GOVERNMENT DEBT MANAGEMENT STRATEGY

2017–2019

Sofia, October 2016

CONTENT

Government debt management refers to the overall process coordinated by the development and implementation of a government debt management strategy outlining the approach adopted in pursuing specified targets in terms of securing any necessary debt financing in cases admissible under Art. 5 of the Government Debt Act, while taking into account the influence and constraining effects of external and domestic macroeconomic environment and potential risks. Its scope covers all activities related to assuming government debt by issuing government securities, on the domestic and international capital markets, including those accompanying the process of issuing securities – the selection and appointment of manager banks and legal advisers, the actions related to debt servicing and reporting, as well as those related to carrying out various financial transactions and operations aiming at reducing the risks associated with the government debt structure, and optimization of government debt servicing.

The Government Debt Management Strategy for the period 2017-2019 has been developed by the Minister of Finance by virtue of Art. 16 of the Government Debt Act and Art. 77a of the Public Finances Act, for the period of the relevant medium-term budget forecast. The Strategy is focused on the government debt – both domestic and external, assumed by virtue of the Government Debt Act.

This document has been developed on the basis of the 2016 State Budget of the Republic of Bulgaria Act, where the fiscal goals, policies, forecasts and assumptions for the next three years (2017-2019) have been also taken into account, as these lie at the basis of the development of the Updated Medium-Term Budget Forecast for the period 2017-2019 and the draft 2017 State Budget of the Republic of Bulgaria Act.■

1. Status of the Government Debt and the Government Guaranteed Debt – Size and Structure

The government debt management policy in 2015-2016 is entirely consistent with the major priorities of the government, the medium-term economic prospects, as well as the measures for achieving the defined strategic goals of debt management. Considering the current size, structure and parameters of debt, as well as the estimates of the levels and rates of their change, implementation of a flexible policy continued towards assumption of new debt in compliance with the debt management objectives planned and the set of instruments designed for their implementation. The main goal of debt management aiming to ensure debt financing of the state budget, refinancing of debt outstanding and ensuring stability of the fiscal reserve at an optimal price and level of risk has been achieved as a result of the debt operations accomplished, while keeping a low-risk debt structure. The necessary debt financing has been duly secured at the most favourable conditions possible, by implementing the goal of diversification of the investor basis.

Table. 1: Key indicators of government debt

	31.12.2014	31.12.2015	30.09.2016	31.12.2016
Indicators	report	report	report	estimate
Total government debt, BGN million	22 102.3	22 714.1	25 873.3	25 811.3
GDP*, BGN million (annual data)	83 612.0	86 373.0	88 874.0	88 874.0
Total government debt /GDP, (%)	26.4%	26.3%	29.1%	29.0%
Domestic government debt, BGN million	8 251.8	7 283.3	6 722.1	6 741.5
External government debt, BGN million	13 850.6	15 430.8	19 151.1	19 069.7
Domestic government debt / Total government debt (%)	37.3%	32.1%	26.0%	26.1%
External government debt /Total government debt (%)	62.7%	67.9%	74.0%	73.9%
Interest rate structure of the government debt				
Fixed rate debt, BGN million	20 418.1	21 194.7	24 510.5	24 508.9
Floating rate debt, BGN million	1 684.2	1 519.4	1 362.8	1 302.4
Fixed rate debt (%)	92.4%	93.3%	94.7%	95.0%
Floating rate debt (%)	7.6%	6.7%	5.3%	5.0%
Currency structure of the government debt				
Debt in EUR, BGN million	15 494.9	17 245.9	20 526.8	20 431.8
Debt in BGN, BGN million	4 607.7	5 231.1	5 121.8	5 141.4

Indicators	31.12.2014 report	31.12.2015 report	30.09.2016 report	31.12.2016 estimate
Debt in USD, BGN million	1 852.3	91.0	64.4	64.3
Debt in other currencies, BGN million	147.4	146.0	160.2	173.9
Debt in EUR (%)	70.1%	75.9%	79.3%	79.2%
Debt in BGN (%)	20.8%	23.0%	19.8%	19.9%
Debt in USD (%)	8.4%	0.4%	0.2%	0.2%
Debt in other currencies (%)	0.7%	0.6%	0.6%	0.7%
Maturity structure of the government debt (by residual term)				
Debt of up to and including 1 year BGN million	6 695.7	1 031.1	2 622.0	2 647.7
Debt of more than 1 up to and including 5 years, BGN million	5 830.6	6 237.7	4 380.3	4 333.2
Debt of more than 5 up to and including 10 years, BGN million	6 501.1	8 993.3	10 905.7	10 842.5
Debt over and including 10 years, BGN million	3 074.9	6 452.1	7 965.2	7 987.8
Debt of up to and including 1 year (%)	30.3%	4.5%	10.1%	10.3%
Debt of more than 1 up to and including 5 years (%)	26.4%	27.5%	16.9%	16.8%
Debt of more than 5 up to and including 10 years (%)	29.4%	39.6%	42.2%	42.0%
Debt over and including 10 years (%)	13.9%	28.4%	30.8%	30.9%
Average residual maturity of the government debt (years)	5 y 7 m 5 d	8 y 3 m 28 d	8 y 1 m 1 d	7 y 10 m 5 d

*The GDP data up to 2015 precede the audits of GDP of 11.10.2016, while 2016 data are compliant with the autumn macroeconomic forecast of MoF of 06.10.2016.

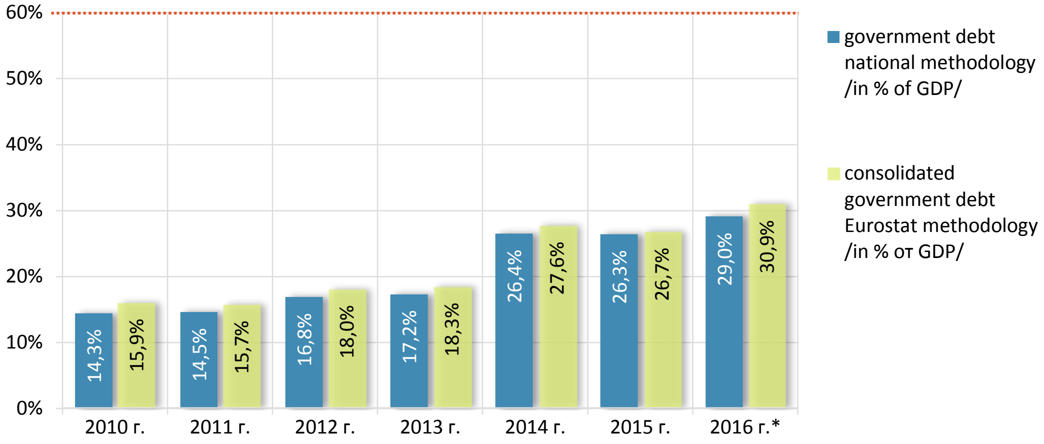
Source: MoF

The reported changes in the amount of the government debt and its average ratio in GDP in 2015 and 2016 are the result mainly of the debt transactions carried out for the repayment of the global bonds in USD in January 2015, the repayment in March 2015 of the bridge loan to HSBC Bank Plc, SOCIÉTÉ GÉNÉRALE, CITIBANK, N.A., LONDON BRANCH and UNICREDIT BULBANK AD, as well as the issuing of government securities on the domestic market and of Eurobonds on the international capital markets (March 2015 and March 2016) within the framework of the established Global Medium Term Note Programme for Issuing Debt on the International Capital Markets.

At the end of 2016, the amount of debt is expected to reach around BGN 25,8 billion or significantly below the debt ceilings for the maximum amount of the year-end government debt (BGN 26,6 billion) set forth in the 2016 State Budget of the Republic of Bulgaria Act.

1.1 Debt dynamics

Chart 1: Debt dynamics



* The data are estimates (based on MoF forecast).

Source: MoF

In the structure of the government debt as of 31.12.2014, the average ratio of domestic government debt stands at 37,3%, while the share of external government debt is 62,7%. Following the execution of the transactions for the placement of Eurobond issues on the international capital markets within the framework of the Global Medium Term Note Programme (GMTN) of March 2015 and March 2016, the share of domestic debt as of 30.09.2016 dropped to 26,0%, for the account of the external debt, which marked an increase and reached a share of 74,0%.

