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Economic Stabilization in Bulgaria via a Currency Board Arrangement

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## Economic Stabilization in Bulgaria via a Currency Board Arrangement

### Introduction

According to the Central Intelligence Agency (2003), Bulgaria is located in Southeast Europe, with a size slightly larger than Tennessee and population of about 7.5 million. After fighting on the losing side in both World Wars it fell in the Soviet sphere of influence. Since the end of Communist domination in 1990, Bulgaria began the contentious process of moving toward political democracy and market economy while combating inflation, unemployment, corruption, and crime. Also according to the site, Bulgaria experienced a major economic downturn in 1996, which led to the fall of the socialistic government of that time and brought to power a government committed to economic reform and responsible fiscal planning.

But even though these facts appear accurate, this is not the image that the word “Bulgaria” evokes in me. As someone born in Sofia, Bulgaria, in 1981, I experienced the grim reality of communist Bulgaria. I also witnessed the enthusiastic and boundless hopes in the eyes of everyone around me when the Berlin wall fell in 1989 and saw later this same hope gradually disappear until it ultimately gave place to despair and anger. I remember the insecurity brought by the fact that in late 1996 my mom did not know how much money to take in order to buy bread and milk from the store, for in a matter of hours prices would skyrocket. But I also remember the joy and the sparks of new hope in everyone when, after persistent public protests, the socialist government gave up the political and economical power to the reform-minded right-wing government.

After the International Monetary Fund (IMF) intervened several times in 1996, including the extending multimillions in credit, the fund and Bulgaria finalized negotiations for a currency board implementation in 1997. An IMF representative in Bulgaria sums the results by stating

that “inflation has declined from over 1,000% in 1997 to less than 5% in 2002, . . . growth has been robust since 1998 between 4% and 6%; the average Bulgarian worker now earns 40-50% more in real terms than in 1997,” and poverty, which originally was 30% of the population, has declined to 10% (Sorsa, 2002).

For my family, my friend’s families, and me this means the possibility of living a normal life, without questioning if we would be able to survive the next day. This longed-for stabilization was satisfied by and large through the successful implementation of a currency board arrangement that Bulgaria accepted.

#### Bulgaria’s Economic Collapse in 1996

The Bulgarian economy had been closely tied to the Soviet market during the forty-five years of communist regime in Bulgaria. The Internet-based Wikipedia (2003) states that Bulgaria’s economy contracted dramatically after 1989 with the collapse of the Soviet system, bringing the standard of living to fall by about 40%. External shocks such as the United Nations (UN) sanctions against Serbia (1992-95) and Iraq further burdened the economy. The embargo on Serbia was placed in response to the Kosovo crisis and resulted in Bulgaria’s loss of its most direct route towards West Europe. The 1991 trade embargo on Iraq and the Persian Gulf War negated agreements arranging for Iraq to repay some of its outstanding loans with Bulgaria via oil imports. According to the same source, some recovery signs were present in 1995 with a GDP growth of 2.5% and inflation decrease from 122% in 1994 to 32.9% in 1995. But the reforms initiated by the right-wing government at that time were not continued by the successive governments, and with the socialist party obtaining majority in 1996, necessary reforms such as privatization and establishing a foreign-investment welcoming climate, were mismanaged and slowed down. This led to a collapse of the lev (the Bulgarian national currency), instability for

the decapitalized banks, bankruptcies of 14 banks, and hyperinflation of 311% that devoured people's savings. The United Nations Development Programme states that real salaries and pensions declined by 60%, and employment dropped by 8%. The average real wage also fell to \$20 per month from \$130 in previous years. This situation provoked a serious financial crisis and eroded the people's belief in the government. Widespread public protests and demonstrations were held throughout December 1996 and January 1997. Further, the socialist government withdrew from power in February 1997, and a transitional government reached an agreement with the IMF and the World Bank on the program of economic stabilization and structural reforms, including the establishment of a currency board to control inflation. The reform-dedicated government that took office in May 1997 adopted the currency board arrangement.

