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LAW
on the Bulgarian National Bank



BULGARIAN NATIONAL BANK

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Sofia, July 1991

The Law on the Bulgarian National Bank was adopted by the Grand National Assembly on 6th June, 1991 and came into effect on 28th June, 1991 (published in the State Gazette, issue No. 50 of 25th June, 1991). It stipulates the statute, main objectives and functions of the Bulgarian National Bank.

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SECTION I GENERAL PROVISIONS

Art.1

(1) The Bulgarian National Bank is the Central Bank of the Republic of Bulgaria. It is a legal person.

(2) The Bulgarian National Bank is accountable to the National Assembly for its activity.

Art.2

(1) The main task of the Bulgarian National Bank shall be to contribute to the maintenance of the internal and external stability of the national currency. For this purpose, it shall formulate and implement the national monetary and credit policy and shall contribute to the creation and maintenance of efficient mechanisms of payment.

(2) The Bulgarian National Bank shall have the exclusive right of issuing banknotes in this country.

(3) The Bulgarian National Bank shall regulate and supervise other banks' activities in this country for the purpose of ensuring the stability of the banking system.

Art.3

In defining the general directions of the monetary and credit policy, the Bulgarian National Bank and the Council of Ministers shall inform each other of their intentions and actions.

Art.4

(1) In connection with the performance of its functions, the Bulgarian National Bank may demand from banks

and other financial institutions to submit any documents and information as well as carry out the respective examinations.

(2) The Bulgarian National Bank shall not make public and deliver to other persons information obtained which is of confidential banking or commercial character for the banks and the other participants in the money turnover and the credit relations.

Art.5

The Bulgarian National Bank may participate organizationally and financially in international organizations which aim at promoting international co-operation in the sphere of foreign exchange, monetary and credit policy as well as to take part on its own in the activities carried out by such organizations when they are in the interest of the Republic of Bulgaria.

Art.6

(1) The headquarters of the Bulgarian National Bank shall be in Sofia. It may have branches and representative offices.

(2) The Bulgarian National Bank shall have a seal depicting its name and the state coat-of-arms.

SECTION II

STATUTORY FUND AND RESERVES

Art.7

(1) The statutory fund of the Bulgarian National Bank shall be BGL 200 million.

(2) The amount of the Bank's own capital by which it exceeds the statutory fund provided for in para.(1) of this Article by the date this Law enters into force, shall constitute the "Reserves" Fund of the Bank.

Art.8

(1) The "Reserves" Fund shall be built up from deductions amounting to 25 per cent of the annual excess of the Bank receipts over expenditures. The resources of this Fund shall be used for covering the Bank's losses.

(2) Upon deduction of the amount for the "Reserves" Fund and for non-collectible or doubtful receipts, the necessary amounts for special funds, set up by a Managing Board's decision, shall be allotted from the annual excess of the Bank receipts over expenditures.

(3) The account of the state budget shall be annually credited with the remainder of the annual excess of the Bank receipts over expenditures within four months from the end of the fiscal year.

Art.9

(1) When the Bank's balance sheet indicates that the amount of its assets is less than the sum of its liabilities and paid-up capital, the Minister of Finance shall concede to the Bank negotiable, interest-bearing securities issued by the Council of Ministers at the amount necessary to cover the deficit. The securities conceded shall be re-deemed from the realized annual excess of the Bank receipts over balance expenditures.

(2) The procedures under para.(1) of this Article for covering the balance deficit shall be applied only in cases when the resources of the "Reserves" Fund of the Bank have been exhausted.

SECTION III ADMINISTRATION, MANAGEMENT AND EMPLOYEES

Art.10

The management and the administration of the Bulgarian National Bank shall be carried out by a Managing Board, a Plenary Council and a Governor.

Art.11

The Managing Board shall consist of the Governor of the Bank, three Deputy Governors and five Heads of Departments (Directors) of the Bank. Members of the Managing Board shall be only Bulgarian citizens.

Art.12

(1) The Governor and the Deputy Governors of the Bulgarian National Bank shall be elected by the National Assembly for the term of five years. The other members of the Managing Board shall be appointed by the President of the Republic at the proposal of the Governor of the Bank for the term of five years.

