2012

RECENT ECONOMIC DEVELOPMENTS, BULGARIA

SELECTED ISSUES, NOVEMBER 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

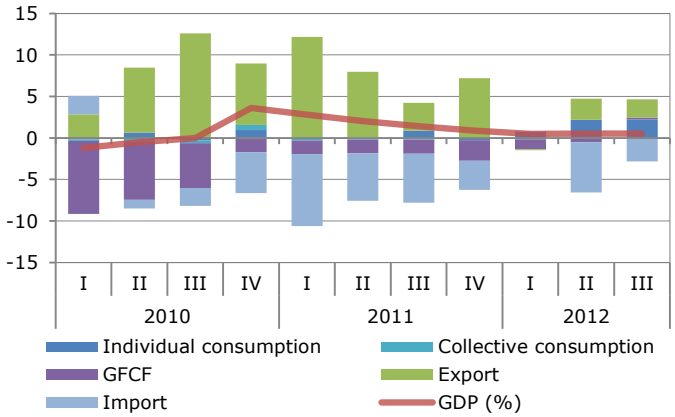
- According to second estimates, **Bulgarian economy expanded by 0.5% yoy in Q3 2012** (s.a. data) driven mainly by domestic demand and household expenditures in particular. Investment activity recovery also continued, with gross fixed capital formation up by 1%.Exports growth slowed to 3.3% yoy, while imports expanded by 4%, thus contribution from net exports remained slightly negative. Gross value added increased by 0.2% yoy during the period.
- **Business climate also improved** in November, up by 0.9 pps. The survey reported increase in manufacturing orders, as well as optimistic expectations about the volume of retail sales.
- **Employment decline in yoy terms decelerated** in Q3, supported mainly by the developments in agriculture and industry. **Productivity kept increasing** on the back of improvement in agriculture and industry, while **the average wage** amounted to BGN 754, up by 8.8% yoy in nominal terms. Private sector wage increases almost fully accounted for these developments, as hikes in public sector wages remained subdued. Nevertheless, real growth rate of wages slowed to 5.7% on a year earlier, as annual inflation accelerated somewhat in the third quarter. **Cost competitiveness in the tradable sector has been preserved** even though RULC increased slightly in Q3.
- The **registered unemployment** stood at 11% as of October, due to the continuing process of costs restructuring and the fall in seasonal activities. Preliminary figures pointed to a further rise in unemployed number in November. Annual **HICP inflation slowed** to 3% yoy as of October, down by a marginal 0.1% over the previous month. In line with expectations, domestic inflationary pressures eased as food and energy commodity prices continued receding on world markets.
- **Current account remained on a surplus for a third month in a row** in September. The improvement came on the back of higher surpluses on *Services* and *Transfers* compared to a year earlier, as well as lower *Income* deficit which offset the deterioration in the trade balance. **Financial account** balance was negative by EUR 116.2 mln largely due to FDI.
- **General government position was close to balance, with a negligible deficit** on a cash basis at BGN 74.2 mln (0.1% of GDP) at the end of October, triggered by the EU funds. Budget deficit, however, continued improving compared to the corresponding period of 2011, down by 1% of GDP.
- Auctions held in November confirmed the **downward trend along the entire spectrum of the debt yield curve**. MF registered the lowest yield ever in the 7Y and 10Y maturity segment. This came along with **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 latter was also in line with the ECB data on long-term interest rates, according to which the indicator for Bulgaria narrowed to just 3.39% in October. ▼

— RECENT ECONOMIC DEVELOPMENTS

According to second estimates published by Eurostat, GDP in EU27 fell by 0.4% during the third quarter of 2012. At the same time **Bulgarian economy expanded by 0.5% yoy in Q3** (s.a. data). Growth was again driven by domestic demand. Final consumption increased by 3%, with household expenditures up by 3.8%. There was also a moderate decline in government outlays, as individual and collective consumption went down by 0.7% and 0.2% respectively. The recovery in the investment activity continued, with GFCF up by 1%. Meanwhile, the growth of exports slowed to 3.3% yoy from 3.9% in Q2, while imports expanded by 4% yoy.

Contributions to GDP growth

(pps, yoy)

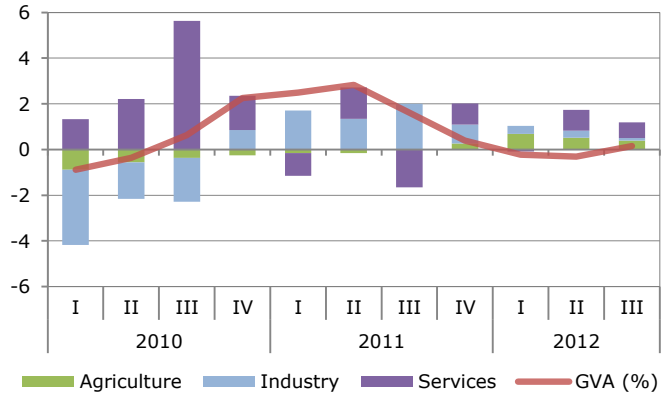


Source: NSI

The **gross value added (GVA)** in the country increased by 0.2%. Main positive contribution came from the value added increase in manufacturing, up by 2.6% yoy, financial and insurance activities, up by 3.6%, and professional, scientific and technical activities, up by 9.8%. The value added in construction fell by 6.8%. Decline was also reported in Public administration and Information and communication.

Contributions to GVA growth

(pps, yoy)



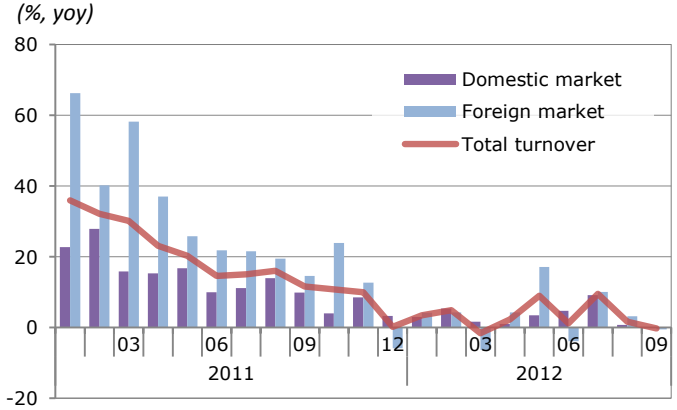
Source: NSI

In September **industrial turnover** decreased by 0.3% yoy. Both domestic and foreign turnover contributed for the observed developments. Manufacturing, which accounts for more than 95% of foreign industrial sales, registered a 0.3% increase. The latter, however, was unable to shape the overall dynamics of this indicator and foreign turnover decreased by 0.6% yoy. Manufacture of basic metals contributed the most for the registered decline.

