

Government Debt Review • 2001–2002



Republic of Bulgaria
Ministry of Finance

Government Debt Review · 2001–2002

Sofia, 2003

Abbreviations and Terms

BIR	Base Interest Rate
BNB	Bulgarian National Bank
CUSIP	Committee on Uniform Securities Identification Procedure
DISCs	Discount Bonds
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EIB	European Investment Bank
EMBI	Emerging Markets Bond Index
EU	European Union
FDI	Foreign Direct Investment
FLIRBs	Front Loaded Interest Reduction Bonds
G24	The Group of the 24 Most Industrialised Nations
G7	The Group of the Seven Most Industrialised Nations
GDP	Gross Domestic Product
GS	Government Securities
IABs	Interest Arrears Bonds
IMF	International Monetary Fund
ISIN	International Securities Identification Number
JBIC (JEXIM)	Japan Bank for International Cooperation (former Japan Export – Import Bank)
JCRA	Japan Credit Rating Agency
LIBOR	London Interbank Base Offered Rate
MF	Ministry of Finance
NES	National Employment Service
NSI	National Statistics Institute
SDR	Special Drawing Rights
USD	The United States' Dollar
USFR	US Federal Reserve System
ZUNK	The Bulgarian Abbreviation of the Law on Settlement of Nonperforming Credits Negotiated prior to 31 December 1990

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Contact Point:

The Ministry of Finance

102, Rakovski Street

1040 Sofia

Bulgaria

Tel. +359-2-9859 2493, +359-2-9859 2452

Web site: www.minfin.bg

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I. Major Parameters of the Bulgarian Economy

The Bulgarian government's consistent economic policy, and clearly defined foreign policy targets relating to joining Euro-Atlantic structures, lent a solid basis to setting and attaining key macroeconomic objectives guaranteeing stable economic development.

Regardless of the deepening of globally unfavourable market and economic conditions, over the last two years Bulgaria maintained relatively high annual growth rates of between 4.1 and 4.8 per cent, against an average of four per cent elsewhere in Central and Eastern Europe. Though lower than the 5.4 per cent attained in 2000, a relatively rapid increase in own capital investment, the development of the services sector, and growing internal consumption backed Bulgaria's economic growth.

As an indicator, employment responded directly to increased growth. Over the last two years, unemployment fell steadily. At the close of 2001, the proportion of registered jobless persons was 17.9 per cent nationwide, showing a 6.3 per cent drop on the year's start. In December 2002, jobless people made up 16.3 per cent of the workforce, or 8.9 per cent less than in that month a year earlier. International statistics also registered the favourable development of the economy. According to EUROSTAT, in early 2002 Bulgaria had the highest unemployment among EU candidate nations, while by the year's close some First Wave candidates had poorer employment figures. These data are the result of both the acceleration of structural reform in recent years, and of the government's initiation of programmes and proactive measures to stimulate the labour market and boost employment. These measures brought the number of jobless people down by over 104,000 in 2001 and by 134,000 in 2002 according to Employment Agency figures.

The price stability resulting from the smooth operation of the currency board, and the stable fiscal and economic policy conducted over recent years, were major conditions for limiting inflation. Average annual inflation in 2001 and 2002 fell to 7.4 and 5.8 per cent respectively from its 10.3 per cent 2000 level. The Consumer Price Index stood at 4.8 per cent in 2001 and 3.8 per cent in 2002, against 11.3 per cent in December 2000.

The Government continued its cautious budgetary policy. This allowed the maintenance of very good overall budgetary indicators, and of budget deficit levels in excess of targets negotiated with the International Monetary Fund. Ministry of Finance data for the past two years point to a stabilisation of budget deficit at the 0.6 to 0.7 per cent of GDP level. The extent of primary budget balance over this period stayed sufficiently broad, coming to 3.1 per cent of GDP at the close of 2001, and to 1.6 per cent of GDP in December 2002. As

I. Major Parameters of the Bulgarian Economy

regards fiscal policy, effort focused on improving collectability, to shifting the burden from direct to indirect taxation, and to creating conditions for boosting investment.

The private sector, which had the main share in gross value added formation (73 per cent in 2001 and 75 per cent in 2002), was a major element contributing to stable growth. Its invigoration over the past two years led to a credit expansion concurrent with increasing bank system deposits, and to repatriation of some bank assets invested abroad. Though several times lower than elsewhere in Central and Eastern Europe, lending to the non-government sector shows a stable upward trend. Over the past two years, its proportion to GDP grew by seven percentage points compared with 2000. This activation of banking brought a contraction in the interest rate spread from an average of 8.23 per cent in 2001 to 6.58 per cent in 2002.

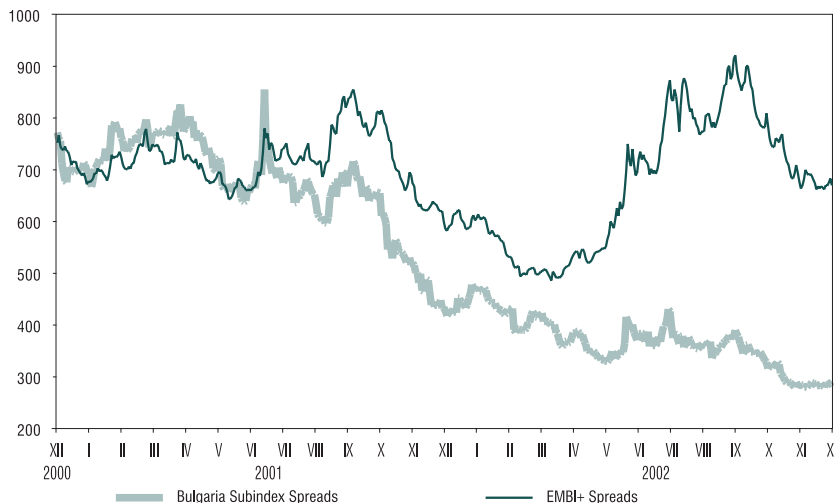
Due to great domestic consumption, imports over the past two years retained a stable share of trade turnover. Influenced by significantly greater imports, the balance of trade deteriorated by comparison with its 1999–2000 figures, remaining negative to the tune of -11.7 per cent of GDP in 2001 and -10.2 per cent in 2002. In 2002 however, the growth of exports as a share of GDP (6.2 per cent) exceeded that of imports (4.7 per cent): encouraging amid a contracting European market which is the destination of over half of Bulgarian exports. On the other hand, regardless of the negative influence of the balance of trade, the current account deficit marked a favourable downward trend by falling from -6.2 per cent in 2001 to -4.3 per cent at the close of 2002 against an average annual figure of -5.6 per cent over the previous three years. The major factor causing this significant improvement was the development of the services sector, tourism in particular, and the attendant considerable revenue boost. The increasing stream of current transfers also contributed significantly to the fall in the current account deficit.

The sizeable deterioration of global economic prospects inevitably found reflection in a fall in foreign direct investment over the last two years. As a share of current account deficit, FDI comprised 96.5 per cent and 70.7 per cent in 2001 and 2002 respectively, or some six and three per cent of GDP for the same years. On the other hand, roughly half of incoming foreign capital went into greenfield investment, mainly in export-oriented manufacturing.

Bulgaria's foreign exposure also improved significantly over the review period. BNB data show the foreign reserve rising from euro 3.719 billion in December 2000 to EUR4.063b at the close of 2001 and EUR4.575b at the close of 2002. The greater increase noted over the past year boosted the

Foreign Exchange Reserves/Goods and Services Imports indicator. Import cover rose from 5.4 months in 2000 and five months in 2001 to 6.1 months in 2002. Parallel with this, the government fiscal reserve rose from BGN2.2589 billion at the close of January 2001 to BGN2.6548b at the close of December 2001, and to BGN3.3357b by 31 December 2002. This accumulation of resources was largely due to privatisation revenue and to proactive debt management measures which freed collateral on repurchased and cancelled Brady debt.

A number of factors, among them a series of operations to optimise government debt, the boost in GDP, and international forex market fluctuations, lay at the base of improved debt parameters over the past two years. For the first time since the start of transition, the *Government Debt/GDP* ratio fell significantly to levels commensurate with those required in EU member states' economies. Proactive debt management measures initiated in September 2001 achieved not only a portfolio restructuring of the predominating government debt, but also a significant improvement of basic indicators on the ratio of gross foreign debt and the expenditure on its servicing to GDP and exports. The risk premium on foreign government debt fell impressively by more than four percentage points. Between early 2001 and the close of 2002 the spreads of JP Morgan EMBI+ for Bulgaria fell from some 800 basis points to 280 basis points above the yield of benchmark US treasury bonds.



Spreads of the EMBI+* and of its Bulgaria Subindex

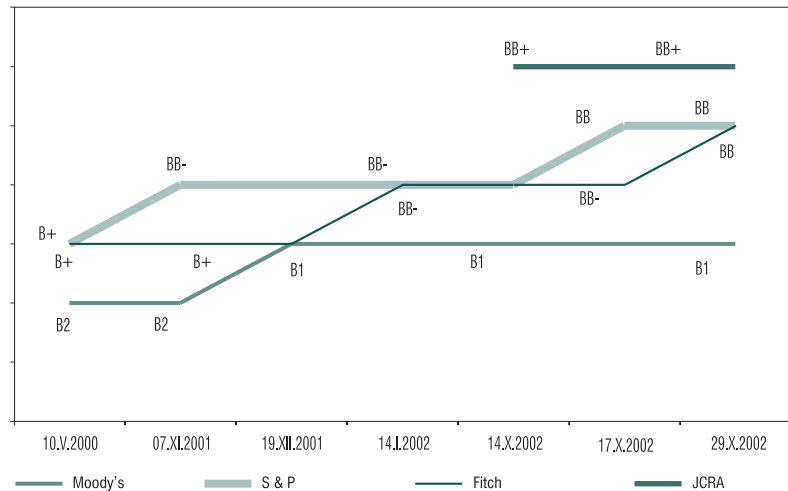
* Corrected for Argentina.

Source: JP Morgan.

I. Major Parameters of the Bulgarian Economy

This fall in indebtedness, and the progress in the aforementioned economic indicators found due reflection in manifold upgrades of Bulgaria's foreign currency and local currency credit ratings. Just in the October 2001 to December 2002 period, leading international ratings agencies such as Moody's, Standard & Poor's, and Fitch, posted credit ratings improvements from B2/B+ to Ba2/BB in long-term foreign currency, and from BB- to BB+ in long-term local currency. Meanwhile, in early 2002 the Japan Credit Rating Agency, one of Asia's largest, posted a pilot BB+ rating on Bulgaria's foreign currency obligations.

History of Sovereign Credit Ratings in 2001 and 2002



Source: MF.

Over the review period Bulgaria succeeded in maintaining stable development rates while at the same time improving its economy's competitiveness and overcoming the negatives of the deteriorating international market environment. If current economic dynamics endure in coming years, they would improve the investment climate and raise living standards.

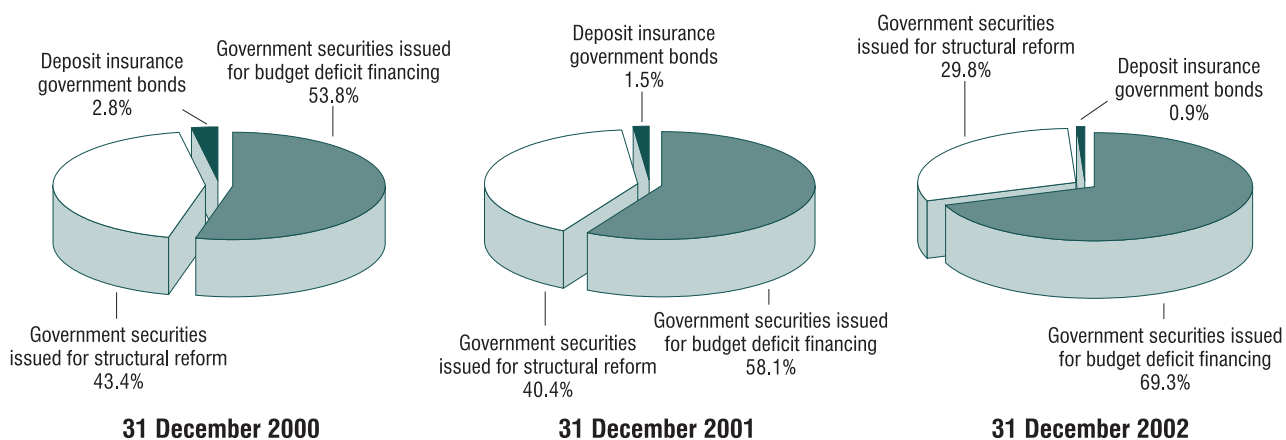
III. Domestic Debt

Domestic debt management until 2001 initially featured debt reduction measures, and subsequently aimed at maintaining a relatively constant level and at quality improvement. These measures were most of all warranted by the relatively high level of domestic government debt, incurred by the assumption of significant commitments in the real and banking sectors. The existing debt created conditions for further debt issuance to guarantee the service of the maturing obligations.

During 2001 and 2002 the major focus of domestic debt management fell on increasing the relative share of domestic debt *vis-à-vis* overall government debt, thus smoothly extending maturity and increasing the share of lev-denominated government securities with fixed-interest coupons.

Domestic debt increased insignificantly by 5.3 per cent in 2001 on the prior year as a result of the positive net issuance of BGN67.8m government securities for budget deficit financing. A genuine reduction resulted from deposit insurance government securities and bonds issued for structural reform. As a result, the share of auction-traded government securities continued rising (by 4.3 per cent) at the expense of those transforming the liabilities of the banking and real sectors into government debt. In 2002 domestic debt grew by 11.9 per cent on 2001 as the result of positive net financing by government securities operations of BGN331.7m. Debt on bonds issued for structural reform declined considerably from 40.4 to 29.8 per cent, as did deposit insurance government bonds which fell to the insignificant share of 0.9 per cent.

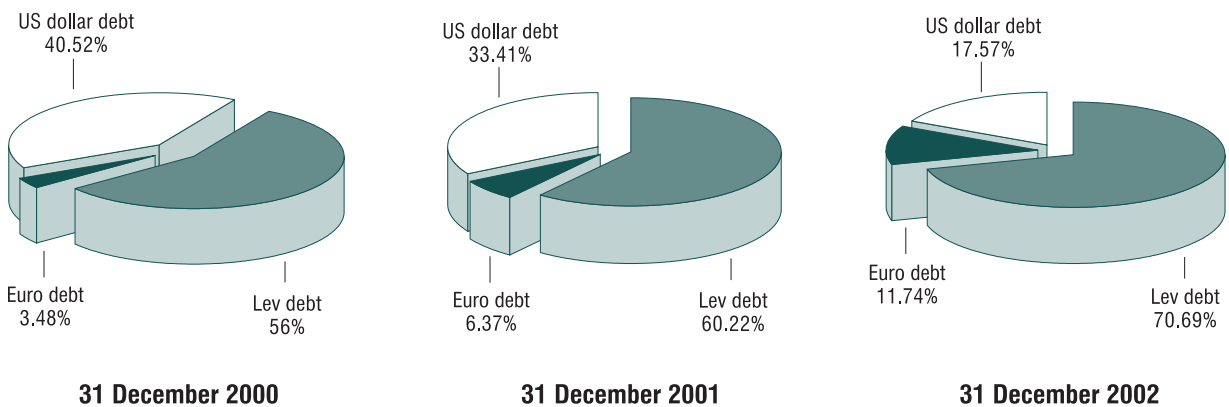
Domestic Government Debt by Instrument Type



Source: MF.

Similar quality improvements occurred in the currency structure of domestic debt because of regular amortisations of forex-denominated debt, and of an issuance of domestic government securities only in levs. This produced a 4.2 per cent drop in forex-denominated government securities issued in 2001. The US dollar share of debt alone fell by 7.1 per cent to 33.4 per cent. In 2002 this trend resulted in an almost 10.5 per cent drop in forex-denominated government securities to 29.3 per cent, of which 17.6 per cent denominated in USD.

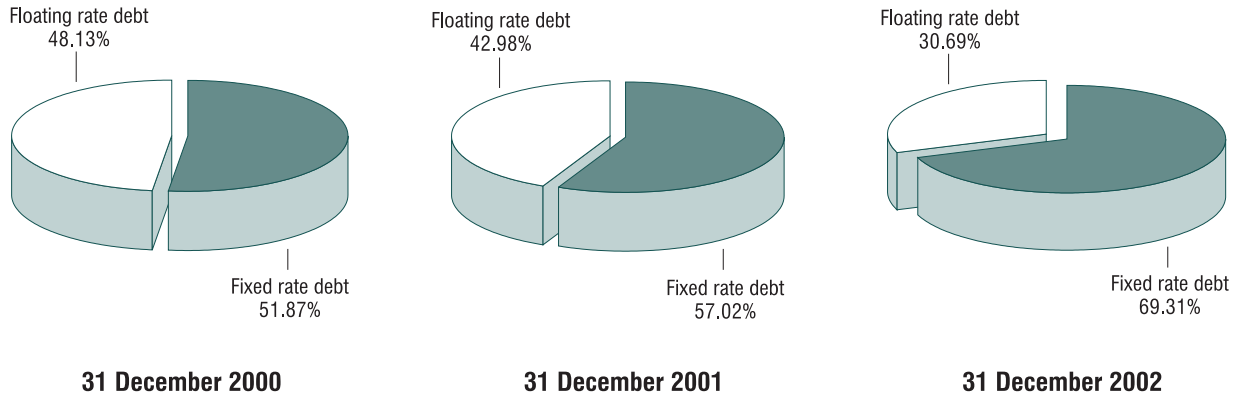
Currency Structure of Domestic Government and Government-guaranteed Debt



Source: MF.

