GOVERNMENT DEBT MANAGEMENT STRATEGY

2023 – 2025

CONTENTS

Government debt management is a comprehensive process coordinated by the development and implementation of a government debt management strategy. The strategy document sets out the approach for achieving the objectives aimed at covering the debt financing needs, taking into account the impact and constraints of the external and domestic macroeconomic environment and the potential risks.

The proposed Government Debt Management Strategy for the period 2023–2025 has been developed using good international practices and in accordance with the provisions of art. 16, para. 1 of the Government Debt Act and Art. 77a of the Public Finance Act. The object of the strategy is the government debt – domestic and foreign, issued under the Government Debt Act.

1. Perspectives on the debt management development – main assumptions[1]

The Government Debt Management Strategy for the period 2023 – 2025 was prepared in accordance with the implementation of 2022 State Budget indicators and currently at the end of May 2023, as well as based on the assumptions, at which the new draft 2023 State Budget Low and updated Medium-Term Budgetary Forecast for the period 2023 – 2025 was developed in June this year, as taken into account the main indicators from the spring macroeconomic forecast of the Ministry of Finance for 2023.

The government debt management policy for the period 2023-2025 will be aimed to securing the necessary resources for refinancing the debt outstanding, financing the planned levels of the state budget deficit and ensuring the liquidity position of the fiscal reserve. The measures, undertaken by the central banks of the leading economies for accelerating the process on tightening the monetary policy and raising the main interest rates, the decline in economic activity and the downward expectations for its development will be the key factors determining on the one side the cost of debt financing and on the other side the risks accompanying its provision. Taking into account these conditions, the main challenges and goals of debt management will be focused on ensuring opportunities for market-oriented financing both on the domestic and international capital markets, subject to compliance the legally regulated annual debt ceilings.

According to the provisions of the Act on Application of Provisions of the 2022 State Budget of the Republic of Bulgaria Act, the 2022 Public Social Insurance Budget Act and the 2022 National Health Insurance Fund Budget Act and its amendment from June of this year, as well as in accordance with Art. 87, para. 2 of the Public Finance Act, the Council of Ministers may issue government debt only to refinance the debt outstanding up to the amount of annual repayments on the government debt, assumed until the beginning of 2023. Given the legal provision, the new debt that could be assumed until adoption of the 2023 State Budget Low is equal to the total amount of the repayments of BGN 3.0 billion. In the context of upcoming maturity in March 2023 of seven-year Eurobonds, placed in 2016 under the Global Medium-Term Note Issuance Programme for issuance of a debt on ICM, on 17.01.2023 was issued 10-year Eurobond with a nominal value of EUR 1.5 billion (BGN 2.9 billion), by which the opportunity for issuing a new government debt until the adoption of the 2023 State budget Low is exhausted.

With the draft 2023 State Budget Low of the Republic of Bulgaria, it is envisaged that the maximum amount of the new government debt that can be assumed during the

[1] For a rounding in BGN million, some overall positions are not exhausted by their composite numbers.

year will be up to BGN 7.5 billion, including the already assumed new government debt of BGN 2.9 billion through the issue of Eurobonds placed on ICM in January of this year. It is planned the rest of about BGN 4.6 billion will be secured through tradable instruments, both on the domestic and international capital markets, in the period from the entry into force of the 2023 State Budget Low until the end of the calendar year.

The circumstance, related to the fact that the 2023 State budget Low has not been adopted since the beginning of the year, ignores the key need from an equal interpolation and respectively realization of the debt financing in the calendar year. The planned new government debt in 2023 mainly to cover the estimated budget deficit is concentrated in the second half of the year, which limits the time frame for its acquisition and creates a potential risk of increasing the cost of financing.

The realization of the debt financing faces many risks, arisen from the volatility of the financial markets, geopolitical situation, development of inflationary processes, tightening the monetary policy from the central banks of the leading economies. These external factors, which the issuer could not manage, affect also the domestic debt market, which has a relatively limited capacity, liquidity and market participants. Last but not least, it should be taken into account that the prevailing share of the market sources for debt financing implies of all external risks in the state budget implementation in the part, concerning debt financing of the planned deficit for both 2023 and the whole three-year period, referred in the Updated Medium -Term Budget Forecast.

For the period 2024–2025 is planned to be secured debt financing as follows: for 2024 in the amount of BGN 12.6 billion and for 2025 in the amount of BGN 13.6 billion. For the same period, the debt outstanding, which should be refinanced in each of the years, amounts totally to BGN 3.5 billion in 2024 (incl. BGN 3.1 billion under the external government debt and BGN 0.4 billion under the domestic government debt) and BGN 3.6 billion in 2025 (incl. BGN 0.3 billion under the external government debt and BGN 3.3 billion under the under the domestic government debt). The rest part of the debt funding is justified by the need to finance the planned budget deficits and ensure the liquidity position of the fiscal reserve.

Table 1: Debt and interest service costs – key parameters

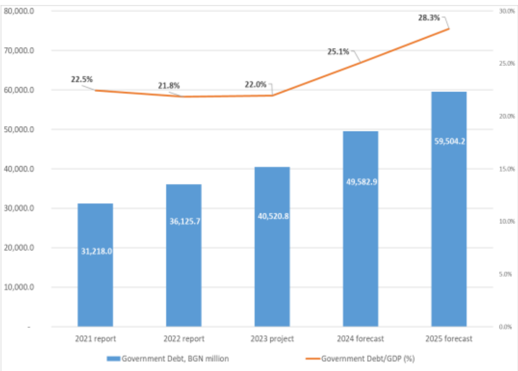
Parameters	2021 г. report	2022 г. report	2023 г. project	2024 г. forecast	2025 forecast
Government Debt					
Government Debt, BGN million	31,218.0	36,125.7	40,520.8	49,582.9	59,504.2
Government Debt/GDP (%)	22.5%	21.8%	22.0%	25.1%	28.3%
Government guaranteed debt					
Government guaranteed debt, BGN million	1,938.9	1,700.9	3,294.6	3,033.7	2,683.3
Government guaranteed debt/GDP (%)	1.4%	1.0%	1.8%	1.5%	1.3%
General governmnet debt					
General governmnet debt, BGN million	33,274.5	37,847.7	42,863.1	51,746.9	61,243.7
General governmnet debt/GDP (%)	23.9%	22.9%	23.2%	26.2%	29.1%
Governmnent debt service costs					
Interest expenditure, BGN million	590.8	593.6	784.1	1,100.1	1,723.2
Interest expenditure/GDP (%)	0.4%	0.4%	0.4%	0.6%	0.8%
GDP *, BGN million	*139,012.3*	*165,383.6*	*184,485.9*	*197,565.7*	*210,189.9*

** GDP for 2021 and 2022 according to data of the NSI, for the period 2023-2025 - according to a spring macroeconomic forecast of the Ministry of finance for 2023*

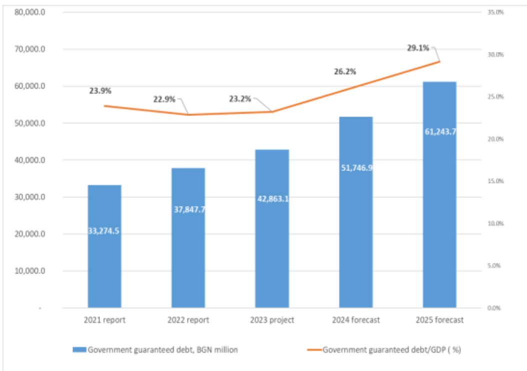
Source: Ministry of Finance

Based on the above assumptions, in 2023-2025 is observed a clearly expressed trend for increase in the government debt in an absolute value and as a share from the projected GDP in each of the years. It is expected its level in nominal terms to reach up to BGN 59.5 billion at the end of 2025, and the ratio of the government debt to the projected GDP to 28.3%, respectively.

