GOVERNMENT DEBT MANAGEMENT STRATEGY

2025–2028

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The government debt management is the whole process, which coordination is realized by establishment and implementation of a government debt management strategy. The strategic document defines the approach for achieving the goals, aimed at covering the debt financing needs, taking into account the impact and the restricting conditions of the domestic and external macroeconomic environment and the potential risks.

The proposed Government Debt Management Strategy for the period 2025-2028 is prepared by using good international practices and in accordance with the provisions of Art. 16, para. 1 of the Government Debt Act and Art. 77a of the Public Finances Act. The object of the strategy is the government debt – domestic and external, issued under the Government Debt Act.

1. PERSPECTIVES ON THE DEBT MANAGEMENT DEVELOPMENT – MAIN ASSUMPTIONS

The Government Debt Management Strategy for the period 2025–2028 is prepared upon considering the indicators for the 2024 state budget implementation and the debt operations carried out at the beginning of the year, as well as based on the assumptions under which the new 2025state budget and the draft of the Updated Medium Term Budget Forecast for the period 2025-2028 were developed, as there were taken into attention the key macroeconomic indicators and the forecast for their development from the autumn macroeconomic forecast of the Ministry of Finance for the period 2024-2028. The expectations for the development of economic activity in the EU in 2025, the gradual transition to a policy of lowering key interest rates and easing financing conditions globally, are also taken into attention, with expectations that the overall international environment will remain unstable.

Until the development of current Strategy, within the conditions of the unadopted 2025 State Budget Act of the Republic of Bulgaria, the provisions of Art. 87, para. 2 of the Public Finance Act shall apply, according to which the Council of Ministers may issue government debt only for the refinancing of the debt outstanding up to the amount of the annual repayments on the government debt assumed by the end of 2024. Taken into consideration the referred legal norm, in the period until the adoption of a regular budget in 2025, new government debt may be issued in the total amount of the annual repayments on the t government debt, as for 2025 it amounts to BGN 3.7 billion (BGN 3.3 billion in repayments on domestic government debt and BGN 0.4 billion in repayments on external government debt).

Considering the size of the debt repayments in 2025 from the point of view of their timing and quantitative distribution (concentrated in the period January - May 2025, with a clear peak in May 2025), under the operation of Art. 87 of the PFA, the Ministry of Finance launched issuance activity on the domestic debt market. Three auctions were held for the placement of government securities with a total nominal amount of BGN 0.7 billion, of which BGN 0.4 billion 3-year government securities and BGN 0.3 billion 7-year government securities.

In January 2025, two new government securities issues were issued: 3-year government securities denominated in BGN with a nominal value of BGN 300.0 million, a fixed interest coupon of 2.75% and maturity on 22.01.2028 and 7-year government securities denominated in BGN, with a nominal value of BGN 300.0 million, a fixed interest coupon of 3.25% and maturity on 29.01.2032. The total nominal amount of government securities placed in January on the domestic market takes into account the debt maturities during the month (maturity of the 5-year government securities issue from 2020 in the amount of BGN

600.0 million nominal value due on 15.01.2025). During the same period, repayments on the domestic government debt amounting to BGN 0.6 billion were made, therefore the total amount of government debt in nominal terms as of 31.01.2025 remains unchanged compared to the level registered at the end of 2024 of BGN 47.4 billion.

On 10.02.2025, the 3-year issue, which was put into circulation at the auction held on 20.01.2025, was reopened, and its volume was increased by BGN 100.0 million, bringing the total volume of the 3-year government securities issue to BGN 400.0 million in nominal value.

During the period 2025-2028, the government debt management maintains its strategic focus on providing the necessary resources for refinancing of the debt outstanding, financing of the planned deficits in the state budget, and ensure the liquidity position of the fiscal reserve. The defined objectives in this policy area are aimed at ensuring opportunities for market-oriented financing on the domestic and international capital markets, as well as for negotiating state loans as per the European Union instruments and from international financial institutions, including for projects and programmes financing, in compliance with the legally regulated annual debt limits.

By the 2025 State Budget Act of the Republic of Bulgaria, it is provided the maximum amount of the new government debt, which may be assumed during the year to be up to BGN 18.9 billion, which provides an opportunity both for issuing government securities on the domestic debt market and on the international capital markets, and for negotiating structural programme loans in a total amount of up to EUR 750 million with the European Investment Bank (EUR 500 million) and the Council of Europe Development Bank (EUR 250 million) to co-finance projects implemented with funds from European funds under shared management during the programming period 2021-2027. The amount of debt outstanding, which should be refinanced in 2025, amounts to BGN 3.7 billion, of them BGN 3.3 billion for the maturity of government securities issued on the domestic market and BGN 0.4 billion for repayments on external loans. In addition to the refinancing of the debt outstanding, within the framework of the limitation on new government debt, new debt financing is envisaged with a view to provide funds to cover the planned deficit in the state budget and ensuring the liquidity position of the fiscal reserve, including to provide an opportunity to finance specific investment programmes, as well as assigned public policies, for the capitalization of public enterprises in the fields of health care, science and education, defense, energy, agriculture, economic development and sports (described in detail in item 4.4 Acquisition of shares, stocks and participations by the Updated Medium Term Budget Forecast for the period 2025-2028).

During the next period 2026-2028, new debt financing is planned in the amount of BGN 13.3 billion for 2026, BGN 12.4 billion for 2027 and BGN 10.9 billion for 2028, with the upcoming debt repayments during this period in the amount of BGN 2.8 billion in 2026 (including BGN

0.3 billion on external government debt and BGN 2.5 billion on domestic government debt), BGN 3.4 billion in 2027 (including BGN 2.2 billion on external government debt and BGN 1.2 billion on domestic government debt) and BGN 3.5 billion in 2028. (including BGN 2.3 billion on external government debt and BGN 1.2 billion on domestic government debt). The main risks associated with the implementation of the new debt financing both in 2025 and throughout the entire three-year period have the potential to appear in the future, including: geopolitical, market, etc. The risks posed by external factors that the issuer could not manage, such as volatility in financial markets, geopolitical uncertainty, etc., are also reflected in the domestic debt market, which has relatively limited capacity and market participants. The predominant share of market sources for debt financing implies the introduction of all external risks in the implementation of the state budget in the part for financing the planned deficit both for 2025 and for the entire period envisaged in the draft UMTBF.

Table 1: Debt and interest service costs – key parameters

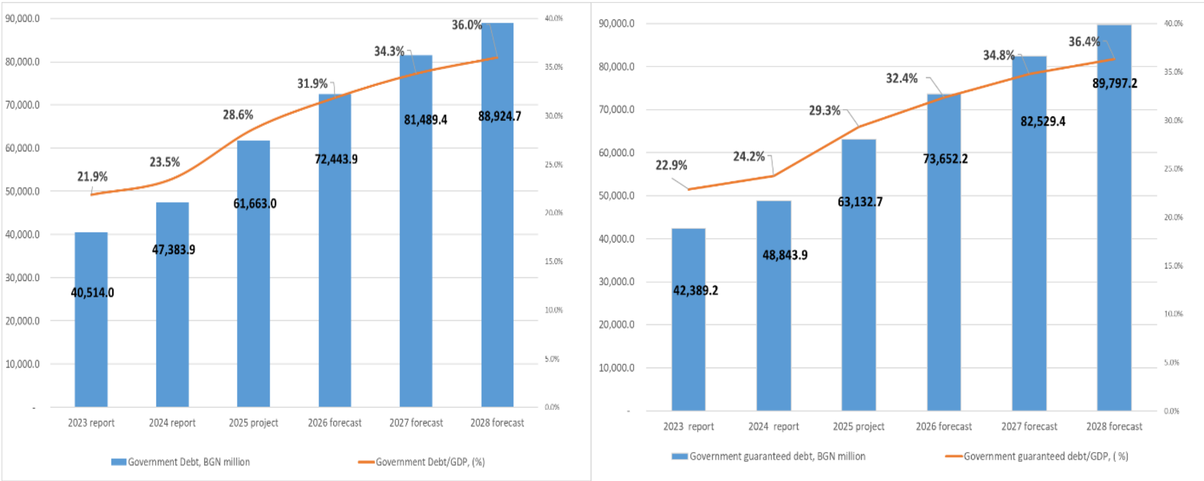
Parameters	2023 r.	2024 r.	2025 r.	2026 r.	2027 r.	2028 r.
	report	report	project	forecast	forecast	forecast
Government Debt						
Government Debt, BGN million	**40,514.0**	**47,383.9**	**61,663.0**	**72,443.9**	**81,489.4**	**88,924.7**
Government Debt/GDP, (%)	21.9%	23.5%	28.6%	31.9%	34.3%	36.0%
Government guaranteed debt						
Government guaranteed debt, BGN million	**1,583.3**	**1,700.1**	**8,299.5**	**8,212.4**	**8,230.6**	**8,155.2**
Government guaranteed debt/GDP, (%)	0.9%	0.8%	3.9%	3.6%	3.5%	3.3%
General governmnet debt						
General governmnet debt, BGN million	**42,389.2**	**48,843.9**	**63,132.7**	**73,652.2**	**82,529.4**	**89,797.2**
General governmnet debt/GDP, (%)	22.9%	24.2%	29.3%	32.4%	34.8%	36.4%
Governmnent debt service costs						
Interest expenditure, BGN million	**781.9**	**953.3**	**1,567.0**	**2,201.6**	**2,829.6**	**3,367.8**
Interest expenditure/GDP, (%)	0.4%	0.5%	0.7%	1.0%	1.2%	1.4%
GDP *, BGN million	**185,232.5**	**201,469.9**	**215,230.5**	**227,417.1**	**237,292.8**	**247,003.6**

** GDP for 2023 according to data of the NSI for the period 2024-2028 - according to the autumn macroeconomic forecast of the Ministry of Finance for 2024-2028.*

Source: MoF

Based on the assumptions for new debt financing during the period 2025-2028, an increase in government debt is observed both in absolute terms and as a share of GDP. It is expected that its level in nominal value will reach BGN 88.9 billion by the end of 2028, and the ratio of the government debt to the projected GDP to 36.0%, respectively.

