2012

RECENT ECONOMIC DEVELOPMENTS, BULGARIA

SELECTED ISSUES, OCTOBER 2012

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

REPUBLIC OF BULGARIA
Ministry of Finance

Economic and Financial Policy Directorate
Ministry of Finance

— MACROECONOMIC ENVIRONMENT AND POLICIES IN BRIEF

- According to the 2012 Autumn Economic Forecast, published on November 7, **the EC revised upwards its projection for Bulgaria's growth in 2012**, up by 0.3 pps to 0.8% compared to the Spring Forecast. This came against the more pessimistic expectations of the Commission for the EU and the Eurozone. In spite of the adverse economic setting in the EU and the overall weak labour market in Bulgaria, the Commission expects that the upward trend of economic growth in the country will continue, with domestic demand being the main growth driver. GDP is projected to grow by 1.4% in 2013 and by 2% in 2014, thus the analysts expect a stable domestic economic environment and relatively strong public finances.

- Meanwhile, **industrial production accelerated its annual growth** in August, retail sales and construction output index remained on positive territory, while the industrial turnover slowed somewhat. Business climate indicator decreased in October.

- According to preliminary data, Q3 **labour force participation went further up**, growing for a second consecutive quarter, while registered unemployment narrowed to 10.6% in September. Meanwhile, **monthly inflation rates slowed** to 0.3% mom, still annual HICP increased further to 3.4% as of September. As food and energy commodity prices have already receded on world markets, they are expected to ease domestic inflationary pressures in the coming months.

- **Current account balance came in positive for a second month in a row**, as higher surpluses on *Services* and *Transfers* and lower *Income* deficit offset the trade balance deterioration. Financial account registered a deficit, mostly on account of negative portfolio and other investments balance. **Gross external debt decreased** to 91.7% of GDP at end-August, with the mom reduction of the external indebtedness being mostly due to the decrease in the long-term external debt of the banking sector.

- At the end of September, the **general government balance came positive** for a fifth month in a row. The accumulated surplus for the first nine months stood at BGN 248.1 mln.

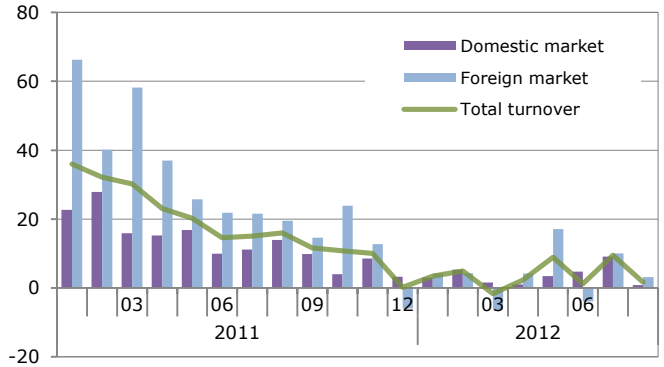
- Auctions held in October confirmed the **downward trend along the whole spectrum of the debt yield curve**, thus being just in line with the ECB data on long-term interest rates, according to which the latter narrowed to just 3.39% in October. **MF registered the lowest yield so far in the 5Y maturity segment** at the reopening of the 2008 GS held on October 22. The yield achieved at the auction reached 2.02%, while the amount approved stood at BGN 45 mln. **MF also achieved 2.53% yield on 7Y euro denominated GS** at the auction held on November 12, which is record low for long-term Bulgarian sovereign bonds. ▼

— RECENT ECONOMIC DEVELOPMENTS

Industrial turnover growth rate was 1.7% yoy in August. Both domestic and foreign turnover contributed for the registered slowdown, thus sustaining the considerable volatility in their dynamics during the recent months. Growth in foreign industrial sales decelerated to 3.2% yoy from 10% a month earlier. Although mining and quarrying contributed positively during the month, the performance of sectors such as manufacture of basic metals and manufacture of food products worsened. On the other hand, electricity, gas, steam and air conditioning supply, as well as manufacture of food products showed relatively weak performance which resulted in a 0.8% annual increase in domestic sales.

Industrial turnover

(%, yoy)



Source: NSI

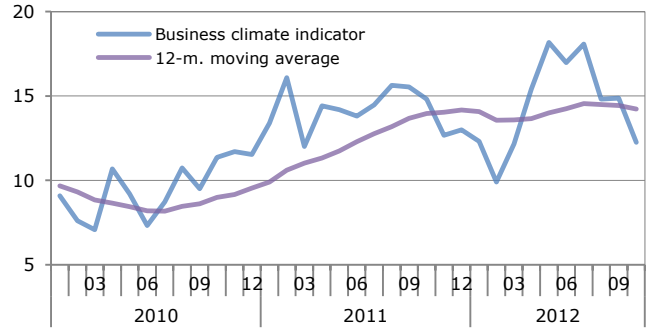
Nevertheless, **industrial production accelerated further its growth** to 2.7% yoy. According to the production purpose, energy and investment goods had the largest contribution for the registered growth, while products for intermediate consumption continued to be a drag on growth.

Retail sales remained on positive territory, up 1% yoy as of August. Retail sale of medical and orthopedic goods and retail sale of automotive fuel increased the most, up 6.1%, while the growth in retail sale of computers, peripheral units and software remained almost unchanged from the previous month at 5.5% yoy. Meanwhile, the annual growth of retail sale of food, beverages and tobacco accelerated and reached 2.7%.

