



REPUBLIC OF BULGARIA

Ministry of Finance

# CENTRAL GOVERNMENT DEBT AND GUARANTEES

2017



# CENTRAL GOVERNMENT DEBT AND GUARANTEES

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## ABBREVIATIONS AND ACRONIMS

GDP	Gross Domestic Product
BNB	Bulgarian National Bank
CEB	Council of Europe Development Bank
b.p.	basis point
GS	Government securities
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EC	European Commission
EU	European Union
ECB	European Central Bank
SBRBA	State Budget of the Republic of Bulgaria Act
ICM	International capital markets
MoF	Ministry of finance
NSI	National Statistical Institute
AQR	Assets quality review
PP	Percentage points
ST	Stress test
HICP	Harmonised Index of Consumer Prices
CG	Central Government
USD	US dollar
JBIC	Japan Bank for International Cooperation

# ANALYSIS OF THE FINANCIAL SECTOR AND IMPACT ON BULGARIAN ECONOMY'S DEBT IN 2017

The financial sector in 2017 operated in a favourable macroeconomic environment, a positive labour market development, and a markedly higher demand for lending resources from economic agents, low interest rates and ongoing consolidation processes in the banking sector, which maintained its dominant role. The dynamics of total banking assets in the system maintained an upward trend in the course of the year and amounted to BGN 97.8 billion at its end. Their annual growth was BGN 5.7 billion compared to 2016, or an increase of 6.2%. At the same time, positive developments have also been observed in the non-banking financial sector. At the end of 2017, net assets of the supplementary pension insurance funds managed by the pension insurance companies increased by 17.72% on an annual basis and amounted to BGN 12.66 billion, over BGN 10.5 billion of which were managed by the universal pension funds.

Funds managed by insurance companies in Bulgaria reached BGN 7.3 billion, or 10.3% more than in 2016<sup>1</sup>. The receivables of leasing companies in financial and operating leases increased to a total of BGN 3.6 billion at the end of 2017, compared to BGN 3.3 billion a year earlier. Credit claims of the lending companies also increased during the year and reached BGN 2.75 billion against BGN 2.5 billion at the end of December 2016, while assets managed by local and foreign investment funds had a larger annual growth (25.3%) and amounted to BGN 3.6 billion.

2017 was positive also for the capital markets in Bulgaria. The market capitalization of the markets organized by BSE-Sofia AD registered a growth of 144% compared to the end of 2016<sup>2</sup> and reached 24% of the country's GDP compared to 10.45% at the end of the previous year. The significant increase was influenced also by the segment of GS trading on the Main Market which started at the end of the year.

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<sup>1</sup> According to Insurance statistics of the BNB

<sup>2</sup> According to Consolidated Annual Report on the Activity of Bulgarian Stock Exchange – Sofia Group in 2017

[http://www.bse-sofia.bg/?page=FinancialReportDetails&extri\\_id=117684](http://www.bse-sofia.bg/?page=FinancialReportDetails&extri_id=117684)

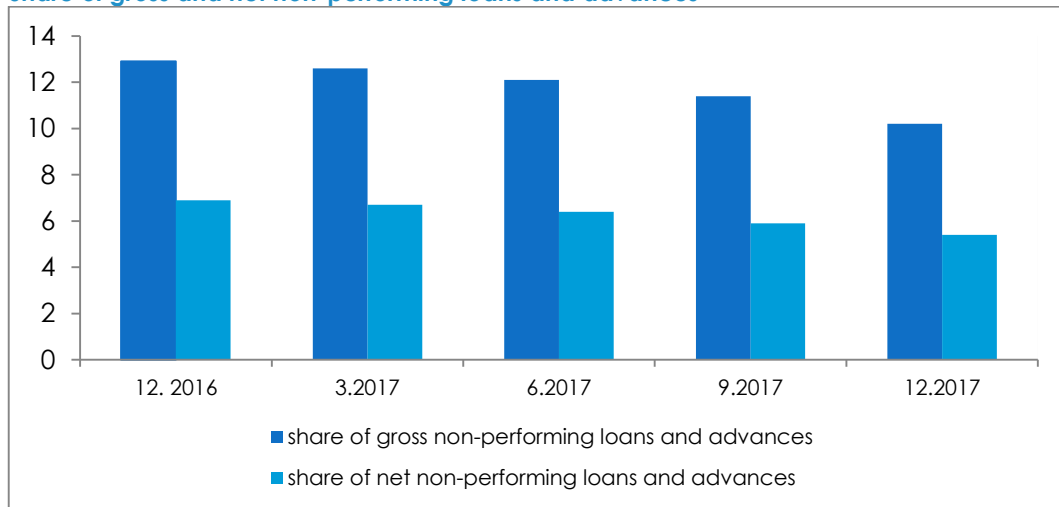
## BANKING SECTOR AND LENDING TO THE PRIVATE SECTOR

During the year, the high market share of foreign banks in the country determined on assets basis was maintained. At the end of December it was 76.5%, while that of subsidiary banks and branches in the EU - 75.2%, and of those from non-EU countries - 1.3%. The system maintained high levels of liquidity and an adequate capital position. Liquid assets ratio, calculated in accordance with Ordinance No. 11 of the BNB increased to 38.97% compared to 38.24% at the end of 2016. By the end of the year, total capital adequacy ratio was 22.08%, compared to 22.15% a year earlier.

In the assets structure, a predominant share traditionally continued to have the loan portfolio that reported higher growth over a year earlier. The share of loans and advances in the carrying amount of assets at the end of December 2017 was 61%. The gross amount of the loan portfolio of the system excluding loans and advances to central banks and credit institutions amounted to BGN 56.1 billion.

Net profit reported by the banking system by the end of 2017 was BGN 1,174 million, or by 7% (BGN 88.3 million) less than the previous year covered, and the amount of equity in the balance sheet of the system amounted to BGN 12.6 billion, reporting an increase of 3.8% on an annual basis. Interest income declined by 8.2%, while that from loans and advances was lower by 8.4% compared to the previous 2016. At the same time, interest expense also decreased by 28%, which had a positive effect on net interest income. Fee and commission income was 7.9% higher than the one at the end of 2016. Net total operating income of the banking system was 4.7% less than a year earlier, with an improvement having been reported in reducing other administrative expenses (by 1.9% ), while those for staff were 5.5% higher. A substantial decrease was observed in the provisioning expenses in 2017 (by 73.7%), which reflects banks' credit risk mitigation measures applied by writing off uncollectible receivables at the expense of provisions or sales of loans.

## Share of gross and net non-performing loans and advances



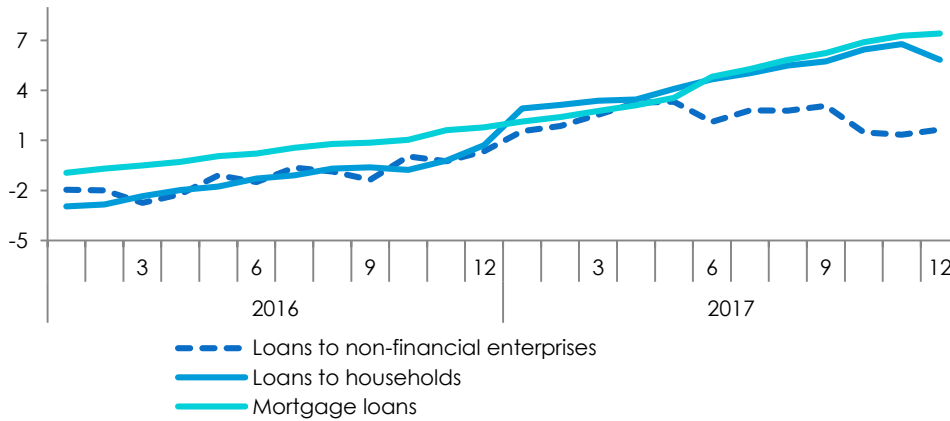
Source:BNB

Banks' actions to improve assets quality and to mitigate credit risk, including through write-offs of non-performing loans contributed to the continuing downward trend regarding non-performing loans. Improvement was recorded both in absolute terms and as a share of total loans and advances of the banking system, both in respect of gross and net non-performing loans and advances.

Private sector lending accelerated in 2017 with a good development of the main indicators of the real sector, supported by a continuing downward trend in interest rates, which in turn reflected the high levels of the banking system liquidity, the euro area interest rate cycle and ECB's supportive policy. The dynamics of bank loans to the private sector in 2017 reflected higher demand and was in line with that of investment and household consumption. At the end of December 2017, bank loans to the non-government sector grew by 4.7% on an annual basis, compared to 1.5% a year earlier. Loans to households, which were positively influenced by the absorption of funds under the National Energy Efficiency Program for Multi-family Residential Buildings had a higher contribution, and at the end of 2017 reached a growth rate of 6%, compared to a 2% increase at the end of 2016, The other two main components - consumer and housing loans - whose annual growth accelerated to 5.8% and 7.4% at the end of December, also contributed positively to the acceleration of lending to households. Lending to non-financial corporations marked an annual growth of 1.6% compared to close to zero at the end of 2016. Its acceleration was stronger in the first three quarters of the year, with some slowdown at the end influenced by the ongoing bank write-offs and sales of loans.

**Loans to non-financial corporations, consumer and housing loans**

(on annual basis, %)

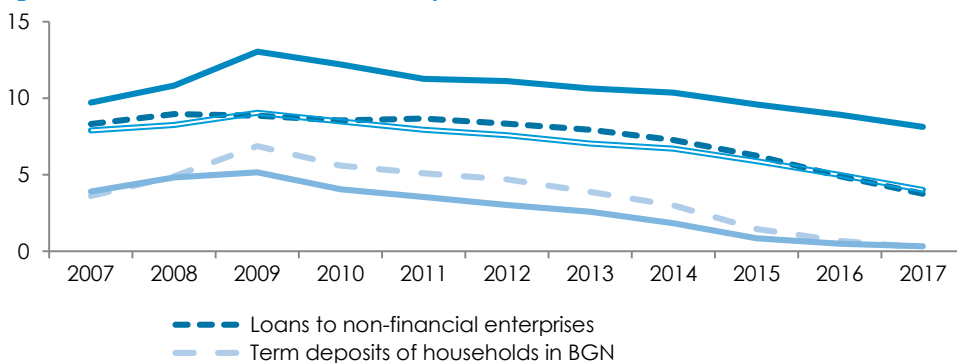


Source: BNB

Effective since the 4<sup>th</sup> of October 2017, new changes in the methodology for setting interest rates on accounts with the BNB led to a decrease in interest rate on banks excess reserves to -0.60%. This also influenced the dynamics of the unsecured BGN deposits in the interbank overnight market<sup>3</sup>. A decrease was also recorded in the average interest rate on interbank deposits and repo transactions.