Fig. 1: Government debt and General government debt for the period 2023 – 2028



** GDP for 2023 according to data of the NSI for the period 2024-2028 - according to the autumn macroeconomic forecast of the Ministry of Finance for 2024-2028.*

Source: MoF

For the entire four-year period, it is expected both in the interest rate and currency structure of the government debt, the share of the debt with a fixed interest rate, as well as that denominated in EUR and BGN, to remain as dominant. At the end of the period, the entire debt portfolio will be composed of liabilities with fixed interest rates, and 96.9% of the debt will be in EUR and BGN.

The expected growth of the government debt also determines the dynamics of the interest expenses for servicing the government debt in the medium term level. During the period 2025-2028, interest expenses are expected to increase and reach respectively BGN 1,567.0 million or 0.7% of the projected GDP for 2025, BGN 2,201.6 million or 1.0% of the projected GDP for 2026, BGN 2,829.6 million or 1.2% of the projected GDP for 2027 and BGN 3,367.8 million or 1.4% of the projected GDP for 2028.

In the 2025 State Budget Act of the Republic of Bulgaria has been set a maximum amount of new government guarantees that can be issued during the year of up to BGN 6.8 billion, of which BGN 4.2 billion in accordance with the Government Debt Act in relation with the financing of strategic projects in the energy sector:

1. to „Bulgartransgaz“ EAD in the amount up to the currency equivalent of BGN 625 million for financing an investment project ‘Expansion of the gas transmission infrastructure of „Bulgartransgaz“ EAD in relation to the Vertical Corridor Initiative of the gas transmission operators of Bulgaria, Greece, Romania, Hungary, Slovakia, Ukraine and Moldova’, providing the opportunity for the transmission of additional volumes of natural gas, subject to compliance with the state aid legislation, through the implementation of the following investment projects:

(a) ‘Increasing the natural gas transmission capacity at the Kulata/Sidirokastro interconnection point in the direction from Greece to Bulgaria'; (b) 'Increasing the natural gas transmission capacity at the Negru Voda/Kardam interconnection point in the direction from Bulgaria to Romania';

(c) 'High-pressure gas transmission infrastructure for supplying consumers in the East Maritsa Region.'

2. of „Bulgartransgaz "EAD for financing an investment project of common interest 6.20.2 'Expansion of the capacity of Chiren Underground Gas Storage', in the amount of up to the BGN equivalent of EUR 207,586,411, subject to compliance with the state aid legislation.

3. of the „National Electric Company "EAD for financing an investment project 'Modernization and rehabilitation of the Chaira Pumped- Storage Hydro Power Plant (Chaira PSHPP)', in the amount of up to the currency equivalent of BGN 155 million, subject to compliance with the state aid legislation.

4. of the „National Electric Company "EAD for financing an investment project 'Increasing the volume of the lower reservoir of Chaira PSHPP with the construction of the Yadenica dam and a reversible pressure tunnel to connect with the Chaira dam' in the amount of up to the currency equivalent of BGN 75 million, subject to compliance with the state aid legislation.

5. for financing an investment project 'Construction of a new nuclear power of the latest generation at the site (unit 7) of Kozloduy Nuclear Power Plant (Kozloduy NPP) in the amount up to the BGN equivalent of EUR 1,500,417,089, subject to compliance with the state aid legislation.

Within the next budget year, according to Art. 37, para. 1, item 4 of the Public Finance Act, government guarantees in the amount of up to BGN 2.6 billion may be issued, including:

1. under the Student and Doctoral Candidate Loans Act in a total amount of up to BGN 30 million regarding the implementation of the student loan programme;

2. in relation to a guarantee agreement with the EIB to a contribution agreement between the Republic of Bulgaria and the European Investment Bank regarding the participation of the Republic of Bulgaria with a guarantee of up to the BGN equivalent of EUR 10 million in the 'EU for Ukraine Fund (EU4U)';

3. under the Bulgarian Development Bank Act, which the Council of Ministers may issue, as well as approve the agreements for state guarantees and propose them to the National Assembly for ratification for loans from local, foreign and international institutions and/or bonds issued by the Bulgarian Development Bank in the amount of up to the currency equivalent of BGN 2.5 billion in relation with the financing of the 'National Energy Efficiency Programme for Multi-Family Residential Buildings for the period 2025-2029' under Art. 109 of the 2025 SBARB and in relation with the implementation of the Investment

Programme for Municipal Projects under Art. 113 of the 2025 SBARB, in compliance with the legislation in the field of state aid.

Assuming the issuance of state guarantees planned in the 2025 State Budget of the Republic of Bulgaria in a maximum amount of BGN 6.8 billion and the full disbursement of loans during the year, in 2025 the government guaranteed debt is expected to increase to a level of about BGN 8.3 billion or 3.9% of the projected GDP. For the period until 2028, the forecasts are for the level of government guaranteed debt to remain in absolute terms close to its level at the end of 2025 (about BGN 8.2 billion), but as a relative share to the projected GDP at the end of 2028 (3.3%), a decrease of 0.6 percentage points is expected compared to its projected level at the end of 2025 (3.9%).

Within four-year period it is expected the General government debt[1] to reach BGN 63.1 billion. (29.3% of the projected GDP) at the end of 2025, BGN 73.7 billion (32.4% of the projected GDP) at the end of 2026, BGN 82.5 billion (34.8% of the projected GDP) at the end of 2027 and BGN 89.8 billion (36.4% of projected GDP) at the end of 2028.

In the management of sovereign liabilities, the vulnerability of risks remains, which correspond both to the forecasts for the rate of debt growth in absolute value, securing the large volumes of new debt financing planned in the medium term, planned mainly to be secured on a market basis, and to the structure and profile of the debt outstanding, mainly formed by securitised debt and a predominant share of external debt obligations, the planned nominal growth of interest expenses, etc. ■

[1] The General government debt consists of the Central government sub-sector debt (a prevailing part of it is for the government debt), Local government sub-sector debt and Social security funds sub-sector debt, in observing the principle of consolidation (elimination of those liabilities, which corresponding financial assets are owned by institutional units from General government sector)

2. GOVERNMENT AND GOVERNMENT GUARANTEED DEBT[2]

2.1 Government debt

The complicated economic situation on a global scale, influenced by ongoing foreign policy processes and the influence of international risks are among the main challenges facing debt management in 2024.

Considering these challenges, the implemented government debt management policy follows the previously set strategic objectives and defined measures necessary for their implementation and application. In the course of implementing the set priority goal of securing the necessary debt financing of the budget and the liquidity position of the fiscal reserve, in the conditions of global geopolitical and economic tension, which create prerequisites for both uncertainties for the EU economy and Bulgaria, as well as fragmentation and volatility of the capital markets, liquid issues of government securities on the domestic market and ICM bonds were placed during the year. The secured debt financing in 2024 is consistent with the debt markets conditions, the financing cost and the risks associated with its provision.

By the end of 2024, the nominal amount of the government debt amounted to BGN 47.4 billion, with a maximum allowable amount according to the 2024 SBARB of BGN 48.0 billion. In absolute terms, the debt increases by BGN 6.9 billion compared to the level of BGN 40.5 billion reported at the end of 2023, which is due to newly issued government bonds on the domestic and international markets in a total nominal amount of BGN 10.2 billion and the repayments made on the government debt to external and domestic creditors in a total amount of BGN 3.5 billion. The debt-to-GDP ratio reaches 23.5% of GDP at the end of 2024, which represents an increase of 1.6 p.p. compared to the level reported at the end of 2023 (21.9%).

