

**BLACK SEA TRADE AND DEVELOPMENT BANK**

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**BULGARIA**

**Country Strategy**

**2019-2022**

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**Table 1: Basic Macroeconomic Indicators at a Glance for BULGARIA**

Key Long Term Foreign Currency Sovereign Risk Rating at 1 October, 2019:

Moody's: Baa2 positive | S&P: BBB- positive outlook | Fitch: BBB

INDICATOR	2015	2016	2017	2018	Est. 2019	Proj. 2020	Proj. 2021	Proj. 2022
1 Population (Million)	7.18	7.13	7.08	7.04	6.99	6.94	6.89 6.94	6.84
2 Avg Exch. Rate (BGN/ USD)	1.76	1.77	1.74	1.66	1.74	1.71	1.65	1.60
3 Inflation (CPI Avg.)	-0.1%	-0.8%	2.1%	2.8%	2.9%	2.6%	2.7%	2.9%
4 Average monthly wages (US\$)	497.62	536.19	597.54	684.96	n.a.	n.a.	n.a.	n.a.
5 GDP (BGNbillion) current prices	88,575.17	94,130.00	101,042.53	107,925.31	116,196.60	120,963.70	127,159.40	133,455.30
6 GDP US\$ billion	50.20	53.24	58.22	65.13	66.66	70.82	77.07	83.57
7 GDP per capita (current US\$)	6,993.75	7,469.28	8,228.27	9,271.33	9,538.52	10,203.41	11,181.99	12,210.15
8 Real GDP growth, %	3.5%	3.9%	3.8%	3.1%	3.2%	2.8%	3.1%	2.6%
9 Official Unemployment (ILO, annual average) %	9.2%	7.6%	6.2%	5.2%	4.5%	4.6%	4.4%	n.a.
10 Industrial Production Growth, %	2.9%	2.7%	3.4%	1.1%	1.1%	0.8%	2.4%	2.6%
11 Agricultural Production Growth %	-1.4%	4.3%	-0.1%	n.a.	n.a.	n.a.	n.a.	n.a.
12 Domestic Credit Growth %	2.2%	-4.2%	6.7%	7.5%	9.6%	6.0%	6.5%	3.9%
13 Lending rate (average for non-bank clients)	7.3 <sup>1</sup> %	6.4%	5.5%	5.0%	4.4%	5.4%	5.8%	6.5%
14 Consolidated Budget Balance/ GDP, % (accrual basis)	-2.8%	1.6%	0.8%	0.1%	-1.7%	-0.3%	0.7%	0.8%
15 Total Gross External Debt/ GDP	74.0%	71.1%	65.5%	60.4%	57.5%	56.5%	57.4%	55.4%
16 Public External Debt/GDP	13.2%	15.0%	12.3%	11.1%	n.a.	n.a.	n.a.	n.a.
17 Private External Debt/ GDP	60.7%	56.1%	53.2%	49.3%	n.a.	n.a.	n.a.	n.a.
18 Exports (Goods) growth rate	4.2%	5.4%	16.6%	2.9%	4.2%	4.8%	7.1%	7.8%
19 Imports (Goods) growth rate	3.1%	-1.8%	15.1%	6.8%	3.3%	5.9%	8.1%	8.2%
20 Trade Balance/ GDP	-5.8%	-2.0%	-1.5%	-4.1%	-3.7%	-4.2%	-4.7%	-4.8%
21 Current Account. Bal./ GDP	0.0%	2.7%	3.2%	4.5%	4.5%	4.4%	4.3%	3.9%
22 Forex Reserves (end period- exc gold) US\$ million	20,783.32	23,691.21	26,692.72	27,044.90	28,400.00	30,043.10	32,239.40	34,224.70

Last updated November, 2019

Sources:

Updates provided by the Autorities of Bulgaria,

Data from:

National Statistical Institute, Ministry of Finance, Bulgaria National Bank  
Eurostat, ILO, World Bank, IMF

Forecasts from EIU Country reports & Profiles, BSTDB calculations

<sup>1</sup> Calculated as average of monthly weighted average interest rates on loans for non-financial corporations and households.

