

2013

RECENT ECONOMIC DEVELOPMENTS, BULGARIA

SELECTED ISSUES, DECEMBER 2013

- ▶ Macroeconomic environment and policies in brief
- ▶ Recent Economic Developments
- ▶ Key Economic Indicators
- ▶ Government Debt Review



REPUBLIC OF BULGARIA
Ministry of Finance



— MACROECONOMIC ENVIRONMENT AND POLICIES IN BRIEF

- **Short-term business statistics** showed some favorable dynamics, as industrial turnover returned to positive territory, while the growth of industrial production and retail sales accelerated further. Only construction production remained in the red. With the exception of services, business climate also deteriorated somewhat; nevertheless, there has been an increase in domestic orders in industry and larger sales volumes in retail trade.
- The **registered unemployment** increased to 11.5% in November influenced by the weak hiring activity. **Consumer prices** posted a marginal decrease, down 0.1% mom, while the negative annual change of HICP narrowed further to 1% yoy, as the slump in automotive fuel prices slowed considerably in yoy terms during the last two months.
- The accumulated surplus on the **current account** from the beginning of the year narrowed to EUR 1.1 bn (2.8% of GDP) as the monthly CAB stood negative in October. Nevertheless, the monthly value was less than half of the deficit recorded in 2012, as *trade* deficit halved and *current transfers*' surplus rose 50% yoy, offsetting the lower *services*' surplus and the higher negative value on the *income*.
- **The private placement of the *Schuldschein* loans** was successfully completed in December. Bulgaria is the first country in the SEE region and the second one among CEE countries, which successfully used this private placement instrument for investment-grade sovereign issuers, which is by far a traditional financing instrument in Western European countries. After this private placement, Bulgarian yield curve

has been extended into the 15Y maturity range by a product that is not subject to market volatility, optimizing thus the maturity profile of the sovereign debt of the country. ▼

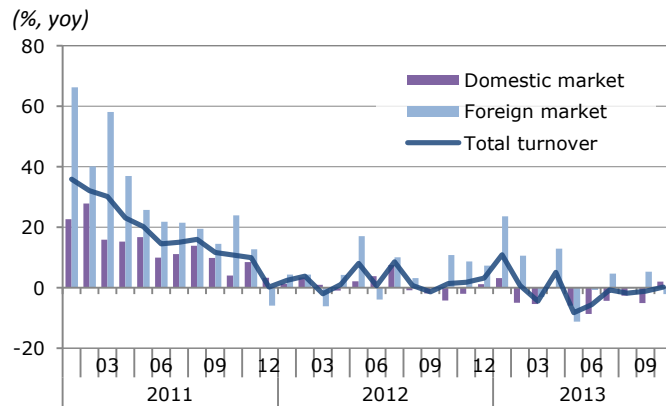
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— RECENT ECONOMIC DEVELOPMENTS

Industrial turnover returned to positive territory in October, up 0.3% yoy, driven by the reported 2% increase in domestic sales. *Manufacture of chemical products and manufacture of fabricated metal products, except machinery and equipment* largely contributed for the registered growth in domestic turnover, as the latter was strongly supported by the upward trend in *manufacture of weapons and ammunition*. Foreign market sales decreased by 2.1% compared to a year earlier. *Energy products* continued to be a major drag on growth, despite the strong performance of *manufacture of fabricated metal products, except machinery and equipment, manufacture of computer, electronic and optical products* and *electricity, gas, steam and air conditioning supply*

Industrial turnover



Source: NSI

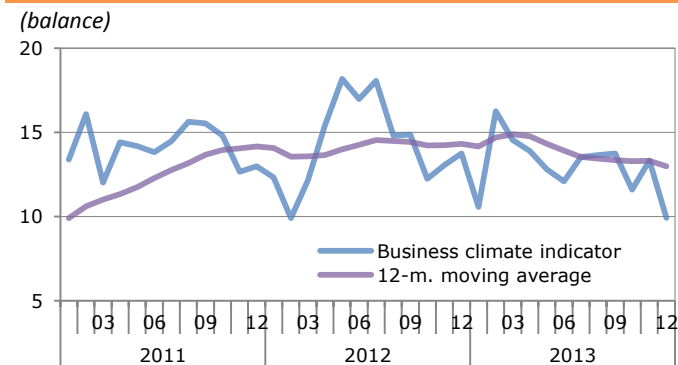
The growth in **industrial production** further accelerated to 4.3% yoy. *Manufacture of basic precious and other non-ferrous metals* and *manufacture of weapons and ammunition* contributed

the most for the observed favorable dynamics in the industrial activity.

The upward trend in **retail sales** continued, hence their growth reached 6.9% compared to a year earlier after all retail sales' components registered an increase. Similarly to previous months, *retail sales of textile, clothing, footwear, and leather goods* posted the largest increase, up 27.8%. Meanwhile, pronounced improvement was observed in *retail sales of medical and orthopedic goods* and *retail sales of computers, peripheral units and software*, up 9.7% and 9.6%, respectively.

The construction production index remained on negative territory, down 7.4% compared to a year earlier. Both *building construction* and *civil engineering* contributed for the registered decline, down by 4.4% and 11.1%, respectively.

