

Bulgarian government has ensured timely correction of the budget deficit

Latest developments show that the 2011 GG deficit will fall to 2% of GDP (in ESA95 terms), well below the 2.5% target embedded in the 2011 State Budget and the 2011-2014 Convergence Programme of the Republic of Bulgaria. General government debt accounted for 16% of GDP.

The government is strongly committed to maintaining strict fiscal discipline and continuing with fiscal consolidation during 2012 in view of achieving a broadly balanced budget in the medium term. The 2012 budget approved by the National Parliament in December 2011 foresees further consolidation measures to a budget deficit of 1.3% and preserving the lowest level of general government debt among the EU countries.

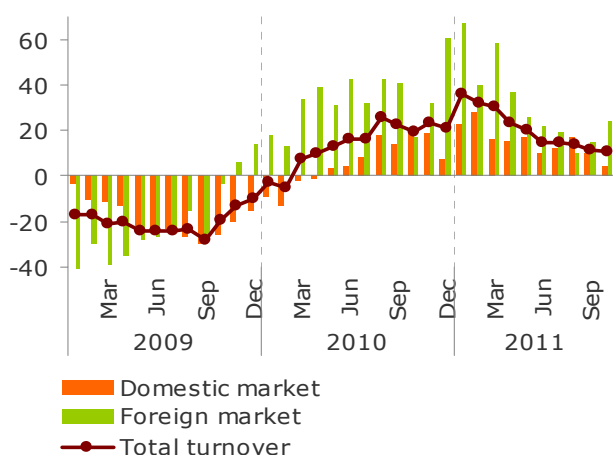
Macroeconomic environment and policies in brief

- **Short-term business statistics** remained roughly stable in October, despite strong headwinds in Europe and slowing global activity. Industrial turnover kept its double digit growth rate on a year earlier, driven by accelerated foreign market sales growth. Industrial output also gathered speed compared to a month prior, while construction production index and retail sales were still in the red. **Business climate indicator** remained broadly flat on a month earlier, with improving expectations in industry and service and positive sales prospects in retail trade.
- Employment restructuring and seasonal activities' fall pushed the **unemployment rate** up to 10% in November. Continuing process of job reduction made **productivity** to further increase, up by 5.7% yoy in Q3. **Consumer prices** increased marginally on a month prior. Thus the annual inflation decelerated to 2.6% in November, still below EU27 and euro area averages, putting Bulgaria among Member States with the lowest annual rates of increase.
- **Current account balance** turned slightly negative in October, while the surplus accumulated during the first ten months amounted to nearly 3.2% of GDP (EUR 1.25 bn). The improvement on trade and services balance stood again as a major factor behind its dynamics. **Financial account** reached its highest positive value for 2011, with FDI continuing increase to EUR 668 mln in Jan-Oct. The **overall balance of payments** remained in positive territory, remaining roughly balanced for the first ten months of the year.
- **General government deficit** stood at BGN 1.05 bn (1.4% of GDP) in January-November 2011. The downward correction by 1.3 pps compared to corresponding period in 2010 came on the back of both higher tax revenues and the limited increase in total expenditure, up 2% yoy.
- The **yield on long-term Bulgarian GS remained stable** amid increasing sovereign debt yields of a number of European countries. The outcome of the last GS sale auction for 2011 confirmed Bulgaria's status of a predictable debt issuer. The positive trends in government debt management allow maintaining an optimal price of state financing, contributing to the reduction in the government debt servicing costs - a prerequisite for preserving the low tax burden in the long run.

Recent Economic Developments

- **Industrial turnover** slowed its annual growth to 10.8% in October due to decelerating domestic sales (4.1% yoy). At the same time, foreign market turnover accelerated to 23.9% yoy mainly as a result of some base effects. Manufacture of basic metals and production of precious and non-ferrous metals in particular had again the largest positive contribution to foreign market sales.
- Growth in **industrial production** gathered speed to 2.5% yoy, as products for intermediate consumption largely accounted for its dynamics.
- **Retail sales slump** widened to 5.2% yoy. Only retail sales of medical and orthopedic goods, cosmetic and toilet articles registered a positive growth, which stood at 6.2% yoy.
- **Construction production decline** remained almost unchanged at 10.2% yoy, being 10.5% September. Civil engineering contracted further to 18.2% yoy, while building construction decline continued narrowing to 4.1%.

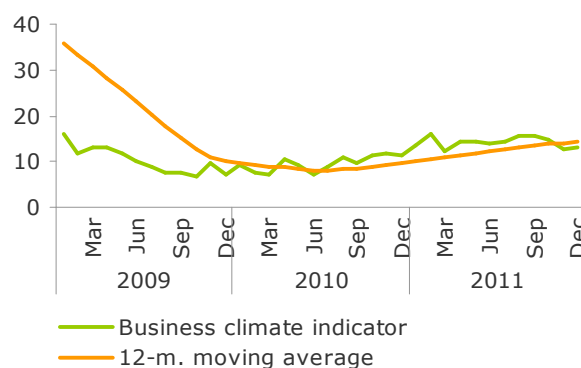
Industrial turnover
(%, yoy)



Source: NSI

- **Business climate indicator** in the country remained unchanged in December over the previous month. Expectations about the business situation in industry and services improved; however, these favorable developments could not offset the negative assessment of the current situation in construction. Sales expectations in retail trade were positive, while a decline in demand was reported in services sector.