(2) The Governor shall not be elected for more than two terms of office.

Art.13

(1) At inauguration, the Governor, the Deputy Governors and the other members of the Managing Board shall be sworn in to abide by the law, to contribute to the performance of the functions entrusted to the Bank and to keep banking and commercial secrets.

(2) The Governor and the Deputy Governors shall swear an oath to the National Assembly, while the other

members of the Managing Board shall do this to the Governor of the Bank.

Art.14

The members of the Managing Board shall not be engaged in any other paid activity with the exception of their occupation as assistants at scientific institutes and university lecturers.

Art.15

(1) The mandate of the Governor of the Bank, the Deputy Governors and the other members of the Managing Board may be suspended before the term set only if they have been sentenced for committing a crime of general character with malice prepense or are prevented from performing their functions for more than a year.

(2) Where a member of the Managing Board leaves before his term of office expires, the competent authority under Article 12 shall appoint a new member till the end of his term.

Art.16

(1) The Managing Board shall hold sessions at least once a month. It shall be convened by the Governor or at the request of no less than three of its members submitted through written invitation.

(2) The sessions of the Managing Board shall be chaired by the Governor of the Bank; where he is absent an appointed by him Deputy Governor shall perform this function.

Art.17

The Managing Board shall:

1. discuss and take decisions on the implementation of the monetary and credit policies;
2. adopt legal acts concerning this Bank's activities;
3. fix the interest rates for this Bank's operations;
4. fix the percentage of the minimum reserves to be held by the banks and approve the conditions and the requirements for their fulfilment;
5. set rules and requirements regulating banking activities;
6. define the structure of this Bank, the tasks of its departments and the competence of its employees;
7. take decisions on the introduction and the discontinuation of separate activities of this Bank and the issuing of securities;
8. open and close down branches and representations of this Bank;
9. take decisions for issuing new banknotes, and set the time limits after which the banknotes cease to be legal tender and within which banknotes called in have to be exchanged;
10. define the class of the securities and the conditions at which they could be accepted as collateral;
11. define the way and the competence for writing off uncollectible receipts of the Bulgarian National Bank;
12. adopt decisions for the participation of the Bulgarian National Bank in international organizations and in the initiatives and activities undertaken by such organizations;

13. adopt decisions for granting or withdrawing banking licences in this country;

14. consider and resolve also other issues of the activity of this Bank.

Art.18

(1) The Managing Board may hold a session if more than one half of its members are present.

(2) Decisions shall be adopted by a simple majority of the members present. In the event of equal split of votes the Governor shall have the casting vote; in his absence the casting vote shall belong to the Deputy Governor who chairs the Managing Board.

(3) Abstention from voting shall not be permitted.

Art.19

(1) The Plenary Council of the Bulgarian National Bank shall consist of the Managing Board together with six leading experts in the monetary, financial, business and scientific spheres, appointed by the Governor of the Bank for the term of three years.

(2) The Plenary Council of the Bank shall define the general directions of the monetary and credit policies and shall approve the annual report and the budget of the Bank.

(3) The Plenary Council shall be convened by the Governor of the Bank or at the request of one third of its members.

(4) The Plenary Council may hold a session if two thirds of its members are present.

(5) The provisions of Art.15, Art.16, para.(2) and Art.18, para.(2) shall also be applied to the Plenary Council.

Art.20

The Governor of the Bulgarian National Bank shall organize, direct and supervise the activity of the Bank and shall represent it at home and abroad. He may delegate the exercising of some of his competences to other officials.

Art.21

The Managing Board may set up standing or interim consultative councils consisting of representatives of the industrial, agricultural, commercial, banking and other sectors of economy.

Art.22

(1) The internal auditing of the financial activities of the Bank shall be carried out by a Chief Auditor, appointed by the Managing Board of the Bank upon approval by the President of the Chamber of Accounts.

(2) The Chief Auditor shall:

1. check the annual financial report and the periodical reports prepared by the Bank;
2. make an evaluation of the balance sheet and the budget of the Bank;
3. audit the Bank's books, vaults and safes;
4. submit to the Managing Board the reports after auditing and shall make recommendations for eliminating the errors detected.

