

2012

# RECENT ECONOMIC DEVELOPMENTS, BULGARIA

SELECTED ISSUES, APRIL 2012

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- ▶ Recent Economic Developments
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**REPUBLIC OF BULGARIA**  
Ministry of Finance



## — MACROECONOMIC ENVIRONMENT AND POLICIES IN BRIEF

- In its annual credit report on Bulgaria, published on 28 May 2012, **Moody's confirmed country's Baa2 government bond rating and stable outlook.**

The rating agency assessed the current economic development of Bulgaria as positive. Fiscal position of the country remained stable with a low budget deficit and low government debt level. The Agency also confirmed the currency board stability, especially since the system has proved resilient to the global crisis.

According to the analysis, susceptibility to event risk is assessed as moderate and mainly reflects the economy's extensive dependency on the European economy, the significant presence of Greek financial institutions in the local banking system and high external debt, which pose risks in the highly unlikely event of a change in the monetary policy regime.

- On May 30, **the European Commission recommended that the Council abrogates the Excessive Deficit Procedure (EDP) for Bulgaria.**

The budgetary targets have been consistently overachieved in the period following the year of the excessive deficit. Through the implementation of strict control of expenditure growth, the general government deficit was reduced to 3.1% of GDP in 2010 and decreased further to 2.1% of GDP in 2011, against initially set targets of 3.8% and 2.5% respectively.

Following the validation of these figures by Eurostat on 23 April 2012 and taking into account the fact that according to

the Commissions' 2012 spring forecast, the deficit is expected to shrink further to 1.9% of GDP in 2012 and 1.7% of GDP in 2013, the Commission has concluded that the correction of the excessive deficit is ensured.

Currently, 23 out of the 27 EU Member States are subject to an EDP (all except Estonia, Finland, Luxembourg and Sweden). Following the Commission's proposal, Bulgaria and Germany will be removed from this list of countries facing the threat of sanctions.

- Meanwhile, **according to GDP flash estimates, Bulgarian economy expanded by 0.5% yoy in Q1 2012.** Economic activity remained unchanged over the previous quarter.

Final consumption went up by 2.2% on a year earlier and had a positive contribution to GDP growth. Investment activity also seemed to have rebounded from the trough, as the slump in gross fixed capital formation narrowed to 3.4% yoy.

Exports, however, posted their first yoy contraction since the start of the recovery, down by 1.9%. The lower demand from export-oriented industries resulted in a subsequent decline in imports, down 1.6% yoy.

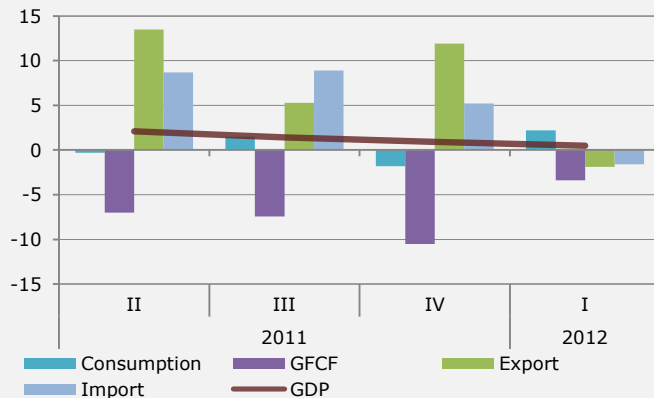
Gross value added decreased by 0.3% yoy, as growth in industry slowed down to 2% in line with the lower external demand and the decrease in exports. Performance in services sector was also weak, while value added in agriculture increased by 12.4% yoy. ▼

— RECENT ECONOMIC DEVELOPMENTS

According to flash estimates, Bulgarian GDP increased by **0.5% yoy** in Q1 2012. Final consumption went up by 2.2% on a year earlier and had a positive contribution, while investment activity in the country declined by 3.4%. Exports fell by 1.9% and, subsequently, imports decreased by 1.6% yoy, probably due to the lower demand from export-oriented industries.

GDP growth (%)

(yoy, s.a. data)

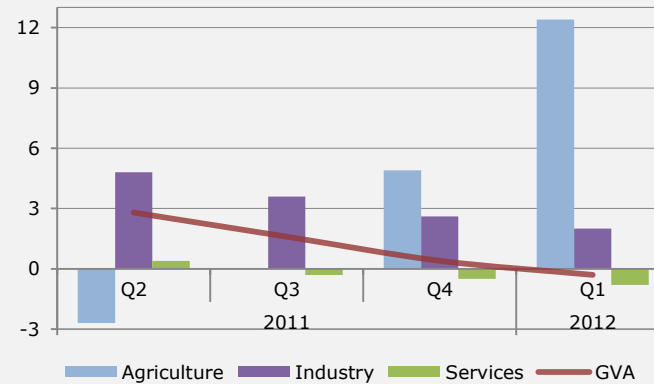


Source: NSI

On the supply side, GVA growth reported negative at 0.3% yoy during the first quarter. Growth in industry slowed to 2% in line with the lower external demand and the decrease in exports. Performance in services was weak with a 0.8% real decrease. Yet value added in agriculture increased in Q1, up by 12.4% yoy.

GVA growth (%)

(yoy, s.a. data)



Source: NSI

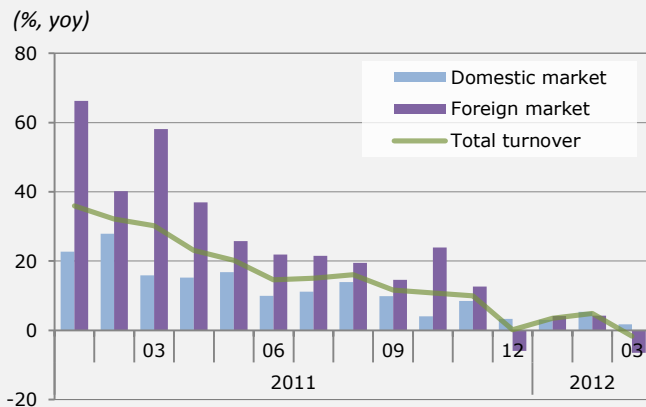
Despite the still positive annual growth in the domestic component, **industrial turnover** declined by 1.7% yoy in March, almost entirely due to the registered 6.5% decline in foreign market sales. The slump in manufacture of basic metals, which has the largest share in industrial turnover for foreign markets, contributed the most for the overall dynamics.

