

2012

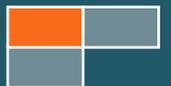
# RECENT ECONOMIC DEVELOPMENTS, BULGARIA

SELECTED ISSUES, JULY/AUGUST 2012

- ▶ Macroeconomic environment and policies in brief
- ▶ Recent Economic Developments
- ▶ Key Economic Indicators
- ▶ Recent Developments and Government Debt Review



**REPUBLIC OF BULGARIA**  
Ministry of Finance

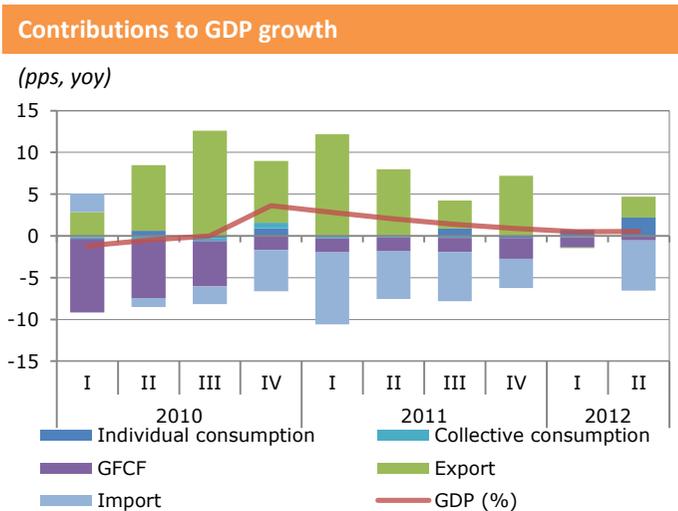


## — MACROECONOMIC ENVIRONMENT AND POLICIES IN BRIEF

- **GDP expansion confirmed at 0.5% yoy as of Q2 2012** (s.a. data), according to NSI preliminary data released in early-September. The economic activity in the country accelerated to 0.3% qoq after being flat in Q1. In line with the positive indications from Consumer Confidence Survey, there was a positive signal from households' consumption, up 3.9% yoy, compared with an increase of 1.7% in the first quarter. Hence domestic demand gathered speed and expanded by 2.1%, after a flat Q1. The latter resulted in acceleration in imports and negative contribution from net exports. The slump in GFCF narrowed in yoy terms, while investment activity posted a 1.5% growth compared to Q1, thus pointing to some recovery.
- The **average wage** totalled BGN 758 in Q2, up 8.4% yoy in nominal terms. The real growth of wages kept high at 6.5%. According to Labour Force Survey, **unemployment** decreased to 12.3%, from almost 13% in Q1, while the annual decline in **employment** was 2.8%, driven mainly by weaker seasonal employment in agriculture. Employment restructuring helped for a **further rise in productivity**, supporting slower RULC increase.
- According to July data on consumer price dynamics, **the annual inflation rate** gathered speed. HICP dynamics again proved to be largely susceptible to external price movements. International food and energy prices brought the headline rate from a 1.6% yoy low in June to a 3.1% increase as of August, along with some one-off factors at the beginning of Q3, such as electricity prices hikes.
- External sector developments proved positive at the outset of the active summer tourist season, as the latter resulted in a two-fold mom increase in tourism revenues and the accumulated services balance reached 1.7% of GDP during the first half-year. **Current account balance** was positive, thus reducing the accumulated deficit since the beginning of the year to 1.2% of GDP. In spite that trade deficit narrowed slightly, as both merchandise exports and imports growth decelerated during the month, it is still the main contributor for the expansion of the CA deficit compared to a year earlier. **Financial account** also reported positive as of June. Thus the accumulated deficit in the first half-year dropped substantially compared to the same period in 2011 and stood at 0.4% of GDP.
- **The general government budget balance** registered a surplus of 0.3% of GDP as of end-July. The budget position improved by 1.2 pps of GDP in comparison with the corresponding period of 2011, mostly on account of the faster growth of revenue and grants as compared to the increase in expenditures. Higher receipts from the European operational programs and funds, on the other hand, largely accounted for the registered surplus over the previous month.
- On August 13, MF reopened the 10.5Y maturity benchmark issue. The average weighted yield of the approved amount of BGN 50 mln was 4.12%, which is **a record low yield for a 10Y GS**. Meanwhile, recently released ECB data confirmed that Bulgarian long-term interest rate reduced by 59 bps to reach 4.28% in August. Since the beginning of the year Bulgaria's long-term interest rate narrowed by 1.02 pps (5.30% in January 2012), its current value being at its lowest level since spring-2007. ▼

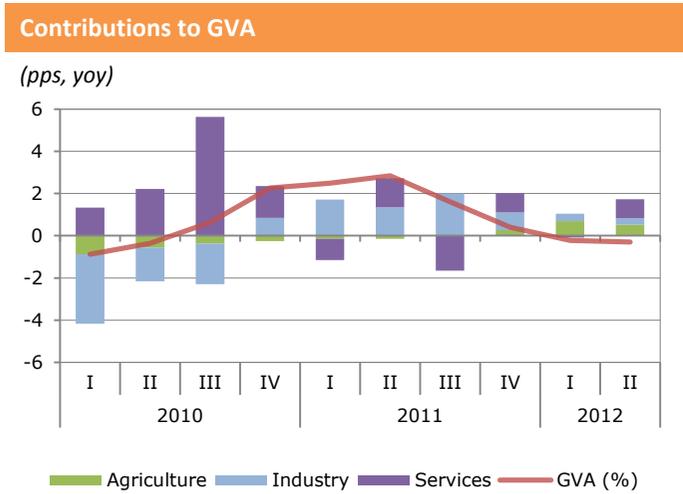
— RECENT ECONOMIC DEVELOPMENTS

**Bulgarian GDP growth came in at 0.5% yoy and 0.3% qoq in Q2 2012.** Domestic demand had a positive contribution to the registered growth. Household consumption in particular expanded by 3.9%, just in line with the positive indications from Consumer confidence survey carried out in July. Meanwhile, the decline in government consumption continued, though at a lower pace. Individual government consumption contracted by 1.6%, while collective consumption went down by 1%. GFCF dropped 2.1% yoy, however, it registered a 1.5% growth compared to Q1, pointing to a possible start of recovery in investment activity. Net exports contributed negatively due to the 8.6% increase in imports driven by domestic demand. Exports returned to positive territory after the registered decline in Q1 and grew by 3.9%.



