Annual Review of Government Debt · 2000

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Ladies and Gentlemen,

The conservative policy used for debt management in recent years remained a major priority for the Bulgarian government in 2000. Further improvements in the government debt portfolio, including both its quantitative and qualitative characteristics, are critical objectives. In the past year, important gains were made in many of these. Some of the results achieved can be summarized as follows:

• The policy of a sustained reduction in domestic debt continued over the year. Its composition with respect to currency was improved and lev-denominated government securities now comprise more than half of the outstanding amount of domestic debt. A policy of gradual extension in the maturities of newly issued debt resulted in an increase in the average maturities of outstanding government bills and bonds issued for financing the budget deficit. All new and reopened issues of government bonds had fixed coupons. This provided for a further reduction in the interest rate risk for this portfolio.

• For the second year in row, the nominal amount of government debt presented in US dollars declined. In turn, this helped lead to a decline in the important ratio of debt to GDP. All debt transactions conducted by the government during the year were aimed at optimizing the level of debt and other important debt indicators.

In 2000, new borrowing was used for the fiscal requirements of the government and for project finance. Bulgaria once again confirmed its reputation as a reliable borrower with the major official creditors.

• Another feature of the policies pursued was to define key functional and institutional directions for debt management. A medium-term debt management strategy was approved for the first time this past year. A new legislative framework was prepared and improvements were made to existing regulatory and methodological approaches for the selection of project financing.

In conclusion, debt management was highly successful in the year 2000 from the standpoint of its objectives and their achievement.

We are pleased to present this *Annual Review of Government Debt* in the hope that it will enable you to better understand and support Bulgarian debt management policies.

Plamen Oresharski

Deputy Minister of Finance

Abbreviations

BIR	Base Interest Rate
BNB	Bulgarian National Bank
DISCs	Discount Bonds
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EIB	European Investment Bank
EU	European Union
FLIRBs	Front Loaded Interest Reduction Bonds
G-24	The Group of the 24 Most Industrially Developed Countries
G-7	The Group of the 7 Most Industrially Developed Countries
GDP	Gross Domestic Product
GS	Government Securities
IABs	Interest Arrears Bonds
IMF	International Monetary Fund
JBIC (JEXIM)	Japan Bank for International Cooperation (former Japan Export – Import Bank)
LIBOR	London Interbank Base Offered Rate
MF	Ministry of Finance
NES	National Employment Service
NSI	National Statistical Institute
SDR	Special Drawing Rights
USD	US dollar
USFR	US Federal Reserve
ZUNK	Bulgarian Abbreviation of the Law on Settlement of Nonperforming Credits Negotiated prior to 31 December 1990

Contents

I. Major Tendencies in the Global and Bulgarian Economy in 2000

1. Global Economy in 2000

Over the past year, the course of the global economic development was affected by the simultaneous influence of three major factors: continuous price increases for basic commodities and petrol, a further depreciation of the euro against the US dollar and a widespread economic upswing that included the rapid recovery of regions most seriously affected by the financial crises between 1997 and 1999.

The pace of the global economic growth in 2000 accelerated to its highest levels of the last 15 years and this tendency covered practically all regions of the world. The American economy led in this respect with strong annual growth of 5%, compared to an average of about 4% during the previous two years. Growth in the euro zone rose to 3.4% from an average of 2.6% during the period from 1998 through 1999.

Along with this was a further extension of the weakness of the euro against the US dollar, a trend that has been sustained from the very beginning of its introduction on the international capital markets. In October, the single currency fell to a record low of USD 0.825, reflecting a depreciation of 30 percent from the level at which it began trading in January 1999. This occurred despite some interventions undertaken by the European Central Bank.

Exchange rate of the Euro in 2000

Source: *Reuters*.

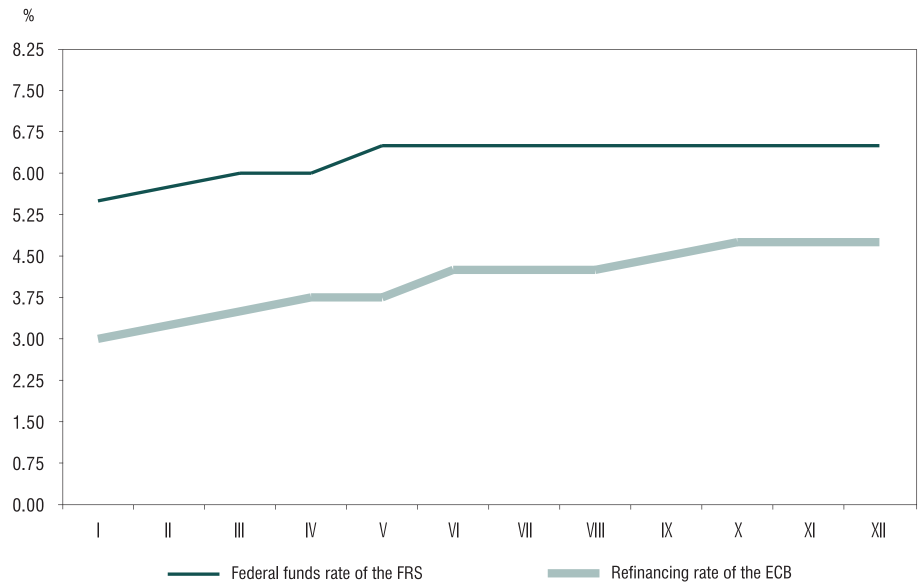
Due to the sizeable expansion of worldwide demand during the past year, prices of commodities and energy resources extended earlier gains. The largest influence came from a steady rise in prices of petrol to around USD 30 per barrel. The price of the Brent crude oil was also volatile, climbing to as high as USD 37 per barrel in September, before falling to USD 22 by year-end.

Brent Crude Oil in 2000 (price per barrel)

Source: *Reuters.*

In view of significantly higher energy prices and stronger personal consumption, many of the developed industrialized countries reported increased inflationary pressures during the second half of the year. This led their monetary authorities to pursue more restrictive policies. Over the year, the Federal Open Market Committee of the US Federal Reserve raised money market interest rates in the United States by 100 basis points, while the European Central Bank tightened monetary conditions in the euro zone by 175 basis points. Later on, turbulence in the international capital markets, and extended declines in the major stock markets led to downward revisions in forecasts of continuing global economic growth.

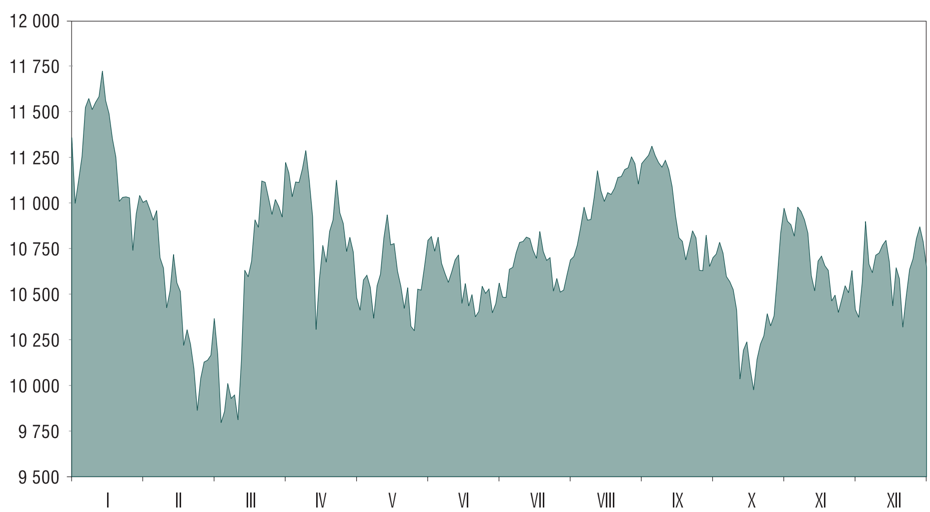
Short-Term Rates in the USA and the EU in 2000



Source: *FRS; ECB.*

The political noise surrounding the prolonged election process of the new American president may have negatively affected the NASDAQ and Dow Jones stock averages during the last quarter of the year.

Performance of the DOW JONES Industrial Average in 2000



Source: *Reuters.*

During the past year, buybacks of government securities initiated by many governments continued to gain in popularity. Both the United States' and the European authorities displayed this tendency. The US Treasury successfully completed a program for the repurchase of USD 30 billion of outstanding long-term bonds. On their part, the countries from the Eurozone reduced their borrowing needs, in part because proceeds from the sale of third generation mobile system licenses added to revenues. At the same time, greater stock market weakness and volatility increased the attractiveness of government debt of G-7 countries as safe havens for investors.

The macroeconomic fundamentals of the emerging market economies were varied in their performance. Many Central and Eastern European countries saw a pick-up in exports and a general improvement in business activity in view of the favorable influence of faster economic growth in the EU. The pace of economic growth reached 5.6 percent in Hungary, 4.3 percent in Slovenia and 4.1 percent in Poland. It was somewhat slower at 2.9, 2.4 and 2 percent respectively in the Czech Republic, Slovakia and Romania. Experts have noted that efforts at convergence with the macroeconomic criteria for membership in the EU have led to improved economic performance and budgetary positions in the accession candidates.

More favorable market conditions in global trade created a big impetus for Russian exports. Parallel progress achieved in the improvement of fiscal revenues led to impressive gains in Russia's GDP, which registered 7.6%.

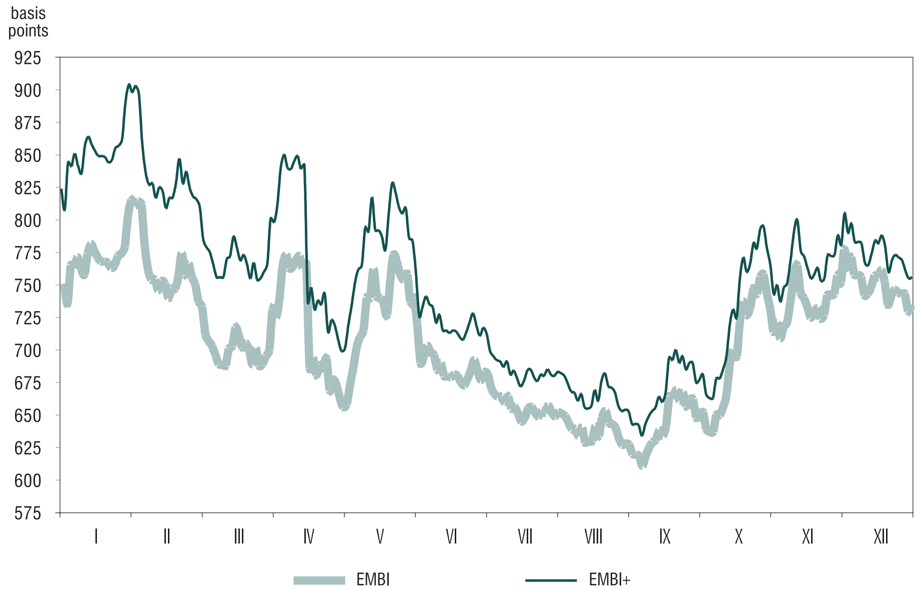
Emerging economies in the Far East improved their industrial production with an annual GDP growth of about 7% for them as a group. Many continued making important reforms in their local corporate and banking sectors, which also added to economic growth. At the same time, problems with long-lasting political tensions in some of these countries continued to hinder their prospects for faster economic revivals.

One important source of attention over the year was the region of Latin America. Mexico and Brazil accomplished significant improvements in their fiscal balance and debt management policies, which were rewarded by upgrades in their credit ratings. However, the difficulties of Argentina in funding its large fiscal needs created serious concerns about the underlying condition of the third largest economy in the region.

Sovereign risk spreads on the debt instruments of the emerging market countries declined to levels last seen before the onset of the Russian crisis in 1998. This can be seen in the annual performance of the JP Morgan Emerging Markets Bond Indices, which measure the total returns of composite portfolios that include financial instruments of the transition economies. One of these measures, EMBI+, continued its improvement after the serious impact of financial crises in Russia (1998) and Brazil (1999). By the end of the year, its spread against benchmark US Treasury securities had declined in comparison to the previous years, even though problems most notably in Argentina, had raised it from lower levels seen earlier.

