

OFFERING CIRCULAR



REPUBLIC OF BULGARIA

€10,000,000,000

Global Medium Term Note Programme

Under this Global Medium Term Note Programme (the "**Programme**"), the Republic of Bulgaria (the "**Issuer**", the "**Republic**" or "**Bulgaria**") may from time to time issue medium term notes (the "**Notes**") denominated in any currency agreed between the Republic and the relevant Dealer (as defined below). The aggregate nominal amount of Notes outstanding at any time under the Programme will not exceed €10,000,000,000 (or its equivalent in other currencies).

Notes may be issued in bearer or registered form (respectively, "**Bearer Notes**" and "**Registered Notes**") as described under "*Overview of the Programme – Initial Delivery of Notes*". The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Republic (each, a "**Dealer**" and together, the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

An investment in Notes issued under the Programme involves certain risks. For a discussion of certain of these risks see the section "Risk Factors" in this Offering Circular.

Application may be made to list the Notes on the Official List of the Luxembourg Stock Exchange and to admit the Notes to trading on the Luxembourg Stock Exchange's regulated market, pursuant to the rules and regulations of the Luxembourg Stock Exchange. This Offering Circular does not constitute a base prospectus pursuant to Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 (the "**Prospectus Regulation**"). Accordingly, this Offering Circular does not purport to meet the format and the disclosure requirements of the Prospectus Regulation as regards the format, content, scrutiny and approval of the base prospectus, and it has not been, and will not be, submitted for approval to any competent authority within the meaning of the Prospectus Regulation.

The Republic may agree with any Dealer that Notes may be issued in a form not contemplated by the terms and conditions (the "**Conditions**") of the Notes herein. This Offering Circular must be read and construed together with any amendment or supplement to it, as well as the relevant Pricing Supplement relating to the relevant Notes.

The Issuer has been assigned sovereign credit ratings of Baa2 by Moody's Investors Service Ltd. ("**Moody's**"), BBB by S&P Global Ratings Europe Limited ("**S&P**") and BBB by Fitch Ratings Ltd. ("**Fitch**"). The Programme has been assigned a rating of Baa2 by Moody's Deutschland GmbH and BBB by Fitch. The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Pricing Supplement (as defined below). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency. Whether or not any credit rating applied for in relation to any relevant Series of Notes will be issued by a credit rating agency established in the European Union (the "**EU**") or in the United Kingdom and registered under Regulation (EC) No. 1060/2009 (as amended) (the "**CRA Regulation**") will be disclosed in the relevant Pricing Supplement. Please also refer to "*Credit Ratings may not reflect all risks*" in the "**Risk Factors**" section of this Offering Circular.

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act") or with any securities regulatory authority of any State or other jurisdiction of the United States and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. The Notes may be offered and sold (a) in bearer form or registered form outside the United States in reliance on Regulation S of the Securities Act and (b) in registered form within the United States, to persons who are qualified institutional buyers ("QIBs") (as defined in Rule 144A ("Rule 144A") of the Securities Act) in reliance on Rule 144A or another exemption from, or transaction not subject to, the registration requirements of the Securities Act. Prospective purchasers who are QIBs are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. In addition, until 40 days after the commencement of any offering, an offer or sale of any of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A.

Arrangers and Dealers

BNP PARIBAS
HSBC
Société Générale
Corporate & Investment Banking

Citigroup
J.P. Morgan
UniCredit Bank

14 September 2020

IMPORTANT NOTICES

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche of Notes will be set out in the relevant Pricing Supplement which, with respect to Notes to be listed on the Luxembourg Stock Exchange will be filed with the Luxembourg Stock Exchange prior to listing. Copies of any Pricing Supplement in relation to Notes to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Republic and the relevant Dealer. The Republic may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Issuer, having made all reasonable enquiries, confirms that this Offering Circular and the relevant Pricing Supplement contains all information with respect to the Issuer and the relevant Notes which is material in the context of the issue and offering of the Notes, and the information contained in this Offering Circular is true and accurate in every material respect and is not misleading in any material respect, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts in relation to the Issuer or the Notes the omission of which would, in the context of the issue or offering of the Notes, make any statement herein misleading in any material respect, whether of fact or opinion. The Issuer accepts responsibility for the information contained in this Offering Circular, together with each Pricing Supplement, accordingly.

The Republic has not authorised the making or provision of any representation or information regarding the Republic or the Notes other than as contained in this Offering Circular or as approved for such purpose by the Republic. Any such representation or information should not be relied upon as having been authorised by the Republic.

None of the Dealers has separately verified the information contained in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made (to the fullest extent permitted by law) and no responsibility or liability is accepted by any of the Dealers, nor any of their affiliates, holding companies, subsidiaries, associated undertakings or controlling persons, nor any of their respective directors, officers, partners, employees, agents, representatives or advisers, as to the accuracy or completeness of the information contained in this Offering Circular or any Pricing Supplement or any other information provided by the Republic in connection with the Republic, the Programme or the issue and offering of Notes thereunder. No Dealer accepts any liability whether arising in tort or contract or otherwise in relation to the information contained in this Offering Circular or any other information provided by the Republic or any such statement.

Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Notes shall in any circumstances constitute a representation that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial, economic or otherwise) or affairs of the Republic since the date of this Offering Circular. The Dealers expressly do not undertake to review the condition (financial, economic or otherwise) or affairs of the Republic during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

Neither this Offering Circular nor any other information supplied in connection with the Programme or any Notes: (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or any of the Dealers that any recipient of this Offering Circular or any other information supplied in connection with the Programme or any Notes should purchase any Notes.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Republic or any Dealer to subscribe for or purchase, any Notes. Each potential investor contemplating purchasing any Notes should make its own independent investigation and analysis of the condition and affairs, and its own appraisal of the creditworthiness, of the Republic, and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment.

The above disclaimers shall apply (without limitation) to all parts of this Offering Circular, including any supplement to it, and to any Pricing Supplement. Neither the Dealers nor any of their affiliates, holding companies, subsidiaries, associated undertakings or controlling persons, nor any of their respective

directors, officers, employees, agents, partners or advisers shall be liable for any direct, indirect or consequential loss or damage suffered by any person as a result of relying on any statement contained in this Offering Circular, including any supplement to it, any Pricing Supplement or any other information supplied in connection with the Programme or any Notes.

The distribution of this Offering Circular and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Republic and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Offering Circular, any Pricing Supplement and any other offering material relating to the Notes, see "*Subscription and Sale*". Neither the Republic nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Republic or any Dealer to supplement this Offering Circular or any other document for such offer.

In this Offering Circular, unless otherwise specified, references to "U.S.\$", "U.S. dollars", "USD" and "dollars" are to the lawful currency for the time being of the United States of America, references to "BGN", "Lev" and "Leva" are to the lawful currency for the time being of the Republic and references to "Euro", "euro", "EUR" and "€" are to the single currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro, as amended.

Unless otherwise stated, all annual information, including budgetary information, is based on calendar years. Figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same item of information may vary, and figures which are totals may not be arithmetical aggregate of their components.

Statistical data appearing in this Offering Circular has been extracted or compiled from the records, statistics and other official public sources of information in Bulgaria, and has not been independently verified or checked by any Dealer. Similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data may vary from source to source. While there have been significant steps taken to improve the accuracy of the statistics, it is inevitable in the context of a transition economy that there is a degree of uncertainty as to the accuracy or reliability of the statistics when compared with those produced by countries that have for many years been preparing market economy statistics. In addition, the statistics may not be calculated on a basis that is fully in accordance with international standards, and the statistics have in the past been, and may in the future be, subject to significant revision. Certain statistical data appearing in this Offering Circular may not have been restated to reflect inflation. Investors should be aware that distortions caused by inflation are present in such statistics and that period-to-period comparisons may not be meaningful.

Bulgaria is a sovereign state. Consequently, it may be difficult for investors to obtain judgments of courts in countries outside Bulgaria against Bulgaria. Enforcement of such judgments in Bulgaria may be refused in certain circumstances in the absence of an applicable treaty facilitating such enforcement. See "*Risk Factors—Risks relating to Notes generally—Enforcement of Liabilities*".

In making an investment decision, investors must rely on their own examination of the Republic and the terms of the Notes being offered, including the merits and risks involved. The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Offering Circular or confirmed the accuracy or determined the adequacy of the information contained in this Offering Circular. Any representation to the contrary is unlawful.

STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be

conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.

U.S. INFORMATION

This Offering Circular may be submitted on a confidential basis in the United States to a limited number of QIBs for informational use solely in connection with the consideration of the purchase of certain Notes which may be issued under the Programme. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

Any Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and the Treasury regulations promulgated thereunder.

Registered Notes may be offered or sold within the United States only to QIBs in transactions exempt from registration under the Securities Act in reliance on Rule 144A under the Securities Act or any other applicable exemption. Any U.S. purchaser of Registered Notes is hereby notified that the offer and sale of any Registered Notes to it may be made in reliance upon the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

Each purchaser or holder of Notes represented by a Restricted Global Certificate or any Notes issued in registered form in exchange or substitution therefor (together "**Legended Notes**") will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in "*Subscription and Sale*" and "*Transfer Restrictions*".

MIFID II PRODUCT GOVERNANCE / TARGET MARKET

The Pricing Supplement in respect of any Notes will include a legend entitled "*MiFID II Product Governance*" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, "**MiFID II**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

BENCHMARK REGULATION

Interest and/or other amounts payable under the Notes may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Regulation (EU) 2016/1011 (the "**Benchmark Regulation**"). If any such reference rate does constitute a benchmark, the Pricing Supplement will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (*Register of administrators and benchmarks*) of the Benchmark Regulation. Transitional provisions in the Benchmark Regulation may have the result that the administrator of a particular benchmark is not required to appear in the register of administrators and benchmarks at the date of the Pricing Supplement. The registration status of any administrator under the Benchmark Regulation is a matter of public record and, save where required by applicable law, the Issuer does not intend to update the Pricing Supplement to reflect any change in the registration status of the administrator.

FORWARD LOOKING STATEMENTS

This Offering Circular includes forward-looking statements. All statements other than statements of historical fact included in this Offering Circular regarding, among other things, Bulgaria's economy, fiscal

condition, politics, debt or prospects may constitute forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "project", "predict", "aim", "intend", "estimate", "anticipate", "believe", "continue", "could", "should", "would" or similar expressions or the negative thereof or other variations thereof or comparable terminology or discussions of strategy, plans or intentions, involve a number of risks and uncertainties. Although the Issuer believes that expectations reflected in its forward-looking statements are reasonable as at the date of this Offering Circular, there can be no assurance that such expectations will prove to have been correct. The Issuer undertakes no obligation to update the forward-looking statements contained in this Offering Circular or any other forward-looking statement it may make. Forward-looking statements involve inherent risks and uncertainties.

For the Issuer, in addition to the factors described in this Offering Circular, including, but not limited to, those discussed under "*Risk Factors*", the following factors, among others, could cause future conditions to differ materially from those expressed in any forward-looking statements made herein:

External factors, such as:

- the impact of the international economic and political environment on the Bulgarian economy, including liquidity in the international financial markets and volatility in international equity, debt and foreign exchange markets;
- interest rates in financial markets outside Bulgaria;
- the impact of any changes in the credit ratings of Bulgaria;
- the impact of regional political conditions;
- the impact of the ongoing COVID-19 pandemic;
- the impact of changes in the international prices of commodities; and
- economic conditions in Bulgaria's major export markets.

Internal factors, such as:

- macroeconomic effects stemming from the ongoing COVID-19 lockdown;
- general economic and business conditions in Bulgaria;
- the level of unemployment; and
- the ability of Bulgaria to effect key economic reforms.

EXCHANGE RATES

On 1 July 1997 the Lev was fixed to the German Mark ("**DEM**") at a rate of BGN 1,000 for DEM 1. Effective 5 July 1999, following the redenomination of the Lev the official exchange rate of the Lev to the DEM was set at BGN 1 for DEM 1. Following the introduction of the Euro as the single currency for the euro area on 1 January 1999, the fixed exchange rate was set at BGN 1.95583 for 1 EUR based on the official exchange rate of conversion of the DEM to the EUR.

The following table sets out both the Lev to U.S. dollar exchange rate and the U.S. dollar to Euro exchange rate for the last day of the periods indicated; also set out below are the average exchange rates for the same periods:

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020⁽¹⁾</u>
			<i>(BGN per U.S.\$)⁽²⁾</i>			
Year or period end.....	1.79007	1.8554	1.63081	1.70815	1.74099	1.7466
Average for year or period	1.76441	1.77192	1.72479	1.66190	1.75029	1.7379
			<i>(U.S.\$ per EUR)⁽³⁾</i>			
Year or period end.....	1.0887	1.0541	1.1993	1.1450	1.1234	1.1198
Average for year or period	1.1095	1.1069	1.1297	1.1810	1.1195	1.1020

Notes:

⁽¹⁾ Exchange rate from 1 January 2020 to 30 June 2020

⁽²⁾ *Source:* Bulgarian National Bank.

⁽³⁾ *Source:* European Central Bank.

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OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement.

Words and expressions defined in "*Terms and Conditions of the Notes*" and "*Summary of Provisions Relating to Notes in Global Form*" shall have the same meanings in this overview.

Issuer:	Republic of Bulgaria
Legal Entity Identifier (LEI):	529900PG0XCL4LICL838
Description:	€10,000,000,000 Global Medium Term Note Programme
Arrangers:	BNP Paribas Citigroup Global Markets Limited HSBC Bank plc J.P. Morgan Securities plc Société Générale UniCredit Bank AG
Dealers:	BNP Paribas Citigroup Global Markets Limited HSBC Bank plc J.P. Morgan Securities plc Société Générale UniCredit Bank AG and any other Dealers appointed in accordance with the Dealer Agreement from time to time for a specific issue of Notes.
Fiscal Agent, Paying Agent, Exchange Agent, Transfer Agent and Calculation Agent:	Citibank N.A., London Branch
Paying Agent and Transfer Agent:	Citibank Europe Plc
Registrar:	Citigroup Global Markets Europe AG
Listing Agent:	Banque Internationale á Luxembourg S.A.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time. See " <i>Subscription and Sale</i> " and " <i>Transfer Restrictions</i> ".
Initial Delivery of Notes:	<i>Bearer Notes:</i> On or before the issue date for each Tranche, if the relevant Global Note is stated in the applicable Pricing Supplement to be issued in New Global Note (" NGN ") form, the Global Note will be delivered to a common safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Note is not issued in NGN form, the Global Note representing Bearer Notes shall

be deposited with the Common Depositary for Euroclear and Clearstream, Luxembourg.

Registered Notes:

On or before the issue date for each Tranche, if the relevant Unrestricted Global Certificate is stated in the applicable Pricing Supplement to be held under the New Safekeeping Structure ("NSS"), the Unrestricted Global Certificate will be delivered to a common safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Certificate is not held under the NSS, the Global Certificate shall be deposited with the Common Depositary for Euroclear and Clearstream, Luxembourg.

Each Restricted Global Certificate will be deposited with a custodian for, and registered in the name of a nominee of, DTC on its issue date. Beneficial interests in a Restricted Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants.

General:

Global Notes or Global Certificates (as the case may be) may also be deposited with any other clearing system or may be delivered outside any clearing system **provided that** the method of such delivery has been agreed in advance by the Republic, the Fiscal Agent and the relevant Dealer.

Distribution:

Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis. The Notes will be issued in series (each, a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest). Each Series may be issued in tranches (each, a "**Tranche**") on the same or different issue dates. Further Notes may be issued as part of an existing Series.

Currencies:

Notes may be denominated in any currency agreed between the Republic, the Fiscal Agent and the relevant Dealer, subject to any applicable legal or regulatory restrictions.

Maturities:

The Notes will have such maturities as may be agreed between the Republic and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Republic or the relevant specified currency.

Issue Price:

Notes may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par.

Form of Notes:

The Notes will be issued in bearer or registered form as described in "*Terms and Conditions of the Notes*" and "*Summary of Provisions Relating to Notes in Global Form*". Registered Notes will not be exchangeable for Bearer Notes and *vice versa*.

Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the Republic and the relevant Dealer and, on redemption, will be calculated on the basis of such Day Count Fraction as may be agreed between the Republic and the relevant Dealer.
Floating Rate Notes:	<p>Floating Rate Notes will bear interest at a rate determined:</p> <ul style="list-style-type: none"> (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant specified currency governed by an agreement incorporating the relevant ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (c) on such other basis as may be agreed between the Republic and the relevant Dealer. <p>The margin (if any) relating to such floating rate will be agreed between the Republic and the relevant Dealer for each Series of Floating Rate Notes.</p>
Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to such other factors as the Issuer and the relevant Dealer may agree.
Floating/Index Linked Notes – Interest Payments:	Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the Issuer and the relevant Dealer may agree.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption:	The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than following an Event of Default) or that such Notes will be redeemable at the option of the Republic and/or the Noteholders upon giving notice to the Noteholders or the Republic, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Republic and the relevant Dealer. The terms of any such redemption, including notice periods, any relevant

conditions to be satisfied and the relevant redemption dates and prices will be indicated in the applicable Pricing Supplement.

Denomination of Notes:

The Notes will be issued in such denominations as may be agreed between the Republic and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant specified currency.

Events of Default:

Events of default under the Notes include the non-payment of any interest due in respect of the Notes or any of them for a period of 15 days from the due date for payment thereof and breach of other obligations or undertakings under the Notes (which breach is not remedied within 30 days after written notice of such breach has been delivered to the Issuer). The Notes include a cross-default provision. Notes may only be declared immediately due and payable, upon an Event of Default, if holders of at least 25 per cent., in aggregate nominal amount of the outstanding Notes give notice in writing to the Republic. Furthermore if the Republic receives notice in writing from holders of at least 50 per cent., in aggregate nominal amount of the outstanding Notes to the effect that the event of default giving rise to a declaration of acceleration is cured and that such holders wish the relevant declaration to be withdrawn, the relevant declaration shall be withdrawn and shall have no further effect.

Negative Pledge:

The terms of the Notes will contain a negative pledge provision as further described in Condition 4.

Status of the Notes:

All Notes issued under the Programme will constitute direct, general, unconditional and (subject to Condition 4) unsecured and unsubordinated obligations of the Republic and will at all time rank *pari passu* without any preference among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Republic (save for such obligations as may be preferred by provisions of law that are of mandatory application at the date on which agreement is reached to issue the first Tranche of Notes). The Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any other unsecured and unsubordinated obligations of the Republic and, in particular, shall have no obligation to pay other unsecured and unsubordinated obligations of the Republic at the same time or as a condition of paying sums due on the Notes and *vice versa*. See "*Terms and Conditions of the Notes – Status*" and "*Risk Factors – Risks relating to Notes generally - The Issuer is not required to effect equal or rateable payment(s) with respect to its other debt obligations, and is not required to pay other debt obligations at the same time or as a condition of paying sums on the Notes and vice versa*".

Withholding Tax:

All payments in respect of the Notes by or on behalf of the Republic will be made without withholding or deduction for or on account of any taxes, unless required by law. In that event, the Republic will pay such additional amounts as will

result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, subject to certain exceptions as provided in Condition 8.

Meetings of Noteholders:

The Conditions contain a "collective action" clause which permits defined majorities to bind all Noteholders.

If the Republic issues future debt securities which contain collective action clauses in substantially the same form as the collective action clause in the Conditions, the Notes would be capable of aggregation for voting purposes with any such future debt securities, thereby allowing 'cross-series' modifications to the terms and conditions of all affected Series of Notes (even, in some circumstances, where majorities in certain series did not vote in favour of the modifications being voted on). See "*Risk Factors – Risks relating to Notes generally - The terms and conditions of the Notes contain a "collective action" clause under which the terms of any one Series of Notes and/or multiple Series of Notes may be amended, modified or waived without the consent of all the holders of the Notes*".

Rating:

The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency. Whether or not each credit rating applied for in relation to relevant Series of Notes will be issued by a credit rating agency established in the EU or the United Kingdom and registered under the CRA Regulation will be disclosed in the applicable Pricing Supplement.

Further Issues:

The Issuer may from time to time, without notice or the consent of holders of any Notes, issue further securities which may form a single series with such Notes, subject to certain conditions set out in "*Terms and Conditions of the Notes – Further Issues*".

Clearing Systems:

Euroclear, Clearstream, Luxembourg and/or DTC, unless otherwise agreed, and such other clearing system(s) as may be agreed between the Issuer, the Fiscal Agent and the relevant Dealer.

Listing and admission to trading:

Application may be made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange.

Notes may be listed or admitted to trading on other or further stock exchanges or markets agreed between the Republic and the relevant Dealer in relation to the relevant Series. Notes which are neither listed nor admitted to trading on any market may also be issued.

The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

Governing Law and Jurisdiction:

English law. The Issuer has submitted to the jurisdiction of the courts of England in respect of any disputes in connection with the Notes.

Selling Restrictions and Transfer Restrictions:

There are restrictions on the distribution of marketing materials and on the offering of Notes in certain jurisdictions. There are restrictions on the transfer of Notes sold pursuant to Regulation S and Rule 144A. See "*Subscription and Sale*" and "*Transfer Restrictions*" below.

Enforcement of Notes in Global Form:

In the case of Global Notes and Global Certificates, individual investors' rights will be governed by a deed of covenant dated 6 February 2015 (the "**Deed of Covenant**"), a copy of which is available for inspection at the specified office of the Fiscal Agent.

Risk Factors:

There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes. See "*Risk Factors*" for a description of certain of these risks.

RISK FACTORS

Investment in the Notes involves risk. Prospective investors should carefully consider the following risk factors, together with the other information set out in this Offering Circular, before making a decision to invest in the Notes and should understand that the risks set forth below could, individually or in the aggregate, have a material adverse effect on the Republic's ability to repay principal and make payments of interest on the Notes or otherwise fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and the Republic is not in a position to express a view on the likelihood of any such contingency occurring. Additional risks and uncertainties not currently known to the Republic or that the Republic currently deems to be immaterial may also materially affect the Republic's economy and its ability to fulfil its obligations under the Notes. In any such case, investors may lose all or part of their investment in the Notes. Words and expressions defined in "Terms and Conditions of the Notes" or elsewhere in this Offering Circular have the same meanings in this section.

Risk Factors Relating to Bulgaria

Bulgaria's economy remains vulnerable to both internal and external economic shocks as a result of the global COVID-19 pandemic

Since the beginning of 2020, the ongoing COVID-19 outbreak has escalated into a global pandemic resulting in the implementation of stringent travel and transport restrictions, quarantines and extended shutdowns of certain businesses globally, including in Bulgaria, in an attempt to contain the continued spread of the virus. In an attempt to stay ahead of the spread of the virus, in mid-March, the National Assembly enforced a state of emergency (the "**State of Emergency**") in Bulgaria. The State of Emergency commenced on 13 March 2020, initially for a period of one month, but was later extended to 13 May 2020 when it expired officially. On 13 May 2020, amendments (dated 12 May 2020) to the general Health Act were officially promulgated and the Government declared an extraordinary epidemic situation, which was subsequently extended several times and is currently in force until 30 September 2020. Based on orders of the Minister of Health, many of the measures imposed under the State of Emergency continued to apply after its expiration and will be effective until the end of the extraordinary epidemic situation.

The measures in Bulgaria during the expired State of Emergency were of moderate strictness: kindergartens, schools and universities were closed during the State of Emergency as a measure to control and combat the pandemic, together with temporary lockdown for mass events, sports, cultural, entertainment premises, temporary closure of shopping malls (except for food stores and pharmacies within), restaurants, amusement/gambling halls, bars and nightclubs (the "**Lockdown**"). All employers were asked to introduce remote work for their employees to the extent possible. During the extraordinary epidemic situation currently in force some of the measures have already been abolished, but others remain effective, including mask requirements (including by schoolchildren and teachers in schools) and social distancing to limit the spread of the virus. The duration of the health measures is dependent upon the effectiveness and efficiency of coping with the current situation both domestically and internationally. The scope and effects of the measures are being regularly revisited.

The COVID-19 pandemic reached a peak in the second quarter of 2020 with the economic activity to start a gradual recovery thereafter. Therefore, the country's real gross domestic product ("**GDP**") is expected to decline by 3 per cent. in 2020, while annual average inflation is expected to be 0.1 per cent. Domestic demand is expected to decline by 0.4 per cent., as the imposed measures of social distancing and the increased unemployment will lead to a drop in private consumption, while the increased uncertainty will result in lower private investment. At the same time, public consumption and investment will have positive contribution to GDP growth.

External sector contribution to GDP will be negative as lower external demand, global supply chain disruptions and restricted international travels are expected to lead to a decline in the export of goods and services of about 16 per cent. per annum. The accommodation and food service activities, arts, entertainment and recreation, and transport sectors were the economic sectors most directly impacted by the Lockdown. They accounted for around 10 per cent. of the value added in Bulgaria in the 2015-2018 period. While production fell significantly in the second quarter of 2020, June and July showed signs of a gradual recovery for the sector. The performance of the export-oriented sectors like manufacturing of base metals and fabricated metal products and manufacturing of machinery and equipment, which accounted roughly for more than 10 per cent. of the value added in the country will also be negatively affected.

In addition, the Ministry of Tourism expects the tourism sector to also be among the industries most affected by the COVID-19 pandemic. The tourism industry is in an extremely difficult situation. Due to the restrictive measures that are in place in Bulgaria and most of Europe, airlines and airports were closed until late May 2020 for civil flights. Hotels and restaurants started reopening only in the middle of May 2020. Tour operators and tour agents also struggled to refund previously sold tourism and travel packages. Due to the effects of the COVID-19 pandemic, the number of tourists that stayed overnight at the accommodation places with more than 10 beds in Bulgaria decreased to 162 thousand tourists in March 2020 as compared to 432 thousand tourists in March 2019. During H1 2020, the total number of arrivals of visitors from abroad to Bulgaria, based on NSI data, was 2,007,598. This represented a decrease of 58.2 per cent. compared to H1 2019. The largest decline in visitors during H1 2020 was registered in the visits related to holiday and recreation (71.0 per cent. compared to H1 2019). The Government has developed measures and activities to be implemented during and/or after the State of Emergency to aid in the restoration of tourism in Bulgaria, such as updating the advertising activities included in the Annual Program for National Tourism Advertising in 2020 (adopted in June 2019) with targeted promotions and advertising to stimulate inbound tourism. As noted above, although the COVID-19 pandemic reached a peak in the second quarter of 2020, with the economic activity to commence a gradual recovery thereafter, the restrictive travel and quarantine measures currently in place globally may continue to have an adverse effect on Bulgaria's tourism sector beyond the expiration of said measures. The reduction in tourism has had a material negative effect on the financial condition of Bulgaria, and a sustained gap in tourism may increase this effect or delay Bulgaria's recovery. There is no guarantee that the Government's measures to aid in restoration of tourism in Bulgaria will have proven effective.

The COVID-19 pandemic has had a negative impact on the labour market, especially in the second quarter of 2020. The number of employed was estimated to decrease by 2.1 per cent. in 2020, and the unemployment rate to reach 6.2 per cent. as compared to 4.2 per cent. in 2019. However, due to the COVID-19 pandemic, the registered unemployment rate reached a peak in May 2020 of 9 per cent. A steady downward trend was registered due to the recovery of economic activity of enterprises and the measures taken to mitigate the socio-economic consequences of the COVID crisis, with the unemployment rate reaching 7.9 per cent. in July 2020. Employers are expected to adjust to the lower economic activity not only through reduction of workers but also through a reduction in compensation per employee. Therefore the nominal increase in compensation of employees is expected to decelerate to 2.5 per cent. in 2020 as compared to 7.7 per cent. in 2019. Consequently, this could potentially lower the number of active contributors to the social security system, lead to private sector wage cuts, and increased number of unemployment benefit recipients. These outcomes could result in lower revenues from social security contributions and higher expenditure on social security benefits. Even with the Government's preventative measures to mitigate the potential economic impact of the COVID-19 pandemic, the COVID-19 pandemic could have an adverse effect on the funds available to social security and healthcare services in Bulgaria in the future.

The Government has implemented numerous measures and policies to support the country's economic activity during the State of Emergency, including: (i) a Government backed package of financial instruments in the amount of BGN 4.5 billion, including interest-free loans to individuals, loans to micro-enterprises, unsecured loans to SMEs, capital investments to SMEs and other financial instruments through the Fund Manager of Financial Instruments in Bulgaria and the Bulgarian Development Bank; (ii) the delegation of approximately BGN 1.5 billion from the State Budget to finance healthcare and socio-economic measures in support of Bulgarian persons and companies; (iii) the reallocation of over BGN 870 million from non-contracted EU funds under the operational programs to support the economy during the lockdown; and (iv) administrative measures including postponement of tax payments (of corporate income tax and some other taxes stemming from the Personal Income Tax Act) in order to free up resources to finance urgent costs in times of low economic activity. For more information on these measures and policies see *"The Economy—Labour Market"*, *"Public Finance—Tax Policy"* and *"Public Finance—Revenues"*. In addition, the Bulgarian National Bank ("**BNB**") implemented, within its mandate, a package of measures worth BGN 9.3 billion, aimed at both preserving the stability of the banking system and strengthening its flexibility to reduce the adverse effects on households and companies from the restrictions caused by the pandemic. See *"Monetary and Financial System—BNB measures in response to the COVID-19 pandemic"*. No assurance may be given that the Government's measures will be sufficient to limit the negative economic effects of the COVID-19 pandemic, that the Government budget will not require future updates to mitigate such negative economic effects, or that following the emergency situation established by the COVID-19 pandemic, such measures will be sufficient to bolster Bulgaria's economy for a fast-track recovery. Each of these challenges in turn may have a negative effect on the financial condition of the Issuer.

Bulgaria's economy is vulnerable to external shocks, significant economic difficulties among its major trading partners or more generally, which could have a material adverse effect on Bulgaria's economic growth

As a small open economy, Bulgaria faces risks of external economic shocks such as significant economic difficulties in its main trading partners, geopolitical volatility in neighbouring countries, as well as sharp increases in global commodity prices and sharp drops in global oil and commodities supply. For example, for the 2015-2019 period, the export of goods and services represented about 65 per cent. of the country's GDP per annum, while import represented 62 per cent. on average. The European Union ("EU") procured approximately 66 per cent. of Bulgaria's exported goods and provided 53 per cent. of its imports. Among the non-EU countries, Turkey is among one of Bulgaria's key trading partners. In 2018, Bulgaria's economy faced challenges due to a slowdown in global growth. In particular, there was a slowdown of growth in some of Bulgaria's key trading partners, including Turkey, whose GDP increased by 2.8 per cent. in 2018 as compared with 7.5 per cent. in 2017. This resulted in a reduction in growth in exports of goods and services to 1.7 per cent. in 2018 as compared to 5.8 per cent. in 2017.

Moreover, tourism is among the defining economic sectors in Bulgaria. As of 31 December 2019, tourism represented approximately 12 per cent. of GDP with over 350,000 employees or 11 per cent. of the employed population in the country. EU citizens accounted for approximately half of the tourist visits to Bulgaria on average for the 2015-2019 period. In 2019, Turkey was ranked forth by number of foreign tourists, with approximately 650,000 Turkish nationals visiting Bulgaria for tourism, an increase of almost 4 per cent. as compared to 2018. Any geopolitical or macroeconomic uncertainties, including as a result of the COVID-19 pandemic, and volatility in Bulgaria's main trading partners or neighbouring countries (including, but not limited to Germany, Italy, Turkey, Romania and Greece) could have an adverse effect on the economic activity and growth in Bulgaria.

An investment in an emerging market such as Bulgaria is subject to greater risks than an investment in a more developed country

Although progress has been made in reforming Bulgaria's economy and political and legal systems, the development of Bulgaria's legal infrastructure and regulatory framework is still ongoing. As a consequence, an investment in Bulgaria carries risks that are not typically associated with investing in more mature markets. Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, an investment in Bulgaria is appropriate. Generally, investments in emerging markets, such as Bulgaria, are only suitable for sophisticated investors who can fully appreciate the significance and consequences of the risks involved.

In addition, international investors' reactions to events occurring in one country sometimes demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by international investors. Therefore, investment in Bulgaria's sovereign securities, as in any other comparable economy, could be adversely affected by negative economic or financial developments in other countries. There can be no assurance that conditions resulting from any crises similar to the global financial and economic crisis that started in 2008, the European sovereign debt crisis or the recent political turmoil in Europe, the Middle East and Africa and/or the current COVID-19 pandemic will not negatively affect the economic performance of, or investor confidence in, developing markets, including Bulgaria.

There can be no assurance that Bulgaria's credit rating will not change

The long-term foreign and domestic currency debt of Bulgaria is rated BBB by both S&P and Fitch and Baa2 by Moody's at the date of this Offering Circular. At the date of this Offering Circular, Moody's Deutschland GmbH has assigned the Programme a rating of Baa2 and Fitch has assigned the Programme a rating of BBB. Materialization of any of the risks discussed herein, may contribute to credit rating downgrades which could result in a sub-investment grade rating of the Notes. In turn, any adverse changes in an applicable credit rating could adversely affect the trading price for the Notes. In addition, a sub-investment grade rating could adversely affect Bulgaria's ability to refinance existing indebtedness, finance its deficit and could adversely affect its capacity to meet its obligations under the Notes.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Government's programme of diversification of sources and routes of supply for energy resources may be vulnerable to internal and external shocks

The diversification of sources and routes for supply of energy resources is a main priority of the Republic of Bulgaria. The Government guarantees energy security as an element of the country's national security. In order to ensure its energy security, Bulgaria has implemented a number of key projects in the field of natural gas, electricity and nuclear fuel, which are important not only to Bulgaria, but also the surrounding region. A number of these projects, in particular in the gas sector, will be conducted through co-ventures between Bulgaria and its neighbouring countries or will require the cooperation of numerous trade partners. This may leave Bulgaria's programme for the diversification of sources and supplies for energy resources vulnerable to external shocks including political or macroeconomic issues of Bulgaria's main trading partners or neighbouring countries. For example, since the launching of TurkStream in January 2020, Russian gas supplies to Bulgaria no longer transit through Ukraine but reach Bulgaria via a pipeline on the seabed of the Black Sea and Turkey. The security of those gas supplies is therefore no longer vulnerable to tensions between Russia and Ukraine or between their respective national gas companies (which happened on at least two occasions in the 2006-2009 period). However, there can be no assurance that similar vulnerabilities could not emerge in the future as a result of possible tensions between Russia and Turkey. Half of the overall natural gas consumption of 3 billion cubic meters per year (bcm/y) was diversified by 31 December 2019, with LNG at competitive prices and supply from Azerbaijan expected to commence by the end of 2020. While the Government believes that the risk of dependence on one supplier is no longer an issue and despite the emphasis being placed on these proposed projects and new policies, said projects and policies remain vulnerable to internal and external shocks, including significant macroeconomic or political difficulties among its major trading partners or the surrounding region more generally.

Bulgaria's reliance on local coal as a primary energy source in the context of EU-level Green initiatives for the decarbonisation of the economy may pose challenges to the stability of the national electricity system as well as other regional and structural challenges

On 11 December 2019, the European Commission (the "**Commission**") launched the European Green Deal, with the goal of the EU becoming the first climate-neutral bloc by 2050, while simultaneously achieving a resource efficient and competitive economy. In 2020, the Commission proposed a revision of the European legislation to increase the EU's greenhouse gas emission reductions target for 2030 to at least 50 per cent. and towards 55 per cent. The proposals covered all areas of socio-economic life including, energy, transportation, agriculture, environment and biodiversity, industry and a number of related sectors. The EU's ambitious climate policy poses serious challenges and requires significant changes for the Member States. The climate policy will require joint efforts and shared responsibility amongst the Member States including targeted investment, regional and structural development, education, employment and social policy.

The Commission's Green Deal package will put pressure on Bulgaria's decarbonisation process in both the short-term and medium-term. Bulgaria will be among the EU Members States significantly affected by the decarbonisation of the economy. The country produced and processed approximately 7 per cent. of the EU's coal and represented approximately 7 per cent. of the jobs in the EU's coal sector in 2018, according to Eurostat structural business statistics.

The transformation of Bulgaria's energy sector, that currently relies on coal production and mining, will have material economic and social implications in Bulgaria and will require significant investments for building new power plants and facilities, as well as for capacity to re-industrialize the affected regions. Coal-fired power plants represented approximately 40 per cent. of the installed capacity of operating power plants and 40 per cent. of the gross electricity generation in Bulgaria in 2018. Moreover, Bulgaria has traditionally been a net exporter of electricity. Electricity exports accounted for 23.3 per cent. of gross production in the 2015-2019 period, while net electricity exports represented 15.5 per cent. of production. The value added of coal production was approximately 0.6 per cent. of the Gross Value Added ("GVA") of the total economy. In addition, in 2018, 15.7 thousand persons were employed in the coal mining and electricity production from coal sectors. The decarbonisation process will directly affect the GVA and employment in both the electricity production and coal mining sectors, which will lead to strong secondary effects in related sectors, particularly in regions that host these activities. New EU policies for transportation will also be a major challenge for Bulgaria, in particular the decarbonisation of road transport.

The Commission's country report for Bulgaria 2020 specifically referred to the substantial transition challenges and significant transition costs for Bulgaria's decarbonisation process. The decarbonisation transition and the need to guarantee the stability of Bulgaria's electricity system will require significant investments for new power plants and infrastructure, transfer and storage, new installations, additional renewable energy sources and the industrialization of numerous regions. Without adequate replacement capacities, key security requirements of the electricity system would also be at risk. The decarbonisation transition and its implications will generate high social costs, not only due to the loss of employment but also due to the loss of income for families, thus putting further challenges on the regional development for certain regions. Diversification and modernization of the coal regions will be needed, as well as plans to address difficulties and socio-economic costs associated with the decarbonisation transition. Numerous significant industries will need to implement structural changes and investment decisions under a relatively short timeline. The Bulgarian economy is energy-intensive and any decarbonisation transition would expose the economy to high social and economic costs and risk potential increases in electricity prices.

Bulgaria is already preparing the "Territorial Just Transition Plans" (the "**Territorial Plans**") under the "Just Transition Mechanism" of the EU, which will focus on those regions and sectors that are most affected by the decarbonisation transition given their dependence on fossil fuels, including coal, peat and oil shale or greenhouse gas-intensive industrial processes. Therefore, the Territorial Plans for the Eurostat's NUTS3 classified coal regions of Stara Zagora, Pernik and Kyustendil will provide an outline of the decarbonisation transition process up to 2030, consistent with the Commission's National Energy and Climate Plans and the targeted transition to a climate-neutral economy at the EU level by 2050. The Territorial Plans will serve as a strategic framework for a gradual industrial restructuring, aiming to support redundant coal workers, develop alternative business opportunities and maintain or increase regional employment and regional economic growth. The Territorial Plans will be prepared with the technical support from the European Commission under the Structural Reform Support Programme of the EU. The on the ground implementation of the Territorial Plans should commence in the Autumn of 2020. Bulgaria will also negotiate for funding from the Just Transition Fund to support the implementation of territorial transitions plans for its regions with high concentration of greenhouse gas intensive industries and employment.

The Commission's Green Deal package has not been finalized and no assurance can be given that additional regulations and restrictions for certain industries and businesses will not be introduced in the future. While the Government supports the Commission's aim for climate neutrality at the EU level by 2050 and is working on a National Action Plan for a decarbonisation transition, the impact of the Green Deal package and the subsequent decarbonisation transition process will have an adverse impact on the energy sector and the Bulgarian economy.

In the long-term, the Government may face difficulties to secure funding for the financial stability of social security and public healthcare which may have a negative effect on Bulgaria's economy

One of the challenges facing the Government is securing funding for public spending in social security and healthcare, which accounted for 44.4 per cent. of total Government expenditure and equated to 16.1 per cent. of GDP in 2019. The Government has already adopted fiscal measures to reduce costs and increase revenue streams for medium to long-term funding. However, with an ageing demographic that represents a large population of Bulgaria's workforce, maintaining such welfare services in Bulgaria may become increasingly burdensome on public resources and so pose a serious risk to the sustainability of public pensions and healthcare services in the country. This risk may be exacerbated by the current COVID-19 pandemic. Due to the COVID-19 pandemic, there has been a rise in unemployment and subsequently an increase in the cost of unemployment benefits as well as an increased burden on public healthcare services and increased healthcare costs. See "*Bulgaria's economy remains vulnerable to both internal and external economic shocks as a result of the global COVID-19 pandemic*".

To address the pressure placed on the sustainability of the public finances, Bulgaria must continue to implement a conservative fiscal policy not only with respect to budget balance, but also with regard to pension reforms (see "*Public Finance—Pension System*") and public healthcare expenditure. If the Government cannot successfully implement such policies, it could have an adverse effect on the funds available to fund social security and healthcare services in Bulgaria in the future, which in turn could have a negative effect on Bulgaria's economy and, as a result, have an adverse effect on Bulgaria's ability to repay principal and make payments of interest on the Notes.

With regards to the financial stability of public pensions, in 2015 the Government adopted pension reforms aimed at addressing the aforementioned risks. Additional measures were introduced in 2019 (see "*Public Finance – Recent pension reforms*"). The results from the latest long-term evaluation of the balance of the State Social Security Funds show that the system will remain in deficit in the foreseeable future. In 2019, the transfer from the State budget to cover the shortage of funds amounted to 3.3 per cent. of GDP. However, despite such efforts, the shortage of funds is expected to increase in absolute terms in the coming years. Its share of GDP is projected to decrease, reaching its lowest values of 2.3 per cent. - 2.4 per cent. of GDP between 2030 and 2040. This is mainly due to the expected decrease in the number of pensioners until 2040 as a result of the stricter conditions for the acquisition of a retirement pension.

The Bulgarian banking system remains vulnerable to disruption as a result of external factors influencing domestic macroeconomic developments

As of 31 December 2019, 78.3 per cent. of the total assets of the banking system in Bulgaria were foreign owned, and 21.7 per cent. of banks were domestically owned according to supervisory data from BNB. Out of the 78.3 per cent. foreign owned assets, EU banks had a share of 72.1 per cent., of which 71.3 per cent. were subsidiaries of EU banks and 3.7 per cent. were branches of EU banks (see "*Monetary and Financial System – The Banking System*"). The Bulgarian banking system is exposed to the banking systems of other countries, including Italy, Hungary, Belgium, Greece and Austria. Foreign banks may rebalance their global activities or global loan portfolio in a manner adversely affecting Bulgaria as a result of events related or unrelated to Bulgaria, including as a result of the ongoing economic turbulence in the Eurozone and sovereign debt markets. For example, the extraordinary measures taken in Bulgaria, across Europe and around the world in response to the COVID-19 pandemic will have a serious impact on Bulgaria's economy, trade and consumption, as well as on the forms and intensity of financial intermediation, including at a cross border level. In order to face these macroeconomic developments, foreign banks may be forced to re-evaluate their activities in a manner that adversely affects Bulgaria and poses a challenge to Bulgaria's banking sector. Bulgarian banks are funded by residents' deposits, foreign banks subsidiaries in Bulgaria are not dependent on parent funding to sustain and grow their activities and Bulgarian banks' capital position is solid due to the conservative macroprudential policy requiring accumulation of capital buffers. However, certain external factors and macroeconomic development may still have an adverse effect on the Bulgarian banking system. See "— *Bulgaria's economy remains vulnerable to both internal and external economic shocks as a result of the global COVID-19 pandemic*".

External pressures may deteriorate confidence in the Bulgarian banking sector. An ongoing slowdown of global economic growth may challenge Bulgarian exporter's liquidity position which in turn may lead to companies being unable to make timely payments on their debts resulting in the deterioration of banks' credit portfolio quality and lower bank profitability. The deterioration in banks' portfolios could make them more susceptible to aggregate shocks, such as increases in their own cost of borrowing, which in turn may negatively affect the Bulgarian economy and, as a result, have an adverse effect on Bulgaria's ability to repay principal and make payments of interest on the Notes.

The Government and the BNB have implemented policies to address liquidity pressures in the past. However, there can be no assurance that such policies will continue to be successful or that the successful implementation of such policies will limit the risk of the liquidity pressures in the Bulgarian banking sector in the future. As a result, there can be no assurance that the banking sector will not be subject to liquidity shortages in the future, which may negatively affect the Bulgarian economy and, as a result, have an adverse effect on Bulgaria's ability to repay principal and make payments of interest on the Notes.

Although the level of NPLs in the Bulgarian banking sector has decreased, it is expected to increase again as a result of the COVID-19 pandemic and its impact on the banking sector's stability and profitability

In 2015, the definition of non-performing loans ("NPLs") was broadened to include additional debtors (see "*Monetary and Financial System—Asset quality*"). As at 31 December 2015, the net balance sheet value of NPLs was 11.6 per cent. of the total net loans (excluding those to credit institutions) and 6.4 per cent. of the total assets. Observing a long-term improvement trend over the last five year period, gross NPL as a share of gross loans and advances fell from 14.7 per cent. to 6.5 per cent. as at 31 December 2015 of total gross loans and advances at 31 December 2019. As at 31 December 2019, the share of net NPLs amounted to 3.5 per cent. of total net loans and advances and 2.8 per cent. of total assets, compared to 3.9 per cent. of the total net loans and advances and 3.1 per cent. of total assets as at 31 December 2018. However, due to

the COVID-19 pandemic, businesses and private individuals affected by various restrictions and quarantined may experience difficulties in timely payment on their loans. The contraction in economic growth might lead to the cyclical worsening of assets quality and subsequently a potential increase in the share of non-performing loans in banks portfolios by the end of 2020. While the BNB believes that the banking system is in a good starting position to face this particular risk (owing to the BNB long term policy toward building strong capital position as well as to its recent measures to capitalize the 2019 profit), an increase in the share of non-performing loans in banks portfolios would nevertheless negatively impact the banking sector's profitability in 2020. See "*Bulgaria's economy remains vulnerable to both internal and external economic shocks as a result of the global COVID-19 pandemic*". Such developments may negatively affect the Bulgarian economy and, as a result, may have an adverse effect on Bulgaria's ability to repay principal and make payments of interest on the Notes.

Perceived or actual corruption or money laundering may have an adverse effect on Bulgaria's economy and reputation

Since 2007 when Bulgaria joined the European Union, combatting corruption and restoring confidence in the judicial system have been high on the domestic political agenda. The milestones of the reforms have been the adoption of amendments to the Constitution in 2015 and the subsequent amendments to the Judiciary Act of 2016. Counteracting the high-level corruption is an area of high priority for the Government. In January 2018, the new Combating Corruption and Illegal Asset Forfeiture Act entered into force. This law codifies and improves the legal framework in the area of counteracting corruption. It consolidated the fragmented legislation and provided for the establishment of the Commission for Combating-Corruption and Illegal Assets Forfeiture. These efforts of the Government have been recognized both the Commission and by the Group of States against Corruption ("**GRECO**") of the Council of Europe, which monitors the compliance with the organisation's anti-corruption standards. The effectiveness of anti-corruption and anti-money laundering policies depends on their successful implementation and the active participation of representatives of the institutions, civil society and the non-governmental sector. Failure to identify obstacles or enact and implement on a sustainable ongoing basis appropriate legislative and organizational measures to increase the effectiveness of anti-corruption and anti-money laundering policies can have an adverse effect on Bulgaria's economy and reputation. See "*The Republic of Bulgaria –Political System –Legislature*".

Risks relating to Notes

The terms and conditions of the Notes contain a "collective action" clause under which the terms of any one Series of Notes and/or multiple Series of Notes may be amended, modified or waived without the consent of the holders of all Notes

The Conditions contain provisions regarding amendments, modifications and waivers, commonly referred to as "collective action" clauses. Such clauses permit defined majorities to bind all Noteholders, including Noteholders who did not vote and Noteholders who voted in a manner contrary to the majority. The relevant provisions also permit, in relation to reserved matters, multiple Series of Notes to be aggregated for voting purposes (*provided that* each such Series also contains the collective action clauses in the terms and conditions of the relevant Notes).

The Issuer expects that all Series of Notes issued under the Programme will include such collective action clauses, thereby giving the Issuer the ability to request modifications or actions in respect of reserved matters across multiple Series of Notes. This means that a defined majority of the holders of such Series of Notes (when taken in the aggregate only, in some circumstances, and/or individually) would be able to bind all holders of Notes in all the relevant aggregated Series.

Any modification or actions relating to reserved matters, including in respect of payments and other important terms, may be made to a single Series of Notes with the consent of the holders of 75 per cent. of the aggregate nominal amount outstanding of such Notes, and to multiple Series of Notes with the consent of both (i) the holders of 66⅔ per cent. of the aggregate nominal amount outstanding of all Series of Notes being aggregated and (ii) the holders of 50 per cent. in aggregate nominal amount outstanding of each Series of Notes being aggregated. In addition, under certain circumstances, including the satisfaction of the Uniformly Applicable Condition in the Conditions, any such modification or action relating to reserved matters may be made to multiple Series of Notes with the consent of 75 per cent. of the aggregate nominal amount outstanding of all Series of Notes being aggregated only, without requiring a particular percentage

of the holders in any individual affected Series of Notes to vote in favour of any proposed modification or action. Any modification or action proposed by the Issuer may, at the option of the Issuer, be made in respect of some Series of Notes only and, for the avoidance of doubt, the provisions may be used for different groups of two or more Series of Notes simultaneously. At the time of any proposed modification or action, the Issuer will be obliged, *inter alia*, to specify which method or methods of aggregation will be used by the Issuer.

There is a risk therefore that the terms and conditions of a Series of Notes may be amended, modified or waived in circumstances whereby the Noteholders voting in favour of an amendment, modification or waiver may be Noteholders of a different Series of Notes and as such, without a minimum percentage of the Noteholders of the relevant Series (such as the Notes) having voted in favour of such amendment, modification or waiver. In addition, there is a risk that the provisions allowing for aggregation across multiple Series of Notes may make the Notes less attractive to purchasers in the secondary market on the occurrence of an Event of Default or in a distress situation. Further, any such amendment, modification or waiver in relation to any Notes may adversely affect their trading price.

In the future, the Issuer may issue debt securities, including securities that may not be issued under the Programme, which contain collective action clauses in the same form as the collective action clauses in the Conditions. If this occurs, then this could mean that any Series of Notes issued under the Programme would be capable of aggregation with any such future debt securities.

The terms and conditions of the Notes restrict the ability of an individual holder to declare an Event of Default, and permit a majority of holders to rescind a declaration of such a default

The Notes contain a provision which, if an Event of Default occurs, allows the holders of at least 25 per cent., in aggregate nominal amount of the outstanding Notes to declare all the Notes to be immediately due and payable by providing notice in writing to the Republic, whereupon the Notes shall become immediately due and payable, at their nominal amount with accrued interest, without further action or formality.

The Conditions also contain a provision permitting the holders of at least 50 per cent., in aggregate nominal amount of the outstanding Notes to notify the Republic to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn. The Republic shall give notice thereof to the Noteholders, whereupon the relevant declaration shall be withdrawn and shall have no further effect.

The Issuer is not required to effect equal or rateable payment(s) with respect to its other debt obligations pursuant to the terms and conditions of the Notes, and is not required to pay other debt obligations at the same time or as a condition of paying sums on the Notes and vice versa

The Notes will at all times rank at least *pari passu* with all other unsecured and unsubordinated obligations of the Republic. However, the Issuer will have no obligation to effect equal or rateable payment(s) at any time with respect to any other unsubordinated and unsecured obligations of the Republic and, in particular, will have no obligation to make payments under the Notes at the same time or as a condition of paying sums due under other unsecured and unsubordinated obligations of the Issuer. Accordingly, the Issuer may choose to grant preferential treatment to, and therefore prioritise payment obligations to, other unsecured and unsubordinated creditors of the Republic as payments fall due.

Risks related to the structure of a particular issue of Notes

A wide range of Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Notes subject to optional redemption by the Republic

An optional redemption feature of Notes is likely to limit their market value. During any period when the Republic may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Republic may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds

at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Partly Paid Notes

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Republic has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Republic may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Republic converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than the prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Republic converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than the prevailing rates on its Notes.

Index Linked Notes and Dual Currency Notes

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- (a) the market price of such Notes may be volatile;
- (b) they may receive no interest;
- (c) payment of principal or interest may occur at a different time or in a different currency than expected;
- (d) they may lose all or a substantial portion of their principal;
- (e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (f) if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and
- (g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in light of its particular circumstances.

A potential investor should not invest in the Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The regulation and reform of benchmarks may adversely affect the value of Floating Rate Notes which reference such benchmarks

Reference rates and indices, including interest rate benchmarks used to determine the amounts payable under financial instruments or the value of such financial instruments (including LIBOR and EURIBOR) are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, or to disappear entirely and may have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Notes referencing such a benchmark.

Regulation (EU) 2016/1011 (the "**Benchmark Regulation**") applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU (which, for these purposes, includes the United Kingdom).

The Benchmark Regulation could have a material impact on any Notes linked to or referencing a benchmark, in particular if the methodology or other terms of the benchmark are changed in order to comply with the requirements of the Benchmark Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the relevant benchmark.

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements.

Specifically, the United Kingdom Financial Conduct Authority has publicly announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021, and accordingly the continuation of LIBOR on the current basis will not be guaranteed after 2021. As a result, there is significant regulatory scrutiny of continued use of LIBOR and other inter-bank offered rates and increasing pressure and momentum for banks and other financial institutions to transition relevant products to replacement rates.

Different currency LIBORs are expected to transition to different rates which, in contrast to LIBOR rates (which include an interbank lending risk margin) may be (or may be derived from) risk-free rates, which may perform very differently from the relevant LIBOR rate. In addition, although EURIBOR has been reformed in order to comply with the terms of the Benchmark Regulation, it remains uncertain as to how long it will continue in its current form, or whether it will be further reformed or replaced with the new Euro Short-term Rate known as €STR or an alternative benchmark.

It is not possible to predict with certainty whether, and to what extent, LIBOR and/or EURIBOR and/or other benchmarks will continue to be supported going forwards. This may cause LIBOR and/or EURIBOR and/or other benchmarks to perform differently than they have done in the past and may have other consequences which cannot be predicted. The potential transition away from or the elimination of LIBOR, EURIBOR or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the Terms and Conditions of the Notes, or result in other consequences, in respect of any Notes referencing such benchmark. Such factors may have (without limitation) the following effects on certain benchmarks: (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark; and/or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Notes linked to, referencing, or otherwise dependent (in whole or in part) upon, a benchmark. Investors should be aware that, if a benchmark rate were discontinued or otherwise unavailable, the rate of interest on Floating Rate Notes which reference such benchmark rate will be determined by the fallback provisions applicable to such Notes. In certain circumstances, the ultimate fallback of interest for a particular Interest Accrual Period may result in the rate

of interest for the last preceding Interest Accrual Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page.

Any such consequences could have a material adverse effect on the value of and return on any such Notes. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant rate could affect the ability of the Issuer to meet its obligations under the Floating Rate Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Notes.

Investors should consider all of these matters when making their investment decision with respect to the relevant Floating Rate Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Circular;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Set out below is a brief description of certain risks relating to the Notes generally:

Tax consequences of holding the Notes

Any potential investor should consult its own independent tax adviser for more information about the tax consequences of acquiring, owning and disposing of Notes in its particular circumstances. The application and enforcement of the Bulgarian capital gains tax regime is less advantageous to Noteholders who are individuals (i.e. "non-corporate entities") who are not Bulgarian tax resident and are established for tax purposes outside of an EU Member State and outside the European Economic Area. As further discussed in the section headed "*Taxation*" below, potential investors should note that capital gains realised from the sale or exchange of Notes, including on a Regulated Market, by such individuals may be subject to a one-time tax in Bulgaria at the rate of 10 per cent., levied on the positive difference between the sale price and the documented acquisition price of the Notes (unless double tax treaty relief applies). See section headed "*Taxation*" below.

Bearer Notes generally may not be offered or sold in the United States or to U.S. persons. Unless an exemption applies, a U.S. person holding a Bearer Note or Coupon will not be entitled to deduct any loss

on the Bearer Note or Coupon and must treat as ordinary income any gain realised on the sale or other disposition (including the receipt of principal) of the Bearer Note or Coupon.

See the section headed "*Taxation*" below for a general description of certain Bulgarian and EU tax considerations relating to the Notes.

The law governing the Conditions of the Notes may change

The Conditions are based on English law in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Offering Circular.

Notes where denominations involve integral multiples

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a nominal amount of Notes such that its holding amounts to a Specified Denomination.

If Definitive Notes are issued, holders should be aware that Definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Reliance on DTC, Euroclear and Clearstream, Luxembourg procedures

Notes issued under the Programme will be represented on issue by one or more Global Notes or Global Certificates that may be deposited with a Common Depositary for Euroclear and Clearstream, Luxembourg or may be deposited with a nominee for DTC. Except in the circumstances described in each Global Note and/or Global Certificate, investors will not be entitled to receive Notes in definitive form. Each of DTC, Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note or Global Certificate held through it. While the Notes are represented by a Global Note or Global Certificate, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes or Global Certificates, the Republic will discharge its payment obligation under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note or Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Republic has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note or Global Certificate.

Holders of beneficial interests in a Global Note or Global Certificate will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Transferability of the Notes may be limited under applicable securities laws

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or any other jurisdiction. Notes issued under the Programme may not be offered, sold or otherwise transferred in the United States or to, or for the account or benefit of, a U.S. person other than to persons that are QIBs. Each purchaser of Notes will be deemed, by its acceptance of such Notes, to have made certain representations and agreements intended by the Issuer to restrict transfers of Notes as described under "*Subscription and Sale*" and "*Transfer Restrictions*". It is the obligation of each purchaser of Notes to ensure that its offers and sales of Notes comply with all applicable securities laws.

In addition, if at any time the Issuer determines that any owner of Notes, or any account on behalf of which an owner of Notes purchased its Notes, is a person that is required to be a QIB, the Issuer may compel that such owner's Notes be sold or transferred to a person designated by or acceptable to the Issuer.

Enforcement of Liabilities

Bulgaria is a sovereign state. Consequently, it may be difficult for investors to obtain judgments of courts in countries outside Bulgaria (including English courts) against the Republic. In the absence of any applicable international treaty, recognition and enforcement of judgments of courts outside the European Union in Bulgaria may be refused by the Bulgarian court in the course of exequatur proceedings on the grounds provided in Bulgaria's International Private Law Code. Such non-enforcement grounds are similar to, but slightly broader than, the grounds under Regulation (EU) No 1215/2012 of the European Parliament and of the Council of 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (recast) (the "**Brussels I Regulation (recast)**").

The United Kingdom withdrew from the EU as of 1 February 2020. Under Article 67 of the Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community (the "**EU-UK Withdrawal Agreement**"), a judgment obtained in an English court in relation to legal proceedings instituted before the end of the transition period, i.e. 31 December 2020, will be enforceable in Bulgaria under the conditions laid down in the Brussels I Regulation (recast).

After the end of the transition period, the enforcement in Bulgaria of English court judgments may be governed by a multilateral arrangement, such as EU-UK trade agreement currently being negotiated, the Lugano Convention, or the Hague Convention. The applicability of any of the foregoing, however, remains uncertain as of the date hereof. Furthermore, there is no bilateral legal assistance treaty between Bulgaria and the United Kingdom.

In the absences of future multilateral or bilateral arrangements, the enforcement in Bulgaria of English court judgements given in legal proceedings commenced after the end of the transition period under the EU-UK Withdrawal Agreement shall be governed by Bulgaria's International Private Law Code and shall require the obtaining of a recognition and enforcement permission (*exequatur*) by the Sofia City Court. An exequatur may be issued, without rehearing the merits of the case, on the basis of an exequatur application made by the party seeking enforcement of a foreign judgement accompanied by an official copy of the judgement and an official certificate that such judgment is final, both expected to be issued by the English courts.

Under the International Private Law Code, permission (*exequatur*) may be refused by a competent Bulgarian court on an exclusive list of grounds, including but not limited to cases where: the judgment (in respect of which exequatur is being sought) was given in default of appearance; the judgment was given in breach of right of defence; the judgment is irreconcilable with a judgment given involving the same parties in Bulgaria; the recognition/enforcement of such judgement is manifestly contrary to the Bulgarian public policy.

The exequatur procedure under the International Private Law Code is more burdensome compared with the simplified enforcement procedure under the Brussels I Regulation (recast), as it unfolds in adversarial court proceedings between the parties to the original dispute, the result of which may be appealed before up to two instances by the defeated party. Thus, no assurance can be given of the success of the exequatur procedure in Bulgaria in any given case.

Therefore, as the Notes are governed by English law and subject to the jurisdiction of the English courts, and while it remains to be seen whether the United Kingdom and the EU will negotiate particular arrangements on civil justice matters, there will be a period of uncertainty concerning the relevant procedure that may ultimately apply to enforcement of English court judgments in Bulgaria.

