

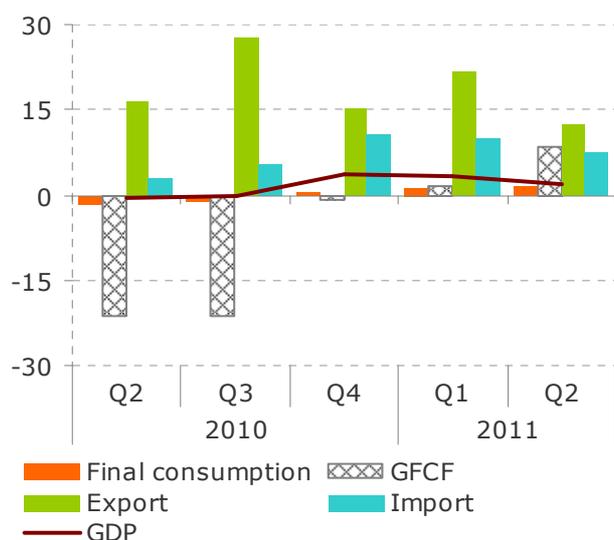
## Macroeconomic environment and policies in brief

- **Preliminary GDP data for Q2 2011 has been revised up to 2.0% yoy** (s.a. data), as compared to the 1.9% flash estimate. Export had the largest positive contribution, although its growth rate decelerated due to a base effect from the corresponding quarter in 2010. Imports growth also slowed, thus positive trade and service balance developments were major factors for the current account surplus in H1. The still fragile domestic demand recovery gained momentum in Q2.
- Continuing job reduction made **productivity** to further increase in Q2. The tradable sector sustained its strong pace of productivity improvement, productivity growth in construction also accelerated, due to further employment decrease, while it was rather limited in the services sector. Labour productivity continued to outstrip real average wages growth, thus supporting the **cost-related competitiveness** of the economy.
- Seasonal employment supported the **recent labour market revival**, however, the negative annual trend persisted. According to the Labour force survey (LFS) employment numbers increased by 1.5% qoq in Q2, due to work activation mainly in agriculture and tourism. Despite the latest positive developments, as unemployment rate fell back from its peak in Q1, it stood 1.2 pps higher in yoy terms, while unemployment numbers went up further by 8.1% to 369.8K in Q2. Meanwhile, the number of **registered unemployed people** decreased further to 315.4K in July, corresponding to a jobless rate of 9.5% (down 0.1 pps mom).
- **Average wage** in Q2 totaled BGN 699, stepping up by 4.1% qoq and 9.3% yoy in nominal terms. Its annual growth rate accelerated as compared to Q1 and contributed to the overall 8.2% increase in wage bill. Meanwhile, the number of employees fell by 1% yoy. Private sector average wage sustained its rate of increase during the last year and a half, up 11.9% yoy in April-June, while public sector wage growth, albeit somewhat faster in qoq terms, remained relatively low at 3.8%. The average wage growth acceleration in nominal terms coincided with the annual inflation deceleration, thus resulting in a faster real wage growth – up 5.7%, being 3.8% in Q1.
- **General government deficit** came to 0.9% of GDP at the end of H1, down by 1.3pps on a year earlier, on the back of both higher revenue and reduction in total expenditures. In July total revenue accumulated continued growing, driven by the tax receipts increase, still higher social expenditure and subsidies pushed total expenditure and budget balance on cash basis reached approximately 1% of GDP (BGN 720.5 mln).
- In the current context of highly volatile debt markets and unsecure market environment, Bulgaria stands out as the only country in Europe, which has so far in 2011 received an upgrade of its sovereign credit rating from Moody's. The independent and unbiased assessment underscored the status of Bulgaria as a predictable and low-risk issuer in the region, thus increasing the interest in Bulgarian GS in the near term and supporting the **positive development of the overall domestic debt market**.
- As a result, government debt continued its upward tendency over the past few months, up EUR 53.1 mln over the month in July due to the new internal financing with GS and registered foreign exchange difference. The share of government debt to GDP at end-July amounted to 13.9%, up by a marginal 0.1 pp as compared to June.

## Recent Economic Developments

- Preliminary GDP data for Q2 2011 has been revised up to 2.0% yoy (s.a. data),** as compared to the 1.9% flash estimate. Exports, which have grown by 12.2%, had the largest positive contribution. The export growth on annual basis decelerated in Q2, mainly as a result of the base effect from the corresponding quarter in 2010. Imports growth also slowed down to 7.5% yoy. Positive trade and service balance developments were major factors for the current account surplus, amounting to 1.4% of GDP in H1.

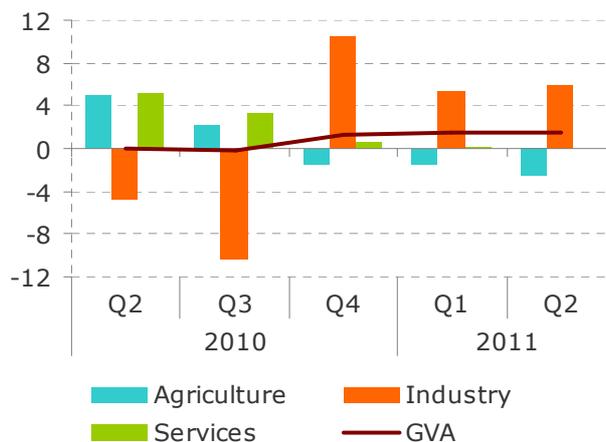
**GDP by main components**  
(% change, yoy)



Source: NSI

- Although still fragile, the recovery observed in domestic demand, which started in late-2010, has gained momentum. Final consumption and gross fixed capital formation increased by 1.4% and 8.4% respectively.
- GDP growth on quarterly basis amounted to 0.3% in Q2. The slight slowdown in comparison to the 0.5% growth in the first quarter is due to exports which decreased by 1.3% qoq.