#### What is a Currency Board?

A condensed definition of a currency board is that it is an institution that issues a national currency at a strictly fixed rate of exchange with respect to the currency of another country (Miller & Van Hoose, 2004). But Anne-Marie Gulde (1999) goes further, affirming that a currency board operates through the following four elements: a fixed exchange rate between the country's currency and an "anchor" currency; automatic convertibility (that is, the right to exchange domestic currency at the fixed rate whenever desired); prohibition on domestic credit creation by the central bank; and a long-term commitment to the system. All of these are often reflected in the country's central bank laws. Gulde also states that the main reason for countries to adopt a currency board is to prove that they are serious about fighting inflation.

Certain requirements make the currency board credible. First, a country's central bank needs to hold sufficient foreign exchange reserves to cover at least its entire monetary liabilities.

This way the public and investors know that every domestic-currency bill is backed by an equivalent amount of foreign currency; thus the trust in the anchor currency is transferred to the domestic one. As a result, holders of domestic currency know that their liquid money can be exchanged anytime into the major foreign currency, and demand for domestic currency rises. According to Gulde, Kähkönen, and Keller (2000), another requirement that contributes to the currency board credibility is the presence of a broad political support. This is important because the currency board imposes a sufficiently restrictive fiscal policy, and if the population and the politicians don't support it, a self-fulfilling speculative attack can undermine its efficiency. In addition, the country's financial system has to be reasonably healthy, allowing weak banks to fail.

As in the case of fixed exchange rate regimes, the currency board controls the money supply, which in turn changes the interest rate to resemble the one of the anchor currency nation. Such foreign exchange outflows and inflows are controlled by an automatically reacting adjustment mechanism: in the case of a flight into the anchor currency, a money supply contraction is triggered, which changes the interest rate that counteract the actual movement of foreign exchange, and will also induce adjustments in output and employment.

As a result, a currency board brings economic credibility, low inflation, and low interest rates – all these result in overall monetary stability. Compared to other less-extreme exchange-rate regimes, such as a pegged exchange rate regime, which fixes a country's currency to an anchor currency but does not explicitly show a long-term commitment, on average currency boards perform better. Table 1 shows that the average inflation in countries that have adopted currency boards is about 4 percentage points lower than in countries with pegged exchange rates.

Table 1

## Macroeconomic Performance Under Alternative Exchange Regimes

	Number of observations	Inflation Median	Growth Mean	GDP Growth	GDP Growth per capita	Government Balance
Full Sample	1915	8.4	14.4	3.2	1.3	-4.4
Currency Board	112	3.9	9.9	4.0	3.1	-2.7
Other Pegged	1089	8.4	12.3	3.3	0.9	-4.6
Float	714	9.2	18.2	3.1	1.7	-4.3
Upper Income	814	6.0	13.4	3.1	2.0	-3.0
Currency Board	44	4.0	12.1	5.7	4.6	-1.4
Other Pegged	317	6.1	11.2	3.3	1.8	-1.9
Float	453	6.2	15.1	2.8	1.9	-4.0
Lower Income	1101	9.9	15.1	3.3	0.8	-5.4
Currency Board	68	3.9	8.6	2.9	2.2	-3.9
Other Pegged	772	9.4	12.8	3.3	0.5	-5.7
Float	261	15.2	23.7	3.6	1.4	-5.0
No capital Controls	465	5.6	13.3	3.3	1.8	-4.2
Currency Board	21	6.0	12.4	3.8	3.1	-0.9
Other Pegged	123	7.3	14.1	4.6	1.9	-5.1
Float	321	5.0	13.0	2.7	1.6	-4.0

Note. The data underlying this table is taken from the IMF's World Economic Outlook database, and cover all IMF members for which annual data on the exchange rate regime and key macroeconomic variables exist over the period 1975-1996. From "Currency Boards: The Ultimate Fix?" by A.R. Ghosh, A. Gulde, and H.C. Wolf, 1998, *Working Paper of the International Monetary Fund*.

