

# Government Debt Review • 2009



Republic of Bulgaria  
Ministry of Finance

# **Government Debt Review • 2009**

Sofia, 2010

## 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
ESA 95	European System of National and Regional Accounts, 1995
EU	European Union
EMBI	Emerging Markets Bond Index
FLIRB	Front Loaded Interest Reduction Bonds
FOB	Free on Board
G24	The Group of the 24 Most Industrialised Countries
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 Nonperforming Credits Negotiated prior to 31 December 1990

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## Contents

Macroeconomic Analysis of Bulgaria in 2009	5
Gross Domestic Product	6
Inflation	7
Balance of Payments	8
Labour Market and Incomes	11
Domestic Government Debt	13
Domestic Financing	17
Domestic Government Debt Service	24
GS Secondary Market Overview	25
External Government Debt	31
External Financing	34
External Government Debt Service	36
Government Debt	39
Government Guaranteed Debt	51



**Macroeconomic  
Analysis of  
Bulgaria in 2009**

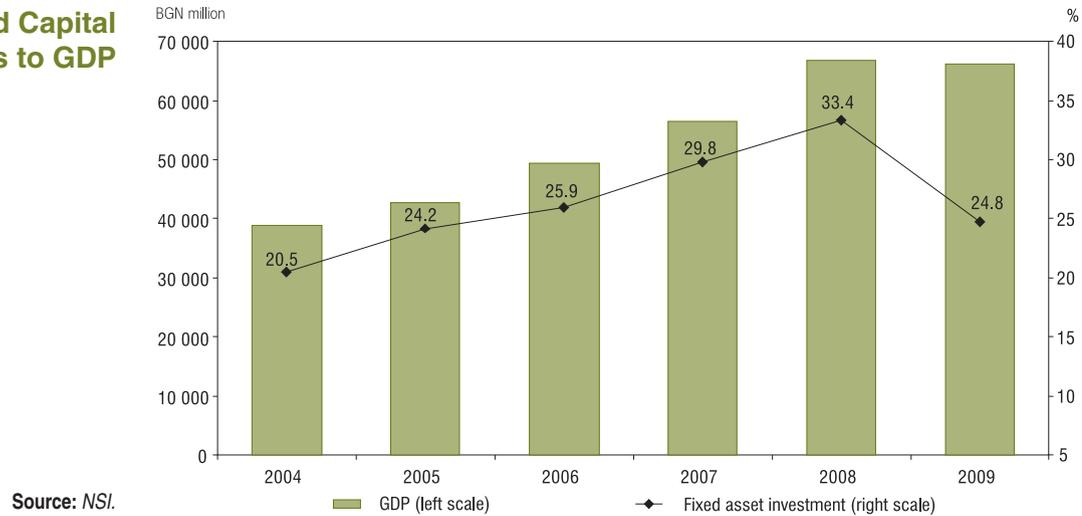
The global financial and economic crisis continues having a negative impact on the international economy. Regardless of some indications of a forthcoming end of the recession in the USA, the risks for the global and European economy have not decreased. The European Commission, the International Monetary Fund and other international financial institutions continue reviewing their forecasts of the development of the economic situation in the medium term, also taking into account the possible difficult recovery from the crisis and the delay in the beginning of the new ascending cycle of economic development.

In 2009 the Bulgarian economy was strongly influenced by the global financial and economic crisis, which resulted in shrinking of the external demand for the production of Bulgarian exporters, reduced credit activity of commercial banks and lead to higher cautiousness of investors in their decision making. As a result the investment activity of entrepreneurs in the country declined considerably and the demand shrank as a result of the decreasing employment. The difficult access to consumer credit and the increased uncertainty regarding future income lead to an increase in the “precautionary” savings of households.

### Gross Domestic Product

The Gross Domestic Product (GDP) created in the Bulgarian economy in 2009 amounted to BGN 66,256.2 billion, which was a decrease of 5% in real terms compared to 2008. During the year the real decline in the indicator gradually accelerated and reached 5.9% in the fourth quarter of 2009 compared to the same period of the previous year. The most considerable decline was in fixed capital investments, which were by 27% lower than the value for 2008 in comparable prices, and the total consumption decreased by 6.2% in real terms. The national savings increased to 16.5% of GDP in 2009 compared to 12.8% of GDP in 2008. The increase in savings and the decrease in investments resulted in an improved contribution of the domestic sector to a positive value of 12.6 percentage points in 2009 compared to a negative contribution of 2.3 percentage points in 2008. Bulgarian exports registered a decline during the first nine months of 2009 and in the fourth quarter registered a minimum growth of 0.8%, influenced by the certain recovery of the global demand for goods important for Bulgarian exports.

## Fixed Capital Investments to GDP



All economic sectors contributed to the decline in the GDP in 2009. The industrial sector had the largest negative contribution since it experienced the negative impact of the global economic crisis before the remaining sectors of the Bulgarian economy. The Gross Value Added (GVA) of the industry decreased by 8.1% in real terms in 2009. The GVA of the services sector decreased by 1.7%, and the largest annual decline in real terms was registered by the transport, warehousing and communications sectors. The healthcare, education and financial intermediation sectors continued their positive growth. Increase was also registered by the property transactions and business services sector, but this was mainly due to the positive dynamics of this sector during the first half of the year. The real decline in agriculture was 3.3%.

## Inflation

The dynamics of inflation in 2009 was to a large extent influenced by the low domestic and external demand, which resulted in a decline in the prices of goods traded in international markets. The clearly manifested process of decrease in inflation, observed since the middle of 2008, continued almost till the end of 2009. Based on the Harmonised Index of Consumer Prices (HICP), the inflation was 1.6% at the end of the year and its average annual value was 2.5%. The low inflation values were to a large extent influenced by the decline in the international food prices. The inflation in foods was negative at the end of the year (-3.3%).

The base inflation<sup>1</sup> decelerated its rate, but compared to the remaining components of HICP it remained at a relatively high level (2.4%). The largest contribution to this belonged to the prices of services which increased by 3.4%. These prices were influenced by the increased labour cost per unit. Non-energy industrial goods registered a significant slowdown in the growth of their prices (only by 0.8%) as a result of the strong shrinkage of the demand of households for non-food items.

The reduced economic activity in the country resulted in a decline in employment and a considerable slowdown of the dynamics of nominal wages in the country, which in its turn also contributed to the slowdown of the total inflation in the country, especially of products manufactured by the processing industry.

The increase in the excise duties of tobacco products resulted in a 24% increase in their prices and 0.7 percentage points contribution to the total inflation at the end of the year.

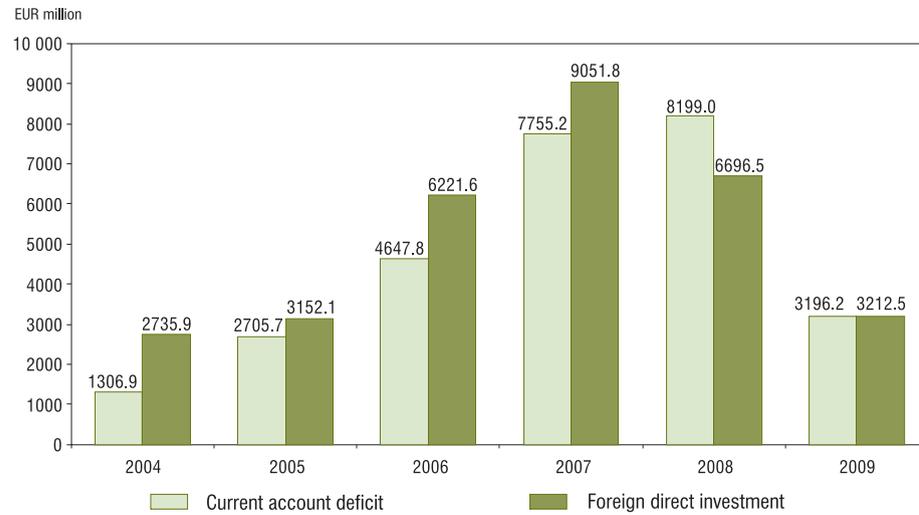
### Balance of Payments

The decline in consumption, investment demand and production activity of Bulgarian companies influenced the size of all flows in the balance of payments and in some cases even changed the direction of the flows. The domestic trade turnover of the country decreased significantly as a result of the decline in total demand, both in the country and in the main trade partners of Bulgaria, and the flows to the financial account also decreased due to the increased uncertainty of investors regarding the investment climate and profitability prospects in the country. In 2009 the current account deficit amounted to EUR 3.2 billion and was by 61% lower than the current account deficit during the prior year. The main factor for this improvement was the dynamics of the trade balance. Regardless of the fact that the export of Bulgarian companies decreased, the low domestic demand resulting from the slowdown of economic activity in the country lead to an even stronger decrease in the import of goods.

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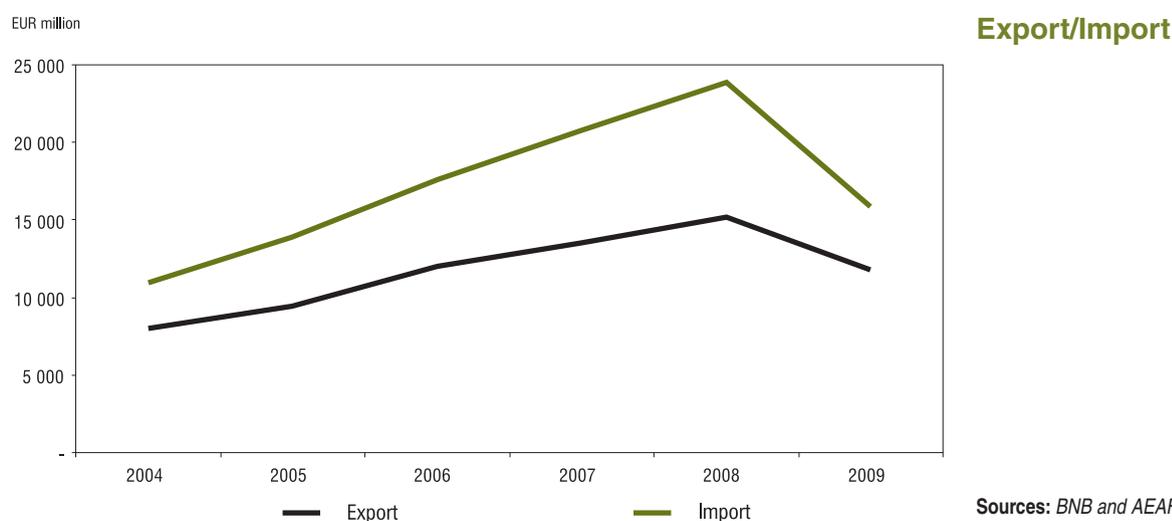
<sup>1</sup> According to the EUROSTAT methodology, this index is obtained by excluding from the total inflation the changes in the prices of foods, energy goods, tobacco products and alcohol.

## Current Account Deficit and Foreign Direct Investments



Source: BNB and AEAF.

The improved foreign trade balance was due both to the reduced trade turnover and to the dynamics of international prices. In 2009 income was realised from export of goods in the amount of EUR 11.8 billion, which is by 22.5% lower compared to 2008. The decline in the volume of Bulgarian export started during the last quarter of 2008, when the demand by our main trade partners shrunk as a result of the economic crisis. The bottom of the dynamics of Bulgarian export was reached at the beginning of 2009. With the first indications of stabilisation of the global economy, the Bulgarian export started recovering and in November the growth in export was 4%, and in December – 4.7% on y/y basis in nominal terms. In 2009 the import of goods in the country amounted to EUR 15.9 billion, which is by 33.2% less than during the previous year.



The main factor for this considerable decline was the shrinking of the import of investment goods and of raw materials and materials, which comprised 60% of the total import of the country. These two groups are strongly dependent on the cyclical position of the country and are most directly affected by the changed conditions for conducting business. The other components of the current account (net services, net income and net current transfers) also had a positive contribution for the improvement of the current account deficit.

The greater cautiousness of investors worldwide, including to the developing markets, resulted in a decrease in the flow of foreign direct investments (FDI) to the country. In 2009 they amounted to EUR 3.2 billion, or EUR 3.5 billion less than in 2008. Nevertheless, they fully covered the current account deficit realised. From the point of view of the industry structure of investments in 2009, the sectors in which the slowdown of FDI was most strongly felt, were "Property transactions and business services" and "Trade".

The balance of payments in 2009 was negative in the amount of EUR 649.8 million. The main reason was the dynamics of flows in the "Other investments" item, which reflect the changes in the behaviour of banks with a view to the changed economic environment. The decrease in the minimum reserve requirements (MRR) by the BNB at the beginning of the year and the limiting of the credit activity of the commercial banks had a positive impact on the liquidity of the latter. As a result of the decreased MRR in 2009 the banks were able to increase interest rates on deposits and thus aggressively attract deposits from local individuals and entities. The funds raised allowed them to pay off their liabilities to non-residents, through which the increase in credits in 2007 and 2008 was financed.