Within the ceiling of the maximum amount of new government debt that can be issued during the year up to BGN 11.7 billion, defined in the 2024 SBARB, securitised debt issues with a total nominal amount of BGN 10.2 billion are placed, with the issuance programme for the year being implemented through a combination of domestic and external sources. The total debt issued in the form of government securities covered the fiscal needs for refinancing maturing debt, financing the budget deficit and ensuring budget liquidity.

In the period April-August 2024, a total of 8 auctions for the sale of government securities were held on the domestic market, at which government debt in a total nominal amount of BGN 1.7 billion was placed through issues of 3-year and 6-year bonds: 3-year government

[2] Due to rounding in BGN million some aggregate entries do not fully comply with their constituent numbers

securities (the issue was put into circulation in April 2024, denominated in BGN, with a maturity date of 17.04.2027 and an annual interest coupon of 3.0%) with a total placed volume of BGN 900.0 million, including BGN 200.0 million in April, BGN 300.0 million in May, and BGN 200.0 million each in June and July;

6-year government securities (the issue was put into circulation in May 2024, denominated in BGN, with a maturity of 15.05.2030 and an annual interest coupon of 3.25%) with a total placed volume of BGN 800.0 million, including BGN 200.0 million issued in May, June, July and August.

At the end of August, a single transaction was carried out on the international capital markets for the placement of triple tranche bonds denominated in two currencies: EUR and USD, with a total nominal value of BGN 8.5 billion. The role of lead managers is entrusted to the investment banks BNP Paribas, Citigroup Global Markets Europe AG, ING Bank NV, UniCredit Bank GmbH.

The first tranche consists of EUR-denominated bonds with a maturity of 8 years, a volume of EUR 1.75 billion and an interest coupon of 3.625%, achieving a spread over the average interest rate swap of 135 b.p. The second tranche consists of EUR-denominated bonds with a maturity of 20 years, a volume of EUR 1.25 billion and an interest coupon of 4.250%, achieving a spread over the average interest rate swap of 190 b.p. The third tranche consists of USD-denominated bonds with a maturity of 12.5 years, a volume of USD 1.5 billion and an interest coupon of 5,000%, with the spread compared to the reference US bonds reduced to 135 b.p. The inclusion of a dollar tranche in the targeted transaction, on the one hand, allowed the procurement of the entire required volume of financing, while at the same time helping to diversify the investor base by attracting new investors. On the other hand, the dollar tranche predetermines the assumption of currency risk related to fluctuations in the USD exchange rate, which reflects both on interest expenses and on the amount of debt.

These bonds represent a first-rate, unsecured loan in the ‘Regulation S’ format. The maturity of the bonds is determined according to the stated investor interest and the debt amortization profile in order to prevent additional concentration of payments.

With the undertaken issuance activities, the necessary debt financing of the budget for 2024 was secured, on the one hand, and the sovereign debt curve was supplemented and the liquidity of the Bulgarian government debt increased, on the other hand.

The repayments on the government debt made in 2024 amounted to a total of BGN 3.5 billion, of which BGN 3.1 billion on the external government debt and BGN 0.4 billion on the domestic government debt. The highest share of them are those paid (on September 3, 2024) in favour of the holders of the 10-year Eurobonds of the Republic of Bulgaria, issued in 2014 by the ICM, in the amount of BGN 2.9 billion. (EUR 1.493 billion nominal value). The total amount of interest cost on the government debt in 2024 is BGN 953.3 million. (BGN 830.9 million on external and BGN 122.4 million on domestic government debt). The ratio of interest cost to GDP amounted to 0.5%, which is an increased to 0.1 pp compared to the end of the previous year - 0.4%.

Table 2: Main government debt indicators

Parameters	31.12.2022 г.	31.12.2023 г.	31.12.2024 г.
	Report	Report	Report
Total Government Debt, BGN million	**36,125.7**	**40,514.0**	**47,383.9**
GDP*, BGN million	168,360.0	185,232.5	201,469.9
Total Government Debt /GDP, (%)	21.5%	21.9%	23.5%
Domestic government debt, BGN million	10,965.4	10,615.4	11,935.4
External government debt, BGN million	25,160.3	29,898.6	35,448.5
Domestic government debt/Total government debt, (%)	30.4%	26.2%	25.2%
External government debt/Total government debt, (%)	69.6%	73.8%	74.8%
Interest rate structure of the governmnet debt			
Fixed rate debt, BGN million	35,820.5	40,301.5	47,244.9
Floating rate debt, BGN million	305.2	212.5	139.0
Fixed rate debt, (%)	99.2%	99.5%	99.7%
Floating rate debt, (%)	0.8%	0.5%	0.3%
Currency structure of the governmnet debt			
Debt in EUR, BGN million	25,560.2	30,312.8	33,048.7
Debt in BGN, BGN million	10,507.5	10,157.5	11,477.5
Debt in USD, BGN million	-	-	2,823.9
Debt in other currency, BGN million	57.9	43.6	33.7
Debt in EUR, (%)	70.8%	74.8%	69.7%
Debt in BGN, (%)	29.1%	25.1%	24.2%
Debt in USD, (%)	0.0%	0.0%	6.0%
Debt in other currency, (%)	0.2%	0.1%	0.1%
Maturity structure of the governmnet debt (by residual term)			
Debt up to 1 year, incl., BGN million.	2,790.0	3,328.1	3,408.8
Debt from 1 year to 5 years, incl., BGN million	11,814.4	10,798.5	13,773.1
Debt from 5 year to 10 years, incl., BGN million	11,604.1	14,638.5	14,866.9
Debt of more than 10 years, incl., BGN million	9,917.1	11,748.8	15,335.1
Debt up to 1 year, incl., (%)	7.7%	8.2%	7.2%
Debt from 1 year to 5 years, (%)	32.7%	26.7%	29.1%
Debt from 5 year to 10 years, (%)	32.1%	36.1%	31.4%
Debt of more than 10 years, incl., (%)	27.5%	29.0%	32.4%
Average residual maturity of government debt (years)	7 г. и 11 м.	7 г. и 10 м.	8 г. и 3 м.

Source: MoF

In the structure of the government debt as of 31.12.2024, the relative share of the domestic government debt is 25.2%, and of the external government debt - 74.8%, compared to 26.2% and 73.8% in 2023, respectively.

The interest rate structure of the government debt at the end of 2024 is still dominated by liabilities on which fixed interest rate are paid with a share of 99.7%, and the share of liabilities with floating interest rates represents 0.3%.

In the currency denomination of the debt as of the end of 2024, liabilities in BGN and EUR predominate, with a total share of 94.0%. During the year, there was an increase in the share of debt in USD to 6.0%, while debt in other currencies remained at a level of 0.1%.

Compared to the previous year, in the maturity structure of debt (by residual maturity), the volume of debt with a residual maturity of up to 1 year and the volume of debt from 5 to 10 years decreased from 36.1% to 31.4%, at the expense of debt with a residual maturity of 1 to 5 years, which increased from 26.7% to 29.1%, and that over 10 years, which increased from 29.0% to 32.4%.

The average residual maturity of the government debt at the end of 2024 is extended to 8 years and 3 months compared to the level reported since the end of 2023 (7 years and 10 months).

2.2 Government guaranteed debt

By the end of 2024, government guaranteed debt increases to BGN 1.7 billion. (BGN 1.6 billion for 2023), as a result of disbursements made under government guaranteed loans of the „Bulgarian Development Bank "EAD and „Bulgargaz "EAD. The Government Guaranteed Debt to GDP ratio recorded a slight decrease to 0.8% compared to the level at the end of the previous year - 0.9%.

The main part of the government guaranteed debt - 85.7% is formed by external government guaranteed loans, provided mainly through official creditors such as the IBRD, EIB, EC, EBRD, CEB, JICA, etc. The domestic government guaranteed debt consists of state guarantees issued under the Student and Doctoral Candidate Loans Act and guarantees issued to „Bulgargaz "EAD, which as of December 31, 2024 has a share of 14.3% in the total amount of GGD.

No significant changes are expected in the sectoral structure of government guaranteed debt as of 31.12.2024. The dominant share in it continues to be occupied by the „Financial sector "- 46.0%, followed by the „Energy" sector - 28.6%, the „EU and EIB Instruments" sector - 18.4%, the „Transport" sector - 3.3%, the „Education" sector - 3.1% and the „Other" sector - 0.5%.

All payments due on guaranteed loans are serviced regularly and in accordance with the agreements made, or the funds planned in the 2024 SBARB to cover the risk of government guarantees being called are not used.

Within the ceilings of Art. 73 of 2024 SBARB , in 2024, government guarantees were issued, in the amount of BGN 40 million under the Student and Doctoral Candidate Loans Act and the Joint and Guarantee Agreement between the Republic of Bulgaria as guarantor and the Council of Europe Development Bank as beneficiary in relation with the Framework Loan Agreement between the Council of Europe Development Bank and the „Bulgarian

Development Bank“ EAD, signed in Paris on July 18, 2023 and in Sofia on July 20, 2023 in the amount of EUR 175.0 million (announced, State Gazette, issue 81/24.09.2024), was ratified by law.

