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**HOUSEHOLDS AND FINANCIAL FLOWS
IN THE BULGARIAN ECONOMY**

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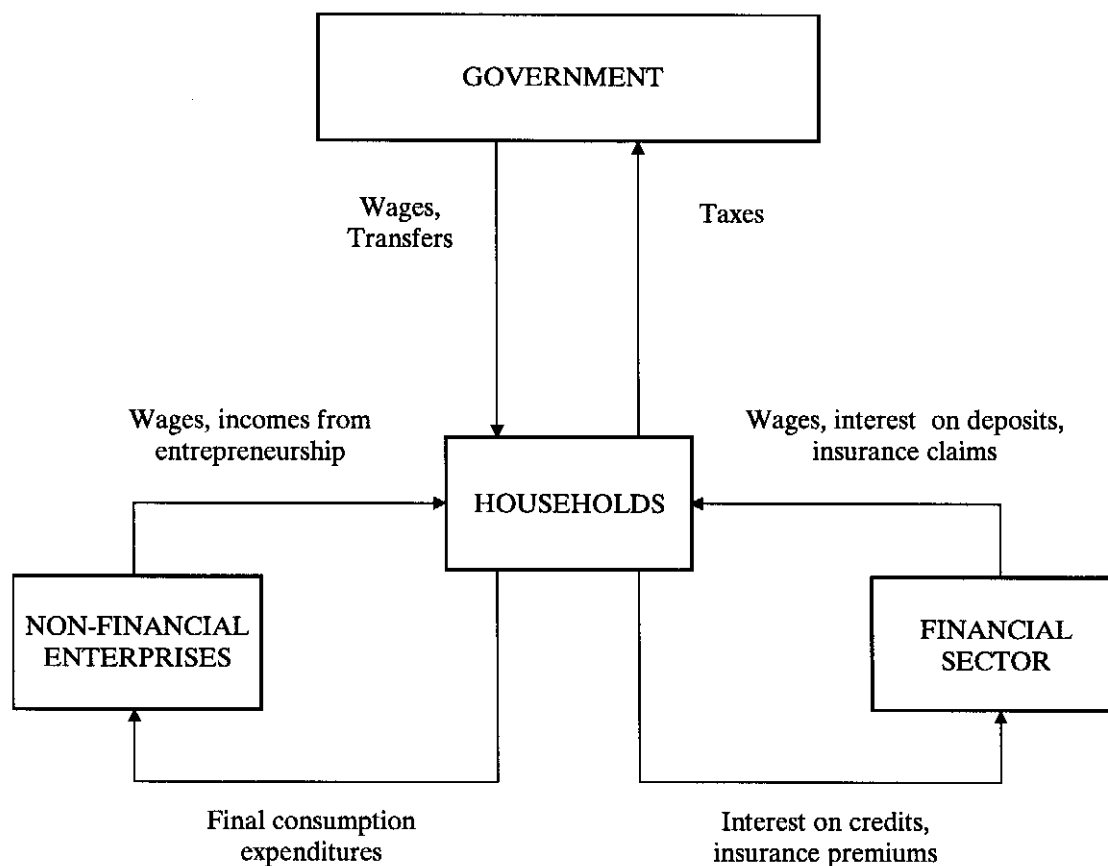
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1. THE HOUSEHOLD SECTOR IN THE SYSTEM OF NATIONAL ACCOUNTS

The System of National Accounts (SNA) provides comprehensive and detailed information on the material and financial flows between economic agents, realizing their interrelations. The current accounts¹ indicate the production of goods and services, income generation in the production process, income distribution and redistribution among institutional sectors, and channelling to consumption or saving. The accumulation accounts² register the acquisition of financial and non-financial assets and the incurring of financial liabilities.

FINANCIAL FLOWS FROM/IN THE HOUSEHOLD SECTOR



¹ These include the „Production Account“ and „Distribution and Use of Income Accounts“ (in 1993 SNA).

² These include the „Capital Account“, „Financial Account“ and „Other Changes in Assets Account“ (in 1993 SNA).

A complete SNA for Bulgaria that consistently presents the flows in the economy is still lacking. Hence detailed accounts for the household sector are not available as well. Statistical data on current financial flows in the household sector are limited in scope and based on estimates mostly. The main drawback stems from the incomplete coverage of incomes in the private sector. NSI strictly observes the state enterprises, most of which are loss-making. At the same time, the scope of private economic activity and the incomes it generates remain rather ambiguous, thus underrating household incomes.

