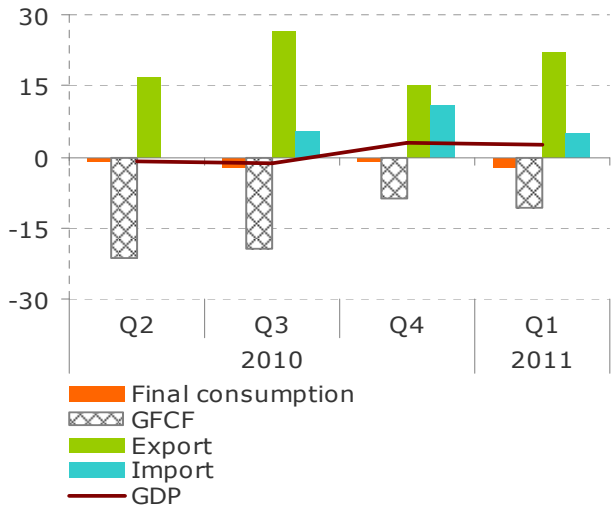
Macroeconomic environment and policies in brief

- Bulgarian economy continued its recovery in the first quarter of 2011. **GDP flash estimates** showed an increase of 2.5% yoy and 0.4% qoq (s.a. data). Rising exports was the main growth engine at the beginning of the year, while domestic demand continued to shrink.
- According to the latest calculations, **the Economic Activity Indicator (EAI)** continued on the path of cyclical improvement during Q1 2011. **EAI** showed a further increase in the cyclical ingredient, the latter reaching one of the highest values over the entire period of EAI calculation, while the long-term component carried on decreasing.
- **April business climate** rose, partially offsetting the previous month deterioration in business conjuncture. Improvement came on the back of the better current situation assessment in industry and services.
- Nominal **wage growth** decelerated in Q1. Employment reduction continued influencing labour costs adjustment, supporting the positive labour productivity expectation in Q1. **Unemployment rate** continued to decrease to 9.3%.
- **HICP** decelerated to 3.3% yoy in April just in line with the expectations. Tobacco prices largely brought headline inflation down as a base effect from the excise hike a year ago, while energy and food prices contribution narrowed.
- **Current account surplus** reached 1.2% of GDP on 12 month rollover basis in Q1. CAB improvement was mainly due to positive trade dynamics and the continuing surge in exports, up by 55.6% yoy in Q1 to a record high of EUR 4.75 bn. Imports quarterly value was EUR 4.71 bn, up by 29.9% yoy, but still below the 2008 level. Services balance continued to contribute positively to CA change with a surplus of EUR 58.3 mn.
- The **growth rate of money supply accelerated** to 7.4% in March on the back of higher growth of M1. Latest developments of monetary aggregates may be considered positive, as more liquidity has been directed toward economic activities rather than precautionary savings.
- **General government deficit** amounted to BGN 0.7 bn (1% of GDP) in Q1 2011 compared to BGN 1.7 bn (2.4% of GDP) in Q1 2010. On a monthly basis a surplus of BGN 8.6 mn was reported for March. Better revenues performance and shrinking of expenditures in comparison with Q1 2010 both contributed for the deficit improvement.
- MF decisive measures in budget deficit constraining and fiscal consolidation gave noticeable results given the volatile European sovereign debt markets and high indebtedness of some euro area governments. **Bulgarian risk premium maintained its declining trend**, as 5Y CDS premium came below 200 bps. The tendency of decreasing GS yield on primary and secondary markets in all maturity, underpinned the confidence of investors to the macroeconomic policy conducted.

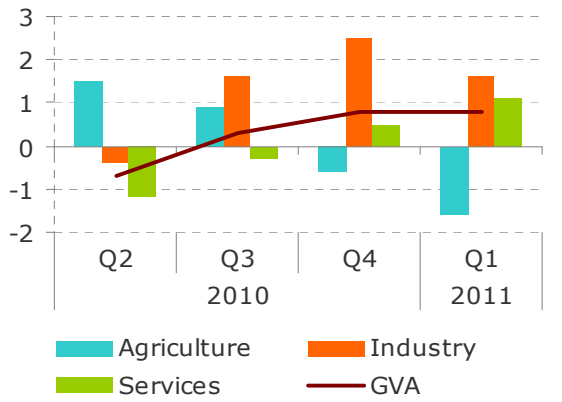
Recent Economic Developments

- Bulgarian economy continued its recovery in the first quarter of 2011. **GDP flash estimates** showed an increase of 2.5% yoy and 0.4% qoq (s.a. data). Rising exports was the main growth engine at the beginning of the year, while domestic demand continued to shrink. Consumer expenditures fell by 2.1% yoy mainly due to the 7.9% decline in collective consumption, while the drop in individual consumption narrowed to 0.2%. Gross fixed capital formation declined further to 10.8% yoy reporting a 4.7% decrease compared to Q4 2010. Exports continued to expand posting a 22.2% increase in real terms. Imports also recorded a growth of 4.9%.

GDP growth (%, yoy)



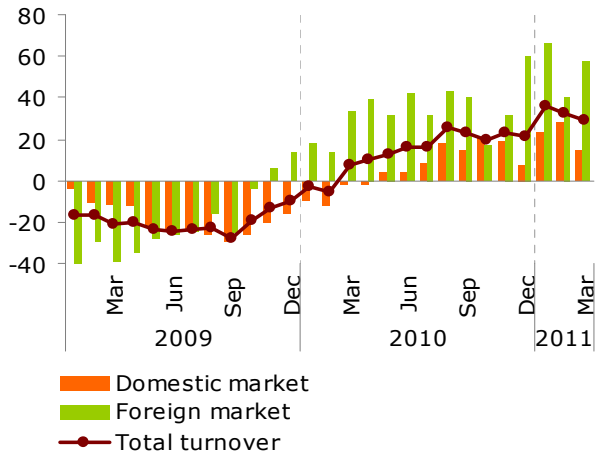
Gross value added (%, yoy)



Source: NSI

- **Gross value added** grew by 0.8% yoy. Value added in the industry slowed its growth rate to 1.6% yoy, while decreasing by 0.2% compared to Q4 2010. Services sector continued improving for a second quarter in a row, growing by 1.1% yoy and 0.3% qoq. The agricultural sector registered a 1.6% decline.
- **Industrial production index** decelerated to 6.1% due to some base effects from a year earlier. The major contribution for the reported increase came from energy and intermediate goods. **Industrial turnover** registered a 29% yoy growth in March. Similar to previous months developments, it was led by strong foreign market sales (57.9% yoy), while domestic turnover growth narrowed to 14.2%.

