

2012

# RECENT ECONOMIC DEVELOPMENTS, BULGARIA

SELECTED ISSUES, FEBRUARY 2012

- ▶ Macroeconomic environment and policies in brief
- ▶ Recent Economic Developments
- ▶ Key Economic Indicators
- ▶ Recent Developments and Government Debt Review
- ▶ FINANCIAL SECTOR SURVEY: RESUME OF THE MAIN FINDINGS



**REPUBLIC OF BULGARIA**  
Ministry of Finance



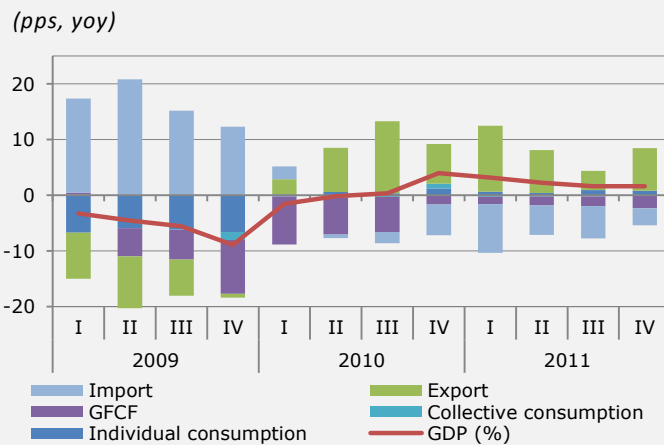
## — MACROECONOMIC ENVIRONMENT AND POLICIES IN BRIEF

- According to preliminary data, Bulgarian economy reported a 1.7% real **growth** for the whole 2011. **GDP growth** saw a minor revision compared to the flash estimates, coming in at 0.3% qoq and 1.6% yoy (s.a. data) in Q4 2011. External demand was the largest contributor to the pickup in real GDP growth during the last 3 months of the year. Private consumption also contributed positively with household expenditures increasing by 1.3%.
- On the supply side, GVA registered a 1.2% yoy growth in Q4, up 1.8% in 2011 as a whole. The 6.1% gain in manufacturing along with the improvement in services, up 1.4%, largely supported the GVA growth throughout Q4 2011.
- The unemployment rate in Q4 2011 went up to 11.4%, due to seasonal activities fall and the ongoing economic restructuring, while the average wage stepped up by 8.6% yoy in nominal terms. Continuing job reduction boosted **productivity growth**, although at a lower pace, by 2.6% yoy in Q4. Service sector had a positive contribution to the overall productivity developments, while productivity in the tradable sector slowed its rate of increase, following the negative external environment.
- According to preliminary data, **HICP** increased by a moderate 0.3% mom in January 2012. Meanwhile, the annual inflation rate continued slowing down to 1.9%, being 2% at the end of 2011.
- The surplus on the **current account** balance accumulated since the beginning of the year stood at 1.9% of GDP. Trade balance continued its improvement in yoy terms, services also recorded a surplus on the back of lower expenditures on other services. Total **foreign direct investments** in 2011 reached EUR 1.06 bn. December **balance of payments** reported positive at EUR 214.8 mln, resulting in a EUR 158.7 mln surplus for the full 2011, compared to a EUR 383.9 mln deficit in 2010.
- In pursuance of its objective to enhance revenue collection, the year 2012 started with a considerable yoy growth in general government revenue and a modest increase in general government expenditure. Thus, at the end of January, **consolidated budget deficit** stood at BGN 297.8 mln (0.4% of GDP) on a cash basis, down by 0.3 pps (a BGN 179.5 mln decrease) compared to a year earlier.

— RECENT ECONOMIC DEVELOPMENTS

According to preliminary data, **GDP figure** saw a minor revision compared to the flash estimates, coming in at 0.3% qoq and 1.6% yoy (s.a. data) in Q4 2011. Thus Bulgarian economy reported a 1.7% real growth for the whole 2011. External demand was the largest contributor to the pickup in real GDP growth during the last 3 months of the year. After the moderate growth in Q3, exports gained further momentum and reached a 12.6% yoy growth in Q4. The latter combined with the low imports growth of 4.5% yoy, accounted for the positive contribution of the external sector. In addition, private consumption also contributed positively to Q4 GDP growth with household expenditures increasing by 1.3%. Meanwhile, investment activity and government collective consumption both decreased by 9.7 and 1.2%, respectively.

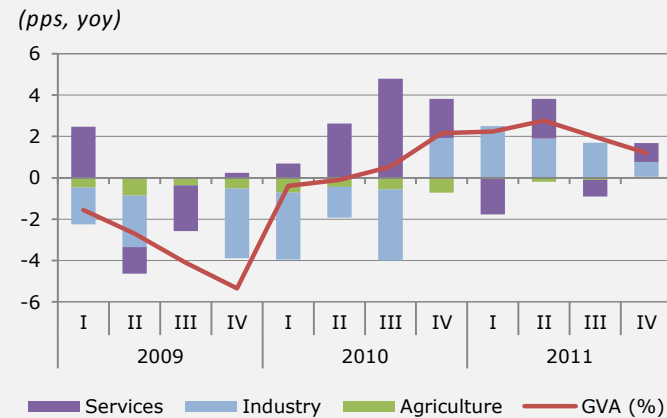
Contributions to GDP growth



Source: NSI

On the supply side, GVA registered a 1.2% yoy growth in Q4, up 1.8% in 2011 as a whole. The 6.1% gain in manufacturing along with the improvement in services, up 1.4%, largely supported the GVA growth throughout Q4 2011. Professional, scientific and technical activities increased by 14.2% yoy and largely accounted for the positive developments. Some offset was provided by the drop in construction, down by 8.5%. The agricultural sector was able to post positive figures only in late 2011, increasing by 1% yoy.

Contributions to gross value added

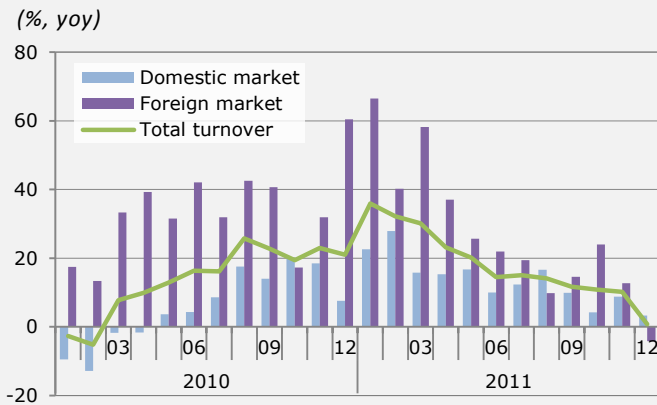


Source: NSI

**Industrial turnover** registered a moderate 0.8% yoy growth in December, as its slowdown accelerated. This trend is expected to continue during the next three months not only because of the deteriorating external environment, but also as a result of some base effects. Weaker foreign demand affected negatively indus-

trial sales, the latter declining by 4.2% yoy for the first time since October 2009. Manufacture of basic metals and food products, which had the largest positive contribution for the registered growth during 2011, both turned negative in December. Meanwhile, **domestic turnover** increased by 3.3% yoy. According to the production purpose, energy products accounted single for that growth.

