



REPUBLIC OF BULGARIA

Ministry of Finance

CENTRAL GOVERNMENT DEBT AND GUARANTEES

2016



CENTRAL GOVERNMENT DEBT AND GUARANTEES

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Government Debt Directorate

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ABBREVIATIONS AND ACRONYMS

GDP	Gross Domestic Product
BNB	Bulgarian National Bank
CEB	Council of Europe Development Bank
b.p.	basis point
GS	Government securities
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EC	European Commission
EU	European Union
ECB	European Central Bank
SBRBA	State Budget of the Republic of Bulgaria Act
ICM	International capital markets
MoF	Ministry of finance
NSI	National Statistical Institute
AQR	Assets quality review
PP	Percentage points
ST	Stress test
HICP	Harmonised Index of Consumer Prices
CG	Central Government
USD	US dollar
JBIC	Japan Bank for International Cooperation

ANALYSIS OF THE FINANCIAL SECTOR AND IMPACT ON BULGARIAN ECONOMY'S DEBT IN 2016

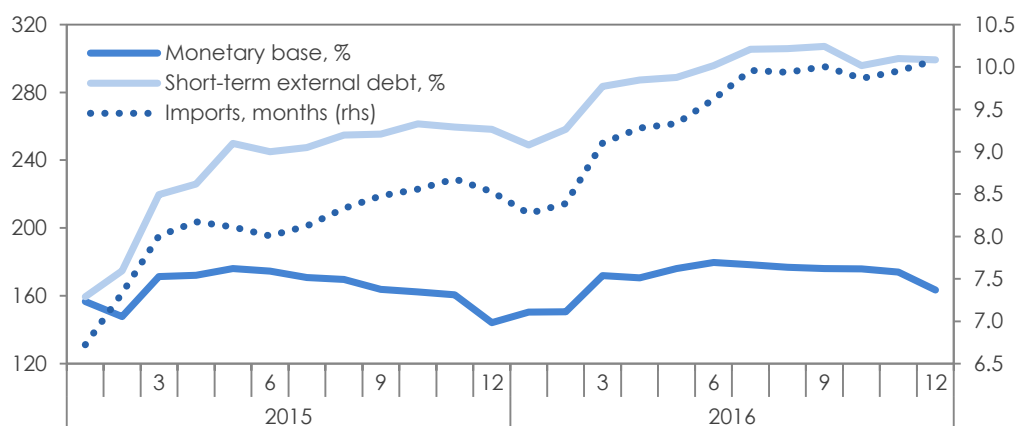
In 2016, the banking system was operating in a stable financial environment, a higher than expected real GDP growth and expectations for an improved economic activity. Underlying balance sheet items - assets, deposits, equity and net financial result reported an increase. Liquidity and capital position as well as profitability indicators improved in relation to 2015. An asset quality review (AQR) and a stress test (ST) of banks in Bulgaria were carried out in 2016, the results of which were published in August¹.

The currency board, which is one of the main factors for the financial stability of the country, kept its good indicators. Gross international foreign exchange reserves continued to grow throughout 2016, but at a slower pace than a year earlier. As of the end of December 2016, their annual growth stood at 17.8% (against 22.7% at the end of 2015) and reached a nominal value of BGN 46.7 billion. The government deposit with the BNB and the proceeds from the 7 and 12-year bonds issued on the international capital markets in March amounting to EYP 1.994 billion made a key contribution to their growth during the year.

The coverage of monetary base with foreign exchange reserves increased compared to the previous year reaching 163.4%, against 144.3% at the end of 2015. At the end of December 2016, the reserves covered 10.1 months of imports against 8.5 months a year earlier. With regard to short-term external debt by original maturity, the coverage of international foreign exchange reserves reached 299.2%, improving from 258.2% at the end of 2015.

¹ They were conducted in conjunction with a recommendation of the European Council of 14 July 2015 on the National Reform Program of Bulgaria for 2015 and on the basis of § 9 of the Transitional and Final Provisions of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms of 2015. The reports with the results are available at: <http://www.bnb.bg/BankSupervision/BSAQR/BSAQRResults/index.htm>

COVERAGE WITH FX RESERVES



Source: BNB, MoF

Reported net financial result of the banking system at the end of 2016 amounted to BGN 1,263 million, compared to BGN 847 million a year earlier, which was 49.1% more. For this period, accumulated impairment charges on loans and receivables amounted to BGN 805 million or 29.5% less. The liquid assets ratio, calculated in accordance with BNB Ordinance No. 11, was 38.24% compared to 36.71% a year earlier. Balance capital at the end of December amounted to BGN 11.1 billion, with an increase of BGN 125 million (1.1%) compared to 2015. The ratio of total capital adequacy reached 22.15% and fell only slightly from 22.19% a year earlier. Banking performance indicators in 2016 reported their highest levels since 2008 with still low lending rates, AQR and ST carried out, and declining interest rates.

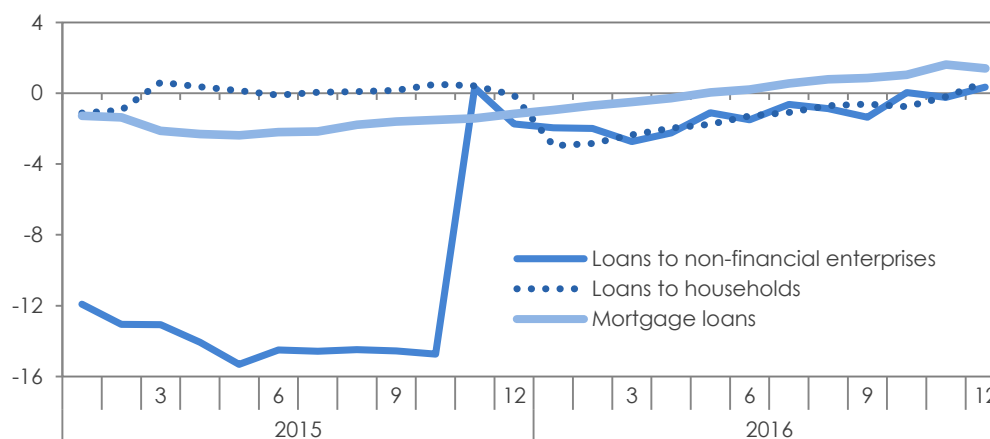
AQR and ST results confirmed banking system's stability and its resilience to absorb negative macroeconomic and market shocks, as well as the fact that no public support is required for any bank. The reviews were carried out according to the ECB methodology adapted to the Bulgarian conditions and risks. After the AQR, the capital adequacy indicators of the system are above the minimum regulatory requirements, as well as above average levels for European banks, under a more conservative negative scenario compared to the European stress test of 2016.

Private sector lending remained at low levels in 2016, but in the second half of the year it showed signs of a recovery driven by household loans. By the end of December, private credit reached an annual growth of 1.5%, after having witnessed a positive growth for the first time in the year at the end of August. Two main trends were observed in its dynamics on an annual basis: a moderate acceleration in the growth of regular loans and, at the same time, steady rates of deceleration of bad and restructured loans. Loans to non-financial corporations increased by a total of 0.3% on an annual basis at the end of 2016 after regular loans reached a 6.9% growth, but overdrafts and bad and restructured corporate loans fell by 4.2% and 9.5% compared to the same month of the previous year. Household loans played

a leading role in recovering private credit in 2016 after rising 2% from 2015, compared to a 1.0% decrease a year earlier. Highest contributors to that have "other credits", which recorded an annual growth rate of 29.7%, and their growth could be linked to the energy efficiency program for multifamily residential buildings. Housing loans growth rate reached 1.4% at the end of December, and consumer loans ended in 2016 with a 0.6% increase over the previous year.

CREDIT GROWTH

(%, yoy)

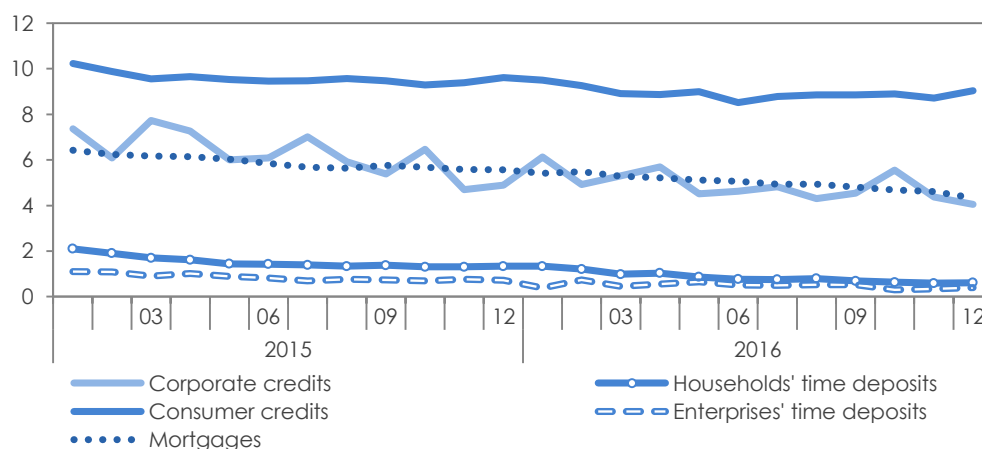


Source: BNB, MoF

In 2016, deposits² continued to grow and, along with other factors, including still weak lending, further contributed to maintaining high levels of liquidity in banks. Their annual growth rate at the end of the year was 6.7%, against 8.2% in 2015. Household and non-financial corporate deposits continued to represent the largest share in the structure by institutional sectors.

INTEREST RATES ON CREDITS AND DEPOSITS

(%)



Source: BNB, MoF

² Deposits from all institutional sectors included in the M3 monetary aggregate are covered.

In 2016, market interest rates kept their downward dynamics. This process continued to be influenced by high liquidity in the banking system, increase in deposits, still weak demand for borrowing resources and interbank money market trends. In turn, they implicitly reflected the monetary conditions of the euro area and the monetary policy of the ECB. This influence was further reinforced by BNB's decision to link interest rates on excess reserves of commercial banks to ECB's reference interest rate on the deposit facility³. The negative interest rate has led to a reduction of the excess reserves and the need for a profitable allocation.

