

2013

# RECENT ECONOMIC DEVELOPMENTS, BULGARIA

SELECTED ISSUES, FEBRUARY 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

- According to preliminary data, **GDP increased by 0.5% yoy in Q4 2012** (s.a. data), thus Bulgarian economy expanded by 0.8% in 2012. Similar to previous three quarters of the year, growth was driven by domestic demand, though it decelerated as household expenditures weakened somewhat largely on account of slower real wage growth. Gross fixed capital formation posted a 0.8% increase for the whole 2012, thus recording a positive annual change for the first time since 2008. Exports and imports both declined. Weaker demand from main trading partners led to deterioration in goods exports and considerably slower growth in services exports, while imports fell largely on account of a drop in imported services.
- Revised data on **employment** developments pointed to even larger decrease since the beginning of 2012, thus the annual average reduction in the number of employed people expanded to 4.3% for the whole year. The **average wage in the economy** continued on the increase, as according to preliminary data the 2012 average wage increased by 11.7% and 9.1% in nominal and real terms respectively. **Labour productivity** also kept expanding, up 5.4% in 2012.
- **Registered unemployment** increased further to 11.9% in January, driven by dismissals in the public administration, followed by trade and manufacturing. Consumer prices stepped up by a marginal 0.2% mom, though annual HICP decelerated to 2.6%.
- **Current account balance** reported negative in December 2012, thus the deficit accumulated since the beginning of the year stood at EUR 267.8 mln (0.7% of GDP), largely due to the widening merchandise trade deficit. **Financial account balance was positive** and reached a surplus of EUR 2.1 bn in 2012 (5.4% of GDP). Accumulated net FDI stood at EUR 1.2 bn (3.1% of GDP) in 2012.
- Auctions held during the month confirmed the **downward trend of yield reduction along the whole spectrum of the debt curve**. This has been accompanied by a relatively low value of the risk assessment of the state. In the period January 2012 - January 2013 the quote of the 5-year CDS dropped from 400 to 100 bps. According to ECB data on long term interest rates, published on February 12, this indicator narrowed compared to the previous month and stood at 3.27% as of January, only marginally above its historical low of 3.22% as of November 2012. ▼

*This issue of Recent Economic Developments Review is based on materials and statistical data received up to March 6, 2013. Contents of the Monthly Report on Bulgarian Economy may be quoted or reproduced without further permission, however, due acknowledgment is requested. The estimates and projections published in this issue should not be regarded as advice or recommendation.*

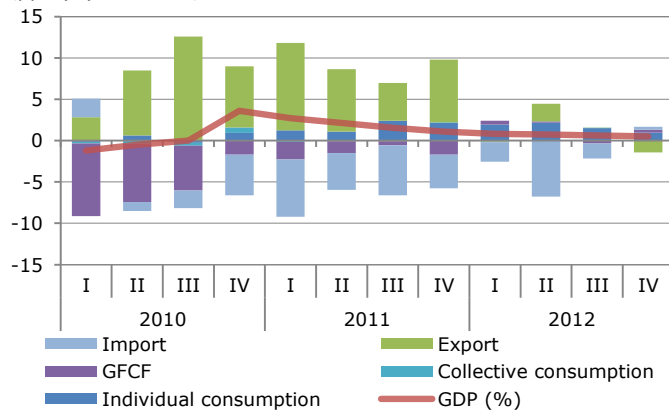
*The current report, as well as previous issues, is available at the [Ministry of finance website](#). For any questions or comments, please contact the Economic and Financial Policy Directorate at 102, Rakovski Str., 1040 Sofia, Bulgaria, or at [secretary.evp@minfin.bg](mailto:secretary.evp@minfin.bg).*

— RECENT ECONOMIC DEVELOPMENTS

**Bulgarian GDP expanded by 0.5% yoy (s.a. data) in Q4 2012, thus for the whole 2012 the economy grew by 0.8%.** Growth decelerated during the last quarter and similar to previous three quarters it was driven by domestic demand. Final consumption stepped up by 1% with growth in household expenditures weakening to 1.9% (2.4% for Q3) largely on account of slower real wage growth, while individual government consumption decreased by 4.4%. GFCF increased by 1.5% yoy in the last quarter, up by 0.8% for the whole 2012, recording thus a positive change for the first time since 2008. Real exports in Q4 were down by 2.1% as a result of weaker demand from Bulgaria’s main trading partners, hence a decline in goods exports and considerably slower growth in services exports were registered. The imports declined by 0.5% due to a drop in imported services, while the import of goods was up 3.4% supported by the domestic demand.

Contributions to GDP growth

(pps, yoy, s.a. data)

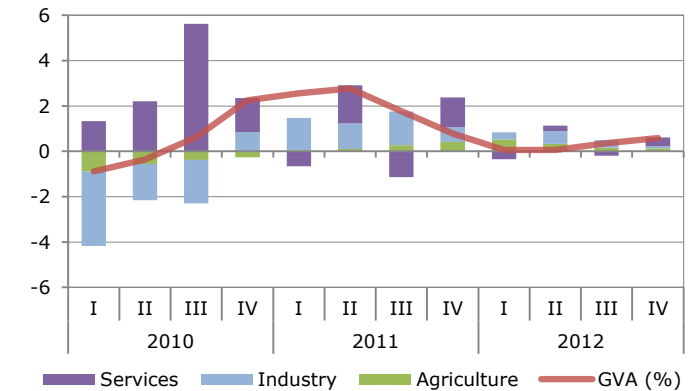


Source: NSI

**Gross value added increased by 0.6% in Q4.** The agricultural sector recorded a 2.3% growth. Value added in the manufacturing was up by 3.7% and in trade, transportation and accommodation expanded by 3.8%. Other services activities with positive contribution for Q4 were public administration and art and entertainment. The rest of the sectors had negative contributions with value added in professional and scientific activities dropping by 10.4%. The construction sector posted a 12.6% decline attributed to the slump in building construction.

Contributions to GVA growth

(pps, yoy, s.a. data)

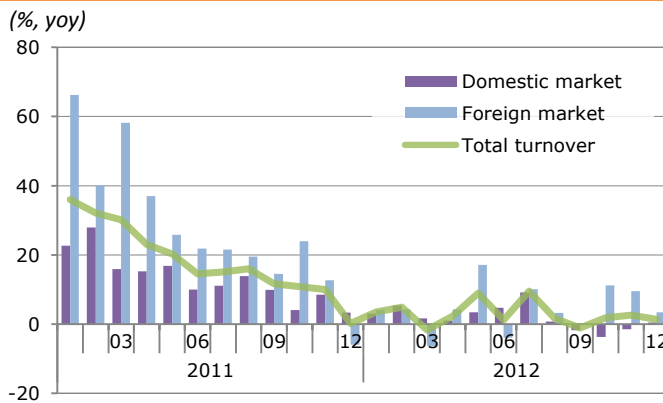


Source: NSI

**Industrial turnover** increased by 1.4% yoy in December. Beside the stronger performance of foreign market sales, domestic turnover returned to positive territory during the month and also contributed for the registered growth. The uncertain external environment continued to be a drag on *foreign market sales* and their growth slowed to 3.4% yoy. The registered increase, however, was more a result of the lower base in the corresponding

month of 2011 than a positive development during the month. Regarding foreign sales components, manufacture of paper and paper products contributed the most for the observed growth, although it has a relatively small share. After being on the decrease during the last three months, *domestic turnover* increased by 0.5% yoy. Major contribution for the registered growth had electricity, gas, steam and air conditioning supply which returned to positive territory after three months of decline. Manufacture of motor vehicles, trailers and semi-trailers also contributed relatively well for the overall development.

