REPUBLIC OF BULGARIA

DEPUTY PRIME MINISTER AND MINISTER OF FINANCE

17-00-105
18.04.2012

MR. MARIO DRAGHI
PRESIDENT
EUROPEAN CENTRAL BANK
KAISERSTRASSE 29
60311 FRANKFURT AM MAIN, GERMANY

Sofia, 18 April 2012

Subject: Opinion of the European Central Bank of 13 April 2012 on the State fund for guaranteeing the stability of the state pension system (CON/2012/29)

DEAR MISTER PRESIDENT,

We would like to thank you for the opinion and to note the following:

1. Concerning the ECB recommendations in relation to the investments of the Fund's resources into Bulgarian government securities (GS) I would like to inform you that following wide public discussions the draft law has been amended before its submission to the Council of Ministers for approval. If the opportunity for investments in Bulgarian GS should be availed of, then these investments will be made in stages. In 2012 the Fund will not be allowed to invest more than 30% of its assets in Bulgarian GS, while this restriction on investments is to be increased in steps every following year by 10% until 2017.

2. Existing practice shows that some Member States, for instance Belgium, foresee the issuing of special GS for the fund purposes that are untradeable. The approach adopted for those untradeable GS issues does not require an investment grade credit rating.

3. In regard to the noted by ECB considerations in relation to the possible domestic primary and secondary GS market distortions in the event of investing part of the Fund's resources in GS, I would like to point out that the yield of the issues issued for the Fund's purposes will be determined on a market basis following the main benchmarks. The maturities of those issues will be consistent with the forecasts for the needs of transfers from the Fund to the State Social Insurance. The terms and conditions of individual issues are not subject to legislative regulation and will be set forth in the Fund's Investment Strategy.

4. Investing Fund resources in special issues of GS will be neutral in terms of the volume and the yield of the standardized issues of GS. The possibility for investing Fund resources in Bulgarian GS will thus not lead to non-market formation of the yield of long-term issues, which are reference values for achieving the Maastricht convergence criteria, since these special issues will not fall under the requirements of the harmonized statistical methods defined by ECB and implemented in the Instructions for Determining the Long-Term Interest Rate for the Purposes of the Convergence of the

102, Rakovski St.
Sofia 1040, Bulgaria
phone: (+359 2) 9859 2001
fax: (+359 2) 987 05 81
minfin@minfin.bg
www.minfin.bg

Bulgarian National Bank (BNB) and the Ministry of Finance (MoF).

I avail myself of the opportunity to mention that at the auction held in March 2012 for the sale of the 10-year bonds, MoF placed an issue of GS with an original maturity of 10.5 years which is used in 2012 as the basis for calculating the long-term interest rate in order to evaluate the level of convergence as one of the Maastricht criteria. A record drop in the yield was registered at this auction. The average weighted yield is 4.95 % and this is the lowest yield recorded since March 2008 in this maturity segment. The outcome of this auction corresponds to the data published by ECB on 13 April 2012 on the harmonized long-term interest rate for evaluation of the level of convergence of all EU member states which show that this indicator is 5.07 % for Bulgaria in March.

Referring to the specific observation of ECB with regard to Article 5(9) of the draft Law, we would like to note that we will propose legal and technical revision of the provision mentioned so as to avoid any ambiguities when the Fund's Managing Board takes decisions with regard to the investment of Fund resources in deposits with the BNB.

In conclusion, I would like to inform you that the draft Law with the amendments made thereto in the course of its public discussion was approved by the Council of Ministers on 11 April 2012 and was submitted to the National Assembly for discussions.

I availing myself of the opportunity to thank you once again for our fruitful cooperation.

Sincerely yours,

SIMEON DJANKOV