The procedure for the enforcement of foreign judgments (when they become enforceable in line with the aforementioned rules of Bulgaria's International Private Law Code, or of any future EU-UK multilateral arrangement, or the Brussels I Regulation (recast) subject to the EU-UK Withdrawal Agreement, as the case may be), shall be governed by, the provisions of Bulgaria's Civil Procedure Code. It is notable, that enforcement against the Republic will be carried out in accordance with procedures which differ from the enforcement procedures applicable to other defendants (for example, the attachment of, or forcible liquidation of assets of, the Republic located in Bulgaria is not possible).

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

There may be no active trading market for the Notes

Although an application has been made to list on the Official List of the Luxembourg Stock Exchange and to trade the Notes on the Luxembourg Stock Exchange's regulated market, there is no assurance that such application will be accepted or that an active trading market for the Notes will develop or, if one does develop, that it will be liquid or maintained. If an active trading market in the Notes does not develop or is not maintained, the market price and liquidity of the Notes may be adversely affected.

In addition, if the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Republic. As a result of the above factors, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

Exchange rate risks and exchange controls

The Republic will pay principal and interest on the Notes in the Specified Currency. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Interest rate risks

Investment in Fixed Rate Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Notes.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by its assigning rating agency at any time.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU or the United Kingdom and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit

rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended).

USE OF PROCEEDS

The net proceeds from Notes to be issued under the Programme may be used for the refinancing of existing state debt and/or to increase the fiscal reserves of the Republic, including in order to address the impact of the COVID-19 crisis and to aid the subsequent economic recovery of the Republic. If there are specific known uses of proceeds, these will be set out in the relevant Pricing Supplement relating to such Notes.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and as supplemented in accordance with the provisions of Part A of the relevant Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for global note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of Part A of the Pricing Supplement or (ii) these terms and conditions as so completed or supplemented, shall be endorsed on such Bearer Notes or on such Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in Part A of the relevant Pricing Supplement. References in the Conditions to "Notes" are, unless the context requires, to the Notes of one Series only, not to all Notes that may be issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under the section of the Offering Circular headed "Summary of Provisions Relating to the Notes while in Global Form".

The Notes are issued pursuant to a fiscal agency agreement (as amended or supplemented as at the Issue Date, the "**Agency Agreement**") dated 6 February 2015 between the Republic of Bulgaria (the "**Issuer**"), Citibank N.A., London Branch as fiscal agent and the other agents named in it and with the benefit of a Deed of Covenant (as amended or supplemented as at the Issue Date, the "**Deed of Covenant**") dated 6 February 2015 executed by the Issuer in relation to the Notes. The fiscal agent, the paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Fiscal Agent**", the "**Paying Agents**" (which expression shall include the Fiscal Agent), the "**Registrar**", the "**Transfer Agents**" and the "**Calculation Agent(s)**". The Noteholders (as defined below), the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the receipts for the payment of instalments of principal (the "**Receipts**") relating to Notes in bearer form of which the principal is payable in instalments are deemed to have notice of all of the provisions of the Agency Agreement applicable to them.

As used in these terms and conditions (the "**Conditions**"), "**Tranche**" means Notes which are identical in all respects. Each Tranche is the subject of a pricing supplement (each, a "**Pricing Supplement**") which supplements and/or completes these Conditions.

Copies of the Agency Agreement and the Deed of Covenant are available for inspection at the specified offices of each of the Paying Agents, the Registrar and the Transfer Agents.

1. **Form, Denomination and Title**

The Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") in each case in the Specified Denomination(s) shown hereon.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Index Linked Redemption Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Each Bearer Note is serially numbered and is issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute

owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) (as the case may be), "**holder**" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) (as the case may be) and capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2. **No Exchange of Notes and Transfers of Registered Notes**

- (a) **No Exchange of Notes:** Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.
- (b) **Transfer of Registered Notes:** Subject to Condition 2(f), one or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate, (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor; **provided, however, that** part of a Registered Note may not be transferred unless the nominal amount of the part transferred, and the nominal amount of the balance not transferred, are Specified Denominations. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Fiscal Agent (such approval not to be unreasonably withheld or delayed). A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.
- (c) **Exercise of Options or Partial Redemption in Respect of Registered Notes:** In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.
- (d) **Delivery of New Certificates:** Each new Certificate to be issued pursuant to Conditions 2(b) or (c) shall be available for delivery within three business days of receipt of the form of transfer or Exercise Notice (as defined in Condition 6(d)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so

specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), "**business day**" means a day, other than a Saturday or Sunday, on which commercial banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

- (e) **Transfer Free of Charge:** Transfers of Notes and Certificates on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to such transfer (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).
- (f) **Closed Periods:** No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) during the period of 15 days before any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(c), (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Payment Record Date (as defined in Condition 7(b)).
- (g) **Forced Transfer:** If at any time the Issuer determines that any beneficial owner of Notes, or any account for which such owner purchased Notes, who is required to be a qualified institutional buyer ("**QIB**") as defined in Rule 144A under the United States Securities Act of 1933 (the "**Securities Act**") is not a QIB, the Issuer may (i) compel such beneficial owner to sell its Notes to a person who is (A) a U.S. person who is a QIB and that is, in each case, otherwise qualified to purchase such Notes in a transaction exempt from registration under the Securities Act or (B) not a U.S. person within the meaning of Regulation S under the Securities Act or (ii) compel the beneficial owner to sell such Notes to the Issuer or an affiliate thereof at a price equal to the lesser of (x) the purchase price paid by the beneficial owner for such Notes, (y) 100 per cent. of the nominal amount thereof and (z) the fair market value thereof. The Issuer has the right to refuse to honour the transfer of interests in a Restricted Global Certificate or any Restricted Note (each as defined in the Agency Agreement) to a U.S. person who is not a QIB.

3. **Status**

The Notes, the Receipts and the Coupons relating to them constitute direct, general, unconditional and (subject to Condition 4), unsecured and unsubordinated obligations of the Issuer and the full faith and credit of the Issuer is pledged for the due and punctual payment of principal of, and interest on, the Notes and for the performance of all other obligations of the Issuer pursuant to the Notes, Receipts and Coupons. The Notes, the Receipts and the Coupons relating to them shall at all times rank *pari passu* without any preference among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are of mandatory application at the date on which agreement is reached to issue the first Tranche of Notes. This Condition 3 does not require the Issuer to effect equal or rateable payment(s) at any time with respect to any such other unsecured and unsubordinated obligations of the Issuer and, in particular, the Issuer shall have no obligation to pay other unsecured and unsubordinated obligations at the same time or as a condition of paying sums due under the Notes, Receipts and/or Coupons, and vice versa.

4. **Negative Pledge**

So long as any Note or Coupon remains outstanding (as defined in the Agency Agreement), the Issuer will not grant or permit to be outstanding, and will procure that there is not granted or permitted to be outstanding, any mortgage, charge, lien, pledge or other security interest, over any of its present or future assets or revenues or any part thereof, to secure any Public External Indebtedness (as defined below) or any Guarantee (as defined below) thereof unless the Issuer shall, in the case of the granting of the security, before or at the same time, and in any other case, promptly, procure that all amounts payable in respect of the Notes and the Coupons are secured

equally and rateably, or such other security or other arrangement is provided as shall be approved by an Extraordinary Resolution (as defined in Condition 11) of the Noteholders.

In these Conditions:

"Guarantee" means any guarantee of or indemnity in respect of indebtedness or other like obligation; and

"Public External Indebtedness" means any present or future indebtedness (a) in the form of, or represented by, notes, bonds or other similar instruments which are for the time being, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over the counter or other securities market and (b) which is not either (i) denominated in Bulgarian lev, (ii) admitted to trading on a market of the Bulgarian Stock Exchange, (iii) registered with the Central Depository AD of the Republic of Bulgaria, (iv) expressed to be governed by the laws of the Republic of Bulgaria or (v) placed or sold in the Republic of Bulgaria. For the purposes of this Condition, an issue is "placed or sold in the Republic of Bulgaria" if more than 50 per cent. of its aggregate nominal amount is initially placed or sold in the Republic of Bulgaria.

5. Interest and other Calculations

(a) **Interest on Fixed Rate Notes:** Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrears on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).

(b) **Interest on Floating Rate Notes and Index Linked Interest Notes:**

(i) *Interest Payment Dates:* Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrears on each Interest Payment Date, subject to the provisions of Condition 7. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) *Business Day Convention:* If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day, (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day or (E) No Adjustment, such date shall not be adjusted in accordance with any Business Day Convention.

- (iii) *Rate of Interest for Floating Rate Notes:* The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to any one or more of ISDA Determination or Screen Rate Determination or Linear Interpolation shall apply, depending upon which is specified hereon.

(A) *ISDA Determination for Floating Rate Notes:*

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (A), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

- (x) the Floating Rate Option is as specified hereon;
- (y) the Designated Maturity is a period specified hereon; and
- (z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(B) *Screen Rate Determination for Floating Rate Notes:*

- (x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

- (1) the offered quotation; or
- (2) the arithmetic mean of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

- (y) if the Relevant Screen Page is not available or, if sub-paragraph (x)(1) applies and no such offered quotation

appears on the Relevant Screen Page, or, if sub-paragraph (x)(2) applies and fewer than three such offered quotations appear on the Relevant Screen Page, in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

- (z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, as the case may be, **provided that**, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest

Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) *Linear Interpolation:*

Where Linear Interpolation is specified hereon as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified hereon as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified hereon as applicable), one of which shall be determined as if the Applicable Maturity (as defined below) were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period **provided however that** if there is no rate available for the period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Accrual Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

"**Applicable Maturity**" means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate, and (b) in relation to ISDA Determination, the Designated Maturity.

- (iv) *Rate of Interest for Index Linked Interest Notes:* The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.
- (c) **Zero Coupon Notes:** Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).
- (d) **Dual Currency Notes:** In the case of Dual Currency Notes, if the rate or amount of interest falls to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.
- (e) **Partly Paid Notes:** In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.
- (f) **Accrual of Interest:** Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).
- (g) **Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding:**
 - (i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of

Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with (b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin subject always to the next paragraph

- (ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified hereon, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be
 - (iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 of a percentage point being rounded up), (y) all figures shall be rounded to seven significant figures (**provided that** if the eighth significant figure is a 5 or greater, the seventh significant shall be rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "**unit**" means the lowest amount of such currency that is available as legal tender in the country or countries, as the case may be, of such currency.
- (h) **Calculations:** The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.
- (i) **Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts:** The Calculation Agent shall, as soon as practicable on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified to the Fiscal Agent, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate

of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

- (j) **Definitions:** In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"Business Day" means:

- (i) in the case of a currency other than euro, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or
- (ii) in the case of euro, a day on which the TARGET System is operating (a **"TARGET Business Day"**); and/or
- (iii) in the case of a currency and/or one or more Business Centres, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Business Centre(s) or, if no currency is indicated, generally in each of the Business Centres

"Day Count Fraction" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the **"Calculation Period"**):

- (i) if **"Actual/Actual"** or **"Actual/Actual - ISDA"** is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365)
- (ii) if **"Actual/365 (Fixed)"** is specified hereon, the actual number of days in the Calculation Period divided by 365
- (iii) if **"Actual/365 (Sterling)"** is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366
- (iv) if **"Actual/360"** is specified hereon, the actual number of days in the Calculation Period divided by 360
- (v) if **"30/360"**, **"360/360"** or **"Bond Basis"** is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y₁" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y₂" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M₁**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M₂**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D₁**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

"**D₂**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30

- (vi) if "**30E/360**" or "**Eurobond Basis**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y₁**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y₂**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M₁**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M₂**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D₁**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D₁ will be 30; and

"**D₂**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D₂ will be 30

- (vii) if "**30E/360 (ISDA)**" is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y₁**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y₂**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M₁**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M₂**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D₁**" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30; and

"D₂" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D₂ will be 30

- (viii) if "**Actual/Actual-ICMA**" is specified hereon,
 - (A) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and
 - (B) if the Calculation Period is longer than one Determination Period, the sum of:
 - (x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and
 - (y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year

where:

"Determination Period" means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

"Determination Date" means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s)

"Euro-zone" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended

"EURIBOR" means, in respect of any specified currency and any specified period, the interest rate benchmark known as the Euro Interbank Offered Rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of the European Banking Federation (or any other person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks

"Interest Accrual Period" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Period Date and each successive period beginning on and including an Interest Period Date and ending on but excluding the next succeeding Interest Period Date

"Interest Amount" means:

- (i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

- (ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period

"Interest Commencement Date" means the Issue Date or such other date as may be specified hereon

"Interest Determination Date" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro

"Interest Period" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date unless otherwise specified hereon

"Interest Period Date" means each Interest Payment Date unless otherwise specified hereon

"ISDA Definitions" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon

"LIBOR" means in respect of any specified currency and any specified period, the interest rate benchmark known as the London Interbank Offered Rate which is calculated and published by a designated distributor (currently Thomson Reuters) in accordance with the requirements from time to time of ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) based on estimated interbank borrowing rates for a number of designated currencies and maturities which are provided, in respect of each such currency, by a panel of contributor banks

"Rate of Interest" means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions hereon

"Reference Banks" means, in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market and, in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent or as specified hereon

"Reference Rate" means the rate specified as such hereon

"Relevant Screen Page" means such page, section, caption, column or other part of a particular information service as may be specified hereon (or any successor or replacement page, section, caption, column or other part of a particular information service)

"Specified Currency" means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated; and

"TARGET System" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

- (k) **Calculation Agent:** The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as any Note is outstanding. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation

Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6. **Redemption, Purchase and Options**

(a) **Redemption by Instalments and Final Redemption:**

- (i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.
- (ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided, is its nominal amount) or, in the case of a Note falling within paragraph (i) above, its final Instalment Amount.

(b) **Early Redemption:**

- (i) *Zero Coupon Notes:*
 - (A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) or Condition 6(d) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.
 - (B) Subject to the provisions of sub paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually.
 - (C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) or Condition 6(d) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount

in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) *Other Notes:* The Early Redemption Amount payable in respect of any Note (other than Notes described in paragraph (i) above), upon redemption of such Note pursuant to Condition 6(c) or Condition 6(d) or upon it becoming due and payable as provided in Condition 10, shall be the Final Redemption Amount unless otherwise specified hereon.

(c) **Redemption at the Option of the Issuer:** If Call Option is specified hereon, the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified hereon) redeem, all or, if so provided, some, of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition.

In the case of a partial redemption the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes, to be redeemed, which shall have been drawn in such place and in such manner as may be fair and reasonable in the circumstances, taking account of prevailing market practices, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(d) **Redemption at the Option of Noteholders:** If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified hereon) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above)), together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(e) **Partly Paid Notes:** Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the provisions specified hereon.

- (f) **Purchases:** Without prejudice to Condition 11(i), the Issuer and its Agencies (as defined below) may at any time purchase Notes (**provided that** all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. Any Notes so purchased, while held by or on behalf of the Issuer or any Agency, shall not entitle the holder to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purposes of meetings of Noteholders or for the purposes of any Written Resolution (as defined in Condition 11), all as more particularly set out in Condition 11(i). Notes so purchased may be held or resold (**provided that** such resale is outside the United States as defined in Regulation S under the Securities Act, or, in the case of any Notes resold pursuant to Rule 144A under that Act is only made in accordance with that Rule and otherwise in compliance with all applicable laws) or surrendered for cancellation, at the option of the Issuer.

In these Conditions:

"**Agency**" or "**Agencies**" means the Ministry of Finance of the Republic of Bulgaria, the Bulgarian National Bank, any other political sub-division, regional government, ministry, department, central or local authority or statutory corporation of the Republic of Bulgaria or the Government (whether or not such statutory corporation is autonomous), and any corporation, trust, financial institution or other entity owned or controlled by the Republic of Bulgaria or the Government or one or more Agencies; and

"**Control**" has the meaning given to it in Condition 12(i).

- (g) **Cancellation:** All Notes purchased by or on behalf of the Issuer or any of its Agencies may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Fiscal Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Note(s) to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and all unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer in respect of any such Notes shall be discharged.

7. Payments and Talons

- (a) **Bearer Notes:** Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender or, in the case of part payment only, endorsement of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and **provided that** the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(vi)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. For these purposes, a "**Bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.
- (b) **Registered Notes:**
- (i) Payments of principal (which for the purposes of this Condition 7(b) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.
 - (ii) Interest (which for the purpose of this Condition 7(b) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid

to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof (the "**Payment Record Date**"). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first-named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Payment Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

- (c) **Payments in the United States:** Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.
- (d) **Payments Subject to laws:** All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 8. No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (e) **Appointment of Agents:** The Fiscal Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and their respective specified offices are listed below. The Fiscal Agent, the Paying Agents, the Registrar, Transfer Agents and the Calculation Agent(s) act solely as agents of the Issuer and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer reserves the right at any time to vary or terminate the appointment of the Fiscal Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, **provided that** the Issuer shall at all times maintain (i) a Fiscal Agent, (ii) a Registrar in relation to Registered Notes, (iii) a Transfer Agent in relation to Registered Notes, (iv) one or more Calculation Agent(s) where the Conditions and/or applicable Pricing Supplement so require, (v) Paying Agents having specified offices in at least two major European cities, (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed and (vii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC (as amended from time to time) or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

- (f) **Unmatured Coupons and Receipts and unexchanged Talons:**
 - (i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index Linked Notes), those Notes should be surrendered for payment together with all unmaturing Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmaturing Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmaturing Coupon that the sum of

principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

- (ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.
- (iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.
- (iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.
- (v) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.
- (vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.
- (g) **Talons:** On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Fiscal Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).
- (h) **Non-Business Days:** If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7(h), "**business day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "**Financial Centres**" hereon and:
 - (i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or
 - (ii) (in the case of a payment in euro) which is a TARGET Business Day.

8. **Taxation**

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes, the Receipts and the Coupons shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Bulgaria or any political subdivision of it, or any authority therein or thereof having power to tax, unless such withholding or deduction of Taxes is required by law. In that event, the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to such Taxes in respect of such Note, Receipt or Coupon by reason of its having some connection with the Republic of Bulgaria other than the mere holding of the Note, Receipt or Coupon or
- (b) **Presentation more than 30 days after the Relevant Date:** surrendered (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrendering it for payment on the thirtieth such day or
- (c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC (as amended from time to time) or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive or
- (d) **Payment by another Paying Agent:** (except in the case of Registered Notes) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a European Union member state.

As used in these Conditions, "**Relevant Date**" in respect of any Note, Receipt or Coupon means whichever is the later of (1) the date on which payment in respect of it first becomes due and (2) (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note (or relative Certificate), Receipt or Coupon being made in accordance with the Conditions, such payment will be made, **provided that** payment is in fact made upon such presentation. References in these Conditions to (i) "**principal**" shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) "**interest**" shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) "**principal**" and/or "**interest**" shall be deemed to include any additional amounts that may be payable under this Condition.

9. **Prescription**

Claims against the Issuer for payment in respect of the Notes, Receipts and Coupons (which for this purpose shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10. **Events of Default**

If any of the following events (each, an "**Event of Default**") occurs and is continuing:

- (a) **Non-Payment:** (i) any default is made in the payment of any interest due in respect of the Notes (or any Coupon) or any of them when due and the default continues for a period of 15 days or (ii) any default is made in the payment of principal (or any premium) in respect of the Notes or any of them when due and the default continues for a period of seven days; or
- (b) **Breach of Other Obligations:** the Issuer fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days after written notice thereof, addressed to the Issuer by any Noteholder, has been delivered to the Issuer or to the Fiscal Agent requiring the same to be remedied; or
- (c) **Cross-Default:**
 - (i) the holders of any Public External Indebtedness (as defined in Condition 4) of the Issuer accelerate such Public External Indebtedness or declare such Public External Indebtedness to be due and payable, or required to be prepaid (other than by a regularly scheduled required payment), prior to the stated maturity thereof; or
 - (ii) the Issuer fails to pay in full any principal of, or interest on, any Public External Indebtedness when due (after expiration of any applicable grace period) or any Guarantee (as defined in Condition 4) thereof given by the Issuer shall not be honoured when due and called upon (after the expiration of any applicable grace period),

provided that, the aggregate amount of the relevant Public External Indebtedness or Guarantee in respect of which one or more of the events mentioned above in this Condition 10(c) shall have occurred equals or exceeds Euro 100,000,000 or its equivalent in any other currency or currencies, as the case may be; or
- (d) **Unenforceability:** for any reason whatsoever, any of the Issuer's obligations under the Notes are declared by a court of competent jurisdiction pursuant to a final non-appealable decision to be no longer binding or no longer enforceable against the Issuer or as a result of a judgment or any other act of the Constitutional Court of the Republic of Bulgaria or for any other reason whatsoever any such obligation ceases to be in full force and effect; or
- (e) **Validity:** the Republic of Bulgaria, or any of its political sub-divisions, authorised Agencies (as defined in Condition 6(f)) or officials (on its behalf) repudiates or contests the validity of any Notes, Receipts, Coupons or Talons,

then the holders of at least 25 per cent. in aggregate nominal amount of the outstanding Notes may by notice in writing to the Issuer (with a copy to the Fiscal Agent) declare all the Notes to be immediately due and payable, whereupon the Notes shall become immediately due and payable at their Early Redemption Amount together (if applicable) with any accrued interest to the date of payment without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer.

If the Issuer receives notice in writing from holders of at least 50 per cent. in aggregate nominal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent), whereupon the relevant declaration shall be withdrawn and shall have no further

effect, but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

11. Meeting of Noteholders; Written Resolutions

(a) Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions:

- (i) The Issuer may convene a meeting of the Noteholders at any time in respect of the Notes in accordance with the provisions of the Agency Agreement. The Issuer will determine the time and place of the meeting and will notify the Noteholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.
- (ii) The Issuer or the Fiscal Agent will convene a meeting of Noteholders if the holders of at least 10 per cent. in nominal amount of the outstanding Notes (as defined in the Agency Agreement and described in Condition 11(i)) have delivered a written request to the Issuer or the Fiscal Agent (with a copy to the Issuer) setting out the purpose of the meeting. The Fiscal Agent will agree the time and place of the meeting with the Issuer promptly. The Issuer or the Fiscal Agent, as the case may be, will notify the Noteholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.
- (iii) The Issuer (with the agreement of the Fiscal Agent) will set the procedures governing the conduct of any meeting in accordance with the Agency Agreement. If the Agency Agreement does not include such procedures, or additional procedures are required, the Issuer and the Fiscal Agent will agree such procedures as are customary in the market and in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Issuer proposes any modification to the terms and conditions of, or action with respect to, two or more series of debt securities issued by it.
- (iv) The notice convening any meeting will specify, *inter alia*:
 - (A) the date, time and location of the meeting;
 - (B) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;
 - (C) the record date for the meeting, which shall be no more than five business days before the date of the meeting;
 - (D) the documentation required to be produced by a Noteholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Noteholder's behalf at the meeting;
 - (E) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Notes are traded and/or held by Noteholders;
 - (F) whether Condition 11(b), Condition 11(c), or Condition 11(d) shall apply and, if relevant, in relation to which other series of debt securities it applies;
 - (G) if the proposed modification or action relates to two or more series of debt securities issued by it and contemplates such series of debt securities

being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;

- (H) such information that is required to be provided by the Issuer in accordance with Condition 11(f);
 - (I) the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 11(g); and
 - (J) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.
- (v) In addition, the Agency Agreement contains provisions relating to Written Resolutions. All information to be provided pursuant to this Condition 11(a) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.
- (vi) A "**record date**" in relation to any proposed modification or action means the date fixed by the Issuer for determining the Noteholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.
- (vii) An "**Extraordinary Resolution**" means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.
- (viii) A "**Written Resolution**" means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.
- (ix) Any reference to "**debt securities**" means any notes (including the Notes), bonds, debentures or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year.
- (x) "**Debt Securities Capable of Aggregation**" means those debt securities which include or incorporate by reference this Condition 11 and Condition 12 or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities.
- (b) **Modification of this Series of Notes only:**
- (i) Any modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Notes may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.
 - (ii) A "**Single Series Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 11(a) by a majority of:
 - (A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate nominal amount of the outstanding Notes; or

- (B) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate nominal amount of the outstanding Notes.
- (iii) A **"Single Series Written Resolution"** means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:
 - (A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate nominal amount of the outstanding Notes; or
 - (B) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate nominal amount of the outstanding Notes.

Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders.

- (iv) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Noteholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be, and on all Couponholders.

(c) **Multiple Series Aggregation – Single limb voting:**

- (i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, **provided that** the Uniformly Applicable condition is satisfied.
- (ii) A **"Multiple Series Single Limb Extraordinary Resolution"** means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 11(a), as supplemented if necessary, which is passed by a majority of at least 75 per cent. of the aggregate nominal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).
- (iii) A **"Multiple Series Single Limb Written Resolution"** means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75 per cent. of the aggregate nominal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.
- (iv) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may

be, and on all Couponholders and couponholders of each other affected series of Debt Securities Capable of Aggregation.

- (v) The **"Uniformly Applicable"** condition will be satisfied if:
 - (A) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (1) the same new instrument or other consideration or (2) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or
 - (B) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to different currency of issuance).
- (vi) Any modification or action proposed under paragraph (i) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 11(c) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(d) **Multiple Series Aggregation – Two limb voting:**

- (i) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.
- (ii) A **"Multiple Series Two Limb Extraordinary Resolution"** means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer and the Fiscal Agent pursuant to Condition 11(a), as supplemented if necessary, which is passed by a majority of:
 - (A) at least 66⅔ per cent. of the aggregate nominal amount of the outstanding debt securities of affected series of Debt Securities Capable of Aggregation (taken in aggregate); and
 - (B) more than 50 per cent. of the aggregate nominal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).
- (iii) A **"Multiple Series Two Limb Written Resolution"** means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:
 - (A) at least 66⅔ per cent. of the aggregate nominal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and
 - (B) more than 50 per cent. of the aggregate nominal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

(iv) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be, and on all Couponholders and couponholders of each other affected series of Debt Securities Capable of Aggregation.

(v) Any modification or action proposed under paragraph (i) above may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 11(d) may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

(e) **Reserved Matters:**

In these Conditions, "**Reserved Matter**" means any proposal:

- (i) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;
- (ii) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;
- (iii) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;
- (iv) to change this definition, or the definition of "Extraordinary Resolution", "Single Series Extraordinary Resolution", "Multiple Series Single Limb Extraordinary Resolution", "Multiple Series Two Limb Extraordinary Resolution", "Written Resolution", "Single Series Written Resolution", "Multiple Series Single Limb Written Resolution" or "Multiple Series Two Limb Written Resolution";
- (v) to change the definition of "debt securities" or "Debt Securities Capable of Aggregation";
- (vi) to change the definition of "Uniformly Applicable";
- (vii) to change the definition of "outstanding" or to modify the provisions of Condition 11(i);
- (viii) to change the legal ranking of the Notes;
- (ix) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, set out in Condition 10;

- (x) to change the law governing the Notes, the courts to the jurisdiction of which the Issuer has submitted in the Notes, any of the arrangements specified in the Notes to enable proceedings to be taken or the Issuer's waiver of immunity, in respect of actions or proceedings brought by any Noteholder, set out in Condition 19;
- (xi) to impose any condition on or otherwise change the Issuer's obligation to make payments of principal, interest or any other amount in respect of the Notes, including by way of the addition of a call option;
- (xii) to modify the provisions of this Condition 11(e);
- (xiii) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Notes or to change the terms of any such guarantee or security;
- (xiv) to exchange or substitute all the Notes for, or convert all the Notes into, other obligations or securities of the Issuer or any other person, or to modify any provision of these Conditions in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person, which would result in the Conditions as so modified being less favourable to the Noteholders which are subject to the Conditions as so modified than:
 - (A) the provisions of the other obligations or debt securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or
 - (B) if more than one series of other obligations or debt securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of debt securities having the largest aggregate nominal amount.

(f) **Information:**

Prior to or on the date that the Issuer proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 11(b), Condition 11(c) or Condition 11(d), the Issuer shall publish in accordance with Condition 12, and provide the Fiscal Agent with the following information:

- (A) a description of the Issuer's economic and financial circumstances which are, in the Issuer's opinion, relevant to the request for any potential modification or action, a description of the Issuer's existing debts and a description of its broad policy reform programme and provisional macroeconomic outlook;
- (B) if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement and where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;
- (C) a description of the Issuer's proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and
- (D) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Noteholders in Condition 11(a)(iv)(G).

(g) **Claims Valuation:**

For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes in accordance with Condition 11(c) and Condition 11(d), the Issuer may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the Calculation Agent will calculate the par value of the Notes and such affected series of debt securities. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

(h) **Manifest error, etc.:**

The Notes, these Conditions and the provisions of the Agency Agreement may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Noteholders.

(i) **Notes controlled by the Issuer:**

For the purposes of (i) determining the right to attend and vote at any meeting of Noteholders, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution, (ii) this Condition 11 and (iii) Condition 10, any Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any other person which is owned or controlled directly or indirectly by the Issuer or by any of its Agencies (as defined in Condition 6(f)) shall be disregarded and be deemed not to remain outstanding; where "**control**" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

A Note will also be deemed to be not outstanding if the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Note has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Note in accordance with its terms.

In advance of any meeting of Noteholders, or in connection with any Written Resolution, the Issuer shall provide to the Fiscal Agent a copy of the certificate prepared pursuant to Condition 12(d) which includes information on the total number of Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any of its Agencies and, as such, such Notes shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Noteholders or the right to sign, or authorise the signature of, any Written Resolution in respect of any such meeting. The Fiscal Agent shall make any such certificate available for inspection during normal business hours at its specified office and, upon reasonable request, will allow copies of such certificate to be taken.

(j) **Publication:**

The Issuer shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 12(g).

(k) **Exchange and Conversion:**

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the Issuer's option by way of a mandatory exchange or conversion of the Notes and each other affected series of debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Notes is notified to Noteholders at the time notification is given to the Noteholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Noteholders and Couponholders.

12. **Aggregation Agent; Aggregation Procedures**

(a) ***Appointment:***

The Issuer will appoint an Aggregation Agent to calculate whether a proposed modification or action has been approved by the required nominal amount outstanding of Notes and, in the case of a multiple series aggregation, by the required nominal amount of outstanding debt securities of each affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Notes and in respect of the terms and conditions or bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

(b) **Extraordinary Resolutions:**

If an Extraordinary Resolution has been proposed at a duly convened meeting of Noteholders to modify any provision of, or action in respect of, these Conditions and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate nominal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

(c) **Written Resolutions:**

If a Written Resolution has been proposed under the Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate nominal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

(d) **Certificate:**

For the purposes of Condition 12(b) and Condition 12(c), the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 11(b), Condition 11(c) or Condition 11(d), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

- (i) list the total nominal amount of Notes and, in the case of a multiple series aggregation, the total nominal amount of each other affected series of debt securities outstanding on the record date; and

- (ii) clearly indicate the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 11(i) on the record date identifying the holders of the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

(e) **Notification:**

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 12 to be notified to the Fiscal Agent and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Noteholders.

(f) **Binding nature of determinations; no liability:**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 12 by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Fiscal Agent and the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(g) **Manner of publication:**

The Issuer will publish all notices and other matters required to be published pursuant to the Agency Agreement including any matters required to be published pursuant to Condition 10, Condition 11, this Condition 12 and Condition 13:

- (i) through Euroclear Bank S.A./N.V., Clearstream Banking, *société anonyme*, The Depository Trust Company and/or any other clearing system in which the Notes are held;
- (ii) in such other places and in such other manner as may be required by applicable law or regulation; and
- (iii) in such other places and in such other manner as may be customary.

13. **Noteholders' Committee**

(a) *Appointment:*

- (i) Holders of at least 25 per cent. of the aggregate nominal amount of the outstanding debt securities of all series of affected debt securities (taken in aggregate) may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), appoint any person or persons as a committee to represent the interests of such holders (as well as the interests of any holders of outstanding debt securities who wish to be represented by such a committee) if any of the following events has occurred:
 - (A) an Event of Default under Condition 10;
 - (B) any event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 10 become an Event of Default;
 - (C) any public announcement by the Issuer, to the effect that the Issuer is seeking or intends to seek a rescheduling or restructuring of the Notes or

any other affected series of debt securities (whether by amendment, exchange offer or otherwise); or

- (D) with the agreement of the Issuer, at a time when the Issuer has reasonably reached the conclusion that its debt may no longer be sustainable whilst the Notes or any other affected series of debt securities are outstanding.
- (ii) Upon receipt of a written notice that a committee has been appointed in accordance with Condition 13(a)(i) and a certificate delivered pursuant to Condition 13(d), the Issuer shall give notice of the appointment of such a committee to:
 - (A) all Noteholders in accordance with Condition 16; and
 - (B) the holders of each affected series of debt securities in accordance with the terms and conditions of such affected series of debt securities,

as soon as practicable after such written notice and such certificate are delivered to the Issuer.

(b) **Powers:**

Such committee in its discretion may, among other things:

- (i) engage legal advisers and financial advisers to assist it in representing the interests of the Noteholders;
- (ii) adopt such rules as it considers appropriate regarding its proceedings;
- (iii) enter into discussions with the Issuer and/or other creditors of the Issuer; and
- (iv) designate one or more members of the committee to act as the main point(s) of contact with the Issuer and provide all relevant contact details to the Issuer.

Except to the extent provided in this Condition 13(b), such committee shall not have the ability to exercise any powers or discretions which the Noteholders could themselves exercise.

(c) **Engagement with the committee and provision of information:**

- (i) The Issuer shall:
 - (A) subject to paragraph (ii) immediately below, engage with the committee in good faith;
 - (B) provide the committee with information equivalent to that required under Condition 11(f) and related proposals, if any, in each case as the same become available, subject to any applicable information disclosure policies, rules and regulations; and
 - (C) pay any reasonable fees and expenses of any such committee (including without limitation, the reasonable and documented fees and expenses of the committee's legal and financial advisers, if any) following receipt of reasonably detailed invoices and supporting documentation.
- (ii) If more than one committee has been appointed by holders of affected series of debt securities in accordance with the provisions of this Condition 13 and/or equivalent provisions set out in the terms and conditions of any affected series of debt securities, the Issuer shall not be obliged to engage with such committees separately. Such committees may appoint a single steering group (to be comprised

of representatives from such committees), whereupon the Issuer shall engage with such steering group.

(d) **Certification:**

Upon the appointment of a committee, the person or persons constituting such a committee (the "**Members**") will provide a certificate to the Issuer and to the Fiscal Agent signed by the authorised representatives of the Members, and the Issuer and the Fiscal Agent may rely upon the terms of such certificate.

The certificate shall certify:

- (i) that the committee has been appointed;
- (ii) the identity of the Members; and
- (iii) that such appointment complies with the terms and conditions of the relevant bond documentation.

Promptly after any change in the identity of the Members, a new certificate which each of the Issuer and the Fiscal Agent may rely on conclusively, will be delivered to the Issuer and the Fiscal Agent identifying the new Members. Each of the Issuer and the Fiscal Agent will assume that the membership of the committee has not changed unless and until it has received a new certificate.

The provisions of this Condition 13(d) shall apply, *mutatis mutandis*, to any steering group appointed in accordance with Condition 13(c)(ii).

In appointing a person or persons as a committee to represent the interests of the Noteholders, the Noteholders may instruct a representative or representatives of the committee to form a separate committee or to join a steering group with any person or persons appointed for similar purposes by other affected series of debt securities.

14. **Replacement of Notes, Certificates, Receipts, Coupons and Talons**

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Fiscal Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15. **Further Issues**

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further notes having the same terms and conditions as the Notes (so that, for the avoidance of doubt, references in these Conditions to "**Issue Date**" shall be to the first issue date of the Notes) and so that the same shall be consolidated and form a single series with such Notes, and references in these Conditions to "**Notes**" shall be construed accordingly.

16. **Notices**

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a

Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a leading newspaper of general circulation in Luxembourg (which is expected to be the *Luxembourg Wort*) and/or the Luxembourg Stock Exchange's website, *www.bourse.lu*. If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the date of the first publication as provided above. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Notes are for the time being listed or by which they have been admitted to trading.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition.

17. **Currency Indemnity**

If any sum due from the Issuer in respect of any relevant Note, Coupon or Receipt or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, Coupons and/or Receipts the Issuer shall indemnify each Noteholder and/or Couponholder, as the case may be, on the written demand of such Noteholder or Couponholder addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder and/or Couponholder, as the case may be, may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

18. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

19. **Governing Law and Jurisdiction**

- (a) **Governing Law:** The Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.
- (b) **Jurisdiction:** The Issuer irrevocably agrees for the benefit of the holders of any Notes, Receipts, Coupons or Talons that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes, Receipts, Coupons or Talons (including a dispute relating to any non-contractual obligation arising out of or in connection with any of them) and that accordingly any suit, action or proceedings arising out of or in connection therewith (together referred to as "**Proceedings**") may be brought in the courts of England.
- (c) **No Objection to Proceedings:** The Issuer irrevocably and unconditionally waives and agrees not to raise any objection which it may have now or subsequently to the laying of the venue of any Proceedings in the courts of England and any claim that any Proceedings have been brought against the Issuer in an inconvenient forum and further irrevocably and unconditionally agrees that a judgment in any Proceedings brought in the courts of England shall be conclusive and binding upon the Issuer and may be enforced in the courts of any other jurisdiction. Nothing in this Condition 19 shall limit any right to take

Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions against the Issuer preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

- (d) **Process Agent:** The Issuer hereby irrevocably and unconditionally appoints Law Debenture Corporate Services Limited at its registered office for the time being in England for the time being as its agent for service of process in England in respect of any Proceedings. Such service shall be deemed completed on delivery to such process agent (whether or not it is forwarded to and received by the Issuer). If for any reason such process agent ceases to be able to act as such or no longer has an address in England, the Issuer irrevocably agrees to appoint a substitute process agent and shall immediately notify Noteholders of such appointment in accordance with Condition 16. Nothing shall affect the right to serve process in any manner permitted by law.
- (e) **Immunity:** The Issuer hereby irrevocably waives any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and irrevocably consents (to the fullest extent permitted by Bulgarian law, as may be amended from time to time, or any other applicable law, as may be amended from time to time), to the giving of any relief, the imposition of any security measure (except pre-judgment attachments or injunctions) or the issue of any process, including, without limitation, the making, enforcement or execution against any assets, revenue or property of the Issuer whatsoever (irrespective of its use or intended use) of any order, ruling, award or judgment made or given in connection with any Proceedings **provided, however, that** immunity is not waived with respect to (i) present or future "**premises of the mission**" as defined in the Vienna Convention on Diplomatic Relations signed in 1961, (ii) "**consular premises**" as defined in the Vienna Convention on Consular Relations signed in 1963, or (iii) military property or military assets or property or assets of the Republic of Bulgaria related thereto.
- (f) **Invalidity:** If any Condition is or becomes invalid, illegal or unenforceable in any respect under any law of any relevant jurisdiction (including under the laws of England or the Republic of Bulgaria), the validity, legality and enforceability of the remaining Conditions shall not be affected or impaired in any way nor shall it affect or impair the validity or enforceability of such Condition in any other jurisdiction. If the choice of English law as the governing law regarding any non-contractual obligations arising out of or in connection with the Notes, Receipts, Coupons and/or Talons is declared null and void by a court of competent jurisdiction pursuant to a final non-appealable decision and as a result holders of any such Notes, Receipts, Coupons and/or Talons are not able to validly exercise their rights under the rules of unjust enrichment of English law, holders of any such Notes, Receipts, Coupons and/or Talons shall be entitled to file claims against the Issuer in compliance with the unjust enrichment rules of Bulgarian law, where applicable.

SUMMARY OF PROVISIONS RELATING TO NOTES IN GLOBAL FORM

1. Initial Issue of Notes

If the Global Notes or the Global Certificates are stated in the applicable Pricing Supplement to be issued in NGN form or to be held under the NSS (as the case may be), the Global Notes or the Global Certificates will be delivered on or prior to the original issue date of the Tranche to a common safekeeper. Depositing the Global Notes or the Global Certificates with the common safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Global Notes which are issued in Classic Global Note ("**CGN**") form and Global Certificates which are not held under the NSS may be delivered on or prior to the original issue date of the Tranche to a Common Depositary.

If the Global Note is a CGN, upon the initial deposit of a Global Note with a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**") (the "**Common Depositary**") or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is an NGN, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Upon the initial deposit of a Global Certificate in respect of, and registration of, Registered Notes in the name of a nominee for the Depositary Trust Company ("**DTC**") and delivery of the relevant Global Certificate to the Custodian for DTC, DTC will credit each participant with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

2. Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg, DTC or any other permitted clearing system ("**Alternative Clearing System**") as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg, DTC or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, DTC or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

3. **Exchange**

3.1 **Temporary Global Notes**

Each Temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

- (i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with the C Rules or in a transaction to which TEFRA is not applicable, in whole, but not in part, for the Definitive Notes defined and described below; and
- (ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a Permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes.

3.2 **Permanent Global Notes**

Each Permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 3.4 below, in part for Definitive Notes:

- (i) if the Permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so; or
- (ii) if principal in respect of any Notes is not paid when due, by the holder giving notice to the Fiscal Agent of its election for such exchange.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a nominal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a nominal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

3.3 **Global Certificates**

(a) *Unrestricted Global Certificates:*

If the Pricing Supplement states that the Notes are to be represented by an Unrestricted Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of the holding of Notes represented by any Global Certificate pursuant to Condition 2(b) may only be made:

- (i) in whole but not in part, if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or
- (ii) in whole or in part, if principal in respect of any Notes is not paid when due; or
- (iii) in whole or in part, with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph 3.3(a)(i) or 3.3(a)(ii) above, the Registered Holder has given the Registrar not less than 30

days' notice at its specified office of the Registered Holder's intention to effect such transfer.

(b) *Restricted Global Certificates:*

If the Pricing Supplement states that the Restricted Notes are to be represented by a Restricted Global Certificate on issue, the following will apply in respect of transfers of Notes held in DTC. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of DTC but will limit the circumstances in which the Notes may be withdrawn from DTC. Transfers of the holding of Notes represented by that Restricted Global Certificate pursuant to Condition 2(b) may only be made:

- (i) in whole but not in part, if such Notes are held on behalf of a Custodian for DTC and if DTC notifies the Issuer that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to that Restricted Global Certificate or DTC ceases to be a "clearing agency" registered under the Exchange Act or is at any time no longer eligible to act as such, and the Issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC; or
- (ii) in whole or in part, with the Issuer's consent,

provided that, in the case of any transfer pursuant to paragraph 3.3(b)(i) above, the relevant Registered Noteholder has given the relevant Registrar not less than 30 days' notice at its specified office of the Registered Noteholder's intention to effect such transfer. Individual Certificates issued in exchange for a beneficial interest in a Restricted Global Certificate shall bear the legend applicable to such Notes as set out in "*Transfer Restrictions*".

3.4 **Partial Exchange of Permanent Global Notes**

For so long as a Permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such Permanent Global Note will be exchangeable in part on one or more occasions for Definitive Notes (i) if principal in respect of any Notes is not paid when due or (ii) if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Pricing Supplement) relating to any Partly Paid Notes.

3.5 **Delivery of Notes**

If the Global Note is a CGN, on or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a Temporary Global Note exchangeable for a Permanent Global Note, deliver, or procure the delivery of, a Permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a Temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a Permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes or if the Global Note is a NGN, the Issuer will procure that details of such exchange be entered *pro rata* in the records of the relevant clearing system. Global Notes and Definitive Notes will be delivered outside the United States and its possessions. In this Offering Circular, "**Definitive Notes**" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Agency Agreement. On exchange in full of each Permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

3.6 **Exchange Date**

"**Exchange Date**" means, in relation to a Temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a Permanent Global Note, a day falling not less than 60 days or, in the case of failure to pay principal in respect of any Notes when due, 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and in the city in which the relevant clearing system is located.

4. **Amendment to Conditions**

The Temporary Global Notes, Permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Offering Circular. The following is a summary of certain of those provisions:

4.1 **Payments**

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a Permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any Temporary Global Note issued in compliance with the D Rules before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. If the Global Note is a CGN, a record of each payment so made will be endorsed on each Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. Condition 7(e)(vii) and Condition 8(d) will apply to the Definitive Notes only. If the Global Note is a NGN or if the Global Certificate is held under the NSS, the Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant clearing system and in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note or the Global Certificate will be reduced accordingly. Payments under an NGN will be made to its holder. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of "business day" set out in Condition 7(h).

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

4.2 **Prescription**

Claims against the Issuer in respect of Notes that are represented by a Permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8).

4.3 **Meetings**

The holder of a Permanent Global Note or of the Notes represented by a Global Certificate shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder's holding, whether or not represented by a Global Certificate.

4.4 **Cancellation**

Cancellation of any Note represented by a Permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant Permanent Global Note.

4.5 **Purchase**

Notes represented by a Permanent Global Note may only be purchased by the Issuer or any of its Agencies if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

4.6 **Issuer's Option**

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a Permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg and/or DTC or any other Alternative Clearing System (as the case may be) (in the case of Euroclear and/or Clearstream, Luxembourg, to be reflected in their records as either a pool factor or a reduction in nominal amount, at their discretion).

4.7 **Noteholders' Options**

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a Permanent Global Note may be exercised by the holder of the Permanent Global Note giving notice to the Fiscal Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time, where the Permanent Global Note is a CGN, presenting the Permanent Global Note to the Fiscal Agent, or to a Paying Agent acting on behalf of the Fiscal Agent, for notation. Where the Global Note is an NGN or where the Global Certificate is held under the NSS, the Issuer shall procure that details of such exercise shall be entered *pro rata* in the records of the relevant clearing system and the nominal amount of the Notes recorded in those records will be reduced accordingly.

4.8 **NGN nominal amount**

Where the Global Note is a NGN, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, in addition to the circumstances set out above shall be entered in the records of the relevant clearing systems and upon any such entry being made, in respect of payments of principal, the nominal amount of the Notes represented by such Global Note shall be adjusted accordingly.

4.9 **Notices**

So long as any Notes are represented by a Global Note or Global Certificate and such Global Note or Global Certificate is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note, except that so long as the Notes are listed on the Luxembourg Stock Exchange's regulated market and the rules of that exchange so require, notices shall also be published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a leading newspaper having general circulation in Luxembourg (which is expected to be *the Luxemburger Wort*). Any such notice shall be deemed to have been delivered to

Noteholders on the second day after the day on which such notice is delivered to the relevant clearing system.

5. **Partly Paid Notes**

The provisions relating to Partly Paid Notes are not set out in this Offering Circular but will be contained in the relevant Pricing Supplement and thereby in the Global Notes. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a Permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holder in respect of them.

FORM OF PRICING SUPPLEMENT

NO PROSPECTUS IS REQUIRED IN ACCORDANCE WITH REGULATION (EU) 2017/1129 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 14 JUNE 2017 (THE "PROSPECTUS REGULATION") FOR THE ISSUE OF NOTES DESCRIBED BELOW

Pricing Supplement dated [•]

[**MiFID II product governance / professional clients [./and] ECPs [and retail clients][only] target market** – solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties [./and] professional clients [and retail clients][only], each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); [and] (ii) all channels for distribution of the Notes [to eligible counterparties and professional clients] are appropriate[, including investment advice, portfolio management, non-advised sales and pure execution services][and (iii) the following channels for distribution of the Notes to retail clients are appropriate: [investment advice[./and] portfolio management[./and][non-advised sales][and pure execution services][, subject to the distributor's suitability and appropriateness obligations under MiFID II, as applicable]] [*consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels[, subject to the distributor's suitability and appropriateness obligations under MiFID II, as applicable].]

Republic of Bulgaria
(LEI: 529900PG0XCL4LICL838)

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] due [•]
under the €10,000,000,000
Global Medium Term Note Programme

PART A – CONTRACTUAL TERMS

This document constitutes the Pricing Supplement for the Notes described herein. This document must be read in conjunction with the Offering Circular dated [date] [and the supplement to it dated [date]] (together, the "**Offering Circular**"). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Offering Circular. Copies of the Offering Circular may be obtained from [address] / [the website of the Luxembourg Stock Exchange at www.bourse.lu].

[Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the "**Conditions**") set forth in the Offering Circular dated [date] [and the supplement dated [date]] which are incorporated by reference in the Offering Circular.]

Include whichever of the following apply or specify as "Not Applicable". Italics denote guidance for completing the Pricing Supplement.

- | | | |
|----|--|---|
| 1. | Issuer: | Republic of Bulgaria |
| 2. | (i) Series Number: | [•] |
| | (ii) Tranche Number: | [•] |
| | (iii) Date on which the Notes become fungible: | [Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [insert description of the Series] on [insert date/the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 22 |

- below [which is expected to occur on or about
[insert date]].]
3. Specified Currency or Currencies: [•]
 4. Aggregate Nominal Amount:
 - [(i)] Series: [•]
 - [(ii)] Tranche: [•]
 5. Issue Price: [•] per cent. of the Aggregate Nominal Amount
[plus accrued interest from [insert date] (if
applicable)]
 6. (i) Specified Denominations: [•][and integral multiples of [•] in excess
thereof[, up to and including [•]]]
 - (ii) Calculation Amount: [•]
 7. (i) Issue Date: [•]
 - (ii) Interest Commencement Date: [Specify/Issue Date/Not Applicable]
 8. Maturity Date: [Specify date or (for Floating Rate Notes)
Interest Payment Date falling in or nearest to the
relevant month and year]
 9. Interest Basis: [•][per cent. Fixed Rate]
[[reference rate] +/- [•] per cent. Floating Rate]
[Zero Coupon] [Other (specify)]
(further particulars specified below)
 10. Redemption/Payment Basis: [Redemption at par]
[Instalment]
[Other (specify)]
 11. Change of Interest or Redemption/Payment Basis: [Specify details of any provision for
convertibility of Notes into another interest or
redemption/ payment basis]
[Not Applicable]
 12. Put/Call Options: [Investor Put Option]
[Issuer Call Option]
[(further particulars specified below)][Not
Applicable]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13. Fixed Rate Note Provisions [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-
paragraphs of this paragraph)
 - (i) Rate[(s)] of Interest: [•] per cent. per annum payable [annually/semi-
annually] in arrear on each Interest Payment
Date
 - (ii) Interest Payment Date(s): [•] in each year
 - (iii) Fixed Coupon Amount[(s)]: [•] per Calculation Amount

(iv)	Broken Amount(s):	[•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]/[Not Applicable]
(v)	Day Count Fraction:	[30/360 / Actual/Actual (ICMA) / <i>specify other</i>]
(vi)	[Determination Dates:	[•] in each year (<i>insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA))</i>)]
(vii)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/ <i>give details</i>]
14.	Floating Rate Note Provisions	[Applicable/Not Applicable] (<i>If not applicable, delete the remaining sub-paragraphs of this paragraph</i>)
(i)	Interest Period(s):	[•][[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]]
(ii)	Specified Interest Payment Dates:	[[•] in each year[, subject to adjustment in accordance with the Business Day Convention set out in (iv) below/, not subject to any adjustment[, as the Business Day Convention in (iv) below is specified to be Not Applicable]]]
(iii)	Interest Period Date:	[Not Applicable]/ [•][in each year[, subject to adjustment in accordance with the Business Day Convention set out in (v) below/, not subject to any adjustment[, as the Business Day Convention in (v) below is specified to be Not Applicable]]]
(iv)	First Interest Payment Date:	[•]
(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (<i>give details</i>)] [Not Applicable]
(vi)	Business Centre(s):	[•]
(vii)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (<i>give details</i>)]
(viii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Agent):	[•]
(ix)	Screen Rate Determination:	
	– Reference Rate:	[LIBOR/EURIBOR/[•]]

	– Interest Determination Date(s):	[•]
	– Relevant Screen Page:	[•]
(x)	ISDA Determination:	
	– Floating Rate Option:	[•]
	– Designated Maturity:	[•]
	– Reset Date:	[•]
	– ISDA Definitions	[2000/2006[, as amended or supplemented from time to time]]
(xi)	Linear Interpolation:	Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (<i>specify for each short or long interest period</i>)
(xii)	Margin(s):	[+/-][•] per cent. per annum
(xiii)	Minimum Rate of Interest:	[•] per cent. per annum
(xiv)	Maximum Rate of Interest:	[•] per cent. per annum
(xv)	Day Count Fraction:	[•]
(xvi)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[•]
15.	Zero Coupon Note Provisions	[Applicable/Not Applicable] (<i>If not applicable, delete the remaining sub-paragraphs of this paragraph</i>)
(i)	Amortisation Yield:	[•] per cent. per annum
(ii)	Day Count Fraction in relation to Early Redemption Amounts:	[[30/360][Actual/360][Actual/365][Actual-Actual-ICMA]][<i>specify other</i>]
(iii)	Any other formula/basis of determining amount payable:	[•]
16.	Index-Linked Interest Note/other variable-linked interest Note Provisions	[Applicable/Not Applicable] (<i>If not applicable, delete the remaining sub-paragraphs of this paragraph</i>)
(i)	Index/Formula/other variable:	[<i>give or annex details</i>]
(ii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Agent):	[•]
(iii)	Provisions for determining Coupon where calculated by	[•]

reference to Index and/or Formula
and/or other variable:

- (iv) Determination Date(s): [•]
- (v) Provisions for determining Coupon where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [•]
- (vi) Interest or calculation period(s): [•]
- (vii) Specified Interest Payment Dates: [•]
- (viii) Business Day Convention: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
- (ix) Business Centre(s): [•]
- (x) Minimum Rate/Amount of Interest: [•] [per cent.] per annum
- (xi) Maximum Rate/Amount of Interest: [•] [per cent.] per annum
- (xii) Day Count Fraction: [•]
- 17. Dual Currency Note Provisions [Applicable/Not Applicable]
(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
 - (i) Rate of Exchange/method of calculating Rate of Exchange: [*give details*]
 - (ii) Party, if any, responsible for calculating the principal and/or interest due (if not the Agent): [•]
 - (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [•]
 - (iv) Person at whose option Specified Currency(ies) is/are payable: [•]

PROVISIONS RELATING TO REDEMPTION

- 18. Call Option [Applicable/Not Applicable]
(*If not applicable, delete the remaining sub-paragraphs of this paragraph*)
 - (i) Optional Redemption Date(s): [•]
 - (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [•] per Calculation Amount
/specify other/see Appendix

- (iii) If redeemable in part:
 - (a) Minimum Redemption Amount: [•]
 - (b) Maximum Redemption Amount: [•]
 - (iv) Notice period (Condition 6(c)): [•] days
- 19. Put Option [Applicable/Not Applicable]
(If not applicable, delete the remaining sub-paragraphs of this paragraph)
 - (i) Optional Redemption Date(s): [•]
 - (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [•] per Calculation Amount/specify other/see Appendix
 - (iii) Notice period (Condition 6(d)): [•] days
- 20. Final Redemption Amount of each Note [•] per Calculation Amount

 In cases where the Final Redemption Amount is Index-Linked or other variable-linked:
 - (i) Index/Formula/variable: [give or annex details]
 - (ii) Party responsible for calculating the Final Redemption Amount (if not the Agent): [•]
 - (iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: [•]
 - (iv) Determination Date(s): [•]
 - (v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [•]
 - (vi) Payment Date:
 - (vii) Minimum Final Redemption Amount: [•]
 - (viii) Maximum Final Redemption Amount: [•]
- 21. Early Redemption Amount

 Early Redemption Amount(s) per Calculation Amount payable on redemption [•]

for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):

GENERAL PROVISIONS APPLICABLE TO THE NOTES

22. Form of Notes:

[Bearer Notes:]

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]

[Permanent Global Note exchangeable for Definitive Notes on [•] days' notice/at any time/in the limited circumstances specified in the Permanent Global Note]

[Temporary Global Note exchangeable for Definitive Notes on [•] days' notice]

(Note: The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination (at paragraph 6 above) of the Notes includes language to the following effect: "[and integral multiples of [•] in excess thereof, up to and including [•]]".)

[Registered Notes:]

[Unrestricted Global Certificate ([US\$/€][•] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the New Safekeeping Structure (NSS))]]

[Restricted Global Certificate ([US\$][•] nominal amount) registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the New Safekeeping Structure (NSS))]]

[Unrestricted Global Certificate exchangeable for unrestricted Definitive Notes on [•] days' notice/at any time/in the limited circumstances described in the Unrestricted Global Certificate]

[Restricted Global Certificate exchangeable for restricted Definitive Notes on [•] days' notice/at any time/in the limited circumstances described in the Restricted Global Certificate]

(Note: The exchange upon notice/at any time options should not be expressed to be applicable

if the Specified Denomination (at paragraph 6 above) of the Notes includes language to the following effect: "[and integral multiples of [•] in excess thereof, up to and including [•]]".)

23. New Global Note: [Yes] [No]
24. Financial Centre(s) or other special provisions relating to payment dates: [Not Applicable/give details]. [Note that this paragraph relates to the date of payment, and not the end dates of interest periods for the purposes of calculating the amount of interest]
25. Relevant Benchmark[s]: [[specify benchmark] is provided by [administrator legal name]][repeat as necessary]. As at the date hereof, [[administrator legal name][appears]/[does not appear]][repeat as necessary] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (*Register of administrators and benchmarks*) of the Benchmark Regulation, as amended]/[As far as the Issuer is aware, as at the date hereof, [specify benchmark] does not fall within the scope of the Benchmark Regulation, as amended]/ [As far as the Issuer is aware, the transitional provisions in Article 51 of the Benchmark Regulation, as amended, apply, such that [name of administrator] is not currently required to obtain authorisation/registration (or, if located outside the European Union or the United Kingdom, recognition, endorsement or equivalence)]/[Not Applicable]
26. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [No/Yes. As the Notes have more than 27 coupon payments, talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made.]
27. Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment: [Not Applicable/give details]
28. Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made: [Not Applicable/give details]
29. Other terms or special conditions: [Not Applicable/give details]

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement. [(*Relevant third party information*) has been extracted from (*specify source*). The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (*specify source*), no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of
REPUBLIC OF BULGARIA

By:
Duly authorised

PART B – OTHER INFORMATION

1. **LISTING AND TRADING**

[Application has been made by the Issuer (or on its behalf) for the Notes to be listed on [the Official List of the Luxembourg Stock Exchange and to trading on the Luxembourg Stock Exchange's regulated market] [*specify relevant market*] with effect from [•].] [Not Applicable.]

(Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.)
2. **[RATINGS]**

Ratings:

The Notes to be issued [have been/are expected to be] rated:

[S&P: [•]]

[Moody's: [•]]

[[Fitch: [•]]

[[Other]: [•]]

[The Notes have not been specifically rated][and endorsed by [•].]

[Each of [•] is established in the European Union or the United Kingdom and is registered under the Regulation (EC) No. 1060/2009 (as amended).]
3. **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER**

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and [its/their] affiliates in the ordinary course of business. (*Amend as appropriate if there are other interests*)]
4. **[Fixed Rate Notes - YIELD]**

Indication of Yield:

[•]

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]
5. **[Index Linked Notes – PERFORMANCE OF INDEX OR RATES OF INTEREST FOR INDEX LINKED OR DUAL CURRENCY NOTES]**

[Relevant details to be included: [•]
6. **[USE OF PROCEEDS]**

Reasons for Offer/Use of Proceeds: [•]

Estimated Net Proceeds:	[•]
Total Commissions and Concessions:	[•]
7. OPERATIONAL INFORMATION	
ISIN [(Unrestricted Notes)]:	[•]
[ISIN (Restricted Notes):	[•]
Common Code [(Unrestricted Notes)]:	[•]
[Common Code (Restricted Notes):	[•]
[CFI Code:	[•], as updated on the website of the Association of National Numbering Agencies]
[FISN:	[•], as updated on the website of the Association of National Numbering Agencies]
[CUSIP:	[•]
Any clearing system(s) other than [DTC, Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s):	[Not Applicable/give name(s) and number(s)]
Delivery:	Delivery [against/free of] payment
Names and addresses of additional Paying Agent(s), Calculation Agent and/or Registrar (if any):	[•]
[Intended to be held in a manner which would allow Eurosystem eligibility:	<p>[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/</p> <p>[No. Whilst the designation is specified as "no" at the date of this Pricing Supplement, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [(and registered in the name of a nominee of one of the ICSDs acting as common safekeeper)]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem at any</p>

time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]]

Date of completion of the Issuer's Authorisation Procedures in relation to the Programme and the Notes: [•]

8. DISTRIBUTION

- | | | |
|-------|--|--|
| (i) | Method of distribution: | [Syndicated/Non-syndicated] |
| (ii) | If syndicated, names of Managers [and underwriting commitments]: | [Not Applicable/ <i>give names/commitments</i>] |
| (iii) | Stabilisation Manager(s) (if any): | [Not Applicable/ <i>give names</i>] |
| (iv) | If non-syndicated, name of Dealer: | [Not Applicable/ <i>give name</i>] |
| (v) | U.S. Selling Restrictions: | [Reg. S Compliance Category 1; [Rule 144A;] TEFRA C/ TEFRA D/ TEFRA not applicable]
[Reg. S Category 1 U.S. selling restrictions and transfer restrictions apply to the Notes and, accordingly, restrictions disclosed in the section "Transfer Restrictions – Unrestricted Notes" of the Offering Circular shall not apply.] |
| (vi) | Additional selling restrictions: | [Not Applicable/ <i>give details</i>] |

THE REPUBLIC OF BULGARIA

Geography and Population

Bulgaria is located in South-eastern Europe in the eastern part of the Balkan peninsula and covers an area of approximately 110,994 square kilometres. It is bordered by Romania to the north, Serbia and the Republic of North Macedonia to the west, Greece and Turkey to the south and the Black Sea to the east. According to the Republic of Bulgaria National Statistical Institute (the "NSI"), as of 31 December 2019, Bulgaria had a population of 6.95 million, or 1.4 per cent. of the EU population. The population density of Bulgaria is approximately 63 persons per square kilometre. The main language spoken is Bulgarian.