Domestic turnover also turned to negative territory for the first time since the beginning of 2010, down by 0.1% yoy. Although electricity, gas, steam and air conditioning supply, which is one

of the leading sectors in domestic sales, and manufacture of chemical products performed relatively well, most of the sectors had weak or negative contribution to domestic turnover.

Industrial turnover



Source: NSI

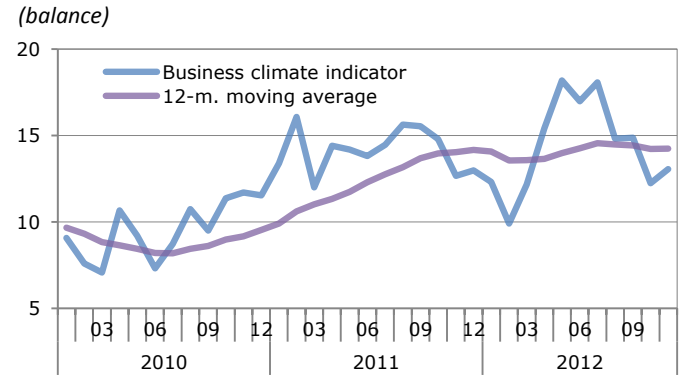
Industrial production also decreased by 2.5% compared to a year earlier due to developments in manufacturing. Manufacturing of fabricated metal products, except machinery and equipment, and manufacture of textiles, wearing apparel and leather products had the largest contribution for the registered decrease.

In September **retail sales** decreased by 3.7% yoy. Except for retail sales of medical and orthopedic goods, which increased by 1.7%, all other retail sales subsectors registered a decline. The highest drop has been posted by retail sales of textiles, clothing, footwear and leather goods, down by 9.4%, followed by other retail sales in non-specialized stores, down 8.6%, and retail sales of audio and video equipment, down 8.3%.

Construction production index lost speed and decreased by 4% yoy. Growth in civil engineering slowed to 3.7%, while the slump in building construction widened to 9.6% yoy from a 2.2% decrease a month earlier.

Optimism among managers in industry and services has returned in November, thus the business climate in the country improved by 0.9 pps. The inquiry reported better production assurance with orders in manufacturing, while managers in the services sector remained largely reserved in their assessment regarding future demand. Retailers expressed optimism about the volume of sales in spite of the uncertain economic environment which continued limiting the activity of their enterprises. At the same time construction activity and orders registered an anticipated decline, given the influence of some seasonal factors.

Business climate

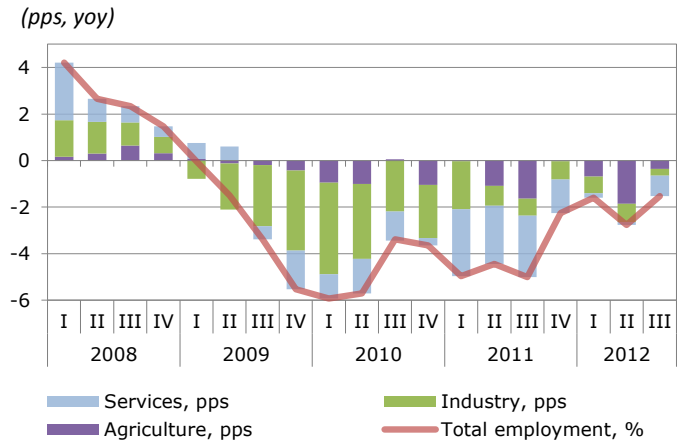


Source: NSI

Employment decline decelerated yoy driven mainly by the developments in agriculture and industry. Employment number in Q3 went down by 1.5% compared to Q3 2011, slowing up from a decline of 2.8% in a quarter earlier. Unlike Q2 developments, Q3 *seasonal employment* in agriculture stood higher than a year earlier and employment decline in this sector narrowed to 1.6%. *Employment in industry* improved largely due to favorable

dynamics in construction, where the number of employed increased for the first time since the beginning of 2009, up by 3.6% yoy. Employment in the tradable sector (industry excluding construction) remained subdued by unfavorable foreign environment, down 2.4% yoy. Even though a few service subsectors such as creation and distribution of information, finance and insurance, and professional and administrative services sustained some positive pattern of employment developments, the overall *services sector employment* was affected negatively by somewhat intensified employment decrease in trade and transport, as well as hotels and restaurants.

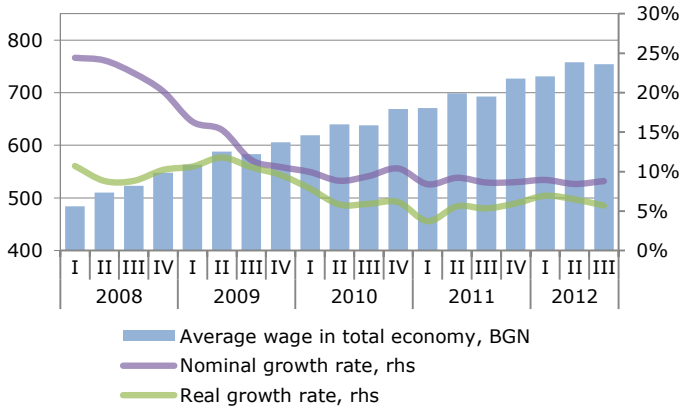
Employment developments and contribution by sectors



Source: NSI

Labour productivity (measured as GDP per person employed) **increased at a decelerating pace**, up by 2.4% yoy as of Q3. Productivity in agriculture and industry went up by 2.6% and 0.8% respectively, and largely accounted for the slowdown on a quarter earlier influenced by the slowdown in both GVA growth and employment decrease. Tradable sector productivity improved by 3.2%. Productivity growth in services also accelerated to 1.7%, following labour costs optimization process in the trade, transport and hotels and restaurants subsector.