**Gross value added (% yoy)**



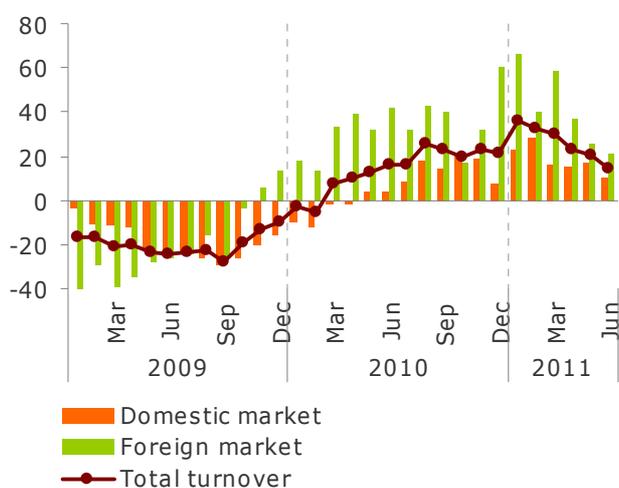
Source: NSI

- On the supply side, GVA increased by 1.5% yoy.** Export growth in the final use breakdown of GDP is mirrored in an expansion of the tradable sectors in the supply side. Thus industrial sector increased by 7.7% yoy in Q2. Meanwhile construction is still in the red, decreasing by a further 0.4% yoy in Q2. Agriculture contracted by 2.5%, while services remained broadly at their level from a year earlier, increasing by a marginal 0.1%. A decline was recorded in key sectors like trade, transportation and tourism (down 2.7% yoy), as well as in public administration and defense, education and human health and social work activities (down 2.3% yoy). Positive growth was registered in financial and insurance activities (up by 1.8%), professional, scientific and technical activities, administrative and support services (up by 8.6%) and other services (up by 13.2%).
- Industrial turnover** slowed further to 14.4% yoy in June, as both foreign market and domestic turnover growth narrowed to 21.6 and 9.8% respectively. Manufacture of basic metals had again the largest positive contribution for the foreign market sales positive growth.

According to the production purpose, products for intermediate consumption had the largest share.

- **Industrial production** grew by 0.8% in real terms, being 9.1% in the previous month. According to the production purpose, investment goods had the highest positive contribution, followed by energy goods, while manufacturing had negative contribution during the last two months.

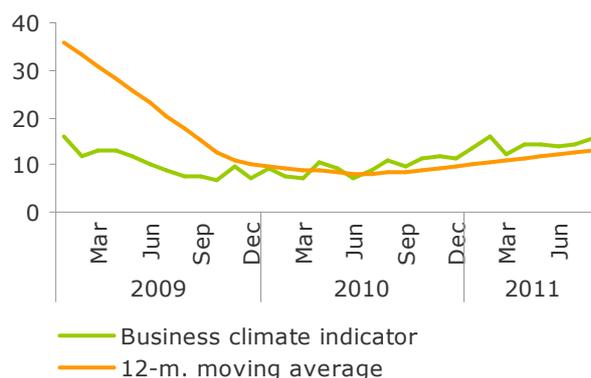
**Industrial turnover**  
(%, yoy)



Source: NSI

- **Retail sales** started to decrease again, falling by 0.9% yoy, after posting positive growth rates for three consecutive months. Retail sales of audio and video equipment had the highest negative growth of -4.4%, followed by textiles, clothing, footwear and leather goods, down 2.7%. For the first time this year, retail sales of automotive fuel in specialized stores registered a 1.5% yoy decrease as well.
- **Construction production index** decline narrowed to 3.8% yoy mainly due to the building construction decrease, which slowed to 5.4%. Meanwhile, civil engineering negative growth widened to -22%.

**Business climate**  
(balance)



Source: NSI

- The overall **business climate** followed an upward tendency in July and August, improving by 0.6 and 1.2 points mom respectively. Retail trade had the leading positive contribution, as optimistic expectations about future situation prevailed, following the increasing number of respondents reporting growth in sales. The number of respondents from the industrial sector, identifying insufficient demand as problem also decreased. However, expectations in construction and services sector deteriorated somewhat over the month.

**Employment Growth and Unemployment Rate**

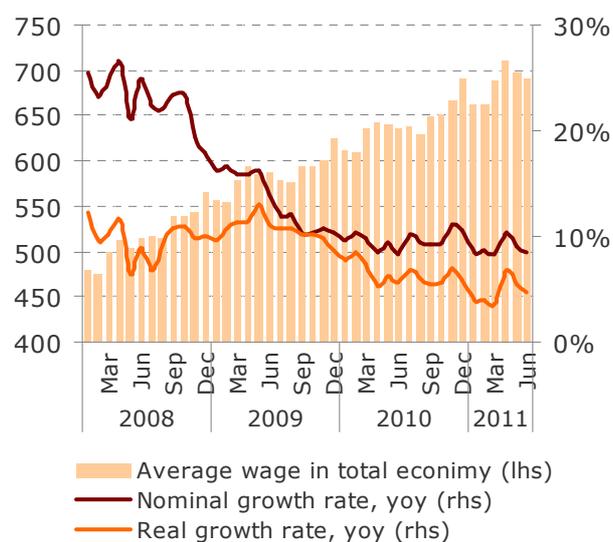


Source: EA

- Seasonal employment supported the **recent labour market revival**, however, the negative annual trend persisted. According to the Labour force survey (LFS) employment numbers increased by 1.5% qoq in Q2, due to work activation mainly in agriculture and tourism. Despite the latest positive developments, employment dropped by 4.5% yoy due to restructuring from labour to capital intensive industries, as well as problems in the construction sector and sluggish domestic demand recovery. A yoy increase in labour demand has been observed in export-oriented processing industries, such as manufacturing of basic metals, electrical appliances and machines and equipment, although together having a rather small share. Unemployment rate fell back from its peak in Q1, though standing 1.2 pps higher in yoy terms, while unemployment numbers went up further by 8.1% to 369.8K in Q2.

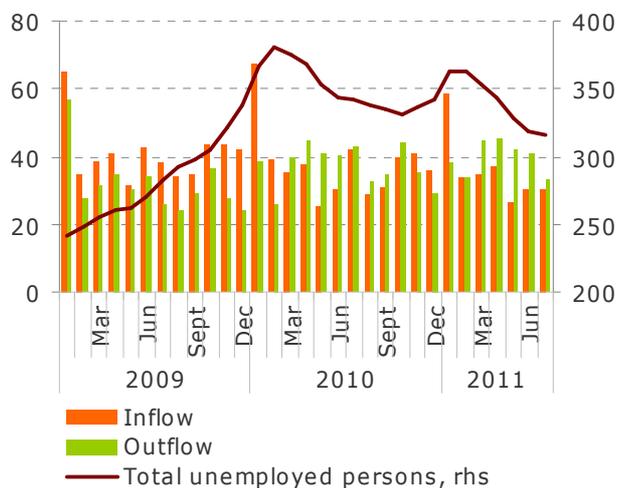
and the already high level of seasonal employment absorption. Unemployment inflow decreased only marginally over the month, held back by the higher number of newly registered laid-offs in education and public administration.