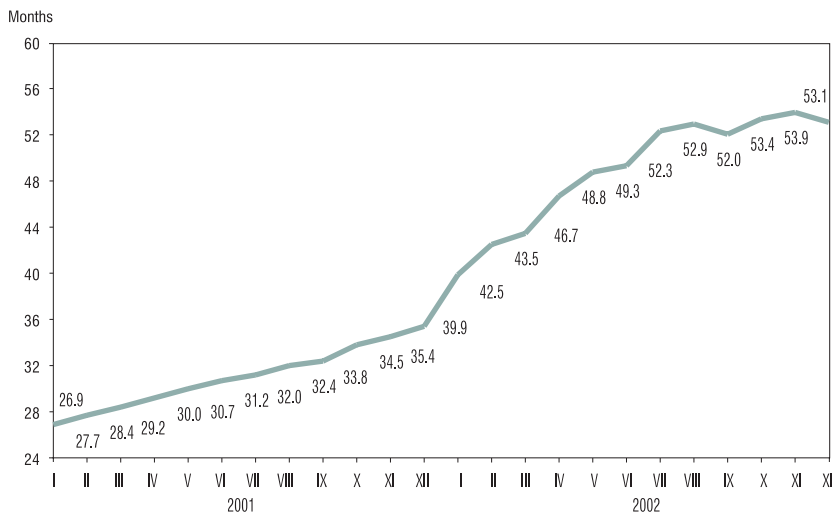
These changes in domestic debt also affected its interest structure. By the end of 2000 the share of fixed-rate government securities (51.87 per cent) exceeded the share of government securities with floating interest by 3.8 per cent. The difference grew further reaching 14 per cent by the close of 2001, and 38.6 per cent by the close of 2002. This was another consequence of the falling share of structural reform government securities and of deposit insurance government bonds with floating (BIR, LIBOR, or EUROLIBOR-linked) interest rates, and of the policy of issuing only fixed-rate government securities.

Interest Structure of Outstanding Government Securities



Source: MF.

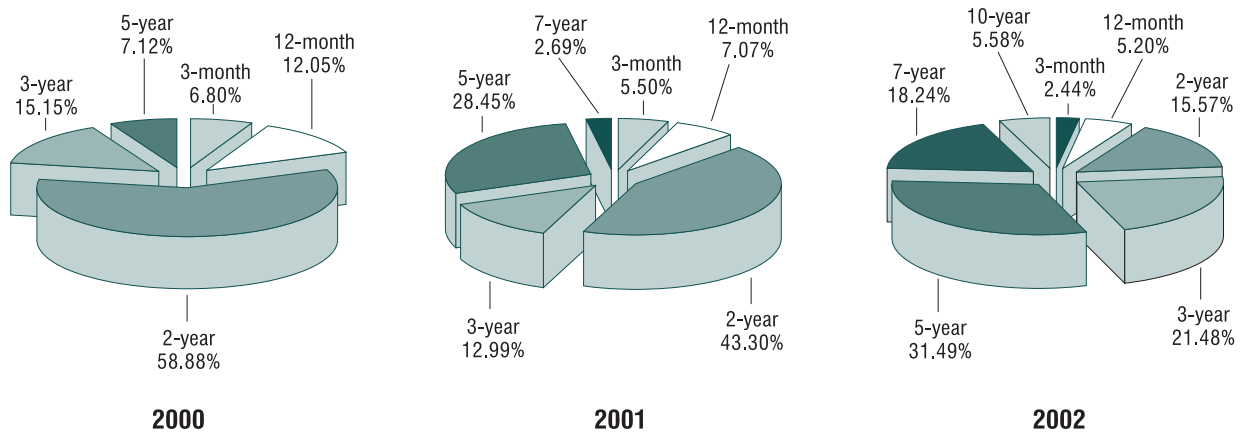
The original maturity of government securities issued for budget deficit financing also evolved positively during the review period. Against an average maturity of two years and three months in early 2001, by the end of December it had grown to almost three years, reaching four years and five months by the close of 2002.



Average-weighted Maturity of Outstanding Government Securities Issued for Budget Deficit Financing

Note: Outstanding as of the end of respective month.
Source: MF.

Maturity Structure of Outstanding Government Securities Issued for Budget Deficit Financing

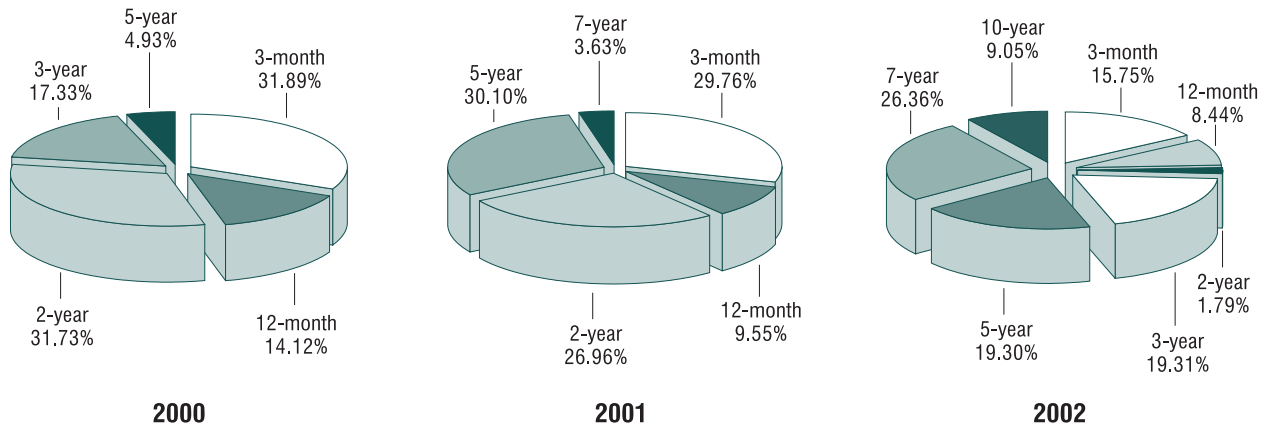


Source: MF.

The lengthening of the maturity of government securities issued for budget deficit financing, alongside the greater variety of presented maturities, allowed positive changes in the direction of greater diversification of instruments in circulation. The debt portfolio comprises a broader range of government securities, with an attendant smoother servicing schedule. Government securities issued in 2001 cover maturities of between three months and seven years. Consequently the share of short-term government securities fell from 18.8 per cent to 12.6 per cent at the expense of both medium-term government securities and the aforementioned seven-year government securities. The subsequent year saw the maturity curve continue to extend, with new issues covering terms of between three months and ten years. As a result, the share of short- and medium-term government securities fell by 4.9 and 16.2 per cent respectively, while that of long-term instruments grew by 21.1 per cent.

This degree of overall diversification resulted from constant monitoring of markets, investor profiles, and of investors' interest in various maturity terms. It was also the result of timely issue amplifications in terms of quantity, and of launching supplementary government securities issues such as the seven-year 2001 issues and the ten-year 2002 issues.

Maturity Structure of New Government Securities Issues



Source: MF.

1. Issuing Policy

Government securities issues in 2001 came to BGN797.3 million. Net domestic financing by government securities was positive, with government securities issued coming to BGN67.8m more than maturing government securities.

Government securities issued on the domestic market in 2002 came to BGN901.8m. Government securities operations continued being the main source of deficit financing during the year, to the tune of BGN331.7m net.

Government securities were auctioned to a previously announced annual auction calendar.

Table 1

Government Securities Issues in 2001 and 2002

Auction date	Issue date	Issue number	Maturity (months)	Maturity date	Interest rate	Offered amount (BGN)	Bids received (BGN)	Bids approved at nominal value (BGN)	Bids approved at sell price (BGN)	Average price attained per BGN 100 nominal value	Minimum approved price per BGN 100 nominal value	Average effective annual yield (%)	Maximum approved yield (%)
2001													
2.01.2001	3.01.2001	B63010001009	3	3.04.2001		10 000 000	21 375 000	10 000 000	9 887 642.47	98.88	98.87	4.53	4.57
8.01.2001	10.01.2001	B62030001114	24	10.01.2003	6.5	25 000 000	57 800 000	25 000 000	25 000 000.00	100.86	100.71	6.04	6.12
15.01.2001	17.01.2001	B63010101007	3	17.04.2001	0.0	10 000 000	19 500 000	10 000 000	9 893 690.02	98.94	98.90	4.29	4.45
22.01.2001	24.01.2001	B62030101112	60	24.01.2006	9.0	20 000 000	95 924 140	20 000 000	20 000 000.00	101.65	101.24	8.59	8.69
5.02.2001	7.02.2001	B63010201005	3	7.05.2001	0.0	10 000 000	22 292 673	10 000 000	9 903 382.52	99.03	99.02	3.96	4.00
12.02.2001	14.02.2001	B63010301003	12	14.02.2002	0.0	20 000 000	61 610 000	20 000 000	19 058 578.00	95.29	95.23	4.87	4.94
19.02.2001	21.02.2001	B63010401001	3	21.05.2001	0.0	10 000 000	13 304 200	10 000 000	9 896 800.00	98.97	98.90	4.22	4.50
26.02.2001	28.02.2001	B62030101112	60	24.01.2006	9.0	20 000 000	87 276 000	20 000 000	20 000 000.00	104.60	104.31	7.87	7.94
5.03.2001	7.03.2001	B63010501008	3	7.06.2001	0.0	10 000 000	19 575 060	10 000 000	9 895 182.53	98.95	98.94	4.15	4.19
12.03.2001	14.03.2001	B62030001114	24	10.01.2003	6.5	25 000 000	64 165 000	25 000 000	25 000 000.00	101.24	101.11	5.83	5.90
19.03.2001	21.03.2001	B63010601006	3	21.06.2001	0.0	10 000 000	22 600 000	10 000 000	9 894 652.54	98.95	98.94	4.15	4.19
26.03.2001	28.03.2001	B62030101112	60	24.01.2006	9.0	20 000 000	70 430 000	20 000 000	20 000 000.00	106.40	105.73	7.44	7.60
2.04.2001	4.04.2001	B63010701004	3	4.07.2001	0.0	10 000 000	17 440 050	10 000 000	9 893 945.99	98.94	98.91	4.24	4.36
9.04.2001	11.04.2001	B62030201110	24	11.04.2003	6.5	25 000 000	54 800 000	25 000 000	25 000 000.00	101.88	101.51	5.49	5.69
17.04.2001	18.04.2001	B63010801002	3	18.07.2001	0.0	10 000 000	15 835 000	10 000 000	9 890 746.50	98.91	98.87	4.36	4.52
23.04.2001	25.04.2001	B62030301118	60	25.04.2006	8.0	20 000 000	55 846 000	20 000 000	20 000 000.00	103.61	102.55	7.13	7.38
27.04.2001	2.05.2001	B63010901000	3	2.08.2001	0.0	10 000 000	18 400 000	10 000 000	9 889 192.52	98.89	98.86	4.39	4.51
7.05.2001	9.05.2001	B63011001008	12	9.05.2002	0.0	20 000 000	52 400 000	20 000 000	19 055 615.00	95.28	95.19	4.89	4.98
14.05.2001	16.05.2001	B63011101006	3	16.08.2001	0.0	10 000 000	17 087 805	10 000 000	9 887 045.24	98.87	98.86	4.47	4.51
21.05.2001	23.05.2001	B62030301118	60	25.04.2006	8.0	20 000 000	60 050 000	20 000 000	20 000 000.00	104.48	104.22	6.92	6.99
4.06.2001	6.06.2001	B63011201004	3	6.09.2001	0.0	10 000 000	18 650 000	10 000 000	9 886 964.99	98.87	98.86	4.47	4.51
11.06.2001	13.06.2001	B62030201110	24	11.04.2003	6.5	25 000 000	40 765 000	25 000 000	25 000 000.00	101.67	101.36	5.61	5.77
18.06.2001	20.06.2001	B63011301002	3	20.09.2001	0.0	10 000 000	15 025 000	10 000 000	9 886 552.49	98.87	98.85	4.47	4.55
25.06.2001	27.06.2001	B62030301118	60	25.04.2006	8.0	20 000 000	49 500 000	20 000 000	20 000 000.00	104.66	104.41	6.88	6.94
2.07.2001	4.07.2001	B63011401000	3	4.10.2001	0.0	10 000 000	20 175 000	10 000 000	9 886 902.50	98.87	98.86	4.47	4.51
9.07.2001	11.07.2001	B62030401116	24	11.07.2003	6.0	25 000 000	54 800 000	25 000 000	25 000 000.00	100.85	100.66	5.55	5.65
16.07.2001	18.07.2001	B63011501007	3	18.10.2001	0.0	10 000 000	18 400 000	10 000 000	9 885 122.50	98.85	98.80	4.55	4.75
23.07.2001	25.07.2001	B62030501113	60	25.07.2006	7.0	20 000 000	51 650 000	20 000 000	20 000 000.00	100.79	100.38	6.81	6.91
30.07.2001	1.08.2001	B63011601005	3	1.11.2001	0.0	10 000 000	16 175 050	10 000 000	9 883 537.50	98.84	98.79	4.59	4.79

(continued)

(continued)

Auction date	Issue date	Issue number	Maturity (months)	Maturity date	Interest rate	Offered amount (BGN)	Bids received (BGN)	Bids approved at nominal value (BGN)	Bids approved at sell price (BGN)	Average price attained per BGN 100 nominal value	Minimum approved price per BGN 100 nominal value	Average effective annual yield (%)	Maximum approved yield (%)
6.08.2001	8.08.2001	BG3011701003	12	8.08.2002	0.0	20 000 000	39 000 000	20 000 000	19 027 610.00	95.14	94.97	5.04	5.22
13.08.2001	15.08.2001	BG3011801001	3	15.11.2001	0.0	10 000 000	15 355 000	10 000 000	9 880 217.51	98.80	98.79	4.75	4.79
20.08.2001	22.08.2001	BG2030501113	60	25.07.2006	7.0	20 000 000	41 950 000	20 000 000	19 977 116.67	100.10	99.24	6.98	7.18
3.09.2001	5.09.2001	BG3011901009	3	5.12.2001	0.0	10 000 000	18 600 000	10 000 000	9 882 581.51	98.83	98.79	4.68	4.85
10.09.2001	12.09.2001	BG2030401116	24	11.07.2003	6.0	25 000 000	32 363 000	25 000 000	25 000 000.00	100.58	100.33	5.69	5.82
17.09.2001	19.09.2001	BG3012001007	3	19.12.2001	0.0	10 000 000	13 898 000	10 000 000	9 880 674.00	98.81	98.75	4.76	5.01
24.09.2001	26.09.2001	BG2030501113	60	25.07.2006	7.0	20 000 000	46 470 000	20 000 000	19 999 630.00	100.40	99.78	6.91	7.05
1.10.2001	3.10.2001	BG3012101005	3	3.01.2002	0.0	10 000 000	25 137 954	10 000 000	9 883 374.50	98.83	98.82	4.63	4.67
8.10.2001	10.10.2001	BG2030601111	24	10.10.2003	6.0	25 000 000	38 600 000	25 000 000	25 000 000.00	100.62	100.47	5.67	5.75
15.10.2001	17.10.2001	BG3012201003	3	17.01.2002	0.0	10 000 000	20 975 000	10 000 000	9 882 766.99	98.83	98.82	4.63	4.67
22.10.2001	24.10.2001	BG2030701119	60	24.10.2006	7.0	20 000 000	43 400 000	20 000 000	20 000 000.00	100.22	99.86	6.95	7.03
29.10.2001	31.10.2001	BG2040001211	84	31.10.2008	7.5	30 000 000	53 672 000	18 930 000	18 068 039.00	95.45	94.70	8.37	8.52
5.11.2001	7.11.2001	BG3012301001	3	7.02.2002	0.0	10 000 000	15 810 050	10 000 000	9 882 929.51	98.83	98.81	4.63	4.71
12.11.2001	14.11.2001	BG3012401009	12	14.11.2002	0.0	20 000 000	30 300 000	20 000 000	19 013 870.00	95.07	94.85	5.11	5.36
19.11.2001	21.11.2001	BG3012501006	3	21.02.2002	0.0	10 000 000	10 745 000	10 000 000	9 879 053.50	98.79	98.70	4.79	5.15
26.11.2001	28.11.2001	BG2030701119	60	24.10.2006	7.0	20 000 000	55 400 000	20 000 000	19 999 660.00	100.36	99.91	6.91	7.02
30.11.2001	5.12.2001	BG2040001211	84	31.10.2008	7.5	11 070 000	54 615 000	11 070 000	10 869 590.00	98.19	97.80	7.84	7.91
3.12.2001	5.12.2001	BG3012601004	3	5.03.2002	0.0	10 000 000	17 650 000	10 000 000	9 885 400.02	98.85	98.83	4.65	4.74
10.12.2001	12.12.2001	BG2030601111	24	10.10.2003	6.0	25 000 000	39 300 000	25 000 000	25 000 000.00	100.69	100.42	5.63	5.77
17.12.2001	19.12.2001	BG3012701002	3	19.03.2002	0.0	10 000 000	16 525 000	10 000 000	9 885 023.99	98.85	98.78	4.65	4.94
21.12.2001	27.12.2001	BG2030701119	60	24.10.2006	7.0	20 000 000	28 750 000	20 000 000	19 980 480.00	100.20	99.40	6.95	7.14
Total amount for 2001						801 070 000	1 791 366 982	790 000 000	470 000 000.00				
2002													
2.01.2002	2.01.2002	BG3010002007	3	2.04.2002		12 000 000	11 530 000	11 530 000	11 383 557.00	98.82	98.70	4.78	5.27
7.01.2002	9.01.2002	BG2030002112	60	9.01.2007	7.0	25 000 000	62 850 000	25 000 000	25 000 000.00	100.71	100.40	6.83	6.90
14.01.2002	16.01.2002	BG2040002219	84	16.01.2009	7.5	30 000 000	106 295 000	30 000 000	30 000 000.00	100.47	100.20	7.41	7.46
21.01.2002	23.01.2002	BG2040002219	84	16.01.2009	7.5	30 000 000	99 331 000	50 000 000	50 000 000.00	101.46	101.27	7.23	7.27
4.02.2002	6.02.2002	BG3010102005	3	6.05.2002		12 000 000	28 164 500	12 000 000	11 867 351.99	98.89	98.87	4.54	4.62
11.02.2002	13.02.2002	BG2030002112	60	9.01.2007	7.0	20 000 000	72 470 000	20 000 000	20 000 000.00	101.98	101.65	6.53	6.61
18.02.2002	20.02.2002	BG2040102217	87	20.05.2009	7.0	30 000 000	63 350 000	30 000 000	29 715 665.00	99.05	98.85	7.17	7.20
4.03.2002	6.03.2002	BG3010202003	3	6.06.2002		12 000 000	30 601 050	12 000 000	11 865 697.00	98.88	98.87	4.43	4.47
11.03.2002	13.03.2002	BG2030102110	36	13.03.2005	6.5	25 000 000	72 750 000	25 000 000	25 000 000.00	101.62	101.27	5.90	6.03
18.03.2002	20.03.2002	BG2040102217	87	20.05.2009	7.0	25 000 000	58 812 000	25 000 000	24 937 445.80	99.77	99.16	7.04	7.15
25.03.2002	27.03.2002	BG3010302001	12	27.03.2003		20 000 000	40 420 000	20 000 000	19 039 264.02	95.20	95.13	4.97	5.05