Business climate
(balance)

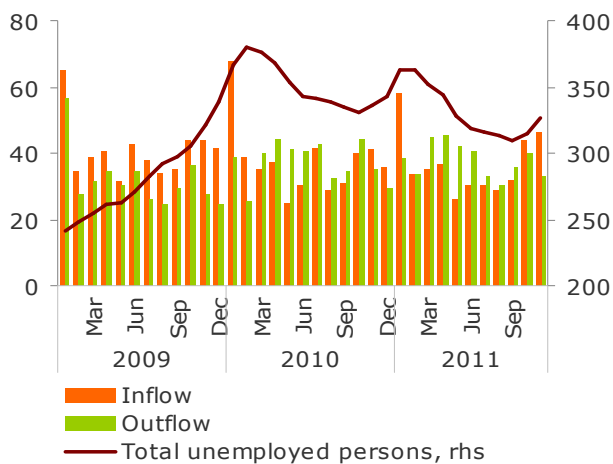


Source: NSI

- Employment restructuring and seasonal activities' fall pushed the **unemployment rate** up to 10% in November. Unemployment inflow increased to 46.3 K mainly due to the higher number of newly registered in the employment offices, following the process of expenditure consolidation in the government sector, and decreased activity in agriculture, construction and some of the manufacturing industries. Demand of labour decreased and stayed behind the lower mom number of persons who started working - 14.6 K, 42.2% of which on the primary labour market. After the October's revival of subsidized employment programs, their implementation was subdued in

November, resulting in a reduction by half in the number of people who found jobs under the ALMM – 4.9 K.

Inflow, outflow and total number of unemployed people (in thousands)

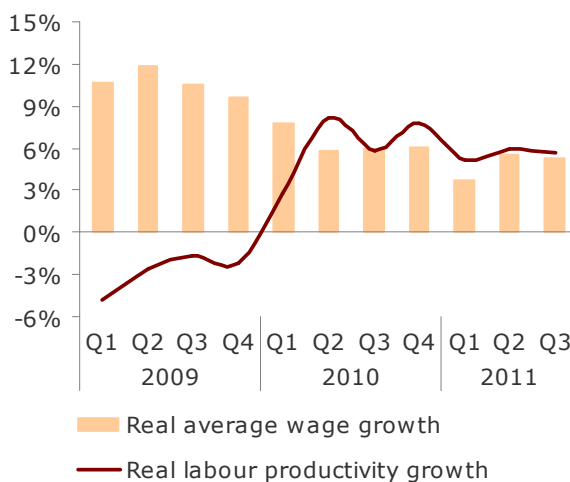


Source: EA

- **Average wage** in Q3 totaled BGN 693, stepping up by 8.6% yoy in nominal terms. Private sector average wage slightly decelerated its rate of increase to 10.9% yoy in July-September, while public sector wage growth remained relatively low at 3.0% yoy. Service sector largely contributed to wage growth. Trade carried on reporting a strong wage growth, up 17.8% yoy, thus having the leading contribution to the average wage increase over a quarter prior. It has been probably due to the minimum insurance threshold increase in the beginning of 2011 and labour force restructuring. The nominal rate of increase in manufacturing came to 7.2% yoy, being over 9% in the previous quarters, which had to do with the lower external demand. Wages in construction rose by 8.4% yoy on average due to low-skilled workers dismissing, while wage bill continued on the decrease.
- Continuing process of job reduction made **productivity** to further increase, up by 5.7% yoy in Q3. Services sector productivity accelerated to 5.3% yoy

mainly due to branches such as trade, informational technologies, business services and real estate. However, tradable sector productivity (manufacturing, mining and electricity) slowed down its rate of increase to 3.7% yoy, following the negative external environment and decelerating export growth. The latter resulted in real unit labour cost growth of 1.3% yoy.

Incomes and productivity (real growth rates, %, yoy)

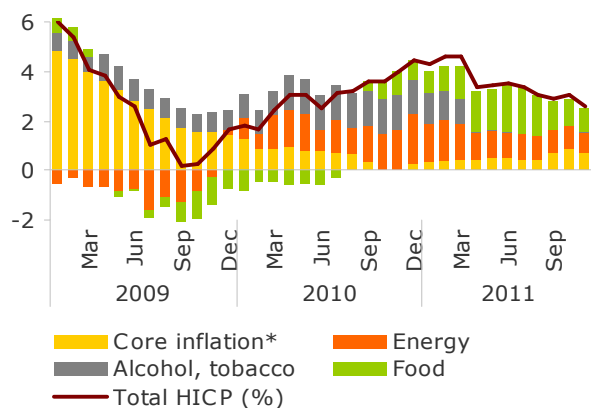


Source: EA

- **Consumer prices** increased marginally, up 0.1% over the previous month. Thus the annual inflation decelerated to 2.6% in November, again below EU27 and euro area averages (being 3.4 and 3% respectively), putting Bulgaria among Member States with the lowest annual rates of increase. Concerning the detailed monthly sub-indices, **food prices** had an essential upward impact on the headline rate (+0.12 pps), as meat and meat products prices largely accounted for its dynamics, up 0.9 and 1.7% respectively, while divergent price movements in fresh fruits and vegetables offset each other's impact. **Energy prices** also went up by 0.2%, due to higher administrative prices for dwellings heating, up 7.8% mom. Automotive fuel prices, on the other

hand, registered a marginal decrease, down 0.2%, as A95 petrol price drop has been largely compensated by the increase in diesel and gas prices. **Services** had the biggest downward impact (-0.05 pps), due to a decrease in prices of transport and the 23.7% price drop in low-cost airline tickets in particular, accommodation services also registered a downward correction, down 1.3% mom. Alcohol and tobacco prices also went down slightly by 0.1% mom, while non-energy industrial goods remained largely on their October price level.