Fig. 1: Government debt and General government debt for the period 2021 – 2025.



Source: Ministry of Finance



Source: Ministry of Finance

For the whole three-year period it is expected that the share of the debt with a fixed interest rate and that denominated in EUR and BGN will remain dominant in the interest rate and currency structure of the government debt. At the end of the period around 99.9 % of the debt portfolio (or almost all of it) shall be with fixed interest rates and these in EUR and in BGN. The expected increase in government debt combined with the continuing cycle of increase in the base interest rates by the leading central banks are among the main factors which also determine the dynamics of the interest servicing debt costs in the medium-term horizon. During the 2023 -2025, the interest costs are expected to increase and to reach respectively to BGN 784.1 million or 0.4% of the projected GDP for 2023, BGN 1,100.1 million or 0.6% of the projected GDP for 2024 and BGN 1,723.2 million or 0.8% of the projected GDP for 2025.

Upon assumptions for issuance of the government guarantees, planned in the draft 2023 State Budget Low and disbursement of the loans to a full amount, in 2023 government guaranteed debt is expected to rise up to a level of BGN 3.3 billion or 1.8 % of the GDP as in the next years is expected a smooth decline, reaching to BGN 3.0 billion or around 1.5 % of the projected GDP in 2024 and BGN 2.7 billion or around 1.3 % of the projected GDP at the end of 2025.

Within three year perspective the General government debt[2] is expected to reach BGN 42.9 billion (23.2% of projected GDP) at the end of 2023, BGN 51.7 billion (26.2% of projected GDP) at the end of 2024, and BGN 61.2 billion (29.1% of projected GDP) at the end of 2025.

Although the preliminary values for the debt/GDP parameter are planned to remain below the debt rule's upper the limit of 60% of GDP, a number of risks to debt management emerge over the period, which need to be addressed attention. Potential vulnerabilities and risks have been identified, which in general may arise as a result of the accelerated growth rate of debt in absolute value, incl. the need to provide large volumes new debt financing, which should be secured on a market basis, combined with the expectations of higher debt financing costs and the changing conditions of the debt markets, the debt profile, mainly formed by securitized debt and a predominant share of external debt obligations, the planned growth of interest costs, etc. ■

[2] The General government debt consists of the Central government sub-sector debt (a prevailing part of it is for the government debt), Local government sub-sector debt and Social security funds sub-sector debt, in observing the principle of consolidation (elimination of those liabilities, which corresponding financial assets are owned by institutional units from General government sector).

2. GOVERNMENT AND GOVERNMENT GUARANTEED DEBT[3]

2.1 Government debt

The nominal amount of the government debt at the end of 2022 amounts to BGN 36.1 billion. (21.8 % of GDP), at maximum allowable amount according to the 2022 State Budget Low of the Republic of Bulgaria[4] of BGN 38.5 billion. In nominal terms, the debt rises with BGN 4.9 billion compared to the reported level at the end of 2021 of BGN 31.2 billion. (22,5 % of GDP), as a result of the assumption of a new government debt in the amount of BGN 7.9 billion and made during the year debt repayments in amount of BGN 3.0 billion. (of which BGN 2.7 billion under the external government debt and BGN 0.3 billion under the domestic government debt).

In 2022 within the ceiling for maximum amount of new government debt which can be assumed up to BGN 10.3 billion set in 2022 SBLRB, the new debt financing is in a total amount of BGN 7.9 billion or the implementation of the maximum admissible amount for a newly-assumed debt is 77%. On the domestic and on the international capital markets are placed government bonds in a total volume of BGN 7.0 billion. (BGN 2.6 billion domestic government debt and BGN 4.4 billion external government debt) and funds in amount of BGN 899.7 million (EUR 460.0 million) were disbursed under the government loan in line with the European Instrument for Temporary Support to Mitigate Unemployment Risks in Extraordinary Circumstances (SURE) due to COVID-19 (15-year tranche).

Financing is provided on the domestic market through issues of government bonds with a total nominal volume of BGN 2.6 billion, distributed as follows: BGN 1.3 billion – newly-issued volume from issue of 3.5-year government bonds of 2021 with maturity on 17.05.2025; BGN 0.3 billion – newly-issued volume from issue of 5.5-year government bonds of 2022 with maturity on 28.03.2028; BGN 0.5 billion – newly-issued volume from issue of 7.5-year government bonds of 2021 with maturity on 24.05.2029; BGN 0.5 billion - newly-issued volume from issue of 10.5-year of 2016 with maturity on 27.07.2026. For the realized volumes was achieved an average-weighed yield of 2.02 %, at an average coverage ratio of 1.38.

By using the benefits from the current favorable market conditions, on September 15, 2022 through the GMTN Programme Bulgaria placed Eurobonds with a total nominal amount of EUR 2.25 billion (BGN 4.4 billion) in two tranches, as follows: EUR 1.5 billion with a maturity of 7 years and EUR 750 million with a maturity of 12 years.

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3 For a reason of a rounding in BGN million, some overall positions are not exhausted by their composite numbers.

4 Published in SG issue 18 of 04.03.2022 effective from 01.01.2023, amended and suppl. in issue 52 of 05.07.2022, in force from 01.07.2023.

The 7-year tranche has an interest coupon of 4.125 % and yield of 4.346 %, and the 12-year tranche has an interest coupon of 4.625 % and yield of 4.823 %.

Within the structure of the government debt at 31.12.2022 the relative share of the domestic government debt amounts to 30.4 %, and that of the external government debt – 69.6 %, at 27.7 % and 72.3 % in 2021.

As a result of the debt operations, made during the year, the average residual maturity of the government debt at the end of 2022 is reduced up to 7 years and 11 months, compared to 8 years and 2 months at the end of 2021.

In 2022 there are no significant changes in the currency and interest rate debt structure compared to the previous year. At the end of the year remains the dominant share of the debt in BGN and in EUR (with a total share of 99.8 %) and of that with fixed interest rates (with a share of 99.2 %). The part of the liabilities in other currencies remains unchanged compared to 2021 - 0.2 %, and those with floating interest rate is reduced to 0.8 % at the end of 2022 (1.3 % in 2021)

In the maturity debt structure (by residual maturity), at the end of 2022 the dominant position of the debt with maturity from 1 year to 5 years is maintained – 32.7 % (33.6 % in 2021), followed by the segment from 5 years to 10 years with a share of 32.1 % (33.1 % at the end of 2021). Compared to the previous year, the share of the debt with residual maturity of up to 1 years decreased to 7.7% at the end of 2022 (8.9 % in 2021). The trend is opposite for the debt with a residual term over 10 years, which increases from 24.5 % to 27.5 %.