Industrial turnover (%, yoy)

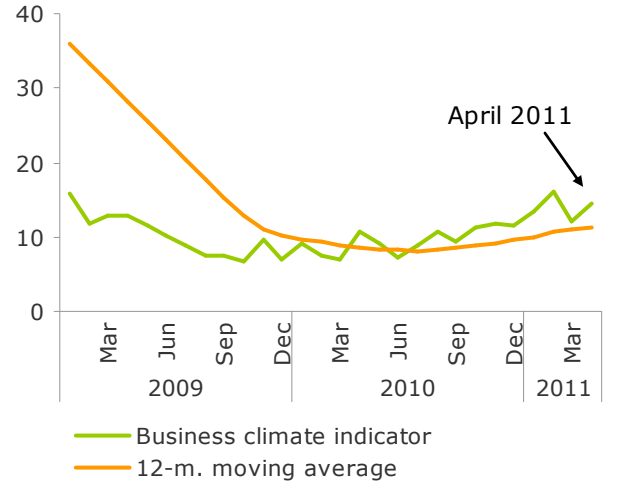


Source: NSI

- **Retail sales turnover** came to positive territory for the first time since end-2008. It grew by 1.4% yoy, as other retail sale in non-specialized stores stood out with the highest yoy increase of 12.3%.
- **Construction output** decreased by 18.3%, as both building construction

and civil engineering slump deepened to 13.9% and 24.2% respectively.

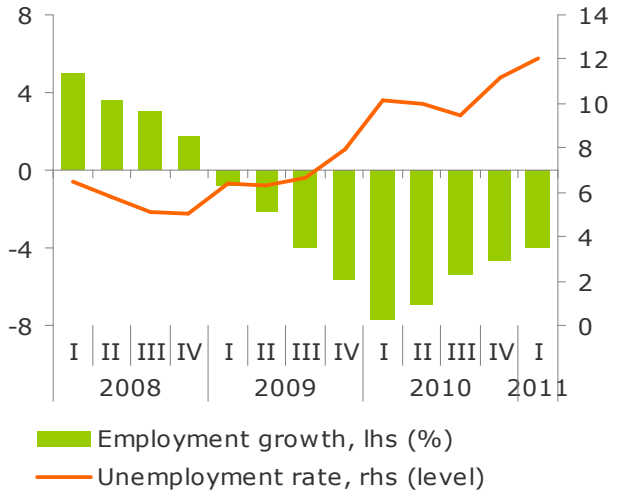
Business climate (balance)



Source: NSI

- **April business climate** rose by 2.4 points partially offsetting the previous month deterioration in business conjuncture. Improvement came on the back of the better current situation assessment in industry and services. Expectations for the future are also optimistic in these two sectors, as managers in the industrial sector foresee increase in exports in the next three months. Nevertheless, sales expectations in retail trade and construction remain pessimistic.

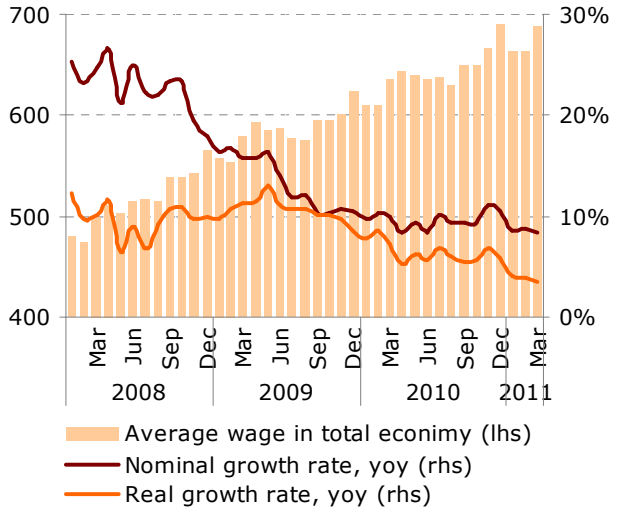
Employment Growth and Unemployment Rate



Source: EA

- **Employment developments** in the beginning of 2011 still lagged behind the GDP recovery. Q1 LFS pointed to a continuing decrease in employment of 4% yoy, pulled down mainly by the industrial sector job closures. A certain recovery in labour demand made some export-oriented processing industries, such as manufacturing of machines and equipment (ES), but the latter have not had much power to reverse the overall negative employment trend. The still weak domestic demand sustained its negative influence over service sector employment. Unemployment numbers stepped up to 395.5K persons in Q1, corresponding to a 12% rate of unemployment - the highest one over the last six years. While the number of long-term unemployed has continued on the increase (over 46% up yoy), that of unemployed with spells of unemployment below 12 months decreased by 5.7% on a year earlier.
- **April jobless rate** continued to decrease to 9.3%, down by 0.2 pps mom and by 0.7 pps yoy.