### Industrial turnover



Source: NSI

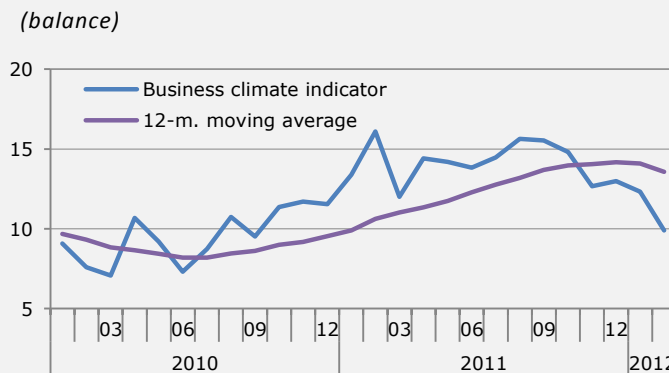
Manufacturing of chemical products and manufacturing of basic pharmaceutical products were among sectors which performed rather well in December after posting a 15.2 and 25.2% yoy growth respectively. However, **industrial production** moved to negative territory, down 2% yoy, almost entirely due to manufacturing. Although these developments were mainly triggered by the weaker foreign demand and deteriorating outlook for the European economy, some internal factors such as the grain producers strikes, as well as those in the railway transport, also contributed negatively for the industrial growth. Mining and

quarrying, on the other hand, had a positive contribution of 0.8 pps.

The decline in **retail sales** narrowed to 2.5% yoy. Although it is normal to expect higher consumption of durable goods at the end of the year as a result of the holiday shopping season, purchases of these items again reported the largest decrease. A slight improvement was registered in retail sales of food, beverages and tobacco and retail sales in non-specialized stores. Only retail sales of medical and orthopedic goods proved resistant to external shocks and even accelerated their growth to 9.9% on an annual basis.

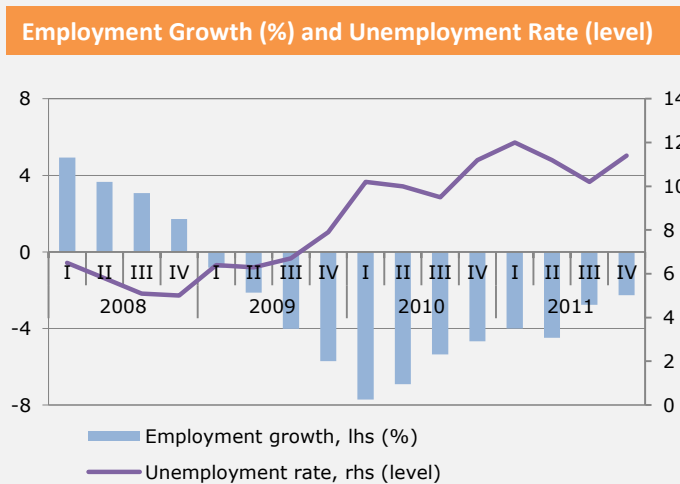
**Construction production** index decreased by 11.9% yoy. Building construction slump deepened to 8.8%, while the negative growth in civil engineering slowed slightly to 16.1%. This may be attributed to some base effects, rather than to any change in the construction activity, as the latter remained largely frozen.

### Business climate



Source: NSI

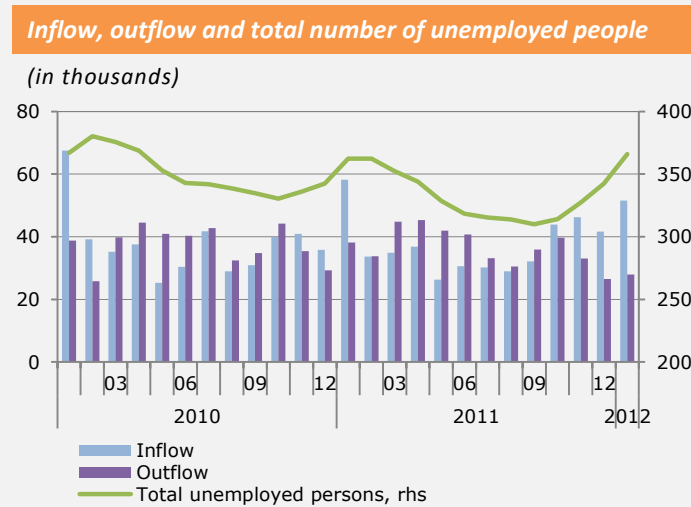
The **business climate indicator** reported a 2.4 pps mom decrease in February. The assessment of the current business juncture worsened in all sectors, with respondents reporting a large drop in demand in services and decrease in orders received in construction. Problems with the weak demand were registered in retail trade and industry as well, but the prospects for the future in these two sectors were positive.



Source: NSI

Seasonal activities fall and the ongoing economic restructuring determined the negative **labor market** trends in Q4. Employment number (LFS) decreased by 2.1% qoq and 2.3% yoy. The drop in seasonal works in agriculture, tourism and construction influenced negatively the overall employment developments over the previous quarter, the latter being accompanied by a decrease in the participation rate of population (15+) to 51.5%. The continuing process of jobs restructuring, mainly following the weak domestic demand, and the narrowed opportunities for hiring

people made employment and participation rate to carry on decreasing yoy as well. The unemployment rate in Q4 2011 went up to 11.4%, still exceeding its Q4 2010 level by 0.2 pps.

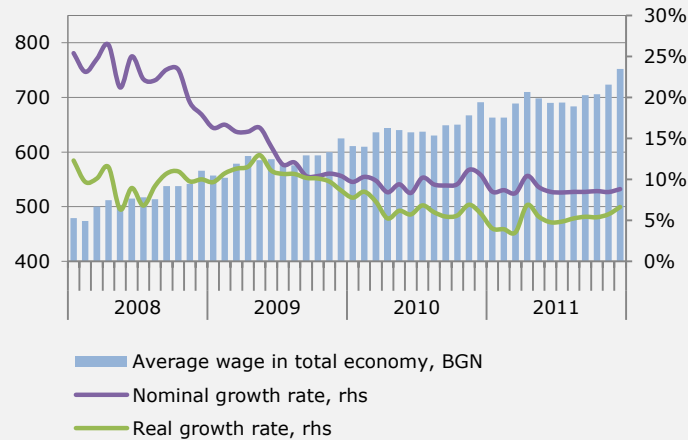


Source: NSI

The **number of unemployed people** totaled 366 K in January, corresponding to an unemployment rate of 11.1%. It exceeded the end-2011 figure by 6.9% and went up 1% yoy. The increase of the unemployment inflow from December was driven mainly by the laid-offs due to the process of expenditure consolidation in the government sector, followed by the trade branch. The outflow of unemployed also made a rise mom on the account of the higher number of persons who found jobs – 12.2 K in January. Unlike previous years, the number of persons who started working on the primary labor market (6.3 K) exceeded that of those under the ALMM (3.2 K). However, the subsidized employment programs activation in the beginning of the year had the largest

contribution to the increased number of the entered into employment with the support of the employment offices.

