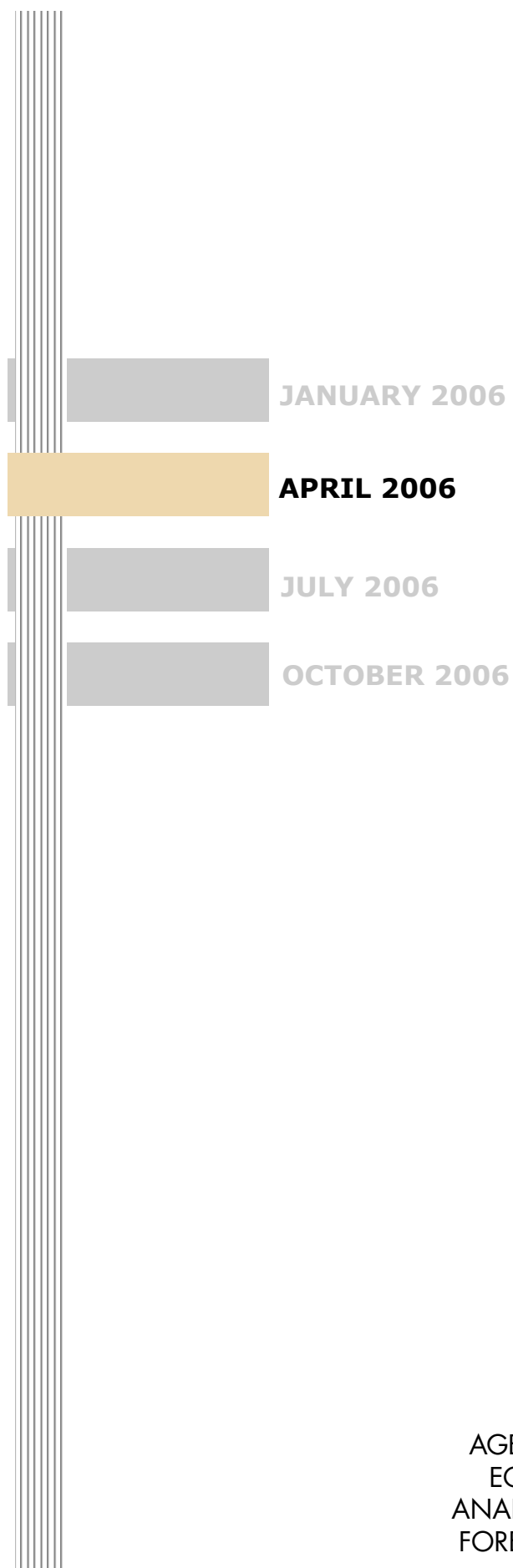
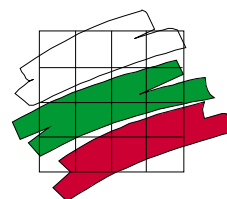


THE BULGARIAN ECONOMY: ANALYSIS AND OUTLOOK



AGENCY FOR
ECONOMIC
ANALYSIS AND
FORECASTING



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Contents

Macroeconomic highlights 3

GDP	3
Employment and the jobless rate	5
Income and productivity	6
Inflation	6
Balance of payments	8
Financial sector	10
Capital market	12
Budget	13

Forecasts 17

Assumptions	17
GDP	17
Employment and the jobless rate	19
Income and productivity	19
Inflation	19
Balance of payments	20
Financial sector	21
Budget	22

Forecast risks 25

In the Spotlight:

Implications of the introduced changes in the balance of payments methodology and the revision of the foreign direct investment	27
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Macroeconomic highlights

GDP

According to the released preliminary GDP figures, Bulgaria's economy maintained its high and stable growth in 2005. The 2005 GDP amounted to BGN 41.9bn, increasing by 5.5% year-on-year in real terms. The nominal value of the GDP for the fourth quarter of 2005 stood at BGN 11.6bn and its real growth was 5.5% as well. The share of the private sector in the economy went up by 1.3 percentage point year-on-year in 2005, reaching 68.2% of GDP.

With the exception of agriculture, all economic sectors recorded positive growth for the year as a whole. The industrial sector showed the most dynamic growth as its value added rose by 7.3% year-on-year in 2005, accelerating from 5.8% in 2004. In Q4 alone, industry growth was 5.9%, compared to 4.7% for the same period of 2004.

All major groups of industries classified by product orientation reported positive growth last year. The recorded growth was relatively lower in the production of consumer durable and non-durable goods due to a slowdown of export sales. Energy products experienced a decline in sales on the domestic market but their export sales improved sufficiently to offset the effect of lower domestic sales.

Higher basic metals prices accounted for the favourable dynamics exhibited by mining industries. Non-ferrous metallurgy significantly boosted its sales both on the domestic and the external markets. Ferrous metallurgy enterprises as a whole did not, however, capitalize on higher steel prices, most probably as a result of increasing competition pressure on the international markets. Export sales of ferrous metals dropped markedly although this fall was partially offset by higher sales on the domestic market. The restructuring of Kremikovtzi Steelworks after its acquisition by Mital Holding appeared to be another likely factor as part of the plant production capacities were closed for reconstruction, resulting conceivably in reduced stocks and lower export sales.

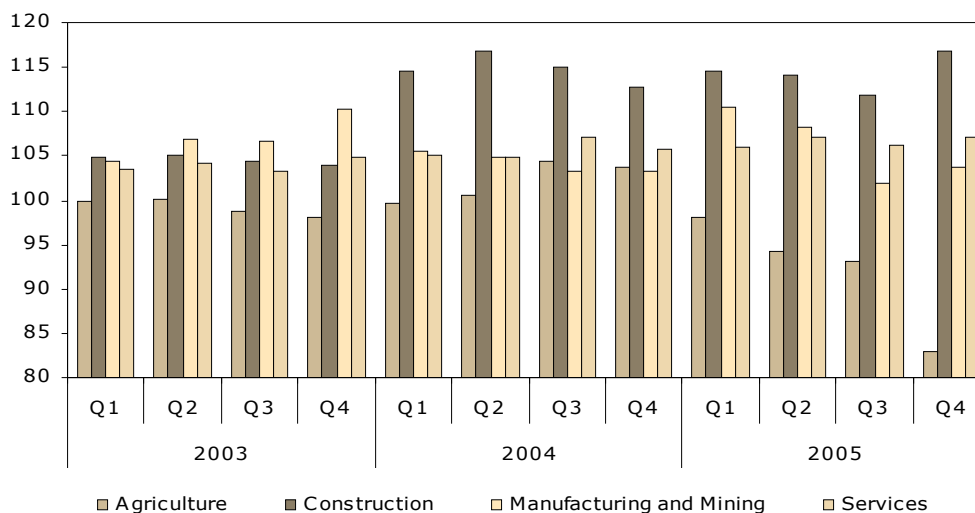
The AEF calculations showed that refined oil products had the second largest share in total industrial sales, coming next to non-ferrous metallurgy. The robust growth of oil products sales reflected the increase in oil prices on the international markets. Food processing, chemicals and machinery also managed to boost considerably their sales during 2005. Domestic demand appeared to have played a key role for the food industry performance, while export growth underlied the pick-up in production of the other two sub-sectors.

Value added in the utilities showed a significant decline in 2005, falling by 8% from the previous year. This negative outcome could possibly be attributed to continuing delays and difficulties in the sector's restructuring as well as the need for new investment in technology modernisation and product quality improvement.

Construction maintained its robust growth of around 14% year-on-year, which was also reflected in strongly rising employment numbers in the sector. Yet, real growth of the sector's gross output decelerated to 13.8% year-on-year in the second half of last year, compared to a 29.7% rate for the same period of 2004. To some extent this was attributable to the saturation of new home demand, highlighted by the slower growth of the real estate price index.

Reflecting largely its highest share of total value added in the economy, the service sector contributed most for the growth of the aggregate indicator. In 2005, services' value added grew by 6.6%, with all sub-sectors recording positive growth rates. Growth in real terms was the highest in trade, reaching 15% from a year earlier, and in transport where the annual rate of increase was 7.1%. During the fourth trimester of last year, services accelerated their growth to 7% year-on-year, outperforming all other economic sectors.

Real growth of value added by economic sectors
(corresponding quarter of previous year = 100)



Source: NSI, AEAF

Agriculture continued its volatile performance, posting a 17.2% decline in the last quarter of the year. In 2005 as a whole, the sector's gross value added fell by 8.6% from the previous year. This was entirely due to the decline in crop production as its output fell by 12.2% for 2005, negatively affected by the floods in the summer months of the year. Gross output in livestock production showed a meagre growth of 0.8%.

Both domestic and external demand had a positive contribution to economic growth in the fourth quarter of 2005. Private consumption growth picked up modestly to 7% year-on-year from 6.8% a year ago. The share of market produce consumption remained on the increase, rising to 59.4% of GDP in the last trimester of 2005 up from 56.3% a year earlier.

In Q4, gross fixed capital formation rose by 21.5% year-on-year in constant 2004 prices, making thus a notable 5.1 percentage points contribution to GDP growth. In nominal terms, the reported pick-up in investment activity was mainly attributable to construction as the acquisition of fixed assets in the sector grew by 87.2% in current prices, resulting in a 6.8% share of total assets at the end of 2005, up from 4% a year ago. Among the other sectors with strong contribution to gross fixed capital formation were transport, real estate, mining and agriculture. Buoyant investment activity entailed a steadily rising share of gross investment¹ in GDP, with this indicator reaching 28% for the year. On the other hand, it also accounted for the deterioration of the current account balance as national savings proved insufficient to finance the ongoing investment process. The lack of domestic funds for investment purposes reached 20% of GDP in Q4, hovering around the 12% level for the whole 2005. The savings-investment balance of the private sector remained negative during the year, although this was partially offset by a positive balance in the public sector throughout the first three quarters. The public sector, however, reduced its savings in the fourth quarter, failing to cover its investment for the period when the resulting gap reached 1% of GDP.

