

Macroeconomic environment and policies in brief

Moody's Investor Service upgraded Bulgaria's government ratings to Baa2 from Baa3 on July 22, 2011, which concluded Moody's review for possible upgrade that was announced in April. In related actions, Moody's also upgraded Bulgaria's country ceiling for foreign currency deposits to Baa2 and the country ceiling for foreign currency debt to Aa3, equivalent to the Aa3 country ceiling for local currency debt. The rating outlook is stable.

Against this, Moody's has recently downgraded the credit ratings of several EU countries (Greece, Ireland, Spain, Portugal and Hungary) expressing concerns about the stability of public finances. Additionally, USA, Italy's and Cypress's ratings are on review for a possible downgrade.

Baa2 rating placed Bulgaria on a leading position among the Balkan countries, some countries from the Euro area periphery (Greece, Ireland, Spain and Portugal) and other EU countries (Hungary). The last Moody's rating upgrade related to the government of Bulgaria was implemented in March 2006, following the country's likely accession to the EU. Concerning EU countries positive rating actions were placed in 2008, when Malta and Cyprus joined the euro zone.

In general Moody's Baa2 rating reflects the ongoing fiscal discipline and improving institutional strength as well as the relative resilience of the financial system in a volatile regional environment. The latter takes into account the following three factors:

- Effective fiscal consolidation supplemented by recent structural reforms, which are expected to maintain Bulgaria's very low debt burden by leading to a further reduction in the general government deficit to below the 3% Maastricht limit in 2011 and roughly balanced budgets in the years to come;
- Strengthened institutional capacity thanks to determined efforts to increase the absorption of EU funds and to reform systems such as the judiciary and the police in order to improve the rule of law; and
- Strong liquidity and capital buffers of both the financial system and the government, which in Moody's opinion are sufficient to absorb shocks deriving from regional volatility.

According to Moody's the next rating upgrade related to the Bulgaria's government will be related to ERM II entry, bearing in mind that the membership in euro area will provide a smooth exit from the currency board arrangement and reduce external vulnerabilities. On the other hand a significant rise in government debt, coming from a serious deterioration in external liquidity and a persistent weakening of fiscal policy would put downward pressure on the government's ratings.

Recent Economic Developments

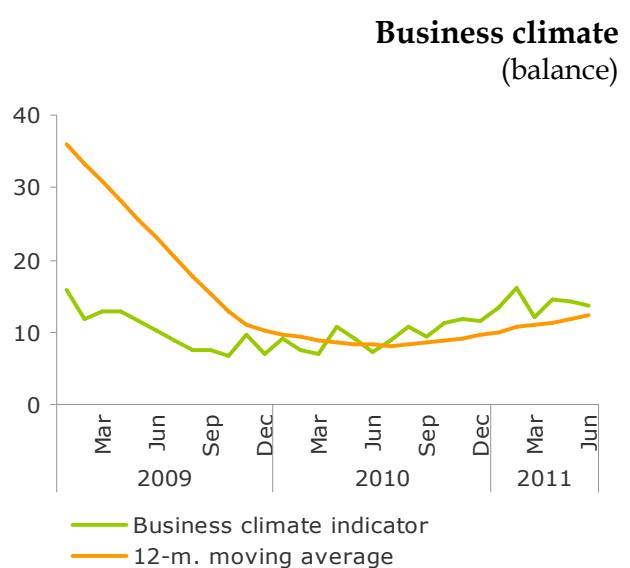
- **Industrial turnover** keeps increasing at double-digit growth rates (20.1%) in May, although somewhat slowing down. yoy. Foreign market sales decelerated and largely accounted for the overall index slowdown, while domestic turnover expanded to 17.4% yoy. Manufacture of basic metals had the largest positive contribution for the foreign market sales. **Industrial production** grew by 9.4% with the major contribution coming from products for intermediate consumption.



Source: NSI

- **Retail sales** expanded further to 1.8% yoy. Other retail sale in non-specialized stores stood out with the highest growth rate of 10.1% yoy; retail sale of medical and orthopaedic goods, cosmetic and toilet articles in specialised stores also accelerated significantly to 7.1% .
- **Construction output** remained in negative territory, though its decrease narrowed to 18.3 yoy as both building construction and civil engineering slowed their negative growth to -8.7% and -22.5% respectively.

- Business climate in services finally shows improvement in the current situation, leading to an increase of the business climate in the sector in June. However overall **business climate** decreased by 0.4 points mom. Pessimism about the future prevailed in all sectors except for retail trade, as retail sales during the last three months increased. Business climate in construction remained flat compared to May.