Business climate



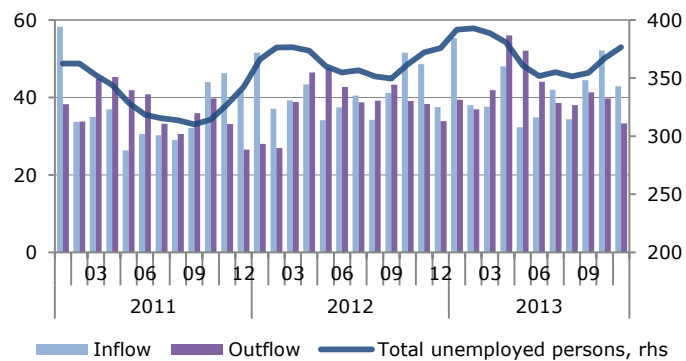
Source: NSI

The **business climate** in December deteriorated over the previous month in all sectors except services. Production expectations in all sectors were pessimistic; nevertheless, there

has been an increase in domestic orders in industry as well as larger sales volumes in retail trade. There has also been a decrease in the share of respondents in retail trade who reported the lack of demand as a problem. The demand in services' sector also increased. The most unfavorable assessments of the current business situation were recorded in construction where respondents reported a decline in orders.

Inflow, outflow and unemployed persons

(in thousands)



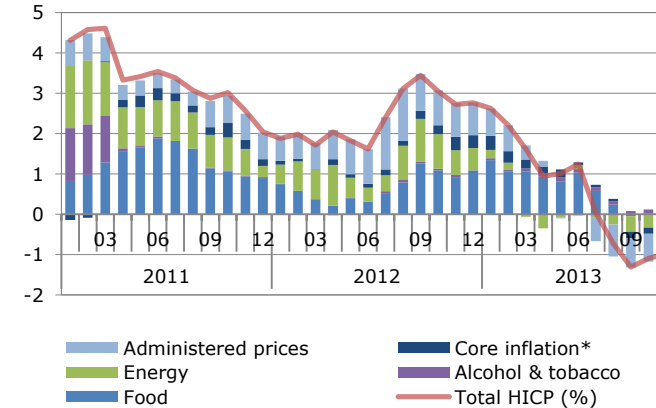
Source: EA

The **registered jobless rate** increased to 11.5% in November influenced by the weak hiring activity. The usual drop in seasonal works during this time of the year did not result in an increase in unemployment inflow and the latter decreased by 17.7% mom to 42.9 K. However, it remained higher than the outflow of unemployed which determined the 9.6 K increase in the overall unemployment number compared to October. The unemployment outflow decreased 16.1% mom to 33.3 K largely due to the lower number of persons who started working in November, albeit those who dropped out of registration also decreased. The drop in the number of people who found jobs in

November was mainly on the account of the smaller number of persons who got employment under the implemented ALMM (4.6 K), while the decreased demand on the primary labor market resulted in a smaller number of persons who started working there – 7.9 K. At the same time, there was a mom increase in the number of people who found jobs without the intervention of the employment offices.

HICP and contributions by main components

(pps, yoy)



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

Source: NSI, MF

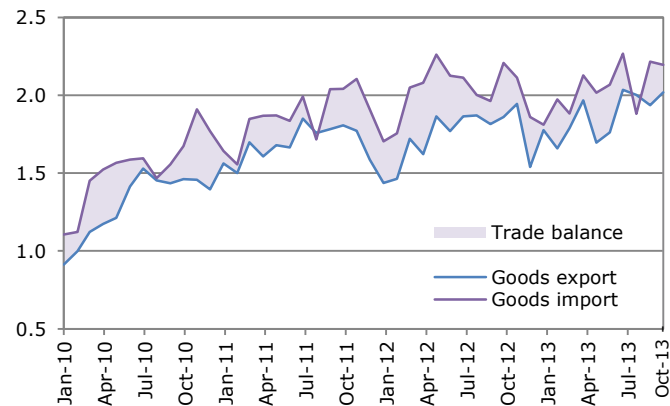
Consumer prices posted a marginal decrease in November, down 0.1% mom, as measured by the HICP. Unprocessed food prices declined by 2.1% over the previous month and once again had the largest contribution for the monthly change in the headline rate, this time with a negative sign (-0.13 pps). Fuel prices also posted a negligible decline by 0.1%. Core inflation declined as well, after services' prices showed no change, while prices of non-energy industrial goods fell by 0.1% compared to October. Administered prices remained broadly flat, only prices of tobacco and alcoholic beverages posted a minor increase, up

0.4% mom on average. The negative annual change of consumer prices narrowed further to 1% yoy, as the slump in automotive fuel prices slowed considerably in yoy terms during the last two months.

Current account balance was negative at EUR 82.6 mln in October, thus reducing the accumulated surplus from the beginning of the year to EUR 1.1 bn (2.8% of GDP). Yet, the monthly value was less than half of the deficit recorded in 2012, as *trade* deficit halved and *current transfers*' surplus rose 50% yoy, offsetting the lower *services*' surplus and the higher negative value on the *income*. *Merchandise trade* export increased 8.6% yoy in October showing improvement in eight of the ten months of the year. Import edged down by 0.6% yoy, the accumulated growth was 0.9%. Trade with EU countries largely accounted for the registered growth in both indicators.

