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ABSTRACT

Bulgaria's Emerging Financial System: Progress and Prospects

by

Paul Davis, Daniel Hogan, and Robert Vogel

August 1993

This report is one of four country studies of financial sector reform in Bulgaria, Hungary, Poland, and Estonia. It was commissioned by USAID to assist the USG in planning programming in this sector. Each report examines the macrofinancial environment; the functions of central banks, including bank regulation and supervision; the future role of state banks, the development of banking services, capacity development in the banking system, and the role of donors. A synthesis report was also prepared to draw common findings and lessons from the four country studies.

This study finds that Bulgaria lacks progress in most aspects of financial sector development, stressing that the country's financial sector must first recover from the decentralization of the banking system that occurred in 1989 before any true progress can be made. Illustrative of other ingrained weaknesses identified in the study are an undercapitalized banking sector; lack of access to credit by small- and medium-size entrepreneurs; inadequate understanding of credit analysis and creditworthiness; and a weak central bank characterized by undertrained managerial staff, lack of focus in the formulation and implementation of monetary management policies, and uncertainty over its role in financial reform.

The report concludes with observations and recommendations for U.S. Government assistance.

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# Bulgaria's Emerging Financial System:

# Progress and Prospects

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# SECTION ONE

# RECENT FINANCIAL SECTOR DEVELOPMENTS

Debate over financial sector reforms in Bulgaria continues, characterized by agreement on only one fact: a general lack of progress in most aspects of financial sector development. Indeed, the country's financial sector must first recover from the decentralization of the banking system that occurred in 1989 before any true progress can be made.

The reforms of 1989 created 59 "new" commercial banks out of the former branches of the National Bank of Bulgaria (the Central Bank, or BNB), and effectively established unit banking throughout the country. At the same time, the specialization that had been practiced by institutions such as the Bank for Business Investments, the Mineral Bank, the Electronics Bank, the Agro-Cooperative Bank (Plovdiv), the Transport Bank (Varna), the Biochim Bank, the Stroy Bank (serving the construction industry), and the Economics Bank (serving the productive sectors not covered by other specialized banks) was eliminated. All banks were permitted to act as universal banks, providing credit to any sector, receiving deposits, and granting housing and consumer credits. Because the reform created unit banks, each of the 59 new banks acted as independent corporations, with management and credit decisions made in a decentralized fashion at each bank location. The new banks instituted few shared corporate standards for, say, credit analysis or loan negotiations. Foreign exchange operations and licensing remained restricted to the eight older specialized banks and the Foreign Trade Bank of Bulgaria. This environment — the legacy of the break-up of the monobank system — is the environment in which the newest wave of banking reform has been initiated. Recent developments include:

- Establishment of the Bank Consolidation Company (BCC), a government agency with the mandate to encourage the formation of bank holding companies that will group the current unit banking structure into branch banking corporations. BCC, by legislative act, has been given majority ownership of the shares of most of the banks in the Bulgarian banking system, with the exception of the State Savings Bank. As owner, BCC is to oversee the mergers of the unit banks and can be called upon to provide valuation services, technical advice, and operating procedures for newly formed banking corporations. It is envisioned that some 10 medium-size economically viable banks will emerge from BCC, consolidating the fractured system that resulted from the 1989 reforms. BCC also has a nominal role in the development of accounting standards and charts of accounts;

- Formation of the first bank holding company, the United Bulgarian Bank (UBB), created from the merger of the Devari Bank and the Stroy Bank. Upon completion of the merger, UBB will have 22 branches and some 60 locations throughout Bulgaria. BCC had a relatively minor role to play in the creation of UBB;

- Promulgation of Ordinance 234 by the Council of Ministers on November 24, 1992, which created a defined means to accomplish the restructuring of uncollectible bad debts held by banks. Ordinance 234 provides for:

  - Establishment of an interministerial commission, to include representatives of banks and state-owned enterprises to approve debt restructuring plans,

  - Allocation of government budgetary resources to cover bank losses,

- — Establishment of procedures to petition the government for debt relief, requiring enterprise-driven financial restructuring plans, and

- — Permission for the banks to take write-offs against commission-approved bad debts;

- Re-opening of the London Club negotiations on the rescheduling of offshore debt. These talks, stalled for the last two years, are crucial to the re-establishment of Bulgaria's credit standing; resumption of normalized trading relationships; protection of the Bulgarian leva against depreciation; and eligibility for World Bank, IMF, and commercial funding;

- Decrease in the rate of inflation;

- Deceleration of the depreciation of the leva against foreign currencies, in keeping with the decline in inflation;

- Recognition of systemic losses in the financial sector due to nonperforming loans. Although the estimates of the sector's nonperforming loans to state-owned enterprises remain difficult to quantify, the Government of Bulgaria, emerging banks, and BNB have begun to recognize the extent of the damage of past lending decisions based upon centrally planned credit allocation, rather than credit decisions based upon commercial lending standards. Some estimates of the losses have reached as much as 140 billion leva; and

- Emergence of several private banks. Institutions that began as foreign exchange offices have been established as licensed banks, providing credit and deposit services to a variety of clients.

Although the above developments are noteworthy as changes within a formerly socialist banking system, ingrained weaknesses remain within the Bulgarian financial sector:

- The banking sector is weak and undercapitalized and is suffering from a portfolio that contains as much as 50 percent of its assets in nonperforming loans to SOEs;

- Credit is generally unavailable from the banking system, particularly for small- and medium-size entrepreneurs. Overall bank lending has declined as a percentage of total assets because of relatively risk-free alternative placements, such as funding for the national government;

- The system lacks a sound understanding of credit analysis and creditworthiness, such that continued lending, albeit rare, is done without regard to commercial credit standards;

- Financial sector management practices and technology are not in accordance with banking practice in market economies;

- The central bank has not yet acquired the functions of a Western monetary authority. It is characterized by undertrained managerial staff, lack of focus in the formulation and implementation of monetary management policies, and uncertainty over its role in financial reform;

- Bank supervision and prudential regulations are emerging, though slowly, and do not yet extend to the full range of banks and bank products available in Bulgaria;

- The SOE sector, having lost its major markets, and having inherited overstaffing, fading technologies, and little appreciation for market-driven cost and financial controls, will not become efficient under current state ownership arrangements; and

- The great number of small banks has strained the limited pool of human resources available to the banking sector. Credit evaluation, management information systems, administrative efficiency, audit and internal control, loan work-out, foreign exchange operations, marketing, and compliance with banking regulations suffer.