(continued)

II. Domestic Debt

(continued)

Auction date	Issue date	Issue number	Maturity (months)	Maturity date	Interest rate	Offered amount (BGN)	Bids received (BGN)	Bids approved at nominal value (BGN)	Bids approved at sell price (BGN)	Average price attained per BGN 100 nominal value	Minimum approved price per BGN 100 nominal value	Average effective annual yield (%)	Maximum approved yield (%)
1.04.2002	3.04.2002	B63010402009	3	3.07.2002		12 000 000	31 830 050	12 000 000	11 877 481.99	99.98	98.95	4.08	4.20
8.04.2002	10.04.2002	B62030002112	60	9.01.2007	7.0	25 000 000	47 080 000	25 000 000	25 000 000.00	102.01	101.72	6.52	6.59
15.04.2002	17.04.2002	B62040202215	120	17.04.2012	7.5	15 000 000	72 080 000	15 000 000	14 720 665.01	98.14	96.54	7.77	8.01
22.04.2002	24.04.2002	B62040202215	120	17.04.2012	7.5	25 000 000	59 859 600	25 000 000	24 192 272.51	96.77	95.94	7.98	8.10
29.04.2002	30.04.2002	B63010502006	3	30.07.2002		12 000 000	26 340 000	12 000 000	11 882 447.00	99.02	98.99	3.92	4.04
7.05.2002	9.05.2002	B62030002112	60	9.01.2007	7.0	20 000 000	36 250 000	20 000 000	20 000 000.00	102.07	101.83	6.51	6.56
13.05.2002	15.05.2002	B62040102217	87	20.05.2009	7.0	35 000 000	58 300 000	35 000 000	34 804 752.99	99.44	99.15	7.10	7.15
3.06.2002	5.06.2002	B63010602004	3	5.09.2002		12 000 000	26 677 000	12 000 000	11 887 114.00	99.06	99.02	3.71	3.87
10.06.2002	12.06.2002	B62030102110	36	13.03.2005	6.5	25 000 000	44 151 000	25 000 000	25 000 000.00	101.68	101.30	5.88	6.02
17.06.2002	19.06.2002	B62040202215	120	17.10.2012	7.5	25 000 000	42 338 500	25 000 000	23 980 075.00	95.92	95.33	8.10	8.19
24.06.2002	26.06.2002	B63010702002	12	26.06.2003		20 000 000	21 700 000	20 000 000	18 999 200.00	95.00	94.45	5.19	5.80
1.07.2002	3.07.2002	B63010802000	3	3.10.2002		12 000 000	31 190 000	12 000 000	11 888 878.01	99.07	99.20	3.67	3.67
8.07.2002	10.07.2002	B62030202118	60	10.07.2007	6.5	25 000 000	38 080 000	25 000 000	24 919 465.52	99.81	98.92	6.55	6.76
15.07.2002	17.07.2002	B62040302213	84	17.07.2009	7.0	20 000 000	29 863 500	20 000 000	19 678 223.30	98.39	97.31	7.30	7.50
22.07.2002	24.07.2002	B62040202215	120	17.04.2012	7.5	25 000 000	28 859 300	19 920 000	18 677 317.00	93.76	92.81	8.44	8.59
29.07.2002	31.07.2002	B62030302116	36	31.07.2005	5.8	25 000 000	24 200 000	16 900 000	16 695 405.00	98.83	98.25	6.18	6.40
8.08.2002	7.08.2002	B63010902008	3	7.11.2002		12 000 000	15 430 000	12 000 000	11 884 366.00	99.04	98.94	3.79	4.19
12.08.2002	14.08.2002	B62030202118	60	10.07.2007	6.5	20 000 000	19 100 000	14 750 000	14 521 165.00	98.45	97.95	6.87	6.99
19.08.2002	21.08.2002	B62040302213	84	17.07.2009	7.0	15 000 000	24 239 000	15 000 000	14 457 379.50	96.38	95.33	7.68	7.88
2.09.2002	4.09.2002	B63011002006	3	4.12.2002		12 000 000	26 230 000	12 000 000	11 887 617.00	99.06	99.04	3.75	3.83
9.09.2002	11.09.2002	B62030402114	36	11.09.2005	6.0	25 000 000	33 700 000	25 000 000	24 783 295.00	99.13	98.75	6.32	6.47
23.09.2002	25.09.2002	B63011102004	12	25.09.2003		20 000 000	40 901 050	20 000 000	18 969 052.54	94.85	94.72	5.36	5.50
30.09.2002	2.10.2002	B63011202002	3	2.01.2003		12 000 000	18 805 000	12 000 000	1 187 408.26	99.06	99.02	3.71	3.87
7.10.2002	9.10.2002	B62030202118	60	10.07.2007	6.5	25 000 000	49 950 000	25 000 000	24 685 940.00	98.78	98.27	6.79	6.92
14.10.2002	16.10.2002	B62040302213	84	17.07.2009	7.0	20 000 000	48 880 300	20 000 000	19 325 620.85	96.63	96.35	7.63	7.68
28.10.2002	30.10.2002	B62030302116	36	31.07.2005	5.8	25 000 000	44 150 000	25 000 000	24 666 964.00	98.67	98.47	6.24	6.32
4.11.2002	6.11.2002	B63011302000	3	6.02.2003		12 000 000	19 710 000	12 000 000	11 887 639.99	99.06	99.05	3.71	3.75
11.11.2002	13.11.2002	B62030202118	60	10.07.2007	6.5	20 000 000	67 184 700	20 000 000	19 897 617.41	99.52	99.30	6.61	6.67
18.11.2002	20.11.2002	B62040302213	84	17.07.2009	7.0	15 000 000	86 964 000	15 000 000	14 861 220.62	99.09	98.94	7.17	7.20
25.11.2002	27.11.2002	B62030302116	36	31.07.2005	5.8	33 100 000	92 265 700	33 100 000	32 957 814.50	99.57	99.38	5.91	5.98
2.12.2002	4.12.2002	B63011402008	3	4.03.2003		12 000 000	35 158 000	12 000 000	11 901 792.02	99.18	99.15	3.31	3.34
9.12.2002	11.12.2002	B62030402114	36	11.09.2005	6.0	25 000 000	66 700 000	25 000 000	25 000 000.00	100.80	100.60	5.71	5.78
16.12.2002	18.12.2002	B63011502005	12	18.12.2003		20 000 000	52 800 000	20 000 000	19 064 305.00	95.32	95.27	4.84	4.90
Total amount for 2002						897 100 000	2 007 540 250	898 200 000	874 971 475.83				

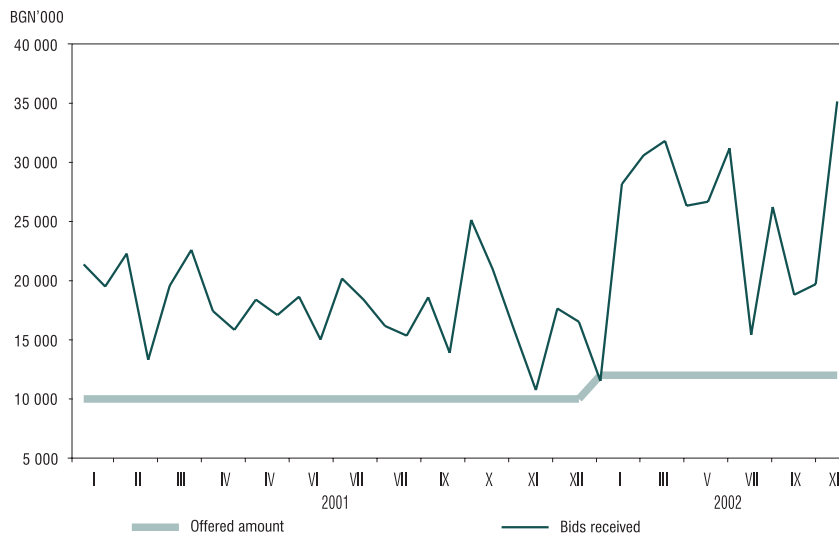
Source: MF.

Treasury Bill Issues

Short-term government securities issued during 2001 and 2002 comprised three-month and 12-month treasury bills to a gross nominal value of BGN320 million for the former year, and BGN223.53m for the latter. Short-term treasury bill yield is a result of the discount from the nominal price. The yield on 3-month bills, set on the auction, then determines the base interest rate for the relevant period.

In 2001, auctions for three-month treasury bills were fortnightly, with volumes of BGN10m offered at each. Yield was lowest in the first quarter (3.96 per cent for February), and highest in the closing quarter (4.79 per cent in November). The Ministry of Finance offered a total of BGN240m's worth, with bids coming to BGN430.5m. In overall terms, average demand for short-term maturity government securities almost doubled supply, resulting in yield retention within relatively steady bounds as defined by the highest and lowest values.

The intervals between three-month treasury bill issues decreased in 2002 while offered volumes grew. Each month saw an auction for BGN12m's worth of three-month government securities. The Ministry of Finance sold the entire volume offered, except for the issue dated for the first week in January which drew bids for BGN11.5m, or half a million short of the offer amount. Yield for three-month government securities was highest early in the year (4.78 per cent in January), and lowest at the year's close (3.31 per cent in December).



Offered Amount and Bids Received of Three-month Government Securities

Source: MF.

Four issues of 12-month treasury bills were placed in 2001 at quarterly frequencies, and volumes of BGN20m each. The total of one-year government securities came to BGN80m against bids for BGN183.3m: bid-to-cover ratio of 2.3. Yield on these instruments climbed slightly through the year within the bounds of 4.87 per cent in the first quarter and 5.11 per cent in the last. The subsequent year also saw four issues of 12-month treasury bonds at BGN20m each: a total of BGN80m. Bids received came to BGN155.8m, indicating declining primary dealer interest in 12-month government securities. In turn, this meant greater yield amplitudes, with a 5.36 per cent high in the third quarter, and a 4.84 per cent low in the year's closing quarter.

Treasury Bond Issues

Treasury bond issues in the 2001–2002 period continued selling at auctions as open issues (meaning that declared issues may continue to be amplified as the year progresses). Issues featured fixed interest coupons.

Bonds issued in 2001 came to an overall nominal value of BGN470m. Each quarter's auction calendar had one issue each of two-year and five-year government securities. In connection with favourable domestic market developments and the appearance of investors with definite preferences for longer-term government securities, October also saw the first long-term (seven-year) treasury bonds.

Bonds issued in 2002 came to an overall nominal value of BGN674.7m, or BGN204.7m more than in the preceding year. Greater demand for government securities, in particular longer-maturity ones, led to supplementary issues (such as one for seven-year and three-month government securities), and to the breaching of the seven-year horizon with the market's first ten-year treasury bonds.

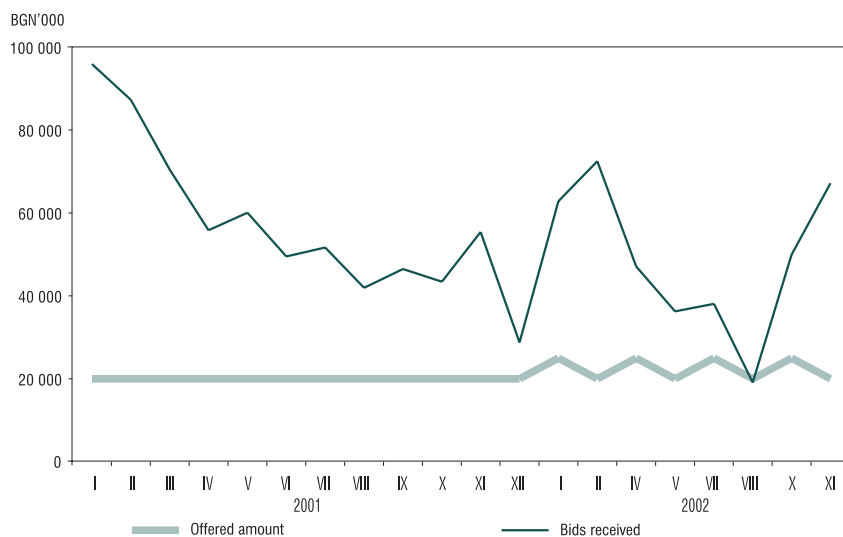
Eight auctions for two-year treasury bonds put four quarterly issues of BGN50m volumes each on the market in 2001. The overall volume of the two-year instruments came to BGN200m, and bids received came to BGN382.6m. With some fluctuation yield dropped from 6.04 per cent at the year's start to 5.63 per cent at its close.

In line with the Ministry of Finance's policy of extending maturity and diversifying newly issued government securities, 2002 saw two-year treasury bonds replaced with three-year ones. Linked to this were reductions in issue numbers and corresponding volume increases aimed at improving liquidity in secondary trading. Three issues of three-year treasury bonds with a nominal value of BGN175m were launched during the period. Two of them (one per half-year)

featured in the auction calendar, with volumes of BGN50m offered at four auctions. Due to enhanced market interest, in July a supplementary issue of BGN75m was placed. Annual bid-to-cover ratio for government securities with this maturity term was 2.16. Yield of three-year government securities grew slowly until September, thereafter reversing to reach 5.71 per cent at the year's close (from 5.9 per cent at its beginning).

Launched in 2000, five-year treasury bonds drew interest which made them a feature of the 2001 auction calendar. Four issues of government securities with this maturity were offered at twelve auctions, with volumes of BGN60m each: each issue opened for bids three times per quarter. Five-year bonds offered through the year came to an overall nominal value of BGN240m, with bids coming to BGN686.6m: the greatest bid-to-cover ratio of some three times unity. This in turn logically led to the greatest yield drop: from 8.59 to 6.95 per cent respectively at the year's start and close, or a 164 basis point drop.

Two issues of five-year treasury bonds were offered at eight primary market auctions in 2002: one BNG90m issue per half-year, or a total of BGN180m for the year. Since bids for BGN5.25m at the November auction were not approved, this amount was cancelled, cutting the year's total to BGN174.75m. Bid-to-cover ratio came to 2.25 for the year. Excepting an August high of 6.87 per cent, overall yield dropped with slight deviations both for that year, and *vis-à-vis* the prior year. The circumstance that yield fell from 6.95 per cent at the close of 2001 to 6.61 per cent a year on, confirms this.