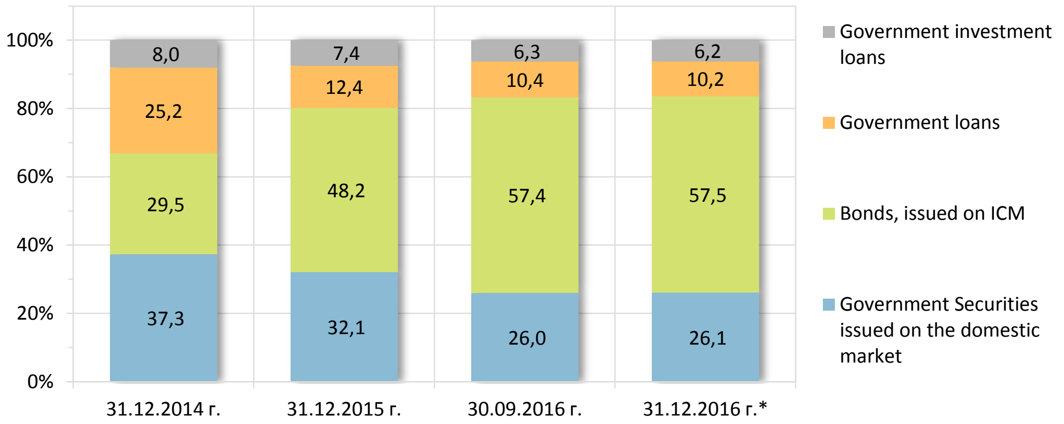
The predominant share of risk-neutral currencies (BGN and EUR) and the fixed interest rate in the currency and interest rate structure of government debt ensure good predictability of the necessary funds for servicing the debt and neutralize the negative influence of market risks. In the end of 2014, 9,1% of the government debt was denominated in currencies other than BGN and EUR, while the biggest share was held by the debt in USD – 8,4%. After the maturing of the USD global bonds in January 2015, the influence of currency risk was practically eliminated, as the share of debt in currencies other than BGN and EUR dropped considerably to levels of approximately 1,0%.

In the end of 2014, the share of floating interest rate debt stood at 7,6%, while the fixed interest rate debt reached 92,4%. Following the completion of the transactions for issuance of new Eurobonds on ICM, the maturity of global bonds and the bridge to bond loan repayment in the currency and interest rate structure of the government debt in the end of 2015, the well established during the last years trend was preserved for increasing the debt in BGN and EUR and debt with fixed interest rate. In the end of 2016 their average weights in the total amount of government debt is expected to stand at 99,1% and 95,0%, respectively.

Some of the more significant changes in debt maturity structure (by residual maturity) for the period 2015-2016 include the considerable reduction of the up to 1 year maturity segment (30,3% as of 31.12.2014), which reached a level of 4,5% in the end of 2015 after the repayment of the USD global bonds and the short-term bridge to bond loan in January 2015 .

The opposite is the trend set for the debt with a residual maturity of 1 to 5 and 5 to 10 years, whose shares are expected to increase in the end of 2016 to 16,8% and 42,0% as a result of the placement in March 2015 and 2016 of the government securities at ICM.

Chart 2: Structure of government debt by instruments



* The data are estimates (based on MoF forecast)

Source: MoF

The debt transactions performed in 2015 are expected to result in a level of the government debt residual maturity of 7 years 10 months and 5 days in the end of 31.12.2016.

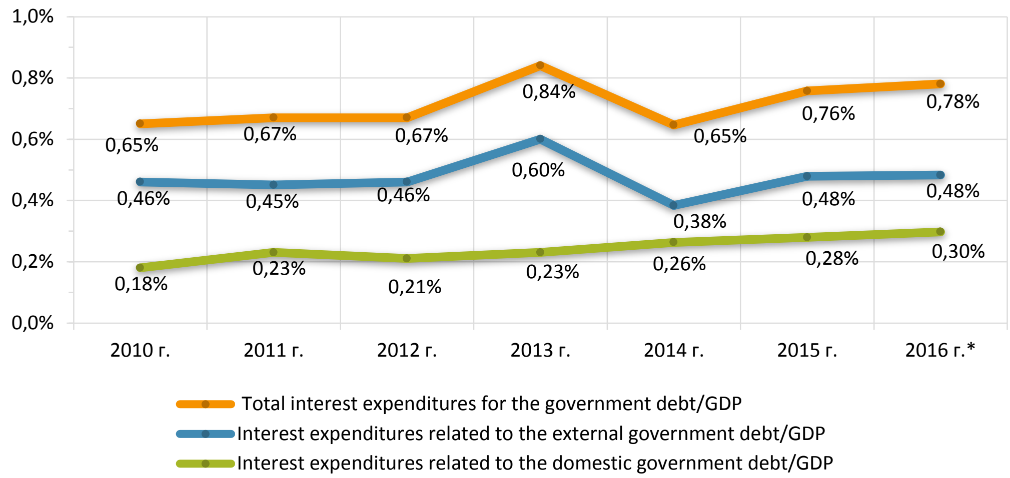
The borrowing policy during the past years has been focused mainly towards market-oriented financing via issues of government securities on the domestic market and bonds - on international markets, which has considerably increased the share of securitized debt.

1.2 Dynamics of interest expenditure on government debt

Over the past years, the interest expenditure to GDP ratio has been preserved at a level of less than 1%. The reported low levels of this indicator during the period under review are attributed mainly to the significant amount of debt with fixed interest rate in the debt portfolio at historically low interest rate, which would allow, on the one hand, funding under favourable conditions, and on the other hand – security and predictability of the budget from the point of view of servicing the debt outstanding.

The total amount of interest paid for the government debt in 2015 amounted to BGN 654,0 million or 0,76% as a share of GDP, compared to 0,65% in 2014. It is estimated that about BGN 693,2 million (0,78% of GDP) will be paid by the end of 2016. The most significant share is held by the interest payments on bonds issued on the ICM - 46,2% of the total amount of interest payments in 2016 (44,4% in 2015). The amount of interest payments on domestic debt in 2016 accounts for 38,1% (36,8% in 2015), while the loans from International Financial Institutions (IFI) (government loans and government investment loans) account for 15,6% in 2016 respectively (18,8% in 2015).

Chart 3: Interest expenditure



* The data are estimates (based on MoF forecast).

Source: MoF

1.3 Debt financing in 2015 and 2016

Ensuring effective recruitment of financial resources from debt sources has been fully dependent on the government debt financing needs, debt refinancing and the current market situation using the most favourable structuring of potential debt instruments. The advantages of the market-oriented financing have been put to use by expanding the potential markets and the portfolio of instruments, including via the GMTN programme. Despite the episodic volatility and uncertainty on the markets of government bonds resulting mainly from factors external to the country, the positive trends on the market of the Bulgarian debt, among which the high liquidity on the domestic market, the reduction of the return on placed securities, the demand exceeding the supply of issues of government securities by a comparatively wide range of mainly domestic investors with various preferences and risk profile, characterized in general the placement of the projected issues of government securities.

The priority was establishment of a liquid benchmark curve both on the domestic market of government debt, as well as on the external markets.. The Ministry of Finance has continued to provide a wide range of investment opportunities to the market participants and securities, denominated in BGN, have been placed along the entire benchmark curve.

During the period 2015–2016, the government securities issues have remained the dominant source of debt financing (with a share of 95,2% in 2015 and 98,8% in 2016), the majority of which have been placed on the ICM. The remaining part of the financing comes from disbursements under external loan agreements.

The government securities issued on the domestic market in 2015 stood at a total of BGN 1 311,5 million. Short-term issues stood at a nominal amount of BGN 200,0 million, medium-term government securities of BGN 826,5 million and long-term ones at a total amount of BGN 285,0 million. A total of 18 auctions took place during the year (1 of them was cancelled) and the have been placed the issues with a maturity of 6 months, 3 years, 5 years, 10 years and 10 years and 6 months. The total nominal amount of the government securities issued during the reported period is allocated, as follows: government securities with maturity of 6 months – BGN 200,0 million, with maturity of 3 years – BGN 426,5 million, with maturity of 5 years – BGN 400,0 million, with maturity of 10 years – BGN 235,0 million and with maturity of 10 years and 6 months – BGN 50,0 million.