Construction production increased by 2% yoy. Similar to previous month developments, the registered growth was entirely due to the expansion in civil engineering, which increased by 6.9%, while the slump in building construction continued narrowing to 1.7% yoy.

Business climate

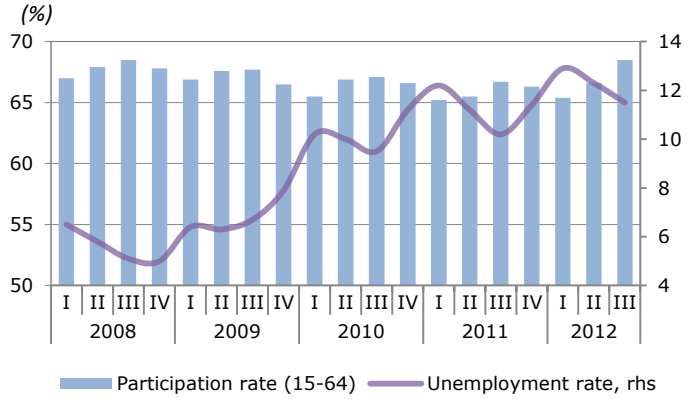
(balance)



Source: NSI

The **business climate indicator** fell by 2.7 pps due to the more unfavorable assessment of the business juncture in all economic sectors. The number of respondents who point out the uncertain economic environment as the main obstacle limiting business activity increased. Industrial orders from abroad decreased which is expected to continue in the coming months. Construction activity is also expected to decline.

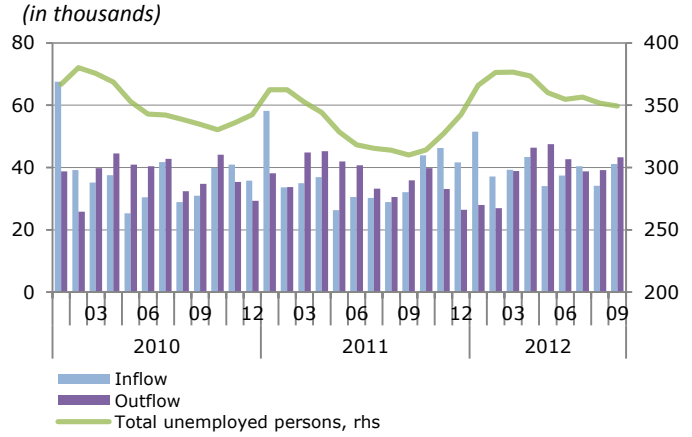
Participation and Unemployment Rates



Source: NSI

Labour force participation went further up in Q3. According to preliminary LFS figures Q3 labour force was 0.8% larger yoy, growing up for a second consecutive quarter. Employment narrowed 0.7% yoy, reflecting the still ongoing process of costs restructuring in nearly all industries. Seasonal labour market activation determined the positive qoq employment dynamics, thus jobless pool totaled some 393 K. Unemployment rate averaged 11.5% in Q3, staying 1.3 pps higher on a year earlier. However, the labour market uplift was proved by the rise in the participation rate yoy (by 1.8 pps. to 68.5% for 15-64 age group) which contributed to a higher increase in unemployment number as compared to employment decrease.

Inflow, outflow and total number of unemployed people



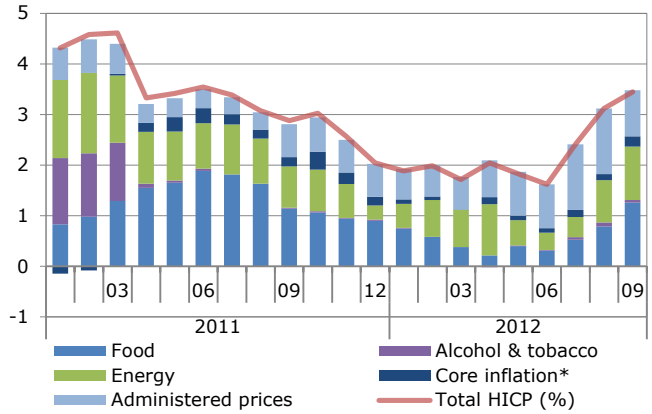
Source: EA

Unemployment rate narrowed to 10.6% in September largely supported by the higher number of persons who found jobs with the start of the new school year. Jobless number totaled 349.4 K in September, down 0.6% compared to August. With the gradual fall in seasonal works unemployment inflow started increasing to 41.2 K, further influenced by the costs optimization processes held by employers. Jobless outflow also went up to 43.3 K, mainly on the account of the higher number of persons who found job (23.9 K). The positive dynamics of the latter was due largely to primary labour market demand for new employees in the education services with the start of the school year. At the same time, the number of unemployed who started working under programs and measures remained close to those who found jobs on the primary labour market, following in par-

ticular the implemented schemes under the OP "Human resource development".

