a separate stock); debts of the company;
- copy of the registration of the company in the court (valid since the last three months), date of setting up of the company, address.

For the time being the requirements mentioned have not been followed very strictly. The implementation of the listing requirements is under way. The trading on the FBSE occurs mainly in unlisted securities. Listed are the stocks of:

Lex Plc

Credit Bank

First East International Bank

Trakya Commerce Company

Investment Fund "Razvitie"

Naturella Jse.

b/ To what standards must companies adhere once listed

3. What type of public or regulatory accountability does management have with respect to

- o financial reporting;**
- o insider information;**
- o related party transactions etc.**

a/ According to the Accounting Law financial reporting is obligatory for joint stock companies. They have to publish their audited balance sheets until the end of the fiscal year (30 March).

b/ There are no law provisions about insider information.

II. TRADING IN STOCKS

1. What is the "security" what is actually bought?

(book-entry, bearer or registered shares)

In the Bulgarian Commercial Code there are no common regulations on securities. There is no legal definition of the term "securities". Under the Commercial Code however one of the obligatory conditions to lose or acquire ownership on stocks is to present the security as document when selling it. It is not sufficient to endorse the stock to someone but to grant, to give him the document "security". The presentation of stock is the necessary condition to:

- be member of the joint stock company;
- to use membership rights.

2. *How secure is ownership of these types of shares against loss, theft, counterfeiting, unauthorized sales of new securities, etc.*

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3. *Are all shares the same with respect to claims on the company, dividends, voting etc.*

4. *What seems to explain the price of individual issues, i.e., what is rationale that investors offer (how read the coffee grounds)*

Investors buy stocks for both dividends and capital gains.

a/ They seem to buy growth stocks primarily for the expectation of capital gains. They are interested in the future growth of earnings rather than in next year's dividends. This is the case when buying stocks of commercial banks. Investor know that for the time being banks have to make mandatory provisions for their "bad debts". So, issuers do not promise to pay high or even any dividends. Dividends to be paid by some commercial banks (Bank for Agricultural Credit, First Private Bank, Central Cooperative Bank) may continue to be zero for the next few years.

b/ Investors however expect they to be positive sooner or later. In these cases one can say that the stock price equals the present value of expected future dividends.

Investors buy income stocks of other issuers (like Lex Plc) primarily for the cash dividends.

Stock markets are of very low efficiency. There is no tradition to collect information, there is a lack of information. Investors get only the general information about the companies are going on. They can only once a year read financial statements of the companies. Prices mainly follow scarce information about companies:

- o occasional information about future mergers or foreign participation have impact on the demand of the stocks in charge. The price starts to increase (First Private Bank) ;
- o although the promise of dividends does not have any legal background or consequences for companies, statements including promised percentage points of dividends to be paid in the future have an increasing effect on stock prices.

Prices on different stock exchanges move sometimes in broad spreads. The market is thin, liquidity is low, trading in the stocks of some issuers on many stock exchanges in the country makes prices unpredictable from the reviewed points of view. Manipulations could be one of the explanations of the price movements as well. It's hardly to say that stock prices reflect basic economic indicators, overall performance of issuers or investors expectations of future operating and investment performance.

III. WHAT ARE THE PRINCIPAL STOCK EXCHANGES AND WHAT ARE THE DIFFERENCIES BETWEEN THEM

1. In Sofia there are two stock exchanges: First Bulgarian Stock Exchange (FBSE) and Sofia Stock Exchange (SSE). The FBSE is a joint stock company with capital of BGL 10 000 000 ; face value of the shares is BGL 1000. Shareholders are banks (Foreign Trade Bank, State Savings Bank, State Insurance Institute), financial and brokerage houses and trading companies

Additionally in Varna, Bourgas, Pleven, Stara Sagora, Pleven,.... In Russe, Gabrovc....stock exchange departments to the commodity exchanges have been established.

2. Are individual stocks traded on more than one exchange

o explain the relevant differences between the different exchanges in terms of this monograph's focus on how individuals set up an account and buy stock

IV. HOW DOES ONE BUY A STOCK. ALTERNATIVES AND BEST WAY

1. *Do you have to have an account*

2. *Who offers accounts*

3. *How is an order placed, payment made and the evidence of purchase accomplished. When you sell how do you get the money back (and if foreigner, convert to hard currency)*

4. *How are dividends received*

(Think of this as "walking through the process)

V. LEGAL AND TAXES

1. *What are the requirements to open an account and buy shares*

2. *How are dividends taxed? Is there withholding of tax*

3. *How are gains and losses treated for tax purposes*

A. Taxation when buying equity or debt

Under the tax legislative treatment there are three main groups of persons:

- o individuals;
- o physical persons (merchants, tradesmen or sole proprietors) and
- o firms (juridical persons)

Two of them (physical persons and juridical persons) merit attention in respect to tax treatment of income on debt and equity.

a/ The group of physical persons (merchants, tradesmen or sole proprietors) involves basically small firms under the Commercial Code, private owners of medical service firms and handicraft entities created under the Regulation No 35 of the Council of Ministers from 1987.

Given the current tax treatment this group would prefer purchasing shares because of favorable income tax treatment (Income Tax Law, Art.13, Sec. 4, P.7). There is not such favorable treatment when buying corporate bonds.

b/ Under the legal distinctions the group involving juridical persons (firms) has the possibility of beneficial tax treatment:

- o in the case of making profits as a result of participation in foreign companies subsidiaries after taxation there (Regulations on application of Degree No 56, Art. 71, Sec.3, P.3). This case however can not be considered as a motivation of vital importance.

- o There is a legislative limitation for commercial banks when buying equity - to get a permit from the BNB when acquiring more than 10% in the capital of a non-financial enterprise.

B. Tax treatment of returns on securities

There are not legal provisions about the tax treatment of returns on securities. The holders still do not know if the taxation will be on the return when selling bonds or on the face value of the security on maturity. According to statements of the Ministry of Finance all returns on securities are subject to taxation.

5. Treatment of foreign versus domestic investors

6. What are the theoretical and actual enforcement mechanism

VI. OTHER COMMENTARY YOU WISH TO MAKE

Note - this could be a place to highlight and additional areas of potential concern for the individual investor.

BULGARIAN POLITICAL CONSTELLATION IN 1993

(1) Background

The first non-communist government in the post-WWII Bulgaria was formed in November, 1991.

It was based on the October 1991 general election results, Parliamentary seats being divided as follows:

110 for the Union of Democratic Forces (UDF), a loose coalition of then 16 anti-communist parties and groups;

106 for the Bulgarian Socialist Party (BSP), renamed communists;

and 24 for the Movement for Rights and Freedoms (MRF), a party representing Turkish minority.

(33% of the voters supported moderate and "centrist" parties which left outside the parliament.)

This necessitated a coalition. Given the circumstances it could only be between the UDF and the MRF. Thus, the government was to be as strong - or as weak - as the coalition.

UDF leadership should make a clear choice between two pertinent strategies: either to rely on public support (which had to be ensured and broadened), or rely on the administrative resources.

The first choice would have necessitated: 1) a written agreement with the MRF to support the UDF Cabinet; 2) prompt privatization; 3) measures to secure interests and public involvement in the UDF economic policy; 4) media policy to keep the public informed; 5) a moderate attitude towards non-communist rivals. (Public opinion polls showed that most people in general expected at least part of the a/m steps. At least step 3 had to be secured for MRF supporters.)

The easier choice was made by the UDF leadership, namely, to rely on administrative resources. With this "administrative" approach triumphing, none of the a/m steps were deemed necessary. Thus, negotiations with the MRF got started only *after* the first (May, 1992) Cabinet crisis. Privatization (both market and mass) was stopped and postponed. Public support was taken to be axiomatic. Media freedom was curbed. Non-parliamentary groups, especially those representing business interests, were treated with contempt.

But the Cabinet did not really have the administrative resources to run the country in such times of reform, and, consequently, of permanent split and occasional confrontation. The old nomenclature had to be replaced first. The new people were not competent enough, and relied on the overburdened central government for daily guidance. Anti-communism could not of itself produce positive decision-making routines.

The parliamentary constellation was changed significantly after in October 1992 UDF Prime Minister, Philip Dimitrov, ask for confidence vote on negligible occasion, did not received support from MRF and lost its bare majority.

The four months long government crisis (September-December 1992), which passed from the Legislative to the Executive, was finally resolved when a "Government of Technocrats" was formed headed by Professor Liuben Berov, an economist, former President's Advisor, on December 30, 1992.

Berov Cabinet was supported by the majority of the ex-communists (BSP), the party representing the ethnic Turks (MRF), and some "dissidents" from the UDF, led by Dimiter Loudzhev. Apparently, Berov had two courses open to him: to cooperate with the communists in payment for their support, or to pursue the reform along UDF lines, braving the communists, and relying on the President and the anti-communist feeling still paramount in the country. Thus, expectations were based on a broad and amorphous anti-communism: Berov was supposed to take the second course. President Zhelev was expected to be the guarantee against possible attempts to slow down reforms.

(2) Current politics

2.1. Current situation in the legislature is as follows:

- A) UDF group lost 26 of its members who now either play independent or have established another group; UDF fraction has at the moment 84 members.
- B) BSP group lost three of its members who sometimes vote in conformity with the main stream; now the fraction consists of 103 MPs.
- C) MRF group was left by five of its members, two of them occasionally vote as UDF, others play independent; now the fraction has 19 members.
- D) Instead of the initial three parties in the Parliament as it was constituted by the general vote in October, 1991, now there are five parliamentary fractions. The two new groups are: the New Union of Democracy (NUD) with 20 members led by a/m Dimiter Loudzhev an a/m Dimiter Loudzhev and Assen

*Dimiter Loudzhev is a UDF founder, deputy prime-minister in the coalition government of 1991, minister of defence in the

"independents" who haven't named themselves yet and who vote unusually with the majority.

E) UDF possesses control positions in several major committees of the Parliament having chairpersons in the Committee which provides final drafting of the bills; Budget and Finance Committee; and National Security Committee; BSP chairs the Local Governments Committee; MRF has a chairperson at the Agrarian Reform Committee; and NUD runs the Economic Committee and some temporary committees.

2.2. Constellation with the executive and judicial branches differs from that in the legislature.

2.2.1. Obviously cabinet has no clear political image but it is no copy of the parliamentary influential positions. "Cabinet of technocrats" provides the possibility to bargain with parties and trade unions on each issue of current political importance. There are two major periods of these impacts: first, before June 1993, when year Budget passed through the Parliament, the cabinet was trying to mobilize support outside the Parliament and among trade unions; and, second, after passing the '93 budget when cabinet begun trade-offs on key positions in the executive with parliamentary supporters and managed to minimize its dependance on the trade unions.

2.2.2. Constitutional Court was elected in 1991 when its membership reflected influences of UDF, president Zhelev and some moderates from BSP. It's possible to say that here democrats have majority over the members with ex-communist background. This situation will last at least until the fall of 1994 when re-approval of the constitutional judges should take place.

Judiciary is almost entirely under UDF control, especially it is true regarding the Supreme Court and Prosecutor Chief. UDF opposition to Berov results in a tricky juridical struggle between the cabinet and the Court. The most significant conflict is regarding privatization: pro-UDF Supreme Court has discontinued all governmental acts aiming to change top privatization officials and is intending to take under scrupulous consideration all claims against privatization procedures initiated by the cabinet and/or Privatization Agency.

(3) Summary of motivations

Being backed by BSP, MRF, NUD, and "independents" Berov cabinet survived in five non-confidence votes initiated by already oppositional UDF.

UDF cabinet who was replaced in May, 1992; NUD is being backed by the Center for New Politics (CNP), an alliance of central and local administrators, trade-unionists and bankers; Assen Michkovski is Head of the Economic Committee of the Parliament.

3.1. Berov cabinet started as a "moderate UDF"; they claimed they would follow the UDF reform program and be a "government of privatization". (Berov himself is one of the drafters of the program.) It looks as if he, after starting on the pro-UDF course, got intimidated by the ex-communists and decided that they merited some payment for their Parliamentary support. He seems to have missed the point that the BSP would in all probability support him no matter what he does, as they are certain that for them he is the least bad Prime Minister.

3.2. The President is currently (February 1994) very powerful, considering. The situation is somewhat abnormal, as there are no institutional and/or constitutional provisions, enabling the President to channel this power effectively. This situation is not so much a result of his own activity, as of the suicidal tactics of the UDF (which made it weak in Parliament), and the weakness of the Cabinet. Some internal political clashes in all the parties in the Parliament contribute to the current situation as well. (Similar cases are Poland in 1993, before the elections in September; and contemporary Hungary facing elections in May this year.)

3.2.1. The UDF tough line on the government resulted in the increase of the BSP influence in the cabinet. The compromising position taken by the Berov cabinet also spoiled its relations with the President who in the beginning was positive towards the government and its programme.

3.3. One of the crucial problems to be faced in 1994 will be the stability of the two party system. In the second half of 1993 three tendencies dominated the party politics.

The first was the attempt of the group around Philip Dimitrov to turn UDF-coalition into an unified and centralized party. The major step in this direction was the re-election of Dimitrov as a Chairman of UDF Coordination Council in December 1993. Against him voted the three UDF sound parties - Democratic party (DP), RDP and United Christian Democratic Center (UCDC) who altogether have a majority of the UDF seats in the Parliament.

The second trend was the generational and ideological clash in the leadership and parliamentary group of the BSP. As the result of this struggle the so called Komsomol-generation is controlling now the party. Like the UDF-leadership they are in favour of the two party system based on the confrontational politics. Till now this group is for preserving the government and is concentrating its attacks on the President. In the end of September Zhan Videnov, the

leader of the BSP, defined Zhelev as the BSP's "strategic enemy N 1".

The third major tendency in the party politics was the appearance of two new political actors which often are defined as Left Center and Right Center. The Left Center is the Citizen Alliance for the Republic (CAR), a political movement led by the former deputy prime-minister in Popov government, Alexander Tomov. Tomov was elected on the ticket of the BSP and represented the would be social democratic trend in the party.

3.4. Motivation for all mentioned political motions is the fear of fresh elections. None of the leading parties is ready to undertake and realize the election initiative relying just on its own efforts. (Similar developments took place recently in Slovak republic and it is very likely that Slovaks will follow Bulgarian type of domestic politics.) This is especially true with BSP which is striving to improve its positions in the administration on deputy (or senior) ministerial level. President Zhelev is not capable neither.

Parliamentary reshuffling of the constituent vote of October 1991 has been facilitated and motivated by the existing constitutional framework.

It looks as follows:

- a) Rules and Procedures of the Parliament allow representatives to establish any kind of grouping they like;
- b) Constitution itself (Article 99) provides for situations of government crisis that "President shall appoint the prime minister-designate nominated by the party holding the highest number of seat", in case this nominee fails, "the President shall entrust this task to... the second largest parliamentary group"; should the new nominee also fail to form a government in one week term, the president shall transfer the task to "one of the minor parliamentary groups";
- c) Constitutional Court Determination N20 (of January 1993) provides no limits for the repetition of this procedure, and prescribes no pre-conditions with regard the constituent will of voters.

Berov government was a typical weak post-communist government, pushed to choose between two possibilities to commit a suicide or to be murdered. It can be predicted with 90% certainty that the new parliamentary elections will take place in 1994.