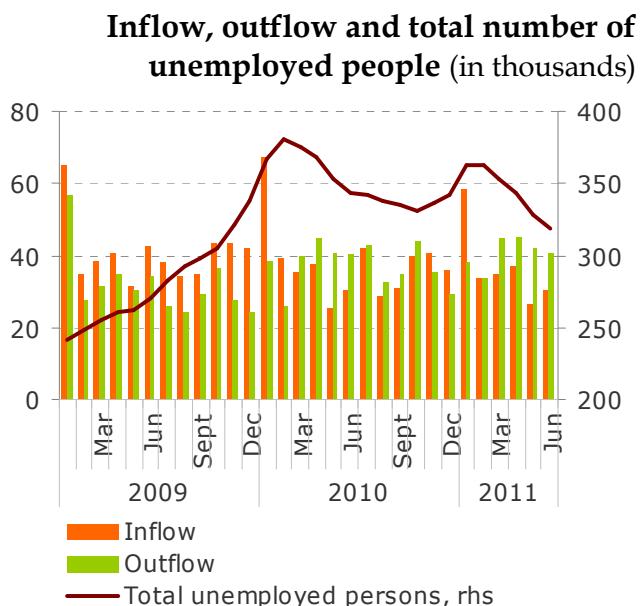


Source: NSI

- The number of **registered unemployed people** decreased further to 318.3K in June, following the revival of seasonal activities. The jobless rate reached 9.6%¹, going down by 0.3 pps mom and by 0.7 pps on a year earlier. Although the unemployed inflow increased, the outflow remained close to its previous month level, thus contributing to the overall decline in unemployed. The number of newly registered unemployed persons stepped up to

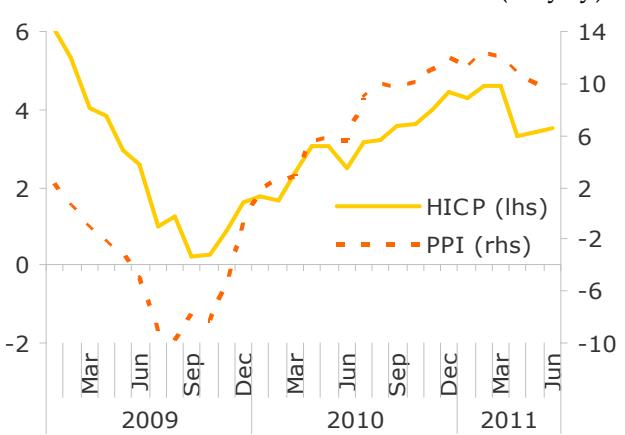
¹ Unemployment rate was recalculated from 8.6% to 9.6% in line with 2010 Census. The latter implied that the number of the labour force amounted to 3 329 thus.

30.5K, being over 26.3K in the previous month, while the outflow numbers decreased by 1.1 thus. to 40.7K. The persons who started working in June stepped down to 19.4K (down 3.5% compared to May), which was due mainly to the reduced activity of the implemented labour market programmes and measures (LMPM). Employment participation was determined by primary sector revival in infrastructure, tourism and agriculture.



- June HICP came to -0.3% mom, thus yoy inflation remained broadly unchanged at 3.5% after a price drop in the most closely watched product groups by the average consumer - foods and fuels. While still subdued, core inflation continued to push away from the bottom led by traditionally higher prices of accommodation services and package holidays at the start of the summer holiday season. Domestic producer price index also decelerated, eased by slowing international commodity prices.

HICP and domestic producer price index (%, yoy)



Source: NSI

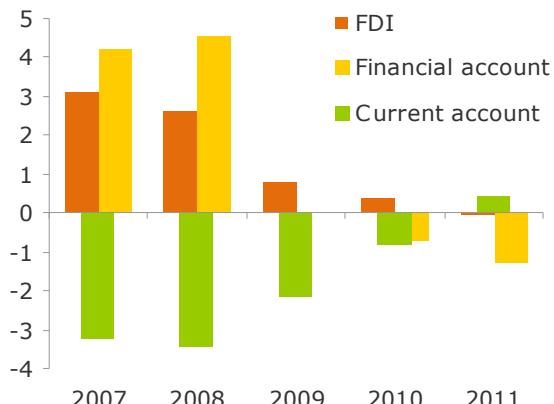
- Current account surplus amounted to EUR 412.4 mln for the first five months of the year (1% of GDP) due to the continued growth of exports. Exports of goods in May rose 35.7% yoy, while the Jan-May growth over the same period of 2010 stood at 47.2%. Exports of investment goods increased by 54.3% over the month, indicating that the structure of Bulgarian exports is improving, as the share of exports of goods with higher added value increased. Imports also continued to grow at an accelerated pace, as its rate of change compared to the same month a year earlier amounted to 18.9%. For the first five months imported goods in Bulgaria worth EUR 6.5 bn, up 25.5% than in Jan-May 2010.
- “Services” and “Income” had positive contribution to the current account balance dynamics, as services surplus increased to EUR 120.8 mln over the month, reaching EUR 333 mln for the first five months of 2011. Income deficit in Jan-May fell by 21.7% to EUR 392.2 mln, thus its downward tendency became firmer in April and May. Net current transfers increased by 6.7% yoy to 789.8 mln for the first five months, mainly due to the improved EU funds

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absorption, as EUR 224.9 mln were acquired in May alone.

- **Financial account balance** remained negative at EUR 117.6 mln, while the accumulated deficit since the beginning of the year reached EUR 1.28 bn. FDI in the country are practically absent. In May, however, the latter came positive at EUR 33 mln, while the accumulated balance from the beginning of the year remained in negative territory at EUR 26.9 mln. "Other investments" registered a EUR 1.06 bn deficit in Jan-May. Since the beginning of the year Bulgarian banks have withdrawn deposits amounting to EUR 660.3 mln, while at the same time they have found foreign deposits worth EUR 620 mln. Thus in May, the banking sector clearly slowed the drawing of capital outside of the country.