HICP and contributions by main components

(pps, yoy)



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

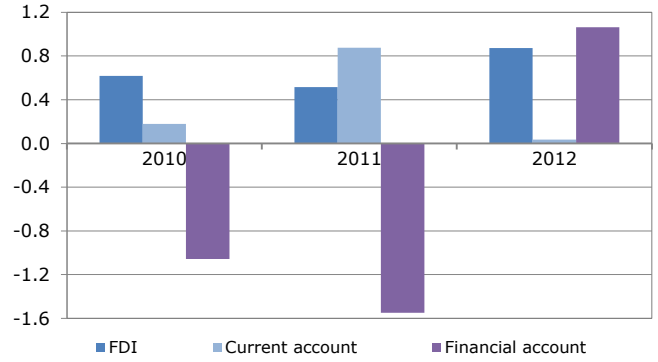
Source: NSI, MF

The monthly increase of consumer prices slowed somewhat to 0.3% in September, still annual inflation continued to accelerate and reached 3.4%. The increases in food and energy prices gathered speed during the month, up by 5.9 and 11.1% yoy respectively, both contributing by 2.32 pps to the annual increase in the headline rate. Nevertheless, international food and crude oil prices quoted in euro receded in September and started to decelerate in yoy terms, supported by both the strengthening of the euro against the USD, as well as the more favorable market juncture. The latter, however, will have its impact on domestic inflation in the coming months. Core inflation remained subdued at 0.4% yoy, as prices of consumer durables kept posting negative changes. The impact of administered prices hikes narrowed to 0.91 pps, as their increase compared to a year earlier slowed to 6.1% from 8.9% in August.

Current account balance came in positive for a second month in a row, as the surplus reached EUR 579.3 mln in August. The latter was almost equal to last year's reading, as higher surpluses on services and transfers and lower income deficit offset the trade balance deterioration. After the slowdown in July, both exports and imports growth accelerated in August, the increase in exports, however, remained below that of imports (6.2% against 15.7% yoy respectively). Trade deficit amounted to EUR 2.56 bn (6.5% of GDP) in Jan-Aug.

FDI, Current and Financial Account

(January-August, billion euro)



Source: BNB

In the **services sector**, the higher transportation and other services receipts made up for the slightly lower travel balance. The latter was the result of a stronger increase in tourist expenses abroad during the month, up 20% yoy. The number of foreigners' visits was also higher compared to August 2011. The lower

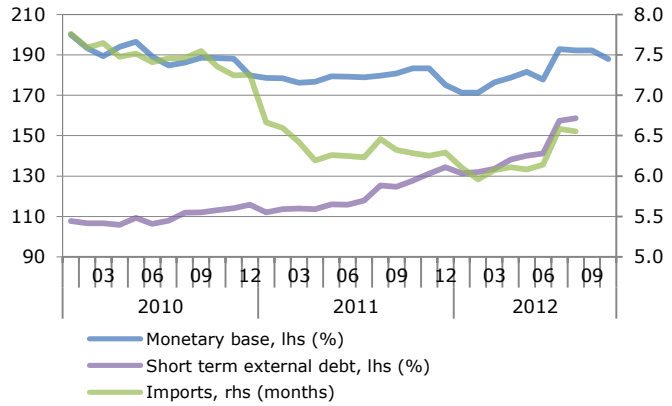
domestic prices in the sector, however, restricted the growth of travel services receipts offered to foreigners to 2.1% yoy. As a result, the balance dropped 1.7% yoy. The accumulated services surplus reached 4.8% of GDP in Jan-Aug, same as in the corresponding period of 2011. The contraction in the **Income deficit** due to shrinking direct investments payments continued. The balance for the first eight months of 2012 stood negative at EUR 759.4 mln (1.9% of GDP). Current transfers balance was above its level in August 2011, thus the accumulated flow in 2012 reached 3.6% of GDP.

In accumulated terms, CAB was positive at 0.1% of GDP in January-August compared to a surplus of 2.3% of GDP in the corresponding period of 2011.

Financial account balance was negative by EUR 315.1 mln in August. The flows abroad resulted mostly from negative portfolio and other investments balance. Outflows on portfolio investments were associated with an increase in portfolio assets abroad, predominantly bond investments mainly from domestic non-banking financial companies. It might also be attributed to the possible purchase of Eurobonds, which were issued in early-July. Banks continued repaying their long-term external loans, thus the deficit on *Other investments* stood at EUR 100 mln. The accumulated Financial account balance in Jan-Aug reached EUR 1 bn or 2.7% of GDP.

Gross external debt decreased to EUR 36.5 bn or 91.7% of GDP at end-August. The mom reduction of the external indebtedness was mostly due to a decrease in the long-term external debt of the banking sector, which fell to 4.2% of GDP from 4.5% in July. Other sectors debt and intercompany lending were also slightly lower, while Government debt remained almost unchanged from the previous month. Compared to a year earlier, private sector external debt decreased to 31.65 bn, being EUR 32.1 bn twelve months ago. Regarding the public indebtedness, the yoy increase was due to the Eurobonds issue in July.

Coverage with FX Reserves



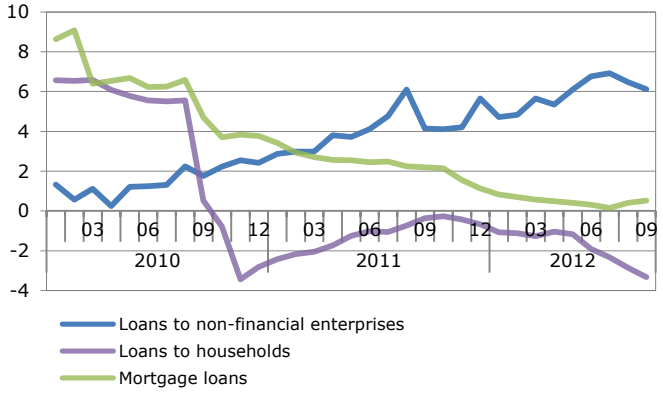
Source: BNB, MF

International reserves dropped by 2.7% mom and amounted to EUR 15.1 bn at the end of October. Thus, their annual growth rate reached 14.6% from 18.8% a month earlier. The main reason for the drop of reserves was the 7.8% mom decrease of the Government deposit with the BNB along with a 2.1% decrease of the Banking Department deposit due to gold prices going down during the month. Monetary base coverage remained high at 187.9%. As of end-August reserves were able to cover 6.6 months of imports annually or 158.5% of the short-term external debt.

