

# REPUBLIC OF BULGARIA

INVESTOR PRESENTATION

AUGUST 2024



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# 1. OVERVIEW

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# Key investment highlights



## Continuous economic growth, solid track record of prudent fiscal policy, well capitalised and liquid banking system



### Macro

- Fiscal responsibility and capital investment are expected to promote GDP growth, currently forecasted by the Bulgarian National Bank (“BNB”) to increase from 1.8% in 2023 to 2.1%<sup>1</sup> in 2024. **Price stability criterion in focus – inflation has been contained:** since 31 December 2022, there has been a clear disinflationary process with forecast<sup>1</sup> average 2024 inflation expected at 3.0%.
- As at 31 March 2024, the labour market maintained a participation rate of 74.0%, up from 73.7% as at 31 March 2023.



### Fiscal

- Prudent fiscal policies have resulted in **low levels of government debt** (23.1% of GDP for the year ended on 31 December 2023, which was the **second lowest in the EU** in 2023 and 22.6% of GDP as at 31 March 2024 (the lowest in the EU). This provides Bulgaria with enough **fiscal headroom** against anticipated weak global economic environment. 2025-projected<sup>1</sup> general debt is still low at 25.8% of GDP and is a testament to Bulgaria’s **traditionally efficient debt management strategies**.



### Banking sector

- Banking sector is **well capitalised and profitable**.
- Over the past few years, the banking sector’s volume of non-performing loans (“NPLs”) has been **steadily decreasing**. As a result, the share of NPLs was 3.0% of total gross loans and advances as at 31 March 2024.
- The **macro-prudential measures** undertaken by BNB, including the counter-cyclical capital buffer, have increased the overall resilience of credit institutions.



### External

- The BNB's gross international foreign exchange reserves amounted to EUR 38.5 billion at 31 March 2024, covering 8.6 months of imports and 465% of short-term external debt.
- The current account balance moved from negative territory in 2022 (-1.4% of GDP) and 2023 (-0.3% of GDP) to a positive print for the 12-month period up to 31 March 2024 (0.3% of GDP).
- The gross external debt has declined gradually and as at 31 March 2024 stood at 44.3% of GDP, with a similar dynamic observed also in respect to the external debt of the public sector.



### FDI

- In 2023 the **FDI inflows increased by 37.6%** relative to 2022 and were concentrated in manufacturing and in the financial and insurance services.
- FDI stock in Bulgaria as at 31 December 2023 came primarily from EU countries, led by Netherlands (12.8%), Austria (8.5%) and Germany (7.5%).



### EU

- **Entry into ERM II and commitment to Euro adoption** was a groundbreaking step towards adopting the euro. Eurobond spreads are on a converging path to euro-currency peers. On 7 August 2024 the National Assembly adopted at second reading the Law on the introduction of the Euro in Bulgaria. The authorities’ ambitions are for the euro adoption to be realised by mid-2025 or early 2026.
- Bulgaria is one of the **highest beneficiaries of EU funds per capita** and eligible for grants equating to ca. 30% of 2023 GDP over 2021-27. The funds are earmarked for decarbonising the economy, enhancing energy efficiency, and improving access to health and education services. Furthermore, strategic infrastructural investments will create positive spill-over effects on the economy and boost medium-term growth potential, mitigating any potential slow-downs in the wider Euro area.

<sup>1</sup>Forecasts are official estimates and there can be no assumption that such figures will be met

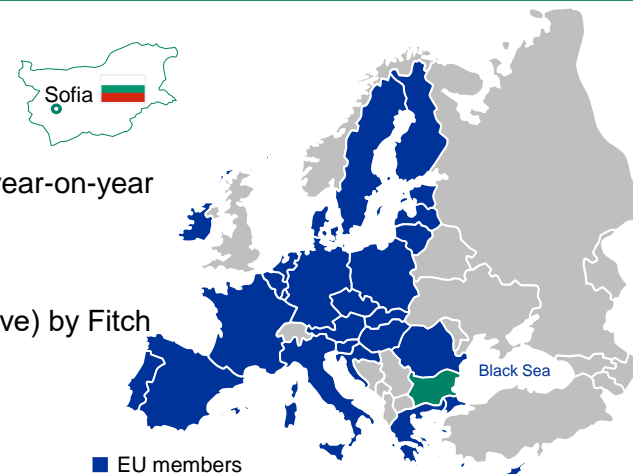


# Bulgaria overview

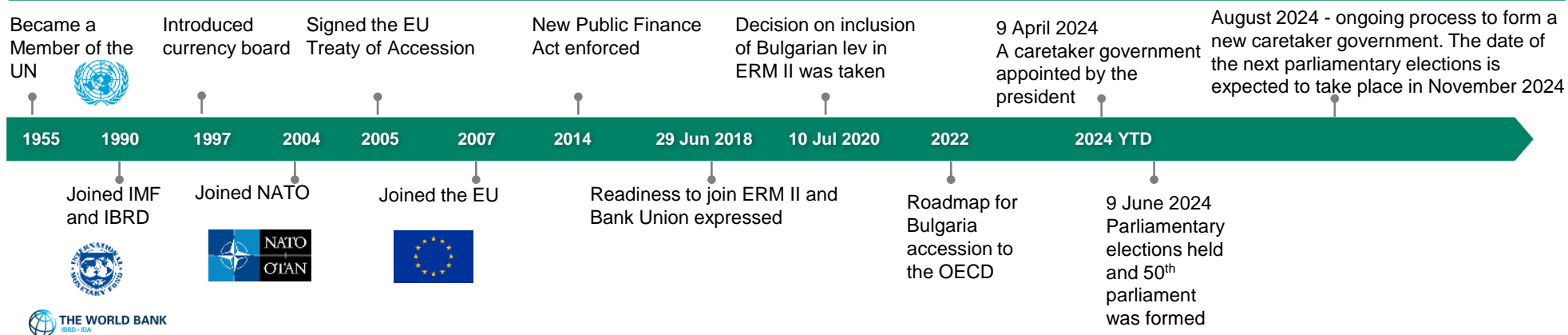


## Key Facts on Bulgaria

- **Territory:** 110,996.71 sq. km
- **Capital (2023):** Sofia (population 1.29 million)
- **Population (2023):** 6.45 million (1.4% of EU population)
- **Nominal GDP (2023)<sup>1</sup>:** EUR 93.947 billion (BGN 183.743 billion); 1.8% real GDP growth year-on-year
- **Currency:** Lev ("BGN"), fixed to Euro since 1999<sup>2</sup>
- **Exchange rate:** EUR/BGN: 1.95583
- **Credit ratings:** Baa1 (Stable) by Moody's, BBB (Positive) by S&P and BBB (Positive) by Fitch
- **Next regular elections:** Presidential: 2026



## Recent Key Dates



Sources: National Statistics Institute ("NSI"), Eurostat, BNB;

<sup>1</sup> All data in the presentation referring to GDP in 2023 are according to the NSI data as at 8 March 2024; <sup>2</sup> Bulgaria maintains a currency board arrangement pursuant to which the exchange rate for the Lev has been fixed to the Deutsche Mark since 1 July 1997 and subsequently to the Euro since 1 January 1999

# Key economic indicators

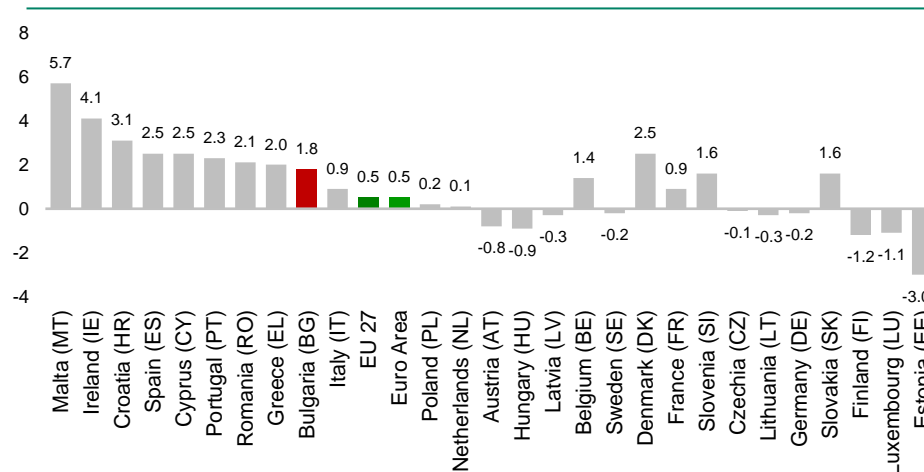


## Real GDP Growth and one of the lowest Government debt levels among EU countries

- Real GDP growth in 2023 increased by 1.8%, supported by the growth in employment and real wages, and by the strong credit activity and negative interest rates on household deposits in real terms, which contributed to households' high propensity to consume, and growth in government investments.
- Fiscal policy supported Bulgaria's economic activity in 2023 with an increase in public investments and increased government payments to households. Despite this, the budget deficit decreased compared to 2022 (from 2.9% in 2022 to 1.9% in 2023) and remains lower than the EU and EA average (3.5% and 3.6% respectively).
- Bulgaria had the second lowest Government Debt-to-GDP ratio within the EU of 23.1% for 2023 and as at 31 March 2024 has the lowest debt to GDP ratio of 22.6%, followed by Estonia and Luxembourg.