The upward trend in attracted funds in the banking system was typical also in 2017 despite low interest rates. Deposits of residents - non-financial corporations (NFCs) and households continued to occupy a predominant share. Deposits of households, NFCs and other financial corporations increased to BGN 76,418 million at the end of 2017, compared to 72,477 by the end of 2016, or 5.4% more<sup>4</sup>.

**Weighted interest rates on loans and deposits**



Source: BNB

..... Loans to non-financial corporations (NFCs)

<sup>3</sup> LEONIA / LEONIA Plus

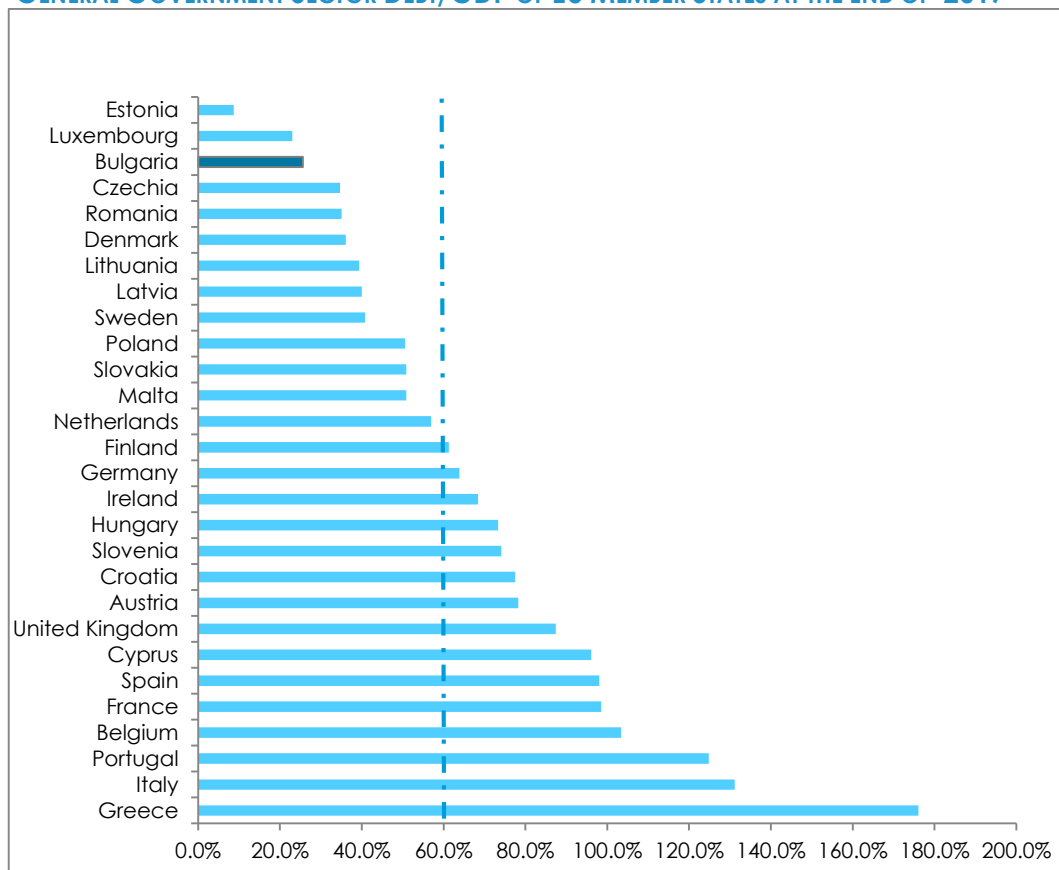
<sup>4</sup> According to Financial and Supervision Reports of the BNB



# FULFILMENT OF DEBT CONVERGENCE CRITERION OF THE REPUBLIC OF BULGARIA

In 2017, on the basis of the latest annual data published by Eurostat in October 2018, with General Government debt/GDP ratio of 25.6%, the Republic of Bulgaria fulfils the 60% Maastricht convergence criterion and remains well below the average for EU-28 (81.6%) and EU-19 (86.8%) countries.

## GENERAL GOVERNMENT SECTOR DEBT/GDP OF EU MEMBER STATES AT THE END OF 2017



Source: Eurostat

Compared to the 29.6% level recorded at the end of 2016, the indicator was down by 4 percentage points. Comparing the indicators of the 28 EU Member States, Bulgaria ranks third after Estonia (8.7%) and Luxembourg (23.0%). According to Eurostat information published for 2017, fifteen Member States exceeded the 60% of GDP reference threshold, with a highest ratio level registered for Greece (176.1%), Italy (131.2%) and Portugal (124.8%).

In the euro area (EC-19), the debt-to-GDP ratio of the sector is reduced from 89.1% by the end of 2016 to 86.8% by the end of 2017 and at the EU-28 level - from 83.3% to 81.6%.

In 2017 as well, with a major share of about 98% of the of the General Government debt and a component with the most significant impact on the sector's debt continues to be the Central Government sub-sector. The other two components - Local Government sub-sector and Social Insurance sub-sector - have almost a neutral impact on the total debt of the sector.

## CREDIT RATING

### CREDIT RATING OF BULGARIAN BONDS ISSUED ON ICM

Credit rating agency	Eurobonds issued on ICM with maturity 2017	Eurobonds issued on ICM with maturity 2024	Eurobonds issued on ICM with maturity 2022	Eurobonds issued on ICM with maturity 2027	Eurobonds issued on ICM with maturity 2035	Eurobonds issued on ICM with maturity 2023	Eurobonds issued on ICM with maturity 2028
Moody's	Baa2	Baa2	Baa2	Baa2	Baa2	Baa2	Baa2
S&P	BBB	BBB-	BB+	BB+	BB+	BB+	BB+
Fitch	BBB-*	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-

\* Note: The awarded credit rating has not been requested. Presently, the contractual relations between the Republic of Bulgaria and credit rating agency Fitch have been renewed as from 11.02.2013

Source: MoF

### DYNAMICS OF SOVEREIGN CREDIT RATING FOR THE PERIOD 01.01.2009—31.12.2017

Credit agency	Date	Foreign currency rating		Local currency rating		Outlook
		Short term	Long term	Short term	Long term	
Moody's	20.03.2009		Baa3		Baa3	Stable
Moody's	21.01.2010		Baa3		Baa3	Positive
Moody's	31.08.2010		Baa3		Baa3	Positive
Moody's	22.07.2011		Baa2		Baa2	Stable
Moody's	05.06.2015		Baa2		Baa2	Stable
Moody's	26.05.2017		Baa2		Baa2	Stable
S&P	01.12.2009	A-3	BBB	A-3	BBB	Stable
S&P	17.12.2010	A-3	BBB	A-3	BBB	Stable
S&P	21.12.2011	A-3	BBB	A-3	BBB	Stable
S&P	10.08.2012	A-2	BBB	A-2	BBB	Stable

Credit agency	Date	Foreign currency rating		Local currency rating		Outlook
		Short term	Long term	Short term	Long term	
S&P	13.12.2012	A-2	BBB	A-2	BBB	Stable
S&P	13.12.2013	A-2	BBB	A-2	BBB	Negative
S&P	13.06.2014	A-3	BBB -	A-3	BBB -	Stable
S&P	12.12.2014	B	BB +	B	BB +	Stable
S&P	12.06.2015	B	BB +	B	BB +	Stable
S&P	11.12.2015	B	BB +	B	BB +	Stable
S&P	03.06.2016	B	BB +	B	BB +	Stable
S&P	02.12.2016	B	BB +	B	BB +	Stable
S&P	02.06.2017	B	BB +	B	BB +	Positive
S&P	01.12.2017	A-3	BBB -	A-3	BBB -	Stable
Fitch	30.04.2009	F3	BBB -		BBB	Negative
Fitch	12.08.2010*	F3	BBB -		BBB	Negative
Fitch	24.05.2011*	F3	BBB -		BBB	Positive
Fitch	13.12.2011*	F3	BBB -		BBB	Stable
Fitch	13.07.2013*	F3	BBB -		BBB	Stable
Fitch	10.01.2014	F3	BBB -		BBB	Stable
Fitch	04.07.2014	F3	BBB -		BBB	Stable
Fitch	19.12.2014	F3	BBB -		BBB	Stable
Fitch	19.06.2015	F3	BBB -		BBB	Stable
Fitch	04.12.2015	F3	BBB -		BBB	Stable
Fitch	03.06.2016	F3	BBB -		BBB	Stable
Fitch	22.07.2016	F3	BBB -		BBB-	Stable
Fitch	22.07.2016	F3	BBB -		BBB-	Stable
Fitch	02.06.2017	F3	BBB -		BBB-	Positive
Fitch	01.12.2017	F2	BBB		BBB	Stable

\* Note: The awarded credit rating has not been requested. Presently, the contractual relations between the Republic of Bulgaria and credit rating agency Fitch have been renewed as from 11.02.2013

Source: MoF▼

# CENTRAL GOVERNMENT DEBT

By the end of 2017 Central Government debt totalled BGN 25 616.5 million (EUR 13 097.5 million) in nominal value, including external debt of BGN 17 990.4 million (EUR 9 198.3 million) and domestic debt of BGN 7 626.1 million (EUR 3 899.2 million). The debt decreased by BGN 1 863 million compared to the end of 2016. Central Government debt/GDP ratio at the end of 2017 is 25.4%.

## CENTRAL GOVERNMENT DEBT

(BGN million)

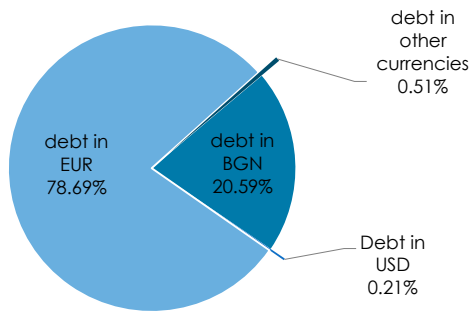
Structure	2016	2017
<b>Domestic CG debt</b>	<b>7 387.1</b>	<b>7 626.1</b>
I. GS issued for financing the budget	6 532.4	6 588.8
II. GS issued for structural reform	92.9	58.3
III.S issued by units within the CG subsector	131.7	104.7
IV.Domestic government loans	395.2	723.0
V. Domestic loans of units within the CG subsector	235.0	151.3
<b>External CG debt</b>	<b>20 092.6</b>	<b>17 990.4</b>
I. Bonds	14 733.1	12 980.8
II. Loans	5 359.5	5 009.6
1. Government loans	2 063.9	1 878.1
1.1 Paris club	49.3	24.6
1.2 IBRD /World Bank/	846.7	688.3
1.3 European Union	1 167.9	1 165.2
2. Schuldschein transferable loans	567.2	567.2
3. Government investment loans	1 556.6	1 396.4
4. External loans of units within the CG subsector	1 171.9	1 167.9
<b>Central Government debt, total</b>	<b>27 479.8</b>	<b>25 616.5</b>
GDP (BGN Million)	94 130	101 043
GDP (EUR Million)	48 128	51 662
<b>Total Central Government debt/GDP</b>	<b>29.2%</b>	<b>25.4%</b>

Notes: 1. Debt at nominal value. 2. Debt is recalculated based on end-of-period BNB central exchange rates of the relevant foreign currencies. 3. GDP data is available from the National Statistical Institute.