### Industrial turnover



Source: NSI

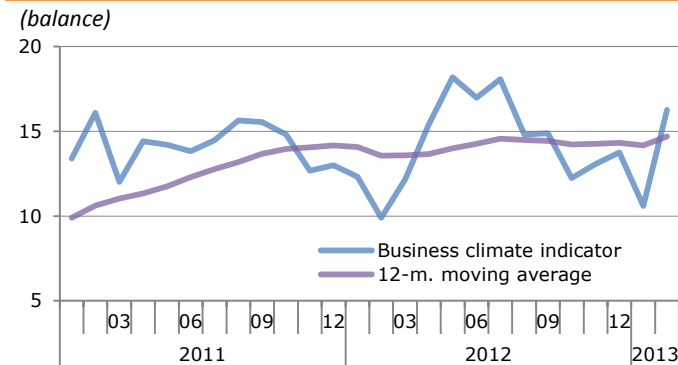
**Industrial production** registered a slight increase, up 0.1% compared to a year earlier, though it was partially due to base effect as industrial production started to decrease since December 2011. On the other hand, the upcoming winter season resulted in strong positive contribution of electricity, gas, steam and air conditioning supply to the overall industrial dynamics.

The slump in **retail sales** widened to 5.8% yoy. Improvement was only observed in retail sales in non-specialized stores which

increased by 1.3%, while retail sales of food, beverages and tobacco and retail sales of textiles, clothing, footwear and leather goods remained unchanged in comparison with the last year. Retail sales of audio and video equipment posted the largest drop of 14%, followed by retail sales of computers and telecommunications equipment, down 13.2%.

After a year of diverse developments, **construction production index** decreased by 18.7% yoy in December. The observed decline was mainly driven by deterioration in civil engineering output, down by 17.7%, which performed relatively well during the whole year. In addition, building construction deepened its slump to 19.5% yoy.

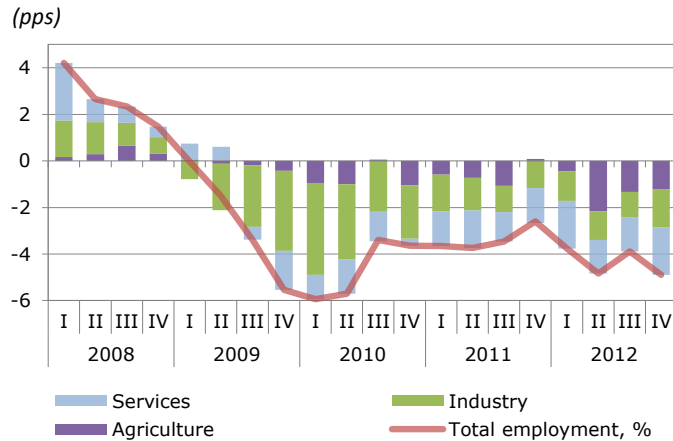
### Business climate



Source: NSI

The **business climate indicator** rose by 5.7 compared to January. For the first time since mid-2012 there was an improvement across all sectors of the economy. The assessment of the current and future business situation was more favorable and optimistic. Respondents had positive expectations about demand and orders in the coming months.

### Employment dynamics and contribution by sector

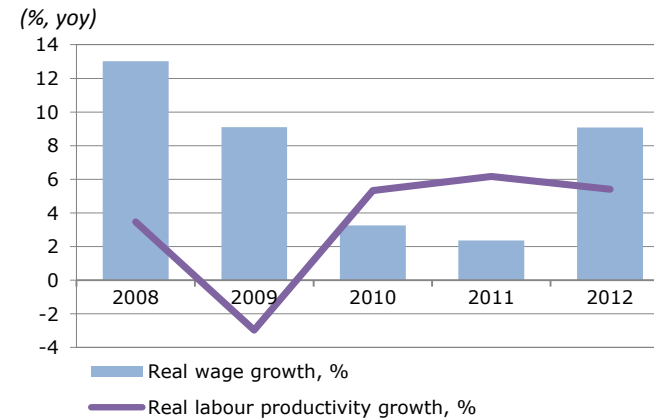


Source: NSI

Revised NSI (SNA) figures on **employment** developments hastened up the magnitude of its decrease since the beginning of 2012. Q4 overall employed number stepped down by 4.9% yoy, speeding up somewhat compared to declines in the previous quarters, which ranged between 3.8 and 4.8%. These rates of decrease were two times higher compared to preliminary figures, thus the annual average employment reduction expanded to 4.3% yoy. The stronger pace of job contraction was broadly visible in the majority of economic industries, even though the agricultural sector had the largest contribution. Employment decrease in the tradable sector (industry excluding construction) accelerated from 3.3% in Q1 to 4.2% in Q4 due to the unfavorable foreign environment. Construction kept the double-digit pace of workers reduction over most of the quarters and the overall employment drop averaged 10.4% in 2012. Employment in services also worsened. Only trade, transport and hotels and restaurants sector reported a certain slowdown in the employment decrease in yoy terms, albeit being sustained above 3% on aver-

age. The economic activities which had previously reported an increase in the employed numbers, namely creation and distribution of information, finance and insurance activities, professional and administrative services, thus helping for the stabilization of overall service sector employment, have now reported a decrease and pulled further down the total service sector employed number.

### Real wage and labour productivity developments



Source: NSI

The trend in **income dynamics** observed since the beginning of 2012 continued in Q4 2012 as well. The average wage grew by 8.5% and 5.5%<sup>1</sup> yoy in nominal and real terms respectively. Wage growth in the public sector followed a downward trend, reaching 0.6% yoy, while the private sector wages continued growing faster, up by 10.7% in nominal terms. Service sector had the largest contribution to recent wage developments, and trade, hotels and restaurants, real estate, informational and professional activities in particular. On the contrary, wage growth in

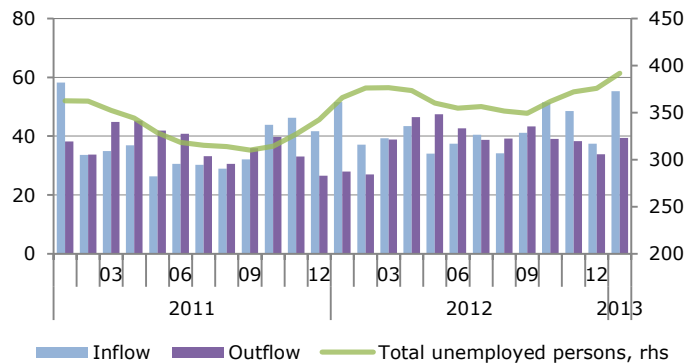
<sup>1</sup> Deflated by HICP.

construction, mining and manufacturing remained lower than the average for the total economy. According to preliminary data from the Enterprises survey, 2012 average wage increased by 11.7% and 9.1% in nominal and real terms respectively. The observed annual wage development was mainly influenced by downward revisions in 2011 annual data, which in turn pushed up 2012 wage growth. The latter was very pronounced in manufacturing, transport, hotels and restaurants and real estate.

