

OFFERING CIRCULAR



REPUBLIC OF BULGARIA

€12,000,000,000

Global Medium Term Note Programme

Under this Global Medium Term Note Programme (the "**Programme**"), the Republic of Bulgaria (the "**Issuer**", the "**Republic**" or "**Bulgaria**") may from time to time issue medium term notes (the "**Notes**") denominated in any currency agreed between the Republic and the relevant Dealer (as defined below). The aggregate nominal amount of Notes outstanding at any time under the Programme will not exceed €12,000,000,000 (or its equivalent in other currencies).

Notes may be issued in bearer or registered form (respectively, "**Bearer Notes**" and "**Registered Notes**") as described under "*Overview of the Programme – Initial Delivery of Notes*". The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Republic (each, a "**Dealer**" and together, the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of certain of these risks see the section "Risk Factors" in this Offering Circular.

Application may be made to list the Notes on the Official List of the Luxembourg Stock Exchange and to admit the Notes to trading on the Luxembourg Stock Exchange's regulated market, pursuant to the rules and regulations of the Luxembourg Stock Exchange. This Offering Circular does not constitute a base prospectus pursuant to Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 (the "**Prospectus Regulation**"). Accordingly, this Offering Circular does not purport to meet the format and the disclosure requirements of the Prospectus Regulation as regards the format, content, scrutiny and approval of the base prospectus, and it has not been, and will not be, submitted for approval to any competent authority within the meaning of the Prospectus Regulation.

The Republic may agree with any Dealer that Notes may be issued in a form not contemplated by the terms and conditions (the "**Conditions**") of the Notes herein. This Offering Circular must be read and construed together with any amendment or supplement to it, as well as the relevant Pricing Supplement relating to the relevant Notes.

The Issuer has been assigned sovereign credit ratings of Baa1 by Moody's Deutschland GmbH ("**Moody's**"), BBB by S&P Global Ratings Europe Limited ("**S&P**") and BBB by Fitch Ratings, a branch of Fitch Ratings Ireland Limited ("**Fitch**"). The Programme is expected to be assigned a rating of Baa1 by Moody's France SAS ("**Moody's France**") and BBB by Fitch. Each of Moody's, Moody's France, Fitch and S&P are established in the European Economic Area and registered under the Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**"). Each of Moody's, Moody's France, Fitch and S&P appear on the latest update of the list of registered credit rating agencies on the European Securities and Markets Authority website: <http://www.esma.europa.eu>. The ratings of Moody's, Moody's France, Fitch and S&P are endorsed by Moody's Investors Service Ltd, Fitch Ratings Ltd and S&P Global Ratings UK Limited, respectively, which are each established in the United Kingdom and registered under Regulation (EU) No 1060/2009 as it forms part of United Kingdom domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**") (the "**UK CRA Regulation**"). The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Pricing Supplement (as defined below). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency. Whether or not any credit rating applied for in relation to any relevant Series of Notes will be issued by a credit rating agency established in the European Economic Area and registered under the CRA Regulation or in the United Kingdom and registered under the UK CRA Regulation will be disclosed in the relevant Pricing Supplement. Please also refer to "*Credit Ratings may not reflect all risks*" in the "**Risk Factors**" section of this Offering Circular.

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. The Notes may be offered and sold (a) in bearer form or registered form outside the United States in reliance on Regulation S of the Securities Act and (b) in registered form within the United States to persons who are qualified institutional buyers ("QIBs") (as defined in Rule 144A ("Rule 144A") of the Securities Act) in reliance on Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the Securities Act. Prospective purchasers who are QIBs are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. In addition, until 40 days after the commencement of any offering, an offer or sale of any of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A.

Arrangers and Dealers

BNP PARIBAS
HSBC
Société Générale
Corporate & Investment Banking

Citigroup
J.P. Morgan
UniCredit

17 January 2023

IMPORTANT NOTICES

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche of Notes will be set out in the relevant Pricing Supplement which, with respect to Notes to be listed on the Luxembourg Stock Exchange will be filed with the Luxembourg Stock Exchange prior to listing. Copies of any Pricing Supplement in relation to Notes to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Republic and the relevant Dealer. The Republic may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Issuer, having made all reasonable enquiries, confirms that this Offering Circular and the relevant Pricing Supplement contains all information with respect to the Issuer and the relevant Notes which is material in the context of the issue and offering of the Notes, and the information contained in this Offering Circular is true and accurate in every material respect and is not misleading in any material respect, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts in relation to the Issuer or the Notes the omission of which would, in the context of the issue or offering of the Notes, make any statement herein misleading in any material respect, whether of fact or opinion. The Issuer accepts responsibility for the information contained in this Offering Circular, together with each Pricing Supplement, accordingly.

The Republic has not authorised the making or provision of any representation or information regarding the Republic or the Notes other than as contained in this Offering Circular or as approved for such purpose by the Republic. Any such representation or information should not be relied upon as having been authorised by the Republic.

None of the Dealers has separately verified the information contained in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made (to the fullest extent permitted by law) and no responsibility or liability is accepted by any of the Dealers, nor any of their affiliates, holding companies, subsidiaries, associated undertakings or controlling persons, nor any of their respective directors, officers, partners, employees, agents, representatives or advisers, as to the accuracy or completeness of the information contained in this Offering Circular or any Pricing Supplement or any other information provided by the Republic in connection with the Republic, the Programme or the issue and offering of Notes thereunder. No Dealer accepts any liability whether arising in tort or contract or otherwise in relation to the information contained in this Offering Circular or any other information provided by the Republic or any such statement.

Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Notes shall in any circumstances constitute a representation that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial, economic or otherwise) or affairs of the Republic since the date of this Offering Circular. The Dealers expressly do not undertake to review the condition (financial, economic or otherwise) or affairs of the Republic during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes: (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Republic or any Dealer to subscribe for or purchase, any Notes. Each potential investor contemplating purchasing any Notes should make its own independent investigation and analysis of the condition and affairs, and its own appraisal of the creditworthiness, of the Republic, and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment.

The above disclaimers shall apply (without limitation) to all parts of this Offering Circular, including any supplement to it, and to any Pricing Supplement. Neither the Dealers nor any of their affiliates, holding companies, subsidiaries, associated undertakings or controlling persons, nor any of their respective

directors, officers, employees, agents, partners or advisers shall be liable for any direct, indirect or consequential loss or damage suffered by any person as a result of relying on any statement contained in this Offering Circular, including any supplement to it, any Pricing Supplement or any other information supplied in connection with the Programme or any Notes.

The distribution of this Offering Circular and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Republic and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Offering Circular, any Pricing Supplement and any other offering material relating to the Notes, see "*Subscription and Sale*". Neither the Republic nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Republic or any Dealer to supplement this Offering Circular or any other document for such offer.

In this Offering Circular, unless otherwise specified, references to "U.S.\$", "U.S. dollars", "USD" and "dollars" are to the lawful currency for the time being of the United States of America, references to "BGN", "Lev" and "Leva" are to the lawful currency for the time being of the Republic and references to "Euro", "euro", "EUR" and "€" are to the single currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended.

Unless otherwise stated, all annual information, including budgetary information, is based on calendar years. Figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same item of information may vary, and figures which are totals may not be arithmetical aggregate of their components.

Statistical data appearing in this Offering Circular has been extracted or compiled from the records, statistics and other official public sources of information in Bulgaria, and has not been independently verified or checked by any Dealer. Similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data may vary from source to source. While there have been significant steps taken to improve the accuracy of the statistics, it is inevitable in the context of a transition economy that there is a degree of uncertainty as to the accuracy or reliability of the statistics when compared with those produced by countries that have for many years been preparing market economy statistics. In addition, the statistics may not be calculated on a basis that is fully in accordance with international standards, and the statistics have in the past been, and may in the future be, subject to significant revision. Certain statistical data appearing in this Offering Circular may not have been restated to reflect inflation. Investors should be aware that distortions caused by inflation are present in such statistics and that period-to-period comparisons may not be meaningful.

Bulgaria is a sovereign state. Consequently, it may be difficult for investors to obtain judgments of courts in countries outside Bulgaria against Bulgaria. Enforcement of such judgments in Bulgaria may be refused in certain circumstances in the absence of an applicable treaty facilitating such enforcement. See "*Risk Factors—Risks relating to Notes generally—Enforcement of Liabilities*".

In making an investment decision, investors must rely on their own examination of the Republic and the terms of the Notes being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Offering Circular or confirmed the accuracy or determined the adequacy of the information contained in this Offering Circular. Any representation to the contrary is unlawful.

STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be

conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

U.S. INFORMATION

This Offering Circular may be submitted on a confidential basis in the United States to a limited number of QIBs for informational use solely in connection with the consideration of the purchase of certain Notes which may be issued under the Programme. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Any Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and the U.S. Treasury regulations promulgated thereunder.

Registered Notes may be offered or sold within the United States only to QIBs in transactions exempt from registration under the Securities Act in reliance on Rule 144A under the Securities Act or any other applicable exemption. Any U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it may be made in reliance upon the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

Each purchaser or holder of Notes represented by a Restricted Global Certificate or any Notes issued in registered form in exchange or substitution therefor (together "**Legended Notes**") will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in "*Subscription and Sale*" and "*Transfer Restrictions*".

MiFID II PRODUCT GOVERNANCE / TARGET MARKET

The Pricing Supplement in respect of any Notes may include a legend entitled "*MiFID II Product Governance*" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, "**MiFID II**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID II Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

UK MiFIR PRODUCT GOVERNANCE / TARGET MARKET

The Pricing Supplement in respect of any Notes may include a legend entitled "*UK MiFIR Product Governance*" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to the UK Financial Conduct Authority ("**FCA**") Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

BENCHMARK REGULATION

Interest and/or other amounts payable under the Notes may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Regulation (EU) 2016/1011 (the "**Benchmark Regulation**"). If any such reference rate does constitute a benchmark, the Pricing Supplement will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (*Register of administrators and benchmarks*) of the Benchmark Regulation. Transitional provisions in the Benchmark Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the Pricing Supplement. The registration status of any administrator under the Benchmark Regulation is a matter of public record and, save where required by applicable law, the Issuer does not intend to update the Pricing Supplement to reflect any change in the registration status of the administrator.

FORWARD LOOKING STATEMENTS

This Offering Circular includes forward-looking statements. All statements other than statements of historical fact included in this Offering Circular regarding, among other things, Bulgaria's economy, fiscal condition, politics, debt or prospects may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "project", "predict", "aim", "intend", "estimate", "anticipate", "believe", "continue", "could", "should", "would" or similar expressions or the negative thereof or other variations thereof or comparable terminology or discussions of strategy, plans or intentions, involve a number of risks and uncertainties. Although the Issuer believes that expectations reflected in its forward-looking statements are reasonable as at the date of this Offering Circular, there can be no assurance that such expectations will prove to have been correct. The Issuer undertakes no obligation to update the forward-looking statements contained in this Offering Circular or any other forward-looking statement it may make. Forward-looking statements involve inherent risks and uncertainties.

For the Issuer, in addition to the factors described in this Offering Circular, including, but not limited to, those discussed under "*Risk Factors*", the following factors, among others, could cause future conditions to differ materially from those expressed in any forward-looking statements made herein:

External factors, such as:

- the impact of the international economic and political environment on the Bulgarian economy, including liquidity in the international financial markets and volatility in international equity, debt and foreign exchange markets;
- interest rates in financial markets outside Bulgaria;
- the impact of any changes in the credit ratings of Bulgaria;
- the impact of regional political conditions;
- the impact of the ongoing COVID-19 pandemic;
- the impact of changes in the international prices of commodities;
- economic conditions in Bulgaria's major export markets; and
- the impact of the war in Ukraine.

Internal factors, such as:

- general economic and business conditions in Bulgaria;
- the level of unemployment; and
- the ability of Bulgaria to effect key economic reforms.

EXCHANGE RATES

On 1 July 1997 the Lev was fixed to the German Mark ("**DEM**") at a rate of BGN 1,000 for DEM 1.

Effective 5 July 1999, following the redenomination of the Lev the official exchange rate of the Lev to the DEM was set at BGN 1 for DEM 1. Following the introduction of the Euro as the single currency for the euro area on 1 January 1999, the fixed exchange rate was set at BGN 1.95583 for 1 EUR based on the official exchange rate of conversion of the DEM to the EUR. For convenience, the economic and financial information in the Offering Circular is presented in Euro.

The following table sets out both the Lev to U.S. dollar exchange rate and the U.S. dollar to Euro exchange rate for the last day of the periods indicated; also set out below are the average exchange rates for the same periods:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
			<i>(BGN per U.S.\$)¹</i>			
Year or period end.....	1.63081	1.70815	1.74099	1.59386	1.72685	1.83371
Average for year or period	1.73545	1.65704	1.74703	1.71632	1.65377	1.86014
			<i>(U.S.\$ per EUR)²</i>			
Year or period end.....	1.1993	1.1450	1.1234	1.2271	1.1326	1.0666
Average for year or period	1.1297	1.1810	1.1195	1.1422	1.1827	1.0530

Notes:

¹ *Source:* Bulgarian National Bank.

² *Source:* European Central Bank.

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OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement.

Words and expressions defined in "*Terms and Conditions of the Notes*" and "*Summary of Provisions Relating to Notes in Global Form*" shall have the same meanings in this overview.

Issuer:	Republic of Bulgaria
Legal Entity Identifier (LEI):	529900PG0XCL4LICL838
Description:	€12,000,000,000 Global Medium Term Note Programme
Arrangers:	BNP Paribas Citigroup Global Markets Europe AG HSBC Bank plc J.P. Morgan SE Société Générale UniCredit Bank AG
Dealers:	BNP Paribas Citigroup Global Markets Europe AG HSBC Bank plc J.P. Morgan SE Société Générale UniCredit Bank AG and any other Dealers appointed in accordance with the Dealer Agreement from time to time for a specific issue of Notes.
Fiscal Agent, Paying Agent, Exchange Agent, Transfer Agent and Calculation Agent:	Citibank N.A., London Branch
Paying Agent and Transfer Agent:	Citibank Europe plc
Registrar:	Citigroup Global Markets Europe AG
Listing Agent:	Banque Internationale à Luxembourg S.A.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time. See " <i>Subscription and Sale</i> " and " <i>Transfer Restrictions</i> ".
Initial Delivery of Notes:	Bearer Notes: On or before the issue date for each Tranche, if the relevant Global Note is stated in the applicable Pricing Supplement to be issued in New Global Note ("NGN") form, the Global Note will be delivered to a common safekeeper (the " Common Safekeeper ") for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Note is not issued in NGN form, the Global Note representing Bearer Notes shall be deposited with a common depositary (the " Common Depositary ") for

Euroclear and Clearstream, Luxembourg, or if agreed to be delivered outside a clearing system, be deposited as agreed between the Republic, the Fiscal Agent and the relevant Dealer.

Registered Notes:

Registered Notes which are sold in "offshore transactions" within the meaning of Regulation S ("**Unrestricted Notes**") will initially be represented by a permanent registered global certificate (each an "**Unrestricted Global Certificate**") which may on the issue date of each Tranche (a) (i) in the case of Registered Notes intended to be held under the New Safekeeping Structure ("**NSS**"), be delivered to the Common Safekeeper for Euroclear and Clearstream, Luxembourg; or (ii) in the case of Registered Notes not intended to be held under the NSS, be deposited with the Common Depository for Euroclear and Clearstream, Luxembourg; (b) in the case of Registered Notes intended to be cleared through The Depository Trust Company ("**DTC**"), be deposited with a custodian (the "**Custodian**") for, and registered in the name of a nominee for, DTC; or (c) in the case of Registered Notes intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream, Luxembourg and/or DTC, or delivered outside a clearing system, be deposited as agreed between the Republic, the Fiscal Agent and the relevant Dealer.

Registered Notes which are sold in the United States to QIBs in reliance on Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the Securities Act ("**Restricted Notes**") will initially be represented by a permanent registered global certificate (each a "**Restricted Global Certificate**" and, together with the Unrestricted Global Certificate, the "**Global Certificates**") which may on the issue date of each Tranche (a) in the case of Registered Notes intended to be cleared through Euroclear and Clearstream, Luxembourg, be deposited with the Common Depository or Common Safekeeper (as the case may be) on behalf of Euroclear and Clearstream, Luxembourg, (b) in the case of Registered Notes intended to be cleared through DTC, be deposited with the Custodian for, and registered in the name of a nominee for, DTC or (c) in the case of Registered Notes intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream, Luxembourg and/or DTC, or delivered outside a clearing system, be deposited as agreed between the Republic, the Fiscal Agent and the relevant Dealer.

In the case of any Registered Notes cleared through DTC, interests in the relevant Global Certificate(s) will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants.

Distribution:

Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis. The Notes will be issued in series (each, a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest). Each Series may be issued in

tranches (each, a "**Tranche**") on the same or different issue dates. Further Notes may be issued as part of an existing Series.

Currencies:

Notes may be denominated in any currency agreed between the Republic, the Fiscal Agent and the relevant Dealer, subject to any applicable legal or regulatory restrictions.

Maturities:

The Notes will have such maturities as may be agreed between the Republic and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Republic or the relevant specified currency.

Issue Price:

Notes may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par.

Form of Notes:

The Notes will be issued in bearer or registered form as described in "*Terms and Conditions of the Notes*" and "*Summary of Provisions Relating to Notes in Global Form*". Registered Notes will not be exchangeable for Bearer Notes and *vice versa*.

Fixed Rate Notes:

Fixed interest will be payable on such date or dates as may be agreed between the Republic and the relevant Dealer and, on redemption, will be calculated on the basis of such Day Count Fraction as may be agreed between the Republic and the relevant Dealer.

Floating Rate Notes:

Floating Rate Notes will bear interest at a rate determined:

- (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant specified currency governed by an agreement incorporating the relevant ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or
- (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or
- (c) on such other basis as may be agreed between the Republic and the relevant Dealer.

The margin (if any) relating to such floating rate will be agreed between the Republic and the relevant Dealer for each Series of Floating Rate Notes.

Index Linked Notes:

Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to such other factors as the Issuer and the relevant Dealer may agree.

Floating/Index Linked Notes – Interest Payments:

Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on

the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

Dual Currency Notes:

Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.

Zero Coupon Notes:

Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.

Redemption:

The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than following an Event of Default) or that such Notes will be redeemable at the option of the Republic and/or the Noteholders upon giving notice to the Noteholders or the Republic, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Republic and the relevant Dealer. The terms of any such redemption, including notice periods, any relevant conditions to be satisfied and the relevant redemption dates and prices will be indicated in the applicable Pricing Supplement.

Denomination of Notes:

The Notes will be issued in such denominations as may be agreed between the Republic and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant specified currency.

Events of Default:

Events of default under the Notes include the non-payment of any interest due in respect of the Notes or any of them for a period of 15 days from the due date for payment thereof and breach of other obligations or undertakings under the Notes (which breach is not remedied within 30 days after written notice of such breach has been delivered to the Issuer). The Notes include a cross-default provision. Notes may only be declared immediately due and payable, upon an Event of Default, if holders of at least 25 per cent., in aggregate nominal amount of the outstanding Notes give notice in writing to the Republic. Furthermore if the Republic receives notice in writing from holders of at least 50 per cent., in aggregate nominal amount of the outstanding Notes to the effect that the event of default giving rise to a declaration of acceleration is cured and that such holders wish the relevant declaration to be withdrawn, the relevant declaration shall be withdrawn and shall have no further effect.

Negative Pledge:

The terms of the Notes will contain a negative pledge provision as further described in Condition 4.

Status of the Notes:

All Notes issued under the Programme will constitute direct, general, unconditional and (subject to Condition 4) unsecured and unsubordinated obligations of the Republic and will at all time rank *pari passu* without any preference among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated

obligations of the Republic (save for such obligations as may be preferred by provisions of law that are of mandatory application at the date on which agreement is reached to issue the first Tranche of Notes). The Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any other unsecured and unsubordinated obligations of the Republic and, in particular, shall have no obligation to pay other unsecured and unsubordinated obligations of the Republic at the same time or as a condition of paying sums due on the Notes and *vice versa*. See "*Terms and Conditions of the Notes – Status*" and "*Risk Factors – Risks relating to Notes generally - The Issuer is not required to effect equal or rateable payment(s) with respect to its other debt obligations, and is not required to pay other debt obligations at the same time or as a condition of paying sums on the Notes and vice versa*".

Withholding Tax:

All payments in respect of the Notes by or on behalf of the Republic will be made without withholding or deduction for or on account of any taxes, unless required by law. In that event, the Republic will pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, subject to certain exceptions as provided in Condition 8.

Meetings of Noteholders:

The Conditions contain a "collective action" clause which permits defined majorities to bind all Noteholders.

If the Republic issues future debt securities which contain collective action clauses in substantially the same form as the collective action clause in the Conditions, the Notes would be capable of aggregation for voting purposes with any such future debt securities, thereby allowing 'cross-series' modifications to the terms and conditions of all affected Series of Notes (even, in some circumstances, where majorities in certain series did not vote in favour of the modifications being voted on). See "*Risk Factors – Risks relating to Notes generally - The terms and conditions of the Notes contain a "collective action" clause under which the terms of any one Series of Notes and/or multiple Series of Notes may be amended, modified or waived without the consent of all the holders of the Notes*".

Rating:

The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the European Economic Area and registered under the CRA Regulation or the United Kingdom and registered under the UK CRA Regulation will be disclosed in the applicable Pricing Supplement.

Further Issues:

The Issuer may from time to time, without notice or the consent of holders of any Notes, issue further securities which may form a single series with such Notes, subject to

certain conditions set out in "*Terms and Conditions of the Notes – Further Issues*".

Clearing Systems:

Euroclear, Clearstream, Luxembourg and/or DTC, unless otherwise agreed, and such other clearing system(s) as may be agreed between the Issuer, the Fiscal Agent and the relevant Dealer.

Listing and admission to trading:

Application may be made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange.

Notes may be listed or admitted to trading on other or further stock exchanges or markets agreed between the Republic and the relevant Dealer in relation to the relevant Series. Notes which are neither listed nor admitted to trading on any market may also be issued.

The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

Governing Law and Jurisdiction:

English law. The Issuer has submitted to the jurisdiction of the courts of England in respect of any disputes in connection with the Notes.

Selling Restrictions and Transfer Restrictions:

There are restrictions on the distribution of marketing materials and on the offering of Notes in certain jurisdictions. There are restrictions on the transfer of Notes sold pursuant to Regulation S and Rule 144A. See "*Subscription and Sale*" and "*Transfer Restrictions*" below.

ERISA

Unless otherwise provided in the applicable Pricing Supplement, and subject to certain conditions, the Notes may be purchased by (i) an "employee benefit plan" as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), that is subject to Part 4 of Subtitle B of Title I of ERISA, (ii) a "plan" as defined in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), and (iii) any person or entity whose underlying assets include "plan assets" by reason of an investment in the person or entity by an employee benefit plan or plan described in clause (i) or (ii) under the U.S. Department of Labor regulation at 29 C.F.R. § 2510.3-101, as modified by Section 3(42) of ERISA or otherwise for the purposes of Part 4 of Subtitle B of Title I of ERISA or Section 4975 of the Code. See "*Certain ERISA Considerations*" for additional information.

Enforcement of Notes in Global Form:

In the case of Global Notes and Global Certificates, individual investors' rights will be governed by a deed of covenant dated 6 February 2015 (the "**Deed of Covenant**"), a copy of which is available for inspection at the specified office of the Fiscal Agent.

Risk Factors:

There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes. See "*Risk Factors*" for a description of certain of these risks.

RISK FACTORS

Investment in the Notes involves risk. Prospective investors should carefully consider the following risk factors, together with the other information set out in this Offering Circular, before making a decision to invest in the Notes and should understand that the risks set forth below could, individually or in the aggregate, have a material adverse effect on the Republic's ability to repay principal and make payments of interest on the Notes or otherwise fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Republic is not in a position to express a view on the likelihood of any such contingency occurring. Additional risks and uncertainties not currently known to the Republic or that the Republic currently deems to be immaterial may also materially affect the Republic's economy and its ability to fulfil its obligations under the Notes. In any such case, investors may lose all or part of their investment in the Notes. Words and expressions defined in "Terms and Conditions of the Notes" or elsewhere in this Offering Circular have the same meanings in this section.

Risk Factors Relating to Bulgaria

Bulgaria's economy remains vulnerable to economic shocks as a result of the war in Ukraine

The war between the Russian Federation ("**Russia**") and Ukraine poses significant downside risks to the global and regional outlook. Beyond its immediate humanitarian impact, the war is expected to slow economic growth and increase inflation on a global level. It is expected that European Union ("**EU**") member states, including Bulgaria, will be materially adversely affected due to historic economic ties with Russia and Ukraine. As Russia is a major global supplier of oil, gas, and metals, and Ukraine is a major global supplier of wheat and corn, the indirect effects of the war, stemming from any restrictions or delays in imports affecting production and driving commodity prices up, are considered to be more significant. The European Commission's (the "**Commission**") Autumn 2022 (Interim) Economic Forecast revised the growth outlook for the EU to 3.3 per cent. for 2022 and to 0.3 per cent. for 2023, down from 5.4 per cent. in 2021, due to the negative effects of the war. In addition, the Commission's growth outlook for Bulgaria is 3.1 per cent. in 2022 and 1.1 per cent. in 2023, down from 7.6 per cent. in 2021.

The Russian invasion of Ukraine, the uncertainty regarding the development of the war and its impact on economic processes in Bulgaria, pose a significant risk to the realisation of Bulgaria's budget revenues and expenditures. Any further increase in global inflationary pressures or another tightening of supply chains may suppress economic dynamics in Bulgaria beyond current expectations and lead to a deterioration in revenue performance. In addition to this, given the environment of rising prices, various measures to support households and businesses in Bulgaria are essential to limit the negative effects of inflation. However the need to further expand policies to support the incomes of vulnerable social groups may result in an increase in the expenditure of the budget. The war in Ukraine may also result in excess budget spending as a result of the refugee crisis and increased defence spending. Therefore, the Ministry of Finance expects real gross domestic product ("**GDP**") to increase by 2.9 per cent. in 2022, a reduction in growth from 7.6 per cent. in 2021, and to slow down to 1.6 per cent. in 2023. Annual average inflation accelerated to 15.3 per cent. in 2022, up from 2.8 per cent. in 2021 and to decelerate to 7.4 per cent. in 2023. Weaker growth in countries that are main trading partners of Bulgaria, such as EU member states and Turkey, will lead to a slowdown in external demand and, consequently, in export growth in 2023 compared to 2022. At the same time, the Ministry of Finance expects lower growth in domestic demand due to a decrease in the contribution from government consumption, while contribution from the change in inventories is expected to be neutral. On the other hand, easing inflationary pressures is expected to support growth in household consumption in real terms. Fixed capital investment is expected to increase in 2023, led by the public sector. Such expectations are based on a number of assumptions and variables and there can be no assurance that they will be realised.

In response to Russia's invasion of Ukraine, the governments of the United States, the EU, the United Kingdom, Japan and other countries have announced the imposition of extensive sanctions on certain industry sectors in Russia and the non-government controlled regions of Ukraine and on certain individuals in Russia and abroad. The sanctions announced to date include restrictions on selling or importing goods, services or technology in or from affected regions, travel bans and asset freezes impacting connected individuals and political, military, business and financial organisations in Russia, severing Russia's largest bank from the U.S. financial system, removal of certain Russian financial institutions from the Society for Worldwide Interbank Financial Telecommunication ("**SWIFT**") system, barring some Russian enterprises from raising money in the U.S. market and blocking the access of certain Russian banks to financial markets. On 3 June 2022, the European Commission announced the adoption of the sixth package of

restrictive measures against Russia imposing an embargo on approximately 90% of Russian crude oil exports to the EU by the end of 2022. Bulgaria currently imports the majority of its crude oil from Russia. Bulgaria's crude oil refinery, Neftochim Burgas, is owned by Lukoil, a Russian company, and is a major employer and a key supplier of oil for the country. The refinery was designed to process Ural crude oil from Russia. In order to process other types of crude oil, the Neftochim Burgas refinery's processes and equipment will need to be adapted. Following discussions between the Republic and the EU, the EU granted the Republic an exemption from the embargo on Russian crude oil imports by sea until the end of 2024 to allow time for refinery processes and logistics to be adapted to facilitate and process increased crude oil imports from countries other than Russia. However, if a more comprehensive embargo is put into effect, substitution may not be possible because Bulgaria's refinery is not set up for other types of oil. The United States and other countries could also impose wider sanctions and take other actions should the conflict escalate further. In addition, on 3 December 2022, the EU and Canada, France, Germany, Italy, Japan, the United Kingdom and the United States (the "**Group of Seven**") nations approved a price cap of USD 60 per barrel for seaborne Russian crude oil. In response to the oil price cap, on 27 December 2022, Russia announced a ban on the supply of crude oil and oil products from 1 February 2023 for a period of five months to nations that abide by the cap. While the crude oil price cap and the Russian response have not been tested in practice, they have the potential to further disrupt the supply of oil and oil products to Bulgaria.

Further sanctions and export controls imposed by the United States, the EU and other countries or responsive measures by the government of Russia could restrict or impede business cooperation between Russia and Bulgaria and further deteriorate the Republic's political, economic and financial position. For example, in April 2022, Gazprom, Russia's national energy company, announced it was ceasing supply of natural gas to Poland and Bulgaria. Although Bulgaria does not solely depend on the import of natural gas from Russia for the needs of its economy, the suspension forced the Government to speed up the process of diversifying its gas supply sources. In the beginning of July 2022, construction activities on the Interconnector Greece-Bulgaria ("**IGB**") were completed and on 15 July 2022, the two national energy regulators in Greece and Bulgaria certified the operating company ICGB as Independent Transmission Operator (ITO). The IGB gas pipeline began commercial operation on 1 October 2022 and currently delivers all the contracted quantities from the Azerbaijan Gas Supply Company (approximately 1 billion cubic meters ("**bcm**") per annum) which accounts for about one-third of the annual domestic consumption in Bulgaria. Another source of replacement of gas supplies to Bulgaria are the deliveries of liquefied natural gas ("**LNG**") from the terminal in Revithoussa (currently operational) and Alexandroupolis (expected to be operational in December 2023) in Greece. The necessary amount of natural gas for domestic needs for the 2022 – 2023 heating season is already secured via gas deliveries from Azerbaijan, LNG from terminals in Greece and natural gas stored in UGS Chiren (over 5 Terawatt-hour ("**TWh**") or 91 per cent. of its total capacity as of 15 December 2022). In addition, on 3 January 2023, Bulgargaz EAD signed an agreement with the Turkish state energy company BOTAŞ for access to its gas transmission infrastructure, including the gas pipelines and five liquefied natural gas terminals, operated by BOTAŞ. It provides an opportunity for transfer of 1.5 bcm of gas per year between the two countries for a period of 13 years. Bulgaria will continue to seek a common solution to replace Russian gas with EU member states, utilizing the existing interconnectors with Romania, Turkey and Greece for supplies from various sources of liquefied and pipeline gas, for example, from the United States and countries in Africa and Asia.

In addition, Bulgaria is a member of NATO, which has denounced Russia's military activities in Ukraine. Russia has, in response, placed its strategic nuclear forces on a higher state of readiness than previously and announced an increase in the size of its armed forces in August 2022. Any armed confrontation between the armed forces of a NATO member country and the armed forces of Russia, in Ukraine or elsewhere, could pose significant risks to Bulgaria given its membership in NATO and its geographic proximity to both Ukraine and Russia.

Bulgaria's economy is vulnerable to external shocks, significant economic difficulties among its major trading partners or more generally, which could have a material adverse effect on Bulgaria's economic growth

As a small open economy, Bulgaria faces risks of external economic shocks such as significant economic difficulties in its main trading partners, geopolitical volatility in neighbouring countries, as well as sharp increases in global commodity prices and sharp drops in global oil and commodities supply. For the 2017-2021 period, the export of goods and services represented approximately 63 per cent. of the country's GDP per annum, while import of goods and services represented approximately 60 per cent. of the country's GDP per annum. During the 2017-2021 period, EU countries procured approximately 64 per cent. of Bulgaria's

exported goods and provided 50 per cent. of its imports. Among the non-EU countries, Turkey remained a key trading partner of Bulgaria during the 2017-2021 period.

Tourism is an important economic sector in Bulgaria. As of 31 December 2019, tourism represented approximately 10.7 per cent. of GDP with over 340,000 employees or 11 per cent. of the employed population in the country. The tourism sector was affected by the COVID-19 pandemic in 2020 but recovered during 2021 and represented approximately 9.9 per cent. of GDP with over 316,000 employees or 7.2 per cent. of the employed population in the country as of 31 December 2021 (source: World Travel & Tourism Council). EU citizens accounted for approximately half of the tourist visits to Bulgaria on average for the 2017-2021 period. Among non-EU countries, the largest number of foreign tourists to Bulgaria in 2021 were from Turkey with approximately 144,000 Turkish nationals visiting Bulgaria for tourism. Russia is an important source of inbound tourism for Bulgaria but its importance has been decreasing since 2016. In 2019, the number of arrivals of Russian visitors to Bulgaria was 450,116 or 4.8 per cent. of the total inbound tourism compared to 580,002 Russian arrivals or 7.0 per cent. of total inbound tourism in 2016. This decrease in the number of Russian visitors in the period between 2016 - 2019 was due to sanctions on Russia as a result of its invasion of the Crimea region of Ukraine. In 2021 the number of arrivals of Russian visitors to Bulgaria was only 127,607 or 3.4 per cent. of inbound tourism and the number of Russian tourists decreased considerably in 2022 with 94,826 Russian arrivals in the nine-months ending 30 September 2022, a decline of 9.2% per cent. compared to the same period in preceding year.

Any direct or indirect impact of the war in Ukraine (see "*Bulgaria's economy remains vulnerable to economic shocks as a result of the war in Ukraine*" above) on Bulgaria's trading partners could result in volatility or economic difficulties within those countries which could in turn reduce Bulgaria's trading partners' demand for exports from Bulgaria, may result in decreases or delays in the number of imports into Bulgaria and decline in foreign tourists.

Any such geopolitical or macroeconomic uncertainties, including as a result of the COVID-19 pandemic, or volatility in Bulgaria's main trading partners and neighbouring countries (including, but not limited to Germany, Italy, Turkey, Romania and Greece) could have an adverse effect on the economic activity and growth in Bulgaria.

Bulgaria's economy remains vulnerable to both internal and external economic shocks as a result of global pandemics

Since the beginning of 2020, the COVID-19 outbreak has escalated into an ongoing global pandemic resulting in the implementation of stringent travel and transport restrictions, quarantines and extended shutdowns of certain businesses globally, including in Bulgaria, in an attempt to contain the continued spread of the virus. In mid-March 2020, the National Assembly enforced a state of emergency (the "**State of Emergency**") in Bulgaria. The State of Emergency commenced on 13 March 2020, and was later extended to 13 May 2020 when it officially expired. On 13 May 2020, amendments (dated 12 May 2020) to the Health Act were officially promulgated and the Government declared an extraordinary epidemic situation, which was subsequently extended several times before expiring on 31 March 2022. Based on orders of the Minister of Health, many of the measures imposed under the State of Emergency continued to apply after its expiration and were effective until the end of the extraordinary epidemic situation.

The measures in Bulgaria during the extraordinary epidemic situation were of moderate strictness. The scope and effects of the measures imposed were regularly revisited and assessed as to the effectiveness and efficiency of coping with the domestic and international implications of the COVID-19 pandemic. Since the initial outbreak of COVID-19 there have been subsequent outbreaks of additional variants of the COVID-19 virus which have resulted in periods of increased infections ("**Waves**"). These Waves in Bulgaria have broadly followed the same in other EU member states. The most recent Wave, sparked by the Omicron variant in 2021, reached its peak at the end of January 2022 and newly reported cases have since declined. However, any new variants of the COVID-19 virus could lead to further Waves across Bulgaria and similar measures may need to be reintroduced in order to combat the spread. As of 16 January 2023, 30.4 per cent. of Bulgaria's total population has received two doses of COVID-19 vaccines compared to an EU member state average of 73.0 per cent. and 12.0 per cent. of Bulgaria's total population has received a booster dose of the COVID-19 vaccines.

As a result of the measures imposed to contain the spread of the COVID-19 pandemic, Bulgaria's economy was adversely affected and the country's real GDP declined by 4.0 per cent. in 2020. Although Bulgaria's economy rebounded in 2021, with GDP expanding by 7.6 per cent., equivalent to 103.4 per cent. of the

GDP in 2019 before the outbreak of the COVID-19 pandemic, any further Waves of COVID-19 or any other future global pandemics could have a material adverse effect on Bulgaria's GDP and economy.

In response to the COVID-19 pandemic, the Government implemented numerous measures and policies to support the country's economic activity during the State of Emergency and the extraordinary epidemic situation that followed. Following the end of the State of Emergency and the extraordinary epidemic situation, certain of the above measures, including financing healthcare and socioeconomic measures in support of Bulgarian persons and companies during 2022 and 2023 in the amount of approximately EUR 1.5 billion, remain active. For more information on these measures and policies see "*The Economy—Labour Market*", "*Public Finance—Tax Policy*" and "*Public Finance—Revenues*". In addition to the measures imposed by the Government, in 2020 the Bulgarian National Bank (the "**Central Bank**") implemented, within its mandate, a package of measures worth EUR 4.8 billion aimed at preserving the stability of the banking system and strengthening its flexibility to reduce the adverse effects on households and companies from the restrictions caused by the pandemic. These included the *Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – Financial Institutions* in relation to the State of Emergency approved by the Association of Banks in Bulgaria and the Central Bank in April 2020. This payment deferral scheme was closed for applications on 31 March 2021, with a maximum period of deferral of loan liabilities until 31 December 2021, but not more than nine months.

Due to the uncertainty of the ongoing COVID-19 pandemic, and the risk of another future global pandemic occurring, the Government or the Central Bank may be required to reallocate funds from the State budget or other sources of funding to implement further measures and policies to support the country's economy.

Although the State of Emergency is no longer in effect and the extraordinary epidemic conditions and the health situation in Bulgaria, as well as globally, has begun to stabilise with the economic repercussions from measures implemented to curb the spread of COVID-19 diminishing, there can be no assurance that the support measures currently in place will be sufficient to support the economy or fast-track economic recovery, especially if new Waves of COVID-19 arise or if another global pandemic occurs. As such, funds from the State budget may need to be reallocated again to counter the negative effects on Bulgaria's economy. Each of these challenges in turn may have a negative effect on the financial condition of the Issuer.

An investment in an emerging market such as Bulgaria is subject to greater risks than an investment in a more developed country

Although progress has been made in reforming Bulgaria's economy and political and legal systems, the development of Bulgaria's legal infrastructure and regulatory framework is still ongoing. As a consequence, an investment in Bulgaria carries risks that are not typically associated with investing in more mature markets. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, an investment in Bulgaria is appropriate. Generally, investments in emerging markets, such as Bulgaria, are only suitable for sophisticated investors who can fully appreciate the significance and consequences of the risks involved.

In addition, international investors' reactions to events occurring in one country sometimes demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by international investors. Therefore, investment in Bulgaria's sovereign securities, as in any other comparable economy, could be adversely affected by negative economic or financial developments in other countries. There can be no assurance that conditions resulting from any crises similar to the global financial and economic crisis that started in 2008, the European sovereign debt crisis, recent political turmoil in Europe (including the war in Ukraine), the Middle East and Africa and/or the COVID-19 pandemic will not negatively affect the economic performance of, or investor confidence in, developing markets, including Bulgaria.

There can be no assurance that Bulgaria's credit rating will not change

The long-term foreign and domestic currency debt of Bulgaria is rated BBB by both S&P and Fitch and Baa1 by Moody's at the date of this Offering Circular. In November 2022, S&P re-affirmed its long-term foreign and domestic currency sovereign credit ratings on Bulgaria at BBB, and kept a stable outlook, saying that it believed Bulgaria's "low net general government debt and contained interest expenditures affords Bulgaria a policy buffer and leaves its public finances less susceptible to a swift increase in interest rates globally". In November 2022, Fitch affirmed Bulgaria's long-term foreign-currency rating at BBB with a positive outlook, noting that "Bulgaria's ratings are supported by its strong external and public

balance sheets versus 'BBB' peers and a credible policy framework, underpinned by EU membership and a long-standing currency board." Moody's most recent rating action in October 2020 rated Bulgaria "Baa1 stable". The next date for a possible rating review by Moody's is 3 February 2023. In December 2022, Moody's published credit opinion of Bulgaria stated that "Bulgaria's credit profile is supported by the country's very low government debt burden and solid debt affordability metrics. Bulgaria's credit challenges include an ageing population...weakness in the control of corruption ...and protracted political deadlock, hampering government effectiveness and reform progress." As of the date of this Offering Circular, the Programme is expected to be assigned a rating of Baa1 by Moody's France and BBB by Fitch. Materialisation of any of the risks discussed herein, may contribute to credit rating downgrades which could result in a sub-investment grade rating of the Notes. In turn, any adverse changes in an applicable credit rating could adversely affect the trading price for the Notes. In addition, a sub-investment grade rating could adversely affect Bulgaria's ability to refinance existing indebtedness, finance its deficit and could adversely affect its capacity to meet its obligations under the Notes.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Government's programme of diversification of sources and routes of supply for energy resources may be vulnerable to internal and external shocks

The diversification of sources and routes for supply of energy resources is a main priority of Bulgaria. The Government guarantees energy security as an element of the country's national security. In order to ensure its energy security, Bulgaria has implemented a number of key projects in the fields of natural gas, electricity and nuclear fuel, which are important not only to Bulgaria but also the surrounding region. A number of these projects, in particular in the gas sector, will be conducted through co-ventures between Bulgaria and its neighbouring countries or will require the cooperation of numerous trade partners. This may leave Bulgaria's programme for the diversification of sources and supplies for energy resources vulnerable to external shocks including as a result of the war in Ukraine and other geopolitical or macroeconomic issues of Bulgaria's main trading partners or neighbouring countries. See "*Bulgaria's economy remains vulnerable to economic shocks as a result of the war in Ukraine*".

Similarly, Bulgaria currently imports crude oil by sea from a number of countries, including Saudi Arabia, Iraq, Kazakhstan and Azerbaijan, however the majority of its crude oil is imported from Russia. Bulgaria's crude oil refinery, Neftochim Burgas, was designed to process Ural crude oil from Russia. In order to process other types of crude oil, the Neftochim Burgas refinery's processes and equipment will need to be adapted. As a result of this, following discussions between the Republic and the EU, on 3 June 2022 the EU has granted the Republic an exemption from the embargo on Russian crude oil imports by sea until the end of 2024 to allow time for refinery processes and logistics to be adapted to facilitate and process increased crude oil imports from countries other than Russia. In the meantime, the EU prohibited the maritime transport of Russian crude oil (as of 5 December 2022) and petroleum products (as of 5 February 2023) by service providers subject to the EU jurisdiction to third countries.

More recently, the oil price cap adopted by the EU and the Group of Seven nations and the responsive measures by Russia have the potential to further disrupt the supply of oil and oil products to Bulgaria. See "*Bulgaria's economy remains vulnerable to economic shocks as a result of the war in Ukraine*".

Any similar disruption to the energy supply of Bulgaria's trading partners could have an adverse impact on their respective economies and indirectly affect Bulgaria's proposed energy projects and policies. While the Government believes that the risk of dependence on one supplier is no longer an issue and despite the emphasis being placed on these proposed projects and new policies, said projects and policies remain vulnerable to internal and external shocks, including significant macroeconomic or political difficulties among its major trading partners or the surrounding region more generally.

Bulgaria's reliance on local coal as a primary energy source in the context of EU-level Green initiatives for the decarbonisation of the economy may pose challenges to the stability of the national electricity system as well as other regional and structural challenges

On 11 December 2019, the Commission launched the European Green Deal, with the goal of the EU becoming the first climate-neutral bloc by 2050, while simultaneously achieving a resource efficient and competitive economy. In 2020, the Commission proposed a revision of the European legislation to increase the EU's greenhouse gas emission reductions target for 2030 to at least 55 per cent below 1990 levels. The

proposals covered all areas of socio-economic life including, energy, transportation, agriculture, environment and biodiversity, industry and a number of related sectors. The EU's ambitious climate policy poses serious challenges and requires significant changes for the Member States. The climate policy will require joint efforts and shared responsibility amongst the Member States including targeted investment, regional and structural development, education, employment and social policy.

The Commission's Green Deal package will put pressure on Bulgaria's decarbonisation process in both the short-term and medium-term. Bulgaria will be among the EU Members States significantly affected by the decarbonisation of the economy. The country produced and processed approximately 8 per cent. of the EU's coal and represented approximately 7 per cent. of the jobs in the EU's coal sector in 2020, according to Eurostat structural business statistics.

The transformation of Bulgaria's energy sector, which currently relies on coal production and mining, will have material economic and social implications in Bulgaria and will require significant investments for building new power plants and facilities, as well as for capacity to re-industrialise the affected regions. Coal-fired power plants represented approximately 43.7 per cent. of the installed capacity of operating power plants in Bulgaria in 2022. Moreover, Bulgaria has traditionally been a net exporter of electricity with net exports in the range of 8-11 TWh per year for the period 2016 - 2021 (approximately 7.5 TWh in 2022) depending on demand. Electricity exports accounted for 28.4 per cent. of gross production in the 2016-2021 period, while net electricity exports represented 30.5 per cent. of production. The decarbonisation process will directly affect the Gross Value Added ("GVA") and employment in both the electricity production and coal mining sectors, which will lead to strong secondary effects in related sectors, particularly in regions that host these activities. New EU policies for transportation will also be a major challenge for Bulgaria, in particular the decarbonisation of road transport.

Bulgaria is already preparing the "Territorial Just Transition Plans" (the "**Territorial Plans**") under the "Just Transition Mechanism" of the EU, which will focus on those regions and sectors that are most affected by the decarbonisation transition given their dependence on fossil fuels, including coal, peat and oil shale or greenhouse gas-intensive industrial processes. Therefore, the Territorial Plans for the Eurostat's NUTS3 classified coal regions of Stara Zagora, Pernik and Kyustendil will provide an outline of the decarbonisation transition process up to 2030, consistent with the updated Bulgarian National Energy and Climate Plans and the targeted transition to a climate-neutral economy at the EU level by 2050. The Territorial Plans will serve as a strategic framework for a gradual industrial restructuring, aiming to support redundant coal workers, develop alternative business opportunities and maintain or increase regional employment and regional economic growth. In preparing the Territorial Plans the Ministry of Energy has also received technical support from the Commission under the Structural Reform Support Programme of the EU.

The Commission's Green Deal package has not been finalised and no assurance can be given that additional regulations and restrictions for certain industries and businesses will not be introduced in the future. While the Government supports the Commission's aim for climate neutrality at the EU level by 2050 and is working on a National Roadmap to Climate Neutrality for a decarbonisation transition, the impact of the Green Deal package and the subsequent decarbonisation transition process will have an adverse impact on the energy sector and the Bulgarian economy.

In the long-term, the Government may face difficulties to secure funding for the financial stability of social security and public healthcare which may have a negative effect on Bulgaria's economy

One of the challenges facing the Government is securing funding for public spending in social security and healthcare, which is estimated to have accounted for 45.6 per cent. of total Government expenditure and equate to 19.8 per cent. of GDP for 2022. The Government has already adopted fiscal measures to reduce costs and increase revenue streams for medium to long-term funding. However, with an ageing demographic that represents a large population of Bulgaria's workforce, maintaining such welfare services in Bulgaria may become increasingly burdensome on public resources and poses a serious risk to the sustainability of public pensions and healthcare services in the country. This risk has been, and may continue to be, exacerbated by the broadly shared public expectations towards continuing and preserving the temporary measures undertaken in response to COVID-19 pandemic. Although the wage subsidy scheme known as "60/40" was not extended beyond 30 June 2022, political and public pressure triggered changes in pension legislation which entered into force on 1 July 2022 and resulted in the lump-sum pension supplements (the "**COVID-19 supplements**") becoming a permanent part of the pension amount provided for both existing and newly granted pensions. See "*Bulgaria's economy remains vulnerable to both internal and external economic shocks as a result of the global COVID-19 pandemic*". The inclusion of

COVID-19 supplements (EUR 31) in the amount of the pension from 1 July 2022 led to an increase in pension expenditures for 2022 by 4.8 per cent. The COVID-19 supplements will amount to 0.44 per cent. as a share of GDP in 2022. For 2023, the COVID-19 supplements are estimated to amount to 0.84 per cent. of GDP and 7.6 per cent. of total pension expenditure. As a permanent part of the pension, the COVID-19 supplements will increase by the same percentage as normal pension payments, in July of each year. For newly granted pensions it is envisaged that the initially included amount will be EUR 41, regardless of the year of granting. Then it will increase with the rate of updating pensions, but its amount will lag behind the amounts of supplements that are included in pensions granted earlier. In the long-term, the share of the COVID-19 supplements is expected to gradually decrease to about 6.9 per cent. of total expenditure and about 0.74 per cent. of GDP in 2030.

The results from the latest long-term evaluation of the balance of the State Social Security Funds show that the system will remain in a deficit for the whole projection period until 2070. As of January 2022, a higher accrual rate was introduced not only for new pensions but also for already granted pensions. They were recalculated using the new value of the accrual rate (i.e., the rate at which the pension lump sum increases for each year of contributory service) of 1.35, which increased pension expenditure in 2022. In addition, a higher percentage of pension increase was applied in July 2022 and a one-time recalculation of pensions granted before 2022, using a new formula for the annual update which was implemented in October 2022, which additionally increased pension expenditure not only in 2022 but until 2099. In 2021, the transfer from the State budget to cover the shortage of funds amounted to 3.9 per cent. of GDP. In the coming years, the share of GDP relative to the transfer from the State budget to the State Social Security Fund is expected to increase, reaching 6.4 per cent. in 2025. Afterwards it is projected to decrease gradually to about 3.5 per cent. of GDP in the middle of the period between 2022-2070, followed by a slight increase to about 3.7 per cent. of GDP by 2070. The reasons for this expected decrease are complex and can be summarized in two groups: (i) the expected decline in the number of pensioners and the expected maintenance of the ratio between the number of pensioners and insured persons at relatively low levels, mainly due to demographic reasons and stricter conditions for acquiring the pension rights; and (ii) higher rate of growth of the average insurable income compared to the average pension due to the mechanism applied for the annual update of pensions as well as the reduction applied to the pension amount for persons born after 1959, who were insured in both Pillar I (mandatory pay-as-you-go pension insurance) and Pillar II (supplementary mandatory pension schemes that are capital based schemes with defined social security contributions) at the time of retirement. Therefore, the fiscal pressure on the state pension system is strongest at the beginning of the period as a result of the changes in the amounts of pensions adopted in 2021 and 2022 to improve their adequacy during challenging macroeconomic conditions. In the long-term, the effect of ageing and higher life expectancy is largely offset by lower first-pillar income replacement rates for those who were insured under both pillars.

To address the pressure placed on the sustainability of the public finances, Bulgaria must continue to implement a conservative fiscal policy not only with respect to budget balance, but also with regard to pension reforms (see "*Public Finance—Pension System*") and public healthcare expenditure. If the Government cannot successfully implement such policies, it could have an adverse effect on the funds available to fund social security and healthcare services in Bulgaria in the future, which in turn could have a negative effect on Bulgaria's economy and, as a result, have an adverse effect on Bulgaria's ability to repay principal and make payments of interest on the Notes.

The Bulgarian banking system remains vulnerable to disruption as a result of external factors influencing domestic macroeconomic developments

As of 31 December 2021, 72.0 per cent. of the total assets of the banking system in Bulgaria were foreign owned, and 28.0 per cent. of banks were domestically owned according to supervisory data from the Central Bank. Out of the 72.0 per cent. foreign owned assets, EU banks had a share of 71.8 per cent., of which 69.0 per cent. were subsidiaries of EU banks and 2.8 per cent. were branches of EU banks (see "*Monetary and Financial System – The Banking System*"). Of countries within the EU, the Bulgarian banking system is exposed to the banking systems of other countries, including Italy, Hungary, Belgium and Greece. Foreign banks may rebalance their global activities or global loan portfolio in a manner adversely affecting Bulgaria as a result of events related or unrelated to Bulgaria, including as a result of the Russia-Ukraine war, economic turbulence in the Euro-area and sovereign debt markets. In the event of unfavourable macroeconomic developments, foreign banks may be forced to re-evaluate their activities in a manner that adversely affects Bulgaria and poses a challenge to Bulgaria's banking sector. Bulgarian banks are mostly funded by residents' deposits, and foreign banks' subsidiaries in Bulgaria are not dependent on parent funding to sustain and grow their activities. The Bulgarian banks' capital position is solid and further

strengthened by the proactive macro-prudential policy and the accumulation of capital buffers. However, certain external factors and macroeconomic development may still have an adverse effect on the Bulgarian banking system.

External pressures may lead to a deterioration in confidence in the Bulgarian banking sector. A slowdown of global economic growth may challenge Bulgarian exporter's liquidity position which in turn may lead to companies being unable to make timely payments on their debts resulting in the deterioration of Bulgarian banks' credit portfolio quality and lower bank profitability. While significant risks relating to the COVID-19 pandemic have abated, the uncertainty surrounding the economic outlook has increased substantially with the outbreak of the Russia-Ukraine war. This is expected to have an adverse impact on economic activity and inflation in Bulgaria through higher energy and commodity prices, the disruption of international trade and weaker economic sentiment. Although direct exposures of the Bulgarian banking system to counterparties from Russia and Ukraine are limited (see "*Bulgaria's economy remains vulnerable to economic shocks as a result of the war in Ukraine*"), potential supply-chain disruptions may affect the real economy with the impact further amplified by input-output sectoral and cross-country interconnectedness. The deterioration in Bulgarian banks' portfolios could make them more susceptible to aggregate shocks, such as increases in their own cost of borrowing, which in turn may negatively affect the Bulgarian economy and, as a result, have an adverse effect on Bulgaria's ability to repay principal and make payments of interest on the Notes.

The Government and the Central Bank have implemented policies to address liquidity pressures in the past. However, there can be no assurance that such policies will continue to be successful or that the successful implementation of such policies will limit the risk of the liquidity pressures in the Bulgarian banking system in the future. As a result, there can be no assurance that the Bulgarian banking system will not be subject to liquidity pressures in the future, which may negatively affect the Bulgarian economy and, as a result, have an adverse effect on Bulgaria's ability to repay principal and make payments of interest on the Notes.

Although the level of non-performing loans ("NPLs") in the Bulgarian banking sector has decreased, it may increase again as a result of adverse economic developments, caused by external shocks

Observing a long-term improvement trend over the last five year period, gross NPLs as a share of gross loans and advances fell from 10.1 per cent. as of 31 December 2017 to 4.5 per cent. as of 31 December 2021 and 3.9 per cent. as of 30 September 2022. The share of net NPLs amounted to 2.4 per cent. of total net loans and advances and 1.9 per cent. of total assets as of 31 December 2021, compared to 3.1 per cent. of the total net loans and advances and 2.5 per cent. of total assets as of 31 December 2020. As of 30 September 2022 the net NPLs share in total net loans and advances amounted to 2.0 per cent., while the share of net NPLs in total assets was 1.6 per cent. Adverse economic developments, including those as a result of the Russia-Ukraine war, could affect borrowers' debt servicing capacity and result in an increase of credit risk. The magnitude of these effects is subject to significant uncertainty and, in respect of the Russia-Ukraine war, possible further sanctions on Russia. While the Central Bank believes that the banking system is in a good starting position to face unfavourable economic developments (owing to the Central Bank's long term policy toward building strong capital position), an increase in the share of non-performing loans in Bulgarian banks' portfolios could nevertheless negatively impact the Bulgarian banking system's profitability. Such developments may negatively affect the Bulgarian economy and, as a result, may have an adverse effect on Bulgaria's ability to repay principal and make payments of interest on the Notes.

Political instability in Bulgaria may have a negative impact on the economy and the implementation of the country's budget, programmes and policies

Bulgaria is a parliamentary republic with the legislative power of Bulgaria vested in the National Assembly, which is a unicameral parliament. The executive power of Bulgaria is vested in the Government, which is elected by the National Assembly. If the Government in power is dissolved prior to the scheduled elections and no agreement is reached in the National Assembly on the formation of a government, the President of Bulgaria (the "**President**") will appoint an interim (caretaker) Government to discharge the executive function until a subsequently elected National Assembly elects a regular Government.

Between May 1997 and May 2021, Bulgaria had ten regular and ex officio governments. In April 2021, parliamentary elections failed to establish a Government or coalition Government, the National Assembly was dissolved, and a caretaker Government was appointed by President Radev with a mandate to remain in place until further elections took place in July 2021. Despite this, the snap parliamentary elections in July 2021 failed to establish a Government or coalition Government and so a new caretaker Government was

appointed in September 2021. Further elections were held in November 2021 and resulted in a coalition Government comprising of four political parties. Kiril Petkov was elected as Prime Minister on 13 December 2021.

On 22 June 2022, a vote of no confidence succeeded against the Government of Kiril Petkov and as a result the Government (including the Prime Minister) resigned on 27 June 2022. Following their resignation, no new Government was formed in the weeks thereafter and as a result the National Assembly was dissolved with effect from 2 August 2022. On 2 August 2022, the President appointed a new caretaker Government, with Galab Donev as the Prime Minister, which is currently in power.

The President also scheduled new, early, parliamentary elections for 2 October 2022. Following the elections, the GERB-UDF electoral coalition won 67 seats in the National Assembly, ahead of the We Continue the Change party with 53 seats, Movement for Rights and Freedoms was third with 36 seats, Revival party with 27 seats, Bulgarian Socialist Party for Bulgaria with 25 seats (of which one member became subsequently independent), Democratic Bulgaria - Union with 20 seats, "Bulgarian Rise" - 12 seats. On 5 December 2022, the President handed the government mandate to the election's winner, GERB-UDF. Within the fixed limit of days, GERB-UDF proposed a Government that was put to vote at the National Assembly. The vote failed and, on 3 January 2023, the President mandated the second largest party, We Continue the Change, to form a Government. This mandate was unsuccessful as well. On 16 January 2023, the President provided the third mandate to the Bulgarian Socialist Party for Bulgaria. In case this third and final mandate to form a Government in the current National Assembly is not successful, the President will dissolve the National Assembly, appoint a new caretaker government and set the date for new early elections. During the period an outgoing National Assembly is dissolved and a newly elected National Assembly has not yet been convened, no legislative or other acts of parliament can be passed.

This, or any similar future, political instability could adversely affect the Bulgarian economy and the Bulgarian legislative process and in turn could have a material adverse effect on the approval or implementation of state budgets, national programmes (such as the National Recovery and Resilience Plan) and public policies.

Perceived or actual corruption or money laundering may have an adverse effect on Bulgaria's economy and reputation

Bulgaria is perceived as one of the EU member state that continue to have persistent problems with corruption and Bulgaria was ranked 78th among 180 countries by Germany-based organisation Transparency International in its 2021 survey. Since Bulgaria joined the European Union, combatting corruption and restoring confidence in the judicial system have been high on the domestic political agenda. The milestones of the reforms have been the adoption of amendments to the constitution of the Republic of Bulgaria in 2015 and the subsequent amendments to the Judiciary Act of 2016. Counteracting the high-level corruption is an area of high priority for the Government. In January 2018, the new Combating Corruption and Illegal Asset Forfeiture Act entered into force. This law codifies and improves the legal framework in the area of counteracting corruption. It consolidated the fragmented legislation and provided for the establishment of the Commission for Combating-Corruption and Illegal Assets Forfeiture. These efforts of the Government have been recognised both the Commission and by the Group of States against Corruption ("**GRECO**") of the Council of Europe, which monitors the compliance with the organisation's anti-corruption standards. See "*The Republic of Bulgaria –Political System –Legislature*".

The effectiveness of anti-corruption and anti-money laundering policies depends on their successful implementation and the active participation of representatives of the institutions, civil society and the non-governmental sector. Failure to identify obstacles or enact and implement on a sustainable ongoing basis appropriate legislative and organisational measures to increase the effectiveness of anti-corruption and anti-money laundering policies can have an adverse effect on Bulgaria's economy and reputation.

The tapering of the quantitative easing programs of the European Central Bank ("ECB") or other changes to EU funding could have a material adverse impact on Bulgaria's capital market and adversely affect Bulgaria's financial stability

The monetary policy of the ECB has substantial indirect effect on the Bulgarian capital market. The termination of the quantitative easing programs of the ECB has led to higher interest rates and a further tightening of ECB's monetary policy stance could have a material adverse impact on Bulgaria's capital markets and could lead to a gradual increase in the Government's borrowing costs, negatively impacting

Bulgaria's fiscal position. Bulgaria's ESA-based fiscal deficit was 3.8% of GDP in 2020 and 3.9% of GDP in 2021, and Bulgaria currently has high fiscal financing requirements.

In addition, Bulgaria is expected to receive EUR 10.8 billion financial allocation during the programming period 2021-2027 from the European Social Fund Plus ("ESF+"), the European Regional Development Fund ("ERDF"), the Just Transition Fund ("JTF") and the Cohesion Fund ("CF"). See "*The Republic of Bulgaria—Relationship with major Supranational Financial Institutions—European Union—Economic Relations with the EU*". Any deterioration in the relationship between Bulgaria and the European Commission, or any material reduction in EU funds to be disbursed to Bulgaria going forward, could have a material adverse impact on Bulgaria's budgetary and financial condition.

Risks relating to Notes

The terms and conditions of the Notes contain a "collective action" clause under which the terms of any one Series of Notes and/or multiple Series of Notes may be amended, modified or waived without the consent of the holders of all Notes

The Conditions contain provisions regarding amendments, modifications and waivers, commonly referred to as "collective action" clauses. Such clauses permit defined majorities to bind all Noteholders, including Noteholders who did not vote and Noteholders who voted in a manner contrary to the majority. The relevant provisions also permit, in relation to reserved matters, multiple Series of Notes to be aggregated for voting purposes (**provided that** each such Series also contains the collective action clauses in the terms and conditions of the relevant Notes).

The Issuer expects that all Series of Notes issued under the Programme will include such collective action clauses, thereby giving the Issuer the ability to request modifications or actions in respect of reserved matters across multiple Series of Notes. This means that a defined majority of the holders of such Series of Notes (when taken in the aggregate only, in some circumstances, and/or individually) would be able to bind all holders of Notes in all the relevant aggregated Series.

Any modification or actions relating to reserved matters, including in respect of payments and other important terms, may be made to a single Series of Notes with the consent of the holders of 75 per cent. of the aggregate nominal amount outstanding of such Notes, and to multiple Series of Notes with the consent of both (i) the holders of 66⅔ per cent. of the aggregate nominal amount outstanding of all Series of Notes being aggregated and (ii) the holders of 50 per cent. in aggregate nominal amount outstanding of each Series of Notes being aggregated. In addition, under certain circumstances, including the satisfaction of the Uniformly Applicable Condition in the Conditions, any such modification or action relating to reserved matters may be made to multiple Series of Notes with the consent of 75 per cent. of the aggregate nominal amount outstanding of all Series of Notes being aggregated only, without requiring a particular percentage of the holders in any individual affected Series of Notes to vote in favour of any proposed modification or action. Any modification or action proposed by the Issuer may, at the option of the Issuer, be made in respect of some Series of Notes only and, for the avoidance of doubt, the provisions may be used for different groups of two or more Series of Notes simultaneously. At the time of any proposed modification or action, the Issuer will be obliged, *inter alia*, to specify which method or methods of aggregation will be used by the Issuer.

There is a risk therefore that the terms and conditions of a Series of Notes may be amended, modified or waived in circumstances whereby the Noteholders voting in favour of an amendment, modification or waiver may be Noteholders of a different Series of Notes and as such, without a minimum percentage of the Noteholders of the relevant Series (such as the Notes) having voted in favour of such amendment, modification or waiver. In addition, there is a risk that the provisions allowing for aggregation across multiple Series of Notes may make the Notes less attractive to purchasers in the secondary market on the occurrence of an Event of Default or in a distress situation. Further, any such amendment, modification or waiver in relation to any Notes may adversely affect their trading price.

In the future, the Issuer may issue debt securities, including securities that may not be issued under the Programme, which contain collective action clauses in the same form as the collective action clauses in the Conditions. If this occurs, then this could mean that any Series of Notes issued under the Programme would be capable of aggregation with any such future debt securities.

The terms and conditions of the Notes restrict the ability of an individual holder to declare an Event of Default, and permit a majority of holders to rescind a declaration of such a default

The Notes contain a provision which, if an Event of Default occurs, allows the holders of at least 25 per cent., in aggregate nominal amount of the outstanding Notes to declare all the Notes to be immediately due and payable by providing notice in writing to the Republic, whereupon the Notes shall become immediately due and payable, at their nominal amount with accrued interest, without further action or formality.

The Conditions also contain a provision permitting the holders of at least 50 per cent., in aggregate nominal amount of the outstanding Notes to notify the Republic to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn. The Republic shall give notice thereof to the Noteholders, whereupon the relevant declaration shall be withdrawn and shall have no further effect.

The Issuer is not required to effect equal or rateable payment(s) with respect to its other debt obligations pursuant to the terms and conditions of the Notes, and is not required to pay other debt obligations at the same time or as a condition of paying sums on the Notes and vice versa

The Notes will at all times rank at least *pari passu* with all other unsecured and unsubordinated obligations of the Republic. However, the Issuer will have no obligation to effect equal or rateable payment(s) at any time with respect to any other unsubordinated and unsecured obligations of the Republic and, in particular, will have no obligation to make payments under the Notes at the same time or as a condition of paying sums due under other unsecured and unsubordinated obligations of the Issuer. Accordingly, the Issuer may choose to grant preferential treatment to, and therefore prioritise payment obligations to, other unsecured and unsubordinated creditors of the Republic as payments fall due.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to optional redemption by the Republic

An optional redemption feature of Notes is likely to limit their market value. During any period when the Republic may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Republic may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Partly Paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Republic has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Republic may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Republic converts

from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than the prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Republic converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than the prevailing rates on its Notes.

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (a) the market price of such Notes may be volatile;
- (b) they may receive no interest;
- (c) payment of principal or interest may occur at a different time or in a different currency than expected;
- (d) they may lose all or a substantial portion of their principal;
- (e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (f) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and
- (g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

A potential investor should not invest in the Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The regulation and reform of benchmarks may adversely affect the value of Floating Rate Notes which reference such benchmarks

Reference rates and indices, including interest rate benchmarks used to determine the amounts payable under financial instruments or the value of such financial instruments (including EURIBOR) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, or to disappear entirely and may have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes referencing such a benchmark.

Regulation (EU) 2016/1011 (the "**Benchmark Regulation**") applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU (which, for these purposes, includes the United Kingdom).

The Benchmark Regulation could have a material impact on any Notes linked to or referencing a benchmark, in particular if the methodology or other terms of the benchmark are changed in order to comply with the requirements of the Benchmark Regulation. Such changes could, among other things, have the

effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant benchmark.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements.

Use of the certain benchmarks are being fully phased out and it is not possible to predict with certainty whether, and to what extent, EURIBOR and/or other benchmarks will continue to be supported going forwards. This may cause EURIBOR and/or other benchmarks to perform differently than they have done in the past and may have other consequences which cannot be predicted. The potential transition away from or the elimination of EURIBOR or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions of the Notes, or result in other consequences, in respect of any Notes referencing such benchmark. Such factors may have (without limitation) the following effects on certain benchmarks: (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark; and/or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to, referencing, or otherwise dependent (in whole or in part) upon, a benchmark. Investors should be aware that, if a benchmark rate were discontinued or otherwise unavailable, the rate of interest on Floating Rate Notes which reference such benchmark rate will be determined by the fallback provisions applicable to such Notes. In certain circumstances, the ultimate fallback of interest for a particular Interest Accrual Period may result in the rate of interest for the last preceding Interest Accrual Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page.

Any such consequences could have a material adverse effect on the value of and return on any such Notes. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant rate could affect the ability of the Issuer to meet its obligations under the Floating Rate Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Notes.

Investors should consider all of these matters when making their investment decision with respect to the relevant Floating Rate Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Circular;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Set out below is a brief description of certain risks relating to the Notes generally:

Tax consequences of holding the Notes

Any potential investor should consult its own independent tax adviser for more information about the tax consequences of acquiring, owning and disposing of Notes in its particular circumstances. The application and enforcement of the Bulgarian capital gains tax regime is less advantageous to Noteholders who are individuals (i.e. "**non-corporate entities**") who are not Bulgarian tax resident and are established for tax purposes outside of an EU Member State and outside the European Economic Area. As further discussed in the section headed "*Taxation*" below, potential investors should note that capital gains realised from the sale or exchange of Notes, including on a Regulated Market, by such individuals may be subject to a one-time tax in Bulgaria at the rate of 10 per cent., levied on the positive difference between the sale price and the documented acquisition price of the Notes (unless double tax treaty relief applies). See section headed "*Taxation*" below.

Bearer Notes generally may not be offered or sold in the United States or to U.S. persons. Unless an exemption applies, a U.S. person holding a Bearer Note or Coupon will not be entitled to deduct any loss on the Bearer Note or Coupon and must treat as ordinary income any gain realised on the sale or other disposition (including the receipt of principal) of the Bearer Note or Coupon.

See the section headed "*Taxation*" below for a general description of certain Bulgarian and EU tax considerations relating to the Notes.

The issuance of additional Notes that are not fungible with outstanding Notes for U.S. federal income tax purposes could impact the trading price of the original Notes.

The Issuer may from time to time without the consent of the Noteholders or Couponholders issue additional Notes having the same terms and conditions as an outstanding series of Notes. See "*Terms and Conditions of the Notes – Further Issues*." These additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may not be fungible with the outstanding Notes of the same series for U.S. federal income tax purposes (irrespective of their fungibility for general corporate and other purposes). In such a case, the additional Notes may be considered to have been issued with original issue discount ("**OID**") for U.S. federal income tax purposes, even if the original Notes had no OID, or the additional Notes may have a greater amount of OID than the outstanding Notes. These differences may affect the market value of the original Notes if the additional Notes are not otherwise distinguishable from the original Notes.

The law governing the Conditions of the Notes may change

The Conditions are based on English law in effect as of the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular.

Notes where denominations involve integral multiples

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a nominal amount of Notes such that its holding amounts to a Specified Denomination.

If Definitive Notes are issued, holders should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Reliance on DTC, Euroclear and Clearstream, Luxembourg procedures

Notes issued under the Programme will be represented on issue by one or more Global Notes or Global Certificates that may be deposited with a Common Depository for Euroclear and Clearstream, Luxembourg or may be deposited with a nominee for DTC. Except in the circumstances described in each Global Note and/or Global Certificate, investors will not be entitled to receive Notes in definitive form. Each of DTC, Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note or Global Certificate held through it. While the Notes are represented by a Global Note or Global Certificate, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes or Global Certificates, the Republic will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Republic has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note or Global Certificate.

Holders of beneficial interests in a Global Note or Global Certificate will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Transferability of the Notes may be limited under applicable securities laws

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or any other jurisdiction. Notes issued under the Programme may not be offered, sold or otherwise transferred in the United States or to, or for the account or benefit of, a U.S. person other than to persons that are QIBs. Each purchaser of Notes will be deemed, by its acceptance of such Notes, to have made certain representations and agreements intended by the Issuer to restrict transfers of Notes as described under "*Subscription and Sale*" and "*Transfer Restrictions*". It is the obligation of each purchaser of Notes to ensure that its offers and sales of Notes comply with all applicable securities laws.

In addition, if at any time the Issuer determines that any owner of Notes, or any account on behalf of which an owner of Notes purchased its Notes, is a person that is required to be a QIB, the Issuer may compel that such owner's Notes be sold or transferred to a person designated by or acceptable to the Issuer.

Enforcement of Liabilities

Bulgaria is a sovereign state. Consequently, it may be difficult for investors to obtain judgments of courts in countries outside Bulgaria (including English courts) against the Republic.

Following the United Kingdom's withdrawal from the EU and after the end of the transition period on 31 December 2020, the only treaty providing for reciprocal recognition and enforcement of judgments rendered in connection with civil and commercial disputes between the United Kingdom and the Republic of Bulgaria is the Hague Convention of 30 June 2005 on Choice of Court Agreements (the "**Hague Convention**"). Pursuant to the provisions of the Hague Convention, a judgment entered against the Republic in the courts of the United Kingdom and which is enforceable in the United Kingdom will be recognised and enforceable in the Republic without a retrial of its merits, following the exequatur procedure under the Bulgarian Private International Law Code and upon the satisfaction of certain requirements, one of which is that the relevant judgment relates to an agreement which includes an exclusive choice of court provision (as described in the Hague Convention). As such, a judgment entered against the Republic based on an asymmetric jurisdiction clause (i.e. a jurisdiction clause which is non-exclusive), as is the case in relation to the terms and conditions of the Notes, is likely to fall outside of the application of the Hague Convention.

English court judgments are generally enforceable in Bulgaria, but require a recognition and enforcement permission (exequatur), which is issued, by the competent court in the Republic (currently, the Sofia City Court) in accordance with Bulgaria's Private International Law Code. This applies regardless of whether the English court judgment falls within or outside of the scope of the Hague Convention. An exequatur may be issued, without rehearing the merits of the case, on the basis of an exequatur application made by the party seeking enforcement of a foreign judgment accompanied by an official copy of the judgment and an

official certificate certifying that such judgment is final, each of which are expected to be issued by the English courts.

Permission (exequatur) may be refused by a competent Bulgarian court on the exclusive list of grounds provided in the Hague Convention for English court judgments entered against the Republic based on an exclusive jurisdiction clause. In respect of English court judgments entered against the Republic based on an asymmetric jurisdiction clause, exequatur may be refused on the exclusive list of grounds provided in Bulgaria's Private International Law Code, including but not limited to cases where: the judgment (in respect of which exequatur is being sought) was given in default of appearance; the judgment was given in breach of the rights of defence; the judgment is irreconcilable with a Bulgarian judgment resolving the same dispute between the same parties; the recognition/enforcement of such judgment is manifestly contrary to the Bulgarian public policy.

The exequatur procedure under the Private International Law Code is more burdensome compared with the simplified enforcement procedure under the Regulation (EU) No 1215/2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (recast) (the "**Brussels I Regulation (recast)**"), as it unfolds in adversarial court proceedings between the parties to the original dispute, the result of which may be appealed before up to two instances by the defeated party.

Therefore, as the Notes are governed by English law and are subject to the jurisdiction of the English courts, no assurance can be given of the success of the exequatur procedure in Bulgaria in any given case.

The procedure for the enforcement of foreign judgments (when they become enforceable in line with the aforementioned rules of Bulgaria's Private International Law Code and, where applicable, the Hague Convention) shall be governed by the provisions of Bulgaria's Civil Procedure Code. It is notable that enforcement against the Republic will be carried out in accordance with procedures which differ from the enforcement procedures applicable to other defendants (for example, the attachment of, or forcible liquidation of assets of, the Republic located in Bulgaria is not permitted).

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

There may be no active trading market for the Notes

Although an application has been made to list on the Official List of the Luxembourg Stock Exchange and to trade the Notes on the Luxembourg Stock Exchange's regulated market, there is no assurance that such application will be accepted or that an active trading market for the Notes will develop or, if one does develop, that it will be liquid or maintained. If an active trading market in the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

In addition, if the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Republic. As a result of the above factors, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Exchange rate risks and exchange controls

The Republic will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by its assigning rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings (1) are issued by a credit rating agency established in the EEA and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), (2) provided by a credit rating agency not established in the EEA but endorsed by a credit rating agency established in the EEA and registered under the CRA Regulation or (3) provided by a credit rating agency not established in the EEA which is certified under the CRA Regulation. Similarly, in general, UK regulated investors are restricted from using a rating for regulatory purposes if such rating is not (1) issued by a credit rating agency established in the UK and registered under the UK CRA Regulation or (2) provided by a credit rating agency not established in the UK but is endorsed by a credit rating agency established in the UK and registered under the UK CRA Regulation or (3) provided by a credit rating agency not established in the UK which is certified under the UK CRA Regulation.

USE OF PROCEEDS

The net proceeds from Notes to be issued under the Programme may be used for general budgetary purposes, the refinancing of existing state debt and/or to increase the fiscal reserves of the Republic. If there are specific known uses of proceeds, these will be set out in the relevant Pricing Supplement relating to such Notes.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and as supplemented in accordance with the provisions of Part A of the relevant Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for global note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Pricing Supplement or (ii) these terms and conditions as so completed or supplemented, shall be endorsed on such Bearer Notes or on such Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Pricing Supplement. References in the Conditions to "Notes" are, unless the context requires, to the Notes of one Series only, not to all Notes that may be issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under the section of the Offering Circular headed "Summary of Provisions Relating to the Notes while in Global Form".

The Notes are issued pursuant to a fiscal agency agreement (as amended or supplemented as at the Issue Date, the "**Agency Agreement**") dated 6 February 2015 between the Republic of Bulgaria (the "**Issuer**"), Citibank N.A., London Branch as fiscal agent and the other agents named in it and with the benefit of a Deed of Covenant (as amended or supplemented as at the Issue Date, the "**Deed of Covenant**") dated 6 February 2015 executed by the Issuer in relation to the Notes. The fiscal agent, the paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Fiscal Agent**", the "**Paying Agents**" (which expression shall include the Fiscal Agent), the "**Registrar**", the "**Transfer Agents**" and the "**Calculation Agent(s)**". The Noteholders (as defined below), the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") relating to Notes in bearer form of which the principal is payable in instalments are deemed to have notice of all of the provisions of the Agency Agreement applicable to them.

