

# REPUBLIC OF BULGARIA

INVESTOR PRESENTATION

NOVEMBER 2023





**Assen Vassilev**  
Minister of Finance



<b>1. OVERVIEW</b>	<b>4</b>
<b>2. ECONOMIC PERFORMANCE</b>	<b>9</b>
<b>3. EXTERNAL SECTOR</b>	<b>16</b>
<b>4. MONETARY POLICY AND BANKING SYSTEM</b>	<b>20</b>
<b>5. FISCAL POSITION AND PRO-GROWTH POLICIES</b>	<b>27</b>
<b>6. GOVERNMENT DEBT AND FUNDING STRATEGY</b>	<b>32</b>
<b>7. INDICATIVE TERM SHEET</b>	<b>35</b>

# 1. OVERVIEW

---



# Key investment highlights



## Macro

- Fiscal responsibility and capital investment are expected to promote GDP growth, currently forecasted by the BNB to increase from 1.8% in 2023 to 3.3% in 2024. **Price stability criterion in focus – inflation has been contained:** since 31 December 2022, there has been a clear disinflationary process with forecast<sup>1</sup> average 2024 inflation expected at 3.8%.
- At 30 June 2023, the labour maintained a participation rate of 73.7%, up from 73.4% at the same time in 2022.



## Fiscal

- Prudent fiscal policies have resulted in **low levels of government debt** (budgeted to be ~22% of GDP in 2023), which is **second lowest in the EU**. This provides Bulgaria with enough **fiscal headroom** against anticipated weak global economic environment. 2025-projected<sup>1</sup> general debt is still low at 28.3% of GDP and 2025 and is a testament to Bulgaria's **traditionally efficient debt management strategies**.



## Banking sector

- Banking sector is **well capitalised and profitable**.
- Over the past few years the banking sector's volume of non-performing loans ("NPLs") has been **steadily decreasing**. As a result the share of NPLs was 3.1% of total gross loans and advances at 30 June 2023.
- The **macro-prudential measures** undertaken by Bulgarian National Bank ("BNB"), including the counter-cyclical capital buffer, have increased the overall resilience of credit institutions.



## External

- The BNB's gross international foreign exchange reserves amounted to EUR 35.2 billion at 30 June 2023, covering 7.3 months of imports and 439% of short-term external debt.
- Both As of Q2 2023, the gross international reserves covered 7.3 months of imports and 439% of short-term external debt.
- The current account balance has improved relative to 2021 and 2022 and for the 12-month period up to 31 August 2023 is broadly balanced.
- At 31 August 2023 the gross external debt has declined by close to 16% of GDP relative to 31 December 2020 and now stands at 47.1% of GDP, with a similar dynamic observed also in respect to the external debt of the public sector.



## FDI

- During the first 8 months of 2023 the **FDI inflows** have **increased by 33.7%** relative to the same period in 2022 and were concentrated in the manufacturing and in the financial and insurance services.
- FDI stock in Bulgaria as of June 2023 came primarily from EU countries, led by Netherlands (14.6%), Austria (9.8%) and Germany (7.6%).



## EU

- **Entry into ERM II and commitment to Euro adoption** was a groundbreaking step towards adopting the euro. Eurobond spreads are on a converging path to euro-currency peers. Broad political consensus exists about EMU accession, which could be realized in first half of 2024.
- Bulgaria is one of the **highest beneficiaries of EU funds per capita** and eligible for grants equating to ca. 30% of 2022 GDP over 2021-27. The funds are earmarked for decarbonizing the economy, enhancing energy efficiency, and improving access to health and education services. Furthermore, strategic infrastructural investments will create positive spill-over effects on the economy and boost medium-term growth potential, mitigating any potential slow-downs in the wider Euro area.

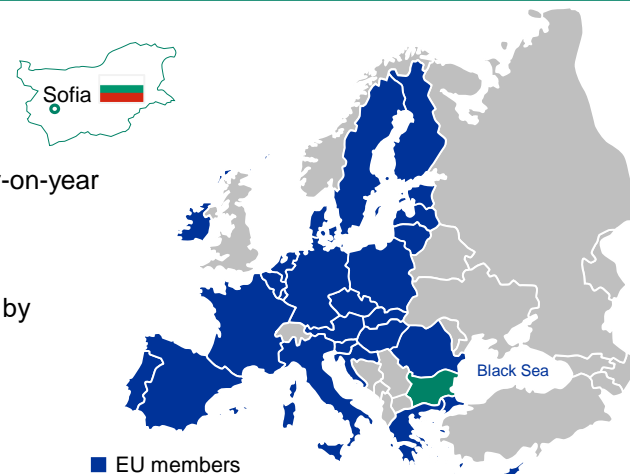
<sup>1</sup>Forecasts are official estimates and there can be no assumption that such figures will be met

# Bulgaria overview

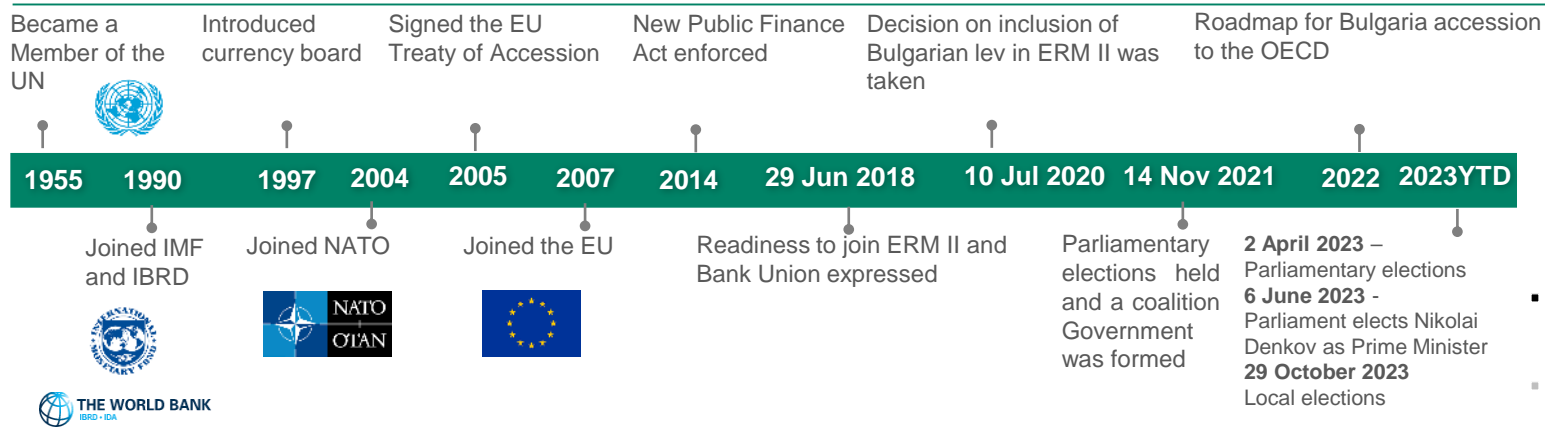


## Key Facts on Bulgaria

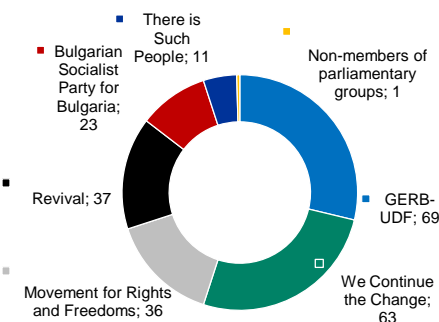
- **Territory:** 110,996.71 sq. km
- **Capital (2022):** Sofia (population 1.28 million)
- **Population (2022):** 6.45 million (1.4% of EU population)
- **Nominal GDP (2022)<sup>1</sup>:** EUR 85.799 billion (BGN 167.81 billion); 3.9% real GDP growth year-on-year
- **Currency:** Lev ("BGN"), fixed to Euro since 1999<sup>2</sup>
- **Exchange rate:** EUR/BGN: 1.95583
- **Credit ratings:** Baa1 (Stable) by Moody's, BBB (Stable) by S&P and BBB (Positive) by Fitch
- **Next regular elections:** Presidential: 2026



## Recent Key Dates



## Seats in the Parliament



Sources: National Statistics Institute ("NSI"), Eurostat, BNB;

<sup>1</sup> All data in the presentation referring to GDP in 2022 are according to the data as of 19 October 2023; <sup>2</sup> Bulgaria maintains a currency board arrangement pursuant to which the exchange rate for the Lev has been fixed to the Deutsche Mark since 1 July 1997 and subsequently to the Euro since 1 January 1999

# Key economic indicators

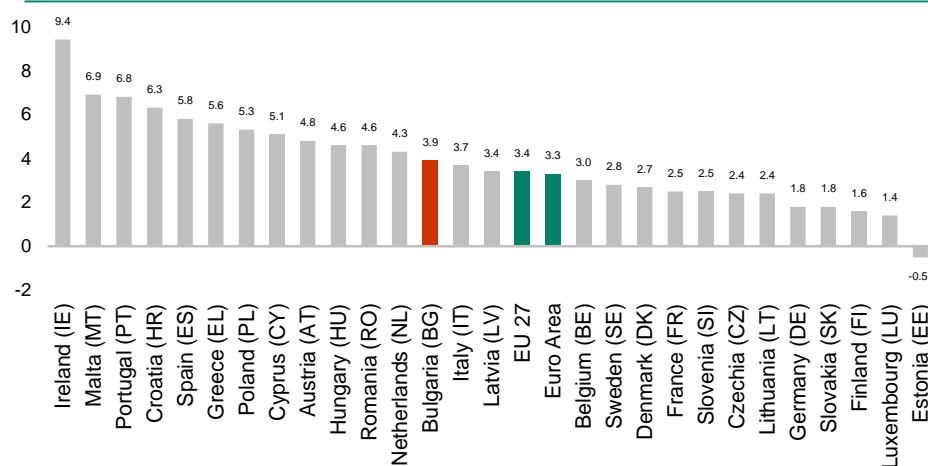


## Real GDP Growth and one of the lowest Government debt levels among EU countries

- Real GDP growth in 2022 reached 3.9%, following a 7.7% growth rate in 2021 coming out of the COVID-19 pandemic in 2020 (real GDP decreased 4.0% in 2020). In the first two quarters of 2023, the real GDP growth was 2.2% in Q1 and 1.9% in Q2 on an annual basis, with biggest growth in household consumption (9.6% in Q2 2023).
- After a couple of years of budget surplus reaching 2.1% in 2019 Bulgaria has had a deficit accompanying pandemic related expenses. Nonetheless, this deficit is decreasing (from 4.0% in 2021 to 2.9% in 2022) and remains lower than the EU and EA average (3.3% and 3.6% respectively). As of Q2 2023 Bulgaria had a deficit of 1.9%.
- Bulgaria had the second lowest Government Debt-to-GDP ratio within the EU of 21.5% for Q2 2023.

