



REPUBLIC OF BULGARIA

Ministry of Finance

# GOVERNMENT DEBT REVIEW

## 2015



# GOVERNMENT DEBT REVIEW

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## ABBREVIATIONS

GED	Gross External Debt
GDP	Gross Domestic Product
GVA	Gross Value Added
BNB	Bulgarian National Bank
CEDB	Council of Europe Development Bank
b.p.	Basis point
ERM II	Exchange Rate Mechanism II
GS	Government Securities
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EC	European Commission
EU	European Union
ECB	European Central Bank
LSBRB	Law on the State Budget of the Republic of Bulgaria
LSPDACB	Law on State Protection of Deposits and Accounts with Commercial Banks in respect whereof the Bulgarian National Bank has petitioned the institution of bankruptcy proceedings
ASA	Amendments and Supplements Act
CCB	Corporate Commercial Bank
KFAED	Kuwait Fund for Arab Economic Development
IMF	International Monetary Fund
ICM	International capital markets
MF	Ministry of Finance
NSI	National Statistical Institute
p.p.	Percentage points
FDI	Foreign Direct Investments
FED	Federal Reserve
HICP	Harmonised Index of Consumer Prices
USD	US dollar
JBIC	Japan Bank for International Cooperation
KFW	Kreditanstalt für Wiederaufbau

# ANALYSIS OF THE MAIN PARAMETERS OF THE BULGARIAN ECONOMY IN 2015

## GROSS DOMESTIC PRODUCT

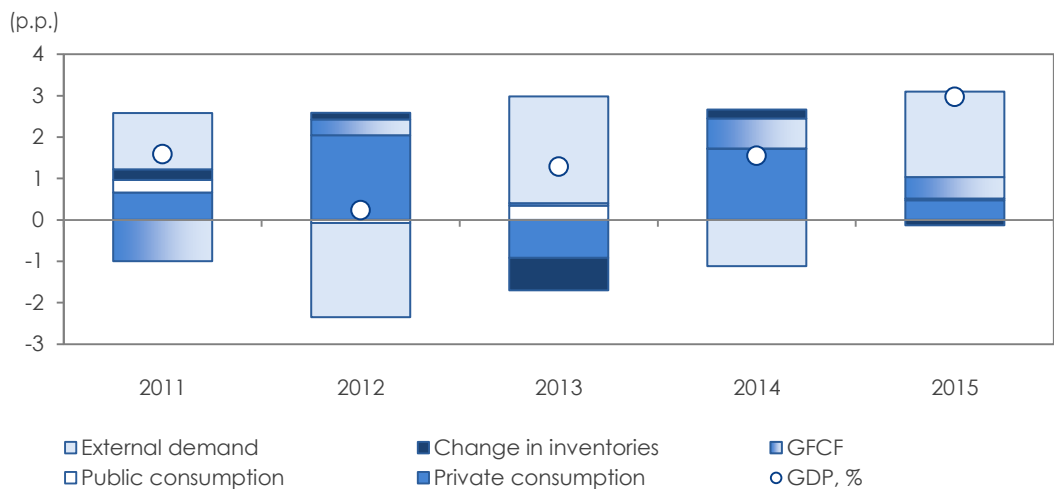
Gross Domestic Product increased by 3% in 2015 – the highest value since 2008. Both the external (2.1 p.p.) and the domestic demand (0.9 p.p.) contributed to the reported growth.

The improved demand on behalf of EU trade partners led to accelerated growth of export of goods and services of 7.6%, which paired with a more moderate increase of imports (4.4%) resulted in a positive contribution of net export to the GDP growth in 2015.

At the same time, the growth of final consumption slowed down to 0.7% after the 2.2% rise in 2014. This development was influenced by the household consumption. The negative inflation failed to offset in full the lower increase of nominal income, mainly with regard the compensation of employees. As a result of which the real growth of households' disposable income slowed down as compared to 2014 and the consumer spending increased by only 0.8%.

The growth of fixed capital investments reached 2.5% and for a third year in a row was formed by public capital expenditure, which increased thanks to the funds paid under the EU operational programmes, including national co-financing. Private investments in the economy continued to drop. Growth in the gross operating surplus – the indicator showing the financing sources of investment projects – slowed down during the year.

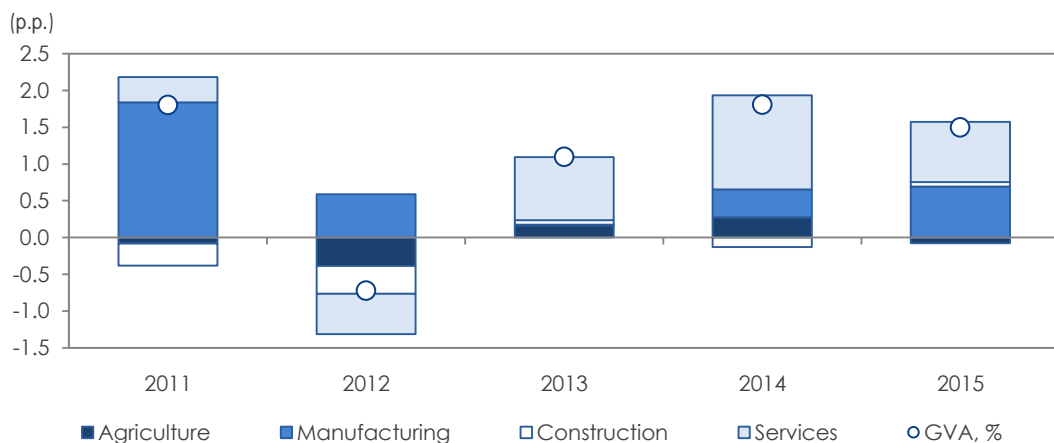
### CONTRIBUTION TO THE ANNUAL GROWTH OF GDP BY COMPONENTS



Source: NSI, MF

On the supply side, the economic activity in the country slowed down. The gross value added growth reached 1.5% in 2015 against 1.8% in 2014. This was due to the weaker performance of services as compared to 2014 and to a decline in agriculture, while industry characterised with an upward dynamics. GVA in manufacturing increased by 3.1% in 2015 backed by the strong export results. The added value in construction was also on the rise (1.4%). The construction production increased by 2.4% average for the year. Both civil and building construction had a positive contribution to the reported growth.

### CONTRIBUTION TO THE ANNUAL GROWTH OF GVA BY COMPONENTS



Source: NSI, MF

The potential economic growth in 2015 accelerated to 2.7%. Capital stock, supported by the growth of investments in the economy, were the main contributor thereto. The natural unemployment rate recorded a drop, which resulted in a positive contribution of the indicator „labour“<sup>1</sup> to the potential GDP

<sup>1</sup> Measured as hours worked.

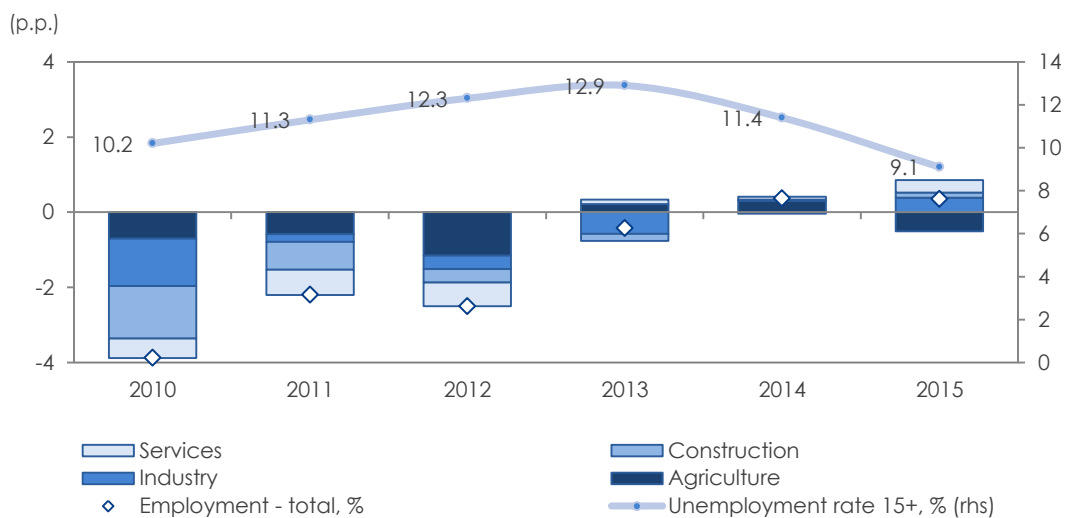
growth. The contribution of the total factor productivity stood at 0.9 p.p. The output gap for the year was negative at the amount of 0.4%.

## LABOUR MARKET

Under the influence of accelerated economic activity, the number of the employed in 2015 increased by 0.4%<sup>2</sup>, which came as the result of increased labour demand in industry and services sector. The growth of employment in industry stood at 2.1%, in compliance with the upward dynamics of export. A significant growth of the indicator within the services sector came from the creation and distribution of information and creative products and telecommunications. There was a drop in the number of the employed in agriculture, where the increase in the newly created added value took a plunge, as well in the sectors of general government, education and health care.

The level of unemployment<sup>3</sup> preserved the downward trend, whereas during the fourth quarter of 2015 the value of the indicator reached 7.9%, and stood at 9.1% on annual average. The positive development found support mainly from employment growth, yet about 1/3 of the decrease in the number of the unemployed was related to the continuing drop in labour force.

### CONTRIBUTION TO EMPLOYMENT GROWTH AND UNEMPLOYMENT RATE



In the light of increasing employment rate in the country, the labour productivity accounted for a real growth of 2.6%<sup>4</sup> in 2015 and accelerated as compared to the preceding year. The most significant contribution for this development came from the processing industry. The nominal growth of the compensation per

<sup>2</sup> According to SNA data.

<sup>3</sup> According to data from the Labour Force Survey (LFS), 15+

<sup>4</sup> Ratio between GDP at constant prices and number of employed (SNA)

employee stood at 1.8% and remained lower than the one in productivity, which resulted in a drop in the unit labour costs<sup>5</sup> by 0.7% in nominal terms and 1.1% in real terms.

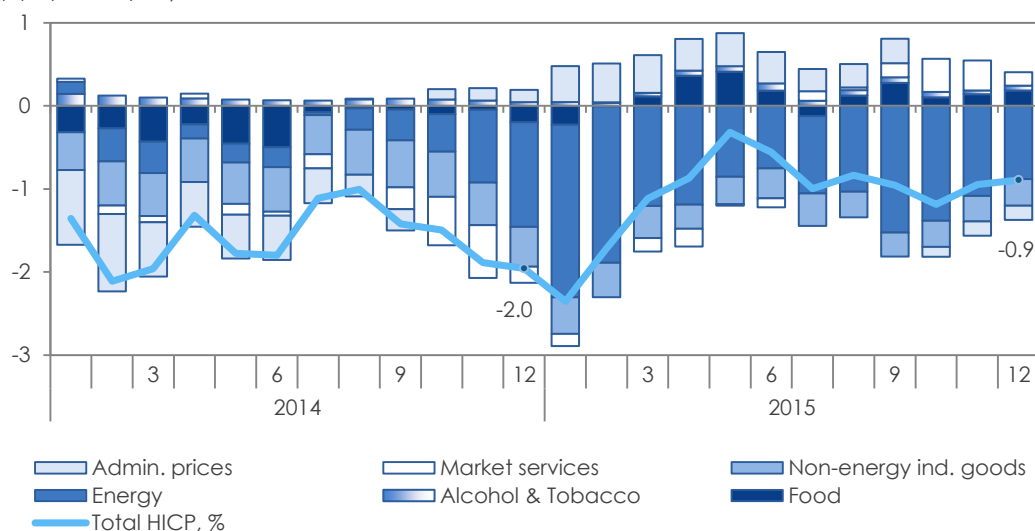
## INFLATION

The annual HICP inflation rate remained negative throughout the entire 2015. However, it decelerated to -0.9% in December from -2% at the end of 2014. The annual average inflation for 2015 was -1.1%.

Consumer prices dynamics in the country during the year were driven mainly by the drop in the major commodity prices on international markets, crude oil prices in particular. Consequently, prices of transport fuels that account for the largest share in the energy component went down by 11.7% and contributed the most for the decrease in the headline rate at the end of the year (-0.9 p.p.).

### HICP DYNAMICS AND CONTRIBUTION BY COMPONENTS

(p.p., year-on-year)



Source: NSI, MF

Despite the continuing drop in international food prices in US dollar terms, the decrease in domestic food prices decelerated significantly and even reported a positive change of 0.8% at the end of 2015. The latter was backed by the depreciation of the Euro against the US dollar during the year, which offset the drop in prices on world markets.

The negative core inflation (the total index excluding unprocessed food and energy) also slowed down considerably and reached positive values in September, thus ending the year with a minor increase of 0.1% year-on-year. The aforementioned depreciation of the Euro has helped to limit the decline in prices

<sup>5</sup> Ratio between Compensation per employee and GDP per employed (SNA)



of non-energy industrial goods. At the same time, the downward dynamics of prices of services reversed in the second half of the year as the one-off effects on communication services prices waned. Higher prices of catering and tourism also contributed positively.

Regulated prices<sup>6</sup> decreased by 1.1% on average at the end of the year. Prices of central gas and heating supply posted the largest declines, down by 20 and 15% yoy respectively in December 2015, which was also attributable to the lower international energy prices and crude oil prices in particular.

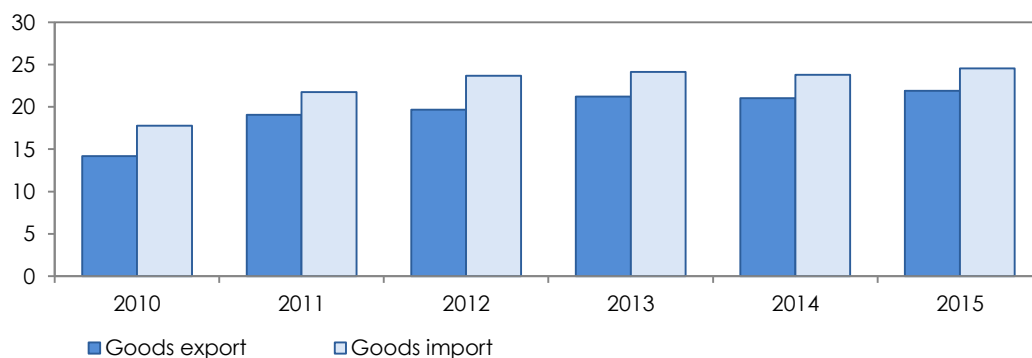
## EXTERNAL SECTOR

Net financial inflows were reported in 2015 for all three main accounts of the balance of payment of the country (current, capital and financial).

The current account surplus amounted to MEUR 172.4, or 0.4% of GDP, as the positive balances of services and secondary income offset completely the trade deficit and the negative balance of the primary income. The current account balance increased as compared to minimal surplus of MEUR 35.1 in 2014. The improvement came as the result of a favourable price dynamics, accelerated increase of real export as compared to import and higher transfers to the General Government Sector.

### EXPORT AND IMPORT OF GOODS

(BEUR)



Source: BNB

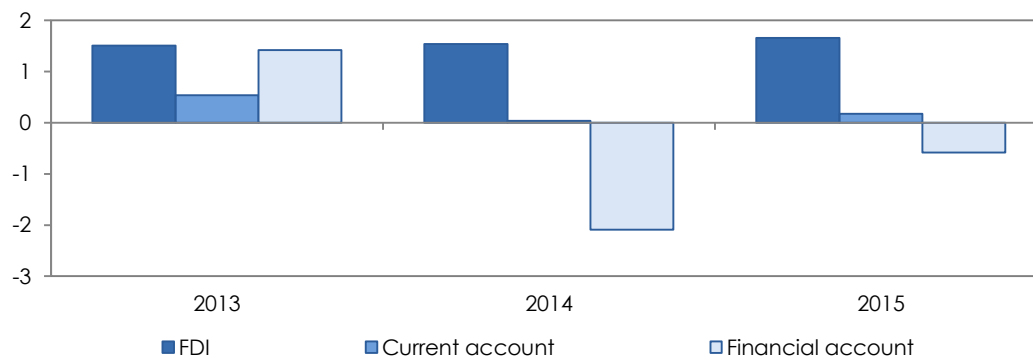
The factors that contributed to the high real export growth were: enhanced competitiveness, favourable economic growth of major trade partners and some one-off factors (intensification of trade in petroleum products after the decline due to the temporary suspended operation of the oil refinery in the country in 2014). Despite the drop in international prices, the export increased by 4.2% in nominal terms. The import growth was supported by the demand for raw materials

<sup>6</sup> The index of goods and services with administratively regulated prices has been calculated by weighing the respective elementary aggregates in the consumer basket.

in export oriented sectors, yet the slowdown in domestic demand, along with negative price dynamics, curbed the nominal import growth to 3.1% on an annual basis.

### FDI, CURRENT AND FINANCIAL ACCOUNT

(BEUR)



Source: BNB

The Gross External Debt stood at BEUR 34.1 at the end of 2015, going down by 13.4% y/y. This accounted for 77.2% of GDP or a decrease of 14.9 p.p. as compared to the end of 2014.

GED dynamics over the year had been determined by the reduction of debt in all institutional sectors. Intercompany lending was the main contributor, following the write-off of receivables to the amount of BEUR 2 by a foreign creditor in May. Even if the effect of this one-off transaction is taken out, the debt of local companies to foreign parent companies would have decrease by about 7%.

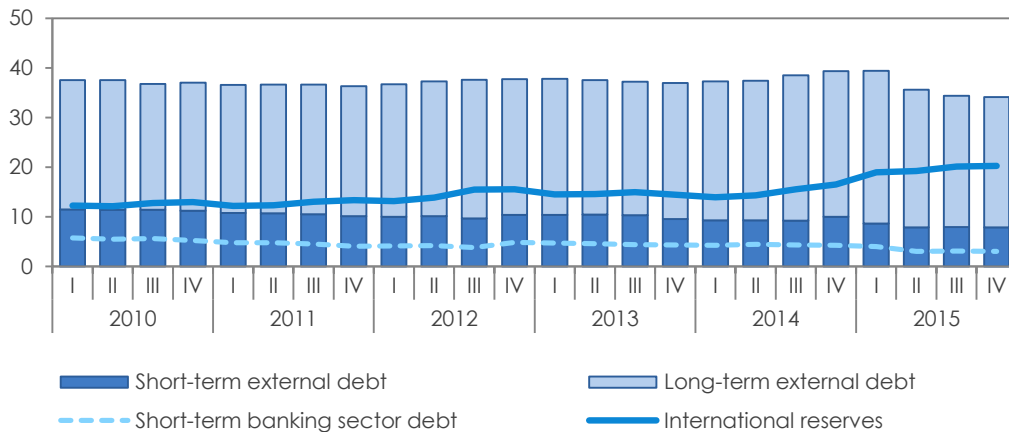
The banking sector indebtedness was reduced by the repayment of short-term debt, while non-financial companies reported a drop in long-term debt.

The external debt of the General Government Sector dropped by 7.5% or by MEUR 450. A triple tranche of bonds was issued in March 2015 at the amount of BEUR 3.1, which redeemed during that same month the short-term bridge facility at the amount of BEUR 1.5, extended by several foreign banks in December 2014 to ensure the liquidity of the banking sector. By the end of 2015, more than half of the issued bonds were purchased by Bulgarian contracting parties on the secondary market, which resulted<sup>7</sup> in a gradual drop in the external government debt.

<sup>7</sup> According to the methodology on Gross External Debt, such is the debt held by non-residents.

