Government Debt Review • 2008

Republic of Bulgaria
Ministry of Finance

Government Debt Review • 2008

Sofia, 2009

Abbreviations

AEAF	The Agency for Economic Analysis and Forecasting
BIR	Base Interest Rate
BNB	Bulgarian National Bank
CPI	The Consumer Price Index
DISC	Discount Bonds
EBRD	European Bank for Reconstruction and Development
FDI	Foreign Direct Investments
EIB	European Investment Bank
EU	European Union
EMBI	Emerging Markets Bond Index
FLIRB	Front Loaded Interest Reduction Bonds
FOB	Free on Board
G–24	The Group of the 24 Most Industrialised Nations
GDP	Gross Domestic Product
GS	Government Securities
IMF	International Monetary Fund
JBIC (JEXIM)	Japan Bank for International Cooperation (former Japan Export–Import Bank)
LIBOR	London Interbank Base Offered Rate
LEONIA	Lev OverNight Index Average
LFS	Labour Force Survey
LSPDACB	Law on State Protection of Deposits and Accounts with Commercial Banks in Respect whereof the BNB Has Petitioned the Institution of Bankruptcy Proceedings
MF	Ministry of Finance
NSI	National Statistics Institute
SDR	Special Drawing Rights
SOFIBOR	Sofia Interbank Offered Rate
USD	US dollar
WB	The World Bank
ZUNK	The Bulgarian Abbreviation of the Law on Settlement of Non–performing Credits Negotiated prior to 31 December 1990

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Macroeconomic Analysis of Bulgaria in 2008

Despite the shrinking of global demand, the widespread uncertainty and risk reassessment processes, the Bulgarian economy maintained high growth rates in 2008 as well. Although Bulgaria managed to avoid direct damage from the worldwide crisis, Bulgaria faced the challenges of the global financial and economic crunch, and its small and largely opened economy experienced shocks from external factors as a whole. The adverse impacts of the deteriorated external environment were transposed in the Bulgarian environment during the second half of the year through contraction of financial inflows to the country and shrinkage of external demand.

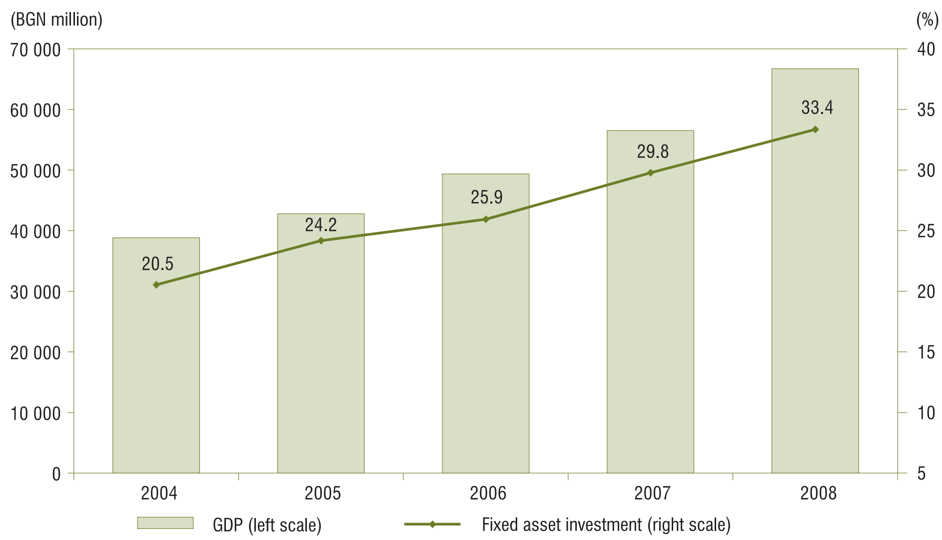
Gross Domestic Product (GDP)

The country's GDP in 2008 grew by 6% in real terms and reached BGN 66.7 billion. However, economic growth in the second half of 2008 suffered the hardships posed by the worsened external environment, thus in the last quarter the real GDP growth lost steam and decelerated to 3.5%.

All the three sectors of the economy achieved positive growth. The agricultural sector was the fasted growing one – the sector was recovering dynamically from the poor crops in the previous year and scored a healthy 24.6% valued added growth in real terms. The service industry was the greatest contributor to the GDP growth owing to the strong performance of the sectors financial intermediation, trade, property transactions and business services and the hospitality industry (hotel and restaurant keeping).

The major decelerator of economic growth in the second half of the year was the industrial sector, which was worst affected by the adverse external environment. The added value in the sector began to shrink in the middle of the year, dropping in real terms by 0.9% Q3 and 6.7% in Q4 versus the same periods of 2007. During the fourth quarter the construction sector lost much of its momentum in terms of added value.

On the demand side, the main driver of the economic growth was domestic demand. Fixed capital investments grew by 20.4% and kept a healthy growth rate (15.8%) even in the last quarter of the year. The factors contributing to this dynamic economic activity include the favourable macroeconomic environment in the country and the relative high rates of return achieved by the entrepreneurs. The sectors most attractive to investors in 2008 were property transactions and business services, electricity generation and distribution, construction and trade. These sectors attracted more than half of the expenditures in tangible assets and of the direct foreign investments in Bulgaria.



Fixed capital investments to GDP

Source: *NSI.*

Consumption of households grew by 4.9% in real terms. The limited credit activity and the uncertainty about future incomes, combined with the restrictive fiscal policy, retarded the growth rate of final consumption by 1 percentage point (pp) to 3.9%.

External demand improved its contribution to -2.3 pp in 2008 against -4.9 pp in 2007. This is due to the accelerated growth of exports during the first nine months of the year compared to the same period of the previous year (5.7% vs. 4.9%) and the deceleration of imports (7.9% vs. 11.5%). The serious deceleration of the global economy and of Bulgaria's main trade partners affected the export of goods, which dropped by 5.5% in real terms during the last quarter of 2008.

Inflation

Based on the Harmonised Consumer Price Index (HCPI), the cumulative inflation in 2008 reached 7.2% at yearend with the average annual rate being 12%.

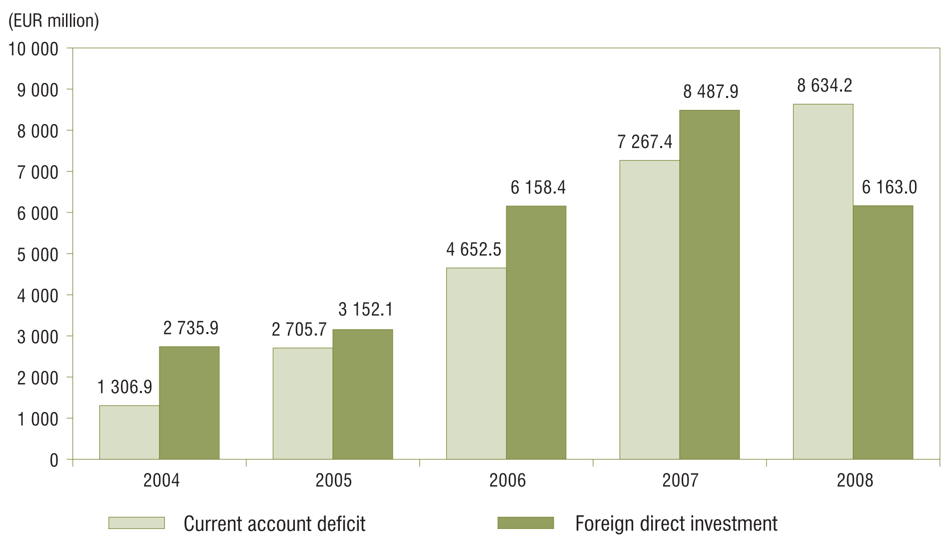
Relatively high inflation rates on y/y basis had been observed since the middle of 2007. Among the drivers of this growth were the international food and crude oil prices, which sustained a steadily growing tendency throughout 2007 and in the beginning of 2008. However, in the second half of 2008 the decline of worldwide demand resulting from the raging global financial crisis began to exert a downward pressure on international prices. The good agricultural crops also influenced favourably the dynamics of food prices. Thus, aggregate inflation on y/y basis gradually lost momentum and reached a one-digit value at the end of the year. Nonetheless, the average annual inflation remained at a relatively high level due to its high values in the second half of 2007 and the beginning of 2008. The labour market and the issues related with the insufficiency of qualified workforce in the country also exerted pressure on the prices in Bulgaria through increased household incomes and higher domestic demand.

Looking at the various HCPI components, market services continued to grow in prices by accelerated rates in 2008 as well, and were also the biggest contributor to the increase of the aggregate index at yearend (4.1 pp). The prices of alcoholic beverages and tobacco products also demonstrated a relatively high growth against the beginning of the year (14.8%), which was largely due to the adjusted rate of excise on cigarettes. Despite the increase of electricity, heat and natural gas prices, the energy goods as a group registered a deflation in the end of 2008 in line with the trend of the international crude oil prices. Food prices also fell sharply compared to their levels in 2007. Non-energy industrial goods increased their prices during the summer months and reached a cumulative change of 5.6% at the end of the year. In principle, the prices of these goods tend to increase much more slowly compared to market services since they are exposed to competitive pressure from import alternatives. Even so, the increased demand for durable consumer goods over the past three years (due to the increased incomes of households), has been contributing to the accelerated growth of their prices.

Balance of Payments (BoP)

The main factors that have been determining the trends of the external sector of Bulgaria's economy during the past years are the high rates of economic growth, the increasing incomes, productivity and competitiveness levels, the levels of international metals and energy prices, and the record-high inflow of foreign investments.

The BoP current account deficit in 2008 reached 25.3% of the national GDP thus exceeding by 0.2 percentage points the level reached in the previous year. This development is largely the result of increased sales and trade deficit levels. In the end of the year both imports and exports of goods fell in response to the low international prices of energy resources and metals, and also because of the contracting domestic and external demand, again due to the international financial and economic crisis.



Current Account Deficit and Direct Foreign Investments

Sources: *BNB and AEAF.*

The financial account was positive and fully covered the current account deficit. Direct foreign investments reached EUR 6.2 billion for the year, the main factors for this being the high return on investments together with the good investment and business climate. In the second half of the year the inflow of foreign investments lost steam due to the increased investment risks throughout the world.

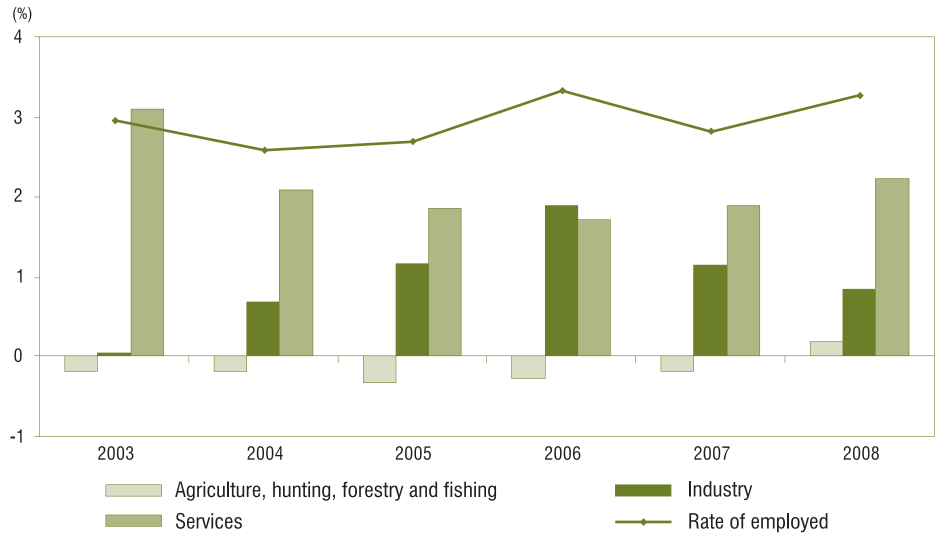
Labour Market and Incomes

The steady economic growth and investment activity in 2008 lead to higher employment combined with reduced unemployment rates.

The average number of the persons employed in the economy increased by 3.3% vs. 2007 – this indicator fluctuated between 4.8% and 3% during the first two quarters, and dropped to 2.1% in Q4 on y/y basis.[1] The contributors to the growth of employment in 2008 were various sectors of the services industry such as property transactions, leasing and business services, hotel and restaurant keeping, financial intermediation as well as the construction industry. The number of persons employed in the industrial sector lost its growth pace on y/y basis largely due to the weakened labour demand in some sectors of the processing industry, which began to experience difficulties during the second half of the year as a result of the global financial and economic crisis.