Money supply kept its growth rate unchanged at 8.8% yoy as of end-September. The liquid monetary aggregate M1 speeded up to 12.6% yoy from 10.7% at the end of August, but it was compensated by a slowdown of the growth rate of deposits with agreed maturity from 6.2% to 4.8%. Broad money grew by 0.4% mom driven by a 1.1% increase in overnight deposits and a 1.3% growth of deposits redeemable at notice. Total deposits expanded by 8.7% yoy, slightly picking up from the 8.6% growth posted a month earlier. In September alone, deposits increased by 0.5% or BGN 276.7 mln in nominal terms.

Credit growth

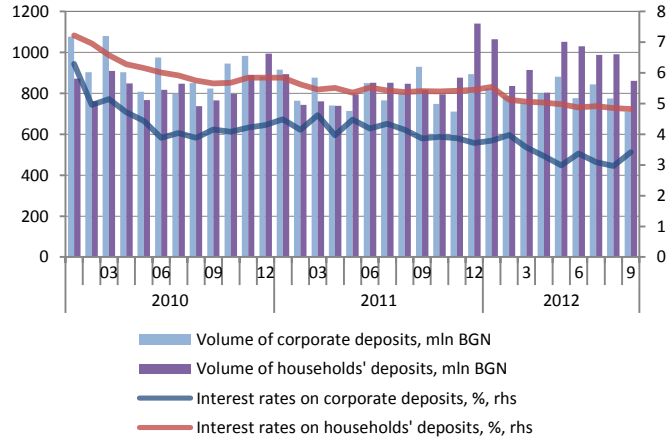
(% change, yoy)



Source: BNB, MF

Credit to the private sector posted a 3.5% yoy increase from 3.9% at the end of August. Private credit dynamics resulted from the lower annual growth of corporate credits in September – 6.1% vs. 6.5% at the end of the previous month. The 3.3% yoy drop in consumer loans also had a negative contribution for the overall developments, while the growth of mortgages continued to decline, reaching 0.5% yoy. After a steady slowdown since April, bad and restructured credits picked up marginally to 13.8% yoy, being 13.3% at the end of August. That brought their share in total credits to households and non-financial enterprises up by 0.2 pps to 18.8%.

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



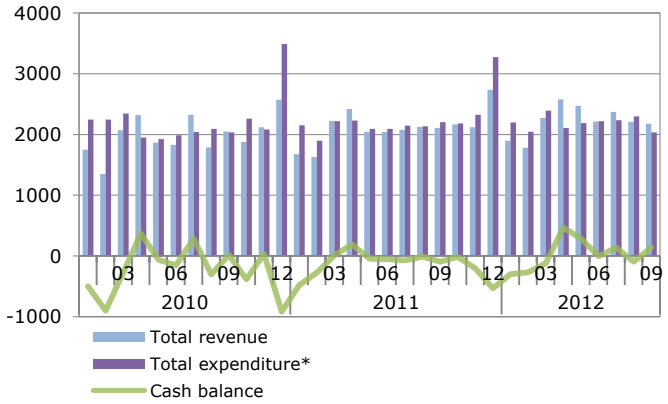
Source: BNB, MF

Weighted average **interest rate on corporate credits** went up by 1 pp, nevertheless, the monthly volume of new credits was by 16.4% higher compared to August. Average rates on consumer credits and mortgages declined, down by 23 and 19 bps respectively, still their monthly volumes decreased by 14.1 and 16.1% compared to the previous month. Weighted average **interest rates on deposits** in BGN, Euro and USD increased slightly, up by 18 bps, 5 bps and 7 bps respectively. The amounted of newly attracted deposits posted a 14.1% decrease (down BGN 473.6 mln) compared to August.

At the end of September, the general government balance came positive on a cash basis for a fifth month in a row. The accumulated surplus accounted for BGN 248.1 mln (0.3% of GDP), compared to a deficit of BGN 826 mln (1.1% of GDP) a year earlier.

Consolidated Budget

(monthly value, mln BGN)



** Incl. contribution to EU budget*
Source: MF

Total revenue and grants for the first nine months of the year amounted to 69.5% of the annual forecast, up 8.9% yoy in nominal terms. Tax revenues registered a 6% yoy increase with the largest positive contribution coming from indirect taxes, up 9.2%. VAT receipts collected in January-September came 11.7% higher compared to the corresponding period of 2011. Excises rose as well, up by 5.5%. Increases in direct taxes, up 5.1% yoy, and total social and health insurance contributions, up 1.1%, also contributed positively to the total revenue dynamics. Both non-tax revenue and grants grew significantly in comparison to previous year, up by 11.6% and 58.7% respectively.

