

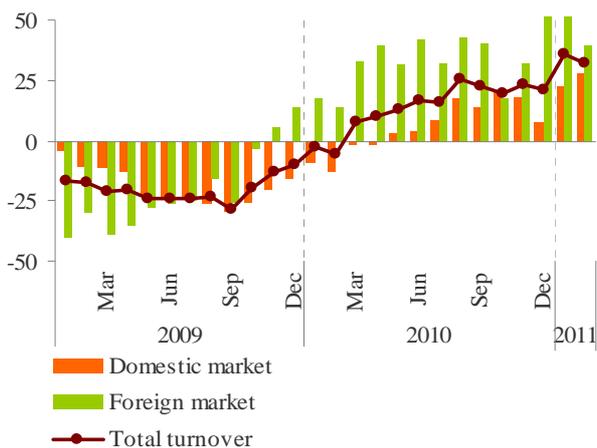
## Macroeconomic environment and policies in brief

- **ESA95 general government budget deficit for 2010 stood at 3.2% of GDP**, according to the latest fiscal notifications, improving both on a year earlier and as compared to the 3.8% amended budget plan. Positive developments came on the back of better-than-anticipated fiscal discipline in the healthcare sector and local governments. Revenues from taxes on production and imports were also higher than the plan. Budget outcome for 2010 is in line with the policy of stability led by the government.
- **According to the latest Financial Sector Survey the downward trend of interest rates on credits and deposits is expected to continue in Q2 2011.** Financial intermediaries project a positive development of the stock exchange indices during the first half of the year. Their economic growth expectations are also positive, still inflation expectations remain relatively high.
- **The ongoing tendency for yield decrease in all segments of the government debt curve was sustained at the two government securities auctions in March.** Positive results from these auctions indicated rising investor confidence in Bulgarian government and the conducted prudent fiscal policy. The risk assessment, measured by the CDS indicator, also recorded a positive trend with CDS levels falling under 200 bps for the first time since April 2010.
- **Bulgarian Competitiveness Review** pointed out that the economy experienced a lot of changes due to the crisis. Exports recovered to the pre-crisis levels, price and cost competitiveness improved, while the fast current account deficit contraction indicated the successful adjustment of the economy to the new economic activity.
- **Industrial production index** accelerated further in February, ranking Bulgaria on the third place among EU member states. **Industrial sales** also sustained their accelerated annual growth rate, underpinned by the ongoing recovery in domestic turnover.
- **Registered unemployment** decreased further following the revival of seasonal activities along with the activation of labour market programs.
- **Consumer prices** continued on the increase still largely driven by international prices developments. The significant contribution of higher tobacco excises is expected to lessen in the coming months, bringing annual headline inflation down as a base effect from the 2010 excise duty hike.
- **Current account balance** stood at EUR 207.9 mn in February, thus recording a second consecutive positive monthly value in 2011. The CAB improvement was mainly due to the good export performance. Despite financial account deficit, the overall balance of payments was positive by EUR 53.8 mn, which resulted in an equivalent increase in Central Bank international reserves.
- **Credit to the private sector** stopped decelerating and picked up slightly in February. Credit to non-financial enterprises was the main contributor, up by 3%, while consumer credit slowed its negative change.

## Recent Economic Developments

- **Industrial production index** accelerated further to 15.2% (y/y) in February, ranking Bulgaria on the third place among EU member states. Major contribution for that growth came from energy goods.
- **Industrial turnover** also sustained its accelerated annual growth rate, underpinned by favorable development in all subsectors. Its rate of change, however, decelerated somewhat to 32%, due to the slowing down foreign market sales. Domestic turnover, on the other hand, continued to improve and registered a 27.7% increase (y/y).

**Industrial turnover (% , y/y)**

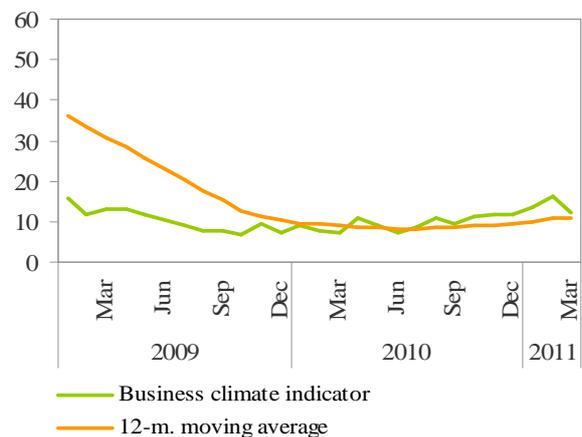


Source: NSI

- **Retail sales turnover rate of decline slowed down to 0.1%** on a year earlier, as retail sales of automotive fuels and food, beverages and tobacco continued to recover, while a drop was observed in three main activities, namely retail sales of textiles and clothing, computers and telecommunication equipment, and electrical household appliances.
- **Construction output** is still in the red by 13.6% (y/y), led by the strong drop in civil engineering by 19%.

- **March business conjuncture** weakened, as the overall business climate decreased by 4.1 pps (m/m) due to the more unfavorable business climate in industry, construction and service sector. On the other hand, retail trade business climate increased by 4.1 pps (m/m), due to the more optimistic expectations about future business situation. According to the March survey the uncertain economic environment and financial problems are still major limitations of enterprises activity along with weak demand.

**Business climate (balance)**



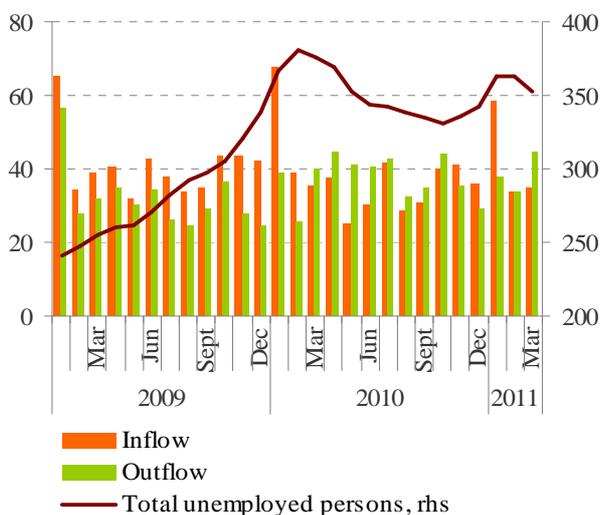
Source: NSI

- According to the **investment business inquiry** carried out among industrial enterprises in the second half of March, further investment decrease of approximately 11% is expected in 2011 in comparison with 2010. Managers in the private sector expect an increase in the investment by approximately 0.5% while in the public sector a shrinking by about 35.3% on an annual basis is expected. With regard to the product orientation of output, only investment in intermediate goods production is expected to increase compared to 2010.
- **Registered unemployment** accelerated its monthly rate of decrease in March

following the revival of seasonal activities, as well as the activation of labour market programs. The jobless rate reached 9.5%, going down by 0.3pps (m/m) and by 0.6 pps on a year earlier.