Merchandise trade dynamics

(bn EUR)



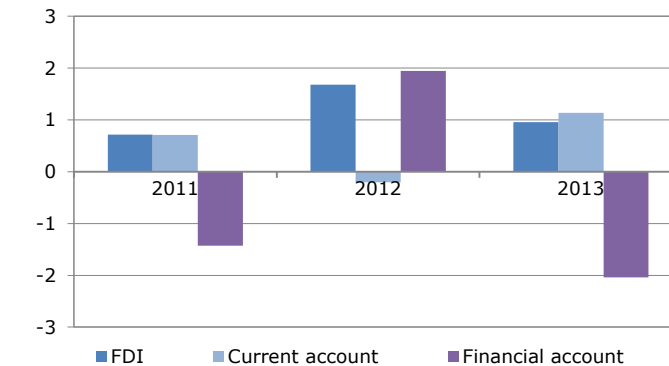
Source: BNB

The *balance on services* accumulated from the beginning of the year reached 5% of GDP, compared with 5.6% during the same

period of 2012. The reduction was triggered by lower receipts on other services, as the communication services, computer and information services and construction services credit kept on declining in yoy terms. In Jan-Oct *income deficit* stood at 2.9% of GDP vs. 2.8% in 2012 with higher investment income payments. *Current transfers* increased to 5.1% of GDP, being 4.2% in the corresponding period of 2012.

FDI, Current and Financial Account

(January-October, bn EUR)

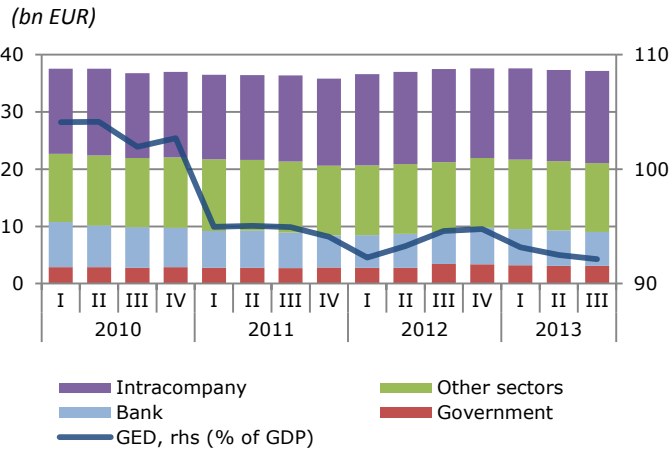


Source: BNB

Financial account deficit expanded to EUR 2 bn (5.1% of GDP) against a surplus of EUR 1.9 bn in Jan-Oct 2012. The deterioration reflected lower FDI inflows, the repayment of government external debt in January, as well as an increase of bank assets abroad and repayment of non-financial corporations' foreign liabilities.

Gross external debt (GED) stood at EUR 36.7 bn (90.9% of GDP) as of end-October, being 93.7% of GDP a year earlier and 94.9% at end-December 2012. Short-term debt represented 28% of the total. Net external debt narrowed to 35% of GDP.

Gross external debt by institutional sector



Source: BNB

Coverage with FX Reserves



Source: BNB, MF

International reserves expanded by 1% mom in December and reached EUR 14.4 bn at the end of 2013. This could be fully attributed to the 7.3% increase in notes in circulation. All other

components decreased led by a 5.8% mom drop in the Government deposit. Thus, the annual decrease of reserves continued reaching 7.2% against 5.3% at the end of the previous month. Main contributors for this development were the Government deposit and the Banking Department deposit which shrank by 24% and 18.1% yoy, respectively, the latter influenced by the significant drop in gold prices throughout 2013. The faster growth of notes in circulation compared to that of total reserves led to a decline in the still high monetary base coverage to 162.9% as of end-December. At the end of October international reserves covered 6.2 months of imports or 140.6% of the short-term external debt.

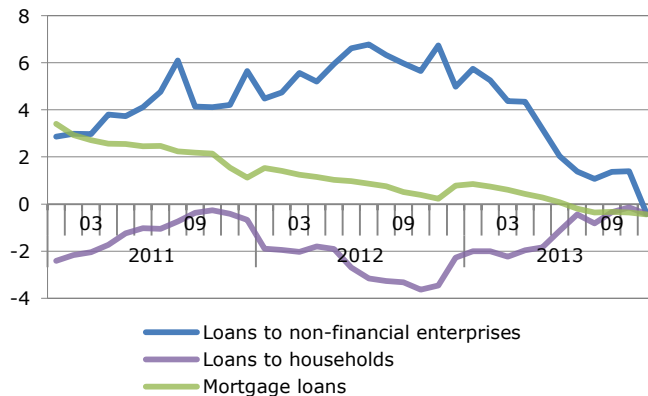
Money supply growth accelerated marginally in November, up by 9.6% yoy vs. 9.5% a month earlier. Both money outside MFI and overnight deposits registered higher growth rates to speed up the M1 aggregate from 19.2% to 20.6% yoy. At the same time the slump in deposits with agreed maturity deepened to 9.7% yoy coming from 8.7% as of end-October. Deposits, redeemable at notice, slowed their rate of increase for the first time since the beginning of 2013 from 72.9% to 71.5% yoy. Money supply grew by 0.9% in November alone on the back of a 3.4% mom expansion in overnight deposits. Deposits with agreed maturity suffered a 1.2% decline over end-October which could not be fully compensated by the 2.2% mom increase of deposits, redeemable at notice. Total deposits kept their annual growth rate at 9.9% in November after increasing by 0.9% mom (BGN 505.8 mln.).

