Annual Review of Government Debt • 1999

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Ladies and Gentlemen,

I am pleased to present you the first public annual report on government debt management. Its preparation and presentation to the general public is an expression of our ambition for transparency in all fiscal affairs, including the area which has been until now of a very confidential nature.

I would like to stress several of our achievements during 1999. First, the successful completion of negotiations with the International Investment Bank which resulted in the Government of Bulgaria eliminating its outstanding obligations to the bank in the amount of over USD 700 million. Along with a similar debt operation completed in the fourth quarter of 1998 with the other bank of the former CMEA – the International Bank for Economic Cooperation, it had the combined effect of eliminating USD 950 million of the government outstanding obligations. The success of the Ministry of Finance in executing such important and complex transactions for the Government allows me to rank them among the most remarkable in our recent financial history.

Additionally, a satisfactory agreement was reached to settle a long outstanding dispute on the Bulgarian liabilities to the Kingdom of Netherlands. In this respect, a unique transaction was completed that did not involve any resources from the budget. Successful negotiations were also concluded with the Republic of Italy to settle outstanding claims.

Another achievement I would like to point out is the reduction of our domestic debt which has had a positive effect on the liquidity of the banking system. This was accomplished despite a difficult environment in the external capital markets. In addition, the Ministry of Finance has implemented an issuance policy that has contributed to a lengthening of the average maturity of the government debt and to the development of the domestic financial markets.

In the year 2000, the Ministry of Finance will regard as a priority the issues of debt management. We are convinced that this, together with the understanding by the general public, will lead to a greater support in our efforts aimed at achieving the long-term goals of the Government.

Muravey Radev
Minister of Finance

Abbreviations

BIR	Base Interest Rate
BNB	Bulgarian National Bank
EBRD	European Bank for Reconstruction and Development
FESAL	Financial and Enterprise Sector Adjustment Loan
G-24	The Group of the 24 Most Industrially Developed Countries
GS	Government Securities
IBEC	International Bank for Economic Cooperation
IIB	International Investment Bank
IMF	International Monetary Fund
JBIC (JEXIM)	Japan Bank for International Cooperation (former Japan Export - Import Bank)
LGPDACB	Law on Government Protection of Deposits and Accounts in Commercial Banks, for which the Bulgarian National Bank Has Requested Instituting Bankruptcy Procedures
MoF	Ministry of Finance
ZUNK	Law on the Settlement of Nonperforming Loans Negotiated Prior to 31 December 1990

Contents

I. Institutional Structure

National Assembly

Pursuant to the Constitution of the Republic of Bulgaria the National Assembly is required to give its consent for concluding all international government debt agreements that carry financial commitments of the Sovereign. Upon a successful conclusion of these agreements they are ratified by the National Assembly and take the form of law.

Council of Ministers

Governs the execution of the state budget in which the deficit and its financing are annually determined. Currently, the deficit is financed through domestic and foreign borrowing and privatization receipts.

Ministry of Finance

Has a leading role in negotiating financial obligations on behalf of the government. It also determines the terms and conditions, as well as the servicing and redemption of the obligations.

Bulgarian National Bank

Acts as fiscal agent for the Government on matters pertaining to the government debt service under conditions agreed with the Minister of Finance. It organizes the primary auctions, acts as a depository and provides settlement services for government securities. The BNB maintains the registers of government securities held by the primary dealers. In addition, the Bulgarian National Bank is not permitted to extend loans in any form to the government or to government institutions, except for on-lending of Special Drawing Rights from the IMF.

Primary Dealer Selection Committee

Approves the primary dealers of government securities under the criteria established by the Governor of the BNB and the Minister of Finance. The Committee includes officials from the Ministry of Finance, the BNB and the Securities Commission. The Committee meets at least twice a year and appoints the primary dealers for a period of six months. The list of primary dealers approved by the Committee is confirmed by the BNB Governor and the Minister of Finance.

Auction Committee

Is responsible for the execution of the auctions for government securities. Its members are appointed by the Head of the Fiscal Services Department at the BNB. The Committee consists of three permanent and three alternate members.

Primary Dealers of Government Securities

Are banks and other investment intermediaries, within the meaning of the Law on Public Offering of Securities, and are approved by the Primary Dealer Selection Committee. They participate in the auctions of government securities organized by the BNB. Each primary dealer maintains a register of the government securities owned by his clients. Secondary market transactions in government securities between a primary dealer and a nonprimary dealer, as well as between nonprimary dealers are recorded in these registers. The ownership is evidenced by a certificate.

Stock Exchange

Government securities are eligible to be traded on the Bulgarian Stock Exchange under terms and procedures established by the Stock Exchange and subsequently approved by the Ministry of Finance and the BNB. Although government securities are permitted to be traded on the Stock Exchange, no trading is presently conducted.

II. Historical Review

Structure of the Sovereign Debt up to 1999

The sovereign debt was identified as one of the most serious problems at the start of the economic reforms in 1991. At that time it totaled USD 11,250.8 million, of which foreign debt comprised 93%. Debt, as a percent of GDP, was 180.7%. The largest share of debt consisted of loans from private and bilateral creditors and banks from the former Council for Mutual Economic Assistance (CMEA). Domestic government debt was predominantly to the BNB and included other loans from commercial banks, with 23% of it in physical government securities issued to the public through the State Savings Bank and the local commercial banks.

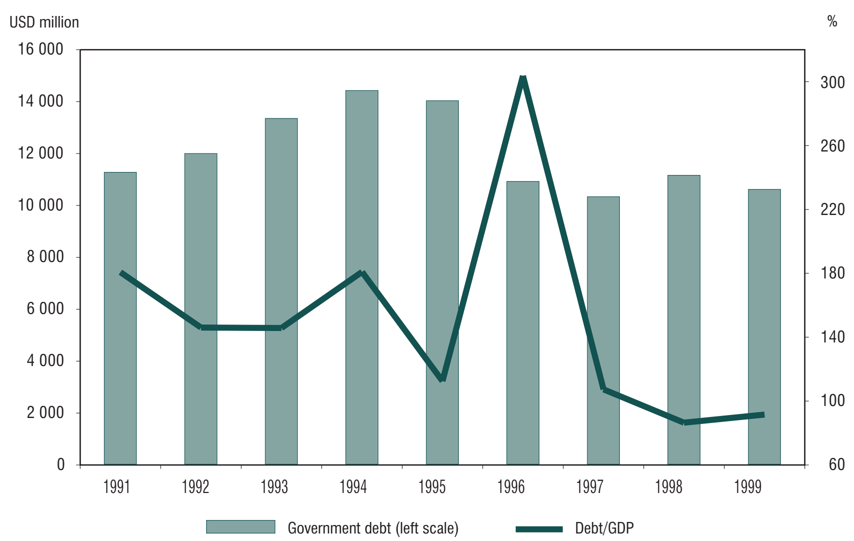
Over the following three years the debt increased in nominal terms when in 1994 it amounted to USD 14,401.2 million. However, as a percent of GDP, its size decreased until 1993 when it constituted 146% of GDP, raising in 1994 again to 180% of GDP. The structure of the government debt for this period can be attributed to the rise of the domestic debt, a drop of foreign debt in nominal terms and the sharp devaluation of the Bulgarian lev. Following the 1990 moratorium on foreign debt, interest payments during that period ranged from 14% to 33% of exports and from 14% to 28% of budgetary expenditures.

A nominal reduction of over USD 3 billion of government debt was achieved between 1995 and 1998. Over the same period, as a percent of GDP, it ranged from a peak of 303% in 1996 to 86% in 1998.

Foreign Debt

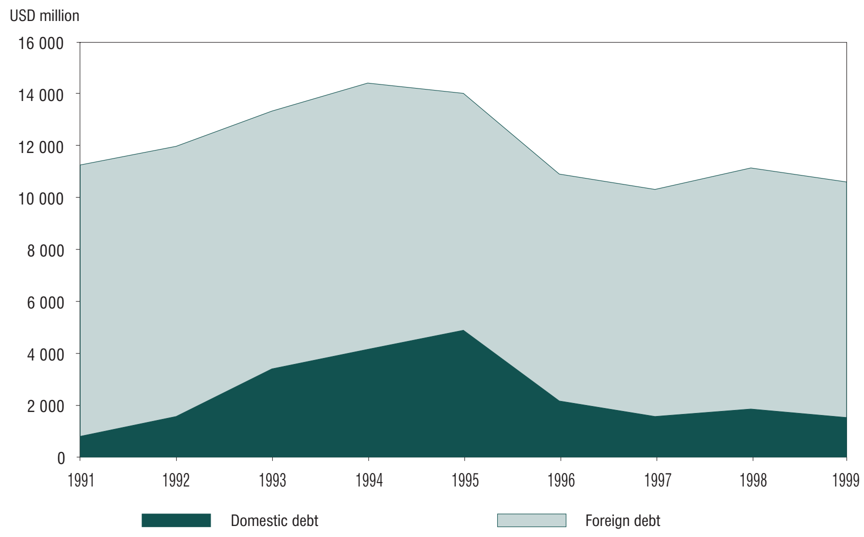
Debt accumulated up to 1991 predetermined the foreign liabilities structure in the subsequent eight years. London Club creditors represent the largest share regardless of the restructuring and real reduction of debt in 1994. As a result of the signed London Club Agreement, a reduction of USD 1 billion was achieved. Brady bonds redemption under the debt-equity swap scheme amounted to USD 140.4 million.

Government and Government Guaranteed Debt



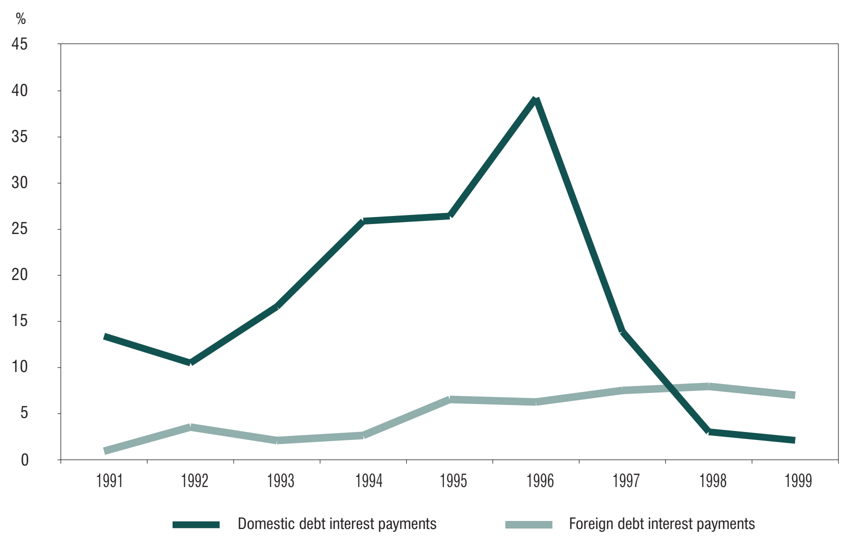
Source: *MF.*

Domestic and Foreign Debt



Source: *MF.*

Debt Interest Payments as Percentage of Total Budget Expenditures*



** Data is given as percentage of the consolidated budget.*

Source: *MF.*

The obligations to the Paris Club creditors were defined in a number of agreements concluded before 1998. The debt dynamics has been determined by the debt reduction agreements, the amortization plans and the exchange rate fluctuations.

In the 90s there was a considerable increase of the official creditors' share: IMF, World Bank, G-24, European Union. Their share rose from 7% in 1991 to 13.5% in 1998. For the same period 10 agreements with the IMF were concluded.

In 1997 – 1998 several disputed loans of the country were settled through bilateral agreements: Bulgaria's liabilities to Spain, Poland, Hungary, the former GDR, to the National Bank of Poland and to the International Bank for Economic Cooperation.