[1] *Based on data from National Accounts.*

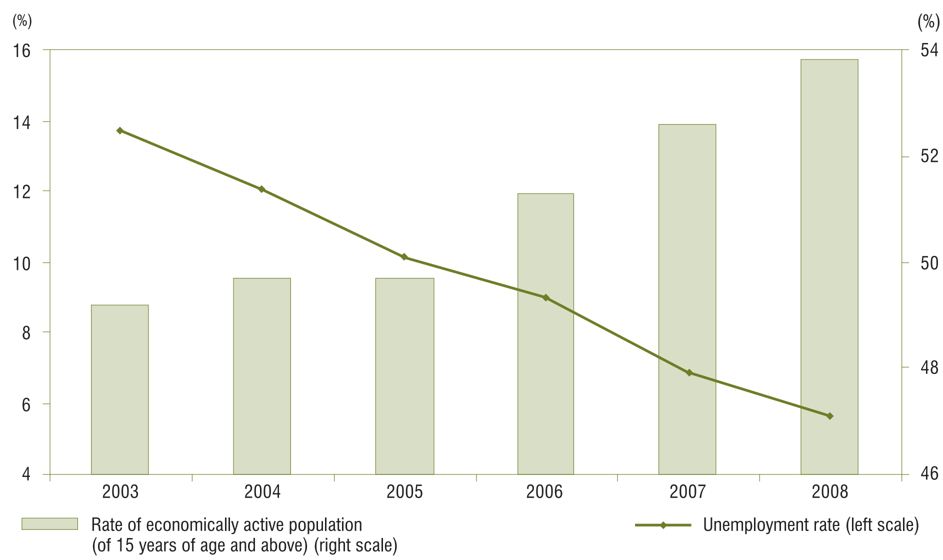
Contribution of Key Sectors to the Overall Employment Growth



Source: *NSI.*

Unemployment levels were on the downside throughout the year and reached 5% in Q4.[2] The average number of unemployed persons in 2008 was 199.7 thousand, or 5.6% of the workforce. The rate of economic activity of the population aged 15 years or more increased by 1.2 percentage points and reached a 2008 average of 53.8%.

Economic Activity Rate (15+) and Unemployment



Source: *NSI.*

[2] *Based on Workforce Monitoring data.*

Employment incomes in 2008 continued the growing trend observed over the past years. Based on preliminary data of the National Statistical Institute (NSI),[3] during the period in consideration the average wage in the economy as a whole grew by 21.7% in nominal terms and by 8.3% in real terms. In the private sector of the economy these rates were 20.6% in nominal terms and by 7.3% in real terms, and accordingly 25.1% and 11.3% in the public sector. The trends of the incomes obtained from various economic activities demonstrate that the biggest contributors have been the financial intermediation services, the construction industry, the machine and equipment building sector, the food industry, etc.

Productivity of labour[4] in the Bulgarian economy also followed a stable growth tendency in 2008 with a 2.7% real-terms increase versus the previous year. The highest values were reported in the agricultural sector, the financial intermediation services sector and in most of the industrial subsectors. In 2008 incomes continued to outpace labour productivity, however it should be noted that the dynamics of these two sectors has a favourable impact on labour costs per unit of production,[5] and indeed these costs slowed down their growth from 5.9% in 2007 to 4.3% in 2008.

The Financial Sector

The aggravating financial crisis in 2008 had a direct impact on the expectations for the real economy and narrowed down the lending opportunities of the private sector. Consumer and business confidence throughout Europe collapsed and dragged the European economy to the downside. In the second half of 2008 the US, several EU Member-States and a number of emerging economies reported abrupt slowdown or even decline of economic activity. The spillover of the negative effects of the crisis caused world leaders to convene at a G20 summit. The G20 meetings sought to coordinate the crisis response efforts of the individual governments and develop common guidelines for action.

In 2008 and especially in the second half of the year the financial system of Bulgaria began to experience certain indirect impacts from the global uncertainty. The implications of worldwide uncertainty were quite seriously felt by the Bulgarian Stock Exchange, the indices of which followed a downward trend throughout 2008. This impaired the yields of institutional investors and in particular of pension funds and Collective Investment Schemes (CIS). The mean aver-

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[3] Enterprise Monitoring data.

[4] The productivity of labour has been calculated as a ratio between GDP at constant prices and the number of employed persons, based on data from the System of National Accounts (SNA).

[5] Labour costs per unit of production have been calculated as a ratio between the employment compensation per employee and GDB per employee based on SNA.

age Rate of Return (RoR) of pension funds on y/y basis kept declining throughout the year and by the end of 2008 the values for the three types of investment funds were in the range of -3.98% to -6.28%. The CIS schemes reported a decline of their assets and their y/y RoR was negative. Changes were also observed in the structure of the investment portfolios held by pension funds and CIS in that equities and investments gave way to government securities, bank deposits and corporate bonds.

Despite the economic slowdown in the last quarter of 2008 and the reported decline of GDP, in Bulgaria there is not a single bank, which has liquidity or capital problems or needs urgent intervention by the state. The main barrier, which has kept the direct effects of the global financial crisis at bay from the Bulgarian banking system, has been the strongly conservative model of behaviour followed by Bulgarian banks. Traditionally, the commercial banks in Bulgaria are collecting deposits mainly from households and are using the so raised resources for granting simple loans to the private sector. An additional deterrent to the spillover of direct impacts from the crisis proved to be the fact that the investment banking model, which in principle involves much higher risks, is not used by any bank operating in Bulgaria. The anti-cycling policy pursued by the Bulgarian National Bank (BNB) during the recent years has helped maintain capital adequacy and liquidity indicators of the commercial banks at high levels. This provided additional protection to the banking sector against the worsening economic situation.

In 2008, the interest rates on deposits and loans began to climb. The average interest rate for long-term loans denominated in BGN reached 10.71% in 2008, which is by 1.29 percentage points higher than the average value in 2007. The narrower gauge for access to foreign lending exerted additional pressure on the interest rates for deposits in the domestic market, which climbed to 5.55% in 2008 from 4.20% in 2007.

The higher lending costs, combined with the increased cautiousness of all market participants, had a deterrent effect on lending supply and demand alike. While this was not readily evident until the middle of 2008, when lending to the private sector continued to grow at a rate of about 50% and above, during the second half of the year the slowdown was more noticeable and by the end of the year the growth of bank loans to the private sector had cooled down to 32.9%.

The higher interest rates, the weaker economic outlooks and the declining lending growth rates deteriorated the quality of the commercial banks' credit portfolios in the end of 2008. By the end of the year the percentage of defaulted or overdue loans reached 2.4% of all loans disbursed.

The profit reported by the banks for the calendar year 2008 was the highest in ten years time. It came to BGN 1.39 billion thus exceeding by 21.3% the profit reported in 2007. The assets of the commercial banks reached BGN 69.6 billion at the end of 2008, which is a 17.7% increase y/y. The capital adequacy of the banking system increased to 14.86% in the end of 2008 from 13.83% one year earlier, and it expected to improve further as the banks capitalize their profits from the current year. In 2008 the liquid assets ratio was 21.7%.

In 2008 the Government and the BNB undertook a series of joint measures aimed at maintaining confidence in the financial system of country and at providing liquidity to the economy. In October the minimum amount of guaranteed deposits held by Bulgarian banks was increased from BGN 40,000 to BGN 100,000. The measure was introduced in fulfilment of an agreement reached at EU level for increasing the guaranteed bank deposits to EUR 50,000. During the fourth quarter the BNB undertook a series of measures for reducing the amounts of minimal mandatory reserves (MMR), which the commercial banks are required to keep at the central bank. Since the beginning of December 2008 the MMR rate has been reduced to 10% of all resources borrowed by the banks.

Maintaining the Currency Board in Bulgaria at the current BGN/EUR fixed rate continued to be the pillar, which guarantees the stability of the economy in general and of the banking system in particular. Despite the considerable inflow of foreign financial resources in 2008, the withdrawal of liquidity during the second part of the year slowed down the annual growth rate of foreign currency reserves to 6.5% at yearend.

The deceleration of foreign exchange flows to Bulgaria and the decreased fiscal reserve resulted in the annual growth of foreign currency reserves being a negative value, namely 6.5% at yearend. Nonetheless, the high levels of cash coverage (175.3% as at December 2008) and cash supply (54.3% as at December 2008) were sustained. The reserves at the end of the year were sufficient to cover the imports of goods and non-factor services in for 5.3 months.

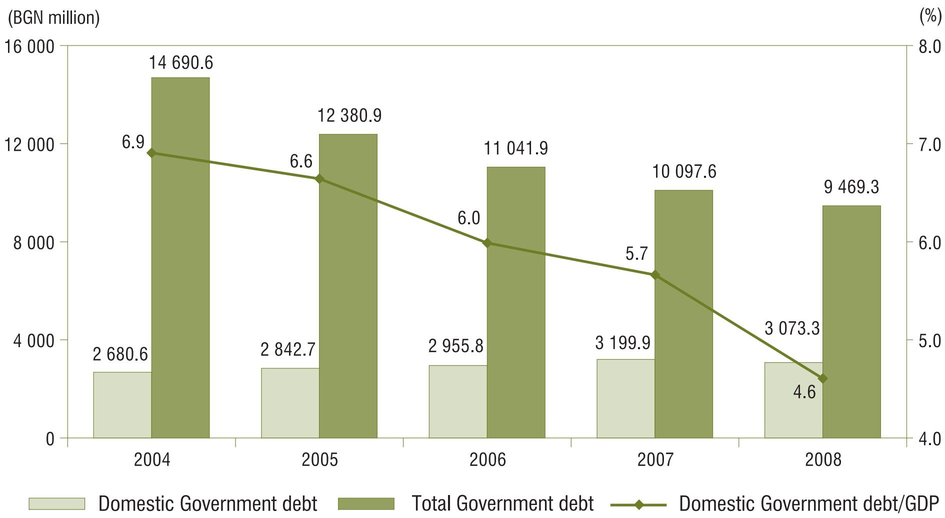
Domestic Government Debt

In accordance with the objectives laid down in the Government Debt Management Strategy, the main priority in managing the GD during the past three years has been to develop an efficient, liquid and transparent domestic market for Government Securities. The main aim has been to increase the DGD share with due regard to the specific macroeconomic situation and the financing requirements of the national budget.

Exposed to the impacts of the global financial crisis, the market environment in 2008 was not very supportive to the issuance of Government Securities. As a result of the impaired market conditions, which led to a negative net issue at the end of 2008, the DGD decreased by BGN 126.6 million vs. 2007. Generally, the demand for GS was weaker compared to the previous year, but nonetheless continued to exceed the available volumes, which is evidenced, among other things, by the achieved bid-to-cover ratios. The following average bid-to-cover ratios were achieved for the three types of GS issues – 3-month Treasury Bonds, 5-year GS and 10-year GS: 2.47, 2.70 and 2.53 accordingly. The issuer's paramount priority was the placement of a 10-year GS issue in a volume ensuring high liquidity of the securities in order to comply with the long-term interest rate requirements for evaluation of the convergence ratio.

The prioritized offering of long-term GS has equally led to a longer primary maturity of the auctioned GS, which reached 7 years and 10 months on the average, i.e. 6 months longer compared to the previous year.

In nominal terms, the Domestic Government Debt was BGN 3,073.3 million at the end of 2008, or 4.6% of GDP. Within this amount, BGN 2,735.9 million was the debt incurred in auctioned GS and BGN 337.4 million was the debt incurred in GS floated in support of the structural reform. Thus, the debt in auctioned GS accounts for 89% of the total DGD amount, and the GS supporting the structural reform account for 11%. The total nominal amount of Government Securities issued during the year was BGN 298.3 million.



Domestic Government Debt to GDP

Source: *MF.*

The net domestic financing during the year was negative at BGN 132.7 million.[6] Accordingly, gross domestic financing was BGN 298.3m raised by one issue in each of the main maturity segments as follows: BGN 168.5m in 10-year GS and BGN 84.8m in 5-year GS. Three issues of 3-month GS in the total amount of BGN 45.0m were offered in the short-term segment.

[6] Amount based on nominal value.