Here follows an attempt at analyzing financial flows to and out of the household sector and the financial relations of the sector to the other institutional sectors. Data available from NSI on household money incomes and expenditures, and from BNB on household savings were used to conceive the budget constraint on the household sector. It can be presented as follows:

$$Y - (T + I) - C = S \quad (1)$$

$$S = K + NL \quad (2)$$

$$NL = dD + dCU - dL, \quad (3)$$

where:

Y - household incomes;

T - tax and non-tax payments;

I - payments to the financial sector;

C - household consumption;

S - saving;

K - expenditures for acquiring long-term tangible assets (investment expenditures);

NL - net lending

dD - change in household deposits;

dL - change in net household loans (net of amortizations);

dCU - change in currency in circulation.

Identity (1) defines savings as a surplus of current incomes over consumption, tax and interest payments. Since the emphasis falls on the financial flows in the economy, disposable income is reduced to household money incomes. The latter include wage incomes and entrepreneurial incomes, budget transfers to households (pensions, social benefits, student grants), interest incomes from deposits etc. By deducting tax and non-tax household payments as well as payments to the financial system, disposable income is obtained which is used for household consumption and saving. Identity (1) reveals the relations between households on one hand, and non-financial enterprises, government budget and the banking system on the other.

Identity (2) indicates that household saving finances household investment expenditures³. The residual after deducting real household investment from household saving represents **net lending**. This item indicates the potential of households for financing the economy. Its amount is equal to the difference between the increase in household deposits and currency in circulation (which is treated as identical to cash money in circulation) on one hand, and the change in net household loans on the other. Identity (3) reflects this interrelation. Accumulation accounts (identities (2) and (3) reflect the relation of households with the banking sector mostly, since household savings in Bulgaria are mainly in the form of bank deposits.

Since banking data on savings are more comprehensive and reliable than incomes statistics (due to the above-mentioned drawbacks) disposable income is assessed as a sum of saving and consumption, from which household money income is derived. Consumption is equal to overall expenditures on goods and services (in the household money incomes and expenditures balance). It amounts to about 90% of the „Final Consumption Expenditures of Households“ indicator, pub-

³ Household investment expenditures include housing and other real estate purchases.

lished by the NSI as a component of GDP and hence reflects quite accurately the dynamics of aggregate household consumption. Thus the resultant household incomes differ slightly (less than 1% on average) from the NSI data on household money incomes for the 1980s. This gives grounds to assume that the chosen approach draws a relatively adequate picture of household incomes.

The results obtained for 1991-1993 are shown in Appendix 1. They certainly lack the comprehensiveness achieved with detailed household accounts within the framework of a complete SNA and can by no means be a substitute for them.□

2. RELATIONS BETWEEN HOUSEHOLDS AND NON-FINANCIAL ENTERPRISES

The basic financial flows between these two sectors are:

- in relation to household income formation: wages of employed in the state-owned and private sector, incomes from entrepreneurship;

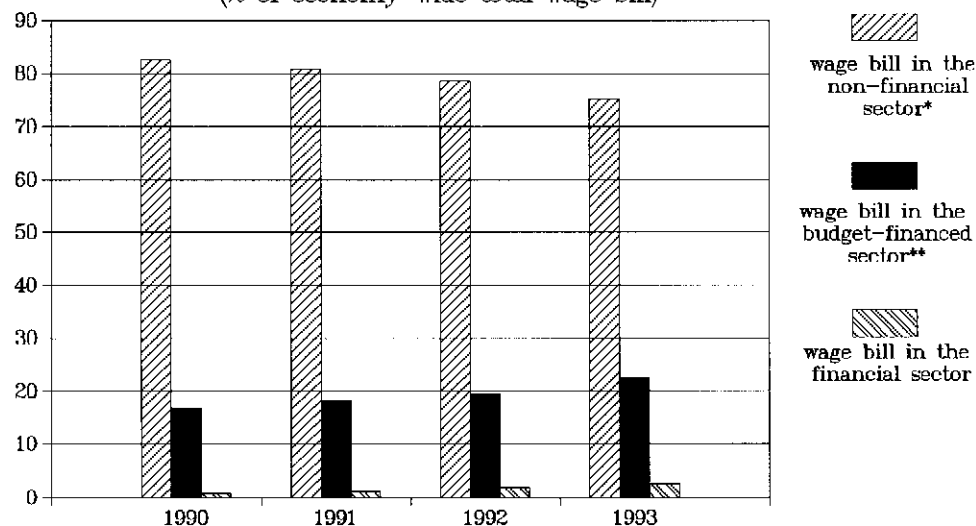
- in relation to income utilization: household money expenditures for final consumption.