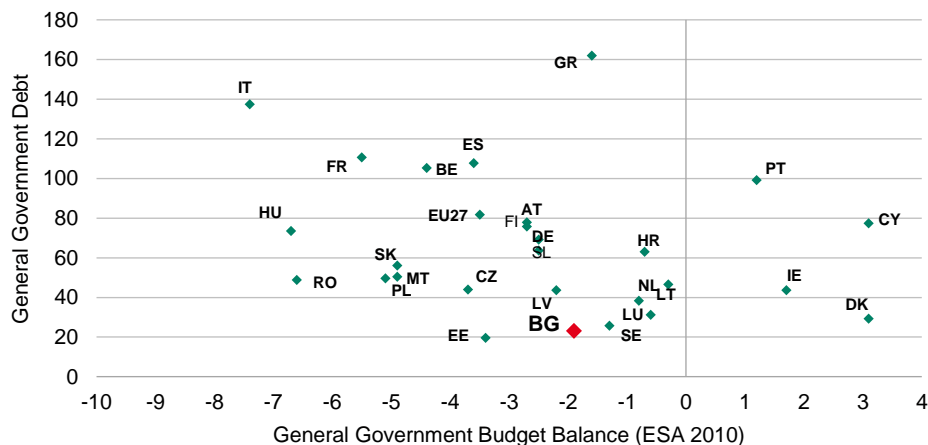
Source: Eurostat; Ministry of Finance; NSI

## EU Countries Real GDP Growth Rates in 2023 (% , year-on-year)



Source: Eurostat as at 24 October 2023

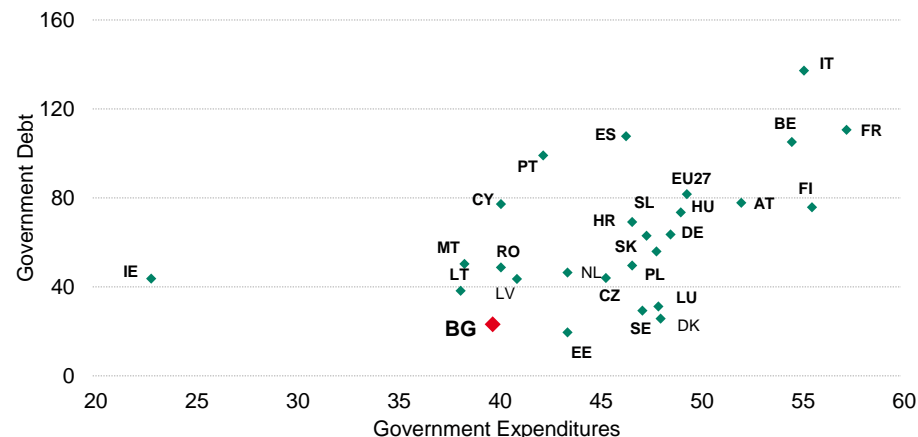
## Government Balance and Debt in 2023 (% GDP)



EU countries abbreviations: as shown in the x Axes in the top right hand chart

Source: Eurostat as at 15 July 2024

## Government Expenditure and Debt in 2023 (% GDP)





## 2. ECONOMIC PERFORMANCE

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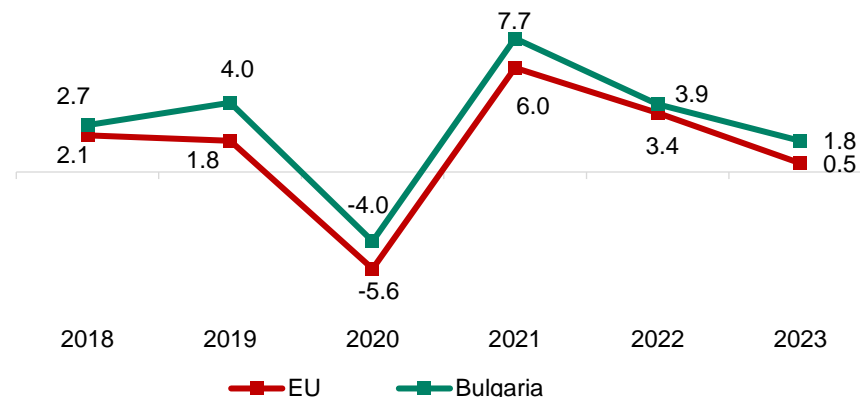
# Stable GDP growth and continuous convergence



## The Bulgarian economy has returned to growth following the pandemic downturn

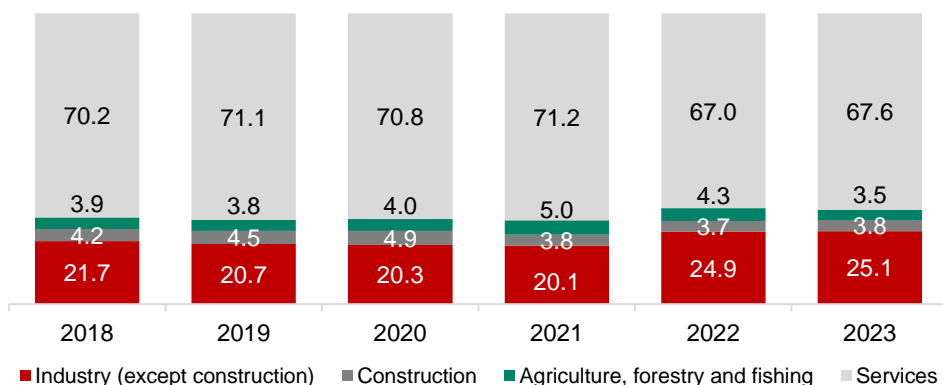
- For the 2010-2019 period, the economy grew on average by over 2.1% per annum with **GDP growth reaching 4.0% in 2019**. In 2020, the COVID-19 pandemic led to a GDP decrease of 4.0%. However **GDP fully recovered in 2021 with growth of 7.7%** on the back of robust **private consumption** growth and strong rebound in goods exports.
- The Russian-Ukrainian conflict has, since February 2022, changed the global macroeconomic environment. As a result **GDP growth in Bulgaria fell from 3.9% in 2022 to 1.8% in 2023**. As at 31 March 2024 the real GDP was 1.9%. The BNB's forecast is for growth to reach 2.1% in 2024 and to increase to 3.2% in 2025. Over the medium term the National Recovery and Resilience Plan aims to increase investment to support GDP growth.
- Gross Value Added ("**GVA**") increased by 3.3% on average in the 2018-2022 period, mainly due to the services sector, particularly in the areas of trade, transport, accommodation and food service and information and communication activities. In 2023 GVA increased by 0.8% year-on-year and 3.1% as at 31 March 2024 on an annual basis due to the positive contribution of the processing industry and services.

### Bulgaria and EU27 GDP annual growth rates (%)



Source: Eurostat

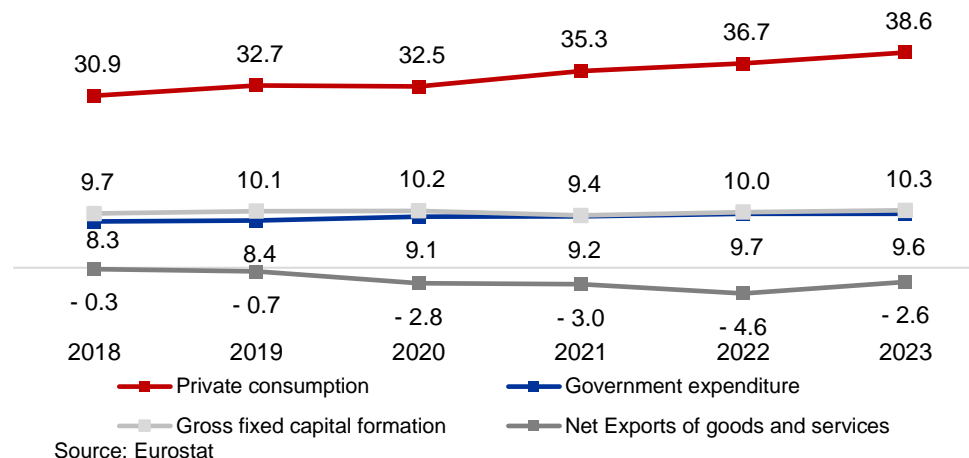
### Structure of Gross Value Added (GVA) by sector (%)



Source: Eurostat

<sup>1</sup>Forecasts are official estimates and there can be no assumption that such figures will be met

### Real GDP components (EUR billion, 2015 prices)



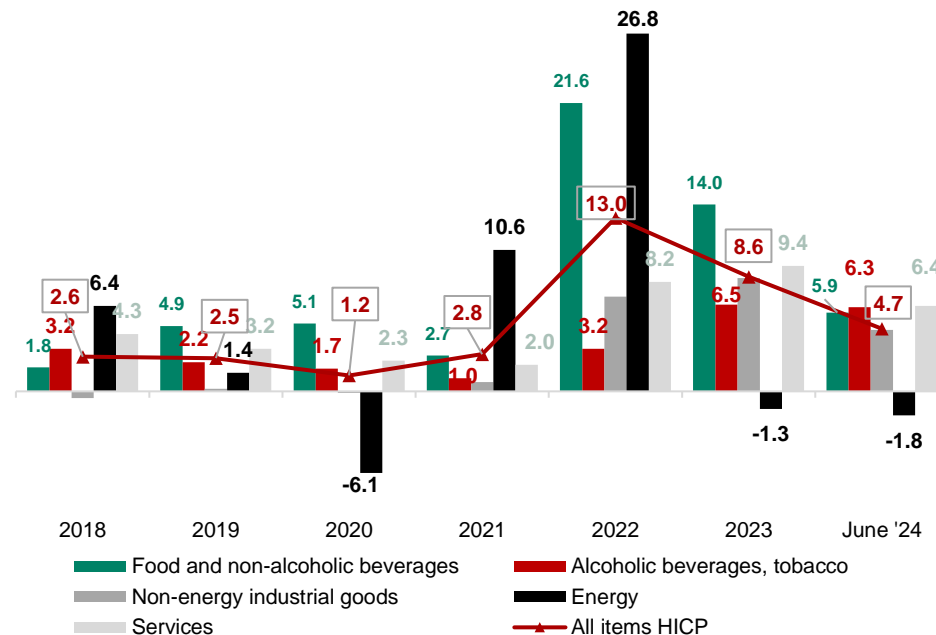
Source: Eurostat



## Accelerated inflation rate driven by external factors, including increased energy prices

- Following almost **four years of deflation**, the annual inflation rate **turned positive** in 2017 and accelerated slightly **until 2019**. Due to the COVID-19 pandemic, the annual average harmonised index of consumer prices (“HICP”) inflation rate decreased to 1.2% in 2020.
- In the beginning of 2021 the annual **inflation rate** in Bulgaria **started to accelerate**, with the annual average HICP inflation reaching 2.8%. The surge in international commodity prices was the main pro-inflationary factor. **Energy** contributed the most, followed by **food** and **non-alcoholic beverages**.
- The Russian-Ukrainian military conflict from February 2022 led to **increased prices of energy recourses** and annual inflation reached 13.0%. In 2022, the Government introduced a **package of measures** in support of businesses and social aid, with a priority on energy, food and household income.
- Inflation started to ease in Q4 2022 and kept on decelerating in 2023 due to **decreasing international commodity prices** and favourable base effects. The 12-month moving HICP inflation rate stood at 8.6% by the end of 2023 and decreased further to 6.2% in March 2024 and 4.7% in June 2024. As at 30 June 2024 the core inflation was 3.0%.
- Expectations<sup>1</sup> are the headline HICP inflation will fall to 2.2% at the end of 2024 due to the projected decline in international commodity prices and average annual HICP inflation in 2024 will be 2.5%. Core inflation will be more persistent due to strong private consumption and tight labour market conditions, but is also expected to slow down in the medium term.

