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***FLASHES FROM THE PAST:
ESTABLISHMENT OF THE BULGARIAN NATIONAL
BANK AS THE CENTRAL BANK OF BULGARIA***

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RESUME

The study aims to outline the specifics related with the emergence and development of central banking in Bulgaria. Established in 1879 as an ordinary commercial bank, Bulgarian National Bank experienced a number of ups and downs in its 130 year history. In its evolutionary development, it became a central issue and Bank of Bulgaria in 1928. In the years of socialism, Bulgarian National Bank is experiencing its devolution development to become in the period 1971-1982 in the only bank in country (monobank system). With the transition to a market conomy in 1991, the National Bank again returned to its independence and autonomy. After the banking crisis of 1996-1997, the National Bank began operating in the currency board arrangement.

Keyword: banks, central bank, Bulgarian national bank, history

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THE ESTABLISHMENT AND FIRST YEARS OF THE BULGARIAN NATIONAL BANK
(1879-1926)

The creation of the central bank and the construction of the banking system in Bulgaria began only in the late XIX century, after foundation of the Third Bulgarian State. In its over 130-year history Bulgarian banking has experienced a number of ups and downs to reach its present state.

The Bulgarian National Bank occurs relatively late in comparison with other European central banks. The 1979 Statute of the bank (adopted on January 25) through which it was actually institutionalized, loaded the BNB with functions typical for this type of banks. The newly created bank was directly subordinate to the Minister of Finance, it had no rights of issue¹, and the possible banking operations regulated by the Statute were characteristic of a commercial bank rather than a "bank of banks".

¹ § 6, "Ustav Bolgarskago Narodnago Banka", in Lazarov, N. History of the Bulgarian national Bank and banking in Bulgaria, Siela, Sofia, 1997, p. 64.

According to the same document, the bank's primary objective was "to contribute to the revival and proper regulation of trade relations and credit"² while its responsibility for the stability of the banking system and national currency was unregulated (which incidentally does not exist yet). We cannot say that the BNB was also a "Bank of the State", since, although it was allowed to keep cash resources of the state, it could not directly and / or indirectly finance it. All this allows us to say that, at the time of its establishment, the Bulgarian National Bank might be defined as a typical commercial bank engaged in some functions extraneous to its activity.

The first attempt to separate the BNB as a central bank has been connected with the "Draft Statute of the National Bank of Bulgaria" proposed by Polyakov and Ginsburg in 1880 according to which the bank was assigned the task of issuing coins and banknotes, and representing state finances³. Unfortunately, this project was withdrawn before being voted in National Assembly⁴.

The Coinage Act of 1880 created the preconditions for the formation of the bank of issue⁵. Initially, the right of coinage belonged exclusively to the state, but with the statute of the bank which was adopted three years later, the issue of banknotes⁶ was assigned to the BNB. The same document allowed it directly and indirectly (through the issuance of government securities and discounting of Treasury bills) to lend to the government, thereby virtually becoming itself a "bank of the

² § 1, Opt. cit., p. 63.

³ See. "Poyasnitelna zapiska kam Proekt za ustav na Natsionalnata banka na Balgariya, Predlozhen ot G. O. Ginsburg i S. S. Polyakov" in Bulgarian National Bank, Bulgarian National Bank - Collection of documents (1879-1900), vol. 1, Sofia, 1999, p. 78.

⁴ Bulgarian National Bank, 120 years Bulgarian national Bank, Sofia, 1999, p. 18.

⁵ Zakon za pravoto na ryazane na moneti v knyazhestvoto, DV 49/1880 in Nedelchev, K. Money issues in Bulgaria (1879-1940). Knipegraf Publishing, Sofia, 1940, p. 47.

⁶ The Statute states that banknotes issued by the Bank shall be secured by precious metals worth 1/3 of their value. See. Ustav na Balgarskata narodna banka, priet ot Tretoto obiknoveno narodno sabranie. in Bulgarian National Bank, Bulgarian National Bank - Collection of documents (1879-1900), vol. 1, Sofia, 1999, p. 117.

country." Yet we cannot talk about its transformation into a real central bank, as it continued to carry out commercial banking.