(4) View from in-outside:

John Wilton before the Bulgarian Press

STATE, PROBLEMS AND PROSPECTS OF FOREIGN CAPITAL INFLOW IN BULGARIA

One of the main problems and setbacks to economic growth and reforms in Bulgaria is the lack of sufficient in quantity and adequate in forms external financing and foreign capital inflow. If we put aside the contemporary concepts of capital import as a powerful factor of growth and restructuring of the economy, as well as the experience of many successful developed and developing countries, which have reached high levels of growth largely through attracting foreign capitals, the significance of this problem for Bulgaria is determined by the following factors: The adjustment to a situation of large internal and external disequilibriums, inherited from the past, in the conditions of total isolation from the international credit and capital markets requires drastic cuts in investments and imports and therefore has very serious consequences for the medium-and long-term development of the economy. The only way of mitigating these consequences is to ensure the inflow of fresh capital to the country. Moreover, the attainment of long-lasting and stable equilibrium is impossible without overcoming the inefficiency of production, which in its turn, is a result of the structural and system distortions. The scope and nature of these distortions are such that the restructuring can not be done simply through reallocating the resources from one branch to another, due to the specific production factors which they utilize and the absence of developed market structures, institutions and mechanisms of reallocation. This process thus requires large amounts of fresh investments. In the current economic environment, Bulgaria is very short of domestic savings, with which to fund these investments. One major source of funds, especially for large-scale investments is foreign capital. Furthermore, the structural transformation and radical economic reforms require not just additional inflow of funds, but also technology and knowledge transfer, new managerial and organizational experience, skills and techniques and last but not least, new way of thinking and attitudes. The presence of foreign capital in the country could play very important role in this respect both through the changes promoting impact of competition and the demonstration effects of its market-oriented behaviour and modern business culture. Because the Bulgarian economy is heavily dependent on the international markets, and at the same time its foreign trade is still geographically very concentrated to the former CMEA countries, which are now suffering from a severe economic crises, the recovery of economic growth depends to a very high degree on the ability of the country to reorient and expand exports to the developed countries. This is also necessary in order to resume payments on the country's external debt. The obsolete structure and incompetitiveness of the export production, as well as the adverse external developments make it difficult to penetrate this markets on the basis of the conventional forms of trade alone and require "more sophisticated" forms, including direct participation of foreign capital in the economy. This is why now the problems of resuming the external financing and actively attracting foreign investments should be made a priority of the economic policy and reforms.

1. BACKGROUND AND CURRENT STATE OF FOREIGN FINANCING AND FOREIGN CAPITAL INFLUXAs a result of the domination of one-sided theoretical concepts and ideas about the role and importance of capital import and the conservative and inconsistent external borrowing policy, almost during the whole Socialist period Bulgaria had used only limited amount of foreign resources and was almost totally isolated from the process of international capital movements. The evolution of the policy of attracting foreign resources began from the total rejection of external credits in the 60-ties and passed through a period of relatively active use of commercial borrowing and financial credits, mainly in the form of syndicated loans from the Euromarkets and finally lead to a very cautious approach to opening the economy for foreign direct investments. Formally until 1985 and effectively until 1989 the only form of foreign financing were the loans from official and private sources. The amount of foreign borrowing was small owing both to the conservative external borrowing policy and the absence of diversification of the forms, sources and instruments of financing and to the fact that foreign borrowing operations were delegated to only one financial institution, BFTB, which acted on behalf and on the orders of the central authorities. No other economic entity was allowed and had access to the external capital and credit markets. The exchange controls applied not only to the external operations, but also to the internal allocation of foreign currency resources. All currency earnings, regardless of their origin were compulsory centralized and were in the same way centrally and according to the plan allocated. The exchange controls made it impossible for the enterprises to service debts in foreign currencies, thus restricting them from

taking foreign credit. This practice of foreign borrowing did not allow to maximize the volume, but also to optimize the terms of financing and to effectively monitor the external payment position of the country. Bulgaria was not permanently present in the international financial markets and appeared "sporadically", regardless of the situation and therefore of the costs of financing. The bulk of foreign credits was used to finance large projects, designed to develop or to improve import-competing industries or industries, exporting to CMEA rather than to boost export production to western markets directly. Most of these industries were import-intensive. Consequently they could not possibly generate foreign currency to repay the debts. Thus the accumulation of external debt was accompanied by growing difficulties in meeting the debt service obligations. With diminishing export earnings hardly covering even the crucial imports and a debt service ratio rising to over 80 percent of export earnings in the period after 1985 foreign borrowing became increasingly a source of new credits to service the debts incurred in previous periods or outright borrowing for consumption with no real contribution to economic growth and development. Payments on the accumulated debt burden caused a net outflow of foreign currency resources. Thus the indebtedness crises turned into insolvency crises, whose only delayed acknowledgement was the 1990 declared default on international obligations of the country. As a consequence Bulgaria was excluded from further participation in the international capital markets and what is more important, because it constituted a considerable proportion of its foreign financing, the country lost its short-term trade financing and the trade intermediation services provided by international banks that go along with it. Since 1990 foreign financing has been almost exclusively in the form of loans from the international financial institutions and from official creditors on the basis of bilateral and multilateral intergovernmental agreements within the programs of assisting reforms in Central and East European countries. Disbursements from these sources for the period 1990-1994 amounted to USD 2.220 billion. These loans and grants could neither cover the needs of the country in foreign financing nor could they substitute for the absence of private capital inflow. The growing difficulties in providing foreign financing have led to a gradual deregulation and liberalization of the foreign exchange regime. Initially only the internal allocation of currency credits was decentralized as the newly established after 1986 commercial banks were authorized to grant internal currency credits. At that time, however, these banks had neither their own foreign exchange deposit base nor were they allowed to borrow abroad. They were providing loans to enterprises above the targets set in the plan, but within the limits of foreign exchange resources, conveyed to them by the BNB. All credit terms were centrally administered. Besides, the banks were strictly specialized in a particular sub-sector and could not freely choose their customers. Similar to BFTB, their roll was restricted to technical executors of decisions taken by the central authorities. Later the decentralization process went on as the new banks were licensed to perform external operations. The aim was to avoid the credit constraints, which the only financial institution until that time, authorized to perform foreign borrowing operations was facing due to the excessive accumulation of debts. The activity of these bank in attracting foreign resources, especially medium- and long-term, remained weak owing both to the initial difficulties in penetrating the international financial markets and the lack of well trained and qualified staff, but mainly to the fact that at this time the credit-rating of the country as a whole had already started to fall dramatically. Decree N 56, enforced in 1989, allowed the enterprises, too to take credits abroad, but under the permissive regime of BNB. Further restriction on the possibility to take credits abroad was the obligation to service debts using only enterprises, own foreign exchange funds, which they retained after having fulfilled their plan targets to sell a considerable amount of their foreign currency earnings to BNB. The decentralization and liberalization process continued after 1991. In February 1991 the Decree N 15 was passed, which amended the foreign exchange regime, introducing internal convertibility of the lev and floating exchange rate regime. This allowed the enterprises to service the obligations on the approved by BNB credits by using not only their own currency funds, but also by buying foreign exchange in the then established currency market. As a result of the bank reform, started in 1990, a great number of new commercial banks were founded and some of them were licensed to perform external operations. Thus the number of banks, participating in the foreign borrowing of the country increased. The administration of exchange rate and interest rate was lifted and credit policy was liberalized. Since then the banks can freely choose their customers and negotiate with them all credit terms. The deteriorating external conditions and access to external credits have led to still another, one might say "revolutionary" change. In 1985 the first legal act, Decree N 535, admitting foreign direct investments in the country was adopted. The hopes then were associated with the access to foreign credits as well as to the western markets that

our foreign partners would provide rather than with the inflow of foreign capital. An evidence for this was the policy and practice of establishing joint ventures, as well as the legal act itself with its restrictive provisions, concerning ownership rights and management. The legal and economic system at that time could neither guarantee the interests and property of foreign investors nor could they provide normal conditions for the economic activity of the joint ventures. For the whole period of its action until 1989 only 19 joint ventures had been founded. In 1989 Decree 56 introduced some progressive changes in the ownership and legal forms of economic activity and in the functioning and management of the economy, as well as in the legal and economic regime of foreign investments. At the same time it left a large normative vacuum in a number of problems, which hampered the inflow of foreign capital. That was especially true for the ownership rights on the state property and the decision making process in the state enterprises and that was a major obstacle to the process of establishing joint ventures. The legal framework was laid and the process of transforming state enterprises into joint stock or limited liability companies began thus formally allowing the foreign investors to acquire shares in them. Because of the lack of clearly defined procedures of the transformation and rules of transferring the shares as well as of evaluation techniques and methodology the process proceeded spontaneously, to a great extent illegally and out of control and was accompanied by abuses. This made it necessary to impose a moratorium in August 1991 on the disposal of state property in the enterprises, which applied also to their rights to create joint ventures and to transfer shares. As a result the access of foreign investors to the public sector, comprising nearly 95% of the economy, was almost closed or at least made difficult and put under administrative control. The lack of privatization, demonopolization and decentralization of a number of industries and economic sectors, which should have been a source and driving force for the ownership transformation, hampered the development of the private sector. It was represented by a constantly growing number of small, financially weak private firms with their activities concentrated in the informal sector or in retailing, transport and other services. As a result of all this and with constantly deteriorating economic conditions the inflow of foreign capital was weak and mainly in the form of green field investments or joint ventures with private firms that predetermined the size and nature of the invested capital. Since 1991 two other laws on foreign investments have been subsequently passed and adopted, the latest one dating from January 16, 1992. Each of these laws liberalized further the legal and economic regime of foreign investments. The liberalization applied to decreasing the number of prohibited for foreign investors industrial branches and spheres of activity, limiting the scope of the permissive regime as well as to the initially partial and later full liberalization of the repatriation of profits, income and investments. The range of investment forms, which are now subject to special treatment and protection under the law, was also widened. As a result the number of foreign subsidiaries and joint ventures grew up. According to NSI, by 1993 it has reached 1500. Their total capitalization, however, remained low. According to the report of the newly set Foreign Investment Commission the share of foreign and joint ventures with capital equal or lower than Leva 50 000 in their total number is 76 percent and of those with capital exceeding Leva 500 000 - only 6.7 percent. These data speak for still another trend. Since such a size of these companies, own capital is totally inadequate to conduct any type of economic activity, whatsoever, it is obviously financed by credits, granted by local or foreign banks or the founders themselves. However inaccurate and approximate they may be, the following data may give us an idea of this trend: out of the total of USD 200 million foreign investments by 1993 reported by the FIC, the direct foreign capital involvement according to the Ministry of Industry data is only USD 24 million. This trend, of course, can be easily explained. On the one hand, it is only natural for foreign investors in a highly uncertain and risky environment to try and limit their own investment risk by reducing the size of the inputted own capital and burdening the new establishment with as much as possible debt. On the other hand, for the same reasons, most of the investments concentrate in branches and spheres, which require low initial costs and bring immediate returns. All these reasons notwithstanding, from the point of view of the possible adverse effects on the external payment position of the country, as well as considering the stability itself of the enterprises concerned, this trend can be interpreted as unfavorable. From the abovesaid we can conclude also, that joint ventures must have contributed mainly to the foreign borrowing of the country rather than to the direct foreign capital involvement. From all possible forms of investments pursuant to the laws almost exclusively the form of green-field investments has been used. The other forms as mergers, acquisitions and investments in immovables for commercial use are rather exceptions than common practice. Taking into consideration the fact that because the private sector is still

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underdeveloped the interests of foreign investors are associated with the state owned enterprises, the main reasons for this development may be traced to the late start and very slow process of the privatization. As we have already mentioned, the privatization process, started after 1989 pursuant to Decree N 56 had been hold up, at least in its legal part, with the imposition of the moratorium in 1991. With the adoption of the Law on Transformation and Privatization of state-owned enterprises in April 1992 and some other normative acts it should have been renewed. Actually for small business, privatization is far along, with almost all such enterprises transferred by the state to either municipal or private hands, by fair means or foul. The large-scale privatization, however, was beset with obstacles and was hardly launched. Economic factors at work hampering privatization include: economic recession, neophyte market structures and institutions, uncertain property rights in a great portion of the real estate, both urban and agricultural, the backlog of bad loans to enterprises and interenterprise arrears, rudimentary commercial banking and the inability of the financial sector and the government, s limited ability given the size of the budget deficit to adequately support privatization, poor financial state of a great part of the state-owned enterprises etc. The negotiations on large-scale investment projects with foreign investors moved very slowly. The first deals were struck only in 1993. It should be taken into consideration, however, that these were at the same time the first large-scale privatization deals in Bulgaria and this is an evidence for the good will of the country to admit foreign investors to this process. Investments in securities are almost absent, owing to fledging stock market. The structure of joint ventures by fields of activity is also unfavorable with the share of 95 percent of such enterprises engaged in trade and service sector and only 2.1 percent in manufacturing industries. It is also an evidence of the unfavorable assessment of the investment climate and risk in Bulgaria. The bulk of foreign investments in the country reflects thus far the foreign investors, wish to be present in the local market rather than being seriously involved in large projects. Almost negligible is the share of foreign capital in the bank sector. With only one exception from mid-February 1994 of a Greek bank setting up a branch in Sofia no other foreign bank has opened a subsidiary in Bulgaria. Only two of the now existing 43 banks are with foreign participation. Only recently the first major deal in this sector has been struck between FPB and an affiliate of the South Korean concern Daewoo and three other investment banks with foreign participation have been licensed to operate in Bulgaria. The main reasons for this state are: the still existing numerous legal and administrative, direct and indirect restriction, hampering the access and the activity of foreign capitals in this sector, lack of privatization, unattractiveness of this sector to foreign investors due to its instability arising from the unaccomplished process of consolidation of banks, the late adoption of banking regulations and the problems of cleaning up the inherited from the past bank portfolios from the "bad debts"*. Another disincentive for foreign banks to set up operations in Bulgaria was the insufficient influx of foreign capitals to other branches and spheres of the economy. The brief overview of the evolution of the policy and practice of attracting foreign resources, described above, shows that despite the significant progress in the liberalization and decentralization of the foreign exchange operations, both internal and external, and despite the fact of its very liberal foreign investment legislation Bulgaria has failed to substantially increase the volume of foreign capital inflow both in the form of loans and investments. The unsatisfying results of attracting foreign resources are often interpreted as unwillingness, lack of interest or unfair and speculative intentions on the side of foreign creditors and investors. In reality, however, the reasons are somewhat others.