As used in these terms and conditions (the "**Conditions**"), "**Tranche**" means Notes which are identical in all respects. Each Tranche is the subject of a pricing supplement (each, a "**Pricing Supplement**") which supplements and/or completes these Conditions.

Copies of the Agency Agreement and the Deed of Covenant are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents.

1. **Form, Denomination and Title**

The Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") in each case in the Specified Denomination(s) shown hereon.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Each Bearer Note is serially numbered and is issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust

or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) (as the case may be), "**holder**" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2. **No Exchange of Notes and Transfers of Registered Notes**

- (a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.
- (b) **Transfer of Registered Notes:** Subject to Condition 2(f), one or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor; **provided, however, that** part of a Registered Note may not be transferred unless the nominal amount of the part transferred, and the nominal amount of the balance not transferred, are Specified Denominations. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Fiscal Agent (such approval not to be unreasonably withheld or delayed). A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.
- (c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.
- (d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(b) or (c) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(d)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may

specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday or Sunday, on which commercial banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

- (e) **Transfer Free of Charge:** Transfers of Notes and Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to such transfer (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).
- (f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(c), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Payment Record Date (as defined in Condition 7(b)).
- (g) **Forced Transfer:** If at any time the Issuer determines that any beneficial owner of Notes, or any account for which such owner purchased Notes, who is required to be a qualified institutional buyer ("**QIB**") as defined in Rule 144A under the United States Securities Act of 1933 (the "**Securities Act**") is not a QIB, the Issuer may (i) compel such beneficial owner to sell its Notes to a person who is (A) a U.S. person who is a QIB and that is, in each case, otherwise qualified to purchase such Notes in a transaction exempt from registration under the Securities Act or (B) not a U.S. person within the meaning of Regulation S under the Securities Act or (ii) compel the beneficial owner to sell such Notes to the Issuer or an affiliate thereof at a price equal to the lesser of (x) the purchase price paid by the beneficial owner for such Notes, (y) 100 per cent. of the nominal amount thereof and (z) the fair market value thereof. The Issuer has the right to refuse to honour the transfer of interests in a Restricted Global Certificate or any Restricted Note (each as defined in the Agency Agreement) to a U.S. person who is not a QIB.

3. **Status**

The Notes, the Receipts and the Coupons relating to them constitute direct, general, unconditional and (subject to Condition 4), unsecured and unsubordinated obligations of the Issuer and the full faith and credit of the Issuer is pledged for the due and punctual payment of principal of, and interest on, the Notes and for the performance of all other obligations of the Issuer pursuant to the Notes, Receipts and Coupons. The Notes, the Receipts and the Coupons relating to them shall at all times rank *pari passu* without any preference among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are of mandatory application at the date on which agreement is reached to issue the first Tranche of Notes. This Condition 3 does not require the Issuer to effect equal or rateable payment(s) at any time with respect to any such other unsecured and unsubordinated obligations of the Issuer and, in particular, the Issuer shall have no obligation to pay other unsecured and unsubordinated obligations at the same time or as a condition of paying sums due under the Notes, Receipts and/or Coupons, and vice versa.

4. **Negative Pledge**

So long as any Note or Coupon remains outstanding (as defined in the Agency Agreement), the Issuer will not grant or permit to be outstanding, and will procure that there is not granted or permitted to be outstanding, any mortgage, charge, lien, pledge or other security interest, over any of its present or future assets or revenues or any part thereof, to secure any Public External Indebtedness (as defined below) or any Guarantee (as defined below) thereof unless the Issuer shall, in the case of the granting of the security, before or at the same time, and in any other case, promptly, procure that all amounts payable in respect of the Notes and the Coupons are secured equally and rateably, or such other security or other arrangement is provided as shall be approved by an Extraordinary Resolution (as defined in Condition 11) of the Noteholders.

In these Conditions:

"**Guarantee**" means any guarantee of or indemnity in respect of indebtedness or other like obligation; and

"**Public External Indebtedness**" means any present or future indebtedness (a) in the form of, or represented by, notes, bonds or other similar instruments which are for the time being, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over the counter or other securities market and (b) which is not either (i) denominated in Bulgarian lev, (ii) admitted to trading on a market of the Bulgarian Stock Exchange, (iii) registered with the Central Depository AD of the Republic of Bulgaria, (iv) expressed to be governed by the laws of the Republic of Bulgaria or (v) placed or sold in the Republic of Bulgaria. For the purposes of this Condition, an issue is "placed or sold in the Republic of Bulgaria" if more than 50 per cent. of its aggregate nominal amount is initially placed or sold in the Republic of Bulgaria.

5. **Interest and other Calculations**

- (a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrears on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).
- (b) **Interest on Floating Rate Notes and Index Linked Interest Notes:**
- (i) *Interest Payment Dates:* Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrears on each Interest Payment Date, subject to the provisions of Condition 7. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.
- (ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day, (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day or (E) No Adjustment, such date shall not be adjusted in accordance with any Business Day Convention.

(iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to any one or more of ISDA Determination or Screen Rate Determination or Linear Interpolation shall apply, depending upon which is specified hereon.

(A) *ISDA Determination for Floating Rate Notes:*

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon;
- (y) the Designated Maturity is a period specified hereon; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) *Screen Rate Determination for Floating Rate Notes:*

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

- (y) if the Relevant Screen Page is not available or, if sub-paragraph (x)(1) applies and no such offered quotation appears on the Relevant Screen Page, or, if sub-paragraph

(x)(2) applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, **provided that**, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or

Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) *Linear Interpolation:*

Where Linear Interpolation is specified hereon as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified hereon as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified hereon as applicable), one of which shall be determined as if the Applicable Maturity (as defined below) were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period **provided however that** if there is no rate available for the period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Accrual Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

"**Applicable Maturity**" means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

(iv) *Rate of Interest for Index Linked Interest Notes:* The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.

(c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) **Dual Currency Notes:** In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.

(e) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.

(f) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding:**

(i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with (b) above by adding (if

a positive number) or subtracting the absolute value (if a negative number) of such Margin subject always to the next paragraph

- (ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be
 - (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 of a percentage point being rounded up), (y) all figures shall be rounded to seven significant figures (**provided that** if the eighth significant figure is a 5 or greater, the seventh significant shall be rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country or countries, as the case may be, of such currency.
- (h) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.
- (i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts:** The Calculation Agent shall, as soon as practicable on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount,

the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

- (j) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"Business Day" means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a **"TARGET Business Day"**); and/or
- (iii) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres

"Day Count Fraction" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the **"Calculation Period"**):

- (i) if **"Actual/Actual"** or **"Actual/Actual - ISDA"** is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)
- (ii) if **"Actual/365 (Fixed)"** is specified hereon, the actual number of days in the Calculation Period divided by 365
- (iii) if **"Actual/365 (Sterling)"** is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366
- (iv) if **"Actual/360"** is specified hereon, the actual number of days in the Calculation Period divided by 360
- (v) if **"30/360"**, **"360/360"** or **"Bond Basis"** is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D₁" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30

- (vi) if "**30E/360**" or "**Eurobond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D₁" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30

- (vii) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M₁" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M₂" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D₁" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30

- (viii) if "**Actual/Actual-ICMA**" is specified hereon,
- (A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
 - (B) if the Calculation Period is longer than one Determination Period, the sum of:
 - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

"Determination Period" means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

"Determination Date" means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s)

"Euro-zone" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended

"EURIBOR" means, in respect of any specified currency and any specified period, the interest rate benchmark known as the Euro Interbank Offered Rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of the European Banking Federation (or any other person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks

"Interest Accrual Period" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Period Date and each successive period beginning on and including an Interest Period Date and ending on but excluding the next succeeding Interest Period Date

"Interest Amount" means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and
- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period

"Interest Commencement Date" means the Issue Date or such other date as may be specified hereon

"Interest Determination Date" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro

"Interest Period" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date unless otherwise specified hereon

"Interest Period Date" means each Interest Payment Date unless otherwise specified hereon

"ISDA Definitions" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon

"LIBOR" means in respect of any specified currency and any specified period, the interest rate benchmark known as the London Interbank Offered Rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks

"Rate of Interest" means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon

"Reference Banks" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified hereon

"Reference Rate" means the rate specified as such hereon

"Relevant Screen Page" means such page, section, caption, column or other part of a particular information service as may be specified hereon (or any successor or replacement page, section, caption, column or other part of a particular information service)

"Specified Currency" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated; and

"TARGET System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

- (k) **Calculation Agent:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation

Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6. **Redemption, Purchase and Options**

(a) **Redemption by Instalments and Final Redemption:**

- (i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.
- (ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) **Early Redemption:**

(i) *Zero Coupon Notes:*

- (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or Condition 6(d) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.
- (B) Subject to the provisions of sub paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
- (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or Condition 6(d) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

- (ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in paragraph (i) above), upon redemption of such Note pursuant to Condition 6(c) or Condition 6(d) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.
- (c) **Redemption at the Option of the Issuer:** If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem, all or, if so provided, some, of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

- (d) **Redemption at the Option of Noteholders:** If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

- (e) **Partly Paid Notes:** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.
- (f) **Purchases:** Without prejudice to Condition 11(i), the Issuer and its Agencies (as defined below) may at any time purchase Notes (**provided that** all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. Any Notes so purchased, while held by or on behalf of the Issuer or any Agency, shall not entitle the holder to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purposes of meetings of Noteholders or for the purposes of any Written Resolution (as defined in Condition 11), all as more particularly set out in Condition 11(i). Notes so purchased may be held or resold (**provided that** such resale is outside the United States as defined in

Regulation S under the Securities Act, or, in the case of any Notes resold pursuant to Rule 144A under that Act is only made in accordance with that Rule and otherwise in compliance with all applicable laws) or surrendered for cancellation, at the option of the Issuer.

In these Conditions:

"**Agency**" or "**Agencies**" means the Ministry of Finance of the Republic of Bulgaria, the Bulgarian National Bank, any other political sub-division, regional government, ministry, department, central or local authority or statutory corporation of the Republic of Bulgaria or the Government (whether or not such statutory corporation is autonomous), and any corporation, trust, financial institution or other entity owned or controlled by the Republic of Bulgaria or the Government or one or more Agencies; and

"**Control**" has the meaning given to it in Condition 12(i).

- (g) **Cancellation:** All Notes purchased by or on behalf of the Issuer or any of its Agencies may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Note(s) to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and all unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7. **Payments and Talons**

- (a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender or, in the case of part payment only, endorsement of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and **provided that** the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(vi)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. For these purposes, a "**Bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.
- (b) **Registered Notes:**
- (i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
- (ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Payment Record Date**"). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first-named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Payment Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

- (c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.
- (d) **Payments Subject to laws:** All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) **Appointment of Agents:** The Fiscal Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the Paying Agents, the Registrar, Transfer Agents and the Calculation Agent(s) act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, **provided that** the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions and/or applicable Pricing Supplement so require, (v) Paying Agents having specified offices in at least two major European cities, (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed and (vii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC (as amended from time to time) or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

- (f) **Unmatured Coupons and Receipts and unexchanged Talons:**
- (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index Linked Notes), those Notes should be surrendered for payment together with all unexpired Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unexpired Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unexpired Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).
- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unexpired Coupons relating to

such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
 - (iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
 - (v) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
 - (vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.
- (g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).
- (h) **Non-Business Days:** If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7(h), "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" hereon and:
- (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
 - (ii) (in the case of a payment in euro) which is a TARGET Business Day.

8. **Taxation**

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Bulgaria or any political subdivision of it, or any authority therein or thereof having power to tax, unless such withholding or deduction of Taxes is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to such Taxes in respect of such Note, Receipt or Coupon by reason of its having some connection with the Republic of Bulgaria other than the mere holding of the Note, Receipt or Coupon or
- (b) **Presentation more than 30 days after the Relevant Date:** surrendered (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrendering it for payment on the thirtieth such day or
- (c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC (as amended from time to time) or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive or
- (d) **Payment by another Paying Agent:** (except in the case of Registered Notes) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a European Union member state.

As used in these Conditions, "**Relevant Date**" in respect of any Note, Receipt or Coupon means whichever is the later of (1) the date on which payment in respect of it first becomes due and (2) (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with the Conditions, such payment will be made, **provided that** payment is in fact made upon such presentation. References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under this Condition.

9. **Prescription**

Claims against the Issuer for payment in respect of the Notes, Receipts and Coupons (which for this purpose shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10. **Events of Default**

If any of the following events (each, an "**Event of Default**") occurs and is continuing:

- (a) **Non-Payment:** (i) any default is made in the payment of any interest due in respect of the Notes (or any Coupon) or any of them when due and the default continues for a period of 15 days or (ii) any default is made in the payment of principal (or any premium) in respect of the Notes or any of them when due and the default continues for a period of seven days; or
- (b) **Breach of Other Obligations:** the Issuer fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days after written notice thereof, addressed to the Issuer by any Noteholder, has been delivered to the Issuer or to the Fiscal Agent requiring the same to be remedied; or

- (c) **Cross-Default:**
- (i) the holders of any Public External Indebtedness (as defined in Condition 4) of the Issuer accelerate such Public External Indebtedness or declare such Public External Indebtedness to be due and payable, or required to be prepaid (other than by a regularly scheduled required payment), prior to the stated maturity thereof; or
 - (ii) the Issuer fails to pay in full any principal of, or interest on, any Public External Indebtedness when due (after expiration of any applicable grace period) or any Guarantee (as defined in Condition 4) thereof given by the Issuer shall not be honoured when due and called upon (after the expiration of any applicable grace period),

provided that, the aggregate amount of the relevant Public External Indebtedness or Guarantee in respect of which one or more of the events mentioned above in this Condition 10(c) shall have occurred equals or exceeds Euro 100,000,000 or its equivalent in any other currency or currencies, as the case may be; or

- (d) **Unenforceability:** for any reason whatsoever, any of the Issuer's obligations under the Notes are declared by a court of competent jurisdiction pursuant to a final non-appealable decision to be no longer binding or no longer enforceable against the Issuer or as a result of a judgment or any other act of the Constitutional Court of the Republic of Bulgaria or for any other reason whatsoever any such obligation ceases to be in full force and effect; or
- (e) **Validity:** the Republic of Bulgaria, or any of its political sub-divisions, authorised Agencies (as defined in Condition 6(f)) or officials (on its behalf) repudiates or contests the validity of any Notes, Receipts, Coupons or Talons,

then the holders of at least 25 per cent. in aggregate nominal amount of the outstanding Notes may by notice in writing to the Issuer (with a copy to the Fiscal Agent) declare all the Notes to be immediately due and payable, whereupon the Notes shall become immediately due and payable at their Early Redemption Amount together (if applicable) with any accrued interest to the date of payment without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer.

If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate nominal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent), whereupon the relevant declaration shall be withdrawn and shall have no further effect, but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

11. Meeting of Noteholders; Written Resolutions

- (a) **Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions:**
- (i) The Issuer may convene a meeting of the Noteholders at any time in respect of the Notes in accordance with the provisions of the Agency Agreement. The Issuer will determine the time and place of the meeting and will notify the Noteholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.
 - (ii) The Issuer or the Fiscal Agent will convene a meeting of Noteholders if the holders of at least 10 per cent. in nominal amount of the outstanding Notes (as defined in the Agency Agreement and described in Condition 11(i)) have

delivered a written request to the Issuer or the Fiscal Agent (with a copy to the Issuer) setting out the purpose of the meeting. The Fiscal Agent will agree the time and place of the meeting with the Issuer promptly. The Issuer or the Fiscal Agent, as the case may be, will notify the Noteholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.

- (iii) The Issuer (with the agreement of the Fiscal Agent) will set the procedures governing the conduct of any meeting in accordance with the Agency Agreement. If the Agency Agreement does not include such procedures, or additional procedures are required, the Issuer and the Fiscal Agent will agree such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Issuer proposes any modification to the terms and conditions of, or action with respect to, two or more series of debt securities issued by it.
- (iv) The notice convening any meeting will specify, *inter alia*:
 - (A) the date, time and location of the meeting;
 - (B) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;
 - (C) the record date for the meeting, which shall be no more than five business days before the date of the meeting;
 - (D) the documentation required to be produced by a Noteholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Noteholder's behalf at the meeting;
 - (E) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Notes are traded and/or held by Noteholders;
 - (F) whether Condition 11(b), Condition 11(c), or Condition 11(d) shall apply and, if relevant, in relation to which other series of debt securities it applies;
 - (G) if the proposed modification or action relates to two or more series of debt securities issued by it and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;
 - (H) such information that is required to be provided by the Issuer in accordance with Condition 11(f);
 - (I) the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 11(g); and
 - (J) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.
- (v) In addition, the Agency Agreement contains provisions relating to Written Resolutions. All information to be provided pursuant to this Condition 11(a) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.

- (vi) A "**record date**" in relation to any proposed modification or action means the date fixed by the Issuer for determining the Noteholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.
 - (vii) An "**Extraordinary Resolution**" means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.
 - (viii) A "**Written Resolution**" means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.
 - (ix) Any reference to "**debt securities**" means any notes (including the Notes), bonds, debentures or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year.
 - (x) "**Debt Securities Capable of Aggregation**" means those debt securities which include or incorporate by reference this Condition 11 and Condition 12 or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities.
- (b) **Modification of this Series of Notes only:**
- (i) Any modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Notes may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.
 - (ii) A "**Single Series Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 11(a) by a majority of:
 - (A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate nominal amount of the outstanding Notes; or
 - (B) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate nominal amount of the outstanding Notes.
 - (iii) A "**Single Series Written Resolution**" means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:
 - (A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate nominal amount of the outstanding Notes; or
 - (B) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate nominal amount of the outstanding Notes.

Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders.
 - (iv) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Noteholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be, and on all Couponholders.

- (c) **Multiple Series Aggregation – Single limb voting:**
- (i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, **provided that** the Uniformly Applicable condition is satisfied.
 - (ii) A "**Multiple Series Single Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 11(a), as supplemented if necessary, which is passed by a majority of at least 75 per cent. of the aggregate nominal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).
 - (iii) A "**Multiple Series Single Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75 per cent. of the aggregate nominal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.
 - (iv) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be, and on all Couponholders and couponholders of each other affected series of Debt Securities Capable of Aggregation.
 - (v) The "**Uniformly Applicable**" condition will be satisfied if:
 - (A) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (1) the same new instrument or other consideration or (2) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or
 - (B) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to different currency of issuance).
 - (vi) Any modification or action proposed under paragraph (i) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 11(c) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

- (d) **Multiple Series Aggregation – Two limb voting:**
- (i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.
 - (ii) A "**Multiple Series Two Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 11(a), as supplemented if necessary, which is passed by a majority of:
 - (A) at least 66⅔ per cent. of the aggregate nominal amount of the outstanding debt securities of affected series of Debt Securities Capable of Aggregation (taken in aggregate); and
 - (B) more than 50 per cent. of the aggregate nominal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).
 - (iii) A "**Multiple Series Two Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:
 - (A) at least 66⅔ per cent. of the aggregate nominal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and
 - (B) more than 50 per cent. of the aggregate nominal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.
 - (iv) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be, and on all Couponholders and couponholders of each other affected series of Debt Securities Capable of Aggregation.
 - (v) Any modification or action proposed under paragraph (i) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 11(d) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(e) **Reserved Matters:**

In these Conditions, "**Reserved Matter**" means any proposal:

- (i) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;
- (ii) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;
- (iii) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;
- (iv) to change this definition, or the definition of "Extraordinary Resolution", "Single Series Extraordinary Resolution", "Multiple Series Single Limb Extraordinary Resolution", "Multiple Series Two Limb Extraordinary Resolution", "Written Resolution", "Single Series Written Resolution", "Multiple Series Single Limb Written Resolution" or "Multiple Series Two Limb Written Resolution";
- (v) to change the definition of "debt securities" or "Debt Securities Capable of Aggregation";
- (vi) to change the definition of "Uniformly Applicable";
- (vii) to change the definition of "outstanding" or to modify the provisions of Condition 11(i);
- (viii) to change the legal ranking of the Notes;
- (ix) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, set out in Condition 10;
- (x) to change the law governing the Notes, the courts to the jurisdiction of which the Issuer has submitted in the Notes, any of the arrangements specified in the Notes to enable proceedings to be taken or the Issuer's waiver of immunity, in respect of actions or proceedings brought by any Noteholder, set out in Condition 19;
- (xi) to impose any condition on or otherwise change the Issuer's obligation to make payments of principal, interest or any other amount in respect of the Notes, including by way of the addition of a call option;
- (xii) to modify the provisions of this Condition 11(e);
- (xiii) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Notes or to change the terms of any such guarantee or security;
- (xiv) to exchange or substitute all the Notes for, or convert all the Notes into, other obligations or securities of the Issuer or any other person, or to modify any provision of these Conditions in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person, which would result in the Conditions as so modified being less favourable to the Noteholders which are subject to the Conditions as so modified than:

- (A) the provisions of the other obligations or debt securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or
- (B) if more than one series of other obligations or debt securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of debt securities having the largest aggregate nominal amount.

(f) **Information:**

Prior to or on the date that the Issuer proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 11(b), Condition 11(c) or Condition 11(d), the Issuer shall publish in accordance with Condition 12, and provide the Fiscal Agent with the following information:

- (A) a description of the Issuer's economic and financial circumstances which are, in the Issuer's opinion, relevant to the request for any potential modification or action, a description of the Issuer's existing debts and a description of its broad policy reform programme and provisional macroeconomic outlook;
- (B) if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement and where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;
- (C) a description of the Issuer's proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and
- (D) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Noteholders in Condition 11(a)(iv)(G).

(g) **Claims Valuation:**

For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes in accordance with Condition 11(c) and Condition 11(d), the Issuer may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the Calculation Agent will calculate the par value of the Notes and such affected series of debt securities. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

(h) **Manifest error, etc.:**

The Notes, these Conditions and the provisions of the Agency Agreement may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Noteholders.

(i) **Notes controlled by the Issuer:**

For the purposes of (i) determining the right to attend and vote at any meeting of Noteholders, or the right to sign or confirm in writing, or authorise the signature of, any

Written Resolution, (ii) this Condition 11 and (iii) Condition 10, any Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any other person which is owned or controlled directly or indirectly by the Issuer or by any of its Agencies (as defined in Condition 6(f)) shall be disregarded and be deemed not to remain outstanding; where "**control**" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

A Note will also be deemed to be not outstanding if the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Note has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Note in accordance with its terms.

In advance of any meeting of Noteholders, or in connection with any Written Resolution, the Issuer shall provide to the Fiscal Agent a copy of the certificate prepared pursuant to Condition 12(d) which includes information on the total number of Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any of its Agencies and, as such, such Notes shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Noteholders or the right to sign, or authorise the signature of, any Written Resolution in respect of any such meeting. The Fiscal Agent shall make any such certificate available for inspection during normal business hours at its specified office and, upon reasonable request, will allow copies of such certificate to be taken.

(j) **Publication:**

The Issuer shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 12(g).

(k) **Exchange and Conversion:**

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the Issuer's option by way of a mandatory exchange or conversion of the Notes and each other affected series of debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Notes is notified to Noteholders at the time notification is given to the Noteholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Noteholders and Couponholders.

12. **Aggregation Agent; Aggregation Procedures**

(a) ***Appointment:***

The Issuer will appoint an Aggregation Agent to calculate whether a proposed modification or action has been approved by the required nominal amount outstanding of Notes and, in the case of a multiple series aggregation, by the required nominal amount of outstanding debt securities of each affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Notes and in respect of the terms and conditions or bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

(b) **Extraordinary Resolutions:**

If an Extraordinary Resolution has been proposed at a duly convened meeting of Noteholders to modify any provision of, or action in respect of, these Conditions and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate nominal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

(c) **Written Resolutions:**

If a Written Resolution has been proposed under the Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate nominal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

(d) **Certificate:**

For the purposes of Condition 12(b) and Condition 12(c), the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 11(b), Condition 11(c) or Condition 11(d), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

- (i) list the total nominal amount of Notes and, in the case of a multiple series aggregation, the total nominal amount of each other affected series of debt securities outstanding on the record date; and
- (ii) clearly indicate the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 11(i) on the record date identifying the holders of the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

(e) **Notification:**

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 12 to be notified to the Fiscal Agent and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Noteholders.

(f) **Binding nature of determinations; no liability:**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 12 by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Fiscal Agent and the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(g) **Manner of publication:**

The Issuer will publish all notices and other matters required to be published pursuant to the Agency Agreement including any matters required to be published pursuant to Condition 10, Condition 11, this Condition 12 and Condition 13:

- (i) through Euroclear Bank S.A./N.V., Clearstream Banking, *société anonyme*, The Depository Trust Company and/or any other clearing system in which the Notes are held;
- (ii) in such other places and in such other manner as may be required by applicable law or regulation; and
- (iii) in such other places and in such other manner as may be customary.

13. **Noteholders' Committee**

(a) *Appointment:*

- (i) Holders of at least 25 per cent. of the aggregate nominal amount of the outstanding debt securities of all series of affected debt securities (taken in aggregate) may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), appoint any person or persons as a committee to represent the interests of such holders (as well as the interests of any holders of outstanding debt securities who wish to be represented by such a committee) if any of the following events has occurred:
 - (A) an Event of Default under Condition 10;
 - (B) any event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 10 become an Event of Default;
 - (C) any public announcement by the Issuer, to the effect that the Issuer is seeking or intends to seek a rescheduling or restructuring of the Notes or any other affected series of debt securities (whether by amendment, exchange offer or otherwise); or
 - (D) with the agreement of the Issuer, at a time when the Issuer has reasonably reached the conclusion that its debt may no longer be sustainable whilst the Notes or any other affected series of debt securities are outstanding.
- (ii) Upon receipt of a written notice that a committee has been appointed in accordance with Condition 13(a)(i) and a certificate delivered pursuant to Condition 13(d), the Issuer shall give notice of the appointment of such a committee to:
 - (A) all Noteholders in accordance with Condition 16; and
 - (B) the holders of each affected series of debt securities in accordance with the terms and conditions of such affected series of debt securities,

as soon as practicable after such written notice and such certificate are delivered to the Issuer.

(b) **Powers:**

Such committee in its discretion may, among other things:

- (i) engage legal advisers and financial advisers to assist it in representing the interests of the Noteholders;
- (ii) adopt such rules as it considers appropriate regarding its proceedings;

- (iii) enter into discussions with the Issuer and/or other creditors of the Issuer; and
- (iv) designate one or more members of the committee to act as the main point(s) of contact with the Issuer and provide all relevant contact details to the Issuer.

Except to the extent provided in this Condition 13(b), such committee shall not have the ability to exercise any powers or discretions which the Noteholders could themselves exercise.

(c) **Engagement with the committee and provision of information:**

- (i) The Issuer shall:
 - (A) subject to paragraph (ii) immediately below, engage with the committee in good faith;
 - (B) provide the committee with information equivalent to that required under Condition 11(f) and related proposals, if any, in each case as the same become available, subject to any applicable information disclosure policies, rules and regulations; and
 - (C) pay any reasonable fees and expenses of any such committee (including without limitation, the reasonable and documented fees and expenses of the committee's legal and financial advisers, if any) following receipt of reasonably detailed invoices and supporting documentation.
- (ii) If more than one committee has been appointed by holders of affected series of debt securities in accordance with the provisions of this Condition 13 and/or equivalent provisions set out in the terms and conditions of any affected series of debt securities, the Issuer shall not be obliged to engage with such committees separately. Such committees may appoint a single steering group (to be comprised of representatives from such committees), whereupon the Issuer shall engage with such steering group.

(d) **Certification:**

Upon the appointment of a committee, the person or persons constituting such a committee (the "**Members**") will provide a certificate to the Issuer and to the Fiscal Agent signed by the authorised representatives of the Members, and the Issuer and the Fiscal Agent may rely upon the terms of such certificate.

The certificate shall certify:

- (i) that the committee has been appointed;
- (ii) the identity of the Members; and
- (iii) that such appointment complies with the terms and conditions of the relevant bond documentation.

Promptly after any change in the identity of the Members, a new certificate which each of the Issuer and the Fiscal Agent may rely on conclusively, will be delivered to the Issuer and the Fiscal Agent identifying the new Members. Each of the Issuer and the Fiscal Agent will assume that the membership of the committee has not changed unless and until it has received a new certificate.

The provisions of this Condition 13(d) shall apply, *mutatis mutandis*, to any steering group appointed in accordance with Condition 13(c)(ii).

In appointing a person or persons as a committee to represent the interests of the Noteholders, the Noteholders may instruct a representative or representatives of the

committee to form a separate committee or to join a steering group with any person or persons appointed for similar purposes by other affected series of debt securities.

14. **Replacement of Notes, Certificates, Receipts, Coupons and Talons**

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Fiscal Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15. **Further Issues**

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes (so that, for the avoidance of doubt, references in these Conditions to "**Issue Date**" shall be to the first issue date of the Notes) and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "**Notes**" shall be construed accordingly.

16. **Notices**

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a leading newspaper of general circulation in Luxembourg (which is expected to be the *Luxembourg Wort*) and/or the Luxembourg Stock Exchange's website, *www.bourse.lu*. If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

17. **Currency Indemnity**

If any sum due from the Issuer in respect of any relevant Note, Coupon or Receipt or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, Coupons and/or Receipts the Issuer shall indemnify each Noteholder and/or Couponholder, as the case may be, on the written demand of such Noteholder or Couponholder addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder and/or Couponholder, as the case may be, may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

18. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

19. **Governing Law and Jurisdiction**

- (a) **Governing Law:** The Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.
- (b) **Jurisdiction:** The Issuer irrevocably agrees for the benefit of the holders of any Notes, Receipts, Coupons or Talons that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes, Receipts, Coupons or Talons (including a dispute relating to any non-contractual obligation arising out of or in connection with any of them) and that accordingly any suit, action or proceedings arising out of or in connection therewith (together referred to as "**Proceedings**") may be brought in the courts of England.
- (c) **No Objection to Proceedings:** The Issuer irrevocably and unconditionally waives and agrees not to raise any objection which it may have now or subsequently to the laying of the venue of any Proceedings in the courts of England and any claim that any Proceedings have been brought against the Issuer in an inconvenient forum and further irrevocably and unconditionally agrees that a judgment in any Proceedings brought in the courts of England shall be conclusive and binding upon the Issuer and may be enforced in the courts of any other jurisdiction. Nothing in this Condition 19 shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions against the Issuer preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.
- (d) **Process Agent:** The Issuer hereby irrevocably and unconditionally appoints Law Debenture Corporate Services Limited at its registered office for the time being in England for the time being as its agent for service of process in England in respect of any Proceedings. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Issuer). If for any reason such process agent ceases to be able to act as such or no longer has an address in England, the Issuer irrevocably agrees to appoint a substitute process agent and shall immediately notify Noteholders of such appointment in accordance with Condition 16. Nothing shall affect the right to serve process in any manner permitted by law.
- (e) **Immunity:** The Issuer hereby irrevocably waives any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and irrevocably consents (to the fullest extent permitted by Bulgarian law, as may be amended from time to time, or any other applicable law, as may be amended from time to time), to the giving of any relief, the imposition of any security measure (except pre-judgment attachments or injunctions) or the issue of any process, including, without limitation, the making, enforcement or execution against any assets, revenue or property of the Issuer whatsoever (irrespective of its use or intended use) of any order, ruling, award or judgment made or given in connection with any Proceedings **provided, however, that** immunity is not waived with respect to (i) present or future "**premises of the mission**" as defined in the Vienna Convention on Diplomatic Relations signed in 1961, (ii) "**consular premises**" as defined in the Vienna Convention on Consular Relations signed in 1963, or (iii) military property or military assets or property or assets of the Republic of Bulgaria related thereto.
- (f) **Invalidity:** If any Condition is or becomes invalid, illegal or unenforceable in any respect under any law of any relevant jurisdiction (including under the laws of England or the Republic of Bulgaria), the validity, legality and enforceability of the remaining Conditions shall not be affected or impaired in any way nor shall it affect or impair the validity or

enforceability of such Condition in any other jurisdiction. If the choice of English law as the governing law regarding any non-contractual obligations arising out of or in connection with the Notes, Receipts, Coupons and/or Talons is declared null and void by a court of competent jurisdiction pursuant to a final non-appealable decision and as a result holders of any such Notes, Receipts, Coupons and/or Talons are not able to validly exercise their rights under the rules of unjust enrichment of English law, holders of any such Notes, Receipts, Coupons and/or Talons shall be entitled to file claims against the Issuer in compliance with the unjust enrichment rules of Bulgarian law, where applicable.

SUMMARY OF PROVISIONS RELATING TO NOTES IN GLOBAL FORM

1. Initial Issue of Notes

If the Global Notes or the Global Certificates are stated in the applicable Pricing Supplement to be issued in NGN form or to be held under the NSS (as the case may be), the Global Notes or the Global Certificates will be delivered on or prior to the original issue date of the Tranche to the common safekeeper (the "**Common Safekeeper**") for Euroclear and Clearstream, Luxembourg. Depositing the Global Notes or the Global Certificates with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Global Notes which are issued in Classic Global Note ("**CGN**") form and Global Certificates which are not held under the NSS may be delivered on or prior to the original issue date of the Tranche to the Common Depository.

If the Global Note is a CGN, upon the initial deposit of a Global Note with the Common Depository or, if the Global Certificate is not to be held under the NSS, registration of Registered Notes in the name of the nominee for the Common Depository for Euroclear and Clearstream, Luxembourg and delivery of the relevant Global Certificate to the Common Depository, Euroclear or Clearstream, Luxembourg will credit each subscriber or participant, as the case may be, with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

If the Global Note is an NGN or the Global Certificate is to be held under the NSS, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note or Global Certificate, as the case may be, and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Upon the initial deposit of a relevant Global Certificate in respect of, and registration of, Registered Notes in the name of a nominee for DTC and delivery of the relevant Global Certificate to the Custodian for DTC, DTC will credit each participant with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depository may also be credited to the accounts of subscribers or participants, as the case may be, with (if indicated in the relevant Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and/or Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

2. Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg, DTC and/or any other permitted clearing system ("**Alternative Clearing System**") as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg, DTC or any such Alternative Clearing System (as the case may be) for its share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, DTC or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

3. Exchange

3.1 Temporary Global Notes

Each Temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with the TEFRA C Rules or in a transaction to which TEFRA is not applicable, in whole, but not in part, for the Definitive Notes defined and described below; and
- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership for interests in a Permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes.

3.2 Permanent Global Notes

Each Permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 3.4 below, in part for Definitive Notes:

- (i) if the Permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so; or
- (ii) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Fiscal Agent of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a nominal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a nominal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

3.3 Global Certificates

- (a) *Notes held in Euroclear, Clearstream, Luxembourg or other clearing system:*

The following will apply in respect of transfers of Global Certificates held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made:

- (i) in whole, but not in part, if the relevant Notes represented by such Global Certificate are held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) in whole or in part, if principal in respect of any Notes is not paid when due; or
- (iii) in whole or in part, with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph 3.3(a)(i) or 3.3(a)(ii) above, the relevant holder of the Notes represented by the Global

Certificate has given the relevant Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such transfer.

(b) *Notes held in DTC:*

The following will apply in respect of transfers of Global Certificates held in DTC. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of DTC, but will limit the circumstances in which the Notes may be withdrawn from DTC. Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made:

- (i) in whole but not in part, if the relevant Notes represented by such Global Certificate are held on behalf of a Custodian for DTC and if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Certificate or DTC ceases to be a "**clearing agency**" registered under the Exchange Act or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC; or
- (ii) in whole or in part, with the Issuer's consent,

provided that, in the case of any transfer pursuant to paragraph 3.3(b)(i) above, the relevant holder of the Notes represented by the Global Certificate has given the relevant Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such transfer.

Individual Certificates issued in exchange for a beneficial interest in a Global Certificate shall bear any legend applicable to such Notes as set out in "*Transfer Restrictions*".

3.4 **Partial Exchange of Permanent Global Notes**

For so long as a Permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such Permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes (i) if principal in respect of any Notes is not paid when due or (ii) if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Pricing Supplement) relating to any Partly Paid Notes.

3.5 **Delivery of Notes**

If the Global Note is a CGN, on or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a Temporary Global Note exchangeable for a Permanent Global Note, deliver, or procure the delivery of, a Permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a Temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a Permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes or if the Global Note is a NGN, the Issuer will procure that details of such exchange be entered *pro rata* in the records of the relevant clearing system. Global Notes and Definitive Notes will be delivered outside the United States and its possessions. In this Offering Circular, "**Definitive Notes**" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement. On exchange in full of each Permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

3.6 Exchange Date

"Exchange Date" means, in relation to a Temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a Permanent Global Note, a day falling not less than 60 days or, in the case of failure to pay principal in respect of any Notes when due, 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the city in which the relevant clearing system is located.

4. Amendment to Conditions

The Temporary Global Notes, Permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Offering Circular. The following is a summary of certain of those provisions:

4.1 Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a Permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any Temporary Global Note issued in compliance with the TEFRA D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership. All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is a CGN, a record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 7(e)(vii) and Condition 8(d) will apply to the Definitive Notes only. If the Global Note is a NGN or if the Global Certificate is held under the NSS, the Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant clearing system and in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note or the Global Certificate will be reduced accordingly. Payments under an NGN will be made to its holder. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "business day" set out in Condition 7(h).

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date.

The record date shall be:

- (a) except in the case of Notes cleared through DTC, the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January;
- (b) in the case of Notes cleared through DTC where the Specified Currency is U.S. dollars, the DTC business day immediately prior to the date for payment, where "**DTC business day**" means any day on which DTC and banking institutions in the city of New York, New York are open for business; and
- (c) in the case of Notes cleared through DTC where the Specified Currency is a currency other than U.S. dollars, the fifteenth DTC business day prior to the date for payment.

Where a Global Certificate is deposited with a Custodian for DTC and payments are due in a Specified Currency other than U.S. dollars, payments of principal and interest in respect of Notes registered in the name of, or in the name of a nominee for, DTC, will be made or procured to be made by the Fiscal Agent in the Specified Currency in accordance with the following provisions:

1. Holders of interests in the Global Certificate must, if they wish to receive payments in the relevant Specified Currency, make an election to such effect in accordance with DTC's procedures then in effect, by no later than the third DTC business day after the record date for the relevant payment, as specified in sub-paragraph (c) above. Any such holder who makes such an election shall be paid the relevant Specified Currency amount by wire transfer to a bank account in such Specified Currency which must be designated by such holder for such purpose.
2. Holders of interests in the Global Certificate who do not make an election to receive payments in the relevant Specified Currency as provided above shall in lieu of such Specified Currency payments instead receive an amount in U.S. dollars determined in accordance with the following provisions:
 - (a) the relevant Specified Currency amount shall be converted by the Exchange Agent into U.S. dollars in the manner provided in the Agency Agreement; and
 - (b) the Fiscal Agent, after the Exchange Agent has converted amounts in such Specified Currency into U.S. dollars in accordance with the Agency Agreement, will cause the Paying Agents to deliver such U.S. dollar amount in same day funds to DTC for payment through its settlement system to those DTC participants entitled to receive the relevant payment, all in accordance with DTC's procedures then in effect.

The Exchange Agent through its foreign exchange desk may exchange U.S. dollars with the Specified Currency at a base rate adjusted by a spread, each component determined by the foreign exchange desk in its absolute discretion. The rate of exchange may be adjusted by local fees, taxes and forward points (if applicable).

4.2 **Prescription**

Claims against the Issuer in respect of Notes that are represented by a Permanent Global Note or Global Certificate will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

4.3 **Meetings**

The holder of a Permanent Global Note or of the Notes represented by a Global Certificate shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.

4.4 **Cancellation**

Cancellation of any Note represented by a Permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant Permanent Global Note.

4.5 **Purchase**

Notes represented by a Permanent Global Note may only be purchased by the Issuer or any of its Agencies if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

4.6 **Issuer's Option**

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a Permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required.

In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg and/or DTC or any other Alternative Clearing System (as the case may be) (in the case of Euroclear and/or Clearstream, Luxembourg, to be reflected in their records as either a pool factor or a reduction in nominal amount, at their discretion).

4.7 **Noteholders' Options**

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a Permanent Global Note may be exercised by the holder of the Permanent Global Note giving notice to the Fiscal Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time, where the Permanent Global Note is a CGN, presenting the Permanent Global Note to the Fiscal Agent, or to a Paying Agent acting on behalf of the Fiscal Agent, for notation. Where the Global Note is an NGN or where the Global Certificate is held under the NSS, the Issuer shall procure that details of such exercise shall be entered *pro rata* in the records of the relevant clearing system and the nominal amount of the Notes recorded in those records will be reduced accordingly.

4.8 **NGN nominal amount**

Where the Global Note is a NGN, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, in addition to the circumstances set out above shall be entered in the records of the relevant clearing systems and upon any such entry being made, in respect of payments of principal, the nominal amount of the Notes represented by such Global Note shall be adjusted accordingly.

4.9 **Notices**

So long as any Notes are represented by a Global Note or Global Certificate and such Global Note or Global Certificate is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note, except that so long as the Notes are listed on the Luxembourg Stock Exchange's regulated market and the rules of that exchange so require, notices shall also be published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a leading newspaper having general circulation in Luxembourg (which is expected to be *the Luxemburger Wort*). Any such notice shall be deemed to have been delivered to Noteholders on the second day after the day on which such notice is delivered to the relevant clearing system.

5. **Partly Paid Notes**

The provisions relating to Partly Paid Notes are not set out in this Offering Circular but will be contained in the relevant Pricing Supplement and thereby in the Global Notes. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a Permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holder in respect of them.

FORM OF PRICING SUPPLEMENT

NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH REGULATION (EU) 2017/1129 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 14 JUNE 2017 (THE "PROSPECTUS REGULATION") FOR THE ISSUE OF NOTES DESCRIBED BELOW

Pricing Supplement dated [•]

[**MiFID II product governance / professional clients [./and] ECPs [and retail clients][only] target market** – solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties [./and] professional clients [and retail clients][only], each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); [and] (ii) all channels for distribution of the Notes [to eligible counterparties and professional clients] are appropriate[, including investment advice, portfolio management, non-advised sales and pure execution services][and (iii) the following channels for distribution of the Notes to retail clients are appropriate: [investment advice[./and] portfolio management[./and][non-advised sales][and pure execution services][, subject to the distributor's suitability and appropriateness obligations under MiFID II, as applicable]] [*consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels[, subject to the distributor's suitability and appropriateness obligations under MiFID II, as applicable].]

[**UK MiFIR product governance / professional clients [./and] ECPs [and retail clients][only] target market** – solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (COBS) [./and] professional clients [and retail clients][only], each as defined in Regulation (EU) No 600/2014 as it forms part of United Kingdom domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); [and] (ii) all channels for distribution of the Notes [to eligible counterparties and professional clients] are appropriate[, including investment advice, portfolio management, non-advised sales and pure execution services][and (iii) the following channels for distribution of the Notes to retail clients are appropriate: [investment advice[./and] portfolio management[./and][non-advised sales][and pure execution services] [*consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

Republic of Bulgaria
(LEI: 529900PG0XCL4L1CL838)
Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] due [•]
under the €12,000,000,000
Global Medium Term Note Programme

PART A – CONTRACTUAL TERMS

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Offering Circular dated [date] [and the supplement to it dated [date]] (together, the "**Offering Circular**"). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circular. Copies of the Offering Circular may be obtained from [address] / [the website of the Luxembourg Stock Exchange at www.bourse.lu].

[Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the "**Conditions**") set forth in the Offering Circular dated [date] [and the supplement dated [date]] which are incorporated by reference in the Offering Circular.]

Include whichever of the following apply or specify as "Not Applicable". Italics denote guidance for completing the Pricing Supplement.

- | | | |
|-----|---|--|
| 1. | Issuer: | Republic of Bulgaria |
| 2. | (i) Series Number: | [•] |
| | (ii) Tranche Number: | [•] |
| | [(iii) Date on which the Notes become fungible: | [Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [insert description of the Series] on [insert date/the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 22 below [which is expected to occur on or about [insert date]].] |
| 3. | Specified Currency or Currencies: | [•] |
| 4. | Aggregate Nominal Amount | |
| | [(i) Series: | [•] |
| | [(ii) Tranche: | [•] |
| 5. | Issue Price: | [•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [insert date] (if applicable)] |
| 6. | (i) Specified Denominations: | [•][and integral multiples of [•] in excess thereof[, up to and including [•]]] |
| | (ii) Calculation Amount: | [•] |
| 7. | (i) Issue Date: | [•] |
| | (ii) Interest Commencement Date: | [Specify/Issue Date/Not Applicable] |
| 8. | Maturity Date: | [Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year] |
| 9. | Interest Basis: | [•][per cent. Fixed Rate] [[reference rate] +/- [•] per cent. Floating Rate] [Zero Coupon] [Other (specify)] (further particulars specified below) |
| 10. | Redemption/Payment Basis: | [Redemption at par] [Instalment] [Other (specify)] |
| 11. | Change of Interest or Redemption/Payment Basis: | [Specify details of any provision for convertibility of Notes into another interest or redemption/ payment basis] [Not Applicable] |

12. Put/Call Options: [Investor Put Option]
 [Issuer Call Option]
 [(further particulars specified below)][Not Applicable]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13. Fixed Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate[(s)] of Interest: [•] per cent. per annum payable [annually/semi-annually] in arrear on each Interest Payment Date
- (ii) Interest Payment Date(s): [•] in each year
- (iii) Fixed Coupon Amount[(s)]: [•] per Calculation Amount
- (iv) Broken Amount(s): [•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]/[Not Applicable]
- (v) Day Count Fraction: [30/360 / Actual/Actual (ICMA) / *specify other*]
- (vi) [Determination Dates: [•] in each year (*insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)*)]
- (vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/*give details*]
14. Floating Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Interest Period(s): [•][[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]]
- (ii) Specified Interest Payment Dates: [[•] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment[, as the Business Day Convention in (iv) below is specified to be Not Applicable]]]
- (iii) Interest Period Date: [Not Applicable]/ [•][[in each year[, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]]
- (iv) First Interest Payment Date: [•]
- (v) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day

	Convention/other	(give details)][Not Applicable]
(vi) Business Centre(s):	[•]	
(vii) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other	(give details)]
(viii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Agent):	[•]	
(ix) Screen Rate Determination:		
– Reference Rate:	[EURIBOR/[•]]	
– Interest Determination Date(s):	[•]	
– Relevant Screen Page:	[•]	
(x) ISDA Determination:		
– Floating Rate Option:	[•]	
– Designated Maturity:	[•]	
– Reset Date:	[•]	
– ISDA Definitions	[2000/2006/[•]], as amended or supplemented from time to time]]	
(xi) Linear Interpolation:	Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (specify for each short or long interest period)	
(xii) Margin(s):	[+/-][•] per cent. per annum	
(xiii) Minimum Rate of Interest:	[•] per cent. per annum	
(xiv) Maximum Rate of Interest:	[•] per cent. per annum	
(xv) Day Count Fraction:	[•]	
(xvi) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[•]	
15. Zero Coupon Note Provisions	[Applicable/Not Applicable]	(If not applicable, delete the remaining subparagraphs of this paragraph)
(i) Amortisation Yield:	[•] per cent. per annum	
(ii) Day Count Fraction in relation to Early Redemption Amounts:	[[30/360][Actual/360][Actual/365][Actual-Actual-ICMA]][specify other]	

- (iii) Any other formula/basis of determining amount payable: [•]
16. Index-Linked Interest Note/other variable-linked interest Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Index/Formula/other variable: [give or annex details]
- (ii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Agent): [•]
- (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: [•]
- (iv) Determination Date(s): [•]
- (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [•]
- (vi) Interest or calculation period(s): [•]
- (vii) Specified Interest Payment Dates: [•]
- (viii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
- (ix) Business Centre(s): [•]
- (x) Minimum Rate/Amount of Interest: [•] [per cent.] per annum
- (xi) Maximum Rate/Amount of Interest: [•] [per cent.] per annum
- (xii) Day Count Fraction: [•]
17. Dual Currency Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Rate of Exchange/method of calculating Rate of Exchange: [give details]
- (ii) Party, if any, responsible for calculating the principal and/or interest due (if not the Agent): [•]
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [•]

- (iv) Person at whose option Specified Currency(ies) is/are payable: [•]

PROVISIONS RELATING TO REDEMPTION

18. Call Option [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): [•]
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [•] per Calculation Amount /specify other/see Appendix
- (iii) If redeemable in part:
- (a) Minimum Redemption Amount: [•]
- (b) Maximum Redemption Amount: [•]
- (iv) Notice period (Condition 6(c)): [•] days
19. Put Option [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
- (i) Optional Redemption Date(s): [•]
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [•] per Calculation Amount/specify other/see Appendix
- (iii) Notice period (Condition 6(d)): [•] days
20. Final Redemption Amount of each Note [•] per Calculation Amount
- In cases where the Final Redemption Amount is Index-Linked or other variable-linked:
- (i) Index/Formula/variable: *[give or annex details]*
- (ii) Party responsible for calculating the Final Redemption Amount (if not the Agent): [•]
- (iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: [•]
- (iv) Determination Date(s): [•]
- (v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or

impracticable or otherwise disrupted:

- (vi) Payment Date:
- (vii) Minimum Final Redemption Amount: [•]
- (viii) Maximum Final Redemption Amount: [•]

21. Early Redemption Amount

Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions): [•]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

22. Form of Notes:

[Bearer Notes:]

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]

[Permanent Global Note exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]

[Temporary Global Note exchangeable for Definitive Notes on [•] days' notice]

(Note: The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination (at paragraph 6 above) of the Notes includes language to the following effect: "[and integral multiples of [•] in excess thereof, up to and including [•]]".)

[Registered Notes:]

[Unrestricted Global Certificate ([US\$/€][•] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the New Safekeeping Structure (NSS))]]

[Restricted Global Certificate ([US\$][•] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream,

Luxembourg (that is, held under the New Safekeeping Structure (NSS))]]

[Unrestricted Global Certificate exchangeable for unrestricted Definitive Notes on [•] days' notice/at any time/in the limited circumstances described in the Unrestricted Global Certificate]

[Restricted Global Certificate exchangeable for restricted Definitive Notes on [•] days' notice/at any time/in the limited circumstances described in the Restricted Global Certificate]

(Note: The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination (at paragraph 6 above) of the Notes includes language to the following effect: "[and integral multiples of [•] in excess thereof, up to and including [•]]".)

23. New Global Note: [Yes] [No]
24. Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable/give details]. [Note that this paragraph relates to the date of payment, and not the end dates of interest periods for the purposes of calculating the amount of interest]
25. Relevant Benchmark[s]: [[specify benchmark] is provided by [administrator legal name]][repeat as necessary]. As at the date hereof, [[administrator legal name][appears]/[does not appear]][repeat as necessary] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of the Benchmark Regulation, as amended]/[As far as the Issuer is aware, as at the date hereof, [specify benchmark] does not fall within the scope of the Benchmark Regulation, as amended]/ [As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmark Regulation, as amended, apply, such that [name of administrator] is not currently required to obtain authorisation/registration (or, if located outside the European Union or the United Kingdom, recognition, endorsement or equivalence)]/[Not Applicable]
26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [No/Yes. As the Notes have more than 27 coupon payments, talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made.]
27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details]

28. Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made: [Not Applicable/*give details*]
29. Other terms or special conditions: [Not Applicable/*give details*]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement. [*Relevant third party information*] has been extracted from (*specify source*). The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of
REPUBLIC OF BULGARIA

By:
Duly authorised

PART B – OTHER INFORMATION

1. **LISTING AND TRADING**

[Application has been made by the Issuer (or on its behalf) for the Notes to be listed on [the Official List of the Luxembourg Stock Exchange and to trading on the Luxembourg Stock Exchange's regulated market] [*specify relevant market*] with effect from [•].] [Not Applicable.]

(Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.)
2. **[RATINGS]**

Ratings:

The Notes to be issued [have been/are expected to be] rated:

[S&P: [•]]

[Moody's: [•]]

[[Fitch: [•]]

[[Other]: [•]]

[The Notes have not been specifically rated][and endorsed by [•].]

[Each of [•] and [•] is established in the European Economic Area and is registered under the Regulation (EC) No. 1060/2009 (as amended).]

[Each of [•] and [•] appear on the latest update of the list of registered credit rating agencies on the European Securities and Markets Authority website: <http://www.esma.europa.eu>. The ratings of [•] and [•] are endorsed by [•] and [•], respectively, which are each established in the United Kingdom and registered under Regulation (EU) No 1060/2009 as it forms part of United Kingdom domestic law by virtue of the EUWA.]

[Each of [•] and [•] is established in the United Kingdom and is registered under the Regulation (EC) No. 1060/2009 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018.]
3. **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER**

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and [its/their] affiliates in the ordinary course of business. (*Amend as appropriate if there are other interests*)]

4. **[Fixed Rate Notes - YIELD]**
- Indication of Yield: [•]
The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]
5. **[Index Linked Notes – PERFORMANCE OF INDEX OR RATES OF INTEREST FOR INDEX LINKED OR DUAL CURRENCY NOTES]**
- [Relevant details to be included: [•]
6. **[USE OF PROCEEDS]**
- Reasons for Offer/Use of Proceeds: [•]
- Estimated Net Proceeds: [•]
- Total Commissions and Concessions: [•]
7. **OPERATIONAL INFORMATION**
- ISIN [(Unrestricted Notes)]: [•]
- [ISIN (Restricted Notes): [•]
- Common Code [(Unrestricted Notes)]: [•]
- [Common Code (Restricted Notes): [•]
- [CFI Code: [•], as updated on the website of the Association of National Numbering Agencies]
- [FISN: [•], as updated on the website of the Association of National Numbering Agencies]
- [CUSIP: [•]
- Any clearing system(s) other than [DTC,] Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- Delivery: Delivery [against/free of] payment
- Names and addresses of additional Paying Agent(s), Calculation Agent and/or Registrar (if any): [•]
- [Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the

ECB being satisfied that Eurosystem eligibility criteria have been met.]/

[No. Whilst the designation is specified as "no" at the date of this Pricing Supplement, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

Date of completion of the Issuer's Authorisation Procedures in relation to the Programme and the Notes: [•]

8. **DISTRIBUTION**

- (i) Method of distribution: [Syndicated/Non-syndicated]
- (ii) If syndicated, names of Managers [and underwriting commitments]: [Not Applicable/give names/commitments]
- (iii) Stabilisation Manager(s) (if any): [Not Applicable/give names]
- (iv) If non-syndicated, name of Dealer: [Not Applicable/give name]
- (v) U.S. Selling Restrictions: [Reg. S Compliance Category 1; [Rule 144A;] TEFRA C/ TEFRA D/ TEFRA not applicable] [Reg. S Category 1 U.S. selling restrictions and transfer restrictions apply to the Notes and, accordingly, restrictions disclosed in the section "*Transfer Restrictions*" of the Offering Circular shall not apply.]
- (vi) ERISA: [Employee benefit plans can buy [YES/NO]]
- (vii) Additional selling restrictions: [Not Applicable/give details]

THE REPUBLIC OF BULGARIA

Geography and Population

Bulgaria is located in South-eastern Europe in the eastern part of the Balkan peninsula and covers an area of approximately 110,994 square kilometres. It is bordered by Romania to the north, Serbia and North Macedonia to the west, Greece and Turkey to the south and the Black Sea to the east.

According to the Republic of Bulgaria National Statistical Institute (the "NSI"), as of 31 December 2021, Bulgaria had a population of 6.9 million, or 1.5 per cent. of the EU population. A census of the population took place in 2021, which will provide more precise demographic data; the census results are being processed, with the NSI's preliminary data (published in October 2022) indicating that Bulgaria's population declined to 6.5 million as of 7 September 2022 (the end date of the census). At 31 December 2021, the population density of Bulgaria was approximately 61.6 persons per square kilometre. The main language spoken is Bulgarian.

The following table sets forth certain information with respect to the population growth rate in Bulgaria for the periods indicated:

	2017	2018	2019	2020	2021
Population (thousands).....	7,050.0	7,000.0	6,951.5	6,916.5	6,838.9
Population (per cent. year on year).....	(0.7)	(0.7)	(0.7)	(0.5)	(1.1)

Source: NSI.

Among EU countries, Bulgaria has one of the fastest shrinking populations. The rate of decrease of the population was 0.8 per cent. per year between 2017-2021. The observed trend mainly reflects the decline of working-age population (15-64) by about 1.2 per cent. per annum. The median age in Bulgaria is estimated at 45 years in 2021, slightly higher than 44.1 years average in the EU. The country's age dependency ratio, which represents the proportion of young people (under 15) and elderly population (over 65) relative to the working age population (ages 15-64), was reported at 56.7 per cent.

The capital of Bulgaria is Sofia which is situated in the western part of the country, at the foot of the Vitosha mountain massif. Sofia had a population of approximately 1.3 million as of 31 December 2021.

History

The name "Bulgaria" is derived from the Bulgars, a people who migrated from Central Asia and united with Slavic tribes already settled in the Balkans to found the First Bulgarian Kingdom in 681 AD. The Bulgars were eventually absorbed into the larger Slavic population; a process that was facilitated by the adoption of Orthodox Christianity by Prince Boris I in 865 AD. In the late-ninth and early-tenth centuries, during the reigns of Prince Boris I and Tsar Simeon the Great, Bulgaria reached its cultural, economic and political high-point so much so that Bulgaria became the strongest power in South-eastern Europe. During this period, Old Church Slavonic - the first written Slavic language - and the Bulgarian (Cyrillic) alphabet were adopted in Bulgaria's theological schools; these would provide the basis for the modern Bulgarian language. Thereafter, Bulgaria underwent a period of political turmoil before eventually being absorbed into the Byzantine Empire. The Bulgarians revolted against Byzantine rule in 1185 and established a second kingdom which, during the reign of Tsar Ivan Asen II (1218-1241), became a dominant political power on the Balkan Peninsula and across South-eastern Europe.

By the end of the fourteenth century, the Ottoman Empire had gained control of Bulgaria. During the following centuries the political and cultural existence of Bulgaria was dominated by the Ottoman Turks, although many of Bulgaria's national customs and values were preserved. Like other nations in the Balkans, Bulgaria experienced a period of "national revival" in the 19th century and, after the Russo-Turkish War of 1877-78, and the Treaty of Berlin of 1878 that followed it, the Northern part of Bulgaria was recognised as the Principality of Bulgaria. In 1885, the population of Eastern Rumelia, created as an autonomous province of the Ottoman Empire after the Treaty of Berlin, rose up against Ottoman rule and united with the Principality of Bulgaria to create a unitary Bulgarian state under the rule of Prince Alexander I. In 1908, the recently-unified country became fully independent from the Ottoman Empire under the name of the Kingdom of Bulgaria. Bulgaria at this point was still a largely agrarian society but, in the period leading up until World War II, it underwent significant economic development.

Bulgaria took part in the Balkan Wars of 1912-1913 after which the country increased its territory. At the end of 1915, Bulgaria allied itself with the Central Powers during World War I. The country also allied itself with the Axis Powers for the greater part of World War II. In 1944, however, Bulgaria joined the Allied powers and fought with them until the end of the war. At the end of the war, Bulgaria's boundaries prior to joining the war were reconfirmed.

During the post-war period, Bulgaria fell under the influence of the former Soviet Union and, within a short space of time, a communist regime secured itself in power. In November 1989, however, as elsewhere in Central and Eastern Europe, the communist system in Bulgaria collapsed.

Recent History

1989 to 1997

From 1989 until early 1997, the political environment in Bulgaria was characterised by the continued influence of the former communist party (now called the Bulgarian Socialist Party) along with repeated changes in Government and a relative lack of political cohesion, particularly when compared to the other former Eastern-bloc countries. Prior to 1990, Bulgaria's economy was oriented toward the COMECON countries, which included the former Soviet Union, Poland, Hungary, Bulgaria, the German Democratic Republic, the former Czechoslovakia, Romania, Cuba, Vietnam and Mongolia. The collapse of the COMECON regime in 1991 had a negative impact on Bulgaria's GDP. By 1997, the cumulative fall in real GDP as compared to 1989 was 33.5 per cent.

In mid-1996 through to the first quarter of 1997, a severe banking crisis reached its peak in Bulgaria, with the value of deposits in the banking system falling from the equivalent of USD 7.4 billion at the end of 1995 to USD 1.8 billion in March 1997. The crisis caused the closure of many banks in Bulgaria and the depreciation of Bulgaria's currency, the Lev. Beset by the financial crisis, the Bulgarian Socialist Party resigned from Government at the end of 1996.

1997 to present

Bulgaria underwent its transition into a market economy during this period. Characteristic features of the economy at this time were the privatisation of large state-owned companies, the establishment of a currency board, the adoption of a conservative fiscal policy, the harmonisation of Bulgarian legislation with EU law and the attracting of foreign investment. In 2004, Bulgaria became a member of NATO and on 1 January 2007 it joined the EU.

During the period between May 1997 and December 2020, Bulgaria had twelve governments. After the third parliamentary election for 2021, held on 14 November 2021, four of the parties/alliances (We Continue The Change, BSP for Bulgaria, There Is Such People and Democratic Bulgaria) reached a coalition deal and established a government. On 13 December 2021, the National Assembly voted to approve the new government with Kiril Petkov as a prime minister. The Government of Kiril Petkov resigned on 27 June 2022, and no new cabinet was formed in the weeks that followed. As a result, the National Assembly was dissolved with effect from 2 August 2022. The President appointed a new caretaker Government with effect from 2 August 2022, with Galab Donev as Prime Minister. The President also scheduled new, early, parliamentary elections for 2 October 2022. Following the elections, the GERB-UDF electoral coalition won 67 seats in the National Assembly, ahead of the We Continue the Change party with 53 seats, Movement for Rights and Freedoms was third with 36 seats, Revival party with 27 seats, Bulgarian Socialist Party for Bulgaria with 25 seats (of which one member became subsequently independent), Democratic Bulgaria - Union with 20 seats, "Bulgarian Rise" - 12 seats. On 5 December 2022, the President handed the government mandate to the election's winner, GERB-UDF. Within the fixed limit of days, GERB-UDF proposed a Government that was put to vote at the National Assembly. The vote failed and, on 3 January 2023, the President mandated the second largest party, We Continue the Change, to form a Government. This mandate was unsuccessful as well. On 16 January 2023, the President provided the third mandate to the Bulgarian Socialist Party for Bulgaria. In case this third and final mandate to form a Government in the current National Assembly is not successful, the President will dissolve the National Assembly, appoint a new caretaker government and set the date for new early elections. During the period an outgoing National Assembly is dissolved and a newly elected National Assembly has not yet been convened, no legislative or other acts of parliament can be passed.

Political System

Constitution

The current constitution of the Republic of Bulgaria (the "**Constitution**") was adopted on 12 July 1991 by the 7th Grand National Assembly of Bulgaria and is the supreme and basic law of the country. It was last amended in 2015. The Constitution established a parliamentary form of government, in which legislative power is vested within the National Assembly, the executive power is vested upon the Government of Bulgaria and judicial power is exercised through the courts, prosecutors, and investigating authorities, with the Supreme Judicial Council (the "**SJC**") at the head of the judicial system. The Constitution also established the institution of President of Bulgaria to embody the unity of the nation and represent the Republic in its international relations.

Legislature

Bulgaria is a parliamentary republic. The legislative power of Bulgaria is vested with the National Assembly which is a unicameral parliament. The National Assembly consists of 240 members who are elected for a period of four years by proportional representation. On 3 January 2023, the latest amendments to the 2014 Electoral Code (with the Parliament overcoming by a new vote a veto by the President) concerning voting either by electronic machines or paper, at the election of the voter, took effect.

To qualify for a seat in the National Assembly, a party or coalition must achieve at least 4 per cent. of the national vote. Any Bulgarian citizen who: (i) does not hold citizenship from another country; (ii) is above the age of 21; (iii) is not under judicial interdiction; and (iv) is not serving a prison sentence is eligible for election to the National Assembly. Early parliamentary elections may be held if: (i) no agreement on the formation of a government can be reached, (ii) if the government loses a vote of confidence or (iii) a no confidence vote succeeds, or the government resigns and no successor with the support of the existing National Assembly can be found.

The National Assembly has many roles: it passes, amends, supplements, and repeals laws; adopts the State Budget and the budget implementation report; establishes the types of taxes and the rate of state taxes in Bulgaria; passes resolutions on the holding of a national referendum; schedules the presidential elections; elects and removes the Prime Minister and, on his or her recommendation, the members of the Council of Ministers; elects the governor and the three deputy governors of the Bulgarian National Bank ("**Central Bank**"); effects changes in government on a motion from the Prime Minister; takes part in the constitution of other key agencies and other bodies of the State (Constitutional Court, Supreme Judicial Council, Financial Supervision Commission ("**FSC**") among others); approves state loan agreements and ratifies international treaties (where applicable); and has certain other rights and powers incorporated into the Constitution of Bulgaria. The National Assembly also exercises parliamentary control over the executive branch of government.

Certain issues, like adopting a new Constitution, changing the form of government (for example, from a parliamentary republic to a presidential republic) and deciding on any changes to the territory of the Republic, are beyond the powers of an ordinary National Assembly and are reserved for a 400-member Grand National Assembly. An election for the Grand National Assembly can be called by the National Assembly, by a vote of at least two thirds of its members. The Grand National Assembly may only resolve on the matters for which it has been elected (for example, adoption of a new Constitution) and may exercise the power of a regular National Assembly only in respect of urgent matters. The Grand National Assembly may adopt the acts for which it has been elected only by majority of two thirds of all of its members, at three readings on three different days. Since 1991, Bulgaria has not elected a Grand National Assembly.

The following table sets forth the composition of the National Assembly as of the date of this Offering Circular following the parliamentary elections of October 2022:

Parliamentary Group of GERB-UDF	67
Parliamentary Group "We Continue the Change"	53
Parliamentary Group "Movement for Rights and Freedoms"	36
Parliamentary Group of political party REVIVAL	27

Parliamentary Group "BSP for Bulgaria".....	24
Parliamentary Group "Democratic Bulgaria".....	20
Parliamentary Group "Bulgarian Rise"	12
Independent.....	1

President

The President is the Head of State, elected under a system of majority representation by direct popular vote for a term of five years and for a maximum of two five-year terms. To be eligible for the position of President, a candidate must be a Bulgarian citizen born in Bulgaria, over 40 years of age, have resided in the country for the five years preceding the election and be eligible for election to the National Assembly. The President is elected with a majority of the valid votes, **provided that** a majority of all eligible voters took part in the election. If none of the candidates for President receives the required majority in the first round, a second round vote is held within seven days between the two leading candidates. The candidate who wins the majority of the vote is declared a winner.

The current President is Mr. Rumen Radev. He was re-elected for a second term with 49.42 per cent. of the votes in the last presidential election held on 14 November 2021, and 66.72 per cent. of the votes in a runoff held on 21 November 2021. The inauguration of Mr. Radev as President took place on 22 January 2022. Pursuant to the Constitution of Bulgaria the next presidential elections shall be held not earlier than three months and not later than two months before the expiry in January 2027 of the term of office of the incumbent President. As such, the next presidential election will be held in 2026.

The President symbolises the unity of the nation and represents Bulgaria in its foreign affairs. The President is also the commander-in-chief of the armed forces and the Chairman of the Consultative National Security Council. The President instructs the prime ministerial candidate, who is nominated by the party holding the highest number of seats in the National Assembly, to form a government. If such nominee does not succeed in forming a cabinet, the President assigns the mandate to a nominee from the second largest party in the National Assembly and if such nominee is also unsuccessful, the President assigns the mandate to one of the other parties. If the third attempt to form a government fails, the President appoints an interim, caretaker government, dissolves the National Assembly and schedules new elections. The President also has the power of a delaying veto over legislation. If the National Assembly votes for a second time on a bill that the President has vetoed, the President must sign it. The President schedules the elections for a National Assembly and for the bodies of local self-government and sets the date for national referendums pursuant to a resolution of the National Assembly. His powers also include taking part in the constitution of other key agencies and other bodies of the State (Central Bank, Constitutional Court), awarding orders and medals, the naming of towns, villages and geographical places, granting asylum and citizenship and exercising the right to pardon. A Vice-President assists the President.

Government

The executive power of Bulgaria is vested in the Council of Ministers, which is the name for Bulgaria's Government. The Council of Ministers consists of the Prime Minister, Deputy Prime Ministers and ministers.

The Council of Ministers directs and implements the State's domestic and foreign policy in accordance with the Constitution and the laws of Bulgaria. It ensures public order and national security and exercises overall guidance over state administration and the armed forces (by contrast, although elected by direct popular vote, the President possesses no executive powers, except limited ones exercisable together with the Government or a minister). The Council of Ministers informs the National Assembly on issues concerning the obligations of Bulgaria resulting from its membership in the EU. The Council of Ministers manages the implementation of the State Budget, organises the management of the State's assets and concludes, confirms or denounces international treaties when authorised to do so by law. As the supreme executive body, the Council of Ministers adopts and promulgates certain acts of delegated legislation, including decrees, resolutions and orders. The Council of Ministers is also entitled to initiate the adoption of laws by drafting, deliberating and forwarding bills to the National Assembly.

The President assigns a mandate for the formation of a new government. Once the prime ministerial candidate forms a government, the Prime Minister and the Government are formally elected by the National Assembly. In certain cases, where the National Assembly is incapable of putting a government into power or where the term of the National Assembly has expired, the President will appoint an interim, caretaker government (see "*President*" above).

The Prime Minister takes charge of, coordinates and bears responsibility for the overall policy of the Government. He appoints and removes deputy ministers and may suggest changes in the cabinet to the National Assembly. The Prime Minister or the minister concerned countersigns the President's decrees with certain exceptions, such as decrees vetoing legislative Acts of National Assembly, decrees for dissolving the National Assembly and for the appointment of a caretaker government. Ministers implement state policy in their respective fields.

The powers of the Council of Ministers shall terminate if: the National Assembly passes a vote of no confidence with regard to the Prime Minister or the Council of Ministers; if the Council of Ministers loses a vote of confidence; if the National Assembly accepts the resignation of the Prime Minister or the Council of Ministers; or if the Prime Minister dies. The Council of Ministers continues to perform its functions until the election of a new Council of Ministers.

Judicial Branch

The judicial branch is independent from the legislative and executive branches of the State. The civil and criminal justice system has three levels: trial courts, appellate courts and the Supreme Cassation Court. Cases are heard by regional and district courts acting as the first instance depending on the nature and/or size of the claim, district and appellate courts act as second instance, and the Supreme Cassation Court always acts as a court of final instance. In civil cases, an appeal to the second court instance is as of right, while an appeal to the Supreme Cassation Court is by leave. Judgments rendered on some types of claims (mainly small claims) may not be appealed before the Supreme Cassation Court. In criminal cases, appeals to both second instance courts and the Supreme Cassation Court are as of right (subject to exceptions concerning less serious criminal offences). Prosecutors of criminal cases are led by the Prosecutor General who provides oversight and guidance. The Prosecutor General may serve a single 7-year tenure.

Bulgaria and certain EU member states engaged in enhanced cooperation to establish the European Public Prosecutor's Office (the "**EPPO**") pursuant to Council Regulation (EU) 2017/1939 of 12 October 2017 implementing enhanced cooperation on the establishment of the European Public Prosecutor's Office. The EPPO is led by the European Chief Prosecutor and assisted by European Delegated Prosecutors across the respective EU member states. Ten European Delegated Prosecutors are located in Bulgaria. Since its establishment, in order to safeguard the EPPO's independence and support it in exercising its powers, the Government has sought to provide assistance and resources to the EPPO in Bulgaria, including separate premises and staff from those of the Bulgarian prosecution office.

The administrative justice system has two levels: 28 regional administrative courts and the Supreme Administrative Court. In some cases, the Supreme Administrative Court acts both as a first instance court and a cassation court (in the latter case with an expanded panel of five judges). The administrative justice system's primary function is the review, upon appeal, of the acts of the central and regional administrations (various central and local government agencies, as well as regulatory and supervisory authorities), including of the tax administration. The administrative courts also review, as a final instance, judgements of the trial courts in relation to administrative infringements (administrative penal proceedings).

The martial justice court system has three levels – three martial courts, the Martial Court of Appeals, and the Supreme Cassation Court.

Judges may acquire permanent tenure after five years in office, a performance appraisal and the requisite decision by the SJC. After that, they may only be discharged from office in particular circumstances, such as retirement age, resignation, inability to perform his/her duties or conviction.

Judges have criminal and civil immunity for acts performed in discharge of their official duty, unless the act constitutes an intentional crime.

The Constitutional Court is separate from the civil, criminal and administrative justice system.

As is the case with other constitutional democracies, Acts of the National Assembly are occasionally subject to challenge in the Constitutional Court. The Constitutional Court is composed of 12 judges appointed in equal quotas by the National Assembly, the President, and the judges of the Supreme Cassation and Administrative Courts. Each judge is appointed for a single term of nine years.

As part of the implementation of the Judicial System Reform Strategy (as defined below), which is discussed in detail below at "*The Republic of Bulgaria – Judicial System Reform*", on 16 December 2015, the National Assembly adopted amendments to the Constitution of the Republic of Bulgaria, promulgated in State Gazette, Volume 100/18 December 2015. In order to strengthen the independence and effectiveness of the SJC, and to ensure transparent appointments to the judiciary, the constitutional changes were aimed at making structural and organisational changes to the SJC. The SJC is the key institution governing the Bulgarian judicial branch. The SJC consist of 25 members and is independent from the executive and legislative branches. 11 of the members of the SJC are currently elected by the National Assembly by a two-thirds majority of the members of the National Assembly and 11 are elected by the magistrates from the judicial self-governing authorities themselves, for a term of five years. The remaining three members, i.e. the Chairpersons of the Supreme Cassation Court and the Supreme Administrative Court and the Prosecutor General, are members of the SJC as of right.

The SJC acts in plenum, through the chamber of judges, and through the chamber of prosecutors. The SJC's plenum is entitled to take all necessary decisions relevant to the entire judicial system, (i.e. to adopt the draft budget of the judicial system, to manage its immovable property, to propose the nomination and the resignation of the Chairpersons of the Supreme Cassation Court, the Chairperson of the Supreme Administrative Court and the Prosecutor General). The chamber of judges of the SJC, *inter alia*, appoints, promotes, demotes, transfers and discharges all judges from office, and respectively the chamber of prosecutors carries out similar functions in respect of prosecutors and investigating magistrates. Thus, the two chambers can take independent decisions on career development and appraisal for judges, on the one hand, and for prosecutors and investigating magistrates on the other. The two chambers also deal with other personnel related matters, as well as for other organisational aspects relevant to the respective part of the judicial system. The Judges' chamber includes 14 members (out of the 25 members of the SJC): the Chairpersons of the Supreme Cassation Court and of the Supreme Administrative Court, six members, directly elected by the judges and six members elected by the National Assembly. The Prosecutor's chamber consists of 11 members (out of the 25 members of the SJC) and includes the Prosecutor General, four members elected directly by prosecutors, one member elected directly by the investigating magistrates, and five members elected by the National Assembly. In line with the recommendations of the Commission for Democracy through Law (Venice Commission to the Council of Europe), the concept of a secret vote within the SJC has been removed and a requirement for a qualified majority of two-thirds of the members of the National Assembly to elect the Members of the SJC was introduced. The goal of these amendments is to ensure that the appointment procedures carried out by the Supreme Judicial Council are fully public and transparent and a significant track record of merit based appointments is established.

The Judicial Inspectorate (the "**Inspectorate**") was established in 2007 and is administratively attached to the SJC. It consists of 11 members elected by the National Assembly. Its task is to supervise the activity of the judicial system bodies without interfering with the independence of judges. The Inspectorate's members carry out their functions independently.

In order to enhance the institutional capacity of the Inspectorate, and to ensure the accountability and integrity of the judiciary and the effective prevention of conflict of interest and undue influence, following the adoption of the constitutional amendments above, the Inspectorate is now tasked with carrying out inspections on the integrity and conflict of interests of judges, prosecutors and investigating magistrates, on their property declarations, as well as determining actions which undermine the integrity of the judiciary and actions related to violations of the independence of judges, prosecutors and investigating magistrates. In 2019, the Structural Reform Support Programme of the Commission funded a project to improve the capacity of the Inspectorate and enable the Inspectorate to exchange best practices with peer institutions in other EU Member States for carrying out integrity checks on magistrates. The project was implemented by the Council of Europe and was finalised in February 2020.

The Commission established a mechanism for cooperation and verification of the Bulgarian legal system pursuant to Article 4(3) of the Treaty of Accession of Bulgaria to the EU by a decision dated 13 December 2006. This mechanism aims to ensure that the Bulgarian legal system meets the standards of the EU and requires Bulgaria to address specific benchmarks in the areas of judicial reform and the fight against corruption and organised crime.

In its latest report on Bulgaria's progress on the benchmarks of the Cooperation and Verification Mechanism (the "CVM"), published on 22 October 2019, the Commission concluded that Bulgaria has met all six benchmarks under the CVM, namely:

- *Benchmark 1 (Judicial Independence)* - Adopt Constitutional amendments removing any ambiguity regarding the independence and accountability of the judicial system;
- *Benchmark 2 (Legal Framework)* - Ensure a more transparent and efficient judicial process by adopting amendments to the Judicial System Act and the Civil Procedure Code. Report on the impact of these new laws and of the Penal and the Administrative Procedure Codes, notably on the pre-trial phase;
- *Benchmark 3 (Continued Judicial Reform)* - Continue the reform of the judiciary in order to enhance professionalism, accountability and efficiency. Evaluate the impact of this reform and publish the results annually;
- *Benchmark 4 (High Level Corruption)* - Conduct and report on professional, non-partisan investigations into allegations of high-level corruption. Report on internal inspections of public institutions and on the publication of assets of high-level officials;
- *Benchmark 5 (Corruption in General including Local Level and Borders)* - Take further measures to prevent and fight corruption, in particular at the borders and within local government; and
- *Benchmark 6 (Organised Crime)* - Implement a strategy to fight organised crime, focussing on serious crime, money laundering as well as on the systematic confiscation of assets of criminals. Report on new and ongoing investigations, indictments and convictions in these areas.