HICP and contributions by main groups
(pps, yoy)



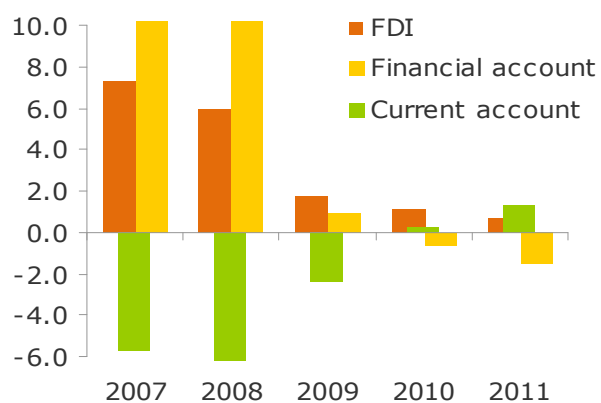
Source: NSI, MF

- **Current account** balance was negative by EUR 142.1 mln in October, though it was only the second month with a deficit during the current year. The surplus accumulated in Jan-Oct amounted to EUR 1.25 bn (3.2% of GDP). The improvement in **trade balance** was again the main driver of the CA dynamics, as the accumulated deficit stood at EUR 1.2 bn or 3.1% of GDP compared with EUR 1.9 bn or 7.7% of GDP for the same period a year earlier. Despite the economic slowdown in our main trading partners and the high base effect, exports of goods rose by 18% yoy in October. For the first ten months of 2011 Bulgarian companies exported goods worth

EUR 16.7 bn, up 31% yoy. In October the growth rate of imports accelerated to 22.6% on annual basis, while the growth in Jan-Oct stood at 22%. For the first ten months in Bulgaria were imported goods worth EUR 17.9 bn.

- **Services balance** increased by 67.6% yoy to EUR 139.6 mln in October. The substantial improvement was due to higher export of services, along with reduced spending from Bulgarians on other foreign services (including telecommunications, construction, insurance and financial). As a result, “services” surplus reached EUR 2.3 bn during the first ten months of the year. For the same period the “income” deficit rose to EUR 1.3 bn, up 15.7%. In Jan-Oct net current transfers increased by 12.2% yoy up to EUR 1.4 bn, as the October figure doubled over the same period a year earlier.

FDI, Current and Financial Account
(January - October, billion euro)



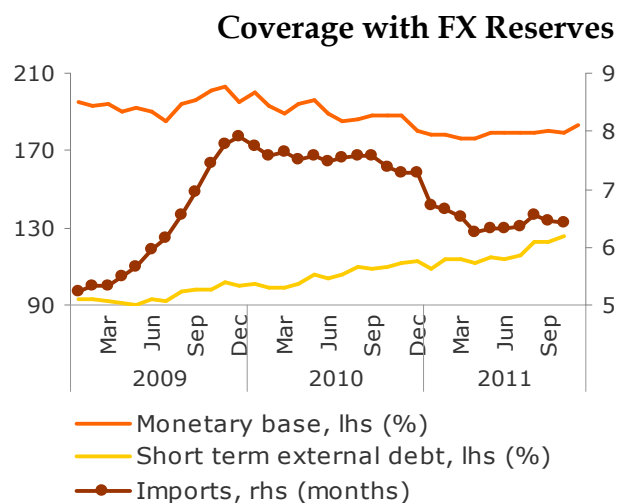
Source: BNB

- October **financial account** reached its highest positive value in 2011, standing at EUR 163.4 mln. The accumulated deficit since January dwindled to EUR 1.49 bn, its level being still quite above the EUR 643.9 mln recorded in the same period a year earlier. Foreign direct investments in the country amounted to EUR 135.6 mln in October

alone, reaching EUR 668 mln in Jan-Oct. Yet the latter remained much lower compared to EUR 1.1 bn of FDI attracted during the same period in 2010. "Net other investments" article reported a negative balance at EUR 83.5 mln in October, which led to an accumulated deficit of EUR 1.7 bn.

- The overall balance of payments remained in positive territory. Its surplus amounted to EUR 110.9 mln in October, which covered the accumulated deficit in Jan-Sept, resulting in a EUR 8.4 mln surplus versus the EUR 692.6 mln negative balance for the first ten months of 2010.
- Gross external debt (GED) stood at 92% of GDP (EUR 35.8 bn) at end-October, down 1.1% over the month and 1.3% yoy. External debt stock of the banking system contracted further, as the pace of change remained high at 10.4% yoy. At the end of the month the share of banking sector foreign debt within the total GED reduced to 16.8% (being 18.5% a year earlier). Other sectors foreign debt rose by 2.3% yoy, as the change was mainly due to the stock of corporate short-term loans, up 4.4%. Meanwhile, intercompany loans remained roughly unchanged increasing by only 0.4% to EUR 14.75 bn, being EUR 14.7 bn twelve months earlier. Maturity structure of GED was 70.8/29.2 (long term debt/short term debt) which changed slightly compared to the ratio from 12 months earlier - 69.4/30.6.
- International reserves increased 1.1% mom and 2.9% yoy as of end-December, reaching EUR 13.3 bn. Positive change was triggered by notes in circulation - up 7% mom, and bank reserves - up 4.2% mom, while the government deposit decreased by 9.9% due to usual budget payments made at this time of the year. The coverage of the monetary base