Table 3: Size and dynamics of the government guaranteed debt

Government Guaranteed Debt, BGN million	31.12.2022 г.	31.12.2023 г.	31.12.2024 г.
	Report	Report	Report
Domestic government guaranteed debt	62.4	57.4	242.4
1. Guarantees under Student and Doctoral-Candidate Loans Act	62.4	57.4	52.1
2. Guarantees, issued to "Bulgargaz" EAD	-	-	190.2
External government guaranteed debt	1,638.5	1,525.9	1,457.7
1.IBRD /World Bank/	557.4	528.1	430.3
2.EIB	221.6	220.5	323.4
3.EBRD	440.1	293.4	146.7
4. Others (EUROATOM, JBIC, CEB, EC, ect.)	419.3	483.9	557.3
Total government guaranteed debt	**1,700.9**	**1,583.3**	**1,700.1**
Government guaranteed debt/GDP (%)	1.0%	0.9%	0.8%

Note: GDP for 2022 and 2023 according to data of the NSI for the period 2024- according to the autumn macroeconomic forecast of the Ministry of finance for 2024-2028.

Source: MoF

3. ECONOMIC PROSPECTS FOR THE PERIOD 2025–2028

3.1 National economy development in 2024

In 2024, growth in the EU is expected to remain weak, reaching 0.9%, amid high uncertainty caused by geopolitical conflicts in different parts of the world. At the same time, the global economy is forecast to grow by about 3.2%.

In the first nine months of 2024, Bulgarian real gross domestic product's growth reached 2.3% and was driven by consumption and changes in inventories. Household consumer spending rose by 4.4%, supported by growth in real disposable income. Public consumption recorded a growth of 5%. Gross fixed capital formation fell by 1.7% due to a decrease in public capex, while private investment recorded growth. Exports of goods and services decreased by 1.3%, while imports increased by 1.4%.

In 2024, Bulgarian real GDP growth is forecasted at 2.2%, with an increase in exports and government investment expected in the last quarter.

The number of employed persons is expected to increase by 0.6% compared to 2023, and the unemployment rate is expected to decrease to 4.2% on average for 2024. Some industrial sectors are experiencing difficulties with external demand, which also leads to the optimization of existing jobs. The shortage of labour supply continues to be one of the main constraints to expanding manufacturing activity according to employers' assessments. In 2024, the nominal growth in compensation per employee is projected at 14.3%.

Since the fourth quarter of 2022, the country has been experiencing a disinflation trend, supported by falling energy prices on global markets and favourable base effects. The annual inflation rate continued to slow in 2024, reaching 2.1% in December. A slowdown was observed in all major HICP components. Compared to a year earlier, energy prices declined, while those of non-energy industrial goods remained almost at the same level. The increase in service prices had the largest contribution and formed almost half of the inflation at the end of the year. The average annual inflation for 2024 was 2.6%.

By the end of 2024, the current account balance is expected to turn negative, reaching -0.8% of projected GDP—a decrease compared to both 2023 and the surplus of 0.9% recorded as of September. A traditionally higher investment income is expected by year-end compared to the available preliminary data, with the balance of income items remaining unchanged compared from 2023.

The country's gross international foreign exchange reserves continued to support the stable functioning of the currency board. Their market value at the end of 2024 amounted to EUR 42.1 billion. The banking system in Bulgaria remained stable, maintaining high levels of capital adequacy and liquidity. Credit to the private sector accelerated in 2024, growing by 14.7% year-on-year as of the end of December, up from 12.2% at the end of the previous year. This was largely driven by household loans, which grew by 20.8% compared to 15.9% at the end of December 2023.

3.2 Expectations for economic growth in 2025 – 2028

Economic growth will rise to 2.8% in 2025, driven by increased public spending. At the same time, a projected slowdown in income growth will lead to weaker growth in household consumption. Export growth will gradually accelerate, supported by stronger external demand from the EU; however, the contribution of net exports will remain negative. In 2026, the improvement in external demand is expected to boost export growth to 3.5%, while overall GDP growth will accelerate to 3%. The rise in demand will positively impact private investment activity, and public investment growth will continue to be supported by spending under the RRP. In the period 2027-2028, GDP growth will slow to 2% reflecting the diminishing positive effects of RRP-related investments, a deceleration in household consumption growth in line with income trends, and a slowdown in export growth in line with external demand.

In 2025, employment growth of 0.5% will remain close to that of 2024. Due to the relatively low unemployment rates in the country, the growth in the number of employed is expected to be fueled mostly by individuals who were previously outside the labour force, rather than by unemployed individuals. The unemployment rate is forecasted to decrease minimally (by 0.1 percentage points) to 4.1% in 2025. The unfavourable demographic development in the country and the increasingly limited opportunities for expanding the labour supply predetermine a gradual decrease in employment growth during the period 2026-2028, although the economy continues to grow.

In 2025, the growth of compensation per employee is expected to decrease and will reach 9.1% as a result of the increase in the minimum wage from the beginning of the year and the increase in wages in some public sector activities. Labour income growth will continue to slow down during the period 2026-2028, in parallel with the expected acceleration in real productivity growth. This will also limit the growth of nominal unit labour costs to around 1.5% in 2028, and in real terms unit labour costs are not anticipated to rise in the last three years of the forecast period.

The end-of-period HICP inflation rate in 2025 is expected to be 2.6%. Energy prices will continue on the downward trend, but their negative contribution will shrink, which accounts for the observed acceleration of inflation compared to the end of 2024. Services again will contribute the most, followed by food prices. The average annual increase in the headline rate will slow to 2.4% in 2025 and will continue to decelerate to 2% in 2028, mainly on the back of the expected downward dynamics in international prices. The contribution of core inflation components will narrow but will remain as a leading contributor to inflation in line with the projected increase in domestic demand, as well as labour costs in the economy.

In 2025, the current account deficit is expected to increase to 2% of projected GDP. The change in the balance will reflect the strong nominal growth of import, influenced by the growth of domestic demand (including for the acquisition of military equipment). The improvement in external demand will also support an acceleration in export, but the pace will remain moderate relative to that of imports. The terms of trade will turn slightly positive. The growth of receipts from tourism and transport services is expected to remain stable, which will lead to a slight increase in the surplus on the services item. Inflows under various EU programmes will increase the surplus on secondary income.

In the period 2026–2028, the current account deficit will continue to increase, reaching 3.7% of GDP at the end of the period. Export will grow in line with the improvement in external demand. Terms of trade will remain positive, but nominal import growth will continue to anticipate export growth, with traded volumes making the main contribution. This will also lead to a continued increase in the deficit in trade in goods and will accordingly be decisive for the reduction of the current account. The flow of inward FDI will remain within 3.8–3.9% of GDP.

The overall dynamics of the balance of payments implies the maintenance of a sustainable external position and a stable level of international reserves.

In 2025, claims on the private sector will slow down to 11.5%. A greater contribution to this will be the lower growth rate of household loans at 15.5%, given the lower expected rate of increase in compensation of employees. Claims on non-financial corporations are expected to accelerate from 8% at the end of 2024 to 8.4% at the end of 2025, supported by the acceleration of investment activity related to the implementation of the RRP. The growth of claims on the private sector will continue to slow in 2026 to 10.3%, mainly reflecting weaker growth in claims on households, which will reach 12.4%. The implementation of investment projects related to the RRP is expected to continue actively in 2026, which will contribute to a new slight acceleration of receivables from enterprises to 8.5%. In 2027 and 2028, lending will continue to slow gradually, both for loans to non-financial corporations and for loans to households.

3.3 Risks to the macroeconomic forecast

The risks of escalating geopolitical disputes and strengthening protectionist policies, both of which may transmit negative effects to international trade — have increased. A potential shift in the US policy and the introduction of measures to restrict imports from the EU, such as raising tariffs, would significantly impact the German and other major European economies and would limit Bulgarian external demand, thereby slowing the country’s export growth.

The risks to the inflation forecast are primarily related to the expected dynamics of the prices of the domestically traded raw materials - particularly energy goods, as well as rising labor costs in the economy.

Public capital expenditures, including the implementation of the RRP, also pose a risk to the forecast. Failure to implement these measures would result in lower-than-expected economic growth during the period 2024–2026.

Domestic political instability and changes in administratively determined labour market indicators (most notably the indexation of wages in the public sector and the minimum wage) are creating expectations and attitudes for continued high rates of wage growth in the coming years despite the slowdown in inflationary processes. From the perspective of the forecast itself, this could result in higher-than-expected wage growth and potentially lower growth (or even a decline) in employment in the country.

4. ANALYSIS OF RISKS RELATED TO THE GOVERNMENT DEBT STRUCTURE FOR THE PERIOD 2025–2028.

The risk analysis reflects the effects on the risk parameters of the government debt under the assumptions of the budget framework, the main macroeconomic indicators from the autumn forecast of the Ministry of Finance for the period 2024-2028 and the new debt financing envisaged in the 2025 SBARB for and the MTBF for the period 2025-2028, including its indicative distribution between domestic and external sources (volumes, specific instruments and parameters, time allocation). Issues of government securities on the domestic and international markets are envisaged, as well as external financing in the form of government loan disbursements from official creditors.