For first time in the last 15 years, **credit to the private sector** declined by 0.6% yoy at the end of November following a positive 0.7% yoy growth a month earlier. After growing by 1.4% yoy in October, corporate credit recorded a 0.4% yoy decrease and was the main driver behind the drop in private

credit. Consumer credits and mortgages both shrank by 0.4% yoy (slightly faster compared to a month earlier). The overall private credit change could be explained by the faster decrease of bad and restructured credits, while the growth of the standard loans was close to zero. Perhaps banks increased write-offs of non-performing loans which has currently a negative effect on credit growth but could have positive results in the medium term by eliminating part of the hanging credit risk over banks' balances. **Bad and restructured credits'** rate of decrease continued to accelerate, down 3.5% yoy as of end-November coming from 2% at the end of October, thus their share in total credits for non-financial enterprises and households narrowed by 8 bps to 18.2%.

Credit growth

(%, yoy)

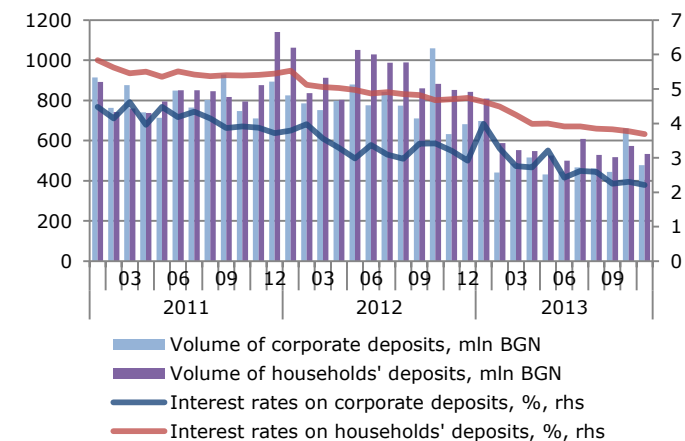


Source: BNB, MF

The **weighted average interest rate on corporate credits** dropped by 95 bps in November, while the average rate on consumer credits went down by 14 bps. However, the respective amounts of new credits were smaller compared to a year earlier,

down by 38.9% and 2.4% respectively. The average price of mortgages climbed up 44 bps, accompanied by a 2.2% increase in the volume of credits over the same period. The **weighted average interest rates on local currency and euro denominated deposits** went up by 11 and 12 bps respectively, while **the average rate of return on USD deposits** dropped 6 bps over the previous month. The total amount of new deposits reached BGN 2.1 bn which was 26.4% lower compared to 12 months earlier.

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



Source: BNB, MF

Consolidated budget deficit accounted for BGN 572 mln (0.7% of GDP) on a cash basis at the end of November, thus budget balance deteriorated by BGN 443.3 mln (0.6% of GDP) compared to the corresponding month of 2012.

Total revenue and grants amounted to BGN 26 310.9 mln which represented 86.6% of the annual estimate, thus the overall budget revenue rose by 7.6% yoy, mainly as a result of

the higher non-tax revenue and grants. Tax revenue grew by 4.2% yoy due largely to indirect taxes, whose receipts increased by 3.9% compared to a year earlier. Revenue from VAT and custom duties expanded by 6.3% and 23.5% yoy respectively, while excise duties went down by 0.6%. Direct tax receipts were 1.4% lower than in Jan-Nov 2012, while proceeds from social and health insurance contributions increased by 9.1%. Non-tax revenue along with grants continued growing significantly, up by 21% yoy.

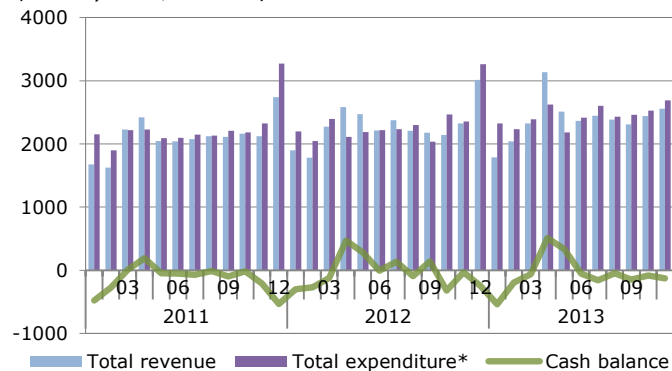
Total expenditure, including Bulgarian contribution to the EU budget, increased by 9.5% yoy and amounted to BGN 26 882.9 mln, representing 84.1% of the amended budget plan. The increase was driven mainly by social spending (incl. scholarships), capital expenditures and maintenance, which grew by 6.8%, 10.8% and 8.5% yoy respectively. Outlays on subsidies and interest also went up by 13.8% and 23% respectively compared to their 2012 nominal level.

Fiscal reserve stood at 5 bn (6.3% of GDP).