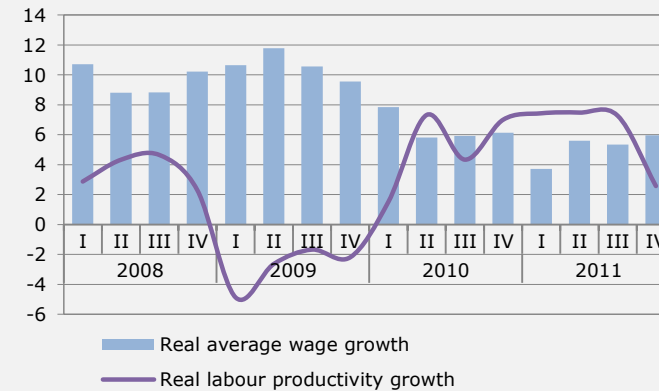
### Average wage developments



Source: NSI

**Average wage** in Q4 totaled BGN 727, stepping up by 8.6% yoy in nominal terms. The rate of increase in the private sector average wage slightly decelerated to 10.5% yoy in October-December, while public sector wage growth remained relatively low at 4.3%. Service sector strongly contributed to the Q4 wage growth. Trade carried on reporting a strong wage growth (up 17.8% yoy), thus having the largest contribution to the average wage increase over Q4. It has been probably due to the minimum insurance threshold increase in the beginning of 2011 and labor force restructuring. The nominal rate of increase in manufacturing came to 5.6% yoy, which had to do with the lower external demand. Wages in construction rose by 9.2% yoy on average due to low-skilled workers dismissing, while wage bill continued on the decrease.

### Real average wage and labor productivity growth



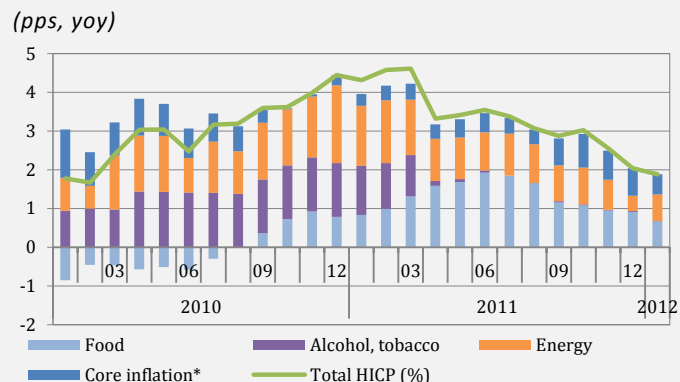
Source: NSI

Continuing process of job reduction made **productivity** to increase, however at a slower rate, up 2.6% yoy in Q4. Service sector had a positive contribution to the overall productivity developments mainly due to branches such as information technologies, business services and real estate; productivity in the tradable sector (manufacturing, mining and electricity) slowed its rate of increase to 3.6% yoy, following the negative external environment and decelerating export growth. The latter resulted in **real unit labor cost** growth of 8.1% yoy in Q4 but for the full 2011 RULC decreased by 3.7%.

According to preliminary data<sup>1</sup>, **HICP** increased by a moderate 0.3% mom in January 2012. Meanwhile, the annual inflation rate continued slowing down to 1.9%, being 2% at the end of 2011.

<sup>1</sup> January data on inflation is released as preliminary since price indices are calculated with household budget data for the period October 2010-

### HICP and contributions by main groups



\* Overall index excluding energy, food, alcohol and tobacco

Source: NSI, MF

Automotive **fuel prices** rose by 4.3% mom and had the largest positive contribution to the monthly headline rate (+0.36 pps). International prices of crude oil moved higher on rising geopolitical tensions ahead of the EU embargo on Iranian oil exports. The weakening euro against the US dollar also added to the upward pressure on domestic pump prices. Excise duty on diesel fuel has been increased by 2.4% since the beginning of the year, though it had a relatively negligent impact on total inflation (+0.03 pps). Seasonal hikes in prices of fresh vegetables and fruits almost fully accounted for **food prices** increase by a 0.2%. Their impact was partially offset by a decline in bread and processed meat prices, down 1.3 and 0.4% respectively. Weak domestic demand kept prices of **non-energy industrial goods** on the downward trend and those of consumer durables in particular. Prices of

September 2011. The final January 2012 consumer price indices, calculated with the 2011 annual weights, will be released along with the February 2012 data.

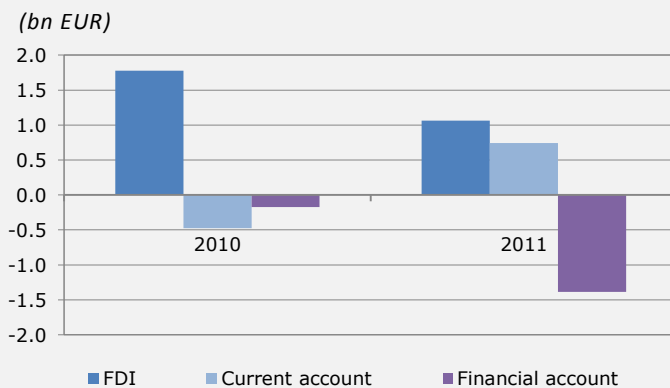
clothing and footwear have also decreased by 1.6% during the winter sales. Prices of **services** showed almost no change compared to December, as higher prices of hotel accommodation in resorts, up 5.2%, almost fully offset the price decrease in package holidays, down 5.9%. Low-cost airline fares also went down by 26.1% (-0.06 pps) after the usually busy end-of-year holiday period. On the upside, a number of **administered prices** went up, i.e. legal services, up 2.7%, higher education – up 2.8%, urban transport – up 1.3%, railway passenger transport – up 2.2%, gas supply – up 3.3%, thus adding 0.06 pps to the monthly headline inflation.

**Current account** surplus accumulated since the beginning of the year narrowed to EUR 743.7 mln (1.9% of GDP) due to the EUR 256.2 mln deficit in December. **Services** balance recorded a EUR 87.6 mln surplus over the month, being EUR 18.7 mln a year earlier, as the positive developments came on the back of lower expenditures on other services. Services surplus stood at EUR 2.4 bn for the full 2011, up 19.1% yoy. **Current transfers** also had a positive contribution to the CAS, as they reached EUR 112.2 mln.

**Trade balance** continued its improvement in yoy terms. During the month, exports growth again outpaced the change in imports (13.5% and 7.6% yoy respectively), as a consequence trade deficit shrunk to EUR 319.8 mln, down from EUR 373.8 mln a year earlier. **Income** balance was negative at EUR 136.2 mln, thus its deficit increased by 14.5% yoy. The main reason for this was the continuing tendency for higher investment income payouts, which is a positive sign for improved profits at local firms. The **capital account** recorded a surplus of EUR 248.3 mln in December, thus the accumulated surplus for the full 2011 reached

EUR 488.8 mln. As a result, the external balance of Bulgaria (calculated as the sum of current and capital account balance) reached 3.2% of GDP, being 0.1% in 2010. In cumulated terms, trade deficit stood at 4.8% of GDP in 2011, services surplus reached 6.2% of GDP, while the 3.9% of GDP deficit on income was covered by current transfers' inflows (4.4% of GDP).