Total expenditure, including Bulgarian contribution to EU budget, accounted for 66.1% of the annual forecast. Compared to the same period of 2011, total expenditure grew by 2.9% in nominal terms, mainly driven by the increase in social payments and capital outlays. Expenditure on wages and salaries, interest, social and health insurance contributions were also up, while payments for maintenance remained at their previous year nominal level. Reduction has been registered in subsidies payments, down 26.5% yoy.

Fiscal reserve totaled BGN 7.2 bn (9.2% of GDP) at end-September.

General government debt, including government guaranteed debt, accounted for 19% of GDP at the end of September. Government external debt stood at 11.4% of GDP, domestic debt - 6.2%, while guaranteed debt amounted to 1.4% of GDP. ▼

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.

— KEY ECONOMIC INDICATORS

		2009	2010	2011	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	IV'12	V'12	VI'12	VII'12	VIII'12	IX'12
— GDP															
Gross Domestic Product[1]	%, yoy	-5.5	0.4	1.7	1.4	0.9	0.5	0.5							
Consumption	%, yoy	-7.3	0.5	-0.3	1.5	-1.8	1.5	3.2							
Gross fixed capital formation	%, yoy	-17.6	-18.3	-9.7	-7.4	-10.5	-5.4	-2.1							
Export	%, yoy	-11.2	14.7	12.8	5.3	11.9	-0.1	3.9							
Import	%, yoy	-21.0	2.4	8.5	8.9	5.2	0.0	8.6							
Agriculture	%, yoy	-9.5	-6.2	-1.1	0.0	4.9	12.7	9.6							
Industry	%, yoy	-5.7	-6.3	6.6	6.9	2.9	1.2	1.1							
Services	%, yoy	-1.3	4.4	-0.1	-2.5	1.4	-0.1	1.4							
Adjustments	%, yoy	-16.5	-0.5	0.8	2.3	0.9	8.1	5.1							
— SHORT TERM BUSINESS STATISTICS															
Industrial production	%, yoy	-18.3	2.0	5.8	3.9	1.3	-2.6	-0.1		-2.6	2.0	0.3	0.8	2.7	
Industrial turnover	%, yoy	-20.2	14.1	17.2	14.2	6.8	2.0	4.1		2.3	8.9	1.2	9.5	1.7	
Retail trade turnover	%, yoy	-7.7	-8.4	-1.9	-3.0	-4.3	-3.1	-0.6		-1.4	-1.2	0.6	1.3	1.0	
Construction output	%, yoy	-14.3	-14.5	-12.9	-11.3	-9.2	-1.7	0.3		1.6	4.5	-4.6	3.9	2.0	
Total business climate	balance	10.2	9.6	14.2	15.2	13.5	11.5	16.9	15.9	15.4	18.2	17.0	18.1	14.8	14.9
Industrial confidence	balance	12.3	13.4	22.4	24.1	21.0	21.3	22.8	21.7	23.2	23.6	21.6	23.5	20.7	20.8
Retail trade confidence	balance	13.5	10.1	17.3	20.2	25.5	10.5	18.1	17.8	13.8	24.1	16.4	17.8	16.1	19.7
Construction confidence	balance	8.5	5.1	2.8	3.9	-1.9	-4.1	4.2	3.0	3.5	4.5	4.6	6.2	-0.7	3.4
Services confidence	balance	5.1	5.6	5.9	3.8	1.8	8.2	16.4	15.4	13.3	15.1	20.8	19.3	17.3	9.7
— LABOUR MARKET															
Participation rate (15+)	level	53.0	52.0	51.3	51.9	51.5	51.8	52.7	0.0						
Employment rate (15+)	level	49.4	46.7	45.6	47.7	45.7	45.1	46.2	47.9						
Employment (LFS)	%, yoy	-3.2	-6.2	-3.4	-2.2	-2.3	-1.8	-1.1	-0.7						
Unemployment rate (LFS)	level	6.8	10.2	11.2	10.2	11.4	12.9	12.3	11.5						
Unemployment rate (Employment agency)	level	7.6	9.5	10.1	9.5	10.0	11.4	11.1	10.7	11.4	11.0	10.8	10.8	10.7	10.6