FDI, Current and Financial Account
(Jan-May, billion euro)



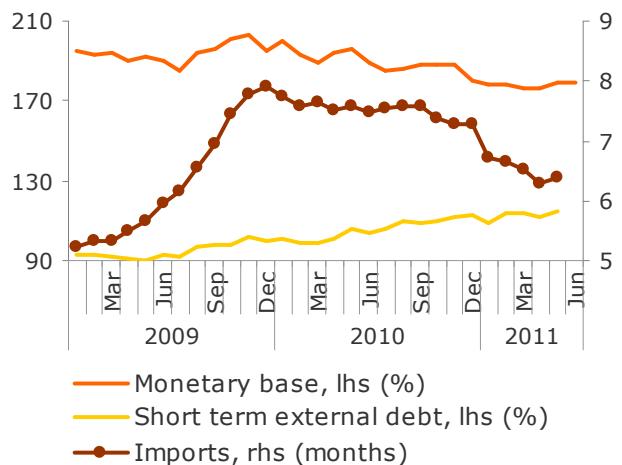
Source: BNB

- **May balance of payments** was negative at EUR 219.6 mln. Since the beginning of 2011 the BoP deficit reached EUR 703.5 mln.
- **Gross external debt (GED)** of the country reached 93.3% of GDP (EUR 36.06 bn), decreasing by 2.5% yoy, with the greatest contribution of banks indebtedness dynamics. Banking sector foreign debt fell by 12% yoy to EUR 6.33

bn, accounting for 17.5% of the total external debt. Non-banking sector registered a slight increase in the indebtedness, as "other sectors" foreign debt rose 2.7% yoy. Government debt remained vastly unchanged from April, though it continued to decrease annually, down 4.5%. In terms of maturity structure, there were no significant changes, as long- and short-term debt remained at 70 and 30% respectively.

- **Gross international reserves** continued growing both on a monthly and annual basis. They grew by 1.5% and 0.8% respectively, amounting to BGN 12.3 bn at the end of June. Monetary base coverage reached 179.2% and the stock of reserves was enough to cover 6.4 months of imports as of end-May.

Coverage with FX Reserves

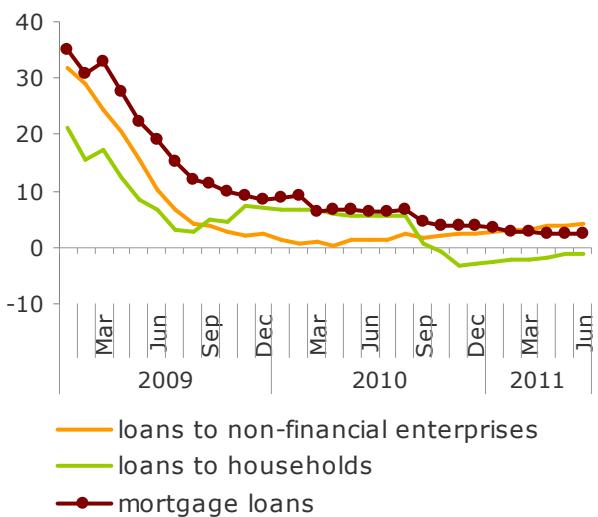


Source: BNB, MoF

- **Money supply** grew by 8% yoy in June at a pace slightly faster than the 7.6% and 7.9% rates of increase posted in April and May respectively. Liquid money (M1) rose by 3.7% as of end-June, standing as the main factor behind M3 annual growth. Nevertheless, broad money increase could be attributed largely to the faster growth of quasi money, up 10.5% yoy. Total deposits posted a 10.9% yoy increase on the back

of private enterprises deposits 10% growth. Households' deposits further slowed their annual rate of increase down to 11.5% from 11.8% at the end of the previous month.

Annual Credit Growth Rate



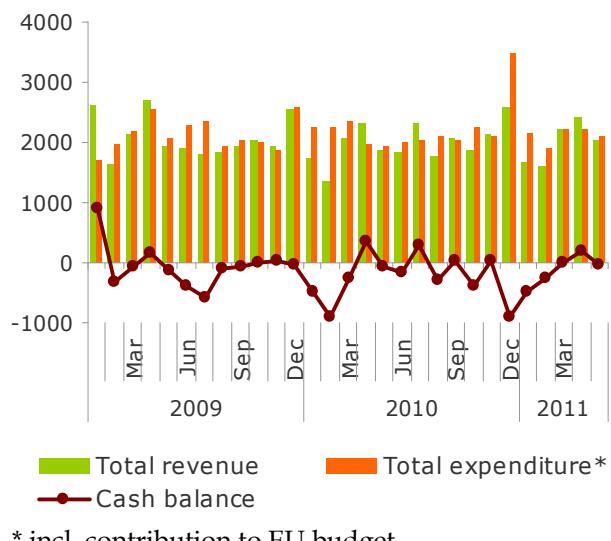
Source: BNB, MoF

- **Credit to the private sector** continued its sluggish recovery, posting 0.02% mom increase, thus being 2.6% up on a year earlier. Credit stock developments in the last few months remained largely unchanged. Corporate credit also kept on recovering and its growth in yoy terms accelerated to 4.1%. Although still in negative territory, consumer credit growth improved, thus its negative change decelerated to -0.6% in June compared to -1.2% in May. Mortgages growth remained fairly stable as for June the growth was at 2.5%.
- **Interest rates** on BGN denominated credits slightly decreased in June both for short- and long-term loans. Rates on FX denominated long-term credits also declined, while the cost of FX short-term credits rose. Although the interest rates mostly went down, newly granted credits decreased by 15.7% over the month. Interest rates on deposits remained roughly unchanged during June, relevant also for the volume of

newly taken deposits, as they increased only by 1.4% compared to the previous month.