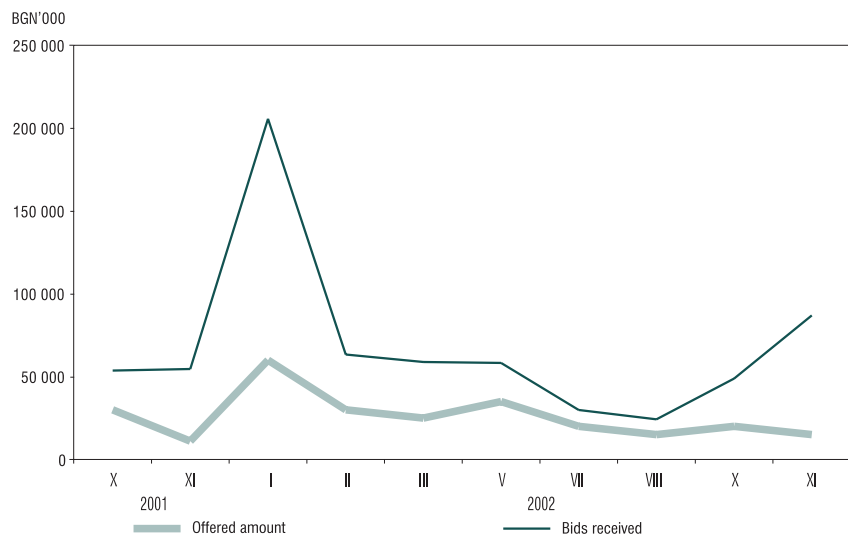
Offered Amount and Bids Received of Five-Year Government Securities

Source: MF.

In October 2001 the first long-term seven-year treasury bond issue took place. These came to BNG30m nominal value, and were offered at two successive auctions in October and November. Bids came to BGN108.3m, or over two and a half times issue amount. This cut yield by 53 basis points from 8.37 per cent at the first auction to 7.84 per cent at the second and final auction.

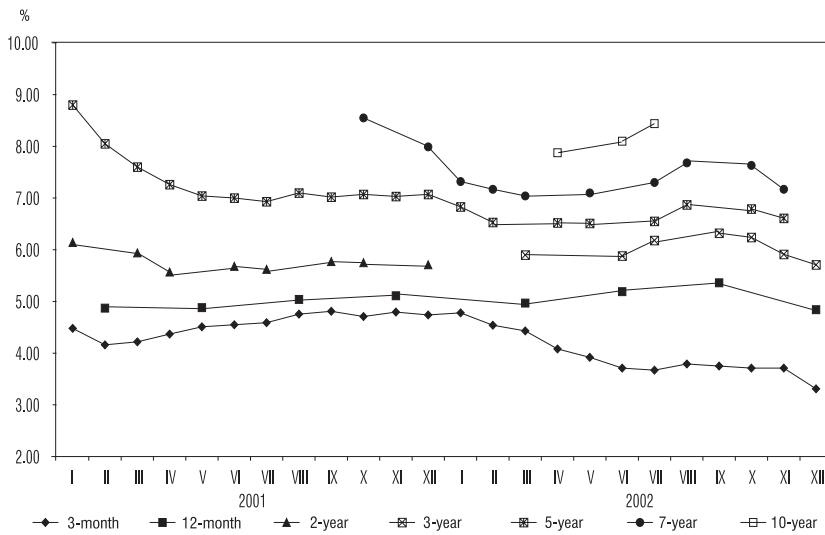
The 2002 auction calendar featured two seven-year treasury bonds issues to an overall nominal value of BGN140m: one BGN70m issue per half-year. The first auction in January showed exceptional demand for such securities: bids exceeded offered amounts by over three and a half times, and yield fell by 43 basis points on the prior auction (at the close of 2001). To prevent possible government securities market dislocation, the Ministry of Finance offered the entire balance of the issue for sale the following week, amplifying it by BGN10m. Nevertheless, clear signs of favourable market conditions for long-term debt instrument issues prompted the February issue of BGN90m worth of seven-year and three-month treasury bonds to be offered at three auctions. This increased the year's overall volume of long-term government securities to BGN240m, with an average bid-to-cover ratio of 2.68. Disregarding the spikes registered during banking system's temporary liquidity imbalances, yield fell through the year from 7.41 per cent at the start to 7.17 per cent at the end.

Offered Amount and Bids Received of Seven-Year Government Securities



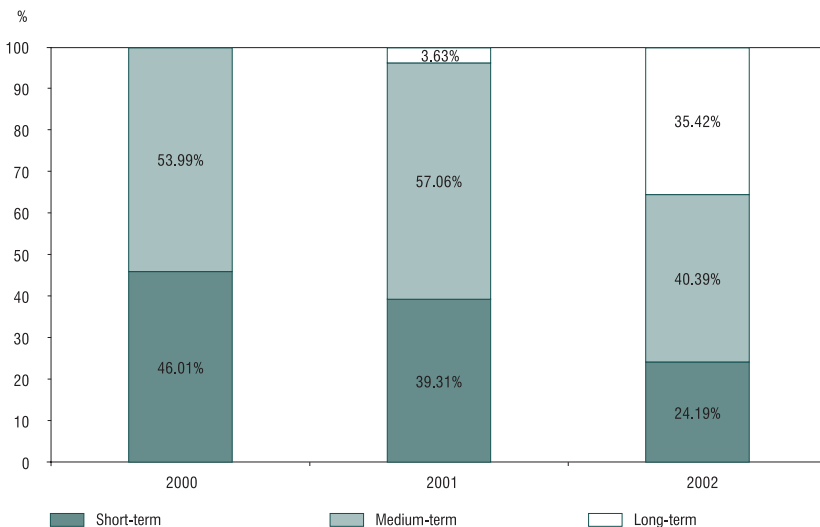
Source: MF.

Favourable market perceptions of long-term government securities in early 2002 enabled the Ministry of Finance to extend the maturity curve further by issuing ten-year treasury bonds. These were launched in April, with an overall volume of BGN90m scheduled for sale at four auctions over the rest of the year. Overall approved volume came to BGN84.9m, with primary dealers bidding BGN202.9m, or a bid-to-cover ratio of 2.32. Yield moved between 7.77 and 8.44 per cent.



Government Securities Primary Market Yield

Source: MF.



Structure of Newly Issued Government Securities

Source: MF.

Government Securities Targeted to Individual Investors

Government securities are sold to individuals at a BNB counter and by nine financial institutions – primary dealers with MF contracts to retail government securities. Only two-year treasury bonds were issued in 2001 and 2002. In line with their intended use, these instruments involve fixed interest payments to a step-up schedule, increasing for each of their four coupons. Yield is 6.75 per cent. Treasury bonds targeted to individual investors and issued in 2001 came to an overall nominal value of BGN14.9m, or some BGN7m less than in 2000. Issues in 2002 came to BGN16.1m: some BGN1.2m more than the prior year.

2. Domestic Debt Service

Domestic debt service in 2001 came to BGN857.3m or BGN393.2m less than the prior year. Principal repayments came to BGN729.5m and interest to BGN127.8m, or 14.9 per cent of annual repayments. This indicator confirms the trend to a gradual drop in domestic debt service: a result both of debt staying relatively constant, and of the drop of government securities interest.

Domestic debt service in 2002 came to BGN678.2m or BGN179.1m less than in 2001. Principal repayments came to BGN570.1m and interest to BGN108.1m: an 84.1/15.9 per cent principal/interest ratio. Interest expenditure in 2001 comprised 2.1 per cent of total budget expenditures and in 2002 it accounted for 1.3 per cent.

Government Securities for Budget Deficit Financing

Principal payments on government securities for budget deficit financing in 2001 came to BGN662m, of which BGN652.3m was on regular issues, and BGN9.7m: on retail government securities. Repurchases prior to maturity involved BGN4.1m. Interest expenditures on government securities for budget deficit financing came to BGN75.8m, or 59.3 per cent of overall domestic debt interest expenditures.

Principal payments on government securities for budget deficit financing in 2002 were BGN514m, of which BGN495.8m on regular issues, and BGN18.2m on retail issues. Repurchases of retail bonds before maturity involved BGN2.8m. Interest expenditures on government securities for budget deficit financing came to BGN79.5m or 73.6 per cent of the overall domestic debt interest expenditures.

Operations in government securities for budget deficit financing in 2001 cut short-term (up to a year) debt by BGN42.8m, lifting long-term debt by BGN174m. Short-term debt continued falling in 2002, with a BGN23.7m real drop and a BGN408.7m real rise in long-term debt on 2001.

Government Securities for Structural Reform

Disregarding lev/dollar rate fluctuations, debt on structural reform government securities in 2001 marked a BGN34.6m drop due mostly to regular amortisation. Repayments came to BGN63.3m, of which BGN20.2m on deposit insurance securities. Debt servicing cost BGN52m, including BGN2.1m on deposit insurance government securities. Bonds cancelled for use as payment in privatisation transactions had a nominal value of USD112,000 and BGN15,600. Bonds worth USD4.7m and BGN28,100 repaid ZUNK debt to the government.

Part of the July 2001 measures to cut the dollar component in debt structure was a subscription to exchange USD-denominated ZUNK bonds for euro-denominated ones. This led to the exchange of USD31.9m worth of ZUNK bonds for EUR37.5m.

In 2002 structural reform government securities debt fell by BGN129m on 2001, reaching BGN647.6m. This mainly reflects overall repayments of BGN53.4m, BGN10.2m of which were repayments on deposit insurance government securities. Interest expenditure on structural reform government securities came to BGN27.4m, including BGN1.2m on deposit insurance government securities. Bonds worth USD37.6m were used as privatisation means, and ZUNK debt to the government was repaid mainly with bonds worth USD3.7m, amplified by minor amounts of euro- and lev-denominated bonds.

Regular quarterly subscriptions for exchanging dollar-denominated ZUNK bonds with euro-denominated ones continued in 2002. The year's four subscriptions saw paper worth a nominal USD62.1m exchanged with bonds worth EUR69.6m.

Table 2

Domestic Debt Dynamics

Structure	Debt by 31 Dec 2000, BGN million	Rise, BGN million	Fall, BGN million	Debt by 31 Dec 2001, BGN million	Nominal rise/fall	%	Rise, BGN million	Fall, BGN million	Debt by 31 Dec 2002, BGN million	Nominal rise/fall	%
Domestic debt, total	1 767.21	870.60	816.97	1 860.50	93.29	5.28	1 037.88	719.24	2 111.75	251.25	13.50
I. Government debt	1 757.23	870.60	813.64	1 853.85	96.62	5.50	1 037.88	714.47	2 109.87	256.02	13.81
1. Budget deficit financing											
government securities	946.07	797.29	666.12	1 077.25	131.18	13.87	901.80	516.78	1 462.27	385.02	35.74
3-month	64.29	237.30	242.29	59.30	-4.99	-7.76	142.11	165.73	35.68	-23.62	-39.84
1-year	113.99	76.16	113.99	76.16	-37.83	-33.19	76.07	76.16	76.07	-0.08	-0.11
2-year	557.10	214.94	305.61	466.43	-90.67	-16.28	16.13	254.89	227.67	-238.76	-51.19
3-year	143.31	0.00	3.38	139.93	-3.38	-2.36	174.10	0.00	314.03	174.10	124.42
5-year	67.39	239.96	0.85	306.50	239.11	354.84	174.03	20.00	460.53	154.03	50.26
7-year	0.00	28.94	0.00	28.94	28.94	0.00	237.78	0.00	266.72	237.78	821.70
10-year	0.00	0.00	0.00	0.00	0.00	0.00	81.57	0.00	81.57	81.57	
2. Structural reform											
government securities	762.52	73.30	127.32	748.01	-14.51	-1.90	136.07	187.53	629.16	-118.84	-15.89
7-year	4.66	0.00	3.11	1.55	-3.11	-66.67	0.00	1.55	0.00	-1.55	-100.00
19-year	3.03	0.00	0.28	2.75	-0.28	-9.09	0.00	0.28	2.48	-0.28	-10.00
20-year	47.75	73.30	2.51	118.54	70.79	148.26	136.07	6.60	248.01	129.47	109.22
24-year	2.17	0.00	0.14	2.03	-0.14	-6.40	0.00	0.13	1.91	-0.13	-6.25
25-year	704.91	0.00	121.29	623.13	-81.78	-11.60	0.00	178.98	376.77	-246.36	-39.54
3. Deposit insurance											
government securities	48.64	0.00	20.20	28.59	-20.05	-41.21	0.00	10.16	18.44	-10.16	-35.52
7-year	48.64	0.00	20.20	28.59	-20.05	-41.21	0.00	10.16	18.44	-10.16	-35.52
II. Domestic government guarantees	9.98	0.00	3.33	6.65	-3.33	-33.36	0.00	4.77	1.88	-4.77	-71.73

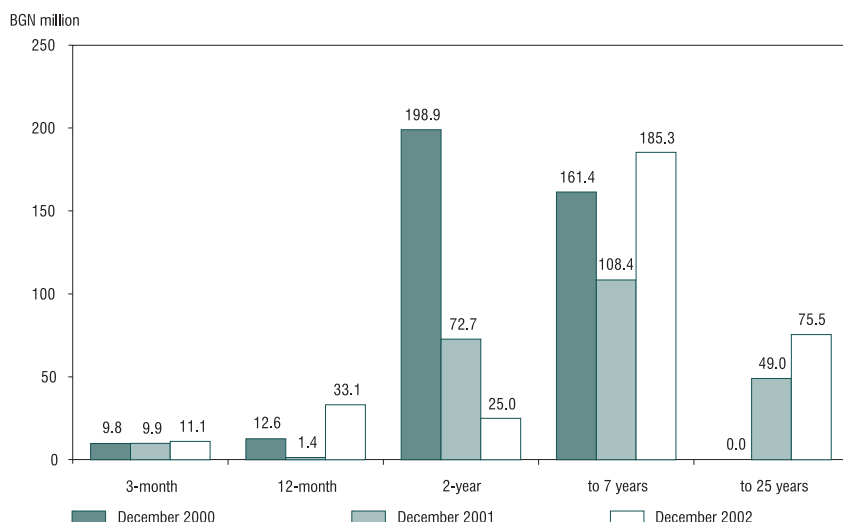
Source: MF.

III. Development of the Secondary Government Securities Market

Influences on the secondary government securities market over the past two years included the Ministry of Finance's continuing to limit issues of short-term bonds and its adoption of tap issues with longer maturity terms. This kept the market lively, with some excess of demand over supply. Market activity also reflected the fact that commercial banks increasingly use government securities to boost current liquidity, alongside these instruments' profit-bearing role.

In 2001 the secondary market registered 8,599 deals to a total nominal value of BGN8,097.7m. Medium-term (one to five-year) securities predominated with BGN5,446.8m or 67.3 per cent, followed by long-term (over five years; BGN1,830m or 22.6 per cent) and short-term (up to a year; BGN820m or 10.1 per cent) instruments.

In 2002 the secondary market saw 8,029 deals to a nominal value of BGN7,140.5m. Medium-term government securities (one to five years) again led with BGN3,854.7m or 53.98 per cent. Second most popular were long-term government securities (over five years) with BGN2,898.1m or 40.59 per cent of total volume, and short-term government securities trailed with BGN387.7m nominal value or 5.43 per cent. Deals broke down into 4,231 for medium-term, 3,136 for long-term, and 662 for short-term government securities.



Maturity Structure of the Secondary Government Securities Market Deals

Note: Forex-denominated government securities expressed in leva at the BNB rate for the last business day of each period.

Source: BNB.

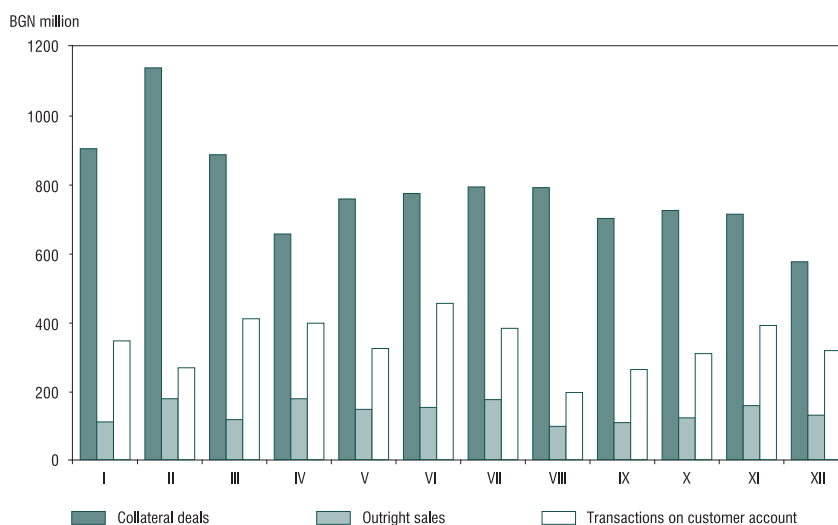
III. Development of the Secondary Government Securities Market

Over 2001 and 2002 volumes traded unevenly in time. Days when new government securities issues were launched, and periods when retail banks adjusted their minimum required reserves with the BNB saw more deals. Ratios between major government securities transaction types remained steady over the review period: collateral deals were predominant in both years with between 61 and 63 per cent, followed by primary dealers' deals on customer account (26 – 27 per cent), and outright interbank market deals (11 – 12 per cent). Repo deal yields followed base rate fluctuations.