- Though unemployment inflow increased slightly by 3.8% because of the higher number of layoffs in the public administration sector, the outflow rose further by 32.8% accounting for the higher number of persons that found jobs (23,900 in March being 13,600 a month earlier). Employment participation was determined by primary sector revival in agriculture, tourism, construction, manufacturing, etc., underpinned also by the active labour market policy through programs implemented and financed from budget funds and under OP "Human Resources Development".

**Inflow, outflow and unemployed persons**  
(thousands)

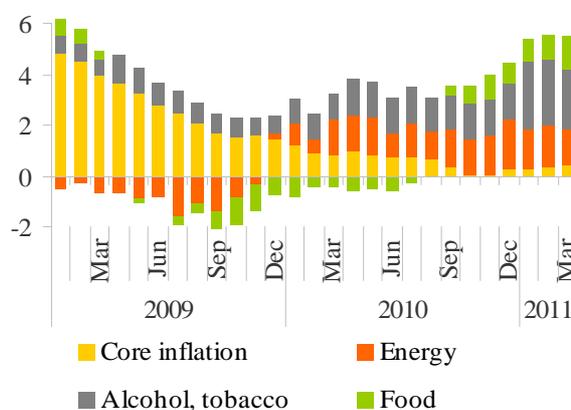


Source: EA

- **March inflation** increased by 0.4% (m/m), up by 4.6% in y-o-y terms. Food prices continued rising lagging behind mounting food prices on world market in recent months. Fuel prices went up by 17.6% on a year earlier led by the oil prices surge as a result of the political

unrest in North Africa and the Middle East. Furthermore, through their impact on the other sectors of the economy, higher energy and food prices affected inflation indirectly. Increases have been recorded in some energy and food related services categories such as transport and catering services. The lower contribution of tobacco prices is expected to be more pronounced in the coming months, which will bring headline inflation down as a base effect from the 2010 excise duty hike.

**Contribution by HICP components**  
(pps, y/y)



\*incl. services and non-energy industrial goods

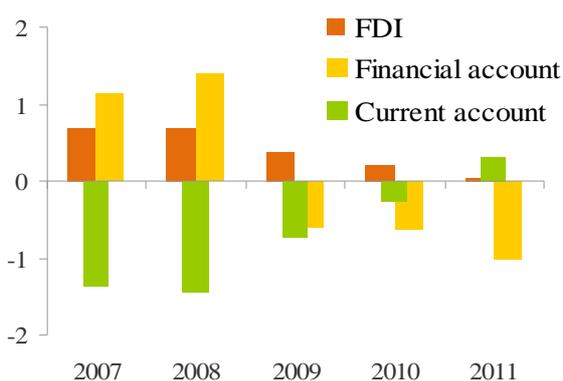
Source: NSI

- **Current account balance** stood at EUR 207.9 mn in February, thus recording a second consecutive positive monthly value in 2011. The CAB improvement was mainly due to the good export performance. Since June 2010 monthly value of exports has been close to EUR 1.5 bn. Exports of goods grew substantially by 46.5% (y/y) in February, up to EUR 1.47 bn. Imports also expanded by 35.6% to EUR 1.49 bn and, thus, the trade deficit amounted to only EUR 25.4 mn. The positive dynamics in exports may be partially explained by the lower base in the beginning of 2010, suggesting that high y-o-y growth rates will be observed in

the following months, but the pace will decelerate gradually in H2 2011. Services balance was positive at EUR 70.1 mn, resulting from the low debit on this component. While exports of services improved by EUR 13.4 mn (5.2% y/y), there was no sign of recovery in the imports of services, which continued to decrease y-o-y by EUR 26.7 mn (11.7%) subdued by low domestic consumption. As a result, the overall services balance improved to EUR 83.6 mn in Jan-Feb 2011, compared to the EUR 6.6 mn surplus a year earlier. The income deficit shrank by 85.5% (y/y) to just EUR 17.3 mn due to the drop in payments of investment income to non-residents.

#### FDI, Current and Financial Account

(Jan-Feb, billion euro)



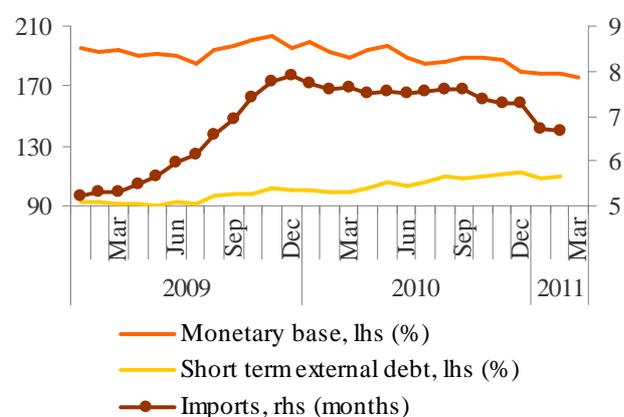
Source: BNB

- The **financial account** accumulated a deficit of EUR 382.9 mn, as FDI were negative at EUR 117.1 mn. Equity FDI was low, meaning that no new major investments were made in 2011. At the same time other capital FDI were negative. Net other investments were also negative amounting to EUR 180.4 mn, as a result of Bulgarian banks activity. They carried on repaying foreign loans, as their liquidity remained high in the first two months of the year. This tendency is expected to last until lending activity in Bulgaria recovers. The overall balance of payments was

positive by EUR 53.8 mn, which resulted in an equivalent increase in Central Bank international reserves.

- Bulgaria's **gross external debt** fell by 3.3% (y/y) and 0.8% (m/m) to EUR 36 bn (93.3% of GDP) in February. After the slight increase at the end of 2010, banks indebtedness lowered to EUR 6.6 bn in the second month of 2011, accounting for 18.3% of the total. Non-banking sector also had a positive contribution to the GED decrease, as higher inter-company borrowing was offset by the reduction in firms' long-term exposure to foreigners. In the government sector, gross external debt inched down to EUR 2.7 bn (7.5% of the total). Short-term debt by original maturity dropped by 0.9% compared to January 2010 and by 4.4% y/y, ensuring BNB reserves coverage of 110.4%.

#### Coverage with FX Reserves



Source: BNB

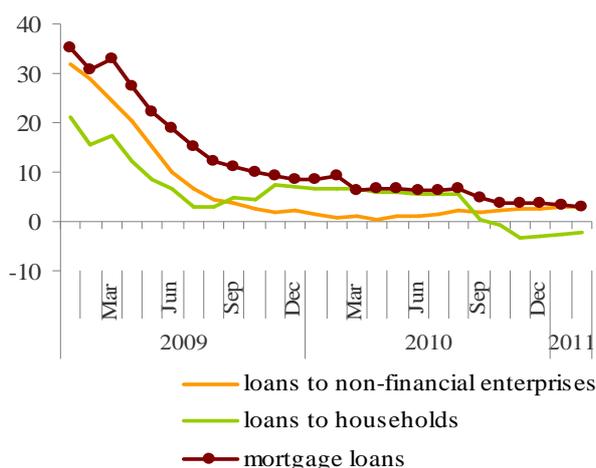
- **International reserves** decreased both on monthly and annual basis, by 1 and 0.2% respectively, amounting to EUR 12.2bn at the end of March. Monetary base coverage reached 176.3%, while the reserves to money supply ratio was 47% at the end of February. BNB had enough reserves to cover 6.7 months of imports of goods and non-factor services.