Based on the provisions of Art. 4 of the Act on Application of Provisions of the 2022 State Budget of the Republic of Bulgaria Act, the 2022 Public Social Insurance Budget Act and the 2022 National Health Insurance Fund Budget Act and in accordance with Art. 87, para. 2 from the Public Finance Act, on 17.01.2023 within the framework of the GMTN Programme, the Republic of Bulgaria issued on the international capital markets a new issue of 10-year Eurobonds with a nominal volume of EUR 1.5 billion (BGN 2.9 billion) and an annual interest coupon of 4.5%, with which the possibilities of issuing on government debt until the adoption of the 2023 SBLRB are exhausted. On March 21 this year, the funds from the placed issue of Eurobonds were used for payment of bonds with nominal value of EUR 1 144 million (BGN 2.237 billion) in favor of the holders of seven-year Eurobonds of Republic of Bulgaria, which are part of the two tranches, issued in March 2016 on the international capital markets (seven-year and twelve-year bonds) under the GMTN Programme.

Table 2: Main government debt indicators

Parameters	31.12.2021 г.	31.12.2022 г.	31.05.2023 г.
	Report	Report	Report
Total government Debt, BGN million	**31,218.0**	**36,125.7**	**36,717.0**
GDP*, BGN million	139,012.3	165,383.6	184,485.9
Total government Debt /GDP, (%)	22.5%	21.8%	19.9%
Domestic government debt, BGN million	8,637.1	10,965.4	10,965.4
External government debt, BGN million	22,580.9	25,160.3	25,751.6
Domestic government debt/Total government debt (%)	27.7%	30.4%	29.9%
External government debt/Total government debt (%)	72.3%	69.6%	70.1%
Interest rate structure of the governmnet debt			
Fixed rate debt, BGN million	30,810.7	35,820.5	36,457.0
Floating rate debt, BGN million	407.3	305.2	260.0
Fixed rate debt (%)	98.7%	99.2%	99.3%
Floating rate debt (%)	1.3%	0.8%	0.7%
Currency structure of the governmnet debt			
Debt in EUR, BGN million	22,966.1	25,560.2	26,154.9
Debt in BGN, BGN million	8,179.3	10,507.5	10,507.5
Debt in USD, BGN million	-	-	-
Debt in other currency, BGN million	72.6	57.9	54.6
Debt in EUR (%)	73.6%	70.8%	71.2%
Debt in BGN (%)	26.2%	29.1%	28.6%
Debt in USD (%)	0.0%	0.0%	0.0%
Debt in other currency (%)	0.2%	0.2%	0.1%
Maturity structure of the governmnet debt (by residual term)			
Debt up to 1 year, incl., BGN million.	2,771.5	2,790.0	588.6
Debt from 1 year to 5 years, incl., BGN million	10,476.3	11,814.4	13,722.5
Debt from 5 year to 10 years, incl., BGN million	10,324.1	11,604.1	12,566.1
Debt of more than 10 years, incl., BGN million	7,646.1	9,917.1	9,839.9
Debt up to 1 year, incl. (%)	8.9%	7.7%	1.6%
Debt from 1 year to 5 years (%)	33.6%	32.7%	37.4%
Debt from 5 year to 10 years (%)	33.1%	32.1%	34.2%
Debt of more than 10 years, incl. (%)	24.5%	27.5%	26.8%
Average residual maturity of government debt (years)	8 г. и 2 м.	7 г. и 11 м.	8 г. и 1 м.

Source: Ministry of Finance

2.2 Government guaranteed debt

At the end of 2022 as a result of the made disbursements under the government guaranteed loans and their repayments, the government guaranteed debt was reduced to BGN 1.7 billion. (1.0% of GDP) compared to the reported level at the end of 2021, amounting to BGN 1.9 billion. (1.4 % of GDP).

The major part of the government guaranteed debt (GGD) (around 96 %) comes from external government guaranteed loans, granted mainly from official creditors as

IBRD, EIB, EBRD, EC, CEB, JICA, etc. The domestic GGD consists of the government guarantees, issued under the Student and Doctoral-Candidate Loans Act, which at December 31, 2022 has a share of 4 % in a total amount of the GGD.

With the amendment of the 2022 SBLRB, made in July and with the envisaged emergency package of anti-crisis measures, intended to reduce negative consequences from the raising prices of fuels and energy-carriers, the need for ensuring the opportunity for issuance of consequences guarantees under loan financing of two companies from the energy system in the total amount of EUR 532 million (incl. for "Bulgargaz" EAD in amount of EUR 150 million and for "Bulgartransgaz" EAD in amount of EUR 382 million). This results an increase the ceiling for a maximum amount of the new government guarantees, which could be issued during the year, from BGN 759.6 million to BGN 1 800.1 million.

At 31.12.2022 there are no new government guarantees issued under external financing of projects and funds in the state budget to cover the risk of government guarantees being call, have not been used.

Based on the provisions of the Art. 5 of the Act on Application of Provisions of the 2022 State Budget of the Republic of Bulgaria Act, the 2022 Public Social Insurance Budget Act and the 2022 National Health Insurance Fund Budget Act, in March 2023 were issued the guarantees in amount of BGN 40 million virtue of the Student and Doctoral-Candidate Loans Act. In February 2023 the National Assembly ratified by law (SG, No. 14 of 2023) the guarantee agreement between the Republic of Bulgaria and ING Bank H.B. (ING Bank) in relation to agreement for a long-term loan in the amount of EUR 49.1 million (BGN 96 million), executed between ING Bank H.B. And "Bulgartransgaz" EAD in January 2023 for financing the Project of common interest 6.8.3. Gas interconnector Bulgaria – Serbia.

Table 3: Size and dynamics of the government guaranteed debt

Government Guaranteed Debt, BGN million	31.12.2021 г.	31.12.2022 г.	31.05.2023 г.
	Report	Report	Report
Domestic government guaranteed debt	67.1	62.4	59.9
1. Guarantees under Student and Doctoral-Candidate Loans Act	67.1	62.4	59.9
External government guaranteed debt	1,871.8	1,638.5	1,659.2
1.IBRD /World Bank/	586.7	557.4	557.4
2.EIB	181.8	221.6	221.6
3.EBRD	586.7	440.1	440.1
4. Others (EUROATOM, JBIC, CEB, EC, ect.)	516.5	419.3	440.1
Total government guaranteed debt	**1,938.9**	**1,700.9**	**1,719.1**
Government guaranteed debt/GDP (%)	1.4%	1.0%	0.9%

Source: Ministry of Finance

3. Economic perspectives for the period 2023–2025.

3.1 National economy development in 2022 and the beginning of 2023.

In 2022, the global economy dynamics reflected the ongoing recovery from the crisis caused by the COVID-19 pandemic and the new shocks from the Russian Federation's war in Ukraine and energy problems in Europe. To contain the inflationary pressures, the leading central banks have started to tighten the monetary policy and have undertaken a series of increases in reference interest rates. The European Union economy reported high growth rates in first and second quarter of 2022, which they decelerated and the annual growth rate reached 3.5%. In the first quarter of 2023, the growth declined further to 1.1%, with a clearly expressed disinflation process.

In 2022 the gross domestic product of Bulgaria went up with 3.4% as the domestic demand influenced the growth in a positive way. The growth of the private consumption of 4.8% was supported by the increase in real disposable income of households, employment and consumer credit. At the same time, investment in fixed capital fell by 4.3%, weak private investment activity contributing to this decline. Growth in exports of goods and services was 8.3% and was outpaced by growth in import, which reached 10.5%.

In the first quarter of 2023, GDP growth was 2.1%, with a positive contribution from net exports.