# SECTION TWO

# FINANCIAL SYSTEM ENVIRONMENT

## THE MACROFINANCIAL SITUATION

With respect to the macrofinancial situation in Bulgaria, there are two main points to emphasize. The first is the difficulty of discussing the situation with Bulgarian policy makers and, hence, of obtaining new information beyond what was already known through reports available in Washington. The second is the relative isolation of Bulgaria, resulting from its unilateral decision to curtail payments to its foreign creditors, together with its failure to comply with various terms of agreements it had made with the International Monetary Fund (IMF) and the World Bank. The first point — the difficulty of obtaining information from high-level government policy makers, or of having adequate meetings with them to discuss current macrofinancial policies — is undoubtedly related to the second point, as the isolation resulting from lack of compliance with international agencies and creditors makes it difficult to hold meaningful discussions with other foreigners about these and related issues.

Bulgaria has adopted a floating exchange rate for its foreign exchange regime. Although this may be an appropriate policy, Bulgaria had little choice because of its low level of foreign exchange reserves and the impossibility of obtaining foreign credits without reaching agreements with IMF, the World Bank, and other international lenders. Recently, Bulgaria has been accumulating foreign exchange reserves, and the rate of depreciation of its exchange rate has been lower than its rate of internal price inflation. Although some of this strength in the balance of payments may be due to Bulgarians bringing home foreign exchange to finance domestic investments, it seems that the main reasons are low imports because of lack of access to import financing and the failure to make payments on foreign debt obligations. Bulgarian policy makers may find it convenient at some point to reassess the costs and benefits of coming to terms with IMF, the World Bank, and other international lenders.

Because of its international situation, Bulgaria must finance all its fiscal deficit internally. Although Bulgarian policy makers are said to hope to hold the government's deficit to 5 percent of gross domestic product (GDP) for 1993, which is IMF's target, informed observers think that a deficit of 8 percent or more is likely. Increasing unemployment because of a faltering economy has resulted in a significant rise in real social expenditure levels over the past two years, while revenues — especially profit tax collections — are falling because of the faltering economy. In addition, the underground economy is said to be quite extensive in Bulgaria — or, in other words, tax administration for collecting taxes due from private sector entities is quite weak. Furthermore, the government has yet to pass the major tax laws that have been under consideration for some time, and these are essential for any substantial improvement in the government's revenue situation.

On the other hand, the fact that new tax laws are not yet in place provides an opportunity to review the proposed legislation in terms of its treatment of the financial sector — the instruments and institutions, the taxation of dividend and interest income and capital gains, the deductibility of interest expense and capital losses, and so forth — most of which are particularly important under inflationary conditions such as in Bulgaria. In addition, there is said to be a controversy between the Ministry of Finance and the Bank Supervision Department of BNB about the deductibility for tax purposes of provisions for bad loans. Although similar controversies exist in almost every country, this issue is especially important in Bulgaria because of the extent of bad loans and the high rate of the profit tax on banking institutions.

Because the fiscal deficit cannot be financed internationally (except through the continuing accumulation of arrearages), the Government of Bulgaria has been forced to rely completely on domestic financial markets for the financing of its substantial fiscal deficit. Furthermore, Bulgaria's domestic financial markets are not yet developed enough to provide many options for financing the fiscal deficit, and the government's hesitation to commit itself fully to policies that support positive real rates of interest limits the willingness of potential holders to purchase government debt instruments. The result is heavy reliance on the inflation tax to finance the government's fiscal deficit, so that Bulgaria has continued to experience high rates of inflation — approximately 80 percent in 1992, with little decline expected during 1993, according to most informed observers. In contrast, the basic interest rate is only about 50 percent. The inability to carry on policy discussions with high-level officials of BNB or with high-level policy makers in other Government of Bulgaria entities made it impossible to point out other more transparent options for financing the government's fiscal deficit that might be preferable to continuing use of the inflation tax or implicit taxes on the banking system.

The Government of Bulgaria recently enacted a major directed-credit program for agriculture (leva 3-4 billion), designed to make credit available to farmers at heavily subsidized rates during the 1993 planting season. This type of financial sector intervention initiative masks deficit expenditures and inflationary pressures and distorts financial incentives, while unlikely to serve as an effective device for significantly increasing private farmer access to credit resources (as ample experience with such programs in a myriad of developing country contexts indicates). The reliance on such a distortive mechanism for increasing private sector access to credit, rather than on more effective movement in key institutional reforms, such as land restitution and titling and complementary legal and regulatory reforms that would facilitate the use of land as collateral, is a further indication that the Government of Bulgaria has yet to fully adopt a liberalization approach in its formulation of a macrofinancial policy framework.

As discussed in greater detail elsewhere in this report, the difficulty encountered in engaging high-level officials of the Government of Bulgaria — especially of BNB — in policy discussions has made the placement of U.S. long-term advisors difficult. Moreover, the placement of advisors in support of IMF and World Bank conditionality has not been an entirely successful substitute, particularly since the Government of Bulgaria is not in compliance with much of this conditionality. BNB, like the central banks of other Central and Eastern European countries, is clearly in need of substantial amounts of training and technical assistance to carry out its core functions of making and implementing monetary policy and carrying on adequate surveillance of the financial sector. An important step — to complement the efforts of the current U.S. long-term advisors to BNB, as well as to increase dialogue with BNB officials so that training and technical assistance can be focused on areas that are mutually agreed to be of highest priority — could be a series of seminars on central banking topics featuring not only U.S. participants but also participation by central banking experts from countries that have recently undertaken major programs of financial reform and are of a size and level of development similar to those of Bulgaria.

## THE STRUCTURE OF THE BANKING SECTOR

Bulgaria's financial system consists of BNB, the Bank for Foreign Trade, the Savings Bank, 8 older commercial banks (one established in 1981, the rest in 1987), 59 new commercial banks (former branches of BNB), and several recently founded private banks.

For many years, the banking system was similar to that of other Eastern European countries. BNB, as the central bank, monitored payments to enterprises, received enterprise deposits, and extended credit in leva. The Bulgarian Bank for Foreign Trade (FTB) had a monopoly over foreign exchange operations, including all outward and inward remittances. The State Savings Bank (SSB) dealt exclusively with households, receiving domestic deposits and providing limited housing credit.