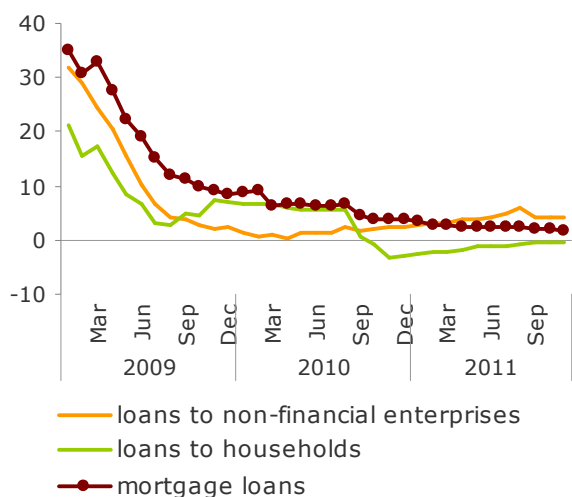
dropped slightly from 183.3% in November to 175.1% at the end of the year. As of end-October BNB reserves were enough to cover 125.8% of the short term external debt or 6.4 months of imports of goods and services on annual base.



Source: BNB, MoF

- Money supply growth slowed to 7.8% yoy at the end of November, being 9.6% in October, mainly due to M1 lower growth (4.4% coming from 6.3% in October) and deposits with agreed maturity up to 2 years (8.5% vs. 10.7% a month earlier). Broad money had a 0.5% negative monthly change which could be attributed to the 1.3% drop in overnight deposits and the 0.7% decrease in deposits with agreed maturity up to 2 years. Most of the decrease comprised of non-financial enterprises' overnight and time deposits in foreign currency. Possible reasons for that include local corporations continuing to repay foreign obligations or increased imports of consumer goods in preparation for Christmas holidays. Total deposits decreased for a second straight month, down 0.6% mom over the month, and their annual growth slowed from 10.5% in October to 8.2% yoy in November.

Credit growth
(% change, yoy)

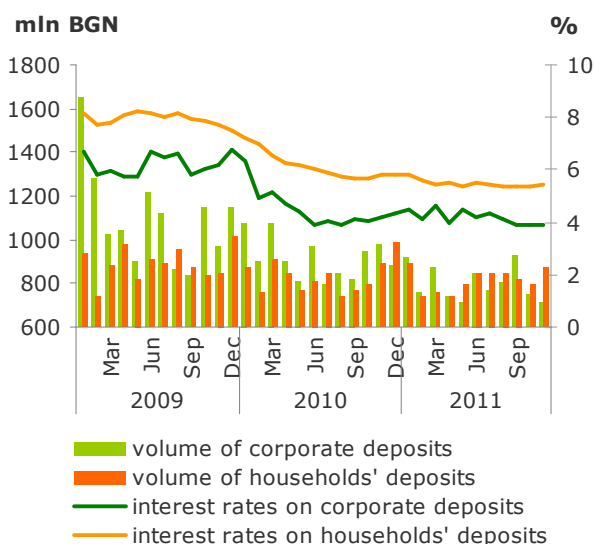


Source: BNB, MoF

- Private sector credit** stabilized its annual growth rate at 2.3%, while increasing by 0.3% mom in November, again affected by corporate credit growth which stood at 4.2% yoy. Mortgages annual increase slowed to 1.5% from 2.1% a month earlier, while consumer credits stepped down by 0.4% yoy. The annual growth rate of bad and restructured loans continued to decline and reached 28% at the end of November (29.8% at the end of the previous month). Thus, their share in credits for non-financial enterprises and households increased only by 0.1 pp to 17.5%.
- Interest rates** on corporate loans increased and that was more evident for the EUR-denominated long term credits, where there was a significant increase in volumes as well. Possible explanation for this could be that banks extended their lending activity to corporations other than their primary clients with a higher risk premium. Interest rates on consumer credits slightly increased, accompanied by a marginal drop in volumes. Mortgages rates went in the opposite direction with an increase of newly lent loans. Interest rates on BGN and USD denominated deposits were slightly

higher than a month earlier, while the rates on deposits in Euro climbed down. Nevertheless, banks attracted more resources in all currencies.

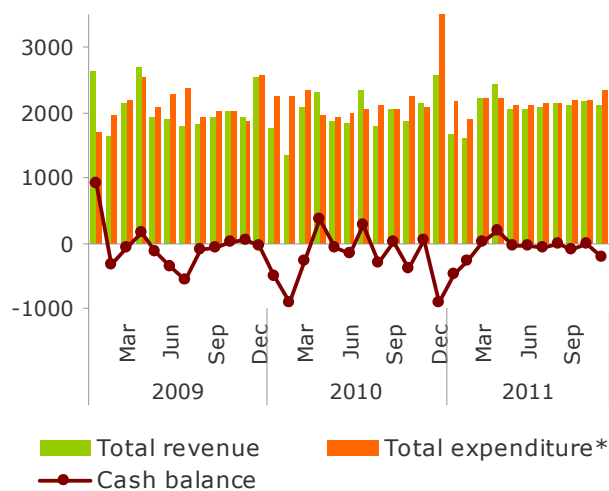
Interest rates and volumes of time deposits in BGN up to 1 year



Source: BNB, MoF

- Consolidated budget deficit** stood at 1.4% of GDP (BGN 1 049.2 mln) on a cash basis at the end of November, down 1.3 pps yoy (a BGN 817 mln decline in nominal terms).