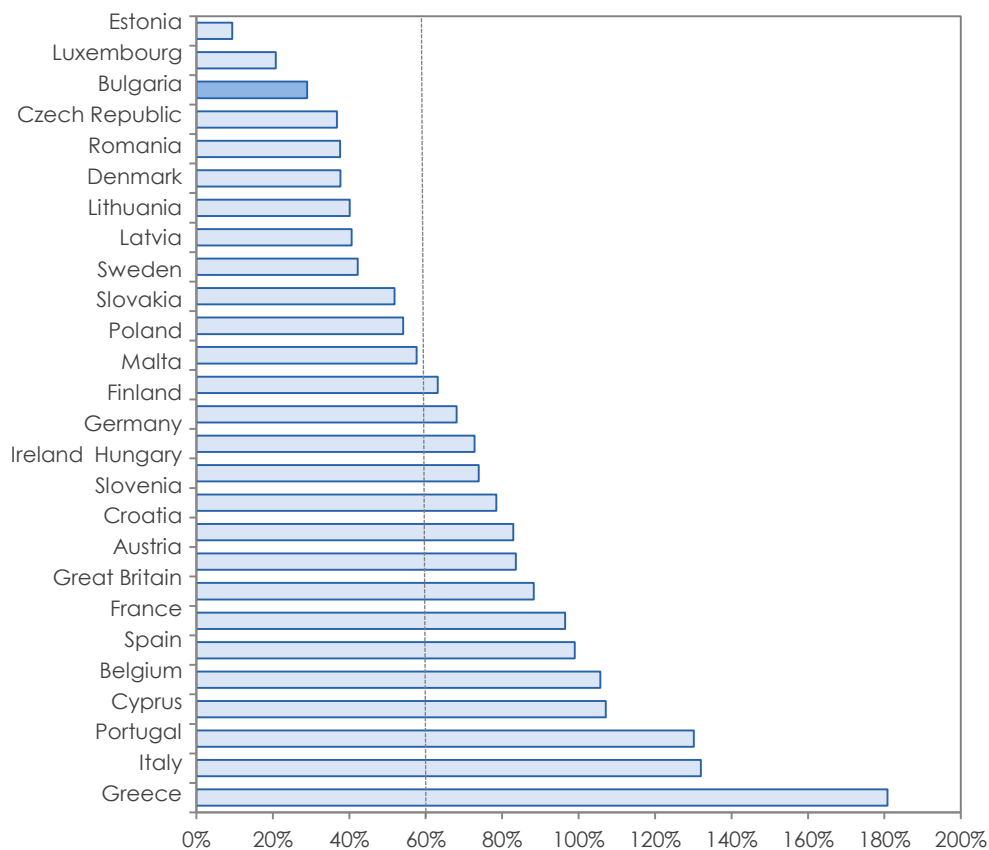
In 2016, the euro area financial markets continued to be significantly influenced by the additional monetary stimulus applied by the ECB, contributing to a gradual reduction in yields on government bonds of euro area countries and other EU issuers of euro-denominated bonds. In addition to the reduction of key ECB interest rates to a historic minimum, an impact on the GS market had also the unconventional measures introduced, such as long-term refinancing and private and public sector purchases of securities in order to provide additional monetary stimulus. Overall, the average GDP-weighted yield of 10-year government bonds decreased in 2016 by almost 30 b.p. to about 0.9% at the end of the year. Within the euro area, dynamics of government bond spreads was relatively weak, but showed some differences across countries. The favourable external environment has contributed to a fall in the long-term interest rate for the convergence assessment, with the value of this indicator fell from 2.43% in December 2015 to 1.80% in December 2016, representing a decrease of 64 b.p. ▼

³ It introduced a definition of "excess reserves" and a negative interest rate on them when the interest rate on the ECB deposit facility is negative and a zero excess interest rate on excess reserves when the interest rate on the ECB deposit facility is positive or zero.

FULFILMENT OF DEBT CONVERGENCE CRITERION OF THE REPUBLIC OF BULGARIA

In 2016, on basis of the latest annual data published by Eurostat in October 2017, the Republic of Bulgaria covers the Maastricht 60% convergence criterion while maintaining its leading position among the Member States of the European Union with lowest government indebtedness.

CONSOLIDATED DEBT OF GENERAL GOVERNMENT SECTOR/GDP OF EU MEMBER STATES AT THE END OF 2016



Source: Eurostat

The value of the consolidated debt of General Government sector/ GDP ratio is 29.0%. Comparing the indicators of the 28 EU Member States, Republic of Bulgaria ranks third after Estonia (9.4%) and Luxembourg (20.8%). Reported low indicator levels are not only far below the maximum permissible reference value but also well below the average for EU-28 and † EU-19 countries, which are 83.2% and 88.9% respectively in 2016.

With a share of about 98%, the Central Government Debt occupies a leading position in the composition of the consolidated liabilities of General Government sector.

CREDIT RAITING

CREDIT RATING OF BULGARIAN BONDS ISSUED ON ICM

Credit rating agency	Eurobonds issued on ICM with maturity 2017	Eurobonds issued on ICM with maturity 2024	Eurobonds issued on ICM with maturity 2022	Eurobonds issued on ICM with maturity 2027	Eurobonds issued on ICM with maturity 2035	Eurobonds issued on ICM with maturity 2023	Eurobonds issued on ICM with maturity 2028
Moody's	Baa2	Baa2	Baa2	Baa2	Baa2	Baa2	Baa2
S&P	BBB	BBB-	BB+	BB+	BB+	BB+	BB+
Fitch	BBB-*	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-

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

Source: MoF

DYNAMICS OF SOVEREIGN CREDIT RATING FOR THE PERIOD 01.01.2009—31.12.2016

Credit agency	Date	Foreign currency rating		Local currency rating		Outlook
		Short term	Long term	Short term	Long term	
Moody's	20.03.2009		Baa3		Baa3	Stable
Moody's	21.01.2010		Baa3		Baa3	Positive
Moody's	31.08.2010		Baa3		Baa3	Positive
Moody's	22.07.2011		Baa2		Baa2	Stable
Moody's	05.06.2015		Baa2		Baa2	Stable
S&P	01.12.2009	A-3	BBB	A-3	BBB	Stable
S&P	17.12.2010	A-3	BBB	A-3	BBB	Stable
S&P	21.12.2011	A-3	BBB	A-3	BBB	Stable
S&P	10.08.2012	A-2	BBB	A-2	BBB	Stable
S&P	13.12.2012	A-2	BBB	A-2	BBB	Stable
S&P	13.12.2013	A-2	BBB	A-2	BBB	Negative
S&P	13.06.2014	A-3	BBB -	A-3	BBB -	Stable
S&P	12.12.2014	B	BB +	B	BB +	Stable
S&P	12.06.2015	B	BB +	B	BB +	Stable
S&P	11.12.2015	B	BB +	B	BB +	Stable

Credit agency	Date	Foreign currency rating		Local currency rating		Outlook
		Short term	Long term	Short term	Long term	
S&P	03.06.2016	B	BB +	B	BB +	Stable
S&P	02.12.2016	B	BB +	B	BB +	Stable
Fitch	30.04.2009	F3	BBB -		BBB	Negative
Fitch	12.08.2010*	F3	BBB -		BBB	Negative
Fitch	24.05.2011*	F3	BBB -		BBB	Positive
Fitch	13.12.2011*	F3	BBB -		BBB	Stable
Fitch	13.07.2013*	F3	BBB -		BBB	Stable
Fitch	10.01.2014	F3	BBB -		BBB	Stable
Fitch	04.07.2014	F3	BBB -		BBB	Stable
Fitch	19.12.2014	F3	BBB -		BBB	Stable
Fitch	19.06.2015	F3	BBB -		BBB	Stable
Fitch	04.12.2015	F3	BBB -		BBB	Stable
Fitch	03.06.2016	F3	BBB -		BBB	Stable
Fitch	22.07.2016	F3	BBB -		BBB-	Stable
Fitch	22.07.2016	F3	BBB -		BBB-	Stable

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

Source: MoF▼

CENTRAL GOVERNMENT DEBT

CENTRAL GOVERNMENT DEBT

By the end of 2016 Central Government debt totalled BGN 26 953.9 million (EUR 13 781.3 million) in nominal terms, including external debt of BGN 20 093.6 million (EUR 10 273.7 million) and domestic debt of BGN 6 860.3 (EUR 3 507.6 million). Central Government debt/GDP ratio at the end of 2016 is 28.6%.

CENTRAL GOVERNMENT DEBT

(BGN million)

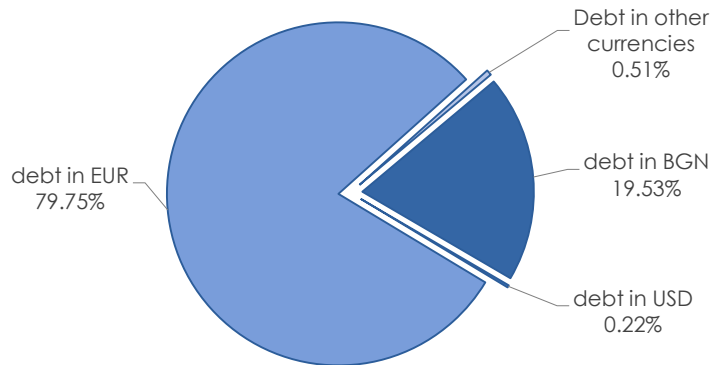
Structure	2016
Domestic CG debt	6 860.3
I. GS issued for financing the budget	6 532.4
II. GS issued for structural reform	92.9
III. Domestic loans of units within the CG subsector	235.0
External CG debt	20 093.6
I. Bonds	14 733.1
II. Loans	5 360.6
1. Government loans	2 063.9
1.1 Paris club	49.3
1.2 IBRD /World Bank/	846.7
1.3 European Union	1 167.9
2. Schuldschein transferable loans	567.2
3. Government investment loans	1 556.6
4. External loans of units within the CG subsector	1 172.9
Central Government debt, total	26 953.9
GDP (BGN Million)	94 130
GDP (EUR Million)	48 128
Total Central Government debt/GDP (%)	28.6%

Notes: 1. Debt at nominal value. 2. Debt in euro is recalculated based on end-of-period BNB central exchange rates of the relevant foreign currencies. 3. GDP data is available from the National Statistical Institute.