The Commission stated that "the progress made by Bulgaria under the CVM is sufficient to fulfil the country's commitments made at the time of its accession to the EU".

Since Bulgaria's accession to the EU, judgments and other judicial or similar action in certain civil and commercial matters originating in another EU Member State are recognised and enforced in Bulgaria pursuant to simplified rules established by, among others:

- Brussels I Regulation (recast);
- Regulation (EC) No. 805/2004 of the European Parliament and of the Council of 21 April 2004 creating a European Enforcement Order for uncontested claims;
- Regulation (EC) No. 1896/2006 of the European Parliament and of the Council of 12 December 2006 creating a European order for payment procedure (as amended);
- Regulation (EC) No. 861/2007 of the European Parliament and of the Council of 11 July 2007 establishing a European Small Claims Procedure (as amended); and
- Regulation (EU) 2015/848 of the European Parliament and of the Council of 20 May 2015 on insolvency proceedings.

By virtue of its membership in the EU, Bulgaria is also bound by certain international treaties, which set specific rules for the recognition and enforcement of judgments given by the courts of non-EU Member States which are parties or otherwise bound by such treaties. These include, among others:

- Convention of 30 June 2005 on Choice of Court Agreements (the so-called Hague Convention); and
- Convention on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (the so-called Lugano Convention (2007)).

Bulgaria is also a party to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, (the so-called New York Arbitration Convention).

Where necessary for the application of the international treaties set out above, or in the event of an absence of other applicable international multilateral or bilateral treaties governing the recognition and enforcement of foreign judgments, the rules of Bulgaria's Private International Law Code shall also apply.

In particular, judgments originating in non-EU countries (including judgments given by English courts) may be recognised and declared enforceable in Bulgaria after obtaining a recognition and enforcement permission (*exequatur*) from the Sofia City Court pursuant to the rules of the Private International Law Code and certain other applicable international treaties. The enforcement of foreign court judgments after a declaration of enforceability follows the rules of Bulgaria's Civil Procedure Code. See "*Risk Factors - Risks relating to Notes – Enforcement of Liabilities*" for further detail.

Judicial System Reform

The Updated Strategy to Continue the Reform of the Judicial System (the "**Judicial System Reform Strategy**") was adopted by the Council of Ministers on 18 December 2014. The Judicial System Reform Strategy was developed by the Ministry of Justice and aims to further develop the partially implemented Judicial Reform Strategy of 2010.

The overall objective of the Judicial System Reform Strategy is to continue the modernisation of the judiciary and to complete its reform within seven years. The implementation of the Judicial System Reform Strategy, and the roadmap to it, are monitored by the Ministry of Justice on a regular basis through the publication of six-month implementation reports. These reports are public and uploaded to the website of the Ministry of Justice. With the conclusion of the seven year implementation period of the Judicial System Reform Strategy, plans for drafting an analysis on the implementation of the strategic and specific goals to date have been initiated as well as for drafting a new strategic document.

In parallel, key reforms to guarantee an independent judiciary and the efficient counteracting of corruption have been included in the National Recovery and Resilience Plan of Bulgaria and the national development programme known as 'Bulgaria 2030'.

The National Strategy for Prevention and Counteraction of Corruption in the Republic of Bulgaria (2021 - 2027) was adopted by Decision No. 235 of the Council of Ministers on 19 March 2021 (the "**Prevention and Counteraction of Corruption Strategy**") and is a continuation of the country's efforts to formulate and implement State policy for the prevention and combat of corruption. The Prevention and Counteraction of Corruption Strategy reaffirms the principles of the anti-corruption policy enshrined in the National Strategy for Prevention and Counteraction of Corruption in the Republic of Bulgaria (2015 – 2020). The Prevention and Counteraction of Corruption Strategy aims to deepen and expand on the work undertaken to date as well as identifying new priorities and measures to target corruption. On this basis, the measures used to implement this strategy are administrative, institutional and legislative in nature.

The Prevention and Counteraction of Corruption Strategy focuses on seven priorities, and the necessary measures to achieve them: (i) strengthening the capacity and increasing transparency in the work of anti-corruption bodies and units; (ii) counteracting corruption crimes; (iii) strengthening the capacity and improving the work of the bodies in charge of control and sanctioning powers in the administration; (iv) increasing the transparency and accountability of local authorities; (v) freeing citizens from "petty" corruption; (vi) creating an environment for public intolerance of corruption; and (vii) timely response to the need to update the anti-corruption measures set out in the National Strategy for Prevention and Counteraction of Corruption (including in response to recommendations made by international institutions).

A roadmap has been approved for the Prevention and Counteraction of Corruption Strategy, which envisages the necessary measures to achieve each priority, types of implementation actions, indicators and deadlines for implementation, expected results, funding options and the institutions responsible for such measures.

Decision No. 665 of the Council of Ministers of 9 September 2021 supplemented Decision No. 235 of the Council of Ministers of 19 March 2021 on the adoption of the Prevention and Counteraction of Corruption Strategy. The amendment made changes to the priority of increasing the transparency and accountability of local authorities, including the creation of administrative powers and discretion in setting business rules at a local level, and the selective application of administrative and regulatory regimes that worsen the business climate. In addition to this, a new priority was introduced: the establishment of mechanisms to

improve the business environment and encourage investment by establishing a system for monitoring the good governance and the corruption risk management by local authorities and local self-government.

The Prevention and Counteraction of Corruption Strategy is aimed at building a more secure, economically stable and future-oriented environment in Bulgaria. In the long term, its effective implementation is expected to lead to citizens having increased trust in State bodies and the administration, a stable and predictable administration, and in turn increased prosperity for Bulgaria.

The National Anti-Corruption Policies Council ("**NACPC**") was established by Decree No. 136 of the Council of Ministers of 29 May 2015 (the "**2015 Decree**") in implementation of the measures under the priority of the previous strategy for the building an effective system of anti-corruption bodies and units.

NACPC is an inter-ministerial body with advisory, coordination and control functions in respect of anti-corruption policies and is chaired by the National Coordinator for Anti-Corruption Policies. The NACPC is necessary given the supra-ministerial nature of the State anti-corruption policy and the need for various bodies to join forces to achieve more significant results in preventing and combating corruption.

The NACPC established a civil society council (the "**Civil Society Council**"). The Civil Society Council monitors and controls the implementation of anti-corruption policies, gives opinions and makes proposals to increase the effectiveness of the policies. The nominal composition of the Civil Society Council is determined by an order of the Chairman of the NACPC. The members of the Civil Society Council may attend the meetings of the NACPC and receive the materials intended for the meeting, not later than the term provided for the members of the NACPC.

In the next strategic period (2021-2027), the NACPC continues to function as an inter-ministerial body for anti-corruption policies, with advisory, coordination and control functions regarding the development and implementation of policies in the field of prevention and combating corruption being redefined in accordance with the new legislative framework in general. In particular, as part of the new Prevention and Counteraction of Corruption Strategy the preventive functions assigned to the Commission for Counteracting Corruption and for Seizure of Illegally Acquired Property ("**CCCSIAP**") according to the Counter-Corruption and Unlawfully Acquired Assets Forfeiture Act ("**CCCSIAP Act**").

CCCSIAP is an independent, specialised, permanent State body for the implementation of the policy on the counteraction of corruption and the confiscation of illegally acquired property. The CCCSIAP is a collective body consisting of five members: a chairman, a vice-chairman and three other members. A Bulgarian citizen with high professional and moral qualities, with a university degree in law and at least 10 years of legal experience, may be elected chairman of the CCCSIAP. The chairman of the CCCSIAP is elected by the National Assembly on the basis of a proposal by the members of the National Assembly. A Bulgarian citizen with high professional and moral qualities, with a higher legal or economic education, a master's degree and at least 5 years of experience in their respective specialty may be elected as vice-chairman of the CCCSIAP. Bulgarian citizens with high professional and moral qualities, higher education, a master's degree and at least 5 years of professional experience may be elected as members of the CCCSIAP. The vice-chairman and the members of the CCCSIAP are elected by the National Assembly on the basis of a proposal from the Chairperson of the CCCSIAP.

The CCCSIAP Act envisages that the CCCSIAP will achieve the prevention of corruption by collecting, summarising and analysing information on national anti-corruption policies and measures, performing analyses, developing and proposing measures for the prevention and counteraction of corruption, and arranging the implementation of such measures, including by sectors, as well as the implementation of activities for dissemination of information related to the fight against corruption, including anti-corruption policies and measures.

The CCCSIAP Act stipulates that the analyses and proposals for anti-corruption measures prepared by the CCCSIAP shall be submitted to the competent authorities, and such competent authorities are obliged to review and decide on such proposals within one month thereafter and inform the CCCSIAP of the adopted measures, the deadlines for their implementation and the rationale for their decision. The relevant competent authorities are also obliged to inform the CCCSIAP when implementing any such anti-corruption measures and the results of their implementation.

As of the date of this Offering Circular, a draft bill is under discussion by the Council of Ministers to divide the CCCSIAP into two separate administrative bodies; one tasked with the prevention of corruption and the

other tasked with the forfeiture of unlawfully acquired assets. There are also ongoing discussions on whether to increase the scope of the proposed separate commissions and whether to grant them investigative powers.

In addition to this, as of the date of this Offering Circular, and within the framework of the horizontal rule of law mechanism, the Government is in an active dialogue with the Commission in respect of judicial reform and the fight against corruption. Bulgaria was one of the first countries to voluntarily agree to participate in the abovementioned mechanism which facilitates the exchange of experience in such matters and best practices.

Regional Government Structure

- The Constitution of Bulgaria sets out the principles for administrative division and local self-governance within the country;
- the territory of Bulgaria is divided into municipalities and regions;
- municipalities are the main administrative and territorial units that are responsible for local governance;
- municipalities are independent legal entities with property rights and their own budgets;
- citizens can participate in the municipal government indirectly through local elections and directly through referendums and general meetings; and
- Sofia is the capital of Bulgaria.

The administrative structure of Bulgaria and the public relationships connected with local self-governance and local administration within the country are further governed by the Territorial Administration of Bulgaria Act and the Local Self-Government and Local Administration Act, as well as a number of Acts of Parliament regulating self-governance of municipalities.

Since 1998 Bulgaria has been divided into 28 regions. Regional boundaries, administrative centres and changes thereto are determined by Presidential decrees, subsequent to a proposal by the Council of Ministers. Regions are named after their administrative centres. Each region is governed by a Regional Governor appointed by the Council of Ministers, who is a representative of the executive branch and is appointed and dismissed by a resolution of the Council of Ministers.

The regions of Bulgaria are currently sub divided into 265 municipalities. Municipalities are established by a resolution of the Council of Ministers, which is confirmed by a presidential decree. Municipalities are the main administrative territorial units through which local self-government is exercised. Each municipality is governed by a Mayor and a Municipal Council.

Municipalities are in turn divided into mayoralties. Mayoralties are settlements with a population exceeding 100 inhabitants. Cities with a population of more than 300,000 people (i.e. Sofia, Plovdiv and Varna) are sub divided into districts. Mayors are also elected in mayoralties, as well as in the districts of Sofia, Plovdiv and Varna.

The Local Self-Government and Local Administration Act empowers Bulgarian citizens to resolve issues of local importance directly by means of a referendum or a general assembly of the local community or indirectly through their elective bodies.

The population in each municipality elects its Municipal Council, as well as the Mayors of the municipalities, mayoralties and districts of Sofia, Plovdiv and Varna. The elections are carried out in compliance with the provisions of the Electoral Code of Bulgaria, promulgated in 2014.

The acts of a Municipal Council are subject to control by the relevant Regional Governor and can be appealed against before the competent administrative court. The Mayor of the Municipality is entitled to call for further discussion on acts which do not comply with the law of the Republic or that go against the best interests of the municipality; the Mayor of the Municipality can also appeal acts of the Municipal Council before the relevant administrative court.

Mayors of municipalities, mayoralties and districts are officers of the local executive authorities and manage the implementation of executive activities of municipalities. The acts of a Mayor are subject to control by the respective Regional Governor and the Municipal Council and can be appealed before the competent administrative court.

The last elections for self-government bodies were held on 27 October 2019 and the next elections are expected to be held in 2023.

Legal Proceedings

Dispute between ČEZ, a.s. and the Republic of Bulgaria

In 2016, ČEZ, a.s., an energy company registered in the Czech Republic, commenced an international arbitration case against Bulgaria before the International Centre for Settlement of Investment Disputes. ČEZ, a.s. contends that through various legal and administrative acts and omissions taken by state organs and instrumentalities, including with regards to setting electricity prices, Bulgaria violated its obligations under the Czech-Bulgaria BIT and the Energy Charter Treaty. ČEZ, a.s. is claiming damages in the amount of EUR 1.04 billion plus 1.9% post-award interest. The arbitration remains pending. Bulgaria denies the merits of the claims and continues to defend itself vigorously. However, the Republic is unable to form an opinion as to the outcome or the timing of the arbitration with ČEZ, a.s.

Dispute between Vasilisa Ershova and Jegor Jershov and the Republic of Bulgaria

In 2022, Vasilisa Ershova and Jegor Jershov, citizens of Lithuania, commenced an international arbitration case against Bulgaria before the International Centre for Settlement of Investment Disputes. The claimants contend that through various legal and administrative acts and omissions taken by courts and other state organs and instrumentalities, related to their father's investment in the Bulgarian company Petrol, Bulgaria violated its obligations under the Energy Charter Treaty. The claimants are claiming damages in the amount of EUR 1.07 billion. The arbitration is at an initial stage and the arbitral tribunal has not been constituted yet. Bulgaria denies the merits of the claims and intends to defend itself vigorously. However, the Republic is unable to form an opinion as to the outcome or the timing of the arbitration.

International Relations

Bulgaria is a member of a large number of international organisations which include: the United Nations; the United Nations Human Rights Council; the Organisation for Security and Cooperation in Europe; the Council of Europe; the WTO; the International Labour Organisation; the Central European Initiative; the Organisation of the Black Sea Economic Cooperation ("**BSEC**"); the International Monetary Fund; the World Bank; the European Investment Bank; the Council of Europe Development Bank; the European Bank for Reconstruction and Development ("**EBRD**"); and the Black Sea Trade and Development Bank ("**BSTDB**").

Although Bulgaria is not currently a member of the Organisation for Economic Co-Operation and Development ("**OECD**"), it has implemented a number of OECD measures. Membership in the OECD is a key priority of Bulgaria. A decision of the OECD Council on 25 January 2022 recognised Bulgaria's progress toward fulfilling the criteria outlined in the OECD's Framework for Consideration of Prospective Members and the Council decided to commence accession discussions with Bulgaria. During the OECD Ministerial Council Meeting held on 9-10 June 2022, the roadmap for Bulgaria's accession to the OECD was adopted by the OECD Council, which takes into account the priority areas and parameters identified by existing OECD members. On 16 November 2022 the Council of Ministers adopted the Initial Memorandum of the Republic of Bulgaria, setting out a first self-assessment of the alignment of Bulgaria's legislation, policies and practices with each OECD legal instrument in force. As part of the accession procedure, over the next few years OECD committees would complete in-depth technical reviews in line with the accession roadmap. The formal invitation to Bulgaria as a candidate country to become a member of the OECD requires a unanimous decision of the OECD Council.

Bulgaria is also a member of the International Investment Bank and International Bank for Economic Co-operation. However, as a result of the war in Ukraine, the Republic announced in March 2022 that it, along with other EU members, would withdraw from both financial institutions given Russia's shareholding in both institutions. As of the date of this Offering Circular, the Republic is in the process of following the

procedures for termination of these memberships as set out in the governing documents of the International Investment Bank and International Bank for Economic Co-operation.

Relationship with major Supranational Financial Institutions

International Monetary Fund ("IMF")

Bulgaria joined the IMF in 1990. At present Bulgaria has no active agreement with the IMF and all its obligations to the IMF are fully settled. The IMF holds regular Article IV consultations with the country on a 12 month cycle and makes unscheduled staff visits. The 2022 IMF regular Article IV mission was conducted in Sofia between 5 – 15 April 2022. The last IMF Article IV report was published on 24 June 2022. Currently Bulgaria's quota share in the IMF is 0.19 per cent. of the total IMF quota.

World Bank

Since Bulgaria joined the World Bank in 1990, the World Bank, through the International Bank for Reconstruction and Development ("**IBRD**"), has provided significant financial support for structural reforms and development in the infrastructure, social, health, environment, telecommunications, energy and financial sectors. Since the beginning of its operations in the country, the World Bank had authorised approximately USD 3.3 billion in IBRD loans to Bulgaria. As of 31 December 2022, there were no undisbursed funds.

European Investment Bank ("EIB")

Bulgaria signed its first framework agreement with the EIB in 1991 and became a full member of the EIB upon its accession to the EU in January 2007.

Since the commencing of its operations in Bulgaria, the EIB has provided funds totalling EUR 5.8 billion to finance investment projects that are considered important for Bulgaria's economic development. Operations of the EIB in Bulgaria cover all major economic sectors, ranging from basic infrastructure such as transport, communications, energy and the environment to manufacturing and services, including support for small and medium-sized enterprises ("**SMEs**") through local financial institutions and the development of a knowledge-based economy.

Council of Europe Development Bank ("CEB")

Bulgaria has been a member of CEB since May 1994. During the period between 2010-2022, CEB has committed around EUR 675 million in socially oriented projects for increasing employment in SMEs, environmental protection, health and public infrastructure in Bulgaria.

*European Bank for Reconstruction and Development ("**EBRD**")*

Bulgaria is a founding member of the EBRD. Since the beginning of its operations in Bulgaria, the EBRD has invested EUR 4.348 billion in sustainable infrastructure, financial institutions, industry, commerce and agribusiness projects, with 55 per cent. of its investment portfolio in the private sector.

*Black Sea Trade and Development Bank ("**BSTDB**")*

Bulgaria is a founding member of the BSTDB. The BSTDB has provided funding in the amount of EUR 935.2 million for approximately 39 projects in Bulgaria for SMEs, financial sector, real estate sector, materials, telecommunications, transport, and renewable energy projects.

European Union

Bulgaria became a full member of the EU on 1 January 2007. Bulgaria first submitted its application for EU membership in December 1995. Following the Helsinki European Council's decision in December 1999, the accession negotiations between Bulgaria and the EU lasted for four years, commencing in 2000 and concluded by the European Council of 17 December 2004. The European Parliament gave its support to Bulgaria's EU membership on 13 April 2005. The Accession Treaty of Bulgaria to the EU (the "**Accession Treaty**") was signed on 25 April 2005. Bulgaria is a Member State with derogation as it has not yet joined the Euro area. On 1 January 2018, Bulgaria took over the presidency of the Council of the EU until 30 June 2018.

Between 23 and 26 of May 2019, the ninth European elections were held, with 28 member states voting. The results of the 2019 election were: the European People's Party (EPP) winning 182 seats in the European parliament; followed by Progressive Alliance of Socialists and Democrats (S&D) – (154 seats); Renew Europe – (108 seats); Group of the Greens/European Free Alliance (Greens/EFA) – (74 seats); Identity and Democracy (ID) – (73 seats); European Conservatives and Reformists Group (ECR) – (62 seats); Non-attached Members – (57 seats) and the Confederal Group of the European United Left - Nordic Green Left (GUE/NGL) – (41 seats).

Bulgaria currently holds 17 seats in the European parliament. After the recent European Parliamentary elections of 2019, GERB (EPP member) holds six seats, BSP (S&D) – holds five seats; the Movement for Rights and Freedoms (ALDE) – holds three seats; IMRO-BND (ERC) – holds two seats; and Democrats for Strong Bulgaria (EPP) – holds one seat.

Economic Relations with the EU

Full membership of the European Economic and Monetary Union and the adoption of the single currency are both required by the Accession Treaty and these have been set as objectives by the Government. The Bulgarian lev participates in a currency mechanism that precedes euro adoption, the Exchange Rate Mechanism II ("**ERM II**"), since 10 July 2020 and has not altered its exchange rate since. The Government's target date for euro adoption remains 1 January 2024 and the relevant authorities are currently working to meet the Maastricht criteria by this target date. In addition to this, the Government is following up on a number of related formal commitments in various policy areas such as: (i) strengthening the supervision framework in the non-banking financial sector, (ii) improving the Anti-Money Laundering Framework, (iii) optimising the insolvency framework and (iv) improving the management of state-owned enterprises in line with good international practices. Bulgaria will also continue implementing the extensive reforms carried out in the judiciary and in the fight against corruption and organised crime in Bulgaria, given their importance to the stability and the integrity of the financial system. The relevant authorities, together with the responsible EU bodies, will closely monitor macroeconomic policy developments and the implementation of these policy measures, in the appropriate frameworks.

Since the accession of the Bulgarian lev to ERM II, Bulgaria has also made progress on its practical preparation for the introduction of the euro. The Coordination Council for the Preparation of the Republic of Bulgaria for Euro Area Membership elaborated and adopted a National Euro Changeover Plan where it communicated the country's commitment to enter the euro area at the existing fixed exchange rate of 1.95583 lev to 1 euro and has made clear its ambition to do so on 1 January 2024. In view of this target date, Bulgaria will continue to intensify work in specific activities related to its preparation for euro area membership.

On 1 October 2020, Bulgaria acceded to the Banking Union as part of its commitment to ERM II accession. As the first pillar of the Banking Union, the Single Supervisory Mechanism currently supervises five Bulgarian banks directly, three of which are the largest banks in Bulgaria in terms of assets. Bulgaria also participates in the Single Resolution Mechanism, the second pillar of the Banking Union, whose purpose is to ensure an orderly resolution of failing banks with minimal costs for taxpayers and the real economy. The Single Resolution Mechanism is equipped with a Single Resolution Fund, a common resolution fund financed by the banking sector, which, as of the date of this Offering Circular has a capacity of EUR 52 billion.

As an EU Member State, Bulgaria is subject to multilateral surveillance by the European Council. As a result of this, Bulgaria is obliged to prepare an annual Convergence Programme covering fiscal policy, Bulgaria's main assumptions underlying its economic outlook, and an assessment of economic policy measures and their budgetary impact. Bulgaria is also required to send annual updates on the National Reform Programme as part of the European Semester surveillance. These updates must cover the current year and previous year and include forecasts for at least the next three years.

On 2 March 2012, Bulgaria signed the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union ("**TSCG**") aimed at strengthening fiscal discipline and introducing stricter surveillance, in particular by establishing a "balanced budget rule". Following the ratification of the treaty by the National Assembly in November 2013, Bulgaria has been obliged to apply Part III "**Fiscal Compact**" of the Treaty (effective from 1 January 2014). Bulgaria has already transposed all the fiscal rules envisaged in the six-pack, and further elaborated in the TSCG, into Bulgarian law.

The EU structural assistance to Bulgaria for the period between 2007 and 2013 was rendered by the European Social Fund, the European Regional Development Fund and the Cohesion Fund and amounted to EUR 6.7 billion. The assistance was provided under Operational Programmes ("OPs") elaborated by EU Member States and approved by the Commission. The OPs were designed to improve working and living conditions in EU Member States in different economic sectors, including transport and environment protection infrastructure, investments in business, sustainable development, information society, energy efficiency, direct and indirect assistance to research and development and enhancement of public administration capacity. The overall absorption rate under these OPs reached 97 per cent. of the total budget allocated to Bulgaria.

For the 2014-2020 programming period, the total EU assistance allocated to Bulgaria under European Social Fund, the European Regional Development Fund, Cohesion Fund and the Fund for European Aid for the most deprived, amounts to EUR 8.1 billion, of which EUR 5.8 billion has been received by Bulgaria by 30 November 2010. It was distributed between the following OPs: "Transport and Transport Infrastructure", "Environment", "Regions in Growth", "Innovations and Competitiveness", "Human Resources Development", "Science and Education for Intelligent Growth", "Good Governance", "Small and Medium Enterprises Initiative" and Operational programme for food and/or basic material assistance.

As part of the European Commission's recovery plan, launched in 2020 following the outbreak of the COVID-19 pandemic, the Recovery Assistance for Cohesion and the Territories of Europe ("REACT-EU") programme was implemented. The resources allocated to Bulgaria under the REACT-EU programme amount to EUR 0.6 billion. The measures financed by the REACT-EU programme are being implemented under five of the Commission's 2014-2020 programming period OPs: "Human Resources Development", "Innovations and Competitiveness", "Regions in Growth", "Science and Education for Intelligent Growth" and "Operational programme for food and/or basic material assistance".

For the programming period 2021-2027 the total EU assistance to Bulgaria from ESF, ERDF, JTF and CF is EUR 10.8 billion (13.0 billion including national co-financing), and is distributed between the following nine programmes:

Programme	Programme Budget Total
	<i>(EUR millions)</i>
Education	964.92
Human Resources Development	1 967.51
Food and/or Basic Material Support.....	210.50
Transport Connectivity.....	1 901.16
Environment.....	1 823.21
Development of Regions.....	3 367.03
Competitiveness and Innovation in enterprises	1 499.59
Research, Innovation and Digitalization for Smart Transformation	1 093.45
Technical Assistance.....	121.48
Total	12 948.85

The Partnership Agreement between the European Commission and Bulgaria was approved on 6 July 2022, and as of 31 December 2022 all of the programmes were approved by the European Commission.

The following table sets out the current status of the OPs co-financed by the ESF, ERDF, CF, and the Fund for European Aid to the Most Deprived (FEAD) (including REACT-EU) as of 31 November 2022:

OPs	Programme Budget Total	Contracted		Payments	
		Total as of 30 November 2022	Implementat ion (%)	Total as of 30 November 2022	Implementat ion (%)
		<i>(EUR millions, except percentages)</i>			
Transport and Transport					
Infrastructure.....	1,789.12	1,638.09	91.56	1,097.11	61.32
Environment.....	1,734.67	1,900.61	109.57	1,061.13	61.17
Regions in Growth	1,609.28	1,562.03	97.06	1,112.51	69.13
Innovations and Competitiveness.....	1,646.86	1,701.16	103.30	1,376.95	83.61
Human Resources.....	1,335.45	1,441.44	107.94	1,213.48	90.87
Science and Education for Intelligent Growth.....	690.24	739.70	107.17	506.22	73.34
Good Governance.....	280.47	275.90	98.37	213.20	76.02
Small and Medium Enterprises Initiative ..	102.00	102.00	100.00	102.00	100.00

OPs	Programme Budget Total	Contracted		Payments	
		Total as of 30 November 2022	Implementat ion (%)	Total as of 30 November 2022	Implementat ion (%)
<i>(EUR millions, except percentages)</i>					
OP for food and/or basic material assistance	161.88	162.00	107.07	156.26	96.53
Total	9,349.97	9,522.93	-	6,838.86	73.14

Source: Ministry of Finance.

Under the European Commission's Recovery and Resilience Facility Bulgaria is expected to receive EUR 5.7 billion in the form of grants during the period from 2022 to 2026. Bulgaria does not intend to take advantage of the loan component of the mechanism. The National Plan for Recovery and Resilience was adopted by the Council on 4 May 2022, and the payments to beneficiaries started in the beginning of September 2022.

The National Plan for Recovery and Resilience focuses on four key pillars for economic growth: (i) Innovative Bulgaria; (ii) Green Bulgaria; (iii) Connected Bulgaria; and (iv) Fair Bulgaria.

Innovative Bulgaria has been allocated 25.3 per cent. of the resources available and will focus on the following:

- *business* – the economic transformation of SMEs through grants for technological modernisation, cyber security, renewable energy sources for own consumption and enabling a circular economy;
- *education* – grants for STEM centres, equipment for specialised classrooms, qualification of pedagogical specialists in STEM education, reform in pre-schools, investment in school education and lifelong learning, increasing the focus on applied competencies, innovations and STEM, developing cognitive skills, creation of innovative schools, and preparing a new standard for quality validation of professional skills; and
- *science* – development of research universities.

Green Bulgaria has been allocated 41.9 per cent. of the resources available and will focus on the following:

- *low carbon economy* – improving the energy efficiency of buildings by providing finance for energy renewal of residential, public and industrial buildings;
- *green energy and security* – construction of renewable energy sources with batteries and infrastructure for energy storage, research activities including a pilot project for geothermal power, and liberalisation of the energy market;
- *biodiversity* – ensuring the effective management of the national ecological network, integrating an 'eco-systematic' approach and recovery of key climate eco-systems; and
- *sustainable agriculture* – updating the agricultural sector's strategic frame, building up the technological and ecological transition of agriculture, and developing process digitalisation.

Connected Bulgaria has been allocated 18.3 per cent. of the resources available and will focus on the following:

- *competitiveness* – focusing on increasing the competitiveness and sustainable development of the regions (such as transport and digital connectivity) as well as local development;
- *carbon footprint* – reducing the carbon footprint of the transport sector through investments in the modernisation and digitalisation of the railway sector, and updating the strategic framework of the transport sector;
- *digital infrastructure* – wide development of digital infrastructure such as increasing the coverage of high capacity networks and digitisation of public administration and digital public services, enhancing digital skills and supporting the digitisation of businesses as well as the transport and energy sectors; and
- *transport* – stimulating electric mobility and public transport.

Fair Bulgaria has been allocated 14.6 per cent. of the resources available and will focus on the following:

- *business environment* – addressing disincentives in the business environment and developing the potential of e-Government to improve access;
- *social inclusion* – focusing on vulnerable people to achieve sustainable growth, establishing effective and responsible public institutions, and improving the quality and extending the scope of offered social services; and
- *health* – increasing the resilience of the health system to shocks while increasing the population's access to quality and timely health care.

The Bulgarian contribution to the EU budget was EUR 7.2 billion for the period between 1 January 2007 and 31 December 2021. The following table sets out the resources paid by Bulgaria to the EU Budget for the period between 2007-2021:

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total 2007- 2021
	<i>(EUR millions)</i>															
Traditional Own																
Resources	61	86	53	42	49	46	55	57	60	79	76	97	92	87	163	1 102
Customs Duties	61	86	52	42	49	45	54	56	59	79	76	97	92	87	163	1 098
Sugar Levies	0.0	0.4	0.4	0.4	0.4	0.6	0.4	0.4	0.4	0.4	0.4	0.0	0.0	0.0	0.0	4.2
Total National																
Contribution	244	282	329	300	349	368	423	432	424	360	378	457	519	575	697	6 136
VAT-based resources	46	53	51	46	51	53	60	63	57	62	68	79	91	83	98	961
GNI-based resource..	177	201	250	237	277	292	336	341	334	255	280	345	392	440	541	4 699
Non-recycled plastic packaging waste ..	0	0	0	0	0	0	0	0	0	0	0	0	0	0	22	22
UK rebate.....	21	29	25	15	18	20	24	28	33	33	27	29	31	47	0	378
Gross reductions and "opt-out"*	0	0	2	2	2	3	3	0	0	10	4	4	5	5	35	75
Total (Traditional Own Resources and National Contribution)	304	368	382	342	398	414	478	488	484	439	454	554	610	662	860	7 238

* Gross reductions in favour of certain Member States in the different periods (the Netherlands, Sweden, Denmark, Austria and Germany) as well as "opt-out" in favour of certain Member States in the different periods (Denmark, United Kingdom, Ireland, Hungary, Poland and Sweden)

Source: Ministry of Finance

North Atlantic Treaty Organisation

Bulgaria's national security and defence is guaranteed primarily through NATO's collective defence. Therefore, NATO membership remains the cornerstone of Bulgaria's defence policy.

At the NATO Summit in Madrid in June 2022, the member states adopted a new Strategic Concept with a strong emphasis on the collective defence and deterrence to guide members in responding adequately to the changed geo-strategic reality in the years to come.

NATO's primary focus currently is the response to Russia's invasion in Ukraine, particularly the longer-term adaptation of NATO's deterrence and defence posture along the entire Eastern Flank. This is even more important for Bulgaria as Russia's invasion in Ukraine gravely affected security in the Black Sea. Bulgaria supports the European and Euro-Atlantic integration of the aspirant countries in the Western Balkans and the Black Sea region, which is an important element of the Republic's broader approach to strengthening regional security and stability. Bulgaria is increasing its tailored political and practical support for the countries that are most vulnerable to Russian threats (Georgia, Moldova and Bosnia and Herzegovina) and influencing NATO's partners.

Direct contributions are made to finance requirements of the NATO that serve the interests of all 30 members and are not the responsibility of any single member. Costs are borne collectively, using the principle of common funding. Common funding arrangements are used to finance NATO's principal budgets:

- *Civil budget (running costs for the NATO headquarters)* – Bulgaria's contribution is provided through the Ministry of Foreign Affairs;
- *Military budget (costs of the integrated command structure)* – provided through the Ministry of Defence; and

- *NATO Security Investment Programme (military capabilities)* – provided through the Ministry of Defence.

Member countries contribute to NATO common funding in accordance with an agreed cost-sharing formula based on Gross National Income. Bulgaria's share in these three budgets would amount to 0.3656 per cent. in the period between 2021-2024.

In principle, NATO does not provide any financial assistance to its member states. Through common funding, the NATO Security Investment Programme ("**NSIP**") covers major construction, command, and control system investments in the member states, which are beyond the national defence requirements of individual member states. As part of the indirect funding of NATO, member states agreed to commit a minimum of 2 per cent. of GDP to spending on defence. This guideline principally serves as an indicator of a country's political will to contribute to NATO's common defence efforts. In addition, the defence capacity of each member country has an important impact on the overall perception of NATO's credibility as a political-military organization. Bulgaria has implemented a national plan to increase its defence spending in line with NATO's collective decisions and reach the targets of 2 per cent. of GDP on defence spending and 20 per cent. of defence spending on armaments and equipment by 2024.

Apart from the acquisition of the first batch of new multirole fighter jets F-16 Block 70/72 in 2019, other important defence investment projects are also underway. In 2022, Bulgaria began implementing the acquisition of the second batch of eight fighter jets F-16 Block 70/72. Bulgaria strongly supports continued NATO commitment and presence to strengthen the security and stability in the Black Sea region, aimed at reinforcing the reform efforts of the member countries and countering Russia's aggressive and destabilizing activities. In order to contribute and improve the situational awareness in the maritime domain in the Black Sea, Bulgaria has a proposal within NATO to host the Regional Maritime Coordination Presence (RMCP) in Varna that is pending a decision by all member states.

Russia's invasion in Ukraine has created a new geostrategic reality and is a direct blow to the European security architecture. This is the gravest threat to the Euro-Atlantic security directly affecting the Black Sea region as well. Relations between NATO and Russia that aim at ensuring stability and predictability in the Euro-Atlantic area will be possible only if Russia changes its aggressive behaviour and returns to act in compliance with the international law. Russia has intensified the use of hybrid, coercion and intimidation tactics as demonstrated by weaponising the energy and food supplies to Europe.

Bulgaria has consistently supported Ukraine in its war against Russia. Bulgaria has provided non-lethal military and military-technical assistance to Ukraine, as well as education and training of Ukrainian military personnel at the Bulgarian Naval Academy. The National Assembly has recently adopted a decision to provide military assistance which is in process of implementation and Bulgaria is preparing additional assistance package of food supplies, mineral water and generators to be sent to Ukraine. Bulgaria also decided to transfer the financial resources earmarked for the NATO-run Afghan National Army (ANA) Trust Fund (USD 141,000) to the Comprehensive Assistance Package (CAP) trust fund for Ukraine. Bulgaria will also contribute to the EU Assistance Mission Ukraine (EUMAM) and has reiterated its support for Ukraine's lawsuit against Russia before the European Court of Human Rights and UN Court of Justice and investigations for possible war crimes.

In addition, the continuous erosion of the arms control regimes in Europe resulting from the increasingly confrontational behaviour of Russia is a source of vulnerability for Bulgaria due to its location in a region of clashing geopolitical interests.

Bulgaria continues to implement the agreed decisions of NATO on strengthening deterrence and defence, including stronger NATO presence and enhanced vigilance activities (e-VA). In December, NATO's multinational battlegroup in Bulgaria reached full operational capability.

Black Sea Economic Cooperation ("BSEC")

Bulgaria was one of eleven countries to sign the Summit Declaration and the Bosphorus Statement in Istanbul on 25 June 1992 giving rise to the BSEC. The BSEC is a multilateral political and economic initiative which aims to foster interaction and harmony among its Member States and ensure peace, stability and prosperity by encouraging good relations with neighbouring countries in the Black Sea region.

Many countries, including nine EU Member States, the United States, Egypt and Tunisia have observer status. Among the organisations with observer status is the Commission and the Energy Charter.

Organisation for Security and Cooperation in Europe ("OSCE")

Bulgaria has been a participating state since 1975. In 2004 Bulgaria took over the OSCE chairmanship for one year after receiving unanimous approval in the 10th Meeting of the Ministerial Council in Porto, Portugal in 2003.

Double Taxation Agreements

To date Bulgaria has concluded 70 bilateral double taxation agreements covering 71 countries¹, including Austria, Belgium, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Russia, Spain, the United Kingdom and the United States.

Foreign Investment Treaties

The Republic of Bulgaria is a party to a total of 62 bilateral treaties for the mutual protection and encouragement of foreign investment ("**BITs**"), as well as party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. As an EU Member State, Bulgaria is a party to the investment protection agreements and investment protection chapters of the free trade agreements concluded by the EU. In 2019, with the EU Declarations of 15 January and 16 January on the legal consequences of the judgment of the Court of Justice in Achmea and on investment protection in the EU, EU Member States committed to terminate their intra-EU bilateral investment treaties in a coordinated manner by means of a plurilateral treaty, unless bilateral terminations were considered to be mutually more expedient. On 5 May 2020, 23 Member States, including Bulgaria, signed an agreement for the termination of intra-EU bilateral investment treaties. The agreement is subject to ratification, approval or acceptance and will enter into force 30 calendar days after the date on which the Secretary-General of the Council of the EU receives the second instrument of ratification, approval or acceptance.

At the end of 2019, BITs with the following non-EU Member States remained in force: Albania (1994), Algeria (1998), Argentina (1993), Armenia (1995), Belarus (1996), China (1989), Cuba (1998), Egypt (1998), North Macedonia (1999), Georgia (1995), Iran (1998), Israel (1993), Jordan (2002), Kazakhstan (1999), Republic of Korea (2006), Kuwait (1997), Lebanon (1999), Libya (1999), Moldova (1996), Morocco (1996), Oman (2007), Russia (1993), San Marino (2007), Serbia (1996), Singapore (2003), Switzerland (1991), Syria (2000), Thailand (2003), Tunisia (2000), Turkey (1994), Ukraine (1994), USA (1992), Uzbekistan (1998), Vietnam (1996), Yemen (2002), Bahrain (2009), Qatar (2007), Mongolia (2000) and Pakistan (2002).

¹ Bulgaria applies its double taxation agreement with the former state of the Federal Republic of Yugoslavia to both Montenegro and Serbia.

THE ECONOMY

Background

Since the introduction of the currency board in July 1997, Bulgaria has achieved sustainable economic growth resulting from macroeconomic stability and structural reforms. The annual growth in GDP for the period between 2000 and 2008 was 5.9 per cent. on average. The high rates of investment in fixed capital were among the main factors for the accelerated economic growth before the global financial crisis of 2008-2009. Household consumption was also strong due to extensive financial flows into the Bulgarian economy. For the 2010-2019 period, the economy grew on average by 2.1 per cent. per annum as measured by GDP. In 2020, the COVID-19 crisis led to a GDP decrease of 4 per cent. however GDP has fully recovered in 2021 with growth of 7.6 per cent.

Since Bulgaria's accession to the EU in 2007, reforms have been made for the improvement of the business environment. The country's macroeconomic stability, consistent economic and prudent fiscal policies, improvement of institutional environment and continuous cuts in taxes and social security contributions have been at the core of Bulgaria's strong economic performance, increased investment activity, higher employment and real income growth.

Currently, the Government is committed to completing key structural reforms, which have a growth enhancing impact in the medium and long-term. Efforts are directed towards strongly improving the competitiveness of the economy, increasing employment and improving the sustainability of public finances.

Economic Developments and Trends

Prior to the COVID-19 pandemic economic growth in Bulgaria was stable. GDP expanded by 3.2 per cent. on average for the period 2017-2019. The unemployment rate reached 4.2 per cent. in 2019, the lowest level ever recorded. Wages, both in the private and the public sector, were on an upward trend while inflation averaged 2.1 per cent. for the period from 2017 to 2019. In this environment, the real disposable income of households increased, which in turn supported the growth in private consumption. Government expenditures also substantially contributed to the country's economic growth, primarily due to an increase in employee compensation and higher public investments. In the period from 2017 to 2019, the annual growth of export of goods and services averaged 3.8 per cent. The composition of Bulgaria's exports improved with the rising share of capital intensive and skilled labour products, although this is still considered low compared to other EU countries.

In 2020, the economy was materially impacted by the COVID-19 pandemic and the measures taken to contain the spread of the virus. The spread of the COVID-19 pandemic resulted in a decline in exports of 10.4 per cent. This in turn impacted GDP which declined by 4 per cent. There was a decrease in the employment rate, particularly in the wholesale and retail trade activities, transportation and storage activities, and accommodation and food service activities sectors.

In 2021, a strong increase in incomes and private consumption and a strong rebound in goods exported were recorded and, as a result, GDP increased by 7.6 per cent. External demand rebounded in 2021 and exports also started to recover, increasing by 11 per cent. in 2021. Bulgaria's main exports were non-ferrous metals (9.2 per cent. of exports), raw materials for the food industry (8.6 per cent. of exports) and food (6.7 per cent. of exports) in 2021. The export of goods reached and surpassed its pre-pandemic level, however the export of services remained affected by the relatively slower recovery in international travel and as a result was 18 per cent. below its 2019 level in 2021. In 2021, Bulgaria's main imports were crude oil and natural gas (8.3 per cent. of imports), machines and equipment (8.2 per cent. of imports) and food, drinks and tobacco (7.4 per cent. of imports). In aggregate, the positive balance of goods and services led to a strong current account balance, which posted a surplus of 1.1 per cent. of GDP on average for the five years ending 31 December 2021.

During the period between 2017-2019, the General Government sector reported average surplus of 1.8 per cent. of GDP on average in ESA 2010. Due to a set of implemented measures for tax compliance enhancement, revenue growth intensified to double-digits and outpaced nominal GDP growth in 2017 and 2018. Government expenditure increased on average in ESA 2010 in 2019 in line with the Government's implemented policy of increasing the gross fixed capital formation expenditures, as well as increase of the salaries in the public sectors.

Following the spread of the COVID-19 pandemic in 2020, the Government took swift action to support Bulgarian companies (particularly companies operating in adversely affected sectors), the health system, and the socially vulnerable sections of society. Despite this extended financial support to the economy, Bulgaria's fiscal position remained strong in 2020 and 2021. Although the deficit reached 3.8 per cent. in 2020 and 3.9 per cent. in 2021 (see "*Public Finance – Fiscal Policy*"), when the additional pandemic-related expenditures are removed, the country's fiscal position was close to balanced. The deficit further declined to 1.5 per cent. as of 30 June 2022 as expenditures are typically concentrated in the last quarter of the year.

The following table sets out certain macroeconomic data regarding the Bulgarian economy for the 2017-2021 period:

	2017	2018	2019	2020	2021
	<i>(EUR millions, except for percentages)</i>				
Nominal GDP	52,531	56,225	61,559	61,639	71,077
Real GDP (growth in per cent.)*	2.8	2.7	4.0	(4.0)	7.6
Real exports (growth in per cent.)*	5.8	1.7	4.0	(10.4)	11.0
Real imports (growth in per cent.)*	7.4	5.8	5.2	(4.3)	10.9
Unemployment (LFS**, per cent.)	6.2	5.2	4.2	5.1	5.3
Consumer prices (average growth in per cent.)	1.2	2.6	2.5	1.2	2.8
Domestic producer prices (average growth in per cent.)	4.2	4.1	3.8	(0.2)	14.9
General government surplus (deficit)	853	0,971	1,312	(2,348)	(2,768)
as a percentage of GDP	1.6	1.7	2.1	(3.8)	(3.9)
Total revenues	19,118	21,741	23,656	23,225	26,103
as a percentage of GDP	36.4	38.7	38.4	37.7	36.7
Total expenditures	18,266	20,770	22,344	25,573	28,871
as a percentage of GDP	34.8	36.9	36.3	41.5	40.6

Source: Eurostat, NSI.

* Calculated with not seasonally adjusted data.
Labour Force Survey.

Gross Domestic Product

In the period 2017-2018, real GDP growth was 2.8 per cent. and 2.7 per cent. respectively. This growth was driven by domestic demand with the increase of household incomes supporting the growth of private consumption. Higher public expenditures for consumption and investment also contributed to the GDP growth in 2018 and the contribution of public consumption was 0.8 per cent. and that of gross fixed capital formation was 1.0 per cent.

In 2019, real GDP growth was 4.0 per cent. as a result of the further strengthening of household consumption and acceleration of export growth. The low unemployment rate and further increase in household incomes stimulated the growth of household consumption which reached 5.9 per cent. in 2019, the highest figure since 2007. Public consumption also contributed positively to economic growth in 2019. The growth of gross fixed capital formation for the year reached 4.5 per cent. compared to 5.4 per cent. in 2018. This slowdown was due to lower growth of public investments.

In 2020, GDP decreased by 4 per cent. as the COVID-19 crisis led to a sharp decrease in the export of services. Lower external demand also negatively impacted the export of goods. Household consumption was down by 0.3 per cent. primarily due to lower consumption of services. Government expenditures for consumption and investment contributed positively to the economic growth in 2020.

In 2021, Bulgaria's real GDP grew by 7.6 per cent. and its level at constant prices surpassed that in 2019 before the crisis caused by COVID-19. The main contribution to GDP growth during 2021 was final consumption. The growth of private consumption reached 8.8 per cent., supported by higher disposable income of households, primarily as a result of increased compensation of employees and pensions. Government spending also supported the economy with a growth of 0.4 per cent. In addition to this, fixed capital investment fell by 8.3 per cent., due to both declining Government capital expenditures and weak private investment activity. The external sector had a positive contribution to GDP in 2021. The growth of exports of goods and services reached 11 per cent. and surpassed the growth of imports, which was 10.9 per cent.

GDP per capita (in purchasing power standards) also gradually improved from 50.3 per cent. of EU average in 2017 to 57.7 per cent. of EU average in 2021.

The following table sets out the components of real GDP in the 2017-2021 period:

	2017	2018	2019	2020	2021
	<i>(EUR millions, using constant prices(1), except for percentages)</i>				
Total consumption expenditure	37,632	39,153	41,152	41,730	44,516
<i>of which:</i>					
Private	29,780	30,884	32,724	32,543	35,396
Government.....	7,853	8,273	8,437	9,141	9,175
Gross fixed capital formation	9,209	9,706	10,146	10,206	9,356
Export of goods and services.....	33,573	34,156	35,514	31,832	35,335
Less: Import of goods and services	32,530	34,404	36,200	34,641	38,432
Real GDP	48,509	49,811	51,823	49,771	53,571
Percentage change (per cent.).....	2.8	2.7	4.0	(4.0)	7.6

⁽¹⁾ Constant prices are chain linked with 2015 as the reference year. Includes structural changes in the economy which have occurred within the period under observation, however the sum of component data does not necessarily equal the value acquired in calculation of the aggregate. Therefore data for total real GDP presented in the above table may not be equal to the sum of the components presented in the table.

Source: Eurostat.

The following table sets out nominal GDP and the annual percentage shares of nominal GDP by sector in the 2017-2021 period:

	2017		2018		2019		2020		2021	
	EUR million	Per cent. GDP	EUR million	Per cent. GDP	EUR million	Per cent. GDP	EUR million	Per cent. GDP	EUR million	Per cent. GDP
Industry (except construction).....	10,729	20.4	10,562	18.8	10,982	17.8	10,832	17.6	12,478	17.6
Construction.....	1,866	3.6	2,035	3.6	2,367	3.8	2,614	4.2	2,338	3.3
Agriculture, forestry and fishing.....	2,123	4.0	1,903	3.4	1,995	3.2	2,150	3.5	3,104	4.4
Services.....	30,459	58.0	34,216	60.9	37,807	61.4	37,875	61.4	44,257	62.3
Taxes less subsidies on products	7,355	14.0	7,509	13.4	8,408	13.7	8,168	13.3	8,899	12.5
Nominal GDP.....	52,531	100	56,225	100	61,559	100	61,639	100	71,077	100
Nominal gross value added ("GVA").....	45,176	86.0	48,716	86.6	53,151	86.3	53,471	86.7	62,178	87.5

Source: Eurostat.

The following table sets out real annual growth of GDP by sector in the 2017- 2021 period:

	2017	2018	2019	2020	2021
	<i>(real growth, percentage change on previous year)</i>				
Industry (except construction).....	0.5	(0.2)	(0.7)	(9.5)	5.4
Construction	4.0	1.1	3.7	(1.0)	(17.1)
Agriculture, forestry and fishing	8.5	(2.0)	4.1	(3.3)	28.8
Services.....	3.9	5.3	5.1	(2.6)	9.3
GVA.....	3.3	3.5	3.7	(4.0)	8.0
Taxes less subsidies on products	(0.6)	(2.2)	6.1	(3.7)	5.3
Real GDP	2.8	2.7	4.0	(4.0)	7.6

Source: Eurostat.

According to data published by the National Statistics Institute, real GDP growth for the period between January-September 2022 was 4.4 per cent. (seasonally adjusted data) and it was driven by an increase in consumption. For the whole of 2022 GDP growth of 2.9 per cent. is expected. Weaker external demand is expected to limit the increase in export in 2023 and GDP growth is expected to slow down to 1.6 per cent. in 2023.

Principal Sectors of the Economy

On the supply side, GVA, which is a measure of the total value of final products and services produced in a sector of an economy, increased by 2.9 per cent. on average in the 2017-2021 period. The main contributor to the growth was the services sector, particularly in the areas of trade, transport, accommodation and food service activities and information and communication activities. The share of information and

communication activities in Bulgaria's GDP increased from 5.3 per cent. in 2017 to 7.1 per cent. in 2020. The manufacturing sector also had a positive contribution to the growth in GVA on average in the 2017-2021 period.

The following table sets out the structure of GVA by sector in the 2017-2021 period:

	2017	2018	2019	2020	2021
			(per cent.)		
Industry (except construction).....	23.7	21.7	20.7	20.3	20.1
Mining and quarrying	2.2	1.9	1.4	1.7	1.6
Manufacturing.....	16.3	15.6	15.5	14.7	13.1
Electricity, gas, steam and air conditioning supply; Water supply; sewerage, waste management and remediation activities	5.2	4.2	3.8	3.9	5.4
Construction.....	4.1	4.2	4.5	4.9	3.8
Agriculture, forestry and fishing	4.7	3.9	3.8	4.0	5.0
Services.....	67.4	70.2	71.1	70.8	71.2
Wholesale and retail trade, transport, accommodation and food service activities	22.4	23.1	23.6	21.4	23.3
Information and communication	6.1	6.8	7.6	8.2	7.6
Financial and insurance activities.....	6.6	6.6	5.8	6.0	6.8
Real estate activities.....	10.0	10.6	10.3	9.8	9.1
Professional, scientific and technical activities; administrative and support service activities ...	6.1	6.5	7.1	6.9	6.6
Public administration, defence, education, human health and social work activities	13.9	14.4	14.4	16.6	16.1
Arts, entertainment and recreation; other service activities; activities of household and extra- territorial organizations and bodies.....	2.3	2.3	2.4	1.9	1.7

Source: NSI.

Services

The services sector is the biggest sector of the Bulgarian economy and, for the five-year period between 2017 and 2021, it represented on average 60.8 per cent. of nominal GDP. In 2017, GVA in services increased by 3.9 per cent., with the biggest contribution from real estate activities, public administration activities, and education and health activities. In 2018 and 2019, growth of GVA in services reached respectively 5.3 per cent. and 5.1 per cent. respectively. The growth was driven by wholesale and retail trade activities, transportation and storage activities, accommodation and food service activities, real estate activities, and information and communication activities. In 2020, services were affected by the restrictive measures aimed at curbing the spread of COVID-19. GVA decreased by 2.6 per cent. with the biggest decrease recorded in arts, entertainment and recreation services, wholesale and retail trade activities, transportation and storage activities, and accommodation and food service activities. In 2021, GVA in services was up by 9.3 per cent. with biggest contribution from wholesale and retail trade activities, transportation and storage activities, accommodation and food service activities and financial and insurance activities.

Industry

In 2021, the industrial sector (which includes mining and quarrying; manufacturing; electricity, gas, steam and air conditioning; water supply; and sewerage, waste management and remediation activities) accounted for 17.6 per cent. of nominal GDP as compared to 20.4 per cent. in 2017. At the same time, the construction industry's share of total nominal GDP decreased to 3.3 per cent. in 2021 from 3.6 per cent. in 2017.

Industry (excluding construction)

In 2017, the growth of GVA for industry (excluding construction) was 0.5 per cent. There was a negative contribution to the growth from the following sectors: manufacture of food products, beverages and tobacco products, and supply of electricity, gas, steam and air conditioning. The largest positive contribution to the growth was the sector for the manufacture of fabricated metal products. In 2018, the fall of GVA in mining and quarrying and supply of electricity, gas, steam and air conditioning led to a decrease of GVA in respect of industry (excluding construction) by 0.2 per cent. This decrease continued in 2019 and reached 0.7 per cent. In 2020, some export oriented sectors were affected by COVID-19 and the consequential lower external demand, this led to a decrease of GVA in the manufacture of electrical equipment, the manufacture of machinery and equipment and others. As a result of the above factors, industry (excluding construction)

was down by 9.5 per cent. in 2020. In 2021 industry (excluding construction) was up by 5.4 per cent. and the growth was driven mostly by electricity, gas, steam and air conditioning supply.

Construction

For the period 2017-2019, GVA for construction was up by 3 per cent. on average due to the building construction sub-sector. In 2020 and 2021 GVA for construction fell by 1 per cent. and 17.1 per cent. respectively. In 2021, the activity in the sector was hampered by the rising prices of construction materials.

Agriculture

The agriculture sector has become increasingly more effective due to higher consolidation of farms. According to the 2020 census, the number of farms in the country has decreased, while farmers' utilised agricultural area has increased. In the 2017-2021 period, the performance of the agriculture sector has been volatile. In 2017, the GVA for the agriculture sector increased by 8.5 per cent., primarily due to the higher production of industrial crops. In 2018, a decrease in the production of industrial crops, in an environment of higher prices for goods and services in the agriculture sector, led to a decrease in the GVA for the agriculture sector of 2.0 per cent. In 2019, the GVA for the agriculture sector expanded by 4.1 per cent. due to a decrease in the intermediate consumption such as expenditures for fuel and maintenance. In 2020, due to unfavourable weather conditions, there was a decline in production and in the GVA for agriculture. Cereals in particular were severely affected. In 2021, there was recovery in the production of cereals and the GVA in agriculture was up by 28.8 per cent.

Energy Market

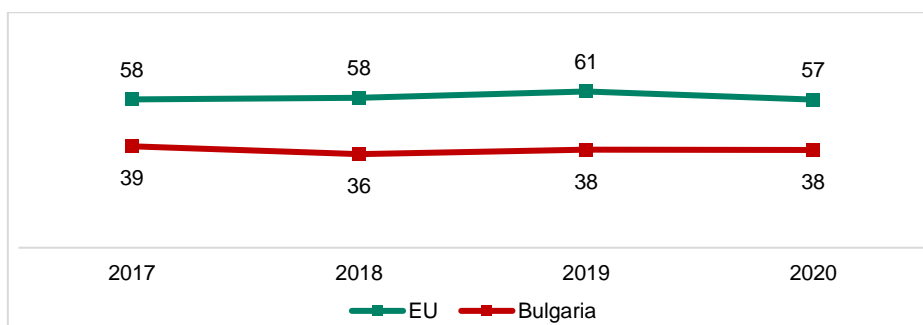
Bulgaria obtains energy for the production of electricity and heat from a variety of sources. In 2022, 88 per cent. of the energy used in Bulgaria for electricity and heat originated within Bulgaria, with only 12 per cent. imported.

The following table sets out the sources of electricity production for the nine months ended 30 September 2022:

Energy Source	Contribution to total energy used in the nine months ended 30 September 2022 (%)
Nuclear energy ⁽¹⁾	33.3
Local coal.....	41.8
RES	18.5
Gaseous.....	4.3
Pumped Storage Hydro Power Plant	0.9
Imported coal	0.9
Liquid fuels	0.3

⁽¹⁾ Nuclear energy (in accordance with Eurostat's standards) is classified as a local energy source.
Source: Ministry of Energy.

The following chart shows the share of total energy needs of Bulgaria met by imports from other countries compared to the EU average. It is calculated as net imports divided by the gross available energy (i.e., energy dependence = (imports – exports) / gross available energy) for the period between 2017 and 2020, the most recent period for which data is available from Eurostat:



Source: Eurostat. Nuclear energy is considered (in line with Eurostat's standards) as a local energy resource.

Liberalisation of the electricity market

In line with the Commission's Third Liberalisation Package, Bulgaria has taken steps towards the complete liberalisation of the electricity market. An important step in the process of complete liberalisation is the elimination of the regulated market segment and the introduction of residential consumers to the free market. As of the date of this Offering Circular, the electricity market in Bulgaria is partially liberalised and the process to achieve complete liberalisation has commenced in respect of the residential electricity market. Currently the regulated market is only available to residential consumers and accounted for 37.94 per cent. of the total electricity consumption of Bulgaria in 2021. It is expected that the residential electricity market will be completely liberalised by 31 December 2025 and in pursuit of this Bulgaria will need to take steps to identify energy-poor consumers and develop adequate mechanisms to support them. As a result of legislative changes in the Energy Act to achieve such liberalisation, all non-household consumers connected to the low voltage grid who previously obtained electricity through the regulated market were obliged to change to suppliers on the free market on freely negotiated rates from 1 October 2020. In exceptional cases, if a contract was not concluded with a supplier on freely negotiated prices, the consumer will be supplied by a supplier of last resort on increased rates.

Security of the Electricity System Fund

In recent years, the Bulgarian National Assembly has adopted numerous amendments to the Energy Act aimed at the financial stabilisation of the energy sector as well as liberalisation of the electricity market, including most recently in February 2022.

The Security of the Electricity System Fund (the "**SESF**") was set up in 2015 to offset the costs of National Electric Company EAD ("**NEK**") stemming from its obligations to buy electricity at preferential prices (feed-in tariffs) and to pay renewable energy premiums and high-efficiency cogeneration of heat and power transferred to the free market. In addition, the SESF compensates NEK for the costs arising from the long-term legacy power purchase agreements ("**PPAs**") with thermal power plants (including AES's Maritsa East I Thermal Power Plant – 700 MW, and ContourGlobal's Maritsa East III Thermal Power Plant – 908 MW).

Since 2018, the SESF has three main sources of revenue:

- the price paid by local consumers of electricity;
- contributions of 5 per cent. of the monthly sales of all local producers of electricity, the electricity transmission system operator, the operators of gas transmission systems and the operators of gas storage facilities; and
- revenues from auctions of greenhouse gas emission allowances under the EU Emissions Trading System.

Effective from 1 July 2022 the SESF now compensates NEK for the costs of electricity purchased for the regulated market with such compensation being calculated on the basis of electricity quantities sold to end suppliers.

As a result of amendments and supplements to the Energy Act, the EWRC, was empowered to determine for the price period from 1 July 2021 to 30 June 2022 the amount from the SESF proceeds required in order to cover the costs for provision of compensations related to the prices of electrical energy.

Pursuant to section 24 of the Transitional and Final Provisions of 2022 Budget Amendments Act:

- (1) public enterprises (within the meaning of Art. 2, para. 1 of the Law on Public Enterprises) from the energy sector with 100 per cent. state participation in its capital are required to make targeted contributions to the SESF, which are then used to cover costs under Art. 36b, para. 1, item 4 of the Energy Act;
- (2) the size of such contributions is determined by the Council of Ministers on the basis of a proposal from the Minister of Energy and take into account the full prime cost of the electricity generated, the necessary funds for the implementation of investments and repairs exclusive of VAT,

guaranteeing the long-term operation of the generating capacities and ensuring of an economically justified rate of return on capital; and

- (3) such contributions shall be paid within a period specified in the Council of Ministers' decision, by which current costs of the activity are defined and recognised for taxation purposes.

The costs and revenues of the SESF are determined by the EWRC for each price period.

In recent years, the Government has taken significant steps on the path to full liberalisation of the Bulgarian energy market, further reducing the role of NEK as the single buyer for the regulated market and public supplier of electricity in Bulgaria, and increasing opportunities for energy producers to sell electricity at market prices.

Compensation mechanisms

At the end of 2021, in order to mitigate the economic consequences of the sudden instability of energy market prices, the Government adopted a programme for compensation of non-household electricity end-users, as well as operators of electricity transmission and electricity distribution networks, for electricity purchases necessary for technological costs. This measure has a compensatory effect and complements other temporary measures already implemented at national level to increase transparency and improve the functioning of the Bulgarian energy market, as well as to strengthen regulatory control. This compensatory mechanism is designed to cover the difference between certain floor prices (which, as of the date of this Offering Circular, is EUR 128) and the average market price achieved on IBEX's DAM market.

Initially this programme covered the period from October 2021 to June 2022 and was financed by the Ministry of Energy and the SESF. Pursuant to section 23 of the Transitional and Final Provisions of the Annual State Budget for 2022 (Amendments) Act (the "**2022 Budget Amendments Act**") promulgated in the State Gazette, issue 52 of 5 July 2022, for the period from 1 July 2022 to 31 December 2022 the SESF compensates the non-household end customers of electricity in the amount of 100 per cent. of the difference between the real average monthly price of the Day-Ahead platform at the Independent Bulgarian Energy Exchange (the "**IBEX**") for the relevant month and the base price of 250 BGN/MWh for the period from 1 July 2022 to 31 December 2022. Such compensation is not paid to customers with prices below the base price of 250 BGN/MWh. For customers with prices exceeding the base price by an amount smaller than the size of the compensation calculated above, the compensation will be a reduced amount so that the resulting price for the customer after the compensation will not be lower than 250 BGN/MWh. On 6 December 2022, Bulgaria's Parliament instructed the Council of Ministers to adopt a programme for providing compensations to non-household consumers of electricity for the period from 1 January 2023 to 31 December 2023. All consumers on the free market will be fully compensated for electricity prices between BGN 200 per MWh and the monthly average Day Ahead market price on the Independent Bulgarian Energy Exchange.

In December 2021, due to increased natural gas prices, a mechanism for compensation of gas household consumers and district heating companies was adopted. This compensation mechanism envisaged financial assistance equal to 50 per cent. of the difference between the price for the respective month and a determined base price. This compensation mechanism was financed by the SESF. Currently there is no compensation mechanism for natural gas consumers.

Participation in the integration processes

Since beginning in February 2014 as a bottom-up initiative, the energy market's day-ahead coupling operation has been extended across Europe and has become a significant achievement in the internal electricity market. Single day-ahead coupling ("**SDAC**") is an initiative between the Nominated Electricity Market Operators ("**NEMOs**") and transportation system operators ("**TSOs**") which operates in the framework of Capacity Allocation and Congestion Management Regulation ("**CACM**") and enables cross-border trading across Europe through implicit auctions for delivery of power for the following day.

The aim of SDAC is to create a single pan-European cross zonal day-ahead electricity market. An integrated day-ahead market is expected to increase the overall efficiency of trading by promoting effective competition, increasing liquidity and enabling a more efficient utilisation of the generation resources across Europe. SDAC allocates scarce cross-border transmission capacity in the most efficient way by coupling

wholesale electricity markets from different regions through a common algorithm, simultaneously taking into account cross-border transmission constraints thereby maximising social welfare.

Following an EWRC decision, from 26 February 2020, IBEX was designated as the NEMO to implement the single price market coupling of the European day-ahead market ("**DAM**") and intraday electricity market ("**IDM**") for the Bulgarian market pricing area for a four year period. The designation confirmed that IBEX fulfils all the requirements set out in the CACM Regulation (Network Code) of 24 July 2015.

Currently, the Bulgarian day-ahead market is integrated through the Greek and Romania borders in the pan-European day-ahead power market. The market coupling operations of the Bulgarian bidding zone in SDAC (Multi Regional Coupling) were successfully launched on 11 May 2021 with the first delivery day on 12 May 2021. As a result, IBEX, the designated single NEMO in Bulgaria, was included in the market coupling operational processes along with ESO, the Bulgarian TSO. Market coupling operations for the Bulgarian-Romanian border in SDAC were successfully launched on 2 October 2021, with the first delivery day on 28 October 2021. With the inclusion of the Bulgarian-Romanian border, a geographical loop has been closed and the Southeast Europe ("**SEE**") region is now fully integrated in the SDAC.

The day-ahead cross-zonal capacity between Bulgaria and Romania and between Bulgaria and Greece have been implicitly allocated through the Euphemia algorithm. The implemented price coupling allows for the simultaneous calculation of electricity prices and cross-border flows across the region. The efficient use of the power system and cross-border infrastructures, brought about by stronger coordination between energy markets, aims to maximise social welfare to the benefit of all market participants.

An integrated intraday market makes intraday trading more efficient across Europe by promoting competition, increasing liquidity, making it easier to share energy generation resources and for market participants to allow for unexpected changes in consumption and outages.

Single intraday coupling ("**SIDC**") will expand in several phases, also referred to as waves. The first go-live wave was in June 2018 and included 15 countries. A second go-live with seven further countries (including Bulgaria) was achieved in November 2019 and a third go-live including Italy in September 2021.

Bulgaria is part of the local implementation regional project (LIP 15) and as outlined above, since November 2019 the country has an operational, integrated intra-day market across the border between Bulgaria and Romania. In November 2022, Bulgaria's intraday electricity market finalised its integration into SIDC with the entry of neighbouring Greece. With Greece and Slovakia having joined the cross-zonal intraday market in the fourth wave of its expansion, Bulgaria is now able to trade electricity continuously on any given day via the Greek border.

Bulgaria's Electricity System Operator ("**ESO**") is part of the European processes for integration of the balancing markets and access to the European platforms for exchange of balancing energy. The European platforms are developed in compliance with the Regulation EU 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing and respective implementation frameworks for the different types and products. The projects at an EU level include the International Grid Cooperation Control Project for imbalance netting (IGCC), the Platform for the International Coordination of Automated Frequency Restoration and Stable System Operation ("**PICASSO**") for cooperation between TSOs in introducing an EU platform for exchange of balancing energy from automated activated frequency restoration reserves, and the Manually Activated Reserves Initiative ("**MARI**") for cooperation between TSOs in introducing an EU platform for exchange of balancing energy from manual activated frequency restoration reserves. Bulgaria received a derogation from the EWRC delaying accession to the PICASSO and MARI platforms until June 2024.

Diversification of natural gas routes

On 28 April 2022 Gazprom suspended the supply of gas to Bulgargaz EAD. As a result of this, Bulgaria, being the first country with suspended deliveries of natural gas from Russia in violation of the current contract for natural gas deliveries between Bulgargaz EAD and Gazprom Export, is in the process of diversifying its natural gas sources and routes. Due to the provision of new transmission capacities to Bulgaria, Bulgartransgaz EAD has introduced technical capabilities for deliveries from alternative sources in recent years, including liquefied natural gas ("**LNG**") from the LNG terminal in Revithoussa, Greece and imports from the virtual trading point in Greece. As such, Bulgartransgaz EAD has adequate infrastructure capable of meeting domestic demand by using gas received from different sources.

At the end of June 2022, the EU Council adopted a final regulation that aims to ensure that gas storage facilities in all EU member states must be filled to at least 80% of their capacity before the upcoming winter season. Bulgaria is actively co-operating with other European countries to find a common solution on a pan-European level for the replacement of Russian gas with alternative suppliers utilising existing interconnectors with Romania, Turkey and Greece for supplies from various sources of liquefied and pipeline gas such as the United States, Africa and Asia.

Currently, the quantities of natural gas needed for covering the domestic consumption are supplied from various delivery alternatives and up to now there have not been any gas supply limitations to any customers or customer groups. The natural gas supply for heating season 2022 – 2023 is secured from:

- The IGB, which delivers approximately 1 bcm per year to Bulgaria or about one-third of the total annual domestic gas consumption, which is the full contracted volume with the Azerbaijan Gas Supply Company. The IGB is essential for energy security both in Bulgaria and in the region, launched into commercial operation on 1 October 2022. Being in synergy with the Trans Adriatic Pipeline (TAP) and the Trans Anatolian Pipeline (TANAP), as well as with the existing and future liquefied natural gas (LNG) terminals, the IGB will provide supply of natural gas from different sources – the Caspian region, Cyprus, Qatar, Egypt, Israel, the United States and others. Thus, the IGB will play a major role in diversifying natural gas sources.
- Deliveries of LNG from the terminals in Revithoussa (currently operational) and Alexandroupolis (expected to be operational in December 2023) in Greece.
- The level of gas that is stored in UGS Chiren, which was over 5 TWh (around 91 per cent. of its total capacity) as of 15 December 2022.

In addition, on 3 January 2023, Bulgargaz EAD signed an agreement with the Turkish state energy company BOTAŞ for access to its gas transmission infrastructure, including the gas pipelines and five liquefied natural gas terminals, operated by BOTAŞ. It provides an opportunity for transfer of 1.5 bcm of gas per year between the two countries for a period of 13 years. Bulgaria will continue to seek a common solution to replace Russian gas with EU member states, utilizing the existing interconnectors with Romania, Turkey and Greece for supplies from various sources of liquefied and pipeline gas, for example, from the United States and countries in Africa and Asia.

Natural gas market liberalisation

The liberalisation of the natural gas market plays an important role in European energy policy and is linked to the strategic objectives of improving security of supply and diversification of natural gas sources and routes, as well as building an interconnected and single pan-European natural gas market. By extending natural gas interconnections and through the diversification of natural gas supply sources and the creation of a natural gas distribution centre, real conditions will be created for the functioning of a natural gas trading exchange.

To implement the concept of the Balkan natural gas distribution centre, a natural gas trading exchange, operated by Balkan Gas Hub (a subsidiary of Bulgartransgaz EAD, see below), has been operating in Bulgaria since 9 December 2019, which in turn will create a competitive environment for natural gas traders and consumers. As of 2 January 2020, multilateral trading has started on an organised platform (a trading platform), including a short-term segment (intra-day and day-ahead market), and a long-term segment (weekly, monthly, quarterly and calendar yearly products). The intention is that natural gas can be fed into the Balkan Gas Hub from a variety of sources from Bulgaria's potential gas deposits in the Black Sea or, through interconnectors with Greece and Turkey, from the Caspian region or the Eastern Mediterranean, or from the Greek and Turkish LNG terminals. The aim of the Balkan Gas Hub is to connect the natural gas markets of the region and ensure energy security in the SEE region.

Bulgarian Energy Holding ("BEH")

The BEH is a holding company unifying companies owned by the State in the energy sector. The ownership right of the State is exercised by the Minister of Energy.

The main activities of BEH and its subsidiaries (the "**BEH Group**") consists of generation, production of raw materials, transmission, storage, management, distribution, sale and/or buying of natural gas, electricity, heat, coal and other types of energy and industrial raw materials.

As of the date of this Offering Circular, the BEH Group owns the largest coal mining company in Bulgaria, three of the main electricity generators in Bulgaria, as well as the electricity and natural gas transmission network operators. The BEH Group also owns the State companies that are the public suppliers of electricity and natural gas in Bulgaria, which are of strategic importance.

As of 30 September 2022, the share capital of BEH was EUR 1,770,573,999 comprising the same number of shares with a par value of EUR 1 each. The shares of BEH are of one class and are ordinary, registered, voting shares. BEH has a one-tier management system and is managed by a seven-member board of directors.

BEH is structured as a financial holding company, within which its subsidiary companies NEK, ESO, NPP Kozloduy EAD, TPP Maritza East-2 EAD, Mini Maritza East EAD, Bulgartransgaz EAD, and Bulgargaz EAD, are united in a holding structure. However, these subsidiaries maintain their operational independence, their issued individual licences and their subject of activities as licensed companies. The production and the commercial activity of the BEH Group is wholly concentrated in its subsidiary companies in compliance with their individual licences issued.

Key Infrastructure Projects in the Electricity/Natural Gas Markets

The diversification of sources and routes for the supply of energy resources is a main priority of the Republic of Bulgaria, which guarantees energy security as an element of national security of the country. In order to ensure its energy security, Bulgaria has implemented a number of key projects in the field of natural gas, electricity and nuclear fuel, which are important not only for the country but for the whole region:

Rehabilitation, modernisation and extension of the Bulgarian gas transmission system

The project is a complex, multi-component phase project for modernisation, rehabilitation and extension of the existing gas transmission infrastructure in the territory of the Republic of Bulgaria. It is being implemented in three phases and includes the following types of activities: the modernisation and rehabilitation of compressor stations; the repair and replacement of pipeline sections after inspections; extension and modernisation of the existing network; inspections to identify and characterise the condition of the gas pipelines; and the implementation of systems to optimise the process of managing the technical state of the network. The project for the rehabilitation, modernisation and extension of the Bulgarian gas transmission system is a PCI to the EU, in accordance with Regulation (EU) No. 347/2013 on guidelines for trans-European energy infrastructure. It is also one of the seven priority gas projects under the Central and South-East Europe Gas Interconnection Initiative ("**CESEC**"). The expected deadline for commencing operations for the last phases of the project is in the period 2022-2024. The Bulgarian gas transmission system will provide transmission of Azerbaijani natural gas, potentially gas from other Caspian sources, gas from the East Mediterranean region, gas from the direction of Turkey, and gas from LNG sources via the Greece-Bulgaria interconnector ("**IGB**") to Romania through IBR and IP Negru Voda-Kardam and Serbia (through IBS) and through Romania transmission system to Hungary and Central Europe.

On 9 December 2019, the Bulgarian Gas Exchange started operating in Bulgaria through a segment for implementation of the Gas Release Program, regulated by the Energy Act. With legislative changes in December 2022, the obligation of the public supplier Bulgargaz EAD for providing specific volumes of natural gas under the Gas Release Program was cancelled in light of the suspension of natural gas supplies from Gazprom and to prioritise and secure natural gas quantities for domestic consumption.

The operator of the gas exchange is Gas Hub Balkan EAD, a subsidiary of Bulgartransgaz EAD. As the first stage of the exchange, Gas Hub Balkan EAD provided the participants in the natural gas market in Bulgaria and the region with the opportunity to use a trading platform with software services for wholesale gas trading, built in accordance with the requirements of Art. 10 of Regulation (EU) No. 312/2014 establishing a Network Code for Balancing the Transmission Networks. On 2 January 2020 multilateral trading was launched on the trading platform of Gas Hub Balkan EAD including a short-term segment (spot), a long-term segment and brokerage.

In 2021, the second gas exchange Bulgarian Energy Trading Platform AD (BETP AD) received a license for an organised exchange market for trading in natural gas and gas derivatives for a period of 35 years. BETP AD is established with the purpose to create, develop and manage a reliable and stable unitary regional organised market for natural gas, contributing to increase the transparency and liquidity of the markets for natural gas in the Southeast Europe region. The organised market of BETP is an electronic platform that meets the demand and supply of natural gas to multiple third parties, based on predefined rules, stimulating the free trade. The activity of BETP AD complies with the requirements of the European Parliament and the European Council regarding the common rules for the internal market of natural gas, the integrity and transparency of the wholesale energy market (REMIT), the conditions for access to the natural gas transmission networks.

Balkan stream

The project for the expansion of the gas transmission infrastructure from the Bulgarian-Turkish border to the Bulgarian-Serbian border (commonly known as the "**Balkan Stream Project**") is part of the Balkan gas hub concept. The main objective of this project is to strengthen the Republic of Bulgaria's role as a leading trading regional gas transmission centre in both the region and the EU as a whole.

In 2018, the Balkan Stream Project was included in the updated National Energy Strategy of Bulgaria. The aim of the project's implementation is to increase the security of natural gas supply from different sources, enhance competition and transparency on the natural gas market which in turn will have a positive effect on natural gas users. As a project key to the integration of the energy markets, the "Balkan Stream Project" will contribute to securing the natural gas supply to Bulgaria, the regional and EU market, creating at the same time real conditions of diversifying the sources and routes and enabling the transmission of additional natural gas quantities to and through Bulgaria to the regional and EU gas market.

The first stage of the project, commissioned in 2019, included the construction of a gas transmission pipeline approximately 11 km long with a DN of 1,200 mm as well as a gas metering station. The pipeline is located immediately next to Compressor Station Strandzha. In total, the constructed gas transmission pipeline system is approximately 474 km long, with DN 1,200 mm design diameter and 7.5 MPa maximum operating pressure. Together with the gas transmission pipeline, two optic cable lines (one main and one back-up) have been constructed, laid on both sides of the gas transmission pipeline reaching the Bulgarian-Serbian border. The gas pipeline route crosses through 34 municipalities and the territory of 11 regions in Bulgaria. Bulgartransgaz EAD established an easement for the construction of the project.

For the overall implementation of the Balkan Stream Project, two compressor stations have been constructed - Compressor Station "Rasovo" and Compressor Station "Nova Provadia", which function to increase the pressure along the Balkan Stream route.

