GOVERNMENT DEBT MANAGEMENT STRATEGY

2024 - 2026

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

The proposed Government Debt Management Strategy for the period 2024-2026 was prepared by using good international practices and in accordance with the provisions of Art. 16, para. 1 of the Government Debt Act and Art. 77a of the Public Finance Act. The object of the strategy is the government debt – domestic and external, issued under the Government Debt Act.

1. PERSPECTIVES ON THE DEBT MANAGEMENT DEVELOPMENT – MAIN ASSUMPTIONS[1]

The Government Debt Management Strategy for the period 2024 – 2026 was prepared in accordance with the implementation of the 2023 state budget indicators and by virtue of the assumptions, upon which were developed the draft 2024 state budget and the draft of the updated Medium Term Budgetary Forecast (MTBF) for the period 2024 – 2026 as there were taken into account the main indicators from the autumn macroeconomic forecast of the Ministry of Finance for 2023.

The government debt management policy for the period 2024-2026 continues its fundamental direction on securing the necessary resources for refinancing the debt outstanding, financing the planned levels of the state budget deficit and ensuring the liquidity position of the fiscal reserve.

Global challenges remain unchanged, as they are mainly affected by current geopolitical processes which create a high degree of uncertainty for the EU economy and for Bulgaria, concerns about persisting high inflation, possible market fragmentation and retention of higher interest rates longer than expected. These factors, as well as concerns about a possible decline in economic activity at the EU level and descending expectations for its development, global political and economic uncertainty in the broadest sense are considered to be the key factors determining the price of debt financing, on the one hand, and the risks accompanying its provision, on the other hand.

Considering these conditions, the main challenges and objectives of debt management will be focused on providing opportunities for market-oriented debt financing on the domestic and international sovereign debt markets, as well as for negotiating government loans as per the European Union instruments and from international financial institutions, including financing for projects and programmes in compliance with the legally approved annual debt ceilings.

The State Budget Low of the Republic of Bulgaria (SBLRB) for 2024providess the maximum amount of the new government debt, which may be issued in 2024 to be up to BGN 11.7 billion, which allows for issuance of government securities both on the domestic debt market and the international capital markets, as well as securing structural programme loans in the amount of up to EUR 500 million with the EIB (European Investment Bank) and CEB (Council of Europe Development Bank) for co-financing of

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

projects implemented with assets from the European funds within shared management, during the programme period 2021-2027.

The amount of debt outstanding that should be refinanced in 2024 amounts to BGN 3.5 billion, of which BGN 2.9 billion (EUR 1.5 billion) is the maturity of Eurobonds (issued on the International Capital Markets in 2014) and BGN 0.4 billion is the maturity of government securities (issued on the domestic market in 2014and BGN 0.2 billion is repayments on government loans. In addition to debt refinancing, debt financing is foreseen with a view to provide funds to cover the planned deficit of the state budget and ensuring the fiscal reserve liquidity position.

During 2025-2026 the planned new debt issuance amounts to BGN 11.6 billion for 2025 and BGN 11.7 billion for 2026, as the upcoming repayments within this period are BGN 3.6 billion in 2025 (including BGN 0.3 billion external government debt and BGN 3.3 billion domestic government debt), and BGN 2.8 billion in 2026 (including BGN 0.3 billion external government debt and BGN 2.5 billion domestic government debt).

The main risks associated with the implementation of the new debt financing in 2023 have the potential to appear in future, including: geopolitical, internal political, market, etc. External risks, which the issuer could not control, affect also the domestic debt market that has a relatively limited capacity, liquidity and market participants. Last but not least, it should be considered that the prevailing share of the market sources for debt financing assumes bringing in all external risks upon the state budget execution in the part concerning financing of the deficit planned either for 2024 and the whole three-year period, provided in the Medium Term Budgetary Forecast.

Table 1: Debt and interest service costs – key parameters

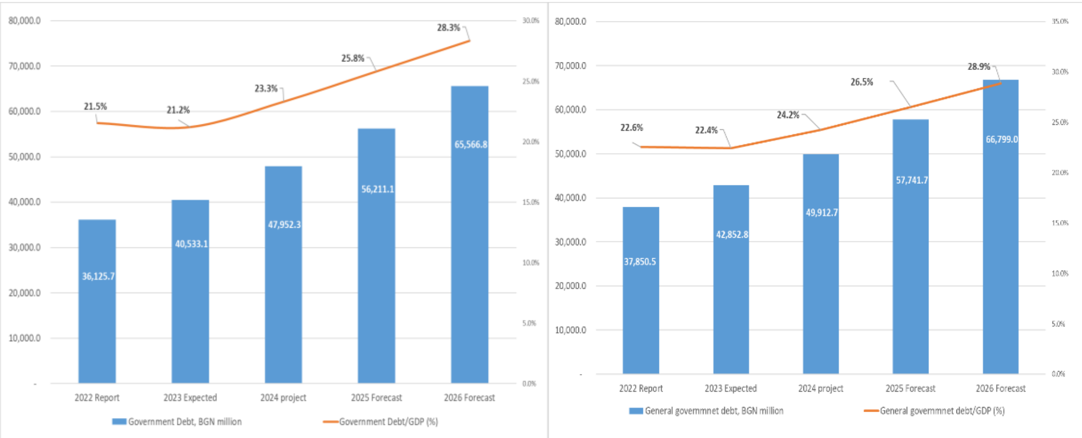
Parameters	2022 r.	2023 r.	2024 r.	2025 r.	2026 r.
	Report	Expected	Project	Forecast	Forecast
Government Debt					
Government Debt, BGN million	**36,125.7**	**40,533.1**	**47,952.3**	**56,211.1**	**65,566.8**
Government Debt/GDP (%)	21.5%	21.2%	23.3%	25.8%	28.3%
Government guaranteed debt					
Government guaranteed debt, BGN million	**1,700.9**	**1,682.3**	**6,040.4**	**5,889.5**	**5,845.6**
Government guaranteed debt/GDP (%)	1.0%	0.9%	2.9%	2.7%	2.5%
General governmnet debt					
General governmnet debt, BGN million	**37,850.5**	**42,852.8**	**49,912.7**	**57,741.7**	**66,799.0**
General governmnet debt/GDP (%)	22.6%	22.4%	24.2%	26.5%	28.9%
Governmnent debt service costs					
Interest expenditure, BGN million	**593.6**	**782.2**	**966.8**	**1,485.7**	**2,203.6**
Interest expenditure/GDP (%)	0.4%	0.4%	0.5%	0.7%	1.0%
GDP*, BGN million	**167,809.0**	**191,181.7**	**205,848.7**	**217,811.3**	**231,356.8**

** - GDP for 2022 according to data of the NSI. For the period 2023-2026 - according to the autumn macroeconomic forecast of the Ministry of Finance for 2023*

Source: Ministry of Finance

Based on the above assumptions, during the period 2024-2026 will be seen an increase in government debt both in nominal value and in a share of GDP. It is expected that its nominal level will reach BGN 65.6 billion by the end of 2026, and the ratio of the government debt to the projected GDP to 28.3%, respectively.