FDI, Current and Financial Account (Jan-Dec)



Source: BNB

**Financial account** came in negative at a modest EUR 46.9 mln deficit in December. **Other investments** balance recorded a deficit of EUR 233.2 mln, compared to a surplus of EUR 297.6 mln in December 2010, largely on account of foreign loans repayments by non-financial sector companies. **Foreign Direct Investments** stood at EUR 274.7 mln during the last month of 2011, thus the total FDI for the year as a whole reached EUR 1.06 bn, down 40% over 2010.

**December balance of payments** reported positive at EUR 214.8 mln, resulting in a EUR 158.7 mln surplus for the full 2011, compared to a EUR 383.9 mln deficit in 2010.

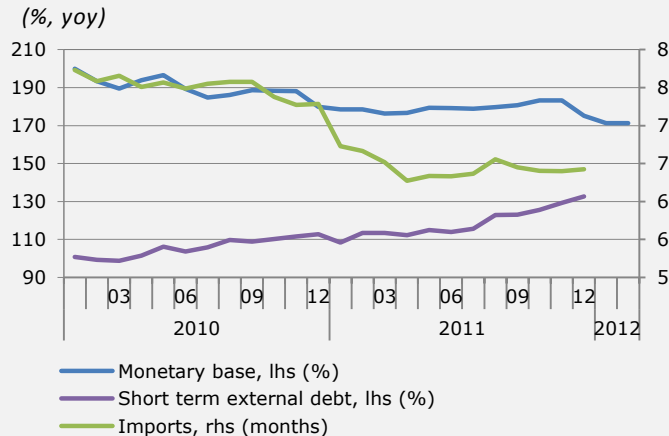
**Gross external debt** (GED) fell to EUR 35.4 bn (92.1 % of GDP) at end-2011, down by 10.7 pps yoy and 0.7 pps mom, as all sectors contributed for its decrease. The most substantial decline was recorded in the banking system, as the deleveraging led to contraction in its short-term external debt stock. Repayment of liabilities to non-residents in this sector registered double-digit growth rates throughout the whole year and accelerated further to 22.9% yoy in December. At the end of the month banking sector foreign debt stood at 16% of GED, being 18.5% a year earlier. Other sectors' foreign debt narrowed by 0.9% yoy, as the stock of short-term loans decreased by 1.3%. Meanwhile, local subsidiaries continued returning loans granted before the crisis by their parent companies, so that intercompany loans decreased to EUR 14.7 bn, being EUR 14.9 bn twelve months earlier. The deleveraging resulted in an improved maturity structure, as the long- and short-term debt stood at 71.6 and 28.4% respectively.

**International reserves** reached EUR 12.8 bn as of end-February decreasing by 1.5% mom. Their annual growth rate remained positive at 3.7%, despite having slowed from the 6.2% a month earlier. The monthly change was mainly caused by a decrease of bank reserves and the claims to the government, down by 2.8 and 4.6% mom respectively. All components except the government deposit increased compared to a year earlier. Monetary base coverage remained almost unchanged at 171.4% (171.2% at the end of January). At the end of 2011 BNB re-



erves were enough to cover 132.7% of the short-term external debt or 6.4 months of imports.

### Coverage with FX Reserves

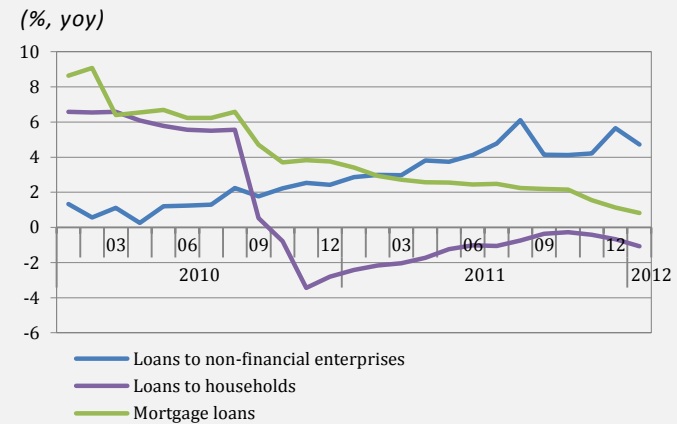


Source: BNB, MF

**Money supply** growth rate accelerated marginally in January to 12.7% yoy from 12.2% at the end of 2011. The faster increase of broad money was defined by the higher annual growth of the liquid monetary aggregate M1 (18.9% vs. 14.4% at the end of December). Both currency outside MFI and the overnight deposits had a positive contribution. The increase in quasi-money components slowed, as the positive growth rate of deposits with agreed maturity narrowed to 7.7%, from 9.4% a month earlier, while deposits redeemable at notice slowed down marginally from 20.8% to 19.2%. Money supply rose 0.8% over the previous month on the back of a 5.2% increase in overnight deposits. Currency outside MFI had a negative contribution, decreasing by 3.4% mom, due to the usually weak demand for cash in the beginning of the year. Total deposits' yoy growth speeded slightly

up to 13.4%, while in January alone they grew by 1.5% (BGN 755.5 mln) with the main contribution coming from both higher deposits of financial enterprises and households.

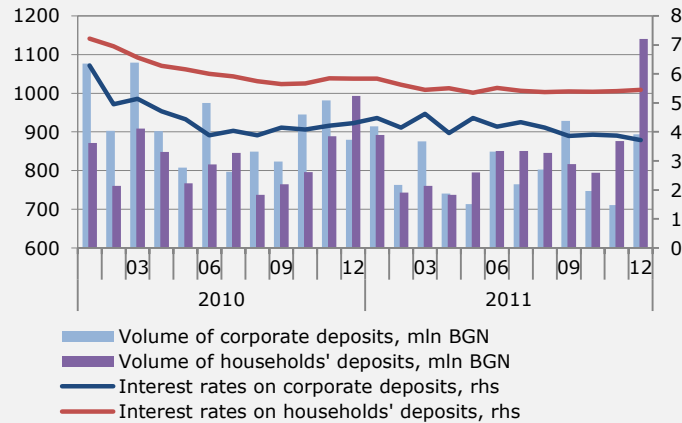
### Credit growth



Source: BNB, MF

Annual growth rate of **credit to the private sector** slowed down to 2.5% in January from 3.3% at the end of 2011. However, it improved compared to a year earlier, when it was 1.6%. Corporate credit growth remained relatively high at 4.7% yoy. After having improved through almost the whole 2011, the decrease in consumer credits widened marginally over the month and reached 1.1%, being 0.7% in December. Mortgages slowed further, as their yoy growth stood at 0.8%. Bad and restructured credits continued on the decrease, as their annual growth rate came in at 22.4% at the end of January (26.7% in December). Though, their share in total credits to households and private corporations increased slightly from 17.3 to 17.7% with the main contribution coming from corporate credit.