The system changed in 1981, when the central authorities created a new bank, Mineral Bank, organized as a joint stock company. Its main objective was to finance enterprise activities above the nationally planned targets or new projects not included in central planning documents. It has operated mainly in the light industries sector.

In 1987, the Government of Bulgaria set up seven new specialized banks, organized as shareholding companies; these were to finance sector-specific investments in both domestic and foreign currencies. They were the Electronics Bank, the Agro-Cooperative Bank, the Transport Bank, the Biochim Bank, the Balkan Bank (formerly the Bank for Transport Machinery), the Stroy Bank, and the Economics Bank (serving the productive sectors not covered by other specialized banks).

Further significant banking reforms were instituted at the end of 1989. These reforms created 59 "new" commercial banks out of the former branches of BNB, and effectively established unit banking throughout the country. At the same time, specialization was eliminated. All banks were permitted to act as universal banks, making operating and investment credits to any industry, receiving deposits from individuals, and granting them housing and consumer credits. Since the reforms created unit banks, each of the 59 new banks acted as independent corporations with management and credit decisions made in a decentralized fashion at each bank location. At present, only the eight older specialized banks and the FTB are licensed to deal in foreign exchange.

Competition has recently been introduced with the opening of several private banks, most of which grew out of foreign exchange shops. However, competition has yet to improve noticeably the level of services or general access to financial products. Some older banks have purchased or opened branches in different regions, although most smaller cities still have only one bank or branch. There is almost no local competition except in the largest urban centers. The former specialized banks have diversified somewhat, shifting their lending to new economic sectors and extending working capital credit, but this change is only starting. Lending portfolios remain dangerously undiversified. Older banks still lend to a few firms in designated industries, as in the past, and newly established commercial banks from the former branch system continue to operate as if they were branches of BNB, both in lending policies and in dependence on BNB for financial and human resources.

FTB is encumbered as the holder of the vast majority of offshore debt. Its role — halfway between central and commercial bank — is poorly defined.

The three largest Bulgarian banks hold most of the assets, deposits, and capital: BNB, SSB, and FTB respectively hold approximately 24, 13, and 23 percent of total assets; 16, 46, and 10 percent of total deposits; and 56, 3, and 13 percent of total capital.

## RETAIL BANKING, THE STATE SAVINGS BANK, AND THE POST BANK

As in most other Central and Eastern European countries, retail banking activities in Bulgaria are carried out primarily by the State Savings Bank. With the exception of the Bulgarian Post Bank, few other banks in Bulgaria devote any significant attention to mobilizing deposits from individuals and small enterprises or providing them with access to credit. This situation has led certain observers to argue that SSB is a monopoly that should be broken up, possibly by offering its offices for sale to other commercial banks. However, the following discussion of retail banking entities in Bulgaria suggests that SSB has less of a monopoly position than might initially appear — especially considering the existence and substantial growth potential of the Post Bank — and that policies to encourage competition with SSB by providing a level playing field are more likely to provide better retail banking services in Bulgaria than will dismembering the SSB.

SSB was founded in 1951 as the only bank in Bulgaria accepting deposits, and in 1965 it was granted the right to make loans to individuals. SSB's range of activities was expanded to housing finance in 1967, and in 1973 it began to offer payments services for individuals. In 1989, SSB became a full-service commercial bank, but it has retained its original focus on deposit mobilization and, to a lesser extent, on providing credit to individuals, primarily for housing finance. At the end of 1992, SSB had more than 7,500 employees and more than 500 offices. Among these offices are 44 larger regional branches, 171 smaller local branches, and 276 small annexes. In addition to this extensive network of branches, SSB has a further advantage in carrying out deposit mobilization in that only deposits at SSB are guaranteed by the government. On the other hand, its profits are taxed at a 70 percent rate, in contrast to a 50 percent rate for other banks.

Deposits at SSB more than doubled from the end of 1990 to the end of 1991 and almost doubled again from the end of 1991 to the end of 1992.[1] However, it must be remembered that price inflation was about 80 percent in 1992 and even higher in 1991. In addition, much of the increase in deposits was due to the crediting of interest to deposit accounts and not to new deposits by clients. Nonetheless, SSB still accounts for more than 70 percent of all deposits at commercial banks. On the lending side, SSB originally passed most of its funds to BNB for on-lending by BNB, but now SSB mainly lends to other banks. In fact, after growing rapidly in 1991, loans to other banks increased by another two and one-half times in 1992 and now make up more than 40 percent of total SSB assets. The next most important asset category (other than SSB deposits at BNB) is housing loans to individuals, but these declined in nominal terms in both 1991 and 1992 and are now less than 5 percent of total SSB assets.[2] Loans to enterprises, the next most important asset category, increased rapidly during 1991 but then declined in 1992 as SSB management began to discover the difficulties of collecting such loans. Other lending categories of still lesser importance include consumer loans and loans to other government agencies, mainly local governments.

The Bulgarian Post Bank was originally founded in 1896. Its activities were later suspended for forty years; it began operating again in 1991. It now has about 450 employees and about 20 branches

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[1] In the process, there has been a marked shift from savings deposits, which have actually declined in nominal terms from the end of 1990 to the end of 1992, to time deposits, which were inconsequential at the end of 1990 and now are three times as large as savings deposits.

[2] SSB management stated that housing loans made before January 1991 and carrying interest rates of 10 percent are the main source of SSB losses.

and an additional 1,500 representative offices throughout the Bulgarian Post Office System. Although it is still much smaller than SSB, it has already attracted more than 200,000 depositors, and management reported that it currently has excess liquidity. The main problems facing the Post Bank are not with deposit mobilization but rather with lending and with attracting enough additional capital to fulfill the new capital requirements to remain a full-service commercial bank. With respect to lending, the Post Bank has initially focused on loans to enterprises rather than to individuals. However, its comparative advantage as basically a deposit-taking institution may be instead to focus more heavily on loans to individuals about whom it has key information, given its experience with them as depositors.

Two main recommendations to enhance retail banking services in Bulgaria are:

- The government should change interest rate policies in order to encourage interest rates on deposits that are positive in real terms rather than more than 30 percentage points below the rate of inflation, as they are currently; and

- SSB and the Post Bank should be strengthened through training and technical assistance programs that would provide better retail banking services through greater competence and competition.