Source: MoF, NSI

CENTRAL GOVERNMENT DEBT CURRENCY STRUCTURE

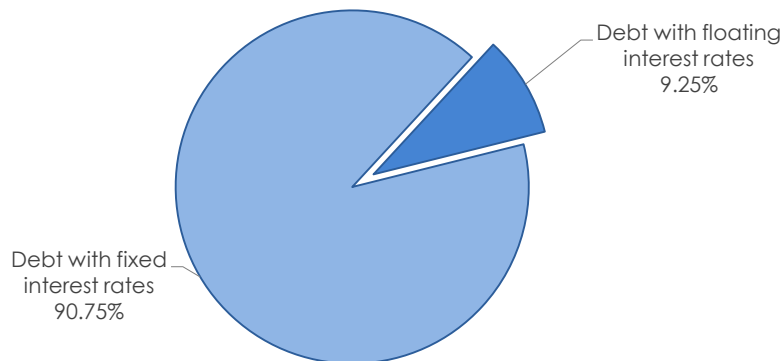
(as of 31 December 2016)



Source: MoF

CENTRAL GOVERNMENT DEBT INTEREST RATE STRUCTURE

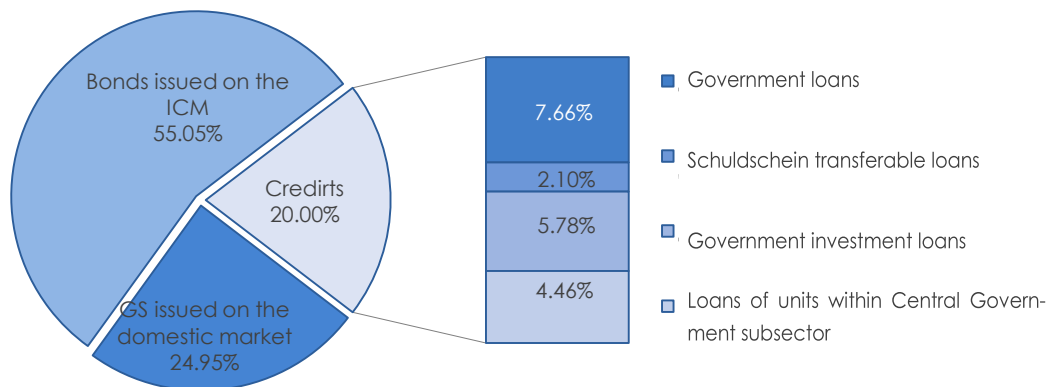
(as of 31 December 2016)



Source: MoF

STRUCTURE OF CENTRAL GOVERNMENT DEBT BY INSTRUMENT

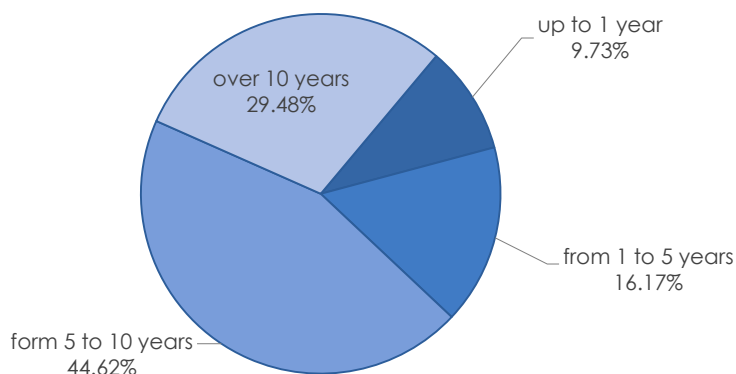
(as of 31 December 2016)



Source: MoF

RESIDUAL MATURITY OF OUTSTANDING CENTRAL GOVERNMENT DEBT

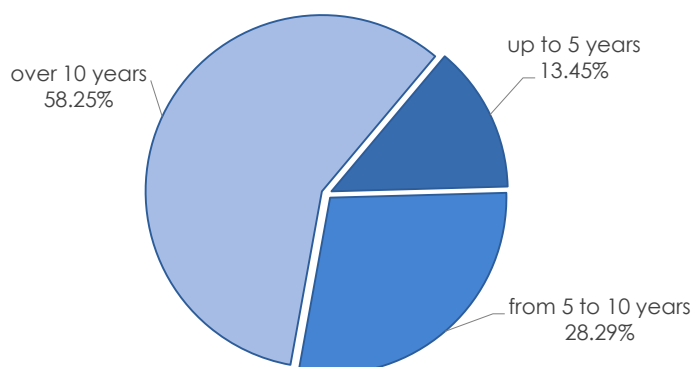
(as of 31 December 2016)



Source: MoF

ORIGINAL MATURITY OF OUTSTANDING CENTRAL GOVERNMENT DEBT

(as of 31 December 2016)



Source: MoF

CENTRAL GOVERNMENT DOMESTIC DEBT

By end of 2016, Central Government domestic debt totalled in nominal terms BGN 6 860.3 million (EUR 3,507.6 million), which is 7.3% of GDP.

CENTRAL GOVERNMENT DOMESTIC DEBT

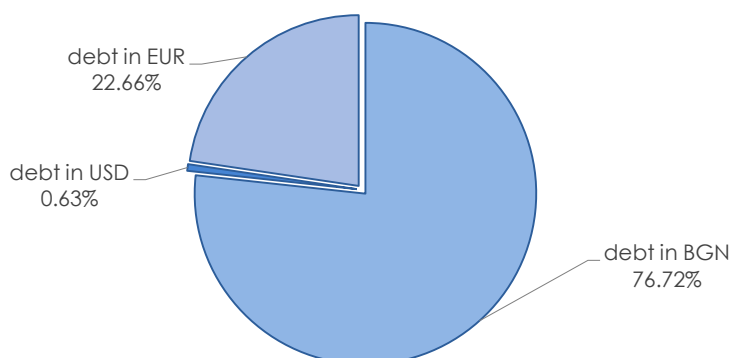
(BGN million)

Structure	2016
CG domestic debt	6 860.3
I. GS issued for financing the budget	6 532.4
II. GS issued for structural reform	92.9
III. Domestic loans of units within the CG subsector	235.0
GDP (BGN Million)	94 130
GDP (EUR Million)	48 128
CG domestic debt/GDP (%)	7.3%

Source: MoF

CENTRAL GOVERNMENT DOMESTIC DEBT CURRENCY STRUCTURE

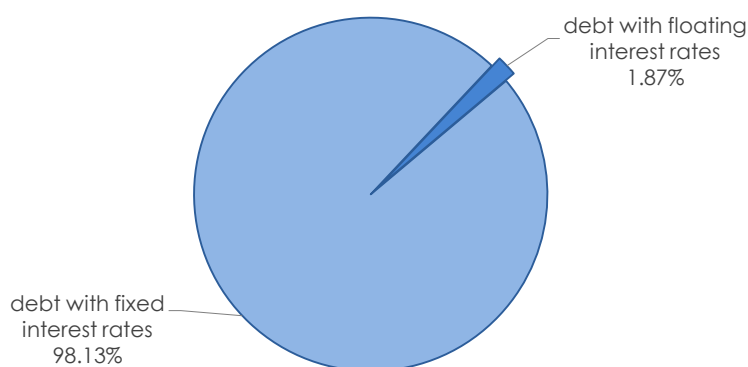
(as of 31 December 2016)



Source: MoF

CENTRAL GOVERNMENT DOMESTIC DEBT INTEREST RATE STRUCTURE

(as of 31 December 2016)



Source: MoF

CENTRAL GOVERNMENT EXTERNAL DEBT

By end of 2016, CG external debt totalled in nominal terms BGN 20 093.6 million (EUR 10 273.7 million). The CG external debt/GDP ratio is 21.3%.

CENTRAL GOVERNMENT EXTERNAL DEBT (BGN million)

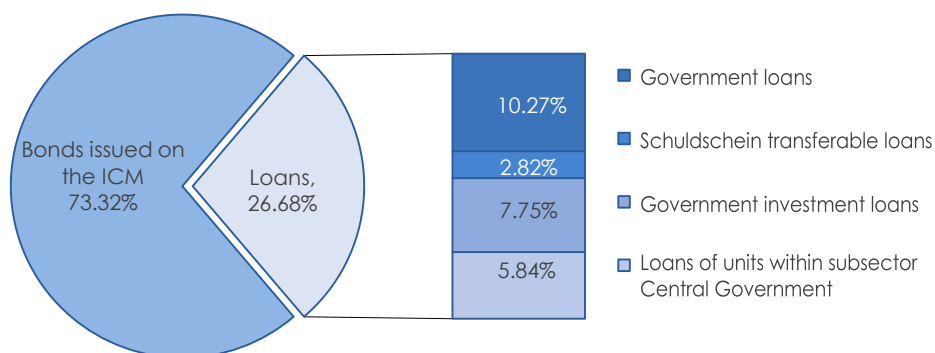
Structure	2016
External CG debt	20 093.6
I. Bonds	14 733.1
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2. Schuldschein transferable loans	567.2
3. Government investment loans	1 556.6

Structure	2016
4. External loans of units within the CG subsector	1 172.9
GDP (BGN Million)	94 130
GDP (EUR Million)	48 128
Total CG external debt/GDP (%)	21.3%

Source: MoF, NSI

STRUCTURE OF CENTRAL GOVERNMENT DEBT BY INSTRUMENT

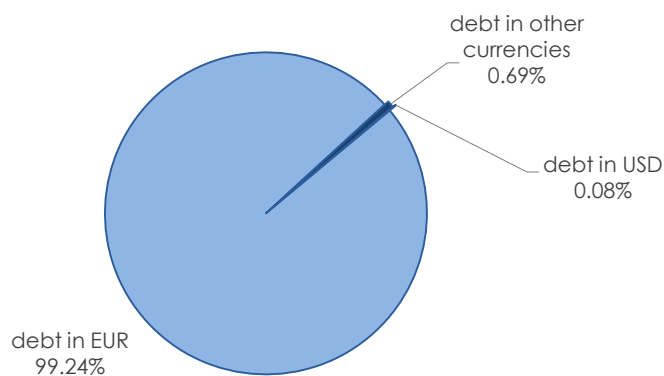
(as of 31 December 2016)



Source: MoF

CENTRAL GOVERNMENT EXTERNAL DEBT CURRENCY STRUCTURE

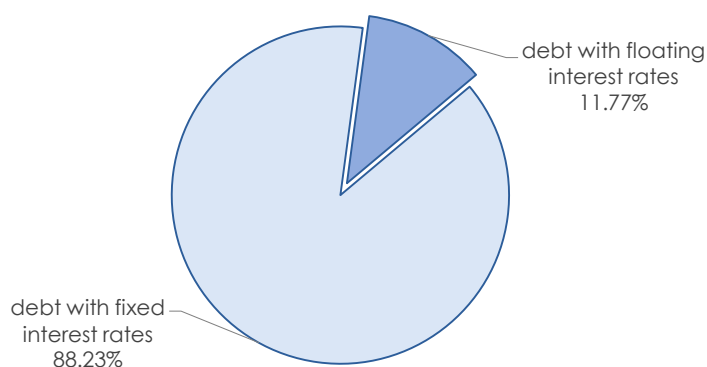
(as of 31 December 2016)



Source: MoF

CENTRAL GOVERNMENT EXTERNAL DEBT INTEREST RATE STRUCTURE

(as of 31 December 2016)



Source: MoF

DEBT SOURCES FOR FINANCING

In 2016 providing the necessary funds for financing the state budget and refinancing debt in circulation was done at an optimal price and risk level. Priority was given to building a liquid benchmark curve both in the domestic sovereign debt market and in the external markets, including through a medium-term bond issuance program on international capital markets.

