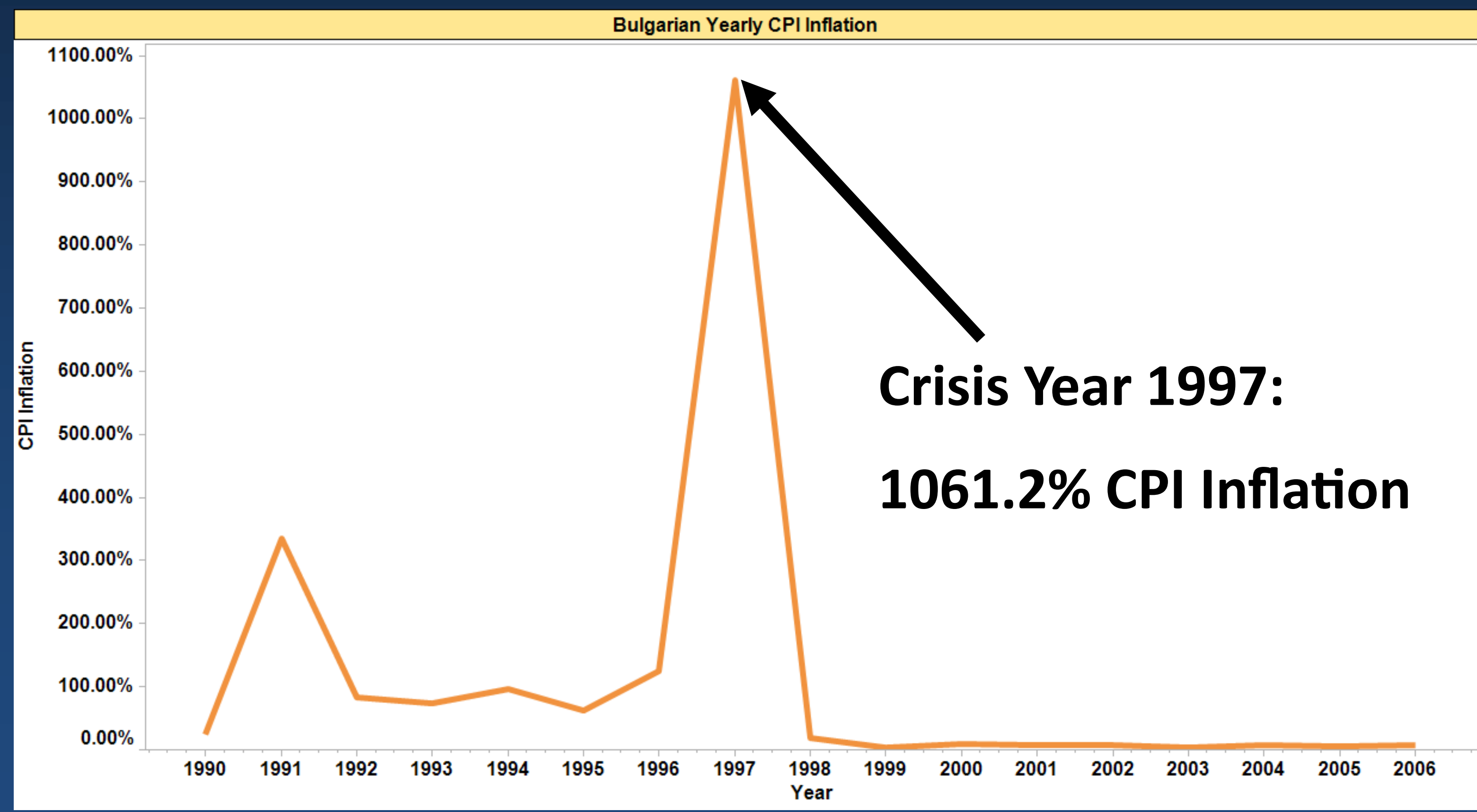
Broken Lev(ee)