Although some of the training and technical assistance might be focused on improved service for depositors, the main focus would likely be on improved lending and investment of surplus funds. With respect to lending, SSB and the Post Bank have, as indicated above, already experienced some difficulties with lending to enterprises. A preferable strategy is likely to be for SSB and the Post Bank to focus on the markets that they know best — individuals and, possibly, small-scale enterprises. In these markets, they have the special advantage of key information about potential borrowers that is provided by their past histories as depositors. Moreover, an innovative approach to capitalization and privatization could be pursued by SSB and the Post Bank by offering depositors the opportunity to convert their deposits to shares, thereby not only securing additional capital for these banks but also creating more widespread ownership than for other Bulgarian banks.

## THE BANK CONSOLIDATION COMPANY

To address some of the structural issues within the banking sector, the Government of Bulgaria agreed, upon recommendation from the World Bank, to establish a Bank Consolidation Company (BCC).

BCC was created to begin movement of the ownership of banks away from the state; the ownership of the majority of the shares of the banking sector was placed in the hands of BCC, except for the State Savings Bank. The main responsibility of BCC is to undertake the mergers of various banks into banking corporations with branch banking networks. It is envisioned that about ten medium-size economically viable banks will emerge from BCC. BCC also plays a role in the development of accounting standards and standardized charts of accounts and will most likely be instrumental in raising governance and supervision issues — all required for attracting foreign capital into the banking system.

## SYSTEMIC FINANCIAL SECTOR ARREARS

Although the banking systems of many countries in Central and Eastern Europe are burdened with past-due loans, Bulgaria stands out as the country in which the problem has only begun to be addressed and in which no bank is unaffected. Although initial attempts have been made to address the problem, Bulgaria remains unique in that no approximation of the extent of the problem has been made, leaving much speculation about the actual weakness of the banking sector.

There are three salient features of systemic problem loans:

- The nature of nonperforming loans;
- The impact of these loans on the banking system, and the chilling effect of the loans on consolidation and privatization; and
- Systemic constraints.

### The Nature of Nonperforming Loans

There are several factors that account for the large nonperforming loan portfolios of the Bulgarian banks. First and foremost are the loans that these banks inherited when they were spun off from the original monobank system. The majority of the now nonperforming loans on the books of various banking institutions actually represented budgetary advances made in the environment of a planned economy, which held little anticipation that these loans would ever be repaid. Economic upheaval in Bulgaria after the downstreaming of these loans from the books of BNB has made it difficult for these loans to be repaid even if the best of typical amortization intentions existed. (It is also helpful to bear in mind that these loans were frequently made at what are today below-market rates of interest and therefore are doubly nonperforming — even if the loans were accruing interest recognized as income, the rate of interest paid is far below the cost of funds to banks today.)

In addition to their inherited loan portfolios, the banks subsequently made new loans, many of which also have become nonperforming. These new nonperforming loans can be attributed to a lack of experience in credit-based lending and pressure for loans from borrowers who are also shareholders. In addition, economic dislocations caused by Bulgarian reform programs, the loss of traditional Soviet and Eastern European markets, and — in some cases — the unexpected withdrawal of state support for borrowers have contributed to making originally reasonable lending decisions seem poorly executed.

With regard to portfolio problems, foreign exchange losses should also be mentioned. These losses are difficult to quantify in Bulgaria, where much concern has been voiced over the staggering amount of state-accumulated arrears. However, it is clear from a preliminary inquiry into bank borrowings that a significant portion of the loans outstanding are denominated in foreign currency, notably the Italian lira and the Dutch guilder. The continued devaluation of the leva has exacerbated the debt burden of the enterprises and has further weakened bank balance sheets, as foreign exchange losses, yet to be calculated, have been incurred by lending institutions.

**The Impact of Nonperforming Loans**

It is difficult to quantify the exact amount of nonperforming loans in Bulgaria. Estimates vary widely, with the lowest figure placed at some 45 billion leva. More accurately, nonperforming loans are thought to total approximately 110 billion leva, with extreme estimates at 140 billion leva. These estimates should not be viewed as static figures, given continued economic deterioration, pressure on the banks in some sectors to continue lending to assure employment stability, unreliable bank bookkeeping, a lack of standard accounting procedures to classify nonperforming assets, and the continued capitalization of unpaid interest. It is reasonable to assume that the amount of nonperforming loans will increase in the future, as banks are consolidated and privatized, work-out standards are applied, and the legal framework in Bulgaria is developed to process bankruptcy claims. All of these trends will force resolution of cases in which borrowers have been kept afloat by loan rollovers and interest capitalization. It is also reasonable to assume that the continuing movement toward market forces will force marginal enterprises, borrowers all, to be perceived as noncompetitive in the marketplace, increasing the possibility of bankruptcy and the inability to meet loan payments.

The existence of loan arrears portfolios has several negative implications for economic reform and, specifically, for consolidation and privatization. Five of the most important implications are highlighted here:

- Because, in many cases, banks continue to capitalize interest on the unpaid debts and, in some cases, actually extend new credit to borrowers with loan arrears, the banks contribute to the continuation of the blurred line between supporting national budgetary expenditures and providing credit to stand-alone profitable enterprises. Credit subsidies of this nature eliminate the necessary incentives for enterprise managers to direct their business dealings in the manner of a market economy.

- Any new funding provided to delinquent borrowers ultimately contributes to the fiscal deficit, because the banks are at least partly funded by BNB, given that bank liabilities are guaranteed, de facto, by the central bank. This ongoing funding is in turn a source of inflationary pressure, especially in Bulgaria, where the government has virtually no access to bond markets.

- New credit that is provided to borrowers in arrears is credit that cannot be provided to other more creditworthy borrowers; credit allocation does not keep pace with the growth of the private sector.

- The high level of nonperforming loans forces banks to raise interest rates and fees to subsidize the cost of non-accrual assets. As a result, creditworthy borrowers that do gain access to new financing are penalized by paying inflated rates on their borrowings — in effect, paying for past non-market-driven credit decisions.

- The existence of a significant portfolio of nonperforming loans, together, in many cases, with accounting practices that make it difficult or impossible to evaluate the nature of a bank's portfolio, means that potential bank investors and depositors cannot accurately assess the bank's current condition, performance over time, or reasonable chances for future profitability. A general lack of confidence in the banking system ensues.

**Systemic Constraints**

There is an impressive number of constraints to resolving Bulgaria's nonperforming loan portfolios:

- Problem loan identification;
- Lack of accounting and credit standards;
- Lack of classification standards;
- Lack of effective legal recourse;
- Inability to develop work-out strategies;
- Undercapitalization of the banking system;
- Traditional borrower and creditor relationships;
- Lack of trained managerial and staff expertise; and
- Enterprise interrelationships and interdependence.