Bulgartransgaz EAD have put into commercial operation the stages of the Balkan Stream Project, including linear part, Compressor Station "Rasovo" and Compressor Station "Nova Provadia".

Gas interconnector Greece-Bulgaria (IGB)

The Greece-Bulgaria interconnection project is part of the list of projects of common interest of the European Union (POI) under Regulation (EU) No. 347/2013 on guidelines for trans-European energy infrastructure. It is also one of the seven priority gas projects under CESEC. At EU level, the IGB has received political and financial support, which is extremely important for its successful implementation. By Decision of the Commission C(2010)5813, amended by Decisions C(2012)6405, C(2015)3005 and C(2018)6871, the project was granted EUR 45 million from the European Energy Programme for Recovery (EEPR), an additional grant of EUR 39 million was provided from the Innovations and Competitiveness Operational Programme 2014-2020, as well as a loan of EUR 109.9 million from the European Investment Bank (EIB) in the form of long-term debt financing backed up by a sovereign guarantee of the Bulgarian State. The debt financing has been provided by the EIB to the shareholder Bulgarian Energy Holding EAD (BEH). BEH has transferred the financing to the project company and future TSO "**ICGB**" AD through an On-Loan Agreement.

The total investment is estimated to amount to approximately EUR 240 million. The equity financing provided by each of the shareholders in "**ICGB**" AD (BEH and IGI Poseidon) amounts to EUR 29.6 million.

On 10 October 2019, all key documents for the successful construction of the interconnector were signed in Sofia, namely: the intergovernmental agreement in support of the development of the project and the guarantee of the tax regime of the gas pipeline for a period of 25 years, a financing agreement between the EIB and BEH EAD for EUR 109.9 million and the respective loan agreement between the shareholder BEH EAD and project company "ICGB" AD; as well as the contracts for EPC (engineering, procurement and construction), procurement and delivery of line pipes, construction supervision.

The direct effects of the project implementation are expected to result in achieving real diversification of natural gas supply sources for the Republic of Bulgaria and the region, providing an opportunity for natural gas supplies from the Southern Gas Corridor and from LNG sources, thus assisting in the conversion of the Republic of Bulgaria and its gas transmission system as a major part of the regional gas supply infrastructure from alternative sources for the Southeast and Central Europe region.

This project is expected to enable real diversification of natural gas sources for both Bulgaria and the region and it will contribute to the liberalisation of the natural gas market.

On 15 July 2022, the two national energy regulators in Greece and Bulgaria certified the operating company ICGB as independent transmission operator. Bulgarian Energy Holding is 50 per cent. shareholder of ICGB with the remaining 50 per cent. of ICGB's shares split equally between the Public Gas Corporation of Greece A.E. (DEPA) and Edison S.p.A. of Italy. The IGB gas pipeline has been put into commercial operation since 1 October 2022. It transports the annual quantities of 1 bcm of natural gas from Phase 2 of the Shah-Deniz field in Azerbaijan under a long-term contract between Bulgargaz EAD and Azerbaijan Gas Supply Company for 25 years. IGB's capacity is 3 billion cubic meters per year, which may be increased up to 5 billion cubic metres per year.

Gas Interconnector Bulgaria-Serbia (IBS)

The gas interconnection Bulgaria-Serbia (IBS) is envisaged as a gas interconnection with capability for reverse flow that will connect the national gas networks of Bulgaria and Serbia. It is a project of common interest ("PCI") under Regulation (EU) No. 347/2013 on the guidelines for trans-European energy infrastructure, as well as a project of common interest for the Energy Community (PECI) and one of the seven priority gas projects under CESEC initiative. The project is in the investment design phase and its implementation will achieve diversification of sources, interconnectivity and transmission of natural gas to Serbia, using the planned new entry points. At the same time, it will be used in emergency situations to supply natural gas from Serbia.

The expected date of commissioning is in 2023 with expected capacity of 1.8 bcm.

LNG terminal in Alexandroupolis (Greece)

Another project of regional importance is the construction of the FSRU (floating, storage and regasification unit) LNG terminal in Alexandroupolis, Greece (the "LNG terminal").

Bulgaria expects synergy between the IGB project and the LNG terminal near Alexandroupolis. The LNG terminal will be strategically located close to (and will be connected with) the gas transmission network of the Greek national gas operator DESFA S.A. and is ranked by the Commission as a PCI, including in the third and fourth Commission lists. The Bulgarian side has consistently supported the inclusion of the project in its list of PCIs.

On 30 November 2018, the National Assembly approved the updated Energy Strategy of the Republic of Bulgaria, which included the LNG terminal project. Pursuant to a Decision of the Council of Ministers of 8 January 2020, Bulgartransgaz EAD became a shareholder with a 20 per cent. stake in the construction of the LNG terminal, and Bulgargaz EAD participated in the legally binding phase for the reservation of capacity. This is intended to ensure access to the LNG market for Bulgaria and the region and the supply of LNG by exporting companies from the USA, Qatar, Algeria, Nigeria and others.

Thus, the project is expected to contribute to both diversifying natural gas supply sources and liberalising the Bulgarian energy market as well as fostering competition for the benefit of end-customers. Finally, the LNG terminal is intended to significantly contribute to the implementation of the concept of the Balkan gas hub, which is based on the various sources and supply routes, as well as the promotion of a transparent, liquid and reliable natural gas market in the country. The Final Investment Decision was taken in February 2022 by the shareholders in the project company and future terminal owner Gastrade S.A.

The LNG terminal construction began in May 2022 and it is expected to be commissioned in December 2023 with expected capacity of 3.0 bcm.

In addition, the Bulgarian gas transmission system operator Bulgartransgaz EAD expressed interest in participation in the project for the floating storage and regasification unit (FSRU) import terminal in Alexandroupolis.

Balkan Gas Distribution Centre

The Balkan Gas Distribution Centre, developed with the assistance of the Commission, envisages the construction of a gas distribution centre in the territory of Bulgaria, including the necessary gas transmission infrastructure and a natural gas trading exchange. The gas distribution centre will connect Member States gas markets in the region, including the Republic of Bulgaria, Greece, Romania, Hungary, Croatia, Slovenia and through them to the Central and Western European Member States and Energy Community countries – Serbia, North Macedonia, Bosnia and Herzegovina. The concept of building a gas distribution centre for South-East Europe in Bulgaria is based on the idea that at certain real physical points significant volumes of natural gas will be supplied for subsequent transportation, while at the same time a natural gas trading place will be organised at this point.

The Balkan Gas Distribution Centre ("**Balkan Gas Hub**") is listed in the list of PCIs for the EU under Regulation (EU) No. 347/2013, as a group of projects for the development and strengthening of gas infrastructure and contributing to its implementation. This group includes the projects for Bulgaria's interconnectors with Greece and Serbia, as well as the project for the modernisation and rehabilitation of the Bulgartransgaz EAD gas transmission system.

Expansion of the capacity of Chiren underground gas field (UGS)

The project aims to expand the capacity of the Chiren underground gas storage facility ("**UGS**") and achieve a gradual increase in the capacity of the only gas storage facility in Bulgaria, in order to achieve greater volumes of stored gas, increased pressures in the gas reservoir and larger average daily flow rates for withdrawal and injection. The project envisages an increase in the volume of working gas from the current capacity of around 550 million cubic meters up to one billion cubic meters, and an increase in the flow rate of delivery and injection from the current rate of 4.2 million cubic meters per day to between 8-10 million cubic meters per day (in the periods of maximum withdrawal).

The Chiren UGS capacity enhancement project is a PCI to the EU under Regulation (EU) No. 347/2013 on the guidelines for trans-European energy infrastructure. Construction and commissioning are expected to be completed by the end of 2024.

Electricity sector security

Bulgaria anticipates introducing measures related to the development of energy infrastructure supporting the integration of the electricity grids. In line with the European recommendations, Bulgaria has set a target of at least 15 per cent. interconnection. This objective will be achieved through the implementation of PCIs. In order to meet the priorities related to European energy infrastructure, the Commission has included some cross-border infrastructure development projects in the Fourth European List of Projects of Common Interest (PCI) approved in October 2019: Priority North-South Electricity Corridor in Central, Eastern and Southern Europe ("**NSI East Electricity**").

The five projects of common European interest (PCI) that the ESO has been implementing within the framework of Regulation 347/2013 on the development of the trans-European energy infrastructure include:

The cluster Bulgaria-Greece and the necessary construction of infrastructure in the territory of Bulgaria with total capacity of 1,280 MW:

- 400 kV interconnector between Maritza East Substation and Nea Santa Substation (Greece);
- Internal 400 kV power line between Maritza East Substation and Plovdiv Substation;
- Internal 400 kV power line between Maritza East Substation and the Maritza East 3 TPP;
- Internal 400 kV power line between Maritza East Substation and Burgas Substation.

In 2020, new 400kV power lines were put into operation in between Maritsa East Substation – Burgas Substation and Maritsa East Substation – outdoor switchyard TPP Maritsa East 3.

After 2030, the construction of a second interconnector with Serbia and a third interconnector with Turkey is envisaged.

The Bulgaria-Romania Capacity Increase Cluster (Black Sea Corridor) includes an internal 400 kV power line between Dobrudja Substation and Burgas Substation.

In 2021, the company ESO completed the construction and commissioned three out of the five power line projects of common interest – the internal power lines between Maritsa East substation and Burgas substation, between Maritsa East substation and the outdoor switchyard at TPP Maritsa East 3 and internal power line connecting Varna and Burgas substations. The remaining two projects - for the construction of the internal 400 kV power line between Plovdiv substation and Maritsa East substation, and the 400 kV interconnector between Maritsa East substation in Bulgaria and Nea Santa substation in Greece, are also at a mature stage of implementation. The construction of the five 400 kV power lines is of common interest for the development of the trans-European infrastructure and shall increase the transmission capacity at the Bulgarian-Greek and the Bulgarian-Romanian borders, improve the security of electricity supply in the region, enable the successful market couplings and secure the supply of electricity from new renewable sources.

According to the *Ten year electricity network development plan of Bulgaria for the period 2021-2030*, the 220kV transmission network will be replaced by 400kV and 110kV transmission networks, except for the construction of a second power supply to the area of the city Ruse.

In order to diversify its supply of nuclear fuel, pursuant to the European policy, and to reduce Bulgarian energy dependence on a single supplier, Bulgaria established a diversification procedure for the supply of nuclear fuel to Kozloduy EAD NPP Ltd, while respecting the highest level of nuclear safety, security and radiation protection. In pursuing a diversification policy, Bulgaria will place significant importance on the potential competitive financial and economic benefits of the policy.

Kozloduy NPP is the only nuclear power plant in Bulgaria and the main electricity generating plant providing more than one third of the total annual electricity output of the country. This demonstrates the significant position of Kozloduy NPP, providing economic sustainability both nationally and regionally. This is valid not only in terms of ensuring energy security (electricity generation 24/7) but also in contributing to the EU ambitious climate-related objectives (55% GHG reduction by 2030 and climate neutrality by 2050). Also, with the current surge of electricity prices driven by the dynamic geopolitical situation in Ukraine, nuclear energy enables mitigating the price pressure on households and providing proper financial compensation to affected businesses. The construction and commissioning of the Bulgarian nuclear power plant was implemented in three stages between 1970-1991.

In view of the strategic importance of the plant and its role in ensuring the energy system of the country, a project for the Long Term Operation ("LTO") of Units 5 and 6 was initiated in 2012 to extend their designated lifetime. The successful implementation of the LTO project ensured that both units have a technical capability to be in operation for the next 30 years. Following the completion of the modernisation activities and the thorough inspection by the Nuclear Regulatory Agency (NRA) in 2017, the licence for the operation of Unit 5 was renewed, and in 2019 the licence for the operation of Unit 6 was renewed for the statutory period of 10 years. The implementation of these large-scale projects to extend the designated lifetime of the nuclear facilities was financed entirely with the company's own funds, which are generated from the realisation on the market of the produced energy.

Kozloduy NPP has developed a diversification programme for fresh nuclear fuel supplies in close coordination with the Euratom Supply Agency ("ESA"). The operator is implementing the programme upon strict observation of the Bulgarian and the European legislation and coordinates all its activities with the ESA.

As part of this diversification programme, Kozloduy NPP signed a contract with Westinghouse Electric Sweden AB on 4 February 2021 for the development of safety analyses for the licensing and implementation of alternative nuclear fuel at Unit 5 (operating at a thermal output of 3120 MW). The preparation of this detailed and comprehensive safety assessment is a prerequisite under the Kozloduy NPP diversification programme in order to obtain a permit for the introduction of an alternative type of fuel

assembly. Once finalised, the assessment document will be submitted to the Nuclear Regulatory Agency to obtain a permit for operating an alternative type of fuel assembly. The licensing process is on-going and Kozloduy NPP is expected to obtain operational permit in the first quarter of 2024.

In the last quarter of 2022, Bulgaria took a major step forward in meeting the targets of the nuclear fuel diversification programme. In December 2022, Kozloduy NPP signed a contract with the US company Westinghouse Electric Sweden to supply Unit 5 of the power plant with alternative fresh nuclear fuel and on 30 December 2022, Kozloduy NPP signed an agreement with the French company Framatome, which enables negotiating supplies of fresh nuclear fuel for Unit 6 of KNPP.

Security of energy supply through the use of renewable sources

The Republic of Bulgaria is pursuing a consistent policy for increasing the use of energy from renewable sources, with the aim of reducing greenhouse gas emissions, diversifying energy supplies and reducing the dependence on energy imports in the country.

In relation with the goals set in the National Integrated Energy-Climate Plan by 2030 with a horizon of 2050 and to ensure Bulgaria's contribution to the achievement of the common European energy goals, Bulgaria set a target of 27.09 per cent. share of energy from renewable sources in the gross final energy consumption by 2030.

On 7 April 2022, the Commission adopted a positive assessment of Bulgaria's Recovery and Resilience plan. This is a key step paving the way for the EU to disburse EUR 6.3 billion in grants under the Recovery and Resilience Facility (RRF). This financing will support the implementation of the crucial investment and reform measures outlined in Bulgaria's recovery and resilience plan. According to the EC Bulgaria's plan devotes 59 per cent. of the total amount allocated to measures in support of climate goals. This includes significant investments to accelerate the decarbonisation of the energy sector, triple the production of electricity from renewable sources by 2026, build grid-scale battery storage facilities with an energy capacity of at least 6000 MWh, reduce greenhouse gas emissions from the energy sector by 40 per cent. by 2026 and setting a framework for the phasing out of coal.

The Green Bulgaria pillar of the RRF includes some of the most priority projects for Bulgaria. The main objective of this component is to decrease the carbon footprint and energy intensity of the economy and to contribute to the green transition by implementing measures to increase the energy efficiency of residential, industrial and public buildings and by promoting generation of electricity from RES. A key focus will be to modernise the activities for planning, management and maintenance of Bulgaria's electricity grid and to complete the reform of the energy market towards full liberalisation. Research of geothermal energy sources and construction of a pilot facility as well as of storage facilities will do possible smooth decarbonisation of the Bulgarian energy sector by reducing emissions, rather than by shutting down coal capacity in the coming years.

Indicative estimates of the costs for attainment of the component's objectives – total EUR 3.9 billion, including EUR 2.7 billion from the Recovery and Resilience Facility and EUR 1.2 billion national co-financing.

Case AT.39849 BEH Gas

On 5 July 2013, the Commission commenced proceedings against BEH EAD and its subsidiaries, Bulgargaz EAD and Bulgartransgaz EAD, for abusing their dominant market position on the natural gas market in Bulgaria, in breach of Article 102 of the Treaty on the Functioning of the European Union (TFEU). In 2015 the EC sent a Statement of Objections to BEH and subsidiaries on suspected abuse of dominance.

On 17 December 2018, the Commission issued a Decision in compliance with Art 7 of Regulation 1/2003 imposing a fine of EUR 77,068,000 on the BEH Group, BEH, its gas supply subsidiary Bulgargaz EAD and its gas infrastructure subsidiary Bulgartransgaz EAD for blocking competitors' access to key gas infrastructure markets and gas supply markets in Bulgaria in breach of EU antitrust rules.

BEH EAD and its subsidiaries do not accept the Commission's findings that they have abused their dominant position on the Bulgarian gas market. BEH Group insists that access to the Bulgarian transmission network and gas storage has always been carried out in accordance with applicable Bulgarian laws as well as European regulations. Moreover, BEH Group claims that the provision of access to the Romanian transit

pipeline has never been under the control of either BEH EAD or any of its subsidiaries. In addition, the companies consider that the amount of the fine is disproportionate.

BEH Group claims that there has been no coordination or orchestration of activities of its subsidiaries and that the fine should not be imposed or, if imposed, to be radically diminished because it is disproportionate.

On 1 March 2019, the BEH Group filed an appeal against the Commission's decision in EU General Court. The appeal challenges both the Commission's allegations and the amount of the fine set out in the Commission's decision.

On 20 February 2020, the Republic of Bulgaria through the Ministry of Foreign Affairs (MFA) filed the official position of the Republic of Bulgaria in case T-136/19, provided by the Ministry of Energy, according to which the State intervenes in support of Bulgarian Energy Holding EAD, Bulgargaz EAD and Bulgartransgaz EAD against the Commission before the General Court of the European Union.

In the period between 2020 – 2022, the General Court examines additional documents and requests information in order to clarify all the circumstances attached to the case. On 14 March 2022, the Court requested the Commission to provide non-confidential versions of the documents listed by the Court.

Oral proceedings on the case were held on 29 September 2022 and based on questioning by the court, BEH expects a favourable outcome. The court's decision is expected in the first half of 2023.

Labour Market

The labour market developments during the 2017-2021 period broadly followed Bulgaria's economic cycle. In 2017-2019 period, the real GDP growth has been between 2.8 per cent. and 4 per cent. per annum and was accompanied by an increased demand of labour. In 2019, historically highest record of working-age participation rate of 73.2 per cent. and lowest record of unemployment rate of 4.2 per cent. (based on the 2019 LFS) were reached. These positive developments also reflected the improvement in the structural characteristics of employment and unemployment.

Since the COVID-19 outbreak in March 2020, the trends of Bulgarian labour market sharply changed. In the first months after the introduction of containment measures of COVID-19, unemployment increased sharply and the number of jobs in the most affected economic activities (like hospitality sector, trade, some manufacturing activities, etc.) went down. In order to support the economic activity of the business and to boost the employment preservation and prevention of lay-offs a number of measures has been adopted by the Government. The largest measure in this regard was the programme for payment of wage subsidies for maintaining the employment of workers and employees (the so-called "60/40" program) which came into force in March 2020 and continued until June 2022. In 2020 and 2021, EUR 0.88 billion has been spent under the programme and about 300,000 jobs have been subsidised for period between 1 and 20 months.

Due to unfavourable economic development, employment in 2020 decreased by 2.3 per cent. and the unemployment rate increased to 5.1 per cent. In 2021, a process of gradual economic recovery began and the GDP recorded growth of 7.6 per cent. (in constant prices). However, the recovery of employment lagged and in 2021 the indicator practically remained at the level of the previous year (growth of 0.2 per cent.). The unemployment rate slightly increased compared to the previous year and reached 5.3 per cent. for 2021.

The table below sets out the primary indicators and developments in the labour market for the five-year period 2017-2021.

	2017	2018	2019	2020	2021
Employment (ESA(1), thousands).....	3,525.4	3,521.6	3,533.6	3,451.7	3,458.4
Employment (ESA(1), per cent. year on year).....	1.8	(0.1)	0.3	(2.3)	0.2
Unemployment (LFS(2), thousands)	206.9	173.3	142.8	168.6	171.1
Unemployment (LFS(2), per cent.)	6.2	5.2	4.2	5.1	5.3
Unemployment (Employment agency, thousands)	236.8	203.0	185.3	241.4	181.5
Unemployment (Employment agency, per cent.)	7.2	6.2	5.6	7.4	5.5
Participation rate (Ages 15–64, per cent., LFS(2)).....	71.3	71.5	73.2	72.2	72.0
Employment rate (Ages 15–64, per cent., LFS(2)).....	66.9	67.7	70.1	68.5	68.1

⁽¹⁾ European System of Accounts 2010

⁽²⁾ Labour Force Survey, NSI

Source: NSI. Employment agency.

In 2022, Bulgaria's labour market performed strongly in the aftermath of the COVID-19 pandemic and the lifting of the necessary containment measures, reaching record high employment and activity rates. In the third quarter of 2022, employment reached 3,699.7 thousand, an increase of 1.2 per cent. year on year, and for the first time since the lifting of the COVID-19 containment measures, exceeded the value of the indicator (by 0.4 per cent.) registered in the same period of 2019.

For the 2015-2019 period, employment in the agricultural sector showed a predominantly downward trend and its employment decreased at an average annual rate of 4.2 per cent. Its share in the overall employment in Bulgaria is diminishing but still remains relatively high (16.2 per cent. in 2021, which is the highest in the EU) and has a strong influence on the country's employment developments. Employment in the agriculture sector followed a downward trend due to a restructuring in the labour force from small agricultural farms dependent mainly on family work force to bigger farms which hire employees.

The strongest growth in employment for the 2017-2019 period was registered in the services sector, in particular with respect to information and communication activities. The number of employed persons working in the information and communication activities sub-sector grew by 6.8 per cent. on average per annum during the 2017-2019 period. In the next two years, when many of the activities in the services sector experienced declines in employment due to the COVID-19 crisis, employment in the information and communication activities sub-sector continued to grow and in 2021 employment rates were more than 15 per cent. higher compared to pre-crisis 2019 levels. However, during 2020-2021, the measures undertaken to limit the spread of COVID-19 seriously affected the activity in some service sub-sectors, like trade, hospitality, and transport. In 2021, the employment in the trade, hospitality and transport, one of the major sub-sectors of services was 5.6 per cent. less than in 2019. As a result, employment in the services sector was 1.1 per cent. lower than in 2019. Nevertheless, on an year on year basis, employment rebounded in 2021 and 2022, and in the first nine months of 2022, employment in services recovered and even exceeded its pre-crisis levels of 2019 by 1.9 per cent.

In 2020, the employment levels in the manufacturing sector were also affected by the measures against the spread of COVID-19, dropping by 4.3 per cent. on an annual basis. Despite its slight increase in the following year, manufacturing employment is still below its level registered in 2017 (at 3.9 per cent.). Employment in construction grew steadily throughout the 2017-2021 period. The sector reported relatively strong employment growth of 2.8 per cent. on average per annum, mainly attributable to growth of 5 per cent. and 6 per cent. in 2018 and 2019 respectively. In 2020, construction also registered a decline in employment levels, but was compensated the following year. In 2022, the sector maintained its steady employment growth. Construction is among the economic activities which reports skilled labour shortages as one of the major impediments for its future growth.

As a result of high labour demand, the unemployment rate decreased quickly in the 2017-2019 period. This downward trend in unemployment was also impacted by a decrease in the labour force due to the level of Bulgaria's ageing working population and the reduced inflows in younger age groups into the workforce. The participation rate of the working-age population was 71.3 per cent. in 2017 and followed a steady upward trend in following years to reach a historical high of 73.2 per cent. in 2019. This was as a result of high demand of labour, job creation and rising incomes, in addition to the targeted government policy in support of the vulnerable groups, including youths, older workers and the long-term unemployed. In 2020 and 2021, the participation rate of the working-age population dropped to 72.2 and 72.0 per cent. respectively due to the loss of employment during the COVID-19 crisis. In 2022, however, due to the labour market rebound, the participation rate rapidly increased and reached a historical high of 74.8 per cent. in the third quarter of 2022.

During the 2017-2021 period there were employment opportunities available in all economic sectors, which contributed to the decrease in unemployment across all levels of qualification. The biggest decline in unemployment reported were in the demographic of workers with lower secondary or lower education. The unemployment rate of workers with the lowest educational levels reached 16.1 per cent. (adjusted series) in 2019 as compared to 22.1 per cent. in 2017. These declines were the result of the Government's focused efforts to strengthen implemented active labour market policies on training and to increase the employability of certain worker demographics through supporting employment in the primary labour market.

In 2017, the youth unemployment rate (age cohort 15-24 years) was 16.1 per cent. (adjusted series), which is below the EU 27 average of 18.5 per cent. In 2017-2019 the youth unemployment rate in Bulgaria went

through a rapid decline and reached 12.1 per cent. in 2019. In the following two years there is some increase of its values (15.8 per cent. for 2021) but is still below the EU 27 average level.

In 2019, unemployment reached a low of 4.2 per cent. since 2000, when the country was added to the European Labour Force Survey. In 2020 and 2021 the unemployment rate in Bulgaria increased slightly (5.3 per cent. for 2021) due to the COVID-19 crisis. However, Bulgaria still remains among the top EU-countries with the lowest unemployment rates which is due to the short-term measures for employment preservation conducted in 2020-2022 period. In 2022, the unemployment rate recorded a relatively sharp decline due to the rapid recovery in employment in the services sector, with employment gains mainly driven by unemployed persons finding new jobs rather than people joining the labour force. Thus, in the third quarter of 2022, the unemployment rate decreased to a historical low of 3.7 per cent.

The long-term unemployment rate, which accounts for individuals with periods of unemployment over 12 months, improved during the 2017-2021 period. The rate went down from 3.4 per cent. in 2017 to 2.6 per cent. in 2021. The rate remains close to the EU average. In the 2017-2019 period, before the COVID-19 crisis the ratio of long-term unemployed to overall unemployed varied in the interval between 55 and 59 per cent. However, in 2020 and 2021 due to the higher inflow of new unemployed the ration of long-term unemployed to overall unemployed went down to 45.4 and 50.0 per cent. respectively. This ratio remains higher than the EU average. The high share of long-term unemployed remains among the main challenges for the Bulgarian labour market, when also taking into account the low levels of the available labour resource of unemployed and people out of the labour force (discouraged) who could quickly meet the demand of labour, as well as the considerable increase in the share of employers who reported labour shortages as among the main obstacles for their economic activity (according to the NSI's business surveys). These challenges put restraints on economic growth, however the Government has taken decisive actions to address them. On the back of skills assessment and anticipation exercises in the short, medium and long-term training has been provided to improve the employability of the work force and educational programmes have been adapted to meet the expectations for the labour demand of employers.

Wages

Along with the positive employment dynamics over the 2017-2021 period Bulgaria's real labour productivity grew by an annual average rate of 2.5 per cent. The country's productivity dynamics mainly reflected the upward trend in services (up by 3.5 per cent. per annum) which was accompanied by a strong job creation in the sector. The pandemic crisis, which started in 2020, disrupted the previous positive trends. Real productivity per employed decreased by 1.7 per cent. in 2020. However, labour productivity per hour worked remained in a positive territory (up by 2.0 per cent.), indicating that companies have succeeded to adequately adapt to the reduced activity through hours worked, while at the same time managing to retain a majority of their staff through job retention schemes. In 2021, GDP per employed (at constant prices) increased by 7.4 per cent. and exceeded its pre-crisis 2019 level. The largest contribution to the overall productivity growth came from services (up by 8.5 per cent.) followed by manufacturing (up by 4.7 per cent.).

Over the 2017-2021 period, the country's labour income growth remained strong and supported the steady increase of the purchasing power of the household incomes. Compensation per employee grew by a nominal 9.1 per cent. per annum as both industry and services contributed to the overall dynamics. The negative effect of the pandemic on labour incomes in the total economy was less pronounced. Compensation per employee grew by 7.2 per cent. in 2020 and remained close to the registered rate in 2019. However, these rates were significantly lower in those industries which were mostly affected by the imposed containment measures against the spread of COVID-19. Overall, the employers adjusted their labour costs mainly through cuts in the number of employees and hours worked. As a result, the nominal growth of compensation of employees decelerated to 4.2 per cent. in 2020. Compensation of employees even decreased in trade, hotels and restaurants, and transport (-5.1 per cent.) and arts, sports and entertainment (-4.5 per cent.). In 2021, in line with economic activity recovery compensation per employee accelerated to 11.3 per cent., up by 12 per cent. in services and 9.4 per cent. in industry.

The observed productivity and compensation per employee dynamics contributed to an increase in nominal unit labour costs ("NULC") of 6.4 per cent. per annum in the 2017-2021 period. Real unit labour costs ("RULC") however reported significantly lower growth rate of 1.2 per cent. per annum in the same period, indicating that both compensation of employees and gross operating surplus grew during the observed period. The share of labour cost in gross value added gradually increased to 52.2 per cent. in 2021, which remained lower than the EU 27 average (53.4 per cent.) and most of the new member states. The observed

labour cost developments did not hamper the country's competitive positions, given the rising exports market shares and the quality improvement in the exports structure. While Bulgaria has relatively higher wage growth compared to the EU average, it still has a comparative advantage in terms of its lower labour share. In addition, the upward trend in compensation per employee was also driven by the increasing employment in the high-skilled labour segment. More recently, in the context of the ongoing COVID-19 pandemic, the observed outpacing dynamics of wages above productivity should not be perceived as a deterioration in competitiveness, as the observed processes follow the assumption that employers retained employment in anticipation of economic recovery. Moreover, the job preservation programme (introduced by the Government in March 2020) also played a role as it partially covered the labour costs of the employers in the affected activities by the pandemic. As the scheme was established as an indirect transfer to households by providing labour cost subsidies to firms/employers it is recorded as other subsidies on production and should be deducted from compensation of employees. According to our estimates the nominal growth of compensation of employees (excluding the subsidies covered by the scheme) would be 2.6 per cent., down from the officially reported rate of 4.2 per cent. in 2020.

In the first nine months of 2022, overall productivity growth decelerated to a real 2.3 per cent. growth year on year, but it remained robust in the industry sector (excluding construction) with 19.5 per cent. growth. The observed overall slowdown resulted from the productivity decline in the construction and service sectors, which declined by 12 per cent. and 2.4 per cent., respectively. While the service sector productivity reflected strong employment gains, negative productivity dynamics in construction came from the significant drop in GVA.

Compensation per employee grew by a nominal 17.4 per cent. year on year in the nine months ending 30 September 2022, up from 11.2 per cent. in the corresponding period of the previous year. The largest increase was in industry (excluding construction) at 29.9 per cent. Compensation per employee across service sector activities remained below the country's average rate at 14.1 per cent. Following the upward trend of compensation per employee above productivity growth, NULC kept on increasing by a double digit rate of 14.7 per cent. year on year. RULC, however, was still negative (-0.3 per cent.) due to the strong GVA growth at current prices.

The following table sets out real labour productivity and NULC growth in the 2017-2021 period:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Real labour productivity growth (percentage change year on year).....	1.0	2.8	3.7	-1.7	7.4
NULC growth (percentage change year on year).....	9.5	6.7	3.1	9.0	3.6

Source: NSI, Ministry of Finance.

In the 2017-2021 period the country's average wage grew by a nominal 10.3 per cent. per annum, while the growth of real wages, deflated by the Harmonised Indices of Consumer Prices ("HICP"), reached 8.1 per cent. per annum, supporting the purchasing power of households' incomes. Both public and private sector wages contributed to the overall wage dynamics, up by 11.3 and 10 per cent. and per annum, respectively. Public sector wages reflected the Government's proactive post-2017 policy on broad wage increases in the fields of education, defence and public administration. The contribution of the public sector employees turned positive in the 2019-2021 period. The pandemic elevated further the importance of public sector. In 2020 and 2021, the government also increased the wages of the "front-line" structures in the fight against the spread of the virus and its consequences. Aimed at supporting the lowest-income groups in the labour market, the Government raised the average monthly minimum wage from EUR 235 in 2017 to EUR 332 in 2021, and as of April 2022 to EUR 363. In the 2017-2021 period, the minimum wage went up by a nominal 9.1 per cent. per annum, which remained below the average wage dynamics. As a result, the minimum to average ratio decreased from 44.3 per cent. in 2017 to 41.9 per cent. in 2019. This ratio has been lower than most of the EU countries since 2017.

Nominal wage dynamics accelerated since the beginning of 2022 but dropped slightly below inflation in the third quarter of the year. The country's nominal wage growth reached 12.6 per cent. year on year in the nine-month period of 2022, up by 14.5 per cent. in the private sector and 7.4 per cent. in the public sector. In real terms, the rate of change of the overall HICP-deflated indicator in the economy reported a marginal increase of 0.1 per cent. year on year. The deterioration in real wages mainly reflected the decline in the public sector (down by 4.6 per cent.), while the real wage growth in the private sector remained in the positive territory (up by 1.8 per cent.).

The following table sets out average monthly wage, nominal and real annual wage growth in the public and private sectors for the five-year period between 2017 and 2021:

	2017	2018	2019	2020	2021
Average monthly wage (EUR)					
Total economy.....	484.8	530.4	586.1	648.0	711.0
Public sector.....	501.6	544.9	591.6	661.4	734.5
Private Sector.....	479.6	525.9	584.4	644.0	703.4
Nominal wage growth (percentage change year on year)					
Total economy.....	9.4	10.5	10.6	9.7	11.5
Public sector.....	8.6	8.6	11.8	11.1	16.5
Private Sector.....	9.7	11.1	10.2	9.2	9.8
Real wage growth (percentage change year-on-year)					
Total economy.....	8.1	7.7	7.9	8.4	8.4
Public sector.....	7.4	5.8	9.1	9.7	13.3
Private Sector.....	8.4	8.3	7.5	7.9	6.7

Source: NSI, Ministry of Finance.

Inflation

Given the high degree of trade openness of the Bulgarian economy (measured by the ratio of foreign trade to GDP) the fixed exchange rate of the Lev to the Euro and the relatively high share of foreign value added to Bulgaria's final demand, consumer price dynamics in Bulgaria are largely driven by external factors. In particular, consumer price dynamics are affected by changes in energy and food prices on the international markets, and by movements in the exchange rate of the EUR against the USD.

The following table sets out the rate of annual inflation for the 2017 to November 2022 period:

	2017	2018	2019	2020	2021	November 2022
		<i>(percentage change year on year, end of period)</i>				
All items HICP.....	1.8	2.3	3.1	0.0	6.6	14.3
Food and non-alcoholic Beverages.....	3.1	2.4	6.5	2.0	8.4	26.7
Alcoholic beverages, tobacco.....	1.4	3.5	2.2	0.8	1.6	4.7
Non energy industrial goods.....	-0.8	-0.5	0.6	-0.6	2.9	9.5
Energy.....	6.4	2.4	3.7	-8.2	24.1	15.2
Services.....	1.5	4.4	2.8	2.1	2.4	11.2
Core inflation ⁽¹⁾	0.5	2.1	1.8	0.9	2.7	10.3

⁽¹⁾ Overall index excluding energy, food, alcohol and tobacco. Source: Eurostat.

After a well pronounced period of deflation in the aftermath of the global financial and economic crisis, the annual HICP inflation turned positive in 2017 and reached 1.8 per cent. in December 2017. This largely reflected growing international commodity prices, which subsequently caused food and energy prices in Bulgaria to increase. The acceleration of headline inflation was also driven by increasing core inflation, with growing consumer demand against the background of an improving labour market contributing to its development. Deflation in non-energy industrial goods decelerated in 2017 and 2018, with the group's negative contribution to overall inflation decreasing significantly. Consumer inflation continued to accelerate in 2018, reaching a rate of 2.3 per cent. in December 2018, with food and services having the largest contributions. One-off factors related to accommodation services and insurance connected with transport, as well as an increase in consumer demand, were the main drivers of inflation in the services sector, while accelerating food inflation was mainly due to high import prices and a poor wheat harvest both in Bulgaria and abroad in 2018.

Inflation accelerated further to a rate of 3.1 per cent. in December 2019. The substantial positive contribution of food components to headline inflation was almost entirely driven by an increase in meat prices, as a result of higher import and producer prices of pork following the spread of the African swine flu in Europe. Inflation in the services sector, which also contributed significantly to headline inflation throughout 2019, slowed down as compared to the end of 2018. This was due to the fading out of the impact of one-off factors from the previous year in accommodation services and insurance connected with transport and the decline in telecommunication services prices. In 2019, inflation in the catering services subsector, however, continued to accelerate on the back of increasing food prices and strong demand. Following nine years of price decreases, the group of non-energy industrial goods positively contributed to headline inflation in 2019, a development largely driven by automobile price dynamics.

The COVID-19 pandemic had a dampening impact on consumer price dynamics in 2020. The annual HICP inflation rate followed a clear downward trend throughout the year and slowed to 0.0 per cent. in December 2020. Measures to tackle the outbreak of COVID-19 pandemic worldwide led to a considerable reduction in oil prices on international markets. Subsequently, domestic prices of transport fuels declined and energy had a negative contribution to the headline rate. The growth rate of food prices also decelerated and was driven predominantly by a significant slowdown in unprocessed food inflation as the effect from the African swine flu depleted. The containment measures also affected core inflation components. Services inflation slowed down, influenced by both lower consumption and contraction in the demand for tourist services during the pandemic. Prices of non-energy industrial goods, on the other hand, decreased at the end of the year due to lower prices of consumer durables, especially second-hand cars.

After the disinflationary period in 2020, the annual inflation rate in the country started to accelerate at the beginning of 2021 and reached 6.6 per cent. in December 2021. The surge in international commodity prices, and in particular energy prices, was the main pro-inflationary factor as the increasing production costs were transferred to the consumer prices of a wide range of goods and services. Energy contributed the most, followed by food and non-alcoholic beverages. With the unfolding of their second-round effects, core inflation also accelerated to 2.7 per cent. in December 2021 as a result of its two major subcomponents. Both prices of durable and non-durable goods increased due to higher production costs and increased demand for consumer goods during the pandemic.

Annual inflation continued to accelerate in 2022 and reached its peak in September 2022 at 15.6 per cent., the highest value of this indicator since the first half of 1998. In the last two months ending November the headline rate decelerated to 14.3% in line with the expectations (see *"Recent Economic Developments During the Nine Months Ended 30 September 2022 – Inflation"*). Although food and energy products were the main contributors to inflation, the strong expansion in the scope and intensity of price increases in the remaining components of the consumer basket also contributed to the acceleration of inflation. The most significant upward pressure on consumer prices stemmed from higher prices of energy commodities (natural gas, oil and electricity) and agricultural goods on international markets, with the upward dynamics of those prices intensifying after the Russian invasion of Ukraine. The depreciation of the euro against the US dollar, continued difficulties in global supply chains and accelerating EU durable goods inflation were other factors with a pro-inflationary impact on imports. In terms of the domestic macroeconomic environment, upward price pressures continued to be supported by strong consumer demand and unit labour cost growth.

Tourism

The number of arrivals of visitors from abroad to Bulgaria without transit reached record levels in 2019, amounting to over 9.3 million visitors (an increase of 0.4 per cent. as compared to 2018). However many of these visitors were same day visitors or had a second home in Bulgaria. The number of arrivals of foreign citizens in accommodation establishments with 10 or more beds was over 4 million in 2019.

In 2021, the COVID-19 situation improved which resulted in a gradual recovery of tourism. The total number of arrivals of visitors from abroad to Bulgaria without transit reached over 3.7 million which was an increase of 38.5 per cent. compared to 2020. The top markets for inbound tourism (transit excluded) for 2021 were Romania, Turkey, Germany, Greece and Ukraine.

For the period from January 2022 to September 2022 the total number of visitor arrivals from abroad without transit in Bulgaria was over 4.8 million. This represented an increase of 60.6 per cent. compared to the same period in 2021, but amounted to a 37.7 per cent. decrease compared to the pre-pandemic period from January 2019 to September 2019. Most visitors were same-day visitors or had property or relatives and friends in Bulgaria and accounted for the considerable difference between the results of the Border Survey (as defined below), which includes overnight and same-day foreign visitors, and the accommodation survey which focused on the arrivals of foreign citizens in accommodation establishments with 10 or more beds which totalled 2.5 million visitors for the period from January 2022 and September 2022 (excluding 161,312 Ukrainian citizen arrivals).

The recovery of tourism from the effects of the COVID-19 pandemic continues in 2022. In the winter season of 2021/2022, there was increased interest in ski tourism from the UK and some of Bulgaria's neighbouring countries. In the 2022 summer season Black Sea resorts welcomed tourists from, amongst others, Romania, Poland, Germany, the UK, and the Czech Republic. Foreign tourists also showed

increased interest in business tourism and city trips in Bulgaria in summer 2022 often combining several types of tourism during their visits to Bulgaria.

	Arrivals of visitors from abroad to Bulgaria without transit – total (all foreign markets) (the "Border Survey")	Arrivals of visitors from abroad in accommodation establishments with 10 or more beds
2019	9,311,681	4,067,350
2020	2,687,709	1,175,779
2021	3,722,200	1,893,031
January – September 2022	4,885,145 (excluding Ukrainian citizen arrivals in February – September 2022)	2,548,773 and 161,312 arrivals from Ukraine

The results from the Border Survey (which includes overnight and same-day foreign visitors) show recovery of tourism to Bulgaria in all main tourist markets in the nine months ended 30 September 2022, compared to the same period in 2021.

The table below sets out the number of arrivals of visitors to Bulgaria (excluding transit) from (i) certain countries and (ii) all foreign countries based on the Border Survey for the years ended 31 December 2019, 2020 and 2021, and the nine months ended 30 September 2022:

	31 December 2019	31 December 2020	31 December 2021	30 September 2022
Romania.....	1,287,252	625,656	821,856	949,836
Turkey.....	648,740	332,036	401,359	406,704
Germany.....	761,156	137,948	288,212	420,227
Greece.....	1,168,373	271,190	259,404	547,564
Ukraine.....	471,122	135,130	250,039	N/A*
Poland.....	420,980	127,968	222,407	333,634
North Macedonia.....	554,247	169,158	175,342	216,815
Serbia.....	414,546	235,569	170,752	207,419
Russia.....	450,116	43,138	127,607	94,826
Czech Republic.....	189,265	47,155	116,717	162,308
United Kingdom.....	470,149	90,544	54,989	293,842
Total arrivals of visitors from all foreign countries to Bulgaria (excluding transit).....	9,311,681	2,687,709	3,722,200	4,885,145

Note:

* The data for the number of visitors from Ukraine and receipts from Ukraine visitors for the period February 2022 - September 2022 are not included in these statistics. The final data for the receipts from inbound tourism is published in satellite accounts and is usually higher than Central Bank data.

Recent Economic Developments During the Nine Months Ended 30 September 2022

GDP

In the first three quarters of 2022 ("Q1 2022", "Q2 2022" and "Q3 2022", respectively) GDP in Bulgaria increased by 5.2 per cent., 4.6 per cent. and 3.3 per cent. respectively (as seasonally adjusted) compared to the same periods in 2021. This growth was driven by a stable increase in final consumption of approximately 4.9 per cent. during the same period. In addition to this, exports also increased by 4.2 per cent. in Q1 2022, accelerated to 8.5 per cent. in Q2 2022 and 11.1 per cent. in Q3 2022. However, during Q1 2022 – Q3 2022 public and private investment activity remained weak and gross fixed capital formation decreased.

Inflation

The annual HICP inflation rate in Bulgaria continued to accelerate through Q3 2022 reaching its peak at 15.6 per cent. in September 2022, but decelerated in the following two months to 14.3% in November 2022. The significant increases in commodity prices in global markets, in particular higher energy prices and the direct and indirect effects of increased production and transportation costs were the main pro-inflationary factor, accompanied by strong domestic household consumption and unit labour cost growth during the period. Food products and energy goods accounted in aggregate for approximately 60 per cent. of the increase in the headline rate during November 2022 with their prices increasing by 26.7 per cent. and 15.2 per cent., respectively, compared to the same period in 2021. As a result of the impact of these factors, core inflation continued to accelerate to 10.1 per cent. in November 2022.

Employment

Bulgarian labour market performed strongly in the aftermath of the COVID-19 pandemic, reporting record high employment and activity rates in Q3 2022, at 72.1 per cent. and 74.8 per cent., respectively. Meanwhile, the unemployment rate reached a record low of 3.7 per cent., down from 4.6 per cent. a year earlier. During the first three quarters of 2022, employment (ESA 2010) in Bulgaria continued to increase by 1.6 per cent., 1.3 per cent. and 1.2 per cent. compared to the same period in 2021. This growth was primarily due to an increase in employment in the services sector and the activities within this sector.

Wage growth

In Q1 2022, Q2 2022 and Q3 2022, compensation per employee increased by 13.2 per cent., 20.9 per cent. and 18.1 per cent. respectively compared to the same periods in 2021. Industry reported the highest growth rate supported by the strong productivity gains in the sector. Overall real productivity however slowed down year on year to 2.7 per cent., 2.6 per cent. and 1.7 per cent., respectively. As a result of the abovementioned factors, NULC increased by 14.7 per cent. while RULC decreased by a marginal 0.3 per cent. during the ninth months ended 30 September 2022. Recent nominal income dynamics offset the observed increase in consumer prices.

PUBLIC FINANCE

Under ESA 2010 methodology, the public finance system in Bulgaria comprises the Central Government subsector, the Local Government subsector, and the Social Security Funds, which together comprise the General Government (the "**General Government**"). The rules defining the General Government are harmonised internationally and are updated regularly. The fiscal year applicable to the General Government is the calendar year.

The NSI is responsible for compiling both the public finance data reported to the Commission under the ESA transmission programme and the fiscal notification tables reported twice a year to Eurostat in accordance with the Council Regulation No. 479/2009 of 25 May 2009 (on the application of the Protocol on the Excessive Deficit Procedure annexed to the Treaty Establishing the European Community, as amended, and the Statements contained in the Council minutes of 22 November 1993).

With the Organic Budget Act (the "**OBA**") entering into force in 1996, the OBA became the prime instrument in Bulgaria for managing the budgetary process and for regulating the relationship between the State and municipal budgets; however, the OBA has recently been superseded by the Public Finance Act (the "**PFA**"). The PFA was adopted in 2013 and came into force on 1 January 2014. The purpose of its adoption was to set forth the general structure of public finances in a single legislative act as an expression of the desire to consolidate all aspects of the management and utilise of public resources, at both national and local level as well as to transpose the requirements of Directive 2011/85/EC in the process of public finances management.

The PFA regulates the scope, structure and content of the medium-term budgetary forecast and its annual update. In addition, the PFA also regulates the drafting, adoption, execution and reporting of the annual state budget law and the annual laws on the budget for the State Social Security and the National Health Insurance Fund ("**NHIF**"). Provisions regulating the drafting of the budget forecasts, draft budgets and reports of the first-level spending units, including municipalities are also contained in the PFA. The PFA has been amended on several occasions, most recently in 2020.

The amendments to the PFA at the end of 2020 were adopted in response to the global challenges of managing and overcoming the consequences of the COVID-19 pandemic. The amendments created greater flexibility with regard to national fiscal rules in exceptional circumstances by (i) introducing temporary derogations in line with the requirements of dynamic and rapidly changing reality and eliminating the preconditions for pro-cyclical effects; (ii) clearly defining restrictions and acceptable deviations; and (iii) ensuring the implementation of measures to limit and overcome the consequences of emergencies and unimpeded absorption of funds and programs from the EU, and the implementation of relevant EU recovery plans.

The main amendments with regard to fiscal rules in the PFA were as follows:

- the General Government deficit may exceed 3 percent of GDP on an annual basis under exceptional circumstances beyond the control of the Council of Ministers which have a serious impact on the financial position of the General Government sector or in case of an economic downturn of more than 3 per cent. in real terms;
- the annual growth of General Government expenditure may exceed the reference growth of potential GDP in the presence of exceptional circumstances or to compensate with additional measures;
- the limit on the annual budget deficit under the consolidated fiscal program, calculated on a cash basis, may be changed from 2 per cent. of GDP to 3 per cent. of GDP with a possibility to exceed this threshold only in exceptional circumstances;
- the maximum amount of expenditures under the consolidated fiscal programme (the "**Consolidated Fiscal Programme**") (which may not exceed 40 percent of GDP) excludes expenditures from accounts for EU funds, including other international programs and contracts that have a regime of accounts for funds from the EU, as well as the related national co-financing in order to allow the absorption of funds and programs from the EU.

In addition to the adoption of the PFA into Bulgarian law, the EU regulation of Chapter III ("**Fiscal Compact**") of the Treaty on Stability, Co-ordination and Governance within the Economic and Monetary Union signed on 2 March 2012 in Brussels, was also adopted and introduced into law by Bulgaria.

The medium-term budgetary forecast includes in addition to the national methodology used (the Consolidated Fiscal Programme) with cash-based indicators only), forecasts for the General Government sector and its subsectors according to ESA 2010 methodology, taking into account the impact on the budgetary framework of state and municipal enterprises and quasi-budget organisations. This led to the introduction of comprehensive, coherent and reliable practices for the forecasting and monitoring of the General Government sector and its subsectors. Thus, the public finances management system is built on a broad basis and the medium-term budgetary framework has become an operational tool for medium-term forecasting and planning through the implementation of fiscal rules by central and local authorities.

The PFA regulates the relations of the State budget with the budgets of the State Social Security, the National Health Insurance Fund and other budgets and accounts, as well as the relations of the municipal budget with the State budget and other budgets and accounts. The PFA also regulates, among others, the EU funds account regime, the regime of the foreign fund accounts, and any centralised payment schemes.

Fiscal rules (in relation to the budget balance, debt and expenditure ceiling) have been established, aimed at defining clear and transparent fiscal policy constraints in the long-run through imposing numerical constraints on the main budgetary aggregates. The rules have been developed in accordance with internationally accepted definitions and criteria as well as with the requirements of the EU's Stability and Growth Pact. The strengthening of the sustainability of public finances and the budget discipline is achieved by including in the scope of the rules all bodies and funds that are not part of the budgets on subsector levels, with a view to assess their impact on the General Government Sector and present them in the medium-term strategic and annual budget documents.

The fiscal rules set numerical constraints on the medium-term objective ("**MTO**") for the structural deficit, the General Government balance, the expenditure growth of the General Government Sector, on the budget balance under the consolidated fiscal program, the maximum amount of expenditures under the Consolidated Fiscal Programme and the consolidated debt of the General Government Sector. The rules were developed with provisions for the cases of deviation from the target and a corrective mechanism for returning to the limit determined by the rule. There is also a set of fiscal rules for the Local Government subsector, including medium-term objectives for a balanced budget and debt as well as a limit on the possibility of social security funds and autonomous institutions to take debt and issue guarantees.

The budget procedure is synchronised and is in line with the deadlines and procedures of the Enhanced Economic Policy Coordination Mechanism of the European Semester and ensures the sustainability and consistency of the processes and procedures for the allocation and management of financial resources and the involvement of all responsible institutions, both budget entities and legal entities which, although not part of the consolidated fiscal program, fall within the scope of the General Government Sector.

In order to increase transparency with regard to budgetary procedures, the PFA contains provisions to widen access to budgetary information as well as improve the quality and scope of existing information. Accordingly, budgetary information is publicly available at www.minfin.bg/en/.

The amendment of the PFA in 2017 was mainly in a response to the Commission's review of the degree of transposition of Directive 2011/85/EC and the necessity to refine some of the PFA's provisions. The 2017 amendment extended the scope of the budgetary framework by including more information on the General Government Sector in the national budget documents, with the forecast of the key indicators for the next three years being developed on the basis of unchanged policies and describing the envisaged new policies with financial impact - the so-called "**discretionary measures**"; information on the overall impact of the activities of the enterprises falling within the scope of the General Government Sector, on the fiscal indicators of the sector, as well as information on contingent liabilities with a potentially significant impact on the General Government Sector. It also introduced a requirement to compare budget forecasts for the main indicators of the General Government Sector of the Ministry of Finance with the latest available forecast of the Commission in addition to macroeconomic forecasts which contributes for increasing budget credibility.

Other issues regulated with the 2017 amendment included the precise relations of the State budget with municipal budgets, the provisions which relate to the execution of municipal budgets as well as the provisions which relate to the banking services and the system of the single account.

The global challenges of managing and overcoming the effects of the COVID-19 pandemic, and the smooth implementation of the proactive countercyclical measures were the main reasons for the amendments of the Public Finance Act at the end of 2020. These changes have created an opportunity for greater flexibility with regard to national fiscal rules in the event of exceptional circumstances by introducing temporary derogations in line with the requirements of dynamic and rapidly changing environment and eliminating the preconditions for pro-cyclical effects; clear definition of limitations and deviations; ensuring the implementation of measures to limit and overcome the consequences of emergencies and unimpeded absorption of funds from European funds and programs, including the implementation of relevant Recovery plans.

For the General Government deficit, the amendments made it possible to exceed 3 per cent. of GDP on an annual basis only under the extraordinary circumstances (unusual events) beyond the control of the Council of Ministers, that have a serious impact on the financial position of the General Government Sector. Similarly, the amendments in the annual growth of General Government expenditure rule were created in order to allow for them to exceed the reference growth of potential GDP in the presence of extraordinary circumstances or if the excess is matched by additional measures leading to a sustainable revenue increase, as long as they do not have a one-off character.

The limit of the annual cash budget deficit under the Consolidated Fiscal Programme was changed from 2 per cent. of GDP to 3 per cent. of GDP. It is possible to exceed this amount only under exceptional circumstances, by abolishing the possibility of non-compliance with the limit on the Consolidated Fiscal Programme budget deficit, provided that the limit on the General Government deficit is not violated in order to increase flexibility in the presence of extraordinary circumstances.

The expenditures from accounts for European Union funds, including other international programs and contracts with a regime of accounts for European Union funds, including the related national co-financing were excluded from the scope of the maximum amount of expenditures under the Consolidated Fiscal Programme, which may not exceed 40 per cent. of GDP, in order not to hinder the absorption of European funds and programs.

The adoption by the National Assembly of the 2020 amendments to the PFA, with regard to fiscal rules, was aimed at ensuring that the Consolidated Fiscal Programme restrictions were in line with the dynamic challenges in the macroeconomic environment.

The Fiscal Council and Automatic Corrective Mechanisms Act, for the purposes of creating an independent body to monitor the budgetary framework (pursuant to Article 6 of Directive 2011/85/EU of the Council of 8 November 2011), was adopted by the Parliament on 8 April 2015 and came into force on 21 April 2015.

Fiscal Policy

Fiscal performance 2017-2022

The main priority of fiscal policy continues to be maintaining the sustainability of public finances, while providing for the relevant measures to stimulate economic activity in Bulgaria. The country demonstrated a solid fiscal track during the past 5 years, well above the average aggregates for the General Government surplus (+) / deficit (-) for the 2017-2021 period and close to the average values for the first two quarters of 2022 ("Q1" and "Q2" respectively).

GG surplus (+) / Deficit (-) - % of GDP	2017	2018	2019	2020	2021	Q1 2022	Q2 2022
Bulgaria	1.6	1.7	2.1	-3.8	-3.9	-3.5	-1.5
European Union - 27 countries	-0.8	-0.4	-0.5	-6.7	-4.6	-3.3	-1.4
Euro area - 19 countries	-0.9	-0.4	-0.6	-7.0	-5.1	-3.6	-1.9
<i>EU countries from the region</i>							
Greece	0.6	0.9	1.1	-9.9	-7.5	-6.9	3.0
Croatia.....	0.6	-0.1	0.2	-7.3	-2.6	-0.2	1.7
Romania.....	-2.5	-2.8	-4.3	-9.2	-7.1	-7.0	-1.4
Slovenia	-0.1	0.7	0.46	-7.7	-4.7	-2.9	-3.6

Source: Eurostat

During 2017 and 2018, the Government successfully consolidated the public finances, and as a result, the General Government budget recorded a surplus (on an accrual basis) of 1.6 per cent. and 1.7 per cent. of GDP. On the expenditure side, public investment started to recover, despite the lower than expected progress with implementing EU-funded projects and the increase of public sector wages. On the revenue side, taxes and social security contribution revenue increased and the recovery of transfers from the EU outweighed the rise in expenditure.

In 2019, Bulgaria continued its strong fiscal policy. According to the Eurostat data the General Government balance improved further to a surplus of 2.1 per cent. of GDP. The positive revenue trend in recent years continued in 2019 as well, with an increase in tax and social security revenues and in the capital transfers from the European Union, while expenditure remained below the projections for the year. The main priorities in the Government spending policy included measures in the area of income policy in the budgetary sector, education, social and pension systems, healthcare, defence and others.

The Government proposed amendments in the Annual State Budget Act for 2019, in order to ensure that it had necessary funds under the contract for the acquisition of eight USA-made F-16 fighter jets (first deliveries possible in 2023) for the Bulgarian Air Force. The Annual State Budget Act for 2019 amendments increased the Defence Ministry's budget by EUR 1.1 billion. Since this was the first significant transaction in the defence sector between Bulgaria and the United States, Bulgaria was required to make an up-front payment in full. Nevertheless, there was no increase in ESA 2010 terms of the expenditures for 2019 stemming from the acquisition of F-16 fighter jets, because according to the principles of ESA 2010 the time of recording of the expenditures for the acquired equipment is the time of delivery, which is considered as a change in the economic ownership. Thus, the cash payment in 2019 for the acquisition of the F-16 fighters did not worsen the General Government balance in ESA 2010 terms for 2019.

In 2020, the COVID-19 pandemic outbreak had a strong negative impact on all EU Member States. The unprecedented measures taken to contain the spread of the infection and strengthen the health systems in the country had serious economic consequences. Bulgaria entered the crisis in a good fiscal condition. A disciplined and consistent policy to maintain a positive or close to a balanced budget position in recent years provided fiscal space, which gave some room for financing of the emergency measures in the area of healthcare and social policy, as well as those supporting the business. However, the macroeconomic perspectives regarding the external and internal environment worsened sharply. The slowdown of the economic activity affected the revenues and together with the need to provide significant resources aimed at overcoming the negative consequences of the pandemic outlined the immediate need to update the fiscal framework for the year. Shortly after the declaration of a state of emergency, the government prepared and submitted for approval a draft law to amend the State Budget Act of the Republic of Bulgaria (SBARB) for 2020, which aimed to mitigate the most crucial and direct negative effects of the crisis. The urgency of the proposed expenditure changes has made it possible to provide a resource to finance only the first most essential socio-economic package and to mobilise direct resources related to front-line systems in combating the pandemic. The draft law approved by the National Assembly in early April envisaged a deterioration of the balance of the General Government Sector to a deficit of 3.1 per cent. of the projected GDP.

Despite the use of unprecedented resources, the development of the economic environment during the crisis highlighted the urgent need for further action in a number of sectors of the economy and measures to support the most affected groups of the population. In July 2020, the government approved a second package of socio-economic measures and an important priority together with these measures was investment in public infrastructure, which aimed, on the one hand, to reduce to some extent the decline in investment in other sectors of the economy and, on the other, to preserve jobs. Thus the fiscal target for the year in ESA 2010 terms set with the followed up amendments till the end of the year envisaged the General Government deficit to widen to 5.2 per cent. of the projected GDP. The actual data of Eurostat showed improvement compared to the plan and the General Government deficit for 2020 is reported to be 3.8 per cent. of GDP, which is 1.4 percentage points lower than the projected one and it is mainly due to better revenue performance and expenditure savings compared to the initial projections. Despite the unprecedented fiscal stimulus mobilised to combat the pandemic (estimated to 3.2 per cent. of GDP), the budgetary position in 2020 has remained stable, which is important in the context of the long-term sustainability of public finances.

Fiscal development in 2021 was dominated by number of factors with substantial effects on both revenue and expenditure. On the one hand, the assumption behind the fiscal plan with the initial Annual State Budget Act for 2021 envisaged ambitious vaccination plan and gradual improvement of the health risks from the pandemic. Thus, the resources for securing measures to combat the pandemic were planned with a shorter implementation horizon. As a result, in the middle of the year, there was a need to provide additional resources to extend and supplement the measures to tackle the pandemic, which necessitated an update of the budgetary framework for 2021. The Amended Budget provided additional resources for the continuation of the main part of the existing measures to combat the pandemic and supplement them with new ones by the end of 2021. On the other hand the gradual economic recovery and positive macroeconomic developments resulted in revision of the revenue forecast upwards which was reflected in the fiscal programme for the year.

In addition to the challenges of the spread of COVID-19 and the negative effects of the pandemic on the economy and vulnerable groups of the population, a new factor with a strong impact on the economy had been added - rising energy prices. High electricity prices came as a sudden shock to businesses and created risks of suppression of growth. In this regard, the government took immediate action to support business by approving compensation programs related to electricity prices. The costs of the implementation of these programs were provided at the expense of additional revenues and restructuring of the expenditures within the approved expenditure ceilings for 2021.

Despite the large fiscal effect of these adverse impacts, Bulgaria managed to maintain the level of the General Government balance in 2021 at a level close to that reported for the previous year with a slight widening of the deficit by 10 basis points to 3.9 per cent. of GDP. The COVID-19-related expenditures in 2021 (estimated as 4.4 per cent. of GDP) were even higher than the estimated expenditures for 2020, and if these expenditures were excluded for comparison purposes, the budget stance would have been in positive territory.

In the first half of 2022, the implementation of the 2022 Budget (as described below) faced serious challenges related to the direct and indirect effects on public finances of the outbreak of the war in Ukraine. In order to mitigate the significant pressure on businesses and households as a result of the rising prices of fuel and energy, as well as price of basic food products, an urgent package of anti-crisis measures was proposed by the government. In addition, the policy responses to the COVID-19 pandemic continued, but to a lesser degree than in the previous year. Despite the difficulties faced by the budget development in the conditions of the unprecedented crisis, the budgetary position for the first six months of 2022 has remained stable, with non-seasonally adjusted quarterly government deficit close to the average for the Euro area and the EU.

The medium- and long-term sustainability of public finances remains a policy priority, including in terms of building confidence and creating a predictable investment and business environment.

Annual State Budget Act for 2022 of the Republic of Bulgaria

On 25 February 2022, the State Budget Act for 2022 was adopted by Parliament. Taking into account the state of the economy and the development of the pandemic at the beginning of the year, the 2022 Budget foresaw a deficit under the Consolidated Fiscal Programme of 4.1 per cent. of GDP on a cash basis. Expressed as a percentage of GDP, the annual revenue and expenditure estimates represented 40.4 per cent. and 44.2 per cent., respectively.

The first half of the year was characterized by a good performance of the revenue part of the budget, due on the one hand to the real growth of the GDP, and on the other, to the effects of indirect taxes from the increase in the price of fuels, energy carriers and other raw materials, and changes in the exchange rate of the US dollar. At the same time, after the outbreak of the war in Ukraine, the significant increase in the price of oil, natural gas and electricity, as well as in the price of basic food products, caused by increased demand, also led to a further acceleration of inflation. As high inflation threatened people on low incomes and could significantly increase the group of people with incomes below the poverty line, urgent measures were taken by the Government, resulting in the amendments to the Budget Act for 2022 as described below.

Amendments to the Annual State Budget Act for 2022 of the Republic of Bulgaria

On 30 June 2022, the 2022 Budget Amendments Act was adopted by Parliament.

The 2022 Budget Amendments Act provided for an urgent package of anti-crisis measures aimed at reducing the negative consequences of the rising fuel and energy prices and, respectively, the increasing inflationary pressures on the most affected groups of society and business. The aim is to support Bulgarian citizens and businesses in the context of an unprecedented crisis caused by the war in Ukraine and to mitigate the turbulence caused by the high prices of energy and raw materials for the vulnerable groups of society and for the economy of Bulgaria.

The 2022 Budget Amendments Act provides for different types of support instruments and mechanisms, including:

- in the field of tax policy:
 - *excise duty exemption for electricity, liquefied petroleum gas and natural gas* – the measure aims to support businesses and citizens consuming electricity, liquefied petroleum gas and natural gas in connection with the unexpected significant energy price hike caused by the increased European and global demand;
 - *introduction of a reduced VAT rate of 9 per cent. for supplies of district heating until 1 July 2023* – the measure is related to the need to mitigate the impact of high energy prices on households and businesses, in particular on the most vulnerable ones, while avoiding supply disruptions;
 - *introduction of a reduced VAT rate of 9 per cent. for supplies of natural gas until 1 July 2023* – the measure aims at mitigating the impact of high energy prices on households and businesses, while avoiding supply disruptions;
 - *introduction of a zero VAT rate for supply of bread and flour until 1 December 2023* - the introduction of a zero VAT rate for the supply of bread and flour is related to the need to mitigate the impact of high bread and flour prices on households, in particular on the most vulnerable ones, while avoiding supply disruptions;
 - *increase of the amount of tax relief for children (from EUR 2,301 to EUR 3,068 per year) and of the tax relief for children with disabilities (from EUR 4,602 to EUR 6,136 per year), as well as introduction of a possibility to use the two tax reliefs in advance (on a monthly or quarterly basis) for 2022* – the state will use the proposed measure to provide timely financial incentive in the course of the year related to an increase in the real disposable income of families with minor children, as well as families raising children with disabilities; and
 - *increase in the threshold for the VAT registration* – to support SMEs.
- main measures in terms of expenditures and budgetary relations (transfers) under the state budget:
 - *indexation of pensions as from July 2022 and implementation of a new mechanism to improve pension adequacy as from October 2022* – a comprehensive package of measures is proposed, aimed at improving the adequacy of pensions paid from the public social security and the Teachers' Pension Fund. All employment pensions granted by 31 December 2021 will be updated with 10 per cent. as from 1 July 2022. The additional amounts (the so-called 'COVID-19 supplements' of EUR 31) and individual compensation amounts paid as of 30 June will be included in the amount of the personal employment pensions in addition to the implementation of the 10 per cent. update. The minimum contributory-service and retirement-age pension increased from EUR 189 to EUR 239 and the maximum amount of the one or more pensions received increased from EUR 767 to EUR 1,023 from July 2022 and will increase further to EUR 1,738 from the beginning of October 2022. The amount of the social pension for old age and the amounts of non-employment-related pensions as well as allowances linked to it increased from EUR 87 to EUR 126 from 1 July 2022;
 - *compensation of natural persons end-users of the most common categories of fuels used for personal needs petrol and gas oil (diesel), liquefied petroleum gas without additives (LPG or propane-butane) and natural gas (methane)* – a programme for compensation

of the natural persons end-users of fuels introduced a mechanism for EUR 0.13/litre compensation for these fuels;

- *amendments for provision of adequate funding for an increase in the wages of the medical personnel employed in health and medical institutions whose heads are second-level spending units to the Minister of Health, as well as in health settings in state and municipal kindergartens and schools, in nurseries and nursery groups at kindergartens;*
- *provision of support to vulnerable sectors in agriculture in connection with the support expenditures under the temporary state aid framework in support of the economy following Russia's aggression against Ukraine and under the existing state aid for animal welfare; and*
- *change in the amount of the contribution of the Republic of Bulgaria to the EU budget for 2022.*

The net effect to Consolidated Fiscal Programme expenditure from these changes amounts to an increase in the annual estimates for 2022 by EUR 1.4 million, or 1.8 per cent. of the forecast GDP for the year. These net effects to Consolidated Fiscal Programme revenues and expenditures are estimated under the assumption of maintaining the envisaged target for the Consolidated Fiscal Programme deficit relative to the forecast GDP for 2022, with the 2022 Consolidated Fiscal Programme balance being projected to be negative at 4.1 per cent. of the forecast GDP, respectively.

The total amount of estimated tax revenues (excluding social security contributions) in the Budget Amendments Act for 2022 is EUR 16.1 billion, which is EUR 2.1 billion or 15.1 per cent., more than the reported tax revenues for 2021. Indirect taxes (including VAT, excise duties, insurance premiums and duties) are estimated to amount to EUR 11.4 billion, an increase of EUR 1.7 billion or 17.4 per cent. compared to 2021. Direct taxes (including corporate income tax ("CIT") and personal income tax ("PIT")) amount to EUR 4.6 billion for 2022, an increase of EUR 403.6 million or 9.6 per cent. as compared to 2021.

The recent changes to the macroeconomic environment could have prompted certain changes to the revenue elements of the budget for the current year. In addition to this, under the payment profile developed through technical consultations with the Commission and included within the National Recovery and Resilience Plan, the Republic of Bulgaria anticipates receiving higher than planned EU grants in 2022. On the other hand tax policy measures introduced as part of the anti-crisis package have affected individual taxes and in turn the revised revenue estimates. As such, the revised revenue estimates are now expected to include a net increase of revenues under the Consolidated Fiscal Programme of EUR 1.2 billion (1.6 per cent. of the forecasted GDP) due to higher tax receipts and expected higher revenues through EU fund accounts.

During the adoption of the 2022 Budget Amendments Act, a number of proposals were made by members of parliament to regulate a specific mechanism for paying compensation to non-household consumers of electricity. In this regard a provision was adopted that public enterprises in the energy sector which are 100 per cent. owned by the state will make contributions to the SESF. The Council of Ministers have the power to determine the amounts and the deadline for making such contributions, and has already exercised this power. The accumulated resources from the contributions in the SESF will be used to pay compensation to consumers which are not in the regulated market of electricity. According to the provisions in the law the SESF will pay compensation to non-household customers of electricity in the amount of 100 per cent. for the difference between the average price of the "day ahead" segment of "BNEB" EAD for the relevant month and a base price of EUR 128/MWh. It is planned that the mechanism will be applied for the period from 1 July 2022 to 31 December 2022.

An increase in basic interest rates could lead to a gradual increase in the Government's financing cost. As such, the 2022 Budget Amendments Act: (i) includes an increase to the maximum amount of new Government debt which may be assumed in 2022 from EUR 3.7 billion to EUR 5.3 billion; (ii) includes an increase to the maximum amount of Government debt allowed at the end of 2022 from EUR 18.2 billion to EUR 19.7 billion; and (iii) now also specifies the maximum amount of Government outstanding debt as EUR 19.7 billion, equal to 25.6 per cent. of GDP. The 2022 Budget Amendments Act also includes measures related to the provision of additional resources from debt sources in 2022 to service upcoming sovereign debt repayments.

Recent Developments with respect to Budget for 2023

In light of the hung parliament resulting from the October 2022 elections as described under "*Republic of Bulgaria—Recent History—1997 to Present*", the current caretaker Government introduced an extension of the Law on the State Budget for 2022, the Budget of the State Social Security Fund and the Budget of the NHIF (the "**Extension Law**"). On 23 December 2022, the Extension Law was adopted by the National Assembly and later published in State Gazette (State Gazette 104 from 30 December 2022). These extensions preserve the effect of all policies and benefits from 2022 as provided for under the 2022 Budget Amendments Act for households and businesses, as well as the amount of pensions, for the first quarter of 2023 or until a regular Government is elected, which will be able to adopt the 2023 Budget laws on the basis of its governance program. If the National Assembly is dissolved at any time between 1 January and 31 March 2023, the running of the three-month extension period of the Extension law will be suspended from such dissolution until the election of the new National Assembly. If a regular Government is not elected by April 2023, the caretaker Government is expected to propose a draft Budget law with medium-term projections.

According to Art. 87, para. 1 of the PFA, if the National Assembly fails to adopt the State Budget Law before the beginning of the budget year, the budget revenue will be collected in compliance with then applicable laws while expenditure and transfers generally cannot exceed the lower of the expenditure or transfer amount for the same period of the preceding year or the amount of the revenues, aid and donations received. However, as a result of the Extension Law, the effect of all policies and benefits from 2022 as provided for under the 2022 Budget Amendments Act for households and businesses, as well as the amount of pensions will be preserved.

General Government

The table below sets out the revenues, expenditure and net lending/borrowing for the General Government of Bulgaria, the second table represents the net lending/net borrowing by sub-sector for the years ended 31 December 2017, 2018, 2019, 2020 and 2021 and the first and second quarter of 2022 (under ESA 2010 methodology whereby data is calculated on an accruals basis):

ESA 2010 code	General Government	31 December 2017	31 December 2018	31 December 2019	31 December 2020	31 December 2021	31 March 2022	30 June 2022
<i>(EUR millions)</i>								
OTR	Total Revenue.....	19,118.3	21,740.9	23,655.7	23,224.9	26,103.2	6,201.8	7,402.4
OTE	Total Expenditures.....	18,265.6	20,770.4	22 343.7	25,573.3	28,871.1	6,805.9	7,702.5
B9	Net lending (+) Net borrowing (-).....	852.6	970.5	1,312.0	(2,348.4)	(2,767.9)	(604.1)	(300.1)
<i>% GDP</i>								
OTR	Total Revenue.....	36.4	38.7	38.4	37.7	36.7	36.0	36.9
OTE	Total Expenditures.....	34.8	36.9	36.3	41.5	40.6	39.5	38.4
B9	Net lending (+) Net borrowing (-).....	1.6	1.7	2.1	(3.8)	(3.9)	(3.5)	(1.5)
ESA 2010 code	Net lending (+) Net borrowing (-)	31 December 2017	31 December 2018	31 December 2019	31 December 2020	31 December 2021	31 March 2022	30 June 2022
<i>(EUR millions)</i>								
S.1311	Central Government....	762.0	840.0	1,251.3	(2,605.9)	(3 251.5)	(1,064.2)	(483.8)
S.1313	Local Government	122.9	77.1	(76.8)	173.0	69.4	134.5	51.0
S.1314	Social Security funds ..	(32.3)	53.4	137.5	84.5	414.1	325.6	132.7
S.13	General Government...						(604.1)	(300.1)
<i>(per cent. of GDP)</i>								
S.1311	Central Government....	1.5	1.5	2.0	(4.2)	(4.6)	(6.2)	(2.4)
S.1313	Local Government	0.2	0.1	(0.1)	0.3	0.1	0.8	0.3
S.1314	Social Security Funds .	(0.1)	0.1	0.2	0.1	0.6	1.9	0.7
S.13	General Government...	1.6	1.7	2.1	(3.8)	(3.9)	(3.5)	(1.5)

Source: Eurostat.

In the period 2017-2019, the budget balance of the General Government Sector was positive, with an average surplus of 1.8 per cent. of GDP for the period on an accrual basis. This made it possible to

accumulate buffers in the fiscal reserve and create fiscal space. After that period, the sudden shock of the pandemic in 2020 led to a significant deterioration of Bulgaria's budgetary position. The main reasons for this deterioration were the increases in some expenditure groups due to the additional funds to combat the COVID-19 pandemic, aimed both at addressing the challenges facing the health system and preserving human life and health, and at supporting the suffered businesses and the most affected/vulnerable groups. Owing to policy support, the economy rebounded in 2021 despite the ongoing pandemic and the political uncertainty during the year. Even though the economic outlook improved in 2021, the deficit remained at around 4 per cent. of GDP due to further increases in emergency measures and the introduction of compensation schemes for firms in light of rising energy prices. In ESA 2010 terms, the Ministry of Finance expects the General Government deficit for 2022 to be in line with the provisions of the EU's Stability and Growth Pact and to be about 2.9 per cent. of projected GDP. Despite the consequences and economic uncertainty caused by the global COVID-19 pandemic, pursuing a coherent and predictable fiscal policy is a priority in defining key fiscal parameters and indicators of the budgetary framework in the medium term and in implementing budget measures. Please see "Public Finance – Fiscal Policy – Fiscal Performance 2017 – June 2022" above for a description of the fiscal performance in the 2017 – Q2 2022 period.

Consolidated Fiscal Programme – Cash Basis

Although ESA 2010 is the prime methodology used for the General Government budget, the National Assembly approves the Annual State Budget Act compiled under the national budget methodology, which is on a cash basis.

The following table sets out the sub-category of revenues and expenditures under the Consolidated Fiscal Programme for the years ended 31 December 2017, 2018, 2019, 2020 and 2021, as budgeted for the year ended 31 December 2022, and the nine months ended 30 September 2022 on a cash basis:

	Year ended 31 December,					2022	Nine months ended 30 September,
	2017	2018	2019	2020	2021	(Budgeted)*	2022
	<i>(EUR millions)</i>						
Consolidated Fiscal Programme							
Total revenues	18,057.1	20,273.2	22,521.7	20,659.3	26,821.8	30,503.0	23,006.6
Tax revenues	15,124.7	16,481.8	18,038.7	18,328.9	20,899.7	23,582.1	17,382.0
Direct taxes	2,885.9	3,135.5	3,433.3	3,534.9	4,222.4	4,628.1	3,256.6
Corporate income tax	1,180.1	1,260.1	1,378.0	1,388.1	1,741.6	2,055.4	1,274.7
Income tax	1,705.8	1,875.4	2,055.3	2,146.8	2,480.8	2,572.7	1,981.9
Social security contributions	4,277.1	4,835.9	5,392.6	5,628.5	6,253.1	6,848.1	5,098.7
Indirect taxes	7,430.3	7,940.9	8,614.1	8,550.0	9,702.4	11,389.1	8,407.6
VAT	4,765.3	5,145.6	5,668.3	5,634.9	6,635.8	8,190.9	6,009.3
Excise duties	2,548.5	2,660.4	2,804.9	2,783.7	2,893.8	2,975.7	2,202.5
Insurance premium tax	17.1	19.2	22.9	24.0	24.7	28.2	19.6
Customs duties	99.3	115.7	118.0	107.3	148.1	194.3	176.2
Others	530.9	569.5	598.7	615.6	721.7	716.8	619.1
Sugar Levy	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Non tax revenues	2,154.9	2,711.0	3,222.8	2,951.7	4,150.7	3,754.6	4,527.6
Grants	777.5	1,080.4	1,260.2	1,378.6	1,771.4	3,166.3	1,096.9
Total Expenditure with the EU contribution	17,624.8	20,204.1	23,110.9	24,465.5	28,761.9	33,687.5	22,502.4
Total Expenditure	17,170.6	19,650.1	22,500.9	23,803.2	27,902.5	32,746.8	21,869.7
Total noninterest expenditure	16,765.5	19,298.2	22,169.2	23,484.2	27,581.0	32,407.1	21,569.7
Current noninterest expenditures	14,848.3	16,575.3	18,303.0	20,882.0	25,601.6	28,087.7	20,267.3
Personal	4,049.1	4,490.8	5,134.5	5,814.1	6,796.2	6,812.0	5,219.5
Wages and salaries	2,697.1	2,990.5	3,406.4	3,866.3	4,477.5	4,635.4	3,403.0
Other remunerations	461.3	495.6	579.5	657.2	827.6	635.0	659.0
Social security contributions	890.7	1,004.7	1,148.6	1,290.5	1,491.1	1,541.6	1,157.5
Scholarships	50.2	51.7	49.0	51.3	59.4	71.3	46.3
Maintenance and operating	2,019.0	2,257.9	2,328.1	2,608.9	2,793.5	4,902.1	2,271.8
Subsidies	1,003.5	1,528.8	1,949.7	2,573.2	4,032.0	2,946.5	3,573.9
Social expenditures	7,707.9	8,218.2	8,819.3	9,803.8	11,896.4	13,346.0	9,142.5
Pensions	4,621.6	4,852.8	5,062.2	5,718.3	7,312.5	7,970.8	5,692.4
Social assistance	1,340.1	1,444.1	1,605.2	1,795.5	1,965.5	2,353.8	1,396.1
Health Insurance fund	1,746.1	1,921.4	2,152.0	2,290.0	2,618.4	3,021.5	2,054.0
Current and capital transfers abroad	18.7	27.9	22.3	30.7	24.0	9.8	13.4
Capital expenditures	1,917.2	2,723.0	3,866.1	2,602.2	1,979.4	4,319.5	1,302.4
Interest	405.1	351.9	331.7	319.0	321.4	339.7	300.1
External	279.0	228.6	227.5	225.6	238.2	257.6	230.6
Domestic	126.1	123.3	104.2	93.4	83.2	82.0	69.5
Contribution to the EU budget	454.1	553.9	610.0	662.4	859.5	940.7	632.6

	Year ended 31 December,					Nine months ended 30 September,
	2017	2018	2019	2020	2021	2022 (Budgeted)*
	<i>(EUR millions)</i>					
Primary balance	837.4	421.0	(257.5)	(1,487.3)	(1,618.7)	804.3
Deficit/Surplus (-/+)	432.3	69.1	(589.2)	(1,806.2)	(1,940.1)	504.2

Source: Ministry of Finance.