		2009	2010	2011	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	IV'12	V'12	VI'12	VII'12	VIII'12	IX'12
Nominal wage	%, yoy	11.8	6.4	9.1	8.6	8.7	8.9	8.4		7.0	8.6	9.4			
Real wage[2]	%, yoy	9.1	3.3	5.6	5.3	5.9	6.9	6.5		4.9	6.6	7.7			
Labor productivity (GDP per employed)	%, yoy	-3.0	5.3	6.2	7.3	2.6	2.6	3.8							
Real ULC (GDP)	%, yoy	8.1	2.7	-3.7	-2.7	8.1	4.6	0.4							
— PRICES															
National index of consumer prices (CPI)	%, yoy	2.8	2.4	4.2	3.9	3.1	2.0	1.6	4.0	1.7	1.7	1.6	3.1	3.9	4.9
Harmonized index of consumer prices (HICP)	%, yoy	2.5	3.0	3.4	3.1	2.5	1.9	1.8	3.0	2.0	1.8	1.6	2.4	3.1	3.5
Domestic producer prices	%, yoy	-4.3	7.2	8.6	7.2	5.5	4.8	4.2	6.0	5.0	4.3	3.3	4.5	7.1	6.6
— CONSOLIDATED FISCAL PROGRAM (CUMMULATIVE)															
Revenue and grants	mln BGN	25041	23933	25378	18354	25378	5956	13224		8537	11010	13224	15598	17806	19984
Total expenses	mln BGN	25667	26755	26866	19181	26867	6647	13162		8754	10943	13162	15398	17699	15994
Contribution to EU budget	mln BGN	746	670	779	528	779	307	467		372	431	467	504	562	629
Cash deficit (-) / surplus (+)	mln BGN	-626	-2823	-1488	-827	-1488	-691	62		-217	67	62	200	108	248
	% of GDP	-0.9	-4.0	-2.0	-1.1	-2.0	-0.9	0.1		-0.3	0.1	0.1	0.3	0.1	0.3
Government and government guaranteed debt	mln BGN	10641	11778	12826	11946	12826	13053	12942		13118	13019	12943	14960	14693	14732
	% of GDP	15.6	16.7	17.0	15.9	17.0	16.6	16.5		16.9	16.8	16.7	19.3	18.9	19.0
Fiscal reserve	mln BGN	7673	6012	4999	5071	4999	4531	5062		4921	5047	5062	7081	6914	7172
	%, yoy	-8.5	-21.6	-16.9	-24.4	-16.9	-3.6	-1.8		5.1	1.2	-1.8	45.1	38.5	41.4
— FINANCIAL SECTOR															
BNB International reserves	mln EUR	12919	12977	13349	13051	13349	13192	13866	15507	13388	13548	13866	14963	15049	15507
Monetary base coverage	%	195.2	179.8	175.1	180.7	175.1	176.3	177.7	192.3	178.8	181.6	177.7	192.9	192.3	192.3
Coverage of import with FX reserves	months	8.0	7.3	6.3	6.4	6.3	6.1	6.1		6.1	6.1	6.1	6.6	6.6	
Coverage of short-term external debt	%	100.2	115.3	133.8	123.9	133.8	133.6	141.2		138.2	140.0	141.2	157.3	158.5	
Money M1 (Narrow money)	%, yoy	-8.8	0.8	14.4	5.5	14.4	17.2	13.4	12.6	18.0	17.2	13.4	15.5	10.7	12.6
Money M3 (Broad money)	%, yoy	4.2	6.2	12.2	10.3	12.2	10.7	10.2	8.8	11.6	10.9	10.2	10.0	8.8	8.8
Deposits	%, yoy	7.6	6.6	13.2	11.3	13.2	11.0	10.2	8.7	11.9	11.2	10.2	10.0	8.6	8.7
Credit to private sector	%, yoy	3.8	1.1	3.3	2.2	3.3	3.1	4.1	3.5	3.1	3.6	4.1	4.2	3.9	3.5
Credit to non-financial enterprises	%, yoy	2.3	2.4	5.7	4.1	5.7	5.7	6.8	6.1	5.3	6.1	6.8	6.9	6.5	6.1
Credit to households	%, yoy	5.8	-0.8	-0.4	-0.2	-0.4	-1.0	-1.1	-1.5	-0.8	-0.8	-1.1	-1.3	-1.4	-1.5

		2009	2010	2011	Q3'11	Q4'11	Q1'12	Q2'12	Q3'12	IV'12	V'12	VI'12	VII'12	VIII'12	IX'12
Interest rate on short-term loans	%	10.5	8.5	7.4	7.3	7.7	8.3	7.2	7.5	7.8	7.2	6.7	7.5	7.3	7.8
Interest rate on time deposits	%	7.0	5.4	4.8	4.7	4.8	4.6	4.2	4.2	4.2	4.1	4.3	4.1	4.1	4.3
Exchange rate BGN/USD	eop	1.36	1.47	1.51	1.45	1.51	1.46	1.55	1.51	1.48	1.58	1.55	1.59	1.55	1.51
	per. av.	1.41	1.48	1.41	1.38	1.45	1.49	1.53	1.56	1.49	1.53	1.56	1.59	1.58	1.52
— GROSS EXTERNAL DEBT (GED)															
Gross external debt	% of GDP	108.3	102.7	93.1	94.6	93.1	90.5	90.8		90.4	89.8	90.8	92.4	91.7	
Short term external debt	% of GED	32.1	30.2	27.7	28.7	27.7	27.5	27.2		27.0	27.1	27.2	25.9	26.0	
Intercompany lending	% of GED	38.5	40.4	42.5	41.4	42.5	43.0	42.9		43.3	43.0	42.9	42.4	42.6	
— BALANCE OF PAYMENTS															
Current account	mln EUR	-3116	-533	104	992	-792	-553	446		-276	-142	123	303	579	
Current account (moving average)	% of GDP	-8.9	-1.5	0.3	0.1	0.3	-0.7	0.2		-1.0	-1.8	-1.6	-1.8	-1.9	
Trade balance	mln EUR	-4174	-2764	-2156	-358	-890	-939	-452		-460	-415	-375	-254	-121	
Trade balance (moving average)	% of GDP	-11.9	-7.7	-5.6	-6.0	-5.6	-7.3	-6.9		-7.6	-8.1	-8.7	-8.9	-9.3	
Export, f.o.b.	mln EUR	11699	15561	20264	5389	5164	4625	5344		1630	1868	1767	1865	1864	
	%, yoy	-23.1	33.0	30.2	22.0	19.7	-2.8	7.9		1.4	11.3	6.1	0.8	6.2	
Import, f.o.b.	mln EUR	15873	18325	22420	-5747	-6055	-5565	-5796		-2089	-2283	-2142	-2119	-1986	
	%, yoy	-33.3	15.4	22.3	24.5	13.1	10.3	4.0		11.9	22.0	16.6	6.4	15.7	
Capital account	mln EUR	477	291	497	126	306	21	44		2	33	9	118	9	
Financial account	mln EUR	1163	-673	-788	-839	867	-45	282		182	47	460	734	-315	
Net Foreign Direct Investments	mln EUR	2505	977	1577	362	1004	470	650		294	-188	138	34	21	
Net Portfolio Investments	mln EUR	-619	-635	-354	-236	72	-371	-57		189	-27	-219	1010	-233	
Other Investments – net	mln EUR	-704	-990	-1946	-936	-190	-138	507		-300	265	542	-306	-101	
Change in BNB reserve assets[3]	mln EUR	650	384	-159	-470	-261	176	-639		-182	-112	-344	-985	-105	