## Labour Market and Incomes

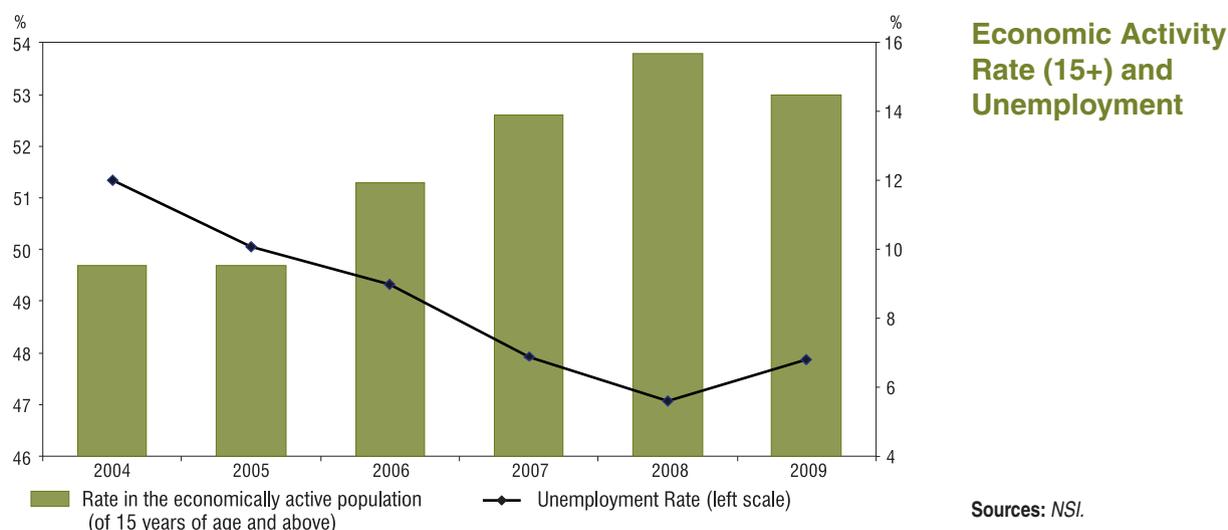
The diminished activity of the enterprises in the country had an unfavourable impact on the dynamics of the labour market indicators. The lower income from sales and the limited opportunities for financing of the activity forced employers to look for ways to optimise and decrease their labour costs. This was achieved through reallocation of the working hours, laying off of people employed, and limiting the growth in wages. By the middle of 2009 entrepreneurs tried to slow down the laying off of labour force, expecting that the difficulties with sales will turn out to be short-term and that the dynamics of the economy from the last years will recover relatively quickly. During these months they aimed at optimising the labour resources used by implementing measures such as introducing part-time work because of production difficulties for 6 months, as well as the scheme for payment of compensations to the incomes of employees transferred to part-time employment. Gradually these opportunities were exhausted and during the second half of 2009 the process of laying labour force off accelerated. The average number of people employed decreased by 0.3% in the first quarter and the decline reached 5.8% during the fourth quarter on y/y basis<sup>2</sup>. Most flexible in the shrinking of employment were the sectors of the processing industry, where laying off of labour force was observed at the beginning of the year and the decrease in the people employed amounted to an average of 7.7% for 2009. In the construction sector, as well as in most of the services sector the decrease in employment, which was deferred or insufficient compared to the decreased income, manifested itself in an accelerated manner during the second half of the year. By contrast with the first six months of 2009, when the number of people employed in the construction and services sectors was maintained around the levels in 2008, during the fourth quarter of the year employment in the construction sector decreased by 14.6%, and in the services sector – by 4.2% on y/y basis. Unemployment gradually increased and during the last quarter reached a level of 7.9%, and the average annual value reached 6.8%<sup>3</sup>, registering a growth of 1.2 percentage points compared to 2008. Since some of the people laid off left the labour force, the rate of economic activity decreased by 0.8 percentage points to reach 53% in 2009.<sup>4</sup>

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<sup>2</sup> Based on data from National Accounts.

<sup>3</sup> Based on Labour Force Survey data.

<sup>4</sup> Of the population aged 15 years or more.



The diminished demand for labour also held back the income of population from employment. The average wage<sup>5</sup> for the economy increased by 13.4% in nominal terms in 2009 compared to 2008, and this growth manifested a considerable delay during the year. During the first quarter of 2009 the growth in the nominal wages for the whole economy amounted to 16.8%, while during the last quarter it fell to 10.5% on y/y basis. During the last months of 2009 in some sectors of the industry and in the construction sector a holding back or even decreasing of the nominal wages on a monthly basis was observed.

The limiting of the income growth had a favourable impact on the employers' labour costs per unit of production<sup>6</sup>. In 2009 the growth in this indicator was slowed down to 3.8% compared to 4.2% for 2008. During the fourth quarter of 2009 the productivity of labour<sup>7</sup> recovered its positive dynamics (it registered a growth of 0.5% in real terms compared to the corresponding period of 2008) after having decreased in 2008 and during the first three quarters of 2009.

<sup>5</sup> Based on preliminary Enterprise Monitoring data.

<sup>6</sup> This indicator has been calculated as a ratio between the gross value added (GVA) per employed and the compensation per employee based on current prices according to data from ESA 95.

<sup>7</sup> This indicator has been calculated as a ratio between GVA at constant prices and the number of people employed, based on data from ESA 95.

# **Domestic Government Debt**

Considering the consequences of the global financial crisis on the Bulgarian economy and the financial sector in the country, in 2009 the Ministry of Finance continued its policy of priority issuing of GS on the domestic market, taking into account the dynamics of the market situation, and of their establishing as one of the main instruments for financing of the government requirements for financing.

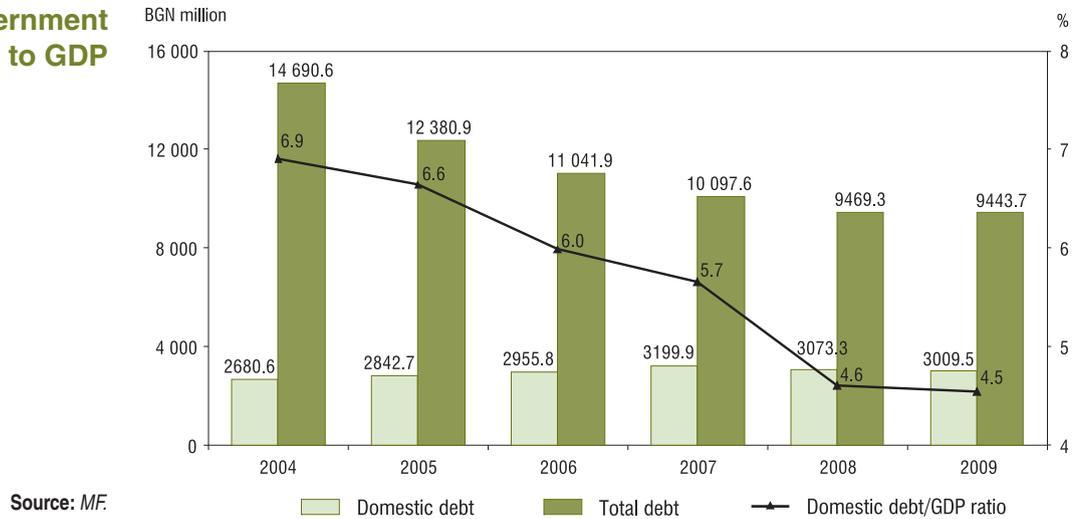
During the past year 2009 several periods were outlined with different levels of activity of the market participants both at the primary and the secondary government securities market. The year started and ended with a strong interest of the participants in the primary market, registering a peak during the last quarter after the low activity observed during the period March – August.

During the first half of 2009 market participants acted cautiously, but the flexible and adequate to the financial situation issuing policy of the MoF, implemented through the issuing of increased volumes of GS in the medium-term segment of the curve, resulted in an activation of the market participants.

As a whole the demand for GS during the year was characterised by an increased interest, and an extremely high activity in the primary market was observed during the last four months of the year, which is evidenced by the bid-to-cover ratios achieved. The following average bid-to-cover ratios were achieved during the year for the individual types of GS issues – 3-month Treasury Bonds, 5-year GS and 10-year GS: 1.25, 1.95 and 1.99, and for the reopened issues, issued in 2006 and 2007 with approximate remaining maturities as at the opening date of 2 and 3 years – 2.99 and 2.01 respectively. The largest quantity offered was that of the 10-year GS, which is in line, on the one hand, with the government strategy for increasing the relative share of domestic debt in the general structure of the government debt and, on the other hand, with the utilisation of GS for maintaining the benchmark yield curve for the purpose of calculating a long-term interest rate for assessing the degree of convergence with the EU Member States.

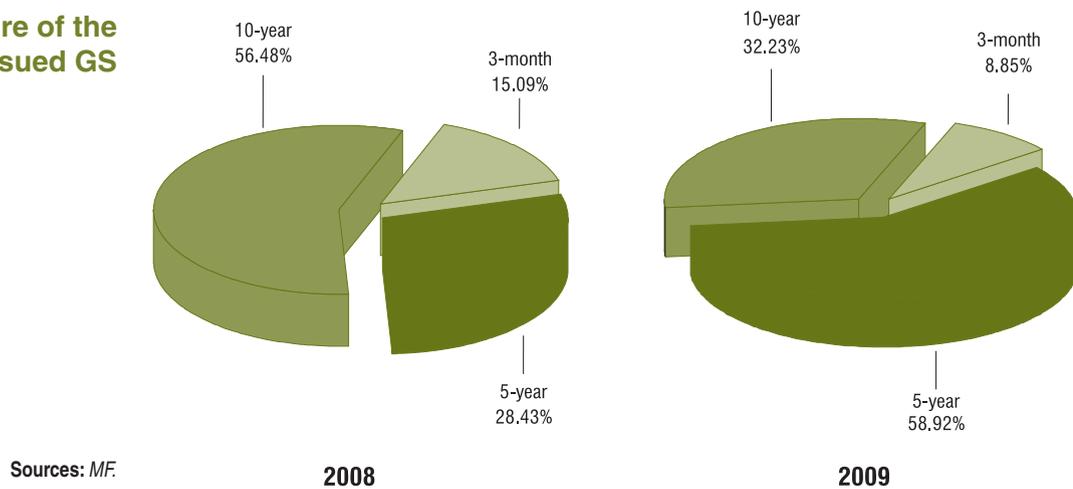
In nominal terms, the domestic government debt at the end of 2009 amounted to BGN 3,009.4 million, which is 4.5% of GDP. Within this amount, BGN 2,705.3 million was the debt incurred in auctioned GS and BGN 304.1 million was the debt incurred in GS floated in support of the structural reform. Thus, the debt in auctioned GS accounted for 89.9% of the total domestic government debt amount, and the GS supporting the structural reform accounted for 10.1%.

## Domestic Government Debt to GDP



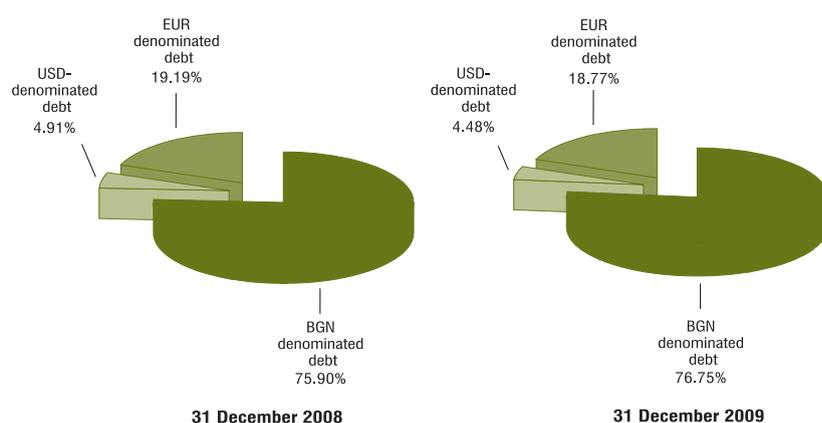
In 2009 the Ministry of Finance continued its policy of issuing GS at the domestic market in already known and established on the market issues of GS with maturities of 5 and 10 years, as well as issues of 3-month Treasury Bonds. The total nominal value of the GS issued amounted to BGN 488.7 million. Within the total amount of GS issued in 2009 the relative share of the short-term ones was 8.8%, of the medium-term ones was 58.9%, and of the long-term ones – 32.2%. During the year the Ministry of Finance reopened two 5-year issues, issued in 2006 and 2007, which were accepted positively by the participants in the bond market and this was additionally conducive to the increase in the market liquidity.