- **General government deficit** amounted to BGN 597.5 mln (0.8% of GDP) at end-May 2011, being much lower than the deficit level of BGN 1.36 bn (1.9% of GDP) registered on a year earlier. The government balance improvement came on the back of both revenue increase and expenditure reduction.

Consolidated budget (monthly value, mln BGN)



Source: MoF

- **Total revenue** registered a fourth consecutive yoy increase, thus the amount of revenue and grants accumulated for the first five months of the year came 6.8% higher over the same period of 2010. It was driven by the higher tax receipts, with the largest contribution coming from indirect taxes (up 18.1% yoy). VAT revenue continued its upward path, its rate of increase accelerating to 23.8% yoy in May alone, thus total VAT receipts for the first five months being up by 18.3% on a year earlier. Excises were also higher by 17.8% yoy, while custom duties grew by 1.9%. Direct tax revenue accumulated during Jan-May 2011 was up by 5.5%

yoY. Social and health insurance contributions rose as well, as social security contribution has been increased by 1.8 pps since the beginning of 2011.

- **Total expenditure**, including contribution to the EU budget, came 1.1% lower as of end-May, due to the reduction of capital expenditure, spending on wages and salaries and maintenance.
- **Fiscal reserve** accounted for BGN 5 bn at end-May.
- **General government debt**, including government guaranteed debt, amounted to 15.3% of GDP at end-May. Domestic

debt was 5.2% of GDP, while the external one came to 8.5%. Government guaranteed debt totaled approximately 1.5% of GDP.

- Based on preliminary data, general government deficit on a cash basis improved by BGN 862.5 mln in the first half of 2011. The budget balance as of end-June is negative, amounting to BGN 652.1 mln (0.9 % of GDP), down by 1.3 pps of GDP compared to the deficit of BGN 1.51 bn (2.2 % of GDP) reported in the same period of 2010. Fiscal reserve as of 30 June 2011 amounts to BGN 5.2 bn.

Key Economic Indicators

		2008	2009	2010	Q2'10	Q3'10	Q4'10	Q1'11	I' 11	II' 11	III' 11	IV' 11	V' 11	VI' 11
GDP*														
Gross Domestic Product*	%, y/y	6.1	-5.5	0.2	-0.4	0.0	3.8	3.4						
Consumption	%, y/y	2.5	-7.3	-1.1	-1.3	-1.4	0.0	0.1						
Investment	%, y/y	16.3	-24.9	-14.0	-18.7	-17.4	-4.8	-9.4						
Export	%, y/y	3.0	-11.2	16.2	16.5	27.6	15.1	20.1						
Import	%, y/y	4.2	-21.0	4.5	2.9	5.3	10.7	8.6						
Agriculture	%, y/y	29.6	-6.1	3.9	3.0	1.3	-2.3	-3.3						
Industry	%, y/y	4.4	-7.8	1.9	-0.2	0.4	6.2	1.6						
Services	%, y/y	5.0	-0.8	-0.9	-1.0	-0.4	2.1	3.6						
Adjustments	%, y/y	5.7	-16.5	-0.2	-1.7	3.5	5.9	8.5						
Short term business statistics														
Industrial production	%, y/y	0.7	-18.3	2.0	1.5	4.4	5.2	10.6	10.2	15.4	7.2	8.8	9.4	
Industrial turnover	%, y/y	13.7	-20.2	14.1	13.0	21.5	21.1	32.6	35.9	32.2	30.1	23.1	20.1	
Retail trade turnover	%, y/y	8.9	-8.9	-5.6	-8.4	-4.1	-4.3	0.4	-0.1	-0.1	1.4	0.5	1.8	
Construction output	%, y/y	12.7	-14.5	-18.0	-20.7	-15.0	-8.5	-14.8	-12.2	-13.1	-18.4	-22.1	-18.3	
Total business climate	balance	38.0	10.2	9.6	9.1	9.7	11.5	13.8	13.4	16.1	12.0	14.4	14.2	13.8
Industrial confidence	balance	39.9	12.3	13.4	14.6	14.7	15.0	21.6	20.2	24.3	20.4	24.5	22.1	21.6
Retail trade confidence	balance	41.3	13.5	10.1	8.2	8.8	13.0	13.0	12.4	11.3	15.4	11.2	11.2	9.5
Construction confidence	balance	40.3	8.5	5.1	5.9	4.0	2.9	4.7	1.9	7.0	5.3	2.0	5.7	5.6
Services confidence	balance	28.7	5.1	5.6	2.0	6.1	11.8	8.1	12.3	13.5	-1.4	9.7	9.8	10.7
Labour market														
Participation rate (15+)	level	53.8	53.0	52.0	52.2	52.5	52.1	50.8						
Employment rate (15+)	level	50.8	49.4	46.7	47	47.5	46.3	44.7						
Employment (LFS)	%, y/y	3.3	-3.2	-6.2	-6.9	-5.4	-4.7	-4.0						
Unemployment rate (LFS)	level	5.6	6.8	10.2	10	9.5	11.2	12.0						
Unemployment rate (Employment agency)**	level	6.3	7.6	9.5	9.6	9.1	9.1	9.7	9.8	9.8	9.5	9.3	8.9	9.6
Nominal wage	%, y/y	26.5	11.8	6.3	8.7	9.4	10.4	8.4	8.5	8.7	8.3			
Real wage***	%, y/y	13.0	9.1	3.2	5.7	5.9	6.1	3.7	4.0	3.9	3.6			
Labour productivity (GDP per employed)	%, y/y	3.5	-2.9	6.4	8.2	5.7	7.8	5.2						
Real ULC	%, y/y	3.7	8.1	-2.2	1.7	-6.2	-6.7	-7.0						
Prices														
Harmonized index of consumer prices	%, y/y	11.9	2.5	3.0	2.9	3.3	4.0	4.5	4.3	4.6	4.6	3.3	3.4	3.5
Domestic producer prices	%, y/y	13.3	-4.3	7.2	5.6	9.5	11.1	11.9	11.1	12.5	12.1	10.7	10.0	10.1
Consolidated fiscal program (cumulative)														
Revenue and grants	mln BGN	27313	25041	23933	11189	17346	23933	5530	1675	3303	5530	7950	9997	
Total expenses	mln BGN	25323	25667	26755	12704	18872	26755	6272	2153	4053	6272	8502	10595	
Contribution to EU budget	mln BGN	720	746	670	359	529	670	250	60	211	250	286	330	
Cash deficit(-) / surplus(+)	mln BGN	1990	-626	-2823	-1515	-1527	-2823	-742	-477	-751	-742	-552	-598	-652 p
Government and gov. guaranteed debt	% GDP	2.9	-0.9	-4.0	-2.2	-2.2	-4.0	-1.0	-0.6	-1.0	-1.0	-0.7	-0.8	-0.9 p
Fiscal reserve	bln BGN	10710	10641	11775	10970	11397	11775	11444	11504	11452	11447	11406	11532	
	%, y/y	12.5	-8.5	-21.6	-27.1	-12.7	-21.6	-26.1	-26.7	-20.1	-26.1	-29.8	-24.3	