Export growth started to recover during the fourth quarter of 2005, accelerating to 8.9% year-on-year after a weak 1.1% increase in Q3. Still, the external sector's contribution to

¹ Including inventories.

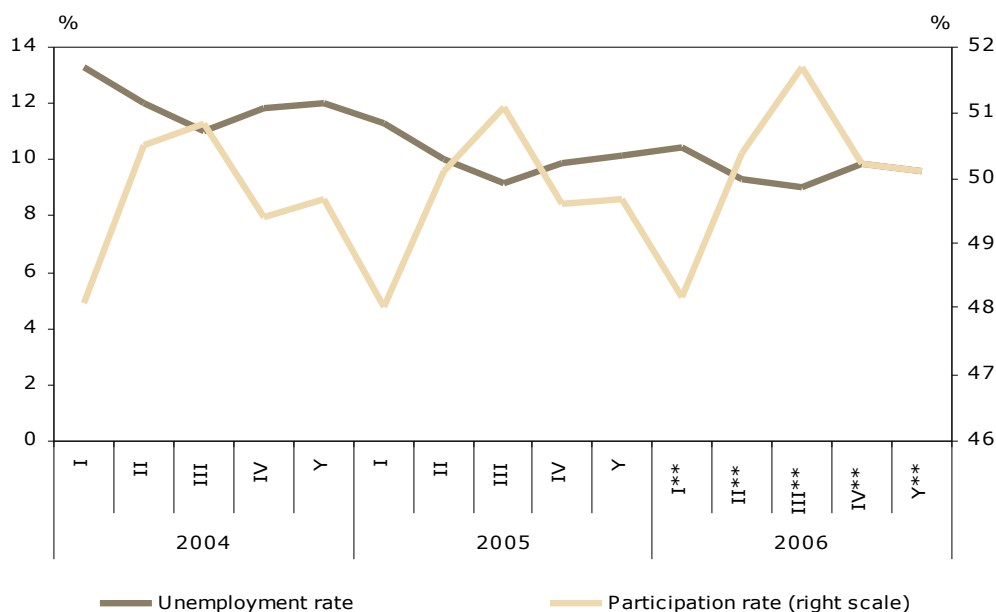
economic growth remained negative in the last trimester of the year. Exports of services also dropped by 0.4% during that period, probably, as a result of the weaker performance of tourism industry as against the end-2004 high comparison base.

Employment and the jobless rate

The economy's stable growth was a key factor for the gains in employment and economically active population. The available data from the NSI and the Labour Force Survey for the fourth quarter of 2005 showed that the average number of employed went up by 2.4% year-on-year and amounted to 2 982.3 thousand people. The 2005 employment growth was entirely due to the gains in private sector employment, with the sector's average employed numbers rising by more than 126 thousand people year-on-year during the October'05-December'05 period. Continuing job creation in the private sector contributed to the reduction of the unemployed numbers as well as to the return of some of the discouraged persons in the labour force. The participation rate in the economy² increased by 0.2 point year-on-year in Q4 and stood at 49.6%.

The persons defining themselves as unemployed in the NSI surveys were 328.5 thousand in the fourth quarter and represented 9.9% of the economically active population. Their number dropped by 62.5 thousand or 16% year-on-year, with the unemployment rate falling accordingly by 1.9 percentage points on an annual basis.

Unemployment and participation rate* in the economy



* Of people aged 15 and over
 ** Forecast

Source: NSI, AEAf

From the beginning of 2006, the government has launched new projects within the framework of its employment programs and programs for retraining of unemployed, as well as other active measures under the Employment Promotion Act. It is to be noted that the month-on-month increase in the jobless rate to 11.7% in January'06 was due to a large extent to the termination of temporary employment for many people involved under the From Social

² Of people aged 15 and over.

Aid to Employment Program. During the following two months, however, registered unemployment embarked again on a downward path as a result of the combination between hiring under the government's new active programs and the pick-up in demand on the primary labour market. In this context, the jobless rate fell by 1.9 percentage points year-on-year to 10.8% at end-March'06.

Income and productivity

The upward trend in household income continued in Q4 albeit at a slightly decelerating pace in comparison with the reported growth in the same period of 2004. The average wage of the employed under labour contracts and in the civil service during the last trimester of 2005 amounted to BGN 326, according to preliminary NSI data. The indicator's year-on-year growth was 7.4% in nominal terms and 0.7% in real terms. In Q4, the average wage in the public sector amounted to BGN 409, whereas the corresponding indicator in the private sector stood at BGN 287.

The average wage in the economy reached BGN 320 for 2005 as a whole. It was BGN 398 in the public sector and BGN 283 in the private sector. Compared to 2004, the average wage of the employed under labour contracts and in the civil service rose by 9.6% in nominal terms and by 4% in real terms.

During the fourth quarter of 2005, the average labour productivity³ in the economy grew by 2% in real terms, exceeding the increase in the average real wage which came at 0.7%. The wage growth in most economic sectors was tied to the actual productivity gains so that it did not surpass the rate of increase in the productivity of the employed labour.

In Q4, productivity growth was most dynamic in the service sector, reaching 5.8% year-on-year led by a 13.1% increase in trade. Higher productivity growth was also recorded in mining and manufacturing (up 11.9% and 5.7% respectively). During the fourth quarter of 2005, labour productivity decreased only in agriculture (by 19.4% year-on-year), and in electricity and heating generation due to a decline in the value added in these sectors.

The household budgets survey confirmed the positive trend in household income. In the fourth quarter of 2005, the average money income per household capita increased by 1.9% in real terms. Growing income from employment and entrepreneurship (up respectively by 4.7% and 11.7% year-on-year in real terms) accounted for a larger part of the increase. The average money income per household capita rose by 5.6% in real terms in 2005, according to the annual NSI data. Income from employment and entrepreneurship was again the most important factor behind this growth. In real terms, income from these sources increased respectively by 8.5% and 14.5% during the year.

Inflation

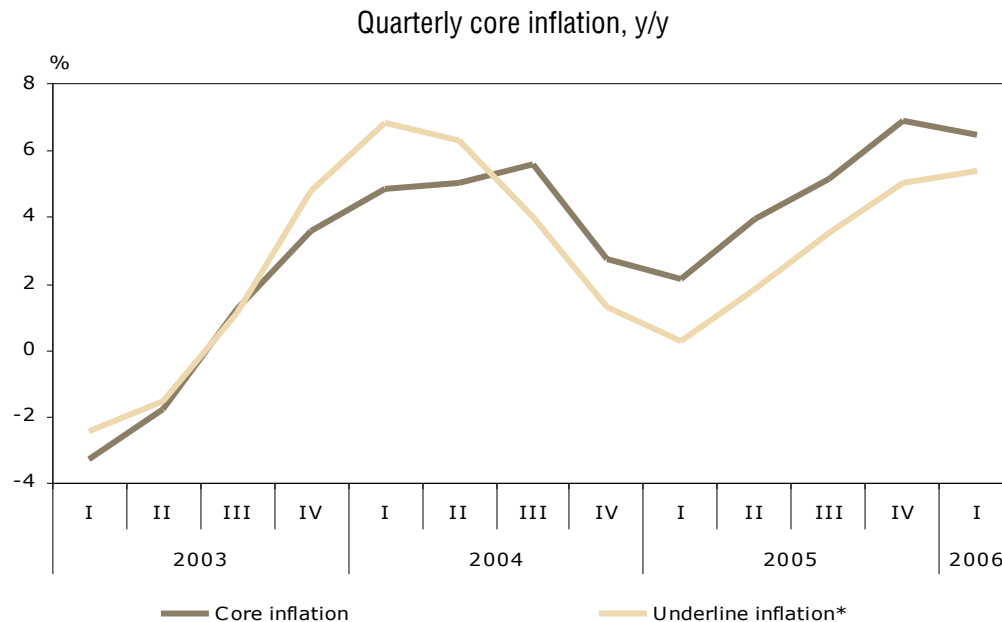
The aggregate increase of consumer prices for the first quarter of 2006 was 4.13%, while their average annual growth reached 6.10%⁴. The Q1 cumulative price increase was the highest since 2002 and resulted mainly from the excise tax hike on tobacco at the beginning of the year. The cumulative tobacco price rise till March'06 was 74.82%, making a 2.71 percentage point contribution to overall inflation. The effect of the excise tax rate increase had been expected and already discussed in previous AEAf reports.

In the first quarter of 2006, higher price levels were also recorded with respect to postal services (up 23.6%), social services (up 6.36%) and the railway transport (a 2.15% increase in passenger fares). The waste collection fees posted a marked rise in March'06 (up 14.73%)

³ The indicator is calculated as a ratio of GVA to the number of employed in the economy as per Labour Force Survey data.

⁴ The April'05-March'06 price level compared to the previous 12 months.

due to increases in the value of real estate for tax purposes. Following the increase of the minimum wage, the standard fee for medical consultation with doctors rose by 6.67%. Consequently, the growth of administrative prices for the January'06-February'06 period came at 12.86% and its contribution to the overall inflation was 2.74 percentage points.