## BULGARIA'S EXTERNAL DEBT

(BEUR)



Source: BNB

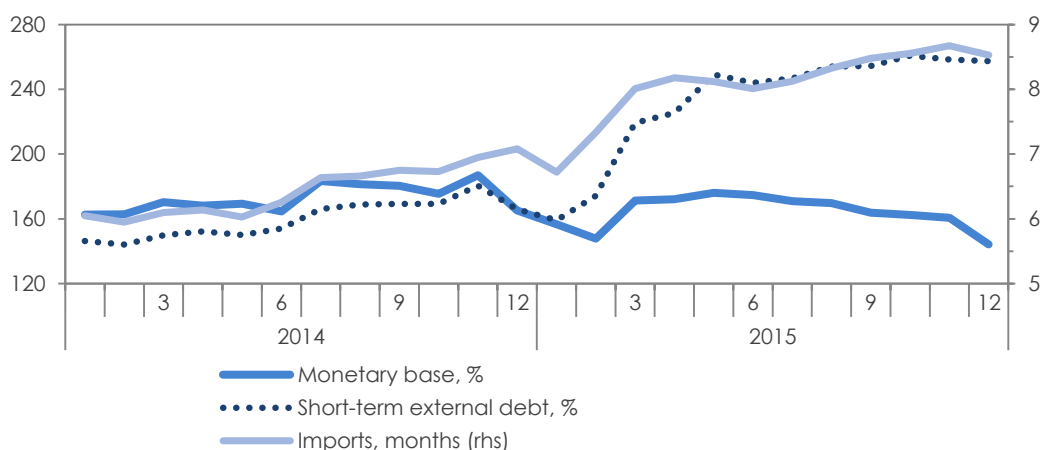
## FINANCIAL SECTOR

The financial sector retained its stability in 2015. The financial problems in Greece in mid 2015 did not have a negative impact on the banking system and the confidence in it. At the same time, BNB applied emergency measures to the banks with Greek share capital in order to counteract against possible aggravation of the situation in Greece, which contributed additionally to the increase of liquidity in the banking system. Consolidation processes were underway during the year in the banking sector. In July, Eurobank Bulgaria AD announced its intention to acquire Alpha Bank – Branch Bulgaria, and the procedure for the preliminary approval of the transfer was launched in November 2015.

The Currency Board, one of the major factors for financial stability in the country, retained its good indicators. At the end of 2015, the foreign exchange reserves of BNB marked an annual growth of 22.7% (14.6% in 2014) and reached in nominal terms BGN 39.7. The pace of their growth accelerated considerably as compared to the preceding year due to the successful issue of Eurobonds in March and, to a lesser degree, to the issue of 10-year GS in April. The positive net flows under the current and capital account of the Balance of payments, as well as those under the financial account, contributed to the increase in reserves.

The coverage of the monetary base with foreign exchange reserves at the end of December decreased as compared to the previous year – 144.3%, against 165.1% at the end of 2014. This was due to the increase of excess reserves of the banking system in the BNB, reflecting the high liquidity of the banks. At the end of December 2015, the reserves covered 8.5 months of imports against 7.1 months a year earlier. As regards short-term external debt by original maturity, the coverage with foreign exchange reserves reached 257.3%, registering an improvement as compared to 165.9% at the end of 2014.

## KEY RATIOS FOR THE CURRENCY BOARD



Source: BNB, MF

The banking system retained the high levels of capital and liquidity, as well as improving profitability indicators. This was set against the background of preparation of the banks for the asset quality review (including net sales of loan portfolios), poor demand for loans and continuing downward trend in interest rates. At the end of the year, the capital adequacy ratio of the banking system stood at 22.2%, while the tier 1 capital ratio reached 20.5%. The liquid assets ratio calculated by virtue of Ordinance No. 11 of BNB reached 36.7% in the end of 2015.

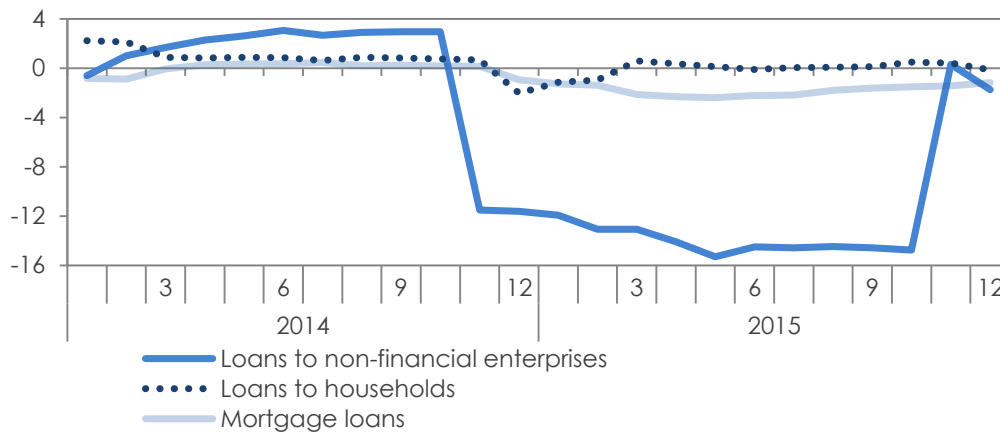
At the end of 2015, the net profit of the banking system stood at MBGN 898 or by 20.4% higher as compared to the previous year. The return on assets at the end of December 2015 increased to 1.0% against 0.9% at the end of the preceding year, and the return on equity rose to 7.8% against 7.5% at the end of 2014.

The lending activity in the country in 2015 retained low levels. Similarly to the preceding year, its dynamics were influenced simultaneously by factors related to demand and supply of lending resources. The factors with regards demand reflected the weak investment activity of the private sector and the yet unrecovered investment confidence, as well as the relatively low willingness of companies and households to assume new debt and obligations. As regards the supply of bank loans, the strict requirements to borrowers and the drive towards a better management of credit risk on account of the asset quality reviews preparation played the role of a major restrictive factor. On the other hand, the nominal amount of private sector lending experienced the impact of write-offs and net sales of loan portfolios and the technical effect thereof by October 2015 of the exclusion of the CCB balance from the monetary statistics. Once this basis effect on the annual private lending growth rate was worn out in November, it registered a minimal increase of 0.2%. In December, its dynamics were negative month-on-month, hence the private sector lending closed the year by a drop of 1.2%. Lending for non-financial enterprises dropped by 1.7% year-on-year at the

end of December 2015. The short-term and medium-term loans and to a lesser degree the bad and restructured loans were the major contributor to this end. In turn, the long-term loans closed the year with a minimal positive annual growth. Household lending also had a negative contribution to the changes in the private sector, although to a lesser degree as compared to corporate lending.

### GROWTH OF LENDING TO THE PRIVATE SECTOR

(%, Year-on-year)

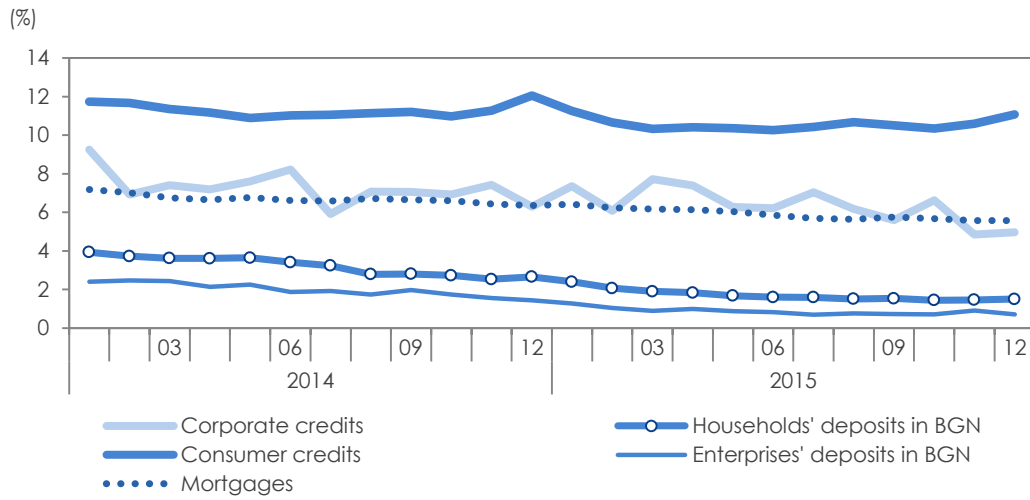


Source: BNB, MF

The deposits in the banking system continued their stable growth in 2015 as well. Their annual growth rate during the first 10 months of the year was considerably lower as compared to the same period of the previous year, which was due to the base effect referred to hereinabove from the excluded CCB balance in November 2014. Regardless of this, the deposits were increasing month-on-month almost throughout the year and after the base effect was worn out their growth reached 8.2% at the end of 2015. Traditionally households and non-financial enterprises were the main contributors, seen by institutional sectors, in 2015.

Interest rates both for loans and for deposits retained the long-term downward trend throughout 2015. The weighted average interest rates for mortgage lending and loans to non-financial enterprises registered a significant drop and in November reached their lowest level of 4.86%. In the end of 2015, the weighted average interest rates for mortgage loans were by 78 b.p. lower as compared to the previous year, against those for the corporate sector – by 133 b.p. As regards loans to households, there was a decrease of 98 b.p. at the end of 2015. The monthly fluctuations were more typical for the new contracts in the corporate sector.

### INTEREST RATES ON DEPOSITS AND LOANS



Source: BNB, MF

The international environment of low and negative interest rates on money markets within the Eurozone, as well as the deepening monetary expansion of ECB, proved to be the major factors that characterised this trend. On the other hand, the resources attracted by the banks increased during the year in a combination with high liquidity level, weak activity on the global markets and a drop in interbank deposit interest rates. ▼

# BULGARIA HAS KEPT ITS LEADING POSITION AMONG THE EUROPEAN UNION MEMBER STATES WITH THE LOWEST GOVERNMENT DEBT

In 2015, the government debt management policy stayed consistent with the planned medium-term economic prospects and major priorities ahead of the government, respectively, of the budget framework, as well as with the measures for attaining the set strategic objectives of debt management, targeted primarily at the timely and reliable provision of efficient debt sources and maintenance of stability of the key debt indicators. The consistent and strict adherence to implementing debt management guarantees the preservation of the level of government debt within sustainable frames, respectively, the long-term implementation of the Maastricht convergence criterion of 60%.

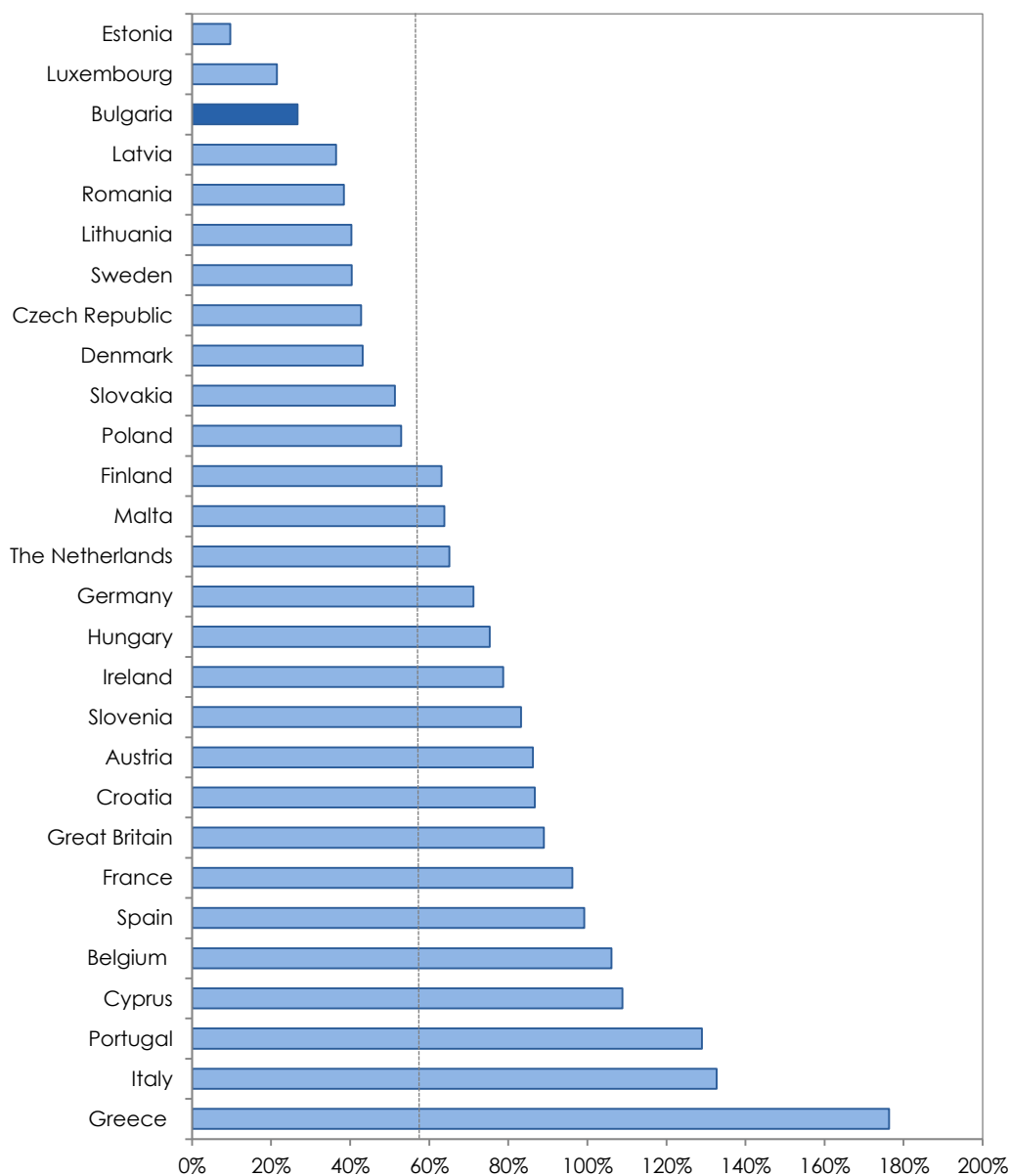
Pursuant to the data from the ECB report on convergence published in June 2016, the levels of the evaluated indicators – deficit, debt, inflation and long-term interest rate in Bulgaria meet the respective criteria. The report makes a review of the condition of economic convergence of seven EU Member States with a derogation status: Bulgaria, the Czech Republic, Croatia, Hungary, Poland, Romania and Sweden, by encompassing the reference period from May 2015 to April 2016.

In the period from May 2015 till April 2016, the 12-month average rate of the HICP inflation in Bulgaria stood at -1.0%, which is significantly below the reference value of 0.7% for the price stability criterion.

In 2015, the deficit and debt in the General Government sector were consistent with the Maastricht criteria. The balance of the General Government sector in 2015 reported a deficit at the amount of 2.1% of GDP, i.e. under the reference value of 3%, resp., decreased by 3.4 p.p. of GDP as compared to the preceding year.

The “Consolidated debt of the General Government Sector/GDP” ratio in 2015 stood at 26.7%, i.e. way below the reference value of the Maastricht convergence criterion of 60% and registered a drop of about 0.3 p.p. against its reported level in the end of the preceding year. The reported low level of this indicator ranked the country third after Estonia (9.7%) and Luxembourg (21.5%) and stands lower than the average levels for EU-28 and EU-19 which in 2015 stood at 85.3 % and 90.7%, respectively.

**CONSOLIDATED DEBT OF THE GENERAL GOVERNMENT SECTOR/  
GDP OF EU MEMBER STATES AT THE END OF 2015**

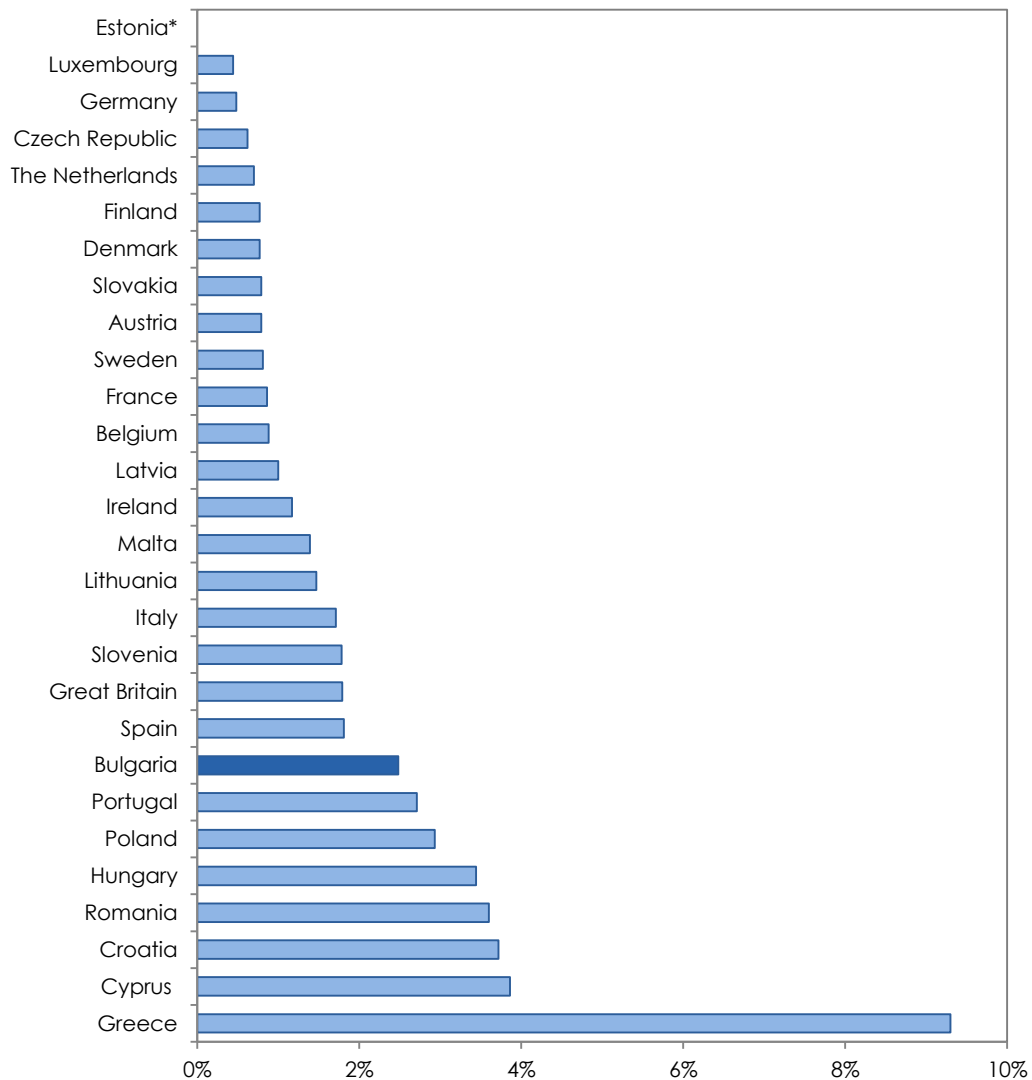


Source: Eurostat



During the 12-month reference period from May 2015 till April 2016, the long-term interest rate for Bulgaria stood at the average of 2.5%, which is lower than the reference value of 4.0% for the same period pursuant to the interest rate convergence criterion.

#### AVERAGE VALUE OF LONG-TERM INTEREST RATES OF EU MEMBER STATES FROM MAY 2015 TO APRIL 2016



\* There are no Estonian sovereign debt securities that are compliant to the definition of long-term interest rates for convergence.