Fig. 1: Government debt and General government debt for the period 2022 – 2026



** GDP for 2022 according to data of the NSI. For the period 2023-2026 - according to the autumn macroeconomic forecast of the Ministry of Finance for 2023*

Source: Ministry of Finance *Source: Ministry of Finance*

For the whole three-year period, it is expected both in the interest rate and currency structure of the government debt, the share of the debt with a fixed interest rate, as well as that denominated in EUR and BGN, to remain as dominant. At the end of the period, about 98.4% of the debt will be composed of liabilities with fixed interest rates, and almost the entire debt portfolio will be in EUR and BGN.

The expected growth of the government debt also determines the dynamics of the interest expenses for servicing the government debt in the medium term. During the period 2024 - 2026, interest expenses are expected to increase and reach respectively BGN 966.8 million or 0.5% of the projected GDP for 2024, BGN 1 485,7 million or 0,7% of the projected GDP for 2025, and BGN 2 203.6 million or 1.0% of the projected GDP for 2026.

In 2024, the draft 2024 State Budget Low sets a maximum amount of new government guarantees that may be issued during the year up to BGN 4.5 billion, of which BGN 4.4 billion pursuant to the Government Debt Act is in relation with the financing of strategic projects in the energy and transport sector:

- project ”Modernization and rehabilitation of Chaira Pumped- Storage Hydro Power Plant (Chaira PSHPP)” - in the currency equivalent amount of up to of BGN 80 million, subject to compliance with the state aid legislation ;

- project ”Increasing the volume of the lower reservoir of Chaira PSHPP with the construction of the Yadenica dam and a reversible pressure tunnel to connect with the Chaira dam” - in the currency equivalent amount of up to of BGN 75 million, subject to compliance with the state aid legislation ;

- project ”Construction of a new nuclear power of the latest generation at the Kozloduy Nuclear Power Plant (Kozloduy NPP)’ (unit 7)” - in an amount of up to the

BGN equivalent of EUR 1 500 417 089, subject to compliance with the state aid legislation;

- project "Acquisition of railway rolling stock" - up to the BGN equivalent of EUR 300 million, subject to compliance with the state aid legislation.

At the same time, in the 2024 State Budget Low of the Republic of Bulgaria (SBLRB) is continued the possibility of issuing the state guarantees provided by the 2023 SBARB, under new loan agreements for payments to "Bulgargaz" EAD in the amount of up to EUR 150 million in BGN equivalent, and for investments of "Bulgartransgaz" EAD in connection with a project of common interest financing 6.20.2 " Capacity expansion of Underground Gas Storage Chiren" in the amount up to EUR 207 586 411 in BGN equivalent, subject to compliance with the state aid legislation.

Also within the next budget year, government guarantees may be issued under the Student and Doctoral-Candidate Loans Act in a maximum amount of up to BGN 40 million and in relation to Guarantee Agreement with EIB the contribution agreement between the Republic of Bulgaria and the European Investment Bank regarding the participation of the Republic of Bulgaria with a guarantee up to EUR 10 million in BGN equivalent, in the EU for Ukraine Fund (EU4U).

Upon assumptions for issuance of the government guarantees, planned in the 2024 SBLRB, in the maximum amount of BGN 4.5 billion and disbursement of the full loan amounts in 2024 government guaranteed debt is expected a rise of the up to a level of about BGN 6.0 billion or 2.9% of the projected GDP, as in the next years is expected gradually decrease, reaching BGN 5.9 billion or about 2.7% of the projected GDP in 2025 and BGN 5.8 billion or about 2.5% of the projected GDP at the end of 2026.

It is expected that within three years the General government debt[2] would reach up to BGN 49.9 billion (24.2% of the projected GDP) at the end of 2024, BGN 57.7 billion (26.5% of the projected GDP) at the end of 2025 and BGN 66.8 billion (28,9% of the projected GDP) at the end of 2026.

The risks still remain to the management of government debt, which generally correspond to the forecasts for the growth of debt in an absolute value, including the need to secure the volumes of new debt issuance planned during the forecasting period, mainly on a market basis, combined with the possible retention of higher financing costs longer than expected, as well as the changed conditions in the international sovereign debt markets in this regard. On the other hand, it is important to take into consideration the structure and profile of debt outstanding, mainly formed by securitised debt and a predominant share of external debt obligations, the planned nominal growth of interest costs, etc. ■

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

2. GOVERNMENT AND GOVERNMENT GUARANTEED DEBT[3]

2.1 Government debt

In 2023, the debt management is carried out in the conditions of domestic political dynamics, unstable geopolitical environment in the world, caused by the Russian aggression against Ukraine and further aggravated by the escalation of the situation in the Middle East in October, upon the absence of a regularly adopted 2023 SBLRB until July, unfavorable dynamics of rising reference interest rates, inflationary processes, etc. All these factors, with potentially negative effects for the economy of the EU in general and for Bulgaria in particular, has led to a deterioration of financing conditions, volatility of debt markets and increased yields of benchmark bonds, which also affects the domestic debt market. Considering these restrictive conditions, the issuance activity was carried out in two stages, in a shortened time line and concentrated in short periods, at the beginning and at the end of the year, which disregards the key need for a smooth realization of debt financing.

As a result of the executed and planned debt operations, the nominal amount of the government debt at the end of 2023 is expected to be in the amount of BGN 40.5 billion, upon a maximum approved amount according to the 2023SBLRB[4] of BGN 40.6 billion. In nominal terms, the debt rises with BGN 4.4 billion compared to the reported level at the end of 2022, amounting to BGN 36.1 billion. Despite the increase in government debt in an absolute value, in relative value to GDP decrease from the level of 21.5% of GDP end of 2022, and is foreseen to reach 21.2% of GDP by the end of 2023, as a direct consequence from GDP growth. During the year, with a debt ceiling provided in the 2023 SBLRB for issuing on new government debt in the amount of BGN 7.5 billion, within the Global Medium-Term Note Issuance Program on the International Capital Markets (GMTN programme), two transactions of placement of new debt with a total nominal value of the currency equivalent of BGN 7.4 billion took place, by which the maximum possible amount for issuing new debt is realized entirely on foreign markets.

At the beginning of the year (January 17, 2023), on the basis of the provisions of the Act on Application of Provisions of the 2022 State Budget of the Republic of Bulgaria Act, the 2022 Public Social Insurance Budget Act and the 2022 National Health Insurance Fund Budget Act [5] as well as in accordance with Art. 87, para. 2 of the Public Finance Act (PFA), without the traditional marketing and investors meetings, the Republic of Bulgaria issued

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

4 Published in SG issue 66 of 01.08.2023, effective from 01.01.2023.

[5] Promulgated, SG, issue 104 as of 30.12.2022, effective from 01.01.2023 г., amended and supplemented, issue 53 as of 20.06.2023, effective from 10.06.2023.

10-year Eurobonds with a nominal amount of EUR 1.5 billion (BGN 2.9 billion) and an annual interest coupon in the amount of 4.5% and a yield of 4.780% (97.815 per EUR 100 par value).