* Core inflation, excluding unprocessed food and market-priced energy

Source: AEAF, NSI

Non-regulated prices climbed 1.80% during January'06–March'06, with food prices being the main factor behind this rise. The steepest increase was observed in the sugar price level. Its Q1 cumulative rise reached 49.9% led by a 46.24% monthly hike in February'06. The contribution of sugar prices growth to overall inflation was estimated at 0.42 percentage point. This produce price dynamics were determined by the trends on the international markets where the prices went up by 35.55% in USD terms year-to-date. Insufficient supply of raw sugar in the US and Asia combined with high domestic demand for ethanol in Brazil and the appreciation of the Brazilian currency to put considerable upward pressure on world sugar prices. The latter two factors caused a worsening of the conditions for sugar exports from the principal world supplier. However, the reported sugar price growth in Bulgaria outstripped that on the international markets. According to Eurostat data, the February'06 price increases of sugar and sugar products did not surpass 1% in the European countries, while reaching 10.9% in Romania and 23.9% in Bulgaria. This would suggest that sugar price developments in Bulgaria were also affected by domestic factors (such as import quotas distribution) that created conditions for monopolistic price-setting in the sector. The conducted meetings between government representatives and the companies from the sector might lead to declining sugar prices as evidenced by their 1.4% drop in March'06. It should be noted, however, that such a strategy could not provide a sustainable solution to the problem. The distribution of import quotas in the future should be carried out with maximum transparency to avoid the establishment of monopolistic or oligopolistic structures.

Poultry producers were negatively affected by the bird flu risk and the prices of poultry and eggs declined by 16.99% and 11.38% respectively. Milk and dairy products registered higher prices for the period, accompanied by a seasonal growth in the fresh fruits and vegetables prices.

The higher excise tax rates on alcohol and car fuels that had taken effect from the beginning of the year did not have a significant impact on the overall price dynamics due to the lower weight of alcohol and the decline of world oil prices in February.

Balance of payments

The current account of the balance of payments recorded a EUR 661.1mn deficit for the January'06-February'06 period, or 2.8% of the projected GDP. The gap increased by 78.6% year-on-year. This deterioration was largely attributable to the higher foreign trade deficit, the worsening balance under other services and the increased transport costs.

During the first two months of the year, Bulgaria's foreign trade performance was rather dynamic. Both exports and imports registered relatively high year-on-year growth. The country's trade deficit widened by 64.3% year-on-year in January'06 and while export growth picked up markedly in February'06, the gap still remained considerable in February'06, albeit at a similar level to that of a year earlier.

The value of imports (at CIF prices) amounted to EUR 2 456.7mn over the January'06-February'06 period, rising by EUR 617.9mn year-on-year. To a large extent, this 33.6% growth might be attributed to higher imports of energy resources and raw materials. The average price in EUR of the imported crude oil soared by 55.8% year-on-year for the period and was accompanied by rising volumes as well (the latter increased by 69.9% from a year ago). Yet, higher external demand positively influenced the country's exports of oil products as their volume doubled as against the corresponding period of 2005. At the same time, the larger export volumes represented one of the factors behind the increase in crude oil imports as domestic production of refined petroleum products required raw materials to meet rising demand. The analysis of the BoP data on imported crude oil volumes would suggest, however, that a certain part of these imports was not directed to production but rather used for stock accumulation. A possible explanation are the expectations for a renewed growth of the international oil prices as a result of mounting tension between the US and Iran.

Item	January – February			
	2005 EUR mn	2006 EUR mn	Change EUR mn	Change in %
Current account	-370.2	-661.1	-290.90	78.6
Export (FOB)	1288.0	1692.3	404.30	31.4
Import (FOB)	-1727.8	-2309.6	-581.80	33.7
<i>Foreign trade balance</i>	-439.7	-617.4	-177.70	40.4
Services (credit)	326.6	343.2	16.60	5.1
Services (debit)	-389.1	-480.7	-91.60	23.5
<i>Services (net)</i>	-62.5	-137.4	-74.90	119.8
<i>Income (net)</i>	27.3	-11.6	-38.90	-142.5
<i>Transfers (net)</i>	104.9	105.2	0.30	0.3

Source: BNB, AEAf

Bulgaria's net trade balance in crude oil, refined oil products and natural gas was negative and amounted to EUR 347.7mn for the period, expanding by 75.7%. Rising ore prices on the international markets coupled with higher imported volumes to contribute to a higher value of raw materials imports. The upward trend in non-ferrous metals prices was conceivably the main factor that led to growing ore imports.

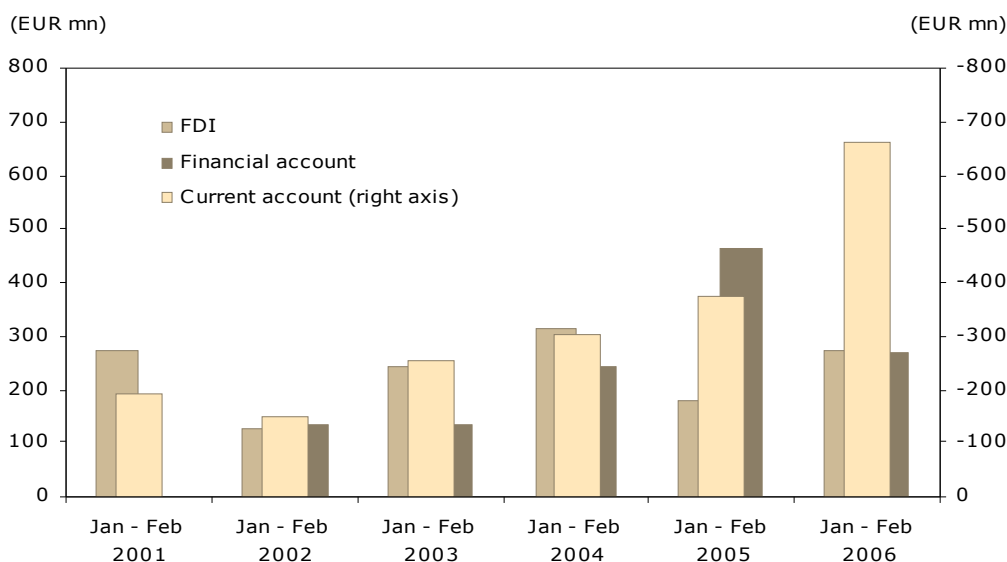
During the first two months of the year, exports showed relatively high growth, rising by 27.5% in January'06 and 35.2% in February'06, and even outstripping the rate of increase in imports for the latter month. Oil products exports largely accounted for these favourable developments. The oil refineries increased the utilisation of their processing capacity in response to rising foreign demand. Exports of investment goods posted a 51.5% year-on-year gain for the January'06-February'06 period, accounting for roughly a quarter of the recorded total exports growth. In spite of lower export volumes, the value of copper exports climbed further on a year-on-year basis due to rising prices.

The net balance in services remained negative at EUR 137.4mn for the first two months of 2006, deteriorating by 120% year-on-year. Higher resident spending abroad on other services was the main factor for the unfavourable performance. The intensification of foreign trade flows from the beginning of the year also led to higher transport expenditures abroad.

In the January'06-February'06 period, the financial account of the balance of payments was positive to the amount of EUR 268.3mn and covered 40.6% of the current account deficit. Yet, the structure of the balance of payments had been much more favourable during the corresponding period of 2005 when the financial account had run at EUR 465.4mn, representing 125.7% of the current account deficit.

The attracted foreign direct investment inflows amounted to EUR 271.2mn for the first two months of 2006 which was an increase of 50.6% year-on-year.

Financial account, FDI and current account



Source: BNB

Commercial banks' foreign deposits declined by EUR 132.4mn for the first two months of this year, while the deposits of the non-financial sector increased by EUR 102.3mn. The deposits

of non-residents in the country's banking system fell by EUR 15.5mn, compared to a EUR 187.7mn growth for the same period of last year. In January'06, the government paid off EUR 189.1mn. outstanding debts to the World Bank. The net liabilities of the banking sector on external loans were reduced by EUR 67.4mn during January'06-February'06, whereas the same period of last year had witnessed a significantly lower net repayment to the amount of EUR 1.2mn.

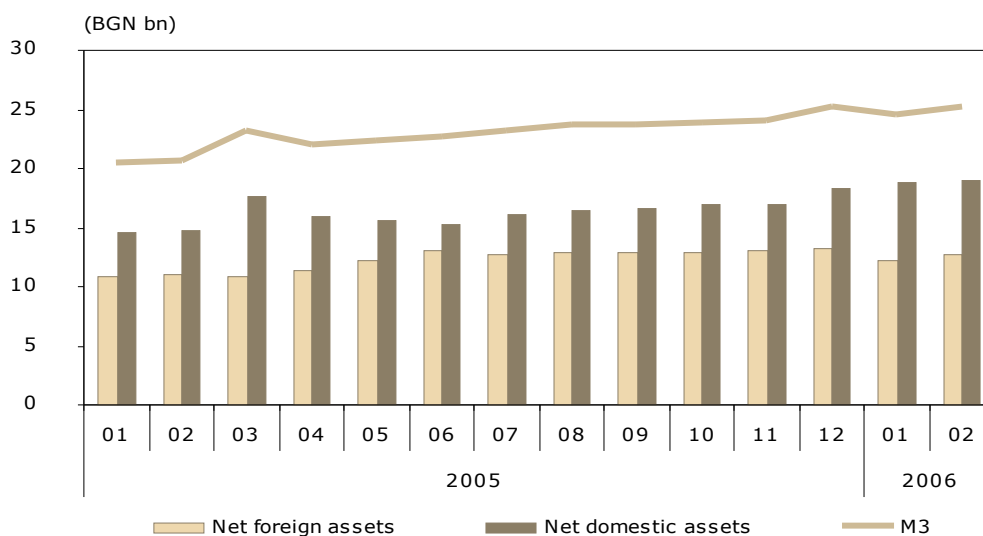
The total balance for the January'06-February'06 period was negative at EUR 374.5mn and widened by EUR 37.3mn year-on-year. The country's foreign currency reserves fell by EUR 552.5mn as a net EUR 178mn. repayment of liabilities to the IMF was recorded off-balance.