Average wage in the total economy

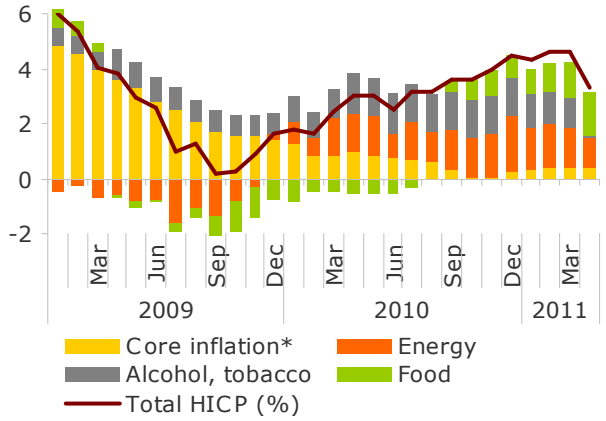


Source: NSI

- Nominal **wage growth** in Q1 decelerated to 8.4% yoy, being over 10.5% in the previous quarter. All

aggregate sectors contributed to the overall wage developments, while the biggest wage slowdown came from service sector. Manufacturing also followed a decelerating pace of wage increase, however, in part of the industries some wage growth acceleration has been observed probably due to economic recovery and productivity regain since H2 2010. Employment reduction continued influencing labour costs adjustment, which supports positive labour productivity expectation in Q1.

Contribution by HICP components
(pps, yoy)



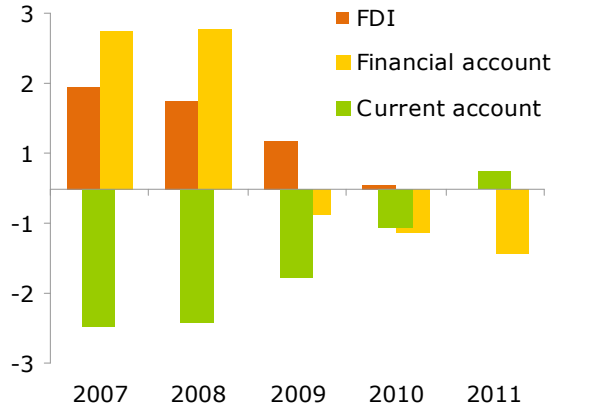
*incl. services and non-energy industrial goods

Source: NSI

- **April HICP** stepped down by 0.1% mom, thus decelerating to 3.3% in yoy terms. Just in line with the expectations tobacco prices had the largest contribution to bringing headline inflation down as a base effect from the 2010 excise duty hike. Following the agreement between Lukoil Bulgaria and the state government, retail fuel prices declined by 2.6% mom, narrowing their impact for the overall index increase. Food prices rate of change also decelerated during the month, though still keeping their high contribution in yoy terms.

- **Current account balance** reached EUR 252.7 mn in Q1 (1.2% of GDP on 12 month rollover basis), as in March alone the surplus stood at EUR 87 mn.

FDI, Current and Financial Account
(Jan-Mar, billion euro)

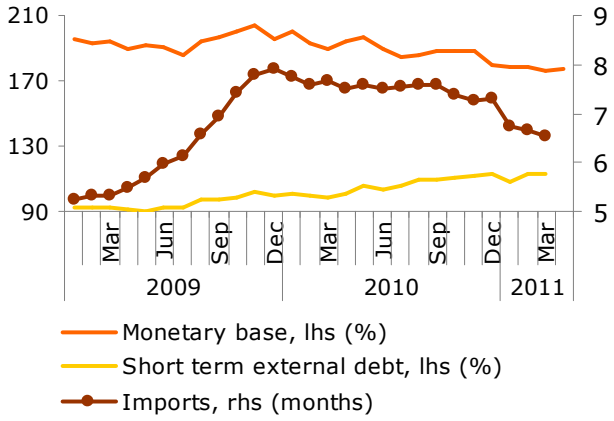


Source: BNB

- The CAB improvement was mainly due to positive trade dynamics, with the **continuing surge in exports**, up by 49.8% yoy in March and by 55.6% yoy in Q1 to a record high of EUR 4.75 bn. This may be partially explained by the relatively lower base in the beginning of 2010, along with recent price hike on the international market. At the same time, according to GDP flash estimates, exports have grown by 20% in real terms in the first quarter. On the other hand, **imports nominal growth slightly decelerated** in March (up by 19.7% on a year earlier, compared to the 36% yoy increase in the previous month). Its quarterly value was EUR 4.71 bn, up by 29.9% yoy, but still below the 2008 level. Services balance continued to contribute positively to CA change with a surplus of EUR 58.3 mn. The income deficit shrank by 27.5% yoy to just EUR 82.6 mn. As private and EU fund transfers slightly declined on annual basis in March, net transfers inched down by 4% yoy, thus being the only article with negative contribution to the CA improvement.

- The **financial account** generated a deficit of EUR 356.7 mn, as FDI were negative at EUR 363 mn. In March Bulgarian firms allocated capital of EUR 457 mn to their mother-companies abroad. Taking into account the upward revision of February FDI flows to plus EUR 187 mn (from the preliminary minus EUR 117 mn), the accumulated net FDI in Q1 were negative at EUR 27 mn. The net other investments were slightly positive at EUR 2.8 mn, compared to the EUR 339.5 mn surplus a year ago, while the Q1 deficit climbed by 41% yoy to EUR 725 mn due to higher investment in foreign assets in the current year.
- The **overall balance of payments** in March was negative at EUR 90.2 mn. Since the beginning of 2011 the Central Bank international reserves have been reduced by EUR 664.7 mn.
- Bulgaria's **gross external debt** fell by 3.1% yoy and 1.4% mom to EUR 36.1 bn (93.4% of GDP) as of end-March. The annual change could be explained by the activities in the banking sector. Banks indebtedness lowered to EUR 6.45 bn in Q1 2011 (down 18% on a year earlier), accounting for 17.9% of the total external debt. On the other hand, the non-banking sector had a negative contribution to the GED decrease, as firms increased their long-term exposure to foreigners by 5.3%, while inter-company borrowing inched up by 0.6%. In the government sector, gross external debt, which represents 17.9% of the total, remained unchanged compared to a month earlier at EUR 2.7 bn and dropped by 4.2% yoy. Short-term debt by original maturity declined by 8.3% compared to March 2010 and by 1% mom, providing BNB reserves coverage of 113.5%.
- At end-April **gross international reserves** reached EUR 12 bn, providing 176.7% coverage of the monetary base. As of the end of March international reserves covered 6.5 months worth of imports of goods and non-factor services.

