



REPUBLIC OF BULGARIA
MINISTRY OF FINANCE

MINISTRY OF FINANCE ISSUANCE POLICY DURING 2010

The issuance policy of the Ministry of Finance during 2010 will be consistent with both the measures aimed at achieving sustainability of the economy and the basic fiscal parameters provided for in the 2010 State Budget of the Republic of Bulgaria Act and the strategic objective of government debt management in the period 2009-2011 focused on ensuring the sources necessary to finance the state budget and refinance debt in circulation at the minimum possible price and optimum level of risk.

The firmly declared by the Government position to maintain the Currency Board Arrangement (CBA) and the clearly voiced intentions of joining the ERM 2, accompanied by efforts to strictly observe the Maastricht criteria, predetermine the growing importance of the issuance policy as one of the main instruments of government debt management and of support to the implemented prudent fiscal policy. In an environment of a CBA and global economic crisis the Government's efforts to manage its sovereign debt in the best possible way is crucial for ensuring access to market financing and raising the trust of the capital market in the country in general.

Given the above restraints the issuance policy is a form and a tool of the overall fiscal policy charged to a large extent with the responsibility to maintain macroeconomic stability in the country while strictly observing the balance between objectives and restraints. At the same time the issuance policy will directly relate to and strive to maintain and where necessary support the liquidity in the financial system.

Taking account of the status and developments of the financial system in the country and the development trends on the international financial markets, the Ministry of Finance will strive to implement a flexible and adequate to the financial situation issuance policy for market financing both on the domestic market and, if favorable, on international markets. The issuance policy in general will be based on the principles of market financing until reaching a fair price of the debt financial resource.

To achieve a balanced budget position the Ministry of Finance plans a positive domestic financing in 2010 of up to BGN 150 million, the gross value of the newly issued GSs on the local market will be up to around BGN 740 million. The positive domestic financing is consistent with the efforts to maintain a well developed and liquid domestic market of sovereign debt securing the

different preferences and profiles of investors. However, the volume of net financing is rather limited to avoid an eventual supplanting of the private sector from the debt market.

In the light of the above, the issuance policy of the Ministry of Finance during 2010 will incorporate the following:

1. Issuance of medium term Government Securities with maturity of around 2 or 4 years. The maturity profile of government debt with peaks in 2013 and 2015 (the Republic of Bulgaria Global Bonds mature then) predetermines the policy of the issuer to abstain from offering in 2010 new issues with standard maturity of 3 and 5 years. The mentioned maturity groups in 2010 will be covered both by reopening existing issue/s and by placing new issue/s depending on the market conditions;

2. In the long-term part of the debt curve a priority for the issuer will remain the placing of a new 10-year issue in volume securing its liquidity and a slightly extended maturity of 10 years and 6 months, ensuring to the maximum the criteria for calculating long-term interest rate in the whole 2010. In parallel, in response to the considerable interest of institutional investors in long-term GSs, improvement of the debt in circulation maturity profile and of the amortization structure of the debt, the plan in 2010 is to offer also a new 7-year long-term bond.

The medium- to long-term GSs ratio is to be almost balanced, the latter slightly prevailing.

In 2010 the Ministry of Finance does not plan to issue short-term GSs mainly because there is no need for such financing in the light of the substantial fiscal reserve accumulated.

The Ministry of Finance will continue its practice to announce monthly issuance calendar not later than 30 days before the beginning of each month.

The issuance policy of the Ministry of Finance during 2010 will remain flexible and adequate to the state budget needs, the liquidity in the financial system; the issuer reserves its right to modify its pre-announced issuance policy and GS issuance calendars if necessary.

Depending on liquidity and if there are favorable market conditions the Ministry of Finance will avail of the whole range of instruments for GS sale, buy back and swap through different transactions on the primary and/or secondary market.