According to the Law adopted on 27 January 1885, the BNB became independent from the executive⁷. The separation of the BNB as a "bank of banks" started only in 1907 with the adoption of the Craft Credit Act, according to which the bank is a central governing body of the credit craft associations in terms of their credit operations by regularly refinancing them⁸.

Although we could hardly equate these associations to traditional banking institutions, this prototype of a two-tier banking system showed that the BNB had begun to play a special role in the national financial system. Moreover, the obligation of refinancing implied that the bank started to act as a lender of last resort for credit craft associations⁹.

In 1924 the National Assembly passed a new Law on the BNB which aimed to strengthen its independence and clear the functions of issue, but "de facto" it did not radically change the existing situation¹⁰. The only significant change was the termination of the issue of banknotes backed by silver, thus gold remaining the only acceptable collateral for banknote issue.

⁷ According to the law, the Managing director and Heads of departments of the BNB shall be appointed by the Head of state (at the proposal of the Minister of Finance), and dismissed only by a decision of the National Assembly. Thus we can talk about increasing the independence of the Bulgarian National Bank although the initiatives for the management appointments are still the prerogative of the government.

See. "Pismo ot podpredsedatelya na IV obiknoveno narodno sabranie do Ministara na finansite za utvarzhdavane na Zakona za uchredyavane na Balgarskata narodna banka, s prilozhenie na negoviya tekst" in Bulgarian National Bank, Bulgarian National Bank - Collection of documents (1879-1900), vol. 1, Sofia, 1999, p. 213.

⁸ Bulgarian National Bank, 120 years Bulgarian national Bank, Sofia, 1999, p. 60.

⁹ The first documented intervention of the BNB to refinance commercial banks was in 1918, in relation to a loan against collateral for Sofia Bank, due to experiencing liquidity problems. See. "Protokol na US na BNB s reshenie za predostavyane na kredit ot 500 000 lv. na Sofiyska banka sreshu zalog na tsenni knizha za posreshtane na nuzhdite y po izplashtane na uvelichenite tegleniya na neynite vlozhiteli" in Bulgarian National Bank, Bulgarian National Bank - Collection of documents (1915-1929), vol. 3, Sofia, 2001, p. 908.

¹⁰ See. "Ukaz na tsar Boris III za utvarzhdavane na Zakon za BNB s prilozhen tekst na zakona" in Bulgarian National Bank, Bulgarian National Bank - Collection of documents (1915-1929), vol. 3, Sofia, 2001, p. 68.

THE BULGARIAN NATIONAL BANK AND AS A CENTRAL AND ISSUING BANK (1926-1943)

A radical change in status of the BNB occurred with the Law on the Bulgarian National Bank of 1926, which for the first time clearly regulated the monopoly right to banknote issue and the establishment of the bank as a legal entity¹¹. It also regulated its responsibility for the stability of the national currency, the regulation of circulation and the facilitation of payments in the economy. The same law prohibited direct or indirect lending to the state as well as part of its credit operations and in particular - the granting of unsecured loans and long-term credits. This withdrawal from part of retail banking represented the next step in the formation of the BNB as a central and issuing bank. The final transformation of the BNB into a pure issuing central bank was made through the Law of September 27, 1928. This amended the Law on the BNB from 1926¹², obligating it to terminate its mortgage operations in the shortest possible time, and with a grace period to cease its operations in commercial banking. This allows us to conclude that, by 1928, a real central issuing bank began to function in our country which was fully able to carry out its public commitments as a lender of last resort.

The BNB existed as an independent central and issuing bank for a short period. At the beginning of 1943, as a result of wartime problems, an Act amending the Law on the National Bank was adopted, according to which the direct intervention of the state on the bank was fully restored. Only four years later, with the adoption Banking Act in 1947, the nationalization of the banking system was carried out. The BNB lost its role as a central issuing bank and was in charge of some operations

¹¹ See. "Ukaz na tsar Boris III za priemane na Zakon za BNB s prilozhen tekst na zakona" in Bulgarian National Bank, Bulgarian National Bank - Collection of documents (1915-1929), vol. 3, Sofia, 2001, p. 82.

¹² Opt. cit., p.113

in commercial banking. The new law regulated the monopoly right of the state to perform banking transactions, thereby liquidating the private initiative in the banking sector and concentrating banking capital in several state-owned banks. With the adoption of these two legal acts we can talk about the limitation of the powers of the BNB as a central bank.