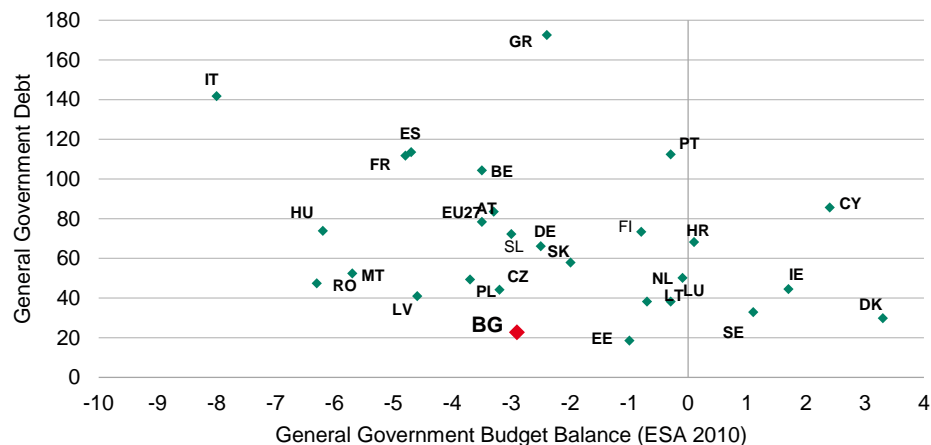
Source: Eurostat; Ministry of Finance; NSI

### EU Countries Real GDP Growth Rates in 2022 (% , year-on-year)



Source: Eurostat as of 24 October 2023

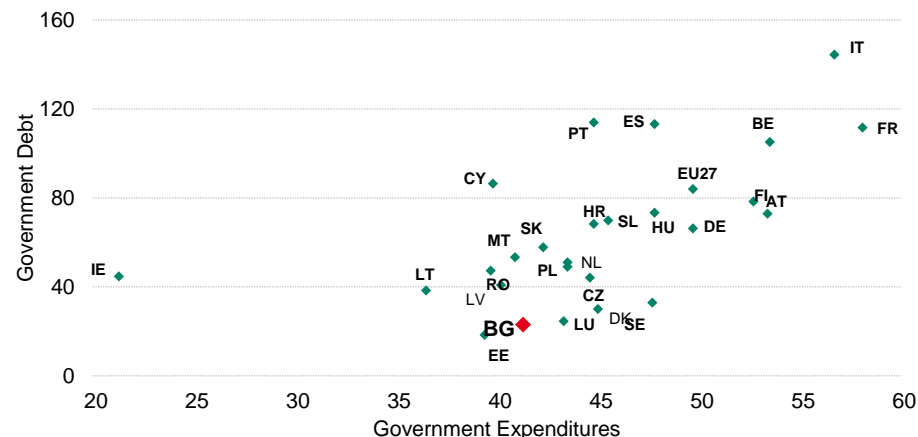
### Government Balance and Debt in 2022 (% GDP)



EU countries abbreviations: as shown in the x Axes in the top right hand chart

Source: Eurostat as of 24 October 2023

### Government Expenditure and Debt in 2022 (% GDP)





## 2. ECONOMIC PERFORMANCE

---





# Stable development and economic growth



## Continuous economic growth, solid track record of prudent fiscal policy, well capitalised and liquid banking system

2017-2019

2020 – 2022

2022-2023

### Stable economic growth and building of buffers

- Average real GDP growth of 3.2% for the 2017-2019 period, driven mainly by domestic demand.
- The labour market strongly improved, with stable employment growth and steadily decreasing unemployment rate, reaching an all-time low level of 4.2% in 2019.
- Annual growth of exports averaged 3.8% in real terms for the period.
- Continued fiscal consolidation and building of Government's fiscal reserve buffers - four consecutive years of budget surpluses, averaging 1.8% of GDP in the 2017–2019 period in ESA 2010.
- Sustained reduction in the Government Debt-to-GDP ratio, down to 20.0% in 2019.
- Bulgaria continued to have a well capitalised banking system.

### Macroeconomic policy response to COVID-19

- The COVID-19 state of emergency and the containment measures were lifted on 31 March 2022.
- The real GDP growth in 2021 was 7.62%, following the decrease of 4.0% in 2020. The recovery of the global and European economies in 2021 were accompanied by higher energy costs, supply chain disruptions and sharp price increases which caused inflation to accelerate in late 2021 to historically high rates.
- The low debt burden and the availability of significant liquidity buffers provided fiscal space for discretionary measures to deal with the effects of the COVID-19 crisis, while minimising risks related to the sustainability of public finances.
- Measures to protect the economy and support affected businesses and individuals from the impact of COVID-19 included: increasing the capacity of the health system and schemes to maintain jobs by subsidising salaries. The BNB also implemented measures aimed at increasing Bulgarian banks' liquidity while preserving their capital and asset quality including: freezing dividend distribution, retaining the existing countercyclical buffer, and imposing moratoriums on loan liabilities for certain period.

### Key macroeconomic indicators\* affected by the Russian-Ukrainian conflict

- The Russian-Ukrainian conflict has, since February 2022, further complicated the global macroeconomic environment, particularly in Europe, and changed the economic prospects for Bulgaria.
- In 2022 the Government implemented measures to mitigate the effects of higher inflation, such as: reducing VAT from 20% to 9% for 1 year for district heating and natural gas for households and businesses; removing excise duties for electricity, natural gas and liquefied petroleum gas; partial compensation of the cost for customers outside the regulated market of the electricity; discount on regular fuels price per litre; increasing pensions; and increasing of the amount of tax relief for children and children with disabilities.
- In this context, Bulgaria nonetheless maintained GDP growth of 3.9% in 2022, above the EU average.
- Despite additional spending in 2022 to mitigate inflation, Bulgaria's budgetary deficit decreased to 2.9% from 4.0% in 2021. This figure is in line with EU's Stability and Growth Pact and to be close to the 3% of GDP reference value for the EU.

### Impact of the inflationary context

- Pandemic era monetary policy and the Russian-Ukrainian conflict have posed inflationary challenges to the EU. The ECB raised its main refinancing operations rate to 4.50% in September, its highest rate ever. The European Commission, in its Summer 2023 Economic Forecast, lowered its inflation forecast for 2023 for the EU to 6.5% from 6.7% prior, while decreasing its economic growth forecasts to 0.8% from 1.0%.
- According the Autumn 2023 macroeconomic forecast of Bulgarian Ministry of Finance, real GDP growth is projected to stand at 1.8% in 2023 and 3.2% in 2024. Headline HICP inflation is projected at 9.1% in 2023 and 4.8% in 2024.
- So far in 2023, the annual HICP inflation rate slowed from 13.4% yoy in Q1 2023 to 7.2% yoy in Q3 2023. This was related to falling commodity prices throughout H1 2023 as well as base effects. Inflation in all major HICP components slowed, and the contribution of energy turned negative. Core inflation also fell to 7.6% yoy in September.
- Bulgaria's public finances remain solid in this environment, running a small deficit on a cash basis of 0.5% in September. Debt to GDP stood at 21.5% in Q2 lower than 22.6% at end 2022.

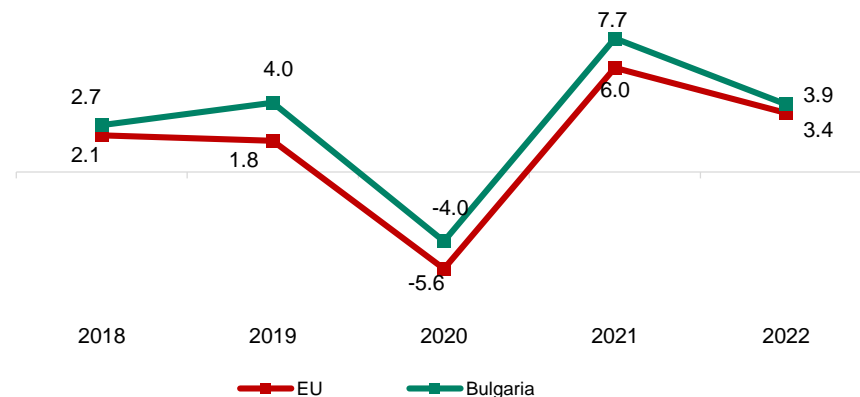
# Stable GDP growth and continuous convergence



## The Bulgarian economy has returned to growth following the pandemic downturn

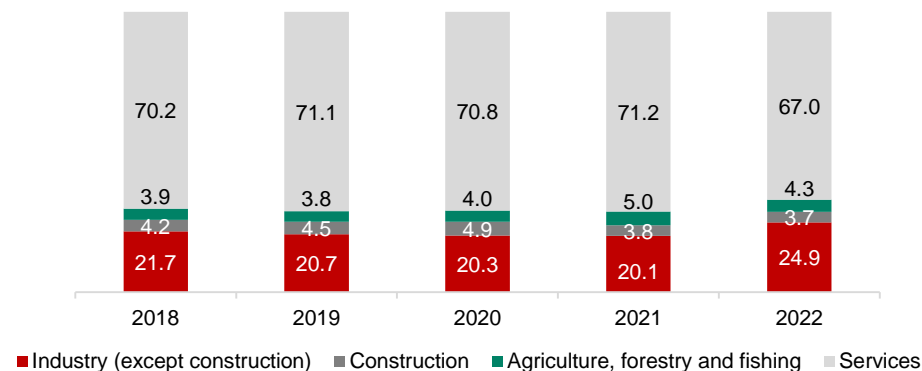
- For the 2010-2019 period, the economy grew on average by over 2.1% per annum with **GDP growth reaching 4.0% in 2019**. In 2020, the COVID-19 pandemic led to a GDP decrease of 4.0%. However **GDP fully recovered in 2021 with growth of 7.7%** on the back of robust **private consumption** growth and strong rebound in goods exports.
- The Russian-Ukrainian conflict has, since February 2022, changed the global macroeconomic environment. As a **result GDP growth in Bulgaria in 2022 stood at 3.9%**. **GDP growth for 2023 is expected to fall to 1.8% before rising back to 3.2% in 2024**. Over the medium term the National Recovery and Resilience Plan aim to increase investment is expected to support GDP growth.
- Gross Value Added (“GVA”) increased by 3.3% on average in the 2018-2022 period, mainly due to the services sector, particularly in the areas of trade, transport, accommodation and food service and information and communication activities.