The most striking problem is simply how to identify these loans. Bulgaria has made some progress in developing accounting standards, charts of accounts, and bank supervision guidelines for establishing accrual, write-off, and loss provision decisions, as well as classification of nonperforming loans. However, classifying nonperforming loans requires projections of future financial performance of the borrowers, establishing liquidation values, assessing the soundness of collateral, and so forth. Given the volatility of the Bulgarian economy and the vagaries of the legal system, as well as the fact that prices for goods and services are only beginning to be established according to market supply and demand, the above-mentioned normal steps for beginning a loan work-out and recovery plan are difficult to implement with any precision.

Not only is it technically difficult to identify classes of nonperforming loans (given the lack of loan grading standards) and a recovery strategy for them, incentives to do so are also lacking. On the part of bank management, dealing with nonperforming assets is generally viewed negatively. Identifying all problem loans and making adequate provisions for them could well eliminate bank equity entirely, creating a bankrupt bank with few prospects for attracting investors. Bank sustainability sufficient to justify the institutions's existence and preserve jobs becomes suspect. Concern about financial viability stemming from problem identification is exacerbated by the market segmentation of Bulgarian banks and resultant lack of portfolio diversification. Bulgarian banks vulnerable to loan write-offs are likely to find whole segments of their portfolios called into question.

Another negative influence for bankers is pressure because of shareholder and borrower relationships. It is difficult to formulate stringent work-out strategies for borrowers that have always relied on their banks for virtually unlimited credit. Within such relationships in Bulgaria is the enormous role the government has always played in overseeing credit allocation according to favored state-owned enterprise relationships. This government role is now seen to be slowing the process of loan arrears clean-up insofar as enterprise managers are looking to the government to fix the problem and do not believe that the banks and the enterprises need to pursue an active role in rectifying the situation. Indeed, Ordinance 234, discussed below, is interpreted by some as another government cash intervention, and has probably contributed to the overall impression that the Government of Bulgaria will forgive past-due loans.

The issue of management time and experience necessary to implement successful loan work-outs should not be underestimated. Experience is non-existent — the types of credit problems that the banks now face have never before been a concern in Bulgaria.

Loan work-outs are extremely time-consuming. During the intensive early period of rescheduling a loan, it is not unusual in market economy banking practice for one loan officer to be occupied almost 100 percent of the time for three to six months or more. Even after rescheduling, monitoring requirements are extremely demanding and are usually the domain of work-out departments within banks. Creating such a department within institutions already suffering from a lack of trained personnel appears to be an unrealistic option at present, without substantial assistance from abroad.

Clearly, the incentives for loan restructuring are not found within the current structure of the Bulgarian banking system and, therefore, will have to originate with the government, both in terms of its direct actions and in terms of the development of a market economy with market incentives.

With regard to direct actions, if it is agreed that, at least in the initial clean-up stages, nonperforming loans of the Bulgarian banks are a government problem, it is logical to say that the liquidation of the nonperforming portfolios can be achieved only with government assistance. Not only did the government (via the former branch system of BNB) bequeath a significant portion of these loans to the banks, but the ongoing budget constraint reflected in rolling over these credits also is a cost to the government and a drain on the resources available for privatization. Because the nonperforming loan issue has political implications — someone has to decide which enterprises will go bankrupt and be closed — the government cannot leave the resolution of the debt problem entirely up to the banks. Here, however, there is an incentive problem for the government. Not only will resolution of the nonperforming loan problem be too expensive for the Bulgarian government, but the threat of layoffs, plant closings, and economic and social dislocation due to joblessness has a chilling effect on any government initiative to intervene.

Somewhat more indirectly, the Government of Bulgaria must also contribute to providing the market infrastructure necessary to deal with loan work-outs. This infrastructure would include clear bankruptcy, property, security, and contract law; a functioning judicial system; and transparent commercial transaction practices. A vital subset of this infrastructure is clarification of the ability of Bulgarian banks to seize the assets of state-owned enterprises — an action currently prohibited — in order to proceed with foreclosures.

The most fundamental constraint to resolving the nonperforming loan problem is the condition of the economy in which the banks and the enterprises operate. Cleaning up the banks' balance sheets is of little use if the overall Bulgarian economy remains frail; enterprises remain in poor financial condition, and the banks themselves do not have adequate corporate governance and credit approval procedures and do not benefit from an adequate external supervisory and regulatory system. Little progress has been made in these areas, particularly when Bulgaria is compared with its regional neighbors.

The urgency for repayment of arrears is weakened in Bulgaria by a common characteristic of enterprise interdependence — credit allocation among state-owned enterprises. Bulgarian enterprises have had a tendency to extend credit between enterprises when other sources of credit from the government or from the banks are reduced. Obviously, a borrower's creditworthiness deteriorates quite rapidly if the borrower accumulates large receivables from other liquidity-strained enterprises. The resolution of arrears between enterprises will be a severe challenge for the system, as a clear understanding of who owes what to whom is lacking.

# SECTION THREE

# RECENT GOVERNMENT FINANCIAL SECTOR INTERVENTIONS

In February 1991, the Government of Bulgaria started adopting measures aimed at correcting certain financial sector problems. These measures were part of the Government Economic Reform Program aimed at transforming the economy into a market economy and were supported by an IMF Stand-by Agreement and a World Bank Structural Adjustment Loan (SAL). Among the most important measures concerned with the financial sector were interventions aimed at correcting credit allocation and bad debt problems.

Through increased interest rates on deposits, price liberalization, and the issuance of a limited amount of government securities, the Government of Bulgaria slowed the devaluation of the leva and, it appears, began to stabilize inflationary expectations. However, some important credit allocation issues have arisen. First, the government continues to be in need of significant funding, as insufficient control over social insurance expenditures has caused aggregate spending to exceed budgetary targets. Second, as mentioned earlier, banks have allowed enterprises to capitalize interest on loans. Thus, credit availability continues to be limited, restraining credit to sectors that are emerging and in need of capital, while the sectors that should be adjusting to credit restraints — the government and state-owned enterprises — have benefited from credit expansion.