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 the lowest ever yield at an auction for the sale of 2Y Government Securities (GS)

The yield of 0.54% achieved on the 2Y issue at the auction held on October 8 was historically the lowest ever registered at an auction for the sale of Bulgarian GS. The serious downward trend observed in the long-term segment of the debt curve found yet another even clearer display, as the registered drop in the yield on the bond maturing on 8 January 2014 was 1.46 pps compared to the auction of the same issue in June, when the yield was 2.01%. When the issue was launched in February 2012 the yield was 2.36%.

This is the last planned reopening of the bond in 2012 issue year. Its total volume in circulation after this auction reached BGN 140 mln. The volume of orders totaled BGN 123.7 mln, while the quantity offered and approved for sale was BGN 30 mln, thus the coverage coefficient being 4.12. The distribution by type of investors was as follows: banks - 70%, other institutional investors - 17.8% и pension funds - 12.2%.

This yield is below the current yield of bonds of similar characteristics in a number of EU Member States and countries in the region: Sweden (0.64%), Ireland (1.32%), Italy (2.20%), Slovenia (2.37%), Spain (3.02%), Portugal (3.37%), Poland (3.98%), Hungary (6.11%), Turkey (7.41%), etc. Despite the exceptionally low yield levels of the considered by investors non-risk benchmark Bunds, the spread thereto has narrowed to the record 0.56 bps. These values are well below the value of the 5Y CDS indicator, which takes account of the insurance premium against insolvency of the issuer, which on its turn showed that no risk premium has been incorporated in the yield at this auction.

The lowest yield registered so far in the 5-year maturity segment

MF also registered the lowest yield registered so far in the 5-year maturity segment at the reopening of the 2008 GS held on October 22. The yield achieved at the auction reached 2.02%, while the amount approved stood at BGN 45 mln with residual maturity of 5 years and 2 months. The yield at the first reopening for the 2012 issue year in April was 4.12%, while at the July auction the weighted annual yield stood at 3.49%. The yield was considerably lower than the yield on government bonds with shorter maturity (2017) of a number of EU Member States, incl. Hungary (6.11%), Portugal (5.12%), Spain (4.13%), Poland (3.99%), Italy (3.58%) and Ireland (3.24%).

Investor demand exceeded about three times the amount offered for sale, as all orders totaled BGN 124.95 mln. The distribution by investor type showed that banks acquired around 53% of the overall approved nominal amount. Trust and guarantee funds, as well as investment intermediaries, also showed somewhat stronger interest with a share of around 38%, and pension funds - around 9%. After this auction the total amount of the issue reached BGN 290.7 mln.

Yields on Bulgarian GS on the downward trend along the whole spectrum of the debt curve

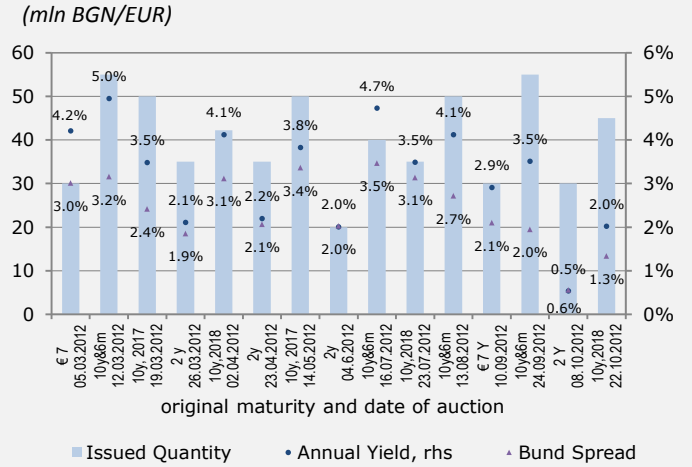
MF achieved a yield of 2.53% on 7Y EUR-denominated GS at the auction held on November 12. The yield achieved for the approved amount of EUR 30 mln was record low in the long-term maturity segment. The spread to the low risk German Bunds is 1.90 pps. For comparison, at the previous auction for the same issue held in September, the yield registered was 2.91%, while at its launching in January - 4.45%. The registered yield is below that of similar bonds in a number of countries: Hungary (5.51%), Slovenia (5.23%), Croatia (4.80%), Italy (4.06%), Turkey (3.13%) and is close to that of Poland (2.24%) and Slovakia (2.07%).