Average wage developments

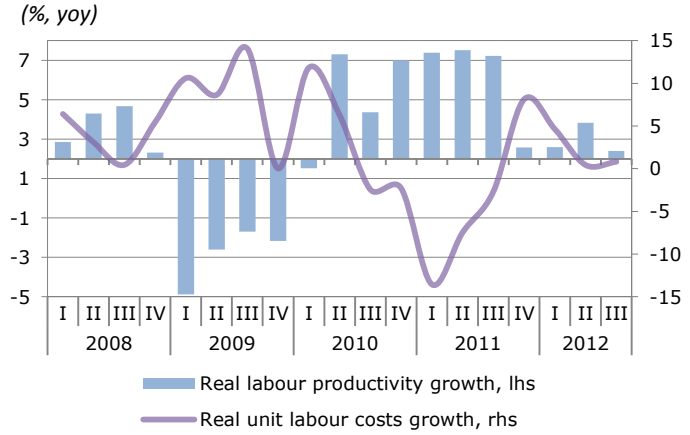


Source: NSI

Average wage kept its nominal pace of increase from the past two-year period, however real wage growth decelerated. The average wage in Q3 amounted to BGN 754, up by 8.8% yoy in nominal terms. It was driven mainly by the increase in private sector wage, up 10.4%, while the public sector average wage came up to a rise of 5%. The process of labour costs reduction contributed to sustaining the nominal wage growth in the manufacturing sector at 5.1%, while the construction sector wage increase remained at 1.4%. The overall service sector average wage growth of 10.2% was strongly driven by some high-productive activities, such as informational technologies and services, along with trade, where wage developments were mainly driven by the minimum insurance thresholds rise in the beginning of the year which resulted in curbing unreported wages. The

annual inflation accelerated in Q3, thus the average wage real growth slowed to 5.7%. The latter was more evident in the private sector where the indicator increased by 7.2%, while the real growth of wages in the public sector remained at 2%.

Labour productivity and real unit labour costs

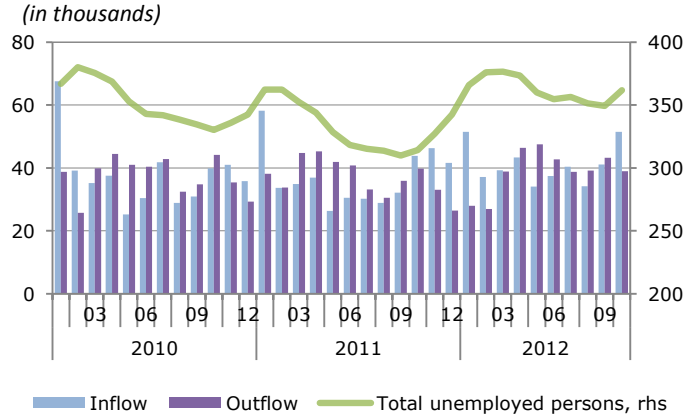


Source: NSI

Cost competitiveness in the tradable sector has been preserved even though RULC increased slightly in Q3. The increase in compensation per employee slightly surpassed the pace of productivity growth, which resulted in a 0.8% increase in RULC (compensation per employee to GDP per employed in current prices). The latter was mainly due to developments in the non-tradable sector. Meanwhile, the tradable sector, which competes on the foreign markets, was successful in improving its cost competitiveness, as the cost optimization process due to the unfavorable foreign environment allowed for a 2.3% yoy reduction in RULC as of Q3.

Registered unemployment turned on the increase in October. Jobless number was higher by 3.6% mom to 361.9 K. Thus the unemployment rate stood at 11%, up by 0.4 pps over the previous month. The newly registered in the employment offices further increased on a month earlier due to costs restructuring and the fall in seasonal activities, thus adding 51.5 K to an overall unemployment inflow. The outflow of unemployed went down to 39 K, on the account of the smaller number of persons who found jobs in October – 18.1 K. The latter was 24% lower compared to September due to both reduced demand for workers on the primary labour market and the lower number of persons included in schemes under the OP Human Resource Development.

Inflow, outflow and total number of unemployed people

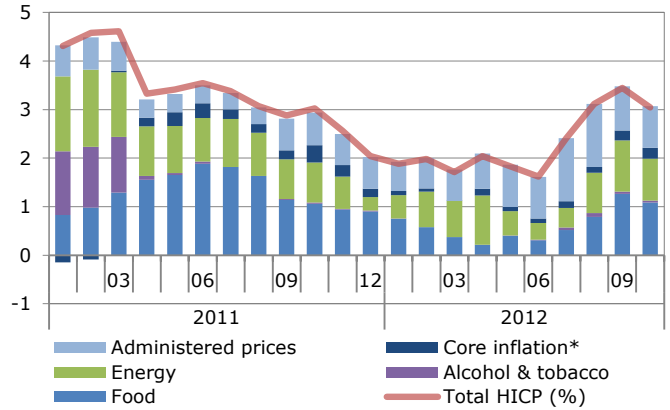


Source: EA

Preliminary figures pointed to a further rise in unemployed number to 372.1 K in November, resulting in an unemployment rate of 11.3%. The high unemployment inflow and low demand on the primary labour market largely accounted for these developments.

HICP and contributions by main components

(pps, yoy)



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

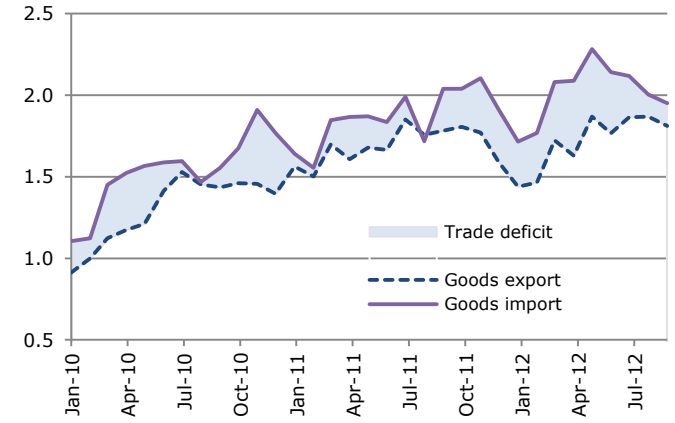
Source: NSI, MF

Just in line with expectations, **annual HICP started to slowdown** and stood at 3% yoy as of October, after consumer prices decreased by 0.1% from the previous month. International crude oil prices quoted in euro receded in September and October and started to decelerate in yoy terms, supported by both the continuing strengthening of the euro against the USD, as well as the more favorable market juncture. As a result, automotive *fuel* prices fell by 2.5% mom on average having the largest negative contribution of 0.21 pps to the monthly drop in the headline rate. Prices of *market services* registered a negligible decline, down 0.1% mom, as fares of foreign and low-cost airlines fell by 9.5% and 27.1% respectively. In view of downward international food price developments, domestic prices of food also slowed their rate of increase during the month, up by a marginal 0.3% mom. *Non-energy industrial goods* posted a 0.6% increase in their prices, thus contributing by 0.13 pps to the headline rate. The latter was almost fully due to seasonal hikes in prices of apparel and footwear, up by 4.1% mom on average. *Administrative prices* also posted a decrease in October, down 0.1% over the previous month.