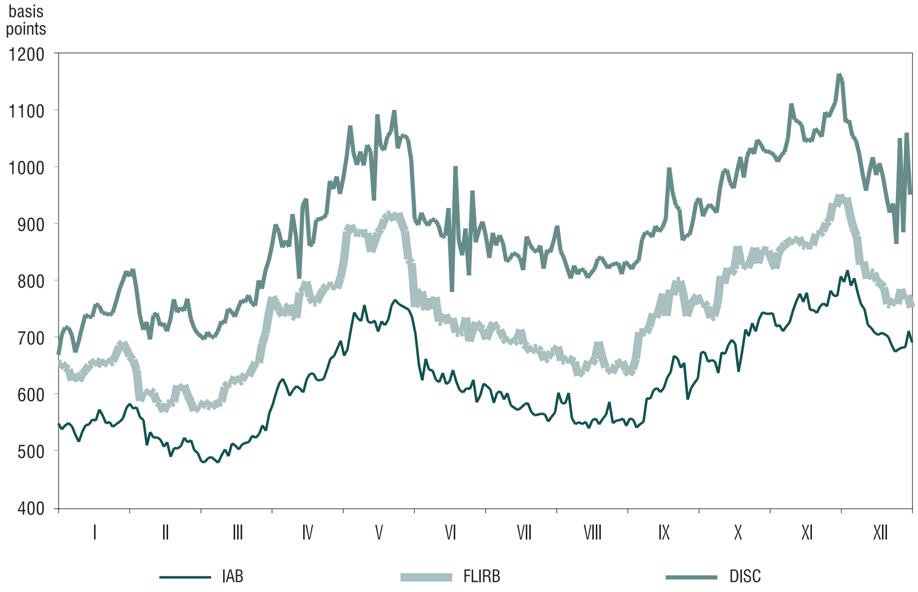
In 2000 many emerging market countries, especially in South America and Central Europe, participated in programs aimed at reducing the levels of their Brady bonds by swapping them against new eurobond or global issues. In this respect, market debuts of the emerging market economies, either on the European or on the Samurai bond markets, became increasingly frequent.

Performance of JP Morgan EMBI Indices in 2000



Source: *Reuters.*

Bulgarian Brady Bonds: Stripped Spreads in 2000



Source: *Reuters.*

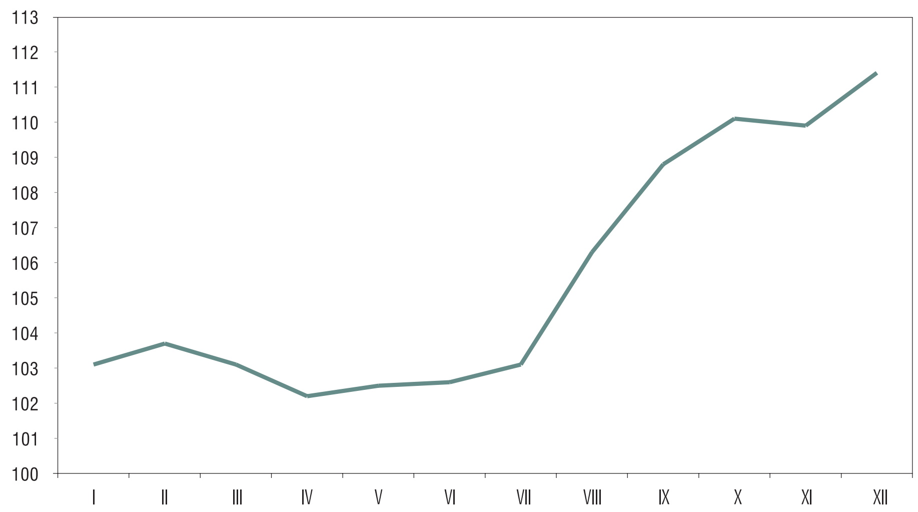
2. Key Aspects of Macroeconomic Fundamentals in Bulgaria

The international environment, characterized by the combined effects of strong domestic consumption and rising commodity prices, also affected significantly developments in the Bulgarian economy during 2000. Further improvements in fiscal stability and in making needed structural reforms were equally or possibly even more important.

The pace of economic growth in Bulgaria soared to 5.8%, compared to 2.4 percent in 1999. This result was strongly supported by all components related to consumption. The strength of domestic demand was evident by increases of 4.5% and 8.2% in final consumption and gross capital formation, respectively. Favorable external conditions led to a powerful 24.2% expansion in the exports of goods and services over the year. At the same time, the influence of the above mentioned factors brought about pick-up in the real value of imports to 14.6%. The trade balance remained negative, turning out at USD 1,175.3 million, compared to USD 1,081.0 million the year before.

Preliminary data place the current account deficit at USD 701.4 million in 2000. This deficit, however, was fully financed by inflows of foreign direct investment, which came to 1,001.5 million over the year. As of December 31st, 2000, the level of foreign reserves was recorded at USD 3,460.3 million, reflecting an increase of over USD 200 million from a year earlier.

Inflation in the Bulgarian economy was negatively affected by the depreciation of the euro and higher petrol prices. Additional pressure on the consumer price index came from increases in food prices, mainly as a result of a poor agricultural harvest caused by drought. As a result, the producers' price index rose by 14.8% and the consumer price index by 11.4%.



Bulgarian Consumer Price Index in 2000

Source: *NSI.*

After increasing for several months, unemployment fell slightly during the second half of the year. The National Employment Service reported unemployment claims of 16.4% for December 2000. Based on the latest data, this figure remains steady.

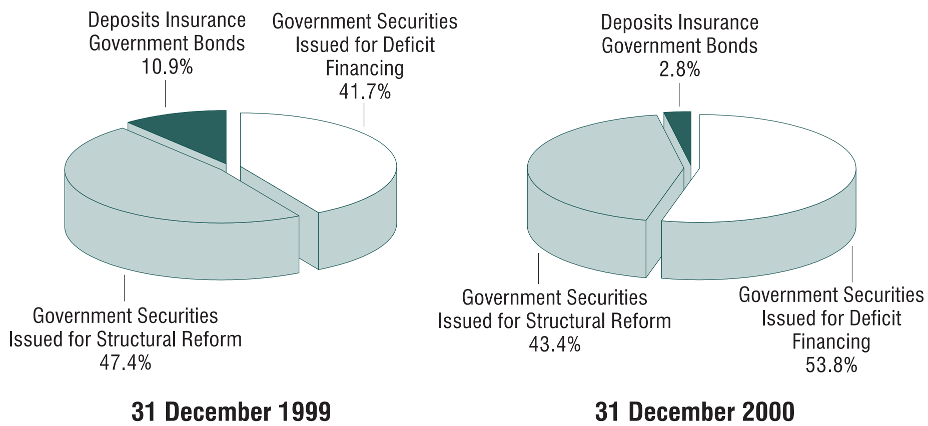
Macroeconomic stability over the year was due to the maintenance of a prudent budget policy and the healthy tax collections. Revenues of the consolidated government budget during 2000 amounted to BGN 11,065.1 million, while expenditures came to BGN 11,334.3 million. This helped limit the fiscal deficit to 1.05% of GDP for the year.

Based on current external conditions and the existing macroeconomic fundamentals in Bulgaria, the outlook for 2001 and the prospects for the economic growth continue to be positive.

II. Domestic Debt

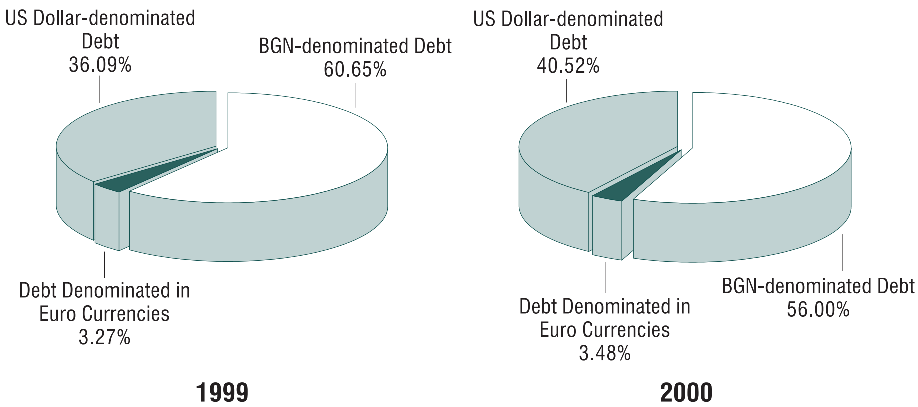
During the last three years management policies of domestic debt have placed priority on both maintaining its size at a relatively stable level and improving its structural characteristics. In 2000 domestic debt fell by over 40%, of which a major part (75%) was due to scheduled expiration of a government guarantee on deposits and accounts at DSK Bank. Real reductions were made on deposit insurance government bonds and on government bonds issued for structural reform. Part of the payments on domestic debt was financed through issuance of regular government securities, which resulted in an increase of this group of outstanding debt.

Breakdown of Domestic Debt by Debt Instrument



Source: *MF.*

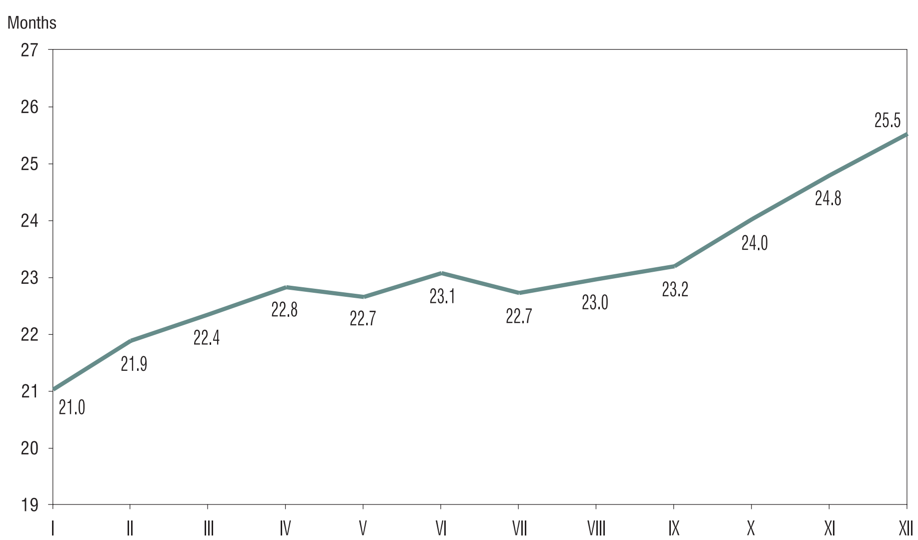
Debt structure was considerably improved over the year. The size of government securities denominated in foreign currency decreased by almost 13%, reaching 43.7%, of which the US dollar portion was 40.2%.



Domestic Government and Government Guaranteed Debt by Currency as of December 31

Source: *MF.*

The maturity of the securities issued for deficit financing increased considerably. At the beginning of the year the average maturity was 1 year and 9 months, while as of the end of December it stood at 2 years and 2 months.

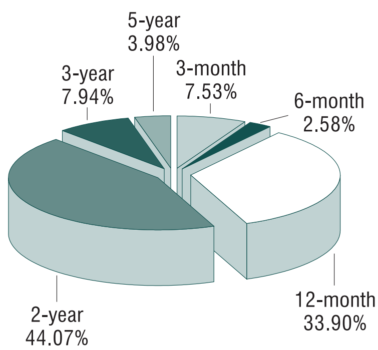


Weighted Average Maturity of Outstanding Government Securities Issued for Budget Deficit Financing in 2000

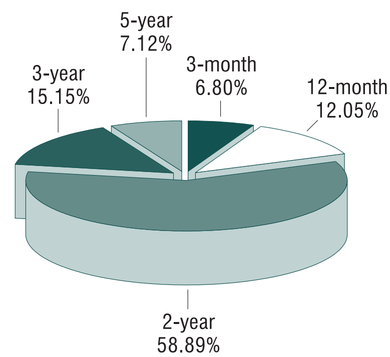
Source: *MF.*

The volume of outstanding treasury bills declined to 18.9% from 44%. The practice of issuance of instruments with only fixed rate coupons contributed significantly for the reduction of the share of floating rate government securities. They dropped by over 17 percentage points for the reviewed period and as of the year-end their share was 48.1%.