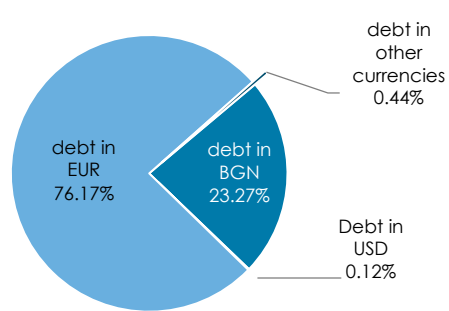
Source: MoF, NSI

### CENTRAL GOVERNMENT DEBT CURRENCY STRUCTURE

(as of 31 December 2016)



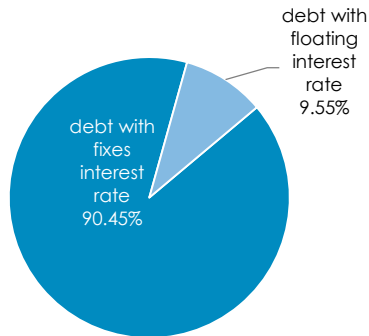
(as of 31 December 2017)



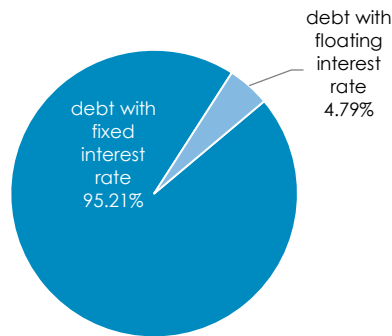
Source: MoF

### Central Government Debt Interest Rate Structure

(as of 31 December 2016)



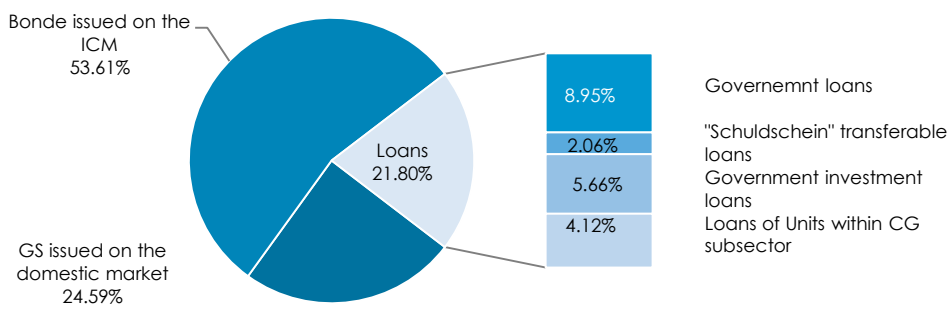
(as of 31 December 2017)



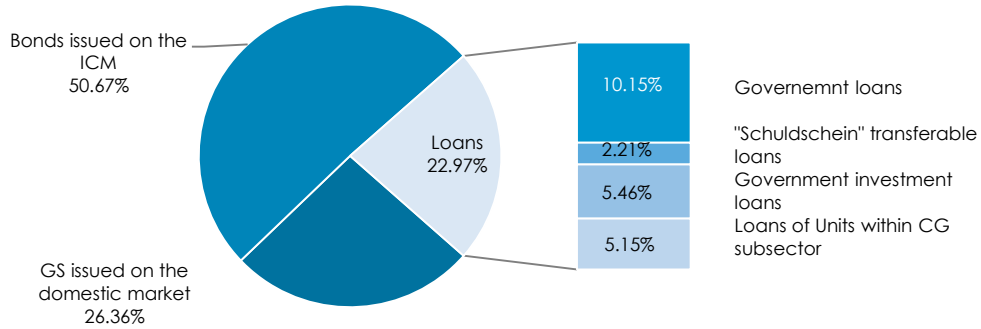
Source: MoF

### STRUCTURE OF CENTRAL GOVERNMENT DEBT BY INSTRUMENT

(as of 31 December 2016)



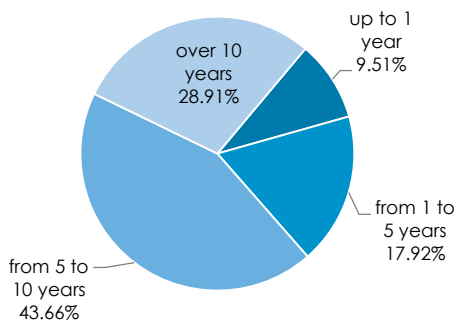
(as of 31 December 2017)



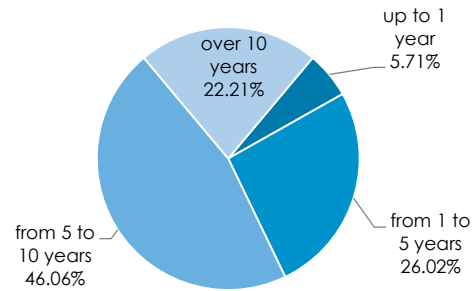
Source: MoF

### RESIDUAL MATURITY OF OUTSTANDING CENTRAL GOVERNMENT DEBT

(as of 31 December 2016)



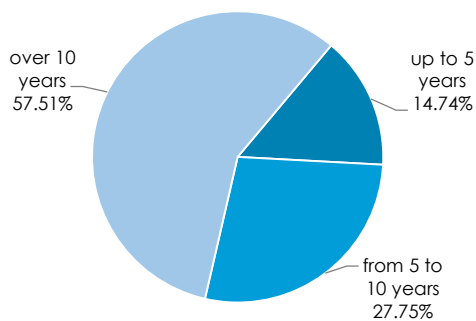
(as of 31 December 2017)



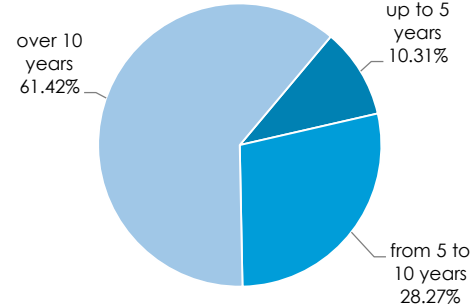
Source: MoF

### ORIGINAL MATURITY OF OUTSTANDING CENTRAL GOVERNMENT DEBT

(as of 31 December 2016)



(as of 31 December 2017)



Source: MoF

## CENTRAL GOVERNMENT DOMESTIC DEBT

By end of 2017, Central Government domestic debt totalled in nominal value BGN 7 626.1 million (EUR 3 899.2 million), which is 7.5% of GDP.

### CENTRAL GOVERNMENT DOMESTIC DEBT

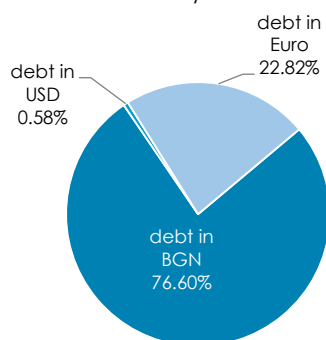
(BGN million)

Structure	2016	2017
<b>CG domestic debt</b>	<b>7 387.1</b>	<b>7 626.1</b>
I. GS issued for financing the budget	6 532.4	6 588.8
II. GS issued for structural reform	92.9	58.3
III. GS issued by units within the VG subsector	131.7	104.7
IV. Domestic government loans	395.2	723.0
V. Domestic loans of units within the CG subsector	235.0	151.3
GDP (BGN Million)	94 130	101 043
GDP (EUR Million)	48 128	51 662
<b>CG domestic debt/GDP</b>	<b>7.8%</b>	<b>7.5%</b>

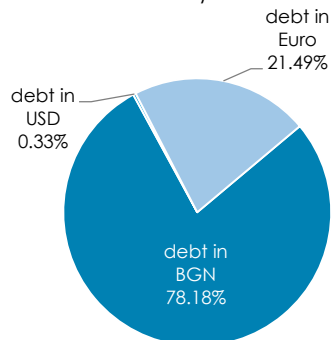
Source: MoF

### CENTRAL GOVERNMENT DOMESTIC DEBT CURRENCY STRUCTURE

(as of 31 December 2016)



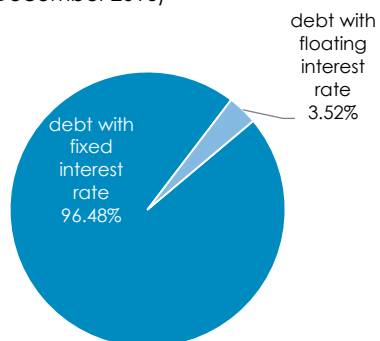
(as of 31 December 2017)



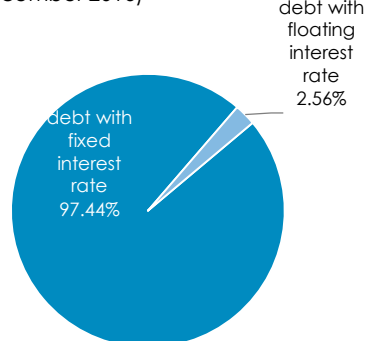
Source: MoF

### CENTRAL GOVERNMENT DOMESTIC DEBT INTEREST RATE STRUCTURE

(as of 31 December 2016)



(as of 31 December 2016)



Source: MoF

## CENTRAL GOVERNMENT EXTERNAL DEBT

By end of 2017, CG external debt totalled in nominal value BGN 17 990.4 million (EUR 9 198.3 million). The CG external debt/GDP ratio is 17.8%.