Consolidated Budget
(monthly value, mln BGN)



* incl. contribution to EU budget

Source: MoF

- **Total revenue** amounted to BGN 22 638.6 mln, equal to 86.4% of the annual estimates. Over the same period of 2010, consolidated budget revenue rose by 6%. Tax revenue grew by 9.8% yoy mainly due to indirect taxes, whose receipts increased by 9.2% yoy. Revenue from VAT, excise and custom duties rose by 8.8%, 9.2% and 10.7% yoy respectively, while direct tax receipts came 9.4% higher than in January-November 2010. Social and health insurance contributions annual growth was 10.9%¹. Non-tax revenue as well as those from grants continued to decline, down 1.1% and 26.8 % yoy respectively.
- **Total expenditure** (incl. Bulgarian contribution to the EU budget) amounted to 84.1% of the 2011 annual forecast, recording a 2% yoy increase. It was driven by a rise in all expenditure's sub-components, with the exception of capital costs which declined by 4.8% compared to a year earlier.
- **Fiscal reserve** stood at BGN 5.3 bn at end-November, remaining almost unchanged during the last two months.
- **General government debt**, including government guaranteed debt, accounted for 16% of GDP, of which domestic debt amounted to 5.8%, external debt – to 8.6%, and government guaranteed debt – to 1.6% of GDP.

¹ The administratively determined rate of social contributions has been raised by 1.8 pps since January 2011.

Key Economic Indicators

		2008	2009	2010	Q4 '10	Q1 '11	Q2 '11	Q3 '11	VI '11	VII '11	VIII '11	IX '11	X '11	XI '11
GDP*														
Gross Domestic Product*	% , yoy	6.1	-5.5	0.2	3.7	3.3	2.0	1.6						
Consumption	% , yoy	2.5	-7.3	-1.1	0.5	1.2	1.4	1.6						
Gross fixed capital formation	% , yoy	16.3	-24.9	-14.0	-0.9	1.6	8.4	-2.8						
Export	% , yoy	3.0	-11.2	16.2	15.2	21.6	12.2	2.0						
Import	% , yoy	4.2	-21.0	4.5	10.7	10.0	7.5	8.1						
Agriculture	% , yoy	29.6	-6.1	3.9	-1.5	-1.4	-2.5	-2.3						
Industry	% , yoy	4.4	-7.8	1.9	10.5	5.4	5.9	2.2						
Services	% , yoy	5.0	-0.8	-0.9	0.6	0.1	0.1	3.2						
Adjustments	% , yoy	5.7	-16.5	-0.2	5.2	7.9	5.3	2.6						
Short term business statistics														
Industrial production	% , yoy	0.7	-18.3	2.0	5.2	10.6	6.3	3.1	1.6	5.1	2.6	1.5	2.5	0.6
Industrial turnover	% , yoy	13.7	-20.2	14.1	21.1	32.6	19.1	13.5	14.5	15.0	14.1	11.7	10.8	9.9
Retail trade turnover	% , yoy	8.9	-8.9	-5.6	-4.3	0.4	0.4	-2.9	-0.9	-3.0	-2.7	-3.0	-5.2	-5.3
Construction output	% , yoy	12.7	-14.5	-18.0	-8.5	-14.8	-14.4	-11.0	-3.7	-14.2	-8.1	-10.8	-10.2	-10.7
Total business climate	balance	38.0	10.2	9.6	11.5	13.8	14.1	15.2	13.8	14.5	15.6	15.5	14.8	12.7
Industrial confidence	balance	39.9	12.3	13.4	15.0	21.6	22.8	24.1	21.6	22.7	24.7	24.9	23.1	18.9
Retail trade confidence	balance	41.3	13.5	10.1	13.0	13.0	10.7	20.2	9.5	13.1	23.9	23.6	23.9	26.4
Construction confidence	balance	40.3	8.5	5.1	2.9	4.7	4.4	3.9	5.6	8.2	2.5	1.1	1.4	-1.1
Services confidence	balance	28.7	5.1	5.6	11.8	8.1	10.1	3.8	10.7	5.7	2.5	3.1	2.4	0.1
Labour market														
Participation rate (15+)	level	53.8	53.0	52.0	52.1	50.8	51.0	51.9						
Employment rate (15+)	level	50.8	49.4	46.7	46.3	44.7	45.3	46.6						
Employment (LFS)	% , yoy	3.3	-3.2	-6.2	-4.7	-4.0	-4.5	-2.8						
Unemployment rate (LFS)	level	5.6	6.8	10.2	11.2	12.0	11.2	10.2						
Unemployment rate (EA)	level	6.3	7.6	9.5	9.1	10.9	10.1	9.5	9.7	9.6	9.6	9.4	9.6	10.0
Nominal wage	% , yoy	26.5	11.8	6.3	10.4	8.5	9.3	8.6	8.5	8.4	8.5	8.5		
Real wage**	% , yoy	13.0	9.1	3.2	6.1	3.8	5.7	5.3	4.8	4.9	5.2	5.4		
Labour productivity (GDP per employed)	% , yoy	3.5	-2.9	6.4	7.8	5.2	6.0	5.7						
Real ULC	% , yoy	3.7	8.1	-2.2	-6.7	-7.0	-3.4	1.3						
Prices														
Harmonized index of consumer prices	% , yoy	11.9	2.5	3.0	4.0	4.5	3.4	3.1	3.5	3.4	3.1	2.9	3.0	2.6
Domestic producer prices	% , yoy	13.3	-4.3	7.2	11.1	11.9	10.3	7.2	10.1	8.4	6.6	6.6	6.5	5.9
Consolidated fiscal program (cumulative)														
Revenue and grants	mln BGN	27313	25041	23933	23933	5530	12042	18354	12042	14119	16242	18354	20519	22639
Total expenses	mln BGN	25323	25667	26755	26755	6272	12692	19180	12692	14839	16973	19180	21361	23688
Contribution to EU budget	mln BGN	720	746	670	670	250	367	528	367	422	466	528	588	676
Cash deficit(-) / surplus(+)	mln BGN	1990	-626	-2823	-2823	-742	-651	-826	-651	-721	-731	-826	-842	-1049
	% GDP	2.9	-0.9	-4.0	-4.0	-1.0	-0.9	-1.1	-0.9	-0.9	-1.0	-1.1	-1.1	-1.4
Government and gov. guaranteed debt	mln BGN	10710	10641	11778	11778	11447	11573	11944	11578	11708	11764	11946	11946	12166
	% GDP	15.5	15.6	16.7	16.7	15.1	15.3	15.7	15.2	15.4	15.4	15.7	15.7	16.0
Fiscal reserve	mln BGN	8382	7673	6012	6012	4699	5154	5071	5154	4881	4993	5071	5342	5318
	% , yoy	12.5	-8.5	-21.6	-21.6	-26.1	-14.5	-24.4	-14.5	-22.8	-19.0	-24.4	-16.5	-16.8
Financial sector														
BNB International reserves	mln EUR	12713	12919	12977	12977	12209	12340	13051	12340	12500	13079	13051	13176	13198
Monetary base coverage	%	175.3	195.2	179.8	179.8	176.3	179.2	180.7	179.2	178.9	179.7	180.7	179.7	183.3