**Interest rates and volumes of time deposits in BGN up to 1 year**



Source: BNB, MF

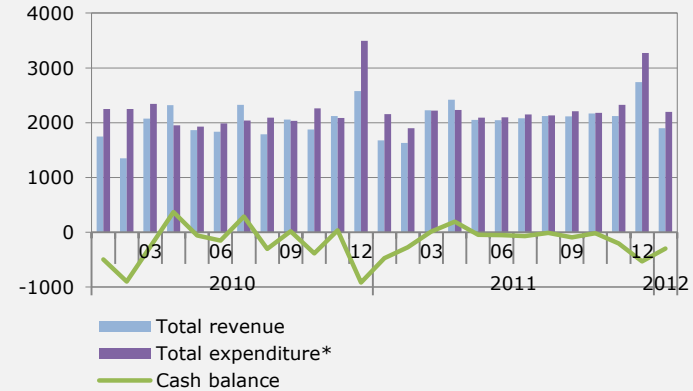
Weighted average **interest rates on credits** picked up in January, led by a 1.4 pps increase in corporate credit rates. Due to some seasonal factors, the volume of newly lent loans to firms was by 37.8% lower over the previous month, while being up 36.8% yoy. The average rates on consumer credits and mortgages increased by 0.4 and 0.2 pps respectively, while volumes of new credits stood relatively close to their level a year earlier. Weighted average **interest rate on deposits** in local currency increased, whereas those in foreign currencies decreased slightly. The total volume of new deposits was by 0.1% lower compared to December.

In pursuance of its objective to enhance revenue collection, the year 2012 started with a considerable yoy growth in general government revenue and a less significant increase in general government expenditure. Thus, at the end of January, **consoli-**

**dated budget deficit** stood at BGN 297.8 mln (0.4% of GDP) on a cash basis, down by 0.2 pps (a BGN 179.5 mln decrease) compared to the deficit level a year earlier.

**Consolidated Budget**

(monthly value, mln BGN)



\* Incl. contribution to EU budget

Source: MF

Total revenue stood at BGN 1 900 mln, up 13.4% in nominal terms compared to the previous year. Tax revenue rose by 13.5% yoy, mainly due to the 17% increase in indirect tax receipts. VAT, excises and custom duties stepped up by 25.1, 4.7 and 5.9% yoy respectively. Total social and health insurance contributions were 9.8% higher than January 2011. Revenue from direct tax increased as well, up by 8.5% in yoy terms. Non-tax revenue and grants came 13% higher on a year earlier and amounted to BGN 266.1 mln.

Total government expenditure, including Bulgarian contribution to the EU budget, stood at BGN 2 197.8 mln (2.7% of GDP), up 2.1% compared to January 2011. The latter was mainly on ac-

count of increased payments for grants, wages and salaries, and interests, while maintenance, down 8.2% yoy, and social spending and scholarships, down 4.9% in yoy terms, had a negative contribution and offset the impact of other expenditure sub-groups expansion.

Fiscal reserve stood at BGN 4 bn at end-January.

General government debt, including government guaranteed debt, accounted for 15.8% of GDP at end-January, of which 5.9% of GDP domestic debt, 8.5% of GDP external debt and 1.5% of GDP government guaranteed debt.

## KEY ECONOMIC INDICATORS

		2008	2009	2010	2011	Q1'11	Q2'11	Q3'11	Q4'11	VIII'11	IX'11	X'11	XI'11	XII'11	I'12
<b>— GDP<sup>1</sup></b>															
Gross Domestic Product <sup>1</sup>	%, yoy	6.1	-5.5	0.4	1.7	3.2	2.2	1.6	1.6						
Consumption	%, yoy	2.5	-7.3	0.5	-0.3	0.6	0.4	0.9	0.5						
Gross fixed capital formation	%, yoy	21.9	-17.6	-18.3	-9.7	-5.5	-6.9	-7.4	-9.7						
Export	%, yoy	3.0	-11.2	14.7	12.8	21.5	13.2	5.4	12.6						
Import	%, yoy	4.2	-21.0	2.4	8.5	13.6	8.1	9.0	4.5						
Agriculture	%, yoy	32.4	-9.5	-6.2	-1.1	-0.8	-3.2	-1.8	1.0						
Industry	%, yoy	6.0	-5.7	-6.3	6.6	9.1	6.7	6.0	2.4						
Services	%, yoy	4.1	-1.3	4.4	-0.1	-2.6	3.0	-1.2	1.4						
Adjustments	%, yoy	5.7	-16.5	-0.5	0.8	6.1	-2.6	3.1	0.1						
<b>— SHORT TERM BUSINESS STATISTICS</b>															
Industrial production	%, yoy	0.7	-18.3	2.0	4.9	10.6	6.3	3.1	0.6	2.6	1.5	2.5	1.2	-2.0	
Industrial turnover	%, yoy	13.7	-20.2	14.1	17.1	32.6	19.1	13.5	7.1	14.1	11.7	10.8	10.2	0.8	
Retail trade turnover	%, yoy	8.9	-8.9	-5.6	-1.6	0.4	0.4	-2.9	-4.3	-2.7	-3.0	-5.2	-5.3	-2.5	
Construction output	%, yoy	12.7	-14.5	-18.0	-12.8	-14.8	-14.4	-11.1	-10.9	-8.1	-10.8	-10.2	-10.6	-11.9	
Total business climate	balance	38.0	10.2	9.6	14.2	13.8	14.1	15.2	13.5	15.6	15.5	14.8	12.7	13.0	12.3
Industrial confidence	balance	39.9	12.3	13.4	22.4	21.6	22.8	24.1	21.0	24.7	24.9	23.1	18.9	21.0	21.4
Retail trade confidence	balance	41.3	13.5	10.1	17.3	13.0	10.7	20.2	25.5	23.9	23.6	23.9	26.4	26.2	11.0
Construction confidence	balance	40.3	8.5	5.1	2.8	4.7	4.4	3.9	-1.9	2.5	1.1	1.4	-1.1	-6.1	-2.4
Services confidence	balance	28.7	5.1	5.6	5.9	8.1	10.1	3.8	1.8	2.5	3.1	2.4	0.1	2.9	10.2
<b>— LABOUR MARKET</b>															
Participation rate (15+)	level	53.8	53.0	52.0	51.3	50.8	51.0	51.9	51.5						
Employment rate (15+)	level	50.8	49.4	46.7	45.6	44.7	45.3	46.6	45.7						
Employment (LFS)	%, yoy	3.3	-3.2	-6.2	-3.4	-4.0	-4.5	-2.8	-2.3						
Unemployment rate (LFS)	level	5.6	6.8	10.2	11.2	12.0	11.2	10.2	11.4						
Unemployment rate (Employment agency)	level	6.3	7.6	9.5	10.1	10.9	10.1	9.5	10.0	9.6	9.4	9.6	10.0	10.4	11.1
Nominal wage	%, yoy	26.5	11.8	6.4	9.1	8.5	9.3	8.6	8.7	8.5	8.5	8.6	8.5	8.8	