**Growth in domestic turnover slowed to 1.7% yoy.** Manufacture of chemicals and chemical products, manufacture of machinery and equipment and electricity, gas, steam and air conditioning supply had the major positive contribution for the registered growth.

Despite the fact that manufacture of chemicals and chemical products and manufacture of machinery and equipment per-

formed rather well during the month, **industrial production output** decreased by 3% yoy. Manufacture of basic metals and production of precious and non-ferrous metals in particular, as well as electricity, gas, steam and air conditioning supply affected negatively the industrial activity.

### Industrial turnover



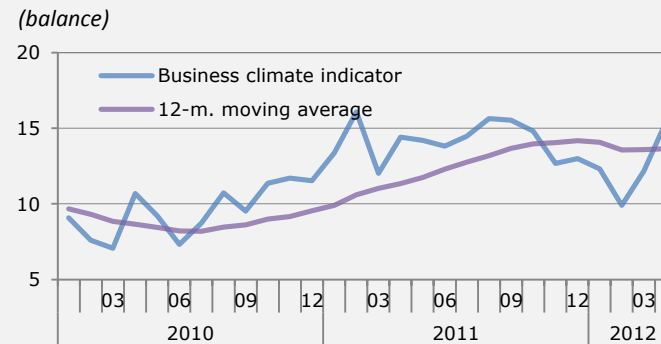
Source: NSI

The slump in **retail sales** narrowed significantly, going down from 5.6% to 1.4% yoy over the month. Except for the usually good performance of medical and orthopedic goods, up 9% yoy, retail sales of food, beverages and tobacco and retail sales of computers, peripheral units and software also increased, up by 2.1 and 5.6% respectively.

**Construction production index** went up by 2% yoy, entirely due to the positive developments in civil engineering. The latter increased by 6.7% over a year earlier, while building construction declined by 1.4%.

April **business climate** in the country increased for a second month in a row, as the assessment of the current juncture improved in all sectors of the economy. According to survey results, there were increases in retail sales and construction orders. Export expectations in industry also improved over the previous quarter. Prospects in services also got better.

### Business climate



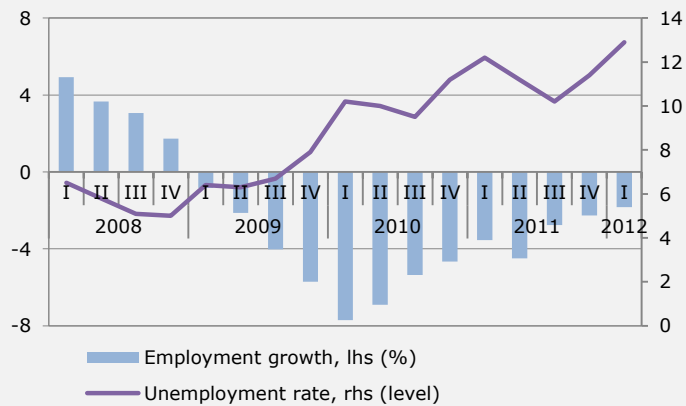
Source: NSI

**Labour force survey** reported a further employment decrease and unemployment rise in Q1 2012 compared to the same period a year earlier. Employment number declined by 51.2K, down 1.8% yoy, while the unemployed climbed up to 421.4K. The latter corresponded to a jobless rate of 12.9%<sup>1</sup> - the highest one over the last eight years. Developments in sectoral employment

<sup>1</sup> According to a new procedure, implemented in 2012, the Labour Force Survey results have been adjusted to population figures. It has also been applied to Q1 2011 data, leading to a revision of the latter. For further information see [www.nsi.bg](http://www.nsi.bg)

showed almost no change compared to 2011. The job losses were mainly concentrated in the industrial sector, resulting from the unfavorable foreign environment and weak construction activity, as well as in the labour intensive service subsectors due to the slow domestic demand recovery<sup>2</sup>.

Employment growth (%) and Unemployment rate (level)



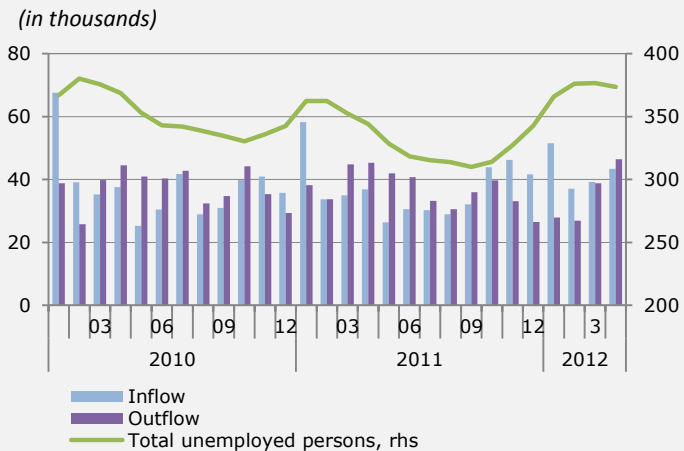
Source: NSI

**Registered unemployment** declined in April, underpinned by the seasonal labour demand revival and the implementation of active programs and measures. Jobless pool was over 3K less than in March, totaling 373.5K, while unemployment rate stepped down by 0.1 pp mom to 11.4%. Albeit the jobless new inflow went up for a second month in a row, the outflow of unemployed increased even more, up 19.5%, driven mainly by the higher number of persons who started working in April – 24.7K.

<sup>2</sup> Sectoral employment developments were confirmed by the NSI survey on enterprises.

The gradual rise in the primary sector seasonal labour demand supported the enlarged number of persons who found jobs there (13.5K). Besides, the performance of the ALMM, incl. those under the OP “Human Resource Development”, was vigorous and contributed to the positive unemployment developments over the previous month.