* As estimated by the 2022 Budget Amendments Act.

After the budget deficit deterioration in 2014 the Government focused on a fiscal consolidation and improvements in tax collection. Larger proceeds from taxes and social security and health insurance contributions were the result of the continued positive development under the key macroeconomic indicators, as well as the active efforts by revenue agencies in implementing the measures aimed at increasing budget revenue collection, combating the informal economy and tax evasion. Despite the sudden shock of the pandemic and the deteriorating external and internal environment in 2020 on the revenue side, there was no dramatic decrease in most of the main taxes and social security contributions. Slowdown were reported mainly in the revenues from VAT, excises and customs duties, while direct taxes, revenues from social security contributions were less affected and reported nominal growth compared to the previous year. The main reasons for this increase were the registered growth of remunerations in the public sector (next step of the planned increase in remunerations in the school education sector and the overall wage increase of those employed in the public sector, including more significant increase for those on the front-line in the fight against the coronavirus) and in many areas of the private sector, as well as government measures that have helped to preserve jobs in the sectors most severely affected by the crisis and limited growth of unemployment rate. In 2021, in terms of revenue, there was an intensive increase in all major revenue groups - tax and social security revenues, non-tax revenues and revenues from grants and donations. The factors contributed to this were the positive development under the key macroeconomic indicators, including the shock increase of electricity prices and the continuing active efforts by revenue agencies in implementing the measures aimed at increasing budget revenue collection, combating the informal economy and tax evasion.

For the 2017-2021 period, tax and social insurance revenues under the Consolidated Fiscal Programme increased on average by 8.8 per cent. per annum. The relative share of tax revenues to GDP also increased, from 28.8 per cent. in 2017 to 30.8 per cent. in 2021. From 2017 to 2021, the share of tax and social insurance revenues to GDP increased by 2.0 percentage points.

The revenue performance as of 30 September 2022 was in line with estimates for the year. The Consolidated Fiscal Programme revenues, grants and donations for the nine months of the year are 75.4 per cent. of the estimates set in the 2022 Budget Amendments Act. Consolidated Fiscal Programme tax proceeds, including revenues from social security contributions accounted for 73.7 per cent. of the tax revenues planned for the year, non-tax revenues were 120.6 per cent. of the annual estimate, while grant and donation proceeds were 34.6 per cent. lower than the annual estimate. The good performance of non-tax revenues was mainly due to the one off contributions from public enterprises from the energy sector paid to the budget of the SESF, which were used to cover the compensations of the consumers of electricity outside of the regulated market.

On the expenditure side, due to the commenced recovery of public investment and the increase of public sector wages in 2017 the total expenditure reported an increase of 6.2 per cent. In 2018, the Government sped up the implementation of investment projects, while both EU financed investment accelerated, and a large share of public investment was financed by national resources. As a result of the Government's public investment in 2018, capital expenditures grew by 42 per cent. compared to 2017. This investment was mainly channelled to road infrastructure, smaller construction projects, energy efficiency program, among others. In 2019, expenditures expanded fast mainly due to double-digit wage increase, higher social spending and recovering public investment. The up-front cash payment for the acquisition of a new type of multifunctional combat aircrafts for the Bulgarian Air Force made in 2019 resulted in a budget deficit on a cash basis of 1.0 per cent. of GDP.

The composition of spending during the 2017-2019 period showed an increase in the share of investment spending as a consequence of the accelerated absorption of the funds under the EU programmes along with increases in social protection spending and public sector wages. As a result of the pandemic-induced crisis and effects of hikes in energy prices the composition of spending during the years 2020-2021 changed. The most significant increase was reported in social and health insurance payments, expenditures for

compensation of employees as well as subsidies for nonfinancial enterprises as a consequence of the budgetary measures helped to contain the negative effects of the pandemic and the introduction of compensation schemes in light of rising energy prices.

As of 30 September 2022, the expenditures under the Consolidated Fiscal Programme, including the contribution of the Republic to the EU budget, represented 66.8 per cent. of the annual plan in the 2022 Budget Amendments Act. The relatively lower absorption of the planned capital expenditures was driven on the one hand by the late adoption of the Annual Budget Act for 2022 and, on the other hand, by the traditional shifting of a large amount of the investment and capital spending to the last months of the year due to the construction season and the deadlines for implementation and payment of the projects (i.e., the absorption of the capital spending is determined by the calendar of the construction season, as the implementation of most infrastructure projects is carried out during the summer months and the payment for the completed projects is concentrated in the last quarter).

Bulgaria exercised prudence in the pre-crisis high growth years, running fiscal surpluses and maintaining a sufficient fiscal reserve. For the nine months ended September 2022, the Consolidated Fiscal Programme reported a surplus (on a cash basis) of 0.6 per cent. of the projected GDP. However, the current forecast for full year 2022 by the Ministry of Finance envisages a deficit of about 1.0 per cent. of projected GDP on a cash basis, significantly lower than the planned target in the Annual Budget Act for 2022 (4.1 per cent. of GDP). The expected improvement of the deficit is driven mainly by the better than expected revenue performance, as well as lower absorption of planned expenditures, both on the national budget and under the EU funds accounts.

The following table sets out the fiscal reserve account for the annual period between the years ended 31 December 2017, 2018, 2019, 2020 and 2021 and the nine months ended 30 September 2022:

	Year ended 31 December,					Nine months ended 30 September,
	2017	2018	2019	2020	2021	2022
Fiscal reserve account*						
EUR millions	5,260.7	4,788.4	4,483.1	4,420.1	5,496.2	6,736.4
per cent. of GDP.....	10.0	8.5	7.3	7.2	7.7	4.2

Source: Ministry of Finance.

* The scope of the fiscal reserve includes the receivables from EU funds for certified expenditure, advance payments and others in accordance with par. 1, p. 41 of the Additional Provisions of The Public Finance Act.

Tax Policy

Bulgaria's tax strategy after 2007 has been characterised by continuity and predictability, retaining the trends and directions from recent years. The revenue policy is geared towards sustaining macroeconomic and budget stability, in particular, to increasing economic growth, promoting labour supply and demand, and securing the financial resources necessary to implement the Government's fiscal policy, including providing the relevant fiscal possibilities to finance priority sectors.

Since 2007, the development of Bulgaria's tax policy has been in line with EU law requirements, international treaties to which Bulgaria is a party, as well as the OECD tax standards against base erosion and profit shifting ("**BEPS**").

As a result of the update of the budget estimates for 2021, the changed expectations regarding the main indicators in the macro-framework were reflected in the revenue side of the budget (amendments to the Annual State Budget for 2021 published on 16 September 2021). The updates were more favourable than initially planned for revenues in 2021 and provided the necessary financial resources to address the risks of a potential new Wave of COVID-19 in 2022, providing funds for the proper functioning of some budget systems. The total amount of estimated tax revenues (excluding social security contributions) in the updated Annual State Budget Act for 2021 was EUR 13.3 billion, which is EUR 0.9 billion or 7.4 per cent., more than the previous projected tax revenue. Indirect taxes (including VAT, excise duties, insurance premiums and duties) were estimated to amount to EUR 9.3 billion, an increase of EUR 0.6 billion or 6.6 per cent. compared to the amount set in the initial 2021 State Budget Act. Direct taxes (including CIT and PIT) amounted to EUR 3.9 billion for 2021, an increase of EUR 362.9 million as compared to the initial plan.

Execution of tax revenues in the amended State Budget for 2021 was EUR 14.0 billion in cash terms or 105.2 per cent. execution of the plan (EUR 1.8 billion more than the updated plan). By type of taxes the execution was as follows: indirect taxes (including VAT, excise duties, insurance premiums and duties) were EUR 9.7 billion and increased by 13.5 per cent. or EUR 1.2 billion compared to 2020; and direct taxes (including CIT and PIT) amounted to EUR 4.2 billion for 2021, an increase of EUR 0.7 billion or 19.5 per cent. as compared to the previous year.

Tax revenue for 2021 and 2022 takes into account the effects of the continued implementation of some measures against the spread of the COVID-19 pandemic. See "–Revenues" below. Tax revenues in the State Budget as of 30 September 2022 amounted to EUR 11.7 billion or 72.9 per cent. of the amount set out in the updated budget for 2022. Compared to the end of September 2021, receipts from taxes in the first nine months of 2022 increased by EUR 1.7 billion, representing growth of 16.7 per cent.

Revenues

The principal source of revenue in the State Budget is taxation, particularly VAT, excise duties, personal income tax and corporate income tax. As a result of Commission recommendations on ineffective tax collection and the informal economy, a number of significant tax reforms have been introduced through targeted measures in areas such as fuel and labour taxes, which aim to shift the taxation burden from direct to indirect taxes to achieve proportional taxation and the tax base has been broadened by removing exemptions and by reducing activities in the grey shadow economy.

Tax revenues and tax compliance are improving through the number of new initiatives in place. Maintaining the efforts to improve tax collection and taking additional targeted measures to face the challenges in specific areas of the tax system is of paramount importance for reducing further shadow economy.

VAT

The following table sets out the revenues from VAT as a percentage of GDP for the years ended 31 December 2017, 2018, 2019, 2020 and 2021, as budgeted for the year ended 31 December 2022 and the nine months ended 30 September 2022:

	Year ended 31 December,					2022 (Budgeted)*	Nine months ended 30 September
	2017	2018	2019	2020	2021		
		<i>(EUR millions, except for percentages)</i>					
Total Revenues from VAT	4,765.4	5,145.7	5,668.3	5,634.9	6,635.8	8,190.9	6,009.3
Tax rate (per cent.)	20	20	20	20	20	20	20
Total Revenues from VAT as a per cent. of GDP	9.1	9.2	9.2	9.2	9.8	10.6	10.0

Source: Ministry of Finance.

* As estimated by the 2022 Budget Amendments Act.

In response to the COVID-19 pandemic and to aid sectors of the economy most affected by the pandemic, the Government has reduced the VAT rate from 20 per cent. to 9 per cent. for the period of 1 July 2020 – 31 December 2022 for numerous services including: the supply of restaurant and catering services, books, food suitable for babies or young children and baby diapers and similar hygiene items, as well as for restaurant and catering services, which includes the supply of beer and wine and the delivery of single tourist services under art. 136 of the VAT Act. The Government also reduced the VAT rate for the supply of services for use of sporting facilities from 1 August 2020 (supplemented, State Gazette No. 71/2020, effective 1 August 2020). In addition, according to Art. 1 of Decision No. (EU) 2020/491, the Government allowed an exemption of customs duties and VAT on imports of medical goods necessary to combat the effects of the COVID-19 pandemic in 2020 and 2021, in accordance with the Decree No. 80 of the Council of Ministers of 23 April 2020 and the Decision No. 400 of the Council of Ministers of 18 June 2020 and subsequent decisions of the Council of Ministers on the duration of the exemption. The exemption applies to imports made from 30 January 2020 to 31 December 2022. Certain goods imported by state organisations are eligible for the VAT exemption. The Government reduced the VAT rate from 20 per cent. to 0 per cent. for the period 1 January 2021 – 31 December 2022 for delivery and intra-community acquisition of vaccines

against COVID-19 and services directly related to these vaccines, as well as of delivery of in-vitro diagnostic medical devices intended for the diagnosis of COVID-19 and the services directly related to these devices.

In addition, during the nine months ended 30 September 2022, in order to mitigate the economic consequences of the instability of the prices of oil, natural gas, electricity, fuels, food products and others, certain measures in respect of VAT were introduced including: (i) a reduced VAT rate of 9 per cent. for supplies of district heating until 1 July 2023; and (ii) a zero VAT rate for supply of bread and flour until 1 July 2023. These measures were adopted by way of the 2022 Budget Amendments Act and entered into force on 9 July 2022.

Personal income tax

During the period 2017-2021, the revenues from personal income tax ("PIT") were influenced by the income policy measures undertaken by the Government, including the increase in the national minimum wage (from EUR 210 in 2017 to EUR 332 in 2021), the increase in salaries in the budget sector and in the education sector, as well as the measures to reduce undeclared employment and improve the tax collection. The unemployment rate decreased from 7.2 per cent. in 2017 to 5.3 per cent. in 2021. Revenues from PIT for the nine months ended 30 September 2022 amounted to EUR 2.0 billion representing an increase of 8.2 per cent. (EUR 149.9 million) compared to the same period in 2021.

The following table shows the rate of PIT and the revenue from PIT as a percentage of GDP for the years ended 31 December 2017, 2018, 2019, 2020 and 2021, as budgeted for the year ended 31 December 2022, and the nine months ended 30 September 2022:

	Year ended 31 December,					Nine months ended 30 September,	
	2017	2018	2019	2020	2021	2022 (Budgeted)*	2022
	<i>(EUR millions, except for percentages)</i>						
Total Revenues from PIT	1,705.8	1,875.4	2,055.3	2,146.8	2,480.8	2,564.1	1,978.0
Tax rate (per cent.)	10	10	10	10	10	10	10
Total Revenues from PIT as a per cent. of GDP	3.2	3.3	3.3	3.5	3.7	3.3	3.3

Source: Ministry of Finance.

* As estimated by the 2022 Budget Amendments Act.

PIT revenues in 2020 and 2021 also reflect the positive impact of the measures adopted to combat the spread and treatment of COVID-19 and the measures to minimise the negative consequences for businesses and households. The amount of tax relief for children was increased for tax year 2021 and was further increased for tax year 2022 with the Act for the State Budget for 2021 and 2022, respectively. Thus, the following amounts are deducted from the amount of the annual tax base for 2022: EUR 3,068 (up from EUR 2,301 for 2021) - for one minor child, EUR 6,136 (up from EUR 4,602 for 2021)- for two minor children and EUR 9,203 (up from EUR 6,902 for 2021) - for three or more minor children. The amount of the tax relief for children with disabilities was also increased for tax year 2022 to EUR 4,663 (up from EUR 4,602 for 2021) for raising a child with 50 and over 50 per cent. type and degree of disability, determined by an effective decision of a competent authority.

In the nine months ended 30 September 2022, PIT revenues were primarily influenced by the development of the labour market and the legislative and administrative measures taken in the field of labour, social and tax legislation. In particular, the following legislative amendments effective from 1 July 2022 impacted the amount of receipts during the period:

- increase in the minimum wage for Bulgaria by 9.2 per cent., from EUR 332 to EUR 363;
- increase of the minimum insurance incomes as a result of the announced increase of the minimum wage;
- increase of the maximum insurance income from EUR 1,534 to EUR 1,738; and

- increase of salaries in the education sector.

In addition to this PIT revenues were significantly influenced in the nine months ended 30 September 2022 by (i) an increase in the amount of the tax relief for children from EUR 2,301 to EUR 3,068 per year and (ii) an increase in tax relief for children with disabilities from EUR 4,602 to EUR 6,136 per year. The introduction of an option for advance use (quarterly) for 2022 of these two tax reliefs will further affect the PIT revenues for 2022.

Corporate income tax

There were no significant legislative amendments in the CIT legislation between 2017 and 2022. CIT revenues for this period rose gradually from EUR 1.2 billion as of 31 December 2017 to EUR 1.7 billion as of 31 December 2021. As of 30 September 2022, CIT revenues amounted to EUR 1,274.7 million (62.0 per cent. of the updated plan) and were EUR 312.2 million (32.4 per cent.) higher than the revenues for the same period of the previous year.

The following table shows the rate of CIT and CIT revenues as a percentage of GDP for the years ended 31 December 2017, 2018, 2019, 2020 and 2021, as budgeted for the year ended 31 December 2022, and the nine months ended 30 September 2022:

	Year ended 31 December,					2022	Nine months ended 30 September,
	2017	2018	2019	2020	2021	(Budgeted)*	2022
	<i>(EUR millions, except for percentages)</i>						
Total Revenues from CIT	1,180.1	1,260.1	1,378.0	1,388.1	1,741.6	2,055.4	1,274.7
Fax Rate (per cent.)	10	10	10	10	10	10	10
Total Revenues from CIT as percentage of GDP	2.2	2.2	2.2	2.3	2.6	2.7	2.1

Source: Ministry of Finance.

* As estimated by the 2022 Budget Amendments Act.

Excise duties

In the 2017-2021 period, a series of amendments were made to the Excise Duties and Tax Warehouses Act (EDTWA), aimed at overcoming the problems that may have arisen in the application of the law, improving tax legislation, clarifying ambiguities in the application of the law, filling existing gaps, and decreasing the administrative burden in application of the law. During the period was introduced the increase of the excise duty rate for heated tobacco product from 78 EUR/kg to 119 EUR/kg, effective from 1 October 2018.

Revenues from excise duties for the nine months ended 30 September 2022 amounted to EUR 2.2 billion, representing 74.0 per cent. of the set revenues in the updated State Budget Act for 2022. Compared to the same period in 2021, revenues from excise duties were EUR 24.0 million higher, an increase of 1.1 per cent.

The following table sets out revenues from excise duties (including as a percentage of GDP) for the years ended 31 December 2017, 2018, 2019, 2020 and 2021, as budgeted for the year ended 31 December 2022, and the nine months ended 30 September 2022:

	Year ended 31 December,					2022	Nine months ended 30 September,
	2017	2018	2019	2020	2021	(Budgeted)*	2022
	<i>(EUR millions, except for percentages)</i>						
Excise duties							
Tobacco products	1,211.0	1,296.7	1,398.6	1,446.9	1,466.6	1,498.1	1,103.2
Fuels.....	1,162.1	1,184.0	1,223.7	1,170.4	1,248.1	1,278.2	958.9
Alcoholic beverages and beer.....	153.5	158.8	159.0	146.0	157.3	181.0	123.9
Other stock	21.8	20.9	23.7	20.4	21.7	18.0	16.5

	Year ended 31 December,					2022 (Budgeted)*	Nine months ended 30 September, 2022
	2017	2018	2019	2020	2021		
	<i>(EUR millions, except for percentages)</i>						
Total Revenues from Excise duties	2,548.6	2,660.4	2,804.9	2,783.7	2,893.8	2,975.7	2,202.5
Total Revenues from Excise duties as a per cent. of GDP	4.9	4.7	4.6	4.5	4.3	3.9	3.7

Source: Ministry of Finance.

* As estimated by the 2022 Budget Amendments Act.

For 2021, a negative effect on excise revenues (amounting to EUR 8 million) from the increase of the amount under the State aid scheme "Aid in the form of a discount on the value of excise duty on gas oil used in primary agricultural production" was included. The amount under this State aid scheme is calculated under the State budget for the previous year and increased from EUR 43 million to EUR 51 million during the 2017-2021 period.

Expenditures

The principal expenditures under Consolidated Fiscal Program are social expenditures (including pensions, current transfers, benefits, allowances for households and health insurance payments), personal expenditures (including wages, salaries, other remunerations and insurance contributions), maintenance and operating expenditures, subsidies and other current transfers and capital expenditures. Between 2017 – 2020, social expenditures grew by 27.2 per cent. from EUR 7.7 billion to EUR 9.8 billion primarily due to the annual indexation of pensions by the supervisory council of the National Social Security Institute by a percentage equal to the sum of 50 percent of the increase of insurance income and 50 percent of the index of the consumers prices for the preceding calendar year. In 2021, social expenditures grew by 21.3 per cent. to EUR 11.9 billion due to a large increases in pension expenditure (27.9 per cent.) and expenditures for the NHIF due to the implementation of measures related to the COVID-19 pandemic. In addition to the COVID-19 supplements paid to all pensioners throughout 2021, there was an increase in the minimum and maximum pensions from 1 January 2021 and an increase in all pensions by 5.0 per cent. from July 1, 2021 in order to support vulnerable groups of the population during the COVID-19 pandemic. For the nine-months ended September 2022, social expenditures increased by 11.4 per cent. compared to the same period in 2021 mainly due to higher pension expenditure as a result of the effects of payment of the increased pensions from 1 July 2021 and from 25 December 2021; the increase of the minimum and the maximum pension from December 25, 2021; the new increase from July 1, 2022 of the minimum and the maximum pension and all other pensions by 10 per cent., as well as the additional one-off payments of EUR 35 to pensions to all pensioners in April 2022.

The following table sets out social expenditures (including as a percentage of GDP) for the years ended 31 December 2017, 2018, 2019, 2020 and 2021, as budgeted for the year ended 31 December 2022, and the nine months ended 30 September 2022:

	Year ended 31 December,					2022 (Budgeted)*	Nine months ended 30 September, 2022
	2017	2018	2019	2020	2021		
	<i>(EUR millions, except for percentages)</i>						
Social expenditures	7,707.9	8,218.2	8,819.3	9,803.8	11,896.4	13,346.0	9,142.5
Pensions	4,621.6	4,852.8	5,062.2	5,718.3	7,312.5	7,970.8	5,692.4
Social assistance	1,340.1	1,444.1	1,605.2	1,795.5	1,965.5	2,353.8	1,396.1
Health Insurance fund	1,746.1	1,921.4	2,152.0	2,290.0	2,618.4	3,021.5	2,054.0
Social expenditures as a per cent. of GDP (%)	14.7	14.6	14.3	15.9	16.7	17.3	15.2

Source: Ministry of Finance.

* As estimated by the 2022 Budget Amendments Act.

Between 2017 – 2020, personal expenditures grew by 43.6 per cent. from EUR 4.1 billion to EUR 5.8 billion primarily due to the increase in compensation of educational workers since 1 September 2017, the increase in compensation of employees in the security and defence sector in 2018 and a 10 per cent. increase in staff expenditures of the employees in the budget sector during 2019 and 2020, in order to provide competitive remuneration in line with the general labour market. In 2021, personal expenditures grew by 16.9 per cent. to EUR 6.8 billion largely due to the increase in the funds for the staff in the budget sector by 10 per cent., the increase (from 1 January 1 2021) of the salaries of the teaching staff in the secondary schools (which doubled their salary from the level in 2017), and additional payments to doctors and medical professionals on the first line in the fight against the pandemic of COVID-19. For the nine-months ended 30 September 2022, personal expenditures increased by 8.2 per cent. compared to the same period in 2021 due to the implementation of the policy for increasing the salaries of pedagogical specialists to reach an average salary in the field of not less than 125 per cent. of the average salary for the country as well as the indexation of the basic and additional remunerations of the employees in the judiciary determined according to the mechanisms outlined in the Judiciary Act.

The following table sets out personal expenditures (including as a percentage of GDP) for the years ended 31 December 2017, 2018, 2019, 2020 and 2021, as budgeted for the year ended 31 December 2022, and the nine months ended 30 September 2022:

	Year ended 31 December,					Nine months ended 30 September,	
	2017	2018	2019	2020	2021	2022 (Budgeted)*	2022
	<i>(EUR millions, except for percentages)</i>						
Personal.....	4,049.1	4,490.8	5,134.5	5,814.1	6,796.2	6,812.0	5,219.5
Wages and salaries.....	2,697.1	2,990.5	3,406.4	3,866.3	4,477.5	4,635.4	3,403.0
Other remunerations	461.3	495.6	579.5	657.2	827.6	635.0	659.0
Social security contributions.....	890.7	1,004.7	1,148.6	1,290.5	1,491.1	1,541.6	1,157.5
Personal expenditures as a per cent. of GDP (%).....	7.7	8.0	8.3	9.4	9.6	8.9	8.7

Source: Ministry of Finance.

* As estimated by the 2022 Budget Amendments Act.

Between 2017 – 2020, maintenance and operating expenditures grew by 29.2 per cent. from EUR 2.1 billion to EUR 2.6 billion primarily due to the additional funds in 2020 for the purchase of medicines, vaccines, disinfectants, personal protective equipment, consumables and medical devices to prevent the spread COVID-19. In 2021, maintenance and operating expenditures grew by 7.1 per cent. to EUR 2.8 billion largely due to the additional costs related to the continued COVID-19 pandemic. For the nine-months ended September 2022, maintenance and operating expenditures increased by 29.4 per cent. compared to the same period in 2021 due to the liabilities from previous years paid to road construction and maintenance companies under contracts for ongoing repair and maintenance.

The following table sets out maintenance and operating expenditures (including as a percentage of GDP) for the years ended 31 December 2017, 2018, 2019, 2020 and 2021, as budgeted for the year ended 31 December 2022, and the nine months ended 30 September 2022:

	Year ended 31 December,					Nine months ended 30 September,	
	2017	2018	2019	2020	2021	2022 (Budgeted)*	2022
	<i>(EUR millions, except percentages)</i>						
Maintenance and operating.....	2,019.0	2,257.9	2,328.1	2,608.9	2,793.5	4,902.1	2,271.8
Maintenance and operating expenditures as a per cent. of GDP (%).....	3.8	4.0	3.8	4.2	3.9	6.4	3.8

Source: Ministry of Finance.

* As estimated by the 2022 Budget Amendments Act.

Between 2017 – 2020, subsidies grew by 156.4 per cent. from EUR 1.0 billion to EUR 2.6 billion primarily due to the higher expenditures of the SESF and the funds spent in 2020 for maintaining employment in conditions of COVID-19 pandemic (the so-called "60/40" program and related measures). In 2021, subsidies grew by 56.7 per cent. to EUR 4.0 billion largely due to payments for energy, as well as the year-round payment of funds for maintaining employment under the so-called "60/40" program and related measures. For the nine-months ended 30 September 2022, subsidies increased by 79.2 per cent. compared to the same period in 2021 mainly due to payment of compensation for the high electricity prices through the budget of the SESF. All payments under the approved programs for compensation of electricity customers outside the regulated market in 2022 were financed by specific targeted contributions from the state owned producers of electricity as well as other revenues of the SESF, thus the net effect from the compensation programs on the budget is broadly neutral with respect to the budget balance.

The following table sets out subsidies (including as a percentage of GDP) for the years ended 31 December 2017, 2018, 2019, 2020 and 2021, as budgeted for the year ended 31 December 2022, and the nine months ended 30 September 2022:

	Year ended 31 December,					2022 (Budgeted) *	Nine months ended 30 September,	
	2017	2018	2019	2020	2021	2022	2022	
	<i>(EUR millions, except percentages)</i>							
Subsidies	1,003.5	1,528.8	1,949.7	2,573.2	4,032.0	2,946.5	3,573.9	
Subsidies as a per cent. of GDP (%)...	1.9	2.7	3.2	4.2	5.7	3.8	5.9	

Source: Ministry of Finance.

* As estimated by the 2022 Budget Amendments Act.

Capital expenditures increased sharply in 2019 by 42.0 per cent. from EUR 2.7 billion to EUR 3.9 billion due to higher expenditures for ongoing work on infrastructure projects and up-front cash payment for the acquisition of a new type of multifunctional combat aircrafts for the Bulgarian Air Force before declining in 2020 by 32.7 per cent. to EUR 2.6 billion. The expenditures for the acquisition of a new type of combat aircraft for the Bulgarian Air Force in 2019 were one-off. In 2021, capital expenditure declined by 23.9 per cent. to EUR 2.0 billion primarily due to the changed composition of spending as a result of the COVID-19 pandemic and effects of increases in energy prices. For the nine-months ended 30 September 2022, capital expenditures increased by 15.9 per cent. compared to the same period in 2021 due to ongoing work on infrastructure projects.

The following table sets out capital expenditures (including as a percentage of GDP) for the years ended 31 December 2017, 2018, 2019, 2020 and 2021, as budgeted for the year ended 31 December 2022, and the nine months ended 30 September 2022:

	Year ended 31 December,					2022 (Budgeted)*	Nine months ended 30 September,	
	2017	2018	2019	2020	2021	2022	2022	
	<i>(EUR millions, except percentages)</i>							
Capital expenditures	1,917.2	2,723.0	3,866.1	2,602.2	1,979.4	4,319.5	1,302.4	
Capital expenditures as a per cent. of GDP (%)	3.6	4.8	6.3	4.2	2.8	5.6	2.2	

Source: Ministry of Finance.

* As estimated by the 2022 Budget Amendments Act.

Fiscal decentralisation

Legislative amendments in the Local Taxes and Fees Act since 2006 have given municipalities the power to determine and collect the following local taxes: real estate tax, inheritance tax, donation tax, vehicle tax, licence tax and tourist tax, tax on the acquisition of property and tax on passenger taxi transport.

Municipalities also have the exclusive power to determine and collect the fees set out in the Local Taxes and Fees Act including the household waste disposal fee.

After 2008, the amount of local taxes is being determined by the municipal councils within the limits set by the law.

Fiscal goals

The tax and social security policy in the Republic of Bulgaria is oriented towards supporting economic growth, improving the business environment, combating tax offenses and increasing the fiscal sustainability in the long run. From an EU perspective, the goals of the tax policy in the 2017–2021 period were to support the functioning of the European Union's single market and meeting the challenges of globalisation and the digitalisation of the economy. Some of these goals are reached through the implementation of the following measures: simplification of the tax system and precision of the tax laws in order to eliminate inconsistencies and imperfections in the practice of taxation and to obtain transparency and understanding for taxpayers; maintaining direct tax rates in combination with a lower social insurance burden on employers in support of economic growth and employment; and maintaining a higher share of indirect taxes as compared to direct taxes.

Economic growth is a key priority in the mid-term policy goals of the Republic of Bulgaria and in pursuit of this the Republic of Bulgaria's policies include:

Economic and financial policy:

- encouraging investments of local and foreign enterprises performing investment projects which in turn will create new production capacities and provide long-term employment opportunities;
- establishing an information system for the Bulgarian Investment Agency and the National Innovation Fund to promote research and development activities and increase the competitiveness of enterprises; and
- developing indicators to measure the social impact of the work of State-owned companies.

Debt and financing policy:

- maintaining the current trend of increasing debt;
- increasing the share of domestic Government debt available in the debt structure; and
- Extending the average residual maturity of existing debt.

Management of EU funds policy:

- partaking in the Next Generation EU initiative and REACT EU mechanism designed to support EU member states most affected by COVID-19 with investments aimed at restoring labour markets, healthcare systems and the liquidity of SMEs; and
- using funds available through the National Recovery and Resilience Plan to finance reforms and investments within the domestic market to mitigate the economic and social impact of the COVID-19 pandemic.

Tax and income policy:

- increasing the minimum wage to EUR 400 as of 1 January 2023; and
- increasing the remunerations of staff in elected positions, employees in the judiciary system and pedagogical specialists.

Pension policy:

- increasing the minimum and maximum amount of pensions from 25 December 2021; and
- indexation of pensions from July 2022 and implementation of a new mechanism to improve pension adequacy from October 2022.

Sectoral policy:

- continuing integrated policies focused on education and the personal development of children and students;
- implementing innovations designed to encourage the qualification of pedagogical specialists;
- modernising educational institutions;
- constructing or revamping nurseries, kindergartens and schools;
- financing student and doctoral activities;
- financing the health sectors through care for the disabled, remuneration for emergency staff and construction of the National Paediatric Hospital; and
- maintaining and developing national defence and collective defence capabilities.

Privatisation

The privatisation process in Bulgaria started in 1992. Most of the major sectors of the economy have been privatised and the resources of state-owned companies still available for privatisation are very limited.

The total financial effect of privatisation transactions exceeded U.S.\$12 billion as of 31 December 2021, in terms of payments, assumed liabilities and investment commitments.

As a result of its privatisation programme, Bulgaria has attracted large investors from the Czech Republic, Russia, Austria, Germany, Belgium, Greece and other countries.

Some of the largest enterprises in Bulgaria have already been privatised such as: the former state-owned banks (with the exception of the Bulgarian Development Bank which has remained state-owned); the Bulgarian Telecommunications Company EAD; Neftochim EAD; Bulgarian Maritime Fleet (Navibulgar) EAD; Sodi Devnya EAD; SOMAT EAD; Arsenal EAD; Asarel Medet EAD; Bulgartabac Holding AD; Energy Distributing Companies; and many others.

Since 1 January 2010, the proceeds from privatisation are allocated entirely to the benefit of the State Fund for Guaranteeing the Stability of the State Pension System (the "**Silver Fund**").

Privatisation in the 2015-2021 period

According to the forecast of the privatisation revenues prepared by the Public Enterprises and Control Agency (formerly known as the Privatisation and Post Privatisation Control Agency), the expected revenues for the period 2022 – 2025 amount to EUR 1.4 million. The proceeds are expected from the sale of state property and separate parts of state-owned companies.

The following table summarises the results of the privatisation process in the period between 2015 and 2021:

Report Year	Revenues	Primary Divestitures
	<i>(EUR millions)</i>	
2015	2.3	Post-privatisation control
2016	10.0	Separate parts of state-owned companies
2017	2.7	Separate parts of state-owned companies
2018	3.1	Separate parts of state-owned companies
2019	3.5	Post-privatisation control
2020	1.3	Post-privatisation control
2021	4.3	Sale of state property, Post-privatisation control

Source: Ministry of Finance.

Pension System

The pension system in Bulgaria has undergone substantial structural reform since the late 1990s. The traditional pay-as-you-go system was transformed into a three-pillar system through the introduction of mandatory and voluntary fully funded pensions. The current Bulgarian pension system came into force with the Mandatory Social Insurance Code on 1 January 2000 (renamed the Social Security Code in 2003). It is based on the principle of security through diversity and includes the following:

Mandatory pension insurance ("Pillar I")

The public system of mandatory pension insurance of the pay-as-you-go type (Pillar I) ensures linkage of the pension amounts with contribution periods and earnings. New, more restrictive eligibility criteria on the basis of length of service and age were introduced in 2000. Promoting the principle of mandatory participation and universality, the first pillar covers all economically active persons. There is differentiation among the categories of insured persons, depending on the number and types of included social insurance risks. These include mandatory social security for all social risks; compulsory social security for disability, old age, death, accidents at work and occupational disease; and compulsory social security for disability due to general disease, old age and death.

The first pillar is financed through contributions from employers and employees, as well as through transfers from the State Budget for covering all non-contributory pension benefits and some non-contributory periods, which are regarded as insurance periods. In the 2009-2015 period, the State participated as a "third party insurer" and paid contributions equal to 12 per cent. of the total insurance income of all insured persons. As of 1 January 2016, the State contribution was abolished. However, the State has the obligation to cover any remaining financing gaps and deficits of the public pension system.

Inflows to the first pillar are allocated into separate public social insurance funds being: the Pensions Fund; the Pensions fund for persons under Art. 69 of the Social Insurance Code; the Accidents at Work and Occupational Disease Fund; the General Disease and Maternity Fund; and the Unemployment Fund. The sixth fund for pensions not related to labour activities is financed through transfers from the State budget. The deficit of the funds is covered by subsidy from the government/central budget on an annual basis.

Pension contributions to the public pension system in Bulgaria are distributed between employer and employee. In 2021, the rate of pension contribution for the third labour category workers (labour without risk for which employer pays no contribution in Professional Pension Funds ("PPFs")) is 19.8 per cent. of the gross insurable income. For persons born after 31 December 1959, the contribution rate for first pillar is 14.8 per cent. and 5.0 per cent. are transferred to the second pillar. The employer pays 56 per cent. of the total contribution and the remaining 44.0 per cent. are for the account of the employee. Contribution rate for military and police officers is 60.8 per cent. (55.8 per cent. respectively) and is borne entirely by the State. The contribution rate for Accidents at Work and Occupational Disease Fund is between 0.4 per cent. and 1.1 per cent. and is differentiated by type and degree of risks for main groups of economic activities. These contributions are only at the employer's expense. Contribution rate for the General Disease and Maternity Fund is 3.5 per cent. and contribution rate for the Unemployment Fund is 1.0 per cent. The contributions to latter two funds are distributed between employer and employee in the ratio 60:40.

Since 1 April 2022, the cap of the base for calculation of pension contributions for both Pillars I and II was increased to EUR 1,738 per month per insured.

Supplementary mandatory pension schemes ("Pillar II")

The supplementary mandatory pension schemes are capital based schemes with defined social security contributions, accumulated and capitalised in individual pension accounts. They supplement the first pillar pensions and allow for receiving more than one pension, thus increasing the replacement rate without any increase of the social insurance burden.

The scope of the second pillar is narrower than that of the first pillar and it covers only old age and death risks, as well as the risk of permanently reduced working capacity over 89.99 per cent. It is also more limited because it covers two categories of persons. First, it covers any person subject to mandatory social insurance in a universal pension fund; these are all persons insured under the first pillar and born after 31 December 1959. Second, all persons subject to mandatory social insurance in a professional pension fund (all persons working under the conditions of labour "at risk" requiring employers to make additional payments into professional pension fund in order to acquire the right to a time limited pension for early retirement, which precedes the pension based on the length of service and age, without any cumulative effect on the two pensions).

The supplementary mandatory pension schemes are based on monthly contributions to a universal and/or professional pension fund in amounts set out in the Social Security Code. Currently, the contribution to a universal pension fund is 5.0 per cent. (paid in the same ratio as the other part of the social security contributions), which is transferred from the first pillar Pension Fund contributions. The contribution to a

professional pension fund has been 7.0 per cent. for the second labour category (labour "at risk" for which the employer pays additional contributions into PPFs each month) and 12.0 per cent. for the first labour category, at the sole expense of the employer.

As of 30 September 2022 the total assets under management of pension funds comprised approximately EUR 9.36 billion. As of this date the second pillar of the pension system had approximately 4.25 million participants. For the period of 30 September 2018 to 30 September 2022, the number of insured persons in the second pillar increased by approximately 5.47 per cent., and the balance sheet assets of the second pillar rose from EUR 6.37 billion to EUR 8.72 billion.

During September 2021, the pay-out phase started for socially insured persons and members in universal pension funds. The funds from the individual accounts of the persons with approved lifelong pensions or term programmed payments are being transferred from the universal pension funds to funds for benefits payment. As of 31 September 2022 the assets of the funds for benefits payment account for EUR 28.88 million.

Supplementary voluntary pension insurance schemes ("Pillar III")

The supplementary voluntary pension schemes are also capital based. They involve voluntary contributions at the expense of insured persons, their employers and or third parties in order to provide life or fixed period pension for old age or disability, as well as survivor pensions. They are organised and administered by shareholding companies with pension licences.

As of 1 January 2007, voluntary pension funds with occupational schemes were introduced into this pillar. The contributions paid in the voluntary pension insurance schemes by employers (up to EUR 30.7 per month) and insured persons (up to 10 per cent. of the taxable income) are tax exempt. The benefits to be paid by the voluntary pension funds with occupational schemes include fixed-period pensions, programmed withdrawals and lump sum payments.

Presently, amendments to national legislation are in the process of adoption to allow the eligible financial entities to provide and distribute pan-European Personal Pension Product.

Recent pension reforms

Some amendments to the pension legislation have been made in order to improve the financial stability of the pension system as well as the adequacy of pension benefits. In August 2015, the following measures were adopted by the National Assembly and are reflected in the Social Insurance Code:

- The contribution rate for the State Pension Fund (Pillar I) was increased by 1 percentage point from 17.8 per cent. to 18.8 per cent. in 2017 and further by 1 percentage point to 19.8 per cent. in 2018. The planned increase of the contribution to the Universal Pension Fund (Pillar II) as of 2017 had been cancelled and the contribution rate remained 5 per cent.
- Gradual increase and equalisation of the standard retirement age for women and men at 65 years of age in 2037 (initially, the retirement age for women will be increased by two months each calendar year until 2029, and by three months from 2030 to 2037 whereas the retirement age for men will be increased by two months in 2016 and 2017, and as of 2018 - by one month each year till 2029). After 2037, an automatic mechanism for increasing the retirement age according to the changes in the life expectancy will be introduced.
- Gradual increase of the required period of service for qualifying retirement of workers in the normal work conditions (third category of work) by two months annually until reaching 40 years for men and 37 years for women by 2027.
- Gradual increase of the retirement age in case of shortage of insured length of service to 67 years, keeping the minimum required length of service unchanged (15 years actual length of service for men and women).
- Introduction of the possibility to grant a reduced pension for persons who are up to 12 months' short of the retirement age, with the pension being reduced for the lifetime by 0.4 per cent. for each month that the person is below the retirement age.

- Limitation on early retirement by the gradual increase of the minimum retirement age for workers in the first and second labour categories until it reaches 55 for workers in first category and 60 for workers in second category (hazardous and unhealthy jobs).
- Gradual increase of the minimum retirement age for persons working in the "Defence and Security" sector by two months annually until it reaches 55.

As of August 2015, a possibility to opt out of the second pillar was given to people born after 31 December 1959, who were previously mandatory participants in the second pillar, with this decision being reversible until five years lower than the statutory retirement age. An amendment in the legislation in 2022 has prolonged this period to the age which is one year before reaching the statutory retirement age, and this will be in force until the end of 2025. Afterwards the age until which the reversal is possible will decrease gradually and in 2038 the reversal will be possible until reaching the age, which is five years lower than the statutory retirement age. Persons who have decided to opt out of the second pillar will continue their pension insurance in the first pillar only. Their individual savings managed by private pension funds are initially transferred to the State Fund for Guaranteeing the Stability of the State Pension System and upon retirement the funds are shifted to the State Pension Fund (first pillar).

Some of the measures legislated in 2015, have since been amended, namely:

- the envisaged gradual increase in the accrual rate in the pension formula from 1.1 per cent. to 1.5 per cent. that started in 2017. This stopped in 2019 when the accrual rate reached 1.2 per cent. Since 25 December 2021, the accrual rate has been further increased to 1.35 per cent. and all pensions in payment were recalculated with the higher value although, currently no further increases are planned; and
- the legislated abolishment of the maximum pension amount for new pensions was cancelled and a higher value of the maximum pension was established. From 25 December 2021 the maximum pension amount was EUR 767, compared to EUR 736 prior to this. The maximum amount increased further to EUR 1,023 effective from 1 July 2022 to 30 September 2022 and will increase again to EUR 1,738 from 1 October 2022 to 31 December 2022. In addition, as of 25 December 2021, the minimum old-age pension was 23.3 per cent. higher, reaching EUR 189. As of 1 July 2022, the minimum old-age pension increased further by 26.2 per cent. amounting to EUR 239.

As a measure to improve the adequacy of pensions during the emergency epidemic situation in connection with the spread of COVID-19, additional lump sums have been paid to all pensioners throughout 2021 as well as in the first half of 2022. As of 1 July 2022, through changes in pension legislation, the COVID-19 supplements become a permanent part of the pension amounts for both existing and newly granted pensions.

The inclusion of COVID-19 supplements (EUR 31) in the amount of the pension from 1 July 2022 will lead to an increase in pension expenditures for 2022 by 4.8 per cent. The COVID-19 supplements will amount to 0.44 per cent. as a share of GDP in 2022. For 2023, the COVID-19 supplements are estimated to amount to 0.84 per cent. of GDP and 7.6 per cent. of total pension expenditure. As a permanent part of the pension, the COVID-19 supplements will increase by the same percentage as normal pension payments, in July of each year. For newly granted pensions it is envisaged that the initially included amount will be EUR 41, regardless of the year of granting. Then it will increase with the rate of updating pensions, but its amount will lag behind the amounts of supplements that are included in pensions granted earlier. In the long-term, the share of the COVID-19 supplements is expected to gradually decrease to about 6.9 per cent. of total expenditure and about 0.74 per cent. of GDP in 2030.

The results from the latest long-term evaluation of the balance of the State Social Security Funds show that the system will remain in a deficit for the whole projection period until 2070. As of January 2022, a higher accrual rate was introduced not only for new pensions but also for already granted pensions. They were recalculated using the new value of the accrual rate (i.e., the or the rate at which the pension lump sum increases for each year of contributory service) of 1.35, which increased pension expenditure in 2022. In addition, a higher percentage of pension increase was applied in July 2022 and a one-time recalculation of pensions granted before 2022, using a new formula for the annual update which was implemented in October 2022, which additionally increased pension expenditure not only in 2022 but until 2099. In 2021, the transfer from the State budget to cover the shortage of funds amounted to 3.9 per cent. of GDP. In the coming years, the share of GDP relative to the transfer from the State budget to the State Social Security Fund is expected to increase, reaching 6.4 per cent. in 2025. Afterwards it is projected to decrease gradually

to about 3.5 per cent. of GDP in the middle of the period between 2022-2070, followed by a slight increase to about 3.7 per cent. of GDP by 2070. The reasons for this expected decrease are complex and can be summarized in two groups: (i) expected decline in the number of pensioners and expected maintenance of the ratio between the number of pensioners and insured persons at relatively low levels, mainly due to demographic reasons and stricter conditions for acquiring the pension rights; and (ii) higher rate of growth of the average insurable income compared to the average pension due to the mechanism applied for the annual update of pensions as well as the reduction applied to the pension amount for persons born after 1959, who were insured in both Pillar I and Pillar II at the time of retirement. Therefore, the fiscal pressure on the state pension system is strongest at the beginning of the period as a result of the changes in the amounts of pensions adopted in 2021 and 2022 to improve their adequacy during challenging macroeconomic conditions. In the long-term, the effect of ageing and higher life expectancy is largely offset by lower first-pillar income replacement rates for those who were insured under both pillars.

In April 2022, all pensioners, who are one of the most vulnerable social groups in society and whose incomes are most affected by the increase in the prices of basic consumer goods, received a one-time allowance in the amount of at EUR 36 per person. Also, pensioners with a completed vaccination course or a booster dose against COVID-19 are provided with one-time payment of EUR 38.

Health Insurance

Bulgaria has a mixed health care financing system. Health care is largely financed as a compulsory social insurance system financed by contributions from the wages of employed individuals and general tax revenues which cover the contributions of the non-working population (children, pensioners, unemployed, students, carers of disabled family members and persons entitled to social welfare). Another important source of revenue is the subsidies granted by the Ministry of Health.

Mandatory health insurance is income based and amounts to 8 per cent. (increasing insurance contributions from 6 per cent. to 8 per cent. in 2009) of the payroll (based on a cap of EUR 1,738 since 1 April 2022) split in a ratio of 40/60 between the employee and the employer. The contributions are collected by the regional branches of the NRA which pools them and allocates to the accumulation account of the NHIF, which in turn distributes the funds to the Regional NHIFs. The NHIF was established in 1999 and is regulated by the Health Insurance Act of Bulgaria. It guarantees healthcare services to eligible persons and reimburses the costs related to such services, including medicines and medical aid equipment. In order to be covered, a person either has to personally make contributions or have contributions made on his/her behalf.

With respect to employed persons, the employer deducts insurance contributions from the monthly payroll and transfers these amounts to NHIF accounts. In the case of children, pensioners, students, soldiers, unemployed and other dependent categories the insurance contributions are transferred from the State Budget. The self-employed persons pay into NHIF accounts directly.

Health care expenditure in Bulgaria is below the average amount spent in the EU. According to the World Health Organisation database in 2019, total spending amounted to 7.1 per cent. of GDP. Public spending as a percentage of GDP was 4.4 per cent. in 2015. In 2016 and 2017, public expenditure on healthcare represented 4.3 per cent. of GDP, while in 2018 and 2019 it represented 4.4 per cent. of GDP and 4.5 per cent. of GDP, respectively. In 2020, public spending on health care represented 5.3 per cent. of GDP.

In implementation of the NHIF Budget Act for 2020, funds for expenditures and transfers reported amounted to EUR 2.5 billion, of which health insurance payments amounted to EUR 2.3 billion; staff costs, maintenance of administrative activities and acquisition of non-financial assets amounted to EUR 32.8 million; payments with transfers from the Ministry of Health amounted to EUR 42.5 million; and transfers provided to the National Revenue Agency under Article 24, item 6 of the Health Insurance Act and to budget organisations that have concluded contracts for the provision of medical services with the NHIF amounted to EUR 57.4 million.

In implementation of the NHIF Budget Act for 2021, funds for expenditures and transfers reported amounted to EUR 3.0 billion, of which health insurance payments amounted to EUR 2.6 billion; staff costs, maintenance of administrative activities and acquisition of non-financial assets amounted to EUR 46.7 million; and payments with transfers from the Ministry of Health amounted to EUR 255.9 million; transfers provided to budget organisations.

According to the Law amending and supplementing the NHIF Budget Act for 2022, the total expenditures and transfers amounted to EUR 3.1 billion, and additional transfers were adopted under the budget of the NHIF for payment of medical services providers for work during the COVID-19 pandemic, for activities related to the treatment of children up to 18 years and after reaching this age, as well as for health insurance of Ukrainian citizens residing within the Republic. As a result of the adopted changes, the NHIF budget plan of the expenditures and transfers for 2022 is in the amount of EUR 3.3 billion, of which EUR 3.0 billion was for health insurance payments, EUR 181.0 million for payments with transfers from the Ministry of Health and EUR 51 million for administrative costs.

MONETARY AND FINANCIAL SYSTEM

Bulgarian National Bank

The Central Bank is the central bank of Bulgaria. It was established on 25 January 1879.

Primary Objective, Tasks, and Reporting

The primary objective and the tasks of the Central Bank are stipulated in the Bulgarian National Bank Act (the "**BNBA**"), adopted by the 38th National Assembly on 5 June 1997. The Central Bank is independent from the State and is accountable to the National Assembly. The Central Bank's independence from the State is guaranteed by the BNBA, the Treaty on the functioning of the European Union and by the Statute of the European System of Central Banks and the ECB. Since 1 January 2007, the Central Bank has been a member of the European System of Central Banks ("**ESCB**") and participates in the decision making process in the area of banking and finance in the European Union. The Central Bank Governor is a member of the General Council of the ECB and a member of the General Board of the European Systemic Risk Board. The primary objective of the Central Bank is to maintain price stability through ensuring the stability of the national currency and implementing monetary policy as provided for by the BNBA. The Central Bank acts in accordance with the principle of the open market economy with free competition, targeting an efficient allocation of resources.

The tasks and responsibilities of the Central Bank also include:

- maintaining full foreign exchange cover of the total amount of monetary liabilities of the Central Bank, by taking actions needed for the efficient management of the Central Bank's gross international reserves;
- investing the gross international reserves in accordance with the principles and practices of prudent investment, with investments in securities being limited to liquid debt instruments satisfying the provisions of the BNBA;
- regulating and supervising credit institutions' activities in the country for the purpose of ensuring the stability of the banking system and protecting depositors' interests;
- assisting in the establishing and functioning of efficient payment systems and overseeing them;
- regulating and supervising the activities of payment system operators, payment institutions and electronic money institutions in Bulgaria;
- issuing banknotes and mint coins in Bulgaria (an exclusive right of the Central Bank);
- acting as the fiscal agent and depository of the State by virtue of concluded contracts at market conditions and prices of services;
- compiling balance of payments, monetary and interest rate statistics as well as the quarterly financial accounts statistics of Bulgaria;
- acting as a resolution authority for credit institutions, including as a national resolution authority within the meaning of Regulation (EU) No. 806/2014²; and
- acting as the competent authority for the public supervision of covered bonds under Covered Bonds Act (as of 8 July 2022).

According to the BNBA, the Central Bank cannot extend credits or guarantees to the Government and governmental institutions, municipalities and municipal institutions, organisations and enterprises. The

² Regulation (EU) No. 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No. 1093/2010.

Central Bank cannot provide credit to banks except in the case of a liquidity risk threatening to affect the stability of the banking system and only in accordance with the requirements set out in the BNBA.

The Central Bank keeps accounts and records in compliance with the Accountancy Act and in accordance with IFRS. The expenditure of the Central Bank is in accordance with the annual budget approved by the Governing Council of the Central Bank and published in the State Gazette. The reports on the budget expenditures of the Central Bank are examined by the National Audit Office, which prepares a special report on the results of the examination; the reports are also submitted to the National Assembly along with the annual report.

The Central Bank publishes the balance sheet of the Issue Department on a weekly basis, showing the position of its assets and liabilities, inclusive of the gross international reserves and the total amount of the Central Bank's monetary liabilities. The Central Bank publishes the position of its assets and liabilities in the State Gazette at the end of each month, presenting separate balance sheets of the Issue and Banking Departments, an annual financial statement and the profit and loss account of the Central Bank.

The consolidated financial statements of the Central Bank are certified by an independent international auditor and published together with the auditor's report in accordance with the requirements of IFRS. The Central Bank prepares annual and semi-annual reports which review and assess the Central Bank's activities. These reports are submitted to the Parliament and are made public.

Governance

The management of the Central Bank is carried out by the Governing Council, the Governor and the three Deputy Governors. The Governing Council consists of seven members: the Governor of the Bank, the three Deputy Governors, and three non-executive members. The Governor of the Central Bank is elected by the National Assembly. The National Assembly elects the Deputy Governors who head the main departments of the Central Bank, defined by the BNBA upon a proposal by the Governor. The non-executive members of the Governing Council are appointed by the President of the Republic. The term of office of the members of the Governing Council is six years. The replacement of the Governing Council follows a staggered schedule with a mandate expiring every year.

Governing Council

The Central Bank Governing Council is the collegiate decision-making body of the Central Bank. The Governing Council has the following powers (among others) provided in the BNBA:

- sets interest rates, fees and commissions related to the Bank's operations;
- sets the percentage of the minimum reserves to be held by banks and approve the conditions and requirements for their fulfilment;
- sets rules and requirements regulating bank activities;
- makes decisions for issuing new banknotes and coins, and sets the time limits after which the banknotes and coins cease to be legal tender and within which banknotes and coins called in have to be exchanged;
- approves the Central Bank annual budget, the annual balance sheet and twice a year a report, which reviews and assesses the Central Bank activities during the previous period;
- grants, refuses to grant, and withdraws licences of banks in the context of close cooperation under Article 7 of Regulation No. (EU) 1024/2013, of payment system operators, payment institutions and electronic money institutions and registers, refuses to register or deletes account information service providers under conditions and procedure set out by law;
- applies supervisory measures and early intervention measures, grants approvals, authorisations and consents in the cases set out by law in the context of close cooperation under Article 7 of Regulation No. (EU) 1024/2013;
- makes decisions as a resolution authority in the cases provided for in the Law on the Recovery and Resolution of Credit Institutions and Investment Firms;

- makes decisions under Article 20, paragraph 1, item 2 of the Bank Deposit Guarantee Act that bank deposits are unavailable;
- grants, refuses to grant, withdraws or suspends the authorisation or registers, refuses to register, withdraws or suspends the registration of administrators of interest rate benchmarks, as well as endorses or refuses to endorse interest rate benchmarks provided in a third country under Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No. 596/2014; and
- issues an approval of covered bond programmes and adopts other decisions as an authority responsible for the public supervision of covered bonds.

Structure of the Central Bank

The BNBA establishes three main departments at the Central Bank: an Issue Department, a Banking Department and a Banking Supervision Department. Each department is headed by a Deputy Governor elected by the National Assembly.

The main function of the Issue Department is to maintain full foreign exchange cover of the total amount of monetary liabilities of the Central Bank, by taking actions needed for the efficient management of the Central Bank's gross international reserves.

The Deputy Governor heading the Banking Department is responsible for exercising supervision over the payment system operators, payment services providers and electronic money issuers, in accordance with applicable rules and regulations. The Deputy Governor exercises his supervisory powers and carries out the operational management of the department autonomously and independently of the functions of the other Central Bank departments.

Supervision over the banking system is exercised by the Deputy Governor heading the Banking Supervision Department, in accordance with the procedures established by law and the statutory instruments issued for its enactment. The Deputy Governor exercises his supervisory powers and carries out the operational management of the department autonomously and independent of the functions of the other Central Bank departments. After 1 October 2020, the effective date of Bulgaria's joining the Banking Union, the ECB took charge of the direct supervision of Bulgaria's significant banks, whereas the Central Bank assists the ECB in its role as well and continues to supervise Bulgaria's other banks. After completing significance assessment, on 11 September 2020, the ECB announced that it will supervise the following Bulgarian banks as of 1 October 2020: UniCredit Bulbank, DSK Bank (OTP Group), United Bulgarian Bank (KBC Group), Eurobank Bulgaria, and KBC Bank Bulgaria (formerly, Raiffeisenbank (Bulgaria) before its acquisition by KBC Group).

The Central Bank concentrates the powers and responsibilities on monetary policy and bank supervision, which equips the Central Bank with macro-prudential tools in addition to the standard micro prudential tools. The general strategy followed by the Central Bank is to address the relevant policy issues and other systemic risk issues via calibrated counter-cyclical changes in both macro and micro prudential policy tools.

Currency Board

The primary objective of the Central Bank to maintain price stability through ensuring the stability of the national currency has been achieved since July 1997 within the framework of the currency board, provided for by the BNBA.

Legal Framework

The functioning of the currency board in Bulgaria is based on three major principles laid down in the BNBA, namely:

- a fixed exchange rate of the Lev to the Euro which is BGN 1.95583 per EUR 1;
- the total amount of Central Bank monetary liabilities is fully covered by high quality foreign reserves. The aggregate amount of the monetary liabilities of the Central Bank consists of all

banknotes and coins in circulation issued by the Central Bank; any balances on accounts held by other parties with the Central Bank, with the exception of the accounts held by the International Monetary Fund. The gross international reserves of the Central Bank shall be equal to the market value of the following assets of the Bank: (a) banknotes and coins held in freely convertible foreign banknotes and coins held in freely convertible foreign currency; (b) funds in freely convertible foreign currency held by the Central Bank on accounts with foreign central banks or with other foreign financial institutions, whereof obligations are assigned one of the two highest ratings by two internationally recognised credit rating agencies; (c) the Special Drawing Rights ("SDRs") of the International Monetary Fund held by the Central Bank; (d) debt instruments held by the Central Bank and issued by foreign countries, central banks, other foreign financial institutions or international financial organisations, whereof obligations are assigned one of the two highest ratings by two internationally recognised credit rating agencies, and which are payable in freely convertible foreign currency with the exception of debt instruments given or received as collateral; (e) the balance on accounts receivable and accounts payable on forward or repurchase agreements of the Central Bank, concluded with or guaranteed by foreign central banks, public international financial organisations or other foreign financial institutions, whose obligations are assigned one of the two highest ratings by two internationally recognised credit rating agencies, as well as futures and options of the Central Bank, binding foreign persons and payable in freely convertible foreign currency; and (f) the monetary gold held by the Central Bank as a component of foreign reserves; and

- the reserve currency is treated on equal terms with the national currency and the Central Bank has the obligation to unconditionally and irrevocably sell and purchase Levs against the Euro at the exchange rate fixed by the Central Bank. Hence, the Central Bank does not intervene on the foreign exchange market but the Central Bank exchanges on demand domestic currency against the anchor currency and vice versa at the fixed rate. The national currency is issued solely against providing reserve currency at the fixed exchange rate without a spread.

In addition to the above principles:

- The Central Bank cannot extend loans and guarantees in any form whatsoever, including through purchase of debt instruments, to the central government, municipalities, other government and municipal institutions, organisations and undertakings in the public sector, European Union institutions, bodies, offices or agencies, the central government, regional, local or other public authorities, other bodies governed by public law or public sector entities of EU Member States.
- The Central Bank may not provide loans to banks except in the case of a liquidity risk threatening to affect the stability of the banking system. The terms and procedure for extending such loans, and the criteria for identifying the existence of liquidity risks are set by an ordinance of the Central Bank. The total loan amounts extended shall not be greater than the amount of the excess of the Lev equivalent of the gross international reserves over the total amount of Central Bank monetary liabilities. This provision has never been used since the introduction of the currency board in Bulgaria.
- The Central Bank invests its gross international reserves in accordance with the principles and practices of prudent investment.
- The Central Bank combines typical monetary policy functions (money issuance, regulation over the minimum reserve requirements, oversight of the payment systems) with banking supervision (both regulatory and supervisory powers), and fiscal agency functions. The Central Bank has both a macro and micro-prudential mandate.

Operational Framework

The currency board framework contributes towards maintaining overall macroeconomic and financial stability and the implementation of prudent fiscal policies. In the period of high economic growth prior to 2008, the consistent countercyclical micro- and macroprudential policies of the Central Bank, the conservative regulatory policy of the banking system as well as the prudent fiscal policy of the Government ensured the accumulation of significant financial reserves (buffers). These buffers contributed to Bulgaria's ability to mitigate the negative effects of the global financial and economic crisis on the government budget and the banking system.

The legal framework of the currency board guarantees an automatic mechanism of balancing national currency demand and supply at the fixed exchange rate determined by the law. Under the currency board, it is impossible to issue of national currency to exceed the level of the gross international foreign exchange reserves, which could, otherwise, lead to erosion of the fixed exchange rate (a key difference between a currency board regime and one of a standard fixed exchange rate). The change in the level of Central Bank gross international reserves reflects the net result of the change in the demand for national currency by economic agents, the Government and banks, as well as changes in the market value of gold (as part of international reserves) and the financial assets in which these reserves are invested (see table below).

Under the conditions of the fixed exchange rate against the Euro and a free movement of capital, the Central Bank exercises no control over interest rates and therefore, monetary conditions in Bulgaria follow to a great extent those in the euro area. Thus, the currency board largely reproduces the monetary conditions in which the euro area economy is functioning. The direct transmission of ECB monetary policy to the Bulgarian economy is facilitated by the country's strong trade and financial integration with the euro area. The banking system is a factor for this transmission because of the substantial market share of euro area owned banks in the Bulgarian banking sector. With the outbreak of the global financial and economic crisis resource availability declined worldwide. The competition for local resources intensified, interest rates on deposits in Bulgaria decoupled from that of the eurozone and domestic deposit rates increased. Rising funding costs and tightened credit conditions were reflected in the upward movement of interest rates for loans over the course of 2008-2009. Driven by high global liquidity, the downward interest -rate cycle and domestic factors such as the confidence in the banking system, the robust savings rate and improved liquidity and capital adequacy ratio ("**CAR**"), average interest rates of loans started to fall at the end of 2009 and this trend continued in the following years. The high inflow of funds attracted from residents in the banking system contributed to further strengthening of banks' liquidity position, which coupled with competition among banks, the favourable macroeconomic environment over the 2015-2019 period and positive housing market prospects, supported the credit activity in the country. Increased uncertainty in the macroeconomic environment as a result of the COVID-19 pandemic, coupled with the formation of forced and precautionary savings of households, as well as the COVID-19 related measures adopted by the Central Bank in mid-March 2020 (see "*Central Bank measures in response to the COVID-19 pandemic*") further boosted banks' liquidity and contributed to a further decline in deposit interest rates over the period 2020-2021, with those on non-financial corporations deposits turning negative since mid-2020. In the first half of 2022, the downward trend in deposit interest rates was maintained, with interest rates on non-financial corporations' deposits turning even more negative compared to 2021, while those in the households' sector remained positive though close to 0 per cent. The downward trend in deposit interest rates observed until the middle of 2022 was suspended in the third quarter of the year and from September 2022 a gradual increase was observed, more strongly pronounced in the sector of non-financial corporations. The increase of the ECB main interest rates in the Euro area and the reduction of banks' excess liquidity were probably the main factors behind the observed dynamics. During the first eight months of 2022, the prevailing trend in lending interest rates was towards a slight decrease. This trend continued to be determined by the significant volume and the low cost of attracted funds, and also by the competition and the high liquidity in the banking sector. From September 2022 an increase in the lending interest rates was reported, mainly concerning lending to enterprises and lending for consumption purposes, while interest rates on housing loans remained broadly unchanged. These dynamics most likely reflects the reversal of the interest rate cycle globally and in particular in the Euro area.

Based on the already initiated tightening cycle of the ECB's monetary policy and increases of money market interest rates in the Euro area, as well as on market expectations for further tightening of euro area monetary conditions, the Central Bank projects an upward dynamics in both deposit and lending interest rates in Bulgaria, with the biggest increase expected in the first half of 2023.

The main policy instrument used by the Central Bank to influence domestic monetary conditions is the regulation of minimum reserve requirements which banks maintain with the central bank. As the minimum reserve requirements held at the Central Bank are not remunerated, their rate implicitly affects the overall cost of funding of banks and thus influences the banks' policies in setting their lending rates. For example, the reduction of the minimum reserve requirements rate since early 2009 has boosted liquidity in the banking system and contributed to falling interest rates in the interbank money market. The Central Bank can also influence the monetary conditions in Bulgaria indirectly by applying macro-prudential and micro-prudential tools as well as administrative measures. Nonetheless, the objective of those measures is mainly ensuring financial stability rather than affecting monetary conditions.

From the beginning of 2016 the Central Bank implemented regulatory changes, introducing a definition of excess reserves for bank accounts held with the Central Bank and started to apply the interest rate on the deposit facility of the ECB on the excess reserves when this interest rate was negative. These changes led to a strengthened propagation of ECB interest rates to the Bulgarian economy. Banks' excess reserves, however, remained sizeable. As from October 2017, the Central Bank introduced an extra minus 20 basis points on top of the ECB deposit facility interest rate, with which banks' excess reserves held at the Central Bank are charged. As a result, there has been a downward trend in excess reserves, which in October 2017 amounted to 56.6 per cent. of MRR on an average daily basis. In February 2020, banks' excess reserves reached 20.3 per cent. of minimum reserve requirements ("MRR"). Part of the decline in banks' excess reserves at the Central Bank during this period was also due to the strengthening of the macroeconomic conditions in the country and the revival of credit activity. The downward trend in banks' excess reserves at the Central Bank, observed since the fourth quarter of 2017, resulted in a decline of total bank reserves, as the decrease in excess reserves was larger than the increase in MRR due to the continuing growth in the deposit base. After the Central Bank adopted COVID-19 pandemic related measures in mid-March 2020 aimed at further strengthening the liquidity and capital position of the banking system, banks reduced their foreign exposures and their excess reserves increased significantly, reaching 80.4 per cent. of MRR on an average daily basis as of April 2020. Since then bank deposits with the Central Bank in excess of the MRR have predominantly been following a downward trend, as banks have been seeking for more profitable opportunities to invest free liquidity in compliance with the limits required by the Central Bank for their exposures. The discontinuation of part of the Central Bank's macroprudential measures related to the limitation of banks' foreign exposures (effective from 1 April 2022) and of the ban on banks' distribution of profit for 2019 and 2020 (the ban was lifted on 24 February 2022) contributed to an additional decline of banks' excess reserves in the second quarter of 2022. As a result of the increase of the ECB deposit facility rate to 0.0% from the end of July 2022, and the equalization of the interest rate on the ECB deposit facility and the interest rate on banks' excess reserves in the Central Bank, the volume of banks' excess reserves, held at the Central Bank, increased in August 2022. The increase in the ECB deposit facility rate in September 2022 created an incentive for commercial banks to reduce their excess reserves held at the Central Bank, from the middle of the third quarter of 2022.

Fiscal policy may also affect the level of gross international reserves, reflecting the changes in the Government deposits on the Central Bank's balance sheet. During the years of high economic growth, the Government was running fiscal surpluses and accumulating fiscal reserves which were largely deposited at the Central Bank. Over the 2017-2018 period, an active Government debt reduction policy was consistently followed and debt reductions were financed primarily through primary budget surpluses, as Government revenues increased on the back of favourable macroeconomic developments, improving labour market conditions, social security legislative changes as well as enhanced tax revenue collection. To a lesser extent, resources from the Government deposits at the Central Bank were also used for financing debt reduction. As a result, the Government deposits decreased by EUR 0.7 billion on an annual basis for the year ended 31 December 2017 and further decreased by EUR 0.4 billion for the year ended 31 December 2018. The year-end Government deposits level declined further in 2019 by EUR 0.3 billion and amounted to EUR 4.1 billion. This was driven entirely by the pre-payment of military aircraft in the amount of USD 2.1 billion, but was partially offset by the sustained strong growth of tax revenues, small positive domestic debt issuances and other positive domestic financing contributions.

In 2020 in response to the COVID-19 pandemic the Government adopted a set of budgetary measures in order to provide financial support to the households and firms which are most affected by the containment measures and to safeguard the operation of the healthcare system and other key public services. The COVID-19 measures contributed to the realised cash-based budget deficit of 2.9 per cent. of GDP for the year. Nevertheless, the Government deposits for the year ended 31 December 2020 remained almost unchanged compared to for the year ended 31 December 2019, mainly as a result of the new Eurobond issuance from September 2020 (in the amount of EUR 2.5 billion). As of the year-end of 2021 the Government deposits at the Central Bank recorded an increase by EUR 0.6 billion as compared to the year-end of 2020 and amounted to EUR 4.7 billion. The reported strong growth of tax and non-tax revenues in 2021, as well as the net domestic debt issuance in the amount of EUR 1.5 billion contributed to the higher Government deposits despite the increase in the amount of the measures in response to COVID-19 implemented in 2021. As of 30 September 2022, the Government deposits at the Central Bank recorded an increase by EUR 1.5 billion as compared to 31 December 2021 and amounted to EUR 6.2 billion. The recorded increase was mainly as a result of the new Eurobond issuance from September 2022 (in the amount of EUR 2.25 billion).

The Central Bank's gross international reserves amounted to EUR 36.9 billion (40.0 per cent. of GDP) as of 30 September 2022, growing by 13.8 per cent. on an annual basis. According to the principles of operation of the currency board, the dynamics of gross international reserves corresponded to the increase in the amount of the liabilities of the Issue Department balance sheet. The increase in banknotes and coins in circulation, as well as in the Government deposits and in banks' reserves at the Central Bank had the largest positive contribution to the increase in the liabilities of the Issue Department at the end of September 2022 compared to September 2022. As of 30 September 2022 foreign exchange reserves provided coverage of 8.1 months of imports of goods and non-factor services, while their ratio to the short-term external debt of the country amounted to 433.3 per cent.

The following table sets out international reserves as of 31 December in each year for the 2017-2021 period and as of 30 September 2022:

	As of 31 December,					As of 30
	2017	2018	2019	2020	2021	September,
	<i>(EUR millions, end of period)</i>					2022
International reserves	23 662.1	25 072.2	24 835.6	30 848.2	34 597.2	36 948.8
International reserves growth, year on						
year (per cent.).....	(1.0)	6.0	(0.9)	24.2	12.2	6.8
Coverage of monetary base. (per cent.)	156.4	150.5	149.6	137.7	141.6	146.1
Coverage of short term ext. debt. (per						
cent.).....	410.9	418.6	390.0	508.2	501.2	433.3
Coverage of imports. months. Annually...	8.6	8.5	8.0	11.1	9.8	8.1

Source: Assets of Central Bank Issue Department.

The following table sets out international reserves as a percentage of GDP as of 31 December in each year for the 2017-2021 period and as of 30 September 2022:

	As of 31 December,					As of 30
	2017	2018	2019	2020	2021	September,
	<i>(per cent. of GDP, end of period)</i>					2022
International reserves	45.0	44.6	40.3	50.3	51.0	40.0

Source: Assets of Central Bank Issue Department.

The following table sets out the total assets and liabilities of the Central Bank's Issue Department as of 31 December 2017, 2018, 2019, 2020 and 2021 and 30 September 2022:

	As of 31 December,					As of 30
	2017	2018	2019	2020	2021	September,
	<i>(per cent. of GDP, end of period)</i>					2022*
Cash and foreign currency denominated deposits....	20.4	18.0	12.1	27.8	31.9	32.5
Monetary gold and other monetary gold instruments						
.....	2.7	2.6	2.9	3.3	3.0	2.8
Investments in securities	22.0	24.0	25.4	18.9	13.8	10.4
Total Assets	45.0	44.6	40.3	50.0	48.7	45.7
Notes and coins in circulation	15.3	15.8	15.9	17.6	17.8	16.8
Liabilities to banks	13.5	13.9	11.1	18.7	16.6	14.5
Liabilities to Government and to government budget						
institutions	9.1	7.8	6.7	6.7	6.6	7.7
Liabilities to other depositors	1.6	1.9	1.5	1.3	1.3	1.0
Banking Department deposit	5.5	5.2	5.1	5.7	6.4	5.7
Total Liabilities	45.0	44.6	40.3	50.3	48.7	45.7

Notes:

* Nominal GDP data for the period from the fourth quarter of 2021 until the third quarter of 2022 is used for estimating the GDP ratio at the end of September 2022.

Source: Central Bank (*Balance of Issue Department*), NSI.

The Central Bank expects an increase in average annual gross international reserves in 2022 as compared to 2021, driven mainly by the upward dynamics of currency in circulation. High consumer price inflation,

combined with continued growth of real private consumption, as well as still low deposit interest rates, is expected to support the annual growth of currency in circulation in 2022. Conditioned on the assumption that gross financing needs of the Government will be predominantly financed by new market debt and to a lesser extent by liquid resources from the Government deposits at the Central Bank, the level of the Government deposits may decrease moderately on an annual average basis.

The following tables set out monetary and credit developments as of 31 December in each year for the 2017-2021 period and as of 30 September 2022:

	As of 31 December,					As of 30
	2017	2018	2019	2020	2021	September, 2022*
	<i>(EUR millions, end of period)</i>					
Broad money	43,832.0	47,681.0	52,392.0	58,093.0	64,308.0	70,233.0
MI*	24,406.0	27,383.0	31,632.0	42,948.0	50,019.0	57,015.0,
Quasi money*	19,389.0	20,297.0	20,759.0	15,145.0	14,290.0	13,218.0
Claims on non-government sector	27,623.0	30,094.0	33,024.0	34,514.0	37,567.0	41,375.0
Non-financial corporations	16,112.0	17,141.0	18,270.0	18,699.0	19,574.0	21,154.0
Financial corporations.....	1,475.0	1,791.0	2,530.0	2,781.0	3,213.0	3,665.0
Households and NPISHs**	10,036.0	11,161.0	12,224.0	13,034.0	14,780.0	16,556.0
Net foreign assets of other MFIs***	3,594.0	4,420.0	5,546.0	4,023.0	3,809.0	5,429.0
Foreign assets	7,408.0	8,569.0	9,834.0	8,097.0	8,760.0	11,491.0
Foreign liabilities	3,814.0	4,150.0	4,288.0	4,074.0	4,951.0	6,026.0

Notes:

* Following a market study of the banking deposit products and in compliance with the methodological requirements, as of January 2020 transferable saving deposits of the *Households* sector were reclassified from the *Deposits redeemable at notice of up to 3 months* indicator to the *Overnight deposits* indicator. Reclassifications are one-off non-transactional changes in the data. For further information please refer to the definitions of financial flows included in the *Methodological notes* to the monetary statistics data.

** Non-profit institutions serving households (NPISHs).

*** Monetary financial institutions (MFIs).

Source: Central Bank Monetary Survey and Analytical Reporting of Other MFIs.

	As of 31 December,					As of 30
	2017	2018	2019	2020	2021	September, 2022*
	<i>(annual growth, end of period, per cent.)</i>					
Broad money	7.7	8.8	9.9	10.9	10.7	11.8
MI*	16.9	12.2	15.5	35.8	16.5	17.6
Quasi money*	(1.9)	4.7	2.3	(27.0)	(5.6)	(7.7)
Claims on non-government sector	4.5	8.9	9.7	4.5	8.8	13.5
Non-financial corporations	1.5	6.4	6.6	2.3	4.7	11.2
Financial corporations.....	37.0	21.4	41.3	9.9	15.5	19.5
Households and NPISHs.....	6.1	11.2	9.5	6.6	13.4	15.3
Net foreign assets of other MFIs	44.8	23.0	25.5	(27.5)	(5.3)	(23.8)
Foreign assets	16.8	15.7	14.8	(17.7)	8.2	2.4
Foreign liabilities	(1.2)	8.8	3.3	(5.0)	21.5	47.7

Notes:

* Following a market study of the banking deposit products and in compliance with the methodological requirements, as of January 2020 transferable saving deposits of the *Households* sector were reclassified from the *Deposits redeemable at notice of up to 3 months* indicator to the *Overnight deposits* indicator. Reclassifications are one-off non-transactional changes in the data. For further information please refer to the definitions of financial flows included in the *Methodological notes* to the monetary statistics data.

Source: Central Bank Monetary Survey and Analytical Reporting of Other MFIs.