General government debt, including government guaranteed debt, accounted for 17.8% of GDP at end-November. Domestic debt stood at 7.8% of GDP, external debt – at 9% of GDP and government guaranteed debt – at 1% of GDP. ▼

Consolidated budget

(monthly value, mln BGN)



* Incl. contribution to EU budget

Source: MF

— KEY ECONOMIC INDICATORS

		2009	2010	2011	2012	Q4'12	Q1'13	Q2'13	Q3'13	VI'13	VII'13	VIII'13	IX'13	X'13	XI'13
— GDP															
Gross Domestic Product ¹	% , yoy	-5.5	0.4	1.8	0.8	0.6	0.4	0.2	0.7						
Consumption	% , yoy	-7.3	0.5	1.5	1.8	0.4	-0.4	0.2	0.4						
Gross fixed capital formation	% , yoy	-17.6	-18.3	-6.5	0.8	3.1	5.0	1.4	1.2						
Export	% , yoy	-11.2	14.7	12.3	-0.4	-1.5	10.8	4.5	8.5						
Import	% , yoy	-21.0	2.4	8.8	3.7	-0.4	5.6	2.0	7.4						
Agriculture	% , yoy	-9.5	-6.2	-1.1	3.5	3.0	3.6	6.2	3.8						
Industry	% , yoy	-5.7	-6.3	5.8	0.8	0.4	-0.3	-0.5	1.3						
Services	% , yoy	-1.3	4.4	0.7	-0.2	-0.2	0.1	0.9	1.4						
Adjustments	% , yoy	-16.5	-0.5	0.2	3.8	1.3	-1.0	0.8	1.5						
— SHORT-TERM BUSINESS STATISTICS															
Industrial production	% , yoy	-18.3	2.0	5.8	-0.4	0.6	1.6	-4.1	-1.2	-5.9	-1.3	-4.1	2.0	4.3	
Industrial turnover	% , yoy	-20.2	14.1	17.2	2.3	2.1	2.2	-3.1	-1.2	-5.6	-0.8	-1.8	-1.1	0.3	
Retail trade turnover	% , yoy	-7.7	-8.4	0.6	-2.3	-5.1	-3.8	1.5	5.5	0.0	4.8	5.2	6.7	6.9	
Construction output	% , yoy	-14.5	-14.9	-12.8	-0.8	-1.9	-1.5	-5.9	-6.9	-10.5	-5.0	-11.0	-4.4	-7.4	
Total business climate	balance	10.2	9.6	14.2	14.3	13.0	13.8	12.9	13.6	12.1	13.5	13.7	13.7	11.6	13.3
Industry	balance	12.3	13.4	22.4	21.3	19.4	20.4	14.3	15.2	14.2	17.4	12.7	15.3	10.7	15.0
Retail trade	balance	13.5	10.1	17.3	16.4	19.3	17.0	18.1	21.6	15.7	20.9	21.9	21.8	23.4	22.8
Construction	balance	8.5	5.1	2.8	0.3	-1.8	1.3	5.0	2.7	3.7	1.9	4.3	1.8	2.2	1.9
Services	balance	5.1	5.6	5.9	12.2	8.8	9.9	13.0	13.7	12.8	10.0	16.6	14.4	11.1	12.0
— LABOUR MARKET															
Participation rate (15+)	level	53.0	52.0	52.5	53.1	53.6	52.8	53.9	54.8						
Employment rate (15+)	level	49.4	46.7	46.6	46.6	47.0	45.6	47.0	47.9						
Employment (LFS)	% , yoy	-1.7	-3.9	-2.2	-2.5	-2.3	-1.7	0.7	-0.1						
Unemployment rate (LFS)	level	6.8	10.2	11.3	12.3	12.4	13.8	12.9	12.0						
Unemployment rate (Employment agency)	level	7.6	9.5	10.1	11.1	11.3	11.9	11.1	10.8	10.7	10.8	10.7	10.8	11.2	11.5
Nominal wage	% , yoy	11.8	6.4	5.8	13.3	10.3	4.3	3.8	3.7	3.3	5.1	3.1	3.1		