## **I. Summary of Recent Developments and Outlook**

### ***a. Economic structure and Demographic trends***

Bulgaria is a mostly service-oriented economy — IT services and tourism are doing particularly well — along with mainly for export light manufacturing and food and beverages. Construction activity also recovered after a long and deep decline. Bulgaria's per capita GDP (in current prices) was €7,301 in 2017, about a quarter of the EU28 average (€27,700). According to Eurostat GDP per capita in PPS was 49.8% of EU average in 2017 and 51% in 2018. This amounts to an income per capita which is 49.8% of the EU average in 2017 and 51% in 2018.

In the Doing Business 2019 ranking Bulgaria holds the 59<sup>th</sup> place. In terms of the United Nations human development index (HDI), in 2019 Bulgaria was ranked 51<sup>st</sup> out of 189 countries with a value of the index of 0.813 points.

Bulgaria has a population of 7,000,039 as of 31.12.2018 according to NSI estimates and struggles with the demographic decline due to low birth rates, high death rate and emigration.

Unemployment (ILO definition) at end 2018 was very low (5.2%) in the country, far below the EU28 average of 7%. While the rate is significantly higher for the youth (12.7%), this is still below the EU28's 15.6%.

The biggest challenges of Bulgaria for the coming period are related to demographic change, migration outflows of working age population, and measures aimed at securing productivity growth and providing inclusive economic growth.

### ***b. Performance 2015-2018***

Notwithstanding the costs imposed by the global economic crisis of 2008, Bulgaria has made considerable progress since joining the EU in 2007.

Since 2014 the economy of Bulgaria recorded strong and broad based economic growth, driven by strong domestic demand and faster disbursement of EU structural funds. During the period 2014-2018, unemployment declined from 9.2% to 5.2%, the budget balance was kept in surplus and inflation returned to positive low levels.

In spite of persistent trade deficits on the back of rising imports, driven by wage increases and favorable lending conditions which fuelled domestic consumption, the current account recorded increasing surpluses, to end 2017 with a comfortable 4.5%. Fairly low public debt and total gross foreign debt at 60% of GDP are easily manageable.

Both consumer (averaging 7.5% y/y over 2016-2018) and corporate credit (5.4% y/y in 2018) have recovered, while credit standards have tightened. The share of foreign currency lending, almost entirely in euro due to the fixed exchange rate, declined from 64% in 2011 to 34% in 2018. Bank profits have risen and non-performing loans (NPLs) have continued to decline, from 16.9% of total loans in 2013 to 7.6% in 2018. Labor shortages and the tightness of the labor market has pushed up wages as at end 2018 relative to end-2014.

#### ***i- Real Sector***

Compared to 1.2% annual average growth rate in 2011-2014, Bulgarian economy grew by an average 3.6% per annum over the 2015-2018 period, above the EU average (2.1%). This growth was primarily driven by domestic consumption and partially by investments, while contribution of the net exports was negative, as growth in imports outpaced growth in exports. On the production side, main positive contribution over the 2015-2018 period came from domestic trade, industry, real estate activities, and information technology and communication. In nominal EUR terms, Bulgarian GDP in 2018 reached EUR 56.1bn, up 30.8% compared to 2014.

The economy grew by 3.1% in 2018, decelerating from 3.8% rate of growth in 2016 and 3.5% recorded in 2017. Private consumption has been the main driver of growth. Investment has also been strong and it grew by 5.4%, helped, among others, by the growing disbursement of EU funds. Net exports have weighed on growth as strong private consumption has increased imports, while exports, likely due to one-off factors (e.g. drop in exports of mineral fuels, particularly to Turkey and Egypt) experienced a small decline.

#### ***v- Public Sector and Fiscal Policy***

During the 2015-2018 period, the Bulgarian total cash general government budget revenues averaged 35.6% of GDP, up from 33.8% of GDP in 2011-2014, while expenditures remained broadly flat at 35.7% of GDP, resulting in a balanced budget. Increase in revenue collection was achieved mainly due to improved collections in social and health insurance contributions, VAT, income tax and profit tax.

