

Law on the Government Debt

(Issued by the 39th National Assembly on 17 September 2002;
published in the Darjaven Vestnik, issue 93 of 1 October 2002; amended,
issue 34 of 2005; amended; issue 52 of 2007; amended, issue 23 of 2009;
amended, issue 101 of 2010)

Chapter One

General Provisions

Article 1. This Law shall provide for the procedure of undertaking government debt and issuing government guarantees, the types of debt, and the government debt agency functions.

Chapter Two

Government Debt

Article 2. All financial obligations undertaken on behalf and for the account of the government in full compliance with the Constitution, shall be government debt, and shall be a liability of the government.

Article 3. Where the government debt is revalued in Bulgarian leva, obligations denominated in foreign exchange shall be translated at the exchange rate of the Bulgarian National Bank as of the date of revaluation.

Article 4. The government debt shall be undertaken through:

1. issues of government securities;
2. government loan agreements.

Article 5. (1) Government debt may be taken up in the following cases:

1. to finance budget deficit;
2. to finance investment projects and specific programs, where approved by the National Assembly;
3. to refinance the government debt outstanding on the maturity date or prior to this date;
4. to meet payments under government guarantees that have become due;
5. to support the balance of payments of the country.

(2) Refinancing may be used also for the following purposes:

1. to reduce the present value of government debt servicing expenses;
2. to extend the average weighted maturity (modified duration) of government debt;
3. to balance distribution of government debt payments.

(3) The conditions that investment projects under paragraph 1, item 2 should meet, and the procedure for their consideration shall be determined by the Council of Ministers.

Article 6. The government debt may be agreed upon, issued and paid in levs or in foreign currency.

Article 7. The amounts due as interest and principal payments on the government debt shall be a priority payment of the general government.

Chapter Three

Debt Limit

Article 8. The Law on the Government Debt for a respective year shall set forth:

1. the maximum amount of the new government debt and the government guarantees which may be undertaken throughout the year;
2. the maximum amount of government debt as at the end of the budget year.

Article 9. (1) For the purposes of monitoring compliance with the limits under Article 8, the amount of government debt and government guarantees which are not denominated in levs, shall be recalculated at the exchange rate of the Bulgarian National Bank as of the date of occurrence of the liability.

(2) Where government securities are issued with a discount or a margin, the limit shall be calculated on the basis of the face value of the government securities.

Article 10. (1) The outstanding portion of the consolidated government debt at year-end as a ratio of the projected gross domestic product, may not exceed the previous year ratio until this ratio is over 60 per cent.

(2) For the purposes of calculating the ratio under paragraph 1, the amount of the gross domestic product at current prices, taken from the three-year budget projection approved by the Council of Ministers, and the amount of the consolidated government debt in levs translated at exchange rates set in the three-year budget projection approved by the Council of Ministers, shall be used.

Article 11. In the event of any risk of noncompliance with the requirement under Article 10, the Council of Ministers may propose some restrictions on the issuance of municipal debt and social security funds debt in the State Budget Law for the respective year.

Chapter Four

Powers in Relation to the Government Debt

Article 12. (1) The Minister of Finance shall undersign on behalf of the government the government loan agreements on the grounds of a decision of the Council of Ministers pursuant to the International Agreements Law.

(2) Government securities shall be issued by the Minister of Finance.

(3) The Council of Ministers may also assign to other government bodies to participate together with the Minister of Finance in the negotiations of government loans.

Article 13. The Minister of Justice shall prepare a legal statement of opinion on the fact of ratification, which shall serve as a notification to the creditors in the cases where government debt agreements or guarantee agreements are ratified by the National Assembly.

Article 14. (1) The Minister of Finance may extend the funds of the loan to government bodies, financial institutions and/or other legal entities pursuant to the conditions of the agreement, where a government loan agreement provides for target financing.

(2) Government bodies and financial institutions under paragraph 1 may extend funds to finance investment projects or other activities of third parties that meet creditor's requirements, and an agreement to this effect shall be concluded with the Minister of Finance. To obtain such funds, the third parties shall provide a security in an amount covering the principal and interest due.

Article 15. (1) The Minister of Finance shall prepare an annual report on the state of the government debt.