		2009	2010	2011	2012	Q4'12	Q1'13	Q2'13	Q3'13	VI'13	VII'13	VIII'13	IX'13	X'13	XI'13
Real wage ²	%, yoy	9.1	3.3	2.4	10.7	7.3	2.1	2.7	4.4	2.0	5.1	3.8	4.5		
Labor productivity (GDP per employed)	%, yoy	-3.6	4.5	4.1	3.4	2.7	2.5	-0.9	1.6						
Real ULC (GDP)	%, yoy	7.4	2.4	-2.2	-2.6	-6.6	8.1	11.7	9.6						
— PRICES															
National index of consumer prices (CPI)	%, yoy	2.8	2.4	4.2	3.0	4.2	3.6	2.2	-0.6	2.6	0.5	-0.7	-1.6	-1.4	-1.5
Harmonized index of consumer prices (HICP)	%, yoy	2.5	3.0	3.4	2.4	2.8	2.2	1.1	-0.7	1.2	0.0	-0.7	-1.3	-1.1	-1.0
Domestic producer prices	%, yoy	-4.2	7.1	8.6	5.4	6.1	1.9	-0.7	-2.8	0.0	-1.8	-2.9	-3.5	-3.9	-4.0
— CONSOLIDATED FISCAL PROGRAM (CUMMULATIVE)															
Revenue and grants	mIn BGN	25 041	23 933	25 378	27 470	27 470	6 158	14 166	21 307	14 165	16 610	18 996	21 308	23 751	26 311
Total expenses	mIn BGN	25 667	26 755	26 867	27 828	27 827	6 955	14 172	21 668	14 173	16 778	19 209	21 668	24 194	26 883
Contribution to EU budget	mIn BGN	746	670	779	809	809	328	533	747	533	605	675	747	790	833
Cash deficit (-) / surplus (+)	mIn BGN	-626	-2 823	-1 488	-358	-358	-799	-7	-360	-8	-168	-213	-360	-443	-572
	% of GDP	-0.9	-4.0	-2.0	-0.5	-0.5	-1.0	0.0	-0.5	0.0	-0.2	-0.3	-0.5	-0.6	-0.7
Government and government guaranteed debt	mIn BGN	10 641	11 778	12 826	14 683	14 683	14 408	14 428	13 886	14 428	14 385	13 627	13 886	13 968	14 066
	% of GDP	15.6	16.7	17.0	18.9	18.9	18.3	18.3	17.6	18.3	18.2	17.3	17.6	17.7	17.8
Fiscal reserve	mIn BGN	7 673	6 012	4 999	6 081	6 081	4 216	5 754	4 965	5 754	5 569	4 717	4 965	4 902	4 989
	%, yoy	-8.5	-21.6	-16.9	21.6	21.6	-6.9	13.7	-30.8	13.7	-21.4	-31.8	-30.8	-26.2	-26.2
— FINANCIAL SECTOR															
BNB International reserves	mIn EUR	12 919	12 977	13 349	15 552	15 552	14 493	14 590	14 937	14 590	14 938	14 875	14 937	14 452	14 289
Monetary base coverage	%	195.2	179.8	175.1	174.9	174.9	170.3	174.7	165.1	174.7	171.6	165.2	165.1	167.6	168.3
Coverage of import with FX reserves	months	8.0	7.3	6.2	6.7	6.7	6.3	6.3	6.4	6.3	6.5	6.5	6.4	6.2	
Coverage of short-term external debt	%	100.2	115.3	133.8	146.7	149.1	140.2	140.6	144.0	140.2	143.6	144.2	143.5	140.6	
Money M1 (Narrow money)	%, yoy	-8.8	0.8	14.4	9.5	9.5	10.7	17.1	16.7	17.1	14.0	16.9	16.7	19.2	20.6
Money M3 (Broad money)	%, yoy	4.2	6.2	12.2	8.4	8.4	8.9	7.7	8.1	7.7	6.4	7.7	8.1	9.5	9.6
Deposits	%, yoy	7.6	6.6	13.2	8.4	8.4	9.3	7.8	8.3	7.8	6.4	7.8	8.3	9.9	9.9
Credit to private sector	%, yoy	3.8	1.1	3.3	3.0	3.0	2.3	0.8	0.5	0.8	0.5	0.3	0.5	0.7	-0.6
Credit to non-financial enterprises	%, yoy	2.3	2.4	5.7	5.0	5.0	4.4	2.0	1.4	2.0	1.4	1.1	1.4	1.4	-0.4
Credit to households	%, yoy	5.8	-0.8	-0.4	-1.0	-1.0	-1.3	-0.9	-0.6	-0.9	-0.5	-0.8	-0.6	-0.6	-0.8
Interest rate on short-term loans	%	10.5	8.5	7.2	7.6	7.3	7.6	8.5	7.3	8.2	7.4	7.2	7.2	8.3	7.0
Interest rate on time deposits	%	7.0	5.4	4.8	4.3	4.1	4.1	3.5	3.4	3.3	3.5	3.4	3.2	3.2	3.3

		2009	2010	2011	2012	Q4'12	Q1'13	Q2'13	Q3'13	VI'13	VII'13	VIII'13	IX'13	X'13	XI'13
Exchange rate BGN/USD	eop	1.36	1.47	1.51	1.48	1.48	1.53	1.50	1.45	1.50	1.47	1.48	1.45	1.43	1.44
	per. av.	1.41	1.48	1.41	1.52	1.51	1.48	1.50	1.48	1.48	1.50	1.47	1.46	1.43	1.45
— GROSS EXTERNAL DEBT (GED)															
Gross external debt	% of GDP	108.3	102.7	94.1	94.8	94.8	93.2	92.5	92.1	92.8	92.8	92.2	92.0	90.9	
Short-term external debt	% of GED	32.1	30.2	27.8	27.7	27.8	27.5	27.6	27.9	27.7	27.7	27.4	27.7	27.3	
Intercompany lending	% of GED	38.5	40.4	42.7	41.6	41.6	42.3	43.3	43.4	42.6	42.7	42.6	42.6	42.3	
— BALANCE OF PAYMENTS															
Current account	mIn EUR	-3 116	-533	39	-528	-493	-390	517	1 259	201	203	850	31	-83	
<i>Current account (moving average)</i>	% of GDP	-8.9	-1.5	0.1	-1.3	-1.3	-0.9	1.3	2.2	1.3	1.1	2.3	1.8	2.0	
Trade balance	mIn EUR	-4 174	-2 764	-2 156	-3 622	-837	-444	-793	-379	-306	-233	121	-279	-175	
<i>Trade balance (moving average)</i>	% of GDP	-11.9	-7.7	-5.6	-9.1	-8.7	-7.5	-6.5	-6.1	-6.4	-6.4	-5.8	-6.1	-5.7	
Export, f.o.b.	mIn EUR	11 699	15 561	20 264	20 793	5 343	5 223	5 428	5 972	1 761	2 035	2 001	1 936	2 019	
	%, yoy	-23.1	33.0	30.2	2.6	3.5	13.0	3.3	7.6	-0.5	9.2	7.0	6.7	8.6	
Import, f.o.b.	mIn EUR	15 873	18 325	22 420	24 415	-6 180	-5 666	-6 222	-6 351	-2 068	-2 268	-1 881	-2 215	-2 194	
	%, yoy	-33.3	15.4	22.3	8.9	2.1	2.9	-3.8	4.5	-2.8	7.3	-6.0	12.9	-0.6	
Capital account	mIn EUR	477	291	497	537	321	-9	83	156	35	39	72	57	52	
Financial account	mIn EUR	1 163	-673	-968	2 231	150	-735	-303	-758	-124	92	-481	-7	-712	
Net Foreign Direct Investments	mIn EUR	2 505	977	1 199	1 302	-315	466	178	142	170	248	113	23	-114	
Net Portfolio Investments	mIn EUR	-619	-635	-357	-931	-1 207	-577	-207	-146	-142	-123	53	-57	-39	
Other Investments – net	mIn EUR	-704	-990	-1 744	1 894	1 687	-615	-183	-744	-147	-25	-647	29	-553	
Change in BNB reserve assets ³	mIn EUR	650	384	-159	-2 161	-215	1 045	-527	-269	39	-250	129	-148	463	