The Ministry of Finance continued to provide broad investment opportunities for market participants as well as benchmark maturities that allow comparing the return on financial instruments.

GS ISSUES ON THE DOMESTIC MARKET

In 2016 the placement of GS on the domestic market complied with the envisaged restrictions in the 2016 SBRBA and the issuance policy of the Republic of Bulgaria.

During the year, a total of 3 auctions were held on the domestic market, with issues placed in circulation in 2016 only, with a maturity of 3 years and 10 years and 6 months, respectively. The total nominal value of the GS issued during the reporting period was distributed as follows: GS with maturity of 3 years - BGN 200 million and with maturity of 10 years and 6 months - BGN 300 million.

AUCTIONS HELD FOR THE SALE OF GS IN 2016

Date of auction	Date of issue	Issue №	Currency	Maturity	Maturity date	Interest rate %		Average approved price	Average annual yield *	Nominal value
25.01.2016	27.01.2016	BG2040016219	BGN	126 M	27.07.2026	Fixed %	2.25%	97.09	2.5830%	200 000 000.00
15.02.2016	17.02.2016	BG2030016112	BGN	36 M	17.02.2019	Fixed %	0.50%	100.43	0.3558%	200 000 000.00
16.05.2016	18.05.2016	BG2040016219	BGN	126 M	27.07.2026	Fixed %	2.25%	98.68	2.4100%	100 000 000.00
Total BGN										500 000 000.00

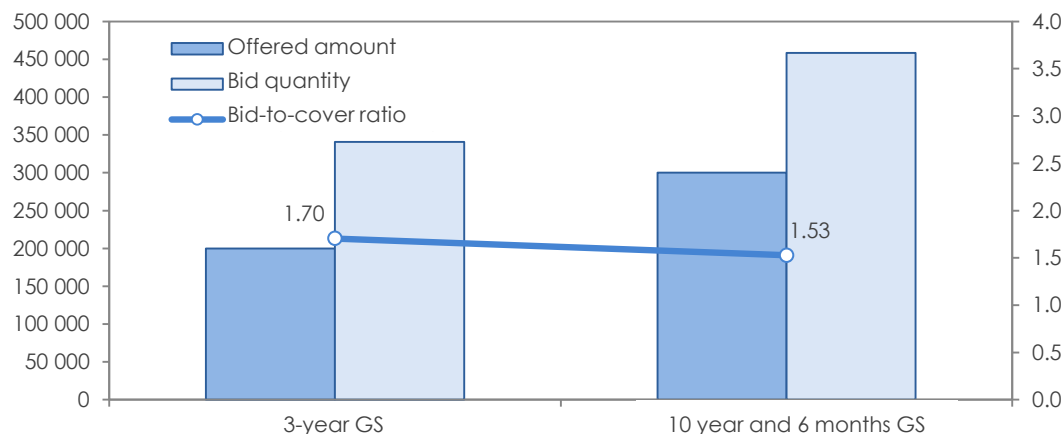
* Annual average yield calculated on basis of ISMA-International Yield (%)

Source: MoF

In 2016, the MoF offered on the domestic market GS with a total nominal value of BGN 500 million and the amount subscribed by market participants reached BGN 799.3 million, or an average bid-to-cover ratio of 1.60 was achieved. The averaged bid-to-cover ratios for the period by type of securities are as follows:

- with a term of 3 years - 1.70;
- with a term of 10 years and 6 months - 1.53.

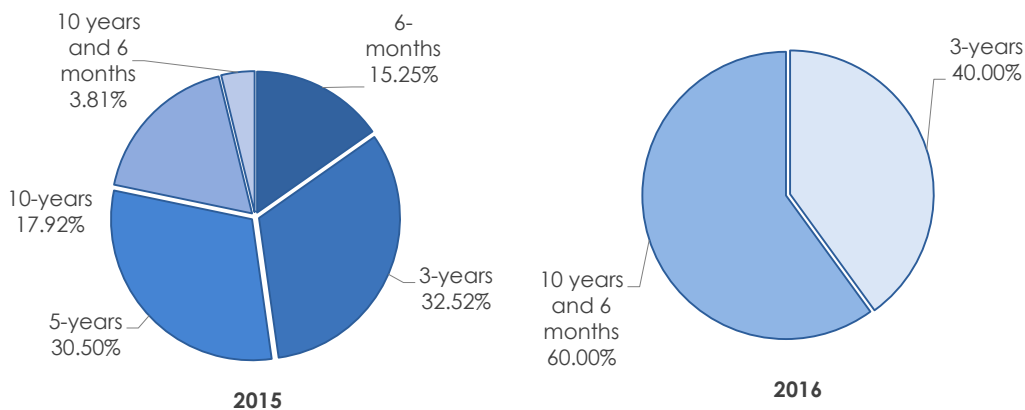
BID-TO-COVER RATIO OF GS ISSUED IN 2016



* Data are presented in BGN thousands

Source: MoF

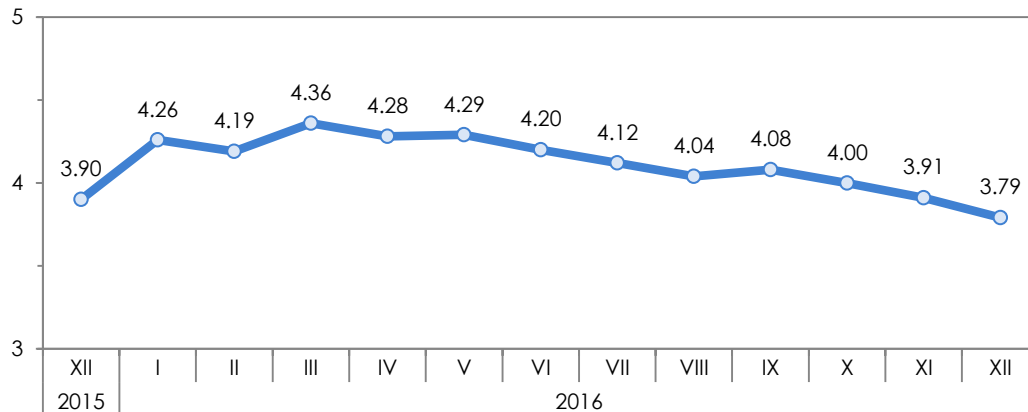
MATURITY STRUCTURE OF THE GS ISSUED



Source: MoF

RESIDUAL MATURITY IN YEARS OF EMISSIONS IN CIRCULATION

(years)



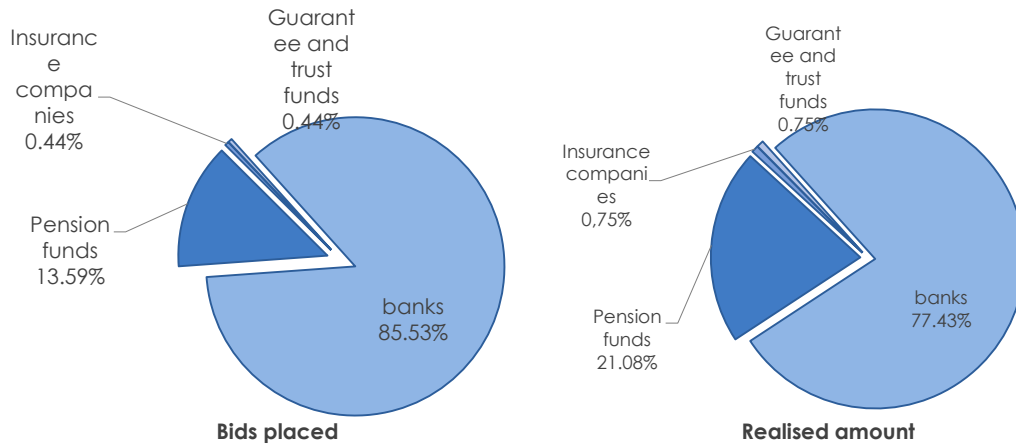
Source: MoF

DISTRIBUTION OF THE INVESTOR BASE AND DEVELOPMENT OF THE PRIMARY GS MARKET IN 2016

In 2016 debt financing was primarily provided by international capital markets. Due to this fact, the issue policy on the domestic market during the year was driven backstage and the accumulated resources from GS placed were smaller compared to other years. In 2016 three auctions were held on the domestic debt market. The Ministry of Finance realised securities of a total nominal value of BGN 500 million, divided into two GS issues with a maturity of 3 years and 10 years and 6 months. The downward trend in yields on all maturity segments continued in 2016.

Investor interest analysis indicates that at the auction held for the sale of the 3-year bond the banks have placed bids for a total of BGN 291.60 million, or 85.53% of all bids placed, pension funds have placed bids for BGN 46.35 million, or 13.59% of the bids placed, guarantee and trust funds have placed bids for a total nominal value of BGN 1.5 million (0.44% of the bids placed), just as much as the insurance companies have placed. The allocation of the approved GS amount is as follows: banks - BGN 154.85 million (77.43% of the bids approved), pension funds - BGN 42.15 million (21.08% of the bids approved), guarantee and trust funds - BGN 1.5 million (0.75% of the bids approved), insurance companies - 1.5 million BGN (0.75% of the bids approved).