(2) The annual report under paragraph 1 shall be considered by the Council of Ministers and shall be submitted to the National Assembly as an integral part of the government budget performance report for the respective year.

Article 16. (1) The Minister of Finance shall develop a three-year government debt management strategy, which shall be approved by the Council of Ministers.

(2) The strategy under paragraph 1 shall be updated on an annual basis and shall be submitted together with the three-year budget projection for approval by the Council of Ministers.

Article 17. The Minister of Finance may effect financial transactions in view of reducing the risk in relation to the government debt structure.

Chapter Five

Government Guaranteed Debt

Article 18. All financial obligations for which the Council of Ministers has issued guarantees on behalf and for the account of the government, in full compliance with the Constitution, shall be government guaranteed debt.

Article 19. (1) The Minister of Finance shall participate in the negotiations on the extension of a government guaranteed loan, and shall undersign on behalf of the government agreements on the issuance of a government guarantee or guarantee letters pursuant to a Council of Ministers' decision.

(2) The Council of Ministers may assign to other government bodies to participate in the negotiations of government guaranteed loans together with the Minister of Finance.

Article 20. Any proposals for amendments to the loan or guarantee agreement, in the cases of government guarantees already issued, shall be made with the prior approval of the Minister of Finance.

Article 21. (1) Borrowers under government guaranteed loans shall provide to the Minister of Finance, on a monthly basis by the 15th of the month, information on the state and movement of funds under the loan.

(2) Where necessary, the Minister of Finance may request additional information on the government guaranteed loans from the government authorities that have proposed the issuance of the guarantee, and they shall provide it within 15 days from the receipt of the request.

Article 22. The terms and conditions that projects applying for government guaranteed financing should meet, and the government guarantee issuance procedures shall be determined by the Council of Ministers.

Article 23. (1) Interest and principal payments of government guaranteed debt shall be paid by the borrowers.

(2) Payment under a government guarantee shall be due only in the event:

1. a borrower has not effected a full or partial payment on a loan in accordance with the loan agreement terms and conditions;

2. a creditor has taken the steps and actions provided for in the respective loan agreement for collection the amounts due from the borrower.

Article 24. In the cases under Article 23, paragraph 2, item 1, the borrower and the creditor shall notify the Minister of Finance within three days.

Article 25. Where the requirements under Article 23, paragraph 2, item 2 have not been provided for in the government guarantee issuance agreement, the Minister of Finance shall determine together with the creditor the actions to be taken where a payment on a government guarantee is due, as well as the time limits within which the government should pay the overdue amount.

Article 26. From the date of the payment under a government guarantee, the government shall enter into the creditor's rights under the loan agreement to the amount of the payment made.

Article 27. (1) The borrower shall reimburse in full the amounts paid to the creditor under a government guarantee, and the expenses incurred in relation to the payment.

(2) The Minister of Finance shall take any actions under the effective legislation to recover the amounts paid under the government guarantee.

Chapter Six

Debt of the Bulgarian National Bank, Debt of Municipalities and Social Security Funds

Article 28. The debt of the Bulgarian National Bank shall not be guaranteed by the government and shall not constitute a liability of the Council of Ministers,

except for the cases where a government guarantee has been issued according to the appropriate procedure.

Article 29. The Bulgarian National Bank may undertake debt pursuant to the provisions of the Law on the Bulgarian National Bank.

Article 30. The debt of municipalities and social security funds shall not be guaranteed by the government, and shall not constitute a liability of the government, except for the cases where a government guarantee has been issued according to the appropriate procedure.

Chapter Seven

Private Debt

Article 31. All financial obligations undertaken by residents, who do not act on behalf of the government, municipalities, social security funds, or the Bulgarian National Bank, shall constitute private debt.

Article 32. Private debt shall not be guaranteed by the government and shall not be a liability of the Council of Ministers, the municipalities, social security funds, or the Bulgarian National Bank, except for the cases where a government guarantee has been issued according to the appropriate procedure.

Article 33. The Bulgarian National Bank shall register and monitor the financial liabilities of residents to nonresidents according to the effective legislation.

Chapter Eight

Government Debt Agent

Article 34. (1) The Bulgarian National Bank, shall act, under terms and conditions agreed with the Minister of Finance, as an agent for the government and government guaranteed debt.