Source: ECB

During the two-year period from May 2014 till May 2016, the Bulgarian currency did not participate in ERM II, yet its exchange rate had been fixed to the Euro at a rate of BGN 1.95583 for EUR 1 as part of a Currency Board.

## CREDIT RATING

Despite the increase of government debt during the year due to ensuring the funds required to finance the budget deficit, the provision of liquidity funds and the refinancing of debt already issued, the credit rating of the country remained unchanged.

On 12 June and 11 December 2015, the credit rating agency *Standard & Poor's (S&P)* preserved the long-term and short-term foreign and local currency credit rating of Bulgaria to *BB+/B* и *BB+/B* respectively, with stable outlook. The rating evaluation was supported by the low government debt, as well as the moderate external indebtedness.

On 05 June 2015, the international rating agency *Moody's* confirmed the rating of Bulgaria's government bonds – *Baa2* with stable outlook. This decision reflects the balance between a stable budget position, sustainable economic recovery and initiated reforms against the risks of external shocks, such as the negative effects of the situation in Greece or political risks. One of the main factors for the decision of the agency is the lower level of government debt as compared to that in the other countries in the same credit rating category (*Baa2*). Yet another factor that influenced *Moody's* decision was the stable economic development and improved prospects for GDP growth in the medium term.

The international credit rating agency *Fitch Ratings* also confirmed, on 19 June and 4 December 2015, the long-term credit rating of Bulgaria *BBB-/BBB*, in foreign and local currency, respectively, with stable outlook. The sovereign rating ceiling *BBB+* was also confirmed, as well as the short-term foreign currency credit rating *F3*. Bulgaria's rating is supported by the lower level of domestic and external government debt and the sufficient level of foreign exchange reserves that ensure stable operation of the currency board.

### CREDIT RATING OF BULGARIAN BONDS ISSUED ON ICM

Credit rating agency	Eurobonds issued on ICM with maturity 2017	Eurobonds issued on ICM with maturity 2024	Eurobonds issued on ICM with maturity 2022	Eurobonds issued on ICM with maturity 2027	Eurobonds issued on ICM with maturity 2035
Moody's	Baa2	Baa2	Baa2	Baa2	Baa2
S&P	BBB	BBB-	BB+	BB+	BB+
Fitch	BBB-*	BBB-	BBB-	BBB-	BBB-

\* Note: The awarded credit ratings have not been requested. Presently, the contract between the Republic of Bulgaria and the credit rating agency *Fitch* have been renewed as from 11.02.2013.

Source: MF

**DYNAMICS OF SOVEREIGN CREDIT RATING FOR THE PERIOD 01.01.2009–31.12.2015**

Credit rating agency	Date	Foreign currency rating		Outlook	Local currency rating		Outlook
		Short-term	Long-term		Short-term	Long-term	
Moody's	20.03.2009		Baa3	Stable		Baa3	
Moody's	21.01.2010		Baa3	Positive		Baa3	
Moody's	31.08.2010		Baa3	Positive		Baa3	
Moody's	22.07.2011		Baa2	Stable		Baa2	
Moody's	05.06.2015		Baa2	Stable		Baa2	
S&P	01.12.2009	A-3	BBB	Stable	A-3	BBB	Stable
S&P	17.12.2010	A-3	BBB	Stable	A-3	BBB	Stable
S&P	21.12.2011	A-3	BBB	Stable	A-3	BBB	Stable
S&P	10.08.2012	A-2	BBB	Stable	A-2	BBB	Stable
S&P	13.12.2012	A-2	BBB	Stable	A-2	BBB	Stable
S&P	13.12.2013	A-2	BBB	Negative	A-2	BBB	Negative
S&P	13.06.2014	A-3	BBB -	Stable	A-3	BBB -	Stable
S&P	12.12.2014	B	BB +	Stable	B	BB +	Stable
S&P	12.06.2015	B	BB +	Stable	B	BB +	Stable
S&P	11.12.2015	B	BB +	Stable	B	BB +	Stable
Fitch	30.04.2009	F3	BBB -	Negative		BBB	
Fitch	12.08.2010*	F3	BBB -	Negative		BBB	
Fitch	24.05.2011*	F3	BBB -	Positive		BBB	
Fitch	13.12.2011*	F3	BBB -	Stable		BBB	
Fitch	13.07.2013*	F3	BBB -	Stable		BBB	
Fitch	10.01.2014	F3	BBB -	Stable		BBB	
Fitch	04.07.2014	F3	BBB -	Stable		BBB	
Fitch	19.12.2014	F3	BBB -	Stable		BBB	
Fitch	19.06.2015	F3	BBB -	Stable		BBB	
Fitch	04.12.2015	F3	BBB -	Stable		BBB	

\* Note: The awarded credit ratings have not been requested. Currently, the contract between the Republic of Bulgaria and credit rating agency Fitch have been renewed, as from 11.02.2013.

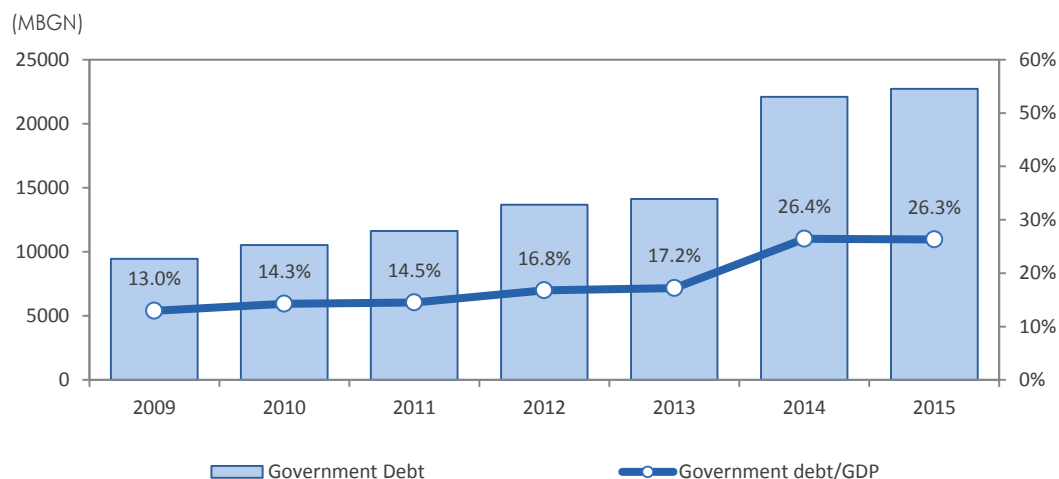
Source: MF

**GOVERNMENT DEBT**

The nominal amount of government debt at the end of 2015 was MBGN 22 714.1 (MEUR 11 613.5), of which MBGN 15 430.8 (MEUR 7 889.7) external debt and MBGN 7 283.3 (MEUR 3 723.9) domestic debt. In nominal terms, the debt increased by MBGN 611.8 (MEUR 312.8) as compared to the level reported at the end of 2014. The main factors for the increase of debt were the debt operations performed during the year both on the domestic market of GS and on the international capital markets (ICM) to raise the financial resource required, including the issuance of government securities on the domestic market and

placement of three Eurobonds within the frames of a medium-term program for the issue of debt on the international markets. The ratio “government debt/GDP” at the end of 2015 stood at 26.3% against 26.4% at the end of December 2014.

### DYNAMICS OF GOVERNMENT DEBT



Source: MF

### DYNAMICS OF GOVERNMENT DEBT

(MBGN)

Structure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>Domestic government debt</b>	<b>2 842.7</b>	<b>2 955.8</b>	<b>3 199.9</b>	<b>3 073.3</b>	<b>3 009.5</b>	<b>3 934.2</b>	<b>4 808.0</b>	<b>4 981.0</b>	<b>6 289.6</b>	<b>8 251.8</b>	<b>7 283.3</b>
Budget deficit financing government securities	2 375.1	2 544.0	2 838.3	2 735.9	2 705.3	3 652.4	4 220.5	4 763.4	6 108.2	8 091.9	7 148.7
Structural reform government securities ,	467.7	411.8	361.6	337.4	304.1	281.7	252.5	217.6	181.5	159.8	134.6
<b>External government debt</b>	<b>9 538.1</b>	<b>8 086.1</b>	<b>6 897.7</b>	<b>6 396.0</b>	<b>6 434.2</b>	<b>6 598.0</b>	<b>6 821.2</b>	<b>8 692.6</b>	<b>7 828.9</b>	<b>13 850.6</b>	<b>15 430.8</b>
Other bonds	4 229.4	4 009.8	3 325.4	3 396.7	3 082.7	3 200.7	3 242.9	5 070.5	3 399.6	6 525.4	10 939.0
Paris Club	320.2	295.5	270.9	246.3	221.7	197.0	172.4	147.8	123.1	98.5	73.9
IBRD /World Bank/	1 994.9	1 539.3	1 702.5	1 123.0	1 552.1	1 483.9	1 397.8	1 290.0	1 208.7	1 091.1	1 001.0
G-24	72.2	28.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
European Union	562.3	420.5	249.4	78.2	29.3	102.5	263.6	361.4	743.5	874.6	1 167.9
IMF	1 094.4	506.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	121.8	86.5	61.8	37.1	12.4	0.0	0.0	0.0	567.2*	3 500.9**	567.2*
Government investment loans	1 074.1	1 151.2	1 246.6	1 480.4	1 509.7	1 595.3	1 734.8	1 822.9	1 786.7	1 760.1	1 681.8
Called government guarantees	68.9	48.8	41.1	34.3	26.5	18.6	9.7	0.0	0.0	0.0	0.0
<b>Total government debt</b>	<b>12 380.9</b>	<b>11 041.9</b>	<b>10 097.6</b>	<b>9 469.3</b>	<b>9 443.7</b>	<b>10 532.1</b>	<b>11 629.1</b>	<b>13 673.6</b>	<b>14 118.5</b>	<b>22 102.3</b>	<b>22 714.1</b>

Structure	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
GDP ( BGN million)	46 942	53 491	63 970	73 095	72 844	73 780	80 100	81 544	81 971	83 612	86 373
GDP (EUR million)	24 001	27 349	32 707	37 373	37 244	37 723	40 954	41 693	41 911	42 750	44 162
<b>Total government debt/GDP</b>	<b>26.4%</b>	<b>20.6%</b>	<b>15.8%</b>	<b>13.0%</b>	<b>13.0%</b>	<b>14.3%</b>	<b>14.5%</b>	<b>16.8%</b>	<b>17.2%</b>	<b>26.4%</b>	<b>26.3%</b>

\* Assignable loan "Schuldschein"

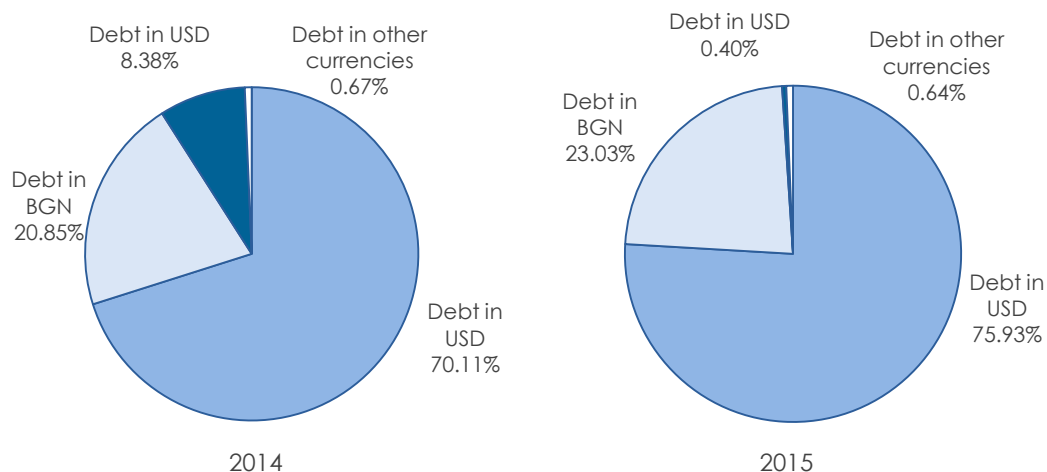
\*\* Assignable loan "Schuldschein" and a "Bridge-to-bond loan"

Notes: 1. The amount of the debt is in nominal terms; 2. The conversion of the debt in EUR as per the BNB central exchange rates for the respective foreign currencies at the end of respective period.; 3. GDP data are proved by the National Statistical Institute.

Source: MF, NSI

Placing 7, 12 and 20-year Eurobonds within the frames of the medium-term program for issuing debt on ICM and the assumption of new external debt for the financing of the "Bulgaria EU Funds Co-Financing 2014-2020 (SPL)" played the role of major factors influencing the reported positive changes in the currency structure of government debt. At the end of 2015, 99.0% of the government debt was EUR- or BGN-denominated. Compared to the previous year, the EUR-or BGN-denominated debt increased and at the end of 2015 it reached up to 75.9% and 23.0%, respectively, of the total amount of the government debt, which is an increase of 5.8 p.p. and 2.2 p.p. as compared to 2014. At the same time, the debt denominated in USD and other currencies registered a drop to 0.4% and 0.6% respectively.

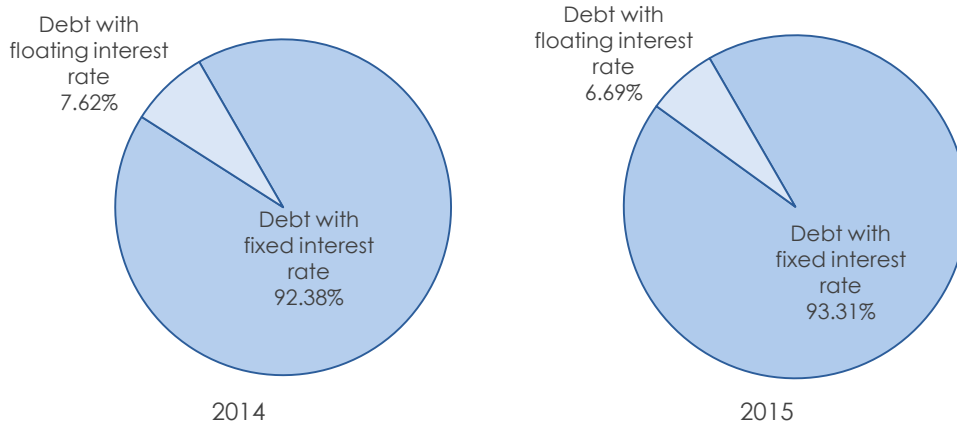
#### CURRENCY STRUCTURE OF GOVERNMENT DEBT



Source: MF

In the debt interest rate structure, the upward tendency of the debt with fixed interest rate coupons continued to reach at the end of the year the amount of 93.3%. The issue by priority of fixed interest rate debt aimed at better predictability when ensuring the budget resources required for its servicing. The share of debt at floating interest rates decreased at the end of the last year by 0.9 p.p. to reach 6.7% of the total government debt amount.

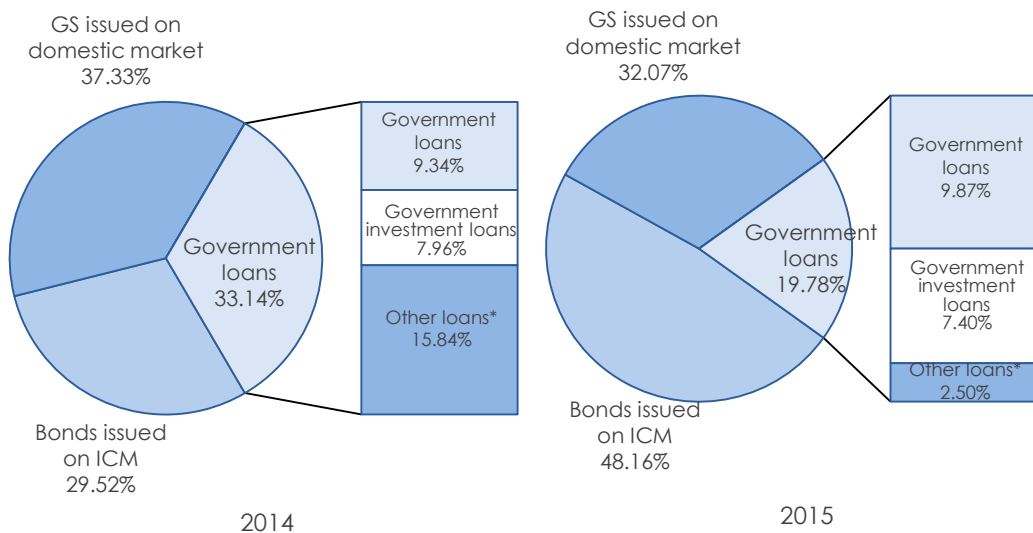
**INTEREST RATE STRUCTURE OF GOVERNMENT DEBT**



Source: MF

At the end of 2015 in the debt structure by type of instrument the largest was the share of securitised debt (80.2%), including GS issued on the domestic market – 32.1%, and bonds issued on ICM – 48.1%. The increase of 18.6 p.p. of the ICM issued bonds compared to the end of 2014 was due to the 7, 12 and 20-year bonds issued in March 2015 within the frames of a medium-term programme for issuing debt on ICM. The share of government loans registered a drop to 19.8% compared to the end of 2014.

**STRUCTURE OF GOVERNMENT DEBT BY INSTRUMENT**



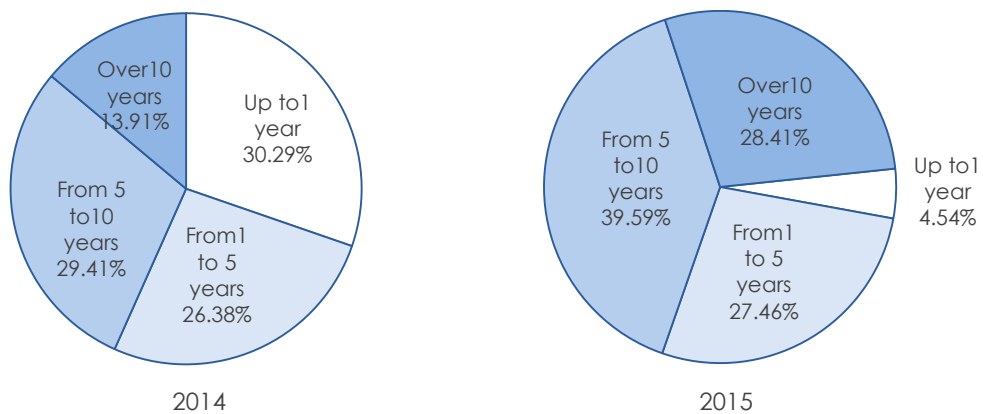
\*\*"Schuldschein" assignable loans and bridge loans  
"Bridge to bond loan"

\* "Schuldschein" assignable loans

Source: MF

The maturity structure of the government debt in 2015 was dominated by the relative share of debt with residual maturity from 5 to 10 years (39.6%), registering an increase of 10.2 p.p. compared to the preceding year, followed by that with residual maturity over 10 years, whose share increased from 13.9% in 2014 to 28.4% at the end of 2015. And by the residual maturity from 1 to 5 years, whose share increased from 26.4% in 2014 to 27.5% at the end of 2015. The opposite is the trend of debt with residual maturity up to 1 year, whose share decreased from 30.3% to 4.5%. The issue policy in the domestic market and the issue of 7, 12 and 20-year Eurobonds on ICM within the frames of the medium-term debt issue programme were among the main factors influencing the changes in the maturity structure of government debt in 2015.