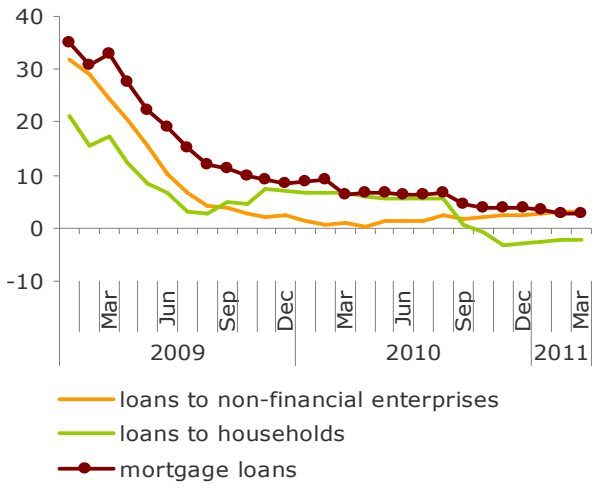
Coverage with FX Reserves



Source: BNB

- **Money supply** annual growth rate accelerated to 7.4% in March (being 6.2% in February) on the back of higher growth of liquid monetary aggregate M1 (4.9% against 0.5% at the end of the previous month). Time deposits slowed down to 8.4% yoy, compared to 9.6% in February. The development of monetary aggregates may be considered positive, as more liquidity has been directed toward economic activities rather than precautionary savings. Total deposits grew by 8.2%. Households' deposits growth has been on the decrease, while still growing at double-digit rate (11.8% in March, compared to 12.8% at the end of 2010).
- **Credit to the private sector** grew by 1.6%, reporting a marginal slowdown. Its annual growth could be largely attributed to the 3% yoy increase in corporate credit. Consumer credits slowed down their rate of decline to 2% compared to 2.2% a month earlier. Housing credits preserved their positive annual growth rate which declined to 2.7% being 2.9% in February.

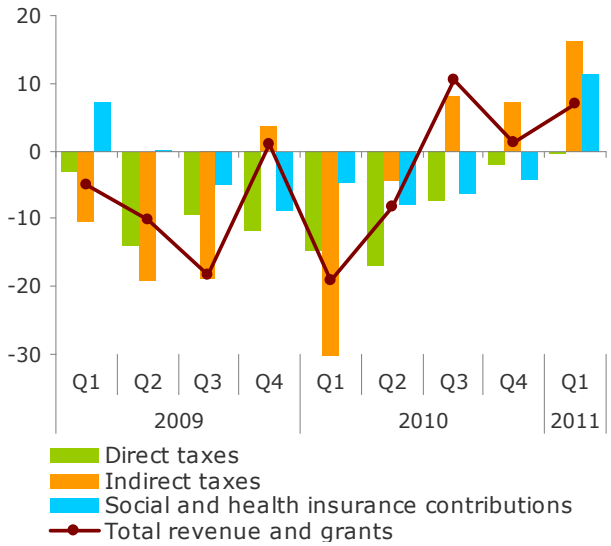
Annual Credit Growth Rate



Source: BNB, MoF

- **Interest rates** on BGN denominated credits increased slightly both for short and long-term loans along with the interest rates on BGN deposits, as banks usually need more liquidity at this time of the year due to higher tax payments and their intermediation role in transferring taxes to the state budget. At the same time interest rates on credits and deposits in foreign currency declined.
- **General government deficit** on a cash basis amounted to BGN 0.7 bn (1% of GDP) in Q1 2011 compared to BGN 1.7 bn (2.4% of GDP) in Q1 2010. On a monthly basis a surplus of BGN 8.6 mn was reported for March. Better revenues performance and shrinking of expenditures in comparison with Q1 2010 both contributed for the deficit improvement.
- **Total revenue** collected during the first three months of 2011 accounted for 21.1% of the annual revenue projection, posting a 6.9% increase in nominal terms compared to Q1 2010. Both tax and non-tax revenues were higher, while the amount of grants declined. Most of the main tax revenue groups registered increase, except for the profit tax receipts. The latter resulted in a 16.4% yoy increase in indirect tax revenue in Q1 2011, while direct tax receipts were close to their last year level. Social and health insurance contributions came higher by 11.4%[1].
- **Total expenditure**, including the EU budget contribution, was 8.3% lower due to the capital expenditures and subsidies decrease, followed by the reduction of maintenance and wages and salaries spending. Increases compared to Q1 2010 levels were registered in health insurance expenditures, interest expenditures and spending on social insurance contributions.

Consolidated budget, Total Revenue
(%, yoy*)



*quarterly values on a cash basis compared to corresponding quarter of the previous year.

Source: MoF

- **Fiscal reserve** amounted to BGN 4.7 bn at the end of March 2011.
- **General government debt**, including government guaranteed debt, accounted for 15.1% of GDP. Domestic debt came to 5% of GDP, external debt – to 8.6%.

[1] Social security contribution has been increased by 1.8 pps since the beginning of 2011.