Recent Economic Developments: Selected Issues, Bulgaria, December 2011 - 9 -

		2008	2009	2010	Q4 '10	Q1 '11	Q2 '11	Q3 '11	VI '11	VII '11	VIII '11	IX '11	X '11	XI '11
Coverage of import with FX reserves	months	5.4	8.0	7.3	7.3	6.5	6.4	6.5	6.3	6.4	6.6	6.5	6.4	
Coverage of short-term external debt	%	96.5	100.2	112.8	112.8	112.4	113.6	121.5	113.9	115.7	122.8	123.1	125.8	
Money M1 (Narrow money)	%, yoy	-4.1	-8.8	0.8	0.8	4.9	3.7	5.5	3.7	5.2	6.8	5.5	6.3	4.4
Money M3 (Broad money)	%, yoy	8.8	4.2	6.2	6.2	7.4	8.0	10.3	8.0	9.4	9.4	10.3	9.6	7.8
Deposits	%, yoy	8.8	7.6	6.6	6.6	8.2	8.8	11.3	8.8	10.3	10.4	11.3	10.5	8.2
Credit to private sector	%, yoy	32.9	3.8	1.1	1.1	1.6	2.1	2.2	2.1	2.5	3.3	2.2	2.3	2.3
Credit to non-financial enterprises	%, yoy	33.1	2.3	2.4	2.4	3.0	4.1	4.1	4.1	4.8	6.1	4.1	4.1	4.2
Credit to households	%, yoy	31.4	5.8	-0.8	-0.8	-0.7	-0.6	-0.2	-0.6	-0.5	-0.4	-0.2	-0.1	-0.2
Interest rate on short-term loans	%	10.9	10.5	8.5	8.0	6.4	7.3	7.3	7.3	7.6	7.9	7.3	7.0	7.4
Interest rate on time deposits	%	5.6	7.0	5.4	5.1	5.1	4.9	4.7	4.9	5.0	4.8	4.7	4.8	4.8
Exchange rate BGN/USD	eop	1.39	1.36	1.47	1.47	1.38	1.35	1.45	1.35	1.37	1.35	1.45	1.40	1.46
	per. av.	1.34	1.41	1.48	1.44	1.43	1.36	1.42	1.36	1.37	1.36	1.42	1.43	1.44
Gross External Debt														
Gross external debt	% GDP	104.9	108.0	101.8	101.8	93.9	94.0	93.5	94.0	93.8	93.6	93.5	92.0	
Short term external debt	% GED	35.4	32.7	31.4	31.4	30.0	29.9	29.7	29.9	30.0	29.8	29.7	29.2	
Intercompany lending	% GED	36.4	38.5	40.2	40.2	40.0	40.0	40.6	40.0	40.4	40.5	40.6	41.2	
Balance of payments														
Current account	mln EUR	-8162	-3118	-356	-871	147	97	1255	41	610	460	101	-142	
Current account, % GDP moving average		-23.4	-8.7	-1.0	-1.3	0.7	1.8	0.0	1.8	2.0	2.1	1.6	1.4	
Trade balance	mln EUR	-8597	-4174	-2412	-1040	-11	-630	-139	-211	38	-89	-186	-323	
Trade balance, % GDP moving average		-24.6	-11.6	-6.7	-7.7	-5.8	-5.0	-4.7	-4.9	-4.6	-4.5	-4.7	-5.2	
Export, f.o.b.	mln EUR	15204	11699	15588	4313	4777	4862	5208	1597	1845	1757	1713	1728	
	%, yoy	12.5	-23.1	33.2	32.8	57.5	28.0	17.9	12.9	20.5	15.1	18.1	18.3	
Import, f.o.b.	mln EUR	-23801	-15873	-18001	-5352	-4788	-5492	-5347	-1808	-1807	-1846	-1898	-2051	
	%, yoy	14.7	-33.3	13.4	28.9	30.2	17.4	15.8	13.7	12.8	13.8	20.8	22.6	
Capital account	mln EUR	277	477	291	140	16	45	120	45	42	32	52	0.2	
Financial account	mln EUR	11473	1190	-1	358	-743	-273	-652	-306	-180	-162	-106	-56	
Net Foreign Direct Investments	mln EUR	6212	2498	1459	693	-120	176	398	27	90	93	180	132	
Net Portfolio Investments	mln EUR	-731	-570	-661	-150	-189	-18	-210	-38	-12	52	-274	122	
Other Investments - net	mln EUR	5980	-719	-774	-185	-424	-424	-811	41	-686	-162	50	-84	
Change in BNB reserve assets	mln EUR	-674	650	384	-65	665	-92	-470	-131	-38	-411	-21	-111	

