

Macroeconomic environment and policies in brief

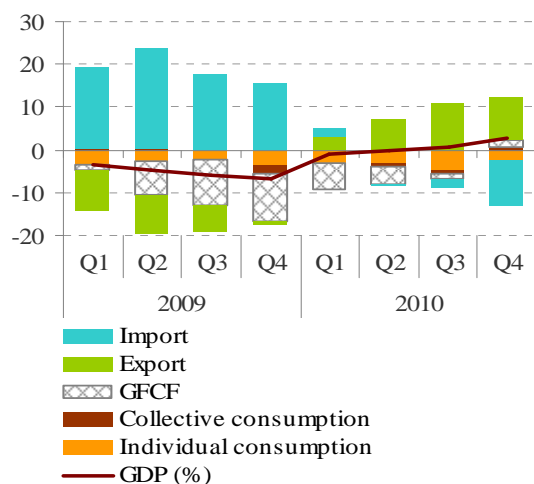
- **Bulgarian economy continued to expand** as GDP grew for the third consecutive quarter. According to the preliminary data, GDP growth was 2.8% (y/y) in Q4 2010, which sums up to a 0.2% positive growth for the entire 2010.
- **Domestic demand shows clear signs of recovery in Q4 2010.** According to the GDP preliminary data, consumption expanded by 1.7% and investment – by 7.4% (q/q). Thus, consumption contraction in 2010 was limited to 1.1%, while investment, being the most volatile GDP component, shrank by 14%. Latest data on short-term indicators of economic activity support the ongoing resurgence in domestic demand.
- **Meanwhile, external imbalances dwindled significantly** and the current account balance was -0.8% of GDP in 2010, recording the lowest deficit in the last decade. The smaller negative balance of goods contributed to the change the most. Net FDI amounted to 3.4% of GDP but cover comfortably the current account shortfall.
- **The average wage in 2010 grew at a slower pace.** The adjustment process of the labour costs was influenced primarily by the employment reduction, which fuelled labour productivity improvement and real unit labour costs decline. Q4 2010 labour force developments were strongly influenced by the seasonal activities drop during winter months. Unemployment rate went up to 11.2%.
- **Consumer inflation** increased on the back of continued rise in international commodity prices. Core inflation also gradually increased since end-2010 along with the consumption revival, though it still remains subdued.
- **VAT collection improvements in late 2010 helped to ease down the pressure on public finances and together with stringent expenditure policy confined the gap in the general government budget to EUR 1.43 bn.** Fiscal reserve amounted to approximately EUR 3 bn as of end-2010.
- **Money supply annual growth rate accelerated** to 7.1% in January from 6.2% in December. The annual growth in households' deposits remains high and still double-digit at 10.2%.
- **Economic growth expectations remain positive**, according to the latest Financial Sector Survey. Financial intermediaries have improved their perceptions for the development of the stock indices but show relatively high inflationary expectations.
- Government pursues its **active and innovative debt management policy**. As a result, the downward trend of yields is sustained at the recent auctions for Government Securities conducted. Additionally, Ministry of finance undertook two successful active operations on debt management.

Deputy Prime Minister and Minister of Finance Simeon Djankov has presented a **Financial Stability Pact** – a package of measures ensuring inviolability of fiscal discipline and economic stability in the long run. The draft provides for limiting the redistributive role of the state to 37% of the projected GDP, guaranteeing a balanced budget stance or deficit not higher than 3% of GDP and any changes of direct tax rates being made only by two thirds of all members of the Parliament. Mechanisms for action in emergency cases such as natural disasters and real drop in GDP under a certain critical level will be envisaged. The new fiscal responsibility legislation is currently undergoing negotiations with political parties and socio-economic partners like trade unions and business associations.

Recent Economic Developments

- According to the preliminary data, **Bulgarian economy continued to expand**, growing by 2.1% (q/q) and 2.8% (y/y) in Q4 2010. Growth for 2010 was 0.2%, vastly in line with the growth forecast at the Ministry of Finance.

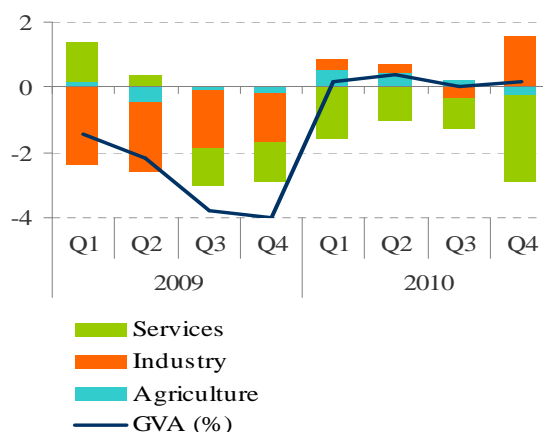
Contributions to GDP growth (pps, y/y)



Source: NSI

- In quarterly terms, **GDP grew** for the third consecutive quarter. Final consumption increased by 1.7% (q/q) due to the revival of private consumption. The latter grew by 1.2% over a quarter earlier, limiting its annual decline to 2.9%. Gross fixed capital formation reported a positive annual growth of 7.2% for the first time since 2008. Import increased by 9.1% (q/q) and by 15% (y/y), also pointing out a sign of recovery in consumption. Export growth rate slowed to 16% on a year earlier.
- Gross value added** registered a 0.2% increase on annual basis. Industry accelerated its growth rate in Q4, its value added increasing by 6.1% (y/y) and 6.7% (q/q). Gross value added in agriculture and services sector contracted by 3.4% and 4.1% respectively (y/y).

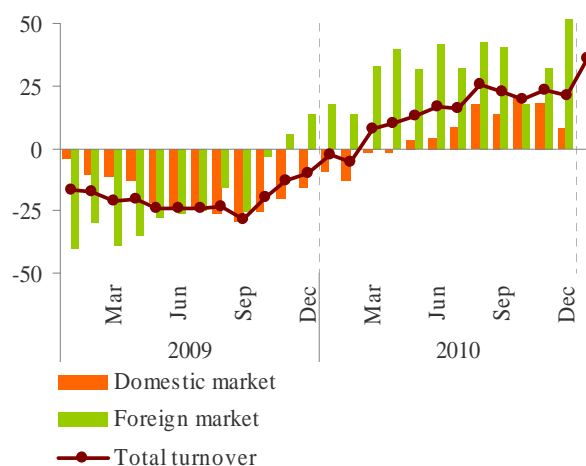
Contributions to GVA (pps, y/y)



Source: NSI

- Industrial turnover** went up by 36% (y/y) in January, underpinned by strong foreign market sales, which expanded further by 65.5%. **Industrial production** grew by 10.8% in real terms with the major contribution coming from investment and intermediate goods.

