

Dynamics of Bank Transactions of Money and Currency Markets in Bulgaria in Recent Years

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Abstract: Credit institutions are key players in trade with short-term financial instruments in foreign currencies. In the research report are characterized banking transactions conducted on different segments of the monetary and foreign exchange markets in Bulgaria. They were examined changes in volume and structure of bank transactions on these markets in the country in recent years through the use of tools of horizontal and vertical analysis.

Keywords: banking transactions, money market, foreign exchange market

Introduction

Credit institutions in our country conclude various transactions in the monetary and foreign exchange markets. In these markets are traded many short-term financial instruments. Most often these are different commercial paper, treasury bills, repurchase agreements, deposit certificates, currency etc.¹

The research object is banking transactions conducted on different segments of the monetary and foreign exchange markets and **the object of study** are changes in the volume and structure of bank transactions on these markets in the country in recent years through the use of tools of horizontal and vertical analysis.

The aim of the research report is to establish what is the bank's role in the development of the market for short-term financial instruments and foreign currencies in Bulgaria in recent years.

The participation of banks in transactions with trading securities is carried at **discounting** the latter in the credit institution. Key representatives are bill of exchange and promissory notes. In practice discounting is selling the policy of the bank before the date of payment. In this case, the seller of the policy receives the difference between the nominal value and due to the bank's interest rate (discount).

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In terms of discounting bank is comparable to the provision of credit that is repaid at maturity by the payer of the policy. Specific of **discounted deal** is that in its implementation is manifested credit nature of a bill of exchange and trade credit is transformed into a bank. Collateral for it is the policy that must be Pre-examined and possibly availed. If the discount supplying credit commercial bank fell into liquidity difficulties, credit can be re-discounted or to rediscount the policy at the central bank and thus to provide the necessary financial resources.

Discounting bank assume the right to receive the amount of the bill of exchange not only by the direct debtor (payer) but also by all jointly and severally liable persons for its part. These persons are usually the guarantor (avalistat), the publisher and previous endorsers. Therefore the risk of insolvency of the debtor is transferred to other - third parties. Except that, the Bank does not accept for² discounting policies, not acceptances. The bank may require the provision of certain information from the acceptor, from the guarantor and from the issuer to assess their financial situation. If their financial situation is good, bank credit is granted if unstable this loan was not granted.

¹ See as Default: Asenova, M. and others, Financial markets, Publishing „Avangard print“, Rousse, 2008, pp. 33-37.

² See: Art. 1, para. 2 of Ordinance №5 on the terms and conditions for the acquisition, registration, payment and

trading in government securities issued by the Ministry of Finance and BNB prom. SG. 85 of October 23, 2007, effective November 1, 2007

T-bills are short-term securities issued by individual countries, which cover the shortage of funds in the state budget in order to ensure normal functioning of institutions on budget. In our country they are issued by the Ministry of Finance, as their maturity is one year (usually 3 months, 6 months, 9 months and 12 months). These securities, bear to its holder income in the form of a discount from their nominal value and therefore also are called discount government securities.

Generally, treasury bills are **dematerialized government securities**, because they exist in the form of accounting and electronic records in software systems evidencing ownership.² They are sold in the primary market through auctions organized and held by Bulgarian National Bank. Participants are the primary dealers of government securities. These are commercial banks, promoted each year by the Minister of Finance.

A government security trading becomes the secondary market, wherever they are concluded with the following types of **transactions**:³

- purchase and sale of securities;
- transfer of government securities without movement on current accounts with the BNB;
- transfer of government securities with repurchase after a predetermined period (repos) which can be performed both with and without movement on current accounts with the BNB.

Participants in the trading of treasury bonds are commercial banks, investment firms, central depositories of the EU Member States, Bulgarian National Bank, members of the European System of Central Banks, the Ministry of Finance as well as other physical persons and legal entities.

Repos are agreements for transferring securities in exchange for counter loan, in which the seller commits to repurchase them at a specified price on a specified future date. The agreement is repo for those countries which is selling the securities, and reverses repo for that country, which is buying them.⁴

In practice, these transactions are ensured fulfillment of certain financial obligations. The seller of the securities, which respectively is a borrower under repo, may be a natural or legal person and the buyer, which provides loan, is most often a bank or other financial institution.

Interbank Money Market concluded two main types of transactions - deposit lending and repo transactions. Major players are commercial banks and the central bank. Credit institutions assume the role of buyers or sellers of financial resources among themselves to ensure their liquidity and to realize certain income to improve their financial results.