(2) To perform its functions under paragraph 1, the Bulgarian National Bank shall establish and maintain government and government guaranteed debt registration and servicing systems.

(3) The relations under paragraph 1 shall be provided for in an agency agreement, and the Ministry of Finance shall pay a commission for the agency services rendered by the Bank.

Article 35. (1) (former wording of Article 35; Darjaven Vestnik, issue 52 of 2007, effective as of 1 November 2007) For the purpose of performing its agency functions, the Bulgarian National Bank shall:

1. (amended; Darjaven Vestnik; issue 52 of 2007; effective as of 1 November 2007) establish and organize a system for conducting auctions and subscriptions for sale of government securities. The participants in the system shall be determined by the Ordinance under Article 36, paragraph 1;

2. (amended; Darjaven Vestnik; issue 101 of 2010, effective as of 30 June 2011) establish and organize a system for registration of government securities issues and

servicing the trade in government securities and maintain registers of the participants in the system who may be primary dealers, subdepositories of government securities or other entities, specified by the Minister of Finance and the Governor of the Bulgarian National Bank pursuant to the Ordinance under Article 36, paragraph 1, as well as provide conditions for the development of the secondary market;

3. (new; Darjaven Vestnik, issue 52 of 2007, effective as of 1 November 2007; amended; Darjaven Vestnik, issue 23 of 2009, effective as of 1 November 2009) establish and organize a government securities settlement system in which three or more members participate, who may be primary dealers, subdepositories of government securities or other entities, specified by the Minister of Finance and the Governor of the Bulgarian National Bank pursuant to the Ordinance under Article 36, paragraph 1, based on general rules guaranteeing the implementation of responsibilities related to the participation in the system pursuant to an agreement.

4. (former item 3; amended; Darjaven Vestnik, issue 52 of 2007, effective as of 1 November 2007) select, jointly with the Ministry of Finance, government securities primary dealers and other participants on the government securities market and to take measures against them in case of infringement based on rules and criteria set forth by the Minister of Finance and the Governor of the Bulgarian National Bank;

5. (former item 4; Darjaven Vestnik, issue 52 of 2007, effective as of 1 November 2007) provide information on the financial position of government securities primary dealers;

6. (former item 5; Darjaven Vestnik, issue 52 of 2007, effective as of 1 November 2007) perform other mutually agreed activities.

(2) (new; Darjaven Vestnik, issue issue 101 of 2010, effective as of 30 June 2011) The Bulgarian National Bank shall keep individual accounts of the government securities held by each participant, as well as general accounts of the government securities held by participants' customers. At the request of the participants, the Bulgarian National Bank shall provide them with statements from the registers, stating the amount and flow of the government securities held by them and by their customers.

(3) (new; Darjaven Vestnik, issue 52 of 2007, effective as of 1 November 2007; former paragraph 2 amended; Darjaven Vestnik, issue issue 101 of 2010, effective as of 30 June 2011) Subdepositories of government securities issued on the domestic market may be only banks and foreign banks' branches carrying out operations in the territory of Bulgaria whose license includes the activities under Article 2, paragraph 2, items 4 and 9 of the Law on Credit Institutions.

(4) (new; Darjaven Vestnik, issue issue 101 of 2010, effective as of 30 June 2011) The subdepositories of government securities maintain systems for registration of government securities held by the customers of the subdepositories and by customers of the participants in the system under paragraph 1, item 2 who are not subdepositories, as well as keep individual accounts of government securities held by these customers.

(5) (new; Darjaven Vestnik, issue issue 101 of 2010, effective as of 30 June 2011) For verifying the holdings of government securities the subdepositories of government securities issue certificates carrying the names of the physical persons and, on request, statements from the accounts of legal entities kept under paragraph 4.

Article 35a. (new; Darjaven Vestnik, issue issue 101 of 2010, effective as of 30 June 2011) The provisions of Chapter Five “a” of the Law on Payment Services and Payment Systems shall apply respectively to the securities settlement system maintained by the Bulgarian National Bank.