The issuance on the domestic market during the first half of 2016 has been limited compared to the preceding years due to a combination of factors, including the good indicators of budget implementation, the advance onto the international markets in March 2016, as well as the complicated macroeconomic and political situation in Europe. On the domestic market have been organized 3 auctions for placement of government securities. The 3 and 10,5-year government securities on offer were consistent with the concentration of payments in the next years, as well as with the need to determine a reference issue for the calculation of a long-term interest rate to assess the level of convergence. In the period 01.01-30.09.2016, the government securities issued on the domestic market amounted to BGN 500,0 million. The total nominal amount of the government securities issued during the period is allocated, as follows: government securities with maturity of 3 years - BGN 200,0 million and with maturity of 10 years and 6 months – BGN 300,0 million.

The issue with maturity 10 years and 6 months, which is a reference issue for determining the long-term interest rate for assessing the level of convergence, has preserved its particular importance. The value of the long-term interest rate has dropped from 2,44% in January 2016 to 2,28% in August 2016, which is the lowest level of the indicator since the start of its measuring in 2003.

Two successful transactions for placement of external debt on the ICM took place under GMTN programme in 2015 and 2016. The first one, with triple-tranche bonds took place in March 2015 and included 7-year, 12-year and 20-year bonds for a total amount of EUR 3,1 billion. The second transaction, which took place in March 2016 included a double tranche of 7-year and 12-year bonds to a total amount of EUR 1,994 billion. These transactions have contributed to the expansion of the investor basis and to complimenting the Euro benchmark curve of the state, which acts as an objective internationally tradable evaluation standard of the country.

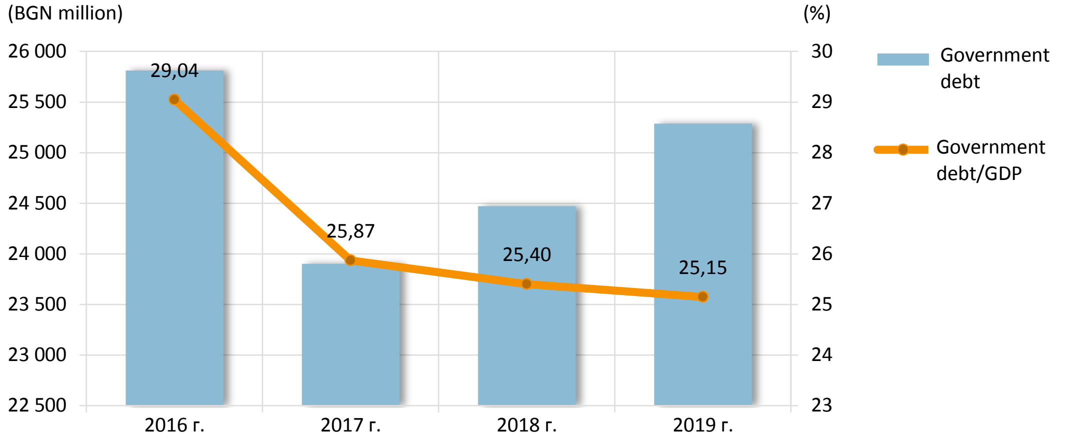
The extremely high interest in the executed transaction is indicative of the trust of investors in the Republic of Bulgaria as an issuer of government debt. The financial resource generated as a result of the placed securities aimed not only to cover the forthcoming debt payments, resp. budget financing, but also to maintain the liquidity position of the government.

The financing received in 2015-2016 from international financial institutions (IFI) amounts to BGN 401,8 million, of which BGN 293,4 million are the funds disbursed under the Financial Agreement between the Republic of Bulgaria and EIB for financing the Bulgaria EU Funds Co-financing 2014-2020 (SPL) project and BGN 108,4 million under government investment loans (GIL) aimed to fund investment projects.

1.4 Government debt estimates for 2017–2019

Based on the assumptions and the forecasted net debt financing of the state budget for 2017-2019, the amount of government debt is expected to increase in absolute terms, yet it is expected to drop by about 25% in relation to the estimated GDP by the end of the period. The nominal increase of the debt is expected to be compensated by the estimated higher growth of GDP and as a result the debt/GDP ratio is expected to fall from 25,9% in the end of 2017 to 25,1% in 2019.

Chart 4: Estimates of the size of government debt in 2017–2019*



* The data are estimates (based on MoF forecast).

Source: MoF

1.5 Government guaranteed debt

The strongly restrictive approach applied over the past years to assuming new government guaranteed debt has resulted in the respective positive adjustments of its amount. In the end of 2015, the nominal amount of the government guaranteed debt dropped by BGN 67,6 million compared to the level registered in the end of 2014, reaching BGN 586,4 million. The reduction is due mainly to the regular repayments made under government guaranteed loans already signed. As a percent of GDP the government guaranteed debt preserved low levels below 1% in 2014 and 2015.

At the end of September 2016 in compliance with the provisions of the 2016 State Budget of the Republic of Bulgaria Act (SBRBA), government guarantees have been issued under external loan agreements of the Bulgarian Deposit Insurance Fund (BDIF) with EBRD and IBRD (Enhanced deposit guarantee project) to the amount of EUR 300 million each as well as in favour of Bulgarian Development Bank (BDB) for a loan from the Council of Europe Development Bank (CEDB) to the amount of EUR 150 million for partial financing of the National Programme for Energy Efficiency in Public Buildings. The government guaranteed debt is expected to increase significantly at the start of the drawdowns under these projects.

The main part of the government guarantees comprises of external loans granted by official creditors to big enterprises mainly in the transport and energy sector. Domestic GGD is comprised of government guarantees issued by virtue of the Loans for Graduate and Postgraduate Students Act (LGPSA), which as of 30.09.2016 holds a share of about 11,0% in the total amount of GGD.

Table 2: Size and dynamics of the government guaranteed debt

Government guaranteed debt, BGN mln	31.12.2014 report	31.12.2015 report	30.09.2016 report	31.12.2016 estimate
Domestic GGD	46.9	58.0	61.7	70.0
1.Guarantees under the Loans for Graduate and Postgraduate Students Act	46.9	58.0	61.7	70.0
External GGD	607.1	528.4	479.1	1 911.3
1.IBRD /World Bank/	35.6	23.8	21.0	566.0
2.EIB	1.6	2.0	2.4	3.6
3.EBRD	7.5	1.8	2.9	586.7
4.Other (EURATOM, JBIC, CEDB, etc.)	562.4	500.9	452.8	754.9
Total amount of GGD	**654.0**	**586.4**	**540.8**	**1981.3**
GGD/GDP (%)	**0.8%**	**0.7%**	**0.6%**	**2.2%**

Source: MoF

On 15.06.2015, the government guarantee issued under the loan agreement signed between Holding BDZ and IBRD (latest payment on 15.06.2015) was partially called and the funds amounting to BGN 0,4 million were paid from the reserve covering the risk of activation of the issued government guarantees. In 2016, the government guaranteed loans have been serviced in compliance with the deadlines and amortization schemes set forth in the loan agreements. No other government guarantees have been activated and the funds in the state budget set aside as reserve to cover this risk have not been used. ■

2. Economic prospects for the period 2017–2019

2.1 Development of the national economy in 2016

During the first half of 2016, the growth of gross domestic product in the country kept its pace from 2015 and reached 3%. In terms of components, while in the first half of 2015, net exports were leading for the reported growth, over the first half of 2016, major contribution came from domestic demand.

The Bulgarian economy is expected to reach real growth of 2,6% in 2016 with domestic demand (consumption and investments) being the major driver of the projected increase. Private consumption is expected to preserve its favourable dynamics as reported in the first half of 2016, by the end of the year, while the drop in public expenditure is expected to slow down considerably. As a result, final consumption will increase by 1,5% compared to growth of 0,7% in 2015. Investment in fixed capital will report a slight increase, due to the drop in the public capital expenditure, as a result of the transition to the new 2014-2020 financial framework for financing the projects under the programmes financed from EU funds. The external sector will have positive contribution to GDP growth close to the one reported over the six months of the year (0,6 p.p.). Export of goods and services is expected to increase by 4,4%, and import – by 3,5%.

2.2 Economic development estimates for 2017–2019

In 2017, the growth of GDP will slightly slow down to 2,5%. The expected weaker external demand will result in lower exports growth of 3,9%. The increase in Imports will accelerate to 3.8% supported by both consumption and investments. As a result, the contribution of net exports to GDP growth will reduce to 0,2 p.p. Investments in fixed capital will pick up to 1,1% following the end of the negative tendency affecting public capital expenditure and the continuation of the positive development of private investments.

GDP growth is expected to reach 2,7% over the period 2018–2019. Domestic demand, both consumption and investment, will be leading for the expected increase. Higher growth of domestic demand will lead to stronger import growth, thus the contribution of the net exports will further decrease and will reach zero at the end of the forecasting period.