		2008	2009	2010	2011	Q1'11	Q2'11	Q3'11	Q4'11	VIII'11	IX'11	X'11	XI'11	XII'11	I'12
Real wage <sup>2</sup>	%, yoy	13.0	9.1	3.3	5.6	3.8	5.7	5.3	5.9	5.2	5.4	5.4	5.8	6.6	
Labour productivity (GDP per employed)	%, yoy	3.5	-3.0	5.3	6.2	7.4	7.5	7.3	2.6						
Real ULC (GDP)	%, yoy	3.7	8.1	2.7	-3.7	-13.6	-7.5	-2.7	8.1						
<b>— PRICES</b>															
National index of consumer prices (CPI) <sup>3</sup>	%, yoy	12.3	2.8	2.4	4.2	5.1	4.8	3.9	3.1	4.1	3.3	3.5	3.1	2.8	2.3
Harmonized index of consumer prices (HICP) <sup>3</sup>	%, yoy	12.0	2.5	3.0	3.4	4.5	3.4	3.1	2.5	3.1	2.9	3.0	2.6	2.0	1.9
Domestic producer prices	%, yoy	13.3	-4.3	7.2	8.6	11.9	10.3	7.2	5.5	6.6	6.6	6.5	5.9	4.1	5.4
<b>— CONSOLIDATED FISCAL PROGRAM (CUMMULATIVE)</b>															
Revenue and grants	mIn BGN	27313	25041	23933		5530	12042	18354		16242	18354	20519	22639	25378	1900
Total expenses	mIn BGN	25323	25667	26755		6272	12692	19180		16973	19180	21361	23688	26960	2198
Contribution to EU budget	mIn BGN	720	746	670		250	367	528		466	528	588	676	779	62
Cash deficit (-) / surplus (+)	mIn BGN	1990	-626	-2823		-742	-651	-826		-731	-826	-842	-1049	-1582	-298
	% of GDP	2.9	-0.9	-4.0		-1.0	-0.9	-1.1		-1.0	-1.1	-1.1	-1.4	-2.1	-0.4
Government and government guaranteed debt	mIn BGN	10710	10641	11778		11447	11573	11944		11764	11946	11946	12166	12826	12715
	% of GDP	15.5	15.6	16.7		15.1	15.3	15.7		15.4	15.7	15.7	16.0	16.8	15.8
Fiscal reserve	mIn BGN	8382	7673	6012		4699	5154	5071		4993	5071	5342	5318	4999	4028
	%, yoy	12.5	-8.5	-21.6		-26.1	-14.5	-24.4		-19.0	-24.4	-16.5	-16.8	-16.9	-25.6
<b>— FINANCIAL SECTOR</b>															
BNB International reserves	mIn EUR	12713	12919	12977	13349	12209	12340	13051	13349	13079	13051	13176	13198	13349	12981
Monetary base coverage	%	175.3	195.2	179.8	175.1	176.3	179.2	180.7	175.1	179.7	180.7	183.3	183.3	175.1	171.2
Coverage of import with FX reserves	months	5.4	8.0	7.3	6.4	6.5	6.4	6.5	6.4	6.6	6.5	6.4	6.4	6.4	
Coverage of short-term external debt	%	96.5	100.2	112.8	132.7	112.4	113.6	121.5	132.7	122.8	123.1	125.6	129.3	132.7	
Money M1 (Narrow money)	%, yoy	-4.1	-8.8	0.8	14.4	4.9	3.7	5.5	14.4	6.8	5.5	6.3	4.4	14.4	18.9
Money M3 (Broad money)	%, yoy	8.8	4.2	6.2	12.2	7.4	8.0	10.3	12.2	9.4	10.3	9.6	7.8	12.2	12.7
Deposits	%, yoy	8.8	7.6	6.6	13.2	8.2	8.8	11.3	13.2	10.4	11.3	10.5	8.2	13.2	13.4
Credit to private sector	%, yoy	32.9	3.8	1.1	3.3	1.6	2.1	2.2	3.3	3.3	2.2	2.3	2.3	3.3	2.5
Credit to non-financial enterprises	%, yoy	33.1	2.3	2.4	5.7	3.0	4.1	4.1	5.7	6.1	4.1	4.1	4.2	5.7	4.7
Credit to households	%, yoy	31.4	5.8	-0.8	-0.4	-0.7	-0.6	-0.2	-0.4	-0.4	-0.2	-0.1	-0.2	-0.4	-0.8
Interest rate on short-term loans	%	10.9	10.5	8.5	7.2	6.4	7.3	7.3	7.7	7.9	7.3	7.0	7.4	8.6	8.1
Interest rate on time deposits	%	5.6	7.0	5.4	4.8	5.1	4.9	4.7	4.8	4.8	4.7	4.8	4.8	4.7	4.8

		2008	2009	2010	2011	Q1'11	Q2'11	Q3'11	Q4'11	VIII'11	IX'11	X'11	XI'11	XII'11	I'12
Exchange rate BGN/USD	eop	1.39	1.36	1.47	1.51	1.38	1.35	1.45	1.51	1.35	1.45	1.40	1.46	1.51	1.48
	per. av.	1.34	1.41	1.48	1.41	1.43	1.36	1.38	1.45	1.36	1.42	1.43	1.44	1.48	1.52
<b>— GROSS EXTERNAL DEBT (GED)</b>															
Gross external debt	% of GDP	104.9	108.0	102.7	92.1	94.3	95.0	94.2	92.1	94.3	94.2	93.0	92.8	92.1	
Short term external debt	% of GED	35.4	32.7	30.6	28.4	30.0	29.7	29.2	28.4	29.3	29.2	29.3	28.6	28.4	
Intercompany lending	% of GED	36.4	38.5	40.3	41.5	40.0	40.2	40.8	41.5	40.7	40.8	41.1	41.6	41.5	
<b>— BALANCE OF PAYMENTS</b>															
Current account	mIn EUR	-8182	-3116	-476	744	147	80	1170	-653	460	101	-119	-278	-256	
<i>Current account (moving average)</i>	% of GDP	-23.1	-8.9	-1.3	1.9	0.7	1.8	1.4	1.9	1.9	1.4	1.5	1.8	1.9	
Trade balance	mIn EUR	-8598	-4174	-2764	-1845	-11	-636	-237	-961	-89	-186	-275	-366	-320	
<i>Trade balance (moving average)</i>	% of GDP	-24.3	-11.9	-7.7	-4.8	-5.8	-5.0	-5.0	-4.8	-4.8	-5.0	-5.2	-4.9	-4.8	
Export, f.o.b.	mIn EUR	15204	11699	15561	20097	4777	4863	5314	5143	1757	1713	1806	1754	1584	
	%, yoy	12.5	-23.1	33.0	29.1	57.5	28.0	20.3	19.3	20.9	19.4	23.6	20.4	13.5	
Import, f.o.b.	mIn EUR	23802	15873	18325	21942	-4788	-5499	-5551	-6104	-1846	-1898	-2081	-2120	-1903	
	%, yoy	-214.7	-33.3	15.4	19.7	30.2	17.6	20.2	14.0	25.8	22.1	24.4	11.0	7.6	
Capital account	mIn EUR	277	477	291	489	16	47	126	301	32	52	0	52	248	
Financial account	mIn EUR	11463	1163	-174	-1385	-743	-202	-697	257	-162	-106	-53	-106	-136	
Net Foreign Direct Investments	mIn EUR	6206	2505	1585	939	-120	192	363	504	93	180	127	96	281	
Net Portfolio Investments	mIn EUR	-731	-619	-661	-313	-189	-16	-234	124	52	-274	160	55	-90	
Other Investments – net	mIn EUR	6032	-704	-1074	-1946	-424	-372	-798	-353	-162	50	-80	-40	-233	
Change in BNB reserve assets	mIn EUR	-674	650	384	-159	665	-92	-470	-261	-411	-21	-111	65	-215	

1. Reference year 2005, seasonally and working day adjusted data.

2. HICP deflated.

3. January 2012 data is preliminary.

— RECENT DEVELOPMENTS AND GOVERNMENT DEBT REVIEW

*MF issued a new 2-year benchmark bond*

On February 6, 2012, the Ministry of finance (MF) offered a new 2-year bond. The nominal value of the offered quantity was BGN 20 mln. This instrument aims to give an investment alternative at the short end of the debt curve.

