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## *The Experience of Exchange Rate Regimes in Southeastern Europe in a Historical and Comparative Perspective*

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# Bulgaria

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## 1. Major Monetary Events

The Bulgarian National Bank (Balgarska Narodna Banka - BNB) was established 25 January 1879. The coinage system in Bulgaria was legislated for the first time in 1880. This law introduced the national currency – the lev which was equal to the gold franc, and at the same time, the bimetallic standard was ruling similar to the countries of the Latin Monetary Union (BNB, 1929, p. 55). The first Bulgarian silver coins were emitted in 1883, but the BNB stopped emitting silver coins as early as 1894.

The BNB was granted the monopoly to issue banknotes in 1885, to be followed quickly by the first issue of gold-backed bank notes. Since 1891 the BNB was also allowed to issue silver-backed banknotes, a right that was exercised for the first time in 1899. Convertibility into gold was suspended by Law from 13 November 1899 until 24 November 1902. The BNB stopped to convert Bulgarian banknotes into gold *de facto* on 10 October 1912 and, again, *de jure* on 3 January 1919 (BNB, 1929, p. 65).

## 2. Definition of Variables

The pre-defined set of monetary indicators according to the first (Southeast Europe Monetary History Network (SEEMHN) Data Collection Task Force meeting, held

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on 20 of October 2006 at the Bulgarian National Bank, comprises of four key indicators: exchange rates, banknotes in circulation, reserves and discount rate. The first two historical time series report the nominal exchange rate of the Bulgarian lev against the French franc and the British pound, which we were able to trace back to 1890. Relying on the BNB Anniversary Book (1929), the BNB Annual Reports, and the State Gazette as our sources, we report the selling rate of bills of exchange drawn on foreign markets. The reported exchange rates constitute the annual average of the arithmetic average between recorded monthly minimum and maximum values.

The second monetary indicator of interest is “banknotes in circulation”. The Bulgarian lev was established as national currency in 1880. Five years later, in 1885, the BNB was granted the exclusive privilege to issue banknotes, hence no earlier data are available. Although all banknotes in circulation were covered by gold metallic holdings, the BNB actually faced great difficulties in circulating the money due to the lack of credibility in the banknotes, partly as a result of the still strong memory of the failure of the Ottoman banknotes, partly stemming from widespread preferences for silver coins<sup>2</sup>. Banknotes in circulation scored a large increase only in 1899 when the BNB exercised its right to issue silver backed banknotes granted in 1891 (BNB, 1999). After gaining some credibility Bulgarian gold-backed and silver-backed banknotes in circulation recorded very volatile growth reflecting the economic development of the country.

According to the BNB Act of 1885, the BNB adopted the continental European monetary system and Bulgarian gold-backed banknotes in circulation were covered by gold metallic holdings at the ratio of 1/3 and the BNB was obliged to convert them into gold when they were brought to the bank. The cover ratio for silver-backed banknotes was initially the same (1891), but it increased to 50% in 1906. The metallic holdings in fact exceeded the legislated cover ratio throughout the whole pre-WWI period because of the limited amount of banknotes in circulation. The development of reserves was generally determined by the development of the economy and reflects the balance of payments. An amendment of BNB Law in 1911 allowed for gold-backed foreign assets to be included in the legal coverage.

The last key monetary indicator is the discount rate. Since the BNB had mixed functions (those of a commercial bank as well as of a bank of note issue), the reported discount rate is in fact the lending interest rate on short term credit (extended to big commercial enterprises). This interest rate was consistently lower than the rate charged by other credit institutions in the country, hence the BNB as the biggest credit institution determined the interest level (BNB, 1929). Compared

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<sup>2</sup> Ottoman, Romanian, Russian and Serbian silver coins extensively circulated on the Bulgarian territory by 1887 as a result of the high price one can get for them when brought at the BNB. Therefore, people prefer to keep the gold and to use the undervalued silver coins instead of some credit documents (banknotes).

to other countries, the BNB discount rate was relatively high in the first few decades after its establishment suggesting liquidity constraints in the Bulgarian financial system. The discount rates tend to converge, however, at the end of the Classical Gold Standard period.