In 2022 the labor demand increased in most economic sectors. The average annual employed numbers increased by 1.3% and the unemployment rate fell to 4.3%. Along with accelerated growth of the consumer prices in the country and high labor demand, in 2022 the compensation per employee increased nominally by 18.4%. The development during the year was determined by the private sector of the economy, in which the nominal increase of the indicator fully compensated the inflation in the country. In the first quarter of the current year, employment growth accelerated to 1.8%, with an unemployment rate of 4.5%. Compensation per employee rose 14% yoy.

The annual HICP inflation rate in the country has been accelerating until September 2022, when it reached its highest value at 15.6% yoy. Since the last quarter of 2022, there has been a clear disinflationary process, as inflation at the end of the year slowed down to 14.3%, while its annual average value was 13.0%. The trend of appreciation of consumer price continue to slow down and in 2023 to 8.6% in May.

In 2022 the deficit on the current account was reduced to 0.7% of GDP. The improvement was driven by higher services surplus and narrower deficit of the income articles. In the period January-April 2023, the current account was almost balanced, with a surplus of 0.1% of projected GDP. In the balances of services and income articles, there were no significant changes compared to the corresponding period of 2022, while in commodity trade a narrowing of the deficit was recorded, due to anticipatory growth of exports compared to imports.

The annual growth of the credit to the private sector followed a trend of acceleration from the beginning of 2022 till the end of August, when its rate reached 13.9%. During the rest of the year, the private credit started to slow down, after the domestic interest rates started to climb gradually as a result of the interest rate hike cycle of the ECB. At the end of December 2022 the growth on an annual basis reached 12.7%. The slow down continued into 2023, and at the end of April the growth decreased to 11.9%.

3.2 Expectation for the economic growth in 2023-2025.

In 2023, GDP growth is expected to slow down to 1.8%, and the slowdown will be in terms of consumption, export and change in inventories. Private consumption growth will be supported by growth in real disposable income, but will slow down from 2022 in line with weaker growth in employment and consumer credit. The investments in fixed capital will rise Export growth will slow down significantly due to weaker external demand. In 2024, GDP growth will accelerate to 3.3%. The easing of inflationary pressures will stimulate the growth of consumption. The increase in demand will also have a positive effect on private investment activity. In 2025 GDP growth of 3.2% is expected.

In 2023 it is expected the number of the employed persons to raise by 0.4% yoy and the average annual unemployment rate to go down to 4.1%. The main source for further increase in the employment in the next years shall be attracting people, who are out of the labour force, back on the labour market. In 2024 is expected some acceleration in the employment rate in the country, mostly due to the acceleration of the economic growth. In 2025 the growth of the employment is expected to slow down, mostly as a result of exhaustion of the opportunities for its extensive growth. The dynamics of compensation per employee is expected to slow down to 11.5% in 2023, following the containment of inflation, economic activity, employment, as well as the lower contribution of the public sector. In 2024, the nominal increase in compensation per employee is estimated at 10.6%. With the expected continued limitation of inflation, the dynamics of labor incomes will be determined primarily by the acceleration of the growth in real productivity, employees, as well as the increase in the minimum wage in the country in accordance with the adopted changes to its update.

Inflation at the end of 2023 is expected to decelerate to 5.6% and the annual average to be 8.7%. It will be due to a significant decrease in the contributions of food and energy HICP components, with the latter expected to report a slight price drop at the end of the year. In 2024, inflation will continue to slow down, reaching 3.2% at the end of the year and 3.8% - average for the whole year.

In the forecast period 2023-2025, the country's external position is expected to remain sustainable. In 2023 the deficit on the current account will remain about 0.7% of GDP. The nominal paces of growth of the export and import of goods and services will be almost equal, as they will slow down significantly compared to 2022, due to the expected fall in international prices and limited growth of the traded quantities. In 2024 an increase in the deficit on the current account is expected, at 1.7% of GDP. Import of goods and services is projected to increase quicker than the export as the dynamics will be determined by the trade with goods.

By the end of 2023 the growth of the credit to the private sector will slow down, both in corporate and household claims. This will be influenced by the slowdown in economic growth, the expected increase in the interest rates on loans as a result of the transmission of the ECB's monetary policy and, to a lesser extent, the entry into force of the higher levels of the countercyclical capital buffer set by the BNB. In total, claims on the non-governmental sector will grow by 9%. In 2024, they will accelerate to 9.3%, driven by higher growth in claims on corporations. It is envisaged that they will be positively influenced by the implementation of the NRRP, as well as by a positive growth of private investments. At the end of 2024, claims on corporations will grow by 7.9%. Claims on households will slow slightly to 11.2%, supported by higher growth in private consumption.

3.3 Risks to the macroeconomic forecast

The global geopolitical situation continues to be characterized by a high degree of uncertainty, which creates significant risks to the realization of the macroeconomic forecast.

The ban on import of crude oil from Russia in the EU may affect negatively the export of oil products from Bulgaria to third countries, though currently the country is using a derogation.

The worsening of the financing conditions may have a stronger negative effect on investments than expected. The forecast is made by assumption for a neutral contribution of the change in inventories in 2023, but it is possible a fall to be observed, which, all other things being equal, would further narrow the GDP growth.

The risks regarding the inflation forecast are mainly related to the expected price dynamics of internationally traded commodities and those of the energy goods in particular, as well as the rise in the labor costs in the economy. This could result in higher-than-expected inflation in the short-term.

At the same time there are many positive risks. In the first quarter of 2023, sentiment indicators showed a substantial improvement in assessment and expectations for developments in the euro area and other major economies.

In 2022 in an environment of raising inflation, the consumption of the households was sustainable in Bulgaria and if this trend continues in 2023, a stronger growth of GDP it may be observed. Furthermore, the purchasing power of the households might be higher upon decline in the inflation also as a result of the slower transfer of the higher interest rates in the euro area on household loans.

4. ANALYSIS OF THE RISKS, RELATED TO THE GOVERNMENT DEBT STRUCTURE FOR THE PERIOD 2023 – 2025

The impact of risks of the government debt parameters is assessed by the performed risk analysis. The expected effects are presented in table 4 below and are based on the projections for a new debt financing and its conditional distribution (as volumes, sources and parameters), provided in the 2023 SBLRB draft, UMTBF for the period 2023-2025 from June 2023 and the spring macro-economic forecast of the Ministry of finance for 2023. The dynamics of the observed indicators depends on the main fiscal parameters and indicators of the state budget framework, as well as the impact of the current macro-economic forecasts.

The main sources of risks for the debt portfolio are defined on the basis of expectations for the government debt size, its amortization structure, the interest rate and currency composition of the debt, as well as changing market conditions and market participants' interest in the offered debt instruments (domestic and international).