Interbank Money Market's volume of transactions in the country in national currency over the past few years is presented in Figure №1.⁵ The highest value of 86760.8 million leva is reached in 2011, and the lowest value of trading in the Interbank Money market is in 2012 - 46869.4 million leva. There are observed and co-essential changes to the structure of interbank transactions. Higher share in trading occupy deposit transactions are (89.5% in 2009, 72.8% in 2010, 69.7% in 2011, 77.1% in 2012, 69.6 % in 2013 and 64.3% in the last year of the analyzed period), so the tendency is to reduce it. The share of repos increased from 10.5 percent in 2009 to 35.7% in 2014.

³ Ibid, art. 16 para. 1.

⁴ See: §1, ie. 19 of the Additional Provisions of Ordinance №8 on the capital adequacy of credit institutions promulgated. SG. 106 of December 27, 2006

⁵ The data are used by the monthly editions of BNB "Market Review" for the period January to December

2009 - January to December 2014, the official website of the Bulgarian National Bank: <http://www.bnb.bg/FinancialMarkets/FMMarketsReview/FMMonthlyReview/index.htm>

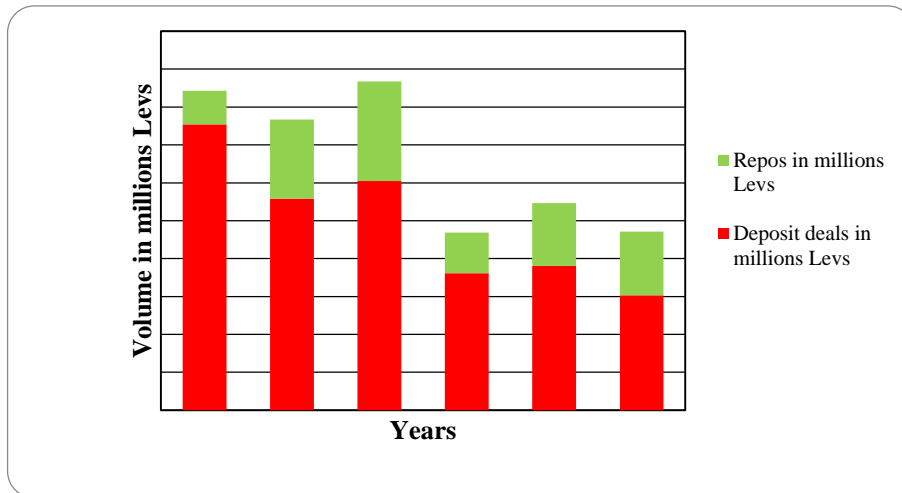


Figure 1. Transactions on the interbank money market in Bulgaria in national currency during the period 2009-2014

Euro money market's deals between banks in the country also noted significant fluctuations in its volumes (see Figure №2). They reach maximum valued at BGN equivalent 111,948.0 million levs in 2011 and minimum volume in 2013, measured in BGN equivalent of 42,320.0 million levs. The structure of the Euro money market's bank in Bulgaria by 2012 predominant share of those

denominated in euros (77.2% in 2009, 78.3% in 2010, 73.3 percent in 2011 and 53.7% in 2012) and in the next two years dominating share of banking transactions conducted in US dollars (72.6% in 2013 and 61.9% in 2014). The share of deposit transactions in currencies other than EUR and USD is negligible (less than 1 % of the total market) as repos in such currencies had not been concluded.

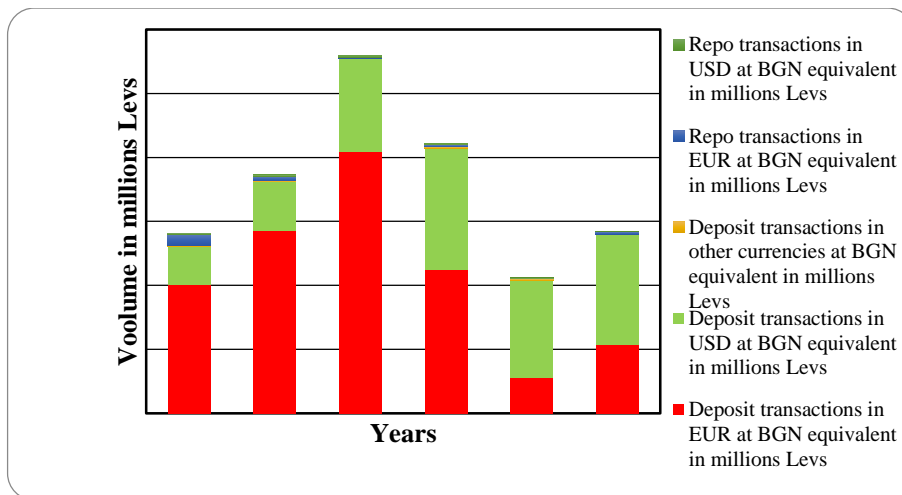


Figure 2. Euromoney transactions on the interbank market in Bulgaria in foreign currency during the period 2009-2014