Inflow, outflow and unemployed persons



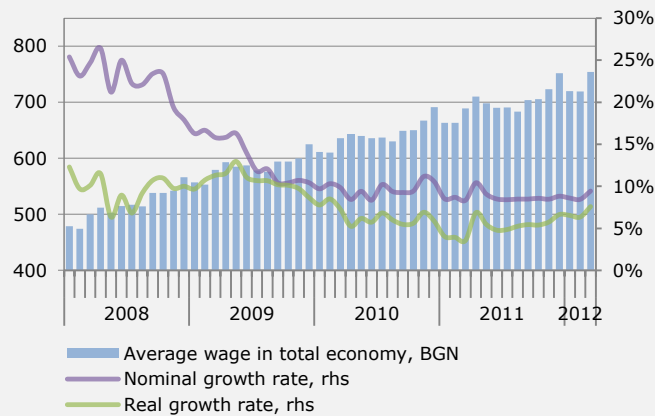
Source: EA

The trend in income dynamics, observed in 2011, continued in Q1 2012 as well. In the first three months of the current year, the country’s nominal **average wage**<sup>3</sup> grew by 8.9% yoy. At the same time, real average wage growth accelerated to 6.8%, being 3.7% in the same period a year earlier. Private sector wages continued to exhibit higher growth rate, up by 11% in nominal terms, while wages in the public sector remained constrained,

<sup>3</sup> According to Enterprises Survey data.

due to the process of government expenditures optimization. As a result, their nominal growth rate accelerated only slightly from 1.8% in Q1 2011 to 3.6% in the first quarter of 2012. Real wage growth in both public and private sectors followed an upward trend, reaching 1.7 and 9% respectively.

### Average wage developments

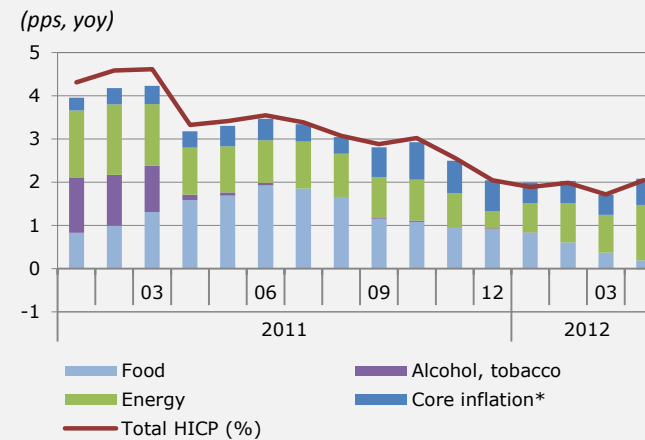


Source: NSI

According to flash estimates on GDP and employment, **labour productivity** growth in Q1 2012 will remain constrained as compared to the same period of the previous year. Labour productivity is expected to grow at a rate of about 3%, being above 7% on a year earlier. The trend in productivity dynamics, observed in late-2011, will continue in Jan-Mar 2012 as well. Recent labour productivity developments will be mostly determined by the lower activity in the tradable sector, which is directly exposed to the external environment negative impact.

**Inflation** stepped up by a marginal 0.2% in April, thus annual HICP slightly accelerated to 2% due to some base effects from a year earlier. However, Bulgaria remained among EU Member states with the lowest inflation rates. Non-energy industrial goods had the largest positive contribution (+0.12 pps) for the monthly increase in the headline rate, as prices of clothing and footwear went up by 3.6% on average. The accelerated increase in automotive fuel prices in recent months further lost speed over the month. It slowed down to 1% mom, thus this component added another 0.09 pps to monthly HICP index. Meanwhile, prices of food and market services decreased, both down by a marginal 0.1% mom. The latter compensated by -0.13 pps price hikes in the other non-regulated components of HICP. Administered prices rose by 0.7% on average over the month, as prices of natural gas and heating have been increased by 9.3 and 7.8% respectively.

### HICP and contributions by main groups



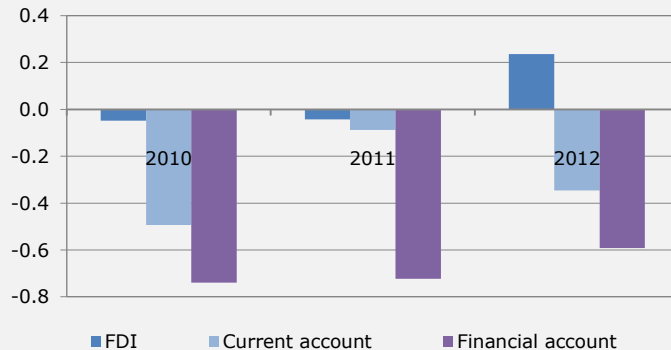
\* Overall index excluding energy, food, alcohol and tobacco.

Source: NSI, MF

The **current account** came in negative at EUR 345.6 mln in Q1 2012 (0.9% of GDP forecast). After the deficits reported in the first two months of the year, CAB turned to a EUR 118 mln surplus in March. The dynamics in the year so far were led by external trade. Due to the high base in 2011 and unfavorable external conditions in late-2011 and early-2012, exports decreased on a year earlier, down by 10% in Jan and by 1.6% in Feb, while it increased by 1.6% yoy in March. In cumulative terms, exports amounted to EUR 4 626.2 mln in Q1 2012, thus contracting by 3.3% yoy. On the other hand, imports performed well. Their annual increase continued, with the growth reaching 13.7% in Feb and 11.4% in Mar. With the imports increase and the contraction in exports, trade balance deficit widened to EUR 803.1 mln in Q1 (2% of GDP).

**FDI, Current and Financial Account**

(January – March, billion euro)



Source: BNB

The surplus on services balance narrowed compared to its level a year earlier and reached EUR 80.3 mln (0.2% of GDP) in Jan-Mar. The latter resulted from the deficit reported on other ser-

vices trade, as the increase in imports came along with lower receipts from other services' export.

The income balance improved in yoy terms in Q1. The deficit shrank to EUR 239.7 mln compared to EUR 365.9 mln during the same period of the previous year. The change was due to lower payments to foreigners on investment income from FDI.

The improvement in EU fund absorption resulted in higher current transfers inflows. The balance on this article amounted to EUR 616.8 mln in Jan-Mar (1.5% of GDP), compared to EUR 341 mln twelve months earlier.

**Financial account** reported a EUR 591 mln deficit, as lower net FDI and banking sector deleveraging persisted. In March, however, FDI amounted to EUR 58.3 mln compared to a net outflow of 385.5 mln in 2011. At the same time, other investment net reached EUR 393.9 mln, as inflows came in from both assets and liabilities.