Industrial turnover (% y/y)

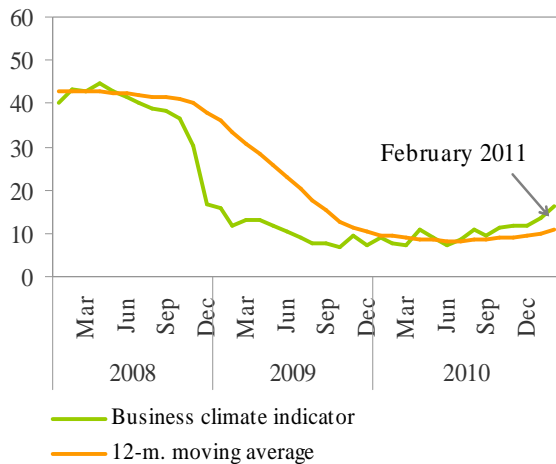


Source: NSI

- Retail sales** decrease slowed to 0.3%. **Construction production index** contraction also dwindled - to 10% (y/y), despite still high rates of decrease of building construction.
- Business climate** improved by 2.7 points (m/m) in February 2011, up by 8.5 points on year earlier. Business

executives in all the sectors of the economy were optimistic, expecting positive trends both in price and employment in the coming months.

Business climate (balance)



Source: NSI

- Q4 2010 labour force developments were strongly influenced by the seasonal activities drop during winter months.

Employment Growth and Unemployment Rate



Source: NSI

- Employment** numbers stepped down by 2.6% (q/q) due to the decreasing number of workers mainly in agriculture, tourism and construction. The process of laying-off workers in the processing industries slowed down, contributing mostly to the deceleration of annual employment decrease to 4.7%.

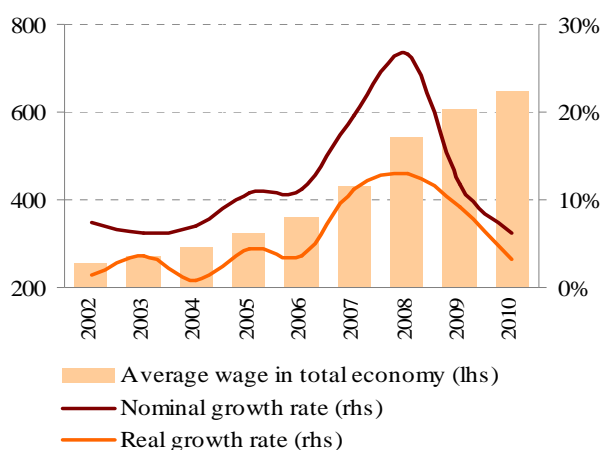
The latter remained rather strong, reflecting the usual lag-time reaction to the economic cycle reversal.

- Unemployment rate** went up to 11.2% in Q4, reaching its highest level since early-2005. Due to the narrowed hiring opportunities, participation rate of population aged 15+ continued on the decrease, stepping down to 52.1% in Q4.
- January **unemployment rate** continued the upward trend from late-2010 to 9.8%, influenced by the higher inflow (67.5% m/m), stemming from the seasonal and subsidized employment termination. At the same time, outflow has also increased (30.3% m/m) due mainly to the implemented labour market programs, albeit the primary market also registered a higher activity. On a year earlier however, January's unemployment level stepped down by 0.1 pp. In February it stood at 9.8%, deepening the annual decrease to 0.5 pps. Latest developments were supported by the drop in newly registered in the employment offices (43.8% m/m). Outflow has also decreased (11.7% m/m) since many projects under the subsidized employment programs have already started in the previous month. Primary market has continued to demonstrate revival through increasing labour demand.

- Nominal wage** growth continued with further acceleration compared to the previous quarter, reaching 10.4% (y/y) in Q4. However, the average wage in 2010 grew at a slower pace on an annual basis as its nominal rate of increase reached 6.3%. A breakdown by industries indicates that the biggest contribution to total wage slowdown in y/y terms came from service sector and construction, while manufacturing

followed an accelerating pace of wage increase. Latest developments support that the adjustment process of the labour costs was influenced primarily by the employment reduction, which fuelled labour productivity improvement and real unit labour costs decline.

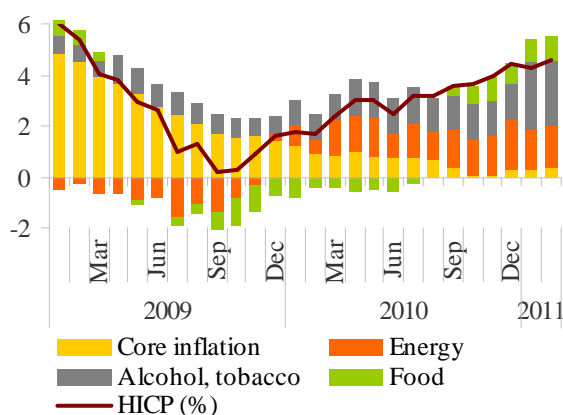
Average wage developments



Source: NSI

- According to final data **inflation** went up by 0.5% (m/m) during each of the first two months of 2011, thus annual HICP reaching 4.6% in February.

HICP Inflation (pps, y/y)



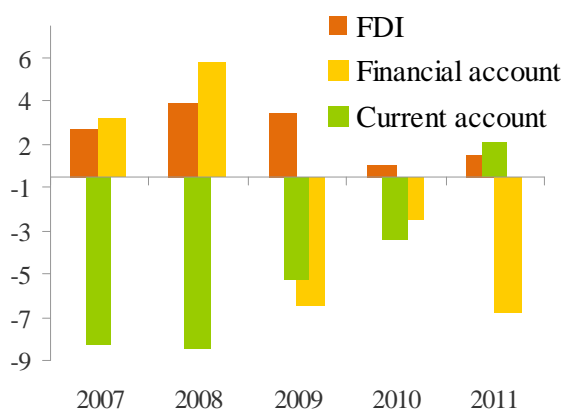
Source: NSI

- Previous months inflation drivers sustained their influence, as energy and food price increases contributed by 2.6 pps to the y-o-y change. Alcohol and tobacco expanded their contribution to

2.55 pps, as a result of the lower base a year ago as well as their 2 times higher relative share in the 2011 consumer basket. Along with the consumption revival observed, core inflation has started to gradually increase since end-2010, though it still remains subdued.