On the expenditure side, while as a share of GDP it remained flat over the period, its composition changed. For example, personnel expenses increased from 7.0% of GDP in 2011-2014 period to 7.8% of GDP in 2015-2018 period, subsidies went up from 1.8% of GDP to 2.0% of GDP, while social expenditures remained flat. These increases were balanced by declines in maintenances and operating costs from 5.3% of GDP in 2011-2014 period to 4.0% of GDP in 2015-2018 period, and Bulgaria's contribution to the EU budget from 1.1% of GDP to 1.0% of GDP. Nevertheless, over the last two years total cash budget expenditure increased from 34.1% of GDP in 2017 to 36.6% in 2018.

With improved revenue and stable expenditure, budget balance improved significantly from an annual average of 1.9% of GDP deficit in 2011-2014 to 0.1% of GDP deficit in 2015-2018. However, it should be noted that, during 2015-2018 period actual deficit was recorded only in 2015 at 2.8% of GDP. A long period of fiscal tightening resulted in three consecutive years of budget surpluses. Since 2016 budget yielded surpluses, albeit at declining trend. In 2018 the fiscal outturn has been better than budgeted, reflecting revenue over-performance and capital under-spending.

General government debt of Bulgaria peaked at 29.3% of GDP in 2016. However, since then it has retreated and was down to 22.3% of GDP in 2018, one of the lowest in the EU.

#### ***vi- Monetary and Financial Sector***

##### *Inflation*

Following three years of deflation, annual average inflation returned to the positive territory in 2017, with inflation at 2.1% and further up to 2.8% in 2018. In 2017 inflation was driven by food, transport fuels and catering prices, while in 2018 main drivers were services and catering.

##### *Banking sector*

As deposits continued to increase, banking sector liabilities and assets continued to expand. Compared to 2014, total deposits at monetary financial institutions were up from 70.6% of GDP in 2014 to 72.2% of GDP in 2018 and accounted for 85.1% of total liabilities in the country. With other liabilities remaining flat, total liabilities were up from 83.7% of GDP in 2014 to 84.9% of GDP in 2018.

With deposits of non-financial corporations and households increasing faster than banking sector loans to non-financial corporations and households, loan to deposit ratio in Bulgaria continued to decline and reached 75.4% in 2018, down from 94.0% in 2014. Dollarization also declined, with broadly defined deposits in foreign currency, almost entirely in euro down from 42.3% in 2014 to 36.6% in 2018, while the share of lending to non-financial corporations and households in foreign currency, almost entirely in euro declined from 55.1% in 2014 to 34.4% in 2018.

The banking system parked most of additional resources at the Bulgarian National Bank, with reserves of the monetary and financial institutions at BNB increasing from 10.8% in 2014 to 15.5% of GDP in 2018. Net foreign assets increased, up from 5.0% of GDP in 2014 to 7.9% of GDP in 2018. Loans to non-financial corporations and households, on the other hand were down from 58.9% of GDP in 2014 to 49.7% of GDP in 2018.

#### ***vii- External Sector***

Bulgaria continued to improve its external buffers, with current account surplus reaching EUR 2.5bn and capital account surplus at EUR 0.6bn, or 4.5% and 1.1% of GDP respectively in 2018. Over the 2015-2018 period, current account surplus averaged 2.5% of GDP while capital account surplus averaged 1.8% of GDP, compared 0.5% and 1.5% of GDP in the previous four year period. In annual average terms, the most important improvement was recorded in goods trade balance, where deficit narrowed from 7.4% of GDP in 2011-2015 period to 3.3% of GDP in 2015-2018. Contrary to goods balance, external balance in other categories deteriorated slightly over the same

period, resulting in lesser surpluses in services and secondary income and wider deficit in primary income. Despite outflows from portfolio and other investment categories, Bulgaria continued to benefit from net foreign direct investment inflows. In aggregate, inflows to Bulgaria were higher than outflows in 2015-2018 period, resulting in consistent international reserve increases during the mentioned period.