Art.23

(1) The employees of the Bulgarian National Bank when taking office shall sign a declaration taking an oath of allegiance and observance of the banking and commercial secrecy.

(2) The Bank employees shall be obliged to observe secrecy concerning the negotiations, the deals contracted, the amount of the clients' deposits and their operations, the information received by the Bank, and all details of the Bank's and its clients' activities which represent official or commercial secret for them.

(3) The remuneration of the Bank employees shall be determined by the Managing Board, but it shall not be lower than the average remuneration for employees with similar functions in other banks in the country.

SECTION IV MONETARY UNIT, BANKNOTES AND COINS

Art.24

The monetary unit of the Republic of Bulgaria shall be the lev, divisible into stotinki 100.

Art.25

(1) The Bulgarian National Bank shall have the exclusive right to issue banknotes and to mint coins.

(2) The banknotes issued by the Bank shall be legal tender and shall be obligatory received as payment in their full face value without restriction.

(3) The Bulgarian National Bank shall ensure the printing of banknotes and the minting of coins, the safe storage of banknotes and coins out of circulation, as well as the safeguarding and destroying of banknotes and coins withdrawn from circulation.

(4) The banknotes and coins put in circulation by the Bank, shall have nominal value, coverage, form and design, determined by the Council of Ministers.

(5) Before putting in circulation a new banknote or coin, the Bank shall make public its exact description in the "State Gazette" and in other mass media.

Art.26

After informing the public through announcement in the "State Gazette" and other mass media, the Bulgarian National Bank may demand the withdrawal from circulation of its issued banknotes and coins by paying their nominal value. After a deadline set by the Bank, such banknotes and coins shall be considered out of circulation and shall cease to be legal tender.

Art.27

(1) The conditions under which damaged banknotes could be exchanged at partial or full nominal value, shall be specified by the Bank.

(2) Coins punched, cut, deformed or bearing a private sign, or whose design is undistinguishable, shall be exchanged by the Bank at its discretion.

Art.28

Money put in circulation by the Bank shall be fully covered by the international reserves as determined by Article 34, para.1 and by the following assets:

1. credits guaranteed by the State;
2. securities in the commercial portfolio of the Bank;
3. mortgage-secured credits to banks;
4. checks owned and kept by the Bank and due to be collected.

SECTION V BANK'S OPERATIONS

Art.29

The Bulgarian National Bank shall have the right to carry out:

1. brokerage of exchange bills and discounting of checks;
2. credit operations against collateral;
3. operations with securities, including issuing and operations with securities of its own;
4. operations with precious metals;
5. foreign exchange operations;
6. operations with deposits and financial investments;
7. operations connected with the payments turnover;
8. commission operations;
9. cross-border bank operations.

Art.30

(1) The Bulgarian National Bank may:

1. discount commercial paper and promissory notes tendered by the banks and the other financial institutions which are payable in this country within three months and bearing the signatures of at least two indebted persons of proved solvency.

2. extend credits to banks and financial institutions with maturity no longer than three months and collateralized by gold, securities, foreign currency and other assets specified by the Managing Board.

(2) The Managing Board of the Bank shall determine the type of securities accepted as collateral, the conditions under which they shall be accepted, the part of the nominal value which could be covered by credit and the maximum amount of the possible credit to be extended against collateral of one and the same type of securities. It may define as a basis for acceptance of securities their market value instead of the nominal value.

(3) The Bank may extend to banks non-collateralized short-term credits under conditions determined by the Managing Board only if such credits are extremely necessary for meeting the debtor-bank's liquidity requirements.

Art.31

The Bulgarian National Bank shall have the right to refuse discounting of securities or extending credit against collateral without accounting for its refusal.

Art.32

(1) Where a credit extended against collateral is not repaid on time, the Bulgarian National Bank shall have the right to sell the collateral received without litigation. The

sales proceeds shall cover the Bank's receipts regarding the credit principal, the interest and the expenses; the current account of the debtor shall be credited with the balance.