Financial sector

Money supply increased by 4.6% for the period December'05-January'06. Its monthly growth was determined by the dynamics of the high-liquid component. In December'05, the latter grew by 6.1% (or BGN 713.6mn) due to high seasonal demand for money for transaction purposes. The economic agents' demand for liquidity in January'06 was traditionally low and the M1 monetary aggregate fell by 4.8% (or BGN 603.2mn). From the beginning of 2006, the year-on-year growth of broad money exhibited a decelerating trend due to a slower expansion of the banks' credit activity in the first two months of the year which will likely lead to a weaker GDP growth for the first quarter.

The change in the M3 aggregate for the period under review was entirely reflected in an increase of the banking sector's net domestic assets, while the net foreign assets declined. The latter dropped by 2.7% (or BGN 353.9mn) on account of a decline in the BNB net foreign assets which were down by 5.2% (or BGN 689.7mn) for the December'05-February'06 period. This was the result of an early repayment of external government debt to the IMF and the WB, carried out by the MF in December'05 and January'06. On the other hand, the commercial banks' net foreign assets rose by BGN 335.9mn.

Money supply



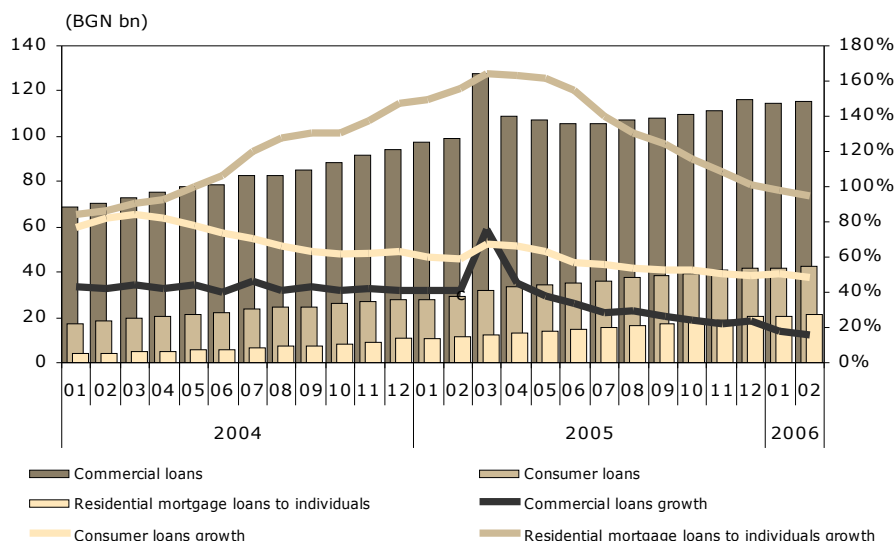
Source: BNB

The marked 11.8% growth of the banking system's net domestic assets for the period under review was attributable to the change in the claims to the government and non-government

sectors. The former were up by BGN 631.4mn in January'06 due to the external debt operations, while the latter were boosted by traditionally high credit demand in December'05 to increase by 4% (or BGN 720.4mn). The institutional sectors breakdown showed that claims on households continued to have the highest contribution to the net domestic assets growth as they climbed by 7.4% (or BGN 490.2mn) for the December'05-February'06 period. Mortgage and consumer credits exhibited the highest growth in both nominal and relative terms. The growth of credits to non-financial enterprises partially recovered as these credits rose by 4.4% (or BGN 463.8mn) for the period.

The decelerating trend in credit growth continued in the beginning of 2006 as a result of the BNB regulations that had been implemented during the previous year. In February'06, however, the central bank undertook additional measures to curb the credit growth. According to the new regulations, all bonds and other debt securities acquired by the banks after 31 December 2005 would be treated as credit for the purposes of the additional minimum reserve requirement calculation. Exception was granted for the bonds and other debt securities issued or guaranteed by sovereign states, central banks, domestic banks or entities having as a minimum a BBB- (under Standard&Poor's or Fitch rating system) or Baa3 (under Moody's rating system) credit rating.

Commercial, consumer and mortgage loan dynamics



Source: BNB, AEAf

The amount of loans granted to non-financial institutions and other clients increased by 5.3% at the end of February'06 as against the end-November'05 level. Credit growth decelerated to 28.2% year-on-year at the end of February'06 as compared to 47.4% a year ago. On a month-on-month basis, a relatively high credit growth of 4.03% was recorded in December'05 which might be attributed to seasonally high consumer demand during the end-year holidays. Already in January'06, however, the volume of credits went down by 0.18% month-on-month led by a decline in commercial credits that fell by 0.98% from the previous month. Credit growth resumed in February'06 at a moderate 1.36% monthly rate.

In December'05-February'06, mortgage credits continued to exhibit the highest growth rate of 14.3% year-on-year to be compared with 22.2% for the same period of the previous year. Among the key factors behind this growth were the country's pending EU accession, the expectations for further increases, albeit at a slower pace, in real estate prices, as well as rising household income. Consumer credits also extended their upward trend, while

exhibiting a gradual deceleration of the growth rate that slowed down to 5.6% for the period under review from 7.5% during the same period a year ago. The continuing growth of consumer credits contributed to maintaining the strong momentum in private consumption during the fourth quarter of 2005. The lowest rate of increase was posted by commercial credits which rose by 3.5% year-on-year in December'05-February'06 compared to 8.3% for the same period a year earlier. The slowdown of commercial credit expansion has not so far restrained the investment activity in the economy as the real sector companies have managed to find additional sources of financing – mainly intracompany credits from non-residents. In turn, the intracompany credits reached EUR 3 698.1mn at the end of January'06, rising by 68.5% year-on-year.

The commercial banks have been further pursuing their policy of attracting deposits from both non-resident banks and domestic economic agents. In this context, the deposits from non-financial institutions and other clients increased by BGN 1 316.3mn for the December'05-February'06 period as against a BGN 1 186mn rise for the same period one year earlier. The former increase covered 146.7% of the credit expansion compared to a 105.5% ratio a year ago. The deposits of the financial institutions also contributed to the growth of the commercial banks' credit base but their relative importance was lessened as they posted a BGN 224.4mn growth for the period under review.

The policy of attracting deposits from the economic agents was reflected in the interest rate levels on time deposits, leading also to an increase in interest rates on the deposits denominated in all currencies. On the other hand, the interest charged on loans in euros declined, probably as a result of the banks' preference for attracting euro deposits. The interest rate spread between time deposits and short-term deposits in BGN decreased during the December'05-February'06 period, reaching 5.63 percentage points at the end of February'06.

Capital market

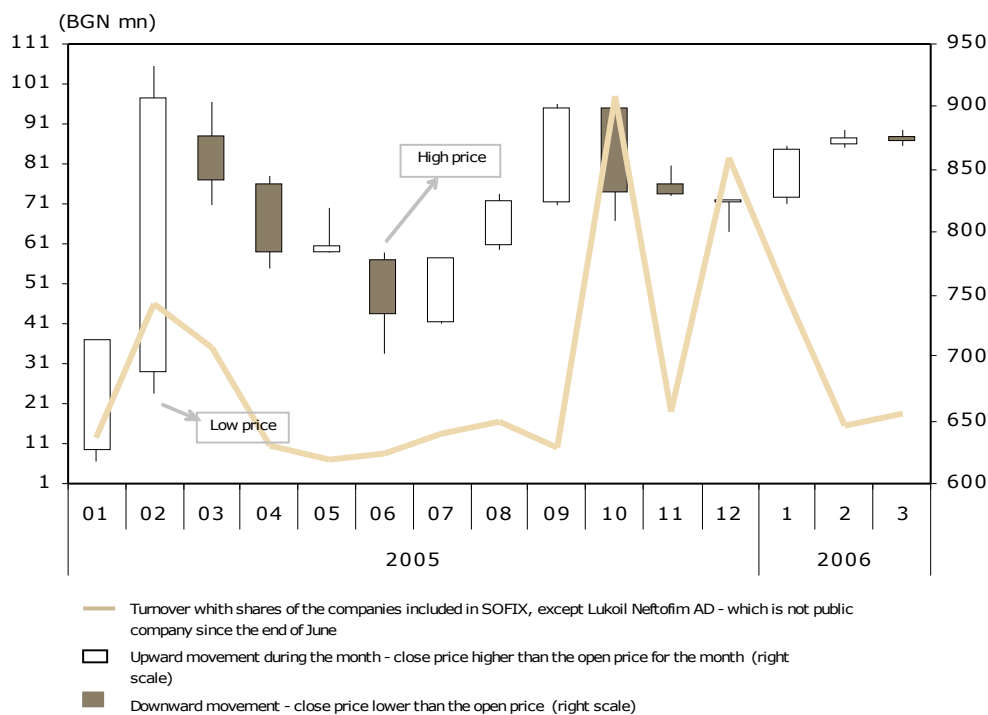
The broadly sustained upward trend in the SOFIX index during the third quarter of 2005 was reversed in Q4. In contrast to the developments of first several months of the year, however, its volatility declined and the adjustments were smoother. Thus, the share prices appeared close to the equilibrium levels. The accounting balances for the third quarter, released at the end of October'05 and the beginning of November'05, showed positive dynamics of the companies' financial indicators but did not provide sufficient stimuli for further growth of the index as well as for breaching the resistance level of 900 points. The turnover of the shares included in SOFIX would suggest that the market has gradually adapted to the shift from a strictly upward trend in the share prices, evident till the end of February'05, to a rather flat movement during the rest of the year. With the downturn of the index during the second quarter, for example, the turnover dropped sharply, while in the fourth quarter it remained relatively constant after the Q3 growth phase. Such close values of the turnover during a shift from a bull to a bear market might be explained with an underlying equilibrium of share prices. At this stage, there would appear no strong impulses to push the market in either direction. The first news, which might potentially disturb the achieved equilibrium, could come from the annual non-consolidated and non-audited reports of the public companies, due to be released at the end of January'06. The key developments, however, should be expected during the spring with the scheduled announcement of the EC decision on Bulgaria's accession date, as well as the publication of the audited financial reports. With this in view, the index dynamics might be expected to stagnate in the first quarter of 2006, with no major swings in either upward or downward directions being likely.