Table 4: Risk assessment indicators

Risk	Indicator	2021 r. - Report	2022 r. - Report	2023 r.- Project	2024 r.- Forecast*	2025 r. - Forecast*
Refinancing risk	Debt up to 1 year (by residual maturity as a share of government debt, %)	8.9%	7.7%	8.2%	6.9%	4.2%
	Average time to maturity (ATM) - (years)	7.8	7.8	7.8	9.1	9.4
Interest rate risk	Ratio between fixed interest rate debt and floating interest rate debt (%)	98,7% / 1,3%	99,2% / 0,8%	99,5% / 0,5%	99,7% / 0,3%	99,9% / 0,1%
	Average time to refixing (ATR) - (years)	7.8	7.8	7.8	9.1	9.4
	Duration - (years)	7.7	7.0	6.8	7.5	7.5
Currency risk	Ratio between external and domestic government debt (%)	72,3% / 27,7%	69,6% / 30,4%	68.6% / 31.4%	68.9% / 31.1%	73.7% /26,3%
	Ratio between debt in risk-neutral currencies – BGN and EUR as compared to the share in other currencies debt (% of the total amount of the government debt)	99,8% / 0,2%	99,8% / 0,2%	99,8% / 0,2%	99,9% / 0,1%	99,9% / 0,1%
Liquidity risk	Ratio between debt up to 1 year (at residual maturity) and tax and social security revenues (%)	6.8%	6.0%	6.3%	5.9%	4.1%
Risk related to the debt size	Ratio between General government debt and GDP (%)	23.9%	22.9%	23.2%	26.2%	29.1%
	Ratio between Government debt and GDP (%)	22.5%	21.8%	22.0%	25.1%	28.3%
Risk related to governmnet guarantees	Ratio between government guaranteed debt and government debt (%)	6.2%	4.7%	8.1%	6.1%	4.5%
	Ratio between government guaranteed debt and GDP (%)	1.4%	1.0%	1.8%	1.5%	1.3%
Operational risk	- Established stable institutional structure for government debt management, having clearly delegated staff responsibilities, which operates within the framework of the Ministry of Finance;					
	- Maintenance of the information system for analysis, forecasts and management of the government and government guaranteed debt - an official register of the government and government guaranteed debt;					
	- Pursuing an operating risk reduction policy by applying and complying with internal standards and control systems;					
	- Detailed rules and procedures about the organization of the operation of the structural unit in charge of government debt management.					

Source: Ministry of Finance

4.1.1 Refinancing risk

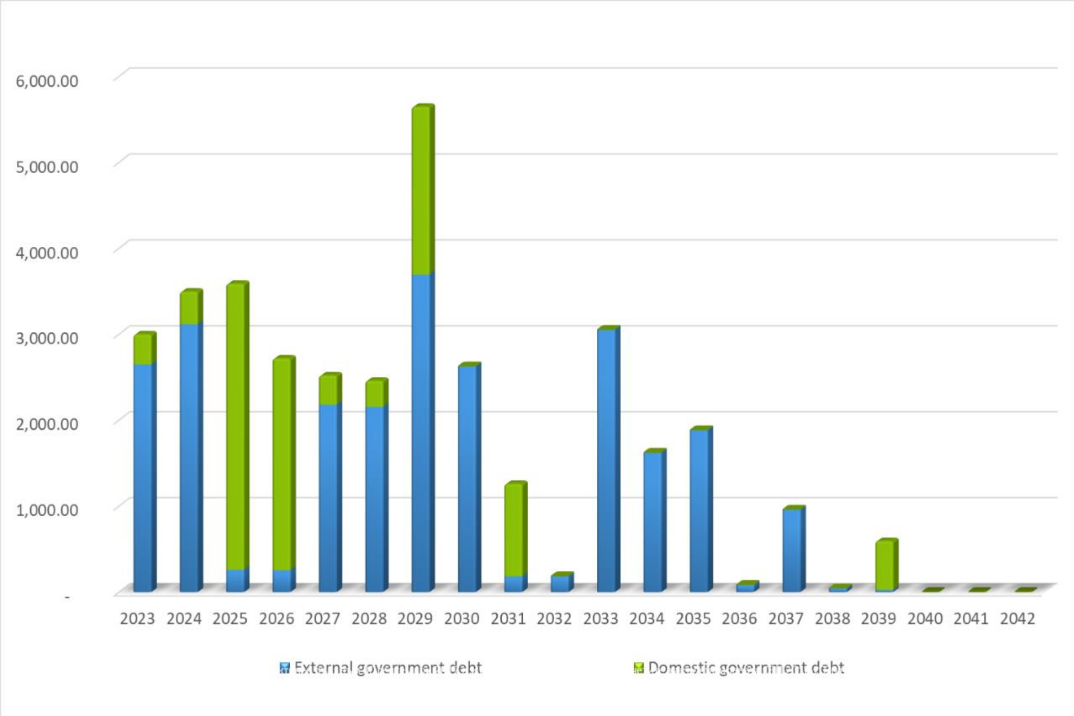
The refinancing risk is mainly associated with the possibility the maturing debt not to be refinanced or this to be possible at a higher price. It depends on the volume of the upcoming payments under the debt and their concentration for a certain period.

Risk assessment indicators:

- The amortization profile of the government debt, issued as of 31.05.2023 is presented on fig. 2 below. The amount of the maturing debt for the period 2023-2025 amounts to around BGN 3.0 billion in 2023 (incl. BGN 2,7 billion under the external government debt and BGN 0.4 billion under the domestic government debt), BGN 3.5 billion in 2024 (incl. BGN 3.1 billion under the external government debt and BGN 0.4 billion under the domestic government debt) and BGN 3.6 billion in 2025 (incl. BGN 0.3 billion under the external government debt and BGN 3.3 billion under the domestic government debt), as prevailing part of the repayments during these years concern marketable instruments (85 % for 2023, 94 % for 2024 and 93 % for 2025).

  It is planned the required market-oriented debt financing in this period to be realized through issuance of government securities both on the domestic debt market and on the international capital markets, in considering the accompanying risks. The expectations for subsequent increases of the main rates from the central banks (in particular ECB and FED) in 2023, the financial markets uncertainty, the development of inflationary processes in Europe and the geo-political situation predetermine developments for raising the debt financing price and shift focus of the investment demand to more short-term securities, which would lead to an additional concentration of payments in medium-term context. These external factors affect also the domestic debt market, which has a relatively limited capacity, liquidity and market participants.

Fig. 2: Redemption profile of the government debt*



** Under the active debt (in BGN million), issued as of May 31, 2023* Source: Ministry of Finance

- The share of the government debt with a residual maturity up to 1 year to the total amount of the government debt outstanding in 2022 is at a level of 7.7% and in the period 2023 - 2025 is expected to become 8.2 % at the end of 2023, as at the end of 2024 and 2025 it falls respectively to 6.9 % and 4.2 %.
- The average time to maturity (ATM) is a weighed amount of the amortization payments and the remaining time to maturity. Its value is 7.8 years in 2022 as it is expected this level to be maintained in 2023 and in the next two years to gradually increased up to 9.1 years at the end of 2024 and at the end of 2025 it shall be 9.4 years.

Taking into account the characteristics of the debt portfolio at the end of 2022, it is important to note that the main part of it is occupied by external government debt with a share of 69.6%, which is expected to continue to increase until the end of the forecast period, reaching from 68.6% at the end of 2023 to 73.7% at the end of 2025. Relative to the total amount of debt, the share of the domestic government debt is 30.4% as of 31.12.2022, which after a slight growth in 2023 to 31.4%, it is expected to fall to a level of 26.3% at the end of the period.

Presented by types of instruments, the dominant share in the structure of government debt is occupied by bonds issued on the ICM and those on the domestic market - with a total aggregate share of about 85%, and this structure remains unchanged throughout the period 2023-2025. Government loans, including. government investment loans make up about 15% of government debt.

4.1.2 Market risk

Market risk arises from potential fluctuation in interest rates and exchange rates, and is determined by the existence in the debt portfolio of instruments, denominated in currencies, different from the EUR or BGN, and those with floating interest rates. Assessing this type of risk its direct impact on the price of the whole debt portfolio should also be taken into account.

At 31.12.2022 in the interest structure of the government debt a prevailing share is for the liabilities with fixed interest rates, which increase up to 99.2 %, as this structure remains in the whole reviewed period 2023–2025 (99.5 % at the end of 2023, 99.7 % at the end of 2024 and 99.9 % at the end of 2025).