The vast participants' interest in this auction ranked Bulgaria among financially stable countries in the region. All primary dealers in GS took part, while, traditionally for bonds of such duration, the own-expense offers prevailed. The auction's demand exceeded supply more than four times, with primary dealers placing offers for around BGN 85 mln. The bid-to-cover ratio reached 4.24 – the highest on a GS sale auction since the beginning of 2012, and one of the highest throughout the entire 2011.

The weighted average annual yield of the auction is 2.36% for the approved quantity of BGN 20 mln, which corresponded to the yield achieved in this maturity segment by leading issuing economies in Europe. The bond yield achieved is below the value of the 2.5-year EUR-denominated GS issued in February 2010, which varied from 3.43% in March to 2.77 % at its last offering in December 2010. For comparative reasons, the yield on one-year discount issues realized by MF in 2010 was 2.80 and 2.35% in September and December respectively.

The positive trend of lower yield levels monitored in the other benchmark segments shifted to the shorter end of the debt curve as well. This once again illustrates the attractiveness of sover-

ign securities as an investment opportunity, bringing safe return.

On February 13, 2012, MF successfully reopened the 5-year GS issue from 2011. Primary dealers' orders reached EUR 116 mln with EUR 35 mln offered for sale, which is indicative of the great demand of market participants for sovereign bonds offered at the domestic market.

*The interest in Bulgarian GS remained high*

The weighted average annual yield of the volume of GS offered and approved at this auction was 3.47%. This is the lowest yield realized under this issue since its initial issuance on 30 March 2011, with the weighted average yield since reopening being 4.03% in 2011. The yield registered at the auction was significantly below the current one of the Euro bonds of similar residual maturity of states with solid public finances such as Lithuania (4.26%) and Slovenia (4.14%) and far below the level of an emerging and rapidly developing economy such as Turkey (4.65%). In an environment of growing insecurity of European debt markets, the yield of Bulgarian sovereign bonds continued to decline.

The bid-to cover ratio reached 3.33, which is the highest level for this issue since May 2011. There was also a great demand for the volume of GS offered for participation of competitive bids, as well as for non-competitive ones. The investor base analysis showed that banks acquired 51% of the approved amount, followed by pension funds – 37%, and insurance companies – 7%.

MF has taken account of the interest of market participants to the EUR-denominated issue No BG 20 300 11 113 and has de-

cided to hold an auction for the same issue on February 27, 2012. This decision corresponds to the issuer's intention for a flexible approach to conducting the issuing policy.

*Record low yield in the 5-year maturity segment*

At the auction held on February 20, MF achieved a record low yield in the five-year maturity segment in BGN since 2005. The weighted average annual yield of the auction was 3.71%. The offered for sale issue has an original maturity of 10 years, issued in 2007, and has an approximate residual maturity of 5 years as of the date of the auction. The bond has been reopened for the first time since 2007 and after this auction its nominal value is BGN 300 mln. By reopening this issue the MF is providing an opportunity for investment in an instrument denominated in national currency and positioned in the medium term segment of the debt curve. The nominal value of the offered for sale and respectively approved amount was BGN 50 mln.

By a comparison, the weighted average annual yield of the January 2012 auction for the sale of BGN denominated GS maturing in 2017, was 3.96%. The record low yield again confirmed that Bulgarian GS are the most attractive and secure investment instrument in an environment of continuing uncertainty resulting from the Euro area debt crisis. The yield of the auction is below that of the Euro Bonds with similar residual maturity of countries with sustainable public finances such as Slovakia (3.78%) and Slovenia (4.65%), and considerably below the level of a rapidly growing economy such as Turkey (4.83%) and close to the yield of the Polish Euro Bonds (3.57%).

Demand doubled the amount offered for sale. A wide range of investors participated in the auction – banks and pension funds bought 44 and 33% respectively of the amount offered for sale.

In an exceptionally precarious economic and financial international environment Bulgaria continued to maintain one of the lowest debt-to-GDP ratios, while at the same time controlling its budget deficit level. The good performance at the GS auctions undoubtedly contributes to raising the international prestige of the country, which in turn contributes even more to developing an effective investor base with strong interest in the Bulgarian GS market.

MF reopened the medium-term EUR benchmark with an original maturity of 5 years at an auction held on February 27, 2012. On February 13, the Ministry held a successful auction for this issue and due to the great investor interest decided to reopen the issue later on during the month. The issue was placed on the market at the end of March 2011 and its current residual maturity is 4 years.

*The yield of Mid-term GS remained low*

The weighted average annual yield of the GS volume of EUR 34.5 mln approved on the auction was 3.50%. After this auction total nominal amount of the issue in circulation reached BGN 213.5 mln. In terms of increased bond offering, auction demand remained high and exceeded the amount offered for sale, as the nominal value of offers was more than EUR 78 mln. The yield of competitive bids amounted to 3.56%, posting a decrease over the previous issue auction (3.58%).

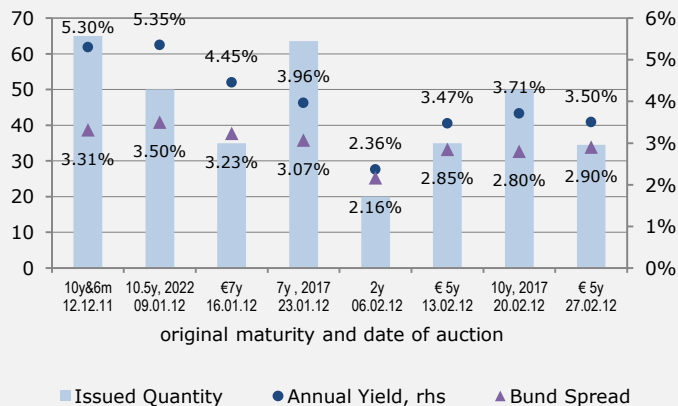


The auction yield is lower than that of the bonds of similar maturity of a number of countries with sizeable presence on debt markets such as Italy – 4.79%, Poland – 5.02%, Turkey – 9.52%, Lithuania 5.84% and Romania – 6.75%. As in the previous auction, the investor base analysis showed that banks had a leading position, having acquired 76% of the GS approved volume, followed by pension funds with 14%.

The good performance at the sovereign debt market and the sustainability of public finances outline Bulgaria from the other EU member states and countries in the region as fiscally disciplined issuer of debt. These positive trends help reduce debt service costs, which is a prerequisite for maintaining the lowest tax burden in the country in the long term.