- **Money supply** annual growth rate decelerated to 5.9% in February, down from 7.1% in the previous month. Nevertheless, broad money grew by 0.9% (m/m), mainly due to a 3.5% increase in the overnight deposits. Total deposits, included in money supply, increased by 6.5% (y/y), supported by the 11.2% growth in households' deposits. A slowdown of time deposits growth has been observed during last few months, while the more liquid monetary aggregates showed some recovery. This could be considered as a signal that households are relocating their resources from precautionary savings to more current economic activities.
- **The credit to the private sector** stopped decelerating, picking up slightly to 1.7% in February. Credit to non-financial enterprises was the main contributor, up by 3%, while consumer credit slowed its negative change to 2.2%. At the same time mortgages sustained their positive growth rate, which though dwindled to 2.9% (being 3.4% in January).

long-term credits were lower than in the previous month. On a sectoral breakdown, interest rates on corporate and consumer credits came down, while those on mortgages increased. Interest rates were lower for BGN and USD denominated deposits and higher for those in euro.

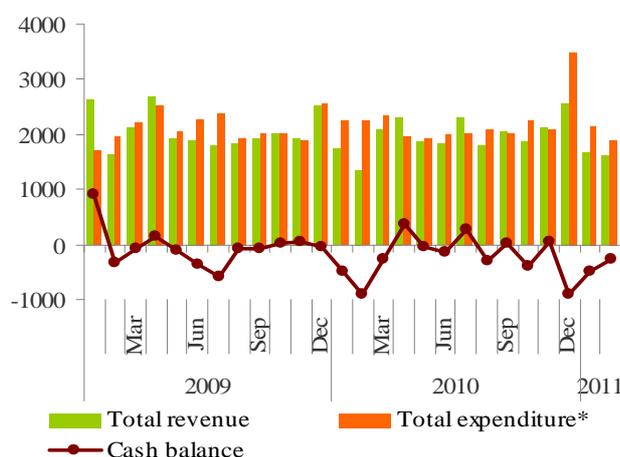
- **General government deficit** on cash basis totaled BGN 750.5mn as of 28.02.2011, almost half narrower compared to end-February 2010. It consisted of a national budget deficit of BGN 796.3mn and a surplus on the EU funds component of BGN 45.8mn.
- **Total revenue** accumulated during the first two months of 2011 was 6.6% higher than the same period a year earlier, mostly due to the tax revenue increase of 5.7% (y/y). Non-tax revenue grew by 2.4% (y/y) as well. In addition, grants were more than two times higher on the increased amount of resources coming from EU.

Annual Credit Growth Rate



Source: BNB, MoF

Consolidated budget  
(monthly value, mln BGN)



\* incl. contribution to EU budget

Source: MoF

- **Interest rates** on short-term credits denominated in BGN, EUR and USD went up in February, while the rates on

- The largest positive contribution came from **VAT revenue increase**, up by 21.1% (y/y). Rising oil prices drove import based VAT revenues up. Lower base effect from February 2010 also

contributed for the higher nominal growth rate of VAT receipts. Total tax revenue dynamics benefited from the increase both in direct tax revenue - up by 2.4% (y/y), and indirect tax revenue - up by 10.7% (on the republican budget).

- The **reduction in total expenditure** registered during the first month of the year was sustained in February, on a rather higher pace (the EU budget contribution not being included in calculations). As of end-February 2011 total expenditure was 10.3% lower than a year earlier. Considered by expenditure groups, wages and salaries, maintenance, subsidies and capital expenditure largely accounted for the decline observed. The largest contribution to spending reduction, however, came from the last two components. Interest payments, expenditure on social and health insurance contributions, and social

payments (incl. scholarships) were higher compared to Jan-Feb 2010.

- Transfers from the republican budget grew on an annual basis both in January and February 2011. All main groups of spending made during February 2011 declined compared to the corresponding month of the previous year, except for the EU budget contribution.
- **Fiscal reserve** amounted approximately to BGN 5.1bn as of end-February.
- **General government debt**, including government guaranteed debt, accounted for approximately BGN 11.4bn (15.1% of GDP). It comprised of 4.9% of GDP domestic debt, 8.6% of GDP external debt and 1.6% of GDP government guaranteed debt.