Source: NSI

On the supply side, **GVA** decreased by 0.3% yoy. The growth in manufacturing slowed down to 1.3%. In the construction sector there was no change on annual basis but a growth of 1% qoq was registered. In the services, the sector Professional and scientific activities grew by 13.3%. Wholesale and retail trade, Financial and insurance activities and Real estate activities also reported growth. Value added in Public administration and defense decreased by 1.3% and had the largest negative contribution to GVA. Value added in Information and communication, and Arts, entertainment and recreation also decreased. Growth in the agricultural sector was 9.6%.



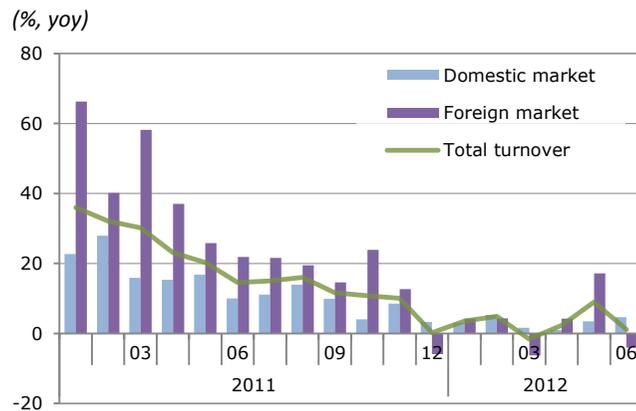
Source: NSI

**Industrial turnover** on the domestic market gain further speed, growing by 4.7% yoy in June, supported by electricity, gas, steam and air conditioning supply. However, growth in total

industrial turnover somewhat lost steam and slowed to 1.1% yoy, largely on account of adverse developments in foreign market sales. The latter registered a 4.4% yoy decline after growing by 17.1% a month earlier.

Despite the good performance in manufacture of other transport equipment, mainly building of ships and boats, and manufacture of chemicals and chemical products, the slump in basic metals production, which has the largest share in foreign markets turnover, contributed negatively to the overall performance.

### Industrial turnover



Source: NSI

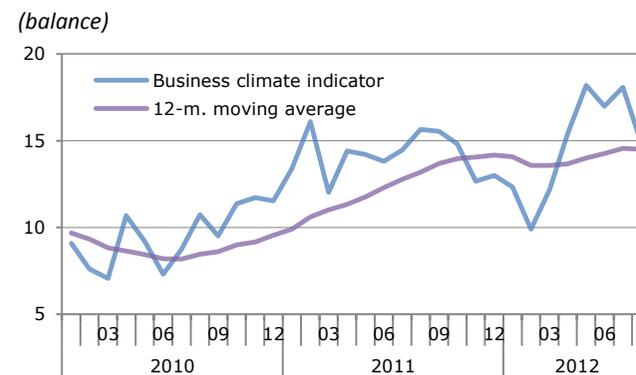
After some favorable developments a month earlier, **industrial production** returned back to the negative territory in June, down 0.3% yoy, as the industrial activity has been negatively affected by performance in energy and intermediate goods.

Meanwhile, **retail sales** increased by 0.6% compared to their June 2011 level, thus breaking the negative trend during the past year. Retail sales of medical and orthopedic goods and retail

sales of food, beverages and tobacco increased further, reaching 6.9 and 3.2% yoy respectively, while growth in retail sale of computers, peripheral units and software slowed to 0.4% yoy from 2.8% a month earlier. At the same time, retail sales of automotive fuel in specialized stores registered an increase for the first time since September 2011, up 2% yoy.

**Construction production index** registered a 4.4% yoy decline, as the slump in building construction widened to 11.4%. Growth in civil engineering also slowed to 5.3% and thus was unable to affect the overall development of the indicator.

### Business climate

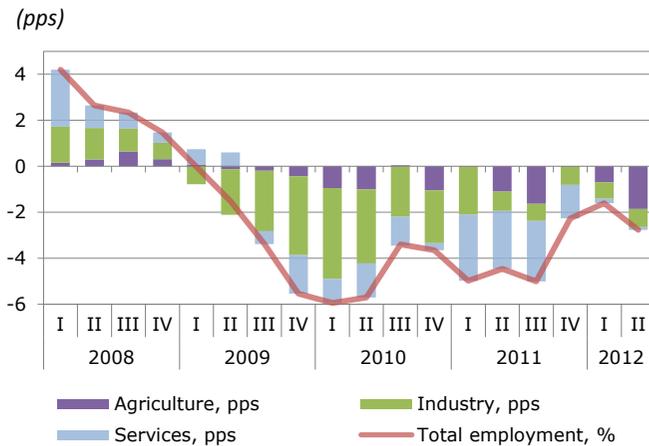


Source: NSI

August **business climate indicator** fell 3.3 pps over the month, after being up by 1.1 pps in July, due to the more unfavorable business climate in all sectors of the economy. A decline in the production assurance with orders from abroad, and thus reduced expectations about the future activity were reported in industry. The perceived fall in construction new orders also lowered expectations for the construction activity in the coming months. Meanwhile, despite the moderate assessment of the current

business situation in retail sales and services, respondents' expectations are more optimistic regarding the volume of sales and the demand for services.