The manifestation of portfolio risks in the medium term is assessed based on generally accepted and widely used risk indicators, as well as their quantitative expression, grouped into the following categories:

Table 4: Risk assessment indicators

Risk	Indicator	2023 r. - Report	2024 r. - Report	2025 r.- Project	2026 r.- Forecast*	2027 r. - Forecast*	2028 r. - Forecast*
Refinancing risk	Debt up to 1 year (by residual maturity as a share of government debt, %)	8.2%	7.2%	4.1%	4.4%	4.0%	6.2%
	Average time to maturity (ATM) - (years)	7.9	8.5	9.3	9.4	9.7	9.9
Interest rate risk	Ratio between fixed interest rate debt and floating interest rate debt, (%)	99.5% / 0.5%	99.7% / 0.3%	99.9% / 0.1%	99.9% / 0.1%	100%	100%
	Average time to refixing (ATR) - (years)	7.9	8.5	9.3	9.4	9.7	9.9
	Duration - (years)	6.9	7.2	7.7	7.7	7.8	7.8
Currency risk	Ratio between external and domestic government debt , (%)	73.8% / 26.2%	74.8% / 25.2%	83.9% / 16.1%	87.0% / 13.0%	86.1% /13.9%	87.5% /12.5%
	Ratio between debt in risk-neutral currencies – BGN and EUR as compared to the share in other currencies debt (% of the total amount of the government debt)	99.9% / 0.1%	94.0% / 6.0%	95.5% / 4.5%	96.2% / 3.8%	96.7% / 3.3%	96.9% / 3.1%
Liquidity risk	Ratio between debt up to 1 year (at residual maturity) and tax and social security revenues, (%)	6.4%	5.8%	3.5%	4.2%	4.1%	4.9%
Risk related to the debt size	Ratio between General government debt and GDP, (%)	22.9%	24.2%	29.3%	32.4%	34.8%	36.4%
	Ratio between Government debt and GDP, (%)	21.9%	23.5%	28.6%	31.9%	34.3%	36.0%
Risk related to governmnet guarantees	Ratio between government guaranteed debt and government debt, (%)	3.9%	3.6%	13.5%	11.3%	10.1%	9.2%
	Ratio between government guaranteed debt and GDP, (%)	0.9%	0.8%	3.9%	3.6%	3.5%	3.3%
Operational risk	- Established stable institutional structure for government debt management, having clearly delegated staff responsibilities, which operates within the framework of the Ministry of Finance;						
	- Maintenance of the information system for analysis, forecasts and management of the government and government guaranteed debt - an official register of the government and government guaranteed debt;						
	- Pursuing an operating risk reduction policy by applying and complying with internal standards and control systems;						
	- Detailed rules and procedures about the organization of the operation of the structural unit in charge of government debt management.						

Note: The data is projected. The assumptions for new debt financing set out in the preparation of the estimates under the 2025 SBARB and the 2025-2028 UMTBF are taken into account.

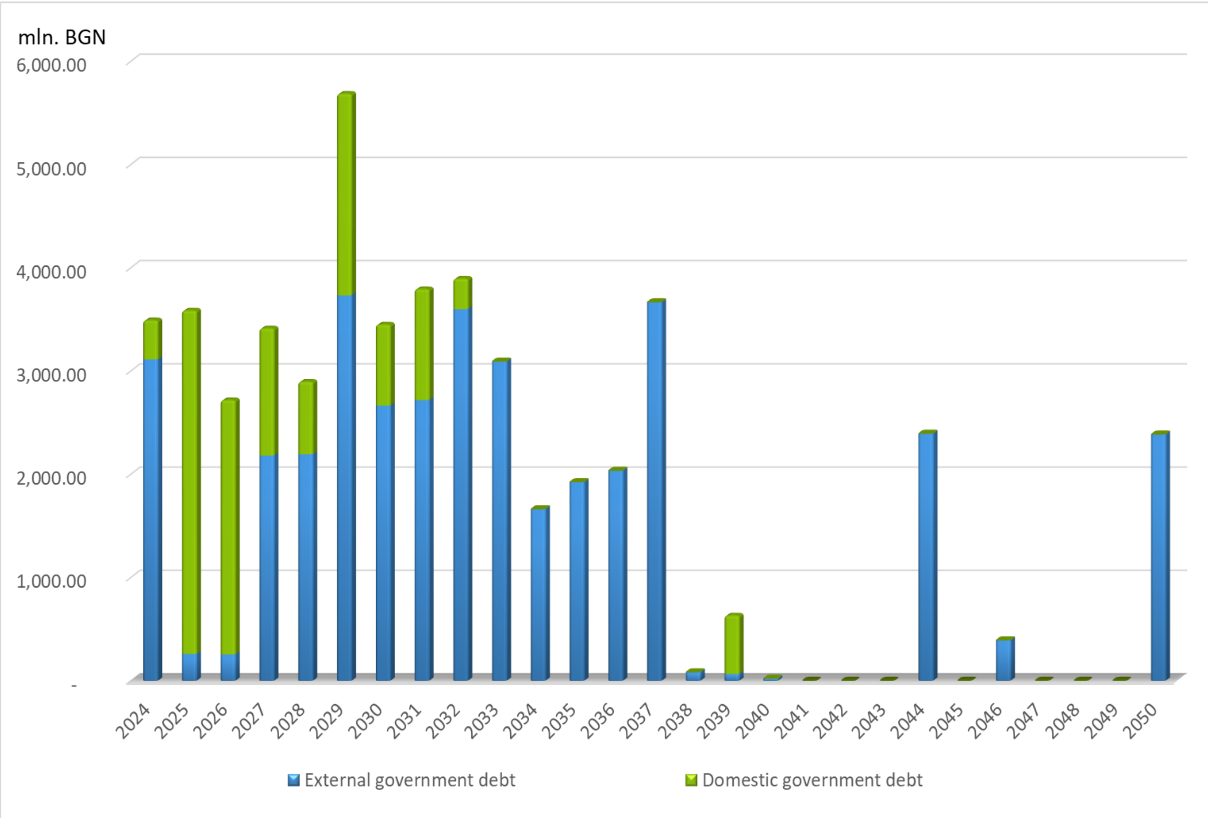
Source: MoF

4.1 Refinancing risk

The maturity structure of government debt is an important source for measuring debt refinancing risk, as this risk mainly relates to the ability to timely refinance upcoming debt payments and is mainly dependent on the size of upcoming repayments and their concentration over a certain period. The impact of risk is enhanced in the presence of episodic market volatility and/or difficult access to debt markets, as well as in the event of low investor interest in the instruments offered.

During the period 2025-2028, the debt outstanding to be refinanced amounts to about BGN 3.7 billion in 2025 (including BGN 3.3 billion for maturities of government securities issued on the domestic market and BGN 0.4 for external government debt), BGN 2.8 billion in 2026 (including BGN 0.3 billion for external government debt and BGN 2.5 billion for domestic government debt), BGN 3.4 billion in 2027 (including BGN 2.2 billion for external government debt and BGN 1.2 billion for domestic government debt) and BGN 3.5 billion in 2028. (including BGN 2.3 billion on external government debt and BGN 1.2 billion on domestic government debt).

Fig. 2: Redemption profile of the government debt*



** On active debt (in BGN million), issued as of February 15, 2025.* *Source: MoF*

The share of government debt with a residual maturity of up to 1 year to the total amount of government debt outstanding in 2025 decreased to a level of 4.1% (7.2% at the end of 2024), and in the following period it is expected to reach 4.4% at the end of 2026, 4.0% at the end of 2027 and 6.2% at the end of 2028. This risk makes it possible to assess both the debt burden and the capacity of the government to meet the upcoming interest payments. The average time to maturity (ATM) is amount of the principle payments and the remaining maturity. Its value extends from 8.5 years in 2024 to 9.3 years in 2025, continuing to extend in the following years to 9.4 years at the end of 2026, 9.7 years at the end of 2027, and at the end of the period reaching 9.9 years. These results indicate that the debt portfolio will be renegotiated less frequently and therefore be less exposed to refinancing shocks.

4.2 Market risk

Market risk arises from potential changes in the main market indicators - interest rates and exchange rates and is measured by the presence in the debt portfolio of instruments denominated in currencies other than EUR and BGN and of those with floating interest rates.

As of 31.12.2024, in the interest rate structure of the government debt, liabilities with fixed interest rate retain their predominance and increase to 99.7%, and in 2027 and 2028, the entire government debt is expected to be tied to fixed interest rates. The floating-rate debt at the end of 2024 represents only 0.3% and is projected to fall to 0.1% in 2025, maintaining this level in 2026. A significant contribution to this is made by the planned borrowing policy, oriented primarily towards debt instruments with a fixed interest rate.