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		2008	2009	2010	Q2'10	Q3'10	Q4'10	Q1'11	I' 11	II' 11	III' 11	IV' 11	V' 11	VI' 11
Financial sector														
BNB International reserves	mln BGN	12713	12919	12977	12155	12764	12977	12209	12224	12329	12209	11965	12245	12340
Monetary base coverage	%	175.3	195.2	179.8	189.2	188.6	179.8	176.3	178.6	178.5	176.3	176.7	179.3	179.2
Coverage of import with FX reserves	months	5.4	8.0	7.3	7.4	7.6	7.3	8.3	6.7	6.7	6.5	6.3	6.4	
Coverage of short-term external debt	%	96.5	100.2	112.8	103.7	108.9	112.8	113.5	108.4	113.5	113.5	112.1	115.1	
Money M1 (Narrow money)	%, y/y	-4.1	-8.8	0.8	0.9	7.7	0.8	4.9	2.0	0.5	4.9	4.5	3.5	3.7
Money M3 (Broad money)	%, y/y	8.8	4.2	6.2	8.0	8.4	6.2	7.4	7.4	6.2	7.4	7.6	7.9	8.0
Deposits	%, y/y	8.8	7.6	6.6	10.1	9.4	6.6	8.2	8.1	6.8	8.2	8.3	8.6	10.9
Credit to private sector	%, y/y	32.9	3.8	1.1	2.0	1.6	1.1	1.6	1.6	1.7	1.6	2.1	2.2	2.6
Credit to non-financial enterprises	%, y/y	33.1	2.3	2.4	1.2	1.8	2.4	3.0	2.9	3.0	3.0	3.8	3.7	4.1
Credit to households	%, y/y	31.4	5.8	-0.8	3.7	0.8	-0.8	-0.7	-0.7	-0.7	-0.7	-0.7	-0.6	-0.6
Interest rate on short-term loans	%	10.9	10.5	8.5	8.3	8.8	8.0	6.4	5.9	6.7	6.8	6.2	8.3	7.3
Interest rate on time deposits	%	5.6	7.0	5.4	5.3	5.0	5.1	5.1	5.2	4.9	5.1	4.8	5.0	4.9
Exchange rate BGN/USD	eop	1.39	1.36	1.47	1.59	1.43	1.47	1.38	1.43	1.41	1.38	1.32	1.36	1.35
	per. av.	1.34	1.41	1.48	1.54	1.52	1.44	1.43	1.46	1.43	1.40	1.35	1.36	1.36
Gross External Debt														
Gross external debt	% GDP	104.9	108.0	101.8	103.5	101.3	101.8	93.9	95.2	95.2	93.9	93.2	93.3	
Short term external debt	% GED	35.4	32.7	31.4	31.4	32.1	31.4	29.9	29.9	29.9	29.9	29.6	29.5	
Intercompany lending	% GED	36.4	38.5	40.2	40.1	40.2	40.2	40.4	41.1	41.2	40.4	40.6	40.5	
Balance of payments														
Current account	mln EUR	-8162	-3118	-356	-308	1343	-837	210	63	81	66	-7	209	
Current account, % GDP moving average		-23.4	-8.7	-1.0	-4.4	-1.2	-1.0	1.1	0.0	0.2	1.1	1.5	2.3	
Trade balance	mln EUR	-8597	-4174	-2412	-786	-118	-941	53	94	-15	-27	-175	-196	
Trade balance, % GDP moving average		-24.6	-11.6	-6.7	-9.0	-6.7	-6.7	-4.9	-5.6	-5.3	-4.6	-4.3	-4.0	
Export, f.o.b.	mln EUR	15204	11699	15588	-4594	-4531	-5250	-4724	1590	1490	1697	1605	1644	
	%, y/y	12.5	-23.1	33.2	15.0	15.8	26.5	30.3	72.5	48.4	49.9	35.7	35.7	
Import, f.o.b.	mln EUR	-23801	-15873	-18001	3808	4413	4310	4776	-1495	-1505	-1724	-1780	-1840	
	%, y/y	14.7	-33.3	13.4	39.1	44.4	32.7	56.2	37.1	36.3	20.5	20.5	18.9	
Capital account	mln EUR	277	477	291	-90	178	140	13	-2	10	3	0	1	
Financial account	mln EUR	11473	1190	-1	152	-48	539	-928	-506	-67	-91	-27	-34	
Net Foreign Direct Investments	mln EUR	6212	2498	1459	420	443	573	-80	225	76	-381	-5	29	
Net Portfolio Investments	mln EUR	-731	-570	-661	-316	-47	-153	-189	-128	-55	-6	170	-130	
Other Investments - net	mln EUR	5980	-719	-774	52	-433	119	-649	-595	-87	34	-401	-14	
Change in BNB reserve assets****	mln EUR	-674	650	384	382	-722	-65	665	628	-54	90	258	-220	