**Latest Government Securities Auction Results**

(mln BGN /Euro)



Additional data on the auction results can be viewed on the site of the Bulgarian National Bank, that is a fiscal agent to the government

[www.bnb.bg](http://www.bnb.bg)

Source: MF

The nominal amount of government debt posted a positive change at the end of January. It decreased by EUR 53.3 mln over the previous month and reached EUR 5 892.6 mln, mainly due to repayments realized during the month. By the end of January the government debt-to-GDP ratio was 14.3%.

*Steady level of public debt – essential for state finances*

**Table: Government Debt Amount, mln EUR**

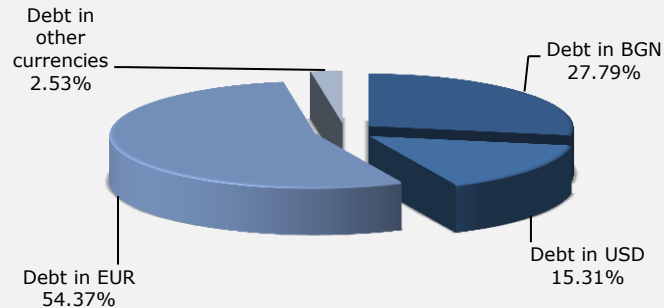
Structure	31.12. 2010	31.12. 2011	31.1. 2012
Domestic government debt	2 011.5	2 458.3	2 412.5
External government debt	3 373.5	3 487.6	3 480.1
Government Debt, total	5 385.0	5 945.9	5 892.6
Government Debt /GDP, %	4.9	15.3	14.3

January debt currency structure underwent a slight change, as the euro denominated debt increased to 54.4%. The share of debt denominated in BGN, USD and other currencies registered a minor decline and amounted to 27.8, 15.3 and 2.5% respectively.

*Government debt currency structure does not generate risks associated with its servicing*

### Government Debt Currency Structure

(as of 31 January)



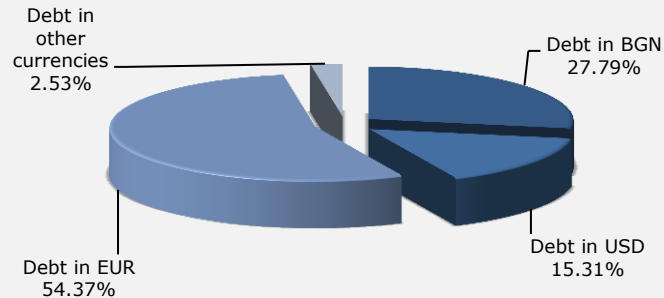
Source: MF

*Government debt interest rate structure provides predictability of the resources required for its servicing*

By the end of January the share of debt with fixed interest increased marginally over the previous month, while remaining at its December 2011 level of 82.4%. The debt with floating interest rates amounted to 17.6%.

### Government Debt Interest Rate Structure

(as of 31 January)



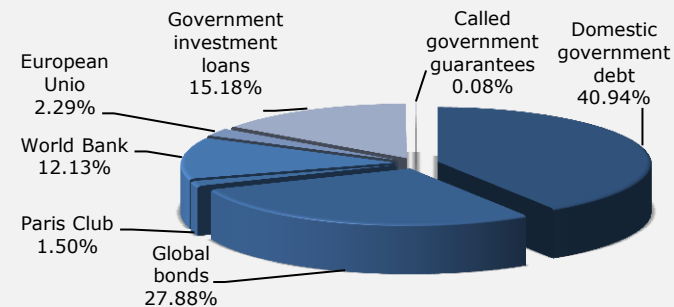
Source: MF

Debt structure by types of instruments and creditors showed no significant change. Liabilities related to domestic government debt stood at 40.9%, thus having the largest relative share, followed by global bonds – 27.9%, government investment loans – 14.9%, commitments to the World Bank – 12.1%, obligations to Paris Club – 1.5%, the European Union – 2.3% and the enabled state guarantees – 0.1%.

*Government debt portfolio structure is another key indicator for successful debt management policy*

### Government Debt Structure by Creditor

(as of 31 January)



Source: MF

Comprehensive information on Bulgarian Government Debt, including monthly bulletins and annual reviews, could be found at the website of Bulgarian Ministry of Finance.

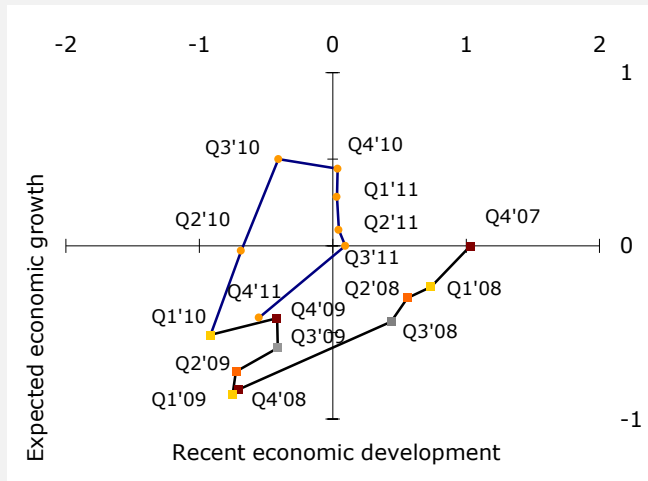
<http://www.minfin.bg/en/statistics/?cat=2&from=0&fyear=0&to=0&tye ar=0&dq=&pokaz=0>

For any further questions or comments, please contact Mrs. Milena Boikova, Director of Government Debt and Financial Markets Directorate, Ministry of Finance: email: M.Boikova@minfin.bg , tel. +359 2 9859 2450.

— **FINANCIAL SECTOR SURVEY:**  
Resume of the Main Findings

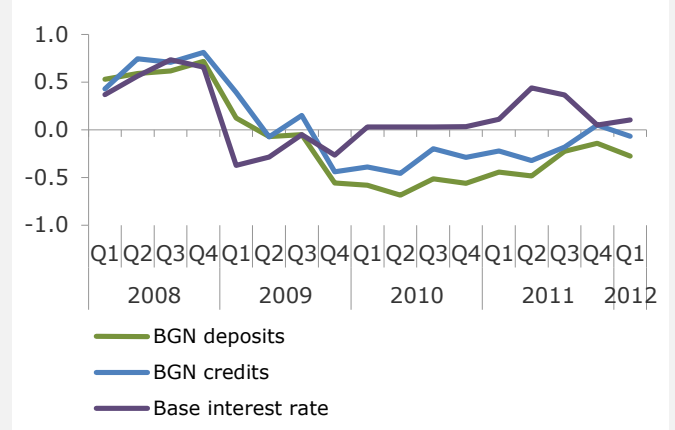
- Foreign investment towards Bulgaria and solving the Euro-zone debt crisis will be the main challenges in front of the domestic and the EU financial sectors respectively.
- Recent economic development assessment and short term economic growth expectations are less optimistic.

**Economic Growth Expectations**



- Financial intermediaries expect lower deposit interest rates, while credit interest rates will remain at their current level.
- The US Dollar will appreciate towards the end of the first quarter of 2012.

**Interest Rate Expectations**



- Inflation expectations for 2012 marginally increase.

**Inflation Expectations**

