



Moody's Investors Service

Rating Action: [Moody's changes outlook on Bulgaria's ratings to positive from stable](#)

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London, 21 January 2010 -- Moody's Investors Service has today changed the outlook on the Bulgarian government's Baa3 ratings to positive from stable. The rating action restores the positive outlook that was in place prior to the financial crisis in September 2008. This is also the first positive rating action on an EU sovereign since July 2008.

"The Bulgarian government's finances were relatively resilient through the 2008-09 financial crisis," says Kenneth Orchard, Vice-President/Senior Credit Officer in Moody's Sovereign Risk Group. "Despite a deep recession, Bulgaria will have very low budget deficits by global standards in 2009 and 2010, keeping government debt ratios low and stable."

Orchard highlighted that an upgrade to Baa2 is contingent upon the country's ability to renew growth and weather the impact of regional shocks. "Moody's expects the recession to end in mid-2010, although the problems in Greece will likely dampen the recovery this year," says Orchard. About 9% of Bulgarian exports go to Greece, and Greek companies are major investors in the country, particularly the banking sector.

Economic growth should resume in 2011-12, however, supported by significant EU funds and FDI attracted by the low cost base. "Structural changes in the regional economy are expected to shift GDP growth to a 3%-4% range, well below the pre-crisis average. This will ensure continued convergence with wealthier EU countries, but at a slower pace," says Orchard.

Moody's recognizes that Bulgaria continues to face risks from its external finances, including a large current account deficit and very high external debt. "However, the country passed an important stress test in 2009," says Orchard. "External liabilities were re-financed, and the current account deficit adjusted in an orderly manner."

In a related action, the outlooks on the A1 foreign currency bond ceiling and Baa3 foreign currency deposit ceiling were also move to positive from stable. The foreign currency bond and deposit ceilings are the highest

possible ratings that may be assigned to Bulgarian foreign currency bonds and deposits, respectively.

The last rating action on Bulgaria was implemented on 20 March 2009, when Moody's affirmed the Baa3 local and foreign currency ratings of the government with a stable outlook.

The principal methodology used in rating Bulgaria was Moody's Sovereign Bond methodology, published in September 2008 and available on www.moody.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

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