	As of 31 December,					As of 30
	2017	2018	2019	2020	2021	September, 2022**
	<i>(per cent. of GDP, end of period)</i>					
Broad money	83.4	84.8	85.1	94.2	90.5	86.9
MI*	46.5	48.7	51.4	69.7	70.4	70.5
Quasi money*	36.9	36.1	33.7	24.6	20.1	16.4
Claims on non-government sector	52.6	53.5	53.6	56.0	52.9	51.2
Non-financial corporations	30.7	30.5	29.7	30.3	27.5	26.2

	As of 31 December,					As of 30
	2017	2018	2019	2020	2021	September,
	(per cent. of GDP, end of period)					2022**
Financial corporations.....	2.8	3.2	4.1	4.5	4.5	4.5
Households and NPISHs.....	19.1	19.9	19.9	21.1	20.8	20.5
Net foreign assets of other MFIs	6.8	7.9	9.0	6.5	5.4	6.7
Foreign assets	14.1	15.2	16.0	13.1	12.3	14.2
Foreign liabilities	7.3	7.4	7.0	6.6	7.0	7.5

Notes:

* Following a market study of the banking deposit products and in compliance with the methodological requirements, as of January 2020 transferable saving deposits of the *Households* sector were reclassified from the *Deposits redeemable at notice of up to 3 months* indicator to the *Overnight deposits* indicator. Reclassifications are one-off non-transactional changes in the data. For further information please refer to the definitions of financial flows included in the *Methodological notes* to the monetary statistics data.

** Nominal GDP data for the period from the fourth quarter of 2021 until the third quarter of 2022 is used for estimating the GDP ratio at the end of September 2022.

Source: Central Bank Monetary Survey and Analytical Reporting of Other MFIs, NSI.

The period 2017-2019 was characterised by a high savings rate in the economy, relatively strong growth of deposits, steady downward trend in lending interest rates and strengthening credit growth. After the outbreak of the COVID-19 crisis private sector deposits' growth started to accelerate due to the formation of forced and precautionary savings by households and the subdued investment activity of firms. The historically low levels of deposit interest rates maintained firms and households' preferences to save mainly in the form of overnight deposits. The increase in overnight deposits was also influenced by the policy implemented by a number of banks to stop offering new time deposits. At the same time private sector credit growth followed a gradual trend towards deceleration till the beginning of 2021, influenced by factors both on the demand and on the supply side. The increased uncertainty in the macroeconomic environment as a result of the COVID-19 pandemic was crucial to the weakening demand for private sector credit. The tightening of credit standards and conditions by banks had an additional impact on the weakening of lending activity in 2020.

From September 2021 to the beginning of 2022 the annual growth of non-government sector deposits followed a trend towards deceleration, as very low deposit interest rates, coupled with accelerating inflation forced households to shift some of their accumulated savings to consumption or to other investment alternatives. The fees imposed by most commercial banks for cash deposits above a certain threshold, as well as the negative nominal interest rates on new corporate deposits, have had an additional constraining impact on deposit growth.

Since the end of February 2022 private sector deposits' growth has started accelerating again driven entirely by the non-financial corporations on the back of very strong growth of the gross operating surplus in the industry sector (excluding construction). The latter most likely reflects the increase in profits of enterprises engaged in the production and distribution of energy products, the prices of which have risen significantly since the start of the war in Ukraine. In addition, the increased uncertainty in the economic environment was a factor for weakening of firms' investment activity, which stimulated increase in their bank deposits. After the observed slowdown in 2020, in 2021 the annual growth of claims on the non-government sector accelerated and as of 31 December 2021 reached 8.8 per cent. (4.5 per cent. in December 2020). The strengthening of credit to households, which was particularly pronounced in housing loans, was the main driving factor for the observed upward dynamics of credit. Historically low nominal lending interest rates combined with accelerating inflation and favourable housing market prospects boosted credit demand. On the supply side, the significant volume and low cost of attracted funds, competition and high liquidity in the banking sector contributed to easing of credit standards after the tightening in 2020, with the easing being most pronounced in the mortgage segment.

In the first eight months of 2022 the annual growth of claims on the non-government sector continued to accelerate to 13.4 per cent. as of 30 August 2022, with a more substantial acceleration observed in the corporate sector. The significant increases in the prices of basic raw materials and continuing global supply chain disruptions have likely maintained demand of credit for working capital and stockpiling by firms. At the end of the third quarter of 2022, the trend towards acceleration was suspended and the annual credit growth started to decelerate. This dynamic was entirely driven by the slowdown in credit growth to non-financial corporations, while in the household sector, a slight acceleration continued to be observed. The observed rise in interest rates on new loans from September 2022, reflecting the reversal of the interest rate

cycle globally and in particular in the Euro area, has likely been among the main factors behind the reported lower growth in lending to enterprises.

The following table sets out average interest rates for the years ended 31 December 2017, 2018, 2019, 2020 and 2021 and the nine months ended 30 September 2022:

	31 December 2017	31 December 2018	31 December 2019	31 December 2020	31 December 2021	30 September 2022
			<i>(period average, per cent.)</i>			
LEONIA*	(0.29)	(0.50)	(0.48)	(0.65)	(0.58)	(0.42)
SOFIBOR 1M**	0.01	-	-	-	-	-
SOFIBOR 3M**	0.09	-	-	-	-	-
Interest rate on time deposits***	0.27	0.27	0.29	0.12	0.04	0.13
Lending interest rate (NFC)****	4.02	3.47	3.06	2.67	2.53	2.42
Long term interest rate*****	1.60	0.89	0.43	0.25	0.19	1.15

Notes:

* Effective as of 1 July 2017 LEONIA was replaced by the LEONIA Plus reference rate

** Effective as of 1 July 2018 the Central Bank discontinued the activities in relation to the calculation and publication of the SOFIBOR reference rate.

*** Interest rate of new business on time deposits, weighted average across non-financial corporations and households and NPISH sectors, currencies and maturities.

**** Interest rate of new business on loans to non-financial corporations (NFC), weighted average across currencies and maturities.

***** Long-term interest rate for Convergence Assessment Purposes.

Source: Central Bank.

Implementation of Bulgaria's commitment to adopt the euro

The adoption of the euro by Bulgaria is required under the Accession Treaty. Bulgaria will retain a "derogation" with respect to participation in the single currency until it fulfils all the criteria for joining the euro area; once fulfilled, the existing derogation will be abrogated and Bulgaria will start the accession procedure for joining the euro area.

Joining the euro area remains a primary objective for Bulgaria, as well as a matter of consensus and policy continuity for the Bulgarian authorities. The Government has reiterated its commitment to maintaining the currency board regime and the existing fixed exchange rate of EUR 1 equal to BGN 1.95583 until the euro is adopted. Consequently, joining the euro area remains the only exit strategy from the currency board regime.

On 29 June 2018, the Government of the Republic of Bulgaria and the Central Bank expressed intention to join the Exchange Rate Mechanism II ("**ERM II**") and to participate in the Single Supervisory Mechanism simultaneously with the ultimate aim of introducing the euro following the fulfilment of all convergence criteria. Before ERM II entry Bulgaria was required to implement a number of prior policy commitments in the following areas: banking supervision (by entering into close cooperation with the ECB), the macroprudential framework, the supervision of the non-banking financial sector, the anti-money laundering framework, the insolvency framework, and the governance of state-owned enterprises.

On 24 June 2020, the Governing Council of the ECB adopted a decision to establish close cooperation between the ECB and the Central Bank following the fulfilment of the necessary supervisory and legislative prerequisites. On 10 July 2020, at the request of the Bulgarian authorities, the finance ministers of the euro area Member States of the European Union, the President of the ECB, and the finance ministers and central bank governors of Denmark and Bulgaria have decided, by mutual agreement, to include the Bulgarian Lev in ERM II. In accordance with Bulgaria's request, the ERM II Committee decided to set the central rate of the Bulgarian Lev at the fixed exchange rate of EUR 1 = BGN 1.95583, which has been set at this level since July 1997. The standard fluctuation band of plus or minus 15 per cent. will be observed around the central rate of the Lev. At the request of the Bulgarian authorities, it was accepted that Bulgaria is joining the exchange rate mechanism with its existing currency board arrangement in place, as a unilateral commitment, thus placing no additional obligations on the ECB. The Bulgarian Lev was included in ERM II on 13 July 2020.

The agreement on participation of the Bulgarian lev in ERM II is furthermore accompanied by a commitment by the Bulgarian authorities to pursue sound economic policies with the aim of preserving economic and financial stability and achieving a high degree of sustainable economic convergence. The

Bulgarian authorities have committed to implement specific policy measures on the non-banking financial sector, state-owned enterprises, the insolvency framework, and the anti-money laundering framework. Bulgaria will also continue implementing the extensive reforms carried out in the judiciary and in the fight against corruption and organised crime in Bulgaria, in light of their importance for the stability and the integrity of the financial system.

The Government's target date for euro adoption remains 1 January 2024 and the relevant authorities are currently working to meet the Maastricht criteria by this deadline. On 27 May 2022 the Government adopted the National Changeover Plan for the Introduction of the Euro in Bulgaria in order for the country to be operationally ready to adopt the euro on 1 January 2024.

The primary objective of the Central Bank, as stipulated under Article 2, paragraph 1 of the BNBA, is to maintain price stability by ensuring the stability of the national currency. This objective has been achieved through the operation of the currency board since 1997. The Bulgarian authorities, including the Central Bank and the political parties, are committed to maintaining the currency board and the fixed exchange rate of EUR 1 equal to BGN 1.95583 until Bulgaria becomes a member of the euro area.

Close Cooperation of the ECB with the Central Bank

On 10 July 2020, the ECB announced its decision, taken on 24 June 2020, to establish close cooperation with the Central Bank, effective as of 1 October 2020. The participation in the Single Supervisory Mechanism (the "SSM") aimed at achieving uniform application of supervisory practices and standards, thus contributing to preserving financial stability of the banks and the banking system. With the start of the close cooperation, the ECB became responsible for the direct supervision of the credit institutions, identified as significant (SIs), and for the oversight of the remaining less significant institutions (LSIs), for which the direct supervision continued to be exercised by the Central Bank. The successful integration of the Bulgarian National Bank in the SSM also resulted in the active participation of the Central Bank in the various SSM structures and networks. In particular, since 1 October 2020 the Central Bank has been represented at the Supervisory Board of the ECB by the Deputy Governor in charge of the Banking Supervision Department and the Central Bank staff have been part of the Joint Supervisory Teams, responsible for the day-to-day direct supervision of the significant institutions in the SSM. The ECB has been cooperating closely the Central Bank on the oversight of the less significant institutions, to ensure the consistent application of SSM supervisory approach. Also in line with the requirements of the EU legal framework, the regular Central Bank decisions for the macroprudential policy instruments have been preliminarily notified to the ECB.

The Banking System

Within the financial system in Bulgaria, the banking sector is the most predominant sector. As of 30 September 2022 the total assets of the banking system in Bulgaria amounted to EUR 76 billion, representing a 12.2 per cent. increase compared to 30 September 2021.

The following table provides a summary of the structure of the financial system in Bulgaria as of 30 September 2022.

	Total Assets (EUR million)	%
Total financial system	96,911	100%
Banking sector.....	76,119	78.5%
Total Non-banking financial sector	20,792	21.5%
Insurance sector.....	5,708	5.9%
Pension funds	9,334	9.6%
Financial institutions	3,631	3.7%
Institutional investors	2,119	2.2%

Source: Central Bank, Financial Supervision Commission.

The Structure and Development of the Bulgarian Banking System

The banking sector assets as of 31 December 2021 accounted for 97.4 per cent. of GDP in 2021 and consists of 18 banks (twelve of which are domestically controlled) and seven foreign bank branches.

The following table provides an overview of the ownership structure of the Bulgarian banking system as of 31 December 2021:

Type of credit institutions	Per cent. of Total Assets
EU Subsidiaries.....	69.0
EU Branches.....	2.8
Domestic Banks.....	28.0
Non-EU Branches.....	0.2

Source: Central Bank.

As of 2 December 2022, a total of 337 credit institutions licensed in European Economic Area countries have filed a Notification in Bulgaria from the relevant competent authority to carry out activities on a cross border basis. These activities are subject to mutual recognition according to the rules of the European Banking Directives – the so-called Single European Passport or Passport Notifications.

The total assets of banks in Bulgaria amounted to EUR 69.2 billion as of 31 December 2021 and registered an increase of 9.3 per cent. as compared to 31 December 2020 based on aggregated balance sheet information submitted by credit institutions to the Central Bank BS Department. Assets growth continued in the first nine months of 2022 and, as of the 30 September 2022, the total assets of the Bulgarian banking system were EUR 76.1 billion, representing an increase of 12.2 per cent. compared to 30 September 2021.

The following table sets forth the aggregate assets, liabilities and balance capital of the banking system as of the dates indicated:

Banking System - Balance Sheet

Banking system balance sheet*	31 December 2017	31 December 2018	31 December 2019	31 December 2020	31 December 2021	30 September 2022
	<i>(end of period, EUR millions)</i>					
Cash.....	9,974.9	10,398.0	9,275.6	13,888.4	14,560.6	15,512.4
Equity instruments.....	163.0	209.2	244.0	283.0	325.2	289.5
Debt securities.....	6,944.9	6,783.9	7,316.5	9,019.0	11,254.9	11,328.6
Loans and advances.....	30,500.2	34,139.6	38,398.1	37,318.9	40,226.7	45,718.7
Tangible, intangible, tax and other assets.....	2,401.6	2,393.2	3,212.4	2,821.8	2,851.1	3,269.7
Total Assets.....	49,984.6	53,923.8	58,446.5	63,331.1	69,198.5	76,118.8
Financial liabilities held for trading.....	97.1	42.7	60.0	125.8	62.5	202.7
Financial liabilities measured at amortised cost.....	43,040.1	46,326.9	50,319.6	54,781.4	59,995.2	66,613.4
Provisions, tax and other liabilities.....	419.2	489.0	719.8	676.7	683.9	796.4
Total Liabilities.....	43,556.4	46,858.6	51,099.4	55,583.9	60,741.6	67,612.4
Capital and share premium.....	2,155.3	2,720.7	2,605.5	3,124.8	3,140.5	3,140.5
Accumulated other comprehensive income.....	324.8	223.5	272.2	213.8	179.0	-162.7
Retained earnings and reserves....	3,362.0	3,275.4	3,627.7	4,054.4	4,451.2	4,704.4
Profit.....	586.1	845.7	841.7	354.1	686.3	766.3
Total Equity.....	6,428.2	7,065.2	7,347.1	7,747.2	8,456.9	8,506.4

Notes:

* The balance sheet information is aggregated for the banking sector as of 22 November 2022 based on credit institutions' individual reporting under Regulation (EU) No. 680/2014 and Commission Implementing Regulation (EU) 2021/451 with regard to supervisory reporting of institutions according to Regulation (EU) No. 575/2013.

Source: Central Bank, BS.

Banking system indicators

Banking system indicators*	31 December 2017	31 December 2018	31 December 2019	31 December 2020	31 December 2021	30 September 2022
	<i>(end of period, per cent.)</i>					
Return on assets (ROA).....	1.2	1.6	1.4	0.6	1.0	1.3
Return on equity (ROE).....	9.1	12.0	11.5	4.6	8.1	12.0
Capital adequacy.....	22.1	20.4	20.4	22.7	22.6	20.5

Banking system indicators*	31 December 2017	31 December 2018	31 December 2019	31 December 2020	31 December 2021	30 September 2022
			<i>(end of period, per cent.)</i>			
Tier I	20.9	19.3	19.7	22.0	22.0	20.1
Share of non-performing loans and advances in Total gross loans and advances (NPL ratio ¹).....	10.1	7.7	6.5	5.6	4.5	3.9
Net NPL ratio (share of non-performing loans and advances net of accumulated impairments) to Total Net Loans and advances	5.4	3.9	3.5	3.1	2.4	2.0
Net NPL to Total Assets.....	4.2	3.2	2.8	2.5	1.9	1.6
Liquid assets to total assets	26.4	28.1	27.0	29.2	30.6	28.0
Liquidity coverage ratio (LCR).....	344.7	293.9	269.9	278.9	274.1	235.9
Loan portfolio growth (year-on-year)**.....	3.0	8.6	8.8	4.8	9.2	13.9
Deposits growth (year-on-year)**.....	5.8	7.9	8.6	9.6	8.6	11.6
Loans to Deposit ratio (LTD)**.....	71.5	72.0	72.2	69.0	69.4	69.5
Loans/Residents Deposits**.....	75.0	75.5	75.4	71.8	72.0	72.6
Leverage ratio ²	10.7	10.0	10.6	10.7	10.5	9.7

Notes:

* The indicators for the banking sector are calculated as of 22 November 2022 based on credit institutions' individual reporting under Regulation (EU) No. 680/2014 and Commission Implementing Regulation (EU) 2021/451 with regard to supervisory reporting of institutions according to Regulation (EU) No. 575/2013, except otherwise noted.

** The loan portfolio comprises of sectors non-financial corporations, households, other financial corporations and general governments; Deposits exclude those from credit institutions; Loans to deposit ratio (LTD) as well as Loans to resident deposits are calculated on the basis of the Loan portfolio and deposits excluding from credit institutions. Data are aggregated from monthly reporting designated for macroprudential purposes.

¹ The definitions and the scope of non-performing loans and advances are in line with the Implementing Technical Standards regarding the non-performing exposures, adopted by the European Banking Authority (EBA), and Commission Implementing Regulation (EU) 2015/1278 published in the Official Journal of the EU on 31 July 2015. With reference date 30 June 2021 the supervisory reporting was revised and supplemented, pursuant to Commission Implementing Regulation (EU) 2021/451, repealing Implementing Regulation (EU) No. 680/2014. The Non-performing loans to total gross loans indicator has been calculated in accordance with the EBA methodology for the ratio AQT_3.2 Level of non-performing loans and advances (NPL ratio) laid down in the EBA Methodological guide and the List of EBA risk indicators

² As per Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No. 575/2013.

Source: Central Bank, BS.

As of 31 December 2021, Bulgaria's banking sector has maintained a stable liquidity position with organic funding from deposits of the resident non-financial private sector. The liquidity coverage ratio was 274.0 per cent., significantly above the required minimum of 100 per cent. Nevertheless, the liquidity is closely monitored via frequent reporting on key components of liquid assets in comparison with financial liabilities dynamic.

The capital position of the banking system is sound and stable with all banks compliant with relevant capital requirements. The common equity tier one capital is predominant part of own fund. All banks comply with the capital requirements consisting of regulatory minimums, pillar 2 requirements and applicable capital buffers. Through proactive macroprudential policy, the Central Bank formed a combined buffer requirement in the range of 6.5 per cent. to 7.5 per cent. the highest in the EU (as of 19 December 2022). This is formed by a capital conservation buffer at 2.5 per cent. of total risk exposures, a systemic risk buffer at 3 per cent. of domestic risk exposures, and a counter cyclical capital buffer at 1 per cent. from 1 October 2022 (0.5 per cent. until 30 September 2022). of risk exposures in Bulgaria applicable to all banks, as well as an additional capital buffer for eight systemically important institutions in the range of 0.5 per cent. to 1 per cent. depending on the size and complexity of the bank, which is cumulative to all other buffers.

The capital adequacy ratio of the banking sector was 22.6 per cent. and the Tier I ratio was 22.0 per cent. as of 31 December 2021 with both indicators remaining almost unchanged compared to 31 December 2020.

The capital adequacy ratio of the banking sector was 20.5 per cent. and the Tier I ratio was 20.1 per cent. as of 30 September 2022, with both indicators remaining significantly above the regulatory minimum.

Asset Quality

Credit risk is a key inherent risk in Bulgarian banking sector as, loans and advances form a predominant part of its balance sheet. The overall trend of the banking system's assets quality is a continued reduction

of NPLs and a high coverage ratio. Both the total amount of gross non-performing loans and the NPL ratios have been decreasing steadily since 2017 mostly due to sales, write-offs and overall credit growth, and to a lesser extent to net NPL reclassification.

As of 31 December 2021, the share of net NPLs amounted to 2.4 per cent. of total net loans and advances and 1.9 per cent. of total assets, as compared to 3.1 per cent. of the total net loans and advances and 2.5 per cent. of total assets as of 31 December 2020. The coverage ratio illustrating the share of the accumulated impairments on NPLs in the total gross NPLs was 47.9 per cent. as of 31 December 2021, above the EU average.

As of 30 September 2022 the share of net NPLs was 2.0 per cent. of total net loans and advances and 1.6 per cent. of total assets, as compared to 2.7 per cent. of the total net loans and advances and 2.1 per cent. of total assets as of 30 September 2021. The coverage ratio was 49.7 per cent. as of 30 September 2022 representing an improvement from 48.0 per cent. as of 30 September 2021.

The following table sets forth the NPLs and advances to gross loans ratios as of the dates indicated:

	31 December 2017	31 December 2018	31 December 2019	31 December 2020	31 December 2021	30 September 2022
	<i>(end of period, per cent.)</i>					
NPLs and advances to gross loans ratio*.....	49.6	51.6	48.3	46.6	47.9	49.7

Notes:

* The asset quality indicators for NPLs are based on the definition of "non performing" loans and advances, according to the ITS on NPL and forbearance, issued by the EBA as a part of the harmonised reporting requirements for credit institutions in the EU, established with Regulation (No. 680/2014).

Source: Central Bank.

The surplus of available capital over minimum requirements, pillar 2 capital requirements and all applicable capital buffers for the banking system amounted to EUR 1.5 billion as of 30 September 2022, exceeding the amount of net NPLs which remain a residual credit risk.

The adequate coverage and collateralisation, as well as the existing capital surplus, are factors mitigating the credit risk.

Attracted funds

Residents' deposits comprise the main funding source of the banking sector. As of 31 December 2021, household deposits account for 57.3 per cent. and non-financial corporations' deposits for 28.9 per cent. of total liabilities of the banking sector. Over the last five years the share of funding from financial and credit institutions decreased from 9.6 to 8.6 per cent. of attracted funds. The significant share of resident funding (over 90 per cent.) illustrates that there is no reliance on wholesale funding from the external markets.

Credit growth

The traditional business model of the banks in Bulgaria is reflected in the structure of the banking sector's assets: loans and advances accounting for 58.1 per cent. of total assets and debt securities accounting for 16.3 per cent. as of 31 December 2021. Loans to non-financial corporations dominated the composition of the loan portfolio with a 53.1 per cent. share in 2021 as compared to 54.7 per cent. share in 2020, while the share of household credit was 38.8 per cent. as of December 2021 and 37.2 per cent. as of 31 December 2020.

Following a period of slow credit dynamics in 2020, the annual growth rate of the credit portfolio of the banking system in 2021 was 9.2 per cent. and exceeded the rate in pre-pandemic 2019 of 8.8 per cent. This was in line with the increasing volume of deposits (excluding those of credit institutions) and banking sector's total assets, which grew respectively by 8.6 per cent. and 9.3 per cent. year-on-year in 2021. During the nine months ended 30 September 2022 both positions continue to grow; the loan portfolio grew by 13.9 per cent. while the deposits grew by 11.6 per cent. compared to 30 September 2021.

Profitability

As of 31 December 2021, the banking system's profit increased by 93.8 per cent. on an annual basis to EUR 686 million, but was below the pre-pandemic level of EUR 842 million as of 31 December 2019. The return on assets ratio for 2021 increased to 1.0 per cent. from 0.6 per cent. as of 31 December 2020 and the return on equity for the same period reached 8.1 per cent. (as compared to 4.6 per cent. as of 31 December 2020). Supported by growing net income from fees and commissions the total net operating income ("NOI") of the Bulgarian banking system for 2021 exceeded the NOI for 2020, however it shall be noted that in 2020 reduced volumes were recorded due to the COVID-19 pandemic. The cost-to-income ratio also improved due to the side effect of the COVID-19 pandemic period from 54.3 per cent. as of 31 December 2020 to 48.9 per cent. as of 31 December 2021 and 47.2 per cent. as of 30 September 2022.

The banking system's profit for the nine months ended 30 September 2022 was EUR 766 million, representing an increase from EUR 558 million for the same period in 2021. Accordingly the ROA improved to 1.3 per cent. as of 30 September 2022, up from 1.1 per cent. as of 30 September 2021, while the ROE improved to 12.0 per cent. from 8.9 per cent. as of 30 September 2021.

The following table sets forth the cost to income ratios as of the dates indicated:

	<u>31</u> <u>December</u> <u>2017</u>	<u>31</u> <u>December</u> <u>2018</u>	<u>31</u> <u>December</u> <u>2019</u>	<u>31</u> <u>December</u> <u>2020</u>	<u>31</u> <u>December</u> <u>2021</u>	<u>30</u> <u>September</u> <u>2022</u>
			<i>(end of period, per cent.)</i>			
Cost to income ratio*	50.2	48.3	49.2	54.3	48.9	47.2

Notes:

* * Based on individual non-consolidated data.

Source: Central Bank.

The key regulatory ratios remained strong at 30 September 2022. The capital adequacy ratio of the banking sector was 21.1 per cent. and the Tier I ratio was 20.1 per cent. The liquidity coverage ratio remained well above the required 100 per cent. minimum at 235.9 per cent. as of 30 September 2022. During the nine months ended 30 September 2022 the long term positive trend of key assets quality ratios continued and as a result the share of gross non-performing loans and advances (the "NPL ratio") decreased to 3.9 per cent. of loans and advances and the share of net non-performing loans decreased to 1.6 per cent. of total assets as of 30 September 2022 due to macro prudential measures undertaken by the Central Bank, including the counter counter-cyclical buffers imposed on the Bulgarian banks.

Compliance with the regulatory requirements

In order to perform their business activities, credit institutions in Bulgaria must have a sufficiently stable capital structure and available liquidity to adequately meet potential deterioration in their financial condition or in the general economic situation without leading to significant shocks that threaten their financial stability, the stability of the banking system as a whole, and the interests of their respective depositors. Basel III introduced the requirements for calculating a capital adequacy ratio, a Common equity tier 1 ("CET1") capital ratio and a Tier 1 capital ratio, as well capital requirements for credit, market and operational risk.

Article 92 of Credit Institutions Act, Regulation 575/2013/EU of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (the "CRR") defines capital adequacy ratios as a percentage of the total risk exposure as follows:

- CET 1 capital ratio - 4.5 per cent.;
- Tier 1 capital ratio - 6 per cent.; and
- Total capital ratio – 8 per cent.

However, under Article 103, Paragraph 2, Item 5 of the Credit Institutions Act (the "CIA"), the competent authority may impose additional capital requirements on credit institutions when, on the basis of the supervisory review and evaluation, it is established that the risks to which a credit institution is or may be exposed are underestimated. In addition to these ratios, credit institutions are subject to a combined buffer requirement. Central Bank is the competent authority in Bulgaria, which exercises supervision over the application of the capital adequacy requirements by Bulgarian licensed banks. As a result of the

establishment of close cooperation between Central Bank and the ECB in July 2020, the ECB also has some regulatory powers regarding the application of capital adequacy requirements in Bulgaria. Pursuant to Article 79a, Paragraph 1, Item 2 of the CIA, Central Bank follows the guidelines, recommendations, technical standards and other measures issued by the European Banking Authority with, in particular, several delegated and implementing regulations in respect of own funds.

As of 31 December 2021, the total own funds of the banking system amounted to EUR 7.9 billion up from EUR 5.9 billion as of 31 December 2017. The capital adequacy ratio was 22.6 per cent. and CET1 capital formed 95.8 per cent. of own funds, indicating a strong capacity to absorb risks. The CET1 ratio was of 21.7 per cent. as of 31 December 2021 and all Bulgarian banks had total capital adequacy ratios above the required minimum and applicable capital buffers. The leverage ratio of the banking system (using a fully phased-in definition) as of 31 December 2021 was 10.5 per cent. with all Bulgarian banks exceeding the 3 per cent. minimum requirement under Pillar I. As of 30 September 2022, the capital adequacy ratio was 20.5 per cent., the Tier 1 capital ratio was 20.1 per cent. and the CET1 ratio was 19.6 per cent. The leverage ratio of the banking system (using a fully phased-in definition) as of 30 September 2022 was 9.7 per cent.

The relatively high household savings rate supports the growth of credit and ensures sufficient liquidity in the banking sector. The total liquid assets defined as a liquidity buffer according to Commission Delegated Regulation (EU) 2015/61, aggregated at the banking system level reached EUR 21.2 billion as of 31 December 2021 and the ratio of liquid assets to total assets is 30.6 per cent. As of 30 September 2022 the liquidity buffer was EUR 21.3 billion and the ratio of liquid assets to total assets was 28.0 per cent. The banking sector's liquidity coverage ratio was 274 per cent. as of 31 December 2021 and 236 per cent. as of 30 September 2022 (with a minimum required level according to Reg. 2015/61 of 100 per cent.

Exposure to Russia/Ukraine

No bank in Bulgaria is owned by Russian or Ukrainian shareholders nor are there any foreign branches of a Russian or Ukrainian banking group. In addition to this, as of 30 September 2022, based on data reported by banks to the Central Bank there are no direct exposures by Bulgarian banks to Ukrainian sovereign debt. The total gross aggregate exposure to Russian sovereign debt consisted of 0.42 per cent. of total gross amount of sovereign debt securities within the Bulgarian banking system. In view of the heightened geopolitical risks, in February 2022 the Central Bank sent a letter to all credit institutions under its direct supervision highlighting that potential risks from the war could have an adverse impact on the capital and liquidity position of Bulgarian banks. Credit institutions were asked to review and reconsider the risks stemming from direct exposures to counterparties from Russia and Ukraine. The Central Bank also highlighted to Bulgarian banks the necessity to identify the relevant areas of concern such as the risks of deterioration in debt servicing capacity of their clients whose business activities are indirectly dependent on the Russian and Ukrainian markets. In separate communications the Central Bank also prompted Bulgarian banks to take action to ensure compliance with any Russia-related sanctions. As of the date of this Offering Circular, the available data does not show any negative impact on Bulgarian financial stability as a result of the war. However, the outlook remains highly uncertain with concerns related to decreased energy supply and increased energy prices and their impact on non-financial corporations ("NFCs") and households in Bulgaria.

Deposit guarantee scheme

On 14 August 2015 the new Bank Deposit Guarantee Act (the "**Deposit Guarantee Act**") entered into force, implementing the provisions of Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (the "**Directive**").

Alongside the Bulgarian Deposit Insurance Fund's ("**BDIF**") main mandate to make payments of guaranteed deposits, the BDIF was also tasked, pursuant to the then newly-adopted resolution legislation (see below), to take part in the financing of the resolution of credit institutions by a cash contribution to cover losses of guaranteed depositors. Such contributions are limited up to the amount of the hypothetical loss that guaranteed depositors would incur if the respective credit institution were to become insolvent, or to 1 per cent. of guaranteed deposits, whichever is the lesser. The BDIF mandate also includes protecting the interests of creditors and overseeing the lawful and appropriate exercise of the receiver's powers in bank insolvency proceedings.

In accordance with the Deposit Guarantee Act, the BDIF guarantees full repayment of guaranteed deposit amounts of up to EUR 100,213 per depositor per bank regardless of their number and size. The Deposit

Guarantee Act provides a higher protection for a particular category of deposits, aka 'temporary high balances', related to transactions arising from a life event such as the sale of property for residential purpose, divorce, retirement as well as from insurance or social insurance payments or compensation of damages from crimes or reversed sentence of up to EUR 127,823 and for a maximum term of protection of three months.

The Deposit Guarantee Act defines three triggers for the activation of the pay-out procedure, which are:

- a Central Bank decision revoking a banking licence;
- a Central Bank decision determining non-availability of deposits and that in its view the bank appears to be unable for reasons directly related to the financial standing of the credit institution to repay the deposits and has no current prospect of being able to do so; and
- an act of a judicial authority by force of which, for reasons directly related to the financial standing of the credit institution, precludes the claiming of deposits from the credit institution.

As of 31 December 2022, the total assets of BDIF were about EUR 755 million. The major source of funding of the BDIF is the payment of annual premium contributions from banks, which are calculated by reference to the size of guaranteed deposits and the degree of risk assumed by the relevant bank. The methodology for the calculation of risk-based premium contributions which is based on the EBA Guidelines, is proposed by the BDIF and is established in an ordinance of the Central Bank. On 21 January 2016, the Central Bank Governing Council approved Ordinance No. 30 of the Central Bank regarding the calculation of the amount of the premium contributions due by banks under the Deposit Guarantee Act. The management board of the BDIF within the legally defined period has set the lump sum of the annual premium contributions due by banks for 2022 at EUR 96.4 million. For resolving two cases, the BDIF has outstanding state-guaranteed loans from the World Bank and the EBRD. As of 31 December 2022, the outstanding combined amounts of these loans to the two multilateral banks were approximately EUR 510 million.

The Deposit Guarantee Act provides for several methods of financing a potential shortage of funds and for securing liquidity, including in the first place extraordinary premium contributions from banks and for the remaining deficit of funds to use loans, including the issuance of debt securities and loans from the State budget. Any loans from the State budget are subject to approval by the Council of Ministers.

Bank Resolution Framework

With the transposition of the BRRD in the Law on the Recovery and Resolution of Credit Institutions and Investment Firms ("**LRRCIIF**"), the Central Bank was entrusted with all the regulatory powers for resolution of credit institutions (banks) licensed in the Bulgaria and branches of third country credit institutions, subject to supervision or consolidated supervision by the Central Bank.

As from the start of close cooperation between the ECB and the Central Bank (1 October 2020) which also entails the accession to the Single Resolution Mechanism ("**SRM**"), national bank resolution framework is complemented with the direct application of Regulation (EU) No. 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No. 1093/2010. Regulation (EU) No. 806/2014 envisages allocation of resolution powers between the Central Bank and the Single Resolution Board ("**SRB**"). While the SRB is responsible for banks subject to direct supervision by the ECB, the Central Bank's resolution powers as a national resolution authority include all other credit institutions and third countries branches operating in Bulgaria. For the institutions under its direct remit, the Central Bank performs tasks and adopts decisions regarding the assessment of resolvability, draws up and maintains resolution plans, applies measures to address or remove the substantive impediments to resolvability, determines the minimum requirements of own funds and eligible liabilities. Subject to the conditions set out in the LRRCIIF the Central Bank may take a resolution action, apply a resolution tool and exercise the resolution powers most appropriate to achieve the resolution objectives. The Central Bank and the SRB perform their tasks in close cooperation. Resolution financing within SRM is provided through the Single Resolution Fund (SRF), the resources of which are raised from the institutions within the SRM scope by ex-ante contributions, and, where necessary – by extraordinary ex-post contributions.

With further amendments and supplements of the LRRCIIF (in force from 12 February 2021), the requirements of the Directive (EU) 2019/879 amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC have been transposed into national law.

The LRRCIIF stipulates, that resolution actions shall be taken only where all of the following conditions are met: (i) an institution is failing or likely to fail, (ii) having regards to timing and other substantive circumstances at the discretion of the competent resolution authority, no alternative measures would prevent the credit institution from failing within a reasonable period of time and (iii) there is a public interest in the resolution of the institution (as opposed to it undergoing bankruptcy/liquidation proceedings). Resolution actions have the goal to achieve one or more of the resolution objectives, including the continuity of critical functions; the avoidance of significant adverse effects on the financial stability; the protection of public funds by minimising reliance on extraordinary public financial support; the protection of depositors whose deposits are guaranteed under the Deposit Guarantee Act; and the protection of customers' funds and assets.

The application of the resolution framework should guarantee that shareholders and creditors of the credit institutions would bear the cost of resolution first aiming at limiting the usage of public funds. When exercising its resolution powers the resolution authority could implement the instruments, available under LRRCIIF in compliance with the objectives and core principles of resolution pursuant to the LRRCIIF. The law introduces a comprehensive resolution toolkit, including the four resolution tools (sale of business, bridge institution, asset transfer, and bail-in) and the two optional, last-resort government stabilisation tools (equity support and temporary public ownership). These last-resort government stabilisation tools are subject to compliance with the provisions of EU state aid rules. The resolution authority may also require the write-down or conversion of capital, either independently or as part of a resolution action.

The LRRCIIF envisages also an extraordinary public support, which could be granted only to solvent banks in case of a "systemic crisis" for Bulgaria's economy as defined in the LRRCIIF, in compliance with the provisions of LRRCIIF and EU state aid rules.

The decisions of the Central Bank as a resolution authority and national resolution authority are taken by the Governing Council of the Central Bank. Pursuant to article 2, paragraph 2 of the LRRCIIF, the Central Bank Governing Council has established a Resolution of Credit Institutions Directorate (the "**RCID**"). The RCID is an independent structural unit assisting the Central Bank Governing Council in exercising Central Bank's functions as a resolution authority and national resolution authority within the meaning of Regulation (EU) No. 806/2014. The RCID acts separately and independently from the structural units engaged in the banking supervision function and the other functions of the Central Bank.

As of the end of September 2022, all credit institutions licensed in Bulgaria have resolution plans adopted either by the Governing Council of the Central Bank or by the Single Resolution Board, in compliance with the allocation of the competencies within the SRM. The resolution plans are subject to annual review.

As national resolution authority, the Central Bank is responsible for the management of the Banks Resolution Fund ("**BRF**"). The Fund was established in 2015 in accordance with the LRRCIIF with the aim of ensuring a resolution financing mechanism for credit institutions and branches of third-country credit institutions for which the Central Bank is a resolution authority. The BRF was established as a special-purpose fund and its financial means have been raised through contributions from the banking system. Since its establishment the BRF was managed by the Bulgarian Deposit Insurance Fund which took decisions on its operational management. The Central Bank as a resolution authority of credit institutions had powers related to determination of the contributions to the BRF and the use of its funds for resolution purposes. Following the ECB decision for the establishment of close cooperation and the respective changes to the national bank resolution framework, the BRF was transferred for management to the Central Bank. Based on the amendments that have entered into force in 2020, the BRF is now administered and governed by the Central Bank and Fund's financial means are allocated in two separate sub-funds (under Article 134, paragraph 1, item 1 and item 2 of the LRRCIIF), having different purposes and scope:

- a sub-fund for financing of the application of resolution tools and powers in relation to branches of third-country credit institutions (Article 134, paragraph 1, item 1 of the LRRCIIF) - a sub-fund for branches of third-country credit institutions.

- a sub-fund to raise contributions from the credit institutions under Articles 69 - 71 of Regulation (EU) No. 806/2014 and their transfer to the Single Resolution Fund (Article 134, paragraph 1, item 2 of the LRRCIIF) - a sub-fund for contributions to the SRF.

As of 30 September 2022, the available financial means in the sub-fund for branches of third-country credit institutions amounted to EUR 397,708.40, while those in the sub-fund for contributions to the SRF were EUR 240.7 million.

Regulatory and Policy Developments

The macroprudential policy of Central Bank is aimed at timely, proportioned and efficient measures to mitigate systemic risks in the banking sector.

As initial step toward this objective Central Bank implemented in full all the provisions of the Directive 2013/36/ EU regarding capital buffers. The rules are set up in the Bulgarian legislation through Ordinance No. 8 of the Central Bank of 24 April 2014. Two of the buffers were frontloaded at maximum level without phase-in period:

- Capital conservation buffer in 2014 at 2.5 per cent.; and
- Systemic risk buffer in 2014 at 3 per cent., applicable to domestic exposures and cumulative to other buffers.

Since 2015 the Bank-specific countercyclical capital buffer ("CCyB") methodology is in place in line with the ESRB Recommendation 2014/1. Based on quarterly assessments the Governing council of Central Bank decides on the suitable level of CCyB for credit exposures in Bulgaria. The non-zero rate of CCyB is in effect since 1 October 2019 at 0.5 per cent. of the banks' risk exposures. In 2021, the Central Bank Governing Council increased the countercyclical capital buffer rate from 0.5 per cent. to 1.0 per cent. in effect from 1 October 2022 and to 1.5 per cent. effective from 1 January 2023.

The methodology for identification of systemically important institutions is based on yearly assessment following the European Banking Authority's Guidelines EBA/GL/2014/10. It was introduced in 2016 with a phase-in period for the levels of applicable Other Systemically Important Institutions ("**O-SII**") capital buffers. From 1 January 2022 eight banks are identified as O-SII applying buffers ranging from 0.5 per cent. to 1 per cent. depending on their size and complexity.

The impact of the COVID-19 crisis was mitigated by the cancellation of the countercyclical capital buffer rate increases scheduled previously for the first quarter of 2020 and 2021, by capitalisation of the banking system's profit for 2019 and 2020, concentration limits imposed by Central Bank with regard to banks' foreign exposures to governments and credit institutions, as well as by the private credit moratorium approved by Central Bank in the context of EBA Guidelines EBA/GL/2020/02 and extended until 31 December 2021 in line with EBA/GL/2020/15. As risks related to the COVID-19 pandemic receded, in end-February 2022, the Central Bank Governing Council discontinued the ban on the banks' distribution of profit for 2019 and 2020. Nevertheless, the Central Bank in its capacity as competent prudential supervisory authority, will require the banks intending to distribute dividends, buy back shares or implement other distributions, including from the 2021 profit to present distribution plans, which will be subject to the supervisory dialogue. The Central Bank Governing Council also decided as of 1 April 2022 to discontinue the measure on the limits of banks' foreign exposures, while Central Bank will continue the assessment of respective risks based on data from the specific macroprudential reporting.

Money Laundering and Terrorist Financing Regulations

The money laundering and terrorist financing ("**ML/TF**") prevention framework in Bulgaria is based on the Measures against Money Laundering Act ("**MMLA**") and the Measures against Financing of Terrorism Act ("**MFTA**"), which are fully compliant with Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing. Furthermore, the competent authorities in the anti-money laundering/counter terrorist financing field and the financial sector shall comply with the relevant European Banking Authority's guidelines.

The preventive measures against ML/TF are of key importance for the financial sector. Even though the State Agency for National Security is the authority exercising overall control over the implementation of

the MMLA and the MFTA, supervisory authorities also have powers in terms of exercising control over the compliance of obliged entities from the financial sector with the requirements of the MMLA and the MFTA. Those powers are exercised by the Central Bank regarding credit institutions and payment and e-money institutions, and the Financial Supervision Commission regarding insurers, insurance intermediaries, investment firms, collective investment schemes and other undertakings for collective investments, management companies and the persons managing alternative investment funds, and retirement insurance companies. Within the remit of the State Agency for National Security and the two supervisory authorities is the conduct of supervisory inspections when exercising that control, the imposition of supervisory measures and sanctions for non-compliance, as well as checking the overall adequacy and effectiveness of the policies and procedures, including stringent "know your customer" rules which prevent institutions from being used intentionally or unintentionally for criminal activities.

The current ML/TF prevention framework facilitates cross-border co-operation between Bulgaria and the other members of the EU, especially after the changes brought forward with the implementation of Directive (EU) 2018/843.

Non-Bank Financial Institutions

The non-banking financial sector in Bulgaria has proved to be stable, accounting for 20.09 per cent. of the country's GDP and 25.21 per cent. of total assets of the financial sector as of 30 September 2022 without capital market capitalisation which represents 22.36 per cent. of the country's GDP. The further development of the non-banking financial sector is closely linked to the growth of the real economy and the economic development of the euro area and the EU. Geopolitical instability in neighbouring regions and the risk appetite of foreign investors also have an impact on the development of the non-banking financial sector.

Financial Supervision Commission ("FSC")

The FSC is a specialised body for regulation and integrated supervision over different segments of the non-banking financial sector – capital markets, insurance markets (including voluntary health insurance) and supplementary pension insurance market. The main objectives of the FSC are to provide for the integrity, transparency and credibility of the financial markets and the protection of the interests of investors, insurance policy holders and pension fund members.

When performing its functions and exercising its powers, the FSC lays down clear priorities and guidelines for market development in compliance with internationally recognised principles and standards for regulation and supervision. The institution follows a consistent policy aimed at the establishment of optimal conditions for the realisation of the economic potential of the non-banking financial intermediation. The consumer protection and enhancement of the public confidence in the use of financial products and services is one of the strategic objectives of the FSC.

Similar to the Central Bank, the FSC is organisationally and functionally independent from other state bodies and, therefore, such bodies may not instruct the FSC as to the conduct of its activities and the exercise of its powers. The Chairperson and the other four members of the FSC are elected by the National Assembly and may not be removed prior to the end of their term unless in accordance with the grounds set out in the Financial Supervision Commission Act.

The FSC is the authority which issues licences which are required for carrying out certain types of activities in the financial markets. As a competent authority in relation to the non-banking financial sector, the FSC has the necessary tools and powers to enforce the legislation.

As a result of the global financial and economic crisis, the European System of Financial Supervision, which is the EU supervisory framework for the banking, securities, insurance, and occupational pensions sectors, came into operation on 1 January 2011. This system functions on the basis of a single set of harmonised rules which are compulsory for the supervisory authorities of all EU Member States. The FSC is also an important part of this system as it is responsible for the supervision of the capital markets, insurance, and supplementary social security sectors.

Capital Markets

The capital markets showed positive results between 2017 and 2022 when the market capitalisation increased respectively by 143.95 per cent. in 2017, 13.31 per cent. in 2018, 4.26 per cent. in 2019, 1.61 per

cent. in 2020 and 8.56 per cent. in 2021 on an annual basis. From 1 January 2022 to 31 December 2022 the market capitalisation decreased by 2 per cent. compared to 2021. As of 31 December 2022, the overall market value of publicly traded companies amounted to EUR 15.4 billion.

As of 31 December 2022, the main market index SOFIX decreased by 5.38 per cent. Two of the other market indexes, BGREIT and BGTR30, increased by 11.70 per cent., and 7.06 per cent., respectively, and the third BGBX40 decreased by 3.06 per cent.

As of 30 September 2022, there are 58 investment intermediaries, supervised by the FSC, of which 17 are banks, three are branches of EU/EEA banks and three are branches of EU/EEA investment firms. From 2017 to 2021 the assets (with client assets included) of the non-bank investment firms decreased by an average geometric rate of 14.96 per cent. per annum. During the nine months ended 30 September 2022, the assets (with client assets included) of the non-bank investment firms decreased by 13.53 per cent.

As of 30 September 2022, there are 30 registered management companies and 1 branch of a foreign management company; 115 Collective Investment Schemes ("CIS"), of which 101 are Mutual Funds ("MF"), one of which consists of 16 sub-funds, and 14 are Exchange-traded Funds ("ETF"). As of 30 September 2022, the number of the alternative investment fund managers (AIFM) is 23, of which 20 are registered AIF (including 2 self-managed) and 3 are licensed. As of the end of 2022, the number of the registered Alternative Investment Funds (AIF) is 31. The net asset value ("NAV") of CIS in Bulgaria as of 30 September 2022 amounts to EUR 1.2 billion, a decrease of 6.78 per cent. compared to the end of 2021.

Following the increase in real estate prices, the assets of the Special Purpose Investment Companies ("SPICs") exhibited positive dynamics increasing by 5.5 per cent. in 2017, 7.6 per cent. in 2018, 5.4 per cent. in 2019, 3.9 per cent. in 2020, 2.3 per cent. in 2021. As of 30 September 2022, SPICs exhibited negative dynamics, decreasing by 2.26 per cent, because of the decreasing number of the acting SPICs. As of 30 September 2022, there are 51 SPICs which are licensed and supervised by the FSC, nine of which are specialised in securitisation of receivables. Among the remaining 42 SPICs which are involved in real estate securitisations, six are specialised in agrarian land.

Insurance Market

As of 1 January 2016, insurance and reinsurance undertakings apply the Solvency II Framework.

The total number of insurance and reinsurance undertakings licensed to operate on the Bulgarian market, as of the end of December 2022, is 34 (10 life insurers, 23 non-life insurers and one reinsurer). Four insurance undertakings (1 life insurer and 3 non-life insurers) of those 34 are outside the scope of Solvency II regime.

The gross written premiums as of 30 September 2022 amounted to EUR 1.4 billion (consisting of EUR 1.3 billion from direct insurance and EUR 24 million from inward reinsurance) (EUR 1.4 billion). The gross premiums written of non-life insurers at 30 September 2022 (incl. inward reinsurance) was EUR 1.1 billion, increasing by 10 per cent. compared to 30 September 2021. The gross written premiums of life insurers (including inward reinsurance) increased by 0.8 per cent., amounting to EUR 226 million at 30 September 2022.

The written premiums from inward reinsurance by insurers and reinsurers as of 30 September 2022 amounted to EUR 0.8 billion and increased by 7.6 per cent. on an annual basis.

As of the end of 30 September 2022, the total assets of insurance and reinsurance undertakings increased by 0.8 per cent. on annual basis, amounting to EUR 5.7 billion, of which EUR 2.9 billion were non-life insurance undertakings, EUR 1.2 billion were life insurance undertakings and EUR 1.6 billion were the reinsurance undertaking.

Pension Funds

The assets managed by the ten Pension Insurance Companies ("PICs") in Bulgaria have been growing in recent years, reflecting the increase in the number of members and the growth in earned investment income. The net assets of the 32 Supplementary Pension Funds ("SPFs") have recorded an annual average geometrical decrease of 0.97 per cent. in the last five years, reaching EUR 9.3 million as of 30 September 2022. As of 30 September 2022 the recorded decrease of the net assets totalled 7.46 per cent. compared to 31 December 2021, amounting to EUR 694.34 million. To a large extent, the recorded value is due to the

pay-out phase that started in September 2021 for socially insured persons and members in universal pension funds. Thus, net assets from the universal pension funds are being transferred to funds for benefits payment, which in turn reduces the net assets of the pension funds as a whole.

The continuous accumulation of assets is mainly a result of the contributions made in the Supplementary Mandatory Pension Insurance (Second Pillar of the Bulgarian pension system) and the investment returns. The modified, weighted rate of return (on an annual basis for a two-year period) for SPFs remains largely positive, with the exception of the last period reflecting the development of the capital markets and the diversification of their portfolios.

	31 December 2017 – 31 December 2019	31 December 2018 – 31 December 2020	31 December 2019 – 31 December 2021	30 September 2020 – 30 September 2022
SPF				
Universal Pension Funds Second Pillar (per cent.).....	1.07	4.01	2.94	-3.43%
Professional Pension Funds Second Pillar (per cent.)....	1.00	3.76	3.29	-2.21%
Voluntary Pension Funds Third Pillar (per cent.)	1.05	4.31	4.34	-1.43%

Source: Bulgarian FSC.

Apart from its social function, the net assets of the SPFs are the most important contributor to the non-banking financial sector in Bulgaria in terms of financial intermediation, representing 11.32 per cent. of forecasted GDP as of 31 December 2022.

The following table sets out the performance of the non-banking financial sector in Bulgaria for the years ended 31 December 2017, 2018, 2019, 2020 and 2021 and the nine months ended 30 September 2022.

	Year ended 31 December,					Nine months ended 30 September,
	2017	2018	2019	2020	2021	2022
Capital market capitalisation	23.10	24.40	<i>(per cent. of GDP[*])</i>		25.66	18.49
Assets of non-bank Investment Intermediaries			23.17	23.55		
(IIs) (with client assets included).....	14.50	19.10	17.40	16.37	6.8	4.39
Assets of Collective Investment Schemes (CISs).	1.36	1.37	1.42	1.48	1.90	1.41
Assets of Special Purpose Investment Companies (SPICs)	1.50	1.60	1.49	1.55	1.60	1.15
Assets of (re) insurance companies	7.40	7.50	7.67	8.24	8.37	6.90
Net assets of the Supplementary Pension Funds (SPFs)	12.40	12.20	12.97	14.41	14.73	11.25**
Net assets of funds for benefits payment.....	-	-	-	-	0.005	0.035**
Assets of the non-banking financial sector (total)	37.16	41.77	40.66	42.10	33.37	25.21
			<i>(EUR millions)</i>			
Capital market capitalisation	12,077	13,685	14,267	14,497	15,738	15,288
Assets of the non-banking sectors						
Assets of non-bank Investment Intermediaries						
(IIs) (with client assets included).....	7,568	10,688	10,547	10,076	4,199	3,631
Assets of Collective Investment Schemes (CISs)	713	768	873	910	1,266	1,166
Assets of Special Purpose Investment Companies (SPICs)	809	870	917	953	975	953
Assets of (re) insurance companies	3,867	4,192	4,721	5,057	5,588	5,708
Net assets of the Supplementary Pension Funds (SPFs)	6,475	6,833	7,99	8,842	9,999	9,305
Net assets of funds for benefits payment.....	-	-	-	-	6.39	28.87
Annual rate of change			<i>(per cent.)</i>			
Capital market capitalisation	144.0	13.3	4.3	1.6	8.56	(2.8)
Assets of non-bank Investment Intermediaries						
(IIs) (with client assets included).....	176.4	41.0	(1.3)	(4.47)	(58.32)	(28.28)
Assets of Collective Investment Schemes (CISs)	22	7.7	13.7	4.3	39.1	(7.86)
Assets of Special Purpose Investment Companies (SPICs)	5.5	7.6	5.4	3.9	2.3	(2.3)
Assets of (re) insurance companies	21.5	8.4	12.6	7.12	10.51	2.14
Net assets of the Supplementary Pension Funds (SPFs)	17.7	5.5	16.9	10.7	13.10	(3.37)

	Year ended 31 December,					Nine months ended 30 September,
	2017	2018	2019	2020	2021	2022
Net assets of funds for benefits payment	-	-	-	-	N/A	N/A
Relative structure of financial intermediation						
			<i>(per cent. of GDP[*])</i>			
			<i>(shares. per cent.)</i>			
Assets of non-bank Investment Intermediaries (IIs) (with client assets included)	10.99	13.82	12.64	11.29	4.59	3.63
Assets of Collective Investment Schemes (CISs)	1.03	0.99	1.05	1.02	1.38	1.17
Assets of Special Purpose Investment Companies (SPICs)	1.17	1.13	1.1	1.07	1.07	0.95
Assets of (re) insurance companies	5.57	5.42	5.66	5.67	6.34	5.71
Net assets of the SPFs	9.33	8.84	9.58	9.9	10.93	9.31
Non-banking financial sector (total)	28.09	30.2	30.03	28.95	24.31	20.79

* Preliminary data.

** The last mid-term macroeconomic forecast (19 October 2022) of the Ministry of Finance is used in the calculations, whereas the forecasted GDP is EUR 82.7 billion

Source: Bulgarian FSC, Central Bank, Bulgarian Stock Exchange.

Bulgarian Stock Exchange ("BSE")

History

Bulgarian Stock Exchange AD is a commercial company, established in November 1991 with the introduction of the Commercial Act in Bulgaria. At that time no specific legal framework existed and the exchange operated on the grounds of the general regulatory framework applicable to all privately held companies.

Bulgarian Stock Exchange AD is a joint-stock company licensed by the State Securities Commission to operate as stock exchange on 9 October 1997 and is currently the only operating regulated markets stock exchange in the country.

From June 2007, BSE became a full member of the Federation of European Securities Exchanges (FESE), which represented operators of the European regulated markets.

From the end of 2010 Bulgarian Stock Exchange AD is a listed on regulated market joint-stock company.

At the same time with its functioning as a public company, within the meaning of Art. 110, para 1, of the Public Offering of Securities Act (POSA), BSE also has the status of a public enterprise within the meaning of Art. 2, para 1 of the Public Enterprises Act (PPA).

The Bulgarian Stock Exchange is the parent company of the Group Bulgarian Stock Exchange. As of 30 September 2022, the Group Bulgarian Stock Exchange AD consists of Bulgarian Stock Exchange AD (parent company), the subsidiaries Independent Bulgarian Energy Exchange EAD and Financial Markets Services EOOD, one joint venture company (SEE Link DOO Skopje), and the associated companies Clear Ex AD and BD Consulti OOD.

Regulatory framework

In July 1995, the first Securities, Stock Exchanges and Investment Companies Act was adopted. The Bulgarian capital markets operate within the framework of the following main legal provisions: Public Offering of Securities Act of December 1999, Markets in Financial Instruments Act of February 2018, Act on the Activities of Collective Investment Schemes and other Undertakings for Collective Investment of October 2011, Commercial Act of June 1991, Implementation of the Measures against Market Abuse with Financial Instruments Act of September 2016 and Market Abuse Regulation (i.e. Regulation (EU) No 596/2014), Special Purpose Investment Companies and Securitisation Companies Act of March 2021, Credit Institutions Act of July 2006, Supplementary Supervision of Financial Conglomerates Act of July 2006, Privatisation and Post privatisation Control Act of March 2002, Financial Supervision Commission Act of January 2003, Ordinances of the Financial Supervision Commission and Rules and Regulations of BSE.

The current regulatory framework is harmonised with EU legislation in the financial markets area and is constantly updated.

At the beginning of January 2018, the measures under MiFID II became applicable and Regulation (EU) 600/2014 ("**MiFIR**") became directly applicable across the European Economic Area.

Access to the market is on a non-discriminatory basis and foreign investors may trade on the BSE under the same terms as all domestic investors.

Public status

On 15 December 2010, BSE went public, and its shares were admitted to trading on the BSE from 6 January 2011. Currently, the Bulgarian Ministry of Finance holds a majority stake of 50.05 per cent. in the BSE's capital, with the remaining shares being held by investment firms and banks, other legal and natural persons and institutional investors.

As of 30 September 2022, the registered share capital of Bulgarian Stock Exchange is EUR 3,365,763, divided into 6,582,860 common registered and voting shares with a par value of EUR 1.00 each.

The structure of the share capital is as follows:

	<u>30 September 2022</u>	<u>31 Dec 2021</u>	<u>31 Dec 2020</u>
The State through the Ministry of Finance	50.05%	50.05%	50.05%
Investment intermediaries and commercial banks	12.26%	14.06%	16.64%
Legal entities	22.40%	21.92%	19.34%
Natural persons	15.29%	13.96%	13.96%

Markets, organised by BSE

Since 1 March 2012, BSE has operated the Main Market BSE and the Alternative Market BSE. The following financial instruments are traded on BSE: stocks (common and preferred), corporate and municipal bonds, UCITS, compensatory instruments, subscription rights and warrants and ETFs.

In addition to the regulated market, BSE has organised, as a multilateral trading facility, the SME growth market - Bulgarian Enterprise Accelerator Market ("**SME Growth Market beam**"). BSE has been granted an approval by the Financial Supervision Commission to create the SME Growth Market beam at the end of 2018.

The SME Growth Market beam is a special market, which allows small and medium companies in Bulgaria to raise funds of up to EUR 8 million without the need of an approved prospectus by the Financial Supervision Commission for an initial public offering.

Trading on the beam market is executed through the same trading platform T7® and under the same trading rules as those on the BSE main market.

In July 2021, BSE launched a new market, MTF BSE International market, as the BSE's multilateral trading system, providing local investors with the opportunity to diversify their portfolios with financial instruments issued by some of the most renowned and liquid companies in the world. In December 2022, nearly 400 leading global companies, as well as exchange traded funds (ETFs), tracing the movement of indices such as DAX, S&P 500, FTSE All-World, NASDAQ-100, STOXX Europe 600, and crypto ETNs are traded.

Trading platform

Since 16 June 2008 until June 2019, BSE used the Xetra trading platform of Deutsche Boerse. From June 2019, the Bulgarian Stock Exchange began using the T7® electronic trading platform, operated by Deutsche Boerse.

T7® is the pan-European electronic trading system of Deutsche Boerse for cash market trading in equities and a variety of other instruments including ETFs, Exchange Traded Products (ETPs), mutual funds, bonds, warrants, certificates and subscription rights.

T7® market model includes the following trading forms for on-exchange trading: auction and continuous trading.

All transactions in securities, admitted to trading on the BSE, are settled on a delivery versus payment ("DvP") basis via the computerised book-entry system of the Central Depository. The settlement cycle is T+2 for both domestic and non-domestic investors.

Market capitalisation and liquidity

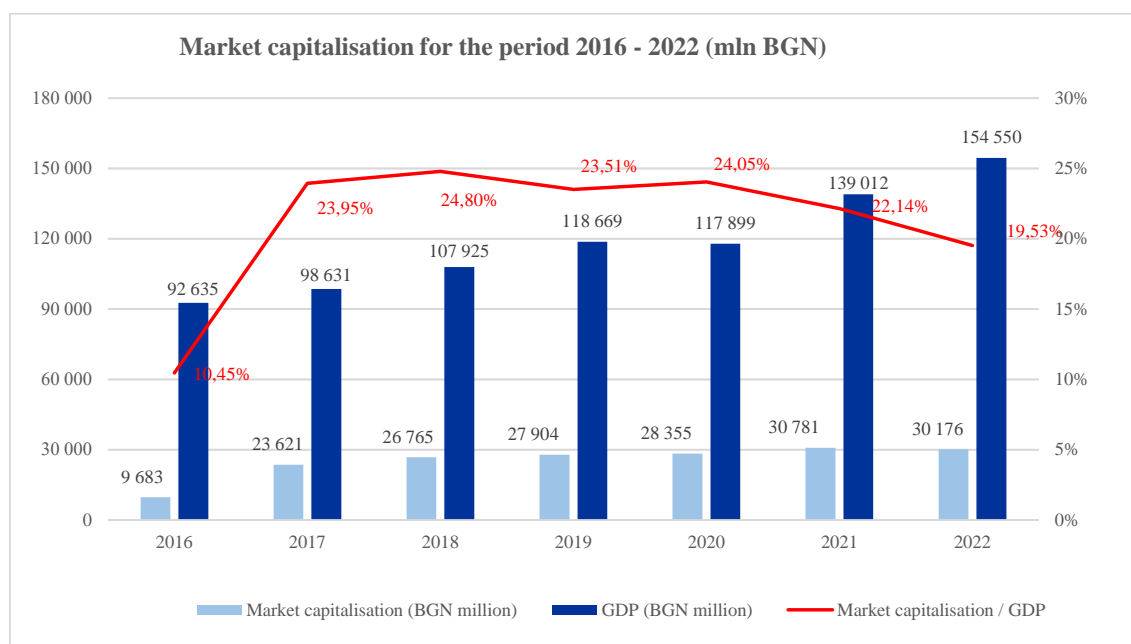
Between 2004 and 2007, the BSE grew in terms of both liquidity and market performance and became a venue of choice for capital raising purposes. The indices and the overall liquidity of the exchange sharply declined, however, as a result of the financial and economic crisis of 2008. In order to revive the market, the Government announced an ambitious privatisation programme for the state's share in strategic companies through the stock exchange. As a result of this, the Government successfully sold between December 2011 and November 2012 its minority stakes in what are now the electricity grid and supply companies (EVN Bulgaria Elektrorazpredelenie AD – renamed to Elektrorazpredelenie Yug EAD, EVN Bulgaria Elektrosnabdyavane EAD, Energo-Pro Grid AD – renamed Electrodistribution North AD, EnergoPro Sales AD, CEZ Electro Bulgaria AD - renamed to Electrohold Sales AD and CEZ Razpredelenie Bulgaria AD - renamed to Electrodistribution Grid West AD).

In October 2016, the Bulgarian Capital Market Development Strategy for the 2016-2019 period was adopted by the Capital Market Development Board. The main priorities for the development of the capital market in the medium term were elaboration of an overall strategy and roadmap for capital markets development in the mid- and long-term, attracting new listings and higher trading volumes, improved regulatory framework, creation of conditions for financing of small- and medium-sized enterprises, introduction of new financial instruments and others.

During 2020-2022, the strategic priorities in the BSE activities were related to increasing the market liquidity, developing the local SME Growth market, creating opportunities for Bulgarian market participants to trade first-class foreign instruments, as well as promoting the principles of sustainable development in Bulgaria.

As of 31 December 2022, the market capitalisation of Bulgarian stock exchange reached EUR 15,429 million (19.53 per cent. of 2022 GDP) and declined 2 per cent. growth compared to 2021.

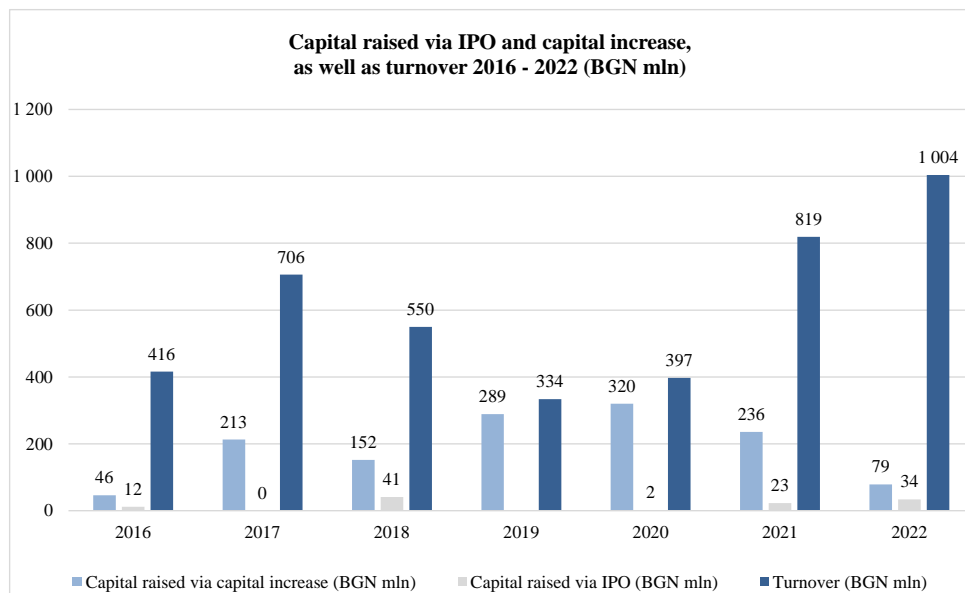
During 2022 the turnover on BSE amounted to EUR 513 million and increased by 23 per cent. compared to 2021 and 141.44 per cent. compared to 2016.



Source: BSE

The upward tendency in turnover seems to be continuing during 2022 reaching more than EUR 513 million thus outperforming 2021.

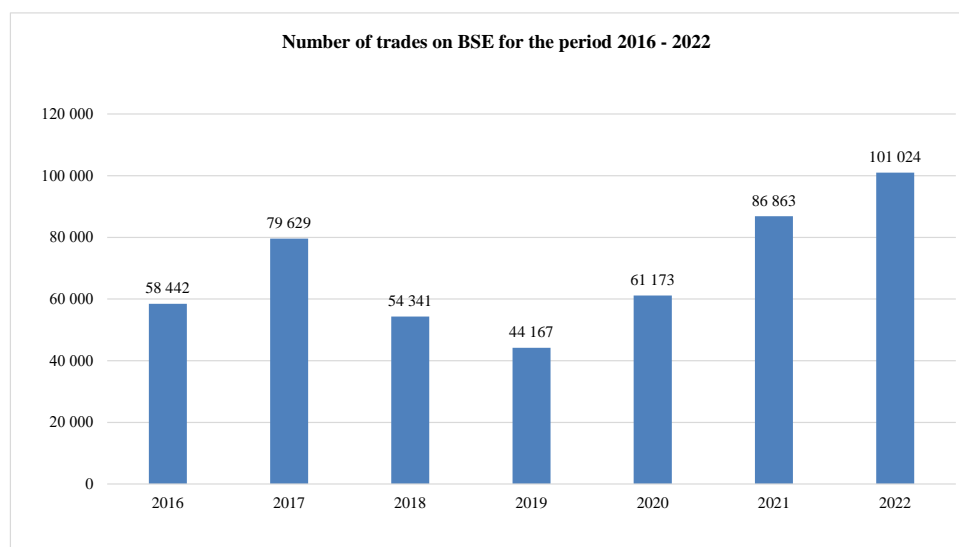
In 2022, there were 6 successful IPOs on the SME growth market beam, held by companies from different sectors financial and insurance activities, investments, professional, scientific and technical activities, organic foods. The companies raised more than EUR 9.2 million During the year the amount of capital raised via capital increases reached EUR 40.4 million, a decrease of 66.3 per cent. compared to 2021.



Source: BSE

In 2022, BSE achieved the highest number of trades for the last 7 years. The number of trades increased by 16.3 per cent. compared to 2021 and by 72.86 per cent. compared to 2016.

During 2022 the number of trades increased to 101,024 representing a growth of 16.3 per cent. compared to year 2021.



Source: BSE

As of 31 December 2022, the number of issuers of financial instruments admitted to trading on the markets, organised by BSE was 774 (compared to 571 as of December 31, 2021) and there were 45 members of BSE. In 2022, more than 2,900 new investors opened trading accounts on BSE, representing a 38 per cent. decline compared to 2021. More than 10,000 new investors opened trading accounts for the last three years on BSE.

As of 31 December 2022, the number of issuers of financial instruments admitted to trading on the markets, organised by BSE was 774, an increase of 35.55 per cent. compared to 571 as of 31 December 2021. This increase primarily due to the inclusion of market BSE International segment in early July 2021. The number of members of the BSE were 45 and remained unchanged.

BSE Indices

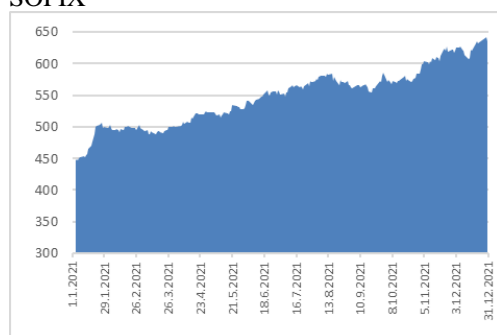
BSE calculates four indices, SOFIX, BGTR30, BGBX40 and BGREIT (sector index tracking the performance of seven listed REITs). SOFIX, BSE's main index, was launched on 20 October 2000. In 2017 the value of the SOFIX index increased by 15.52 per cent. to 677.45 points, the value of BGBX40 grew by nearly 18.6 per cent. to 132 points, the value of BGREIT increased by 7.39 per cent. to 116.10 points, while that of BGTR30 gained 21.08 per cent. and reached 555.98 points. 2018 began with a decline in all indices in the first and second quarters. This decline had begun before the second half of 2017. An upward movement began at the beginning of the third quarter of 2018 and continued until the midpoint of the third quarter. Subsequently, the direction reversed and the decline in the indices continued through the fourth quarter until the end of the year.

As of 31 December 2019, the value of SOFIX and BGBX40 were down (by 4.43 per cent. and 3.52 per cent, respectively) compared to the beginning of the year, while BGREIT and BGTR30 increased their levels (by 7.4 per cent. and 4.06 per cent., respectively). The movement in the values of SOFIX and BGBX40 was similar, and the change in BGREIT has a different form, due to the type of companies, comprising the index.

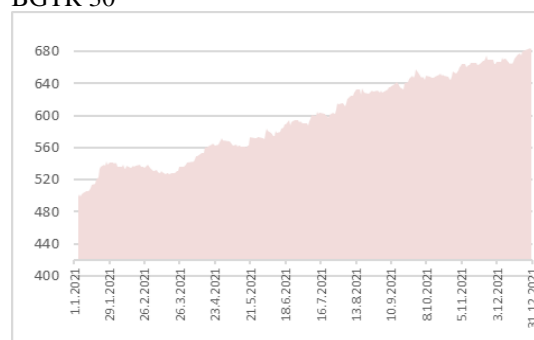
The COVID-19 pandemic had a significant impact on many areas, including the financial sector and in particular the capital markets in 2020 and 2021. In 2020 three of the indices declined– SOFIX by 21.23 per cent, BGBX 40 – by 9.34 per cent and BG TR30 - by 3.31 per cent. In 2021 there was a strong recovery of the local market and the Bulgarian indices ranked among the top gainers among the European indices. SOFIX increased by 42.04 per cent which was its highest growth in the last 7 years. In 2022, SOFIX declined by 5.38 per cent., BGBX40 declined by 3.06 per cent., BGTR30 increased by 7.06 per cent. and BGREIT increased by 11.70 per cent.

BSE Indices dynamics in 2021 and 2022

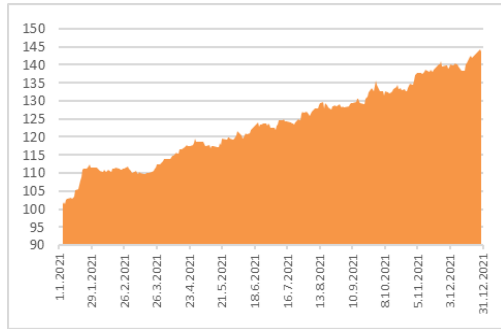
SOFIX



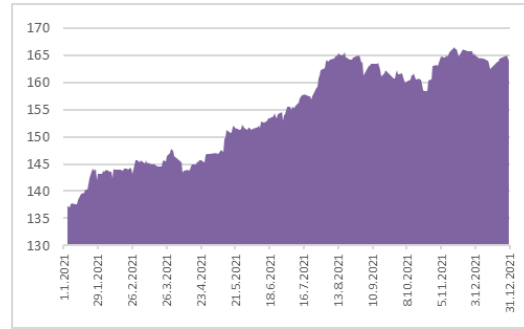
BGTR 30



BGBX40



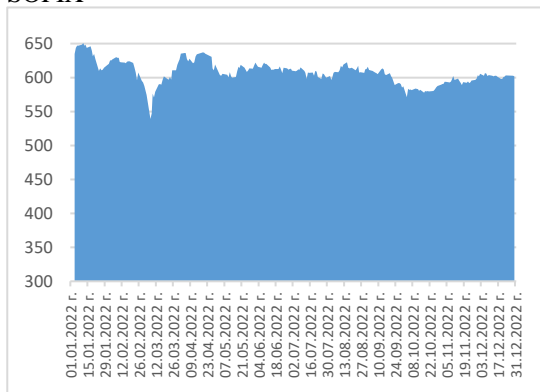
BGREIT



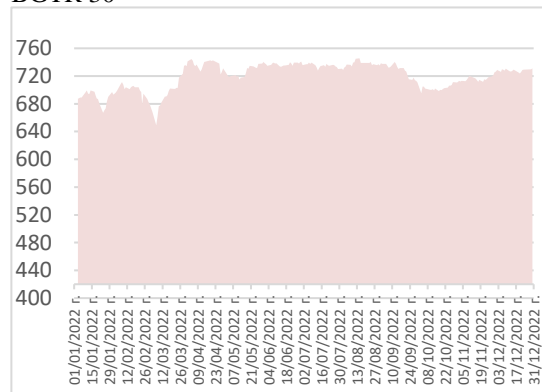
Source: BSE

BSE Indices dynamics in 2022

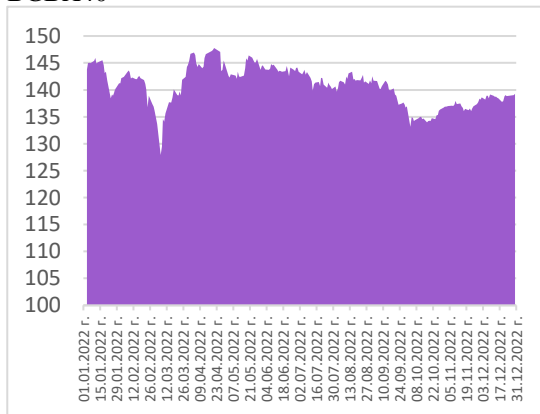
SOFIX



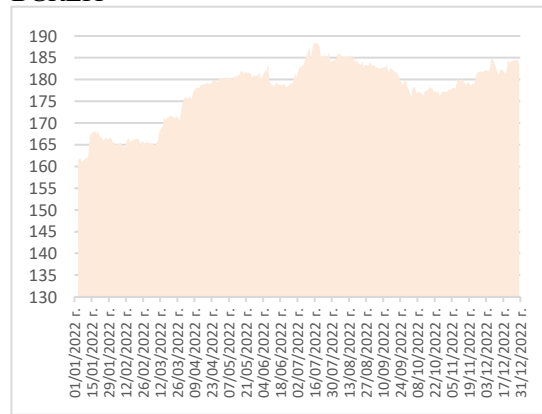
BGTR 30



BGBX40



BGREIT



Source: BSE

Throughout its existence, BSE has been subject to specific regulations, which currently include the national measures transposing MiFID II, and MiFIR, amongst other, connected with the maintenance of high standards and transparency. As a leading institution in the efforts for achieving a sustainable change as regards the public policies in Bulgaria and the transparency of the capital market, the Bulgarian Stock Exchange has been among the most active market participants to take various initiatives related to improving the quality of corporate governance public companies in the country.

The BSE believes that improving the quality of corporate governance of Bulgarian companies is a fundamental precondition for increasing their competitiveness and attracting foreign capital.

During the last two years, BSE focused to promoting the principles of sustainable development in Bulgaria as well as developing the local SME Growth market.

In March 2021 the first and only in Bulgaria think tank for sustainable finance and energy - Green Finance & Energy Centre was founded. The Green Centre is initiated by BSE and the IBEX in partnership with the Ministry of Finance, the Ministry of Energy, the Financial Supervision Commission and the Fund of Funds. Green Centre's mission is to be recognised as a leading think tank in the field of sustainable finance and energy, who champions the public debate on these topics in the country. The two main projects in 2022 include the creation of Guidelines for ESG reporting by the listed companies on BSE (with the possibility of their implementation by non-public companies) and the Green Index on BSE, which monitors the performance of issuers showing the greatest commitment to sustainable development.

In 2020 the beamUplab program was launched with the aim to promote and encourage the growth of Bulgarian start-ups, small and medium-sized companies. BeamUpLab is an initiative of BSE under the auspices of the Ministry of Finance implemented in partnership with the Fund of Funds, the Bulgarian Development Bank (BDB), the European Bank for Reconstruction and Development, the European Investment Bank (EBRD), the Bulgarian Association of Licensed Investment Intermediaries, the Bulgarian Start-up Association and the Bulgarian Private Equity and Venture Capital Association. The goal of the programme is to distinguish promising and innovative Bulgarian private companies with sustainable business models, to make them visible for potential investors as well as to strengthen their knowledge of the financing opportunities. In October 2022, BSE started the third edition of the beamUpLab program.