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

** HICP deflated.

Recent Developments and Government Debt Review

The yield of long-term GS remained stable

On December 12, 2012 the Ministry of Finance (MoF) held the last GS sale auction for 2011 by reopening the 10.5-year benchmark issue. Total volume of this priority issue reached almost BGN 323 mln after the auction. The issue is used for calculating harmonized long-term interest rate to evaluate the convergence level, which is among the Maastricht criteria.

Amid the global insecurity and strong volatility on capital markets, the yield of long-term Bulgarian GS remained stable at 5.30% average weighted yield. In a situation of improving sovereign debts yield of a number of European countries, preserving the yield of the long-term domestic debt outlines Bulgaria and confirms its status as a country of budget austerity.

Spread to German federal bonds reported a reduction. The total nominal value of bids from primary dealers for BGN 60 mln GS offered for sale reached almost BGN 105 mln, the coverage ratio being 1.73.

Resulting from the grater interest shown by institutional clients in this maturity segment and in order to encourage the investor base development, MoF approved all non-competitive bids. Thus, the nominal value of GS approved amount stood at BGN 65 mln. The issuer decision corresponded to the strong GS demand reported at this auction from institutional investors seeking to replenish their investment portfolios at the end of the year.

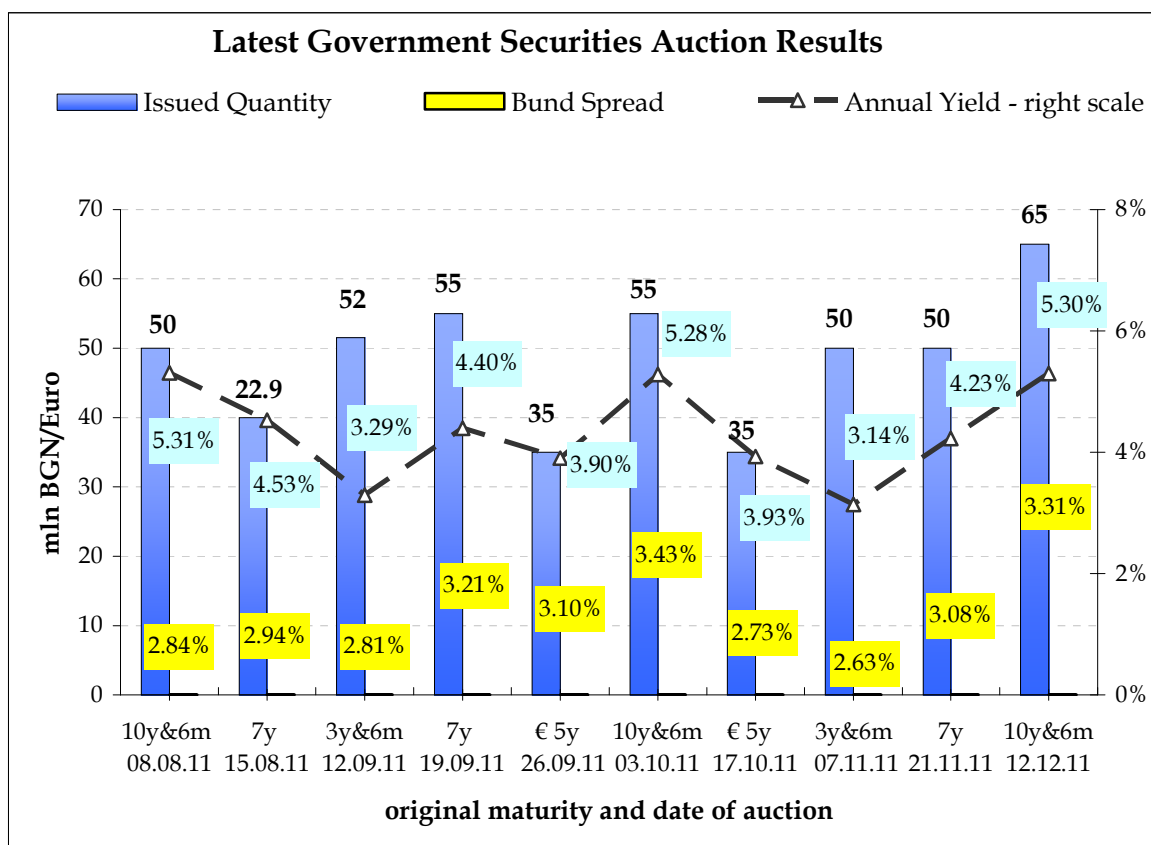
The investor base analysis showed a leading participation of insurance companies acquiring 42% of the amount approved. Pension funds acquired 38%, while banks and other investors acquired 17%.