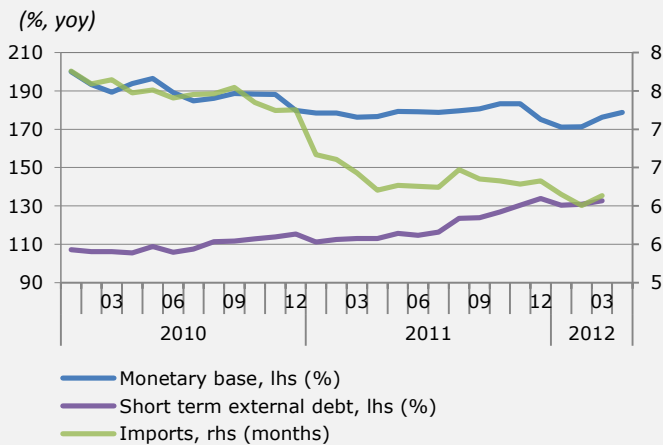
**Overall BOP** came in negative at EUR 175.5 mln, down from a EUR 664.7 mln deficit in Q1 2011.

Bulgaria's **gross external debt** (GED) stood at EUR 35.1 bn at end-February, edging down by 1.8% yoy and 0.3% mom. Thus, external indebtedness fell to 87.3% of GDP. Banking system reported the most substantial decline, as the deleveraging led to 21.3% yoy contraction in its short-term external debt stock. Another 5.1% yoy decrease was recorded in banks' long-term liabilities. At end-January banking sector foreign debt stood at 15.6% of GED, being 17.9% a year earlier. Foreign debt of other companies narrowed by 3.1% yoy, though it remained almost unchanged over the month. Local subsidiaries continued repaying loans granted before the crisis by their parent companies, so that intercompany loans decreased to EUR 14.8 bn from

EUR 15.1 bn twelve months earlier. The ongoing deleveraging resulted in short-to-long-term debt ratio of 28.2%:71.8% as of end-February.

**International reserves** posted an 11.9% growth yoy in April – the highest increase since November 2008, and reached EUR 13.4 bn at the end of the month. Among main contributors stood the Government deposit, as well as the bank reserves and the Banking Department deposit. International reserves grew by 1.5% in April alone, driven by the 10.6% increase in the Government deposit. The coverage of the monetary base came in at 178.8% at end-April, up 2.5 pps over the previous month. As of end-February BNB reserves covered 6 months of imports or 129.4% of the short-term external debt.

**Coverage with FX Reserves**

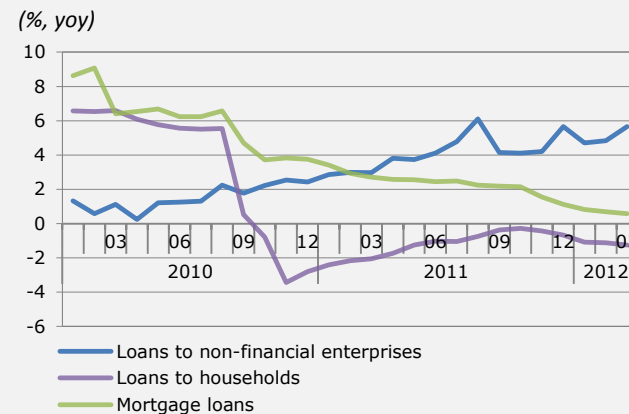


Source: BNB, MF

**Money supply** kept its double digit pace of increase, up by 10.7% yoy at the end of March. It decelerated from 11.7% at

end-February, as the liquid monetary aggregate M1 had its growth rate down to 17.2% from 18% a month ago and quasi-money's yoy increase slowed from 8.2% to 7.3%. Broad money had a marginal increase of 0.2% mom, with the deposits with agreed maturity being the only positive contributor (up by 1.4%). Both the M1 aggregate and deposits redeemable at notice went down by 1.3% and 0.2% respectively. Total deposits reduced further their pace of increase to 11% yoy in March from 12.1% at end-February. Deposits increased by 0.3% mom, backed by a 0.8% increase in households' deposits.

**Credit growth**



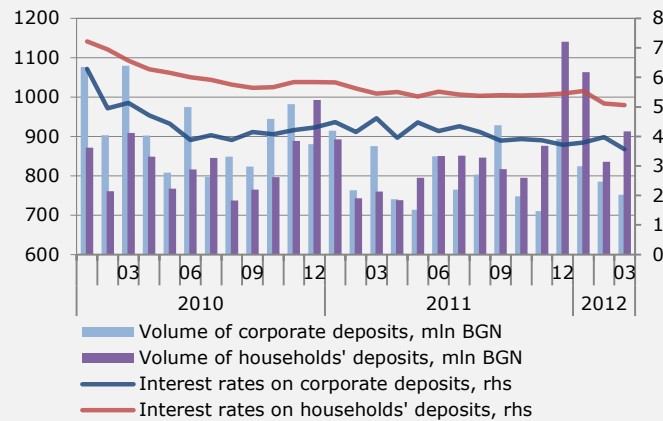
Source: BNB, MF

**Credit to the private sector** again gathered speed to 3.1% yoy at the end of March, compared to 2.4% a month earlier. The higher private credit growth was fully due to the higher corporate credit growth (5.7% at the end of March vs. 4.8% a month earlier). At the same time, households' credits contracted by 1% yoy. Consumer credits decreased by 1.3% yoy, while mortgages



slowed marginally their growth rate from 0.7 to 0.6% at the end of March.

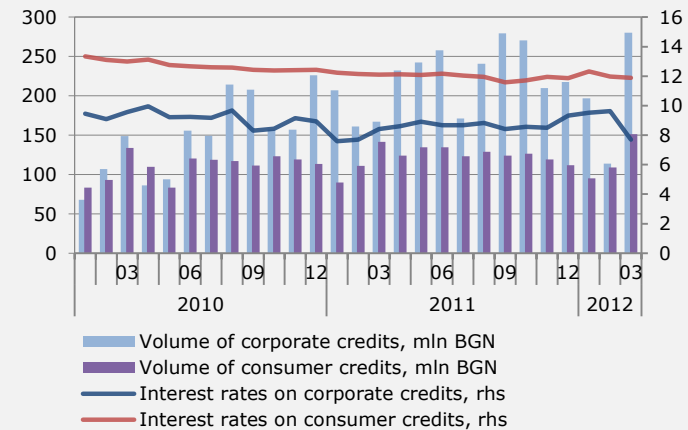
Interest rates and volumes of time deposits in BGN up to 1 year



Source: BNB, MF

Weighted average **interest rates on credits** in March declined for a second month in a row. The price of corporate loans largely decreased, down by 1 pp, though it didn't lead to an increase in volume, as the newly lent credits were by 7.6% lower than in the previous month. The average rates on consumer credits and mortgages also declined, down by 0.1 and 0.4 pps respectively, accompanied by a 35.5 and 18.8% increase in their respective monthly volumes. Weighted average **interest rates on deposits** in local currency and USD declined slightly, down by 0.2 and 0.1 pps, while the rate on Euro denominated deposits gained 0.2 pps. The total amount of deposits, attracted in March, was by 2.6% higher than in February.