During the period 2024-2028, the value of the other important indicator for measuring interest rate risk - ‘average time to refixing’ is expected to increase to 9.3 years at the end of 2025 (from 8.5 years at the end of 2024), which does not imply that a large part of the debt will be subject to interest rate changes in the medium term.

The currency exposure of the debt is predetermined by the actual currency board system, respectively the fixing of BGN to EUR (BGN 1.95583 for EUR 1). The total combined share of debt in EUR and BGN at the end of 2024 is 94.0%. The share of debt denominated in currencies other than EUR and BGN (JPY and USD) increases to 6.0% at the end of 2024, as a direct consequence of the ICM dollar bonds placed during the year. The presence of dollar exposures in the debt structure suggests vulnerability of the debt portfolio to possible fluctuations in the USD exchange rate. In the coming years, it is planned that the main part of the debt will be denominated in risk-neutral currencies (in BGN and in EUR), with their relative weight in the total amount of debt expected to range around 96-97%.

In the structure of the government debt, the main part is occupied by the external government debt with a share of 74.8% at the end of 2024, which is projected to increase in the medium term, reaching a share of 87.5% at the end of the forecast period. Relative to the total amount of debt, the share of domestic government debt represents 25.2% as of 31.12.2024, which is expected to continue to decline to a level of 12.5% at the end of the period. This structure is largely determined by the expectations that the required amount of new debt financing will be secured primarily on a market basis through a combination of government securities issues on the domestic debt market and placement of ICM bonds, with a strong priority for external sources, given the limitations in the scale and development of the domestic debt market.

The end of 2023 also marked the end of the upward cycle of regulatory interest rates in the world. In the first half of 2024, the major central banks - the USA Federal Reserve and the ECB - monitored the impact of high interest rates on prices and economic growth and, after being convinced that the 2% inflation target was achieved, began a gradual easing of monetary policy. First, in early June 2024, the European regulator took action in this direction, which by the end of January 2025 initiated reductions in its key interest rates. The deposit facility rate was reduced by 125 b.p. and currently stands at 2.75%. The interest rate on the main refinancing operations and the interest rate on the marginal lending facility were each reduced by 160 basis points and currently stand at 2.93% and 3.15%, respectively. For its part, the USA Federal Reserve began the process of lowering regulatory interest rates in September 2024. To date, the regulator has made three cuts reducing to its key interest rates by 100 b.p., thus getting the federal funds rate to the range of 4.25 - 4.5%. According to Bloomberg forecasts, by the end of 2025, federal funds rates in the USA are expected to settle at levels of 3.69% - 3.95%, and the main refinancing rate and the deposit facility rate in the Eurozone are expected to settle at levels of 2.10% and 1.90%, respectively. In such a situation, it is expected that in the years of the forecast period, newly issued debts will be secured at lower interest rates compared to previous years, which, other things being equal, will have a positive effect in the coming years on the costs of servicing obligations and on reducing the burden of servicing the government debt on the budget. If the interest rates forecast by Bloomberg until the beginning of 2027 are realized, it is possible to maintain the appropriate conditions for issuing new securitised debt until the end of the forecast period.

4.3 Liquidity risk

Liquidity risk management is mainly reduced to undertaking measures to limit potential vulnerabilities arising from the occurrence of possible difficulties for the state budget in covering the government short-term liabilities. This risk is associated as a type of refinancing risk and is directly related to market risk, which requires a complex accounting of a set of interactions between related indicators for risk assessment.

When considering the impact of liquidity risk from a debt management perspective, an important emphasis is on liquidity risk in financing, which arises in the event of possible difficulties that the issuer could experience in a situation of raising the necessary resources in a short period of time, as well as in the event of insufficient liquidity in the sovereign debt markets, or a separate segment thereof. The other measure of the impact of risk is the liquidity and treading ability of the country individual debt instruments, which could have a direct impact on the sovereign's risk premium and debt financing costs.

An important indicator for risk assessment is the ratio ‘debt up to 1 year (by residual maturity)/tax and social security revenues’, indicating the ability to meet short-term obligations, which is projected to decrease from 5.8% in 2024 (6.4% in 2023) to 3.5% at the end of 2025, and in the following period 2026-2028 to gradually increase from 4.2% at the end of 2026 to 4.9% at the end of 2028.

More broadly, the concept of liquidity has various meanings, including the availability of cash. As a liquidity management tool, the fiscal reserve acts as a protective mechanism and reduces the impact of liquidity risk. In order to minimize the risks of potential liquidity difficulties, the draft of the 2025 SBARB provides for a minimum threshold of BGN 4.5 billion. A good practice in risk management is to provide liquidity buffers in the fiscal reserve.

4.4 Risk related to the debt size

In the medium term, an increase in the levels of the General Government debt and of the government debt both in nominal value and as a share of GDP is projected.

At the end of the third quarter of 2024, the General Government debt amounted to BGN 48.7 billion or 24.6% of GDP, with Bulgaria ranking second after Estonia (24.0%) at average levels for the Eurozone countries of 88.2% and at the EU level of 81.6%. The highest values of the indicator were recorded in Greece (158.2%), Italy (136.3%), France (113.8%), Belgium (105.6%) and Spain (104.3%).

Compared to the second quarter of 2024, in the third quarter, Bulgaria recorded the highest increase in the General Government debt (2.4 p.p.) among the EU Member States, mainly as a result of the issuance of government securities (GS) on the international capital markets (ICM) in September 2024 in a total amount of BGN 8.5 billion. For 2024, preliminary data forecast an increase in the nominal value of the General Government debt , reaching BGN 48.8 billion.[3] (BGN 42.4 billion for 2023), and as a ratio to GDP to reach a level of 24.2% (22.9% for 2023).

Among the individual components forming the sector's debt, the most significant contribution throughout the period under review was made by the ‘Central Government’ sub-sector debt, with the main influence being the government debt. The overall effect of the debt of enterprises and hospitals included in the scope of the General Government debt remains minimal.

The sector's debt, presented in absolute amount, is projected to reach BGN 63.1 billion at the end of 2025, BGN 73.7 billion at the end of 2026, BGN 82.5 billion at the end of 2027 and BGN 89.8 billion at the end of 2028, accounting for an average annual growth of about BGN 10.2 billion over the forecast period. As a share of projected GDP, it is also expected to increase to 29.3% in 2025, to 32.4% in 2026, to 34.8% in 2027 and to 36.4% in 2028, with an

[3] Preliminary annual data on general government debt for 2024 will be published by Eurostat on 22 April 2025.

average annual growth rate for the period 2025-2028 of 3.0 p.p.

Similar dynamics are observed with regard to the government debt, which from BGN 40.5 billion at the end of 2023 reaches BGN 47.4 billion in 2024, to BGN 61.7 billion at the end of 2025, and at the end of 2026, 2027 and 2028 to BGN 72.4 billion, to BGN 81.5 billion and to BGN 88.9 billion, respectively, with an average annual growth of about BGN 10.4 billion for the forecast period. As a share of projected GDP, debt increases from 21.9% at the end of 2023 to 23.5% at the end of 2024, to 28.6% at the end of 2025, to 31.9% in 2026, to 34.3% in 2027 and to 36.0% by the end of 2028, with an average annual growth rate for the period 2025-2028 of 3.1 p.p.

The targeted data indicate a nominal increase in the government debt of BGN 48.4 billion over a period of 5 years (2024-2028) or practically a doubling of the size of the government debt. The trend contains extremely negative potential and the risk management toolkit related to the debt size should be viewed primarily through the prism of budgetary consolidation of public finances and limiting budget deficits.

4.5 Risk related to contingent liabilities in the form of government guarantees

In 2025, the draft state budget law provides an opportunity for the issuance of government guarantees in a total amount of up to BGN 6.8 billion, mainly related for financing investment projects implemented by companies in the Energy sector (in a total amount of BGN 4.2 billion), as well as for the purposes of financing the continuation of the National Energy Efficiency Programme for Multi-Family Residential Buildings for the period 2025-2029, launched in 2015, and for the implementation of the Investment Programme for Municipal Projects, in relation with the planned participation of the Bulgarian Development Bank.

Upon assumption for issuance of the planned new government guarantees and disbursement of the loans in full at the end of 2025 the total amount of the government guaranteed debt is expected to reach a level of about BGN 8.3 billion (at BGN 1.7 billion in 2024). The ratio of government-guaranteed debt to projected GDP for 2025 is also expected to increase to 3.9% (at 0.8% in 2024). Considering the concentration of financial resources mainly in the energy and financial sectors, corresponding changes are expected in the structure of government guaranteed debt by sectors, with the share of debt in the Energy sector next year amounting to 56.4%, and that of the Financial sector to 37.9%, respectively.

In the next three years, a slight decrease in the amount of government guaranteed debt in nominal terms is expected to reach BGN 8.2 billion (3.3% of projected GDP) at the end of 2028.