Article 36. (1) (amended; Darjaven Vestnik, issue 52 of 2007, effective as of 1 November 2007) The Minister of Finance and the Bulgarian National Bank shall issue an ordinance on the terms and procedure for acquisition, registration, redemption, and trade in government securities, excluding trading in financial instruments on regulated markets and multilateral trade facilities.

(2) (amended; Darjaven Vestnik, issue 52 of 2007, effective as of 1 November 2007) The Minister of Finance and the Bulgarian National Bank shall jointly regulate the government securities market and issue an ordinance on the control over transactions therein, excluding those executed on regulated markets in financial instruments and multilateral trade facilities.

(3) (new; Darjaven Vestnik, issue 52 of 2007, effective as of 1 November 2007; amended; Darjaven Vestnik, issue 101 of 2010, effective as of 30 June 2011)) The Bulgarian National Bank shall issue an ordinance on government securities settlement which shall provide for keeping government securities accounts with the Bulgarian National Bank and with the entities under Article 35, paragraph 3.

(4) (former paragraph 3; amended; Darjaven Vestnik, issue 52 of 2007, effective as of 1 November 2007) The ordinances under paragraphs 1, 2 and 3 shall be published in the Darjaven Vestnik.

Article 37. The Minister of Finance may sign agency agreements with other residents and nonresidents.

Chapter Nine

Information on the Debt

Article 38. (1) The Ministry of Finance shall maintain an official register of the government and government guaranteed debt.

(2) The official information on the consolidated government and government guaranteed debt shall be published on a monthly basis by the Ministry of Finance in an official bulletin and Internet.

Article 39. (amended; Darjaven Vestnik, issue 34 of 2005) Within 30 days prior to undertaking the debt or issuing a guarantee, the social security funds shall be obligated to inform the Ministry of Finance about their intentions to undertake any debt or to issue a guarantee.

Article 40. The Minister of Finance shall determine the procedure, manner and time limits for provision of information on the state and funds movement of debts of the municipalities and social security funds.

Chapter Ten

Administrative Penalty Provisions

Article 41. (1) A penalty of BGN 5,000 to BGN 10,000 shall be imposed in case of failure of legal entities to perform their obligations under Article 21, paragraph 1, and an official responsible for the provision of information shall be subject to a penalty from BGN 500 to BGN 2,000.

(2) In case of repeated violation under paragraph 1, legal entities shall be subject to a penalty from BGN 10,000 to BGN 15,000 and the official responsible for the provision of information shall be subject to a penalty from BGN 1,000 to BGN 3,000.

Article 42. (1) In case of failure to perform their obligations under Article 21, paragraph 2, legal entities shall be subject to a penalty from BGN 1,000 to BGN 5,000, and the official responsible for the provision of information shall be subject to a penalty from BGN 500 to BGN 2,000.

(2) In case of repeated violation under paragraph 1, legal entities shall be subject to a penalty from BGN 2,000 to BGN 10,000 and the official responsible for the provision of information shall be subject to a penalty from BGN 1,000 to BGN 2,000.

Article 43. (1) In case of failure to perform his obligations under Article 24, the borrower shall be subject to a penalty from BGN 5,000 to BGN 10,000 and the official responsible for the provision of information shall be subject to a penalty from BGN 500 to BGN 2,000.

(2) In case of repeated violation under paragraph 1, legal entities shall be subject to a penalty from BGN 10,000 to BGN 15,000 and the official responsible for the provision of information shall be subject to a penalty from BGN 1,000 to BGN 3,000.

Article 44. (1) In case of failure to perform their obligations under Article 39, legal entities shall be subject to a penalty from BGN 5,000 to BGN 10,000 and the official responsible for the provision of information shall be subject to a penalty from BGN 500 to BGN 2,000.

(2) In case of repeated violation under paragraph 1, legal entities shall be subject to a penalty from BGN 10,000 to BGN 15,000 and the official responsible for the provision of information shall be subject to a penalty from BGN 1,000 to BGN 3,000.

Article 45. (1) The statements of findings of violations shall be drawn up by officials designated by the Minister of Finance and penalty decrees shall be issued by the Minister of Finance.

(2) Drawing up of the statements, issuance, appeals against and enforcement of penalty decrees shall be performed under the provisions of the Administrative Misdemeanors and Penalties Law.