Current account remained on a surplus for a third month in a row, thus the latter reached EUR 1 054.4 mln in Q3, up 6.3% yoy. The improvement in July-September came on the account of higher services and transfers surpluses compared to a year earlier, as well as lower income deficit which offset the deterioration in trade balance.

Merchandise trade dynamics

(bn EUR)



Source: BNB

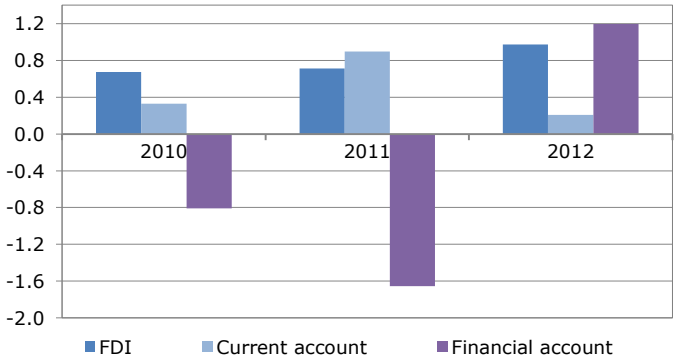
There were several tendency shifts in September. After being on the increase since February 2010, merchandise imports recorded its first decline over the corresponding month of 2011. High base effect, along with moderation in domestic consumption and international prices, resulted in a 4.4% yoy decline in imports. Services sector also saw a decrease in imports. Services dropped 7.1% yoy, after seven consecutive months of increase and an average rate of growth of 13.2% yoy in Jan-Aug. In spite of the

decline in imports, exports expanded during the month. The former increased at a decelerating pace of 1.6% yoy, while services exports grew 6.8% compared to September 2011.

Trade deficit amounted to EUR 2 717 mln in Jan-Sep, equal to 6.8% of GDP. The accumulated services surplus reached 5.7% of GDP, same as in the corresponding period of 2011. The contraction in the *Income deficit* due to shrinking direct investments payments continued. The negative balance for the first nine months of 2012 stood at EUR 908.6 mln (2.3% of GDP). *Current transfers* balance was above last year's level in September and the accumulated flow during the current year reached 4% of GDP. Current account balance was positive at 0.5% of GDP in Jan-Sep compared with a surplus of 2.3% of GDP during the same period of 2011.

FDI, Current and Financial Account

(January-September, bn euro)

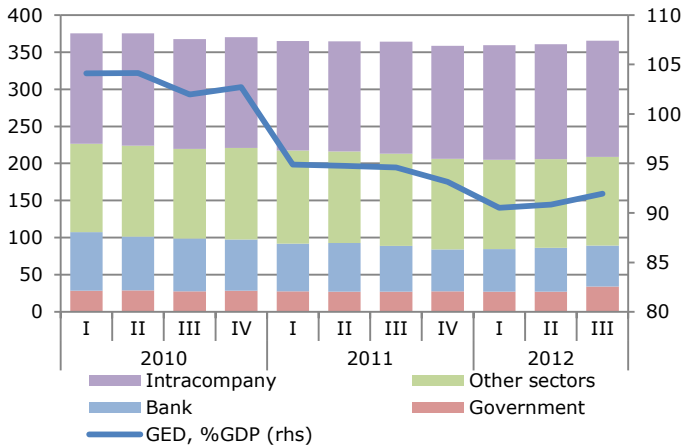


Source: BNB

Financial account balance was negative by EUR 116.2 mln. The outflows resulted mostly from negative foreign direct investment due to repayment of loans from the non-banking private sector to parent companies abroad. Net portfolio investments were also negative, with stocks and bonds hold by residents increasing by EUR 94 mln during the month. Regarding *Other investments*, their balance was positive at EUR 150 mln as banks reduced their assets abroad in foreign exchange and deposits. The accumulated Financial account balance in Jan-Sep reached EUR 1 197 mln or 3% of GDP.

Gross external debt by institutional sector

(bn EUR)

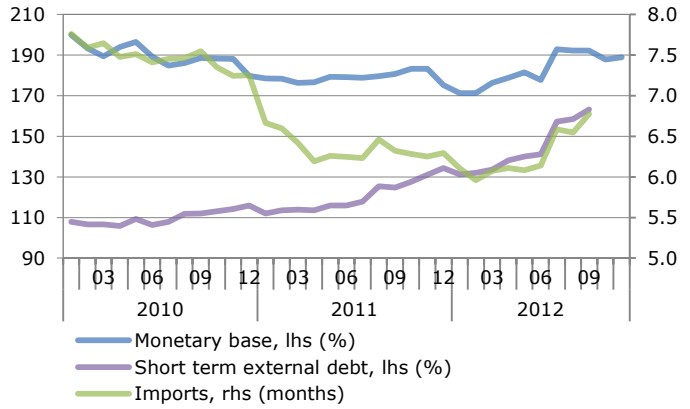


Source: BNB

Gross external debt stood at 91.9% of GDP at end-September. The slight mom reduction of the external indebtedness to EUR 36.53 bn from a revised EUR 36.76 bn at the end of August was mostly due to a decrease in the intercompany lending as part of FDI. Government and Other sectors debt were also slightly lower, while Bank external liabilities edged up over the previous month. Private sector external debt narrowed to 31.1 bn, being EUR 33.69 bn twelve months earlier, with banking sector having the largest contribution to the registered decrease. Regarding

the public indebtedness, the yoy increase was due to the Eurobonds issue in July.