In Q4 2012 **labour productivity** continued on the increase, reaching 5.5% yoy in real terms<sup>2</sup>, thus the 2012 annual average growth of the indicator stood at 5.4%. The latter resulted in **real unit labour cost** decrease of 2% yoy. Favorable labour productivity developments were determined primarily by the tradable sector, trade and real estate.

**Inflow, outflow and unemployed persons**

(in thousands)



Source: EA

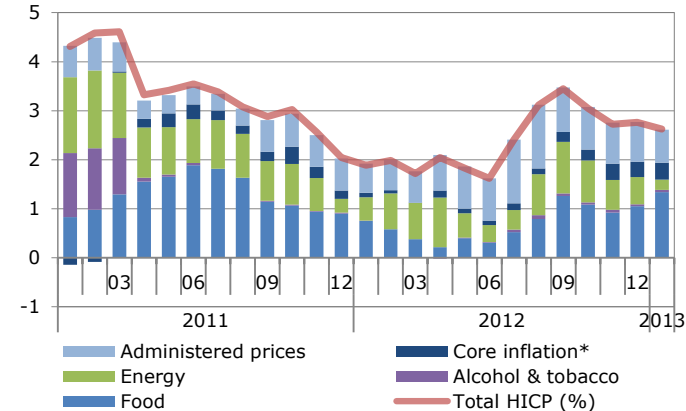
**Registered unemployment** increased further to 11.9% in January, up 0.5 pps over the previous month and 0.8 pps higher on

<sup>2</sup> Measured as a ratio of GDP at constant prices and employed numbers (SNA).

a year earlier. The overall unemployment number totaled 391.7 K and was mostly influenced by the monthly inflow dynamics. The newly registered in employment offices increased by 51.8% from December, strongly driven by the dismissed in the public administration, followed by trade and manufacturing industry. The outflow of unemployed people also increased mom on the account of the higher number of persons who found jobs in January (21.9 K). Albeit the primary labour market is usually narrowed in the beginning of the year, labour demand improved and supported the higher number of persons who started working on the primary labour market (7.3 K). Subsidized employment programs activation had the largest contribution to the increase in the number of people who entered into employment with the support of the employment offices, as the former provided employment for new 11.9 K unemployed in January.

**HICP and contributions by main components**

(pps, yoy)



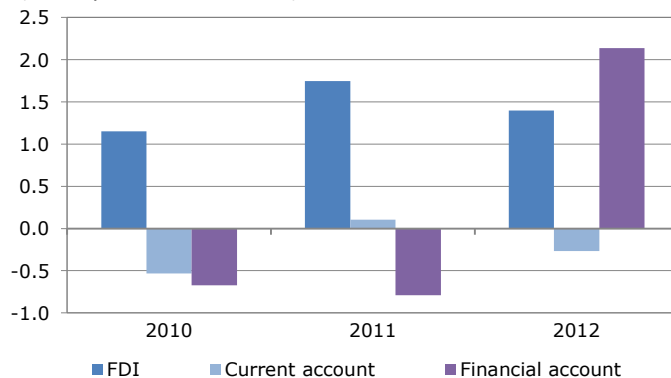
\* Overall index excluding energy, food, alcohol and tobacco.

Source: NSI, MF

According to preliminary data<sup>3</sup>, **January consumer prices** stepped up by an average 0.2% over the previous month, while annual HICP decelerated further to 2.6%. Food prices, up 1.6% mom, contributed the most (+0.35 pps) to the monthly change in the headline rate. Their prices accelerated somewhat during the month almost entirely due to seasonal hikes in prices of fresh vegetables, up 18.9% mom. On the other hand, prices of non-energy industrial goods continued on the decrease driven by winter sales of apparel and footwear, thus core inflation declined over the previous month, down 0.2% (-0.08 pps). Administered prices also registered a downward correction in January as prices of natural gas and central heating has been revised, down by 7.4% and 6.9% respectively, subtracting another 0.08 pps from the monthly inflation rate.

#### FDI, Current and Financial Account

(January-December, bn EUR)



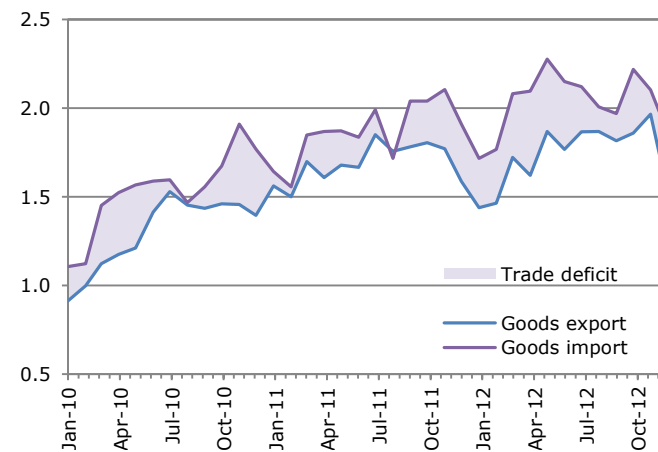
Source: BNB

<sup>3</sup> January 2013 price indices are preliminary since they are calculated with households' budget data for the period October 2011 – September 2012. The final January 2013 HICP will be released along with February data.

**Current account balance** reported negative at EUR 300.8 mln in December 2012. Thus the deficit accumulated since the beginning of the year stood at EUR 267.8 mln (0.7% of GDP) compared to a surplus of EUR 103.5 mln a year earlier. This was largely driven by an increase in the accumulated *merchandise trade deficit* which reached EUR 3 594.1 mln at the end of 2012, up 67% compared to 2011. In December alone, both exports and imports growth rates were negative at 3.4% and 2.5% yoy respectively, thus there was almost no change in the trade deficit compared to the same month a year earlier.

#### Merchandise trade dynamics

(bn EUR)



Source: BNB

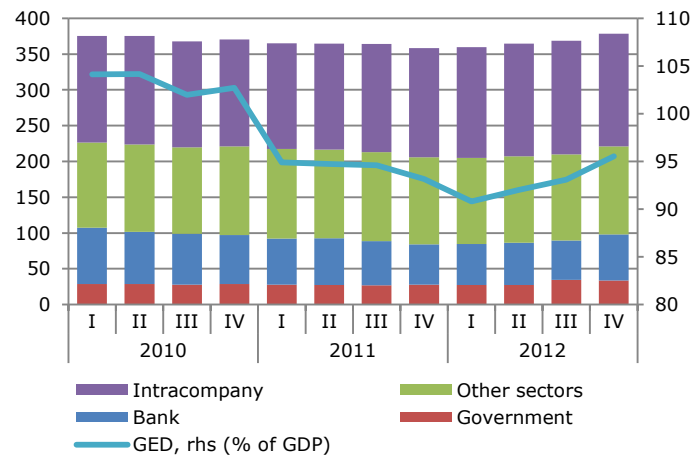
**Services balance** also remained virtually unchanged in yoy terms. There was a 47% decrease in the import of other services which was practically offset by a decline in their export. This was mainly due to a reduction in the import and export of other business services and computer and information services. *Income balance* was negative by EUR 254.6 mln in December, thus its deficit increased by 46% yoy. The latter resulted from higher

direct investment income payouts as dividends and distributed income. Income deficit almost netted out with the reported surplus on current transfers. The latter increased more than twice yoy and amounted to EUR 243 mln mostly on account of transfers from EU funds.