Table №1 presents detailed information about the place issue treasury bills in Bulgaria over the last seven years through auctions conducted by the Bank.⁶ There is a trend towards permanently lower of their average annual yield, due to the continuous improvement of their average agreed price of 100 levs for each subsequent issue with a specific maturity. In addition, during the second half of the review period the nominal value of the issued treasury bills is significantly higher compared to the beginning of the period and their total amount exceeds 5 billion levs respectively. The coverage ratio, which is calculated as the ratio of the aggregate nominal value admitted to participate in the auction, and the aggregate nominal value proposed for placement amount of treasury bills exceeded the unit, which means that banks acting as primary dealers of government securities show an increasing interest in transactions related to the placement of treasury bills in the primary market.

The volume of transactions with government bonds on the secondary market in the country with the participation of banks in separate quarters in

recent years is presented in Table №2. In 2012, such transactions are not concluded due to the fact that during the year are not issued treasury bills. There is a trend of significant growth in the volume of transactions which from 25 million levs in 2009 reached 21,345.3 million. Levs in 2014 then fell back to 8172.2 million levs in the last year of the review period.

Banks are major players and the foreign exchange market. It dealt purchase of foreign currency. In our country there are three segments of the market:

- trade between BNB and commercial banks;
- interbank foreign exchange market (without BNB);
- trading of commercial banks and BNB with their end customers.

On the other hand the foreign exchange market in the country with mediation of banks concluded spot foreign exchange transactions.

Table 1: Place the issue treasury bills in Bulgaria, 2009-2015

Issue №	Data of issue	Maturity date	Term	Currency	Average annual yield	Average price approved	Coverage ratio	Nominal value
BG3010009002	11.03.2009	11.06.2009	3 m.	BGN	4,70%	98,85	1,20	15000000
BG3010109000	10.06.2009	10.09.2009	3 m.	BGN	4,57%	98,88	1,01	15000000
BG3010209008	09.09.2009	09.12.2009	3 m.	BGN	3,65%	99,11	1,56	15000000
BG3010010000	15.09.2010	15.09.2011	12 m.	BGN	2,84%	97,24	3,80	35000000
BG3010110008	08.12.2010	08.12.2011	12 m.	BGN	2,39%	97,55	4,46	35000000
BG3010011008	12.01.2011	12.07.2011	6 m.	BGN	1,38%	99,31	3,36	25000000
BG3010111006	09.02.2011	09.05.2011	3 m.	BGN	0,85%	99,79	2,90	15000000
BG3010311002	11.05.2011	11.11.2011	6 m.	BGN	1,38%	99,30	2,42	25000000
BG3010013004	22.02.2013	22.08.2013	6 m.	BGN	1,00%	99,50	1,45	80000000
BG3010113002	04.09.2013	04.09.2014	12 m.	BGN	0,60%	99,40	3,53	30000000
BG3010014002	08.01.2014	08.07.2014	6 m.	BGN	0,60%	99,70	2,03	40000000
BG3010114000	29.01.2014	29.10.2014	9 m.	BGN	0,58%	99,56	2,11	40000000
BG3010214008	05.02.2014	05.05.2014	3 m.	BGN	0,45%	99,89	1,53	40000000
BG3010314006	30.06.2014	30.11.2014	5 m.	BGN	1,95%	99,18	1,01	1228560000
BG3010414004	10.09.2014	10.09.2015	12 m.	BGN	0,78%	99,22	2,31	30000000
BG3010514001	03.12.2014	03.12.2015	12 m.	EUR	0,84%	99,16	3,07	40000000
BG3010614009	05.12.2014	05.09.2015	9 m.	EUR	0,61%	99,54	2,15	40000000
BG3010015009	21.01.2015	21.07.2015	6 m.	BGN	0,32%	99,84	2,99	20000000
							Total :	5008560000

⁶Data are published on the official website of the Ministry of Finance of Bulgaria: www.minfin.bg