In 2003 inflation in Bulgaria fell to 5.6%, which is 2.5 percentage points lower than the 8.1 mean inflation value for other pegged regimes. Ghosh, Gulde, and Wolf (1998) explain that this happened because of the imposed restrictions on local governments to manipulate money supply, but a greater factor is the improved confidence in the local currency that a currency board brings. With confidence, money demand rises and brings about lower inflation for a given growth rate of money supply.

According to the same study, on average countries with currency boards “grew faster economically than countries with either pegged exchange rates or floating exchange rates.” And even though it is likely that this growth is caused by other factors in addition to the exchange rate regime, at least it is obvious that currency boards do not impair a country’s growth.

But despite the obvious advantages of a currency board, such as economic stability, low inflation, and low interest rates, it is not the ultimate solution for all problems. Gulde (1999) points out that currency boards can prove limiting, especially for countries that have weak banking system or are prone to economic shocks (that is, shocks different from those experienced by the anchor currency country). The reason is that under a currency board the central bank is limited in the amount of credit that it can extend, thus not allowing it to serve as a lender of last resort for insolvent banks. Also, in case of an external shock, such as regional economic or political instability, the central bank cannot use financial policies, such as adjustments of domestic interest or exchange rates, to offset the negative effect on the economy. The only way such adjustments can be made is through wage and price adjustments, which can be both slower and more painful. But precisely this inability of the government to manipulate economic performance establishes the stability of the currency board arrangement.

### Bulgaria’s Currency Board Adoption

#### *Initial Steps*

The March 1997 2,000% inflation rate, brought about by liquidity injections to support Bulgaria’s weakening banking system, caused the confidence for the Bulgarian lev to fall. The central bank tried to reduce the currency’s depreciation, and as a result, depleted its international reserves. Real output contracted by more than 10% during 1996. Examination of the 10 state banks in 1996, which accounted for more than 80% of deposits, showed that nine of them had



negative capital. Half of the private banks were also technically bankrupt. This news led to several runs on banks. The Bulgarian National Bank (BNB) tried to help by providing liquid assets, but this only fueled inflation.

After several failed stabilization attempts, Bulgaria introduced a currency board on July 1, 1997. Gulde (1999) observes that it was controversial and difficult to implement “because of Bulgaria’s serious structural problems” but has been also crucial in the success of the country’s latest stabilization program. Bulgaria combined a traditional, rule-based exchange arrangement with legal and structural measures that addressed the banking sector and the country’s fiscal policy, which brought the new system credibility. Still these measures were flexible enough to allow Bulgaria to fight and overcome a systematic banking crisis.

#### *Currency Board Framework Establishment*

According to Balino and Enoch (1997), currency board arrangements differ significantly from country to country in the choice of peg currency, the exchange rate, the organizational structure, and the operation principles and instruments. Faced with the choice between U.S. dollar and the deutsche mark (DM), Bulgaria chose as an anchor currency the DM, reflecting the country’s intense trade relations with Germany, and desire of higher integration in the European Community. Consistent with the market value of the DM in May 1997, BNB decided on a fixed exchange rate of lev 1,000 to DM 1. Gulde (1999) explained that Bulgaria decided to restructure its central bank, using the Bank of England as a model. This arrangement provided high transparency, dividing the BNB into three distinct departments: issue, banking, and banking supervision. Every month a full account for all departments was to be published.

The issue department holds all the central bank’s non-governmental liabilities. The BNB is required to have sufficient foreign exchange and gold assets at all time to cover these liabilities

in full. Furthermore, it has to honor all its liabilities on demand and without limit, according to the official exchange rate with the peg currency.

The banking department is designed to hold foreign exchange in excess of the amount needed to cover the central bank's liabilities. This way, if an acute liquidity crisis occurs, the bank can extend collateralized loans to commercial banks. The banking department also holds all the bank's assets and claims, and acts as a fiscal agent for Bulgaria's relations with the IMF.