**Financial account balance was positive** at EUR 468.6 mln in December and reached a surplus of EUR 2.1 bn in 2012 (5.4% of GDP). In the month, residents withdrew currency and deposits held in foreign financial institution, which led to EUR 624.2 mln net inflow of Other investments. FDI were negative, as a result of intercompany loans repayment of the banking sector. The accumulated net FDI stood at EUR 1.2 bn in 2012 or 3.1% of GDP, due to quarterly reporting, however, data is traditionally subject to upwards revisions.

#### Gross external debt by institutional sector

(bn EUR)

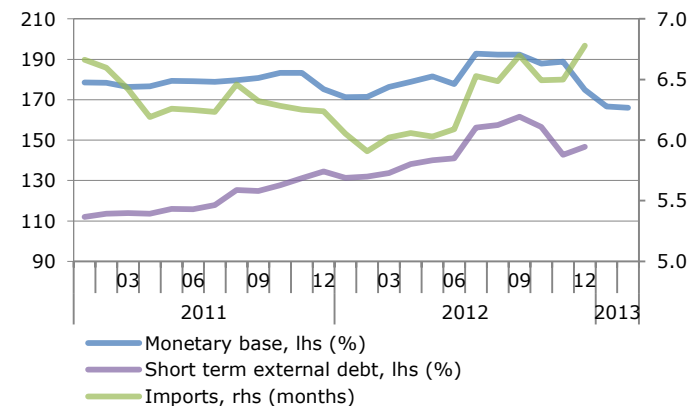


Source: BNB

**Gross external debt** was EUR 37.8 bn at the end of December (95.4% of GDP) compared with EUR 35.8 bn twelve months ear-

lier. The change on annual basis was due to the increase in Government debt after the issue of sovereign bonds in early July and higher short-term banking sector debt, following borrowing operations in November. Private non-financial sector indebtedness decreased 0.6 pps in 2012 to 31% of GDP, while FDI debt in the form of intercompany lending was almost unchanged at 39.7% of GDP. In terms of net flows, the Government sector, banks and local subsidiaries of multinational companies have attracted foreign capital to the amount of EUR 579 mln, EUR 936 mln and EUR 234 mln, respectively, while other private companies have repaid external debt of EUR 73 mln in 2012.

#### Coverage with FX Reserves



Source: BNB, MF

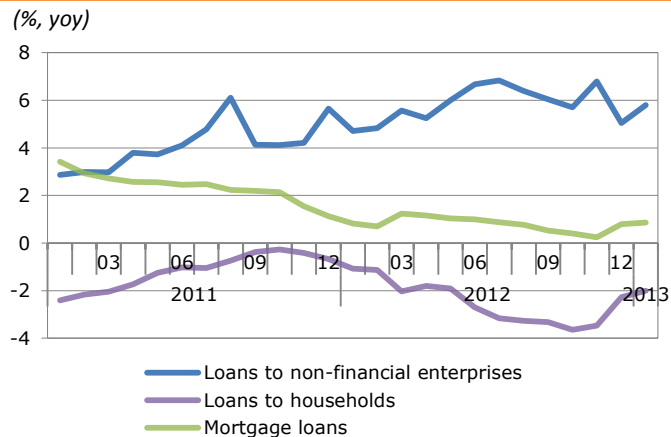
**International reserves** dropped by 1.9% mom while retaining a positive annual growth of 8.8% (9.3% as of end and amounted to EUR 13.9 bn at the end of February. The monthly decrease came after the Government deposit shrank by 7.5% and bank reserves came down by 3.4%. Monetary base coverage stood at 166% coming from 166.6% a month earlier. At the end of December 2012 the international reserves could cover 6.8 months



of imports of goods and services or 146.7% of the short term external debt.

**Money supply** dropped by 0.4% mom in January as the seasonally low demand for cash reflected in a 5.3% decrease of money outside MFI. Deposits with agreed maturity also contributed for the M3 decrease, down by 0.7% mom. This also brought down the annual growth of broad money from 8.5% at end-December to 7.1% as of end-January. Total deposits as usual followed broad money dynamics and their annual growth rate came down to 7.2% being 8.4% a month ago. Compared to end-December, deposits grew by 0.4% or BGN 202.9 mln in nominal terms.

### Credit growth

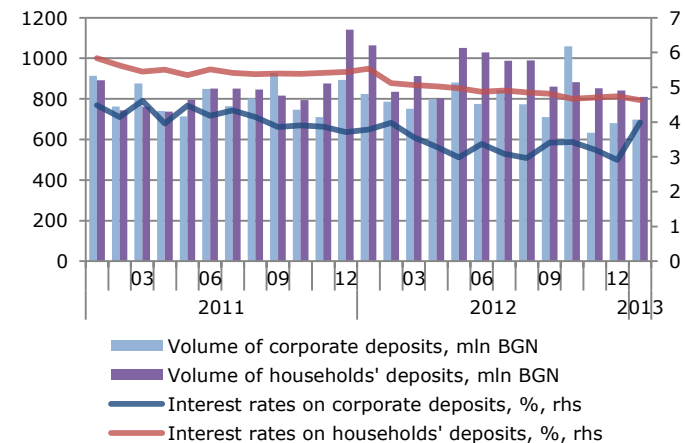


Source: BNB, MF

**Credit to the private sector** accelerated in January growing by 3.5% yoy compared to 3% as of end-December. It was again mainly due to the improvement of corporate credit growth which went from 5% at the end of 2012 to 5.8% at end-January, but this time there was a positive contribution from consumer credits

and mortgages as well. Consumer credits limited their annual decrease from 2.3% to 2% yoy, while mortgages grew marginally faster (0.9% vs. 0.8% yoy). Growth rate of bad and restructured credits came down to 4.8% yoy from 5.6% a month earlier, nevertheless their share in total credits for non-financial enterprises and households increased by 12 bps to 18%.

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



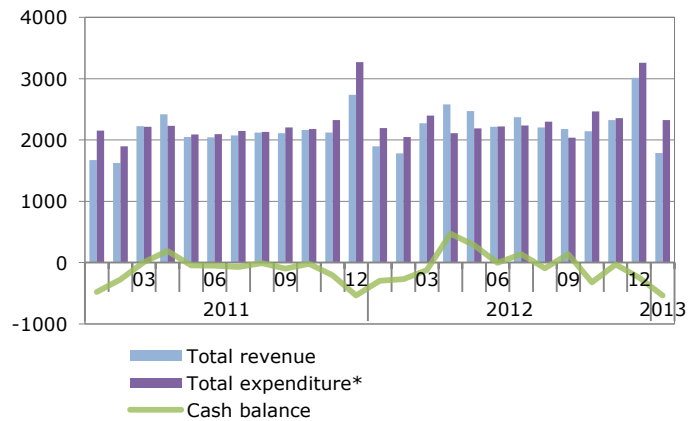
Source: BNB, MF

Weighted average **interest rate on corporate credits** went up in January by 1.6 pps resulting in 14% decrease in new loans extended compared to the previous month. The price of mortgages added only 3 bps, but their monthly volume saw a 34.9% drop. The average rate on consumer credits declined by 43 bps and that helped increasing their volume by 6.2% compared to December. Weighted average **interest rate on time deposits** in national currency was up 36 bps compared to December. At the same time the return on EUR and USD denominated deposits went down by 19 and 60 bps respectively. The total amount of deposits made in January reached BGN 3.1 bn and was by 0.6% lower than in the previous month.