Maturity Structure of Outstanding Government Securities Issued for Deficit Financing as of December 31



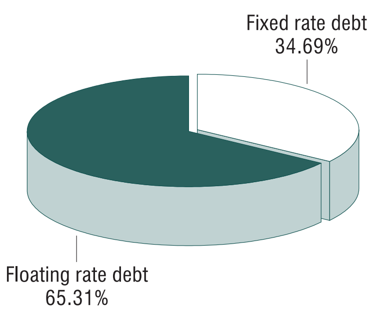
1999



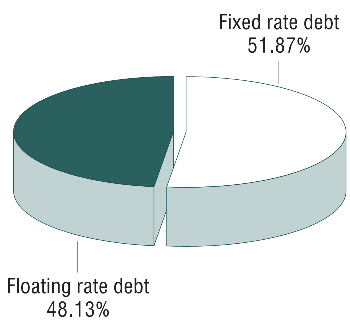
2000

Source: *MF.*

Interest Structure of Outstanding Government Securities as of December 31



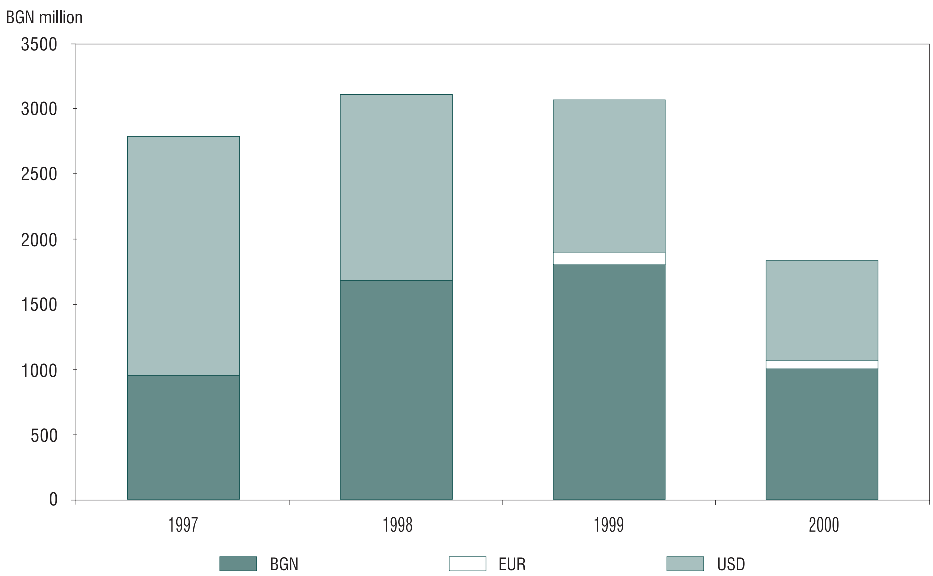
1999



2000

Source: *MF.*

After 1994, instruments issued for the recovery of the real and banking sectors comprised a major part of domestic debt. For the first time during the past year, issues of government securities for deficit financing, as per the auction calendar, exceeded that of other types of instruments and reached 53.8%



Currency Denomination of Domestic Debt: 1997 – 2000 (end of year)

Source: *MF.*

1. Issuance Policy

In 2000, new issues of government securities totaled BGN 807.4 million. Net domestic financing by government securities was negative, with matured securities outstripping the new issues by BGN 310.6 million.

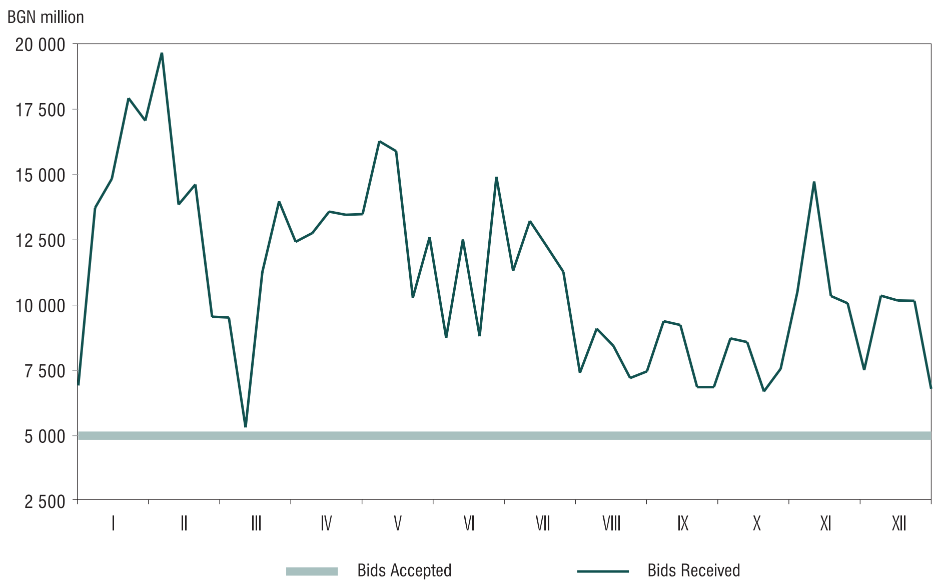
A principal method of issuing government securities in the domestic market remained the use of auctions held according to a preliminary announced calendar. There were 71 regular issues during the year at a total nominal value of BGN 794 million. Another 24 issues totaling BGN 22.3 million were sold by direct sale to individuals over a teller's desk.

Treasury Bills Issuance

Treasury bills issued over the year had maturities of 3 and 12 months. The yields on them were calculated on a discount basis.

Auctions of three-month bills were held every week and the yield on them determined the base interest rate. Effective yields ranged from a low of 3.07% in the first quarter to a high of 4.79% in the final two months of the year. During the year, the amount of the issues offered by the Ministry of Finance totaled BGN 260 million, while total bids received came to BGN 576.3 million. The two-fold excess in the demand for these securities led to higher prices in comparison to the year before.

Bids Received and Bids Accepted in Auctions of Three-Month Government Securities in 2000

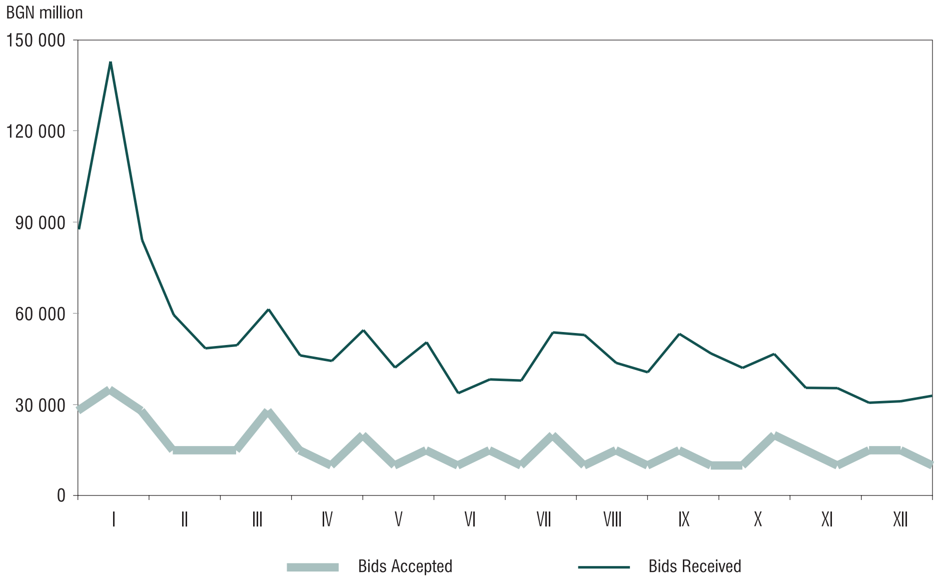


Source: *MF.*

In 2000, there were six issues of 12-month bills. They were auctioned on a monthly basis during the first quarter of the year and on a quarterly basis thereafter, to make room for the greater demand for three-year bonds. The total amount of the offered 12-month issues came to BGN 120 million, while the cumulative amount of bids received for them was BGN 277.5 million. Yields on these issues remained fairly stable after the primary drop of over 100 basis points in January. They reached a high of 6.15% at the beginning of the year and fell to a low of 4.97% in March. Thereafter, until the end of the year yields remained within the range of 5% – 5.40%.

Treasury Bonds Issuance

The total amount of new treasury bonds issued in 2000 was BGN 414 million. Three-year bonds were included in the auction calendar starting in February. Over the next few months two subsequent auctions reflected reopenings of these issues and increases of their nominal amounts. A five-year issue was also added through three consecutive auctions during the last quarter of the year. The reopenings permitted larger size of each issue that added to the greater liquidity.

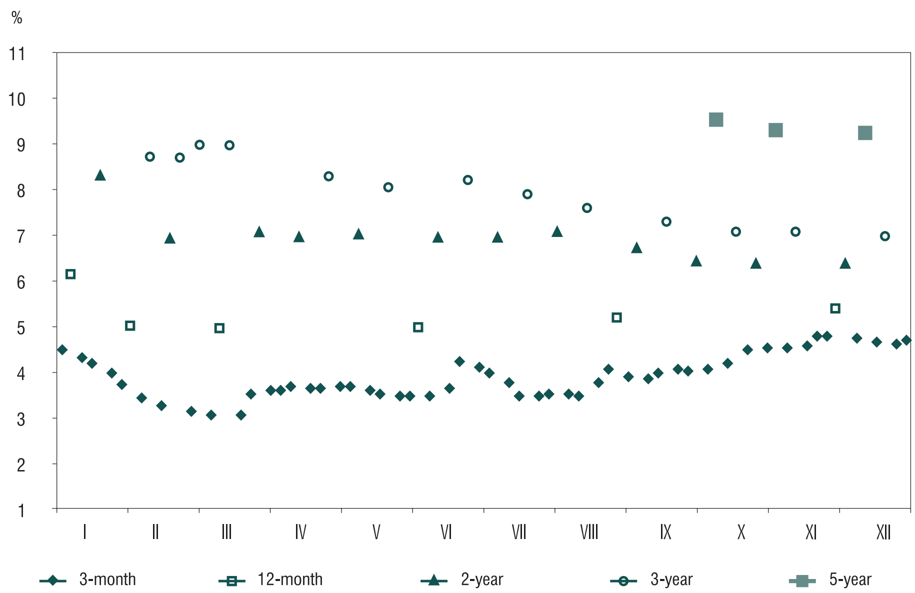


Bids Received and Bids Accepted in Auctions of Government Bonds in 2000

Source: *MF.*

There were twelve auctions of two-year bonds during the past year. The size of these issues was increased each month, starting in April. A total of BGN 234 million was offered for sale and bids for them amounted to BGN 650.4 million. Yields on the two-year bonds ranged between 6.72% and 7.08% after February and dropped to 6.38% in the final two months of the year.

Yields of Government Securities on the Primary Market in 2000

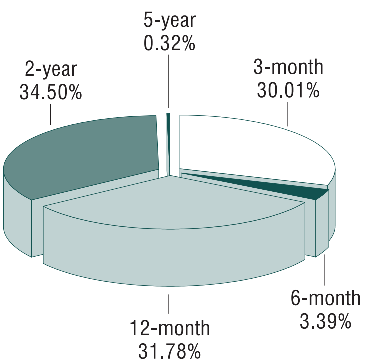


Source: *MF.*

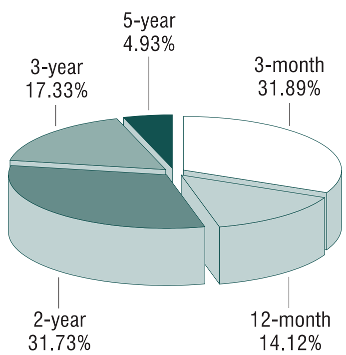
Thirteen auctions of three-year bonds were held during the year, beginning in February. Bonds with this maturity had not been offered on the market for over a year. All three-year bonds were tap issues and their total volume sold came to BGN 140 million, with total bids received of BGN 554.4 million. The yield on these securities fell steadily during the first eleven months of the year, before reaching a 60 basis points spread over the two-year bonds in December. The highest yield, which was registered in February, was 8.98%, while the lowest, which was seen in December, was 6.98%.

Five-year bond issues were introduced in the fourth quarter, when a total nominal amount of BGN 40 million was sold in three different auctions, held monthly. Total bids received reached BGN 113.4 million and yields ranged between 9.24% and 9.53%.

Maturity Structure of Newly Issued Government Securities



1999



2000

Source: *MF.*

Issuance of Government Securities Targeted to Individual Investors

The sale of government securities targeted to individuals takes place over teller's desks at the BNB and eight of the primary dealers. In 2000, only two-year bonds of this type were issued at the total amount of BGN 22.3 million, nearly BGN 8 million more than in 1999. These securities offer an increasing interest rate for the four coupons that they carry in order to further their purpose of encouraging savings. The yield on government securities targeted to individuals averaged 8.8%, which is 1.8 points higher than that on the regular issues of the same initial maturity.