## Key Economic Indicators

|  |         | 2008  | 2009  | 2010  | Q1'<br>10 | Q2'<br>10 | Q3'<br>10 | Q4'<br>10 | X'<br>10 | XI'<br>10 | XII'<br>10 | I'<br>11 | II'<br>11 | III'<br>11 |
|--|---------|-------|-------|-------|-----------|-----------|-----------|-----------|----------|-----------|------------|----------|-----------|------------|
| <b>GDP*</b>                                      |         |       |       |       |           |           |           |           |          |           |            |          |           |            |
| Gross Domestic Product*                          | %, y/y  | 6.1   | -5.5  | 0.2   | -0.8      | -0.3      | 0.5       | 2.8       |          |           |            |          |           |            |
| Consumption                                      | %, y/y  | 2.5   | -7.3  | -1.1  | -4.5      | -4.3      | -6.4      | -2.6      |          |           |            |          |           |            |
| Investment                                       | %, y/y  | 16.3  | -24.9 | -14.0 | -12.5     | -12.0     | -4.9      | 4.0       |          |           |            |          |           |            |
| Export   | %, y/y  | 3.0   | -11.2 | 16.2  | 5.5       | 12.6      | 18.5      | 16.0      |          |           |            |          |           |            |
| Import   | %, y/y  | 4.2   | -21.0 | 4.5   | -2.8      | 0.3       | 3.0       | 15.0      |          |           |            |          |           |            |
| Agriculture                                      | %, y/y  | 29.6  | -6.1  | 3.9   | 7.0       | 5.5       | 3.0       | -3.4      |          |           |            |          |           |            |
| Industry   | %, y/y  | 4.4   | -7.8  | 1.9   | 1.1       | 1.0       | -1.3      | 6.1       |          |           |            |          |           |            |
| Services   | %, y/y  | 5.0   | -0.8  | -0.9  | -2.5      | -1.6      | -1.4      | -4.1      |          |           |            |          |           |            |
| Adjustments                                      | %, y/y  | 5.7   | -16.5 | -0.2  | -6.5      | -4.7      | -1.9      | 4.7       |          |           |            |          |           |            |
| <b>Short term business statistics</b>            |         |       |       |       |           |           |           |           |          |           |            |          |           |            |
| Industrial production                            | %, y/y  | 0.7   | -18.3 | 2.0   | -3.3      | 1.5       | 4.4       | 5.2       | 2.5      | 5.7       | 6.7        | 10.2     | 15.2      |            |
| Industrial turnover                              | %, y/y  | 13.7  | -20.2 | 14.1  | 0.1       | 13.0      | 21.5      | 21.1      | 19.4     | 23.0      | 21.0       | 35.9     | 32.0      |            |
| Retail trade turnover                            | %, y/y  | 8.9   | -8.9  | -5.6  | -10.0     | -7.0      | -2.8      | -3.2      | -4.7     | -4.8      | -3.5       | -0.1     | -0.1      |            |
| Construction output                              | %, y/y  | 12.7  | -14.5 | -18.0 | -26.1     | -20.7     | -15.0     | -8.5      | -11.6    | 0.8       | -14.2      | -12.2    | -13.6     |            |
| Total business climate                           | balance | 38.0  | 10.2  | 9.6   | 7.9       | 9.1       | 9.7       | 11.5      | 11.4     | 11.7      | 11.5       | 13.4     | 16.1      | 12.0       |
| Industrial confidence                            | balance | 39.9  | 12.3  | 13.4  | 9.4       | 14.6      | 14.7      | 15.0      | 14.0     | 15.1      | 16.0       | 20.2     | 24.3      | 20.4       |
| Retail trade confidence                          | balance | 41.3  | 13.5  | 10.1  | 10.6      | 8.2       | 8.8       | 13.0      | 13.0     | 13.5      | 12.4       | 12.4     | 11.3      | 15.4       |
| Construction confidence                          | balance | 40.3  | 8.5   | 5.1   | 7.7       | 5.9       | 4.0       | 2.9       | 2.1      | 5.2       | 1.4        | 1.9      | 7.0       | 5.3        |
| Services confidence                              | balance | 28.7  | 5.1   | 5.6   | 2.5       | 2.0       | 6.1       | 11.8      | 13.9     | 9.7       | 11.9       | 12.3     | 13.5      | -1.4       |
| <b>Labour market</b>                             |         |       |       |       |           |           |           |           |          |           |            |          |           |            |
| Participation rate (15+)                         | level   | 53.8  | 53.0  | 52.0  | 51.3      | 52.2      | 52.5      | 52.1      |          |           |            |          |           |            |
| Employment rate (15+)                            | level   | 50.8  | 49.4  | 46.7  | 46.1      | 47        | 47.5      | 46.3      |          |           |            |          |           |            |
| Employment (LFS)                                 | %, y/y  | 3.3   | -3.2  | -6.2  | -7.7      | -6.9      | -5.4      | -4.7      |          |           |            |          |           |            |
| Unemployment rate (LFS)                          | level   | 5.6   | 6.8   | 10.2  | 10.2      | 10        | 9.5       | 11.2      |          |           |            |          |           |            |
| Unemployment rate (Employment agency)            | level   | 6.3   | 7.6   | 9.5   | 10.1      | 9.6       | 9.1       | 9.1       | 8.9      | 9.1       | 9.2        | 9.8      | 9.8       | 9.5        |
| Nominal wage                                     | %, y/y  | 26.5  | 11.8  | 6.3   | 9.9       | 8.7       | 9.4       | 10.4      | 9.4      | 11.2      | 10.6       |          |           |            |
| Real wage**                                      | %, y/y  | 13.0  | 9.1   | 3.2   | 7.8       | 5.7       | 5.9       | 6.1       | 5.6      | 6.9       | 5.8        |          |           |            |
| Labour productivity (GDP per employed)           | %, y/y  | 3.5   | -2.9  | 6.4   | 2.7       | 8.2       | 5.7       | 7.8       |          |           |            |          |           |            |
| Real ULC   | %, y/y  | 3.7   | 8.1   | -2.2  | 4.4       | 1.7       | -6.2      | -6.7      |          |           |            |          |           |            |
| <b>Prices</b>                                    |         |       |       |       |           |           |           |           |          |           |            |          |           |            |
| Harmonized index of consumer prices              | %, y/y  | 11.9  | 2.5   | 3.0   | 2.0       | 2.9       | 3.3       | 4.0       | 3.6      | 4.0       | 4.4        | 4.3      | 4.6       | 4.6        |
| Domestic producer prices                         | %, y/y  | 13.3  | -4.3  | 7.2   | 2.4       | 5.6       | 9.5       | 11.1      | 10.1     | 11.1      | 12.0       | 11.1     | 12.5      | 12.1       |
| <b>Consolidated fiscal program (cummulative)</b> |         |       |       |       |           |           |           |           |          |           |            |          |           |            |
| Revenue and grants                               | mln BGN | 27313 | 25041 | 23933 | 5171      | 11189     | 17346     | 23933     | 19234    | 21356     | 23933      | 1675     | 3303      |            |
| Total expenses                                   | mln BGN | 25323 | 25667 | 26713 | 6840      | 12704     | 18872     | 26713     | 21136    | 23222     | 26713      | 2153     | 4053      |            |
| Contribution to EU budget                        | mln BGN | 720   | 746   | 670   | 246       | 359       | 529       | 670       | 593      | 615       | 670        | 60       | 211       |            |
| Cash deficit(-) / surplus(+)                     | mln BGN | 1990  | -626  | -2781 | -1669     | -1515     | -1527     | -2781     | -1903    | -1866     | -2781      | -477     | -751      |            |
|  | % GDP   | 2.9   | -0.9  | -3.9  | -2.4      | -2.2      | -2.2      | -3.9      | -2.7     | -2.6      | -3.9       | -0.6     | -1.0      |            |
| Government and gov. guaranteed debt              | mln BGN | 10710 | 10641 | 11775 | 10699     | 10970     | 11397     | 11775     | 11422    | 11580     | 11775      | 11501    | 11449     |            |
|  | % GDP   | 15.5  | 15.6  | 16.7  | 15.2      | 15.6      | 16.2      | 16.7      | 16.2     | 16.4      | 16.7       | 15.2     | 15.1      |            |
| Fiscal reserve                                   | bln BGN | 8382  | 7673  | 6012  | 6359      | 6029      | 6711      | 6012      | 6398     | 6391      | 6012       | 5412     | 5072      |            |
|  | %, y/y  | 12.5  | -8.5  | -21.6 | -20.1     | -27.1     | -12.7     | -21.6     | -17.9    | -21.1     | -21.6      | -26.7    | -20.1     |            |