Key Economic Indicators

		2008	2009	2010	Q2'10	Q3'10	Q4'10	Q1'11	XI' 10	XII' 10	I' 11	II' 11	III' 11	IV' 11
GDP*														
Gross Domestic Product*	%, y/y	6.1	-5.5	0.2	-1.0	-1.2	2.9	2.5						
Consumption	%, y/y	2.5	-7.3	-1.1	-0.9	-2.0	-1.1	-2.1						
Investment	%, y/y	16.3	-24.9	-14.0	-18.2	-15.4	-3.8	-2.7						
Export	%, y/y	3.0	-11.2	16.2	16.8	26.3	15.1	22.2						
Import	%, y/y	4.2	-21.0	4.5	-0.1	5.4	10.6	4.9						
Agriculture	%, y/y	29.6	-6.1	3.9	1.5	0.9	-0.6	-1.6						
Idustry	%, y/y	4.4	-7.8	1.9	-0.4	1.6	2.5	1.6						
Services	%, y/y	5.0	-0.8	-0.9	-1.2	-0.3	0.5	1.1						
Adjustments	%, y/y	5.7	-16.5	-0.2	-2.0	1.9	4.6	5.5						
Short term business statistics														
Industrial production	%, y/y	0.7	-18.3	2.0	1.5	4.4	5.2	10.3	5.7	6.7	10.2	15.4	6.1	
Industrial turnover	%, y/y	13.7	-20.2	14.1	13.0	21.5	21.1	32.2	23.0	21.0	35.9	32.2	29.0	
Retail trade turnover	%, y/y	8.9	-8.9	-5.6	-8.4	-4.1	-4.3	0.4	-4.8	-3.5	-0.1	-0.1	1.4	
Construction output	%, y/y	12.7	-14.5	-18.0	-20.7	-15.0	-8.5	-14.8	0.8	-14.2	-12.2	-13.1	-18.3	
Total business climate	balance	38.0	10.2	9.6	9.1	9.7	11.5	13.8	11.7	11.5	13.4	16.1	12.0	14.4
Industrial confidence	balance	39.9	12.3	13.4	14.6	14.7	15.0	21.6	15.1	16.0	20.2	24.3	20.4	24.5
Retail trade confidence	balance	41.3	13.5	10.1	8.2	8.8	13.0	13.0	13.5	12.4	12.4	11.3	15.4	11.2
Construction confidence	balance	40.3	8.5	5.1	5.9	4.0	2.9	4.7	5.2	1.4	1.9	7.0	5.3	2.0
Services confidence	balance	28.7	5.1	5.6	2.0	6.1	11.8	8.1	9.7	11.9	12.3	13.5	-1.4	9.7
Labour market														
Participation rate (15+)	level	53.8	53.0	52.0	52.2	52.5	52.1	50.8						
Employment rate (15+)	level	50.8	49.4	46.7	47	47.5	46.3	44.7						
Employment (LFS)	%, y/y	3.3	-3.2	-6.2	-6.9	-5.4	-4.7	-4.0						
Unemployment rate (LFS)	level	5.6	6.8	10.2	10.0	9.5	11.2	12.0						
Unemployment rate (Employment agency)	level	6.3	7.6	9.5	9.6	9.1	9.1	9.7	9.1	9.2	9.8	9.8	9.5	9.3
Nominal wage	%, y/y	26.5	11.8	6.3	8.7	9.4	10.4	8.4	11.2	10.6	8.5	8.7	8.3	
Real wage**	%, y/y	13.0	9.1	3.2	5.7	5.9	6.1	3.7	6.9	5.8	4.0	3.9	3.6	
Labour productivity (GDP per employed)	%, y/y	3.5	-2.9	6.4	8.2	5.7	7.8							
Real ULC	%, y/y	3.7	8.1	-2.2	1.7	-6.2	-6.7							
Prices														
Harmonized index of consumer prices	%, y/y	11.9	2.5	3.0	2.9	3.3	4.0	4.5	4.0	4.4	4.3	4.6	4.6	3.3
Domestic producer prices	%, y/y	13.3	-4.3	7.2	5.6	9.5	11.1	11.9	11.1	12.0	11.1	12.5	12.1	
Consolidated fiscal program (cummulative)														
Revenue and grants	mln BGN	27313	25041	23933	11189	17346	23933	5530	21356	23933	1675	3303	5530	
Total expenses	mln BGN	25323	25667	26755	12704	18872	26755	6272	23222	26755	2153	4053	6272	
Contribution to EU budget	mln BGN	720	746	670	359	529	670	250	615	670	60	211	250	
Cash deficit(-) / surplus(+)	mln BGN	1990	-626	-2823	-1515	-1527	-2823	-742	-1866	-2823	-477	-751	-742	
	% GDP	2.9	-0.9	-4.0	-2.2	-2.2	-4.0	-1.0	-2.6	-4.0	-0.6	-1.0	-1.0	
Government and gov. guaranteed debt	mln BGN	10710	10641	11775	10970	11397	11775	11444	11580	11775	11501	11449	11444	
	% GDP	15.5	15.6	16.7	15.6	16.2	16.7	15.1	16.4	16.7	15.2	15.1	15.1	
Fiscal reserve	bln BGN	8382	7673	6012	6029	6711	6012	4699	6391	6012	5412	5072	4699	
	%, y/y	12.5	-8.5	-21.6	-27.1	-12.7	-21.6	-26.1	-21.1	-21.6	-26.7	-20.1	-26.1	