(2) The Bank may not sell the collateral against an unpaid debt and instead lodge a claim against the debtor who is responsible with all his property for the amount due.

Art.33

The Bulgarian National Bank, while implementing its monetary and credit policies, may:

1. buy and sell securities properly put in circulation at the open market, including Central and Local Government securities accepted by the Managing Board as equivalent for the Bank's open market operations.

2. put in circulation its own securities for the purposes of its open market operations.

Art.34

(1) The Bulgarian National Bank shall set and maintain, under conditions periodically determined by the Managing Board, an international reserve consisting of all or some of the following assets:

1. gold;

2. foreign currency in banknotes and coins or bank balances kept abroad, in currencies and countries specified by the Managing Board of the Bank;

3. internationally acknowledged reserve assets;

4. specified by the Managing Board bills of exchange and promissory notes denominated in foreign currency, as well as treasury bills and other foreign currency denominated securities issued or guaranteed by foreign governments;

5. other similar assets specified for this purpose by the Managing Board.

(2) The reserve under para.1 shall be maintained at a level adequate to the international transactions of the State.

(3) If the reserve has diminished or the Bank considers it endangered by decrease to an extent which could impair the necessary adequacy, the Bank shall submit to the Council of Ministers a report on the state of the reserve and on the reasons which have caused or can cause such a decrease; the report shall be accompanied by recommendations for measures considered necessary for preventing or eliminating the decrease.

(4) The Bank shall periodically submit reports and recommendations provided for in para.3 above until the reserve reaches the necessary level.

Art.35

(1) All Bank profits arising from changes in the valuation of the Bank assets or liabilities in, or denominated in gold or foreign currencies, as a result of change of the price or the exchange rates of gold or the foreign currencies against the lev, shall be kept in a special reserve account.

(2) Losses arising from changes provided for in para.1 above shall be covered by the credit balance of the special reserve account; if the balance of this account and the balance of the "Reserve" Fund account are insufficient to

cover such losses, the Council of Ministers shall transfer into possession of the Bank negotiable interest bearing securities to the amount of the shortage. The securities transferred shall be covered from the annual excess of the Bank receipts over expenditures.

Art.36

The Bulgarian National Bank may:

1. buy and sell gold coins and bullion or other precious metals;
2. buy, sell or contract deals in foreign currencies using to this end all customary means;
3. open and maintain accounts with international financial institutions, central banks and other financial institutions outside this country;
4. open and maintain accounts or act as representative or correspondent of international financial institutions, central banks and other financial institutions outside this country.

Art.37

The Bulgarian National Bank shall accept for custody precious metals, securities and other valuables on conditions defined by the Managing Board. It shall have the right to discontinue its obligations of depositary unilaterally, informing the deponent 14 working days in advance by a written notification, after which it may transfer at deponent's expense and risk the valuables not withdrawn to the common public warehouses.

Art.38

(1) The Bulgarian National Bank may accept from banks, financial institutions, the Council of Ministers and municipalities money on current accounts or time deposits at conditions announced by the Managing Board.

(2) The Bank may reject a request for opening a demand or deposit account, as well as close such an account after sending a written notification 14 working days in advance to the holder, without explaining the reasons for its actions.

Art.39

(1) For the purpose of facilitating non-cash payments the Bulgarian National Bank may organise or participate in organising a clearing office and adopt rules for its activity.

(2) The Bank, as a commissioner, shall have the right to carry out collection of payments.

SECTION VI RELATIONSHIP WITH BANKS

Art.40

(1) The Bulgarian National Bank shall:

1. determine the obligatory minimum reserves the banks must hold with the Bulgarian National Bank up to the amount of 15 per cent of all assets, as well as the method of their calculation.

2. approve other conditions and requirements aiming at the maintenance of the stability of the credit system.

(2) A bank not complying with the determined minimum reserve requirements shall pay punitive interest on the amount of the shortage until it is fully covered, at a rate not exceeding the doubled interest rate at which the Bulgarian National Bank extends credits to the other banks.

Art.41

The Bank shall have the right to demand and examine the accounts, files and books of each person who is reasonably considered to have extended or to be extending credits.