The expected deterioration of the external environment in 2017 will be the main factor for the slowdown in the growth of the number of the employed to 0.6%. The unemployment rate is expected to go down to 7,3%. The slower decline in the labour force, due to the measure for increasing retirement age, is expected to keep the decrease in the unemployment rate subdued. In the medium term, the unemployment rate is expected to go down to 6,5% in 2019, while the growth of employment is expected to reach 0,6% in 2018 and 2019, supported by domestic economic activity and the stronger positive influence of the external environment. In the medium term, the nominal growth of compensation per is expected to stay relatively strong (5,4-6,0%), backed by the real productivity upward trends, positive inflation rate and labour demand in the country.

A positive average annual inflation rate of 1,5% is expected in 2017, which will further accelerate in the period 2018–2019, under the assumption for higher international prices of crude oil and other major commodities together with an increase in domestic demand.

In 2017, the nominal growth of import is expected to exceed that of import reflecting not only the faster acceleration in real import of goods, but also the higher increase in import prices compared to those of export thus forming negative terms of trade. The current account surplus is expected to edge down to 2% of GDP against an estimate of 2,3% for 2016. The gradual recovery of consumption and the acceleration of investment activities in the period 2018-2019 will result in a higher growth of import against export, which will further shrink the current account surplus to 1,4% of GDP in 2019. The Foreign Direct Investments (FDI) inflow will continue its gradual recovery, whereas the FDI-to-GDP ratio is expected to reach about 3,7-3,8% average per annum for the entire forecast period.

In 2017 the private credit will recover further and total claims will reach a growth rate of 3% yoy. This would be attributed mostly to the claims on corporations, which would reflect the expected positive development of private investment. Claims on households will accelerate more gradually, to match the projected pace of private consumption and the tendencies on the labour market. Similar development would continue through 2019, when the claims on the private sector are expected to grow by 5.8% yoy.

2.3 Risks for the macroeconomic forecast

Fiscal risks, which may result in an increase of the level of government debt, are related to unforeseen events, which may increase public expenditure and changes in the economic prospects related to the growth of GDP and he dynamics of prices, which can result in lower than expected tax revenue.

The risks for the main economic scenario about the real growth of GDP, used as a base for the development of the Updated Medium-Term Budget Forecast for the period 2017-2019, are balanced. A major downside risk comes from the unstable external environment. The prospect for the development of economic activity on a global scale remain unfavourable. This is attributable to the possibility of additional slowdown of economic growth in developing markets and stagnation in developed economies. The increased geopolitical tension and the uncertainty regarding the way UK will exit EU create conditions for a slowdown of economic activity of major trade partners for Bulgaria. Weaker performance of the European economy hides a risk not only for the growth of Bulgarian export, but also may result in a worsening of investment activity and consumer confidence in Bulgaria. A slowdown in the growth of consumption and investments correponsds to a slower increase of direct and indirect tax revenues. At the same time, in 2016, there has been a positive dynamics on the labour market and an increase in private investment. If this tendency preserves at the same pace, the improvement of the domestic environment may neutralize possible external shocks.

The risks for the inflation forecast are mainly tilted to the downside and are related to a stronger-than-expected drop in the international prices of crude oil and other non-energy commodities given the relatively low demand on a global scale. On the other hand, the expected acceleration of domestic demand and the positive development on the labour market are expected to strenghten domestic core inflation, which on its turn will contribute to the increase in the headline rate. ■

3. Analysis of the risks related to the structure of government debt

The analysis of the risk for the period from 2017 to 2019[1] does not indicate any - significant deviations from the values of the major analyzed parameters related to its evaluation and they remain close to those set forth in the Government Debt Management Strategy for the period 2015-2017. Current level of these indicators in practice do not have any important impact on the risk profile of the government debt. These values correspond to the priority set in the management of government debt to maintain risk at an acceptable level.

Table 3: Risk assessment indicators

Risk	Indicator	2015	2016 *	2017.*	2018*	2019*
Refinancing risk	Debt up to 1 year (per residual maturity as share of government debt, %)	4.5	10.3	5.5	3.9	4.4
	Average time to maturity (ATM) (years)	7.8	7.6	7.5	7.1	6.5
Interest rate risk	Ratio between fixed interest rate debt and floating interest rate debt (%)	93.3 / 6.7	95.0 / 5.0	95.4 / 4.6	96.3 / 3.7	97.2 / 2.8
	Average time to refixing (ATR) (years)	7.5	7.2	7.1	6.7	6.2
	Duration (years)	6.6	6.6	6.6	6.2	5.7
Currency risk	Ratio between domestic and external government debt (%)	67.9 /32.1	73.9 / 26.1	71.8 / 28.2	69.8 / 30.2	67.4 / 32.6
	Ratio between debt in risk-neutral currencies – BGN and EUR as compared to the debt share in other currencies (% of the total amount of the government debt)	99.0 / 1.0	99.1 / 0.9	99.3 / 0.7	99.5 / 0.5	99.6 / 0.4
Liquidity risk	Ratio between debt up to 1 year (at residual maturity) and tax and insurance revenues (%)	4.1	10	4.7	3.3	3.6
Risk related to debt size	Ratio between consolidated debt of "General Government" sector and GDP (%)	26.7	30.9	27.7	27.1	26.8
	Ratio between government debt and GDP (%)	26.3	29	25.9	25.4	25.1
Risk related to contingent liabilities	Ratio between government guaranteed debt **and government debt (%)	2.6	7.7	9.7	9.4	9.1
	Ratio between government guaranteed debt and GDP (%)	0.7	2.2	2.5	2.4	2.3
Operating risk	- Established stable institutional structure for government debt management, having clearly delegated staff responsibilities, which operates within the framework of the Ministry of Finance;					
	- Maintenance of the information system for analysis, forecasts and management of the government and government guaranteed debt - an official register of the government and government guaranteed debt;					

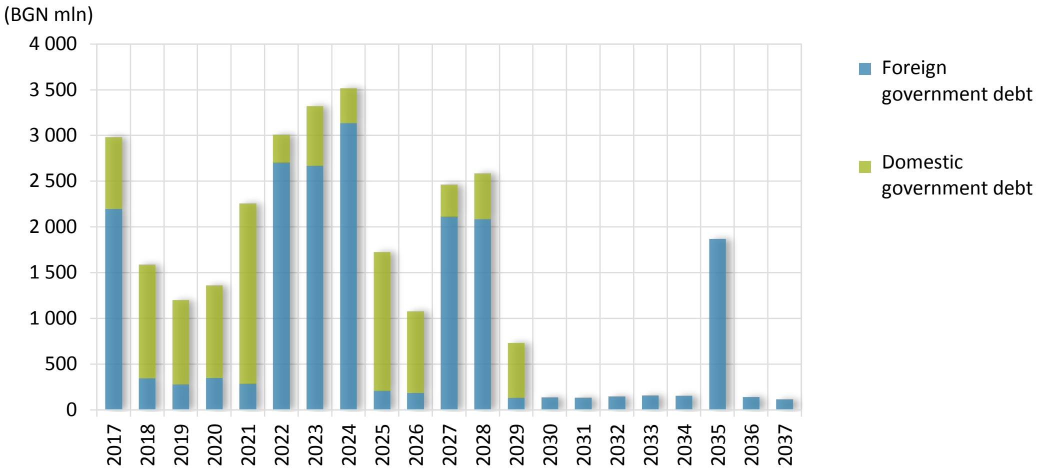
[1] Carried out based on estimated financing for the period 2016-2019 pursuant to the assumptions applied in the development of the Updated Medium-term Budget Forecast for the period 2017-2019 and the draft 2017 SBRBA.

Risk	Indicator	2015	2016 *	2017.*	2018*	2019*
	- pursuing an operating risk reduction policy by applying and complying with internal standards and control systems;					
	- detailed rules and procedures about the organization of the operation of the structural unit in charge of government debt management.					

Notes: * The data are estimates. They take into account the forecasts about the financing pursuant to the updated Medium-term budget Forecast for 2017-2019; ** The calculations take also into account the forecasts for the drawdowns under government guaranteed loans of BDIF and BDB.

The redemption profile of government debt presented in the chart below, indicates a concentration of payments in the years when the bonds issued on ICM[2] fall due, thus imposing the need to apply appropriate measures to refinance debt. In order to reduce budget expenditure in these years the time distribution of amortization payments shall be taken into account in determining the actual structure of loan financing.