Bulgaria and EU27 GDP annual growth rates (%)



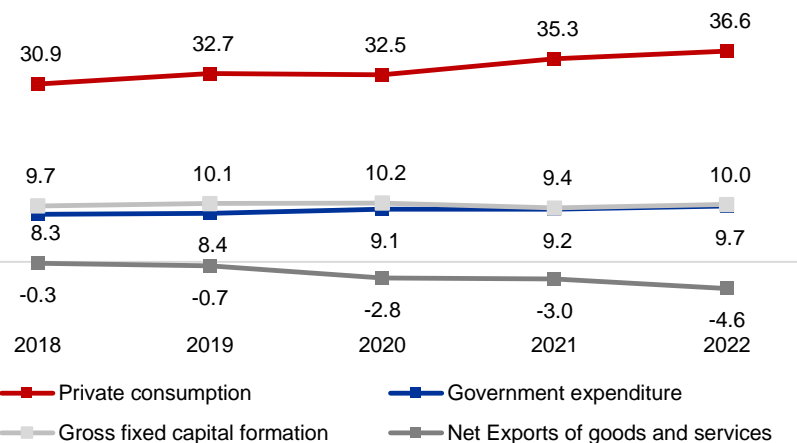
Source: Eurostat as of 30 October 2023

Structure of Gross value added (GVA) by sector (%)



Source: Eurostat

Real GDP components (EUR billion)



Source: Eurostat

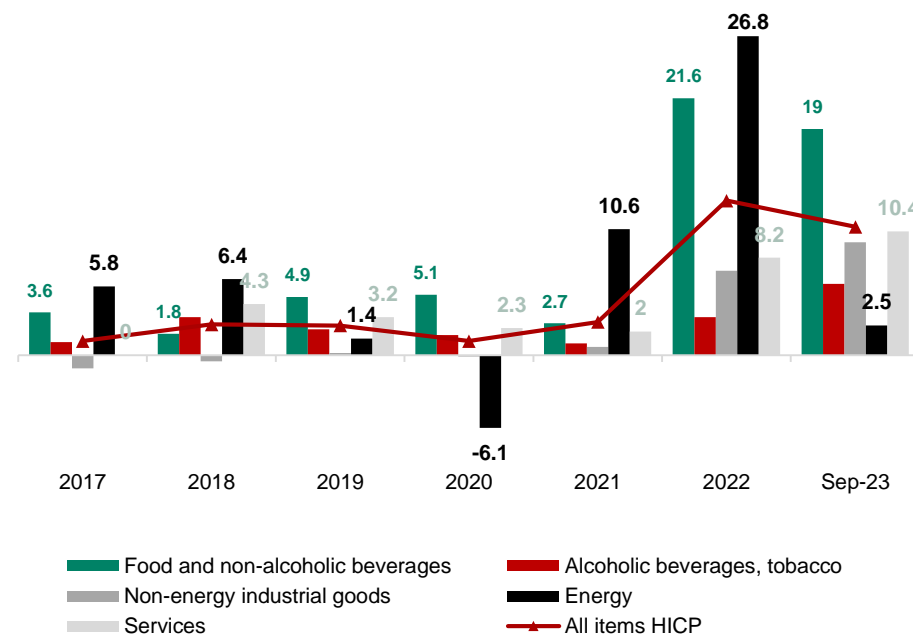
<sup>1</sup>Forecasts are official estimates and there can be no assumption that such figures will be met



## Accelerated inflation rate driven by external factors, including increased energy prices

- Following almost **four years of deflation**, the growth rate of consumer prices **turned positive** in 2017 and increased slightly **until 2019**. Due to the COVID-19 pandemic, the annual HICP inflation rate decreased to 1.2% at the end of 2020'.
- In the beginning of 2021 the annual **inflation rate** in Bulgaria **started to accelerate**, with the annual average HICP inflation reaching 2.8%. The surge in international commodity prices was the main pro-inflationary factor. **Energy** contributed the most, followed by **food** and **non-alcoholic beverages**.
- The Russian-Ukrainian military conflict from February 2022 led to **increased prices of energy recourses** and annual inflation reached 13.0%. In 2022, the Government introduced a **package of measures** in support of businesses and social aid, with a priority on energy, food and household income.
- Inflation started to ease in Q4 2022 and kept on decelerating in 2023 due to **decreasing international commodity prices** and favourable base effects. Headline HICP inflation is projected to stand at 6.9% by the end of 2023 and decelerate to 3.3% at the end of 2024 due to the projected decline in international commodity prices. Core inflation will be more persistent due to strong private consumption and tight labour market conditions, but is also expected to slow down in the medium term.

HICP Inflation (% change year on year, end of period)



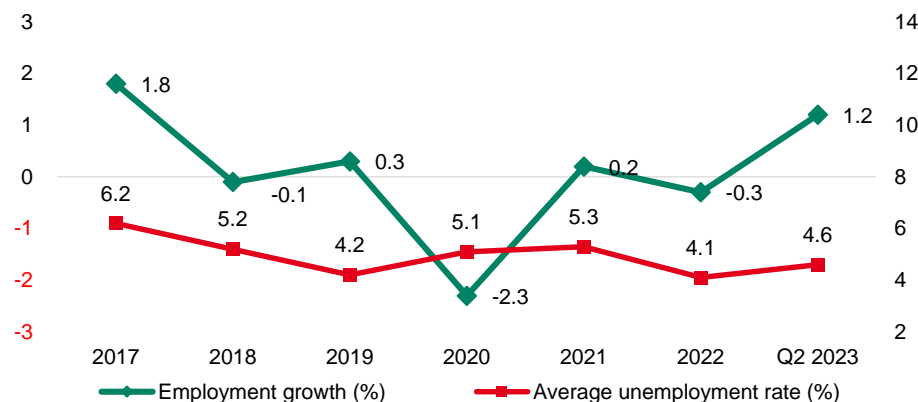
Source: Eurostat



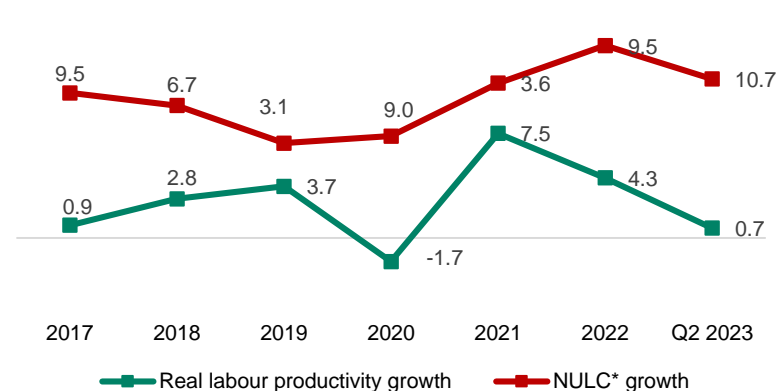
## Labour market improved in 2023

- In the first half of **2023** the labour market continued strong with a relatively high employment growth (y-o-y) and unemployment remained around the level between 4-4.5%.
- The participation rate stood at 73.7% in Q2 2023, with a labor force of 2.9 million. The unemployment rate stood at 4.6% in Q3, stable with the beginning of the year.
- In 2022 and the first half of 2023, the increase of the compensation per employee managed to offset inflation in the country. The nominal unit labour cost ("NULC") increased by 10.7% while the real unit labour cost ("RULC") was still negative.

### Employment Growth and Unemployment Rate (%)



### Labour productivity and NULC<sup>1</sup> (% change year on year)



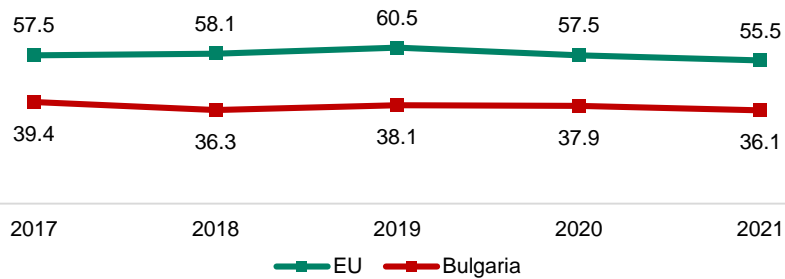
Source: NSI (National accounts data, Labour Force Survey (LFS) and European System of Accounts 2010), Ministry of Finance

Source: NSI, Ministry of Finance  
<sup>1</sup>NULC – Nominal Unit Labour Cost



- Bulgaria's **priorities** in the energy sector are **energy security, sustainable development and eco-efficient economy** in the context of a more **competitive energy market**.
- Due to the vulnerability of energy recourse supplies, amplified by the Russian-Ukrainian conflict, **measures for diversification** of energy sources became a **top priority** and immediate actions were undertaken, with focus on **diversifying Bulgaria's sources of natural gas supply**.

## Energy import dependency, %



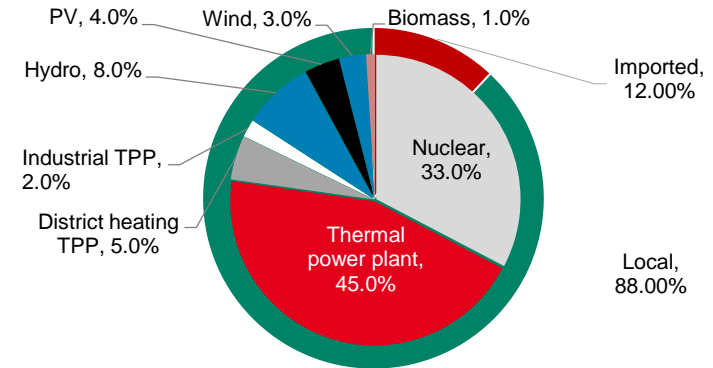
Source: Eurostat

Note: Nuclear energy is considered (in line with Eurostat's standards) as a local energy resource

Natural gas supply diversification projects	Status	Expected year of completion	Capacity (bcm)
Balkan Gas Distribution Centre	Completed	Dec 2019	--
Bulgaria - Greece gas interconnection (IGB)	Completed	Oct 2022	3.00
Bulgaria - Serbia gas interconnection (IBS)	Construction	2023	1.80
Floating, storage and regasification LNG terminal in Greece	Ongoing	2023	
Expansion of Chiren gas storage facility	Construction	2025	1.00