THE BULGARIAN NATIONAL BANK DURING SOCIALISM (1947-1989)

In the first years after World War II, a de-evolutionary development of the Bulgarian National Bank was observed, and its transformation from a central issuing bank into a bank in charge of the implementation of purely commercial banking. This was clearly evident from the tasks entrusted to it, namely: "to issue banknotes; to protect the stability of the national coin; to conduct complete currency control; to organize, collect and protect people's savings; to credit the national economy; to perform the cash service of the state; to establish the tariffs of banking operations."¹³ While in 1947 the BNB was still one level above other banks, as far as the Banking Act (1947) allowed it to delegate the right to carry out certain banking transactions and operations to the Postal Savings Bank, popular banks, comprehensive agricultural cooperatives, departmental funds and others¹⁴, in the coming years the trend for the destruction of the two-tier banking system and creation of a monobank in the face of the BNB continued to grow.

With the subsequent reorganizations of the banking sector in 1951 and 1956, the process of consolidation of banking capital in several centralized institutions continued. In 1956 the popular banks lost their autonomy and were transformed into branches of the BNB. In the same

¹³Bulgarian National Bank, 120 years Bulgarian national Bank, Sofia, 1999, p. 182, Law for banks, State gasete 302/1947.

¹⁴Chl. 1, Law for banks, State gasete 302/1947.

year there was a separation of common retail banking from business banking services. With the first, the newly created State Savings Bank was in charge, and corporate banking remained within the BNB. By the decree for the reorganization of the banking system adopted in 1966, the BNB finally lost its independence, being directly subordinate to the Council of Ministers

A partial attempt to restore the two-tier banking system was made with the decree adopted on 4 March, 1969 on the organization of the banking system, according to which the BNB was reconstructed into a central bank and an issuing centre of the country, while two new banks were created - the Bulgarian Industrial Bank and the Bulgarian Agricultural and Commercial Bank¹⁵. The same decree clearly delegated tasks to the BNB in monetary and credit policy, putting it in charge of the planning and regulation of money circulation and the issuance of banknotes and coins in the country. It was also responsible for ensuring the stability of the national currency and the resulting price stability in the country. For the first time after the Act of 1947, the BNB was allowed to redirect if necessary, credit resources of the state towards certain sectors and / or banks, thus in fact, it could act as a kind of lender of last resort¹⁶.

The revival of the two-tier banking system was brief. On 5 December 1970, the entire banking activity was concentrated again in the BNB by the merger of the Bulgarian Industrial Bank and the Bulgarian Agricultural Bank. On January 1, 1971, the State Savings Bank also passed into the authority of the BNB. Thus in Bulgaria, a mono-bank system was created. The BNB was charged with both part of

¹⁵ The first took the banking services of the businesses from the industry, construction, transport and communications, while the second served only enterprises from the agriculture and forestry, domestic trade, food industry and communal activities.

¹⁶ Bulgarian National Bank, 120 years Bulgarian national Bank, Sofia, 1999, p. 216.

the functions typical of central banks (banknote issue, the conduct of monetary and credit policy) and purely commercial banking operations (savings collection and credit).

After nearly decades of functioning as a monobank system in Bulgaria, with the adoption of the decree for the improvement of banking in 1982, attempts were started to revive the traditional two-tier banking system. The document, and the accompanying regulations for banks regulated the composition and structure of the new banking system, including the National Bank as the central and issuing bank of the country and the following banks: the Bulgarian Foreign Trade Bank, the Bank for economic initiatives "Mineral Bank", and the State Savings Bank¹⁷. Although established as a "Bank of the State" and "bank of banks", the BNB still had no independence in the conduct of monetary and credit policy as far as it was subordinated directly to the Council of Ministers. In 1987, one of the most serious banking reforms was initiated after the nationalization of the banking sector in 1947. With the adoption of the decree for the reorganization of the banking system, 8 new banks were created: "Electronica", "Biochim", "Avtotehnika", Agricultural and Cooperative Bank, Construction Bank, Transport Bank, Bank for Economic Initiatives and Economic Bank, by which the two-tier banking model in our country was approved.

The bank retained its role as a central and issuing bank of the state. The relationship between the the BNB and other banks were regulated by the rules of the banks.