HICP Inflation (% change year on year, average)



Data for June 2024: 12-month moving average inflation rate as at 30 June 2024  
Source: Eurostat

<sup>1</sup> BNBS June 2024 Macroeconomic forecast

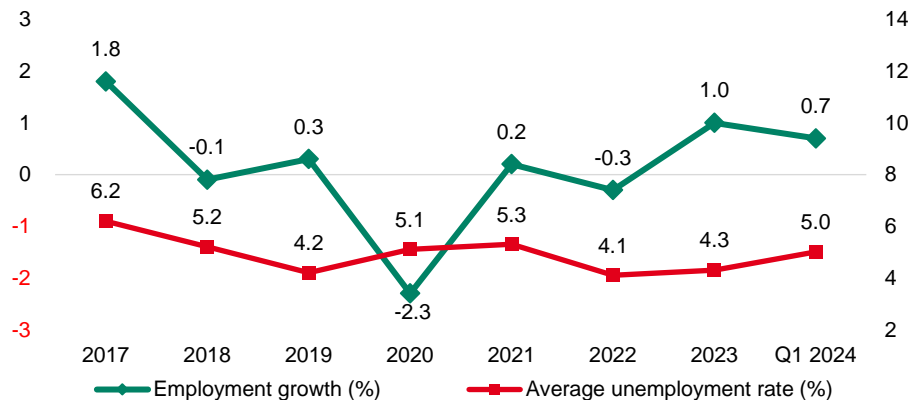
# Labour market developments



## Labour market improved in 2023

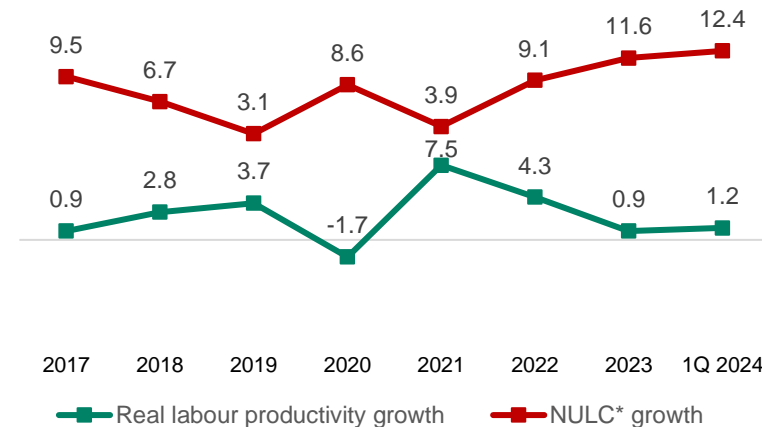
- In 2023 and in Q1 2024 the labour market continued strong. As at 31 March 2024 the employment grew 0.7% year-on-year (ESA 2010) and reached 3,425 thousand people, while the unemployment rate was 5.1%, up from 4.5% a year earlier.
- As at 31 March 2024 the employment rate stood at 70.2% and the participation rate (15-64 years) was 74.0% with labour force of 2.9 million.
- In 2023 and Q1 2024, the increase of the compensation per employee helped to offset inflation in the country. In Q1 2024 the nominal compensation of an employed person was 13.7% year-on-year, up from 10.5% in Q4 2023 on an annual basis, leading to the nominal unit labour cost ("NULC") increasing by 12.4% and the real unit labour cost ("RULC") increasing by 7.1% and the growth in real labour income, deflated with HIPC, accelerated significantly to 12.9% year-on-year
- As at 31 March 2023 the real labour productivity improved by 1.2% on an annual basis, reflecting the uptrend dynamics of the economic sectors, where the agricultural sector increased by 3.4%, services sector by 1.8% and industrial sector (without construction) by 1.4%.

### Employment Growth and Unemployment Rate (%)



Source: NSI (National accounts data, Labour Force Survey (LFS) and European System of Accounts 2010), Ministry of Finance

### Labour productivity and NULC<sup>1</sup> (% change year on year)



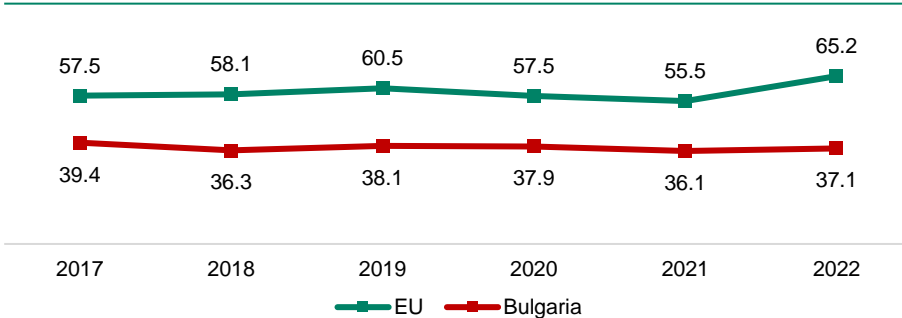
Source: NSI, Ministry of Finance

<sup>1</sup>NULC – Nominal Unit Labour Cost per hour worked



- Bulgaria's **priorities** in the energy sector are **energy security, sustainable development and eco-efficient economy** in the context of a more **competitive energy market**
- Due to the vulnerability of energy recourse supplies, amplified by the Russian-Ukrainian conflict, **measures for diversification** of energy sources became a **top priority** and immediate actions were undertaken, with focus on **diversifying Bulgaria's sources of natural gas supply**

## Energy import dependency, %



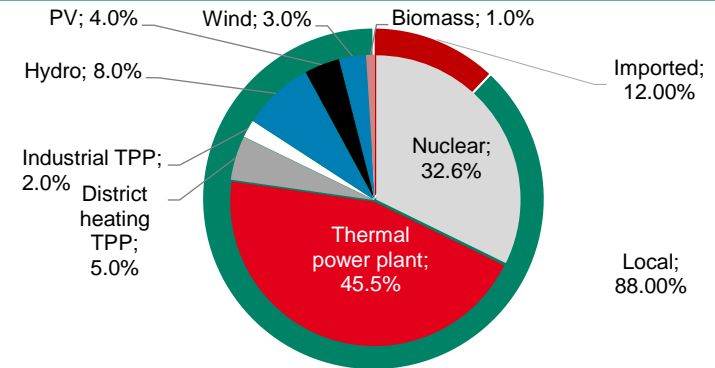
Source: Eurostat

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

Natural gas supply diversification projects	Status	Completion date (actual/expected)	Capacity (bcm)
Balkan Gas Distribution Centre	Completed	Dec 2019	--
Bulgaria - Greece gas interconnection (IGB)	Completed	Oct 2022	3.00
Bulgaria - Serbia gas interconnection (IBS)	Completed	Oct 2023	1.80
Floating, storage and regasification LNG terminal in Greece	Construction	2024	5.5
Expansion of Chiren gas storage facility	Construction	2025	1.00

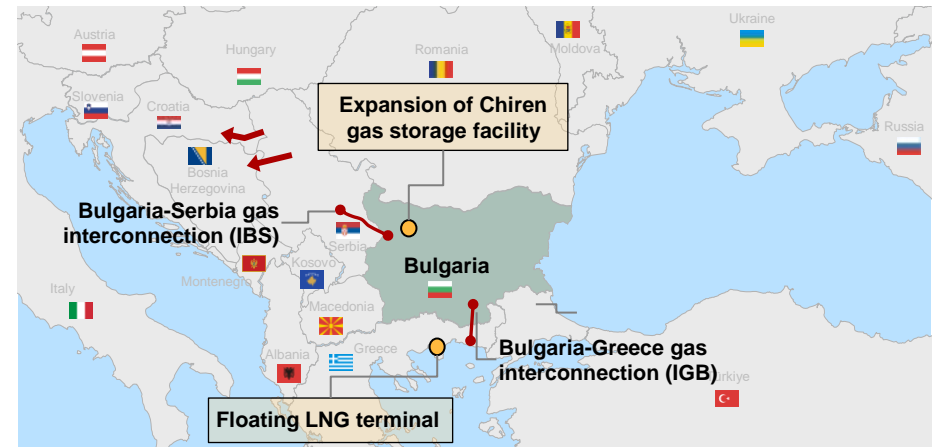
Source: Bulgartransgaz, ATEB

## Energy sources for production of electricity and heat in 2022, %



Source: Association of Traders with Energy in Bulgaria

Note: Nuclear energy by the Eurostat's standards is local energy resource





## Establishing a competitive energy market

- In line with the Commission's Third Liberalisation Package, Bulgaria has taken steps towards the **complete liberalisation of the electricity market**, which takes effect on 1 January 2026 – through elimination of the regulated market segment and introduction of residential consumers to the free market.
- **Bulgarian Gas Exchange** started operating in 2019. In 2020 **multilateral trading** was launched, incl. short-term and long-term segments and brokerage.
- In 2021, the second gas exchange Bulgarian Energy Trading Platform (BETP) received a license for an **organised exchange market for trading in natural gas and gas derivatives** for a period of 35 years.
- Kozloduy Nuclear Power Plant (NPP) has developed a **diversification program** for the licensing and implementation of **alternative nuclear fuel**.