Government Securities Auctions Held in 2000

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 (%)
04.01.2000	05.01.2000	30 100 00 001	3	05.04.2000	-	5 000 000	6 920 000	5 000 000	4 945 262	98.91	98.90	4.49	4.54
04.01.2000	05.01.2000	30 101 00 009	12	03.01.2001	-	20 000 000	55 050 000	20 000 000	18 843 945	94.22	94.00	6.15	6.40
10.01.2000	12.01.2000	30 102 00 007	3	12.04.2000	-	5 000 000	13 727 000	5 000 000	4 947 475	98.95	98.93	4.32	4.41
17.01.2000	19.01.2000	30 103 00 005	3	19.04.2000	-	5 000 000	14 832 500	5 000 000	4 949 151	98.98	98.96	4.20	4.28
17.01.2000	19.01.2000	20 300 00 116	24	16.01.2002	8	28 000 000	87 580 000	28 000 000	27 927 880	99.74	99.55	8.31	8.42
24.01.2000	26.01.2000	30 104 00 003	3	26.04.2000	-	5 000 000	17 925 500	5 000 000	4 951 282	99.03	99.01	3.99	4.07
31.01.2000	02.02.2000	30 105 00 000	3	03.05.2000	-	5 000 000	17 060 000	5 000 000	4 954 689	99.09	99.07	3.73	3.82
31.01.2000	02.02.2000	30 106 00 008	12	31.01.2001	-	20 000 000	80 480 000	20 000 000	19 045 475	95.23	95.20	5.02	5.06
07.02.2000	09.02.2000	30 107 00 006	3	10.05.2000	-	5 000 000	19 672 500	5 000 000	4 958 177	99.16	99.16	3.44	3.44
07.02.2000	09.02.2000	20 301 00 114	36	05.02.2003	9	5 000 000	34 765 000	5 000 000	5 000 000	101.20	100.70	8.72	8.92
14.02.2000	16.02.2000	30 108 00 004	3	17.05.2000	-	5 000 000	13 852 500	5 000 000	4 959 998	99.20	99.19	3.27	3.32
14.02.2000	16.02.2000	20 302 00 112	24	13.02.2002	7	28 000 000	84 094 000	28 000 000	28 000 000	100.34	100.20	6.93	7.01
17.02.2000	19.02.2000	20 301 00 114	36	05.02.2003	9	15 000 000	59 465 000	15 000 000	15 000 000	101.25	100.69	8.70	8.92
21.02.2000	23.02.2000	30 109 00 002	3	24.05.2000	-	5 000 000	14 620 500	5 000 000	4 961 289	99.23	99.20	3.15	3.27
24.02.2000	19.02.2000	20 301 00 114	36	05.02.2003	9	15 000 000	48 516 600	15 000 000	15 000 000	100.54	100.25	8.98	9.10
28.02.2000	01.03.2000	30 110 00 000	3	31.05.2000	-	5 000 000	9 555 000	5 000 000	4 962 331	99.25	99.21	3.07	3.23
28.02.2000	01.03.2000	30 111 00 008	12	28.02.2001	-	20 000 000	33 600 000	20 000 000	19 055 455	95.28	95.19	4.97	5.07
02.03.2000	09.02.2000	20 301 00 114	36	05.02.2003	9	15 000 000	49 498 000	15 000 000	15 000 000	100.57	100.00	8.97	9.20
06.03.2000	08.03.2000	30 112 00 006	3	07.06.2000	-	5 000 000	9 522 500	5 000 000	4 962 476	99.25	99.23	3.07	3.15
13.03.2000	15.03.2000	30 113 00 004	3	14.06.2000	-	5 000 000	5 315 000	5 000 000	4 957 081	99.14	98.77	3.53	5.09
13.03.2000	15.03.2000	20 303 00 110	24	13.03.2002	7	28 000 000	61 368 000	28 000 000	27 986 420	100.10	99.73	7.07	7.28
20.03.2000	22.03.2000	30 114 00 002	3	21.06.2000	-	5 000 000	11 260 000	5 000 000	4 956 020	99.12	98.96	3.61	4.28
27.03.2000	29.03.2000	30 115 00 009	3	28.06.2000	-	5 000 000	13 971 500	5 000 000	4 955 844	99.12	99.05	3.61	3.90
03.04.2000	05.04.2000	30 116 00 007	3	05.07.2000	-	5 000 000	12 422 500	5 000 000	4 955 157	99.10	99.08	3.69	3.78
03.04.2000	05.04.2000	20 304 00 118	24	03.04.2002	7	15 000 000	46 165 000	15 000 000	15 000 000	100.29	100.00	6.96	7.12
10.04.2000	12.04.2000	30 117 00 005	3	12.07.2000	-	5 000 000	12 762 500	5 000 000	4 955 348	99.11	99.10	3.65	3.69
17.04.2000	19.04.2000	30 118 00 003	3	19.07.2000	-	5 000 000	13 580 000	5 000 000	4 955 573	99.11	99.09	3.65	3.73
17.04.2000	19.04.2000	20 305 00 115	36	16.04.2003	8	10 000 000	44 350 000	10 000 000	9 955 650	99.68	99.22	8.29	8.47
24.04.2000	26.04.2000	30 119 00 001	3	26.07.2000	-	5 000 000	13 460 000	5 000 000	4 955 044	99.10	99.08	3.69	3.78
02.05.2000	03.05.2000	30 120 00 009	3	02.08.2000	-	5 000 000	13 482 500	5 000 000	4 955 026	99.10	99.08	3.69	3.78
02.05.2000	05.04.2000	20 304 00 118	24	03.04.2002	7	20 000 000	54 461 000	20 000 000	20 000 000	100.18	100.02	7.02	7.11

(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 (%)
08.05.2000	10.05.2000	30 121 00 007	3	09.08.2000	-	5 000 000	16 277 500	5 000 000	4 956 000	99.12	99.12	3.61	3.61
15.05.2000	17.05.2000	30 122 00 005	3	16.08.2000	-	5 000 000	15 895 000	5 000 000	4 957 000	99.14	99.14	3.53	3.53
15.05.2000	19.04.2000	20 305 00 115	36	16.04.2003	8	10 000 000	42 182 800	10 000 000	9 999 936	100.27	99.92	8.05	8.19
22.05.2000	25.05.2000	30 123 00 003	3	24.08.2000	-	5 000 000	10 287 500	5 000 000	4 957 397	99.15	99.14	3.48	3.53
29.05.2000	31.05.2000	30 124 00 001	3	30.08.2000	-	5 000 000	12 592 500	5 000 000	4 957 500	99.15	99.15	3.48	3.48
29.05.2000	31.05.2000	30 125 00 008	12	30.05.2001	-	20 000 000	34 130 000	20 000 000	19 052 531	95.26	95.05	4.99	5.22
05.06.2000	07.06.2000	30 126 00 006	3	06.09.2000	-	5 000 000	8 750 000	5 000 000	4 957 490	99.15	99.13	3.48	3.57
05.06.2000	05.04.2000	20 304 00 118	24	03.04.2002	7	15 000 000	50 457 500	15 000 000	15 000 000	100.30	100.10	6.95	7.07
12.06.2000	14.06.2000	30 127 00 004	3	13.09.2000	-	5 000 000	12 512 000	5 000 000	4 955 398	99.11	99.00	3.65	4.11
19.06.2000	21.06.2000	30 128 00 002	3	20.09.2000	-	5 000 000	8 810 000	5 000 000	4 948 661	98.97	98.83	4.24	4.83
19.06.2000	19.04.2000	20 305 00 115	36	16.04.2003	8	10 000 000	33 780 050	10 000 000	9 974 125	99.88	98.75	8.21	8.66
26.06.2000	28.06.2000	30 129 00 000	3	27.09.2000	-	5 000 000	14 912 500	5 000 000	4 950 142	99.00	99.00	4.11	4.11
03.07.2000	05.07.2000	30 130 00 008	3	04.10.2000	-	5 000 000	11 312 500	5 000 000	4 951 533	99.03	99.00	3.99	4.11
03.07.2000	05.07.2000	20 306 00 113	24	03.07.2002	7	15 000 000	38 290 000	15 000 000	15 000 000	100.30	100.11	6.95	7.06
10.07.2000	12.07.2000	30 131 00 006	3	11.10.2000	-	5 000 000	13 224 600	5 000 000	4 953 795	99.08	99.06	3.78	3.86
17.07.2000	19.07.2000	30 132 00 004	3	18.10.2000	-	5 000 000	12 260 500	5 000 000	4 957 571	99.15	99.15	3.48	3.48
17.07.2000	19.07.2000	20 307 00 111	36	16.07.2003	8	10 000 000	37 920 000	10 000 000	10 000 000	100.67	100.18	7.90	8.09
24.07.2000	26.07.2000	30 133 00 002	3	25.10.2000	-	5 000 000	11 277 500	5 000 000	4 957 691	99.15	99.15	3.48	3.48
31.07.2000	02.08.2000	30 134 00 000	3	01.11.2000	-	5 000 000	7 412 500	5 000 000	4 957 125	99.14	99.08	3.53	3.78
31.07.2000	05.07.2000	20 306 00 113	24	03.07.2002	7	20 000 000	53 730 000	20 000 000	20 000 000	100.66	100.35	7.08	7.10
07.08.2000	09.08.2000	30 135 00 007	3	08.11.2000	-	5 000 000	9 097 500	5 000 000	4 957 118	99.14	99.13	3.53	3.57
14.08.2000	16.08.2000	30 136 00 005	3	15.11.2000	-	5 000 000	8 437 500	5 000 000	4 957 339	99.15	99.14	3.48	3.53
14.08.2000	19.07.2000	20 307 00 111	36	16.07.2003	8	10 000 000	52 900 000	10 000 000	10 000 000	101.43	101.12	7.60	7.72
21.08.2000	23.08.2000	30 137 00 003	3	22.11.2000	-	5 000 000	7 210 000	5 000 000	4 954 166	99.08	99.01	3.78	4.07
28.08.2000	30.08.2000	30 138 00 001	3	29.11.2000	-	5 000 000	7 460 000	5 000 000	4 950 572	99.01	98.91	4.07	4.49
28.08.2000	30.08.2000	30 139 00 009	12	29.08.2001	-	20 000 000	41 530 000	20 000 000	19 014 080	95.07	94.89	5.20	5.40
04.09.2000	07.09.2000	30 140 00 007	3	07.12.2000	-	5 000 000	9 387 500	5 000 000	4 952 475	99.05	98.96	3.90	4.28
04.09.2000	05.07.2000	20 306 00 113	24	03.07.2002	7	15 000 000	43 735 000	15 000 000	15 000 000	100.72	100.57	6.72	6.80
11.09.2000	13.09.2000	30 141 00 005	3	13.12.2000	-	5 000 000	9 237 560	5 000 000	4 952 970	99.06	99.01	3.86	4.07
18.09.2000	20.09.2000	30 142 00 003	3	20.12.2000	-	5 000 000	6 860 000	5 000 000	4 951 386	99.03	98.99	3.99	4.16
18.09.2000	19.07.2000	20 307 00 111	36	16.07.2003	8	10 000 000	40 630 000	10 000 000	10 000 000	102.19	101.86	7.30	7.43