In addition, a fiscal reserve account, holding funds available to the government, is part of the BNB's issue department. It is to be completely backed up with foreign currency and provides assurance that the government can honor its budgetary commitments.

Furthermore, the IMF introduced and coordinated a major technical assistance program, which was supported by the European Union (EU) and the United States Agency for International Development. This was the banking supervision department in the new BNB structure.

#### *Actual Implementation*

The restructuring process had to be legitimized by a change in the constitution. Having the support of the Bulgarian parliament, the new BNB law was passed, and took effect on July 1, 1997. This law provided for an onlending of IMF credits program, which had to stabilize the budget.

The actual implementation of the currency board was done in several steps, initially with the currency board's opening balance on July 1, 1997, reflecting the new structure of the accounting framework. To avoid wide swings in liquid assets, large liquidity injections had to be absorbed by special treasury bills. In addition, Bulgaria's foreign exchange had to show consistency with the peg to the deutsche mark. In order to have an adequate supply of deutsche

mark banknotes, in about 1,500 cash transactions, the BNB bought more than DM 3 million, while selling less than DM 1,000. At the end of the first day of these interbank transactions, the total increase of foreign assets held by the BNB was “more than DM 40 million”(Gulde, 1999).

### The Effects of Currency Board Adoption

#### *Immediate Results*

Following Bulgaria’s currency board adoption, a number of economic indicators began to improve right away, reducing annual inflation to 13% by mid-1998 and to 1% by the end of 1998 (Gulde, 1999). Foreign exchange reserves were also rebuilt from levels of less than \$800 million to more than \$3 billion. This accumulated surplus strengthened the capacity for future investment and economic growth. Furthermore, as depicted in Figure 1, the BNB’s basic interest rate, having reached levels of above 200% at the worst of Bulgaria’s economic crisis, fell to 5.2% by the end of 1998. As expected, retail interest rates moved close to German levels as soon as the currency board was introduced.

An important indicator of the banking stability is that since the establishment of the currency board, no bank had to be supported through the banking department. Following declines in GDP in both 1996 and 1997, the economy grew at an officially estimated 3.5% in 1998 and 2.5% in 1999. Wikipedia (2003) cites that in September 1988, the IMF approved a three-year Extended Fund Facility, which provided credits worth approximately \$900 million, designed to support Bulgaria’s reform efforts.