The dynamics of the turnover showed more marked growth of the traded volume during October'05 and December'05 with a subsequent drop in January this year. It should be noted that the larger trading volume at the end of last year was on account of share package

transfers between related persons⁵, which distorted the prevailing trends on the capital market and impeded their analysis. Undoubtedly, the changes in the turnover at the stock exchange would have been more gradual if these deals were to be excluded from the statistics.

It is also worth noting that the trend in the trading with shares of companies, included in the SOFIX, was opposite to the trend in the value of the index itself. Uncertainty of the capital market players about the future dynamics of the index might be a likely explanation. Expectations of falling prices generally stimulate seller supply, while demand from buyers declines with expectations of a bull market.

Trading turnover and SOFIX dynamics



Source: BSE, AEF

Budget

From the beginning of 2006, the budget revenue performance has been favourable despite the introduced tax changes which reduced the tax and social security burden. Tax revenues increased by 8.4% year-on-year in the first two months of the year. Revenues from the corporate income tax and the personal income tax were up by 11.7% and 10.3% year-on-year respectively. The former were affected mainly by the growth of the tax base, while the latter were influenced by higher payments on income from the previous year that was taxed at the old and higher rates.

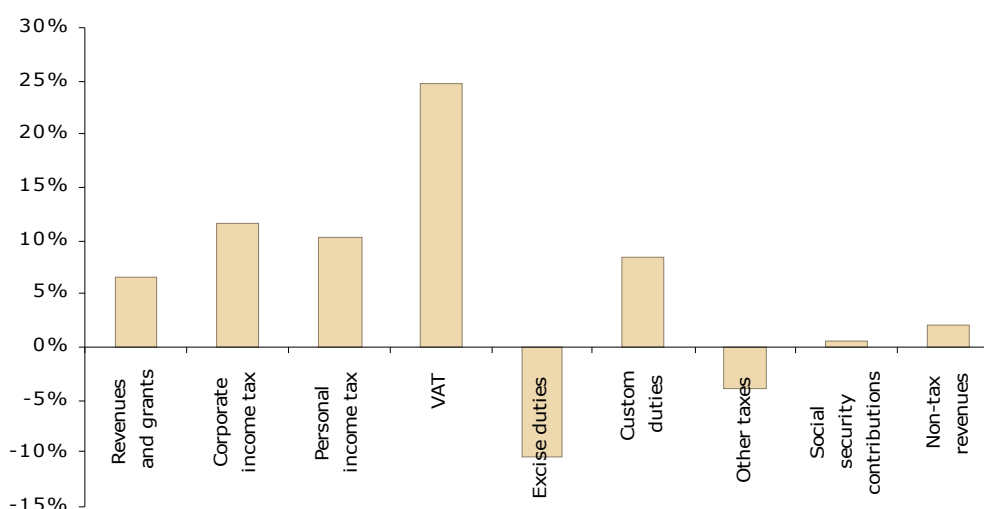
The rate on social security contributions was reduced by 6 percentage points from the beginning of the year but social security revenues still rose by 0.5% year-on-year for the January'06-February'06 period. In this respect, the undertaken measures for widening of the taxable base – the increase of the minimum wage and the non-taxable floor, –had a counterbalancing effect.

⁵ The transfer of large share packages in Petrol PLC between related persons that took place in October and December 2005.

VAT revenues had the highest contribution to the strong revenue performance of the budget. MF data showed that VAT revenues from imports were up by 34% year-on-year as both the import volumes and the prices of key import commodities increased during the period. Imports of fuels contributed most to the strong VAT revenue collection, rising by 112% year-on-year, followed by imports of transport equipment (up by 19%) and copper and copper products (up by 104%). Proceeds from VAT on domestic transactions fell by 27% year-on-year mainly due to the strong growth of fuels exports and lower production for the home market. These proceeds amounted to BGN 77.4mn compared to BGN 106.3mn for the same period of last year.

The growth in the imports value was behind the increase of the customs duties revenue by 8.4%. In contrast, the excise tax revenues were down by 10.3% year-on-year for the period, being the only tax item to decline on an annual basis. The negative trend was due to delays in the preparation of the new excise stamps to reflect the rise of the excise tax rates on tobacco from the beginning of the year, as well as to using up of accumulated inventories of excise goods.

Budget revenue growth (year-on-year) by items
January-February (republican budget)



Source: MoF

The relatively strong revenue performance contributed to maintaining the surplus in the consolidated budget. It reached BGN 146.5mn for the January'06-February'06 period and increased by 9% year-on-year. The budget revenues and expenditures increased by similar rates (6.7% and 6.5% respectively) but the higher growth base on the revenue side determined the improvement of the budget balance.

The growth in total expenditures of the consolidated budget for the period in review was surprisingly high. It is to be noted that according to the IMF agreement from the beginning of the year, the achievement of a 3% of GDP surplus is a key priority of the country's fiscal policy. Hence, a somewhat more moderate increase of the expenditures during the first months of the year would appear to be tacitly implied in view of the seasonal upswing in spending during the last quarter. The reported high budget spending in January'06-February'06 was largely attributable to the strong growth of social security expenditures. They were up by 12% year-on-year on account of a 33.6% increase in health insurance spending as well as higher pension outlays as a result of the raised pension ceilings.

The expenditures on wages in the consolidated budget soared by 60% year-on-year for the period under review. This was mainly due to accounting methodology changes as wages in the defence and security sector were reclassified from a separate account to the general wages spending item.

Total interest outlays for the first two months of the year dropped by 5.5% year-on-year. This reflected lower external debt servicing payments which were down by 9.6% as a result of the Brady bonds buybacks during 2005. On the other hand, the accompanying growth of domestic government debt translated into a 17% year-on-year increase of domestic interest expenditures. ▼

Forecasts

Assumptions

Building tension over Iran's nuclear programme and the expected effects of possible sanctions exerted pressure on the oil market, leading to rising crude prices. As a result the assumptions for oil prices developments till the end of the year have been revised. The world prices are expected to vary within the range of USD 62 to 63 per barrel, which is an increase of around USD 3 per barrel as compared to our previous forecast.

Another significant change in the assumptions vis-à-vis the previous forecast regards the evolution of interest rates. The appreciation of oil and basic metals prices is a factor reinforcing inflationary expectations in the large economies. During the last several months, inflation in the Euro area has persisted at over 2% year-on-year, which is indicative of a subsequent interest rate rise. In view of the accelerating economic growth in the Euro area, the ECB should not have any concerns over the pursuit of such a policy. In the current projections, the 6-month LIBOR (in EUR) is assumed to reach 4% by the end of the year, while the Euro area growth is expected at 2% year-on-year.

In the recent months, the US economy has witnessed relatively high annual inflation which was mainly attributable to the price dynamics of energy resources and resulted in the continuation of Fed policy of interest rate increases. In view of the sustained strong growth of the US economy, this policy instrument would not appear to be exhausted yet. On the other hand, the likely persistence of oil prices near their current levels will not contribute significantly to limiting annual inflation in the subsequent months, which is why further pursuit of the policy of interest rates increases can reasonably be expected. While in our previous forecast a slowdown in this process was assumed, in the current projections there is a considerable interest rate revision and the 6-month LIBOR (in USD) is presently forecast to attain 6% by the end of the year.

Nevertheless, no increases in the interest rate differential between the euro and the US dollar are to be expected. This, together with the sustained stable development of the eurozone economy, does not create conditions for a long-lasting US dollar appreciation. In the current projections, the USD/EUR exchange rate is assumed to stay at around USD 1.21-1.22 per EUR, which is a minor appreciation of the EUR as compared to the previous forecast.