- Current account balance** stood at EUR 158 mln in January 2011, thus recording a fourth positive monthly value over the last 12 months. The improvement came on the back of EUR 112 mln trade surplus. Export of goods grew substantially by 72.6% (y/y), reaching a record high for the first month of the year of EUR 1.59 bn. Imports expanded by 35% to EUR 1.47 bn. Services balance was positive at EUR 60 mln, while the negative income balance halved on annual basis, mostly due to the stronger drop in payments of investment income to non-residents.

FDI, Current and Financial Account (Jan, EUR mln)

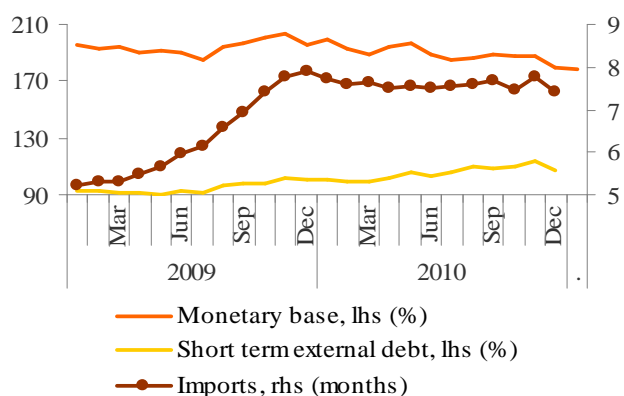


Source: BNB

- The **financial account** accumulated a deficit of EUR 625 mln in Jan 2011, as capital worth of EUR 588 mln flew out of the country in the form of currency and deposits. The overall balance of payments was negative by EUR 628 mln, which resulted in an equal decrease in Central bank international reserves.

- Bulgaria's **gross external debt** increased by EUR 397 mln (m/m) to EUR 36.9 bln (102.4% GDP) in January 2011, as all sectors contributed to this change. This increase in total GED was a result of higher long-term debt. Short-term debt also rose by only EUR 69.3 mln. BNB reserves cover 107% of short-term gross external debt at the end of January.
- **International reserves** decreased both on monthly and annual basis in January, down by 5.8 and 2.4% respectively. Monetary base coverage reached 178.6%, the reserves to money supply ratio being 47%. The BNB reserves were able to cover 7.4 months of import of goods and non-factor services at end-December.

Coverage with FX Reserves

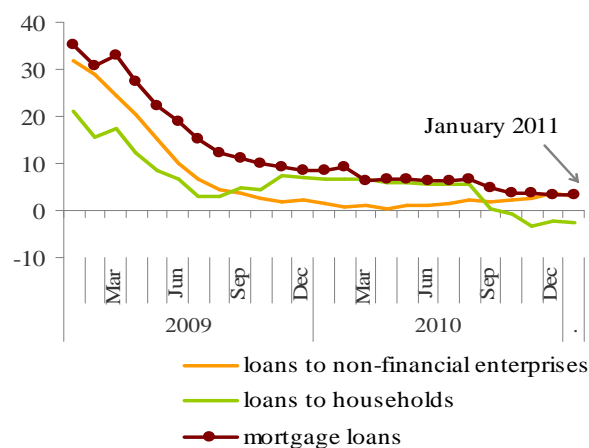


Source: BNB

- **Money supply** annual growth rate accelerated to 7.1% in January from 6.2% in December. Broad money was by 0.4% higher compared to its previous month level. That was accompanied by 4.7% increase of overnight deposits on a year earlier. Total deposits, included in M3, grew by 9.6% (y/y). The annual growth in households' deposits remains high and still double-digit at 10.2%.
- **Credit to the private sector** slightly accelerated its annual growth in January up to 1.8%. Corporate credits rate of increase accelerated to 2.8% (from 2.4% in December). The households' credit

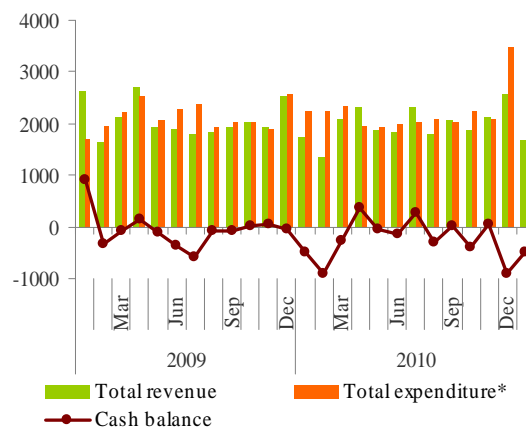
growth remained negative at -0.7% (y/y). Loans to financial institutions increased compared to January 2010.

Annual Credit Growth Rate



Source: BNB, MoF

- **Interest rates on credits** maintained their levels, as rates on credits in BGN remained roughly unchanged and those in EUR slightly increased. In January interest rates on deposits slightly increased both in BGN and EUR on monthly basis as the increase in EUR was a bit higher.
- **General government deficit** amounted to BGN 2.79 bln on a cash basis at the end of 2010 and BGN 477 mln in January 2011, according to preliminary data on consolidated budget execution.

Consolidated budget
(monthly value, mln BGN)

* incl. contribution to EU budget

Source: MoF

- **Total revenue collected** on the consolidated budget in 2010 was by 4.4% lower than a year earlier, accounting for 97.5% of the annual budget forecast. Both direct and indirect tax revenue decreased in y/y terms, contracting by 8.1% and 4.3% respectively. Non-tax revenue was also by 6.3% lower than 2009. Corporate income tax, excises and public social security contribution largely accounted for the negative revenue dynamics.
- Recent favorable VAT developments have largely accounted for the tax collection improvements in late-2010.
- **Total expenditure** increased by 4.1% (y/y) in 2010 but declined by 3.6% in Jan 2011. Higher spending in 2010 is incurred under social payments and subsidies. Capital expenditure and spending on social and health insurance contributions has been decreasing.
- **Fiscal reserve** amounted to approximately BGN 6 bln as of 30.12.2010 but declined to BGN 5.4 bln as of end-Jan 2011.
- **Government debt** came to 13.7% of GDP at end-January 2011. External government debt accounted for 8.7%, while domestic debt was 5% of GDP.