Domestic Debt

The domestic debt in the 90s was formed as a result of the budget deficit financing through domestic sources and series of transactions on the part of the government to assume the liabilities of the real and financial sectors.

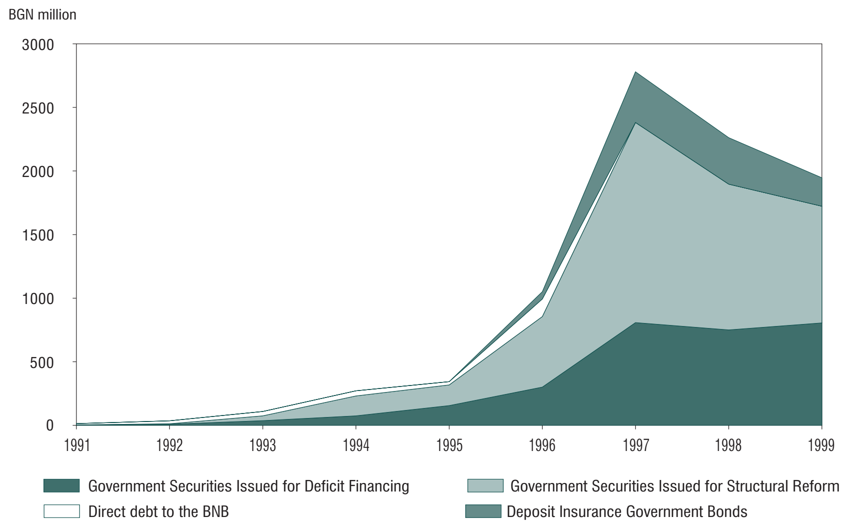
Government securities for the purpose of deficit financing were first issued in 1990.

These were physical issues that were sold up to 1993 and were earmarked mainly for the public. They were placed through the branches of State Savings Bank and other commercial banks. Starting in 1992 the practice of regular issues of book-entry government securities sold through auctions conducted by the BNB was introduced. During the first two years the maximum maturity of the issues was up to one year. Subsequent to 1993 securities with two to five-year maturities were launched on a regular basis.

The direct loans from the BNB were also used for deficit financing, but their share gradually declined with the development of the government securities market. During the 1996 financial crisis these loans marked a sharp increase but following the inauguration of the currency board the debt was subsequently restructured.

Up to 1994 a number of transactions were designed in order to relieve the banking system of the nonperforming loans accumulated by the state-owned enterprises. As a result, BGN 38,719.3 million lev-denominated and USD 1,808 million dollar-denominated

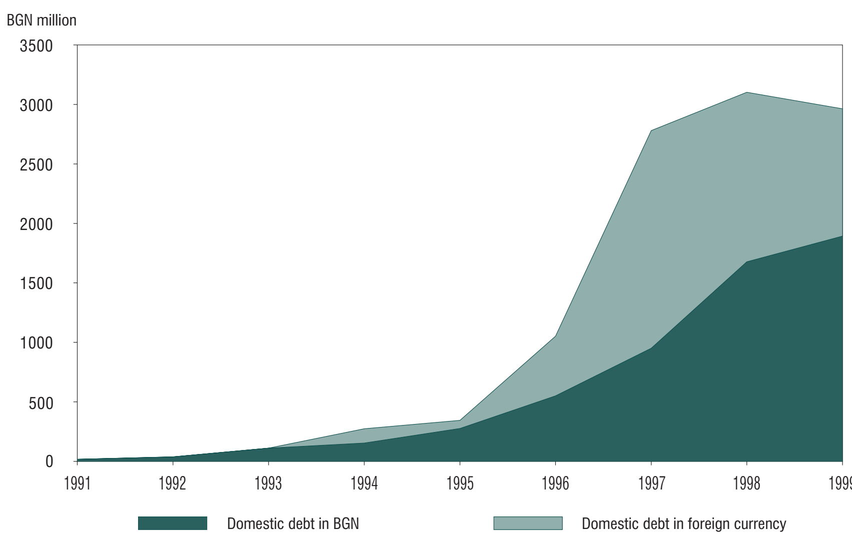
Domestic Debt Structure*



**Domestic debt is given in its re-denominated equivalent.*

Source: *MF.*

Currency Structure of Domestic Debt



Source: *MF.*

government securities were issued. The measures undertaken later on to strengthen the banking system and to offset the negatives resulting from the 1996 bankruptcy of 15 banks led to the issuance of government debt, totaling BGN 90.8 million and USD 190.6 million. Since 1994 these instruments have constituted the largest share of domestic government obligations with its size strongly depending on the USD exchange rate fluctuations on the domestic market.

Currently, over 98% of the domestic government guaranteed debt is represented by deposits and accounts with the State Savings Bank, which are 100% guaranteed by the government. This guarantee expires in April 2000 when the State Savings Bank will be transformed into a commercial bank and not subject to special status.

Government and Government Guaranteed Debt Composition, 1991 – 1999

Structure	1991	1992	1993	1994	1995	1996	1997	1998	1999
Domestic debt (BGN million)	**17.4**	**38.3**	**111.0**	**273.7**	**345.4**	**1052.6**	**2780.5**	**3101.7**	**2963.3**
I. Government	17.4	38.3	111.0	273.7	345.4	1052.6	2780.5	2262.1	2043.2
GS issued for budget deficit financing	4.0	8.1	36.4	74.8	154.8	301.1	807.7	749.9	804.8
GS issued for structural reform	-	4.1	38.5	156.6	162.8	554.4	1574.0	1146.3	918.8
Deposit insurance government bonds	-	-	-	-	-	57.7	397.8	365.9	222.8
Direct debt to the BNB	9.8	22.9	33.4	40.1	26.1	138.1	-	-	-
Euro-denominated GS	-	-	-	-	-	-	-	-	96.8
Other	3.6	3.2	2.7	2.2	1.7	1.3	1.0	-	-
II. Domestic government guarantees	-	-	-	-	-	-	-	839.6	920.1
Foreign debt (USD million)	**10452.6**	**10404.9**	**9928.0**	**10254.2**	**9122.6**	**8735.9**	**8743.9**	**9283.8**	**9070.1**
I. Government	10452.6	10404.9	9915.0	10210.2	9053.4	8533.1	8358.8	8789.1	8369.5
London Club	6979.0	6547.7	6021.1	5137.0	5005.4	4984.0	4977.4	4977.4	4977.4
Other bonds	367.8	332.6	348.9	389.3	369.0	147.2	80.8	34.7	-
Paris Club	1116.9	1149.5	1137.0	1305.8	1296.8	1099.0	877.5	1044.6	814.8
World Bank	142.0	152.0	155.0	396.0	410.6	455.8	493.7	627.0	824.3
including JBIC (JEXIM)*	-	-	-	58.4	97.2	78.0	62.0	61.7	119.1
G-24	-	62.0	81.0	151.0	189.9	170.0	90.4	89.5	71.2
European Union	201.0	357.0	357.0	444.0	460.6	495.5	289.0	421.9	401.8
IMF	401.0	590.0	632.0	941.0	716.7	584.6	942.8	1114.5	1131.6
Other	1244.9	1214.1	1183.0	1446.1	604.4	597.0	607.3	479.4	148.4
II. Foreign government guarantees	-	-	13.0	44.0	69.2	202.8	385.1	494.8	652.2
III. Government guarantees called	-	-	-	-	-	-	-	-	48.4

* *Japan Bank for International Cooperation (former Japan Export – Import Bank).*

Notes: 1. The BGN and the USD equivalent of debt has been calculated as per the official exchange rate of the BNB for the respective currencies, as of the last business day of each year.

2. Domestic debt prior to July 1999 is given in its re-denominated equivalent.

3. Foreign debt data up to 1996 is quoted according to BNB information and has been calculated for the purposes of the national balance of payments. For 1997 and 1998 the figures are taken from the BNB register on government and government guaranteed debt. Data for 1999 is provided by the Ministry of Finance.

4. Government debt to the IMF is not included in the domestic debt and is shown in the foreign debt.

Source: *BNB and MF.*

The 1994 London Club Agreement

The Bulgarian foreign debt restructuring under the Brady-scheme dates from 1994. The Agreement concluded at that time with the London Club private creditors led to the restructuring of a significant part of Bulgaria's foreign currency liabilities to its external creditors. The negotiation with the London Club included all qualified liabilities of the Bulgarian Foreign Trade Bank (now Bulbank), including loans, issued and called bank letters of credit and guarantees outstanding as of 29 March 1990 when a moratorium on the foreign debt payments was declared.

In accordance with the agreement, Bulgaria presented to its foreign creditors a number of alternatives for the servicing of the nonperforming government loans. The first alternative envisaged a commitment on behalf of the government to buy back part of its debt. At the same time the creditors could exchange their overdue credits against several types of Brady instruments: Discount Bonds (DISCs), Interest Arrears Bonds (IABs) and Front Loaded Interest Reduction Bonds (FLIRBs). This swap resulted in a significant improvement of the debt amortization schedule. Based on the tenders received from the creditors, Bulgaria issued Brady bonds at the initial par value of USD 5.118 billion, which replaced accumulated liabilities of over USD 8 billion.

The issuer has the right to call all or part of each Brady issue on each interest payment dates. The call is carried out on a pro-rata basis with regard to all bondholders. For this purpose the issuer makes a public offer or conducts transactions on the open market in compliance with the generally accepted procedure. Pursuant to the agreement a call can only be effected under the condition that the government has not defaulted its interest or principal payments on any of the Brady bonds.

The collateral agent is obligated to maintain the required collateral on behalf of the DISCs' and FLIRBs' holders. However, in cases of a buy-back or exchange, the collateral associated with these bonds will be released.

The Front Loaded Interest Reduction Bonds (FLIRBs) were issued to replace the aggregate amount of principal of the qualified debt claims. With these bonds, old loans were rescheduled with softer debt servicing arrangements. The original maturity of the FLIRBs is 18 years. This issue has partial collateralization of the interest payments and can be used as a means of payment, equal to 50% of their par value, in privatization deals.

Front Loaded Interest Reduction Bonds (FLIRBs)

Issue Date	28 July 1994
Maturity Date	28 July 2012
Issue Amount	USD 1,658 million
Tranche A	USD 1,489 million
Tranche B	USD 169 million
Coupon:	Floating
- Tranche A	Years 1 – 2: 2%; years 3 – 4: 2.25%; year 5: 2.5%; year 6: 2.75%; year 7: 3%; from year 8 to maturity: 6-month LIBOR (USD) + 13/16
- Tranche B	Similar to the tranche A coupons + 0.5% for every single payment
Day Count Convention	30/360 for fixed interest payments and actual/360 once floating rate
Interest Payment Dates	28 January and 28 July
Principal Repayment	8-year grace period followed by 21 equal semiannual installments starting on 29 July 2002
Collateral of Interest Payment	Acceptable investments in dollar-denominated securities covering the interest payments amount from year 1 to 7 included; the collateral is 2.6% of the initial principal amount, and income on collateral is retained until it covers the annual interest payments calculated at 3%
Collateral Agent	Federal Reserve Bank of New York
Minimum Denomination	USD 250,000
Type	Global. Transferable in parts not less than USD 1,000 or in multiples of USD 1,000
Form	Registered and bearer
Listing	Luxembourg Stock Exchange
Settlement	Euroclear, Cedel and physical delivery for non-US bonds; Citibank as registrar for US-bonds

Source: *MF.*

The Discount Bonds (DISC) have an original 30-year maturity. The London Club agreement provides for 50% write-off of the total principal amount of the exchanged qualified debt claims. This transaction led to a reduction in the foreign debt stock by USD 1.86 billion. The DISCs can be used at 100% of their par value in privatization deals.