Bulgarian exports reached EUR 28.2bn in 2018, or +27.8% compared to 2014. Growth in exports was driven by export of investment goods (+65.4% compared to 2014 or contributing 12.7% to the total of 27.8% increase), raw materials (+22.8% or contributing 9.4% to the total of 27.8% increase), and consumer goods (+21.8% or contributing 5.7% to the total of 27.8% increase), while export of energy products was marginally down (-0.8%). Over the same period imports were up 23.1% to EUR 32.2bn in 2018. Import growth was driven by raw materials (+30.5% compared to 2014 or contributing 10.6% to the total of 23.1% increase), investment goods (+30.3% or contributing 7.6% to the total of 23.1%), and consumer goods (+35.7% or contributing 7.0% to the total of 23.1%), while import of energy commodities was down 11.2% compared to 2014.

In terms of trade partners, exports were boosted by the demand from Germany (+57.2% compared to 2014 or contributing 6.9% to the total increase of 27.8%), followed by Romania (+37.4% or contributing 3.0% to the total increase of 27.8%), Italy (+22.8% or contributing 2.1% to the total increase of 27.8%), and Greece (+27.5% or contributing 1.9% to the total increase of 27.8%) while negative contribution came from falling exports to Singapore (-55.6% or had negative contribution of 1.4% to the total increase 27.8%), UAE (-63.4% or had negative contribution of 0.8% to the total increase 27.8%), and Russia (-27.6% or had negative contribution of 0.7% to the total increase 27.8%). Exports to BSTDB member countries continued to increase in 2015-2018, reaching EUR 7.3bn in 2018 and accounting for 26.2% of Bulgaria's total exports. Imports from BSTDB member countries were volatile in 2015-2018 period. Following EUR 7.7bn imports from BSTDB recorded in 2016, imports recovered in 2017 and 2018, reaching EUR 9.6bn or +2.5% compared to 2014.

### ***c. Forecast for 2019-2022***

#### **Prospects for 2019**

##### *Economic growth*

According to the Ministry of Finance of the Republic of Bulgaria, economic growth is expected to remain solid, mainly underpinned by private consumption. Growth is projected to reach 3.4% in 2019 and 3.3% in three years after 2019. Public and private investment will also contribute positively to growth, while net exports will have negative impact as pace of increase in imports will outpace pace of growth in exports.

Sustained economic growth is set to result in modest gains in employment in 2019 and 2020, while decline is forecast for 2021 and 2022. Combined with a continued decline in the labor force and a historically low unemployment rate, employers may favor productivity growth to job creation. *Monetary policy and Inflation*

According to ECB last Convergence report Bulgaria has already met the nominal Maastricht criteria to join the euro area, and is expected to simultaneously join ERM II and the banking union. The CBA is expected to be maintained throughout the period leading to the adoption of the Euro, with Bulgaria simultaneously joining the Exchange Rate Mechanism (ERM II) and the Single Supervisory Mechanism (SSM). CPI inflation is expected to remain moderately positive in 2019. The annual inflation rate accelerated to 3.5% in May mainly due to higher increase in food prices.

##### *External accounts*

Following a slowdown in 2018, exports are expected to recover and grow at a moderate pace, as some temporary effects on exports fade away. However, high domestic demand will see growth in imports likely outpacing growth in exports with the current-account surplus expected to decline to about 5.2% of GDP in 2019 and further down to 2.5% of GDP in 2022.

#### **Projections 2020-2022**

The Convergence Program of the Bulgarian Government 2017–2020 provides a policy framework focused on the achievement of a desired set of medium-term objectives aimed at maintaining macroeconomic and public finance stability, support to the currency board arrangement (CBA) regime, and finally joining ERM II. The Convergence Program is based on the macroeconomic forecast for the period 2017-2020, under assumptions provided by the International Monetary Fund, the World Bank, the European Commission and the Bulgarian Ministry of Finance.