### Employment Growth and contribution by sectors



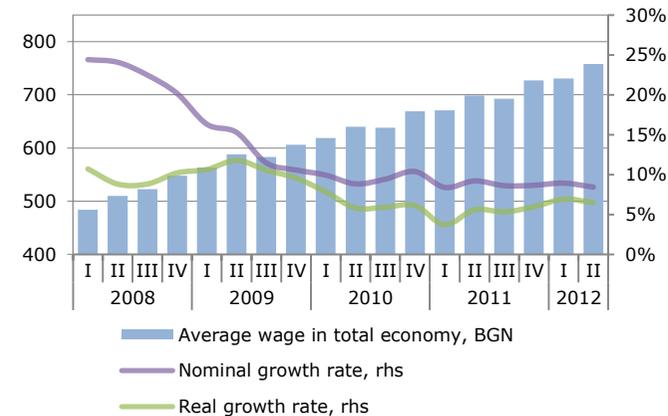
Source: NSI (SNA, LFS)

The annual **employment** decline accelerated in Q2 2012 mainly due to employment developments in agriculture. The number of employed people (SNA) went further down by 2.8% in the second quarter, from a 1.6% yoy decrease in Q1. Seasonal employment in the agricultural activities was weaker on a year earlier and contributed mostly to the overall negative developments. Industrial employment also worsened somewhat, on the account of the faster drop in manufacturing. The latter was driven mainly by weak foreign demand, influencing negatively export-oriented industries, thus eroding the conditions for employment improvement. The overall service sector employment improved, albeit still being negative yoy. However, employed number in the trade, transport and hotels and restaurants decreased due to the

reduced seasonal employment in tourism sector in Q2 as compared to a year earlier.

According to Labour Force Survey, **unemployment** decreased from the previous quarter but remained higher compared to Q2 2011. The unemployment rate revealed the common seasonal revival in agriculture, tourism, construction, trade and several manufacturing industries, decreasing to 12.3%, from almost 13% in Q1. However, it remained at its highest levels for the last eight years, reflecting the ongoing processes of employment optimization among local enterprises.

### Average wage developments

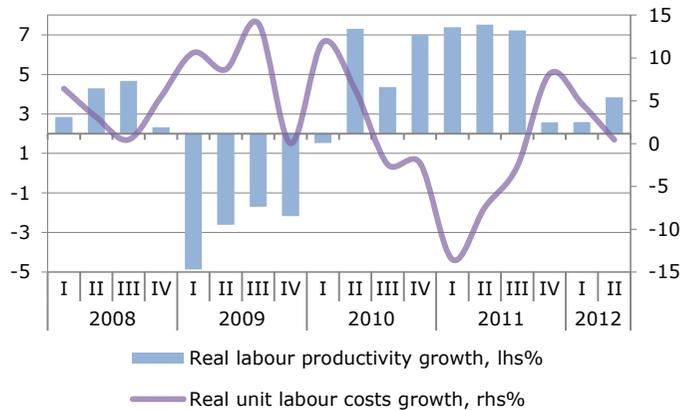


Source: NSI

**Nominal wage growth** sustained its pace of increase from the last more than a year; real wage growth also stabilised since the beginning of 2012. The average wage in Q2 totaled BGN 758, up 8.4% yoy in nominal terms. Private sector wage growth slightly decelerated to 10.2%, though there was no significant change from previous quarters, while the wage growth in public sector

remained at about 4% yoy. Among industrial sectors, labour costs optimization in the manufacturing industries through employment reduction allowed for sustaining the annual wage growth at about 5.1%, while the wage growth in construction was insignificant at 1.3%. The overall service sector wage increase of 10% was mostly determined by dynamics in information technologies and services, characterized with the highest wage levels (BGN 2 328 as of Q2) and going well since the crisis. The real growth of wages kept rather high at 6.5%, holding true for the private sector with an 8.2% real-term increase, while in the public sector the real growth of wages came to 2.1%.

**Labour productivity and Real unit labour costs developments**



Source: NSI, MF

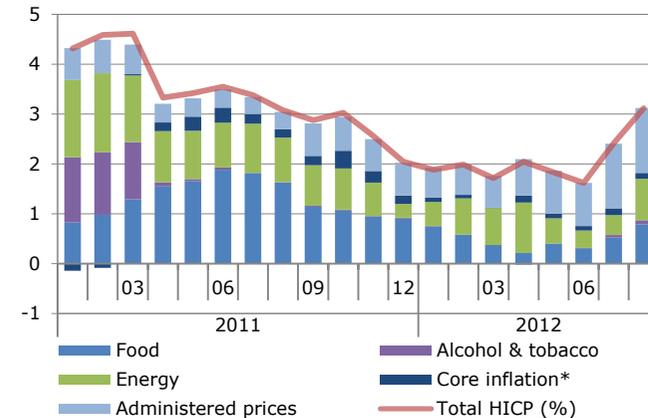
Employment restructuring helped for a **further rise in productivity**, supporting the slowdown in RULC increase. Labour productivity accelerated to 3.8% yoy in Q2 from 2.6% in the previous quarter. Productivity in manufacturing sustained its rather slow pace of increase, up by 1.9%, under the influence of negative foreign environment dynamics. The positive GVA devel-

opments in the service sector helped for a rise in the labour productivity of almost 1%, strongly supported by the restored positive productivity growth in the trade, transport and hotels and restaurants sector (3.5% yoy). The improvement in productivity over Q2 supported the RULC slowdown to 0.4%, as all the three main economic sectors contributed to these positive developments.

**Registered unemployment** kept its slow pace of decrease mom to 10.7% as of the end of August, favored by the active labour market programs implementation.

**HICP and contributions by main groups**

(pps, yoy)



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

Source: NSI, MF

July data on consumer price dynamics showed that annual **HICP inflation** gathered speed and accelerated to 2.4%, up 1.1% during the month alone. It was driven mostly by the 13.2% electricity price hike, which added 0.52 pps to the monthly headline

rate. Rising food and oil prices on international markets also put some pressure in July, though their influence came with a certain lag. As a result, consumer prices increase reached further 3.1% yoy in August, up 0.56% mom, with the highest monthly increases posted by automotive fuel prices, up 4.9%, followed by those of food, up 0.8% on average. Core inflation remained subdued at 0.3% yoy, as non-energy industrial goods continued on the decrease.