2. PROBLEMS AND PROSPECTS OF THE FOREIGN CAPITAL INFLOW The main difficulties in attracting foreign capitals in the country arise from the following basic problems and issues: The immediate and for the moment most serious reason for the reduction of foreign capital inflow is the declared and continued for almost four years now default on the external payments of the country. 1993 seems to be the turning point in this respect. After three long years of negotiations a framework for an agreement on debt restructuring has been finally reached with bank creditors in December, establishing a menu of options, including debt buybacks, discount bonds, past due interest bonds and front-loaded interest reduction bonds. The agreement will be probably signed in June 1994. After this the financial relations of the country are expected to gradually normalize and the pattern and magnitude of external financing may change significantly. What is more important, the trade-related sanctions will be lifted, the trade financing will be restored and this will affect favourably both capital and current transactions of the balance of payments. The negotiations with the IMF on a third one-year stand-by arrangement are

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expected to be finalized upon the passage of the budget and bankruptcy laws in the first quarter of 1994. Additional financing from the IMF and IBRD to assist in implementing debt reduction has also been agreed upon. The financial assistance of international financial institutions and the expected growth in exports associated with the resumption of the commercial financing and the enactment of EU Interim Agreement along with other positive effects will help to reduce pressures on the internal foreign exchange market arising from the resumed foreign debt service payments and to eliminate or prevent sharp fluctuation and thus reduce the exchange rate risk. The economic situation in the past four years, characterized by a sharp and continued drop in output, high inflation rate and expectations, shrinking internal markets, high degree of uncertainty, instability and chaos made investing in the country highly risky. However, if the government succeeds in meeting its targets for 1994*, considered by many as too optimistic, the situation may change significantly. So far as these targets are grounded on a sound and feasible economic program, combining structural reform measures and fiscal and monetary constraints and financial discipline, they seem to be realistic. All the more that in 1993 most of the necessary for the implementation of policy measures and reforms legal acts and laws have been passed.*The main reason for the slow inflow of foreign capital are the delayed reforms and transformation of the economy. This is especially true for the financial sector and the restructuring and privatization of the public sector. Despite the unsatisfactory progress so far the prospects for the coming years look optimistic. The grounds for this optimism can be traced in the following facts and positive signs: With respect to ownership transformation a progress has been made. The legal framework has been laid. Restitution of urban property and small-business privatization have been already completed. The restitution of agricultural property is far along. The incorporation of state enterprises has been completed. The large-scale privatization has started with the first major deals struck with foreign investors. The privatization program for 1994 has been worked out. According to it the privatization of 320 state-owned enterprises, constituting nearly 10% of their total number, will be completed and to the already in 1993 initiated privatization procedures of 254 companies another 480 will be added. An additional possibility to take part in the privatization process will be probably included in the debt restructuring agreement with private banks as some of the instruments of the debt reduction will be eligible for debt for equity swaps. The Law on the transformation of the non-performing debts of the enterprises with state ownership exceeding 50%, negotiated until the end of 1990 was passed. Apart from the fact that it resolves one of the most serious problems so far of the banks and the enterprises concerned this law includes a similar to the above mentioned possibility for participation in the privatization. The emitted against the in public debt converted claims of the banks government bonds can be used as a payment instrument in privatization. Amendments to the Law on privatization are expected in the near future which will accelerate this process. The economic policy measures aiming at tightening the financial discipline, including closing up constantly loss-making enterprises, bans on lending credits to not credit worthy debtors, strengthened responsibility of enterprise managing boards and control over the disposition on public property as well as the forthcoming passage of the Bankruptcy Law will help to recover the financial health of the state-owned enterprises thus making them more attractive to private investors. A project on the restructuring of the financial sector and public enterprises has been worked out and submitted for approval to the IBRD for financing. With respect to the bank reform a progress has been made, too. The legal framework, including the Banking regulations has been adopted. The process of consolidation of the banks is far advanced and is now moving to its second phase - the expansion of the banks own capital. This latter process is expected to be at the same time one of the main methods of attracting private capitals. The consolidation of the banks and their adjustment to the requirements of the Banking regulations, the already started implementation of the modern banking technologies along with the possible positive effects of the aforementioned Bankruptcy law and the law regulating the old "bad debts" in reducing their operational losses will help to stabilize the financial sector and will make it attractive to private investors. The private sector became increasingly active in banking during the last years. Only in 1993 numerous private banks, investments funds and banks, financial and brokerage companies were established. The government intends to start yet in 1994 the privatization of the banks. The first in its list are the banks with a minority share of state ownership, followed by some of the largest state banks. Despite the absence of any regulatory framework a number of stock exchanges has been founded all over the country and the turnover in these markets started to increase. The significance of the securities as an instrument of mobilizing capital resources grew rapidly, especially in the private sector, in anticipation of a widespread privatization. In 1994 the development of the secondary market for treasury

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bills and bonds is envisaged. All these positive changes and trends certainly improve the investment climate in Bulgaria. A still great number of problems and issues, however, has been left unresolved or unaddressed in anticipation of a proper action. So the country now has to make any effort at changing the conditions which inhibit investment in Bulgaria. Any lagging behind in attracting foreign investment can only be a setback for the economic reform. The law on the transformation of the nonperforming debts of state-owned enterprises, negotiated before 1991 was passed in December 1993. * 30 percent inflation, zero decline in output and even weak recovery of growth, zero nominal increase in the budget deficit as compared to 1993 that along with the nominal increase in GDP will decrease its share to 6.8% of GDP, the basic interest rate will be reduced to the inflation rate at the end of the year etc. * The Law on VAT, the Law on the tax administration, amendments to the tax provisions in Decree 56, to the Law on the turn-over tax and excise duties, to the social security contributions, to the Income tax Law, to foreign trade regime, Regulations concerning the management of state property and state-owned enterprises etc.

Съдържа

Attachment 5

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You Wanted
To Know

About Economy
and Prosperity

МИЛТЪН ФРИДМЪН:
"Чудесно и умело излагане
на основните принципи
на икономическата наука."

МАЙКЪЛ НОВАК:
"Ако търсите една малка
и достъпна книга
по икономика - един буквар,
който ясно разкрива
основните идеи, - тази книга
е може би най-добрата."

ДЖЕЙМС Д. ТУОРТНИ
РИЧАРД Д. СТРАУП

**КАКВО
ВСЕКИ
ТРЯБВА
ДА ЗНАЕ ЗА
ИКОНОМИКАТА
И
ПРОСПЕРИТЕТА**

**ИНСТИТУТ
ЗА ПАЗАРНА ИКОНОМИКА**

Attachment 5

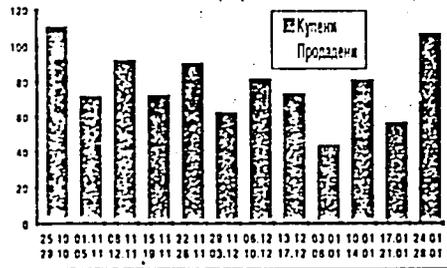


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БАНКА ЗА СТОПАНСКИ ИНИЦИАТИВИ

• МИНЕРАЛБАНК •

ОБЕМИ НА КУПЕНАТА И ПРОДАДЕНА ВАЛУТА ПО СЕДМИЦИ И МЕСЕЦИ В МЛН. ДОЛАРИ



В КАЛЕЙДОСКОПА НА ПРАВИТЕЛСТВЕНИТЕ РЕШЕНИЯ НАЙ-БЪРЗО СЕ ПРОМЕНЯТ ФИГУРИТЕ НА ВАЛУТНИЯ РЕЖИМ

на стр. 2

До 1990 г. почти 90 на сто от оборотните средства на предприятията бяха получавани като кредит от банките. Това са така наречените кредити по норматива за оборотни средства. Оттам са и големите дългове на предприятията. Съществуващите по това време търговско-стопански обединения, като например „Химснаб“, „Металснаб“, „Булгартабак“, „Промислени стоки“ и др., бяха задължени да изкупуват произведената продукция, но без да се отчитат потребностите на

пазара. Производителите получаваша парите, преди продукцията да е реализирана. Това е схема, в която банките бяха въвлечени, защото трябваше да финансират цялото документално движение на стоки.

Когато реформата започна, завари някои от търговските предприятия с огромни дългове. Сега задълженията им не могат да бъдат трансформирани според указанията за прилагането на закона за лошите кредити.

на стр. 11

Приватизиране заради приватизацията или преосмисляне на пропуснатото ЧАСТНИТЕ БАНКИ - ПОСРЕДНИЦИ В МАСОВАТА ПРИВАТИЗАЦИЯ

Един от възможните подходи към приватизацията е да се предложи на частните банки да служат за посредници. Те ще открият отделни сметки извън основния си баланс, тоест ще започнат т.нар. задбалансови операции. Тъй като са известни опасностите, произтичащи от

нерегулираното участие на банките на пазарите на ценни книжки, правителството трябва отблизо да наблюдава тези задбалансови операции и потоците от една сметка към друга. На страната на активите в баланса с новите сметки банките биха получили акции от фирмите,

които се приватизират; на страната на пасивите те ще издадат ценни книжки на населението, които са вземания срещу акциите на приватизираните фирми. За тази си роля банките ще получават комисиона за всяка сделка.

на стр. 16

ПРЕЗИДЕНТЪТ НА ИОНИЪН БАНК ПРОФ. КОРЛИРАС ПРИСТИГА В БЪЛГАРИЯ.

СПЕЦИАЛНО ИНТЕРВЮ ЗА ВЕСТНИК „БАНКЕРЪ“

ПО ВРЕМЕ НА ПОСЕЩЕНИЕТО СИ ТОЙ ЩЕ СЕ СРЕЩНЕ С ПРЕДСТАВИТЕЛИ НА БЪЛГАРСКИТЕ ДЕЛОВИ СРЕДИ

на стр. 9

ТЪРГОВСКА БАНКА СРЕДЕЦ АД

ТРАДИЦИЯ АМБИЦИЯ СИЛА

ул. „ИВАН ВАЗОВ“ № 1
1000 СОФИЯ

тел. 87-89-84
телекс: 22456
факс: 87-00-63

ЛЕКС
АКЦИОНЕРНО ДРУЖЕСТВО

тел. 02/848-232, 808-242
факс 02/808-291

ОБЕДИНЕНА БЪЛГАРСКА БАНКА АД

1202 София,
Бул. „Кн. Мария Луиза“ №70
тел.: 318-192 факс: 334-108

БАНКЕР

Приватизиране заради приватизацията или процесисляне на пропуснатото

ЧАСТНИТЕ БАНКИ - ПОСРЕДНИЦИ В МАСОВАТА ПРИВАТИЗАЦИЯ

Моделите

Преди да започнат дискусии по конкретна приватизационна схема, е нужно да си изясни разликата между пазарен и правителствен подход към приватизацията. В пресата тези две концепции много често се смесват - продаждбите чрез търс се разглеждат като пазарна приватизация, а масовата приватизация е с етикет административна, социалистическа, лява и пр. Тъй като при търговите правителството играе много по-голяма роля, определяйки кое предприятие ще се приватизира, организирани продажбата и получавайки приходите от продажбата, по-обективно е този подход към приватизацията да бъде наричан административен. В този контекст можем да разгледаме и възможностите за корупция, която не е рядко явление в случаите, когато

правителствени институции участват в стопанска дейност. За разлика от търговите масовата приватизация гарантира много по-важна роля на пазарните сили. След като дяловете са разпределени сред населението, законите на търсенето и предлагането определят пазарната стойност на фирмите. Ето защо ни се струва правилно масовата приватизация да се смята за пазарен подход към приватизацията. Тази теза за се е наложила и в научната литература - скорошен пример е статията на Шмит и Шницлер "Приватизацията и стимулите за мениджмънта в преходния период в Източна Европа", Journal of Comparative Economics, юни 1993 г. Схемата на масовата приватизация трябва да се основава на

бата им водят до ясни имуществени загуби поради по-високите (на черния пазар) цени на прехвърлянето им. Основните принципи на схемите за масова приватизация следва да се съобразяват с факта, че приватизацията е дългосрочен процес. Едно от неините измерения е процесът на обучение на населението и на администраторите на основните правила, определящи функционирането на пазара. Това би могло да се използва, като се организира

продажби на пакети от по около 50 предприятия на всеки шест месеца

Първо, това е много по-обещаваща стратегия от еднократната приватизационна сделка с над 500 предприятия. Второ, тя дава възможност на администраторите да отстранят някои от прогностично неблагоприятни в по-ранните етапи на приватизация. Трето и може би най-важно, тя позволява на икономическите субекти да получат няколко шанса на пазара на ценни книжа. Така страхът, че повечето хора ще продадат дяловете си за "нищо", ще намалее. При действително на този механизъм много хора ще се разделят с акциите си на много ниска цена на първия етап, но на следващите

етапи това може и да не се случи, тъй като те ще могат приблизително да оценят загубата/печалбата от ранната продажба и по този начин ще бъдат съблазнени да запазят част от дяловете за следващите етапи. Вероятно е това да се окаже естествен механизъм на обучение, карактерна за сравняват прираста на капитала плюс дивидентите, от една страна, и дохода от влягането на парите в банка или изразходването им, които механизъм да им помогне да направят много по-рационален избор при управление на състоянието си.

дават "ан блок" или акциите на фирмите, включени във всеки отделен купон, могат да се разделят и продават като отделна акция, като останалите акции се запазват непочтнати. Така на първия етап всеки би получил 5 такива купона, в с о к и включващ по 10 фирми. После във вестниците заедно с цените на ос икновените акции ще се публикуват и цените на тези купони. Това значително ще опрости процеса на вземане на решение от страна на инвеститорите. За да продаде купон или акция, потребителят ще трябва да посети местния клон на банката, работеща с този акция, и да ги обяви за продажба.



Така запознатото на населението с приватизацията е значително опростено. Излишно е да се споменава, че банките скоро ще овладят нови техники и инструменти, които да улеснят търговията, тъй като така биха увеличили обемите на сделките и печалбите си. Без отговор остава един важен въпрос: как да бъде организирана структурата на управлението на фирмите в преходния период? Този проблем е открит за предложение. Лесен изход би било, ако на правителството се разреши да запази 10-20 % от акциите. Най-лошото, което може да се случи тогава, е настоящата ситуация да продължи още известно време. Когато частен инвеститор придобие по-голям дял от този на правителството, тогава проблемът за организиране на мениджмънта става негов проблем. Междувременно правителствени агенции ще упражняват надзор над мениджърите. Разбира се, има много добри стимули, които по-добре решават проблема собственик - представител.

безплатното раздаване на дялове.

ако целта е масово участие на населението. Безплатното разпределяне на дялове гарантира повече участници, което от своя страна значително подобрява функционирането на пазара. Ако се взема някаква такса, за да се даде възможност на субектите да участват, то явно е, че много хора ще се въздържат от придобиване на дялове. Някои от тях няма да имат необходимата сума, а повечето ще се въздържат поради силното нежелание да поемат риск, настъпление, което в момента се забелязва у потребителите. В този смисъл използването на сумата "ниска", когато се говори за исканата такса, е напълно безсмислено, тъй като "ниска стойност" е категория,

тясно свързана с функцията на индивидуалната полезност и стопента на нежелание да се рискува. Доколкото материално е напълно нова за хората, можем да очакваме тази несигурност да издигне високи прелатства за участие имонно чрез механизма на отбавяване на риска. Друг крайна възможност е да се използва камък на приватизацията е двустепенността на системата



Някои от винтовете и гайките на масовата приватизация

Първият технически въпрос, който възниква, е организацията на разпределянето и облекчаването на продажбите на дялове от потребителите. Все още е спорно кои точно трябва да управлява приватизацията, тоест трябва ли да бъдат създадени инвестиционни фондове, или пък други посредници в сделките

между инвеститорите. Организираното и управлението на тези фондове може да струват много скъпо. Съществува и опасност те да се превърнат в трюмави организации, нискоэффективни и податливи на корупция. Ето защо ние се обявяваме в полза на подхода, предвиждащ

приватизиране на приватизацията

Един от възможните подходи към приватизацията е да се предложат на частните банки да служат за посредници. Те ще открият отделни сметки извън основния си баланс, тоест ще започнат т.нар. задбалансови операции. Тъй като са известни опасностите, произтичащи от нерегулираното участие на банките на пазарите на ценни книжи, правителството трябва отблъсва да наблюдава тези задбалансови операции и поточите от една сметка към друга. На страната на активите в баланса са новите сметки банките биха получили акциите от фирмите, които се приватизират; на страната на пасивите те ще издадат ценни книжи на населението,

които са вземания средно акциите на приватизираните фирми. За тази си роля банките ще получат комисиона за всяка сделка. Тази система би използвала мрежата, която вече е изградена от банките. Това е много съществен момент, тъй като така се осигурява лесен достъп на всеки до пазара на ценни книжи чрез клоновете на банките. Ако бъдат създадени инвестиционни фондове, изглежда, че мине много време, преди те да изградят клонова мрежа, покриваща повечето градове в България. Това със сигурност ще попречи на населението като цяло да участва активно в процеса.