The non-financial enterprise sector (state-owned and private) has been a main source of household incomes. In the 1980s practically all wage incomes were generated in the state sector, forming some 57% of household money incomes. In the last three years wage incomes in the state sector accounted for less than half of household money incomes. Despite the gradual expansion of the private sector, the major part of wage incomes is still generated in the state enterprise sector.

Figure 1

Total Wage Bill by Sectors of the Economy

(% of economy-wide total wage bill)



* Includes: Industry; Construction; Agriculture and Forestry; Transport Communication; Trade; Housing and Community services, Others

** Includes: Science; Education; Culture and Art; Health Care Administration.

Source: NSI

In the 1980s **state-owned non-financial enterprises**⁴ formed 85% of the wage bill in the state sector. Since 1990, the financial flow from them to the household sector has been decreasing as a result of large-scale layoffs in these enterprises. Employment has been declining much more rapidly in the state non-financial sector than in the budget-financed and financial sectors. As a result, the non-financial sector's share in employment fell from an average of 84% in the 1980s to 73.5% in 1993, while the share of state-owned non-financial enterprises in the total state sector wage bill amounted to 75% in 1993 (figure 1.). The sharp real drop in income from the state enterprises was the major reason for the overall decline of real incomes during the last years (because of its large share in total incomes). In the 1980's their share in total income amounted to 47% on average, falling to about 30% in 1992 and 1993.

Since social security contributions (35% of wages mostly) and unemployment insurance (7% of wages) in Bulgaria are paid entirely by employers, they do not affect household financial flows directly.

Despite the declining share of wages from non-financial state-owned enterprises in household money incomes, from the viewpoint of the enterprises this financial flow contributed to their decapitalization in the last two years. This has reflected in the growing share of wages in the value-added generated in the non-financial sector - from 31.7% in 1991 up to 62.2% in 1993.

In the Industry the gross rate of return turned negative in 1992 and 1993 (-4.6 and -11.1% respectively). At the same time, the share of wage expenditures in industry increased from 8.2% in 1991 to 13.9% in 1993. In 1992 and 1993 the growth in wage expenditures outstripped the growth in producer prices in industry (by 20 and 12 percentage points

⁴ They belong to the following sub-sectors: Industry, Construction, Agriculture and Forestry, Transportation, Communications, Trade, Housing and Community Services, and Others.

respectively). Therefore, in the last two years wage expenditures in the state-owned industrial enterprises pushed profits down.

Disposable income is mostly spent on **final consumption**. Final consumption accounted for 90% of the disposable money income of households during the 1980's, but declined in the last three years reaching about 70%. In 1991 and 1992 final consumption expenditures were falling at a faster rate than GDP. Hence the declining importance of households as the major consumer in the economy in the stabilization years.

In relation to financial relations in the economy, final consumption expenditures are financial flows from households to the retail trade and services sector. Due to the comparatively faster growth of service prices in the last few years, expenditures on goods exceeded those on services only 3-fold, while in 1980-1990 the difference was 6-fold.

Expenditures on goods have been redirected to private retail sellers. Practically negligible in the 1980's, private retail trade in 1993 already accounted for 57% of total retail trade.□

3. RELATIONS BETWEEN HOUSEHOLDS AND THE STATE BUDGET

Incomes from the state budget are recorded in the household current account and include wages, pensions, student grants and social benefits. The financial flow from the budget to households accounted for about 29% of household incomes and 47.6% of state budget current expenditures in 1993.

Wage incomes in the budget-financed sector⁵ amounted to an average of 15% of the total wage bill in the 1980s, and employment - to 16% of total state sector employment. After the transition to wage bargaining at the end of 1991, wages in the budget-financed sector lagged far behind the average wage, the difference reaching 26% in March 1993. The subsequent introduction of wage indexation in the period April-December 1993 improved wages relatively, and on average they reached 86% of the average wage in 1993. Employment in the sector declined on a much smaller scale compared to the non-financial state-owned firms, hence the sector's share in the total wage bill rose to 23% in 1993 (figure 1), and to 25% in total employment. Within the state budget current expenditures, the share of wage expenditures grew from 9.4% in 1990 to 14.1% in 1993.