Discount Bonds (DISCs)

Issue Date	28 July 1994
Maturity Date	28 July 2024
Issue Amount	USD 1,850 million
Tranche A	USD 1,685 million
Tranche B	USD 165 million
Coupon:	Floating
- Tranche A	6 months LIBOR (USD) + 13/16
- Tranche B	6 months LIBOR (USD) + 13/16 + 0.5%
Day Count Convention	Actual/360
Interest Payment Dates	28 January and 28 July
Principal Repayment	Bullet
Collateral:	
- Principal	30-year US Treasury zero-coupon bonds
- Interest	US Treasury securities, 12-month rolling interest guarantee, which covers the annual interest payments calculated at 7% of the principal outstanding
Collateral Agent	Federal Reserve Bank of New York
Minimum Denomination	USD 250,000
Type	Global. Transferable in parts not less than USD 1,000 or in multiples of USD 1,000
Form	Registered
Listing	Luxembourg Stock Exchange
Settlement	Euroclear, Cedel and physical delivery for non-US bonds; Citibank as registrar for US-bonds

Source: *MF.*

The Interest Arrears Bonds (IABs) replaced all interest arrears accrued on qualified debts of the Bulgarian Foreign Trade Bank as of 29 March 1990. The original maturity of the IABs is 17 years. These instruments have no collateral and cannot be used as a means of payment in privatization deals.

Interest Arrears Bonds (IABs)

Issue Date	28 July 1994
Maturity Date	28 July 2011
Issue Amount	USD 1,610 million
Interest Coupon:	6 months LIBOR (USD) + 13/16
Day Count Convention	Actual/360
Interest Payment Dates	28 January and 28 July
Principal Repayment	7-year grace period followed by 21 equal semiannual installments, starting on 30 July 2001
Annual Installments (as a percentage of the initial principal)	
1 – 6 installment	1%
7 – 11 installment	3%
12 – 16 installment	6%
17 – 21 installment	9.8%
Collateral	None
Minimum Denomination	USD 250,000
Type	Global. Transferable in parts not less than USD 1,000 or in multiples of USD 1,000
Form	Registered and bearer
Listing	Luxembourg Stock Exchange
Settlement	Euroclear, Cedel and physical delivery for non-US bonds;

Source: *MF.*

III. Types of Debt Instruments on the Domestic Market of Government Securities

Government Securities Issued for Budget Deficit Financing

Ministry of Finance issues government securities for budget deficit financing in accordance with the funding limits stipulated in the Government Budget Law for the respective year and under the terms of Regulation No. 5 of the Ministry of Finance and the Bulgarian National Bank. Since 1993 government securities have been issued in book-entry form only. They are distributed in the primary market via weekly auctions. Primary dealers are the only firms permitted to submit bids in the auctions, which can be either on a competitive or noncompetitive basis. Competitive bids are submitted on behalf of the accounts of the primary dealers or their clients, while noncompetitive bids are submitted on behalf of clients who are not a bank or an investment intermediary. The bids are ranked according to the prices submitted by the primary dealers and are accepted until the preliminary announced auction amount is sold. Each participant is awarded the government securities at the price of his bid. Noncompetitive bids are awarded at the average weighted price reached at the auction. Settlement is made on the second business day following the auction day.

The central register for government securities is at the BNB. The register records all transactions among the primary dealers who are required to keep accounts at the BNB. The primary dealers maintain registers for the government securities owned by their clients and the transactions with them. When the transactions are carried out among individuals and legal entities that are neither banks, nor investment intermediaries, the ownership on the government securities is evidenced by a certificate issued by the primary dealer who keeps the register. The same procedure is valid for foreign individuals participating in the Bulgarian market and they are not subject to additional conditions.

The Minister of Finance determines the terms and conditions of the government securities issues. They are announced by the BNB no later than three business days prior to the auction day. The maturity of the government securities for deficit financing can be between 7 days and 10 years. The yield on the 3-month government securities, which are issued weekly, forms the base interest rate for the period until the next issue. The Ministry of Finance prepares and publishes a calendar of the scheduled government securities issues for the respective year which includes the date, volume, maturity and type of issue.

Government securities are traded on the OTC market. Regulations exist that provide for the possibility of government securities to be traded on the stock exchange under the condition that they must not violate Regulation No. 5. The use of government securities in derivative transactions requires an authorization by the Minister of Finance and the Governor of the Bulgarian National Bank.

Government Securities Issued for Structural Reform

Government securities issued for structural reform replaced the bad loans of the state enterprises to the banks that were accumulated prior to the reform period. Between 1991 and 1994 four lev-denominated bond issues were launched pursuant to Council of Ministers Decrees No. 244/91 and No. 186/93; Article 4 of the Law on the Settlement of Nonperforming

Loans Contracted Prior to 31 December 1990 (ZUNK) of 1993 and Council of Ministers Decree No. 3/94. A dollar-denominated bond was issued pursuant to Article 5 of the Law on the Settlement of Nonperforming Loans Contracted Prior to 31 December 1990 (ZUNK) of 1993.

The principle of all legal documents concerning the restructuring of the economic sector debt envisages transforming these liabilities into government debt through the issuance of treasury bonds, the budget incurring the expenses on their service. The enterprises with restructured loans remain debtors to the government under new schemes for rescheduled payment and beneficial interest rate terms. This change of creditors was made with the aim of removing "bad loans" from the portfolios of commercial banks and to promote the development of the real sector.

These treasury bonds are in book-entry form which reduces the expenses and simplifies the procedures of their placement and trading on the secondary market. The register for the bonds is held with the BNB. The government securities issued for structural reform are traded as per Regulation No. 5 on the Terms and Procedures for Issuance, Acquisition and Redemption of Book-entry Government Securities.

The original maturity of these bonds is 25 years, except for the bonds with 19 years maturity issued under Council of Ministers Decree No. 244, and those under Council of Ministers Decree No. 186 – with 24 years maturity. The grace period on principal repayments is 5 years followed by amortization schedule of equal annual installments.

The interest rate of the lev-denominated bonds is based on the base interest rate. It is calculated as follows: first and second year – 1/3 BIR, third and fourth year – 1/2 BIR, fifth and sixth year – 2/3 BIR, from the seventh year to maturity – the base interest rate. This interest rate pattern is not applicable to the lev-denominated bonds issued under Council of Ministers Decree No. 244 where the coupon equals to the base interest rate plus one percent. The coupon of the dollar-denominated securities is based on 6-month USD LIBOR and is calculated by averaging the daily LIBOR for the previous six-month interest period. The coupons are paid semi-annually, and the day count convention is 360/360 days.

Foreign currency bonds are issued pursuant to Article 5 of ZUNK and are denominated in USD. Interest and principal payments are made in BGN at the official exchange rate of the BNB on the effective payment date.

Lev-denominated government securities issued for structural reform became a relatively unattractive asset on the balance sheets of the banks due to their long maturities and low interest rates. In view of this fact and because of the need for giving an impetus to the privatization through broadening the investment set, a debt-to-equity swap mechanism was introduced. This mechanism is regulated by Council of Ministers Decree No. 221/95, under which these bonds may be used as a means of payment in privatization deals at full nominal value.

Council of Ministers Decree No. 22/95 allowed companies with liabilities to the government under ZUNK to repay them with government securities issued under Articles 4 and 5 of ZUNK. In these cases, bonds used in privatization transactions can be utilized at the following values: dollar-denominated bonds are accepted at full nominal value, while the lev-denominated securities at 80% of their nominal value.

Decree No. 22/95 allows for debt-to-equity swaps and repayment of liabilities under ZUNK that helped develop the secondary market and created conditions for alternative investment solutions.

Deposit Insurance Government Bonds

The terms and procedures for the issuance and servicing of deposit insurance government bonds are settled under the repealed Law on Government Protection of Deposits and Accounts in Commercial Banks, for which the Bulgarian National Bank has Requested for Instituting Bankruptcy Procedures. Under this Law, the government subrogates the rights of the respective individuals and legal entities – holders of deposits and accounts in a commercial bank declared bankrupt up to the size determined in the Law. Deposit insurance government bonds were issued for the purpose of repaying the accounts of the depositors in commercial banks that have been transferred under the above Law. Through the issuance of deposit insurance government bonds, the deposit liabilities of the commercial banks declared bankrupt were transformed into government debt, and the service of the issue was covered by the budget. From 1996 to 1998, as a result of the bankruptcy of fifteen banks, the government issued lev-denominated deposit insurance government bonds, totaling BGN 90.8 million, and foreign currency deposit insurance government bonds, amounting to USD 190.6 million.

The lev-denominated deposit insurance government bonds have a seven-year maturity and are redeemed by equal annual installments. The interest rate is based on the base interest rate for the respective period paid semiannually. The day count convention is 364/365 days.

The foreign currency deposit insurance government bonds are denominated and payable in US dollars and have a 3-year maturity. The interest rate is equal to the daily average of six-month LIBOR for the preceding coupon period, plus two percent. The interest is paid semiannually with a bullet payment at maturity. Day count convention is also on a 364/365 day basis.

Foreign currency deposit insurance government bonds can be transferred only among commercial banks with head offices in Bulgaria. The interest coupons may be stripped from the principal and the new instruments may be freely tradable on the secondary market. In order to execute such a transaction, an approval from the Ministry of Finance and the BNB must be given based on a preliminary program prepared by the banks. A compulsory record of the transaction will be included in the government securities depository at the central bank.

Government Securities Earmarked for Sale to Individuals (Target Issues)

Target issues are earmarked for sale solely to retail investors – residents and nonresidents. They are issued in book-entry form and are evidenced by certificates of ownership.

Investors may purchase these securities at the teller's desks of the selected primary dealers who have an agreement with the Ministry of Finance. The sale of each issue continues for two weeks after the issue date. During the initial placement, the Ministry of Finance fixes the securities prices by which all authorized primary dealers must sell at. The prices are fixed each day to reflect the same yield to maturity as on the first issue date.

Total volume of sales is limited to 20% of total domestic government securities issued on the local market during the current year. However, there is no limit as to the amount an individual may purchase. The minimum par value is BGN 50. There is a minimum holding period of six months after which they are eligible to be redeemed at prices indicated by the Ministry of Finance.

IV. Government and Government Guaranteed Debt in 1999

Domestic Government Debt in 1999

As of the end of 1999 domestic government debt totaled BGN 2,963.3 million[1]. Thirty one percent were government guarantees, which were almost entirely comprised of accounts and deposits in the State Savings Bank [2]. Government securities issued for budget deficit financing were 27.2%, and those for the structural reform – 31%. Due to the negative net issuance throughout 1999, a 4.5% debt reduction was achieved compared with the previous year.