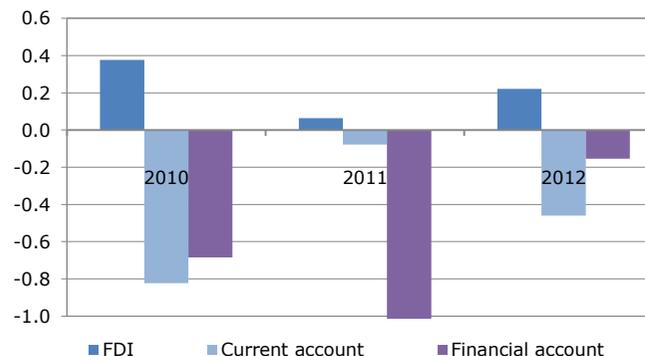
**Current account** balance was positive at EUR 271.5 mln in June, thus reducing the accumulated deficit in H1 to EUR 460.1 mln. Hence the latter stood at 1.2% of GDP, being 0.2% a year earlier. Merchandise exports and imports growth remained high, up 10.7 and 16.3% yoy respectively but decelerated during the month. Trade deficit narrowed slightly to EUR 357.8 mln, but is still the main contributor for the expansion of the CA deficit. In accumulated terms, exports grew 2.8% yoy in January-June, while imports were up 12.9% yoy during the same period.

**Services surplus expanded by 48% yoy** to EUR 469.7 mln, as higher transportation and other services receipts and solid tourist performance largely accounted for the registered improvement. The outset of the active tourist season resulted in a two-fold mom increase in tourism revenues, thus the accumulated services balance reached 1.7% of GDP in H1. Income deficit in January-June almost halved compared to the first half of 2011 and stood at EUR 354.7 mln, mostly due to the shrinking direct investments income. It should be noted, however, that the latter is traditionally subject to significant upward revisions with the inclusion of additional statistical data. The balance on current transfers came slightly below its level a year earlier, although

the accumulated flow on this article in 2012 was 17.9% higher in yoy terms.

### FDI, Current and Financial Account

(January-June, billion euro)



Source: BNB

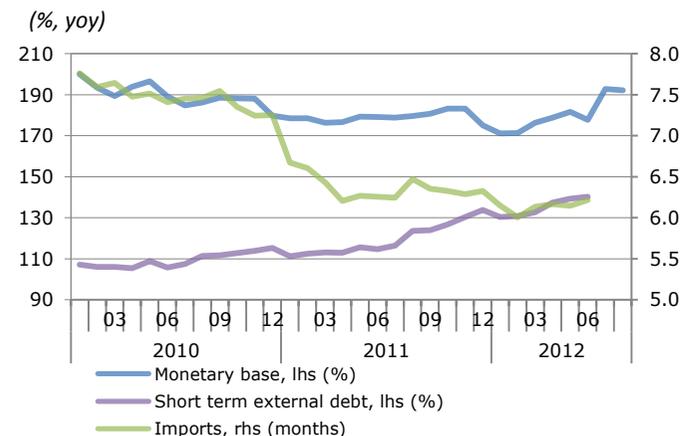
**Financial account surplus** stood at EUR 321.3 mln as of June. Thus the accumulated deficit in the first half-year dropped substantially compared to the same period in 2011 to EUR 154 mln or 0.4% of GDP. After the unstable dynamics of other investment balance, which switched from positive to negative territory during the year, other investments came in at a surplus for a second consecutive month as of June. The latter stood at EUR 523.1 mln, so the accumulated surplus for the first six months of 2012 was EUR 157.3 mln compared to a EUR 856.6 mln deficit in January-June 2011. Net FDI amounted to EUR 136.5 mln (0.3% of GDP) in H1. In addition, a revision in May data showed higher outflow of other capital (repayment of intercompany loans) than the initially reported, thus the FDI surplus in Bulgaria was revised to a negative balance of EUR 246.2 mln. June net FDI stood at EUR 24.7 mln.

The **overall balance of payments** was positive at EUR 344.4 mln in June, being EUR 130.9 mln a year earlier.

**Gross external debt** (GED) decreased to EUR 35.78 bn (89.7% of GDP) as of end-June compared with EUR 36.42 bn a year ago. The unstable dynamics of banking sector flows, discussed above in the financial account analysis, resulted in divergent changes in debt levels of the sector. The higher credit, both short- and long-term, during the month led to a 5.4% mom increase in banks' external indebtedness. The latter, however, amounted to 14.9% of GDP - still substantially below its level of 17% of GDP twelve months earlier. Intercompany lending increased 0.3% mom, up 3.3% yoy, while both government and other sectors' external indebtedness declined during the month. As of end-June, the share of euro-denominated debt stood at 88.9%, while debt in US dollars accounted for 6.3% of GED. Short-term debt was 27.6%.

**International reserves** were on the increase in July and August as they grew by 19.7 and 15.1% yoy respectively and reached EUR 15 bn at the end of August. Reserves grew by 7.9% in July, led by the Government deposit's 42.6% mom increase, due to the inflows from the new Eurobond issue by the Bulgarian government. The growth in August was 0.6% mom and driven by the Notes in circulation increase by 1.8% and the 16.4% increase of the Other depositors account. The significant increase in international reserves led to an improvement in monetary base coverage which reached 192.3% as of end-August. The reserves at the end of June were enough to cover 6.2 months of imports of goods and services or 140.2% of the short-term external debt.