### 3. Data Sources

The exchange rate data were collected from the BNB Annual Reports, the BNB Anniversary Book (1929) and the exchange rate section of the State Gazette. Data for all other indicators for the pre-WWI period could be found in the BNB Anniversary Book (1929), which summarizes data from the BNB Annual Reports. With respect to major monetary events we drew on the BNB Anniversary Book (1929) and BNB (1999).

#### References

- BNB Annual Report, Sofia (various issues).  
BNB (1929) Jubileen sbornik na BNB (1879–1929) (BNB Anniversary Book (1879–1929), State Printing House, Sofia.  
BNB (1999) 120 Years Bulgarian National Bank, Avramov, R. (ed.), Sofia.  
State Gazette, various issues.

Table 1: Bulgarian Historical Time-Series, 1879–1914

Year	Exchange rates, annual averages□		Monetary base	Currency Reserves:
	BG lev/French franc exchange rate (levs per 1 FF)	BG lev/pound Sterling exchange rate (levs per 1 Sterling )	Banknotes in circulation (in thous. levs)	Gold, silver and foreign exchange reserves end of year values (in thous.levs)
1879				9.425
1880				2.555
1881				2.115
1882				1.414
1883				0.817
1884				1.553
1885			0.213	3.659
1886			0.049	1.498
1887			1.035	2.398
1888			0.183	3.118
1889			0.402	11.505
1890	0.999	25.177	1.957	4.598
1891	1.000	25.168	1.303	7.377
1892	1.001	25.210	0.472	2.948
1893	1.000	25.228	1.231	6.201
1894	1.001	25.223	0.824	10.068
1895	1.001	25.257	1.680	6.400
1896	1.001	25.228	2.397	6.486
1897	1.001	25.202	1.957	8.921
1898	1.001	25.291	3.156	9.183
1899	1.002	25.291	7.985	7.398
1900	1.001	25.326	21.827	13.259
1901	1.006	25.354	26.640	12.519
1902	1.003	25.287	24.549	20.132
1903	1.001	25.188	32.986	12.175
1904	1.001	25.193	40.218	19.722
1905	0.999	25.136	37.194	30.759
1906	1.000	25.169	44.622	38.387
1907	1.003	25.228	49.220	42.331
1908	1.004	25.261	71.487	39.531
1909	1.011	25.460	71.770	47.823
1910	1.006	25.387	81.612	52.801
1911	1.004	25.365	110.789	59.336
1912	1.005	25.376	164.425	68.501
1913	1.035	n.r.	188.742	78.774
1914	1.101	n.r.	226.615	83.644

Note: Column (2): nominal exchange rate of the Bulgarian lev against the French franc (1890–1914).

Exchange rate on bills of exchange, selling rate, annual averages.

Column (3): nominal exchange rate of the Bulgarian lev against the British pound (1890–1914).

Exchange rate on bills of exchange, selling rate, annual average, n.r. = not reported.

Source: Column (2): BNB Annual Reports, BNB (1929) "Jubileen Sbornik na BNB 1879–1929", (BNB Anniversary Book 1879–1929), State Gazette, various issues.

Column (3): BNB Annual Reports, BNB (1929) "Jubileen Sbornik na BNB 1879–1929" (BNB Anniversary Book 1879–1929), State Gazette, various issues.

Column (4): BNB (1929) "Jubileen Sbornik na BNB 1879–1929" (BNB Anniversary Book 1879–1929), State Gazette, BNB, Balance sheets' end of year data.

Columns (5): BNB (1929) "Jubileen Sbornik na BNB 1879–1929" (BNB Anniversary Book 1879–1929).

*Table 2: The BNB's Discount Rate, 1879–1911*

<b>Year</b>	<b>Date</b>	<b>Month</b>	<b>%</b>
1879	26	Jan.	9
1884	26	Jan.	8
1885	1	Nov.	7.5
1887	1	May	8
1889	1	March	9
	1	Nov.	8
1897	1	July	7
1898	15	April	7.5
1898	20	Oct	8
1906	1	Feb.	7
1911	15	May	6

*Note: The BNB's lending interest rate on short-term credit.*

*Source: BNB Annual Reports, BNB (1929) "Jubileen Sbornik na BNB 1879–1929" (BNB Anniversary Book 1879–1929).*