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

** Only June unemployment rate recalculated in line with 2010 Census from 8.6% to 9.6%.

***HICP deflated.

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

p - preliminary data

Recent Developments and Government Debt Review

Bulgaria continues to be among low-risk issuers, according to the international debt markets

On June 6, 2011 Bulgarian Ministry of Finance (MoF) conducted an auction for government securities with original maturity of 3 years and 6 months issued on 22 December 2010. The total amount of the bids received reached nearly BGN 88 mln and the bid-to-cover ratio reached 1.75. The amount approved by the MoF was BGN 50 mln, increasing the total issued volume in circulation to BGN 175 mln. The issue parameters enhanced its status of a benchmark bond in the medium part of the sovereign curve and stimulated the liquidity on the secondary market.

The average annual yield of the auctioned quantity was 3.54%, and the spread to the German federal bonds with similar maturity was about 1.7 pps. The yield spread between Bulgarian and German government securities revealed no currency risk premium incorporated in the achieved auction's yield.

In the insecure conditions of European debt markets, the value of the 5Y CDS of Bulgaria, which takes into account the evaluation of the international markets for the risk of insolvency of the issuer, maintained its April 2011 level at around 200 bps.

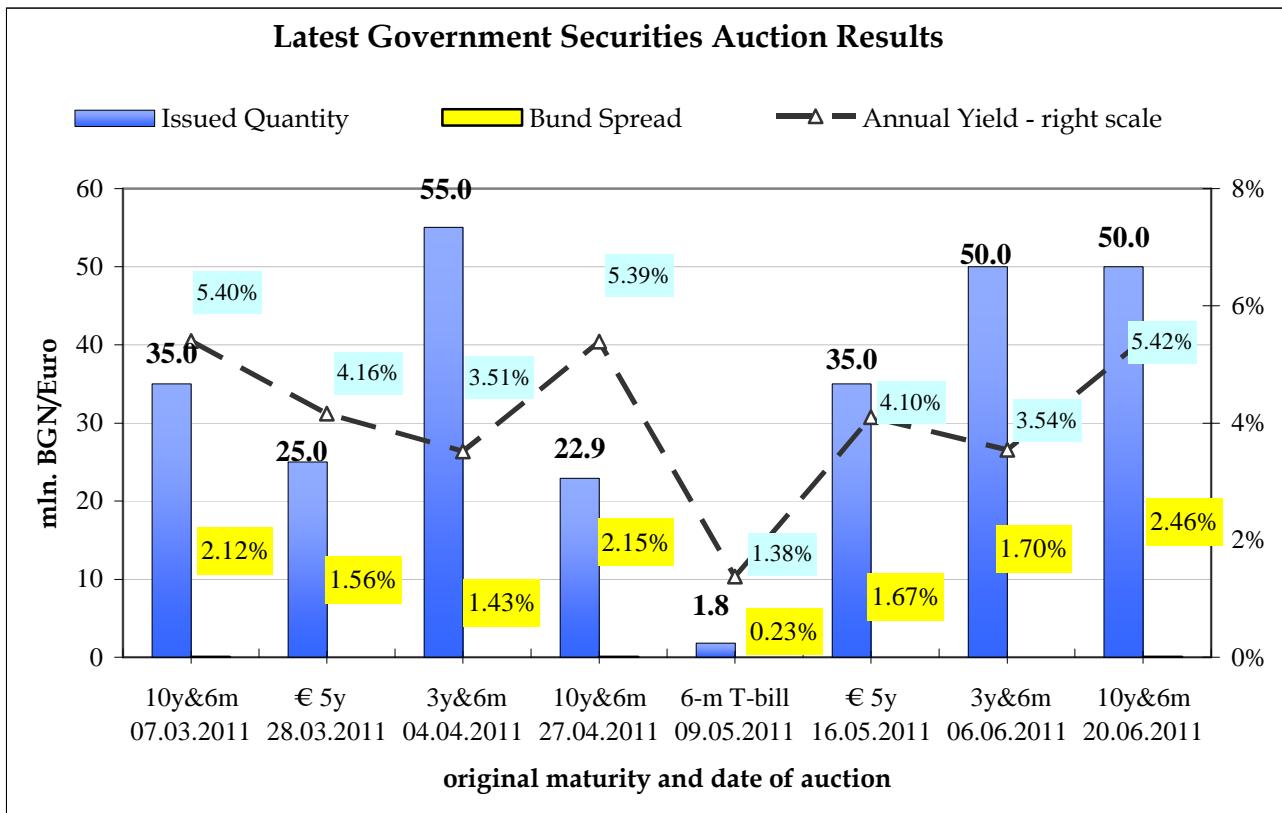
The weighted average yield of the issue, issued on the domestic market and denominated in local currency, was below the current yield of euro-denominated Eurobonds with similar residual maturity of Hungary, Romania, Croatia and Turkey.