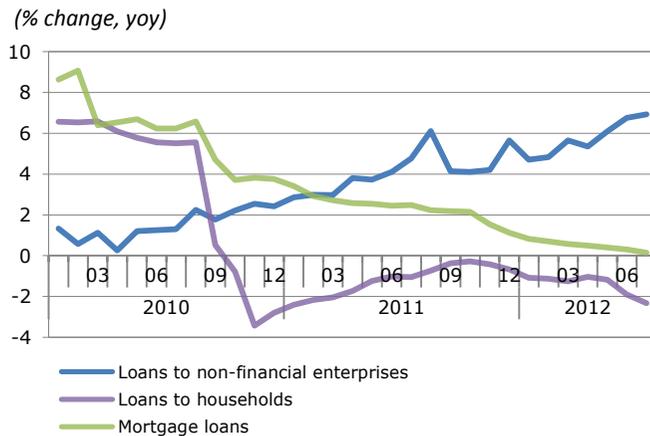
Coverage with FX Reserves



Source: BNB, MF

**Money supply** increase reached 10% yoy at the end of July, from the 10.9% growth posted in May. The slowdown came after the overnight deposits growth rate decreased from 22 to 19% during the two months period, which was accompanied by lower yoy growth of deposits with agreed maturity (5.2 vs. 6.2%). The monthly growth of broad money was 0.2% in June driven by a 1% mom increase in deposits with agreed maturity and a 2.4% increase in money outside MFI. In July alone, the money supply increased by 2.4% with the main contribution coming from liquid money components. Total deposits had their first negative monthly change during 2012 in June, decreasing by 0.2% compared to end-May. They rebounded in July, increasing by 2.3% mom. Nevertheless, deposits kept a relatively high annual growth rate increasing by 10.2 and 10% respectively at the end of June and July (11.2% at the end of May).

### Credit growth



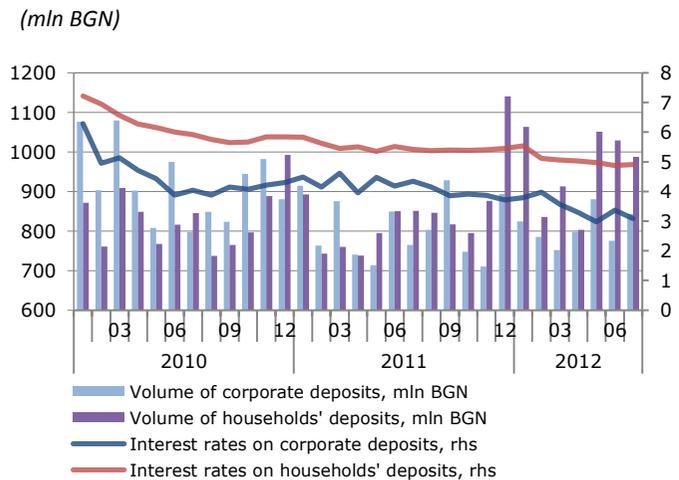
Source: BNB, MF

**Credit to the private sector** slightly accelerated its slow recovery growing by 4.1% yoy as of end-June and 4.2% at the end of July, and coming from 3.6% in May. The private credit developments from the previous months continued until end-July. Corporate loans kept recovering, growing by 6.8 and 6.9% yoy as compared to 6.1% at the end of May. Households' credits kept moving into negative territory, decreasing by 1.1 and 1.3% yoy respectively. Consumer credits were down by 2.3% yoy in July coming from a 1.2% yoy decrease in May, while mortgages had a marginal 0.1% increase, thus slowing somewhat from 0.4% two months ago. Bad and restructured credits growth decelerated significantly from 25.1% yoy in May to 15.1% in July, thus their share in total credits for households and enterprises came down by 0.2 pps to 18.6%.

Weighted average **interest rate on corporate credits** increased by 0.8 pps between end-May and end-July, accompanied by a 23.8% growth in new credits volume. Consumer credits

were by 0.3 pps more expensive than in May, thus there was a 7.9% drop in their volumes. The price of mortgages was marginally down by 2 bps and there were 0.7% less new credits compared to two months earlier. The weighted average **interest rate on deposits** denominated in BGN remained unchanged, while rates on deposits in EUR and USD decreased by 6 and 82 bps respectively. The amount of deposits attracted in July reduced by 4.6% (BGN 175.5 mln) compared to May.

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



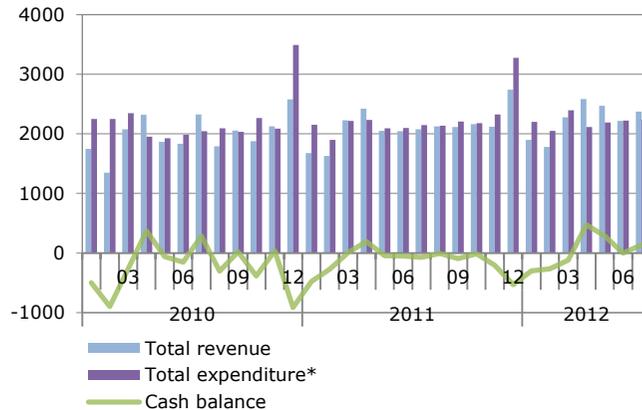
Source: BNB, MF

At end-July, the **general government budget balance** registered surplus of 0.3% of GDP (BGN 200.3 mln). The budget position improved by about BGN 920.9 mln (1.2 pps of GDP) in comparison with the corresponding period of 2011. The yoy improvement of the budget stance was mostly due to the faster growth of revenue and grants as of end-July, up 10.5%, compared to the increase of expenditures, up just 3.8%. Higher receipts from the European operational programs and funds, on

the other hand, largely accounted for the registered surplus over the previous month.

### Consolidated Budget

(monthly value, mln BGN)



\* Incl. contribution to EU budget

Source: MF

**Total revenues and grants** accumulated from the beginning of 2012 were 10.5% (BGN 1 479.4 mln) higher compared to January-July 2011. The latter was driven by the 7.8% yoy increase in tax revenues, with the highest contribution coming from indirect taxes, up 13.6% yoy. VAT receipts were 17.6% higher, while excises and custom duties grew by 7.3 and 2.1% yoy respectively. Direct taxes went up by 4.7% yoy, while social and health insurance contributions increased by 0.6% yoy. Both non-tax revenue and grants accumulated over the month grew significantly compared to July 2011, up by 7.2 and 85.9% respectively.

**Total expenditure**, including Bulgarian contribution to EU budget, came 3.8% higher than its July 2011 level, up by BGN 558.6 mln. The yoy increase of the capital expenditures - up 32.1%, spending on social security and scholarships - up 4.4%, as well as payments for interest - up 10.1%, and wages and salaries - up 1.5%, were the main drivers behind the overall outlays growth, while expenditure on subsidies and maintenance had a negative contribution, down by 26.7 and 1.9% yoy respectively.