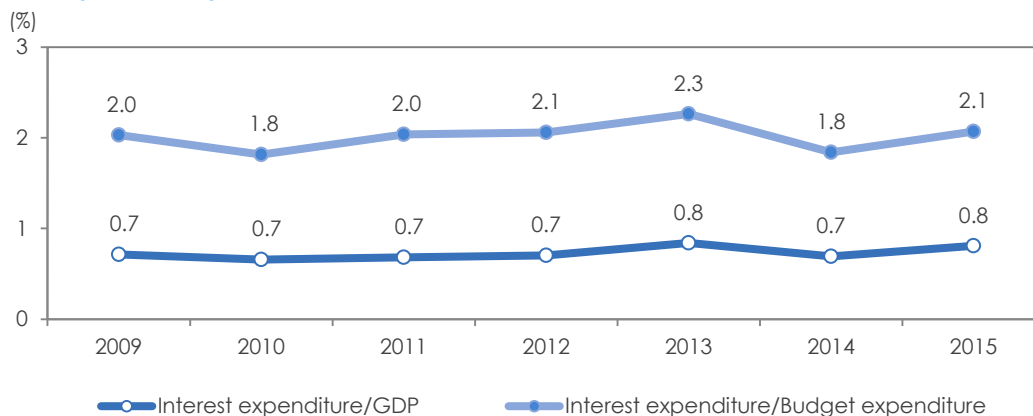
### RESIDUAL MATURITY OF GOVERNMENT DEBT



Source: MF

The total amount of government debt payments made during the year amounted to MBGN 7 876.3 which is by MBGN 3 532.6 more compared to the payments made during the previous year. The principal payments amounted to MBGN 7 222.3 or by 3 418.9 more, while interest payments amounted to MBGN 540.2 or by MBGN 113.8 more compared to those paid in 2014.

### INTEREST EXPENDITURE



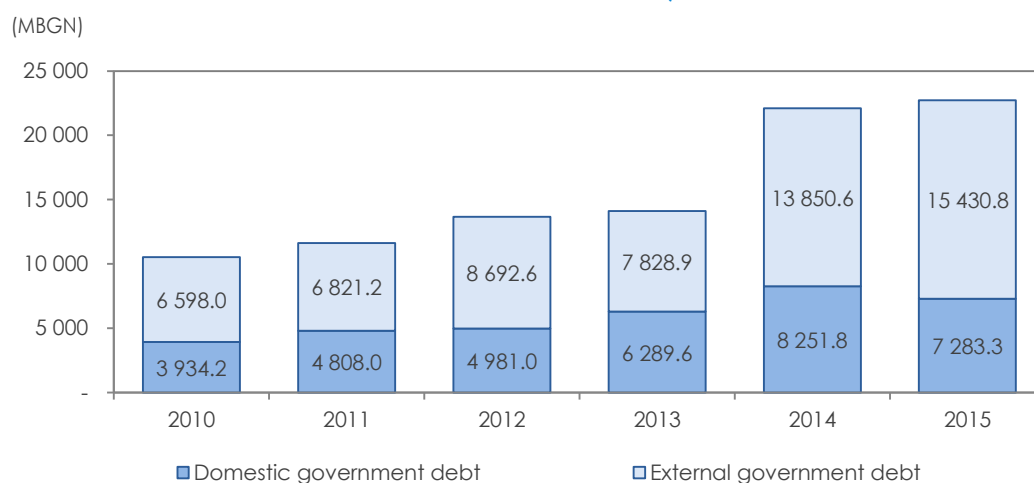
\* Data according to the consolidated fiscal programme.

Source: MF and NSI

The “interest expenses to GDP” ratio increased as compared to 2014 and at the end of 2015 reached 0.8%. Accordingly, during the same period the interest expenses accounted for 2.1% of the total budget expenditure, which is a 0.3 p.p. compared to 2014.

In the structure of the government debt, the domestic government debt held a relative share of 32.1%, while the external government debt – 67.9%, against 37.3% and 62.7% respectively in 2014. The registered increase of the share of the external government debt at the end of the year was the result mainly of the predominant borrowing on the external markets.

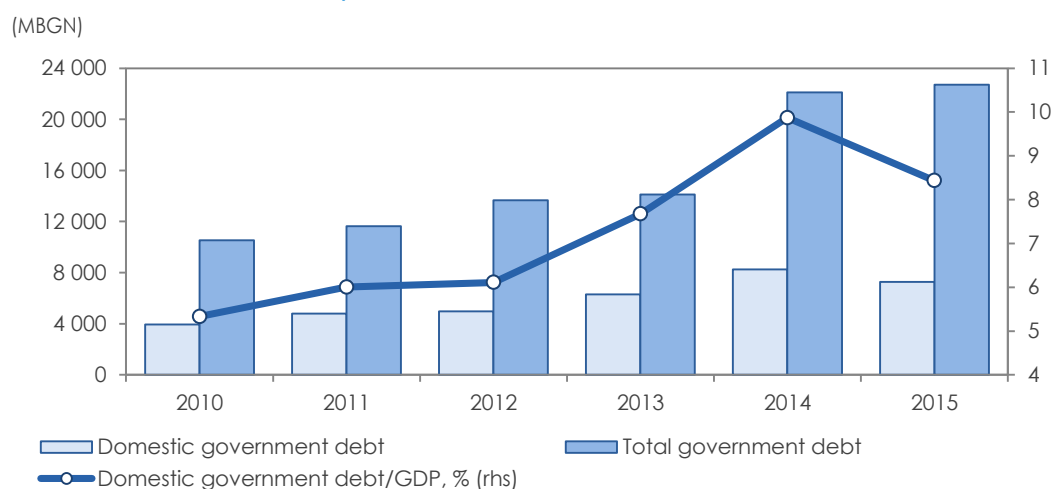
### DYNAMICS OF DOMESTIC AND EXTERNAL GOVERNMENT DEBT, 2010–2015



Source: MF

## DOMESTIC GOVERNMENT DEBT

### DOMESTIC GOVERNMENT DEBT/GDP



Source: MF

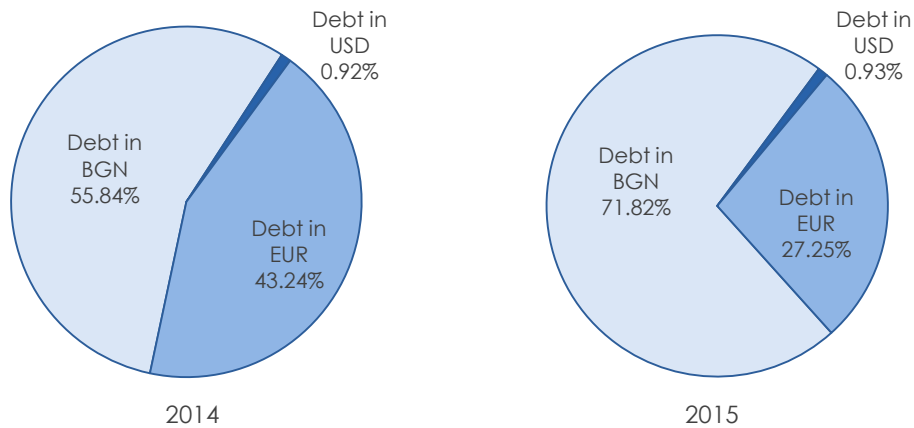
At the end of 2015, the nominal amount of the domestic government debt was MBGN 7 283.3 (MEUR 3 723.9), which accounts for 8.4% of GDP. In nominal terms,



the domestic government debt registered a decrease by MBGN 968.5 (MEUR 495.2) due to the negative net financing from GS issues placed on the domestic market.

Accordingly, MBGN 7 148.7 thereof was the share of GS issued for financing the budget, or 98.2% of the total amount of the domestic government debt. The debt in the form of GS, issued for the structural reform, stood at the amount of MBGN 134.6 and its relative share in total domestic government debt was 1.8%.

### CURRENCY STRUCTURE OF DOMESTIC GOVERNMENT DEBT

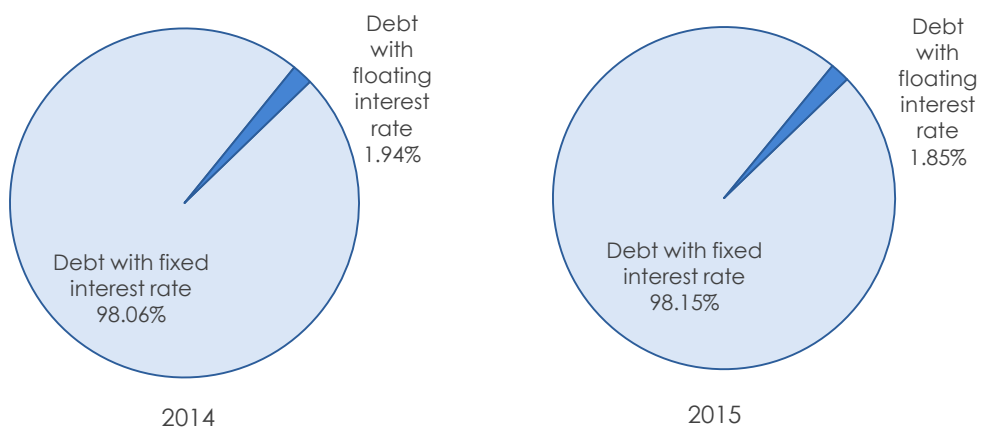


Source: MF

The currency structure of domestic debt showed an increase of the share of BGN-denominated debt, which reached 71.8% against 55.8% at the end of 2014. The share of EUR-denominated debt dropped to 27.3%, respectively, against 43.2% in 2014, while the USD-denominated debt preserved its level of 0.9% at the end of 2015 as well.

The tendency for increase of the domestic debt with fixed interest rate coupons was retained in 2015, when it increased by 0.9 p.p. and reached 98.2% at the end of the year at the expense of the debt with floating interest rates, the share of which in the total domestic government debt decreased to 1.8%.

### INTEREST RATE STRUCTURE OF DOMESTIC GOVERNMENT DEBT



Source: MF

## DOMESTIC GOVERNMENT DEBT DYNAMICS

Debt structure	Debt amount as of 31.12.2014 MBGN	Increase MBGN	Decrease MBGN	Debt amount as of 31.12.2015 MBGN	Nominal Increase/ Decrease	%
<b>Domestic government debt</b>	<b>8 251.75</b>	<b>923.99</b>	<b>-1 892.46</b>	<b>7 283.28</b>	<b>-968.47</b>	<b>88.26</b>
1. Government securities issued for financing the budget	8 091.94	923.99	-1 867.21	7 148.73	-943.21	88.34
9-month	782.33	-	-782.33	-	-782.33	-
1-year	1 082.33	-	-1 082.33	-	-1 082.33	-
2-year and 6-month	205.00	-	-	205.00	-	100.00
3-year	226.40	411.12	-	637.52	411.12	281.59
5-year	1 057.59	385.83	-	1 443.41	385.83	136.48
7-year	1 214.54	-	-	1 214.54	-	100.00
10-year	1 199.29	77.05	-	1 276.34	77.05	106.42
10-year and 6-month	1 671.01	50.00	-	1 721.01	50.00	102.99
15-year	653.45	-	-2.54	650.91	-2.54	99.61
2. Government securities issued for the structural reform	159.81	-	-25.26	134.55	-25.26	84.20
20-year	81.69	-	-16.34	65.35	-16.34	80.00
24-year	0.38	-	-0.13	0.25	-0.13	66.67
25-year	77.74	-	-8.79	68.95	-8.79	88.69

Notes: 1. Nominal figures; 2. The BGN equivalent of the increase/decrease of the debt denominated in foreign currency is based on BNB central exchange rate for the respective foreign currency to the Bulgarian Lev to the date of the respective disbursement/payment; 3. BGN equivalent of the debt denominated in foreign currency is calculated based on the BNB central exchange rate at the closing business day of each period. 4. Data include the exchange rate differences realized throughout the year.

Source: MF

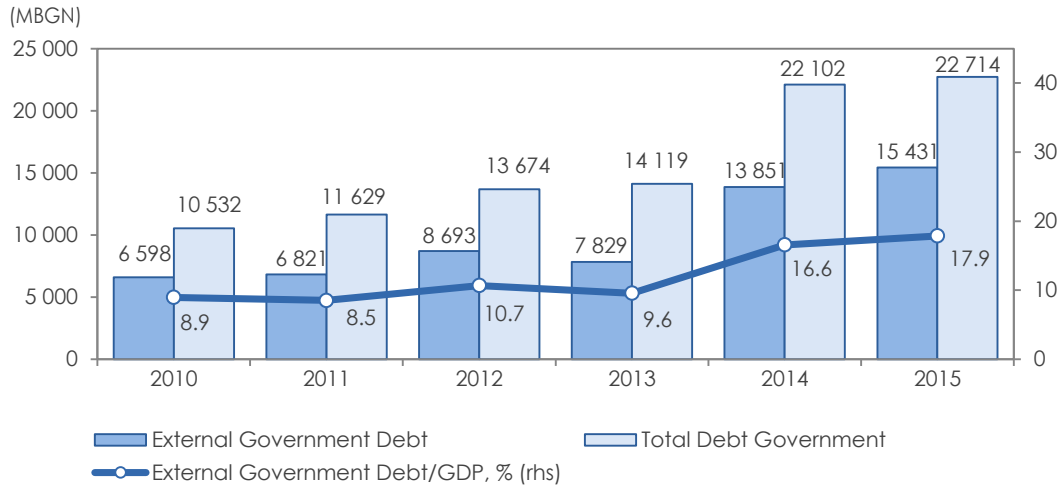
The total amount of payments made in 2015 for the domestic government debt stands at MBGN 2 474.9, of which MBGN 2 234.0 constituted redemption payments of principal and MBGN 240.9 – interest payments. The largest relative share of the total amount of paid interest rates – 99.7%, or MBGN 240.4 was held by interest on GS for financing the budget, followed by the interest on GS issued for of the structural reform – 0.3%, or MBGN 0.5.

## EXTERNAL GOVERNMENT DEBT

The nominal value of the external government debt increased by MBGN 1 580.2 against the level registered at the end of 2014, reaching the amount of MBGN 15 430.8. The “external government debt to GDP” ratio amounted to 17.9%. The reported dynamics in the amount of the external government debt at the end of 2015 was due mainly to the external financing during the year as a result of the successfully placed 7, 12 and 20-year Eurobonds within the frames of the medium-

term programme for issuing debt to ICM and the assumption of new external debt for financing the "Bulgaria EU Funds Co-Financing 2014-2020 (SPL)" project.

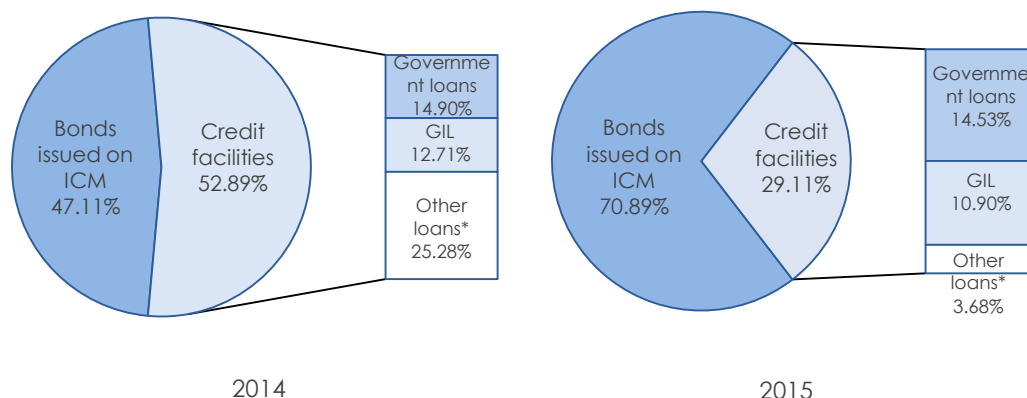
### EXTERNAL GOVERNMENT DEBT/GDP



Source: MF, NSI

The operations carried out to raise the required debt financing on the external markets predetermined the substantial change in the structure of the external government debt by type of instrument, by increasing the share of bonds issued on ICM to 70.9% against 47.1% at the end of 2014 and decreasing the average share of loans from 52.9% at the end of 2014 to 29.1% at the end of 2015. The total loan amount is broken down, as follows: government loans – 14.5%; government investment loans – 10.9% and other loans, represented by the *Schuldschein* assignable loans – 3.7%.

### STRUCTURE OF THE EXTERNAL GOVERNMENT DEBT BY INSTRUMENT



\* "Schuldschein" assignable loans and "Bridge to bond loan"

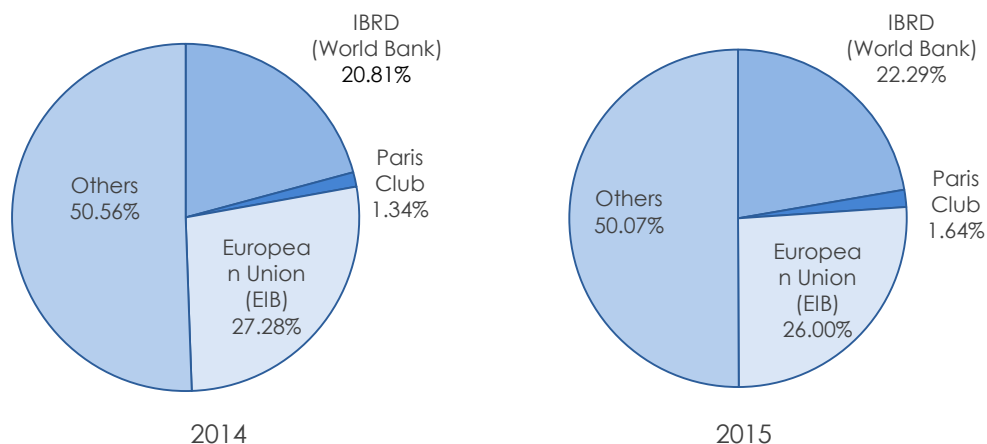
\* "Schuldschein" assignable loan

Source: MF, NSI

In the structure of the government loans presented by creditors, the biggest share of 50.1% is held by the loans by other creditors, including JBIC, KFW, CEDB, Siemens AD and private lenders – holders of *Schuldschein* assignable loans. These are

followed by the loans extended by EIB with 26.0%, and the IBRD /the World Bank/ with 22.3% and the debt to the Paris Club – with 1.6%.

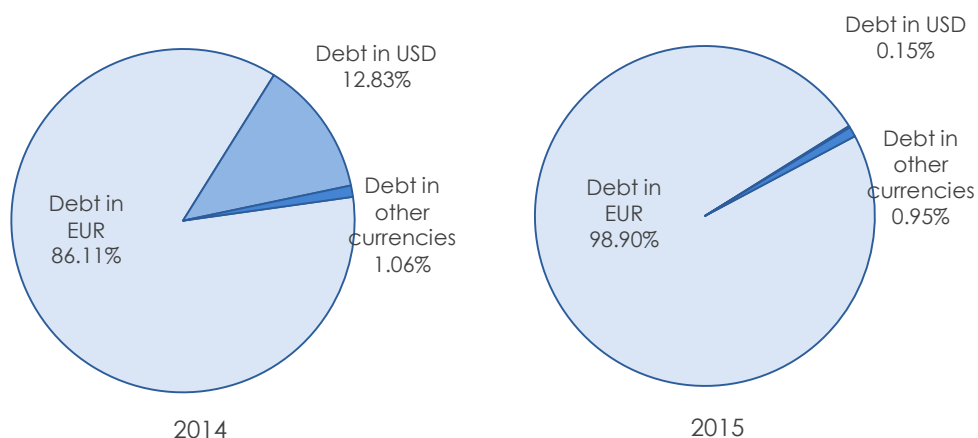
**STRUCTURE OF EXTERNAL GOVERNMENT DEBT BY CREDITORS**



Source: MF

With regards to the currency structure of external debt at the end of 2015 it registered an increase of the share of EUR-denominated debt, resulting from the actions taken on negotiating and assuming new EUR-denominated external debt. Compared to the end of 2014, the EUR-denominated debt increased by 12.8 p.p., thus reaching 98.9%. The share of debt denominated in USD and other currencies decreased from 12.8% to 0.2% and from 1.1% to 1.0% respectively.