Key Economic Indicators

		2008	2009	2010	Q1 '10	Q2 '10	Q3 '10	Q4 '10	VIII '10	IX' 10	X '10	XI '10	XII '10	I '11
GDP*														
Gross Domestic Product*	% , y/y	6.2	-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						
Short term business statistics														
Industrial production	% , y/y	0.8	-17.4	2.0	-3.2	1.6	4.5	5.0	5.4	7.3	2.5	5.7	6.7	10.8
Industrial turnover	% , y/y	14.7	-20.3	14.1	0.0	13.0	21.6	21.1	25.8	22.8	19.4	23	21	36.0
Retail trade turnover	% , y/y	9.3	-8.8	-5.6	-12.1	-9.0	-4.6	-4.4	-4.1	-4.8	-5.0	-5.2	-2.9	-0.3
Construction output	% , y/y	-3.1	-14.4	-18.0	-26.3	-19.2	-14.8	-7.4	-10.7	-13.9	-11.6	0.8	-11.5	-10.0
Total business climate	balance	38.0	10.2	9.6	7.9	9.1	9.7	11.5	10.7	9.5	11.4	11.7	11.5	13.4
Industrial confidence	balance	39.9	12.3	13.4	9.4	14.6	14.7	15.0	14.0	14.1	14.0	15.1	16.0	20.2
Retail trade confidence	balance	41.3	13.5	10.1	10.6	8.2	8.8	13.0	11.8	7.5	13.0	13.5	12.4	12.4
Construction confidence	balance	40.3	8.5	5.1	7.7	5.9	4.0	2.9	5.0	3.6	2.1	5.2	1.4	1.9
Services confidence	balance	28.7	5.1	5.6	2.5	2.0	6.1	11.8	8.9	8.2	13.9	9.7	11.9	12.3
Labour market														
Participation rate (15+)	level	53.8	53.0		51.3	52.2	52.5	52.1						
Employment rate (15+)	level	50.8	49.4		46.1	47	47.5	46.3						
Employment (LFS)	% , y/y	3.3	-3.2		-7.7	-6.9	-5.4	-4.7						
Unemployment rate (LFS)	level	5.6	6.8		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	9.1	9.0	8.9	9.1	9.2	9.8
Nominal wage	% , y/y	26.5	11.8	6.3	9.9	8.7	9.4	10.4	9.4	9.3	9.4	11.2	10.6	
Real wage**	% , y/y	13.0	9.1	3.2	7.8	5.7	5.9	6.1	6.0	5.5	5.6	6.9	5.8	
Labour productivity (GDP per employed)	% , y/y	3.5	-2.9	6.4	2.7	8.0	5.6	7.8						
Real ULC	% , y/y	3.7	8.1	-2.2	4.4	1.6	-6.2	-6.7						
Prices														
Harmonized index of consumer prices	% , y/y	11.9	2.5	3.0	2.0	2.9	3.3	4.0	3.2	3.6	3.6	4.0	4.4	4.3
Domestic producer prices	% , y/y	13.3	-4.3	7.2	2.4	5.6	9.5	11.1	10.0	9.6	10.1	11.1	12.0	11.1
Consolidated fiscal program (cummulative)														
Revenue and grants	mln BGN	27313	25041	23933	5171	11189	17346	23933	15302	17346	19234	21356	23933	1675
Total expenses	mln BGN	25323	25667	26723	6840	12704	18872	26723	16839	18872	21136	23222	26723	2153
Contribution to EU budget	mln BGN	720	746	670	246	359	529	670	467	529	593	615	670	60
Cash deficit(-) / surplus(+)	mln BGN	1990	-626	-2790	-1669	-1515	-1527	-2790	-1537	-1527	-1903	-1866	-2790	-477
Government and gov. guaranteed debt	mln BGN	10710	10641	11775	10699	10970	11397	11775	11089	11397	11422	11580	11775	11501
	% GDP	15.5	15.5	16.7	15.2	15.6	16.2	16.7	15.7	16.2	16.2	16.4	16.7	15.3
Fiscal reserve	bln BGN	8382	7673	6012	6359	6029	6711	6012	6167	6711	6398	6391	6012	5412
	% , y/y	12.5	-8.5	-21.6	-20.1	-27.1	-12.7	-21.6	-19.6	-12.7	-17.9	-21.1	-21.6	-26.7

