



REPUBLIC OF BULGARIA
Ministry of Finance

CENTRAL GOVERNMENT DEBT AND GUARANTEES

2019



CENTRAL GOVERNMENT DEBT AND GUARANTEES

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Government Debt Directorate

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ABBREVIATIONS AND ACRONYMS

GDP	Gross Domestic Product
BNB	Bulgarian National Bank
CEDB	Council of Europe Development Bank
BSE	Bulgarian Stock Exchange
b.p.	basis point
GS	Government securities
Evratom	European Atomic Energy Community
ESROT	Electronic system for registering and servicing the trade in GS
EU	European Union
FSC	Financial Supervision Commission
IBRD	International Bank for Reconstruction and Development
ICM	International capital markets
MoF	Ministry of Finance
NSI	National Statistical Institute
PD	Primary dealer
PP	Percentage points
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 2019, the Republic of Bulgaria continued to maintain macroeconomic and financial stability in highly uncertainty external economic environment, expressed in a slowdown in global economic growth due to geopolitical factors, including increased international trade conflicts and tensions surrounding the UK's exit from the EU. In this international context, the financial sector continued to develop in a favourable macroeconomic environment in the country, positive employment and income dynamics and rising demand for borrowing resources from economic agents, also determined by the persistence of low interest rates.

BANKING SYSTEM AND NON-BANKING FINANCIAL SECTOR

Gross international reserves of the Bulgarian National Bank (BNB) continued to ensure the sound functioning of the Currency Board. Their market value at the end of 2019 amounted to EUR 24.8 billion, or 0.9% less compared to the end of the previous year¹. The reserves of commercial banks in the BNB and the deposit of the government made a major contribution to the shrinking of the international reserves during the year. As of December 31, 2019, gross international reserves provided coverage for imports of goods and non-factor services for 8 months and their ratio to the country's short-term external debt was 287.1%.

In 2019, the banking system in Bulgaria continued to develop in a favourable macroeconomic environment in the country and to maintain high levels of capital adequacy and liquidity, as well as good profitability indicators. The total capital adequacy ratio was 20.16% at the end of 2019 and the liquidity coverage ratio was 269.9%².

The demand for private sector borrowing remained high, with more demand in some segments of the credit market despite increased external risks and expectations of a slowdown in global economic growth.

¹ In accordance with the principles of the functioning of the Monetary Council, the decrease in the international currency reserves corresponds to a decrease in the carrying amount of liabilities of the Issue Department.

² Calculated as ratio of the liquidity buffer and net liquidity outflows.

The growth of loans and advances has made a significant contribution to the growth of assets in the banking system. At the end of 2019, they amounted to BGN 114.2 billion, up 8.2% from a year earlier. The profit of the banking system as of December 31, 2019 was BGN 1,675 million, reporting a minimal decrease compared to the previous year (0.2%). This was also reflected in a slight decrease in profitability indicators at the banking system level. As of the end of December 2019, the rates of return on assets and return on equity were 1.47% and 11.63%, respectively, compared to 1.59% and 12.11% at the end of 2018, but remained among the highest in the EU.

Positive trends were also observed in the development of the non-banking financial sector. At the end of 2019, net assets amounting to more than BGN 15,627 million were accumulated in the supplementary pension insurance system. Compared to the end of 2018, the net assets of pension funds registered an increase of 16.94%³.

The funds managed by the insurance companies in Bulgaria reached nearly BGN 8.5 billion at the end of 2019, or 10.9% more compared to the end of 2018⁴.

The receivables of leasing companies under financial and operational leasing at the end of 2019 amounted to nearly BGN 4.3 billion, or 6.3% more than a year earlier⁵. The total amount of credit claims of companies specialized in lending increased in calendar 2019 by 19.4% and amounted to BGN 2.9 billion, and the assets managed by local and foreign investment funds at the end of the year were BGN 4.3 billion, marking an increase of 10.6% compared to the end of 2018⁶.

The total market capitalization of the Bulgarian Stock Exchange (BSE) at the end of 2019 reached BGN 27.9 billion. (23.5% of GDP), or 4.3% more than at the end of 2018. The main BSE index SOFIX declined by 4.4% in the calendar 2019 after it lost 12.3% of its value in 2018. The year ended with a decline of 3.5% for BGBX 40, while BG TR30 and BG REIT rose by 4.1% and 7.4%, respectively. The number of new emissions registered for trading on BSE in 2019 was a total of 32, or 22.0% less than in 2018. The number of transactions and the turnover on a regulated market of BSE in 2019 also decreased compared to the previous year.

In line with the reported favourable macroeconomic development of the Republic of Bulgaria, the prudent fiscal policy and the low levels of government debt, the investment credit

³ Financial Supervision Commission (FSC) figures show, <https://www.fsc.bg/bg/novini/predvaritelni-rezultati-ot-deynostta-po-dopalnitelno-pensionno-osiguryavane-za-2019-g--9748.html>

⁴ According to data from Insurance Statistics, BNB

⁵ According to BNB data

⁶ According to BNB data

rating of the country in 2019 was confirmed by the leading rating agencies: Standard & Poor's (S&P), Moody's и Fitch. First in the year, on 22 March 2019, the analysts from Fitch Agency confirmed the sovereign credit rating (BBB). In addition, Fitch raised the rating outlook from stable to positive on the grounds that key indicators influencing the final rating have a better performance for Bulgaria than the group of BBB rated countries. On 30 August 2019 Moody's also raised the outlook of the sovereign rating (Baa2) from stable to positive, by the end of the year the outlook remained positive for all three agencies.

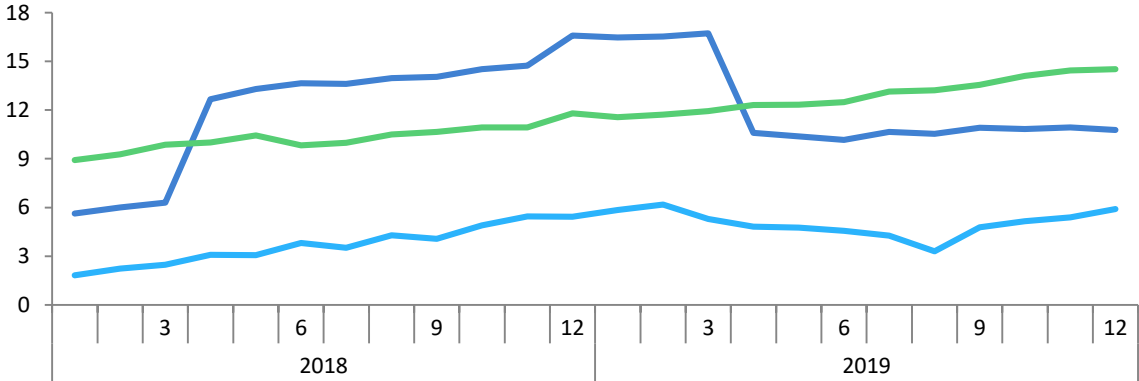
At the end of November 2019 Standard & Poor's raised Bulgaria's long-term and short-term foreign and local currency credit ratings to 'BBB/A-2' from 'BBB-/A-3'. The raise of the rating resulted from the sustainable development of the economy, without accumulating macro-economic imbalances. The country's fiscal and external position were assessed as strong and the progress on joining the Exchange Rate Mechanism II (ERM II) was assessed as stable. The positive outlook for the rating reflects the expectations of S&P Global Ratings analysts that the country will develop sustainably in a weaker external environment.

LENDING TO THE PRIVATE SECTOR

Private sector credit developed positively throughout the year, and at the end of December its annual growth accelerated to 9.3%. This contributed, on the one hand, to the continued upward dynamics in loans to non-financial corporations and households, driven by fundamental economic factors, and, on the other hand, to the higher positive contribution of loans granted to financial corporations at the end of the year. Loans to non-financial corporations also accelerated their growth at the end of 2019 – to 5.9%, with a sustained improvement in the quality of banks' portfolios in this segment, as evidenced by a significant decrease in bad and restructured loans, and at the same time an increase in regular loans.

The environment of low interest rates and unemployment, as well as income dynamics, continued to motivate demand for loans from households. Their annual increase at the end of December was 9.5%. Consumption loans increased by 10.8% on an annual basis and those for home purchases by 14.5%, as the decrease in bad and restructured loans in these segments was typical throughout the year. Other loans, which are part of the loans to households, continued to shrink during the year and contribute negatively.

Loans to the Private Sector (annual growth, %)



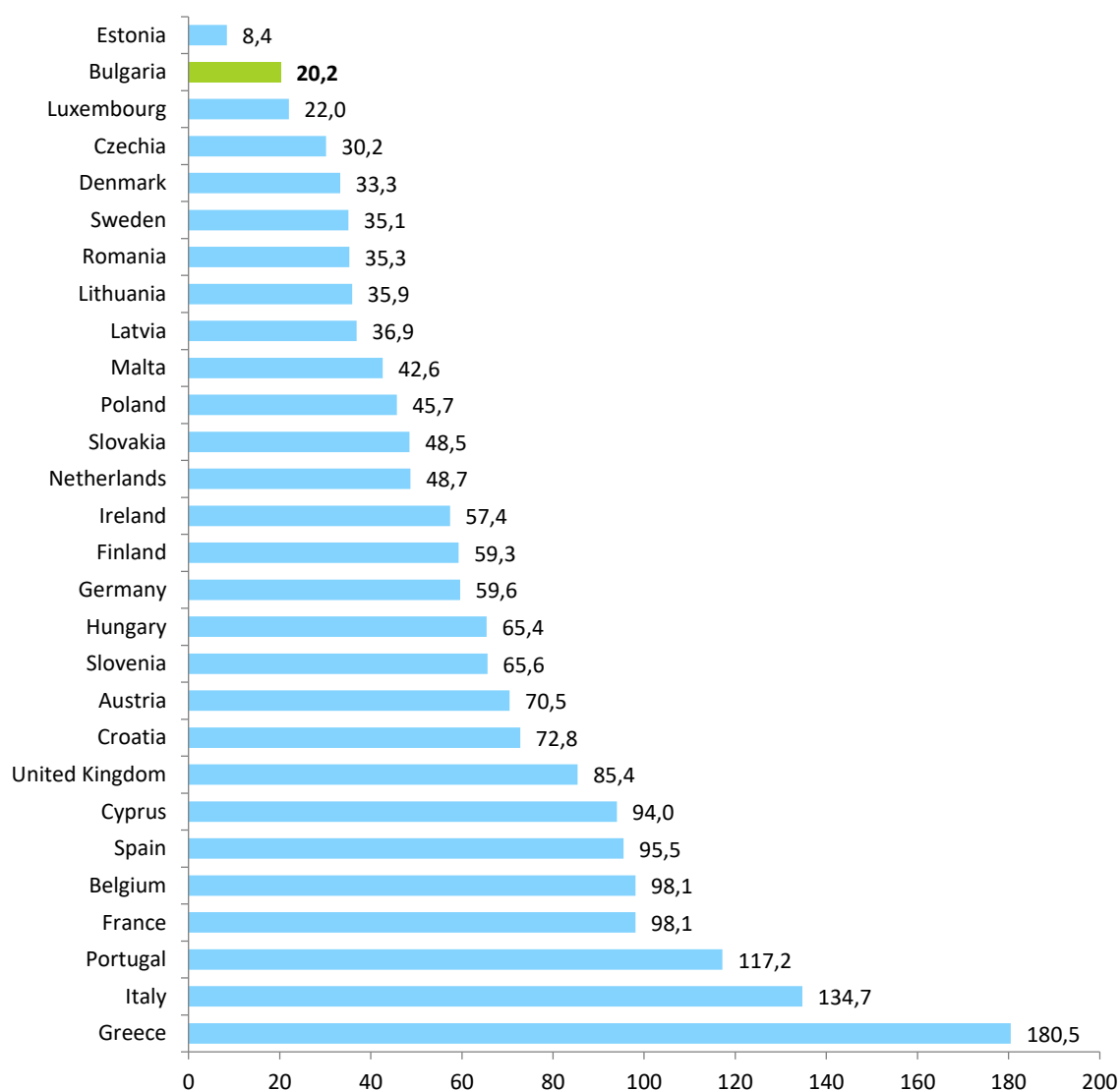
- Loans to non-financial enterprises
- Households' consumer loans
- Households' loans for house repurchases

Source: BNB, MoF

IMPLEMENTATION OF DEBT CONVERGENCE CRITERION OF THE REPUBLIC OF BULGARIA

In 2019, based on the latest annual data published by Eurostat in October 2020, with a value of General Government sector/GDP ratio of 20.2% the Republic of Bulgaria executes the Maastricht convergence criterion of 60%, maintaining a level well below the average for the EU countries-28 (79.7%) and EU-19 (86.2%).