Domestic Government Debt Dynamics*

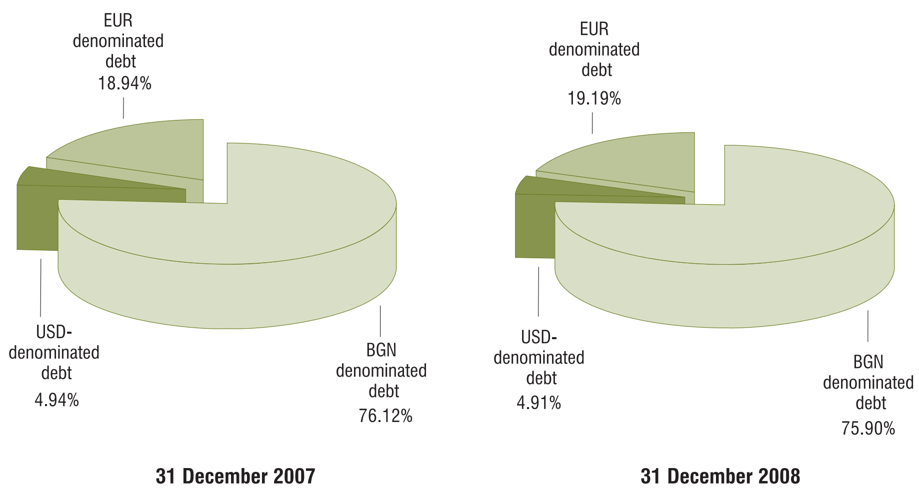
Debt structure	Debt by 31 December 2007, BGN million	Rise, BGN million	Fall, BGN million	Debt by 31 December 2008 BGN million	Nominal rise/ fall, BGN million	%
Domestic government debt	3 199.91	298.30	419.79	3 073.27	-126.64	-3.96
1. Government securities issues	2 838.28	298.30	400.67	2 735.91	-102.37	-3.61
3-month	–	45.00	45.00	–	–	–
3-year	428.19	–	150.46	277.73	-150.46	-35.14
5-year	719.22	84.80	175.20	628.81	-90.40	-12.57
7-year	660.36	–	30.00	630.36	-30.00	-4.54
10-year	834.92	168.50	–	1 003.42	168.50	20.18
15-year	195.58	–	–	195.58	–	–
2. Structural reform government securities	361.64	–	19.12	337.36	-24.28	-6.71
19-year	1.10	–	0.28	0.83	-0.28	-25.00
20-year	196.05	–	8.35	179.71	-16.34	-8.33
24-year	1.27	–	0.13	1.14	-0.13	-10.00
25-year	163.22	–	10.37	155.68	-7.54	-4.62

** All data is at nominal value.*

Source: *MF.*

The DGD currency structure somewhat deviated from the tendency during the recent years, which has been to increase the relative weight of debt denominated in BGN. Thus the share of Euro debt increased marginally by 0.3 percentage points and reached 19.2%. Due to this development and to the regular amortization payments, the share of BGN debt decreased to 75.9%, while the share of the debt expressed in US Dollars remained at the level of 2007, namely 4.9%.

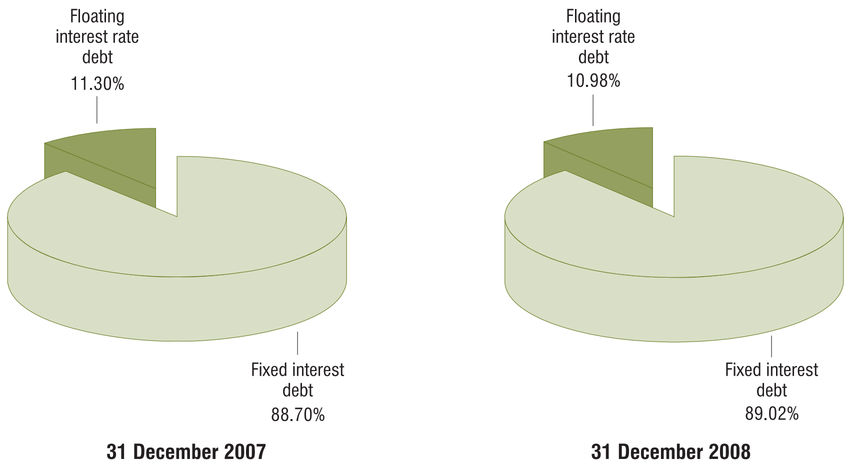
Currency Structure of Domestic Government Debt



Source: *MF.*

The interest rate structure sustained the tendency towards increasing the share of DGD at fixed interest coupons, which rose to 89.0% from 88.7% at 2007 yearend. These results both from the new borrowing, which was only at fixed interest rates, and from the regular amortizations of debts at floating interest rates.

Interest Rate Structure of Domestic Government Debt



Source: *MF.*

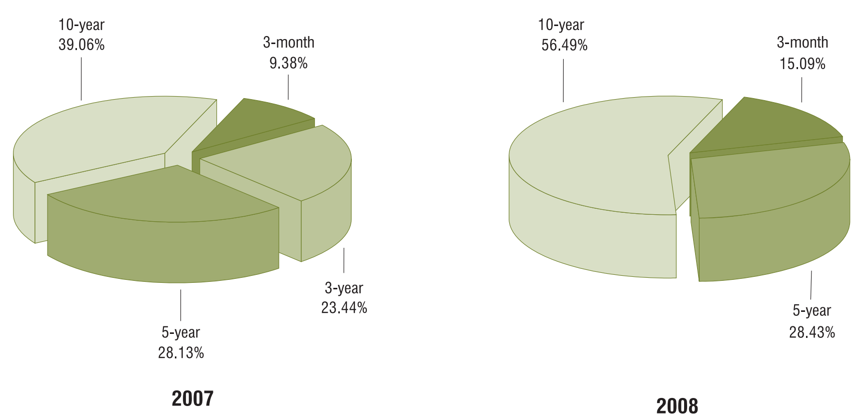
The average primary maturity of auctioned GS also saw positive adjustments during the period under consideration. From 7 years and 4 months in the end of the previous year, the GS average primary maturity was already 7 years and 10 months at 2008 yearend.

Average Primary Maturity of auctioned GS in circulation at the end of the respective month

Source: *MF.*

Domestic Financing

GS with total nominal value of BGN 298.3 million were floated in the local market during 2008. The tendency of offering GS in accordance with an issuing calendar, pre-announced on monthly basis in the main maturity segments – 3 months, 5 year and 10 years, continued during the reporting year. Short-term securities were 15.1%, medium-term 28.4% and long-term 56.5% of all GS issued in 2008.



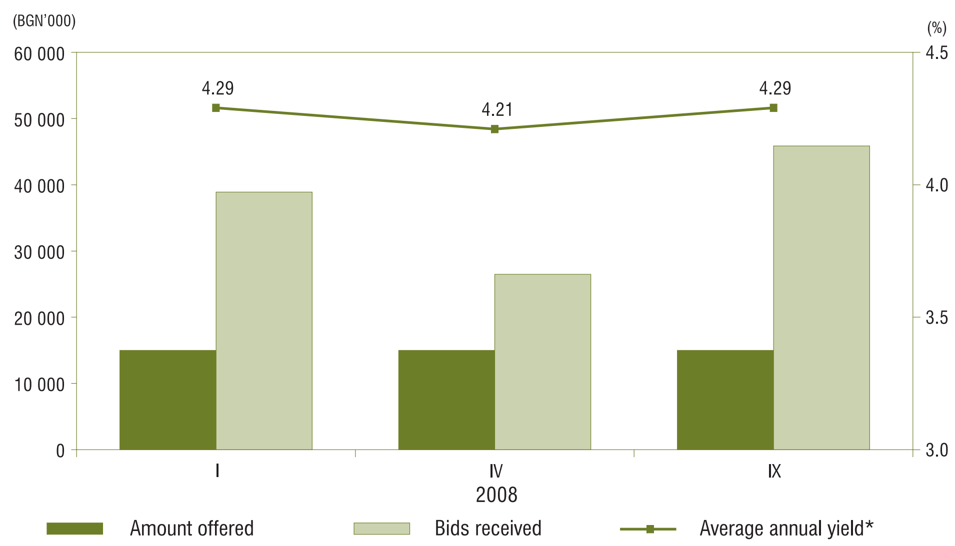
Maturity Structure of New GS Issues

Source: *MF.*

Issues of Treasury Bills

The maturity of the short-term securities issued during the year was 3 months and their total nominal amount came to BGN 45.0 million. The frequency of 3-month Treasury Bill auctions in 2008 was reduced to three auctions for this type of securities. The lowest mean annual yield of 4.21% was achieved at the April auction and the highest one of 4.29% was registered at the auctions held in January and September. All the orders placed for the amounts put on the market came to BGN 112.2 million, meaning that the weighted average bid-to-cover ratio of the 3-month Treasury Bills sold was 2.47.

Issues of 3-month Treasury Bills



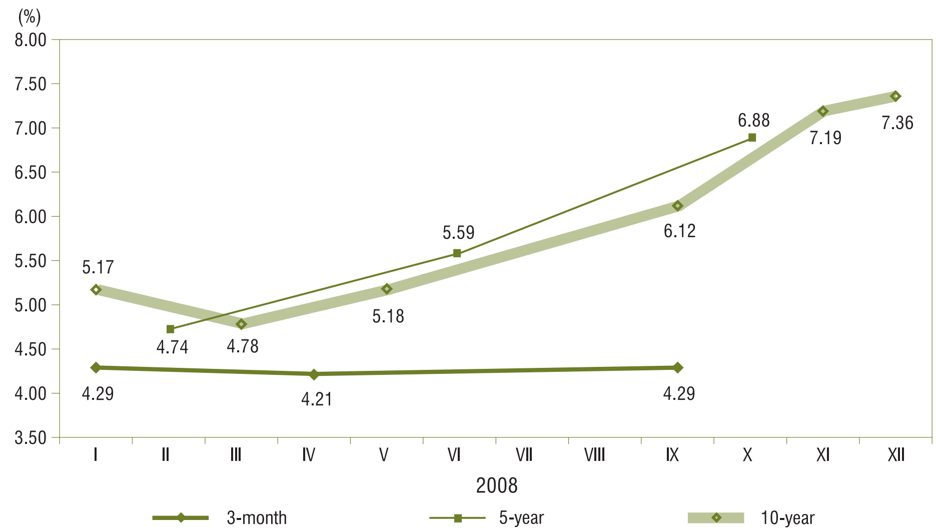
** Average annual yield based on the ISMA-International Yield (%).*

Source: *MF.*

Issues of Treasury Bonds

The nominal value of the Treasury Bonds issued during 2008 stood at BGN 253.3 million. In terms of maturity structure, the Treasury Bonds offered were medium- and long-term government bonds with 5 and 10 years maturity denominated in national currency. The prevailing offering was for the 10-year issue. This has supported the implementation of the Government's Domestic Debt Strategy, which requires the relative share of this type of debt to increase by priority issuance of medium- and long-term GS and extending the average maturity of the issues in circulation. The lowest bid-to-cover ratio during the year was 2.22, recorded at the May auction for 10-year bonds and the highest bid-to-cover ratio of 3.22 was registered at the September auction for 10-year bonds. In spite of the good bid-to-cover ratios achieved at all auctions during the year, the yield of all offered issues realized at the primary market showed a gradual increase. The main reasons were the observed turbulences at the domestic and international capital markets caused by the global financial crisis.