Coverage with FX Reserves



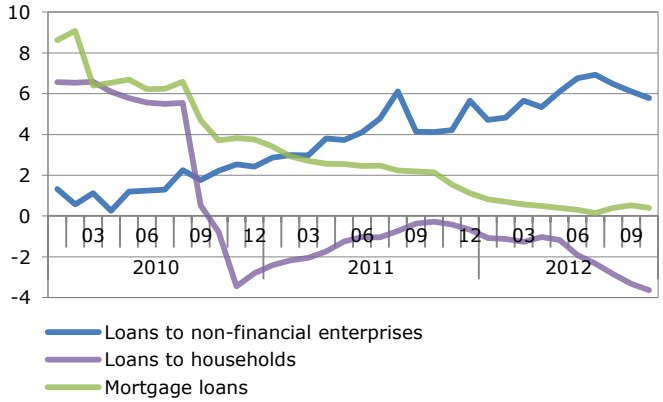
Source: BNB, MF

International reserves remained unchanged at the end of November compared to a month ago standing at EUR 15.1 bn. That came on the back of a 2.3% mom drop of bank reserves and a 6.5% decrease of Other depositors' account, while Government deposit and notes in circulation went up by 2.1% and 0.9% mom respectively. As a result of their monthly dynamics, reserves' annual growth rate moved from 14.6% to 14.4%. At the end of November the monetary base coverage reached 188.9%. The level of international reserves as of end-September was enough to cover 6.8 months of imports or 163.2% of the short term external debt.

Money supply grew by 8.6% yoy at the end of October, coming from 8.8% a month earlier. The liquid monetary aggregate M1 grew at a slower pace compared to the end of the previous month (11.1% vs. 12.6% yoy) due to the lesser increase of overnight deposits. At the same time the growth rate of deposits with agreed maturity speeded up from 4.8% to 5.4% yoy. Broad money decreased by 0.6% over the previous month after a 1.5% decrease of M1 and a 0.3% drop of deposits with agreed maturity. Total deposits shrank by 0.6% mom (BGN 318 mln) which brought their annual growth down to 8.5% from 8.7% at the end of September.

Credit growth

(% change, yoy)

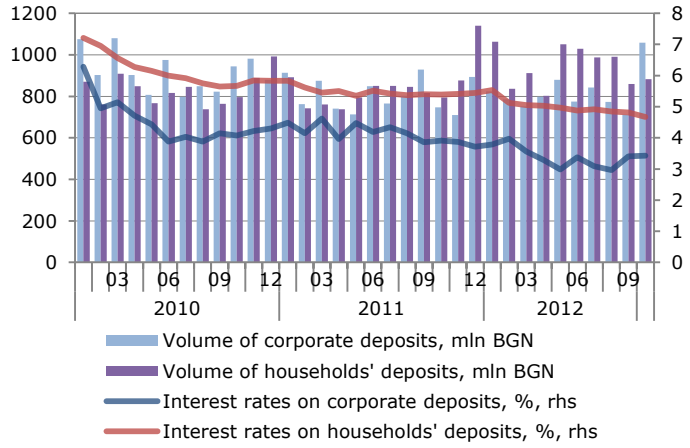


Source: BNB, MF

The annual growth of **credit to the private sector** kept on slowing down to 3.3% in October. Corporate credits held back their pace going from 6.1% yoy at the end of September down to 5.8% as of end-October. Consumer credits continued sinking in negative territory as their 12-month decrease reached 3.6% (3.3% a month earlier). Mortgages retained their positive growth at 0.4% yoy, although slowing marginally from the 0.5% increase at the end of September. Bad and restructured loans slowed to a single digit growth at 9.4% yoy for the first time since September 2007, which led to a decline in their share in

total credits to firms and households to 18.5% from 18.8% a month ago.

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



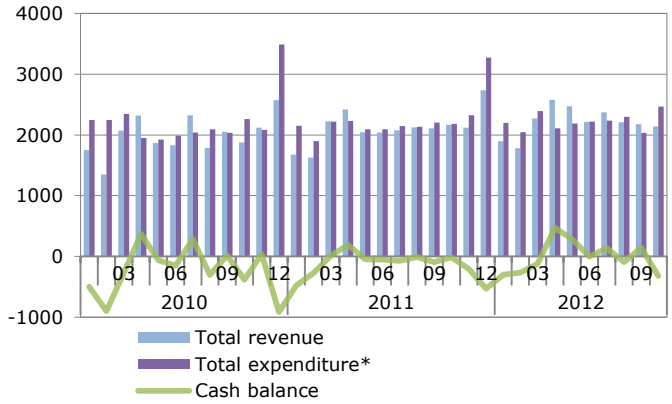
Source: BNB, MF

Weighted average **interest rates on corporate credits and mortgages** went up by 40 and 20 bps respectively in October, however, their monthly volumes increased by 33% and 34.7% compared to the previous month. Consumer credits saw higher volumes as well, up by 18% mom, but their average interest rate decreased by 10 bps. Weighted **average interest rates on deposits** in all currencies dropped in October. The rate on deposits in local currency fell by 19 bps, while rates on Euro and USD denominated deposits decreased by 11 and 79 bps respectively. The amount of new deposits stood at BGN 3.5 bn, up by 21.3% compared to September.

General government balance registered **a small deficit** in the amount of BGN 74.2 mln on a cash basis (0.1% of GDP) at the end of October, stemming from a surplus of BGN 476.9 mln (0.6% of GDP) on the national budget, and a deficit of BGN 551.2 mln (0.7% of GDP) on the EU funds. Budget deficit improved by 1% of GDP compared to the corresponding period of 2011, which is a BGN 767.9 mln decrease in nominal terms.

Consolidated Budget

(monthly value, mln BGN)



** Incl. contribution to EU budget*

Source: MF

In the first 10 months of the year, **total revenue and grants** accounted for 77% of the 2012 annual plan, up by 7.8% in nominal terms compared to October 2011. Tax proceeds reached 82.5% of the annual forecast, although their 5.1% yoy growth slowed for a third consecutive month. Indirect taxes, up 7.6% yoy, had the largest positive contribution to revenue dynamics. VAT and excise receipts increased as well, up by 8.7% and 6.3% respectively, while custom duties were down 10% in yoy terms. Total social and health insurance contributions came 1.6% higher compared to the corresponding period of 2011. Direct taxes and non-tax revenues also grew, up 3.3% and 9.1% yoy respectively. Grants, coming almost entirely from EU funds, rose signifi-

cantly, up 65.7% compared to their previous year nominal level, and accounted for 31.1% of the full-year forecast.