Transfers from the state budget to households include pensions, social benefits and student grants, accounting for an average of 18% of household money incomes in 1980s and about 20% in the early 1990s. The main item in the transfers - pensions - accounts for about 13% of household incomes, sustaining its late 1980s share in 1990-1992. This has resulted from the rapid growth in the number of pensioners⁶

⁵ It includes the following sub-sectors: *Research and Development, Culture and Art, Education, Health Care and Public Administration.*

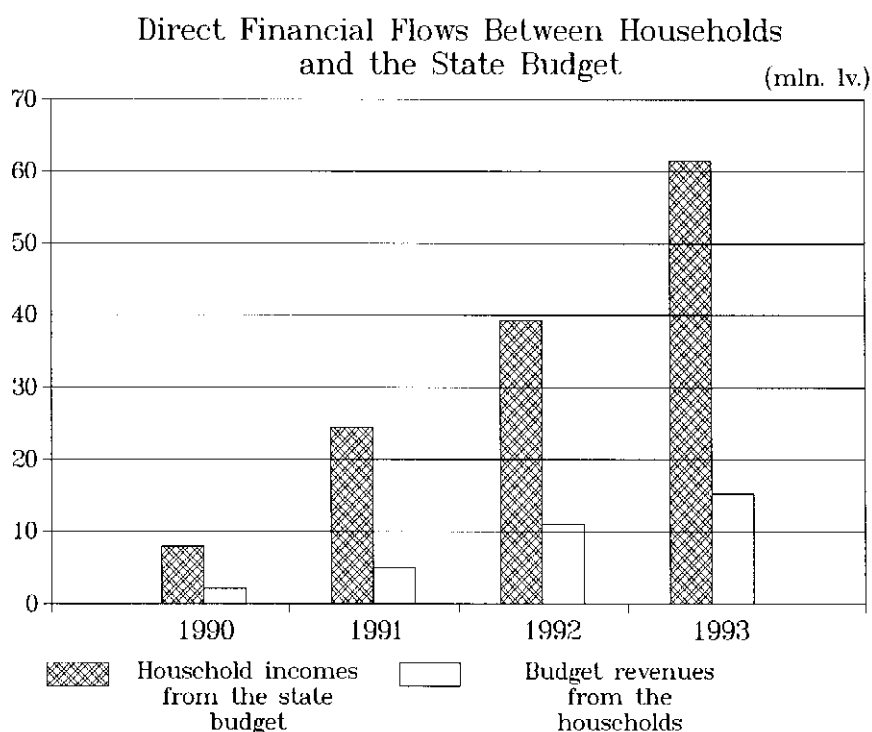
⁶ *The number of pensioners has been rapidly catching up with the number of employed. The number of employed exceeded the number of pensioners by 85% in 1989, whereas in 1992 the difference fell to 34% (the number of employed in the state and cooperative sectors, which are the main sources of social security contributions, exceeded the number of pensioners by a mere 9%).*

and the significant relative decline in the average pension. However, the burden of pensions on the state budget has been growing: their share in current expenditures increased from 15.6% in 1990 to 24.2% in 1992.

The higher degree of pensions adjustment for inflation in 1993 increased their purchasing power, while their share in household money incomes exceeded 15%. Budget expenditures on pensions in 1993 reached 25.4%.

Direct taxes and fees are a sizable item on the expenditure side of the household current account that reduces disposable income (which households use for consumption and saving). They are a direct financial flow⁷ accounting for 9% and 15.2% of the current revenues in the consolidated government budget in 1990 and 1993 respectively. Social security contributions (which finance pensions and social payments) included, the respective figures amount to 30% and 38.4%.

Figure 2



Source: MF, AECD

⁷ Indirect taxes are included in the price of goods and services purchased by households and form another (indirect) financial flow from households to the budget.

Incomes tax is by far the most important tax paid by households. Although the effective tax rate on the average wage was raised in 1991, disposable income grew at a faster rate (in nominal terms) than money incomes because of the relatively higher growth of some non-taxable incomes (e.g. interest incomes) compared to the nominal growth of the total wage bill.