Average wage in the economy



Source: NSI

Inflow, outflow and total number of unemployed people (in thousands)



Source: EA

- The number of **registered unemployed people** decreased further to 315.4K in July, corresponding to a jobless rate of 9.5% (down 0.1 pps mom). The monthly rate of decrease slowed, influenced by the unemployment outflow reduction

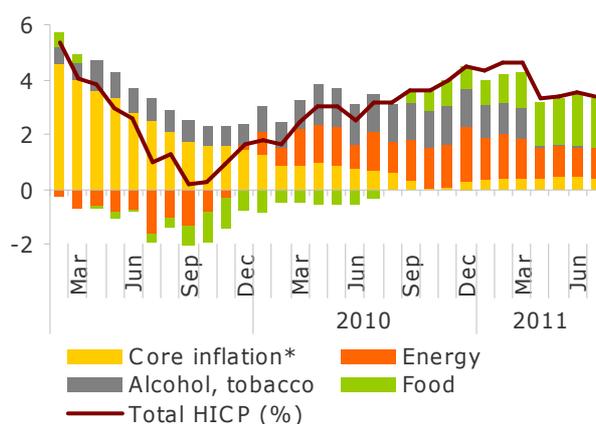
- Average wage in Q2** totaled BGN 699, stepping up by 4.1% qoq and 9.3% yoy in nominal terms. Its annual growth rate accelerated as compared to Q1 and contributed to the overall 8.2% increase in wage bill. Meanwhile, the number of employees fell by 1% yoy. Private sector average wage sustained its rate of increase during the last year and a half, up 11.9% yoy in April-June, while public sector wage growth, albeit somewhat faster in qoq terms, remained relatively low at 3.8%. The nominal rate of increase in manufacturing came to 9%, thus having the leading contribution to the average wage increase over Q2. The annual wage growth in the manufacturing industry had to do with the increased economic activity, however the latter has been accompanied by a higher labour demand in manufacturing of basic

metals, electrical appliances and machines and equipment. Wages in construction rose 6.3% on average due to low-skilled workers dismissing, while wage bill continued on the decrease. Service sector strongly contributed to the Q2 wage growth acceleration qoq, supported by the wage increases in informational technologies and telecommunications. Trade carried on reporting a strong wage growth (up 18.8% yoy), which, considering the sluggish domestic demand recovery, has been probably due to the minimum insurance threshold increase in the beginning of 2011. The average wage growth acceleration in nominal terms coincided with the annual inflation deceleration, thus resulting in a faster real wage growth - up 5.7%, being 3.8% in Q1.

- Continuing process of job reduction made **productivity** to further increase, up by 6% yoy in Q2. Tradable sector (manufacturing, mining and electricity) sustained its strong pace of productivity improvement (11.5% yoy), productivity growth in construction also accelerated to 13.4%, due to further employment decrease. Services sector productivity (up 1.4%) was limited mainly by the branches such as trade, informational technologies, business services and financial intermediation. In Q2 labour productivity continued to outstrip real average wages growth, thus supporting the **cost-related competitiveness** of the economy.
- July HICP inflation** came to 0.4% over the month, thus its annual rate of increase decelerated marginally to 3.4%. Administered prices of electricity and heating increased in July, up by 2.1 and 4.3% respectively. Their contribution to the overall inflation stood at 0.1 pps. Prices of services rose by 0.8%, due to the seasonal increase in prices of services for

recreation and travel. Meanwhile, food prices annual rate of change decelerated to 9.1% in July (being 9.4% in June), which is their first slowdown since 2010. Despite the registered growth in domestic demand there was still no clear trend of increase in core inflation. The latter remained subdued at 0.7% yoy, being 0.9% in June.

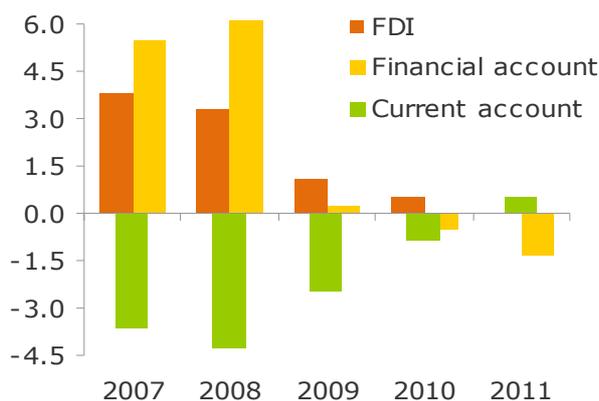
**HICP and contributions by main groups**  
(pps, yoy)



Source: NSI, MF

- Current account surplus** amounted to EUR 541.8 mln in H1 (1.4% of GDP) reaching a historical high in the period. The improvement was again led by trade dynamics. Export of goods in June rose at a decelerating pace of 12.7% yoy to EUR 9.6 bn, while accumulated growth in H1 stood at 40.3% yoy. According to the latest statistical data, as of May the largest share in terms of goods dissemination is held by the group of raw materials, followed by consumer goods and investment goods. In the past year the share of the later is constantly increasing, while that of consumer goods is on the decline. In June imports also rose at a decelerated pace, climbing 12.7% on the year, compared to a 19.3% annual growth in May. In H1 the total value of imported goods in Bulgaria reached 8.89 bn, up 25.7% than a year ago.

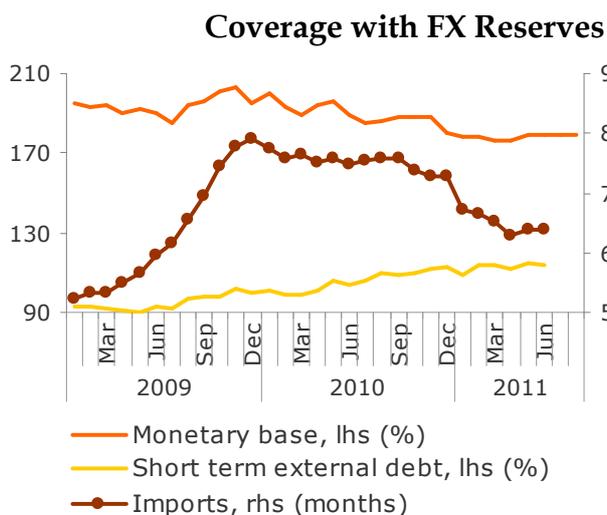
**FDI, Current and Financial Account**  
(January - June, billion euro)