Recent Economic Developments, Bulgaria, March 2011 - 8 -

		2008	2009	2010	Q1 '10	Q2 '10	Q3 '10	Q4 '10	VIII '10	IX' '10	X '10	XI '10	XII '10	I '11
Financial sector														
BNB International reserves	mln EUR	12713	12919	12977	12239	12155	12764	12977	12475	12764	12525	12697	12977	12224
Monetary base coverage	%	175.3	195.2	179.8	189.4	189.2	188.6	179.8	186.2	188.6	188.0	188.0	179.8	178.6
Coverage of import with FX reserves	months	5.4	8.0	7.4	7.7	7.5	7.6	7.4	7.6	7.7	7.5	7.8	7.4	
Coverage of short-term external debt	%	96.5	104.6	113.7	98.7	103.7	108.8	113.7	109.7	108.6	110.4	111.5	113.7	
Money M1 (Narrow money)	%, y/y	-4.1	-8.8	0.8	-2.0	0.9	7.7	0.8	6.6	7.7	8.7	7.5	0.8	1.4
Money M3 (Broad money)	%, y/y	8.8	4.2	6.2	7.7	8.0	8.4	6.2	9.4	8.4	8.2	9.0	6.2	7.1
Deposits	%, y/y	8.8	7.6	6.6	10.0	10.1	9.4	6.6	10.9	9.4	9.1	10.0	6.6	7.8
Credit to private sector	%, y/y	32.9	3.8	1.1	2.6	2.0	1.6	1.1	1.8	1.6	1.37	1.2	1.1	1.6
Credit to non-financial enterprises	%, y/y	33.1	2.3	2.4	1.1	1.2	1.8	2.4	2.2	1.8	2.2	2.5	2.4	2.9
Credit to households	%, y/y	31.4	5.8	-0.8	4.4	3.7	0.8	-0.8	3.8	0.8	-0.2	-1.1	-0.8	-0.7
Interest rate on short-term loans	%	10.9	10.5	8.5	8.7	8.3	8.8	8.0	9.3	8.1	8.0	7.8	8.2	5.9
Interest rate on time deposits	%	5.6	7.0	5.4	6.4	5.3	5.0	5.1	4.9	5.0	4.9	5.1	5.2	5.2
Exchange rate BGN/USD	eop	1.39	1.36	1.47	1.45	1.59	1.43	1.47	1.54	1.43	1.41	1.50	1.47	1.43
	per. av.	1.34	1.41	1.48	1.41	1.54	1.52	1.45	1.52	1.50	1.41	1.43	1.48	1.46
Gross External Debt														
Gross external debt	% GDP	104.7	107.9	102.3	103.3	103.7	101.2	102.3	101.4	101.2	99.9	101.2	102.3	
Short term external debt	% GED	35.5	34.2	30.9	31.4	31.4	32.1	30.9	31.4	32.1	31.5	31.2	30.9	
Intercompany lending	% GED	36.3	38.4	40.5	39.1	39.9	40.0	40.5	40.5	40.0	40.3	40.4	40.5	
Balance of payments														
Current account	mln EUR	-8162	-3118	-356	-554	-308	1343	-837	536	278	-169	-392	-276	158
Current account, % GDP moving average		-23.0	-8.9	-1.0	-7.5	-4.8	-1.3	-1.0	-2.2	-1.3	-1.2	-1.5	-1.0	0.2
Trade balance	mln EUR	-8597	-4174	-2412	-568	-786	-118	-941	20	-91	-195	-417	-329	112
Trade balance, % GDP moving average		-24.3	-11.9	-6.7	-10.2	-8.9	-6.7	-6.7	-7.1	-6.6	-6.4	-6.8	-6.7	-5.5
Export, f.o.b.	mln EUR	15204	11699	15588	3058	3808	4413	4310	1456	1441	1451	1460	1399	1591
	%, y/y	12.5	-23.1	33.2	15.0	39.1	44.4	32.7	48.3	38.0	21.0	34.4	45.5	72.6
Import, f.o.b.	mln EUR	-23801	-15873	-18001	-3625	-4594	-4531	-5250	-1437	-1533	-1645	-1877	-1728	-1479
	%, y/y	14.7	-33.3	13.4	-4.9	15.0	15.8	26.5	16.0	15.9	11.7	40.3	28.8	35.6
Capital account	mln EUR	277	477	291	62	-90	178	140	-13	-2	9	45	85	-3
Financial account	mln EUR	11473	1190	-0.9	-645	152	-48	539	-335	326	9	138	393	-625
Net Foreign Direct Investments	mln EUR	6212	2498	1459	24	420	443	573	101	125	68	287	218	95
Net Portfolio Investments	mln EUR	-731	-570	-661	-145	-316	-47	-153	-32	30	61	-19	-195	-109
Other Investments - net	mln EUR	6035	-719	-774	-512	52	-433	119	-402	175	-118	-132	370	-611
Change in BNB reserve assets***	mln EUR	-674	650	384	789	382	-722	-65	-11	-341	243	-30	-279	628

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

**HICP deflated.

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

Recent Developments and Government Debt Review

Continuing the trend of decrease the yields at the recent auctions for Government Securities conducted by the Ministry of Finance, along with the spreads to benchmark German federal bonds in this maturity segment

In February Ministry of Finance conducted successfully two auctions for Government Securities /GS/ in different maturities.

Achieved results at the auction for 3 months T-bills (average annual yield of 0.85%) reconfirms the decreasing trend in yields of primary government securities market, as evidenced by the record low spreads (below 30 bp) compared to benchmark German federal bonds in this maturity segment.

The second conducted auction was for issue of 3Y&6M. The registered average annual yield was 3.63% when there was a reduction from the previous auction for this issue, held in December 2010. The realized yield at the auction confirms the decreasing trend in yields of primary market of government securities in the whole of sovereign debt curve. This was evidenced by declining spreads - around 1.68% compared to benchmark German federal bonds in this maturity segment. The difference in yields between the Bulgarian and German government bonds is below the value of the indicator, which measures the risk of insolvency of the state (credit default swaps). This shows that in the yield achieved is not incorporated a premium for currency risk.

Ministry of finance undertook two successful active operations on debt management.

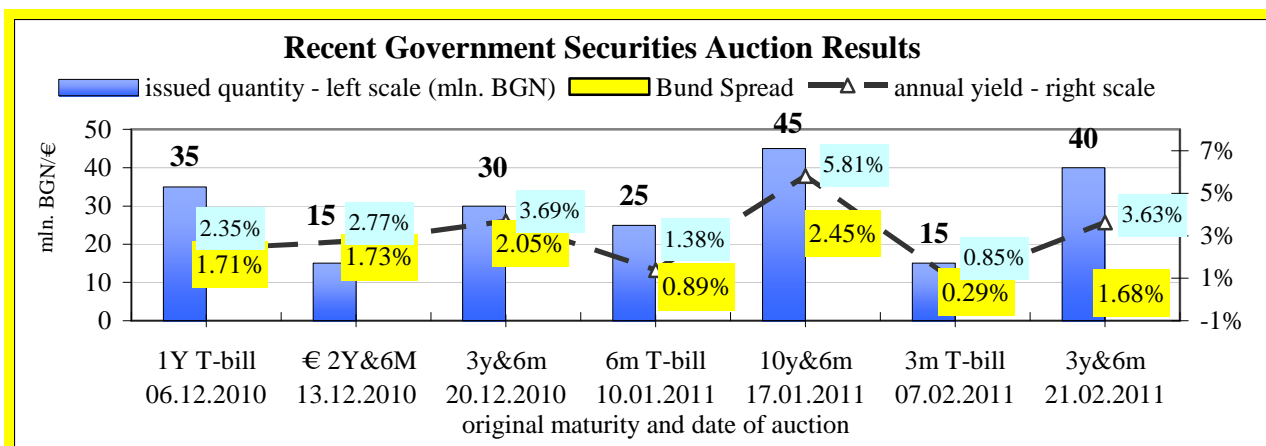
Ministry of Finance conducted two successful operations for redemption of 10Y GS, maturing in 2012 and 2013. Operations correspond with the intention of MoF to pursue an active and adequate market protection policy issue. The aim of the auctions was mainly to smooth the redemption profile of the debt and to reduce the debt interest payments.

Approved yields on repurchase auctions were close to market rates of euro-denominated global bonds of the Republic of Bulgaria. The results of the repurchase auctions show a minimum value of the premium for liquidity and currency risks as required by the participants.

Active and Innovative Debt Management Policy

The results on the auctions for government securities in February 2011, alongside with the tendency for reduction of the yields in all segments of the sovereign curve indicate the positive investors' evaluation of the government-led economic policy.