The capital of Bulgaria is Sofia which is situated in the western part of the country, at the foot of the Vitosha mountain massif. Sofia had a population of approximately 1.33 million as of 31 December 2019.

History

The name "Bulgaria" is derived from the Bulgars, a people who migrated from Central Asia and united with Slavic tribes already settled in the Balkans to found the First Bulgarian Kingdom in 681 AD. The Bulgars were eventually absorbed into the larger Slavic population; a process that was facilitated by the adoption of Orthodox Christianity by Prince Boris I in 865 AD. In the late-ninth and early-tenth centuries, during the reigns of Prince Boris I and Tsar Simeon the Great, Bulgaria reached its cultural, economic and political high-point so much so that Bulgaria became the strongest power in South-eastern Europe. During this period, Old Church Slavonic - the first written Slavic language - and the Cyrillic alphabet were adopted in Bulgaria's theological schools; these would provide the basis for the modern Bulgarian language. Thereafter, Bulgaria underwent a period of political turmoil before eventually being absorbed into the Byzantine Empire. The Bulgarians revolted against Byzantine rule in 1185 and established a second kingdom which, during the reign of Tsar Ivan Asen II (1218-1241), became a dominant political power on the Balkan Peninsula and across South-eastern Europe.

By the end of the fourteenth century, the Ottoman Empire had gained control of Bulgaria. During the following centuries the political and cultural existence of Bulgaria was dominated by the Ottoman Turks, although many of Bulgaria's national customs and values were preserved. Numerous uprisings over the centuries were suppressed by the Ottomans; however, in the latter part of the nineteenth century, they provided the pretext for Russian intervention and the creation of the modern Bulgarian state. In 1877, Russia declared war on the Ottoman Empire. The war ended with the preliminary peace treaty of San Stefano of 1878; however, this was replaced soon after by the Treaty of Berlin of 1878. The Treaty of Berlin saw the creation of the semi-independent state of the Principality of Bulgaria (what is now present-day Northern Bulgaria and the Sofia region) and the autonomous Ottoman province of Eastern Rumelia (forming a significant part of present-day Southern Bulgaria), while other territories populated predominantly with Bulgarians remained in the Ottoman Empire. In 1885, the population of Eastern Rumelia rose up against Ottoman rule and united with the Principality of Bulgaria to create a unitary Bulgarian state under the rule of Prince Alexander I. In 1908, the recently-unified country became fully independent from the Ottoman Empire under the name of the Kingdom of Bulgaria. Bulgaria at this point was still a largely agrarian society but, in the period leading up until World War II, it underwent significant economic development.

Bulgaria took part in the Balkan Wars of 1912-1913 after which the country increased its territory. At the end of 1915, Bulgaria allied itself with the Central Powers during World War I. The country also allied itself with the Axis Powers for the greater part of World War II. In 1944, however, Bulgaria joined the Allied powers and fought with them until the end of the war. At the end of the war, Bulgaria's boundaries prior to joining the war were reconfirmed.

During the post-war period, Bulgaria fell under the influence of the former Soviet Union and, within a short space of time, a communist regime secured itself in power. In November 1989, however, as elsewhere in Central and Eastern Europe, the communist system in Bulgaria collapsed.

Recent History

1989 to 1997

From 1989 until early 1997, the political environment in Bulgaria was characterised by the continued influence of the former communist party (now called the Bulgarian Socialist Party) along with repeated changes in Government and a relative lack of political cohesion, particularly when compared to the other former Eastern-bloc countries. Prior to 1990, Bulgaria's economy was oriented toward the COMECON countries, which included the former Soviet Union, Poland, Hungary, Bulgaria, the German Democratic Republic, the former Czechoslovakia, Romania, Cuba, Vietnam and Mongolia. The collapse of the COMECON regime in 1991 had a negative impact on Bulgaria's GDP. By 1997, the cumulative fall in real GDP as compared to 1989 was 33.5 per cent.

In mid-1996 through to the first quarter of 1997, a severe banking crisis reached its peak in Bulgaria, with the value of deposits in the banking system falling from the equivalent of USD 7.4 billion at the end of 1995 to USD 1.8 billion in March 1997. The crisis caused the closure of many banks in Bulgaria and the depreciation of Bulgaria's currency, the Lev. Beset by the financial crisis, the Bulgarian Socialist Party resigned from Government at the end of 1996.

1997 to present

Bulgaria underwent its transition into a market economy during this period. Characteristic features of the economy at this time were the privatisation of large state-owned companies, the establishment of a currency board, the adoption of a conservative fiscal policy, the harmonisation of Bulgarian legislation with EU law and the attracting of foreign investment. In 2004, Bulgaria became a member of NATO and on 1 January 2007 it joined the EU.

During the period between May 1997 and April 2020, Bulgaria had ten governments: the UDF Government (May 1997–July 2001); the coalition between the Simeon II National Movement and the Movement for Rights and Freedoms Government (July 2001–August 2005); the coalition between the Bulgarian Socialist Party, Simeon II National Movement, the Movement for Rights and Freedoms Government (August 2005–July 2009); the Citizens for European Development of Bulgaria Party (the "**GERB Government**") (July 2009 – March 2013); the caretaker government led by Marin Raykov (March 2013–May 2013); the Coalition for Bulgaria Government (the "**BSP Government**") (May 2013–July 2014); the caretaker government led by Georgi Bliznashki (August 2014–November 2014); the second GERB Government with the support of a large coalition (November 2014 – January 2017); the caretaker government led by Ognyan Gerdzhikov (January 2017 – May 2017); the third GERB Government with the support of a coalition (May 2017 – present).

Following parliamentary elections held on 26 March 2017, Boyko Borissov, the leader of GERB, was given a mandate by the President to form a new government. GERB signed a coalition agreement with the United Patriots. On 4 May 2017, the National Assembly voted for the government formed under a coalition between GERB and the United Patriots. The cabinet, led by Boyko Borissov, was supported by the political party Volya.

Political System

Legislature

Bulgaria is a parliamentary republic. The legislative power of Bulgaria is vested with the National Assembly which is a unicameral parliament. The National Assembly consists of 240 members who are elected for a period of four years by proportional representation. On 2 August 2019, the latest amendments to the 2014 Electoral Code took effect.

To qualify for a seat in the National Assembly, a party or coalition must achieve at least 4 per cent. of the national vote. Any Bulgarian citizen who: (i) does not hold citizenship from another country; (ii) is above the age of 21; (iii) is not under judicial interdiction; and (iv) is not serving a prison sentence is eligible for election to the National Assembly. Early parliamentary elections may be held if: (i) no agreement on the formation of a government can be reached, (ii) if the government loses a vote of confidence or (iii) a no-

confidence vote succeeds, or the government resigns and no successor with the support of the existing National Assembly can be found.

The National Assembly has many roles: it passes, amends, supplements, and repeals laws; adopts the State Budget and the budget implementation report; establishes the types of taxes and the rate of state taxes in Bulgaria; passes resolutions on the holding of a national referendum; schedules the presidential elections; elects and removes the Prime Minister and, on his or her recommendation, the members of the Council of Ministers; elects the governor and the three deputy governors of the BNB; effects changes in government on a motion from the Prime Minister; takes part in the constitution of other key agencies and other bodies of the state (Constitutional Court, Supreme Judicial Council, Financial Supervision Commission ("FSC") among others); approves state loan agreements and ratifies international treaties (where applicable); and has certain other rights and powers incorporated into the Constitution of Bulgaria. The National Assembly also exercises parliamentary control over the executive branch of government. Certain issues, like adopting a new Constitution and deciding on any changes to the territory of the Republic, are beyond the powers of an ordinary National Assembly and are reserved for a 400-member Grand National Assembly.

Elections for the 44th National Assembly were held on 26 March 2017 on a proportional representation basis with ballot lists of political parties and coalitions registered in 31 multi mandate constituencies. In all, 21 parties and coalitions took part in the elections.

The next regular parliamentary elections are expected in March 2021. Since July 2020, civil protests in Sofia and a few other major cities in Bulgaria have demanded that the current Government resigns and that early parliamentary elections take place, among other political demands.

Five political parties passed the 4 per cent. electoral threshold for participation in the National Assembly. GERB achieved the highest number of votes (33.54 per cent.) followed by the Bulgarian Socialist Party – BSP for Bulgaria (27.93 per cent.), the United Patriots (Internal Macedonian Revolutionary Organisation "IMRO" – Bulgarian National Movement, Ataka, and the National Front for the Salvation of Bulgaria (NFSB) (9.31 per cent.), the Movement for Rights and Freedoms Party (9.24 per cent.), and Volya (4.26 per cent.).

Parties and Coalitions in the 44th National Assembly as at 30 June 2020

GERB*	95
BSP- for Bulgaria	78
Movement for Rights and Freedoms Party (DPS in Bulgarian)	25
United Patriots*	21
Volya	12
Independent MPs	9
Total	240

* GERB and the United Patriots have formed a coalition and elected to power the current third GERB Government

Source: National Assembly of the Republic of Bulgaria (<http://www.parliament.bg/en/parliamentarygroups>).

President

The President of Bulgaria (the "**President**") is the Head of State, elected under a system of majority representation by direct popular vote for a term of five years and for a maximum of two five-year terms. To be eligible for the position of President, a candidate must be a Bulgarian citizen born in Bulgaria, over 40 years of age, have resided in the country for the five years preceding the election and be eligible for election to the National Assembly. The President is elected with a majority of the valid votes, provided that a majority of all eligible voters took part in the election. If none of the candidates for President receives the required majority in the first round, a second round vote is held within seven days between the two leading candidates. The candidate who wins the majority of the vote is declared a winner.

The current President is Mr. Rumen Radev. He was elected with 59.37 per cent. of the votes in the last presidential election held on 6 November 2016, with a runoff held on 13 November 2016. The inauguration of Mr. Radev as President took place on 22 January 2017. Pursuant to the Constitution of Bulgaria the next presidential election shall be held not earlier than three months and not later than two months before the expiry in January 2022 of the term of office of the incumbent President. As such, the next presidential election will be held in 2021.

The President symbolises the unity of the nation and represents Bulgaria in its foreign affairs. The President is also the commander-in-chief of the armed forces and the Chairman of the Consultative National Security Council. The President instructs the prime ministerial candidate, who is nominated by the party holding the highest number of seats in the National Assembly, to form a government. If such nominee does not succeed in forming a cabinet, the President assigns the mandate to a nominee from the second largest party in the National Assembly and if such nominee is also unsuccessful, the President assigns the mandate to one of the other parties. If the third attempt to form a government fails, the President appoints a caretaker government, dissolves the National Assembly and schedules new elections. The President also has the power of a delaying veto over legislation. If the Parliament votes for a second time on a bill that the President has vetoed, the President must sign it. The President schedules the elections for a National Assembly and for the bodies of local self-government and sets the date for national referendums pursuant to a resolution of the National Assembly. His powers also include taking part in the constitution of other key agencies and other bodies of the state (BNB, Constitutional Court), awarding orders and medals, the naming of towns, villages and geographical places, granting asylum and citizenship and exercising the right to pardon. A Vice-President assists the President.

Government

The executive power of Bulgaria is vested in the Council of Ministers, which is the name for Bulgaria's Government. The Council of Ministers consists of the Prime Minister, Deputy Prime Ministers and ministers.

The Council of Ministers directs and implements the state's domestic and foreign policy in accordance with the Constitution and the laws of Bulgaria. It ensures public order and national security and exercises overall guidance over state administration and the armed forces. The Council of Ministers informs the National Assembly on issues concerning the obligations of Bulgaria resulting from its membership in the EU. The Council of Ministers manages the implementation of the State Budget, organises the management of the state's assets and concludes, confirms or denounces international treaties when authorised to do so by law. As the supreme executive body, the Council of Ministers adopts and promulgates certain acts of delegated legislation, including decrees, resolutions and orders. The Council of Ministers is also entitled to initiate the adoption of laws by drafting, deliberating and forwarding bills to the National Assembly.

The President assigns a mandate for the formation of a new government. Once the prime ministerial candidate forms a government, the Prime Minister and the Government are formally elected by the National Assembly.

The Prime Minister takes charge of, coordinates and bears responsibility for the overall policy of the Government. He appoints and removes deputy ministers and may suggest changes in the cabinet to the National Assembly. The Prime Minister or the minister concerned countersigns the President's decrees with certain exceptions, such as decrees vetoing legislative Acts of Parliament, decrees for dissolving the Parliament and for the appointment of a caretaker government. Ministers implement state policy in their respective fields.

The powers of the Council of Ministers shall terminate if: the National Assembly passes a vote of no confidence with regard to the Prime Minister or the Council of Ministers; if the Council of Ministers loses a vote of confidence; if the National Assembly accepts the resignation of the Prime Minister or the Council of Ministers; or if the Prime Minister dies. The Council of Ministers continues to perform its functions until the election of a new Council of Ministers.

Judicial Branch

The judicial branch of the government is independent from the legislative and executive branches of the state. The civil and criminal justice system has three levels: trial courts, appellate courts and the Supreme Cassation Court. In civil cases, an appeal to an appellate court is as of right, while an appeal to the Supreme Cassation Court is by leave. In criminal cases, appeals to both appellate courts and the Supreme Cassation Court are as of right. In 2011, a specialised criminal court was established. It has jurisdiction in particular over cases related to organised crime and high-level corruption. Its judgments are subject to appeal to the Specialised Criminal Court of Appeals and the Supreme Cassation Court.

The administrative justice system has two levels: regional administrative courts and the Supreme Administrative Court. In some cases, the Supreme Administrative Court acts both as a first instance court and a cassation court.

The martial justice court system has three levels – courts martial, the Martial Court of Appeals, and the Supreme Cassation Court.

Judges may acquire permanent tenure after five years in office, a performance appraisal and the requisite decision by the Supreme Judicial Council. After that, they may only be discharged from office in particular circumstances, such as retirement age, resignation, inability to perform his/her duties or conviction.

Judges have criminal and civil immunity for acts performed in discharge of their official duty, unless the act constitutes an intentional crime.

The Constitutional Court is separate from the civil, criminal and administrative justice system.

As is the case with other constitutional democracies, Acts of Parliament are occasionally subject to challenge in the Constitutional Court. The Constitutional Court is composed of 12 judges appointed in equal quotas by the National Assembly, the President, and the judges of the Supreme Cassation and Administrative Courts. Each judge is appointed for a single term of nine years.

As part of the implementation of the Judicial System Reform Strategy, which is discussed in detail below at *"The Republic of Bulgaria – Reports from the Commission under the CVM"*, on 16 December 2015, the National Assembly adopted amendments to the Constitution of the Republic of Bulgaria, promulgated in State Gazette, Volume 100/18 December 2015. In order to strengthen the independence and effectiveness of the SJC, and to ensure transparent appointments to the judiciary, the constitutional changes were aimed at making structural and organisational changes to the Supreme Judicial Council (the "**SJC**"). The SJC is the key institution governing the Bulgarian judicial branch. The SJC consist of 25 members and is independent from the executive and legislative branches. The amendments to the Constitution described were implemented via two sets of legislative amendments to the Judicial System Act adopted in 2016. As a result of these changes, 11 of the members of the SJC are currently elected by the National Assembly by a two-thirds majority of the Members of Parliament and 11 are elected by the magistrates from the judicial self-governing authorities themselves, for a term of five years. The remaining three members, i.e. the Chairpersons of the Supreme Cassation Court and the Supreme Administrative Court and the Chief Prosecutor, are members of the SJC as of right.

The SJC acts in plenum, through the chamber of judges, and through the chamber of prosecutors. The SJC's plenum is entitled to take all necessary decisions relevant to the entire judicial system, (i.e. to adopt the draft budget of the judicial system, to manage its immovable property, to propose the nomination and the resignation of the Chairpersons of the Supreme Cassation Court, the Chairperson of the Supreme Administrative Court and the Chief Prosecutor). The chamber of judges of the SJC, inter alia, appoints, promotes, demotes, transfers and discharges all judges from office, and respectively the chamber of prosecutors carries out similar functions in respect of prosecutors and investigating magistrates. Thus, the two chambers can take independent decisions on career development and appraisal for judges, on the one hand, and for prosecutors and investigating magistrates on the other. The two chambers also deal with other personnel related matters, as well as for other organisational aspects relevant to the respective part of the judicial system. The Judges' chamber includes 14 members (out of the 25 members of the SJC): the Chairpersons of the Supreme Cassation Court and of the Supreme Administrative Court, six members, directly elected by the judges and six members elected by the National Assembly. The Prosecutor's chamber consists of 11 members (out of the 25 members of the SJC) and includes the Chief Prosecutor, four members elected directly by prosecutors, one member elected directly by the investigating magistrates, and five members elected by the National Assembly. In line with the recommendations of the European Commission for Democracy through Law (Venice Commission to the Council of Europe), the concept of a secret vote within the SJC has been removed and a requirement for a qualified majority of two-thirds of the Members of the Parliament to elect the Members of the SJC was introduced. The goal of these amendments is to ensure that the appointment procedures carried out by the Supreme Judicial Council are fully public and transparent and a significant track record of merit based appointments is established.

The Judicial Inspectorate (the "**Inspectorate**") was established in 2007 and is administratively attached to the SJC. It consists of 11 members elected by the National Assembly. Its task is to supervise the activity of

the judicial system bodies without interfering with the independence of judges. The Inspectorate's members carry out their functions independently.

In order to enhance the institutional capacity of the Inspectorate, and to ensure the accountability and integrity of the judiciary and the effective prevention of conflict of interest and undue influence, following the adoption of the constitutional amendments above, the Inspectorate is now tasked with carrying out inspections on the integrity and conflict of interests of judges, prosecutors and investigating magistrates, on their property declarations, as well as determining actions which undermine the integrity of the judiciary and actions related to violations of the independence of judges, prosecutors and investigating magistrates. In 2019, the Structural Reform Support Programme of the Commission funded a project to improve the capacity of the Inspectorate and enable the Inspectorate to exchange best practices with peer institutions in other EU Member States for carrying out integrity checks on magistrates. The project was implemented by the Council of Europe and was finalised in February 2020.

The European Commission established a mechanism for cooperation and verification of the Bulgarian legal system pursuant to Article 4(3) of the Treaty of Accession of Bulgaria to the EU by a decision dated 13 December 2006. This mechanism aims to ensure that the Bulgarian legal system meets the standards of the EU and requires Bulgaria to address specific benchmarks in the areas of judicial reform and the fight against corruption and organised crime.

In its latest report on Bulgaria's progress on the benchmarks of the Cooperation and Verification Mechanism (the "CVM"), published on 22 October 2019, the Commission concluded that Bulgaria has met all six benchmarks under the CVM, namely:

- *Benchmark 1 (Judicial Independence)* - Adopt Constitutional amendments removing any ambiguity regarding the independence and accountability of the judicial system;
- *Benchmark 2 (Legal Framework)* - Ensure a more transparent and efficient judicial process by adopting amendments to the Judicial System Act and the Civil Procedure Code. Report on the impact of these new laws and of the Penal and the Administrative Procedure Codes, notably on the pre-trial phase;
- *Benchmark 3 (Continued Judicial Reform)* - Continue the reform of the judiciary in order to enhance professionalism, accountability and efficiency. Evaluate the impact of this reform and publish the results annually;
- *Benchmark 4 (High Level Corruption)* - Conduct and report on professional, non-partisan investigations into allegations of high-level corruption. Report on internal inspections of public institutions and on the publication of assets of high-level officials;
- *Benchmark 5 (Corruption in General including Local Level and Borders)* - Take further measures to prevent and fight corruption, in particular at the borders and within local government; and
- *Benchmark 6 (Organised Crime)* - Implement a strategy to fight organised crime, focussing on serious crime, money laundering as well as on the systematic confiscation of assets of criminals. Report on new and ongoing investigations, indictments and convictions in these areas.

The Commission stated that "the progress made by Bulgaria under the CVM is sufficient to fulfil the country's commitments made at the time of its accession to the EU".

See *"Risk Factors – Changes in Bulgaria's relationships with Western governments and institutions may have a negative impact on Bulgaria's economy"*.

Since Bulgaria's accession to the EU, judgments originating in another EU Member State are recognised and enforced in Bulgaria pursuant to simplified rules established by, among others:

- Brussels I Regulation (recast);
- Regulation (EC) No. 805/2004 of the European Parliament and of the Council of 21 April 2004 creating a European Enforcement Order for uncontested claims; and

- Regulation (EU) 2015/2421 of the European Parliament and of the Council of 16 December 2015 amending Regulation (EC) No 861/2007 establishing a European Small Claims Procedure and Regulation (EC) No 1896/2006 creating a European order for payment procedure.

By virtue of its membership in the European Union, Bulgaria is also bound by certain international treaties, which set specific rules for the recognition and enforcement of judgements given by the courts of non-EU Member States, which are parties or otherwise bound by such treaties. These include, among others:

- Convention of 30 June 2005 on Choice of Court Agreements (so-called Hague Convention); and
- Convention on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (so-called Lugano Convention (2007)).

In the event of an absence of applicable international multilateral or bilateral treaties governing the recognition and enforcement of foreign judgments, judgements originating in third countries (including judgements given by English courts in proceedings initiated after the end of the transition period, as defined in the EU-UK Withdrawal Agreement) are expected to be recognised and declared enforceable in Bulgaria pursuant to the rules of Bulgaria's International Private Law Code subject to the obtaining of a recognition and enforcement permission (*exequatur*) by the Sofia City Court. The enforcement of foreign court judgements after a declaration of enforceability follows the rules of Bulgaria's Civil Procedure Code. See "*Risk Factors - Risks relating to Notes – Enforcement of Liabilities*" for further detail.

Reports from the Commission under the CVM

In its final report on Bulgaria's progress on the benchmarks of the CVM, published on 22 October 2019, the Commission concluded that Bulgaria has met all six benchmarks under the CVM.

In line with the EU publication "A Digital Agenda for Europe", the Cybersecurity Act of the European Union of 2017 and the Directive on security of network and information systems of 2016 (the NIS Directive), the updated E-Governance Development Strategy 2014 – 2020 (the "**E-Governance Strategy**") in the Republic of Bulgaria addresses the need to maintain a secure, sustainable and reliable cyber environment in order to reduce and overcome the risks present when using information and communication technologies.

An updated roadmap has been drafted for the implementation of this strategy and the measures which have been planned to be implemented in the 2019-2023 period are to result in the strongest possible level of cybersecurity.

Some of the measures will be implemented by the State e-Government Agency ("**SEGA**") (successor to the Executive Agency "Electronic Communication Networks and Information Systems" to the Ministry of Transport, Information Technology and Communications ("**MTITC**") as a key participant in the deployment, operation and development of information technologies and systems related to e-governance in the Republic of Bulgaria. The tasks of SEGA also include building and maintaining a response centre (the "**Computer Security Incidents Response Centre**") in case of incidents related to information security as well as to assist MTITC and various interinstitutional working groups on cybersecurity in the Republic of Bulgaria. An information portal has been developed for management of the activities of the Computer Security Incidents Response Centre. Another step for the implementation of the E-Governance Strategy is the adoption of the Cybersecurity Act (promulgated in State Gazette, Volume 94/13 November 2018).

In accordance with the Ordinance on the Interoperability and Information Security under the E-Governance Strategy, there is also a standing council for network and information security chaired by the Deputy Minister of Transport, Information Technology and Communications.

E-Justice is viewed as a method of improving judicial cooperation between Member States. As a tool for increasing the efficiency of the judicial authorities and facilitating the access to justice for citizens and businesses, an action plan for implementing e-Justice in the period until 2018 has been implemented. A new Strategy and Action Plan for the development of the European e-Justice were adopted to cover the next four-year period between 2019-2023. The aim is to support the transformation of the European e-Justice

Portal into a more effective tool for providing electronic services and supporting the work of the representatives of the legal professions, as well as to assist the digitalisation of the national judicial systems.

The Updated Strategy to Continue the Reform of the Judicial System (the "**Judicial System Reform Strategy**") was adopted by the Council of Ministers on 18 December 2014. The Judicial System Reform Strategy was developed by the Ministry of Justice and aims to further develop the partially implemented Judicial Reform Strategy of 2010.

The overall objective of the strategy is to continue the modernisation of the judiciary and to complete its reform within seven years. The more detailed objectives are:

- to achieve effective guarantees of independence of the court and the judiciary;
- to ensure good governance of the judicial authorities and their highly effective functioning;
- to unlock the potential of human resources in the judiciary and guarantee the high motivation, competence and social responsibility of judges, prosecutors and investigating magistrates;
- to implement a modern and effective criminal policy through the necessary institutional and regulatory reforms; and
- to ensure a full-fledged right to a fair trial to each citizen and effective protection of human rights.

The strategy provides for the creation of a council to monitor its implementation. On 13 January 2016, the Council of Ministers adopted a decree for the creation of such a council whose members are representatives of the judiciary and the executive authorities, representatives of professional organisations of judges, prosecutors, investigating magistrates court officials, representatives of non-governmental organisations and the academia. When discussing issues that would require amendments to the legislation or the adoption of a decision of the National Assembly, the Chairman of the Committee on Legal Affairs in the National Assembly and chairperson of the parliamentary groups or their representatives are invited to participate.

In order to implement the Judicial System Reform Strategy and meet the benchmarks of the CVM, the National Assembly adopted amendments to the Constitution in December 2015 to remove all ambiguities regarding the independence and accountability of the judicial system. These amendments were followed by two sets of important amendments to the Judicial System Act, which were adopted by the National Assembly in 2016. The amendments to the Constitution are discussed above in *"The Republic of Bulgaria – Political System – Judicial Branch"*.

The National Strategy for Prevention and Counteraction of Corruption in the Republic of Bulgaria (2015 - 2020) was adopted by the Council of Ministers on April 9, 2015. According to this Strategy, counteracting high-level corruption is a top priority for the government. A National Anti-Corruption Policies Council ("**NACPC**") has been established with advisory, coordination and control functions regarding the formulation and implementation of policies in the field of preventing and combating corruption. The NACPC is chaired by the Deputy Prime Ministers. Since May 2017 the NACPC has also been chaired by the Deputy Prime Minister for Judicial Reform and Minister of Foreign Affairs, and the Councils Deputy Chairperson is the Minister of Justice. The Members of the NACPC consist of a representative of the political cabinet of each of the Deputy Prime Minister for Public Order and Security and the Minister of Defence, a Deputy Minister of Justice, a Deputy Minister of the Interior, a Deputy Minister of Economy, a Deputy Minister of Finance, the Deputy Chairman of the Commission for Counteracting Corruption and for Seizure of Illegally Acquired Property, a Deputy Chairman of the Supreme Court of Cassation, a Deputy Chairman of the Supreme Administrative Court, the Chief Inspector of the Inspectorate to the Supreme Judicial Council, a Deputy Prosecutor General, a Deputy Chairman of the State Agency for National Security, the Head of the General Inspectorate to the Council of Ministers and a representative of the National Association of Municipalities in the Republic of Bulgaria. The NACPC has established a civil society council (the "**Civil Society Council**"), consisting of 11 members including representatives of non-governmental organizations who actively work and have proven experience in the field of prevention and combating corruption; associations supporting small and medium-sized enterprises; and representatives of employers' organizations, recognized at national level.

The Civil Society Council exercises civilian oversight and control over the implementation of anti-corruption policies, gives opinions and makes proposals (to increase their effectiveness) before the NACPC and participates in NACPC meetings. The NACPC reports regularly at its meetings on the implementation of the measures under the national strategy. The adopted reports are published on the Council's website.

One of the main goals of the national anti-corruption strategy is to effectively prevent high-level corruption by employing an operating system of declarations and in-depth checks of circumstances related to property status and conflict of interest in order to gather, analyze and verify specific information on or about potential corruption of senior public officials. The Act on Counteracting Corruption and on Seizure of Illegally Acquired Property entered (in force as from 23 January 2018), codifying and improving the legal framework in the area of counteracting corruption. This law created a new independent anti-corruption body, the Commission for Counteracting Corruption and for Seizure of Illegally Acquired Property (the "CCCSIAP"). In its 2018 CVM Progress Report, the Commission pointed out the adoption of this piece of legislation as "the most significant single step" under the Mechanism.

The CCCSIAP is an independent, specialized, constantly operating collective state body. It consists of five members, a chairman, a deputy chairman and three other members. Each of them must be a Bulgarian citizen, possess high moral and professional skills as well as have at least five years of professional experience (10 years of professional legal experience with regard to its Chairman). The Chairman of the CCCSIAP is elected by the National Assembly upon nomination by Members of Parliament. The Deputy Chairman and the other members of the CCCSIAP are elected by the National Assembly upon nomination by the Chairman of the CCCSIAP.

The powers of the CCCSIAP include: checking declarations of property and interests of senior public officials (approximately 10,500 persons); investigating received signals from citizens and through the media for corruption of senior public officials; checking the senior public officials financial possessions and finding conflict of interest; counteracting corruption by exposing senior public officials; seizing illicitly acquired property; drawing up analyses and methodologies; and developing anti-corruption measures.

In 2017, in view of its greater specialization and the resources for resolving cases of high legal and factual complexity, the Specialized Criminal Court was charged with looking into cases of corruption offenses committed by high-level public officials. The investigation of corruption cases is conducted by investigating magistrates (rather than by police officers), and the management of the investigation and monitoring of these cases is conducted by the Specialized Prosecutor's Office.

Regional Government Structure

The Constitution of Bulgaria sets out the principles for administrative division and local self-governance within the country:

- The territory of Bulgaria is divided into municipalities and regions;
- Municipalities are the main administrative and territorial units that are responsible for local governance;
- Municipalities are independent legal entities with property rights and their own budgets;
- Citizens can participate in the municipal government indirectly through local elections and directly through referendums and general meetings; and
- Sofia is the capital of Bulgaria.

The administrative structure of Bulgaria and the public relationships connected with local self-governance and local administration within the country are further governed by the Territorial Administration of Bulgaria Act and the Local Self-Government and Local Administration Act, as well as a number of Acts of Parliament regulating self-governance of municipalities.

Since 1998 Bulgaria has been divided into 28 regions. Regional boundaries, administrative centres and changes thereto are determined by Presidential decrees, subsequent to a proposal by the Council of Ministers. Regions are named after their administrative centres. Each region is governed by a Regional

Governor, who is a representative of the executive branch and is appointed and dismissed by a resolution of the Council of Ministers.

The regions of Bulgaria are currently sub divided into 265 municipalities. Municipalities are established by a resolution of the Council of Ministers, which is confirmed by a presidential decree. Municipalities are the main administrative territorial units through which local self-government is exercised. Each municipality is governed by a Mayor and a Municipal Council.

Municipalities are in turn divided into mayoralties. Mayoralties are settlements with a population exceeding 100 inhabitants. Cities with a population of more than 300,000 people (i.e. Sofia, Plovdiv and Varna) are sub divided into districts. Mayors are also elected in mayoralties, as well as in the districts of Sofia, Plovdiv and Varna.

The Local Self-Government and Local Administration Act empowers Bulgarian citizens to resolve issues of local importance directly by means of a referendum or a general assembly of the local community or indirectly through their elective bodies, in the fields of:

- municipal properties, municipal enterprises, municipal finance, taxes and fees, and municipal administration;
- planning and development of the territory of the municipality and settlements therein;
- education, health, culture, public works and utilities;
- social welfare services;
- protection of the environment and the reasonable use of natural resources;
- maintenance and conservation of cultural, historical and architectural monuments; and
- development of sports, recreation and tourism.

The population in each municipality elects its Municipal Council, as well as the Mayors of the municipalities, mayoralties and districts of Sofia, Plovdiv and Varna. The elections are carried out in compliance with the provisions of the Electoral Code of Bulgaria, promulgated in 2014.

A Municipal Council is responsible for formulating and implementing the policy of the municipality's growth and development in connection with the activities described above and is empowered, among other things, to:

- set the internal structure and bodies of the local administration and appoint the Chairman of the Municipal Council;
- adopt and amend the budget of the municipality, as well as exercise control over its implementation and approve the relevant report;
- determine the rate of local taxes and fees within the limits established by the Parliament;
- make decisions on the acquisition, management, and disposal of municipal property;
- decide on bank loans, and other municipal debt, issuance of municipal securities and guarantees;
- enact decisions concerning the territorial development plans, as well as adopt municipal development strategies, projections, programmes and plans which also reflect European policies for development of local communities; and
- resolve other issues of local importance that do not fall within the exclusive competence of other bodies.

The acts of a Municipal Council are subject to control by the relevant Regional Governor and can be appealed against before the competent administrative court. The Mayor of the Municipality is entitled to

call for further discussion on acts which do not comply with the law of the Republic or that go against the best interests of the municipality; the Mayor of the Municipality can also appeal acts of the Municipal Council before the relevant administrative court.

Mayors of municipalities, mayoralties and districts are officers of the local executive authorities and manage the implementation of executive activities of municipalities. The acts of a Mayor are subject to control by the respective Regional Governor and the Municipal Council and can be appealed before the competent administrative court.

The last elections for self-government bodies were held on 27 October 2019.

New constitution proposed by Members of Parliament

On 2 September 2020, a majority of Members of Parliament, the core of which is from the ruling coalition, officially tabled a project for a new constitution. According to the effective Constitution, the Parliament may not review the draft constitution earlier than two months or later than five months from the above date. If the Parliament supports the draft then it may, by a majority of two-thirds of all members, vote for the election of a Grand National Assembly, composing of 400 members of parliament. Only a Grand National Assembly may adopt a new constitution.

The draft constitution is an evolution, but not a drastic departure, from the effective Constitution. Bulgaria would continue to be a parliamentary republic. Many differences are envisaged, however, such as reducing the number of MPs from the current 240 to 120. Another major difference concerns the judiciary, according to which the SJC would be split into two separate administrative bodies, a 15-member Justices Judicial Council and an 11-member Prosecutors Judicial Council.

The debate on a new constitution is at a very early stage. No prediction may be given as to if and when a new constitution may be adopted.

Legal Proceedings

Disputes with electricity companies

Dispute between Energo-Pro a.s. and the Republic of Bulgaria

In May 2015, Energo-Pro a.s. commenced an international arbitration case against Bulgaria before the International Centre for Settlement of Investment Disputes. It contends that the actions of the State Energy and Water Regulatory Commission, the sector regulator with regard to setting electricity pricing, are contrary to the standards established under the agreement between the Czech Republic and the Republic of Bulgaria for the Promotion and Reciprocal Protection of Investments (the "**Czech-Bulgaria BIT**") and the Energy Charter Treaty. Energo-Pro a.s. has claimed losses of EUR 175.5 million, plus pre-and post-award interest. The arbitration remains pending. Bulgaria denies the merits of the claims and defends itself vigorously. However, the State is unable to form an opinion as to the outcome of the dispute with Energo-Pro a.s. The proceedings are now complete and Bulgaria expects to receive the award by 2021.

Dispute between ČEZ, a.s. and the Republic of Bulgaria

In July 2016, ČEZ, a.s. commenced an international arbitration case against Bulgaria before the International Centre for Settlement of Investment Disputes. ČEZ, a.s. contends that through various omissions, legal and administrative acts taken by Bulgarian state institutions, including with regards to setting electricity prices, Bulgaria violated its obligations under the Czech-Bulgaria BIT and the Energy Charter Treaty. ČEZ, a.s. has not yet quantified its claims. The arbitration is pending at its jurisdictional phase. Bulgaria has filed a jurisdictional objection and denies the merits of the claims. It intends to defend itself vigorously. However, the State is unable to form an opinion as to the outcome or the timing of the dispute with ČEZ, a.s.

International Relations

Bulgaria is a member of a large number of international organisations which include: the United Nations; the United Nations Human Rights Council; the Organisation for Security and Cooperation in Europe; the Council of Europe; the WTO; the International Labour Organisation; the Central European Initiative; the

Organisation of the Black Sea Economic Cooperation ("**BSEC**"); the International Monetary Fund; the World Bank; the European Investment Bank; the Council of Europe Development Bank; the European Bank for Reconstruction and Development ("**EBRD**"); and the Black Sea Trade and Development Bank ("**BSTDB**"). Although Bulgaria is not currently a member of the Organisation for Economic Co-Operation and Development ("**OECD**"), it has implemented a number of OECD measures. Membership in the OECD is a key priority of Bulgaria. At a special session of the OECD Council, held in September 2019, Bulgaria presented the document "Bulgaria and the OECD: An Action Plan (2019-2020)". The document reported that Bulgaria participated in 11 OECD Committees and had acceded to 18 OECD legal instruments. Bulgaria's top priority is the strengthening of its relations with and integration within the EU. The Government anticipates that an invitation to enter negotiations to join OECD will be provided in 2020.

Relationship with major Supranational Financial Institutions

*International Monetary Fund ("**IMF**")*

Bulgaria joined the IMF in 1990. At present Bulgaria has no active agreement with the IMF and all its obligations to the IMF are fully settled. The IMF holds regular Article IV consultations with the country on a 12 month cycle and makes unscheduled staff visits. The last IMF regular Article IV mission was conducted from 4 February 2020 to 14 February 2020. The last IMF staff mission visited Sofia over the period between 26 September 2019 and 1 October 2019 to discuss the economic outlook and government policies with the Bulgarian authorities. Currently Bulgaria's quota share in the IMF is 0.19 per cent. of the total IMF quota.

World Bank

Since Bulgaria joined the World Bank in 1990, the World Bank, through the International Bank for Reconstruction and Development ("**IBRD**"), has provided significant financial support for structural reforms and development in the infrastructure, social, health, environment, telecommunications, energy and financial sectors. As at 31 December 2019, the World Bank had authorised approximately USD 3.3 billion in IBRD loans to Bulgaria, of which only approximately USD 0.02 billion were undisbursed. These amounts apply to both government loans and loans guaranteed by Bulgaria. Bulgaria's total debt obligation to IBRD as at 31 December 2019 amounted to approximately USD 0.7 billion.

*European Investment Bank ("**EIB**")*

Bulgaria signed its first framework agreement with the EIB in 1991 and became a full member of the EIB upon its accession to the EU in January 2007.

Since the commencing of its operations in Bulgaria, the EIB has provided funds totalling EUR 4.9 billion to finance investment projects that are considered important for Bulgaria's economic development. Operations of the EIB in Bulgaria cover all major economic sectors, ranging from basic infrastructure such as transport, communications, energy and the environment to manufacturing and services, including support for SMEs through local financial institutions and the development of a knowledge-based economy.

*Council of Europe Development Bank ("**CEB**")*

Bulgaria has been a member of CEB since May 1994. Since the beginning of its operations in Bulgaria, CEB has committed around EUR 685 million in socially oriented projects for increasing employment in SMEs, environmental protection, health and public infrastructure.

*European Bank for Reconstruction and Development ("**EBRD**")*

Bulgaria is a founding member of the EBRD. As of 31 December 2019, the EBRD has invested over EUR 3.9 billion in financial institutions, industry, commerce, agribusiness and sustainable infrastructure projects, with 49 per cent. of its investment portfolio in the private sector.

*Black Sea Trade and Development Bank ("**BSTDB**")*

Bulgaria is a founding member of the BSTDB. As of 31 December 2019, the BSTDB has approved funding for 38 projects in Bulgaria totalling EUR 492.1 million for SMEs, financial sector, real estate sector, materials, telecommunications, transport, and renewable energy projects.

European Union

Bulgaria became a full member of the EU on 1 January 2007. Bulgaria first submitted its application for EU membership in December 1995. Following the Helsinki European Council's decision in December 1999, the accession negotiations between Bulgaria and the EU lasted for four years, commencing in 2000 and concluded by the European Council of 17 December 2004. The European Parliament gave its support to Bulgaria's EU membership on 13 April 2005. The Accession Treaty of Bulgaria to the EU (the "**Accession Treaty**") was signed on 25 April 2005. Bulgaria is a Member State with derogation as it has not yet joined the Euro area. On 1 January 2018, Bulgaria took over the presidency of the Council of the EU until 30 June 2018. The presidency of the Council of the EU rotates among the EU Member States every six months. During this 6-month period, the presidency chairs meetings at every level in the Council, helping to ensure the continuity of the EU's work in the Council.

The Presidency worked in a dynamic, result-oriented, pragmatic and consensual way. It achieved important results in all priority areas including:

- *Future of Europe and youth:* The debate on Multiannual Financial Framework (MFF) launched successfully and all youth-related legislative files were agreed and closed. All legislation related to the European elections in 2019 was also agreed and finalised.
- *Western Balkans:* At the EU-World Bank (WB) Summit on 17 May 2018, the Sofia declaration and Sofia priority agenda confirmed the European perspective of the Western Balkans. All partners agreed to invest in connectivity and identified concrete objectives for the benefit of the citizens in the EU and the region.
- *Stability and security:* Border and migration management was strengthened through better information exchange, such as the EU Travel Information and Authorisation System (ETIAS) system for third country nationals, the upgraded European Agency for the operational management of large-scale IT systems in the area of freedom, security and justice (eu-LISA) and the upgraded Schengen Information System (SIS). The first-ever EU industrial programme for military capability was agreed.
- *Digital Europe and skills for the future:* On 1 January 2018, the Presidency 'inherited' 13 legislative files related to Digital Europe, nine of which were closed or a general approach in the Council was reached. In the social field, the Presidency focused on key files for EU citizens and found compromises in the Council on Social Security Coordination, work-life balance and transparency of working conditions.

Between 23 and 26 of May 2019, the ninth European elections were held, with 28 member states voting. The results of the 2019 election were: the European People's Party (EPP) winning 182 seats in the European parliament; followed by Progressive Alliance of Socialists and Democrats (S&D) – (154 seats); Renew Europe – (108 seats); Group of the Greens/European Free Alliance (Greens/EFA) – (74 seats); Identity and Democracy (ID) – (73 seats); European Conservatives and Reformists Group (ECR) – (62 seats); Non-attached Members – (57 seats) and the Confederal Group of the European United Left - Nordic Green Left (GUE/NGL) – (41 seats).

Bulgaria currently holds 17 seats in the European parliament. After the recent European Parliamentary elections of 2019, GERB (EPP member) holds six seats, BSP (S&D) – holds five seats; the Movement for Rights and Freedoms (ALDE) – holds three seats; IMRO-BND (ERC) – holds two seats; and Democrats for Strong Bulgaria (EPP) – holds one seat.

Economic Relations with the EU

Full membership of the European Economic and Monetary Union and the adoption of the single currency are both required by the Accession Treaty and these have been set as objectives by the Government. The Treaty on the Functioning of the EU requires the Commission and the European Central Bank ("**ECB**") to report to the Council at least once every two years on the progress made by the Member States in fulfilling their obligations regarding the conditions of Euro area membership. In the 2018 Convergence Report, the Commission stated that Bulgaria fulfilled the price stability criterion, the convergence of long-term interest rate criterion and the criterion on public finances. Bulgaria did not fulfil the exchange rate criterion since

the Bulgarian Lev is not participating in the Exchange Rate Mechanism ("**ERM II**"). The Commission noted however that during the two year assessment period the Bulgarian Lev remained fully stable relative to the Euro, in line with the operation of the currency board. According to the 2018 Convergence Report, full legal compatibility had not been achieved, in particular the Bulgarian National Bank Act.

On 29 June 2018, the Bulgarian government officially expressed its readiness to participate in the Single Supervisory Mechanism by establishing close cooperation with the ECB and to join the ERM II. Following this commitment, the Council of Ministers approved an Action Plan (27 August 2018) containing measures in connection with Bulgaria's intentions to join the ERM II and the Banking Union. Those measures targeted strengthening the supervision framework in the banking and non-banking financial sectors; improving the macro-prudential supervision and the insolvency and Anti-Money Laundering Framework and improving the management of state-owned enterprises in line with good international practices.

The participation of the Bulgarian lev in the ERM II is conditional on Bulgaria's participation in the Single Supervisory Mechanism through entering into close cooperation with the ECB. Following Bulgaria's request to establish close cooperation, the ECB conducted a comprehensive assessment of six banks in Bulgaria which resulted in the identification of capital needs in two banks. Following this assessment, the two banks fulfilled the requirements of capital needs identified in the stress tests.

At the beginning of 2020, all commitments outlined in the Action Plan had been fulfilled. After the positive assessment of the implementation of these commitments by the European Central Bank and the European Commission and at the request of the Bulgarian authorities, on 10 July 2020 the finance ministers of the euro area Member States of the EU, the President of the ECB, and the finance ministers and central bank governors of Denmark and Bulgaria have decided, by mutual agreement, to include the Bulgarian lev in ERM II. It was accepted that Bulgaria will join the exchange rate mechanism with its existing currency board arrangement in place, as a unilateral commitment, thus placing no additional obligations on the ECB. The central rate of the Bulgarian lev is set at BGN 1.95583 for 1 EUR.

Furthermore, the agreement on participation of the Bulgarian lev in ERM II is accompanied by a firm commitment by the Bulgarian authorities to pursue sound economic policies with the aim of preserving economic and financial stability and achieving a high degree of sustainable economic convergence. The Bulgarian authorities have committed to implement specific policy measures on the non-banking financial sector, state-owned enterprises, the insolvency framework, and the anti-money laundering framework. Bulgaria will also continue implementing the extensive reforms carried out in the judiciary and in the fight against corruption and organized crime in Bulgaria, in light of their importance for the stability and the integrity of the financial system. The authorities, together with the responsible European Union bodies, will closely monitor macroeconomic policy developments and the implementation of these policy measures, in the appropriate frameworks.

As an EU Member State, Bulgaria is subject to multilateral surveillance by the European Council. Bulgaria is obliged to prepare an annual Convergence Programme covering fiscal policy, Bulgaria's main assumptions underlying its economic outlook and an assessment of economic policy measures and their budgetary impact. Bulgaria also sends annual updates of the National Reform Programme which is another element of European Semester surveillance. This information must cover the current and previous year and include forecasts for at least the next three years. In December 2011, the European Parliament and the Council adopted a package of six new legislative acts (the so called "**six-pack**"), which aim to strengthen economic governance in the EU. Part of the six-pack is the Macroeconomic Imbalance Procedure to detect and correct risky economic developments in EU Member States. In the 2020 in depth review ("**IDR**") published on 26 February 2020, the Commission stated that Bulgaria is no longer experiencing imbalances, for the first time since the Macroeconomic Imbalance Procedure was introduced. It acknowledged that positive macroeconomic developments and policy action towards reducing potential macro-financial risks stemming from the banking and non-banking sectors had resulted in a further unwinding of previous macroeconomic imbalances. The Commission recognised Bulgaria's progress and its efforts to further improve financial sector stability and the regulatory framework. Reforms in banking and non-banking supervision have continued, including the adoption and implementation of manuals and rules based on best practices. Existing gaps in the insolvency framework were identified and future steps were outlined. The authorities' firm commitment to complete these measures prior to Bulgaria's application to join the ERM II and their continuation on the path towards the euro area membership has provided further impetus for reforms in important economic areas. Positive effects from the new policies, their follow-up and possible improvement and fine-tuning are expected.

On 2 March 2012, Bulgaria signed the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union ("**TSCG**") aimed at strengthening fiscal discipline and introducing stricter surveillance, in particular by establishing a "balanced budget rule". Following the ratification of the treaty by the National Parliament in November 2013, Bulgaria has been obliged to apply Part III "*Fiscal Compact*" of the Treaty (effective from 1 January 2014). Bulgaria has already transposed all the fiscal rules envisaged in the six-pack, and further elaborated in the TSCG, into Bulgarian law.

The EU provided funds to Bulgaria through the pre-accession instruments the PHARE program, Cohesion Fund (Regulation 1164/94) ISPA and Special Accession Program for Agricultural and Rural Development (SAPARD). These instruments focused on improving the administrative capacity of Bulgaria's institutions, accelerating the development of the country's infrastructure, ensuring stable growth within the farming industry and promoting the economic and social development of rural areas. By way of these instruments Bulgaria received more than EUR 1.9 billion in funding.

Within Article 32 of the 2005 Accession Act, the Schengen Facility was created as a temporary instrument to help beneficiary EU Member States to finance actions at the new external borders of the EU, for the implementation of Schengen acquis and external border control between the date of accession and the end of 2010. The funds allocated to Bulgaria through Schengen Facility Instrument were fully utilised. Bulgaria is currently not facing pressure from migrant immigration. At present, police officers from the Gendarmerie Directorate and the National Police General Directorate are deployed to assist Border Police at the Bulgarian-Turkish border. Additional forces are not needed at this stage. Thorough checks are carried out at the entrance points to prevent unauthorized entry into Bulgaria. Security at the border with Greece has also been reinforced by border patrols and technical equipment.

During the First Programme Period ("**FPP**") 2007 – 2013, Bulgaria was also supported by the three non-structural EU funds for agriculture and fisheries – European Agricultural Fund for Rural Development ("**EAFRD**"), European Agricultural Guarantee Fund ("**EAGF**") and European Fisheries Funds ("**EFF**"). EAGF provided proceeds for direct payments and market support measures which represent first pillar of the Common Agricultural Policy ("**CAP**"). EAFRD financed the Operational Programme for Rural Development ("**RDP**"), which represents the second pillar of the CAP. EFF secured the Operational Programme (as defined below) for the Fisheries Sector Development ("**FSDP**"). Proceeds from the state budget (national co financing) were also allocated to complete the two Bulgarian Operational Programmes, RDP and FSDP.

The EU structural assistance for the period between 2007 and 2013 was rendered by the European Social Fund, the European Regional Development Fund and the Cohesion Fund and amounted to EUR 6.7 billion. The assistance was provided under Operational Programmes ("**OPs**") elaborated by EU Member States and approved by the Commission. The OPs were designed to improve working and living conditions in EU Member States in different economic sectors, including transport and environment protection infrastructure, investments in business, sustainable development, information society, energy efficiency, direct and indirect assistance to research and development and enhancement of public administration capacity. The overall absorption rate under these OPs reached 97 per cent. of the total budget allocated to Bulgaria.

For the 2014-2020 period, the total EU assistance allocated to Bulgaria under European Social Fund, the European Regional Development Fund, Cohesion Fund and the Fund for European Aid for the most deprived, amounts to EUR 7.5 billion, of which EUR 2.7 billion has been received by Bulgaria up to 31 December 2019. It was distributed between the following OPs: "Transport and Transport Infrastructure", "Environment", "Regions in Growth", "Innovations and Competitiveness", "Human Resources Development", "Science and Education for Intelligent Growth", "Good Governance", "Small and Medium Enterprises Initiative" and Operational programme for food and/or basic material assistance.

The total amount paid under measures of the Operational Programme for the Bulgarian Fisheries Sector for the period between 1 January 2015 and 31 December 2019 totalled EUR 56.49 million of which EUR 14.94 million was from national contributions and EUR 41.54 million was from EU contributions.

The EU legislation for the programming 2021-2027 period is currently under ordinary legislative procedure (ex-codification procedure) and is expected to be finalized in 2020. The indicative financial allocation from European Social Fund Plus (ESF+), European Regional Development Fund (ERDF) and Cohesion Fund

(CF) for the 2021-2027 period, and the distribution policy objectives and programmes have been approved and is expected to exceed the financial allocations to Bulgaria for the 2014-2020 period.

The following table sets out the current status of the OPs co-financed by the SCF as of 31 December 2019:

OPs	Programme Budget Total	Contracted		Payments	
		Total as of 31 December 2019	Implementation (%)	Total as of 31 December 2019	Implementation (%)
(EUR millions, except percentages)					
Transport and Transport					
Infrastructure.....	1,887.59	1,574.02	83.39	750.24	39.75
Environment.....	1,770.38	1,643.39	92.83	478.53	27.03
Regions in Growth	1,543.18	1,358.99	88.06	794.33	51.47
Innovations and Competitiveness	1,321.27	1,034.61	78.30	616.99	46.70
Human Resources.....	1,092.25	948.26	86.82	621.68	56.92
Science and Education for					
Intelligent Growth	650.05	571.75	87.96	256.08	39.39
Good Governance.....	334.15	206.18	61.70	92.49	27.68
Small and Medium Enterprises					
Initiative	102.00	102.00	100.00	102.00	100.00
OP for food and/or basic material assistance	123.31	122.57	99.40	97.11	78.75
Total:.....	8,824.18	7,561.76	85.69	3 809.45	43.17

Source: Ministry of Finance.

The Bulgarian contribution to the EU budget was EUR 5,715.96 million for the period between 1 January 2007 and 31 December 2019. The following table sets out the resources paid by Bulgaria to the EU Budget for the period between 2007-2019:

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2017	2019	Total 2007- 2019
<i>(EUR millions)</i>														
Traditional Own Resources	61	86	53	42	49	46	55	57	60	79	76	97	92	852
Customs Duties.....	61	86	52	42	49	45	54	56	59	79	76	97	92	848
Sugar Levies	-	0.4	0.4	0.4	0.4	0.6	0.4	0.4	0.4	0.4	0.4	-	-	4
Total National Contribution	244	282	329	300	349	368	423	432	424	360	378	457	519	4,864
VAT based resources	46	53	51	46	51	53	60	63	57	62	68	79	91	779
GNI based resource.....	177	201	250	237	277	292	336	341	334	255	280	345	392	3,717
UK rebate.....	21	29	25	15	18	20	24	28	33	33	27	29	31	332
Gross reduction in favour of the Netherlands, Sweden, Denmark and Austria.....	-	-	2	2	2	3	3	-	-	10	4	4	5	35
Total Traditional Own Resources and National Contribution.....	304	368	382	342	398	414	478	488	484	439	454	554	610	5,716

Source: Ministry of Finance.

North Atlantic Treaty Organisation

Bulgaria became a member of NATO on 29 March 2004 and has since then been an active member of the Alliance. Bulgaria contributes to NATO missions through crisis response and the development of the alliance's military capabilities. The Bulgarian armed forces are currently contributing 160 troops to the NATO led Resolute Support Mission (RSM) in Afghanistan. Bulgaria contributes to NATO permanent maritime groups with one military officer and participates in operations abroad with mobile communication modules by contributing 18 military personnel. In addition, Bulgaria has participated in the NATO maritime security operation "SEA GUARDIAN" from 19 October 2019 to 5 November 2019 with the frigate "Verni" in the Mediterranean Sea. Bulgaria also participates in the NATO non-combat training and advisory mission in Iraq (NMI) with two staff officers.

Bulgaria maintains its commitment to the security of Kosovo through its participation in KFOR with 30 military personnel and in Bosnia and Herzegovina through its participation in the EU led Operation ALTEA with 11 military personnel. The country participates with military observers in EU and UN missions and operations as follows: in Georgia (EU led) with five military observers and in EU operation Atalanta in

Somalia with one officer. Republic of Bulgaria contributes to the EU training mission in Mali (EUTM) with four medical personnel and participates in the EU military operation in the Mediterranean EU NAVFOR MED IRINI (previously EU NAVFOR MED operation SOPHIA) with one staff officer.

Bulgaria participates in South East Europe Brigade (SEEBRIG) with six personnel according to the international arrangements.

Bulgaria's defence expenditure, directly connected to its participation in NATO led missions and operations for the years 2015 – 2019, is shown below:

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total 2015-2019</u>
	<i>(EUR millions)</i>					
Total expenditure	10.74	4.97	5.22	7.08	9.61	37.62

Bulgaria highly values the role of NATO as an important international forum for dialogue and consultation. The country is an active participant in many initiatives and programmes of the Alliance, such as the NATO Russia Council, NATO Ukraine Commission, NATO Georgia Council, NATO's Mediterranean Dialogue and Istanbul Cooperation Initiative.

The Black Sea region is of strategic importance to NATO. NATO has a tailored forward presence (the "tFP") in the Black Sea region, with allies, including Bulgaria, contributing forces and capabilities on land, at sea and in the air. In the context of the tFP of the Alliance, Bulgaria's actions include the development of a Regional Maritime Coordination Function (RMCF) which is expected to result in the Regional Maritime Coordination Presence in the Black Sea Region. Bulgaria considers this project to be a high political priority and has made significant progress in preparing and equipping the necessary facilities at Varna Naval Base.

Black Sea Economic Cooperation ("BSEC")

Bulgaria was one of eleven countries to sign the Summit Declaration and the Bosphorus Statement in Istanbul on 25 June 1992 giving rise to the BSEC. The BSEC is a multilateral political and economic initiative which aims to foster interaction and harmony among its Member States and ensure peace, stability and prosperity by encouraging good relations with neighbouring countries in the Black Sea region.

Many countries, including nine EU Member States, the United States, Egypt and Tunisia have observer status. Among the organizations with observer status is the Commission and the Energy Charter.

Organisation for Security and Cooperation in Europe ("OSCE")

Bulgaria has been a participating state since 1975. In 2004 Bulgaria took over the OSCE chairmanship for one year after receiving unanimous approval in the 10th Meeting of the Ministerial Council in Porto, Portugal in 2003.

Double Taxation Agreements

To date, Bulgaria has concluded 70 bilateral agreements on the avoidance of double taxation covering 71 countries, including Austria, Belgium, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Russia, Spain, the United Kingdom and the United States.

Foreign Investment Treaties

The Republic of Bulgaria is a party to a total of 62 bilateral treaties for the mutual protection and encouragement of foreign investment ("BITs"), as well as party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. As an EU Member State, Bulgaria is a party to the investment protection agreements and investment protection chapters of the free trade agreements concluded by the EU. In 2019, with the EU Declarations of 15 January and 16 January on the legal consequences of the judgment of the Court of Justice in Achmea and on investment protection in the EU, EU Member States committed to terminate their intra-EU bilateral investment treaties in a coordinated manner by means of a plurilateral treaty, unless bilateral terminations were considered to be mutually more

expedient. On 5 May 2020, 23 Member States, including Bulgaria, signed an agreement for the termination of intra-EU bilateral investment treaties. The agreement is subject to ratification, approval or acceptance and will enter into force 30 calendar days after the date on which the Secretary-General of the Council of the EU receives the second instrument of ratification, approval or acceptance.

At the end of 2019, BITs with the following non-EU Member States remained in force: Albania (1994), Algeria (1998), Argentina (1993), Armenia (1995), Belarus (1996), China (1989), Cuba (1998), Egypt (1998), Northern Macedonia (1999), Georgia (1995), Iran (1998), Israel (1993), Jordan (2002), Kazakhstan (1999), Republic of Korea (2006), Kuwait (1997), Lebanon (1999), Libya (1999), Moldova (1996), Morocco (1996), Oman (2007), Russia (1993), San Marino (2007), Serbia (1996), Singapore (2003), Switzerland (1991), Syria (2000), Thailand (2003), Tunisia (2000), Turkey (1994), Ukraine (1994), USA (1992), Uzbekistan (1998), Vietnam (1996), Yemen (2002), Bahrain (2009), Qatar (2007), Mongolia (2000) and Pakistan (2002).

THE ECONOMY

Background

Since the introduction of the currency board in July 1997, Bulgaria has achieved sustainable economic growth resulting from macroeconomic stability and structural reforms. The annual growth for the period between 2000 and 2008 was 5.6 per cent. on average. The high rates of investment in fixed capital were among the main factors for the accelerated economic growth before the crisis. Household consumption was also strong due to extensive financial flows into the Bulgarian economy. For the 2010-2019 period, the economy grew on average by 2.3 per cent. per annum (with GDP growth reaching 3.4 per cent. in 2019).

Since Bulgaria's accession to the EU in 2007, reforms have been made for the improvement of the business environment. The country's macroeconomic stability, consistent economic and prudent fiscal policies, improvement of institutional environment and continuous cuts in taxes and social security contributions have been at the core of Bulgaria's strong economic performance, increased investment activity, higher employment and real income growth.

Currently, the Government is committed to completing key structural reforms, which have a growth enhancing impact in the medium and long-term. Efforts are directed towards strongly improving the competitiveness of the economy, increasing employment and improving the sustainability of public finances.

Recent Economic Developments for the first half of 2020

GDP

In the first quarter ended 31 March 2020, GDP in Bulgaria continued to increase and grew by 2.4 per cent. (seasonally adjusted). This growth was driven by consumption. and exports. In the second quarter ended 30 June 2020, Bulgaria's GDP was materially impacted by the COVID-19 pandemic, decreasing 8.2 per cent. as compared to the second quarter of 2019 (according to flash estimates, seasonally adjusted). The largest decline came from investments.