Source: BNB

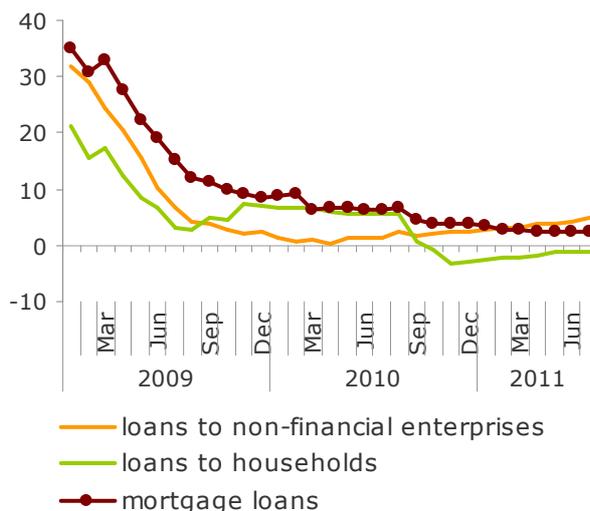
- **All articles made positive contribution to the current account improvement.** With the start of the summer season, the “Service” revenue increased by 10.4% on annual and 49.5% on monthly basis, climbing to EUR 558 bn in June. As the Bulgarians continue to spend less on other services, including telecommunication, financial, construction and insurance services among others, the surplus on “Services” reached EUR 658mln. in H1 or 1.7% of GDP. Income deficit in January-June fell further by 8.96% yoy to EUR 662.7 mln. Net current transfers increased by 24.2% to EUR 1.03 bn for the first six months over the same period of 2010.
  - **Financial account balance** remained negative at EUR 78.8 mln in June, while the accumulated deficit for the first six months of the year reached EUR 1.3 bn. The net FDI in the country came slightly positive, as investment inflows vastly equaled intercompany loans repayments from local firms to mother-companies. The accumulated balance turned to positive territory in H1 at the negligible EUR 7.9 mln. The negative financial balance could be attributed also to the foreign liabilities repayment from local banks. Although this tendency is slowing-down in the last months, it is
- still too early to speak of a reversal. In June “Other investments” were almost balanced at EUR -1.1 mln, standing at EUR 1 bn as of H1. Since the beginning of the year Bulgarian banks have withdrawn deposits amounting to EUR 469.6 mln, and they have opened foreign deposits worth EUR 793.3 mln.
- **June balance of payments** was positive at EUR 130.9 mln, with the H1 figure reaching EUR -572 mln, down from a deficit of EUR 1.2 bn a year earlier.
  - **Gross external debt (GED)** of the country reached 93.7% of GDP (EUR 36.2 bn), decreasing by 9.8 pps yoy, while growing marginally mom. Both changes could be attributed to the banks indebtedness dynamics. Banking sector foreign debt fell 11.6% yoy to EUR 6.52 bn at end-June, accounting for 18% of the total external debt (being 19.5% a year earlier). Regarding the non-banking sector, “other sectors” foreign debt rose 2.1% yoy, as firms borrowed more long-term loans. Meanwhile, intercompany loans decreased by 3.2% yoy. Government debt remained vastly unchanged from May, with stable annual decrease of 4.6%. In terms of maturity structure, there were no significant changes, as long- and short-term debt remained at 70% and 30% respectively.
  - **International reserves** increased by 4.6% in August alone (BGN 1.1 bn), thus their annual growth rate accelerated to 4.8% as compared to 1.2% at end-July. Bank reserves and Bank Department deposit were the main contributors to the international reserves growth, the latter due to increasing gold prices. Monetary base coverage reached 179.7% as of August. At the end of H1 2011, BNB had enough reserves to cover 6.4 months of import of goods and services

or 113.6% of the short term external debt.



Source: BNB, MoF

Annual Credit Growth Rate



Source: BNB, MoF

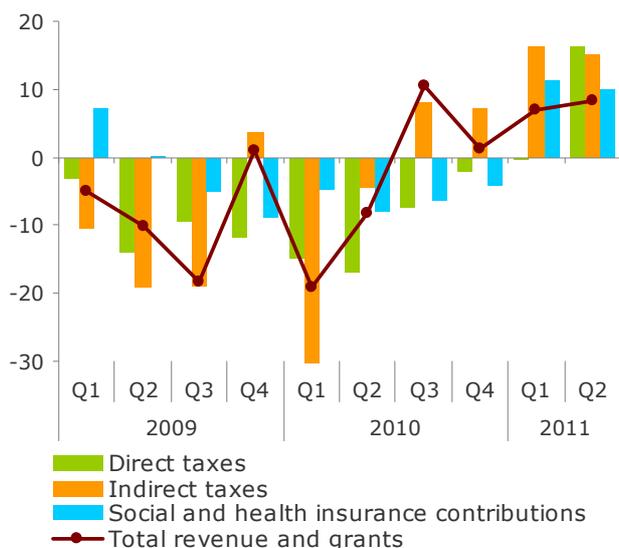
- **Money supply** accelerated further to 9.4% yoy as of end-July (being 8% a month earlier). Foreign currency deposits largely accounted for the broad money increase, namely overnight and agreed maturity deposits. These developments may be ascribed mainly to seasonal factors such as the active summer holiday season together with favorable tourism services export this year. Liquid monetary aggregate M1 also accelerated its pace of increase to 5.2% from 3.7% in June, influenced by the usually higher liquidity demand during summer vacation period. Total deposits grew by 10.3% yoy, increasing nominally by BGN 4.4 bn in the last 12 months and up BGN 1.1 bn in July alone.
- **Credit to the private sector** increased by 2.5% yoy as of end-July, at a pace slightly faster than a month earlier. Corporate credit recovery continued defining private credit growth. Credit to private enterprises stepped up to 4.8% yoy, up 0.7 pps from June. Credit to households limited marginally its decrease to 0.5% over the month. Consumer credits decreased by 1%, while there was practically no change in mortgages.

- **Interest rates** did not show any particular tendency in July. Rates on consumer credits slightly increased, while those on mortgages declined. Meanwhile, volumes of new business credits were lower than in June. Interest rates on corporate credits increased on average, though there was a significant increase in their volume as well. Newly attracted deposits decreased slightly despite the gradual decline of deposits' interest rates.
- **General government deficit** amounted to BGN 650.7 mln (0.9% of GDP) on cash basis at the end of June. It was significantly lower than the deficit level of BGN 1.5 bn (2.2% of GDP) registered on a year earlier.
- **Total revenue and grants<sup>1</sup>** accumulated on the consolidated budget during the first six months were 7.6% higher compared to H1 2010. This was driven by the 12.2% yoy increase in tax revenues, with the highest contribution coming from indirect taxes (up 15.8% yoy). VAT receipts were 15.4% higher, while excises and custom duties grew by 16.3% and 0.6% yoy respectively.

<sup>1</sup> Based on the consolidated budget quarterly report.

Direct taxes were up by 6.9% yoy, as corporate and personal income tax receipts increased. The 10.7% yoy increase in social and health insurance contributions<sup>2</sup> had also a positive effect on total revenue dynamics. Both non-tax revenue and grants accumulated in H1 2011 were lower compared to H1 2010.

**Total Revenue on the Consolidated Budget (% , yoy)**



Source: MoF

terms for the first time in 2011. Nevertheless, total revenue accumulated for the first seven months of the year stepped up by 4.5% yoy, driven by the 11.2% yoy increase in tax receipts for January–July. As total expenditure grew compared to July 2010, as a result of higher social expenditure and subsidies, general government budget balance was negative. Thus, the cumulative January–July deficit level on cash basis reached BGN 720.5 mln (approximately 1% of GDP).

- **Fiscal reserve** amounted to BGN 4.9 bn at end-July.
- **General government debt**, including government guaranteed debt, accounted for 15.3% of GDP at the end of June. Domestic debt was approximately 5.3%, external debt - 8.5%, while government guaranteed debt accounted for 1.5% of GDP.