The results of operation in active management of government debt reflect the intention of the Ministry of Finance to reduce the risks of servicing the public debt



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

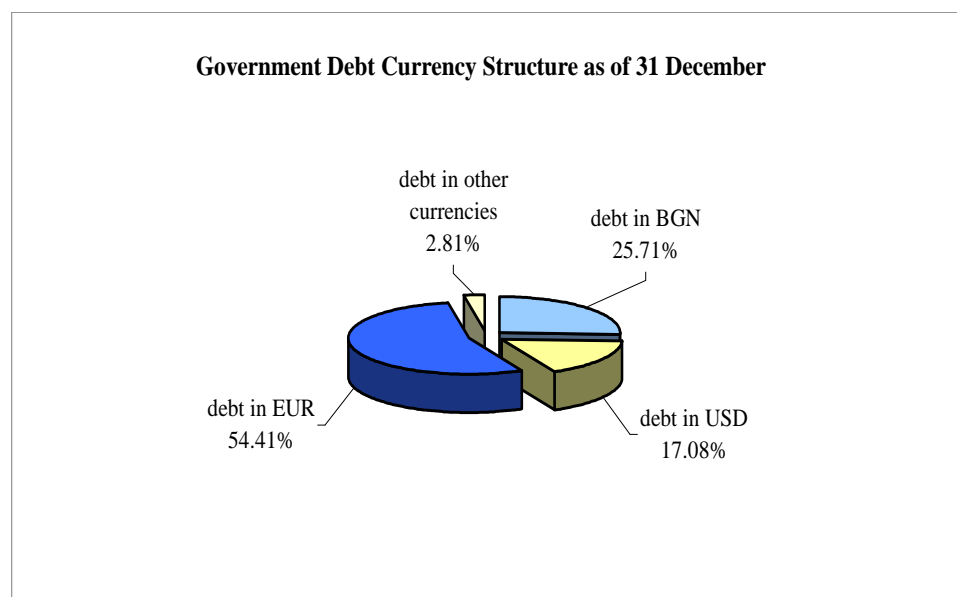
By end December 2010 government debt totaled EUR 5 385.0 million in nominal terms, including domestic debt of EUR 2 011.5 million and external debt of EUR 3 373.5 million. The government debt to GDP ratio came to 14.9 %.

The nominal amount of government debt by end January 2011 registered a positive change. Government debt posted a decrease in nominal terms by EUR 124.7 million compared to the level at the end of the previous month and reached EUR 5 260.3 million (13.7% of GDP).

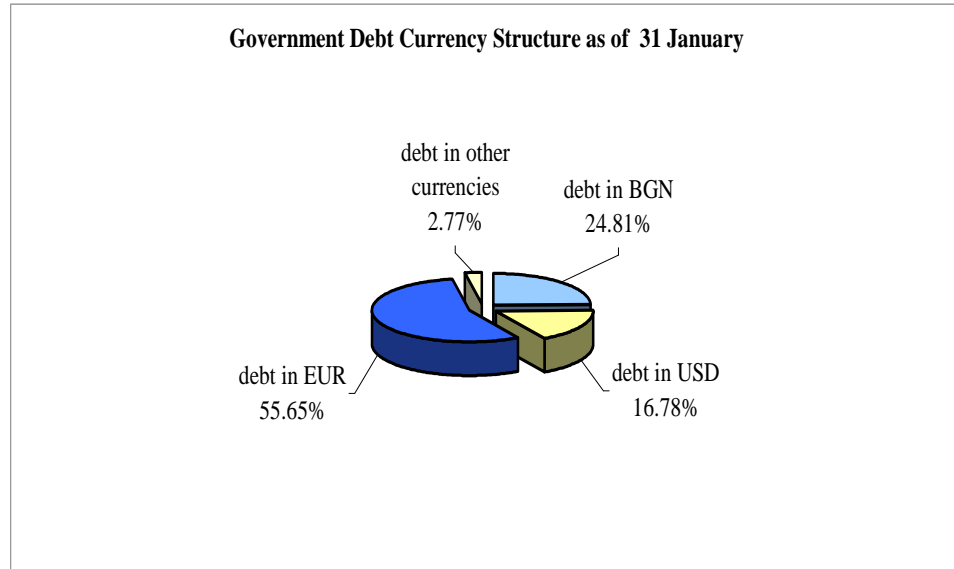
Government Debt Amount			
(million EUR)			
Structure	31.12.2009	31.12.2010	31.01.2011
Domestic government debt	1 538.7	2 011.5	1 914.6
External government debt	3 289.8	3 373.5	3 345.7
Government Debt, total	4 828.5	5 385.0	5 260.3
Government Debt /GDP (%)	13.8	14.9	13.7

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

The currency structure of the government debt by end December registered a positive change in the direction of the debt denominated in EUR and BGN. Debt in EUR amounted to 54.4 %, in BGN 25.7 %, in USD 17.1 % and in other currencies 2.8 %.