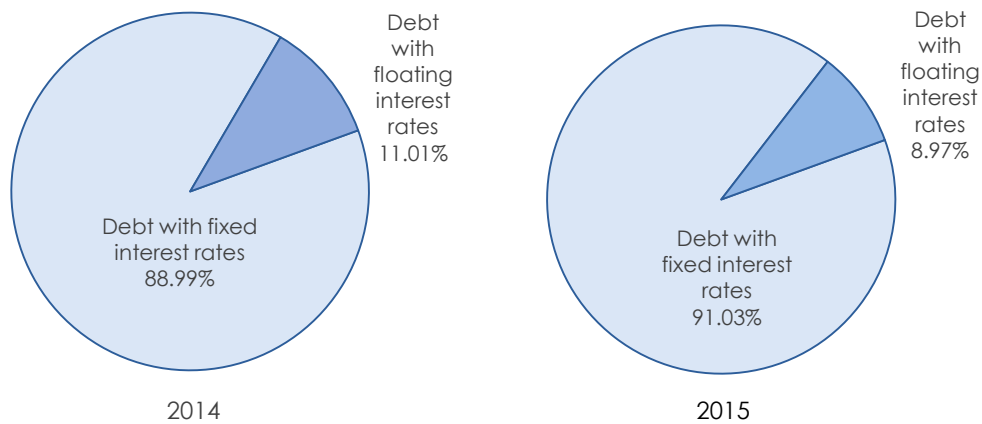
**CURRENCY STRUCTURE OF EXTERNAL GOVERNMENT DEBT**



Source: MF

In the interest rate structure of the external government debt at the end of the reporting period, the debt with fixed interest coupons held a share of 91.0%, while the debt with floating interest held 9.0% respectively.

### INTEREST RATE STRUCTURE OF EXTERNAL GOVERNMENT DEBT



Source:MF

The payments made on external government debt in 2015 stood at a total amount of MBGN 5 401.4, including payments on principal – MBGN 4 988.3 and on interests MBGN 413.1.

The redemption of other loans /including "Schuldschein" assignable loans and Bridge-to-bond loan/ stand at the amount of MBGN 2 933.7 or 58.8% of the principal repayments during the year. The repayments of bonds issued on ICM accounted for 35.4% or MBGN 1 765.8, while for government investment loans they represent 3.4%, or MBGN 172.0, government loans represent 2.3%, or MBGN 116.4, while those for called government guarantees – MBGN 0.4.

In the structure of repaid interest, the leading position is held by bonds issued on ICM with payments at the amount of MBGN 290.2 (70.2%), followed by the interest payments for government investment loans, government loans and other loans, that amount to MBGN 49.1 (11.9%), MBGN 40.8 (9.9%) and MBGN 33.1 (8.0%) respectively.

In the structure of reception by creditors, the largest relative share was held by the payments for loans to other creditors – MBGN 2 949.8 (59.1%), followed by the repaid principals of bonds issued on ICM – MBGN 1 765.8 (35.4%), loans from IBRD /World Bank/ MBGN 153.4 (3.1%), obligations to EIB – MBGN 94.7 (1.9%) and the loans from the Paris Club – MBGN 24.6 (0.5%).

The largest share in the total amount of interest payments by creditors was held by bonds issued on ICM – MBGN 290.2 (70.2%), followed by interest payments for loans from EIB – MBGN 75.9 (18.4%), for other loans – MBGN 38.4 (9.3%), for loans from IBRD /the World Bank/ – MBGN 5.5 (1.3%), and loans from the Paris Club – MBGN 3.1 (0.8%).

## EXTERNAL DEBT PAYMENTS IN 2015

(MBGN)

Structure	Repayments, including		
	Repayments /Principal/	Interest	Total
<b>External government debt</b>	<b>4 988.3</b>	<b>413.1</b>	<b>5 401.4</b>
I. Bonds	1 765.8	290.2	2 055.9
1. USD-denominated global bonds with maturity 2015	1 765.8	113.1	1 878.9
2. Eurobonds issued in ICM with maturity 2017	-	78.3	78.3
3. Eurobonds issued in ICM with maturity 2024	-	100.8	100.8
4. Eurobonds issued in ICM with maturity 2035	-	-2.0	-2.0
II. Credit facilities	3 222.5	123.0	3 345.5
1. Government loans	116.4	40.8	157.2
1.1. Paris Club	24.6	3.1	27.8
1.2. World Bank	91.8	3.8	95.6
1.2.1 World Bank	85.3	3.4	88.7
1.2.2 Japan	6.5	0.4	6.9
1.3. European Union	-	33.9	33.9
1.3.1 EIB	-	33.9	33.9
2. Other loans	2 933.7	33.1	2 966.8
2.1 "Schuldschein" assignable loans	-	24.4	24.4
2.2 Bridge-to-bond loan	2 933.7	8.7	2 942.5
3. Government investment loans	172.0	49.1	221.1
3.1 World Bank	61.3	1.7	62.9
3.2 EIB	94.7	42.1	136.7
3.3 Other	16.1	5.3	21.4
4. Called government guarantees	0.4	-	0.4
4.1 World Bank	0.4	-	0.4

Notes: 1. The BGN equivalent of repayments are based on the BNB central rate for the respective foreign currency to the Bulgarian Lev valid until 4 p.m. on the day of the respective payment.

Source: MF ▼

# DEBT FINANCING RESOURCES

The provision of funds necessary in 2015 to finance the government budget and re-finance the issued debt took effect at optimal price and level of risk. Priority was given to the building of liquid benchmark curve both on the domestic market of government debt, as well as on the external markets, including by way of a medium-term programme for issuing bonds on the international capital markets.

The Ministry of Finance continued to ensure vast investment opportunities to market participants, as well as major benchmark maturities allowing comparison of the yield of financial instruments.

## GS ISSUES ON THE DOMESTIC MARKET

In 2015 the placing of GS on the domestic market was in line with the reference debt values provided for in the Law on the 2015 State Budget of the Republic of Bulgaria and the (LSBRB) and the issuing policy of the Republic of Bulgaria.

BGN-denominated securities were placed throughout the year along the entire benchmark curve. At the end of 2015, the GS issued on the domestic market stood at MBGN 1311.5 . The nominal amount of the short-term issues stood at MBGN 200, MBGN 826.5 for medium-term GS and MBGN 285 for long-term. The reported payments on GS issued on the domestic market in 2015 stood at the amount of MBGN 2246.8, of them MBGN 32.1 being the repayments on GS issued in support of the structural reform.

A total of 18 auctions (1 of them cancelled) were held on the domestic market during the year, where only 2015 issues with maturity of 6 months, 3 years, 5 years, 10 years and 10 years and 6 months were placed. The total nominal value of GS issued

during the reporting period was, as follows: GS with maturity of 6 months – MBGN 200; with maturity of 3 years – MBGN 426.5, with maturity of 5 years – MBGN 400, with maturity of 10 years – MBGN 235 and with maturity of 10 years and 6 months – MBGN 50.

### GOVERNMENT SECURITIES AUCTIONS HELD IN 2015

Date of auction	Date of issue	Issue No.	Currency	Maturity	Maturity date	Interest rate %		Average approved price	Average annual yield*	Nominal value
12.01.2015	14.01.2015	BG2040015211	BGN	126 m	14.07.2025	Fixed %	3.10%	100.24	3.0946%	50 000 000.00
19.01.2015	21.01.2015	BG3010015009	BGN	6 m	21.07.2015	Discount		99.84	0.3187%	200 000 000.00
26.01.2015	28.01.2015	BG2030015114	BGN	36 m	28.01.2018	Fixed %	1.10%	101.22	0.6890%	50 000 000.00
02.02.2015	04.02.2015	BG2030115112	BGN	60 m	04.02.2020	Fixed %	1.85%	104.16	0.9970%	50 000 000.00
20.04.2015	22.04.2015	BG2040115219	BGN	120 m	22.04.2025	Fixed %	2.30%	102.42	2.0401%	50 000 000.00
18.05.2015	20.05.2015	BG2030115112	BGN	60 m	04.02.2020	Fixed %	1.85%	102.60	1.2832%	50 000 000.00
25.05.2015	27.05.2015	BG2030015114	BGN	36 m	28.01.2018	Fixed %	1.10%	101.10	0.6847%	50 000 000.00
07.09.2015	09.09.2015	BG2030015114	BGN	36 m	28.01.2018	Fixed %	1.10%	101.45	0.4882%	150 000 000.00
14.09.2015	16.09.2015	BG2030115112	BGN	60 m	04.02.2020	Fixed %	1.85%	103.90	0.9420%	100 000 000.00
28.09.2015	30.09.2015	BG2040115219	BGN	120 m	22.04.2025	Fixed %	2.30%	0.00	0.0000%	0.00
12.10.2015	14.10.2015	BG2030115112	BGN	60 m	04.02.2020	Fixed %	1.85%	103.70	0.9731%	50 000 000.00
19.10.2015	21.10.2015	BG2040115219	BGN	120 m	22.04.2025	Fixed %	2.30%	98.56	2.4846%	50 000 000.00
26.10.2015	26.10.2015	BG2030015114	BGN	36 m	28.01.2018	Fixed %	1.10%	101.42	0.4670%	150 000 000.00
09.11.2015	11.11.2015	BG2030115112	BGN	60 m	04.02.2020	Fixed %	1.85%	103.29	1.0555%	50 000 000.00
16.11.2015	18.11.2015	BG2040115219	BGN	120 m	22.04.2025	Fixed %	2.30%	97.96	2.5595%	70 000 000.00
23.11.2015	25.11.2015	BG2030015114	BGN	36 m	28.01.2018	Fixed %	1.10%	101.31	0.4939%	26 500 000.00
07.12.2015	09.12.2015	BG2040115219	BGN	120 m	22.04.2025	Fixed %	2.30%	99.80	2.3361%	65 000 000.00
14.12.2015	16.12.2015	BG2030115112	BGN	60 m	04.02.2020	Fixed %	1.85%	104.33	0.7853%	100 000 000.00
<b>Total: BGN</b>										<b>1 311 500 000.00</b>

\* Average annual yield calculated based on ISMA-International Yield (%)

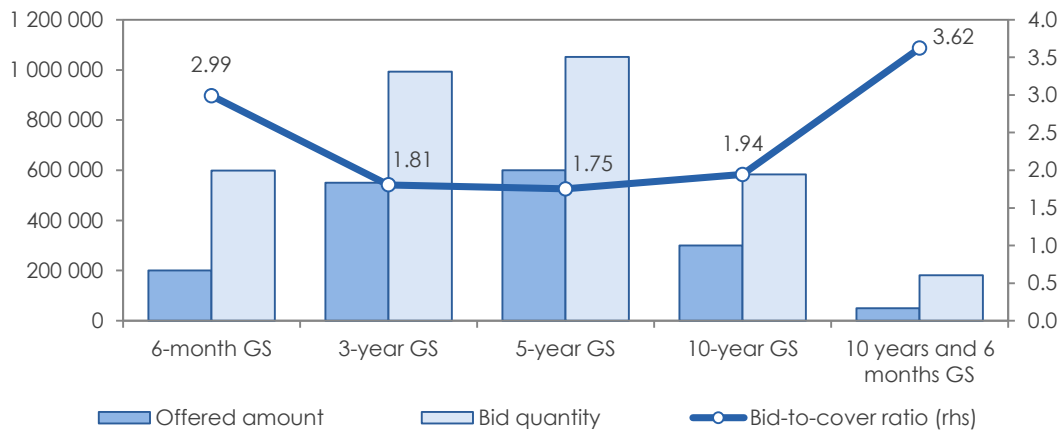
Source: MF

In 2015, MF offered GS with a total nominal value of MBGN 1700 on the domestic market (of which bonds with value of MBGN 1500 and treasury bonds with value of MBGN 200), and the bids placed by the market participants reached MBGN 3407.6 resulting in a bid-to-cover ratio of 2.00. The average bid-to-cover ratios for the period by types of securities were, as follows:

- For GS with maturity of 6 months – 2.99,
- With maturity of 3 years – 1.81,
- With maturity of 5 years – 1.75,
- With maturity of 10 years – 1.94 and
- With maturity of 10 years and 6 months – 3.62.



**BID-TO-COVER RATIO OF GS ISSUED IN 2015**



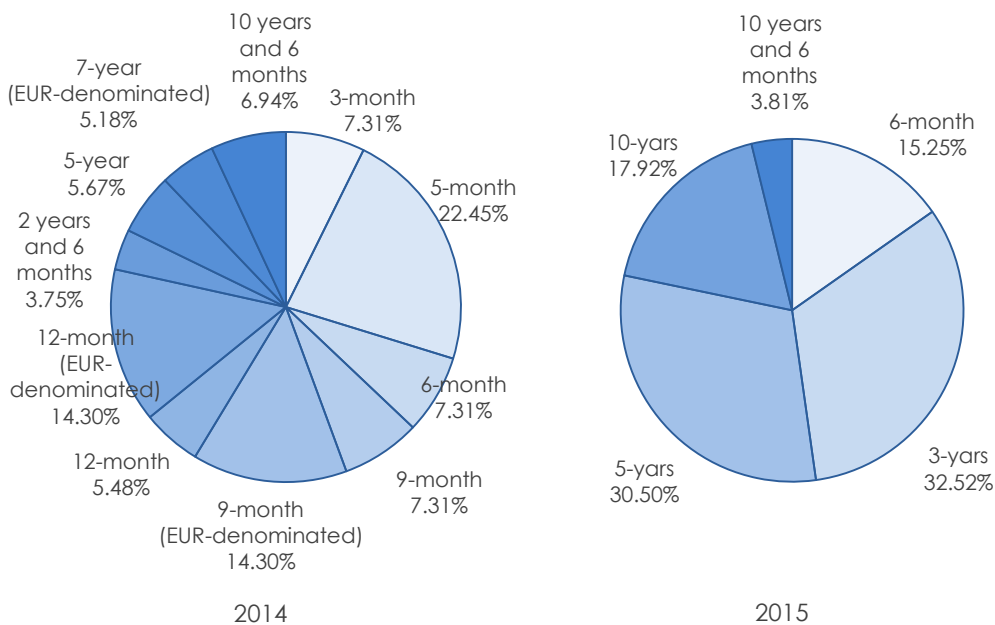
\* Data are presented in BGN thousands.

Source:MF

The issue policy aimed at diversification of maturity structure of GS offered during the year helped attract a wider group of investors on the Bulgarian debt market. Combined with other factors, the attained diversification on the domestic market contributed additionally to the reduction of the yield in all segments of the debt curve.

The weighted average annual yield in GS issued in 2015 was 1.06%. For comparison, in 2014 it was 1.34%, in 2013 it was 1.75%, in 2012 it was 3.54%, in 2011 – 4.21%, and in 2010 – 5.06%.

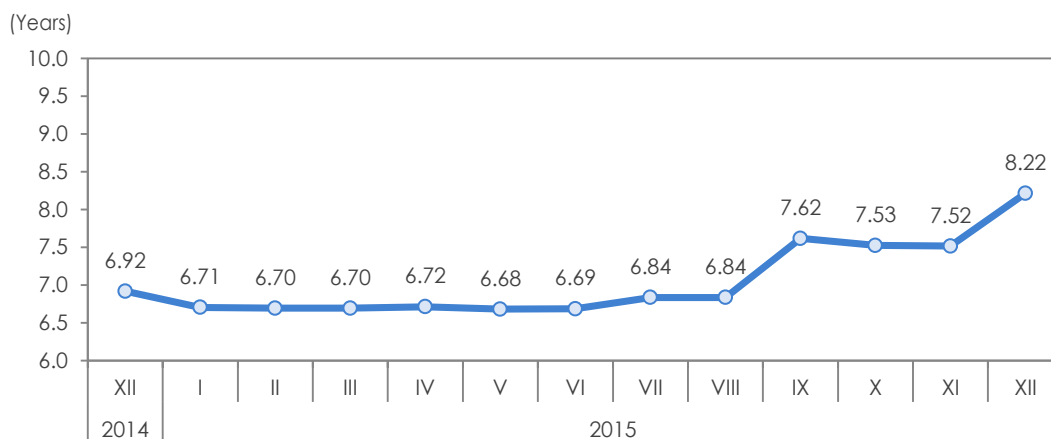
**MATURITY STRUCTURE OF THE ISSUED GS**



Source: MF

The average term of GS issued for budget financing increased to reach 8 years and 3 months at the end of 2015 as compared to 6 years and 11 months at the end of 2014.

### AVERAGE PRIMARY MATURITY OF AUCTIONED GS IN CIRCULATION

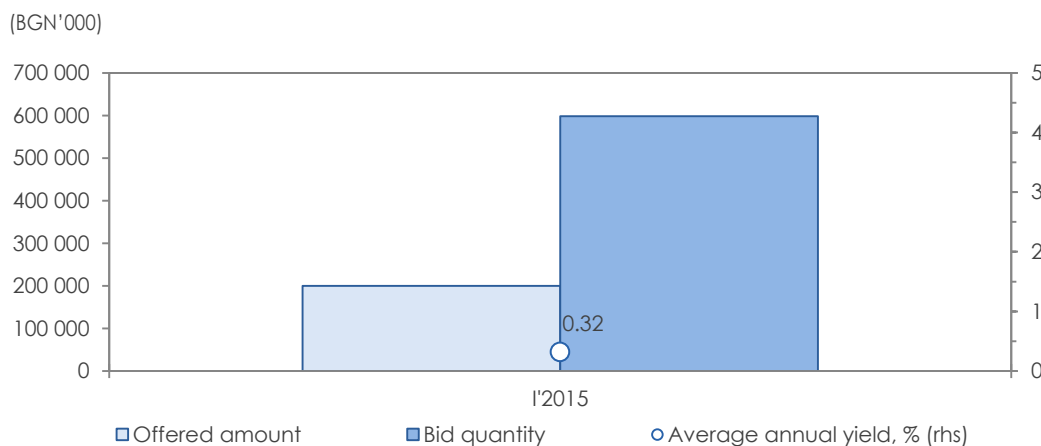


Source: MF

Within the total amount of GS issued in 2015, the relative share of short-term ones was 15.2%, of the medium-term ones – 63%, and of the long-term ones – 21.7%. The total amount of the treasury bills issued during the year stood at MBGN 200.

The auction for placement of 6-month GS subscribed MBGN 598.1, which corresponds to a bid-to-cover ratio of 2.99, and an average annual yield of 0.32%.