- **Total expenditure**, on the consolidated budget at end-June 2011, including the contribution to EU budget, was slightly lower than June 2010 level (down by BGN 11.6 mln). A reduction of the capital expenditures, maintenance, scholarships and spending on wages and salaries was registered for the period January-June 2011 compared to same period of 2010.
- **In July alone**, both tax and non-tax revenues increased on a year earlier, up by 6 and 20.1% respectively. The sharp yoy grants decrease over the month contributed negatively to total revenue dynamics, the latter declining in yoy

<sup>2</sup> The administratively determined rate of social contributions has been raised by 1.8 pps since January 2011.

## Key Economic Indicators

		2008	2009	2010	Q3'10	Q4'10	Q1'11	Q2'11	III'11	IV'11	V'11	VI'11	VII'11	VIII'11
<b>GDP*</b>														
Gross Domestic Product*	%, y/y	6.1	-5.5	0.2	0.0	3.7	3.3	2.0						
Consumption	%, y/y	2.5	-7.3	-1.1	-1.2	0.5	1.2	1.4						
Gross fixed capital formation	%, y/y	21.9	-17.6	-16.5	-21.3	-0.9	1.6	8.4						
Export	%, y/y	3.0	-11.2	16.2	27.7	15.2	21.6	12.2						
Import	%, y/y	4.2	-21.0	4.5	5.3	10.7	10.0	7.5						
Agriculture	%, y/y	29.6	-6.1	3.9	2.3	-1.5	-1.4	-2.5						
Industry	%, y/y	4.4	-7.8	1.9	-10.4	10.5	5.4	5.9						
Services	%, y/y	5.0	-0.8	-0.9	3.3	0.6	0.1	0.1						
Adjustments	%, y/y	5.7	-16.5	-0.2	3.3	5.2	7.9	5.3						
<b>Short term business statistics</b>														
Industrial production	%, y/y	0.7	-18.3	2.0	4.4	5.2	10.6	6.0	7.2	8.8	9.1	0.8		
Industrial turnover	%, y/y	13.7	-20.2	14.1	21.5	21.1	32.6	19.1	30.1	23.1	20.2	14.4		
Retail trade turnover	%, y/y	8.9	-8.9	-5.6	-4.1	-4.3	0.4	0.4	1.4	0.5	1.8	-0.9		
Construction output	%, y/y	12.7	-14.5	-18.0	-15.0	-8.5	-14.8	-14.4	-18.4	-22.1	-16.9	-3.8		
Total business climate	balance	38.0	10.2	9.6	9.7	11.5	13.8	14.1	12.0	14.4	14.2	13.8	14.5	15.6
Industrial confidence	balance	39.9	12.3	13.4	14.7	15.0	21.6	22.8	20.4	24.5	22.1	21.6	22.7	24.7
Retail trade confidence	balance	41.3	13.5	10.1	8.8	13.0	13.0	10.7	15.4	11.2	11.2	9.5	13.1	23.9
Construction confidence	balance	40.3	8.5	5.1	4.0	2.9	4.7	4.4	5.3	2.0	5.7	5.6	8.2	2.5
Services confidence	balance	28.7	5.1	5.6	6.1	11.8	8.1	10.1	-1.4	9.7	9.8	10.7	5.7	2.5
<b>Labour market</b>														
Participation rate (15+)	level	53.8	53.0	52.0	52.5	52.1	50.8	51.0						
Employment rate (15+)	level	50.8	49.4	46.7	47.5	46.3	44.7	45.3						
Employment (LFS)	%, y/y	3.3	-3.2	-6.2	-5.4	-4.7	-4.0	-4.5						
Unemployment rate (LFS)	level	5.6	6.8	10.2	9.5	11.2	12.0	11.2						
Unemployment rate (Employment agency)	level	6.3	7.6	9.5	9.1	9.1	9.7	9.2	9.5	9.3	8.9	9.6	9.5	
Nominal wage	%, y/y	26.5	11.8	6.3	9.6	10.4	8.5	9.3	8.3	10.4	9.1	8.5		
Real wage**	%, y/y	13.0	9.1	3.2	5.9	6.1	3.8	5.7	3.6	6.9	5.5	4.8		
Labour productivity (GDP per employed)	%, y/y	3.5	-2.9	6.4	5.8	7.8	5.2	6.0						
Real ULC	%, y/y	3.7	8.1	-2.2	-6.2	-6.7	-7.0							
<b>Prices</b>														
Harmonized index of consumer prices	%, y/y	11.9	2.5	3.0	3.3	4.0	4.5	3.4	4.6	3.3	3.4	3.5	3.4	
Domestic producer prices	%, y/y	13.3	-4.3	7.2	9.5	11.1	11.9	10.3	12.1	10.7	10.0	10.1	8.4	
<b>Consolidated fiscal program (cummulative)</b>														
Revenue and grants	mln BGN	27313	25041	23933	17346	23933	5530	12042	5530	7950	9997	12042	14119	
Total expenses	mln BGN	25323	25667	26755	18872	26755	6272	12692	6272	8502	10595	12692	14839	
Contribution to EU budget	mln BGN	720	746	670	529	670	250	367	250	286	330	367	422	
Cash deficit(-) / surplus(+)	mln BGN	1990	-626	-2823	-1527	-2823	-742	-651	-742	-552	-598	-651	-721	
	% GDP	2.9	-0.9	-4.0	-2.2	-4.0	-1.0	-0.9	-1.0	-0.7	-0.8	-0.9	-1.0	
Government and gov. guaranteed debt	mln BGN	10710	10641	11778	11397	11778	11447	11573	11447	11406	11532	11573		
	% GDP	15.5	15.6	16.7	16.2	16.7	15.1	15.3	15.1	15.1	15.3	15.3		
Fiscal reserve	bln BGN	8382	7673	6012	6711	6012	4699	5154	4699	4683	4986	5154	4881	
	%, y/y	12.5	-8.5	-21.6	-12.7	-21.6	-26.1	-14.5	-26.1	-29.8	-24.3	-14.5	-22.8	