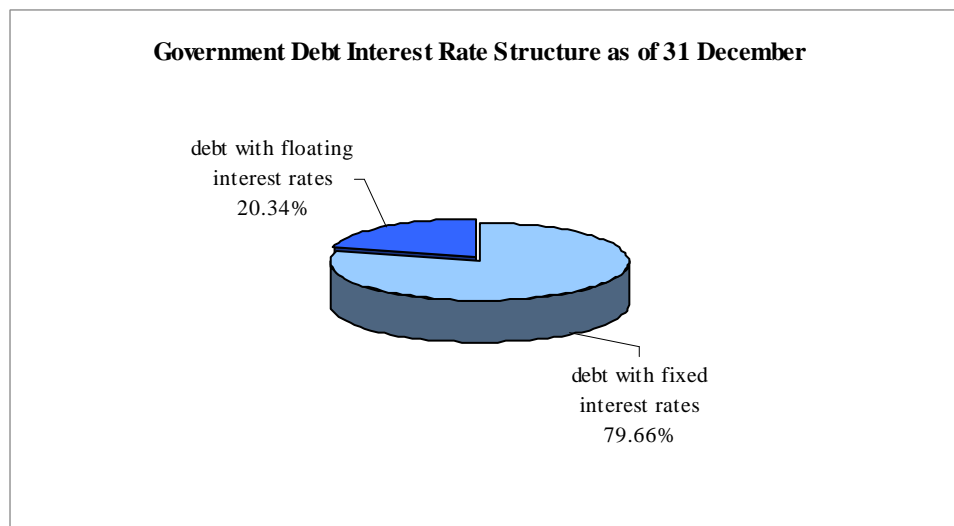


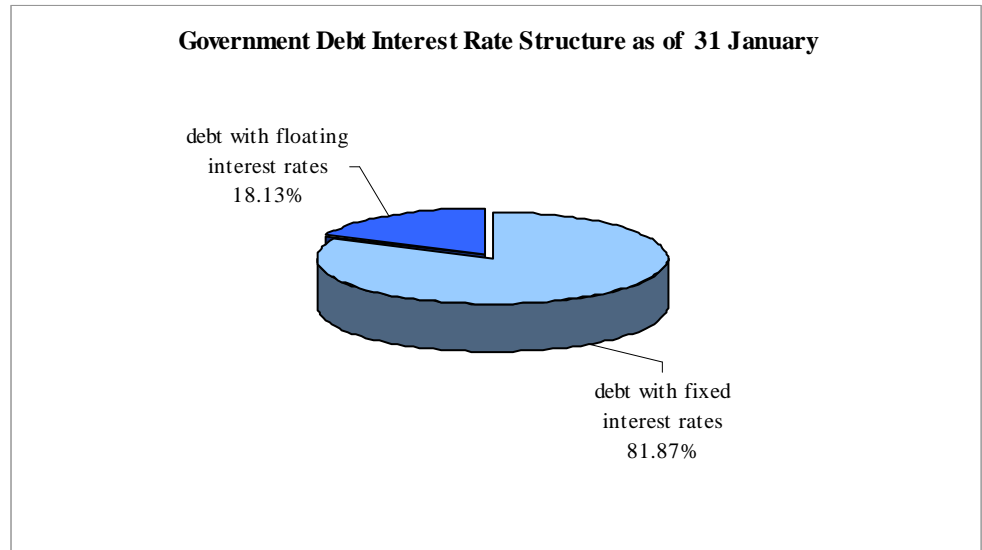
In January slight changes occurred in the debt currency structure. Debt denominated in EUR posted an increase on the previous month to 55.6%. A decrease was reported in the BGN - denominated debt, the debts in US Dollars and other currencies which came to 24.8%, 16.8% and 2.8% respectively.



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

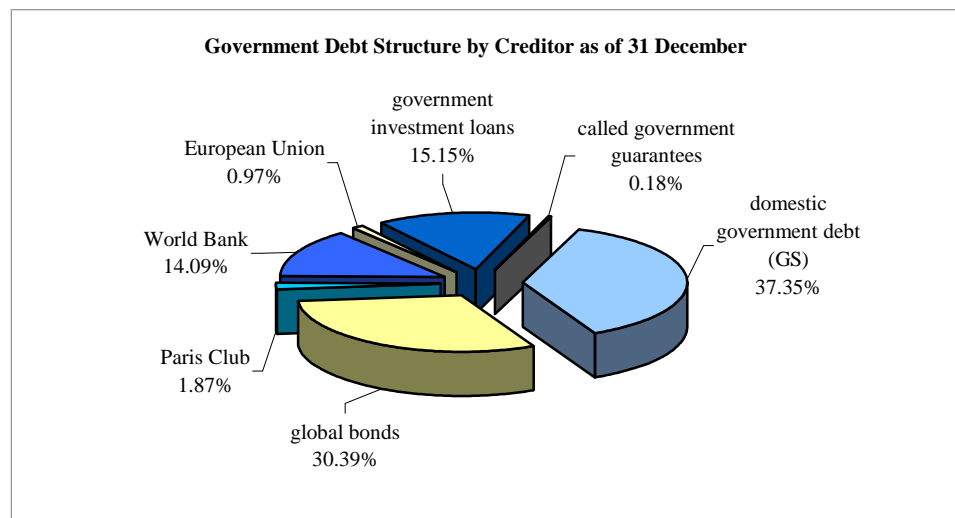
By end January the share of debt with fixed interest rates comprised 81.9 % (compared to 79.7 % in December) and that of debt with floating interest rates 18.1 % (20.3 % in December) as a result of the implemented borrowing policy concentrated on financial resources at fixed interest rates.

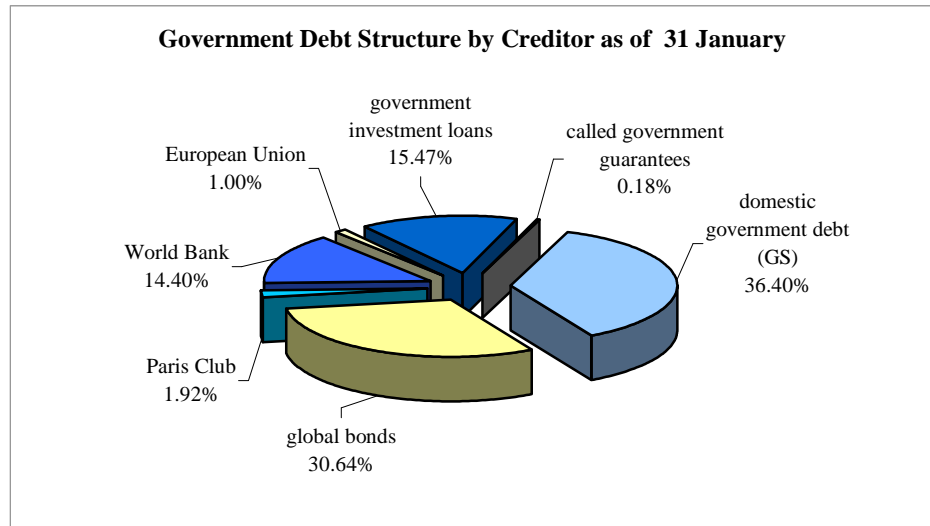




Government debt portfolio structure is another key indicator for successful debt management policy

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





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>

Focus: Preliminary data on 2010 GDP

Main Expectations and Developments through 2010

According to NSI preliminary data, 2010 real GDP growth was 0.2% and vastly in line with the latest expectations of the Ministry of Finance. Exports real growth was even stronger than the primarily expected, thus being the main driving force of the positive developments. Domestic demand recovery, however, didn't meet the expectations. Nevertheless, Q4 2010 data gave a positive signs for the prospects of our economy.