General Government Debt/GDP of EU Member States at the end of 2019



Source: Eurostat

Compared to the 22.3% level recorded at the end of 2018, the indicator was decrease by 2.1 percentage points. Comparing the indicators of the 28 EU member states, the Republic of Bulgaria ranks second after Estonia (8.4%). According to information published by Eurostat for 2019 fourteen Member States exceed the 60% of GDP reference threshold, as the highest value in the EU has been recorded for Greece (180.5%), Italy (134.7%) and Portugal (117.2%).

In the euro area (EU-19), the General Government Debt-to-GDP ratio decreased from 85.8% at the end of 2018 to 84.0% at the end of 2019 and at the EU-28 level – from 79.5% to 77.6%, respectively.

In 2019 as well, in the composition of the debt liabilities of the General Government sector, a major share of about 98% and a component with the most significant impact on the debt of the sector, continues to be the Central Government sub-sector. The other two components, the Local Government sub-sector and the Social Insurance sub-sector, have an almost neutral impact on the total debt of the sector.



CREDIT RATING

Credit rating of Bulgarian bonds issued on ICM, in circulation as of 31.12.2019

Rating agency	Eurobonds issued on ICM with maturity:					
	2024	2022	2027	2035	2023	2028
Moody's	Baa2	Baa2	Baa2	Baa2	Baa2	Baa2
S&P	BBB-	BB+	BB+	BB+	BB+	BB+
Fitch	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 the credit rating agency Fitch have been renewed as from 11.02.2013.

Source: MoF

Dynamics of sovereign credit rating for the period 01.01.2009–31.12.2019

Rating 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
Moody's	30.08.2019		Baa2		Baa2	Positive
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
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

Rating agency	Date:	Foreign currency rating		Local currency rating		Outlook
		Short-term	Long-term	Short-term	Long-term	
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
S&P	01.06.2018	A-3	BBB -	A-3	BBB -	Positive
S&P	30.11.2018	A-3	BBB -	A-3	BBB -	Positive
S&P	31.05.2019	A-3	BBB -	A-3	BBB -	Positive
S&P	29.11.2019	A-2	BBB	A-2	BBB	Positive
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
Fitch	01.06.2018	F2	BBB		BBB	Stable
Fitch	16.11.2018	F2	BBB		BBB	Stable
Fitch	22.03.2019	F2	BBB		BBB	Positive
Fitch	23.08.2019	F2	BBB		BBB	Positive

**Note: The awarded credit rating has noxsolicited, 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

At the end of 2019 Central Government debt totalled BGN 23,562.6 million (EUR 12,047.4 million) in nominal terms, of which BGN 17,718.7 million (EUR 9,059.4 million) is external debt and BGN 5,843.9 million (EUR 2988.0 million) domestic debt. At the end of 2018, the debt decreased by BGN 329.9 million and its ratio to GDP – by 2.1 percentage points, reaching 19.7%.

Central Government Debt

(BGN million)

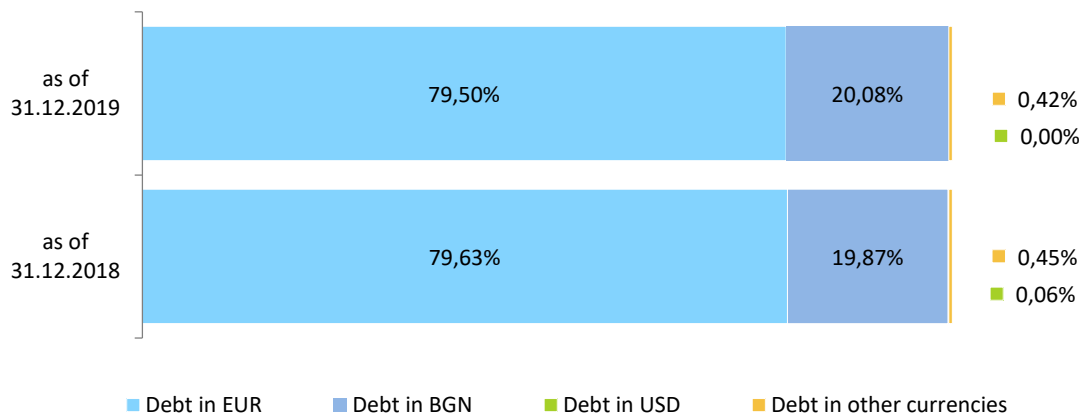
Structure	2016	2017	2018	2019
Domestic CG debt	7309.7	7 624.5	6 106.5	5 843.9
I. Securities	6 757.0	6 760.5	5 431.8	5 469.3
1. GS issued for financing the budget	6 582.9	6 626.4	5 411.5	5 469.3
2. GS issued for the structural reform	42.4	29.4	20.3	–
3. Securities issued by units within the CG sub-sector	131.7	104.7	–	–
II. Loans	552.7	864.0	674.6	374.6
1. Government loans	395.2	722.9	466.6	143.2
2. Domestic loans of units within the CG sub-sector	157.5	141.1	208.0	231.4
External CG debt	20 166.6	17 990.4	17 786.0	17 718.7
I. Bonds	14 807.1	12 980.8	12 980.8	12 980.8
II. Loans	5 359.5	5 009.6	4 805.2	4 737.8
1. Government loans	2 063.9	1 878.1	1 806.6	1 880.2
1.1 Paris club	49.3	24.6	–	–
1.2 IBRD /World Bank/	846.7	688.3	553.5	458.3
1.3 European Union	1 167.9	1 165.2	1 155.3	1 236.1
1.4. CEDB	-	-	97.8	185.8
2. Schuldschein transferable loans	567.2	567.2	567.2	567.2
3. Government investment loans	1 556.6	1 396.4	1 257.0	1 115.3
4. External loans of units within the CG sub-sector	1 171.9	1 167.9	1 174.4	1 175.2

Structure	2016	2017	2018	2019
Central Government debt, total	27 476.3	25 614.9	23 892.5	23 562.6
<i>GDP (BGN million)</i>	<i>95 130.6</i>	<i>102 345.1</i>	<i>109 743.4</i>	<i>119 772.3</i>
Total Central Government debt/GDP (%)	28.9	25.0	21.8	19.7

Notes: 1. Debt at nominal value; 2. The conversion of the debt in BGN as per the BNB central exchange rates for the respective foreign currencies at the end of the respective periods; 3. GDP data is available from the National Statistical Institute; 4. Due to rounding, some aggregate entries in the table are not limited to their constituent numbers.

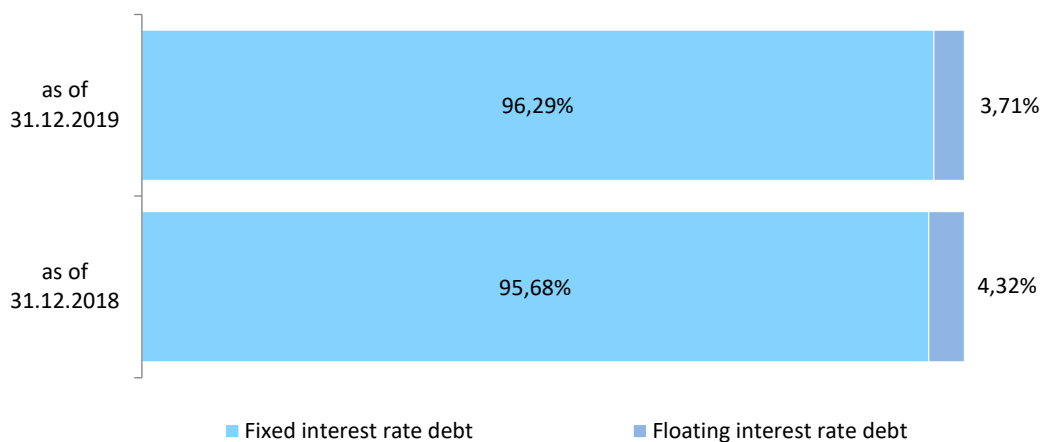
Source: MoF

Central Government Debt Currency Structure



Source: MoF

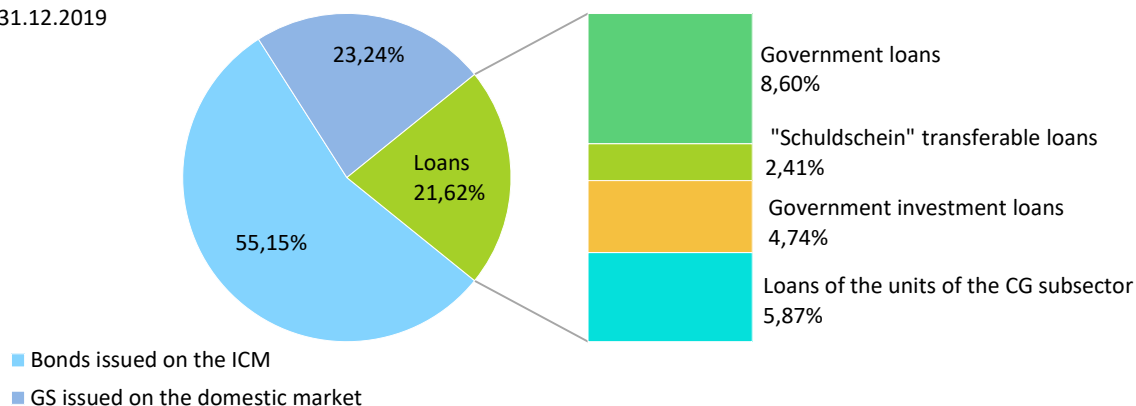
Central Government Debt Interest Rate Structure



