

Bulgaria's financial instability fueled by EU-Russia conflict

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A rush of customers panicking to withdraw money led two of Bulgaria's largest banks to the brink of collapse in late June.

On June 27 alone, the First Investment bank (FIB) had to pay out €400 million (US\$545 million) to its customers. In addition, the Corporate Commercial Bank (KTB) was also affected. The Bulgarian central bank took control of the latter on June 20 after more than one-fifth of its deposits had been withdrawn, allegedly as the result of a dispute between two oligarchs.

On June 29, President Rosen Plevneliev appeared on television with the leaders of Bulgaria's largest parties in an attempt to calm the public. There was neither a banking crisis nor a political crisis, he asserted. "We call upon all Bulgarian citizens to remain calm and stop withdrawing your money for no reason." Official sources claimed that a criminal operation was responsible for the bank panic.

The European Union (EU) intervened last Monday, reassuring that Bulgaria's banks were "well capitalised and controlled a high level of liquidity." At the same time, the EU made available a loan of €1.7 billion to back the banks.

Five suspects possibly behind the immediate crisis have been arrested, but this did not produce any further information. The state prosecutor in Sofia subsequently announced investigations into two investment bankers.

The central bank was concerned, suspecting a "systematic attack on the stability of the state." One week previously, a smaller bank was temporarily taken under its control due to similar events.

Although the exact causes of the banking panic remain unclear, it is likely to be connected with the conflict in Ukraine and growing tensions between the EU and Russia, which has produced sharp conflicts

between different political camps and rival oligarchs.

Bulgaria, an EU and NATO member, has traditionally maintained close economic and political ties to Russia. The government led by the non-party prime minister Plamen Oresharski relies on support from the Socialist Party (BSP), the successor to the Communist Party, which has close ties to Moscow. It has also been supported until recently by the party of the Turkish minority (DPS—Movement for Rights and Freedoms) and the extreme right-wing Ataka.

In the May 25 European elections support for the BSP collapsed. The opposition conservatives under former Prime Minister Boyko Borisov, who retains much closer relations with the EU and the US, won a clear victory. The DPS subsequently withdrew its support for the government. As a result, early elections will take place on October 5. The current government is to be replaced by a cabinet of technocrats in August.

The principal point of immediate contention in the conflicts and intrigues in Bulgaria is the building of the South Stream pipeline, intended to transport Russian gas to Bulgaria through the Black Sea, bypassing Ukraine, before going on to Austria and Italy. The building of this pipeline, funded mainly by Russian concern Gazprom, would strengthen Russia's position against Ukraine significantly. It would be able to transport Russian gas to Europe without Moscow being dependent on transit pipelines in Ukraine.

With the outbreak of the Ukraine conflict, the EU and US stepped up pressure on Sofia to put the building of the pipeline on hold. At the beginning of June, a group of US senators led by John McCain visited the Bulgarian prime minister. Two days after the Americans' visit, Oresharski announced the halting of the building project.

The US ambassador in Sofia, Marcie Ries, threatened

Bulgarian firms involved in the building project with sanctions. She justified this by arguing that the Russian firm Stroytransgaz was involved in the consortium building the €3.5 billion section of Bulgarian pipeline. The US has imposed sanctions on the firm's financier, the oligarch and ally of Russian President Vladimir Putin, Gennadi Timchenko.

The temporary halting of South Stream not only met with opposition in Moscow, but also in Rome and Vienna. The Austrian government demonstratively welcomed Putin to Vienna on June 24, where the chiefs of Gazprom and Austrian energy firm OMV signed a contract for the building of South Stream.

In Bulgaria, the BSP supports the project, while Borisov has announced that in the event of an election victory, he would only continue the construction of the pipeline if the contracts conform to EU regulations. He intends to exclude all the companies on US sanctions lists, i.e., firms close to the Kremlin.

Along with the conflicts over South Stream, a conflict is raging behind the scenes over the billions that are to be invested in its construction. The EU has claimed that hundreds of millions have flowed into the pockets of Russian and Bulgarian oligarchs.

There are suspicions that Bulgarian tycoon Delyan Peevski could be behind the banking crisis. The 33-year-old controls a massive media and business empire and is one of the most powerful oligarchs in the country. He sits in parliament for the DPS. Last year, the government tried to appoint Peevski to head the intelligence services, a move that provoked mass protests.

Several months ago, Peevski fell out with the head and main shareholder of KTB, Tzvetan Vassilev, with whom he had worked together for years. KTB was one of the banks that was on the verge of bankruptcy in late June. It has close ties to the BSP and administers the funds of many state concerns. A war of words has erupted between Peevski and Vassilev. Both claimed they have received death threats.

Regardless of who was behind the crisis, the near collapse of two major banks due to rumours shows the extreme instability of the country. The head of the German Konrad Adenauer Foundation in Sofia declared that the conflicts were endangering the financial stability of the country. Other analysts fear Bulgaria could be compelled to give up the pegging of its

national currency to the euro.

The recent events are reminiscent of 1997, when the Bulgarian financial system collapsed after hyperinflation. Since the 1990s, the Bulgarian lev has been linked to the German mark and subsequently the euro. While the population lost everything at the time and hunger protests broke out in Sofia, a number of oligarchs were able to write off their debts due to the devaluation.



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