With regard to the currency composition of the debt, the components in EUR and in BGN are expected to remain prevailing in the whole analysed period, occupying a total aggregate share of 99.8 % at the end of 2022, and at the end of the period their share with kept at a level of 99.9 %. The share of the debt, denominated in currencies other than euro and leva represents 0.2 % at the end of 2022, and it is planned to fall to 0.1 % at the end of 2024 as this level shall remain till the end of 2025.

It has to be taken into account in the risk assessment, that the level of the regulatory interest rates in the world is raising and that trend is expected to continue during 2023. From the beginning of 2022 till the end of the first quarter of 2023 the USA Federal Reserve increased the federal funds rate by 500 b. p. and currently it is within the range of 5.00% to 5.25%, while for the same period the European Central Bank (ECB) raised by 400 b. p. its base interest rates, as currently the base interest rate for refinancing is 4.00% and under the deposit facility is 3.50%. According to Bloomberg forecasts, at the end of 2023 is expected the interest rates under the federal funds in the USA to be established at the levels of 4.92% - 5.15%, and the base refinancing rate and under the deposit facility in the Eurozone to raise respectively up to 4.20% and 3.74%. In such a situation in 2023, the newly-assumed debts are predicted to be secured at significantly higher interest rates compared to the previous years, which shall affect the costs for servicing the liabilities in the next years, respectively increasing the burden of government debt servicing on the budget. Upon possible realization of the current forecast for the official interest rates trajectory, it is possible to occur some improvement in the conditions for issuance of a new securitized debt in 2024 and 2025.

In the period 2022-2025 the value of the indicator “average time for refixing of the coupon payments under the debt “(Average time to refixing) is expected to increase up to 9.4 years at the end of 2025 (from 7.8 years at the end of 2022 and 2023).

4.1.3 Liquidity risk

The liquidity risk is associated with the probability of occurring difficulties for the state budget in covering the short-term obligations of the government. Conceptually, this risk should not be considered in isolation, as it usually occurs in combination with other types of risk e.g. with the risk of refinancing. Amongst the factors, which impact on it during the period of the strategy are those, related to the expected monetary actions of the main central banks, the level of the reference interest rates as well as changing market conditions. Taking these considerations into account, the subject of deliberation is also the liquidity risk that could arise when securing debt financing and refers to possible difficulties that the issuer may experience in a situation to raise the necessary resources in short period of time, as well as the conditions of liquidity in the sovereign debt markets.

On this basis strategic debt management aims to ensure funds in volumes, necessary for refinancing debt outstanding, financing of the planned budget deficits and ensuring the liquidity position of the fiscal reserve. In order to realize the set of the debt management goals in a medium-term period, it is necessary to coordinate them with the common fiscal aims of the government. As an instrument for liquidity management, the existence of a liquidity buffer in the fiscal reserve reduces the negative impact of the risk.

The risk assessment indicator is the ratio “debt up to 1 year (by residual maturity)/tax-insurance revenues“ and shows ability for meeting the short-term obligations, which from 6,0 % in 2022 is envisaged to decline to 4.1 % at the end of 2025.

4.1.4 Risk related to debt size

As a result of he estimates for the necessary debt financing in the period 2023 - 2025, the nominal amount of the debt follows a clearly expressed trend of increase, compared to the reported levels at the end of 2022.

At the end of 2022 on the basis of the last official published by Eurostat annual data from the April Notification tables for the deficit/surplus and the debt of Bulgaria, the ratio debt/GDP decrease by 1.0 p. p. to 22.9 % towards GDP (at 23.9 % at 31.12.2021). Based on these data, the Republic of Bulgaria ranks second place among the EU Member States in terms of the level of the "debt/GDP" ratio for 2022, with the average levels for the countries in the Euro area and in the EU representing 91.6% and 84.0%, respectively.

For the current 2023 and the following period of 2024-2025 is projected an increase in the “General government debt” in nominal value and as a ratio to GDP up to 23.2 % from GDP at the end of 2023, 26.2 % from GDP at the end of 2024 and 29.1 % from GDP at the end of 2025.

For the expected growth of the "General Government debt ", a leading influence causes "Central Government" sub-sector debt, and in particular the government debt as its main component. The impact of the other two sub-sectors, forming the „General Government debt ": sub-sector "Local Government" and sub-sector "Social Security Funds", is minimal. This trend remains also in a short-term perspective.

The EC report[5] on the sustainability of the public debt of the Member States for 2022, published in April 2023, states that the short-term risks to the fiscal stability of the EU countries, including Bulgaria, are considered low, due to the improved public finances and unchanged macroeconomic balances. Regarding the risks to medium-term fiscal sustainability, Bulgaria is also classified as one of the eight countries with low risk, and the classification of our country improves from medium to low risk compared to that of the previous EC report for 2021.

In long-term risk classification Bulgaria is in a group of 12 countries for which the EC assesses the existence of a medium level of risk to fiscal sustainability in the long term. With the greatest weight in the assessment for Bulgaria is the component of the initial unfavorable budget position, which leads to a deterioration of the overall risk classification from low to medium risk in the long term.

In 2023 a similar upward trend is expected for the government debt. The level of the “government debt/GDP“ ratio at the end of 2023 remains at approximately the same level as in 2022 - 22%, and at the end of 2024 and 2025 it reaches 25.1% and 28.3%.

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

In 2023, with the State Budget Law draft, prepared in June of this year it is predicted to be issued government guarantees in the maximum amount of BGN 1 814 million., incl. for support of projects in the energy sector and of sustainable investments, energy efficiency and the green transition of small and medium enterprises and in line with EU instruments. Upon assumptions for issuance of these guarantees and disbursement of the loans in full amount in 2023 is expected an increase of the government guaranteed debt to level of BGN 3.3 billion. (1.8 % of GDP), as in the next years it is estimated to decline gradually in nominal value, reaching BGN 3.0 billion. (1.5 % of GDP) in 2024 and BGN 2.7 billion (1.3 % of GDP) at the end of 2025

The relative share of the government guarantees in the total amount of the government debt at the end of 2022 amount to 4.7 %, as within the upcoming three-year period it is planned its rate to raise up to 8.1 % in 2023 and at the end of 2024 and 2025 to decline to 6.1 % and 4.5 %.

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[5] European Commission (2022) - Debt Sustainability Monitor: https://economy-finance.ec.europa.eu/system/files/2023-06/ip199_en_UPD.pdf

of minimizing potential negative effects as a result of the impact of this risk and according to the requirements of the PFA, every year SBLRB includes ceilings for the maximum amount of the government guarantees, which can be issued during the respective year. It is maintained the established practice for provision of funds for reserve in the state budget for covering the risk of government guarantees being called, in case of realization of a negative scenario and materialization of the contingent liabilities, respectively an increase in public expenditures.

4.1.6 Operational risk

The organization of the government debt management activity is focused within one structural unit at the Ministry of finances and is based on broadly applicable principles on implementing continuous and standardized domestic monitoring and control system. The government debt management is carried out by detailed rules and procedures for the activity with clearly distributed duties of the staff. The operational control is made also by maintaining and improving the functional capabilities of an information system for analysis, forecasts and management of the government and government guaranteed debt, the so called official register of the government and government guaranteed debt, which has different functional capabilities, incl. registration, analysis and monitoring of the government debt and government-guaranteed debt, respectively a software, automating the processes on the compilation of the data, related to the sovereign obligations management and providing quality and reliability. The consistent and strict adherence in the future of the reliable practices, established in this field, shall ensure the opportunity for minimization of the operational risk.■

5. Goals of government debt management policy

The main goal of the debt management is to securing the necessary resources for refinancing the debt outstanding, financing the planned budget deficits and ensuring the liquidity position of the fiscal reserve.