The net direct financial flow between the two sectors is directed to households: government budget transfers to households exceeded its revenues from households 3.8 times in 1990, and 4 times in 1993.

Due to the rudimentary state of the government securities market and the lack of data on securities purchases by households, the household accumulation accounts in Appendix 1 does not indicate direct financial flows between the government budget and households⁸. □

⁸ Since the turn of 1994 BNB has been giving regular information on the overall amount of government securities purchased by firms and private citizens in its monthly bulletin „Government Debt and Securities“.

4. RELATIONS BETWEEN HOUSEHOLDS AND THE FINANCIAL SECTOR

4.1. Interest

Interest on household deposits is the main current financial flow between households and the banking sector. Interest on credits drawn by households, insurance claims and premiums, are relatively small and insignificantly affect the generation and distribution of household incomes. Despite their growing relative share, wage incomes in the banking sector are negligible - some 2% of the total wage bill in the state sector in 1993 (figure 1), and 1% of household money incomes. Therefore, this financial flow is of no great importance to the overall system of financial flows in the economy.

Table 1

Year	Share of interest in the disposable money income	Year	Share of interest in the disposable money income
1981	0.8%	1988	1.0%
1982	0.8%	1989	0.9%
1983	0.9%	1990	0.9%
1984	0.9%	1991	14.4%
1985	0.9%	1992	15.7%
1986	1.0%	1993	13.5%
1987	1.0%		

In recent years **interest incomes** have become one of the major sources of household incomes. Due to the token level of the interest rate,

they did not exert any tangible impact on the overall incomes level until 1991. They accounted for less than 1% of household incomes. In 1991 the sharp rise in the interest rate increased in real-term interest on household deposits more than 13-fold. Thus, interests emerged as an important incomes source, partially offsetting the decline in the other income types in the first stabilization year. Since then interests have been forming about 15% of disposable household money incomes.

Interest on credits is a direct financial outflow from the household sector. Similar to taxes, it reduces the amount of disposable income. The sharp nominal rise of interest rates was followed by a rapid repayment of old loans in early 1991. Higher interest rates deterred the drawing of new loans, and the steady decline in household liabilities to the banking system did not allow interests on loans from the banking sector to turn into a sizable household expenditure item.

4.2. Saving

Saving is an item recorded in both the household current and capital accounts and provides a link between the two. On one hand (in the current account), this flow stems from the exceeding of household disposable income over final consumption expenditures. On the other (in the capital account), saving is equal to household investment expenditures plus the growth in household net financial assets (financial assets less financial liabilities).

In the stabilization period there was a steady withdrawal of households from investment activity. In 1980-1990 an average of 31% of household saving were spent on household investment. In 1991 and 1992 their share in saving reached its minimum - less than 3%.

The sharp decline in household investments shifted the household saving balance in favour of **net lending**. In this way households' the contribution in financing the other institutional sectors expanded.

Due to the rudimentary financial market in Bulgaria, **household financial assets** are by and large confined to their bank accounts (in leva and foreign currency) and currency in circulation. The structure of household financial assets underwent substantial changes in the stabilization years.

Table 2

STRUCTURE OF HOUSEHOLD FINANCIAL ASSETS (%)									
Year	1985	1986	1987	1988	1989	1990	1991	1992	1993
Deposits	86.6	84.0	82.4	81.1	78.0	75.9	78.4	81.2	84.1
- in lv.	85.0	82.5	80.8	79.6	76.3	71.8	63.2	70.5	74.0
- in conv. currency	1.6	1.5	1.6	1.6	1.7	4.1	15.2	10.7	10.2
Cash	13.4	16.0	17.6	18.9	22.0	24.1	21.6	18.8	15.9

Money in circulation accounted for 24% of household financial assets in 1990 and for only 16% in 1993. Given the rampant inflation which rapidly erodes the purchasing power of cash money, it is natural for households to avoid holding cash, instead investing in bank deposits, only instrument offering partial protection against inflation.

In 1990 the ratio of leva to foreign currency deposits of households was 95:5. Since February 1991 the share of foreign currency deposits grew rapidly due to the strong devaluation of the BGL and the liberalized currency regime - the share of foreign currency deposits in household financial assets grew from 4% in 1990 to 15% in 1991. In 1992 and 1993 this share fell. Given the relatively low BGL „depreciation“,

leva deposits proved quite more profitable than foreign currency deposits. However, foreign currency deposits in dollar terms decreased in 1991, and then increased in absolute terms despite their falling share.