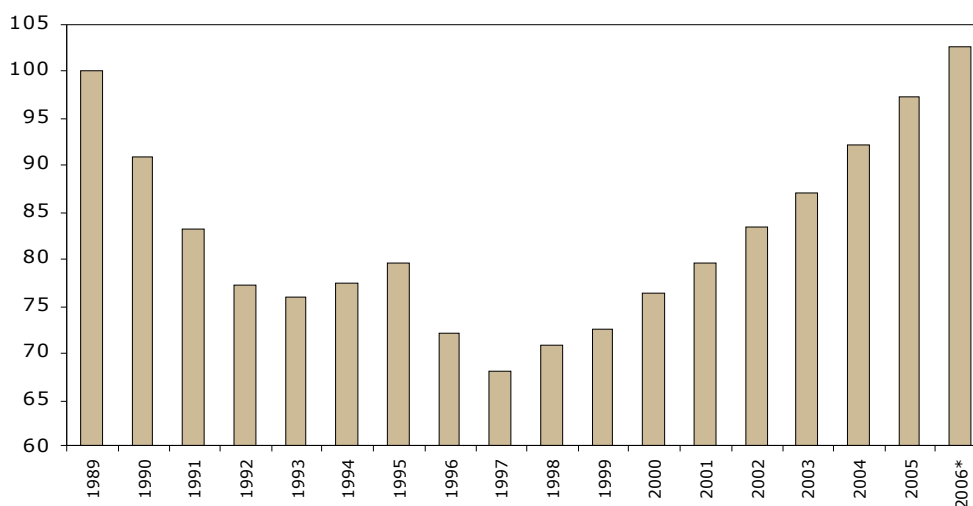
GDP

In 2006, Bulgaria's economy is expected to sustain its strong performance, with GDP growth reaching about 5.5%. These high growth expectations are underpinned by the positive evolution of foreign demand. Real growth of exports of goods and services is projected to run at 11.3% this year as compared to 7.2% in 2005. This acceleration is determined both by the robust performance of the world economy and the enhanced competitiveness of Bulgaria's economy as a result of buoyant investment activity in recent years. On the other hand, one can expect a deceleration of import growth due to lower growth of domestic demand. The expected slowdown in imports will, in turn, help to mitigate the negative contribution of net exports to GDP growth by nearly 4.5 percentage points as compared to the previous year to -0.9 percentage points in 2006.

The projected slowdown in domestic demand growth is due to both lower consumption and investment growth. The commitments for government expenditures moderation and preservation of a high budget surplus determine the modest increase in government consumption (by 1.8% in real terms). Additionally, the measures for credit growth restriction

will moderate household consumption expansion, with final consumption being expected to go up by 4.3% in the current forecast.

GDP (1989=100)



* Forecast

Source: NSI, AEA

In 2006, investment is projected to increase by 9% in real terms. This lower growth rate is justified by the huge change in inventories that was reported last year (4.2% of GDP) and will restrain investment this year. In 2006, the change in inventories is expected to come at around 3.5% of GDP, while its contribution to overall GDP growth will be -0.6 percentage points. Regardless of the modest overall investment growth, gross fixed capital formation is expected to run at slightly over 13% year-on-year in real terms. Despite the slowdown in the final demand components their contributions to GDP growth will remain relatively high. The final consumption contribution is projected at 3.8 percentage points, while that of investment is forecast at 2.5.

A slowdown of GDP growth is expected in the first quarter of 2006. This development is determined by lower broad money growth which is indicative of moderate nominal economic growth, as well as by high inflation in the beginning of the year due to increases in the excise rates. On the demand side, low nominal GDP growth is attributed to the deterioration of the trade and service balances in the BoP current account observed in the beginning of the year. As a result economic growth is projected at 4.4% in the first quarter of 2006. This slowdown should not, however, give rise to concerns, taking into account the higher 2005 base and the fact that first quarters have a relatively low weight in annual GDP growth. At the present stage, there are no alarming indications pointing to possibly slower GDP performance in the rest of the year and economic growth is projected to run at over 5.5% year-on-year in the next three quarters. The higher growth projection for the third quarter is justified by the low base of 2005. On the demand-side, the strongest contribution to GDP growth is expected to come from the upswing in exports of goods and services. It should be also noted that the reported considerable changes in inventories during the third quarter of 2005 naturally lead to a lower growth of investment in the corresponding quarter of 2006 (projected at 3.8%).

Employment and the jobless rate

The outlined good prospects for a sustained stable development of the Bulgarian economy in 2006 provide solid grounds for continuing employment growth and declining unemployment in the country. On an annual average basis, the employed numbers are expected to increase by around 0.7% as compared to 2005.⁶ The estimated growth rate shows a deceleration on an annual basis mainly due to the expected weaker effect of government intervention on the labour market through its employment programmes. The slowdown is also partly attributable to the envisaged employment cuts in the public administration. Thus, employment growth this year will be entirely underpinned by higher business activity in the private sector of the economy, translating into an enhanced labour demand and job creation. The latter will be the main driver of a further fall in the unemployment level⁷. The annual average value of this indicator is projected to come at around 9.6%, which is by 0.5 percentage points lower than in 2005.

The upswing in private sector employment will contribute most to the expected gains in the participation rate in the economy. Its average annual level is expected to go up by around 0.4 percentage points vis-à-vis the previous year and to reach 50.1%.⁸ The forecast for a higher participation rate is also based on the assumption that the number of discouraged will remain on a declining path. It can be also reasonably expected that the projected sustainable improvement in the labour market this year will continuously provide incentives for the economically inactive population to join the labour force.

Income and productivity

The average wage and labour productivity will continue to grow in 2006. The projected upswing in private business activity is a precondition for an accelerating growth in the average labour productivity on an annual basis as compared to recent years. This will, in turn, bring about an increase in real wages. In 2006, labour productivity will maintain its high growth rates and the indicator can be expected to outgrow the real wage increase.

Inflation

The forecast for 2006 has been changed with respect to the end-of-period and average annual inflation due to a revision in the projection for international oil prices, the new weights in the consumer basket used for the CPI calculation and the reported price developments in the first three months of the year.

In 2006, non-regulated prices are projected to pick up by 2.30%, which is a decline vis-à-vis the previous forecast. The current expectations are justified by the fact that the indirect effects from the 2005 increase in energy prices which were supposed to occur in the beginning of 2006 have turned out to be smaller than projected and, hence, the annual increase in services prices is forecast at 5.32%. Following the sugar prices rise in the beginning of the year, the projection for food prices has been revised upwards and presently a 1.81% growth over December 2005 is expected. It should be noted that the forecast food price increase might be lower in case the 2006 crop yield is good and the food processing industry has no problems ensuring raw materials as in end-2005. The contribution of non-administered prices to overall inflation is projected at 1.81 percentage points.

The forecast for the annual increase in administered prices in 2006 has been revised upwards to 21.62%. On the one hand, the revision is justified by the higher-than-expected increase in tobacco prices (over 70% as compared to the projected 65%). On the other hand, the forecast for electricity and heating prices has also been revised. The reduced

⁶ Employment data from the Labour Force Survey has been used for this estimate.

⁷ ILO definition.

⁸ Of people aged 15 and over.

daytime rate for consumption of up to 75 kWh is to be abolished (it will translate into a 14.5% price increase), while the other rates will increase slightly as a result of the overall growth in energy prices and the investment-related expenditures incurred by the electricity distribution companies. At this stage, it is difficult to speculate whether the State Energy and Water Regulation Commission, which should endorse the rise in electricity prices, will decide to pass the increase in prices on to households or to industrial consumers. Eurostat data indicates that the ratio of electricity price for households to electricity price for industrial use stands at 1.25 in Bulgaria as compared to 1.55 for EU-25, which points to an increase in the price for households in this country. The annual rise in heating prices is projected at approximately 6%, following the increase in natural gas prices.

The contribution of administered prices to overall inflation is forecast at 4.61 percentage points.

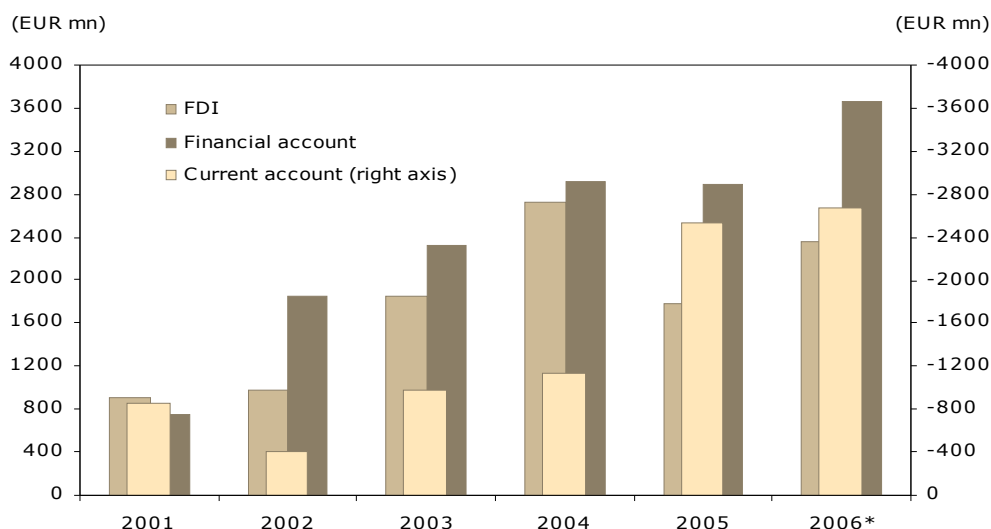
The end-year overall inflation is projected at 6.41%, while consumer prices are expected to go up by an average of 7.37% as compared to 2005.

Balance of payments

The expected current account deficit for 2006 equals 11.3% of GDP, which is by half a percentage point lower than the reported 2005 ratio. Net exports of services (projected to rise by 0.7 percentage points) and net current transfers (expected to go up 0.4 percentage points) will contribute mostly to this improvement.

The current AEF forecast differs significantly in several major aspects from the one published in January 2006. First, the assumptions for international interest rates, oil prices and the EUR/USD exchange rate have been revised. Second, the methodologies for accounting of freight transportation, as well as for estimation of imports at FOB prices and of the cash flows related to informal employment have been entirely changed (the introduced changes are discussed in details in the *In the Spotlight* section). Despite the new methodological basis, our present forecast reflects most of the expected trends in the BoP evolution from January'06 onwards.

