

FOREIGN EXCHANGE MARKET DYNAMICS IN BULGARIA IN THE PERIOD 2018 – 2022

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Abstract

In this paper, the turnover of the foreign exchange market in Bulgaria has been examined. The structure of the foreign exchange market turnover by instruments, by currencies and the foreign exchange market turnover by counterparties for the period 2018 - 2022 have been studied. A comparative analysis of the indicators has been made.

Key words: foreign exchange market, structure of the foreign exchange market turnover, spot transactions, forward transactions, swaps in the foreign exchange market.

JEL: G150

Introduction

The prospect of adopting the euro in Bulgaria has implications for many sectors of our economy, including the foreign exchange market. Studying the processes and trends in the currency operations that take place in Bulgaria shows the country's commitment to the euro as a reserve currency and to the euro area.

The main objective of this paper is to examine the trends in the foreign exchange market in Bulgaria in the period 2018 - 2022.

In order to realize the objective, the following concrete tasks have been outlined in the paper:

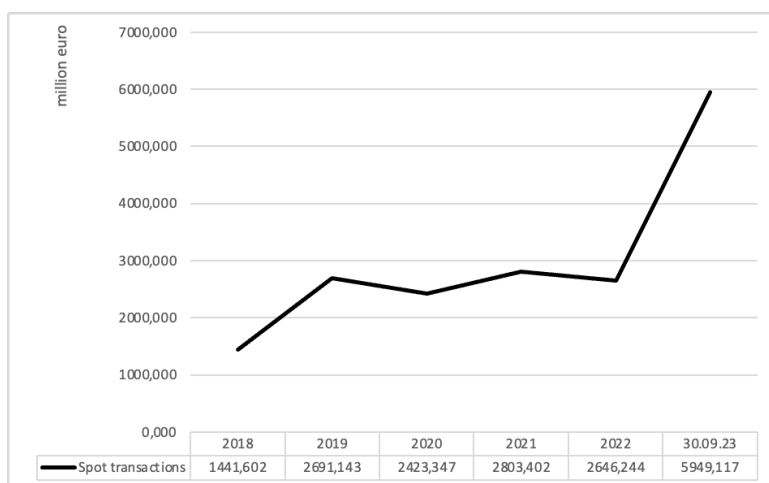
1. Examination of the turnover of the foreign exchange market.
2. Analysis of the structure of foreign exchange market turnover by instrument and by currency.
3. Evaluating the foreign exchange market turnover by counterparty.

Object of the investigation is the foreign exchange market. Subject of the examination is the structure of foreign exchange market turnover by instrument, currency and counterparty.

The main thesis of the research is that the Bulgarian foreign exchange market is stable, with no significant fluctuations in the period 2018 - 2022.

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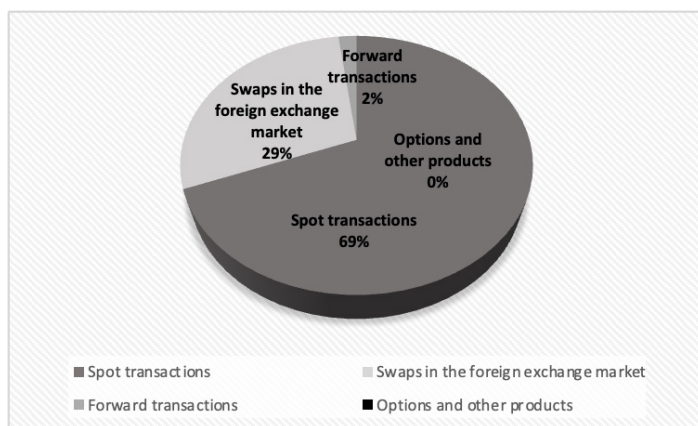
1. Turnover of the Bulgarian foreign exchange market by instruments



Source: BNB

Figure 1: Turnover of spot transactions on the Bulgarian foreign exchange market (average daily value, million euro)

The data presented in Figure 1 show that foreign exchange market turnover in spot transactions increased significantly in 2019 to 2691,143 million euro compared to the same period of the previous year, when the value of the indicator was 1441. 602 million euro. By the end of the reviewed period, the average daily turnover of spot transactions on the foreign exchange market remained at similar values with slight fluctuations.



Source: БНБ, (2022). Пазари на валути и извънборсови пазари на лихвени деривати в България. Отчитане на оборота през месец април 2022 г., р. 6.

Figure 2: Structure of the turnover in the foreign exchange market in Bulgaria by instrument in April 2022 (%)

The operations that prevailed on the foreign exchange market were spot transactions with a share of 69% of all transactions that were carried out in April 2022. Next were swaps in the foreign exchange market with 29%. Forward transactions' share was low, equal to 2%. Spot transactions' share decreased significantly compared to the same period of 2019, when it was 82% of all transactions performed. The share of swaps in the foreign exchange market increased almost twice compared to April 2019, when it amounted to 15,9%. Forward transactions' share remained unchanged (БНБ, 2019, p. 9).