### AUCTIONS OF 6-MONTH GS



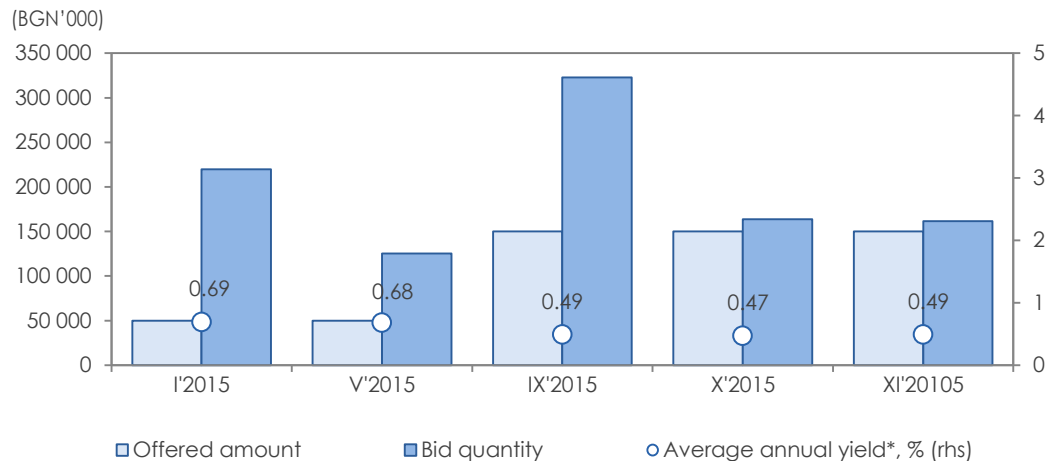
Source :MF

The total nominal value of medium-term treasury bonds issued during the year stood at MBGN 826.5, represented by one issue of 3 years and one 5-year issue of GS.

The GS with maturity of 3 years newly issued during the year had a total nominal value of MBGN 426.5 and were placed in five auctions.

In general, the interest in these securities remained great throughout the year. The total amount of bids placed for the five auctions was MBGN 993.5, which as compared to the amount offered on sale corresponded a bid-to-cover ratio of 1.81 for all openings. The yield achieved at the primary market for these GS varied within the bracket of 0.47% – 0.69%.

### AUCTIONS OF 3-YEAR GS

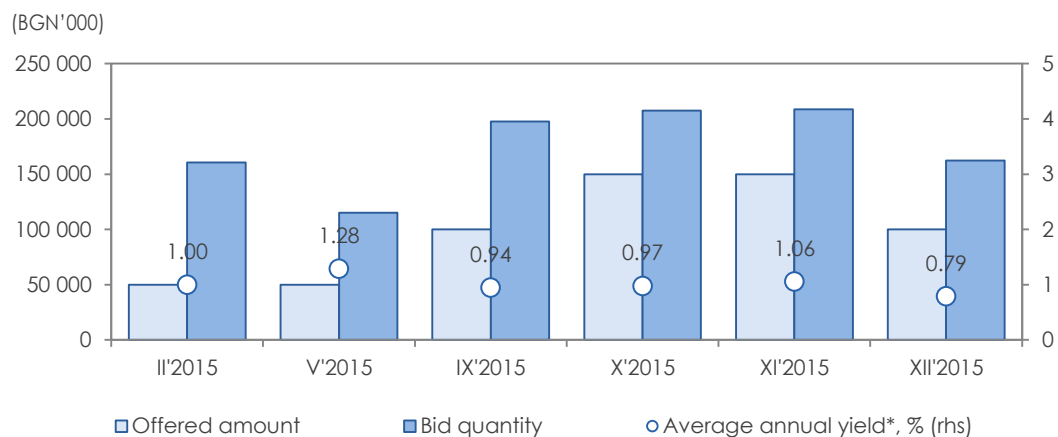


\* Average annual yield calculated on the base of ISMA-International Yield (%)

Source: MF

The 5-year GS issued amounted to a total nominal value of MBGN 400. The bids placed for these securities amounted to MBGN 1051.7. The bid-to-cover ratio for the entire issue amounted to 1.75. The yield achieved at the six auctions for this issue varied between 0.79% and 1.28%.

### AUCTIONS OF 5-YEAR GS



\* Average annual yield calculated on the basis of ISMA-International Yield (%)

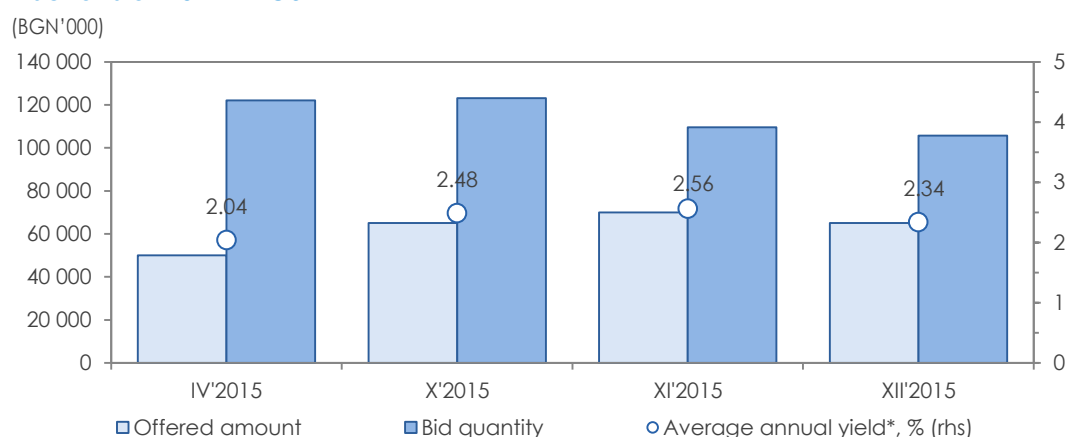
Source: MF

The long-term GS offered for sale during the year were represented by two issues, one issue of 10-year treasury bonds and one issue of GS with maturity of 10 years and 6 months. The total nominal amount of the two issues stood at MBGN 285.

A total of five auctions for the sale of 10-year treasury bonds were held during the year. The total amount of bids placed stood at MBGN 583.3, and the bid-to-cover ratio was 1.94. The yield on the 10-year GS achieved on the primary market varied between 2.04% and 2.56%.

The bids placed were not approved at the auction held on 29.09.2015. The decision was compliant with the current fiscal status and the demand for the most beneficial financing terms.

### AUCTIONS OF 10-YEAR GS

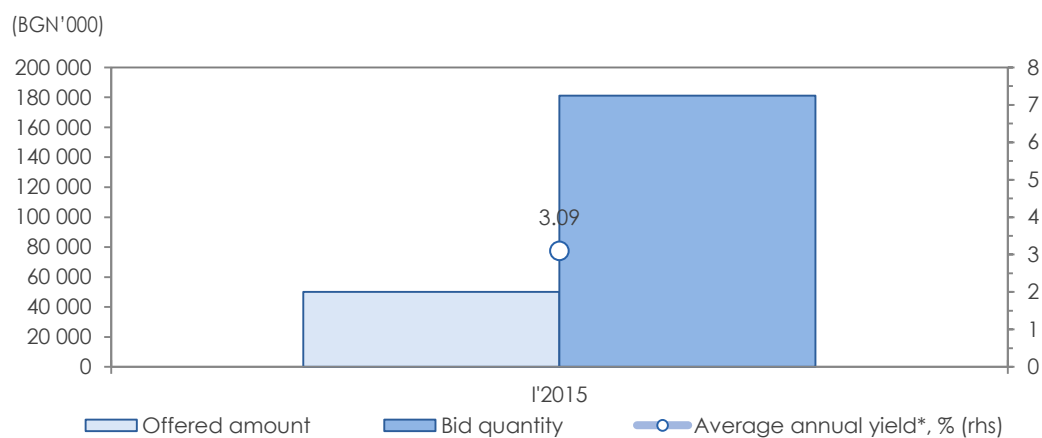


\* Average annual yield calculated on the base of ISMA-International Yield (%)

Source: MF

Government securities with maturity of 10 years and 6 months were represented by one issue placed at the beginning of the year and sold at one auction. The total nominal value of the issue was MBGN 50. The bids placed at the auction held in January stood at MBGN 181 or a bid-to-cover ratio of 3.62. The yield at the primary market of GS with maturity of 10 years and 6 months was 3.09%.

### AUCTIONS OF GS WITH MATURITY OF 10 YEARS AND 6 MONTHS



\* Average annual yield calculated on the basis of ISMA-International Yield (%)

Source: MF

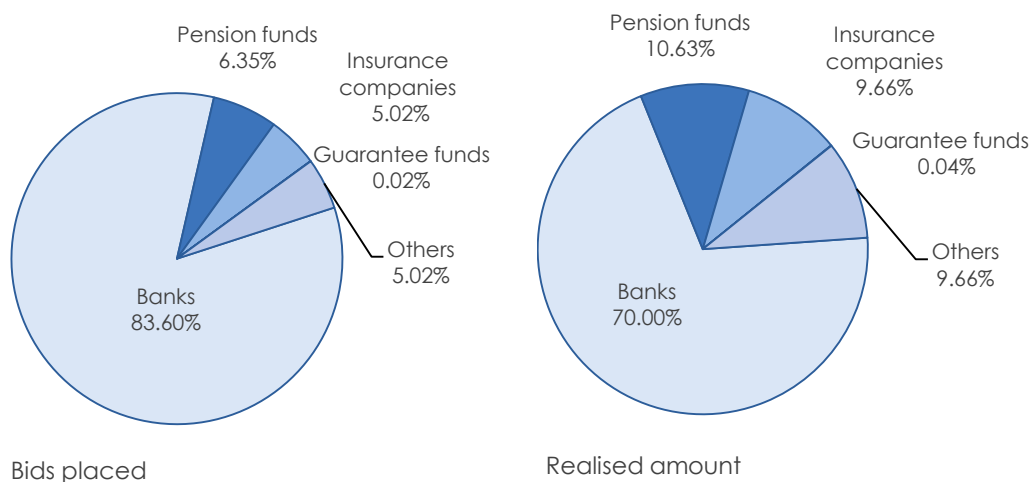
## DISTRIBUTION OF THE INVESTOR BASE AND DEVELOPMENT OF THE PRIMARY MARKET FOR GS IN 2015

The past 2015 had been very dynamic in terms of government debt management. At the start of 2015, the Ministry of Finance launched a medium-term programme for issuing bonds on the international capital markets. This programme aims to ensure maximum flexibility in the process of assuming debt by diversifying the markets where MF is financed by giving alternatives in the choice of format, currency and maturity.

Simultaneously with the issued bonds under the global programme, during the past year the Ministry of Finance realised on the domestic debt market securities at a total nominal value of BGN 1 311 500 000, distributed into the following maturities: 6-m short-term treasury bonds, 3-year bonds, 5-year bonds, 10-year bonds and securities with maturity of 10 years and 6 months. The tendency of a drop in the yield for all maturity segments was preserved during 2015 as well.

The analysis of investor interest indicates that at the auctions held for the sale of short-term GS with maturity of 6 months, the banks had placed bids for a total of MBGN 500.00 or 83.60% of all bids placed. Pension funds placed bids for the amount of MBGN 38.00 or 6.35%, the insurance companies – for MBGN 30.00 or 5.02%, guarantee funds placed bids for MBGN 0.12 or 0.02%, and other investors – for MBGN 30.00 or 5.02%. the allocation of the approved volume of GS was, as follows: banks – MBGN 140.00 (70.00% of the approved bids), pension funds – MBGN 21.26 (10.63% of the approved bids), insurance companies – MBGN 19.33 (9.66% of the approved bids), guarantee funds – MBG 0.08 (0.04% of the approved bids) and other investors – MBGN 19.33 (9.66% of the approved bids).

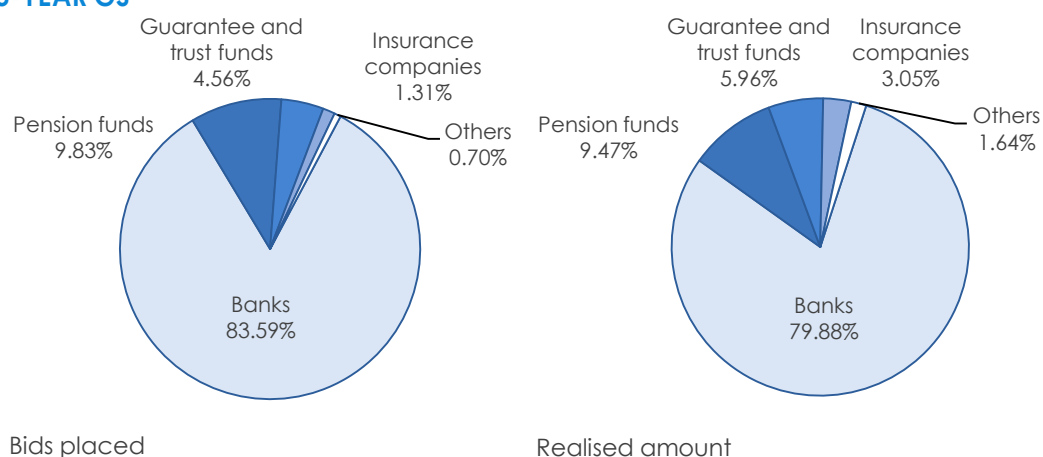
### 6-MONTH SHORT-TERM GOVERNMENT SECURITIES



Source: MF

At the auctions selling GS with maturity of 3 years, the banks placed bids for a total of MBGN 830.50 or 83.59% of all bids placed, pension funds placed bids for MBGN 97.70 or 9.83% of the placed bids, guarantee and trust funds placed bids for a total nominal at the amount of MBGN 45.30 (4.56% of the placed bids), insurance companies – MBGN 13.00 (1.31% of the placed bids) and other investors – MBGN 7.00 (0.70% of the placed bids). The allocation of the approved volume of GS was, as follows: banks – MBGN 340.70 (79.88% of the approved bids), pension funds – MBGN 40.38 (9.47% of the approved bids), guarantee and trust funds – MBGN 25.42 (5.96% of the approved bids), insurance companies – MBGN 13.00 (3.05% of the approved bids) and other investors – MBGN 7 (1.64% of the approved bids).

### 3-YEAR GS

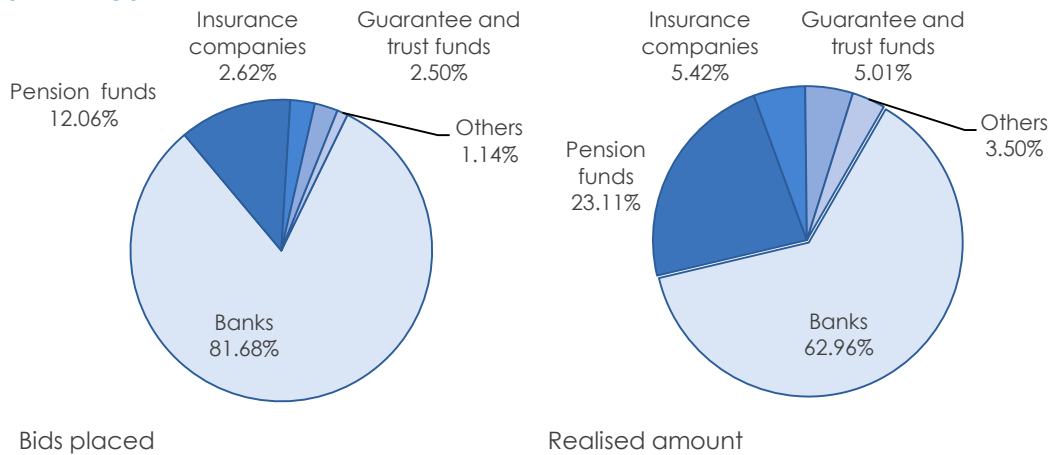


Source: MF

At the auctions selling 5-year GS, the banks placed bids for MBGN 859.00 representing 81.68% of all placed bids, pension funds – MBGN 126.80 (12.06% of the placed bids), insurance companies – MBGN 27.55 (2.62% of the placed bids), guarantee and trust funds – MBGN 26.30 (2.50% of the placed bids) and other investors – MBGN 12.00 (1.14% of the placed bids).

The following volumes of bids were approved: banks – MBGN 251.85 (62.96% of the approved volume), pension funds – MBGN 92.46 (23.11% of the approved volume), insurance companies – MBGN 21.66 (5.42% of the approved volume), guarantee and trust funds – MBGN 20.03 (5.01% of the approved volume) and other investors – MBGN 14.00 (3.50% of the approved volume).

**5-YEAR GS**

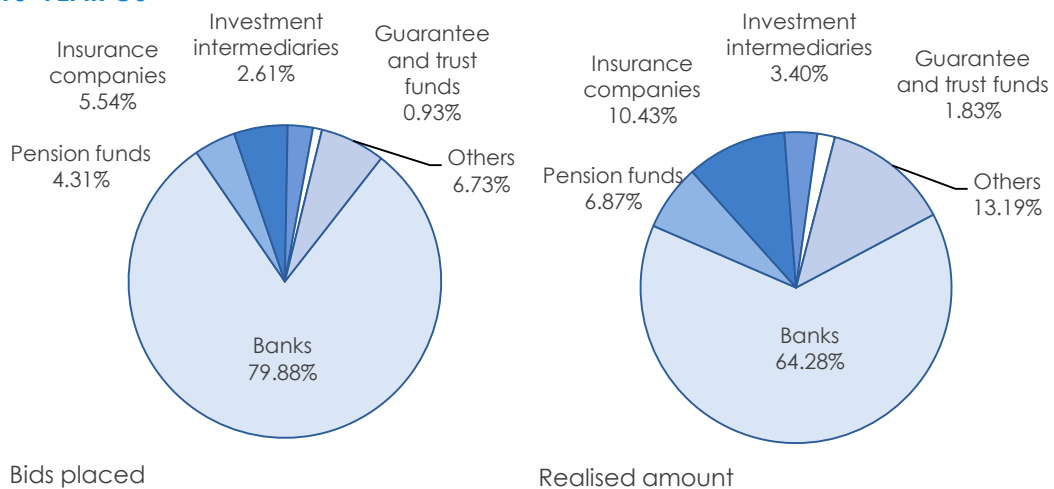


Source: MF

With the 10-year GS issued, the banks placed bids for the amount of MBGN 367.81 (79.88% of all placed bids), insurance companies – MBGN 25.50 (5.54% of the placed bids), the pension funds placed bids for a total nominal amount of MBGN 19.85 (4.31% of the placed bids), investment intermediaries – MBGN 12.00 (2.61% of the placed bids), guarantee and trust funds – MBGN 4.30 (0.93% of the placed bids) and other investors – MBGN 31.00 (6.73% of the placed bids).

The allocation of the approved volume of 10-year GS was, as follows: banks – MBGN 151.05 (64.28% of the approved volume of bids), insurance companies – MBGN 24.50 (10.43% of the approved volume of bids), pension funds – MBGN 16.15 (6.87% of the approved volume of bids), investment intermediaries – MBGN 8.00 (3.40% of the approved volume of bids), guarantee and trust funds – MBGN 4.30 (1.83% of the approved volume of bids) and other investors – MBGN 31.00 (13.19% of the approved volume of bids).

