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SOFIA, **Bulgaria** -- The government of **Bulgaria** is still far away from reaching a rescheduling agreement on its \$12.5 billion **foreign** debt and isn't likely to ever pay off the entire amount, according to Emil Harsev, deputy governor of the Bulgarian National Bank.

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"When you consider **Bulgaria**'s situation of a stagnating economy and decreasing output, it's easy to see that this country will never repay these debts," Mr. Harsev said in an interview. "That's why we need a rescheduling agreement soon to make the debt serviceable in relation to our economic potential," he continued.

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Although the "broad outlines" of a framework agreement with the London Club is now taking shape, Mr. Harsev says, there's a wide gap between the two sides on the exact level of debt reduction. After the latest round of negotiations in early April, the Bulgarian National Bank continues to push for a net-value reduction of 46% to 48%, while the London Club is proposing relief of 8% to 10%.

The debt burden and protracted talks on rescheduling are hampering efforts to restructure the Bulgarian economy by preventing rapid expansion of the financial sector and presenting a general picture of instability and insolvency, analysts say.

However, Mr. Harsev believes the debt problem, while serious, shouldn't be exaggerated. "Even if we could repay all our debts at once, which is clearly unrealistic, our credibility wouldn't get much better," he explains. "Our economy is in such a state of dramatic collapse that nobody will just give us money because we've paid off the debt. It wouldn't open financial markets for us to borrow or substantially increase **foreign** direct investment."

Mr. Harsev played down increased speculation that **Bulgaria** might renege on its debt altogether, as some Bulgarian politicians have proposed. "This would pose a potential disaster to all our efforts," he says.

Most of the external debt was accumulated in the late 1980s as the faltering communist regime tried to prop up a moribund economy and keep the people happy by financing the import of much sought-after consumer goods. Total debt tripled since 1985, most of it short-term and 95% held by the Bulgarian **Foreign Trade** Bank, which used to serve as the principal commercial agent for the government.

Separately, Mr. Harsev said consolidation of the domestic banking sector is to continue as a first step toward restructuring and eventual privatization. So far, 22 banks have been merged into the new United Bulgarian Bank and four more separate units are planned as part of an overall arrangement to substantially reduce 80 commercial banks into smaller, more competitive and better capitalized institutions.

Consolidation is also aimed at reducing the bank's bad debts, which are estimated at 80 billion leva (\$3 billion). Full-scale bank privatization isn't expected to get under way until 1994.

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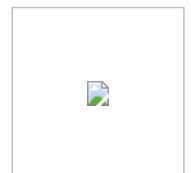
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