**Recent Economic Developments: Selected Issues, Bulgaria, August 2011 - 10 -**

		2008	2009	2010	Q3'10	Q4'10	Q1'11	Q2'11	III'11	IV'11	V'11	VI'11	VII '11	VIII '11
<b>Financial sector</b>														
BNB International reserves	mln EUR	12713	12919	12977	12764	12977	12209	12340	12209	11965	12245	12340	12500	13079
Monetary base coverage	%	175.3	195.2	179.8	188.6	179.8	176.3	179.2	176.3	176.7	179.3	179.2	178.9	179.7
Coverage of import with FX reserves	months	5.4	8.0	7.3	7.6	7.3	6.5	6.4	6.5	6.3	6.4	6.4		
Coverage of short-term external debt	%	96.5	100.2	112.8	108.9	112.8	112.4	113.6	112.4	112.6	114.8	113.6		
Money M1 (Narrow money)	%, y/y	-4.1	-8.8	0.8	7.7	0.8	4.9	3.7	4.9	4.5	3.5	3.7	5.2	
Money M3 (Broad money)	%, y/y	8.8	4.2	6.2	8.4	6.2	7.4	8.0	7.4	7.6	7.9	8.0	9.4	
Deposits	%, y/y	8.8	7.6	6.6	9.4	6.6	8.2	8.8	8.2	8.3	8.6	8.8	10.3	
Credit to private sector	%, y/y	32.9	3.8	1.1	1.6	1.1	1.6	2.1	1.6	2.1	2.2	2.1	2.5	
Credit to non-financial enterprises	%, y/y	33.1	2.3	2.4	1.8	2.4	3.0	4.1	3.0	3.8	3.7	4.1	4.8	
Credit to households	%, y/y	31.4	5.8	-0.8	0.8	-0.8	-0.7	-0.6	-0.7	-0.7	-0.6	-0.6	-0.5	
Interest rate on short-term loans	%	10.9	10.5	8.5	8.8	8.0	6.4	7.3	6.8	6.2	8.3	7.3	7.6	
Interest rate on time deposits	%	5.6	7.0	5.4	5.0	5.1	5.1	4.9	5.1	4.8	5.0	4.9	5.0	
Exchange rate BGN/USD	eop	1.39	1.36	1.47	1.43	1.47	1.38	1.35	1.38	1.32	1.36	1.35	1.37	1.35
	per. av.	1.34	1.41	1.48	1.52	1.44	1.43	1.36	1.40	1.35	1.36	1.36	1.37	1.36
<b>Gross External Debt</b>														
Gross external debt	% GDP	104.9	108.0	101.8	101.3	101.8	93.9		93.9	93.1	93.5	93.7		
Short term external debt	% GED	35.4	32.7	31.4	32.1	31.4	29.9		29.9	29.5	29.5	30.0		
Intercompany lending	% GED	36.4	38.5	40.2	40.2	40.2	40.4		40.4	40.7	40.2	40.0		
<b>Balance of payments</b>														
Current account	mln EUR	-8162	-3118	-356	1343	-837	210	331	66	-7	175	164		
Current account, % GDP moving average		-23.4	-8.7	-1.0	-1.2	-1.0	1.1	2.8	1.1	1.5	2.2	2.7		
Trade balance	mln EUR	-8597	-4174	-2412	-118	-941	53	-541	-27	-175	-190	-175		
Trade balance, % GDP moving average		-24.6	-11.6	-6.7	-6.7	-6.7	-4.9	-4.1	-4.6	-4.3	-4.0	-4.0		
Export, f.o.b.	mln EUR	15204	11699	15588	4413	4310	4776	4854	1697	1605	1657	1593		
	%, y/y	12.5	-23.1	33.2	44.4	32.7	56.2	27.5	49.9	35.7	36.7	12.7		
Import, f.o.b.	mln EUR	-23801	-15873	-18001	-4531	-5250	-4724	-5395	-1724	-1780	-1847	-1768		
	%, y/y	14.7	-33.3	13.4	15.8	26.5	30.3	17.4	20.5	20.5	19.3	12.7		
Capital account	mln EUR	277	477	291	178	140	13	48	3	0	2	45		
Financial account	mln EUR	11473	1190	-1	-48	539	-928	-380	-91	-27	-82	-224		
Net Foreign Direct Investments	mln EUR	6212	2498	1459	443	573	-80	56	-381	-5	41	20		
Net Portfolio Investments	mln EUR	-731	-570	-661	-47	-153	-189	-73	-6	170	-148	-96		
Other Investments - net	mln EUR	5980	-719	-774	-433	119	-649	-357	34	-401	45	-1		
Change in BNB reserve assets***	mln EUR	-674	650	384	-722	-65	665	-92	90	258	-220	-131		

\* Reference year 2005, seasonally and working day adjusted data.

\*\*HICP deflated.

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

## Recent Developments and Government Debt Review

Bulgaria maintained the status of a low-risk issuer in the region

On July 4, 2011 Bulgarian Ministry of Finance (MF) reopened for a third time this year the 5-year government securities issue denominated in Euro. The approved quantity was EUR 14 mln, thus the total outstanding volume amounted to EUR 74 mln. The parameters of the bond highlighted its role as a benchmark issue in the medium term maturity segment, fostering its liquidity on the secondary market.

The total quantity of admitted bids reached about EUR 73 mln, with a bid-to-cover ratio of 1.46. Banks and investment intermediaries participated actively on the auction, as well as other investors.

The average annual yield of the approved quantity was 4.16%, while the spread to the German Federal Bonds with similar residual maturity came about 1.87 pps. The achieved annual yield on the auction was below the current yield of the Euro denominated Eurobonds with similar residual maturity of Hungary, Turkey, Romania and Spain.

The upgrade of the sovereign credit rating by Moody's to Baa2 from Baa3 contributed to the yield decrease of Government Securities

On July 25, 2011 MF reopened successfully BGN denominated Government Securities (GS) issue with original maturity of 3y&6m. The tendered quantity was BGN 30 mln and the total volume of the submitted bids reached BGN 65.75 mln. The registered bid-to-cover ratio of 2.19 was the highest for the last three auctions. Banks, primary and non-primary dealers actively participated at the auction.

The average annual yield of the approved quantity of the auction was 3.53%, the spread to the German Federal Bonds with similar residual maturity was about 1.71 pps. The recorded annual yield on the auction for the issue which is denominated in domestic currency was below the current yield of the Euro denominated Eurobonds of Lithuania (3.57%), Turkey (3.84%), Croatia (4.01%), Hungary (4.62%) and Romania (4.88%).

In the current context of highly volatile debt markets and unsecure market environment, Bulgaria stands out as the only country in Europe, which has so far in 2011 received an upgrade of its sovereign credit rating from Moody's by one notch to Baa2. The independent and unbiased assessment underscored the status of Bulgaria as a predictable and low-risk issuer in the region, thus increasing the interest in Bulgarian GS in the near term and supporting the positive development of the overall domestic debt market.