**Recent Economic Developments: Selected Issues, Bulgaria, April 2011 - 8 -**

|                                       |            | 2008   | 2009   | 2010   | Q1'<br>10 | Q2'<br>10 | Q3'<br>10 | Q4'<br>10 | X'<br>10 | XI'<br>10 | XII'<br>10 | I'<br>11 | II'<br>11 | III'<br>11 |
|---------------------------------------|------------|--------|--------|--------|-----------|-----------|-----------|-----------|----------|-----------|------------|----------|-----------|------------|
| <b>Financial sector</b>               |            |        |        |        |           |           |           |           |          |           |            |          |           |            |
| BNB International reserves            | mln<br>BGN | 12713  | 12919  | 12977  | 12239     | 12155     | 12764     | 12977     | 12525    | 12697     | 12977      | 12224    | 12329     | 12209      |
| Monetary base coverage                | %          | 175.3  | 195.2  | 179.8  | 189.4     | 189.2     | 188.6     | 179.8     | 188.3    | 188.1     | 179.8      | 178.6    | 178.5     | 176.3      |
| Coverage of import with FX reserves   | months     | 5.4    | 8.0    | 7.3    | 7.6       | 7.4       | 7.6       | 7.3       | 7.4      | 7.3       | 7.3        | 6.7      | 6.7       |            |
| Coverage of short-term external debt  | %          | 96.5   | 100.2  | 112.8  | 104.3     | 103.7     | 108.9     | 112.8     | 110.3    | 111.6     | 112.8      | 108.4    | 110.4     |            |
| Money M1 (Narrow money)               | %, y/y     | -4.1   | -8.8   | 0.8    | -2.0      | 0.9       | 7.7       | 0.8       | 8.7      | 7.5       | 0.8        | 1.4      | -0.1      |            |
| Money M3 (Broad money)                | %, y/y     | 8.8    | 4.2    | 6.2    | 7.7       | 8.0       | 8.4       | 6.2       | 8.2      | 9.0       | 6.2        | 7.1      | 5.9       |            |
| Deposits                              | %, y/y     | 8.8    | 7.6    | 6.6    | 10.0      | 10.1      | 9.4       | 6.6       | 9.1      | 10.0      | 6.6        | 7.8      | 6.5       |            |
| Credit to private sector              | %, y/y     | 32.9   | 3.8    | 1.1    | 2.6       | 2.0       | 1.6       | 1.1       | 1.4      | 1.2       | 1.1        | 1.6      | 1.7       |            |
| Credit to non-financial enterprises   | %, y/y     | 33.1   | 2.3    | 2.4    | 1.1       | 1.2       | 1.8       | 2.4       | 2.2      | 2.5       | 2.4        | 2.9      | 3.0       |            |
| Credit to households                  | %, y/y     | 31.4   | 5.8    | -0.8   | 4.4       | 3.7       | 0.8       | -0.8      | -0.2     | -1.1      | -0.8       | -0.7     | -0.7      |            |
| Interest rate on short-term loans     | %          | 10.9   | 10.5   | 8.5    | 8.7       | 8.3       | 8.8       | 8.0       | 8.0      | 7.8       | 8.2        | 5.9      | 6.7       |            |
| Interest rate on time deposits        | %          | 5.6    | 7.0    | 5.4    | 6.4       | 5.3       | 5.0       | 5.1       | 4.9      | 5.1       | 5.2        | 5.2      | 4.9       |            |
| Exchange rate BGN/USD                 | eop        | 1.39   | 1.36   | 1.47   | 1.45      | 1.59      | 1.43      | 1.47      | 1.41     | 1.50      | 1.47       | 1.43     | 1.41      | 1.38       |
|                                       | per. av.   | 1.34   | 1.41   | 1.48   | 1.41      | 1.54      | 1.52      | 1.45      | 1.41     | 1.43      | 1.48       | 1.46     | 1.43      | 1.40       |
| <b>Gross External Debt</b>            |            |        |        |        |           |           |           |           |          |           |            |          |           |            |
| Gross external debt                   | % GDP      | 104.9  | 108.0  | 101.8  | 103.4     | 103.5     | 101.3     | 101.8     | 100.2    | 100.9     | 101.8      | 94.0     | 93.3      |            |
| Short term external debt              | % GED      | 35.4   | 32.7   | 31.4   | 31.5      | 31.4      | 32.1      | 31.4      | 31.5     | 31.3      | 31.4       | 31.0     | 31.0      |            |
| Intercompany lending                  | % GED      | 36.4   | 38.5   | 40.2   | 39.3      | 40.1      | 40.2      | 40.2      | 40.3     | 40.5      | 40.2       | 40.8     | 40.8      |            |
| <b>Balance of payments</b>            |            |        |        |        |           |           |           |           |          |           |            |          |           |            |
| Current account                       | mln<br>EUR | -8162  | -3118  | -356   | -554      | -308      | 1343      | -837      | -169     | -392      | -276       | 98       | 208       |            |
| Current account, % GDP moving average |            | -23.4  | -8.7   | -1.0   | -6.9      | -4.4      | -1.2      | -1.0      | -1.2     | -1.6      | -1.0       | 0.1      | 0.6       |            |
| Trade balance                         | mln<br>EUR | -8597  | -4174  | -2412  | -568      | -786      | -118      | -941      | -195     | -417      | -329       | 95       | -25       |            |
| Trade balance, % GDP moving average   |            | -24.6  | -11.6  | -6.7   | -10.3     | -9.0      | -6.7      | -6.7      | -6.4     | -6.8      | -6.7       | -5.6     | -5.4      |            |
| Export, f.o.b.                        | mln<br>EUR | 15204  | 11699  | 15588  | -3625     | -4594     | -4531     | -5250     | 1451     | 1460      | 1399       | 1589     | 1471      |            |
|                                       | %, y/y     | 12.5   | -23.1  | 33.2   | -4.9      | 15.0      | 15.8      | 26.5      | 21.0     | 34.4      | 45.5       | 72.5     | 46.5      |            |
| Import, f.o.b.                        | mln<br>EUR | -23801 | -15873 | -18001 | 3058      | 3808      | 4413      | 4310      | -1645    | -1877     | -1728      | -1494    | -1497     |            |
|                                       | %, y/y     | 14.7   | -33.3  | 13.4   | 15.0      | 39.1      | 44.4      | 32.7      | 11.7     | 40.3      | 28.8       | 37.0     | 35.6      |            |
| Capital account                       | mln<br>EUR | 277    | 477    | 291    | 62        | -90       | 178       | 140       | 9        | 45        | 85         | -3       | 11        |            |
| Financial account                     | mln<br>EUR | 11473  | 1190   | -1     | -645      | 152       | -48       | 539       | 9        | 138       | 393        | -625     | -383      |            |
| Net Foreign Direct Investments        | mln<br>EUR | 6212   | 2498   | 1459   | 24        | 420       | 443       | 573       | 68       | 287       | 218        | 159      | -123      |            |
| Net Portfolio Investments             | mln<br>EUR | -731   | -570   | -661   | -145      | -316      | -47       | -153      | 61       | -19       | -195       | -130     | -78       |            |
| Other Investments - net               | mln<br>EUR | 5980   | -719   | -774   | -512      | 52        | -433      | 119       | -118     | -132      | 370        | -648     | -180      |            |
| Change in BNB reserve assets***       | mln<br>EUR | -674   | 650    | 384    | 789       | 382       | -722      | -65       | 243      | -30       | -279       | 628      | -54       |            |

\* Reference year 2000, seasonally and working day adjusted data..