Table 2: Volumes of transactions with government bonds on the secondary market in Bulgaria

over, 2009-2015 (in million. levs)⁷

Years	2009	2010	2011	2012	2013	2014	2015
I quarter	14,5	0,0	973,9	0,0	466,6	2825,7	1277,0
II quarter	7,3	0,0	1706,2	0,0	2684,2	2821,8	3136,6
III quarter	3,2	35,1	2385,8	0,0	2944,9	6057,0	2856,8
IV quarter	0,0	1131,3	630,5	0,0	1260,0	9640,8	901,8
Total for year :	25,0	1166,4	5696,4	0,0	7355,7	21345,3	8172,2

In spot transactions currencies exchange counterpart, subject to trading, are carried out within two working days after the deal, at the market exchange rate to the moment of its negotiation. The value date of the transaction can be the same day (today), after one day (tomorrow) or within two business days (spot).

In Table №3 are reflected volumes of spot foreign currency transactions in Bulgaria in recent years.⁸ It is apparent by the shown data, that there is a sharp decline in their volume in 2010 compared to the previous, which is entirely due to the decline of the currency trading between BNB and banks occurred as a result of a decrease in economic

activity in the country. Over the next two years we've seen significant growth trend of exchange transactions in all three market's segments, in 2014 spot transactions between BNB and commercial banks decreased by almost half compared to their peak level marked in 2012.

However, the value of spot transactions between banks and BNB with their end customers increased continuously.

The major foreign currencies traded in the currency market at home against levs are US Dollar (USD) and euro (EUR). The share of other currencies - mainly British pound (GBP) and Swiss franc (CHF), is negligible.

Table 3: Volumes of spot foreign currency transactions in Bulgaria in the period 2009-2014 (in million. Euro)

Years	Spot transactions between the BNB and the other banks		Spot transactions between the other banks		Spot transactions of banks and BNB to their final customers	
	Bought currency	Sold currency	Bought currency	Sold currency	Bought currency	Sold currency
2009	113668,3	114514,6	914,5	914,5	20420,9	20595,1
2010	78044,6	77928,1	1434,0	1434,0	20787,5	20281,0
2011	95893,4	96098,2	1608,6	1608,6	24037,5	22583,9
2012	147923,3	148190,4	2318,3	2318,3	25304,5	24094,6
2013	121410,3	123158,5	2005,7	2005,7	25981,1	26082,2
2014	73179,0	75670,1	3052,0	3052,0	26919,1	26837,3

⁷ Data were used from the quarterly editions of BNB "Market of government securities" for the period January to March 2009 - October to December 2015, the website of the Bulgarian National Bank: <http://www.bnb.bg/ResearchAndPublications/PubPeriodical/PubPGSMarket/index.htm>

⁸ See: <http://www.bnb.bg/FinancialMarkets/FMMarketsReview/FMMonthlyReview/index.htm>

Table 4: Relative shares of foreign currencies traded on the interbank foreign exchange market in Bulgaria in the period 2009-2014 (in %)

Years	EUR	USD	others
2009	82,0%	16,0%	2,0%
2010	90,0%	9,0%	1,0%
2011	92,7%	6,0%	1,3%
2012	96,1%	3,4%	0,5%
2013	93,4%	6,3%	0,3%
2014	83,0%	16,7%	0,3%

Source: BNB

The following table №4 shows the dynamics of the shares traded currencies in Bulgarian interbank currency market (without BNB) during the period 2009-2014. From that table it is clear that the interest of banks to foreign exchange transactions in the single European currency is greatest, and from 82.0% at the beginning of the analyzed period, their share reached 96.1 % in 2012. After that he again declined to 83.0% in 2014. The share of transactions in US dollars decreased significantly from 16.0% in 2009 to 3.4% in 2012, then again began to grow, reaching 16.7% in 2014. The share of the other traded currencies dropped by 2.0% in the beginning to just 0.3% at the end of studied period.

Conclusion

Finally we can make the following conclusions and generalizations. To the Bulgarian Interbank Money Market in recent years dominated the share of unsecured deposit lending in national currency to this repo transactions. In the structure of the Euro money market bank transactions in foreign currency in Bulgaria at the end of the analyzed period began to dominate the share of deposit transactions conducted in US dollars. There is a

trend of significant growth in the volume of transactions in government bonds concluded with the participation of banks. On the currency market, the volume of spot transactions between commercial banks and between them and the National Bank with their ultimate customers increased continuously. Major currencies targeted by the interest of the currency trading banks in the country are the euro and the dollar.

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