Due to the late adoption of the 2023 SBLRB and taking advantage of the momentary positive environment of the debt markets calming, on November 6, 2023, the Republic of Bulgaria successfully placed on the international capital markets dual tranche of bonds amounting to EUR 2.3 billion (BGN 4.6 billion). The transaction includes a 7.5-year tranche of EUR 1.3 billion and a 12.5-year tranche of EUR 1 billion. The tranche with a maturity of 7.5 years has an interest coupon of 4.375% and an achieved yield of 4.673% (issue price of 98.175 per EUR 100 denomination), and the tranche with a maturity of 12.5 years has an interest coupon of 4.875% and achieved yield of 5.130% (97.719 per EUR 100 par value).

With the undertaken issuance activities, the necessary debt financing of the 2023 state budget was secured, on the one hand, and on the other hand the sovereign debt curve was supplemented and the liquidity of the Bulgarian government debt increased.

Repayments on the government debt for 2023 amounts totally to BGN 3.0 billion, of them BGN 2.6 billion are external government debt and BGN 0.4 billion are domestic government debt. The highest share of them are those paid out (on March 21 this year) in favour of the holders of seven-year Eurobonds of the Republic of Bulgaria, which present part of two tranches issued in March 2016 on the international capital markets (seven-year and twelve-year bonds) under the GMTN programme, as a par amount in the amount of EUR 1.144 billion or BGN 2.237 billion.

Table 2: Main government debt indicators

Parameters	31.12.2021 г.	31.12.2022 г.	31.12.2023 г.
	Report	Report	Report as of 31.10.2023 г. and expected
Total Government Debt, BGN million	**31,218.0**	**36,125.7**	**40,533.1**
GDP*, BGN million	138,979.4	167,809.0	191,181.7
Total Government Debt /GDP, (%)	22.5%	21.5%	21.2%
Domestic government debt, BGN million	8,637.1	10,965.4	10,615.4
External government debt, BGN million	22,580.9	25,160.3	29,917.7
Domestic government debt/Total government debt (%)	27.7%	30.4%	26.2%
External government debt/Total government debt (%)	72.3%	69.6%	73.8%
Interest rate structure of the governmnet debt			
Fixed rate debt, BGN million	30,810.7	35,820.5	40,320.7
Floating rate debt, BGN million	407.3	305.2	212.5
Fixed rate debt (%)	98.7%	99.2%	99.5%
Floating rate debt (%)	1.3%	0.8%	0.5%
Currency structure of the governmnet debt			
Debt in EUR, BGN million	22,966.1	25,560.2	30,312.8
Debt in BGN, BGN million	8,179.3	10,507.5	10,157.5
Debt in USD, BGN million	-	-	-
Debt in other currency, BGN million	72.6	57.9	62.8
Debt in EUR (%)	73.6%	70.8%	74.8%
Debt in BGN (%)	26.2%	29.1%	25.1%
Debt in USD (%)	0.0%	0.0%	0.0%
Debt in other currency (%)	0.2%	0.2%	0.1%
Maturity structure of the governmnet debt (by residual term)			
Debt up to 1 year, incl., BGN million.	2,771.5	2,790.0	3,328.1
Debt from 1 year to 5 years, incl., BGN million	10,476.3	11,814.4	10,814.1
Debt from 5 year to 10 years, incl., BGN million	10,324.1	11,604.1	14,638.5
Debt of more than 10 years, incl., BGN million	7,646.1	9,917.1	11,752.3
Debt up to 1 year, incl. (%)	8.9%	7.7%	8.2%
Debt from 1 year to 5 years (%)	33.6%	32.7%	26.7%
Debt from 5 year to 10 years (%)	33.1%	32.1%	36.1%
Debt of more than 10 years, incl. (%)	24.5%	27.5%	29.0%
Average residual maturity of government debt (years)	8 г. и 2 м.	7 г. и 11 м.	7 г. и 10 м.

Source: Ministry of Finance

In the structure of the government debt as of 31.12.2023, the relative share of the domestic government debt decreased to 26.2% (30.4% at the end of 2022), at the expense of the increase in the share of the external government debt – 73.8 % (69.6% at the end of 2022).

In the interest composition of the government debt at the end of 2023, the tendency for a dominant share of the debt with fixed interest rates is maintained - 99.5% as opposed to 0.5% for that with floating interest rates (compared to 99.2% vs 0.8% at the end of 2022).

In the currency structure of the debt, the prevailing share of the debt remains in EUR s, which increased from 70.8% in 2022 to 74.8% as of 31.12.2023, at the expense of the decrease in the share of debt in BGN from 29.1% to 25.1%. The share of liabilities in other currencies remains unchanged compared to 2022 - 0.2%.

In the maturity structure of the debt (according to a residual term) at the end of 2023, a dominant position has the debt with maturity from 5 years to 10 years – 36.1% (32.1% in 2022), followed by the maturity above 10 years with a share of 29.0% (27.5% at the end of 2022). Compared to the previous year, the share of the debt with residual maturity up to 1 years increased up to 8.2% at the end of 2023 (7.7% in 2022). The opposite trend appears for the debt with a residual maturity from 1 to 5 years, which decreased from 32.7% to 26.7%.

The average residual maturity of government debt at the end of 2023 is 7 years and 10 months and remained relatively the same level as the reported at the end of 2022 (7 years and 11 months).

2.2 Government guaranteed debt

By the end of 2023, the government guaranteed debt is expected to remain at the level recorded at the end of 2022 in the amount of BGN 1.7 billion, and as a ratio of GDP it will decrease up to 0.9% (1.0% at the end of 2022). During the year, funds from external governments guaranteed loans in the total amount of BGN 168 million were disbursed, and repayments on them are in the total amount of BGN 208 million.

The major part of the Government guaranteed debt (GGD) - 96.4% is formed of external Government guaranteed loans, received mainly from official lenders as IBRD, EIB, EC, EBRD, CEB, JICA, etc. The domestic GGD consists of the government guarantees, issued under the Student and Doctoral-Candidate Loans Act, which as of December 31, 2023 has a share of 3.4% of the total amount of the GGD.

In the sectoral structure of Government guaranteed debt as of 31.12.2023, the dominant share has the ‘Financial’ sector - 51.7%, followed by the ‘EU and EIB instruments’ sector - 20.4%, the ‘Energy’ sector - 17.6 %, ‘Transport’ sector - 5.8%, ‘Education’ sector - 3.6% and ‘Others’ sector - 0.9%.

In 2023, state guarantees in the amount of BGN 40 million were issued in accordance with the Student and Doctoral-Candidate Loans Act, and also the Guarantee Agreement between the Republic of Bulgaria and ING Bank N.V. (ING Bank) regarding to the loan agreement, concluded in January 2023 between ING Bank N.V. and 'Bulgartransgaz' EAD for financing the Project of Common Interest (PCI) 6.8.3 Gas Interconnection Bulgaria - Serbia (IBS) in the amount of EUR 49.1 million (BGN 96.0 million) and the Guarantee agreement for BDB loan with the creditor EIB in the amount of EUR 175 million for SMES and MIDCAPS were ratified by the National Assembly.