Traded Government Securities Volume by Deal Type, 2001

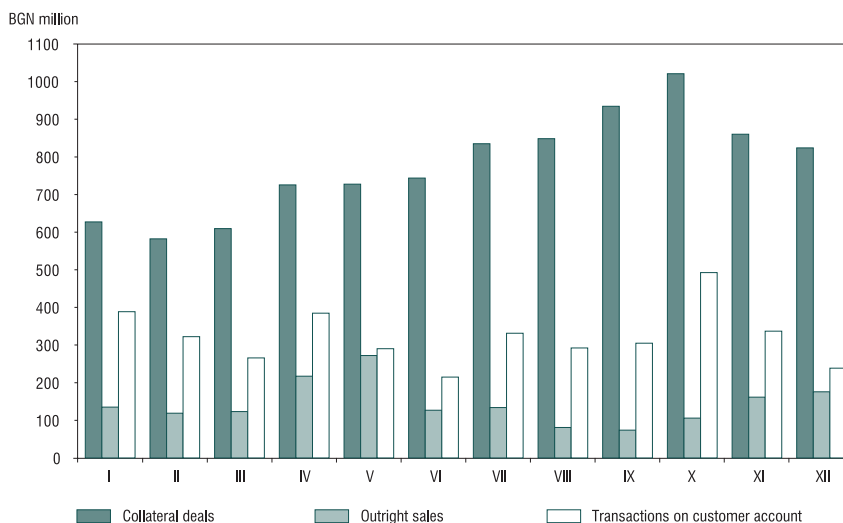
- Notes:** 1. Including the volume of approved auction bids on account of nonprimary dealers, companies, and individuals.
 2. Repo volumes include reverse repo agreements plus intraday transactions.
 3. Forex-denominated government securities expressed in levs at the BNB rate for the respective currency quoted on the transaction date.

Source: BNB.

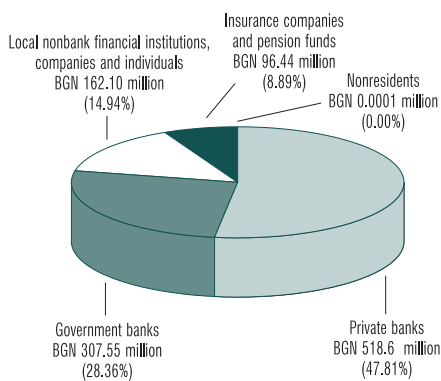


Traded Government Securities Volume by Deal Type, 2002

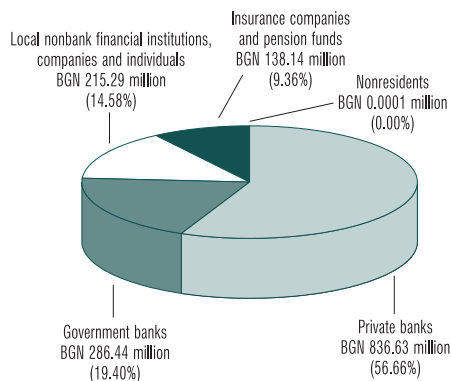
Source: BNB.



The structure of government securities holders for the two years under review remained relatively stable, with few fluctuations in individual months. In 2001 the greatest market share of budget deficit financing government securities comprised private banks (76.2 per cent), followed by local nonbank financial institutions, companies, and individuals (14.9 per cent); and insurance companies, and pension funds (8.9 per cent). Over the subsequent year the major share continued to be with private banks (76.06 per cent). Local nonbank financial institutions, companies, and individuals showed practically no change at 14.58 per cent. Insurance companies and pension funds marked a slight share increase to 9.36 per cent.



31 December 2001



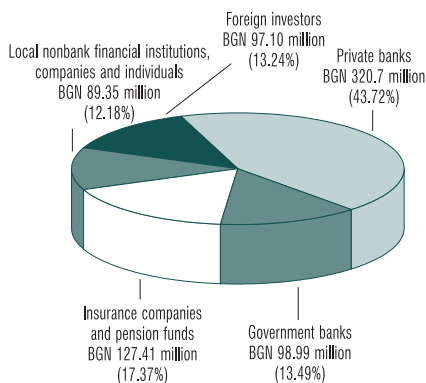
31 December 2002

Holders of Budget Deficit Financing Government Securities

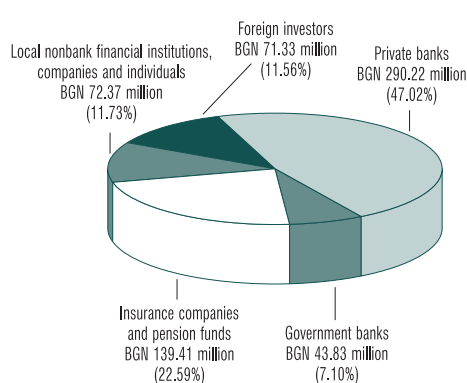
Notes: 1. Including government securities blocked by holders.

2. Including issues targeted to individual investors.

Source: BNB.



31 December 2001



31 December 2002

Holders of Forex-denominated Government Securities Issued for Structural Reform

Notes: 1. Including government securities blocked by holders.

2. The lev equivalent is computed at BNB rate quoted for 31 December of the respective year.

3. Preliminary data for 2002.

Source: BNB.

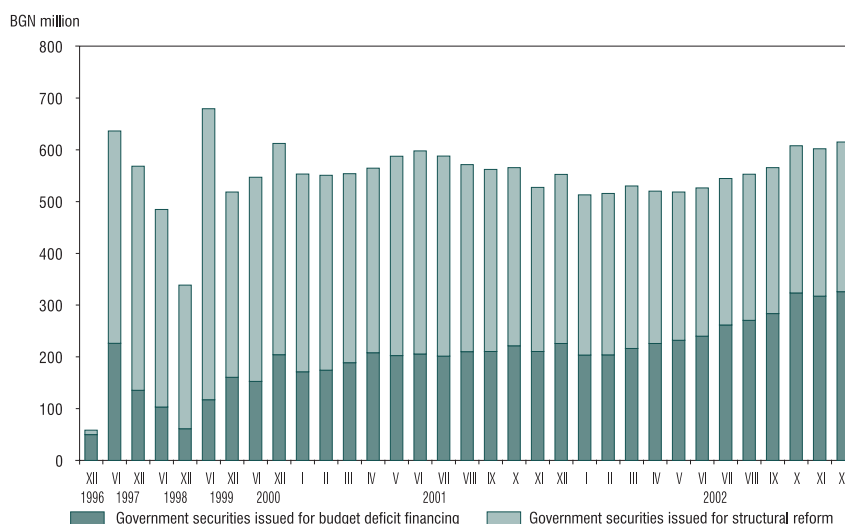
III. Development of the Secondary Government Securities Market

Budget deficit financing government securities deals increased by 31.2 per cent over the January to December 2001 period, while structural reform government securities deals fell by 14.6 per cent. In 2002, budget deficit financing government securities deals grew more significantly by 60 per cent, while structural reform government securities deals marked a second successive decline (by 6.46 per cent) due to the natural volume reduction of outstanding issues.

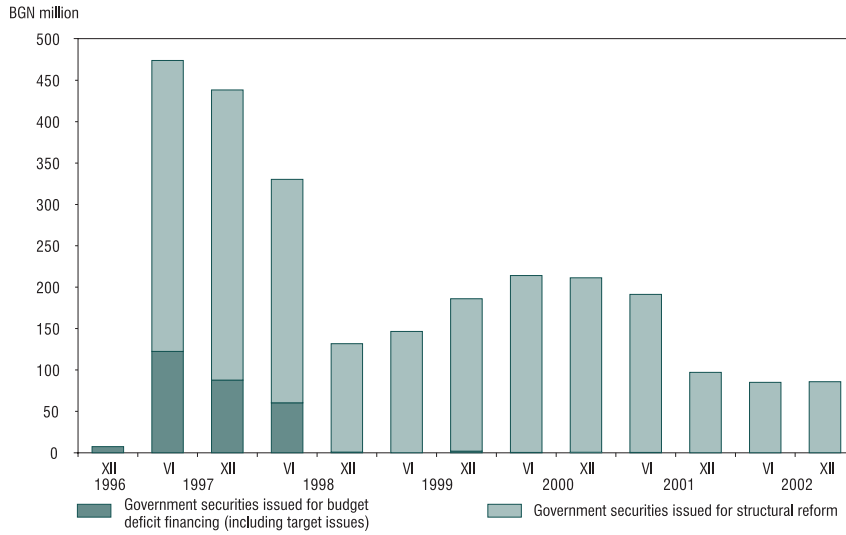
Investment by Nonbank Financial Institutions, Companies, and Private Investors into Budget Deficit Financing and Structural Reform Government Securities

Note: The lev equivalent of forex-denominated government securities is computed at the BNB rate quoted for the last business day of each period.

Source: BNB.



The volume of government securities in foreign investors' portfolios fell considerably in 2001: from BGN196.7m to BGN97.1m, or by 50.6 per cent. Over the first half of the year, the level of such investment stayed relatively high, with the enduring downward trend setting in during September. The decline deepened in 2002 with the BGN93.5m of government securities held by non-residents at the year's opening falling by 23.74 per cent to BGN71.3m at the year's end. Among the basic reasons for lower foreign investor interest in domestic debt instruments is the recent years' issuance by the Bulgarian government of new attractive global and eurobond issues on international financial markets. These more liquid and tradable instruments inevitably redirected attention to themselves.



**Government Securities
in Foreign Investors'
Portfolios**

Note: The lev equivalent of forex-denominated government securities is computed at the BNB rate quoted for the last business day of each period.

Source: BNB.

IV. Foreign Debt

By the close of 2001 Bulgaria's foreign debt came to euro 9,672.9 million. Despite the rise in its absolute value by EUR32.5m on 2000, its ratio to GDP fell significantly. The ratio's slide since late 1999 became entrenched, with considerable improvement from that year's 74.2 per cent to 2001's 63.7 per cent. The reasons for this positive change were the noteworthy rise in GDP, the regular debt payments and the fall in the debt amount due to repurchased Brady bonds of USD200m.

An exceptional improvement in both the absolute and relative amount of foreign debt came towards the close of 2002. By 31 December, debt came to EUR8,216.3m, or a drop by EUR1,456.6m in nominal terms on 2001. Despite a still rather high foreign debt, the considerable improvement of the *Foreign Debt/GDP* ratio is indisputable. Late 2002's 49.7 per cent level may for the first time be termed acceptable in the light of Maastricht Criteria, and comparable with most European nations.

The currency and interest structure of foreign debt retained their major characteristics in 2001, as determined by Bulgaria's obligations accumulated before 1991, and by debt restructuring negotiations with foreign creditors since that year. Due to the major euro fall against the dollar throughout 2001 and the large proportion of dollar-denominated debt, debt volume increased in euro terms by end 2001 reflecting valuation adjustments.

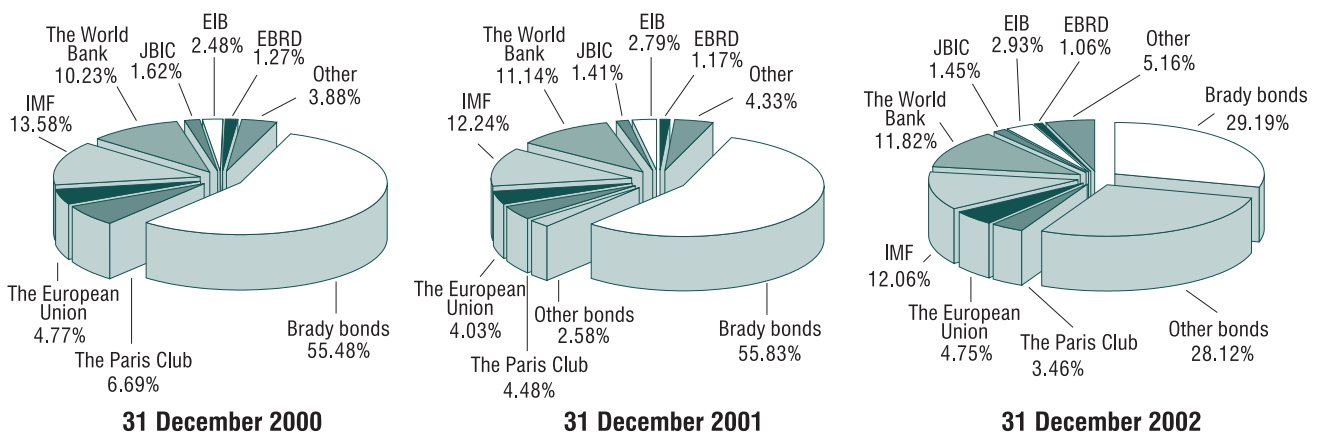
The 2002 Brady bond exchanges for new market instruments helped diversify the currency makeup of foreign debt and increase its euro component, but the dollar continues to dominate. Hence, the US dollar significant devaluation considerably reduced the nominal value of foreign debt by the end of 2002.

The relative share of Brady bonds dominates debt at 55.83 per cent on 31 December 2001. Obligations on the restructured debt to official Paris Club creditors fell the most in 2001 as the result of denomination in euro, and of regular principal payments to fixed amortisation schedules. Compared with late 2000, the debt to Paris Clubs' creditors fell by 2.21 points in relative terms. Similar trends to reduction emerged in loans from official international creditors such as the IMF, the European Union, and the Japanese Bank for International Cooperation. This was due to the rising dollar against the euro and yen, and to repayments.

Foreign debt structure by creditor underwent significant change because of the 2002 Brady-for-global-bond exchanges. This, plus repayments on Brady bonds, cut Brady debt to 29.19 per cent by the close of 2002, a 26.64 percentage points fall on 2001. Over the same period the proportion of debt represented by other instruments (global bonds and eurobonds) grew by compari-

son, reaching 28.11 per cent. A slight increase in debt during 2002 concerns obligations to the greater part of international official creditors such as, *inter alia*, the EU, World Bank, the JBIC, and the EIB. The increase was due to the denomination of obligations in euro and yen, and to the significant dollar fall against other currencies on international forex markets. The overall ratio between debt expressed in traded securities and loans by the end of 2002 is respectively 57.3 per cent to 42.7 per cent. This achievement, alongside economic growth and an improving credit rating for Bulgaria, is a condition for reducing the dependence on foreign lending by international institutions, and for increasing the amounts raised by securities issues in capital markets.

Foreign Debt by Creditor

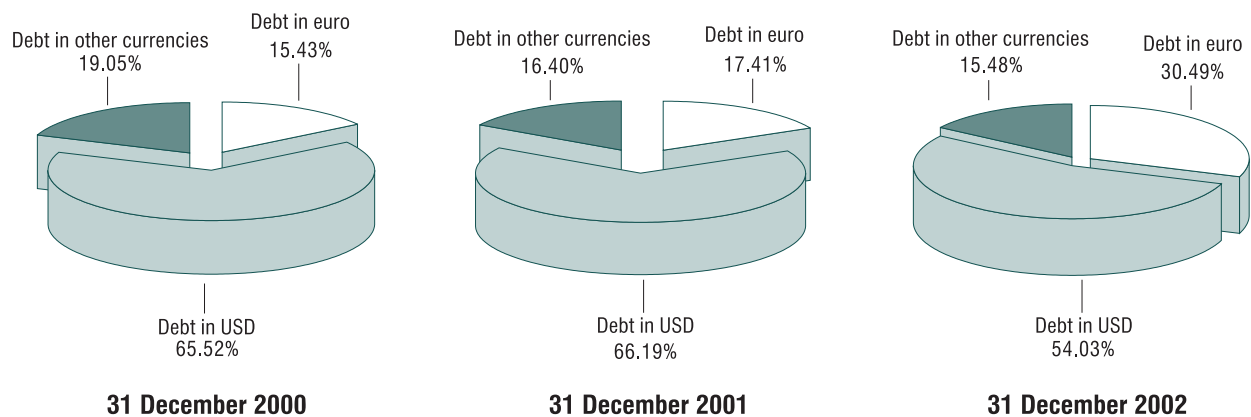


Source: MF.

In November 2001 the first five-year eurobond issue was launched on international capital markets. Its euro denomination and fixed interest rate were among the factors which modified the currency and interest structure of debt by the close of the review period. The proportion of debt denominated in euro grew by about two percentage points to 17.41 per cent, the proportion in other currencies falling from 19.05 to 16.4 per cent. The dollar component predominant in 2001 at 66.19 per cent retained its rather high level (65.52 per cent in 2000), continuing to represent the most significant risk element in the debt picture in view of uncertain international market forex rates.

A serious improvement in the currency structure of foreign debt occurred at the close of 2002 when the dollar component fell from its 66.19 per cent level a year earlier to 54.03 per cent: a 12.16-point fall. Approximate one-point falls occurred in other currencies' share. Growth in the proportion of euro-denominated debt (from 17.41 to 30.49 per cent year-on-year) made up for these drops. The consequences of these changes are significant. They stem mainly from the restructuring of part of Brady debt by exchanges for euro and dollar-denominated global bonds, from the considerable weakening of the dollar against the euro during 2002, and from the continuing trend to borrow largely in euro.