## Priorities aiming at increasing the energy independence

- Diversification of energy supply, energy saving and promotion of the use of local resources and energy from renewable energy sources
- Full liberalisation of the electricity market and development of natural gas market
- Energy efficiency policy focusing at achieving the long-term energy strategy and climate goals

## Measures to mitigate the disruptions in the supply of energy resources caused by external factors

- At a pan-European level, an **alternative solution for natural gas supply** was put into place on 3 January 2023 when Bulgargaz and BOTAS signed an agreement **granting access to the gas transmission network and the LNG terminals** in Türkiye, for a period of **13 years**.
- As at 17 August 2024, the **Chiren facility** was **83.83% full**.
- On 3 June 2022 the European Council granted Bulgaria an exception from the embargo on the import of seaborne crude oil from Russia until the end of 2024. Bulgaria established a diversification procedure for the supply of nuclear fuel to Kozloduy NPP.
- Bulgaria has also finalised construction of a natural gas pipeline in Kostinbrod that connects Bulgaria and Serbia.



### 3. EXTERNAL SECTOR

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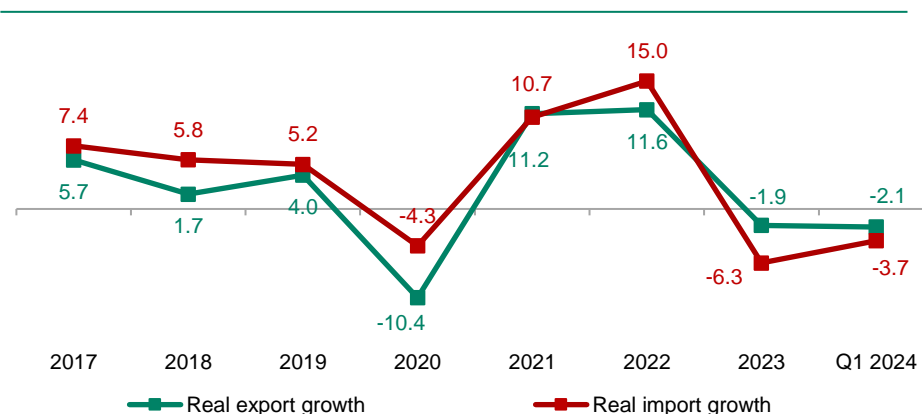




## Bulgaria's export performance has remained robust in the face of multiple global shocks

- Bulgaria's export of goods **market share in global trade has been continuously increasing** since the early 2000s.
- **Germany is Bulgaria's major export market** (main exports include **machinery** and **base metals** products), followed by **Romania** and **Italy**.
- In 2023, the **negative balance in trade in goods decreased compared to 2022**, mainly driven by a larger decline in nominal imports than exports
- According to NSI data, the year-on-year **decline in exports of goods in real terms in 2023** was almost entirely due to the **negative contribution of the energy product groups** (oil products, natural gas and electricity) **and non-ferrous metals**. The major factor behind the decline in exports for these groups in real terms was the ban on exports to countries other than Ukraine of processed crude oil products originating in Russia, in force since 5 February 2023.
- **Real imports of goods by product group exhibited a broad-based decline year-on-year**, with imports of fuels and raw materials falling the most significantly.

Real exports and imports of goods and services (annual change, %)



Source Eurostat, NSI, BNB

Export of goods global market share of Bulgaria (%)

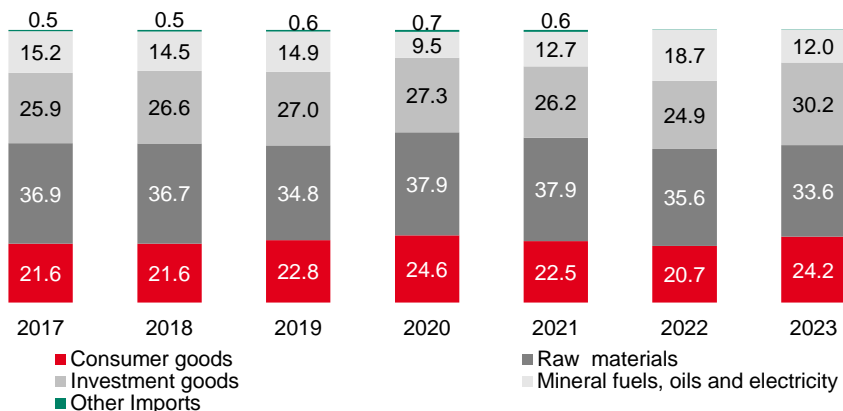


Source AMECO

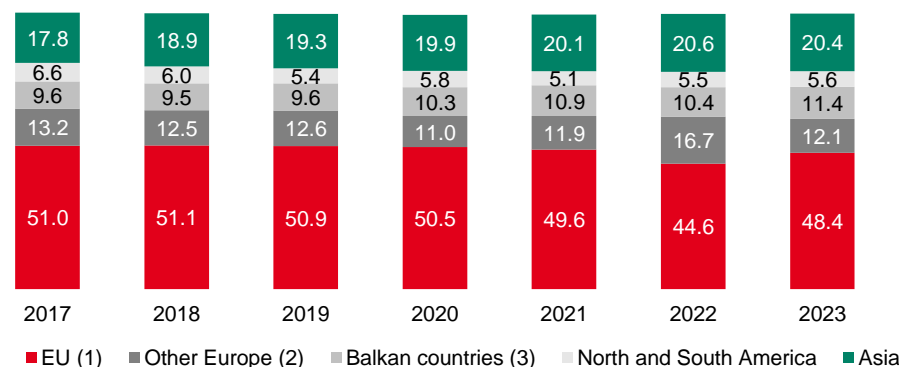
# Composition of Bulgarian export and import of goods



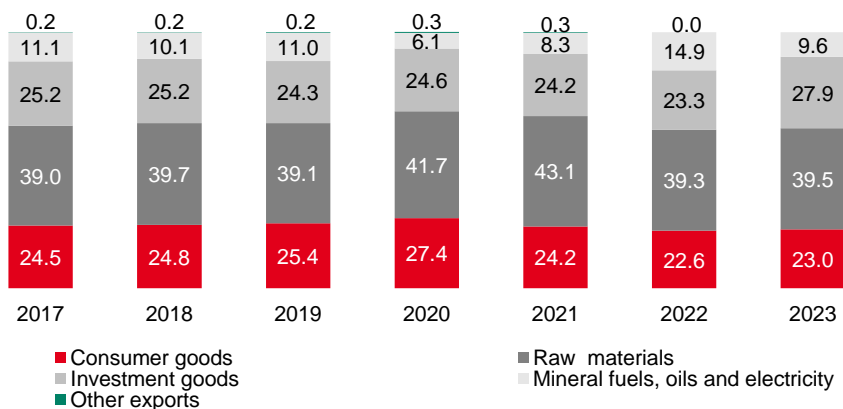
## Composition of Trade (Imports), % of total



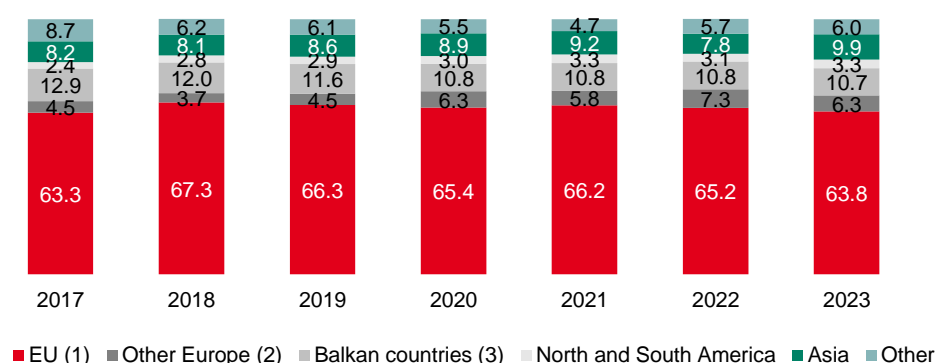
## Import of Goods by Country of Origin (% of total imports)



## Composition of Trade (Exports), % of total



## Export of Goods by Destination (% of total exports)



Source: BNB

(1) **EU** - Austria, Belgium, Bulgaria, Croatia, Republic of 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) **Other Europe** - Russia, Switzerland, Ukraine, Gibraltar (GB), Moldova, Belarus, Norway, Lichtenstein, Iceland, San Marino, Andorra, Faroe Islands and the Holy See

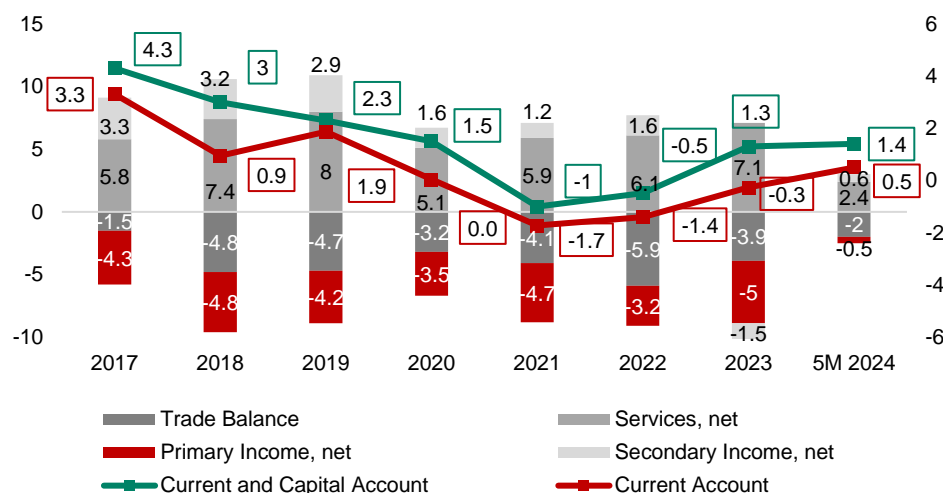
(3) **Balkan countries** - Türkiye, Serbia, Macedonia, Albania, Montenegro, Kosovo and Bosnia and Herzegovina (Romania is included in EU)