According to the Ministry of Finance of Bulgaria, economic growth over the next four years (2019-2022) will average 3.3%, slightly less than 3.6% recorded in 2015-2018 period. Growth is expected to be driven by both domestic consumption and investments, while net exports will likely continue to have negative contribution to overall growth. As a result, current account surplus is forecast to decline and turn to deficit in 2022. However, stable FDI inflows will probably more than cover current account deficit. While inflation is forecast to increase during 2019-2022, it will still remain within the comfortable range of 2-3%.

In terms of GDP growth over the forecast period, domestic demand will be a leading factor both in terms of consumption and in terms of investment. At the same time, the contribution of net exports will continue its gradual decline over the coming years. To achieve balanced growth, sustainable convergence and higher living standards in the country, Bulgaria aims to improve the efficiency and effectiveness of public administration, ensure transparent absorption of EU funds and eliminate barriers to private sector investment. The policy aims at ensuring consistent, transparent and predictable fiscal policy, improve the business environment, promote investment and stimulate labor market development. Bulgaria maintains its medium-term objective of -1% of GDP for the structural budget balance on an annual basis.

### **Balance of Risks**

Risks still appear tilted to the downside. Weaker-than-expected world growth and in particular in the EU, rising geopolitical uncertainties including protectionism, and tightening of global financial conditions could weigh on trade and growth. Unfavorable external conditions could weaken export performance feeding into GDP growth and thus increase fiscal pressures. Domestic risks include excessive wage growth, which could accelerate inflation and eventually put pressure on competitiveness. Bulgaria's rapidly aging population and declining labor force pose risks to its long-term economic growth potential.

## II. Overview of Current BSTDB Portfolio

Table 2: Active BSTDB Portfolio in Bulgaria as at end September 2019

#	Operation	BoD Approval Date	Amount	Outstanding	Euro
1	Maritza East I	01.10.2005	18,000,000	6,750,532	
2	Balkan Accession Fund	10.08.2006	1,998,543	216,774	
3	Emerging Europe	25.09.2009	1,173,667	973,677	
4	Suvorovo Wind Farm	20.11.2009	11,000,000	6,749,270	
5	Equity to ADM CEECAT	21.07.2011	1,591,041	605,321	
6	Kastamonu	10.07.2014	7,560,000	3,436,364	
7	Hellenic Dairies Group -	12.02.2016	14,000,000	10,181,818	
8	Marriott Sofia - Real Estate	22.09.2017	32,000,000	0	
9	Procredit Bank Bulgaria	22.09.2017	20,000,000	20,000,000	
10	Energo-Pro a.s Eurobond	17.11.2017	40,000,000	40,000,000	
11	Impala Group Pre-Export	18.05.2018	10,000,000	7,000,000	
12	Bulgarian Energy Holding	21.09.2018	50,000,000	50,000,000	
13	Yambol Municipality	23.11.2018	9,000,000	0	
	<b>Total</b>		<b>216,323,251</b>	<b>145,913,756</b>	

### III. Review of Country Strategy 2015-2018: Post-Evaluation

#### Independent Evaluation of 2015-2018 Country Strategy for Bulgaria Evaluation Office, November 2019

The evaluation was performed by the Bank's Evaluation Office as per the respective Evaluation Policy. It reveals the performance of the Bank's 2015-2018 Country Strategies, to provide accountability and facilitate the decision-making regarding future strategies.

The evaluation compares the stated targets with actual results as of end of 2018 and provides an assessment of performance. The 2015-2018 Country Strategy is aligned with the objectives of the Bank's Business Plan 2015-2018 and was therefore evaluated in that context.

The implementation of the Country Strategy is generally consistent with the Business Plan. It exceeded the targeted volumes at a moderate level of 129%. Both the investment volume objectives and the intended sector coverage were fulfilled substantially. This is a notable improvement, compared to previous country strategies that were implemented below 50%.