Total expenditure, including Bulgarian contribution to EU budget, amounted to 74.4% of the annual plan, up 3.9% in nominal terms on a year earlier. Spending optimization continued, as subsidies and maintenance outlays in the first 10 months declined by 23% and 1.7% yoy respectively, for the benefit of capital and social expenditures, up 23.5% and 4.8% yoy respectively.

Fiscal reserve totaled BGN 6.6 bn (8.5% of GDP) at end-October.

General government debt, including government guaranteed debt, accounted for 19% of GDP at the end of October. Government external debt came to 11.3% of GDP, domestic debt stood at 6.3%, while guaranteed debt amounted to 1.4% of GDP.

According to **preliminary data**, the budget deficit amounted to about BGN 128 mln (0.2% of GDP) at the end of November. ▼

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

		2008	2009	2010	2011	Q4'11	Q1'12	Q2'12	Q3'12	V'12	VI'12	VII'12	VIII'12	IX'12	X'12
— GDP															
Gross Domestic Product[1]	%, yoy	6.2	-5.5	0.4	1.7	0.9	0.5	0.5	0.5						
Consumption	%, yoy	2.6	-7.3	0.5	-0.3	-1.8	1.5	3.2	3.0						
Gross fixed capital formation	%, yoy	21.9	-17.6	-18.3	-9.7	-10.5	-5.4	-2.1	1.0						
Export	%, yoy	3.0	-11.2	14.7	12.8	11.9	-0.1	3.9	3.3						
Import	%, yoy	4.2	-21.0	2.4	8.5	5.2	0.0	8.6	4.0						
Agriculture	%, yoy	32.4	-9.5	-6.2	-1.1	4.9	12.7	9.6	7.0						
Industry	%, yoy	6.0	-5.7	-6.3	6.6	2.9	1.2	1.1	0.4						
Services	%, yoy	4.1	-1.3	4.4	-0.1	1.4	-0.1	1.4	1.1						
Adjustments	%, yoy	5.7	-16.5	-0.5	0.8	0.9	8.1	5.1	2.2						
— SHORT TERM BUSINESS STATISTICS															
Industrial production	%, yoy	0.7	-18.3	2.0	5.8	1.3	-2.6	-0.1	0.5	2.0	0.3	0.8	3.3	-2.5	
Industrial turnover	%, yoy	13.7	-20.2	14.1	17.2	6.8	2.0	4.1	3.6	8.9	1.2	9.5	1.7	-0.3	
Retail trade turnover	%, yoy	8.9	-7.7	-8.4	-1.9	-4.3	-3.1	-0.6	-0.5	-1.2	0.6	1.3	1.0	-3.7	
Construction output	%, yoy	12.2	-14.3	-14.5	-12.9	-9.2	-1.7	0.3	0.5	4.5	-4.6	3.9	1.5	-4.0	
Total business climate	balance	38.0	10.2	9.6	14.2	13.5	11.5	16.9	15.9	18.2	17.0	18.1	14.8	14.9	12.2
Industrial confidence	balance	39.9	12.3	13.4	22.4	21.0	21.3	22.8	21.7	23.6	21.6	23.5	20.7	20.8	17.2
Retail trade confidence	balance	41.3	13.5	10.1	17.3	25.5	10.5	18.1	17.8	24.1	16.4	17.8	16.1	19.7	17.9
Construction confidence	balance	40.3	8.5	5.1	2.8	-1.9	-4.1	4.2	3.0	4.5	4.6	6.2	-0.7	3.4	0.5
Services confidence	balance	28.7	5.1	5.6	5.9	1.8	8.2	16.4	15.4	15.1	20.8	19.3	17.3	9.7	8.4
— LABOUR MARKET															
Participation rate (15+)	level	53.8	53.0	52.0	51.3	51.5	51.8	52.7	54.2						
Employment rate (15+)	level	50.8	49.4	46.7	45.6	45.7	45.1	46.2	47.9						
Employment (LFS)	%, yoy	3.3	-3.2	-6.2	-3.4	-2.3	-1.8	-1.1	-0.7						
Unemployment rate (LFS)	level	5.6	6.8	10.2	11.2	11.4	12.9	12.3	11.5						
Unemployment rate (Employment agency)	level	6.3	7.6	9.5	10.1	10.0	11.4	11.1	10.7	11.0	10.8	10.8	10.7	10.6	11.0