3-YEAR GS

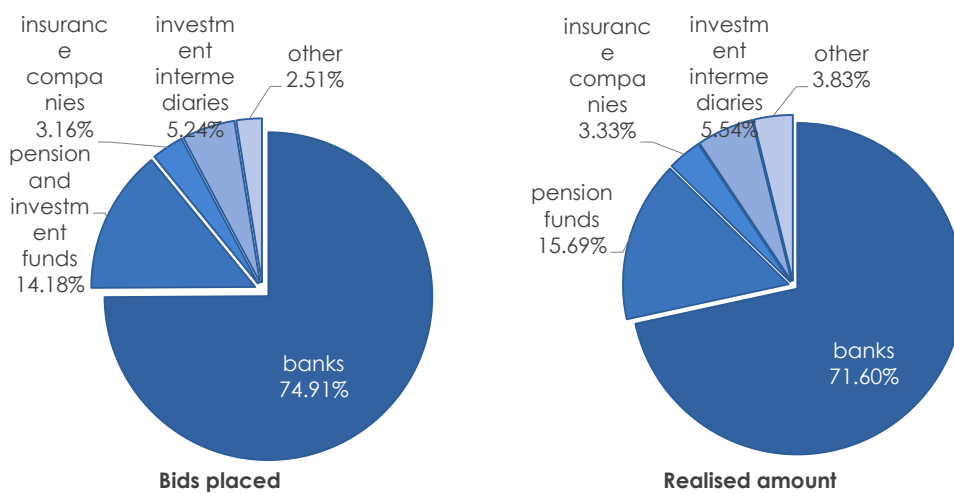


Source: MoF

The bond issued in 2016 with a maturity of 10 years and 6 months also attracted the attention of a wide range of investors. Bids placed by banks amounted to BGN 343.30 million (74.91% of all bids placed), by pension funds - BGN 65.00 million (14.18% of bids placed), by investment intermediaries - BGN 24.00 million (5.24% of bids placed), by insurance companies - BGN 14.50 million (3.16% of bids placed) and by other investors - BGN 11.50 million (2.51% of bids placed).

The allocation of the approved volume of GS is as follows: banks - BGN 214.80 million (71.60% of the approved bids), pension funds – BGN 47.08 million (15.69% of the approved bids), investment intermediaries - 16.61 (5.54% of the approved bids), other investors - BGN 11.50 million (3.83% of the approved bids), insurance companies - BGN 10.00 million (3.33% of the approved bids).

10-YEAR AND 6-MONTH GS



Source: MoF

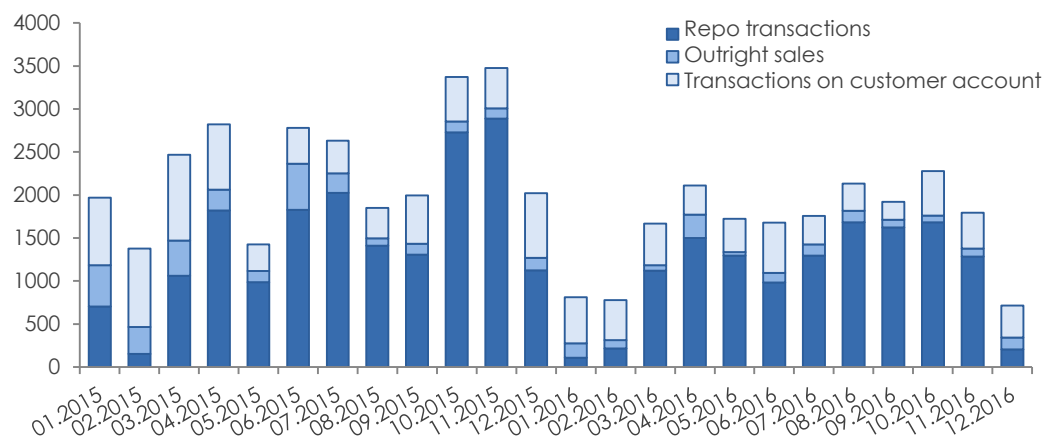
REVIEW OF THE SECONDARY GS MARKET

In 2016 the total volume of GS transactions and operations registered in the system for registration and settlement of GS at BNB (BNBGSSS⁴) amounted to BGN 22 451.4 million, against BGN 39 954 million in 2015 r., which is a decrease by 43.8%. A more pronounced decline was observed in the volume of registered repurchase transactions - BGN 12,993.1 million, compared to BGN 18,040.7 million in 2015. Regardless of this, their share continued to hold the highest volume of transactions registered in BNBGSSS - 58%. Repurchase transactions concluded for one day (51%), both with BGN and EUR issues of GS, were best preferred by banks for provision of their everyday liquidity. The volume of registered purchase and sale transactions reached BGN 6 374.5 million, down 62.8% compared to 2015. BGN 1 419.7 million of them accounted for transactions between participants in ESROT, BGN 4 580.4 million were transactions between participants and customers only, while BGN 374.4 million accounted for transactions between customers of participants in ESROT only. Operations of blocking and unblocking of GS issued on the domestic market on account of registered pledges established under the Law for Registered Pledges and for securing available cash funds in the accounts of budget organizations in banks in accordance with the Law on Public Finance Act, have a total volume of BGN 3 083.8 million, while their share was 13.7% respectively in the total volume of the secondary market. Against the backdrop of low to negative interest rate levels in the Eurozone and the lack of suitable investment alternatives on the local capital market, sovereign debt instruments issued on the domestic market remained the preferred investment for market participants. During the year, yields of long-term benchmark 10 and 6-month maturity issue ranged from 2.44% in January to 1.80% in December, which was a decrease of its value compared to 2015 (from 2.95% in January to 2.43% in December). Overall, secondary trading was quite dynamic, with peak volumes traded in April, October and August. GS along the whole range of debt curve were traded with a marked prevalence of BGN and EUR-denominated GS with approximately 5-year residual period until maturity date. This was due to the lower supply of long-term GS on the secondary market by institutional investors – pension fund and insurance companies, which held in their portfolios the GS purchased by them in order to ensure a better yield in the long term. The trend established in recent years of the volume of trading in the secondary market for GS to exceed several times the volume of trading in the Bulgarian stock exchange was preserved in 2016 as well.

⁴ BNBGSSS includes the Electronic System for Registration and Servicing of Trade in GS (ESROT) and the GS Settlement System (GSSS).

VOLUME BY TYPES OF TRANSACTIONS IN TRADABLE GS

(BGN million.)



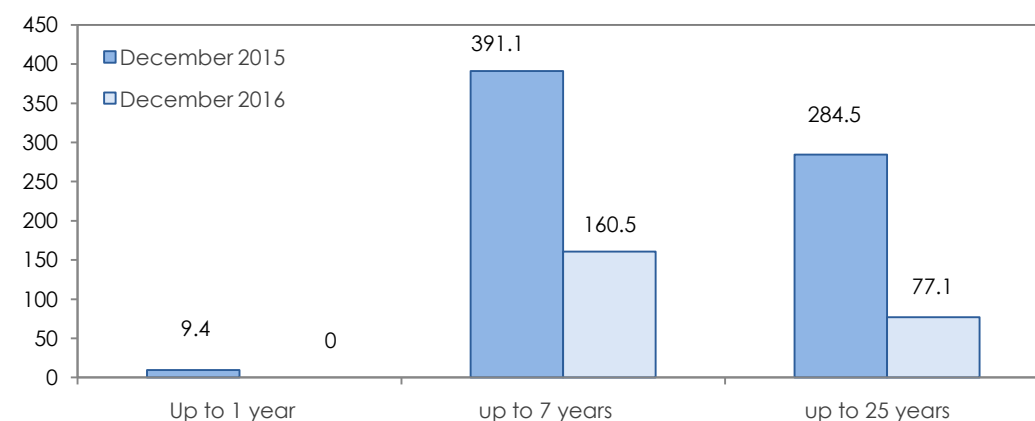
Notes: 1.The volume of repo transactions includes reverse repo transactions and those executed during the same day; 2.Transactions in GS denominated in foreign currency are given in BGN equivalence according to BNB exchange rate for the respective currency valid on the date of transaction.

Source: BNB

Participants in ESROT experienced no difficulties and ensured duly the necessary securities and funds in BGN and EUR for the execution of the settlement of the transactions in GS with delivery versus payment (DvP), where the average settlement ratio⁵ for the year stood at 100%.

STRUCTURE OF TRANSACTIONS ON INTER-BANK MARKET BY TERM OF GS

(BGN million)



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

Source: BNB

⁵ The settlement ratio stands for the percentage ratio of the number of transactions for which the settlement has been made at the respective date to the total number of transactions for the respective period, for which the registration and settlement were due to be made in the system.

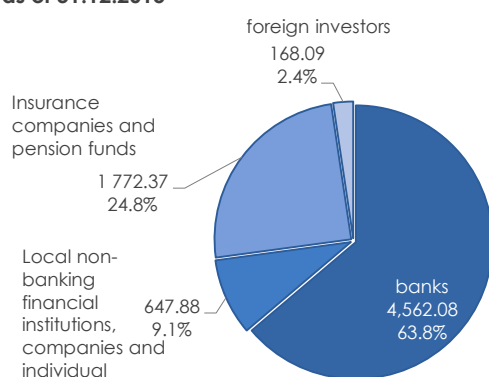
During the year, in BNBGSSS as a support system of TARGET2-BNB, were registered transactions in long-term EUR-denominated and payable GS with a total volume of EUR 572.4 million (or BGN 1 119.5 million), where the payments were being made not only through accounts of banks in the national system component TARGET2-BNB, but also through accounts of banks in other system components of central banks in TARGET2.

As a result of the reduced volume of GS in circulation compared to 2015, there was a decrease in the investments in government debt instruments issued for financing the budget deficit for almost all categories of holders. Banks continued to hold the biggest share of them (68.2%), followed by insurance companies and pension funds (23.8%), local non-banking financial institutions, companies and individuals (6.6%) and foreign investors (1.3%).