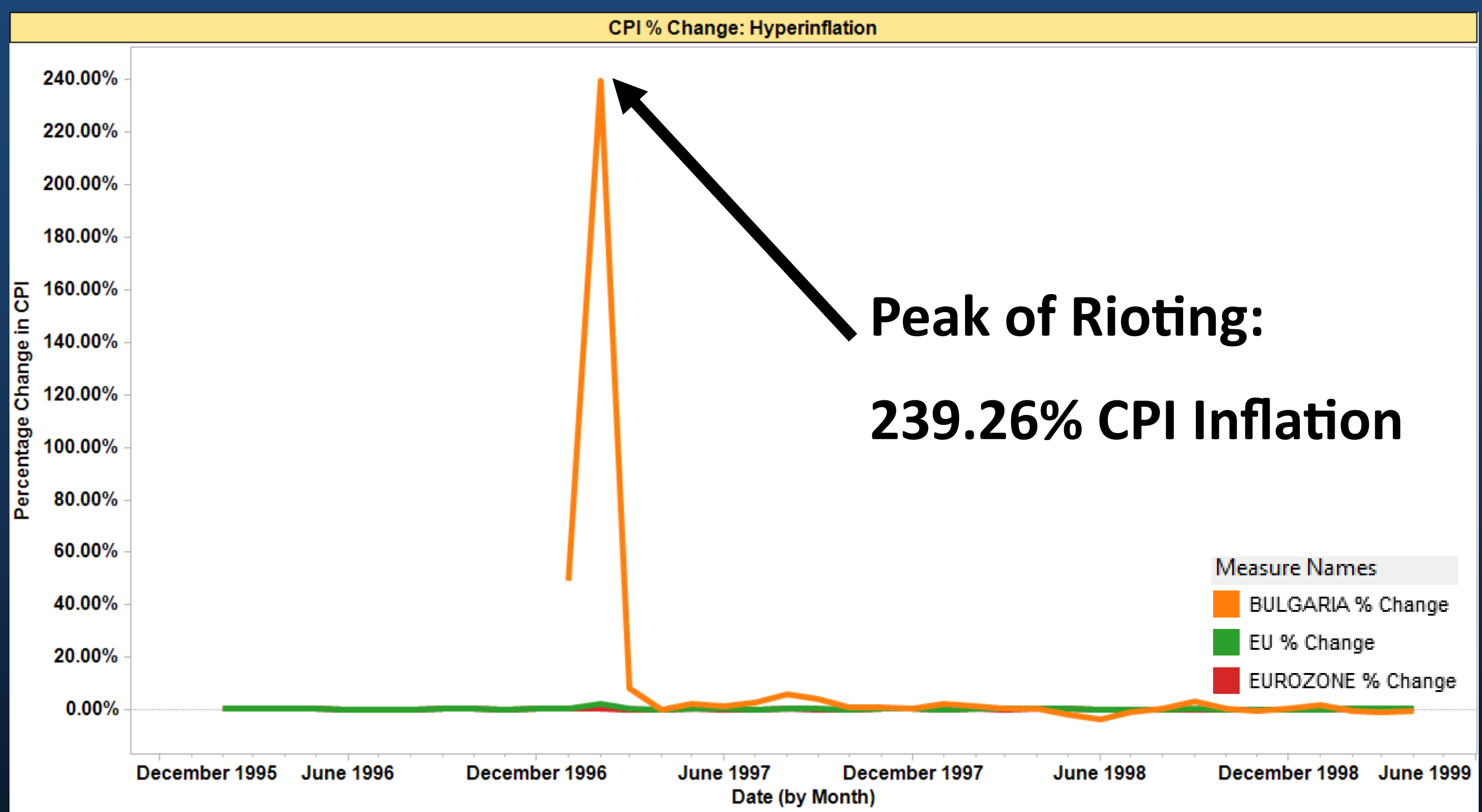
How a “Flood” of Credit Wrecked the Bulgarian Economy

Hyperinflation and riots often go together when banking systems collapse. Huge Bulgarian price fluctuations nearly led to a revolution in 1997. An IMF-backed Currency Board solution stabilized the country by tying its currency directly to the Deutsche Mark at a rate of 1000 leva to 1 DM (revalued to a 1:1 ratio in 1999). The DM became the Euro in 2002, and the lev then assumed the DM to Euro valuation.