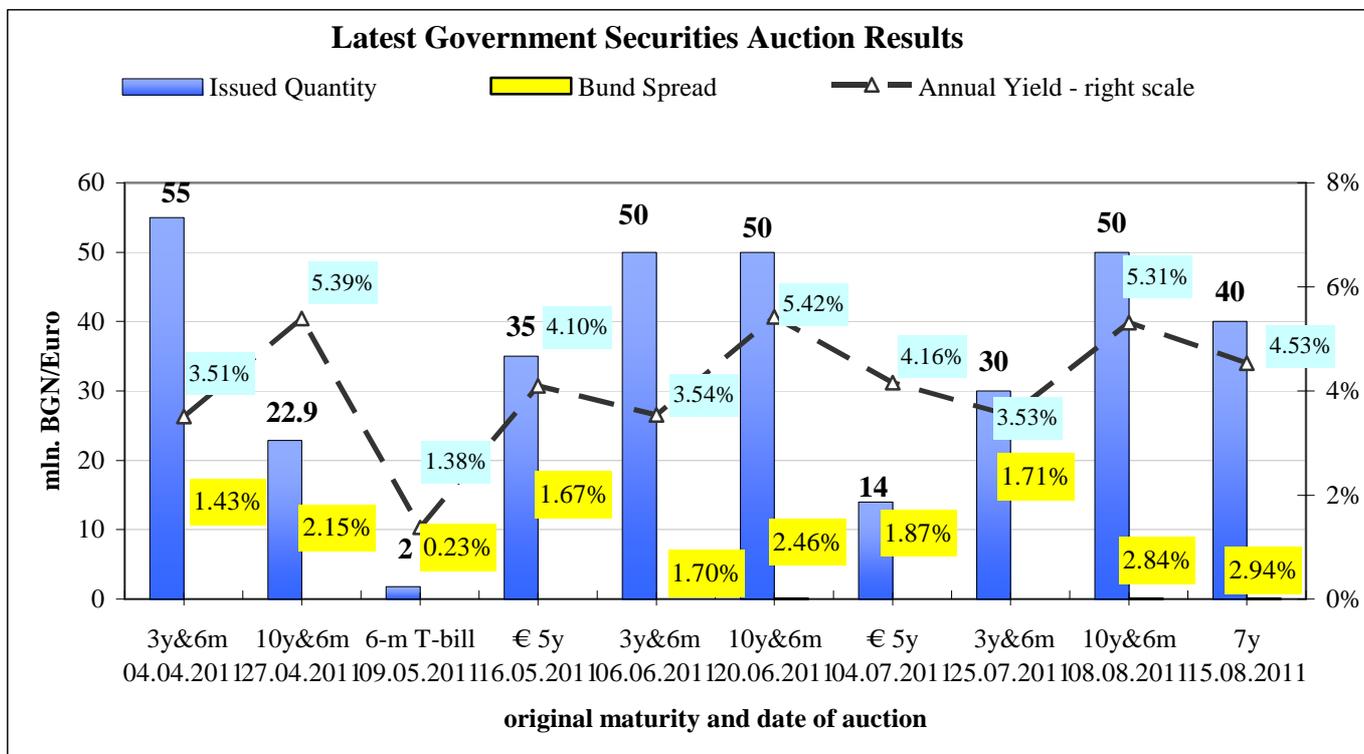
The yield of the Bulgarian long-term debt has decreased despite the volatility and turbulences on international capital markets

The successful auction held on 8<sup>th</sup> August 2011 for long-term GS denominated in BGN with 10y&6m original maturity revealed the ongoing credibility in the conducted macroeconomic policy in Bulgaria. The volume of newly issued GS was BGN 50 mln and the average weighted yield was 5.31%, the latter being the lowest yield achieved in the last five auctions conducted for this issue, which is of priority for the Ministry of Finance. After the last auction the total outstanding volume of the issue is BGN 202.9 mln, which increased the liquidity and confirmed the benchmark status of the bond. The registered auction yield was lower than the latest July harmonised long-term interest rates published by ECB and Eurostat, being 5.36% for Bulgaria. For comparison reasons,

this indicator is 5.81% for Poland, 7.35% for Hungary, 7.30% for Romania and 5.67% for Latvia. The yield decrease on the primary market observed throughout the year is in line with the decline on the secondary market. Yields based on DvP transactions have been showing a stable decline since the beginning of 2011, from 5.56% in January to 5.36% in July.

The interest in the auction was high despite the continuing turbulences in international capital markets. The total volume of the submitted bids reached BGN 134.8 mln, with a bid-to-cover ratio of 2.70. The analysis of the distribution of the issue by investor type supported the strong interest. Besides banks, which acquired 36.2% of the approved volume, there was high interest from institutional investors - pension funds (46.6 %), insurance companies (5.3%) and investment firms (12%).

On August 15, 2011 MF reopened successfully BGN denominated GS issue with original maturity of 7Y. The average annual yield of the quantity approved was 4.53%, which is the lowest yield achieved since the initial offering of this issue on 17 February 2010 with average yield of 5.33% and a registered peak in the yield of 6.09% on 3 May 2010. The approved quantity was BGN 40 mln, thus the total outstanding volume amounted to BGN 170 mln. The annual yield achieved on the auction was below the current yield of the Euro denominated Eurobonds with similar residual maturity of Hungary and Turkey. The registered bid-to-cover ratio of 1.86 indicated a high investor interest. The spread to the German Federal Bonds with similar residual maturity was about 294 bps which was also a decrease from the previous reopening of this issue.



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

Public debt nominal size amounted to EUR 5331.9 mln at the end of June, the domestic debt being EUR 2059.8 mln and the external one - EUR 3272.1 mln. The government debt to GDP ratio was 13.8%.

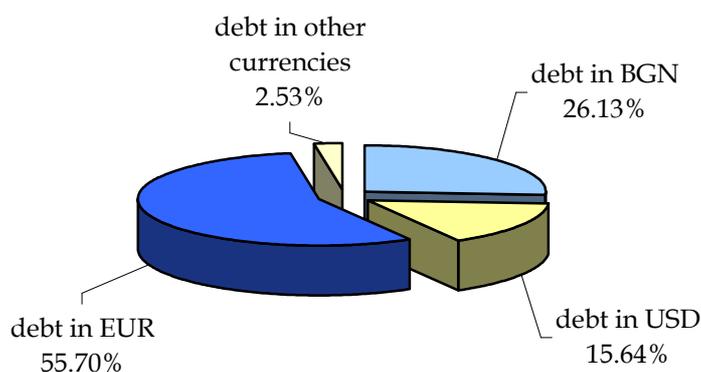
Government debt continued its upward tendency over the past few months. It totaled EUR 5385 mln in July, up EUR 53.1 mln over the month due to the increase in the amount of internal government debt as a result of the new internal financing with GS and registered foreign exchange difference. The share of government debt to GDP at the end of July amounted to 13.9%, up by 0.1 pps compared to June figure.