Currency Structure of Foreign Government and Government-guaranteed Debt

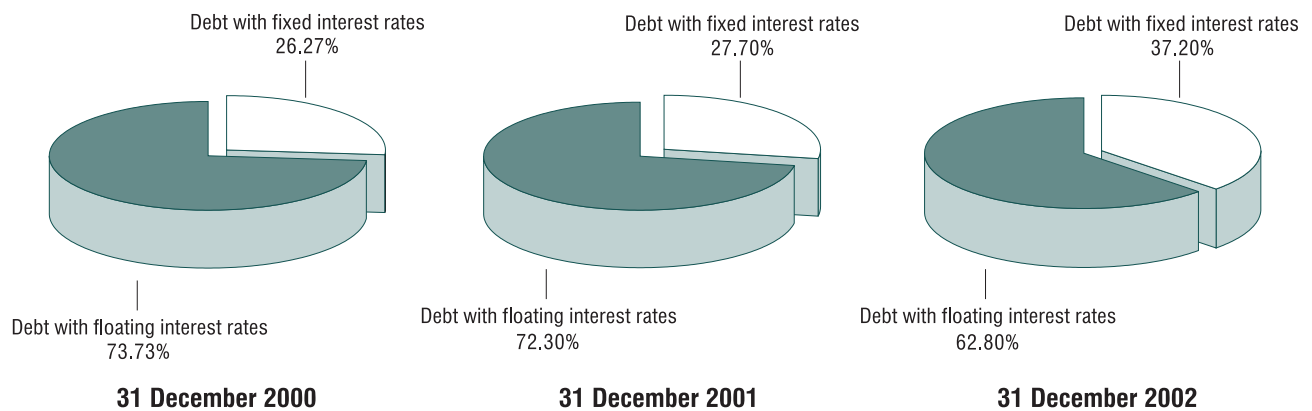


Source: MF.

The fixed interest coupon on the 2001 eurobond issue reflected on the overall interest structure of foreign debt by the close of the review period. Despite the sizeable proportion of dollar debt and its close dependence on international interest rates, the fixed interest proportion of debt rose by 1.43 points by the close of 2001 by comparison with the prior year at the expense of the proportion of floating interest instruments. Over half of the latter are Brady bonds linked to the six-month USD LIBOR and their proportion changes in tune with the US dollar and interest rate fluctuations. Overall, the close of 2001 did not see significant changes in the ratio of floating to fixed interest debt in the general structure of foreign debt.

The interest structure of foreign debt underwent significant change during 2002. This resulted mostly from operations to exchange floating interest Brady bonds with fixed interest coupon eurobonds, and to the consistent policy of drawing new foreign loans with fixed interest. The floating interest proportion of debt fell from 72.3 per cent at the close of 2001 to 62.8 per cent a year on: a 9.5-point relative terms drop. This retrimming of foreign debt in the direction of cutting the proportion of floating interest is exceptionally important in view of the debt's size and the attendant expense of its service. The larger proportion of fixed-interest coupons in its interest structure provides better predictability for budget interest expenditure and less need for allocation of funds to cover market risk.

Interest Structure of Government and Government-guaranteed Debt



Source: MF.

1. Foreign Financing

Foreign Financing in 2001

New foreign financing for the year came to euro 667.7 million, of which EUR247.1m was revenue from the debut five-year eurobond issue. The latter represents 37 per cent of overall financing. Despite this, new loans and tranches in 2001 continued to come largely from official international lenders. Predominant among them were loans from the IMF (EUR152.1m), the World Bank (EUR58.1m) and the G24 (EUR22.5m) remitted into the central budget to support the balance of payments.

International financial institutions were also main lenders on investment projects managed by budgetary organizations. Most of these projects employed WB and EIB money to the tune of EUR46.2m by the year's close. New tranches of government-guaranteed loans came to EUR121.7m, of which 25m EIB-secured.

Net foreign financing by the close of 2001 was negative and measured EUR83.4m. This stems from negative balances on the Paris Club debt (EUR205.5m), the IMF (EUR144.9m), the EU (EUR70m), the JBIC (EUR8.8m), and the G24 (EUR7.3m). Government-guaranteed financing was positive (EUR41.3m), as was that from investment loans for budgetary organizations (EUR38m), and most of all from the eurobond launch on international markets (EUR247.1m).

The policy of drawing loans mainly in euro continued in 2001. This aims to overcome the disproportion in the forex structure of foreign debt and bring it into line with the currency board's reserve currency (the euro), as well as to align it with predominant export cashflows. Euro-denominated loans made up 61.3 per cent of overall foreign financing, followed by SDR loans (22.8 per cent) and US dollars (nine per cent).

Table 3

New Foreign Financing and Foreign Debt Repayments in 2001 and 2002

(EUR million)

Structure	Loans or tranches		Repayments, incl.					
			Principal		Interest		Total	
	2001	2002	2001	2002	2001	2002	2001	2002
Government debt	546.0	183.9	670.7	500.9	509.0	301.5	1 179.8	802.4
I. Bonds	247.1	-	18.4	86.4	326.4	186.6	344.8	273.0
1. Brady bonds	-	-	18.4	86.4	326.4	175.3	344.8	261.6
2. Other bonds	247.1	-	-	-	-	11.3	0.0	11.3
II. Loans	298.9	183.9	652.4	414.6	182.6	114.9	835.0	529.4
1. The Paris Club	-	-	205.5	143.5	38.9	17.2	244.4	160.6
2. The World Bank	58.1	18.9	28.8	31.2	43.3	34.4	72.0	65.6
2.1. The World Bank	58.1	18.9	20.0	22.9	38.8	30.7	58.8	53.7
2.2. JBIC (JEXIM)	-	-	8.8	8.2	4.5	3.7	13.2	12.0
3. The G24	22.5	-	29.8	-	2.2	1.7	32.0	1.7
4. The European Union	-	-	70.0	-	21.4	13.9	91.4	13.9
5. IMF	152.1	115.9	297.0	219.5	58.1	30.5	355.1	250.0
6. Other	-	-	-	-	3.3	2.5	3.3	2.5
7. Government investment loans	51.8	42.9	13.8	15.0	12.4	12.1	26.1	27.1
7.1. The World Bank	21.4	15.9	0.9	1.8	2.2	2.4	3.1	4.2
7.2. EIB	24.8	19.9	8.4	8.1	7.4	7.9	15.8	16.0
7.3. EBRD	2.2	1.4	4.4	5.1	2.2	1.4	6.6	6.6
7.4. Other	3.3	5.8	-	-	0.6	0.3	0.6	0.3
8. Called government guarantees	14.3	6.2	7.6	5.4	3.0	2.6	10.7	7.9
8.1. The World Bank	14.3	6.2	3.7	3.9	2.3	2.0	6.0	6.0
8.2. EIB	-	-	0.5	0.5	0.3	0.2	0.8	0.7
8.3. Other	-	-	3.4	0.9	0.5	0.3	3.9	1.3
Government guaranteed debt	121.7	92.3	80.4	96.3	28.0	24.3	108.4	120.6
1. The World Bank	3.6	0.6	11.0	10.1	8.4	7.7	19.4	17.9
2. EIB	25.0	2.0	16.8	21.4	7.8	7.4	24.7	28.7
3. EBRD	0.1	0.6	11.5	11.4	6.4	3.7	17.9	15.1
4. Other	93.0	89.1	41.0	53.4	5.4	5.5	46.4	58.9
TOTAL AMOUNT	667.7	276.2	751.1	597.2	537.0	325.8	1 288.1	923.0

Note: The lev equivalent of new foreign financing and repayments is calculated as per the BNB official rate quoted for the respective currency by 4pm on the relevant day.

Source: MF.

Foreign Financing in 2002

Foreign financing in 2002 has the general features of the new trends in debt management.

Compared with 2001, new foreign financing dropped to euro 276.1 million. The predominant part (EUR115.9m) comprised tranches from the IMF under the February 2002 Two-Year Stand-by Agreement, and from revenue from active government-guaranteed loans to the value of EUR92.2m. The review period also saw continuing disbursements from state investment loans contracted earlier, which decreased by EUR8.86m on the prior year.

As a whole, official international lending from, *inter alia*, the WB, the EIB, and the EBRD continued in 2002; but as distinct from prior years, this financing reduced and went mostly into current public investment projects. Central budget revenue from official lenders was strictly limited. The reasons for this were complex and linked to a number of conditions. In the first place, the sizeable foreign debt in relative and absolute terms cries out for measures to reduce it to acceptable bounds. In the second place, the planned sub-one-per-cent budget deficits and the determination to achieve a balanced budget in 2007 cut the need for foreign loans and call for types of financing which would not induce budget deficits. The formation of a considerable fiscal reserve over recent years is an additional and significant motive to limit the need for loans from official creditors.

Because of these trends, by the close of December 2002 net foreign financing was negative and came to EUR321.1m. Balances were negative as regards debt to all foreign creditors. Financing from state investment loans (to the value of EUR27.9m) was positive.

2. Debt Service

Debt Service in 2001

Servicing the foreign debt calls for the accumulation and remittance of considerable funds. Fluctuations in forex and interest rates seriously complicate forecasting their flow. The inherited structure of foreign debt makes debt service, and hence budget spending highly dependent on market indicators.

By the close of 2001, the overall amount of foreign debt repayments came to euro 1,288.1m, with principal payments exceeding interest payments by EUR214.1m. This was mostly due to contracted and strictly followed debt

amortisation schedules with regard to the Paris Club (EUR205.5m), the IMF (EUR297m), and government-guaranteed loans (EUR80.4m).

The share of Brady bond payments dominated at EUR326.4m. Interest expenditure on IMF and WB debt came to EUR58.1m and EUR43.3m respectively (including interest on JBIC obligations).

Most foreign debt service (principal and interest payments) involved dollar payments (to the value of EUR427.2m), followed by SDR (EUR398.3m) and in euro (EUR320.1m). Due to the increase in dollar value against the euro *vis-à-vis* the rate at the close of 2000, and to the greater absolute amount of 2001 repayments, budget sources allocated for debt service in the year grew by 14.5 points on the prior year.

Debt Service in 2002

The overall amount of foreign debt service by the close of 2002 came to EUR923m, including EUR597.2m of principal and EUR325.8m of interest. Sums remitted to the IMF predominated at EUR219.5m, followed by repayments to official lenders from the Paris Clubs (EUR143.5m). Obligations to the World Bank (including the JBIC) were serviced regularly according to agreed amortisation schedules, reaching EUR31.2m by the close of the year. Significant sums went in repayment of government-guaranteed loans (EUR96.3m). The overall amount of the amortisations in 2002 was EUR153.9m less than in the prior year. This results from the lasting dollar slide against other currencies on international markets in 2002.

The amount of foreign debt interest payments in 2002 was strongly influenced by forex and interest rate movements in capital markets. The historically low LIBOR levels for the dollar and euro were among the reasons for the considerable fall in interest payments and for the economies achieved in actual budget expenditures (as against forecasted) on foreign debt interest repayments.

The EUR211.2m reduction achieved by the close of 2002 also related directly to the two operations for restructuring part of foreign debt. The reason for this was the dominant share of interest owed on Brady bonds in overall expenditures. Payments on Brady debt by the close of the year came to EUR175.3m, or 151.1m less than by the close of 2001. In July 2002 the payment on the first interest coupon on dollar global bonds to the value of EUR11.3m was made.

Interest expenditure on the World Bank debt (including the JBIC), on IMF obligations, and on official lenders from the Paris Clubs came to EUR34.4m, EUR30.5m, and EUR17.2m respectively by the close of 2002. Their total worth was less by EUR58.2m by comparison with the prior year because of the fall in interest on euro- and dollar-denominated financial instruments.

Payments of interest on government investment and government-guaranteed loans continued throughout 2002. Their amount depended both on changing market indicators (forex and interest rates) and on the amount of disbursement on each project.

3. Foreign Debt Management Operations

A proactive foreign debt management policy was a priority set out in the government's economic programme. Specific measures taken by the Ministry of Finance mainly aimed at fortifying the attained degree of macroeconomic stability by reducing the *Debt/GDP* ratio gradually, and to limiting the influence of forex and interest rate fluctuations on the size, the repayment schedule of debt and the projected distribution of budget spending. This entailed several strategic operations to reprofile the general structure of foreign debt.

In November 2001 Bulgaria debuted on international capital markets with a pilot five-year eurobond issue. Though nominal value was limited to EUR250m, the issue received great interest from the international investor community, achieving very good financial parameters in terms of an optimum risk premium of 376 basis points above the benchmark German government bonds and a relatively low fixed interest rate coupon of 7.25 per cent when judged against Bulgaria's credit ratings. Bids exceeded the initial issue size by over four times. The interest towards Bulgaria's first eurobonds confirmed the possibility of Bulgaria gaining access to the markets on very competitive terms.

Table 4

Bulgarian Issues on Foreign Markets**7.250%, Eurobonds, 2007**

Issuer	Republic of Bulgaria
Format	Reg S
Lead managers	JP Morgan Morgan Stanley
Credit ratings	BB-/ B2/ B+ (Fitch)
Denomination	EUR
Principal amount	EUR250,000,000
Securities type	Eurobonds
Tenor	5 years and 3 months
Maturity date	1 March 2007
Interest basis	Payable annually in arrears Actual/actual number of days
Interest payment date	1 March
Pricing benchmark	DBR 6.000%, maturing in January 2007
Spread over the benchmark	3.760%
Yield to maturity	7.500%
Interest coupon	7.250%
Issue price	98.855%
Pricing/Launch date	12 November 2001
Listing	Luxembourg Stock Exchange
Clearing systems	Cedel and Euroclear
Subscription closing date and settlement	19 November 2001
ISIN	XS0138976385

Source: MF.

Direct benefits from the launch of Bulgaria's first eurobond issue included not only a fiscal reserve boost, but also setting a benchmark for future international market financing. The issue marked the build-up of a euro yield curve and drew the attention of a broad circle of international investors.

With the subsequent exchange of a significant part of its Brady bonds, Bulgaria joined the recent years' trend in emerging markets (and especially in more advanced emerging economies) voluntarily to replace Brady debt with new global bonds. According to data from international financial institutions, such debt restructuring transactions performed by a number of countries had cut Brady debt by almost USD40b by the close of 2001.

In March 2002, Bulgaria announced the launch of the first of two operations to exchange the three outstanding Bulgarian Brady issues for two new global bond issues denominated in euro and US dollars. This complex transaction was organised as three concurrent reverse modified Dutch auctions. At these, holders of Bulgarian Brady bonds could exchange them for an equivalent amount of newly issued global bonds in euro or US dollars, or for cash, against increasing the euro issue. The operation enabled Bulgaria to exchange USD1,326m, or some 28 per cent of its Brady debt. Some 35.5 per cent of the A Tranche and 54.1 per cent of the B Tranche of the DISC issue, 17 per cent of the FLIRB A and 94.7 per cent of the FLIRB B, and 21.7 per cent of IAB bonds were exchanged as a result of the transaction. Two new global bond issues were launched in turn:

- EUR835m with a 7.500 per cent interest coupon, maturing in 2013, and
- USD511m with an 8.250 per cent interest coupon, maturing in 2015.

During the second Bulgarian Brady Bond exchange operation in late September 2002 only the US dollar issue maturing in 2015 was reopened and supplemented. Bonds with a nominal value of USD760m were issued, boosting overall issue size to USD1.3b. In turn, the residual amount of Brady issues was reduced by some 26 per cent or USD887m, split as follows between the three issues: 31.7 per cent of DISC A and 61.6 per cent of DISC B, 26.7 per cent of FLIRB A and 67.8 per cent of FLIRB B, as well as 18.3 per cent of the IAB issue.

Table 5

Bulgarian Issues on Foreign Markets**7.500%, EUR-denominated Global Bonds, 2013**

Issuer	Republic of Bulgaria
Format	144A/Reg S
Lead managers	JP Morgan Securities Inc. Schroder Salomon Smith Barney Inc.
Credit ratings	B1/BB-
Denomination	EUR
Principal amount:	EUR835,465,000
- Exchanged for new global bonds	EUR468,351,000
- Exchanged for cash	EUR367,114,000
Securities type	Global bonds
Tenor	10.8 years
Maturity date	15 January 2013
Interest basis	Payable annually in arrears. Actual number of days/365
Interest payment date	15 January
Pricing benchmark	5.000% Bund maturing in January 2012
Spread over the benchmark	2.750%
Yield to maturity	7.987%
Interest coupon	7.500%
Issue price	96.617%
Listing	Luxembourg Stock Exchange
Clearing systems	DTC, Cedel and Euroclear
Subscription closing date and settlement	10 April 2002
ISINs (144A/Reg S)	US12015KCP66/XS0145624432
CUSIP (144A/Reg S)	12015KCP6

Source: MF.

Table 6

Bulgarian Issues on Foreign Markets

8.250%, USD-denominated Global Bonds, 2015		Opening 26 September 2003
Issuer	Republic of Bulgaria	
Format	144A/Reg S	
Lead managers	JP Morgan Securities Inc. Schroder Salomon Smith Barney Inc.	
Credit ratings	B1/BB-	
Denomination	US Dollars	
Principal amount	511,498,000	1,270,551,000
<i>Exchanged for new global bonds</i>	<i>511,498,000</i>	<i>759,053,000</i>
Securities type	Global Bonds	
Tenor	12.8 years	
Maturity date	15 January 2015	
Interest basis	Payable semiannually in arrears 30/360	
Interest payment date	15 January and 15 July	
Pricing benchmark	4.875% UST Bond maturing in February 2012	
Spread over the benchmark	3.690%	4.130%
Yield to maturity	9.100%	7.890%
Interest coupon	8.250%	
Price	93.681%	102.750% Price at second opening
Listing	Luxembourg Stock Exchange	
Clearing systems	DTC, Cedel and Euroclear	
Subscription closing date and settlement	4 October 2002	9 October 2002
ISINs (144A/Reg S)	US12015KCN19 / XS0145623624	
CUSIP (144A/Reg S)	12015KCN1	

Source: MF.