5.1 Sub-objective: Maintaining sustainable government debt parameters

Measure: Conducting of new borrowing policy according to the statutory established terms and procedures

Considering the changed macro-economic perspectives and the high degree of uncertainty in a geopolitical situation, the changed conditions of the financial markets, increase the base interest rates by the leading central banks and the continuing rise of the price of the debt financing and risks, accompanying its provision, the main challenges and efforts shall aim to ensure opportunities for market-oriented financing both on the domestic and on the international capital markets, in compliance with the regulated debt ceilings. Issuing of a new government debt shall be made in compliance with the already established practices and legal procedures. The annual determination of debt ceilings for the maximum amount of the new debt, which can be issued during the year, regulated by the annual State Budget Low, reflect the issuer's commitments regarding to the size and the possible sources of the new debt financing.

In order to provide stability and predictability of the government debt servicing costs, it shall remain the trend on issuing a debt, denominated in BGN and in EUR and at fixed interest rate, without exclusion of the other possible alternatives.

In the next years the issuance policy of new state guarantees and the financing of investment projects with government loans shall be strictly regulated and subordinated to the normatively defined criteria and related to the state budget risks.

Measure: Maintaining the level of the government and government guaranteed debt, non-exceeding the legally planned ceilings

The expected macroeconomic development and the assumptions for a budget balance in 2023-2025 are determining factor for the government debt dynamics in the next years. The debt financing, planned on that base, shall lead to nominal increase of the debt in a short-term perspective. This requires efforts to be focused on continuous monitoring of the size and profile of the debt in view of preventing the sustainability of its parameters, ensuring the possibilities for its servicing and refinancing and ensuring compliance with the legally regulated debt ceilings.

The ceilings set in the annual State Budget Laws for the maximum amounts of the government debt at the end of the year, the new government debt that can be issued within the year and the new government guarantees that can be issued during the budget year will contribute to the achievement of these goals. Adherence to such an approach enables medium-term forecasting or, respectively, controlling the size and dynamics of the government debt, as well as long-term fulfillment of the Maastricht debt criterion for convergence of 60% in the context of the plans for Bulgaria's upcoming integration into the Eurozone.

According to the debt limits defined in the draft on the 2023 State Budget Law of the Republic of Bulgaria, prepared in June, the maximum amount of the government debt at the end of 2023 cannot exceed BGN 40.6 billion, and the maximum amount of new government debt that can be issued in 2023 is BGN 7.5 billion. The maximum amount of new government guarantees that can be issued during the year amounts to BGN 1 814 million.

A number of factors will have an influence on the assumptions for changing these indicators in the coming years, as the macroeconomic and fiscal development, the current debt financing needs, the debt structure, etc.

5.2 Sub-objective: Ensuring the opportunities for market-oriented debt financing, guaranteeing the sustainability of the state budget.

Measure: Pursuance of a borrowing policy through implementation of analytical approach in the selection of debt instruments

In the period 2023 - 2025 the borrowing policy shall be intended to ensuring the necessary resources on a market basis for refinancing the debt outstanding, financing of the planned budget deficit and maintaining the liquidity position of the fiscal reserve. Its realization faces many risks, resulted from the volatility and fragmentation of the financial markets, which affects the yield of the government securities, evolving in increase of financing price the state budget, respectively increasing in the government debt servicing costs.

In compliance with the debt ceilings, envisaged in the annual State Budget Low for issuing on a new government debt, it is planned to be used both issues of government securities on the domestic market and bonds on the ICM, which represent an objective and internationally tradable benchmark for assessment of the country.

In view of the effective current management of the budget cash flows and the liquidity of the public finances, the possibility of offering short-term issues of government securities, which are issued and mature within the respective budget year and do not put burden on the government debt payments in the next years, is preserved.

The observed external factors have their significant impact also on the domestic debt market, which has more limited options related to scales, liquidity and market participants, which limits the ability to absorb significant volume of debt financing.

- **Measure: Keeping the funding possibility through the Global Medium Term Note Issuance Program on the International Capital Markets (GMTN Programme) for ensuring maximum flexibility in selecting the structure of financing with regard to markets, maturities and currencies.**

The undertaken measures from the central banks of the leading economies for accelerating the process on tightening the monetary policy and raising the reference interest rates in terms of dealing with the high inflation, which is expected to continue at least to the middle of 2023, the decline in the economic activity and the down-streaming expectations for its development, shall be determining factors for the continuing raising the debt financing price on the international markets and the challenges in front of its provision.

The Global Medium Term Note Programme of the Republic if Bulgaria for issuance of bonds on the ICM (GMTN Programme) is established at the beginning of 2015 by the ratified from the National Assembly by law (SG issue 16 of 2015) Dealer Agreement, Agency Agreement and Deed of Covenant (prom. in SG issue 25 from 2015). It is a standardized instrument for the international investment community, for issuance of bonds, subject to the English law, registered for trade on the Luxembourg Stock Exchange, by clearing and settlement in Euroclear and Clearstream. By the established GMTN Programme, the government has an opportunity for placement of bonds both on the European and on the American markets, using different alternatives in choosing instruments, currencies, maturities, public and private placement and a proper time period for appearing on the international markets.

The maximum aggregate nominal volume of the bonds, which may be issued under the GMTN Programme (limit under the Programme) was raised from EUR 10 billion to EUR 12 billion with the amended 2022 SBLRB.

Until the end of March 2023, under the GMTN Programme were issued Eurobonds with total aggregate nominal volume of EUR 11.394 billion or the residual under the Programme amounts to EUR 606 million. As considering the expectations for increased debt financing needs in the period 2023 - 2025 and in order to flexibility in choosing the financing instrument, there is an opportunity in a mid-term perspective to be secured enough reliable mechanisms through issues of Eurobonds in cases of difficulties in the diversification of the courses of debt financing in accordance with the market conditions, by the 2023 SBLRB was increased the maximum aggregate nominal volume of the bonds (from EUR 12 billion to EUR 14 billion), which may be issued under the medium term Programme. The specific limit for issuance of bonds under Programme for each year shall be within the debt limits, provided in the respective annual SBLRB. The maximum maturity of the securities, which can be issued under the Programme is 30 years, as for the first time in September 2020 was successfully realized an issue with such maturity under extremely favorable conditions for the issuer.

The specific maturity and volume of each tranche are determined in accordance with the debt repayment profile and the showed investor interest. The existence of a legal framework for issuance of series of tranches on the ICM provides an opportunity for flexibility in choosing the most optimal strategy to implement the issuance policy and more effective management of the government debt risk profile.

5.3 Sub-objective: Development of the government bonds market

- **Measure: Undertaking legal and infrastructure changes in view of promoting the integration of the foreign investors on the national market of a sovereign debt.**

In relation to the development of the government bonds market, there have been already undertaken foresight steps on a national level for promoting the integration of the foreign investors on the national market of a sovereign debt. It is envisaged this to be reached by legal and infrastructure changes, intended to facilitating the access of the EU investors to the market infrastructure (before and after execution of the transaction), serving the market of government bonds in Bulgaria.