Government Debt Amount								
(million EUR)								
Structure	31.12.2010	31.1.2011	28.2.2011	31.3.2011	30.4.2011	31.5.2011	30.6.2011	31.7.2011
Domestic government debt	2 011.5	1 914.6	1 900.1	1 941.5	1 978.9	2 008.9	2 059.8	2 077.0
External government debt	3 373.5	3 345.7	3 336.4	3 319.5	3 270.3	3 296.5	3 272.1	3 307.9
<b>Government Debt, total</b>	<b>5 385.0</b>	<b>5 260.3</b>	<b>5 236.5</b>	<b>5 261.0</b>	<b>5 249.2</b>	<b>5 305.4</b>	<b>5 331.9</b>	<b>5 385.0</b>
<b>Government Debt /GDP ( %)</b>	<b>14.9</b>	<b>13.6</b>	<b>13.6</b>	<b>13.6</b>	<b>13.6</b>	<b>13.7</b>	<b>13.8</b>	<b>13.9</b>

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

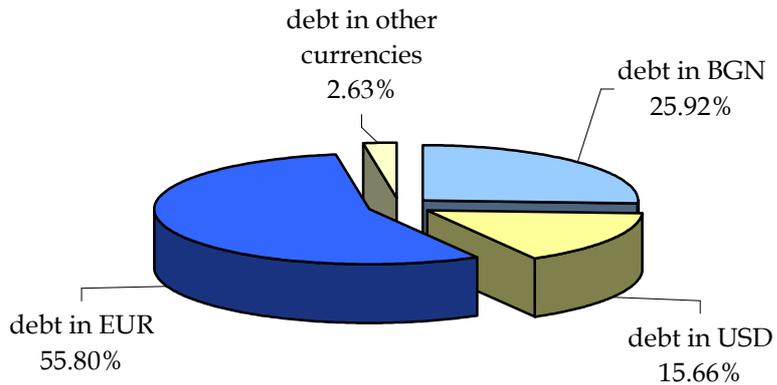
Regarding the government debt currency structure at the end of June, the share of BGN denominated debt increased, reaching 26.1% (being 25.3% at the end of May). The share of debt in euro was 55.7%, in USD - 15.6%, and 2.5% - in other currencies.

Government Debt Currency Structure as of 30 June



In July the debt denominated in BGN decreased from the previous month to 25.92%, while the share of debt denominated in euro, US dollar and other currencies registered a slight increase, amounting to 55.8%, 15.7% and 2.6% respectively.

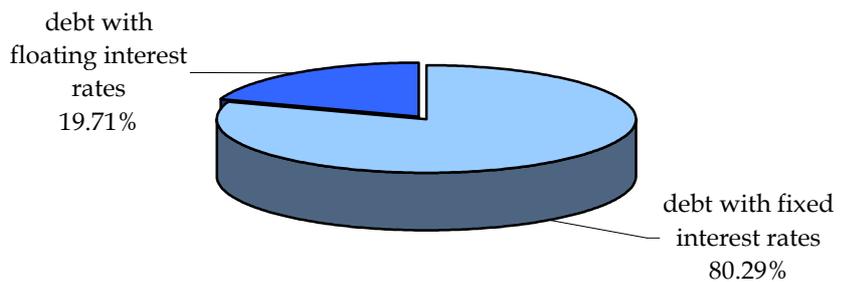
Government Debt Currency Structure as of 31 July



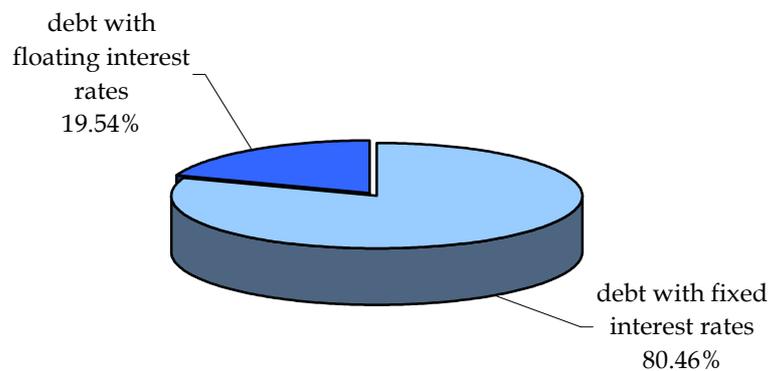
Government debt interest rate structure provides predictability of the resources required for its servicing

At the end of July, the share of the debt with fixed interest rate was 80.5 % ( being 80.3% in June), the debt with floating interest came to 19.5% (down from 19.7% in June). The new internal financing during the month largely accounted for the marginal increase in debt with fixed interest rate.

Government Debt Interest Rate Structure as of 30 June



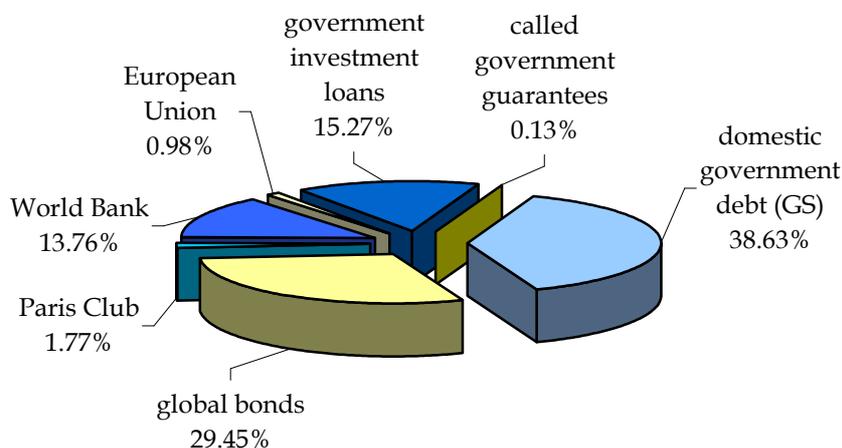
Government Debt Interest Rate Structure as of 31 July



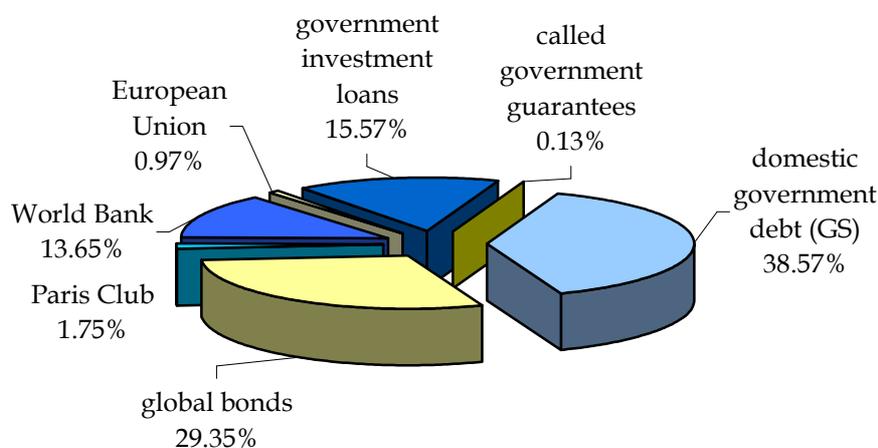
Government debt portfolio structure is another key indicator for successful debt management policy

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

Government Debt Structure by Creditor as of 30 June



Government Debt Structure by Creditor as of 31 July



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>

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