The overall effect of the two Brady exchanges, estimated at the time of their implementation, comes to an USD209m foreign debt reduction, net present value savings of USD110m, and freeing USD360m worth of collateral in the form of US Treasury bonds which went to boost the government fiscal reserve. A significant debt profile improvement accompanied this. The disproportionate share of dollar obligations decreased after the euro global bond issue, improving debt currency structure. Just within 2002, the dollar component of government debt fell by 13.5 points, reaching 49.8 per cent at the close of the period. The *floating/fixed interest* ratio also underwent positive changes. At the beginning of 2002 the proportion of debt with floating interest rates rose to 84.5 per cent reflecting a switch of part of Brady bonds interest coupons from fixed to floating. Subsequently, the proportion of obligations with floating interest was cut by 25.4 percentage points by the close of 2002. At the same time, the redemption of the nominal amount of the DISC issue reduced the risk of additional interest payments tied to activations of the clause linking interest repayments on these bonds to GDP growth.

By placing the two global bond issues, Bulgaria set two new liquid benchmarks for foreign debt refinancing, extending the euro yield curve to ten years, and in dollars to twelve years. Bulgaria gained important access to international capital markets, limiting its dependence on official foreign creditors. Bulgaria's investment image improved significantly, and conditions of less costly future financing of both the government and of other public entities were devised. Risk premium on foreign obligations fell by two to about five percentage points, depending on the maturities of the various instruments. Bulgaria's reputation among strategic European and US investors in financial assets of emerging markets gained recognition. The release of Brady Bond collateral and the strategic European and US investors in emerging markets debt gained increase of the fiscal reserve strengthened budget indicators. Last but not least, the significant improvement of key debt parameters undermined some major arguments in favour of Bulgaria's low credit rating over recent years.

V. General Features of Government and Government-guaranteed Debt

Overall government and government-guaranteed debt at the close of 2001 stood at EUR10,624.1m. It had grown by EUR80.2m on the close of 2000 because of forex rate fluctuations and minor increases in both domestic and foreign debt. By the close of 2002 nominal government debt fell by EUR328m on the prior year due to repayments, the effects of the Brady Bond exchanges, and the significant rise of the euro against the dollar on international forex markets. The biggest reduction was due to foreign debt share, whose fall came to some 15.1 per cent, while domestic debt rose by 13.4 per cent.

Table 7

Government and Government-guaranteed Debt

Structure	31.XII.2000	31.XII.2001	31.XII.2002
Domestic debt (BGN million)	1 767.2	1 860.5	2 111.8
I. Government debt	1 757.2	1 853.8	2 109.9
1. Government securities issued for budget deficit financing	946.1	1 077.2	1 462.3
2. Government securities issued for structural reform	762.5	748.0	629.2
3. Deposit insurance government bonds	48.6	28.6	18.4
II. Domestic government guarantees	10.0	6.7	1.9
Foreign debt (EUR million)	9 640.4	9 672.9	8 216.3
Government debt	9 159.5	9 096.6	7 685.9
1. Brady bonds	5 347.7	5 400.0	2 398.7
2. Eurobonds	-	250.0	2 310.0
3. The Paris Club	645.3	433.5	284.5
4. The World Bank incl. JBIC (JEXIM)	889.6 156.5	941.1 136.8	836.1 119.2
5. G24	60.8	53.8	48.9
6. The European Union	460.0	390.0	390.0
7. IMF	1 309.4	1 183.4	990.9
8. Other	136.6	136.6	129.2
9. Government investment loans	251.0	240.3	236.7
10. Called government guarantees	59.2	67.8	61.0
Foreign government guarantees	480.8	576.3	530.5

Notes: 1. The value of the euro component of debt is recalculated to the BNB official exchange rates for relevant currencies at the year's closing business day.

2. The debt of the government to the IMF is shown under foreign debt.

3. Foreign debt is presented in nominal value.

4. The IMF extends its tranches to the central bank which then on-lends them to the government under Article 45 of the Law on the BNB. So far, the credits extended to the MF by the BNB are domestic government debt to the BNB, on the one hand, and foreign liabilities of the BNB to the IMF, on the other hand. Debt to the IMF is included in foreign debt structure and excluded from domestic debt structure.

Source: MF.

Table 8

Overall Debt Amount in Euro

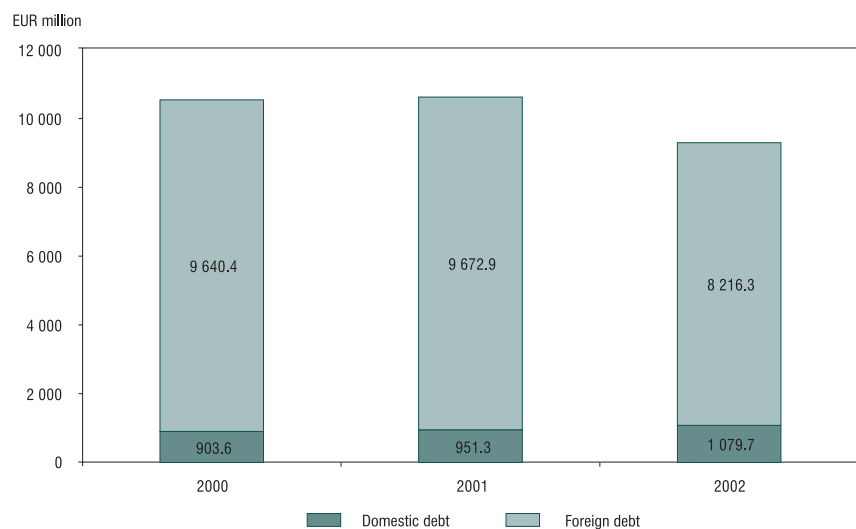
	(EUR million)		
	31.XII.2000	31.XII.2001	31.XII.2002
Domestic debt	903.6	951.3	1 079.7
Foreign debt	9 640.4	9 672.9	8 216.3
Total	10 543.9	10 624.1	9 296.1

Note: Euro values calculated at official BNB rates.

Source: MF.

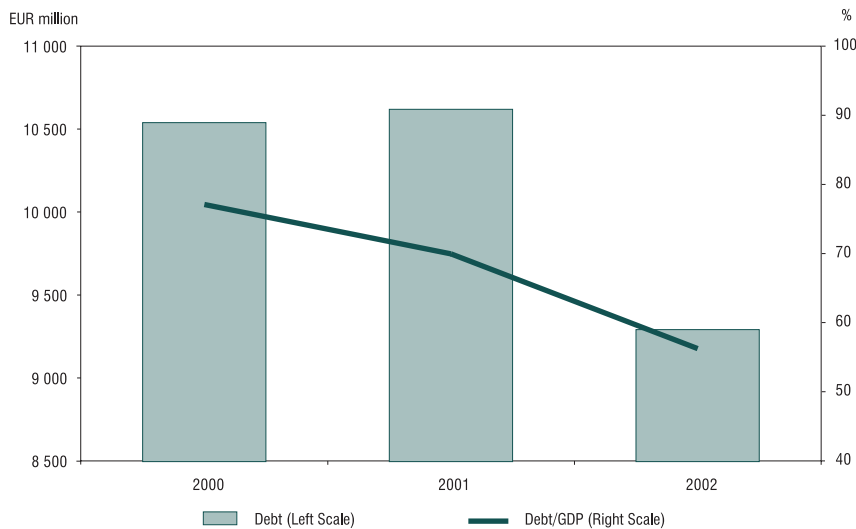
At 91 per cent in 2001, foreign obligations still prevail domestic ones (nine per cent). Compared with 2000, the positive domestic net financing achieved by the end of 2001 had led to a slight (0.4 per cent) increase in the proportion of domestic obligations in overall debt. Over 2002 the Ministry of Finance maintained policy of a gradual correction of this ratio in the direction of increasing domestic at the expense of foreign debt. This it achieved by increasing volumes of government securities issues in the domestic market. As a result of the targeted decrease of foreign debt in 2002, by the close of the year domestic debt had risen to 11.6 per cent of overall debt.

Domestic and Foreign Debt Dynamics



Source: MF.

The effort to gradually cut the debt burden to levels deemed acceptable in the light of European economic criteria led to a convincing improvement in one of the most important debt indicators. From 77.1 per cent at the close of 2000, the *government and government-guaranteed Debt/GDP* ratio fell to 69.9 per cent at the close of 2001. Main reason for this positive change was the considerable rate of GDP growth in 2001 against a constant debt level. The trend to a fall (in evidence since 1999) became more firmly entrenched in 2002 when the relative proportion of government and government-guaranteed debt dropped to a record low level since 1990. By December 2002 the *Debt/GDP* ratio had fallen to 56.2 per cent: in complete unison with Maastricht Criteria which set a recommended threshold of 60 per cent. For the second successive year, the improvement resulted from strong economic growth and a low budget deficit, yet the operations to restructure foreign debt which reduced its nominal value, also had a measurable effect. Negative foreign financing had a more limited impact.



Government and Government-guaranteed Debt Dynamics

Source: MF.

Net financing in 2001 was negative and came to BGN-176.1m. Domestic financing was positive, coming to BGN67.8m. This was due entirely to the net increase of newly issued volumes of five- and seven-year government securities which in turn was part of effort to extend the average maturity of outstanding domestic debt and to the strong investor interest evinced through the year in medium- and long-term issues. The greater volumes of the five-year issue and of the debut seven-year issue refinanced to a considerable degree repayments on the one- and two-year issues. The newly issued and matured principal amounts of three-month treasury bills were practically equal and remained unchanged *vis-à-vis* 2000.

On the downside, foreign financing was negative as a whole. This was due to the high repayment total to the IMF, the Paris Club, and the European Union. The net balance was positive mainly under the *Offer Bonds* item due to the pilot eurobonds maturing in 2007, and to newly disbursed World Bank and European Investment Bank loans.

Total net financing in 2002 amounted to BGN-286.5m. Domestic financing was positive again (BGN333.7m), an effect of the several-fold increase in longer-term (three- to ten-year) government securities. The new three-month and two-year issues were significantly reduced. The positive domestic financing balance was made-up by the considerable reduction of foreign debt obligations: foreign financing was negative to the tune of BGN-620.1m, mainly due to intensive repayments of Paris Club and IMF debt, and on Brady bonds.

Table 9

Financing Sources

(BGN million)

Domestic financing	Government securities – 2001			Government securities – 2002		
	Issued	Repaid	Net	Issued	Repaid	Net
3-month	237.3	242.3	-5.0	142.1	165.7	-23.6
12-month	76.2	114.0	-37.8	76.1	76.2	-0.1
2-year	214.9	305.6	-90.7	16.1	254.9	-238.8
3-year	0.0	3.4	-3.4	174.1	0.0	174.1
5-year	240.0	0.8	239.1	174.0	20.0	154.0
7-year	28.9	0.0	28.9	237.8	0.0	237.8
10-year	0.0	0.0	0.0	81.6	0.0	81.6
Other	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing, total	797.3	666.1	131.2	901.8	516.8	385.0
Foreign financing	Loans and international bonds – 2001			Loans and international bonds – 2002		
	Received	Repaid	Net	Received	Repaid	Net
Brady bonds	0.0	35.9	-35.9	0.0	168.9	-168.9
Other bonds	483.4	0.0	483.4	0.0	0.0	0.0
The Paris Club	0.0	401.9	-401.9	0.0	280.6	-280.6
IMF	297.6	580.8	-283.2	226.6	429.3	-202.7
The World Bank	183.7	65.3	118.4	80.2	72.2	7.9
The European Union	0.0	136.9	-136.9	0.0	0.0	0.0
G24	44.0	58.2	-14.2	0.0	0.0	0.0
EIB	48.5	17.5	31.0	38.8	16.8	22.1
EBRD	4.2	8.7	-4.4	2.7	10.0	-7.4
Other	6.5	6.6	-0.1	11.3	1.8	9.4
Foreign financing, total	1 067.9	1 311.8	-244.0	359.6	979.7	-620.1
Domestic and foreign financing, total	1 865.2	1 977.9	-112.8	1 261.4	1 496.5	-235.1

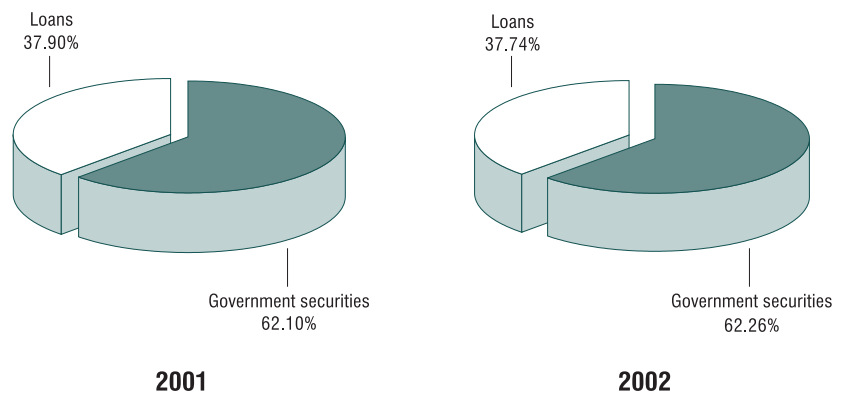
Note: Financing sources related to government debt only are presented.

Source: MF.

V. General Features of Government and Government-guaranteed Debt

The proportion of government securities exceeds that of loans in government and government-guaranteed debt. This is due to the entirely securitised domestic debt and the shares of *Brady bonds*, *eurobonds* and *global bonds* in the foreign debt structure. The *Bonds/Loans* ratio stayed relatively steady during 2001 and 2002 because the drop in Brady debt was made up by the newly issued budget deficit financing government securities. The proportion of bonds grew by 2.9 percentage points in 2001 on 2000 because of the eurobond issue. The growth of government securities issued in the domestic market was by 0.2 percentage points in 2002.

Structure of Government and Government-guaranteed Debt by Type of Instrument

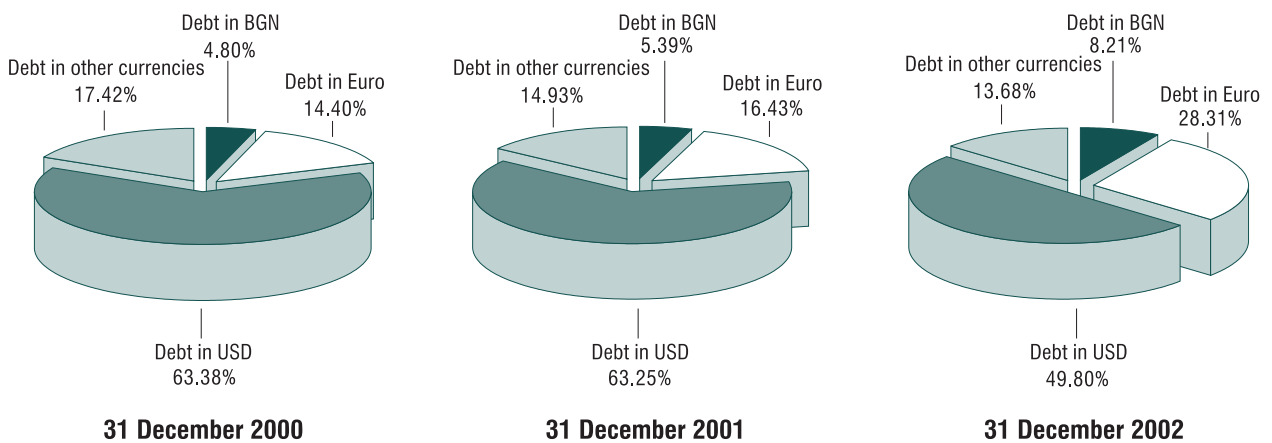


Source: MF.

The absolute value rise of government and government-guaranteed debt on 2000 was due to the predominance of the US dollar component and its considerable fluctuation. By the close of 2001 the US dollar proportion had remained practically unchanged on 2000 at 66.2 per cent of the currency structure. The proportion in euro had grown by about two percentage points, mainly at the expense of other currencies and because of the policy of borrowing in euro. The BGN-denominated proportion of debt grew on the prior year both because of greater domestic market bond issues, and of forex rate movements.

In 2002 the euro share of debt grew more seriously (by 13.1 percentage points) at the expense of the falling US dollar share (down by 12.2 percentage points). The achievement of a more balanced currency structure was mostly due to the exchanges of Brady debt with EUR-denominated global bonds, to the exchanges of USD-denominated ZUNK bonds for EUR-denominated ones, and to regular annual repayments of the US dollar debt. In turn, BGN obligations grew by 2.8 points in 2002 thanks to the boost in government securities issues.