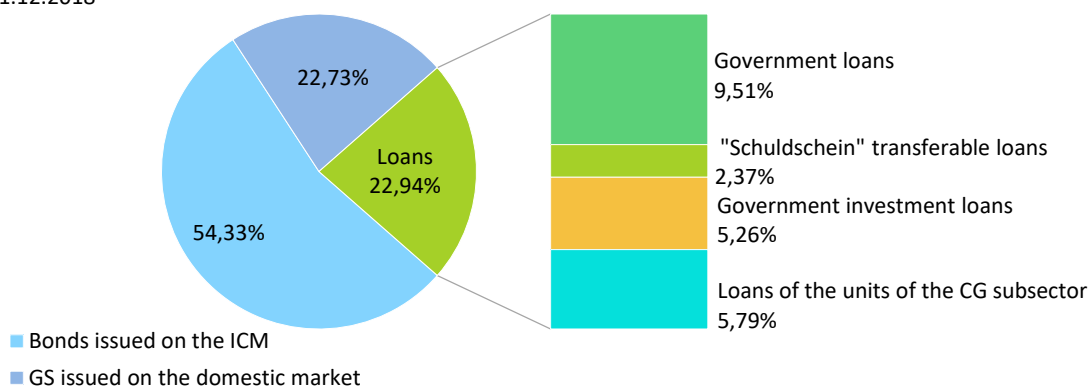
Source: MoF

Central Government Debt Structure by Instrument

as of
31.12.2019

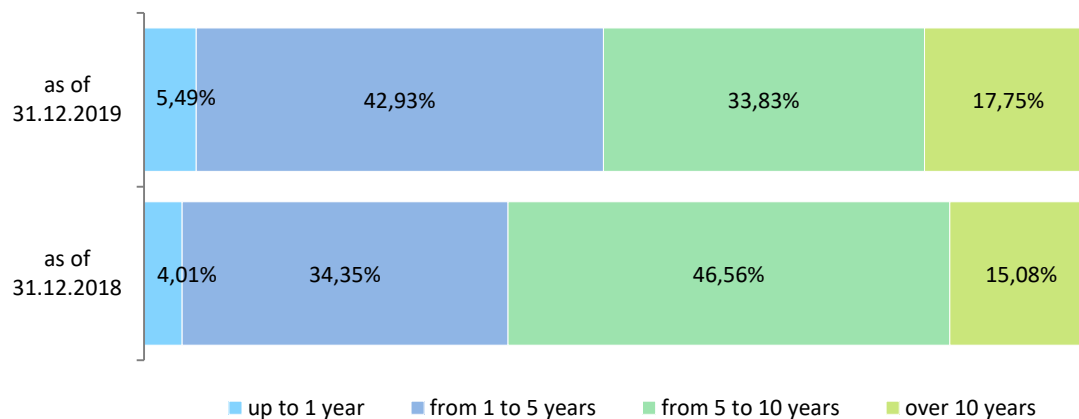


as of
31.12.2018



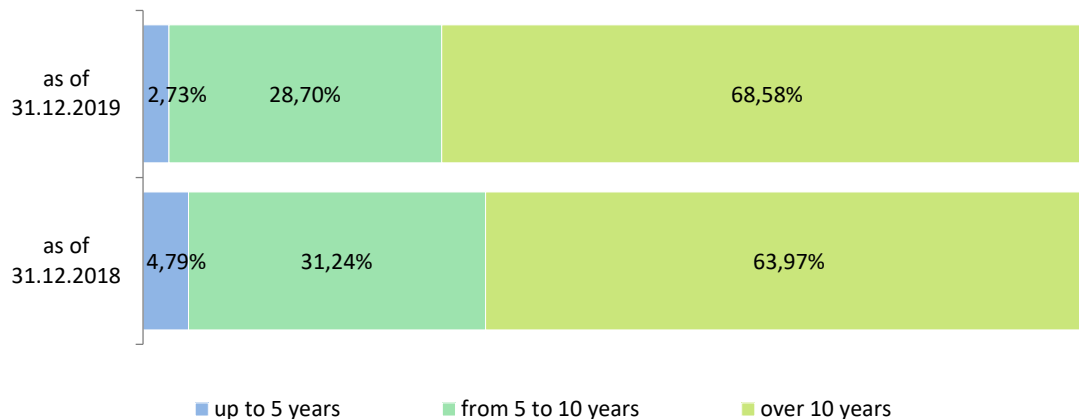
Source: MoF

Residual Maturity of Outstanding Central Government Debt



Source: MoF

Original Maturity of Outstanding Central Government Debt



Source: MoF

CENTRAL GOVERNMENT DOMESTIC DEBT

At the end of 2019, Central Government domestic debt totalled in nominal terms BGN 5,843.9 million (EUR 2,988.0 million), which is 4.9% of GDP, as it is decreasing compared to the previous year by BGN 262.6 million (EUR 134.2 million).

Central Government Domestic Debt

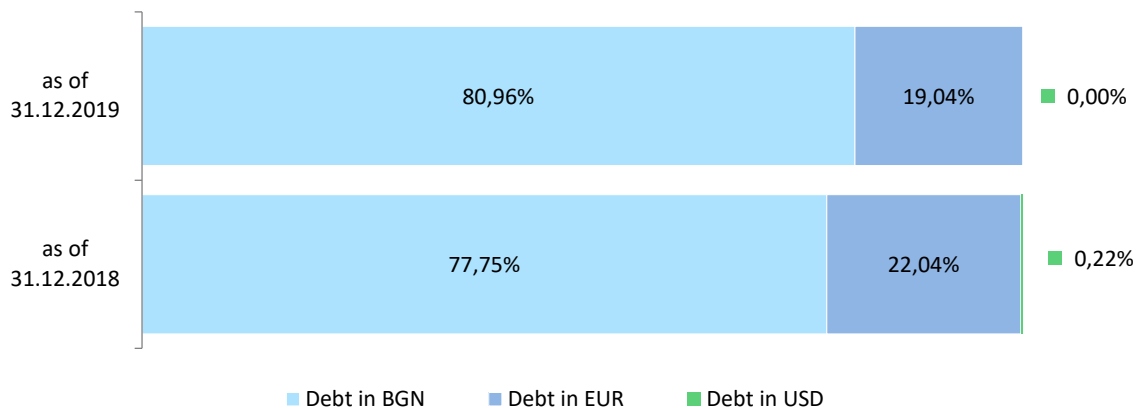
(BGN million)

Structure	2018	2019
Domestic debt of the CG sub-sector	6 106.5	5 843.9
I. Securities	5 431.8	5 469.3
1. Government securities issued for financing the budget	5 411.5	5 469.3
2. Government securities issued for structural reform	20.3	-
II. Loans	674.6	374.6
1. Government loans	466.6	143.2
2. Domestic loans of units within the CG sub-sector	208.0	231.4
<i>GDP (BGN million)</i>	<i>109 743.4</i>	<i>119 772.3</i>
CG domestic debt/GDP (%)	5.6	4.9

Notes: 1. Debt is at nominal value; 2. Debt is recalculated based on end-of-period BNB central exchange rates of the relevant foreign currencies; 3. GDP data are available from the National Statistical Institute; 4. Due to rounding, in the table some aggregate entries are not limited to their constituent numbers.

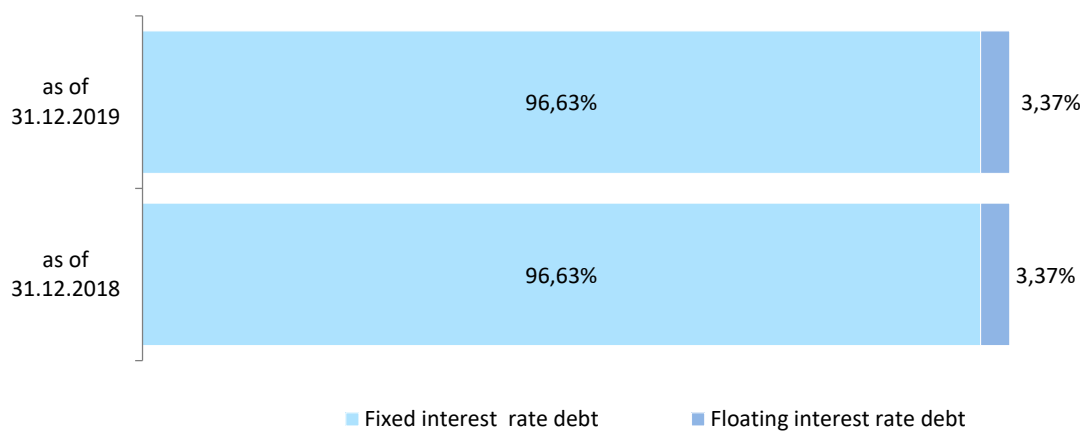
Source: MoF

Central Government Domestic Debt Currency Structure



Source: MoF

Central Government Domestic Debt Interest Rate Structure



Source: MoF

CENTRAL GOVERNMENT EXTERNAL DEBT

By the end of 2019, CG external debt in nominal value decreased to BGN 17,718.7 million (EUR 9,059.4 million) and the CG external debt/GDP ratio – to 14.8%.

Central Government External debt

(BGN million)

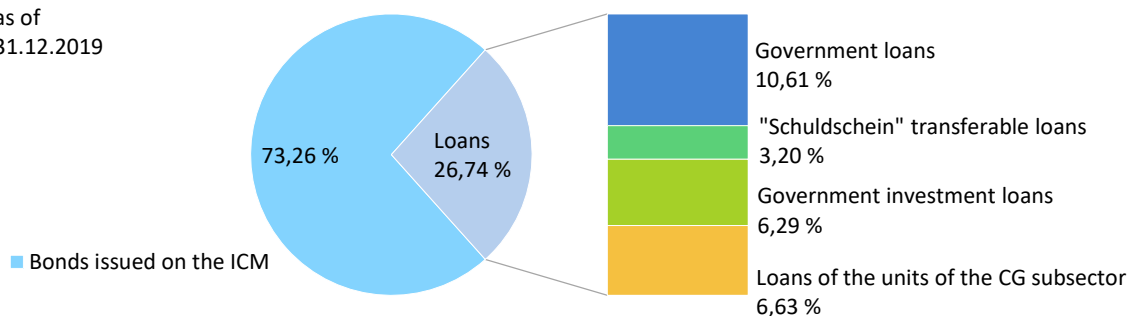
Structure	2018	2019
External CG debt	17 786.0	17 718.7
I. Bonds	12 980.8	12 980.8
II. Loans	4 805.2	4 737.8
1. Government loans	1 806.6	1 880.2
1.1 IBRD /World Bank/	553.5	458.3
1.2 European Union	1 155.3	1 236.1
1.3 CEDB	97.8	185.8
2. Schuldschein transferable loans	567.2	567.2
3. Government investment loans	1 257.0	1 115.3
4. External loans of units within the CG sub-sector	1 174.4	1 175.2
<i>GDP (BGN million)</i>	<i>109 743.4</i>	<i>119 772.3</i>
Total CG external debt /GDP, (%)	16.2	14.8

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; 4. Due to rounding, some aggregate entries in the table are not limited to their constituent numbers.

