

Evolution and Present Status of Bulgarian Card Market

Bojidar Bojinov

(bobi@uni-svishtov.bg),

Tsenov Academy of Economics, Svishtov, Bulgaria

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Abstract

Bulgaria is a small South-eastern European country with a population of 8 million inhabitants in economic transition. During the bank crisis (1996-97) about 1/3 of all banks went bankrupt. On 5 July 1997, the Bulgarian government, jointly with IMF, introduced the Currency Board Arrangement, which led to economic stabilization and growth. During the last four years the Bulgarian card market has expanded rapidly. The article reviews the evolution and the present status of the Bulgarian card market.

The first trials to introduce cards in Bulgaria and to establish national card networks were made by three private banks. After 1992, the First Private Bank, the TouristSportBank, and the BalkanBank started their own networks; the first two based them on cards with a magnetic strip, while the BalkanBank used smart cards.

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Bojidar Bojinov

(bobi@uni-svishtov.bg),

Tsenov Academy of Economics, Svishtov, Bulgaria

During 1993, the Bulgarian National Bank (BNB) decided to establish Borica Ltd. (100% owned by BNB) to develop a new, commonly used national card network, as well as to play the role of a national card operator and acquirer. The actual start of card payments through Borica (Bank Organization for Payments Initiated by Cards) was in March 1995 when the state-owned United Bulgarian Bank started to use the system's services. In the same year, several, primarily state-owned banks, the Bulgarian Post Bank, Bank DSK, First Investment Bank, Credit Express Bank, and the International Bank for Investments and Development, as well as BNB (which issued cards only for its employees) joined the system.

In 1995, BNB published Regulation 16 on Payments Initiated by Bank Cards. According to it, only banks can issue debit or credit cards and the card payments authorization can be made only by the national card operator Borica. Four parallel card systems have been working in Bulgaria until 1997. During the bank crisis from 1996 to 1997, First Private Bank, TouristSportBank and Balkanbank, as well as other banks, went bankrupt. Therefore, from 1997 until present, Borica has been the only functional system for card payments in Bulgaria.

In June 1997, to decrease the high rate of inflation and to stabilize the bank system, the government introduced a Currency Board Arrangement. The amount of banknotes and coins has been limited to "the lev equivalent of the gross international foreign exchange reserves" (Article 18 of Law on the Bulgarian National Bank). The Bulgarian lev has been fixed at the exchange rate of 1 BGN = 1DM (1,955.83 lev to one Euro). In this way, BNB is limited in its monetary policy, the only instrument of monetary policy is the change of minimal reserve rates. After the introduction of the Currency Board, the Bulgarian economy stabilized. The increases of average monthly salaries are from 24 US dollars in February 1997, during the bank crisis, to 107 US dollars in December 1997. This increase affected the cards market development. The number of cards and transactions increased rapidly (see Table 1).

In parallel with the increase in numbers of issued cards, the volume of transactions also increased – from 26.5 million levs in 1999 to 1.28 billion levs in 2001. In 2001, bank cards were primarily used for withdrawals (93,13% of all transactions), while POS payments were only 5.35%, and 1.52% are Internet transactions and payments via telephone. The average sum withdrawn is 80,65 lev (41.23 EUR), close to the minimum salary, and 129,01 BGN (65.96 EUR) for POS transactions.

Table 1: Bulgarian card market – selected indicators

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|-------------------------------|------|--------|--------|-----------|-----------|-----------|------------|
| ATMs | 23 | 69 | 118 | 162 | 279 | 420 | 642 |
| POS-terminals | 1 | 27 | 72 | 352 | 497 | 1,087 | 1,980 |
| Debit and credit cards | 381 | 19,362 | 62,733 | 105,432 | 270,929 | 560,934 | 990,414 |
| of which credit cards | 0 | 0 | 19 | 437 | 1,417 | 3,332 | 10,868 |
| Transactions | | | | 2,009,701 | 3,525,699 | 7,195,350 | 15,422,497 |

Source: Borica Ltd.

In the last years Bulgarian employers have started to pay wages into bank accounts in order to decrease their costs for wage payment. This process provoked a new phenomenon – queues behind ATMs when employers transfer wages. This is a result of the typical cash-oriented payment culture in Bulgaria, the high percentage of the shadow economy, as well as of the policy by Bulgarian banks in the card payment area. The banks' policy is to issue new cards and to expand the existing ATM network. In this way, banks attract new, low-interest rate resources (banks pay 1-3% p.a. on card accounts), and increase income by fees (issue, account's service, withdrawals, monthly statements, etc.). At the same time, the POS network is high concentrated in the major cities, a significant percentage of these terminals are even used for withdrawals in bank branches.

In April 2002, Bulgarian banks offered five types of cards:

- domestic debit cards "BORICA" (in BGN): 1 million cards issued
- international "Maestro" debit cards (in BGN): 181,000 cards

- domestic and international "Visa Electron" debit cards (in BGN or USD): 28,000 domestic and 8,000 international cards
- international "Eurocard/MasterCard" credit cards (in USD): 9,000 cards
- international "Visa" credit cards (in USD): 3,500 cards

Some banks offer American Express and Diners Club cards, but information about the number of issued cards is not available.

The low share of credit cards is a result from the requirements, which are too high for Bulgarian living standard: 30-90 USD fee for issue/service, and a deposit of 1,000 – 10,000 USD. The Bulgarian banks prefer to issue credit cards which are denominated in foreign currency, primarily in USD. The cardholders can use a credit line of about 90-95% of the deposit, at 12-18% interest rate, while the bank pays an interest of 3-4 % for the same deposit.

During the summer of 2001 some Bulgarian banks changed the base requirements for credit card issuance. The First Investment Bank started to issue EC/MC credit cards (in BGN and in USD) without an initial fee and deposit, as it requires by cardholders to keep 400-1200 BGN as minimum deposit. After few months, United Bulgarian Bank (since the year 2000 owned by National Bank of Greece and the EBRD) started to issue similar cards. Although the initial requirements for these cards are higher than international debit cards (free issue, 2-20 BGN minimal initial

deposit), they are very attractive (more than 13,000 cards issued in April 2002), because they are accepted worldwide.

The starting point of Internet card payments in Bulgaria is the emergence of ePay.bg – an electronic payment system, developed by Datamax. The system allows cardholders to use cards for payments of goods and services at Bulgarian Internet shops. During 2001, 24,754 transactions were made through ePay.bg. Through the system consumers can exchange data with home banking and accounting systems, as well as make on-line applications for domestic debit cards, conduct standing orders, pay bills, make payment orders, request digital certificates, and conduct phone banking (ePay Voice).

As a conclusion, competition in the bank sector leads to a decrease in prices, to a rise of quality of services, to the introduction of new products, and to the expansion of ATM and POS networks. In spite of the economic difficulties of the country during the last 12 years, in the area of card payments, Bulgaria is already a European country. Let us hope that also the Bulgarian living standard will come closer to the European one soon.

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