Равни възможности и ефективно разпределяне на акциите

Най-важното предимство на тази схема е неината прозрачност - характеристика, която твърде често липсва в предложението за приватизация. Правителството дава на частните банки акция за разпределяне сред населението. Банките издават купони, като всеки е вземане срещу десет определени предприятия. Населението получава тези купони и решава дали да продаде целия купон или само част от него. След 6 месеца процедурата се повтаря с нова група предприятия.

Междувременно регионалните правителствени агенции правят същото - избират 50 предприятия от региона и разпределят техните акции между банките, за да бъдат раздадени на населението. Важно е първоначалната стойност на предприятията на глава от населението да бъде еднаква за всеки регион. Схемата осигурява и сравнително бърз преход. Но бързината не е еднозначно преимущество, тъй като прибрзаната приватизация може да доведе до сериозни социални проблеми, свързани с безработица. Равномерността на процеса определянето е желана характеристика. Схемата позволява стабилност и гъвкавост. Ако приемем, че е справедливостта е от значение, ние сме на мнение, че схемата осигурява сравнително справедливо разпределяне на националното богатство. Освен това тя използва най-естествените сили в процеса на преразпределяне на дяловете.

Естествено планът има и много несъвършенства. Критиките се основават главно на всеобщото неприемане на масовата приватизация и разглеждат ефективността като крайна обществена цел. Шо се въздържим от коментар на тези критики, тъй като те често се свеждат до субективни мнения, пряко отхвърлящи другата гледна точка. Все пак една реплика е нужна: пазарните икономии се състоят от хиляди дребни предприемачи и инвеститори, а не само от фирми гиганти. Много от последните изследвания показват, че благосъстоянието не е съвместимо с голяма диференциация на доходите. Това е така поради факта, че големите разлики в доходите пречат на широкомащабните инвестиции в човешкия капитал, които от своя страна в една от движещите сили на икономическия прогрес. Дасе помага на хората да разберат пазарните механизми в единствен начин да се създаде едно по-богато общество. Процесът на приватизация трябва да използва всички възможни стратегии, които добре са съчетават.

Материалът е подготвен подпомага масовата приватизация на Института за пазарна икономика.

национална и регионална масова приватизация

Фирмите с активи над определена величина се определят като национални и са предмет на национална масова приватизация, а предприятията с активи под този праг, но над определена друга граница, следва да се приватизират чрез регионална (областна) масова приватизация. Важно е също

всепи да получи дял във всяко предприятие

демонстрационизирано чрез национална масова приватизация. Схемите, които се обсъждат сега, предвиждат свободен избор къде да се инвестират точки, които се разпределят безплатно вместо дялове. Твърдението, че схемата, при

Както и да се наричат ценните книжи

раздавани безплатно на населението, (напр. дялове, ваучери, купони),

те трябва да могат да се продават. Всякакви ограничения върху продаж-

В БЪЛГАРСКА ПОЩА ИЛИ В БАНКА

Бъдеще за ВАШИТЕ ПАРИ!

Голямата заявка

ТАНЯ КЪРДЖИЛОВА
журналистка

Политиката в България се „прави“ в парламента, твърди политик, останал извън него. И това е така. Ето защо всеки, който се опита да прави прогноза за политическата 1994 г. без да се съобразява с намеренията на депутатите, рискува да сгреша. Въпросът е какви са те.

И двете, определящи политическия живот у нас формирования – СДС и БСП, заявиха, че са за социално ориентирана пазарна икономика. Никой от тях не желае да признае, че с поведението си демонстрира сериозни отклонения въдясно и вляво от политическия център. И с основание, защото през последните два месеца на 1993 г. те като че ли размениха ролите си. По-радикалната по отношение на икономическата реформа СДС напоследък заговори за цената, която плаща населението, а афиширащата се като защитник на обедняващите слоеве БСП със стахановски темпове приема един от друг по-строги икономически закони.

Очертаващата се рестриктивна държавна политика ще задълбочи разделението на бедни и богати, ко-

ето от своя страна ще раздели избирателите по същата демаркационна линия. Вероятността нови парламентарни избори да повтори съществуващата конфигурация на политическите сили в парламента е голяма. Това, както вече видяхме, ще доведе до по-силно противопоставяне и ще блокира работата му.

Ще се проведат ли обаче парламентарни избори през 1994 г.? Според мен, не по-рано от края на т.г. или през пролетта на 1995-та. Тази моя прогноза се определя от триада от икономически събития от края на м.г., които в голяма степен решиха съдбата на правителството, а оттам и на парламента. Защото съществуващото в момента мнозинство в НС заложи на кабинета на проф. Беров и в крайна сметка в края на 1993 г. само се превърна в негов заложник. Това стана факт с гласуването на мандат за преговорите с Лондонския клуб. Изненадващо за всички групата изпълни поръчението, с което замина – принципно споразумение с представителите на банките-кредиторки. Оттук нататък само политически и икономически безотго-

Ще спре ли отново политиката икономическите реформи?

КРАСЕН СТАНЧЕВ
Институт за пазарна икономика

През декември м.г. станахме свидетели на най-добре организираната (от края на 1990) вълна от стачен и политически натиск срещу правителството. Разликата между натиска срещу правителството на Луканов и това на проф. Беров е очевидна: 1) в края на 90-а на тогавашното правителство бе отказано доверието да започне реформи; 2) липсваше кон-

ституционен регламент, по който това недоверие да придобие формата на процедура за смяна на правителството (и избори); 3) имаше политическа партия (СДС), която предлага и олицетворява алтернативата; 4) съществуваше ясна представа за мерките по оздравяването на стопанството и обществото, макар и не съвсем публично изразен, консенсус по повод тези мерки.

Политическата форма за започване на стопанската реформа, избрана тогава, бе коалиционно правителство. Със задна дата може да се спори, дали това бе единствено възможният път, но тогава той бе съзнателно избран дори от тези които впоследствие се обявиха против него.

Синдикалният натиск тогава по същество изискваше пазарна реформа и работеше за нея. Както показват тогавашните сондажи на общественото мнение, нито членовете на синдикати, нито пенсионерите, нито дори безработните бяха против свободната пазарна икономика. Нямаше основание да се смята, че в България хората са мотивирани религиозно или етнически „за“ или „против“ пазарното стопанство. Според данни от август-септември 1993 г. настроенията са почти еквивалентни – 42 на сто от хората подкрепят

пазарните развития, 40 на сто са на обратното мнение. За разлика от края на 90-а, синдикалният протест в края на 1993 г. по същество води към запазване на структурата на индустрията.

От началото на 93-та правителството на проф. Беров с подкрепата на БСП, ДПС и НДС направи съществени стъпки, предвиждани, желани и символизирани от СДС.

От тях трябва преди всичко да се споменат рамковото споразумение с банките-кредиторки, началното решение на проблема с вътрешния дълг, вероятността на споразумения с МВФ, приемането на закона за добавената стойност и възможността през 1994 инфлацията да се удържи в границата под 50% в годишно изчисление. Повечето независими стопански предвиждания смятат за много вероятно спиране на спада на БВП. Не може да се каже, че тези неща са успех само на правителството като такова.

Изобщо успехите на правителството на Беров са продукт на нерешителността на предишното правителство, от една страна, и от друга – на смяната на политиката по отношение на страната, водена от международните финансови институции и банките кредитори. Опитът от 90-а

ДВЕ МНЕНИЯ ПО ЕДНА ТЕМА

ворни хора могат да се откажат без аргументи от по-нататъшни преговори. Потвърждавайки делегираните си пълномощия за правителството, парламентът трябва да си осигури 6-8 месеца спокойна работа, за да ги доведе до успешен край.

Постигането на споразумение с Лондонския клуб налага постигането на благоприятни за страната споразумения с МВФ и Световната банка, за да се гарантира притока на средства за предстоящите плащания. А пътят към подписването на споразумение с тях минава през приемането на държавния бюджет за 1994 г. Той обаче е тясно свързан с уреждането на лошите кредити, на което държат и МВФ, и СБ. С този акт ще се отстранят формалните пречки пред приватизацията, твърдят представителите на международните финансови институции. Смяната на собствеността е едно от основните средства на икономическата реформа и предполага ясни и категорични действия от страна на правителството за реструктуриране на националното стопанство.

Който е казал „А“, трябва да е

готов да стигне до „Я“. Налице са условия така дълго очакваната реформа на българската икономика да се задвижи с по-бързи темпове. Разбира се, ако някой или нещо не сложи прът в сплиците. По стечение на обстоятелствата обаче очертаните стъпки на правителството (с подкрепата на парламента) ще изведат на гребена на вълната най-хуления в новата ни история български кабинет.

Ще допуснат ли това политическите сили, които не го подкрепят? Ако съдим по поведението им през последните седмици на м.г., със сигурност можем да кажем – не! Защото именно те ревизираха сто на сто съобщението на Стоян Александров за 50-процентова редукция на дълга. Защото седмици, след като беше приет по принцип от Бюджетната комисия проектозакон за лошите кредити беше предложен нов, диаметрално противоположен като схема за уреждането им. Защото всъщност следващо предложение за актуализиране на държавния бюджет за 1993 г. и за уреждането на лошите кредити се стремеше да „изпомпа“

колкото се може повече средства от Държавния фонд за реконструкция и развитие, откъдето е предвидено да се плащат част от сумите по споразумението с Лондонския клуб.

Някои политици от лявата половина на пленарната зала вече рисуват апокалиптични картини за тази година. Те са на мнение, че всяка стъпка на правителството и парламента ще бъдат блокирани с позволени и непозволени средства от дясната половина. Тя от своя страна твърди, че разпределението на политическото пространство в Народното събрание не отговаря на това в обществото и час по-скоро трябва да се проведат парламентарни избори. Струва ми се обаче, че е политическо лекомислие да се тръгне в тази посока, без да се изясни каква ще е съдбата на очертаните се икономически промени. Ето защо и най-равностните критикари на парламента и правителството трябва да изчакат до лятото на 1994 г., за да стане ясно каква ще е съдбата и резултатите от трите генерални заявки на кабинета – уреждането на външния дълг, на лошите кредити и приватизацията.

година досега показва, че квази-коалиционни правителства имат по-мощен потенциал за водене на стопанска политика. Партиите оставят тези правителства да работят, понеже получават възможност да не носят сами пряката отговорност за непопулярни мерки.

Проблемът на 1994 г. обаче ще бъде ограниченият политически мандат на правителството на проф. Беров. При приемане на бюджета за годината – главно условие за споразумение с МВФ, а следователно и за обслужване на задълженията по дълга, за външни инвестиции и достъп до чужди пазари – СДС окончателно ще загуби ролята на символ на пазарното развитие на страната. БСП и парламентарните групи, поддържащи правителството, имат в ръцете си приемането на бюджета, но не и лаврите от възможните положителни стопански развития. Рискът за тях произтича най-вече от очакваните фалити и два пъти по-бързия ръст на безработицата през тази година. Към тях следва да се добави и растящото нежелание за допускане на чужди капитали, отъждествявано с negliжиране на националния бизнес.

Рисковият период за страната и правителството е до април-май. Дотогава ще се приема бюджетът и

след този период се очаква ефектът от прилагане на ЗДДС. Приходите от ДДС са основен източник за бюджетни разходи по обществено осигуряване, компенсация и помощи. Дотогава такъв източник ще са данъкът оборота и акцизите. Всяка твърдост в тяхната област е вече извор на обществено недоволство, от което партиите не могат да не се възползват. Анализът на съотношението на индекса на потребителските цени с този на реалните доходи за 1992 и 1993 показва, че през 1993 индексът на доходите е по-слабо контролиран и че се променя на пробиви. Тези пробиви не следват сезонни промени, а са вероятно следствие на обществени фактори. Същата ситуация вероятно ще се засили и през тази година. А заедно с нея и изкушението за синдикален натиск и популистски обещания от страна на всички партии.

Всички сценарии за преждевременни избори минават през евентуално неприемане на бюджета за тази година. Извън това конституционната процедура за предизвикване на такива избори, установена с решение № 20 на Конституционния съд от януари 1993 г., предоставя възможност за безгранични прегрупираня в парламента и създава ус-

ловия за неколкочратна промяна на конституиращия Народното събрание вот (изборите от 1991 г.). Ако премине с успех бюджетните изпитания, кабинетът на Беров ще получи още една година и следващите избори ще са през пролетта на 1995 г.

За този сценарий ще съдействат няколко фактора: а) разногласията най-вече в СДС, но и в БСП; б) стремежът на другите партии да формират алтернатива; в) степента на обществено недоволство от неосигуреността през първата половина на годината. Най-вероятно изглежда приемането на бюджета срещу концесии спрямо различни партии. Това ще означава второ правителство на проф. Беров някъде през май – началото на юни.

Срещу такава развитие ще бъде перспективата от загуба на политическо влияние както от страна на СДС, така и от страна на БСП. Президентът ще има по-малки възможности да балансира, поради пропуски през 1993 г. Популисткият заряд на основните партии във и извън парламента е достатъчен да спре крехките кълнове на стопанско съживяване, както това стана следствие на изборите през 1991 г. Разликата оттогава обаче е, че възможностите за бъдещо компенсиране на загубеното изглеждат далеч по-неопределени.

България - Island of Stability

Krassan
Sardchev

Красен СТАИЧЕВ

"Капитан Петко Войвода" отново се появи на телевизионния екран. Това е почти сигурен знак, че България - "островът на стабилността" на Балканите - ще бъде залята от нова вълна патриотарство. Работата не е в качествата и смисъла на филма, а в това, че за толкова години не се появи нов заместител. Той е увлекателно изображение на обсебнителни схеми на националното самосъзнание - от "даваши, балкански Йовов" до "предателството към своите", бързото нагаждачество и неуважението към талантливите, самостоителините и героите; на схемите, които вписват четирисетте антропологически типа, населяващи парчето земя България, в политическата карта на съвременния свят.

Възникналите през последните десет години изображения на националното подсъзнание са достойни за съжаление. Но по-тъжно е, че демократичните обстоятелства не са предизвикали съществени разплавявания в обсебнителните схеми. Шум няма по-захващаща или иначе привличаща но на художествена версия на националните комплекси и самочувствия, значи те действат в същата подредба и в насока, подобна на предишната.