(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 (%)
25.09.2000	27.09.2000	30 143 00 001	3	27.12.2000	-	5 000 000	6 860 000	5 000 000	4 950 314	99.01	98.95	4.07	4.32
02.10.2000	04.10.2000	30 144 00 009	3	03.01.2001	-	5 000 000	8 727 560	5 000 000	4 951 181	99.02	99.01	4.03	4.07
02.10.2000	04.10.2000	20 308 00 119	24	02.10.2002	7	15 000 000	53 250 000	15 000 000	15 000 000	101.24	101.04	6.43	6.54
09.10.2000	11.10.2000	30 145 00 006	3	10.01.2001	-	5 000 000	8 587 500	5 000 000	4 950 389	99.01	98.97	4.07	4.24
09.10.2000	11.10.2000	20 309 00 117	60	05.10.2005	9	10 000 000	46 780 000	10 000 000	9 878 386	98.78	97.66	9.53	9.83
16.10.2000	18.10.2000	30 146 00 004	3	17.01.2001	-	5 000 000	6 695 000	5 000 000	4 948 774	98.98	98.80	4.20	4.96
16.10.2000	18.10.2000	20 310 00 115	36	15.10.2003	7.5	10 000 000	42 068 000	10 000 000	10 000 000	101.44	101.20	7.08	7.17
23.10.2000	25.10.2000	30 147 00 002	3	24.01.2001	-	5 000 000	7 563 500	5 000 000	4 945 534	98.91	98.81	4.49	4.92
30.10.2000	04.10.2000	20 308 00 119	24	02.10.2002	7	20 000 000	46 640 000	20 000 000	20 000 000	101.33	100.84	6.38	6.65
30.10.2000	01.11.2000	30 148 00 000	3	31.01.2001	-	5 000 000	10 505 100	5 000 000	4 944 874	98.90	98.79	4.54	5.00
06.11.2000	11.10.2000	20 309 00 117	60	05.10.2005	9	15 000 000	35 511 105	15 000 000	14 943 830	99.63	99.25	9.30	9.40
06.11.2000	08.11.2000	30 149 00 008	3	07.02.2001	-	5 000 000	14 735 000	5 000 000	4 945 030	98.90	98.90	4.54	4.54
13.11.2000	18.10.2000	20 310 00 115	36	15.10.2003	7.5	10 000 000	35 393 000	10 000 000	10 000 000	101.44	101.22	7.08	7.16
13.11.2000	15.11.2000	30 150 00 006	3	14.02.2001	-	5 000 000	10 347 500	5 000 000	4 944 368	98.89	98.85	4.58	4.75
20.11.2000	22.11.2000	30 151 00 004	3	21.02.2001	-	5 000 000	10 072 500	5 000 000	4 941 840	98.84	98.79	4.79	5.00
27.11.2000	29.11.2000	30 152 00 002	3	28.02.2001	-	5 000 000	7 512 500	5 000 000	4 941 920	98.84	98.80	4.79	4.96
27.11.2000	29.11.2000	30 153 00 000	12	28.11.2001	-	20 000 000	32 755 000	20 000 000	18 977 614	94.89	94.73	5.40	5.58
04.12.2000	04.10.2000	20 308 00 119	24	02.10.2002	7	15 000 000	30 622 500	15 000 000	15 000 000	101.32	101.00	6.38	6.56
04.12.2000	06.12.2000	30 154 00 008	3	07.03.2001	-	5 000 000	10 360 000	5 000 000	4 942 484	98.85	98.80	4.75	4.96
11.12.2000	11.10.2000	20 309 00 117	60	05.10.2005	9	15 000 000	31 074 000	15 000 000	14 967 519	99.87	99.33	9.24	9.38
11.12.2000	13.12.2000	30 155 00 005	3	14.03.2001	-	5 000 000	10 180 000	5 000 000	4 943 476	98.87	98.84	4.66	4.79
18.12.2000	18.10.2000	20 310 00 115	36	15.10.2003	7.5	10 000 000	32 922 000	10 000 000	10 000 000	101.70	101.53	6.98	7.05
18.12.2000	20.12.2000	30 156 00 003	3	21.03.2001	-	5 000 000	10 162 560	5 000 000	4 943 756	98.88	98.86	4.62	4.71
27.12.2000	28.12.2000	30 157 00 001	3	29.03.2001	-	5 000 000	6 797 500	5 000 000	4 942 793	98.86	98.82	4.71	4.88

Note: The interest coupons on government securities with maturities of over one year are paid semiannually.

Source: MF.

2. Domestic Debt Servicing

Payments on domestic debt over the year totaled BGN 1,250.5 million. Of this, BGN 1,118 million was principal and the remaining BGN 132.5 million was interest payments. Expenditures on interest represented 1.2% of total budgetary expenditures and 1.5% of tax revenues[1]. The data shows a downward trend in expenditures on domestic debt, beginning in 1997. It has occurred as a result of the reduction in debt and the substantial declines in interest rates on government securities.

Government Securities Issued for Budget Deficit Financing

Repayments of principal on government securities issued for deficit financing during the year totaled BGN 684.7 million, of which BGN 675.3 million were on regular issues and the remaining BGN 9.3 million on issues targeted to individual investors. In addition, BGN 25 thousand of nine-year bonds issued in 1995 and BGN 3 million of target bonds were bought-back during the year. Expenditures for interest payments on government securities issued for deficit financing amounted to BGN 70.2 million.

As a result of all payments and buy-back transactions, short-term debt fell by BGN 196.4 million and long-term debt increased by BGN 291.1 million.

Government Securities Issued for Structural Reform

Government securities issued for structural reform declined by BGN 206.6 million. The biggest part of the reduction drop was due to the buy-back of USD 100 million of ZUNK bonds. The purpose of this transaction was to reduce the budgetary exposure to instruments denominated in US dollars and with interest coupons higher than the domestic interest rates. Also, BGN 11.6 million of deposit insurance bonds were bought-back. Market activity in these issues remained extremely low and yields on them were considered unattractive.

Redemption on government securities issued for structural reform totaled BGN 247 million in 2000, of which BGN 195.7 million were on

[1] In the consolidated government budget the interest payments on debt owed to the IMF are shown as interest payments on domestic debt. The IMF extends its loans to the central bank, which then on-lends it to the government. As a result, the data quoted in this section on domestic interest payments as a percent of budgetary expenditures differs from those given in the Major Features of the Government Debt section.

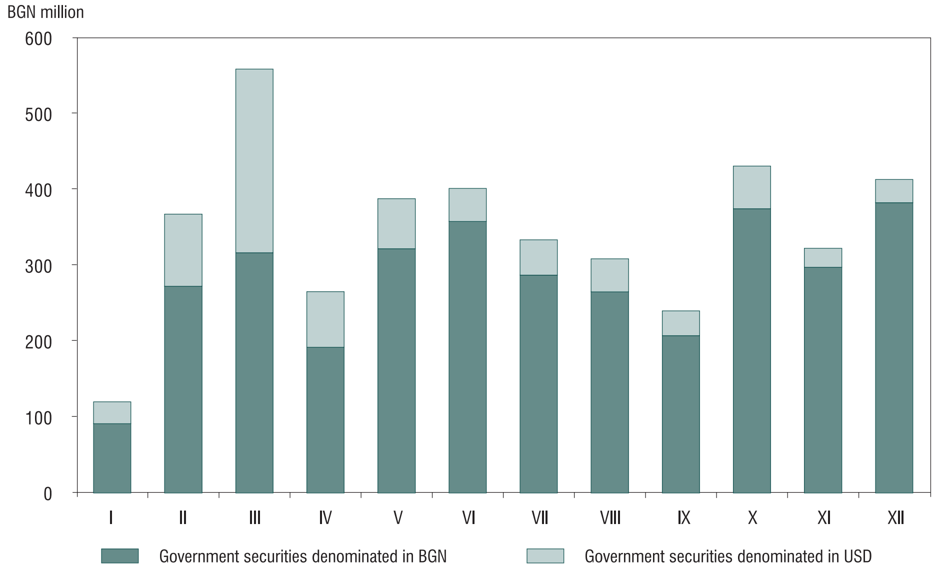
deposit insurance government bonds. The redeemed government securities used for payment in privatization transactions were with face value of USD 135.2 thousand, BGN 6.9 thousand and EUR 4 thousand. For ZUNK bonds, the amounts came to USD 5.1 million and BGN 114 thousand. Expenditures on interest payments on government securities issued for structural reform totaled BGN 62.3 million, of which BGN 15.2 million was for deposit insurance bonds.

3. Secondary Market of Government Securities

The volume of monthly trading activity in the secondary market for government securities was uneven during the past year. Trading was higher during issue days and on days when commercial banks needed to meet the minimum reserve requirements set by the BNB. Yields on repo-transactions followed fluctuations in the base interest rate. Repo-transactions with government securities were usually at higher yields than those on overnight interbank deposits.

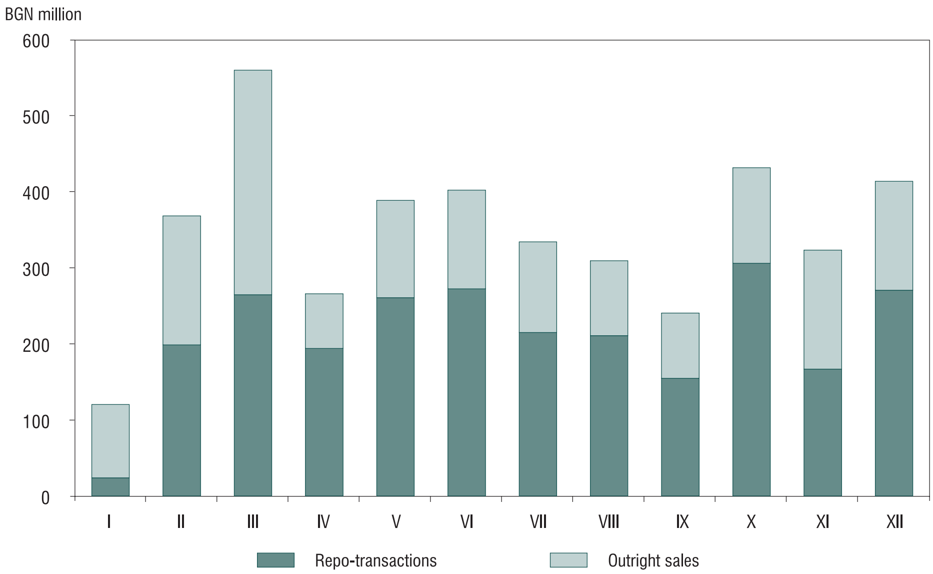
During the year, on the secondary interbank market there were 5,033 transactions (including the volume and the number of reverse repo-transactions) in government securities issued for budget deficit financing. The volume of such transactions fell by 12.8%, or BGN 835.10 million, from the year before, to a total nominal amount of BGN 5,703.9 million.

Secondary Market Trading in Government Securities in 2000*



** Outright sales and repo agreements.*

Source: *BNB.*



Secondary Market Transactions with Government Securities in 2000

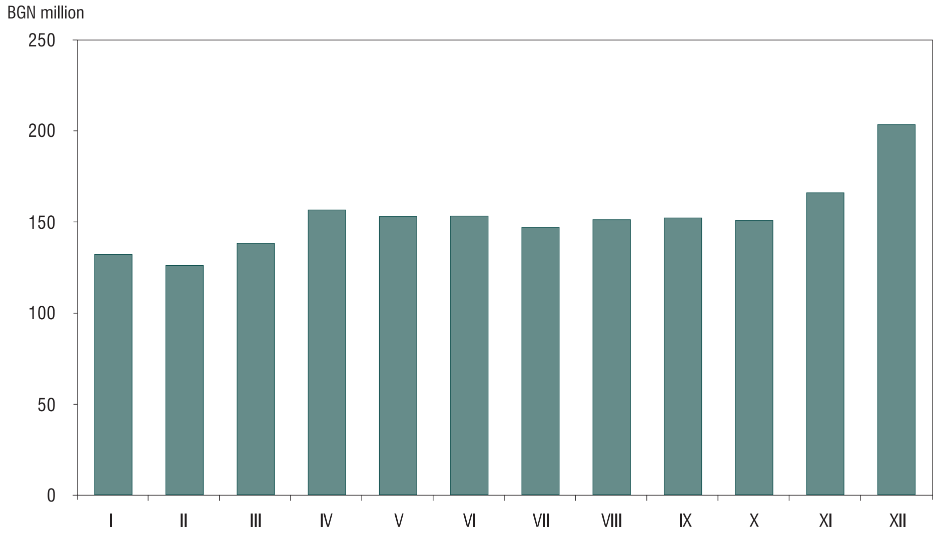
Source: *BNB.*

There were 649 transactions in the secondary market for USD-denominated government securities issued for the purposes of structural reform. Their total value amounted to USD 720.9 million (including reverse repo transactions). In addition, there were 17 transactions totaling BGN 4.9 million in such issues denominated in BGN. There were only two transactions in USD-denominated deposit insurance government bonds, for a total of USD 1 million. The number of transactions in EUR-denominated government securities came to 55 transactions over the year with total value of EUR 39.3 million.

Weighted average prices for registered secondary market transactions in dollar ZUNK bonds showed little or no trend over the year. They were USD 66.69 at the beginning of the year and then rose to as high as USD 70.38 in October before falling to an average weighted price of USD 69.78 in the final month of 2000.