Chart 5: Redemption profile of government debt *



* Active debt as of 30 September 2016 and assumed debt in compliance with the estimates in the Updated Medium-Term Budget Forecast for 2017–2019.

Source: MoF

After the maturity of the issue of Eurobonds in 2017, the indicator of the government debt with residual maturity of 1 year in the total amount of government debt outstanding is expected to drop significantly to 3,9% (from 10,3% in 2016), and it is planned to reach a level of 4.4% in the end of 2019.

The value of the parameter Average Time to Maturity (ATM) in the period 2017–2019 is expected to go down from 7,5 years in 2017 to 6,5 years in the end of 2019 by preserving an average level, which does not imply an exposition of the debt portfolio to refinancing shocks.

[2] For the time being, the debt portfolio of the Republic of Bulgaria comprises seven issues of Eurobonds placed at ICM.

The steps taken for developing a GMTN programme have contributed to the reported current levels of the above ratios analyzed ratios and help to constrain the impact of the refinancing risk. Two transactions for placement of external debt on the international markets have been performed successfully in 2015 and 2016 and with a part of the revenues from them have been provided funds for refinancing the issue with maturity in 2017.

3.1 Market risk

The trend of increasing the part of debt denominated in Leva and Euro, as well as that with fixed interest rates maintained stable over the past years, is expected to continue also through the period 2017–2019, which is a prerequisite for the adjustment of the major market variables (exchange rates and interest rates) to have no significant impact on the debt portfolio and debt servicing expenditure.

In 2017, the part of the debt denominated in Leva and Euro is expected to register a level of 99,3%, while the share of obligations with fixed interest rates is expected to reach 95,4%. In the period 2018–2019, the part of the debt denominated in risk-neutral currencies – Euro and Leva – is expected to continue its increase to levels of about 99,5%. Consequently, the share of instruments with fixed interest rates is expected to reach about 96,3% and 97,2% (against a drop in the share of obligations with floating interest rates within about 3,7% - 2,8%).

The large volume of new benchmark bonds in Euro and those with a fixed interest rate coupon placed on the ICM in 2015 and 2016 have contributed significantly to the reported trend of the above indicators. The new debt financing planned pursuant to the assumptions of the Updated Medium-Term Budget Forecast for the period 2017–2019 has a strong influence as well. It is in the form of issues of government securities mostly on the domestic market and external government loans (government loans and government investment loans) mainly with a fixed interest rate and denominated in risk-neutral currencies and is a key factor for the predictability and optimisation of the funds for servicing the government debt.

During the period considered (2017–2019), a comparatively larger part of the debt remains neutral to the changes in the interest rates and indicates a weaker dependence of the debt portfolio on the influence of the market risk. The average time to refixing (ATR) is expected to vary within approximately 7,1 to 6,2 years.

3.2 Liquidity risk

Liquidity risk reflects the probability of emergence of possible difficulties for the budget in meeting short-term government debt payments. This implies targeting efforts towards a more in-depth consideration of all options for the timely refinancing of debt falling due, financing of state budget and securing the liquidity position of public finance. The existing significant amount of fiscal reserve at the moment is considered as a major factor having preventive effect for minimizing the impact of liquidity risk.

Preliminary data for the next three years (2017–2019) indicate that in the end of the period after the repayment of the 2012 Eurobond issue maturing in 2017, the level of the "debt up to 1 year/tax revenues" (a measure for liquidity risk) is expected to drop from 4,7% in 2017 to 3,3% in 2018 and 3,6% in 2019.

As a result of the measures for improving collection by revenue agencies, the effect of implementing discretionary measures and the positive dynamics of macroeconomic indicators throughout the entire three-year period, tax revenues are expected to increase. On the other hand, in view of the described change in short-term debt, the level of the indicator has been reduced, which in practice limits the level of impact of this type of risk.

3.3 Risk related to debt size

The conservative approach of the government to the management of government debt implies that the Republic of Bulgaria will preserve its good position among the 28 EU Member States with lowest government debt. The preliminary data of the Ministry of Finance about the ratio of "consolidated debt of General Government sector/GDP" during the period 2017–2019 indicate that the value of the indicator will go down from 27,7% in 2017 to 26,8% in 2019. These levels are far below than the maximum admissible reference value of the Maastricht convergence criterion of 60% to GDP.

In the composition of the consolidated General government debt, government debt (which is the component with biggest importance in its structure and accounts for about 94%), has marked a reduction in the ratio to GDP during the reported period. The size of this component within the forthcoming period 2017–2019 in absolute values is expected to go up. The nominal increase of debt is expected to be compensated by the estimated larger growth of GDP and as a result the debt/GDP ratio to drop from 25,9% in the end of 2017 to 25,1% in 2019.

The main factors leading to a change in the debt outstanding and GDP in general include the economic situation in the country, growth, inflation and interest rates, debt structure, development of domestic financial markets, etc.

The debt restrictions set forth in the annual state budget act contribute to control the increase of the amount of debt and keep its level within reasonable low-risk levels significantly under the upper threshold of the debt convergence criterion. This mechanism has preventive effect against an uncontrollable increase of government debt.

3.4 Risk related to contingent liabilities in the form of government guarantees

Indicators for the evaluation of this risk are the ratio of the government guaranteed debt (GGD) to the total amount of government debt and to GDP. In the period 2017–2019 GGD is expected to increase, both in nominal terms, as well as a ratio to GDP. As a share of GDP its value is expected to reach a level of 2,3% in the end of the period (compared to 0,7% in the end of 2015), and up to 9,1% against the size of government debt (compared to 2,6% in the end of 2015). The estimated levels of the indicators are a direct consequence of the planned drawdowns under the new government guarantees issued in 2016 under loan agreements signed between BDIF and EBRD and IBRD – (Deposit Insurance Strengthening Project), of BDB from KfW and CEDB on partial financing of the National Energy Efficiency of Public Buildings Programme as well as for the student loans programme.

In view of the fact that over the next years the amount of GGD is expected to increase, although at a moderate pace, the approach to the approval of new government guarantees will continue to be strictly regulated, subject to specific criteria and bound to the risk for the budget. In order to limit the impact of the risk related to contingent liabilities, a number of measures will continue to be applied, such as: monitoring of the current financial position of beneficiaries and evaluation of the risk of materialization of the existing contingent liabilities, annual determination of the maximum amount of the new government guarantees, which may be issued throughout the year as well as the provisioning of funds to cover the risk of activation of the government guarantees in the annual state budget of the Republic of Bulgaria act.

3.5 Operational risk

The efforts in this field shall be focused on the form of organization of the government debt management and control activities. These activities are directly related to the implementation of a consistent and standardised internal control system. The legal provisions applied so far to the financial management and control applicable to the public sector, as well as the rules and procedures developed on account of the operation of the unit in charge of debt management at MoF having clear-cut well-systematized responsibilities for the employees, will continue to be complied with. Additional favourable effect will have the maintenance and functionalities upgrade of the official register of the government and government guaranteed debt, a software automatizing the processes of data processing related to the management of government debt and ensuring quality and reliability.

4. GOALS OF THE GOVERNMENT DEBT MANAGEMENT POLICY

THE MAIN GOAL OF DEBT MANAGEMENT IS THE PROVISION OF THE NECESSARY RESOURCES FOR REFINANCING THE DEBT OUTSTANDING, FINANCING OF THE STATE BUDGET AND ENSURING STABILITY OF THE FISCAL RESERVE AT AN OPTIMAL POSSIBLE PRICE AND ACCEPTABLE LEVEL OF RISK.

Sub objectives:

4.1 Maintaining control over the pace of change of government debt parameters.

Measures:

- **Conducting a policy of new borrowing pursuant to the statutory terms and procedures**

During the next years the borrowing policy of the government will continue to be linked with the fundamental guidelines of the pursued fiscal policy in compliance with the debt restrictions set forth in the state budget act.

Taking into account the current status and estimated development of key factors, such as the domestic and international market situation, the continuous monitoring of the size and profile of debt, as well as the costs for debt servicing is of particular importance for determining the characteristics of the borrowing resources. Special attention will be paid to the accurate selection of the possible debt instruments in the event of new borrowing in terms of size, type, main parameters, structure, etc., as well as to the performance of a complex analysis of its purpose, specific financial terms and appropriate timing perspectives.