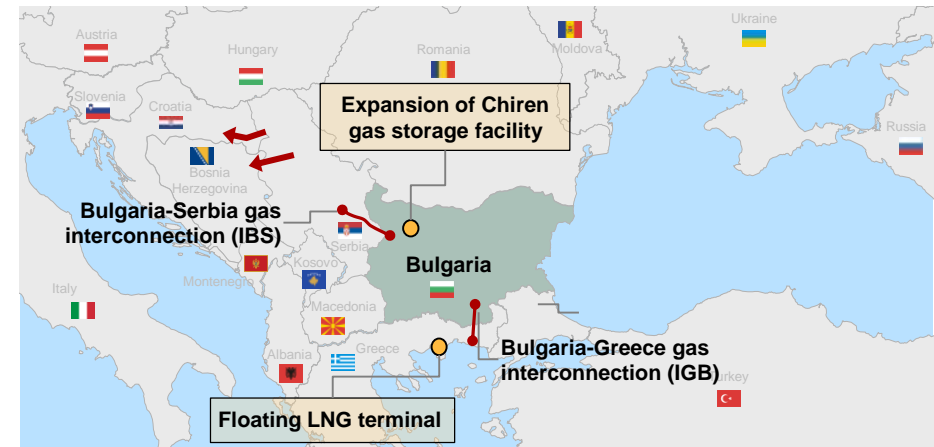
Source: Bulgartransgaz, ATEB

## Energy sources for production of electricity and heat in 2022, %



Source: Association of Traders with Energy in Bulgaria

Note: Nuclear energy by the Eurostat's standards is local energy resource





## Establishing a competitive energy market

- In line with the Commission's Third Liberalisation Package, Bulgaria takes steps towards the **complete liberalisation of the electricity market by the end of 2025** – through elimination of the regulated market segment and introduction of residential consumers to the free market.
- **Bulgarian Gas Exchange** started operating in 2019. In 2020 **multilateral trading** was launched, incl. short-term and long-term segments and brokerage.
- In 2021, the second gas exchange Bulgarian Energy Trading Platform (BETP) received a license for an **organised exchange market for trading in natural gas and gas derivatives** for a period of 35 years.
- Kozloduy Nuclear Power Plant (NPP) has developed a **diversification program** for the licensing and implementation of **alternative nuclear fuel**.

## Measures for financial stabilisation of the energy sector

- The Security of the Electricity System Fund (the SESF) was set up in 2015 to **offset the costs of National Electric Company (NEK)** stemming from its **obligations to buy electricity at preferential prices** and to pay renewable energy premiums and high-efficiency cogeneration of heat and electricity transferred to the free market.
- Effective from **1 July 2022** the SESF now compensates NEK for the costs of electricity purchased for the regulated market (calculated on the basis of electricity quantities sold to end suppliers).
- By virtue of a **National Assembly resolution dated 8 November 2022**, the Council of Ministers must adopt a programme for compensation of non-household end customers of electricity in the period **from 1 January 2023 to 31 December 2023**.
- This compensation shall be in the amount of 100 per cent of the difference between the real average monthly price of the Day-Ahead platform at the Independent Bulgarian Energy Exchange (IBEX), and on calculations based on a base price of the MWh for the customers interconnected at high, medium and low voltage.

## Measures to mitigate the disruptions in the supply of energy resources caused by Russian-Ukrainian conflict

- On a pan-European level, an **alternative solution for natural gas supply** was put into place on **January 3<sup>rd</sup> 2023** when Bulgargaz and BOTAS signed and agreement **granting access to the gas transmission network and the LNG terminals** in Turkey, for a period of **13 years**.
- As of 19 October 2023, the **Chiren facility was 96.64% full**.
- On 3 June 2022 the European Council granted Bulgaria an exception from the embargo on the import of seaborne crude oil from Russia until the end of 2024. Bulgaria established a diversification procedure for the supply of nuclear fuel to Kozloduy NPP.
- Bulgaria has also started construction of a natural gas pipeline in Kostinbrod that will connect Bulgaria and Serbia.



### 3. EXTERNAL SECTOR

---

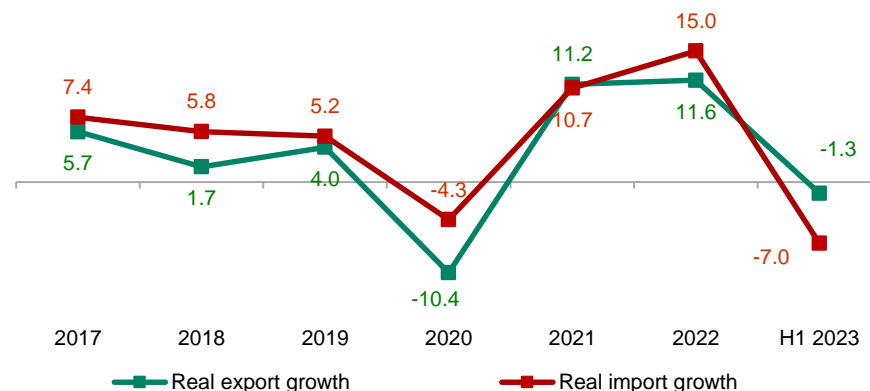




## Bulgaria's export performance has remained robust in the face of multiple global shocks

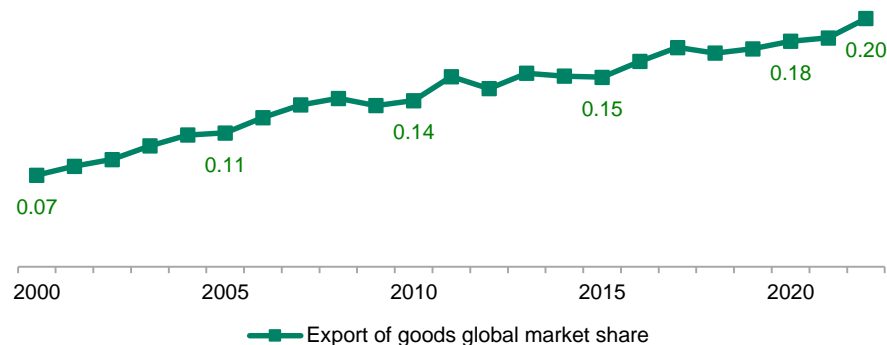
- Despite worsening economic conditions globally in 2022 in the face of the war in Ukraine, inflationary pressures and monetary tightening, Bulgaria has maintained **strong export performance**.
- Bulgaria's export of goods **market share in global trade has been continuously increasing** since the early 2000s.
- **Germany is Bulgaria's major export market** (main exports include **machinery** and **base metals** products), followed by **Romania** and **Italy**.
- **Bulgaria's real exports of goods and services declined in the first half of 2023 largely specific events**– namely, the prohibition on exports of oil and petroleum products produced from Russian crude oil to countries other than Ukraine (entering into effect from 5 February 2023), as well as to planned construction works in some of the largest enterprises in manufacturing and electricity generation sectors in Q2 2023.
- **Imports in H1 2023 have also weakened significantly due to lower import needs** given the strong decline in H1 2023 of the accumulated over the past two years inventories, the high levels of natural gas in the country's storage facility and the one-off factors limiting exports of goods.

### Real exports and imports of goods and services (annual change, %)



Source Eurostat, NSI, BNB

### Export of goods global market share of Bulgaria (%)

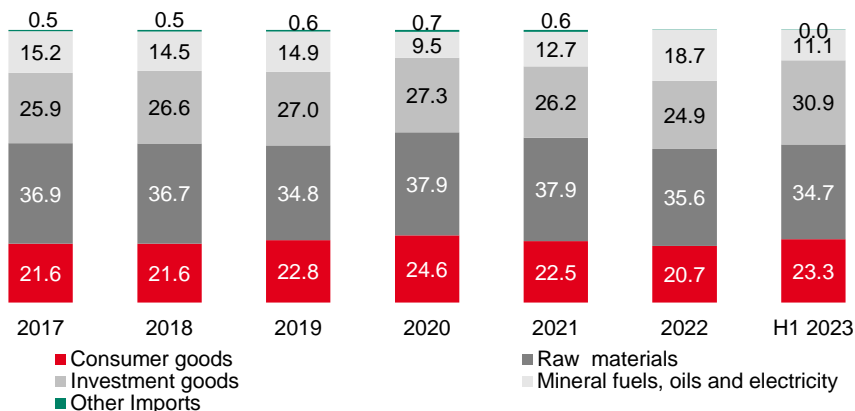


Source AMECO

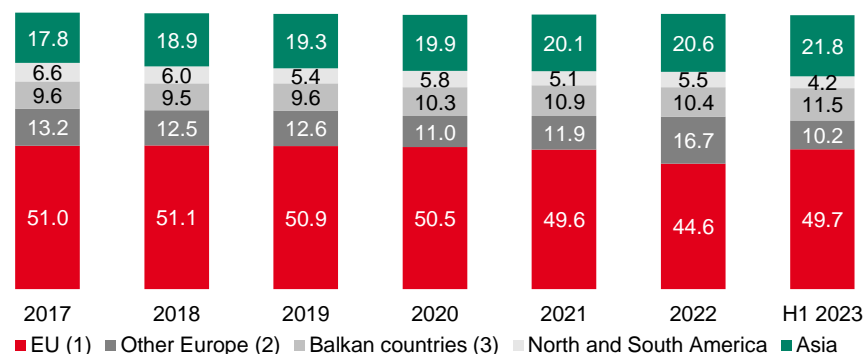
# Composition of Bulgarian export and import of goods



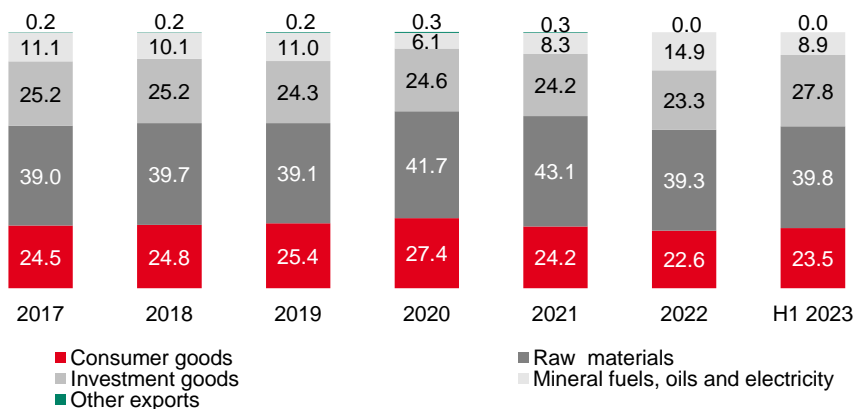
## Composition of Trade (Imports), % of total



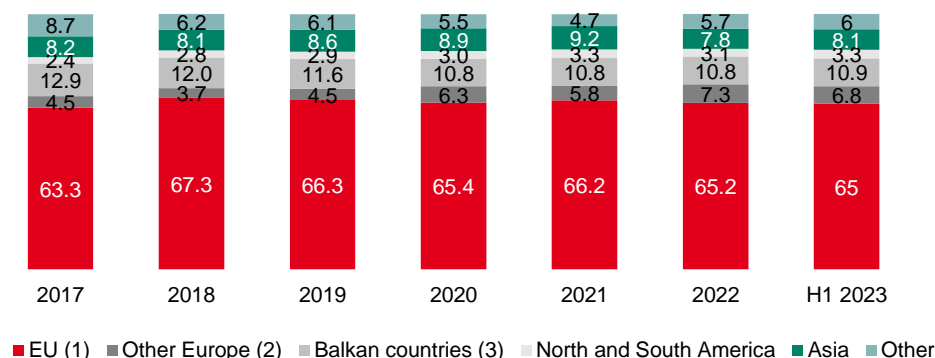
## Import of Goods by Country of Origin (% of total imports)



## Composition of Trade (Exports), % of total



## Export of Goods by Destination (% of total exports)



Source: BNB

(1) **EU** - Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden and the United Kingdom) till 2019. Since 2020, EU-27 without the United Kingdom.