In the event of issuance, the government guarantees, the level of contingent liabilities with a potentially significant impact on the ‘General Government’ sector will also increase, the high values of which are an important risk indicator and are subject to monitoring and assessment.

The relative share of government guarantees in the total amount of government debt at the end of 2024 amounted to 3.6%, and within the upcoming four-year period its share is expected to increase to 13.5% in 2025, and at the end of 2026, 2027 and 2028 to gradually decrease to 11.3%, 10.1% and 9.2%. Upon assessing the future impact of the risk and with the aim of preventing its potential negative effects, the need to take on new state guarantees to support priority areas, including and such arising from international obligations of the Republic of Bulgaria and initiatives undertaken within the framework of the European Union, as well as the potential opportunities for realizing the risk of activation of already issued state guarantees. An important emphasis is also the assessment of the financial condition and creditworthiness of users of government guaranteed loans, with a view to preventing the risk of activation of state guarantees (i.e. of actual realization of contingent liabilities). This corresponds to the risk to the state budget that would be generated by the possible inability of beneficiaries of government guaranteed loans to timely fulfill their obligations to creditors. To cover this risk, funds are planned annually in the annual state budget laws, which usually provide for one-year payments for servicing government guaranteed loans.

The assessment of contingent liabilities with a potentially significant impact on the General Government sector is important for maintaining fiscal sustainability and managing fiscal risks, including in the medium term.

4.6 Operational risk

The organization of the activity on the government debt management is focused within one structural unit at the Ministry of finances and is based on broadly applicable principles on implementing continuous and standardized domestic monitoring and control system. The government debt management is realized through detailed established rules and procedures for the activity, with clearly distributed duties of the staff. The operational control is made also by maintaining and improving the functional capabilities of an information system for analysis, forecast and management of the government and government guaranteed debt, the so called official register of the government and government guaranteed debt that has different functional capabilities, including registration, analysis and monitoring of the government and government guaranteed debt, respectively a software, automating the processes on the data processing, related to the management of the sovereign liabilities and providing quality and reliability. The continuous and strict observance in the future of the reliable practices, established in this field, shall ensure the opportunity for minimization of the operational risk.

5. GOALS OF GOVERNMENT DEBT MANAGEMENT POLICY

The main goal of the debt management is to securing the necessary resources for refinancing the debt outstanding, financing the planned budget deficits and ensuring the liquidity position of the fiscal reserve.

5.1 Sub- objective: Maintaining sustainable government debt parameters

- **Measure: Conducting of new borrowing policy according to the statutory established terms and procedures**

Issuing on a new government debt shall be made upon observance of the already established practices and legal procedures. The annual setting of ceilings on the maximum amount of new debt that can be issued during the year, regulated by the annual state budget acts, reflects the issuer's commitments regarding the size and possible sources of new debt financing throughout the period 2025-2028. In the conditions of a highly volatile and unpredictable international environment, in accordance with the planned fiscal assumptions, a significant increase in the required debt financing is expected throughout the forecast period, with the most significant increase expected in 2025. Upon providing financial resources from debt sources, it is planned to maintain the trend for the predominance of market instruments both on the domestic market and on the international capital markets. Within this context, the cycle of interest rate cuts by central banks of the world's leading economies and the downward trajectory of inflationary pressures are expected to be reflected in an improvement in debt financing conditions. Strict compliance with the statutory order and procedures and the application of established practices when assuming new government debt are prerequisites for high investor confidence, which is reflected in the interest shown in the offering of sovereign bonds and contributes to minimizing the refinancing risk and liquidity risk.

In addition to market-oriented financing, there is an opportunity to negotiate government loans from international financial institutions (EIB and CEB) to finance projects and programs, which provides the necessary flexibility and expansion of funding sources throughout the forecast period, or diversification in the choice of debt instruments.

In the next years, the policy of issuing new government guarantees and financing investment projects with government loans will continue to be implemented within the regulatory framework, taking into account both the government priorities for supporting strategic sectors in the economy and the risks to the state budget that they generate. The main part of the projects that are planned to be financed with government guarantees are related to the Energy sector, and due to delays in the implementation of the projects from 2024, including negotiating their financing, and considering the importance of these projects for the country energy system, it is planned to continue the opportunities for issuing government guarantees for them in 2025.

On the other hand, in relation with the planned implementation of the National Energy Efficiency Programme for Multi-Family Residential Buildings for the period 2025-2029 and the Investment Programme for Municipal Projects, and the planned participation of the Bulgarian Development Bank has been provided an opportunity for the bank to use government guaranteed financing when providing funds.

- **Measure: Maintaining the level of the government and government guaranteed debt, non-exceeding the legally planned ceilings**

Measures aimed at maintaining a sustainable debt level in the context of the country upcoming membership in the Eurozone remain a priority. Over the next 4 years, as a direct consequence of the outlined perspectives for the budget framework and the need to provide funds, in addition to refinancing the debt outstanding, to finance the budget and the liquidity position of the fiscal reserve, a need for new debt financing in significant volumes is expected, which in turn leads to an increase in the level of government debt in the medium term.

Setting ceilings on the assumption of new government debt and the issuance of new government guarantees, as well as the maximum amount of government debt at the end of the year, in the annual state budget laws is an approach that has proven its effectiveness. Compliance with these restrictions requires continuous monitoring of the level and government debt profile, which makes a significant contribution to preventing deterioration of its parameters and sustainability.

By the 2025 SBARB, debt restrictions are foreseen for the maximum amount of the government debt at the end of 2025, which cannot exceed BGN 61.7 billion, and the maximum amount of new government debt that may be assumed during the year is up to BGN 18.9 billion. The maximum amount of new government guarantees that may be issued during the year is limited to a total amount of BGN 6.8 billion.

5.2 Sub-objective: Ensuring the opportunities for market-oriented debt financing, guaranteeing the sustainability of the state budget

- **Measure: Pursuance of a lending policy through implementation of analytical approach in the selection of debt instruments**

In the period 2025-2028, assessing the dynamics of the market conditions, the government issuance policy and the choice of specific issues , as well as their parameterization, are planned to be implemented taking into account a complex of factors: the characteristics of debt repayment profile outstanding, the state of the local and international capital markets, the terms for obtaining financing, the scale and price of the financing sought, the diversification and preferences of the investor base, the depth of the market, the assessment of the country creditworthiness, etc.

Upon sale of new sovereign debt and the choice of debt instruments in the forthcoming years, in addition to the current state, conditions and depth of the debt markets of government debt, the object of monitoring and analysis will also be the dynamics of the secondary market from the point of measurement of market perception, the diversification of the investor base, the role of investors, including their behavior, activity and potential investor interest in the offered securities. Following good practices, the Ministry of Finance plans to continue implementing communication mechanisms, or rather to conduct consultations with the investment community and periodically inform it about its issuance intentions and initiatives for the development of the domestic debt market.

To limit the additional concentration of payments, the new debt maturities are spread over years in which no huge debt payments are available. In order to ensure stability and predictability of budget expenditures, it is planned to offer standardized debt instruments, mainly with fixed interest coupons and risk-neutral currencies - BGN and EUR, without excluding other possible options.

In view of the effective current management of the budget cash flows and the liquidity of the public finances, it is maintained the opportunity for offering also short-term government securities, which are issued and matured within the respective budget year and do not put a burden on the payments under the government debt in the next years.

The observed external risk factors have their significant impact also on the domestic debt market, which has more limited capacity in view of dimension, liquidity and market participants, which limits the ability of the same to absorb debt financing in more significant dimensions.

- **Measure: Keeping the funding possibility through the Global Medium-Term Note Issuance Program on the International Capital Markets (GMTN Programme) for ensuring maximum flexibility in selecting the structure of financing with regard to markets, maturities and currencies**

The Global mid-term programme of the Republic if Bulgaria for issuance of bonds on the ICM (GMTN Programme) is established at the beginning of 2015 by the ratified by law from the National Assembly (SG issue 16 of 2015) Dealer Agreement, Agency Agreement and Deed of Covenant (prom. in SG issue 25 as of 2015). It represents an instrument, standardized for the international investment community, for issuance of bonds, subject to the English law, registered for trade on the Luxembourg stock exchange, by clearing and settlement in

Euroclear and Clearstream. By the established programme, the state has an opportunity for placement of bonds both on the European and on the American market, using different alternatives in choosing instruments, currencies, timings, public and private placement and a proper time period for appearing on the external markets.

The maximum aggregate nominal volume of bonds that may be issued under the GMTN programme (programme limit) was increased from EUR 14 billion to EUR 20 billion with the adoption of the 2024 SBARB. The maximum maturity of the bonds that may be taken under the programme is 30 years, and bonds with such a maturity were already issued in September 2020.