During the implementation of the objective pursued it is envisaged to preserve the priority of assuming new debt in Euro and Leva as main borrowing currencies and at fixed interest rates. The choice of these financing terms is predetermined both by the need to maintain budget expenditure predictability and by the fact that the BGN is pegged to the Euro in the context of the currency board operating in the country. Making use of the above set of instruments, the Interest expenditures related to the debt in 2017-2019 are expected to be kept within the limits of below 1% of the estimated GDP and to vary within the scope of 4,7%-3,6% against the tax and insurance revenues[3].

The approach to approving new investment projects to be funded with government and government guaranteed loans within the framework of the discussed period (2017–2019) will continue to be restrictive and in consistent and strict compliance with the statutory terms and procedures, outlining the priority areas for financing, corresponding to the level of readiness for project implementation and the future impact of the financing on the state budget. Within the framework of the procedure pursuant to the Ordinance on the requirements to be met by investment projects financed by government loans and the projects applying for financing by government guarantee, and the procedure for their consideration (adopted by Decree of the Council of Ministers No. 337 of 1.12.2015, promulg. SG is. 94 of 4.12.2015 effective as of 1.01.2016) no new investment projects have been approved for 2017 whose financing requires the conclusion of government loans and new project agreements, for which a government guarantee needs to be issued under the loans for their financing.

- **Maintaining the amount of government and government guaranteed debt at levels which do not exceed the statutory determinate ceilings and the Maastricht criterion for the debt/GDP ratio**

Government debt management will continue to be consistent with the medium-term economic prospects and major priorities of the government, with the basic parameters of the budget framework respectively, as well as with the measures for achieving the defined strategic goals of debt management, focused mainly at the timely and reliable ensuring of effective recruitment of financial resources from debt sources and maintaining the stability of key debt indicators. The implementation of these priorities necessitates constant monitoring of the current debt status and the evaluation of the impact on the debt burden as a result of the initiated debt transactions, both based on the current state and on the basis of assumptions of a change.

In order to attain the sub-objective set to prevent uncontrollable increase of government debt, debt ceilings are determined annually in the State Budget of the Republic of Bulgaria Act. As part of the measures applied in case of exceeding the debt to GDP ratio of 60% the amendments to the Public Finance Act (promulg. SG, is. 15/2013 effective as of 1.01.2014, amend. and suppl. Is. 43 of 7.06.2016) expanded the scope of institutional units which can be subject to

[3] The reported data on tax insurance revenue under the 2015 Consolidated Financial Programme (CFP) are preliminary as of 29.03.2016.

restrictions for assuming debt, which ensures the opportunity for control over the level of consolidated debt of the General Government sector.

According to the assumptions, made for the development of the Updated Medium-Term Budget Forecast for the period 2017–2019, assuming new government debt amounting to BGN 1,2 billion is planned for 2017, of which BGN 0,8 billion for refinancing of maturities under the domestic debt (zero adjustment of domestic debt) and BGN 0,4 billion – a possibility for the Council of Ministers to hold talks and sign a loan agreement with the Council of Europe Development Bank for co-financing projects implemented with EU funds in the period 2014–2020 to the amount of EUR 200 million under conditions of subsequent ratification. The fiscal buffer set aside by the government in 2016, which served as potential insurance for preserving the stability of the banking system, will be used for payments in July 2017 of the maturing issue of Eurobonds to the amount of EUR 950 million, which renders redundant the need to take a new external debt in 2017 within the framework of the GMTN programme. New government debt in the period 2018–2019 is planned to be taken mainly on the domestic market for refinancing of the debt outstanding. As a result of the above debt transactions, it is expected, as already noted, that the total debt burden against GDP will go down from 25,9% in 2017 to about 25% in 2019 despite the slight increase of its nominal value. Taking account of the topicality of the defined sub-objective, its consistent implementation will continue in the future which will ensure the preservation of the government debt level within sustainable limits, ensuring compliance with the Maastricht convergence criterion, which provides the maintenance of public finance stability.

4.2 Provision of opportunities for market-oriented debt financing to guarantee budget stability

Measures:

- **Conducting a predictable and well-balanced borrowing policy by applying an analytical approach to the selection of new debt instruments**

The assumption of new debt will depend directly on the need to refinance debt, the liquidity needs of the budget and the current condition of the fiscal reserve (provision of cash budget implementation). The access of the government to financial resources via market-oriented financing during the discussed period is expected to be provided mainly on the domestic market within the framework of the annual debt ceilings. The issuance policy of the government will be targeted at maintaining a well-functioning and diversified debt market through concentration of the offered securities in high-liquidity benchmark bonds, positioned at various maturity segments. The choice of maturity structure for the new debt securities will be tailored to the prevailing market conditions, investor demand and existing redemption profile of the government debt. The offering of 10,5-year government securities will continue throughout the period, at the start of the issue year to ensure the availability throughout the year of a bond that complies with the requirements for residual maturity for harmonized long-term interest rate in assessing the level of convergence which is one of the Maastricht criteria for membership in the Eurozone.

The prospects regarding borrowing from international financial institutions follow the established current relations, and it will be mainly in the form of government guaranteed loan financing in support of the National Programme for Energy Efficiency of Public Buildings. The state budget financing from IFI is expected to be used mainly to support strategic areas, including support for co-financing of projects implemented with European Union funds for 2014–2020.

- **Preserving the opportunity for financing by way of the Global Medium-Term Note Programme for Debt Issuance on the International Capital Markets (GMTN programme) in order to ensure maximum flexibility in the choice of financing structure in reference to markets, maturities and currencies**

The big size of the government debt maturing in 2015, the need to ensure debt sources of budget financing for the next years and to maintain certain levels of the fiscal reserve were at the basis of the decision for establishing a Global Medium-Term Note Programme of the Republic of Bulgaria during the year for bond issuance on the international capital markets. In contrast to the forms of stand-alone transactions used so far, the programme provides the legal framework for the issuance of a series of payments with a total nominal value of EUR 8 billion. This specific limit for the issuance of bonds under the medium-term programme for each year is determined in the debt limitations for the respective annual State Budget of the Republic of Bulgaria Act. The maximum tenor of the securities which can be issued under the programme is 30 years, whereas the specific maturity and volume of each tranche shall be determined during the so-called marketing process within which the issuer is presented to the respective investment community and they are brought in compliance with the redemption profile of the government debt. The existence of a legal framework for the issuance of a series of tranches on the ICM gives a possibility of a more efficient management of the risk profile of the government debt and more specifically – refinancing, market and liquidity risks.

In compliance with the debt restrictions under the 2015 and 2016 SBRBA, Eurobonds have been issued so far to the total amount of EUR 5,144 billion and pursuant to the terms of the established programme the remaining limit amounts to EUR 2,856 billion. The standardised characteristics of the programme for the international investor community, namely ensuring governance of the English Law governance , allowing the securities to be traded at the Luxembourg stock exchange, clearing and settlement in Euroclear and Clearstream, are a mandatory condition to ensure the interest of first-class investment funds. The possibility of offering securities to qualified institutional investors on the primary market in the US after performing a more in-depth process of acquiring confidence (due diligence), shall grant access to the deepest market of financial assets in the world. The high levels of demand reported during the transactions in 2015 and 2016 in combination with the diverse investor basis confirm the benefits of establishing the Global Medium-Term Note Programme.

4.3 Development and modernisation of government securities market

Measures:

- **Preparation of the necessary legal and infrastructure changes for encouraging the development of secondary market in government securities by using of trading venue, as well as in compliance with the existing post-trading infrastructure of the government securities (GS) market.**

The adopted legislative packages CRD IV[4] and MiFID II[5], which should be considered in their close correlation, require also corresponding measures at the national level. They have a global effect on the overall and long-term development of the GS market, which brings to the fore the need to improve the secondary GS market, so that in view that parallelly to the over-the-counter

[4] 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); 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/EC and repealing Directives 2006/48/EC и 2006/49/EC;

[5] 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; Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.

market, an opportunity to be created for trading in GS at trading venue (regulated market, MTF or OTF).

After the establishment of an organized trading venue in GS in Bulgaria, additional economic positive effects are expected to take effect, such as promotion of transparency, establishment of a liquidity benchmark curve on the secondary market; restriction of speculative practices, facilitating the access to a larger circle of investors, including foreigners, via freely accessible and fair prices, respectively enhanced attractiveness of the Bulgarian GS issued on the internal market for investors; promotion of further integration to the single European internal market, incl., aiming to increase the integration of foreign investors to the local market of government debt, etc. The improved transparency of the GS market is also of special importance taking into account that GS are one of the main sources for budget financing, as well as in view of the fact that GS, issued on the domestic market, represent an important investment instrument in the debt portfolio of a large circle of banks and institutional investors.

