

PANDEMIC CRISIS AND CURRENCY BOARD IN BULGARIA

1. Introduction

The pandemic crisis, started as a health crisis and transformed to the economic crisis, had its negative effects not only on the real economy, but also on the financial sector all over the world. The origin of the crisis is different compared to the global financial crisis, but it affected on the behavior of the financial market participants and financial system functioning.

The monetary regime in Bulgaria is currency board, which was introduced in 1997 after the deep financial crisis in the country in 1996/1997. It was the proper monetary regime, which to help the country to cope with the hyperinflation, the strong depreciation of the national currency and the loss of confidence in the institutions and the government. The currency board arrangement is an appropriate regime for small and open economies, having hyperinflation and crisis period [1] such as it was in Bulgaria.

The study focuses on analyses of the stability of the currency board in Bulgaria during the pandemic crisis, caused by the spread of the coronavirus COVID-19. The dynamics of the country's foreign reserves is analysed as the level of the foreign reserves is important for the smooth functioning of the currency board in Bulgaria. The study covers a long-period of time – 2007–2021, aiming to catch the period of the global financial crisis in 2008 and the new pandemic crisis in 2020.

2. The effects of the pandemic crisis on the currency board in Bulgaria

The currency board arrangement introduces a strong monetary rule, under which the monetary base should be covered 100 % by foreign reserves [2, p. 23.]. To increase the monetary base, the central bank must increase the foreign reserves. That is why, the dynamic of foreign reserves is very important for smooth functioning of the currency board in the country.

The foreign reserves in Bulgaria continued to increase in March 2020, when the first coronavirus cases in the country was registered. They rose by 6.9 % m/m in March 2020 and continued to climb to reach BGN 60.3bn in December 2020, stepping up by 7.1 % m/m

(Figure 1). The pandemic crisis did not negatively affect the accumulation of foreign reserves in Bulgaria.

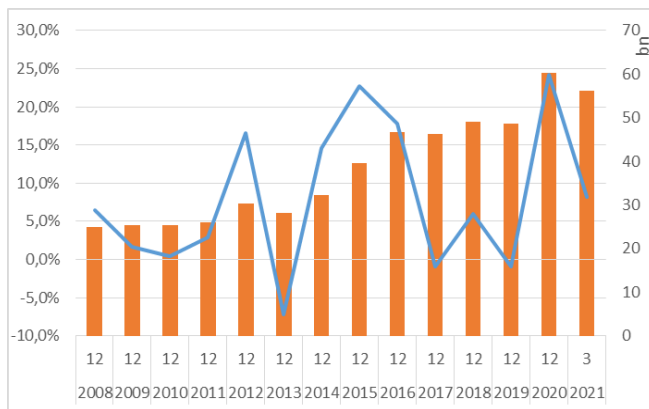


Figure 1 – The dynamic of Bulgarian foreign reserves in the period 2007–2021

Sources: BNB, own calculations.

However, the structure of foreign reserves changed drastically in 2020 (Figure 2). As a reaction of the pandemic crisis the central bank started to increase its cash and foreign currency denominated deposits to maintain higher liquidity [3].

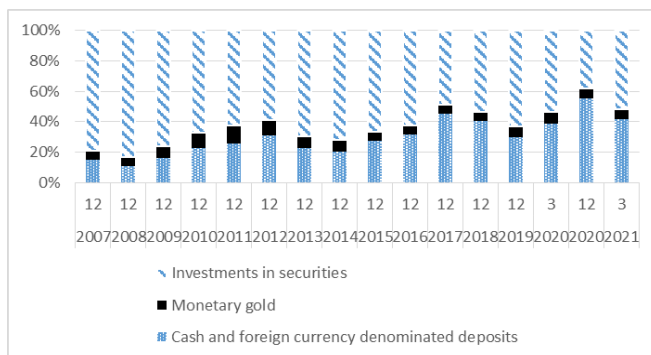


Figure 2 – Structure of foreign reserves in Bulgaria in the period 2007–2021

Sources: BNB, own calculations.

At the same time, the value of monetary gold rose, due to the increase in the price of gold, being one of the best assets for preserving the value of money. The share of securities investments in foreign reserves dropped by 6.3pps m/m to 53.8 % in March 2020, when the pandemic crisis started in Bulgaria.

The stability of currency board was preserved as the coverage of monetary base by foreign reserves was above 100 %. However, there was a tendency the ratio to decrease, especially after the start of the pandemic crisis (Figure 3). This was due to the strong increase in money in circulation as economic agents preferred to keep liquidity in terms of uncertainty. In addition, the banks' reserves, kept at the central bank, rose due to the increase in deposit base and due to the central bank measures, aiming to support the capital base and liquidity of the banking system.

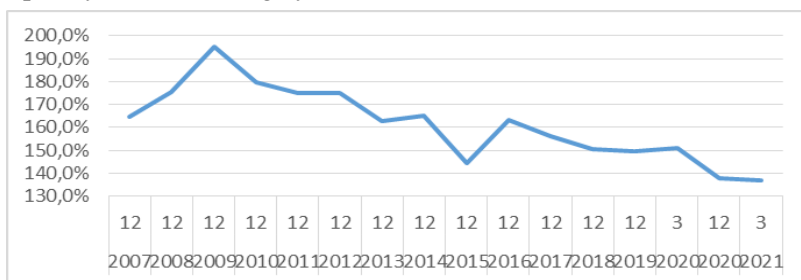


Figure 3 – Foreign reserves to monetary base ratio, %

Source: BNB, Eurostat, NSI.

3. Conclusion

The pandemic crisis negatively affected the economies and the functioning of the financial system too. The Bulgarian currency board remained stable during the pandemic crisis, but the structure of the foreign reserves was changed. Economic agents are cautious in the face of the unclear development of the coronavirus situation and the need for possible restrictive measures against the spread of the virus.

List of References

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ОЦІНКА ПОКАЗНИКІВ БАНКІВСЬКОГО КРЕДИТУВАННЯ В УКРАЇНІ

Ефективність соціально-економічної системи держави значною мірою залежить від того, як забезпечується єдність інтересів банків і позичальників у задоволенні потреб господарюючих суб'єктів у позикових ресурсах. Роль банківських кредитів важко недооцінити, оскільки вони дають змогу корпоративним клієнтам подолати обмеженість власного капіталу, допомагають реалізувати вартісні проекти, сприяють впровадженню нових технологій, чим сприяють розвитку підприємств, зростанню бізнесу, що у підсумку позитивно позначається на економічному зростанні.

Розглянемо концентрацію банківських кредитів та депозитів у валовому внутрішньому продукті (далі – ВВП) (рис. 1).

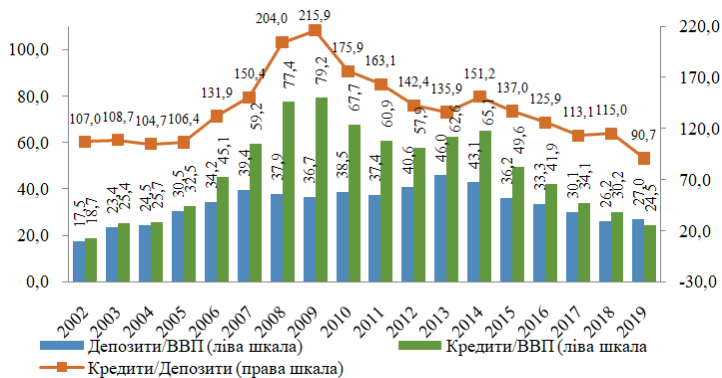


Рисунок 1 – Показники банківського сектора
України у 2002–2019 роках, %