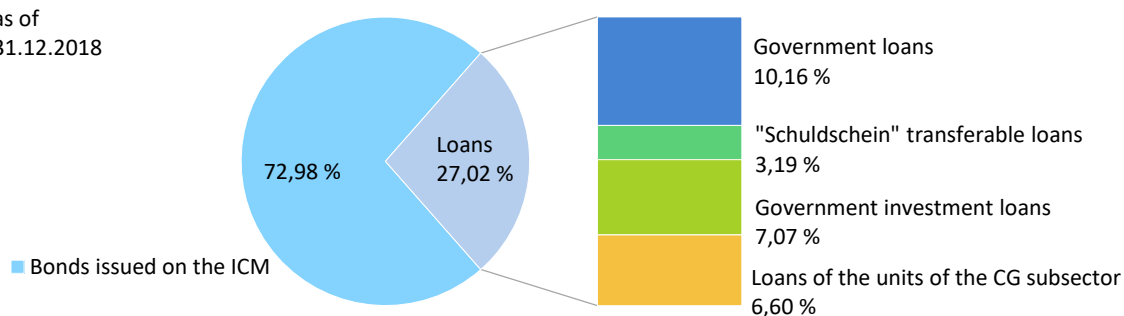
Source: MoF

Structure of Central Government External Debt by Instrument

as of
31.12.2019

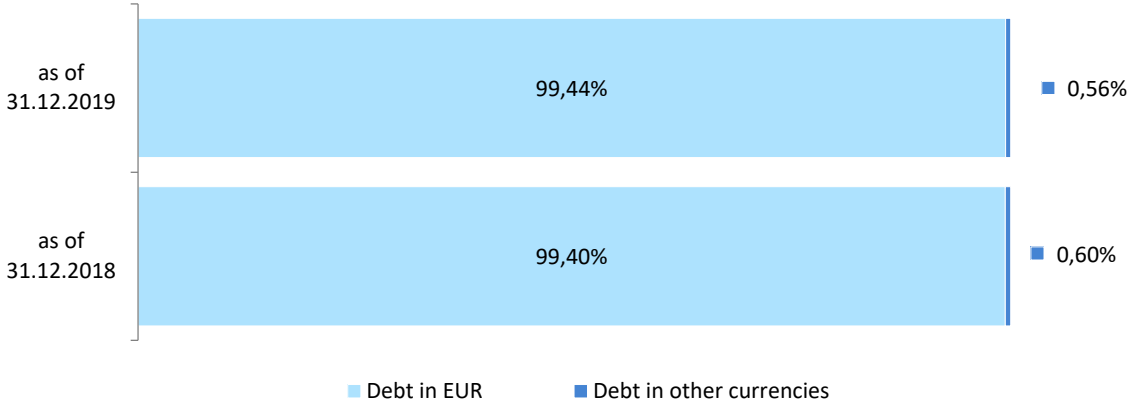


as of
31.12.2018



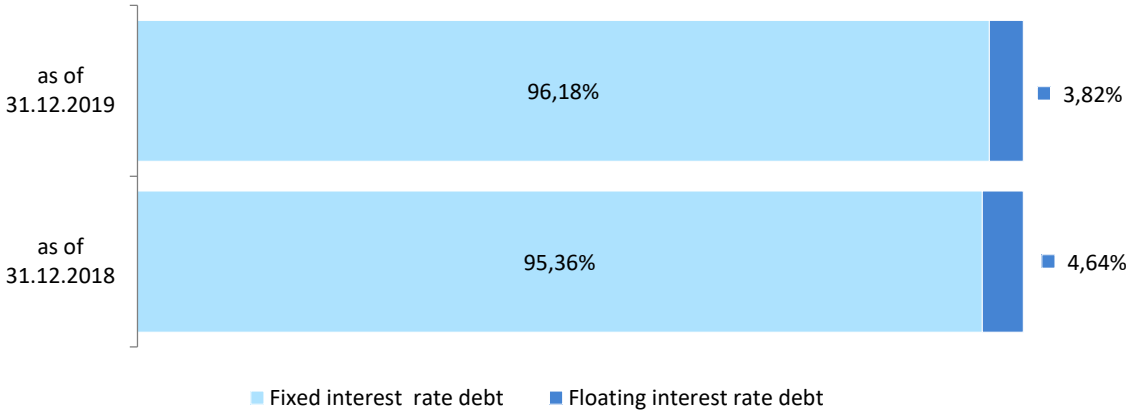
Source: MoF

Central Government External Debt Currency Structure



Source: MoF

Central Government External Debt Interest Rate Structure



Source: MoF

DEBT SOURCES OF FINANCING

ISSUES OF GOVERNMENT SECURITIES ON THE DOMESTIC MARKET

In 2019, the placement of government securities on the domestic market was in line with the envisaged restrictions laid down in the State Budget Act of the Republic of Bulgaria for 2019 and the Issuance policy of the Ministry of Finance.

A total of 6 auctions was held during the year on the domestic market, where issues put into circulation in 2019 were placed, with a maturity of 20 years and 10 years and 6 months respectively. The total nominal value of the government securities issued during the reporting period shall be allocated as follows: Government securities with a maturity of 20 years – BGN 569.78 million and with a maturity of 10 years and 6 months – BGN 400 million.

Auctions of government securities held in 2019

Date of the auction	19.6.2019	19.6.2019	22.7.2019	29.7.2019	26.8.2019	7.10.2019
Payment Date	21.6.2019	21.6.2019	24.7.2019	31.7.2019	28.8.2019	9.10.2019
Issue №	BG2040019213	BG2040119211	BG2040019213	BG2040119211	BG2040019213	BG2040019213
Date of the issue	21.6.2019	21.6.2019	21.6.2019	21.6.2019	21.6.2019	21.6.2019
Due Date	21.6.2039	21.12.2029	21.6.2039	21.12.2029	21.6.2039	21.6.2039
Urgency	20 r.	10.5 r.	20 r.	10.5 r.	20 r.	20 r.
Coupon	1.50%	0.50%	1.50%	0.50%	1.50%	1.50%
Currency	BGN	BGN	BGN	BGN	BGN	BGN
Average annual yield*	1.60%	0.41%	1.52%	0.32%	1.42%	1.38%
Average price	98.46	100.94	99.77	101.84	101.38	102.21
Coverage ratio	1.24	2.36	1.41	1.53	1.21	1.39
Quantity offered	200 000 000	200 000 000	200 000 000	200 000 000	200 000 000	95 000 000
Approved quantity (Nominal value)	100 600 000	200 000 000	200 000 000	200 000 000	200 000 000	69 180 000

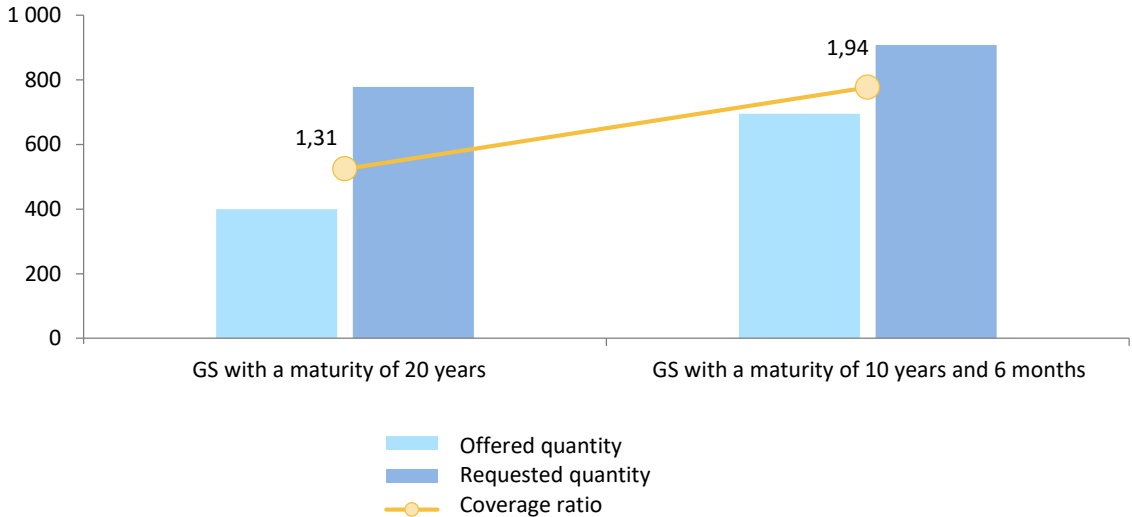
* Average annual yield calculated on the basis of ISMA-International Yield (%)

Source: MoF

In 2019, the MoF offered on the domestic market government securities with a total nominal value of BGN 1,095 million, and the market participants' demand reached BGN 1,685.2 million, or an average coverage ratio of 1.54 was achieved. The average coverage ratios for the period by type of securities are as follows:

- with a maturity of 20 years – 1.31;
- with a maturity of 10 years and 6 months – 1.94.

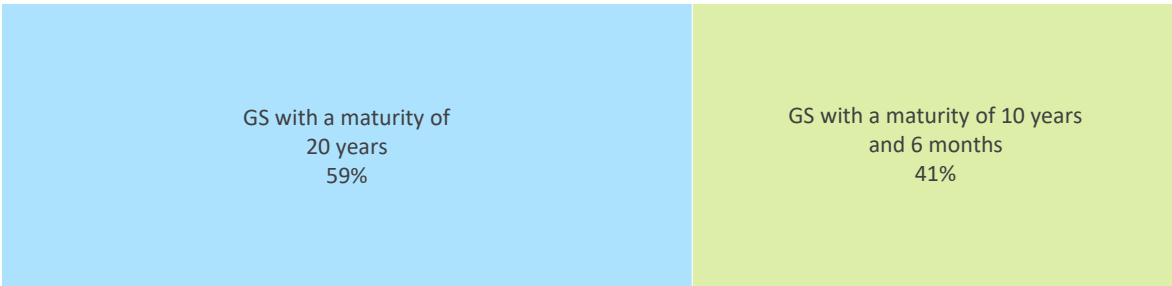
Coverage ratio of the issued government securities in 2019