## Maturity Structure of the Newly-issued GS



The currency and interest rate structure of the domestic government debt underwent a positive change compared to 2008, expressed in a slight increase in the relative share of the component in BGN and increase in the liabilities with fixed interest coupons.

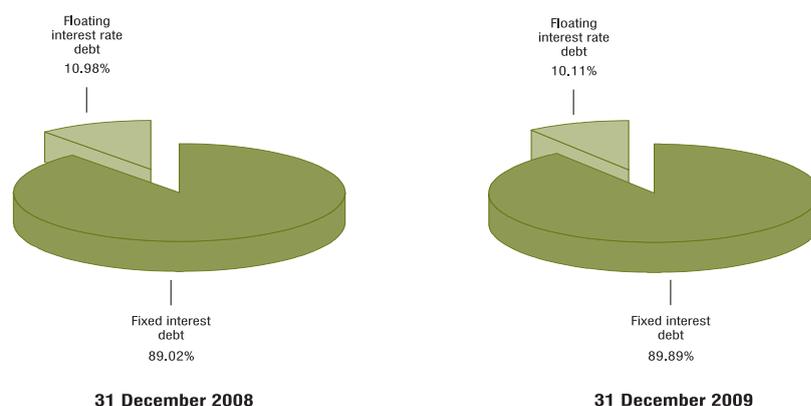
The share of the debt in BGN registered an increase by 0.8 percentage points and reached 76.7% as a result of the offering in the domestic market of issues fully denominated in national currency. As a result of this, as well as of the regular amortisation payments of the debt in Euros and US dollars, the shares of the latter declined and reached 18.8% and 4.5% respectively.



### Currency Structure of Domestic Government Debt

Source: MF.

The interest rate structure sustained the tendency from the last few years towards increasing the share of debt at fixed interest coupons, which rose to 89.9% from 89.0% at the end of 2008. These resulted both from the new borrowing, which was only at fixed interest rates, and from the regular amortisations of debts at floating interest rates.

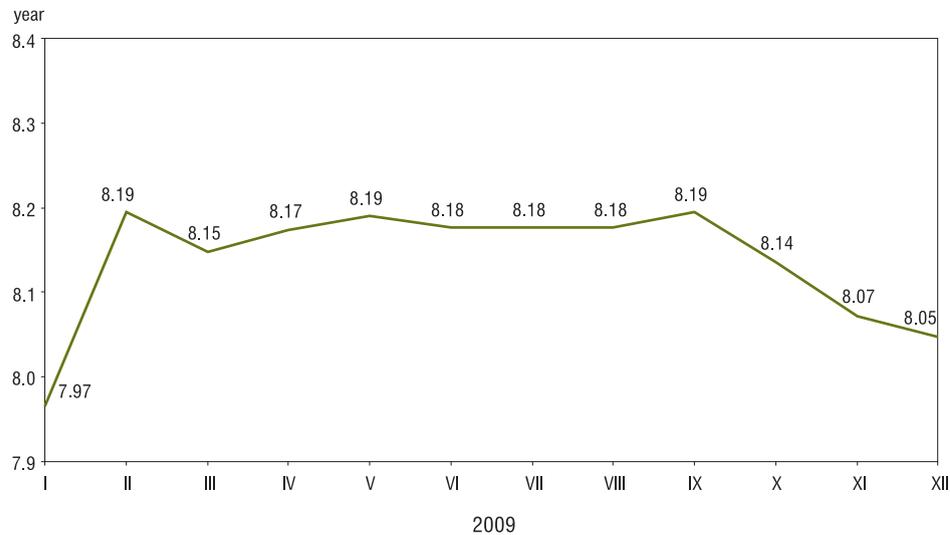


### Interest Rate Structure of Domestic Government Debt

Source: MF.

The prioritised offering of medium-term GS also resulted in a longer average primary maturity of the auctioned GS, which increased from 7 years and 10 months to 8 years and 1 month, i.e. 3 months longer compared to the previous year.

## Average Primary Maturity of Auctioned GS in Circulation at the End of the Respective Month



Source: MF

## Domestic Financing

The net domestic financing through GS during the year was negative and amounted to BGN 87.4 million<sup>8</sup>. Respectively, the gross domestic financing amounted to BGN 488.7 million and was formed from GS issues in the main maturity segments, as follows: one issue of 10-year GS in the amount of BGN 157.5 million and three issues of 5-year GS in the amount of BGN 288.0 million, including 5-year GS (issued in 2009) in the amount of BGN 103.0 million, 5-year GS (issued in 2006) with a remaining maturity of 1 year and 2 months in the amount of BGN 70.0 million, and 5-year GS (issued in 2007) with a remaining maturity of 2 years and 1 month in the amount of BGN 115.0 million. In the short-term segment three issues of 3-month GS were offered with a total value of BGN 43.2 million.

<sup>8</sup> The amount is on the basis of the principal.

### Domestic Government Debt Dynamics

Debt Structure	Debt by 31 Dec. 2008 BGN million	Rise, BGN million	Fall, BGN million	Debt by 31 Dec. 2009 BGN million	Nominal rise/fall BGN million	%
Domestic Government Debt	3 073.27	488.74	550.24	3 009.46	-63.81	-2.08
1. Government securities issued	2 735.91	488.74	519.32	2 705.33	-30.58	-1.12
3-month	-	43.24	43.24	-	-	-
3-year	277.73	-	127.73	150.00	-127.73	-45.99
5-year	628.81	288.00	108.35	808.47	179.65	28.57
7-year	630.36	-	240.00	390.36	-240.00	-38.07
10-year	1 003.42	157.50	-	1 160.92	157.50	15.70
15-year	195.58	-	-	195.58	-	-
2. Structuural reform government securities	337.36	-	30.92	304.13	-33.23	-9.85
19-year	0.83	-	0.26	0.55	-0.28	-33.33
20-year	179.71	-	16.34	163.37	-16.34	-9.09
24-year	1.14	-	0.13	1.02	-0.13	-11.11
25-year	155.68	-	14.20	139.19	-16.49	-10.59

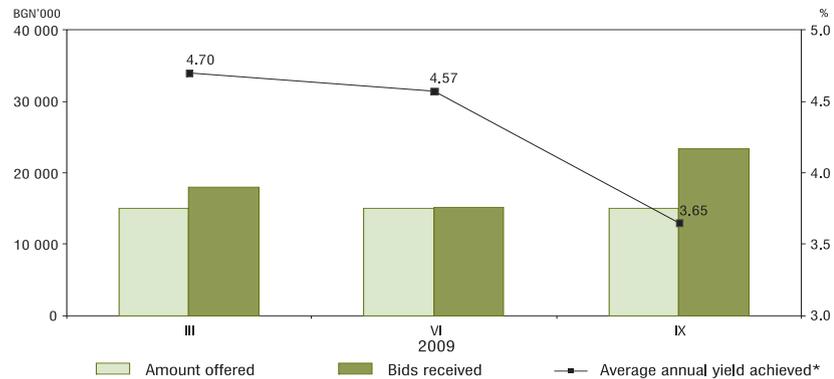
Note: All data are at nominal values.

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 43.2 million at BGN 45.0 million offered. The frequency of 3-month Treasury Bill auctions in 2009 was reduced to three auctions for 3-month GS. The lowest mean annual yield of 3.65% was achieved at the September auction and the highest one of 4.70% was registered in March. All the orders placed for the amounts put on the market came to BGN 56.4 million, meaning that the weighted average bid-to-cover ratio of the 3-month Treasury Bills issues realised was 1.25.

## 3-Month GS Auctions



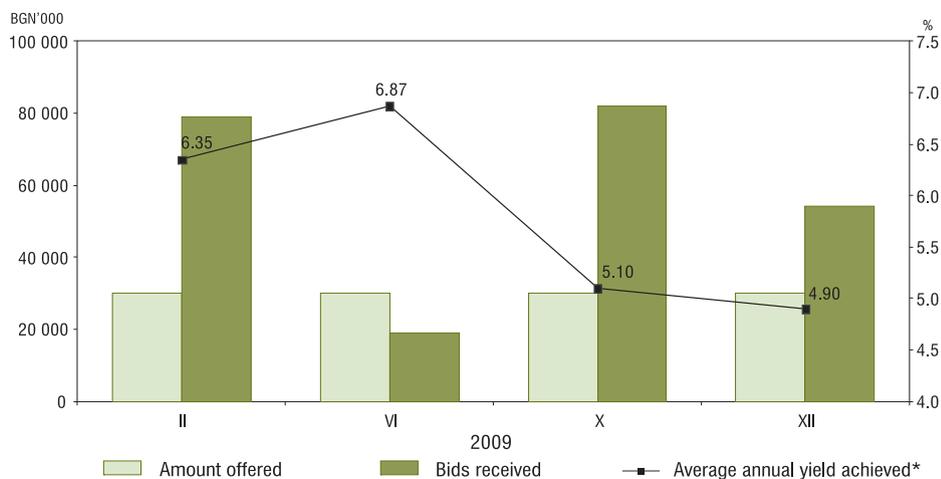
Source: MF.

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

## Issues of Treasury Bonds

The total nominal value of the Treasury Bonds issued during the year stood at BGN 445.5 million. During the year 5- and 10-year GS were issued, denominated in BGN, and two issues of 5-year bonds, issued in 2006 and 2007 respectively, were reopened.

Newly-offered five-year GS were represented by one issue with a total nominal value of BGN 103.0 million, at BGN 120.0 million offered, placed at four auctions during the year. Demand for securities of five-year maturity was relatively high throughout the year – orders in the total amount of BGN 233.0 million were placed, resulting in an average bid-to-cover ratio of 1.95 for the four auctions. During the year the lowest bid-to-cover ratio was achieved at the auction of 5-year GS held in June – 0.63, and the highest bid-to-cover ratio – 3.91, was registered at the auction of reopened 5-year GS from 2006, held in October. Yields at the primary market for five-year GS varied within the bracket of 4.90% to 6.87%.



5-Year GS Auctions

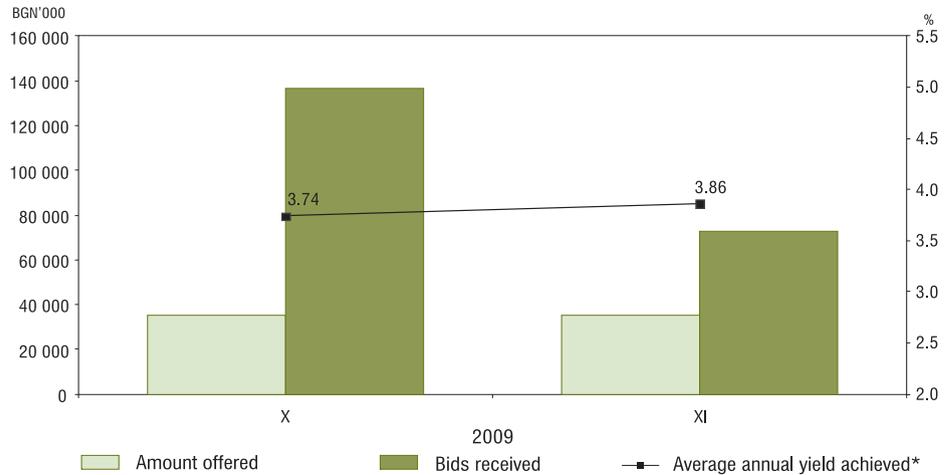
Source: MF.

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

On the basis of the analyses carried out and taking into account the expectations of the primary dealers of the development of the GS market an interest of investors in emissions with shorter-term maturity was outlined. This fact was also supported by the results achieved with the reopening of the issues with a primary maturity of 5 years.

The nominal value of the five-year bonds offered (issued in 2006) with remaining maturity of 1 year and 2 months amounted to BGN 70.0 million. The interest in them was stable. The quantity for which orders were placed was BGN 209.4 million, and the registered bid-to-cover ratio was 2.99. The yield achieved for the two openings was respectively 3.74% and 3.86%.

## Auctions of 5-year GS Issued in 2006

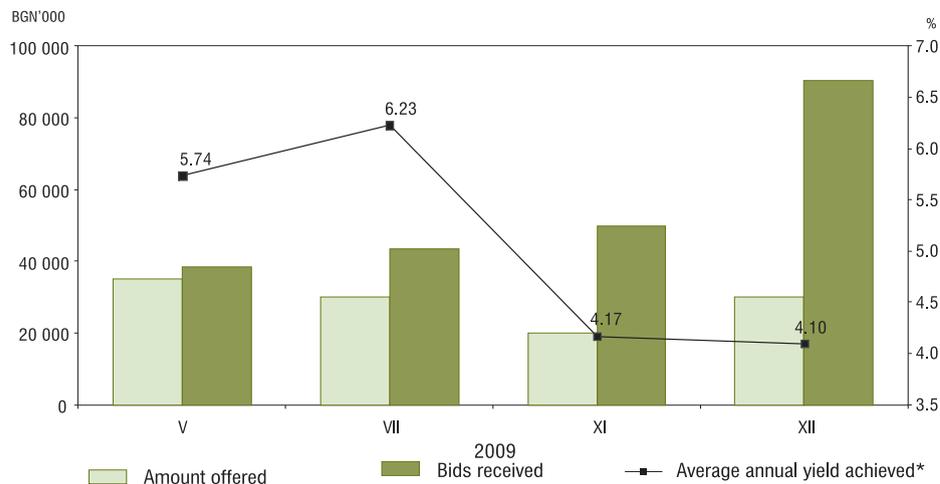


Source: MF.