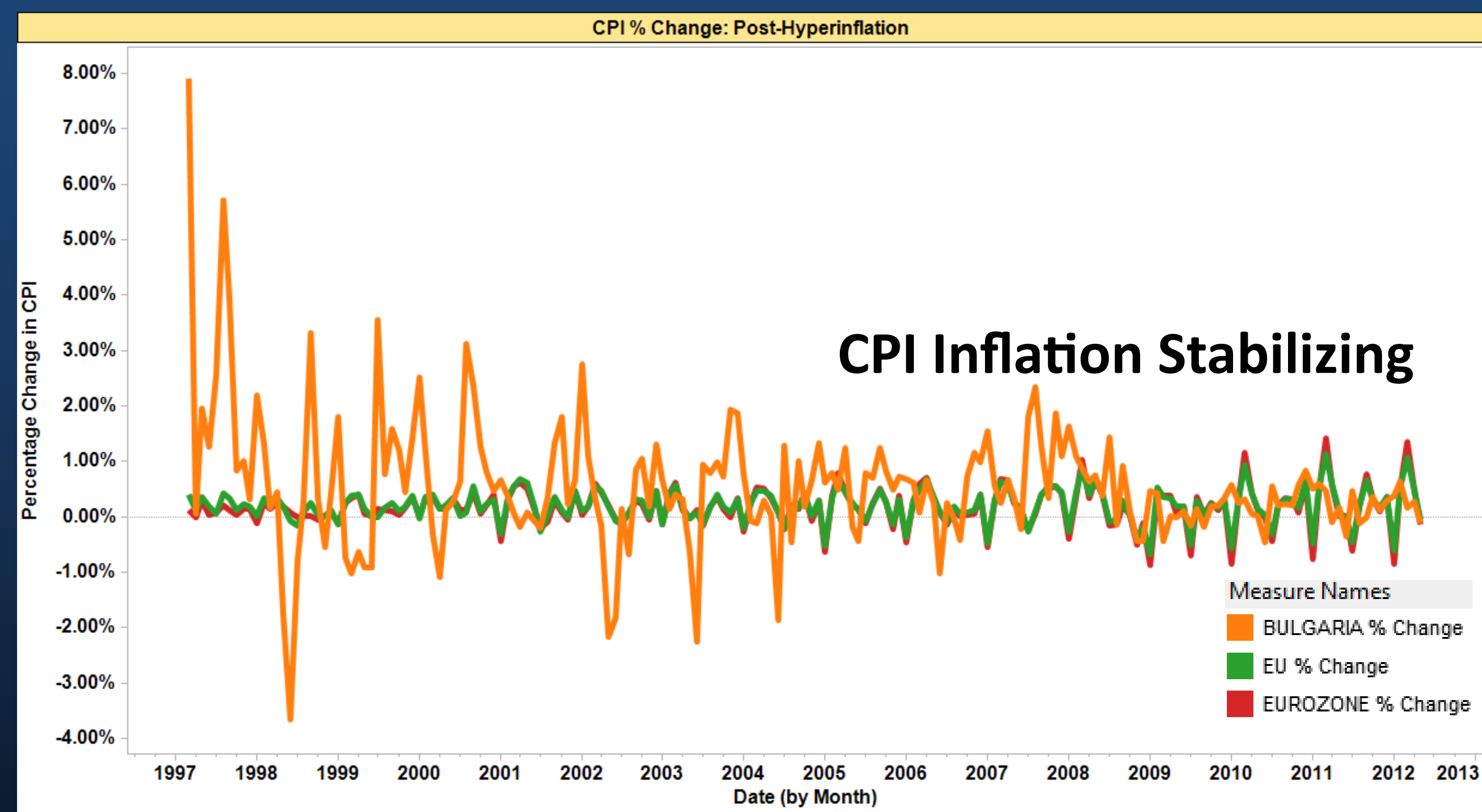
CPI, or Consumer Price Index, measures the price of a “market basket” of commonly purchased items across time. CPI increases mean it costs more money to purchase the same goods, and therefore that the money is worth less.

In late 1996 a grain shortage, coupled with foreign debts coming due, forced the government to default on its foreign loan payments. This caused over half of Bulgarian banks to go bankrupt in the chaos that followed. Inflation skyrocketed – many people had borrowed money from banks that were now defunct, and thus huge amounts of credit filled the economy and brought the Lev to its lowest value ever. Street riots and a near-revolt led to monetary reforms that eventually stabilized the country.



Monthly CPI Percentage Changes for Bulgaria as compared to the EU and Eurozone from January 1996. The spike is the peak of hyperinflation.

Zhan Videnov, Prime Minister of Bulgaria during the 1996/7 hyperinflation crisis



Monthly CPI Percentage Changes for Bulgaria as compared to the EU and Eurozone from March 1997. After the reforms, inflation stabilizes.

List of Sources Utilized:

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