По-скоро национални комплекси, отколкото национално самочувствие

Ако през 80-те години между филма и "изблик" на патриотизъм от страна на властите минаха няколко години, сега престо те ще по-бързо.

И сега основният проблем е неразличимостта на езика, на който се формулират националните идеализации. През 1984-1985 г. първо чрез радиото в мисловния речник на народа бе въведена обсебнителната дума "актантът", "българин". Поредната тематични употреби бе битова, дресивна и въздействаща със силата на масовата скука - "защо не пее българинът?" (или защо не?), "защо не умее (или умее) да работи българинът си време?" и т.н. В съдържателната (т.е., ако се изключат невините и причесни абстрактни формули) всекидневна реч копулативно съждение "българинът е това и онова" е най-често срещаното днес. Макар и да е очевидно, че не обяснява нищо. Към него се прикачат предикати, които изразяват по-скоро национални комплекси, отколкото самочувствие.

В рефлексивната реч, т.е. онази, която държи под контрол употребата на своите думи, положението е същото. Разликата е в лъжливата липса на предпочитания спрямо комплексни и самочувствия. Социологическите изследвания например свахват някои валидни нагласи на гражданството. Но обратното им съобщаване на широката публика страда от същите пристригания. Изказването "българинът очаква от държавата да му гарантира основен доход" - основано средно на 2/3 от миснетата, уловени в повечето представителни сондажи през последните

две години - не казва нищо особено за гражданите на България, съпоставено с хората в която и да е друга страна (да речем) в Европа. (Съществува с тъкмо противоположното реално положение, че за същия период спестяванията на домакинствата са основният кредитор и на губещите предприятия, и на бюджета). Единствено валидно послание остава думата "българинът". "В Европа" очакването е същото, но стопански положението е различно. Рано или късно усетена, тази разлика ще поради нуждата от обяснение. То ще бъде намерено в думата, предизвиквайки вече установената смесина от комплексни и заместващо ги самочувствие. Думата българин е име, което обозначава и по което се разпознават злините и превратностите на съдбата, стоварили се върху турските хора със или без тяхна помощ.

Абстрактната вина и общественият характер

През 80-те нуджата от обяснение е фиктивна. Животът е осигурен, Иерархията на съста - стабилна, и решението се вземат без отношение към ценностите на отделния индивид. Смяната на имената на турците (както неколкото пъти преди това на ромите и българите, вярващи в Мохамед) е природно събитие. То има по-скоро естетическо, отколкото морално значение, нещо като поправка в пейзажа. През 90-те години абстрактната вина за "случилото се" се носи от шепя представители на българското мнозинство, които са на изчезване. Конфликтът е вътре в мнозинството, от което малцината смятат, че турците и останалите "немци" (цигани, евреи и пр.) са граждани с равни права. Реалната вина не е понесена от никого лично, тя не съществува (или също изчезва).

Междувременно иерархията на света отпадна и хората са по-голи пред света, отколкото бяха преди. Но съставните части на обществения им характер са същите. Като цяло характерът засега е непродуктивен. Хората са захвърлени на пътя, искат компенсация както за станалото от 1944 до 1947 (и след това), така и за случилото се след 1989. Те не изпитват угризения по повод досегашния си живот, защото обстоятелствата не са зависели от тях. Те и днес нямат илюзията на политизираното общество, че изборът им влияе върху общите дела. Обществото почти не е политизирано. Осъществяването на замислите изглежда невъзможно, без да си част от по-голямо цяло. "Аз" е първо "ние", независимо за кого става дума - за циганин, турчин или българин, бизнесмен или политик, богат или беден. (Въпреки старанието езикът ги поставя в мъжки род.) "Ние" не се състои от "аз", "ние" се самоопределя предимно спрямо "те".

Непродуктивността произтича от това, че няма кой да символизира "ние", "ние" е неосъществено и в насипно състояние. Оттук и тайната на стабилността. Онова, което отвън

изглежда неси "остров", е проследено липса на целенасоченост. Тя ще се появи рано или късно поради слабостта, обркаността и нищетата.

Не е ясно дали стопанският просперитет изглежда племенните вражди между "ние" и "те". По-скоро едва ли. Сигурно е само, че бедните народи (поне в Европа) повече обичат абстрактните обяснения и по-силно очакват чудотворни решения.

През осемдесетте години местният живот, вътрешно гнил, но изглеждащ стабилен сам по себе си, се вписваше в рамките на външни, видимо всички съотношения. Макар и буафорно, врагът бе определен. Омразата към него не беше лична нагласа, а по-скоро ритуал, извършван периодично от мъжкото население.

Патриотарството на подредения гражданин

Сега проблемът не е в това, че изчезна външните рамки и Иерархията на вътрешния живот. Той е в това, че омразата има вътрешни, лични основания. Патриотарството и преимуването на турците през осемдесетте бе израз на безсилието на тогавашната система и заместител на липсващото самочувствие на мнозинството. Омразата лесно замества чувството за национална малолепеност, тлесно в индивидуалните души на хората. Сега е засилено както от провала на стария режим, така и от неуспехите на новия. Патриотарството отново се даде просто подредене на света. Омразата към "так" и неразбирателно на чудното стават въпрос на теорията на познанието на света. Затова все повече учени историци и дипломатири философи са склонни да се упражняват върху "българина" и "високата степен на взаимна привързаност на славянските стоси". Все повече елитът не иска да си спомня, че история и светът са трудно разбираем и сложни; все повече различни интелектуалци се нагаждат към жаждата на средни граждани за свързаност и подреденост. Те окончателно ще прегрият простодушните възгледи, когато парите и политиката понесат от тях извая на патриотични чувства. Въсъщност парите вече го

искат било поради тъга по отминало величие, било поради страх параните да загубят господстващото си положение на местни "бейове". Най-добре би било да има чужди инвестиции без чужденци.

Ако патриотичните изблици на осемдесетте години бяха все пак зачнати (както и всичко останало) "отгоре", патриотарството на десетдесетте клони отдолу. Няма никакво значение, че тяхната почва е в общи линии една и съща: тъждествената безмислица и истината на следните две изказвания: "турците обсебиха Левски" и "българите застрелха Ботев". Цялата илюзорна плетеница на националното самочувствие зависи от това на кое от тези изказвания се придава по-голяма обяснителна сила, кое се поставя на първо място като по-вярно. Патриотарството на осемдесетте можеше само да поради някакъв вътрешни за България страдания. Националистическите чувства на десетдесетте са самоубийствени и без особени трудности ще потопят "острова на спокойствието". Околният свят е напълно несигурен и настроен войнствено, туреците като нищо ще бъдат оставени да се изтребват с чужда помощ. България е "island of stability" и "the best kept secret" на Балканите, защото е вътрешно разединена, защото няма ясна подредба в отношенията си към света. В момента, в който мнозинството от островитяните се обедини срещу някое от малцинствата си, България просто ще престане да бъде остров на хакването и да е.

Вероятната национална кауза

Пришпорени от парите и политиката, наличните интелектуалци бутат националното подсъзнание в тази посока. Съюзът между маса и елит на националистична почва е по-вероятен откогато и да било през последните години. Изходът от прехода е по-невидим, отколкото преди двестри години.

Сегашното статукво се крепи въсъщност на две основания: на политическите съотношения от 1991, които отдавна вече не са същите, и на не особено силното влияние, което имаха през 1988-1991 интелектуалците с обобщено чувство за вина

по повод патриотарските изблици на осемдесетте години. Влиянието на виновните интелектуалци бързо изчезна. Правозащитниците, ако останаха, закономерно превърнаха признанието си в работа, един от многото начини да се изкара прехрана. Те са политически безтегловни.

Когато чуждестранни мисионери хвалат българското преодолване на междуличностната омраза, те искат мнозинството да се гордее, че е допуснало турците в парламента. В този парламент турската партия е единствената нормална партия, която освен това има някакво отношение към правата на малцинствата. Но тя неспирно се разлага: от една страна, поради конституционната забрана на етнически партии. ДПС разполага с парникови условия на съществуване; никой друг не може да регистрира конкурентна партия, ДПС не изпитва вътрешните конфликти на другите партии, а се руши от собствената си изключителност.

Под въздействието на обстоятелствата големите партии поемат защитата на неформулите засега национална кауза. Стопанският им популизъм съзнателно ги тласка към ксенофобия, макар засега да превъзвръща изказа на това настроение на пишешото съсловие.

Извънпарламентарните партии са предимно на роднишки. Така наречените либерали не само са обединени с патриотарите от 1990 година, но дори и за пред очите на външната либерална общност не присмат меки решения "по национална въпрос". Само радикалдемократите, изглежда, имат желание да приличат на умни патриоти. Но кой ли ги знае... Президентът също губи своята роля на споконен патриот. Съдбата по плановите му за назначения на дипломати, той, иска или не, ще залечи малкото, което бе постигнато за облика на страната пред външния свят. Предвид за заявеното решение да не се съставя за нов мандат България очаква своя Лео Пен или Жириновски.

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Bulgarian Political Economy of Transition

by Krassen Stanchev, Phd,
Institute for Market Economics, Sofia

Introduction

In this article I would like to argue that since 1989, in most of the countries in transition, at least at the beginning of the period, economic policies have been, in a literary sense, a sort of political economy rather than pure economics of reshaping centrally planned economies into market-oriented ones. Whatever economic steps undertook in Central and Eastern Europe, especially between 1990 and 1992, a strong political will was required in order to initiate them. Often unexpressed, economic initiatives and approaches of the governments of the region have deep political meaning securing or hampering coming political and economic developments. Rapid privatization in Czech republic for instance was not just brave economic move of the leadership of the country; politically it managed to replace "overnight" the burden of responsibility for the major enterprises off the central authority and to spread it among Czech citizens, providing them a ground for further individual engagement in the country's economic affairs. Or, to give another example, it was not a political rollback or unexpected change of the economic philosophy of the Hungarian government when, in early 1993, the prime-minister Antal allowed trade unions to considerable stake of the privatization. Without a permit to play this role trade-unionists could obtain heavier political weight.

In Bulgaria, where for background reasons political complexity of the economic reforms was (and still is) more evident than in the average country of the region, the largest restitution scheme is in implementation. It might be regarded as a sign of proven respect of the property rights, but this does not mean that Bulgarian governments have been the most market oriented. I will stick to the Bulgarian case. Thus, I will attempt to show to what extent events of the economies in transition, scrutinized in the point of pure economics, are dependant on political decision making and, in a turn, how they could influence certain patterns of political behavior.

1993: "Lost" Year of the Economic Reform

Official data for the entire 1993 are still expected, but some figures could be named. The GDP shows a 5.5 % decline in the first half of the year compared to the first half of 1992, when GDP decline was twice as high - 12.6 %. It is evident from the official forecast (4 %) that in reality the recession was deeper. In the first ten months of 1993 industrial output decreased by 7.2 %. In 1992 this decline was 16.2 %, so there is a tendency to slow down of this sector.

There are two opposite tendencies in the dynamics of the overall output too: the great decline of the agriculture output is in contradiction of the delayed decline of the overall output, and especially of the service sector (which will probably register a sizable real growth). At the same time private sector produces over 50% of agricultural products. Its share in retail trade is about 70%, and in foreign trade - between 35 and 40%. Construction sector 1993 performance is 50% private. As reported in June 1993 16% of the banking sector is private, with no foreign bank operating as a single body. Number of employees in the private sector grew by 14.5% in annual calculation and now about 43% of the active work force is fully or on part-time basis involved with this sector.

The 1992 inflation rate was about 80 %, and 1993 - 65% (as predicted). Consumer prices rose by that per cent but there are reliable calculations which show the level of 60%. Prices on services rose faster than other prices by about 14% in monthly calculation but due to the size of the service sector they contribute insignificantly to the general inflation rate. Growth of food prices were weaker than in 1992. Prices controlled by the government (electricity, petroleum, railway and communications) got much closer to the real level thus facilitating structural economic measures. They used to play a major role in producing the annual inflation rate.

In three years calculation consumers price index rose by 90% since March 1991 when the economic reform started. Further marketization is scheduled for 1994, electricity price shock is expected first due to the rapid falling of the Bulgarian currency against dollar which took place in November 1993 and January 1994. (On these matters government is constantly bargaining with the trade unions).

The total number of the unemployed exceeded some 600 000, but in general there is a slow down in employment decline, due in the first place to the slow down of unemployment growth in the state sector.

Soft budget constraints were implemented in 1993. Actually the year state budget was voted in the Parliament on the second week of June. It was also update late December. Budget deficit amounts about 11.2% of GDP

and is 3.7% higher than expected in June 1993 (and then negotiated without any consequences with IMF). The major political and economic event of 1993 was the fiscal crises of December when cabinet was forced to require Parliament to amend '93 Budget Act in order to cover most of the spending on pensions, stipends and other compensations of households incomes. Fiscal crises was due basically from not fulfilling revenue part of the budget. This resulted as consequence of the disappearing of the taxation basis of state enterprises and the banking sector. Gains on capital turn were less than expected. Revaluation technics of fixed assets used by enterprises allowed them not to report - in case they have had any - gains and not to pay respective taxes.

Bad foreign investment climate is created to a great extent by the Bulgarian foreign debt situation; the net weight of external dept is 11,5 billion US \$. General solution has been reached on negotiations on a 9,273 bn debt to the London Club of commercial bank creditors. The Bulgarian National Bank (BNB) started recently to serve the payments on interests on this debt. It diminishes its capacity to use financial instruments to keep stable lev/dollar ratios at least not allowing exchange blows. If everything goes smoothly, in 1994 0.5 bn dollars are expected from foreign sources to finance economic changes, foreign debt services including. Major prerequisite is a hard constraints budget voted by Parliament end of February. This is also a pre-condition to negotiate with the Paris club of state banks creditors to which Bulgaria owes about 20% of its foreign debt.

Fiscal crises of December 1993 has shown that the governmental sector of the economy is completely out of control. Above reported data on declining GDP, in three annual calculation, speak for themselves. In a sense, they mean that almost one third of the national economy disappears. At the same time private sector performs better and better. There is an economic vacuum between emerging private sector and declining state one. Aggressive redistribution results in a significant decapitalization of the state property.

Agency for Economic Coordination and Development, a governmental economic think tank, reported recently on four ways of state capital siphoning-off.¹ First, in 1993 the nominal value-added exceeded the level of the previous year by 20% what amounts a 13% drop in real terms. Second, labour expenditures' have raised their share of the value-added by 18% what means that they have been "eaten up" not covered by other factors. Third, for the enterprises with a potential for net investments, net investments amount just 57% of the allowed depreciation cost; that is allowed depreciation costs have been rescheduled to wages, interest on credits and other

¹The Bulgarian Economy in 1993, Sofia, AECD, December 1993, p. 7.

liabilities. Fourth, "the steady negative values of net retained incomes are the clearest evidence that incomes siphon off from the state into the private sector"; [what] "reflects the actual privatization of incomes generated in state enterprises". "Negative net retained incomes over the nine-month period of 1993 (-23 bn leva), as well as the net growth in receivables from enterprise sales (6.1 bn leva) were covered by new credits (13.3 bn leva), unpaid taxes (8.9 bn leva) and net disinvestment (5 bn leva)".²

Obviously, only prompt privatization can provide a solution. But the pace of Bulgarian privatization is among the slowest in Eastern Europe, having just seven large facilities privatized so far, on some of them revenues from the deal still expected. ("Large" according to the definition of the Bulgarian Privatization act means enterprises with fix assets estimated before the deal to amount over roughly US \$ 350,000.) The does not deals with any scheme for mass privatization but there is a room for underground privatization.