(2) **Other Europe** - Russia, Switzerland, Ukraine, Gibraltar (GB), Moldova, Belarus, Norway, Lichtenstein, Iceland, San Marino, Andorra, Faroe Islands and the Holy See

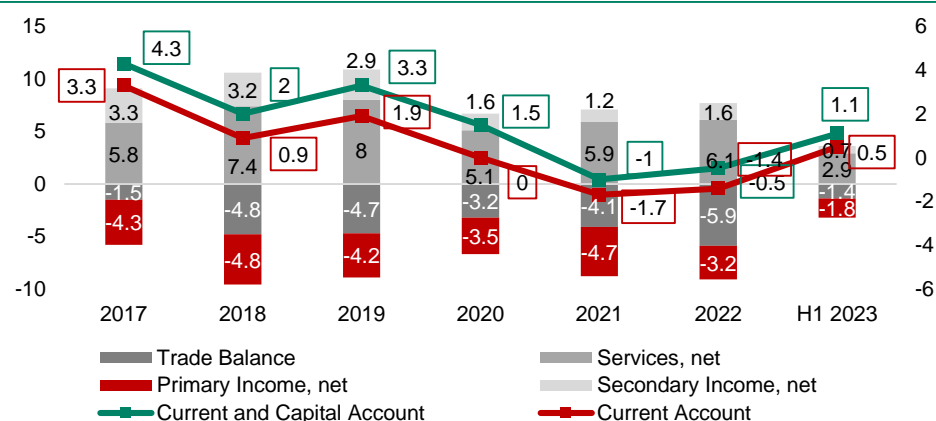
(3) **Balkan countries** - Turkey, Serbia, Macedonia, Albania, Montenegro, Kosovo and Bosnia and Herzegovina (Romania is included in EU)



## The external position of Bulgaria has improved significantly

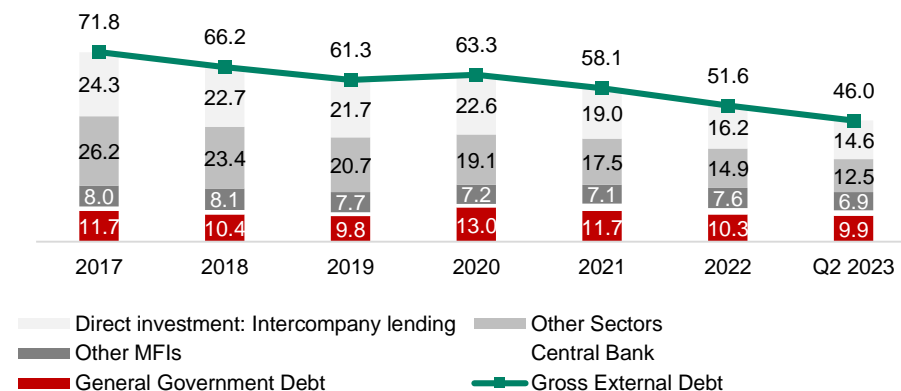
- **The current account balance has improved** relative to 2021 and 2022 and, for the 12-month period up to August 2023, is broadly balanced, with a surplus recorded over the period January-August 2023.
- **As of August 2023 the gross external debt has declined by close to 16% of GDP relative to 2020 and now stands at 47.1% of GDP**, with a similar dynamic observed also in respect to the external debt of the public sector.
- **The international investment position of Bulgaria has improved significantly** over the past decade and, as of June 2023, has a negative balance of -13.2% of GDP (compared to -92% of GDP in December 2010), with 67% of liabilities being foreign direct investments.

### Current account (% of GDP)



Source: BNB, Eurostat  
Standard presentation in accordance with the 6<sup>th</sup> edition of the IMF Balance of Payments and International Investment Position Manual. Preliminary data for 1 January to 30 September 2023

### Gross External Debt: Total and by Sectors (% of GDP)



Source: BNB, Eurostat  
Data in accordance with the External Debt Statistics: Guide for Compilers and Users, IMF 2014. Preliminary data for June 2023 used in Q2 2023 figures

# 4. MONETARY POLICY AND BANKING SYSTEM

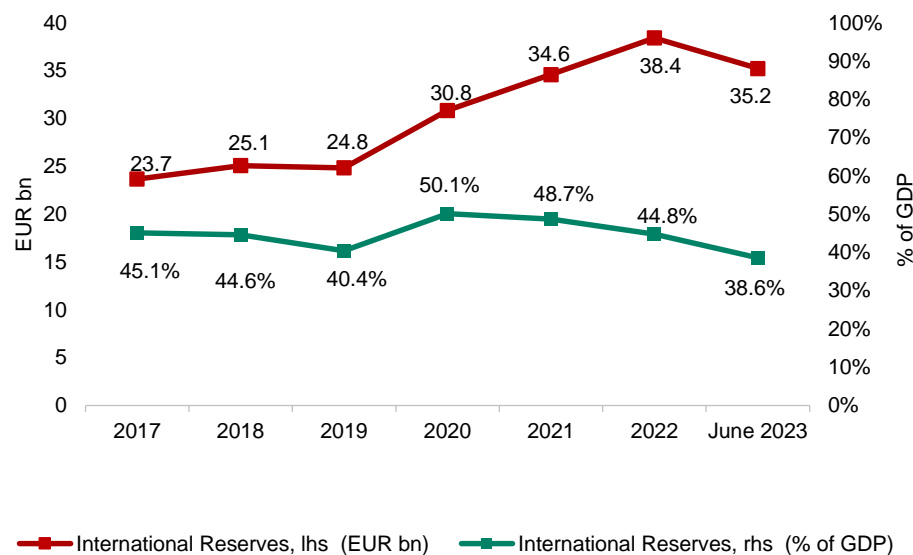




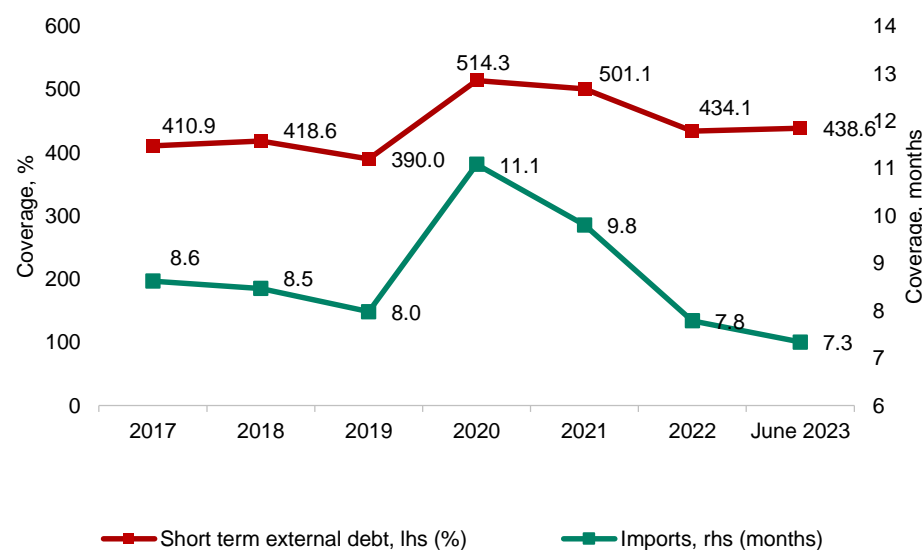
## International reserves remain at comfortable levels

- The **currency board** contributes towards maintaining overall macroeconomic and financial stability and the implementation of **strict fiscal policies**. The functioning of the currency board is based on three major principles:
  - a **fixed exchange rate** of the Lev to the Euro at BGN 1.95583 per EUR 1
  - the **reserve currency** is treated on **equal terms with the national currency**
  - the total amount of BNB **monetary liabilities** is fully **covered** by **high quality liquid international reserves**
- **Coverage ratios** remain at **comfortable levels**. The BNB's gross international foreign exchange reserves amounted to EUR 35.2 billion as of Q2 2023, covering 7.3 months of imports and 439% of short-term external debt.

### International Reserves



### International Reserves Coverage



Source: BNB Nominal GDP data for 2022 multiplied by the estimated growth rate for 2023

Source: BNB  
The indicators represent ratios of international reserves to short-term debt and international reserves to monthly imports, respectively





## Limited transmission of ECB's monetary policy tightening to interest rates, particularly for households

- Through the currency board, the **BNB has no direct influence over interest rates in Bulgaria**. Monetary conditions in the euro area are transmitted to monetary conditions in Bulgaria depending on the level of liquidity in the banking system, the assessment of the risk premium and banks' risk appetite.
- The main policy instrument used by the BNB to influence domestic monetary conditions is **the regulation of minimum required reserves (MRR)** which banks maintain with the central bank.
- As of the beginning of 2023 macroeconomic developments in Bulgaria were characterised by high inflation, strong growth of private sector wages and private consumption, and continued robust growth of loans to households.
- **Weak and slow transmission of ECB's monetary policy tightening** to deposit and lending interest rates, especially for households, was driven by **ample liquidity in the banking system and strong competition**.