BALANCE OF PAYMENTS AND FOREIGN TRADE

The following table sets out Bulgaria's balance of payments in millions of EUR for the years ended 31 December 2017, 2018, 2019, 2020 and 2021 and the nine month period ended 30 September 2022:

	Year ended 31 December,					Nine months ended 30 September
	2017	2018	2019	2020	2021	2022
	<i>(EUR million)</i>					
Current and Capital Account ..	2,266.4	1,133.8	2,039.5	913.8	139.9	234.9
Current Account.....	1,736.0	531.6	1,147.8	24.4	(351.0)	719.2
Current Account – Credit.....	39,216.7	41,044.0	43,717.7	38,508.9	48,151.1	48,186.0
Current Account – Debit.....	37,480.7	40,512.4	42,569.9	38,484.5	48,502.1	47,466.8
Goods and Services – Net.....	2,277.6	1,425.5	1,986.1	1,208.1	1,195.5	1,454.4
Goods and Services – Credit.....	35,192.6	36,936.8	39,356.1	34,591.8	43,600.5	44,191.0
Goods and Services – Debit.....	32,915.0	35,511.3	37,370.0	33,383.7	42,405.0	42,736.7
Goods – Net.....	(773.2)	(2,706.3)	(2,908.3)	(1,941.1)	(2,886.7)	(2,694.6)
Goods - Credit (f.o.b.).....	26,947.6	27,741.7	29,119.4	27,271.7	34,404.6	35,211.5
Goods - Debit (f.o.b.).....	27,720.9	30,448.0	32,027.7	29,212.8	37,291.3	37,906.1
Services – Net.....	3,050.8	4,131.8	4,894.4	3,149.2	4,082.2	4,149.0
Services – Credit.....	8,244.9	9,195.0	10,236.8	7,320.1	9,195.9	8,979.5
Manufacturing services on physical inputs owned by others.....	142.2	212.6	218.1	239.3	185.5	106.6
Maintenance and repair services not included elsewhere (n.i.e.)	128.6	167.8	212.6	191.9	211.3	163.1
Transportation.....	1,804.2	1,969.6	2,076.5	1,489.0	1,807.4	1,795.3
Travel.....	3,576.0	3,813.4	3,835.4	1,485.3	2,099.8	2,612.5
Other services.....	2,593.9	3,031.7	3,894.1	3,914.6	4,891.9	4,302.0
Services – Debit.....	5,194.1	5,063.3	5,342.4	4,170.9	5,113.7	4,830.5
Manufacturing services on physical inputs owned by others.....	47.2	44.9	36.5	49.2	46.5	27.3
Maintenance and repair services not included elsewhere (n.i.e.)	49.2	58.9	66.6	46.9	73.5	56.5
Transportation.....	1,941.8	1,311.5	1,397.0	1,064.4	1,477.0	1,621.2
Travel.....	1,494.3	1,584.4	1,631.0	911.4	1,091.5	1,132.0
Other services.....	1,661.6	2,063.6	2,211.2	2,099.1	2,425.3	1,993.6
Primary Income – Net.....	(2,256.8)	(2,688.9)	(2,611.7)	(2,172.3)	(2,378.5)	(1,577.7)
Primary Income – Credit.....	1,394.5	1,137.2	1,308.7	1,731.3	2,273.4	2,014.8
Compensation of employees.....	799.9	851.9	873.4	483.7	504.0	564.4
Investment income.....	594.6	285.3	435.2	338.6	749.0	576.0
Other primary income.....	0.0	0.0	0.0	909.0	1,020.4	874.4
Primary Income – Debit.....	3,651.3	3,826.2	3,920.4	3,903.6	4,651.9	3,592.5
Compensation of employees.....	124.3	145.2	162.1	151.6	112.3	119.6
Investment income.....	3,527.0	3,680.9	3,758.3	3,632.3	4,397.0	3,306.1
Other primary income.....	0.0	0.0	0.0	119.7	142.6	166.9
Secondary income – Net.....	1,715.2	1,795.1	1,773.5	988.7	832.0	842.5
Secondary income – Credit.....	2,629.7	2,970.0	3,052.9	2,185.8	2,277.1	1,980.2
General Government.....	1,234.6	1,475.8	1,515.5	548.9	758.6	741.4
Other sectors.....	1,395.0	1,494.2	1,537.4	1,636.9	1,518.6	1,238.8
Secondary income – Debit.....	914.5	1,174.9	1,279.4	1,197.1	1,445.1	1,137.6
General Government.....	537.5	689.9	693.9	678.6	836.7	591.4
Other sectors.....	377.0	485.0	585.5	518.6	608.5	546.3
Capital Account.....	530.4	602.2	891.7	889.4	490.9	(484.4)
Gross acquisitions/disposals of non-produced non-financial assets – Net.....	96.7	94.2	238.8	151.5	(310.8)	(885.9)
Capital transfers – Net.....	433.7	508.0	652.8	737.9	801.7	401.5
Capital transfers – Credit.....	439.5	514.4	733.1	812.0	808.2	401.7
Capital transfers – Debit.....	5.7	6.3	80.3	74.1	6.5	0.1
Financial account – Net.....	2,049.3	3,125.2	2,406.6	2,121.5	3,281.0	3,029.1
Financial account – Assets.....	2,629.6	4,096.9	4,100.3	6,551.8	7,652.0	7,796.8
Financial account – Liabilities.....	580.3	971.7	1,693.7	4,430.3	4,371.0	4,767.7
Direct investment – Net.....	(1,313.0)	(757.0)	(1,237.9)	(2,762.1)	(987.5)	(1,131.1)
Direct investment – Assets.....	432.7	784.8	744.6	396.2	781.8	904.0
Direct investment – Liabilities.....	1,745.7	1,541.8	1,982.6	3,158.3	1,769.3	2,035.1
Portfolio investment – Net.....	2,833.0	1,548.2	1,607.3	763.7	2,309.0	106.0
Portfolio investment – Assets.....	1,818.4	888.1	1,523.1	2,370.9	2,453.2	1,359.3
Portfolio investment – Liabilities.....	(1,014.6)	(660.1)	(84.2)	1,606.3	144.2	1,253.3
Financial derivatives – Net.....	(22.5)	41.3	(26.5)	(45.8)	78.6	61.0
Other investment – Net.....	650.7	931.0	2,623.1	(1,628.2)	(1,725.4)	1,558.3
Other investment – Assets.....	499.9	1,021.1	2,418.5	(1,962.5)	732.1	3,037.5
Other investment – Liabilities.....	(150.8)	90.0	(204.6)	(334.3)	2,457.5	1,479.3
Central Bank Reserve Assets.....	(98.9)	1,361.6	(559.4)	5,793.9	3,606.3	2,435.0
Monetary gold.....	2.6	1.9	1.7	16.3	0.2	0.3
Special drawing rights.....	1.1	1.2	0.4	(0.6)	1,050.4	5.5
Reserve position in the IMF.....	(0.0)	0.0	(0.0)	0.0	(0.0)	0.0

	Year ended 31 December,					Nine months ended 30 September
	2017	2018	2019	2020	2021	2022
	<i>(EUR million)</i>					
Other reserve assets	(102.6)	1,358.6	(561.5)	5,778.2	2,555.6	2,429.2
Balancing Items						0.0
Current and Capital Account						
Balance	2,266.4	1,133.8	2,039.5	913.8	139.9	234.9
Financial Account Balance	2,049.3	3,125.2	2,406.6	2,121.5	3,281.0	3,029.1
Net errors and Omissions	(217.2)	1,991.3	367.1	1,207.7	3,141.0	2,794.3

Source: Central Bank. Standard presentation in accordance with the sixth edition of the Balance of Payments Manual (IMF, 2008). Preliminary data for 2020 – September 2022 as of 19 December 2022.

The following table sets out the balance of payments for Bulgaria as a percentage of GDP for the years ended 31 December 2017, 2018, 2019, 2020 and 2021 and the nine month period ended 30 September 2022:

	Year ended 31 December,					Nine months ended 30 September,
	2017	2018	2019	2020	2021	2022
	<i>(per cent. of GDP)</i>					
Balance of Payments Data						
Current and Capital Account	4.3	2.0	3.3	1.5	0.2	0.3
Current Account	3.3	0.9	1.9	0.0	(0.5)	0.9
Trade Balance	(1.5)	(4.8)	(4.7)	(3.1)	(4.1)	(3.3)
Services, net	5.8	7.3	8.0	5.1	5.7	5.1
Primary Income, net	(4.3)	(4.8)	(4.2)	(3.5)	(3.3)	(2.0)
Secondary Income, net	3.3	3.2	2.9	1.6	1.2	1.0
Capital Account	1.0	1.1	1.4	1.4	0.7	(0.6)
Financial Account	3.9	5.6	3.9	3.4	4.6	3.7
Direct investment, net	(2.5)	(1.3)	(2.0)	(4.5)	(1.4)	(1.4)
Portfolio investment, net	5.4	2.8	2.6	1.2	3.2	0.1
Financial derivatives, net	(0.0)	0.1	(0.0)	(0.1)	(0.1)	0.1
Other investment, net	1.2	1.7	4.3	(2.6)	(2.4)	1.9
Central Bank Reserve assets	(0.2)	2.4	(0.9)	9.4	5.1	3.0
Net errors and omissions	(0.4)	3.5	0.6	2.0	4.4	3.5

Source: Central Bank. Standard presentation in accordance with the sixth edition of the Balance of Payments Manual (IMF, 2008). Preliminary data for 2020 – September 2022 as of 19 December 2022. The nominal GDP data for the last four quarters, from the fourth quarter of 2021 until the third quarter of 2022, are used in calculating the GDP ratios for Jan-September 2022.

The following table sets out savings and investment in Bulgaria as a percentage of GDP for the years ended 31 December 2017, 2018, 2019, 2020 and 2021 and the twelve month period ended 30 June 2022:

	Year ended 31 December,					Twelve months ended 30 June,
	2017	2018	2019	2020	2021	2022*
	<i>(per cent. of GDP)</i>					
Savings	23.1	22.2	22.9	20.3	19.6	21.4
Investment	19.8	21.2	21.0	20.3	19.2	20.4

* June 2022 data are accumulated for the last 12 months. The nominal GDP used to calculate the ratio for June 2022, is calculated as the sum of the last four quarters ending with the flash estimates for Q2 2022.

Source: Central Bank.

The decline in the savings rate as a percentage of GDP relative to 2019 was a result of the activities of the public sector while the private sector has kept their savings rate as a percentage of GDP above its 2019 level. Investment as a percentage of GDP has picked up in the first half of 2022 but this was entirely due to an accumulation of inventories.

Current Account

For the 2017-2019 period the current account remained in surplus. The cumulative growth rate of the nominal exports of goods amounted to 8.1 per cent. At 15.5 per cent., the cumulative growth rate of nominal imports outstripped that of exports between 2017 and 2019, which led to a widening of the trade deficit

during the three-year period. The increasing trade deficits for 2017-2019 were offset by growing trade in services surpluses and stable secondary income net receipts. A substantial part of the positive trade in services balance for the period was due to growing revenues from tourism which were ranging between 37 to 43 per cent. of total revenues from services exports.

With the global spread of the COVID-19 pandemic in 2020, Bulgaria's current account surplus fell notably (0.0 per cent. of GDP), primarily as a result of the significant deterioration of the trade in services surplus due to travel restrictions imposed worldwide which severely affected the travel and leisure sectors of the economy. The reduction in the current account surplus in 2020 was further reinforced by the lower surplus on secondary income and particularly the net inflows of current transfers to the public sector. At the same time, due to the favourable terms of trade for Bulgaria in 2020, the nominal import of goods decreased more than the nominal export of goods, which led to a smaller trade deficit as compared to 2019. The current account surplus in 2020 was also supported by the lower deficit on the primary income balance, where a lower amount of dividend payments and profit distributions to non-residents outside Bulgaria were made. This was mainly due to the deterioration in economic activity as well as the measures taken by the Central Bank in March 2020 aimed at strengthening the liquidity and capital positions of banks during the pandemic by restricting dividend distributions.

In 2021 the current account balance turned to a deficit of 0.5 per cent. of GDP, driven primarily by a growing trade deficit and a reduction in the net inflow of remittances. Despite the significant nominal growth of the export of goods and the still positive terms of trade, the trade deficit in 2021 widened notably due to the larger increase in the nominal import of goods, stimulated by the strong rebound in private consumption. As a result, the trade deficit on the current account increased from 3.1 per cent. of GDP in 2020 to 4.1 per cent. of GDP in 2021. After the initial negative shock from the pandemic in 2020, in 2021 the export of travel-related services started to recover but remained below its 2019 levels. Both in 2020 and 2021, telecommunication, computer and information services had major positive contributions to the dynamics of export of services.

During the first nine months of 2022 the current account balance turned again to a surplus of 0.9 per cent. of GDP. Relative to the corresponding period of 2021, when the current account was in surplus of 0.7 per cent. of GDP, there was a further increase in the trade deficit, with the nominal growth rate of imports of goods outpacing that of exports but the surplus on the trade in services balance increased. While the surplus on trade in services increased as compared to January-September 2021 this was likely driven by favourable terms of trade, while, in real terms imports of services increased on an annual basis more than exports. The primary income deficit in January-September 2022 decreased as compared to January-September 2021.

Capital Account

The capital account balance over the period 2017-2021 has been positive mainly due to transfers to the General Government. In the period between January-September 2022, the balance turned negative. The transition from surplus to deficit was due to an increase in the funds paid for the purchase of greenhouse gas emission allowances and a decline in capital transfers received by the General Government sector in the form of investment subsidies..

Financial Account

The financial account balance, according to the standard balance of payment representation, has remained positive over the periods between 2017-2021 and January-September 2022 with foreign assets of Bulgarian residents increasing more than their foreign liabilities.

Exports and Imports of Goods by Region

The following tables set out the percentage shares of exports and imports of goods by region for Bulgaria for the years ended 31 December 2017, 2018, 2019, 2020 and 2021 and the nine month period ended 30 September 2022

	Exports					Nine months ended September, 2022
	Year ended 31 December,					
	2017	2018	2019	2020	2021	
	<i>(per cent.)</i>					
EU⁽¹⁾	63.3	67.3	66.3	65.4	66.2	66.7
Euro area⁽²⁾	44.9	47.3	46.3	47.3	46.6	45.6
<i>of which:</i>						
Germany	12.9	14.6	14.8	16.0	14.8	14.1
Italy	7.9	8.5	7.3	6.9	7.5	7.6
Greece	6.2	6.6	6.7	6.6	6.9	6.6
France	3.9	3.9	3.8	3.8	3.6	3.3
Belgium	4.0	3.4	2.8	3.5	3.2	2.5
EU Member States not members of the Euro Area⁽⁴⁾	18.4	20.0	20.0	18.1	19.6	21.0
<i>of which:</i>						
Romania	7.8	8.4	8.7	9.1	10.0	10.1
Balkan countries⁽²⁾	12.9	12.0	11.6	10.8	10.8	10.7
<i>of which:</i>						
Turkey	8.9	7.8	7.3	6.4	6.1	6.0
Serbia	1.7	1.9	1.4	1.6	2.1	2.4
North Macedonia	1.5	1.5	2.0	1.8	1.6	1.6
Other European countries⁽³⁾	4.5	3.7	4.5	6.3	5.8	6.9
<i>of which:</i>						
Russia	2.7	1.4	1.8	1.5	1.2	0.9
Ukraine	0.5	0.7	1.1	0.8	1.2	2.0
Gibraltar	0.2	0.6	0.5	0.4	0.4	1.3
Asia	8.2	8.1	8.6	8.9	9.2	7.1
<i>of which:</i>						
China	2.4	2.7	2.8	3.3	3.2	1.4
Singapore	0.9	0.9	0.3	0.1	0.1	0.0
America	2.4	2.8	2.9	3.0	3.3	2.9
<i>of which:</i>						
USA	1.5	1.9	1.9	2.0	2.5	2.1
Other countries	8.7	6.2	6.1	5.5	4.7	5.7

	Imports					Nine months ended September, 2022
	Year ended 31 December,					
	2017	2018	2019	2020	2021	
	<i>(per cent.)</i>					
EU⁽¹⁾	51.0	51.1	50.9	50.5	49.6	44.2
Euro Area⁽²⁾	34.9	35.3	35.6	36.1	35.5	32.0
<i>of which:</i>						
Germany	11.0	11.2	10.8	11.0	10.9	9.0
Italy	7.1	7.3	7.2	7.0	6.4	5.4
Greece	3.6	3.6	3.7	3.9	4.2	4.8
France	3.0	2.9	3.0	2.9	2.6	2.2
EU Member States not members of the Euro Area⁽³⁾	16.1	15.8	15.4	14.4	14.1	12.2
<i>of which:</i>						
Romania	5.3	5.3	5.4	5.4	5.6	4.7
Poland	3.6	3.3	3.2	3.4	3.1	2.7
Other European countries⁽⁴⁾	13.2	12.5	12.6	11.0	11.9	16.8
<i>of which:</i>						
Russia	10.0	9.4	9.6	6.2	7.2	11.5
Ukraine	1.5	1.4	1.4	1.7	2.0	3.0
Asia	17.8	18.9	19.3	19.9	20.1	20.5
<i>of which:</i>						
China	7.3	7.9	8.4	9.4	9.8	10.4
Balkan countries⁽⁵⁾	9.6	9.5	9.6	10.3	10.9	10.4
<i>of which:</i>						
Turkey	6.2	6.3	6.5	7.1	7.8	7.7
America	6.6	6.0	5.4	5.8	5.1	5.9

	Imports					Nine months ended September, 2022
	Year ended 31 December,					
	2017	2018	2019	2020	2021	
	<i>(per cent.)</i>					
<i>of which:</i>						
USA.....	1.9	2.0	2.3	2.5	1.7	3.1
Chile.....	1.2	1.0	0.5	0.5	0.7	0.4

- (¹) EU-28 (including Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden and the United Kingdom) till 2019. Since 2020, EU-27 without the United Kingdom.
- (²) EA-19 (including Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Greece, Slovenia, Cyprus, Malta, Slovakia, Estonia, Latvia, and Lithuania).
- (³) EU-28 outside EA-19 till 2019. Since 2020 - EU 27 without the United Kingdom.
- (⁴) Russia, Switzerland, Ukraine, Gibraltar (GB), Moldova, Belarus, Norway, Lichtenstein, Iceland, San Marino, Andorra, Faroe Islands and the Holy See.
- (⁵) Turkey, Serbia, North Macedonia, Albania, Montenegro, Kosovo and Bosnia and Herzegovina.

Source: Central Bank.

By country of origin. Data is provided by the NSI. Data for the period between 2017 and 2020 is final. The data for 2022 are preliminary, including Intrastat system data and customs declarations data as of 25 November 2022.

Trade balance by region

EU member states constitute Bulgaria's main trading partners on both the export and import sides. Exports of goods to the EU member states accounted for 66.7 per cent. of total exports of goods in the period January 2022 – September 2022, compared to 63.3 per cent. in 2017. Germany is Bulgaria's major export market (with exports predominantly machinery and base metal products), followed by Romania and Italy. In the period January 2022 – September 2022, the nominal export of goods to EU countries increased by 43.9 per cent. year-on-year, driven mainly by increases in exports to Germany, Romania and Italy.

Outside the EU, Bulgaria is mainly exporting to countries from the Balkan region (Turkey has the largest share within that group of countries), although their share in total Bulgarian exports of goods has been falling. In contrast, since 2017 China has been gaining more prominence as one of the main non-EU export trading partners. In the period January 2022 – September 2022 nominal exports of goods to countries outside the EU increased at lower rate on an annual basis (37.2 per cent.) as compared to those in the EU (43.9 per cent.), primarily as a result of higher contribution of the export of base metals towards the growth of intra-EU exports. By geographic region the most important export partners outside of the EU for the period January 2022 – September 2022 were Turkey, Serbia and the United States.

During the period January 2022 - September 2022 close to 44 per cent. of all Bulgarian goods imports came from EU countries. In 2016 Germany became Bulgaria's largest partner on the import side overtaking Russia. However, mainly due to the significant increases in the international prices of energy commodities, the share of nominal Bulgarian imports of goods from Russia (almost entirely in the form of crude oil and natural gas) in total Bulgarian imports increased significantly in the period January 2022 - September 2022 and Russia became Bulgaria's main trading partner on the import side with Germany remaining in second place. Over the years imports of goods from China have been increasing strongly, resulting in China becoming Bulgaria's third largest trading partner on the import side. During the period January 2022 - September 2022 nominal imports from EU countries increased by 29.8 per cent. on an annual basis, while imports from countries outside the EU increased by 31.5 per cent.

The following tables set out the Bulgarian trade of goods and services with Russia, Ukraine and Belarus as a percentage of GDP for the years ended 31 December 2017, 2018, 2019, 2020 and 2021 and the first nine month period ended 30 September 2022:

	Bulgarian Trade with Russia					Nine months ended September, 2022
	Year ended 31 December,					
	2017	2018	2019	2020	2021	
	<i>(% of GDP)</i>					
Export of goods and services.....	2.51%	1.68%	1.70%	1.03%	1.06%	0.76%
Export of goods /FOB/ ^{1/}	1.41%	0.72%	0.85%	0.69%	0.61%	0.42%
<i>of which</i>						
Machines, transport facilities, appliances and tools.....	0.28%	0.26%	0.29%	0.26%	0.23%	0.10%

Bulgarian Trade with Russia

	Year ended 31 December,					Nine months ended September,
	2017	2018	2019	2020	2021	2022
	<i>(% of GDP)</i>					
Base metals and their products.....	0.65%	0.02%	0.03%	0.02%	0.02%	0.01%
Animal and vegetable products, food, drinks and tobacco products.....	0.08%	0.08%	0.11%	0.09%	0.09%	0.05%
Chemical products, plastics and rubber.....	0.33%	0.30%	0.36%	0.27%	0.24%	0.24%
Textile and leather materials, clothing, footwear and other consumer goods.....	0.05%	0.04%	0.03%	0.02%	0.02%	0.01%
Mineral products and fuels.....	0.00%	0.00%	0.02%	0.00%	0.00%	0.01%
Wood, paper, earthenware and glass products.....	0.02%	0.02%	0.01%	0.01%	0.01%	0.01%
Export of services ^{2/}	1.10%	0.96%	0.85%	0.35%	0.45%	0.34%
<i>of which</i>						
Manufacturing services on physical inputs owned by others.....	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Maintenance and repair services not included elsewhere.....	0.00%	0.00%	0.01%	0.01%	0.03%	0.01%
Transport.....	0.53%	0.46%	0.41%	0.26%	0.28%	0.25%
Travel.....	0.54%	0.47%	0.37%	0.05%	0.10%	0.07%
Other services.....	0.03%	0.03%	0.05%	0.03%	0.03%	0.01%
Import of goods and services.....	5.98%	5.59%	5.47%	3.26%	4.14%	5.90%
Import of goods /CIF/ ^{1/}	5.75%	5.39%	5.26%	3.11%	4.00%	5.82%
<i>of which</i>						
Machines, transport facilities, appliances and tools.....	0.63%	0.25%	0.27%	0.30%	0.18%	0.09%
Base metals and their products.....	0.43%	0.32%	0.62%	0.43%	0.23%	0.28%
Animal and vegetable products, food, drinks and tobacco products.....	0.02%	0.02%	0.07%	0.24%	0.02%	0.03%
Chemical products, plastics and rubber.....	0.15%	0.14%	0.25%	0.20%	0.26%	0.30%
Textile and leather materials, clothing, footwear and other consumer goods.....	0.00%	0.01%	0.01%	0.01%	0.01%	0.00%
Mineral products and fuels.....	4.45%	4.58%	4.01%	1.89%	3.24%	5.09%
Wood, paper, earthenware and glass products.....	0.06%	0.08%	0.05%	0.04%	0.05%	0.03%
Import of services ^{2/}	0.23%	0.20%	0.20%	0.14%	0.14%	0.08%
<i>of which</i>						
Manufacturing services on physical inputs owned by others.....	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Maintenance and repair services not included elsewhere.....	0.00%	0.00%	0.00%	0.01%	0.00%	0.00%
Transport.....	0.10%	0.08%	0.10%	0.07%	0.07%	0.05%
Travel.....	0.09%	0.09%	0.08%	0.04%	0.03%	0.01%
Other services.....	0.04%	0.04%	0.03%	0.02%	0.03%	0.01%
Trade in goods and services balance.....	3.46%	3.91%	3.77%	2.22%	3.08%	-5.14%
Trade in goods balance.....	4.34%	4.66%	4.41%	2.43%	-3.39%	-5.40%
Trade in services balance.....	0.87%	0.75%	0.65%	0.20%	0.31%	0.26%

Bulgarian Trade with Ukraine

	Year ended 31 December,			Nine months ended September,		
	2017	2018	2019	2020	2021	2022
	<i>(per cent. of GDP)</i>					
Export of goods and services.....	0.62%	0.72%	0.99%	0.53%	0.87%	1.30%
Export of goods /FOB/ ^{1/}						0.90%
<i>of which</i>						
Machines, transport facilities, appliances and tools.....	0.29%	0.33%	0.55%	0.37%	0.57%	0.04%
Base metals and their products.....	0.08%	0.08%	0.11%	0.08%	0.07%	0.04%
Animal and vegetable products, food, drinks and tobacco products.....	0.02%	0.02%	0.03%	0.03%	0.05%	0.01%
Chemical products, plastics and rubber.....	0.04%	0.04%	0.05%	0.06%	0.06%	0.05%
Textile and leather materials, clothing, footwear and other consumer goods.....	0.09%	0.10%	0.19%	0.17%	0.17%	0.09%
Mineral products and fuels.....	0.01%	0.01%	0.01%	0.02%	0.01%	0.01%
Wood, paper, earthenware and glass products.....	0.02%	0.04%	0.14%	0.01%	0.18%	0.67%
Export of services ^{2/}	0.03%	0.03%	0.02%	0.01%	0.02%	0.02%
<i>of which</i>						0.40%
Manufacturing services on physical inputs owned by others.....	0.33%	0.39%	0.44%	0.16%	0.30%	
Maintenance and repair services not included elsewhere.....	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Transport.....	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Travel.....	0.01%	0.01%	0.01%	0.01%	0.01%	0.02%
Other services.....	0.31%	0.37%	0.41%	0.15%	0.28%	0.37%
Import of goods and services.....	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
Import of goods and services.....	0.95%	0.90%	0.86%	0.89%	1.20%	1.59%
Import of goods /CIF/ ^{1/}						1.52%
<i>of which</i>						
Machines, transport facilities, appliances and tools.....	0.85%	0.82%	0.76%	0.83%	1.12%	
Base metals and their products.....	0.10%	0.08%	0.10%	0.09%	0.08%	0.06%
Animal and vegetable products, food, drinks and tobacco products.....	0.58%	0.57%	0.46%	0.41%	0.72%	0.43%
Chemical products, plastics and rubber.....	0.06%	0.06%	0.08%	0.18%	0.11%	0.96%
Textile and leather materials, clothing, footwear and other consumer goods.....	0.02%	0.03%	0.03%	0.05%	0.11%	0.02%
Mineral products and fuels.....	0.02%	0.02%	0.03%	0.03%	0.03%	0.02%
Wood, paper, earthenware and glass products.....	0.03%	0.01%	0.01%	0.01%	0.01%	0.00%
Import of services ^{2/}	0.04%	0.04%	0.05%	0.06%	0.06%	0.03%
<i>of which</i>						0.07%
Manufacturing services on physical inputs owned by others.....	0.10%	0.08%	0.10%	0.06%	0.08%	
Maintenance and repair services not included elsewhere.....	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Transport.....	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Travel.....	0.06%	0.04%	0.04%	0.03%	0.05%	0.05%

Bulgarian Trade with Ukraine

	Year ended 31 December,			Nine months ended September,		
	2017	2018	2019	2020	2021	2022
	<i>(per cent. of GDP)</i>					
Travel	0.04%	0.03%	0.03%	0.01%	0.02%	0.01%
Other services	0.01%	0.01%	0.01%	0.01%	0.02%	0.01%
Trade in goods and services balance	-0.33%	-0.18%	0.13%	-0.36%	-0.33%	-0.28%
Trade in goods balance	-0.56%	-0.48%	-0.21%	-0.46%	-0.55%	-0.62%
Trade in services balance	0.23%	0.31%	0.33%	0.10%	0.22%	0.33%

Bulgarian Trade with Belarus

	Year ended 31 December,			Nine months ended September		
	2017	2018	2019	2020	2021	2022
	<i>(per cent. of GDP)</i>					
Export of goods and services	0.18%	0.16%	0.18%	0.11%	0.09%	0.05%
Export of goods /FOB/ ^{1/}				0.09%	0.07%	0.03%
<i>of which</i>	0.06%	0.06%	0.08%			
Machines, transport facilities, appliances and tools	0.02%	0.02%	0.02%	0.02%	0.02%	0.01%
Base metals and their products	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Animal and vegetable products, food, drinks and tobacco products	0.01%	0.01%	0.01%	0.01%	0.01%	0.00%
Chemical products, plastics and rubber	0.02%	0.03%	0.04%	0.04%	0.02%	0.02%
Textile and leather materials, clothing, footwear and other consumer goods ..	0.01%	0.01%	0.01%	0.02%	0.01%	0.01%
Mineral products and fuels	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Wood, paper, earthenware and glass products	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Export of services ^{2/}				0.02%	0.02%	0.01%
<i>of which</i>	0.12%	0.10%	0.09%			
Manufacturing services on physical inputs owned by others	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Maintenance and repair services not included elsewhere	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Transport	0.03%	0.03%	0.02%	0.01%	0.01%	0.00%
Travel	0.09%	0.08%	0.07%	0.01%	0.01%	0.01%
Other services	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Import of goods and services	0.14%	0.14%	0.14%	0.09%	0.10%	0.06%
Import of goods /CIF/ ^{1/}				0.08%	0.09%	0.05%
<i>of which</i>	0.12%	0.12%	0.13%			
Machines, transport facilities, appliances and tools	0.10%	0.07%	0.09%	0.04%	0.03%	0.03%
Base metals and their products	0.00%	0.03%	0.00%	0.00%	0.03%	0.01%
Animal and vegetable products, food, drinks and tobacco products	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Chemical products, plastics and rubber	0.01%	0.02%	0.01%	0.02%	0.01%	0.01%
Textile and leather materials, clothing, footwear and other consumer goods ..	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mineral products and fuels	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Wood, paper, earthenware and glass products	0.00%	0.00%	0.01%	0.01%	0.01%	0.01%
Import of services ^{2/}				0.01%	0.01%	0.01%
<i>of which</i>	0.02%	0.02%	0.01%			
Manufacturing services on physical inputs owned by others	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Maintenance and repair services not included elsewhere	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Transport	0.01%	0.01%	0.00%	0.00%	0.00%	0.00%
Travel	0.01%	0.01%	0.00%	0.00%	0.00%	0.00%
Other services	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Trade in goods and services balance	0.04%	0.03%	0.04%	0.02%	-0.01%	-0.01%
Trade in goods balance	-0.06%	-0.06%	-0.04%	-0.01%	-0.02%	-0.02%
Trade in services balance	0.10%	0.09%	0.08%	0.01%	0.01%	0.01%

Notes:

- (¹) Commodity groups includes divisions of the Combined Nomenclature (Eurostat) and detailed data for all divisions is available through the NSI.
(²) In accordance with IMF 6-th edition of the Balance of Payments and International Investment Position Manual.
(³) The nominal GDP data for the last four quarters, from the fourth quarter of 2021 until the third quarter of 2022, are used in calculating the GDP ratios for January-September 2022.

Source: Central Bank, NSI

The following tables set out the Bulgarian trade in goods and services with Russia, Ukraine and Belarus as percentage of total trade of goods and services for the years ended 31 December 2017, 2018, 2019, 2020 and 2021 and the nine month period ended 30 September 2022:

Bulgarian Trade with Russia

	Year ended 31 December,					Nine months ended September,
	2017	2018	2019	2020	2021	2022
	<i>(% of total Bulgarian export/import of goods and services)</i>					
Export of goods /FOB/ ^{1/}	3.65%	2.49%	2.61%	1.80%	1.71%	1.36%
<i>of which</i>	2.05%	1.08%	1.31%	1.20%	0.99%	0.75%
Machines, transport facilities, appliances and tools	0.40%	0.39%	0.45%	0.46%	0.36%	0.18%
Base metals and their products	0.95%	0.03%	0.05%	0.03%	0.03%	0.01%
Animal and vegetable products, food, drinks and tobacco products	0.11%	0.12%	0.16%	0.16%	0.14%	0.09%
Chemical products, plastics and rubber	0.48%	0.45%	0.55%	0.48%	0.39%	0.43%
Textile and leather materials, clothing, footwear and other consumer goods ..	0.08%	0.06%	0.05%	0.04%	0.03%	0.02%
Mineral products and fuels	0.00%	0.01%	0.04%	0.00%	0.00%	0.01%
Wood, paper, earthenware and glass products	0.03%	0.03%	0.02%	0.02%	0.02%	0.01%
Export of services ^{2/}	1.60%	1.42%	1.30%	0.60%	0.72%	0.61%
<i>of which</i>						
Manufacturing services on physical inputs owned by others	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Maintenance and repair services not included elsewhere	0.00%	0.00%	0.02%	0.01%	0.05%	0.01%
Transport	0.78%	0.68%	0.63%	0.45%	0.46%	0.45%

Bulgarian Trade with Russia

	Year ended 31 December,					Nine months ended
	2017	2018	2019	2020	2021	September,
	2022					
	<i>(% of total Bulgarian export/import of goods and services)</i>					
Travel	0.78%	0.69%	0.57%	0.08%	0.16%	0.12%
Other services	0.04%	0.04%	0.07%	0.06%	0.05%	0.02%
Import of goods and services	8.85%	8.44%	8.61%	5.75%	6.63%	10.39%
Import of goods /CIF/ ^{1/}	8.51%	8.14%	8.29%	5.49%	6.41%	10.25%
<i>of which</i>						
Machines, transport facilities, appliances and tools	0.93%	0.38%	0.42%	0.53%	0.29%	0.16%
Base metals and their products	0.64%	0.48%	0.98%	0.75%	0.37%	0.50%
Animal and vegetable products, food, drinks and tobacco products	0.03%	0.02%	0.10%	0.42%	0.03%	0.05%
Chemical products, plastics and rubber	0.23%	0.22%	0.39%	0.36%	0.42%	0.52%
Textile and leather materials, clothing, footwear and other consumer goods ..	0.01%	0.01%	0.01%	0.02%	0.02%	0.01%
Mineral products and fuels	6.58%	6.91%	6.31%	3.34%	5.19%	8.95%
Wood, paper, earthenware and glass products	0.09%	0.11%	0.08%	0.08%	0.08%	0.06%
Import of services ^{2/}	0.34%	0.31%	0.32%	0.25%	0.22%	0.14%
<i>of which</i>						
Manufacturing services on physical inputs owned by others	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Maintenance and repair services not included elsewhere	0.00%	0.00%	0.00%	0.01%	0.00%	0.00%
Transport	0.15%	0.11%	0.15%	0.13%	0.12%	0.10%
Travel	0.13%	0.13%	0.12%	0.07%	0.05%	0.02%
Other services	0.06%	0.05%	0.04%	0.04%	0.05%	0.02%

Bulgarian Trade with Ukraine

	Year ended 31 December,					Nine months ended
	2017	2018	2019	2020	2021	September,
	2022					
	<i>(% of total Bulgarian export/import of goods and services)</i>					
Export of goods and services	0.90%	1.07%	1.52%	0.93%	1.40%	2.33%
Export of goods /FOB/ ^{1/}	0.42%	0.50%	0.85%	0.64%	0.92%	1.62%
<i>of which</i>						
Machines, transport facilities, appliances and tools	0.12%	0.12%	0.17%	0.14%	0.11%	0.08%
Base metals and their products	0.03%	0.03%	0.04%	0.04%	0.04%	0.02%
Animal and vegetable products, food, drinks and tobacco products	0.05%	0.07%	0.08%	0.10%	0.10%	0.09%
Chemical products, plastics and rubber	0.13%	0.16%	0.29%	0.29%	0.28%	0.16%
Textile and leather materials, clothing, footwear and other consumer goods ..	0.02%	0.02%	0.02%	0.03%	0.02%	0.02%
Mineral products and fuels	0.02%	0.07%	0.22%	0.02%	0.30%	1.20%
Wood, paper, earthenware and glass products	0.05%	0.04%	0.03%	0.02%	0.03%	0.04%
Export of services ^{2/}	0.49%	0.58%	0.67%	0.28%	0.48%	0.72%
<i>of which</i>						
Manufacturing services on physical inputs owned by others	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Maintenance and repair services not included elsewhere	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Transport	0.02%	0.02%	0.02%	0.01%	0.01%	0.03%
Travel	0.46%	0.55%	0.63%	0.25%	0.45%	0.66%
Other services	0.01%	0.01%	0.01%	0.01%	0.02%	0.02%
Import of goods and services	1.40%	1.36%	1.36%	1.57%	1.93%	2.79%
Import of goods /CIF/ ^{1/}	1.26%	1.24%	1.20%	1.46%	1.80%	2.68%
<i>of which</i>						
Machines, transport facilities, appliances and tools	0.15%	0.12%	0.16%	0.16%	0.13%	0.10%
Base metals and their products	0.86%	0.86%	0.72%	0.73%	1.15%	0.75%
Animal and vegetable products, food, drinks and tobacco products	0.09%	0.09%	0.13%	0.32%	0.18%	1.69%
Chemical products, plastics and rubber	0.04%	0.05%	0.05%	0.08%	0.17%	0.03%
Textile and leather materials, clothing, footwear and other consumer goods ..	0.03%	0.03%	0.05%	0.05%	0.05%	0.04%
Mineral products and fuels	0.04%	0.02%	0.01%	0.01%	0.02%	0.00%
Wood, paper, earthenware and glass products	0.05%	0.07%	0.07%	0.10%	0.10%	0.06%
Import of services ^{2/}	0.15%	0.12%	0.16%	0.11%	0.13%	0.12%
<i>of which</i>						
Manufacturing services on physical inputs owned by others	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Maintenance and repair services not included elsewhere	0.00%	0.00%	0.03%	0.00%	0.00%	0.00%
Transport	0.08%	0.06%	0.07%	0.06%	0.07%	0.08%
Travel	0.06%	0.05%	0.05%	0.02%	0.02%	0.02%
Other services	0.01%	0.01%	0.02%	0.03%	0.02%	0.02%

Bulgarian Trade with Belarus

	Year ended 31 December,					Nine months ended
	2017	2018	2019	2020	2021	September,
	2022					
	<i>(% of total Bulgarian export/import of goods and services)</i>					
Export of goods and services	0.26%	0.24%	0.27%	0.19%	0.14%	0.09%
Export of goods /FOB/ ^{1/}	0.09%	0.09%	0.13%	0.16%	0.11%	0.06%
<i>of which</i>						
Machines, transport facilities, appliances and tools	0.02%	0.02%	0.03%	0.03%	0.03%	0.01%
Base metals and their products	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Animal and vegetable products, food, drinks and tobacco products	0.02%	0.01%	0.02%	0.02%	0.02%	0.00%
Chemical products, plastics and rubber	0.03%	0.04%	0.06%	0.07%	0.04%	0.03%
Textile and leather materials, clothing, footwear and other consumer goods	0.01%	0.01%	0.01%	0.03%	0.02%	0.01%
Mineral products and fuels	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Wood, paper, earthenware and glass products	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Export of services ^{2/}	0.17%	0.15%	0.14%	0.03%	0.03%	0.03%

Bulgarian Trade with Belarus

	Year ended 31 December,					Nine months ended,
	2017	2018	2019	2020	2021	September
	2022					
	(% of total Bulgarian export/import of goods and services)					
<i>of which</i>						
Manufacturing services on physical inputs owned by others	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Maintenance and repair services not included elsewhere	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Transport	0.04%	0.04%	0.04%	0.01%	0.01%	0.01%
Travel	0.12%	0.12%	0.10%	0.02%	0.02%	0.02%
Other services	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Import of goods and services	0.21%	0.21%	0.22%	0.16%	0.16%	0.11%
Import of goods /CIF ^{1/}	0.18%	0.19%	0.20%	0.15%	0.14%	0.10%
<i>of which</i>						
Machines, transport facilities, appliances and tools	0.15%	0.10%	0.15%	0.08%	0.04%	0.05%
Base metals and their products	0.00%	0.04%	0.01%	0.01%	0.04%	0.02%
Animal and vegetable products, food, drinks and tobacco products	0.00%	0.00%	0.00%	0.01%	0.01%	0.00%
Chemical products, plastics and rubber	0.02%	0.03%	0.02%	0.03%	0.02%	0.01%
Textile and leather materials, clothing, footwear and other consumer goods	0.00%	0.00%	0.00%	0.01%	0.00%	0.00%
Mineral products and fuels	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Wood, paper, earthenware and glass products	0.01%	0.01%	0.01%	0.02%	0.02%	0.01%
Import of services ^{2/}	0.03%	0.02%	0.01%	0.01%	0.01%	0.01%
<i>of which</i>						
Manufacturing services on physical inputs owned by others	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Maintenance and repair services not included elsewhere	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Transport	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
Travel	0.02%	0.02%	0.01%	0.01%	0.01%	0.00%
Other services	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Trade Exposure to the Conflict in Ukraine

Bulgaria's main trade exposure to the conflict in Ukraine is in terms of its reliance on imports of key commodities, particularly from Russia. The exposure of Bulgarian exporters to the countries directly involved in the conflict is relatively limited. The combined imports of goods and services from Russia, Ukraine and Belarus represented 8.7 per cent. of total imports in 2021 (5.4 per cent. of GDP), while the combined export of goods and services to the three countries represented 3.3 per cent. of total exports in 2021 (2.0 per cent. of GDP).

Bulgarian external trade flows with Russia are much larger than those with Ukraine and Belarus. Although the share of trade with Russia has decreased by around 50 per cent. between 2014 and 2021, both in terms of exports and imports, the country still remains among the largest import partners of Bulgaria for trade in goods (fourth in 2021 but first in the period January-September 2022). In 2021 Russia accounted for 1.7 per cent. of the Bulgarian exports of goods and services and 6.6 per cent. of Bulgarian imports of goods and services. Bulgarian exports to Russia in 2021 were composed of 57.8 per cent. goods (36.9 per cent. of total export of goods were machinery and equipment) and 42.2 per cent. services, while Bulgarian imports from Russia were 96.7 per cent. goods (81.1 per cent. of total imports of goods were mineral products and fuels) and 3.3 per cent. services. The share of Russian tourists in total foreign tourists in Bulgaria decreased from 12.4 per cent. in 2014 to 4.4 per cent. in 2021.

Bulgaria's trade in goods deficit with Russia has decreased from negative 8.2 per cent. of GDP in 2014 to negative 3.4 per cent. in 2021. The deficit used to and continues to be almost entirely concentrated in the mineral fuels, mineral oils and products of their distillation group of the harmonised system trade classification, which mainly comprised of crude oil and natural gas.

Since the onset of the Russian invasion of Ukraine in February 2022, both exports and imports of goods between Bulgaria and Russia have increased on an annual basis in nominal terms, respectively, by 7.9 per cent. and 127.9 per cent. relative to the period between March - September 2021. The increase in the nominal figures, especially on the import side, likely reflects the significant increase in commodity prices and particularly those of natural gas and crude oil. The main product group that contributed to the increase in the Bulgarian imports of goods from Russia during the outlined period was mineral products and fuels (accounting for 91 per cent. of the total increase in imports), while on the export side the increase was driven almost entirely by the product group chemical products, plastics and rubber. Tourist visits from Russia fell by 28.6 per cent. on an annual basis in the period between March-September 2022 relative to the period between March - September 2021.

Bulgarian exports to Ukraine in 2021 accounted for 1.4 per cent. of total Bulgarian exports of goods and services and were composed of 65.5 per cent. goods (32.4 per cent. of total goods exports were mineral products and 30 per cent. were chemical products) and 34.5 per cent. services, while Bulgarian imports

from Ukraine were 93.5 per cent. goods (base metals, mainly iron and steel, account for 64.1 per cent. of total imports) and 6.5 per cent. services. The share of Ukrainian tourists in total foreign tourists in Bulgaria has been rising in the last several years – from 4.9 per cent. in 2014 to 8.3 per cent. in 2021.

Nominal Bulgarian exports of goods to Ukraine have increased by 132.6 per cent. during the period between March - September 2022 relative to the period between March - September 2021, almost entirely as a result of the higher exports of mineral products and fuels. At the same time, nominal imports of goods from Ukraine increased by 114.8 per cent., entirely due to the higher imports of agricultural and food products. Total visits in Bulgaria of Ukrainian residents who did not declare themselves as refugees, during the period March - September 2022, were 713 thousand, representing an increase of 85.3. per cent. relative to the period between March - September 2021. The Ministry of Foreign Affairs estimates that more than 950,000 Ukrainians have entered Bulgaria since the beginning of the war in Ukraine and the majority of them have continued on to other countries. Bulgaria granted temporary protection to 148 365 Ukrainian refugees and 51,239 Ukrainian refugees remain in Bulgaria as of January 2022.

Bulgarian trade in goods and services with Belarus is small and accounted for around 0.3 per cent. of total Bulgarian exports and imports and around 0.2 per cent. of GDP in 2021. Chemical products had the highest share in Bulgaria's exports to Belarus in 2021 (34 per cent. of total exports of goods).

Composition of trade

The following table sets out the composition of trade for the years ended 31 December 2017, 2018, 2019, 2020 and 2021 and the nine month period ended 30 September 2022:

	Exports					Nine months ended September 2022
	Year ended 31 December,					
	2017	2018	2019	2020	2021	
	<i>(per cent.)</i>					
Consumer goods	24.53	24.78	25.39	27.36	24.21	21.72
Food	5.91	6.00	5.99	6.73	6.66	7.31
Tobacco	0.50	0.34	0.21	0.19	0.15	0.15
Beverages	0.37	0.40	0.60	0.75	0.46	0.30
Clothing and footwear	5.95	5.67	5.42	4.90	3.96	3.51
Medicines and cosmetics	3.95	3.96	4.23	4.80	3.68	2.81
Furniture and household appliances	3.89	3.94	4.10	4.55	4.60	3.43
Others	3.97	4.48	4.84	5.44	4.70	4.20
Raw materials	38.97	39.74	39.08	41.70	43.15	40.03
Iron and steel	1.92	2.36	2.03	1.91	2.79	2.43
Other metals	10.10	9.63	7.79	9.18	9.19	8.94
Chemicals	1.51	1.62	1.63	1.56	1.55	1.64
Plastics and rubber	3.42	3.54	3.83	4.21	4.22	3.76
Fertilisers	0.77	0.66	0.79	0.56	0.85	1.26
Textiles	2.01	2.09	2.02	1.77	1.63	1.46
Raw materials for the food industry	6.78	6.89	7.80	8.06	8.54	8.32
Wood products, paper and paperboard	1.87	1.87	1.86	1.86	1.93	1.81
Cement	0.12	0.08	0.07	0.09	0.09	0.05
Raw tobacco	0.46	0.42	0.41	0.39	0.32	0.23
Others	10.01	10.59	10.85	12.12	12.04	10.14
Investment goods	25.16	25.15	24.33	24.59	24.10	22.23
Machines and equipment	5.58	5.83	6.24	6.21	5.96	5.50
Electrical machines	2.92	3.59	3.96	4.00	4.23	3.50
Vehicles	2.28	2.04	2.14	1.98	1.82	1.43
Spare parts and equipment	5.64	6.18	6.21	5.95	5.75	4.95
Others	8.75	7.50	5.78	6.44	6.33	6.86
Mineral fuels, oils and electricity	11.14	10.13	10.96	6.06	8.26	16.02
Petroleum products	8.09	7.25	7.87	3.60	3.20	8.25
Others	3.05	2.87	3.09	2.46	5.05	7.77
Other Exports	0.20	0.21	0.23	0.30	0.28	0.00
TOTAL EXPORTS /FOB (EUR millions)	27,915.81	28,647.90	29,889.82	28,008.22	34,988.31	36,173.23

Source: Central Bank.

Note: Data is provided by the NSI. Data for the period between 2017 and 2021 is final. The data for the period January September 2022 is preliminary, including Intrastat system data and customs declarations data as of 25 November 2022.

	Imports					Nine months ended September 2022
	Year ended 31 December,					
	2017	2018	2019	2020	2021	
	<i>(per cent.)</i>					
Consumer goods	21.55	21.63	22.83	24.59	22.54	20.01

Imports						
	Year ended 31 December,					Nine months ended September
	2017	2018	2019	2020	2021	2022
	<i>(per cent.)</i>					
Food, drinks and tobacco	6.89	6.94	7.53	8.42	7.35	6.93
Furniture and household appliances (per cent.)	2.72	2.79	3.06	3.32	3.53	2.78
Medicines and cosmetics	4.54	4.49	4.54	5.16	4.34	3.44
Clothing and footwear	2.64	2.58	2.68	2.61	2.46	2.32
Automobiles	1.59	1.53	1.48	1.28	1.24	1.12
Others	3.17	3.31	3.53	3.81	3.62	3.41
Raw materials	36.85	36.74	34.78	37.87	37.92	36.49
Ores	5.75	5.72	4.55	6.19	5.27	4.58
Iron and steel	3.38	3.76	3.59	3.35	4.29	4.17
Other metals	3.18	3.05	2.65	2.78	3.18	3.23
Textiles	4.11	3.86	3.56	3.14	2.68	2.32
Wood products, paper and paperboard	1.90	1.95	1.92	1.97	1.93	1.88
Chemicals	2.28	2.31	2.27	2.44	2.34	2.31
Plastics and rubber	5.45	5.48	5.43	5.67	6.01	5.35
Raw materials for the food industry	2.46	2.18	2.50	3.51	2.80	3.53
Raw skins	0.26	0.24	0.21	0.17	0.13	0.10
Raw tobacco	0.29	0.26	0.23	0.19	0.19	0.16
Others	7.77	7.93	7.85	8.45	9.09	8.88
Investment goods	25.88	26.63	26.98	27.34	26.20	24.09
Machines and equipment	8.60	8.64	8.53	8.82	8.17	7.13
Electrical machines	3.59	3.73	4.19	4.42	4.48	4.10
Vehicles	4.53	4.99	4.45	3.92	3.99	3.66
Spare parts and equipment	4.61	5.12	4.98	5.27	5.51	5.68
Others	4.55	4.16	4.83	4.90	4.06	3.52
Mineral fuels, oils and electricity	15.22	14.48	14.86	9.53	12.72	19.40
Fuels	11.63	11.78	12.06	7.25	10.06	16.63
Crude oil and Natural gas	10.01	10.30	10.56	5.79	8.27	13.62
Coal	0.29	0.28	0.21	0.18	0.24	0.72
Others	1.33	1.20	1.28	1.28	1.56	2.29
Others	3.59	2.70	2.80	2.28	2.66	2.78
Oils	3.59	2.70	2.80	2.28	2.66	2.78
Electricity	0.00	0.00	0.00	0.00	0.00	0.00
Other Imports	0.51	0.51	0.56	0.68	0.62	0.00
TOTAL IMPORTS /CIF (EUR millions)	30,285.57	32,147.74	33,740.12	30,742.53	39,237.87	41,104.87

Source: Central Bank.

Data is provided by the NSI. Data for the period between 2017 and 2021 is final. The data for the period January – September 2022 is preliminary, including Intrastat system data and customs declarations data as of 25 November 2022.

Imports of goods into Bulgaria are diverse, with the product groups raw materials (mainly ores, plastics and rubber) and investment goods (mainly machines and equipment) having the largest shares in total imports of good in the period January-September 2022. The composition of the imports of goods has remained more or less stable over the period 2017-2019. With the spread of the COVID-19 pandemic local social distancing measures, the emergence of global supply bottlenecks and decrease in crude oil prices the import of goods in 2020 fell by 8.9 per cent. driven largely by lower exports of 'mineral fuels, oils and electricity' and to a much lesser extent – investment goods. In 2021 goods imports increased by 27.6 per cent. in nominal terms across all main product groups as a result of increasing domestic demand and rising import prices. As a result, the nominal imports of all main product groups, with the exception of 'mineral fuels, oils and electricity', surpassed their 2019 levels in 2021. The annual growth of imports of goods accelerated notably to 46.3 per cent. in the period January-September 2022 (as compared to the corresponding period in 2021), when strong domestic demand and the significant broad-based increase in global commodity prices, especially energy prices, supported the nominal growth of imports across all main product groups, especially mineral oil, fuels and electricity.

Bulgarian export of goods performance has remained robust over the period from 2017 to September 2022 with the global export of goods market share of the country increasing continuously, including during the initial outbreak of the COVID-19 pandemic in 2020. With the recovery of global demand and trade volumes, total Bulgarian exports of goods in 2021 increased by 24.9 per cent., with raw materials (particularly base metals) having the highest positive contribution to the observed growth, supported also by both increasing external demand and rising international metal prices. The annual growth of exports of goods accelerated notably to 41.6 per cent. in the period January 2022 - September 2022 (as compared to the corresponding period in 2021), when the significant broad-based increase in global commodity prices, especially energy and food prices, supported the nominal growth of exports across all main product groups, especially the exports of petrol products, food and agricultural products, electricity and base metals. Given these dynamics, in period January 2022 - September 2022 the export of goods basket consisted of mainly

of raw materials (36.5 per cent.), followed by investment goods (24.1 per cent.), consumer goods (20 per cent.) and mineral fuels, oils and electricity (16 per cent.).

Foreign Direct Investment ("FDI")

In the period from 2017 to 2019 FDI inflows were largely concentrated in wholesale and retail trade financial intermediation and manufacturing. The inflow of FDI in Bulgaria for 2021 decreased by 59.5 per cent. to EUR 1,205.4 million) compared to 2020 largely due to a base effect from the high one-off inflow of FDI in the professional, scientific and technical activities in 2020. FDI inflows in the first nine months of 2022 have increased by 14.2 per cent. relative to the period between January-September 2021, mainly because of FDI higher inflows in the wholesale and retail trade, and manufacturing sectors.

As of 30 June 2022, the stock of FDI in Bulgaria continues to be represented mainly by EU-member countries with the Netherlands being the biggest investor in Bulgaria. By economic activity, the real estate activities sector holds the largest share of FDI stock as of 30 June 2022 and is closely followed by the manufacturing and financial and insurance activities sectors.

The following tables include data for the FDI stock in Bulgaria (grouped by country of origin of investment and periodic flows by economic activity):

	Total FDI stock by country of origin					
	31	31	31	31	31	30 June
	December	December	December	December	December	2022
	2017	2018	2019	2020	2021	2022
	<i>(EUR millions, end of period)</i>					
EU⁽¹⁾	33,488.2	35,172.2	36,405.7	35,426.4	37,363.7	37,072.7
Euro area	28,522.8	29,512.2	30,315.8	31,430.9	33,058.1	32,872.1
<i>of which:</i>						
The Netherlands.....	7,677.0	8,173.9	8,495.9	7,447.9	7,376.9	7,028.3
Austria.....	4,035.9	4,054.9	4,271.2	4,701.9	4,989.0	5,238.1
Greece.....	2,236.7	2,476.0	2,528.7	2,757.4	2,815.8	2,823.0
Cyprus.....	2,143.7	2,077.8	2,328.4	2,471.4	2,347.7	2,375.2
Germany.....	2,979.6	3,049.5	3,164.5	3,556.4	3,867.4	3,892.1
Luxembourg.....	1,429.1	1,221.3	1,316.9	1,911.0	2,725.5	2,668.9
Spain.....	1,097.9	1,108.1	953.0	935.1	883.0	860.8
France.....	1,116.3	1,252.8	858.7	878.2	1,028.5	1,078.8
Italy.....	2,539.2	2,588.7	2,655.7	2,857.8	2,923.8	2,751.3
Ireland.....	718.8	668.8	749.5	692.9	732.2	689.0
EU Member States not members of the Euro Area	4,965.4	5,660.0	6,089.9	3,995.5	4,305.6	4,200.6
<i>of which:</i>						
UK.....	2,324.2	2,251.6	2,448.2	2,365.4	2,245.9	2,255.4
Hungary.....	921.8	1,505.8	1,552.0	1,721.2	1,920.3	1,845.9
Non-EU	8,973.9	8,873.1	9,652.2	13,436.7	13,103.7	13,361.4
<i>of which:</i>						
Russia.....	2,078.8	2,053.5	2,348.0	2,375.7	1,967.7	1,953.3
Switzerland.....	1,512.3	1,427.9	1,550.2	2,663.8	2,667.8	2,739.1
USA.....	808.1	755.3	813.7	790.9	854.3	894.9
British Virgin Islands.....	806.2	648.8	825.4	644.9	651.7	757.1
TOTAL	42,462.1	44,045.3	46,057.9	48,863.1	50,467.4	50,434.1

⁽¹⁾ Changing composition in accordance with the sixth edition of the Balance of Payments Manual (IMF, 2008). Preliminary data for 2021 – June 2022 as of 19 September 2022.

Source: Central Bank.

	Annual FDI flow by economic activity ⁽¹⁾					
	Year ended 31 December,					Nine months ended 30 September
	2017	2018	2019	2020	2021	2022
	<i>(EUR millions)</i>					
Total	1,605.6	967.5	1,639.4	2,975.6	1,205.4	1,512.3
Accommodation and food service activities.....	(17.8)	(56.5)	(36.4)	(76.3)	(65.0)	8.5
Administrative and support service activities.....	50.0	64.2	27.2	6.0	7.2	39.3
Agriculture, forestry and fishing.....	(5.9)	4.4	34.2	(2.9)	5.4	(1.2)
Arts, entertainment and recreation.....	22.1	11.7	(45.6)	(7.6)	5.1	50.8
Construction.....	197.3	(4.8)	63.2	216.6	(22.2)	(50.0)
Education.....	4.7	(20.3)	(1.1)	(2.5)	(0.8)	(0.2)
Electricity, gas, steam and air conditioning supply.....	(207.7)	(70.3)	(14.9)	(4.3)	82.3	(635.5)
Financial and insurance activities.....	309.8	649.7	145.6	705.2	1009.9	734.76531
Human health and social work activities.....	4.5	(0.1)	(5.4)	0.4	1.7	(0.1)
Information and communication.....	(215.7)	(93.4)	39.5	166.8	245.2	166.2
Manufacturing.....	491.6	(135.5)	301.4	205.5	(113.6)	629.5

Annual FDI flow by economic activity⁽¹⁾

	Year ended 31 December,					Nine months ended 30 September
	2017	2018	2019	2020	2021	2022
	<i>(EUR millions)</i>					
Mining and quarrying	(21.5)	(17.3)	(13.6)	47.5	11.0	142.6
Other service activities	0.8	0.1	4.4	3.0	0.7	1.6
Professional, scientific and technical activities	78.1	150.7	22.6	1,438.9	208.1	(67.6)
Real estate activities	334.9	78.1	185.3	70.7	(72.8)	77.7
Transportation and storage.....	11.2	35.8	16.2	229.8	(82.3)	35.7
Water supply; sewerage, waste management and remediation activities.....	34.0	(21.8)	14.1	8.0	(2.2)	(2.5)
Wholesale and retail trade; repair of motor vehicles and motorcycles.....	233.6	424.4	807.4	(12.6)	0.5	408.4
Not allocated	301.5	(31.6)	95.4	(16.8)	(12.9)	(25.6)

⁽¹⁾ Changing composition in accordance with the sixth edition of the Balance of Payments Manual (IMF, 2008). Preliminary data for 2021 – September 2021 as of 30 December 2022.

Source: Central Bank.

Gross external debt

The following table sets out the stock of gross external debt ("GED") of Bulgaria by institutional sectors as of 31 December 2017, 2018, 2019, 2020 and 2021 and 30 September 2022:

	GED (end of period)											
	As of 31 December,						As of 30 September,					
	2017		2018		2019		2020		2021		2022	
	EUR million	per cent. GDP	EUR million	per cent. GDP	EUR million	per cent. GDP	EUR million	per cent. GDP	EUR million	per cent. GDP	EUR million	per cent. GDP
GED^{1,2}	37696.0	71.8	37189.9	66.1	37716.1	61.3	39296.7	63.8	41490.6	58.4	43950.3	54.4
General Government Debt.....	6156.4	11.7	5846.4	10.4	6000.7	9.7	8022.0	13.0	8261.1	11.6	8375.1	10.4
Short-term.....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.4	0.0	0.0	0.0
Long-term.....	6156.4	11.7	5846.4	10.4	6000.7	9.7	8022.0	13.0	8259.7	11.6	8375.1	10.4
Central Bank ³	858.4	1.6	913.9	1.6	902.5	1.5	825.1	1.3	1989.2	2.8	2111.9	2.6
Short-term.....	132.2	0.3	170.6	0.3	149.6	0.2	108.0	0.2	172.5	0.2	176.6	0.2
Long-term.....	726.3	1.4	743.3	1.3	752.9	1.2	717.1	1.2	1816.6	2.6	1935.3	2.4
Other MFIs ⁴	4176.8	8.0	4544.0	8.1	4719.4	7.7	4460.2	7.2	4971.6	7.0	5942.9	7.4
Short-term.....	2574.5	4.9	2876.8	5.1	3109.3	5.1	2928.6	4.8	3347.9	4.7	4115.0	5.1
Long-term.....	1602.3	3.1	1667.2	3.0	1610.1	2.6	1531.6	2.5	1623.7	2.3	1827.9	2.3
Other Sectors.....	13762.4	26.2	13150.7	23.4	12747.6	20.7	11836.3	19.2	12453.2	17.5	13055.5	16.2
Short-term.....	3052.2	5.8	2941.8	5.2	3108.9	5.1	2980.6	4.8	3357.3	4.7	4235.6	5.2
Long-term.....	10710.2	20.4	10208.9	18.2	9638.7	15.7	8855.7	14.4	9095.8	12.8	8819.9	10.9
Direct investment:												
Intercompany lending.....	12742.0	24.3	12735.0	22.7	13345.9	21.7	14153.0	23.0	13815.5	19.4	14465.0	17.9
Memo items:												
Public sector external debt.....	8717.1	16.6	8426.7	15.0	8820.3	14.3	10823.5	17.6	12488.7	17.6	12475.6	15.4
Private sector external debt.....	28979.0	55.2	28763.2	51.2	28895.8	46.9	28473.2	46.2	29001.9	40.8	31474.6	38.9
Debt Securities: by Sector (at nominal value)⁵	4846.2	9.2	4164.0	7.4	4177.9	6.8	5956.0	9.7	6207.1	8.7	7491.6	9.3
General Government.....	3082.7	5.9	2928.2	5.2	2883.5	4.7	4654.4	7.6	4711.0	6.6	6009.7	7.4
Central Bank.....	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposit-Taking Corporations except the Central Bank.....	125.9	0.2	125.9	0.2	130.9	0.2	111.1	0.2	268.9	0.4	177.5	0.2
Other Sectors.....	1637.6	3.1	1109.9	2.0	1163.5	1.9	1190.5	1.9	1227.1	1.7	1304.5	1.6

¹ The data are compiled in accordance with the External Debt Statistics Guide for Compilers and Users, IMF 2014.

² Debt securities are presented by market values in the main table and by nominal values in memorandum tables.

³ Special drawing rights allocations, representing liabilities to the IMF.

⁴ According with External Debt Statistics Guide for Compilers and Users, IMF 2014 para. 3.32, all interbank positions, other than securities and accounts receivable/payable are classified under deposits.

⁵ The nominal GDP data for the last four quarters from the fourth quarter of 2021 until the third quarter of 2022 are used in calculating the GDP ratios for January - September 2022.

Data is as of 29 November 2022.

Source: Central Bank.

Bulgaria's GED is predominantly private with private sector external debt comprising 38.9 per cent. of GED as of 30 September 2022. Bulgaria's stock of GED remained relatively stable in the period 2017-2019, while at the same time it declined as a share of GDP due to the increase in economic activity. During this period the stock of GED related to intercompany lending and the GED of banks increased, but this was almost entirely offset by a decrease in the GED of "Other sectors" (i.e., sectors other than "general government", "central bank", "other monetary financial institutions" and "direct investment: intercompany lending"). The stock of Bulgaria's GED has been increasing thereafter and as of 30 September 2022 it stood 16.5 per cent. higher than its 31 December 2021 level. The increase in 2020 was predominantly related to the increased external borrowing of the public sector in response to the spread of the COVID-19 pandemic and the worsening of the budget balance. The bulk of the increase was registered in September 2020 when the Government issued Eurobonds. Public sector GED increased further in 2021, which was largely due to the statistical treatment of the IMF special drawing rights allocated to Bulgaria in August 2021 as liabilities of the Central Bank. At the same time the stock of the GED of the private sector at the end of 2021 increased slightly relative to December 2019, mainly due to intercompany lending. As of September 2022 the stock of the GED of Bulgaria stood at EUR 43.95 billion which represents an increase relative to December 2021.

An increase in the debt was observed across all sectors with the banking sector having the highest contribution. The growth of economic activity in Bulgaria in the period after 2020 has contributed to the decline in the ratio of the GED to GDP, which reached 54.4 per cent. in September 2022 as compared to 63.8 per cent. in December 2020.

Over the period from December 2017 to September 2022, the currency structure of GED has remained broadly stable. As of September 2022, 78.9 per cent. of the total GED is denominated in euro, 6.2 per cent. is in USD and 3.9 per cent. is in other currencies, different from the BGN. As of September 2022, 67.9 per cent. of total GED being held by residents of countries from the European Union. The GED is dominated by long-term instruments, with their share amounting to 80.6 per cent. of total GED as of 30 September 2022.

INDEBTEDNESS

Management of State Debt

The Government Debt Act was adopted in 2002 to unify existing regulatory arrangements and ensure clarity with regard to procedures and the authority to issue debt.

For the purpose of transposing the main requirements of Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the EU Member States and on establishing the framework for implementation of the respective regulations, the PFA was enacted in 2013 and became effective on 1 January 2014. The PFA regulates the development and management of public finance, so that the mid-term budget framework may be relied upon as an instrument for mid-term forecasting and planning. The PFA applies strict fiscal rules to be observed by central and local governments as well as the General Government. The PFA sets the development of reliable practices of projecting and monitoring of the subsectors of the General Government. The legislation summarises the national fiscal rules for the balance of the General Government and for the budget of the Consolidated Fiscal Programme (calculated on the cash-based principle); it also sets out the maximum limit of expenditure under the Consolidated Fiscal Programme and the nominal value of consolidated debt for the General Government.

A new definition of the consolidated debt of the General Government ("**General Government Debt**") was introduced in accordance with the requirements of Council Regulation (EC) No. 479/2009 of 25 May 2009. This regulation addresses the application of the Protocol on the EDP. Besides the debt undertaken in accordance with the Government Debt Act, the scope of government debt also includes other forms of debt, including, in some instances, funds received from the EU. The PFA also calls for adherence to the Maastricht criterion on the ratio of General Government Debt against GDP (which may not exceed 60 per cent. at the end of each year), and it also provides for specific measures which limit the possibilities of exceeding this benchmark.

The medium-term budgetary objective for the structural deficit on an annual basis may exceed 0.5 per cent. of the gross domestic product, but may not exceed 1 per cent. thereof, provided that the amount of the consolidated debt of the General Government sector is below 40 per cent. of the gross domestic product and the risks in terms of the long-term sustainability of public finances are low.

The Council of Ministers is the body which approves debt on behalf of the State and issues government guarantees in accordance with the requirements of the Constitution. The authority to issue government securities ("**GS**") and to negotiate and sign government loan agreements and government guarantee agreements within the ambit of the Annual State Budget Act is delegated to the Minister of Finance. The Ministry of Finance manages and monitors debt and provides official debt information.

The Central Bank acts as an agent of the Government debt. To fulfil this function, the Central Bank maintains and develops systems for carrying out auctions and subscriptions of GS and systems for the registration and settlement of trades in GS that offer settlement, safe-keeping and depository services, as well as other mutually agreed activities. See "*Monetary and Financial System – Structure of the Central Bank*".

Government policy regarding the primary market of GS contributes to the efficiency and transparency of both the primary and secondary market of GS, and ensures the provision of accurate information in relation to such GS. Some decisions that are particularly relevant to primary market development include the choice of auction system and the establishment of a system of primary dealers.

The Government Securities Auction System

The Government Securities Auction System (the "**GSAS**") was initially developed by the Central Bank in 1991 as part of the Electronic System for Registration and Trade in Government Securities ("**ESROT**"). The system has been developed and updated on multiple occasions. In 2004, the Central Bank introduced a new auction system. It was developed as an independent system ensuring a fully automated direct execution of auction bids in line with the provisions of Ordinance No. 5 of Ministry of Finance and Central Bank on the Procedure and Terms for Acquisition, Registration, Redemption and Trade in Government Securities ("**Ordinance No.5**").

Auctions are conducted pursuant to Chapters Two and Six (dealing with repurchases) of Ordinance No. 5. Only banks and financial intermediaries that meet the requirements set by the Ministry of Finance for

primary dealers are allowed to participate in auctions. Participation in auctions is performed through competitive bids. The primary dealers may participate through competitive bids on behalf of themselves for their own account and/or on behalf of themselves but for the account of their customers. By decision of the Minister of Finance, some of the GS selling auctions also allow non-competitive bids. The primary dealers may participate with non-competitive bids both on behalf of themselves for their own account and/or on behalf of themselves but for the account of their customers, which are not banks or investment firms, including such established in another EU member state or outside of the EU. Bidders may change their bids in an auction until closing bid time, after which the bid becomes irrevocable. The last quotation of each relevant bidder is considered to be their final bid.

The Minister of Finance approves which bids are acceptable. Based on that approval, an auction is closed and the auction data is automatically processed for registration and settlement via the dedicated systems. As a rule, the settlement for securities in the primary market takes place T+2. The competitive bids are paid up at the price quoted in the bid and this is a rule followed in the so-called multiple price auction. Non-competitive bids are paid up at the weighted average price of approved competitive bids.

Key responsibilities of the Ministry of Finance in relation to the debt issue policy

The Ministry of Finance is responsible for developing the debt management strategy, and planning and implementing the issuance policy on the domestic and international capital markets.

The Central Bank and the Ministry of Finance are together responsible for transparency of the government debt market by providing public disclosure (on the website of the Ministry of Finance and the Central Bank) of:

- debt management strategy;
- Central Government Debt and Guarantees monthly bulletin;
- Central Government Debt and Guarantees annual bulletin;
- legal acts; and
- the official information on consolidated General Government Debt and Guaranteed Debt of "**General Government**".

In 2003, the Annual State Budget Act introduced for the first time annual limits on the maximum amount of new government and government guaranteed debt that may be assumed as well as the maximum amount of outstanding government debt as of the end of the year.

The local government debt, debt of social security funds, the Central Bank debt, and other local entities debt shall not be guaranteed by the government debt and shall not entail any obligations for the State except where a government guarantee was issued.

In accordance with the PFA, the nominal amount of consolidated General Government Debt at the end of every year may not exceed 60 per cent. of the GDP. If the debt exceeds 60 per cent. of GDP, the medium-term budgetary forecast and the Annual State Budget Act sets out measures aimed at reducing that debt by at least 5 per cent. of the excess ascertained per annum until reaching the ratio of 60 per cent. The consolidated General Government Debt at the end of every year, as a proportion of GDP, may not exceed the ratio of the preceding year if that ratio is higher than 60 per cent. In the event that consolidated General Government Debt exceeds 60 per cent. of GDP, State Budget legislation for the relevant year may set out additional constraints on the municipalities and social security funds accruing further debt.

The Minister of Finance develops a government debt management strategy for the period of the respective medium-term budgetary forecast (the "**Strategy**"), which must be approved by the Council of Ministers by the 31 October of each year. This allows for the timely and adequate redefinition of part of the objectives and measures in accordance with economic development, market indicators and results achieved in the course of the implementation of the Strategy.

The Strategy is a fundamental document aimed at summarising the main priorities of the Government in the area of medium term government debt management and defining the tools used for its implementation. Its main purpose is to assess and limit the various risks generated by the debt structure and profile. The

main goal of the Strategy is provision of the necessary resources for refinancing the debt outstanding, financing State budget deficits and ensuring stability of statutory levels of the fiscal reserve.

At the end of 2015, the Council of Ministers by decree adopted the new "Ordinance on the requirements to be met by the investment projects financed by government loans and the projects applying for financing by a sovereign guarantee and on the procedure of their consideration", which came into force on 1 January 2016 and affects all ministries. Under this new Ordinance, it is expected that Government loans will only be available for investment projects for which there is no other alternative source of financing and provided that such investment projects are a Government priority.

According to the Government Debt Act, the Minister of Finance shall sign on behalf of the Government the government loan agreements on the basis of a Council of Ministers decision according to the procedure set out in the International Treaties of the Republic of Bulgaria Act. The Council of Ministers may also assign this authority to other government authorities so that they may also participate, together with the Minister of Finance, in the negotiations for government loans. Government guarantees are issued by the Council of Ministers in line with the requirements of the Constitution and the ratification procedures contained therein. The negotiation and signing of guarantee agreements and letters of guarantee is delegated to the Minister of Finance. Projects financed by government loans or by government guarantees shall be approved by the Council of Ministers in accordance with the legally defined procedure. Approved projects constitute a part of the Annual State Budget Act for the respective year.

Methodology

Bulgaria uses its national methodology for reporting purposes with international financial institutions ("IFI") and for comparison with other countries. The state debt under national methodology is only the debt incurred directly by the State under the provisions stipulated in the State Debt Act. Local authorities and Social Security Funds issue debt under special regulations, namely the Municipal Debt Act and Social Insurance Code, which impose specific terms and conditions when undertaking debt. However, the debt figures for all are included within the reporting provisions found stipulated in the PFA, Eurostat and the EDP.

The national methodology, in accordance with the PFA, also provides full coverage of the financial instruments used in preparing the debt statistic figures for the country. Further to this, it also sets out the statistics under Eurostat methodology requirements, as defined in Council Regulation (EC) No. 479/2009 and its amendment, Regulation (EC) No. 679/2011.

As a member of the EU, Bulgaria reports on the consolidated General Government Debt to Eurostat, the statistical body of the Commission (in compliance with the ESA 2010 methodology for comparisons with other countries in EU – 27). The General Government in Bulgaria consists of Central Government, Local Government and the Social Security Funds subsector. See "*Public Finance*" for more information on ESA 2010 methodology. The introduction of ESA 2010 through Council Regulation (EC) No. 549/2013, effective from September 2014, has no impact on the reporting requirements for the consolidated debt of the General Government.

Eurostat's methodology differs from the national methodology for state debt as the former requires the inclusion of debt incurred under financial leasing contracts, cessions, factoring without recourse provisions, and those financial obligations of the State which are not connected with real financial instruments or the debt of non-financial public entities.

The following table sets out General Government Debt and its subsectors as reported under Eurostat's requirements as of 31 December 2017, 2018, 2019, 2020 and 2021 and 30 June 2022:

	31 December 2017	31 December 2018	31 December 2019	31 December 2020	31 December 2021	30 June 2022
	<i>(EUR millions, except for percentages)</i>					
General Government Debt.....	13,182.4	12,427.0	12,310.9	15,131.5	17,009.7	16,441.5
General Government Debt (as a percentage of GDP).....	25.1	22.1	20.0	24.5	23.9	21.3
Central Government Debt.....	13,032.3	12,151.5	11,977.3	14,751.2	16,631.2	16,089.1
Central Government Debt (as a percentage of GDP).....	24.8	21.6	19.5	23.9	23.4	20.8
Local Government Debt.....	597.8	681.5	707.5	707.3	684.8	670.0

	31 December 2017	31 December 2018	31 December 2019	31 December 2020	31 December 2021	30 June 2022
	<i>(EUR millions, except for percentages)</i>					
Local Government Debt (as a percentage of GDP).....	1.1	1.2	1.1	1.1	1.0	0.9
Social Security Funds Debt	-	-	-	-	-	-
Social Security Funds Debt (as a percentage of GDP).....	-	-	-	-	-	-
Nominal GDP (annual data)	52,530.5	56,223.9	61,557.5	61,638.0	71,075.9	77,353.8

⁽¹⁾ General Government Debt under Eurostat methodology is not equal to the arithmetical sum of the three sub-sector debts due to consolidation between the sub-sectors.

Source: Eurostat and NSI.

With respect to the Eurostat requirements and ESA 2010 methodology, Bulgaria's ratio of General Government Debt to GDP was ranked second lowest in the EU, standing at 23.9 per cent. as of 31 December 2021 (see table above). On 21 October 2022 Eurostat published data for Q2 2022. As of 30 June 2022 Bulgaria's ratio of General Government Debt to GDP declined to 21.3 per cent. and ranked second lowest in the EU.

The classification of Bulgaria's external and internal debt depends on the governing law of the debt issued. All issuances under Bulgarian law are classified as internal debt and all debt issuance under foreign law, including debt incurred abroad in the form of loans (such as from IFIs or bilateral credit agreements), are classified as external debt.

State Debt

State debt under Bulgaria's national methodology comprises only debt incurred directly by the State under the provisions stipulated in the State Debt Act. State debt discussed in this section differs from the definition of General Government Debt and Central Government Debt which are defined in accordance with Eurostat methodology. See "*Indebtedness – Methodology*".