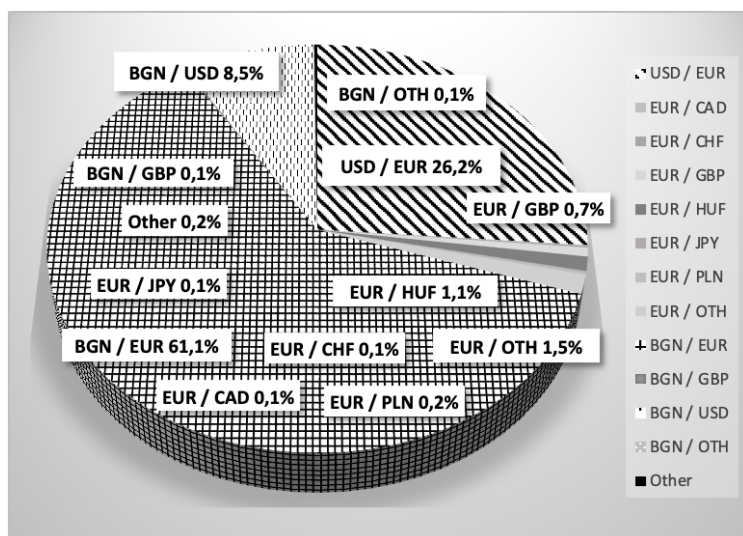
2. Structure of the turnover on the foreign exchange market in Bulgaria by currencies

Table 1: Structure of the turnover of spot transactions on the foreign exchange market in Bulgaria by currencies (%)

Currency	2018	2019	2020	2021	2022	30.09.23
AUD	0,00000015	0,000000425	0,00000012	0,00000000054	0,00000359	0,0000057
CAD	0,00002024	0,000009772	0,00002831	0,00002721461	0,00000708	0,0000188
CHF	0,00000634	0,000013428	0,00005211	0,00003870601	0,00008621	0,0000343
CZK	0,00002388	0,000152847	0,00000383	0,00004078527	0,00000104	0,0000118
DKK	0,00000353	0,000058239	0,00000045	0,00000713419	0,00000259	0,0000099
EUR	0,49848378	0,498700208	0,49466044	0,49910884773	0,49678233	0,4982597
GBP	0,00013513	0,000047910	0,00003757	0,00008882101	0,00008433	0,0000932
HUF	0,00034762	0,000001858	0,00001444	0,00002853676	0,00000015	0,0002608
JPY	0,00026843	0,000067815	0,00008017	-	0,00193620	0,0013964
NOK	0,00001041	0,000005574	0	0,00000852536	0,00145111	0,0000077
PLN	0,00000000	0,000001211	0,00000592	0,00000050332	0,00002432	0,0000934
RON	0,00000445	0,000000107	0,00000355	0,00000013020	0,00011451	0,0000020
RUB	0,00034272	0,000000065	0	0,00001025540	0,00004702	-
SEK	0,00008230	0,000000751	0,00013685	0,00001552970	0,00000999	0,0000346
TRY	0,00176968	0,000763256	0,00000062	0,00005479004	0,00000427	0,0000120
USD	0,00118544	0,001229342	0,00639897	0,00081518938	0,00317275	0,0016361

Source: BNB

The most traded currency on the Bulgarian foreign exchange market is the euro. Transactions with the euro accounted for nearly half of the foreign exchange transactions in all the years of the analyzed period, and this share was stable throughout the period. As can be seen from Table 1, the share of other currencies in the turnover of the foreign exchange market in Bulgaria is several times lower.

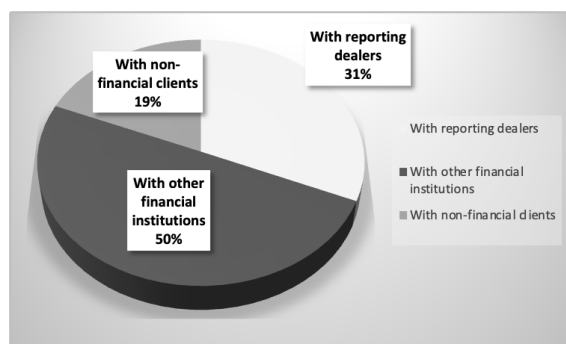


Source: БНБ, (2022). Пазари на валути и извънборсови пазари на лихвени деривати в България. Отчитане на оборота през април 2022 г., р. 10.

Figure 3: Turnover on the foreign exchange market in Bulgaria by currency pairs (daily average in April 2022, %)

In April 2022, the most traded currency pair on the foreign exchange market in Bulgaria is the lev and the euro with a share of 61,1% of the total turnover. Next is the currency pair US dollar and euro with 26,2%, followed by the pair lev and US dollar with a share of 8,5%. It is noticeable that the other currency pairs presented in Figure 3, which account for a larger share of the total turnover in the foreign exchange market, include the euro. For comparison, the share of the currency pair lev and euro was 77,2%, i. e. a significant decrease was recorded. An increase was observed in the share of the US dollar-euro pair, which for the same period of 2019 was 12,5%. In April 2019, the share of the pair lev and US dollar was low – 2,2%. In 2019 the most traded currency pairs on the Bulgarian foreign exchange market also included the euro (БНБ, 2019, р. 10).