### CENTRAL GOVERNMENT EXTERNAL DEBT

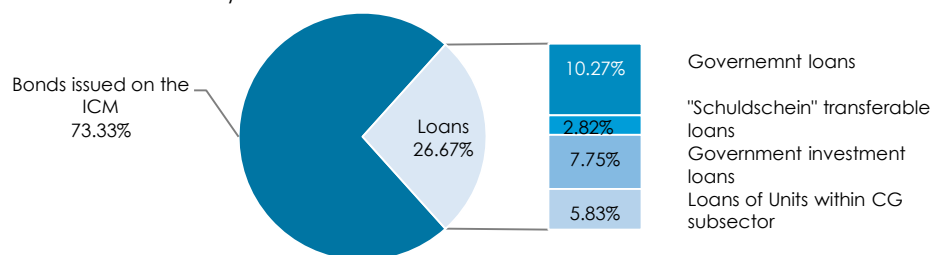
(BGN million)

Structure	2016	2017
<b>External CG debt</b>	<b>20 092.6</b>	<b>17 990.4</b>
I. Bonds	14 733.1	12 980.8
II. Loans	5 359.5	5 009.6
1. Government loans	2 063.9	1 878.1
1.1 Paris club	49.3	24.6
1.2 IBRD /World Bank/	846.7	688.3
1.3 European Union	1 167.9	1 165.2
2. Schuldschein transferable loans	567.2	567.2
3. Government investment loans	1 556.6	1 396.4
4. External loans of units within the CG subsector	1 171.9	1 167.9
GDP (BGN Million)	94 130	101 043
GDP (EUR Million)	48 128	51 662
<b>Total CG external debt / GDP</b>	<b>21.3%</b>	<b>17.8%</b>

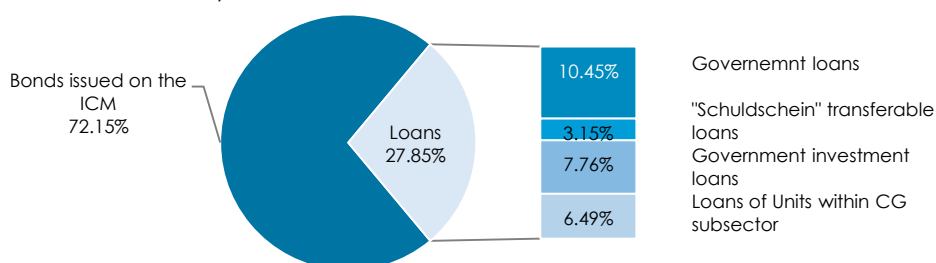
Source: MoF, NSI

### STRUCTURE OF CENTRAL GOVERNMENT DEBT BY INSTRUMENT

(as of 31 December 2016)



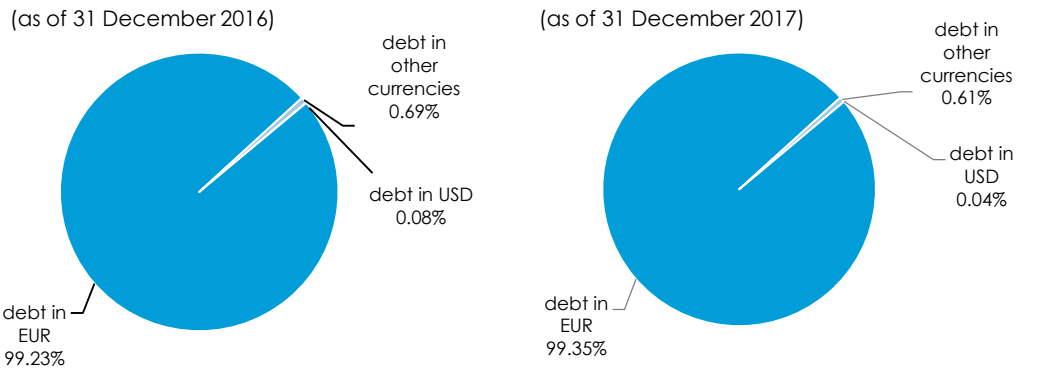
(as of 31 December 2017)



Source: MoF

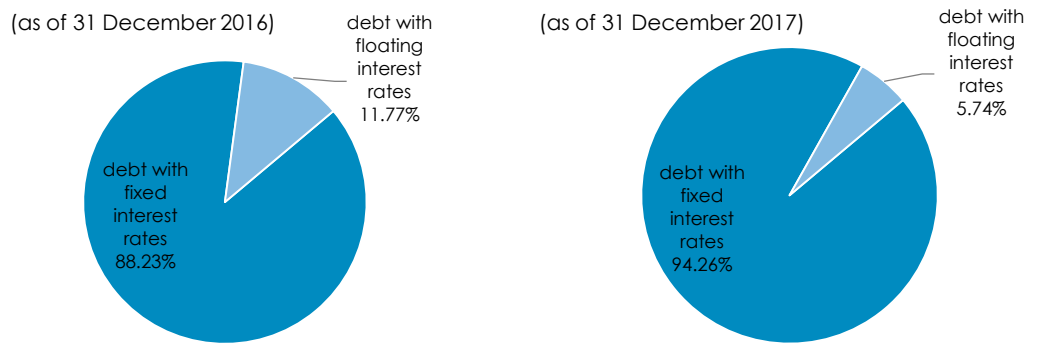


**CENTRAL GOVERNMENT EXTERNAL DEBT CURRENCY STRUCTURE**



Source: MoF

**CENTRAL GOVERNMENT EXTERNAL DEBT INTEREST RATE STRUCTURE**



Source: MoF



# DEBT SOURCES FOR FINANCING

## GS ISSUES ON THE DOMESTIC MARKET

Placement of GS on the domestic market in 2017 complied with the envisaged restrictions in the 2017 SBRBA and the issuance policy of the Republic of Bulgaria.

During the year, a total of 11 auctions were held on the domestic market, with issues placed in circulation in 2017 only, with a maturity of 4 years, 7 years and 6 months and 10 years and 6 months, respectively. The total nominal value of GS issued during the reporting period was distributed as follows: GS with a maturity of 4 years - BGN 200 million, with a maturity of 7 years and 6 months - BGN 250 million and with a maturity of 10 years and 6 months – BGN 339.5 million.

### Auctions Held for Sale of GS in 2017

Date of auction	Date of issue	Issue Ne	Currency	Maturity	Maturity date	Interest rate %		Average approved price	Average annual yield*	Nominal value
23.01.2017	25.01.2017	BG2040017217	BGN	126 M	25.07.2027	Fixed %	1.95%	101.84	1.7641%	50 000 000
20.02.2017	22.02.2017	BG2030017110	BGN	48 M	22.02.2021	Fixed %	0.30%	100.48	0.1800%	60 000 000
20.03.2017	22.03.2017	BG2040017217	BGN	126 M	25.07.2027	Fixed %	1.95%	101.47	1.8009%	100 000 000
24.04.2017	26.04.2017	BG2030017110	BGN	48 M	22.02.2021	Fixed %	0.30%	100.74	0.1065%	60 000 000
15.05.2017	17.05.2017	BG2040017217	BGN	126 M	25.07.2027	Fixed %	1.95%	101.67	1.7772%	100 000 000
19.06.2017	21.06.2017	BG2030017110	BGN	48 M	22.02.2021	Fixed %	0.30%	100.92	0.0494%	50 000 000
17.07.2017	19.07.2017	BG2040017217	BGN	126 M	25.07.2027	Fixed %	1.95%	103.00	1.6300%	89 500 000
25.09.2017	27.09.2017	BG2040117215	BGN	90 M	27.03.2025	Fixed %	0.80%	100.79	0.6924%	85 000 000
23.10.2017	25.10.2017	BG2040117215	BGN	90 M	27.03.2025	Fixed %	0.80%	102.78	0.4192%	85 000 000
13.11.2017	15.11.2017	BG2030017110	BGN	48 M	22.02.2021	Fixed %	0.30%	101.62	-0.1937%	30 000 000
04.12.2017	06.12.2017	BG2040117215	BGN	90 M	27.03.2025	Fixed %	0.80%	103.20	0.3559%	80 000 000
<b>Total BGN</b>										<b>789 500 000</b>

\* Annual average yield calculated on basis of ISMA-International Yield (%)

Source: MoF

In 2017 the Ministry of Finance offered on the domestic market GS with a total nominal value of BGN 800 million and the amount subscribed by the market participants reached BGN 1 893.7 million or an average bid-to-cover ratio of 2.37 was achieved. The averaged bid-to-cover ratios for the period by type of securities are as follows:

- with a maturity of 4 years - 2.64;
- with a maturity of 7 years and 6 months - 2.45;
- with a maturity of 10 years and 6 months - 2.15.

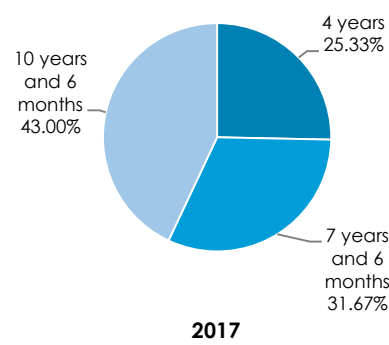
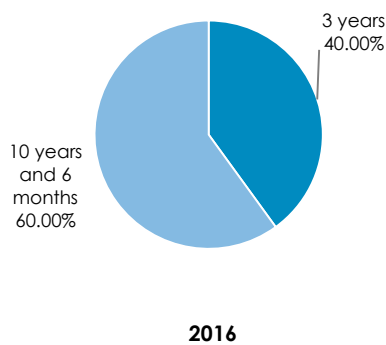
**BID-TO-COVER RATIO OF GS ISSUED IN 2017**



\* Data are presented in BGN thousands

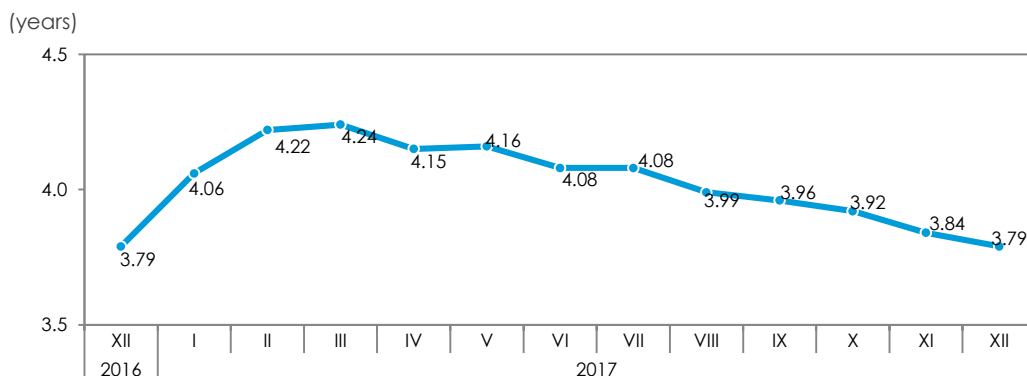
Source: MoF

**MATURITY STRUCTURE OF GS ISSUED**



source: MoF

**RESIDUAL MATURITY IN YEARS OF THE OUTSTANDING ISSUES**



Source: MoF

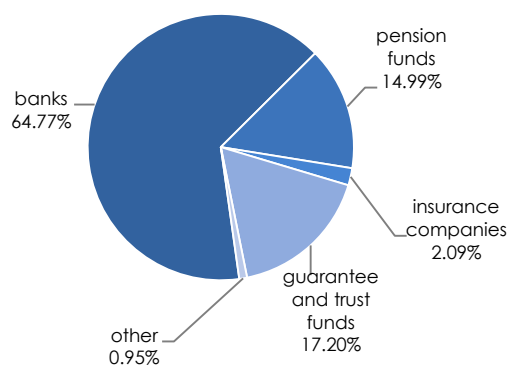
## DISTRIBUTION OF THE INVESTOR BASE AND DEVELOPMENT OF THE PRIMARY GS MARKET IN 2017

11 auctions were held on the domestic debt market in 2016. The Ministry of Finance realized securities of a total nominal value of BGN 789.5 million, divided into three GS issues with a maturity of 4 years, 7 years and 6 months and 10 years and 6 months. The downward trend in yields on all maturity segments continued in 2017.