Additional Provision

§ 1. Within the meaning of this Law:

1. ‘refinancing’ shall be the issuance of government debt, the funds of which shall be used for partial or full payment of another government debt.

2. ‘issuance of debt’ shall be undertaking of financial liabilities by entities determined by law.

3. ‘issuance of a government guarantee’ shall be the conclusion of guarantee agreement, undertaking of guarantee obligations under loan agreements or in case of issuance of securities, or Letters of Guarantee on behalf of the government.

4. ‘social security funds’ shall be the National Social Security Funds, the Teachers’ Pension Fund, and the National Health Insurance Fund.

5. ‘consolidated government debt’ shall be the face value of the government debt, the debt of the municipalities and the debts of the social security funds.

Transitional and Final Provisions

§ 2. Paragraph 3 of § 16 of the Transitional and Final Provisions of the Law on the Public Offering of Securities (published in the *Darjaven Vestnik*, issue 114 of 1999; amended, issues 63 and 92 of 2000, issues 28 and 61 of 2002) is repealed.

§ 3. Within one month from coming of this Law into effect, the Minister of Finance and the Bulgarian National Bank shall issue the Ordinances under Article 36.

§ 4. Within two months from coming of this Law into effect, the municipalities and the social security funds shall inform the Ministry of Finance about the outstanding debt or the guarantees already issued.

§ 5. Within three months from coming of this Law into effect, the Council of Ministers shall adopt the acts under Article 5, paragraph 3 and Article 22.

§ 6. The provision of Article 38, paragraph 2 shall come into effect six months from the publication of the Law in the *Darjaven Vestnik*.

§ 7. The following amendments shall be made to Article 11 of the Municipal Budgets Law (published in the *Darjaven Vestnik*, issue 33 of 1998; amended, issue 69 of 1999, issue 9 of 2001 – Decision No. 2 of the Constitutional Court of 2001; amended, issue 56 of 2002):

1. A new paragraph 4 is added:

‘(4) Together with the proposal under paragraph 3 the Mayor of the municipality shall also submit to the Ministry of Finance a proposal on the Municipality’s intention for undertaking a municipal debt for budget deficit financing under the provisions of Article 10.’

2. The existing paragraphs 4, 5, 6 and 7 shall become 5, 6, 7 and 8, respectively.

§ 8. The enactment of this Law is assigned to the Council of Ministers.

Transitional and Final Provisions to the Law on Markets in Financial Instruments

(Published in the Darjaven Vestnik, issue 52 of 2007,
effective as of 1 November 2007)

§27. (1) This Law shall enter into force on 1 November 2007 with the exception of §7, items 6, 7, 8, 18, 19, 22–24, 26–28, 30–40, item 44, (b), items 47, 48, 49 (a), items 50–62, 67, 68, 70, 71, 72, 75, 76, 77, item 83 (a) and (d), item 85 (a), item 91, 93, 94, item 98 (a), (aa) second sentence concerning the replacement, (bb), second sentence concerning the replacement, (cc), second sentence concerning the replacement and (dd) second sentence concerning the replacement, item 99, (d) and (e), item 101 (b) and item 102, § 8, § 9, item 4 (a), items 5 and 7, §14, item 1 and § 19 which shall enter into force three days after the publication of this Law in the Darjaven Vestnik.

(2) § 7, items 6, 7, and 8 shall be applied until 1 November 2007.

Transitional and Final Provisions to the Law on Payment Services and Payment Systems

(Published in the Darjaven Vestnik, issue 23 of 2009,
effective as of 1 November 2009)

§ 21 This Law shall enter into force on 1 November 2009 with the exception of §10, which shall enter into force on the day of the publication of the Law in the Darjaven Vestnik.

Transitional and Final Provisions to the Law on the Amendments to the Law on Payment Services and Payment Systems

(Published in the Darjaven Vestnik, issue 101 of 2010,
effective as of 30 June 2011)

§ 69 This Law shall enter into force on 30 June 2011 with the exception of:

1. § 1–16, § 41 –56 and § 62 and 66 which shall enter into force on 30 April 2011;
2. § 62 and 66 which shall enter into force on 31 December 2010.