HOLDERS OF GS ISSUED TO FINANCE THE BUDGET DEFICIT

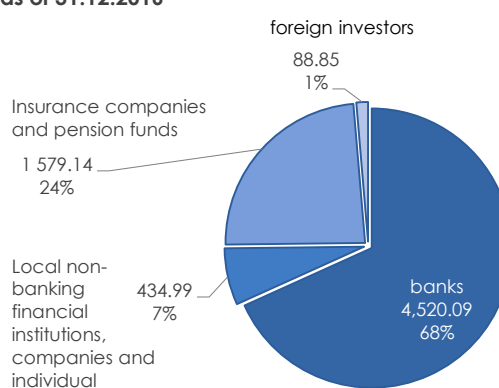
(BGN million)

as of 31.12.2015



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

as of 31.12.2016



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

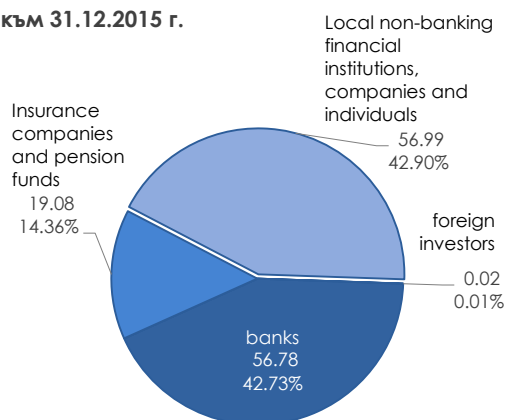
Source: BNB

The exposures of GS issued in support of the structural reform for separate categories of investors decreased as compared to the preceding year as a result of the partial repayments of these exposures and the allocation by types of holders at the end of the year was, as follows: 42.95% in banks, 14.39% in insurance companies and pension funds, 42.65% in portfolios of local non-banking financial institutions, companies and individuals, and 0.01% in foreign investors.

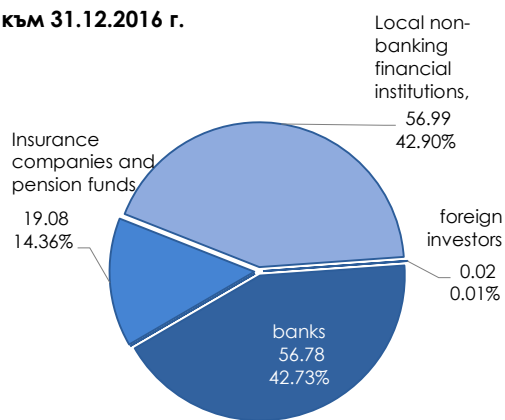
HOLDERS OF GS DENOMINATED IN FOREIGN CURRENCIES ISSUED IN SUPPORT OF THE STRUCTURAL REFORM

(BGN million)

към 31.12.2015 г.



към 31.12.2016 г.



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

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

Source: BNB

HOLDERS OF BULGARIAN BONDS ISSUED ON THE DOMESTIC MARKET

(BGN million)

	2015	2016			
	QA	Q1	Q2	Q3	Q4
Non-residents	168.1	147,1	87,7	88,9	88,9
Residents – banks	4618.9	4 428,7	4 596,4	4 502,8	4 563,7
Additional Pension Insurance Funds under SIC	778.1	717,3	658,7	648,2	636,2
General insurance and life insurance companies under IC	745.1	670,2	728,1	746,9	737,0
Other investors	973.1	863,0	857,2	735,3	698,8

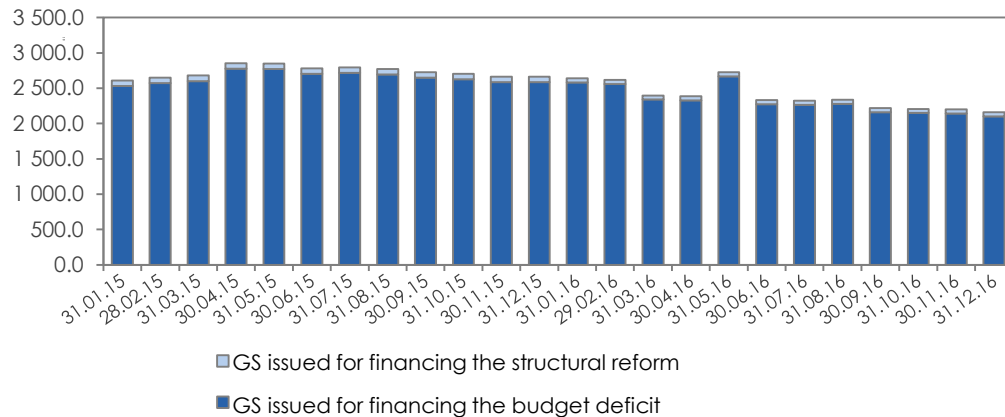
Source: FSC, BNB

Among institutional investors, banks held the largest volume of government securities issued on the Bulgarian market, whereas as of 31 December 2016 it stood at BGN 4 563.7 million (67.9% of all domestic GS in circulation). There is an increase in their share as compared to the end of 2015, when the GS held by them amounted to BGN 4 618.9 million (or 63.7% of domestic GS). As of 31 December 2016 additional pension insurance funds, established in accordance with the provisions of the Social Insurance Code, hold in their portfolios GS amounting to BGN 636.2 million, which is a decrease compared to the same period of the previous year (BGN 778.1 million). The general insurance and life insurance companies maintained stable levels of GS held amounting to BGN 737.0 million as

of 31 December 2016. GS held by other investors decreased from BGN 973.1 million at the end of 2015 to BGN 698.8 million as of 31 December 2016. The share of GS held by non-residents registered a drop from BGN 168.1 million at the end of 2015 to BGN 88.9 million at the end of 2016.

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

(BGN million)



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

Source: BNB

HOLDERS OF BULGARIAN BONDS ISSUED ON ICM

As of 31 December 2016, seven EUR-denominated issues were in circulation in the international capital markets – XS0802005289 with maturity on 9 July 2017 and coupon of 4.250%, XS1083844503 with maturity on 3 September 2024 and coupon 2.950%, XS1208855616 with maturity on 26 March 2022 and coupon of 2.000%, XS1208855889 with maturity on 26 March 2027 and coupon 2.625% and XS1208856341 with maturity on 26 March 2035 and coupon of 3.125%, XS1382693452 with maturity on 21 March 2023 and coupon of 1.875% and XS1382696398 with maturity on 21 March 2028 and coupon of 3%.

At the end of 2016, residents and non-residents held securities issued with maturity in 2017 in a ratio of approximately 54% to 46%, while at the end of 2015 47% were held by residents and 53% – by non-residents. At the end of 2016, residents held bonds from the issue amounting to EUR 513.50 million which accounts for an increase compared to the same period of the previous year, when they held bonds amounting to EUR 446.75 million. Securities for EUR 418.35 million were held by residents of the “banks” sector, while the remaining sectors held securities for a total amount of EUR 95.15 million.

The issue with maturity in 2024 is held mainly by non-residents, as it was at the end of 2015, yet a slight increase was registered during the past year in the share held by residents – from 41% to 43%. As of 31 December 2016, the residents held bonds amounting to EUR 648.72 million (EUR 617.74 million as of 31 December 2015). Sector "banks" holds bonds amounting to EUR 438.94 million, while other sectors – for a total of EUR 209.78 million.

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

Type of GS	2015	2016			
	Q4	Q1	Q2	Q3	Q4
4.25%, 2017, XS0802005289	446.75	459.53	486.89	497.73	513.50
Held by "Banks" sector	339.04	350.55	379.02	402.19	418.35
Held by the remaining sectors	107.71	108.98	107.87	95.54	95.15
2.95%, 2024, XS1083844503	617.74	638.71	629.40	621.40	648.72
Held by "Banks" sector	418.86	425.88	415.96	419.69	438.94
Held by the remaining sectors	198.88	212.83	213.45	201.70	209.78
2%, 2022, XS1208855616	799.52	849.47	788.63	792.71	801.10
Held by "Banks" sector	648.43	701.96	636.43	630.27	645.25
Held by the remaining sectors	151.09	147.51	152.21	162.45	155.85
2.625%, 2027, XS1208855889	649.59	663.87	622.75	608.49	613.29
Held by "Banks" sector	379.90	415.27	393.92	386.07	392.37
Held by the remaining sectors	269.68	248.59	228.83	222.42	220.92
3.125%, 2035, XS1208856341	247.83	245.30	258.52	245.75	254.35
Held by "Banks" sector	118.57	121.39	131.99	130.66	130.63
Held by the remaining sectors	129.26	123.90	126.53	115.09	123.72
1.875%, 2023, XS1382693452	-	454.33	528.08	543.15	592.24
Held by "Banks" sector	-	314.20	369.02	377.62	418.76
Held by the remaining sectors	-	140.13	159.06	165.53	173.48
3%, 2028, XS1382696398	-	294.50	336.69	340.07	343.95
Held by "Banks" sector	-	179.98	206.59	207.09	218.79
Held by the remaining sectors	-	114.52	130.10	132.98	125.17
Total (EUR million)	2 761.42	3 605.70	3 650.97	3 649.29	3 767.15

Source: BNB

The largest share of securities held by residents at the end of 2015 goes to the bonds with maturity in 2022. As of 31 December 2016, they held securities with nominal value of EUR 801.10 million, which accounts for 64% of the total volume of the issue, against 36% for non-residents. The total nominal value of bonds held by

"Banks" sector amounts to EUR 645.25 million, while those held by the remaining sectors account for EUR 155.85 million.

The next biggest share of securities held by residents at the end of 2016 goes to the bonds with maturity in 2027 – ca. 61% against 39% for non-residents. In nominal terms, this accounts for a volume of EUR 613.29 million of which the "Banks" sector held EUR 392.37 million and the remaining sectors – EUR 220.92 million.

The percentage of external bonds held by residents at the end of 2016 was lowest for bonds with maturity in 2035 – 28%, against 72% for non-resident. Of the total volume of securities held by residents amounting to EUR 254.35 million, "banks" sector held bonds of the issue amounting to EUR 130.63 million and the remaining sectors – amounting to 123.72 million.

The share of the bond with a maturity in 2023 held by residents is 52% (EUR 592.24 million) of its total amount. "Banks" sector holds securities amounting to EUR 418.76 million and other sectors - EUR 173.48 million.

The issue maturing in 2028 is held predominantly by non-residents, with a ratio to the total bond amount of 59.5%. "Banks" sector holds bonds for EUR 218.79 million and other sectors – for a total of EUR 125.17 million.