Two of the seven financed operations were assessed by the evaluation as main contributors to novelty and sectoral diversity. The first one is Yambol Municipality, representing an effort to introduce a municipal infrastructure finance in the Bulgarian portfolio. It is noteworthy that this operation is in progress toward signing but has not yet been finalized in that regard. The second one, of particularly distinct importance, is Sofia Marriott real estate development. This is a flagship operation not only for the Bulgarian portfolio of the Bank as it is among very few BSTDB-arranged project finance operations involving a co-lender - in line with MTSBP 2015-18 aspirations. As such, it is a rather complex initiative that will test the ability of the Bank to ensure smooth leadership in project finance, involving a reputable brand with high standards.

Further details are outlined in the following table.

Post Evaluation of 2015-2018 Country Strategies				
2015- 2018 TARGETS (Signed Operations)		RESULTS (Signed Operations)		
Country Strategy	Sectors/Priorities	Target: Signed number / EUR million	Actual: Signed number/ EUR million	Evaluation Summary
Bulgaria	<p><b>1. Infrastructure: energy (efficiency and renewable), transport, municipal, telecom, IT, Media;</b></p> <p><b>2. Manufacturing: expansion/competitiveness;</b></p> <p><b>3. FI/SME/Trade: export oriented, leasing</b></p> <p><b>4. Tourism related real estate</b></p>	10/136	7/175	<p><b>1. Volume:</b> 129%</p> <p><b>2. Sector coverage:</b> Energo Pro &amp; Eurobond (energy, 2) Procredit (SME) Marriott (Real Estate) Hellenic Dairies Group (food) Impala pre-export Bulgarian Energy Holding (energy) Yambol Municipality (infrastructure, in progress)</p> <p><b>3. Conclusion:</b> Targets/sectors covered diligently. The evaluation acknowledges a substantial improvement in portfolio expansion and diversity, relative to the implementation of several past strategies, with a particular reference to taking a leadership in complex project finance operation (Marriott).</p>

## **IV. BSTDB Operational Priorities for 2019 - 2022**

### *Government Priorities*

The priorities of the main strategic document currently implemented in Bulgaria until the year 2020 - National Development Program: Bulgaria 2020 (NDP BG2020) - are formulated as follows:

1. Improving the access to and enhancing the quality of education and training and the quality characteristics of the workforce.
2. Reducing poverty and promoting social inclusion.
3. Achieving sustainable integrated regional development and use of local potential.
4. Development of the agricultural sector to ensure food security and production of products with high value added through sustainable management of natural resources.
5. Support of innovation and investment activities to increase the competitiveness of the economy.
6. Strengthening of the institutional environment for higher efficiency of the public services for citizens and businesses.
7. Energy security and increasing resource efficiency.
8. Improving transport connectivity and access to markets.

The Government expects that with the implementation by 2020 of the interventions laid down in NDP BG2020

- the economy will become considerably more competitive (mostly in terms of the quality of human capital, innovation and infrastructure);
- the country will achieve sustainable economic growth, guaranteeing real convergence to the level of income and production in the EU;
- conditions will be ensured for full social, creative and professional realization of every Bulgarian citizen.

Currently, the elaboration of a new National Development Programme: Bulgaria 2030 is underway and is expected to be finalized in 2020. The program will outline the long-term priorities for the development of the country for the period 2021-2030.

### *BSTDB Priorities*

The Bank's role and priorities are defined (i) in accordance with the priorities and targets laid out in its Medium-term Strategy and Business Plan 2019-2022 and (ii) country needs and objectives, as well as (iii) available resources, strategies and policies of BSTDB.

BSTDB will focus on providing support for the implementation of the Government program and priorities, while responding to market demand. Financing infrastructure investments, including energy efficiency, will be among the priorities of the Bank within the next four year period. To this end, the Bank shall seek co-financing opportunities with IFIs, public sector institutions and private partners. In addition, through selected intermediaries, the Bank would attempt to expand its financing programs in favor of SMEs and agribusiness.

Based on the 2019- 2022 MTSBP, the Bank would expect to cumulatively sign over the strategy period new operations ranging from €320 million to approximately €360 million, that is 2-4 operations per year totaling an average amount of about €80-90 million.