Interest rates and volumes of corporate and consumer credits in BGN



Source: BNB, MF

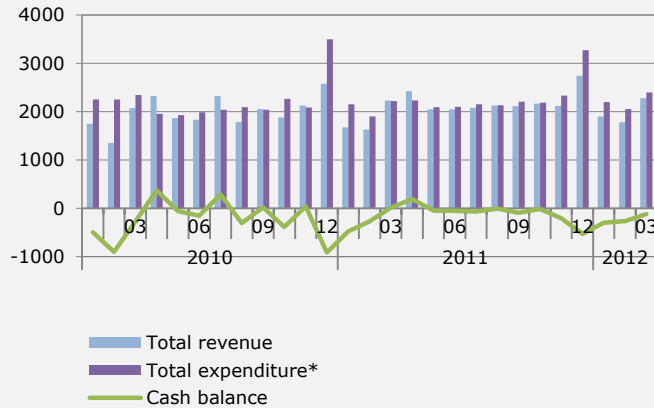
In the first quarter of 2012, **consolidated budget deficit** stood at BGN 687.2 mln on a cash basis (0.9% of GDP). It went down by 0.1 pp yoy, which is a BGN 54.7 mln decrease compared to the deficit level a year earlier.

**Total revenue and grants** accounted for BGN 5 955.7 mln and equaled 20.7% of the annual plan, up 7.7% in nominal terms compared to the previous year. Tax revenues grew by 8.2% yoy, mainly due to the increase in indirect tax receipts by 22.2%, while direct tax receipts fell by 3.3% yoy. VAT revenues rose significantly over the month, up by 33.4% on a year earlier. On the one hand, it is due to the increased imports compared to Q1 2011. On the other hand, it is also a consequence of the enhanced collection of indirect taxes due to the fully implemented distance connection between commercials' cash register devices and the National Revenue Agency's control system as of March

2012. Total social and health insurance contributions came 3.2% lower compared to the same period in 2011. Non-tax revenue and grants totaled BGN 1 001.1 mln, up 5.4% yoy.

### Consolidated Budget

(monthly value, mln BGN)



\* Incl. contribution to EU budget

Source: MF

**Consolidated expenditure**, including Bulgarian contribution to the EU budget, amounted to 22.3% of the annual forecast. In nominal terms, it grew by 5.9% yoy coming to BGN 6 642.9 mln. The latter was mainly driven by the increased capital spending, up 37.5% yoy, social expenditures and scholarships, up 2.6%, and subsidies, up 24.8%, while maintenance expenditure decreased by 1.5% yoy. The raise in capital expenditure affirmed the government's commitment to achieve higher EU funds absorption.

**Fiscal reserve stood** at BGN 4.5 bn at end-March.

**General government debt**, including government guaranteed debt, accounted for 16.6% of GDP, of which 6.5% of GDP domestic debt, 8.7% of GDP external debt and 1.4% of GDP government guaranteed debt. ▼

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

- According to Bulgarian financial intermediaries, EU institutions should focus on introducing growth and employment enhancing measures in order to improve the crisis situation.
- In general, respondents of the Financial Sector Survey improved their assessment of the current economic situation.

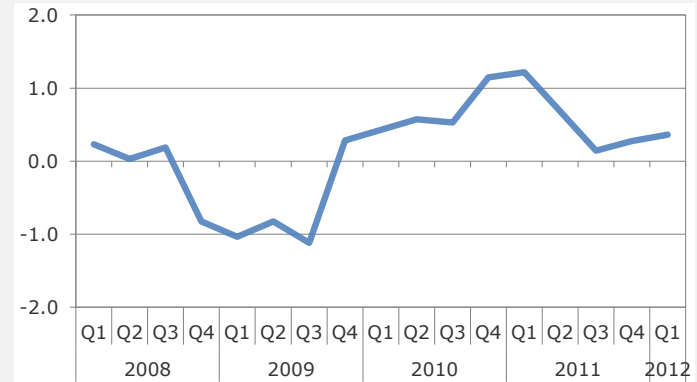
**Current Economic Situation**



- The US dollar is expected to appreciate towards the BGN in the second quarter.

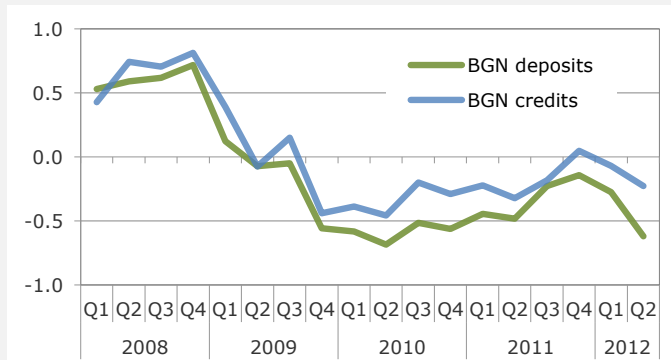
- Inflation expectations for 2012 remained low.

**Inflation Expectations**



- More significant reduction of credit interest rates can be expected in the second quarter, while deposit rates will decrease only slightly.