- **The adoption of the best market practices from the well-developed financial systems and the promotion of their further integration into the European single market, including towards strengthening the integration of foreign investors into the domestic government debt market**

The transition of the secondary GS market from a fully over-the-counter market to trading at an organized trading venue is accompanied both with harmonization of the legal framework in this area, and with the adoption of functional changes and technological binding of the infrastructure (trading with post-trading), which serves the secondary market in GS. This will necessitate the improvement of the primary dealer system in terms of changes in the criteria for selection of primary dealers so that the PDs meet the requirements for transparency and liquidity at a secondary GS market and in view of increasing their activity as market-makers, which involves a more active role on their behalf in encouraging the trade in government securities.

In this sense, in the period 2017–2019 it is necessary to undertake steps both at the stage of the preparation of the project for development and modernization of the secondary market of government securities in Bulgaria in legal, methodological, market and technological terms, as well as at the subsequent level – after the introduction of a trading venue, in the context of control over the market and the evaluation of the performance of primary dealers in government securities. This presumes the need of an analysis of the market in government securities issued by the Republic of Bulgaria, in view of the requirements of the new regulations in the field of financial services related to government bonds; choosing a trading venue (in close cooperation with the major market participants); preparation of an impact assessment and change of the methodology for performance evaluation and selection of primary dealers in government securities as a major economic mechanisms for adjusting and regulating the market and for ensuring the technical infrastructure in compliance with the existing post-trading infrastructure (Government Securities Depositary at BNB), etc. ■

5. ANNEXES

5.1 Annex 1: ABBREVIATIONS AND DEFINITIONS

—Used abbreviations

GDP	Gross domestic product
BNB	Bulgarian National Bank
BDB	Bulgarian Development Bank
CEDB	Council of Europe Development Bank
GGD	Government guaranteed debt
GL	Government loans
GIL	Government investment loans
GS	Government securities
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EC	European Commission
EU	European Union
ECB	European Central Bank
SBRBA	State Budget of the Republic of Bulgaria Act
GDA	Government Debt Act
KwW	Kreditanstalt für Wiederaufau (KfW)
CFP	Consolidated fiscal programme
ICM	International capital markets
MF	Ministry of Finance
MFI	International financial institutions
IBRD	International Bank for Reconstruction and Development
PD	Primary dealers
MTBF	Medium-term budget forecast
GDMS	Government debt management strategy
BDIF	Bulgarian Deposit Insurance Fund
FR	Fiscal reserve
GMTN Programme	Global Medium-term Note Programme for Debt Issuance on the international capital markets
MTF	Multilateral Trading Facility
OTC	Over-the-counter market
OTF	Organised Trading Facility

—Definitions

Currency risk – it is related to the vulnerability of the debt portfolio, amortizations and its servicing costs resulting from the depreciation of the value of national currency. The changes in exchange rates may have an impact on the debt servicing cost and hence – on the budget. A debt denominated in foreign currency will lead to a volatility of debt servicing costs, measured in the national currency;

Interest rate risk – It is related to the vulnerability of the debt portfolio, as well as to the government debt costs resulting from higher interest rates on the market at the moment when the fluctuating interest rate debt and the maturing fixed rate undergo readjustment. Market prices changes that influence the debt servicing costs may result in deviations from the amount of debt servicing costs set forth in the state budget;

Market risk – Risk related to unexpected changes in the levels of market variables such as exchange rates, interest rates, prices of goods, which affect debt service costs.

Liquidity risk – It is determined by the need of liquidity funds to cover short-term obligations and accounts for the probability of liquidity problems for the budget when covering these obligations. It is a variety of the refinancing risk and is directly related to the market risk;

Refinancing risk – It is related mainly to the possible inability to obtain new financing, when the debt reaches its maturity (the maturing debt will not be subject to refinancing) or to receiving a new financing at a much higher price only . It is measured by the amount of debt, which shall be refinanced during the specific period (typically a year);

Risk related to debt size – It is associated with the level of government debt, which may generate significant threats on certain occasions to the financial stability of the country;

Risk related to contingent obligations in the form of government guarantees – Government guarantees have significant impact on the sustainability of government debt. It is associated with the risk of the guarantees being called at a certain time and therefore it is important to take into account the potential risk for their activation;

Operational risk – It is identified most of all with the form of organization of the activities related to the management and control of government debt;

Debt of up to 1 year (at residual term) – that part of the debt which will mature within a term of up to 1 year;

Average term to maturity (ATM) - the average period to maturity, which is an average weighted of the repayments as per the time to their maturity. It does not take into consideration the payment of interests, so it does not provide information about the overall risk which debt servicing poses on budget;

$$ATM = \sum_{t=0}^{n} \frac{t \cdot R_t}{Nom}$$

R_t: Repayments at time t; t: Period till maturity; Nom: nominal value of due debt; n: Final debt maturity

Ratio between fixed interest rate debt and floating interest rate debt – shows the exposure of the debt portfolio to interest rate risk;

Average time to refixing of debt portfolio interest rate (ATR)

$$ATR = \sum_{t=0}^{n} \frac{t.RF_t + t_0.RV}{Nom}$$

RF_t: Repayments at the moment **t**, which is determined on the basis of the planned payment date as a ratio of he days from the end date of the reference report to the days of the year when the payment is consigned;

RV : Floating interest rate debt at the moment **t_0**;

t: period to maturity: it is calculated on the basis of the actual payment date planned ;

t_0 : time for change in interests rates; for floating interest rate debt it is accepted to be **t_0**=0.5;

Nom: nominal amount of the debt (total amount: fixed interest rate debt and floating interest rate debt);

n: last debt maturity; maximum term within which the debt of all selected credited instruments is paid in full;

The measuring of the risk does not take into consideration the cash flows of interest rate payments.

Duration – it is used as a unit measure for the average period with fixed interest rate, which indicates how quickly the changes in interest rates will have an impact on debt related costs. Short duration means that the changes in interest rates will influence actual debt costs fast, while long duration means that the interest rate will not be changed over a long period of time for a major part of the debt portfolio;

Redemption profile – the redemption debt profile consists of a series of amortisation payments resulting from the debt outstanding .

Ratio of the debt in foreign currency to the total debt – an indicator contributing to determining currency and liquidity risk.

5.2 Annex 2: LEGISLATIVE FRAMEWORK APPLICABLE TO THE GOVERNMENT DEBT IN THE REPUBLIC OF BULGARIA

—Government Debt

<table>
<tr><th>Government and government guaranteed debt</th><th>Consolidated debt of General Government sector</th></tr>
<tr><td>Constitution of the Republic of Bulgaria
• Art. 84, it. 9 – The National Assembly shall grant consent to the conclusion of agreements on government loans
• Art.85, it. 4, 5, 7 and 8 – The National Assembly shall ratify or denounce by statute the international treaties, which:
– Impose financial obligations on the State;
– Provide for participation of the State in arbitration or judicial settlement of international disputes;
– Affect the operation of the law or require measures of a legislative nature for the performance thereof;
– Expressly require ratification.</td><td rowspan="3">Public Finances Act
• Regulates the budgetary framework, the general scheme and the structure of public finances, including the fiscal rules and constraints (Art.1, para. 1, it. 3);
• Regulates the fiscal rules and constraints which cover both indicators of the national methodology – about the budget balance and the costs for the consolidated fiscal programme (in cash terms) and about the government debt, as well as indicators concerning the General Government Sector (for some rules – and for its respective sub-sectors) – about the medium-term budgetary objective of structural deficit, about the budget balance and the consolidated debt of the General Government Sector;
• Specific provisions are included for the cases of deviation from the objective/constraint and the respective corrective mechanisms and measures for restoring the compliance with the objective or with the correct constraint;
• Introduces a definition about the consolidated debt of the General Government Sector, brought in line with the requirements of the Council Regulation (EC) No. 479/2009 of 25 May 2009 on the application of the Protocol on the procedure under excessive deficit.</td></tr>
<tr><td>Government Debt Act
• regulates the procedure for taking government debt and for issuing government guarantees, the types of debt and the government debt agency functions (Art.1, para.1);</td></tr>
<tr><td>Public Finances Act
• Any interest and principle payables related to government debt shall constitute a priority liability for the state budget. (Art. 38).</td></tr>
</table>

—Debt constraints

Public Finances Act

I. Constraints on the consolidated General Government debt

60% threshold for the consolidated General Government Debt/GDP

- The nominal amount of the consolidated General Government debt at the end of every year may not exceed 60 per cent of the gross domestic product. (Art.29 para.1).
- The consolidated general government debt at the end of every year, as a proportion of the gross domestic product, may not exceed the ratio of the preceding year for as long as that ratio is higher than 60 per cent. (Art.29 para.3).