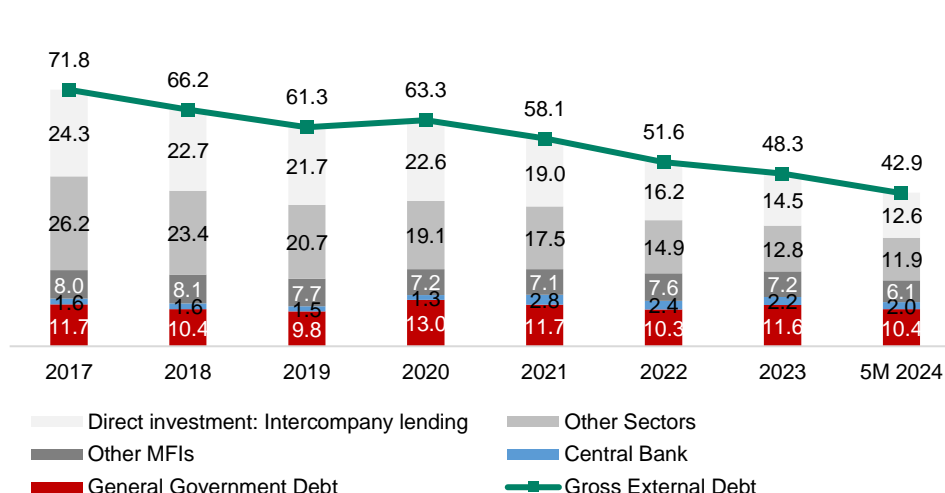
## Significantly improved external position

- The current account deficit narrowed in 2023 and as at 31 May 2024 the current account turned positive to 0.5% of GDP. At the same time, the capital account surplus increased in 2023 compared with 2022 due to greenhouse gas emission allowances trading. As a result of these developments, the current and capital account surplus over the last 12 months as at 31 May 2024 reached 1.4% of GDP, compared to 1.3% of GDP as at 31 December 2023
- As at 31 December 2023, Bulgaria's gross external debt was 48.3% of GDP and as at 31 May 2024 decreased by EUR 2,405 million to 42.9% of GDP.
- **The international investment position of Bulgaria has improved significantly** over the past decade. As a result of balance of payments movements and changes due to valuation adjustments and price revaluations, the amount of Bulgaria's international investment position fell strongly to -7.6% of GDP at the end of 2023 compared with -12.9% of GDP at the end of 2022. These developments were mainly attributable to the significant growth in foreign assets of Bulgarian residents in the form of debt securities.

### Current account (% of GDP)



### Gross External Debt: Total and by Sectors (% of GDP)



Source: BNB, Eurostat  
Standard presentation in accordance with the 6<sup>th</sup> edition of the IMF Balance of Payments and International Investment Position Manual. Preliminary data for Q1 2024

Source: BNB, Eurostat  
Data in accordance with the External Debt Statistics: Guide for Compilers and Users, IMF 2014. Preliminary data for March 2024 used in Q1 2024 figures

# 4. MONETARY POLICY AND BANKING SYSTEM

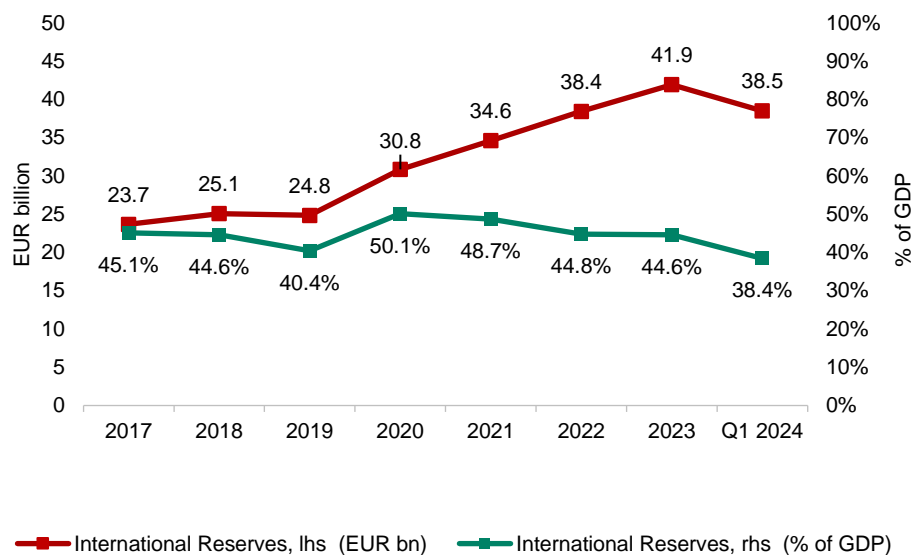




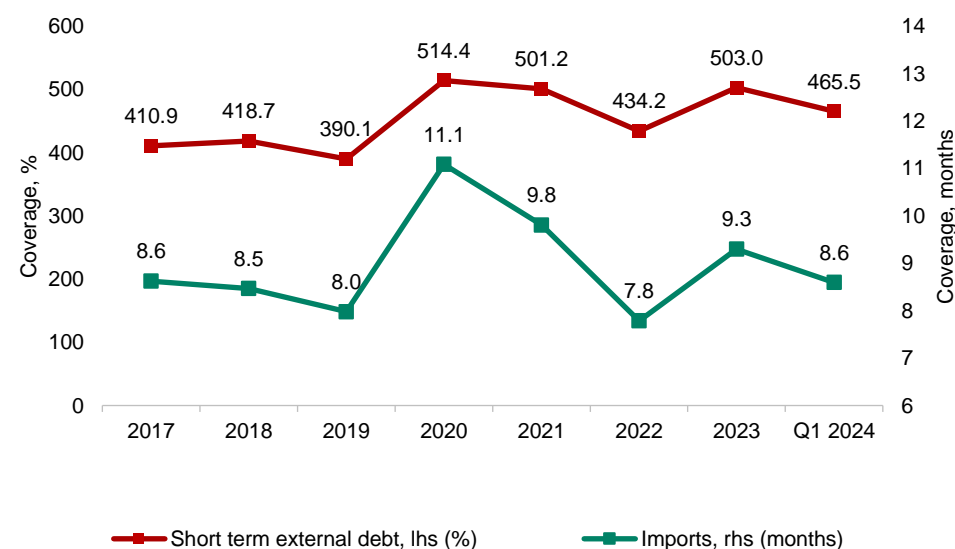
## International reserves remain at comfortable levels

- The **currency board** contributes towards maintaining overall macroeconomic and financial stability and the implementation of **strict fiscal policies**. The functioning of the currency board is based on three major principles:
  - a **fixed exchange rate** of the Lev to the Euro at BGN 1.95583 per EUR 1
  - the **reserve currency** is treated on **equal terms with the national currency**
  - the total amount of BNB **monetary liabilities** is fully **covered** by **high quality liquid international reserves**
- **Coverage ratios** remain at **comfortable levels**. The BNB's gross international foreign exchange reserves amounted to EUR 38.5 billion as at 31 March 2024, covering 8.6 months of imports and 465% of short-term external debt.

### International Reserves



### International Reserves Coverage



Source: BNB

Source: BNB

The indicators represent ratios of international reserves to short-term debt and international reserves to monthly imports, respectively



# Increase in the minimum required reserve rate to 12%



## Limited transmission of ECB's monetary policy tightening to interest rates, particularly for households

- Through the currency board, the **BNB has no direct influence over interest rates in Bulgaria**. Monetary conditions in the euro area are transmitted to monetary conditions in Bulgaria depending on the level of liquidity in the banking system, the assessment of the risk premium and banks' risk appetite.
- The main policy instrument used by the BNB to influence domestic monetary conditions is **the regulation of minimum required reserves (MRR)** which banks maintain with the central bank.
- As at the beginning of 2024 macroeconomic developments in Bulgaria were characterised by declining inflation, continued growth of private sector wages and private consumption, and growth of loans to households.
- **Weak and slow transmission of ECB's monetary policy tightening** to deposit and lending interest rates, especially for households, was driven by **ample liquidity in the banking system and strong competition**.

## In view of potential risks to banking system resilience and to the implementation of BNB's primary objective to maintain price stability, on 26 April 2023 the BNB Governing Council took a decision to raise the MRR rate

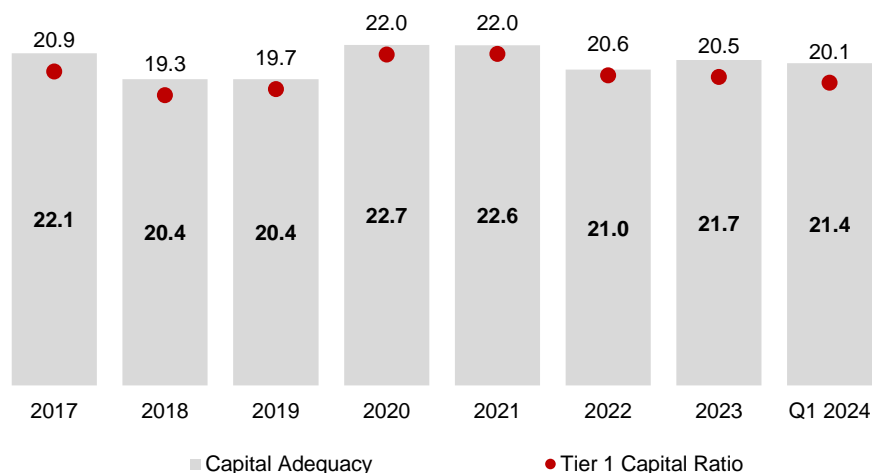
- **From 1 June 2023 the MRR rate on funds attracted by banks from non-residents was increased from 5% to 10%** and equalised with that on funds attracted by banks from residents.
- **From 1 July 2023 the MRR rate on funds attracted by banks from both residents and non-residents was increased from 10% to 12%**.
- The measure aims to **tighten monetary conditions by absorbing part of excess liquidity in the banking system**, which consequently would decrease commercial banks' credit capacity and would create incentives for faster and more significant transmission from the increased interest rates in the euro area to deposit and lending interest rates in Bulgaria.
- The increase of the MRR rate to 12% resulted in **the absorption of approximately BGN 3.3 billion liquidity** (in the form of excess reserves and liquid foreign assets) from the banking system.
- As at 31 March 2024, the effects of the increased MRR rate is still relatively limited and the credit growth continue both at households and companies, due to the remaining ample liquidity in the banking system.