* Issue data are presented in million BGN

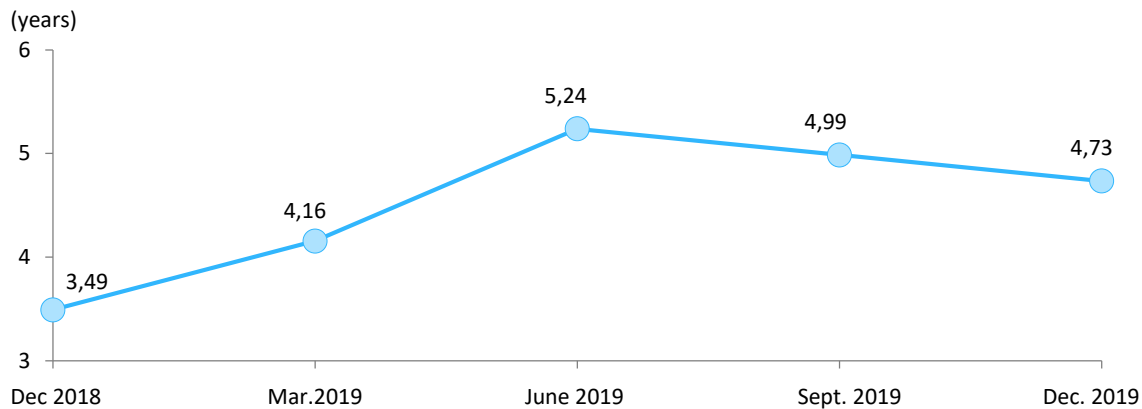
Source: MoF

Maturity structure of issued government securities



Source: MoF

Residual maturity (in years) of issues in circulation



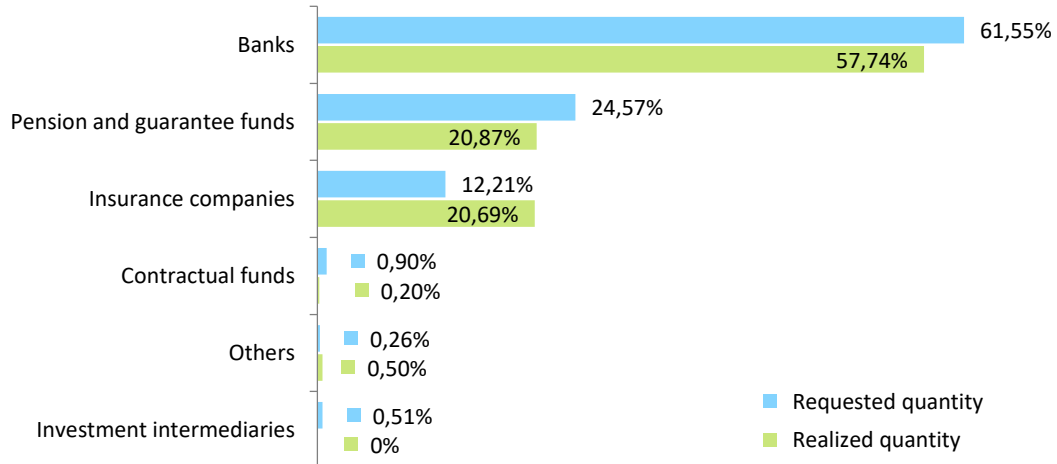
Source: MoF

DISTRIBUTION OF THE INVESTOR BASE AND DEVELOPMENT OF THE PRIMARY MARKET OF GOVERNMENT SECURITIES IN 2019

Six auctions were held on the domestic debt market in 2019. The Ministry of Finance issued securities with an aggregate nominal value of BGN 969.8 million, split between government securities with a maturity of 10 years and 6 months and 20 years. The downward trend in yields across all maturity segments also continued in 2019.

The analysis of the investor demand shows that at the auctions held for the sale of government securities with a maturity of 10 years and 6 months, the banks submitted orders for a total of BGN 478.7 million, or 61.6% of all submitted orders, the pension and guarantee funds declared BGN 191.1 million, or 24.6% of the submitted orders, the insurance companies declared a total nominal value of BGN 95.0 million. (12.2% of submitted orders), the mutual funds – BGN 7.0 million or 0.9% of submitted orders, the investment intermediaries – BGN 4.0 million or 0.5% of submitted orders, and other investors – BGN 2.0 million or 0.3% of submitted orders. The distribution of the approved quantity of government securities is the following: banks – BGN 231.0 million (57.7% of the approved orders), pension and guarantee funds – BGN 83.5 million (20.9% of the approved orders), insurance companies – BGN 82.8 million (20.7% of the approved orders), contractual funds – BGN 0.8 million (0.2% of the approved orders), and other participants – BGN 2.0 million (0.5% of the approved orders).

Government securities with a maturity of 10 years and 6 months

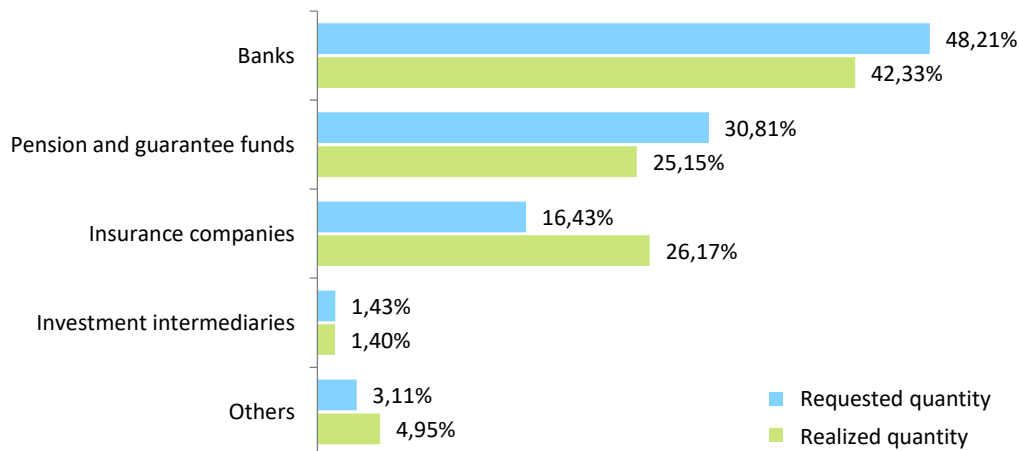


Source: MoF

The 20-year bond issued in 2019 also attracted the attention of a wide range of investors. The orders requested by the banks amount to BGN 437.5 million. (48.2% of all submitted orders), by the pension and guarantee funds – BGN 279.6 million (30.8% of the submitted orders), the insurance companies – BGN 149.1 million (16.4% of the submitted orders), the investment intermediaries – BGN 13.0 million (1.4% of the submitted orders), and by the other investors – BGN 28.2 million (3.1% of the submitted orders).

The distribution of the approved quantity of government securities is the following: banks – BGN 241.2 million (42.3% of the approved orders), insurance companies – BGN 149.1 million (26.2% of the approved orders), pension and guarantee funds – BGN 143.3 million (25.2% of the approved orders), investment intermediaries – BGN 8.0 million (1.4% of the approved orders) and other investors – BGN 28.2 million (5.0% of the approved orders).

Government securities with a maturity of 20 years



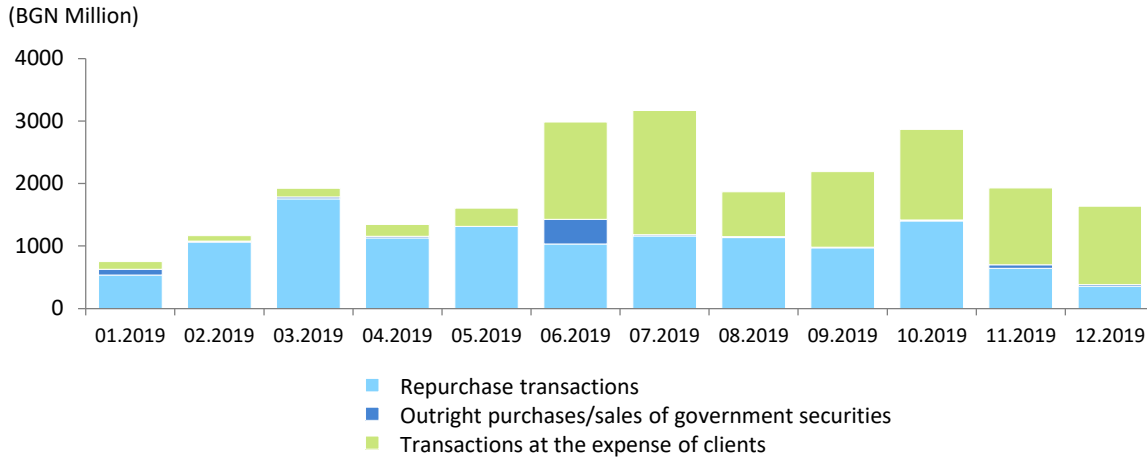
Source: MoF

SECONDARY MARKET OF GOVERNMENT SECURITIES

In 2019, the total volume of registered transactions and operations with government securities in the BNB's system for registration and settlement of government securities (BNBGSSS⁷) amounted to BGN 27 929.2 million, compared to BGN 31 660.2 million in 2018, which is a decrease of 11.8%. The volume of repurchase transactions decreased by 24.2% compared to 2018, but their share remains the highest in the total volume of BNBGSSS registered transactions – 44.8%. Repurchase transactions concluded for a period of one day remain the most preferred by banks (45.6%), mostly with government securities issues in BGN, in order to provide daily liquidity. For the year the volume of the registered transactions for the purchase and sale of government securities is BGN 1 457.1 million, which is 32.7% less compared to the previous year. Of these, BGN 696.5 million are the transactions between ESROT members and BGN 760.6 million are the ones between participants and clients. The volume of transactions between clients of ESROT members is BGN 575.5 million. Operations for blocking and unblocking of government securities issued on the domestic market in connection with registered pledges on government securities for securing funds being available in accounts of budget organizations in banks, in accordance with the Public Finance Act and under the Special Pledges Act, have a total volume of BGN 4,498.0 million, respectively their share is 16.1%. Against the background of low interest rates in the euro area and the lack of appropriate investment alternatives in the local capital market, sovereign debt instruments issued on the domestic market remain the preferred investment by the market participants. During the year the yield of the long-term benchmark issue with maturity of 10 years and 6 months ranged widely – from 0.7% in January to 0.2% in December, which is a significant decrease in its value compared to 2018 (from 0.9% in January to 0.7% in December). Overall, the trade was dynamic, with peaks in traded volumes in July, June and October. Government securities were traded in all maturities as the most liquid ones were the issues of government securities denominated in BGN and EUR, with a residual maturity of about 5 years. This is due to the lower availability of long-term government securities offered on the secondary market by institutional investors, pension funds and insurance companies, that retain in their portfolios the government securities purchased by them and do not offer them for subsequent trading. The trend observed in recent years for the volume of the secondary market of government securities to exceed many times the one which is registered on the Bulgarian stock market continued also in 2019.

⁷ BNBGSSS includes the Electronic System for Registration and Servicing of Trade in Government Securities (ESROT) and the System of Government Securities Settlement Accounts (GSSS).

Volume of the types of transactions with marketable government securities

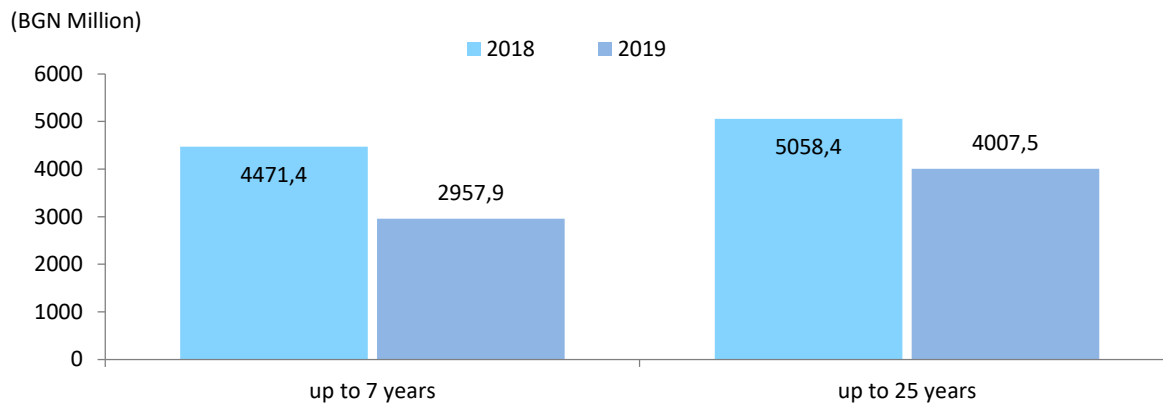


Notes: 1. The volume of transactions also covers reverse repurchase transactions concluded during the period; 2. The BGN equivalent of transactions with government securities denominated in foreign currency is calculated at the exchange rate determined by BNB on the day of the transaction.