Yield at Primary Market Government Securities

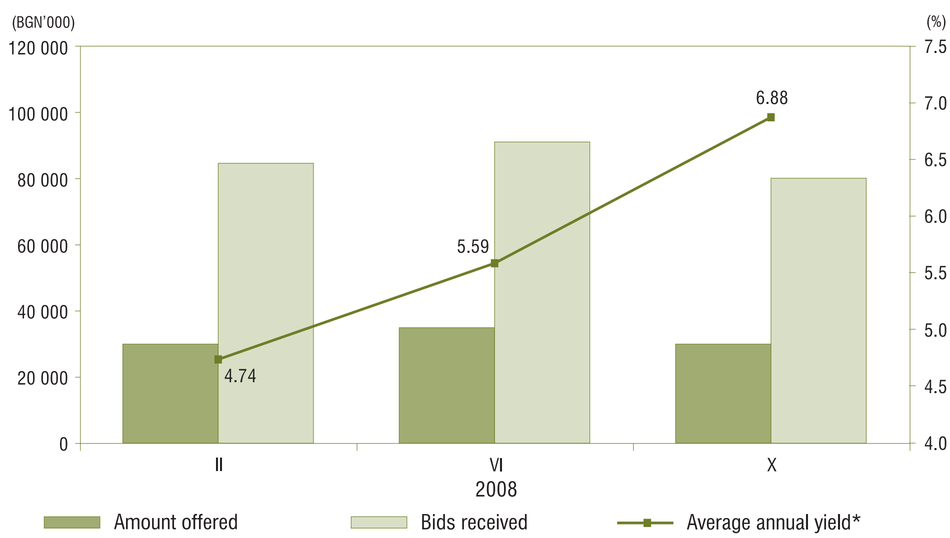


Note: *Average annual yield based on the ISMA-International Yield (%).*

Source: *MF.*

Five-year government securities were represented by one issue with a total nominal value of BGN 84.8 million, placed at three auctions. Demand for securities of five-year maturity was relatively high throughout the year – orders in the total amount of BGN 256.3 million were placed, resulting in 2.70 weighted average bid-to-cover ratio for the three auctions. Yields at the primary market for five-year government securities varied within the bracket of 4.74% to 6.88%.

5-Year GS Auction

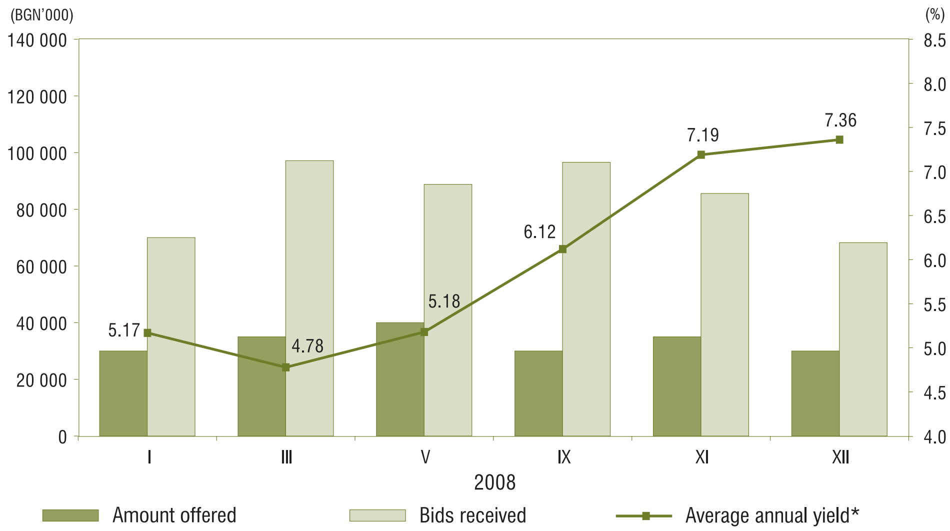


** Average annual yield based on the ISMA-International Yield (%).*

Source: *MF.*

One issue of ten-year bonds to a nominal value of BGN 168.5 million was launched during the year and placed in six auctions. As a continuing tradition, the ten-year issue was the one most demanded by the market, with orders totalling to BGN 506.3 million and the average bid-to-cover ratio reaching 2.53. The second half of the year saw the greatest interest in this issue – as evidenced by the 3.22 bid-to-cover ratio at opening of the September issues, which is the highest bid-to-cover ratio achieved at all auctions during the year. The primary market yields for the 10-year GS issue varied between 4.78% and 7.36%.

10-Year GS Auctions



** Average annual yield based on the ISMA-International Yield (%)*

***Source:** MF.*

Government Securities Issues in 2008

Auction date	Issue date	Issue number	Currency	Maturity (months)	Maturity date	Interest rate	Amount offered	Bids received	Bids approved at nominal value	Bids approved at sell price	Average price attained per 100 units nominal value	Minimum approved price per 100 units nominal value	Average annual yield (%)*	Maximum approved yield (%)
14.01.2008	16.01.2008	BG2040008216	BGN	120	16.01.2018	4.50	30 000 000.00	70 000 000.00	30 000 000.00	28 587 510.00	95.29	93.85	5.17	5.37
21.01.2008	23.01.2008	BG3010008004	BGN	3	23.04.2008	0.00	15 000 000.00	38 907 500.00	15 000 000.00	14 843 568.76	98.96	98.95	4.29	4.20
18.02.2008	20.02.2008	BG2030008119	BGN	60	20.02.2013	4.25	30 000 000.00	84 775 000.00	30 000 000.00	29 426 850.00	98.09	97.16	4.74	4.96
10.03.2008	12.03.2008	BG2040008216	BGN	120	16.01.2018	4.50	35 000 000.00	97 135 000.00	35 000 000.00	34 373 433.50	98.21	97.00	4.78	4.94
14.04.2008	16.04.2008	BG3010108002	BGN	3	16.07.2008	0.00	15 000 000.00	26 475 000.00	15 000 000.00	14 846 715.00	98.98	98.96	4.21	4.16
19.05.2008	21.05.2008	BG2040008216	BGN	120	16.01.2018	4.50	40 000 000.00	88 775 000.00	40 000 000.00	38 144 150.00	95.36	94.35	5.18	5.32
16.06.2008	18.06.2008	BG2030008119	BGN	60	20.02.2013	4.25	35 000 000.00	91 229 000.00	35 000 000.00	33 207 935.50	94.88	93.99	5.59	5.83
15.09.2008	17.09.2008	BG3010208000	BGN	3	17.12.2008	0.00	15 000 000.00	45 849 500.00	15 000 000.00	14 843 647.51	98.96	98.92	4.29	4.32
29.09.2008	01.10.2008	BG2040008216	BGN	120	16.01.2018	4.50	30 000 000.00	96 600 000.00	30 000 000.00	26 760 295.00	89.20	88.11	6.12	6.30
20.10.2008	22.10.2008	BG2030008119	BGN	60	20.02.2013	4.25	30 000 000.00	80 275 000.00	19 800 000.00	17 963 720.00	90.73	89.76	6.88	7.17
10.11.2008	12.11.2008	BG2040008216	BGN	120	16.01.2018	4.50	35 000 000.00	85 575 000.00	3 500 000.00	2 900 815.00	82.88	81.51	7.19	7.43
08.12.2008	10.12.2008	BG2040008216	BGN	120	16.01.2018	4.50	30 000 000.00	68 200 000.00	30 000 000.00	24 602 330.00	82.01	81.41	7.36	7.47
							340 000 000.00	**873 796 000.00**	**298 300 000.00**	**280 500 970.27**				

** Government securities yield has been calculated according to ISMA-International Yield.*

***Source**: MF.*

Domestic Government Debt Service

All payments made in 2008 came to BGN 581.3 million, of which BGN 428.4 million in amortization payments and BGN 152.9 million in interest payments. Within the interest payments, BGN 136.7 million were interests and discounts on treasury bills/bonds and BGN 16.2 million were interest payments on GS issued in support of structural reform.

Government Securities for the structural reform

The nominal value of the outstanding GS issued in support of the structural reform came to BGN 337.4 million at 2008 yearend. The reduction of the debt by BGN 24.3 million compared to the previous year was the result of the regular amortization payments made.

Principal repayments for GS issued in support of the structural reform during the year amounted to BGN 30.4 million.

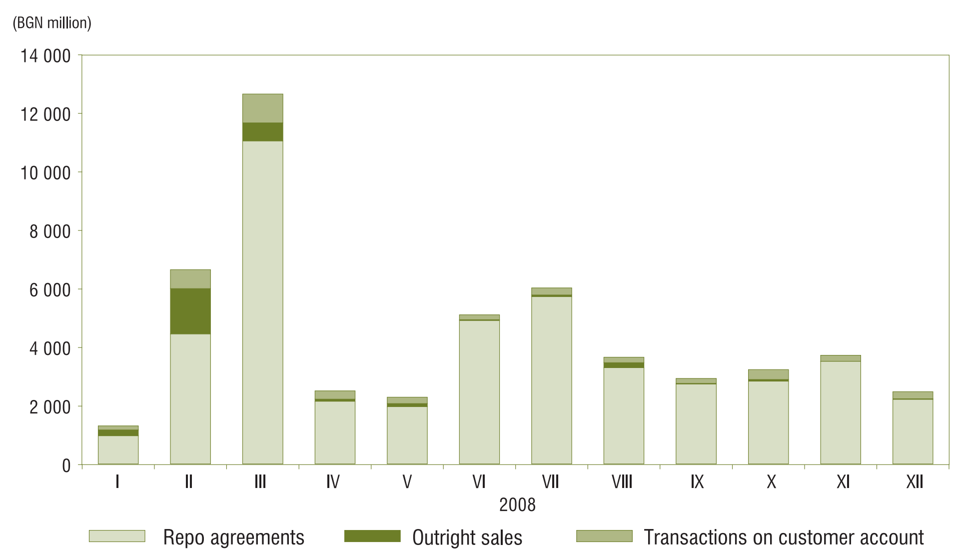
The interest payments for this type of securities came to BGN 16.2 million at 2008 yearend.

2008 GS Secondary Market Overview

2008 witnessed an enthusiastic secondary market for government debt instruments with strong preference for medium- and long-term GS. The participants in the Electronic GS Registration and Maintenance System used the GS as a risk-free and profitable investment as well as for covering their current liquidity requirements.

In 2008 the secondary market registered 16,446 trades with a total nominal value of BGN 76,603.8 million. The greatest portion of these (59.6%) were repo trades, followed by GS block/unblock trades (31.6%), trades with or on behalf of clients (5.0%), and final buys/sales (3.8%). 2008 saw 8967 repos, 524 final buys/sales and 1781 trades with or on behalf of clients. There were 5174 GS block/unblock trades, of which 5132 were made to secure government money held by banks and 42 transactions related to imposition of attachments on government securities. No privatisation deals with GS were registered during the year.

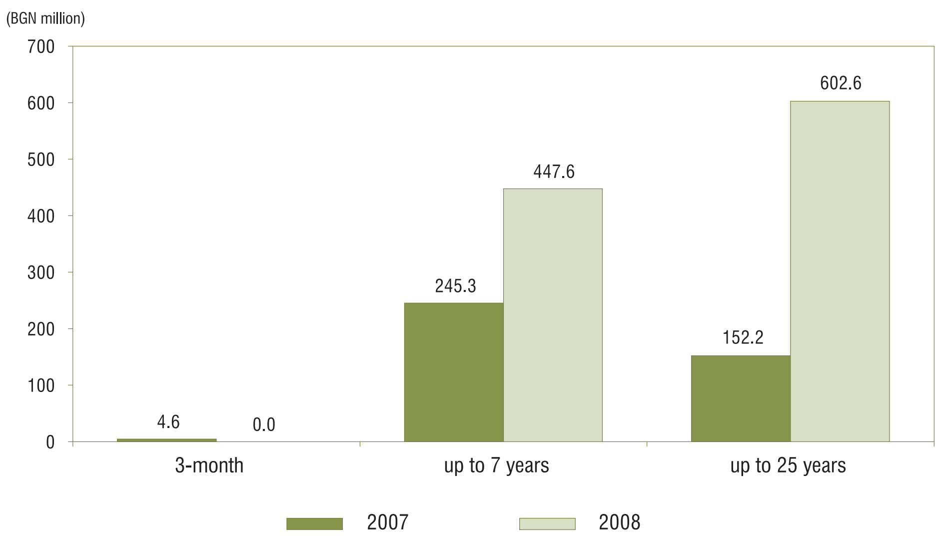
Volume of Transactions in Tradeable Government Securities



Notes: *1. Repo agreements include reverse repo agreements and those concluded during the current day.*

2. Transmissions in government securities denominated in foreign currency are in BGN at BNB exchange rates of the respective currency on the day of transaction.

Source: *BNB.*



Maturity Structure of Government Securities Transactions on the Interbank Market

Note: *Transmissions in government securities denominated in foreign currency are in BGN at BNB exchange rate quoted for the last business day of corresponding period.*

Source: *BNB.*

The traded volumes were unevenly distributed during the year with the most active trading periods being February-March and June-July 2008. As in previous years, the liveliest trade occurred during days for acquisition of new GS issues and at times when the budget-funded organisations were actively transacting their funds held with the commercial banks.