These indicative targets are based on the MTSBP, and given higher economic growth rates, increased demand for Bank funding, and a greater success to reach out to smaller sized companies and to public sector entities would allow the Bank to move towards achieving a higher average number and size of operations.

## **Areas for BSTDB Financing**

### *Financial Sector*

Since inception of its operations, BSTDB has introduced the following products through selected financial intermediaries in Bulgaria for the purpose of Trade Finance, Micro/Lease Finance, and SME development:

- Pre-export Finance Facility
- Combined Trade Finance (export/import) product
- Medium –Term Micro and SME Finance product
- Leasing Facility for SMEs

Besides, BSTDB participated in equity funds where Bulgaria was one of the recipient countries.

Given the importance of the financial sector for the investment and economic activity in the country, BSTDB will continue to provide financing through selected financial institutions. In the next four years, the Bank will seek to add at least two financial intermediaries to the portfolio. BSTDB will target working with financial institutions for all types of products giving priority to:

- SME Financing – contribute to the development of SMEs as a key sector for employment and economic activity generation.
- Trade Financing – in addition to standard Trade Finance products explore the possibilities for trade facilitation.
- Lease financing and factoring - sufficient liquidity in the banking sector and low funding rates environment. may shift the focus to non-bank financial institutions.

As a supplementary activity, if necessity arises and respective product is developed, the Bank will explore possibilities to issue guarantee facilities to financial intermediaries to provide increased access to finance through capital relief and loss protection for portfolios of new debt finance.

The Bank will also keep in regular contact with international financial institutions (IFIs) such as EBRD and IFC to seek ways to coordinate activities and share experiences, given the opportunities which exist for joint involvement.

### *Manufacturing and Enterprise Sector*

For the 2019-2022 period, the Bank will focus on supporting companies which increase their efficiency and competitiveness by introducing new technologies and upgrading their activity to international standards for the industry involved. Special attention will be directed to second-tier companies, where BSTDB may play a vital role as those appear to be underserved, in comparison with the first-tier companies. Working with these companies, BSTDB may also contributing to improving operating capacity, such as more transparency, higher accounting standards, better corporate governance, etc. In order to achieve this objective it is recommended that BSTDB make a road show to towns outside the main big cities and the capital and reach out in the countryside.

The Bank will also seek to increase its operational activity working with large corporate, domestic or international, enterprises that are active in the following indicative sectors and industries:

- Production of vehicle components
- Services
- Healthcare and pharmaceuticals
- Agriculture, agribusiness and food processing to contribute towards greater food security
- Transport
- Development of industrial parks
- Construction
- Tourism.

Pharmaceuticals, automotive parts, services and basic metals (both ferrous and non-ferrous) are areas where Bulgaria maintains competitive advantage. These sectors are export oriented and have significant contribution to the economic growth and job creation. Production of vehicle components, in particular, is expanding rapidly, whereas about 150 Bulgarian and foreign companies are involved. BSTDB will focus on the modernization, expansion, and green field investments in these sectors. Also, investments aiming at improving efficiency and reducing environmental pollution (e.g. recycling facilities, incinerators) would be given priority to finance.

#### *Transportation*

Transportation is an important growth driver. Major cross country roads and highways are supported by EU funding. For BSTDB, the investment projects in ports (especially Burgas and Varna, but also on the Danube river), airports (Sofia Airport), roads, bridges (on the Danube river) and railroads are among the main priorities in this sector.

#### *Construction*

The sector is growing, mainly due to infrastructure state-initiated projects and also due to booming real estate market. Another area of expected need for financing is the rail-way infrastructure, where construction companies will bid to take part in 230 km replacement of railways. BSTDB may finance the execution of these large-scale projects, supporting major construction companies both with direct financing and through issue of bank guarantees (for advance payment, performance bonds, etc.) Given the very high investment needs for developing the transportation infrastructure in Bulgaria, and the important development impact of such investments, BSTDB will also consider investment opportunities in this area.