The outcome of this last 2011GS sale auction confirmed Bulgaria's status as a predictable debt issuer. Positive trends in government debt management allow maintaining an optimal price of state financing. This contributes to the reduction in the government debt servicing costs and is a prerequisite for preserving the low tax burden in the long run.

Ministry of Finance approved the Primary Dealers of GS and announced its issuance policy for 2012

In December 2011 MoF announced the Issuance policy for 2012, containing the main guidelines of the market oriented debt financing for next year and outlining indicative planned levels of domestic issuance and the type of bonds that would be offered on the market.

According to Ordinance 15 on the Control Over Transactions in Government Securities a Commission appointed by the Minister of Finance approves the Primary Dealers of Government Securities for a period of one year. In this regard in the end of December 2011 MoF conducted a selection procedure for GS Primary Dealers and published the list of banks that have been approved for 2012.



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

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

By the end of November government debt totaled EUR 5 614.1 mln, including domestic debt of EUR 2 269.5 mln and external debt of EUR 3 344.5 mln.

Government debt posted a EUR 97.3 mln increase in nominal terms at the end of the previous month. This was mainly due to the increase in domestic government debt, reflecting new domestic financing through GS issues and currency fluctuations. Government debt/GDP ratio was 14.6%.

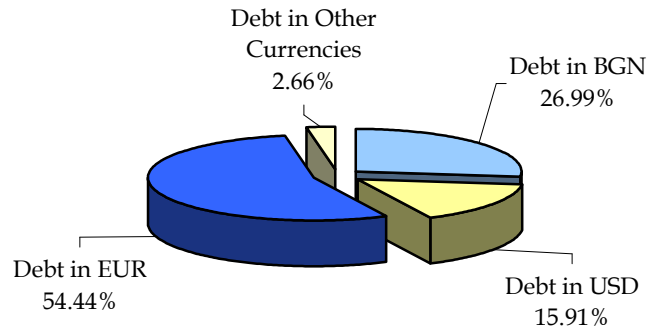
Government Debt Amount						
	(million EUR)					
Structure	31.12.2010	31.3.2011	30.6.2011	30.9.2011	31.10.2011	30.11.2011
Domestic government debt	2 011.5	1 941.5	2 059.8	2 156.4	2 217.2	2 269.5
External government debt	3 373.5	3 319.5	3 272.1	3 343.7	3 299.6	3 344.5
Government Debt, total	5 385.0	5 261.0	5 331.9	5 500.1	5 516.8	5 614.1
Government Debt/GDP (%)	14.9	13.6	13.8	14.2	14.3	14.6

Government debt currency structure does not generate

New loan disbursements slightly affected debt currency structure in November. By the end of the month the debt in EUR amounted to 54.4%, in BGN - 27.0%, in USD - 15.9% and in other currencies - 2.7 %.

risks associated with its servicing

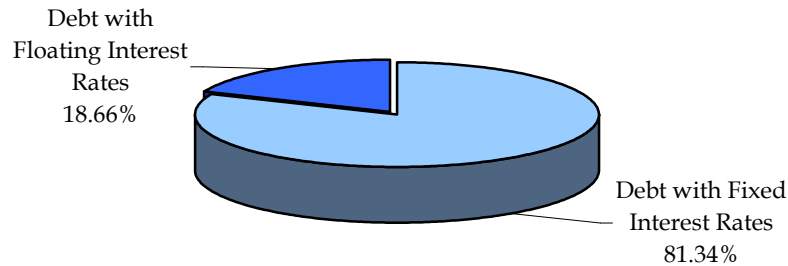
Government Debt Currency Structure as of 30 November



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

Positive trend for increasing the share of fixed interest payments debt continued, reaching 81.3% at the end of November (compared to 81.2% in October). Debt with floating interest payments amounted to 18.7%. The increase in fixed interest debt resulted from the new internal financing mainly by debt instruments with fixed interest rates conducted over the month.

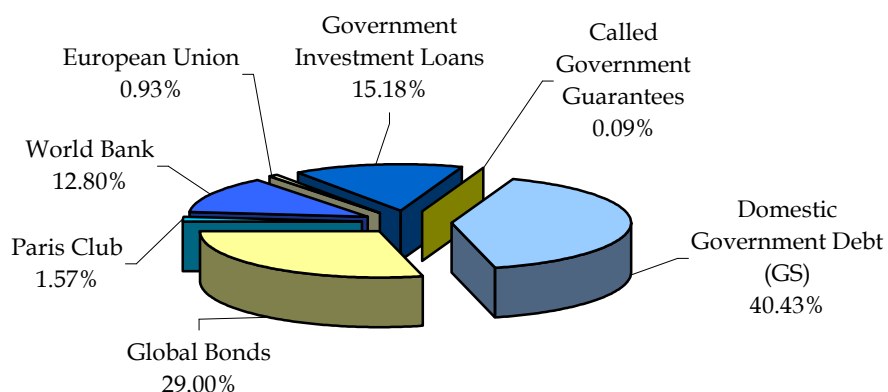
Government Debt Interest Rate Structure as of 30 November



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

The debt structure by types of instruments and creditors showed no significant change. The largest relative share belonged to GS related liabilities, issued on the domestic market (40.4%), followed by Global Bonds (29%), Government Investment Loans (15.2%), commitments to World Bank (12.8%), obligations to Paris Club (1.6%), European Union (0.9%) and called government guarantees (0.1%).

Government Debt Structure by Creditor as of 30 November



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

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

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