ZUNK bonds used in privatization deals totaled USD 144 thousand for USD-denominated bonds, BGN 6.9 thousand for BGN-denominated bonds and EUR 4.1 thousand for EUR-denominated bonds. These securities were used as means of payment in 39 privatization transactions. They were transferred to the account of the Ministry of Finance and cancelled.

Holdings of Non-bank Financial Institutions, Companies and Individuals in Governments Securities Issued for Deficit Financing in 2000

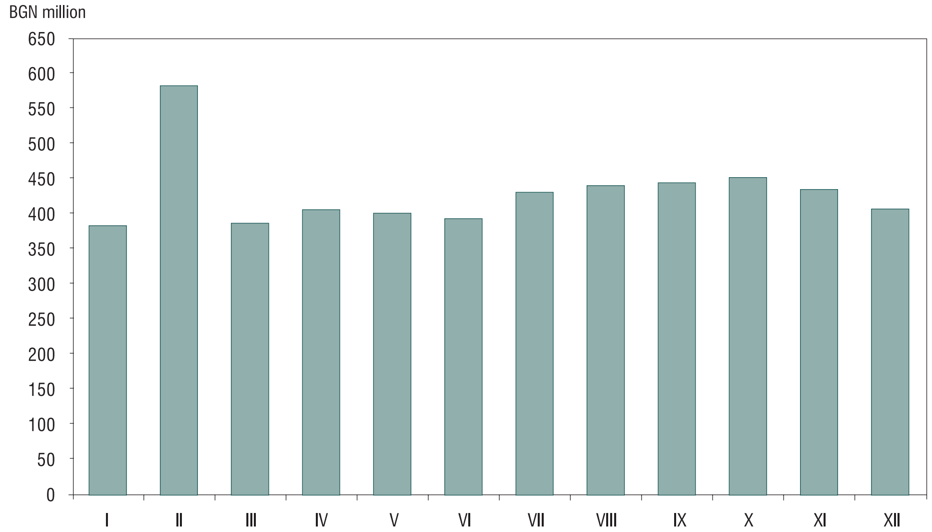


Source: *BNB.*

Holdings of government securities issued for deficit financing by non-bank financial institutions, companies and individuals increased from BGN 131.7 million at the start of the year to BGN 202.9 million at the close. This was also the case for issues targeted to individuals, which rose from BGN 22.6 million to BGN 31.4 million.

Holdings by non-bank financial institutions, companies and individuals of securities issued for structural reform were distributed unevenly between the investors. They rose from BGN 384.2 million to BGN 583.5 million in February, but then fell back to BGN 408 million by the close of the year.

Holdings of Non-bank Financial Institutions, Companies and Individuals in Governments Securities Issued for Structural Reform in 2000



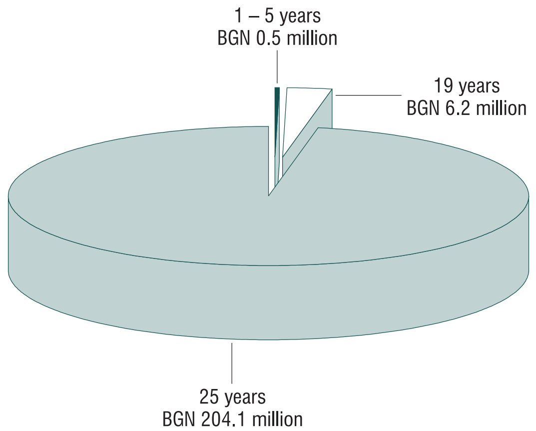
Note: *The BGN equivalent of government securities denominated in foreign currencies is calculated as per the official exchange rate of the BNB at the end of the month.*

Source: *BNB.*

Government securities held by foreign investors remained relatively stable during the year. Their investments in USD-denominated government securities were USD 97.12 million compared to USD 86.8 million one year earlier. Holdings of EUR-denominated securities declined from EUR 7.33 million to EUR 3.16 million over the same period.

Source: BNB.

Volume and Maturity Structure of Government Securities Owned by Foreign Investors as of 31 December 2000



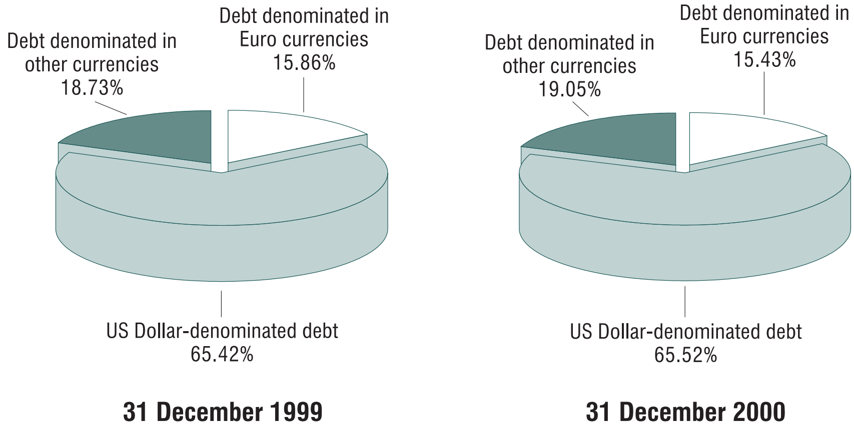
Source: *BNB.*

III. Foreign Debt

For the second year in a row foreign debt registered a decline. In terms of US dollars, the debt fell by almost USD 100 million and its ratio to GDP dropped from 78.4% at the end of 1999 to 74.1% a year later.

In the foreign currency structure, the USD-denominated debt remained predominant (65.5%), keeping approximately the same level as the previous year. This predominance and the weakness in the euro relative to the dollar caused serious deviations due to the exchange rate differences. It led to an increase of the foreign debt valued in the single currency by EUR 476 million in one year. Even so, the pace of the increase was considerably lower than the economy growth.

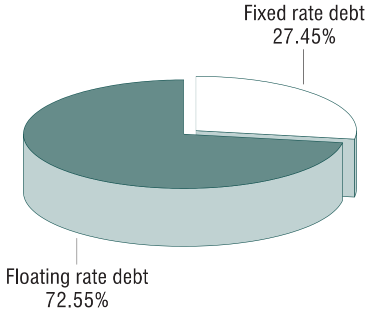
Currency Structure of Foreign Government and Government Guaranteed Debt



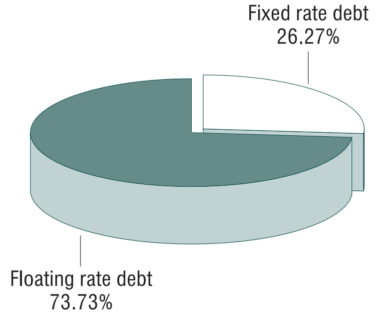
Source: *MF.*

The share of debt instruments with floating interest rates also showed a slight rise, again reflecting the burden of the US dollar-component of the foreign debt. Some 75% of them were Brady bonds, whose rates are linked to the LIBOR. As a result of the fluctuation of the SDR/USD exchange rate, the obligations to the IMF, which also carry floating rates, added to this tendency by an almost one percentage point increase in their relative value.

Interest Structure of Foreign Government and Government Guaranteed Debt



31 December 1999

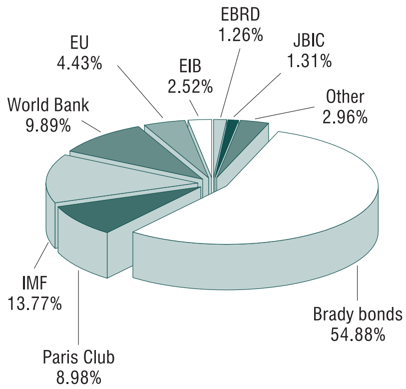


31 December 2000

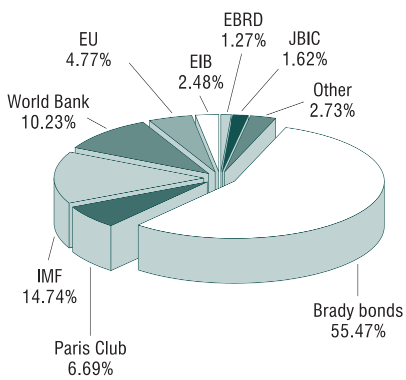
Source: *MF.*

Brady bonds once again constituted the largest share of foreign debt and were 55.5% of the government portfolio at year-end. Again, due to the dollar appreciation, their relative share was higher than the previous year, despite the decrease of their nominal value. Shares attributable to the IMF, the World Bank, the European Union (EU) and to the JBIC also rose, partly as a result of the positive net borrowing from these institutions and partly as a result of the exchange rates. Debt to Paris Club Creditors recorded the biggest decline as a result of the repayments that were made during the year and because of the depreciation of the euro, which is also the currency of the most considerable portion of the borrowings.

Breakdown of Foreign Debt by Creditor



31 December 1999



31 December 2000

Source: *MF.*

1. Foreign Financing

Official creditors were again the major source of external financing in 2000. Tranches received from the IMF came to USD 274.7 million, which makes it the largest official creditor on a net basis. Total government and government guaranteed loans from the World Bank amounted to USD 72.5 million. The EU provided USD 53 million of new loans, while JBIC provided USD 50.7 million. New borrowings from the EIB and the EBRD were USD 24.8 million and USD 16.9 million respectively.

Net foreign financing for the year totaled USD 129.3 million. Of this, USD 29 million was used to finance projects with government guarantees. The biggest positive balances were registered with financing from the IMF – USD 144.1 million, followed by the European Union – USD 53 million and the World Bank – USD 45.7 million. Financing by both the Paris Club (USD -154.2 million) and G-24 was negative.

The largest portion from the newly received loans was denominated in SDR. These were IMF provided funds, equivalent to USD 274.7 million. The new loans in euro followed with USD 100.4 million equivalent. All of the USD-denominated loans, amounting to USD 44.1 million, came from tranches under previously agreed government investment and government guaranteed loans.

2. Foreign Debt Servicing

In 2000, foreign debt service totaled USD 877.8 million, of which USD 474.5 million were interest payments. Most payments on foreign debt were made in US dollars (364.8 million), followed by payments in euro zone currencies (USD 204.4 million equivalent) and by SDR-payments (USD 200.5 million equivalent). With the appreciation of the exchange rate of the dollar to the euro (respectively of the SDR to the euro), compared to the levels as of the end of 1999, the funds needed to service foreign debt rose by BGN 68 million.

The largest debt payments were made on Brady bonds' interest rates – USD 280.7 million. Interest and amortization to Paris Club amounted to USD 194.7 million, while those to the IMF were USD 187.4 million. Government budgetary funds of USD 11.4 million were used to make payments on called government guaranteed loans. During the year, two new government guarantees were called on loans for industrial projects.

In addition, the use of certain debt instruments that can be accepted as a means of payment for privatization transactions led to a drop of USD 10.9 million in foreign debt over the reviewed period.

Foreign Financing and Foreign Debt Payments in 2000

Structure	Disbursements and tranches		Payments			
			Amortization		Interest	
	USD million	BGN million	USD million	BGN million	USD million	BGN million
I. Government Debt	470.4	1011.9	370.2	787.9	453.9	933.6
1. London Club	0.0	0.0	0.0	0.0	280.7	566.9
2. Paris Club	0.0	0.0	154.2	326.5	40.5	85.6
3. World Bank	64.3	138.9	25.6	53.3	40.9	86.3
3.1. World Bank	13.6	29.0	16.9	35.2	36.8	77.6
3.2. JBIC (JEXIM)	50.7	109.8	8.7	18.1	4.2	8.7
4. G-24	19.9	42.1	32.0	68.9	2.5	5.3
5. European Union	53.0	117.3	0.0	0.0	13.8	29.2
6. IMF	274.7	589.6	130.6	283.5	56.8	121.9
7. Others	0.0	0.0	0.0	0.0	2.8	5.8
8. Government Investment Loans	48.2	102.1	19.4	39.4	12.8	26.3
8.1. World Bank	24.6	51.9	0.0	0.0	1.3	2.9
8.2. EIB	18.7	39.5	15.6	31.6	9.2	18.6
8.3. EBRD	0.0	0.0	3.8	7.8	2.0	4.1
8.4. Others	5.0	10.8	0.0	0.0	0.3	0.7
9. Government Guarantees Called	10.3	22.0	8.4	16.4	3.0	6.4
9.1. World Bank	10.3	22.0	3.3	6.7	1.1	2.3
9.2. EIB	0.0	0.0	1.1	2.2	0.3	0.6
9.3. Others	0.0	0.0	4.0	7.5	1.6	3.4
II. Government Guaranteed Debt	62.1	129.9	33.0	71.5	20.7	44.2
1. World Bank	24.1	50.4	6.7	13.9	4.9	10.5
2. EIB	6.1	13.7	7.2	15.7	4.0	8.6
3. EBRD	16.9	34.5	10.8	22.4	5.8	12.3
4. Others	15.0	31.3	8.3	19.5	6.0	12.8
Total	532.5	1141.8	403.2	859.4	474.5	977.8

Note: *The equivalents in BGN and USD of foreign financing receipts and payments are calculated at the official exchange rate published by the BNB on the dates of transfer.*

Source: *MF.*

IV. Major Features of Government Debt

Several important issues determined the dynamics and changes in the structure of government debt in 2000. First, maintaining the current nominal level of government debt was possible due to the small budget deficit and the availability of non-debt financing sources. Second, positive net financing was registered only in foreign debt and it is observed with the three major official creditors – the IMF, the World Bank and the European Union. At the same time, domestic financing was negative. Increases were related to bonds with maturities of over one year. The nominal amount of outstanding three-month bills remained at the same minimal level – BGN 64.3 million, since their most important purpose is supplying the market with more liquid instruments. Net financing with one-year government bills was negative, mainly on the account of two-year bond issues. Five-year bonds also recorded a positive net increase, even though their issuance started in the last quarter of the year.