#### *Industrial and Logistic Parks*

A number of industrial parks appeared in the last decade and they keep expanding. The Bank may support their expansion. The development of warehouse and new production facilities improves the logistics in the region and create beneficial environment for foreign direct investments. Where possible, the Bank will explore the possibility of participating in projects with public sector associated entities, including Public-Private Partnerships (PPPs).

#### *Tourism*

Tourism remains one of the main sectors of economic activity in Bulgaria. It requires long term financing, sometimes beyond the tenors, which local banks are comfortable to provide. Therefore BSTDB will continue to seek promising tourism projects for financing. BSTDB will explore both investments in major cities, as well as in spa and resorts.

#### *Municipal infrastructure*

Municipal infrastructure including sewage/waste treatment facilities, solid waste treatment, street repair, urban transport infrastructure, water / waste water and energy efficiency can be another priority area where BSTDB can contribute with its financing products:

- Finance energy efficient / saving projects for companies and/or households
- Finance green logistics projects

#### *Other*

Generally, BSTDB will seek to increase its operational activity in any sector with the goal of increasing private participation and improving corporate governance and environmental practices. The Bank will support Bulgarian corporates investing in eligible sectors of other BSTDB members, thus contributing to intra-regional trade and investment, and enhanced economic cooperation.

#### *Energy and Infrastructure (E&I)*

Given the E&I development needs, so long as projects are 'bankable', the Bank will be keen to offer support.

This applies to all key infrastructure sectors, including energy and electricity, oil and natural gas upstream, midstream and downstream, transport infrastructure, telecommunications, information technology, and municipal and social infrastructure. The existence of an appropriate competitive environment and regulatory framework will be an important consideration in ascertaining 'bankability' alongside development impact.

Main objectives of the Country Strategy for Bulgarian for the period up to 2022 include:

- Improve the competitiveness of the Bulgarian economy.
- Improve provision of and access to essential public services (housing, water, long-term care). Significant investments are needed to ensure sustainability of water supply and wastewater collection and treatment.
- Strengthen electricity sector and improve energy efficiency. Electricity supply in Bulgaria comfortably exceeds demand, which could be a powerful driver of competitiveness and exports.

BSTDB will be willing to explore whether the Bulgarian Government will be willing to provide sovereign guarantees for E&I projects. Should a sovereign guarantee be necessary and possible, it shall primarily be sought for an extremely high priority activity in which the guarantee would also serve as a signaling mechanism of the Government's commitment to/ ownership of the operation in order to facilitate greater resource mobilization and broader participation.

Other involvement in infrastructure operations may include creative arrangements such as public-private partnerships. Some opportunities in telecommunications, information technology and media industries may exist and the Bank will be ready to provide its expertise and financing that can encourage domestic and foreign investments in the sector.

The Bank will continue to ensure that all BSTDB E&I operations in Bulgaria meet sound banking principles and comply with the Bank's Environmental Rules and Procedures and incorporate, where appropriate, Environmental and Social Action Plans.

The Bank will also maintain its contacts with complementary international financial institutions (IFIs) and organizations such as EBRD, IFC, KfW, DEG, Development Bank of Austria (OEaB), etc. to seek ways to coordinate activities and share experiences.

Areas of particular focus in Energy and Infrastructure:

- Energy (including conventional and renewable) generation, transmission, distribution and storages,
- Oil and natural gas upstream, midstream and downstream, including transportation and storages
- Electricity, including rehabilitation and transportation,
- Transportations of all kinds and transport infrastructure
- Telecommunications and Information Technology and Services, software and hardware assembly, and development of media businesses
- Projects, which support upgrade and extension the telecommunication infrastructure.

BSTDB strategy in terms of banking instruments:

- Project Finance limited and no recourse transactions;
- Corporate recourse financing transactions;
- Co-financing of transactions with other IFIs, commercial banks and ECAs;
- Participation in the syndicated facilities
- Issue of bank guarantees
- Participation in bonds and IPOs