Table 1. Evolution of the government forecasts of the main economic indicators

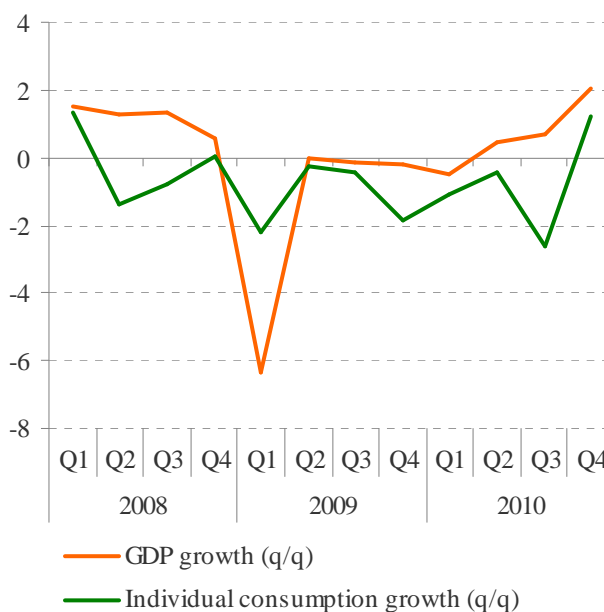
Indicators	2010			
	Budget 2010	Amended Budget 2010	Budget 2011	Preliminary data
GDP, %	-2.0	1.0	0.7	0.2
Consumption, %	-3.0	-2.1	-3.4	-1.1
Gross capital formation, %	-9.5	-5.3	-4.2	-14.0
Exports, %	-3.9	7.8	12.0	16.3
Imports, %	-8.0	-0.3	2.2	4.5
Current account, % of GDP	-8.0	-4.2	-3.3	-0.8
Annual average inflation, %	2.2	1.9	3.2	3.0

Highly uncertain economic environment in the last two years determined the high rate of variation of the government forecasts (between -2% and 0.7%). The 2010 budget of Republic of Bulgaria was adopted in the summer of 2009, when there were no positive signs of recovery. As 2009 was marked by deteriorating economic activity in the country, there were expectations for less pronounced but still negative developments for both domestic demand and net exports in 2010.

During the first months of 2010, a serious underperformance on the budget revenue side was observed. As a result, the budget was amended in July 2010. The newly adopted budget took into account the improved world environment, which had strong positive influence on Bulgarian exports. Favorable foreign environment, as well as the positive signs in the economy in early-2010 shaped significantly domestic growth prospects, thus exports were outlined as the main driving force of recovery. In the meantime, domestic demand expectations slightly improved, which led to a more optimistic forecast regarding final consumption.

According to the medium term economic forecast, underlying the 2011 budget, a 0.7% growth was projected, based on the data available until Q2 2010. It outlined a stronger than expected growth in exports and slowing household consumption decrease. Domestic demand expectations turned too optimistic in comparison with the reported Q3 data, though strong export growth made up for the decrease in consumption expenditure. External demand sustained its positive contribution according to 2010 flash estimates. Domestic demand also showed signs of improvement in Q4 with positive q-o-q developments both in consumption and investment.

GDP and Consumption growth rates (%)



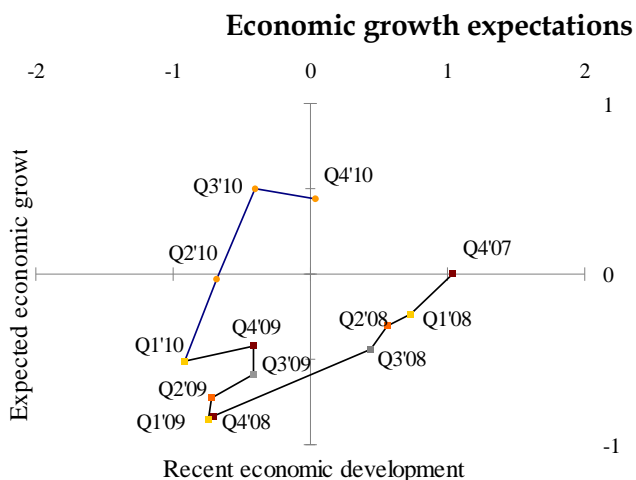
Source: NSI, MoF

The positive signs of improvement at the end-2010 are in line with the current expectations at the Ministry of Finance. Consumption will start to register positive real growth in 2011, as a result the real GDP growth forecast of 3.6% will be reached.

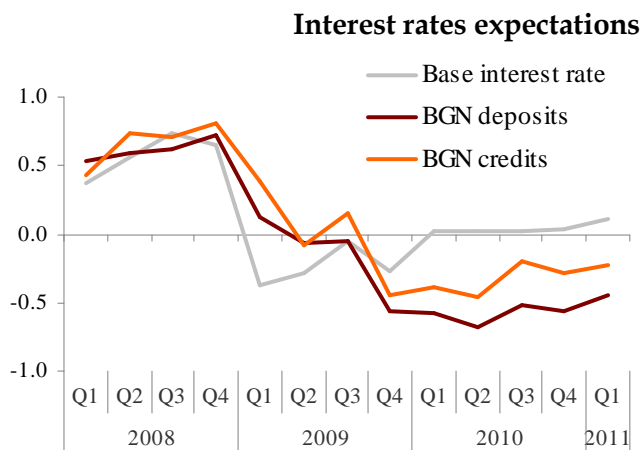
Financial Sector: Estimates and Expectations, #1/2011

Resume of the Main Findings

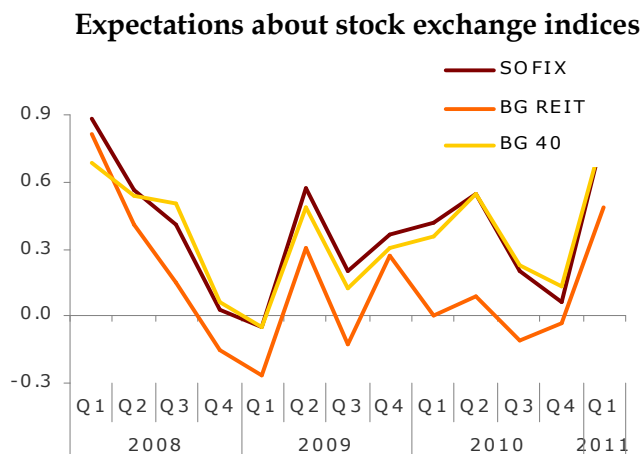
- The assessment of the current macroeconomic situation shows a significant improvement in the last quarter of 2010.
- Economic growth expectations remain positive.



- Interest rates level will continue to decline. Still, deposits interest rates will decrease faster than lending interest rates.



- Financial intermediaries have improved their perception of stock exchange indices.



- Survey answers show relatively high inflation expectations for 2011.
- Both international prices hikes and resurgence of economic growth in the country underlie these expectations.