By the end of the year, it is expected that the National Assembly will ratify a guarantee agreement regarding to loan agreement between BDB and CEB in the amount of EUR 175 million to support micro, small and medium-sized enterprises for the creation and preservation of viable jobs and environmental protection environment (signed and submitted for ratification in July 2023), as well as the agreement to provide emergency macro-financial assistance from the EU to Ukraine, in the amount of up to the BGN equivalent of EUR 16.7 million (submitted to the National Assembly for ratification in July 2023).

Table 3: Size and dynamics of the government guaranteed debt

Government Guaranteed Debt, BGN million	31.12.2021 г.	31.12.2022 г.	31.12.2023 г.
	Report	Report	Report as of 31.10.2024 г. and expected
Domestic government guaranteed debt	67.1	62.4	60.0
1. Guarantees under Student and Doctoral-Candidate Loans Act	67.1	62.4	60.0
External government guaranteed debt	1,871.8	1,638.5	1,622.3
1.IBRD /World Bank/	586.7	557.4	528.1
2.EIB	181.8	221.6	259.3
3.EBRD	586.7	440.1	293.4
4. Others (EUROATOM, JBIC, CEB, EC, ect.)	516.5	419.3	541.5
Total government guaranteed debt	**1,938.9**	**1,700.9**	**1,682.3**
Government guaranteed debt/GDP (%)	1.4%	1.0%	0.9%

Source: Ministry of Finance

3. ECONOMIC PERSPECTIVES FOR THE PERIOD 2024-2026

3.1 Economy development in 2023

In 2023, economic activity is deteriorating globally, including in the EU, determined by still high inflation and increased interest rates, amidst worsening geopolitical conflicts in various regions. In Bulgaria, real gross domestic product (GDP) growth reached 2% in the first half of 2023, with positive contributions from consumption and net exports. The number of people employed in the economy increased by 1.7%, while the economic activity rate improved to 73.3%. The unemployment rate was 4.5%. Real labour productivity rose by 0.3%, as the increase was mostly due to a rise in the service sector.

Since the last quarter of 2022, there has been a disinflation trend in the country, thus the annual HICP inflation rate slowed to 6.4% in September 2023. All major HICP components reported a slowdown in their rates of inflation, except for alcohol and tobacco after higher excise rates for cigarettes were introduced in March 2023.

The current account balance improved by August, with a major positive contribution from shrinking trade deficit. Since the beginning of 2023, the credit to the private sector has slowed slightly, and at the end of September its annual growth rate reached 11.3%, down from 12.7% at the end of 2022.

In the second half of 2023, GDP growth is expected to slow slightly and to reach 1.8% for the whole year. Net export will have a major positive contribution to GDP growth. Investments in the economy for 2023 will decline due to the negative contribution of change in inventories, while fixed capital investment will increase, supported by public capital expenditures.

In 2023 it is expected the number of the employed persons to raise by 1.2% and the unemployment rate to decline to 4.2%. Nominal growth of compensation per employee is estimated at 14.6%, as the private sector salaries growth is expected to grow faster.

Inflation at the end of 2023 is expected to be 6.9% and the annual average inflation rate to be 9.1%. Core inflation and services in particular will report the highest increase and the largest contribution to inflation by the end of 2023. Energy commodities will also have a low positive contribution.

By the end of 2023, the current account surplus is expected to reach 1.7% of projected GDP. Growth of credit to the private sector will slow to 9.7%. Demand for credit from households will remain high, driven by the consumer segment and loans for house purchasing. The annual increase of loans to non-financial corporations (NFCs)[6] will be around 8.3%.

[6]The data refer to non-financial and financial enterprises from the monetary statistics of the BNB.

3.2 Expectation for the economic development in 2024-2026

In 2024, real GDP growth will accelerate to 3.2% due to increased investment in the economy. High growth of public investments and activation of private investment activity are expected. Weaker growth of employment and loans will be reflected in a slow-down in household consumption growth. The improvement in the external environment will support export, but as a result of strong domestic demand, import growth will outpace that of export. The contribution of net export to GDP dynamics will be negative. In 2025 and 2026, GDP will increase by 3% each. A slowdown in domestic demand growth is expected due to weaker growth in public spending and private consumption caused by lower in income growth. A gradual slow-down in both export and import growth rates and a contraction of the negative contribution of net export to GDP growth are expected. Nominal GDP will grow by about 7% on average per year for the period.

The annual rate of employment growth will slow-down from 0.6% in 2024 to 0.3% in 2026. Labour demand will remain high, but opportunities for extensive increases in labour supply will be increasingly limited (mainly due to unfavourable demographic processes in the country). Along with the increase in employment, unemployment is expected to follow a constant downward trend, but at a relatively low pace. The unemployment rate at the end of the forecast period will be 3.9%. The growth of compensations will remain high in 2024 (11.2%), in line with an expected acceleration in real productivity growth. A higher contribution is also expected from an increase in the minimum wage in the country, in accordance with the adopted normative changes. In the period 2025-2026, the nominal growth of the compensation per employee will slow down to 8.1% and 7.3%, respectively.

Inflation will continue to gradually slow down, especially with the expected dynamics of international prices. The average annual inflation will narrow to 4.8% in 2024, 2.8% in 2025 and 2.2% in 2026. The expected decline in international commodity prices until the end of the forecast horizon will lead to a slowdown in the rate of inflation of food, non-energy industrial goods and services. However, due to the projected increase in domestic demand, as well as in labour costs, the components of core inflation will continue to form a significant contribution to overall inflation in the country.

During the forecast period 2024-2026, the external position of the country is expected to remain stable. The current account is forecast to be balanced in 2024 and to form a deficit in the next years, reaching up to 1% of GDP at the end of the period. The main driver for the dynamics will be the growth of the trade deficit. The FDI inflow is expected to be in about 3.9% of GDP per year.

Growth of private sector credit will slow down from 8.1% in 2024 to 7.9% at the end of the forecasting period, with a decrease in the growth rate of household credit. Concerning the NFCs credit is expected to slow down in 2024 and gradually accelerate in 2025-2026 in the context of significant utilisation of funds under the NRRP.

3.3 Risks to the macroeconomic forecast

The geopolitical situation related to the war in Ukraine and events in the Middle East remains unstable, with possible significant negative effects for the EU and Bulgaria's economy. There is a risk that the supply of certain raw materials could be restricted, which may lead to a rise in international prices and/or further disruption in the global supply chains. This might lead to persistently higher inflation rates and prolonged monetary tightening, which will have a negative impact on both foreign trade and domestic demand in Bulgaria.

The forecast is based on the assumption for a smooth transition in the supply of energy raw materials for domestic processing. If such a timely restructuring is not achieved there might be stronger increase in energy of and disruptions in production processes. This would have a pronounced negative effect on the production and export of goods in Bulgaria.

Concerning the projected inflation, the risks are predominantly in an upward direction. They are related to a possible increase in the prices of the main commodities traded on the international markets, given the expected decrease, which would lead to higher inflation in the country in the medium term as compared to the baseline scenario. This could lead to weaker growth in real disposable income of households and limit consumption growth.