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

The nominal value of the five-year bonds (issued in 2007) with remaining maturity of 2 years and 1 month amounted to BGN 115.0 million, offered at four auctions throughout the year. The interest in these securities was higher at the last two openings, with orders in the amount of BGN 222.1 million placed and a weighted average bid-to-cover ratio of 2.01 for the four auctions. The yield achieved at the primary market for these GS varied within the bracket of 4.10% to 6.23%.

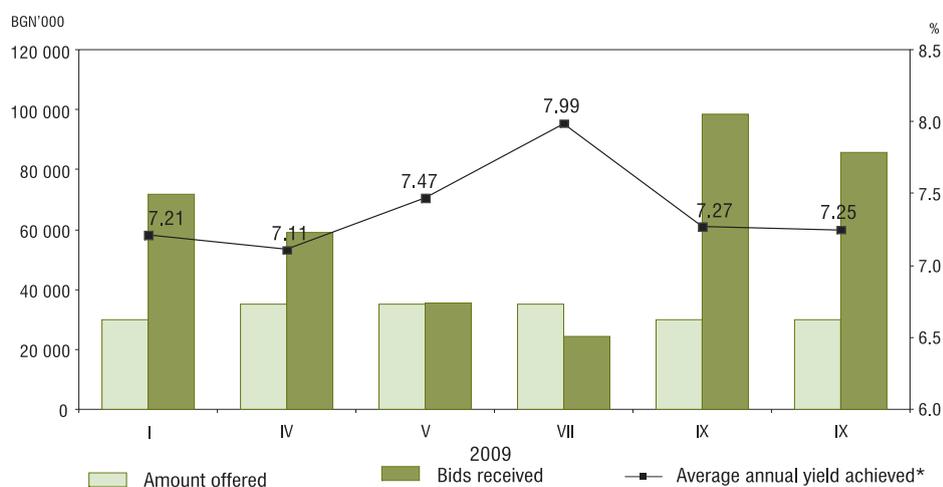
## Auctions of 5-year GS Issued in 2007



Source: MF.

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

During the year one issue of ten-year bonds with a nominal value of BGN 157.5 million, at BGN 195.0 million offered, was launched. This issue was placed at six auctions. Traditionally the demand for the ten-year issue was high on the market, except at two of the auctions in May and July. The total quantity for which orders were placed amounted to BGN 375 million and the average bid-to-cover ratio was 1.99. The highest interest in this issue was registered during the fourth quarter, bearing in mind the bid-to-cover ratio of 3.29 realised in the opening of the issue in September. This is the second highest bid-to-cover ratio from the auctions carried out during the year. The yield of the 10-year GS, achieved at the primary market, varied within the bracket of 7.11% to 7.99%.



### 10-Year GS Auctions

Source: MF

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

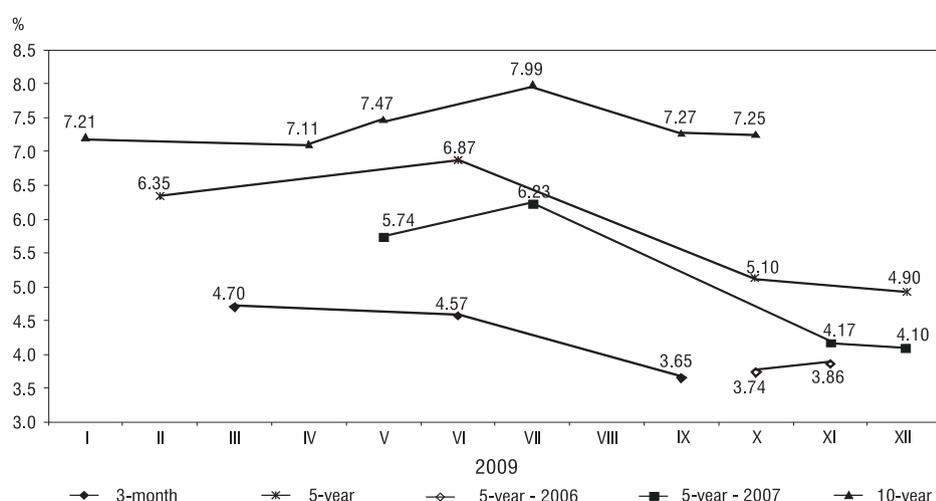
## Government Securities Issued in 2009

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 (%)
26.01.2009	28.01.2009	BG2040009214	BGN	120	28.01.2019	4.95	30 000 000.00	71 800 000.00	30 000 000.00	25 458 095.00	84.86	83.92	7.21	7.37
16.02.2009	18.02.2009	BG2030009117	BGN	60	18.02.2014	4.45	30 000 000.00	78 975 000.00	30 000 000.00	27 707 440.00	92.36	91.41	6.35	6.59
09.09.2009	11.03.2009	BG3010009002	BGN	3	11.06.2009	0.00	15 000 000.00	17 930 000.00	14 443 000.00	14 276 491.50	98.85	98.61	4.70	5.52
06.04.2009	08.04.2009	BG2040009214	BGN	120	28.01.2019	4.95	35 000 000.00	59 050 000.00	35 000 000.00	29 997 660.00	85.71	83.60	7.11	7.46
11.05.2009	13.05.2009	BG2030007111	BGN	60	24.01.2012	4.00	35 000 000.00	38 475 000.00	35 000 000.00	33 564 770.00	95.90	95.08	5.74	6.09
25.05.2009	27.05.2009	BG2040009214	BGN	120	28.01.2019	4.95	35 000 000.00	35 475 000.00	24 975 000.00	20 900 962.50	83.69	80.66	7.47	7.99
08.06.2009	10.06.2009	BG3010109000	BGN	3	10.09.2009	0.00	15 000 000.00	15 137 500.00	13 800 000.00	13 645 382.50	98.88	98.56	4.57	5.72
22.06.2009	24.06.2009	BG2030009117	BGN	60	18.02.2014	4.45	30 000 000.00	18 875 000.00	13 000 000.00	11 819 695.00	90.92	90.02	6.87	7.12
13.07.2009	15.07.2009	BG2030007111	BGN	60	24.01.2012	4.00	30 000 000.00	43 300 000.00	30 000 000.00	28 518 475.00	95.06	93.80	6.23	6.82
27.07.2009	29.07.2009	BG2040009214	BGN	120	28.01.2019	4.95	35 000 000.00	24 250 000.00	7 525 000.00	6 085 417.50	80.87	80.33	7.99	8.09
07.09.2009	09.09.2009	BG3010209008	BGN	3	09.12.2009	0.00	15 000 000.00	23 362 500.00	15 000 000.00	14 865 850.00	99.11	98.94	3.65	4.24
28.09.2009	30.09.2009	BG2040009214	BGN	120	28.01.2019	4.95	30 000 000.00	98 550 000.00	30 000 000.00	25 569 589.99	85.23	84.78	7.27	7.35
30.09.2009	02.10.2009	BG2040009214	BGN	120	28.01.2019	4.95	30 000 000.00	85 850 000.00	30 000 000.00	25 614 690.00	85.38	85.21	7.25	7.28
19.10.2009	21.10.2009	BG2030006113	BGN	60	25.01.2011	3.00	35 000 000.00	136 850 000.00	35 000 000.00	34 698 937.50	99.14	98.90	3.74	3.94
28.10.2009	30.10.2009	BG2030009117	BGN	60	18.02.2014	4.45	30 000 000.00	81 900 000.00	30 000 000.00	29 325 150.01	97.75	97.20	5.10	5.25
16.11.2009	18.11.2009	BG2030006113	BGN	60	25.01.2011	3.00	35 000 000.00	72 575 000.00	35 000 000.00	34 670 675.00	99.06	98.95	3.86	3.96
23.11.2009	25.11.2009	BG2030007111	BGN	60	24.01.2012	4.00	20 000 000.00	49 750 000.00	20 000 000.00	19 949 360.00	99.75	99.62	4.17	4.23
07.12.2009	09.12.2009	BG2030007111	BGN	60	24.01.2012	4.00	30 000 000.00	90 550 000.00	30 000 000.00	29 965 109.16	99.89	99.65	4.10	4.22
14.12.2009	16.12.2009	BG2030009117	BGN	60	18.02.2014	4.45	30 000 000.00	54 050 000.00	30 000 000.00	29 555 910.00	98.52	98.0	4.90	5.03
Total GS, issued in 2009							545 000 000.00	1 096 705 000.00	488 743 000.00	456 189 660.66				

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

Source: MF.

As a whole the good bid-to-cover ratios achieved at most of the auctions carried out during the year resulted in a decrease of the yield realised during the year for most of the issues offered.



**Yield of GS achieved at Primary Market**

Source: MF

## Domestic Government Debt Service

All payments made in 2009 came to BGN 684.5 million, of which BGN 543.5 million in amortisation payments and BGN 141.0 million in interest payments. The largest relative share – 90.9% or BGN 128.2 million, is held by interest on GS for financing of the budget, followed by the interest on GS issued in support of structural reform – 9.1% or BGN 12.8 million.

### Government Securities for the structural reform

The nominal value of the outstanding GS issued in support of the structural reform came to BGN 304.1 million at 2009 yearend. The reduction of the debt by BGN 33.1 million compared to the previous year was the result of the regular amortisation payments made and the exchange rate differences.

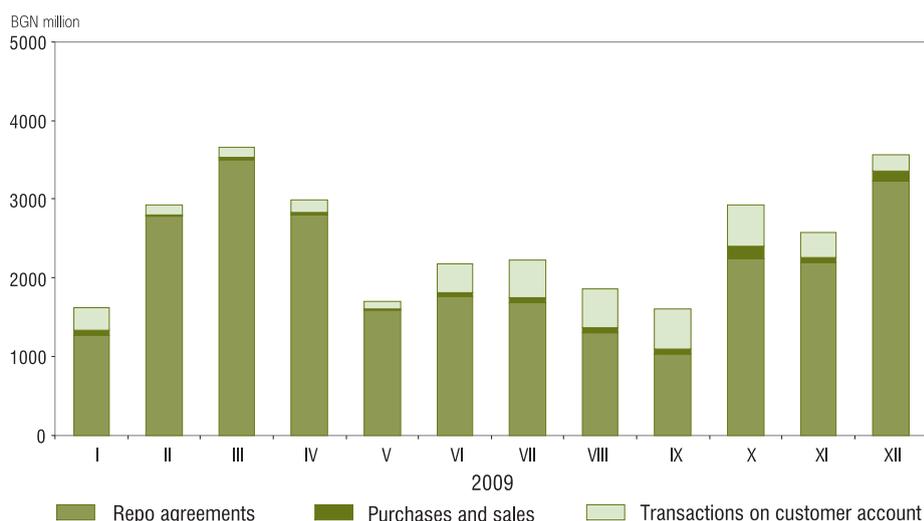
Principal repayments for GS issued in support of the structural reform during the year amounted to BGN 30.9 million.

The interest payments for GS issued in support of the structural reform came to BGN 12.8 million at 2009 yearend.

# **GS Secondary Market Overview**

In 2009 at the secondary market of government debt instruments the long-term and medium-term GS were traded most actively and their share of the total volume of transactions registered was 59% to 41%.

The nominal value of the total volume of the registered transactions in GS at the secondary market came to BGN 40,293.0 million. The volumes traded were unevenly distributed during the different periods of the year; the largest volume was registered in March – BGN 4,617.4 million, and December – BGN 5,053.4 million. The trend for increasing the volume of the transactions closed on the days of acquiring new GS issues continued. In 2009 the largest share of the total volume of the GS trades concluded belonged to the repurchase transactions (63.0%), followed by the GS block/unblock trades (25.9%), trades with or on behalf of clients (9.2%), and final buys/sales (1.9%). In 2009 no privatisation transactions were registered. The number of the registered GS trades was 8,999, as follows: 4,391 repurchase trades; 289 final buys/sales; 1,906 trades with or on behalf of clients; 2,413 GS block/unblock trades, the prevailing part of which were made to secure budgetary funds in commercial banks – 2,381 trades, and 33 trades related to imposition of attachments on GS.