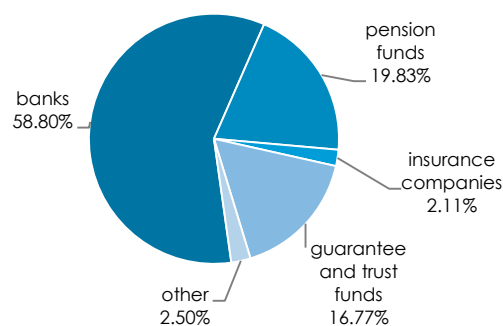
Investor interest analysis indicates that at the auctions held for sale of the 4-years bond banks have placed bids for a total of BGN 342.63 million, or 64.77% of all the orders submitted, the pension funds have placed bids for BGN 79.30 million, or 14.99% of all bids placed, guarantee and the trust funds have placed bids for a total nominal value of BGN 91.00 million (17.20% of the bids placed) and insurance companies - BGN 11.05 million. The allocation of the approved GS amount is as follows: banks – BGN 117.59 million (58.80% of bids approved), pension funds BGN 39.65 million (19.83% of bids approved), guarantee and trust funds - BGN 33.54 million (16.77% of bids approved), insurance companies – BGN 4.21 million (2.11% of bids approved).

### 4-YEARS GS

4-years GS bids placed



4-years GS realized amount



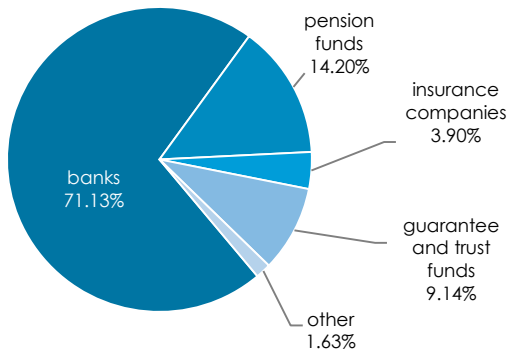
Source: MoF

The bond issued in 2017 with a maturity of 7 years and 6 months has also attracted the attention of a wide range of investors. Bids placed by banks amount to BGN 435.75 million (71.13% of all bids placed), by pension funds - BGN 87.00 million (14.20% of the bids placed), by guarantee and trust funds - BGN 56.00 million (9.14% (3.90% of the bids placed) and by other investors - BGN 10.00 million (1.63% of the bids placed).

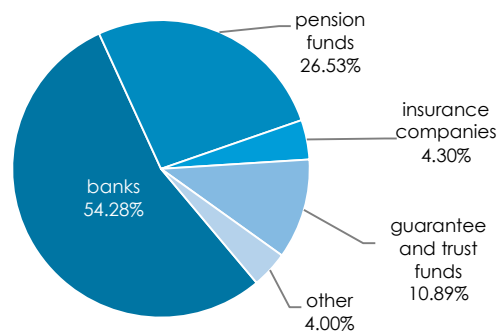
The allocation of the approved volume of GS is as follows: banks - BGN 135.69 million (54.28% of the bids approved), pension funds - BGN 66.32 million (26.53% of the bids approved), guarantee and trust funds - BGN 27.23 million. (10.89% of the bids approved), insurance companies - BGN 10.76 million (4.30% of the bids approved), other investors - BGN 10.00 million (4.00% of the bids approved).

**7 years and 6 months GS**

**7years and 6 months GS bids places**



**7years and 6 months GS realised amount**

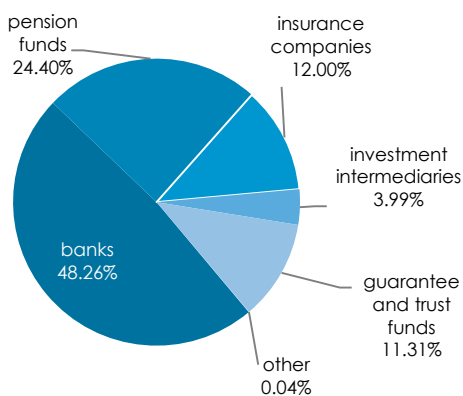


Source: MoF

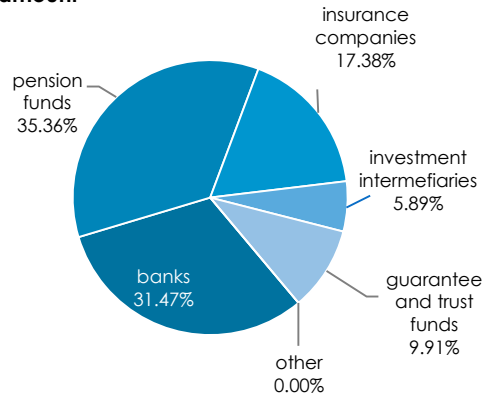
At the auctions for the sale of GS with a maturity of 10 years and 6 months banks have placed bids totalling BGN 363.00 million, or 48.26% of all the bids placed, pension funds placed bids for BGN 183.50 million or 24.40% of the bids placed, insurance companies – BGN 90.25 million (12.00% of the bids placed) and guarantee and trust funds have placed a total nominal value amounting to BGN 85.05 million (11.31% of the bids placed). The allocation of the approved volume of GS is as follows: pension funds - BGN 120.03 million (35.36% of the bids approved), banks - BGN 106.83 million (31.47% of the bids approved), insurance companies - BGN 59.00 million 17.38% of the bids approved), guarantee and trust funds - BGN 33.64 million (9.91% of the bids approved) and investment intermediaries - BGN 20.00 million (5.89% of the bids approved).

**10 years and 6 months GS**

**10 years and 6 months GS bids placed**



**10 years and 6 months GS realised amount**



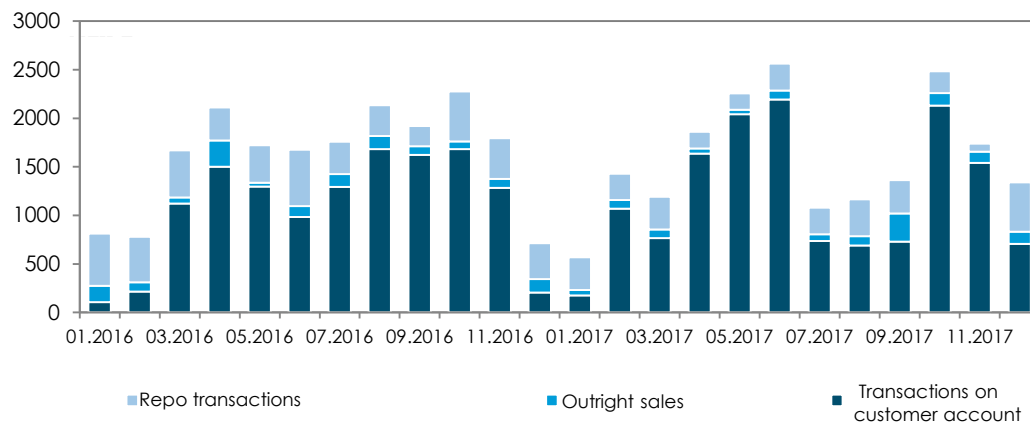
## REVIEW OF THE SECONDARY GS MARKET

In 2017, the total volume of registered GS transactions and operations registered in the system for registration and settlement of GS at BNB (BNBGSSS<sup>5</sup>) is BGN 22,050.2 million, compared to BGN 22,451.4 million in 2016, which is a decrease by 1.7%. Regardless of this, an increase in registered repo transactions volume was observed - BGN 14 418.8 million (by 11%), compared to BGN 12 993.1 million in 2016. As a result, their share continued to be the highest in the total volume of transactions registered in BNBGSSS - 65%. Repurchase transactions concluded for one day (51%), both with BGN and EUR issues of GS, were best preferred by banks for provision of their daily liquidity. The volume of registered transactions for purchase and sale of GS was BGN 2 660.5 million, down 58.3% compared to 2016. Of these BGN 1 250.1 million were transactions between ESROT participants, BGN 1 410.4 million were transactions between participants and customers, while BGN 434.9 million accounted for transactions between customers of ESROT participants only. Operations of blocking and unblocking GS issued on the domestic market on account of registered pledges on GS established under the Special Pledges Act and for securing available cash funds in the accounts of budget organizations in banks in accordance with the Public Finance Act, had a total volume of BGN 3 010.1 million, while their share in the total volume of the secondary market was 14% respectively. In the context of the backdrop of low or even negative Euro area interest rates and the lack of appropriate investment alternatives on the domestic capital market, sovereign debt issued on the domestic market remains a preferred investment by market participants and their customers. During the year, yields of long-term benchmark 10-and-6-month maturity issue ranged from 1.77% in January to 1.02% in December, down from 2016 (from 2.44% January to 1.80% in December). Overall, the trade was quite dynamic, with peak volumes traded in May, June and October. GS along the whole range of debt curve were traded with a marked prevalence of BGN and EUR-denominated GS with approximately 5-year residual period until maturity date. This was due to the lower supply of long-term GS on the secondary market by institutional investors – pension fund and insurance companies, which held in their portfolios the GS purchased by them in order to ensure a better yield in the long term. The trend established in recent years of the volume of trading in the secondary market for GS to exceed many times the volume of trading in the Bulgarian stock exchange was preserved in 2017 as well.

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<sup>5</sup> BNBGSSS includes the Electronic System for Registration and Servicing of Trade in GS (ESROT) and the GS Settlement System (GSSS).