In January **consolidated budget deficit** on a cash basis accounted for BGN 536.5 mln (0.7% of GDP) up with BGN 238.7 mln in comparison to the deficit level a year earlier. The negative budget outturn was mostly attributed to lower tax revenue, but also to a 5.8% yoy expenditure growth.

### Consolidated Budget

(monthly value, mln BGN)



\* Incl. contribution to EU budget

Source: MF

Total **revenue and grants** stood at BGN 1 787.9 mln, down 5.9% in nominal terms compared to January 2012. Tax revenue fell by 7.9% yoy, mainly due to decrease in receipts from corporate income tax and some indirect taxes. Revenue from excises, insurance premium levy and VAT went down by 15.4, 80.3 and 0.2% yoy respectively, while those from custom duties stepped up by 30.1% yoy. Besides the seasonality of tax revenue collection in the beginning of the year, the registered revenue fall resulted from one-off effects due to amendments to the Law on Corporate income tax, Personal income tax and other legal acts. Accordingly, the relevant part of tax proceeds is expected to be

received in the forthcoming months. Non-tax revenue and grants came 6.4% higher on a year earlier.

Total **government expenditure**, including Bulgarian contribution to EU budget, stood at BGN 2 324.3 mln, up 5.8% in nominal terms compared to January 2012. The latter was largely on account of the rise in social spending and scholarships (by 6.4% yoy), payments on interests (23.6%), wages and salaries (10.1%) and capital expenditures (24.3%). A nominal reduction of BGN 115 mln was registered in subsidies payments, down by 69.7% yoy.

**Fiscal reserve** stood at BGN 4.1 bn at end-January.

**General government debt**, including government guaranteed debt, accounted for 16.2% of GDP (up 2.9% yoy), of which 6.3% of GDP domestic debt, 8.8% of GDP external debt and 1.2% of GDP government guaranteed debt. ▼

— KEY ECONOMIC INDICATORS

|   |         | 2009  | 2010  | 2011  | 2012 | Q1'12 | Q2'12 | Q3'12 | Q4'12 | VIII'12 | IX'12 | X'12 | XI'12 | XII'12 | I'13 |
|---|---------|-------|-------|-------|------|-------|-------|-------|-------|---------|-------|------|-------|--------|------|
| <b>— GDP</b>                            |         |       |       |       |      |       |       |       |       |         |       |      |       |        |      |
| Gross Domestic Product <sup>1</sup>     | % , yoy | -5.5  | 0.4   | 1.8   | 0.8  | 0.8   | 0.7   | 0.6   | 0.5   |         |       |      |       |        |      |
| Consumption                             | % , yoy | -7.3  | 0.5   | 1.5   | 1.8  | 2.1   | 2.5   | 1.9   | 1.0   |         |       |      |       |        |      |
| Gross fixed capital formation           | % , yoy | -17.6 | -18.3 | -6.5  | 0.8  | 2.2   | 0.7   | -1.5  | 1.5   |         |       |      |       |        |      |
| Export                                  | % , yoy | -11.2 | 14.7  | 12.3  | -0.4 | -0.1  | 3.3   | 0.0   | -2.1  |         |       |      |       |        |      |
| Import                                  | % , yoy | -21.0 | 2.4   | 8.8   | 3.7  | 3.4   | 9.8   | 2.6   | -0.5  |         |       |      |       |        |      |
| Agriculture                             | % , yoy | -9.5  | -6.2  | -1.1  | 3.5  | 9.5   | 5.9   | 2.7   | 2.3   |         |       |      |       |        |      |
| Industry                                | % , yoy | -5.7  | -6.3  | 5.8   | 0.8  | 1.1   | 1.9   | 1.2   | 0.3   |         |       |      |       |        |      |
| Services                                | % , yoy | -1.3  | 4.4   | 0.7   | -0.2 | -0.5  | 0.4   | -0.3  | 0.6   |         |       |      |       |        |      |
| Adjustments                             | % , yoy | -16.5 | -0.5  | 0.2   | 3.8  | 7.4   | 3.7   | 1.3   | 0.9   |         |       |      |       |        |      |
| <b>— SHORT-TERM BUSINESS STATISTICS</b> |         |       |       |       |      |       |       |       |       |         |       |      |       |        |      |
| Industrial production                   | % , yoy | -18.3 | 2.0   | 5.8   | -0.9 | -2.6  | -0.1  | 0.0   | -1.2  | 3.3     | -4.2  | -1.8 | -1.8  | 0.1    |      |
| Industrial turnover                     | % , yoy | -20.2 | 14.1  | 17.2  | 2.8  | 2.0   | 4.1   | 3.3   | 1.9   | 1.7     | -1.1  | 1.9  | 2.5   | 1.4    |      |
| Retail trade turnover                   | % , yoy | -7.7  | -8.4  | -1.9  | -2.3 | -3.1  | -0.6  | -0.5  | -5.0  | 1.0     | -3.7  | -4.4 | -4.8  | -5.8   |      |
| Construction output                     | % , yoy | -14.3 | -14.5 | -12.9 | -0.8 | -1.7  | 0.3   | 0.6   | -2.4  | 1.5     | -3.9  | 8.9  | 1.1   | -18.7  |      |
| Total business climate                  | balance | 10.2  | 9.6   | 14.2  | 14.3 | 11.5  | 16.9  | 15.9  | 13.0  | 14.8    | 14.9  | 12.2 | 13.1  | 13.8   | 10.6 |
| Industry                                | balance | 12.3  | 13.4  | 22.4  | 21.3 | 21.3  | 22.8  | 21.7  | 19.4  | 20.7    | 20.8  | 17.2 | 20.7  | 20.3   | 18.4 |
| Retail trade                            | balance | 13.5  | 10.1  | 17.3  | 16.4 | 10.5  | 18.1  | 17.8  | 19.3  | 16.1    | 19.7  | 17.9 | 16.7  | 23.1   | 10.9 |
| Construction                            | balance | 8.5   | 5.1   | 2.8   | 0.3  | -4.1  | 4.2   | 3.0   | -1.8  | -0.7    | 3.4   | 0.5  | -4.8  | -1.2   | -1.2 |
| Services                                | balance | 5.1   | 5.6   | 5.9   | 12.2 | 8.2   | 16.4  | 15.4  | 8.8   | 17.3    | 9.7   | 8.4  | 12.0  | 6.1    | 6.4  |
| <b>— LABOUR MARKET</b>                  |         |       |       |       |      |       |       |       |       |         |       |      |       |        |      |
| Participation rate (15+)                | level   | 53.0  | 52.0  | 51.3  |      | 51.8  | 52.7  | 54.2  | 53.6  |         |       |      |       |        |      |
| Employment rate (15+)                   | level   | 49.4  | 46.7  | 45.6  |      | 45.1  | 46.2  | 47.9  | 47.0  |         |       |      |       |        |      |
| Employment (LFS)                        | % , yoy | -2.6  | -4.7  | -3.4  | -4.3 | -3.8  | -4.8  | -3.9  | -4.9  |         |       |      |       |        |      |
| Unemployment rate (LFS)                 | level   | 6.8   | 10.2  | 11.2  |      | 12.9  | 12.3  | 11.5  | 12.4  |         |       |      |       |        |      |