**10-YEAR GS**



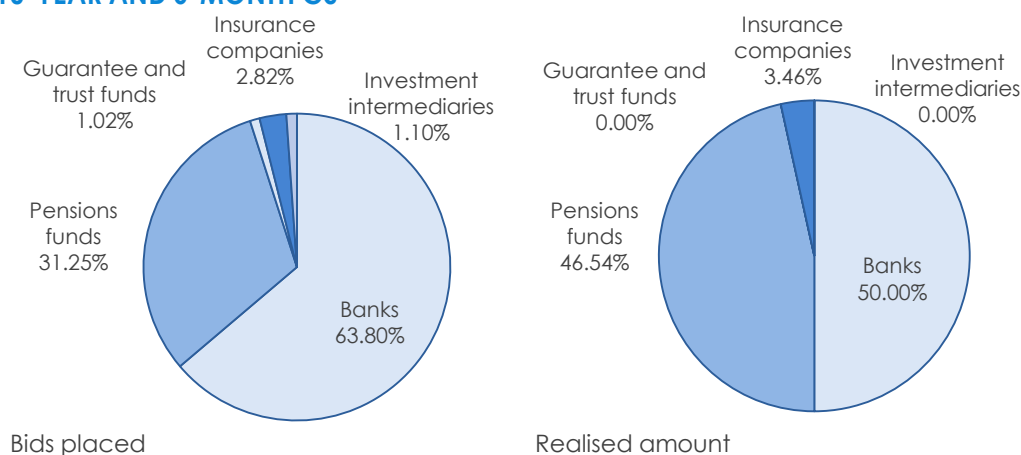
Source: MF

The bond with maturity of 10 years and 6 months issued in 2015 also attracted the attention of a wide range of investors. The bids placed by banks amounted to

MBGN 115.50 (63.80% of all bids placed), pension funds – MBGN 56.58 (31.25% of the bids placed), insurance companies – MBGN 5.10 (2.82% of the bids placed), investment intermediaries – MBGN 2.00 (1.10% of the bids placed), guarantee and trust funds – MBGN 1.85 (1.02% of the bids placed).

The allocation of the approved volume of GS was, as follows: banks – MBGN 25.00 (50.00% of the approved volume of bids), pension funds – MBGN 23.27 (46.54% of the approved volume of bids), insurance companies – MBGN 1.73 (3.46% of the approved volume of bids), while the guarantee and trust funds, as well as the investment intermediaries did not receive securities from that issue.

### 10-YEAR AND 6-MONTH GS



Source : MF

## REVIEW OF THE SECONDARY MARKET OF GS

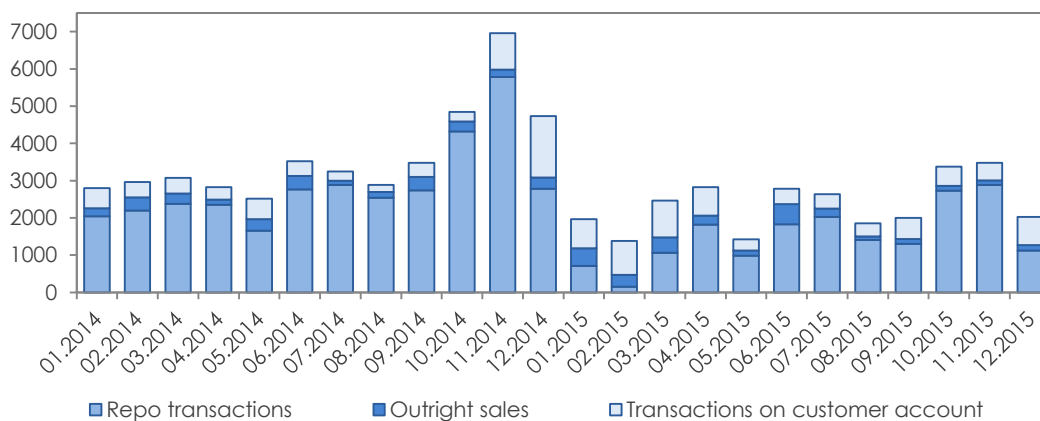
In 2015, the total volume of GS transactions and operations registered in the system for registration and settlement of GS at BNB (BNBGSSS<sup>8</sup>) amounted to MBGN 39 954 against MBGN 64 763 in 2014, or a decrease by 38%. There was a significant drop in the volume of registered repurchase transactions – MBGN 18 040.7 against MBGN 34 482.6 in 2014. Regardless of this, their share continued to hold the highest volume of transactions registered in BNBGSSS – 45.2%. Repurchase trades concluded for one day (44%), both with BGN and EUR issues of GS, were best preferred by banks or provision of their everyday liquidity. Simultaneously, the volume of registered purchase and sale transactions increased to MBGN 10 152.7 or by MBGN 731.1 more as compared to 2014. MBGN 2 939.3 of them accounted for transactions between participants in ESROT, MBGN 6 740.1 were transactions between the the participants and the customers, while MBGN 473.3 accounted for transactions between customers and participants in ESROT. This market segment held a share of 25.5% and registered an increase by 4.0% compared to the

<sup>8</sup> BNBGSSS includes the Electronic System for Registration and Servicing of Trade in GS (ESROT) and the GS Settlement System (GSSS).



previous year. The freeze/unfreeze trades with GS issued on the domestic market on account of registered pledges on GS as security for available cash funds in accounts of budget organizations at the bans pursuant to the Law of Public Finance and the Law of Registered Pledges held a total volume of MBGN 11 760.5, while their share was 29.3% respectively. Against the backdrop of low to negative interest rate levels in the Eurozone and the lack of suitable investment alternatives on the local capital market, the sovereign debt instruments issued on the domestic market remained the preferred investment for market participants. During the year, the yield from long-term benchmark issue with maturity of 10 years and 6 months ranged from 2.95% in January to 2.43% in December, which was a decrease of its amount as compared to 2014 (from 3.56% in January to 2.96% in December). In general, the trade was quite dynamic, with peaks in trading volumes realised in April, October and November. Government securities along the whole range of debt curve were traded with a marked prevalence of BGN- and EUR-denominated GS with approximately 5-year residual period until maturity date. This was due to the lower supply of long-term GS on the secondary market by institutional investors – pension fund and insurance companies, which held in their portfolios the GS purchased by them in order to ensure a better yield in the long term. The trend established in recent years of the volume of trading in the secondary market for GS to exceed several times the volume of trading in the Bulgarian stock exchange was preserved in 2015 as well.

#### VOLUME BY TYPES OF TRANSACTIONS IN TRADABLE GOVERNMENT SECURITIES



Notes: 1.The volume of repo transactions includes reverse repo transactions and those executed during the same day; 2.Transactions in GS denominated in foreign currency are given in BGN equivalence according to BNB exchange rate for the respective currency valid on the date of transaction.

Source: BNB

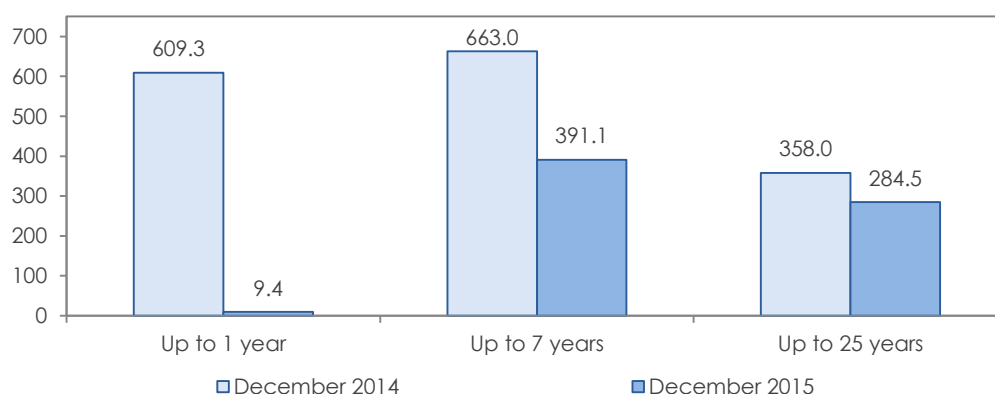
Participants in ESROT experienced no difficulties and ensured duly the necessary securities and funds in BGN and EUR for the execution of the settlement of the

transactions in GS with deliver versus payment (DvP), where the average settlement ratio<sup>9</sup> for the year stood at 100%.

During the year, in BNBGSSS as a support system of TARGET2-BNB were registered transactions in short-term, medium-term and long-term EUR-denominated GS, at a total volume of MEUR 4 588.2 (or MBGN 8 973.8), where the payments were being made not only through accounts of banks in the national system component TARGET2-BNB, but also through accounts of banks in other system components of central banks in TARGET2.

### STRUCTURE OF TRANSACTIONS ON INTER-BANK MARKET BY TERM OF GOVERNMENT SECURITIES

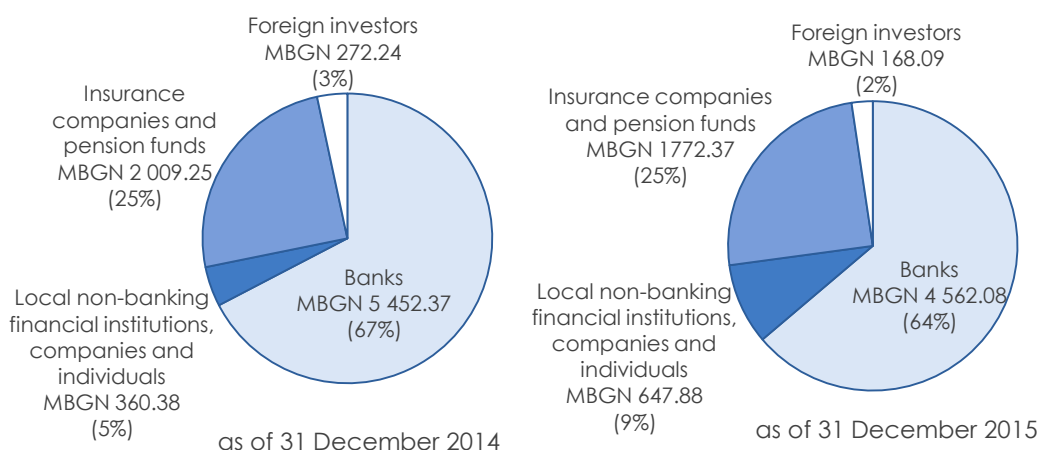
(MBGN)



Notes: 1. Transactions in GS denominated in foreign currency are given in BGN equivalent according to BNB exchange rate of the respective currency quoted on the day of transaction; 2. The volume of repo transaction do not include reverse repo transactions.

Source: BNB

### HOLDERS OF GOVERNMENT SECURITIES ISSUED TO FINANCE THE BUDGET DEFICIT



Notes: 1. Holders of frozen GS are included; 2. According to BNB data and the participants in ESROT; 3. The BGN equivalent of GS denominated in foreign currency is calculated on the bases of BNB exchange rate valid as of 31.12.2014.

Notes: 1. Holders of frozen GS are included; 2. According to BNB data and the participants in ESROT; 3. The BGN equivalent of GS denominated in foreign currency is calculated on the bases of BNB exchange rate valid as of 31.12.2014.

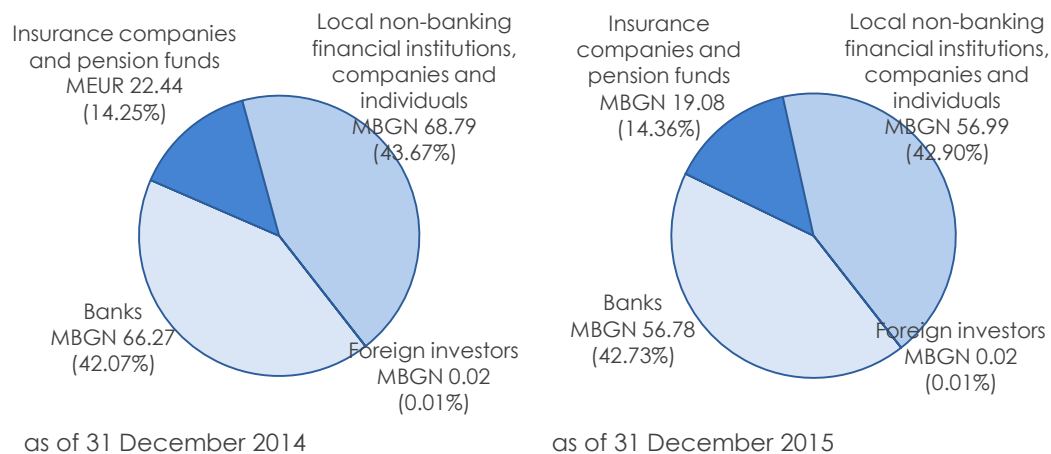
Source: BNB

<sup>9</sup> The settlement ratio stands for the percentage ratio of the number of transactions for which the settlement has been made at the respective date to the total number of transactions for the respective period, for which the registration and settlement were due to be made in the system.

As a result of the decrease of the total volume of GS in circulation compared to 2014, there was a decrease in the investments in government debt instruments issued for financing the budget deficit for almost all categories of holder, whereas the biggest share was held by the banks (63.8%), followed by insurance companies and pension funds (24.8%) and foreign investors (2.3%). Only for local non-banking financial institutions, companies and individuals these investments registered an increase to 9.1%, against 4.4% in 2014.

The exposures of GS issued in support of the structural reform for separate categories of investors decreased as compared to the preceding year as a result of the partial repayments of these exposures and the allocation by types of holders at the end of the year was, as follows: 42.73% in banks, 14.36% in insurance companies and pension funds, 42.90% in portfolios of local non-banking financial institutions, companies and individuals, and 0.01% in foreign investors.

#### HOLDERS OF GS DENOMINATED IN FOREIGN CURRENCIES ISSUED IN SUPPORT OF THE STRUCTURAL REFORM



Notes: 1. Holders of frozen GS are included; 2. The BGN equivalent was calculated on the basis of BNB exchange rate valid as of 31.12.2014; 3. According to BNB data and the participants in ESROT.

Notes: 1. Holders of frozen GS are included; 2. The BGN equivalent was calculated on the basis of BNB exchange rate valid as of 31.12.2015; 3. According to BNB data and the participants in ESROT.

Source: BNB

From institutional investors banks held the largest volume of government securities issued on the Bulgarian market, whereas as of 31 December 2015 it stood at MBGN 4 618.9 (63.4% of all local GS in circulation). There is a significant decrease in their share as compared to the end of 2014, when the GS held by them amounted to MBGN 5 518.6 (or 66.9% of local GS). As of 31 December 2015 the additional pension insurance funds, established in accordance with the provisions of the Social Insurance Code, held in their portfolios GS at the amount of MBGN 778.1, which is a decrease compared to the same period of the previous year (MBGN 1080.9). The general insurance and life insurance companies maintained stable levels of GS held, which were MBGN 745.13 as of 31 December 2015. GS held by other investors increased from MBGN 648.4 at the end of 2014 to MBGN 973.1 at

the end of 2015, and those from non-residents registered a drop from MBGN 272.3 at the end of 2014 to MBGN 168.1 at the end of 2015.

### HOLDERS OF BULGARIAN BONDS ISSUED ON THE DOMESTIC MARKET

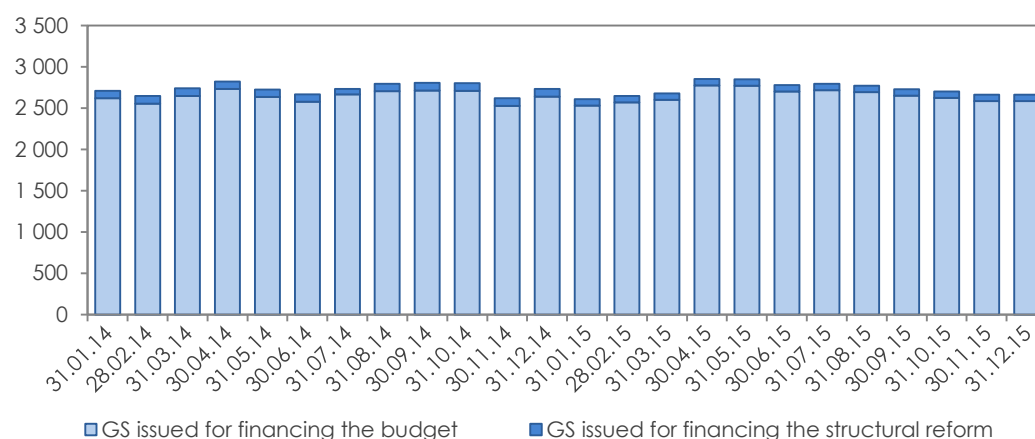
(MBGN)

	2014	2015			
	QA	Q1	Q2	Q3	Q4
Non-residents	272.3	237.97	171.46	170.82	168.1
Non-residents – banks	5518.6	5748.54	5756	4774.73	4618.9
Additional Pension Insurance Funds under SIC	1080.88	936.26	931.64	851.96	778.06
General insurance and life insurance companies under IC	731.54	708.18	665.96	678.42	745.13
Other investors	648.43	797.2	1010.4	1026.98	973.09

Source: FSC, BNB

### INVESTMENTS BY NON-BANKING FINANCIAL INSTITUTIONS, COMPANIES AND INDIVIDUALS IN GS ISSUED FOR FINANCING THE BUDGET DEFICIT AND IN SUPPORT OF THE STRUCTURAL REFORM

(MBGN)



Note: 1. The BGN Equivalent of GS denominated in foreign currency is calculated on the BNB exchange rate valid for the last day of the respective period.

Source: BNB

### HOLDERS OF BULGARIAN BONDS ISSUED IN ICM

As of 31 December 2015, five EUR-denominated issues were in circulation in the international capital markets – XS0802005289 with maturity on 9 July 2017 and coupon of 4.250%, XS1083844503 with maturity on 3 September 2024 and coupon 2.950%, XS1208855616 with maturity on 26 March 2022 and coupon of 2.000%, XS1208855889 with maturity on 26 March 2027 and coupon 2.625% and XS1208856341 with maturity on 26 March 2035 and coupon on 3.125%.

At the end of 2015, residents and non-residents held securities issued with maturity in 2017 in a relative ratio of approximately 47% to 53%, while at the end of 2014 36% were held by residents and 64% – by non-residents. At the end of 2015, the

residents held bonds from the issue at an amount of MEUR 446.75 which accounts for a significant increase compared to the same period of the previous year, when they held bonds at the amount of MEUR 341.68. Securities for MEUR 339.04 were held by residents of the “banks” sector, while the remaining sectors held securities for a total value of MEUR 107.71.

The issue with maturity in 2024 is held mainly by non-residents, similarly to the end of 2014, yet a sharp increase was registered during the past year in the share held by residents – from 15% to 41%. As of 31 December 2015, the residents held bonds at the amount of MEUR 617.74 (MEUR 223.59 as of 31 December 2014). Sector “banks” holds bonds for the amount of MEUR 418.86, while the other sectors – for a total of MEUR 198.88.

#### BULGARIAN EUROBONDS ISSUED ON THE INTERNATIONAL MARKETS, HELD BY RESIDENT-BANK INSTITUTIONS AND OTHER SECTORS

Types of SG	2014	2015			
	Q4	Q1	Q2	Q3	Q4
4.25% 2017 XS0802005289	341.68	346.29	402.62	436.86	446.75
Held by sector “Banks”	283.07	288.80	317.82	329.61	339.04
Held by the remaining sectors	58.61	57.48	84.80	107.25	107.71
2.95% 2024 XS1083844503	223.59	366.05	409.89	501.74	617.74
Held by sector “Banks”	154.05	221.10	242.06	305.49	418.86
Held by the remaining sectors	69.54	144.95	167.83	196.25	198.88
2% 2022 XS1208855616		566.66	635.64	738.52	799.52
Held by sector “Banks”		464.95	509.50	588.48	648.43
Held by the remaining sectors		101.71	126.15	150.04	151.09
2.625% 2027 XS1208855889		396.72	568.71	617.50	649.59
Held by sector “Banks “		260.82	358.19	370.16	379.90
Held by the remaining sectors		135.91	210.52	247.34	269.68
3.125% 2035 XS1208856341		194.49	223.20	243.96	247.83
Held by sector “Banks “		112.11	122.11	122.61	118.57
Held by the remaining sectors		82.38	101.09	121.35	129.26
<b>Total (MEUR)</b>	<b>565.27</b>	<b>1870.20</b>	<b>2240.05</b>	<b>2538.58</b>	<b>2761.42</b>

Source: BNB

Even bigger is the share of securities from the issue with maturity in 2022 held by residents. As of 31 December 2015, they held securities with nominal share of MEUR 799.52 which accounts for 64% of the total volume of the issue, against 36% for non-residents. The total nominal value of bonds held by the sector “Banks” amounts to MEUR 648.43, while those held by the remaining sectors account for MEUR 151.09.