		2008	2009	2010	Q2'10	Q3'10	Q4'10	Q1'11	XI' 10	XII' 10	I' 11	II' 11	III' 11	IV' 11
Financial sector														
BNB International reserves	mln BGN	12713	12919	12977	12155	12764	12977	12209	12697	12977	12224	12329	12209	11965
Monetary base coverage	%	175.3	195.2	179.8	189.2	188.6	179.8	176.3	188.1	179.8	178.6	178.5	176.3	176.7
Coverage of import with FX reserves	months	5.4	8.0	7.3	7.4	7.6	7.3	8.3	7.3	7.3	6.7	6.7	6.5	
Coverage of short-term external debt	%	96.5	100.2	112.8	103.7	108.9	112.8	113.5	111.6	112.8	108.4	113.5	113.5	
Money M1 (Narrow money)	%, y/y	-4.1	-8.8	0.8	0.9	7.7	0.8	0.8	7.5	1.4	2.0	0.5	4.9	
Money M3 (Broad money)	%, y/y	8.8	4.2	6.2	8.0	8.4	6.2	6.2	9.0	6.4	7.4	6.2	7.4	
Deposits	%, y/y	8.8	7.6	6.6	10.1	9.4	6.6	6.6	10.0	6.9	8.1	6.8	8.2	
Credit to private sector	%, y/y	32.9	3.8	1.1	2.0	1.6	1.1	1.1	1.2	1.1	1.6	1.7	1.6	
Credit to non-financial enterprises	%, y/y	33.1	2.3	2.4	1.2	1.8	2.4	3.0	2.5	2.4	2.9	3.0	3.0	
Credit to households	%, y/y	31.4	5.8	-0.8	3.7	0.8	-0.8	-0.7	-1.1	-0.8	-0.7	-0.7	-0.7	
Interest rate on short-term loans	%	10.9	10.5	8.5	8.3	8.8	8.0	6.4	7.8	8.2	5.9	6.7	6.8	
Interest rate on time deposits	%	5.6	7.0	5.4	5.3	5.0	5.1	5.1	5.1	5.2	5.2	4.9	5.1	
Exchange rate BGN/USD	eop	1.39	1.36	1.47	1.59	1.43	1.47	1.38	1.50	1.47	1.43	1.41	1.38	1.32
	per. av.	1.34	1.41	1.48	1.54	1.52	1.44	1.43	1.43	1.48	1.46	1.43	1.40	1.35
Gross External Debt														
Gross external debt	% GDP	104.9	108.0	101.8	103.5	101.3	101.8	93.4	100.9	101.8	94.2	94.8	93.4	
Short term external debt	% GED	35.4	32.7	31.4	31.4	32.1	31.4	29.8	31.3	31.4	31.0	29.7	29.8	
Intercompany lending	% GED	36.4	38.5	40.2	40.1	40.2	40.2	40.8	40.5	40.2	40.9	41.4	40.8	
Balance of payments														
Current account	mln EUR	-8162	-3118	-356	-308	1343	-837	253	-392	-276	98	68	87	
Current account, % GDP moving average		-23.4	-8.7	-1.0	-4.4	-1.2	-1.0	1.2	-1.6	-1.0	0.1	0.2	1.2	
Trade balance	mln EUR	-8597	-4174	-2412	-786	-118	-941	47	-417	-329	95	-31	-17	
Trade balance, % GDP moving average		-24.6	-11.6	-6.7	-9.0	-6.7	-6.7	-4.9	-6.8	-6.7	-5.6	-5.4	-4.7	
Export, f.o.b.	mln EUR	15204	11699	15588	-4594	-4531	-5250	-4710	1460	1399	1589	1472	1696	
	%, y/y	12.5	-23.1	33.2	15.0	15.8	26.5	29.9	34.4	45.5	72.5	46.6	49.8	
Import, f.o.b.	mln EUR	-23801	-15873	-18001	3808	4413	4310	4757	-1877	-1728	-1494	-1503	-1713	
	%, y/y	14.7	-33.3	13.4	39.1	44.4	32.7	55.6	40.3	28.8	37.0	36.1	19.7	
Capital account	mln EUR	277	477	291	-90	178	140	12	45	85	-3	11	4	
Financial account	mln EUR	11473	1190	-1	152	-48	539	-925	138	393	-619	50	-83	
Net Foreign Direct Investments	mln EUR	6212	2498	1459	420	443	573	-27	287	218	159	182	-369	
Net Portfolio Investments	mln EUR	-731	-570	-661	-316	-47	-153	-170	-19	-195	-130	-51	11	
Other Investments - net	mln EUR	5980	-719	-774	52	-433	119	-725	-132	370	-648	-80	3	
Change in BNB reserve assets***	mln EUR	-674	650	384	382	-722	-65	665	-30	-279	628	-54	90	

** Reference year 2000, seasonally and working day adjusted data..*
***HICP deflated.*
**** (-) - increase; (+) - decrease in BNB International Reserves*

Recent Developments and Government Debt Review

Record low Bund spread since February 2008.

On April 4, 2011 the Ministry of Finance re-opened the Government Securities /GS/ issue original maturity of 3y&6m in a volume of BGN 55 mn. The nominal value of all submitted bids amounted to BGN 100.8 mn, registering a bid-to-cover ratio of 1.83. The average annual yield of approved bids continued to fall and reached its lowest value of 3.51%, down 3.63% since the previous auction in February. Furthermore, bund spread amounted to 143 bps which is the lowest value for medium term securities auctions since February 2008. The difference between Bulgarian and German benchmark securities yield was less than the value of the country risk premium measured by 5Y CDS spread. The primary market yield of bond issued under Bulgarian law and denominated in national currency is less than the current yield of the euro denominated Eurobonds with similar outstanding maturity of Hungary (Baa3/BBB-/BBB-), Romania (Baa3/BB+/BB+), Croatia (Baa3/ BBB-/ BBB-), Lithuania (Baa1/BBB/BBB) and Turkey (Ba2/BB/BB+).

The outstanding amount of 10Y GS surpassed BGN 100 mn

The auction on April 27 for 10y&6m GS attracted high investor interest. It is a high priority issue in 2011, as it is used for calculating the harmonized long-term interest rate for convergence assessment purposes – the Maastricht criteria.

The average annual yield of the approved GS was 5.39% and Bund spread amounted to 2.16% which corresponded to country's risk premium measured by the 5Y CDS.

The offered quantity was up to BGN 25 mn. All primary dealers submitted bids and the issue was almost 3 times oversubscribed. The total amount of all submitted bids was almost BGN 71 mn. The Ministry of Finance approved bids totaling BGN 22.9 mn, thus the total outstanding amount of the issue increased to BGN 102.9 mn. The parameters of the 10Y&6M GS enhanced their liquidity on the secondary market and increased their role of a benchmark bond on the domestic market.