|   |          | 2009   | 2010   | 2011   | 2012   | Q1'12  | Q2'12  | Q3'12  | Q4'12  | VIII'12 | IX'12  | X'12   | XI'12  | XII'12 | I'13   |
|---|----------|--------|--------|--------|--------|--------|--------|--------|--------|---------|--------|--------|--------|--------|--------|
| Unemployment rate (Employment agency)                   | level    | 7.6    | 9.5    | 10.1   | 11.1   | 11.4   | 11.1   | 10.7   | 11.3   | 10.7    | 10.6   | 11.0   | 11.3   | 11.4   | 11.9   |
| Nominal wage  | %, yoy   | 11.8   | 6.4    | 5.8    | 11.7   | 8.9    | 8.4    | 8.8    | 8.5    | 8.9     | 9.1    | 9.9    | 7.6    | 8.0    |        |
| Real wage <sup>2</sup>                                  | %, yoy   | 9.1    | 3.3    | 2.4    | 9.1    | 6.9    | 6.5    | 5.6    | 5.5    | 5.6     | 5.5    | 6.7    | 4.8    | 5.1    |        |
| Labor productivity (GDP per employed)                   | %, yoy   | -3.0   | 5.3    | 6.2    | 5.4    | 4.9    | 6.2    | 4.9    | 5.5    |         |        |        |        |        |        |
| Real ULC (GDP)  | %, yoy   | 8.1    | 2.7    | -3.7   | -2.0   | 2.8    | -2.3   | -1.4   | -5.8   |         |        |        |        |        |        |
| <b>— PRICES</b>   |          |        |        |        |        |        |        |        |        |         |        |        |        |        |        |
| National index of consumer prices (CPI) <sup>3</sup>    | %, yoy   | 2.8    | 2.4    | 4.2    | 3.0    | 2.0    | 1.6    | 4.0    | 4.2    | 3.9     | 4.9    | 4.4    | 3.9    | 4.2    | 4.4    |
| Harmonized index of consumer prices (HICP) <sup>3</sup> | %, yoy   | 2.5    | 3.0    | 3.4    | 2.4    | 1.9    | 1.8    | 3.0    | 2.8    | 3.1     | 3.5    | 3.0    | 2.7    | 2.8    | 2.6    |
| Domestic producer prices                                | %, yoy   | -4.3   | 7.2    | 8.6    | 5.3    | 4.8    | 4.2    | 6.0    | 6.1    | 7.1     | 6.6    | 6.9    | 6.4    | 5.1    | 2.6    |
| <b>— CONSOLIDATED FISCAL PROGRAM (CUMMULATIVE)</b>      |          |        |        |        |        |        |        |        |        |         |        |        |        |        |        |
| Revenue and grants                                      | mIn BGN  | 25 041 | 23 933 | 25 378 |        | 5 956  | 13 224 | 19 986 |        | 17 806  | 19 984 | 22 127 | 24 454 | 27 470 | 1 788  |
| Total expenses  | mIn BGN  | 25 667 | 26 755 | 26 866 |        | 6 647  | 13 162 | 19 733 |        | 17 699  | 19 736 | 22 202 | 24 559 | 27 820 | 2 324  |
| Contribution to EU budget                               | mIn BGN  | 746    | 670    | 779    |        | 307    | 467    | 629    |        | 562     | 629    | 683    | 724    | 809    | 90     |
| Cash deficit (-) / surplus (+)                          | mIn BGN  | -626   | -2 823 | -1 488 |        | -691   | 62     | 253    |        | 108     | 248    | -74    | -105   | -350   | -536   |
|   | % of GDP | -0.9   | -4.0   | -2.0   |        | -0.9   | 0.1    | 0.3    |        | 0.1     | 0.3    | -0.1   | -0.1   | -0.5   | -0.7   |
| Government and government guaranteed debt               | mIn BGN  | 10 641 | 11 778 | 12 826 |        | 13 053 | 12 942 | 14 732 |        | 14 693  | 14 736 | 14 753 | 14 810 | 14 683 | 13 080 |
|   | % of GDP | 15.6   | 16.7   | 17.0   |        | 16.6   | 16.5   | 19.0   |        | 18.9    | 19.0   | 19.0   | 19.1   | 18.9   | 16.2   |
| Fiscal reserve  | mIn BGN  | 7 673  | 6 012  | 4 999  |        | 4 531  | 5 062  | 7 172  |        | 6 914   | 7 172  | 6 640  | 6 756  | 6 081  | 4 144  |
|   | %, yoy   | -8.5   | -21.6  | -16.9  |        | -3.6   | -1.8   | 41.4   |        | 38.5    | 41.4   | 24.3   | 27.1   | 21.6   | 2.9    |
| <b>— FINANCIAL SECTOR</b>                               |          |        |        |        |        |        |        |        |        |         |        |        |        |        |        |
| BNB International reserves                              | mIn EUR  | 12 919 | 12 977 | 13 349 | 15 552 | 13 192 | 13 866 | 15 507 | 15 552 | 15 049  | 15 507 | 15 094 | 15 096 | 15 552 | 14 190 |
| Monetary base coverage                                  | %        | 195.2  | 179.8  | 175.1  | 174.9  | 176.3  | 177.7  | 192.3  | 174.9  | 192.3   | 192.3  | 187.9  | 188.9  | 174.9  | 166.6  |
| Coverage of import with FX reserves                     | months   | 8.0    | 7.3    | 6.2    | 6.8    | 6.0    | 6.1    | 6.7    | 6.8    | 6.5     | 6.7    | 6.5    | 6.5    | 6.8    |        |
| Coverage of short-term external debt                    | %        | 100.2  | 115.3  | 133.8  | 146.7  | 133.6  | 140.9  | 161.7  | 146.7  | 157.5   | 161.7  | 156.5  | 142.7  | 146.7  |        |
| Money M1 (Narrow money)                                 | %, yoy   | -8.8   | 0.8    | 14.4   | 9.5    | 17.2   | 13.4   | 12.6   | 9.5    | 10.7    | 12.6   | 11.1   | 13.6   | 9.5    | 5.3    |
| Money M3 (Broad money)                                  | %, yoy   | 4.2    | 6.2    | 12.2   | 8.5    | 10.7   | 10.2   | 8.8    | 8.5    | 8.8     | 8.7    | 8.6    | 10.1   | 8.5    | 7.1    |
| Deposits  | %, yoy   | 7.6    | 6.6    | 13.2   | 8.4    | 11.0   | 10.2   | 8.7    | 8.4    | 8.5     | 8.6    | 8.5    | 10.1   | 8.4    | 7.2    |
| Credit to private sector                                | %, yoy   | 3.8    | 1.1    | 3.3    | 3.0    | 3.1    | 4.1    | 3.5    | 3.0    | 3.9     | 3.5    | 3.3    | 3.9    | 3.0    | 3.5    |
| Credit to non-financial enterprises                     | %, yoy   | 2.3    | 2.4    | 5.7    | 5.0    | 5.7    | 6.8    | 6.1    | 5.0    | 6.4     | 6.0    | 5.7    | 6.8    | 5.0    | 5.8    |