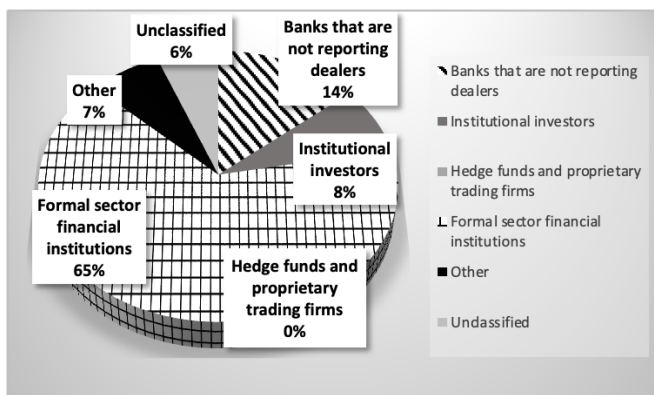
3. Turnover on the foreign exchange market in Bulgaria by counterparty



Source: БНБ, (2022). Пазари на валути и извънборсови пазари на лихвени деривати в България. Отчитане на оборота през април 2022 г., р. 9.

Figure 4: Turnover in the foreign exchange market in Bulgaria by counterparty (daily average in April 2022, %)

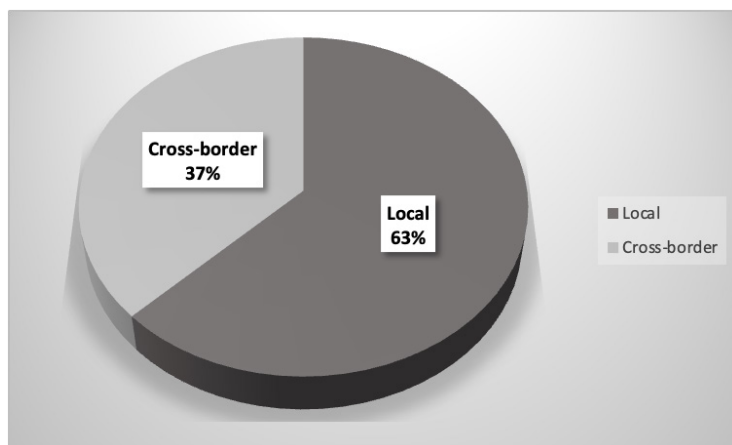
During the reviewed period, almost half of the transactions executed on the foreign exchange market in the country were with other financial institutions that include banks that are not reporting dealers, institutional investors, hedge funds and proprietary trading firms and formal sector financial institutions. Reporting dealers were counterparties to 31,4% of foreign exchange transactions. Transactions with non-financial clients had a share of 18,7%. In practice, compared to April 2019, a decrease in the share of transactions to which counterparties were other financial institutions was recorded. In 2019, their share amounted to 68,9%. For reporting dealers and non-financial clients an increase was observed compared to 2019, when their share was 20,7% and 10,4% respectively (БНБ, 2019, р. 10).



Source: БНБ, (2022). Пазари на валути и извънборсови пазари на лихвени деривати в България. Отчитане на оборота през април 2022 г., р. 10.

Figure 5: Turnover on the foreign exchange market in Bulgaria by transactions with other financial institutions in April 2022 (daily average, %)

In transactions with other financial institutions in April 2022, the largest share was for foreign exchange transactions to which counterparty were formal sector financial institutions. They include central banks and international financial organisations. They were involved in 65% of foreign exchange transactions. Followed by banks that are not reporting dealers with more than four times lower value of 14% and institutional investors with 8%. In foreign exchange transactions with formal sector financial institutions there was a significant reduction in their share in 2022 compared to April 2019 when it was 88%. In banks that are not reporting dealers and institutional investors in 2022, an increase was recorded compared to 2019, when their share in total currency transactions was 5% each (БНБ, 2019, p. 10).



Source: БНБ, (2022). Пазари на валути и извънборсови пазари на лихвени деривати в България. Отчитане на оборота през април 2022 г., p. 9.

Figure 6: Turnover on the foreign exchange market in Bulgaria by local and cross-border counterparties (daily average in April 2022, %)

As shown in Figure 6, the share of foreign exchange transactions with local counterparties in April 2022 was 63%, while that of cross-border counterparties was 37%. Compared to April 2019, the share of transactions with local counterparties decreased, while those with cross-border counterparties increased.

Conclusion

The conclusions that can be drawn from the analysis of the turnover on the Bulgarian foreign exchange market in the period 2018 - 2022 are:

- the turnover of spot transactions on the foreign exchange market remained at similar levels during the reviewed period;
- spot transactions were mainly carried out in the foreign exchange market;

- almost 50% of foreign exchange transactions involved euros throughout the analyzed period;
- the most traded currency pair on the foreign exchange market in Bulgaria was lev and euro;
- in April 2019, the largest share of transactions in the foreign exchange market was with other financial institutions;
- the largest share in foreign exchange transactions with other financial institutions in April 2022 of 65% was with formal sector financial institutions.

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