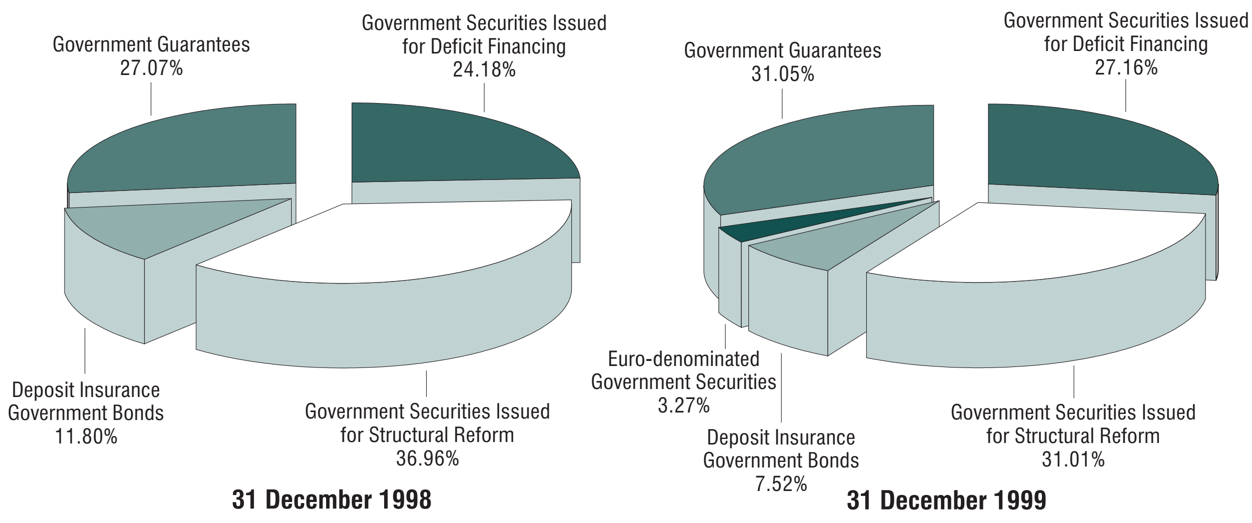
During 1999 the government securities issued on the domestic market totaled BGN 938.7 million. Lev-denominated securities amounted to BGN 841.8 million, while euro-denominated – BGN 96.9 million. The two-year bonds constituted the largest share – 32.4%, twelve-month bills – 30.7%, and the three-month bills – 26.9%. Three-month securities were sold weekly in the amount of BGN 5 million, along with twelve-month and two-year government securities issues on alternating weeks. Throughout the year the yield on the three-month bills, which determines the base interest rate, remained at around 5%.

The yield of the rest of government securities was more dynamic, varying between 5.5% and 7.5% for the twelve-month bills, while two-year bonds yielded between 8.3% and 12.7%. Several euro-denominated issues were sold, although

[1] The direct debt to the BNB is excluded from the size of the domestic debt as it is included in the IMF section under foreign debt.

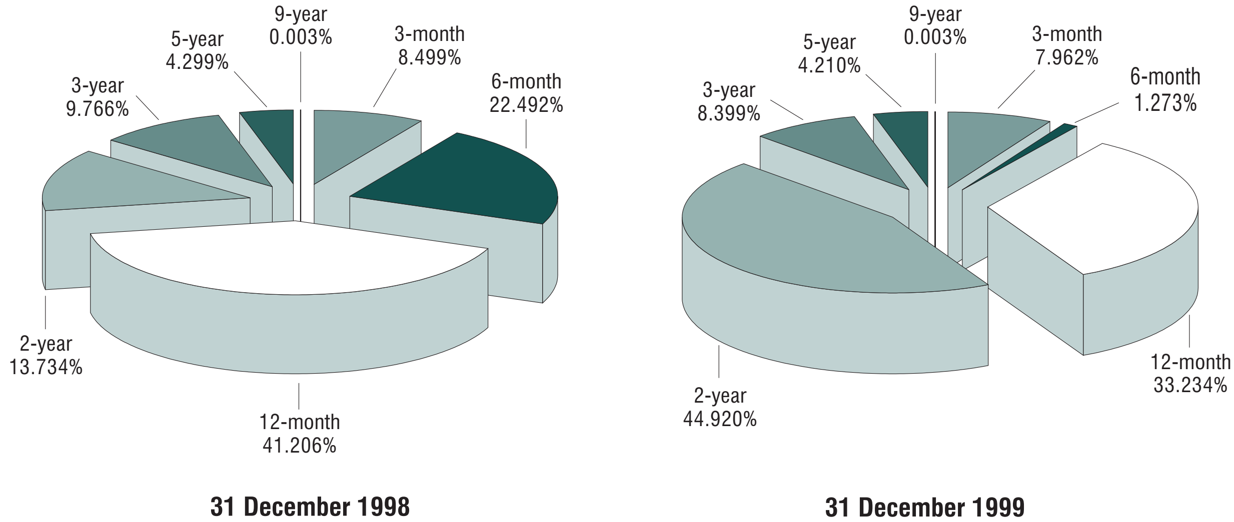
[2] The deposits and accounts at the State Savings Bank are 100% government guaranteed until April 2000.

Domestic Debt Structure



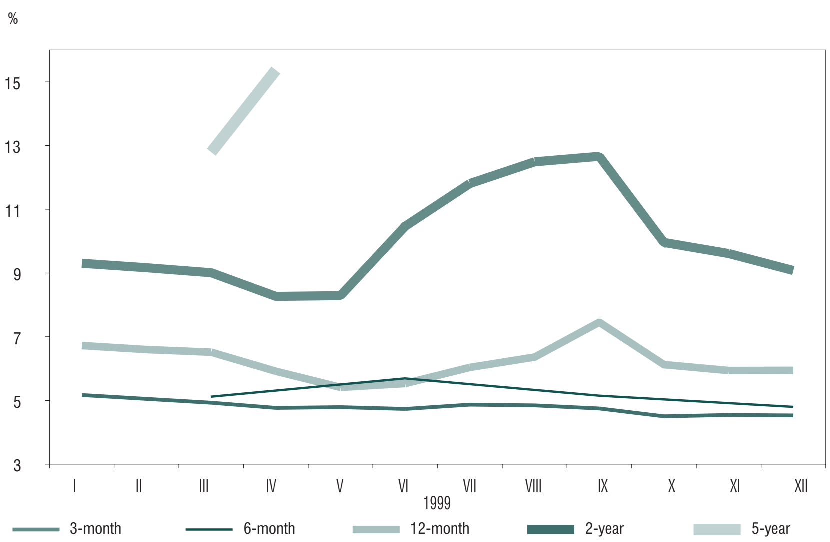
Source: *MF.*

Maturity Structure of Government Securities Issued for Deficit Financing



Source: *MF.*

Average Monthly Auction Yields of Government Securities

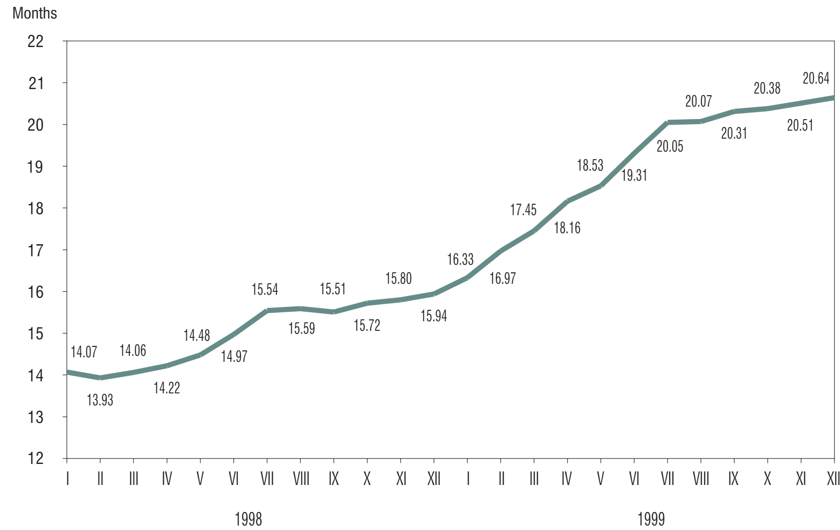


Source: *MF.*

they were not in the announced calendar. These issues carry a floating coupon based on the EURO LIBOR. The average maturity of the outstanding government securities for deficit financing increased considerably over the year – from 14 months to 21 months. This is partially attributable to the high demand for securities with longer maturities and the supply of 3-month securities auctioned on the primary market.

The amount of government securities issued for structural reform decreased despite the rise in the US dollar/lev exchange rate. Foreign currency bonds eligible for debt repayments of enterprises to the government were redeemed in the following amounts: USD 8,432.9 thousand ZUNK bonds and EUR 24.9 thousand bonds from issue № 400/1999. ZUNK bonds, totaling USD 20,721.8 thousand, and euro-denominated bonds, totaling EUR 2.8 thousand, were used in privatization transactions. Debt reduction was also achieved due to the regular principal amortizations and the repurchase of 150 million foreign currency ZUNK bonds. In July part of the dollar-denominated ZUNK bonds were swapped for euro-denominated bonds which had similar characteristics and retained the right to be used in privatization deals and debt repayments to the state. As a result, USD 26.7 million ZUNK bonds were canceled in the BNB register and a new issue No. 400/1999 was added at the nominal value of EUR 25.7 million.

Weighted Average Maturity of Outstanding Government Securities Issued for Financing the Deficit



Source: *MF.*

Over the year the deposit insurance government securities were reduced by BGN 184.4 million. The changes in the debt size were due to regular installment payments on the lev-denominated securities and repurchases of foreign currency bonds. No changes occurred in the euro-denominated issues with the exception of the repayment made on issue No. 400/1999.

Domestic debt reduction for the year totaled BGN 138.4 million. Government securities for structural reform registered the biggest drop equating to 6 percentage points of its total amount outstanding, while the reduction of the deposit insurance government securities was 4.3 percentage points. The share of government securities issued for deficit financing and government guarantees increased in the total size outstanding by 3 and 4 percentage points respectively.

Certain changes occurred in the foreign currency domestic debt. Despite the considerable rise in the US dollar exchange rate throughout 1999, the share of the dollar-denominated bonds was reduced from 10 percentage points to 51.8%. The lev-denominated debt increased by 5 percentage points to 43.5% of the total domestic debt, with the new euro-denominated issues equaling 4.7%. An improvement in the interest rate structure was also achieved. The share of the fixed rate government securities increased by almost 7 percentage points, reaching 34.7% of the total size of the domestic debt.

Domestic debt reached 13.2% of GDP as of year-end, which was a 1.2 percentage point decrease for the year. There was also a reduction in the interest payments as a percentage of total budget expenditures which represented 1.3% (excluding the costs of the direct debt to the BNB). The weighted average yield of the total outstanding domestic government securities was 7.6% as of 31 December, with an average residual maturity of 9.6 years and a present value of approximately 90% (using a discount rate of 10%).