### Volume of Transactions in Tradeable Government Securities

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

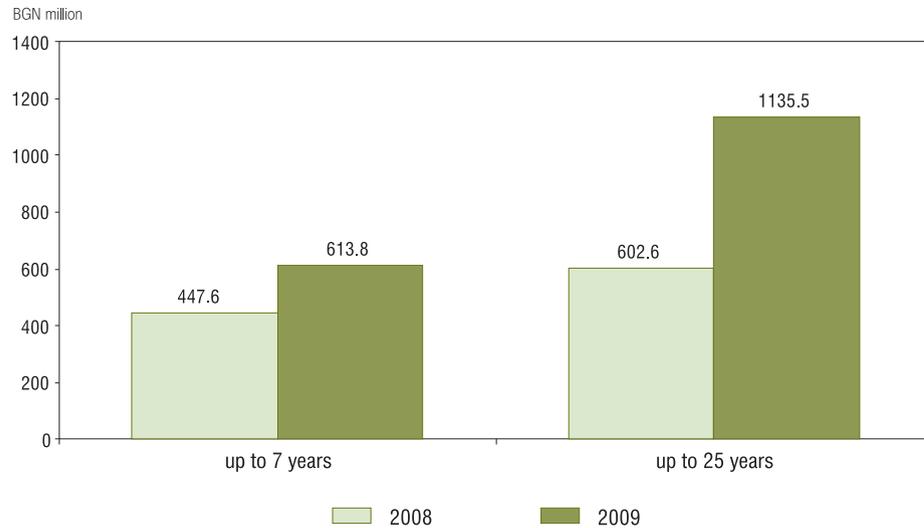
2. Transactions in government securities denominated in foreign currency are in BGN at BNB exchange rates of the respective currency on the day of transaction.

Source: BNB.

## Maturity Structure of Government Securities Transactions on the Interbank Market

**Notes:** 1. Repo agreements include reserve repo agreements and those concluded during the current day.  
2. Transactions in government securities denominated in foreign currency are in BGN at BNB exchange rate of the respective currency on the day of transaction.

Source: BNB.

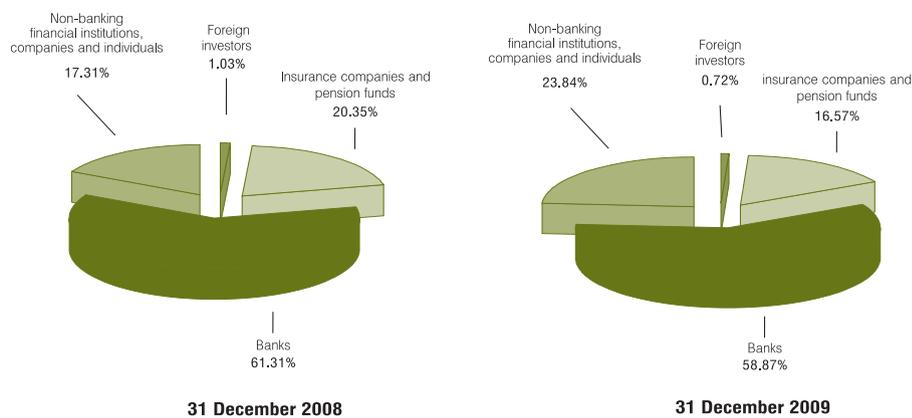


During the year a trend for gradual decrease was observed in the amount of the GS blocked to secure budgetary funds held by banks. The average daily amount of these blocked securities reached BGN 1,149.71 million by nominal value<sup>9</sup>, which is a decrease by BGN 389 million compared to 2008. This contributed to a more lively trade in the secondary interbank market of GS.

The GS allocation by holders in 2009 was as follows:

GS issued to finance the budgetary deficit – the largest market segment was held by banks (58.9%), followed by local non-banking financial institutions, companies and individuals (23.8%), insurance companies and pension funds (16.6%), and foreign investors (0.7%).

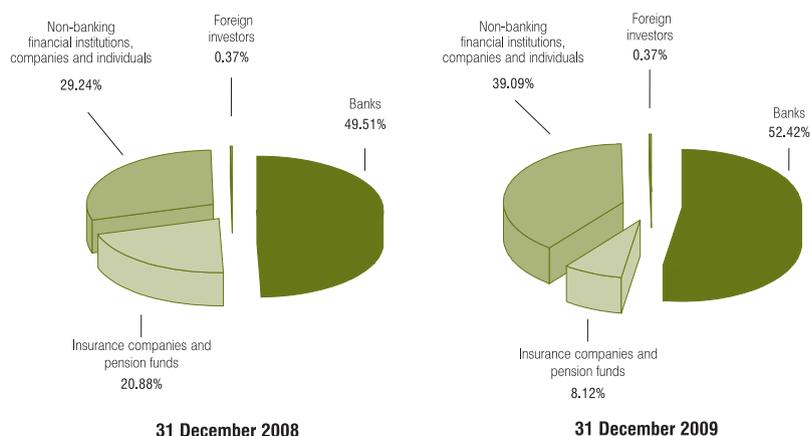
<sup>9</sup> The BGN counter-value of GS issues denominated in other currencies is calculated using the official BNB rate for the respective currency valid for 31.12. of the corresponding year.



## Holders of Government Securities

- Notes:**
1. Including frozen government securities.
  2. Based on data of the BNB and government securities primary dealers.
  3. Including target issues earmarked for individuals.
  4. The lev equivalent of government securities denominated in foreign currency is based on BNB exchange rate quoted for the last business day of corresponding.
- Source: BNB.

GS issued to support the structural reform – the largest share also belonged to banks (52.4%), followed by local non-banking financial institutions, companies and individuals (39.1%), insurance companies and pension funds (8.1%), 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.

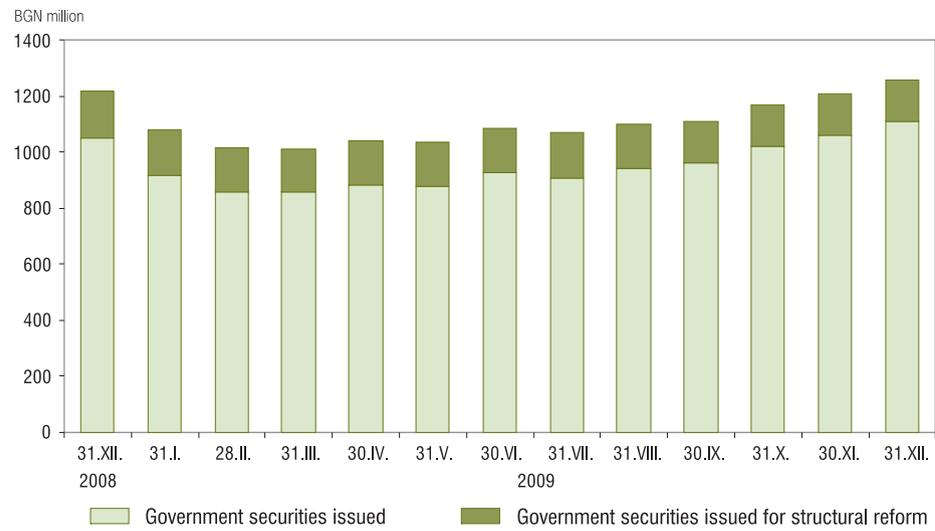
Source: BNB.

In 2009, compared to the previous year, a trend was observed of growth in the investments in GS by non-banking financial institutions, companies and individuals and a decline in the investments in GS by banks, as well as insurance companies and pension funds.

## 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.

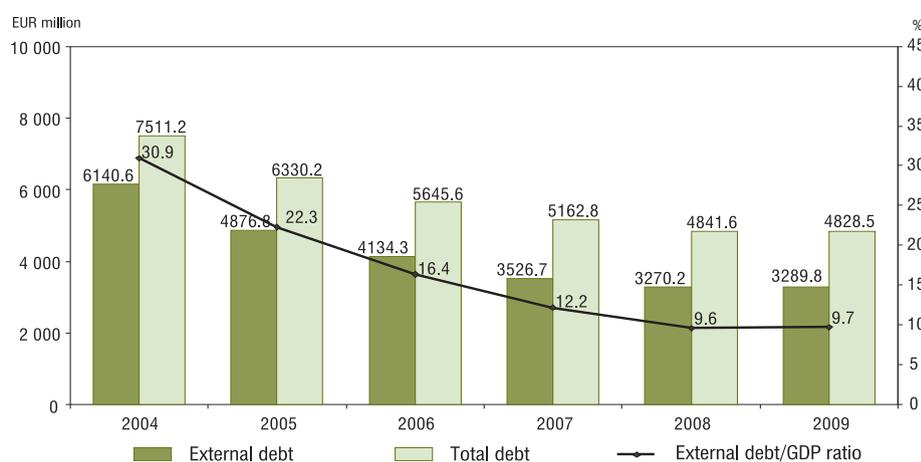
Source: BNB.





# **External Government Debt**

At the end of 2009 the External Government Debt amounted to EUR 3,289.8 million in nominal terms, which is a minimum increase of approximately EUR 19.5 million compared to 2008. The registered increase in the external government debt was mainly due to the positive net external financing realised during the year as a result of the loans obtained from the World Bank, and the regular debt repayments during the year, as well as to the cancelling of part of the external government debt and the exchange rate differences reported in the revaluation of the debt as at the end of the year. The external government debt to GDP ratio registered an increase by 0.1 percentage points compared to 2008 and amounted to 9.7%.



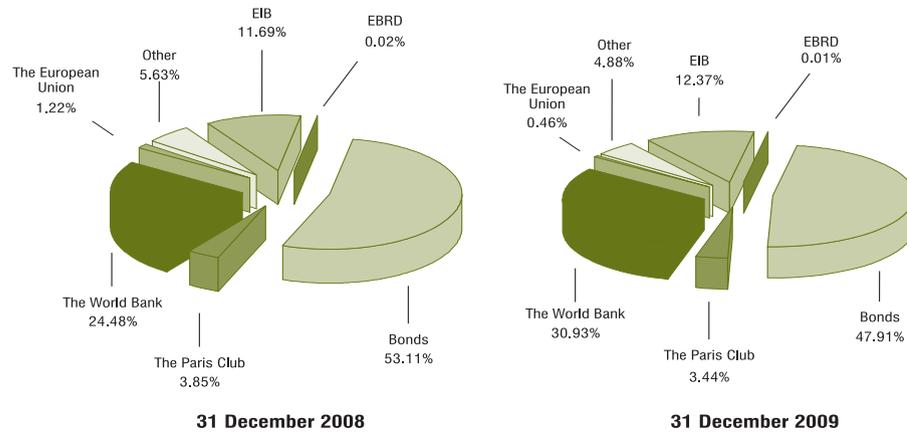
## External Government Debt/ GDP ratio

Sources: MF and NSI.

The debt structure in terms of lenders underwent significant changes. The utilisation of funds under World Bank loans in the amount of EUR 267.8 million during the year resulted in an increase in the relative share of the debt to the World Bank in the total amount of the external debt by 6.5 percentage points, reaching 30.9%. A reduction in the total amount of external government debt by 5.2 percentage points was registered by the bonds issued at international capital markets, which reached 47.9% as a result of the two transactions for cancelling of global bonds with a nominal value of EUR 17 million and USD 184.2 million, repurchased in 2008. The relative share of the liabilities to the EIB as at the end of 2009 increased and reached 12.4% mainly as a result of the utilisation of funds under the government investment loans for financing of large infrastructural projects.

As at the end of 2009 the largest external government debt share belonged to bonds issued at international capital markets – 47.9% and the debt to the World Bank – 30.9%. Debts to miscellaneous lenders accounted for about 21.2%.

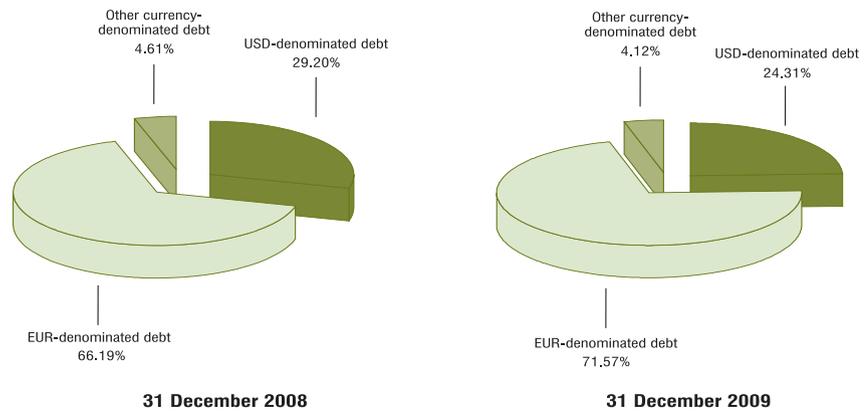
## External Government Debt by Creditors



Source: MF.