The worsening of the financing conditions may have a stronger negative effect on investments and consumption.

The forecast is made assuming a zero contribution of change in inventories in 2024, but it is possible to observe a significant negative contribution which, if not compensated by another component (as it is seen in 2023 with a decline in imports), would further reduce GDP growth.

4. ANALYSIS OF THE RISK, RELATED TO THE GOVERNMENT DEBT STRUCTURE FOR THE PERIOD 2024 – 2026.

The results of the performed risk analysis, which provide opportunity to measure and evaluate the risk profile of the government debt, are presented in the table 4 below. For the calculation of the individual risk indicators, the assumptions for the main macroeconomic indicators from the autumn forecast of the Ministry of Finance since 2023 and for the new debt financing provided for in the draft 2024 SBLRB and the draft MTBF for the period 2024 - 2026 were used, and its conditional distribution between domestic and external (such as amount of specific instruments and parameters).

In a medium-term perspective, the analysis examines main risks of the debt portfolio, which could adversely affect and are generally related to both the total amount of the government debt and its composition, including the debt outstanding repayment profile, the interest and currency structure of the debt, together with this taking into account the state of the debt markets and the interest of investors in the offered debt instruments (domestic and international), the amount and cost of financing, etc.

Table 4: Risk assessment indicators

Risk	Indicator	2022 r. - Report	2023 r. - Report	2024 r.- Project*	2025 r.- Forecast*	2026 r. - Forecast*
Refinancing risk	Debt up to 1 year (by residual maturity as a share of government debt, %)	7.7%	8.2%	7.1%	4.5%	5.1%
	Average time to maturity (ATM) - (years)	7.8	7.9	8.8	9.0	9.3
Interest rate risk	Ratio between fixed interest rate debt and floating interest rate debt (%)	99.2% / 0.8%	99.5% / 0.5%	99.1% / 0.9%	98.8% / 1.2%	98.4% /1.6%
	Average time to refixing (ATR) - (years)	7.8	7.9	8.6	8.8	9.2
	Duration - (years)	7.0	6.9	7.3	7.2	7.3
Currency risk	Ratio between external and domestic government debt (%)	69.6% / 30.4%	73.8% / 26.2%	72.2% / 27.8%	75.9% / 24.1%	78.6% /21.4%
	Ratio between debt in risk-neutral currencies – BGN and EUR as compared to the share in other currencies debt (% of the total amount of the government debt)	99.8% / 0.2%	99.8% / 0.2%	99.9% / 0.1%	99.9% / 0.1%	100%
Liquidity risk	Ratio between debt up to 1 year (at residual maturity) and tax and social security revenues (%)	5.2%	6.3%	5.9%	4.0%	4.9%
Risk related to the debt size	Ratio between General government debt and GDP (%)	22.6%	22.4%	24.2%	26.5%	28.9%
	Ratio between Government debt and GDP (%)	21.5%	21.2%	23.3%	25.8%	28.3%
Risk related to governmnet guarantees	Ratio between government guaranteed debt and government debt (%)	4.7%	4.2%	12.5%	10.4%	8.9%
	Ratio between government guaranteed debt and GDP (%)	1.0%	0.9%	2.9%	2.7%	2.5%
Operational risk	- Established stable institutional structure for government debt management, having clearly delegated staff responsibilities, which operates within the framework of the Ministry of Finance;					
	- Maintenance of the information system for analysis, forecasts and management of the government and government guaranteed debt - an official register of the government and government guaranteed debt;					
	- Pursuing an operating risk reduction policy by applying and complying with internal standards and control systems;					
	- Detailed rules and procedures about the organization of the operation of the structural unit in charge of government debt management.					

Source: Ministry of Finance

4.1 Refinancing risk

The refinancing risk, shown as the main one in the debt portfolio, is associated with the ability to timely refinance the upcoming debt payments and it dependents on the size of upcoming repayments and their concentration for a certain period. Additionally, its impact depends on the liquidity risk and increases in the presence of temporary market volatility and/or difficult access to the debt markets, as well as in the case of low investor interest in the offered instruments.

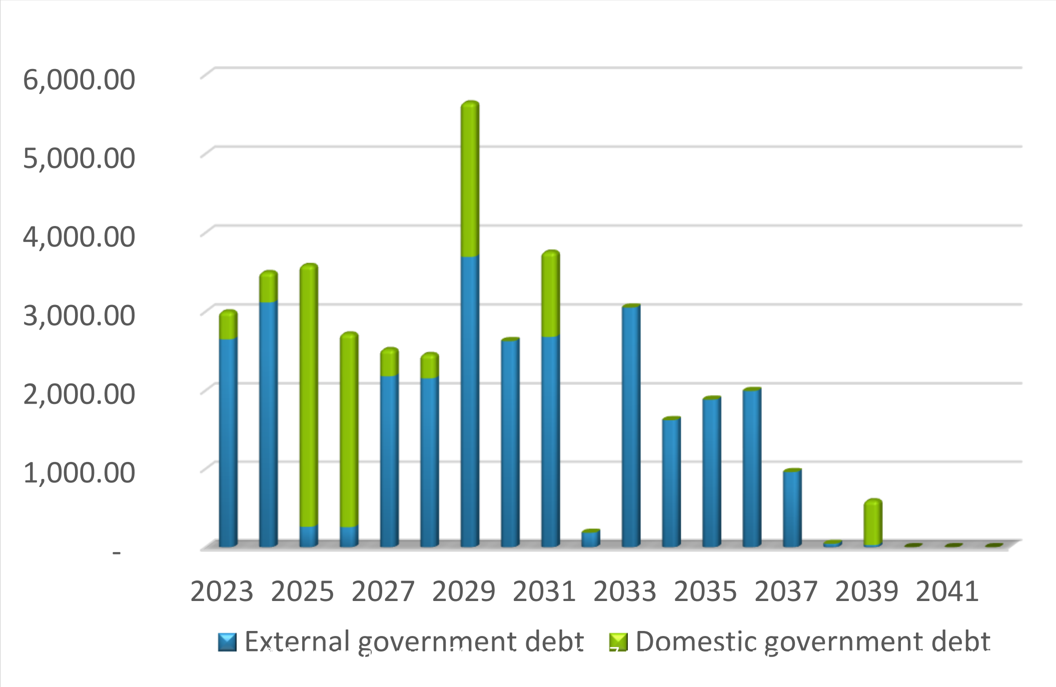
Risk assessment indicators:

- The repayment profile of the of the government debt, which is presented on figure 2 below, is described by a dominant share of repayments on securitised debt. This exposure is predetermined by the structure of the debt portfolio, represented by types of instruments, where as of 31.12.2023, the dominant position is occupied by bonds issued on the ICM and those on the domestic market - with a total aggregate share of about 87.9%. During the period 2024 - 2026, the debt outstanding, which should be refinanced, amounts to about BGN 3.5 billion in 2024 (including BGN 3.1 billion in external government debt and BGN 0.4 on the domestic government debt), BGN 3.6 billion in 2025 (including BGN 0.3 billion on the external government debt and BGN 3.3 billion on the domestic government debt), and BGN 2.8 billion in 2026 (including BGN 0.3 billion in external government debt and BGN 2.5 billion in domestic government debt).