Balance of Payments, current account, foreign trade / exports and imports

According to Balance of Payments data, in the first six months ended 30 June 2020 ("**H1 2020**") Bulgaria's current account surplus increased by EUR 86.3 million compared to the first six months ended 30 June 2019 ("**H1 2019**") and amounted to 1.4 per cent. of GDP. The increase in the current account surplus was mainly driven by a shrinking trade deficit which reached -0.4 per cent. of GDP in the January-June 2020 period. The dynamics of the trade deficit were the result of a larger decrease on an annual basis of nominal import of goods (-11.9 per cent.) than that of nominal export of goods (-7.5 per cent.) and largely reflecting the impact of the COVID-19 pandemic.

Trade in services surplus in Bulgaria decreased on an annual basis in H1 2020 with export of services declining by 31.4 per cent. and import of services by 27.9 per cent. compared to H1 2019. This was mostly due to the introduction of COVID-19 pandemic-related containment measures, their effect on travel services and the net export position of Bulgaria with respect to these services.

The negative balance on the primary income in H1 2020 decreased by EUR 225.0 million compared to H1 2019, driven mainly by the lower payment of dividends to non-residents.

In H1 2020, the secondary income surplus in Bulgaria declined by EUR 376.8 million compared to H1 2019. This was due to a decline in other sectors' net inflows, which was partially offset by a marginal increase to General Government net inflows due to the lower national contribution to the EU budget as compared to the same period of 2019.

According to foreign trade data, which is only available through May 2020, Bulgarian trade flows¹ with the EU for the period January-May 2020 decreased on an annual basis by 9.2 per cent., while trade with

¹ Calculated as the sum of nominal exports from Bulgaria and nominal imports to Bulgaria.

countries outside the EU declined by 12.4 per cent. As a result, the share of nominal exports to the EU amounted to 67.8 per cent. of total exports in the first five months of 2020 (compared to 67.4 per cent. in the first five months of 2019), while imports from EU countries accounted for 52.3 per cent. of total imports to Bulgaria in H1 2020 (compared to 51.4 per cent. in the first five months of 2019).

In the first five months of 2020, nominal import of goods to Bulgaria decreased by 12.7 per cent. on an annual basis, while nominal export of goods declined by 8.1 per cent. All major product groups (consumer goods, raw materials, investment goods and energy commodities) contributed to the fall in the nominal export and import of goods on an annual basis. Energy commodities had the largest negative contribution to the change of both total export and total import of goods.

FDI

According to preliminary data, total FDI inflows in Bulgaria decreased by 32.8 per cent. to EUR 263.0 million in H1 2020 as compared to EUR 391.3 million in H1 2019. The highest inflows for the period were related to the financial and insurance activities and amounted to EUR 185.2 million.

Indebtedness, gross external debt, state debt

As of 30 June 2020, Bulgaria's gross external debt ("**GED**") increased slightly by EUR 32.5 million compared to 31 December 2019, reaching approximately EUR 34.1 billion. In terms of maturity, the share of long-term debt increased as of 30 June 2020, reaching 76.8 per cent. of total gross external debt compared to 75.3 per cent. of total gross external debt as of 31 December 2019.

In accordance with the Ministry of Finance's methodology, the State debt (excluding State guaranteed debt) for H1 2020 amounted to EUR 11,832.3 million (19.7 per cent. of GDP). Domestic State debt amounted to EUR 3,045.6 million (5.1 per cent. of GDP) and external State debt amounted to EUR 8,786.6 million (14.6 per cent. of GDP) as of 30 June 2020.

Employment

During the first quarter of 2020, when the Bulgarian economy was not yet affected by the measures introduced to limit the spread of COVID-19, employment in Bulgaria continued to increase by 1.3 per cent. from a year earlier. Respectively, the unemployment rate was 4.6 per cent. or 0.4 percentage points lower than in the same quarter of 2019. In the first three months of 2020, the labor market parameters showed the same trends that were observed in the last 5-6 years.

In the second quarter of 2020, developments in the labour market were strongly influenced by the impact of the COVID-19 pandemic and the measures undertaken to restrict its spread. Overall employment (LFS) decreased by 5.6 per cent. from a year earlier, largely driven by sectors suffering from the social distancing restrictions or disrupted foreign demand and supply chains. The average unemployment rate in the second quarter of 2020 amounted to 5.9 per cent. of the labour force, and was higher compared to the same quarter of 2019 (by 1.7 percentage points). The registered unemployment rate reached a peak in May 2020 of 9 per cent. A steady downward trend was registered due to the recovery of economic activity of enterprises and the measures taken to mitigate the socio-economic consequences of the COVID crisis which reached 7.9 per cent. in July 2020. The Employment Agency's data on registered unemployed persons showed that the unemployment level in Bulgaria has reached a peak in mid-May and since then it has started to decrease. However, at end-July the number of registered unemployed persons amounted to 258.5 thousand persons, up by 86 thousand persons from July 2019.

Wage growth

In the first quarter of 2020, the compensation per employee grew by 7.3 per cent. year-on-year, down by a marginal 0.1 percentage points as compared to the first quarter of 2019. The slowdown in compensation per employee was particularly noticeable in the industry sector while the compensation per employee in services followed an upward trend. While the overall compensation per employee figures continued to increase in the first quarter of 2020, detailed monthly data on employment and labour cost in H1 2020 have revealed the impact from the pandemic crisis on wages. In January and February 2020, the average wage continued to increase by double-digit rates. However, in the second quarter of 2020 the nominal growth of rate of the average wage slowed down from 9 per cent. in the first quarter to 6.1 per cent. year-on-year

which coincided with a significant decline in the number of employees. In real terms, the rate of change of the HICP-deflated indicator declined to 5 per cent. The labour cost optimization, which started in March due to the introduced restrictive measures, led to a significant wage bill slowdown and even decrease in the second quarter. This trend was most pronounced in March and April, followed by a partial recovery in May and June. The most affected activities were hotels and restaurants, culture, sports and entertainment, transport and construction, which were characterized by both a reduction in employees and wages. In H1 2020, the nominal growth rate of the average wage slowed to 7.6 per cent. on an annual basis compared to 12.1 per cent. in H1 2019. Following the slowdown in consumer prices, the real wage growth decelerated to 5.5 per cent.

Inflation

Due to the measures to contain the spread of the COVID-19 pandemic, the demand for oil was significantly limited on a global level, which led to a sharp correction of oil prices. These developments strongly influenced headline inflation in Bulgaria over H1 2020. The HICP inflation rate decelerated to 0.9 per cent. on an annual basis in June 2020 (following a monthly average of 3.3 per cent. for the January-February 2020 period). This was mainly driven by deflation in the energy products sector. Core inflation also slowed down, reflecting declines in the prices of non-energy industrial goods and services, whereas food price inflation remained relatively stable.

Tourism

During H1 2020, the total number of arrivals of visitors from abroad to Bulgaria, based on NSI data, was 2,007,598. This represented a decrease of 58.2 per cent. compared to H1 2019. The observed decline reflected the spread of COVID-19 pandemic and the introduction of containment measures in Bulgaria and abroad from March through June 2020. The largest decline in visitors during H1 2020 was registered in the visits related to holiday and recreation (-71.0 per cent. compared to H1 2019). The total number of holiday and recreation visitors for H1 2020 amounted to 601,817. Professional visits for H1 2020 amounted to 369,034 which represents a decline of 56.9 per cent. on an annual basis. The number of visits related to other purposes in H1 2020 (apart from holiday and professional) was 1,036,747 (a decrease of 44.8 per cent. compared to H1 2019).

In H1 2020, revenues from international visits to Bulgaria decreased by 60.2 per cent. compared to H1 2019. The decline in the revenues started after February and was related to the COVID-19 pandemic. In a similar manner, the expenditures of Bulgarian citizens travelling abroad decreased by 52.1 per cent. in H1 2020 compared to the same period of 2019, with the decline being concentrated in the period after February 2020.

Budget Balance

Budget balance under the consolidated fiscal program (cash basis) as of end of H1 2020

Based on the monthly cash reports for H1 2020, the total revenues under the consolidated fiscal program ("CFP") as of 30 June 2020 amounted to BGN 21,430.8 million, or 48.3 per cent. of the plan set with the amended budget for 2020. Compared to the same period of the previous year, total revenues decreased by BGN 855.1 million in nominal terms. During H1 2020, the tax and non-tax proceeds registered a decline of BGN 1,274.1 million (6.0 per cent.) compared to the same period of the previous year, while grant and donation proceeds (mostly consisting of EU programme and fund grants) grew by BGN 419.1 million, or 36.4 per cent. compared to H1 2019. Compared to the same period of the previous year there is slowdown in the revenues due to the negative impact of the COVID-19 pandemic on the proceeds of all major taxes. The tax revenues under the CFP for the half-year represents 48.9 per cent. of the updated annual plan set in the 2020 Amended Budget Law. Assuming the absence of a second wave of the COVID-19 infection and the subsequent need to resume stricter quarantine measures and restrictions by the end of the year, a gradual recovery in domestic consumption is expected, which can positively affect the proceeds from indirect taxes during the second half of the year. Under such assumption and on the basis of the current parameters of the budget execution, the tax proceeds under the national budget may be on track to meet the annual target set in the 2020 Amended Budget Law.

The total expenditures under the CFP (including the contribution of the Republic of Bulgaria to the EU budget) as of 30 June 2020, amounted to BGN 19,818.1 million, which accounted for 41.4 per cent. of the

annual plan. For comparison, the CFP expenditures as of 30 June 2019 amounted to BGN 19,062.5 million. The nominal increase compared to the same period in 2019 is mainly due to the higher amount of social payments (a baseline effect from the pension increase in July 2019 and the costs of the Unemployment Fund of the Social Security Fund, which are related to the negative effects of the crisis on the labor market and the employed), staff costs, among others.

The main focus the expenditure policies for the Law on the Measures and Actions in a State of Emergency, declared by a decision of the National Assembly of 13 March 2020, was support of employment and the main sectors of the economy significantly affected by the pandemic, as well as urgent healthcare measures and reinforcement of the staff and administrations on the frontline of the fight against the COVID-19 pandemic. This includes the most urgent expenditures related to securing protective equipment, disinfectants, medical products and resources, for the medical staff and hospitals, as well as additional resources for the police staff, social assistance and other administrations. The support for the labor market was mainly channelled through subsidized employment (so-called measure "60/40") as well as liquidity support throughout the financial instruments provided by Bulgarian Development Bank. For the most negatively affected sectors additional tax measures were approved, including extension of the deadlines for corporate income tax and some other taxes, as well as temporary reduction of the VAT rate for some sectors. All expenditure measures were provided within the approved expenditure limits for the year with the 2020 Amended Budget Law.

The budget balance under the CFP on a cash basis as of the end of H1 2020 was in surplus, amounting to BGN 1,612.7 million (1.4 per cent. of the projected GDP).

Monetary / credit developments

In H1 2020 broad money continued to grow at comparatively high rates (9.5 per cent. on an annual basis in June, as compared to 9.9 per cent. in December 2019). The main factors that determined these dynamics in the period after the introduction of the State of Emergency in Bulgaria on 13 March 2020 were most likely related to the formation of precautionary savings by firms and households in an environment of increased uncertainty and lack of a secure and low-risk alternative to bank deposits. Concurrently, the maintenance of funds by some economic agents in the form of cash likely supported the comparatively high growth of currency in circulation in the second quarter of the year. Starting from March 2020, a gradual slowdown in the annual growth of lending to non-financial corporations and households was observed, reaching 3.3 per cent. and 8.0 per cent., respectively as of 30 June 2020 as compared to 6.6 per cent. and 9.5 per cent., respectively as of 31 December 2019. The dynamics were affected by demand and on the supply factors. Deteriorating macroeconomic environment, declining domestic demand and heightened uncertainty limited the demand for credit. At the same time, the results from the quarterly Bank Lending Survey conducted by the BNB indicate that banks were tightening their credit policy in approving loan applications from companies and households.

Pension funds / non-banking financial sector

As of 31 March 2020, the Pension Insurance Companies managed pension funds' assets totalling a value of EUR 7,754 million. In the first quarter of 2020, the assets of the Supplementary Pension Funds decreased by 3.6 per cent. due to the impact of the COVID-19 pandemic.

The gross premiums written realized by Bulgarian insurers as at 31 March 2020 amounted to BGN 760 million (EUR 389 million), representing a growth of 1.6 per cent. on an annual basis. The gross premiums written of non-life insurers as at 31 March 2020 amounted to BGN 631 million (EUR 323 million), an increase of 4.2 per cent. as compared to as at 31 March 2019. The gross premiums written of life insurers decreased by 9.5 per cent., amounting to BGN 129 million (EUR 66 million) as at 31 March 2020 compared to BGN 142 million (EUR 73 million) as at 31 March 2019.

The premiums written from inward reinsurance by insurers and the reinsurer as at 31 March 2020 amounted to BGN 476 million (EUR 243 million) and increased by 4.0 per cent. on an annual basis.

The total assets of insurance and reinsurance undertakings at 31 March 2020, increased by 9.8 per cent. on an annual basis, amounting to BGN 9,521 million (EUR 4,868 million) as compared to BGN 8,670 million (EUR 4,433 million) as at 31 March 2019, of which BGN 4,581 million (EUR 2,342 million) were non-life

insurance undertakings, BGN 1,905 million (EUR 974 million) were life insurance undertakings and BGN 3,036 million (EUR 1,552 million) were the reinsurance undertaking.

Based on the most recent data, as of 31 March 2020 there were 60 Special Purpose Investment Companies ("SPIC") which were licensed and supervised by the FSC, nine of which are specialised in securitisation of receivables. Among the remaining 51 SPICs which are involved in real estate securitisations, seven are specialised in agrarian land. The decrease in the number of SPICs from 31 December 2019 was the result of the deletion from the FSC register of companies in bankruptcy and liquidation.

In response to the COVID-19 pandemic crisis, FSC extended the deadline for the submission of the financial report/notification of its financial condition for the first quarter of 2020 from 30 April to 30 September 2020. As of 1 June 2020, approximately 25 per cent. of the SPICs provided financial information for the first quarter of 2020. As a result, full data on the total amount of remaining SPICs' assets were not available to set out the performance of the non-banking financial sector as of 31 March 2020.

Most of the SPICs that presented their first quarter results, expect the COVID-19 pandemic to have a temporary negative impact on their revenues followed by the gradual improvement of the real estate prices and revenues.

The main stock exchange index SOFIX dropped in the first quarter of 2020 by 26.2 per cent. From 1 April 2020 until 1 June 2020, SOFIX increased by 10.4 per cent. As a result, from the 1 January 2020 till 1 June 2020 SOFIX decreased by 18.9 per cent.

Economic Developments and Trends

After a decline in GDP of 3.4 per cent. in 2009, economic recovery began in 2010. For the 2010-2014 period the annual economic growth was 1.1 per cent. on average. Since 2015, the Bulgarian economy has been expanding by more than 3 per cent. per year. with the biggest contribution coming from domestic demand. The unemployment rate has been decreasing since 2014, reaching 4.2 per cent. on average in 2019, the lowest level ever recorded. The wages both in the private and the public sector have been on upward trend in recent years. At the same time, inflation has been low, averaging 0.8 per cent. for the period from 2015 to 2019. In this environment the real disposable income of households has increased, which has supported the growth in private consumption. In addition, Government expenditures substantially contributed to the economic growth in 2018 and 2019. This was primarily due to an increase in employee compensation and higher public investments.

In the period from 2015 to 2019, the annual growth of export of goods and services averaged 4.9 per cent. The composition of Bulgaria's exports to the EU market improved with the rising share of capital intensive and skilled labour products, although such share is still considered low compared to other EU countries. The positive balance of goods and services led to strengthening of the current account balance, which posted a surplus of 2.4 per cent. of GDP on average for the five years ending 31 December 2019.

After a temporary deterioration in the budget deficit beyond the 3 per cent. deficit rule in 2014, due to one-off factors, the process of a fast fiscal consolidation began the following year with a budget deficit of 1.7 per cent. of GDP in 2015 (on an accrual basis). Over the course of the 2016-2018 period, the positive budget results evolved from 0.1 per cent. to 1.8 per cent. of GDP on an accrual basis. Due to a set of implemented measures for tax compliance enhancement, revenue growth intensified to double-digits and outpaced nominal GDP growth in 2017 and 2018. In 2019, the budget result on an accrual basis was positive as well (2.1 per cent. of GDP), reflecting the continuation of prudent and consistent fiscal policy. Government expenditure increases remained reasonable and in line with the Government's implemented policy of increasing incomes in priority public sectors. In the Amended 2020 Budget, the fiscal balance (on an accrual basis) is expected to worsen to a deficit of 3.1 per cent. of GDP in 2020 as a result of government measures in support of the real economy during the unprecedented crisis with the outbreak of the COVID-19 pandemic (see "*Public Finance – Fiscal Policy*"). Prior to the latest amendment of the state budget arising from the COVID-19 pandemic, the public budget was projected to remain balanced in 2020. The favourable budgetary position and the low government debt account for low risk for the fiscal sustainability of the country in the medium-term.

In 2020, COVID-19 and its ongoing outbreak has escalated into a global pandemic resulting in the implementation of stringent travel and transport restrictions, quarantines and extended shutdowns of certain

businesses globally, including in Bulgaria, in an attempt to contain the continued spread of the virus. Most major pandemic-affected economies expect a significant slowdown and potential recession this year, but all of these projections are accompanied by great uncertainty. In addition, it is unclear how long and to what extent social exclusion measures will continue to have a negative impact on domestic consumption. However, it is clear that the serious measures taken to combat the disease will have significant economic consequences, and that the economic recovery will not begin until the pandemic threat is effectively controlled.

The data for GDP and its components for the period 1995 – 2018 was revised in October 2019, as a result of benchmark revisions.² The GDP data for 2019 (and any components thereof) that is contained in this Offering Circular is based on preliminary data published by the NSI on 5 March 2020. The final GDP data for 2019 is expected to be published in October 2020.

The following table sets out certain macroeconomic data regarding the Bulgarian economy for the 2015-2019 period:

	2015	2016	2017	2018	2019**
<i>(EUR millions, except for percentages)</i>					
Nominal GDP	45,676	48,621	52,310	56,087	60,675
Real GDP (growth in per cent.)*	4.0	3.8	3.5	3.1	3.4
Real exports (growth in per cent.)*	6.4	8.6	5.8	1.7	1.9
Real imports (growth in per cent.)*	4.8	5.2	7.4	5.7	2.4
Unemployment (LFS***, per cent.)	9.1	7.6	6.2	5.2	4.2
Consumer prices (average growth in per cent.)	(1.1)	(1.3)	1.2	2.6	2.5
Domestic producer prices (average growth in per cent.)	(1.7)	(2.9)	4.2	4.1	3.8
General government surplus (deficit)	(783)	47	576	1,097	1,236
as a percentage of GDP	(1.7)	0.1	1.1	2.0	2.1
Total revenues	17,674	17,057	18,858	21,598	23,292
as a percentage of GDP	38.7	35.1	36.0	38.5	38.4
Total expenditures	18,458	17,010	18,282	20,501	22,029
as a percentage of GDP	40.4	35.0	34.9	36.6	36.3

Source: Eurostat, NSI, Ministry of Finance.

* Calculated with not seasonally adjusted data.

** 2019 GDP data is preliminary.

*** Labour Force Survey.

Gross Domestic Product

After contracting in 2009, The Bulgarian economy increased by 1.1 per cent. on average in the 2010-2014 period. In 2015, GDP growth reached 4.0 per cent. This is the highest growth figure recorded since 2008. The main contribution came from household consumption and public investments. In 2015, the disbursement of funds under EU programs for the 2007-2013 programming period ended. It was accompanied by a significant absorption of European funds and higher capital expenditures by the Government. This led to an increase in gross fixed capital formation in the economy by 2.7 per cent. At the same time, improved consumer confidence resulted in growth in private consumption of 3.8 per cent. The growth in exports of goods and services accelerated in 2015 as compared to 2014 and reached 6.4 per cent. Imports had a lower growth rate of 4.8 per cent., and as a result, net export posted a positive contribution to the economic growth for the year.

In 2016, exports growth accelerated further to 8.6 per cent. The export of services registered a substantial increase of 10.6 per cent. due to high export of tourism related activities, as a result of a strong tourist season. The contribution of net exports to the economic growth was again positive and GDP was up by 3.8 per cent. However, domestic demand weakened. The stable growth in household consumption continued, but investments decreased by 6.6 per cent. This was due to the base effect of the high increase in public

² This is a coordinated major European revision carried out at least once every five years to incorporate new data sources and major changes in international statistical methodology.

capital expenditures in 2015, as well as resulting from the fact that the majority of projects under the 2014-2020 EU programming period were in the initial phase.

The acceleration of EU GDP growth in 2017 led to a further increase in Bulgarian exports of goods by 8.3 per cent. in 2017. As the positive development of the domestic labour market continued and the consumer confidence improved, an increase in consumption also accelerated, leading to strong increase in imports growth of 7.4 per cent. As a result, the contribution of net export turned negative and was the main contributor of the GDP deceleration. GDP growth reached 3.5 per cent. as compared to a GDP growth rate of 3.8 per cent. in 2016.

In 2018, there was an economic growth of 3.1 per cent. as a result of the further strengthening of domestic demand while the negative net export contribution widened due to weak export growth. The strong growth in household incomes contributed to further increase in household consumption, in particular the consumption of durable goods. In addition, in 2018 gross fixed capital investments were up by 5.4 per cent. due to higher public capital expenditures related to projects funded under EU OPs and infrastructure projects. The external environment during 2018 was challenging due to a slowdown in global growth. In particular, there was a slowdown of growth in some of Bulgaria's key trading partners, including Turkey (Turkey's GDP increased by 2.8 per cent. compared with 7.5 per cent. in 2017). This resulted in a lower growth in exports of goods and services of just 1.7 per cent. in 2018 as compared to 5.8 per cent. in 2017.

The exports of goods showed signs of recovery in 2019 and the GDP growth for the year accelerated to 3.4 per cent. as compared to 3.1 per cent. in 2018. The low unemployment rate and further increase in household incomes stimulated the growth of household consumption which reached 5.8 per cent., the highest figure since 2007. Public consumption also contributed positively to the economic growth. The growth of gross fixed capital formation for the year reached 2.2 per cent. compared to 5.4 per cent. in 2018. The slowdown was due to lower growth of public investments.

The following table sets out the components of real GDP in the 2015-2019 period:

	2015	2016	2017	2018	2019 ⁽²⁾
<i>(EUR millions, using constant prices⁽¹⁾, except for percentages)</i>					
Total consumption expenditure	35,622	36,773	38,208	39,949	42,246
of which:					
Private.....	28,253	29,243	30,355	31,677	33,519
Government	7,369	7,530	7,853	8,272	8,728
Gross fixed capital formation.....	9,553	8,920	9,209	9,706	9,919
Export of goods and services.....	29,228	31,747	33,586	34,158	34,820
Less: Import of goods and services	28,792	30,286	32,541	34,396	35,228
Real GDP	45,676	47,417	49,080	50,593	52,299
Percentage change (per cent.).....	4.0	3.8	3.5	3.1	3.4

⁽¹⁾ Constant prices are chain linked with 2015 as the reference year. Includes structural changes in the economy which have occurred within the period under observation, however the sum of component data does not necessarily equal the value acquired in calculation of the aggregate. Therefore data for total real GDP presented in the above table may not be equal to the sum of the components presented in the table.

⁽²⁾ 2019 GDP data is preliminary.

Source: Eurostat.

The following table sets out nominal GDP and the annual percentage shares of nominal GDP by sector in the 2015-2019 period:

	2015		2016		2017		2018		2019 ⁽¹⁾	
	<i>EUR million</i>	<i>per cent. GDP</i>	<i>EUR million</i>	<i>per cent. GDP</i>	<i>EUR million</i>	<i>per cent. GDP</i>	<i>EUR million</i>	<i>per cent. GDP</i>	<i>EUR million</i>	<i>per cent. GDP</i>
Industry (except construction).....	9,091	19.9	10,130	20.8	10,830	20.7	10,507	18.7	11,150	18.4
Construction.....	1,727	3.8	1,642	3.4	1,862	3.6	2,032	3.6	2,383	3.9
Agriculture, forestry and fishing	1,838	4.0	1,957	4.0	2,111	4.0	1,891	3.4	1,938	3.2
Services.....	26,778	58.6	28,139	57.9	30,381	58.1	34,205	61.0	36,819	60.7
Taxes less subsidies on products	6,242	13.7	6,752	13.9	7,127	13.6	7,453	13.3	8,385	13.8
Nominal GDP	45,676	100	48,621	100	52,310	100	56,087	100	60,675	100
Nominal gross value added ("GVA")	39,434	86.3	41,869	86.1	45,183	86.4	48,634	86.7	52,290	86.2

⁽¹⁾ 2019 GDP data is preliminary.

Source: Eurostat.

The following table sets out real annual growth of GDP by sector in the 2015- 2019 period:

	2015	2016	2017	2018	2019 ⁽¹⁾
	<i>(real growth, percentage change on previous year)</i>				
Industry (except construction)	3.2	7.3	3.3	(1.5)	2.6
Construction	4.3	(7.3)	4.5	1.4	3.4
Agriculture, forestry and fishing	(7.9)	7.7	9.0	(2.0)	3.6
Services	4.4	2.7	4.1	5.8	3.0
GVA	3.5	3.5	4.2	3.5	3.0
Taxes less subsidies on products	7.5	5.6	(0.5)	0.6	6.1
Real GDP	4.0	3.8	3.5	3.1	3.4

⁽¹⁾ 2019 GDP data is preliminary.

Source: Eurostat.

Principal Sectors of the Economy

On the supply side, GVA, which is a measure of the total value of final products and services produced in a sector of an economy, increased by 3.5 per cent. on average in the 2015-2019 period. The main contributor to the growth was the services sector particularly in the areas of trade activities and information and communication activities. The share of information and communication activities in Bulgaria's GDP increased from 4.6 per cent. in 2015 to 5.8 per cent. in 2019. The industrial sector (excluding construction) also had positive contribution to the growth in GVA on average in the 2015-2019.

According to Ministry of Finance estimates, in 2020, the COVID-19 pandemic and the imposed lockdown will have a direct impact on service activities such as accommodation and food service activities and arts, entertainment and recreation, transport. These activities accounted for around 10 per cent. of the value added in Bulgaria in the period from 2015 to 2018. At the same time, the lower external demand will have an effect on the export-oriented manufacturing sectors such as manufacturing of base metals and fabricated metal products, manufacturing of machinery and equipment and manufacturing of electrical equipment. (See "*Risk Factors – Bulgaria's economy will be affected by the COVID-19 pandemic*".)

Services

The services sector is the biggest sector of the Bulgarian economy and, for the five-year period between 2015 and 2019, it represented on average 59.2 per cent. of nominal GDP and 60.7 per cent. in 2019. In 2015, GVA in services increased by 4.4 per cent., with biggest contribution from wholesale and retail trade activities, transportation and storage activities, and accommodation and food service activities. In 2016, the growth in the sector decelerated slightly due to lower growth of wholesale and retail trade activities, transportation and storage activities, and accommodation and food service activities and the highest positive contributions came from information and communication activities, and real estate activities. In 2017-2018 period, the growth of GVA in services gradually accelerated, supported by all sub-sectors of the services industry. In 2019, growth slowed to 3.0 per cent. as compared to 3.5 per cent. in 2018, and while all sub-sectors reported a growth of GVA, growth in some sub-sectors including trade activities, transportation and storage activities and accommodation and food service activities was lower than in 2018.

Industry

In 2019, the industrial sector (which includes mining and quarrying; manufacturing; electricity, gas, steam and air conditioning; water supply; and sewerage, waste management and remediation activities) accounted for 18.4 per cent. of nominal GDP as compared to 18.7 per cent. in 2018. At the same time, the construction industry's share of total nominal GDP increased to 3.9 per cent. in 2019 from 3.6 per cent. in 2018.

Industry (excluding construction)

In 2015, the growth of GVA in the industry (excluding construction) reached 3.2 per cent. It accelerated to 7.3 per cent. in 2016, primarily from the contributions from manufacturing of fabricated metal products and

the supply of electricity, gas, steam and air conditioning. The latter sub-sector reported a decline in 2017, which contributed to the overall deceleration in the value added growth to 3.3 per cent. in 2017. A deceleration in external demand and export orders in 2018 resulted in a decrease in the value added growth in the industry (excluding construction) sector by 1.5 per cent. In 2019, the recovery of production in specific export-oriented sectors led to an increase in the GVA in the industry sector of 2.6 per cent.

Construction

After a weak performance during the 2010-2014 period, the construction sector reported an increase in GVA of 4.3 per cent. in 2015. Civil engineering was a primary contributor to the GVA growth in 2015, as a result of the construction of roads and environmental and utility projects, co-financed under the EU OPs. Lower public capital expenditures in 2016 had affected the construction sector, decreasing its value added growth that year. In 2017, the building construction sub-sector supported the growth in the construction sector, as both the growth in building permits issued and the construction of new buildings accelerated as compared to 2016. In 2018, building construction continued to determine the dynamics of construction output, and the slower growth in the segment resulted in a slowdown in construction activity in the country. In 2019, the construction of new residential buildings accelerated and the GVA in the construction sector registered a stable increase of 3.4 per cent. as compared to 1.4 per cent. in 2018.

Agriculture

The agriculture sector has become increasingly more effective due to higher consolidation of farms. According to the 2016 census, the number of farms in the country has decreased, while farmers' utilised agricultural area has increased. In the 2015-2019 period, the performance of the agriculture sector has been volatile. GVA in the agriculture sector decreased by 1.4 per cent. in 2015, affected negatively by weather conditions in the country. The introduction of a new system for the application for subsidies by the farmers also limited the development of the sector in 2015. In 2016 and 2017, the agriculture sector recovered. In 2016, the increase in GVA was mostly attributable to lower intermediate consumption such as expenditures for fuel and maintenance. In 2017, the output of the agriculture sector increased by 9.0 per cent., due primarily to higher production of cereals and fruits. In 2018, a decrease in the production of industrial crops, in an environment of higher prices for goods and services consumed in the agriculture sector, led to decrease in the value added in the agriculture sector of 2.0 per cent. In 2019, the value added growth in the agriculture sector expanded by 3.6 per cent. due to decrease of the intermediate consumption such as expenditures for fuel and maintenance.

Energy Market

Liberalization of the electricity market

In line with the Commission's Third Liberalization Package, Bulgaria has taken steps towards the complete liberalization of the electricity market. Currently, the market consists of a segment with freely negotiated prices or the so called "free market" and a segment with regulated prices. As of 30 June 2020, 53 per cent. (16.4 TWh) of the market is liberalized and 47 per cent. (14.6 TWh) of the market is regulated. The total end consumption for 2019 was 30.6 TWh, of which 15.9 TWh were consumed on the liberalized market and 14.7 TWh were consumed on the regulated market, which makes the ratio between the liberalised and regulated segment approximately 52 to 48. End customers eligible to participate in the regulated market through deals with end suppliers are low voltage residential and non-residential customers. These customers have the right to change their electricity supplier and to enter into transactions at freely negotiated prices with standardized load profiles approved by the Energy and Water Regulatory Commission.

In line with the EC recommendation for the development of competitive wholesale and retail markets, by promoting competition in the country and applying market principles, Bulgaria plans to phase out regulated electricity prices by the end of 2025, while providing protection to vulnerable customers.

In 2016, the day-ahead exchange segment and the centralized market for bilateral contracts were launched. In April 2018, the Intraday exchange segment of the Independent Bulgarian Energy Exchange (the "**IBEX**") was also launched. The Bulgarian Electricity Exchange also implements the European policy for the integration of national markets and the creation of well-functioning regional markets, and subsequently a common European market. As a result of legal reforms since the beginning of 2018, all electricity produced for the free market is traded solely on IBEX's trading platforms.

Participation in the integration processes

The Bulgarian Electricity System Operator EAD ("**ESO EAD**"), together with all transmission system operators in Europe, in accordance with the requirements of EU Regulation 2015/1222, signed in May 2018 an agreement on the day-to-day coordination of the single market interconnection between Transmission System Operators ("**TSOs**") and Intraday Operation Agreements ("**IDOA**") and the TSO Cooperation Agreement (TCID), thus launching its participation, together with the IBEX, in the process of integrating the Bulgarian border with the Common European Market within the XBID Intraday Time horizon.

Bulgaria is part of the Local implementation project (LIP 15) regional project and since November 2019 the country has an operational, integrated intra-day market across the border between Bulgaria and Romania. The IBEX is a member of the Multi-Regional Coupling (MRC) Market Association and is prepared to launch a market integration project for the day ahead. Integration of the Bulgarian electricity market in the country with the electricity exchanges of neighbouring countries in order to fully integrate within the common European energy market will occur through the implementation of the following projects:

- Bulgaria-Romania -Day Forward Market. Bulgaria is a member of MRC and is technically prepared to launch a day-to-day market integration project expected to be completed by the end of 2020.
- Bulgaria - Romania Intraday Market. Bulgaria is part of the regional LIP 15 project and since November 2019 the country has an operational, integrated Intraday Market across the border between Bulgaria and Romania.
- Bulgaria - Greece Day-ahead Market. Market integration between Bulgaria and Greece will be possible after the launch of the day-ahead market on Greek territory, which is expected to be realized in 2021.
- Bulgaria - Greece Intraday Market. Bulgaria is part of the regional LIP 14 project which is expected to go live in 2021.
- Bulgaria - Republic of Northern Macedonia - A precondition for market integration is the creation of an electricity exchange and a day-ahead operating market in the Republic of Northern Macedonia, which is expected to be realized in 2022.
- XBID Internal Market Connection Project, Intraday Market Connection Project, of which EU Member States are the Exchange and Power Transmission Operators of the Member States. The aim of the XBID project is to create a single pan European cross zonal intraday market in Europe. The project partners consist of the European Nominated Electricity Market Operators (NEMOs), EPEX SPOT, GME, NordPool and OMIE and the North Western European and Baltic Transmission System Operators (TSOs).
- The aim of Single Day-ahead Coupling (SDAC) is to create a single pan-European, cross-zonal, day-ahead electricity market. Single intraday coupling (SIDC) creates a single EU cross-zonal, intraday electricity market. In simple terms, buyers and sellers of energy (market participants) are able to work together across Europe to trade electricity continuously on the day the energy is needed.
- Tripartite market association between Bulgaria - Serbia - Croatia. Launching and participating in a Day Tripartite Market Integration project in the market zones of the Republic of Bulgaria, the Republic of Serbia and the Republic of Croatia.

Natural gas market liberalization

The liberalization of the natural gas market plays an important role in the European energy policy and is linked to the strategic objectives of improving security of supply and diversification of natural gas sources and routes, as well as building an interconnected and single pan-European natural gas market. By extending natural gas interconnections and through the diversification of natural gas supply sources and the creation

of a natural gas distribution centre, real conditions will be created for the functioning of a natural gas trading exchange.

To implement the concept of the Balkan natural gas distribution centre, a natural gas trading exchange, operated by Balkan Gas Hub (a subsidiary of Bulgartransgaz EAD, see below), has been operating in Bulgaria since 9 December 2019, which in turn will create a competitive environment for natural gas traders and consumers. As of 2 January 2020, multilateral trading has started on an organised platform (a trading platform), including a short-term segment (intra-day and day-ahead market), a long-term segment (weekly, monthly, quarterly and calendar yearly products).

Bulgarian Energy Holding (BEH)

Bulgarian Energy Holding is a holding company unifying companies owned by the State in the energy sector. The ownership right of the State is exercised by the Minister of Energy.

The main activity of BEH EAD and its subsidiaries (the "**Group**") consists of generation, production of raw materials, transmission, storage, management, distribution, sale and/or buying of natural gas, electricity, heating energy, coal and other types of energy and industrial raw materials.

The Group owns a major producer of lignite coal company, three of the main electricity generation companies in Bulgaria, as well as the electric power transmission network, the natural gas transmission network and the natural gas transit network. The Group also owns the State companies that are the public suppliers of electricity and natural gas in Bulgaria, which are of strategic importance.

As at 31 December 2019, the share capital of the parent company BEH EAD was BGN 3,462,941,744 distributed in 3,462,941,744 shares with par value of BGN 1 each. The shares of the company are of one class ordinary, registered, voting shares.

The company has a one-tier management system and is managed by a three-member board of directors.

BEH EAD is structured as a financial holding company, within which the subsidiary companies, National Electricity Company (NEK) EAD, Electricity Transmission System Operator (ESO) EAD, NPP Kozloduy EAD, TPP Maritza East-2 EAD, Mini Maritza East EAD, Bulgartransgaz EAD, Bulgargaz EAD, are united in a holding structure. However, these subsidiaries maintain their operational independence, their individual licences issued and their subject of activities as licensed companies. The production and the commercial activity of the Group is wholly concentrated in its subsidiary companies in compliance with their individual licences issued.

National Electric Company EAD (NEK)

Bulgarian Energy Holding EAD ("**BEH EAD**") is the sole owner of the capital of NEK EAD. The scope of activity of NEK is:

- Electricity production;
- Centralized purchases and sales of electricity;
- Electricity supplying of consumers connected to the transmission network;
- Import and export of electricity;
- Construction and repair activities in the field of electricity production;
- Investment activity; and
- Energy efficiency implementation and promotion in the energy production.

The company has a crucial role in ensuring the electricity security of the Republic of Bulgaria. It is the largest electricity company in the country, as well as the largest producer of hydroelectricity. It fulfils the most complex functions of the energy market, combining public service provider commitments to buy energy and sell it on a regulated and free market and generating electricity from hydroelectric power plant

while maintaining the functions of a last-resort supplier. NEK provides a reliable reserve of primary, secondary and tertiary regulation of ESO EAD guaranteeing the safe and reliable operation of the electricity system. NEK owns and operates, through Enterprise HPP, 30 hydroelectric power plants ("HPPs") and pump-storage hydroelectric power plants ("PSHPPs") with a total installed capacity of 2,713 MW in turbine mode and 937 MW in pumping mode. Hydroelectric power plants play a major role in managing the power balance of the electricity system. The average annual production of electricity from HPPs and PSHPPs amounts to 3,300,000 MWh. NEK also operates the largest pumped hydroelectric energy storage power plant on the Balkan Peninsula and in South-eastern Europe – "Chaira" Pumped Storage Hydro Power Plant.

In recent years, the Bulgarian Parliament has adopted numerous amendments to the Energy Act aimed at the financial stabilization of the energy sector as well as liberalization of the electricity market.

The "Security of the Electricity System Fund" (the "SESF") was set up in 2015 to offset the costs of 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. Since 2018, the SESF has three main sources of revenue:

- the price for obligations to society, paid by local consumers of electricity;
- contributions of 5 per cent. of the monthly sales of all local producers of electricity, the electricity transmission system operator, the operators of gas transmission systems and the operators of gas storage facilities; and
- revenues from auctions of greenhouse gas emission allowances under EU Emissions Trading System.

The costs and revenues of the SESF are determined by the Energy and Water Regulatory Commission for each price period.

Introduction of a market-wide capacity mechanism is envisaged with the aim of securing the adequacy of the electricity system. All producers and demand supply response operators will be eligible to participate as capacity providers. The TSO is going to conduct capacity auctions, where all participants who meet the predefined technical characteristics are able to bid their offers. The capacity providers will receive a monthly premium for covering their fixed costs. Given the characteristics of the generation mix in Bulgaria, as well as the characteristics and dynamics of the market, it is expected that the main suppliers of this capacity mechanism will be thermal power plants. This will ensure the adequacy of the system and ensure the efficient use of local resources.

As a result of the actions taken by the Government and the National Assembly, NEK reported a significant improvement in the reported financial results of its activities. The total amount of reported revenues for 2019 was BGN 2.82 million, while the amount of reported expenses was 2.81 million, whereby the company reported a profit before tax (EBT) of BGN 1.6 million. After the introduction of the SESF in 2015, there is a significant and sustainable improvement of NEK's financial performance, as provided in the information in the table below.

Financial results of NEK	For the year ended 31 December						For the three months ended 31 March
	2014	2015	2016	2017	2018	2019	2020
	(Thousand BGN)						
Net Financial result	(586,509)	(89,185)	(128,710)	6,870	(73,794)	(1,260)	13,671

The reported net loss in 2018 is related to awarded payments due under an arbitral award.

Key Infrastructure Projects in the Energy/Natural Gas Markets

The diversification of sources and routes for the supply of energy resources is a main priority of the Republic of Bulgaria, which guarantees energy security as an element of national security of the country. In order to ensure its energy security, Bulgaria has implemented a number of key projects in the field of

natural gas, electricity and nuclear fuel, which are important not only for the country but for the whole region:

Rehabilitation, modernization and extension of the Bulgarian gas transmission system

The project is a complex, multi-component phase project for modernization, rehabilitation and extension of the existing gas transmission infrastructure in the territory of the Republic of Bulgaria. It will be implemented in three phases and includes the following types of activities: the modernization and rehabilitation of compressor stations; the repair and replacement of pipeline sections after inspections; extension and modernization of the existing network; inspections to identify and characterize the condition of the gas pipelines; and the implementation of systems to optimize the process of managing the technical state of the network. The project for the rehabilitation, modernization and extension of the Bulgarian gas transmission system is a PCI to the EU, in accordance with Regulation (EU) No 347/2013 on guidelines for trans-European energy infrastructure. It is also one of the seven priority gas projects under the CESEC. The expected deadline for commencing operations for the last phase of the project is 2022. The Bulgarian gas transmission system will provide transmission of Azerbaijani natural gas and gas from LNG sources via IGB to IBR and IBS, to Romania and the Republic of Serbia, and then to Hungary and Central Europe.

On 9 December 2019, the Bulgarian Gas Exchange started operating in Bulgaria through a segment for implementation of the Gas Release Program, regulated by the Energy Act. The operator of the stock exchange segment is Gas Hub Balkan EAD, a subsidiary of Bulgartransgaz EAD. As the first stage of the exchange, Gas Hub Balkan EAD provided the participants in the natural gas market in Bulgaria and the region with the opportunity to use a trading platform with software services for wholesale energy trading, built in accordance with the requirements of Art. 10 of Regulation (EU) No 312/2014 establishing a Network Code for Balancing the Transmission Networks. On 2 January 2020 multilateral trading was launched on the trading platform of Gas Hub Balkan EAD including a short segment (spot), a long-term segment and brokerage.

Balkan stream

The project for the expansion of the gas transmission infrastructure from the Bulgarian-Turkish border to the Bulgarian-Serbian border (the "**Balkan Stream Project**") is part of the Balkan gas hub concept. The main objective of this project is to strengthen the Republic of Bulgaria's role as a leading trade distribution centre in both the region and the EU as a whole.

In 2018, the Balkan Stream Project was included in the updated National Energy Strategy of Bulgaria. The aim of the project's implementation is to increase the security of natural gas supply from different sources, enhance competition and transparency on the natural gas market which in turn will have a positive effect on natural gas users. As a project key to the integration of the energy markets, the Balkan Stream Project will contribute to securing the natural gas supply to Bulgaria and the region, creating at the same time real conditions of diversifying the sources and routes and enabling the transmission of additional natural gas quantities to and through Bulgaria.

The first stage of the project, commissioned in 2019, included the construction of a gas transmission gas pipeline approximately 11 km long with a diameter of 1,220 mm as well as a gas metering station. The pipeline is located immediately next to Compressor Station Strandzha. In total, the gas transmission pipeline envisaged for construction will be approximately 474 km long, with DN 1,200 mm design diameter and 7.5 MPa maximum operating pressure. Together with the gas transmission pipeline, two optic cable lines (one main and one back-up) will be constructed, laid on both sides of the gas transmission pipeline reaching the Bulgarian-Serbian border. The gas pipeline route will cross through 34 municipalities and the territory of 11 regions in Bulgaria. Bulgartransgaz EAD established an easement for the construction of the project. For the overall implementation of the Balkan Stream Project, two compressor stations will be constructed. Compressor Station Rasovo and Compressor Station Nova Provadia, which will increase the pressure along the Balkan Stream route.

Bulgartransgaz EAD currently manages the stages of the Balkan Stream Project, including the "Pipeline Network", Compressor Station Rasovo and Compressor Station Nova Provadia.

In April 2019, Bulgartransgaz EAD selected Association Consortium Arkad to be the contractor for the public procurement and signed a contract with the company on 18 September 2019. Association

Consortium Arkad is an association of foreign companies, and the members are: Arkad-ABB SpA - Italy and Arkad Engineering and Construction Company, the Kingdom of Saudi Arabia. Following an open procedure under the PPA, the participant DZZD FERROSTAAL BALKANGAZ was selected as a contractor of the compressor stations, with whom a contract for design, supply and construction was concluded on 3 October 2019. The main supplier of the equipment is Solar Turbines - the United States. The Balkan Stream Project is currently underway in all 11 regions it crosses in line with the contractual terms.

Given that there is no form of state guarantee for securing the financing on the project, Bulgartransgaz endeavours to fund it in a way that will not affect its current financial or operating status.

Gas interconnector Greece-Bulgaria (IGB)

The Greece-Bulgaria interconnection project is part of the list of projects of common interest of the European Union (POI) under Regulation (EU) No 347/2013 on guidelines for trans-European energy infrastructure. It is also one of the seven priority gas projects under the Central and South-East Europe Gas Interconnection Initiative ("CESEC"). At EU level, IGB has received political and financial support, which is extremely important for its successful implementation. By Decision of the Commission C(2010)5813, amended by Decisions C(2012) 6405, C(2015) 3005 and C(2018) 6871 the project was granted EUR 45 million from the European Energy Programme for Recovery (EEPR) EUR 149 million was secured by the Bulgarian side, an additional grant of EUR 39 million was provided from the European structural and investment funds and EUR 110 million was provided from a sovereign guarantee. The total investment is estimated to amount to EUR 240 million. The EUR 149 million funds are secured entirely with the support of the Bulgarian government, as well as with the approval of the Commission.

On 10 October 2019, all key documents for the successful construction of the interconnector were signed in Sofia, namely: the intergovernmental agreement in support of the development of the project and the guarantee of the tax regime of the gas pipeline for a period of 25 years, a financing agreement between the EIB and BEH EAD for EUR 110 million and the respective loan agreement between the shareholder BEH EAD and the contractor IGB, as well as the contracts for construction and delivery of pipes and other important documents.

The direct effects of the project implementation are expected to result in achieving real diversification of natural gas supply sources for the Republic of Bulgaria and the region, providing an opportunity for natural gas supplies from the Southern Gas Corridor and from LNG sources, thus assisting in the conversion of the Republic of Bulgaria and its gas transmission system as a major part of the regional gas supply infrastructure from alternative sources for the Southeast and Central Europe region.

This project is expected to enable real diversification of natural gas sources for both Bulgaria and the region and it will contribute to the liberalization of the natural gas market.

The project is expected to be completed by the end of 2020.

Gas Interconnector Bulgaria-Serbia (IBS)

The gas interconnection Bulgaria-Serbia (IBS) is envisaged as a reverse gas connection that will connect the national gas networks of Bulgaria and Serbia. It is a project of common interest ("PCI") under Regulation (EU) No 347/2013 on the guidelines for trans-European energy infrastructure, as well as a project of common interest for the Energy Community (PECI) and one of the seven priority gas projects under CESEC initiative. The implementation of the project will achieve diversification of sources, interconnectivity and transmission of natural gas to Serbia, using the planned new entry points. At the same time, it will be used in emergency situations to supply natural gas from Serbia.

The expected date of commissioning is May 2022.

LNG terminal in Alexandroupolis (Greece)

Another project of regional importance is the construction of an LNG terminal in Alexandroupolis, Greece (the "**LNG terminal**").

Bulgaria expects synergy between the IGB project and the LNG terminal near Alexandroupolis. The LNG terminal will be strategically located close to the gas transmission network of the Greek national gas operator DESFA S.A. and is ranked by the Commission as a PCI, including in the third and fourth Commission lists. The Bulgarian side has consistently supported the inclusion of the project in its list of PCIs.

On 30 November 2018, the National Assembly approved the updated Energy Strategy of the Republic of Bulgaria, which included the LNG terminal project. Pursuant to a Decision of the Council of Ministers of 8 January 2020, Bulgartransgaz EAD became a shareholder with a 20 per cent. stake in the construction of the LNG terminal, and Bulgargaz EAD participated in the legally binding phase for the reservation of capacity. This is intended to ensure access to the LNG market for Bulgaria and the region and the supply of LNG by exporting companies from the USA, Qatar, Algeria, Nigeria and others.

Thus, the project is expected to contribute to both diversifying natural gas supply sources and liberalizing the Bulgarian energy market as well as fostering competition for the benefit of end-customers. Finally, the LNG terminal is intended to significantly contribute to the implementation of the concept of the Balkan gas hub, which is based on the various sources and supply routes, as well as the promotion of a transparent, liquid and reliable natural gas market in the country. A Final Investment Decision is expected by 30 November 2020.

The LNG terminal is expected to be commissioned in 2022.

Balkan Gas Distribution Centre

The Balkan Gas Distribution Centre, developed with the assistance of the Commission, envisages the construction of a gas distribution centre in the territory of Bulgaria, including the necessary gas transmission infrastructure and a natural gas trading exchange. The gas distribution centre will connect MS gas markets in the region, including the Republic of Bulgaria, Hellenic Republic, Romania, Hungary, Republic of Croatia, Republic of Slovenia and through them to the Central and Western European Member States and Energy Community countries - Republic of Serbia, Republic of North Macedonia, Bosnia and Herzegovina. The concept of building a gas distribution centre for South-East Europe in Bulgaria is based on the idea that at certain real physical points significant volumes of natural gas will be supplied for subsequent transportation, while at the same time a natural gas trading place will be organized at this point.

The Balkan Gas Distribution Centre is listed in the list of PCIs for the EU under Regulation (EU) No 347/2013, as a group of projects for the development and strengthening of gas infrastructure contributing to its implementation. This group includes the projects for Bulgaria's interconnectors with Greece and Serbia, as well as the project for the modernization and rehabilitation of the Bulgartransgaz EAD gas transmission system.

Extension of the capacity of Chiren underground gas field (UGS)

The project aims to extend the capacity of the Chiren underground gas field ("UGS") and achieve a gradual increase in the capacity of the only gas storage facility in Bulgaria, in order to achieve greater volumes of stored gas, increased pressures in the gas tank and larger average daily flow rates for extraction and injection. The project envisages an increase in the volume of working gas from the current capacity of 300 million cubic meters up to one billion cubic meters, and an increase in the flow rate of production and injection from the current rate of 4.2 million cubic meters per day to between 8-10 million cubic meters per day.

The Chiren UGS capacity enhancement project is a PCI to the EU under Regulation (EU) No 347/2013 on the guidelines for trans-European energy infrastructure. The commissioning period is expected to be in 2025.

South Stream Pipeline

South Stream Bulgaria AD was established as a joint venture between BEH and OAO Gazprom, of the Russian Federation, for the construction of the Bulgarian section of the "South Stream" pipeline project. The project was suspended in December 2014 and the stakeholders have undertaken activities for liquidation of the company in 2019.

Electricity sector security

Bulgaria anticipates introducing measures related to the development of energy infrastructure supporting the integration of the electricity grids. In line with the European recommendations, Bulgaria has set a target of at least 15 per cent. interconnection. This objective will be achieved through the implementation of PCIs. In order to meet the priorities related to European energy infrastructure, the Commission has included some cross-border infrastructure development projects in the Fourth European List of Projects of Common Interest (PCI) approved in October 2019: Priority North-South Electricity Corridor in Central, Eastern and Southern Europe ("**NSI East Electricity**").

The cluster Bulgaria-Greece and the necessary construction of infrastructure in the territory of Bulgaria include:

- 400 kV interconnector between Maritza East Substation and Nea Santa Substation (Greece);
- Internal 400 kV power line between Maritza East Substation and Plovdiv Substation;
- Internal 400 kV power line between Maritza East Substation and the Maritza East 3 TPP;
- Internal 400 kV power line between Maritza East Substation and Burgas Substation.

All the new power lines constructed will have a capacity of 1,280 MW.

The Bulgaria-Romania Capacity Increase Cluster (Black Sea Corridor) includes an internal 400 kV power line between Varna Substation and Burgas Substation.

The projects aim to ensure the security of electricity supply to the country and the development of a common electricity market in the region and in the EU.

In order to diversify its supply of nuclear fuel, pursuant to the European policy, and to reduce Bulgarian energy's dependence on a single supplier, Bulgaria established a diversification procedure for of the supply of nuclear fuel to Kozloduy EAD, while respecting the highest level of nuclear safety. In pursuing a diversification policy, Bulgaria will place significant importance on the potential financial and economic benefits of the policy.

Kozloduy NPP is the only nuclear power plant in Bulgaria and the main electricity generating plant providing more than one third of the total annual electricity output of the country. This demonstrates the significant position of Kozloduy NPP, providing economic sustainability both nationally and regionally. The construction and commissioning of the Bulgarian nuclear power plant was implemented in three stages between 1970-1991.

In view of the importance of the plant and its role in ensuring the energy system of the country, a project for the modernization of Units 5 and 6 was initiated in 2012 to extend their service life by 30 years. Following the completion of the modernization activities and the thorough inspection by the Nuclear Regulatory Agency (NRA) in 2017, the licence for the operation of Unit 5 was renewed, and in 2019 the licence for the operation of Unit 6 was renewed for the statutory period of 10 years. The implementation of these large-scale projects to extend the life of the nuclear facilities was financed entirely with the company's own funds, which are generated from the realisation on the market of the produced energy.

Kozloduy NPP implements the policy for diversification of the fresh nuclear fuel upon strict observation of the Bulgarian and the European legislation and coordinates all its activities with the European Supply Agency.

Kozloduy NPP has developed a diversification program which is coordinated with EURATOM (Supply Agency ESA). The Kozloduy NPP diversification program is currently being implemented on schedule with the first stage already under implementation. On 20 February 2019, a contract for elaboration of a study for the possibilities of licensing and implementation of nuclear fuel from alternative producers of cassettes for nuclear reactors VVER-1000 was signed. The project for the development of the feasibility study is expected to be completed in October 2020.

Exploring the possibilities for Belene NPP construction together with a strategic investor on a market principle were resumed by Decision of the National Assembly of the Republic of Bulgaria of 07 June 2018 and Decision 447 of 29 June 2018 of the Council of Ministers. To implement the aforementioned decisions a call for selection of a strategic investor was developed. With the aim of maximal publicity and transparency, the procedure for the selection of a strategic investor for construction of Belene NPP was organized and will be conducted in several stages. Thirteen companies submitted applications within the deadline, by which they officially expressed intention to participate in the construction of the project. Following an examination of the submitted applications, a short list of five approved companies was drawn up. All five selected companies have confirmed their intention for the submission of binding offers and further participation in the selection process for the strategic investor for the implementation of Belene NPP.

In view of the constraints arising from the COVID-19 pandemic, the pre-announced indicative deadlines for the remaining stages of the process will be updated.

The companies were informed that the deadline for the preparation of a binding offer will start from the date on which physical access to the "Information Hall" of the project is granted. This is necessary in view of the fact that due to the confidentiality of the information, access to the "Information Hall" cannot be remote.

Legislative changes are currently expected to be adopted in connection with the COVID-19 pandemic, which will regulate the subsequent opportunities and conditions for residency of foreign nationals in the Republic of Bulgaria, and establish a schedule for the access of the companies from the short list to The "Information Hall" in strict compliance with the sanitary and hygienic requirements.

Security of energy supply through the use of renewable sources

The Republic of Bulgaria is pursuing a consistent policy for increasing the use of energy from renewable sources, with the aim of reducing greenhouse gas emissions, diversifying energy supplies and reducing the dependence on energy imports in the country.

In 2017 and 2018, the Republic of Bulgaria achieved a share of energy from renewable sources, equal to 18.7 per cent. and to 20.5 per cent., respectively, of the gross final energy consumption in the country. The figures show that the intermediate targets of the National Renewable Energy Action Plan for the indicated years were exceeded by 5 per cent. and 6.8 per cent., respectively, and that the national mandatory target for 2020 was 16 per cent. higher than the share of renewable energy in gross final consumption of energy.

The achievement of the 2018 target by sector were as follows:

- RES electricity sector - 22.15 per cent. share of RES electricity in the gross final consumption of electricity;
- Heat and cooling sector - 33.19 per cent. share of thermal energy in the gross final heat consumption;
- Transport sector - 8.06 per cent. share of energy from RES in the final energy consumption in transport.

In relation with the goals set in the National Integrated Energy-Climate Plan by 2030 with a horizon of 2050 and to ensure Bulgaria's contribution to the achievement of the common European energy goals, Bulgaria set a target of 27.09 per cent. share of energy from renewable sources in the gross final energy consumption by 2030.

Case AT.39849 BEH Gas

On 5 July 2013, the Commission commenced proceedings against BEH EAD and its subsidiaries Bulgargaz EAD and Bulgartransgaz EAD for abusing their dominant market position on the natural gas market in Bulgaria, in breach of Article 102 of the Treaty on the Functioning of the European Union (TFEU). In 2015 the EC sent a Statement of Objections to BEH and subsidiaries on suspected abuse of dominance.

On 17 December 2018, the Commission issued a Decision in compliance with Art.7 of Regulation 1/2003 imposing a fine of EUR 77,068,000 on the BEH Group, BEH, its gas supply subsidiary Bulgargaz and its gas infrastructure subsidiary Bulgartransgaz for blocking competitors' access to key gas infrastructure markets and gas supply markets in Bulgaria in breach of EU antitrust rules.

BEH EAD and its subsidiaries do not accept the Commission's findings that they have abused their dominant position on the Bulgarian gas market. BEH Group insists that access to the Bulgarian transmission network and gas storage has always been carried out in accordance with applicable Bulgarian laws as well as European regulations. Moreover, the provision of access to the Romanian transit pipeline has never been under the control of either BEH EAD or any of its subsidiaries. In addition, the companies consider that the amount of the fine is disproportionate.

On 1 March 2019, the BEH Group filed an appeal against the Commission's decision in EU General Court. The appeal challenges both the Commission's allegations and the amount of the fine set out in the Commission's decision. The case proceedings are ongoing, and a hearing of the parties may be expected in 2021.

Procedures for revocation of the licences of electricity supply companies

The operation of low and medium voltage grids and the supply of electricity in Bulgaria are carried out by Bulgarian subsidiaries of EVN AG, Energo-Pro a.s. and CEZ a.s. The electricity grid companies (EVN Bulgaria Electrorazpredelenie EAD, currently, Elektrorazpredelenie Yug EAD, Energo-Pro Grid AD, currently Electrodistribution North AD and CEZ Razpredenie Bulgaria AD) own and operate the low and medium voltage electricity grids in different regions of Bulgaria, whereas the electricity supply companies (EVN Bulgaria Electrosnabdavane EAD, Energo-Pro Sales AD and CEZ Electro Bulgaria AD) sell electricity to end consumers in the same regions. Each company has a separate licence for the distribution of electricity or the sale of electricity, respectively.

In 2014, the Energy and Water Regulatory Commission initiated procedures for revocation of the licenses of all three electricity supply companies. The Commission considered that the three companies failed to observe the regulatory regime as stated in the law and in the relevant regulatory decisions of the Commission. The electricity supply companies disputed this view. The Commission terminated all three procedures in 2017 and 2018.

Labour Market

The labour market developments during the 2015-2019 period broadly followed Bulgaria's economic cycle. Since 2015, the real GDP growth has been between 3 per cent. and 4 per cent. per annum and was accompanied by an increased demand of labour. In 2019, historically highest record of working-age participation rate of 73.2 per cent. and lowest record of unemployment rate of 4.2 per cent. (based on the 2019 LFS) were reached. These positive developments also reflected the improvement in the structural characteristics of employment and unemployment.

The table below sets out the primary indicators and developments in the labour market for the five-year period 2015-2019.

	2015	2016	2017	2018	2019
Employment (ESA ⁽¹⁾ , thousands)	3,446.2	3,463.3	3,525.4	3,521.6	3,533.6
Employment (ESA ⁽¹⁾ , per cent. year on year)	0.4	0.5	1.8	(0.1)	0.3
Unemployment (LFS ⁽²⁾ , thousands)	305.1	247.2	206.9	173.3	142.8
Unemployment (LFS ⁽²⁾ , per cent.)	9.1	7.6	6.2	5.2	4.2
Unemployment (Employment agency, thousands)	330.8	284.7	236.8	203.0	185.3
Unemployment (Employment agency, per cent.)	10.1	8.7	7.2	6.2	5.6
Participation rate (Ages 15–64, per cent., LFS ⁽²⁾)	69.3	68.7	71.3	71.5	73.2
Employment rate (Ages 15–64, per cent., LFS ⁽²⁾)	62.9	63.4	66.9	67.7	70.1

⁽¹⁾ European System of Accounts 2010

⁽²⁾ Labour Force Survey, NSI

Source: NSI. Employment agency.