The long-term interest rate of Bulgaria is among the lowest in CEE

On June 20, 2011 MoF conducted auction for government securities with original maturity of 10 years and 6 months issued on 19 January 2011. The issue is used as a basis for calculating the long-term interest rate this year, which among the Maastricht criteria for membership in the Euro area. The total amount of the bids received was almost BGN 84 mln and exceeded the size of the bids of the previous auction held for the same issue, which was BGN 70.95 mln. The MoF approved GS with total amount of BGN 50 mln. Thus, the overall volume of this priority issue for the Ministry exceeds BGN 150 mln.

The weighted average annual yield of the approved volume of BGN 50 mln is 5.42%. Due to the two times higher volume of approved GS compared to the previous auction of the same issue (BGN 23.9 mln), there is a slight increase in the yield by 3 bps.

In light of the volatility of European sovereign debt markets, the cost of government financing on the domestic market remained stable. The 10Y GS yield recorded on the primary market is in line with the latest data on the size of the harmonized long-term interest rate published by Eurostat and ECB for June 2011. Bulgaria's harmonized long-term interest rate for the latest reporting period is 5.39% and is below that of a number of Central and Eastern European countries. For instance, it came to 5.88% in Poland, 7.22% in Hungary, 7.09% in Romania, and 5.87% in Latvia.



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

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

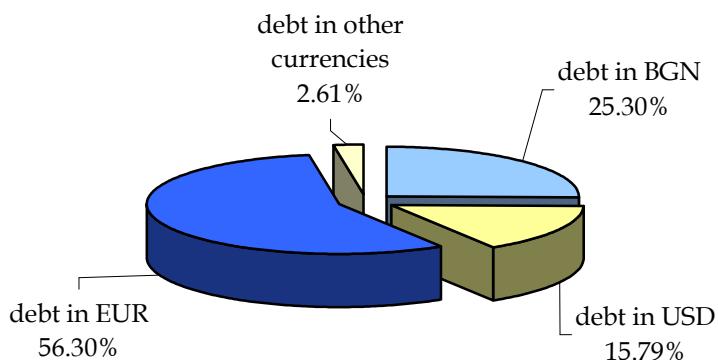
At end-May the nominal amount of government debt amounted to EUR 5 305.4 mln, domestic debt being EUR 2 008.9 mln, while foreign one came to EUR 3 296.5 mln. In nominal terms debt increased by approximately EUR 56.1 mln over the month, mainly due to the rise of the domestic debt as a result of the new domestic financing with GS and the registered foreign currency exchange difference. The government debt to GDP ratio came to 13.7%.

Government Debt Amount				
Structure	31.12.2010	31.3.2011	30.4.2011	31.5.2011
Domestic government debt	2 011.5	1 941.5	1 978.9	2 008.9
External government debt	3 373.5	3 319.5	3 270.3	3 296.5
Government Debt, total	5 385.0	5 261.0	5 249.2	5 305.4
Government Debt/GDP (%)	14.9	13.7	13.6	13.7

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

Minor changes in debt monetary structure took place in May. Debt denominated in local currency decreased over the month and reached 25.3%. Euro denominated debt, obligations in US dollars and other currencies increased, amounting to 56.3%, 15.8% and 2.6% respectively.

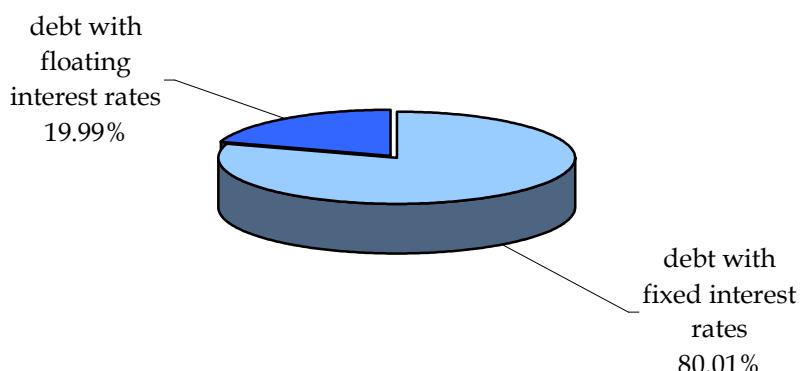
Government Debt Currency Structure as of 31 May



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

At end-May the share of the debt with fixed interest rates is 80% (compared to 79.8% in April), while debt with floating interest rates narrowed marginally to 20% (being 20.2% in April), led by the borrowing policy aimed at financial resources with fixed interest rates.