Currency Structure of Government and Government-guaranteed Debt

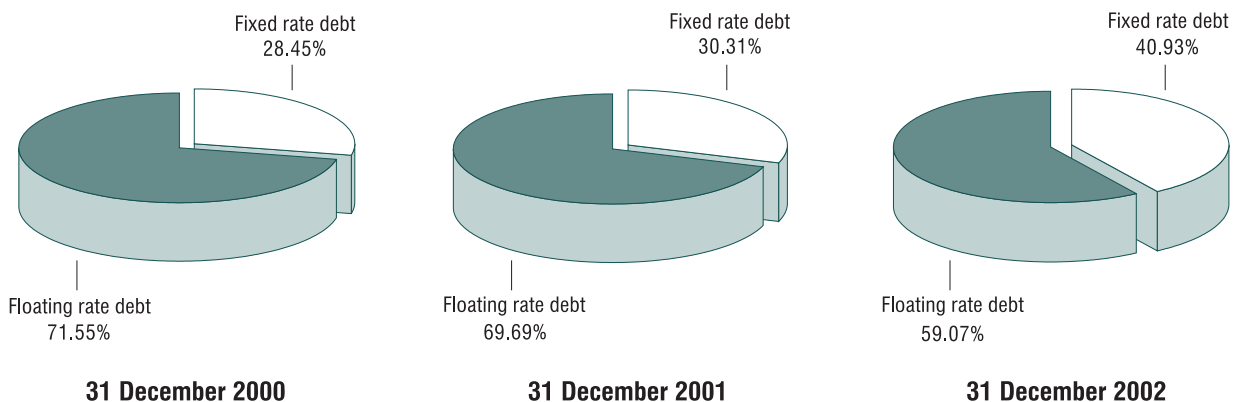


Source: MF.

V. General Features of Government and Government-guaranteed Debt

Debt interest structure in 2001 changes little on 2000, with floating interest still predominating. The large US dollar share and its dependence on LIBOR boosted this predominance, at the same time almost neutralising the effect of increasing domestic debt in fixed interest instruments.

Interest Structure of Government and Government-guaranteed Debt

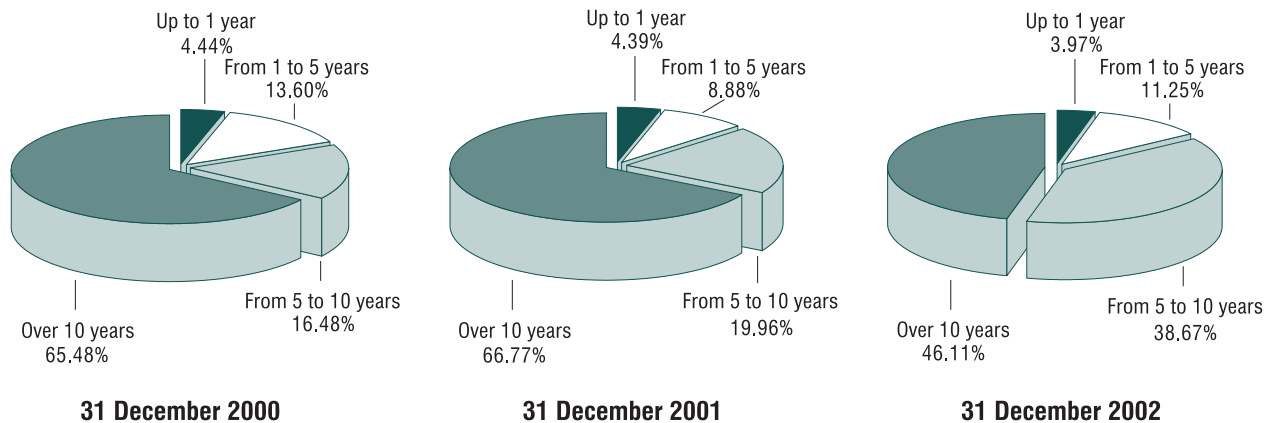


Source: MF.

A major debt management aim of the Ministry of Finance for 2002 was to attain a reasonable ratio between the debt portfolio interest components. This acquired particular acuity in early 2002, when floating-interest government debt leapt to 84.5 per cent as part of Brady debt switched from fixed to floating interest. The floating-interest component fell by 25.4 percentage points in comparison with early 2001, mostly through the two successive Brady exchanges which resulted in the issue of plain vanilla fixed-interest bonds. The policies of issuing fixed-interest domestic debt, and of regular servicing of floating-interest debt, also assisted this aim.

Debt is well distributed in time. In 2001 it comprised 81.9 per cent of obligations with original maturities of over five years. In 2002 this proportion went up to 86.7 per cent. On the other hand, the natural shortening of the maturity of foreign debt as it is amortised cut the average residual maturity of debt from 12 years and two months at the close of 2000 to ten years and one month in December 2001. By the close of 2002 the residual maturity of debt was 12 years and seven months.

Residual Maturity of Government and Government-guaranteed Debt



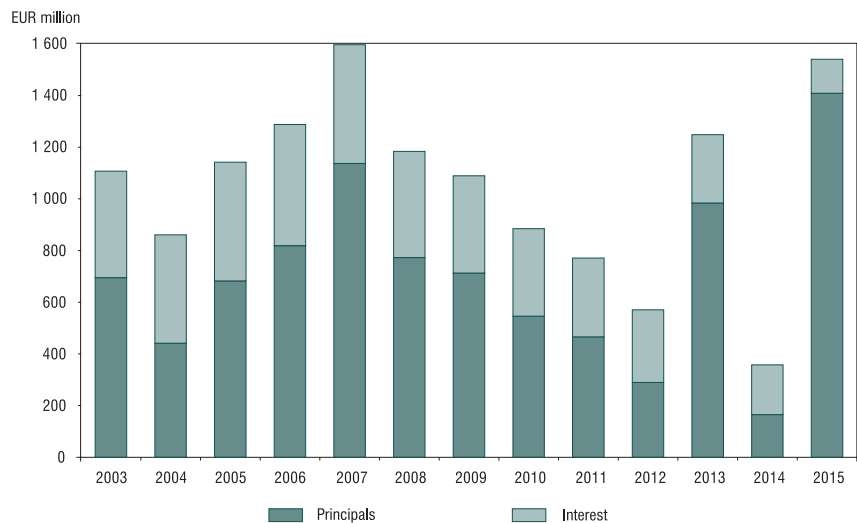
Source: MF.

The ten-year issue, the eight-fold increase in seven-year government securities, and the maintenance of the volume of five-year government securities on the domestic market doubled the proportion of debt with residual maturity of between five and ten years in 2001 on 2000. The remaining groups of short-to-medium-term debt (up to one year and from one to five years) had slid downward since 2001, with their overall share falling by almost five percentage points on the prior year because of issuing longer-term domestic debt instruments. By the close of 2002, the weights of these two groups stayed relatively unchanged on 2001.

V. General Features of Government and Government-guaranteed Debt

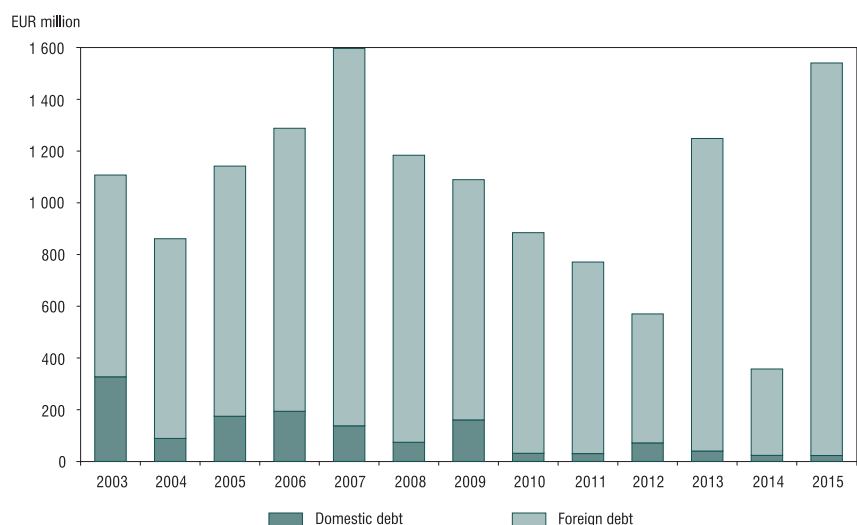
As to the amortisation burden, the coming seven years appear the most onerous. Total debt service to 2015 move within the EUR360m to 1.6b per annum. An exception amid a generally smooth long-term debt service schedule is 2007, when the 2001 eurobonds issue matures. Apart from 2007, greater concentrations of repayments of government and government-guaranteed debt in the longer-term fall in 2013 and 2015: maturities of the two global bond issues which replaced a major part of the Brady debt. However, the extent of these repayments appears only moderately large in light of GDP growth forecasts and the maintenance of a fiscal reserve which provisions debt repayments for a year ahead.

Projected Debt Service of Government and Government-guaranteed Debt



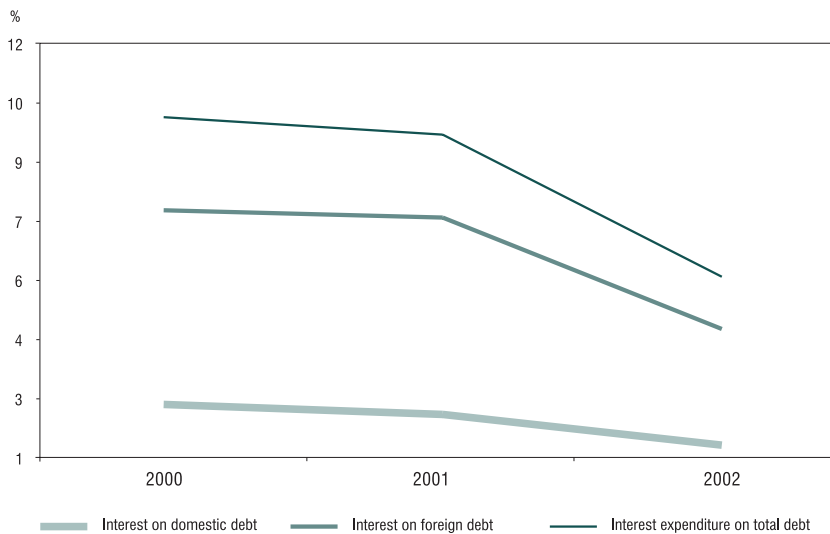
Source: MF.

Projected Debt Service of Domestic and Foreign Government and Government-guaranteed Debt



Source: MF.

Positive trends are also emerging in other key debt indicators. Their improvement over the past two-year period resulted from the overall macroeconomic stability in Bulgaria. The proportion of interest expenditure in the overall budget expenditures showed a slight drop from 9.6 to 9.1 per cent in 2001, falling significantly in 2002 to 5.6 per cent. The change was due to the global interest rate level slide which began after the close of 2000, and to the dynamic change in the two components of the indicator.



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

* Based on consolidated state budget.
Source: MF.

Compared with the export of goods and services, interest expenditures fell by 2.1 points between 2000 and 2002. The sole exception was a 2001 rise in the *Foreign debt servicing/Export* ratio due to higher amortisations during that year.

The government fiscal reserve grew during the period under review despite greater foreign debt principal repayments (BGN1.5b in 2001 and 1.2b in 2002). The rise reflected privatisation revenue and the release of collateral on repurchased and cancelled Brady bonds. The average annual fiscal reserve covered principal and interest repayments on domestic and foreign debt for a year to come by some 1.23 times in 2001 and by 1.81 times in 2002. At the same time, compared with the overall government and government-guaranteed debt, the proportion of short-term obligations decreased from 16.4 per cent by some six percentage points in 2001 and by 0.2 percentage points in 2002.

V. General Features of Government and Government-guaranteed Debt

Economic growth, on the one hand, and the fall in public sector debt, on the other, improved the *Gross foreign debt/GDP* ratio. According to BNB data, over the past two years Bulgaria's gross foreign debt retained a nominal size at relatively constant levels of some USD10.6b to 10.9b. There is also a trend to a gradual rise in private debt at the expense of government debt, with the latter the subject of concerted reduction policy. This is in step with the growing role of the private sector in generating Bulgarian GDP and is clear confirmation of both increasing business activity and of improved financing prospects over recent years.

Table 10

Major Macroeconomic and Debt Indicators

	1999	2000	2001	2002
Gross domestic product (BGN million)	23 790.4	26 752.8	29 709.2	32 323.7
Exports of goods and services (EUR million)	5 419.9	7 619.3	8 441.2	8 664.5
Imports of goods and services (EUR million)	6 121.9	8 351.6	9 591.8	9 780.2
Foreign exchange reserves (EUR million) ¹	3 206.9	3 718.7	4 061.2	4 574.8
Foreign exchange reserves (months of imports)	5.9	4.9	4.7	5.3
Fiscal reserve ² (BGN million)	2 601.3	2 423.1	2 650.2	3 335.7
Short-term obligations ³ (EUR million)	1 729.9	1 726.4	1 100.3	944.1
Short-term obligations/Debt, total (%)	16.4	16.4	10.4	10.2
Fiscal reserve/Short-term obligations (%)	76.9	71.8	123.2	180.6
Government debt/GDP (%)	86.7	77.1	69.9	56.2
Foreign debt/Exports of goods and services (%)	166.6	126.5	114.6	94.8
Foreign debt service (EUR million)	774.3	939.4	1 288.1	923.0
Foreign debt service/Exports of goods and services (%)	14.3	12.3	15.3	10.7
Foreign debt interest expenditures/Exports of goods and services (%)	6.5	4.6	4.2	4.1
Interest expenditures/Budget expenditures ⁴ (%)	9.1	9.6	9.1	5.6

¹ Assets of the BNB Issue Department.

² The fiscal reserve comprises: 1. lev and forex balances of all budget funds within the banking system, including central budget accounts and those of ministries and agencies, the National Insurance Institute, the National Health Insurance Fund, and extra-budgetary funds at the national level (as defined in Appendix No. 7 of the Republic of Bulgaria State Budget Act 2003), not including municipalities' accounts; 2. other highly liquid foreign assets of the central government.

³ All foreign and domestic debt obligations maturing within one year of the period under review.

⁴ On the basis of the consolidated state budget.

Notes: Recalculations are based on BNB exchange rates of the relevant currencies for the last business day of the respective period. Information is based on government and government-guaranteed debt data only.

Sources: MF, BNB.

Table 11

Government and Government-guaranteed Debt Dynamics

Structure	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Domestic debt (BGN million)	17.4	38.3	111.0	273.7	345.4	1 052.6	2 780.5	3 101.7	2 963.3	1 767.2	1 860.5	2 111.8
I. Government debt	17.4	38.3	111.0	273.7	345.4	1 052.6	2 780.5	2 262.1	2 043.2	1 757.2	1 853.8	2 109.9
Government securities issued for budget deficit financing	4.0	8.1	36.4	74.8	154.8	301.1	807.7	749.9	804.8	946.1	1 077.2	1 462.3
Government securities issued for structural reform	-	4.1	38.5	156.6	162.8	554.4	1 574.0	1 146.3	918.8	762.5	748.0	629.2
Deposit insurance government securities	-	-	-	-	-	57.7	397.8	365.9	222.8	48.6	28.6	18.4
Direct debt to the BNB	9.8	22.9	33.4	40.1	26.1	138.1	-	-	-	-	-	-
Government securities in euro	-	-	-	-	-	-	-	-	96.8	-	-	-
Other	3.6	3.2	2.7	2.2	1.7	1.3	1.0	-	-	-	-	-
II. Domestic government guarantees	-	-	-	-	-	-	-	839.6	920.1	10.0	6.7	1.9
Foreign debt (USD million)	10 452.6	10 404.9	9 928.0	10 254.2	9 122.6	8 735.9	8 744.0	9 283.8	9 070.1	8 970.3	8 524.8	8 525.3
Foreign debt (BGN million)	228.0	254.8	324.7	677.0	645.0	4 257.4	15 533.5	15 551.3	17 658.3	18 854.9	18 918.5	16 069.9
I. Government debt	10 452.6	10 404.9	9 915.0	10 210.2	9 053.4	8 533.1	8 358.9	8 789.0	8 417.9	8 289.4	7 805.1	7 729.3
Brady bonds	6 979.0	6 547.7	6 021.1	5 137.0	5 005.4	4 984.0	4 977.4	4 977.4	4 977.4	4 976.1	4 759.0	2 488.8
Other bonds	367.8	332.6	348.9	389.3	369.0	147.2	80.8	34.7	-	-	220.3	2 396.8
The Paris Club	1 116.9	1 149.5	1 137.0	1 305.8	1 296.8	1 099.0	877.5	1 044.6	814.8	600.4	382.0	295.2
The World Bank	142.0	152.0	155.0	396.0	410.6	455.8	493.7	627.0	824.3	827.8	829.4	867.6
incl. JBIC (JEXIM)	-	-	-	58.4	97.2	78.0	62.0	61.7	119.1	145.6	120.6	123.7
G24	-	62.0	81.0	151.0	189.9	170.0	90.4	89.5	71.2	56.5	47.5	50.7
The European Union	201.0	357.0	357.0	444.0	460.6	495.5	289.0	421.9	401.8	428.0	343.7	404.7
IMF	401.0	590.0	632.0	941.0	716.7	584.6	942.8	1 114.5	1 131.6	1 218.4	1 042.9	1 028.1
Other	1 244.9	1 214.1	1 183.0	1 446.1	604.4	597.0	607.3	479.4	148.4	127.1	120.4	134.1
II. Foreign government guarantees	-	-	13.0	44.0	69.2	202.8	385.1	494.8	652.2	680.9	719.7	796.0
III. Called government guarantees	-	-	-	-	-	-	-	-	48.4	55.1	59.8	63.3
GDP (BGN million)	135.7	200.8	298.9	525.6	880.3	1 761.2	17 432.6	22 421.1	23 790.4	26 752.8	29 709.2	32 323.7
Total debt/GDP (%)	181	146	146	181	113	302	105	83	87	77	70	56

Note: GDP data from the National Statistics Institute.

Source: MF.