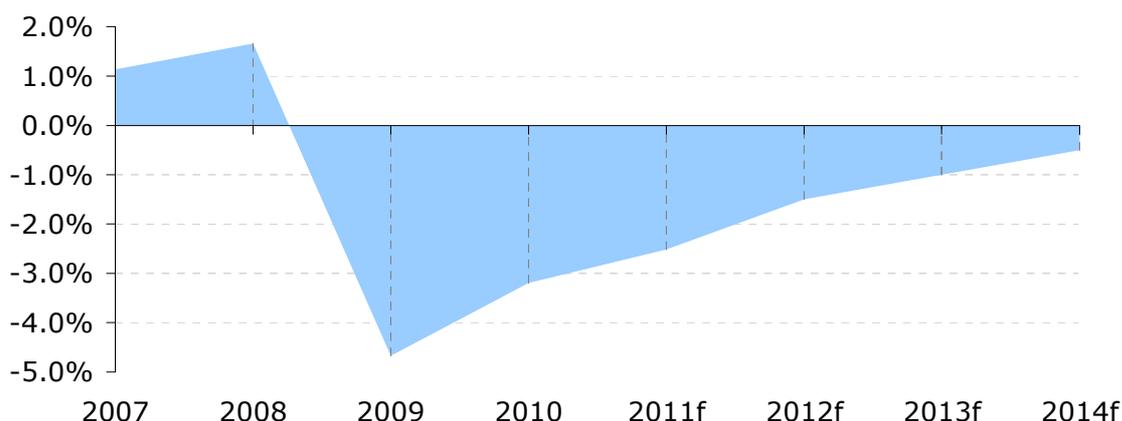
\*\*HICP deflated.

\*\*\* (-) - increase; (+) - decrease in BNB International Reserves

## 2010 Budget Execution /ESA95/

General government deficit accounted for 3.2% of GDP in ESA 95 terms at the end of 2010. It registered a considerable improvement of approximately 1.5 pps of GDP compared to the previous year. The deficit to GDP ratio was also lower than the 3.8% of GDP target set in the programme for the year. The budget position corresponds to the EU Council recommendations in connection with the excessive deficit procedure for Bulgaria, in their part concerning 2010.

### Budget Balance, General Government, ESA 95 (% of GDP)



*Source: Notification tables, Eurostat - assessment at the MoF for 2010*

The implementation of the budget in 2010 went through several stages as in the course of the year the government updated the fiscal framework in line with the current assessments of the main budgetary parameters. As a result, in July the National Assembly adopted an Act Amending and Supplementing the 2010 State Budget of the Republic of Bulgaria Act. The latter took into account factors related to changes in the structure and dynamics of macroeconomic indicators, the lower than expected collection in some revenue groups registered during the first months of the year and the rising need for restructuring of expenditure among the individual sectors, in order to narrow the impact of the crisis.

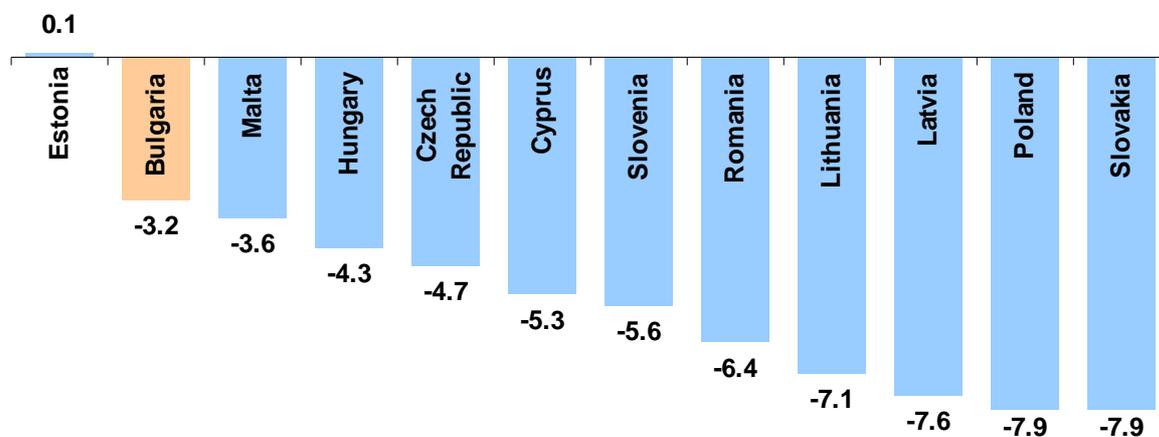
The government undertook decisive steps for fiscal consolidation mainly along the lines of public expenditure with a view to ensuring stability of the budgetary position. The objective was to ensure the fiscal improvement required and to bring the budgetary position in a reliable and sustainable manner below the reference value of 3% of GDP, set in the Stability and Growth Pact as soon as end of 2011. In this connection, with the updated program for 2010, a number of measures for fiscal consolidation were set.

The fiscal consolidation measures and the tight fiscal policy in 2010 ensured:

- A decrease in the share of government expenditure by 3 pps of GDP compared to previous year;
- Strengthening the control over the expenditure of the National State Security Institute;

- Strengthening the control over the expenditure of the National Health Insurance Fund;
- Main part of the liabilities accumulated in 2009 was repaid;
- Tightening the fiscal discipline, improving the legal framework for implementation and monitoring of the implementation of the budget, as well as enhancing the financial management and control systems;
- Reduction of the general government deficit to 3.2% of GDP in ESA 95 terms. Compared to the other new EU member states, the deficit to GDP ratio for Bulgaria is among the lowest.

General government balance comparison 2010 (New Member States),  
ESA 95 (% GDP)



Source: Eurostat

## Recent Developments and Government Debt Review

Bulgaria's GS yield and Bund spread continued to decrease in all maturities

Two auctions for government securities /GS/ have been conducted by the Ministry of Finance in March, the results of which again revealed the current tendency for yield decrease in all segments of the government debt curve. On March 7, 2011 the issue of GS with an original maturity of 10y&6m was reopened with an amount of BGN 35 mn, totaling BGN 80 mn. This issue will be used by ECB during 2011 in calculating the long term interest rate indicator for Bulgaria. The average annual yield at the auction reached 5.4% which has been the lowest value for the 10y maturity since May 2008. The tender attracted high investment interest with cover ratio amounting to 3.54. The recorded spread to German Bundesbonds with similar maturity was 212 bps which has been the lowest value in this maturity segment since May 2008.