Notes:

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

2. HICP deflated.

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



— GOVERNMENT DEBT REVIEW

The average annual yield at the auctions for government bonds in 2013 is 2.51%. The latter highlighted the ongoing tendency during the last several years for decreasing sovereign yield. In 2012 this indicator stood at 3.54%, in 2011 – at 4.21% and in 2010 – at 5.06%.

The Ministry of finance (MF) published its 2014 Issuance Policy, as well as the list of primary dealers for government securities <http://www.minfin.bg/bg/page/70>.

Bulgarian government completed successfully the private placement of the Schuldschein loans in December with 7, 10 and 15 years maturity. The volume of the 7Y loan was EUR 30.5 mln with an annual interest rate of 3.397%, the volume of the 10Y loan was EUR 103.5 mln with an annual interest rate of 4.10% and the volume of the 15Y loan was EUR 156 mln with an annual interest rate of 4.60%. The investor demand exceeded the initial volume and considered the high demand on the domestic GS market and government debt limits, the Ministry of Finance decided to approve a total amount of EUR 290 mln for the three loans. Joint lead arrangers were Deutsche Bank (acting also as a payment agent) and Raiffeisen International (acting also as a book runner). UniCredit Bulbank participated in the transaction as a co-lead manager.

Bulgaria is the first country in the SEE region and the second one among CEE countries, which successfully used this private placement instrument for investment-grade sovereign issuers. Despite the fact that Schuldschein is a traditional financing instrument in Western European countries, so far this alternative financing has regularly been used only by the Polish authorities

in CEE. After the successful placement of these loans, Bulgaria managed to attract first-class investors from Germany and Austria, which acquired a significant share of the loans and thus contributed not only to long-term financing at the currently attractive interest rates but also to the diversification of the investor base.

After this private placement, Bulgarian yield curve has been extended into the 15-year maturity range by a product that is not subject to market volatility. Moreover, the 15-year loan amounts to EUR 156 mln, which represent more than 50% of the transaction volume. The concentration of investors at the long end of the yield curve underlines their strategic commitment to Bulgaria and facilitates the optimization of the maturity profile of the sovereign debt of the country.

Ministry of finance once again reopened the 3Y BGN-denominated issue of government securities (GS) maturing January 30, 2016. Securities amounting to BGN 40 mln were offered and approved at the auction held on December 2, while the yield achieved of 1.08% has been the lowest one so far. Primary dealers placed offers for BGN 137.35 mln, thus the coverage coefficient reached 3.43. Participants showed particularly strong interest in the portion offered for non-competition orders sale. In order to satisfy the interest of a broader group of investors, Bulgarian MF decided to approve the entire amount of securities subscribed in the non-competition, thus the total amount of GS approved for sale reached BGN 71.4 mln.

Guarantee and contractual funds acquired the largest amount of GS at the auction, i.e. 60.2%, followed by banks with 28% and pension funds with 11.8%. The volume of the issue in circulation reached BGN 226.4 mln after the auction. The spread against the German benchmark bonds in this maturity segment stood at 0.98% - its second lowest value since the launch of the issue in January 2013.

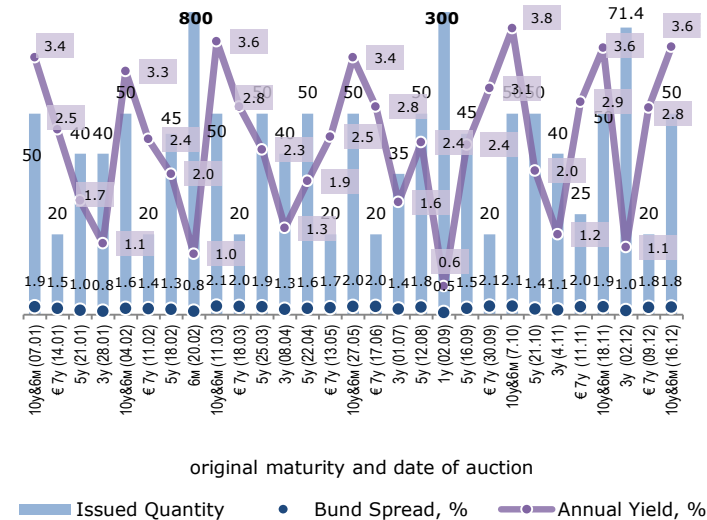
MF reopened for the 7th time a 7-year GS issue denominated in euro, maturing January 16, 2020. At the auction held on December 9, the yield achieved stood at 2.81%. The GS face value offered and approved for sale was EUR 20 mln, while the primary dealers subscribed EUR 51.79 mln, the coverage coefficient being 2.59. Pension funds acquired the largest amount of GS at 55.4%, followed by banks – 21.7%, insurance companies – 17.9 and investment intermediaries - 5%. After this auction, the issue in circulation totaled EUR 165 mln.