Unsolved the following patterns of underground privatization will continue to spoil economic reforms. First, the redistribution of company portfolios along holding structures allowed them to attract profit-bearing assets to the newly-formed companies and direct liabilities to holding umbrella. Joint ventures lacking in capital, as well as joint partnership, are being set up with a minimum private stake. Sanctions are impossible because such incorporations are legally-grounded. Second, the sale of shares and equity does not conform to the legally-stipulated maximum amount of 5% of company assets (under Article 10, Paragraph 2 of the Transitional and Concluding Provisions in the of Privatization Act) and its exceeding entails no sanctioning. Third, joint-stock companies sell shares to pay the debts of the state-run shareholding companies, thereby reducing the government stake in them which is highly unprofitable as government shares are sold at their face value.

Reform Policies So Far

At the starting point of the reform Bulgaria used to have economic structure almost identical to those of ex-Czechoslovakia (47 % industry, 36 % agriculture, and the rest services - source: Komerzbank) but in the West Bulgarian products were less competitive than Czech and Slovak ones due to the internal Comecon member-countries' specialization. For example, Bulgarian high technology had to compete with Japanese. First year of reform showed an export decline by about 100-150 ml USD on a quarterly basis, almost entirely due to the fall in agricultural and mechanical and electric engineering exports.

²Ibidem; End of March 1994 \$/leva exchange rate is 1:37.

Reform aiming at transition to market economy has started in February 1991 when coalition government was elected by the Constituent National Assembly. Parliament itself was elected on the first free general elections after 1947 in June 1990, and in it renamed ex-communist had 52% of the seats. Despite of this fact, coalition cabinet was dominated by anti- and non-communist reformers and economist who managed to set up main economic reform targets. These target were and to great extent still are as follows: a) financial stabilization, inflation curbing, money aggregates and budget deficit regulation, filling the internal gap through external financing; b) changing patterns of economic behavior through prompt market privatization; c) exercising pressure on enterprises to adjust to the changing economic environment and setting up fundamental market economy institutions in the country; d) attempting to follow coherent economic policy.

In March 1991 nominal interest rates jumped from 2 to 47 % for all credits, including those already given. (Exceptions from this rule were very few: for the loans to build private flats, the loans for young families, and for environmental loans with an incentive for the latter to realize respective projects before the end of the year.) Since then nominal interest rates have been floating around the figure of 52 % in annual calculation, being now (February, 1994) 56%.

Between March and July 1991, Bulgaria was the first country in Eastern Europe to adopt an entirely new Constitution which established the basic rights to private property and provided the possibility to avoid political clashes similar to those which, for instance, Russia was encountering last year. Although there is good constitutional prospective for market economic performance, due to the constitution making just after the economic changes has started two months of 1991 were completely lost in terms the legal preparation of the reform.

Necessary for political reasons, general elections in the fall 1991 have postponed economic changes. The new government redefined to certain extent economic priorities, mainly through giving advantages to the full restoration of the old property as it existed in late 40s. Aiming to tackle anti-market resistance of ex-communist "nomenclatura", the new non-communist leadership of the country, which had dominated in the economic and political decision making since fall of 1990 missed the right time for choosing right priorities for economic reconstruction. Understandingly, leaders concentrated on classical (or "historical") market formative entities - small trade, small enterprises and (small) farming, which were viewed as hard to control by the ancient regime or, at least, were considered as its opposition. This view was supported by the restored old (late 30s and 40s) parties which were more important in

Bulgaria than in the rest of CEE countries. Vast area of accumulated know how was abandoned as unimportant and "socialists' field of influence". High technology, in which Bulgaria used to play as the role of the biggest supplier to the Comecon market, is just the most shocking example - when Comecon was dissolved the whole sector collapsed overnight.

Bad foreign investment climate was created to a great extent by the Bulgarian foreign debt situation; the net weight of external debt is 11,5 billion US \$. (1992 GDP according to the official statistics is a little bit less than US \$ 84 bn.) General solution of the debt problem depended on negotiations on a 9,273 bn debt to the London Club of commercial bank creditors, as was reported recently. (To make a comparison, Poland foreign debt used to ashared around 20 % to the London Club, owing the rest to the official creditors.) Other factors are: collapse of the East European market, Gulf War and Balkan Crisis, high interest rates, uncollectible loans, missing regulations, bureaucratic barriers and some political instability. As a result foreign investments in Bulgaria are 26 times less than in Hungary and 6 times less than in Rumania.

The pace of Bulgarian privatization is among the slowest in Eastern Europe, having just few large facilities privatized until February 1994. According to the Privatization act (adopted in April 1992) "large" means enterprises with estimated fix assets on the eve of the privatization deal which amount roughly US \$ 350,000. The process was postponed due to the lack of political will and the restoration (or. restitution) of old property which was nationalized in late 40s. Having something in common with privatization from legal point of view, restitution hardly proved not to be economic substitute for the former. It causes social tensions and diminishes incentives for the market behavior of the vast majority of people who believed in the reform. Public support for the restitution, proved by all public opinion polls in resent years, might be explained with desired miracle solutions of everyday economic troubles. Bulgaria never ceased to be a country of small owners: 88% of houses and flats in the country are private property (census of December 1992), more than every second family owns agricultural land or expects to restore its property rights on it (though 86% of the restituted landowners live big cities). Given these facts, restitution easily seems a fast solution. Established on the basis of the public suspicion about "who is to buy the enterprise", "at what price", and "from where are the money", the legal procedure of the Bulgarian privatization is too "careful".

According to the lowest estimates about 35% of the land has so far been given back to its owners. But privatization is still stalling due to inadequate legislation. It has become a political issue only in the following sense: a) new coalition cabinet was formed in

December 1992 and immediately pretended to be a "Privatization Government" which replaced UDF-predecessor "Restitution Government"; b) seekers to take big stake in privatized enterprises pump public moods against foreign investment through privatization; c) pro-UDF judiciary, Supreme Court especially, has discontinued all governmental acts aiming to change top privatization officials; 1993 was spent in a tricky juridical struggle between the cabinet and the Court.

Privatization Act does not deal with schemes appropriate for mass privatization or banking sector privatization. The legal framework also leaves room for underground privatization. There are three major patterns of underground privatization: 1. the redistribution of companies' portfolios along holding structures allowed them to attract profit-bearing assets to the newly-formed companies and direct liabilities to holding umbrella; joint ventures lacking in capital, as well as joint partnerships, are being set up with a minimum private stake; sanctions are impossible because such corporations are legal; 2. the sale of shares and equity does not conform to the legally-stipulated maximum amount of 5% of company assets (under Article 10, Paragraph 2 of the Transitional and Concluding Provisions in the Law of Privatization) and its exceeding entails no sanctioning; 3. joint-stock companies sell shares to pay the debts of the state-run shareholding companies, thereby reducing the government stake in them what is highly unprofitable as government shares are sold at their face value. The new draft amendments to the privatization law, based on mass privatization, has been submitted to the Parliament in September, 1993. Hearings started in January 1994. Compared to the existing (Poland and Czech republic) mass privatization schemes Bulgarian one is more administrative as an approach are more contradictory as a procedure.

Three years of legal reform were spent overcoming legal deficits in the fields of: a) taxation and taxation administration, VAT regulations; b) last part of the Commercial Law (first was adopted in May 1991) which deals with transaction and bankruptcy regulation; c) banking supervision and banking sector interference in the real estate and privatization issues, uncollectible loans; d) emerging stock exchanges and securities trading; e) social security funds regulations and separation from the state budget; f) adequate corporate law. Bankruptcy, securities, social fund and some taxation regulations are still missing. It seems, however, that the implementation of the existing legislation still is a significant problem

Pure Politics and Pure Economic Decisions

Meanwhile, since 1990 Bulgarian has changed three Presidents, last elected through direct popular vote; three legislatures; two sets of local governments; and five executives. To a great extent current political constellation is consequence of the first entirely non-communist government in the post-war Bulgaria which was formed in November, 1991. It was based of the October 1991 general election results, Parliamentary seats being divided as follows: 110 for the Union of Democratic Forces (UDF), a loose coalition of then 16 anti-communist parties and groups; 106 for the Bulgarian Socialist Party (BSP), renamed communists; and 24 for the Movement for Rights and Freedoms (MRF), a party representing Turkish minority: (33% of the voters supported moderate and "centrist" parties which left outside the parliament.) This necessitated a coalition. Given the circumstances it could only be between the UDF and the MRF. Thus, the government was to be as strong - or as weak - as the coalition.

A clear choice had to be made between two pertinent strategies: either to rely on public support (which had to be ensured and broadened), or rely on the administrative resources. The first choice would have necessitated: 1) a written agreement with the MRF to support the UDF Cabinet; 2) prompt privatization ; 3) measures to secure interests and public involvement in the UDF economic policy; 4) media policy to keep the public informed; 5) a moderate attitude towards non-communist rivals. (Public opinion polls showed that most people in general expected at least part of the a/m steps. At least step 3 had to be secured for MRF supporters.)

The easier choice was made by the UDF leadership, namely, to rely on administrative resources. With this "administrative" approach triumphing, none of the a/m steps were deemed necessary. Thus, negotiations with the MRF got started only after the first (May, 1992) Cabinet crisis. Privatization (both market and mass) was stopped and postponed. Public support was taken to be axiomatic. Media freedom was curbed. Non-parliamentary groups, especially those representing business interests, were treated with contempt. But the Cabinet did not really have the administrative resources to run the country in such times of reform, and, consequently, of permanent split and occasional confrontation. The old nomenclature had to be replaced first. The new people were not competent enough, and relied on the overburdened central government for daily guidance. Anti-communism could not of itself produce positive decision-making routines.

The parliamentary constellation was changed significantly after in October 1992 UDF Prime Minister, Philip Dimitrov, ask for confidence vote on negligible occasion, did not received support from MRF and lost its bare majority. The four months long government crisis (September-December 1992), which passed from the

Legislative to the Executive, was finally resolved when a "Government of Technocrats" was formed headed by Professor Liuben Berov, an economist, former President's Advisor, on December 30, 1992. Berov Cabinet was supported by the majority of the ex-communists (BSP), the party representing the ethnic Turks (MRF), and some "dissidents" from the UDF. Because of this support "dissidents" were expelled of left the majority fraction. Apparently, "technocrats" had two courses open to them: to cooperate with the communists in payment for their support, or to pursue the reform along UDF lines, braving the communists, and relying on the President and the anti-communist feeling still paramount in the country. Thus, expectations were based on a broad and amorphous anti-communism: Berov was supposed to take the second course. President Zhelev was expected to be the guarantee against possible attempts to slow down reforms.

But parliament delayed the adoption of the most important tax and economic laws (VAT Act, Turnover Tax Amendments, Uncollectible Loans Act, and bankruptcy regulations) required by IMF as a pre-condition for signing the new stand-by agreement for 1993. That made the position of the government unstable, and, in tern, increased public costs of the transition to market economy. Searching arguments for non-confidence votes and for prevention of their image public, parliamentary parties introduced economic populism in the Bulgarian political life in a very substantial manner. Economic populism will pay back in the coming political events of 1994.

In general the "cabinet of technocrats" failed in its attempts to stimulate the national industry and to provide radical turnover in privatization. The uncontested successes of the cabinet were as follows: a) the principal agreement on Bulgarian foreign debt; b) EC and EFTA agreements, largely prepared by the predecessor; c) negotiated transport corridor through Serbia; and d) keeping the inflation in reasonable limits, around 65% in annual calculation and predicted before 1993 budget was voted. Solution of the foreign debt problem makes Bulgaria far more attractive for foreign investments. Lacking policies for attraction foreign investments, given the embargo looses, with blocked privatization domestic capital shortages Bulgaria has used to have 25 times less foreign investments than Hungary in 1992, and around 20 times less investments in 1993 not due to the improved economy of Bulgaria but to the changed situation in Hungary.

Current government was a typical weak post-communist government, pushed to choose between two possibilities to commit a suicide or to be murdered. But what is strange, not bearing transparent political responsibility and/or affiliation this cabinet turned to perform more effective economic policies than the UDF government in the second half of 1992. Then the administration feared to introduce several new price shocks (prices on electricity,

petroleum and communications were absolutely artificial thus stopping structural changes and needed external financing), and used the first opportunity to resign. As it was with quasi-coalition cabinet in 1991, unclear political responsibility facilitates unpopular economic policies but being pregnant with its own predictable limits. Weak cabinets reach their political limits. The problem is that, with the substantial although often silent political support of BSP, it managed to fulfil some major political destinies of UDF (to start privatization, to reach an agreement with the banks-creditors, and to diminish the inflation rate in 1993). This creates a political vacuum around the new political leaderships of the country.

Motivation for all mentioned political motions is the fear of fresh elections. None of the leading parties is ready to undertake and realize the election initiative relying just on its own efforts, mainly because of lacking needed majority in the legislature. (Similar developments took place recently in Slovak republic and it is very likely that Slovaks will follow Bulgarian type of domestic politics.)

But Bulgarian reshuffling of the constituent vote of October 1991 has been facilitated and motivated by the existing constitutional framework. Rules and Procedures of the Parliament allow representatives to establish any kind of grouping they like. Constitution itself (Article 99) provides for situations of government crisis that "President shall appoint the prime minister-designate nominated by the party holding the highest number of seat", in case this nominee fails, "the President shall entrust this task to... the second largest parliamentary group"; should the new nominee also fail to form a government in one week term, the president shall transfer the task to "one of the minor parliamentary groups". Constitutional Court Determination N20 (of January 1993) provides no limits for the repetition of this procedure, and prescribes no pre-conditions with regard the constituent will of voters. As a result parties in the Parliament have all incentives to re-group their fraction expecting more "appropriate" times to call for elections and to run the country.

For the explained reasons weak "cabinet of technocrats" survived five non-confidence votes, remained in office longer than any of its recent predecessors, and managed to push two annual budget through the parliament. It might turn that this cabinet has been the most cost-effective transitional government of Bulgaria.

What is important for the political and economic developments of 1993 in coming months of 1994 is that they were focused one single point: 1994 Budget. There is no legal requirements for foreign financing of the Bulgarian economy. Debt service is about to change the image of Bulgarian companies abroad. Prompt privatization

is already a fiscal matter due to the reason that only it can take the fiscal burden off the current and any other provisional government. By no doubt that US \$ 0.5 bn foreign support will change completely all the economic restrictions of Bulgarian economy that have been running is since three years. If 1993 was a year of aggressive fulfilling and redistribution of economic vacuum inherited from the past, 1994 could be the right year to stop economic decline.