To secure the majority of the new debt financing foreseen during the period, including for the refinancing of debt outstanding, for financing the projected budget deficits and for supporting the liquidity position of the fiscal reserve , as a potential possible approach, depending on the current conditions and trends in the development of the debt markets, the placement of securitised debt on the domestic and international capital markets, positioned in various maturity segments, including diversifying the instruments offered, upon taking into account the accompanying risks. It is of significant importance not to allow additional concentration of debt payments in years with a heavy loaded repayment profile.

The tendency to increase the level of the main regulatory interest rates is expected to be maintained by the end of 2023, the uncertainty regarding the state of the financial markets, the dynamics of the inflationary processes in Europe and the high degree of uncertainty caused by the geopolitical situation could predetermine developments to raise the price of debt financing and change the focus of investor demand towards shorter-term bonds, which would lead to an additional concentration of payments in the medium-term aspect. These external factors to the issuer of government debt also affect the domestic debt market, which has a relatively limited capacity, liquidity and market participants.

Fig. 2: Redemption profile of the government debt*



** Under the active debt (in BGN million), issued as of November 13, 2023* *Source: Ministry of Finance*

The share of government debt with a residual maturity of up to 1 year to the total amount of government debt outstanding in 2023 rises slightly to the level of 8.2% (7.7% at the end of 2022), and in the next period expected to reach 7.1 at the end of 2024, at the end of 2025 - 4.5%, and at the end of 2026 - 5.1%.

The average time to maturity (ATM) is a weighed amount of the principle payments and the remaining maturity. Its value is 8.8 years in 2024, gradually extending over the next two years to 9.0 years at the end of 2025 and 9.3 years at the end of 2026, and indicates less frequent renegotiation of the debt portfolio.

4.2 Market risk

Market risk is related to potential changes in the rates of market variables - interest rates and exchange rates and is influenced by the presence in the debt portfolio of instruments denominated in currencies other than EUR and BGN, and those with floating interest rates. Analyzing the impact of this risk, it is important to take into account its direct impact on the price of the entire debt portfolio and the costs of its servicing.

As of 31.12.2023, in the interest rate structure of the government debt a prevailing share have the liabilities with fixed coupon, which increase up to 99.5%, and this structure remains unchanged in the entire period 2024-2026 under review (99.1% at the end of 2024, 98.8% at the end of 2025, and 98.4% at the end of 2026). The floating-rate debt, which at the end of 2023 amounts to 0.5%, is linked to the 6-month EURIBOR.

To a large extent, the currency debt exposure is predetermined by an operating currency board system, respectively the fixing of BGN into EUR (BGN 1.95583 = EUR 1). The total aggregate share of debt in EUR and in BGN at the end of 2023 marked a level of 99.8%. The share of debt denominated in currencies other than EUR and BGN (JPY) represents only 0.2% at the end of 2023 and is reduced to a level of 0.1% at the end of 2024. At the end of the period almost all debts liabilities will be in risk-neutral currencies - BGN and EUR.

In the structure of the government debt, the main part is taken by the external government debt with a share of 73.8% at the end of 2023, which, after a slight decline in 2024 to 72.2%, is assumed to continue to grow reaching the end of the forecast period share of 78.6%. Related to the total amount of debt, the share of domestic government debt is 26.2% as of 31.12.2023, which, after a slight increase in 2024 up to 27.8%, is expected to fall at a level of 21.4% in the end of the period.

The overall risk assessment also reflects elevated levels of regulatory interest rates around the world, which have increased substantially as a result of the tightening of monetary policies by leading central banks that started in 2022 and is expected to continue throughout 2023. Since the beginning of 2022 until the end of the third quarter of 2023 the US Federal Reserve raised the federal funds rate by 525 basis points, as at the moment it is within the range from 5.25% to 5.50%, and the European Central Bank (ECB) for the same period increased by 450 basis points their main interest rates, and at the moment the value of the main interest rate for refinancing is 4.50%, and for the deposit facility - 4.00%. According to Bloomberg forecasts, at the end of 2023, interest rates on federal funds in the USA are settled at levels of 5.30% - 5.55%, and the main refinancing rate and that on the deposit facility in the euro area will remain at their current levels respectively up to 4.50% and 4.00%. In such a situation, it is expected that during the years of the forecast period, the newly assumed debts will be secured at significantly higher interest rates, compared to the previous years, which will cause an effect in the following years on the costs of the liabilities, as well as on increasing the burden of the government debt on the budget. Considering the indications of a sustained decline in inflation towards the target levels of 2% for the USA and the euro area, and in the event the current forecast for the path of official interest rates is realized, some gradual improvement in the conditions for issuing new securitised debt is possible already in the second half of 2024, which will continue to a bigger extent in 2025.

During the period 2024-2026 the value of the indicator ‘average time for refixing of the interest coupons on the debt’ (Average time to refixing) is expected to increase up to 9.2 years at the end of 2026 (within 7.9 years at the end of 2023).

4.3 Liquidity risk

Liquidity risk management is mainly reduced to undertaking measures to limit potential vulnerabilities arising from the occurrence of possible difficulties for the state budget in covering the government short-term liabilities.

Considering the liquidity risk within the context of strategic debt management, expectations about the dynamics of reference interest rates, as well as changing market conditions, present a factor of high significance. Taking these considerations into attention, the liquidity risk in financing that could arise upon securing debt financing and which refers to possible difficulties that the issuer may experience in a situation to raise the necessary resources in a short term period is also an object of consideration, as well as the liquidity in the sovereign debt markets.

The importance of liquidity risk from the point of view of debt management has different dimensions and corresponds not only to the ability to service the forthcoming debt payments, but also to the liquidity and treading ability of individual debt instruments of the state, which could have a direct impact on the risk premium and debt financing costs.

An important indicator for risk assessment is the ratio ‘a debt up to 1 year (by residual maturity)/tax-insurance revenues’, indicating the ability to meet short-term liabilities, which from 6.3% in 2022 is envisaged to decline to 4.9% at the end of 2026.

The existence of a fiscal reserve appears to be a protective mechanism and reduces the impact of liquidity risk. With the 2024 SBLRB for, the minimum amount of this indicator is set at the level of BGN 4.5 billion, based on the necessary funds available at the end of the year and the current liquidity needs of the budget. This minimum threshold of the indicator aims to minimize the risks of liquidity problems in the short-term period. A good practice in risk management is the provision of a liquidity buffer in the fiscal reserve, as a liquidity management tool, which reduces further negative impact.

4.4 Risk related to the debt size

In the medium term perspective, an increase in the levels of the General Government debt and of the government debt both in nominal amount and as a share of GDP is projected.

Based on the latest officially published by Eurostat data, the General Government debt shows growth in nominal terms compared to the level of the previous year and increased up to BGN 37.9 billion in the end of 2022 (from BGN 33.3 billion in the end of 2021). As a share to GDP, the indicator recorded a decrease of 1.3 p.p. to a level of 22.6% (at 23.9% as of 31.12.2021). Among the individual components forming the debt of the sector, the Central Government sub-sector debt shows the most significant growth, as the main contribution to this is the government debt.