For the 2015-2019 period, the annual average employment growth amounted to 0.6 per cent. under the European System of Accounts 2010 ("ESA 2010"). The pace of increase among the years was relatively steady, except for 2018 when an annual growth of 1.8 per cent. was reported largely due to an increase in the agriculture sector. The agricultural sector showed strong volatility in GVA and employment dynamics in the period under consideration both in the positive and negative range. Given its high share in Bulgaria's overall employment population (employing approximately 18.1 per cent. on average, which is the second highest in the EU), it has a strong influence on the country's employment developments. The agriculture sector's employment however follows a downward trend due to the restructuring in the labour force from small agricultural farms dependent mainly on family work force to bigger farms which hire employees. The agriculture sector is the only sector that reported an annual average decrease in the number of employed (at the rate of 2.1 per cent.) in the 2015-2019 period.

The strongest growth in employment for the 2015-2019 period was registered in the services sector, in particular in the information and communication activities. The number of employed persons working in the information and communication activities sub-sector grew by 6.4 per cent. on average per annum. Thus, the information and communication activities sub-sector, where employment showed the highest growth among all the services sub-sectors in the period under consideration, contributed to the overall employment growth at nearly the same level as other sectors, such as trade and repair of motor vehicles and motorcycle; transportation and storage; accommodation and food service activities and manufacturing industry, whose relative shares in the total employment are traditionally much higher. In 2019, the number of employed in the manufacturing sub-sector of the industry decreased by 0.8 per cent. as compared to the number of employed in 2018, although some export-oriented industries regained their economic activity in 2019.

Employment¹ and real GVA growth for the period 2015-2019, (%)



Source: NSI (National accounts data)

¹ Annual average employment growth for the period 2015-2019

Construction started to recover from the global financial and economic crisis later compared to other industries, but in the 2015 -2019 period the sector reported a relatively strong employment growth of 2 per cent. on average per annum. This was mainly due to the positive dynamics of between 5 per cent. and 6 per cent. in 2018 and 2019, while the pace of growth during the 2015-2017 period remained subdued. In the beginning of the 2015-2019 period, the employment dynamics were positively influenced by the civil

engineering sub-sector as a result of accelerated EU funds absorption in the end of the 2007-2013 programming period, while since 2017, there has been a recovery of the economic activity in the building construction sub-sector.

As a result of the high labour demand, the unemployment rate decreased quickly in the 2015-2019 period. This downward trend in unemployment was also impacted by a decrease in the labour force due to the level of Bulgaria's ageing working population and the reduced inflows in the younger age groups into the workforce. The participation rate of the working-age population was 69.3 per cent. in 2015 and after a temporary decrease to 68.7 per cent. in 2016 followed a steady upward trend in following years to reach a recent historical high of 73.2 per cent. in 2019. This was the result of the high demand of labour, job creation and rising incomes, also in addition to the targeted government policy in support of the vulnerable groups, including youths, older workers and the long-term unemployed.

In 2015, the youth unemployment rate was 21.6 per cent., still above the EU 28 average of 20.4 per cent. However, following a rapid decline, the youth unemployment rate has been lower than the EU levels since 2016. In 2019, the youth unemployment rate reached 8.9 per cent., which was over two times less than the post-crisis peak in 2013 of 28.4 per cent., and almost 4 percentage points below its value from the period before the global financial and economic crisis. In 2019, unemployment reached a low of 4.2 per cent. since 2000, when the country was added to the European Labour Force Survey.

During the 2015-2019 period there were employment opportunities available in all economic sectors, which contributed to the decrease in unemployment across all levels of qualification. The biggest decline in unemployment reported were in the demographic of workers with lower secondary or lower education. The unemployment rate of workers with the lowest educational levels reached 13.1 per cent. in 2019 as compared to 25.1 per cent. in 2015. This unemployment rate nearly equalled the EU 28 average value. These declines were the result of the Government's focused efforts to strengthen implemented active labour market policies on training and to increase the employability of certain worker demographics through supporting employment in the primary labour market.

The long-term unemployment rate, which accounts for individuals with periods of unemployment over 12 months, also improved considerably during the 2015-2019 period. The rate went down from 5.6 per cent. in 2015 to 2.4 per cent. in 2019. Since 2017, the rate has remained close to the EU average. However, in the 2015-2019 period the ratio of long-term unemployed to overall unemployed generally followed a downward trend every year except for 2018. In 2015, the ratio of long-term unemployment to overall unemployed was 61.2 per cent, decreasing to 55 per cent. in 2017 and temporarily increasing to 58.4 per cent. in 2018. In 2019, the ratio of long-term unemployed to overall unemployed was 56.6 per cent., more than 16 percentage points higher than the EU average as compared to 2015 when the ratio was 13 percentage points higher than the EU average. The high share of long-term unemployed remains among the main challenges for the Bulgarian labour market, when also taking into account the low levels of the available labour resource of unemployed and people out of the labour force (discouraged) who could quickly meet the demand of labour, as well as the considerable increase in the share of employers who reported labour shortages as among the main obstacles for their economic activity (according to the NSI's business surveys). These challenges put restraints on economic growth, however the Government has taken decisive actions to address them. On the back of skills assessment and anticipation exercises in the short, medium and long-term training has been provided to improve the employability of the work force and educational programmes have been adapted to meet the expectations for the labour demand of employers.

The Government's active labour market policies have been designed to tackle the most urgent priorities of the economy's needs. The policies focus on the field of skills and regional labour markets where there are disparities, in an effort to address long-term unemployment, increase youth and older workers active participation in the workforce, as well as integrate disabled and other vulnerable groups into the workforce. In practice, these priorities have been implemented with the provision of an individual approach to raise the employability and to provide subsidized employment to persons from the identified key target groups. The training and employment incentives interventions cover a larger share of the Government's active labour market policies' total expenditures. During the 2015-2019 period, these policies covered approximately 55 per cent. of expenditures and 45 per cent. of the expenditures were aimed at direct job creation intervention. In terms of the employment incentives, entrepreneurs and employers have been most willing to support the employment of youths and of older workers. Direct job creation intervention measures include initiatives oriented predominantly towards the long-term unemployed, disabled, and regional programmes for employment.

The spread of COVID-19 and the related preventative health policies enacted by the Government are expected to negatively influence the business activity in multiple economic sectors. See *"Risk factors: Bulgaria's economy will be affected by the COVID-19 pandemic"* The latest daily figures on registered unemployment since 13 March 2020, when the Lockdown was introduced, suggest that the positive trends in the labour market have strongly reversed from the favourable developments in the 2015-2019 period when the ratio decreased from 10.1 per cent. in 2015 to 5.6 per cent. in 2019. According to the Employment Agency statistics, from 13 March to 31 May 2020, an additional 97,000 individuals registered as new unemployed due to the Lockdown as compared to the same period of 2019. This increase could be considered a consequence of the COVID-19 pandemic, with the largest level of registered unemployment reported in the services sector including accommodation and food service activities, trade, transport, as well as some manufacturing industries, as these sectors are among the economic activities most affected by the social distancing measures and the reduced demand for certain production.

To address these developments, the Government has set aside specific measures amounting to BGN 1,000,000,000 to encourage the Bulgarian employers affected by the economic environment to preserve the jobs of their employees during and after the COVID-19 State of Emergency period. The main support envisages that employers who suffer from a reduction in revenue at least 20 per cent. or employers that have been forced to introduce part-time employment could benefit from subsidies to cover 60 per cent. of the wages and social security and health insurance contributions of their workers for a period of up to three months. The support is to be paid by the Unemployment Fund (administered by National Social Security Institute) on a monthly basis. For their part, employers are expected to cover the remaining 40 per cent. of the employees' wage and social security contribution costs and to retain the employment of their employees and workers after the subsidized period for a period of at least equal length to the period of support. According to statistics of the National Social Security Institute, at least 172 thousand people were covered by the measure as of 30 June 2020.

Wages

The rising demand of labour was accompanied by an increase in Bulgaria's real labour productivity by an annual average rate of 3.0 per cent. over the 2015-2019 period. Real productivity growth decelerated to 1.7 per cent. in 2017 due to lower contribution coming from the agriculture sector, the forestry and fishing sector and the industry (excluding construction) sector. Nevertheless, the reported slowdown in 2017 did not restrict further economic expansion as the importance of certain activities with relatively higher productivity had increased. The robust productivity performance witnessed in manufacturing and high valued added business services (such as information and communication activities, financial and insurance activities and real estate activities) accounted for about two-thirds of the overall productivity dynamics in the 2015-2019 period.

Sustained productivity growth supported increased compensation per employee as well. Compensation per employee grew by a nominal 7.5 per cent. per annum over the period. The more sizable increases in employee compensation were reported in 2017 and 2018. In line with the upward economic activity in industry and services sectors, the compensation per employee grew by a nominal 6.1 per cent. in 2019. As a result, the nominal unit labour costs ("NULC") rose by 4.5 per cent. per annum in the 2015-2019 period. The observed labour cost developments did not hamper the country's competitive positions, given the rising exports market shares and the quality improvement in the exports structure. While Bulgaria has relatively higher wage growth compared to the EU 28 average, it still has a comparative advantage in terms of its lower labour share. In addition, the upward trend in compensation per employee was also driven by the increasing employment in the high-skilled labour segment. It also reflected the effect coming from increases in social security contributions in 2017 and 2018.

The following table sets out real labour productivity and NULC growth in the 2015-2019 period:

	2015	2016	2017	2018	2019
Real labour productivity growth (percentage change year-on-year).....	3.9	3.3	1.7	3.2	3.0
NULC growth (percentage change year-on-year)	1.9	2.4	8.7	6.3	3.0

Source: NSI, Ministry of Finance.

In the 2015- 2019 period the country's average wage grew by a nominal 9.2 per cent. per annum, while the growth of real wages, deflated by the Harmonised Indices of Consumer Prices ("**HICP**"), reached 8.3 per cent. per annum, supporting the purchasing power of households' incomes. These figures were largely influenced by the public sector wages in line with the Government's policy on broad wage increases in the fields of education, defence and public administration, in force since the end of 2017. Aimed at supporting the lowest-income groups in the labour market, the Government also raised the average monthly minimum wage from EUR 189 in 2015 to EUR 286 in 2019, and as of January 2020 to EUR 312. In the 2015-2019 period, the minimum wage went up by a nominal 10.5 per cent. per annum, while the minimum to average ratio remained relatively stable, reaching 44 per cent. in 2019.

The following table sets out average monthly wage, nominal and real annual wage growth in the public and private sectors for the five-year period between 2015 and 2019:

	2015	2016	2017	2018	2019
Average monthly wage (EUR)					
Total economy.....	448.9	484.8	530.4	586.1	651.2
Public sector.....	473.3	501.6	544.9	591.6	662.4
Private Sector.....	441.2	479.6	525.9	584.4	647.6
Nominal wage growth (percentage change year-on-year)					
Total economy.....	6.8	8.0	9.4	10.5	11.1
Public sector.....	4.3	6.0	8.6	8.6	12.0
Private Sector.....	7.8	8.7	9.7	11.1	10.8
Real wage growth (percentage change year-on-year)					
Total economy.....	8.0	9.5	8.1	7.7	8.4
Public sector.....	5.4	7.4	7.4	5.8	9.3
Private Sector.....	9.0	10.2	8.4	8.3	8.2

Source: NSI. Ministry of Finance.

Following the reduction in economic activity in 2020 due to the COVID-19 pandemic, employers are expected to reduce their labour costs. These labour cost adjustments will be carried out not only through employment reduction but also through the use of other tools, such as unpaid leave, part-time work and wage reduction, among others. See "*Risk factors – Bulgaria's economy will be affected by the COVID-19 pandemic*".

Inflation

Given the high degree of trade openness of the Bulgarian economy (measured by the ratio of foreign trade to GDP) and the fixed exchange rate of the Lev to the Euro, consumer price dynamics in Bulgaria are largely driven by external factors. In particular, consumer price dynamics are affected by changes in energy and food prices on the international markets, and by movements in the exchange rate of the EUR against the USD.

The following table sets out the rate of annual inflation for the 2015-2019 period:

	2015	2016	2017	2018	2019
<i>(percentage change year on year, end of period)</i>					
All items HICP.....	(0.9)	(0.5)	1.8	2.3	3.1
Food and non-alcoholic Beverages.....	0.8	1.3	3.1	2.4	6.5
Alcoholic beverages, tobacco.....	0.8	1.9	1.4	3.5	2.2
Non energy industrial goods.....	(1.3)	(1.6)	(0.8)	(0.5)	0.6
Energy.....	(7.4)	(0.8)	6.4	2.4	3.7
Services.....	0.5	(1.2)	1.5	4.4	2.8
Core inflation ⁽¹⁾	(0.3)	(1.4)	0.5	2.1	1.8

⁽¹⁾ Overall index excluding energy, food, alcohol and tobacco.

Source: Eurostat.

In the aftermath of the global financial and economic crisis, annual HICP inflation declined substantially following the dynamics of international prices and a pronounced downward trend of core inflation (overall index excluding energy, food, alcohol and tobacco) until the end of 2016. The downward trend of core

components reflected the low levels of inflation for services during this period driven by subdued consumer demand and persistent declines in non-energy industrial goods prices. Disinflationary effects from international food prices, reductions in some administered prices³ as well as declines in the index of services prices in two years were the main drivers of an overall deflation in the period 2013-2016. In this period, consumer prices also reflected the decline in international oil prices which had a negative effect, both directly and indirectly (through lowering production costs for firms), on domestic prices.

The decline in the overall HICP excluding energy, food, alcohol and tobacco contributed substantially to an overall deflation rate of 0.5 per cent. as at 31 December 2016. The growth rate of consumer prices turned positive in 2017 and reached an inflation rate of 1.8 per cent. as at 31 December 2017. This largely reflected growing international commodity prices, which subsequently caused food and energy prices in Bulgaria to increase. The acceleration of headline inflation was also driven by increasing core inflation, with growing consumer demand against the background of an improving labour market contributing to its development. Deflation in non-energy industrial goods decelerated in 2017 and 2018, with the group's negative contribution to overall inflation decreasing significantly. Consumer inflation continued to accelerate in 2018, reaching a rate of 2.3 per cent. as at 31 December 2018, with food and services having the largest contributions. One-off factors related to accommodation services and insurance connected with transport, as well as an increase in consumer demand, were the main drivers of inflation in the services sector, while accelerating food inflation was mainly due to high import prices and a poor wheat harvest both in Bulgaria and abroad in 2018.

Inflation accelerated further in 2019, amounting to an inflation rate of 3.1 per cent. as at 31 December 2019. The substantial positive contribution of food components to headline inflation was almost entirely driven by an increase in meat prices, as a result of higher import and producer prices of pork following the spread of the African swine flu in Europe. Inflation in the services sector, which also contributed significantly to headline inflation throughout 2019, slowed down as compared to the end of 2018. This was due to the absence of one-off factors in accommodation services and insurance connected with transport and the decline in telecommunication services prices. In 2019, inflation in the catering services subsector, however, continued to accelerate on the back of increasing food prices and strong demand. Following nine years of price decreases, the group of non-energy industrial goods positively contributed to headline inflation in 2019, a development largely driven by automobile price dynamics.

In 2019, prices of energy products increased, but in March 2020 fell sharply, reflecting the deflation in the price of transport fuels resulting from the decrease in the price of petrol. The current low level of petrol prices, which will likely be sustained in the coming months given the weakening of the global economy, is expected to have a beneficial effect on the Bulgarian economy, which is a net importer of petrol products. The decrease in petrol prices increases the disposable income of various economic agents, given the high levels of energy use by the Bulgarian economy and the relatively high share of households' expenditure on energy products.

Tourism

The Ministry of Tourism was formally established by a decision of the National Assembly in November 2014.

For the past four years, the number of international tourism visits to Bulgaria reached record levels with the record high occurring in 2019 with over 9.3 million international tourists (an increase of 0.4 per cent. as compared to 2018).

The Thomas Cook bankruptcy had little impact on inbound tourism in Bulgaria from markets like Germany, Poland and the Czech Republic, due to the fact that travel and tourism reservation from those countries were mainly made up to six months in advance. However, the bankruptcy of the British tour operator and its foreign subsidiaries did have a negative impact on its Bulgarian counterparts. Despite the negative impact, the Bulgarian tour operators did not cancel any reservations made by clients of the Thomas Cook Group and further, aided the tourists from the abovementioned countries, by allowing a prolonged stay,

³ "Administered prices" cover all goods and services prices which are fully set or mainly influenced by the Government (central, regional, or local government including national regulators).

while their repatriation was ongoing. Bulgaria noted a visible decrease in the number of arrivals of visitors (without transit) from Germany, Poland and the Czech Republic in 2019 due to reasons specific to each country. In the same year, Bulgaria recorded an increase in the number of arrivals of foreign visitors (without transit) from United Kingdom (20.7 per cent.), Ukraine (24 per cent.), Moldova (10.6 per cent.) and Hungary (28.7 per cent.). As the bankruptcy of Thomas Cook and its subsidiaries was ongoing, the Ministry of Tourism took serious actions to ensure the stability of the inbound tourism flow from the high priority tourism markets like Poland, Germany and the UK. For example, specifically in Germany, the Government conducted several meetings with one of the biggest German tour operators TUI Group, Der Touristik, Schauinsland-reisen GmbH in an effort to ensure a sustainable partnership.

The COVID-19 outbreak has paralyzed almost every economy in the world and has had devastating impact on the tourism sector due to various countries' specific mandatory quarantines and travel restrictions. Due to the restrictive measure that are in place in Bulgaria and most of Europe, all airlines and airports initially closed for civil flights, and so did hotels. Flights are resuming, and hotels and restaurants are reopening, at a careful pace and subject to strict health requirements. In addition, tour operators and tour agents are struggling to refund previously sold tourism and travel packages. The Government has established a series of economic measures aimed at relieving the liquidity burden on SME's which includes travel and tourism businesses. In accordance with the terms of emergency epidemiological situation (currently expected to last until 14 June 2020), and subject to the detailed rules set out in orders of the Minister of Health, there is a range of restrictions for non-citizens and non-residents to enter Bulgaria. However, the restrictions do not apply to nationals of European Union members states, Schengen countries nationals, spouses and partners of Bulgarian nationals, medical specialists and scientist travelling in that capacity, pharmaceutical and medical equipment professionals, transportation workers, foreign diplomatic and similar officials, certain categories of business persons involved in strategic projects in Bulgaria, seasonal agricultural workers, as well as workers from the border areas of neighbouring countries, certain categories of transit travellers, among others. Subject to a range of exceptions, entrants to Bulgaria are required to undergo a 14-day quarantine. Similar arrangements are expected to be made with Romania and North Macedonia. EU institutions and Member States, including Bulgaria, are planning concrete initiatives, measures and mechanisms to speed up the recovery of the tourism sector.

The table below shows the breakdown of the origins of arrivals of foreign visitors (without transit) from the top 15 countries in 2019 as well as a comparison against the figures from the year ended 31 December 2018:

	Number of Foreign visitors (without transit) in the year ended 31 December 2019	Change from the year ended 31 December 2018	Change in per cent. from the year ended 31 December 2018
Romania.....	1,287,252	(89,757)	(6.5)
Greece.....	1,168,373	52,108	4.7
Germany.....	761,156	(88,940)	(10.5)
Turkey.....	648,740	23,486	3.8
Republic of North Macedonia.....	554,247	(5,370)	(1.0)
Ukraine.....	471,122	91,228	24.0
United Kingdom.....	470,149	80,488	20.7
Russia.....	450,116	(61,585)	(12.0)
Poland.....	420,980	(4,259)	(1.0)
Serbia.....	414,546	(7,147)	(1.7)
Moldova.....	256,754	24,651	10.6
Israel.....	244,953	807	0.3
France.....	207,825	4,462	2.2
Czech Republic.....	189,265	(15,467)	(7.6)
Italy.....	156,564	(1,179)	(0.7)

Source: Ministry of Tourism.

Balance of Payments from Tourism

According to data from the BNB, revenues from international visits in Bulgaria for 2019 totalled EUR 3,846.86 million, (an increase of 0.6 per cent. as compared to 2018). The expenditures of Bulgarian

citizens for travelling abroad for 2019 totalled EUR 1,630.98 million (an increase of 2.9 per cent. as compared to 2018).

PUBLIC FINANCE

Under ESA 2010, the public finance system in Bulgaria comprises the central government subsector, the local government subsector, and social security funds, which together comprise the general government (the "**General Government**"). The rules defining the General Government are harmonised internationally and are updated regularly. The fiscal year applicable to the General Government is the calendar year.

The NSI is responsible for compiling both the public finance data reported to the European Commission under the ESA transmission programme and the fiscal notification tables reported twice a year to Eurostat in accordance with the Council Regulation No. 479/2009 of 25 May 2009 (on the application of the Protocol on the Excessive Deficit Procedure annexed to the Treaty Establishing the European Community, as amended, and the Statements contained in the Council minutes of 22 November 1993).

With the Organic Budget Act (the "**OBA**") entering into force in 1996, the OBA became the prime instrument for managing the budgetary process and for regulating the relationship between the state and municipal budgets; however, the OBA has recently been superseded by the Public Finance Act (the "**PFA**").

In addition to the adoption of the PFA into Bulgarian law, the EU regulation of Chapter III ("**Fiscal Compact**") of the Treaty on stability, co-ordination and governance within the Economic and Monetary Union signed on 2 March 2012 in Brussels, was also adopted into law by Bulgaria.

The PFA was adopted in 2013 and came into force on 1 January 2014. The purpose of its adoption was to set forth the general structure of public finances in a single legislative act as an expression of the desire to consolidate all aspects of the management and use of public resources, at both national and local level as well as to transpose the requirements of Directive 2011/85/EC in the process of public finances management.

The PFA regulates the scope, structure and content of the medium-term budgetary forecast and its update. In addition, the PFA also regulates the drafting, adoption, execution and reporting of the annual state budget law and the annual laws on the budget for the state social security and the National Health Insurance Fund. Provisions regulating the drafting of the budget forecasts, draft budgets and reports of the first-level spending units, including municipalities are also contained in the PFA.

The medium-term budgetary forecast includes in addition to the national methodology used (consolidated fiscal program with cash-based indicators), forecasts for the General Government Sector and its subsectors according to ESA 2010, taking into account the impact on the budgetary framework of state and municipal enterprises and quasi-budget organizations. This led to the introduction of comprehensive, coherent and reliable practices for the forecasting and monitoring of the General Government Sector and its subsectors. Thus, the public finances management system is built on a broad basis and the medium-term budgetary framework has become an operational tool for medium-term forecasting and planning through the implementation of stringent fiscal rules by central and local authorities.

The PFA regulates the relations of the state budget with the budgets of the state social security, the National Health Insurance Fund and other budgets and accounts, as well as the relations of the municipal budget with the state budget and other budgets and bills. The PFA also regulates, among others, the EU funds account regime, the regime of the foreign fund accounts, and any centralised payment schemes.

Fiscal rules (in relation to the balance, debt and expenditure) have been established, aimed at defining clear and transparent fiscal policy constraints in the long-run through imposing numerical constraints on the main budgetary aggregates. The rules have been developed in accordance with internationally accepted definitions and criteria as well as with the requirements of the EU's Stability and Growth Pact. The strengthening of the sustainability of public finances and the budget discipline is achieved by including in the scope of the rules all bodies and funds that are not part of the budgets on subsector levels, with a view to assess their impact on the General Government Sector and present them in the medium-term strategic and annual budget documents.

The fiscal rules set numerical constraints on the medium-term objective (MTO) for the structural deficit, the General Government balance, the expenditure growth of the General Government Sector, on the budget balance under the consolidated fiscal program, the maximum amount of expenditures under the consolidated fiscal programme and the consolidated debt of the General Government Sector. The rules were

developed with provisions for the cases of deviation from the target and a corrective mechanism for returning to the limit determined by the rule. There is also a set of fiscal rules for the local government subsector, including medium-term objectives for a balanced budget and debt as well as a limit on the possibility of social security funds and autonomous institutions to take debt and issue guarantees.

The budget procedure is synchronized and in line with the deadlines and procedures of the Enhanced Economic Policy Coordination Mechanism of the European Semester and ensures the sustainability and consistency of the processes and procedures for the allocation and management of financial resources and the involvement of all responsible institutions, both budget entities and legal entities which, although not part of the consolidated fiscal program, fall within the scope of the General Government Sector.

In order to increase transparency with regard to budgetary procedures, the PFA contains provisions to widen access to budgetary information as well as improve the quality and scope of existing information.

The PFA defines the classifications used with regard to expenditures as economic, functional and programme. Thus the programme budgeting approach was also institutionalized. A significant step forward was the introduction with the amendment of the PFA in 2016 of a classification of policy/functional areas and budget programs in order to achieve a sustainable framework for programme budgeting.

The 2016 amendments to the PFA also set forth a procedure for financial recovery of municipalities in financial difficulties by introducing measures in order to achieve financial sustainability and stability of local finances, including by using a temporary non-interest-bearing loan.

The amendment of the PFA in 2017 was mainly in a response to the Commission's review of the degree of transposition of Directive 2011/85/EC and the necessity to refine some of the PFA's provisions. The 2017 amendment extended the scope of the budgetary framework by including more information on the General Government sector in the national budget documents, with the forecast of the key indicators for the next three years being developed on the basis of unchanged government policies and describing the envisaged new policies with financial impact - the so-called "discretionary measures"; information on the overall impact of the activities of the enterprises falling within the General Government sector, on the fiscal indicators of the sector, as well as information on contingent liabilities with a potentially significant impact on the General Government Sector. It also introduced a requirement to compare budget forecasts for the main indicators of the General Government Sector of the Ministry of Finance with the latest available forecast of the European Commission in addition to macroeconomic forecasts which contributes for increasing budget credibility.

Other issues regulated with the 2017 amendment included the precise relations of the state budget with municipal budgets, the provisions which relate to the execution of municipal budgets as well as the provisions which relate to the banking services and the system of the single account.

The Fiscal Council and Automatic Corrective Mechanisms Act, for the purposes of creating an independent body to monitor the budgetary framework (pursuant to Article 6 of Directive 2011/85/EU of the Council of 8 November 2011), was adopted by the Parliament on 8 April 2015 and came into force on 21 April 2015.

Fiscal Policy

Fiscal performance 2015-2019

The prudent fiscal policy aimed at maintaining the sustainability of the budgetary framework in the context of Bulgaria's commitments under the EU's Stability and Growth Pact continued to be a major priority of the Government after the deficit deterioration in 2014. As a result of a statistical change in the sector classification of the Bank Deposit Insurance Fund ("**BDIF**"), the 2014 General Government deficit (on an accrual basis) was revised from 2.8 per cent. to 5.8 per cent. of GDP. Despite this revision, the Commission decided not to launch an excessive deficit procedure against Bulgaria, as the liabilities assumed by the BDIF in 2014 were considered to be a one-off occurrence and were not expected to impact the deficit in the following years.

In 2015, the Government pursued a consistent policy for a gradual deficit reduction in the medium term, which led to the immediate adjustment of the budget deficit (on an accrual basis) to 1.7 per cent. of GDP. This reduction in the deficit was set against the backdrop of some significant challenges to the budget

execution, including the final deadline for the EU projects for the 2007-2013 programme period. The favourable fiscal development in 2015 reflected higher revenues due to enhanced tax compliance. The increase in revenues partially offset increases in expenditures in the General Government Sector, principally as a result of the EU programmes and funds, including national co-financing and financial shortage for some of the budgetary systems.

The fiscal consolidation continued in 2016 with a small General Government surplus (on an accrual basis) of 0.1 per cent. of GDP. The improvement was achieved by reducing fiscal expenditures and enhancing tax collection initiatives together with better macroeconomic conditions during the year. The significant decrease of total expenditures in the General Government Sector was mainly due to the shrinking of spending from the EU funds, after spending reached its peak in 2015, including a lower amount of resources allocated to national co-financing for projects in 2016 as compared to 2015, and discretionary measures undertaken in terms of spending.

During 2017 and 2018, the Government successfully consolidated the public finances, and as a result, the budgetary developments were positive. The General Government budget recorded a surplus (on an accrual basis) of 1.1 per cent. and 1.8 per cent. of GDP in 2017 and 2018. On the expenditure side, public investment started to recover, despite the lower than expected progress with implementing EU-funded projects and the increase of public sector wages. On the revenue side, taxes and social security contribution revenue increased and the recovery of transfers from the EU outweighed the rise in expenditure.

In 2019, Bulgaria continued its strong fiscal policy. According to the April 2020 fiscal notification tables of Bulgaria, the General Government balance improved further to a surplus of 2.1 per cent. of GDP in 2019. The positive revenue trend in recent years continued in 2019 as well, with an increase in tax and social security revenues and in the capital transfers from the European Union, while expenditure remained below the projections for the year. The main priorities in the Government spending policy included measures in the area of income policy in the budgetary sector, education, social and pension systems, healthcare, defence and others.

The Government proposed amendments in the Annual State Budget Act for 2019, in order to ensure that it had necessary funds under the contract for the acquisition of eight USA-made F-16 fighter jets (first deliveries possible in 2023) for the Bulgarian Air Force. The Annual State Budget Act for 2019 amendments increased the Defence Ministry's budget by BGN 2.1 billion. Since this was the first significant transaction in the defence sector between Bulgaria and the USA, Bulgaria was required to make an up-front payment in full. Nevertheless, there was no increase in ESA 2010 terms of the expenditures for 2019 stemming from the acquisition of F-16 fighter jets, because according to the principles of ESA 2010 the time of recording of the expenditures for the acquired equipment is the time of delivery, which is considered as a change in the economic ownership. Thus, the cash payment in 2019 for the acquisition of the F-16 fighters did not worsen the General Government balance in ESA 2010 terms for 2019.

Tax Policy

Bulgaria's tax strategy after 2007 has been characterised by continuity and predictability, retaining the trends and directions from recent years. The revenue policy is geared towards sustaining macroeconomic and budget stability, in particular, to increasing economic growth, promoting labour supply and demand, and securing the financial resources necessary to implement the Government's fiscal policy, including providing the relevant fiscal possibilities to finance priority sectors.

The main priorities for tax policy are:

- Improving revenue collection;
- reducing the administrative burden and costs for businesses and citizens;
- ensuring a predictable tax environment and promoting business and investment activity by keeping (i) the tax burden unchanged; (ii) a broad tax base; and (iii) a limited number of tax preferences (i.e. maintaining low rates of corporate taxes and personal income tax as an important incentive for investment, economic growth and employment);
- combating aggressive tax planning and tax avoidance;

- reducing the shadow economy share by eliminating any opportunities for tax evasion and avoidance; and
- curbing tax fraud.

The development of Bulgaria's tax policy since 2007 has been in line with EU law requirements, those international treaties to which Bulgaria is a party, as well as the OECD tax standards against base erosion and profit shifting ("**BEPS**").

The unprecedented COVID-19 pandemic has necessitated an update of the State Budget Act for 2020 (promulgated SG 34, 09 April 2020), in accordance with the worsened economic situation and projected revenue underperformance. The total amount of estimated tax revenues (excluding social security contributions) in the updated State Budget Act for 2020 is BGN 23,026.0 million, BGN 2,013.8 million or 8.0 per cent, less than the previous projected tax revenue before the introduction of measures to curb the spread of COVID-19. Indirect taxes (incl. VAT, excise duties, insurance premiums and duties) are estimated to amount to BGN 16,322.0 million, a decrease of BGN 1,385.2 million or 7.8 per cent. compared to the amount set in the 2020 State Budget Act before the update. Direct taxes (incl. corporate income taxes and PIT) amount to BGN 6,561.9 million for 2020, a decrease of BGN 611.7 million as compared to the plan before the update.

It is accepted that the measures in place to control of the COVID-19 pandemic and the economic recovery in Bulgaria must align in terms of timing with the measures and processes of its international counterparts. Given the inability to make an accurate estimate of the full extent of all potential direct and indirect effects on the budget tax revenue, the assessment of tax revenues for 2020 was made based on the assumptions of an emergency situation and a dynamic economic environment, taking into account foreseeable factors and phenomena with short-term effect.

Tax revenue projections for 2020 also take into account the effects of the adopted legislative emergency measures in the Emergency Measures and Actions Act (promulgated, SG, issue 28 of 24 March 2020, amended and supplemented, SG, 34 of 9 April 2020). In the area of tax policy, the tax measures adopted into law aim to support businesses, employment and citizens during COVID-19 State of Emergency. These measures include postponement of tax payments (of corporate income tax and some other taxes stemming from the Personal Income Tax Act) in order to free up resources to finance urgent costs in times of low economic activity as well as paying taxes (while maintaining the conditions for using discounts). The aim is to provide liquidity support for the taxable persons during the State of Emergency and the low economic activity. See "*Revenues*" below.

Improving Tax Collection and Ensuring the Fiscal Reserve Level

The Government has taken legislative tax measures and administrative actions in order to implement policies aimed at enhancing the effectiveness and efficiency of the revenue agencies and increasing budget revenues. Some of the main tax policy measures include:

- The improvement of the collection rate of revenues. The improvement of the collection rate of revenues is a leading priority and is in line with Specific Recommendation 1 made by the EU Council to Bulgaria in recent years. In response to Council Specific Recommendation 1 of 2014, the Single National Strategy was developed and adopted in 2015 aimed at improving the collection of taxes, tackling the shadow economy and reducing the compliance costs for the 2015-2017 period (Resolution No. 806 of 15 October 2015 of the Council of Ministers). The implementation of the Single National Strategy the ("**SNS**") and the action plan (the "**SNS Action Plan**") thereto brought about a deepening of inter-institutional coordination and cooperation and an increase in the quality of the risk assessment, audit and capacity of the administration in the field of information technologies. Annual reports are drawn up for the progress made in the implementation of the measures from the SNS Action Plan. In view of the issued recommendations and the reported positive results from the implementation of the measures to the strategy, Bulgaria will continue applying the SNS Action Plan even after the expiration of the mandate of the strategy as the measures are included in the strategic documents that each of the responsible institutions develops and applies. The implemented measures for improving the tax collection rate can be presented in the following three main aspects:

encouragement of the voluntary compliance with the legislation; optimization of the control activity of the revenue administrations; and decrease of the administrative burden;

- Control of the supplies and the movement of liquid fuels. The Government has implemented a mechanism directed towards preventing the possibilities of tax offenses and frauds involving VAT in the trade of liquid fuels. After 2011, comprehensive control of the process related to the supplies and movement of liquid fuels from the producer and importer to the end consumer and the exchange of data between the information systems of the two revenue agencies was put in place. The 2016 amendments to the Value Added Tax Act (VAT Act) put in place a mechanism, which required that in a trade of liquid fuels having a tax base in excess of BGN 25 thousand, the persons are bound to present security for a term of one year before the competent territorial directorate of the National Revenue Agency (the "NRA");
- Reverse charge mechanism for VAT. Following the amendments to the Value Added Tax Act, as of 1 January 2014, a reverse charge mechanism for VAT is applied to supplies of cereals and industrial crops. This mechanism aims at limiting abuse in the trade in cereals and will apply by the end of June 2022.
- Fiscal control on the movement of high fiscal risk goods. The NRA maintains effective fiscal control on goods with high fiscal risk and has developed a comprehensive strategy for introducing fiscal controls on the movement of goods with high fiscal risk. This policy became effective at the beginning of 2014 with amendments to the Tax and Social Security Procedure Code. The list of high fiscal risk goods was determined by an Ordinance of the Minister of Finance, which is published on the websites of the Ministry of Finance and the NRA.
- Permanent monitoring over debtors with large overdue tax liabilities. The Government has undertaken to perform constant monitoring of debtors with overdue obligations exceeding BGN 100 thousand (BGN 200 thousand for the Sofia City Territorial Directorate of the NRA) for taxes, mandatory health and social security contributions and has an approved plan for conducting telephone campaigns under a timetable. Concrete measures designed to address this issue have been implemented, including: holding face-to-face meetings with debtors aimed at obtaining explicit commitments to provide collateral and/or make full or partial payment of overdue debts; and increased monitoring of commitments taken by debtors and the timely monitoring of their treatment by the authorities (which includes carrying out assessments of the economic status of the relevant debtor, issuing permits for urgent payments and performing ad hoc inspections and audits on the debtor).
- Application of a mechanism for repayment of public obligations of persons with receivables against municipalities, other departments or state-owned enterprises under public procurement contracts and contracts awarded in pursuance of EU operational programmes. The measure was introduced in 2014.
- Participation of the Republic of Bulgaria in initiatives of the Organization for Economic Cooperation and Development ("OECD") in the field of taxes and administrative cooperation. In 2016, the Republic of Bulgaria joined the Inclusive Framework for introduction of tax measures against base erosion and profit shifting based on official Resolution of the Council of Ministers No. 23 of 8 June 2016, whereby the Republic of Bulgaria was given the opportunity to take part in the activities related to the establishment of standards in the field of tax treaties and transfer pricing, as well as to the development of monitoring in relation to the introduction of the four minimum standards already agreed with OECD and other elements of the BEPS package of measures. The introduction of the minimum standards is related also to the fulfilment of Bulgaria's obligations as a member state of the EU and its engagement in the introduction of the standards in the European legislation. Bulgaria's affiliations resulted in the introduction of a number of changes in national tax legislation.
- Measures to strengthen the ability of the revenue authorities to curtail "shadow" practices and their negative effect on tax collection.

- Control through monitoring (physical presence) in the tax warehouses for the manufacturing and storing of tobacco products and ethyl alcohol by the Customs Agency jointly with the National Police General Directorate - Gendarmerie Directorate.
- Presence during the unloading of fuels from vessels by Customs Agency jointly with the National Police General Directorate, the Border Police General Directorate and the General Directorate for Combating Organized Crime.
- The Customs Agency has taken specific measures to improve the Bulgarian Excise Centralised Information System, in order to further enhance the collection of excise duties and VAT.
- Operation of the Inter-Institutional Coordination Centre with the Directorate-General for Combating Organized Crime. Established in 2015, the permanent structure ensures the coordination and interaction between the Directorate-General for Combating Organized Crime, Directorate-General for the National Police, Directorate-General for the Border Police, the State Agency for National Security, the National Customs Agency, NRA and the Executive Agency "Automobile Administration". The work of the Centre is constantly evolving, with the organization and inter-institutional control of fuels presented at the beginning of February 2019. A system for 24-hour video surveillance of the movement of fuels from tankers to gas stations to the "Smuggling centre" with the State Security and Control Centre was created. Inter-institutional control is a guarantee to minimize the risk of unauthorized transportation, unloading and distribution of motor fuels in the country. The activities of the Centre reduce the number of cases relating to tax fraud and tax evasion.
- Two rules were put in place in the Corporate Income Tax Act in accordance with the provisions of Directive 2016/1164, which restrict the possibilities for aggressive tax planning and tax avoidance. The first rule was for restricting the interest deduction (Article 4 of Directive 2016/1164) and the second rule was for the controlled foreign companies and calculation of the company's income (Articles 7 and 8 of Directive 2016/1164). The aim of the first rule is the prevent practices resulting in base erosion and profit shifting excessive interest payments, by restricting the deduction of the excess under the loan expenses. The introduction of taxation of the retained profit of a foreign entity and of profit on a permanent establishment, in the cases falling within the scope of a controlled foreign company and, only on the condition that it does not perform material business activity (in accordance with the second rule), prevents tax avoidance in Bulgaria through the shifting of profits to countries with lower tax rates, and, further, guarantees the respecting of the fundamental freedoms and does not bring about excessive increase of the administrative burden for the persons.

Revenues

The principal source of revenue in the State Budget is taxation, particularly VAT, excise duties, personal income tax and corporate income tax. As a result of Commission recommendations on ineffective tax collection and the informal economy, a number of significant tax reforms have been introduced through targeted measures in areas such as fuel and labour taxes, which aim to shift the taxation burden from direct to indirect taxes to achieve proportional taxation and the tax base has been broadened by removing exemptions and by reducing activities in the grey economy.

Tax revenues and tax compliance are improving through the number of new initiatives in place. Maintaining the efforts to improve tax collection and taking additional targeted measures to face the challenges in specific areas of the tax system is of paramount importance for reducing further shadow economy.

Significant progress has been made in dealing with a number of fiscal structural challenges.

In March 2019, the last evaluation report on the implementation of the Single National Strategy aimed at improving tax collection, tackling the shadow economy and reducing the compliance costs from the amounts incurred in 2018 was approved by the Council of Ministers (Minutes No. 13 of the Council of Ministers of 27 March 2019). The strategy introduced good practices related to coordination and inter-institutional cooperation between the competent institutions that would continue to be applied after the end of this strategy. Moreover, most of the tax policy measures were permanent and, along with a number of others, are included in the strategic and operational documents of the responsible institutions. Five main

measures in the area of improvement of tax collection through targeted measures in areas such as fuel and labour were already reported in the National Reform Programme of Bulgaria (the "NRP") for 2019. The results of the implementation of these measures have been updated and are presented in the new NRP for 2020, published in April 2020 within the European Semester.

In response to the crisis of the COVID-19 pandemic, the adopted tax policy measures in the Emergency Measures and Actions Act, are as follows:

- Extension of the deadline from 31 March to 30 June 2020 for the submission of the annual corporate income tax returns, and for the payment of the assessed therein (Corporate Income Tax Act);
- Extension of the deadline for declaring the amount of prepayments of corporation tax for 2020, which are declared by the taxable persons under the Corporate Income Tax Act with the annual tax return for 2019, from 31 March to the new deadline of 15 April. The deadline for payment of the advance tax is unchanged (Corporate Income Tax Act);
- Extension of the deadline from 30 April to 30 June 2020 for submission of the annual income tax return and for payment of the tax assessed therein for persons carrying out economic activity in a trading capacity within the meaning given by the Commercial Act, including any sole traders, as well as for persons registered as farmers who have opted to be taxed on the annual tax basis. In this connection the deadline for payment of the tax at a discount is extended from 31 March to 31 May 2020 (Personal Income Tax Act);
- Extension of the deadline for payment of real estate tax as well as the tax on vehicles from 30 April to 30 June 2020, retaining the eligibility for a 5 per cent. discount of the total annual amount due in case of full payment of the tax (Local Taxes and Fees Act).

The aim of these tax measures is to provide liquidity support for the taxable persons during the State of Emergency and the low economic activity.

Corporate income tax

The following table shows the rate of corporate income tax ("CIT") and CIT revenues as a percentage of GDP in the period as at 31 December 2015 to 31 December 2019:

	As at 31 December				
	2015	2016	2017	2018	2019
	<i>(EUR millions, except for percentages)</i>				
Total Revenues from CIT	951.2	1,061.6	1,180.1	1,260.1	1,378.0
Tax Rate (per cent.).....	10	10	10	10	10
Total Revenues from CIT					
as percentage of GDP	2.1	2.2	2.3	2.2	2.3

Source: Ministry of Finance.

Personal income tax

There were no significant legislative amendments between 2015 and 2019. Revenues for this period rose gradually from EUR 1,396.5 million as at 31 December 2015 to EUR 2,055.3 million as at 31 December 2019. During the same period, the unemployment rate decreased from 9.1 per cent. in 2015 to 4.2 per cent. in 2019.

The following table shows the rate of personal income tax ("PIT") and the revenue from PIT as a percentage of GDP in the period as at 31 December 2015 to 31 December 2019:

	As at 31 December				
	2015	2016	2017	2018	2019
	<i>(EUR millions, except for percentages)</i>				
Total Revenues from PIT	1,396.5	1,513.9	1,705.8	1,875.4	2,055.3

Tax rate (per cent.)	10	10	10	10	10
Total Revenues from PTT					
as a per cent. of GDP	3.1	3.1	3.3	3.3	3.4

Source: Ministry of Finance.

Excise duties

In the 2015-2019 period, a series of amendments were made to the Excise Duties and Tax Warehouses Act (EDTWA), aimed at coping with problems that may have arisen upon the application of the law, continuing the harmonization of the Bulgarian tax legislation with the requirements of the European directives and the judgments of the European Union Court of Justice, and decreasing the administrative burden in application of the law.

The following table sets out revenues from excise duties (including as a percentage of GDP) in the period as of 31 December 2015 to 31 December 2019:

	As at 31 December				
	2015	2016	2017	2018	2019
	<i>(EUR millions, except for percentages)</i>				
Excise duties					
Tobacco products	1,064.5	1,178.0	1,211.1	1,296.7	1,398.6
Fuels	1,083.0	1,106.5	1,162.1	1,184.2	1,223.7
Alcoholic beverages and beer	142.4	151.2	153.6	159.0	159.5
Other stock	23.7	21.1	21.8	20.5	23.1
Total Revenues from Excise duties	2,313.6	2,456.8	2,548.6	2,660.4	2,804.9
Total Revenues from Excise duties					
as a per cent. of GDP	5.1	5.1	4.9	4.7	4.6

Source: Ministry of Finance.

Revenues from excise duties have remained relatively stable as a result of the legislative measures undertaken for gradual increasing the excise duty rates for tobacco products and from increased excise duty rates for heated tobacco product. There were also measures introduced to curtail tax avoidance and customs control carried out.

VAT

VAT levied on the supply of goods and services and other activities in Bulgaria complies with the rules of Council Directive 2006/112/EC on the common system of value added tax. The following VAT rates apply: a standard rate of 20 per cent.; a reduced rate of 9 per cent. applicable to accommodation provided at hotels and similar establishments, including the provision of vacation accommodation and letting out of places for camping sites or caravan sites; and a reduced rate of 0 per cent. for export and selected services such as international transport.

Furthermore, the VAT system provides for exemptions (without the right to deduct the input tax) for certain services, such as educational, healthcare and welfare and financial services.

The following table sets out the revenues from VAT as a percentage of GDP as of 31 December 2015 to 31 December 2019:

	As at 31 December				
	2015	2016	2017	2018	2019
	<i>(EUR millions, except for percentages)</i>				
Total Revenues from VAT	3,957.4	4,343.1	4,765.4	5,145.7	5,668.3

Tax rate (per cent.)	20	20	20	20	20
Total Revenues from VAT					
as a per cent. of GDP	8.7	9.0	9.1	9.2	9.3

Source: Ministry of Finance.

During the implementation of the Single National Strategy for improving tax collection, tackling shadow economy and reducing compliance costs for the 2015-2017 period, the ratio of VAT revenues to GDP improved and reached its highest level in 2019 of 9.3 per cent. as compared to previous years. The key measures implemented for the 2015-2019 period related to the increase in VAT revenues were: (i) the application of a VAT reverse charge mechanism for VAT on supplies of cereal and industrial crops as an effective tool to prevent VAT fraud and increase revenues in the budget (from 1 January 2014, extended to date until 30 June 2022); (ii) fiscal control on the movement of high fiscal risk goods (from the beginning of 2014); (iii) a gradual increase in the excise rate of cigarettes; (iv) the introduction of compulsory VAT registration of an unincorporated company in the presence of partners registered under the law (from the beginning of 2018); and (v) from the beginning of 2018 filing of the returns, VIES (VAT Information Exchange System) declaration (EC sales listings/listings of goods and services taxable in another EU Member State, sales and purchase listings) and accounting registers shall be done only electronically under the terms and procedure of the Tax and Social Insurance Procedure Code, except in cases expressly provided for by the law and other permanent measures in the field of national tax policy.

In response to the COVID-19 pandemic and to aid sectors of the economy most affected by the pandemic, the Government has reduced the VAT rate from 20 per cent. to 9 per cent. for the period of 1 July 2020 – 31 December 2021 for numerous services including: the supply of restaurant and catering services, books, food suitable for babies or young children and baby diapers and similar hygiene items, as well as for restaurant and catering services, which consist in the supply of beer and wine and the delivery of single tourist services under art. 136 of the VAT Act. The reduction of the VAT rate was also applied for the supply of services for use of sporting facilities from 1 August 2020 (supplemented, SG No. 71/2020, effective 1 August 2020). In addition, according to Art. 1 of Decision № (EU) 2020/491, the Government allowed an exemption of customs duties and VAT on imports of medical goods necessary to combat the effects of the COVID-19 pandemic in 2020, in accordance with the Regulation of the Council of Ministers № 80 of 23 April 2020 and the Decision of the Council of Ministers №400 of 18 June 2020. The exemption applies to imports made from 30 January 2020 to 31 October 2020. Certain goods imported by state organizations are also eligible for the VAT exemption.

Fiscal decentralisation

Legislative amendments in the Local Taxes and Fees Act since 2006 have given municipalities the power to determine and collect the following local taxes: real estate tax, inheritance tax, donation tax, vehicle tax, licence tax and tourist tax, tax on the acquisition of property and tax on passenger taxi transport.

Municipalities also have the exclusive power to determine and collect the fees set out in the Local Taxes and Fees Act including the household waste disposal fee.

After 2008, the amount of local taxes is being determined by the municipal councils within the limits set by the law.

Fiscal goals

The tax and social security policy in the Republic of Bulgaria is oriented towards supporting economic growth, improving the business environment, combating tax offenses and increasing the fiscal sustainability in the long run. From an EU perspective, the goals of the tax policy in the 2015–2019 period were to support the functioning of the single market of the European Union, to successfully implement the digital transformation of the society and economy in Europe and to work on the activities guaranteeing that Europe makes use of the new opportunities provided by the changing global environment. Some of these goals are reached through the implementation of the following measures: tax reliefs for business and achievement of the minimum excise tax rates of the EU; simplification of the tax system and precision of the tax laws in order to eliminate inconsistencies and imperfections in the practice of taxation and to obtain transparency and understanding for taxpayers; maintaining direct tax rates in combination with a lower social insurance

burden on employers in support of economic growth and employment; and maintaining a higher share of indirect taxes as compared to direct taxes.

General Government

The table below sets out the revenues, expenditure and net lending/borrowing for the General Government of Bulgaria, the second table represents the net lending/net borrowing by sub-sector for the years as of 31 December 2015 to 31 December 2019 (under ESA 2010 methodology whereby data is calculated on an accruals basis):

		As of 31 December				
ESA 2010 code	General government	2015	2016	2017	2018	2019
(EUR millions)						
OTR	Total Revenue	17,674.4	17,056.9	18,857.8	21,597.6	23,291.7
OTE	Total Expenditures	18,457.0	17,010.2	18,281.5	20,500.9	22,028.9
B9	Net lending (+) Net borrowing (-).....	(782.6)	46.9	576.2	1,096.8	1,262.8
(per cent. of GDP)						
OTR	Total Revenue	38.7	35.1	36.0	38.3	38.4
OTE	Total Expenditures	40.4	35.0	34.9	36.6	36.3
B9	Net lending (+) Net borrowing (-).....	(1.7)	0.1	1.1	2.0	2.1

		As of 31 December				
ESA 2010 code		2015	2016	2017	2018	2019
(EUR millions)						
S.1311	Central government	(337.4)	(0.3)	485.5	966.6	1,201.3
S.1313	Local government.....	(426.7)	36.4	123.0	76.8	(74.4)
S.1314	Social security funds	(18.5)	10.9	(32.3)	53.4	135.9
S.13	General government	(782.6)	46.9	(576.2)	1,096.8	1,262.8
(per cent. of GDP)						
S.1311	Central Government	(0.7)	0.0	0.9	1.7	2.0
S.1313	Local government.....	(0.9)	0.1	0.2	0.1	(0.1)
S.1314	Social security funds	0.0	0.0	(0.1)	0.1	0.2
S.13	General government	(1.7)	0.1	1.1	2.0	2.1

Source: Eurostat.

Bulgaria's public debt to GDP ratio of 20.4 per cent. as of 31 December 2019 and was the second lowest in the EU, after Estonia. Successive governments have shown a commitment to fiscal prudence, resulting in a decline in the public debt to GDP ratio from over 100 per cent. in 1997. Prudent fiscal policy has been based on targeting the fiscal stance on surpluses during expansionary economic periods and accumulating a buffer in the Fiscal Reserve Account against potential shocks and strong fiscal consolidation after the global crisis and economic recession. Prudent fiscal policy is extremely important for the sustainability of the currency board and long-term fiscal sustainability. The sizeable fiscal and financial buffers maintained in the recent years provide fiscal space when entering in downturn. Please see "Public Finance – Fiscal Policy – Fiscal Performance 2015 – 2019" above for a description of the fiscal performance in the 2015 – 2019 period.

Consolidated Fiscal Programme – Cash Basis

Although ESA 2010 is the prime methodology used for the General Government budget, the National Assembly approves the Annual Budget Act compiled under the national budget methodology, which is on a cash basis.

The following table sets out the sub-category of revenues and expenditures under the Consolidated Fiscal Programme in the period between 31 December 2015 to 31 December 2019) on a cash basis:

	2015	2016	2017	2018	2019
	(EUR millions)				
Consolidated Fiscal Programme					
Total revenues.....	16,463.3	17,363.2	18,057.1	20,273.2	22,521.7
Tax revenues.....	12,708.5	13,755.1	15,124.7	16,481.8	18,038.7
Direct taxes.....	2,347.6	2,575.5	2,885.9	3,135.5	3,433.3
Corporate income tax.....	951.2	1,061.6	1,180.1	1,260.1	1,378.0
Income tax.....	1,396.4	1,513.9	1,705.8	1,875.4	2,055.3
Social security contributions.....	3,552.0	3,741.5	4,277.1	4,835.9	5,392.6
Indirect taxes.....	6,365.9	6,934.0	7,430.3	7,940.9	8,614.1
VAT.....	3,957.4	4,373.1	4,765.3	5,145.6	5,668.3
Excise duties.....	2,313.6	2,456.8	2,548.5	2,660.4	2,804.9
Insurance premium tax.....	13.5	15.6	17.1	19.2	22.9
Customs duties.....	81.3	88.5	99.3	115.7	118.0
Others.....	442.4	503.6	530.9	569.5	598.7
Sugar Levy.....	0.5	0.5	0.5	0.0	0.0
Non tax revenues.....	1,889.8	2,121.9	2,154.9	2,711.0	3,222.8
Grants.....	1,865.0	1,486.1	777.5	1,080.4	1,260.2
Total Expenditure with the EU contribution..	17,734.0	16,612.5	17,624.8	20,204.1	23,110.9
Total Expenditure.....	17,250.1	16,173.1	17,170.6	19,650.1	22,500.9
Total noninterest expenditure.....	16,893.1	15,797.7	16,765.5	19,298.2	22,169.2
Current noninterest expenditures.....	13,371.0	13,821.1	14,848.3	16,575.3	18,303.0
Personal.....	3,586.9	3,648.1	4,049.1	4,490.8	5,134.5
Wages and salaries.....	2,384.7	2,478.4	2,697.1	2,990.5	3,406.4
Other remunerations.....	476.6	437.0	461.3	495.6	579.5
Social security contributions.....	725.5	732.7	890.7	1,004.7	1,148.6
Scholarships.....	49.2	38.2	50.2	51.7	49.0
Maintenance and operating.....	1,806.6	1,915.0	2,019.0	2,257.9	2,328.1
Subsidies.....	832.6	830.0	1,003.5	1,528.8	1,949.7
Social expenditures.....	7,078.8	7,375.6	7,707.9	8,218.2	8,819.3
Pensions.....	4,311.5	4,465.7	4,621.6	4,852.8	5,062.2
Social assistance.....	1,239.1	1,300.3	1,340.1	1,444.1	1,605.2
Health Insurance fund.....	1,528.2	1,609.6	1,746.1	1,921.4	2,152.0
Current and capital transfers abroad.....	16.8	14.3	18.7	27.9	22.3
Capital expenditures.....	3,522.1	1,976.6	1,917.2	2,723.0	3,866.1
Interest.....	357.0	375.5	405.1	351.9	331.7
External.....	220.5	228.4	279.0	228.6	227.5
Domestic.....	136.6	147.1	126.1	123.3	104.2
Contribution to the EU budget.....	483.9	439.4	454.1	553.9	610.0
Primary balance.....	-913.6	1,126.1	837.4	421.0	(257.5)
Deficit/Surplus (-/+).....	(1,270.7)	750.6	432.3	69.1	(589.2)

Source: Ministry of Finance.

In 2015, the Consolidated Fiscal Programme reported 2.8 per cent. of GDP deficit. This was mainly expenditure driven due to the need to secure additional funds on a cash basis to finalise the projects under the EU programmes and funds for the 2007-2013 programming period. On the revenue side, positive developments have been observed mainly in tax revenues and proceeds from social and health insurance contributions. The EU grants for reimbursement of certified expenditure under finalized projects increased as well compared with the previous year. During the next few years, the Government focused on a fiscal consolidation and improvements in tax collection. As a result of such fiscal prudence, the budget stance improved for three consecutive years. The General Government budget recorded a surplus (on a cash basis) of 1.5 per cent. of GDP in 2016, 0.8 per cent. of GDP in 2017 and 0.1 per cent. of GDP in 2018. Larger

proceeds from taxes and social security and health insurance contributions were the result of the continued positive development under the key macroeconomic indicators, as well as the active efforts by revenue agencies in implementing the measures aimed at increasing budget revenue collection, combating the informal economy and tax evasion. For the 2016-2019 period, tax and social insurance revenues under the Consolidated Fiscal Programme increased on average by 9.2 per cent. per annum, as the most significant growth was reported in 2017 (10.0 per cent.). The relative share of tax revenues to GDP also increased, from 28.3 per cent. in 2016 to 29.7 per cent. in 2019. From 2016 to 2019, the share of tax and social insurance revenues to GDP increased by 1.4 percentage points.

On the expenditure side, the shrinking of spending from the EU funds, after their peak in 2015, including the lower amount of resources allocated to national co-financing for projects in 2016, and the discretionary measures undertaken in terms of spending, led to a significant decrease of 6.3 per cent. of total expenditures in 2016. Due to the commenced recovery of public investment and the increase of public sector wages the total expenditure reported an increase of 6.2 per cent. in 2017. In 2018, the Government sped up the implementation of investment projects, while both EU financed investment accelerated, and a large share of public investment was financed by national resources. As a result of the Government's public investment in 2018, expenditures grew by 42 per cent. compare to 2017. This investment was mainly channelled to road infrastructure, smaller construction projects, energy efficiency program, among others. In 2019, expenditures expanded fast mainly due to double-digit wage increase, higher social spending and recovering public investment. The up-front cash payment for the acquisition of a new type of multifunctional combat aircrafts for the Bulgarian Air Force made in 2019 resulted in a budget deficit on a cash basis of 1.0 per cent. of GDP.

The composition of spending during the 2017-2019 period showed an increase in the share of investment spending as a consequence of the accelerated absorption of the funds under the EU programmes along with increases in social protection spending and public sector wages. On the revenue side, the main tax rates have remained unchanged. This has provided both a stable and predictable environment for businesses and investors, conducive to the recovery of domestic demand and economic growth. The Government is determined to preserve low tax rates in order to continue encouraging private investment both within the country and from abroad.

Bulgaria exercised prudence in the pre-crisis high growth years, running fiscal surpluses and maintaining a sufficient fiscal reserve. The Annual State Budget Act for 2020 sets a minimum fiscal reserve amount of EUR 2.3 billion.

The following table sets out the fiscal reserve account for the annual period between the years ended 31 December 2015 and 31 December 2019 and the six months ended 30 June 2020:

	2015	2016	2017	2018	2019	H1 2020
Fiscal reserve account*						
EUR millions	4,025.3	6,587.0	5,260.7	4,788.4	4,483.1	5,058.5
per cent. of GDP.....	8.8	13.5	10.1	8.5	7.4	8.4

Source: Ministry of Finance.

* The scope of the fiscal reserve includes the receivables from EU funds for certified expenditure, advance payments and others in accordance with par. 1, p. 41 of the Additional Provisions of The Public Finance Act.

Initial Annual State Budget Act for 2020 (State Gazette, Volume 100/2019) and amended Annual State Budget Act for 2020 (State Gazette, Volume 34/2020)

Following the strategy to keep the budget stance neutral or on surplus, the initial Annual State Budget Act for 2020 envisaged balanced budget for the year (cash base). The favourable macroeconomic developments from the preceding years supported the positive expectations for further expansion on the revenue side, while on the expenditure side, the main priorities remain education sector, social security and pension system, defence and security, together with investment in infrastructure supported by the expenditures under the EU programmes. The parameters for the budget execution for the first two months of 2020 were in line with the projections under the initial Annual State Budget Act for 2020 and the consolidated fiscal programme reported surplus of 1.1 per cent. of GDP as of end of February 2020.

In mid-March, following the sudden worsening of the COVID-19 pandemic globally and particularly in several EU member states and the unprecedented increase of the risks for the public health, the National

Assembly enforced a State of Emergency in Bulgaria. The State of Emergency commenced on 13 March 2020 and was initially for a period of one month, later extended to 13 May 2020. The kindergartens, schools and universities were closed as a measure to control and combat the pandemic, together with a temporary lockdown for mass events, sports, cultural venues, entertainment premises, restaurants, amusement/gambling halls, bars, nightclubs, etc. All employers, if possible, are to introduce remote work for their employees and online learning was introduced for schools and universities. Travelling out of Sofia, the major cities and other regional centres has been limited (with the requirement to declare before police patrols a legitimate purpose for the travel, such as employment, or health needs) but has not been banned.