Government Securities Auction Results for 1999

Auction Date	Issue Date	Issue Number	Maturity (months)	Maturity Date	Interest Rate (%)	Amount Offered (BGN)	Bids Received (BGN)	Bids Approved at Face Value (BGN)	Bids Approved at Sell Price (BGN)	Average price for 100 Face Value	Minimum Approved Price for 100 Face Value	Average Effective Annual Yield (%)	Maximum Approved Yield (%)
04.01.1999	06.01.1999	30 100 99 003	3	07.04.1999	-	5,000,000	7,060,000	5,000,000	4,937,174	98.74	98.73	5.20	5.26
04.01.1999	06.01.1999	30 101 99 001	12	05.01.2000	-	25,000,000	32,577,600	25,000,000	23,436,599	93.75	93.30	6.69	7.20
11.01.1999	13.01.1999	30 102 99 009	3	14.04.1999	-	5,000,000	7,560,000	5,000,000	4,937,405	98.75	98.74	5.18	5.22
11.01.1999	13.01.1999	20 300 99 118	24	10.01.2001	9	5,000,000	13,053,000	5,000,000	4,979,890	99.60	99.18	9.23	9.46
18.01.1999	20.01.1999	30 103 99 007	3	21.04.1999	-	5,000,000	8,327,500	5,000,000	4,937,685	98.75	98.75	5.16	5.17
18.01.1999	20.01.1999	30 104 99 005	12	19.01.2000	-	25,000,000	36,670,000	25,000,000	23,420,805	93.68	93.52	6.76	6.95
25.01.1999	27.01.1999	30 105 99 002	3	28.04.1999	-	5,000,000	9,462,500	5,000,000	4,937,855	98.76	98.75	5.14	5.17
25.01.1999	27.01.1999	20 301 99 116	24	24.01.2001	9	8,000,000	20,849,600	8,000,000	7,950,720	99.38	99.11	9.35	9.50
01.02.1999	03.02.1999	30 106 99 000	3	05.05.1999	-	5,000,000	8,607,500	5,000,000	4,938,175	98.76	98.76	5.12	5.13
01.02.1999	03.02.1999	30 107 99 008	12	02.02.2000	-	20,000,000	37,350,000	20,000,000	18,752,910	93.76	93.69	6.67	6.75
08.02.1999	10.02.1999	30 108 99 006	3	12.05.1999	-	5,000,000	11,080,000	5,000,000	4,938,565	98.77	98.76	5.08	5.13
08.02.1999	10.02.1999	20 302 99 114	24	07.02.2001	9	10,000,000	24,021,030	10,000,000	9,965,625	99.66	99.49	9.19	9.29
15.02.1999	17.02.1999	30 109 99 004	3	19.05.1999	-	5,000,000	11,560,000	5,000,000	4,939,374	98.79	98.78	5.01	5.05
15.02.1999	17.02.1999	30 110 99 002	12	16.02.2000	-	15,000,000	34,036,700	15,000,000	14,086,535	93.91	93.87	6.50	6.55
22.02.1999	24.02.1999	30 111 99 000	3	26.05.1999	-	5,000,000	12,411,300	5,000,000	4,939,670	98.79	98.78	4.99	5.05
22.02.1999	24.02.1999	20 303 99 112	24	21.02.2001	9	15,000,000	30,397,500	15,000,000	14,960,360	99.74	99.60	9.15	9.23
01.03.1999	04.03.1999	30 112 99 008	3	03.06.1999	-	5,000,000	12,040,800	5,000,000	4,939,675	98.79	98.79	4.99	5.00
01.03.1999	04.03.1999	30 113 99 006	12	02.03.2000	-	15,000,000	43,240,000	15,000,000	14,104,225	94.03	94.00	6.37	6.40
08.03.1999	10.03.1999	30 114 99 004	3	09.06.1999	-	5,000,000	11,550,000	5,000,000	4,940,374	98.81	98.80	4.93	4.96
08.03.1999	10.03.1999	20 304 99 110	24	07.03.2001	9	15,000,000	48,340,000	15,000,000	14,987,070	99.91	99.89	9.05	9.06
15.03.1999	17.03.1999	30 115 99 001	3	16.06.1999	-	5,000,000	10,460,000	5,000,000	4,940,024	98.80	98.79	4.96	5.00
15.03.1999	17.03.1999	30 116 99 009	12	15.03.2000	-	15,000,000	31,790,000	15,000,000	14,113,012	94.09	93.91	6.30	6.50
22.03.1999	24.03.1999	30 117 99 007	3	23.06.1999	-	5,000,000	12,675,000	5,000,000	4,940,716	98.81	98.81	4.90	4.92
22.03.1999	24.03.1999	20 305 99 117	24	21.03.2001	9	15,000,000	39,280,000	15,000,000	15,000,000	100.05	100.00	8.97	9.00
29.03.1999	31.03.1999	30 118 99 005	3	30.06.1999	-	5,000,000	13,250,000	5,000,000	4,941,107	98.82	98.81	4.87	4.92
29.03.1999	31.03.1999	30 119 99 003	6	29.09.1999	-	10,000,000	27,830,000	10,000,000	9,753,783	97.54	97.47	5.13	5.27
29.03.1999	31.03.1999	20 306 99 115	60	24.03.2004	9	2,000,000	2,795,000	2,000,000	1,727,077	86.35	79.39	12.79	15.02
05.04.1999	07.04.1999	30 120 99 001	3	07.07.1999	-	5,000,000	12,839,000	5,000,000	4,941,428	98.83	98.82	4.84	4.88
05.04.1999	07.04.1999	30 121 99 009	12	05.04.2000	-	15,000,000	42,960,000	15,000,000	14,147,660	94.32	94.27	6.04	6.10
13.04.1999	14.04.1999	30 122 99 007	3	14.07.1999	-	5,000,000	12,703,500	5,000,000	4,942,002	98.84	98.83	4.79	4.83
13.04.1999	14.04.1999	20 307 99 113	24	11.04.2001	9	15,000,000	47,594,300	15,000,000	15,000,000	100.84	100.76	8.53	8.58
19.04.1999	21.04.1999	30 123 99 005	3	21.07.1999	-	5,000,000	11,577,500	5,000,000	4,942,500	98.85	98.85	4.75	4.75
19.04.1999	21.04.1999	30 124 99 003	12	19.04.2000	-	15,000,000	42,660,500	15,000,000	14,180,945	94.54	94.49	5.79	5.85
26.04.1999	28.04.1999	30 125 99 000	3	28.07.1999	-	5,000,000	11,500,000	5,000,000	4,943,135	98.86	98.86	4.69	4.71
26.04.1999	28.04.1999	20 308 99 111	24	25.04.2001	8	20,000,000	42,870,000	20,000,000	19,975,574	99.88	99.56	8.07	8.25
23.04.1999	29.04.1999	20 309 99 119	60	22.04.2004	9	3,000,000	1,190,000	1,190,000	932,640	78.37	69.00	15.37	18.87

(continued)

(continued)

Auction Date	Issue Date	Issue Number	Maturity (months)	Maturity Date	Interest Rate (%)	Amount Offered (BGN)	Bids Received (BGN)	Bids Approved at Face Value (BGN)	Bids Approved at Sell Price (BGN)	Average price for 100 Face Value	Minimum Approved Price for 100 Face Value	Average Effective Annual Yield (%)	Maximum Approved Yield (%)
03.05.1999	05.05.1999	30 126 99 008	3	04.08.1999	-	5,000,000	8,737,000	5,000,000	4,943,969	98.88	98.87	4.62	4.66
03.05.1999	05.05.1999	30 127 99 006	12	03.05.2000	-	10,000,000	28,000,000	10,000,000	9,482,285	94.82	94.79	5.48	5.51
10.05.1999	12.05.1999	30 128 99 004	3	11.08.1999	-	5,000,000	8,746,300	5,000,000	4,944,449	98.89	98.88	4.58	4.62
10.05.1999	12.05.1999	20 310 99 117	24	09.05.2001	8	20,000,000	25,720,000	20,000,000	19,995,289	99.98	99.86	8.01	8.08
17.05.1999	19.05.1999	30 129 99 002	3	18.08.1999	-	5,000,000	7,850,000	5,000,000	4,944,894	98.90	98.89	4.55	4.58
17.05.1999	19.05.1999	30130 99 000	12	17.05.2000	-	10,000,000	17,250,000	10,000,000	9,494,005	94.94	94.77	5.34	5.53
14.05.1999	20.05.1999	20 311 99 115	60	13.05.2004	9	1,000,000	500,000	0.00	0	-	-	-	-
25.05.1999	26.05.1999	30 131 99 008	3	25.08.1999	-	5,000,000	8,614,200	5,000,000	4,945,264	98.91	98.90	4.51	4.54
25.05.1999	26.05.1999	20 312 99 113	24	23.05.2001	8	20,000,000	25,827,400	20,000,000	19,795,766	98.98	97.30	8.57	9.52
31.05.1999	02.06.1999	30 132 99 006	3	01.09.1999	-	5,000,000	8,943,300	5,000,000	4,945,558	98.91	98.91	4.49	4.49
31.05.1999	02.06.1999	30 133 99 004	12	31.05.2000	-	10,000,000	11,125,000	10,000,000	9,485,368	94.85	94.70	5.44	5.61
07.06.1999	09.06.1999	30 134 99 002	3	08.09.1999	-	5,000,000	8,791,000	5,000,000	4,945,723	98.91	98.91	4.48	4.49
07.06.1999	09.06.1999	20 313 99 111	24	06.06.2001	8	20,000,000	15,965,000	15,965,000	15,515,122	97.18	94.44	9.59	11.19
14.06.1999	16.06.1999	30 135 99 009	3	15.09.1999	-	5,000,000	6,750,000	5,000,000	4,945,571	98.91	98.91	4.49	4.49
14.06.1999	16.06.1999	30 136 99 007	12	14.06.2000	-	10,000,000	14,120,000	10,000,000	9,469,343	94.69	94.61	5.62	5.71
21.06.1999	23.06.1999	30 138 99 003	3	22.09.1999	-	5,000,000	4,050,000	4,050,000	4,005,083	98.89	98.80	4.57	4.96
21.06.1999	23.06.1999	20 316 99 114	24	20.06.2001	8	15,000,000	11,220,000	11,220,000	10,495,997	93.55	87.15	11.72	15.76
28.06.1999	30.06.1999	30 139 99 001	3	29.09.1999	-	4,000,000	3,365,000	3,250,000	3,211,935	98.83	98.77	4.84	5.09
28.06.1999	30.06.1999	30 140 99 009	6	29.12.1999	-	10,000,000	8,070,000	8,070,000	7,850,226	97.28	96.62	5.69	7.14
05.07.1999	07.07.1999	30 141 99 007	3	06.10.1999	-	3,500,000	5,137,750	3,500,000	3,458,684	98.82	98.78	4.88	5.05
05.07.1999	07.07.1999	30 142 99 005	12	05.07.2000	-	7,500,000	14,376,000	7,500,000	7,073,230	94.31	93.91	6.05	6.50
12.07.1999	14.07.1999	30 143 99 003	3	13.10.1999	-	5,000,000	8,141,010	5,000,000	4,941,236	98.82	98.80	4.86	4.96
12.07.1999	14.07.1999	20 317 99 112	24	11.07.2001	8	12,000,000	16,170,000	12,000,000	11,225,020	93.54	92.00	11.73	12.67
19.07.1999	21.07.1999	30 144 99 001	3	20.10.1999	-	5,000,000	6,850,364	5,000,000	4,941,147	98.82	98.80	4.86	4.96
19.07.1999	21.07.1999	30 145 99 008	12	19.07.2000	-	7,500,000	11,800,000	7,500,000	7,075,028	94.33	94.13	6.02	6.25
26.07.1999	28.07.1999	30 146 99 006	3	27.10.1999	-	5,000,000	8,300,000	5,000,000	4,941,068	98.82	98.81	4.87	4.92
26.07.1999	28.07.1999	20 318 99 110	24	25.07.2001	8	10,000,000	13,105,500	10,000,000	9,325,889	93.26	92.10	11.90	12.61
02.08.1999	04.08.1999	30 147 99 004	3	03.11.1999	-	5,000,000	6,431,000	5,000,000	4,941,171	98.82	98.81	4.86	4.92
02.08.1999	04.08.1999	30 148 99 002	12	02.08.2000	-	9,000,000	13,083,687	9,000,000	8,475,997	94.18	94.08	6.20	6.31
09.08.1999	11.08.1999	30 149 99 000	3	10.11.1999	-	5,000,000	8,625,000	5,000,000	4,941,371	98.83	98.82	4.84	4.88
09.08.1999	11.08.1999	20 319 99 118	24	08.08.2001	8	10,000,000	11,325,000	10,000,000	9,258,525	92.59	91.63	12.31	12.90
16.08.1999	18.08.1999	30 150 99 008	3	17.11.1999	-	5,000,000	8,200,000	5,000,000	4,941,594	98.83	98.82	4.83	4.88
16.08.1999	18.08.1999	30 151 99 006	12	16.08.2000	-	9,000,000	9,012,000	9,000,000	8,450,467	93.89	90.83	6.52	10.12
23.08.1999	25.08.1999	30 152 99 004	3	24.11.1999	-	5,000,000	7,586,980	5,000,000	4,941,231	98.82	98.81	4.86	4.92
23.08.1999	25.08.1999	20 320 99 116	24	22.08.2001	8	8,000,000	9,080,625	8,000,000	7,353,602	91.92	89.95	12.72	13.95
30.08.1999	01.09.1999	30 153 99 002	3	01.12.1999	-	5,000,000	7,288,000	5,000,000	4,941,287	98.83	98.82	4.85	4.88
30.08.1999	01.09.1999	30 154 99 000	12	30.08.2000	-	8,000,000	11,420,000	8,000,000	7,427,230	92.84	92.10	7.73	8.60
07.09.1999	08.09.1999	30 155 99 007	3	08.12.1999	-	5,000,000	9,950,000	5,000,000	4,941,660	98.83	98.83	4.82	4.83
07.09.1999	08.09.1999	20 321 99 114	24	05.09.2001	8	8,000,000	16,600,000	8,000,000	7,284,288	91.05	90.26	13.25	13.75