Source: BNB

ESROT members did not have difficulties and provided timely the necessary securities and cash in BGN and EUR to carry out the settlement of transactions with government securities with delivery against payment (DvP), as the average settlement ratio⁸ is 100% over the year.

Structure of transactions on the interbank market by maturity of government securities



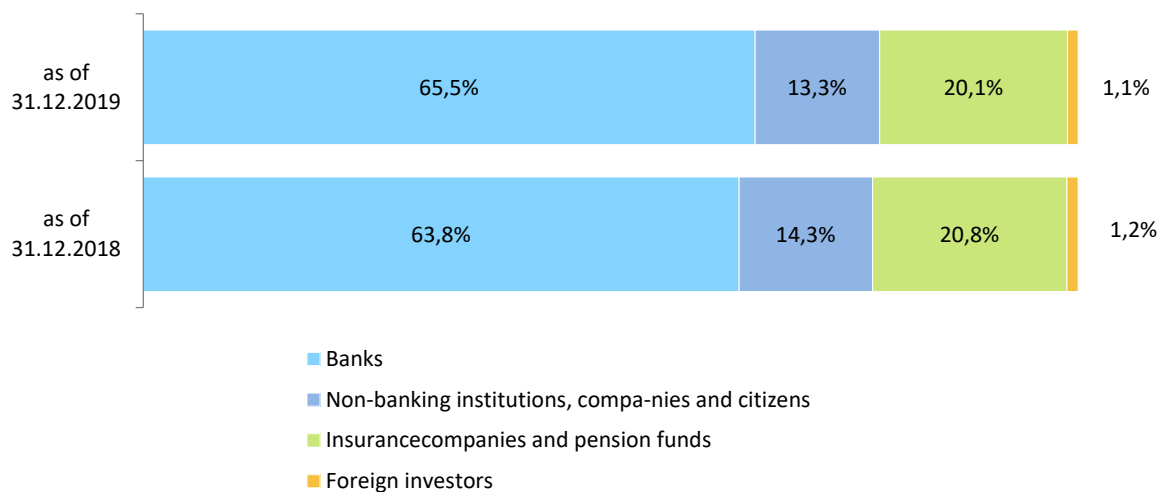
Notes: 1. The BGN equivalent of transactions in government securities denominated in foreign currency is calculated at the exchange rate determined by BNB on the day of the transaction; 2. The volume of the repurchase transactions does not include the reverse repurchase transactions.

Source: BNB

⁸ The settlement ratio is the percentage of the number of transactions settled on the specified date to the total number of transactions for the reporting period for which registration and settlement should have been done in the system.

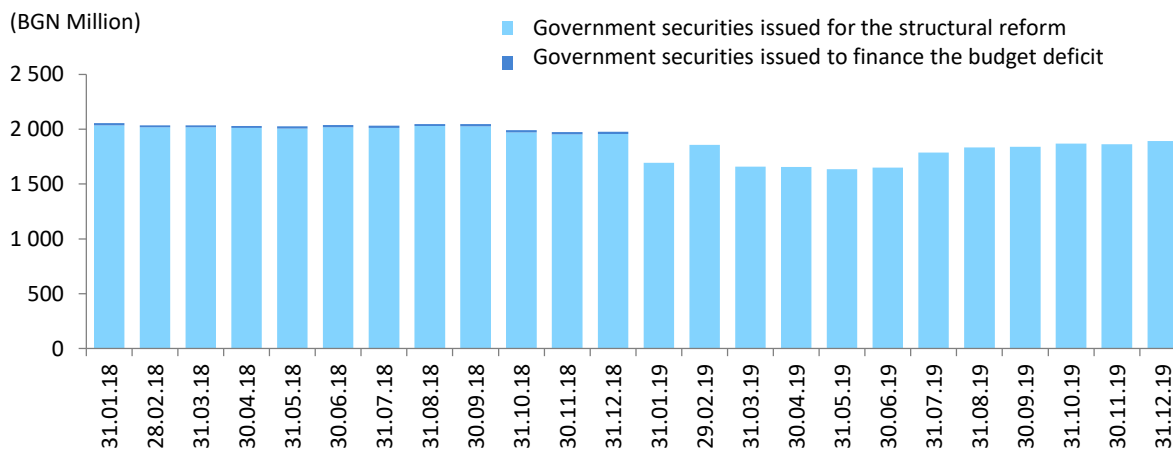
During the year, in BNBSSS, as an ancillary system in TARGET2-BNB, there were registered transactions with long-term government securities denominated and payable in euro, with a total volume of EUR 1 281.9 million (or BGN 2 507.2 million), as payments were made not only through bank accounts in the national system component TARGET2-BNB, but also through bank accounts in other system components of central banks in TARGET2.

Holders of government securities issued to finance the budget deficit



Source: BNB

Investments of non-bank financial institutions, companies and citizens in government securities issued to finance the budget deficit and the structural reform



Notes: 1. The BGN equivalent of government securities denominated in foreign currency is calculated at the exchange rate determined by the BNB, valid for the last working day of the relevant period; 2. Data on investments in government securities include local non-bank financial institutions, companies and citizens, and insurance companies and pension funds.

Source: BNB

At the end of 2019, compared to the same period of 2018, there was a change in the investments in sovereign debt instruments issued to finance the budget deficit held by the different categories of holders. Banks' holdings of government securities are increasing, while other categories of holders (insurance companies and pension funds, local non-bank financial institutions, companies and citizens, and foreign investors) are experiencing a decrease. The largest share of these debt securities continues to be held by banks (65.5%), followed by insurance companies and pension funds (20.1%), local non-bank financial institutions, companies and citizens (13.3%), and foreign investors (1.1%).

HOLDERS OF BULGARIAN BONDS ISSUED ON THE ICM

As of December 31, 2019 The Republic of Bulgaria has six issues in circulation on the international capital markets. Bonds are issued under English law, they are listed on the Luxembourg Stock Exchange and they are denominated in EUR – 7-year/XS1208855616/ with a maturity on 26 March 2022 and a coupon 2.000%, 7-year /XS1382693452/ with a maturity on 21 March 2023 and a coupon 1.875%, 10-year /XS1083844503/ with a maturity on 3 September 2024 and a coupon 2.950%, 12-year /XS1208855889/ with a maturity on 26 March 2027 and a coupon 2.625%, 12-year /XS1382696398/ with a maturity on 21 March 2028 and a coupon 3% and 20-year /XS1208856341/ with a maturity on 26 March 2035 and a coupon 3.125%.

The only bond that shows a decline in the share of securities held by residents is the 7-year issue maturing in 2022 (from 73.1% to 64.5%). As of 31 December 2019, they hold securities with a nominal value of EUR 806.7 million, which represents a decrease from the bonds held at the end of 2018 with a value of EUR 914.3 million. The total nominal value of the bonds held by the “banks” sector amounts to EUR 704.8million, while the remaining sectors account for EUR 101.9 million.

The share of residents in the 7-year bond maturing in 2023 increased from 68% as of 31.12.2018 to 72.5% as of 31.12.2019 (or securities with a nominal value of EUR 829.2 million) of its total amount. The banking sector holds EUR 585.2 million worth of securities and the other sectors – EUR 244.0 million.

A total of 66% of the 12-year issue maturing in 2024 is held by residents. There is an increase in the share held by residents from EUR 953.4 million at the end of 2018 to EUR 985.7 million at the end of 2019. The banking sector holds bonds worth EUR 649.5 million and the other sectors – EUR 336.2 million.

Bulgarian Eurobonds issued on international markets and held by residents-banking institutions and other sectors – by year of issue

Types of Government Securities	2018	2019			
		I quarter	II quarter	III quarter	IV quarter
2.95%, 2024, /XS1083844503/ – 2014 issue	953.4	994.2	993.0	973.8	985.7
Owned by the banking sector	639.2	639.5	643.9	631.7	649.5
Owned by other sectors	314.2	354.8	349.0	342.1	336.2
2%, 2022, /XS1208855616/ – 2015 issue	914.3	911.2	806.1	808.8	806.7
Owned by the banking sector	748.3	748.0	683.9	686.6	704.8
Owned by other sectors	166.0	163.3	122.2	122.2	101.9
2.625%, 2027, /XS1208855889/ – 2015 issue	616.5	623.8	630.0	623.0	635.1
Owned by the banking sector	391.2	405.1	417.8	410.6	421.1
Owned by other sectors	225.3	218.7	212.2	212.4	214.0
3.125%, 2035, /XS1208856341/ – 2015 issue	178.0	187.7	198.4	199.0	210.6
Owned by the banking sector	65.7	70.3	69.0	69.0	69.5
Owned by other sectors	112.3	117.4	129.4	130.0	141.1
1.875%, 2023, /XS1382693452/ – 2016 issue	782.0	828.3	830.6	821.7	829.2
Owned by the banking sector	557.7	602.3	578.0	569.6	585.2
Owned by other sectors	224.2	226.0	252.6	252.0	244.0
3%, 2028, /XS1382696398/ – 2016 issue	365.5	392.4	404.2	407.8	412.9
Owned by the banking sector	229.4	253.9	265.7	269.2	268.3
Owned by other sectors	136.1	138.5	138.5	138.6	144.6
Total (EUR million)	3 809.7	3 937.7	3 862.2	3 834.1	3 880.1

Note: Due to rounding, in the table some aggregate entries are not limited to their constituent numbers.

Source: BNB

In the case of the 12-year bond maturing in 2027, the securities held by residents amounted to EUR 635.1 million at the end of 2019 or 63.5% of the total issue volume, which represents a slight increase compared to the securities held as of 31.12.2018 amounting to EUR 616.5 million. The banking sector holds EUR 421.1 million and the other sectors – EUR 214.0 million.

As of 31.12.2019, the 12-year issue maturing in 2028 is held by residents in a ratio of 48.6% to the total amount of the securities, which represents an increase compared to the same percentage (43.0%) at the end of the previous year 2018. The banking sector holds bonds for EUR 268.3 million and the other sectors – EUR 144.6 million.

At the end of 2019 the lowest percentage of foreign bonds held by residents was the 20-year bond maturing in 2035, which, however, increased to 24.8% compared to 20.0%, recorded at the end of the previous year 2018. Out of the total securities held by residents for EUR 210.6 million, the banking sector holds bonds from that issue amounting to EUR 69.5 million, and the other sectors – EUR 141.1 million.

The banking sector recorded an increase in the nominal value of the Eurobonds held as of 31.12.2019 compared to the end of the previous year (from EUR 2631.4 million to EUR 2698.3 million), with a decline only in the securities of the most recent maturing issue – the 7-year one /XS1208855616/.