# Stable and well capitalised banking system



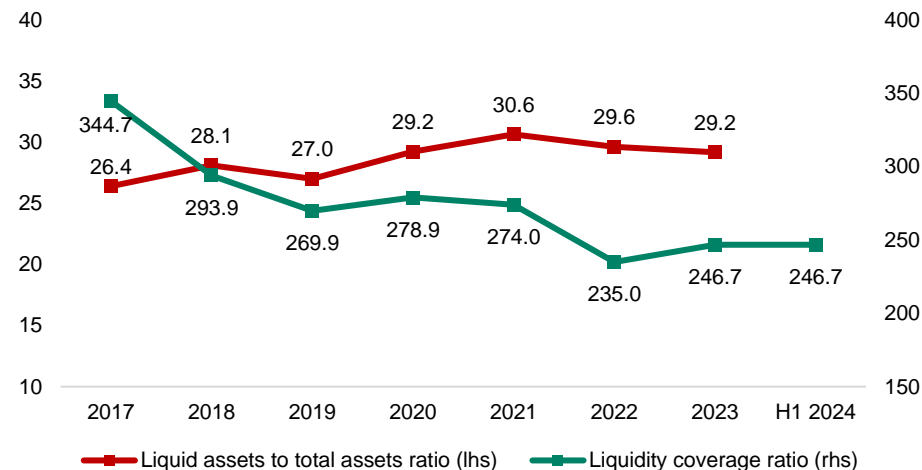
- The **total assets** of the banking system in Bulgaria by 31 December 2023 amounted to EUR 88 billion, a **10.7% increase** year-on-year. As at 30 June 2024, the total assets of the banking system amounted to EUR 91.21 billion.
- As at 30 June 2024 the liquidity coverage ratio (LCR) was well above the required minimum of 100%, standing at 246.7%. As at the end of 2023, the net stable funding ratio (NSFR) was 161.1%.
- The **capital position** of the banking sector remained strong. The level of **capital exceeding the** regulatory requirements and all the applicable buffers was EUR 1.69 billion as at 31 December 2023.
- Banks are required to maintain a set of buffers – a **capital conservation buffer (CCoB)** at 2.5% of total risk exposures, a **systemic risk buffer (SyRB)** at 3% of domestic risk exposures and a **counter cyclical capital buffer (CCyB)** at 2% as at 1 October 2023 (up from 1.5% as at 1 January 2023), as well as a **capital buffer for 6 systemically important institutions (OSII)** in the range of 0.5% to 1%, cumulative to all other buffers.
- As at 31 March 2024, the **capital adequacy ratio** and the **common equity tier 1 ratio (CET 1)** of the Bulgarian banking sector were 21.4% and 20.1%, respectively.

## Capital Adequacy Ratios (%)



Source: BNB

## Banking Sector Liquid Assets Ratios (%)



Source: BNB

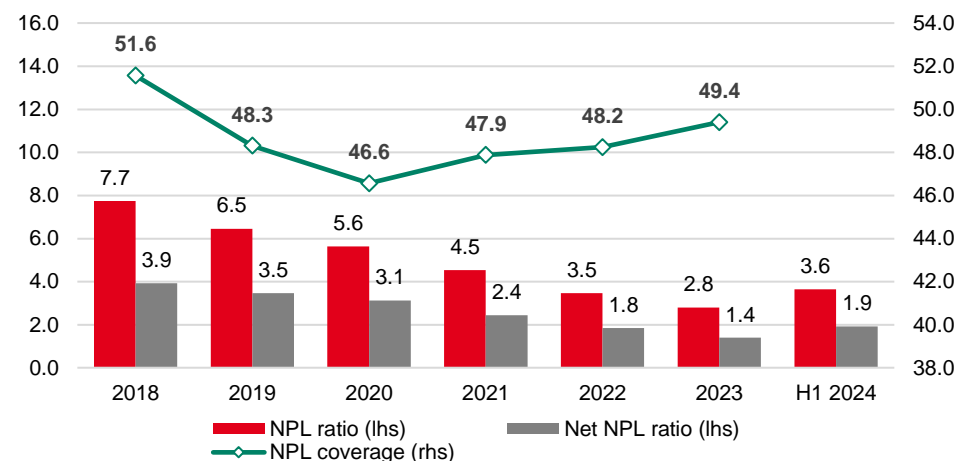


## Stable growth and preserving loan quality

- The **banking sector assets** as at 30 June 2024 (EUR 91.2 billion) accounted for 91% of GDP. As at 31 May 2024, the system comprised of 17 banks, 8 of which are domestically controlled, and 6 foreign bank branches.
- Bulgaria's **banking sector maintains a stable liquidity position with organic funding from deposits** (of which over 90% is resident funding) and shows **no dependence on wholesale funding from external markets**.
- As at 30 June 2024, **non-government sector loans** grew by 13.6% year-on-year to EUR 49.3 bn (48.5% of GDP). The household credits grew by 19% year-on-year, with consumer and mortgage loans – up by 14% and 24.8% year-on-year, respectively. As at the same date the corporate loans accelerated by 8.5% year-on-year
- **Non-performing loans and advances (NPLs) are on a continuous downward trend from 2018-2023**. At the end of 2023, the share of gross NPLs (NPL ratio<sup>1</sup>; EBA definition; broad scope) amounted to 2.8% of total gross loans and advances. As at 30 June 2024 the NPL ratio negligible increased to 3.6%.
- At 31 December 2023, the **NPL coverage ratio** was 49.4%, which is **above the EU average**.

Source: BNB

## NPLs<sup>1</sup> and Advances to Gross Loans Ratio Dynamics (%)



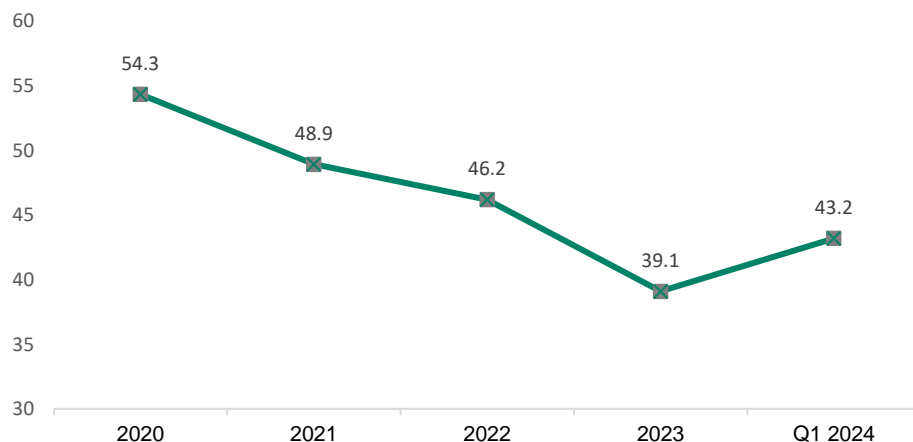
<sup>1</sup> The Non-performing loans to total gross loans indicator has been calculated in accordance with the EBA methodology for the ratio AQT\_3.2 Level of non-performing loans and advances (NPL ratio) laid down in the [EBA Methodological guide](#) and the [List of EBA risk indicators](#)

Source: BNB



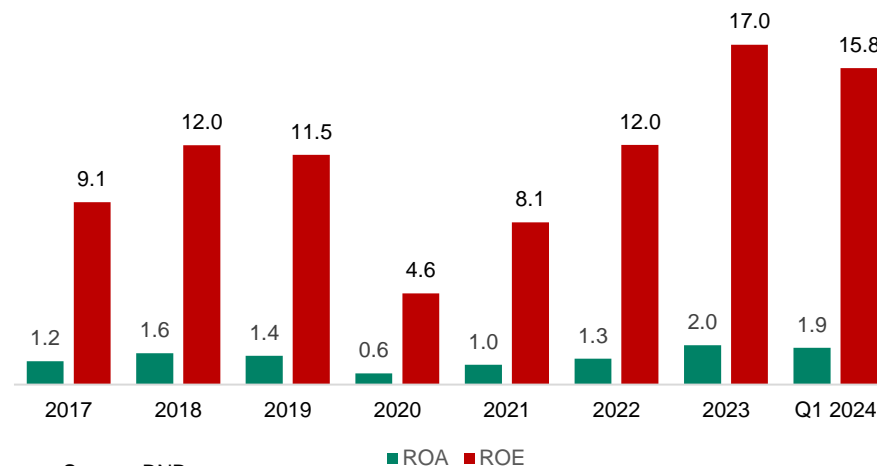
- The **Bulgarian banking system's profit** for 2023 was EUR 1.7 billion, an increase of 64% year-on-year, with growth mainly due to an increase in net interest income. As a result of the increase in profit, **return on assets (ROA) rose to 2.0%** at the end of 2023, and **return on equity (ROE) grew to 17.0%**, compared with 1.3% and 12.0%, respectively, as at 31 December 2022. As at 31 March 2024, the ROA of the banking system stood at 1.9% and ROE at 15.8%, respectively. The level of the cost-to-income ratio has been consistently below 50% (43.2% as at 31 March 2024).
- As at 30 June 2024 the **banking system's profit** was EUR 925 million, representing an **increase of 7.1%** year-on-year.
- The **total net operating income ("NOI")** for the first six months of 2024 was EUR 2.0 billion, driven by the growing net interest income of the banking system.