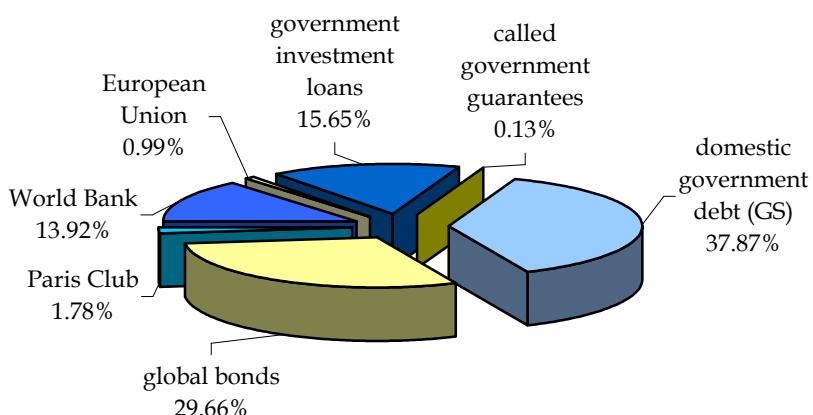
Government Debt Interest Rate Structure as of 31 May



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

Debt structure by types of instruments and creditors in May showed no significant change. The highest relative share belonged to liabilities related to GS, issued on the domestic market - 37.9%, followed by global bonds - 29.7%, government investment loans - 15.6%, obligations to the World Bank - 13.9%, obligations to the Paris club - 1.8%, European Union - 1% and called government guarantees - 0.1%.

Government Debt Structure by Creditor as of 31 May



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

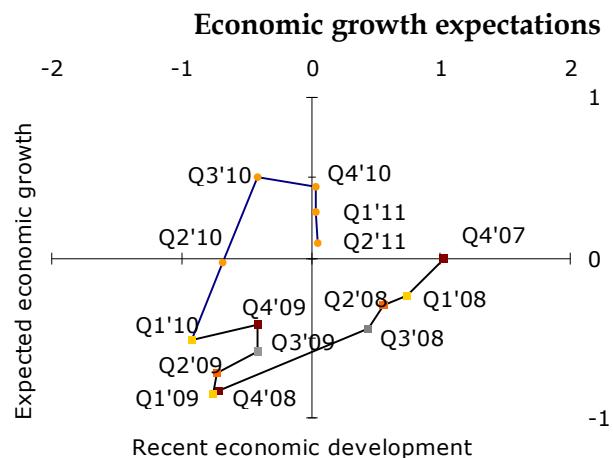
<http://www.minfin.bg/en/statistics/?cat=2&from=0&fyear=0&to=0&tyear=0&dq=&pokaz=0>

For any further questions or comments, please contact Mrs. Milena Boikova, Director of Government Debt and Financial Markets Directorate, Ministry of Finance: email: M.Boikova@minfin.bg, tel. +359 2 9859 2450.

Financial Sector: Estimates and Expectations, #3/2011

Resume of the Main Findings

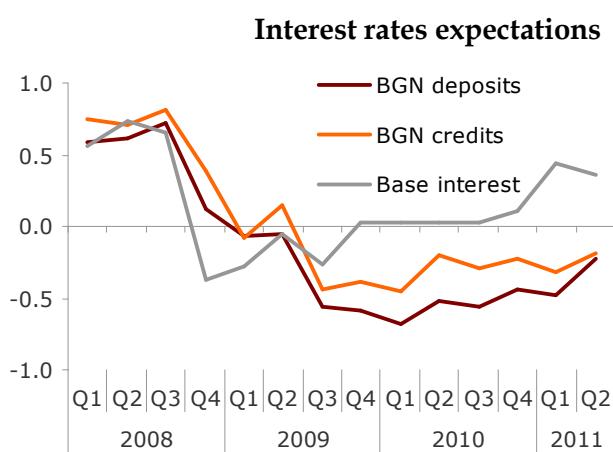
- Financial intermediaries' expectations for economic growth remain favourable. Banks remain most positive about the economic situation in the country, with 75% of them expressing satisfaction about the latest economic developments in the country, as compared to 63% a quarter ago. A high share of the banks also expect economic growth to accelerate.



- Inflationary expectations are contained. All financial intermediaries project lower increase in consumer prices in the current survey, which is indicative that probably the pass-through of international prices hikes on domestic inflation will be limited.



- The downward tendency in the interest rates on deposits is coming to an end, while the price of the credits will continue its decline. Practically all respondents expect preservation of the base interest rate in the country.
- The USD is to appreciate by end-September, according to the respondents in the survey of the financial intermediaries, although opinions are divided between respondents.



- High export growth in Bulgaria will boost FDI inflows into the country, according to nearly 32% of all respondents. A smaller but still significant percent of all financial intermediaries (22.7%) share the opinion that high export revenues will induce wage increases in export-oriented sectors. According to the survey results, it is not unlikely that exports receipts are channeled into high investment from exporting companies.