The secondary GS market experienced negative impacts from a lasting tendency, which was observed throughout the year, namely that more and more government securities were blocked to secure government money held by banks – the average daily amount of these blocked securities in 2007 was BGN 1,447.70 million by nominal value and in 2008 it grew to BGN 1,538.7 by nominal value.[7] Long-term GS were again the most traded instruments at the secondary market, where they accounted for 57.4% of the total traded volumes, followed by medium-term GS with 42.6% of all transactions.[8]

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[7] *The BGN counter-value of GS issues denominated in other currencies is calculated using the official BNB rate for the respective currency valid for 31.12. of the relevant year.*

[8] *The values include final trades and repo trades with or without actual payments.*

Holders of Government Securities

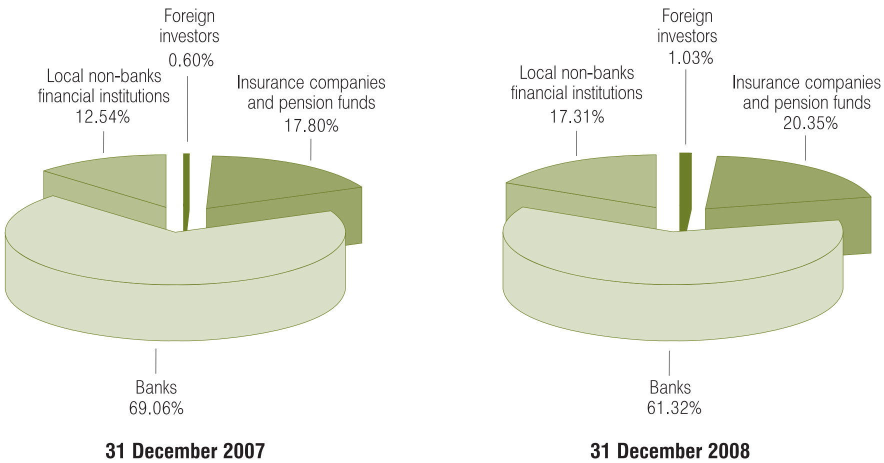
Notes: *1. Including frozen government securities.*

2. Including target issues earmarked for individuals investors.

3. Preliminary data of the BNB and government securities primary dealers.

4. The lev equivalent of government securities denominated in foreign currency is based on BNB exchange rate of foreign currencies against the Bulgarian lev quoted on 31 December of the respective year.

Source: *BNB.*



The structure of GS holders remained relatively stable in 2008 as well. Banks again took the largest segment of GS issued to finance the budget (61.3%), followed by insurance companies and pension funds (20.4%), local non-banking financial institutions, companies and individuals (17.3%) and foreign investors (1%). Commercial banks continued to hold the greatest share of government securities issued in support of structural reform (49.5%), followed by local non-banking financial institutions, companies and individuals (29.2%), insurance companies and pension funds (20.9%) and foreign investors (0.4%).

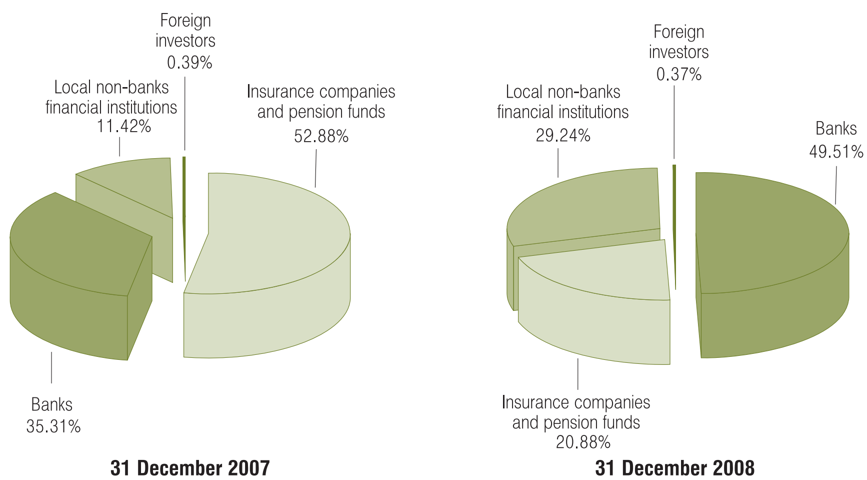
Holders of Structural Reform Government Securities

Notes: *1. Including frozen government securities.*

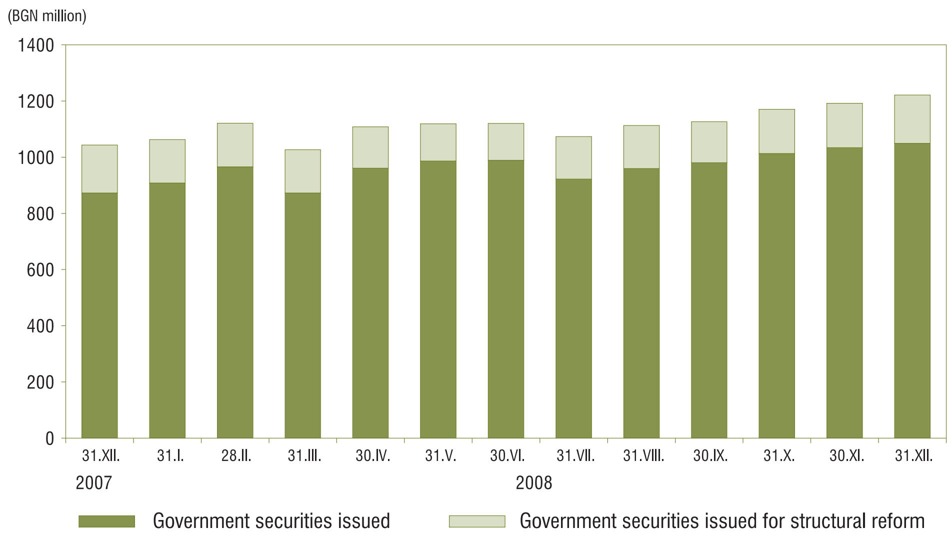
2. The lev equivalent is based on BNB exchange rate quoted for 31 December of the respective year.

3. Preliminary data of the BNB and government securities primary dealers.

Source: *BNB.*



At 2008 yearend, the investments of non-banking financial institutions, companies and individuals in government securities issued to finance the budget recorded a net growth of 20.2%, and the investments in GS issued in support of the structural reform also increased by 0.8% net vs. 2007 yearend levels.



GS Investments by Non-banking Financial Institutions, Companies and Individuals

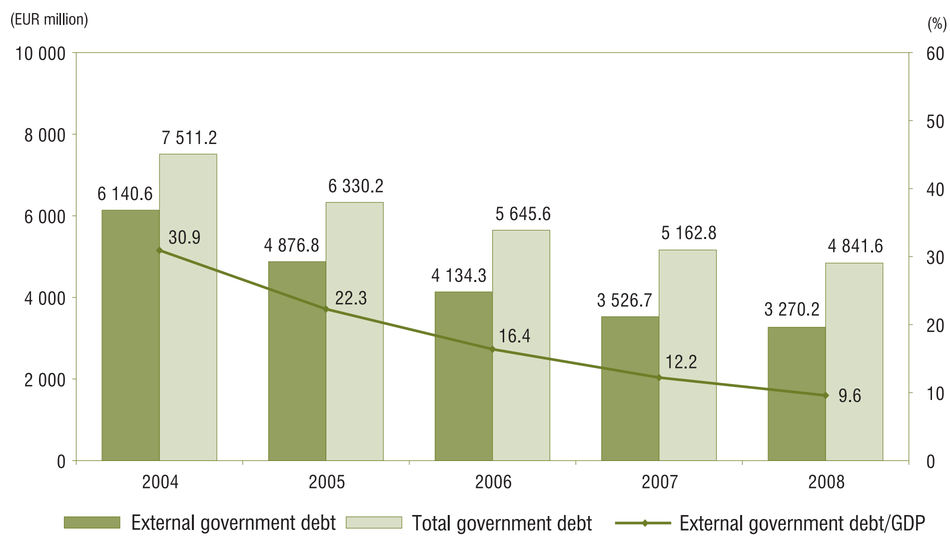
Note: *Foreign exchange denominated securities are at lev equivalence using BNB foreign exchange rates valid on the final business day of each period.*

Source: *BNB.*

External Government Debt

At the end of 2008 the External Government Debt (EGD) amounted to EUR 3,270.2 million in nominal terms – a nominal reduction of EUR 256.5 million from the 2007 level. The main reasons for the reduction of the external government debt and for preservation of the positive tendency, well established during the recent years, for reduction of EGD levels are the regular debt repayments during the year and the negative net external financing, including the premature debt extinction operations. The above factors underlie also the reduction of the EGD/GDP ratio by 2.6 percentage points to 9.6%.

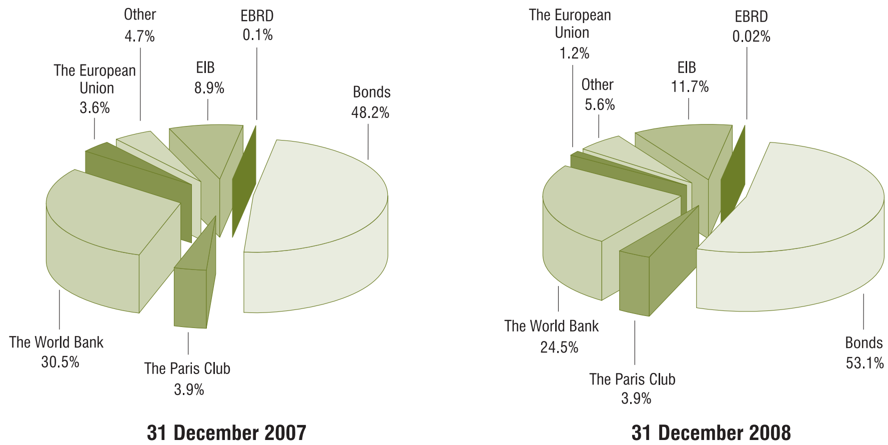
External Government Debt /GDP



Sources: *MF and NSI.*

The policy pursued in the area of new external borrowing, the premature extinction of External Government Debt and the regular payments made during the year also led to changes of the debt structure in terms of lenders. The government debt to the World Bank and the Japanese Bank for International Cooperation was partially repaid. As a result of the early partial repayment, the relative weight of the liabilities to the World Bank in the total External Government Debt amount decreased by 6 percentage points. As a result of the regular payments made, the share of the debt to the European Union decreased by 2.4 percentage points and reached 1.2%. At the same time, there was an increase in the share of Treasury Bonds debts and of the liabilities to the EIB. 2008 yearend figures demonstrate that the largest External Government Debt share belongs to bonds issued at the international capital markets – 53.1%, followed by the debt to the WB – 24.5%. Debts to miscellaneous lenders account for about 22.0% of the overall debt structure.

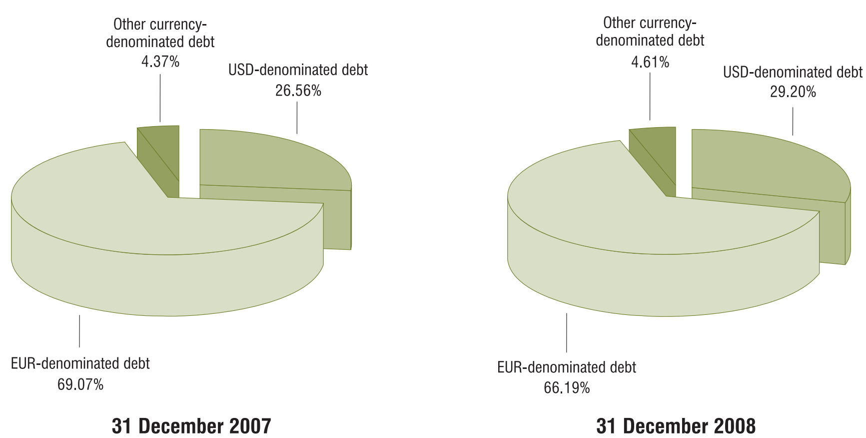
External Government Debt Creditor



Source: *MF.*

As concerns the currency structure, the tendency of recent years towards increasing the debt in Euro on account of the debts in US Dollars and other currencies continued in 2008. Against end of 2007 data, the USD debt share rose by 2.6 percentage points, reaching 29.2%. This is due to the reduction of Euro debts from 69.1% to 66.2%. In 2008 two premature External Government Debt extinction operations were undertaken with the total amount of buybacks being EUR 296.9 million. Three debts were extinguished: a JPY 4.5bn debt to the Japan Bank for International Cooperation and two debts to the World Bank – EUR 260.4 million and USD 12.6 million. The payments under all other external loans were made in accordance with payment schedules provided for in the loan agreements.