At the end of 2019 the ratio of holders for all external securitised debt is 58.9% – residents and 41.1% – non-residents, compared to 57.4% – residents and 42.6% – non-residents recorded at the end of 2018. The banking sector holds 69.5% of the external securitised debt held by residents (compared to 69.1% as of 31.12.2018).

At the end of 2019, Bulgarian Eurobonds owned by pension funds and insurance companies operating in the country amounted to BGN 2,144.7 million, which represents an increase from the securities held at the end of 2018 at a nominal value of BGN 2,091.6 million. Increase is accounted for in all issues, except for the observed decrease in 7-year /XS1208855616/ and 12-year /XS1208855889/ bonds.

At the end of 2019, as a whole, pension and insurance companies hold 28.3% of the total securitised external debt (the same ratio is 28.1% at the end of 2018) held by residents. The predominance is being in favour of pension funds with 80.8% of this volume, against 19.2% owned by insurance companies.

**Bulgarian Eurobonds issued on international markets and held by residents –
pension funds and insurance companies – by year of issue**

Types of Government Securities	2018	2019			
		I quarter	II quarter	III quarter	IV quarter
2.95%, 2024, XS1083844503 – 2014 issue	603 813.1	688 995.3	678 629.1	645 931.5	643 886.2
Pension funds under SSC	518 017.8	605 347.2	614 094.6	582 464.1	580 650.1
Insurance companies under IC	85 795.3	83 648.1	64 534.6	63 467.3	63 236.1
2%, 2022, XS1208855616 – 2015 issue	245 466.9	239 241.7	156 547.5	157 194.8	124 888.8
Pension funds under SSC	226 662.0	220 749.7	138 005.2	138 587.7	106 362.3
Insurance companies under IC	18 805.0	18 492.1	18 542.3	18 607.2	18 526.5
2.625%, 2027, XS1208855889 – 2015 issue	427 377.1	403 799.1	415 995.2	422 921.1	419 836.0
Pension funds under SSC	345 396.6	314 854.4	324 300.7	328 831.3	327 246.7
Insurance companies under IC	81 980.5	88 944.7	91 694.4	94 089.8	92 589.3
3.125%, 2035, XS1208856341 – 2015 issue	126 680.4	143 671.2	176 521.9	191 505.3	220 236.0
Pension funds under SSC	18 354.0	17 590.0	43 533.4	48 438.1	77 554.3
Insurance companies under IC	108 326.4	126 081.2	132 988.5	143 067.2	142 681.6
1.875%, 2023, XS1382693452 – 2016 issue	424 254.4	416 468.6	470 542.5	465 952.7	450 511.6
Pension funds under SSC	373 420.8	366 069.6	426 164.3	421 433.1	406 096.4
Insurance companies under IC	50 833.6	50 399.1	44 378.2	44 519.6	44 415.1
3 %, 2028, XS1382696398 – 2016 issue	263 973.5	257 511.7	264 181.4	274 170.7	285 298.2
Pension funds under SSC	219 229.8	207 938.7	212 850.7	220 948.0	234 790.8
Insurance companies under IC	44 743.8	49 573.0	51 330.8	53 222.7	50 507.4
Total (thousand BGN)	2 091 565.4	2 149 687.7	2 162 417.6	2 157 676.1	2 144 656.8

Note: Due to rounding, in the table some aggregate entries are not limited to their constituent numbers.

Source: FSC

LOAN FINANCING

In 2019, new and already negotiated loans absorbed a total amount of BGN 404.2 million, of which BGN 194.1 million under domestic loans and BGN 210.1 million under external loans. Domestic loans are liabilities of the units of the sub-sector.

The utilization of state loans amounted to BGN 195.6 million (EUR 100.0 million) – BGN 97.8 million under the Framework Loan Agreement between the Council of Europe Development Bank (CEDB) and the Republic of Bulgaria Mechanism for co-financing projects implemented with EU funds under the operational programmes co-financed by the European Structural and Investment Funds for the 2014-2020 programming period and BGN 97.8 million under the Financial Agreement between the Republic of Bulgaria and the EIB for financing the project "Bulgaria – co-financing under the EU Funds 2014-2020 (SPL)".



CENTRAL GOVERNMENT GUARANTEED DEBT

In nominal value, the size of the CG guaranteed debt at the end of 2019 amounts to BGN 142.1 million, of which BGN 74.1 million is domestic debt and BGN 68.0 million is external debt. The reported decrease is due to repayments of the CG guaranteed debt during the year.

The CG guaranteed debt/GDP ratio is 0.1%.

CG Guaranteed debt

	(BGN million)			
	2016	2017	2018	2019
CG Guaranteed debt	359.3	265.0	184.4	142.1
I. CG Domestic guarantees	69.1	73.9	75.2	74.1
1. Guarantees under the Student and Doctoral Candidate Loans Act	69.1	73.9	75.2	74.1
II. CG External guarantees	290.2	191.1	109.2	68.0
1. IBRD (World Bank)	18.6	13.0	7.8	2.6
2. EIB	2.7	3.1	3.6	4.3
3. Other	268.9	175.0	97.8	61.1
<i>GDP</i>	<i>95 130.6</i>	<i>102 345.1</i>	<i>109 743.4</i>	<i>119 772.3</i>
CG Guaranteed debt/GDP, (%)	0.4	0.3	0.2	0.1

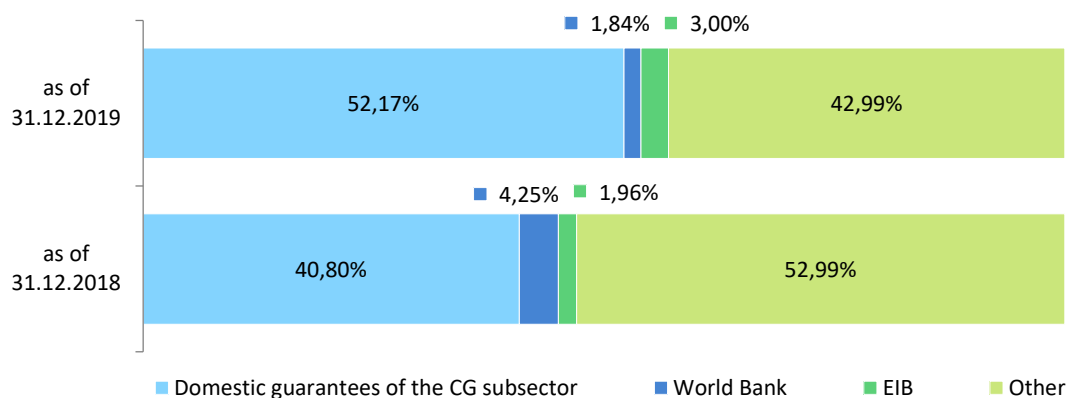
Notes: 1. Debt at nominal value; 2. The conversion of the debt in BGN is according to the central exchange rate of the BNB for the respective currencies at the end of the period. 3. GDP data are from the National Statistical Institute.

Source: MoF

In the structure of CG guaranteed debt by creditors, the share of “other” (Euratom and JBIC) marks a decrease of 37.5% compared to the level recorded in 2018, and at the end of 2019 it occupies a share of 43.0%. The ratio of the CG external guarantees to the IBRD and EIB amounts to 2.0% and 3.0% respectively.

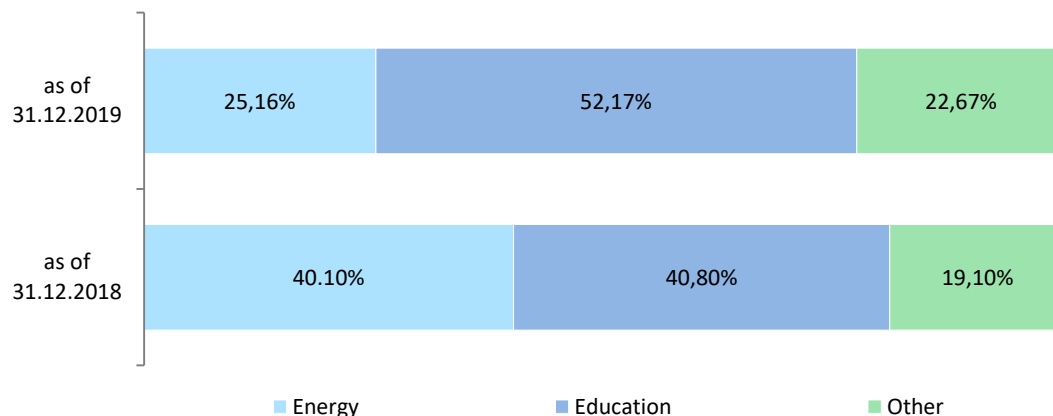
The share of the CG domestic guarantees of the subsector issued under the Student and Doctoral Candidate Loans Act under the Student Loans Program increased by 11 percentage points to 52.2% of the CG guaranteed debt total amount.

Structure of the CG guaranteed debt by creditors



Source: MoF

Structure of the CG guaranteed debt by sector

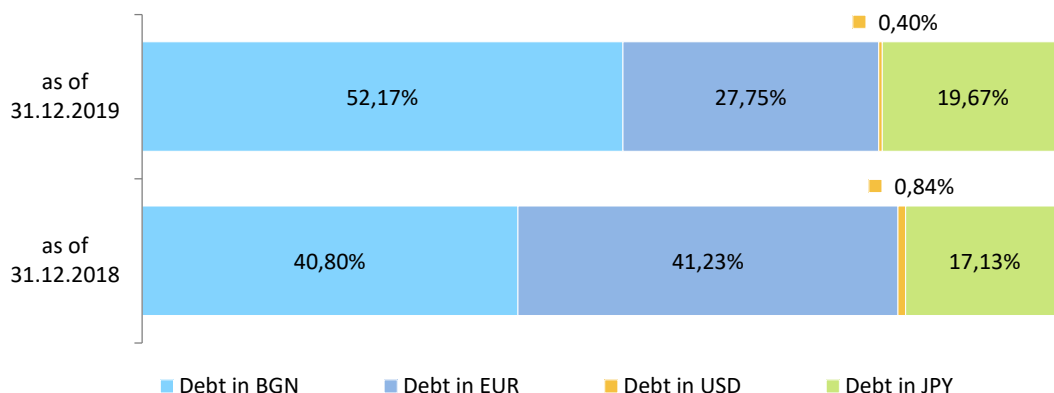


Source: MoF

As of 31 December 2019, in the structure of the guaranteed debt of the CG subsector by sector the largest relative share belongs to the sector "education" – 52.2%, while the sector "energy" marks a decrease by 14.9 percentage points compared to the level of the previous year, and the "others" sector occupies a share of 22.7%.

At the end of 2019 the dominant position in the currency structure of the guaranteed debt of the CG sub-sector was held by the debt in BGN – 52.2%, followed by the debt denominated in EUR – 27.8%. Debt denominated in JPY and USD reached 19.7% and 0.4%, respectively.