Art.42

The Bulgarian National Bank shall determine:

1. rules regulating gold and foreign exchange operations of the banks in conformity with the foreign exchange legislation of this country for the purpose of protecting the national currency;

2. the ceiling on assets in gold and foreign exchange which the licenced institutions can keep in deposit with themselves;

3. the maximum amount allowed as open foreign exchange positions of the banks and the other financial institutions, the way and means for calculating and transferring to non-interest accounts with itself of the minimum reserves requirements, securing these positions.

4. the exchange rates at which it sells, buys or transacts gold and foreign currencies and shall set the basic exchange rate of currencies against the lev.

Art.43

The Bulgarian National Bank shall compile the balance of payments of this country and for this purpose shall closely watch the international payments, the carrying out and the state of the direct investments of non-residents in this country and of residents abroad.

Art.44

(1) The Bulgarian National Bank shall carry out the supervision over the banking and credit system. It shall collect information, follow banks' activities and carry out periodical audits and purposeful inspections at the banks and the other financial institutions, necessary for fulfillment of the Bank's tasks of banking supervision. Statistical data published by the Bank shall not contain data about separate operations and transactions.

(2) With regard to carrying out banking supervision the Bulgarian National Bank may undertake all necessary actions to ensure the stability of the banking system.

SECTION VII RELATIONS BETWEEN THE BULGARIAN NATIONAL BANK AND THE STATE

Art.45

(1) The Bulgarian National Bank shall be the official depository of state monetary funds.

(2) The Bank shall organize and execute the cash performance of the state budget through commercial and other banks. The operations for the cash execution of the

state budget shall be carried out by the banks free of charge.

(3) Under terms agreed upon with the Minister of Finance, the Bank shall issue and manage securities of the state or securities guaranteed by the state which are public emission.

(4) The Bank may act as representative of the Council of Ministers for purposes and under conditions agreed upon between the Council of Ministers and the Bank.

Art.46

The Bulgarian National Bank may extend to the state short-term credits with up to 3 months maturity, but repayable not later than the end of the calendar year. The maximum amount of the outstanding short-term credits at any time shall not exceed 5 per cent of the annual revenue of the state budget, as well as the amount of the paid-in Statutory fund and the "Reserve" funds.

Art.47

In performing its functions the Bank shall be independent from the instructions from the Council of Ministers and other state bodies.

Art.48

The Bulgarian National Bank may purchase and sell securities issued or guaranteed by the State which constitute part of a public emission.

Art.49

Except in cases provided for by this Law, the Bank shall neither directly or indirectly acquire Government se-

curities nor extend any credits to the Government or to the municipalities.

SECTION VIII ACCOUNTABILITY AND BALANCE

Art.50

The fiscal year of the Bank shall begin on the 1st of January and end on the 31st of December.

Art.51

(1) The expenditures of the Bulgarian National Bank shall be made in accordance with the annual budget approved by the Plenary Council of the Bank.

(2) The administrative expenditures shall be made in accordance with Managing Board's decision.

(3) The reports on the budget expenses of the Bank together with the appropriate vouchers shall be audited by a commission appointed by the Chairman of the Chamber of Accounts which shall prepare a special report on the results of the audit. The report on the budget expenditures of the Bank shall be submitted to the National Assembly together with its annual report.

Art.52

(1) The Bulgarian National Bank shall publish in the "State Gazette":

1. the state of its assets and liabilities at the end of each month;

2. the annual balance sheet and profit/loss account of the Bank within four months from the end of the fiscal year.

(2) The monthly balance sheet of the Bank shall include:

1. on the assets side:

a. cash in Bulgarian coins;

b. cash in foreign exchange;

c. participation in international institutions;

d. cash in foreign securities;

e. credits extended to banks;

f. credits extended to the State;

g. securities;

h. other assets.

2. on the liabilities side:

a. statutory fund;

b. reserve and other funds;

c. amount of banknotes in circulation;

d. current and deposit accounts;

e. other liabilities.