The BNB was responsible for developing and implementing state policy in the banking business in order to preserve, regulate and stabilize the national currency. An especially important change in the status of the

¹⁷ Bulgarian National Bank, 120 years Bulgarian national Bank, Sofia, 1999, p. 225, Pravilnik za bankite, DV, 102/1982.

BNB was the ability to apply an independent interest rate policy, even if it happened after its coordination with the Council of Ministers. In terms of its function as a "lender of last resort", there wasn't a significant change yet - the regulations provided the ability for the BNB to grant loans to other banks, without indicating in which cases these loans could be granted.

1989 was crucial not only as regards the political changes in Bulgaria. In the same year, other regulations for banks were adopted through which the majority of the branches of the BNB were taken by the existing banks or were reorganized in completely new banking institutions on a share basis. Thus the BNB dramatically reduced the operations through its branch network, allowing them to be covered by the existing and newly created banks. Moreover, the rules for banks charged the BNB with the commitments of defining and storing minimum reserve requirements, and the regulation of credit resources of other banks through short and medium determination of the basic interest rate, thereby allowing it to conduct effective monetary credit policy.

THE BULGARIAN NATIONAL BANK AND THE TRANSITION TO A MARKET CONOMY (AFTER 1991)

The Law on the BNB (adopted on 25 June 1991) put an end to the socialist interpretation of the banking system. By the new law, the BNB was established as a "bank of banks", "bank of the state", and a bank that stored and managed the foreign exchange and gold reserves of the country, ie it began to act like a typical central bank in a two-tier banking

system¹⁸. Furthermore, the adopted normative act restored the independence of the bank and clearly distinguished its functions as a central bank from the operations inherent to commercial banks.

Along with the functions of conducting monetary and credit policy favourable to the maintenance of the internal and external stability of the national currency, the National Bank was responsible for the regulation and control of the activities of other commercial banks in order to maintain the stability of the banking system. It could refinance other banks through discount loans and loans against collateral, and in case of liquidity problems it could also grant unsecured short-term loans¹⁹. Thus in 1991 the BNB in fact began to function as a lender of last resort.

During the period 1991-1995, the BNB applied different approaches to the refinancing of commercial banks, demanding high-quality collateral as a guarantee of loans granted by it as early as the first problems emerged in the banking sector in 1995. Unsecured loans were granted only to banks experiencing serious liquidity problems, in combination with a set of measures to strengthen the relevant institutions.

Despite the measures taken, the problems were aggravated and the BNB almost exhausted its possibilities for liquidity support. This led to a suspension in granting new and undrawn unsecured loans to commercial banks in May 1996. In parallel, the bank had to discontinue any new Lombard and discount lending and refinancing in new currency. Thus in 1996, the BNB de facto declared its failure as a "lender of last resort", leaving the banking system without the liquidity necessary to overcome the crisis. The liquidity support intervention initiated in

¹⁸ Law on Bulgarian National Bank, State Gasete 50/1991.

¹⁹ In 1991, the BNB adopted a resolution to limit refinancing in the form of direct unsecured deposits, giving priority to lending against collateral, and in 1994 that instrument was finally removed.

September, 1996, proved ineffective and only led to the depletion of foreign exchange reserves.

With the new Law of 1997, the BNB carried out one of the most radical changes in its history and from a typical central bank it became an institution applying the currency board arrangement. The structure of the Bank was divided into three main departments : "Issues", "Banking", and "Banking Supervision". The main function of the Issuing Department was to maintain full foreign exchange coverage of the total amount of monetary liabilities of the BNB and take the necessary steps for effective management of international currency assets. The Banking Department assumed the functions of creditor of last resort, while supervision of the banking system was assigned to the Banking Supervision Department.

Under the new law, it is in the powers of the Management Board to adopt regulations for the implementation of BNB Law and the Banking Act, to determine the percentage of minimum required reserves maintained by banks, and terms and conditions for their implementation, to adopt the annual budget, annual balance sheet, and report on the bank's activity. The Governing Council of the BNB consists of the Governor and three Deputy Governors (appointed by the National Assembly), and three other members appointed by the president. The governor is in charge of the organization, management and control of the activities of the bank, (except for those activities that are within the exclusive competence of the deputy governors), and representation of the BNB in the country and abroad.

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