**Interest Rate Expectations**



## — KEY ECONOMIC INDICATORS

		2008	2009	2010	2011	Q2'11	Q3'11	Q4'11	Q1'12	XI'11	XII'11	I'12	II'12	III'12	IV'12
<b>— GDP<sup>1</sup></b>															
Gross Domestic Product <sup>1</sup>	% , yoy	6.1	-5.5	0.4	1.7	2.1	1.4	0.9	0.5						
Consumption	% , yoy	2.5	-7.3	0.5	-0.3	-0.3	1.5	-1.8	2.2						
Gross fixed capital formation	% , yoy	21.9	-17.6	-18.3	-9.7	-7.0	-7.4	-10.5	-3.4						
Export	% , yoy	3.0	-11.2	14.7	12.8	13.5	5.3	11.9	-1.9						
Import	% , yoy	4.2	-21.0	2.4	8.5	8.7	8.9	5.2	-1.6						
Agriculture	% , yoy	32.4	-9.5	-6.2	-1.1	-2.7	0.0	4.9	12.4						
Industry	% , yoy	6.0	-5.7	-6.3	6.6	4.8	3.6	2.6	2.0						
Services	% , yoy	4.1	-1.3	4.4	-0.1	0.4	-0.3	-0.5	-0.8						
Adjustments	% , yoy	5.7	-16.5	-0.5	0.8	-5.8	2.3	0.9	7.6						
<b>— SHORT TERM BUSINESS STATISTICS</b>															
Industrial production	% , yoy	0.7	-18.3	2.0	5.8	7.1	3.9	1.3	-2.6	2.0	-1.2	-1.1	-3.6	-3.0	
Industrial turnover	% , yoy	13.7	-20.2	14.1	17.2	19.1	14.2	6.8	2.0	10.0	0.2	3.5	4.9	-1.7	
Retail trade turnover	% , yoy	8.9	-7.7	-8.4	-1.9	0.2	-3.0	-4.3	-3.1	-5.6	-2.4	-2.4	-5.6	-1.4	
Construction output	% , yoy	12.2	-14.3	-14.5	-12.9	-16.2	-11.3	-9.2	-1.6	-10.9	-5.6	2.2	-9.4	2.0	
Total business climate	balance	38.0	10.2	9.6	14.2	14.1	15.2	13.5	11.5	12.7	13.0	12.3	9.9	12.2	15.4
Industrial confidence	balance	39.9	12.3	13.4	22.4	22.8	24.1	21.0	21.3	18.9	21.0	21.4	21.3	21.4	23.2
Retail trade confidence	balance	41.3	13.5	10.1	17.3	10.7	20.2	25.5	10.5	26.4	26.2	11.0	9.1	11.5	13.8
Construction confidence	balance	40.3	8.5	5.1	2.8	4.4	3.9	-1.9	-4.1	-1.1	-6.1	-2.4	-4.7	-5.2	3.5
Services confidence	balance	28.7	5.1	5.6	5.9	10.1	3.8	1.8	8.2	0.1	2.9	10.2	2.6	11.8	13.3
<b>— LABOUR MARKET</b>															
Participation rate (15+)	level	53.8	53.0	52.0	51.3	51.0	51.9	51.5	51.8						
Employment rate (15+)	level	50.8	49.4	46.7	45.6	45.3	46.6	45.7	45.1						
Employment (LFS)	% , yoy	3.3	-3.2	-6.2	-3.4	-4.5	-2.8	-2.3	-1.8						
Unemployment rate (LFS)	level	5.6	6.8	10.2	11.2	11.2	10.2	11.4	12.9						
Unemployment rate (Employment agency)	level	6.3	7.6	9.5	10.1	10.1	9.5	10.0	11.4	10.0	10.4	11.1	11.5	11.5	11.4

		2008	2009	2010	2011	Q2'11	Q3'11	Q4'11	Q1'12	XI'11	XII'11	I'12	II'12	III'12	IV'12
Nominal wage	% , yoy	26.5	11.8	6.4	9.1	9.3	8.6	8.7	8.9	8.5	8.8	8.6	8.4	9.4	
Real wage <sup>2</sup>	% , yoy	13.0	9.1	3.3	5.6	5.7	5.3	5.9	6.9	5.8	6.6	6.5	6.3	7.6	
Labour productivity (GDP per employed)	% , yoy	3.5	-3.0	5.3	6.2	7.5	7.3	2.6							
Real ULC (GDP)	% , yoy	3.7	8.1	2.7	-3.7	-7.5	-2.7	8.1							
<b>— PRICES</b>															
National index of consumer prices (CPI)	% , yoy	12.3	2.8	2.4	4.2	4.8	3.9	3.1	2.0	3.1	2.8	2.3	2.0	1.7	1.7
Harmonized index of consumer prices (HICP)	% , yoy	12.0	2.5	3.0	3.4	3.4	3.1	2.5	1.9	2.6	2.0	1.9	2.0	1.7	2.0
Domestic producer prices	% , yoy	13.3	-4.3	7.2	8.6	10.3	7.2	5.5	4.8	5.9	4.1	5.3	4.6	4.6	5.0
<b>— CONSOLIDATED FISCAL PROGRAM (CUMMULATIVE)</b>															
Revenue and grants	mIn BGN	27313	25041	23933	25378	12042	18354	25378		22639	25378	1900	3681	5956	
Total expenses	mIn BGN	25323	25667	26755	26866	12692	19181	26866		23688	26960	2198	4246	6643	
Contribution to EU budget	mIn BGN	720	746	670	779	367	528	779		676	779	62	242	307	
Cash deficit (-) / surplus (+)	mIn BGN	1990	-626	-2823	-1488	-651	-827	-1488		-1049	-1582	-298	-565	-687	
	% of GDP	2.9	-0.9	-4.0	-2.0	-0.9	-1.1	-2.0		-1.4	-2.1	-0.4	-0.7	-0.9	
Government and government guaranteed debt	mIn BGN	10710	10641	11778	12826	11578	11946	12826		12166	12826	12715	12819	13052	
	% of GDP	15.5	15.6	16.7	17.0	15.4	15.9	17.0		16.2	17.0	16.2	16.3	16.6	
Fiscal reserve	mIn BGN	8382	7673	6012	4999	5154	5071	4999		5318	4999	4028	3802	4531	
	% , yoy	12.5	-8.5	-21.6	-16.9	-14.5	-24.4	-16.9		-16.8	-16.9	-25.6	-25.0	-3.6	
<b>— FINANCIAL SECTOR</b>															
BNB International reserves	mIn EUR	12713	12919	12977	13349	12340	13051	13349	13192	13198	13349	12981	12789	13192	13388
Monetary base coverage	%	175.3	195.2	179.8	175.1	179.2	180.7	175.1	176.0	183.3	175.1	171.2	171.4	176.3	178.8
Coverage of import with FX reserves	months	5.4	8.0	7.3	6.3	6.3	6.4	6.3	6.1	6.3	6.3	6.2	6.0	6.1	
Coverage of short-term external debt	%	96.5	100.2	115.3	133.8	114.6	123.9	133.8	132.7	130.3	133.8	130.3	129.4	0.0	
Money M1 (Narrow money)	% , yoy	-4.1	-8.8	0.8	14.4	3.7	5.5	14.4	17.2	4.4	14.4	18.9	18.0	17.2	
Money M3 (Broad money)	% , yoy	8.8	4.2	6.2	12.2	8.0	10.3	12.2	10.7	7.8	12.3	12.7	11.7	10.7	
Deposits	% , yoy	8.8	7.6	6.6	13.2	8.8	11.3	13.2	11.0	8.2	13.2	13.4	12.1	11.0	
Credit to private sector	% , yoy	32.9	3.8	1.1	3.3	2.1	2.2	3.3	3.1	2.3	3.3	2.5	2.4	3.1	
Credit to non-financial enterprises	% , yoy	33.1	2.3	2.4	5.7	4.1	4.1	5.7	5.7	4.2	5.7	4.7	4.8	5.7	
Credit to households	% , yoy	31.4	5.8	-0.8	-0.4	-0.6	-0.2	-0.4	-1.0	-0.2	-0.4	-0.8	-1.0	-1.0	