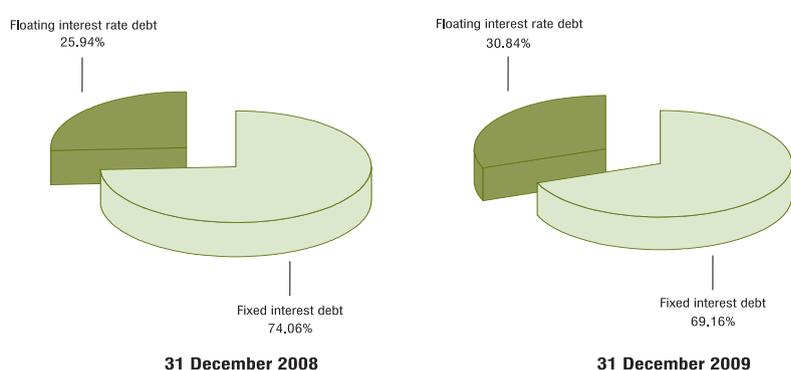
As concerns the currency structure of the debt, positive changes were registered again. Against end of 2008 data, the EUR debt share rose by 5.4 percentage points, reaching 71.6%. The USD liabilities share registered a decrease from 29.2% to 24.3%. A reduction of 0.5 percentage points was also reported in the debt share in other foreign currencies. The improved currency structure was mainly due to the policy for borrowing primarily in Euros, as well as to the regular repayments of the debt.

## Currency Structure of External Government Debt



Source: MF.

The interest rate structure of external government debt, in which the debt at fixed coupons prevails, was retained during the year regardless of the external financing received at floating interest rates. As at the end of the year the debt at fixed coupons decreased by 4.9 percentage points and reached 69.2%, and the debt at floating rates was 30.8%. The change in the interest rate structure of the external debt, reported in 2009, resulted from the utilisation of funds from external loans from the World Bank, amounting at 82% of all debt at floating rates, the cancelling of debt at fixed coupons, as well as from the regular amortisation payments under the debt.



## Interest Rate Structure of External Government Debt

Source: MF.

## External Financing

The new external financing obtained in 2009 amounted to BGN 635.8 million. The main part of the proceeds came from official international lenders such as the EIB and the World Bank, including the government loans obtained from the World Bank for policy development in the amount of BGN 490.9 (EUR 251 million) and the utilisation of government investment loans with a total amount of BGN 144.9 million. The prevailing part of the funds received during the year under government investment loans were for the financing of infrastructural projects and social programmes, launched in the previous years.

The net external financing for the year was positive and came to BGN 363.8 million.

# External Government Debt

## New External Financing and Repayments in 2009

(BGN million)

Structure	Loans or tranches	Repayments, incl.		
		Principal	Interest	Total
<b>External Government debt</b>	<b>635.8</b>	<b>271.9</b>	<b>358.3</b>	<b>630.3</b>
I. Bonds	-	-	249.2	249.2
1. EUR-denominated Bulgarian global bonds maturing in 2013	-	-	120.1	120.1
2. USD-denominated Bulgarian global bonds maturing in 2015	-	-	129.1	129.1
II. Government Loans	635.8	271.9	109.2	381.1
1. Paris Club	-	24.6	8.2	32.8
2. World Bank	490.9	59.6	41.9	101.5
2.1 World Bank	490.9	53.9	40.6	94.5
2.2 JBIC	-	5.7	1.3	7.0
3. European Union	-	48.9	2.5	51.4
4. Other	-	24.7	0.9	25.6
5. Government investment loans	144.9	105.8	54.3	160.1
5.1. World Bank	32.9	29.5	11.5	41.0
5.2. EIB	107.6	59.1	32.9	92.0
5.3. EBRD	-	0.7	0.0	0.7
5.4. Other	4.4	16.5	9.8	26.4
6. Called government guarantees	-	8.3	1.4	9.7
6.1. World Bank	-	8.3	1.4	9.7

**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

As a result of the changes in the amount, currency and interest rate structure of the external government debt during the recent years, the risk of the influence of the main market indicators on the costs for servicing of the debt was considerably reduced.

In 2009 the amount of debt payments was BGN 630.3 million, of which BGN 271.9 million in principal payments and BGN 358.3 million in interest expenses.

Within the total amount of the repayments of the external debt made, under government loans 58% of the repayments were made in the amount of BGN 157.8 million, under government investment loans the remaining 39% were made in the amount of BGN 105.8 million and 3% activated government guarantees in the amount of BGN 8.3 million. With regard to the interest paid this ratio was 69.5% (BGN 249.2 million) – global bonds, interest paid under government investment loans – 15.1% (BGN 54.3 million), paid under government Loans –14.9% (BGN 53.5 million) and paid under activated government guarantees 0.4% (BGN 1.4 million).

The most significant share in the structure of the repayments made during the year belonged to the repayments under the debt to the World Bank – BGN 97.4 million, followed by the repayments under loans from the other countries – BGN 65.9 million (including the payments to Germany and the Polish National Bank), under loans from the European Investment Bank – BGN 59.1 million, under loans from the European Union – BGN 48.9 million, and under EBRD – BGN 0.7 million.

With regard to the interest payments made during the year, the payments with the highest weights were related to bonds issued at international capital markets with a total amount of BGN 249.2 million, or 69.5% of all external interest. This was due to the fact that global bonds accounted for 47.9% of the total external government debt amount. These were followed by the interest payments under loans from the World Bank in the amount of BGN 54.8 million, the European Investment Bank – BGN 32.9 million, from other states – BGN 18.9 million (including Germany in the framework of the creditors from the Paris Club and the Polish National Bank), and the European Union – BGN 2.5 million.

All payments were made in due time and in accordance with the terms and conditions laid down in the respective loan agreements.

# External Government Debt

## External Government Debt

(EUR million)

Structure	by 31 December 2008	by 31 December 2009
<b>External government debt</b>	<b>3 270.2</b>	<b>3 289.8</b>
I. Bonds	1 736.7	1 576.1
1. EUR-denominated Bulgarian global bonds maturing in 2013	835.5	818.5
2. USD-denominated Bulgarian global bonds maturing in 2015	901.2	757.7
II. Government Loans	1 533.5	1 713.6
1. Paris Club	125.9	113.3
2. World Bank	574.2	793.6
2.1 World Bank	543.9	767.3
2.2 JBIC	30.3	26.2
3. European Union	40.0	15.0
4. Other	19.0	6.3
5. Government investment loans	756.9	771.9
5.1. World Bank	208.7	210.5
5.2. EIB	382.4	406.8
5.3. EBRD	0.7	0.3
5.4. Other	165.1	154.2
6. Called government guarantees	17.5	13.6
6.1. World Bank	17.5	13.6

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 debt management policy implemented during the reporting period followed the general directions of the main government priorities for ensuring stable budgetary positions, maintaining the macroeconomic stability and maintaining the level of Government Debt in quantitative and qualitative terms, guaranteeing fiscal stability and compliance with the Maastricht criteria.

The nominal government debt amount at 2009 yearend was EUR 4,828.5 million, of which EUR 3,289.8 million was external debt and EUR 1,538.7 million was domestic government debt. The absolute debt reduction compared to 2008 was EUR 13.1 million resulting mainly from the reduction of the domestic government debt as a result of the negative net financing. The Government Debt to GDP ratio at 2009 yearend was 14.3%, which, regardless of the decline in the GDP, registered a stabilisation around the 2008 level of 14.2%.

## Dynamics of Government Debt

(EUR million)

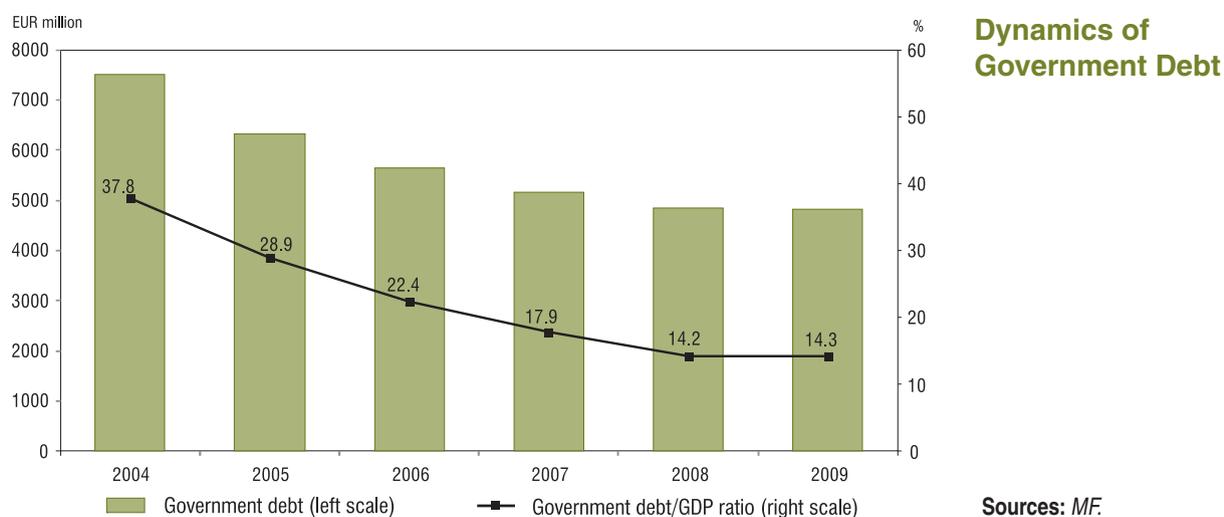
Structure	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Domestic government debt</b>	<b>1 060.3</b>	<b>906.2</b>	<b>951.7</b>	<b>1 086.1</b>	<b>1 153.8</b>	<b>1 370.6</b>	<b>1 453.5</b>	<b>1 511.3</b>	<b>1 636.1</b>	<b>1 571.3</b>	<b>1 538.7</b>
Budget deficit financing											
government 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	1 383.2
Structural reform government securities	495.5	389.9	382.4	321.7	270.4	240.0	239.1	210.5	184.9	172.5	155.5
Government securities issued under LSPDACB of 1996	113.9	24.9	14.6	9.4	4.2	-	-	-	-	-	-
<b>External government debt</b>	<b>8 587.1</b>	<b>9 159.5</b>	<b>9 096.6</b>	<b>7 685.9</b>	<b>6 961.1</b>	<b>6 140.6</b>	<b>4 876.8</b>	<b>4 134.3</b>	<b>3 526.7</b>	<b>3 270.2</b>	<b>3 289.8</b>
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	1 576.1
Paris Club	811.1	645.3	433.5	284.5	218.9	176.3	163.7	151.1	138.5	125.9	113.3
World Bank	820.5	889.6	941.1	836.1	870.0	930.6	1 020.0	787.0	870.5	574.2	793.6
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	15.0
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	6.3
Government investment loans	207.8	251.0	240.3	236.7	383.0	428.8	549.2	588.6	637.4	756.9	771.9
Called government guarantees	48.1	59.2	67.8	61.0	50.2	43.9	35.2	25.0	21.0	17.5	13.6
<b>Total government debt</b>	<b>9 647.4</b>	<b>10 065.7</b>	<b>10 048.3</b>	<b>8 771.9</b>	<b>8 114.9</b>	<b>7 511.2</b>	<b>6 330.2</b>	<b>5 645.6</b>	<b>5 162.8</b>	<b>4 841.6</b>	<b>4 828.5</b>
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	66 256.2
<b>GDP (EUR million)</b>	<b>12 163.9</b>	<b>13 678.5</b>	<b>15 190.1</b>	<b>16 566.7</b>	<b>17 704.8</b>	<b>19 849.7</b>	<b>21 882.0</b>	<b>25 237.9</b>	<b>28 898.1</b>	<b>34 117.5</b>	<b>33 876.3</b>
<b>Total government debt/GDP(%)</b>	<b>79.3</b>	<b>73.6</b>	<b>66.2</b>	<b>52.9</b>	<b>45.8</b>	<b>37.8</b>	<b>28.9</b>	<b>22.4</b>	<b>17.9</b>	<b>14.2</b>	<b>14.3</b>

Notes: 1. Nominal figures.