Financing Sources of the Budget Deficit

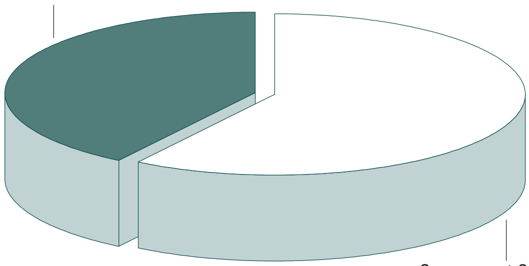
(BGN million)

Domestic Financing	Government Securities		
	Issued	Matured	Net
3-month	257.5	257.3	0.2
6-month	0.0	10.2	-10.2
12-month	114.0	267.5	-153.5
2-year	256.2	74.3	181.9
3-year	139.9	64.2	75.7
5-year	39.8	6.3	33.5
Others	0.0	438.2	-438.2
Foreign Financing	**Loans**		
	Disbursed	Repaid	Net
IMF	589.6	283.5	306.1
World Bank	212.7	60.0	152.7
EU	117.3	0.0	117.3
G-24	42.1	68.9	-26.8
EIB	39.5	33.8	5.7
Others	10.8	341.7	-331.0

Note: *The table includes only debt related sources of financing.*

Source: *MF.*

Government debt, in its major part – 59.3%, is comprised of government securities. This percentage included both the completely securitized domestic debt and bonds issued as a result of the restructuring agreement signed with the London Club in 1994.



Structure of Government and Government Guaranteed Debt by Type of Instruments as of December 31

Source: *MF.*

The depreciation of the euro and the large share of debt denominated in US dollars or other currencies also influenced the size of government debt. Total debt measured in US dollars declined over the year, despite positive net financing.

Debt Changes as a Result of Exchange Rates Movements

(EUR million)

	Increase	Decrease	Net
Domestic Debt	82.9	-	82.9
Foreign Debt	489.4	-13.5	475.9
Total	572.3	-13.5	558.8

Source: *MF.*

The size of the debt denominated in euro showed no change, with the positive currency differences offsetting the real decrease in domestic debt.

Total Amount of the Debt in Euro

(EUR million)

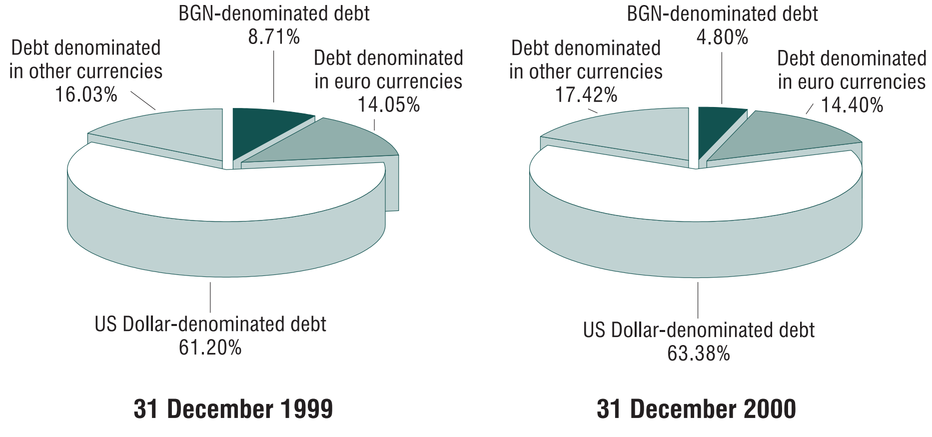
	31.XII.1999	31.XII.2000
Domestic Debt	1 515.1	903.6
Foreign Debt	9 028.5	9 640.4
Total	10 543.7	10 543.9

Note: *The debt equivalent is calculated in EUR as per the official exchange rate of the BNB at the last business day of the year.*

Source: *MF.*

The currency composition of the government debt was determined to a large extent by the recorded exchange rate effects. In this relation the decline of domestic debt in BGN and the increase of debt denominated in both USD and other foreign currencies, represented the major changes registered after the end of 1999. A nominal increase is observed only in SDR-denominated debt, while the growth of USD-denominated liabilities resulted from the positive exchange rate movements.

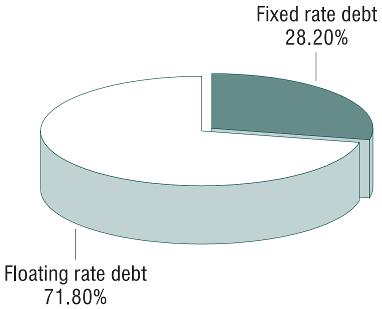
Currency Structure of Governmnet and Government Guaranteed Debt



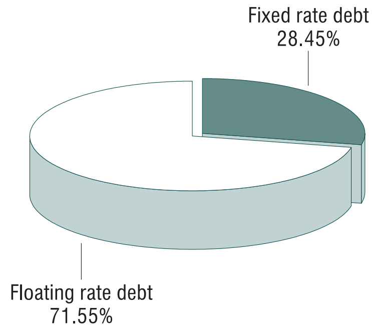
Source: *MF.*

The increased weight of the USD-denominated debt affected the interest structure of government debt and the impact of this factor was stronger than the growth of domestic securities with fixed coupons.

Interest Structure of Government and Government Guaranteed Debt



31 December 1999

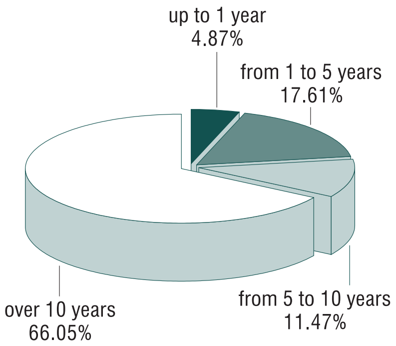


31 December 2000

Source: *MF.*

The average residual maturity of government debt fell from 12 years and 5 months to 12 years and 1 month. This positive change resulted from the natural decrease in the maturity of foreign debt and buybacks of ZUNK bonds.

Residual Maturity of the Government and Government Guaranteed Debt



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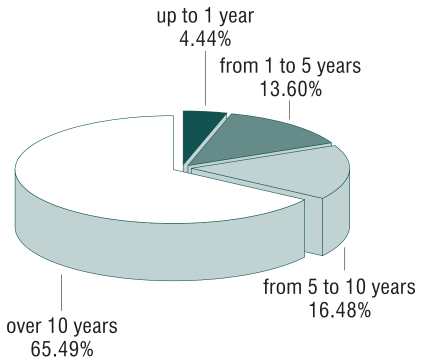
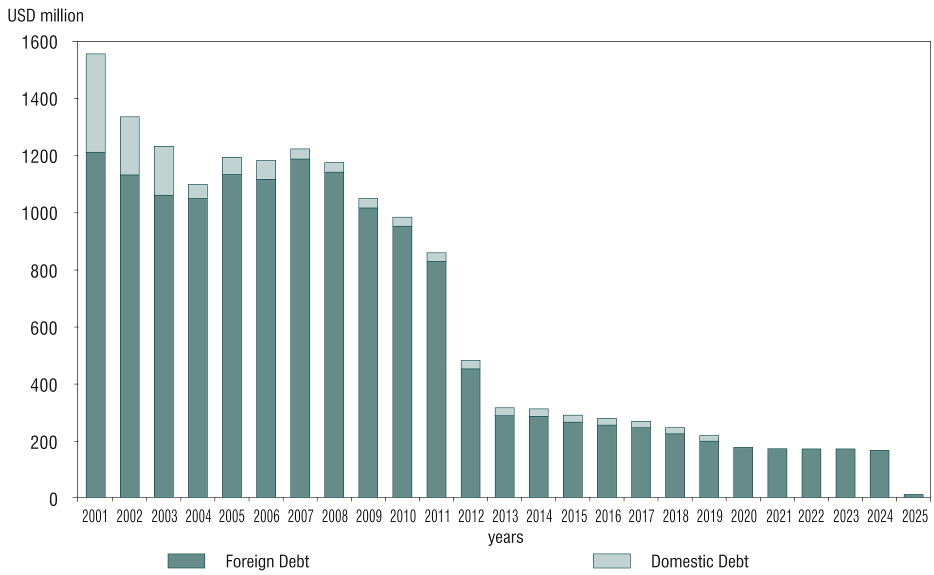


31 December 2000

Source: *MF.*

In addition to the long average maturity, government debt was also characterized by a steady amortization schedule. Due to the shorter residual maturity of the domestic debt, its high service burden was concentrated mainly over the next three years. Liabilities to foreign creditors are relatively steady during the following ten-year period and their amount ranges between USD 1 – 1.2 billion. Interest payments comprise about half of the debt service payments during the next five years but after this period their share declines considerably.

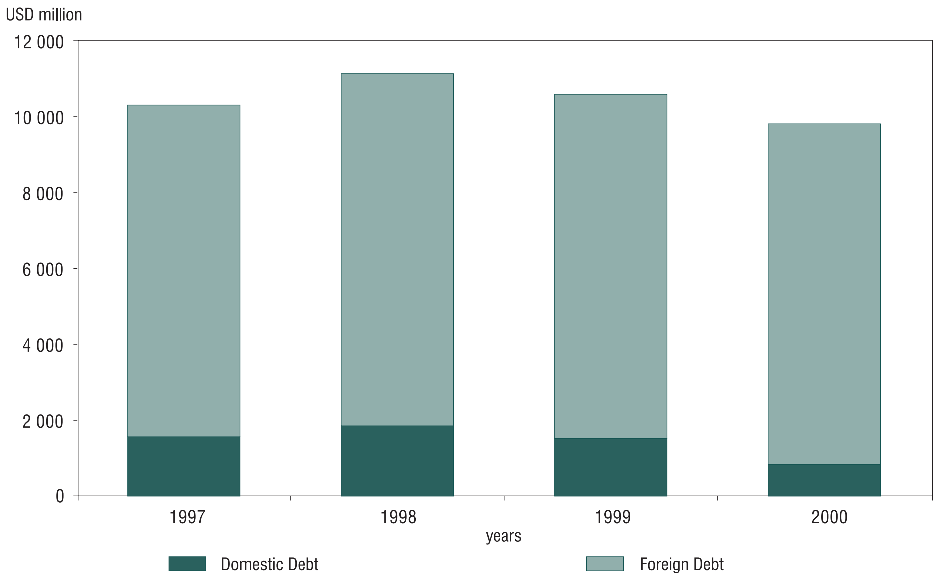
Projected Payments on Government and Government Guaranteed Debt



Note: *The collateralized payments on the Brady bonds have been excluded.*
The forecasts are based on debt outstanding as of 31 December 2000.