|   |          | 2009   | 2010   | 2011   | 2012    | Q1'12  | Q2'12  | Q3'12  | Q4'12  | VIII'12 | IX'12  | X'12   | XI'12  | XII'12 | I'13 |
|---|----------|--------|--------|--------|---------|--------|--------|--------|--------|---------|--------|--------|--------|--------|------|
| Credit to households                      | % yoy    | 5.8    | -0.8   | -0.4   | -1.0    | -1.0   | -1.1   | -1.5   | -1.0   | -1.4    | -1.5   | -1.7   | -1.7   | -1.0   | -0.8 |
| Interest rate on short-term loans         | %        | 10.5   | 8.5    | 7.2    | 7.6     | 8.3    | 7.2    | 7.5    | 7.3    | 7.3     | 7.8    | 7.4    | 7.7    | 6.7    | 7.4  |
| Interest rate on time deposits            | %        | 7.0    | 5.4    | 4.8    | 4.3     | 4.6    | 4.2    | 4.2    | 4.1    | 4.1     | 4.3    | 4.1    | 4.2    | 4.1    | 4.4  |
| Exchange rate BGN/USD                     | eop      | 1.36   | 1.47   | 1.51   | 1.48    | 1.46   | 1.55   | 1.51   | 1.48   | 1.55    | 1.51   | 1.51   | 1.51   | 1.48   | 1.44 |
|   | per. av. | 1.41   | 1.48   | 1.41   | 1.52    | 1.49   | 1.53   | 1.56   | 1.51   | 1.58    | 1.52   | 1.51   | 1.52   | 1.49   | 1.47 |
| <b>— GROSS EXTERNAL DEBT (GED)</b>        |          |        |        |        |         |        |        |        |        |         |        |        |        |        |      |
| Gross external debt                       | % of GDP | 108.3  | 102.7  | 93.1   | 95.4    | 90.5   | 90.8   | 91.9   |        | 92.9    | 93.0   | 93.0   | 95.9   | 95.4   |      |
| Short term external debt                  | % of GED | 32.1   | 30.2   | 27.7   | 28.0    | 27.5   | 27.2   | 26.0   |        | 25.9    | 26.0   | 26.1   | 27.8   | 28.0   |      |
| Intercompany lending                      | % of GED | 38.5   | 40.4   | 42.5   | 41.6    | 43.0   | 42.9   | 42.9   |        | 43.1    | 43.1   | 42.6   | 42.1   | 41.6   |      |
| <b>— BALANCE OF PAYMENTS</b>              |          |        |        |        |         |        |        |        |        |         |        |        |        |        |      |
| Current account                           | mIn EUR  | -3 116 | -533   | 104    | -268    | -553   | -328   | 964    | -350   | 398     | 270    | -122   | 72     | -301   |      |
| <i>Current account (moving average)</i>   | % of GDP | -8.9   | -1.5   | 0.3    | -0.7    | -0.7   | -1.8   | -1.8   | -0.7   | -2.4    | -1.8   | -1.7   | -0.8   | -0.7   |      |
| Trade balance                             | mIn EUR  | -4 174 | -2 764 | -2 156 | -3 594  | -939   | -1 266 | -548   | -841   | -137    | -154   | -359   | -153   | -329   |      |
| <i>Trade balance (moving average)</i>     | % of GDP | -11.9  | -7.7   | -5.6   | -9.1    | -7.3   | -9.0   | -9.4   | -9.1   | -9.4    | -9.2   | -9.5   | -9.0   | -9.1   |      |
| Export, f.o.b.                            | mIn EUR  | 11 699 | 15 561 | 20 264 | 20 792  | 4 625  | 5 256  | 5 550  | 5 361  | 1 869   | 1 816  | 1 859  | 1 968  | 1 533  |      |
|   | % yoy    | -23.1  | 33.0   | 30.2   | 2.6     | -2.8   | 6.1    | 3.0    | 3.8    | 6.4     | 1.9    | 3.0    | 11.1   | -3.4   |      |
| Import, f.o.b.                            | mIn EUR  | 15 873 | 18 325 | 22 420 | -24 386 | -5 565 | -6 522 | -6 098 | -6 202 | -2 006  | -1 970 | -2 218 | -2 121 | -1 862 |      |
|   | % yoy    | -33.3  | 15.4   | 22.3   | -208.8  | 10.3   | 17.0   | 6.1    | 2.4    | 16.9    | -3.4   | 8.7    | 0.8    | -2.5   |      |
| Capital account                           | mIn EUR  | 477    | 291    | 497    | 543     | 21     | 44     | 150    | 328    | -4      | 33     | -82    | 176    | 234    |      |
| Financial account                         | mIn EUR  | 1 163  | -673   | -788   | 2 138   | -45    | 928    | 711    | 544    | 29      | 121    | -41    | 116    | 469    |      |
| Net Foreign Direct Investments            | mIn EUR  | 2 505  | 977    | 1 577  | 1 229   | 470    | 399    | 397    | -38    | 316     | 2      | -98    | 164    | -104   |      |
| Net Portfolio Investments                 | mIn EUR  | -619   | -635   | -354   | -873    | -371   | -57    | 735    | -1 180 | -207    | -66    | -55    | -1 078 | -47    |      |
| Other Investments – net                   | mIn EUR  | -704   | -990   | -1 946 | 1 816   | -138   | 592    | -415   | 1 776  | -78     | 187    | 121    | 1 031  | 624    |      |
| Change in BNB reserve assets <sup>4</sup> | mIn EUR  | 650    | 384    | -159   | -2 161  | 176    | -639   | -1 483 | -215   | -105    | -392   | 336    | 5      | -556   |      |

Notes: 1. Reference year 2005, seasonally and working day adjusted data; 2. HICP deflated; 3. Data as of January 2013 is preliminary; 4. (-) - increase; (+) - decrease in BNB International Reserves.

## — GOVERNMENT DEBT REVIEW

Auctions held during the month have confirmed the downward trend of yield reduction along the whole spectrum of the debt curve. This has been accompanied by lower value of the risk assessment of the state. In the period January 2012–January 2013 the quote of the 5-year CDS – the risk premium against default of the country – dropped from 400 to 100 bps. Meanwhile ECB data on long term interest rates, published on February 12, showed that the indicator for Bulgaria narrowed compared to the previous month and stood at 3.27% as of January, only marginally above its historical low of 3.22% as of November 2012.

**Ministry of finance registered a new historical minimum of 10.5Y GS yield**

On February 4, the yield on GS maturing July 2023 reached 3.26%, down by 17 bps since this issue has been launched in January, while the spread to German Bunds shrank to 1.55 pps. After this auction the issue totaled BGN 100 mln. The amount offered was BGN 50 mln, while participants subscribed almost BGN 106 mln. Banks showed the strongest interest and acquired half of the amount approved. Pension funds were also active and acquired 26.8%, investment intermediaries and insurance companies purchased 16.6% and 6.6% respectively.