LIST OF INVITED PEOPLE

Council of Ministers

Prof. Christina Wutcheva, Head of Economic Department
Strucheva

Bulgarian National Bank

Borislav Stratev, Head of Legal Department

Waleri Dimitrov, Legal Department

Nikolina Mitcheva, Head of Government Securities Department

Emil Karailiev, Representative of PHARE Program, Adviser to the Governor

Peter Botusharov, Expert, Economic Analyses Department

Ministry of Finance

Plamen Orësharski

Bulgarian Trade and Industrial Chamber

Deyan Popov

Bulgarian Industrial Chamber

Bojidar Danev

Bulgarian Foreign Trade Bank

Enyu Nedeltchev

Bank for Agricultural Credit

Pavel Daskalov

First Bulgarian Stock Exchange

Victor Papasov, Executive Director

University of Domestic and International Economics

Prof. Georgi Petrov

Foundation "Bourov"

Emil Harsev & Co

Emil Harsev

Chresta

Andrei Evtimov

Coopers & Lybrand

Levon Hamparzumyan

Deloitte & Touche

Price Waterhouse

CEELI

Mark Beesley

Lutchnikov & Associates

Assen Djingov

SEC

Walter Stahr

IME

Krassen Struchev

Ivanika Petkova

IBRD

*Peter Kyle, Philip Wellons (Harvard),
Eddakumeersch (Universiteit Gent), Hets Dreiling and Schwaet.
Klammert, Staal, Gorka*

DRAFT 02-09-94

T. Stahr
attachment ~~10~~

MEMORANDUM

TO: Mariana Todorova
World Bank

FROM: Walter Stahr
Securities and Exchange Commission

RE: Securities Law Issues

This memorandum attempts to identify the key issues to discuss at the upcoming conference on a securities law for Bulgaria.

There are three draft laws to consider at the conference: the draft stock exchange code prepared by Professor Haupt; the draft securities act prepared by Professor Wymeersch; and the draft securities law I have prepared. I have attempted, in one law, to address all the major issues; Professors Haupt and Wymeersch have addressed essentially the same issues in two separate laws. In my view, it does not matter much whether there is one law or two laws. ^{1/} What matters is that Bulgaria promptly adopt an adequate law or laws.

The three draft laws reflect agreement on many general issues, such as the need to prohibit insider trading. The three draft laws also reflect disagreement on many issues, such as how to define insider trading. I would not devote much of the conference to "general principles," on which there is likely to be agreement. Nor would I attempt to proceed section by section through any of the draft laws. Rather, I would organize the conference around issues, such as "insider trading."

Wymeersch

✓ 1. "Securities"

It is important to have a broad, workable definition of "securities." It is also important, even if there are two laws, to have only one definition of securities. At present, the Haupt and Wymeersch drafts have different definitions of this critical term. See H 1(4); W 1(a).

^{1/} In some sense, the Stahr law is also two laws, since the criminal provisions are proposed as a separate amendment to the criminal code.

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The most important difference between the Stahr definition and the Haupt and Wymeersch definitions, in my view, is in the area of "investment contracts." An investment contract is a contract of scheme whereby a person invests in a common enterprise with a reasonable expectation of profits derived substantially from the efforts of others. Investors may be purchasing "investment contracts" even if they are not purchasing shares in a company -- indeed even if there is no company. One example of an "investment contract" is a Ponzi scheme, the "business" of which is to pay early investors with funds raised from later investors. Such schemes are almost always fraudulent, because at some point there will be no new investors to pay the existing investors the promised return.

There are some limits in the Haupt and Wymeersch definitions that may prove difficult. For example, the Wymeersch definition includes "bonds and other forms of securitized debt which are negotiable on the capital market." A small company may issue "notes" that are illiquid and thus arguably not "negotiable"; they are nevertheless securities.

The Wymeersch definition also "assimilates" certain instruments, such as "money-market instruments," that would perhaps not be covered by the Stahr definition. It would be useful to discuss these "additions" and whether they make sense in Bulgaria.

2. Initial Disclosure

There appears to be general agreement that, before an issuer sells its securities to the public, it should disclose certain information in a prospectus. There are, however, some subsidiary issues on which there appears to be disagreement.

One is how to define "sell to the public." The Wymeersch draft generally requires a prospectus if at least 50 persons are solicited or if information is circulated to the public, including by personal letter. W 2.1. (Should a personal letter to only ten people require a prospectus?) The Wymeersch draft exempts, however, offers "to a restricted circle of persons." W. 2.4(1). Would this allow sales to a "restricted list" of 1000 persons? The Stahr draft generally requires a prospectus if an issuer, or an affiliate or underwriter, sells to 60 or more investors within a period of 180 days. S 47(1). PLAN
to
sell

A related question is what other exemptions from the prospectus requirement are appropriate. Should an offer made "only to lawyers" be exempt? See W 2.4.1(a). Should all debt securities issued by Bulgarian banks be exempt? See W 2.4.2(c). Should all securities offered by an employer to its employees be exempt? See W 2.4.2(g). Should securities issued by limited liability companies or partnerships be exempt? See S 47(2).

It is important to remember that an exemption from the prospectus requirement is not an exemption from the rest of the securities law. An exempt offering is, or should be, subject to the general prohibition on securities fraud, so that false or misleading statements in an exempt offering are illegal.

Both draft laws generally rely on the Securities Agency to define what information is required in the prospectus. See W 2.2; S 37. The Stahr draft, however, outlines the information required, thus limiting somewhat the discretion of the Agency.

Both draft laws prohibit sales of securities until the Securities Agency "clears" the prospectus. There is an important difference, however, in the clearance process. Article 2.5 of the Wymeersch draft requires the Securities Agency to "establish" that the prospectus contains all required information. This makes the Agency responsible for the accuracy of the information, a liability that should be on the issuer and underwriter. Under Article 38 of the Stahr draft, the Agency does not pass on the accuracy of the information, and indeed it is illegal, under Article 6 of the criminal section, to represent that the Agency has determined that a prospectus is accurate or complete.

Both draft laws envision that the Securities Agency will "comment" on the prospectus and that the issuer will then make changes. The Wymeersch draft, however, prohibits offers between the filing and clearing of the prospectus. The Stahr draft allows offers during this period, so that the public has somewhat more time to review the prospectus. See S 34.

The Wymeersch law addresses separately disclosure when securities are first offered to the public and disclosure when securities are first listed on an exchange. Since listing securities on an exchange is a form of "offer," the Stahr law does not address listing separately. Is a separate chapter necessary?

The Wymeersch law requires a separate approval, from the Minister of Finance, for the sale of foreign securities in Bulgaria. W 4.1. Should such approval be required? The Wymeersch law also allows a prospectus approved by an EC nation to serve as the prospectus in Bulgaria. Should there be such an "EC exception?"

3. Periodic Disclosure

The first issue to discuss here is whether, after an issuer sells its securities to the public, it should make periodic public reports. In certain respects, the Haupt draft does not provide for such reports. In many respects, though, such reports

are more important than initial reports, since they provide the ongoing information about public companies.

The Stahr draft requires periodic reports from all "reporting issuers." This includes companies with listed equity securities, companies that have offered securities to the public, and companies with more than 500 shareholders. S 41. The Haupt draft apparently requires periodic reports only from issuers of securities listed on exchanges. H 19. This would mean, for example, that a company with 10,000 shareholders, but no stock exchange listing, would not file periodic reports.

The Stahr draft requires both annual and semi-annual reports. S 42 & 43. The Haupt draft, curiously, does not require an annual report, only an "interim report." H 19. Is not the year-end report more important than a six-month report?

Both drafts allow the Securities Agency to specify the form of periodic reports; the Stahr draft also allows the Agency to set accounting and auditing standards "supplementary to, and consistent with," the Law on Accounting. This authority will help the Agency improve the reliability of financial statements, the most important part of periodic reports.

The Haupt draft requires issuers to publish "immediately" all facts which "could lead to a substantial fluctuation in the price" of its securities. H 18. Does this require an issuer to disclose that it will, in two weeks, disclose low earnings? Does this require disclosure of preliminary merger discussions? There are two issues here: should Bulgaria require this type of disclosure; and, if so, how should the needs of investors and issuers be balanced?

4. Fraud and Manipulation

Fraud and manipulation are related but distinct. Securities fraud includes any false statement designed to persuade someone to purchase a security. Manipulation includes a variety of practices, such as fictitious trades, aimed at influencing the price of a security.

Perhaps the most serious problem in the Haupt draft is that it does not have a general prohibition on securities fraud. Section 36 prohibits "incorrect statements" but only if they are made or used for purpose of influencing the price of a security. Many false statements about securities, however, are not intended to influence prices. They are nonetheless fraudulent.

Section 1 of the criminal section of the Stahr law is much broader: it reaches any untrue statement of material fact made in connection with a sale, purchase or offer of a security. Section 1 also prohibits the failure "to state a material fact."

Circulars
14.2.23 / 14.2.23

necessary to prevent the statements made from being misleading in light of the circumstances under which they are made."

There is also no prohibition of specific manipulative practices in the Haupt or Wymeersch drafts. Section 36 prohibits the use of "means calculated to deceive" for purpose of influencing a security's price. Section 3 of the criminal section of the Stahr draft specifically addresses practices such as apparent transactions that involve no change in actual ownership. This is not a complete list of all manipulative practices, but a complete list is not necessary because there is a general prohibition on manipulation in Section 1.

The Haupt draft also prohibits "improper" inducement into "speculative stock exchange transactions" by those who are "inexperienced." H 37. Many stocks in Bulgaria will be speculative and many investors inexperienced. Depending upon how these terms are interpreted, this prohibition could discourage or prohibit legitimate transactions. In my view, it should be omitted.

5. Insider Trading

The first issue here is whether to prohibit insider trading. There are some securities markets that do not yet prohibit insider trading; there are some academics who argue that insider trading ensures that markets reflect all information. Most major markets, however, prohibit this practice because it injures and discourages the "average investor." I would strongly urge Bulgaria to prohibit insider trading.

Both the Haupt and Stahr drafts would prohibit insider trading. They are both based on the EC Insider Trading Directive. There are, however, some differences between the two drafts:

Section 2(1) of the criminal portion of the Stahr draft defines "inside information" as nonpublic information about an issuer that, if made public, would likely have a significant effect on the price of its securities. Section 39(1) of the Haupt draft is similar, but requires that the information be detailed. Why should insiders who trade on general information, such as that their company will be acquired soon, be exempt?

The Haupt draft, under Section 39(2), only prohibits insider trading of securities traded on an exchange. Why should securities that are not traded on an exchange be exempt?

The Haupt draft, in Section 39(3), apparently limits the "insiders" at a company to the management and supervisory board, and excludes the common employees. In the United States, insider

trading by employees is at least as common as insider trading by officers and directors. Why should employees be exempt? *OK*

Both the Stahr and Haupt draft contain some exceptions from the prohibition on insider trading. The Stahr draft exempts trading if "the insider reasonably believes the information is not inside information." The Haupt draft allows an insider with inside information to buy or sell to "execute an entrepreneurial plan." Each of these exceptions should be discussed and, if not well justified, omitted from Bulgaria's final legislation on this issue.

6. Securities Exchanges *Sat*

This is an area in which there is likely to be substantial disagreement, both among Bulgarians and among the foreign experts. I would suggest that these differences be approached from two perspectives: the stock exchanges and investors.

Bulgaria already has two major stock exchanges in Sofia and several smaller ones elsewhere. The Sofia Stock Exchange, which has patterned its rules on the Frankfurt Stock Exchange, is likely to find it relatively easy to comply with the detailed requirements of the Haupt draft, which is apparently patterned on the statute governing the Frankfurt Stock Exchange. The First Bulgarian Stock Exchange, which has patterned its rules on the New York Stock Exchange, would probably have to make substantial changes in its rules to comply with the Haupt draft.

Schwartz & Keating

If the stock exchange provisions of the Haupt draft would provide better protection for investors than the Stahr draft, they should be preferred. If, however, stock exchange provisions do not really protect investors, but simply limit the structures of exchanges, the Stahr draft should be preferred.

For example, Section 4 of the Haupt draft requires that every stock exchange have a stock exchange council, that two-thirds of the members of the council be elected by shareholders and one-third by other stock exchange participants, and that the council exercise many specific responsibilities. Would investors suffer if a stock exchange was formed as a partnership and had no "council?" Would investors suffer if a stock exchange council was elected only by owner-members? Would investors suffer if a council delegated responsibility for some of the issues listed in Section 4(2) to a general manager?

many rules, need additional draft

If the answer to these questions is "no" then Section 4 of the Haupt draft is perhaps not necessary. And if it is not necessary, it is not advisable, because it operates to prevent competition between exchanges that are organized on somewhat different lines.

*OTC -
two of - 40 trade*

*derivatives 6
currency trades*

*stk ex - only as ind.
stk co. sup-council
M - # people*

*S+D want min.
#s of brokers,
trades, etc.
license revoked
if "detriment to
investors" - vague!!*

*issues
set up
supervision
structure
reg. members
OPTIONAL 1980*

Another important aspect of this issue is the relation between the stock exchanges and the Securities Agency. Section 1 of the Haupt draft allows the Securities Agency to deny or revoke a stock exchange's authority to do business; it provides, however, only very general standards to guide this substantial power. Is this power necessary for the protection of investors? The Stahr draft assumes that it is not necessary as long as the Agency has the power to prosecute the Exchange and its officials for violations of the securities laws. S 19. If the Securities Agency has the power to close down a stock exchange, should not the power be defined and limited, to prevent abuse?

✓. Securities Firms

The major issue here is who should license securities firms. Under the Wymeersch draft, ~~the Bulgarian National Bank~~ would license banks as investment firms, the stock exchanges would license stock exchange members, and the Securities Agency would license all other firms. W 7.2, 7.4. Under the Stahr draft, the Securities Agency would license all securities dealers, although banks which now have licenses would have a one-year "transition period" to obtain a license from the Securities Agency. S 25, § 5.

There are obvious advantages to having one licensing authority -- avoiding different standards for different types of firms -- and to giving the Securities Agency the ultimate power of revoking a securities license.^{2/} There are also obvious difficulties involved in telling banks, some of which are already active securities dealers, that they must obtain a securities license to continue in this business. There are no advantages, at all though, in giving the stock exchanges a parallel power to license securities firms.

A second issue is what activities should require a license. Both the Wymeersch and Stahr drafts cover firms that purchase and sell securities for others. The Wymeersch draft does not cover, however, investment advisers that do not purchase but simply advise. See S 22. Although different rules may be necessary for such firms, it seems appropriate to subject them to some sort of licensing scheme. Many of the other "exclusions" of the Wymeersch draft, W 7.3, are covered by the "trading exception" in the Stahr draft, S 21(4).

Both the Wymeersch and Stahr drafts envisage that the Securities Agency will draft rules applicable to all securities

^{2/} It is fairly clear that, under the Wymeersch draft, the Securities Agency could only "withdraw" the authorization of a firm that it originally authorized. W 7.4(1), 7.4(6).

firms. W 7.6; S 28 & 29. This makes sense. There are some differences in the rulemaking authorities, of which perhaps the most important is capital. The Wymeersch draft provides for an initial capital requirement for firms licensed by the Securities Agency, W 7.4(2), but no ongoing capital requirement for all securities firms. This is critical for investor protection.

✓ 8. Investment Companies

The first issue here is how to define "investment company." The Wymeersch draft does not define "investment company," so that all of its requirements could be evaded by calling an investment company something else.^{3/} The Stahr draft basically defines an "investment company" as one that is primarily in the business of investing or trading securities.