II. Constraints on the maximum amount of government debt – Art. 37, para. 1, 2, 3 and 4

(1) The Government Debt Act for the respective year determines the constraints imposed on the maximum amount of:

1. The new government debt which may be assumed during the year, specifying on a case-by-case basis the maximum amounts of the debt to be assumed:

   a) under the Government Debt Act;

   b) through financial lease and the other forms of debt stipulated in Council Regulation (EC) No. 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit, annexed to the Treaty establishing the European Community (OB, L 145/1 of 10 June 2009), exclusive of the funds received as securities under Art. 152, para. 5, 8 and 12, as well as the funds under Art. 156 and foreign funds;

2. The new government guarantees under the Government Debt Act, which may be assumed during the year;
3. the year-end government debt;
4. Other guarantees in respect of which such constraints are provided by law.

(2) The Government Debt Act for the respective year may also provide for constrains over the maximum amount of the debt in the General Government sub-sector.

(3) The Government Debt Act for the respective year includes also all investment projects and specific programmes approved by the Council of Ministers in compliance with the Government Debt Act, which will be financed with government or government guaranteed loans.

(4) The Government Debt Act for the respective year shall also include projects exceeding the value threshold set forth in an act of the Council of Ministers, which will be financed by a financial leasing and other forms of government debt other than those regulated by the Government Debt Act.

—Corrective mechanisms

Public Finances Act – Art. 29, para.2 and 4
• If the debt referred to in Paragraph 1 exceeds 60 % of the gross domestic product, the medium-term budgetary forecast and the State Budget Act shall set out measures aimed annual decreasing that debt by at least 5 per cent of the excess ascertained, until reaching the 60% ratio. • In the cases referred to in para 2, the State Budget Act for the respective year may set out additional constraints on assuming debt by the municipalities and social security funds, including constraints applicable to a specific municipality or social security fund, as well as other subjects within the General Government Sector.

— Scope of government debt and consolidated debt of General Government sector

Government debt	General Government Sector debt
1) Scope of debt	
Government Debt Act • All financial obligations, undertaken on behalf and for the account of the government in compliance with the Constitution, shall constitute government debt, and shall represent a liability of the government (Art.2) **Public Finances Act** • "Government debt" is the debt under the Government Debt Act and the other forms of debt pursuant to Council Regulation (EC) No. 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit, annexed to the Treaty establishing the European Community, which is assumed and repaid from the central state budget and from the persons whose budgets are part of the state budget, including through their accounts for EU funds (§ 1, it. 15 of the Supplementary Provisions)	**Public Finances Act** • Consolidated debt of General Government Sector pursuant to the requirements of Council Regulation (EC) No. 479/2009 of 25 May 2009 on the application of the Protocol on he excessive deficit, annexed to the Treaty establishing the European Community. • Debt of Local Government sub-sector is the municipal debt and the debt of any other entity within the Local Government sub-sector, pursuant to Council Regulation (EC) No. 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit, annexed to the Treaty establishing the European Community. • Debt of the Central Government sub-sector is the debt of Central Government sub-sector pursuant to Council Regulation (EC) No. 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit, annexed to the Treaty establishing the European Community. • Debt of social insurance funds is the debt of Social Insurance Funds sub-sector pursuant to Council Regulation (EC) No. 479/2009 of 25 May 2009 on the application of the Protocol on the

	excessive deficit, annexed to the Treaty establishing the European Community. (§1, it.13 and 14 of the Supplementary Provisions)
2) Instruments forming debt	
Government debt pursuant to the Government Debt Act (Art.4 and 5) • Government debt shall be taken through: – Issues of government securities; – Government loan agreements; • Government debt may be taken in the following cases: – To finance the budget deficit; – to finance investment projects and specific programmes, where approved by the National Assembly; – to refinance the government debt outstanding on or before the maturity date; – to meet payments under government guarantees that have become due; – to support the balance of payments of Bulgaria. **Government debt under the Public Finances Act** (§ 1, it. 15 of the Supplementary Provisions) • "Government Debt" shall be the debt under the Government Debt Act and the other forms of debt pursuant to Council Regulation (EC) No. 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit, annexed to the Treaty establishing the European Community, which is assumed and repaid from the central state budget and by the persons whose budgets are part of the state budget, including through their accounts for EU funds.	**Consolidated debt of the General Government sector** • Issues of government securities; • Government loan agreements; • Financial lease; • Other forms of debt pursuant to Council Regulation (EC) No. 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit, annexed to the Treaty establishing the European Community, (OB, L 145/1 of 10 June 2009), (assignments, factoring, etc.).

5.3 Annex 3: LATEST CHANGES IN THE LEGAL FRAMEWORK

Amendments and supplements to the Public Finances Act (SG, is. 43/2016)	
• Regulation is provided for the option of limiting debt taking by institutional units, classified in the General Government Sector in case that the debt exceeds the 60% of GDP threshold .	In the cases under para. 2 of the State Budget Act for the respective year, it is possible to provide for additional constraints over the debt taken by municipalities and social security funds, including by individual municipalities and social security funds, as well as by other subjects within the General Government sector (Art. 29, para. 4);
• Additional arrangements have been set forth to regulate the provision of data about the position and movement of the debt of institutional units taking part in the formation of the indicators for the General Government sector;	The Minister of Finance shall determine the procedure, terms and conditions for the provision of information about the debt status and debt position of municipalities, social security funds and other subjects within the General Government sector, as well as the assets owned by them in the form of debt instruments, including information about their intention to assume debt as well as the intention of the municipalities to issue guarantees (Art. 35);
• The scope of the monthly official information about government and government guaranteed debt published so far has been broadened by introducing a requirement for monthly publishing of the official information about debt and the guarantees of the Central Government sub-sector;	The Ministry of Finance shall publish weekly official information about the debt and guarantees of the Central Government sub-sector (Art. 36, para.3)
• Provisions have been included for overcoming the existing discrepancies between the time scope of the government debt management strategy, the documents drafted in the course of the budget procedure (including the medium-term budget forecast and the state budget bill) and the Convergence Programme of the Republic of Bulgaria.	Upon the proposal of the Minister of Finance, the Council of Ministers shall approve, by the 31st of October of each year, strategy for management of the state debt under the Government Debt Act for the time period of the respective medium-term budgetary forecast. (Art. 77 a)
• Sanctions have been introduced in case that officers in charge fail to comply with the obligation to provide the necessary debt-related information.	For non-fulfillment of the obligation to provide information under Art. 35 the guilty official shall be punished with a fine from BGN 100 to BGN 500 and in the event of a repeated violation the fine shall be imposed on the offender in a twofold amount (Art. 173b)

Government Debt Act (SG., is.43/2016)	
• The necessary changes in the Government Debt Act are provided corresponding to the amendments to the Public Finances Act and those refining the text of the act.	The Minister of Finance shall develop a government debt management strategy for the period of the respective medium-term budget forecast, which shall be approved by the Council of Ministers (Art.16, para. 1)

ORDINANCE on the requirements for investment projects financed by government loans and projects applying for financing by a government guarantee and on the procedure of their consideration, adopted under Decree No. 337 of the Council of Ministers of 2015 (promulg. SG, is. 94 of 2015)

- By Ordinance No. 337 of 1.12.2015, the Council of Ministers adopted a new updated Ordinance on the requirements for investment projects financed by government loans and projects applying for financing by a government guarantee and on the procedure of their consideration, which ensures the implementation of Ar. 5, para. 3 and Ar. 22 of the Government Debt Act. The Ordinance entered into force on 1 January 2016.

  The goal of the changes made is to meet the new statutory requirements for a more effective and efficient planning and management of public finances in their selection of investment projects, which are considered for financing by government loans or by issuing of government guarantees under loans for their financing. Under the Ordinance, eligible are only projects for which no other option for provision of financial resources has been found and provided that they are a priority of the implemented government programme.

  The requirements of the Ordinance shall not be applicable to investment projects for the approval of which a special procedure is provided by an act or by a statutory act of the Council of Ministers, regulating the specifics of their implementation, notwithstanding that borrowed resources are planned to be used for their financing.