According to the respective data, the Republic of Bulgaria ranked second among the EU Member states in terms of the level of the ‘debt/GDP’ ratio for 2022, with the average levels for the countries in the euro area and at the EU level representing respectively 91.0% and 83.5%. This position is also kept at the end of the second quarter of 2023, with the ratio of the General Government debt to GDP amounting to 21.5%, with an average for the EU at 83.1%.

Presented in an absolute amount, the General Government debt is expected to reach BGN 49.9 billion at the end of 2024, BGN 57.7 billion at the end of 2025, BGN 66.8 billion at the end of 2026, and to report average annual growth for the forecast period of about BGN 8.0 billion. As a share of projected GDP, it is also expected to increase up to 24.2% in 2024, 26.5% in 2025 and 28.9% in 2026, with an average annual growth rate of 2 p.p. during the period 2024-2026.

During the entire period, the most significant influence on the General Government debt is the debt of the 'Central Government' sub-sector, and in particular the government debt, as its main component. The overall effect of the debt of enterprises and hospitals included in the scope of the General Government debt remains minimal.

The low level of the debt of the Republic of Bulgaria in relation to GDP, compared with most EU countries and countries with a similar credit rating, is accepted positively and has been reported by the analysts of the leading international rating agencies in the review of the sovereign credit rating and in the reports on the economic state of the country, as one of the key advantages in assessing the creditworthiness of the country.

A similar trend is prognosticated for the government debt, by reaching BGN 48.0 billion at the end of 2024, and BGN 56.2 billion and BGN 65.6 respectively by the end of 2025 and 2026, about BGN 8.3 billion by taking into account average growth for the forecast period. As a share of projected GDP, debt rises up to 23.3% at the end of 2024, up to 25.8% in 2025 and 28.3% by the end of 2026, with an average annual growth rate of 2.4 p.p. during the period 2024-2026.

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

In 2024, with the state budget low it is envisaged the issuance of government guarantees in the maximum amount up to BGN 4,500 million, mainly related for financing investment projects that are implemented by companies from the 'Energy' and 'Transport' sectors.

Upon assumption for issuance of the planned new government guarantees and disbursement of the loans in full at the end of 2024, the total amount of the government guaranteed debt is expected to increase to level of about BGN 6.0 billion (BGN 1.7 billion in 2023) [1]. The ratio of government guaranteed debt to projected GDP in 2024 is also expected to rise up to 2.9% (at 0.9% in 2023). Considering the concentration of financial resources mainly in the energy and transport sectors, corresponding changes are also expected in the structure of the government guaranteed debt by sectors, as the share of the debt of the 'Energy' sector is increasing next year up to the level of 68.0% (at 17.6% by the end of 2023), followed by the share of the 'Transport' sector to 11.8% (5.8% at the end of 2023).

Within the next two years, a smooth reduction of the government guaranteed debt in nominal terms is expected, by reaching BGN 5.9 billion (2.7% of the projected GDP) at the end of 2025 and BGN 5.8 billion (2.5% of the projected GDP) at the end of 2026.

In the event of issuance, the government guarantees, the level of contingent liabilities with a potentially significant impact on the 'General Government' sector will also increase, the high amounts of which are an important risk indicator and are subject to monitoring and evaluation.

The relative share of the government guarantees in the total amount of the government debt at the end of 2023 amount to 4.2%, as within the upcoming three-year period it is planned its rate to raise up to 12.5% in 2024 and at the end of 2025 and 2026 gradually decline up to 10.4% and 8.9%.

Upon assessing the future impact of the risk and with the aim of preventing its potential negative effects, the need to take on new government guarantees to support priority areas, including and such arising from international obligations of the Republic of Bulgaria and initiatives undertaken within the legal framework of the European Union, as well as the potential opportunities for realizing the risk of government guarantees being called. The impact of the new loan financing on the state budget parameters and the potential risks that they could generate is of significant importance in the financing of projects with government guaranteed loans. Possible difficulties of the beneficiaries of government guaranteed loans to timely pay their liabilities to creditors lead to the materialization of contingent liabilities, which implies a potential impact on the size of the budget balance. In order to limit this risk, annual state budget lows set limits on the maximum amount of new state guarantees that may be issued in the relevant year and funds to secure a reserve is planned to cover the risk of the government guarantees being called in the state budget, which serves as a prevention against possible additional pressure on the budget in the event of a negative scenario.

4.6 Operational risk

The organization of the activity on the government debt management is concentrated in one structural unit at the Ministry of Finances and is based on broadly applicable principles on implementing continuous and standardized internal monitoring and control system. The government debt management is realized through established detailed rules and procedures for the activity, with clearly distributed duties of the personnel. The operational control is made also by maintaining and improving the functional capabilities of an information system for analysis, estimates and management of the government debt and government guaranteed debt, the so called official register of the government debt and government guaranteed debt that has different functional capabilities, including registration, analysis and monitoring of the government debt and government guaranteed debt, respectively a software, automating the processes on the data processing, related to the management of the sovereign duties and providing quality and reliability. The continuous and strict observance in the future of the reliable practices, established in this field, shall ensure the opportunity for minimization of the operational risk.■

5. GOALS OF GOVERNMENT DEBT MANAGEMENT POLICY

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

5.1 Sub-objective: Maintaining sustainable government debt parameters

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

The borrowing policy in the period 2024-2026 is planned to be carried out within the debt ceilings provided for in the state budget law for the relevant year for the maximum amount of the new government debt that may be assumed during the year, taking into account the financing needs of the state budget and the current debt market conditions. Currently, the forecasts are related to the expectation that the recovery of debt markets (which is started in 2023), will continue but the unstable geopolitical situation could have significant negative effects, which will affect inflation rates and central bank policy. These concerns have the potential affect to market attitudes and financing conditions in the future, respectively increasing the debt financing cost and increasing the risks associated with its security. Based on the forecasts of the budget deficits and the debt financing needs during the period 2024-2026, considering the provided predominant share of market sources, the vulnerabilities are identified in the placement of debt in both domestic and international debt markets, by implying the targeting of efforts to limit their negative impact. In addition to market-oriented financing, opportunities for negotiating government loans under the European Union instruments and from international financial institutions are being considered, including for project and programmes financing. Taking on a new government debt shall be made upon observance of the already established practices and legal procedures.

Taking into account the government priorities to support the development of strategic sectors in the economy, the selection of investment projects to be financed with state and/or government guaranteed loans will be implemented through the application of a consistent analytical approach, contributing to outline the specifics and degree of readiness for implementation of the projects, the opportunities for them to generate both economic and social benefits, taking into account the risk from the point of view of their future impact on the state budget. The procedure for selecting new investment projects will be conducted in strict compliance with the rules and requirements defined by law.