## In view of potential risks to banking system resilience and to the implementation of BNB's primary objective to maintain price stability, on 26 April 2023 the BNB Governing Council took a decision to raise the MRR rate

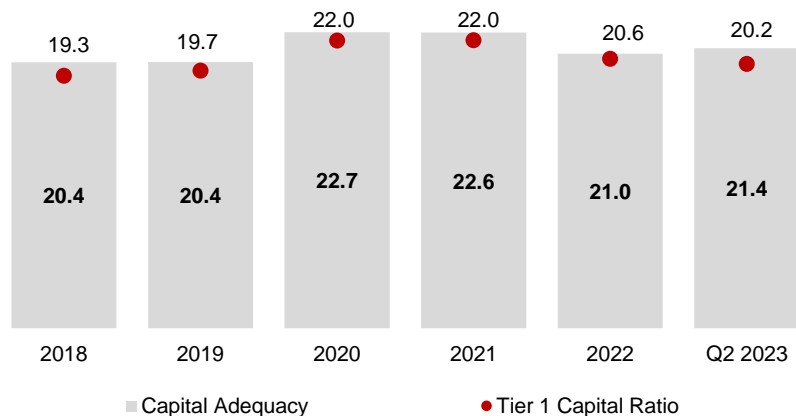
- **From 1 June 2023 the MRR rate on funds attracted by banks from non-residents was increased from 5 to 10 per cent** and equalized with that on funds attracted by banks from residents.
- **From 1 July 2023 the MRR rate on funds attracted by banks from both residents and non-residents was increased from 10 to 12 per cent.**
- The measure aims to **tighten monetary conditions by absorbing part of excess liquidity in the banking system**, which consequently would decrease commercial banks' credit capacity and would create incentives for faster and more significant transmission from the increased interest rates in the euro area to deposit and lending interest rates in Bulgaria.
- The increase of the MRR rate to 12% resulted in **the absorption of approximately BGN 3.3 billion liquidity** (in the form of excess reserves and liquid foreign assets) from the banking system.
- As of September 2023 **the effects of the increased MRR rate on interest rates in the household sector are still relatively limited** due to the remaining ample liquidity in the banking system.

# Stable and well capitalised banking system



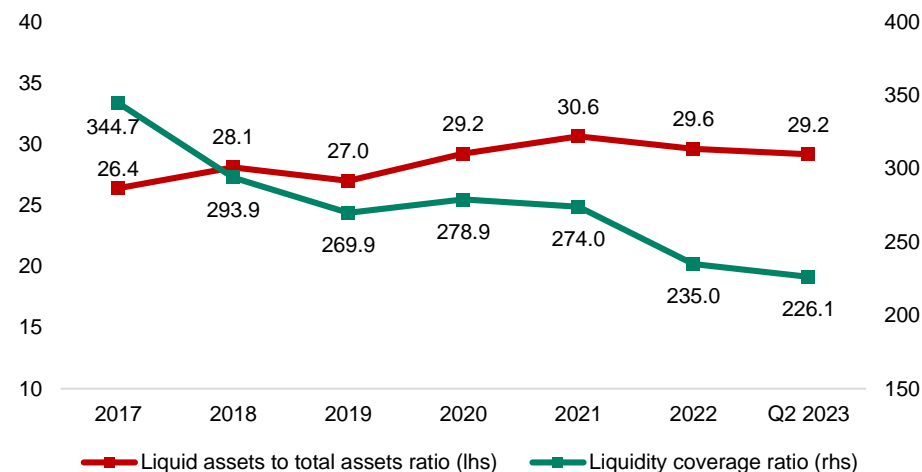
- The **total assets** of the banking system in Bulgaria by 31 December 2022 amounted to EUR 79.5 billion, a **14.8% increase** year-on-year. At 30 June 2023, the total assets of the banking system amounted to EUR 82.4 billion.
- As of 30 June 2023 the **liquidity coverage ratio** (LCR) and the **net stable funding ratio** (NSFR) were **well above the required minimum** of 100%, standing at 226.1% and 152.5%, respectively.
- The **capital position** of the banking sector remained strong. The level of **capital exceeding the** regulatory requirements and all the applicable buffers was EUR 1.72 billion at 30 June 2023, above the 31 December 2022 level.
- Banks are required to maintain a set of buffers – a **capital conservation buffer** (CCoB) at 2.5% of total risk exposures, a **systemic risk buffer** (SyRB) at 3% of domestic risk exposures and a **counter cyclical capital buffer** (CCyB) at 2% as of 1 October 2023 (up from 1.5% as of 1 January 2023 ), as well as a **capital buffer for 7 systemically important institutions** (OSII) in the range of 0.5% to 1%, cumulative to all other buffers.
- As of Q2 2023, the **capital adequacy ratio** and the **common equity tier 1 ratio** (CET 1) of the Bulgarian banking sector were 21.4% and 19.8%, respectively.

## Capital Adequacy Ratios (%)



Source: BNB

## Banking Sector Liquid Assets Ratios (%)



Source: BNB

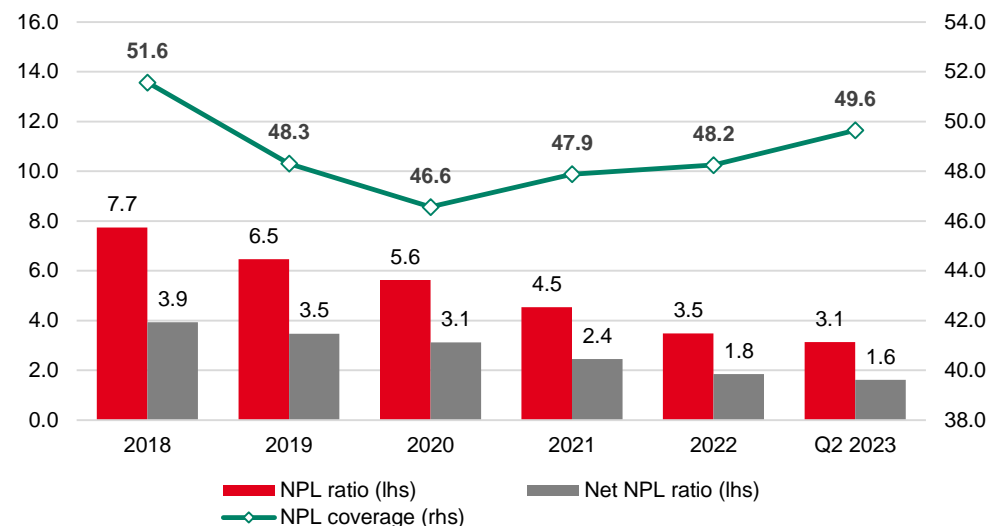


## Stable growth and preserving loan quality

- The banking sector assets as of end-June 2023 (EUR 82.4 billion) accounted for 92.2% of GDP. At end-June 2023, the system comprised of 17 banks, 12 of which are domestically controlled, and 7 foreign bank branches.
- Bulgaria's **banking sector maintains a stable liquidity position with organic funding from deposits** (of which over 90% is resident funding) and shows **no dependence on wholesale funding from external markets**.
- As of end-June 2023, non-government sector loans grew by 11.9% YoY.
- **Non-performing loans and advances (NPLs) are on a continuous downward trend from 2018-2023.** At the end of 2022, the share of gross NPLs (NPL ratio<sup>1</sup>; EBA definition; broad scope) amounted to 3.5% of total gross loans and advances. At 30 June 2023 the NPL ratio had decreased to 3.1%.
- At 31 December 2022, the **NPL coverage ratio** was 48.2%, which is **above the EU average**, and stood at 49.6% at 30 June 2023. The share of net NPLs declined further to 1.6% of total net loans and advances.

Source: BNB

### NPLs<sup>1</sup> and Advances to Gross Loans Ratio Dynamics (%)



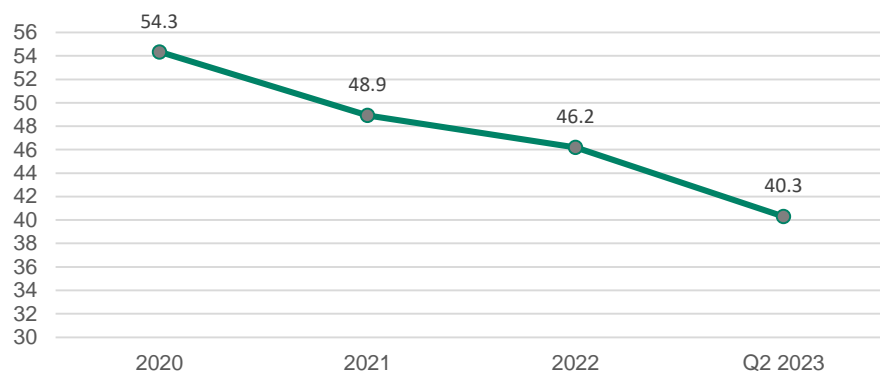
<sup>1</sup> The Non-performing loans to total gross loans indicator has been calculated in accordance with the EBA methodology for the ratio AQT\_3.2 Level of non-performing loans and advances (NPL ratio) laid down in the [EBA Methodological guide](#) and the [List of EBA risk indicators](#)

Source: BNB



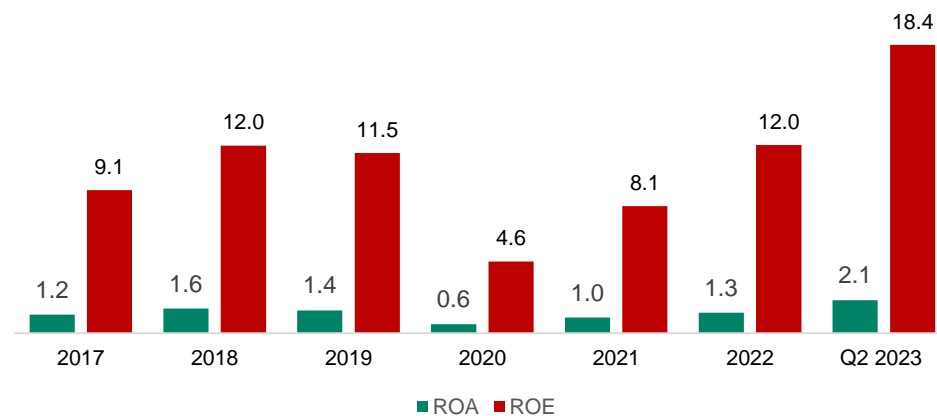
- The Bulgarian banking system's profit for 2022 (EUR 1.1 billion) increased year-on-year, exceeding pre-pandemic **levels**. Accordingly, at the end of 2022 the return on assets (ROA) and the return on equity (ROE) were 1.3% and 12.0% respectively, compared to 1.4% and 11.5% for end-2019.
- As of end-June 2023 the **banking system's profit** was EUR 862 million, representing an **increase of 69.9% YoY**.
- The **total net operating income (“NOI”)** for first half of 2023 was EUR 1.7 billion, driven by the growing net interest income of the banking system.