In the current unprecedented situation in which many countries in the world are struggling with the resources available to limit the spread of COVID-19, the dimensions of the crisis for both the European economy and the global economy cannot yet be accurately assessed. Most major pandemic-affected economies expect a significant slowdown and potential recession this year, but all of these projections are accompanied by great uncertainty about how significant the economic impact of the pandemic action will be. In addition, it is unclear how long and to what extent social exclusion measures will continue to have a negative impact on domestic consumption. However, it is clear that serious measures to combat the disease will have significant economic consequences, and that the economic recovery will not begin until the pandemic threat is effectively controlled.

Bulgaria was in good fiscal condition upon entering in this State of Emergency situation caused by the spread of the COVID-19 infection. The prudent fiscal policy resulted in cumulative surplus of the general government sector for the 2015-2019 period of about 3.7 per cent. of GDP (1.2 per cent. of GDP year average), which provided for maintaining the buffers in the fiscal reserve. The budget execution parameters at the time of the announcement of the State of Emergency in Bulgaria were good, with the preliminary data (cash basis) for the first quarter of 2020 outlining a surplus of BGN 1.4 billion (1.2 per cent. of GDP). However, the budget parameters for the first quarter still have not captured the main negative effects on both the revenue and expenditures side from the announcement of the State of Emergency. All scenarios, even those with shorter and slower economic slowdown in Bulgaria, outline a serious deterioration in revenue and expenditure parameters on an annual basis, which translates into a deterioration of the budget balance against the target set in ABL for 2020. That was the main reason for update of the macroeconomic scenario as well as drafting of amendment of the ABL for 2020.

The updated macroeconomic scenario has been developed under the assumption of managing the pandemic in Bulgaria in line with international developments and a parallel economic recovery. The State of Emergency will have a significant negative impact on the economic activity at the end of the first and second quarters, partly affecting the third quarter of 2020, and potentially beyond, as part of the reconstruction process. The strictest measures to contain the spread of the virus are expected to last about three months and have a significant negative economic impact.

The updated scenarios for the development of macroeconomic indicators on an annual basis, based on the available information as of March 2020, outline a serious slowdown in annual terms for the main taxes and social security contributions compared to the planned parameters with the estimates initial Annual State Budget Act for 2020. The reasons for the projected revenue underperformance are complex including, but not limited to, external and internal factors that will contribute to lower domestic consumption, shrinkage of exports and imports, lower than projected employment, and changes in crude oil price assumptions. The expected underperformance of the revenues and the expected additional expenditures incurred in implementing the measures of the Measures and Actions during the State of Emergency Act, announced by a Resolution of the National Assembly of 13 March 2020 (State Gazette, Volume 28/24 March 2020) outline the need for amendment of the Annual State Budget Act for 2020.

On 30 March 2020, the government approved and passed to the Parliament proposal for amendments to the Annual State Budget Act for 2020 and the enacted law entered into force on 9 April 2020. The amendments envisage a decrease of BGN 2.44 billion in projected revenue due to sudden worsening of the macroeconomic scenario in the context of the emergency situation to manage and overcome the COVID-19 pandemic. The projected revenue underperformance will affect mainly the tax revenues (VAT, excises, CIT, PIT, and social-security contributions).

Among the policies to support the economic activity, the following measures are being implemented: a Government backed package of financial instruments in the amount of BGN 4.5 billion., including interest-free loans to individuals, loans to micro enterprises, unsecured loans to SMEs, capital investments to SMEs

and other financial instruments through the Fund Manager of Financial Instruments in Bulgaria and the Bulgarian Development Bank. Approximately BGN 1.5 billion from the State budget was planned to finance healthcare and socio-economic measures in support of persons and companies. Over BGN 870 million has been reallocated from non-contracted EU funds under the operational programs to support the economy during the lockdown.

On the expenditure side, measures to combat and control the COVID-19 outbreak, together with the measures to support the workforce and business are being put in place. The main part of those measures will be financed by increasing of expenditures by BGN 1.07 billion, together with additional capitalization of the Bulgarian Development Bank of BGN 700 million, which will be used for structuring facilities for support of the SMEs in the heavily affected sectors and self-employed persons.

The projected underperformance of the revenues and the additional funds for expenditure measures are projected to worsen the budget balance (cash basis), leading to a deficit of about BGN 3.5 billion (3 per cent. of GDP) for 2020. In order to finance the deficit and to support the buffer in the Fiscal Reserve Account in case of additional worsening or extending of the current extraordinary situation, the amended budget envisages an increase of the limit for new debt issuance for 2020 from BGN 2.2 billion to BGN 10 billion. As of 30 June 2020, BGN 1.2 billion has been issued.

Privatisation

The privatisation process in Bulgaria started in 1992. Most of the major sectors of the economy have been privatised and the resources of state-owned companies still available for privatisation are limited.

Since 1 January 2010, the proceeds from privatisation are allocated entirely to the benefit of the State Fund for Guaranteeing the Stability of the State Pension System (the "**Silver Fund**").

As of 31 December 2018, the total amount (in terms of value) of privatised assets amounted to 66.31 per cent. of all state assets. Shares in 5,282 state enterprises have been sold, including 2,939 enterprises and 2,343 separate parts of companies. 4,256 sales of minority stakes have also been completed. The total financial effect of privatisation transactions amounted to US\$12,555 million, including US\$6,506 million in payments, US\$1,192 million in assumed liabilities and US\$4,857 million in investment commitments.

The largest number of privatised enterprises operate in the industry sector, followed by trade, agriculture, construction and then tourism.

A total of 174 privatisation transactions that have taken place in Bulgaria since the beginning of the privatisation process were made involving foreign investors, which has contributed substantially to the financial results provided above. As a result of its privatisation programme, Bulgaria has attracted large investors from the Czech Republic, Russia, Austria, Germany, Belgium, Greece and other countries.

Some of the largest enterprises in Bulgaria have already been privatised such as: the former state-owned banks (with the exception of the Bulgarian Development Bank which has remained state-owned); the Bulgarian Telecommunications Company EAD; Kremikovtzi EAD; TPP Bobov Dol EAD; Neftochim EAD; Bulgarian Maritime Fleet (Navibulgar) EAD; Sodi Devnya EAD; SOMAT EAD; Arsenal EAD; Asarel Medet EAD; Bulgartabac Holding AD; Energy Distributing Companies; and many others.

Privatisation in the 2015-2019 period

According to the forecast of the privatization revenues prepared by the Public Enterprises and Control Agency (formerly known as the Privatisation and Postprivatisation Control Agency), the expected revenues for the period 2020 – 2023 amount to EUR 3.9 million. The proceeds are expected from the sale of state property and separate parts of state-owned companies.

The following table summarises the results of the privatisation process in the period between 2015 and 2019:

Report Year	Revenues	Primary Divestitures
	<i>(EUR millions)</i>	
2015	2.3	Post-privatisation control

Report Year	Revenues	Primary Divestitures
2016	10.0	Separate parts of state-owned companies
2017	2.7	Separate parts of state-owned companies
2018	3.1	Separate parts of state-owned companies
2019	3.5	Post-privatisation control

Source: Ministry of Finance.

Pension System

The pension system in Bulgaria has undergone substantial structural reform since the late 1990s. The traditional pay-as-you-go system was transformed into a three-pillar system through the introduction of mandatory and voluntary fully funded pensions. The current Bulgarian pension system came into force with the Mandatory Social Insurance Code on 1 January 2000 (renamed the Social Security Code in 2003). It is based on the principle of security through diversity and includes the following:

Mandatory pension insurance (Pillar I)

The public system of mandatory pension insurance of the pay-as-you-go type (Pillar I) ensures linkage of the pension amounts with contribution periods and earnings. New, more restrictive eligibility criteria on the basis of length of service and age were introduced in 2000. Promoting the principle of mandatory participation and universality, the first pillar covers all economically active persons. There is differentiation among the categories of insured persons, depending on the number and types of included social insurance risks. These include mandatory social security for all social risks; compulsory social security for disability, old age, death, accidents at work and occupational disease; and compulsory social security for disability due to general disease, old age and death.

The first pillar is financed through contributions from employers and employees, as well as through transfers from the State Budget for covering all non-contributory pension benefits and some non-contributory periods, which are regarded as insurance periods. In the 2009-2015 period, the State participated as a "third party insurer" and paid contributions equal to 12 per cent. of the total insurance income of all insured persons. As of 1 January 2016, the State contribution was abolished. However, the State has the obligation to cover any remaining financing gaps and deficits of the public pension system.

The first pillar is administrated by the National Social Security Institute, which is responsible for entitlement to and payment of pensions and other social insurance benefits in the event of temporary incapacity to work, maternity and unemployment. The pension policy is formulated and implemented by the Ministry of Labour and Social Policy.

Inflows to the first pillar are allocated into separate public social insurance funds being: the Pensions Fund; the Pensions fund for persons under Art. 69 of the Social Insurance Code; the Accidents at Work and Occupational Disease Fund; the General Disease and Maternity Fund; and the Unemployment Fund. The sixth fund for pensions not related to labour activities is financed through transfers from the State budget. The deficit of the funds is covered by subsidy from the government budget on an annual basis.

Pension contributions to the public pension system in Bulgaria are distributed between employer and employee. In 2019, the rate of pension contribution for the third labour category workers (labour without risk for which employer pays no contribution in Professional Pension Funds ("PPFs")) is 19.8 per cent. of the gross insurable income. For persons born after 31 December 1959, the contribution rate for first pillar is 14.8 per cent. and 5.0 per cent. are transferred to the second pillar. The employer pays 56 per cent. of the total contribution and the remaining 44.0 per cent. are for the account of the employee. Contribution rate for military and police officers is 60.8 per cent. (55.8 per cent. respectively) and is borne entirely by the State. The contribution rate for Accidents at Work and Occupational Disease Fund is between 0.4 per cent. and 1.1 per cent. and is differentiated by type and degree of risks for main groups of economic activities. These contributions are only at the employers expense. Contribution rate for the General Disease and Maternity Fund is 3.5 per cent. and contribution rate for the Unemployment Fund is 1.0 per cent. The contributions to latter two funds are distributed between employer and employee in the ratio 60:40.

Supplementary mandatory pension schemes (Pillar II)

The supplementary mandatory pension schemes are capital based schemes with defined social security contributions, accumulated and capitalised in individual pension accounts. They do not replace the first pillar pensions and allow for receiving more than one pension, thus increasing the replacement rate without any increase of the social insurance burden.

The scope of the second pillar is narrower than that of the first pillar and it covers only old age and death risks, as well as the risk of permanently reduced working capacity over 89.99 per cent. It is also more limited because it covers two categories of persons. First, it covers any person subject to mandatory social insurance in a universal pension fund; these are all persons insured under the first pillar and born after 31 December 1959. Second, all persons subject to mandatory social insurance in a professional pension fund (all persons working under the conditions of labour "at risk" requiring employers to make additional payments into professional pension fund in order to acquire the right to a time limited pension for early retirement, which precedes the pension based on the length of service and age, without any cumulative effect on the two pensions).

The supplementary mandatory pension schemes are based on monthly contributions to a universal and/or professional pension fund in amounts set out in the Social Security Code. Currently, the contribution to a universal pension fund is 5.0 per cent. (paid in the same ratio as the other part of the social security contributions), which is transferred from the first pillar Pension Fund contributions. The contribution to a professional pension fund has been 7.0 per cent. for the second labour category (labour "at risk" for which the employer pays additional contributions into PPFs each month) and 12.0 per cent. for the first labour category, at the sole expense of the employer.

As at 31 December 2019, the second pillar of the pension system had over 4.1 million participants. Total assets of this pillar comprise approximately EUR 7.4 billion. In the period between 1 January 2015 and 1 December 2019, the number of insured persons increased by around 11.5 per cent., and the assets of the second pension pillar rose from EUR 3.8 billion to EUR 7.4 billion.

Supplementary voluntary pension insurance schemes (Pillar III)

The supplementary voluntary pension schemes are also capital based. They involve voluntary contributions at the expense of insured persons, their employers and or third parties in order to provide life or fixed-period pension for old age or disability, as well as survivor pensions. They are organised and administered by shareholding companies with pension licences.

As of 1 January 2007, occupational pension schemes were introduced into this pillar. The contributions paid by employers (up to EUR 30.7 per month) and insured persons (up to 10 per cent. of the taxable income) are tax exempt, while the benefits to be paid include fixed-period pensions, programmed withdrawals and lump sum payments.

Recent pension reforms

Some amendments to the pension legislation have been made in order to improve the financial stability of the pension system as well as the adequacy of pension benefits. In August 2015, the following measures were adopted by the National Assembly and are reflected in the Social Insurance Code:

- The contribution rate for the State Pension Fund (Pillar I) was increased by 1 percentage point from 17.8 per cent. to 18.8 per cent. in 2017 and further by 1 percentage point to 19.8 per cent. in 2018. The planned increase of the contribution to the Universal Pension Fund (Pillar II) as of 2017 had been cancelled and the contribution rate remained 5 per cent.
- Gradual increase and equalisation of the standard retirement age for women and men at 65 years of age in 2037 (initially, the retirement age for women will be increased by two months each calendar year until 2029, and by three months from 2030 to 2037 whereas the retirement age for men will be increased by two months in 2016 and 2017, and as of 2018 - by one month each year till 2029). After 2037, an automatic mechanism for

increasing the retirement age according to the changes in the life expectancy will be introduced.

- Gradual increase of the required period of service for qualifying retirement of workers in the normal work conditions (third category of work) by two months annually until reaching 40 years for men and 37 years for women by 2027.
- Gradual increase of the retirement age in case of shortage of insured length of service to 67 years, *keeping* the minimum required length of service unchanged (15 years actual length of service for men and women).
- Introduction of the *possibility* to grant a reduced pension for persons who are up to 12 months' short of the retirement age, with the pension being reduced for the lifetime by 0.4 per cent. for each month that the person is below the retirement age.
- Limitation on early retirement by the gradual increase of the minimum retirement age for workers in the first and second labour categories until it reaches 55 for workers in first category and 60 for workers in second category (*hazardous* and *unhealthy* jobs).
- Gradual increase of the minimum retirement age for persons working in the "Defence and Security" sector by two months *annually* until it reaches 55.

As of August 2015, a possibility to opt out of the second pillar was given to people born after 31 December 1959, who were previously mandatory participants in the second pillar, with this decision being reversible until reaching the age, which is five years lower than the statutory retirement age. Persons who have decided to opt out the second pillar continue their pension insurance in the first pillar only. Their individual savings managed by private pension funds are initially transferred to the State Fund for Guaranteeing the Stability of the State Pension System and upon retirement the funds are shifted to the State Pension Fund (first pillar).

Some of the measures legislated in 2015, have been afterwards amended, namely: (1) The envisaged gradual increase of the accrual rate in the pension formula from 1.1 to 1.5, that started in 2017, has been stopped in 2019 when it reached the value of 1.2 and no further increases are planned; (2) The legislated abolishment of the maximum pension amount for new pensions was cancelled and a higher value of the maximum pension was established in 2019. As of 1 July 2019, the maximum pension amount had increased from BGN 910 to BGN 1,200.

Health Insurance

Bulgaria has a mixed system of healthcare financing. Healthcare is financed in a large part as a compulsory social health insurance system funded from wage-related contributions of employed individuals and from general tax revenues which covers the contributions of the non-working population (children, pensioners, unemployed, people taking care of disabled members of the family and people with right to social welfare). Another important source of revenues are the subsidies allocated by the Ministry of Health.

Mandatory health insurance is income based and amounts to 8 per cent. (increasing insurance contributions from 6 per cent. to 8 per cent. in 2009) of the payroll paid in 40/60 parts between the employee and the employer. The contributions are collected by the regional branches of the NRA which pools them and allocates to the accumulation account of the National Health Insurance Fund (the "**NHIF**"), which in turn distributes the funds to the Regional NHIFs. The NHIF was established in 1999 and is regulated by the Health Insurance Act of Bulgaria. It guarantees healthcare services to eligible persons and reimburses the costs related to such services, including medicines and medical aid equipment. In order to be covered, a person either has to personally make contributions or have contributions made on his/her behalf.

With respect to employed persons, the employer deducts insurance contributions from the monthly payroll and transfers these amounts to NHIF accounts. In the case of children, pensioners, students, soldiers, unemployed and other dependent categories the insurance contributions are transferred from the state budget. The self-employed persons pay into NHIF accounts directly.

Healthcare expenditure in Bulgaria is below the average amount spent in the EU. According to the World Health Organisation database in 2017, total spending amounted to 8.1 per cent. of GDP. Public spending

as a percentage of GDP was 4.4 per cent. in 2015. In 2016 and 2017, public expenditure on healthcare represented 4.3 per cent. of GDP, while in 2018 and 2019 it represented 4.4 per cent. of GDP and 4.5 per cent. of GDP, respectively.

MONETARY AND FINANCIAL SYSTEM

Bulgarian National Bank

The BNB is the central bank of Bulgaria. It was established on 25 January 1879.

Primary Objective, Tasks, and Reporting

The primary objective and the tasks of the BNB are stipulated in the Bulgarian National Bank Act (the "BNBA"), adopted by the 38th National Assembly on 5 June 1997. The BNB is independent from the state and is accountable to the National Assembly. The BNB's independence from the state is guaranteed by the BNBA, the Treaty on the functioning of the European Union and by the Statute of the European System of Central Banks and the ECB. Since 1 January 2007, the BNB has been a member of the European System of Central Banks ("ESCB") and participates in the decision making process in the area of banking and finance in the European Union. The BNB Governor is a member of the General Council of the European Central Bank and a member of the General Board of the European Systemic Risk Board. The primary objective of the BNB is to maintain price stability through ensuring the stability of the national currency and implementing monetary policy as provided for by the BNBA. The BNB acts in accordance with the principle of the open market economy with free competition, targeting an efficient allocation of resources.

The tasks and responsibilities of the BNB also include:

- maintaining full foreign exchange cover of the total amount of monetary liabilities of the BNB, by taking actions needed for the efficient management of the BNB's gross international reserves;
- investing the gross international reserves in accordance with the principles and practices of prudent investment, with investments in securities being limited to liquid debt instruments satisfying the provisions of the BNBA;
- regulating and supervising credit institutions' activities in the country for the purpose of ensuring the stability of the banking system and protecting depositors' interests;
- assisting in the establishing and functioning of efficient payment systems and overseeing them;
- regulating and supervising the activities of payment system operators, payment institutions and electronic money institutions in Bulgaria;
- issuing banknotes and mint coins in Bulgaria (an exclusive right of the BNB);
- acting as the fiscal agent and depository of the state by virtue of concluded contracts at market conditions and prices of services;
- compiling balance of payments, monetary and interest rate statistics as well as the quarterly financial accounts statistics of Bulgaria; and
- resolution planning and resolution execution for credit institutions.

According to the BNBA, the BNB cannot extend credits or guarantees to the Government and governmental institutions, municipalities and municipal institutions, organisations and enterprises. The BNB cannot provide credit to banks except in the case of a liquidity risk threatening to affect the stability of the banking system and only in accordance with the requirements set out in the BNBA.

The BNB keeps accounts and records in compliance with the Accountancy Act and in accordance with IFRS. The expenditure of the BNB is in accordance with the annual budget approved by the Governing Council of the BNB and published in the State Gazette. The reports on the budget expenditures of the BNB are examined by the National Audit Office, which prepares a special report on the results of the examination; the reports are also submitted to the National Assembly along with the annual report.

The BNB publishes the balance sheet of the Issue Department on a weekly basis, showing the position of its assets and liabilities, inclusive of the gross international reserves and the total amount of the BNB's monetary liabilities. The BNB publishes the position of its assets and liabilities in the State Gazette at the end of each month, presenting separate balance sheets of the Issue and Banking Departments, an annual financial statement and the profit and loss account of the BNB.

The consolidated financial statements of the BNB are certified by an independent international auditor and published together with the auditor's report in accordance with the requirements of IFRS. The BNB prepares annual and semi-annual reports which review and assess the BNB's activities. These reports are submitted to the Parliament and are made public.

Governance

The management of the BNB is carried out by the Governing Council, the Governor and the three Deputy Governors. The Governing Council consists of seven members: the Governor of the Bank, the three Deputy Governors, and three non-executive members. The Governor of the BNB is elected by the National Assembly. The National Assembly elects the Deputy Governors heads of the main departments, defined by the BNBA upon a proposal by the Governor. The non-executive members of the Governing Council are appointed by the President of the Republic. The term of office of the members of the Governing Council is six years. The replacement of the Governing Council follows a staggered schedule with a mandate expiring every year.

Governing Council

The BNB Governing Council is the collegiate decision-making body of the Bank. The Governing Council has the following powers (among others) provided in the BNBA:

- sets interest rates, fees and commissions related to the Bank's operations;
- sets the percentage of the minimum reserves to be held by banks and approve the conditions and requirements for their fulfilment;
- sets rules and requirements regulating bank activities;
- makes decisions for issuing new banknotes and coins, and sets the time limits after which the banknotes and coins cease to be legal tender and within which banknotes and coins called in have to be exchanged;
- approves the BNB annual budget, the annual balance sheet and twice a year a report, which reviews and assesses the BNB activities during the previous period;
- grants, refuses to grant, and withdraws licences of banks in the context of close cooperation under Article 7 of Regulation No (EU) 1024/2013, of payment system operators, payment institutions and electronic money institutions and registers, refuses to register or deletes account information service providers under conditions and procedure set out by law;
- applies supervisory measures and early intervention measures, grants approvals, authorisations and consents in the cases set out by law in the context of close cooperation under Article 7 of Regulation No (EU) 1024/2013;
- makes decisions as a resolution authority in the cases provided for in the Recovery and Resolution of Credit Institutions and Investment Firms Act;
- makes decisions under Article 20, paragraph 1, item 2 of the Bank Deposit Guarantee Act that bank deposits are unavailable;
- grants, refuses to grant, withdraws or suspends the authorisation or registers, refuses to register, withdraws or suspends the registration of administrators of interest rate benchmarks, as well as endorses or refuses to endorse interest rate benchmarks provided in a third country under Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on

indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014.

Structure of the BNB

The BNBA establishes three main departments at the BNB: an Issue Department, a Banking Department and a Banking Supervision Department. Each department is headed by a Deputy Governor elected by the National Assembly.

The main function of the Issue Department is to maintain full foreign exchange cover of the total amount of monetary liabilities of the BNB, by taking actions needed for the efficient management of the BNB's gross international reserves.

The Deputy Governor heading the Banking Department is responsible for exercising supervision over the payment system operators, payment services providers and electronic money issuers, in accordance with applicable rules and regulations. The Deputy Governor exercises his supervisory powers and carries out the operational management of the department autonomously and independently of the functions of the other BNB departments.

Supervision over the banking system is exercised by the Deputy Governor heading the Banking Supervision Department, in accordance with the procedures established by law and the statutory instruments issued for its enactment. The Deputy Governor exercises his supervisory powers and carries out the operational management of the department autonomously and independent of the functions of the other BNB departments. After 1 October 2020, the effective date of Bulgaria's joining the Banking Union, the ECB will take charge of the direct supervision of Bulgaria's significant banks, whereas the BNB will assist the ECB in its role as well and will continue to supervise Bulgaria's other banks. After completing significance assessment, on 11 September 2020, the ECB announced that it will supervise the following Bulgarian banks as of 1 October 2020: UniCredit Bulbank, DSK Bank (OTP Group), United Bulgarian Bank (KBC Group), Eurobank Bulgaria, and Raiffeisenbank (Bulgaria).

The BNB concentrates the powers and responsibilities on monetary policy and bank supervision, which equips the BNB with macro-prudential tools in addition to the standard micro prudential tools. The general strategy followed by the BNB is to address the relevant policy issues and other systemic risk issues via calibrated counter-cyclical changes in both macro and micro prudential policy tools.

Currency Board

The primary objective of the BNB to maintain price stability through ensuring the stability of the national currency has been achieved since July 1997 within the framework of the currency board, provided for by the BNBA.

Legal Framework

The functioning of the currency board in Bulgaria is based on three major principles laid down in the BNBA, namely:

- a fixed exchange rate of the Lev to the Euro which is BGN 1.95583 per EUR 1;
- the total amount of BNB monetary liabilities is fully covered by high quality foreign reserves. The aggregate amount of the monetary liabilities of the BNB consists of all banknotes and coins in circulation issued by the BNB; any balances on accounts held by other parties with the BNB, with the exception of the accounts held by the International Monetary Fund. The gross international reserves of the BNB shall be equal to the market value of the following assets of the Bank: (a) banknotes and coins held in freely convertible foreign banknotes and coins held in freely convertible foreign currency; (b) funds in freely convertible foreign currency held by the BNB on accounts with foreign central banks or with other foreign financial institutions, whereof obligations are assigned one of the two highest ratings by two internationally recognised credit rating agencies; (c) the Special Drawing Rights ("**SDRs**") of the International Monetary Fund held by the BNB; (d) debt instruments held by the BNB and issued by foreign

countries, central banks, other foreign financial institutions or international financial organisations, whereof obligations are assigned one of the two highest ratings by two internationally recognised credit rating agencies, and which are payable in freely convertible foreign currency with the exception of debt instruments given or received as collateral; (e) the balance on accounts receivable and accounts payable on forward or repurchase agreements of the BNB, concluded with or guaranteed by foreign central banks, public international financial organisations or other foreign financial institutions, whose obligations are assigned one of the two highest ratings by two internationally recognised credit agencies, as well as futures and options of the BNB, binding foreign persons and payable in freely convertible foreign currency; and (f) the monetary gold held by the BNB as a component of foreign reserves; and

- the reserve currency is treated on equal terms with the national currency and the BNB has the obligation to unconditionally and irrevocably sell and purchase Levs against the Euro at the exchange rate fixed by the BNB. Hence, the BNB does not intervene on the foreign exchange market but the BNB exchanges on demand domestic currency against the anchor currency and vice versa at the fixed rate. The national currency is issued solely against providing reserve currency at the fixed exchange rate without a spread.

In addition to the above principles:

- The BNB cannot extend loans and guarantees in any form whatsoever, including through purchase of debt instruments, to the central government, municipalities, other government and municipal institutions, organisations and undertakings in the public sector, European Union institutions, bodies, offices or agencies, the central government, regional, local or other public authorities, other bodies governed by public law or public sector entities of EU Member States.
- The BNB may not provide loans to banks except in the case of a liquidity risk threatening to affect the stability of the banking system. The terms and procedure for extending such loans, and the criteria for identifying the existence of liquidity risks are set by an ordinance of the BNB. The total loan amounts extended shall not be greater than the amount of the excess of the Lev equivalent of the gross international reserves over the total amount of BNB monetary liabilities. This provision has never been used since the introduction of the currency board in Bulgaria.
- The BNB invests its gross international reserves in accordance with the principles and practices of prudent investment.
- The BNB combines typical monetary policy functions (money issuance, regulation over the minimum reserve requirements, oversight of the payment systems) with banking supervision (both regulatory and supervisory powers), and fiscal agency functions. The BNB has both a macro and micro-prudential mandate.

Operational Framework

The currency board framework contributes towards maintaining overall macroeconomic and financial stability and the implementation of prudent fiscal policies. In the period of high economic growth prior to 2008, the consistent countercyclical micro- and macroprudential policies of the BNB, the conservative regulatory policy of the banking system as well as the prudent fiscal policy of the Bulgarian government ensured the accumulation of significant financial reserves (buffers). These buffers contributed to Bulgaria's ability to mitigate the negative effects of the global financial and economic crisis on the government budget and the banking system.

The legal framework of the currency board guarantees an automatic mechanism of balancing national currency demand and supply at the fixed exchange rate determined by the law. Under the currency board, it is impossible the issue of national currency to exceed the level of the gross international foreign exchange reserves, which could, otherwise, lead to erosion of the fixed exchange rate (a key difference between a currency board regime and one of a standard fixed exchange rate). The change in the level of BNB gross international reserves reflects the net result of the change in the demand for national currency by economic agents, the Government and banks, as well as changes in the market value of gold (as part of international reserves) and the financial assets in which these reserves are invested (see table below).

Under the conditions of the fixed exchange rate against the Euro and a free movement of capital, the BNB exercises no control over the interest rates and therefore, monetary conditions in Bulgaria follow to a great extent those in the euro area. Thus, the currency board largely reproduces the monetary conditions in which the euro area economy is functioning. The direct transmission of European Central Bank's ("ECB") monetary policy to the Bulgarian economy is facilitated by the country's strong trade and financial integration with the euro area. The banking system is a factor for this transmission because of the substantial market share of euro area owned banks in the Bulgarian banking sector. With the outbreak of the global financial and economic crisis resource availability declined worldwide. The competition for local resources intensified, interest rates on deposits in Bulgaria decoupled from that of the eurozone and domestic deposit rates increased. Rising funding costs and tightened credit conditions were reflected in the upward movement of interest rates for loans over the course of 2008-2009. Driven by high global liquidity, the downward interest -rate cycle and domestic factors such as the confidence in the banking system, the robust savings rate and improved liquidity and capital adequacy ratio ("**CAR**"), average interest rates of loans started to fall at the end of 2009 and this trend continued in the following years. The high inflow of funds attracted from residents in the banking system contributed to further strengthening of banks' liquidity position, which coupled with competition among banks, the favourable macroeconomic environment over the 2015-2019 period and positive housing market prospects, supported the credit activity in the country.

The BNB expects that in 2020 deposit interest rates will remain broadly unchanged from the low levels of 2019. The main factors for this expectation are the high liquidity in the banking system and the anticipated further increase in residents' deposits in an environment of heightened uncertainty, which generally motivates precautionary savings by households. Conversely, the BNB expects the interest rates on newly extended loans to households and non-financial corporations to increase. Given the recently observed increase in euro area money market interest rates, particularly in the medium and long-term segments (6-month and 12-month EURIBOR), and due to the fact that they are used as reference rates by some banks, lending interest rates are likely to start following an upward trend. Additional factors which could affect lending interest rates in an upward direction include an expected worsening of borrowers' creditworthiness and a higher sovereign risk premium which will determine an overall increase in the risk premium of loans. Lastly, the possible rise in non-performing loans in the banking system, that is expected as a result of the deterioration of the macroeconomic environment, could also potentially contribute to the increase of interest rates on newly extended loans.

The main policy instrument used by the BNB to influence domestic monetary conditions is the regulation of minimum reserve requirements which banks maintain with the central bank. As the minimum reserve requirements held at the BNB are not remunerated, their rate implicitly affects the overall cost of funding of banks and thus influences the banks' policies in setting their lending rates. For example, the reduction of the minimum reserve requirements rate since early 2009 has boosted liquidity in the banking system and contributed to falling interest rates in the interbank money market. The BNB can also influence the monetary conditions in Bulgaria indirectly by applying macro-prudential and micro-prudential tools as well as administrative measures. Nonetheless, the objective of those measures is mainly ensuring financial stability rather than affecting monetary conditions.

In the years preceding the global financial and economic crisis the steady increase of bank deposits at the BNB reflected both the BNB policy and the increase of financial intermediation in the economy. From 2004 to 2007, the BNB introduced a number of measures aimed at curbing the rapid credit expansion which took place during that period and at building counter-cyclical buffers in banks. One of the macro-prudential tools implemented in this period was the increase in the banks' short-term liquidity requirements which entailed broadening the deposit base for the calculation of minimum reserve requirements ("**MRR**") and increasing the rate from 8 per cent. to 12 per cent. In late 2008 and early 2009, the reduction of the minimum reserve requirements rate provided liquidity to banks at the time of a contraction in global liquidity. Changes to the banks' reserves at the BNB also affect the level of international reserves. In the period running from 2009 to 2015, the changes to the banks' reserves reflected not only the heightened savings rate of domestic economic agents and the increasing confidence in the banking system, but also subdued credit demand and the banks' policy of managing their assets. Banks managed their liquidity by reducing their foreign liabilities, investing in foreign assets, purchasing government securities and holding excess reserves at the BNB. These developments have resulted in a positive balance of net foreign assets of banks since August 2013. In 2012, Bulgarian banks increased their excess reserves and funds on settlement accounts in the TARGET2 BNB payment system as part of their overall deposits at the BNB. Substantial reduction of banks' balances in TARGET2 BNB was observed since the third quarter of 2013, which also continued in

2014 and most of 2015. After the introduction by the ECB of a negative interest rate on the ECB's deposit facility and on bank accounts in TARGET2 in June 2014 (thereby charging a higher rate for the balances in TARGET2 of participating non-euro area central banks), Bulgarian banks significantly increased the excess reserves on their accounts with the BNB. Bulgarian banks had the opportunity to maintain excess reserves with the BNB without being charged as the interest rate on excess reserves in Bulgaria at that time was 0 per cent. Banks found it more rational to keep a substantial portion of their holdings on their accounts with the BNB, rather than in deposit products offered in the euro area money market. The difference in the remuneration of the excess reserves in Bulgaria and the euro area also created arbitrage opportunities, which helped avoid the negative interest rates in the euro area money market. In December 2015, bank deposits with the BNB in excess of the MRR reached 127.8 per cent. on an average daily basis. The transmission of the ECB's monetary policy to interest rates on the interbank money market in Bulgaria was distorted.

From the beginning of 2016 the BNB implemented regulatory changes, introducing a definition of excess reserves for bank accounts held with the BNB and started to apply the interest rate on the deposit facility of the ECB on the excess reserves when this interest rate was negative. These changes led to a strengthened propagation of ECB interest rates to the Bulgarian economy. Banks' excess reserves, however, remained sizeable. As from October 2017, the BNB introduced an extra minus 20 basis points on top of the ECB deposit facility interest rate, with which banks' excess reserves held at the BNB are charged. As a result, there has been a downward trend in excess reserves, which in October 2017 amounted to 56.6 per cent. of MRR on an average daily basis. In February 2020, banks' excess reserves reached 20.3 per cent. of MRR. Part of the decline in banks' excess reserves at the BNB during this period was also due to the strengthening of the macroeconomic conditions in the country and the revival of credit activity. The downward trend in banks' excess reserves at the BNB, observed since the fourth quarter of 2017, resulted in a decline of total bank reserves, as the decrease in excess reserves was larger than the increase in MRR due to the continuing growth in the deposit base. After the BNB adopted COVID-19 pandemic related measures in mid-March for increasing the liquidity position of the banking system, banks' excess reserves increased to 31.3 per cent. of MRR on an average daily basis (see "*BNB measures in response to the COVID-19 pandemic*").

Fiscal policy may also affect the level of gross international reserves, reflecting the changes in the Government deposits on the BNB's balance sheet. During the years of high economic growth, the Government was running fiscal surpluses and accumulating fiscal reserves which were largely deposited at the BNB. The adverse cyclical conditions during the global financial and economic crises led to a sharp decline in government revenues in the 2009 – 2011 period, which in turn resulted in budget deficits on cash basis of respectively 0.9, 3.8 and 1.8 per cent. of GDP. In this period Bulgaria took advantage of the readily available fiscal buffers generated during the pre-crisis years, which allowed policymakers to minimise the negative effects of the financial market tensions on the Government budget. This caused a decrease in Government deposits at the BNB in the period of 2009-2011. Despite this decrease, year-end international reserves did not fall over the period due to positive changes in the other components of the Issue Department balance sheet. During the course of the 2012-2015 period, the gross financing needs of the government were financed largely through new Eurobond issuances and despite the cash-based budget deficits recorded over this period, as at 31 December 2015 the Government deposits increased as compared to its deposit level as at 31 December 2011. The Government deposits recorded a substantial increase by EUR 2.4 billion for the year ended 31 December 2016 as compared to for the year ended 31 December 2015, as a result of the new Eurobond issuance from March 2016 (in the amount of EUR 2 billion) and the cash-based budget surplus for the year. Over the 2017-2018 period, an active Government debt reduction policy was consistently followed and debt reductions were financed primarily through primary budget surpluses, as Government revenues increased on the back of favourable macroeconomic developments, improving labour market conditions, social security legislative changes as well as enhanced tax revenue collection. To a lesser extent, resources from the Government deposits at the BNB were also used for financing debt reduction. As a result, the Government deposits decreased by EUR 0.7 billion on an annual basis for the year ended 31 December 2017 and further decreased by EUR 0.4 billion for the year ended 31 December 2018. The year-end Government deposits level declined further in 2019 by EUR 0.3 billion. This was driven entirely by the pre-payment of military aircraft in the amount of USD 2.1 billion, but was partially offset by the sustained strong growth of tax revenues, small positive domestic debt issuances and other positive domestic financing contributions. For the year ended 2019, the Government deposits at the BNB amounted to EUR 4.1 billion (6.8 per cent. of GDP), increasing by 35.5 per cent. as compared to the Government deposits for the year ended 31 December 2015.

The BNB's gross international reserves amounted to EUR 24.8 billion (40.9 per cent. of GDP) as at December 2019, decreasing slightly by 0.9 per cent. on an annual basis. The decline in international reserves, compared to December 2018, was mainly a consequence of the decrease in Bulgarian banks' excess reserves and the lower level of the governmental deposit at the BNB. As at 31 December 2019, the gross international reserves covered 8.2 months of imports of goods and non-factor services, while their ratio to short-term external debt amounted to 294.8 per cent.

The following table sets out international reserves as at 31 December in each year for the 2015-2019 period and the six months ended 30 June 2020:

	2015	2016	2017	2018	2019	June 2020
	<i>(EUR millions, end of period)</i>					
International reserves	20,285.4	23,898.6	23,662.1	25,072.2	24,835.6	28,039.7
International reserves growth, year on year (per cent.)	22.7	17.8	(1.0)	6.0	(0.9)	12.9
Coverage of monetary base. (per cent.)...	144.3	163.4	156.4	150.5	149.6	
Coverage of short term ext. debt. (per cent.)	261.7	308.4	294.7	310.8	294.8	355.8
Coverage of imports. months. annually...	8.5	10.0	8.6	8.5	8.2	9.9

Source: Assets of BNB Issue Department.

The following table sets out the total assets and liabilities of the BNB's Issue Department for the annual periods between the years ended 31 December 2015 and 31 December 2019 and the six months ended 30 June 2020:

	2015	2016	2017	2018	2019	June 2020
	<i>(per cent. of GDP, end of period)</i>					
Cash and foreign currency denominated deposits	12.2	15.5	20.5	18.1	12.3	24.8
Monetary gold and other monetary gold instruments	2.8	2.9	2.7	2.6	2.9	3.6
Investments in securities	29.5	30.7	22.1	24.0	25.8	21.0
Total Assets	44.4	49.2	45.2	44.7	40.9	49.4
Notes and coins in circulation	14.2	14.9	15.3	15.8	16.1	17.0
Liabilities to banks	16.5	15.2	13.6	13.9	11.3	15.9
Liabilities to Government and to government budget institutions	6.7	11.3	9.2	7.8	6.8	8.4
Liabilities to other depositors	0.9	1.6	1.6	1.9	1.6	2.2
Banking Department deposit	6.1	6.3	5.6	5.2	5.2	5.9
Total Liabilities	44.4	49.2	45.2	44.7	40.9	49.4

Source: BNB (Balance of Issue Department), NSI. The GDP figure, which is used for the calculations in the table for the six months ended 30 June 2020, is a projection of the BNB.

As at 31 March 2020 the market value of BNB's gross international reserves amounted to EUR 26.5 billion (43.6 per cent. of GDP based on nominal GDP over the last four quarters from the second quarter of 2019 through the first quarter of 2020), which represented an increase of EUR 1.7 billion compared to as at 31 December 2019. Under the currency board operating principles, the dynamics of the international reserves reflected the changes in the liabilities of the BNB's Issue Department. Liabilities to banks and to a smaller extent liabilities to the Government and to Government Budget Institutions as well as the Banking Department deposits recorded an increase over the first three months of the year. Banks' reserves increased substantially in the second half of March driven entirely by banks' excess reserves. The upward dynamics of the banks' excess reserves reflected the reduction of their foreign exposures following the BNB's decision to further strengthen the banking system's liquidity, as part of the overall package of COVID-19 pandemic related measures (see "*—BNB measures in response to the COVID-19 pandemic*"). The increase in the Government deposits was mainly a result of the cash-based budget surplus amounting to EUR 0.7 billion recorded over the first quarter of 2020. The increase of BNB's gross international reserves in the first quarter of 2020 also reflected the increase in the market price of monetary gold measured in euros.

The BNB expects an overall increase of its gross international reserves by the end of 2020 as compared to 31 December 2019. The growth rate of currency in circulation is expected to be moderate due to the weakening private consumption as a result of the negative impact of the decline in economic activity on disposable income of households following the COVID-19 pandemic. A slight increase of currency in circulation is foreseen on an annual basis at the end of the year driven mainly by higher precautionary holdings of cash by consumers. Banks' reserves are also expected to have a positive contribution to international reserves. A higher level of banks' excess reserves is expected as a result of the BNB's measures to boost banking system liquidity (see "*Banking System*" below). Banks' minimum required reserves, held at the BNB, are also expected to increase in view of the anticipated growth of the deposit base, driven by precautionary savings of households against the background of heightened uncertainty in the macroeconomic environment. An additional factor for the increase in the international reserves will be the positive effect of revaluations in the price of gold. The level of the Government deposits at the end of 2020 will primarily depend on the extent of the budget performance deterioration and the cash-based budget deficit recorded for the year. Conditioned on the assumption that gross financing needs of the Government will be predominantly financed by new market debt and to a lesser extent by liquid resources from the Government deposits at the BNB, the level of the Government deposits may decrease only moderately at the end of 2020.

The following tables set out monetary and credit developments as at 31 December in each year for the 2015-2019 period and as at 30 June 2020:

	As at 31 December					As at 30 June
	2015	2016	2017	2018	2019	2020
<i>(EUR millions, end of period)</i>						
Broad money.....	37,816	40,696	43,832	47,681	52,392	53,657
MI	18,391	20,878	24,406	27,383	31,632	38,891
Quasi money	19,389	19,771	19,389	20,297	20,759	14,766
Claims on non-government sector.....	25,960	26,422	27,623	30,094	33,024	33,376
Non-financial corporations.....	15,818	15,881	16,112	17,141	18,270	18,185
Financial corporations.....	866	1,077	1,475	1,791	2,530	2,634
Households and NPISHs*	9,276	9,463	10,036	11,161	12,224	12,557
Net foreign assets of other MFIs**	1,322	2,482	3,594	4,420	5,546	31,748
Foreign assets.....	5,440	6,343	7,408	8,569	9,834	36,400
Foreign liabilities	4,118	3,861	3,814	4,150	4,288	4,652

* Non-profit institutions serving households (NPISHs).

** Monetary financial institutions (MFIs).

Source: BNB Monetary Survey and Analytical Reporting of Other MFIs.

	As at 31 December					As at 30 June
	2015	2016	2017	2018	2019	2020
<i>(annual growth, end of period, per cent.)</i>						
Broad money.....	8.8	7.6	7.7	8.8	9.9	9.5
MI	15.6	13.5	16.9	12.2	15.5	36.4
Quasi money	3.0	2.0	(1.9)	4.7	2.3	(27.9)
Claims on non-government sector.....	(1.6)	1.8	4.5	8.9	9.7	7.0
Non-financial corporations.....	(1.6)	0.4	1.5	6.4	6.6	3.3
Financial corporations.....	(4.6)	24.4	36.9	21.4	41.2	33.7
Households and NPISHs	(1.3)	2.0	6.1	11.2	9.5	8.0
Net foreign assets of other MFIs						
Foreign assets.....	(30.4)	16.6	16.8	15.7	14.8	5.3
Foreign liabilities	(27.2)	(6.2)	(1.2)	8.8	3.3	(2.6)

Source: BNB Monetary Survey and Analytical Reporting of Other MFIs.

	As at 31 December					As at 30 June
	2015	2016	2017	2018	2019	2020
<i>(per cent. of GDP, end of period)</i>						
Broad money.....	82.8	83.7	83.8	85.0	86.3	94.5
MI	40.3	42.9	46.7	48.8	52.1	68.5

	As at 31 December					As at 30 June
	2015	2016	2017	2018	2019	2020
	<i>(per cent. of GDP, end of period)</i>					
Quasi money	42.4	40.7	37.1	36.2	34.2	26.0
Claims on non-government sector.....	56.8	54.3	52.8	53.7	54.4	58.8
Non-financial corporations.....	34.6	32.7	30.8	30.6	30.1	32.0
Financial corporations.....	1.9	2.2	2.8	3.2	4.2	4.6
Households and NPISHs	20.3	19.5	19.2	19.9	20.1	22.1
Net foreign assets of other MFIs	2.9	5.1	6.9	7.9	9.1	55.9
Foreign assets.....	11.9	13.0	14.2	15.3	16.2	64.1
Foreign liabilities	9.0	7.9	7.3	7.4	7.1	8.2

Source: BNB Monetary Survey and Analytical Reporting of Other MFIs, NSI, Ministry of Finance for 2015 GDP projection. The GDP figure, which is used for the calculations in the table for the six months ended 30 June 2020, is a projection of the BNB.

The period after the global financial and economic crisis of 2008-2009 was characterized by a high savings rate in the economy, relatively strong growth of deposits and strengthening lending growth. In the last few years, Bulgaria has witnessed an environment of improving economic activity and a steady downward trend in lending interest rates. At the end of 2019, broad money growth accelerated to 9.9 per cent. on an annual basis (compared to 8.8 per cent. at the end of 2018). The historically low levels of deposit interest rates maintained firms and households' preferences to save mainly in the form of overnight deposits, which were the main contributors to broad money growth. In the 2017-2019 period, the annual growth of claims on the non-government sector accelerated and as of 31 December 2019 reached 9.7 per cent. Acceleration was observed in relation to lending to both enterprises and households, with the annual growth of loans to households amounting to 9.5 per cent. in December 2019, outpacing that of corporate loans that amounted to 6.6 per cent. in December 2019.

The following table sets out average interest rates for the periods between 1 January 2015 and 30 June 2020:

	2015	2016	2017	2018	2019	June 2020
	<i>(period average, per cent.)</i>					
LEONIA*	0.01	(0.16)	(0.29)	(0.50)	(0.48)	(0.56)
SOFIBOR 1M**.....	0.30	0.04	0.01	—	—	—
SOFIBOR 3M**.....	0.54	0.16	0.09	—	—	—
Interest rate on time deposits ***	1.26	0.62	0.27	0.27	0.29	0.22
Lending interest rate (NFC) ****	6.24	4.90	4.02	3.47	3.06	2.71
Long term interest rate*****	2.49	2.27	1.60	0.89	0.43	0.27

Notes:

* Effective as of 1 July 2017 LEONIA was replaced by the LEONIA Plus reference rate

** Effective as of 1 July 2018 the BNB discontinued the activities in relation to the calculation and publication of the SOFIBOR reference rate.

*** Interest rate of new business on time deposits, weighted average across non-financial corporations and households and NPISH sectors, currencies and maturities.

**** Interest rate of new business on loans to non-financial corporations (NFC), weighted average across currencies and maturities.

***** Long-term interest rate for Convergence Assessment Purposes.

Source: BNB.

The adoption of the euro by Bulgaria is required under the Accession Treaty. Bulgaria will retain a "derogation" with respect to participation in the single currency until it fulfils all the criteria for joining the euro area; once fulfilled, the existing derogation will be abrogated and Bulgaria will start the accession procedure for joining the euro area.

Joining the euro area remains a primary objective for Bulgaria, as well as a matter of consensus and policy continuity for the Bulgarian authorities. The Government has reiterated its commitment to maintaining the currency board regime and the existing fixed exchange rate of EUR 1 equal to BGN 1.95583 until the euro is adopted. Consequently, joining the euro area remains the only exit strategy from the currency board regime.

At present the Bulgarian authorities have not set a target date for adopting the euro. Nor have they announced a time frame for taking a decision on setting a target date for adopting the euro.

The primary objective of the BNB, as stipulated under Article 2, paragraph 1 of the BNBA, is to maintain price stability by ensuring the stability of the national currency. This objective has continued to be achieved through the operation of the currency board since 1997. The Bulgarian authorities, including the BNB and the political parties, are committed to maintaining the currency board and the fixed exchange rate of EUR 1 equal to BGN 1.95583 until Bulgaria becomes a member of the euro area.

The Banking System

The total assets of the financial system in Bulgaria as at 31 December 2019 amounted to EUR 79.1 billion, the predominant part of which consisted of the assets of the banking sector.

The following table provides a summary of the structure of the financial system in Bulgaria as at 31 December 2019:

	Total Assets EUR million	per cent.
Total financial system	79,045	
Banking sector	58,390	73.87
Total Non-banking financial sector	20,655	26.13
Insurance sector	4,638	5.87
Pension funds	8,045	10.18
Financial institutions	4,384	5.55
Institutional investors	3,588	4.54

Source: BNB, Financial Supervision Commission.

The Structure and Development of the Bulgarian Banking System

The banking sector assets as of 31 December 2019 accounted for 96.2 per cent. of GDP in 2019 and consists of 18 banks (seven of which are domestically controlled) and six foreign bank branches.

The following table provides an overview of the ownership structure of the Bulgarian banking system as at 31 December 2019:

Type of credit institutions	Per cent. of Total Assets
EU Subsidiaries	72.1
EU Branches	3.0
Domestic Banks	21.7
Non-EU Banks	3.0
Non-EU Branches	0.1

Source: BNB.

As of 20 March 2020, a total of 344 credit institutions licensed in European Economic Area countries have filed a Notification in Bulgaria from the relevant competent authority to carry out activities on a cross-border basis. These activities are subject to mutual recognition according to the rules of the European Banking Directives – the so-called Single European Passport or Passport Notifications.

The total assets of banks in Bulgaria amounted to EUR 58.4 billion as of 31 December 2019 and registered an increase of 8.2 per cent. as compared to 31 December 2018 based on aggregated balance sheet information submitted by credit institutions to the BNB BS Department.

The following table sets forth the aggregate assets, liabilities and balance capital of the banking system as at the dates indicated:

Banking System - Balance Sheet

Banking system balance sheet*	2015	2016	2017	2018	2019
		<i>(end of period, EUR millions)</i>			
Cash	9,336.6	9,286.3	9,974.7	10,397.4	9,275.2
Equity instruments	195.0	182.3	160.7	189.3	245.6
Debt securities	5,495.8	6,707.6	6,944.8	6,782.8	7,317.3
Loans and advances	27,645.6	28,596.5	30,520.8	34,187.9	38,419.0

Banking system balance sheet*	2015	2016	2017	2018	2019
	<i>(end of period, EUR millions)</i>				
Tangible, intangible, tax and other assets	2,077.4	2,314.8	2,407.6	2,412.7	3,133.1
Total Assets	44,750.4	47,087.4	50,008.6	53,970.1	58,390.1
Financial liabilities held for trading	82.3	79.5	97.0	42.7	60.0
Financial liabilities measured at amortised cost	38,453.8	40,430.7	43,046.6	46,349.4	50,318.9
Provisions, tax and other liabilities	322.6	373.5	424.1	492.5	650.2
Total Liabilities	38,858.7	40,883.7	43,567.7	46,884.7	51,029.1
Capital and share premium	2,064.6	2,154.1	2,155.3	2,720.7	2,605.5
Accumulated other comprehensive income	113.6	176.7	323.3	220.4	274.6
Retained earnings and reserves	3,254.1	3,364.8	3,362.1	3,286.3	3,627.7
Profit	459.4	508.2	600.3	858.1	853.2
Total Equity	5,891.7	6,203.8	6,440.9	7,085.4	7,361.0

Notes:

* The balance sheet information is aggregated for the banking sector based on credit institutions' individual reporting under Regulation (EU) No 680/2014 with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013.

Source: BNB, BS.

Banking system indicators

Banking system indicators	2015	2016	2017	2018	2019
	<i>(end of period, per cent., unless otherwise noted)</i>				
Return on assets (ROA)	1.0	1.4	1.2	1.6	1.5
Return on equity (ROE)	7.8	10.4	9.3	12.1	11.6
Capital adequacy	22.2	22.2	22.1	20.4	20.2
Tier I	20.5	20.9	20.9	19.3	19.6
Share of non-performing loans and advances in Total gross loans and advances (NPL ratio)	14.7	12.9	10.2	7.6	6.5
Net NPL ratio (share of non-performing loans and advances net of accumulated impairments) to Total Net Loans and advances	8.1	6.9	5.5	3.9	3.5
Net NPL to Total Assets	6.5	5.4	4.3	3.1	2.8
Liquid assets to total assets*	N.A.	27.0	26.4	28.1	27.1
Liquidity coverage ratio (LCR)	N.A.	291.1	344.7	293.9	269.9
Loan portfolio growth (year-on-year)	-2.6	0.6	3.0	8.6	8.8
Deposits growth (year-on-year)	7.9	7.0	5.8	7.9	8.6
Loans to Deposit ratio (LTD)	78.1	73.5	71.5	72.0	72.2
Loans/Residents Deposits	82.1	77.6	75.0	75.5	75.4
Primary capital leverage**	8.7	8.8	9.0	9.6	8.9

Notes:

* The definition of "liquid assets" as per Commission Delegated Regulation (EU) 2015/61 is not applicable for December 2015.

** The indicator Primary capital leverage is presented as units of assets in proportion of one unit of Tier 1 capital (unlike all other indicators in the table shown as per cent.).

Source: BNB, BS.

As of 31 December 2019, Bulgaria's banking sector has maintained a stable liquidity position with organic funding from deposits of the resident non-financial private sector. The liquidity coverage ratio is well above the required minimum. Nevertheless, the liquidity is closely monitored via frequent reporting on key components of liquid assets in comparison with financial liabilities dynamic.

The capital position of the banking system is sound and stable with all banks compliant with capital requirement. The common equity tier one capital is predominant part of own fund. All banks comply with the capital requirements consisting of regulatory minimums, pillar 2 requirements and applicable capital buffers. Through proactive macroprudential policy, the BNB formed a combined buffer requirement in the range of 6.5 per cent. to 7 per cent. which is the highest in EU. It is formed by a capital conservation buffer at 2.5 per cent. of total risk exposures, a systemic risk buffer at 3 per cent. of domestic risk exposures, and a counter cyclical capital buffer at 0.5 per cent. of risk exposures in Bulgaria applicable to all bank as well as a capital buffer for systemically important institutions in the range of 0.5 per cent. to 1 per cent. depending on the size and complexity of the bank, which is cumulative to all other buffers.

The surplus of available capital after minimum requirements, pillar 2 and combined buffers amounts to EUR 1.6 billion on the banking sector level which fully covered the amount of so called residual credit risk in the balance sheet in the form of net amount of non-performing loans.

Asset Quality

Because of the traditional business model of the Bulgarian banking sector, loans and advances form a predominant part of its balance sheet, making the credit risk a key inherent risk. The dynamic in the assets

quality is positive in the long-term driven by the sales and write-offs of non-performing loans, as well as increased lending activity. As at 31 December 2019, the share of net NPLs amounted to 3.5 per cent. of total net loans and advances and 2.8 per cent. of total assets, as compared to 3.9 per cent. of the total net loans and advances and 3.1 per cent. of total assets as at 31 December 2018. The coverage ratio illustrating the total accumulated impairments as share to the total gross NPLs is 48 per cent. as at 31 December 2019 which is above the EU average. The adequate coverage and collateralisation, as well as the existing capital surplus, are factors mitigating the credit risk.

Attracted funds

The main source of financing of the banking sector is residents' deposits. As at 31 December 2019, household deposits account for 57.7 per cent. and non-financial corporations deposits for 28 per cent. of total liabilities of the banking sector. Over last five years the share of funding from financial and credit institutions subsided from 11.5 to 9 per cent. of attracted funds, while the share of resident funding increased from 89.9 to 91.5 per cent. Both trends illustrate that there is no reliance on wholesale funding from the external markets.

Credit growth

The composition of the banking sector's assets reflects the traditional business model: loans and advances accounting for 65.8 per cent. of total assets and debt securities accounting for 13 per cent. as at 31 December 2019. The loan portfolio composition was dominated by loans to non-financial corporations with a 55 per cent. share in 2019 as compared to 57 per cent. share in 2018, while household credit had a 36.5 per cent. share as of December 2019 and 36.2 per cent. share as of 31 December 2018.

In recent years, credit growth rates have been aligned with the major drivers of macroeconomic development in Bulgaria and in the EU. In 2019, the annual growth rate of the credit portfolio of the banking system was 8.8 per cent., illustrating organic growth funded by the increased volume of deposits (excluding those of credit institutions) by 8.6 per cent. and in line with the banking sector's total assets growth of 8.2 per cent. per cent. year-on-year.

Profitability

As of 31 December 2019, the banking system's profit was EUR 856 million (as compared to a profit of EUR 858 million as of 31 December 2018), return on assets ratio was 1.5 per cent. as of 31 December 2019 (as compared to 1.6 per cent. as of 31 December 2018). The return on equity was 11.6 as of 31 December 2019 (as compared to 12.1 per cent. as of 31 December 2018).

The most recent data as of 31 March 2020 shows the good performance of the banking sector including, return on assets ratio of 1.03 per cent. and return on equity of 8.1 per cent. Compared to the end of 2019, total assets grew by 0.8 per cent., total equity grew by 1.5 per cent. and total deposits grew 0.3 per cent. The key regulatory ratios remain strong. As of 31 March 2020, the capital adequacy ratio of the banking sector was 20.4 per cent. and the Tier I adequacy ratio was 19.4 per cent. The liquidity coverage ratio was 261 per cent. as of 31 March 2020, significantly above the regulatory requirement of 100 per cent. The share of gross non-performing loans and advances (the NPL ratio) as of 31 March 2020 was 6.4 per cent. As of 31 December 2019, the capital adequacy ratio of the banking sector was 20.2 per cent. and the Tier I adequacy ratio was 19.6 per cent. The liquidity coverage ratio was 269.9 per cent. and the share of gross non-performing loans and advances (the NPL ratio) was 6.5 per cent.

On 10 April 2020, the BNB approved the draft Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – Financial Institutions in relation to the State of Emergency, further approved by the Association of Banks in Bulgaria. The document constitutes a private moratorium within the meaning of the Guidelines of the European Banking Authority on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02). The approved private moratorium provides opportunities for changes in the principal and/or interest payment schedule of liabilities, without changing any key parameters of the loan agreement (i.e., the already agreed interest). Liabilities may be deferred for a term of up to six months, ending on 31 December 2020. The deferred liabilities must have been regularly serviced or not more than 90 days past due as of 1 March 2020.

In addition, the BNB implemented, within its mandate, a package of measures worth BGN 9.3 billion, aimed at both preserving the stability of the banking system and strengthening its flexibility to reduce the adverse effects on households and companies from the restrictions caused by the pandemic. The key measures included full capitalization of the banking system's profit amounting to EUR 856 million; cancellation of the increases of the countercyclical capital buffer, scheduled for 2020 and 2021, with an effect of BGN 0.7 billion; increase of the banking system's liquidity by BGN 7 billion by reducing commercial banks' foreign exposures, along with further measures to guarantee the smooth operation of the currency board, cash circulation, payment systems and banking supervision. For more information, see "*BNB measures in response to the COVID-19 pandemic*".

As a result of the COVID-19 pandemic, there is a restriction of dividend pay-outs by banks in Bulgaria, a binding measure introduced in mid-March 2020 following a decision by the BNB Governing Council. The restriction directly aids the BNB's goal of further strengthening banks' capital position in an organic way, by the inclusion of the full amount of banking system profit, amounting to EUR 856 million.

On 9 July 2020, the Governing Council of the BNB decided that it would comply with the Guidelines EBA/GL/2020/08, voted by the European Banking Authority (EBA), amending Guidelines EBA/GL/2020/02 on legislative and non-legislative moratoria on loan repayments applied in light of the COVID-19 crisis. The BNB extended the deadline for application of the moratorium on payments laid down in Guidelines EBA/GL/2020/02 by three months, from 30 June 2020 to 30 September 2020. In relation to the above the BNB approved an extension of the deadlines, proposed by the Association of Banks in Bulgaria, in the previously adopted Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – Financial Institutions. The changes include:

- The extension of the deadline for submitting a request by bank customers for deferral of liabilities and their approval by banks – until 30 September 2020; and
- The extension of the deadline for deferral of liabilities of bank customers - until 31 March 2021.

Under the Procedure for Deferral and Settlement of Liabilities Payable to Banks and their Subsidiaries – Financial Institutions, as of 30 June 2020 a total of approximately 119 thousand applications were filed for liabilities with gross carrying amount of BGN 9,772 million, of which approximately 98 thousand applications in the amount of BGN 8,117 million were approved. Approximately 13 thousand corporations were also approved amounting to BGN 6,207 million, while approximately 85 thousand households were approved amounting to BGN 1,910 million.