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

The expected macroeconomic development and budget balance assumptions in 2024-2026, as well as the planned debt financing on this basis, are significant upon determining the dynamics of government debt in the next years. Preservation of sustainable debt parameters requires taking a number of measures, including assessment of the size and profile of the debt in order to minimize the risks as result, as well as the possibilities regarding the future capacity to service and refinance the debt. The challenges mitigation to debt sustainability are contributed by the annual state budget laws set limits for maximum amounts of government debt at the end of the year, of the new government debt that may be incurred within the year, and the new state guarantees during the budget year that may be issued.

With the 2024 SBLRB, debt restrictions are foreseen for the maximum amount of the government debt at the end of 2024, which may not exceed BGN 48.0 billion, and the maximum amount of the new government debt that may be assumed in 2024 is up to BGN 11.7 billion. The maximum amount of new government guarantees that may be issued during the year is limited to a total amount of BGN 4.5 billion.

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

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

During the period 2024 - 2026, upon the implementation of the new issuance policy to fund the upcoming debt maturities, the planned budget deficit and support the liquidity position of the fiscal reserve as the main and effective debt source for providing financial resource emerge the issues of sovereign debt. The market conditions continues to be shaped by a high degree of uncertainty as a result of ongoing foreign policy processes, and the implementation of the issuance policy during the forecast period is directly dependent on the negative expectations for volatility and fragmentation of the financial markets in this context, with a possible impact on the profitability of government securities in the direction of increasing the cost of budget financing, respectively increasing the government debt servicing costs .

Upon sale of new sovereign debt and the choice of debt instruments in the forthcoming years, in addition to the current state, conditions and depth of the debt markets of government debt, the object of monitoring and analysis will also be the dynamics of the secondary market from the point of view of measurement of market perception, the diversification of the investor base, the role of investors, including their behaviour, activity and potential investor interest in the offered securities.

To limit the additional concentration of payments, the new debt maturities are spread in years where no huge debt payments are available. In order to ensure stability and predictability of budget expenditures, it is planned to offer standardized debt instruments, mainly with fixed interest coupons and risk-neutral currencies - BGN and EUR, without excluding other possible options.

In view of the effective current management of the budget cash flows and the liquidity of the public finances, it is maintained the opportunity for offering also short-term government securities, which are issued and get matured within the frameworks of the respective budget year and do not put a burden on the payments under the government debt in the next years.

The observed external risk factors have their significant impact on the domestic debt market, which has more limited capacity in view of dimension, liquidity and market participants, which limits the ability of the same to absorb debt financing in more significant dimensions.

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

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

The maximum aggregate nominal volume of bonds that may be issued under the GMTN programme (limit under the programme) was increased from EUR 12 billion to EUR 14 billion with the adoption of the 2023 SBLRB. The maximum maturity of the securities that can be issued under the GMTN programme is 30 years, and securities with such a maturity were already issued in September 2020.

Until now, under the GMTN programme Eurobonds with an aggregate nominal volume of EUR 13.694 billion were issued, or the rest under the GMTN programme amounts to EUR 306 million. With a view to ensuring maximum flexibility in choosing a market and financing instrument, as well as in the event of a possible impossibility to diversify debt sources to procure the entire volume of the necessary debt financing in 2024, with the 2024 SBLRB for, an increase in the maximum aggregate nominal volume of bonds (from EUR 14 billion to EUR 20 billion) that may be issued in implementation of the GMTN is planned. The planned increase covers the eventual impossibility of diversifying the debt sources, respectively for procuring the full volume of the necessary debt financing in 2024.

Considering the expectations for the levels of the necessary debt financing during the period 2024 - 2026 and in order to preserve the diversification of the sources of debt financing, it is planned that the maximum limit for issuing bonds under the GMTN programme will be annually subject to consideration and (if necessary to be changed) depending on the specified debt limits for newly incurred debt provided for in the relevant annual state budget acts.

The specific market, maturity and volume of the forthcoming tranches under the GMTN programme will be determined in accordance to the debt repayment profile and the prevailing investor interest. The existence of a legal framework for issuing a series of ICM bonds provides access to the leading global investors and an opportunity for optimal planning and implementation of the issuance policy and effective management of the government debt risk profile.

The traditionally strong investor interest in the acquisition of Bulgarian sovereign debt and the subsequent opportunity to reduce the yield levels on the bonds issued within the framework of the established GMTN programme is also confirmed by the results of the last transaction carried out under this programme, which once again show the fundamental stability of the Bulgarian sovereign debt and the continued investor confidence in the country as an issuer. During the transaction conducted on November 6, 2023 were reported the lowest historical spreads to the average interest rate swap for 7 and 12 year bonds, and the new subscription of the requested volume was almost 3 times.

5.3 Sub- objective: Development of the government bonds market

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

Regarding the development of the domestic government securities market, some steps have been taken at the national level, through amendments in the regulatory framework, with a view to promoting the integration of foreign investors into the domestic sovereign debt market. It is planned to achieve this through the relevant amendments and supplements to the legal and bylaw regulations, including infrastructural changes aimed at facilitating the access of global investors to the market infrastructure facilitating the market of government securities in Bulgaria.

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

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

The realized legal change is a prerequisite for reaching a more systematic monitoring on the prices and the participants on the market of government debt instruments, which shall guarantee the regulated functioning of the market of government bonds and derivative practices and instruments, respectively it shall be made a more effective monitoring on the conditions of the secondary market of government bonds, which shall enable the undertaking of coordinated and timely actions upon possible occurred events or trends. The possibility provided for in Art. 17a, para. 3 of the Government Debt Act (GDA) the Minister of finance to execute agreements for cooperation with competent supervisory bodies of Republic of Bulgaria and the other Member States has been implemented.

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

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

In accordance with the European policies and the new growth strategy, provided for in the European Green Pact and the developed new European regulations in this context, it is envisaged their legal coverage also on a national level. Measures for regulatory provision of the diversification possibility for offered debt instruments in the context of promoting sustainable investments and green budgeting will be considered. The measures are in compliance with the European policies and the natural moving the focus of the investors from the conventional to using of "green" and sustainable financial instruments.

Measure: Diversification of the potential investors in government debt on the domestic market

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

Measure: Monitoring of the government bonds market

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

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

ABBREVIATIONS AND GLOSSARY

Used abbreviations

UMBF	Updated Medium Term Budget Forecast
GDP	Gross Domestic Product
BNB	Bulgarian National Bank
BBD	Bulgarian Bank for Development
CEB	Council of Europe Development Bank
GGD	Government guaranteed debt
GL	Government loans
GIL	Government investment loans
GB	Government bonds
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EC	European Commission
EU	European Union
ECB	European Central Bank
SBLRB	State Budget Low of the Republic of Bulgaria
GDA	Government Debt Act
PFA	Public Finance Act
FSC	Financial Supervision Commission
ICM	International capital markets
MF	Ministry of Finance
IFI	International financial institutions
IBRD	International Bank for Reconstruction and Development
PD	Primary dealers
MTBF	Medium Term Budget Forecast
JICA	Japan International Cooperation Agency
GMTN	Global Medium-Term Note Issuance Program on the International Capital Markets

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

Medium period **till next refixing of the interest rate of the debt portflio (ATR)**

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

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

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

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

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