		2008	2009	2010	2011	Q2'11	Q3'11	Q4'11	Q1'12	XI'11	XII'11	I'12	II'12	III'12	IV'12
Interest rate on short-term loans	%	10.9	10.5	8.5	7.4	7.3	7.3	7.7	8.3	7.4	8.6	8.1	8.8	8.0	
Interest rate on time deposits	%	5.6	7.0	5.4	4.8	4.9	4.7	4.8	4.6	4.8	4.7	4.8	4.6	4.4	
Exchange rate BGN/USD	eop	1.39	1.36	1.47	1.51	1.35	1.45	1.51	1.46	1.46	1.51	1.48	1.45	1.46	1.48
	per. av.	1.34	1.41	1.48	1.41	1.36	1.38	1.45	1.49	1.44	1.48	1.52	1.48	1.48	1.49
<b>— GROSS EXTERNAL DEBT (GED)</b>															
Gross external debt	% of GDP	104.9	108.3	102.8	91.9	94.6	94.0	91.9		92.8	91.9	87.5	87.3		
Short term external debt	% of GED	35.4	32.1	30.4	28.2	29.6	29.1	28.2		28.4	28.2	28.2	28.2		
Intercompany lending	% of GED	36.4	38.5	40.3	41.8	40.3	40.8	41.8		41.8	41.8	42.0	42.2		
<b>— BALANCE OF PAYMENTS</b>															
Current account	mIn EUR	-8182	-3116	-376	361	9	1155	-715	-346	-305	-329	-155	-310	119	
<i>Current account (moving average)</i>	% of GDP	-23.1	-8.9	-1.0	0.9	1.0	0.6	0.9	0.3	0.9	0.9	0.7	-0.3	0.3	
Trade balance	mIn EUR	-8598	-4174	-2764	-1975	-697	-220	-856	-803	-365	-323	-204	-272	-327	
<i>Trade balance (moving average)</i>	% of GDP	-24.3	-11.9	-7.7	-5.1	-5.7	-5.6	-5.1	-6.7	-5.3	-5.1	-5.4	-6.0	-6.4	
Export, f.o.b.	mIn EUR	15204	11699	15561	20227	4866	5416	5162	4626	1755	1585	1434	1477	1715	
	%, yoy	12.5	-23.1	33.0	30.0	28.1	22.6	19.7	-3.3	20.5	13.6	-10.0	-1.6	1.6	
Import, f.o.b.	mIn EUR	23802	15873	18325	22201	-5563	-5635	-6018	-5429	-2120	-1908	-1638	-1749	-2042	
	%, yoy	-214.7	-33.3	15.4	21.2	18.9	22.0	12.4	8.9	11.0	7.8	1.6	13.7	11.4	
Capital account	mIn EUR	277	477	291	494	47	126	306	14	52	250	0	7	7	
Financial account	mIn EUR	11463	1163	-699	-1194	-351	-707	588	-591	184	18	-555	-132	96	
Net Foreign Direct Investments	mIn EUR	6206	2505	1035	1205	85	302	904	216	167	388	48	110	58	
Net Portfolio Investments	mIn EUR	-731	-619	-661	-357	-9	-234	67	-356	57	-136	29	-35	-351	
Other Investments – net	mIn EUR	6032	-704	-1048	-1976	-420	-747	-364	-445	-33	-230	-632	-208	394	
Change in BNB reserve assets <sup>3</sup>	mIn EUR	-674	650	384	-159	-92	-470	-261	176	65	-215	490	196	-510	

Notes:

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

2. HICP deflated.

3. (-) - increase; (+) - decrease in BNB International Reserves.

— RECENT DEVELOPMENTS AND GOVERNMENT DEBT REVIEW

*The Ministry of Finance continues its policy to provide various investment instruments*

Ministry of Finance (MF) expended the spectrum of possible investment alternatives in 2012 issuance year by offering on April 2 10Y government securities (GS) issued in 2008 with maturity 2018. The bond has been reopened for the first time since its opening 4 year earlier and its residual maturity is six years. At the last auction for the bond at the end of 2008 the weighted average of the annual yield was 7.36%. The yield of the approved amount of

BGN 42.2 mln at the auction showed a significant drop of 324 bps, reaching 4.12%. Part of the orders received were not approved because of considerable deviation of the declared thereunder yield from the one of the other orders approved for participation in the auction. The result yet again confirmed the continuing downward yield trend throughout the sovereign benchmark curve. Given the GS residual maturity interest therein showed mainly banks acquiring 80% of the auctioned GS.

The fiscal sustainability, the favorable macroeconomic conditions and the successful implementation of the 2012 budget lead to the MF continuing its policy to provide a wide range of investment instruments while observing the best possible conditions for the State.

On April 23, 2012 the Ministry of Finance offered 2Y GS for sale with great investors' interest. The orders placed at the auction reached BGN 75 mln, which is more than two times the volume of BGN 35 mln offered. The coverage ratio of the bonds offered in 2012 in the shortest maturity segment reached 2.15. The corresponding average weighted annual yield was maintained at sustainably low levels, being 2.20% for the total approved amount of BGN 35 mln. The financing cost continues being a premium one, which is an indicator of the investors' trust. Just for comparison, the registered average weighted annual yield was 2.36% at the first auction for this issue held on February 6, 2012.