## ORDINANCE 234

Ordinance 234, promulgated by the Council of Ministers on November 24, 1992, "on the restructuring into state debts the uncollectible bad debts to banks of single-person companies with state property and of state firms; and on the clearing of the credit portfolios of trade banks with more than 50 percent state participation," is the prime intervention of the Government of Bulgaria in the banking sector for handling the debts of state-owned enterprises. Its main provisions are:

- Establishment of an interministerial commission, with representatives of banks and state-owned enterprises to approve debt restructuring plans;

- Allocation of government budgetary resources to cover bank losses;

- Establishment of procedures to petition the government for debt relief, including financial restructuring plans and financial projections requirements; and

- Empowerment of banks to take write-offs against commission-approved bad debts.

Although on the surface it would appear that the Ordinance represents considerable progress in wrestling with the level of state-owned enterprise indebtedness, the amounts allocated are insufficient to eliminate the debt burden in a timely manner. The state budget amount allocated to be utilized for execution of Ordinance 234 in Fiscal Year 1992 was 5 million leva, a small sum in relation to the total nonperforming portfolio — so small, in fact, as to be meaningless.

Additional difficulties with Ordinance 234 stem from the somewhat onerous process of becoming eligible for funding. The Ordinance states that a debt-restructuring plan must be submitted, including financial projections and business plans — financial and management tools that few Bulgarian enterprises are in a position to produce. Even if these requirements are met (which implies reliance on outside consultants), approval from the interministerial committee must be obtained for the restructuring plan, which translates into being placed on a queue for funding as it becomes available. Although appropriated, no amount of the 5 million leva available in the 1992 state budget has yet been utilized, highlighting the difficulty of benefiting effectively from the provision of Ordinance 234 at the enterprise level.

## PRUDENTIAL REGULATION AND SUPERVISION

The concept of prudential supervision has gained acceptance at the central bank, as evidenced by the creation of the Department of Banking Supervision, headed by a member of the BNB governing board. Its efforts resemble those of a start-up operation, with one significant difference when compared with other countries in the region: Bulgaria seems to have decided to follow the European model of off-site supervision as its primary means of overseeing the banks. However, the Department is in continued need of upgrading the skills of its staff, composed largely of auditors from the internal audit of BNB, whose former functions were largely composed of compiling bank statistics. Specifically:

- BNB has yet to develop prudential reporting guidelines and periodic reporting timetables for banks. The guidelines should serve as the foundation for computer-driven analysis of ratios and trends within individual banks and should permit comparison among peer group banks of similar character. This type of system entails creating an awareness of the importance of an early warning system for the detection of problems and disturbing financial trends, and serves as a prime tool in allocating supervisory resources to areas of greatest systemic risk. As an integral part of the system, accounting rules applicable to balance sheet and income statement components must be defined and enforced; and

- BNB must further develop and instill the discipline necessary to perform on-site examinations. This development must include creation and promulgation of on-site standard methods, focusing on determining the financial condition, administrative soundness, and internal control strength of individual banks. Examination procedures should lead to assessment of the quality of the loan portfolio, other assets, capital adequacy, earnings, liquidity, asset and liability management practices, foreign exchange risk management, and the acceptance and internalization of internal management practices.

# SECTION FOUR

# U.S. GOVERNMENT TECHNICAL ASSISTANCE, SELECTED DONOR ACTIVITIES, AND TRAINING

The main elements in the U.S. Government's assistance to the Bulgarian financial sector have been the long-term advisors under the U.S. Treasury program that have been placed in various Bulgarian entities. The success of these advisors in strengthening their respective entities has been mixed, depending, of course, on the technical and personal skills of the advisors, but, just as important, on the receptivity of the entity and the role that it might be expected to play in the future of the Bulgarian financial sector. The following assessment and the resulting recommendations are meant to focus not so much on individual advisory activities, but rather on lessons from the design and implementation of the first round of U.S. Government macrofinancial technical assistance activities, in order to assist in promoting effective fine-tuning of technical support services for this sector in the future. It should also be noted that the initial rapid response to needs within the Bulgarian financial sector is commendable; despite a volatile and rapidly changing environment, the U.S. Treasury was able to place competent advisors within the system at an early stage of financial sector changes and reform.

## EXTERNAL CONDITIONALITY

An important feature common to the U.S. Treasury's long-term advisors is that they were placed in their respective positions in part in response to conditionality imposed on the Government of Bulgaria by international agencies (for example, the International Monetary Fund and the World Bank). It might initially be supposed that this situation would imply a significant advantage in providing useful assistance, in that there was common agreement that the task to be performed by each advisor was an important task. However, it is important to note that conditionality is typically imposed (in varying degrees) — not mutually agreed upon through policy dialogue — and, as such, is not in fact fully accepted by the host country government. An initial lack of receptivity to the assistance provided can be noted in each of the cases discussed below, and it is greatly to the credit of many advisors that they were able to overcome this initial situation. That the international agency imposing the conditionality did not provide the relevant technical assistance should not be surprising, considering the incentives facing both the host country government and the international agency under a conditionality setting. Why the U.S. government instead was placed in this role has interesting implications for some of the conclusions and recommendations about the future role of U.S. assistance, as will be indicated below.

## TREASURY ADVISOR ACTIVITIES

BCC was created at the insistence of the World Bank to take charge of consolidating the excessive number of individual state-owned banks that had been created with the initial division of BNB into a two-tier system. It is clear to most participants that consolidation is necessary to take advantage of economies of scale in banking and thereby provide an opportunity for efficiency and effective competition within the banking system, especially the state-owned portion. Nonetheless, to suppose that appropriate consolidation could be brought about through a top-down approach imposed by a government agency — even in the Bulgarian setting — has proven questionable. Thus, BCC, with a justifiably meager staff, has become a holding company for the government's shares in the banks, with little direct impact on the consolidation process. As a result, there was little of significance that a U.S. Treasury long-term advisor could do at BCC. What is now important, however, is to ensure that BCC does not become a force delaying consolidation or complicating subsequent privatization efforts in order to maintain its existence. It must be clearly recognized that the primary force for bank consolidation is the minimum capital requirements that are being imposed, rather than the efforts of this government agency.

The United Bulgarian Bank (UBB) is the first significant result of bank consolidation efforts. It has come together out of 22 individual banks spread across the country that had initially been grouped around two larger banks that decided to form a single entity. The European Bank for Reconstruction and Development (EBRD) is considering taking an equity position as part of UBB's privatization efforts following consolidation, and a U.S. Treasury long-term advisor has consequently been placed in UBB. Although this placement is, in essence, part of EBRD's conditionality for its equity participation, it appears to be eagerly accepted by all the parties and not to be in fact imposed. The Treasury advisor clearly recognizes the major tasks involved in consolidating 22 individual banks into a single bank with 22 main branches (to account for perhaps 25 percent of the banking market) and has focused (correctly) on four key areas:

- Credit administration;
- Asset and liability management;
- Management information systems; and
- Work-outs of UBB's large portfolio of bad loans.