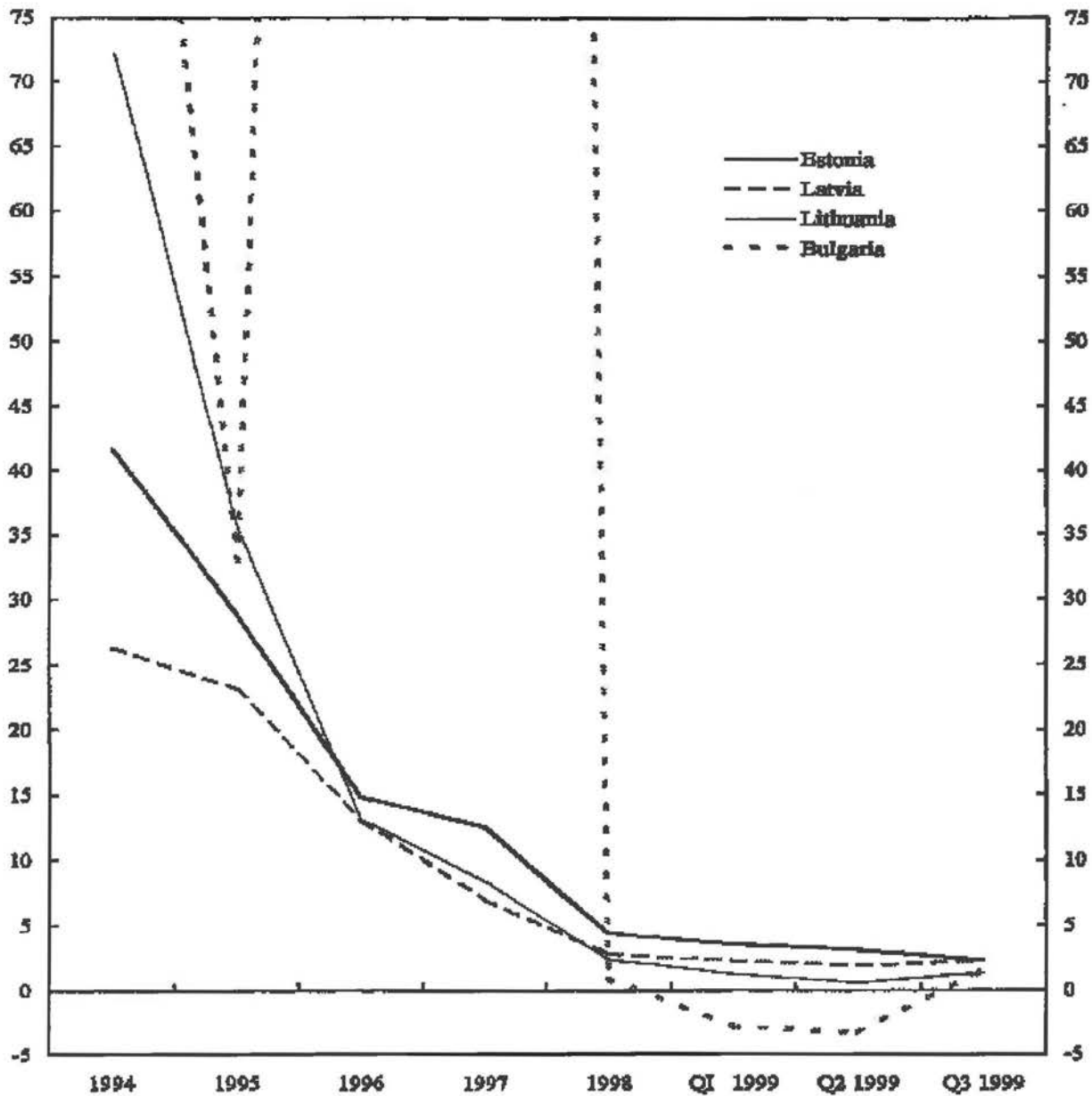


Figure 1. Baltics and Bulgaria: Consumer Price Index inflation levels in the period 1994-1999. Supplied by Gulde et al. (2000).

*Long-term Developments and Challenges*

The Bulgarian government's strong commitment to bringing financial stability has led to the successful completion of the three-year standby agreement with the IMF. This agreement was renewed at the end of 2001 for the amount of \$300 million, and its goal is to support

Bulgaria's balance of payments during the period of macro-economic stabilization and structural reforms. It has specifically supported government efforts in overcoming high rates of poverty and unemployment. In February 2004, after completing the fourth review of the Bulgaria's economic performance, the Executive Board of the IMF approved the disbursement of about \$39 million to the country. This payment is part of the new two-year stand-by agreement, amounting to total of about \$358 million, of which Bulgaria has drawn \$281 million by the present. In response to this agreement, Anne Krueger, First Deputy Managing Director and Acting Chair of the IMF, stated that such an approval comes as a result of prudent and flexible fiscal policy, and a broad program of structural reforms in Bulgaria. She concludes that these policies have resulted in "robust growth, low inflation, and declining unemployment rate, although the high external current account deficit poses risks" (Novinite, 2004).

But transition is still far from complete, and it is important to consider a currency board arrangement as but one element of a stabilization program. Although it will, if properly designed, contribute to eliminating macroeconomic imbalances, its long-term survival depends equally on the implementation of appropriate supporting measures. Such important measures are privatization, and where appropriate, liquidation of state-owned enterprises; liberalization of agricultural policies, including creating conditions for the development of a land market; reform of the country's social insurance programs, and reforms, strengthening contract enforcement and fight crime and corruption.