The biggest share of securities held by residents at the end of 2015 goes to the bonds with maturity in 2027 – ca. 65% against 35% for non-residents. In nominal

terms, this accounts for a volume of MEUR 649.99 of which the “Banks” sector held MEUR 379.90 and the remaining sectors – MEUR 269.68.

The percent ratio of ICM issued bonds held by residents at the end of 2015 was lowest for bonds with maturity in 2035 – 28%, against 72% for non-resident. Of the total volume of securities held by residents at the amount of MEUR 247.83, the sector “banks” held bonds of the issue at the amount of MEUR 118.57 and the remaining sectors – at the amount of MEUR 129.26.

#### BULGARIAN EUROBONDS ISSUED ON INTERNATIONAL MARKETS, HELD BY RESIDENTS-PENSION FUNDS, PENSION INSURANCE, INSURANCE AND HEALTH INSURANCE COMPANIES

Types of GS	2014	2015			
	Q4	Q1	Q2	Q3	Q4
4.25% 2017 XS0802005289	86 013	90 492	77 703	75 585	88 006
Pension funds under SIC	1 325	1 344	1 342	1 304	1 312
Insurance companies under IC	84 688	89 148	76 362	74 281	86 694
2.95% 2024XS1083844503	140 477	297 256	317 759	369 582	399 249
Pension funds under SIC	105 602	220 090	248 043	288 717	306 642
Insurance companies under IC	34 875	77 166	69 716	80 865	92 607
2% 2022XS1208855616		189 449	209 373	257 965	282 053
Pension funds under SIC		171 362	190 583	234 148	251 816
Insurance companies under IC		18 087	18 791	23 817	30 237
2.625% 2027XS1208855889		265 080	368 306	443 878	498 383
Pension funds under SIC		257 569	305 597	374 048	415 946
Insurance companies under IC		7 511	62 710	69 830	82 437
3.125% 2035XS1208856341		146 778	150 508	194 990	203 720
Pension funds under SIC		94 475	81 169	112 031	114 840
Insurance companies under IC		52 303	69 340	82 959	88 880
<b>Total (BGN'000)</b>	<b>226 491</b>	<b>989 054</b>	<b>1 123 650</b>	<b>1 342 000</b>	<b>1 471 410</b>

Source: FSC

At the end of 2015, the Bulgarian Eurobonds held by local pension funds, pension insurance companies, insurance and health insurance companies, amounted to MBGN 1 471.41 with a prevalence of the pension funds by 74% of this volume, against 26% of those held by the insurance companies.

The biggest share of securities held by these institutional clients at the end of 2015 goes to the bonds with maturity n 2027 – ca. 25% of the total volume of the issue. At the end of the last year, the pension and insurance companies hold each ca. 12% of the Eurobonds with maturity in 2022 and 2035. The securities held by them from the issue with maturity in 2017 did not change considerably their volume at the end of 2015 as compared to the end of 2014 – ca. 5% share of the total volume of the bonds. The held Eurobonds from the issue with maturity in 2024 registered a significant increase – from MBGN 140.48 at the end of 2014 to MBGN

399.25 in 2015, which in percentage ratio to the total volume of the issue accounts for an increase from 5% in 2014 to 14% in 2015.

## FINANCING FROM INTERNATIONAL FINANCIAL INSTITUTIONS AND THE INTERNATIONAL CAPITAL MARKETS

The financing from international financial institutions (IFIs) and international capital markets (ICM) received in 2015 amounted to MBGN 6 437.5, of which MBGN 6 066.8 as bonds issued in ICM, MBGN 293.4 as disbursed funds under the Loan Agreement for Structured Programming Loan (Bulgaria – Co-financing of the EU Funds for 2014–2020) between the Republic of Bulgaria and EIB and MBGN 77.3 from disbursements under effective government investment loans.

The disbursements under government investment loans in 2015 intended for the financing of already launched investment projects and special programmes amounted to MBGN 77.3. The biggest share goes to those of EIB under the project related to the rehabilitation of road infrastructure (“Transit Roads V”) at the amount of MBGN 70.4, followed by MBGN 6.8 and a loan from Kreditanstalt für Wiederaufbau (KfW), where the borrower was or MRDPW under the project “Technical Infrastructure 2010-2013 – KfW” – MBGN 0.1.

### NEW EXTERNAL FINANCING IN 2015

(MBGN)

Structure	Loans received (trances)
External government debt	6 437.5
I. Bonds	6 066.8
1. Eurobonds issued in ICM with maturity 2022	2 416.6
2. Eurobonds issued in ICM with maturity 2027	1 934.7
3. Eurobonds issued in ICM with maturity 2035	1 715.5
II. Loans	370.7
1. EIB	293.4
2. Government investment loans	77.3
2.1 IBRD /World Bank/	6.8
2.2 EIB	70.4
2.3 Others	0.1

Note: 1. The BGN equivalents of new external financing are based on the BNB central rate or the respective foreign currency to the Bulgarian Lev valid until 4 p.m. on the date of the respective payment.

Source: MF▼

# GOVERNMENT GUARANTEED DEBT

The government guaranteed debt at the end of 2015 registered a drop by MBGN 64.7 against its level of December 2014, thus reaching MBGN 586.4, of which MBGN 58.0 domestic and MBGN 528.4 external government guaranteed debt. The registered drop was due to the repayments on external government guaranteed debt during the year.

The "government guaranteed debt to GDP" ratio was 0.7% against a value of 0.9% at the end of 2014.

## GOVERNMENT GUARANTEED DEBT

(MBGN)

	2010	2011	2012	2013	2014	2015
<b>Government guaranteed debt</b>	<b>1 246.1</b>	<b>1 197.0</b>	<b>1 008.8</b>	<b>772.3</b>	<b>651.2</b>	<b>586.4</b>
I. Domestic government guaranteed debt	2.8	11.7	22.9	32.6	44.1	58.0
1. Guarantees under the Student and Doctoral Candidate Loans Act	2.8	11.7	22.9	32.6	44.1	58.0
II. External government guaranteed debt	1 243.3	1 185.3	985.9	739.7	607.1	528.4
1. IBRD /World Bank/	101.7	87.0	70.1	52.1	35.6	23.8
2. EIB	5.7	4.5	3.7	3.6	1.6	2.0
3. EBRD	46.5	36.8	27.0	17.3	7.5	1.8
4. Others	1 089.4	1 057.0	885.1	666.7	562.4	500.9
<b>Government guaranteed debt/GDP (%)</b>	<b>1.7</b>	<b>1.6</b>	<b>1.4</b>	<b>1.0</b>	<b>0.9</b>	<b>0.7</b>

Notes: 1. The debt amount is as per nominal value ; 2. The recalculation of debt in BGN is as per BNB central exchange rate for the relevant currencies as at the end of the period.

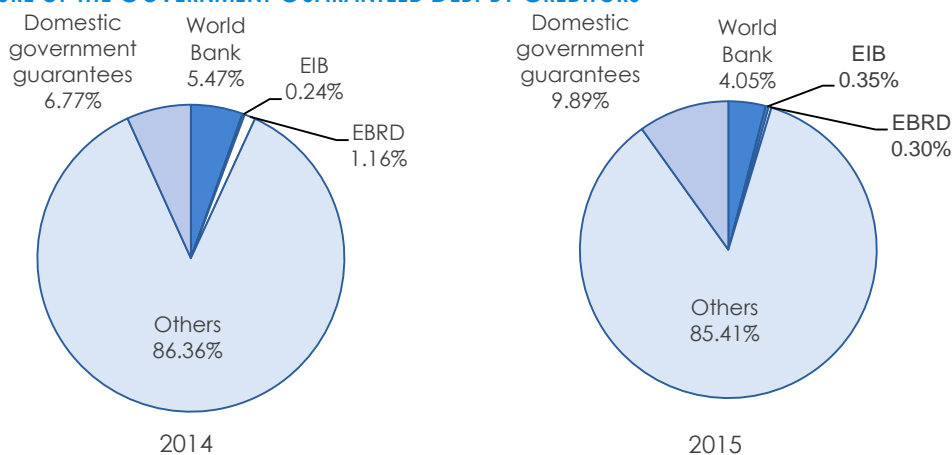
Source: MF



No substantial differences were observed in the structure of government guaranteed debt by creditors compared to the end of 2014. The Others" group (international financial institutions, including Euratom, CEDB, JBIC, etc.) retained its dominant share, which increased by 0.1p.p, reaching 86.4% at the end of 2014. The relative share of government guaranteed debt to the World Bank, the EBRD and EIB decreased reaching respectively 4.1%, 0.3% and 0.4% (against 5.5%, 1.2% and 0.2% at the end of 2014).

The share of domestic government guarantees issued by virtue of the Student and Doctoral Candidate Loans Act under the Programme for Provision of Loans to Students went up to 9.9% of the total amount of government guaranteed debt (against 6.8% at the end of 2014).

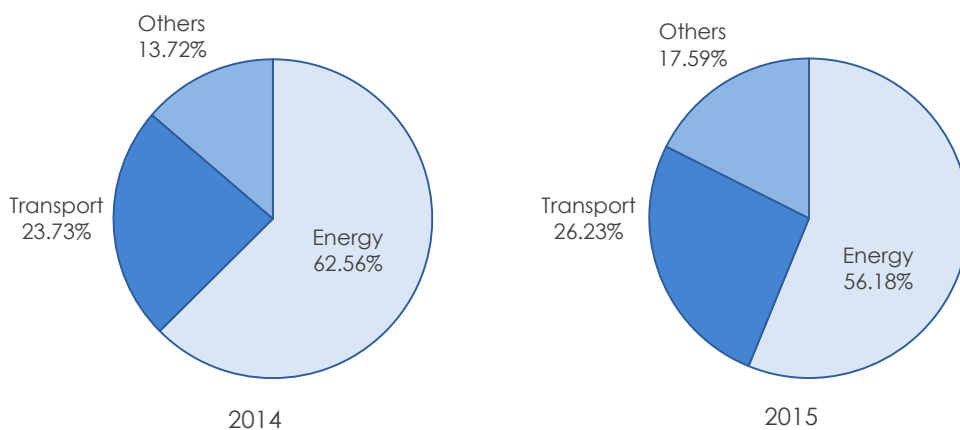
**STRUCTURE OF THE GOVERNMENT GUARANTEED DEBT BY CREDITORS**



Source: MF

Within the structure of government guaranteed debt by sectors as of 31 December 2015 the largest relative share belonged to the energy sector – 56.2%, followed by transport – 26.2% and others – 17.6%.

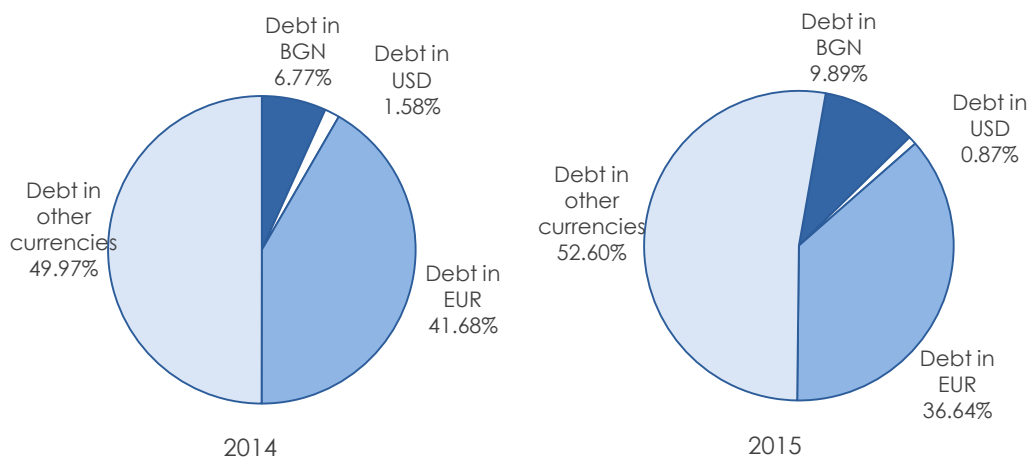
**STRUCTURE OF THE GOVERNMENT DEBT BY SECTORS**



Source: MF

Dominant position in the currency structure of the government guaranteed debt at the end of 2015 was held by debt denominated in other currencies – 52.6%. Debt denominated in EUR and USD registered a drop as compared to 2014 and reached 36.6% and 0.9%, respectively, at the expense of debt denominated in BGN, which went up to 9.9%.

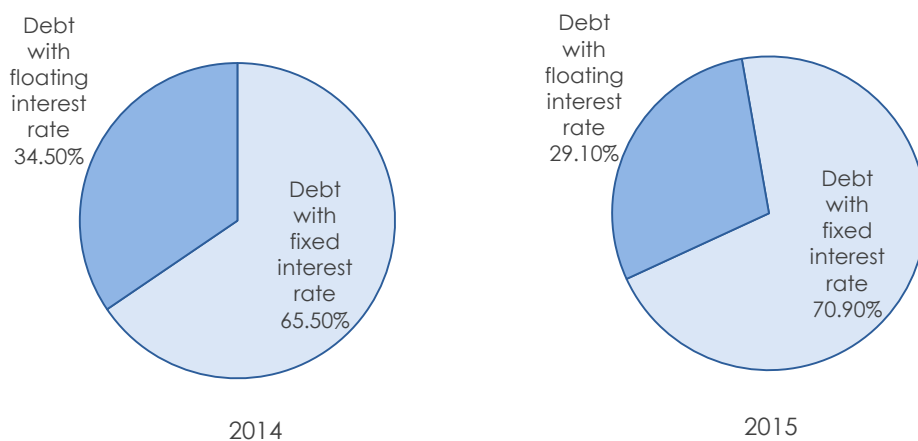
**CURRENCY STRUCTURE OF GOVERNMENT GUARANTEED DEBT**



Source: MF

The fixed interest rate debt retained its dominant share in the interest rate structure of the government guaranteed debt at the end of 2015. At the end of the year it amounted to 70.9%, and the share of debt at floating interest was 29.1%.

**INTEREST RATE STRUCTURE OF GOVERNMENT GUARANTEED DEBT**



Source: MF

The new financing under government guaranteed debt in 2015 amounted to MBGN 16.6 and the payments made during the period under review amounted to MBGN 130.1, of which MBGN 117.4 for repayment of principal and MBGN 12.7 for interest payments. No new government guarantees were issued under external loan agreements during the period under review.

## NEW FINANCING AND PAYMENTS MADE UNDER THE GOVERNMENT GUARANTEED DEBT AS AT THE END OF 2015

(MBGN)

Structure	Received loans (tranches)	Payments made, incl.	
		Repayments (principal)	Interest
<b>I. Domestic government guaranteed debt</b>	<b>16.2</b>	<b>4.9</b>	<b>0.9</b>
1. Guarantees under Student and Doctoral Candidate Loans Act	16.2	4.9	0.9
<b>II. External government guaranteed debt</b>	<b>0.4</b>	<b>112.5</b>	<b>11.8</b>
1. World Bank	-	12.3	0.1
2. EIB	0.4	-	-
3. EBRD	-	5.8	0.1
4. Others	-	94.4	11.6
<b>Government guaranteed debt</b>	<b>16.6</b>	<b>117.4</b>	<b>12.7</b>

Notes: 1. The BGN equivalent of received new external financing and of incurred payments is calculated according to BNB central exchange rate for the respective currencies to BGN, valid till 4 p.m. on the day of the respective payment

Source: MF

In 2015 as well, as a result of the deteriorated financial position of BDZ Holding EAD and the inability of the company to service its liabilities under the government guaranteed loans from IBRD /the World Bank/ the repaid principal amounted to MBGN 0.4 from the funds envisaged in the central budget for covering the risk of government guarantees being called.

The remaining government guaranteed loans were regularly serviced in the course of the year, in compliance with their repayment schedules and terms. ▼

# CURRENT CHANGES AND UPGRADING OF THE MARKET INFRASTRUCTURE SERVICING THE DOMESTIC GOVERNMENT SECURITIES MARKET

The market of GS in Bulgaria cannot be analyzed in isolation and independently from the common EU framework regulating markets in financial instruments. The regulations and directives adopted in 2014 aimed at improving the transparency and security of trade in financial instruments continued to influence the market of GS throughout 2015 as well:

- Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013<sup>10</sup> and Directive 2013/36/EC of the European Parliament and of the Council of 26 June 2013<sup>11</sup> (so-called *CRR/CRD IV package*), effective since the beginning of 2014. One of the main objectives of the package of acts is to overcome the regulatory shortcomings in the area of liquidity risk management at both the level of EU market and the level of domestic markets of the EU Member States. Currently, the provisions of the two acts define by presumption sovereign debt instruments as highly liquid assets. The liquidity of a given position can be determined by means of a wide range of criteria based on past experience, market structure and product quality or complexity. In connection with it, Commission Delegated Regulation (EU) 2015/61 contains provisions according to which for a certain asset to be defined as highly liquid, including as regards sovereign debt instruments, it needs to be ad-

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<sup>10</sup> Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012 on capital requirements for banks and investment firms.

<sup>11</sup> Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EE and repealing Directives 2006/48/EC and 2006/49/EC.

mitted to trading on a recognized exchange. An asset that has been admitted for trading on an organized venue, which is not a recognized exchange shall be deemed liquid only when the trading venue meets cumulatively additional requirements;

- Pursuant to the Guideline of the European Central Bank of 19 December 2014 on monetary policy instruments and procedures of the Eurosystem, in order to be classified as eligible collateral, a debt instrument needs to be admitted to trading on a regulated market or to be traded on certain acceptable non-regulated markets as defined by the European Central Bank;
- Pursuant to Regulation (EU) No. 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No. 648/2012 (*MiFIR*), the provisions of Part II, Chapter 2 "Transparency for non-equity instruments" impose a pre-trade and post-trade transparency requirement for transactions in non-equity instruments traded in trading venues. These provisions should be applied as from 3 January 2018.

The introduction of regulatory requirements related to increasing pre-trade and post-trade transparency for financial instruments traded in a regulated market or on another trading venue, including as a precondition for their treatment as highly liquid assets according to the provisions of *CRR/CRD IV*, in order to preserve investor's interest in Bulgarian sovereign debt instruments, requires an overall change of GS secondary market in view of its transition from an entirely OTC market to a trading venue market.

The introduction of a GS trading venue in Bulgaria will also bring additional positive economic effects such as encouraging transparency and facilitating the access of a wider range of investors to trade in Bulgarian GS issued on the domestic market by means of forming an accessible market with more attractive and equitable prices.

In this regard, following an analysis of the various alternatives for the choice of a trading venue (in close cooperation with the main participants in the market), practical steps have been taken to allow secondary trade in GS on multilateral trading facilities and a regulated market. The process of preparation of functional changes aiming to ensure the technological connection of post-trading infrastructure with the trading venue is yet to be finalised.

Further steps have been taken within the frames of the project for development and modernisation of the secondary market in GS in Bulgaria to make changes in the legal framework so as to allow trading in GS at a trading venue. ▲