## Cost to Income Ratio (%)



Source: BNB

## Return on Assets (%) and Return on Equity (%)



Source: BNB

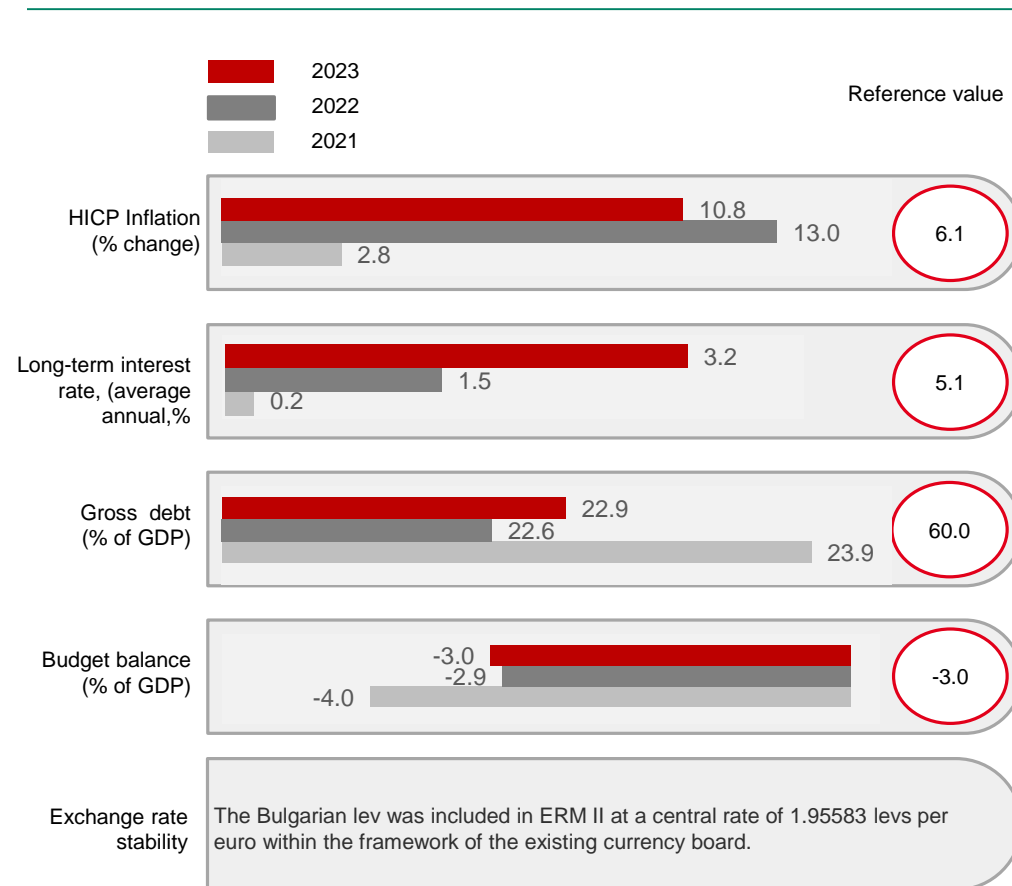
# Exchange Rate Mechanism ("ERM II")



## Agreement to include Bulgarian lev in the ERM II reached in July 2020

- On 29 June 2018, the Bulgarian authorities officially expressed their intentions to apply to ERM II and to **participate in the Single Supervisory Mechanism** simultaneously.
- On 10 July 2020, the ERM II parties decided to **include the Bulgarian lev in ERM II**.
- The Bulgarian lev was included in ERM II at a **central rate of 1.95583 levs per euro** with a standard fluctuation band of  $\pm 15\%$ .
- Bulgaria **joined the exchange rate mechanism** with its existing **currency board in place** as a unilateral commitment.
- The agreement on participation in ERM II was based on a number of **policy commitments** by the Bulgarian authorities, some of which had already been met when the lev was included in ERM II, with the aim of achieving a high degree of sustainable economic convergence by the time of the adoption of the euro.
- The new government, which was formed in June 2023, has announced accession to the euro area on 1 January 2025 as one of the five major priorities in its operational programme.

### Maastricht criteria



Note: HICP and long-term interest rate data for 2023 as well as the respective reference values are as of September 2023 (on a 12-month average basis). General government gross debt and budget balance data for 2023 are based on the latest Ministry of Finance forecast.

## 5. FISCAL POSITION AND PRO-GROWTH POLICIES





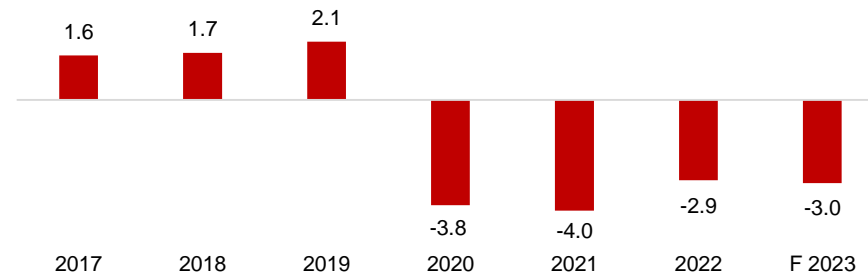
# General Government balance in line with EU countries



## Prudent fiscal policies have been at the core of Bulgaria's strong economic performance

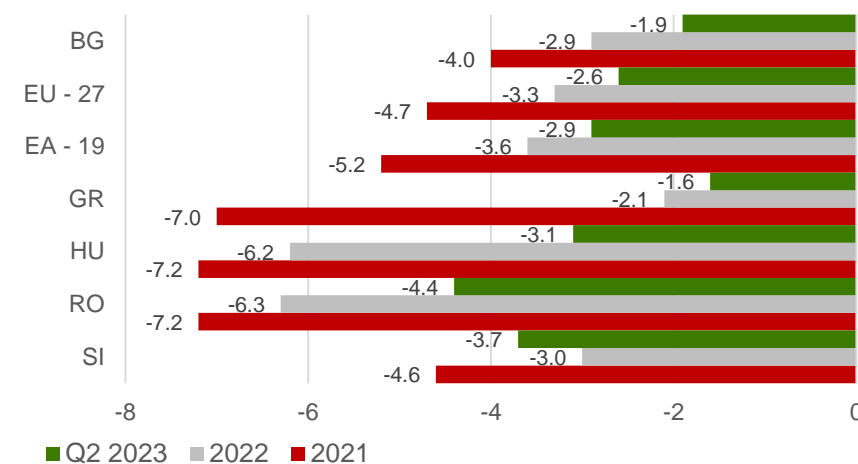
- In the period 2017-2019, the **budget balance** of the General Government sector was **positive**, with an **average surplus of 1.8% of GDP** (on an accrual basis), thus allowing Bulgaria to accumulate buffers in the fiscal reserve
- Throughout 2017-2020, growth in tax revenue was close or above nominal GDP dynamics. In 2021-H1'23 the increase in tax revenue was slightly lower than the growth in GDP as some of the support programmes had a negative revenue effect. **Investment spending** during the 2017-2019 period increased due to the accelerated absorption of EU funds, while during 2020-2022 the increase was linked to social protection spending, public sector wages and subsidies for non-financial enterprises as a result of the budgetary measures taken to contain the negative effects of the pandemic and rising energy prices.
- In 2020, despite the unprecedented fiscal stimulus mobilised to combat the pandemic (3.2% of GDP), the **budgetary position** of Bulgaria **remained stable**. In 2021 the fiscal balance of Bulgaria was negative at -4.0% of GDP (ESA 2010 terms), while the EU27 registered a deficit of -4.7% of GDP. In 2022 the budget deficit was -2.9% lower than the average of the Euro area and the EU.
- The Ministry of Finance expects the budget deficit with the target set in the ABL for 2023 at - 2.5% of GDP (cash basis), consistent with 3.0% of GDP in ESA 2010 terms. Thus the budget position for the year is expected to be in line with the Stability and Growth Pact requirements.

### Fiscal Balance (ESA 2010, % of GDP)



Source: Eurostat, MoF

### General Government (GG) surplus (+) / deficit (-), % of GDP



Source: Eurostat

# Policies aimed at enhancing economic growth



## Economic growth acceleration is a key priority in the mid-term policy goals set out in Bulgaria's 2023 Budget Plan

### Policy Priorities

#### Economic and financial policy

- Encouraging investments of local and foreign enterprises performing investment projects which in turn will create new production capacities and provide long-term employment opportunities.
- Establishing an information system for the Bulgarian Investment Agency and the National Innovation Fund to promote research and development activities and increase the competitiveness of enterprises.
- Developing indicators to measure the social impact of the work of State-owned companies.

#### Debt financing policy

- Current debt management objectives are set in the Debt Management Strategy 2023-2025.
- The main goal of the debt management is to provide for the necessary funds for maturing debt refinancing, planned budget deficits coverage and securing liquidity of the fiscal reserve.

#### Management of EU funds

- Partaking in the **NEXT GENERATION** EU initiative and REACT EU mechanism designed to support EU member states most affected by COVID-19, with investments aimed at restoring labour markets, healthcare systems and liquidity of SME's.
- Using funds available through the **National Recovery and Resilience Plan** to finance reforms and investments within the domestic market to mitigate the economic and social impact of the COVID-19 pandemic.

#### Tax and Income policy

- New mechanism for calculation of minimum wage.
- Increasing the **remunerations** for staff in elected positions, employees in the judiciary system and pedagogical specialists
- A top-up tax and a domestic minimum top-up tax shall be introduced effective from 2024 when approved by Parliament (Council Directive (EU) 2022/2523).
- Strengthening the fiscal control on high fiscal risk goods to improve tax compliance.

#### Pension policy

- Increasing of the **minimum** and **maximum** amount of the **pensions** from 25 December 2021.
- **Indexation** of pensions from July 2023 and implementation of a new mechanism to improve pension adequacy from October 2022.

#### Sectoral policies

- **Education** – continuation of integrated policies with focus on education and personal development of children and students, **innovations** to encourage, qualification of pedagogical specialists and **modernisation of educational institutions**.
- Reconstruction and **construction of nurseries, kindergarten and schools, and financing student and doctoral activities**. Financing **health sectors** – care for disabled; remuneration of emergency staff, and construction of the National Pediatric Hospital
- Maintaining and developing **national defense** and **collective defense capabilities**.