(3) The annual balance sheet of the Bank shall be compiled in levs as of December 31 of the respective year. The precious metal stock and the asset items in foreign currency shall be calculated at market exchange rates as of December 31, while all securities shall be shown at prices which shall neither exceed the acquisition price, nor the market price as of December 31.

Art.53

The Bulgarian National Bank shall twice a year submit to the National Assembly and publish a report which:

1. substantiates the monetary policy it intends to pursue during the following six months;
2. describes the principles the Bank intends to follow while defining and implementing the monetary policy during the following two years or for another longer period set by the Bank;
3. reviews and assesses the monetary policy pursued during the past six months.

Art.54

The Bulgarian National Bank shall submit to the National Assembly its annual report, balance sheet and budget report not later than April 30th of the following year.

SECTION IX ADMINISTRATIVE SANCTIONS AND PENAL RESPONSIBILITY

Art.55

(1) Where breaches of banking operations regulations, minimum reserve requirements and other fixed by the Bank rules and the set principles of accountancy are detected, the Bulgarian National Bank shall impose on banks and other financial institutions administrative sanctions at the rate of BGL 10 000 to BGL 250 000.

(2) Where breaches under para.(1) of this Article have been repeatedly committed in the same year or they have led to considerable damages, the administrative sanction shall be at the rate of BGL 20 000 to BGL 500 000.

Art.56

Individuals having breached this Law shall be fined up to the amount of BGL 10 000, provided their deed does not constitute a criminal offense.

Art.57

(1) Statements for breaches detected under Art.55 and Art.56 of this Law shall be drawn up by the Banking Supervision authorities; administrative decrees shall be issued by the Governor of the Bulgarian National Bank or by an official authorized by him.

(2) Drawing up statements, issuing, appealing against and execution of administrative decrees shall be governed by the Law for Administrative Breaches and Penalties.

SECTION X OTHER PROVISIONS

Art.58

Distrainments, enforcements and collateral on money and securities deposited with the Bulgarian National Bank shall be allowed only if they do not infringe on the rights of the Bank connected with these possessions.

Art.59

The Bulgarian National Bank may make deductions on receivables still not having fallen due when a bank or an-

other financial institution has begun procedure of liquidation of its activities or has stopped payments on its debt, as well as in cases when the Bulgarian National Bank has the right to obtain receivables before falling due.

Art.60

(1) The Bulgarian National Bank shall not acquire real estate and proprietary rights, except when:

1. securing premises for the performance of its activity and housing for its employees;
2. avoiding losses connected with credit transactions.

(2) The Bank is obliged to free itself from real property under item 2. of para. (1) of this Article in the course of five years.

Art.61

The Bulgarian National Bank shall be exempted from paying taxes to the Central and Local Government as well as from paying export and import tariffs.

Art.62

The Bulgarian National Bank shall promulgate By-Law regulating the application of this Law as well as Regulations governing the application of Sections IV, V, VI and VIII.

ADDITIONAL PROVISION

Para.1

Under this Law the term "financial institution" shall mean all institutions except banks which attract resour-

ces from other persons through acceptance of money deposits or through selling or marketing of bonds, certificates, bills of exchange and other securities and use these resources wholly or partly for extending credits or for investment for their own account and at their own risk.

TRANSITIONAL AND FINAL PROVISIONS

Para.2

All operations, started by the date this Law becomes effective, which are in contradiction to its provisions must be completed within five years from the date of its entry into force.

Para.3

This Law shall repeal:

1. The Statute of the Bulgarian National Bank (published in the "Izvestie", No.94 from 1956; amended in No.11 from 1957, No.104 from 1958, No.32 from 1959, No.20 from 1961, "State Gazette", No.99 from 1963, No.65 from 1965 and No.48 from 1989).

2. The Decree for the reorganization of the banking system ("State Gazette", No.3 from January 1967).

3. The Decree for the rights of the Bulgarian National Bank when liquidating its receipts and for penalties for breaching Government instructions about Bank's activity (published in the "Izvestie", No.51 from 1951; amended in No.12 from 1952, No.94 from 1956, No.5 from 1957 and No.57 from 1961).

Para.4

The implementation of this Law shall be carried out by the Managing Board of the Bulgarian National Bank.