In addition to the assistance to UBB itself, this focus provides various external benefits:

- Pressure to pass a bankruptcy law and to define creditors' rights further in other ways;
- A possible basis for privatization of nonfinancial entities through bank work-outs; and
- Demonstration effects for other consolidating and privatizing banks, including the importance of staff training.

BNB has a number of long-term advisors provided by various international agencies, including two provided by the U.S. Treasury. The first of these to arrive has been dedicated to assisting with bank supervision, specifically in the area of on-site examinations. His role is again in part the result of World Bank and IMF conditionality and is especially difficult because of BNB's commitment to minimizing on-site examinations and relying instead on off-site surveillance, patterned on what the Bulgarians understand to be the relatively successful European model of bank supervision. In spite of these substantial handicaps, this long-term advisor has been instrumental in seeing that several on-site inspections have been successfully carried out, using short-term assistance in the form of bank examiners from the Chicago Federal Reserve Bank leading teams of examiners from BNB. These on-site inspections have not only clarified the situations of the banks that have been examined but have also provided important on-the-job training for BNB bank examiners. In addition, this and other efforts of the long-term Treasury advisor have aroused interest at BNB in embarking on a serious training program for its bank examination staff.

The second of the U.S. Treasury's long-term advisors to BNB has been dedicated to assisting the Research Department of BNB. His two specific assigned tasks — to improve the statistical base for monetary survey data to be used by IMF in its work, and to provide inputs (especially monetary forecasts) to be used in the development of open market operations — are both related to World Bank and IMF conditionality. His integration into the conceptual design of monetary management policies within BNB has been complicated by the linkage of his position to World Bank and IMF conditionality, which does not appear to be uppermost on the Government of Bulgaria's list of priorities. Consequently, the potential contribution of long-term technical assistance to BNB's Research Department remains to be fully realized. Nonetheless, BNB has requested specific short-term technical assistance (currently provided) to help develop the payments and settlement infrastructure that would be necessary for the development of secondary securities markets and hence for open market operations.

The last of the U.S. Treasury long-term advisors is assigned to the Ministry of Finance, with the task of assisting in the development of the Bulgarian tax system — another activity related to World Bank and IMF conditionality. Although the main purpose of discussions with this advisor was to determine the size of the fiscal deficit and the primary methods of its financing, together with observations on the significance of taxes on financial institutions and instruments, it was clear that little progress was being made on the enactment of the six tax laws that were supposed to be passed — in fact, none had been enacted. Nonetheless, this advisor appeared to be actively involved in providing significant assistance for the development of procedures for tax administration and in designing potential training programs and selecting potential trainees. He was also knowledgeable about — and apparently was providing advice with respect to — the important controversy between the Ministry of Finance and the Bank Supervision Department of BNB about the deductibility for tax purposes of provisions for nonperforming loans.

Each of the U.S. Treasury's long-term advisors, with the possible exception of the advisor to BCC, has been assigned to an important Bulgarian entity and has been involved to at least some extent in providing technical assistance on potentially significant issues. Nonetheless, effectiveness has been complicated, at least in the program's initial stages, in all cases (with the possible exception of UBB) by the strong link to conditionality imposed by international agencies. U.S. Government long-term technical assistance could potentially be made substantially more effective if the U.S. Government had someone more or less continually involved in ongoing policy dialogue with the Government of Bulgaria on a variety of macrofinancial issues, in order to select those areas where U.S. technical assistance could be most effective. In addition, having an individual with high-level technical skills in banking and key macrofinancial areas, either on site or at a U.S. Government office in Washington, could provide more timely and focused short-term technical assistance and training in support of the long-term advisors in Bulgaria.

The current placement of advisors is good, with the exception of BCC, but, as noted above, initial effectiveness could probably have been better without the tie to conditionality. Moreover, the mandate of the advisor to the BNB Research Department could be more clearly and forcefully linked to developing capacity in BNB to implement modern monetary policy instruments. It would also be useful to consider additional long-term advisors for the larger banks that may emerge from the bank consolidation and privatization process. Two other important areas for which the usefulness of long-term advisors might emerge from policy dialogue are the development of BNB's capacity to intervene appropriately in the foreign exchange market and a more rapid development of money markets for the issue of short-term government debt instruments, for interbank liquidity, and for BNB open market operations.

## SHORT-TERM TECHNICAL ASSISTANCE

Short-term technical assistance is potentially highly effective because it can provide highly specialized skills that often cannot be provided cost-effectively on a long-term basis. However, in many countries, and especially in the case of Bulgaria, it can require a significant period of time before the short-term advisor establishes the necessary personal relationships and gains the confidence of host country counterparts. This suggests tying short-term technical assistance closely to the long-term advisors for two reasons:

- The long-term advisor should be able to pinpoint precisely the type of specialized short-term assistance required; and

- The long-term advisor should already have established good working relationships with Bulgarian counterparts that can, in essence, be passed on to short-term advisors.

In addition, the ability to supply effective short-term technical assistance quickly should significantly enhance the credibility of the long-term advisors with their Bulgarian counterparts and thereby make them more effective. However, sourcing the optimal short-term advisors quickly will require more effective links between the long-term advisors in Bulgaria and possible suppliers of short-term technical assistance in the United States.

Because of the specific focus of the long-term advisor for on-site bank examinations and his close ties to the bank examiner network in the United States, the effectiveness of combining long-term and short-term technical assistance can be seen clearly in this case. For the long-term advisor to UBB, and for other long-term bank advisors that may subsequently arrive, specialized short-term technical assistance will undoubtedly be necessary. Among the four focus areas mentioned above for bank technical assistance (credit administration, asset-liability management, management information systems, and work-outs of bad loans), the last two are highly technical and could almost certainly benefit from specialized skills beyond those that could normally be expected from a long-term advisor.

## TRAINING

Training is an area of U.S. Government support for the Bulgarian financial sector that is highly complementary to the U.S. Treasury long-term advisors and to specialized short-term technical assistance. In fact, in addition to its long-term advisor program, the U.S. Treasury has already contracted with KPMG to provide banker training throughout Eastern Europe.