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Auction Date	Issue Date	Issue Number	Maturity (months)	Maturity Date	Interest Rate (%)	Amount Offered (BGN)	Bids Received (BGN)	Bids Approved at Face Value (BGN)	Bids Approved at Sell Price (BGN)	Average price for 100 Face Value	Minimum Approved Price for 100 Face Value	Average Effective Annual Yield (%)	Maximum Approved Yield (%)
13.09.1999	15.09.1999	30 156 99 005	3	15.12.1999	-	5,000,000	11,030,000	5,000,000	4,942,007	98.84	98.84	4.79	4.79
13.09.1999	15.09.1999	30 157 99 003	12	13.09.2000	-	8,000,000	21,661,300	8,000,000	7,465,207	93.32	93.23	7.18	7.28
20.09.1999	23.09.1999	30 158 99 001	3	23.12.1999	-	5,000,000	13,827,500	5,000,000	4,942,959	98.86	98.85	4.71	4.75
20.09.1999	23.09.1999	20 322 99 112	24	20.09.2001	9	8,000,000	34,781,000	8,000,000	7,576,604	94.71	94.39	12.07	12.26
27.09.1999	29.09.1999	30 159 99 009	3	29.12.1999	-	5,000,000	14,950,000	5,000,000	4,944,571	98.89	98.89	4.57	4.58
27.09.1999	29.09.1999	30 160 99 007	6	29.03.2000	-	5,000,000	9,900,000	5,000,000	4,876,426	97.53	97.57	5.15	5.06
04.10.1999	06.10.1999	30 161 99 005	3	05.01.2000	-	5,000,000	7,650,000	5,000,000	4,945,145	98.90	98.89	4.52	4.58
04.10.1999	06.10.1999	30 162 99 003	12	04.10.2000	-	10,000,000	21,455,000	10,000,000	9,413,755	94.14	93.99	6.25	6.41
11.10.1999	13.10.1999	30 163 99 001	3	12.01.2000	-	5,000,000	7,865,000	5,000,000	4,945,290	98.91	98.90	4.51	4.54
11.10.1999	13.10.1999	20 323 99 110	24	10.10.2001	9	8,000,000	39,093,500	8,000,000	7,841,660	98.02	97.77	10.12	10.27
18.10.1999	20.10.1999	30 164 99 009	3	19.01.2000	-	5,000,000	6,550,000	5,000,000	4,945,498	98.91	98.90	4.49	4.54
18.10.1999	20.10.1999	30 165 99 006	12	18.10.2000	-	8,000,000	11,850,000	8,000,000	7,550,710	94.38	94.18	5.97	6.20
25.10.1999	27.10.1999	30 166 99 004	3	26.01.2000	-	5,000,000	7,610,000	5,000,000	4,945,640	98.91	98.91	4.48	4.49
25.10.1999	27.10.1999	20 324 99 118	24	24.10.2001	9	10,000,000	28,485,050	10,000,000	9,853,195	98.53	98.25	9.83	9.99
01.11.1999	03.11.1999	30 167 99 002	3	02.02.2000	-	5,000,000	4,820,000	4,785,000	4,732,493	98.90	98.80	4.53	4.96
01.11.1999	03.11.1999	30 168 99 000	12	01.11.2000	-	8,000,000	10,930,000	8,000,000	7,556,270	94.45	94.15	5.89	6.23
08.11.1999	10.11.1999	30 169 99 008	3	09.02.2000	-	5,000,000	7,330,000	5,000,000	4,945,191	98.90	98.89	4.54	4.58
08.11.1999	10.11.1999	20 325 99 115	24	07.11.2001	9	10,000,000	24,059,000	10,000,000	9,879,870	98.80	98.47	9.68	9.87
15.11.1999	17.11.1999	30 170 99 006	3	16.02.2000	-	5,000,000	5,900,000	5,000,000	4,944,870	98.90	98.87	4.55	4.66
15.11.1999	17.11.1999	30 171 99 004	12	15.11.2000	-	8,000,000	15,630,000	8,000,000	7,549,255	94.37	94.20	5.99	6.17
22.11.1999	24.11.1999	30 172 99 002	3	23.02.2000	-	5,000,000	9,750,000	5,000,000	4,944,857	98.90	98.89	4.55	4.58
22.11.1999	24.11.1999	20 326 99 113	24	21.11.2001	9	10,000,000	29,786,000	10,000,000	9,904,400	99.04	98.82	9.54	9.67
29.11.1999	01.12.1999	30 173 99 000	3	01.03.2000	-	5,000,000	7,570,000	5,000,000	4,944,972	98.90	98.89	4.54	4.58
29.11.1999	01.12.1999	30 174 99 008	12	29.11.2000	-	8,000,000	18,150,000	8,000,000	7,554,250	94.43	94.35	5.92	6.01
06.12.1999	08.12.1999	30 175 99 005	3	08.03.2000	-	5,000,000	8,010,000	5,000,000	4,945,134	98.90	98.89	4.53	4.58
06.12.1999	08.12.1999	20 327 99 111	24	05.12.2001	9	10,000,000	40,252,000	10,000,000	9,960,168	99.60	99.50	9.23	9.28
13.12.1999	15.12.1999	30 176 99 003	3	15.03.2000	-	5,000,000	9,507,000	5,000,000	4,945,142	98.90	98.90	4.52	4.54
13.12.1999	15.12.1999	30 177 99 001	12	13.12.2000	-	8,000,000	7,285,000	7,285,000	6,875,658	94.38	92.61	5.97	8.00
20.12.1999	22.12.1999	30 178 99 009	3	22.03.2000	-	5,000,000	7,300,000	5,000,000	4,945,085	98.90	98.90	4.53	4.54
20.12.1999	22.12.1999	20 328 99 119	24	19.12.2001	9	10,000,000	37,050,000	10,000,000	10,012,110	100.12	99.97	8.93	9.02
27.12.1999	29.12.1999	30 179 99 007	3	29.03.2000	-	5,000,000	7,885,000	5,000,000	4,945,214	98.90	98.90	4.52	4.54
27.12.1999	29.12.1999	30 180 99 005	6	28.06.2000	-	5,000,000	7,305,000	5,000,000	4,884,389	97.69	96.87	4.80	6.59

Notes: 1. Government securities for deficit financing issued after 1 March 1995 are calculated on a 364/365 day basis.

2. Securities with maturity over 1 year have semiannual interest payments.

Source: *MF.*

Secondary Market of Government Securities

In 1999 activity on the secondary market of government securities was characterized by uneven trading volumes on a monthly basis. Trading was higher on auction days and on days when the commercial banks had to comply with the minimum reserve requirements of the BNB. The yield on the repo-transactions followed the fluctuations of the base interest rate. This yield was higher during the period compared to the rate on interbank deposits with a term of up to three days. During the year, 5,450 transactions (including reverse repo-trades) for the purchase and sale of government securities issued for budget deficit financing occurred on the secondary market between financial institutions. This was an increase of 2.4 times compared to 1998 and amounted to BGN 6,539 million.

There were 770 secondary market transactions (including reverse repo transactions) amounting to USD 810 million in dollar-denominated government securities issued for the purposes of structural reform. In addition, 29 transactions in lev-denominated government securities issued for the purposes of the structural reform, totaling BGN 3.4 million, and 9 transactions with dollar-denominated deposit insurance government securities at a total nominal value of USD 19.9 million were carried out.

In mid-year several new, euro-denominated debt instruments, were issued on the government securities market. Thirty one transactions in these securities at a total nominal value of EUR 38.8 million were registered as of 31 December 1999.

The prices of the government securities issued pursuant to Article 5 of ZUNK increased from USD 47 at the beginning of the year to USD 70 at year-end.

Over the year government securities issued for structural reform were used in 286 privatization transactions. Securities from issue 97/1994, totaling USD 20.7 million, and issue 400/1999, totaling EUR 2.8 thousand, were transferred as a means of payment to the accounts of the Ministry of Finance.

The sales of government securities issued under Regulation No. 5 to nonbanking financial institutions, companies and citizens increased 1.6 times – from BGN 55.6 million at the beginning of the year to BGN 160.6 million at year-end. The same trend is observed in the sales of target issues earmarked for individuals, which increased from BGN 14.3 million to BGN 21.5 million during the same period.

The investments of nonbank financial institutions, companies and citizens in government securities issued for structural reform were unevenly distributed in 1999. From BGN 300.6 million at the beginning of the year, the volume of these investments almost doubled in March, June and July. Their size was BGN 357.7 million in December.

Government securities in the portfolios of foreign investors remained relatively stable during the year. As of year-end, the amount of USD-denominated government securities held by these investors increased to USD 86.8 million compared to USD 78.3 million as of 31 December 1998.

Foreign Government Debt in 1999

As of year-end foreign debt totaled USD 9,070.1 million. Approximately 55% of this debt were in the form of bonds issued under the London Club Agreement of 1994. Debt to the IMF comprised 12.5%, with the World Bank and Paris Club accounting for 9% each, and 4.4% to the European Union. Government guarantees were 7.2%, of which approximately one-third constituted liabilities of various budget institutions.

During the year USD 702.1 million in new loans and disbursements were received under existing credit agreements. This consisted of four tranches, totaling USD 284.9 million, under the Extended Facility Agreement with the IMF, World Bank financing, totaling USD 170.3 million from six loans – FESAL, ASAL, Health Sector Restructuring Project, etc. Loans were also received from JEXIMBANK, the European Union and G-24. The amount of USD 144.2 million was disbursed in loans which carry government guarantee.