2. Euro conversion at BNB central rates for the closing business day of each period.

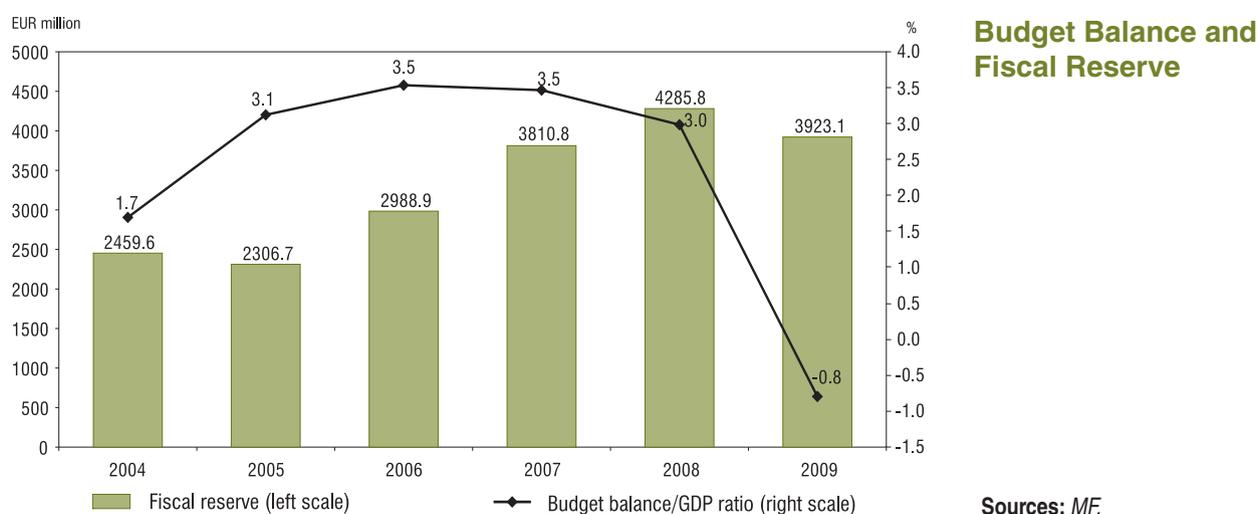
3. GDP data from the National Statistics Institute.

Sources: MF and NSI.



The year past was extremely dynamic with regard to the economic processes and for the first time during the previous several years a budget deficit of BGN -529.5 million was registered, which resulted in a decline in the Budget Balance/ GDP indicator to -0.8% (on cash basis).

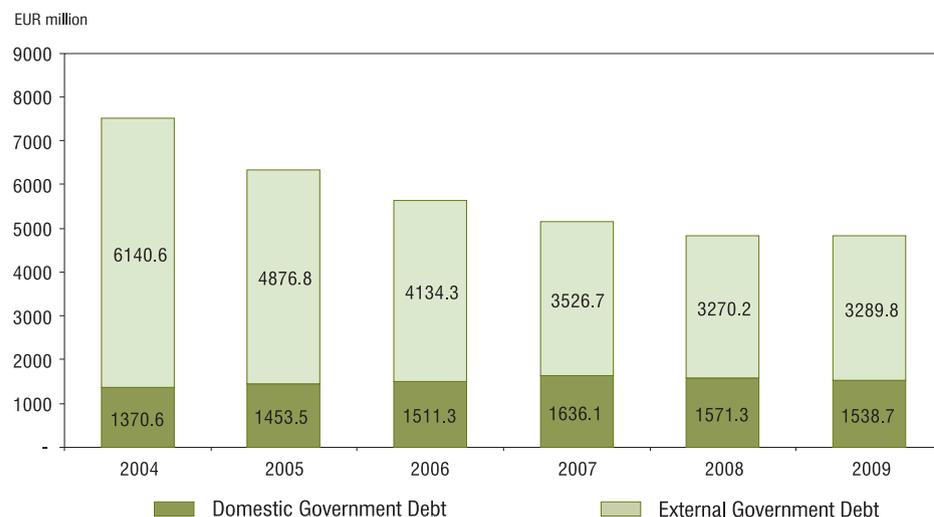
The fiscal reserve as at the end of 2009 amounted to BGN 7.6 billion (EUR 3.9 billion).



The Domestic Government Debt dropped by about EUR 32.6 million during the past year due to the negative net financing realised from Government Securities issued at the domestic market. Expressed as a portion of the total Government Debt, the share of the domestic government debt scored a near 0.6 percentage points decrease from December 2008 to December 2009. The Domestic Government Debt to GDP ratio dropped to 4.5% from 4.6% in 2008. This slight decline mostly resulted from the lower GDP levels and the negative net domestic financing achieved during the year.

The External Government Debt at the end of the year was EUR 3,289.9 million, registering an increase of EUR 19.5 million compared to the previous year. The increase in the external government debt resulted mainly from the positive net external financing achieved during the year.

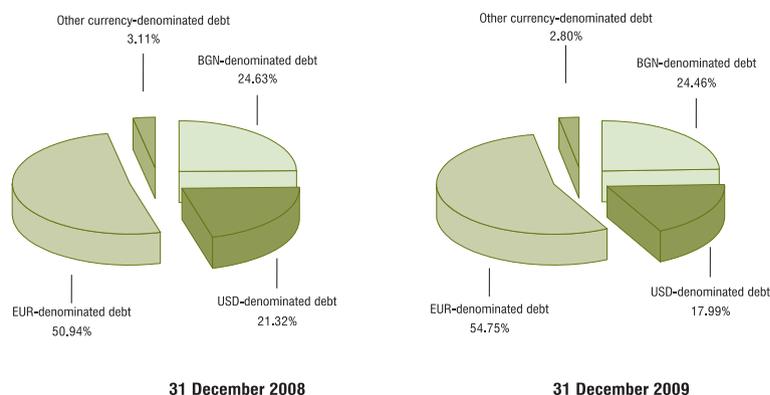
## Dynamics of Domestic Government and External Government Debt 2004 - 2009



Source: MF.

The currency structure of the Government Debt registered a positive change in the direction of the debt denominated in Euros, which contributed to the mitigation of the risks related to exchange rate fluctuations in the international capital markets. Compared to the end of 2008, the debts expressed in EUR increased from 50.9% to 54.7%, and the debt in local currency was stabilised at a level around 24.5%. The share of USD denominated debts decreased by about 3.3 percentage points to 18.0% and the debts expressed in other currencies decreased by 0.3 percentage points reaching 2.8%. These changes resulted mainly from the dominating volume of global USD denominated bonds cancelled during the year compared to these in EUR, the establishing of a government debt management policy orientated towards the prioritising of new financing in EUR, the issuing of domestic debt in BGN, as well as the regular repayments of debts in EUR and USD.

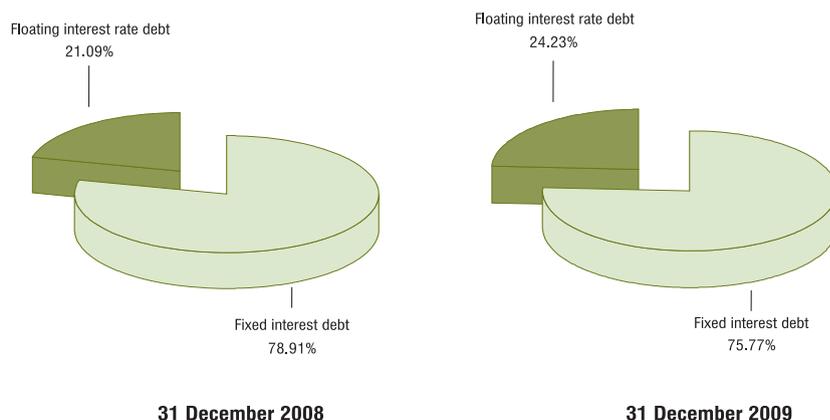
## Currency Structure of Government Debt



Source: MF.

In the interest rate of the debt the superiority of the debt at fixed coupons was preserved during this year as well (75.8% in 2009 compared to 78.9% in 2008), which allowed a good estimation of the resources required for servicing of the government debt. The registered decrease by 3.1 percentage points compared to the end of the previous year resulted mainly from the utilisation of funds from World Bank loans with floating interest rates and the cancelling of debt at fixed coupons. This in turn predetermined the increase in the relative share of the debt at floating interest rates to 24.2% at the end of 2009.

## Interest Rate Structure of Government Debt

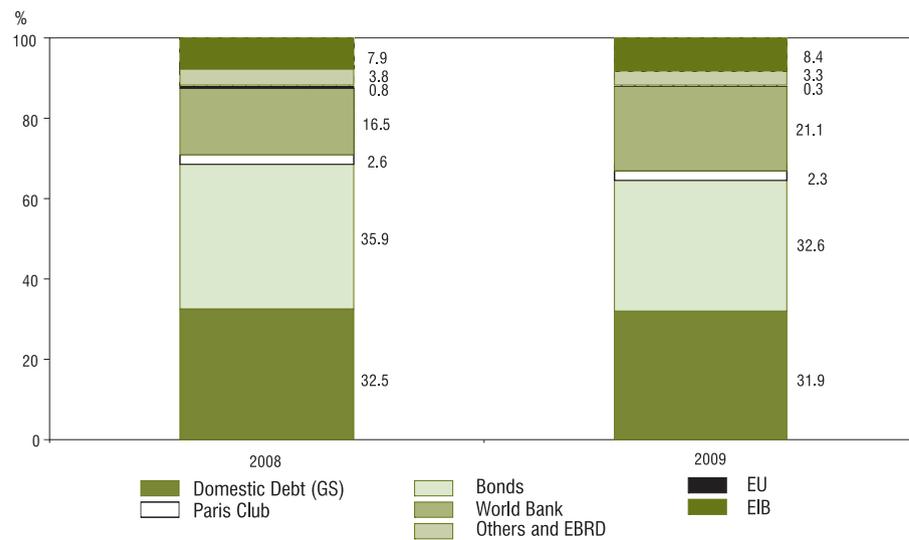


Source: MF.

In the structure of the debt by types of instruments and creditors the highest relative share belonged to the liabilities related to GS, which represented 64.5% of the total amount of government debt (including GS issued at international capital markets – 32.6%, and GS issued at the domestic market – 31.9%). A decrease by 3.8 percentage points compared to the end of 2008 was registered as a result of the transactions carried out during the year for cancelling of debt in the form of global bonds issued at the international capital markets.

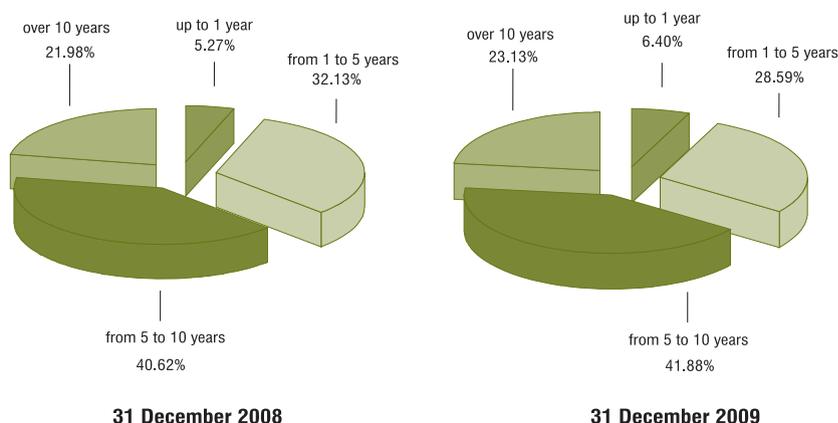
The share of government loans was 35.5%; of these the largest share belonged to the liabilities to the World Bank – 21.1%, followed by the liabilities to the EIB – 8.4%, other creditors and the EBRD – 3.3%, the Paris Club – 2.3%, and the European Union – 0.3%.

## Debt Structure per Instruments and Creditors



Source: MF.

The main factors influencing the changes in the maturity structure of the debt were several. The shifts in the government debt residual maturity resulted, on the one hand, from the cancelling of the global bonds with medium-term residual maturity and the movement of more substantial lots of liabilities from one maturity group to another as their maturity dates come nearer, and, on the other hand, from the issuing policy implemented, orientated towards an increase in the share of the long-term GS. Compared to the previous year, there was a decrease in the volume of debts with residual maturity from 1 to 5 years (28.6%) at the expense of the volume of debts with residual maturity of less than 1 year (6.4%), from 5 to 10 years (41.9%) and over 10 years (23.1%).

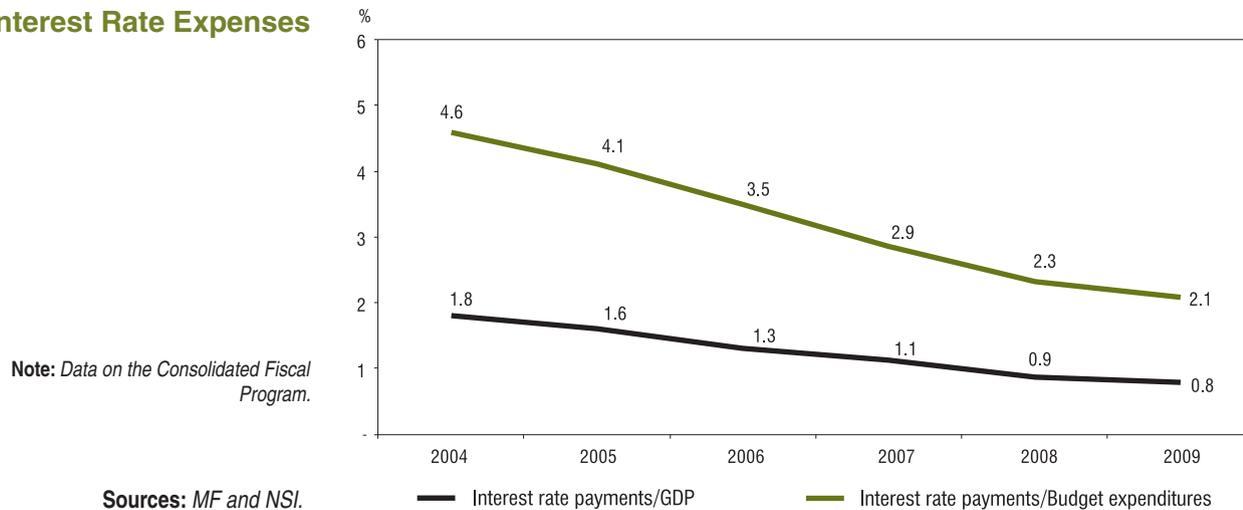


### Residual Maturity of Government Debt

Source: MF.