Orders almost doubled the amount offered for sale. Banks acquired 89%, followed by pension funds - 6%, and investment intermediaries - 5%. After this auction the issue totaled EUR 125 mln.

The overall assessment of the Government policy for fiscal consolidation measured by the continuing downward yield trend in all maturity segments was complemented by a record drop in the CDS indicator which reached its lowest level since 2008. At the beginning of November, **the risk premium reached about 120 bps**, being around 400 bps at the end of June 2009.

The downward trend along the whole spectrum of the debt yield curve was just in line with the ECB data on long-term interest rates. According to that data, the indicator narrowed to just 3.39% as of October, thus being the lowest monthly value since this indicator has been published for the first time in 2003.

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

Source: MF

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

The nominal value of government debt at the end of September amounted to EUR 6 976.2 mln, including domestic debt of EUR 2 451.9 mln and external debt of EUR 4 524.3 mln. Government debt posted an increase by approximately EUR 28.8 mln in nominal terms from the end of the previous month, mainly due to the increase in domestic debt as a result of new domestic financing of government securities during the month. At the end of September the government debt-to-GDP ratio was 17.5%.

Table: Government Debt Amount, mln EUR

Structure	31.12. 2010	31.12. 2011	31.01. 2012	29.02. 2012	31.03. 2012	30.04. 2012	31.05. 2012	30.06. 2012	31.07. 2012	31.08. 2012	31.09. 2012
Domestic government debt	2 011.5	2 458.3	2 412.5	2 516.7	2 618.6	2 616.1	2 473.5	2 482.9	2 522.5	2395.1	2451.9
External government debt	3 373.5	3 487.6	3 480.1	3 455.7	3 492.7	3 520.7	3 593.1	3 554.0	4533.7	4552.3	4524.3
Government Debt, total	5 385.0	5 945.9	5 892.6	5 972.4	6 111.4	6 136.7	6 066.5	6 036.9	7056.2	6947.4	6976.2
Government Debt /GDP, %	14.9*	15.3	14.7	14.9	15.2	15.3	15.1	15.0	17.7	17.4	17.5

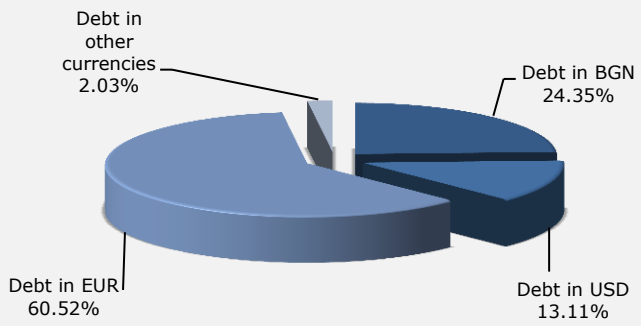
** Due to a technical error, government debt-to-GDP ratio as of 2010 has been changed to 4.9% instead of 14.9% in some previous issues of the bulletin.*

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

Debt currency structure once again posted a positive change in September, as the shares of debt denominated in BGN and EUR increased to 24.4% and 60.5% respectively. The debt in USD and other currencies continued on the decrease and stood at 13.1% and 2% respectively.

Government Debt Currency Structure

(as of 30 September)



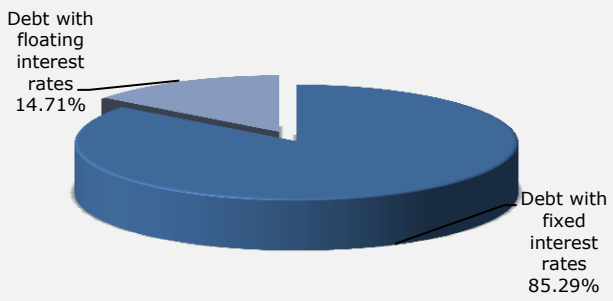
Source: MF

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

At the end of September, the share of debt with fixed interest posted an increase over August and reached 85.3%, while debt with floating decreased, down by 14.7%.

Government Debt Interest Rate Structure

(as of 30 September)



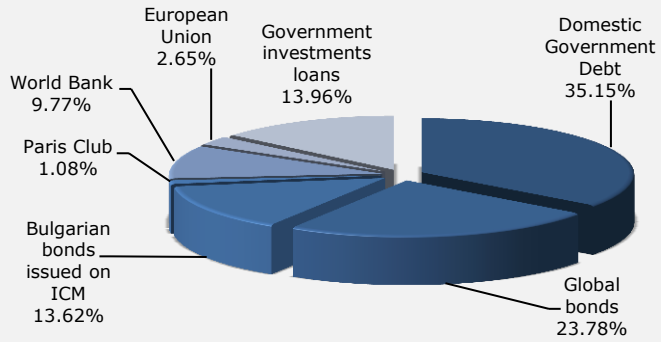
Source: MF

Liabilities related to global bonds and EUR-denominated bonds issued in international capital markets had the largest share in debt structure by types of instruments and creditors – standing at 37.4%, followed by domestic government debt – 35.2%, government investment loans – 14%, commitments to the World Bank – 9.8%, the EU – 2.6% and the Paris Club – 1.1%.

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

Government Debt Structure by Creditor

(as of 30 September)



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.
http://www.minfin.bg/en/statistics/?cat=2&from=0&fyear=0&to=0&tyear=0&dq=&pokaz=0