The main focus of banker training in Bulgaria was initially supposed to be on developing the International Banking Institute (IBI) to provide training to Bulgarian bankers on a sustainable basis. However, there have been two basic impediments to achieving this goal in the near term:

- During the period of bank consolidation and possible privatization, and given the significance of nonperforming loans in most bank portfolios, training has unfortunately been assigned a low priority by most banks; and

- Several international agencies have become interested in a wide range of training activities, making coordination difficult — but of greater importance for developing the long- term viability of IBI is the fact that much of this training is offered on a highly subsidized basis.

In spite of these impediments, the long-term KPMG bank training advisor has carried out training needs assessments and has developed a number of short courses of interest to Bulgarian bankers, including use of the American Bankers Association's computer-based bank simulation model. He has also coordinated U.S. Government support for IBI with that of EC PHARE and the British Know-How Fund, and has developed a specific ongoing training relationship with UBB through ad hoc coordination with the U.S. Treasury long-term advisor at UBB. However, he has not yet been able to develop an appropriate vehicle for an external banker training program (for example, a U.S. training program) for Bulgarians, and he also views training of trainers as premature in the short run (while banks fail to focus adequately on training) but highly important for the longer run.

The KPMG banker training program in Bulgaria has developed an ad hoc training relationship with UBB based on coordination between the U.S. Treasury long-term advisor at UBB and the KPMG long-term bank training advisor, but training could usefully be incorporated on a formal basis in the activities of all or most of the U.S. long-term advisors. The long-term advisors would then become involved formally in the design of training programs and in trainee selection. This could not only provide more appropriately focused training programs and better assurance that the most appropriate trainees were selected but could also further enhance the credibility of the long-term advisors. Training for financial sector professionals could also be seen more broadly than just banker training.

Training would certainly involve numerous short courses offered in Bulgaria, with trainers brought from the United States or other countries. In addition, however, it would be beneficial and cost-effective to develop a number of medium-term training programs (periods of one to six months) in the United States for Bulgarians from public and private financial sector entities and also for training of trainers. Such training in the United States can have a number of significant advantages:

- Strengthen English language skills so that trainees have continuing access to the most advanced professional literature and the ability to benefit fully from international meetings;

- Receive on-the-job training at relevant U.S. institutions;

- Have direct access to technically advanced trainers on a wide variety of highly specialized finance topics; and

- Acquire firsthand appreciation of the way a market-based economy in all its dimensions operates in the United States.

The fact that training is coordinated by long-term advisors will help to ensure that trainees have appropriate jobs awaiting them when they return to Bulgaria and will thereby greatly lessen the possibility that they will not want to remain with their original institutions. In addition, it should be possible to hold some of the U.S. training programs at non-profit institutions located outside major metropolitan areas so that costs can be kept low.

## OTHER ACTIVITIES

In addition to its technical assistance and training programs, the U.S. Government is providing other forms of support to the Bulgarian financial sector. The Bulgarian American Enterprise Fund, like its counterparts in other Eastern European countries, is developing plans for equity participation and lending to promising enterprises.

One activity supported by the Bulgarian American Enterprise Fund is Opportunity International's program of lending for small-scale Bulgarian enterprises. The program is currently in the developmental stages, as an Opportunity International staff member has just taken up residence in Bulgaria and is in the process of selecting a Bulgarian board of directors and a location to initiate lending. As outlined, the program will make dollar loans ranging from $500 to $20,000, with terms of six months to five years, and at interest rates ranging from 12 to 18 percent per year. Lending in dollars is supposed to avoid the erosion of capital that could occur with Bulgaria's uncertain inflation, but dollar lending has proven quite problematic in other countries with similar circumstances (for example, some countries in Latin America). Borrowers tend to prefer the relatively low interest rates on dollar loans, and both lenders and borrowers can be lulled into a false sense of security during periods of relatively stable exchange rates in spite of inflation. When the inevitable devaluation finally comes to readjust domestic prices to world prices, only producers of (or traders in) exportable and importable goods are able to repay their loans, as the revenues of other borrowers tend to fall substantially below the local currency equivalents of their loans for extended periods of time.

Experience in other countries has also shown that the proposed terms of loans may be too long and the proposed interest rates too low. In countries where it is difficult to rely on collateral for the collection of loans, a relationship of trust and confidence between lender and borrower can develop by beginning with small and short-term loans and escalating to larger and longer-term loans, thereby counteracting any temptation to take out a loan without intent to repay. The goal of charging small borrowers a prime rate of interest is generally unrealistic because of the costs and risks of serving such borrowers — who are decidedly non-prime. It is hoped that Opportunity International will be more fortunate in its lending program or will learn to adjust quickly before too much of its capital is eroded through non-repayment of loans and interest rates that are inadequate to cover costs.

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# ANNEX A

# PERSONS INTERVIEWED

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Irving Auerbach, Treasury Advisor on Secondary Securities Markets

John Babylon, A.I.D. Program Officer

Loren Cain, Treasury Advisor to the BNB Bank Supervision Department

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Michael Hall, KPMG Advisor to the International Banking Institute

Emil Hursev, Executive Director Deputy Governor, BNB

Kamen Ivanov, Resident Representative, EBRD

Kiril Kalinov, Executive Director, Bulgarian Foreign Trade Bank

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David Lagerloff, IMF Advisor to the BNB Bank Supervision Department

Krasimir Logofetov, Assistant Advisor, BNB Bank Supervision

Ogel Nedyalkov, Chief Executive, United Bulgarian Bank

Z.I. Nenov, Bank Consolidation Company

Georgi Neshev, Head of International Relations Department, BNB

Jonathan Norwood, Investment Manager, Bulgarian American Enterprise Fund

Mary Ann Peters, U.S. Embassy, Deputy Chief of Mission

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Mariana Stefanova, Executive Assistant, International Bank for Investments and Development

Lada Stoyanova, A.I.D. Program Specialist

Steven Strauss, Treasury Advisor to the United Bulgarian Bank

John Struble, U.S. Embassy Economic Officer

Georgy Tomov, First Vice President, State Savings Bank

Kenneth Vander Weele, Regional Director, Opportunity International

Stilian Vatev, Director General Investments, United Bulgarian Bank

Helmut Wendel, Treasury Advisor to the BNB Research Department

John Wilton, Resident Representative, World Bank

James Wooster, Treasury Advisor to the Ministry of Finance

Gerald Zarr, A.I.D. Representative