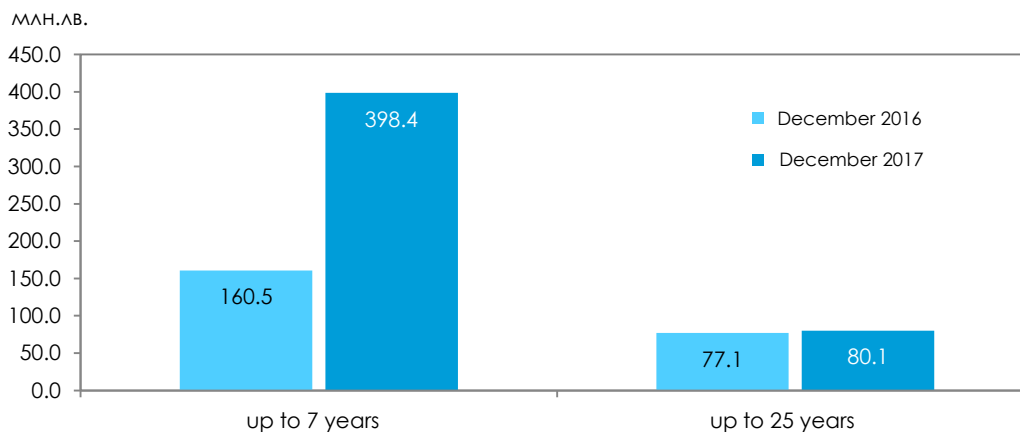
## VOLUME BY TYPES OF TRANSACTIONS IN TRADABLE GS



Notes: 1.The volume of repo transactions includes reverse repo transactions and those executed during the same day; 2.Transactions in GS denominated in foreign currency are given in BGN equivalence according to BNB exchange rate for the respective currency valid on the date of transaction.

Participants in ESROT experienced no difficulties and ensured duly the necessary securities and funds in BGN and EUR for the execution of the settlement of the transactions in GS with delivery versus payment (DvP), where the average settlement ratio<sup>6</sup> for the year stood at 100%.

## STRUCTURE OF TRANSACTIONS ON INTER-BANK MARKET BY TERM OF GS



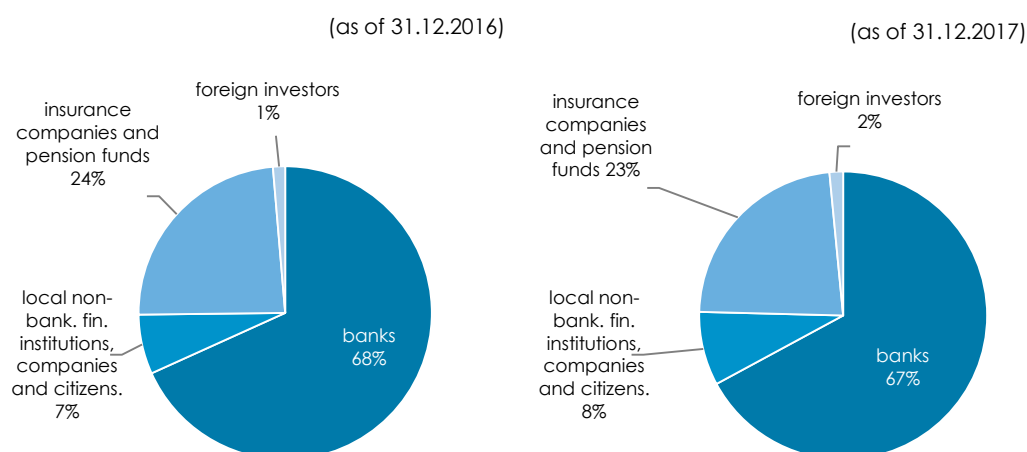
Notes: 1.Transactions in GS denominated in foreign currency are given in BGN equivalent according to BNB exchange rate of the respective currency quoted on the day of transaction; 2.The volume of repo transaction do not include reverse repo transactions.

<sup>6</sup> The settlement ratio stands for the percentage ratio of the number of transactions for which the settlement has been made at the respective date to the total number of transactions for the respective period, for which the registration and settlement were due to be made in the system.

During the year, in BNBGSSS as a support system of TARGET2-BNB, were registered transactions in long-term EUR-denominated and payable GS with a total volume of EUR 606.8 million (or BGN 1 186.8 million), where the payments were made not only through accounts of banks in the national system component TARGET2-BNB, but also through accounts of banks in other system components of central banks in TARGET2.

As a result of the reduced volume of GS in circulation compared to 2016, there was a decrease in the investment in government debt instruments issued for financing the budget deficit for almost all categories of holders. Banks continued to hold the biggest share of them (67%), followed by insurance companies and pension funds (23%), local non-banking financial institutions, companies and individuals (8%) and foreign investors (2%).

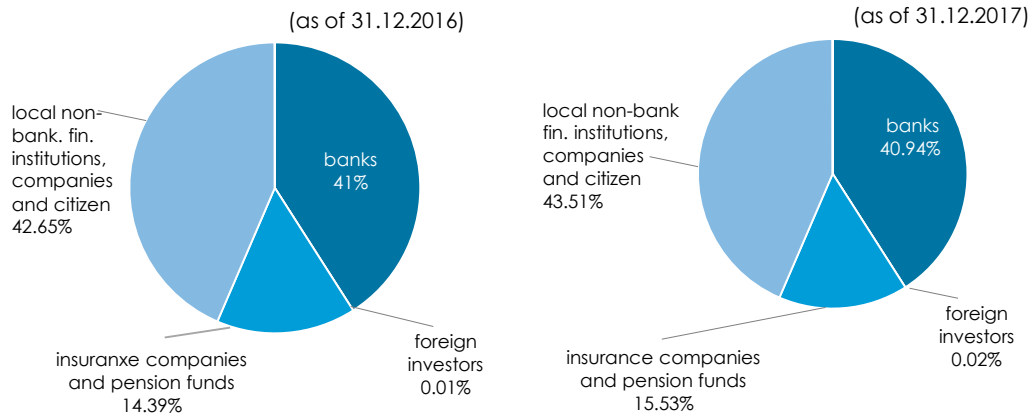
#### HOLDERS OF GS ISSUED TO FINANCE BUDGET DEFICIT



The exposures of GS issued in support of the structural reform for separate categories of investors decreased as compared to the preceding year as a result of the partial repayments of these exposures and the allocation by types of holders at the end of the year was, as follows: 40.94% in banks, 15.53% in insurance companies and pension funds, 43.51% in portfolios of local non-banking financial institutions, companies and individuals, and 0.02% in foreign investors.

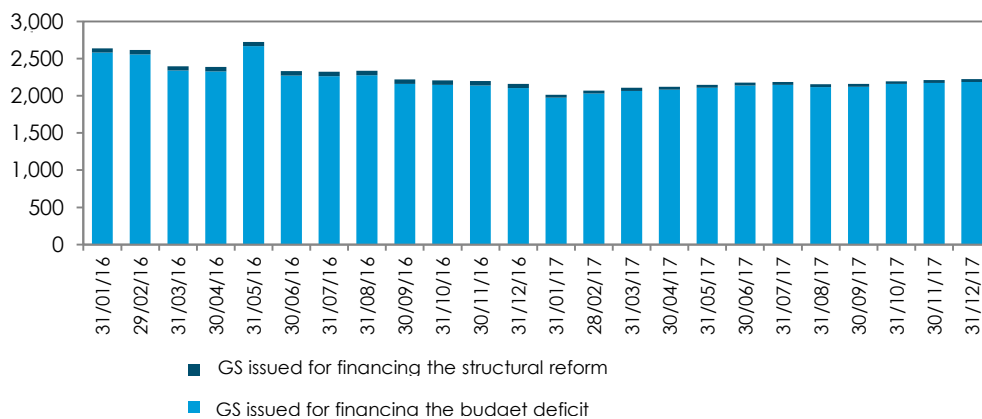


### HOLDERS OF GS DENOMINATED IN FOREIGN CURRENCIES ISSUED IN SUPPORT OF THE STRUCTURAL REFORM



Notes: 1. GS blocked by holders are included. 2. The BGN equivalent was calculated on the basis of BNB exchange rate valid as of 31.12.2016 and 2017; 3. According to data from BNB and participants in ESROT.

### INVESTMENT BY NON-BANKING FINANCIAL INSTITUTIONS, COMPANIES AND INDIVIDUALS IN GS ISSUED FOR FINANCING THE BUDGET DEFICIT AND IN SUPPORT OF THE STRUCTURAL REFORM



Note: 1. The BGN Equivalent of GS denominated in foreign currency is calculated on the BNB exchange rate valid for the last day of the respective period.

## HOLDERS OF BULGARIAN BONDS ISSUED ON ICM

As of 31 December 2017, six EUR-denominated issues were in circulation in the international capital markets- XS1083844503 with maturity on 3 September 2024 and a coupon of 2.950%, XS1208855616 with maturity on 26 March 2022 and a coupon of 2.000%, XS1208855889 with maturity on 26 March 2027 and a coupon of 2,625%, XS1208856341 with a maturity on 26 March, 2035 and a coupon of 3.125%, XS1382693452 with a maturity on 21 March, 2023 and a coupon of 1.875% and XS1382696398 with a maturity on 21 March, 2028, and a coupon of 3%.

The issue maturing in 2024 is held predominantly by residents. A significant increase was registered in the stake held by residents from EUR 648.72 million at the end of 2016 to EUR 814.73 million at the end of 2017. The Banks sector holds bonds for EUR 561.45 million and the other sectors – for a total of EUR 253.28 million.

The largest share of securities held by residents goes to the bonds with maturity in 2022. As of 31 December 2017, they held securities with a nominal value of EUR 861.75 million, which accounts for 70% of the total volume of the issue, against 30% for non-residents. The total nominal value of bonds held by the Banks sector amounted to EUR 723.71 million and those held by other sectors amounted to EUR 138.04 million.

For the 2027 bond, securities held by residents at the end of 2017 amounted to EUR 652.28 million or 65% of the total volume of the issue. The Banks sector owned EUR 433.94 million and the other sectors - EUR 218.34 million.

### BULGARIAN EUROBONDS ISSUED ON THE INTERNATIONAL MARKETS, HELD BY RESIDENT-BANK INSTITUTIONS AND OTHER SECTORS

(EUR million)

Types of GS	2016	2017			
	Q4	Q1	Q2	Q3	Q4
4.25%, 2017, XS0802005289	513.50	570.90	574.90	-	-
Held by Banks sector	418.35	477.10	481.61	-	-
Held by the other sectors	95.15	93.80	93.29	-	-
2.95%, 2024, XS1083844503	648.72	701.29	718.77	710.45	814.73
Held by Banks sector	438.94	457.26	460.34	458.42	561.45
Held by the other sectors	209.78	244.03	258.44	252.03	253.28
2%, 2022, XS1208855616	801.10	846.42	852.99	854.44	861.75
Held by Banks sector	645.25	690.84	692.57	712.72	723.71

Types of GS	2016	2017			
	Q4	Q1	Q2	Q3	Q4
Held by the other sectors	155.85	155.58	160.41	141.73	138.04
2.625%, 2027, XS1208855889	613.29	647.85	659.90	647.18	652.28
Held by Banks sector	392.37	415.37	414.17	414.47	433.94
Held by the other sectors	220.92	232.48	245.73	232.72	218.34
3.125%, 2035, XS1208856341	254.35	259.10	242.91	244.97	242.09
Held by Banks sector	130.63	130.63	132.60	132.60	132.50
Held by the other sectors	123.72	128.47	110.32	112.37	109.59
1.875%, 2023, XS1382693452	592.24	613.38	631.36	639.29	728.79
Held by Banks sector	418.76	439.46	460.67	462.88	549.21
Held by the other sectors	173.48	173.92	170.69	176.42	179.58
3%, 2028, XS1382696398	343.95	340.21	341.45	342.13	392.70
Held by Banks sector	218.79	209.04	209.54	211.94	246.43
Held by the other sectors	125.17	131.17	131.91	130.20	146.27
<b>TOTAL (EUR million)</b>	<b>3 767.15</b>	<b>3 979.13</b>	<b>4 022.26</b>	<b>3 438.48</b>	<b>3 692.34</b>

Source: BNB

The percentage of external bonds held by residents at the end of 2017 was lowest for bonds with maturity in 2035 – 27%, against 73% for non-resident. Of the total volume of securities held by residents amounting to EUR 242.09 million, Banks sector held bonds of the issue amounting to EUR 132.50 million and the other sectors – amounting to 109.59 million.