But despite the robust growth of the Bulgarian economy that is observed recent years, low work productivity still remains a feature of the transition period. An important contributor has been the low level of overall investment in the country, which in 2001 was below 20% of GDP. Therefore, investments have been insufficient so far to create enough new jobs for the

redundant workers and unemployment remains high (18-19%), as depicted in Table 2 (Sorsa, 2002).

Table 2

## Bulgaria's key Economic Indicators 1995-2001

	1995	1996	1997	1998	1999	2000	2001
GDP Growth %	2.9	-10.1	-7	3.5	2.4	5.8	4.5
Inflation %	34	310	579	1	6.2	11.4	4.8
National Exchange rate (Leva/US\$)	71	487	1776	1675	1947	2.2	2.2
Unemployment Rate	11	12.5	14	12	16	20.3	19.7
Monthly Wage (US\$)	130	56	108	128	122	122	126
Total Revenues (% GDP)	36	32	33	39.5	42.5	37	22.2
Total Expenditures (% GDP)	41	42	36	38	43.5	38	25.3
Fiscal Balance (% GDP)	-5.6	-10.4	-3	1	-1	1	-3

Note: From "Bulgarian Early Warning Reports"

Nevertheless, foreign direct investment has increased from \$34 million in 1992 to \$ 750 million in 1999. Bulgaria has also been able to recover its exports, by shifting from exporting raw materials to consumer goods, which make up 40% of Bulgaria's total exports to the EU (United Nations Development Programme). In addition, in 1998, a first general government surplus of 1% of GDP was recorded.

But on the other hand, in the late 90s, Bulgaria also experienced a confluence of shocks that temporarily stalled the recovery. These shocks have included weak external demand and prices, the crisis in nearby Kosovo, and adjustment strains related to accelerated enterprise privatization and restructuring. Nevertheless, according to Ghosh et al. (1998), the Bulgarian

government has persisted with sound macroeconomic policies and intensive structural reform throughout this period. As a result, signs of a renewed recovery were present in early 2000, with an outlook for solid growth.

#### *The Relationship Between a Currency Board and Slow Economic Growth*

A currency board system is by design very constrictive for it removes, or at least severely limits, the scope for discretionary policy. In fact, it is as if the government has put on a strait jacket, for the central bank is restricted, as discussed later, in its actions. A nation's central bank is the mechanism through which the objectives of monetary policy are reached. In a discussion about the role of a country's central bank, Miller and Van Hoose (2004) state that domestic monetary policy often aims for a "low, and stable inflation, high and stable output growth, and high and stable employment." External-balance objectives, such as a country's trade balance, are also in the scope of monetary policy. The central bank can achieve these objectives by directly reaching its monetary policy targets or by influencing a target variable. In the former case, the central bank achieves optimal levels of inflation, output, employment, or other objectives through (1) changing the total quantity of deposits in the banking system (by buying or selling U.S. government securities), (2) varying reserve requirements and thus affecting the amount of money in circulation, or through (3) changing the discount rate that the central bank charges private banks when they borrow from it. But the central bank often chooses to enforce its monetary policy by influencing specific economic variables such as credit aggregates, interest rates, nominal GDP, and exchange rates. This is a preferred approach because intermediate target variables should be "observable with greater frequency than ultimate goal variables, easy to measure, subject to influence through monetary policy actions, and closely related to ultimate

policy objectives” (Miller & Van Hoose, 2004). All these functions are greatly restricted in the presence of a currency board, for its objective is stability through monetary discipline.

Currency boards constrain credit policy and the ability of the authorities to alter the exchange rate in order to stimulate the economy more than do pegged regimes. For instance, countries with major economic powers can affect international interest rates, and thus lead an independent monetary policy in their favor. Nevertheless, not many countries are in such position. But even in that case, an economically large country would be diversified across sectors and would face fewer aggregate shocks, which could be possibly offset by a change in the exchange rate. Furthermore, it is rarely the case that nominal exchange rate adjustments would directly translate into desired real exchange rate movements (Ghosh et al., 1998).