MF tapped for the 6th time this year the 10.5-year benchmark issue of BGN denominated GS. It has been issued on January 9, 2013, and matures on June 9, 2023. At the auction held on December 16, the yield achieved was 3.56% with GS offered for sale at the amount of BGN 50 mln with a coverage coefficient of 1.61. The yield reported is still below the Bulgarian long term interest rate published by the ECB in November, which stood at 3.64%. The spread against the German Bunds in this maturity segment of 1.83% has been the second lowest achieved during the year so far. The largest

amount of GS has been acquired by pension funds - 59.5%, followed by banks – 30.5% and investment intermediaries - 10%. After its 6th reopening, the issue in circulation totaled BGN 350 mln.

Results from Government Securities Auction held in 2013

(mln BGN/EUR)



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

Source: MF

Stable nominal value of government debt is of primary significance to government finance

The nominal value of government debt at the end of November amounted to EUR 6 783.9 mln, including domestic debt of EUR 3 134.4 mln and external debt of EUR 3 649.5 mln. In nominal terms, the debt posted an increase of EUR 58.9 mln over the end of the previous month. This was mainly due to the T-bills issued on the domestic market during the month. At the end of November the government debt-to-GDP ratio stood at 16.8%.

Government Debt Amount, mln EUR

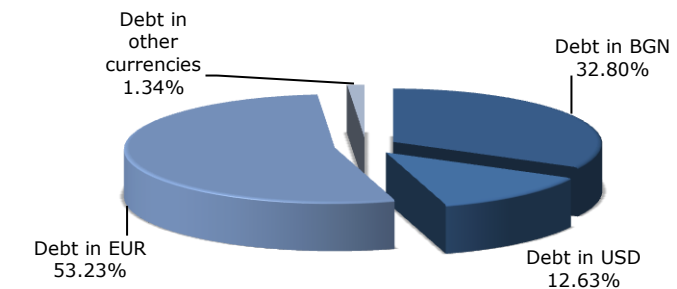
Structure	31.12.2010	31.12.2011	31.12.2012	31.05.2013	30.06.2013	31.07.2013	31.8.2013	31.9.2013	31.10.2013	31.11.2013
Domestic government debt	2 011.5	2 458.3	2 546.7	3 189.3	3 209.1	3 200.6	2 817.3	2 992.8	3 063.3	3 134.4
External government debt	3 373.5	3 487.6	4 444.5	3 747.9	3 716.6	3 707.1	3 707.7	3 679.5	3 661.7	3 649.5
Government debt, total	5 385.0	5 945.9	6 991.2	6 937.2	6 925.6	6 907.7	6 525.0	6 672.3	6 725.0	6 783.9
Government debt-to-GDP (%)	14.9	15.4	17.6	17.2	17.2	17.1	16.2	16.5	16.7	16.8

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

By end-November the share of debt denominated in EUR was 53.2%, in BGN – 32.8%, in USD – 12.6% and in other currencies – 1.3%.

Government Debt Currency Structure

(as of 30 November)



Source: MF

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

At the end of November, the share of debt with fixed interest reached 86%, while debt with floating interest stood at 14%.

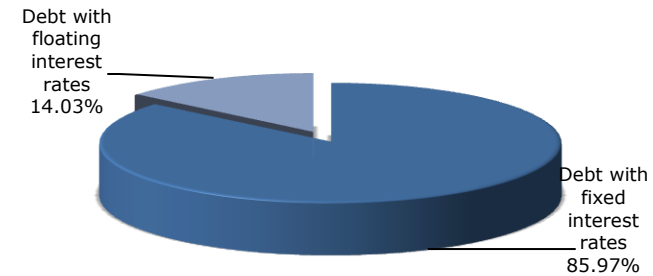
Government debt portfolio structure is another key indicator for the successful debt management policy

According to debt portfolio structure as of November, domestic government debt had the largest relative share at 46.2%, followed by Eurobonds issued in international capital markets – 14%, World Bank – 12.6%, European Union – 12.6%, global bonds – 11.8%, the Paris Club – 0.9% and other creditors – 1.8%. ▲

Comprehensive information on Bulgarian government debt, including monthly bulletins and annual reviews, could be found at the website of Bulgarian Ministry of Finance [here](#).

Government Debt Currency Structure

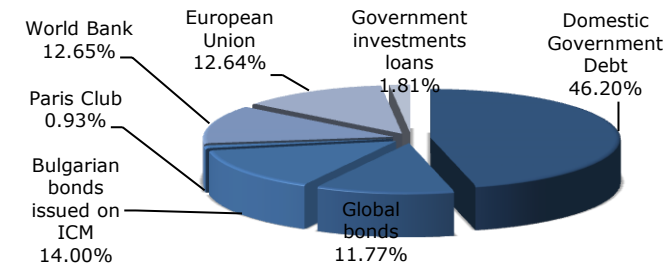
(as of 30 November)



Source: MF

Government Debt Currency Structure

(as of 30 November)



Source: MF