The share of the bond with a maturity in 2023 held by residents is 64% (EUR 728.89 million) of its total amount. Banks sector holds securities amounting to EUR 549.21 million and other sectors - EUR 179.58 million.

The issue maturing in 2028 is held predominantly by non-residents, with a ratio to the total bond amount of 54%. Bank" sector holds bonds for EUR 246.43 million and other sectors – for a total of EUR 146.27 million.

The ratio among holders of the total external securitized debt by the end of 2017 is 55.6% - residents and 44.4% - non-residents.

## BULGARIAN EUROBONDS ISSUED ON INTERNATIONAL MARKETS, HELD BY RESIDENTS-PENSION FUNDS, PENSION INSURANCE, INSURANCE AND HEALTH INSURANCE COMPANIES

(BGN thousand)

Type of GS	2016	2017			
	Q4	Q1	Q2	Q3	Q4
4.25% 2017 XS0802005289	69 707	69 663	67 520	-	-
Pension funds under SIC	1 266	1 264	1 264	-	-
Insurance companies under IC	68 441	68 399	66 256	-	-
2.95% 2024XS1083844503	422 239	498 425	510 979	484 315	499 409
Pension funds under SIC	313 488	378 803	402 090	393 878	409 739
Insurance companies under IC	107 096	117 960	107 209	88 745	87 970
Other non-banking financial institutions (investment intermediaries and CIS)	1 655	1 662	1 680	1 692	1 700
2%, 2022, XS1208855616	288 785	269 176	272 133	233 092	208 958
Pension funds under SIC	270 533	260 470	263 307	214 114	190 293
Insurance companies under IC	18 251	8 706	8 826	18 978	18 665
2.625%, 2027, XS1208855889	435 530	454 386	462 479	451 196	435 644
Pension funds under SIC	363 011	368 699	371 646	356 242	340 949
Insurance companies under IC	72 518	85 687	90 833	94 954	94 695
3.125%, 2035, XS1208856341	188 381	192 301	147 551	155 189	169 460
Pension funds under SIC	95 469	87 436	39 205	41 107	45 342
Insurance companies under IC	92 912	104 865	108 346	114 082	124 118
1.875%, 2023, XS1382693452	328 853	313 360	317 204	343 256	352 368
Pension funds under SIC	285 883	284 443	287 779	304 777	303 779
Insurance companies under IC	42 970	28 917	29 425	38 479	48 589
3%, 2028, XS1382696398	256 374	267 757	267 180	265 198	301 886
Pension funds under SIC	212 257	211 294	217 551	218 696	251 229
Insurance companies under IC	44 117	56 463	49 629	46 502	50 657
<b>Total (BGN thousand)</b>	<b>1 989 867</b>	<b>2 065 068</b>	<b>2 045 046</b>	<b>1 932 246</b>	<b>1 967 725</b>

Source: FSC

At the end of 2017 the Bulgarian Eurobonds held by local pension funds, pension insurance companies, insurance and health insurance companies amounted to BGN 1,967.73 million, with a prevalence of the pension funds with 78% of this volume against 22% of those held by insurance companies.

# CENTRAL GOVERNMENT GUARANTEED DEBT

In nominal value, the size of the CG guaranteed debt at the end of 2017 amounted to BGN 259.7 million, of which BGN 68.6 million domestic and BGN 191.1 million external CG guaranteed debt. The reported decrease is due mainly to repayments made on the CG guaranteed debt during the year.

The CG guaranteed debt to-GDP ratio is 0.3%.

## CG GUARANTEED DEBT

(BGN million)

	2016	2017
<b>CG guaranteed debt</b>	<b>355.7</b>	<b>259.7</b>
<b>I. Domestic CG guaranteed debt</b>	<b>65.5</b>	<b>68.6</b>
1. Guarantees under the Student and Doctoral Candidate Loans Act	65.5	68.6
<b>II. External CG guaranteed debt</b>	<b>290.2</b>	<b>191.1</b>
1. IBRD /World Bank/	18.6	13.0
2. EIB	2.7	3.1
3. Other	268.8	175.0
<b>CG guaranteed debt /GDP(%)</b>	<b>0.4 %</b>	<b>0.3 %</b>

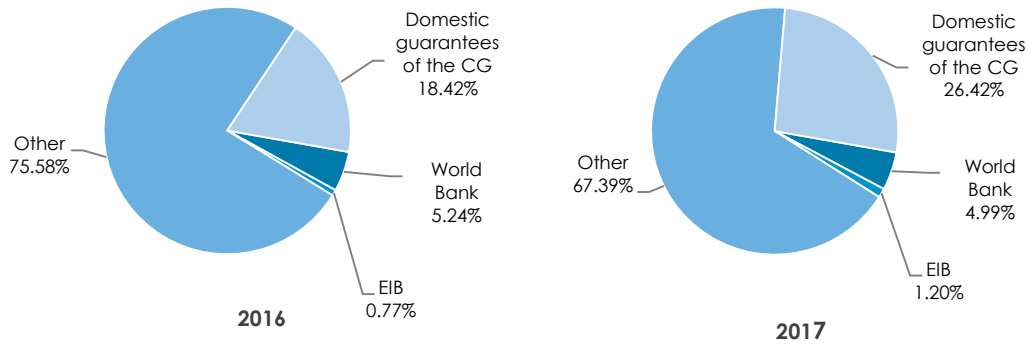
Notes: 1. The debt amount is as per nominal value; 2. The recalculation of debt in BGN is as per BNB central exchange rate for the relevant currencies as at the end of the period. ; 3. The central government guaranteed debt data for 2016 have been revised due to a change in the scope of the subsector as a result of recommendations from Eurostat.

Source: MoF

In the structure of the CG guaranteed debt by creditors, the stake of "other" (Euratom and JBIC) retained its dominant share, decreasing by 8.2 percentage points compared to the level recorded in 2016, or 67.4 %. The share of CG guaranteed debt to the World Bank and the EIB is respectively up to 5.0% and 1.2%.

The share of the CG internal guarantees issued on the basis of the Guarantees under the Student and Doctoral Candidate Loans Act under the Student Loans Program increased by 8 percentage points to 26.4% of the CG guaranteed debt total amount.

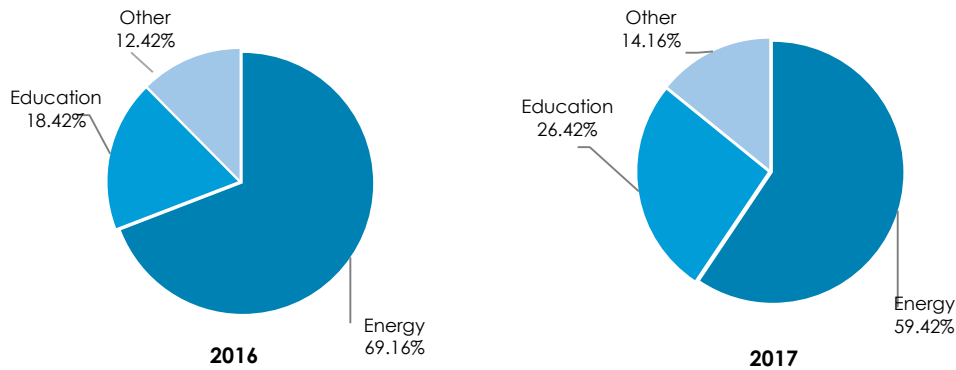
### STRUCTURE OF THE CG GUARANTEED DEBT BY CREDITORS



Source: MoF

Within the structure of CG guaranteed debt by sectors as of 31 December 2017 the largest relative share belonged again to the energy sector – 59.4%, decreasing compared to the level of the previous year, at the expense of the increase of the sectors " education "- 26.4 and " other "- 14.2%.

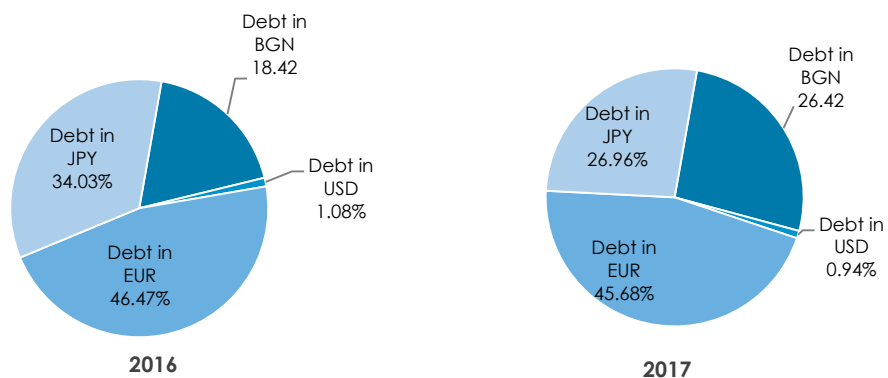
### STRUCTURE OF THE CG DEBT BY SECTORS



Source: MoF

The dominant position in the currency structure of the government guaranteed debt at the end of 2017 was held by debt denominated in EUR – 45.7%, followed by debt denominated in JPY – 27.3%. Debt denominated in BGN and USD reached 26.4% and 0.9% respectively.