## Cost to Income Ratio (%)



Source: BNB

## Return on Assets (%) and Return on Equity (%)



Source: BNB

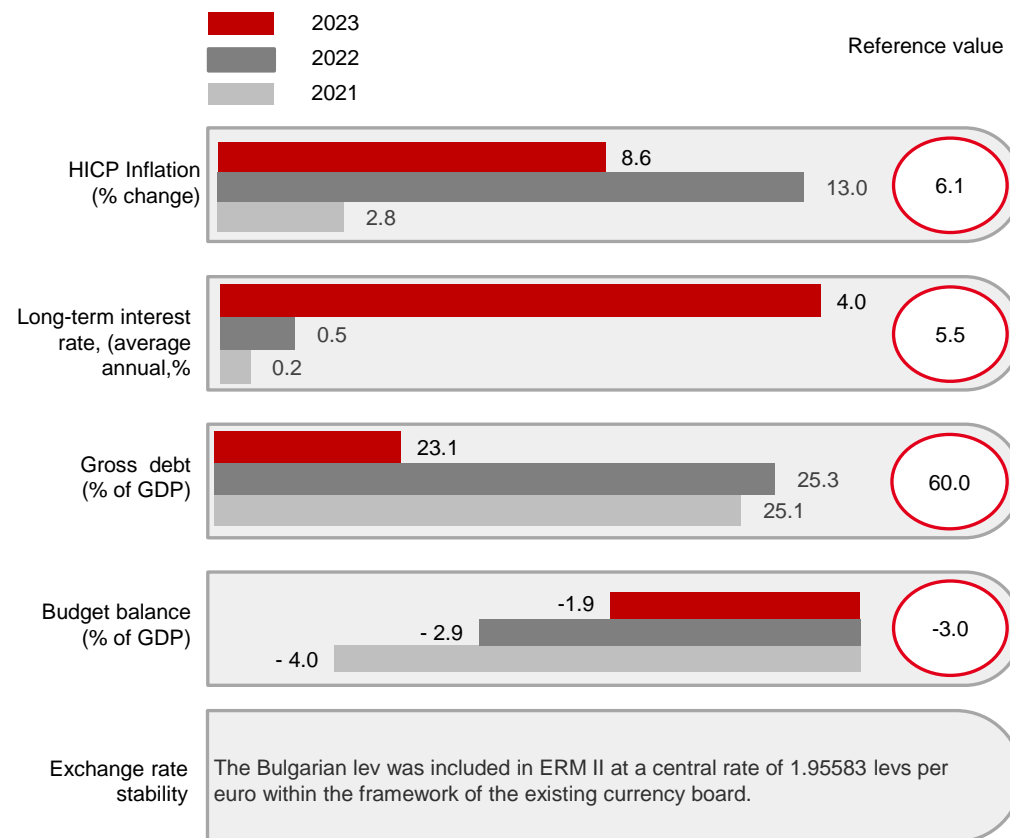
# Exchange Rate Mechanism ("ERM II")



## Agreement to include Bulgarian lev in the ERM II reached in July 2020

- On 29 June 2018, the Bulgarian authorities officially expressed their intentions to apply to ERM II and **to participate in the Single Supervisory Mechanism** simultaneously.
- On 10 July 2020, the ERM II parties decided **to include the Bulgarian lev in ERM II**. The Bulgarian lev was included in ERM II at a **central rate of 1.95583 levs per euro** with a standard fluctuation band of  $\pm 15\%$ . Bulgaria **joined the exchange rate mechanism** with its existing **currency board in place** as a unilateral commitment.
- On **27 May 2022**, the Government **adopted the National Changeover Plan for the Introduction of the Euro** in Bulgaria and since then Bulgarian authorities have taken the necessary steps in order for the country to be operationally ready to adopt the euro.
- The latest **convergence report from 26 June 2024** set out that Bulgaria has already met all the relevant criteria, except for inflation, which is expected to be in line with the benchmark by the end of 2024.
- On **26 July 2024** the National Assembly adopted a decision for acceleration and completion of the preparation for the euro adoption and on **7 August 2024** voted at second reading the **Law on the introduction of the euro** in the Republic of Bulgaria.
- Bulgaria intends to apply for an **extraordinary convergence report** following not later than two weeks after Bulgaria had met the price stability criterion and to request a date for the country's accession to euro area. The target date for euro adoption is 1 July 2025 at the official exchange rate of BGN 1,95583 for EUR 1.

### Maastricht criteria



Note: Data according to the Convergence report of the European Commission and European Central Bank for 2024 dated 26 June 2024.

## 5. FISCAL POSITION AND PRO-GROWTH POLICIES





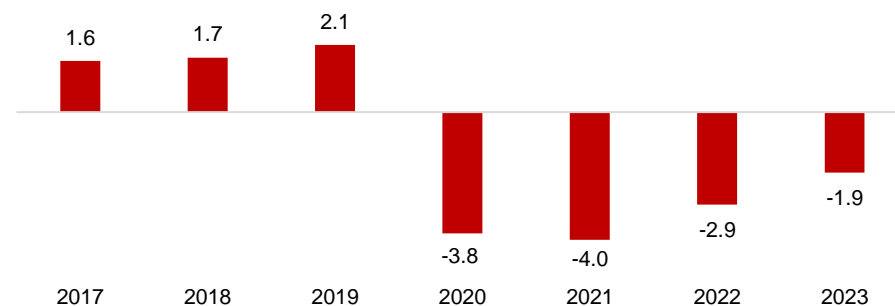
# General Government balance in line with EU countries



## Prudent fiscal policies have been at the core of Bulgaria's strong economic performance

- In the period 2017-2019, the **budget balance** of the General Government sector was **positive**, with an **average surplus of 1.8% of GDP** (on an accrual basis), thus allowing Bulgaria to accumulate buffers in the fiscal reserve.
- Throughout 2017-2020, growth in tax revenue was close or above nominal GDP dynamics. In 2021-2023 the increase in tax revenue was slightly lower than the growth in GDP as some of the support programmes had a negative revenue effect. **Investment spending** during the 2017-2019 period increased due to the accelerated absorption of EU funds, while during 2020-2022 the increase was linked to social protection spending, public sector wages and subsidies for non-financial enterprises as a result of the budgetary measures taken to contain the negative effects of the pandemic and rising energy prices.
- In 2020, despite the unprecedented fiscal stimulus mobilised to combat the pandemic (3.2% of GDP), the **budgetary position** of Bulgaria **remained stable**. In 2021 the fiscal balance of Bulgaria was negative at -4.0% of GDP (ESA 2010 terms), while the EU27 registered a deficit of -4.7% of GDP. In 2022 the budget deficit was -2.9% of GDP, falling to -1.9% of GDP in 2023, lower than the average of the Euro area and the EU in the respective periods.
- The Ministry of Finance expects the budget deficit to be within the target set in the State Budget Act for 2024 at -3% of GDP (cash basis), consistent with 2.9% of GDP in ESA 2010 terms. Thus the budget position for the year is expected to be in line with the Stability and Growth Pact requirements.

### Fiscal Balance (ESA 2010, % of GDP)



Source: Eurostat, MoF

### General Government (GG) surplus (+) / deficit (-), % of GDP



Source: Eurostat

# Policies aimed at enhancing economic growth



## Economic growth acceleration is a key priority in the mid-term policy goals set out in Bulgaria's 2024 Budget Plan

### Policy Priorities

#### 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.
- Developing indicators to measure the social impact of the work of State-owned companies.

#### Debt financing policy

- Current debt management objectives are set in the Debt Management Strategy 2024-2026. The main goal is to provide for the necessary funds for maturing debt refinancing, planned budget deficits coverage and securing liquidity of the fiscal reserve.
- Market-focused funding from both local and international capital markets to be complemented by sovereign loans under European Union instruments and by international financial institutions.

#### Management of EU funds

- As at 31 March 2024 the filed applications for funds totalled EUR 1.4 billion with EUR 0.26 billion already paid, of which 96.4% were EU funds.
- The expectation is for a reallocation of the amounts in the individual tranches to be drawn up from the revised National Recovery and Resilience Plan (NRRP).

#### Tax and Income policy

- New mechanism for calculation of minimum wage.
- Increasing the remunerations for staff in elected positions, employees in the judiciary system and pedagogical specialists.
- A top-up tax and a domestic minimum top-up tax shall be introduced effective from 2024 when approved by Parliament (Council Directive (EU) 2022/2523).
- Strengthening the fiscal control on high fiscal risk goods to improve tax compliance.

#### Pension policy

- Increasing the **minimum** and **maximum** amount of the **pensions** from 25 December 2021.
- **Indexation** of pensions from July 2024 and implementation of a new mechanism to improve pension adequacy adopted in October 2022.

#### Sectoral policies

- **Education** – continuation of integrated policies with focus on education and personal development of children and students, innovations **to** encourage, qualification of pedagogical specialists and **modernisation of educational institutions**.
- Reconstruction and **construction of nurseries, kindergarten and schools, and financing student and doctoral activities**. Financing **health sectors** – care for disabled, remuneration of emergency staff and construction of the National Pediatric Hospital.
- Maintaining and developing **national defense** and **collective defense capabilities**.