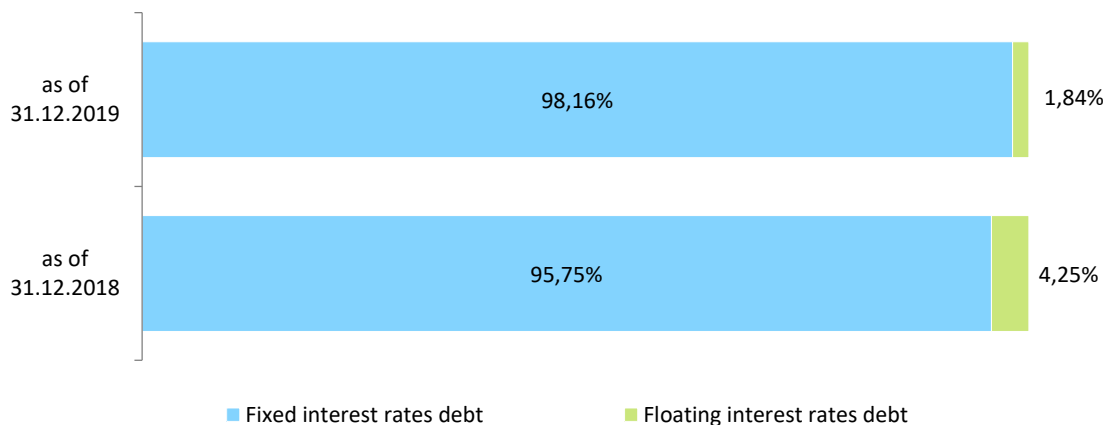
Currency structure of CG guaranteed debt



Source: MoF

At the end of 2019 the debt with fixed interest rates continues to prevail in the interest rate structure of the guaranteed debt of the CG sub-sector, as its value increased by 2.5 percentage points to 98.2%, while the debt with floating interest rates decreased to 1.8%.

Interest rate structure of the CG guaranteed debt



Source: MoF

The new financing under CG guaranteed debt for 2019 amounted to BGN 12.4 million and the payments made during the period under review amounted to BGN 104.0 million, including BGN 98.6 million repayment of principal and BGN 5.4 million 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 2019

(BGN million)

Structure	Received loans (tranches)	Payments made, including	
		repayments (principal)	Interest
I. CG Domestic guarantees	9.8	10.5	1.9
1. Guarantees under the Student and Doctoral Candidate Loans Act	9.8	10.5	1.9
II. CG External guarantees	0.6	87.7	3.6
1. IBRD (World Bank)	-	5.2	0.1
2. EIB	0.6	-	-
3. Other	-	82.5	3.5
CG guaranteed debt	10.4	98.2	5.5

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 operation.

Source: MoF



GOVERNMENT AND GOVERNMENT GUARANTEED DEBT

Government debt

(BGN million)

Structure	2011	2012	2013	2014	2015	2016	2017	2018	2019
Domestic government debt	4 808.0	4 981.0	6 289.6	8 251.8	7 283.3	6 724.6	6 711.6	5 454.1	5 479.5
Government securities issued for financing the budget	4 220.5	4 763.4	6 108.2	8 091.9	7 148.7	6 622.0	6 647.7	5 421.7	5 479.5
Government securities issued for the structural reform	252.5	217.6	181.5	159.8	134.6	102.6	63.9	32.4	-
External government debt	6 821.2	8 692.6	7 828.9	13 850.6	15 430.8	19 026.5	16 822.5	16 611.6	16 543.5
Bonds	3 242.9	5 070.5	3 399.6	6 525.4	10 939.0	14 838.9	12 980.8	12 980.8	12 980.8
Paris club	172.4	147.8	123.1	98.5	73.9	49.3	24.6	-	-
IBRD (World Bank)	1 397.8	1 290.0	1 208.7	1 091.1	1 001.0	846.7	688.3	553.5	458.3
European Union	263.6	361.4	743.5	874.6	1 167.9	1 167.9	1 165.2	1 155.3	1 236.1
Other	0.0	0.0	567.2*	3 500.9**	567.2*	567.2*	567.2*	665.0***	753.0***
Government investment loans	1 734.8	1 822.9	1 786.7	1 760.1	1 681.8	1 556.6	1 396.4	1 257.0	1 115.3
Called government guarantees	9.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total government debt	11 629.1	13 673.6	14 118.5	22 102.3	22 714.1	25 751.1	23 534.1	22 065.8	22 023.0
GDP (BGN million)	80 713.7	82 238.6	81 954.9	83 884.9	89 362.3	95 130.6	102 345.1	109 743.4	119 772.3
Total government debt/GDP, (%)	14.4	16.6	17.2	26.3	25.4	27.1	23.0	20.1	18.4

* "Schuldschein" assignable loans

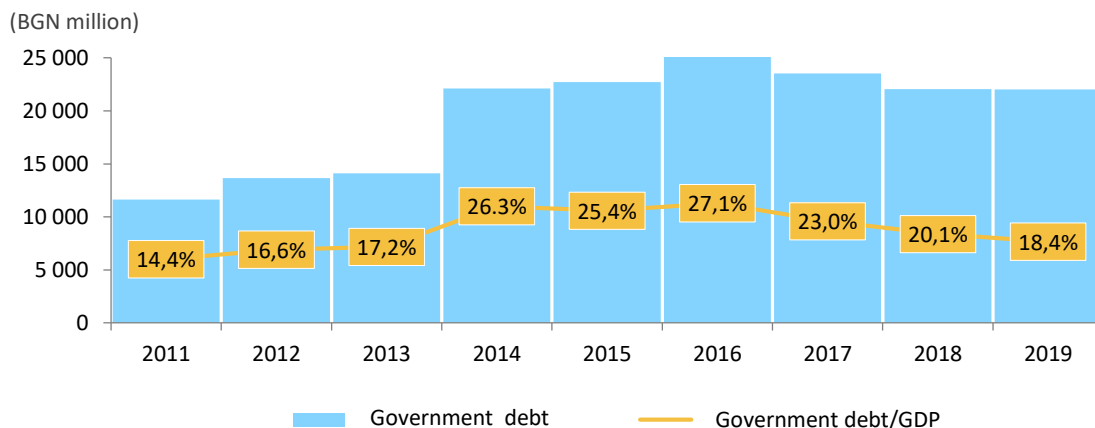
** "Schuldschein" assignable loans and bridge loan "Bridge-to-bond loan"

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

Notes: 1. The amount of the debt is in nominal value; 2. The conversion of the debt in BGN is as per the BNB central exchange rates for the respective foreign currencies at the end of the respective periods; 3. GDP data are available from the NSI; 4. Due to rounding, in the table some aggregate entries are not limited to their constituent numbers.

Source: MoF

Government Debt Dynamics



Source: MoF

Government guaranteed debt

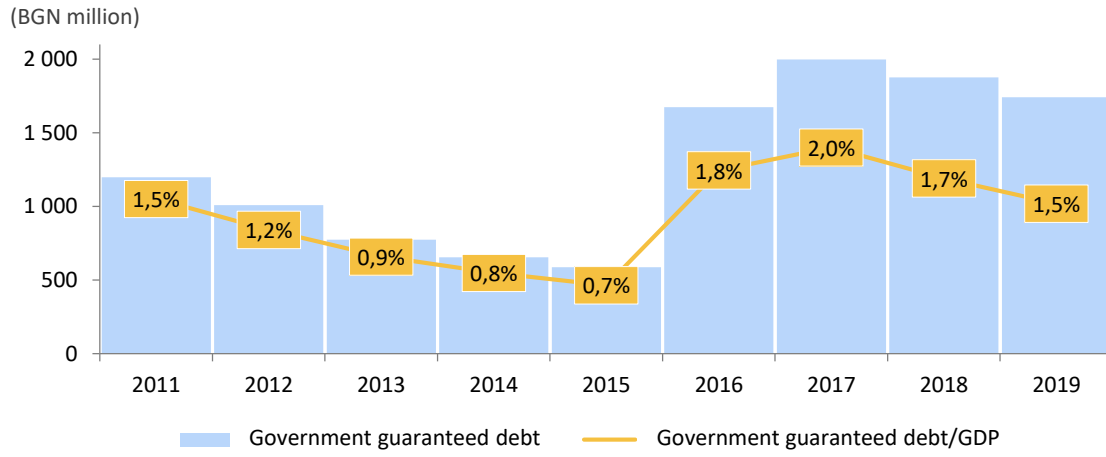
(BGN million)

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Government guaranteed debt	1 196.7	1 008.6	773.8	656.1	589.3	1 677.0	2 002.0	1 883.8	1 741.4
I. Domestic government guaranteed debt	11.9	23.9	36.2	49.0	60.8	69.1	73.9	75.2	74.1
1. Guarantees under the Student and Doctoral Candidate Loans Act	11.9	23.9	36.2	49.0	60.8	69.1	73.9	75.2	74.1
II. External government guaranteed debt	1 184.8	984.7	737.7	607.1	528.4	1 607.8	1 928.2	1 808.6	1 667.3
1. IBRD (World Bank)	87.0	70.1	52.1	35.6	23.8	507.6	560.6	594.6	589.4
2. EIB	3.9	2.5	1.6	1.6	2.0	2.7	3.1	3.6	4.3
3. EBRD	36.8	27.0	17.3	7.5	1.8	586.7	586.7	586.8	586.8
4. Other	1 057.0	885.1	666.7	562.4	500.9	510.8	777.7	623.6	486.9
<i>GDP (BGN million)</i>	<i>80 713,7</i>	<i>82 238,6</i>	<i>81 954.9</i>	<i>83 884.9</i>	<i>89 362.3</i>	<i>95 130.6</i>	<i>102 345.1</i>	<i>109 743.4</i>	<i>119 772.3</i>
Government guaranteed debt/GDP, (%)	1.5	1.2	0.9	0.8	0.7	1.8	2.0	1.7	1.5

Notes: 1. The amount of the debt is in nominal value; 2. The conversion of the debt in BGN is according to the central exchange rate of the BNB for the respective currencies at the end of the period. 3. GDP data are available from the NSI; 4. Due to rounding, in the table some aggregate entries are not limited to their constituent numbers.

Source: MoF

Government Guaranteed Debt Dynamics



Source: MoF

DEVELOPMENT OF GOVERNMENT SECURITIES MARKET

Regarding the preparation for Great Britain's exit from the European Union (Brexit), in 2019 it was necessary to secure the process of switching trading in government securities (GS) on a trading venue from the Multilateral Trading System E-Bond Bulgaria operated by Bloomberg Trading Facility Limited (BTFL) based in the UK to Bloomberg Trading Facility B.V. (BTF BV) based in the Netherlands. To this end, steps have been taken in a regulatory and technological aspect, including termination of the contract with BTFL, signing a new contract with the new legal entity BTF BV, as well as subsequently amending and approving "Rules for Admission to Trading of Government Securities of the Multilateral Trading System E-Bond Bulgaria, operated by Bloomberg Trading Facility B.V. and completion of transactions with them at the Bulgarian National Bank".

In view of the changing regulations in the field of sovereign debt, for the purposes of the monitoring of the secondary market of government securities, actions have been undertaken to optimise the process of information provision by the sub-depositaries of government securities with a view to ensure control of the systems for registration of transactions with government securities and in implementation of Article 12 of Ordinance No. 15 of 2007 on the control of the transactions with government securities. In this regard the process of building the integrated information system "System for monitoring, analysis, registration and trading of government securities" (SMART) continued.