Foreign debt repayments for the year amounted to USD 404 million. Payments

New Foreign Financing and Foreign Debt Payments in 1999

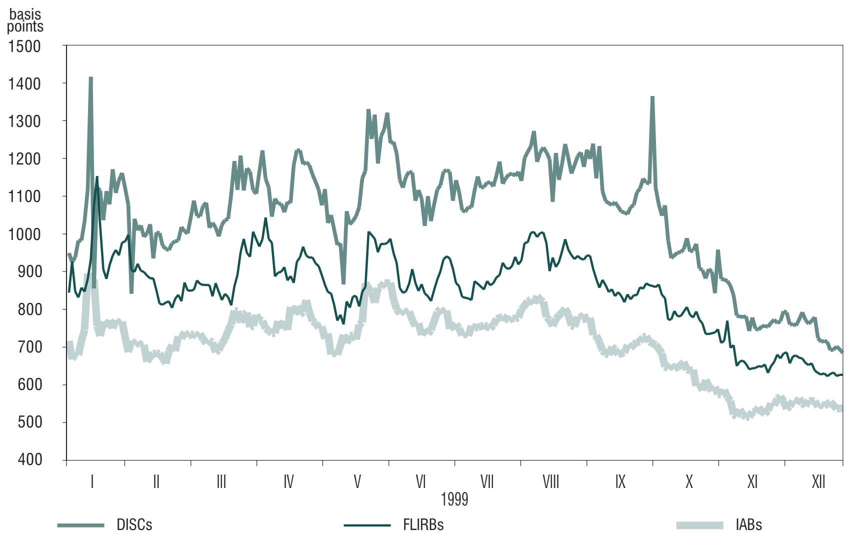
(USD million)

Debt Instruments	Disbursements (tranches)	Payments, of which	
		amortization	interest
Government Debt	553.0	364.4	423.6
London Club	0.0	0.0	259.0
Paris Club	0.0	164.3	51.3
World Bank	221.3	22.9	34.4
World bank	170.3	14.6	30.7
JBIC (JEXIM)	51.0	8.2	3.7
G-24	6.4	17.8	3.8
European Union	40.4	0.0	12.2
IMF	284.9	124.2	39.8
Other	0.0	35.2	23.3
Government Guaranteed Debt	149.2	38.2	29.2
Of budget institutions to:	64.8	10.6	9.2
World Bank	12.2	0.0	0.6
EIB	52.7	6.7	6.5
EBRD	0.0	3.9	2.0
Other	0.0	0.0	0.2
Of nonbudget institutions to:	84.4	27.6	20.0
World Bank	38.1	6.5	4.9
EIB	0.0	8.0	5.1
EBRD	28.9	11.5	5.1
Other	17.4	1.6	4.9
Government Guarantees Called	0.0	1.4	1.1
World Bank	0.0	0.9	0.7
EIB	0.0	0.5	0.4
EBRD	0.0	0.0	0.0
Other	0.0	0.0	0.0
TOTAL	702.2	404.0	453.9

Note: The equivalent in USD of the received new foreign financing and payments made is calculated at the official exchange rate of the BNB of the respective foreign currencies to the BGN, valid until 4:00 pm on the day the respective payment is made.

Source: *MF.*

Bulgarian Brady Bonds Stripped Spreads in 1999



Source: *Reuters.*

to the Paris Club and the IMF represented the largest share. Repayments on the government guaranteed debt totaled USD 38.2 million, of which USD 10.6 million were on the behalf of loans to budget institutions. Interest payments amounted to USD 453.9 million: with over 57% from Brady bonds and USD 29.2 million on government guaranteed debt.

Debt was also reduced as a result of the agreement with the International Investment Bank (IIB) signed at the beginning of the year, pertaining to the settlement of nonperforming obligations from 1990. These obligations were expunged in a process whereby the government purchased on the secondary market debt of the bank to other creditors and exchanged it for Bulgaria's obligations to IIB. The outcome of this complex operation has been remarkably favorable. A similar transaction concluded with IBEC at the end of 1998 had the overall effect of reducing the country's debt to IIB and IBEC by USD 719 million and USD 229 million respectively. This included payments of both principal and interest.

The elimination of the last outstanding government obligations to the banks from the former Council for Mutual Economic Aid put an end to the almost ten-year long effort on negotiations regarding this foreign debt of Bulgaria.

In 1999 two other agreements on the settlement of outstanding debt disputes were concluded. The agreement signed with the Kingdom of the Netherlands was a unique way for finding a mutually agreeable solution to a debt problem that originated in the late 1980s. Under this agreement monies from the budget were not used for the government debt payment.

Following the first debt agreement with Spain in 1998, which was based on a debt-equity swap, a similar agreement was concluded with Italy. This transaction was for the settlement of the liabilities of the former bankrupt Economic Bank and Mineralbank whose obligations were viewed as government liabilities. The amount of debt that was exchanged for equity in Bulgarian enterprises to be privatized, involving agreements with Spain and Italy, amounted to DEM 124 million.

The net debt reduction achieved as a result of these foreign debt transactions amounted to USD 213.7 million in 1999. Despite this reduction and growth in GDP, foreign debt as a percentage of GDP increased approximately 6 percentage points to 78.4%. The relative increase of the debt size is a result of the depreciation of the euro/dollar exchange rate by over 15% during the year. Interest payments comprised 7.7% of the total budget expenditures which was a reduction compared to 1998. Interest costs, as a percent of exports, were 11.5%, while total debt service costs were 21.8%.

Over the last two years the government introduced a policy whereby any new borrowings undertaken would be in euro in order to limit adverse exchange rate fluctuations to the budget. As a result, the share of the euro-denominated debt increased by 1 percentage point to 15.8%, while the dollar-denominated portion dropped from 68% to 65.4%. In addition, the percentage of floating-rate debt decreased to 73%. The large relative share of the floating rate debt is mainly a result of the terms of the restructured debt under the London and Paris Club agreements and the IMF loans.

The average residual maturity of the foreign debt is 12.9 years. The reduction over the year was due to the inherent decrease of maturity of the old loans which was to a certain extent offset by the terms of the new loans. Over 80% of the debt has a maturity in excess of 5 years with a present value of 76% (at a discount rate of 10%).

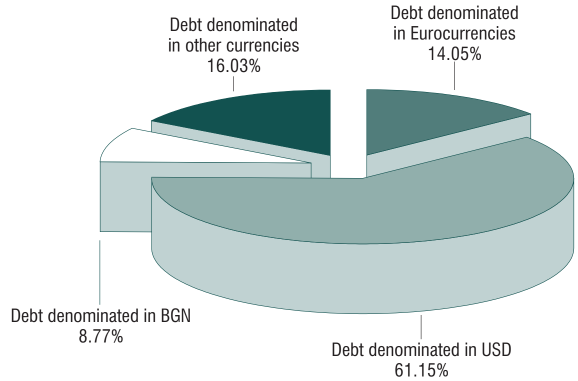
V. Government and Government Guaranteed Debt Indicators

As of the end of 1999 domestic and foreign debt constituted 91.6% of GDP. Despite the debt reduction in nominal terms, its ratio to GDP increased compared to 1998. This can be explained by the appreciation of the USD exchange rate relative to GDP growth for the period.

The reason for the significant impact of the USD exchange rate on the debt size is the large share of dollar-denominated debt which comprised 61.2% at year-end. Euro-denominated debt comprised 14.1%, with lev-denominated debt – 8.8%. Although the USD exposure was still high, the currency structure showed some improvement compared to the previous year, due to borrowing policies and the ZUNK-bond buy-back transactions.

The ratio between floating and fixed rate debt improved slightly to 72.2% in 1999. However, the high percentage of floating rate debt is still considered a large risk to the budget. The residual debt maturity decreased from the previous year and reached 12.6 years. The total debt outstanding with a maturity of over 5 years amounted to 77.5%, with one to five years – 17.7%, and under one year – 4.9%.

Currency Composition of the Government and Government Guaranteed Debt

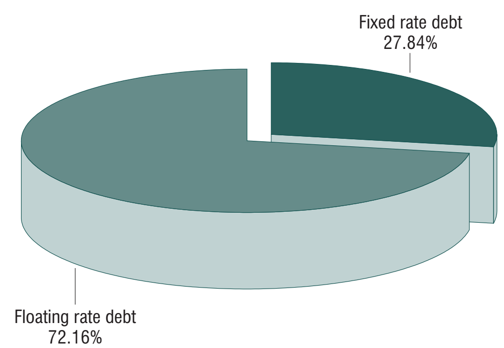


31 December 1999

Note: *Domestic government guarantees are excluded.*

Source: *MF.*

Fixed Versus Floating Rate Government Debt

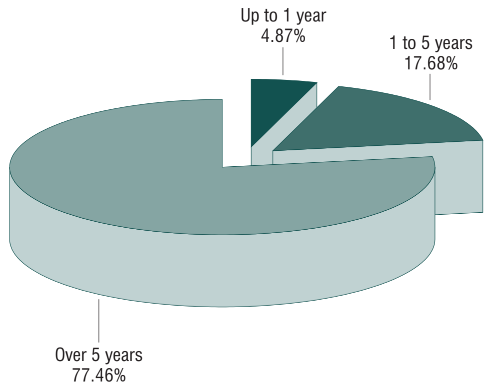


31 December 1999

Note: *Domestic government guarantees are excluded.*

Source: *MF.*

Maturity Breakdown of Government and Government Guaranteed Debt



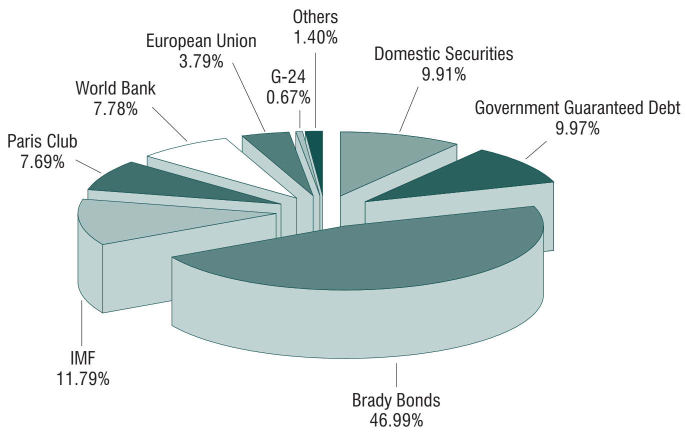
31 December 1999

Note: *Domestic government guarantees are excluded.*

Source: *MF.*

The government fiscal reserve as of 31 December 1999 covered 107.3% of the projected debt service payments for the subsequent year (2000) on both domestic and foreign debt. This level was relatively stable throughout 1999 and proves to be a strong guarantee of debt service.

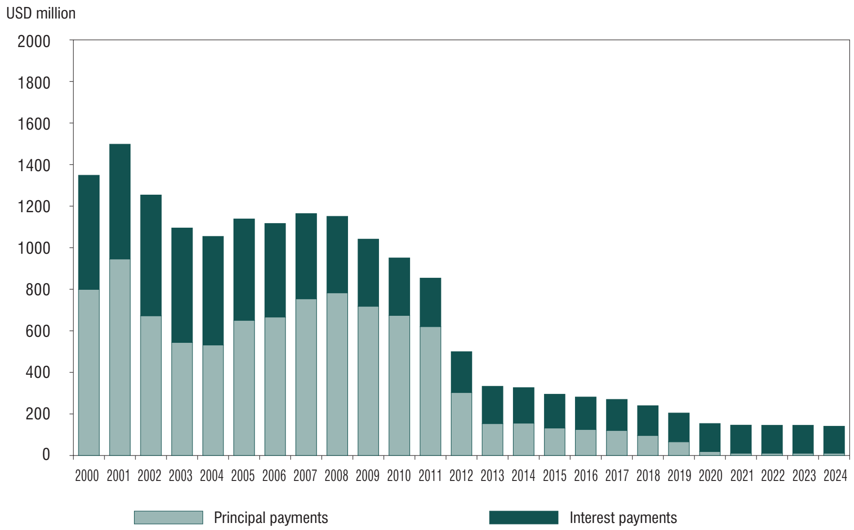
Breakdown of the Government and Government Guaranteed Debt by Creditor



31 December 1999

Source: *MF.*

Government and Government Guaranteed Debt Service



Notes: *1. According to data as of 31 December 1999.*
2. Collateralized principal and interest payments of Brady bonds are excluded.

Source: *MF.*

Major Macroeconomic and Debt Indicators as of 31 December 1999

Gross Domestic Product (BGN million)	22,515.0
Exports (USD million)	3,928.0
Imports (USD million)	4,926.3
Foreign Exchange Reserves (USD million) [1]	3,221.6
Fiscal Reserve (BGN million)	1,413.9
Foreign Direct Investments (USD million)	739.2
Debt/GDP (%)	91.6
Foreign Debt Service/Exports (%)	21.8
Interest Payments on Foreign Debt/Exports (%)	11.5
Debt Interest Payments/Budget Expenditures (%)	9.1
Fiscal Reserve [2]/Short-term liabilities [3] (%)	107.3
Foreign Exchange Reserves (in months of import)	8.8
Foreign Investments/GDP (%)	3.3

[1] Assets of the BNB Issue Department.
[2] Fiscal reserve – balances of all government accounts as of a specific date.
[3] Foreign and domestic government debt liabilities for one year ahead based on the stock of debt as of a particular date.