The government debt repayments made during the year amounted to BGN 1,314.8 million, which is by BGN 909.9 million less than the payments made during the previous year. Principal payments amounted to BGN 815.5 million, and interest payments were BGN 499.3 million. The interest expenses/GDP ratio was 0.8% or 0.1 percentage points less than at the end of the previous year. Accordingly, interest expenses were 2.1% of the total budget expenditure, which represents a 0.2 percentage points decrease compared to 2008. To a large extent, these developments were due both to the reduction of the government debt and to the lower GDP levels reported at the end of 2009.

## Interest Rate Expenses



By virtue of the Credit Rating Agreements concluded, Bulgaria continued its active dialogue with four internationally recognised 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 credit ratings awarded. The credit ratings awarded are public and as such they are used both by the rated entities and by other market players and stakeholders (investors, analysts, etc.), which determines their extensive influence throughout the global financial markets.

Credit Ratings Grid per Agencies and Credit Ratings Awarded to Bulgaria

	<i>Moody's</i>	<i>S&amp;P</i>	<i>Fitch</i>	<i>JCRA</i>		
	<i>Aaa</i>	<i>AAA</i>	<i>AAA</i>	<i>AAA</i>		
	<i>Aa1</i>	<i>AA+</i>	<i>AA+</i>	<i>AA+</i>		
	<i>Aa2</i>	<i>AA</i>	<i>AA</i>	<i>AA</i>		
	<i>Aa3</i>	<i>AA-</i>	<i>AA-</i>	<i>AA-</i>		
	<i>A1</i>	<i>A+</i>	<i>A+</i>	<i>A+</i>		
	<i>A2</i>	<i>A</i>	<i>A</i>	<i>A</i>		
	<i>A3</i>	<i>A-</i>	<i>A-</i>	<i>A-</i>	30.IV.2009	
investment rating	<i>Baa1</i>	<i>BBB+</i>	<i>BBB+</i>	<i>BBB+</i>	1.XII.2009	
	<i>Baa2</i>	<i>BBB</i>	<i>BBB</i>	<i>BBB</i>	20.III.2009	
	<i>Baa3</i>	<i>BBB-</i>	<i>BBB-</i>	<i>BBB-</i>	24.VII.2009	
non-investment rating	<i>Ba1</i>	<i>BB+</i>	<i>BB+</i>	<i>BB+</i>		
	<i>Ba2</i>	<i>BB</i>	<i>BB</i>	<i>BB</i>		
	<i>Ba3</i>	<i>BB-</i>	<i>BB-</i>	<i>BB-</i>		
	<i>B1</i>	<i>B+</i>	<i>B+</i>	<i>B+</i>		
	<i>B2</i>	<i>B</i>	<i>B</i>	<i>B</i>		
	27.IX.1996	<i>B3</i>	<i>B-</i>	<i>B-</i>	<i>B-</i>	
		<i>Caa</i>	<i>CCC+</i>	<i>CCC</i>	<i>CCC</i>	
	...	...	...	...		
	<i>C</i>	<i>D</i>	<i>D</i>	<i>D</i>		

Long-term GS foreign currency ↑ Long-term GS local currency ↑

Source: MF

At the end of 2009, the Consolidated Government Debt was EUR 5,151.4 million against the EUR 5,069.5 million reported at 2008 yearend. Within the composition of the consolidated government debt, during the reporting period the central government debt decreased by EUR 13.1 million, while the share of municipal debts rose from EUR 228.0 million to EUR 322.9 million. Due to the registered decline in the nominal value of the GDP, the Consolidated Government Debt/GDP ratio increased from 14.9% in 2008 to 15.2% at the end of 2009.

## Consolidated Government Debt Amount

(EUR million)

Structure	by 31 December				
	2005	2006	2007	2008	2009
<b>Consolidated Government Debt</b>	<b>6 422.9</b>	<b>5 764.7</b>	<b>5 338.8</b>	<b>5 069.5</b>	<b>5 151.4</b>
1. Government debt	6 330.2	5 645.6	5 162.8	4 841.6	4 828.5
2. Social security funds debt	0.0	0.0	0.0	0.0	0.0
3. Municipal debt	92.6	119.1	175.9	228.0	322.9
<b>Consolidated government debt/GDP(%)</b>	<b>29.4</b>	<b>22.8</b>	<b>18.5</b>	<b>14.9</b>	<b>15.2</b>

**Notes:** 1. Government debt shown at nominal value excluding government guaranteed loans.

2. 2009 GDP in set at BGN - 66 256.2 million, 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 2009 the amount of the Government Guaranteed Debt was EUR 612.1 million. The government guaranteed debt increased in nominal terms by approximately EUR 22.2 million versus the level reported at the end of the previous year, due to the repayments made and the exchange rate fluctuations during the year.

The government guaranteed debt/GDP ratio reached 1.8% compared to 1.9% at the end of 2008. The reduction resulted mainly from the lower value of GDP reported at the end of 2009.

## Government Guaranteed Debt

Structure	by 31 December				
	2005	2006	2007	2008	2009
<b>Government guaranteed debt</b>	<b>514.2</b>	<b>551.2</b>	<b>547.0</b>	<b>634.3</b>	<b>612.1</b>
I. Domestic government guaranteed debt	-	-	-	-	-
II. External government guaranteed debt	514.2	551.2	547.0	634.3	612.1
1. World Bank	102.4	91.6	82.3	74.4	60.9
2. European Investment Bank	8.1	7.0	5.9	4.8	3.8
3. EBRD	48.6	49.0	42.4	41.4	32.0
4. Other	355.1	403.6	416.4	513.7	515.4
<b>Government guaranteed debt/GDP (%)</b>	<b>2.3</b>	<b>2.2</b>	<b>1.9</b>	<b>1.9</b>	<b>1.8</b>

(EUR million)

Notes: 1. Debt at nominal value.

2. Euro conversion at BNB central rates for the closing business day of each period.

Source: MF.

No significant changes were observed in the structure of the government guaranteed debt by creditors. The “Other” group increased its share from 81.0% to 84.2% of all government guaranteed loans at the expense of the reduction, split equally between the government guaranteed debt to the World Bank, the EIB and the EBRD. The positive net debt financing in the “Other” group resulted in an increased share of the debt for this position.

New external government guaranteed debt financing was BGN 98.7 million, which was by BGN 92.7 million less compared to 2008. The payments made amounted to BGN 164.2 million, of which BGN 124.2 million by way of principal and BGN 40.0 million by way of interest. The debt payments in 2009 were by BGN 31.8 million less compared to the previous year.

## Government Guaranteed Debt

At the end of 2009 the government guarantee related to an external loan agreement between Toplofikacia Pernik and the World Bank was partially activated and the payment overdue amounting to USD 185 thousand (BGN 244.7 thousand) was executed with funds envisaged in the central budget for covering the risk of activating of government guarantees. By the end of the year the company reimbursed part of the funds spent in the amount of BGN 239.78 thousand. The remaining government guaranteed loans were serviced during the year in line with the timeframes.

### New Financing and Government Guaranteed Debt Payments in 2009

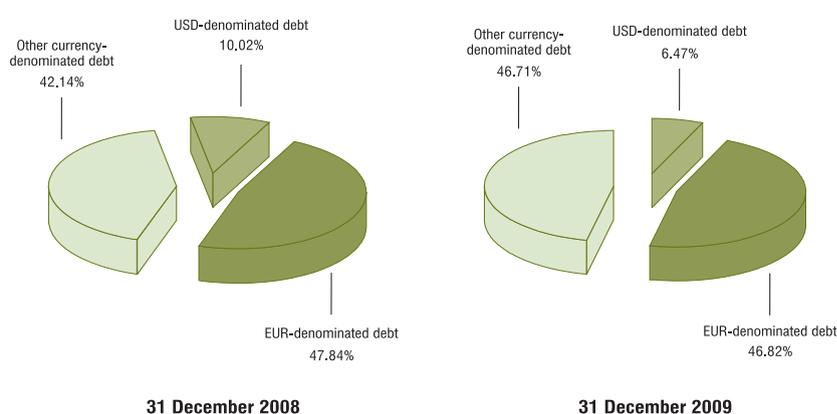
(BGN million)

Structure	Received loans	Payments, incl.	
		Installments	Interest
<b>I. Domestic government guaranteed debt</b>	-	-	-
<b>II. External government guaranteed debt</b>	<b>98.7</b>	<b>124.2</b>	<b>40.0</b>
1. World Bank	-	28.6	6.4
2. European Investment Bank	0.1	2.1	0.2
3. EBRD	-	18.3	3.3
4. Other	98.6	75.1	30.1
<b>Government guaranteed debt</b>	<b>98.7</b>	<b>124.2</b>	<b>40.0</b>

**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.

With respect to the currency structure of the government guaranteed debt a continuation of the trend from the previous year for increasing the liabilities in other currencies (Japanese Yen) was observed. Compared to the end of 2008, the debt in other currencies increased by 4.6 percentage points to 46.7%. This development resulted mainly from the fact that 99.9% of all funds utilised under government guaranteed debts during the year were in Japanese Yen. The liabilities expressed in EUR and these expressed in USD decreased to 46.8% and 6.5% respectively.

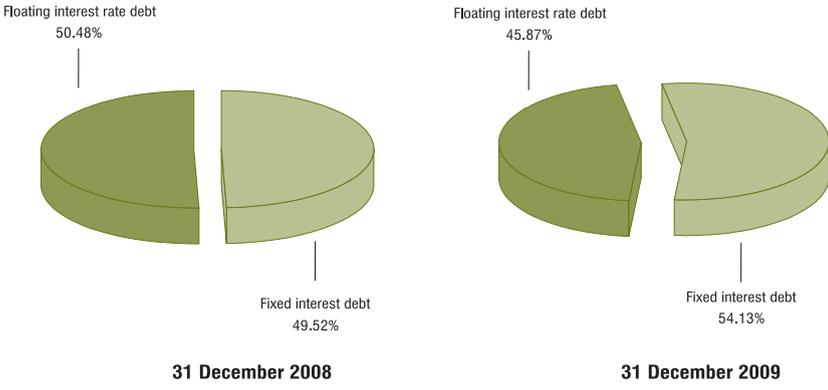


**Government  
Guaranteed Debt  
Currency Structure**

Source: MF.

In terms of the interest rate structure of the government guaranteed debt, in 2009 the tendency, also observed in 2008, for gradual increasing of the debt at fixed interest rates continued, now from 49.5% to 54.1%. This change resulted mainly from the funds utilised during the year under government guaranteed loans mainly at fixed rates.

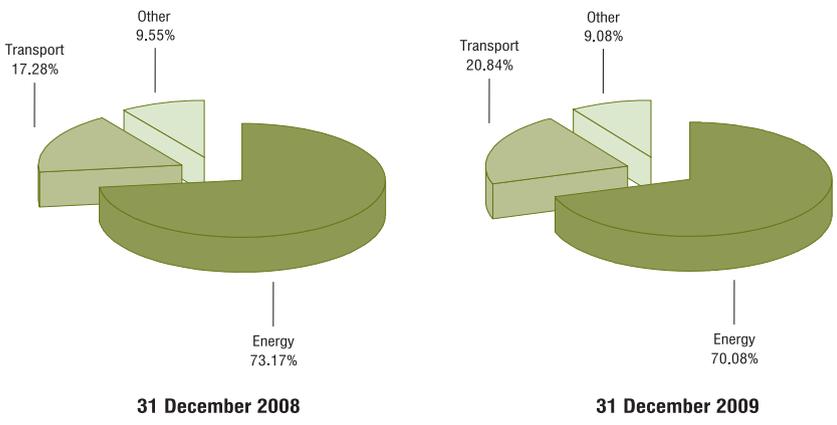
**Government Guaranteed Debt Interest Rate Structure**



Source: MF.

From the perspective of the government guaranteed debt by economic sectors, the Energy sector had the largest relative share with 70.1%, followed by the Transport sector with 20.8% and others with 9.1%.

**Government Guaranteed Debt by Sectors**



Source: MF.