		2008	2009	2010	2011	Q4'11	Q1'12	Q2'12	Q3'12	V'12	VI'12	VII'12	VIII'12	IX'12	X'12
Nominal wage	%, yoy	26.5	11.8	6.4	9.1	8.7	8.9	8.4	8.8	8.6	9.4	8.5	8.9	9.1	
Real wage[2]	%, yoy	13.0	9.1	3.3	5.6	5.9	6.9	6.4	5.7	6.6	7.7	6.0	5.6	5.5	
Labor productivity (GDP per employed)	%, yoy	3.5	-3.0	5.3	6.2	2.6	2.6	3.8	2.4						
Real ULC (GDP)	%, yoy	3.7	8.1	2.7	-3.7	8.1	4.6	0.4	0.8						
— PRICES															
National index of consumer prices (CPI)	%, yoy	12.3	2.8	2.4	4.2	3.1	2.0	1.6	4.0	1.7	1.6	3.1	3.9	4.9	4.4
Harmonized index of consumer prices (HICP)	%, yoy	12.0	2.5	3.0	3.4	2.5	1.9	1.8	3.0	1.8	1.6	2.4	3.1	3.5	3.0
Domestic producer prices	%, yoy	13.3	-4.3	7.2	8.6	5.5	4.8	4.2	6.0	4.3	3.3	4.5	7.1	6.6	6.9
— CONSOLIDATED FISCAL PROGRAM (CUMMULATIVE)															
Revenue and grants	mln BGN	27 313	25041	23933	25378	25 378	5 956	13 224	19 986	11 010	13 224	15 598	17 806	19 984	22 127
Total expenses	mln BGN	25 323	25667	26755	26866	26 867	6 647	13 162	19 733	10 943	13 162	15 398	17 699	19 736	22 202
Contribution to EU budget	mln BGN	720	746	670	779	779	307	467	629	431	467	504	562	629	683
Cash deficit (-) / surplus (+)	mln BGN	1 990	-626	-2823	-1488	-1 488	-691	62	253	67	62	200	108	248	-74
	% of GDP	2.9	-0.9	-4.0	-2.0	-2.0	-0.9	0.1	0.3	0.1	0.1	0.3	0.1	0.3	-0.1
Government and government guaranteed debt	mln BGN	10 710	10641	11778	12826	12 826	13 053	12 942	14 732	13 028	12 943	14 960	14 693	14 735	14 752
	% of GDP	15.5	15.6	16.7	17.0	17.0	16.6	16.5	19.0	16.8	16.7	19.3	18.9	19.0	19.0
Fiscal reserve	mln BGN	8 382	7673	6012	4999	4 999	4 531	5 062	7 172	5 047	5 062	7 081	6 914	7 172	6 640
	%, yoy	12.5	-8.5	-21.6	-16.9	-16.9	-3.6	-1.8	41.4	1.2	-1.8	45.1	38.5	41.4	24.3
— FINANCIAL SECTOR															
BNB International reserves	mln EUR	12 713	12919	12977	13349	13 349	13 192	13 866	15 507	13 548	13 866	14 963	15 049	15 507	15 094
Monetary base coverage	%	175.3	195.2	179.8	175.1	175.1	176.3	177.7	192.3	181.6	177.7	192.9	192.3	192.3	187.9
Coverage of import with FX reserves	months	5.4	8.0	7.3	6.3	6.3	6.1	6.1	6.8	6.1	6.1	6.6	6.5	6.8	
Coverage of short-term external debt	%	96.5	100.2	115.3	133.8	133.8	133.6	141.2	163.2	140.0	141.2	157.3	158.5	163.2	
Money M1 (Narrow money)	%, yoy	-4.1	-8.8	0.8	14.4	14.4	17.2	13.4	12.6	17.2	13.4	15.5	10.7	12.6	11.1
Money M3 (Broad money)	%, yoy	8.8	4.2	6.2	12.2	12.2	10.7	10.2	8.8	10.9	10.2	10.0	8.8	8.8	8.6
Deposits	%, yoy	8.8	7.6	6.6	13.2	13.2	11.0	10.2	8.7	11.2	10.2	10.0	8.6	8.7	8.5
Credit to private sector	%, yoy	32.9	3.8	1.1	3.3	3.3	3.1	4.1	3.5	3.6	4.1	4.2	3.9	3.5	3.3
Credit to non-financial enterprises	%, yoy	33.1	2.3	2.4	5.7	5.7	5.7	6.8	6.1	6.1	6.8	6.9	6.5	6.1	5.8
Credit to households	%, yoy	31.4	5.8	-0.8	-0.4	-0.4	-1.0	-1.1	-1.5	-0.8	-1.1	-1.3	-1.4	-1.5	-1.7

		2008	2009	2010	2011	Q4'11	Q1'12	Q2'12	Q3'12	V'12	VI'12	VII'12	VIII'12	IX'12	X'12
Interest rate on short-term loans	%	10.9	10.5	8.5	7.4	7.7	8.3	7.2	7.5	7.2	6.7	7.5	7.3	7.8	7.4
Interest rate on time deposits	%	5.6	7.0	5.4	4.8	4.8	4.6	4.2	4.2	4.1	4.3	4.1	4.1	4.3	4.1
Exchange rate BGN/USD	eop	1.39	1.36	1.47	1.51	1.51	1.46	1.55	1.51	1.58	1.55	1.59	1.55	1.51	1.51
	per. av.	1.34	1.41	1.48	1.41	1.45	1.49	1.53	1.56	1.53	1.56	1.59	1.58	1.52	1.51
— GROSS EXTERNAL DEBT (GED)															
Gross external debt	% of GDP	104.9	108.3	102.7	93.1	93.1	90.5	90.8	91.9	89.8	90.8	92.4	92.5	91.9	
Short term external debt	% of GED	35.4	32.1	30.2	27.7	27.7	27.5	27.2	26.0	27.1	27.2	25.9	25.8	26.0	
Intercompany lending	% of GED	36.4	38.5	40.4	42.5	42.5	43.0	42.9	42.9	43.0	42.9	42.4	43.1	42.9	
— BALANCE OF PAYMENTS															
Current account	mln EUR	-8 182	-3116	-533	104	-792	-553	-295	1 054	-142	123	303	418	333	
Current account (moving average)	% of GDP	-23.1	-8.9	-1.5	0.3	0.3	-0.7	-1.7	-1.5	-1.8	-1.6	-1.8	-2.3	-1.5	
Trade balance	mln EUR	-8 598	-4174	-2764	-2156	-890	-939	-1 249	-528	-415	-375	-254	-135	-140	
Trade balance (moving average)	% of GDP	-24.3	-11.9	-7.7	-5.6	-5.6	-7.3	-8.9	-9.3	-8.1	-8.7	-8.9	-9.4	-9.1	
Export, f.o.b.	mln EUR	15 204	11699	15561	20264	5 164	4 625	5 264	5 544	1 868	1 767	1 865	1 868	1 811	
	%, yoy	12.5	-23.1	33.0	30.2	19.7	-2.8	6.3	2.9	11.3	6.1	0.8	6.4	1.6	
Import, f.o.b.	mln EUR	23 802	15873	18325	22420	-6 055	-5 565	-6 514	-6 072	-2 283	-2 142	-2 119	-2 003	-1 951	
	%, yoy	-214.7	-33.3	15.4	22.3	13.1	10.3	16.8	5.7	22.0	16.6	6.4	16.7	-4.4	
Capital account	mln EUR	277	477	291	497	306	21	44	171	33	9	118	19	33	
Financial account	mln EUR	11 463	1163	-673	-788	867	-45	689	553	47	460	734	-64	-116	
Net Foreign Direct Investments	mln EUR	6 206	2505	977	1577	1 004	470	244	145	-188	138	34	284	-172	
Net Portfolio Investments	mln EUR	-731	-619	-635	-354	72	-371	-57	705	-27	-219	1 010	-211	-93	
Other Investments – net	mln EUR	6 032	-704	-990	-1946	-190	-138	507	-290	265	542	-306	-135	151	
Change in BNB reserve assets[3]	mln EUR	-674	650	384	-159	-261	176	-639	-1 483	-112	-344	-985	-105	-392	

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

— RECENT ECONOMIC DEVELOPMENTS

Ministry of finance achieved 2.53% yield on 7Y EUR-denominated Government Securities

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.