The sharp depreciation of BGL in early 1994 and the currency substitution (in March 1994 foreign currency deposits in dollar terms grew by 14.5% relative to December 1993) raised the share of foreign currency deposits again: in March 1994 they accounted for 19% of household financial assets.

The growth in the net lending potential of households has been due to the rise in their financial assets, as well as to the drop in their **financial liabilities**. After the mass amortization of household bank loans in early 1991, the amount of household loans went on falling. As a result, households' leva assets largely exceeded their liabilities to the banking system. This boosted the role of households as the main lender to the banking system. The share of net leva assets of households amounted to 41.2% of leva credit resources in December 1990, gradually rising to reach 60.9% in December 1993. Thus households are still net lenders in the Bulgarian economy despite the large real drop in their incomes.□

5. HOUSEHOLD SAVING RATE

5.1. Gross and net saving rates of households

For the purposes of the analysis saving is divided into gross and net. Gross saving equals the growth in household leva and foreign currency deposits, the growth in currency in circulation and household investment expenditures. Net household saving is the difference between gross saving and the change in household net loans (loans drawn less loans repaid).

Using this differentiation, the gross and net household saving rates have been calculated (as a percentage of disposable money incomes).

Table 3

Year	HGSR	HNSR
1981	10.3%	9.4%
1982	11.2%	10.0%
1983	11.8%	10.4%
1984	10.9%	8.8%
1985	12.4%	10.0%
1986	10.8%	9.2%
1987	11.5%	9.5%
1988	13.7%	11.8%
1989	12.2%	10.4%
1990	16.4%	10.3%
1991	29.7%	31.6%
1992	31.2%	31.6%
1993	31.0%	31.2%

where:

Household gross saving rate (HGSR) = gross saving/disposable money income

Household net saving rate (HNSR) = net saving/disposable money income.

In the 1980s the net saving rate lagged behind the gross one because of the increasing credit outstanding to households in that period. The difference between the two rates was most pronounced in 1990 - the last pre-reform year - when household loans rapidly increased. As shown in Table 3, the propensity to save rose sharply in 1991 (by about 15 percentage points and about 20 percentage points for the gross and net rate respectively). In the next two years it steadied at about 30% of the disposable income. At the same time, the net saving rate exceeded the gross one as a result of declining household loans in recent years.

5.2. Reasons for the overestimation of the household saving rate

Three purely technical reasons for overestimation of the saving rate can be singled out:

1. The significance of **incomes in kind** grows in years of economic instability. Their exclusion from household disposable income results in a certain overestimation of household propensity to save. The recording of all the increase in **currency in circulation** as household assets has the same effect (the firms also retain part of this currency). While the first shortcoming can be avoided (which would lower the gross and net saving rates to 24% and 25.5% in 1991 and to 26.8% and 27.1% in 1992), the second one cannot be corrected for lack of data.

2. The large share of **interest** both in the disposable income and

in household deposits results in an overestimation of the household saving rate (particularly evident in periods of high inflation when interest is high and has a sizable weight in household saving). In this case, the high saving rate stems directly from high nominal interests.

Table 4

Year	HGSR a	HNSRa	HGSRa-dep	HNSRa-dep	Share of interest in the growth of deposits
1981	9.6%	8.7%	4.2%	3.3%	16.7%
1982	10.5%	9.2%	5.5%	4.2%	13.5%
1983	11.0%	9.6%	6.1%	4.7%	12.7%
1984	10.0%	7.9%	4.8%	2.7%	16.8%
1985	11.6%	9.1%	12.1%	9.6%	7.0%
1986	10.0%	8.3%	3.2%	1.5%	23.4%
1987	10.7%	8.7%	4.5%	2.5%	17.8%
1988	12.9%	10.9%	6.5%	4.5%	13.0%
1989	11.3%	9.6%	3.0%	1.3%	23.7%
1990	15.6%	9.5%	4.3%	-1.8%	17.0%
1991	17.8%	20.1%	10.6%	12.9%	61.5%
1992	18.4%	18.9%	12.6%	13.0%	59.6%
1993	20.3%	20.4%	15.7%	15.9%	49.7%

where:

$HGSRa = (\text{gross saving minus interest on deposits}) / (\text{disposable money income minus interest on deposits})$