A greater cost of the central bank’s being limited is its reduced ability to act as a lender of last resort if a system-wide liquidity crisis occurs. But supplementary reforms, such as expanding labor market and wage flexibility, limited purchases of domestic assets, and foreign branch banking, can alleviate the impact of a liquidity crunch. However, both Ghosh et al. (1998) and Osband (1992) point out that “there is a general presumption that adopting a currency board is likely to create, at least in the short run, a trade-off between lower inflation and an increased risk of real exchange rate misalignments and financial distress.” But on the positive side, precisely these constraints give stability and credibility to the country under a currency board. This way investors and citizens know that the government would not undertake irresponsible policies, which would hinder the economy in the long run.

And even more convincing is the economic data collected from different countries under a currency board. As a result of an in-depth study by Ghosh et al. (1998), little evidence was found that currency boards result in more sluggish economic growth. On the contrary, countries



with currency boards enjoyed significantly higher growth rates compared to other forms of fixed exchange regimes. Thus, even though currency board adoption is no “quick fix” for an economy, the fiscal discipline that it imposes does not seem to deteriorate growth on average. The transparency of policies and the policy discipline under currency boards appear to have supported, rather than hindered, the transition from centrally planned to market economies, and promoted the nominal and real convergence of their economies toward those of EU members.

#### Currency Board Arrangement in the Eve of Bulgaria’s EU Accession

Bulgaria’s ultimate goal is joining the EU as a full member, making the country an integrated part of Europe’s large economy-based family. A major issue in relation to this is the importance of Bulgaria’s currency board in the eve of the country’s adoption of the euro. Gulde et al. (2000) assert that in light of Bulgaria’s favorable experience with the currency board arrangement, and the country’s willingness to maintain the necessary policy discipline, there appears to be little reason for it to abandon the currency board prior to EU accession. Furthermore, accession for Bulgaria is still several years down the road and an exit from the currency board arrangement could “confuse market participants and the public, destabilizing expectation and damaging the credibility of these governments’ policies.” Nevertheless, several arguments can still be made in favor of moving to a more flexible regime, and thus allowing some exchange rate variability. This would reveal whether the country’s macro policies stand up to the test of ensuring adequate exchange rate stability. Such a regime would allow for monetary institutions and officials in Bulgaria to gain experience with active monetary policy management prior to European Monetary Union (EMU) accession.

But at the same time, a number of considerations suggest that the currency board arrangement could be the best regime that would lead up to Bulgaria’s joining the EU. One such

is that tests of the exchange rate stability could be accomplished in the context of the currency board arrangement, by measuring clear indicators like the levels of reserves, monetary aggregates, growth performance, and interest rates. These would provide unambiguous facts on whether the requirement of interest rate convergence before the adoption of the euro is met, which is an important financial stability criterion. Additionally, the currency board has a built-in adjustments mechanism, helping to ensure the desired level of the exchange rate. And because Bulgaria is already pegged to the euro, the requirements for good economic performance are already very similar to those of EMU participants. Therefore, even though temporary disequilibria are possible, and it is important that exchange rate pegs are not maintained by excessive recourse to foreign borrowing or at the expense of growth, if the economy has proven to possess the necessary flexibility to adjust relative prices and reallocate resources under the currency board, severe misalignment is hardly possible. Gulde et al. (2000) also hold that such results can be achieved via a viable currency board if output and export growth are robust. And even though price level shocks and some inflation can be expected, as a result of the introduction of the EU's agricultural pricing system, the harmonization of excise tax rates, and the completion of price liberalization, should not be seen as a sign of policy weakness or as endangering economic growth. They would only reflect relative price adjustments, rather than macroeconomic imbalances.