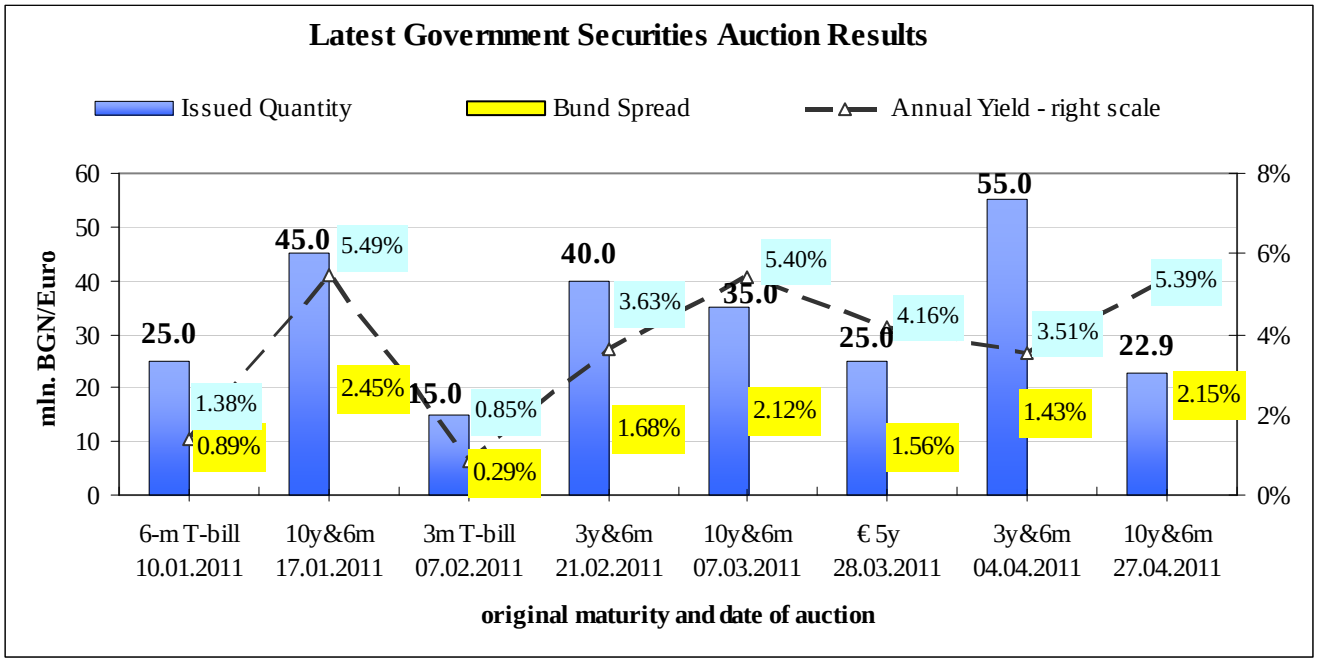
Positive tendency for reduction of the value of Bulgarian harmonized long-term interest rate.

The recorded decrease of the yield of the benchmark 10Y&6M GS on the primary market corresponded also to the latest Eurostat and ECB data on the harmonized long-term interest rate /LTIR/. The value of the LTIR for Bulgaria maintains its downward tendency from the beginning of 2011, reaching 5.33% in April, thus being lower than some of the countries in South East Europe and the euro area. LTIR in Portugal was 9.19%, in Ireland - 9.79%, in Greece - 13.86%, in Poland - 6.14%, in Hungary - 7.05% and in Romania - 7.30%.

Sustainable tendency for yield decrease in all maturities and low levels of Bulgarian risk premium (5Y CDS).

Given the highly volatile European sovereign debt markets and the high indebtedness of some euro area governments, Bulgarian Ministry of Finance decisive measures in budget deficit constraining and fiscal consolidation gave noticeable results. The risk premium of the country maintains its declining trend and for the first time since April 2010 the 5Y CDS premium recorded levels below 200 bps. The tendency for decreasing the yield of the GS on primary and secondary markets in all maturity, underpinned the confidence of investors in GS to the conducted macroeconomic policy. The parameters of the auctions highlight the

intention of the MF to lead an active issuance policy and to diversify the maturity and currency structure of the GS in circulation.



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 amount of government debt is of primary significance to government finance

Nominal government debt at the end of March reached EUR 5 261 mn, including domestic debt of EUR 1 941.5 mn and external debt of EUR 3 319.5 mn. The increase in nominal terms came to EUR 24.5 mn from previous month, reflecting the rise in domestic debt as a result of new domestic financing by government securities. The government debt to GDP ratio came to 13.7%.

Government Debt Amount

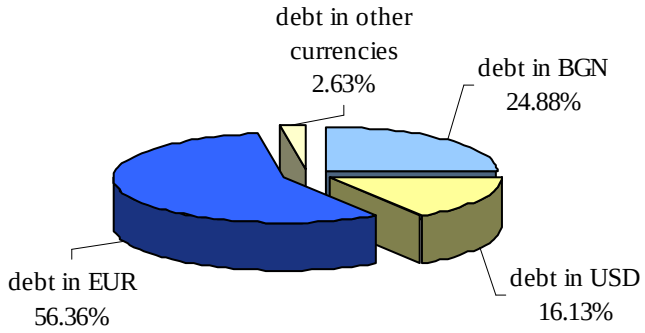
(million EUR)

Structure	31.12.2010	31.01.2011	28.02.2011	31.03.2011
Domestic government debt	2 011.5	1 914.6	1 900.1	1 941.5
External government debt	3 373.5	3 345.7	3 336.4	3 319.5
Government Debt, total	5 385.0	5 260.3	5 236.5	5 261.0
Government Debt /GDP (%)	14.9	13.7	13.6	13.7

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

The positive upward trend in EUR and BGN denominated debt continued in March. The proportion of debt denominated in euro reached 56.4%, being 55.9% in February, debt in BGN - 24.9% and debt in USD and other currencies reached 16.1 and 2.6% respectively.