Compliance with the regulatory requirements

As of 31 December 2019, the total own funds of the banking system amounted to EUR 6.8 billion up from 5.6 billion as at 31 December 2015. The capital adequacy ratio was 20.2 per cent. and the common equity tier one capital forming 94.4 per cent. of own funds indicating strong capacity to absorb risks. The majority of Tier 1 own funds was held in common equity with the aggregate common equity tier 1 ratio equalling 20 per cent. As at 31 December 2019, all Bulgarian banks had total capital adequacy ratios above the required minimum and applicable capital buffers.

The relatively high household savings rate supports the growth of credit and ensures sufficient liquidity in the banking sector. The total liquid assets defined as a liquidity buffer according to Commission Delegated Regulation (EU) 2015/61, aggregated at the banking system level reached EUR 15 billion as of 31 December 2019 and the ratio of liquid assets to total assets is 27 per cent. The banking sector's liquidity coverage ratio was 270 per cent. as of 31 December 2019 (with a minimum required level according to Reg. 2015/61 of 100 per cent.).

Deposit guarantee scheme

On 14 August 2015 the new Bank Deposit Guarantee Act (the "**Deposit Guarantee Act**") entered into force, implementing the provisions of Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (the "**Directive**").

Alongside the BDIF main mandate to make payments of guaranteed deposits, the BDIF was also tasked, pursuant to the newly-adopted resolution legislation (see below), with making contributions to credit

institutions. Such contributions are limited up to the amount of the hypothetical loss that guaranteed depositors would incur if the respective credit institution were to become insolvent.

In accordance with the Deposit Guarantee Act, the BDIF shall guarantee full repayment of deposit amounts of up to BGN 196,000 per depositor per bank regardless of the bank's size. The Deposit Guarantee Act provides a higher protection for a particular category of deposits related to transactions relating to individuals such as the sale of property for residential purpose, divorce and retirement of up to BGN 250,000 and for a maximum term of protection of three months.

The Deposit Guarantee Act defines three triggers for the activation of the pay-out procedure, which are:

- a BNB decision revoking a banking licence;
- a BNB decision determining non-availability of deposits and that in its view the bank appears to be unable for reasons directly related to the financial standing of the credit institution to repay the deposits and has no current prospect of being able to do so; and
- an act of a judicial authority by force of which, for reasons directly related to the financial standing of the credit institution, precludes the claiming of deposits from the credit institution.

As of 31 December 2019, the total assets of BDIF were EUR 555 million. The major source of funding of the BDIF is the payment of premium contributions from banks, which are calculated by reference to the size of guaranteed deposits and the degree of risk assumed by the relevant bank. The methodology for the calculation of risk-based premium contributions is proposed by the BDIF and is established in an ordinance of the BNB. The BNB Governing Council approved, on 21 January 2016, Ordinance No.30 of the BNB on calculation of the amount of the premium contributions due by banks under the Deposit Guarantee Act.

The Deposit Guarantee Act provides for several methods for financing a potential shortage of funds and for securing liquidity, including extraordinary premium contributions, the issuance of debt securities and loans from the state budget. Any loans are subject to approval by the Council of Ministers. For example, in the context of the collapse in June 2014 and the ensuing winding-up of Corporate Commercial Bank (at the time, the country's fourth largest in terms of assets), the BDIF had to pay out to guaranteed depositors approximately BGN 3,687 million (EUR 1,885 million) (the payment term ending on 4 December 2019). In this context, BDIF borrowed funds from the World Bank and EBRD; the outstanding combined amounts as at 31 March 2020 to the two multilateral banks were approximately BGN 1,177 million (about EUR 602 million). On 9 May 2019, BDIF received BGN 418 million (approximately EUR 214 million) from the receivers of Corporate Commercial Bank, under the first distribution of proceeds to insolvency creditors, with further possible distributions pending.

Bank Resolution Framework

The provisions of the Bank Recovery and Resolution Directive 2014/59/EU ("**BRRD**") were transposed into the Bulgarian law in August 2015 by the adoption by the Parliament of the Recovery and Resolution of Credit Institutions and Investment Firms Act ("**RRCIIFA**").

With the transposition of BRRD the BNB was entrusted with all the regulatory powers for resolution of credit institutions (banks) licensed in the Bulgaria and branches of third country credit institutions, subject to supervision or consolidated supervision by the BNB. The decisions of the BNB as a resolution authority are taken by the Governing Council of BNB. Pursuant to article 2, paragraph 2 of the RRCIIFA, the BNB Governing Council has established a Resolution of Credit Institutions Directorate (the "**RCID**"). The RCID is an independent structural unit assisting the BNB Governing Council in exercising BNB's functions as a resolution authority. The RCID acts separately and independently from the structural units engaged in the banking supervision function and the other functions of the BNB.

The main tasks of BNB as a resolution authority are related to the resolution planning for credit institutions licensed in the Bulgaria and branches of third country credit institutions and exercising the resolution powers.

The RRCIIFA stipulates, that resolution actions shall be taken only in case of public interest. These are necessary for the achievement of one or more of the resolution objectives, including the continuity of critical

functions; the avoidance significant adverse effects on financial stability; the protection of public funds by minimizing reliance on extraordinary public financial support; the protection of depositors whose deposits are guaranteed under the Deposit Guarantee Act; and the protection of customers' funds and assets. Furthermore, the winding up of the institutions under insolvency proceedings would have to be proven not to meet the resolution objectives to the same extent as resolution actions.

The application of the resolution framework should guarantee that shareholders and creditors of the credit institutions would bear the cost of resolution first aiming at limiting the usage of public funds. When exercising its resolution powers BNB could implement the instruments, available under RRCIIFA in compliance with the objectives and core principles of resolution pursuant to the RRCIIFA. The law introduces a comprehensive resolution toolkit, including the four resolution tools (sale of business, bridge institution, asset transfer, and bail-in) and the two optional, last-resort government stabilization tools (equity support and temporary public ownership).

This latter option for extraordinary public support could be used only in case of a "systemic crisis" for Bulgaria's economy as defined in the RRCIIFA and could be granted only to solvent institutions, in compliance with the provisions of RRCIIFA and EU state aid rules.

Resolution is meant for banks where a public interest is identified (so-called banks of public interest), while other institutions would be subject to normal bankruptcy/liquidation procedures. BNB as resolution authority may also require the write-down or conversion of capital, either independently or as part of a resolution action.

As a part of the financial arrangements and funding of resolution and pursuant to the RRCIIFA, a national resolution fund, the Bank Resolution Fund (the "**BRF**") has been established. According to the RRCIIFA the target level of the resources collected in the BRF is 2 per cent. of the amount of covered deposits of all the banks licensed in Bulgaria and should be reached within a 10 year period. The BRF is financed by annual contributions from banks as determined by the BNB in its capacity of resolution authority. The amount of contribution from each bank takes into account the risk profile of the bank or branch and shall be calculated in accordance with rules set by the Delegated Regulation (EU) 2015/63. The first contributions to the BRF were collected in the period November – December 2015. Since then all Bulgarian banks have contributed annually. As at 31 December 2019, the accumulated funds at the BRF amount to BGN 545.72 million. The annual contributions amount set by the BNB Governing Council for 2020 is BGN 157.88 million.

As at 31 March 2020, more than a half of the banks licensed in Bulgaria had resolution plans, adopted by BNB's Governing Council, either as a part of cross border groups or as a stand-alone bank.

Following Bulgaria's request to join the Single Supervisory Mechanism (the "**SSM**") by establishing close cooperation with the ECB, BNB as resolution authority has worked to prepare for joining the Single Resolution Mechanism (the "**SRM**") and consequently the Single Resolution Fund (the "**SRF**") as a result of the direct application of Regulation (EU) No 806/2014. To this end, BNB has worked jointly with the Single Resolution Board (the "**SRB**") representatives under a joint action plan with a timetable based on three distinct pillars: (i) drafting and approving relevant amendments to the RRCIIFA; (ii) preparations for joining the SRF; (iii) preparing the bank resolution planning process after joining the SRM. On 24 April 2019, the National Assembly adopted a draft law amending the RRCIIFA (published in State Gazette, Volume 37/2019) introducing provisions for enforcement of Regulation (EU) No 806/2014. These amendments include the restructuring of the BRF into two sub-funds. The first sub-fund is for the financing of the application of resolution measures with respect to Bulgarian branches of third country credit institutions. The second sub-fund is for the collection of contributions by Bulgarian banks under Regulation (EU) No 806/2014 and their transfer into the SRF, being the common resolution fund for the EU member states part of SRM. This means that upon the establishment of close cooperation between ECB and the BNB, a substantial part of the funds accumulated in the BRF are subject to transfer to its newly established feeder sub-fund and then into the SRF. With the adoption of RRCIIFA amendments, the work on the first pillar of the action plan was completed.

BNB's role in the second pillar focused on technical and expert support to the SRB in terms of establishing the amount of the first contribution of Bulgaria to the SRF under the ratified agreement on the transfer and mutualisation of contributions to the SRF in establishing close cooperation with the ECB and joining the SRM.

Work on the third pillar of the action plan is intended to encompass joint actions with the SRB for BNB participation in the SRM related to identification of credit institutions falling within the scope of direct responsibilities and tasks of the SRB, familiarizing with SRB procedures and division of responsibilities and tasks between the SRB and national resolution authorities within the SRM. Currently, the ECB is assessing which Bulgarian banks fulfil the criteria to be classified as significant institutions and would therefore be under direct supervision by the ECB and fall within the direct resolution responsibilities of the SRB. With assistance from the BNB the SRB will also oversee the process of resolution planning of the remaining banks, the so-called less significant institutions.

On 10 July 2020, the ECB announced that it will enter into close cooperation under article 7 of Delegated Regulation (EU) No 1024/2013 with the BNB starting on 1 October 2020 (Decision (EU) 2020/1015 of the ECB of 24 June 2020, OJ L 224I, 13.7.2020).

Regulatory and Policy Developments

The macroprudential policy of BNB is aimed at timely, proportioned and efficient measures to mitigate systemic risks in the banking sector.

As initial step toward this objective BNB implemented in full all the provisions of the Directive 2013/36/EU regarding capital buffers. The rules are set up in the Bulgarian legislation through Ordinance No. 8 of the BNB of 24 April 2014. Two of the buffers were frontloaded at maximum level without phase-in period:

- Capital conservation buffer in 2014 at 2.5 per cent.;
- Systemic risk buffer in 2014 at 3 per cent., applicable to domestic exposures and cumulative to other buffers.

Since 2015 the Bank-specific countercyclical capital buffer ("CCyB") methodology is in place in line with the ESRB Recommendation 2014/1. Based on quarterly assessments the Governing council of BNB decides on the suitable level of CCyB for credit exposures in Bulgaria. The non-zero rate of CCyB is in effect since 1 October 2019 at 0.5 per cent. of the banks' risk exposures.

The methodology for identification of systemically important institutions is based on yearly assessment following the European Banking Authority's Guidelines EBA/GL/2014/10. It was introduced in 2016 with a phase-in period for the levels of applicable O-SII capital buffers. From 1 January 2020 eight banks are identified as SII applying buffers ranging from 0.5 per cent. to 1 per cent. depending on their size and complexity.

BNB measures in response to the COVID-19 pandemic

In response to the COVID-19 pandemic, the BNB implemented, within its mandate in March 2020, introduced a package of measures to limit the negative effects resulting from the COVID-19 pandemic on the banking system and the economic activity. The package of measures worth BGN 9.3 billion aimed to simultaneously preserve the stability of the banking system and strengthen its flexibility, covering three major areas:

(i) Capital measures:

- (a) The strengthening of the capital position of credit institutions is achieved with the decision to capitalise the full amount of profits in the banking system amounting to EUR 856 million.
- (b) The BNB took action to protect banks from concentration of placements to foreign jurisdictions and institutions with a potential for credit quality deterioration as measured by their credit rating. The limitation of exposure concentrations shall be effected by imposing individual and aggregate limits to counterparties, for example, central governments and credit institutions in relation to the total assets of the credit institutions.
- (c) In order to preserve the resilience of the banking system and enhance its flexibility, the Governing Council of the BNB also decided to cancel the increases of CCyB rate envisaged for 2020 and 2021. The CCyB rate will remain at 0.5 per cent.

(ii) **Liquidity measures:**

- (a) As a result of the imposed concentration limits, the cash and balances of banks at the BNB increased by EUR 3.5 billion.
- (b) The BNB performs a dynamic monitoring of the liquidity position of banks through daily liquidity statements, in order to identify adverse developments or abrupt changes in available liquid funds in a timely manner.

(iii) **Assets quality measures:**

- (a) The BNB shall comply with the European Banking Authority's Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 pandemic.
- (b) A dialogue with the banking industry took place, in order to establish a procedure for the deferral and settlement of liabilities payable by households and companies to banks and their subsidiaries. On this basis, the BNB approved the private moratoria measures suggested by the Association of Banks in Bulgaria.

Money Laundering and Terrorist Financing Regulations

The money laundering and terrorist financing (ML/TF) prevention framework in Bulgaria is based on the Measures against Money Laundering Act (MMLA) and the Measures against Financing of Terrorism Act, which are fully compliant with Directive 2015/849/EU of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering and terrorist financing and with Directive (EU) 2018/843 amending Directive (EU) 2015/849. Furthermore, the competent authorities in the AML/CFT field and the financial sector shall comply with the relevant European Banking Authority's guidelines.

The preventive measures against ML/TF are of key importance for the financial sector. Even though the State Agency for National Security is the authority exercising overall control over the implementation of the MMLA and the LMFT, supervisory authorities also have powers in terms of exercising control over the compliance of obliged entities from the financial sector with the requirements of the MMLA and the LMFT. Those powers are exercised by the BNB regarding credit institutions and payment and e-money institutions, and the Financial Supervision Commission regarding: insurers, reinsurers and insurance intermediaries, investment firms, collective investment schemes and other undertakings for collective investments, management companies and the persons managing alternative investment funds, retirement insurance companies, market operators and/or regulated markets, and central securities depositories. Within the remit of the State Agency for National Security and the two supervisory authorities is the conduct of supervisory inspections when exercising that control, the imposition of supervisory measures and sanctions for non-compliance, as well as checking the overall adequacy and effectiveness of the policies and procedures, including stringent "know your customer" rules which prevent institutions from being used intentionally or unintentionally for criminal activities.

The current ML/TF prevention framework facilitates cross-border co-operation between Bulgaria and the other members of the EU, especially after the changes brought forward with the implementation of Directive (EU) 2018/843.

Non-Bank Financial Institutions

The non-banking financial sector in Bulgaria has proved to be stable, accounting for 41.2 per cent. of the country's GDP and 30.0 per cent. of total assets of the financial sector as of 31 December 2019 without capital market capitalisation which represents 24.1 per cent. of the country's GDP. The further development of the non-banking financial sector is closely linked to the growth of the real economy and the economic development of the euro area and the EU. Geopolitical instability in neighbouring regions and the risk appetite of foreign investors also have an impact on the development of the non-banking financial sector.

Financial Supervision Commission ("FSC")

The FSC is a specialised body for regulation and integrated supervision over different segments of the non-banking financial sector – capital markets, insurance markets (including voluntary health insurance) and supplementary pension insurance market. The main objectives of the FSC are to provide for the integrity, transparency and credibility of the financial markets and the protection of the interests of investors, insurance policy holders and pension fund members.

When performing its functions and exercising its powers, the FSC lays down clear priorities and guidelines for market development in compliance with internationally recognised principles and standards for regulation and supervision. The institution follows a consistent policy aimed at the establishment of optimal conditions for the realisation of the economic potential of the non-banking financial intermediation. The consumer protection and enhancement of the public confidence in the use of financial products and services is one of the strategic objectives of the FSC.

Similar to the BNB, the FSC is organisationally and functionally independent from other state bodies and, therefore, such bodies may not instruct the FSC as to the conduct of its activities and the exercise of its powers. The Chairperson and the other four members of the FSC are elected by the National Assembly and may not be removed prior to the end of their term unless in accordance with the grounds set out in the Financial Supervision Commission Act.

The FSC is the authority which issues licences which are required for carrying out certain types of activities in the financial markets. As a competent authority in relation to the non-banking financial sector, the FSC has the necessary tools and powers to enforce the legislation.

As a result of the global financial and economic crisis, the European System of Financial Supervision, which is the EU supervisory framework for the banking, securities, insurance, and occupational pensions sectors, came into operation on 1 January 2011. This system functions on the basis of a single set of harmonised rules which are compulsory for the supervisory authorities of all EU Member States. The FSC is also an important part of this system as it is responsible for the supervision of the capital markets, insurance, and supplementary social security sectors.

Capital Markets

The capital markets showed positive results between 2016 and 2019, when the market capitalisation increased respectively by 12.8 per cent. in 2016, 144.0 per cent. in 2017, 13.3 per cent. in 2018 and 4.3 per cent. in 2019 on an annual basis. As at 31 December 2019, the overall market value of publicly traded companies amounted to BGN 27,905 million (EUR 14,267 million).

During 2019, the main market index SOFIX lost 4.4 per cent. of its value, whereas BGTR30 and BGREIT increased by 4.1 per cent. and 7.4 per cent., respectively. The other market index (GBGX 40) lost 3.5 per cent. of its value during 2019.

Currently, there are 64 investment intermediaries, supervised by the FSC, of which 18 are banks, three are branches of EU/EEA banks and five are branches of EU/EEA investment firms. The assets of the non-bank investment firms broadly follow domestic capital market dynamics. As a result of their diversified investment decisions, from 2015 to 2019 their assets increased by an average geometric rate of 13.4 per cent. per annum. As of 31 December 2019, there are 32 management companies, one of which is a branch of a foreign management company (KBC Asset Management S.A.) supervised by the FSC, which manages 127 collective investment schemes ("CIS"), of which 116 are contractual funds and 11 are exchange-traded funds. There are also four national investment funds ("NIFs") and 11 Alternative Investment Funds Managers ("AIFMs"), three of which are management companies, two are self-managed Alternative Investment Funds ("AIFs") and six are AIFMs, each of them manages one AIF. In 2018, the assets of the CISs and NIFs grew by 7.7 per cent. compared to the previous year. The observed dynamics are mainly due to an increase in the total number and assets of mutual funds, which at 31 December 2018 amounted to 132, and their assets reached BGN 1,484.3 million. During 2019, the value of the total assets of the CISs grew by 13.2 per cent. compared to the previous year.

Following the increase in real estate prices, the assets of the SPICs exhibited positive dynamics increasing by 3.5 per cent. in 2017, 7.6 per cent. in 2018 and 5.4 per cent. in 2019. As of 31 December 2019, there are

65 SPICs which are licensed and supervised by the FSC, nine of which are specialised in securitisation of receivables. Among the remaining 56 SPICs which are involved in real estate securitisations, seven are specialised in agrarian land.

Insurance Market

As of 1 January 2016, insurance and reinsurance undertakings apply the Solvency II Framework.

As at 31 December 2019, the total number of insurance and reinsurance undertakings with their legal headquarters in Bulgaria is 36 (11 life insurers, 24 non-life insurers and one reinsurer). Five insurance undertakings of those 36 are outside the scope of Solvency II.

The gross premiums written as at 31 December 2019 amounted to BGN 2,911 million (including BGN 2,866 million from direct insurance and BGN 44 million from inward reinsurance) (EUR 1,488 million), representing a growth of 14.8 per cent. on an annual basis. The gross premiums written of non-life insurers at 31 December 2019 is BGN 2,412 million (EUR 1,233 million), increasing by 15.5 per cent. with respect to its end-of-2018 value. The gross premiums written of life insurers increased by 11.4 per cent., amounting to BGN 499 million (EUR 255 million) at 31 December 2019.

The premiums written from inward reinsurance by insurers and the reinsurer as at 31 December 2019 amounted to BGN 1,924 million and increased by 7.8 per cent. on an annual basis.

The total assets of insurance and reinsurance undertakings increased by 10.8 per cent., amounting to BGN 9,082 million (EUR 4,644 million) at 31 December 2019, of which BGN 4,315 million (EUR 2,206 million) were non-life insurance undertakings, BGN 1,915 million (EUR 979 million) were life insurance undertakings and BGN 2,852 million (EUR 1,458 million) were the reinsurance undertaking.

Pension Funds

The assets managed by the nine Pension Insurance Companies ("PICs") in Bulgaria have been growing since 2015, reflecting the increase in the number of members and the growth in earned investment income. The net assets of the 29 Supplementary Pension Funds ("SPFs") have recorded an annual average increase of 13.8 per cent. in the last five years, reaching BGN 15,627 million (EUR 7,990 million) as at 31 December 2019. The continuous accumulation of assets is mainly a result of the contributions made in the Supplementary Mandatory Pension Insurance (Second Pillar of the Bulgarian pension system) and the investment returns. The modified, weighted rate of return (on an annual basis for a two-year period) for SPFs remains positive, reflecting the development of the capital markets and the diversification of their portfolios.

	31 December 2015 – 31 December 2017	31 December 2016 – 31 December 2018	31 December 2017 – 31 December 2019
SPF			
Universal Pension Funds Second Pillar (per cent.)	5.24	0.96	1.07
Professional Pension Funds Second Pillar (per cent.)	5.43	1.32	1.00
Voluntary Pension Funds Third Pillar (per cent.)	6.80	1.89	1.06

Source: Bulgarian FSC.

Apart from its social function, the net assets of the SPFs are the most important contributor to the non-banking financial sector in Bulgaria in terms of financial intermediation, representing 13.2 per cent. of GDP as at 31 December 2019.

The following table sets out the performance of the non-banking financial sector in Bulgaria for the five-year period between 1 January 2015 and 31 December 2019.

	2015	2016	2017	2018	2019*
	<i>(per cent. of GDP*)</i>				
Capital market capitalisation	9.6	10.2	23.1	24.4	23.5
Assets of non-bank Investment Intermediaries (IIs)	5.5	5.6	14.5	19.1	17.4
Assets of Collective Investment Schemes (CISs) ...	1.0	1.2	1.4	1.4	1.4

	2015	2016	2017	2018	2019*
	<i>(per cent. of GDP*)</i>				
Assets of Special Purpose Investment Companies (SPICs)	1.7	1.6	1.5	1.6	1.5
Assets of Insurance (incl. reinsurance) companies ..	6.8	6.5	7.4	7.5	7.7
Net assets of the Supplementary Pension Insurance Funds (SPIFs)	10.5	11.3	12.4	12.2	13.2
Assets of the non-banking financial sector (total)	25.4	26.3	37.2	41.6	41.2
	<i>(EUR millions)</i>				
Capital market capitalisation	4,391	4,951	12,077	13,685	14,267
Assets of the non-banking sectors					
Assets of non-bank Investment Intermediaries (IIs)	2,502	2,745	7,585	10,696	10,559
Assets of Collective Investment Schemes (CISs)	439	576	707	759	859
Assets of Special Purpose Investment Companies (SPICs)	776	767	809	870	917
Assets of Insurance (incl. reinsurance) companies ..	3,003	3,182	3,867	4,192	4,644
Net assets of the Supplementary Pension Insurance Funds (SPIFs)	4,774	5,500	6,475	6,833	7,990
Annual rate of change			<i>(per cent.)</i>		
Capital market capitalisation	(12.0)	12.8	144.0	13.3	4.3
Assets of non-bank Investment Intermediaries (IIs)	(4.8)	9.7	176.4	41.0	(1.3)
Assets of Collective Investment Schemes (CISs)	(0.8)	31.2	22.8	7.4	13.2
Assets of Special Purpose Investment Companies (SPICs)	4.4	(1.2)	5.5	7.6	5.4
Assets of Insurance (incl. reinsurance) companies ..	7.8	6.0	21.5	8.4	10.8
Net assets of the Supplementary Pension Funds (SPFs)	14.4	15.2	17.7	5.5	16.9
Relative structure of financial intermediation			<i>(shares. per cent.)</i>		
Assets of non-bank Investment Intermediaries (IIs)	4.4	4.6	10.9	13.8	12.7
Assets of Collective Investment Schemes (CISs)	0.8	1.0	1.0	1.0	1.0
Assets of Special Purpose Investment Companies (SPICs)	1.4	1.3	1.2	1.1	1.1
Assets of Insurance (incl. reinsurance) companies ..	5.3	5.3	5.6	5.4	5.6
Net assets of the SPFs	8.5	9.2	9.3	8.8	9.6
Non-banking financial sector (total)	20.4	21.3	28.0	30.2	30.0

* Preliminary data.

Source: Bulgarian FSC, BNB, Bulgarian Stock Exchange.

Bulgarian Stock Exchange ("BSE")

History

Bulgarian Stock Exchange AD (the Company, the Exchange, BSE) is a commercial company, established in November 1991 with the introduction of the Commercial Act in Bulgaria. At that time no specific legal framework existed and the exchange operated on the grounds of the general regulatory framework applicable to all privately held companies.

Bulgarian Stock Exchange AD is a joint-stock company licensed by the State Securities Commission to operate as stock exchange on 9 October 1997 and is currently the only operating regulated markets stock exchange in the country.

From June 2007, BSE became a full member of the Federation of European Securities Exchanges (FESE), which represented operators of the European regulated markets.

From the end of 2010 Bulgarian Stock Exchange AD is a listed on regulated market joint-stock company.

The Bulgarian Stock Exchange is the parent company of the Group Bulgarian Stock Exchange. As at 31 December 2019, the Group Bulgarian Stock Exchange AD consists of Bulgarian Stock Exchange AD (parent company) and the subsidiaries Independent Bulgarian Energy Exchange EAD and Financial Markets Services EOOD.

Regulatory framework

In July 1995, the first Securities, Stock Exchanges and Investment Companies Act was adopted. The Bulgarian capital markets operate within the framework of the following main legal provisions: Public Offering of Securities Act of December 1999, Markets in Financial Instruments Act of February 2018, Act on the Activities of Collective Investment Schemes and other Undertakings for Collective Investment of October 2011, Commercial Act of June 1991, Implementation of the Measures against Market Abuse with Financial Instruments Act of September 2016 and Market Abuse Regulation (i.e. Regulation (EU) No 596/2014), Measures Against Market Abuse With Financial Instruments Act of October 2006, Special Investment Purpose Companies Act of May 2003, Credit Institutions Act, Supplementary Supervision of Financial Conglomerates Act of July 2006, Privatisation and Post privatisation Control Act of March 2002, Financial Supervision Commission Act of January 2003, Ordinances of the Financial Supervision Commission and Rules and Regulations of BSE.

The current regulatory framework is harmonised with EU legislation in the financial markets area and is constantly updated.

At the beginning of January 2018, the measures under MiFID II became applicable and Regulation (EU) 600/2014 ("**MiFIR**") became directly applicable across the European Economic Area.

Access to the market is on a non-discriminatory basis and foreign investors may trade on the BSE under the same terms as all domestic investors.

Public status

On 15 December 2010, BSE went public and its shares were admitted to trading on the BSE from 6 January 2011. Currently, the Bulgarian Ministry of Finance holds a majority stake of 50.05 per cent. in the BSE's capital, with the remaining shares being held by investment firms and banks, other legal and natural persons and institutional investors.

As at 31 December 2019, the registered share capital of Bulgarian Stock Exchange is BGN 6,582,860, divided into 6,582,860 common registered and voting shares with a par value of BGN 1.00 each.

The structure of the share capital is as follows:

	31 December 2019	31 December 2018
The State through the Ministry of Finance	50.05%	50.05%
Investment firms and commercial banks	16.24%	15.89%
Legal entities	19.76%	20.56%
Natural persons	13.95%	13.50%

Market capitalization and liquidity

Between 2004 and 2007, the BSE grew in terms of both liquidity and market performance and became a venue of choice for capital raising purposes. The indices and the overall liquidity of the exchange sharply declined, however, as a result of the financial and economic crisis of 2008. In order to revive the market, the Government announced an ambitious privatisation programme for the state's share in strategic companies through the stock exchange. As a result of this, the Government successfully sold between December 2011 and November 2012 its minority stakes in what are now the electricity grid and supply companies (EVN Bulgaria Elektrorazpredelenie AD – renamed to Elektrorazpredelenie Yug EAD, EVN Bulgaria Elektrosnabdyavane EAD, Energo-Pro Grid AD – renamed Electrodistribution North AD, Energo-Pro Sales AD, CEZ Electro Bulgaria AD and CEZ Razpredelenie Bulgaria AD).

In October 2016, the Bulgarian Capital Market Development Strategy for the 2016-2019 period was adopted by the Capital Market Development Board. The main priorities for the development of the capital market in the medium term are elaboration of an overall strategy and roadmap for capital markets development in the mid- and long-term, attracting new listings and higher trading volumes, improved regulatory framework, creation of conditions for financing of small- and medium-sized enterprises, introduction of new financial instruments and stimulating public offerings via EU operational programmes and funds.

As of 31 December 2019, the market capitalisation of Bulgarian stock exchange reached BGN 27,904.53 million (24.11 per cent. from GDP) and the turnover was BGN 334 million.

As of 31 December 2019, the number of issuers of financial instruments listed for trading on the markets, organised by BSE was 370 and there were 44 members of BSE.

Markets, organized by BSE

Since 1 March 2012, BSE has operated the Main Market BSE and the Alternative Market BSE. The following financial instruments are traded on BSE: stocks (common and preferred), corporate and municipal bonds, UCITS, compensatory instruments, subscription rights and warrants and ETFs.

In addition to the regulated market, BSE has organized, as a multilateral trading facility, the SME growth market Bulgarian Enterprise Accelerator Market ("**SME Growth Market BEAM**"), which enables the financing of small and medium companies in Bulgaria. The BSE has been granted an approval by the Financial Supervision Commission to create the new SME Growth Market BEAM at the end of 2018. As of 31 December 2019, four authorized advisors had been admitted for SMEs Growth Market BEAM, which is expected to launch in 2020. For the Bulgarian capital market, the opportunities for financing SMEs and start-ups through the capital market under facilitated listing conditions are new and are one of the priorities for its development in the medium term.

Trading platform

Since 16 June 2008 until June 2019, BSE used the Xetra trading platform of Deutsche Boerse. From June 2019, the Bulgarian Stock Exchange began using the T7 electronic trading platform, operated by Deutsche Boerse.

T7 is the pan-European electronic trading system of Deutsche Boerse for cash market trading in equities and a variety of other instruments including ETFs, Exchange Traded Products (ETPs), mutual funds, bonds, warrants, certificates and subscription rights.

T7 market model includes the following trading forms for on-exchange trading: auction and continuous trading.

All transactions in securities, admitted to trading on the BSE, are settled on a delivery versus payment ("**DvP**") basis via the computerised book-entry system of the Central Depository. The settlement cycle is T+2 for both domestic and non-domestic investors.

BSE Indices

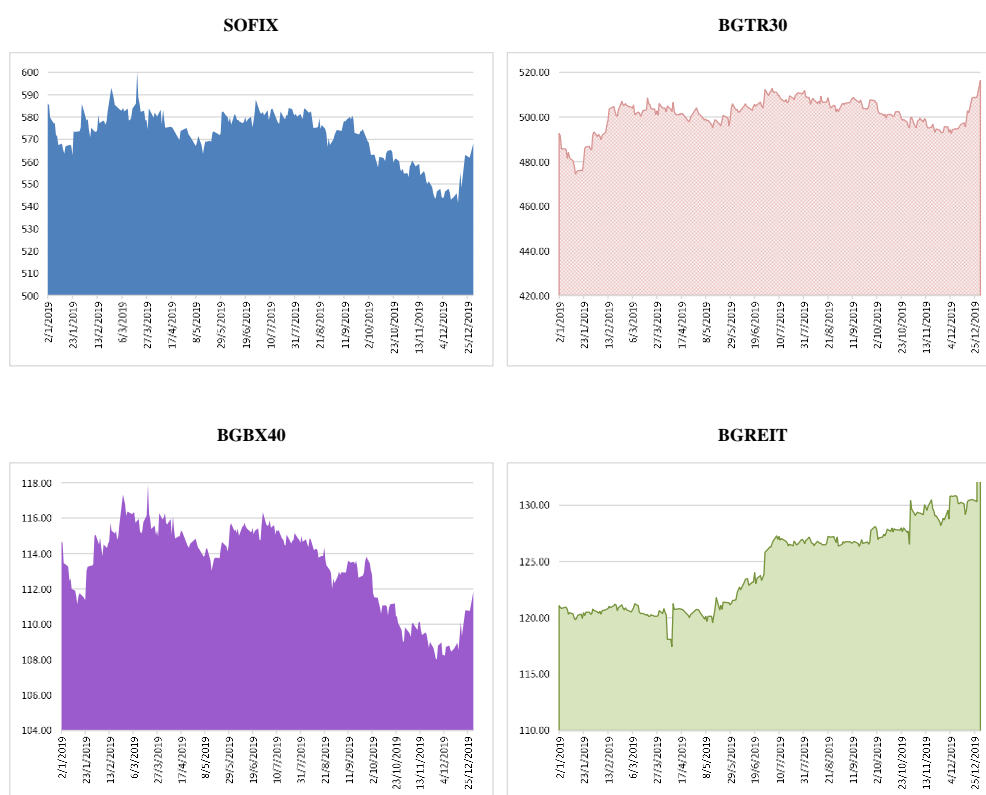
BSE calculates four indices, SOFIX, BGTR30, BGBX40 and BGREIT (sector index tracking the performance of seven listed REITs). SOFIX, BSE's main index, was launched on 20 October 2000. The index performed well in 2013 increasing by 42.28 per cent. on an annual basis and continued its good performance in 2014, adding 6.22 per cent. However, in 2015, the index decreased by almost 12 per cent. which was the first annual decline for SOFIX since 2011. The decrease was in line with the overall negative trend of the markets in South-Eastern Europe.

2016 began with a slight decrease in the first quarter, followed by a slow increase in second quarter. In the second half of the year the indices grew significantly. As a comparison, in 2017 the value of the SOFIX index increased by 15.52 per cent. to 677.45 points, the value of BGBX40 grew by nearly 18.6 per cent. to 132 points, the value of BGREIT increased by 7.39 per cent. to 116.10 points, while that of BGTR30 gained 21.08 per cent. and reached 555.98 points. 2018 began with a decline in all indices in the first and second quarters. This decline had begun before the second half of 2017. An upward movement began at the beginning of the third quarter of 2018 and continued until the midpoint of the third quarter. Subsequently, the direction reversed and the decline in the indices continued through the fourth quarter until the end of the year.

As at 31 December 2019, the value of SOFIX and BGBX40 were down (by 4.43 per cent. and 3.52 per cent, respectively) compared to the beginning of the year, while BGREIT and BGTR30 increased their levels (by 7.4 per cent. and 4.06 per cent., respectively). The movement in the values of SOFIX and

BGBX40 was similar, and the change in BGREIT has a different form, due to the type of companies, comprising the index.

BSE Indices dynamics in 2019



Source: BSE.

Since September 2011, BSE has acted as a calculation agent of the National Corporate Governance Commission, with respect to the first Bulgarian index ("**Index CGIX**"), tracking seven selected companies that implemented the best corporate governance practices in their business operations.

Throughout its existence, the BSE has been subject to specific regulations, which currently include the national measures transposing MiFID II, and MiFIR, amongst other, connected with the maintenance of high standards and transparency. As a leading institution in the efforts for achieving a sustainable change as regards the public policies in Bulgaria and the transparency of the capital market, the Bulgarian Stock Exchange has been among the most active market participants to take various initiatives related to improving the quality of corporate governance public companies in the country.

The BSE believes that improving the quality of corporate governance of Bulgarian companies is a fundamental precondition for increasing their competitiveness and attracting foreign capital. To increase the confidence of national and international investors and the public in the management and supervision of the public companies in Bulgaria, in 2006 the BSE adopted Bulgaria's first Code of Corporate Governance. With it the BSE provided a guideline to the business, as a basis to determine its status and readiness in the application of the generally accepted basic principles of corporate governance.

Along with the development of its Code of Corporate Governance, the BSE helped initiate the development of another major project of national significance, the National Corporate Governance Code (the "**NCGC**"). The NCGC was officially presented to the public on 10 October 2007, and in September 2009, the Bulgarian National Committee on Corporate Governance was established under the auspices of the BSE and the

Financial Supervision Commission in order to promote the implementation of the best practise of corporate governance set in it.

In October 2009, the BSE, by unanimous decision of the Board of Directors, adopted the principles and recommendations of the NCGC, thus consolidating its leading role in corporate governance in Bulgaria and gave an example of its practical commitment to the process of enhancing the quality of corporate governance in Bulgaria.

The NCGC was restated in April 2016.

The BSE is amongst the most active participants in the Bulgarian National Corporate Governance Committee. In 2011, the BSE developed and presented to the Bulgarian National Corporate Governance Committee rules for methodology and rules for calculating an index of companies with good practices of corporate governance. Based on these rules in September 2011, an index of companies with good practices of corporate governance (CGIX) was launched.

BALANCE OF PAYMENTS AND FOREIGN TRADE

The following table sets out Bulgaria's balance of payments in millions of EUR for the 2015-2019 period and H1 2020 (January-June 2020 period):

	2015	2016	2017	2018	2019	H1 2020
	(EUR million)					
Current and Capital Account.....	1,477.1	2,621.7	2,355.4	1,375.5	3,343.6	1,251.8
Current Account	55.1	1,550.9	1,825.0	773.7	2,452.3	777.0
Current Account - Credit.....	32,614.6	34,578.5	39,010.8	41,262.3	42,796.2	17,440.1
Current Account - Debit.....	32,559.5	33,027.6	37,185.8	40,488.6	40,343.9	16,663.1
Goods and Services - Net	458.4	2,425.8	2,287.0	1,467.5	2,077.9	525.9
Goods and Services - Credit.....	29,235.7	31,153.6	35,206.0	36,937.9	38,573.1	15,758.1
Goods and Services - Debit.....	28,777.3	28,727.7	32,919.1	35,470.5	36,495.1	15,232.2
Goods - Net	(2,622.4)	(984.4)	(765.8)	(1,858.0)	(1,685.7)	(225.5)
Goods - Credit (f.o.b.).....	21,919.4	23,103.6	26,950.0	27,744.2	29,093.7	13,023.5
Goods - Debit (f.o.b.).....	24,541.8	24,088.0	27,715.9	29,602.2	30,779.4	13,249.0
Services - Net	3,080.8	3,410.3	3,052.8	3,325.5	3,763.7	751.4
Services - Credit.....	7,316.3	8,050.0	8,256.0	9,193.8	9,479.4	2,734.6
Manufacturing services on physical inputs owned by others	272.9	256.4	142.2	218.9	224.6	100.9
Maintenance and repair services not included elsewhere (n.i.e.).....	82.7	84.0	128.6	167.8	186.1	92.1
Transportation.....	1,543.4	1,700.7	1,804.2	1,975.0	2,037.7	634.2
Travel.....	2,838.3	3,284.8	3,589.3	3,822.4	3,846.9	548.0
Other services	2,579.1	2,724.2	2,591.7	3,009.6	3,184.2	1,359.4
Services - Debit.....	4,235.5	4,639.8	5,203.2	5,868.2	5,715.7	1,983.2
Manufacturing services on physical inputs owned by others	33.8	36.4	47.2	45.2	29.7	20.9
Maintenance and repair services not included elsewhere (n.i.e.).....	59.6	57.8	49.2	58.9	65.0	19.5
Transportation.....	1,115.3	1,499.2	1,941.8	2,134.0	2,193.6	894.6
Travel.....	1,006.4	1,226.6	1,494.3	1,584.4	1,631.0	370.8
Other services	2,020.5	1,819.8	1,670.7	2,045.7	1,796.5	677.4
Primary Income - Net	(2,043.7)	(2,459.5)	(2,316.2)	(2,488.5)	(1,680.2)	(634.0)
Primary Income - Credit.....	973.2	1,139.9	1,363.6	1,354.7	1,409.8	380.1
Compensation of employees	499.9	633.0	799.9	851.9	873.4	212.4
Investment income.....	457.5	496.2	563.7	502.8	536.4	167.7
Other primary income	15.9	10.8	0.0	0.0	0.0	0.0
Primary Income - Debit.....	3,016.9	3,599.4	3,679.7	3,843.2	3,090.0	1,014.1
Compensation of employees	131.6	141.8	156.4	167.3	189.2	67.0
Investment income.....	2,867.7	3,451.3	3,523.4	3,675.9	2,900.9	947.1
Other primary income	17.5	6.3	0.0	0.0	0.0	0.0
Secondary income - Net	1,640.4	1,584.6	1,854.2	1,794.8	2,054.6	885.1
Secondary income - Credit.....	2,405.7	2,285.0	2,441.2	2,969.6	2,813.3	1,301.9
General government.....	1,294.2	980.9	428.7	501.9	723.0	510.5
Other sectors	14.0	15.6	10.7	12.0	9.1	2.2
Secondary income - Debit.....	765.3	700.4	587.0	1,174.9	758.7	416.8
General government.....	679.8	608.2	537.5	694.0	698.3	394.3
Other sectors	85.5	92.2	49.5	480.9	60.4	22.5
Capital Account.....	1,422.0	1,070.8	530.4	601.8	891.3	474.8
Gross acquisitions/disposals of non-produced non-financial assets - Net	122.6	80.0	96.7	94.2	238.8	(37.8)
Capital transfers - Net	1,299.5	990.8	433.7	507.5	652.5	512.6
Capital transfers - Credit.....	1,308.2	996.5	439.5	513.9	732.2	512.7
Capital transfers - Debit.....	8.7	5.6	5.7	6.3	79.7	0.0
Financial account - Net	3,616.2	4,445.6	2,324.3	3,017.1	2,562.6	1,661.9
Financial account - Assets.....	2,361.6	6,858.6	2,881.3	4,062.7	3,724.9	1,918.2
Financial account - Liabilities.....	(1,254.6)	2,413.0	557.1	1,045.6	1,162.3	256.3
Direct investment - Net	(1,850.3)	(558.2)	(1,313.2)	(739.5)	(795.9)	(251.8)
Direct investment - Assets.....	105.2	754.3	446.3	780.7	552.1	233.8
Direct investment - Liabilities.....	1,955.5	1,312.5	1,759.4	1,520.2	1,348.0	485.6
Portfolio investment - Net	(581.6)	(630.4)	2,615.5	1,465.7	1,571.1	1 256.1
Portfolio investment - Assets	(268.7)	783.8	1,756.7	886.9	1,519.7	1 193.9
Portfolio investment - Liabilities.....	312.9	1,414.2	(858.8)	(578.9)	(51.4)	(62.2)
Financial derivatives - Net.....	13.8	(16.5)	(23.8)	44.3	(39.2)	(35.4)
Other investment - Net.....	2,304.7	2,183.3	1,144.6	884.9	2,386.0	(2 190.4)
Other investment - Assets	(1,218.3)	1,869.6	801.1	989.2	2,251.7	(2 357.5)
Other investment - Liabilities.....	(3,522.9)	(313.7)	(343.5)	104.3	(134.3)	(167.1)
BNB Reserve Assets	3,729.7	3,467.3	(98.9)	1,361.6	(559.4)	2 883.4
Monetary gold.....	4.4	3.8	2.6	1.9	1.7	16.3

	2015	2016	2017	2018	2019	H1 2020
	(EUR million)					
Special drawing rights.....	(0.0)	0.3	1.1	1.2	0.4	(0.7)
Reserve position in the IMF.....	0.0	80.4	(0.0)	0.0	(0.0)	(0.0)
Other reserve assets.....	3,725.3	3,382.9	(102.6)	1,358.6	(561.5)	2 867.7
Balancing Items.....						
Current and Capital Account Balance.....	1,477.1	2,621.7	2,355.4	1,375.5	3,343.6	1,251.8
Financial Account Balance.....	3,616.2	4,445.6	2,324.3	3,017.1	2,562.6	1,661.9
Net errors and Omissions.....	2,139.1	1,823.9	(31.1)	1,641.6	(781.0)	410.1

Source: BNB. Standard presentation in accordance with the sixth edition of the Balance of Payments Manual (IMF, 2008). Preliminary data for 2018 – June 2020 as of 17 August 2020.

The following table sets out the balance of payments for Bulgaria as a percentage of GDP for the 2015-2019 period and H1 2020 (January-June 2020 period):

	2015	2016	2017	2018	2019	H1 2020
	(per cent. of GDP)					
Balance of Payments Data						
Current and Capital Account.....	3.2	5.4	4.5	2.5	5.5	2.2
Current Account.....	0.1	3.2	3.5	1.4	4.0	1.4
Trade Balance.....	(5.7)	(2.0)	(1.5)	(3.3)	(2.8)	(0.4)
Services, net.....	6.7	7.0	5.8	5.9	6.2	1.3
Primary Income, net.....	(4.5)	(5.1)	(4.4)	(4.4)	(2.8)	(1.1)
Secondary Income, net.....	3.6	3.3	3.5	3.2	3.4	1.6
Capital Account.....	3.1	2.2	1.0	1.1	1.5	0.8
Financial Account.....	7.9	9.1	4.4	5.4	4.2	2.9
Direct investment, net.....	(4.1)	(1.1)	(2.5)	(1.3)	(1.3)	(0.4)
Portfolio investment, net.....	(1.3)	(1.3)	5.0	2.6	2.6	2.2
Financial derivatives, net.....	0.0	(0.0)	(0.0)	0.1	(0.1)	(0.1)
Other investment, net.....	5.0	4.5	2.2	1.6	3.9	(3.9)
BNB Reserve assets.....	8.2	7.1	(0.2)	2.4	(0.9)	5.1
Net errors and omissions.....	4.7	3.8	(0.1)	2.9	(1.3)	0.7

Source: BNB. Standard presentation in accordance with the sixth edition of the Balance of Payments Manual (IMF, 2008). Preliminary data for 2018 – June 2020 as of 17 August 2020. The GDP figure, which is used for the calculations in the table for the six months ended 30 June 2020, is a projection of the BNB.

Current Account

Before the global financial and economic crisis, Bulgaria's current account balance was driven by a rapidly expanding trade deficit. Foreign trade dynamics were largely shaped by a boost in investment activity, strong local consumption fostered by real income growth, global price changes and increased bank lending. In addition, Bulgaria's full membership in the EU led to the removal of trade barriers and market expansion and to the attraction of significant amount of FDI mainly from euro area countries. Merchandise exports and imports increased in 2007 and 2008 before falling significantly in 2009. After 2009, the economy went through a phase of orderly adjustment with decreasing levels of FDI and a shrinking deficit on the current account. Exports started to recover in early 2010 and have continued to increase since then (with the exception of 2014). For the 2015-2019 period, the cumulative growth rate of the exports of goods amounted to 32.7 per cent. This growth rate of exports outstripped that of imports, with the cumulative growth rate of the imports of goods between 2015 and 2019 amounting to 25.4 per cent., which has led to a decrease in the trade deficit. These dynamics were supported both by the growth in external demand for Bulgarian goods and services and by the continuous improvement in the competitive position of the country. In 2018 the growth of exports was lower than that of imports due to one-off supply side factors (related to the export of mineral products and base metals) and weaker economic activity by some of Bulgaria's trade partners. With the recovery of exports of mineral products in 2019, the annual growth rate of export of goods outpaced the growth of imports. As a result, the trade deficit on the current account decreased in 2019 as compared with 2018 and reached negative 2.8 per cent. of GDP.

The services sector balance has been positive since 2007, with revenues from tourism accounting on average for around 40 per cent. of the total revenue from the export of services annually. After a drop in tourism receipts in 2015 (largely influenced by the worsening of the economic situation in Russia and Greece), the number of non-residents visiting Bulgaria has been increasing, on an annual basis. For the

2016-2018 period, revenues from tourism had the biggest positive contribution to the growth of export of services. In 2019, the main driver of the growth of export of services telecommunication, computer and information services, which increased by 28.3 per cent.

The primary income balance was negative in the 2015-2019 period. The deficit was mainly due to repayment of investment income mostly related to the FDI inflows in the country. The cycles of the EU funding programmes over the 2007-2013 period and the 2014-2020 period have played a dominant role in determining the dynamics of the secondary income balance since Bulgaria's accession to the EU in 2007. After a temporary decline in 2016 to EUR 1.3 billion, and in 2017 down to EUR 1.2 billion, as a result of the switchover from the 2007-2013 EU funding cycle to 2014-2020 EU funding cycle, the EU transfers to the General Government sector showed a steady annual increase. In 2019, the EU transfers to the General Government sector amounted to EUR 1.5 billion.

Exports and Imports of Goods by Region

The following tables set out the percentage shares of exports and imports of goods by region for Bulgaria for the periods between 2015 and 2019 and 1 January-31 May 2020:

Exports						
	2015	2016	2017	2018	2019	Jan-May 2020
	<i>(per cent.)</i>					
EU ⁽¹⁾	64.63	66.03	63.27	67.29	66.41	67.8
Euro area ⁽²⁾	46.52	46.76	44.89	47.31	46.33	48.0
<i>of which:</i>						
Germany	12.59	13.33	12.86	14.59	14.76	16.5
Italy	9.30	9.00	7.92	8.52	7.34	6.8
Greece	6.57	6.84	6.16	6.60	6.74	6.6
France	4.25	4.41	3.91	3.93	3.79	4.0
Belgium	3.69	2.68	4.02	3.40	2.85	3.7
EU Member States not members of the Euro Area ⁽⁴⁾	18.10	19.28	18.39	19.98	20.08	19.8
<i>of which:</i>						
Romania	8.21	8.58	7.81	8.37	8.71	8.8
Balkan countries ⁽²⁾	13.02	11.88	12.86	11.97	11.61	10.7
<i>of which:</i>						
Turkey	8.73	7.83	8.89	7.80	7.25	6.7
Serbia	1.82	1.58	1.70	1.86	1.96	1.7
Macedonia	1.68	1.63	1.46	1.48	1.42	1.3
Other European countries ⁽³⁾	3.39	3.36	4.55	3.69	4.57	4.1
<i>of which:</i>						
Russia	1.74	1.62	2.65	1.42	1.75	1.5
Ukraine	0.70	0.59	0.54	0.66	1.14	0.8
Gibraltar	0.11	0.09	0.24	0.57	0.47	0.5
Asia	10.05	9.00	8.19	8.07	8.49	9.1
<i>of which:</i>						
China	2.33	1.94	2.43	2.67	2.73	3.0
Singapore	1.48	0.75	0.86	0.88	0.34	0.1
America	2.23	2.14	2.40	2.76	2.87	2.9
<i>of which:</i>						
USA	1.60	1.47	1.46	1.87	1.87	1.9
Other countries	6.68	7.59	8.72	6.24	6.05	5.4

Imports						
	2015	2016	2017	2018	2019	Jan-May 2020
	<i>(per cent.)</i>					
EU ⁽¹⁾	53.0	54.7	51.0	51.1	51.6	52.3
Euro Area ⁽²⁾	36.9	37.9	34.9	35.3	36.0	36.7
<i>of which:</i>						
Germany	11.7	12.3	11.0	11.2	10.9	11.3
Italy	7.4	7.8	7.1	7.3	7.3	6.7
Greece	4.0	3.8	3.6	3.6	3.7	4.3

	Imports					Jan-May 2020
	2015	2016	2017	2018	2019	
	<i>(per cent.)</i>					
France	3.2	3.2	3.0	2.9	3.0	3.1
EU Member States not members of the Euro Area⁽³⁾	16.1	16.9	16.1	15.8	15.6	15.7
<i>of which:</i>						
Romania.....	5.3	5.3	5.3	5.3	5.5	5.4
Poland.....	3.3	4.0	3.6	3.3	3.2	3.3
Other European countries⁽⁴⁾	15.5	12.3	13.2	12.5	12.3	10.4
<i>of which:</i>						
Russia	12.2	9.0	10.0	9.4	9.3	7.2
Ukraine	1.6	1.5	1.5	1.4	1.4	1.5
Asia	14.9	16.4	17.8	18.9	19.2	20.0
<i>of which:</i>					0.00	
China	7.3	7.9	7.3	7.9	8.4	8.9
Balkan countries⁽⁵⁾	8.1	8.9	9.6	9.5	9.6	9.8
<i>of which:</i>						
Turkey	5.5	6.1	6.2	6.3	6.6	6.6
America	5.9	5.4	6.6	6.0	5.2	5.5
<i>of which:</i>						
USA	2.0	2.0	1.9	2.0	2.3	2.6
Chile	1.1	0.9	1.2	1.0	0.5	0.3
Other countries	2.7	2.2	1.8	2.0	2.1	2.0

1. EU-28 (including 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).
2. EA-19 (including Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Greece, Slovenia, Cyprus, Malta, Slovakia, Estonia, Latvia, and Lithuania).
3. EU-28 outside EA-19.
4. Turkey, Serbia, North Macedonia, Albania, Montenegro, Kosovo and Bosnia and Herzegovina.
5. Russia, Switzerland, Ukraine, Gibraltar (GB), Moldova, Belarus, Norway, Lichtenstein, Iceland, San Marino, Andorra, Faroe Islands and the Holy See.

Source: BNB.

By country of origin. Data is provided by the NSI. Data for the period between 2015 and 2017 is final. The data for 2018 - May 2020 is preliminary, including Intrastat system data and customs declarations data as of 04 August 2020.

Trade balance by region

EU member states constitute Bulgaria's main trading partners. Exports to the euro area and non-euro area EU countries accounted for 46.33 per cent. and 20.08 per cent. respectively of total exports in 2019, compared to 46.52 per cent. and 18.10 per cent. respectively in 2015. Germany is Bulgaria's major export market (dominated by machinery and base metals exports) followed by Romania and Italy. In 2019, nominal export of goods to EU countries increased by 2.9 per cent. compared with 2018, driven mainly by increases in exports to Germany and Romania.

Outside the EU, Bulgaria is mainly trading with countries from the Balkan region, although their share in total Bulgarian exports has been following a decreasing trend. In 2019 nominal exports to countries outside the EU increased at a much higher rate on an annual basis (7.0 per cent.) as compared to those to the EU (2.9 per cent.), mainly because of the higher nominal export to Ukraine and Russia. This was to a large extent due to an increase in the export of mineral products and fuels, which partly reflects the recovery of exports of mineral products from their low level in 2018 when a key refinery in Bulgaria lowered its production due to scheduled maintenance works.

More than a half of Bulgarian imports come from EU countries. Since 2016, Germany is Bulgaria's most important partner on the import side (mainly machines), followed by Russia (mainly mineral products and fuels) and China (mainly machines and consumer goods). In 2019 nominal imports from EU countries increased by 4.6 per cent. on an annual basis, while imports from countries outside the EU increased by 2.6 per cent. compared to 2018.

Composition of trade

The following table sets out the composition of trade for the periods between 1 January 2015 and 31 December 2019 and 1 January- 31 May 2020:

	Exports					
	2015	2016	2017	2018	2019	Jan-May 2020
	<i>(per cent.)</i>					
Consumer goods	26.52	26.80	24.53	24.78	25.40	26.8
Food	5.80	5.95	5.91	6.00	5.99	6.5
Tobacco	0.89	0.62	0.50	0.34	0.21	0.2
Beverages	0.39	0.40	0.37	0.40	0.60	0.7
Clothing and footwear	6.89	7.09	5.95	5.67	5.43	5.1
Medicines and cosmetics	4.24	4.18	3.95	3.96	4.22	5.0
Furniture and household appliances	4.31	4.31	3.89	3.94	4.11	4.0
Others	4.02	4.26	3.97	4.48	4.84	5.3
Raw materials	40.94	38.94	38.97	39.74	39.08	42.3
Iron and steel	1.79	1.67	1.92	2.36	2.04	2.1
Other metals	9.99	7.49	10.10	9.63	7.78	9.1
Chemicals	1.65	1.35	1.51	1.62	1.65	1.7
Plastics and rubber	3.48	3.51	3.42	3.54	3.84	4.0
Fertilisers	1.06	0.91	0.77	0.66	0.79	0.7
Textiles	2.08	2.15	2.01	2.09	2.02	1.9
Raw materials for the food industry	7.75	8.56	6.78	6.89	7.82	8.7
Wood products, paper and paperboard	2.13	2.06	1.87	1.87	1.86	1.9
Cement	0.10	0.13	0.12	0.08	0.07	0.1
Raw tobacco	0.55	0.70	0.46	0.42	0.41	0.4
Others	10.34	10.41	10.01	10.59	10.80	11.6
Investment goods	21.24	23.89	25.16	25.15	24.34	23.8
Machines and equipment	5.43	5.53	5.58	5.83	6.22	6.1
Electrical machines	2.43	2.84	2.92	3.59	3.96	3.9
Vehicles	2.06	2.14	2.28	2.04	2.18	1.8
Spare parts and equipment	5.53	5.86	5.64	6.18	6.20	5.9
Others	5.79	7.52	8.75	7.50	5.78	6.1
Mineral fuels, oils and electricity	11.12	10.18	11.14	10.13	10.95	6.9
Petroleum products	8.28	7.06	8.09	7.25	7.86	4.6
Others	2.83	3.12	3.05	2.87	3.09	2.3
Other Exports	0.18	0.19	0.20	0.21	0.23	0.3
TOTAL EXPORTS /FOB (EUR millions)	22,982.29	24,125.99	27,915.81	28,647.90	29,856.06	11,120.2

Source: BNB.

Data is provided by the NSI. Data for the period between 2015 and 2017 is final. The data for 2018 - May 2020 is preliminary, including Intrastat system data and customs declarations data as of 04 August 2020.

	Imports					
	2015	2016	2017	2018	2019	Jan-May 2020
	<i>(per cent.)</i>					
Consumer goods	21.2	22.8	21.5	21.6	23.0	24.1
Food, drinks and tobacco	6.7	7.2	6.9	6.9	7.6	8.6
Furniture and household appliances (per cent.)	3.0	2.9	2.7	2.8	3.1	3.0
Medicines and cosmetics	4.6	4.9	4.5	4.5	4.6	5.4
Clothing and footwear	2.4	2.9	2.6	2.6	2.7	2.5
Automobiles	1.4	1.5	1.6	1.5	1.5	1.2
Others	3.1	3.4	3.2	3.3	3.5	3.4
Raw materials	36.7	36.0	36.8	36.7	34.6	38.5
Ores	5.0	4.0	5.7	5.7	4.0	5.5
Iron and steel	3.1	3.0	3.4	3.8	3.6	3.6
Other metals	2.7	2.6	3.2	3.0	2.7	3.0
Textiles	4.5	4.6	4.1	3.9	3.6	3.4
Wood products, paper and paperboard	1.9	2.1	1.9	1.9	1.9	2.0
Chemicals	2.4	2.3	2.3	2.3	2.3	3.0
Plastics and rubber	5.6	5.7	5.5	5.5	5.5	5.7
Raw materials for the food industry	2.6	2.6	2.5	2.2	2.5	3.3
Raw skins	0.4	0.3	0.3	0.2	0.2	0.2
Raw tobacco	0.3	0.3	0.3	0.3	0.2	0.2

	Imports					Jan-May 2020
	2015	2016	2017	2018	2019	
	<i>(per cent.)</i>					
Others	8.1	8.3	7.8	7.9	8.0	8.4
Investment goods	25.6	27.2	25.9	26.6	26.9	26.3
Machines and equipment	8.6	8.6	8.6	8.6	8.6	8.6
Electrical machines	3.7	4.1	3.6	3.7	4.3	4.3
Vehicles	4.9	5.0	4.5	5.0	4.5	3.7
Spare parts and equipment	4.1	4.6	4.6	5.1	5.0	5.2
Others	4.4	4.9	4.6	4.2	4.6	4.5
Mineral fuels, oils and electricity	16.0	13.5	15.2	14.5	14.9	10.5
Fuels	12.3	10.2	11.6	11.8	12.3	8.2
Crude oil and Natural gas	11.2	8.7	10.0	10.3	10.7	6.9
Coal	0.4	0.2	0.3	0.3	0.2	0.2
Others	0.7	1.3	1.3	1.2	1.3	1.1
Others	3.6	3.3	3.6	2.7	2.7	2.4
Oils	3.6	3.3	3.6	2.7	2.7	2.4
Electricity	0.0	0.0	0.0	0.0	0.0	0.0
Other Imports	0.5	0.5	0.5	0.5	0.6	0.6
TOTAL IMPORTS /CIF (EUR millions) ..	26,356.6	26,181.3	30,285.6	32,147.7	33,303.4	11,971.1

Source: BNB.

Data is provided by the NSI. Data for the period between 2015 and 2017 is final. The data for 2018 - May 2020 is preliminary, including Intrastat system data and customs declarations data as of 04 August 2020.