MF reopened the 7Y euro denominated bond at the auction held on February 11. The yield in this maturity segment reached its all-time low at 2.42%, down by 12 bps than the yield registered at the launching of the bond on 14 January this year. The spread to the German Bunds shrank to 143 bps. The interest in the auction was strong with a coverage coefficient of 2.9. The distribution by type of investor was as follows: banks - 67%, pension funds - 13%, contractual funds - 10% and others - 10%.

**Yield on 7Y EUR-denominated GS reached 2.42%**

**5Y BGN-denominated bond has been reopened on February 18**

The 5-year BGN denominated bond, launched on 23.01.2013, has been reopened for the second time on February 18. The amount offered for sale was BGN 45 mln, while the coverage coefficient reached 1.72. All GS primary dealers took part in the auction. Banks as usual acquired the largest share of the whole amount at 87.2%, followed by pension funds – 12.2%. The yield on the 5-year GS remained stable at 1.99%.

In an uncertain domestic political environment, Ministry of Finance successfully placed a 6-month treasury bill at an amount of BGN 800 mln on February 20. Despite its considerably high volume for the domestic market, submitted bids amounted to BGN 1.15 bn. Banks acquired 81.3%, followed by pension funds with 9.5% and other investors with 9.2% of the total amount offered for sale. The achieved annual average yield was 1%. For comparison, at the previous auction for the sale of 6-month GS held in 2011 the recorded yield was 1.38%.

**Ministry of finance successfully issued a 6-month T-bill at the amount of BGN 800 mln**

**Table: Government Debt, mln EUR**

| Structure                | 31.12. 2010 | 31.12. 2011 | 31.09. 2012 | 31.10. 2012 | 30.11. 2012 | 31.12. 2012 | 31.01. 2013 |
|--------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Domestic government debt | 2011.5      | 2458.3      | 2451.9      | 2489.8      | 2547.5      | 2546.7      | 2591.1      |
| External government debt | 3373.5      | 3487.6      | 4524.3      | 4504.6      | 4487.6      | 4444.5      | 3605.1      |
| Government Debt, total   | 5385.0      | 5945.9      | 6976.2      | 6994.4      | 7035.1      | 6991.2      | 6196.1      |
| Government Debt /% GDP   | 14.9        | 15.5        | 17.6        | 17.6        | 17.7        | 17.7        | 15.0        |

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

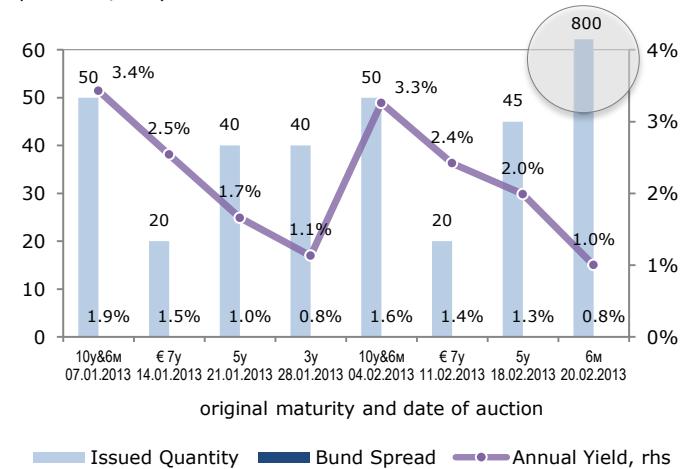
The nominal value of government debt at the end of January amounted to EUR 6 196.1 mln, including domestic debt of EUR 2 591.1 mln and external debt of EUR 3 605.1 mln. In nominal terms, the debt decreased by EUR 795.1 mln compared to its level at the end of the previous month. This was mainly driven by the decrease in external government debt following payments on global bonds maturing on 15/01/2013 in the amount of EUR 818.5 mln. At the end of January the government debt-to-GDP ratio was 15%.

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

In January, debt denominated in EUR narrowed to 55.1%. The debt in BGN, USD and other currencies increased and amounted to 29.1%, 14% and 1.8% respectively.

**Latest Government Securities Auction Results**

(mln BGN/EUR)

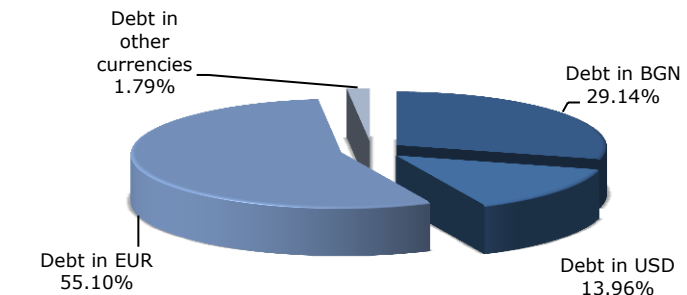


Additional data on the auction results can be viewed on the site of the Bulgarian National Bank, that is a fiscal agent to the government [www.bnb.bg](http://www.bnb.bg)

Source: MF

**Government Debt Currency Structure**

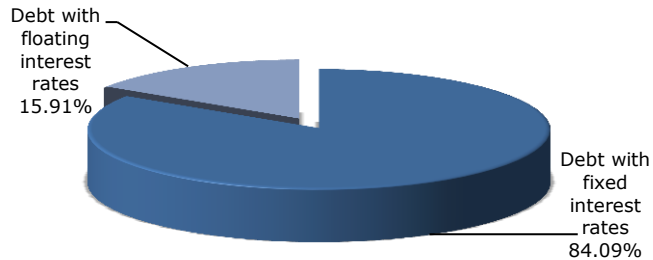
(as of 31 January)



Source: MF

### Government Debt Interest Rate Structure

(as of 31 January)



Source: MF

At the end of January, the share of debt with floating interest recorded an increase over December and reached 15.9%, while debt with fixed interest reduced to 84.1%.

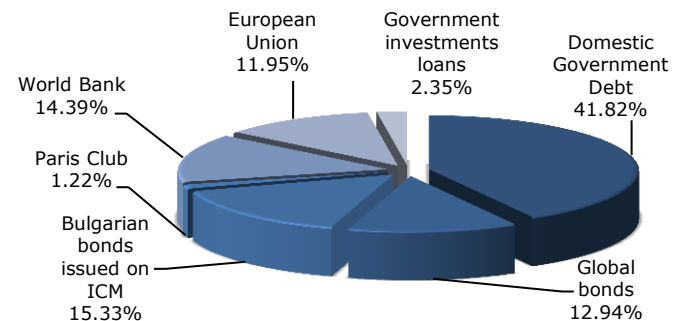
*Government debt interest rate structure provides predictability of resources required for its servicing*

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

The share of domestic government debt stood at 41.8%, followed by euro-denominated bonds issued in international capital markets – 15.3%, commitments to the World Bank – 14.4%, global bonds – 12.9% commitments to the European Union – 12% and the Paris Club – 1.2%. ▲

### Government Debt Structure by Creditor

(as of 31 January)



Source: MF

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