The ratio among holders of the total external securitized debt by the end of 2016 is roughly the same - 49.7% - residents and 50.3% - non-residents.

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

Type of GS	2015	2016			
	Q4	Q1	Q2	Q3	Q4
4.25% 2017 XS0802005289	88 006	76 963	75 383	70 921	69 707
Pension funds under SIC	1 312	1 313	1 314	1 264	1 266
Insurance companies under IC	86 694	75 650	74 069	69 657	68 441
2.95% 2024XS1083844503	399 249	411 833	421 033	407 808	422 239
Pension funds under SIC	306 642	330 836	325 997	314 855	313 488
Insurance companies under IC	92 607	80 998	93 388	91 208	107 096
Other non-banking financial institutions (investment intermediaries and CIS)	-	-	1 647	1 745	1 655
2%, 2022, XS1208855616	282 053	263 309	273 415	300 968	288 785
Pension funds under SIC	251 816	240 913	245 671	277 935	270 533
Insurance companies under IC	30 237	22 396	27 744	23 034	18 251
2.625%, 2027, XS1208855889	498 383	454 440	428 878	451 350	435 530
Pension funds under SIC	415 946	377 462	362 211	378 625	363 011
Insurance companies under IC	82 437	76 978	66 668	72 725	72 518

Type of GS	2015	2016			
	Q4	Q1	Q2	Q3	Q4
3.125%, 2035, XS1208856341	203 720	194 025	201 566	201 035	188 381
Pension funds under SIC	114 840	106 259	109 164	108 980	95 469
Insurance companies under IC	88 880	87 765	92 402	92 054	92 912
1.875%, 2023, XS1382693452	-	252 043	288 223	316 953	328 853
Pension funds under SIC	-	219 287	248 970	271 206	285 883
Insurance companies under IC	-	32 756	39 253	45 747	42 970
3%, 2028, XS1382696398	-	213 129	247 117	275 901	256 374
Pension funds under SIC	-	201 974	229 544	240 109	212 257
Insurance companies under IC	-	11 155	17 573	35 792	44 117
Total (BGN thousand)	1 471 410	1 865 743	1 933 967	2 023 191	1 989 867

Source: FSC

At the end of 2016 the Bulgarian Eurobonds held by local pension funds, pension insurance companies, insurance and health insurance companies amounted to BGN 1,989.87 million, with a prevalence of the pension funds by 78% of this volume against 22% of those held by the insurance companies.

The largest share held by these institutional clients by the end of 2016 goes to the bonds with maturity in 2027 – ca. 22% of the total volume of the issue, followed by the holders of bonds with maturity in 2023 and 2028 - 15%. Securities held in bonds with maturity in 2024 amount to 14% of the total volume and those of the 2022 issue - 12%. Bonds held with the issue maturing in 2017 rank last - BGN 69.7 million or 4% of the volume of the bond.

FINANCING FROM INTERNATIONAL FINANCIAL INSTITUTIONS AND INTERNATIONAL CAPITAL MARKETS

Funding from international financial institutions (IFIs) and international capital markets (ICF), received in 2016, amounts to BGN 5 billion, of which BGN 3.9 billion as bonds issued on ICM, BGN 1.1 billion as funds absorbed from the Bulgarian Deposit Insurance Fund under loans for deposits guaranteeing from EBRD and IBRD and BGN 45.8 million from utilization of current government investment loans.

On March 14, 2016, the Republic of Bulgaria issued a double tranche of bonds amounting to EUR 1.994 billion. The transaction included a tranche of 7-year bonds worth EUR 1.144 billion and a tranche of 12-year bonds worth EUR 850.0 million. 7-year bonds are priced at EUR 98,192 per EUR 100 nominal value, with an interest coupon of 1,875% and a spread of 185 basis points above the average price of interest rate swaps (yield 2,156%), while the 12-year bond tranche was disposed of at a price of EUR 98,237 per EUR 100 nominal value at an interest coupon of 3,000%

and 235 basis points above the average price of interest rates (yield 3.179%). The new bonds have prompted strong investor interest, with final orders reaching EUR 2.1 billion requested by 195 investors for the 7-year bonds and 1.5 billion euros by 155 investors for the 12-year bonds. European-wide demand was recorded, with investment funds and banks holding top positions for both. With the 7-year bonds Bulgaria recorded lowest interest coupon achieved by the state on international capital markets. Following this transaction, the number of bonds issued by the Republic of Bulgaria on the international capital markets reached seven, as a result of which the euro benchmark curve of the state was completed. ▼

CENTRAL GOVERNMENT GUARANTEED DEBT

In nominal terms, the size of the CG guaranteed debt at the end of 2016 amounted to BGN 443.7 million, of which BGN 65.5 million domestic and BGN 378.2 million external CG guaranteed debt. The reported decrease is due to repayments on the CG guaranteed debt during the year.

The CG guaranteed debt to-GDP ratio is 0.5%.

CG GUARANTEED DEBT

(MLN. LV.)

	2016
CG guaranteed debt	443.7
I. Domestic CG guaranteed debt	65.5
1. Guarantees under the Student and Doctoral Candidate Loans Act	65.5
II. External CG guaranteed debt	378.2
1. IBRD /World Bank/	18.6
2. EIB	2.7
3. Others	356.8
CG guaranteed debt /GDP(%)	0.5

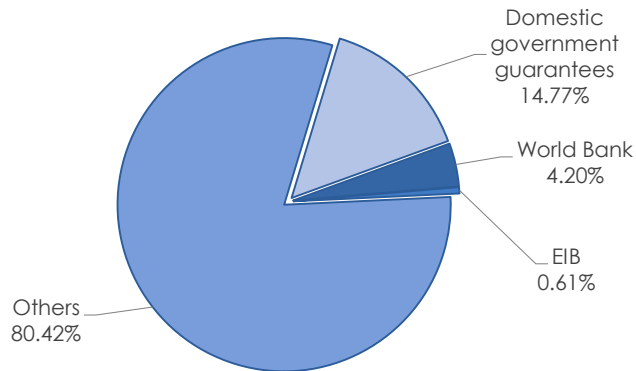
Notes: 1. The debt amount is as per nominal value; 2. The recalculation of debt in BGN is as per BNB central exchange rate for the relevant currencies as at the end of the period.

Source: MoF

In the structure of the CG guaranteed debt by creditors, the share of "others" (international financial institutions, including Euratom, CEB, JBIC, etc.) reached 80.4%. The share of CG guaranteed debt to the World Bank and the EIB is respectively 4.2% and 0.6%.

The share of the CG internal guarantees issued on the basis of the Guarantees under the Student and Doctoral Candidate Loans Act under the Student Loans Program amounts to 14.8% of the CG guaranteed debt total amount.

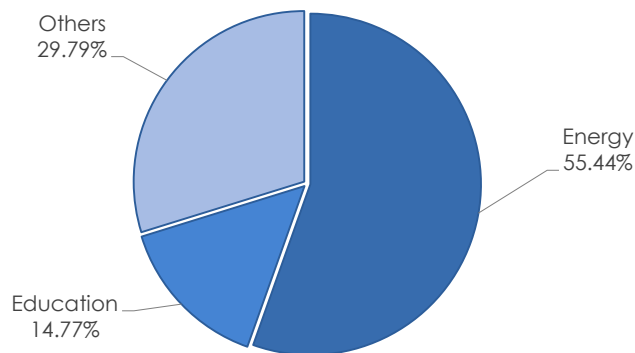
STRUCTURE OF THE CG GUARANTEED DEBT BY CREDITORS



Source: MoF

Within the structure of CG guaranteed debt by sectors as of 31 December 2016 the largest relative share belonged to the energy sector – 55.4%, followed by others – 29.8% and education – 14.8%.

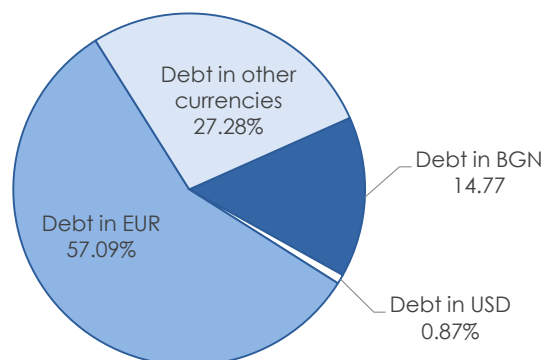
STRUCTURE OF THE CG DEBT BY SECTORS



Source: MoF

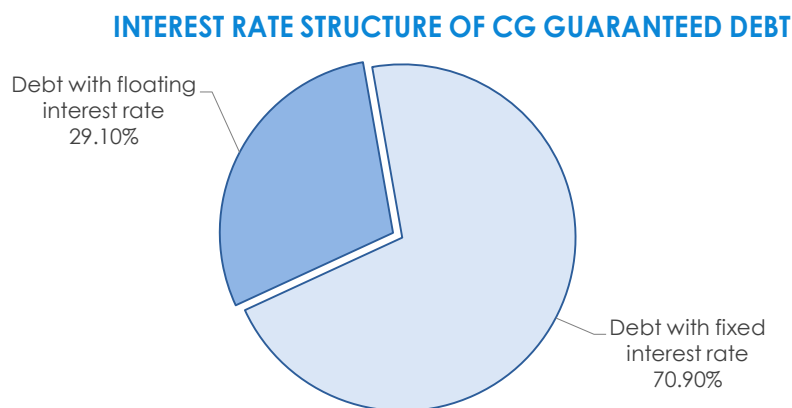
The dominant position in the currency structure of the government guaranteed debt at the end of 2016 was held by debt denominated in EUR – 57.1%, followed by debt denominated in other currencies – 27.3%. Debt denominated in BGN and USD reached 14.8% and 0.9% respectively.

CURRENCY STRUCTURE OF CG GUARANTEED DEBT



Source: MoF

The fixed interest rate debt has a dominant share in the interest rate structure of the Central Government guaranteed debt at the end of 2016. At the end of the year it amounted to 70.9%, and the share of debt with floating interest rate was 29.1%.



Source: MoF

The new financing under CG guaranteed debt in 2016 amounted to BGN 104.3 million and payments made during the period under review amounted to BGN 114.1 million, of which BGN 105.8 million for repayment of principal and BGN 8.3 million for interest payments. No new government guarantees were issued under external loan agreements during the period under review.