Source: Ministry of Finance



## Supportive measures to groups of society and business

- Some of the measures activated to mitigate the COVID-19 impact are still active.
- Other measures were introduced aiming at reducing inflationary pressure caused by the geopolitical conflicts and increased energy prices

### Measures to support businesses

#### Reduced VAT rate of 0% for the supply of:

- **bread and flour** until 31 December 2024
- International passenger transport

#### Reduced VAT rate of 9%:

- Supplies of **restaurants and catering services** since 1 July 2020, extended until **31 December 2024**
- Supplies of **general tourist service** and services for the use of **sports facilities** – until 30 June 2024
- Introduction as a permanent measure from 1 January 2023 of a reduced VAT rate of 9% for supplies of:
  - Books
  - Baby food, diapers and hygiene items

The increased amount of **tax relief** continues in 2024 for **children** and **for children with disabilities** with a possibility to use the **two tax reliefs** in advance

### Measures to support households

- New **mechanism for calculation of minimum wage** set up at 50% of average gross wage over a preceding 12-month period
- Increasing the national **minimum wage** as at 1 January 2024 from BGN 780 to BGN 933 (EUR 477)
- Increasing the salaries in the **budget sector** and in the **educational sector**
- **Indexation** of pensions - the annual indexation from July 1 of the respective year (13.6% for 2024)
- Funding of increase in the wages of the **medical personnel**
- Support to **agriculture sector** under the existing state aid for animal welfare
- Social expenses in the form of food vouchers in a tax-free amount of up to BGN 200 monthly

# National Recovery and Resilience Plan



Measures and reforms aiming at restoring, developing and increasing the potential of economic growth structured in four main pillars



## INNOVATIVE BULGARIA 25.3% of the resources

- **Business and Innovations:** Economic transformation of SMEs – grants for technologic modernisation, cybersecurity, renewable energy sources for own consumption, circle economy
- **Education and innovations:** grants for STEM centers, equipment of specialised classrooms, qualification of pedagogical specialists in the field of STEM education
- **Education:** Reform in pre-school, school education and lifelong learning – increasing focus on applied competences, innovations, STEM and development of cognitive skills; creation of innovative schools, new standard for quality, validation of professional skills
- **Science and innovations:** development of research universities



## GREEN BULGARIA 41.9% of the resources

- **Low carbon economy:** Energy efficiency of building stock; ensure 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 and pilot project for geothermal power; facilitating bilateral contracts for renewable energy sources; and liberalisation of energy market
- **Biodiversity:** Ensuring effective management of National ecological network; integration of eco-systematic approach; and recovery of key climate eco-systems
- **Sustainable agriculture:** Updating of the agricultural sector strategic frame; building up the technological and ecological transition of agriculture; and process digitalisation



## CONNECTED BULGARIA 18.3% of the resources

- Focusing on increasing the **competitiveness** and sustainable development of the regions such as transport and digital connectivity, as well as local development
- **Reducing the carbon footprint of the transport sector** through investments in the modernisation and digitalisation of the railway segment; updating the strategic framework of the transport sector
- 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
- Stimulating **electric mobility** and **public transport**

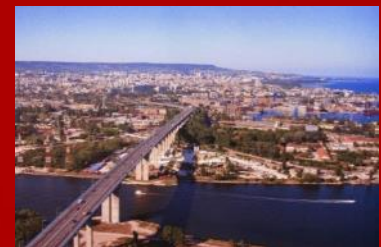


## FAIR BULGARIA 14.6% of the resources

- **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
- **Health:** increasing the resilience of the health system to shocks while increasing the population's access to quality and timely health care

Source: Ministry of Finance, Budget 2024

## 6. GOVERNMENT DEBT AND FUNDING STRATEGY

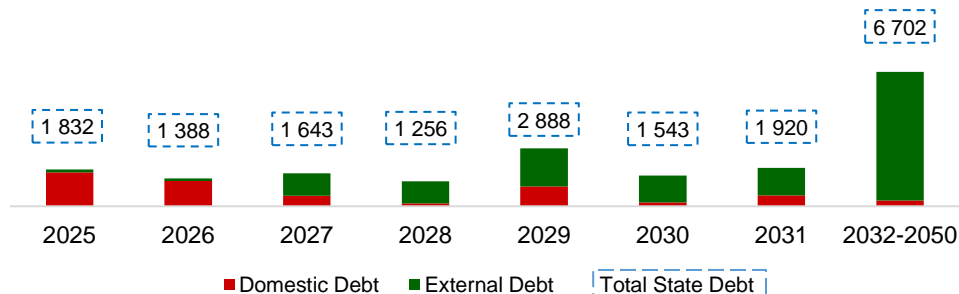




## Stable and sustainable Government debt position due to a conservative borrowing strategy

- **The Government's debt management** key goals are providing necessary resources for **refinancing the outstanding debt**, the planned budget deficit financing and ensuring the liquidity position of fiscal reserves.
- On the basis of Eurostat's requirements and the ESA 2010 methodology, Bulgaria's ratio of General Government Debt-to-GDP was the **second lowest in the EU**, standing at **23.1%** of GDP as at 31 December 2023 and **22.6%** as at 31 March 2024 marking the lowest Debt to GDP ratio in EU.

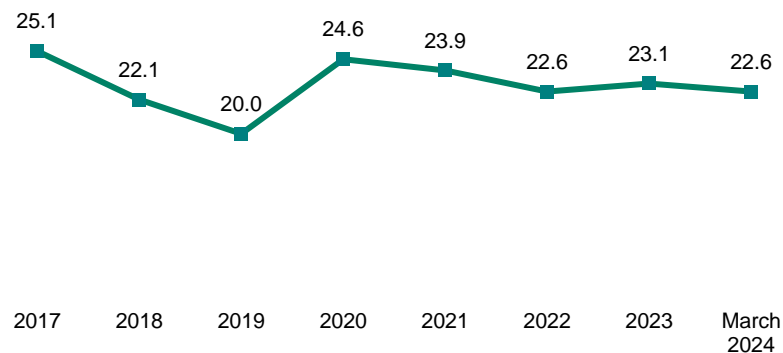
### Government Debt Redemption Profile (EUR million)\*



Source: Ministry of Finance

Notes: \*Outstanding debt (principal amounts for redemption) as at 30 June 2024

### General Government Debt (% of GDP)



Source: Eurostat, Ministry of Finance



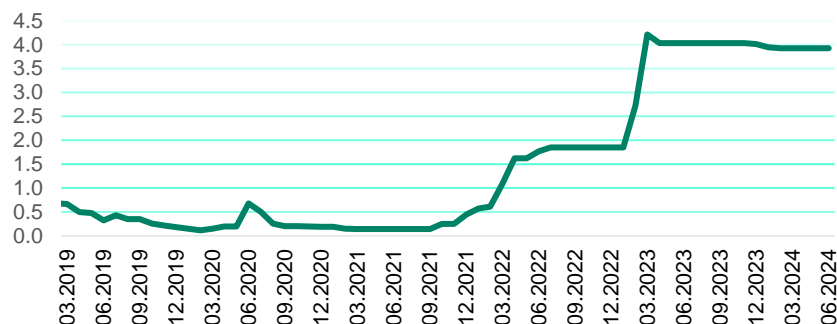
# Prudently managed Government debt structure



## Predominant fixed rate and EUR and BGN denominated securities

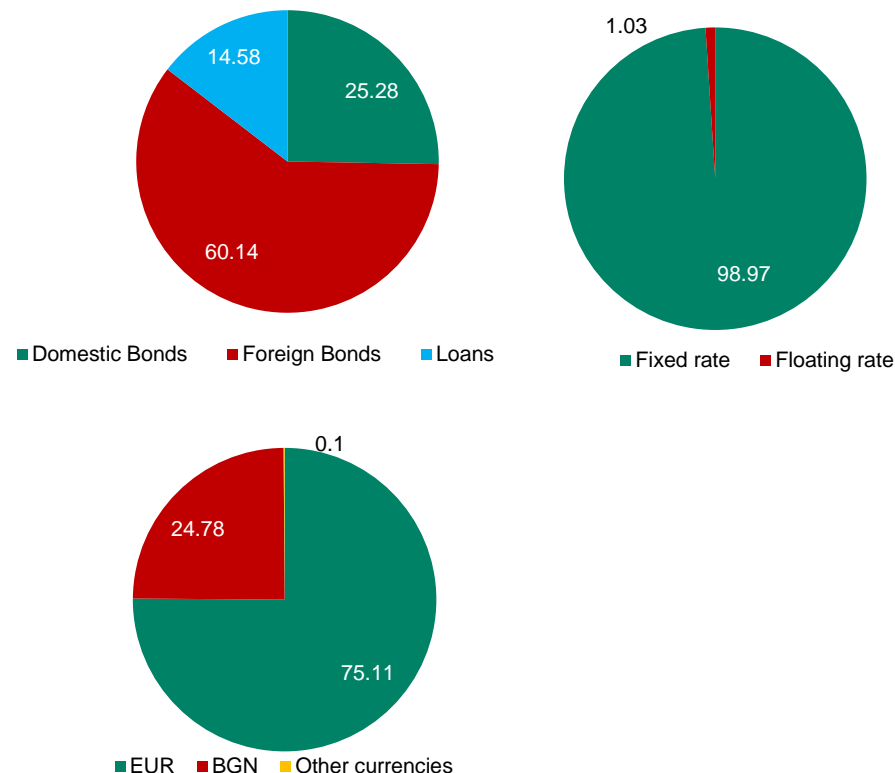
- The nominal amount of government debt as at 31 March 2024 was EUR 20.7 billion in total, of which EUR 15.3 billion was **external debt** and EUR 5.4 billion was **domestic debt**.
- As at 31 March 2024, Bulgaria's outstanding **marketable government debt** consists of EUR 5.4 billion equivalent in domestic government securities and EUR 11.3 billion in international bonds issued under Bulgaria's GMTN Programme.
- As at 31 March 2024, the **domestic government-guaranteed debt** represented 0.09% of GDP and the external government-guaranteed debt was 0.8% of GDP. The government-guaranteed debt ("GGD") was 0.9% of GDP as at the same period.
- As at the date of this presentation, only domestic government securities have been issued this year.

## Historical evolution of long-term debt yield (10y) as per EU data for convergence purposes (%)



Source: BNB

## Breakdown of the outstanding government debt\* (as % of total)



Source: Ministry of Finance, data as at 31 March 2024

Note: \* National methodology