MF achieved a yield of 3.45% on the 10.5Y benchmark bond

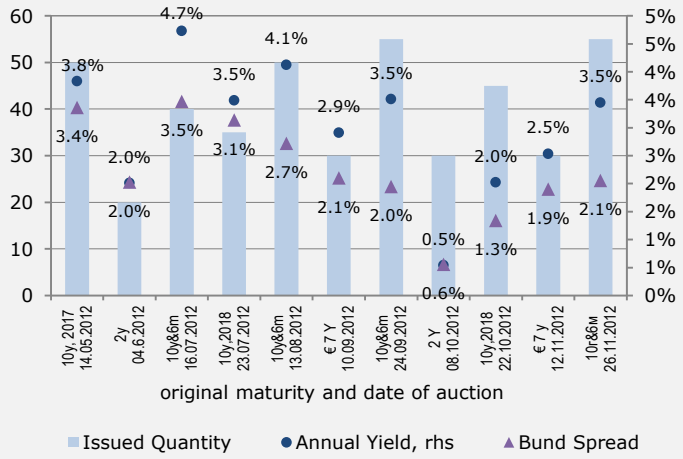
MF also registered the lowest yield ever in the 10Y maturity segment. The yield on this priority issue of 10.5-year GS reached 3.45% at the last auction for the 2012 issue year held on November 26. The amount offered for sale was BGN 55 mln, while orders amounted to BGN 74.35 mln. The presence of banks - primary dealers was strong; they acquired around 71% of the allocated bonds, followed by pension funds with 22% and other institutional investors with 7%.

For comparison, the yield of the bond when it was launched on January 9, 2012, was 5.35%, down by 190 bps at the end of the year. The lower risk premium required by investors is indicative of the positive appreciation of Bulgarian GS as highly demanded investment instrument. The yield achieved at the auction is below the current yield of sovereign bonds with similar characteristics of a number of EU Member States and countries from the region - Poland (4.17%), Ireland (4.40%), Italy (4.75%), Hungary (6.82%) and Turkey (7.12%).

The **spread to the Bunds** preserved its low levels of around 200 bps. The issue has been tapped six times this year and its current volume is BGN 305 mln, which points out its benchmark status and guarantees its high liquidity on the secondary market.

Latest Government Securities Auction Results

(mln BGN/EUR)



Additional data on the auction results can be viewed on the site of the Bulgarian National Bank, that is a fiscal agent to the government www.bnb.bg

Source: MF

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

The nominal value of government debt at the end of October amounted to EUR 6 994.4 mln, including domestic debt of EUR 2 489.8 mln and external debt of EUR 4 504.6 mln. In nominal terms, the debt posted an increase approximately with EUR 18.2 mln in comparison with the level recorded at the end of the previous month. This is mainly due to the increase in domestic debt as a result of new domestic financing with GS during the month. At the end of October government debt-to-GDP ratio stood at 17.6%.

Table: Government Debt Amount, mln EUR

Structure	31.12. 2010	31.12. 2011	31.07. 2012	30.08. 2012	31.09. 2012	31.10. 2012
Domestic government debt	2 011.5	2 458.3	2522.5	2395.1	2 451.9	2489.8
External government debt	3 373.5	3 487.6	4533.7	4552.3	4524.3	4504.6
Government Debt, total	5 385.0	5 945.9	7056.2	6947.4	6976.2	6994.4
Government Debt /GDP, %	14.9*	15.5	17.8	17.5	17.6	17.6

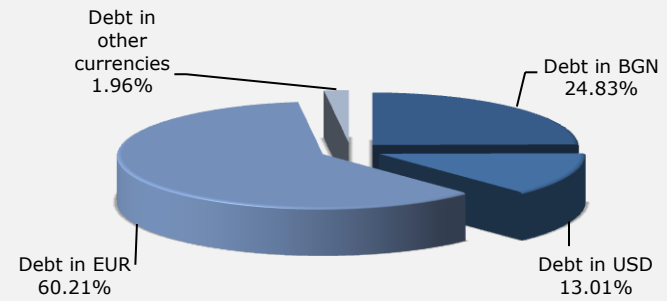
** Due to a technical error, government debt-to-GDP ratio as of 2010 has been changed to 4.9% instead of 14.9% in some previous issues of the bulletin.*

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

Debt currency structure once again posted a positive change in October, as the share of BGN-denominated debt increased to 24.8%. The debt in EUR, USD and other currencies decreased and stood at 60.2%, 13% and 2% respectively.

Government Debt Currency Structure

(as of 31 October)



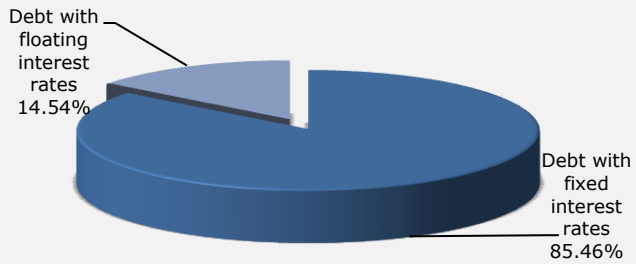
Source: MF

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

At the end of October, the share of debt with fixed interest recorded an increase over the previous month and reached 85.5%, while debt with floating interest noted a decrease of up to 14.5%.

Government Debt Interest Rate Structure

(as of 31 October)



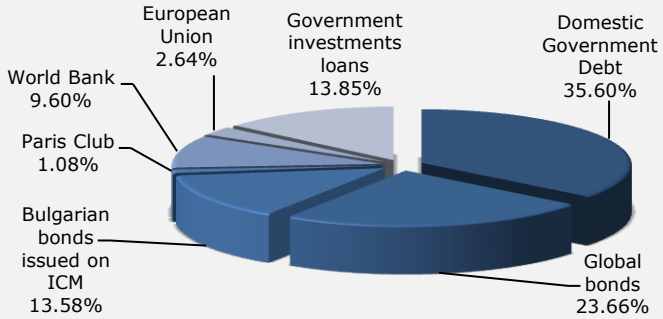
Source: MF

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

Liabilities related to global bonds and EUR-denominated bonds 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 37.2%, followed by domestic government debt – 35.6%, government investment loans – 13.9%, commitments to the World Bank – 9.6%, the EU – 2.6% and the Paris Club - 1.1%.

Government Debt Structure by Creditor

(as of 31 October)



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