Source: *MF.*

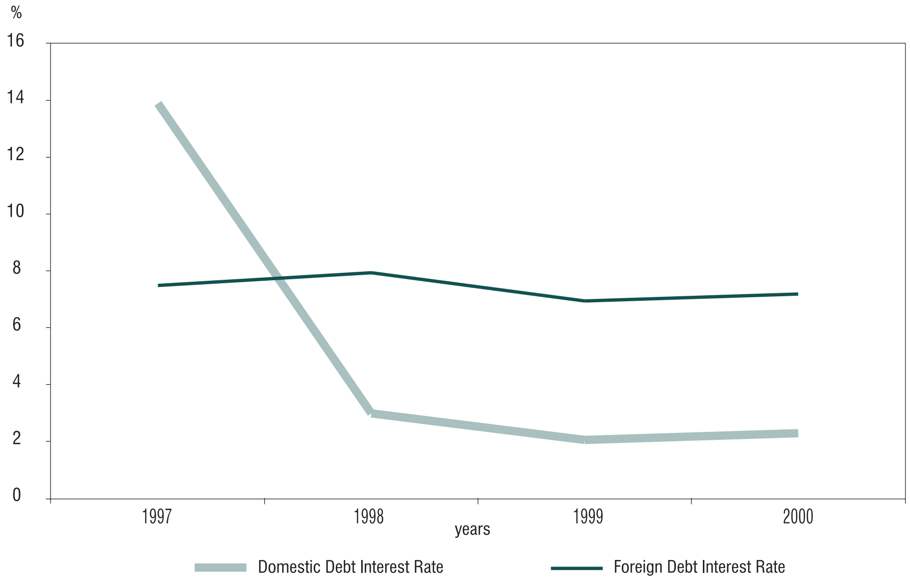
As a result of the balanced or negative foreign financing sustained over the past three years, the nominal amount of domestic debt recorded a significant decrease. The share of domestic debt at the end of 2000 had declined notably to 8.6%, from 16.6% in 1998.



Domestic and Foreign Debt: 1997 – 2000 (end of year)

Source: *MF.*

Interest expenditures for the same period ranged between 2.1% and 3% of overall budget expenditures. The slight increase of this percentage to 2.3% during the last year was due to the appreciation of the US dollar, compared to the Bulgarian lev and the higher level of international interest rates. The expenditures on foreign debt service also remained stable, with a small annual increase from 7% to 7.2% of total budget expenditures.



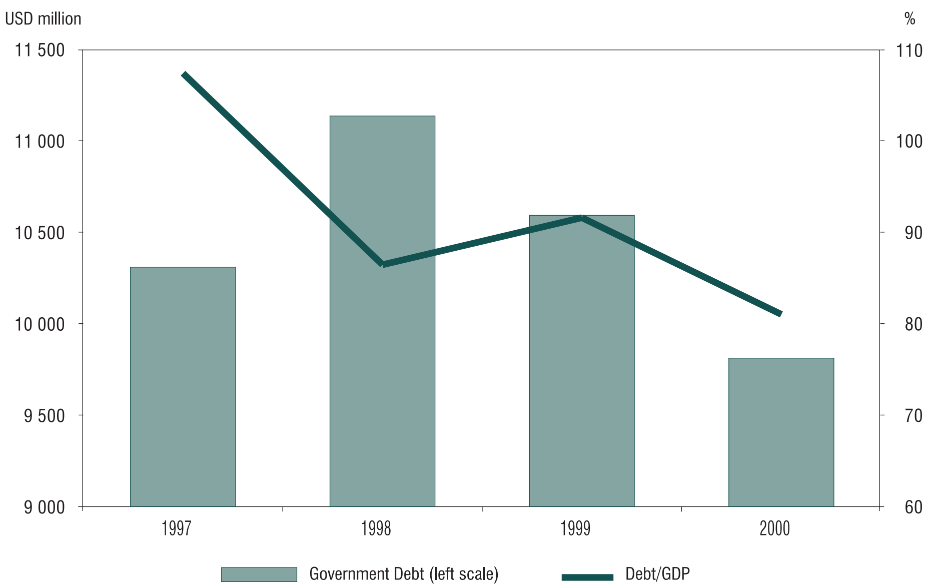
Foreign and Domestic Government Debt Interest Expenditures as a Share of Budget Expenditures*

** Based on the consolidated government budget.*

Source: *MF.*

Over the last three years government debt tended to decrease on both a nominal and relative basis. The debt to GDP ratio fell by 10 percentage points, for one year only, and by the end of 2000 it stood at 81%. Compared to the exports of goods and services debt decreased significantly to 128.4% from 156.5% in 1999.

Level of Government and Government Guaranteed Debt: 1997 – 2000 (end of year)



Source: *MF.*

Improvements were also observed with the other debt indicators. The ratio of foreign debt service to exports came down from 21.4% to 18.2%, with interest expenditures dropping from 11.3% to 9.9%. Growth was registered only in the ratio of interest expenditures to total budget expenditures, because of the impact of foreign exchange and interest rate movements.

The benign macroeconomic environment influenced the changes in debt indicators to a large extent. The pace of growth in GDP and exports had a greater effect than negative factors, such as interest and exchange rate changes. The foreign reserve of the BNB also increased, but in terms of months of imports coverage it registered a decrease to 6.9 from 7.6 in 1999 because of rapid import growth. With respect to the sustainable fiscal position, the high level of the fiscal reserve was reduced by about USD 200 million and at year-end stood at 85.7% of government short-term liabilities. The level of foreign direct investments increased and even outpaced the high economic growth, reaching 8.3% of GDP. This was 1.5 percentage points over the level in 1999.

Government and Government Guaranteed Debt

	31.XII.1999	Increase	Decrease	31.XII.2000
Domestic Debt (BGN million)	**2 963.3**	**807.4**	**2 132.8**	**1 767.2**
I. Government Debt	2 043.2	807.4	1 222.7	1 757.2
1. Government Securities Issued for Budget Deficit Financing	851.3	807.4	679.8	946.1
2. Government Securities Issued for Structural Reform	969.1		347.2	762.5
3. Deposit Insurance Government Bonds	222.8		195.7	48.6
II. Government Guarantees on Domestic Debt	920.1		910.1	10.0
Foreign Debt (USD million)	**9 070.1**	**532.0**	**414.9**	**8 970.4**
I. Government Debt	8 626.6	470.4	380.5	8 522.9
1. London Club	4 977.4		1.3	4 976.1
2. Paris Club	814.8		154.2	600.4
3. World Bank	824.3	64.3	25.6	827.8
incl. JBIC (JEXIM)	119.1	50.7	8.7	145.6
4. G-24	71.2	19.9	32.0	56.5
5. EU	401.8	53.0		428.0
6. IMF	1 131.6	274.7	130.6	1 218.4
7. Others	148.4		9.6	127.1
8. Government Investment Loans	208.7	48.2	19.4	233.5
9. Called Government Guarantees	48.4	10.3	7.8	55.1
II. Government Guarantees on Foreign Debt	443.5	61.6	34.4	447.4

Notes: 1. BGN and USD equivalent of the debt has been calculated as per the official exchange rate of the BNB, as of the last business day of the year.
2. Debt to the IMF is reported only with the amount of the foreign debt.
3. The increase of the debt reflects all disbursements of new loans and tranches, as well as the issuance of government securities. The decrease represents repayments of: principals, government securities used in the privatization, buy-backs, repayment of debts to the government with government securities, and others.
Changes in debt are also due to the exchange rates movements.

Source: *MF.*

Major Macroeconomic and Debt Indicators

	31.XII.1999	31.XII.2000
Gross Domestic Product (BGN million)	22 776.4	25 453.6
Exports (USD million)	4 006.4	4 812.3
Exports of commodities and services (USD million)	5 794.8	6 986.9
Imports (USD million)	5 087.4	5 987.5
Foreign exchange reserves (USD million) [1]	3 221.6	3 460.3
Foreign currency reserves in months of imports	7.6	6.9
Fiscal Reserve (BGN million) [2]	2 601.3	2 423.1
Fiscal Reserve/Short-term liabilities [3] (%)	96.2	85.7
Government Debt/GDP (%)	90.5	81.0
Foreign Debt/Exports of commodities and services (%)	156.5	128.4
Foreign Debt Service/Exports (%)	21.4	18.2
Interest Payments on Foreign Debt/Exports (%)	11.3	9.9
Debt Interest Payments/Budget Expenditures [4] (%)	9.1	9.6
Foreign Direct Investment (USD million)	806.1	1 001.5
Foreign Direct Investment/GDP (%)	6.9	8.3

[1] *Assets of the BNB Issue Department.*

[2] *Fiscal reserve – balances in all government accounts as of specific date.*

[3] *Liabilities on government and government guaranteed foreign and domestic debt with a maturity of one year or less.*

[4] *Based on consolidated government budget data.*

Notes: 1. The data for 2000 is preliminary.

2. The calculations are made as per the official exchange rate of the BNB for the respective currencies as of the last business day of the respective period.

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

Source: *MF, BNB.*

V. Government Debt Management Strategy

In recent years, efforts to achieve progress in the fiscal sphere have included the important goal of effective government debt management. A new Government Debt Law was prepared and this draft was submitted by the Council of Ministers to the National Assembly in September of 2000. Government priorities and objectives for debt management were systemized in the first medium-term Government Debt Management Strategy that was adopted the preceding April.

1. Proposed Law on Public Debt

At present the legal framework regulating government debt is incomplete and consists of a number of different documents, which are mainly at the by-law level. The enactment of a Government Debt Law will establish a solid legal basis for government debt issuance and clearly define the institutional responsibilities for this process, as well as debt management.

The draft-law proposed by the Council of Ministers regulates several key aspects of debt issuance and management:

- Government debt borrowing authorization

The law provides for a debt issuance procedure in compliance with both the requirements of the Constitution and for authorization by the Council of Ministers. Responsibility for signing and negotiating loan agreements is given to the Minister of Finance. The major goals are to centralize the information needed for government finance, to improve budget cash flow projections and to better assess proposed credit terms.

- Determination of a procedure for extension of government guarantees

According to the general thrust of the law, only the Minister of Finance shall sign government guarantee agreements. Other government institutions shall participate in the negotiation process. The draft-law provides for the introduction of a regulation, where requirements for projects applying for government guarantees and the procedures for the approval of guarantees shall be specified. The procedures to be used in calling a government guarantee shall also be specified.

- Introduction of limits

The law introduces restrictions with regard to the increase of the debt stock at the end of each year and debt issuance during the year. The purposes for which government debt can be issued, are also limited.

- Definition of government debt

Consolidated government debt is defined in compliance with European Union precedents. It includes the debt of the central government and the debt of municipalities and social insurance funds. In this regard, the law states that municipal debt and that of the social security funds is not guaranteed by the government and does not constitute an obligation of the government.

• Fiscal agent

The BNB is designated as an agent for servicing government and government guaranteed debt, according to a contractual relationship between the central bank and the Ministry of Finance.

• Requirements for transparency

A number of requirements are aimed at facilitating control over debt issuance and management activities. The draft-law contains a provision for the regular publication of information on debt. In addition, the Minister of Finance is obliged to prepare an annual debt management report, which shall be submitted to the National Assembly.

The draft law systemizes the main responsibilities but allows a number of procedures to be stipulated at the by-law level for better efficiency and flexibility.

2. Debt Management Strategy

The first medium-term debt management strategy established several goals.

• Provision of budgetary needs financing in compliance with the legal framework.

• Minimization of the medium-term volatility and long-term cost to the budget within allowable financial risks.

• Foster an environment that will contribute to domestic capital market development.

• Decrease the level of debt consistent with European Union accession requirements.

The strategy discusses measures to consider in pursuing these goals. They are based on the specifics of domestic and foreign debt.

With respect to the decrease of the budgetary exposure to changes in exchange rates and interest rates, the strategy envisions a gradual change in the currency structure of the foreign debt in order to reduce the share denominated in the US dollar and the greater use of fixed interest coupons. The present structure of foreign debt contains a smooth redemption profile and the strategy seeks to maintain this. It also notes the need to coordinate debt management with the management of government cash balances and central bank management of international reserves. In addition, it provides for a more stringent monitoring of municipal and private non-guaranteed debt.

Additional goals pertain to the management of domestic debt so that it can help foster market development as well as utilize the growth in domestic funds available for investment in government securities. These include the issuance of standardized securities and enlarging the size of “benchmark” issues to encourage greater liquidity in the secondary market. The greater use of longer dated securities will add to the average maturity and meet the increasing demand from pension funds and insurance companies.

The debt management strategy provides for an annual review of its implementation and the addition of new short-term tasks and priorities, as well as a review of medium-term objectives, in accordance with changes in the economic and financial environment.