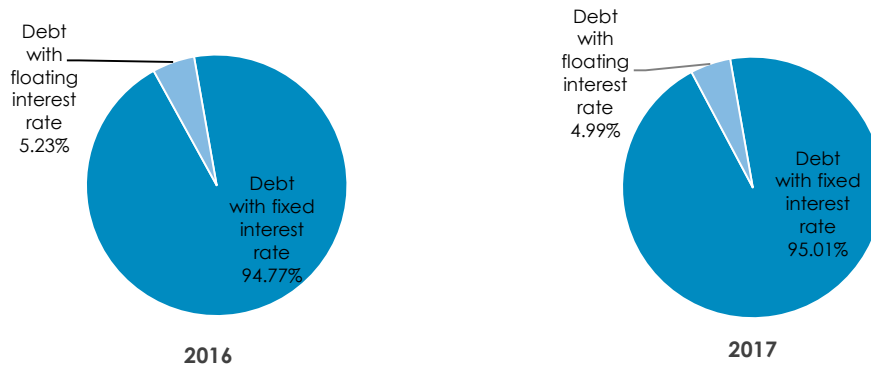
### CURRENCY STRUCTURE OF CG GUARANTEED DEBT



Source: MoF

Interest rate structure of CG guaranteed debt at the end of 2017 remained relatively unchanged with a prevailing share of the debt with fixed interest rates of about 95.0% and a debt with floating interest rates of about 5.0%.

### INTEREST RATE STRUCTURE OF CG GUARANTEED DEBT



Source: MoF

The new financing under CG guaranteed debt in 2017 amounted to BGN 14.5 million and payments made during the period under review amounted to BGN 109.6 million, of which BGN 102.7 million for repayment of principal and BGN 6.9 million for interest payments.

No new guarantees in the CG sector were issued under external loan agreements during the period under review.

### NEW FINANCING AND PAYMENTS MADE UNDER THE CG GUARANTEED DEBT IN 2017

(BGN million)

Structure	Received loans (tranches)	Payments made, incl.	
		Repayments (principal)	interest
<b>I. Domestic CG guaranteed debt</b>	<b>14.1</b>	<b>11.0</b>	<b>1.8</b>
1. Guarantees under Student and Doctoral Candidate Loans Act	14.1	11.0	1.8
<b>II. External CG guaranteed debt</b>	<b>0.4</b>	<b>91.7</b>	<b>5.1</b>
1. IBRD /World Bank/	-	5.3	0.1
2. EIB	0.4	-	-
3. Other	-	86.4	5.0
<b>CG GUARANTEED DEBT</b>	<b>14.5</b>	<b>102.7</b>	<b>6.9</b>

Notes: 1. The BGN equivalent of received new external financing and of incurred payments is calculated according to BNB central exchange rate for the respective currencies to BGN, valid till 4 p.m. on the day of the respective payment

Source: MoF

# GOVERNMENT AND GOVERNMENT GUARANTEED DEBT

## Government Debt

((BGN million))

Structure	2010	2011	2012	2013	2014	2015	2016	2017
<b>Domestic government debt</b>	<b>3 934.2</b>	<b>4 808.0</b>	<b>4 981.0</b>	<b>6 289.6</b>	<b>8 251.8</b>	<b>7 283.3</b>	<b>6 724.6</b>	<b>6 711.6</b>
Government securities issued for financing the budget	3 652.4	4 220.5	4 763.4	6 108.2	8 091.9	7 148.7	6 622.0	6 647.7
Government securities issued for the structural reform	281.7	252.5	217.6	181.5	159.8	134.6	102.6	63.9
<b>External government debt</b>	<b>6 598.0</b>	<b>6 821.2</b>	<b>8 692.6</b>	<b>7 828.9</b>	<b>13 850.6</b>	<b>15 430.8</b>	<b>19 026.5</b>	<b>16 822.5</b>
Bonds	3 200.7	3 242.9	5 070.5	3 399.6	6 525.4	10 939.0	14 838.9	12 980.8
Paris club	197.0	172.4	147.8	123.1	98.5	73.9	49.3	24.5
IBRD /World Bank/	1 483.9	1 397.8	1 290.0	1 208.7	1 091.1	1 001.0	846.7	688.3
European Union	102.5	263.6	361.4	743.5	874.6	1 167.9	1 167.9	1 165.2
Others	0.0	0.0	0.0	567.2*	3 500.9**	567.2*	567.2*	567.2*
Government investment loans	1 595.3	1 734.8	1 822.9	1 786.7	1 760.1	1 681.8	1 556.6	1 396.4
Called government guarantees	18.6	9.7	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total government debt</b>	<b>10 532.1</b>	<b>11 629.1</b>	<b>13 673.6</b>	<b>14 118.5</b>	<b>22 102.3</b>	<b>22 714.1</b>	<b>25 751.1</b>	<b>23 534.1</b>
GDP (BGN million)	74 771	80 759	82 040	82 166	83 634	88 571	94 130	101 043
GDP (EUR million)	38 230	41 291	41 946	42 011	42 761	45 286	48 128	51 662
<b>Total government debt/GDP</b>	<b>14.1%</b>	<b>14.4%</b>	<b>16.7%</b>	<b>17.2%</b>	<b>26.4%</b>	<b>25.6%</b>	<b>27.4%</b>	<b>23.3%</b>

\* "Schuldschein" assignable loans

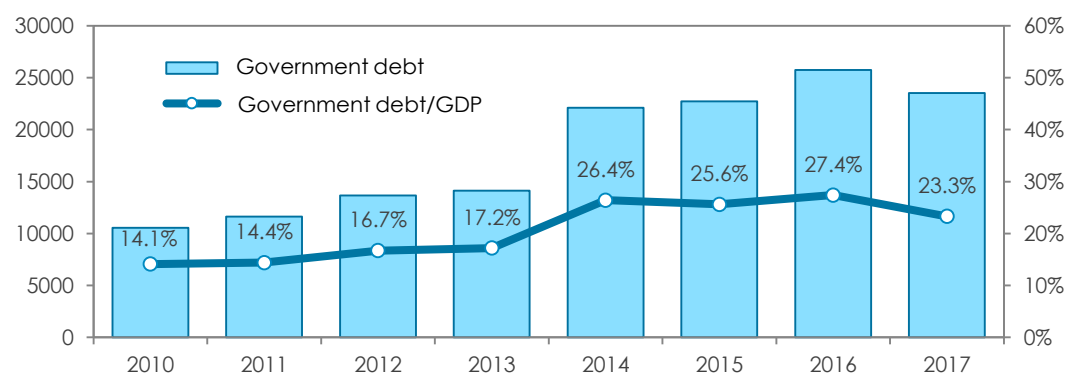
\*\* "Schuldschein" assignable loans and bridge loan "Bridge-to-bond loan"

Notes: 1. The amount of the debt is in nominal value; 2. The conversion of the debt in EUR as per the BNB central exchange rates for the respective foreign currencies at the end of respective periods; 3. GDP data are proved by the National Statistical Institute.

Source: MoF, NSI

## Government Debt Dynamics

(BGN million)



Source: MoF



## Government Guaranteed Debt

(BGN million)

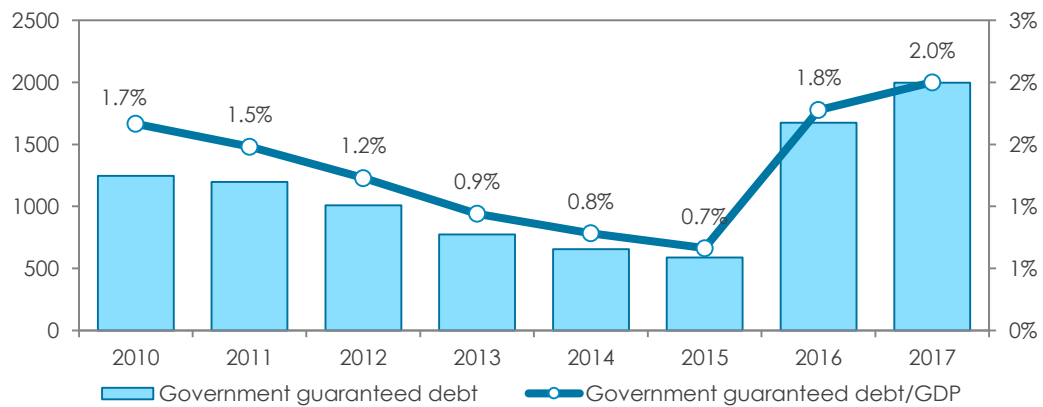
	2010	2011	2012	2013	2014	2015	2016	2017
<b>Government guaranteed debt</b>	<b>1246.1</b>	<b>1196.6</b>	<b>1008.3</b>	<b>773.1</b>	<b>654.7</b>	<b>587.0</b>	<b>1673.4</b>	<b>1 996.8</b>
I. Domestic government guaranteed debt	2.8	11.9	23.6	35.4	47.7	58.5	65.5	68.6
1. Guarantees under the Student and Doctoral Candidate Loans Act	2.8	11.9	23.6	35.4	47.7	58.5	65.5	68.6
II. External government guaranteed debt	1243.3	1184.8	984.7	737.7	607.1	528.4	1607.8	1 928.2
1. IBRD /World Bank/	101.7	87.0	70.1	52.1	35.6	23.8	507.6	560.6
2. EIB	5.7	3.9	2.5	1.6	1.6	2.0	2.7	3.1
3. EBRD	46.5	36.8	27.0	17.3	7.5	1.8	586.7	586.7
4. Other	1089.4	1057.0	885.1	666.7	562.4	500.9	510.8	777.7
<b>Government guaranteed debt/GDP (%)</b>	<b>1.7%</b>	<b>1.5%</b>	<b>1.2%</b>	<b>0.9%</b>	<b>0.8%</b>	<b>0.7%</b>	<b>1.8%</b>	<b>2.0%</b>

Notes: 1. The debt amount is as per nominal value; 2. The recalculation of debt in BGN is as per BNB central exchange rate for the relevant currencies as at the end of the period

Source: MoF

## Government Guaranteed Debt Dynamics

(BGN million)



Source: MoF

# DEVELOPMENT OF GOVERNMENT SECURITIES (GS) MARKET

In 2017, the development of the secondary market for government securities issued on the domestic market was characterized by a dynamics related to the increased requirements introduced by the newly adopted European legislative packages. In this regard, specific measures have been taken to amend the legal framework regulating GS market and to modernize market infrastructure.

In this regard, amendments were made to Ordinance No. 5 of 2007 on the Terms and Conditions for Acquisition, Registration, Payment and Trading in Government Securities and to Ordinance No. 15 of 2007 on the Control of Transactions in Government Securities, promulgated in the State Gazette, issue no. 29 of 2017

On the basis of the amendments made to the ordinances Rules for Trading, Closing and Monitoring Transactions with Government Bonds on the Bloomberg E-Bond System and Rules for Admission of GS on a Regulated Market organized by the Bulgarian Stock Exchange - Sofia AD and Completion of Transactions with Them in the BNB, Banks -Subdepositories of GS and Central Depository AD were approved by the Minister of Finance and the Governor of the BNB, within their competence.

In 2017, trading in GS started simultaneously on the secondary market on the Bloomberg E-Bond multilateral trading facility - electronic functionality for trading securities to the Bloomberg Professional platform and on a regulated market - the Bulgarian Stock Exchange in order to comply with the new regulations in the field of financial services in relation to sovereign bonds.