Notes: *1. GDP, exports and imports data as of 31 December 1999 is preliminary.*

2. The calculations are made as per the official exchange rate of BNB for the respective currencies as of 31 December 1999.

3. The analysis is based only on data for the government and government guaranteed debt.

Source: *MF, BNB, NSI.*

VI. Appendix

CRITERIA
for Evaluation and Selection of Primary Dealers of Government Securities

1. Primary dealers shall be banks or other investment intermediaries as defined in the Law on Public Offering of Securities (LPOS).

2. Commercial banks and nonbank investment intermediaries must have good financial performance and meet capital adequacy and liquidity requirements, as well as other criteria of the Banking Supervision Department and the Commission on Securities and Stock Exchanges (CSSE).

3. Commercial banks and nonbank investment intermediaries cannot be primary dealers if forceful administrative measures for gross and systemic violation of the Law on Banks, the LPOS and the regulatory acts for their enactment have been taken against them.

4. To have paid-in capital of no less than:

• for commercial banks – the capital required as per Regulation No. 8 on the capital adequacy enabling them to carry out bank operations in the country;

• for investment intermediaries – BGN 400 (four hundred) thousand.

5. Investment intermediaries which have not been primary dealers must submit a report on trade in government securities for the preceding six-month period.

6. To participate in the auctions held by the BNB, and keep the following conditions:

• to announce the amounts adequate to their abilities (to consider all bids made on their behalf and on their, or on the account of their clients) which shall be no less than 3 (three) percent of the government securities offered for sale during the preceding six-month period;

• the approved bids submitted on their account must be no less than 1 (one) percent of the total amount of government securities issued in the current month.

7. To submit to the BNB and the MoF the following information:

• A short analytical assessment of the development of the government securities market for the past quarterly which shall be prepared in a format determined by the BNB and the Ministry of Finance. The information shall be sent by mail to the BNB and the Ministry of Finance no later than 10 business days following the end of the reporting period.

• Report on the prices of the concluded transactions as per Article 9, para. 2 of Regulation No. 5 which shall be sent monthly to the BNB no later than 5 business days following the end of the reporting period.

• Quotes "bid" and "sell" for each new issue of government securities, minimum for the period of its issuance till the next auction for an issue with the same maturity which shall be sent daily to the BNB. The quotes must show at what price, at 4:00 pm Sofia time the primary dealer would purchase or sell the respective issue of government securities regardless of whether he

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[1] *The quotations for interest-bearing securities shall be for "clear price", i. e. nominal value price excluding the interest accrued.*

owns it or not. The quotes should be received by the BNB not later than 5:00 pm the same day and are sent in a way specified by the MoF and BNB.

8. When applying for primary dealers, they shall submit to the BNB the tariff for the fees and commissions on government securities transactions charged by them, and must duly not later than 5 business days after it comes in force inform the BNB in case of a change in it. The tariff must be displayed in a place in the offices where the transactions with government securities are made where the clients will have easy access to it.

9. To have internal rules for government securities operations and an efficient system for internal control on them.

10. To maintain own portfolio of government securities [2] with a permanent amount of available government securities in the BNB register for the respective period, with a view of minimizing their risk exposure, in the following amounts:

• for the commercial banks – adequate to their abilities, but no less than five percent of attracted amounts as determined in accordance with the procedure for calculation of minimum reserve requirements at the BNB;

• for the investment intermediaries – 50 percent of the paid-in capital.

11. To submit an accounting report for the last two financial years preceding the year of the application verified by certified public accountants [3] and present on a regular basis a semiannual and an annual accounting report after being included in the Primary Dealer List.

12. To be active participants on the secondary market of government securities in amounts adequate to their abilities and to observe the following requirements:

• To daily quote "bid" and "sell" for each new issue of government securities [4], minimum for the period of its issuance till the next auction for an issue with the same maturity.

• The quotes should not impede the market liquidity and restrict it and are to be announced through Reuters or other information systems used by the participants on the government securities market, as well as at the tellers desks for operating with customers.

13. To have qualified "back office" personnel, a computerized sub-register as per Article 17 of Regulation No. 5 and the necessary communication equipment (telephone, telex, fax, e-mail in REUTERS).

14. To accept from their customers – individuals or legal entities – competitive and noncompetitive bids for participation in the auctions held by the BNB.

15. Applicants are included in the Primary Dealer List on the basis of a written application to the Commission as per Article 14, para. 1 of Regulation No. 5 on the terms and procedures for the issuance, acquisition and redemption of book-entry government securities.

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[2] Government securities issued under Regulation No 5 and target issues (including government securities sold to customers pursuant to Article 15 of Regulation No 5).

[3] This requirement refers only to nonbank investment intermediaries.

[4] The quotations for interest-bearing securities shall be for "clear price", i. e. nominal value price excluding the interest accrued. For the issues of government securities which primary dealers do not own, it is not necessary to announce offer quotations.

16. The Commission retains the right to eliminate from the Primary Dealer List of government securities commercial banks and investment intermediaries, for monthly noncompliance with the Criteria for evaluation and selection of primary dealers of government securities during the period in which they have been acting as primary dealers.

If investment intermediaries are chosen to act as primary dealers, they will be opened a settlement account with the BNB to be used only for payments on government securities transactions. The account must be closed in case investment intermediaries are eliminated from the Primary Dealer List.

The Criteria for evaluation and selection of primary dealers of government securities are issued in compliance with Article 4, para. 2 of Regulation No. 5 of 1998 of the Ministry of Finance and the BNB on the terms and procedures for the issuance, acquisition and redemption of book-entry government securities (promulgated, State Gazette, No. 89 of 3 August 1998; amended, No. 43 of 11 May 1999; amended and supplemented, No. 106 of 3 December 1999, No. 8 of 28 January 2000).

Regulations and Laws on Sovereign Debt

1. Constitution of the Republic of Bulgaria

Promulgated: SG 56/13.07.1991

2. Law on the State Budget of the Republic of Bulgaria

3. Law on the Bulgarian National Bank

Promulgated: SG 46/10.06.1997, supplemented SG 49/29.04.1998, amended and supplemented SG 153/23.12.1998, amended SG 20/05.03.1999, supplemented SG 54/15.06.1999

4. Law on the Settlement of Nonperforming Loans Contracted Prior to 31 December 1990

Promulgated: SG 110/30.12.1993, supplemented SG 112/27.12.1995, amended SG 55/11.07.1997, amended and supplemented SG 12/12.02.1999, supplemented SG 90/15.10.1999, amended and supplemented SG 103/30.11.1999, 111/21.12.1999, amended SG 1/04.01.2000

5. Law on Government Protection of Deposits and Accounts in Commercial Banks, for which the Bulgarian National Bank Has Requested Instituting Bankruptcy Procedures

Promulgated: SG 46/29.05.1996, amended and supplemented SG 90/24.10.1996, repealed SG 49/29.04.1998

6. Council of Ministers Decree No. 167/25.08.1993 on the Issuance, Service and Redemption of Domestic Government Borrowing for Budget Deficit Financing

Promulgated SG 75/03.09.1993, amended SG 102/29.11.1996

7. Council of Ministers Decree No. 482/19.12.1997 on the Terms and Procedures under which the Government May Incur Liabilities under Loan and Guarantee Agreements

Promulgated SG 125/29.12.1997, amended and supplemented SG 101/28.08.1998, 71/10.08.1999, amended 14/18.02.2000

8. Council of Ministers' Decree No. 244/29.12.1991 on the Terms and Conditions for Transforming into Government Debt the State-owned Enterprises Nonperforming Liabilities to Banks as of 31 December 1990

Promulgated SG 3/10.01.1992, amended and supplemented SG 7/23.01.1996

9. Council of Ministers Decree No. 186/24.09.1993 on the Terms and Conditions for Transforming into Government Debt the State-owned Enterprises Nonperforming Liabilities to Banks as of 31 December 1990

Promulgated SG 85/05.10.1993

10. Council of Ministers Decree No. 3/18.01.1994 on Assuming as Government Debt the Liabilities in Arrear as of 31 December 1992 of the Organizations under § 12 of the Transitional and Final Provisions of the Act on Ownership and Use of Farmland

Promulgated SG 9/28.01.1994

11. Council of Ministers Decree No. 89/19.04.1995 on the Measures to Improve the Financial Condition of Economic Bank and Mineralbank

Promulgated SG 37/21.04.1995, amended and supplemented 50/01.06.1995, amended 105/01.12.1995, 29/05.04.1996

12. Regulation on the Use of Long-Term Government Bonds Issued under the Law on the Settlement of Nonperforming Loans Contracted Prior to 31 December 1990, for Redeeming Liabilities to the Government Defined under This Law

Adopted by Council of Ministers Decree No. 22/1995, promulgated SG 12/03.02.1995

13. Regulation on the Terms for Participation in Privatization by Holders of Long-Term Government Bonds Issued under the Law on the Settlement of Nonperforming Loans Contracted Prior to 31 December 1990, and under Council of Ministers Decree No. 244/29.12.1991 on the Terms and Conditions for Transforming into Government Debt the State-owned Enterprises Nonperforming Liabilities to Banks as of 31 December 1990 (SG 3/1992), Council of Ministers Decree No. 186/24.09.1993 on the Terms and Conditions for Transforming into Government Debt the State-owned Enterprises Nonperforming Liabilities to Banks as of 31 December 1990 (SG 85/1993) and Council of Ministers Decree No. 3/18.01.1994 on Assuming as Government Debt the Liabilities in Arrear as of 31 December 1992 of the Organizations under § 12 of the Transitional and Final Provisions of the Law on Ownership and Use of Farmland (SG 9/1994)

Adopted by Council of Ministers Decree No. 221/1995, promulgated SG 105/01.12.1995

14. Regulation on the Terms and Procedures for Participation in the Privatization with Government Bonds on Bulgaria's Foreign Debt

Adopted by Council of Ministers Decree 502/1997, promulgated SG 6/16.01.1998

15. Regulation No. 5/02.07.1998 on the Terms and Procedures for the Issuance, Acquisition and Redemption of Book-entry Government Securities

Issued by the Minister of Finance and the Governor of the Bulgarian National Bank, promulgated SG 89/03.08.1998, amended SG 43/11.05.1999, amended and supplemented SG 106/03.12.1999, 8/28.01.2000

Countries Having Concluded Agreements with Bulgaria on Avoiding Double Taxation

Republic of Albania
Republic of Armenia
Republic of Austria
Republic of Belarus
Kingdom of Belgium
People's Republic of China
Republic of Croatia
Republic of Cyprus
Czech Republic
Kingdom of Denmark
Republic of Finland
Republic of France
Republic of Georgia
Federal Republic of Germany
United Kingdom of Great Britain and Northern Ireland
Republic of Hungary
Republic of India
Republic of Indonesia
Republic of Italy
Japan
Republic of Kazakhstan
Republic of Korea
The Grand Duchy of Luxembourg
Republic of Macedonia
Republic of Malta
Kingdom of Morocco
Republic of Moldova
Kingdom of the Netherlands
Kingdom of Norway
Republic of Poland
Republic of Portugal
Romania
Russian Federation
Republic of Singapore
Kingdom of Sweden
Swiss Confederation
Republic of Spain
Republic of Turkey
Republic of Ukraine
Socialist Republic of Vietnam
Republic of Zimbabwe