

Standard & Poor's Research

Research Update:

Bulgaria Short-Term Ratings Raised To 'A-2' On Criteria Change; 'BBB' Long-Term Ratings Affirmed; Outlook Stable

Primary Credit Analyst:

Marko Mrsnik, Madrid (34) 91-389-6953; marko_mrsnik@standardandpoors.com

Secondary Contact:

Frank Gill, London (44) 20-7176-7129; frank_gill@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

Research Update:

Bulgaria Short-Term Ratings Raised To 'A-2' On Criteria Change; 'BBB' Long-Term Ratings Affirmed; Outlook Stable

Overview

- On May 15, 2012, we published our methodology to link short-term and long-term ratings for corporate and sovereign issuers.
- Based on our criteria, we are raising our short-term foreign and local currency sovereign credit ratings on the Republic of Bulgaria to 'A-2' from 'A-3'.
- The upgrade does not reflect an improvement in our view of the country's short-term creditworthiness.
- We are also affirming our 'BBB' long-term foreign and local currency sovereign credit ratings on Bulgaria.
- The stable outlook reflects our view that Bulgaria's authorities will continue to maintain a favorable fiscal position on the back of ongoing budgetary consolidation and structural reforms, despite the likely slowdown in economic growth prospects and against its gross external debt position.

Rating Action

On Aug. 10, 2012, Standard & Poor's Ratings Services raised its short-term foreign and local currency sovereign credit ratings on Bulgaria to 'A-2' from 'A-3'. We also affirmed our 'BBB' long-term foreign and local currency sovereign credit ratings. The outlook is stable. The transfer and convertibility (T&C) assessment is 'A'.

Rationale

The raising of the short-term ratings reflects the revision of our criteria regarding the link between long-term and short-term sovereign credit ratings. According to our revised criteria, the short-term rating on a sovereign government is derived directly and solely from the long-term rating (for more details, see "Methodology: Short-Term/Long-Term Ratings Linkage Criteria For Corporate And Sovereign Issuers," published May 15, 2012). As a result, the upgrade does not reflect an improvement in our view of Bulgaria's short-term creditworthiness.

The ratings on Bulgaria reflect our view of the government's strong track record of appropriate fiscal policy and low gross and net general government debt, as well as the country's solid medium-term growth prospects despite the expected slowdown in 2012--particularly if backed by improving absorption of

EU funds and other benefits stemming from EU membership. Somewhat offsetting these strengths are Bulgaria's relatively low GDP per capita and still-large, albeit correcting, stock of external imbalances and related risks, given the adverse economic backdrop.

Outlook

The stable outlook reflects our view that Bulgaria's authorities will continue to maintain a favorable fiscal position on the back of ongoing budgetary consolidation and structural reforms, despite the likely slowdown in economic growth prospects and against its gross external debt position.

We could lower the ratings if the country's fiscal position weakens or its external liquidity position deteriorates significantly, possibly leading to a prolonged decline in income tax revenues or the crystallization of contingent liabilities on the government's balance sheet.

On the other hand, we could consider raising the ratings if the government fully implements its structural reform agenda while consolidating the budgetary position further, external conditions for the financial system ease, and exports continue to lead economic growth toward a more balanced structure--while eroding the external debt burden further--leading to higher potential growth.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Methodology: Short-Term/Long-Term Ratings Linkage Criteria For Corporate And Sovereign Issuers, May 15, 2012
- Sovereign Government Rating Methodology And Assumptions, June 30, 2011
- Criteria for Determining Transfer and Convertibility Assessments, May 19, 2009

Ratings List

Ratings Affirmed; Upgraded

	To	From
Bulgaria (Republic of)		
Sovereign Credit Rating	BBB/Stable/A-2	BBB/Stable/A-3
Short-Term Debt	A-2	A-3

Ratings Affirmed

Bulgaria (Republic of)	
Transfer & Convertibility Assessment	A

Senior Unsecured

BBB

Additional Contact:

Sovereign Ratings; SovereignLondon@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2012 by Standard & Poor's Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

The McGraw-Hill Companies