Until now, under the programme some Eurobonds with an aggregate nominal volume of more than EUR 18 billion have been issued under the programme, or the balance under the programme amounts to approximately EUR 1.95 billion. With a view to ensuring maximum flexibility in choosing a market and financing instrument, as well as in the event of a possible impossibility to diversify debt sources to procure the entire volume of the necessary debt financing in 2025, by the 2025 SBARB, an increase in the maximum aggregate nominal volume of bonds (from EUR 20 billion to EUR 27 billion) that may be issued in implementation of the medium-term programme is planned. The planned increase covers the risk of the eventual impossibility of diversifying the debt sources, respectively for procuring the full volume of the necessary debt financing in 2025, and ensures maximum flexibility in the choice of market and financing instruments.

Considering the expectations for the levels of the necessary debt financing during the period 2025-2028 and in order to preserve the diversification of the sources of debt financing, it is planned that the maximum limit for issuing bonds under the programme will be annually subject to consideration and (if necessary to be changed) depending on the specified debt limits for newly issued debt provided for in the relevant annual state budget acts.

The specific market, maturity and volume of the forthcoming tranches under the programme will be tailored to the repayment profile of the government debt and the prevailing investor interest. The existence of a legal framework for issuing a series of ICM bonds provides access to the leading global investors and an opportunity for optimal planning and implementation of the emission policy and effective management of the risk profile of the government debt.

5.3 Sub-objective: Development of the government bonds market

5.3.1. Measure: Undertaking regulatory and infrastructural changes in preparation for accession of Bulgaria in the Eurozone

In relation to Bulgarian accession to the Eurozone, both large-scale infrastructure improvements are forthcoming, including in the Government Securities Depository operated by the BNB, as well as finding the most optimal approaches for structuring newly issued government securities bonds so as to cover to the maximum extent the increased broad-based requirements of the Eurosystem. The Ministry of Finance will continue its targeted efforts to meet the highest standards in order to foster the liquidity, by means of improving the placement of government securities, as well as by improving the placement of government securities, including through the implemented primary dealer system, as well as by improving the infrastructure serving the government securities market itself. The Ministry of Finance, in its capacity as an issuer and participant in the financial market, will ensure the creation of all conditions for maintenance of a competitive market environment, stimulating its activity and liquidity.

After Bulgaria's accession to the Eurozone, in order to be covered by Eurosystem credit operations, eligible assets, part of which are government securities, including those that will be converted from BGN into EUR, is necessary to meet a number of criteria, such as: (i) high credit quality; (ii) high liquidity; (iii) to be admitted to trading on a recognized exchange, respectively be actively traded on a given trading venue, with a view to ensuring the availability of continuous data on prices and yields, for the purpose of their daily revaluation at market prices.

In addition, central securities depositories (CSDs), where eligible assets, some of which are government securities, are initially registered, as well as where their settlement takes place, should also meet certain criteria (for example: settlement to be carried out in central bank money).

5.3.2. Measure: Taking steps to further encouraging of the information exchange process automation between the Ministry of Finance and the Financial Supervision Commission (FSC)

In connection with a legislative initiative implemented by the Ministry of Finance, respectively signed Agreement on Cooperation and Exchange of Information between the Ministry of Finance and the FSC, in the field of the government securities market and derivatives instruments to ensure the process of cooperation, coordination and information, with a view to implementing Regulation (EU) No. 236/2012 of the European Parliament and of the Council as of 14 March 2012 on short selling and certain aspects of credit default swaps, in connection with Art. 17a, para. 1 of the Government Debt Act, in 2025 it is envisaged that the exchange of information between the two institutions will be finally technologically secured.

The exchange of information will be carried out through the establishment of secure mechanisms for the mutual integration of the systems of the Ministry of Finance and the Financial Supervision Commission. The information submitted by the FSC shall be received automatically and processed in the 'Monitoring, analysis, Registration and Trade with Government Bonds System'(MARTGBS).

The above mentioned goals require, in addition to regulatory changes, corresponding technological innovations in the MARTGBS analytical toolkit. Their aim is to capture the increasing globalization of Bulgarian government securities holders and the expected significant increase in liquidity in the domestic's government securities market in Bulgaria and their derivatives. In this regard, it is planned to upgrade an analytical module in MARTGBS that processes the information received from the FSC, on the basis of which the powers of the Minister of Finance for early identification, analysis and assessment of risks related to global financial markets and, more specifically, the government securities market in Bulgaria and their derivatives will be further technologically secured. ■

ABBREVIATIONS AND GLOSSARY

Abbreviations used

UMBF	Updated Medium Term Budget Forecast
GDP	Gross domestic product
BNB	Bulgarian National Bank
BDB	Bulgarian Development Bank
CEB	Council of Europe Development Bank
GGD	Government guaranteed debt
GL	Government loans
GIL	Government investment loans
GS	Government securities
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EC	European Commission
EU	European Union
ECB	European Central Bank
SBARB	State Budget Act of the Republic of Bulgaria
GDA	Government Debt Act
PFA	Public Finance Act
FSC	Financial Supervision Commission
ICM	International capital markets
MoF	Ministry of Finance
IFI	International financial institutions
IBRD	International Bank for Reconstruction and Development
PD	Primary dealers
JICA	Japan International Cooperation Agency
GMTN	Global Medium-Term Note Issuance Program on International Capital Markets
OCM	Over-the-counter market
RM	Regulated market
OTS	Organized trading system

Glossary

Currency risk – concerns the vulnerability of the debt portfolio, amortizations and costs on its servicing from impairment of the value of the national currency. The changes in the exchange rates may affect the costs on servicing the debt and hence on the state budget. The debt, denominated in a foreign currency, leads to volatility of the costs on servicing the debt, measured in national currency.

Interest risk – Concerns the vulnerability of the debt portfolio as well as the costs of the government debt, resulting from higher interest rates, currently on the market, in which portfolio the debt has a variable interest rate and the maturating debt with a fixed interest rate, are subject of revaluation. The changes in the market prices, which impact the costs for servicing the debt, may cause diversions from the amount of the costs for the debt servicing, provided for in the state budget;

Market risk – Risk, related to unexpected changes in the levels of market variables as currency exchange rates, interest rates, prices of goods, which influence the costs on the debt servicing.

Liquidity risk – it is determined by the need of liquid funds for covering short-term liabilities and takes into account the possibility of occurring liquidity difficulties. It appears a type of the risk for refinancing and is directly connected with the market risk;

Refinancing risk – It is connected mainly with the chance of incapability for receiving new financing, when the debt reaches maturity (the maturating debt is not able to be refinanced), or of receiving new financing only at a very high price. It is measured from the amount of the debt to be refinanced in a given period (usually one year);

Risk related to the debt amount – It is associated with the level of the government debt, which in certain cases may generate significant threats for the financial stability of the country;

Risk, related to the contingent liabilities under the form of state guarantees – The state guarantees cause significant impact on the sustainability of the government debt. It concerns the risk of realization of the guarantees over time, therefore it is important to be taken into account the potential risk of their activation;

Operational risk – it is mostly identified by the form of organization of the activities on management and control on the state liabilities;

Debt up to 1 year (according to a residual term) – The part of the debt, which shall have a maturity up to 1 year;

Average time to maturity (ATM) – The average period till the maturity, which is average-weighed amount of the repayments, depending on the time till their maturity. It does not take into account the payments of interests, so it does not provide information about the entire risk from the servicing the debd for the state budget;

$$ATM = \sum_{t=0}^{n} \frac{t \cdot R_t}{Nom}$$

Rt: Repayments at a moment t;
t: Period till the maturity
Nom: Nominal value of the outstanding debt
n: Final maturity under the debt

Ratio between the debt with a fixed interest rate and the debt with a floating interest rate – It shows the exposition of the debt portfolio to an interest risk;

Medium period **till next fixing of the interest rate of the debt portflio (ATR)**

$$ATR = \sum_{t=0}^{n} \frac{t.RF_t + t_0.RV}{Nom}$$

RFt: Repayments in a moment **t**, which is determined on the basis of the planned date of payment as a ratio of the dates of the information to the days of the year, within which falls the payment;

RV: Debt with floating interest rates at the moment **to**;

t: period to the maturity: It is calculated on the grounds of the actually planned date of payment;

$\mathbf{t_o}$: time for interest rate changes; for the debt with a variable interest rate is established $\mathbf{t_o}$=0.5;

Nom: Nominal value of the debt (total amount: a debt with a fixed interest rate and a debt with a variable interest rate);

n: Final debt maturity; maximum term, in which the debt for which chosen credit instruments is completely repaid;
The risk measurement does not take into account the cash flows of interest payments;

Duration – It is used as a unit for the medium period with a fixed interest, which shows how quickly the changes in the interest rates shall influence the costs under the debt. A short term means that the changes in the interest rates shall cause effect on the actual costs under the debt more quickly, while a long term means that the interest rate shall not change for a long period of time for a large part of the debt portfolio;

Repayment profile – The repayment profile of the debt presents series of amortization payments, which occur as a result of the non-paid debt;

Ratio of the debt in a foreign currency to the total debt – An indicator, contributing for establishment of the currency and liquidity risk.