NEW FINANCING AND PAYMENTS MADE UNDER THE CG GUARANTEED DEBT AS AT THE END OF 2016

(BGN million)

Structure	Received loans (tranches)	Payments made, incl.	
		Repayments (principal)	interest
I. Domestic CG guaranteed debt	15.6	8.6	1.3
1. . Guarantees under Student and Doctoral Candidate Loans Act	15.6	8.6	1.3
II. External CG guaranteed debt	88.7	97.2	6.9
1. IBRD /World Bank/	-	5.3	0.1
2. EIB	0.7	-	-
3. EBRD	-	1.8	
4. Others	88.0	90.2	6.8
Cg GUARANTEED DEBT	104.3	105.8	8.3

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

Source: MoF

GOVERNMENT AND GOVERNMENT GUARANTEED DEBT

GOVERNMENT DEBT

(BGN million)

Structure	2010	2011	2012	2013	2014	2015	2016
Domestic government debt	3 934.2	4 808.0	4 981.0	6 289.6	8 251.8	7 283.3	6 724.6
Government securities issued for financing the budget	3 652.4	4 220.5	4 763.4	6 108.2	8 091.9	7 148.7	6 724.6
Government securities issued for the structural reform	281.7	252.5	217.6	181.5	159.8	134.6	0.0
External government debt	6 598.0	6 821.2	8 692.6	7 828.9	13 850.6	15 430.8	19 026.5
Bonds	3 200.7	3 242.9	5 070.5	3 399.6	6 525.4	10 939.0	14 838.9
Paris club	197.0	172.4	147.8	123.1	98.5	73.9	49.3
IBRD /World Bank/	1 483.9	1 397.8	1 290.0	1 208.7	1 091.1	1 001.0	846.7
European Union	102.5	263.6	361.4	743.5	874.6	1 167.9	1 167.9
Others	0.0	0.0	0.0	567.2*	500.9** ³	567.2*	567.2*
Government investment loans	1 595.3	1 734.8	1 822.9	1 786.7	1 760.1	1 681.8	1 556.6
Called government guarantees	18.6	9.7	0.0	0.0	0.0	0.0	0.0
Total government debt	10 532.1	11 629.1	13 673.6	14 118.5	22 102.3	22 714.1	25 751.1
GDP (BGN million)	74 771	80 759	82 040	82 166	83 634	88 571	94 130
GDP (EUR million)	38 230	41 291	41 946	42 011	42 761	45 286	48 128
Total government debt/GDP	14.1%	14.4%	16.7%	17.2%	26.4%	25.6%	27.4%

* "Schuldschein" assignable loans

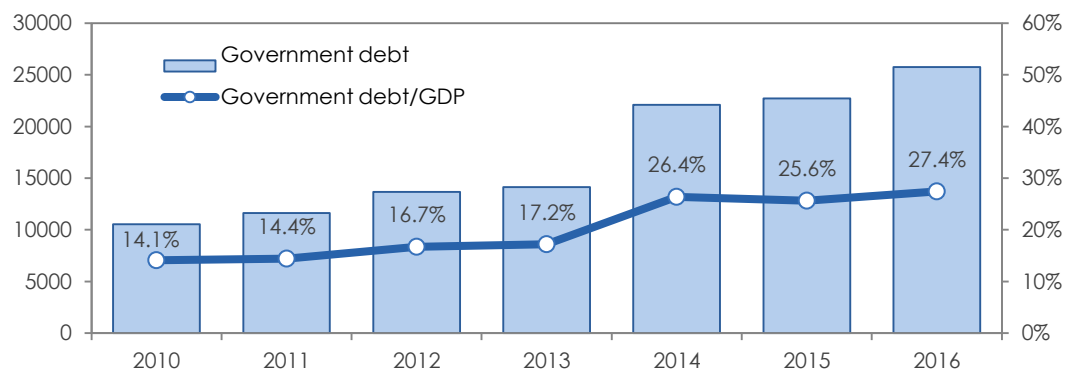
** "Schuldschein" assignable loans and bridge loan "Bridge-to-bond loan"

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

Source: MoF, NSI

DYNAMICS OF GOVERNMENT DEBT

(BGN million)



Source: MoF

GOVERNMENT GUARANTEED DEBT

(BGN million)

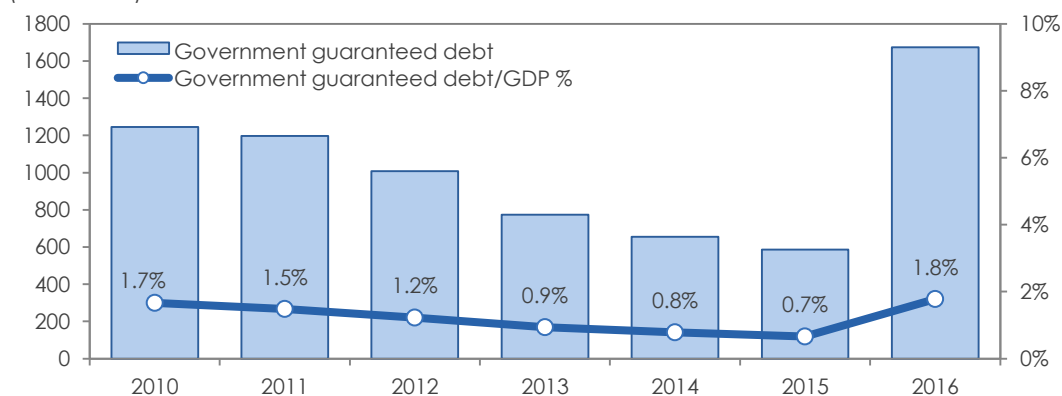
	2010	2011	2012	2013	2014	2015	2016
Government guaranteed debt	1246.1	1196.6	1008.3	773.1	654.7	587.0	1673.4
I. Domestic government guaranteed debt	2.8	11.9	23.6	35.4	47.7	58.5	65.5
1. Guarantees under the Student and Doctoral Candidate Loans Act	2.8	11.9	23.6	35.4	47.7	58.5	65.5
II. External government guaranteed debt	1243.3	1184.8	984.7	737.7	607.1	528.4	1607.8
1. IBRD /World Bank/	101.7	87.0	70.1	52.1	35.6	23.8	507.6
2. EIB	5.7	3.9	2.5	1.6	1.6	2.0	2.7
3. EBRD	46.5	36.8	27.0	17.3	7.5	1.8	586.7
4. Others	1089.4	1057.0	885.1	666.7	562.4	500.9	510.8
Government guaranteed debt/GDP (%)	1.7%	1.5%	1.2%	0.9%	0.8%	0.7%	1.8%

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

Source: MoF

DYNAMICS OF GOVERNMENT GUARANTEED DEBT

(BGN million)



Source: MoF

DEVELOPMENT AND MODERNIZATION OF GOVERNMENT SECURITIES ISSUES (GS) MARKET

In 2016, the development of the secondary market for Government Securities Issued on the domestic market was characterized by a dynamism linked to the increased requirements introduced by the newly adopted European legislative packages. In this regard, specific measures have been taken to amend the legal framework regulating GS market and to modernize the market infrastructure in order to promote transparency and liquidity of the secondary market of government securities issued on the domestic market.

With the package of two acts - Directive 2014/65 / EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92 / EC and Directive 2011/61 / EU and Regulation (EC) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending MiFID / MiFIR (MiFID II) have been introduced new and increased requirements for transparency of trade in financial instruments, including in relation to sovereign bonds such as debt financial instruments. The relevant provisions should apply from 3 January 2018. The most important innovations are debt trading obligations that imply that in order to meet European pre-and post-trade transparency requirements, GS must be placed on a multilateral trading system and on a regulated market. This will allow the information on buy and sell quotations and on volume of amount sold to be available to a wider range of market participants and will encourage activity, expectation being that the market will become more liquid and reliable.

Next, Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 and Directive 2013/36 / EU of the European Parliament and of the Council of 26 June 2013 relating to the access to the activity, the supervisory framework and the prudential rules for credit institutions and investment firms amending Directive 2002/87 / EC and repealing Directives 2006/48 EC and 2006/49 / EC - Package CRR / CRD IV (including complementary

delegated regulations), for the definition of an asset as highly liquid, including in relation to sovereign debt instruments, this instrument should also be admitted to trading on a recognized exchange.

In terms of the local specificity, the greatest challenges represent requirements of paragraph 2 and paragraph 6 of Art. 7 of Commission Delegated Regulation (EU) 2015/61 with regard to liquidity coverage requirement for credit institutions. According to them, liquid assets of credit institutions should be free of all burdens (Article 7, paragraph 2) and at the same time should be traded on a recognized exchange (Article 7, paragraph 6). These requirements are also in line with the criteria, standards and guidelines for the eligibility of debt instruments as acceptable collateral in the credit operations of the European Central Bank.

European Union (EU) regulatory reforms require corresponding national measures that highlight the need to develop and improve secondary GS market in order to create an opportunity for trading on an organized place, in line with the practice in most European countries.

In 2016, practical steps were taken to admit GS to trading on a multilateral trading facility (MTF) and a regulated market, respectively the E-Bond system - an electronic functionality to the Bloomberg platform and the Bulgarian Stock Exchange - Sofia AD. The selection of a trading venue was also consistent with a number of issues, such as the banking sector, infrastructure, current and future debt management, liquidity and security of the financial markets, prospects for euro area membership, etc. The Ministry of Finance will register all issues of government securities issued for financing the budget deficit at the trading venues after a direct connection with the GS Depository of the BNB and the organized trading venues once the requirements of Art. 74, paragraph. 1 of the Markets in Financial Instruments Act are met without being bound by any obligation on the part of the market participants to trade in these trading venues. A draft of a package of regulatory amendments related to the admission to trading in GS on an organized trading venue was prepared and actions have been undertaken for functional changes in connection with the technological provision of the infrastructure servicing the GS market. At the end of the year the work on the implementation of the new functionalities in the Electronic System for Registration and Servicing of Trade in Government Securities related to the construction of an interface between the GS Depository of the BNB and the E-Bond System was finalized.

Following an analysis of the European market conditions concerning trading in GS, actions were taken on drafting Rules on the trading in GS on a regulated market and on a multilateral trading system, specifying the specificities of the domestic market, bearing in mind that such practices are popular in other Member States. ▲