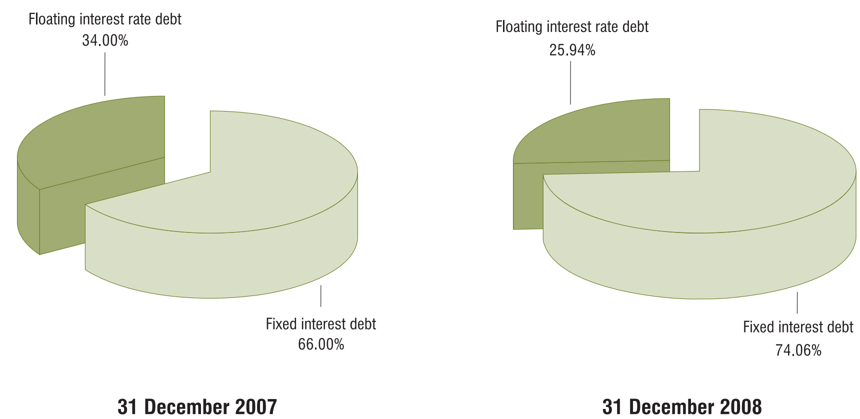
Currency Structure of External Government Debt



Source: *MF.*

The borrowing policy in 2008 was centred around raising of financial resources at fixed interest rates with a view to reducing the impact of floating interest rates on EGD service costs. At the end of the year the debt at fixed coupons was 74.1% of EGD and the debt at floating rates was 25.9%. To a large extent the change was also due to the advance repayment of the debts to the World Bank and the Japan Bank for International Cooperation, which were both at floating rates.

Interest Rate Structure of External Government Debt



Source: *MF.*

External financing

The new external financing in 2008 amounted to EUR 144.3 million. Most of the disbursements made during the year came in the framework of already agreed government investment loans for funding of infrastructural projects and social programmes. The main part of the proceeds came from official international lenders such as the WB and the EIB.

Net external financing for the year was negative and came to EUR 329.3 million. This is mainly due to postponement of disbursements under the World Bank loan for DPL 2 policy development in accordance with the three years delayed disbursement option, which Bulgaria exercised during the past year because of its good financial performance. Part of a debt to the World Bank, amounting to EUR 268.5 million, was repaid ahead of time in March 2008. A debt to the Japan Bank for International Cooperation was extinguished in April. Positive financing during the year came only from Government Investment Loans (GIL). The nominal value of GIL debt at 2008 yearend was EUR 756.9 million. The GIL share in the

EGD was 23.1% and is constantly increasing due to the absorption of funds under major infrastructural projects that are already in their implementation phase and as a result of contracting new external loans to finance investment projects and social programmes.

New External Financing and EGD Repayments in 2008

(million EUR)

Structure	Loans of tranches nominal	Repayments, incl.		
		Principal	Interest	Total
External government debt	144.3	473.6	207.2	680.7
I. Bonds	–	–	131.2	131.2
II. Credits	144.3	473.6	76.0	549.5
1. Paris Club	–	12.6	4.6	17.2
2. World Bank	–	304.4	32.0	336.5
2.1. World Bank	–	273.4	31.1	304.5
2.2. JBIC (JEXIM)	–	31.1	0.9	31.9
3. European Union	–	87.5	5.4	92.9
4. Other	–	12.6	1.6	14.2
5. Government investment loans	144.3	52.6	31.5	84.0
5.1. World Bank	36.4	13.6	10.3	23.9
5.2. EIB	94.8	28.4	15.3	43.7
5.3. EBRD	–	1.4	0.1	1.5
5.4. Other	13.0	9.1	5.8	15.0
6. Called government guarantees	–	3.8	1.0	4.8
6.1. World Bank	–	3.8	1.0	4.8

Note: *The lev equivalent of new foreign financing and repayments is at the BNB central rate at 4 pm on the day of respective payment.*

Source: *MF.*

External Government Debt Service

The decreasing absolute value of the External Government Debt combined with the accomplished interest rate and currency structure – with prevalence of Euro denominations and fixed coupon rates – helped reduce the costs for attending to the outstanding debt and also mitigated the associated market risks.

In 2008 the amount of debt payments was EUR 680.7 million, of which EUR 473.6m in principal payments and EUR 207.2m in interest expenses or EUR 272.7m less than the values for 2007. The overall reduction results from the premature debt extinction operations and from the regular payments on the outstanding external debt. Most of the interest payments, namely EUR 131.2m or 63.3% of all interest expenses, related to bonds issued at the international capital markets. This is due to the fact that global bonds account for 53.1% of the total EGD amount. Interest payments under loans from international organisations and institutions (including the World Bank, JBIC and the European Union) were EUR 37.4 million, followed by EUR 6.2m paid under loans from other states (including the Paris Club and the Polish National Bank). All interest payments were made in due time and in accordance with the terms and conditions laid down in the respective loan agreements.

External Government Debt

(million EUR)

Structure	As of 31.XII.2007	As of 31.XII.2008
External government debt	3 526.7	3 270.2
I. Bonds	1 700.3	1 736.7
II. Loans	1 826.5	1 533.5
1. Paris Club	138.5	125.9
2. World Bank	870.5	574.2
2.1. World Bank	817.7	543.9
2.2. JBIC	52.8	30.3
3. European Union	127.5	40.0
4. Other	31.6	19.0
5. Government investment loans	637.4	756.9
5.1. World Bank	185.7	208.7
5.2. EIB	314.5	382.4
5.3. EBRD	2.2	0.7
5.4. Other	135.0	165.1
6. Called government guarantees	21.0	17.5
6.1. World Bank	21.0	17.5

Notes: *1. All nominal values.*
2. Euro conversion at BNB central rates for the closing business day of each period.

Source: *MF.*

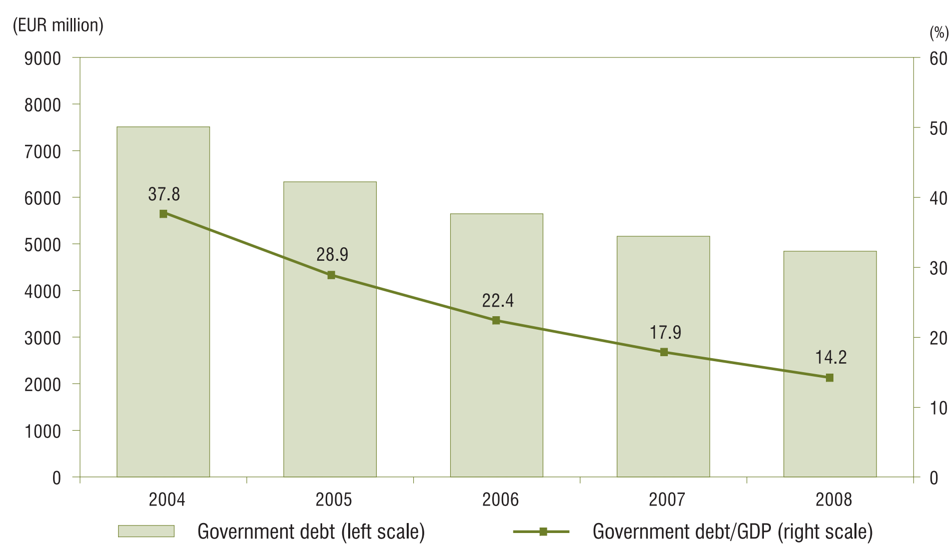
Government Debt

The year 2008 was characterized by huge dynamics of the economic processes occurring both in Bulgaria and on the international arena. Against the background of these dynamic processes, Bulgaria did manage to keep the momentum of its economic growth observed during the recent years.

The pursued economic and fiscal policy was aimed at maintaining the macroeconomic stability in a Currency Board environment, ensuring conditions for sustainable economic development, implementation of priority policies in the public sector with optimal usage of the available budgetary resources, and maintaining the levels of Government Debt (GD) and Government Guaranteed Debt (GGD) with a view to achieving long-term compliance with the Maastricht criteria.

The nominal Government Debt amount at 2008 yearend was EUR 4,841.60 million, of which EUR 3,270.20m were external debt and EUR 1,571.30m were domestic government debt. The absolute GD reduction from the 2007 level was EUR 321.20 million resulting both from regular payments as well as from premature debt repayment operations undertaken during the year. The Government Debt to GDP ratio at 2008 yearend was 14.2% representing a 3.7 percentage points (PP) decrease from the 2007 levels, mainly due to the steady growth of the economy and the reasonable fiscal policy pursued.

Dynamics of Government Debt



Source: *MF.*

Dynamics of Government Debt

(million EUR)

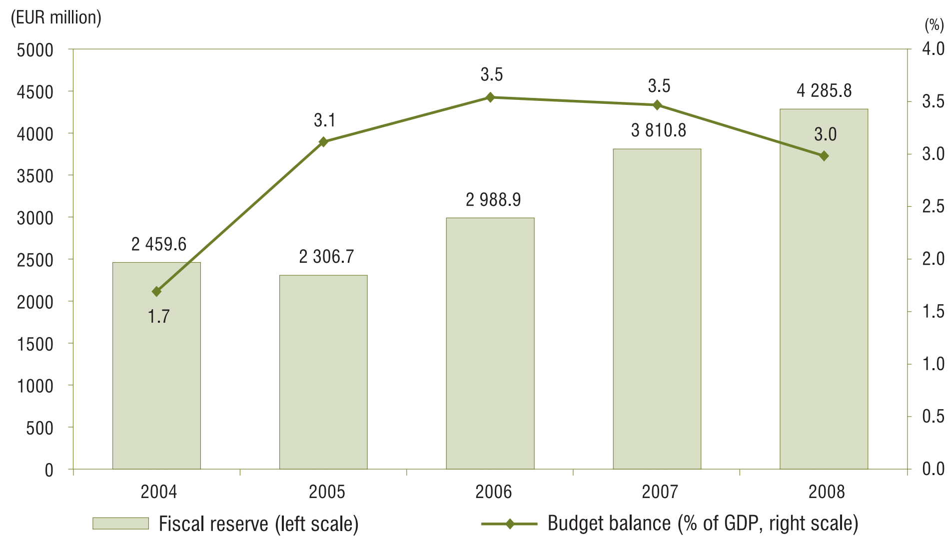
Structure	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Domestic government debt	1 060.3	906.2	951.7	1 086.1	1 153.8	1 370.6	1 453.5	1 511.3	1 636.1	1 571.3
Budget deficit financing government securities	450.9	491.4	554.6	754.9	879.2	1 130.5	1 214.3	1 300.7	1 451.2	1 398.8
Structural reform government securities	495.5	389.9	382.4	321.7	270.4	240.0	239.1	210.5	184.9	172.5
Government securities issued under LSPDACB of 1996	113.9	24.9	14.6	9.4	4.2	–	–	–		
External government debt	8 587.1	9 159.5	9 096.6	7 685.9	6 961.1	6 140.6	4 876.8	4 134.3	3 526.7	3 270.2
Brady bonds	4 954.6	5 347.7	5 400.0	2 398.7	1 890.1	1 164.1	–	–	–	–
Bonds	–	–	250.0	2 310.0	2 091.4	2 018.3	2 162.5	2 050.2	1 700.3	1 736.7
Paris Club	811.1	645.3	433.5	284.5	218.9	176.3	163.7	151.1	138.5	125.9
World Bank	820.5	889.6	941.1	836.1	870.0	930.6	1 020.0	787.0	870.5	574.2
G-24	70.9	60.8	53.8	48.9	42.0	34.6	36.9	14.3	–	–
European Union	400.0	460.0	390.0	390.0	350.0	350.0	287.5	215.0	127.5	40.0
IMF	1 126.5	1 309.4	1 183.4	990.9	940.2	868.7	559.5	258.9	–	–
Other	147.7	136.6	136.6	129.2	125.2	125.2	62.3	44.2	31.6	19.0
Government investment loans	207.8	251.0	240.3	236.7	383.0	428.8	549.2	588.6	637.4	756.9
Called government guarantees	48.1	59.2	67.8	61.0	50.2	43.9	35.2	25.0	21.0	17.5
Total government debt	9 647.4	10 065.7	10 048.3	8 771.9	8 114.9	7 511.2	6 330.2	5 645.6	5 162.8	4 841.6
GDP (BGN million)	23 790.4	26 752.8	29 709.2	32 401.6	34 627.5	38 822.6	42 797.4	49 361.0	56 519.8	66 728.1
GDP (EUR million)	12 163.9	13 678.5	15 190.1	16 566.7	17 704.8	19 849.7	21 882.0	25 237.9	28 898.1	34 117.5
Total government debt/GDP (%)	79.3	73.6	66.2	52.9	45.8	37.8	28.9	22.4	17.9	14.2

***Notes**:* *1. Nominal figures.*
2. Euro conversion at BNB central rates for the closing business day of each period.
3. GDP data from the National Statistics Institute.