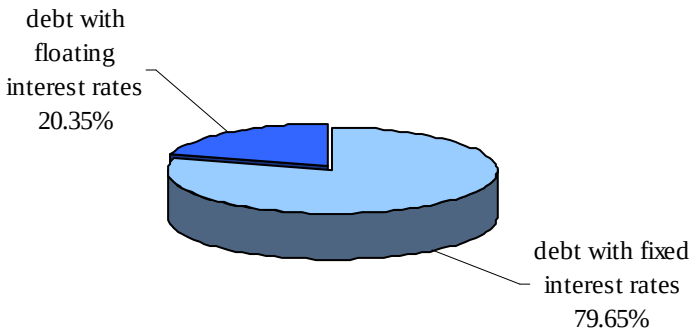
Government Debt Currency Structure as of 31 March



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

By end-March the share of debt with fixed interest rates amounted to 79.6% (compared to 79.3% in February), and that of debt with floating interest rates came to 20.4% (20.7 % in February), as a result of the implemented borrowing policy concentrated on financial resources at fixed interest rates.

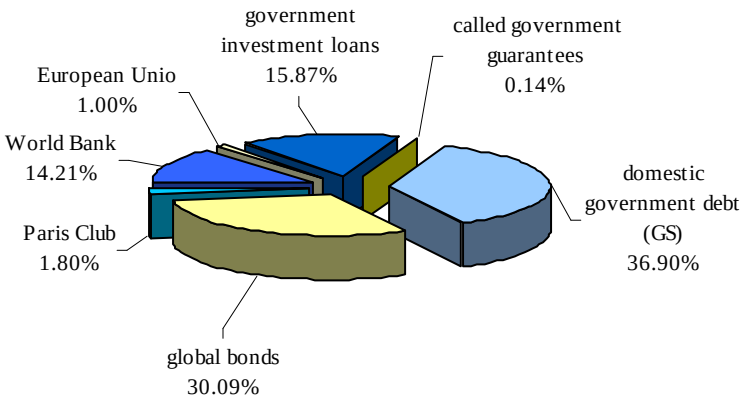
Government Debt Interest Rate Structure as of 31 March



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

Debt structure by types of instruments and creditors in March showed no significant change. The highest relative share belonged to the liabilities related to GS, issued on the domestic market - 36.9%, followed by global bonds - 30.1%, government investment loans - 15.9%, obligations to the World Bank - 14.2%, obligations to the Paris club - 1.8%, European Union - 1% and called government guarantees - 0.1%.

Government Debt Structure by Creditor as of 31 March



Comprehensive information on Bulgarian Government Debt, including monthly bulletins and annual reviews, could 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

For any further questions or comments, please contact Mrs. Milena Boikova, Director of Government Debt and Financial Markets Directorate, Ministry of Finance: email: M.Boikova@minfin.bg , tel. +359 2 9859 2450.

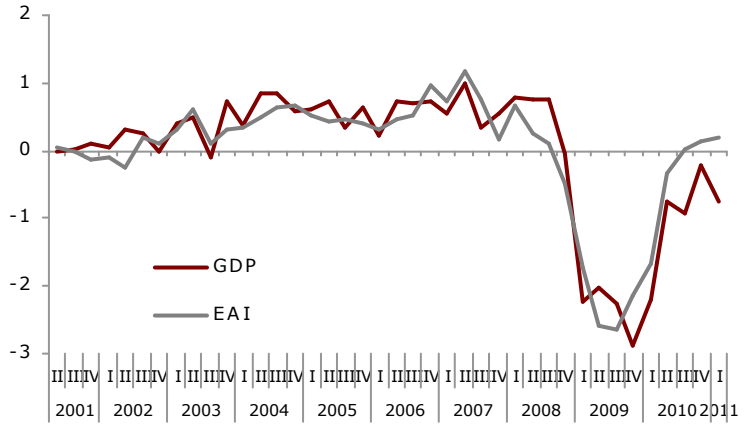
Economic Activity Indicator in Bulgaria, #1/2011

Resume of the Main Findings

The Economic Activity Indicator (EAI) has been recalculated since the previous issue (#4/2010) and now consists of 15 macroeconomic variables, which measure developments in both internal and external environment. It aims at giving an overall picture of Bulgarian economy current performance, as well as an account of its cyclical and long-term components.

- **Q1 2011 EAI continued on the path of cyclical improvement.**

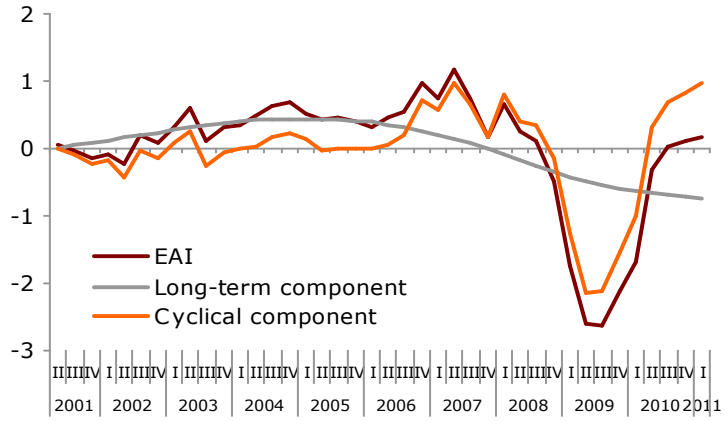
EAI and real GDP growth (normalized)



Source: MF, NSI, Eurostat, BNB, World bank

- **Considered by main components, EAI** showed a further increase in the cyclical ingredient, the latter reaching one of the highest values over the entire period of EAI calculation, while the long-term component carried on decreasing.

EAI by components



Source: MF estimates

- **EAI increase was mainly driven by the favourable external developments.** VAT revenues pushed by foreign trade expansion and rising prices on the international markets largely accounted for the the positive economic activity dynamics.
- **Industrial orders and those for exports in particular broadened,** following the gradual increase in foreign demand, which encourage enterprises **to increase capacity utilization and production. Industrial employment expectations** also improved considerably, supporting the stable pace of EAI improvement.
- **Declining yoy trend in long-term interest rate on loans in BGN** also proved to be a strong engine for the Q1 EAI increase. **The still weak domestic demand, however,** subdued EAI improvement, as retail trade and construction developments had even negative influence on EAI dynamics.