$HNSRa = (\text{net saving minus interest on deposits}) / (\text{disposable money income minus interest on deposits})$

$HGSRa\text{-dep.} = (\text{growth in deposits minus interest on deposits}) / (\text{disposable money income minus interest on deposits})$

$HNSRa\text{-dep.} = (\text{growth in deposits minus interest on deposits minus loans}) / (\text{disposable money income minus interest on deposits})$

Deducting interest from both incomes and saving, the gross saving rate in 1991-1993 amounted to 18-20% and net saving rate - about 20% (table 4). This indicates that, compared to an average rate of 10% in the 1980s, households saved 18-20% of their disposable income (interest incomes excluded) in 1991 and 1992 despite its large real drop in recent years. Therefore, even after deducting interest, the saving rate has been growing since 1991 (most conspicuous with respect to the net saving rate).

Interest is earned only on part of household savings, i.e. on bank deposits. The comparison between the amount of interest and the growth in household deposits indicates that in recent years interest has been accounting for 50-60% of the growth (compared to an average of about 16% in the 1980s). Households deposited an average of 5% of household current non-interest incomes in 1980-1990, while in 1991 the amount went over 10% and has been growing since (table 4). This indicates an attempt at maintaining the real value of deposits in spite of the drop in real household incomes.

3. Similar to the impact of interest on the saving rate, **the exchange rate** also leads to its overestimation by including the growth in foreign exchange deposits in household saving (hence the impact of the exchange rate on household incomes). The strong devaluation of the national currency in 1991 resulted in their large increase in leva terms despite their slight fall in dollar terms. This leads to the so-called nominal holding gain - the value of benefit accruing to the owner of that assets due to the change in the exchange rate⁹.

⁹ In the 1993 SNA this item is included in the „Other Changes in Assets Account“. In turn, the nominal holding gain can be divided into neutral holding gain and real holding gain, the amount of which depends on the change in the price of the financial asset relative to the change in the overall level of commodity and service prices in the country.

The offset impact of BGL depreciation does not invalidate the conclusion about the growing rate of household saving in the stabilization period. After offsetting the impact of the exchange rate on the saving rate, in 1992 and 1993 the gross rate of saving amounted to some 30% as well. A larger discrepancy was registered in 1991 - the year of liberalizing the exchange rate - when the saving rate was 6 percentage points below that shown on Table 3 (i.e. 23% and 25.5% for the gross and net saving rate respectively).

The simultaneous offsetting of the impact of interest and the exchange rate on the household saving rate results in a net saving rate of 17.4% and 17.8% for 1992 and 1993 respectively, as compared to 6.7% in 1990. This indicates that high interest rates and the BGL depreciation may only partially account for the growing propensity to save; actually, its growth has resulted mostly from the change in household behaviour.

5.3. Impact of inflation on household saving rate

The price liberalization in 1991 and the ongoing inflationary process largely account for the increase in the household saving rate in recent years. High inflation affects the household propensity to save mainly in two ways:

1) It generates high social insecurity. The growth in unemployment and expenditures on health care and education as well as the weakened social protection of households, paralleled by uncertainty as to the future level of incomes within an inflationary environment result in reduced current consumption and increased saving in order to secure future consumption. This raises the saving rate in spite of the negative real interest rate.

2) It generates high financial insecurity. High inflation rapidly erodes the real value of financial assets. In an inflationary environment

households try to compensate for the lost real value of their deposits by new saving. As shown on Table 5, the 1991 price shock was followed in 1992 and 1993 by a real growth in household net financial assets.

Table 5

Year	NOMINAL GROWTH OF FINANCIAL ASSETS		REAL GROWTH OF FINANCIAL ASSETS	
	GROSS	NET	GROSS	NET
1986	7.6%	7.4%	4.0%	3.8%
1987	7.9%	7.5%	7.8%	7.3%
1988	9.8%	9.9%	8.5%	8.7%
1989	8.4%	8.5%	2.9%	3.0%
1990	9.0%	4.2%	-12.0%	-15.8%
1991	84.8%	116.5%	-57.9%	-50.6%
1992	77.5%	86.2%	-1.1%	3.8%
1993	62.9%	66.2%	4.4%	6.4%

From December 1990 till December 1993 household leva deposits in the banking system dropped by 66% in real terms. Save for the price shock period, these deposits grew by 36.5% in real terms from April 1991 till the end of 1993. The cumulative real interest rate amounted to -26% over the same period, viz. interest provides just a partial protection of deposits against inflation. The negative real interest rate on deposits is a form of taxing household deposits. In this case the real growth in leva deposits has been due to the positive balance of amounts put in over amounts drawn out of household deposits over the same period.