***Sources:** MF and NSI.*

The strong fiscal position (EUR 4.3 billion by estimated exchange rates at 31.12.2008) and the reported budget surplus (3.0% of GDP) made it possible to undertake in 2008 operations for premature extinction of Government Debt to foreign creditors in the total amount of EUR 0.3 billion. Net financing during the year was negative and amounted to EUR 397.1 million.

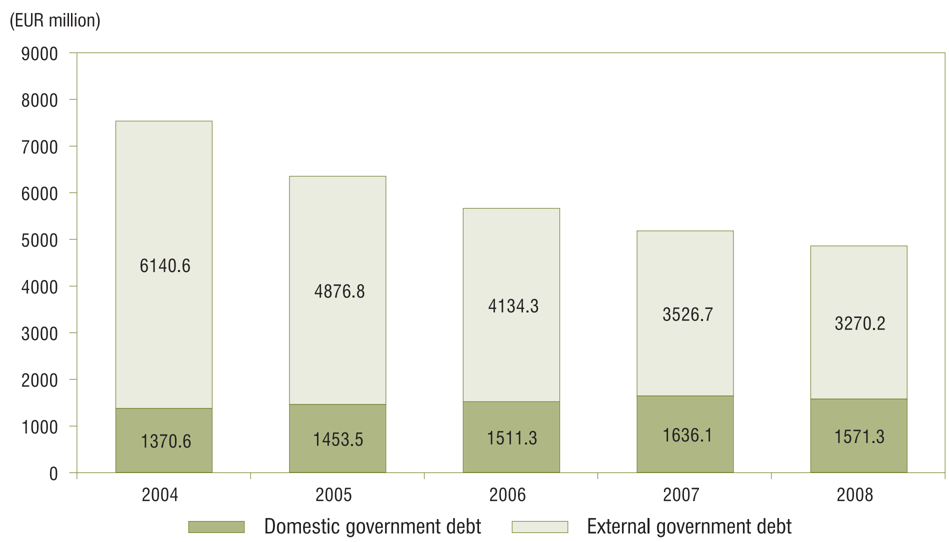
Budget Balance and Fiscal Reserve



Source: *MF.*

The Domestic Government Debt (DGD) dropped by about EUR 64.8 million in 2008 due to the negative net financing of Government Securities issued in the domestic market. Expressed as a portion of the total Government Debt, DGD scored a near 0.8 pp increase from December 2007 to December 2008. The Domestic Government Debt to GDP ratio dropped to 4.6% from 5.7% in 2007. This serious reduction mostly results from the higher GDP and the negative net domestic financing achieved during the year.

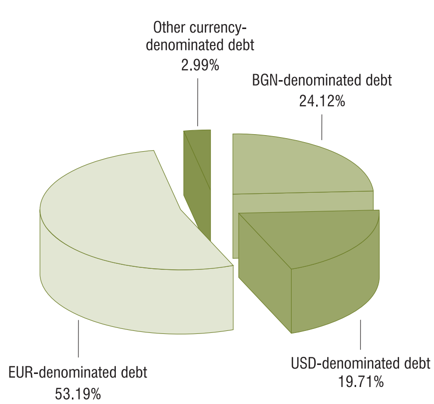
The External Government Debt (EDG) dropped by EUR 256.5 million from its 2007 level and reached EUR 3,270.20 million at the end of 2008. The reduction results from the regular repayments of principals. Foreign exchange gains as well as from the early repayments of Bulgaria's liabilities to the Japan Bank for International Cooperation.



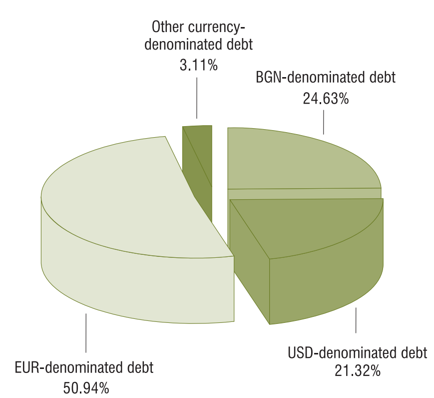
Dynamics of Domestic Government and External Government Debt, 2004–2008

Source: *MF.*

As concerns the currency structure of the Government Debt, the tendency observed during the recent years has been towards increasing the share of debt instruments denominated in EUR and BGN and decreasing the share of those expressed in US Dollars and other currencies, but this tendency has changed. Compared to the end of 2007, the debts expressed in EUR decreased from 53.2% to 50.9%, and the debt in local currency saw a marginal increase from 24.1% to 24.6%. The share of USD denominated debts grew by 1.6 percentage points to 21.3% and the debts expressed in other currencies increased their share by 0.1 pp reaching 3.1%. These changes are mainly the result of regular repayments of loans expressed in EUR and ahead-of-time debt payments in the amounts of EUR 260.4m, USD 12.6m and JPY 4.5bn.



31 December 2007



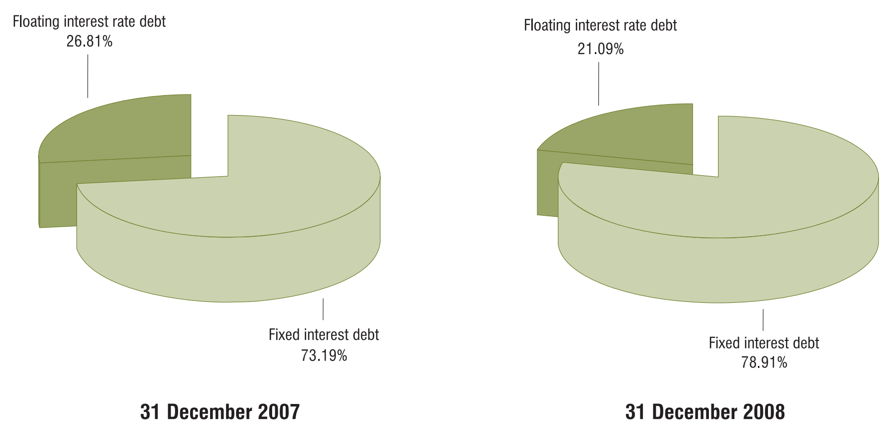
31 December 2008

Currency Structure of Government Debt

Source: *MF.*

In 2008 the debts at fixed interest rates increased by 5.7 percentage points and reached 78.9% of all GD by the end of the year. The factors underlying this change were the placement in the domestic market of Government Securities only with fixed interest coupons, the strictly followed policy of external borrowing at fixed interest rates as well as the extinction (including ahead of time) of domestic and external debt with floating interest coupons. The result is reduction the floating coupon debts to 21.1%, which in turn facilitates the more accurate estimation of the resources required for servicing the government debt and helps pursue an efficient expenditure policy in an environment of low international interest rates.

Interest Rate Structure of Government Debt

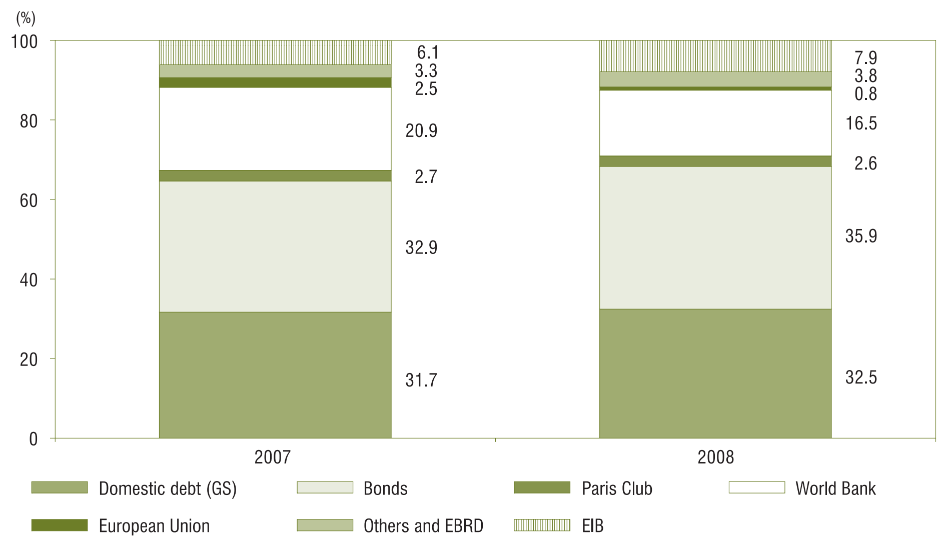


Source: *MF.*

Viewed from the perspective of instruments and lenders, the liabilities to foreign creditors had a prevalent share of 67.5% in the GD structure at 2008 yearend. The downward tendency of these liabilities was sustained during the period December 2007 – December 2008. There was a reduction of 0.8%, but at a slower pace as a result mainly of the negative external net financing achieved and the devaluation of the US Dollar during the year.

At the end of 2008 the debt incurred in Government Securities accounted for 68.3%, including 35.9% in GS issued at the international capital markets and 32.5% in GS issued at the domestic market. The largest official creditors of Bulgaria are the World Bank, the loans from which account for 16.5% of the GD and the European Investment Bank (EIB) with loans accounting for 7.9% of the GD.

Debt Structure Per Creditors



Source: *MF.*

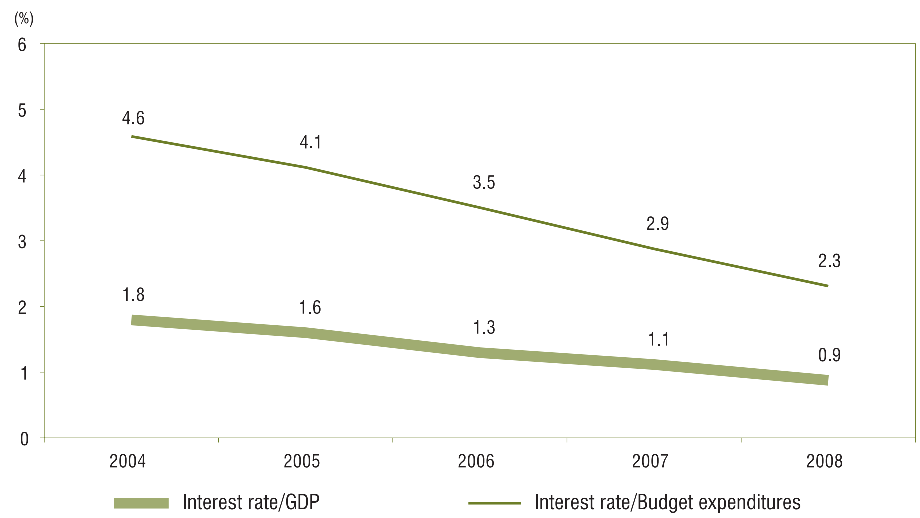
The changes in the GD maturity structure have been driven by several factors. The shifts in the GD residual maturity result from the repayments of long-term government loans to foreign creditors and the movement of more substantial lots of liabilities from one maturity group to another as their maturity dates come nearer. Compared to the previous year, there has been a significant increase of debts with residual maturity from 1 to 5 years (32.1%) and less than 1 year (5.3%). A substantial part of the debts will mature within 5 to 10 years (40.6%) and after 10 years (22%).