Financial account, FDI and current account



* Forecast

Source: BNB

In 2006, exports are expected to rise by 21.6% in nominal terms, which is by 3.9 percentage points more than the growth rate projected back in January'06. This update is mostly due to the higher deflator, whose value has been raised by 3 percentage points from 4 to 7%, and to a much smaller extent to the more optimistic expectations for a 13% real growth in exports. Both changes take into account the above-mentioned revisions in the assumptions which have also been reflected in the projections for imports whose nominal growth is expected to reach 18% in 2006, up 3 percentage points vis-à-vis the previous forecast. The imports deflator has been updated by 2 percentage points to 6%, while the anticipated real growth has been raised from 11 to 12%, with the main drivers of this year's increase being again consumption and investment growth, albeit to a lesser extent. The revisions are also underpinned by the released higher-than-expected data for the country's foreign trade during the first two months of the year which, in turn, reflected the marked role of price factors. In view of the above-mentioned considerations, Bulgaria's trade balance is expected to post a deficit of 20.6% of GDP in 2006.

In contrast to the foreign trade in goods, the projections for international trade in services have been considerably revised. The expectations for a higher increase in total services turnover (to step up by 17%) are supported by soaring growth rates of transport services, as well as rising imports of other services. The reported 2005 weak growth of 8% in tourism revenue determines the downward revision of the respective forecast by one percentage point to a nominal increase of 16%. Nevertheless, the net services surplus is projected to climb to 3.8% of GDP, covering thus slightly over 18% of the trade deficit as compared to a corresponding ratio of 17% in 2005.

The methodological changes, introduced by the BNB in March 2006, have radically transformed the role of income balance from a component that contributed to the current account deficit widening into a factor limiting its deterioration. The change was due to the fact that in absolute terms the positive balance under employees' compensation is larger than the traditionally negative balance under investment income. Albeit to a lesser extent, current transfers will remain an important factor for curtailing the current account deficit in 2006 as well, ensuring a trade deficit coverage of over 20%. Underlying their continued key role are the inflows under both private and public transfers which will again provide an additional stimulus for furthering the increase in imports of consumer and investment goods.

With regard to FDI, the current AEF forecast is again a bit more conservative than the one published in January, allowing for an increase in non-privatisation receipts of approximately 23% and a total of EUR 150mn of privatisation proceeds. Nonetheless, the projected total FDI inflow will ensure an 88% coverage of the current account deficit, with this ratio being up 17 percentage points over the previous year.

Reflecting the present assumptions for considerably higher interest rates both in the US and the Euro area, the expectations for lending from abroad to private economic agents have been downsized by nearly a third as compared to 2005.

Following last year's considerable external debt servicing payments, the current year will see a further decline in net government debt. In spite of the continuing external debt payments this year, the financial account balance is expected to cover 137% of the current account deficit, thus ensuring a robust growth of the BNB foreign currency reserves.

Financial sector

In 2006, money supply is expected to post a smaller annual growth (of about 18.8%) as compared to the 2005 rate. The main reasons for the weaker expansion of broad money are the anticipated decline in the annual growth of credits to the private sector and the targeted end-year budget surplus. Yet, money supply growth will be supported by increasing BNB foreign exchange reserves, as well as growing deposits of households and businesses. In the

light of the above-mentioned increase in foreign currency reserves and the decline in lending growth rates, the monetary base can be expected to have an increasing contribution to money supply growth. Meanwhile the average annual value of the money multiplier will drop to around 2.9 in 2006. The coverage of reserve money by foreign exchange reserves will remain on the decline, with the forecast ratio being of about 152-153% by the end-2006. It should be noted that the current projections are made under the assumption that the pursued BNB policy with respect to commercial banks' lending activities will stay unchanged both regarding the minimum reserve requirements and the direct restrictions on credit growth.

In the context of the main underlying assumptions, interest rates on credits are expected to remain close to their current levels, with only a slight temporary increase during the course of 2006 being possible. The reason behind the anticipated persistence of the current levels has to do with the restraints on credit supply. With respect to interest rates on deposits, no drastic changes can be expected. If the BNB restriction measures on lending were abolished, the interest rates on credits would, however, embark on a declining path due to the resumption of interbank competition on the domestic credit market.

Credit expansion is expected to continue throughout 2006, albeit within the limits set in Ordinance No. 21 pointing to an aggregate increase of about 22.5% for the entire year. The decline in credit growth rates is associated with the real risk of a more pronounced deterioration of the credit portfolios quality, as well as the sizable minimum reserve requirements that the banks are requested to deposit with the BNB in case the credit growth ceilings are exceeded. Once again, household credits are expected to grow the most in 2006, with mortgage credits increasing by the highest rates. Yet, the annual credit growth rates for the various components of the private sector will continue to decline.

Budget

The reported budget performance for the first two months of 2006 exceeded preliminary expectations, calling for a revision of the revenue projections as compared to the forecasts from the beginning of the year. The most considerable changes have been made with respect to the projections for VAT revenue, social security contributions and non-tax revenues. The strong revenue performance in January'06-February'06 has underpinned an increase of the annual estimate for the overall revenues from VAT. The projected revenue from import duties has also been revised upwards but their share in total revenues is rather small and does not influence significantly the latter's dynamics. An important correction has been made in the estimate of revenues from excise duties. The revision was mainly attributed to the delay in the introduction of new excises stamps in the beginning of the year. The reported low collection rate of excises in the first months of the year has, however, entailed a downwards revision of their forecast annual total by 1.5%. Yet, the projection for the next three quarters remains the same since revenue performance is expected to recover from March onwards.

The collection of social security contributions outperformed preliminary anticipations due to an underestimation of the effect of the measures aimed at revenue improvement such as the increase in the exemption threshold for personal income taxation and the rise in the minimum social insurance thresholds. The projection for these revenues has been revised to a slight growth on an annual basis as compared to the small decline projected earlier. There are no significant changes in the forecast revenue from direct taxes. The observed relatively high growth of personal income tax revenues is projected to slow down in the next quarter due to the introduction of family taxation. The growth rates of revenue from corporate income taxes will conceivably stay high underpinned by strong economic growth, as well as by changes in the regulatory framework of insurance companies which went under the general regime of the Corporate Income Taxation Act.

The change in the forecast of non-tax revenues has reflected their performance in the January'06-February'06 period. In our previous projection, a sizable decline of these

revenues was anticipated due to one-off proceeds from the sale of the license for third-generation mobile services in January'05, as well as from the sale of state real estate property. The former operation was entirely reflected in the observed decrease of total non-tax revenue for the January'06-February'06 period, which would suggest that performance under the remaining items either strengthened or at least remained unchanged. This development contradicted the underlying assumption in our previous forecast for a gradual decline in these receipts as a result of lower property incomes such as dividends, contributions paid by Bulgargas, etc. Hence, the projections for the annual non-tax revenues have been revised upwards.

In January'06-February'06, the overall revenue performance turned better than expected. The cuts in income tax rates and social security contributions introduced in the beginning of the year do not pose any threat to the sustainability of public finances in the short-term. Nevertheless, the expected slowdown in the overall budget revenue growth till the end of the year should be interpreted as a factor reinforcing the necessity for strict budget discipline in view of achieving a 3% surplus under the 2006 consolidated budget programme. In our opinion, the mechanism for attaining this surplus will have to do mainly with increased expenditure restraint during the last quarter of the year. ▼

Forecast risks

- Following the latest methodology revisions introduced by the Central bank, there is a difference between the BoP historical series for exports and imports of goods and services and the national accounts data, with the resulting inconsistency in the projected and actual numbers of final demand components affecting the forecast growth rates. The upward change in real estate property estimates for tax purposes could possibly lead to a higher nominal GDP by means of an increase in the imputed rent of owner-occupied housing and a higher deflator, which is not taken into account in the current projection.
- Oil price dynamics remains a sizeable risk factor to the forecast.
- Food price inflation and the gross value added might be revised depending on the 2006 crop yield.
- The actual changes in electricity and heating prices might differ from those assumed in the current forecast.
- Lower-than-expected economic growth in Bulgaria's main trading partners would induce weaker external demand and, possibly, a lower GDP growth rate as a reflection of a deteriorating trade balance.
- The implications of possible changes in BNB measures for credit restriction are not taken into account in the current projection. ▼

In the Spotlight

Implications of the introduced changes in the balance of payments methodology and the revision of the foreign direct investment

In March and April 2006, the Central bank revised the balance of payments data for the 2001–2005 period. The corrections concerned the receipts and payments for freight transportation, the recalculation of imports at FOB prices and the flows related to informal employment of Bulgarian citizens abroad.⁹ Their introduction was attributable to the necessity for a more precise and realistic accounting of transactions with foreign entities in a changing environment and emerging new economic phenomena.

The methodology changes regarding the estimate of imports at FOB prices and the estimate of receipts and payments generated by freight transportation affected mainly the overall current account balance and its components. In compliance with the international requirements for imports and exports accounting, international trade is reported at FOB prices in the balance of payments. Imports at FOB prices are recalculated by subtracting the incurred additional expenditures, mainly transport expenses, from the imports at CIF prices. According to the BNB methodology used till the end of 2005, the estimate of transportation receipts and payments was based on fixed coefficients, whereas receipts amounted to 5% of exports at FOB prices (plus transit fees in the case of natural gas imports), while expenditures stood at 8% of the imports value at CIF prices.¹⁰ The new methodology applies updated coefficients, taking into account the merchandise type, the mode of transportation, the nationality of the carrier and the supplier country. The latter is of particular importance since it is assumed that Bulgaria's suppliers from the neighbouring countries do not incur significant transport costs. The effects of the introduced changes were as follows:

- As a result of the revision, the country's trade deficit for the 2002–2005 period widened by an average of EUR 230.8mn, or 1.2% of GDP. Most significant turned to be the change in the 2005 data in which the imports value grew by EUR 286.5mn and the deficit was revised from 19.0 to 20.4% of GDP.
- In the light of the methodology changes, the payments on freight transport appeared to be formerly overvalued by an average of EUR 380.2mn, while transportation receipts were overestimated by EUR 122.8mn on the average. Thus, the resulting net improvement of the balance in freight transportation services came to an average of 1.4% of GDP. Here also the most considerable revisions were made in the 2005 data, with payments decreasing by EUR 515.1mn and receipts falling by EUR 185.1mn. The final effect in net transportation services was an improvement of 1.6% of GDP.