The second issue is what forms of investment company to allow. The Wymeersch draft requires that investment companies be organized as companies or partnerships; it apparently does not allow for the trust structure that is common in Europe. W 5.2. The Stahr draft also allows for this structure. S 49.

A third issue is how to address the conflicting interests of investors and those who run the investment company. The Stahr draft prohibits an investment company from investing in the securities of its investment adviser or any affiliate; it also prohibits investments in securities being distributed by the investment adviser. S 54. The Stahr draft also requires that the depository may not be affiliated with the investment adviser. S 52. The Wymeersch draft says nothing about investments in affiliates; it does require that the investment company not act as its own depository. W 5.8.

A fourth issue is how to deal with basic changes in the investment company's policies. The Wymeersch draft requires that certain issues be addressed in the articles of incorporation, 5.10, and that these articles cannot be changed without the agency's approval, 5.16(5). The Stahr draft requires that certain basic policies can only be changed with the consent of the shareholders, in the case of an investment company, or after three months notice, in the case of a unit trust. S 55. It seems preferable to leave these questions to the share or unit holders.

There are many similarities here between the Stahr and Wymeersch drafts, since both are based in part on the EC directive on Undertakings for Collective Investment in Transferable Securities ("UCITS"). Thus, for example, the

^{3/} See Article 5.16: "No company is entitled to call itself 'investment company' unless it has been authorized by the Agency."

portfolio limits of the two drafts are quite similar: both limit investment in any one issuer to 5% of the investment company's assets and 10% of the issuer's securities. W 5.4, 5.5; S 54. One potentially important difference is that the Stahr draft would allow for an investment company that invests all its assets in securities of the Bulgarian government; the Wymeersch draft would limit investment in such securities to 40% of the assets. W 5.4; S 54(3):

✓ 9. Major Holdings and Tender Offers

It appears that many of the particular differences in this area arise from a more general difference about tender offers and other takeovers. The Stahr draft is generally friendly to takeovers, because they often allow shareholders to replace incompetent managers or to sell their shares at substantial premiums. The Wymeersch draft is much more hostile to takeovers, perhaps because of their effects on employees and others.

100%
rule

Although it is important to recognize this general difference, it may be more productive to discuss the particular differences between the two drafts. There are several important ones:

The Wymeersch draft does not prohibit false or misleading statements in connection with a tender offer. In my view, this is the most fundamental and basic protection for shareholders in a tender offer. Section 1 of the criminal section of the Stahr draft also prohibits false or misleading statements in connection with proxy solicitations, another common form of corporate takeover.

The Stahr draft, like the EC directive, requires reports from major shareholders at the 10%, 25%, 50% and 75% levels. S 57. The Wymeersch draft requires reports at every 5% level or, if a company elects, at every 3% level. W 8.1, 8.3. More frequent reports not only provide more information for other shareholders: they also provide more opportunities for corporate managers to argue that a shareholder attempting a takeover has failed to file required reports or provide required information. The more frequent reporting requirement may tend to discourage takeovers.

Article 9.1 of the Wymeersch draft prohibits any partial tender offer. Although partial tender offers do pose risks for the shareholders who do not tender, they also often offer shareholders substantial premiums for their shares. Disclosure seems preferable to a total prohibition.

Article 9.1 also prohibits cash offers unless the funds are already on deposit. Again, if there is disclosure, this seems unnecessarily restrictive.

Article 9.3 requires a bidder to transmit a draft offer document to the target company. This will not only allow the target company to prepare its defense, but also create opportunities for insider trading. Article 9.3 also allows the target company's board of directors to require the bidder to supplement its prospectus. Targets would undoubtedly use this provision to delay and frustrate tender offers. It seems far better to require the offeror to make its own disclosure, as in Article 60 of the Stahr draft.

Article 9.4 forbids any tender until the Securities Agency declares that the prospectus "contains the information necessary to enable the addressees to reach a properly informed decision on the bid." As in the case of the initial disclosure system, this may give the Securities Agency too much responsibility for the prospectus. In this context, moreover, this approval process may be used to delay and discourage takeovers.

10. Enforcement and Private Liability

A securities law will only work if it is enforced. There are several aspects to this issue.

First, there must be a connection in the law between the various requirements and prohibitions and the sanctions. For example, the Haupt draft requires interim reports; there is no sanction, however, for failure to file such a report or filing a false report. The Stahr draft provides sanctions against violation of "any provision of this law or any rule or order under this law." S 68-70.

Second, the securities agency, or some other authority, must have authority to investigate potential securities violations. There are substantial advantages to having specialized securities investigators rather than leaving this to generalist prosecutors. See S 67.

Third, the securities agency must have a variety of enforcement sanctions available. If criminal prosecution is the only sanction available for a securities violation, most violations will not be punished at all. If milder sanctions, such as a civil fine or injunction, are available, much more comprehensive, credible enforcement is possible. The Haupt and Wymeersch drafts rely mainly on criminal sanctions; the Stahr draft has a range of sanctions. H 36; W 12; S 68-70.

Fourth, the enforcement efforts of the securities agency and prosecutor must be supported by private liability. This allows investors to sue those who have injured them through violations of the securities law and recover their damages. The Haupt draft

has some civil liability provisions, H 18,4/ but they are not comprehensive. The Stahr draft essentially provides that any person who violates the securities law and injures another person through his violation is liable to that person for his damages. S 71. It also provides for "joint and several liability" for those who act together to violate the securities law.

✓ 11. Securities Agency

role?

I have saved for last the area I expect to be the most difficult: whether to have and how to structure a separate securities agency. This is also, though, the issue on which foreign advisers have the least to contribute. Let me comment on three "minor" aspects of the issue.

A securities agency must obtain and maintain the confidence of investors. To do this, the agency must control carefully the conduct of its members and employees. If at all possible, the members of the securities agency should be full-time employees, to minimize the possibility of conflicts of interest. The securities agency should also have the ability to issue and enforce a conduct rule to cover issues such as securities trading by employees and professional secrecy. See W 11.3; S 10.

SOX 8
plus chair?
Syr. laws
applied by
P.M.

A securities agency cannot function without adequate funding. Eventually, a securities agency may be able to "pay for itself" through fees on securities transactions. The U.S. SEC, for example, collects about \$50 million more in fees than it spends each year. At the outset, however, reasonable fees will generate only very modest revenue, not enough to fund a securities agency. This is why it is important to have public as well as fee funding. See W 11.2; S 4.

Actions by the securities agency should be subject to review by a court. For example, if the securities agency improperly denies a securities license, its decision should be subject to review and reversal by a court. The last sentence of Article 11.2 of the Wymersch draft is apparently intended to grant personal immunity to agency employees, which is reasonable. It could be read, however, to limit sharply the ability of a court to overturn an incorrect agency decision, which is not reasonable. See S 12.

Adm. Board
STK & DS
anon. brokers/dealers
issuers
M.O.F.
Central Bank

state-owned? by
Exec for. - governed?
M.O.F./Central Bank -
OR indep.?

As noted above, this provision may create too severe a liability for a company that fails to disclose "important facts."

W. →
Schwarz
NO

IME

The Institute for Market Economics

Sofia, Bulgaria

Tel/Fax:
(359-2) 89-80-09
or 80-27-46

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**Established in March 1993, the
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IME objectives are to provide:

- Independent analysis and assessment of the government's economic policies
- Market-based approaches to the problems Bulgaria faces in its economic transition
- A central forum for an exchange of views
- An understanding across Bulgaria of the importance of market-oriented policies and entrepreneurship in fostering economic growth and prosperity
- Education and training on market economics and relevant economic policy issues
- The highest caliber Bulgarian expertise that will command international respect

IME first year priorities have been:

- Studies and recommendations on privatization
- Re-emerging stock exchanges
- Encouragement of market-based economic thinking

Seed money to establish IME was provided by the U.S. Agency for International Development, Friedrich Naumann Stiftung - Germany, and the Open Society Fund - Sofia.

Publications in 1993:

Paper: "Banking Privatization and Competition," by Dr. Ivanka Petkova, published in weekly BULGARIAN BUSINESS Journal

Paper: "Bulgarian Stock Exchanges: Assessment and Recommendations," published in two issues of PARI (MONEY) daily newspaper

Paper: "A Comparison of Conventional Voucher and Venture Capitalists Methods of Privatization," by Kamen Atanassov, presented to the Ministries of Industry and Trade, and the Privatization Agency

Paper: "Note on Some Technicalities in the Privatization Scheme in Bulgaria," by Ilian Michov, presented to the Privatization Agency, Ministry of Trade, Council of Ministers and Parliament, also published in BANKER weekly newspaper

Paper: "Corporations in Bulgarian Political Affairs," by Dr. Krassen Stanchev, published in BANKER

Paper: "First Steps of the Stock Exchange: Results of the Round-table," presented to the Privatization Agency, Ministry of Trade, Council of Ministers and Parliament

Paper: "Bulgarian Law is Silent on Clearing House Issues," by Dimitar Totev, published in weekly BULGARIAN BUSINESS Journal

Paper: "Is It Possible to Sign A New Stand-by Agreement with the IMF before the Fall of the Year?" by Dr. Diana Pishev, published in BANKER

Paper: "International Arbitration and Other Procedures for Dispute Resolution," by Kenneth Juster, published in four issues of PARI (MONEY)

Paper: "Ideas for Corporate Taxation in Bulgaria," by Dr. Susan E. Woodward, published in PARI (MONEY)

Paper: "The Dark Parking Lot: Vacation Exercise in Applied Economics," by Dr. Ognian Pishev, under special request of IME, published in BANKER

Paper: "Economic Principles in Drafting Bulgaria's Securities Law," by Dr. Ivanka Petkova, presented to the Central Bank, World Bank Mission, Brokerage Houses, Stock Exchanges, Ministry of Finance, Council of Ministers and Parliament

Paper: "Credit Activities Outside the Banks," (a legal framework review) by Dr. Krassen Stanchev, published in 168 HOURS weekly newspaper

Series of papers on current implications of economic populism in Bulgaria, including "International Comparison of Populist Attitudes," published in 168 HOURS; "Political Messages and Economic Phobia," published as lead article in CAPITOL PRESS; "Economic Platform Searching for Voters," published as lead article in KULTURA (CULTURE) weekly newspaper; "Economic Populism As a Factor in Current Political Developments in Bulgaria," by Dr. Krassen Stanchev, published in CAPITOL PRESS

Translation: "Principles of Securities Trading for Bulgaria," (CEELI concept paper) published in three issues of BANKER weekly newspaper

Translation: "Deficits Will Continue: History Teaches that New Taxes Will Be Spent," by Dr. Allan H. Meltzer, published in 168 HOURS, previously published in The Los Angeles Times

Translation: "European Malaise," by Dr. Michael Novac, published in KULTURA (CULTURE) weekly newspaper, previously published in Forbes

Translation: "Daimler Benz, Welcome and Bravo!" by Dr. Susan E. Woodward, published in CAPITOL PRESS, previously published in The New York Times

Translation, Editing and Printing of Chapters from The Economic Way of Thinking, by Paul Hayne

Translation of Publication by the Foundation for Teaching Economics "Test Simulations and Games"

In addition, there are numerous interviews with IME staff and articles about IME activities, including: "Comparison of Bulgarian and Western Stock Exchanges" in 168 HOURS BBN (weekly business journal for foreigners) and "An American Drafts a Securities Bill for Bulgaria," published in CAPITOL PRESS

Publications in Progress:

Book: James D. Gwartney and Richard L. Stroup, *What Everyone Should Know about Economics and Prosperity* (translation prepared, copyright for Bulgaria received)

Book: Eric Hoffer, *The True Believer* (translation prepared, copyright for Bulgaria expected)

Book: Irving Crespi, *Public Opinion, Polls, and Democracy* (translation in progress, copyright for Bulgaria expected)

Book: Charles Wolf, Jr., *Markets or Governments: Choosing between Imperfect Alternatives* (translation scheduled, copyright for Bulgaria expected)

Paper: "Privatization of Commercial Banks in Bulgaria"

Paper: "Privatizing the Privatization Process or Rethinking What Has Been Omitted" (a discussion paper on the mass privatization scheme in Bulgaria)

Paper: "Examination of the Economic Impact of Restitution"

Paper: Prof. Dr. Joachim Hentze (IME International Advisory Board member), "Bildungsbedarf OsteuropaeischerFuerungskaeefite" ("Requalification of Managers in Eastern Europe")

Paper: Dinesh D'Souza, "Pied Pipers of Relativism Reverse Course," previously published in The Wall Street Journal (translation prepared)

Conferences, Seminars & Roundtables:

Participation in meeting of Environmental Ministers of the European Countries, USA, Canada, OECD, UN, Economic Commission for Europe and the World Bank. Presented an assessment on Environmental Aid to Bulgaria. (April, Lucerne)

Participation at Oxford University Merton College roundtable on "Political Instability and Foreign Investments in East Europe." Presented lecture on Bulgarian economic affairs and business opportunities in Bulgaria. (May)

Roundtable: "First Steps of the Bulgarian Stock Exchanges." Thirty-six participants from commercial banks, Bulgarian stock exchanges, Parliament, New York Stock Exchange, Finance Ministry, Central Bank, and Dr. Susan E. Woodward, Chief Economist of the U.S. S.E.C. (June, Sofia)

Commentary at Legal Committee Meeting of the Cabinet concerning the draft bill on Stock Exchanges in Bulgaria. (June)

Translation: "Principles of Securities Trading for Bulgaria," (CEELI concept paper) published in three issues of BANKER weekly newspaper

Translation: "Deficits Will Continue: History Teaches that New Taxes Will Be Spent," by Dr. Allan H. Meltzer, published in 168 HOURS, previously published in The Los Angeles Times

Translation: "European Malaise," by Dr. Michael Novac, published in KULTURA (CULTURE) weekly newspaper, previously published in Forbes

Lead special session on Economic Development at the Seminar: "Liberal parties in Central and Eastern Europe." Presented: "Economic Platforms of the Liberal parties in Central and Eastern Europe." (July, Sofia)

Lecture: "Bulgarian Economic Conditions: Current Status," presented before a visiting group of Fulbright Scholars at the St. Cyrill and Methodios Foundation in Sofia. (July)

Key speaker of the workshop "How Can Partnership Work to Adapt Financial Institutions to Help Meet the Needs of Sustainable Development?" at the Partnership for Change Conference. Presented paper "Financial Institutions and Long-term Investments." (September, Manchester)

Discussion report "Changed Circumstances for Long-term Environmental Investments" for International Democratic Initiative Conference, "How to Get Environment and Sustainability Back to the Political Agenda." (November, Sofia)

Selection of participants for seminars and training courses in Bulgaria and abroad, including two World Bank Seminars in Vienna, the Eisenhower Scholarship awards, and the PEW Economic Freedom Fellowship Program.

Co-organized a seminar on "The Road to Economic Thinking," at the American University in Bulgaria. Teamed with the Foundation for Teaching Economics, California and the Foundation for a Free & Democratic Bulgaria.

Priorities for 1994:

- Securities Market Regulation
- Policies for Attracting Foreign Direct Investment
- Privatization of Commercial Banks in Bulgaria
- Economic Impact of Restitution
- Mandated Benefits and Economies in Transition
- Populism in Bulgarian Economic Policies
- Encouraging Market Based Economic Thinking
- Training courses in Securities Trading