

Balance or imbalance – a state of the economy

(Abstract)

The **aim** of this article is to present the opinion of its author of the external imbalances of the Republic of Bulgaria and their interpretations. The analyze is based on the assumption that the imbalances are a state of the economy, which can be found not only in the balance of the current account and the balance of trade, but also in many other parameters of the economy.

The chronic negative balances on the current account and the balance of trade of the Republic of Bulgaria have been a theme of many interpretations. Also pessimistic conclusions have been drawn about the competitive power of the Bulgarian export and the possibilities of the internal market to accept import. These conclusions are made only on the basis of the statistical data, while the peculiarities of the restructuring and functioning of the economic system stay unconsidered. Moreover, the fact that the information about the international transactions is burdened with many errors of different origin is also neglected. In prove of this is the statement that if in the previous years the national economy was really in a chronic deficit in relation to the rest of the world, the monetary board wouldn't have functioned normally.

In order that this contradiction to be cleared out, there are some **tasks** to be solved:

- 1) Is the imbalance an evaluation or a state?
- 2) What is the core of the external imbalance and is it always a negative phenomenon?

- 3) What is the range of the transactions in relation to which the imbalance is determined?
- 4) What are the relations between the imbalances and other internal and external parameters of the economy?

In the present research have been examined 3 basic conceptions about the evaluation of the external imbalances:

1/ Conception about the balance of trade and the current account – according to it we can talk about external imbalances when the revenues from the independent transactions (these with goods, services and incomes) exceed the payments on them and vice versa;

2/ Conception about the basic balance – according to it the independent transactions are these with goods, services and incomes and also the long-term capital transactions. The application of this concept is limited because of the vague difference between long-term and short-term capital transactions;

3/ Conception about the total balance –it accepts that all the transactions are independent except for the transactions of the monetary authorities. This concept is usually used in economies with a fixed rate of exchange.

When examining the imbalances of the Republic of Bulgaria for the period from January'1999 to September'2000 using these conceptions, we can draw the following conclusions:

- 1) According to the conception about the balance of trade the economy is in a state of deficit in relation to the rest of the world during the whole period;
- 2) According to the conception about the current account the economy is in a state of deficit too, but in some periods it passes to an active state;

- 3) According to the conception about the total balance the economy is in a comparatively balanced state and imbalances with different signs succeed each other.

There are offered two **methods** for empirical verification of the balanced state of the economy during this period:

- 1) The approach of absorption – it is a classical approach for explaining the external imbalances. According to it if there are chronic external imbalances with a negative sign, they have to be reflected either in the increase of the external passive, or in the decrease of the external active of the economy and vice versa.
- 2) The second approach evaluates the external imbalances including some other parameters of the economy such as taxes and private savings.

The empirical verification of these two approaches comes to a contradiction between the data for the balance of the current account and the balance of trade, on one hand, and the other parameters of the economy, on the other hand.

We can come to the **conclusion** that there is no enough proves for the fact that the economy is in a chronic external deficit. The basic reason for this is that there is a substitution of the data for the revenues and the payments on the independent transactions with the data about the independent transactions their selves. Another reason, as it is known, is that the data about the international transactions are burdened with significant errors in their evaluation. In this connection, it is not advisable to interpret only data about the balance of trade and the current account as indicators of the external imbalances.

It is recommended that in the evaluation of the external imbalances of the state are interpreted the statistical data about the balance of trade

and the current account as well as the data about the net external actives, the gross currency reserves, the interest and price rates etc.

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