This auction coincides with serious political and financial fluctuations in Europe. This has led to enhancing the risk expectations on the EU debt market, which results in higher risk premiums required by investors. Despite the short fluctuations on the European market, the outcome of the auction for the sale of 2Y GS highlight the sustainability and low volatility of the Bulgarian benchmark yield curve.

At the background of these extremely positive results achieved by Bulgaria in the area of government debt management, ECB published on April 13, 2012, the long-term interest rate data for evaluation of the level of convergence. According to these data, for March 2012, this indicator was 5.07% for Bulgaria. Its value is formed on the basis of the yield of Bulgarian 10Y bonds which drops sharply compared to February and has reached record high levels for four years. The long-term interest rate of Bulgaria is below this indicator for 11 EU member states, with six of them being euro area members. According to this Maastricht conver-

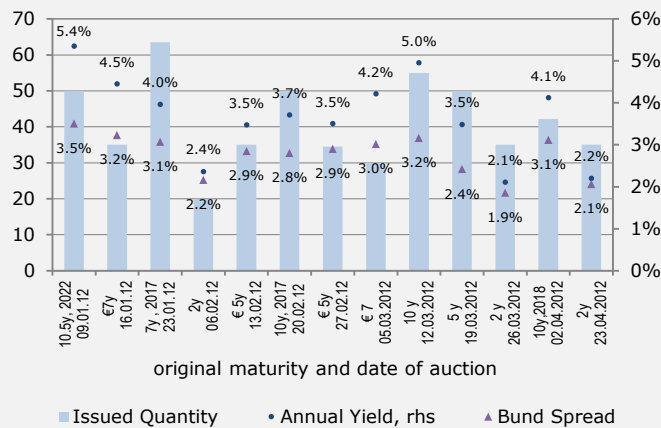
*Bulgaria makes excellent progress in implementation of Maastricht convergence criteria*

gence criterion Bulgaria moves along with two other EMU members.

These data are in line with the Eurostat data published on April 23, 2012, concerning one other Maastricht criterion – the consolidated government debt/GDP ratio. For a second successive year with a ratio of 16.3% as of end-2011 Bulgaria is ahead of all EU members except for Estonia. These data are yet another proof of the Government policy for government debt management with limitations far more rigid than those to euro area members where the debt-to-GDP ratio is 87.2% at end-2011. The fiscal policy results achieved by the Government place the country in a particularly favorable position by allowing for full integration in the single market and financing at one of the lowest prices for the entire European Community.

**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 value of government debt at the end of March amounted to EUR 6 111.4 mln, including internal government debt at EUR 2 618.6 mln and external government debt at EUR 3 492.7 mln. In nominal terms, the debt has been steadily increasing, up by approximately EUR 138.94 mln compared to its level at the end of the previous month. This was mainly due to the internal financing of debt during the month. At the end of March the government debt-to-GDP ratio came in at 15.2%.

*Stable nominal extent of government debt is of primary significance to government finance*

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

Structure	31.12. 2010	31.12. 2011	31.01. 2012	29.02. 2012	31.03. 2012
Domestic government debt	2 011.5	2 458.3	2 412.5	2 516.7	2 618.6
External government debt	3 373.5	3 487.6	3 480.1	3 455.7	3 492.7
Government Debt, total	5 385.0	5 945.9	5 892.6	5 972.4	6 111.4
Government Debt /GDP, %	4.9	15.3	14.3	14.9	15.2

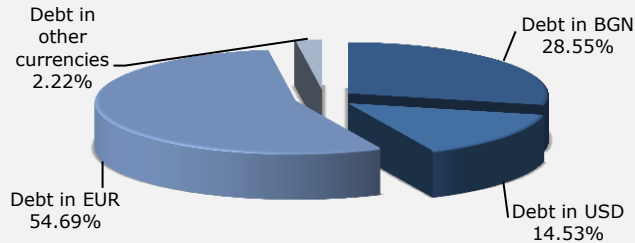
In March a slight change in the currency structure of debt was recorded. The debt denominated in BGN reached 28.6% (28% at the end of February). Shares of debt denominated in EUR, US dollars and other currencies registered declines and amounted to 54.7%, 14.5% and 2.2% respectively.

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



### Government Debt Currency Structure

(as of 31 March)



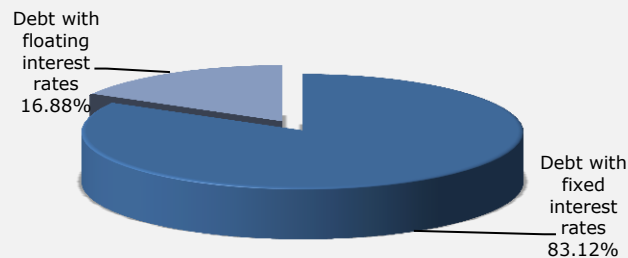
Source: MF

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

At the end of March, the share of debt with fixed interest increased over February and reached 83.1%, while debt with floating interest noted a reduction of up to 16.9%, which resulted from the loan policy directed mainly at financing at fixed interest rates, carried out during the period.

### Government Debt Interest Rate Structure

(as of 31 March)



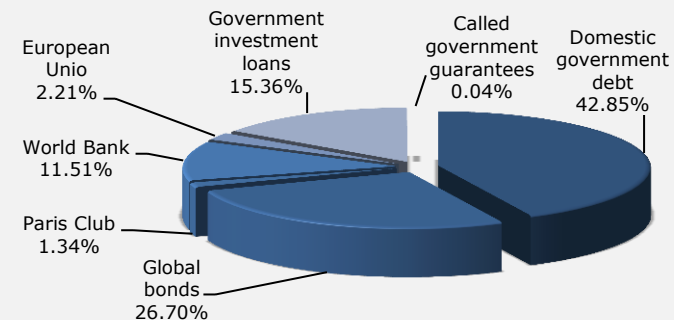
Source: MF

Debt structure by types of instruments and creditors in March showed no significant change. The highest relative share belonged to the liabilities related to domestic government debt – 42.9%, followed by global bonds – 26.7%, government investment loans – 15.4%, commitments to the World Bank – 11.5%, the European Union – 2.2%, obligations to Paris Club – 1.3% and the enabled state guarantees – 0.04%.

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

### Government Debt Structure by Creditor

(as of 31 March)



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&year=0&q=&pokaz=0>

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