Nominal interest rates on credits exceed inflation, thus discouraging households from purchasing durable goods on credit. Instead, they prefer to draw on their savings, which adds to their increased propensity to save. □

6. HOUSEHOLD SAVING IN A MACROECONOMIC CONTEXT

An aggregate measure of the increased propensity of households to save is the ratio of household saving to GDP. In the 1980s net saving amounted to an average of 5.1% of GDP. In recent years the growth in saving far exceeded the nominal GDP rise, reaching 22% of GDP in 1992-1993.

Table 6

Year	Net saving of households/ GDP	Net saving of households/ net investment
1980	3.6%	25.0%
1981	5.0%	34.8%
1982	5.3%	36.8%
1983	5.6%	42.1%
1984	4.5%	38.4%
1985	5.3%	41.5%
1986	4.8%	36.8%
1987	5.0%	40.2%
1988	6.3%	55.0%
1989	5.8%	48.2%
1990	5.6%	77.5%
1991	21.0%	153.1%
1992	22.3%	153.2%
1993	21.8%	

The ratio of household saving to net investment in the economy during the 1980s indicates that saving financed 25-55% of net investment. This ratio skyrocketed in the last few years (due to drastically

decreased investment), and in 1992 household savings exceeded net investment 1.5-fold. Gross investment in 1993 fell below fixed capital consumption, so that net investment turned negative.

Table 7

	1991	1992	1993
Change in lv. deposits/ cash budget deficit	252.6%	271.8%	142.8%
Net financial assets of households/ net government debt	103.8%	105.0%	93.5%
Net financial assets of households/ net government and firms debt	54.7%	57.5%	50.8%

The higher propensity of households to save during the stabilization years relieved to an extent the pressure on the Central Bank to credit the state budget directly. The monetization of the growing budget deficit was thus somewhat restricted and the deficit has been increasingly financed by government securities issues. The absolute growth in household leva deposits still exceeds the cash deficit of the consolidated government budget. In the last two years, however, the growth rate of household saving was lagging behind the growth rate of the budget deficit. This is evident in the falling ratio of the growth in household leva deposits to the cash budget deficit.

The possibilities for debtor sectors to be financed through domestic resources alone are diminishing. In 1993 the net indebtedness of the government budget and the state-owned non-financial enterprises grew at a much faster rate than household net financial assets. The latter covered only half of the net financial liabilities of the government budget and state-owned firms. In the end of 1993 net financial liabilities of the government budget exceeded the household net financial assets for the first time. Thus despite the large growth in the net savings rate in the stabilization years, the possibilities for households to credit the net debtors in the economy become more and more limited.□

APPENDIX 1

(mln. lv.)

	1991	1992	1993 *
INCOMES			
Wages and salaries (state sector)	37822	60316	84363
Wages (private sector), Entrepreneurial income	4808	34198	
Interest on deposits	12552	21499	27000
Casualty insurance claims	702	1973	1000
Family allowances, aids	6363	8678	10913
Scholarships	298	632	845
Pensions	12373	19880	32596
Other incomes**	19121	6404	59428 ***
TOTAL CURRENT INCOMES	94040	153580	216145
EXPENDITURES			
Final consumption expenditures	59412	93999	138000
Interests on credits	705	1032	1000
Net casualty insurance premiums	937	2756	2500
Direct taxes and current transfers to government	5360	12171	12000
Transfers to private non-profit institutions, serving households	126	206	200
SAVING	27500	43416	62445
CAPITAL ACCUMULATION ACCOUNT			
SAVING	27500	43416	62445
Gross fixed capital formation	643	402	970
NET LENDING	26857	43014	61475
CAPITAL FINANCE ACCOUNT			
Currency	4707	6402	6871
Deposits in lv.	13294	33958	48644
Deposits in foreign currency	7130	2102	5660
ACQUISITION OF FINANCIAL ASSETS	25131	42462	61175
INCURRENCE OF LIABILITIES	-1726	-552	-300
NET LENDING	26857	43014	61475

* Preliminary data

** Residual

*** Wages (private sector) and entrepreneurial income included

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