And even though joining the EU seems feasible, Bulgaria has several more challenges to face. In particular, fiscal policies need to remain conservative in order to avoid undue build-up of debt. Where necessary, the financial sector needs to be strengthened, so that it can show better resistance to shocks. Structural reforms need to be pursued vigorously to maintain and increase economic flexibility. Such flexibility is particularly important in the labor market,

because in addition to wage flexibility, the traditionally low labor mobility needs to be increased, and institutional rigidities have to be reduced (Gulde et al., 2000). Will Bulgaria be able to meet these challenges? It is a matter of time, but Bulgaria's current experience gives some confidence. Bulgaria's economy has already been hit by severe shocks, and has so far remained stable. With continued determination to maintain policy discipline, Bulgaria may be able to benefit from currency boards up until it is ready to adopt the euro.

### Conclusion

Research has shown that Bulgaria's experience with a currency board arrangement has led to several major structural and economic reforms. The inflation crisis of 1996 had brought political, social, and economic instability, and perhaps the only framework that could impede it was the rigid, but steady structure of a currency board regime. An observation of both the immediate and the long-term economic developments shows that the currency board implementation in Bulgaria has proven to be successful. Some of the major accomplishment indicators are the inflation rate levels being brought under control, the population's reestablished trust in the banking system, the creation of an attractive climate for foreign investment, and the successful conclusion of a large part of the privatization process. Despite the firm and somewhat restrictive control that a currency board imposes on domestic, fiscal, and monetary policy, and the unfortunate occurrence of several external crises that seriously impaired Bulgaria's economy, the country's recovery is not blocked, but on the contrary, steady growth and stability exists. And even though productivity growth and employment have not reached optimal levels, the government needs to continue working with the International Monetary Fund on ways to promote this desired progress through real economic growth, which is not exclusively dependent on foreign investment but also on domestic entrepreneurship initiatives. Therefore, Bulgaria

needs to continue the promotion of substantial political, legal, and structural reforms, thus making the task of the current and future governments not an easy one. The already established framework of Bulgaria's currency board can prove very helpful throughout this development and can also provide vital support in Bulgaria's meeting the requirements for its EMU accession. And even though much more must be accomplished, Bulgaria has shown that it has the will and the commitment to pursue the stability and growth objectives, which would make it strong in a market-based economy. Still, I occasionally become frustrated with the insufficient speeds of vital reforms, but at the same time I sincerely believe that the worst is already behind us. I am convinced that that Bulgaria is on its inevitable way towards joining the European community, which would significantly accelerate my country's economic development. And I firmly believe that these hopes could not have been real today without the large past and present contribution of the IMF's currency board.

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A significant scholarly project, involving research, writing, or special performance, appropriate to the major in question, is ordinarily completed the senior year. The project is expected to be of sufficiently high quality to warrant a grade of A and to justify public presentation.

Under the guidance of a faculty advisor, the Senior Project should be an original work, should use primary sources when applicable, should have a table of contents and works cited page, should give convincing evidence to support a strong thesis, and should use the methods and writing style appropriate to the discipline.

The completed project, to be turned in in duplicate, must be approved by the Honors Committee in consultation with the student's supervising professor three weeks prior to graduation. Please include the advisor's name on the title page. The 23 hours of credit for this project is done as directed study or in a research class.

Keeping in mind the above Senior Project description, please describe in as much detail as you can the project you will undertake. You may attach a separate sheet if you wish:

This paper examines the effectiveness of Bulgaria's  
establishment of a currency board, implemented in  
1997, to fight hyper-inflation and bring about  
economic stability in the country.

Signature of faculty advisor Bekasova Expected date of completion 3/20/04

This project has been completed as planned (date) 3/28/04

This is an "A" project  This project is worth 2-3 hours of credit

Advisor's Final Signature Bekasova

Chair, Honors Committee \_\_\_\_\_ Date Approved \_\_\_\_\_

Dear Advisor, please write your final evaluation of the project on the reverse side of this page. Comment on the characteristics that make this A "quality work."

1) Maria has worked very hard throughout the semester and produced a paper that clearly answers the questions she raised before the work began. I have checked her work several times before it was completed and am confident that she has done good job.

I know she put a significant number of hours to complete the project. Maria took the job seriously. Therefore, I recommend an "A" grade for the job well done.

Thanks.

Deborah