Residual Maturity of Government Debt

Source: *MF.*

The GD repayments made in 2008 were EUR 977.9 million, which is by EUR 241.3 million less than the payments made during the previous year. Principal and interest payments were EUR 692.6m and EUR 285.3m accordingly. The consolidated debt service costs, both in absolute and relative terms, remained at about the same level in 2008 as well. The interest expenses/GDP ratio was 0.9% or 0.2% less than at the end of the previous year. Accordingly, interest expenses were 2.3% of the total budget revenue, which represents a 0.6% decrease versus 2007. To a large extent, these developments are due to the reduction of the debt and to the increased GDP.

Interest Rate Expenses

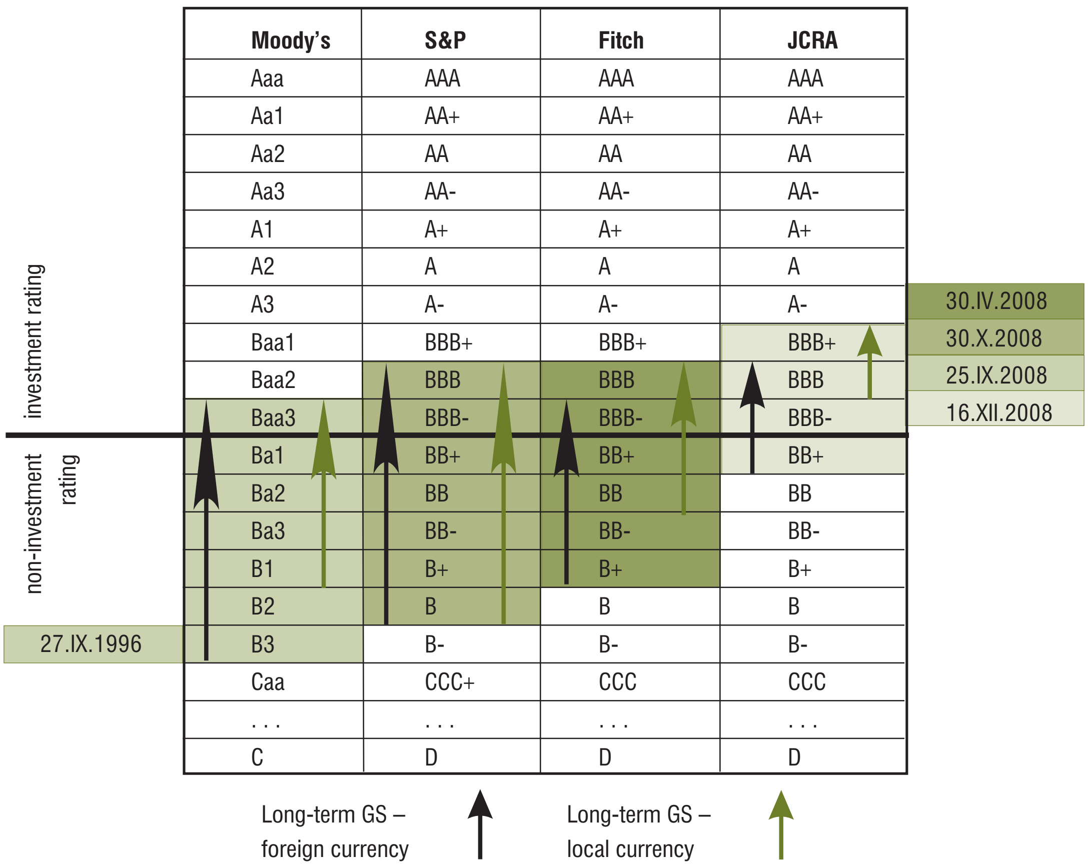


Note: *Data on the Consolidated Fiscal Program.*

Sources: *MF and NSI.*

By virtue of the concluded Credit Rating Agreements, Bulgaria maintains an active dialogue with four internationally recognized credit rating agencies – Standard and Poor's, Fitch Ratings, Moody's Investors Service and JCRA – to help realistically estimate the current macroeconomic situation in the country as reflected in the awarded credit ratings. The awarded credit ratings are public and as such they are used both by the rated entities and other market players and stakeholders (investors, analysts, etc.), which determines their extensive influence throughout the global financial markets.

Credit Ratings Range for Bulgaria



At the end of 2008, the Consolidated Government Debt (CGD) was EUR 5,069.5 million against the EUR 5,338.8 million reported at 2007 yearend. Within the composition of the CGD, the central government debt decreased by EUR 321.2m, while municipal debts rose from EUR 175.9m to EUR 228.0m. Due to the higher nominal value of the GDP, the CGD/GDP ratio fell from 18.5% in 2007 to 14.9% at the end of 2008.

Consolidated Government Debt

(million EUR)

Structure	by 31 December			
	2005	2006	2007	2008
Consolidated Government Debt	6 422.9	5 764.7	5 338.8	5 069.5
1. Government debt	6 330.2	5 645.6	5 162.8	4 841.6
2. Social security funds debt	0.0	0.0	0.0	0.0
3. Municipal debt	92.6	119.1	175.9	228.0
Consolidated government debt/GDP (%)	29.4	22.8	18.5	14.9

Notes: *1. Central government debt shown at nominal value excluding government guaranteed loans.*
2. 2008 GDP in set at BGN – 66 728.1 million, 2007 GDP is set at BGN – 56 519.8 million and 2006 GDP is set at BGN – 49 361.0 million and 2005 GDP is set at BGN – 42 797.4 million
3. Euro recalculations are at BNB central lev for rates for the closing business day of each period.

Source: *MF.*

Government Guaranteed Debt

At the end of 2008 the nominal amount of the Government Guaranteed Debt (GGD) was EUR 634.3 million. The GGD increased in nominal terms by approximately EUR 87.3 million versus the level reported at the end of the previous year due to disbursements and exchange rates fluctuations during the year.

Owing to the higher GDP value, the GGD/GDP ratio remained at the level of the previous year – 1.9%.

Government Guaranteed Debt

(million EUR)

Structure	as of 31 December		
	2006	2007	2008
Government guaranteed debt	551.2	547.0	634.3
I. Domestic government guaranteed debt	–	–	–
II. External government guaranteed debt	551.2	547.0	634.3
1. World Bank	91.6	82.3	74.4
2. European Investment Bank	7.0	5.9	4.8
3. EBRD	49.0	42.4	41.4
4. Other	403.6	416.4	513.7
Government guaranteed debt/GDP (%)	2.2	1.9	1.9

Notes: *1. Debt at nominal value.*
2. Euro conversion at BNB central rates for the closing business day of each period.

Source: *MF.*

Certain changes occurred in the structure of GGD lenders in that the debts to the World Bank, the EIB and EBRD decreased and those to other lenders (including the Japanese Bank for International Cooperation, Euroatom, the Council of Europe Development Bank, etc.) increased from 76.1% to 81%. The increased debt to Other lenders results from the positive net debt financing for this position during the year.

New external GGD financing was EUR 97.9 million, which was by EUR 46 million more compared to 2007. Debt payments were EUR 100.2 million, of which EUR 74.1m by way of principal and EUR 26.1m by way of interest. The debt payments in 2008 were by EUR 38.4 million more compared to 2007, which is mainly due to the early (premature) repayment of the EUR 32.5 million loan for Nuclear Power Plant (NPP) Kozloduy to the Export-Import Bank of the Russian Federation. During the year, all government guaranteed loans were serviced in line with the timeframes set forth in the respective loan agreements. New government guarantees were not invoked.

New Financing and Government Guaranteed Debt Payments in 2008

(million EUR)

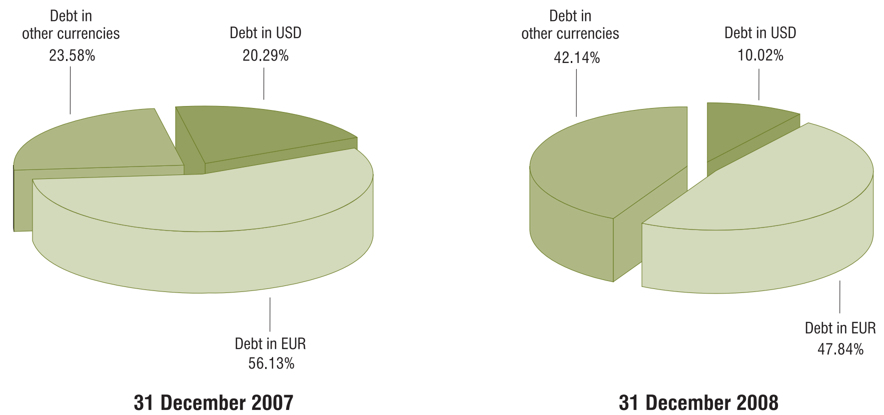
Structure	Received loans	Payments, incl.	
		installments	interest
I. Domestic government guaranteed debt	–	–	–
II. External government guaranteed debt	97.9	74.1	26.1
1. World Bank	1.3	12.1	4.8
2. European Investment Bank	–	1.1	0.3
3. EBRD	9.1	10.3	2.3
4. Other	87.5	50.6	18.8
Government guaranteed debt	97.9	74.1	26.1

Note: *The lev equivalent of new foreign financing and repayments is at the BNB central rate at 4 pm on the day of respective payment.*

Source: *MF.*

Changes also occurred in the currency structure of the GGD in 2008. The liabilities expressed in Euro and US Dollars decreased and those in other currencies increased. Compared to the end of 2007, the debt in other currencies increased by 18.6 percentage points to 42.1%. This development comes from the decrease of liabilities expressed in US Dollars from 20.3% to 10%. The liabilities in Euro also decreased their share. The debt denominated in Japanese Yens increased its share from 23.6% in 2007 to 42.1% in 2008 due on one side to disbursements (about 88% of all GGD disbursements) and on the other side to the more expensive Yen as the local currency lost about BGN 0.36/100 JPY.

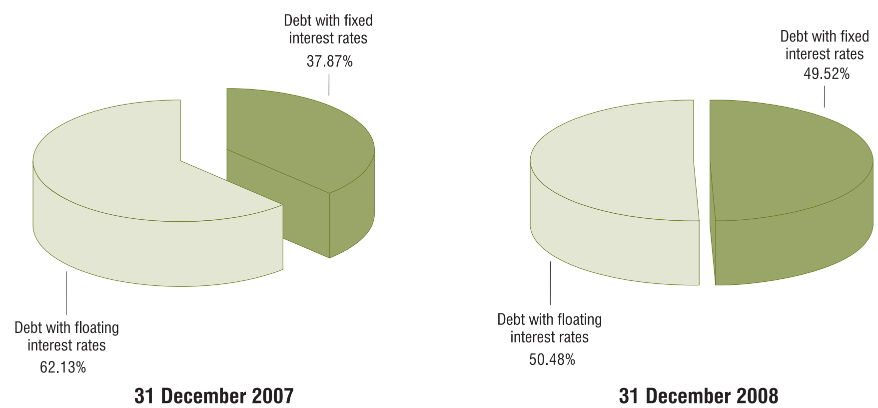
Government Guaranteed Debt Currency Structure



Source: *MF.*

In terms of interest structure, in 2008 the GGD continued the tendency, also observed in 2007, toward gradual increasing of the debt at fixed interest rates, now from 37.9% to 49.5%. This change results mainly from disbursements under GGD loans mainly at fixed rates.

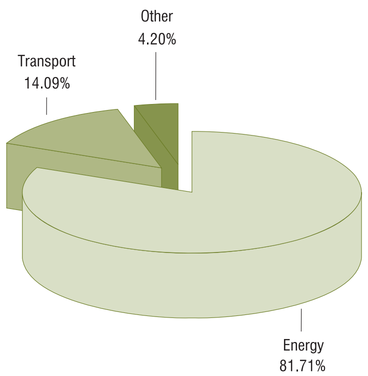
Government Guaranteed Debt Interest Rate Structure



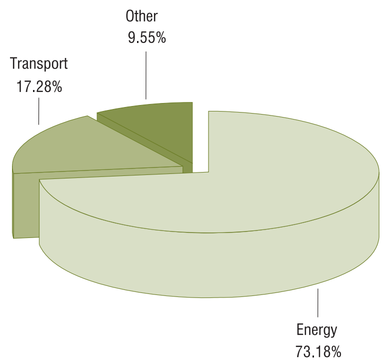
Source: *MF.*

From the perspective of the various economic sectors, the Energy sector has the lion's share with 73.2% of all Government Guaranteed loans followed by the Transport sector with 17.3% and others – 9.5%.

Government Guaranteed Debt by Industry



31 December 2007



31 December 2008

Source: *MF.*