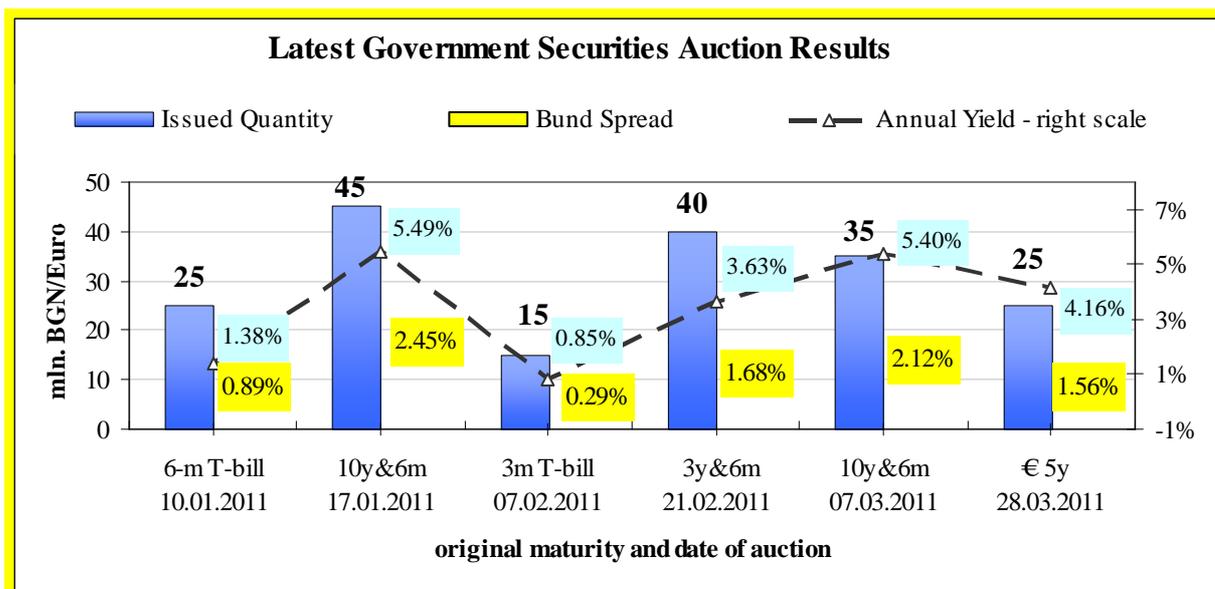
MoF successfully launched a new 5y benchmark bond

On March 28 the Ministry of Finance conducted successfully the first auction for sale of 5y euro denominated GS which is a benchmark issue in the medium term of the sovereign curve. The issue was almost five times oversubscribed (4.75 cover ratio). The offered amount was EUR 25 mn with demand reaching EUR 119 mn. This was the highest cover ratio on the auctions conducted from the beginning of the year. The average annual yield of the auction reached 4.16%, while the current yield of the risk free benchmark - bundesbonds with similar maturity was 2.60%. Thus the spread of the new 5y GS issue to the benchmark bund was about 1.5 pps and was less than the risk premium of the country, measured by the 5y CDS (credit default swap).

The amount of all tendered bids was EUR 119 mn and the average annual yield of all the bids was 4.3%, which at the day of the auction was less than the current yield of Eurobonds denominated in Euro with similar residual maturity of Hungary (Baa3/BBB-/BBB), Lithuania (Baa1/BBB/BBB) and Turkey (Ba2/BB/BB+).

Bulgaria's risk premium (5Y CDS) continued to decrease

The positive results from the auctions and the high demand for government securities are indicative for the rising investor confidence in the Bulgarian government and the conducted prudent fiscal policy. The risk assessment for Bulgaria, measured by the indicator CDS, also records a positive trend with CDS levels falling under 200 bps for the first time since April 2010.



Additional data on the auction results can be viewed on the site of the Bulgarian National Bank, that is a fiscal agent to the government [www.bnb.bg](http://www.bnb.bg)

Stable level of government debt is of primary significance to government finance

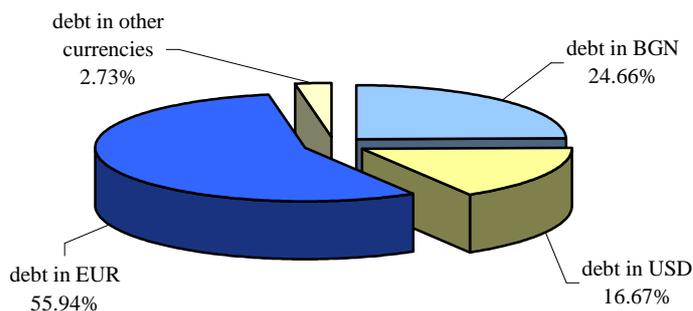
By end-February government debt totaled EUR 5236.5 mn in nominal terms, including domestic debt of EUR 1900.1 mn and external debt of EUR 3336.4 mn. In nominal terms, the debt decreased by EUR 23.8 mn compared to its level at the end of the previous month. The decrease was mainly due to repayment made during the month and to a lesser degree to currency exchange differences. Government debt to GDP ratio came to 13.6%.

| Government Debt Amount           |                |                |                |
|----------------------------------|----------------|----------------|----------------|
| (million EUR)                    |                |                |                |
| Structure                        | 31.12.2010     | 31.01.2011     | 28.02.2011     |
| Domestic government debt         | 2 011.5        | 1 914.6        | 1 900.1        |
| External government debt         | 3 373.5        | 3 345.7        | 3 336.4        |
| <b>Government Debt, total</b>    | <b>5 385.0</b> | <b>5 260.3</b> | <b>5 236.5</b> |
| <b>Government Debt /GDP ( %)</b> | <b>14.9</b>    | <b>13.7</b>    | <b>13.6</b>    |

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

The public debt currency structure in February recorded an increase in the euro denominated debt share. The proportion of debt denominated in euro reached 55.9%, being 55.6% in January, the debt in BGN, USD and other currencies decreased, reaching 24.7%, 16.7% and 2.7% respectively.

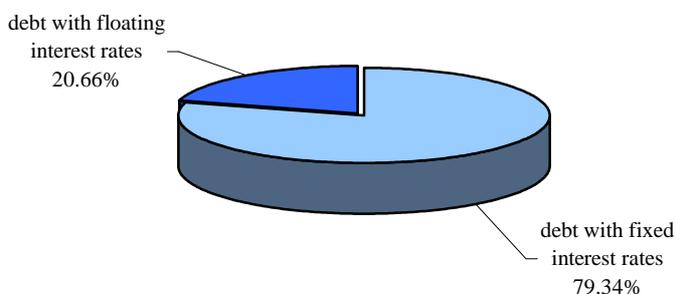
**Government Debt Currency Structure as of 28 February**



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

At the end of February the share of debt with fixed interest rate was 79.3%, while the debt with floating interest rates - 20.7%. The increase in the latter was due to repayments during the month primarily on debt with fixed interest rate.

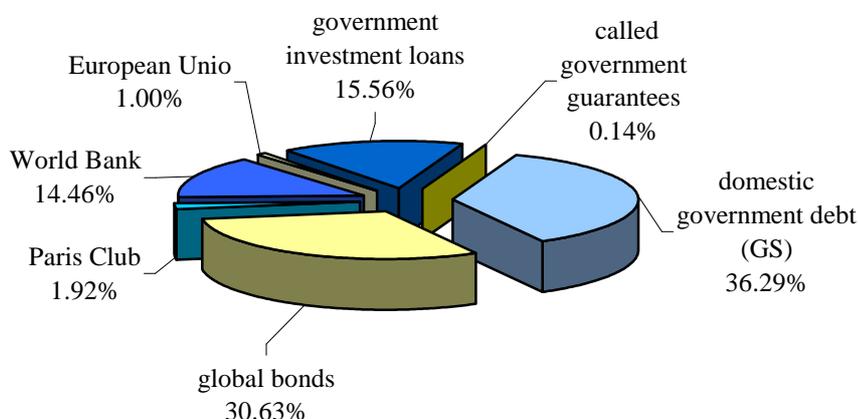
**Government Debt Interest Rate Structure as of 28 February**



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

Debt structure by types of instruments and creditors in December and January showed no significant change. Liabilities related to GS, issued on the domestic market, had the highest relative share, followed by global bonds, government investment loans, obligations to the World Bank, obligations to the Paris club, European Union and called government guarantees.