- **Measure: Undertaking measures for ensuring the process on provision of information on behalf of the Financial Supervision Commission to the MF in view of implementing Regulation (EU) No 236/2012 of the European Parliament and of the Council of 14 March 2012 on short selling and some aspects of credit default swaps.**

In relation to the legislative initiative, initiated and realized by the MF in 2021-2022 for ensuring the process on provision of information on behalf of the FSC to MF, in view of implementing Regulation (EU) No. 236/2012 of the European Parliament and of the Council of 14 March 2012 on the short selling and some aspects of credit default swaps and in connection with Art. 17a, para. 1 of the Government Debt Act (GDA), it is expected the exchange of information to be technologically secured. By the implemented supplements is established even more detailed securing of the powers of the Minister of finance under Art.17a of GDA.

The realized legal change is a prerequisite for reaching a more systematic monitoring on the prices and the participants on the market of government debt instruments, which shall guarantee on its part the regulated functioning of the market of government bonds and derivative practices and instruments, respectively a more effective monitoring on the conditions of the secondary market of government bonds shall be conducted, which shall enable the undertaking of coordinated and timely actions upon possible occurred events or trends. The opportunity, provided for in Art. 17a, para. 3 GDA, was also realized, namely that the Minister of Finance shall execute agreements for cooperation with competent supervisory bodies of the Republic of Bulgaria and the other Member States, as in this context MF shall execute agreements with the FSC.

The exchange of information shall be made by the realization of technological functionalities between the two institutions by building secure mechanisms. The information, submitted by FSC, shall enter and shall be processed in the "Monitoring, analysis, Registration and Trade with Government Bonds System”.

- **Measure: Undertaking steps for diversifying the offered debt instruments in accordance with leading European and national policies**

In accordance with the European policies and the new growth strategy, provided for in the European Green Pact and the developed new European regulations in this context, their legal coverage is envisaged also on a national level. There shall be examined measures for legal provisioning of the possibility for diversification of the offered debt instruments in the context of promoting the sustainable investments. The measures are in compliance with the European policies and the natural shifting of the focus of the investors from the conventional to using of “green” and sustainable financial instruments.

- **Measure: Diversification of the potential investors in government debt on the national market**

It is envisaged measures to be undertaken for the preparation of a research and thorough analysis of the possibilities for diversification of the potential investors in government debt on the national market, including participation of non-professional investors, by examining they profile and preferences, the options for conducting a proactive information policy for raising their financial literacy and there is a research on the possibilities for development of potential distribution channels to ease the access to such investment alternative as the government bonds.

- **Measure: Monitoring of the government bonds market**

Considering the dynamics of the world and European financial markets, MF shall follow carefully the processes on the market of government bonds on national level, and when necessary the respective corresponding measures shall be undertaken.

The efforts shall continue for taking into account the national peculiarities and reaching positive economic effects upon the integration of the domestic market of a sovereign debt to the single European market.■

ABBREVIATIONS AND GLOSSARY

Used abbreviations

UMBF	Updated Medium-Term Budget Forecast
GDP	Gross Domestic Product
BNB	Bulgarian National Bank
BDB	Bulgarian Development Bank
CEB	Council of Europe Development Bank
GGD	Government Guaranteed debt
GL	Government Loans
GIL	Government Investment Loans
GB	Government bonds
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EU	European Union
ECB	European Central Bank
SBLRB	State Budget Low of the Republic of Bulgaria
GDA	Government Debt Act
PFA	Public Finance Act
FSC	Financial Supervision Commission
ICM	International capital markets
MF	Ministry of Finance
IFI	International Financial Institutions
IBRD	International Bank for Reconstruction and Development
PD	Primary Dealers
MBF	Medium-Term Budget Forecast
BDGF	Bank Deposits Guarantee Fund
JICA	Japan International Cooperation Agency
GMTN	Global Medium-Term Debt Issuance Program on the International Capital Markets

Glossary

Currency risk – concerns the vulnerability of the debt portfolio, amortizations and costs on its servicing from impairment of the value of the national currency. The changes in the exchange rates may affect the costs on servicing the debt and hence on the state budget. The debt, denominated in a foreign currency, leads to volatility of the costs on servicing the debt, measured in national currency.

Interest risk – Concerns the vulnerability of the debt portfolio as well as the costs of the government debt, resulting from higher interest rates, currently on the market, in which portfolio the debt has a variable interest rate and the maturating debt with a fixed interest rate, are subject of revaluation. The changes in the market prices, which impact the costs for servicing the debt, may cause diversions from the amount of the costs for the debt servicing, provided for in the state budget;

Market risk – Risk, related to unexpected changes in the levels of market variables as currency exchange rates, interest rates, prices of goods, which influence the costs on the debt servicing.

Liquidity risk – it is determined by the need of liquid funds for covering short-term liabilities and takes into account the possibility of occurring liquidity difficulties. It appears a type of the risk for refinancing and is directly connected with the market risk;

Refinancing risk – It is connected mainly with the chance of incapability for receiving new financing, when the debt reaches maturity (the maturating debt is not able to be refinanced), or of receiving new financing only at a very high price. It is measured from the amount of the debt to be refinanced in a given period (usually one year);

Risk related to the debt amount – It is associated with the level of the government debt, which in certain cases may generate significant threats for the financial stability of the country;

Risk, related to the contingent liabilities under the form of state guarantees – The state guarantees cause significant impact on the sustainability of the government debt. It concerns the risk of realization of the guarantees over time, therefore it is important to be taken into account the potential risk of their activation;

Operational risk – it is mostly identified by the form of organization of the activities on management and control on the state liabilities;

Debt up to 1 year (according to a residual term) – The part of the debt, which shall have a maturity up to 1 year;

Average period till maturity (ATM) – The average period till the maturity, which is average-weighed amount of the repayments, depending on the time till their maturity. It does not take into account the payments of interests, so it does not provide information about the entire risk from the servicing the debt for the state budget;

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

R_t: Repayments at a moment t;
t: Period till the maturity
Nom: Nominal value of the outstanding debt
n: Final maturity under the debt

Ratio between the debt with a fixed interest rate and the debt with a floating interest rate – It shows the exposition of the debt portfolio to an interest risk;

Medium period till next fixing of the interest rate of the debt portfolio (ATR)

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

RF_t : Repayments in a moment **t**, which is determined on the basis of the planned date of payment as a ratio of the dates of the information to the days of the year, within which falls the payment;
RV : Debt with floating interest rates at a moment **to**;
t: period to the maturity: It is calculated on the grounds of the actually planned date of payment;
t_o: Time for a change of the interest rates, for the debt with a variable interest rate is established **to**=0.5;
Nom: Nominal value of the debt (total amount: A debt with a fixed interest rate and a debt with a variable interest rate);;
n: Final debt maturity; maximum term, in which the debt for which chosen credit instruments is completely repaid;
The risk measurement does not take into account the cash flows of the interest payments;

Duration – It is used as a unit for the medium period with a fixed interest, which shows how quickly the changes in the interest rates shall influence the costs under the debt. A short term means that the changes in the interest rates shall cause effect on the actual costs under the debt more quickly, while a long term means that the interest rate shall not change for a long period of time for a large part of the debt portfolio;

Repayment profile – The repayment profile of the debt is a series of amortization payments, which occur as a result of the non-paid debt;

Ratio of the debt in a foreign currency to the total debt – An indicator, contributing for establishment of the currency and liquidity risk.