According to the Ministry of Finance, the nominal amount of state debt as of 31 December 2021 was EUR 16.0 billion, of which EUR 11.5 billion was external debt and EUR 4.4 billion was domestic debt. In nominal terms, state debt increased by EUR 1.9 billion compared to the level registered as of 31 December 2020. As of 31 December 2021, the relative share of domestic state debt was 27.7 per cent., and of external state debt was 72.3 per cent. As of 31 December 2021, state debt to GDP ratio decreased to 22.5 per cent. as compared to 22.8 per cent. as of 31 December 2020. The nominal amount of state debt as of 30 September 2022 was EUR 17.8 billion, of which EUR 12.5 billion was external debt and EUR 5.4 billion was domestic debt (see table below). In the nine months ended 30 September 2022, state debt increased by EUR 1.9 billion compared to the level of the end of 2021, mainly due to the maturity in March of the seven-year Eurobonds issued in 2015 under Bulgaria's GMTN Programme, the issuance of EUR 1.1 billion domestic government securities and the issuance of EUR-denominated bonds in two tranches totaling EUR 2.25 billion under Bulgaria's GMTN Programme in September 2022. The ratio of state debt to GDP decreased by 1.0 percentage points to 21.5 per cent. (compared to 22.5 per cent. by the end of 2021). In the state debt structure, the relative share of domestic debt increased by 2.4 percentage points to 30.1 per cent. during the nine months ended 30 September 2022 and the share of external debt decreased to 69.9 per cent., as a result of the issuance of domestic government securities and repayments of external debt.

Until adoption of the State budget for 2023, the Extension Law sets out the maximum amount of State Debt to be up to the maturing debt in 2022, namely EUR 1.56 billion.

As of 31 December 2021, the state debt structure (currency, interest rate, type of instruments and maturity) was well balanced. The share of state debt denominated in EUR and BGN as of 31 December 2021 was 99.8 per cent. (26.2 per cent. in BGN and 73.6 per cent. in EUR, respectively). Fixed rate state debt was 98.7 per cent. and floating rate state debt was 1.3 per cent. of the total. As of 31 December 2021 the residual maturity of the State debt is 8 years and 2 months. During the period January – September 2022 no significant change was observed in the interest and currency structure.

Of the outstanding state debt at 31 December 2021, 27.7 per cent. were government securities issued on the domestic market, 57.2 per cent. are bonds issued in the international capital markets and 15.1 per cent. are external loans. Moreover, 2.6 per cent. of these external loans are in the form of government investment

loans intended for the implementation of investment projects which are a priority for Bulgaria's economy. The domestic market noted the following positive trends:

- During the last several years there has been a clear tendency in the domestic debt market for yield reduction. The weighted average annual yield for the benchmark 10 year GS in 2017 was 1.74 per cent. with a coverage coefficient of 2.15, 0.36 per cent. in 2019 (with a coverage coefficient of 1.94), 0.27 per cent. in 2020 (with a coverage coefficient of 1.63), 0.33 per cent. in 2021 (with coverage coefficient of 1.49). Currently in 2022 no 10 year benchmark bonds have been issued.
- The indicator for Bulgaria for the harmonised long-term interest rate for convergence purposes, published by the ECB, is 0.44 per cent. as of December 2021, compared to 1.02 per cent. as of December 2017. As of 30 September 2022 the harmonised long-term interest rate for convergence purposes was 1.85 per cent.

The following table sets out state debt (excluding state guaranteed debt) in accordance with the Ministry of Finance methodology as of 31 December 2017, 2018, 2019, 2020 and 2021 and 30 September 2022:

	Year ended 31 December,					Nine months ended 30 September
	2017	2018	2019	2020	2021	2022
	<i>(EUR millions, except for percentages)</i>					
Domestic State debt.....	3,431.6	2,788.6	2,801.6	2,885.5	4,416.1	5,359.4
Domestic State debt (as a percentage of nominal GDP).....	6.5	5.0	4.6	4.7	6.2	6.5
External State debt	8,601.2	8,493.4	8,458.6	11,177.4	11,545.4	12,459.3
External State debt (as a percentage of nominal GDP).....	16.4	15.1	13.7	18.2	16.2	15.1
Total State Debt	12,032.8	11,282.0	11,260.2	14,063.0	15,961.5	17,818.7
Total State Debt (as a percentage of nominal GDP).....	22.9	20.1	18.3	22.8	22.5	21.5
Nominal GDP.....	52,530.5	56,223.8	61,557.1	61,638.0	71,075.9	82,686.6

Source: Ministry of Finance, NSI

As of 31 December 2021, state guaranteed debt ("**SGD**") amounted to EUR 991.3 million and the majority of this was composed of external SGD (96.5 per cent.). The ratio of SGD to state and state guaranteed debt was 5.8 per cent. As of 30 September 2022, state guaranteed debt amounted to EUR 873.1 million (see table below). Compared to the end of 2020, SGD increased by EUR 100.0 million in nominal terms by 31 December 2021. The ratio of SGD to GDP as of 31 December 2021 was 1.4 per cent. The relatively low values of these indicators are a prerequisite for low vulnerability of the debt portfolio to shocks driven by contingent liabilities. At the end of 2021, there were 11 government guaranteed loans, which were mainly divided between the finance sector (60.5 per cent.), EU instruments (14.9 per cent.), energy (9.1 per cent.), transport (5.1 per cent.), education (3.5 per cent.) and other guarantees (7.0 per cent.).

The following table sets out SGD in accordance with the national methodology as of 31 December 2017, 2018, 2019, 2020 and 2021 and 30 September 2022:

	Year ended 31 December,					Nine months ended 30 September
	2017	2018	2019	2020	2021	2022
	(EUR millions, except for percentages)					
State Guaranteed Debt.....	1,023.6	963.2	890.4	891.3	991.3	873.1
State Guaranteed Debt as a percentage of total state and state guaranteed debt.....	7.8	7.9	7.3	6.0	5.8	4.7
State Guaranteed Debt as a percentage of GDP.....	1.9	1.7	1.4	1.4	1.4	1.1
State Guaranteed Debt currency structure:						
in BGN (as a percentage of SGD) ...	3.7	4.0	4.3	4.2	3.5	3.8
in USD (as a percentage of SGD)....	0.1	0.1	-	-	-	-
in EUR (as a percentage of SGD)....	86.1	87.3	86.9	88.2	90.6	90.6
in JPY (as a percentage of SGD).....	10.1	8.6	8.8	7.7	6.0	5.7
State Guaranteed Debt interest rate structure:						
with fixed interest rate (as a percentage of SGD)	86.1	87.4	89.7	92.9	96.4	97.9
with variable interest rate (as a percentage of SGD)	13.9	12.6	10.3	7.1	3.6	2.1
Average interest rate of SGD (as a percentage)	1.3	1.3	1.4	1.3	1.1	1.2
Residual maturity of SGD (in years)	7.1	6.4	5.7	5.3	5.3	5.5

Source: Ministry of Finance.

State Debt Service

The following table sets out state debt service in accordance with the Ministry of Finance methodology as of 31 December 2017, 2018, 2019, 2020 and 2021 and 30 September 2022:

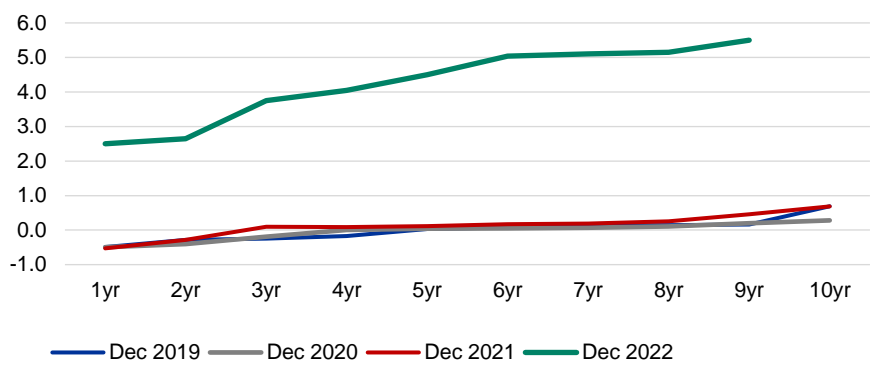
	Years ended 31 December,					Nine months ended 30 September
	2017	2018	2019	2020	2021	2022
	(EUR millions)					
Domestic State Debt						
1 Interest of domestic State bonds	114.3	111.8	93.1	81.8	65.7	50.3
2 Cost of cash management.....	0.4	0.4	0.5	0.3	0.2	0.0
3 Interest of domestic loans.....	0.0	0.0	0.0	0.0	0.0	0.0
4 Fees	0.0	0.0	0.0	0.0	0.0	0.0
Total Domestic State Debt	114.7	112.2	93.6	82.1	65.9	50.3
Foreign State Debt						
1 Interest of foreign state bonds	218.5	170.4	170.4	170.4	192.2	206.6
2 Interest of domestic bonds - non residents	2.0	1.5	1.3	1.0	0.7	0.6
3 Cost of foreign cash management.....	0.8	0.3	0.2	1.2	0.5	1.1
4 Interest of foreign loans.....	51.5	48.6	46.2	45.6	43.4	18.3
5 Fees	0.0	0.0	0.0	0.0	1.7	0.0
Total Foreign State Debt.....	272.8	220.8	218.1	218.2	238.5	226.6
Total State Debt.....	387.5	333.0	311.7	300.3	304.4	276.9

Source: Ministry of Finance.

The following table sets forth the maturity profile (principal and amortization payments in millions Euro) of the State debt as of 30 September 2022:

	2023	2024	2025	2026	2027	2028	2029	2030-2050
	(EUR millions)							
Total State Debt	1,555	1,802	1,868	1,256	1,300	1,194	2,931	6,327
External Debt	1,376	1,607	133	131	1,126	1,117	1,909	5,474
Domestic Debt.....	179	194	1,735	1,125	174	77	1,023	854

The following chart shows the annual shift of Domestic State Debt in BGN yield curve (percentage):



Source: Bloomberg BVAL, end of period Mid YTM.

CLEARING AND SETTLEMENT

Book-Entry Ownership

Bearer Notes

The Issuer may make applications to Euroclear and/or Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. In respect of Bearer Notes, a Temporary Global Note and/or a Permanent Global Note in bearer form without coupons may be deposited with a common depository for Euroclear and/or Clearstream, Luxembourg or an Alternative Clearing System as agreed between the Issuer and the relevant Dealer. Transfers of interests in such Temporary Global Notes or Permanent Global Notes will be made in accordance with the normal Euromarket debt securities operating procedures of Euroclear and Clearstream, Luxembourg or, if appropriate, the Alternative Clearing System.

Registered Notes

The Issuer may make applications to Euroclear and/or Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of the Registered Notes to be represented by a relevant Global Certificate or Global Certificates, as the case may be. Each Global Certificate deposited with a common safekeeper and registered in the name of a nominee of Euroclear and/or Clearstream, Luxembourg or deposited with a common depository for, and registered in the name of, a nominee of the common depository for Euroclear and Clearstream, Luxembourg will have an ISIN and a Common Code.

The Issuer, and a relevant U.S. agent appointed for such purpose that is an eligible DTC participant, may make application to DTC for acceptance in its book-entry settlement system of the Registered Notes represented by a relevant Global Certificate or Global Certificates, as the case may be. Each such Global Certificate will have a CUSIP number.

Each Restricted Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under "*Transfer Restrictions*". In certain circumstances, as described below in "*Transfers of Registered Notes*", transfers of interests in a Restricted Global Certificate may be made as a result of which such legend may no longer be required.

In the case of Registered Notes to be cleared through the facilities of DTC, Euroclear, Clearstream, Luxembourg or any relevant alternative clearing system, the relevant depository, nominee or custodian, as the case may be, with whom the relevant Global Certificate(s) are deposited, and the relevant clearing system, will electronically record the nominal amount of the relative Notes held within the system. Investors may hold their beneficial interests in a relevant Global Certificate directly through a relevant clearing system if they are subscribers or participants in that clearing system, or indirectly through organisations, including any other clearing systems, which are subscribers or participants in such system.

Payments of the principal of, and interest on, each Global Certificate registered in the name of DTC's, Euroclear's, Clearstream, Luxembourg's, the common depository's or any relevant alternative clearing system's nominee will be to, or to the order of, its nominee as the registered owner of such Global Certificate. The Issuer expects that the relevant nominee, upon receipt of any such payment, will immediately credit DTC, Euroclear, Clearstream, Luxembourg or such other clearing system subscribers' or participants' accounts, as the case may be, with payments in amounts proportionate to their respective beneficial interests in the nominal amount of the relevant Global Certificate as shown on the records of DTC, Euroclear, Clearstream, Luxembourg, such alternative clearing system or the relevant nominee, as the case may be. The Issuer also expects that payments by relevant clearing system subscribers or participants to owners of beneficial interests in Global Certificates so held to be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC, Euroclear, Clearstream or alternative clearing system subscribers or participants, as the case may be. Neither the Issuer nor any Paying Agent or any Transfer Agent will have any responsibility or liability for any aspect of the records relating, to or payments made on account of, ownership interests in any Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

All Registered Notes will initially be represented by one or more Unrestricted Global Certificates and/or one or more Restricted Global Certificates. Individual Certificates will only be available, in the case of

Notes initially represented by an Unrestricted Global Certificate, in amounts specified in the applicable Pricing Supplement, and, in the case of Notes initially represented by a Restricted Global Certificate, in minimum amounts of US\$100,000 (or its equivalent rounded upwards as agreed between the Issuer and the relevant Dealer(s)), or higher integral multiples of US\$1,000, in certain limited circumstances described below.

Payments through DTC

Payments in U.S. dollars of principal and interest in respect of a Global Certificate registered in the name of a nominee of DTC will be made to the order of such nominee as the registered holder of such Note.

Payments of principal and interest in a currency other than U.S. dollars in respect of Notes evidenced by a Global Certificate registered in the name of a nominee of DTC will be made or procured to be made by the Paying Agent in such currency in accordance with the following provisions. The amounts in such currency payable by the Paying Agent or its agent to DTC with respect to Notes held by DTC or its nominee will be received from the Issuer by the Paying Agent who will make payments in such currency by wire transfer of same day funds to the designated bank account in such currency of those DTC participants entitled to receive the relevant payment who have made an irrevocable election to DTC, in the case of payments of interest, on or prior to the third business day in New York City after the record date for the relevant payment of interest and, in the case of payments of principal, at least 12 business days in New York City prior to the relevant payment date, to receive that payment in such currency. The Paying Agent will convert amounts in such currency into U.S. dollars and deliver such U.S. dollar amount in same day funds to DTC for payment through its settlement system to those DTC participants entitled to receive the relevant payment who did not elect to receive such payment in such currency. The Agency Agreement sets out the manner in which such conversions are to be made.

Transfers of Registered Notes

Transfers of interests in Global Certificates within or between Euroclear, Clearstream, Luxembourg and/or DTC will be in accordance with the usual rules and operating procedures of the relevant clearing system. The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a relevant Global Certificate to such persons may be limited. Because DTC can only act on behalf of subscribers or participants, who may in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

In the case of Registered Notes to be cleared through Euroclear, Clearstream, Luxembourg and/or DTC, transfers may be made at any time by a holder of an interest in the relevant Global Certificate to a transferee who wishes to take delivery of such interest through a Restricted Global Certificate for the same Series of Notes **provided that** any such transfer made on or prior to the expiration of the distribution compliance period (as used in "*Subscription and Sale*") relating to the Notes represented by such Global Certificate will only be made upon receipt by any Transfer Agent of a written certificate from Euroclear, Clearstream, Luxembourg or DTC, as the case may be (based on a written certificate from the transferor of such interest) to the effect that such transfer is being made to a person whom the transferor, and any person acting on its behalf, reasonably believes is a QIB within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States. Any such transfer made thereafter of the Notes represented by such Global Certificate will only be made upon request through Euroclear, Clearstream, Luxembourg or DTC, as applicable, by the holder of an interest in the relevant Global Certificate to the Fiscal Agent and by the provision of details of the relevant account at Euroclear, Clearstream, Luxembourg or DTC, as the case may be, to be credited with the relevant interest in the Restricted Global Certificate. Transfers at any time by a holder of any interest in the Restricted Global Certificate to a transferee who takes delivery of such interest through an Unrestricted Global Certificate will only be made upon delivery to any Transfer Agent of a certificate setting forth compliance with the provisions of Regulation S and giving details of the account(s) at Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, to be credited and debited, respectively, with an interest in each relevant Global Certificate.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described above and under "*Transfer Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg accountholders, on the other, will be effected by

the relevant clearing system in accordance with its rules and through action taken by the Custodian, the Registrar and the Fiscal Agent.

Cross-market transfers between accountholders in Euroclear or Clearstream, Luxembourg and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear and Clearstream, Luxembourg, on the other, transfers of interests in the relevant Global Certificates will be effected through the Fiscal Agent, the Custodian, the relevant Registrar and any applicable Transfer Agent receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of (i) three business days after the trade date for the disposal of the interest in the relevant Global Certificate resulting in such transfer and (ii) two business days after receipt by the Fiscal Agent or the Registrar, as the case may be, of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

For a further description of restrictions on transfer of Registered Notes, see "*Transfer Restrictions*".

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Registered Notes (including, without limitation, the presentation of relevant Global Certificates for exchange as described above) only at the direction of one or more participants in whose account with DTC interests in relevant Global Certificates are credited and only in respect of such portion of the aggregate nominal amount of the relevant Global Certificates as to which such participant or participants has or have given such direction. However, in the circumstances described above, DTC will surrender the relevant Global Certificates for exchange for Individual Certificates (which will, in the case of Restricted Notes, bear the legend applicable to transfers pursuant to Rule 144A).

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic computerised book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Global Certificates among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer, nor any Paying Agent nor any Transfer Agent will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

Registered Notes represented by Individual Certificates will not be eligible for clearing or settlement through Euroclear, Clearstream, Luxembourg or DTC.

Individual Certificates

Registration of title to Registered Notes in a name other than a depositary or its nominee for Clearstream, Luxembourg and Euroclear or for DTC will be permitted only in the relevant circumstances set forth in "*Summary of Provisions Relating to Notes in Global Form—Exchange*". In such circumstances, the Issuer will cause sufficient individual Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Noteholder(s). A person having an interest in a Global Certificate must provide the Registrar with:

- (i) a written order containing instructions and such other information as the Issuer and the Registrar may require completing, execute and deliver such Individual Certificates; and
- (ii) in the case of a Restricted Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange, or in the case of a simultaneous resale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Individual Certificates issued pursuant to this paragraph (ii) shall bear the legends applicable to transfers pursuant to Rule 144A.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the relevant Issue Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 of the Exchange Act, trades in the U.S. secondary market generally are required to settle within two business days ("T+2"), unless the parties to any such trade expressly agree otherwise. Accordingly, in the event that an Issue Date is more than two business days following the relevant date of pricing, purchasers who wish to trade Registered Notes in the United States between the date of pricing and the date that is two business days prior to the relevant Issue Date will be required, by virtue of the fact that such Notes initially will settle beyond T+2, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices and, in the event that an Issue Date is more than two business days following the relevant date of pricing, purchasers of Notes who wish to trade Notes between the date of pricing and the date that is two business days prior to the relevant Issue Date should consult their own adviser.

TRANSFER RESTRICTIONS

Restricted Notes

Each prospective purchaser of Restricted Notes within the United States pursuant to Rule 144A, by accepting delivery of this Offering Circular, any applicable Pricing Supplement and the Restricted Notes, will be deemed to have represented, agreed and acknowledged that:

1. It is (a) a QIB, (b) acquiring such Restricted Notes for its own account, or for the account of one or more QIBs, and (c) aware, and each beneficial owner of such Notes has been advised, that the sale of the Restricted Notes to it is being made in reliance on Rule 144A.
2. (i) It understands that the Restricted Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it, and any person acting on its behalf, reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) in each case in accordance with any applicable securities laws of any State of the United States and (ii) it will, and each subsequent holder of the Restricted Notes is required to, notify any purchaser of the Restricted Notes from it of the resale restrictions on the Restricted Notes.
3. It understand that the Restricted Global Certificate(s), unless determined otherwise by the Issuer (and notified to the Fiscal Agent) in accordance with applicable law, will bear a legend in or substantially in the following form:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**") THAT IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER RULE 144 UNDER THE SECURITIES ACT, IF AVAILABLE, OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THE NOTES.

EXCEPT AS OTHERWISE PROVIDED IN THE APPLICABLE PRICING SUPPLEMENT, BY ITS ACQUISITION OR ACCEPTANCE HEREOF OR ANY INTEREST HEREIN, THE HOLDER HEREOF OR OF SUCH INTEREST REPRESENTS THAT EITHER (1) IT IS NOT AND IS NOT ACTING ON BEHALF OF (A) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**"), THAT IS SUBJECT TO PART 4 OF SUBTITLE B OF TITLE I OF ERISA, (B) A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), (C) ANY PERSON OR ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF AN INVESTMENT IN THE PERSON OR ENTITY BY AN EMPLOYEE BENEFIT PLAN OR PLAN DESCRIBED IN CLAUSE (A) OR (B) UNDER THE U.S. DEPARTMENT OF LABOR REGULATION AT 29 C.F.R. § 2510.3-101, AS MODIFIED BY SECTION 3(42) OF ERISA OR OTHERWISE FOR THE PURPOSES OF TITLE I OF ERISA OR SECTION 4975 OF THE CODE (EACH OF (A)-(C), A "**BENEFIT PLAN INVESTOR**") OR (D) A GOVERNMENTAL, NON-U.S. OR CHURCH PLAN THAT IS SUBJECT TO U.S. FEDERAL, STATE, LOCAL OR NON-U.S. LAW OR REGULATION THAT CONTAINS ONE OR MORE PROVISIONS THAT ARE SIMILAR TO PART 4 OF

SUBTITLE B OF TITLE I OF ERISA AND/OR SECTION 4975 OF THE CODE ("**SIMILAR LAW**"), OR (2) ITS PURCHASE AND HOLDING OF THIS NOTE OR AN INTEREST THEREIN WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF ANY APPLICABLE SIMILAR LAW.

EXCEPT AS OTHERWISE PROVIDED IN THE APPLICABLE PRICING SUPPLEMENT, EACH PROSPECTIVE INVESTOR IN THE NOTES THAT IS A BENEFIT PLAN INVESTOR FURTHER REPRESENTS THAT (1) NONE OF THE ISSUER, THE ARRANGERS, THE DEALERS OR ANY OF THEIR RESPECTIVE AFFILIATES (THE "**TRANSACTION PARTIES**"), HAS PROVIDED ANY INVESTMENT RECOMMENDATION OR INVESTMENT ADVICE TO THE BENEFIT PLAN INVESTOR, OR ANY FIDUCIARY OR OTHER PERSON INVESTING ON BEHALF OF THE BENEFIT PLAN INVESTOR OR WHO OTHERWISE HAS DISCRETION OR CONTROL OVER THE INVESTMENT AND MANAGEMENT OF "PLAN ASSETS" (A "**PLAN FIDUCIARY**"), ON WHICH EITHER THE BENEFIT PLAN INVESTOR OR PLAN FIDUCIARY HAS RELIED IN CONNECTION WITH THE DECISION TO ACQUIRE ANY INTEREST IN THE NOTES, (2) NONE OF THE TRANSACTION PARTIES IS ACTING AS A "FIDUCIARY" WITHIN THE MEANING OF SECTION 3(21) OF ERISA OR SECTION 4975(e)(3) OF THE CODE TO THE BENEFIT PLAN INVESTOR OR PLAN FIDUCIARY IN CONNECTION WITH THE BENEFIT PLAN INVESTOR'S ACQUISITION OF ANY INTEREST IN THE NOTES AND (3) THE PLAN FIDUCIARY IS EXERCISING ITS OWN INDEPENDENT JUDGMENT IN EVALUATING THE TRANSACTION.

4. It understands that the Issuer, each Registrar, the relevant Dealer(s) and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.
5. It understands that the Restricted Notes will be represented by a Restricted Global Certificate. Before any interest in a Restricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Certificate or as the case may be, Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
6. Except as otherwise provided in the applicable Pricing Supplement, either (i) it is not and is not acting on behalf of (a) an "employee benefit plan" as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), that is subject to Part 4 of Subtitle B of Title I of ERISA, (b) a "plan" as defined in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), (c) any person or entity whose underlying assets include "plan assets" by reason of an investment in the person or entity by an employee benefit plan or plan described in clause (a) or (b), under the U.S. Department of Labor Regulation at 29 C.F.R. § 2510.3-101, as modified by Section 3(42) of ERISA, or otherwise for the purposes of Part 4 of Subtitle B of Title I of ERISA or Section 4975 of the Code (each of (a)-(c), a "**Benefit Plan Investor**"), or (d) a governmental, non-U.S. or church plan that is subject to U.S. federal, state, local or non-U.S. law or regulation that contains one or more provisions that are similar to Part 4 of Subtitle B of Title I of ERISA and/or Section 4975 of the Code ("**Similar Law**") or (ii) its purchase and holding of the Restricted Notes or an interest therein will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of any applicable Similar Law.
7. Except as otherwise provided in the applicable Pricing Supplement, if it is a Benefit Plan Investor (i) none of the Issuer, the Arrangers, the Dealers or any of their respective affiliates (the "**Transaction Parties**"), has provided any investment recommendation or investment advice to the Benefit Plan Investor, or any fiduciary or other person investing on behalf of the Benefit Plan Investor or who otherwise has discretion or control over the investment and management of "plan assets" (a "**Plan Fiduciary**"), on which either the Benefit Plan Investor or Plan Fiduciary has relied in connection with the decision to acquire any interest in the Restricted Notes, (ii) none of the

Transaction Parties is acting as a "fiduciary" within the meaning of Section 3(21) of ERISA or Section 4975(e)(3) of the Code to the Benefit Plan Investor or Plan Fiduciary in connection with the Benefit Plan Investor's acquisition of any interest in the Restricted Notes and (iii) the Plan Fiduciary is exercising its own independent judgment in evaluating the transaction.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Unrestricted Notes

Each prospective purchaser of Unrestricted Notes and each subsequent purchaser of Unrestricted Notes in resales prior to the expiration of the distribution compliance period relating to such Notes, by accepting delivery of this Offering Circular, any applicable Pricing Supplement and the Unrestricted Notes, will be deemed to have represented, agreed and acknowledged that:

1. It is, or at the time Unrestricted Notes are purchased will be, the beneficial owner of such Unrestricted Notes and (a) it is located outside the United States and (b) it is not an affiliate of the Issuer or a person acting on behalf of the Issuer or such an affiliate.
2. It understands that such Unrestricted Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period for such Notes, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believes is a QIB purchasing for its own account, or for the account of one or more QIBs or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
3. It understands that the Unrestricted Global Certificate, unless determined otherwise by the Issuer in accordance with applicable law, will bear a legend in or substantially in the following form:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND NEITHER THIS NOTE NOR ANY PORTION HEREOF MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT."

EXCEPT AS OTHERWISE PROVIDED IN THE APPLICABLE PRICING SUPPLEMENT, BY ITS ACQUISITION OR ACCEPTANCE HEREOF OR ANY INTEREST HEREIN, THE HOLDER HEREOF OR OF SUCH INTEREST REPRESENTS THAT EITHER (1) IT IS NOT AND IS NOT ACTING ON BEHALF OF (A) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**"), THAT IS SUBJECT TO PART 4 OF SUBTITLE B OF TITLE I OF ERISA, (B) A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), (C) ANY PERSON OR ENTITY WHOSE UNDERLYING ASSETS INCLUDE "PLAN ASSETS" BY REASON OF AN INVESTMENT IN THE PERSON OR ENTITY BY AN EMPLOYEE BENEFIT PLAN OR PLAN DESCRIBED IN CLAUSE (A) OR (B) UNDER THE U.S. DEPARTMENT OF LABOR REGULATION AT 29 C.F.R. § 2510.3-101, AS MODIFIED BY SECTION 3(42) OF ERISA OR OTHERWISE FOR THE PURPOSES OF TITLE I OF ERISA OR SECTION 4975 OF THE CODE (EACH OF (A)-(C), A "**BENEFIT PLAN INVESTOR**") OR (D) A GOVERNMENTAL, NON-U.S. OR CHURCH PLAN THAT IS SUBJECT TO U.S. FEDERAL, STATE, LOCAL OR NON-U.S. LAW OR REGULATION THAT CONTAINS ONE OR MORE PROVISIONS THAT ARE SIMILAR TO PART 4 OF SUBTITLE B OF TITLE I OF ERISA AND/OR SECTION 4975 OF THE CODE ("**SIMILAR LAW**"), OR (2) ITS PURCHASE AND HOLDING OF THIS NOTE OR AN INTEREST THEREIN WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A VIOLATION OF ANY APPLICABLE SIMILAR LAW.

EXCEPT AS OTHERWISE PROVIDED IN THE APPLICABLE PRICING SUPPLEMENT, EACH PROSPECTIVE INVESTOR IN THE NOTES THAT IS A BENEFIT PLAN INVESTOR FURTHER REPRESENTS THAT (1) NONE OF THE ISSUER, THE ARRANGERS, THE DEALERS OR ANY OF THEIR RESPECTIVE AFFILIATES (THE "**TRANSACTION PARTIES**"), HAS PROVIDED ANY INVESTMENT RECOMMENDATION OR INVESTMENT ADVICE TO THE BENEFIT PLAN INVESTOR, OR ANY FIDUCIARY OR OTHER PERSON INVESTING ON BEHALF OF THE BENEFIT PLAN INVESTOR OR WHO OTHERWISE HAS DISCRETION OR CONTROL OVER THE INVESTMENT AND MANAGEMENT OF "PLAN ASSETS" (A "**PLAN FIDUCIARY**"), ON WHICH EITHER THE BENEFIT PLAN INVESTOR OR PLAN FIDUCIARY HAS RELIED IN CONNECTION WITH THE DECISION TO ACQUIRE ANY INTEREST IN THE NOTES, (2) NONE OF THE TRANSACTION PARTIES IS ACTING AS A "FIDUCIARY" WITHIN THE MEANING OF SECTION 3(21) OF ERISA OR SECTION 4975(E)(3) OF THE CODE TO THE BENEFIT PLAN INVESTOR OR PLAN FIDUCIARY IN CONNECTION WITH THE BENEFIT PLAN INVESTOR'S ACQUISITION OF ANY INTEREST IN THE NOTES AND (3) THE PLAN FIDUCIARY IS EXERCISING ITS OWN INDEPENDENT JUDGMENT IN EVALUATING THE TRANSACTION.

4. It understands that the Issuer, each Registrar, the relevant Dealer(s) and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.
5. It understands that the Unrestricted Notes will be represented by an Unrestricted Global Certificate or, as the case may be, a Global Note. Prior to the expiration of the distribution compliance period for such Notes, before any interest in an Unrestricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Restricted Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
6. Except as otherwise provided in the applicable Pricing Supplement, either (i) it is not and is not acting on behalf of (a) an "employee benefit plan" as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), that is subject to Part 4 of Subtitle B of Title I of ERISA, (b) a "plan" as defined in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), (c) any person or entity whose underlying assets include "plan assets" by reason of an investment in the person or entity by an employee benefit plan or plan described in clause (a) or (b), under the U.S. Department of Labor Regulation at 29 C.F.R. § 2510.3-101, as modified by Section 3(42) of ERISA, or otherwise for the purposes of Part 4 of Subtitle B of Title I of ERISA or Section 4975 of the Code (each of (a)-(c), a "**Benefit Plan Investor**"), or (d) a governmental, non-U.S. or church plan that is subject to U.S. federal, state, local or non-U.S. law or regulation that contains one or more provisions that are similar to Part 4 of Subtitle B of Title I of ERISA and/or Section 4975 of the Code ("**Similar Law**") or (ii) its purchase and holding of the Unrestricted Notes or an interest therein will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of any applicable Similar Law.
7. Except as otherwise provided in the applicable Pricing Supplement, if it is a Benefit Plan Investor (i) none of the Issuer, the Arrangers, the Dealers or any of their respective affiliates (the "**Transaction Parties**"), has provided any investment recommendation or investment advice to the Benefit Plan Investor, or any fiduciary or other person investing on behalf of the Benefit Plan Investor or who otherwise has discretion or control over the investment and management of "plan assets" (a "**Plan Fiduciary**"), on which either the Benefit Plan Investor or Plan Fiduciary has relied in connection with the decision to acquire any interest in the Unrestricted Notes, (ii) none of the Transaction Parties is acting as a "fiduciary" within the meaning of Section 3(21) of ERISA or Section 4975(e)(3) of the Code to the Benefit Plan Investor or Plan Fiduciary in connection with the Benefit Plan Investor's acquisition of any interest in the Unrestricted Notes and (iii) the Plan Fiduciary is exercising its own independent judgment in evaluating the transaction

TAXATION

The following is a general description of certain material Bulgarian and United States tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. This summary does not take into account or discuss specific double taxation treaties, the individual circumstances, and financial situation or investment objectives of an investor in the Notes. Prospective purchasers of Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Republic of Bulgaria of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date, including changes which could have retroactive effect.

Certain U.S. Federal Income Tax Considerations

The following discussion is a summary based upon present law of certain U.S. federal income tax considerations for prospective purchasers of Notes. This discussion addresses only U.S. Holders (as defined below) that purchase Notes in an offering by the Issuer at their initial offering price that hold such Notes as capital assets (generally, property held for investment) and use the U.S. dollar as their functional currency. This discussion does not address the tax treatment of prospective purchasers subject to special rules, such as financial institutions, insurance companies, tax-exempt entities, dealers in securities or foreign currencies, traders in securities that elect to mark to market, prospective purchasers liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, regulated investment companies, real estate investment trusts, persons holding the Notes as part of a hedge, straddle, conversion, or other integrated financial transaction, or persons required for U.S. federal income tax purposes to accelerate the recognition of any item of gross income with respect to the Notes as a result of such income being recognised on an applicable financial statement. This discussion does not address Bearer Notes, which generally may not be offered or sold in the United States or to U.S. persons. This discussion does not address Notes that are due to mature more than 30 years from the date on which they are issued, Index Linked Redemption Notes, Index Linked Interest Notes, Dual Currency Notes and certain "variable rate debt instruments" (under applicable U.S. Treasury regulations). This summary does not address U.S. federal estate and gift, U.S. state and local or non-U.S tax law or the Medicare contribution tax on net investment income.

For purposes of this discussion, a "**U.S. Holder**" is a beneficial owner of a Note that is for U.S. federal income tax purposes (i) a citizen or individual resident of the United States, (ii) a corporation, organised in or under the laws of the United States, any state thereof or the District of Columbia or (iii) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

The U.S. federal income tax treatment of a partner in an entity or arrangement classified as a partnership for U.S. federal income tax purposes and that invests in Notes will depend on the status of the partner and the activities of the partnership. Partnerships considering an investment in Notes are urged to consult their own tax advisers regarding the specific tax consequences of purchasing, owning and disposing of such Notes.

Characterization of the Notes

The Issuer expects that the Notes generally should be characterised as debt for U.S. federal income tax purposes. The tax characterisation of Notes in any particular Series will depend, however, on their terms and it is possible that certain Notes may not be characterised as debt for U.S. federal income tax purposes. While this discussion is generally limited to Notes that are debt for U.S. federal income tax purposes, U.S. Holders should consult their own tax advisers as to the proper tax characterisation of the Notes.

Interest

General

Interest paid on a Note will be taxable to a U.S. Holder as foreign source ordinary interest income at the time it accrues or is received in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes, provided that the interest is "qualified stated interest" (as defined below under "*Original Issue Discount*"). Special rules governing the treatment of interest paid with respect to original

issue discount Notes, contingent debt obligations and foreign currency Notes are described respectively under "*Original Issue Discount*," "*Contingent Debt Obligations*," and "*Foreign Currency Notes*."

In addition to interest paid on the Notes, a U.S. Holder will be required to include as ordinary interest income any tax withheld from the interest payment (even though the U.S. Holder did not in fact receive it) and any additional amounts paid with respect thereto.

Subject to certain limitations, a U.S. Holder may be entitled to a credit against its U.S. federal income tax liability, or a deduction in computing its U.S. federal taxable income, for Bulgarian taxes withheld. There are substantial limitations to the creditability and deductibility of non-U.S. taxes for U.S. Holders. The foreign tax credit and deduction rules are very complex and recent changes to the foreign tax credit rules that apply to foreign taxes paid or accrued introduced additional requirements and limitations. U.S. Holders should consult their tax advisers regarding the foreign tax credit and deduction implications of Bulgarian withholding taxes.

Pre-Issuance Accrued Interest

If a portion of the price paid for a Note is allocable to interest that accrued prior to the date the Note is issued ("**pre-issuance accrued interest**"), the Issuer intends to take the position that, on the first interest payment date, a portion of the interest received in an amount equal to any pre-issuance accrued interest will be treated as a return of the pre-issuance accrued interest and not as a payment of interest on the Note. Amounts treated as a return of pre-issuance accrued interest should not be taxable when received. The remainder of this discussion does not address the treatment of pre-issuance accrued interest and assumes that in determining the issue price of a Note and the amount paid for a Note, there will be excluded an amount equal to the pre-issuance accrued interest. U.S. Holders should consult their tax advisers regarding the tax treatment of the pre-issuance accrued interest on a Note.

Original Issue Discount

A Series of Notes may be issued with original issue discount ("**OID**") for U.S. federal income tax purposes. A Note will be issued with OID to the extent that the Note's "stated redemption price at maturity" exceeds its "issue price" by more than a *de minimis* amount. A Note generally will not be considered to have OID if such excess is less than 1/4 of 1% of the Note's stated redemption price at maturity multiplied by the number of complete years to maturity from the issue date (or by the weighted average maturity of the Notes for Instalment Notes), as determined for the purposes of the OID rules.

The "**issue price**" of a Note is the initial offering price at which a substantial amount of the Notes are sold (excluding sales to underwriters, brokers or similar persons acting in their capacity as such) for cash. The stated redemption price at maturity of a Note is the sum of all payments on the Note other than payments of "qualified stated interest." Qualified stated interest means, in general, stated interest that is payable unconditionally in cash or in property at least annually at a single fixed rate or at certain floating rates that appropriately takes into account the length of the interval between stated interest payments.

A U.S. Holder of a Note issued with OID and having a maturity in excess of one year must include OID in income over the term of the Note. A U.S. Holder generally must include in gross income the sum of the daily portions of OID that accrue on the Note for each day during the taxable year in which such U.S. Holder held the Note.

The amount of OID accruing during an accrual period is determined by using a constant yield to maturity method. For any accrual period, the OID allocable to the accrual period is the excess of (i) the product of the Note's adjusted issue price at the beginning of the accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted for the length of the accrual period) over (ii) the sum of any qualified stated interest payments allocable to the accrual period. A Note's adjusted issue price generally equals the issue price of the Note increased by the aggregate amount of OID accrued on the Note in all prior accrual periods (determined without regard to the amortisation of any acquisition premium or bond premium, as discussed below) and reduced by the amount of all payments previously received on the Note other than payments of qualified stated interest.

A U.S. Holder may elect to treat all interest on a Note as OID applying the constant yield method described above to accrue such interest, with the modifications described below. For purposes of this election, interest includes stated interest, OID, *de minimis* OID, acquisition discount, market discount, *de minimis* market

discount and unstated interest, as adjusted by any amortisable bond premium or acquisition premium. If a U.S. Holder makes this election, it will apply only to the Note with respect to which it is made and the U.S. Holder may not revoke it without the consent of the U.S. Internal Revenue Service ("IRS"). A U.S. Holder making this election with respect to a Note with bond premium will be deemed to have made the elections (discussed below in "*Acquisition Premium and Bond Premium*") to amortise bond premium currently with respect to all debt instruments with bond premium held or acquired by such U.S. Holder as of the beginning of that taxable year.

The Issuer may have an unconditional option to redeem, or U.S. Holders may have an unconditional option to require the Issuer to redeem, a Note prior to its stated maturity date. Under applicable U.S. Treasury regulations, if the Issuer has an unconditional option to redeem a Note prior to its stated maturity date, this option generally will be presumed to be exercised if, by utilising any date on which the Note may be redeemed as the maturity date and the amount payable on that date in accordance with the terms of the Note as the stated redemption price at maturity, the yield on the Note would be lower than its yield to maturity. If the U.S. Holders have an unconditional option to require the Issuer to redeem a Note prior to its stated maturity date, this option generally will be presumed to be exercised if, making the same assumptions as those set forth in the previous sentence, the yield on the Note would be higher than its yield to maturity. If it was presumed that an option would be exercised but it is not in fact exercised, the Note would be treated solely for purposes of calculating OID as if it were redeemed, and a new Note were issued, on the presumed exercise date for an amount equal to the Note's adjusted issue price on that date.

Short-Term Notes

A U.S. Holder of a Note with a maturity of one year or less (a "**Short-Term Note**") will be subject to special rules.

The OID rules do not treat interest payments on a Short-Term Note as qualified stated interest, but instead treat a Short-Term Note as having OID determined by including any stated interest payments in a Short-Term Note's stated redemption price at maturity. Except as noted below, a cash-basis U.S. Holder of a Short-Term Note generally will not be required to accrue OID currently, but will be required to treat any gain realised on a sale or other disposition of a Short-Term Note as ordinary income to the extent such gain or loss does not exceed the OID accrued with respect to the Short-Term Note during the period the U.S. Holder held it. U.S. Holders that account for income on an accrual method (and U.S. Holders that account for income on the cash method and elect to include the OID in income currently) will include OID on a Short-Term Note in income on a current basis.

A U.S. Holder will accrue OID on a Short-Term Note on a straight-line method unless it elects a constant yield method. If a U.S. Holder makes this election, it will apply only to the Short-Term Note with respect to which it is made, and the U.S. Holder may not revoke it. Furthermore, unless a U.S. Holder includes OID in income on a current basis as described above, a U.S. Holder of a Short-Term Note having OID will be required to defer the deduction of all or a portion of the interest expense on any debt incurred or maintained to purchase or carry such Short-Term Note.

Market Discount

If a U.S. Holder purchases a Note (other than a Short-Term Note) for an amount that is less than its stated redemption price at maturity or, in the case of a Note issued with OID, its adjusted issue price, the amount of the difference will be treated as market discount for U.S. federal income tax purposes, unless this difference is less than a specified *de minimis* amount.

A U.S. Holder may elect to report accrued market discount as income annually over the term of the Note. If a U.S. Holder makes this election, it will apply to all debt instruments with market discount that the electing U.S. Holder holds or acquires as of the beginning of that taxable year. A U.S. Holder may not revoke this election without the consent of the IRS. If a U.S. Holder does not make the election, it will treat gain that it recognises on the sale or other disposition of a Note as ordinary income to the extent of the market discount accrued while such U.S. Holder held the Note.

A U.S. Holder will accrue market discount on a Note on a straight-line method unless it elects a constant yield method. If a U.S. Holder makes this election, it will apply only to the Note with respect to which it is made and the U.S. Holder may not revoke it.

Furthermore, unless a U.S. Holder elects to include market discount in income on a current basis as described above, a U.S. Holder of a Note having market discount will be required to defer the deduction of all or a portion of the interest expense on any debt incurred or maintained to purchase or carry such Note.

Acquisition Premium and Bond Premium

A U.S. Holder that purchases a Note for an amount that is greater than the Note's adjusted issue price but less than or equal to sum of all amounts payable on the Note after the purchase date other than payments of qualified stated interest will be considered to have purchased the Note at an acquisition premium. Under the acquisition premium rules, the amount of OID that the U.S. Holder must include in its gross income with respect to the Note for any taxable year will be reduced by the portion of acquisition premium properly allocable to that year.

A U.S. Holder that has a tax basis in a Note that is greater than its principal amount may elect to treat the excess as amortisable bond premium. If a U.S. Holder makes this election, it will reduce the amount required to be included in income each year with respect to interest on the Note by the amount of amortisable bond premium allocable to that year. If a U.S. Holder makes an election to amortise bond premium, it will apply to all the debt instruments with bond premium that the electing U.S. Holder holds or acquires as of the beginning of that taxable year. A U.S. Holder may not revoke this election without the consent of the IRS.

If a Note can be optionally redeemed (after the U.S. Holder acquires it) at a price in excess of its principal amount, special rules would apply that could result in a deferral of the amortisation of some bond premium until later in the term of the Note.

With respect to a U.S. Holder that does not elect to amortise bond premium, the amount of bond premium constitutes a capital loss when the Note matures.

Special rules apply to Notes issued with OID that are purchased with a bond premium.

Contingent Debt Obligations

If the terms of the Notes provide for certain contingencies that affect the timing and amount of payments that are neither remote nor incidental, they generally will be "**Contingent Debt Obligations**" for U.S. federal income tax purposes. Special rules govern the tax treatment of Contingent Debt Obligations. These rules generally require a U.S. Holder to treat all interest as OID and to accrue OID at a rate equal to the comparable yield on a non-contingent fixed rate debt instrument of the Issuer with similar terms and conditions and a projected payment schedule that produces such comparable yield. The amount of OID will then be allocated on a ratable basis to each day in the period that the U.S. Holder holds the Contingent Debt Obligation. The OID would be foreign source ordinary income.

If the actual payments made on a Contingent Debt Obligation in a year differ from the projected contingent payments, U.S. Holders will recognise additional interest income or ordinary loss (after offsetting and reducing OID for such periods). Ordinary loss is recognised only to the extent of OID accrued in prior years, with any further excess being carried forward to offset OID accruals in future taxable years or as a reduction in the amount realised upon the sale, maturity or other disposition of the Contingent Debt Obligation. U.S. Holders therefore might be required to recognise income greater or less than the interest and other cash payments on the Contingent Debt Obligation.

Gain on the sale or other disposition of a Contingent Debt Obligation generally will be treated as foreign source ordinary income. Loss will be treated as ordinary loss to the extent of prior net interest inclusions and capital loss to the extent of any excess. Loss generally would be treated as arising from foreign sources. The comparable yield may be greater than or less than the stated interest, if any, with respect to the Notes.

The comparable yield does not constitute a representation by the Issuer regarding the actual amount, if any, that the Contingent Debt Obligations will pay. U.S. Holders are urged to consult their tax advisers concerning the application of these special rules.

Disposition of the Notes

Subject to the discussion above regarding market discount, a U.S. Holder generally will recognise U.S. source capital gain or loss upon a sale or other taxable disposition of a Note in an amount equal to the

difference between the amount realised from such disposition (less any accrued but unpaid qualified stated interest, which will be taxable as interest to the extent not previously included in income) and the U.S. Holder's adjusted tax basis in the Note. Gain or loss on the sale or other disposition of the Note by a U.S. Holder generally will be long-term capital gain or loss if the Note has been held for more than a year. Special rules apply to gains or losses on Contingent Debt Obligations as described above.

A U.S. Holder's adjusted tax basis in a Note generally will equal the U.S. Holder's cost of the Note, increased by any accrued market discount or OID included in income and decreased by the amount of any amortised bond premium or payment other than qualified stated interest received with respect to the Note.

U.S. Holders generally will not be able to claim a U.S. foreign tax credit for any Bulgarian capital gains tax imposed on the sale or other taxable disposition of a Note. However, such taxes could potentially reduce the amount realised on disposition or be deductible. U.S. Holders should consult their tax advisers regarding the foreign tax credit and deduction implications of Bulgarian capital gains taxes and the determination of the amount realised on the disposition if Bulgarian taxes are imposed.

Foreign Currency Notes

The following discussion summarises certain U.S. federal income tax consequences to a U.S. Holder of the ownership and disposition of a Note that is denominated in a specified currency other than the U.S. dollar or the payments of interest or principal on which are determined by reference to a currency other than the U.S. dollar (a "**foreign currency Note**"). The rules applicable to foreign currency Notes are complex and may depend on the U.S. Holder's particular U.S. federal income tax situation. For example, various elections are available under these rules, and whether a U.S. Holder should make any of these elections may depend on the U.S. Holder's particular U.S. federal income tax situation. U.S. Holders are urged to consult their tax advisers regarding the U.S. federal income tax consequences of the ownership and disposition of a foreign currency Note.

Special rules apply to Contingent Debt Obligations that are denominated in a foreign currency ("**foreign currency Contingent Debt Obligations**"). Generally, these instruments are accounted for like Contingent Debt Obligations, as described above, but in the relevant foreign currency. The relevant amounts must then be translated into U.S. dollar equivalents. The rules applicable to foreign currency Contingent Debt Obligations are complex and U.S. Holders should consult their own tax advisers regarding the U.S. federal income tax consequences of the acquisition, ownership and disposition of such instruments.

Interest

If an interest payment is denominated in, or determined by reference to, a foreign currency, the amount of income recognised by a cash method U.S. Holder will be the U.S. dollar value of the interest payment, based on the exchange rate in effect on the date of receipt, regardless of whether the payment is in fact converted into U.S. dollars.

An accrual method U.S. Holder may determine the amount of income recognised with respect to an interest payment denominated in, or determined by reference to, a foreign currency in accordance with either of two methods. Under the first method, the amount of income accrued will be based on the average exchange rate in effect during the interest accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within the relevant taxable year).

Under the second method, the U.S. Holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year). Additionally, if a payment of interest is actually received within five business days of the last day of the accrual period, an electing accrual method U.S. Holder may instead translate the accrued interest into U.S. dollars at the exchange rate in effect on the day of actual receipt. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS.

Upon receipt of an interest payment (including a payment attributable to accrued but unpaid interest upon the sale or retirement of a Note) denominated in, or determined by reference to, a foreign currency, a U.S. Holder generally will recognise U.S. source exchange gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. dollars at the spot rate on the date

of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. dollars.

OID, Market Discount, Acquisition Premium and Amortisable Bond Premium

OID, market discount, acquisition premium and amortisable bond premium on a foreign currency Note are to be determined in the relevant foreign currency. Where a U.S. Holder elects to include market discount in income currently, the amount of market discount will be determined for any accrual period in the relevant foreign currency and then translated into U.S. dollars on the basis of the average rate in effect during the accrual period. Exchange gain or loss realised with respect to such accrued market discount shall be determined in accordance with the rules relating to accrued interest described above. Accrued market discount (other than market discount currently included in income) recognised upon the receipt of any partial principal payment or upon the sale, retirement or other disposition of a foreign currency Note is translated into U.S. dollars at the spot rate on such payment or disposition date.

If an election to amortise bond premium is made, amortisable bond premium taken into account on a current basis will reduce interest income in units of the relevant foreign currency. Exchange gain or loss is realised on amortised bond premium with respect to any period by treating the bond premium amortised in the period in the same manner as payments on the sale, exchange or retirement of the foreign currency Note, as described below. Any exchange gain or loss will be ordinary income or loss as described below. If the election is not made, any loss realised on the sale, exchange or retirement of a foreign currency Note with amortisable bond premium by a U.S. Holder who has not elected to amortise the premium will be a capital loss to the extent of the bond premium.

Sale or Retirement

As discussed above under "*Disposition of the Notes*", and except to the extent discussed below, a U.S. Holder will generally recognise gain or loss on the sale or other taxable disposition of a Note equal to the difference between the U.S. dollar amount realised on the sale or retirement and its U.S. dollar tax basis in the Note. U.S. Holders should consult their own tax advisers regarding the determination of their U.S. dollar amount realised and tax basis.

A U.S. Holder will recognise U.S. source exchange rate gain or loss (taxable as ordinary income or loss) on the sale or retirement of a Note equal to the difference, if any, between the U.S. dollar values of the U.S. Holder's foreign currency purchase price for the Note (or, if less, the principal amount of the Note) on (i) the date of sale or retirement and (ii) the date on which the U.S. Holder acquired the Note. Any such exchange rate gain or loss will be realised only to the extent of total gain or loss realised on the sale or retirement. Any gain or loss realised by the U.S. Holder in excess of the foreign currency gain or loss will be capital gain or loss except to the extent of any accrued market discount or, in the case of short-term Note, to the extent of any discount not previously included in the U.S. Holder's income provided that the Note is not a foreign currency denominated Contingent Debt Obligation.

Information Reporting and Backup Withholding

Information returns may be filed with the IRS in connection with payments of principal and interest in respect of, and the proceeds from sales of, Notes held by a U.S. Holder unless the U.S. Holder establishes, if required, that it is exempt from the information reporting rules, for example by properly establishing that it is a corporation. If the U.S. Holder does not establish that it is exempt from these rules, the U.S. Holder may be subject to backup withholding on these payments if it fails to provide a taxpayer identification number or otherwise comply with the backup withholding rules. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the IRS.

U.S. Holders should consult their tax advisers regarding any additional tax reporting or filing requirements they may have as a result of the acquisition, ownership or disposition of the Notes. Failure to comply with certain reporting obligations could result in the imposition of substantial penalties.

Bulgaria Taxation

Individuals

Principal amounts. Payment of principal on the Notes to individuals is not subject to taxation in Bulgaria.

Interest on Notes admitted to trading on a regulated market. Insofar as the Notes are admitted to trading on a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments (MiFID II) (a "**Regulated Market**" and, for the avoidance of doubt, the Luxembourg Stock Exchange's regulated market is a "Regulated Market" for these purposes), interest on the Notes received by an individual is exempt from taxation in Bulgaria, irrespective of whether the individual is a Bulgarian tax resident or not and irrespective of the place where the individual is established for tax purposes.

Interest on Notes not admitted to trading on a Regulated Market. In case that the Notes are not admitted to trading on a Regulated Market, interest on the Notes, received by an individual who is a Bulgarian tax resident, or who is a non-Bulgarian tax resident established for tax purposes in an EU Member State (for such purposes the United Kingdom is not an EU Member State) and/or in the European Economic Area, or who is a non-Bulgarian tax resident acting through a fixed base in Bulgaria, is exempt from taxation in Bulgaria too. In such case, in order to avail of this relief, non-resident European Union (excluding the United Kingdom) and/or European Economic Area individuals should present before the Issuer an official document, issued by the relevant foreign tax administration, evidencing the tax residency status, as well as an affidavit stating that the circumstances qualifying the interest income as tax exempt are met (in the particular case the affidavit should state that the interest income originates from government Notes).

In case the Notes are not admitted to trading on a Regulated Market, interest on the Notes received by an individual who is a non-Bulgarian tax resident and is established for tax purposes outside of a EU Member State (for such purposes the United Kingdom is not an EU Member State) and outside the European Economic Area is subject to a one-time tax in Bulgaria at the rate of 10 per cent. (unless treaty relief applies).

Capital gains realised on a Regulated Market. Capital gains realised from the sale or exchange of Notes on a Regulated Market by an individual who is a Bulgarian tax resident, or who is a non-Bulgarian tax resident established for tax purposes in an EU Member State (for such purposes the United Kingdom is not an EU Member State) and/or in the European Economic Area, or who is a non-Bulgarian tax resident acting through a fixed base in Bulgaria, are exempt.

Capital gains realised from the sale or exchange of Notes on a Regulated Market by an individual who is a non-Bulgarian tax resident, and who does not fall in the categories of non-Bulgarian residents referred to in the preceding paragraph, have not been explicitly exempt from taxation. Therefore, they could be subject to a one-time tax in Bulgaria at the rate of 10 per cent., levied on the positive difference between the sale price and the documented acquisition price of the Notes (unless treaty relief applies). The tax is to be reported in a tax return and paid by such individual before the end of the month following the quarter in which the capital gains are actually received. Any such prospective holders of Notes who are in any doubt as to their position should consult their own independent tax advisers.

Capital gains realised off a Regulated Market. Capital gains realised from the sale or exchange of Notes off a Regulated Market (i.e. not by way of a trade on such market, including when the Notes are listed on it) by an individual who is a Bulgarian tax resident, or who is a non-Bulgarian tax resident acting through a fixed base in Bulgaria, are included in his or her annual taxable income, as part of non-exempt income from disposal of shares and other financial assets. Such capital gains are subject to personal income tax in Bulgaria at the rate of 10 per cent.

Capital gains realised from the sale or exchange of Notes off a Regulated Market (i.e. not by way of a trade on such market, including when the Notes are listed on it) by an individual who is a non-Bulgarian tax resident, irrespective of the place where the individual is established for tax purposes, is subject to a one-time tax in Bulgaria at the rate of 10 per cent., levied on the positive difference between the sale price and the documented acquisition price of the Notes (unless treaty relief applies). The tax is to be reported in a tax return and paid by such individual before the end of the month following the quarter in which the capital gains are actually made.

Special treatment of sole proprietors. An individual who is a Bulgarian tax resident and, with regards to the Notes, is acting as sole proprietor within the meaning of the Bulgarian Commercial Act, whether registered or not, is subject to taxation for any interest or capital gains as a legal entity at the rate of 15 per cent.

Legal Entities

Principal amounts. Payment of principal on the Notes to a legal entity is not subject to taxation in Bulgaria.

Interest on Notes admitted to trading on a Regulated Market. Interest on the Notes received by a legal entity, which is a Bulgarian tax resident or which is a non-Bulgarian tax resident acting through a permanent establishment in Bulgaria is included in the corporate income taxable base of the recipient and is subject to corporate income tax in Bulgaria at the rate of 10 per cent. Interest on the Notes received by a legal entity, which is a non-Bulgarian tax resident (unless acting through a permanent establishment), irrespective of the place where it is established for tax purposes, is exempt from taxation in Bulgaria.

Interest on Notes not admitted to trading on a Regulated Market. Interest on the Notes received by a legal entity, which is a Bulgarian tax resident or which is a non-Bulgarian tax resident acting through a permanent establishment in Bulgaria is included in the corporate income taxable base of the recipient and is subject to corporate income tax in Bulgaria at the rate of 10 per cent. Interest on the Notes received by a legal entity which is a non-Bulgarian tax resident (unless acting through a permanent establishment), irrespective of the place where it is established for tax purposes, is subject to a one time withholding tax in Bulgaria at the rate of 10 per cent., unless treaty relief applies.

Capital gains realised on a Regulated Market. Capital gains realised from the sale or exchange of Notes on a Regulated Market, received by a legal entity, which is a Bulgarian tax resident, or which is a non-Bulgarian tax resident acting through a permanent establishment in Bulgaria, are not treated as income for Bulgarian corporate tax purposes. Capital losses realised from the sale or exchange of Notes on a Regulated Market, received by the categories of legal entities referred to in the preceding sentence, are not treated as expense for Bulgarian corporate tax purposes. Capital gains realised from the sale or exchange of Notes on a Regulated Market by a legal entity, which is a non-Bulgarian tax resident (unless acting through a permanent establishment), irrespective of the place where it is established for tax purposes, are exempt from taxation.

Capital gains realised off a Regulated Market. Capital gains from the sale or exchange of Notes realised off a Regulated Market (i.e. not by way of a trade on such market, including when the Notes are listed on it), received by a legal entity which is a Bulgarian tax resident or which is a non-Bulgarian tax resident acting through a permanent establishment in Bulgaria is included in the corporate income taxable base of the recipient and is subject to corporate income tax in Bulgaria at the rate of 10 per cent.

Capital gains from the sale or exchange of Notes off a Regulated Market (i.e. not by way of a trade on such market, including when the Notes are listed on it), realised by a legal entity, which is a non-Bulgarian tax resident (unless acting through a permanent establishment), irrespective of the place where it is established for tax purposes, are subject to a one-time withholding tax in Bulgaria at the rate of 10 per cent. (unless treaty relief applies). Although the law names this tax on capital gains as "withholding" tax, it is payable by the recipient of the income. The tax on capital gains is levied on the positive difference between the sale price and the documented acquisition price. The tax on capital gains is to be reported in a tax return and paid by such non-resident legal entity before the end of the month following the quarter in which the respective income is actually received.

Gross-up

In addition to the above, in accordance with the terms and conditions of the Notes, if withholding or deduction for or on account of any taxes is or becomes payable in Bulgaria in respect of any payments of principal and/or interest in respect of the Notes, Bulgaria shall pay such additional amounts as will result in the receipt by the holders of the Notes of such amounts as would have been received by them had no such withholding or deduction been required, subject to the exceptions set out in Condition 8 of the terms and conditions of the Notes.

Bilateral Treaties for Avoidance of Double Taxation

As at the date of this Offering Circular, Bulgaria is party to 70 bilateral treaties on the avoidance of double taxation. In cases where Bulgarian law imposes tax on interest received or capital gains realised in relation to the Notes (see the sections above, "- *Individuals*" and "- *Legal Entities*"), these treaties may provide different forms of tax relief. The application of any treaty relief in respect of income exceeding BGN 500,000 for the calendar year is subject to obtaining tax clearance from Bulgarian revenue authorities under a special procedure, requiring filing of standard forms and tax residence certificates following receipt of the relevant income and before the deadline for payment of tax. The clearance statement should be issued within a 60-day term, where the expiry of such term without any refusal is deemed a tacit approval of treaty relief application. In case the income does not exceed BGN 500,000 for the relevant calendar year, the grounds for the application of the treaties must be certified to the payer of the income. Treaty benefits may also be claimed in the course of a tax refund procedure.

Prospective purchasers of Notes should consult their own tax advisers with regard to the applicability and effect of such treaties, and to treaty clearance procedures.

Other taxation

No Bulgarian VAT, stamp duty, registration, transfer, or similar tax is payable in connection with the acquisition, ownership, sale or disposition of the Notes by Bulgarian or non-Bulgarian investors in or holders of the Notes.

CERTAIN ERISA CONSIDERATIONS

Overview

The U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), imposes requirements on "employee benefit plans" within the meaning of Section 3(3) of ERISA that are subject to Part 4 of Subtitle B of Title I of ERISA, such as pension plans, retirement plans, profit-sharing plans, 401(k) plans, health and welfare plans, medical plans, certain voluntary employee's beneficiary associations and certain look-through entities, such as tax-exempt group trusts, common or collective trust funds of banks, collective investment funds, and insurance company separate accounts whose underlying assets include the assets of such employee benefit plans, certain insurance company general accounts, separately managed accounts whose underlying assets include the assets of such employee benefit plans and other funds and investment vehicles that are treated as holding plan assets because of plans' investment in the entities (each, an "**ERISA Plan**"), and on those persons who are fiduciaries with respect to ERISA Plans. ERISA also imposes limits on transactions between ERISA Plans and the ERISA Plan's service providers or other related parties.

Each fiduciary of an ERISA Plan should consider ERISA and the regulations and guidance thereunder when considering an investment in the Notes. Fiduciaries of ERISA Plans, as well as other "plans" and other retirement arrangements within the meaning of Section 4975(e)(1) of the Code that are subject to Section 4975 of the Code, such as individual retirement accounts, health savings accounts and "Keogh" plans (together with an ERISA Plan, a "**Plan**"), should also consider, among other items, the issues described below when considering an investment in the Notes.

Fiduciary Duty of Investing ERISA Plans

When evaluating the prudence of an investment, the ERISA Plan's fiduciary should consider the U.S. Department of Labor (the "**DOL**") regulation on investment duties. Under ERISA, a person who exercises discretionary authority or control regarding the management or disposition of an ERISA Plan's assets is generally considered a fiduciary of such an ERISA Plan. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, which should be taken into account with regards to each ERISA Plan's particular facts and circumstances. For example, when considering an investment in the Notes with an ERISA Plan's assets, the ERISA Plan's fiduciary would typically determine, particularly in light of the risks and limited liquidity inherent in an investment in the Notes, whether the investment in the Notes would (i) satisfy the diversification requirements of Section 404(a)(1)(C) of ERISA, (ii) be in accordance with the documents and instruments governing the ERISA Plan pursuant to Section 404(a)(1)(D) of ERISA and (iii) be prudent with respect to the structure and nature of the offering.

Prohibited Transactions

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of a Plan and persons and their affiliates that have certain relationships to the Plan, including the Plan's fiduciaries and other service providers (referred to as "parties in interest" under Section 3(14) of ERISA and "disqualified persons" under Section 4975(e)(2) of the Code, and each, a "**Party in Interest**"). An investment in the Notes by a Plan with respect to which any of the Issuer, the Arrangers, the Dealers or their respective affiliates (each, a "**Transaction Party**") is considered a Party in Interest may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA or Section 4975 of the Code, unless a statutory or administrative exemption is applicable to the transaction.

The Transaction Parties may be Parties in Interest with respect to many Plans, and if an acquisition, holding or disposition of the Notes were determined to be a prohibited transaction between a Plan and a Party in Interest, a statutory or administrative prohibited transaction exemption would be required. Included among the exemptions are the statutory exemption of Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code (relating to certain transactions between a Plan and a service provider to the Plan, provided that neither the service provider nor any of its affiliates has or exercises any discretionary authority or control or renders any investment advice with respect to the assets of any Plan involved in the transaction (in other words, not a fiduciary) and provided further that the Plan pays no more than, and receives no less than, "adequate consideration" in connection with the transaction) and the administrative exemptions of Prohibited Transaction Class Exemption ("**PTCE**") 91-38 (relating to investments made by bank collective investment

funds), PTCE 84-14 (relating to transactions effected by independent "qualified professional asset managers"), PTCE 95-60 (relating to transactions involving insurance company general accounts), PTCE 90-1 (relating to investments by insurance company pooled separate accounts) and PTCE 96-23 (relating to transactions determined by certain "in-house asset managers"). Each fiduciary of a Plan should consider in an investment in the Notes, among other things, whether such an investment would involve (i) a direct or indirect extension of credit to a Party in Interest, (ii) a sale or exchange of any property between a Plan and a Party in Interest or (iii) a transfer to, or use by or for the benefit of, a Party in Interest of the Plan's assets. In this regard, there can be no assurance that any of these or other exemptions will be available with respect to any particular transaction involving an investment in the Notes.

The investment class exemptions described above cover per se prohibited transactions between Plans and Parties in Interest. Most of the exemptions do not provide relief from some or all of the self-dealing prohibitions under Section 406 of ERISA or Section 4975 of the Code, and Plan fiduciaries should consider whether any of the self-dealing prohibitions could be relevant here.

Each fiduciary of a Plan that has engaged in a non-exempt prohibited transaction may be required to, among other potential actions, (i) restore to the Plan any profit realized on the transaction, (ii) reimburse the Plan for any losses suffered by the Plan as a result of the transaction or (iii) unwind the transaction. Under Section 4975 of the Code, a Party in Interest may be required to pay excise taxes based on the amount involved in the transaction (including a 100% excise tax if the transaction is not corrected within a certain time period).

The ERISA Plan Asset Regulation

Under the DOL regulation at 29 C.F.R. § 2510.3 101, as modified by Section 3(42) of ERISA (the "**ERISA Plan Asset Regulation**"), when a Plan invests in an "equity interest" of an entity (which is defined as an interest other than an instrument that is treated as indebtedness under applicable local law and which has no substantial equity features) that is neither a publicly offered security nor a security issued by an investment company registered under the U.S. Investment Company Act of 1940, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets unless an exception to this general rule applies, including if it is established that the entity is an "operating company" or that equity participation in such entity by "Benefit Plan Investors" is not "significant".

An "operating company" is defined under the ERISA Plan Asset Regulation as an entity that is primarily engaged, directly or through a majority owned subsidiary or subsidiaries, in the production or sale of a product or service other than the investment of capital. A "**Benefit Plan Investor**" means a Plan. Equity participation by Benefit Plan Investors in an entity is "significant" under the ERISA Plan Asset Regulation if, immediately after the most recent acquisition, disposition or transfer of any equity interest in the entity, 25% or more of the value of any class of equity interests in the entity is held by Benefit Plan Investors, excluding for the purposes of this calculation the value of equity interests held by (i) persons, other than Benefit Plan Investors, that have discretionary authority or control over the assets of the entity, or that provide investment advice with respect to such assets for a fee, directly or indirectly, or (ii) "affiliates" of the foregoing (i) persons (with respect to the Issuer's assets, a "**Controlling Person**"). For these purposes, an "affiliate" of a person, as defined in paragraph (f)(3) of the ERISA Plan Asset Regulation, includes any person, directly or indirectly, through one or more intermediaries, "controlling", "controlled" by, or under common "control" with the person, and "control", with respect to a person other than an individual, means the power to exercise a controlling influence over the management or policies of such person.

Each prospective investor should make its own assessment as to whether or not the Notes will be respected as indebtedness for purposes of the ERISA Plan Asset Regulation and should consult with its own legal advisors concerning the potential consequences under the fiduciary responsibility and prohibited transaction provisions of Part 4 of Subtitle B of Title I of ERISA, Section 4975 of the Code and any applicable Similar Law (defined below) of an investment in the Notes with the assets of a Plan or a plan that is subject to any Similar Law.

Similar Law Plans

"Governmental plans" within the meaning of Section 3(32) of ERISA, "church plans" within the meaning of Section 3(33) of ERISA that have made no election under Section 410(d) of the Code and non-U.S. plans described in Section 4(b)(4) of ERISA, while not subject to the fiduciary responsibility and prohibited transaction provisions of Part 4 of Subtitle B of Title I of ERISA and Section 4975 of the Code, may

nevertheless be subject to a U.S. federal, state, local or non-U.S. law or regulation that contains one or more provisions that are similar to the fiduciary responsibility and prohibited transaction provisions of Part 4 of Subtitle B of Title I of ERISA or Section 4975 of the Code ("**Similar Law**").

Representations and Warranties

Subject to the requirements discussed herein, and unless otherwise stated in the applicable Pricing Supplement, the Notes (or any interest therein) may be purchased and held by Benefit Plan Investors. Accordingly, unless otherwise stated in the applicable Pricing Supplement, each purchaser or transferee of any interest in the Notes will be deemed to have represented by its acquisition of any interest in the Notes that either (i) it is not and is not acting on behalf of (a) a Benefit Plan Investor or (b) a governmental, non-U.S. or church plan that is subject to any applicable Similar Law or (ii) its purchase and holding of a Note or an interest therein will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation of any applicable Similar Law.

Moreover, unless otherwise stated in the applicable Pricing Supplement, each prospective investor in the Notes that is a Benefit Plan Investor will be deemed to have represented and warranted by its investment that (i) none of the Transaction Parties has provided any investment recommendation or investment advice to the Benefit Plan Investor, or any fiduciary or other person investing on behalf of the Benefit Plan Investor or who otherwise has discretion or control over the investment and management of "plan assets" (a "**Plan Fiduciary**"), on which either the Benefit Plan Investor or Plan Fiduciary has relied in connection with the decision to acquire any interest in the Notes, (ii) none of the Transaction Parties is acting as a "fiduciary" within the meaning of Section 3(21) of ERISA or Section 4975(e)(3) of the Code to the Benefit Plan Investor or Plan Fiduciary in connection with the Benefit Plan Investor's acquisition of any interest in the Notes and (iii) the Plan Fiduciary is exercising its own independent judgment in evaluating the transaction.

Any purported transfer of the Notes in violation of the requirements set forth in these paragraphs shall be null and void *ab initio*, and the Issuer will have the right to compel any transferee acquiring the Notes in violation of the requirements set forth in these paragraphs to sell such Notes or to sell such Notes on behalf of such transferee.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Plan Fiduciaries should consult their own counsel as to the consequences under ERISA and the Code of an investment in the Notes. Fiduciaries of other plans, in consultation with their advisors, should consider the impact of their applicable Similar Laws on an investment in the Notes and the considerations discussed above.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to the Dealers. The Dealers have, in a dealer agreement (the "**Dealer Agreement**") dated 6 February 2015 agreed with the Republic a basis upon which the Issuer may from time to time agree to sell Notes and upon which the Dealers may agree to purchase Notes. Any such agreement will extend to those matters stated under "*Terms and Conditions of the Notes*".

The Republic will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Republic has agreed to reimburse the Arrangers and the Dealers for certain of their activities in connection with the Programme.

The Republic has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they made to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Republic.

Certain of the Dealers and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Republic in the ordinary course of their respective businesses. The Republic may apply all or part of the proceeds of any Notes issued pursuant to the Programme in repayment of all or part of any such credit facilities.

Certain of the Dealers and their affiliates have engaged, are currently engaged and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer in the ordinary course of business. Such persons may have received, or may continue to receive, customary compensation. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its agencies. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche.

Selling Restrictions

United States of America

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and, subject to certain exceptions, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this section of the Offering Circular have the meanings given to them by the U.S. Internal Revenue Code of 1986 and the Treasury regulations promulgated thereunder.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it has not offered, sold or delivered and will not offer, sell or, in the case of Notes sold in Bearer form, deliver the Notes of any identifiable Tranche (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the distribution of such Tranche within the United States, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period (other than

resales pursuant to Rule 144A) a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

Dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Any issuance of Dual Currency Notes and/or Index Linked Notes will be subject to such additional U.S. selling restrictions as the Republic and the relevant purchaser(s) may agree, as indicated in the applicable Pricing Supplement. Each Dealer has agreed and each purchaser will be required to agree that it will offer, sell or deliver such Notes only in compliance with such additional U.S. selling restrictions.

United Kingdom

Each Dealer has severally represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Bulgaria

Each Dealer has severally warranted, represented and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (a) the Notes have not been and will not be registered for a public offer and/or admitted to trading on a regulated market in the Republic of Bulgaria; and
- (b) neither it nor any of its affiliates, nor any persons acting on its or its affiliates behalf, have publicly offered or sold, or will publicly offer or sell, any Note within the Republic of Bulgaria, other than in accordance with the laws of the Republic of Bulgaria.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended; the "**FIEA**") and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not offer or sell any Notes, in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other relevant laws and regulations of Japan. As used in this paragraph, "**resident of Japan**" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

Canada

The Notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Circular (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The

purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Dealers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Switzerland

The offering of the Notes in Switzerland is exempt from the requirement to prepare and publish a prospectus under the Swiss Financial Services Act ("**FinSA**") because the Notes have a minimum denomination of CHF 100,000 (or equivalent in another currency) or more and the Notes will not be admitted to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. This Offering Circular does not constitute a prospectus pursuant to the FinSA, and no such prospectus has been or will be prepared for or in connection with the offering of the Notes.

General

No action has been or will be taken in any jurisdiction by the Republic, the Arrangers or the Dealers that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Republic and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

None of the Republic and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Republic and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorisation

The Republic has obtained all necessary consents, approvals and authorisations in the Republic of Bulgaria in connection with the establishment and update (including the increase in the Programme Limit) of the Programme and the issue and performance of the Notes under it. The establishment and update of the Programme and the issue of Notes from time to time under it was authorised by the Annual State Budget Act for 2015 of the Republic of Bulgaria, the Annual State Budget Act for 2016 of the Republic of Bulgaria, the Annual State Budget Act for 2020 (as amended) of the Republic of Bulgaria, the Annual State Budget Act for 2022 (as amended) of the Republic of Bulgaria, the Act on the Application of Certain Provisions of the State Budget Act for 2022 of the Republic of Bulgaria, of the 2022 State Social Insurance Budget Act and of the 2022 National Health Insurance Fund Budget Act (promulgated in State Gazette, Volume 104/30 December 2022), resolution No. 83 of the Council of Ministers of the Republic of Bulgaria dated 9 February 2015, and by the law on ratification of the Agency Agreement, the Dealer Agreement and the Deed of Covenant, adopted by Parliament on 25 February 2015, sealed by the President on 25 February 2015 and published by the State Gazette Volume 16/27 February 2015, in force as of 27 February 2015.

For as long as the State Budget Act for 2023 of the Republic of Bulgaria is not adopted by Parliament (but for no longer than three months starting to run from 1 January 2023), the Republic is authorised under Article 87(2) of the Public Finances Act, read in conjunction with Article 4 of the Act on the Application of Certain Provisions of the State Budget Act for 2022 of the Republic of Bulgaria, of the 2022 State Social Insurance Budget Act and of the 2022 National Health Insurance Fund Budget Act, subject also to the general limitations laid down in the Programme documentations, to incur new indebtedness under the Programme only for the purposes of refinancing maturing public debt, up to the aggregate amount of repayments scheduled to be made during 2023 in respect of public debt assumed before the start of 2023. If Parliament is dissolved at any time between 1 January and 31 March 2023, the running of the three-month maximum authorisation period will be suspended from the day of such dissolution until the day the new Parliament is convened.

Listing and admission to trading of Notes

Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on its regulated market and to be listed on the Official List of the Luxembourg Stock Exchange.

Legal and Arbitration Proceedings

Save as disclosed in the section headed "*Legal Proceedings*" in this Offering Circular, Bulgaria is not involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Bulgaria is aware) which may have, or have had during the 12 months preceding the date of this Offering Circular, a significant effect on the financial position of Bulgaria.

No Significant Change

There has been no significant change in the tax and budgetary systems, gross public debt, foreign trade and balance of payments, foreign exchange reserves, financial position and resources and income and expenditure figures of Bulgaria since 31 December 2022.

Documents Available

For a period of 12 months following the date of this Offering Circular, copies of the following documents will, when published, be available for inspection from the specified office of the Fiscal Agent and of the Listing Agent for the time being in Luxembourg:

- (a) the Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Coupons and the Talons;
- (b) a copy of this Offering Circular and any supplements to it; and
- (c) any future offering circulars, prospectuses, information memoranda or statements and supplements to this Offering Circular and any other documents incorporated herein or therein by reference.

In addition, copies of this Offering Circular and each Pricing Supplement relating to Notes which are admitted to trading on the Luxembourg Stock Exchange's regulated market are available on the website of the Luxembourg Stock Exchange at *www.bourse.lu*.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg which are the entities in charge of keeping the records. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. In addition, the Republic may make an application for any Notes in registered form to be accepted for trading in book-entry form by DTC. The CUSIP numbers for each Tranche of such Registered Notes, together with the relevant ISIN and (if applicable) Common Code, will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

The Legal Entity Identifier (LEI) of the Issuer is 529900PG0XCL4L1CL838 (the LEI of the Ministry of Finance of the Republic of Bulgaria).

Dealers transacting with the Republic

Each of the Dealers and their affiliates have or may have engaged, and may continue to engage, in investment banking and/or commercial banking transactions with, and may perform services for the Republic and its agencies in the ordinary course of business. See "*Subscription and Sale*" for further information.

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