**Fiscal reserve** amounted to BGN 7.1 bn at end-July.

**General government debt**, including government guaranteed debt, accounted for 19% of GDP. Domestic debt reached 6.3% of GDP, external debt stood at 11.3%, while government guaranteed debt increased slightly from 1.4 to 1.5% of GDP. ▼

— KEY ECONOMIC INDICATORS

		2008	2009	2010	2011	Q3'11	Q4'11	Q1'12	Q2'12	II'12	III'12	IV'12	V'12	VI'12	VII'12
<b>— GDP</b>															
Gross Domestic Product <sup>1</sup>	% , yoy	6.2	-5.5	0.4	1.7	1.4	0.9	0.5	0.5						
Consumption	% , yoy	2.6	-7.3	0.5	-0.3	1.5	-1.8	1.5	3.2						
Gross fixed capital formation	% , yoy	21.9	-17.6	-18.3	-9.7	-7.4	-10.5	-5.4	-2.1						
Export	% , yoy	3.0	-11.2	14.7	12.8	5.3	11.9	-0.1	3.9						
Import	% , yoy	4.2	-21.0	2.4	8.5	8.9	5.2		8.6						
Agriculture	% , yoy	32.4	-9.5	-6.2	-1.1		4.9	12.7	9.6						
Industry	% , yoy	6.0	-5.7	-6.3	6.6	6.9	2.9	1.2	1.1						
Services	% , yoy	4.1	-1.3	4.4	-0.1	-2.5	1.4	-0.1	1.4						
Adjustments	% , yoy	5.7	-16.5	-0.5	0.8	2.3	0.9	8.1	5.1						
<b>— SHORT TERM BUSINESS STATISTICS</b>															
Industrial production	% , yoy	0.7	-18.3	2.0	5.8	3.9	1.3	-2.6	-0.3	-3.6	-2.9	-2.6	2.0	-0.3	
Industrial turnover	% , yoy	13.7	-20.2	14.1	17.2	14.2	6.8	2.0	4.0	4.9	-1.7	2.3	8.9	1.1	
Retail trade turnover	% , yoy	8.9	-7.7	-8.4	-1.9	-3.0	-4.3	-3.1	-0.6	-5.6	-1.4	-1.4	-1.2	0.6	
Construction output	% , yoy	12.2	-14.3	-14.5	-12.9	-11.3	-9.2	-1.7	0.4	-9.4	1.7	1.6	4.5	-4.4	
Total business climate	balance	38.0	10.2	9.6	14.2	15.2	13.5	11.5	16.9	9.9	12.2	15.4	18.2	17.0	18.1
Industrial confidence	balance	39.9	12.3	13.4	22.4	24.1	21.0	21.3	22.8	21.3	21.4	23.2	23.6	21.6	23.5
Retail trade confidence	balance	41.3	13.5	10.1	17.3	20.2	25.5	10.5	18.1	9.1	11.5	13.8	24.1	16.4	17.8
Construction confidence	balance	40.3	8.5	5.1	2.8	3.9	-1.9	-4.1	4.2	-4.7	-5.2	3.5	4.5	4.6	6.2
Services confidence	balance	28.7	5.1	5.6	5.9	3.8	1.8	8.2	16.4	2.6	11.8	13.3	15.1	20.8	19.3
<b>— LABOUR MARKET</b>															
Participation rate (15+)	level	53.8	53.0	52.0	51.3	51.9	51.5	51.8	52.7						
Employment rate (15+)	level	50.8	49.4	46.7	45.6	46.6	45.7	45.1	46.2						
Employment (LFS)	% , yoy	3.3	-3.2	-6.2	-3.4	-2.8	-2.3	-1.8	-1.1						
Unemployment rate (LFS)	level	5.6	6.8	10.2	11.2	10.2	11.4	12.9	12.3						
Unemployment rate (Employment agency)	level	6.3	7.6	9.5	10.1	9.5	10.0	11.4	11.0	11.5	11.5	11.4	11.0	10.8	