**Government Debt Structure by Creditor as of 28 February**

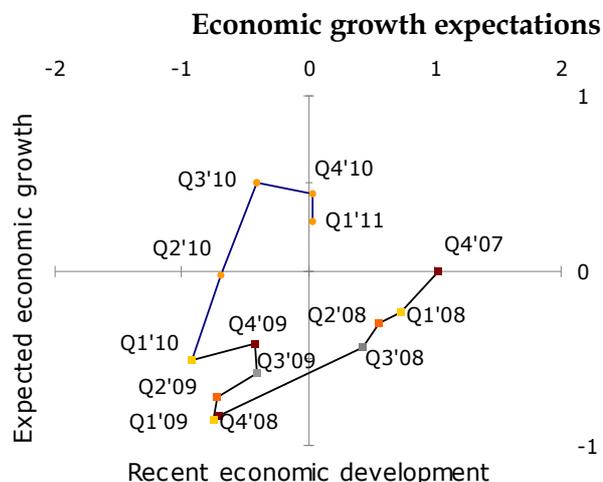


Comprehensive information on Bulgarian Government Debt, including monthly bulletins and annual reviews, could be found at the website of Bulgarian Ministry of Finance.  
<http://www.minfin.bg/en/statistics/?cat=2&from=0&fyear=0&to=0&tyear=0&dq=&pokaz=0>

## Financial Sector: Estimates and Expectations, #2/2011

### Resume of the Main Findings

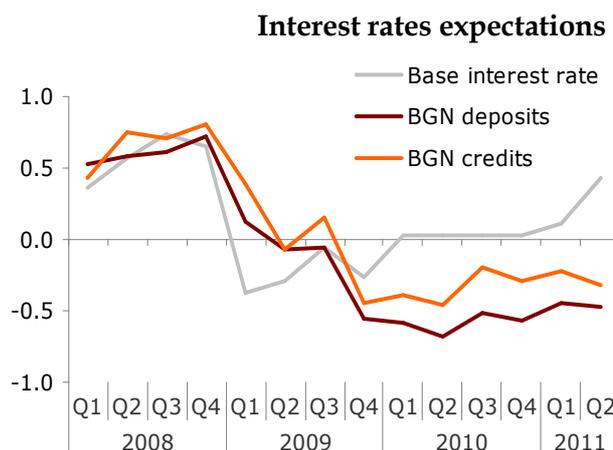
- Economic growth expectations went down slightly, nevertheless, remaining positive.



- Inflation expectations for 2011 are still high.
- Consumption contraction will be the most probable outcome of domestic prices increase fed by mounting international prices.



- The downward trend of interest rates on credits and deposits is expected to continue in the second quarter of 2011.



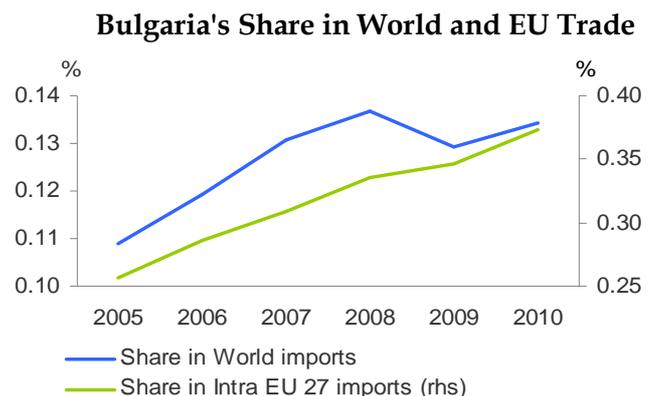
- Financial intermediaries project a positive development of the stock exchange indices during the first half of the year.

## Bulgaria Competitiveness Review, April 2011

### Resume of the Main Findings

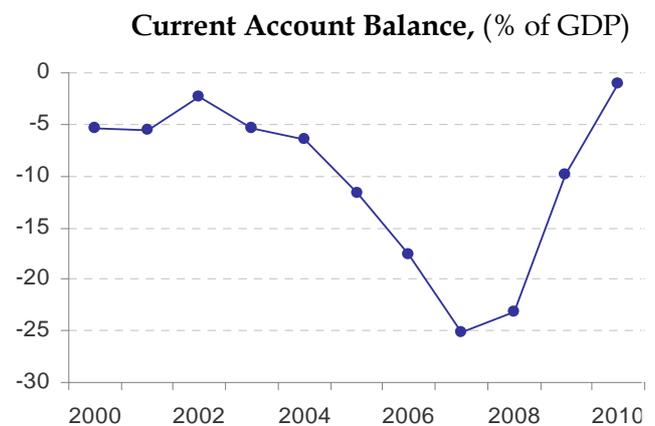
Bulgarian economy experienced a lot of changes in 2010 due to the crisis. The industry performed rather well as export recovered to its pre-crisis levels. Price and cost competitiveness also improved. The fast contraction of the current account deficit is indicative of the economy's successful adjustment to the new economic activity.

- After the slump in late 2008 - early 2009 due to the world demand contraction, in 2010 Bulgarian export share in world trade has been close to its pre-crisis values. The share in EU trade did not dampen in 2009 and Bulgaria continued to gain market share in 2010.



Source: WTO, BNB, MoF staff calc.

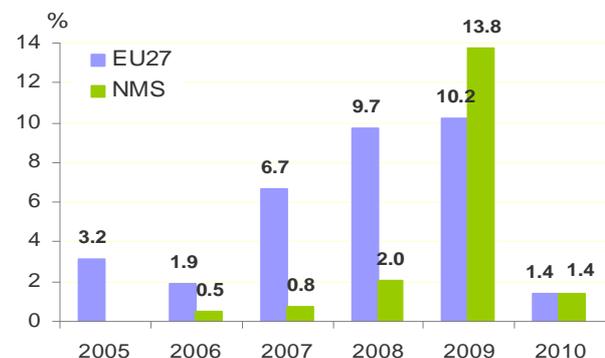
- Current account adjustment resulted in a low deficit of 1% of GDP. Increased exports of goods and improving cost competitiveness are the main reasons for a better external position, as well as the structure of exports dominated by basic metals, food and oil products. At the end of 2010, the level of exports has recovered compared to the pre-crisis period.



Source: BNB, NSI, MoF

- Price and cost competitiveness improved in 2010. REER indices calculated using different price deflators showed a relatively low rate of appreciation and the REER deflated by nominal ULC showed the lowest rise in the last five years.

#### REER deflated by ULC, (annual rate of change)



Source: MoF staff calc. based on Eurostat data