The accounting of receipts and payments of Bulgarian citizens informally employed abroad was also changed. Till end-2005, they had been estimated solely on the basis of the available bank statistics of the flows exceeding EUR 2500. Thus, practically all bank transfers below this threshold, as well as the informally transferred funds remained unaccounted for. According to the new methodology, the estimates of receipts and payments flows related to informal employment take into account the number of citizens that have left the country, the country where they are residing, the minimum wage and the average monthly cost of living for the respective country of residence. The introduced changes had the following implications for the current account statistics:

- An estimate of the receipt flows from the informally employed was added to the receipts from employee compensations which had previously covered only the Bulgarians legally working abroad. The former's average annual amount came to EUR

⁹ For a detailed description of the methodological changes see: www.bnb.bg.

¹⁰ The imports of natural gas and goods procured in ports are excluded from overall imports in advance.

818.4mn for 2001-2005, while the average net improvement of the employee compensation balance equalled nearly 4.4% of GDP. The highest contribution to the improvement of the current account balance came from the 2003 and 2004 revisions, amounting to 4.8 and 4.7 percentage points respectively.

- With regard to the incorporation of estimates of the flows generated by unofficial employment abroad, the travel expenditures were expanded to include the payments of the informally employed, with the latter's average amount reaching EUR 259.4mn in 2001-2005. The aggregate effect of this change and the upward revision of travel receipts by EUR 41.1mn was an average deterioration of the travel balances by 1.2% of GDP. Most sizeable were the revisions for 2004 with increases in travel payments and receipts by EUR 299.0mn and EUR 42.3mn respectively, as well as a reduction of the net travel surplus by 1.3 percentage points.

Together with the revisions that resulted from the newly introduced methodology changes, the Central bank revised also the foreign direct investment data for 2004 and 2005.¹¹ As a consequence, the balance of payments underwent the following changes:

- The non-privatisation FDI for 2004 was raised by EUR 449.3mn (or 2.3% of GDP), whereas the 2005 data was revised downwards by EUR 87mn. The latter was accompanied by an increase in the *net mergers and acquisitions* item by EUR 339mn, with the difference being on the account of errors and omissions item.
- Albeit to a much lesser extent, some corrections were also made in the items *other investment-liabilities* and *income paid on direct and other investment*. Among these revisions, relatively more important in terms of their effect appeared the respective changes in the 2004 data, equalling 0.9 and 0.8% of GDP and resulting in a corresponding deterioration of the financial and the current accounts.

The overall effect of the recent regular and exceptional revisions is presented in Table 1. The introduced methodology modifications radically changed the picture of the main indicators of the country's balance of payments. According to the revised figures, both the trade deficit and the services surplus exhibited higher values.

On the other hand, the net income position, after having traditionally a negative contribution to the current account balance, became a factor leading to the deficit reduction. Thus, the changes resulted in a significantly lower current account deficit.

Table 1 traces the evolution of the major BoP items before and after the latest revisions. As the corrections in some of the positions were rather huge and the redistribution of the flows came at the expense of the *errors and omissions* item, the dynamics of the latter showed considerable changes. The downward corrections reaching up to EUR 500-800mn led to large negative balances in 2002-2004 which, in turn, might be interpreted as an indication of a possible overvaluation of the inflows and/or undervaluation of the outflows.

¹¹ Final and regular revision of the data for 2004 and 2005 respectively.

The above methodology changes in the estimation of the flows have a direct effect both on the analysis and the projections of the balance of payments. The revision of the flows generated by informal employment covers the period from April 2001 onwards as this date is associated with the beginning of the phenomenon. Hence, the data on employee compensation receipts prior to this date are inconsistent with the figures for the period after April 2001, i.e. there is a structural break in the series. The partial revision of a time series (as in the case of the net transport payments and the imports at FOB prices) has a similar effect since the formation of a relatively short time series does not allow for objectivity and significance of the derived relations. From this point of view, the undertaking of methodology changes in the balance of payments estimation would require precise timing and close coordination between the institutions that gather, produce and publish statistical information with regard to the balance of payments, irrespective of the fact whether the changes in question have been developed in cooperation between these institutions or not. Such a stance would have spared the current inconsistency between the reported data caused by the delay in the preparation of the GDP and national accounts data revisions for the period till end-2005 to reflect the updated balance of payments figures. In contrast, the present situation makes rather cumbersome the calculation of precise and consistent estimates and projections for the future development of Bulgaria's economy. ▲

Table 2

	Macroeconomic Indicators 2004 - 2006													
	Reported data ²						Forecasts							
	2004	Q1	Q2	Q3	Q4 2005	2005	2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	2006		
Exchange rate USD/BGN, p.a.	1.57	1.49	1.55	1.60	1.66	1.66	1.58	1.64	1.63 ¹	1.66	1.62	1.66	1.66	1.61
Petroleum spot price (APSP)	37.8	46.2	50.8	60.0	56.6	56.6	53.4	59.3	61.0 ¹	58.0	62.5	61.5	58.4	61.7
EU Area Real GDP growth ³	%	1.7	0.6	1.5	2.1	1.4	1.5	1.7	1.7	2.0	2.2	2.3	2.1	2.1
LIBOR U.S. dollar deposits	%	1.9	3.1	3.5	4.0	4.5	3.8	4.7	4.9 ¹	4.8	5.3	5.2	4.9	5.4
GDP, current prices	mn BGN	38 275	8 755	9 822	11 755	11 509	41 555	9 730	9 568	10 728	13 094	12 650	46 201	46 241
GNP, current prices	mn BGN	38 741	8 873	9 998	11 847	11 385	40 676	9 386	9 642	10 486	12 657	12 448	44 978	46 651
GDP, real growth	%	5.7	5.9	6.5	4.6	4.9	5.4	4.9	4.4	5.7	6.0	5.0	5.5	5.5
Consumption, real growth	%	5.1	7.0	5.9	8.9	6.0	7.0	3.9	5.5	5.0	4.2	3.7	4.1	4.8
Investment, real growth	%	14.7	9.0	21.3	43.9	14.1	22.0	12.0	13.2	8.0	8.1	3.8	11.8	9.5
Exports GNFS, real growth	%	13.0	9.2	12.0	1.1	9.4	7.2	12.5	10.3	11.4	10.5	14.0	9.4	12.1
Imports GNFS, real growth	%	14.1	10.8	15.3	18.8	13.4	14.8	11.8	13.1	10.2	8.7	9.7	11.0	10.1
Inflation, corresponding period of previous year = 100	%	3.98	1.95	1.21	3.32	6.45	6.45	3.89	4.13 ¹	2.10	2.47	3.37	5.43	6.41
Inflation, previous year = 100	%	6.15	3.59	4.44	4.35	7.77	5.04	7.30	6.53 ¹	6.76	7.16	6.27	8.51	7.19
Core inflation, corresponding period of previous year = 100	%	4.6	2.17	3.96	5.16	6.91	4.54	6.65	6.48 ¹	5.15	5.06	4.31	2.57	4.56
Administrative prices, corresponding period of previous year = 100	%	11.04	8.74	7.74	4.04	5.85	6.54	16.72	13.76 ¹	15.52	17.70	17.08	22.08	17.70
Current account balance	mn EUR	-1 131	-551	-565	-230	-1 257	-3 086	-728	-867	-813	-564	-55	-1 500	-3 276
Current account balance, % to GDP	%	-5.8	-12.3	-11.3	-3.8	-21.4	-19.9	-14.6	-17.7	-14.8	-10.2	0.8	-23.2	-13.9
Exports	mn EUR	7 985	2 081	2 305	2 414	2 629	9 429	2 534	2 653	2 691	2 804	3 005	2 919	11 492
Imports	mn EUR	10 938	2 785	3 420	3 568	3 966	13 558	3 287	3 583	3 890	4 044	4 149	4 472	16 368
M3, p.a.	mn BGN	18 033	21 488	22 407	23 540	24 403	22 960	26 731	25 106 ⁴	27 930	26 490	30 188	28 042	27 236
Reserve money, p.a.	mn BGN	5 505	6 622	7 060	7 611	8 043	7 334	8 125	8 287 ⁴	8 337	8 545	9 434	9 347	8 144
Total revenues	mn BGN	15 855	4 167	4 678	4 396	4 811	17 998	4 293	4 443	4 789	4 820	4 589	4 641	18 749
Tax revenues	mn BGN	12 774	3 404	3 530	3 594	4 010	14 507	3 563	3 677	3 829	3 860	3 855	4 232	15 678
Unemployment rate	%	12.0	11.3	10	9.2	10.1	10.2	10.8	10.4	9.8	9.3	9.0	9.0	9.8
Participation rate	%	49.7	48.0	50.1	51.1	49.6	49.7	48.3	48.2	50.6	50.4	51.7	49.8	50.1

¹ Reported data, ² 2004 and 2005 National Accounts and Balance of Payments data are revised, ³ Q1, Q2, and Q3 2005 data are revised, ⁴ preliminary data

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