		2008	2009	2010	2011	Q3'11	Q4'11	Q1'12	Q2'12	II'12	III'12	IV'12	V'12	VI'12	VII'12
Nominal wage	%, yoy	26.5	11.8	6.4	9.1	8.6	8.7	8.9	8.4	8.4	9.4	7.0	8.6	9.4	
Real wage <sup>2</sup>	%, yoy	13.0	9.1	3.3	5.6	5.3	5.9	6.9	6.5	6.3	7.6	4.9	6.6	7.7	
Labor productivity (GDP per employed)	%, yoy	3.5	-3.0	5.3	6.2	7.3	2.6	2.6	3.8						
Real ULC (GDP)	%, yoy	3.7	8.1	2.7	-3.7	-2.7	8.1	4.6	0.4						
<b>— PRICES</b>															
National index of consumer prices (CPI)	%, yoy	12.3	2.8	2.4	4.2	3.9	3.1	2.0	1.6	2.0	1.7	1.7	1.7	1.6	3.1
Harmonized index of consumer prices (HICP)	%, yoy	12.0	2.5	3.0	3.4	3.1	2.5	1.9	1.8	2.0	1.7	2.0	1.8	1.6	2.4
Domestic producer prices	%, yoy	13.3	-4.3	7.2	8.6	7.2	5.5	4.8	4.2	4.6	4.6	5.0	4.3	3.3	4.5
<b>— CONSOLIDATED FISCAL PROGRAM (CUMMULATIVE)</b>															
Revenue and grants	mIn BGN	27313	25041	23933	25378	18354	25378	5956	13224	3681	5956	8537	11010	13224	15598
Total expenses	mIn BGN	25323	25667	26755	26866	19181	26867	6647	13162	4246	6643	8754	10943	13162	15398
Contribution to EU budget	mIn BGN	720	746	670	779	528	779	307	467	242	307	372	431	467	504
Cash deficit (-) / surplus (+)	mIn BGN	1990	-626	-2823	-1488	-827	-1488	-691	62	-565	-687	-217	67	62	200
	% of GDP	2.9	-0.9	-4.0	-2.0	-1.1	-2.0	-0.9	0.1	-0.7	-0.9	-0.3	0.1	0.1	0.3
Government and government guaranteed debt	mIn BGN	10710	10641	11778	12826	11946	12826	13053	12942	12819	13052	13117	13011	12942	14960
	% of GDP	15.5	15.6	16.7	17.0	15.9	17.0	16.6	16.5	16.3	16.6	16.7	16.6	16.5	19.0
Fiscal reserve	mIn BGN	8382	7673	6012	4999	5071	4999	4531	5062	3802	4531	4921	5047	5062	7081
	%, yoy	12.5	-8.5	-21.6	-16.9	-24.4	-16.9	-3.6	-1.8	-25.0	-3.6	5.1	1.2	-1.8	45.1
<b>— FINANCIAL SECTOR</b>															
BNB International reserves	mIn EUR	12713	12919	12977	13349	13051	13349	13192	13866	12789	13192	13388	13548	13866	14963
Monetary base coverage	%	175.3	195.2	179.8	175.1	180.7	175.1	176.0	177.7	171.4	176.3	178.8	181.6	177.7	192.9
Coverage of import with FX reserves	months	5.4	8.0	7.3	6.3	6.4	6.3	6.1	6.2	6.0	6.1	6.2	6.1	6.2	
Coverage of short-term external debt	%	96.5	100.2	115.3	133.8	123.9	133.8	132.7		131.1	132.7	137.4	139.2	140.2	
Money M1 (Narrow money)	%, yoy	-4.1	-8.8	0.8	14.4	5.5	14.4	17.2	13.4	18.0	17.2	18.0	17.2	13.4	15.5
Money M3 (Broad money)	%, yoy	8.8	4.2	6.2	12.2	10.3	12.2	10.7	10.2	11.7	10.7	11.6	10.9	10.2	10.0
Deposits	%, yoy	8.8	7.6	6.6	13.2	11.3	13.2	11.0	10.2	12.1	11.0	11.9	11.2	10.2	10.0
Credit to private sector	%, yoy	32.9	3.8	1.1	3.3	2.2	3.3	3.1	4.1	2.4	3.1	3.1	3.6	4.1	4.2
Credit to non-financial enterprises	%, yoy	33.1	2.3	2.4	5.7	4.1	5.7	5.7	6.8	4.8	5.7	5.3	6.1	6.8	6.9
Credit to households	%, yoy	31.4	5.8	-0.8	-0.4	-0.2	-0.4	-1.0	-1.1	-1.0	-1.0	-0.8	-0.8	-1.1	-1.3

		2008	2009	2010	2011	Q3'11	Q4'11	Q1'12	Q2'12	II'12	III'12	IV'12	V'12	VI'12	VII'12
Interest rate on short-term loans	%	10.9	10.5	8.5	7.4	7.3	7.7	8.3	7.2	8.8	8.0	7.8	7.2	6.7	7.5
Interest rate on time deposits	%	5.6	7.0	5.4	4.8	4.7	4.8	4.6	4.2	4.6	4.4	4.2	4.1	4.3	4.1
Exchange rate BGN/USD	eop	1.39	1.36	1.47	1.51	1.45	1.51	1.46	1.55	1.45	1.46	1.48	1.58	1.55	1.59
	per. av.	1.34	1.41	1.48	1.41	1.38	1.45	1.49	1.53	1.48	1.48	1.49	1.53	1.56	1.59
<b>— GROSS EXTERNAL DEBT (GED)</b>															
Gross external debt	% of GDP	104.9	108.3	102.8	91.9	94.0	91.9	89.7	89.7	89.0	89.7	89.3	89.0	89.7	
Short term external debt	% of GED	35.4	32.1	30.4	28.2	29.1	28.2	27.8	27.6	27.5	27.8	27.4	27.5	27.6	
Intercompany lending	% of GED	36.4	38.5	40.3	41.8	40.8	41.8	42.8	42.3	42.9	42.8	42.7	42.6	42.3	
<b>— BALANCE OF PAYMENTS</b>															
Current account	mIn EUR	-8182	-3116	-376	361	1155	-715	-439	645	-329	69	-169	-124	271	
<i>Current account (moving average)</i>	% of GDP	-23.1	-8.9	-1.0	0.9	0.6	0.9		1.7	-0.4		-0.1	-0.7	-0.1	
Trade balance	mIn EUR	-8598	-4174	-2764	-1975	-220	-856	-819	-284	-273	-338	-417	-396	-358	
<i>Trade balance (moving average)</i>	% of GDP	-24.3	-11.9	-7.7	-5.1	-5.6	-5.1	-6.8	-5.7	-6.0	-6.5	-7.0	-7.4	-7.7	
Export, f.o.b.	mIn EUR	15204	11699	15561	20227	5416	5162	4633	5369	1478	1721	1655	1867	1766	
	%, yoy	12.5	-23.1	33.0	30.0	22.6	19.7	-3.1	10.3	-1.6	1.9	2.8	12.5	10.7	
Import, f.o.b.	mIn EUR	23802	15873	18325	22201	-5635	-6018	-5453	-5652	-1751	-2059	-2072	-2263	-2124	
	%, yoy	-214.7	-33.3	15.4	21.2	22.0	12.4	9.4	1.6	13.8	12.3	12.4	19.5	16.3	
Capital account	mIn EUR	277	477	291	494	126	306	21	42	11	6	0	33	9	
Financial account	mIn EUR	11463	1163	-699	-1194	-707	588	-281	311	-132	111	-171	-24	321	
Net Foreign Direct Investments	mIn EUR	6206	2505	1035	1205	302	904	452	584	120	68	-64	-276	25	
Net Portfolio Investments	mIn EUR	-731	-619	-661	-357	-234	67	-375	-61	-35	-370	191	-26	-226	
Other Investments – net	mIn EUR	6032	-704	-1048	-1976	-747	-364	-352	510	-218	417	-295	281	523	
Change in BNB reserve assets <sup>3</sup>	mIn EUR	-674	650	384	-159	-470	-261	176	-639	196	-510	-182	-112	-344	