## Supportive measures to groups of society and business ...

### ... against COVID-19 impact on the economy and households

#### Measures to support businesses

- **Reduced the VAT rate from 20% to 9% from 1 July 2020 to 31 December 2023 for:**
  - Restaurants and catering services
  - General tourist service under the special scheme for tour agents
  - Sporting facilities' services
- **Introduction as a permanent measure from 1 January 2023 of a reduced VAT rate of 9% for supplies of:**
  - Books
  - Baby food, diapers and hygiene items

#### Measures to support households

- New mechanism for calculation of minimum wage set up at 50% of average gross wage over a preceding 12 month period
- Increasing the national minimum wage as of 1 January 2024 to 933 BGN (477 EUR)
- Increasing the salaries in the budget **sector and in the educational sector**
- Increasing of the amount of tax relief for children for tax year 2021 and was further increased for tax year 2022 and 2023

### ... and aiming at reducing inflationary pressure

#### Measures to support businesses

- **Reduced VAT** rate of:
  - **9%** for supplies of **district heating** until 1<sup>st</sup> July 2023
  - **9%** for supplies of **natural gas** until 1<sup>st</sup> July 2023
  - **0%** for supply of **bread and flour** until 31<sup>st</sup> December 2023 and is proposed to expire after mid 2024
- **Increased** amount of tax **relief** for 2022 and 2023 **for children and for children with disabilities** with a possibility to use the **two tax reliefs** in advance

#### Measures to support households

- **Indexation** of pensions (from July 2023) and mechanics for their improvement (from October 2022)
- Funding of increase in the wages of the medical personnel
- Support to **agriculture sector** under the existing state aid for animal welfare

# National Recovery and Resilience Plan



## Measures and reforms aiming at restoring, developing and increasing the potential of economic growth structured in four main pillars



### INNOVATIVE BULGARIA 25.3% of the resources

- **Business and Innovations:** Economic transformation of SME's – grants for technologic modernisation, cybersecurity, renewable energy sources for own consumption, circle economy
- **Education and innovations:** grants for STEM centers, equipment of specialised class rooms, qualification of pedagogical specialists in the field of STEM education
- **Education:** Reform in pre-school, school education and lifelong learning – increasing focus on applied competences, innovations, STEM and development of cognitive skills; creation of innovative schools, new standard for quality, validation of professional skills
- **Science and innovations:** development of research universities



### GREEN BULGARIA 41.9% of the resources

- **Low carbon economy:** Energy efficiency of building stock; ensure finance for energy renewal of residential, public and industrial buildings
- **Green energy and security** – construction of renewable energy sources with batteries and infrastructure for energy storage; research activities and pilot project for geothermal power; facilitating bilateral contracts for renewable energy sources; and liberalisation of energy market
- **Biodiversity:** Ensuring effective management of National ecological network; integration of eco-systematic approach; and recovery of key climate eco-systems
- **Sustainable agriculture:** Updating of the agricultural sector strategic frame; building up the technological and ecological transition of agriculture; and process digitalisation



### CONNECTED BULGARIA 18.3% of the resources

- Focusing on increasing the **competitiveness** and sustainable development of the regions such as transport and digital connectivity, as well as local development
- **Reducing the carbon footprint of the transport sector** through investments in the modernisation and digitalisation of the railway segment; updating the strategic framework of the transport sector
- Wide development of **digital infrastructure**
- Wide development of digital infrastructure such as increasing the coverage of high capacity networks and digitisation of public administration and digital public services, enhancing digital skills and supporting the digitisation of businesses as well as the transport and energy sectors
- Stimulating **electric mobility** and **public transport**

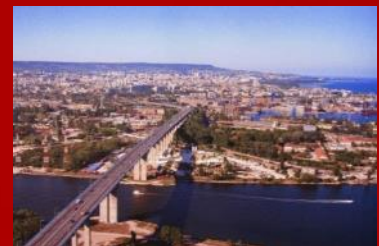


### FAIR BULGARIA 14.6% of the resources

- **Business environment:** addressing disincentives in the business environment and developing the potential of e-Government to improve access
- **Social inclusion:** focusing on vulnerable people to achieve sustainable growth, establishing effective and responsible public institutions, and improving the quality and extending the scope of offered social services
- **Health:** increasing the resilience of the health system to shocks while increasing the population's access to quality and timely health care

Source: Ministry of Finance, Budget 2022

## 6. GOVERNMENT DEBT AND FUNDING STRATEGY

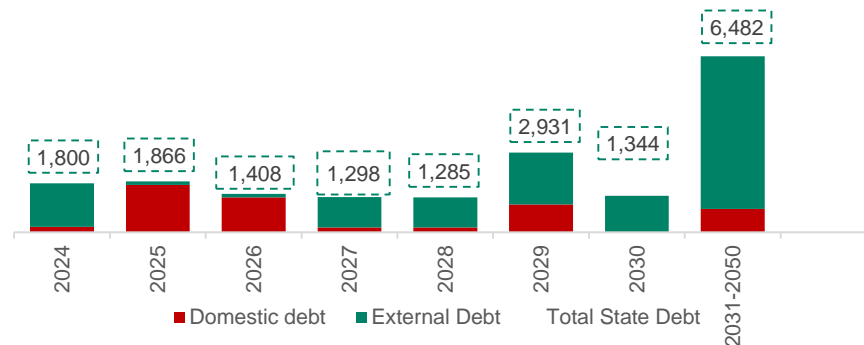




## Stable and sustainable Government debt position due to a conservative borrowing strategy

- **The Government's debt management** key goals are providing necessary resources for **refinancing the outstanding debt**, the planned budget deficit financing and ensuring the liquidity position of fiscal reserves.
- On the basis of Eurostat's requirements and the ESA 2010 methodology, Bulgaria's ratio of General Government Debt-to-GDP was the **second lowest in the EU**, standing at **22.6%** of GDP as at 31 December 2022 (EUR 19.353 billion) and **21.5%** as the end of the second quarter of 2023 (EUR 19.623 billion).

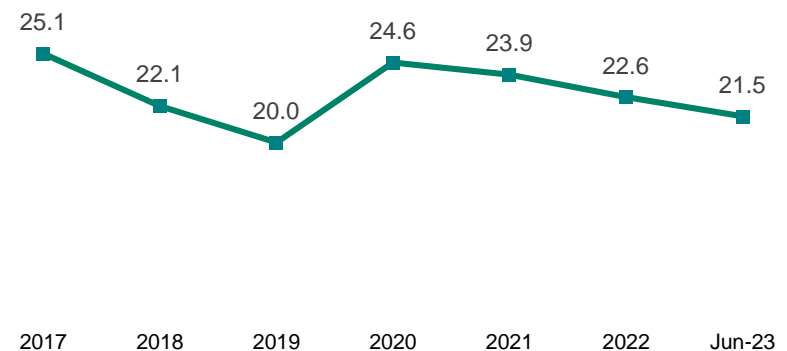
Government Debt Redemption Profile (EUR million)\*\*



Source: Ministry of Finance

Notes: \* National methodology; \*\*Outstanding debt (principal amounts) as of 25 October 2023

General Government Debt (% of GDP)



Source: Eurostat, Ministry of Finance



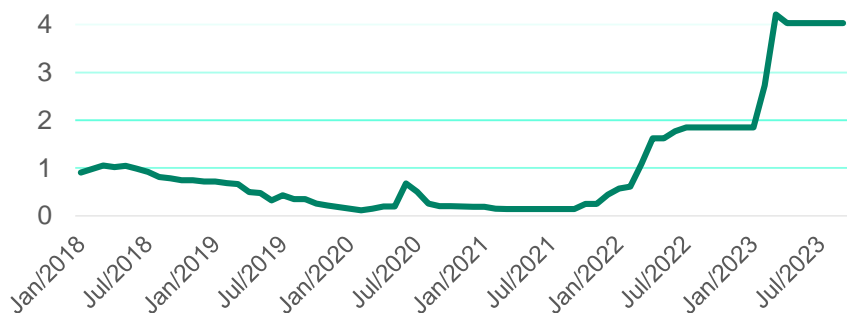
# Prudently managed Government debt structure



## Predominant fixed rate and EUR and BGN denominated securities

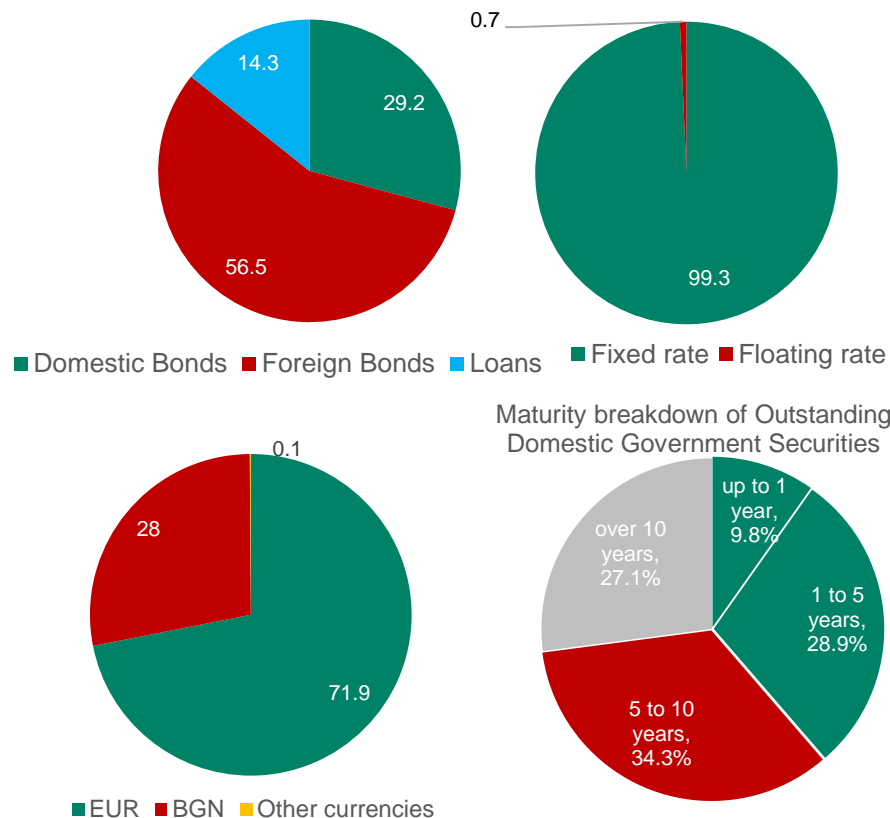
- The nominal amount of state debt as of September 2023 was EUR 18.6 billion in total, of which EUR 13.1 billion was **external debt** and EUR 5.4 billion was **domestic debt**.
- As of September 2023, Bulgaria's outstanding **marketable government debt** consists of EUR 5.4 billion equivalent in domestic government securities and EUR 10.5 billion in international bonds issued under Bulgaria's GMTN Programme.
- As of September 2023, the **domestic state-guaranteed debt** represented 0,03% of the GDP and the external state-guaranteed debt was 0.8% of GDP. The state-guaranteed debt ("**SGD**") was 0.8% of GDP as of the same period.
- So far this year, a new EUR 1.5bn 10-year benchmark was issued on the international market in January 2023.

### Historical evolution of long-term debt yield (10y) as per EU data for convergence purposes (%)



Source: BNB

### Breakdown of government debt and maturities of outstanding debt \* (as % of total)



Source: Ministry of Finance, data as of September 2023