Imports into Bulgaria are diverse with raw materials and investment goods making up the largest share. In the run-up prior to the global financial and economic crisis, the swift rise of the construction industry and the up and downstream industries saw the growth in the importation of iron products, non-alloy steel, metal construction, and spare parts. That period was also characterised by increased imports of high-value goods. This was due to the country's integration into the EU common market, which called for the implementation of rigid standards of manufacturing, requiring sizable investments. In addition, significant FDI inflows into the local economy gave further impetus to the importation of investment goods. The subdued economic activity after the global financial and economic crisis has led to a decline in the share of investment goods. The negative growth of imports of investment goods decelerated gradually in 2010 and imports have grown on an annual basis since 2011 (with the exception of 2013). Moreover, in the 2016-2019 period investment goods have been one of the main contributors to the growth of total import of goods. Import of goods in 2019 increased by 3.6 per cent. as compared with the import of goods in 2018 and this was mainly on behalf of consumer goods and investment goods.

The composition of Bulgaria's export basket has shifted to the export of higher value added items. Prior to the global financial and economic crisis, base metals (including copper, iron and steel), mineral fuels and oils, textiles, clothing and footwear were the main components of Bulgaria's exports. With Bulgaria's accession to the EU and increased competition the relative share of these product groups in the total exports declined. Meanwhile the share of investment goods such as machines (including electric machines, machines for general use, energy production machines, automobiles, bicycles and other vehicles) has increased. In 2019, the export basket consisted of raw materials, having the largest share (39.1 per cent.), followed by consumer goods (25.4 per cent.), investment goods (24.3 per cent.) and mineral fuels, oils and electricity (10.9 per cent.). Total exports of goods in 2019 increased by 4.2 per cent. as compared to 2018 with consumer goods having the highest positive contribution to the observed growth.

Foreign Direct Investment

The years before the global economic and financial crisis were marked by high economic growth and an accelerated real convergence of the Bulgarian economy following the country's accession to the EU in 2007. In those conditions, the expectations for relatively high returns on investment and high growth encouraged financial inflows, primarily in the form of FDI. Since 2005, FDI in export-oriented sectors such as the processing industries increased considerably, while FDI in real estate and construction peaked dramatically in the run-up prior to the global financial and economic crisis. The decline in FDI flows in those sectors following the 2008 global financial and economic crisis contributed to the substantial drop in real estate prices. The low overall FDI level in the period after 2010 reflected lower capital inflows due to investor

risk aversion and net repayment of intercompany loans as a result of the lower investment demand on the local market. In the period from 2015 to 2018 FDI inflows were largely concentrated in financial intermediation and wholesale and retail trade. The inflow of FDI in Bulgaria for 2019 increased by 6.3 per cent. to EUR 1,092.4 million, as compared to 2018. The inflows in 2019 continued to be dominated by sectors such as wholesale and retail trade (EUR 523.3 million), while inflows in real estate activities (EUR 223.4 million) also had a significant contribution to the overall FDI inflows for the year.

The following tables include data for the FDI stock in Bulgaria (grouped by country of origin of investment and periodic flows by economic activity):

Total FDI stock by country of origin						
	2015	2016	2017	2018	2019	Mar 2020*
<i>(EUR millions, end of period)</i>						
EU⁽¹⁾	31,092.3	31,898.7	33,483.3	35,088.4	36,777.9	36,616.8
Euro area	26,370.6	27,104.5	28,430.6	29,398.4	30,702.9	30,416.8
<i>of which:</i>						
The Netherlands	6,636.8	6,613.5	7,536.2	8,152.5	8,577.7	8,405.9
Austria	5,445.6	4,084.3	4,049.3	3,934.8	4,127.4	4,111.4
Greece	2,635.0	2,697.3	2,236.5	2,476.0	2,491.3	2,559.2
Cyprus	2,103.7	2,223.9	2,143.7	2,076.6	2,279.6	2,298.0
Germany	2,516.0	2,796.7	2,975.1	3,053.6	3,218.9	3,208.7
Luxembourg	1,494.6	1,504.5	1,482.5	1,216.7	1,354.6	1,349.3
Spain	1,147.5	1,101.7	1,091.5	1,109.0	1,140.3	1,133.9
France	987.6	1,089.5	1,116.3	1,252.9	1,246.9	1,288.0
Italy	955.1	2,442.0	2,542.3	2,587.5	2,687.9	2,587.3
Ireland	660.0	702.5	709.8	668.4	713.0	706.0
EU Member States not members of the Euro Area	4,721.7	4,794.1	5,052.7	5,690.0	6,074.9	6,200.0
<i>of which:</i>						
UK	2,251.0	2,331.6	2,327.9	2,254.5	2,516.2	2,608.3
Hungary	979.8	926.3	923.1	1,506.9	1,550.7	1,534.0
Non-EU	8,864.5	8,858.9	9,008.3	8,913.6	9,382.1	9,364.8
<i>of which:</i>						
Russia	2,061.6	2,043.1	2,078.7	2,051.4	2,198.8	2,243.8
Switzerland	1,360.8	1,276.9	1,512.8	1,427.5	1,492.4	1,373.6
USA	977.6	953.3	825.8	804.1	802.3	777.5
British Virgin Islands	1,006.8	863.1	806.4	647.9	771.0	768.5
TOTAL	39,956.7	40,757.5	42,491.6	44,002.0	46,160.0	45,981.6

* Grouped by country of origin of investment and flows by economic activity for the first three months ended 31 March 2020.

⁽¹⁾ Changing composition in accordance with the sixth edition of the Balance of Payments Manual (IMF, 2008).

Preliminary data for 2018 - March 2020 as of 30 June 2020.

Source: BNB.

Annual FDI flow by economic activity ⁽¹⁾						
	2015	2016	2017	2018	2019	H1 2020
<i>(EUR millions)</i>						
Total	2,000.9	927.2	1,618.9	1,027.9	1,092.4	263.0
Accommodation and food service activities	11.4	19.7	(17.9)	(53.3)	(10.5)	(7.6)
Administrative and support service activities	3.3	78.9	48.0	53.6	(7.8)	(6.9)
Agriculture, forestry and fishing	(23.1)	(13.3)	(5.4)	14.3	66.6	(33.2)
Arts, entertainment and recreation	26.8	0.6	22.1	11.7	(3.5)	(0.3)
Construction	153.1	28.6	173.3	(5.3)	33.8	42.5
Education	1.9	11.7	4.8	(20.2)	(1.9)	1.6
Electricity, gas, steam and air conditioning supply	45.3	22.8	(207.0)	(70.3)	46.8	(60.3)
Financial and insurance activities	458.8	206.6	292.5	667.9	(41.6)	185.2
Human health and social work activities	1.4	0.9	3.3	(0.3)	0.6	0.2
Information and communication	416.3	54.1	(232.8)	(102.6)	70.7	(9.1)
Manufacturing	289.1	267.5	497.6	(145.5)	97.6	(150.8)
Mining and quarrying	(27.2)	(11.6)	(21.5)	(29.1)	20.3	58.6
Other service activities	0.7	1.1	0.6	0.2	(0.7)	(0.3)
Professional, scientific and technical activities	148.6	(33.2)	51.3	145.0	0.1	(13.2)
Real estate activities	(56.7)	(51.9)	353.0	93.5	233.4	0.1
Transportation and storage	57.0	8.5	7.4	33.2	15.0	55.7

Annual FDI flow by economic activity ⁽¹⁾						
	2015	2016	2017	2018	2019	H1 2020
	(EUR millions)					
Water supply; sewerage, waste management and remediation activities	11.6	(34.8)	34.2	(20.8)	7.6	0.8
Wholesale and retail trade; repair of motor vehicles and motorcycles	386.8	359.4	255.1	480.8	523.3	179.8

⁽¹⁾ Changing composition in accordance with the sixth edition of the Balance of Payments Manual (IMF, 2008). Preliminary data for 2018 - June 2020 as of 17 August 2020.

Source: BNB.

Gross external debt

The following table sets out the stock of gross external debt ("GED") of Bulgaria by institutional sectors as at 31 December for the years ended 2015 to 2019 and as at and for the six months ended 30 June 2020:

GED (end of period)												
	2015		2016		2017		2018		2019		June 2020	
	EUR million	per cent. GDP	EUR million	per cent. GDP	EUR million	per cent. GDP	EUR million	per cent. GDP	EUR million	per cent. GDP	EUR million	per cent. GDP
GED	33,493.4	73.3	34,221.5	70.4	33,852.1	64.7	33,802.0	60.3	34,071.3	56.2	34,103.8	60.1
General Government												
Debt ⁽¹⁾	5,571.5	12.2	6,779.9	13.9	5,719.2	10.9	5,540.9	9.9	5,427.5	8.9	5,682.9	10.0
Short term	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long term	5,571.5	12.2	6,779.9	13.9	5,719.2	10.9	5,540.9	9.9	5,427.5	8.9	5,682.9	10.0
Banks	4,026.4	8.8	4,162.9	8.6	4,278.8	8.2	4,602.9	8.2	4,901.4	8.1	4,350.1	7.7
Short term	3,066.6	6.7	3,355.4	6.9	3,380.5	6.5	3,611.5	6.4	3,808.5	6.3	3,265.4	5.8
Long term	959.8	2.1	807.5	1.7	898.3	1.7	991.4	1.8	1,092.9	1.8	1,084.7	1.9
Other Sectors Debt ⁽²⁾	11,227.0	24.6	10,879.9	22.4	10,895.8	20.8	10,475.9	18.7	10,513.8	17.3	10,571.2	18.6
Short term	4,516.9	9.9	4,217.7	8.7	4,524.3	8.6	4,455.6	7.9	4,615.7	7.6	4,641.0	8.2
Long term	6,710.1	14.7	6,662.2	13.7	6,371.5	12.2	6,020.3	10.7	5,898.1	9.7	5,930.2	10.6
Direct investment: intercompany lending	12,668.5	27.7	12,398.7	25.5	12,958.3	24.8	13,182.3	23.5	13,228.5	21.8	13,499.7	23.8
Memo items:												
Long term debt	25,910.0	56.7	26,648.3	54.8	25,947.3	49.6	25,734.9	45.9	25,647.0	42.3	26,197.4	46.2
Short term debt	7,583.5	16.6	7,573.1	15.6	7,904.8	15.1	8,067.1	14.4	8,424.3	13.9	7,906.4	13.9

Notes:

⁽¹⁾ General Government Debt includes central government debt, local government debt, debt of social security funds and debt of all non-market, non-profit institutions that are controlled and mainly financed by government units.

⁽²⁾ Other Sectors Debt includes debt of private and state-owned non-bank enterprises and debt of households.

⁽³⁾ Data as of July 29 2020 in accordance with the External Debt Guide (IMF, 2003).

⁽⁴⁾ The GDP figure, which is used for the calculations in the table for the six months ended 30 June 2020, is a projection of the BNB.

Source: BNB.

Bulgaria's GED is mostly private debt as the expansion of the economy prior to global financial and economic crisis attracted substantial capital inflows in the form of direct investment (intercompany lending) and support from parent banks to local subsidiaries. With the contraction in economic activity in 2009, the need for external financing decreased. The moderate recovery that followed was accompanied by subdued domestic demand and growth in domestic savings. As a result, the liquidity position of the banking sector improved and banks reduced their external indebtedness mainly through repayment of short-term loans.

As at 31 December 2019, the stock of total GED increased by EUR 577.9 million compared to the end of 2015. This was driven by an increase in the stock of external debt of banks (EUR 875.0 million) and to a lesser extent by an increase in the stock of external debt related to intercompany lending (EUR 559.9 million). At the same time for the largest decrease in the stock of GED between December 2015 and December 2019 was recorded by other sectors (EUR 713.1 million). In addition, the stock of GED of the General Government sector decreased as at 31 December 2019 by EUR 144.0 million as compared to the stock of GED as at 31 December 2015 mainly because of the steadily declining share of Bulgarian Eurobonds held by non-residents against the background of increased demand by residents.

As at 31 December 2019, the stock of GED of Bulgaria as a share of GDP reached 56.2 per cent. of GDP as compared to 73.3 per cent. of GDP in 2015, a significant decrease as compared to 73.3 per cent. as of 31 December 2015. This was supported by the sustained increase in the nominal GDP of the country. Although, the share of short-term GED in total GED increased slightly as of 31 December 2019 to 24.7 per cent. compared with 22.6 per cent. as of 31 December 2015, the share of long-term external debt remained dominant reached 75.3 per cent. of total GED as of 31 December 2019 compared to 77.4 per cent. 31 December 2015.

INDEBTEDNESS

Management of State Debt

The Government Debt Act was adopted in 2002 to unify existing regulatory arrangements and ensure clarity with regard to procedures and the authority to issue debt.

For the purpose of transposing the main requirements of Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the EU Member States and on establishing the framework for implementation of the respective regulations, the PFA was enacted in 2013 and became effective on 1 January 2014. The PFA regulates the development and management of public finance, so that the mid-term budget framework may be relied upon as an instrument for mid-term forecasting and planning. The PFA applies strict fiscal rules to be observed by central and local governments as well as the General Government. The PFA sets the development of reliable practices of projecting and monitoring of the subsectors of the General Government. The legislation summarises the national fiscal rules for the balance of the General Government and for the budget of the consolidated fiscal programme (calculated on the cash-based principle); it also sets out the maximum limit of expenditure under the consolidated fiscal programme and the nominal value of consolidated debt for the General Government.

The provisions of the Government Debt Act and the PFA include the following:

- a comprehensive definition of different types of debt;
- an outline of debt-related powers;
- restrictions as to debt growth;
- an obligation to announce a medium-term debt management strategy and publish an annual report on its implementation;
- regulation of the powers and procedures for the project proposals financed by government loans and for issuing government guarantees; and
- regulation of the fiscal agency of the BNB.

A new definition of the consolidated debt of the General Government ("**General Government Debt**") was introduced in accordance with the requirements of Council Regulation (EC) No 479/2009 of 25 May 2009. This regulation addresses the application of the Protocol on the EDP. Besides the debt undertaken in accordance with the Government Debt Act, the scope of government debt also includes other forms of debt, including, in some instances, funds received from the EU. The PFA also calls for adherence to the Maastricht criterion on the ratio of General Government Debt against GDP (which may not exceed 60 per cent. at the end of each year), and it also provides for specific measures which limit the possibilities of exceeding this benchmark.

The medium-term budgetary objective for the structural deficit on an annual basis may exceed 0.5 per cent. of the gross domestic product, but may not exceed 1 per cent. thereof, provided that the amount of the consolidated debt of the General Government sector is below 40 per cent. of the gross domestic product and the risks in terms of the long-term sustainability of public finances are low.

The Council of Ministers is the body which approves debt on behalf of the state and issues government guarantees in accordance with the requirements of the Constitution. The authority to issue government securities ("**GS**") and to negotiate and sign government loan agreements and government guarantee agreements within the ambit of the Annual State Budget Act is delegated to the Minister of Finance. The Ministry of Finance manages and monitors debt and provides official debt information.

The BNB acts as an agent of the Government debt. To fulfil this function, the BNB maintains and develops systems for carrying out auctions and subscriptions of GS and systems for the registration and settlement of trades in GS that offer settlement, safe-keeping and depository services, as well as other mutually agreed activities. See "*Monetary and Financial System – Structure of the BNB*".

Government policy regarding the primary market of GS contributes to the efficiency and transparency of both the primary and secondary market of GS, and ensures the provision of accurate information in relation to such GS. Some decisions that are particularly relevant to primary market development include the choice of auction system and the establishment of a system of primary dealers.

The Government Securities Auction System

The Government Securities Auction System (the "**GSAS**") was initially developed by the BNB in 1991 as part of the Electronic System for Registration and Trade in Government Securities ("**ESROT**"). The system has been developed and updated on multiple occasions.

In 2004, the BNB introduced a new auction system. It was developed as an independent system ensuring a fully automated direct execution of auction bids in line with the provisions of Ordinance No. 5 of Ministry of Finance and BNB on the Procedure and Terms for Acquisition, Registration, Redemption and Trade in Government Securities ("**Ordinance No.5**"). The substitutable technical decisions used by GSAS for communication with GS auction participants (SWIFT and WEB-based interface access through qualified electronic signature certificate) comply with international procedures and standards and enable the integration of new users regardless of their location at minimum costs.

The updated system reduces the auction time and the time for communicating auction results to bidders. This is an open auction system and can be updated to keep up with the GS market developments and regulatory amendments. The latest project for system development and upgrade was concluded in H1 2019. It involved the system migration to a new hardware, software, and application architecture and the implementation of new functionalities in order to be in line with the requirements of the Issuer and to facilitate market participants.

GSAS functionality meets issuer's requirements for technical support of large number of debt management operations by allowing auctions of different types to be held simultaneously. The interest rate conventions set up in the system are aligned with those of EU Member States.

Auctions are conducted pursuant to Chapters Two and Six (dealing with repurchases) of Ordinance No. 5. Only banks and financial intermediaries that meet the requirements set by the Ministry of Finance for primary dealers are allowed to participate in auctions (see "*The System of Primary Dealers*" below). Participation in auctions is performed through competitive bids. The primary dealers may participate through competitive bids on behalf of themselves for their own account and/or on behalf of themselves but for the account of their customers. By decision of the Minister of Finance, some of the GS selling auctions also allow non-competitive bids. The primary dealers may participate with non-competitive bids both on behalf of themselves for their own account and/or on behalf of themselves but for the account of their customers, which are not banks or investment firms, including such established in another EU member state or outside of the EU. Bidders may change their bids in an auction until closing bid time, after which the bid becomes irrevocable. The last quotation of each relevant bidder is considered to be their final bid.

The Minister of Finance approves which bids are acceptable. Based on that approval, an auction is closed and the auction data is automatically processed for registration and settlement via the dedicated systems (see "*—Secondary market of GS*"). As a rule, the settlement for securities in the primary market takes place two business days after the auction (T+2). The competitive bids are paid up at the price quoted in the bid and this is a rule followed in the so-called multiple price auction. Non-competitive bids are paid up at the weighted average price of approved competitive bids.

The System of Primary Dealers

The System of Primary Dealers was established in Bulgaria in 1996 in line with the practice in other European countries with developed financial markets. The requirements with which GS primary dealer applicants should comply are set out in Chapter Two of Ordinance No. 15 of Ministry of Finance and BNB on the Control over Transactions in Government Securities, which stipulates the selection procedure. The list of the primary dealers of GS is approved by the Minister of Finance. The investment firms and banks which are included in the list sign a contract for primary dealership in GS with the Ministry of Finance. This contract defines the contractual obligations of the parties. The system of primary dealers ensures non-discriminatory access to the GS market and is strictly abided to by the Ministry of Finance and the BNB.

The primary dealers of GS for the period between 1 January 2020 to 31 December 2020 include Municipal Bank AD, First Investment Bank AD, Raiffeisenbank (Bulgaria) EAD, United Bulgarian Bank AD, DSK Bank AD, Allianz Bank Bulgaria AD, Central Cooperative Bank AD, UniCredit Bulbank AD and Eurobank Bulgaria AD.

In addition to the above, the Ministry of Finance maintains an active dialogue with participants in the government debt market.

Secondary market of GS

In accordance with the Government Debt Act and the Government Debt Agency Agreement between the Ministry of Finance and BNB, the latter develops and administers system for the registration and settlement of GS (BNBGSSS, the "**Settlement System**") which ensures the secure handling of corporate actions and transactions in dematerialised GS issued in the domestic market. The system provides settlement, safe-keeping and depository services to its participants. It consists of ESROT and the System of Government Securities Settlement Accounts (GSSS) connected through a direct interface for automated data exchange.

The current regulatory framework that governs the operations of the Settlement System is compliant with the EU financial market infrastructures regulations and requirements. The Settlement System's functionalities also adhere to the principles adopted by the Committee on Payment and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO), the Standards of the ESCB and the European Securities and Markets Authority (ESMA) for Securities Clearing and Settlement Systems.

Rules and criteria for participation in the Settlement System are clearly defined under Ordinance No.5 and ensure equal and non-discriminatory access to the Settlement System for both resident and non-resident entities that fulfil the respective requirements. As of 30 June 2020, the Settlement System's participants comprised of (i) seventeen resident credit institutions granted a licence by the BNB; (ii) four credit institutions authorized by the competent authorities of a Member State to carry out bank activities, which provide services on the territory of the Republic of Bulgaria either directly or via a branch; (iii) one local CSD; (iv) one ICSD; and (v) the Ministry of Finance.

The Settlement System ensures straight-through processing (STP) of transactions and operates under DvP Model 1, real time gross (i.e. transaction-by-transaction) simultaneous settlement of securities and funds. The settlement cycle is T+0 for transactions in the OTC market; T+2 in the regulated market; and from T+0 to T+2 for the multilateral trading facilities ("**MTF**"). Settlement of the cash leg of transactions is in central bank money and is done either via RINGS (Real-time Interbank Gross-settlement System) of the BNB or TARGET 2. The Settlement System has been an ancillary system to TARGET 2 since 2013. As of 1 November 2017, the GS transactions of participants' clients are also settled on a DvP basis.

The Settlement System has established direct links with Central Depository AD (Bulgaria's local central securities depository), Clearstream Banking Luxembourg (ICSD), Bulgarian Stock Exchange – Sofia (regulated market) and E-Bond Bulgaria, operated by Bloomberg Trading Facility B.V. These links allow the system's participants along with the OTC market to conduct GS transactions in the regulated market and MTF and to also make cross-border transfers of government debt instruments issued in the domestic market, ensuring post trading transparency and liquidity.

Key responsibilities of the Ministry of Finance in relation to the debt issue policy

The Ministry of Finance is responsible for measures regarding domestic and external government debt management and planning, organising and controlling activities related to implementation of the issue policy in the domestic market.

As part of the debt issue policy, the Ministry of Finance carries out activities related to the announcement of any forthcoming auctions for GS issuance on the basis of Ordinance No.5.

The Ministry of Finance is also responsible for scheduling the monthly and annual calendars for domestic GS issues, including monitoring and analysing domestic debt instruments market developments, especially the quotations of the respective issues on the secondary market.

The BNB and the Ministry of Finance are together responsible for transparency of the government debt market by providing public disclosure (on the website of the Ministry of Finance and the BNB) of:

- debt management strategy;
- Central Government Debt and Guarantees monthly bulletin;
- Central Government Debt and Guarantees annual bulletin;
- legal acts;
- detailed information about the status and tendencies of government debt (including forthcoming issues and the level of state guarantees; and
- the official information on consolidated General Government debt and guaranteed debt of "General Government" sector shall be disclosed by the Ministry of Finance in the month following the month of publication of that data by the Commission (Eurostat).

In 2003, the Annual State Budget Act introduced for the first time annual limits on the maximum amount of new government and government guaranteed debt that may be assumed as well as the maximum amount of outstanding government debt as of the end of the year.

The local government debt, debt of social security funds, the BNB, and other local entities shall not be government debt and shall not entail any obligations for the state except where a government guarantee was issued.

In accordance with the PFA, the nominal amount of consolidated General Government Debt at the end of every year may not exceed 60 per cent. of the GDP. If the debt exceeds 60 per cent. of GDP, the medium-term budgetary forecast and the Annual State Budget Act shall set out measures aimed at reducing that debt by at least 5 per cent. of the excess ascertained per annum until reaching the ratio of 60 per cent. The consolidated General Government Debt at the end of every year, as a proportion of GDP, may not exceed the ratio of the preceding year if that ratio is higher than 60 per cent. In the event that consolidated General Government Debt exceeds 60 per cent. of GDP, State Budget legislation for the relevant year may set out additional constraints on the municipalities and social security funds accruing further debt.

The Minister of Finance shall develop a government debt management strategy for the period of the respective medium-term budgetary forecast (the "**Strategy**"), which shall be approved by the Council of Ministers by the 31 October of each year. This allows for the timely and adequate redefinition of part of the objectives and measures in accordance with economic development, market indicators and results achieved in the course of the implementation of the Strategy.

The Strategy is a fundamental document aimed at summarising the main priorities of the Government in the area of medium term government debt management and defining the tools used for its implementation. Its main purpose is to assess and limit as much as possible the various risks generated by the debt structure and profile. The main goal of the Strategy is provision of the necessary resources for refinancing the debt outstanding, financing state budget when necessary and ensuring stability of the fiscal reserve at an optimal possible price and acceptable level of risk.

In 2003, by decree of the Council of Ministers, an Ordinance was adopted for the purposes of setting out the requirements for investment projects financed by Government loans. The Ordinance was further developed in response to the new legal requirements for more efficient and effective planning and management of public finances. At the end of 2015, the Council of Ministers by decree adopted the new "Ordinance on the requirements to be met by the investment projects financed by government loans and the projects applying for financing by a sovereign guarantee and on the procedure of their consideration", which came into force on 1 January 2016 and affects all ministries. Under this new Ordinance, it is expected that Government loans will only be available for investment projects for which there is no other alternative source of financing and provided that such investment projects are a priority under the Bulgarian Cabinet Governance Programme for the 2017-2021 period.

According to the Government Debt Act, the Minister of Finance shall sign on behalf of the Government the government loan agreements on the basis of a Council of Ministers decision according to the procedure set out in the International Treaties of the Republic of Bulgaria Act. The Council of Ministers may also assign this authority to other government authorities so that they may also participate, together with the Minister of Finance, in the negotiations for government loans. Government guarantees are issued by the Council of Ministers in line with the requirements of the Constitution and the ratification procedures contained therein. The negotiation and signing of guarantee agreements and letters of guarantee is delegated to the Minister of Finance. Projects financed by government loans or by government guarantees shall be approved by the Council of Ministers in accordance with the legally defined procedure. Approved projects constitute a part of the Annual State Budget Act for the respective year.

Methodology

Bulgaria uses its national methodology for reporting purposes with international financial institutions ("IFI") and for comparison with other countries. The state debt under national methodology is only the debt incurred directly by the state under the provisions stipulated in the State Debt Act. Local authorities and Social Security Funds issue debt under special regulations, namely the Municipal Debt Act and Social Insurance Code, which impose specific terms and conditions when undertaking debt. However, the debt figures for all are included within the reporting provisions found stipulated in the PFA, Eurostat and the EDP.

The national methodology, in accordance with the PFA, also provides full coverage of the financial instruments used in preparing the debt statistic figures for the country. Further to this, it also sets out the statistics under Eurostat methodology requirements, as defined in Council Regulation (EC) No. 479/2009 and its amendment, Regulation (EC) No. 679/2011.

As a member of the EU, Bulgaria reports on the consolidated General Government Debt to Eurostat, the statistical body of the Commission (in compliance with the ESA 2010 methodology for comparisons with other countries in EU – 28). The General Government in Bulgaria consists of Central Government, Local Government and the Social Security Funds subsector. See "*Public Finance*" for more information on ESA 2010 methodology. The introduction of ESA 2010 through Council Regulation (EC) No. 549/2013, effective from September 2014, has no impact on the reporting requirements for the consolidated debt of the General Government.

Eurostat's methodology differs from the national methodology for state debt as the former requires the inclusion of debt incurred under financial leasing contracts, cessions, factoring without recourse provisions, and those financial obligations of the state which are not connected with real financial instruments or the debt of non-financial public entities.

The following table sets out General Government Debt and its subsectors as reported under Eurostat's requirements for the four year period between 1 January 2015 and 31 December 2019:

	As at 31 December				
	2015	2016	2017	2018	2019
<i>(EUR millions, except for percentages)</i>					
General Government Debt	11,870.9	14,243.9	13,246.4	12,491.3	123,75.6
General Government Debt (as a percentage of GDP).....	26.0	29.3	25.3	22.3	20.4
Central Government Debt	11,722.2	14,048.4	13,096.7	12,216.0	12,043.9
Central Government Debt (as a percentage of GDP).....	25.7	28.9	25.0	21.8	19.9
Local Government Debt	626.1	594.5	597.5	681.2	705.6
Local Government Debt (as a percentage of GDP)	1.4	1.2	1.1	1.2	1.2
Social Security Funds Debt	1.1	-	-	-	-
Social Security Funds Debt (as a percentage of GDP).....	-	-	-	-	-
Nominal GDP (annual data).....	45,675.1	48,619.8	52,309.2	56,086.1	60,674.5

⁽¹⁾ General Government Debt under Eurostat methodology is not equal to the arithmetical sum of the three sub-sector debts due to consolidation between the sub-sectors.

Source: Eurostat.

With respect to the Eurostat requirements and ESA 2010 methodology, Bulgaria's ratio of General Government Debt to GDP was ranked third lowest in the EU, standing at 20.4 per cent. as at 31 December 2019 (see table above).

The classification of Bulgaria's external and internal debt depends on the governing law of the debt issued. All issuances under Bulgarian law are classified as internal debt and all debt issuance under foreign law, including debt incurred abroad in the form of loans (such as from IFIs or bilateral credit agreements), are classified as external debt.

State Debt

State debt under Bulgaria's national methodology comprises only debt incurred directly by the state under the provisions stipulated in the State Debt Act. State debt discussed in this section differs from the definition of General Government Debt and Central Government Debt which are defined in accordance with Eurostat methodology. See "*Indebtedness – Methodology*".

According to the Ministry of Finance, the nominal amount of state debt as at 31 December 2019 was EUR 11,260.2 million, of which EUR 8,458.6 million was external debt and EUR 2,801.6 million was domestic debt (see table below). In nominal terms, the state debt decreased by EUR 21.9 million compared to the level registered as at 31 December 2018. As at 31 December 2019, the relative share of domestic state debt was 24.9 per cent., and of external state debt was 75.1 per cent. As at 31 December 2019 the debt to GDP ratio decreased to 18.6 per cent. as compared to 20.1 as at 31 December 2018.

As at 31 December 2019, the state debt structure (currency, interest rate, type of instruments and maturity) was well balanced. The share of state debt denominated in EUR and BGN as at 31 December 2019 was 99.5 per cent. (20.0 per cent. in BGN and 79.5 per cent. in EUR, respectively). Fixed rate state debt was 96.9 per cent. and floating rate state debt was 3.1 per cent. of the total. As at 31 December 2019 the residual maturity of the state debt is seven years and seven days.

Of the outstanding state debts at 31 December 2019, 24.9 per cent. were government securities issued on the domestic market, 58.9 per cent. are bonds issued in the international capital markets and 16.2 per cent. are external loans. Moreover, 5.1 per cent. of these external loans are in the form of government investment loans intended for the implementation of investment projects which are a priority for Bulgaria's economy.

The domestic market noted the following positive trends:

- During the last several years there has been a clear tendency in the domestic debt market for yield reduction. The weighted average annual yield for the benchmark 10 year GS in 2015 is 2.50 per cent. with a coverage coefficient of 2.18, 2.53 per cent. in 2016 (with a coverage coefficient of 1.53), 1.74 per cent. in 2017 (with coverage coefficient of 2.15), 0.36 per cent. in 2019 (coverage coefficient of 1.94).
- The indicator for Bulgaria for the harmonised long-term interest rate for convergence purposes, published by the ECB, is 0.15 per cent. as of December 2019, compared to 2.43 per cent. as of December 2015.

On 14 January 2016, the ECB published data for the harmonised long-term interest rate for convergence purposes. The indicator for Bulgaria as of December 2015 was 2.43 per cent. compared with 2.96 per cent. as of December 2014.

The following table sets out state debt (excluding state guaranteed debt) in accordance with the Ministry of Finance methodology for the five year period between 1 January 2015 and 31 December 2019:

	As at 31 December				
	2015	2016	2017	2018	2019
<i>(EUR millions, except for percentages)</i>					
Domestic State debt	3,723.9	3,438.2	3,431.6	2,788.6	2,801.6
Domestic State debt (as a percentage of nominal GDP)	8.2	7.1	6.6	5.0	4.6
External State debt	7,889.6	9,728.1	8,601.2	8,493.4	8,458.6
External State debt (as a percentage of nominal GDP)	17.3	20.0	16.4	15.1	13.9
Total State Debt	11,613.5	13,166.3	12,032.8	11,282.0	11,260.2
Total State Debt (as a percentage of nominal GDP)	25.4	27.1	23.0	20.1	18.6
Nominal GDP	45,675.2	48,619.8	52,309.2	56,086.2	60,674.5

Source: Ministry of Finance, NSI

As at 31 December 2019, state guaranteed debt ("SGD") amounted to EUR 885.70 million and the majority of this was composed of external SGD (96.3 per cent.). The ratio of SGD to state and state guaranteed debt was 7.3 per cent. (see table below).

Compared to the end of 2018, SGD fell by EUR 73.8 million in nominal terms by 31 December 2019. The ratio of SGD to GDP as at 31 December 2019 is 1.5 per cent. which represents a decrease of 0.2 percentage point compared to the end of 2018.

The guarantee agreement between the Republic of Bulgaria and the European Investment Bank was ratified at the end of 2019. This guarantee agreement relates to the financing agreement for the project Greece-Bulgaria Interconnection Gas Link between the European Investment Bank and Bulgarian Energy Holding EAD in the amount of the currency equivalent up to BGN 215 million or up to EUR 110 million.

The relatively low values of these indicators are a prerequisite for low vulnerability of the debt portfolio to shocks driven by contingent liabilities. At the end of 2019, there were 11 government guaranteed loans, which were mainly divided between the finance sector (85.1 per cent.), transport (7.2 per cent.), education (3.7 per cent.) and energy (2.1 per cent.) sectors and other guarantees (1.8 per cent.).

The following table sets out SGD in accordance with the national methodology for the five year period between 1 January 2015 and 31 December 2019:

	As at 31 December				
	2015	2016	2017	2018	2019
<i>(EUR millions, except for percentages)</i>					
State Guaranteed Debt	300.1	855.6	1,020.9	959.5	885.7
State Guaranteed Debt as a percentage of total state and state guaranteed debt	2.5	6.1	7.8	7.8	7.3
State Guaranteed Debt as a percentage of GDP ..	0.7	1.8	2.0	1.7	1.5
State Guaranteed Debt currency structure:					
in JPY (as a percentage of SGD)	52.6	16.4	10.1	8.7	8.9
in EUR (as a percentage of SGD)	36.6	79.4	86.3	87.6	87.4
in BGN (as a percentage of SGD)	10.0	3.9	3.4	3.6	3.8
in USD (as a percentage of SGD)	0.9	0.2	0.1	0.1	0.0
State Guaranteed Debt interest rate structure:					
with fixed interest rate (as a percentage of SGD)	70.9	29.3	86.0	87.3	89.6
with variable interest rate (as a percentage of SGD)	29.1	70.7	14.0	12.7	10.4
Average interest rate of SGD (as a percentage) .	1.8	1.1	1.3	1.3	1.4
Residual maturity of SGD (in years)	7.7	8.3	7.0	6.4	5.6

Source: Ministry of Finance.

State Debt Service

The following table sets out state debt service in accordance with the Ministry of Finance methodology for the years 2015 to 2019:

	Actual				
	2015	2016	2017	2018	2019
	(EUR millions)				
Domestic State Debt					
1 Interest of domestic State bonds	117.9	127.8	114.3	111.8	93.1
2 Cost of cash management	0.3	0.3	0.4	0.4	0.5
3 Interest of domestic loans	0.0	0.0	0.0	0.0	0.0
4 Fees	0.0	0.0	0.0	0.0	0.0
Total Domestic State Debt	118.2	128.1	114.7	112.2	93.6
Foreign State Debt					
1 Interest of foreign state bonds	148.4	163.8	218.5	170.4	170.4
2 Interest of domestic bonds - non residents	5.3	7.4	2.0	1.5	1.3
3 Cost of foreign cash management	4.1	1.2	0.8	0.3	0.2
4 Interest of foreign loans	62.9	55.2	51.5	48.6	46.2
5 Fees	0.3	3.6	0.0	0.0	0.0
Total Foreign State Debt	221.0	231.2	272.8	220.8	218.1
Total State Debt	339.2	359.3	387.5	333.0	311.7

Source: Ministry of Finance.

CLEARING AND SETTLEMENT

Book-Entry Ownership

Bearer Notes

The Issuer may make applications to Euroclear and/or Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. In respect of Bearer Notes, a Temporary Global Note and/or a Permanent Global Note in bearer form without coupons may be deposited with a common depositary for Euroclear and/or Clearstream, Luxembourg or an Alternative Clearing System as agreed between the Issuer and the relevant Dealer. Transfers of interests in such Temporary Global Notes or Permanent Global Notes will be made in accordance with the normal Euromarket debt securities operating procedures of Euroclear and Clearstream, Luxembourg or, if appropriate, the Alternative Clearing System.

Registered Notes

The Issuer may make applications to Euroclear and/or Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of the Registered Notes to be represented by an Unrestricted Global Certificate. Each Unrestricted Global Certificate deposited with a common depositary for, and registered in the name of, a nominee of Euroclear and/or Clearstream, Luxembourg will have an ISIN and a Common Code.

The Issuer, and a relevant U.S. agent appointed for such purpose that is an eligible DTC participant, may make application to DTC for acceptance in its book-entry settlement system of the Registered Notes represented by a Restricted Global Certificate. Each such Restricted Global Certificate will have a CUSIP number. Each Restricted Global Certificate will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under "*Transfer Restrictions*". In certain circumstances, as described below in "*Transfers of Registered Notes*", transfers of interests in a Restricted Global Certificate may be made as a result of which such legend may no longer be required.

In the case of a Tranche of Registered Notes to be cleared through the facilities of DTC, the Custodian, with whom the Restricted Global Certificates are deposited, and DTC, will electronically record the nominal amount of the Restricted Notes held within the DTC system. Investors may hold their beneficial interests in a Restricted Global Certificate directly through DTC if they are participants in the DTC system, or indirectly through organisations which are participants in such system.

Payments of the principal of, and interest on, each Restricted Global Certificate registered in the name of DTC's nominee will be to, or to the order of, its nominee as the registered owner of such Restricted Global Certificate. The Issuer expects that the nominee, upon receipt of any such payment, will immediately credit DTC participants' accounts with payments in amounts proportionate to their respective beneficial interests in the nominal amount of the relevant Restricted Global Certificate as shown on the records of DTC or the nominee. The Issuer also expects that payments by DTC participants to owners of beneficial interests in such Restricted Global Certificate held through such DTC participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC participants. Neither the Issuer nor any Paying Agent or any Transfer Agent will have any responsibility or liability for any aspect of the records relating, to or payments made on account of, ownership interests in any Restricted Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

All Registered Notes will initially be in the form of an Unrestricted Global Certificate and/or a Restricted Global Certificate. Individual Certificates will only be available, in the case of Notes initially represented by an Unrestricted Global Certificate, in amounts specified in the applicable Pricing Supplement, and, in the case of Notes initially represented by a Restricted Global Certificate, in minimum amounts of US\$100,000 (or its equivalent rounded upwards as agreed between the Issuer and the relevant Dealer(s)), or higher integral multiples of US\$1,000, in certain limited circumstances described below.

Payments through DTC

Payments in U.S. dollars of principal and interest in respect of a Restricted Global Certificate registered in the name of a nominee of DTC will be made to the order of such nominee as the registered holder of such Note. Payments of principal and interest in a currency other than U.S. dollars in respect of Notes evidenced by a Restricted Global Certificate registered in the name of a nominee of DTC will be made or procured to be made by the Paying Agent in such currency in accordance with the following provisions. The amounts in such currency payable by the Paying Agent or its agent to DTC with respect to Notes held by DTC or its nominee will be received from the Company by the Paying Agent who will make payments in such currency by wire transfer of same day funds to the designated bank account in such currency of those DTC participants entitled to receive the relevant payment who have made an irrevocable election to DTC, in the case of payments of interest, on or prior to the third business day in New York City after the record date for the relevant payment of interest and, in the case of payments of principal, at least 12 business days in New York City prior to the relevant payment date, to receive that payment in such currency. The Paying Agent will convert amounts in such currency into U.S. dollars and deliver such U.S. dollar amount in same day funds to DTC for payment through its settlement system to those DTC participants entitled to receive the relevant payment who did not elect to receive such payment in such currency. The Agency Agreement sets out the manner in which such conversions are to be made.

Transfers of Registered Notes

Transfers of interests in Global Certificates within Euroclear, Clearstream, Luxembourg and DTC will be in accordance with the usual rules and operating procedures of the relevant clearing system. The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Restricted Global Certificate to such persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Restricted Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

Beneficial interests in an Unrestricted Global Certificate may only be held through Euroclear or Clearstream, Luxembourg. In the case of Registered Notes to be cleared through Euroclear, Clearstream, Luxembourg and/or DTC, transfers may be made at any time by a holder of an interest in an Unrestricted Global Certificate to a transferee who wishes to take delivery of such interest through a Restricted Global Certificate for the same Series of Notes **provided that** any such transfer made on or prior to the expiration of the distribution compliance period (as used in "*Subscription and Sale*") relating to the Notes represented by such Unrestricted Global Certificate will only be made upon receipt by any Transfer Agent of a written certificate from Euroclear or Clearstream, Luxembourg, as the case may be, (based on a written certificate from the transferor of such interest) to the effect that such transfer is being made to a person whom the transferor, and any person acting on its behalf, reasonably believes is a QIB within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States. Any such transfer made thereafter of the Notes represented by such Unrestricted Global Certificate will only be made upon request through Euroclear or Clearstream, Luxembourg by the holder of an interest in the Unrestricted Global Certificate to the Fiscal Agent of details of that account at DTC to be credited with the relevant interest in the Restricted Global Certificate. Transfers at any time by a holder of any interest in the Restricted Global Certificate to a transferee who takes delivery of such interest through an Unrestricted Global Certificate will only be made upon delivery to any Transfer Agent of a certificate setting forth compliance with the provisions of Regulation S and giving details of the account at Euroclear or Clearstream, Luxembourg, as the case may be, and DTC to be credited and debited, respectively, with an interest in each relevant Global Certificate.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described above and under "*Transfer Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Custodian, the Registrar and the Fiscal Agent.

Transfers of Notes of such Series between accountholders in Euroclear and/or Clearstream, Luxembourg and transfers of Notes of such Series between participants in DTC will generally have a settlement date two

business days after the trade date (T+2). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Euroclear or Clearstream, Luxembourg and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear and Clearstream, Luxembourg, on the other, transfers of interests in the relevant Global Certificates will be effected through the Fiscal Agent, the Custodian, the relevant Registrar and any applicable Transfer Agent receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of (i) two business days after the trade date for the disposal of the interest in the relevant Global Certificate resulting in such transfer and (ii) two business days after receipt by the Fiscal Agent or the Registrar, as the case may be, of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

For a further description of restrictions on transfer of Registered Notes, see "*Transfer Restrictions*".

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Registered Notes (including, without limitation, the presentation of Restricted Global Certificates for exchange as described above) only at the direction of one or more participants in whose account with DTC interests in Restricted Global Certificates are credited and only in respect of such portion of the aggregate nominal amount of the relevant Restricted Global Certificates as to which such participant or participants has or have given such direction. However, in the circumstances described above, DTC will surrender the relevant Restricted Global Certificates for exchange for Individual Certificates (which will, in the case of Restricted Notes, bear the legend applicable to transfers pursuant to Rule 144A).

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic computerised book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Global Certificates among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer, nor any Paying Agent nor any Transfer Agent will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

While a Restricted Global Certificate is lodged with DTC or the Custodian, Restricted Notes represented by Individual Certificates will not be eligible for clearing or settlement through Euroclear, Clearstream, Luxembourg or DTC.

Individual Certificates

Registration of title to Registered Notes in a name other than a depository or its nominee for Clearstream, Luxembourg and Euroclear or for DTC will be permitted only (i) in the case of Restricted Global Certificates in the circumstances set forth in "*Summary of Provisions Relating to Notes in Global Form—Exchange—Restricted Global Certificates*" or (ii) in the case of Unrestricted Global Certificates in the circumstances set forth in "*Summary of Provisions Relating to Notes in Global Form—Exchange—Unrestricted Global Certificates*". In such circumstances, the Issuer will cause sufficient individual

Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Noteholder(s). A person having an interest in a Global Certificate must provide the Registrar with:

- (i) a written order containing instructions and such other information as the Issuer and the Registrar may require completing, execute and deliver such Individual Certificates; and
- (ii) in the case of a Restricted Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange, or in the case of a simultaneous resale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A. Individual Certificates issued pursuant to this paragraph (ii) shall bear the legends applicable to transfers pursuant to Rule 144A.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the relevant Issue Date, which could be more than two business days following the date of pricing. Under Rule 15c6-1 of the Exchange Act, trades in the U.S. secondary market generally are required to settle within two business days ("T+2"), unless the parties to any such trade expressly agree otherwise. Accordingly, in the event that an Issue Date is more than two business days following the relevant date of pricing, purchasers who wish to trade Registered Notes in the United States between the date of pricing and the date that is two business days prior to the relevant Issue Date will be required, by virtue of the fact that such Notes initially will settle beyond T+2, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices and, in the event that an Issue Date is more than two business days following the relevant date of pricing, purchasers of Notes who wish to trade Notes between the date of pricing and the date that is two business days prior to the relevant Issue Date should consult their own adviser.

TRANSFER RESTRICTIONS

Restricted Notes

Each purchaser of Restricted Notes, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged that:

1. It is (a) a QIB, (b) acquiring such Restricted Notes for its own account, or for the account of one or more QIBs, and (c) aware, and each beneficial owner of the Restricted Notes has been advised, that the sale of the Restricted Notes to it is being made in reliance on Rule 144A.
2. (i) The Restricted Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it, and any person acting on its behalf, reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) in each case in accordance with any applicable securities laws of any State of the United States and (ii) it will, and each subsequent holder of the Restricted Notes is required to, notify any purchaser of the Restricted Notes from it of the resale restrictions on the Restricted Notes.
3. The Restricted Notes, unless the Issuer determines otherwise in accordance with applicable law, will bear a legend in or substantially in the following form:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "**QIB**") THAT IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER RULE 144 UNDER THE SECURITIES ACT, IF AVAILABLE, OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THE NOTES.

4. It understands that the Issuer, each Registrar, the relevant Dealer(s) and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Notes for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.
5. It understands that the Restricted Notes will be represented by a Restricted Global Certificate. Before any interest in a Restricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Certificate or as the case may be, Global Note, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Unrestricted Notes

Each purchaser of Unrestricted Notes and each subsequent purchaser of such Unrestricted Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Offering Circular and the Unrestricted Notes, will be deemed to have represented, agreed and acknowledged that:

1. It is, or at the time Unrestricted Notes are purchased will be, the beneficial owner of such Unrestricted Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.
2. It understands that such Unrestricted Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Unrestricted Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believes is a QIB purchasing for its own account, or for the account of one or more QIBs or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
3. It understands that the Unrestricted Notes, unless otherwise determined by the Issuer in accordance with applicable law, will bear a legend in or substantially in the following form:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND NEITHER THIS NOTE NOR ANY PORTION HEREOF MAY BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT."
4. It understands that the Issuer, each Registrar, the relevant Dealer(s) and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.
5. It understands that the Unrestricted Notes will be represented by an Unrestricted Global Certificate, or as the case may be, a Global Note. Prior to the expiration of the distribution compliance period, before any interest in an Unrestricted Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Restricted Global Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

TAXATION

The following is a general description of certain material Bulgarian and EU tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. This summary does not take into account or discuss specific double taxation treaties, the individual circumstances, and financial situation or investment objectives of an investor in the Notes. Prospective purchasers of Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Republic of Bulgaria of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date, including changes which could have retroactive effect.

Bulgaria Taxation

Individuals

Principal amounts. Payment of principal on the Notes to individuals is not subject to taxation in Bulgaria.

Interest on Notes admitted to trading on a regulated market. Insofar as the Notes are admitted to trading on a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments (MiFID II) (a "**Regulated Market**" and, for the avoidance of doubt, the Luxembourg Stock Exchange's regulated market is a "Regulated Market" for these purposes), interest on the Notes received by an individual is exempt from taxation in Bulgaria, irrespective of whether the individual is a Bulgarian tax resident or not and irrespective of the place where the individual is established for tax purposes.

Interest on Notes not admitted to trading on a Regulated Market. In case that the Notes are not admitted to trading on a Regulated Market, interest on the Notes, received by an individual who is a Bulgarian tax resident, or who is a non-Bulgarian tax resident established for tax purposes in an EU Member State (for such purposes the United Kingdom is not an EU Member State) and/or in the European Economic Area, or who is a non-Bulgarian tax resident acting through a fixed base in Bulgaria, is exempt from taxation in Bulgaria too. In such case, in order to avail of this relief, non-resident European Union (excluding the United Kingdom) and/or European Economic Area individuals should present before the Issuer an official document, issued by the relevant foreign tax administration, evidencing the tax residency status, as well as an affidavit stating that the circumstances qualifying the interest income as tax exempt are met (in the particular case the affidavit should state that the interest income originates from government Notes).

In case the Notes are not admitted to trading on a Regulated Market, interest on the Notes received by an individual who is a non-Bulgarian tax resident and is established for tax purposes outside of a EU Member State (for such purposes the United Kingdom is not an EU Member State) and outside the European Economic Area is subject to a one-time tax in Bulgaria at the rate of 10 per cent. (unless treaty relief applies).

Capital gains realised on a Regulated Market. Capital gains realised from the sale or exchange of Notes on a Regulated Market by an individual who is a Bulgarian tax resident, or who is a non-Bulgarian tax resident established for tax purposes in an EU Member State (for such purposes the United Kingdom is not an EU Member State) and/or in the European Economic Area, or who is a non-Bulgarian tax resident acting through a fixed base in Bulgaria, are exempt.

Capital gains realised from the sale or exchange of Notes on a Regulated Market by an individual who is a non-Bulgarian tax resident, and who does not fall in the categories of non-Bulgarian residents referred to in the preceding paragraph, have not been explicitly exempt from taxation. Therefore, they could be subject to a one-time tax in Bulgaria at the rate of 10 per cent., levied on the positive difference between the sale price and the documented acquisition price of the Notes (unless treaty relief applies). The tax is to be reported in a tax return and paid by such individual before the end of the month following the quarter in which the capital gains are actually received. Any such prospective holders of Notes who are in any doubt as to their position should consult their own independent tax advisers.

Capital gains realised off a Regulated Market. Capital gains realised from the sale or exchange of Notes off a Regulated Market (i.e. not by way of a trade on such market, including when the Notes are listed on it) by an individual who is a Bulgarian tax resident, or who is a non-Bulgarian tax resident acting through a fixed base in Bulgaria, is included in his or her annual taxable income and is subject to personal income tax in Bulgaria at the rate of 10 per cent.

Capital gains realised from the sale or exchange of Notes off a Regulated Market (i.e. not by way of a trade on such market, including when the Notes are listed on it) by an individual who is a non-Bulgarian tax resident, irrespective of the place where the individual is established for tax purposes, is subject to a one-time tax in Bulgaria at the rate of 10 per cent., levied on the positive difference between the sale price and the documented acquisition price of the Notes (unless treaty relief applies). The tax is to be reported in a tax return and paid by such individual before the end of the month following the quarter in which the capital gains are actually made.

Special treatment of sole proprietors. An individual who is a Bulgarian tax resident and, with regards to the Notes, is acting as sole proprietor within the meaning of the Bulgarian Commercial Act, whether registered or not, is subject to taxation for any interest or capital gains as a legal entity at the rate of 15 per cent.

Legal Entities

Principal amounts. Payment of principal on the Notes to a legal entity is not subject to taxation in Bulgaria.

Interest on Notes admitted to trading on a Regulated Market. Interest on the Notes received by a legal entity, which is a Bulgarian tax resident or which is a non-Bulgarian tax resident acting through a permanent establishment in Bulgaria is included in the corporate income taxable base of the recipient and is subject to corporate income tax in Bulgaria at the rate of 10 per cent. Interest on the Notes received by a legal entity, which is a non-Bulgarian tax resident (unless acting through a permanent establishment), irrespective of the place where it is established for tax purposes, is exempt from taxation in Bulgaria.

Interest on Notes not admitted to trading on a Regulated Market. Interest on the Notes received by a legal entity, which is a Bulgarian tax resident or which is a non-Bulgarian tax resident acting through a permanent establishment in Bulgaria is included in the corporate income taxable base of the recipient and is subject to corporate income tax in Bulgaria at the rate of 10 per cent. Interest on the Notes received by a legal entity which is a non-Bulgarian tax resident (unless acting through a permanent establishment), irrespective of the place where it is established for tax purposes, is subject to a one time withholding tax in Bulgaria at the rate of 10 per cent., unless treaty relief applies.

Capital gains realised on a Regulated Market. Capital gains realised from the sale or exchange of Notes on a Regulated Market, received by a legal entity, which is a Bulgarian tax resident, or which is a non-Bulgarian tax resident acting through a permanent establishment in Bulgaria, are not treated as income for Bulgarian corporate tax purposes. Capital losses realised from the sale or exchange of Notes on a Regulated Market, received by the categories of legal entities referred to in the preceding sentence, are not treated as expense for Bulgarian corporate tax purposes. Capital gains realised from the sale or exchange of Notes on a Regulated Market by a legal entity, which is a non-Bulgarian tax resident (unless acting through a permanent establishment), irrespective of the place where it is established for tax purposes, are exempt from taxation.

Capital gains realised off a Regulated Market. Capital gains from the sale or exchange of Notes realised off a Regulated Market (i.e. not by way of a trade on such market, including when the Notes are listed on it), received by a legal entity which is a Bulgarian tax resident or which is a non-Bulgarian tax resident acting through a permanent establishment in Bulgaria is included in the corporate income taxable base of the recipient and is subject to corporate income tax in Bulgaria at the rate of 10 per cent.

Capital gains from the sale or exchange of Notes off a Regulated Market (i.e. not by way of a trade on such market, including when the Notes are listed on it), realised by a legal entity, which is a non-Bulgarian tax resident (unless acting through a permanent establishment), irrespective of the place where it is established for tax purposes, are subject to a one-time withholding tax in Bulgaria at the rate of 10 per cent. (unless treaty relief applies). Although the law names this tax on capital gains as "withholding" tax, it is payable by the recipient of the income. The tax on capital gains is levied on the positive difference between the sale

price and the documented acquisition price. The tax on capital gains is to be reported in a tax return and paid by such non-resident legal entity before the end of the month following the quarter in which the respective income is actually received.

Gross-up

In addition to the above, in accordance with the terms and conditions of the Notes, if withholding or deduction for or on account of any taxes is or becomes payable in Bulgaria in respect of any payments of principal and/or interest in respect of the Notes, Bulgaria shall pay such additional amounts as will result in the receipt by the holders of the Notes of such amounts as would have been received by them had no such withholding or deduction been required, subject to the exceptions set out in Condition 8 of the terms and conditions of the Notes.

Bilateral Treaties for Avoidance of Double Taxation

As at the date of this Offering Circular, Bulgaria is party to 70 bilateral treaties on the avoidance of double taxation. In cases where Bulgarian law imposes tax on interest received or capital gains realised in relation to the Notes (see the sections above, "*Individuals*" and "*Legal Entities*"), these treaties may provide different forms of tax relief. The application of any treaty relief in respect of income exceeding BGN 500,000 for the calendar year is subject to obtaining tax clearance from Bulgarian revenue authorities under a special procedure, requiring filing of standard forms and tax residence certificates following receipt of the relevant income and before the deadline for payment of tax. The clearance statement should be issued within a 60-day term, where the expiry of such term without any refusal is deemed a tacit approval of treaty relief application. In case the income does not exceed BGN 500,000 for the relevant calendar year, the grounds for the application of the treaties must be certified to the payer of the income. Treaty benefits may also be claimed in the course of a tax refund procedure.

Prospective purchasers of Notes should consult their own tax advisers with regard to the applicability and effect of such treaties, and to treaty clearance procedures.

Other taxation

No Bulgarian VAT, stamp duty, registration, transfer, or similar tax is payable in connection with the acquisition, ownership, sale or disposition of the Notes by Bulgarian or non-Bulgarian investors in or holders of the Notes.

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the Commission's Proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Furthermore, additional EU Member States may decide to become participating Member States.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

Notes may be sold from time to time by the Issuer to the Dealers. The Dealers have, in a dealer agreement (the "**Dealer Agreement**") dated 6 February 2015 agreed with the Republic a basis upon which the Issuer may from time to time agree to sell Notes and upon which the Dealers may agree to purchase Notes. Any such agreement will extend to those matters stated under "*Terms and Conditions of the Notes*".

The Republic will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Republic has agreed to reimburse the Arrangers and the Dealers for certain of their activities in connection with the Programme.

The Republic has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they made to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Republic.

Certain of the Dealers and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Republic in the ordinary course of their respective businesses. The Republic may apply all or part of the proceeds of any Notes issued pursuant to the Programme in repayment of all or part of any such credit facilities.

Certain of the Dealers and their affiliates have engaged, are currently engaged and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer in the ordinary course of business. Such persons may have received, or may continue to receive, customary compensation. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its agencies. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche.

Selling Restrictions

United States of America

The Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and, subject to certain exceptions, may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this section of the Offering Circular have the meanings given to them by the U.S. Internal Revenue Code of 1986 and the Treasury regulations promulgated thereunder.

Each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to agree that, except as permitted by the Dealer Agreement, it has not offered, sold or delivered and will not offer, sell or, in the case of Notes sold in Bearer form, deliver the Notes of any identifiable Tranche (i) as part of their distribution at any time or (ii) otherwise until 40 days after completion of the

distribution of such Tranche within the United States, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Notes during the distribution compliance period (other than resales pursuant to Rule 144A) a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

Dealers may arrange for the resale of Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

Any issuance of Dual Currency Notes and/or Index Linked Notes will be subject to such additional U.S. selling restrictions as the Republic and the relevant purchaser(s) may agree, as indicated in the applicable Pricing Supplement. Each Dealer has agreed and each purchaser will be required to agree that it will offer, sell or deliver such Notes only in compliance with such additional U.S. selling restrictions.

United Kingdom

Each Dealer has severally represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Bulgaria

Each Dealer has severally warranted, represented and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that:

- (a) the Notes have not been and will not be registered for a public offer and/or admitted to trading on a regulated market in the Republic of Bulgaria; and
- (b) neither it nor any of its affiliates, nor any persons acting on its or its affiliates behalf, have publicly offered or sold, or will publicly offer or sell, any Note within the Republic of Bulgaria, other than in accordance with the laws of the Republic of Bulgaria.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended; the "FIEA") and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

General

No action has been or will be taken in any jurisdiction by the Republic, the Arrangers or the Dealers that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Republic and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

None of the Republic and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Republic and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

GENERAL INFORMATION

Authorisation

The Republic has obtained all necessary consents, approvals and authorisations in the Republic of Bulgaria in connection with the establishment and update (including the increase in the Programme Limit) of the Programme and the issue and performance of the Notes under it. The establishment and update of the Programme and the issue of Notes from time to time under it was authorised by the Annual State Budget Act for 2015 of the Republic of Bulgaria, the Annual State Budget Act for 2016 of the Republic of Bulgaria, the Annual State Budget Act for 2020 (as amended) of the Republic of Bulgaria, resolution No. 83 of the Council of Ministers of the Republic of Bulgaria dated 9 February 2015, and by the law on ratification of the Agency Agreement, the Dealer Agreement and the Deed of Covenant, adopted by Parliament on 25 February 2015, sealed by the President on 25 February 2015 and published by the State Gazette Volume 16/27 February 2015, in force as of 27 February 2015.

Listing and admission to trading of Notes

Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on its regulated market and to be listed on the Official List of the Luxembourg Stock Exchange.

Legal and Arbitration Proceedings

Save as disclosed in the section headed "*Legal Proceedings*" in this Offering Circular, Bulgaria is not involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Bulgaria is aware) which may have, or have had during the 12 months preceding the date of this Offering Circular, a significant effect on the financial position of Bulgaria.

No Significant Change

There has been no significant change in the tax and budgetary systems, gross public debt, foreign trade and balance of payments, foreign exchange reserves, financial position and resources and income and expenditure figures of Bulgaria since 30 June 2020.

Documents Available

For a period of 12 months following the date of this Offering Circular, copies of the following documents will, when published, be available for inspection from the specified office of the Fiscal Agent and of the Listing Agent for the time being in Luxembourg:

- (a) the Agency Agreement, the Deed of Covenant and the forms of the Global Notes, the Notes in definitive form, the Coupons and the Talons;
- (b) a copy of this Offering Circular and any supplements to it; and
- (c) any future offering circulars, prospectuses, information memoranda or statements and supplements to this Offering Circular and any other documents incorporated herein or therein by reference.

In addition, copies of this Offering Circular and each Pricing Supplement relating to Notes which are admitted to trading on the Luxembourg Stock Exchange's regulated market are available on the website of the Luxembourg Stock Exchange at www.bourse.lu.

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg which are the entities in charge of keeping the records. The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. In addition, the Republic may make an application for any Notes in registered form to be accepted for trading in book-entry form by DTC. The CUSIP numbers for each Tranche of such Registered Notes, together with the relevant ISIN and (if applicable) Common Code, will be specified in the applicable

Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

The Legal Entity Identifier (LEI) of the Issuer is 529900PG0XCL4LICL838 (the LEI of the Ministry of Finance of the Republic of Bulgaria).

Dealers transacting with the Republic

Each of the Dealers and their affiliates have or may have engaged, and may continue to engage, in investment banking and/or commercial banking transactions with, and may perform services for the Republic and its agencies in the ordinary course of business. See "*Subscription and Sale*" for further information.

THE ISSUER

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