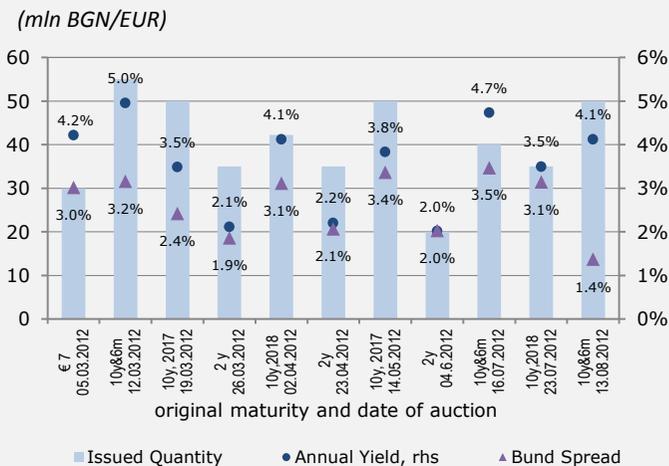
Notes: 1. Reference year 2005, seasonally and working day adjusted data; 2. HICP deflated; 3. (-) - increase; (+) - decrease in BNB International Reserves.

— RECENT ECONOMIC DEVELOPMENTS

**The Ministry of finance achieved a 4.12% yield on the 10Y securities.**

On August 13, MF reopened the 10 year and six month maturity benchmark bond. The amount of government securities offered at the auction was BGN 50 mln. The submitted bids by participants amounted to BGN 273.65 mln, thus the demand exceeded five and half times the offered quantity and the coverage coefficient was 5.47.

**Latest Government Securities Auction Results**



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

The average weighted yield of the approved amount of BGN 50 mln was 4.12%, which is a record low for a 10Y maturity bond. For comparison, at the previous auction for this issue, held on 16 July 2012, the yield achieved was 4.73% and the coverage coefficient – 4.91.

The nominal value of government debt at the end of July amounted to EUR 7 056.2 mln, including domestic debt of EUR 2 522.5 mln and external debt of EUR 4 533.7 mln. Debt posted a EUR 1 019.3 mln increase in nominal terms from the end of the previous month. The latter was mainly driven by the increase in external government debt, resulting from the 5Y Eurobonds issue of EUR 950 mln, issued on International Capital Markets during the month. Government debt-to-GDP ratio was 17.7% at the end of July.

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

**Table: Government Debt Amount, mln EUR**

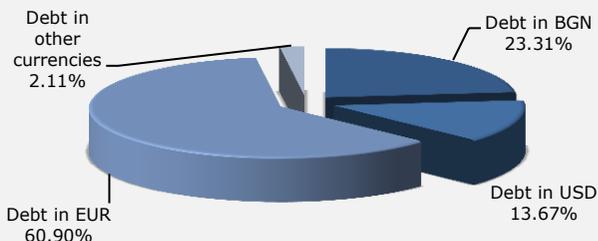
Structure	31.12. 2010	31.12. 2011	30.04. 2012	31.05. 2012	30.06. 2012	31.07. 2012
Domestic government debt	2 011.5	2 458.3	2 616.1	2 473.5	2 482.9	2 522.5
External government debt	3 373.5	3 487.6	3 520.7	3 593.1	3 554.0	4533.7
Government Debt, total	5 385.0	5 945.9	6 136.7	6 066.5	6 036.9	7056.2
Government Debt /GDP, %	4.9	15.3	15.3	15.1	15.0	17.7

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

Debt currency structure continued on the positive trend, as the share of debt denominated in euro kept increasing in July. The latter reached 60.9% from 55.4% in June. The debt in BGN, USD and other currencies decreased and amounted to 23.3, 13.7 and 2.1% respectively.

#### Government Debt Currency Structure

(as of 31 July)



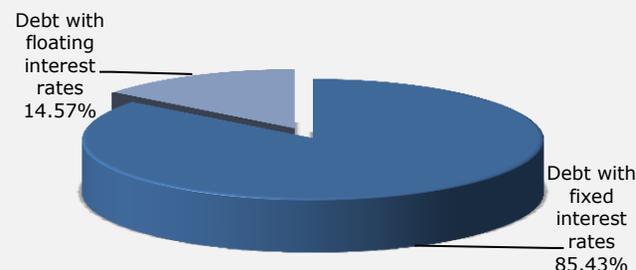
Source: MF

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

At the end of July, the share of debt with fixed interest posted an increase over June and reached 85.4%, while debt with floating interest noted a 14.6% reduction.

#### Government Debt Interest Rate Structure

(as of 31 July)



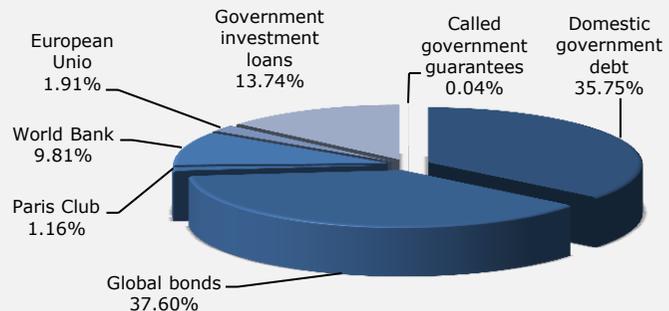
Source: MF

Debt structure by types of instruments and creditors showed some changes in July. Liabilities related to global bonds and 5Y Eurobonds, issued during the month on International Capital Market, had the highest relative share – 37.6%, followed by domestic government debt – 35.7%, government investment loans – 13.7%, commitments to the World Bank – 9.8%, the European Union – 1.9%, obligations to Paris Club – 1.2% and the enabled state guarantees – 0.04%.

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

### Government Debt Structure by Creditor

(as of 31 July)



Source: MF

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

<http://www.minfin.bg/en/statistics/?cat=2&from=0&year=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](mailto:M.Boikova@minfin.bg),  
tel.: +359 2 9859 2450.