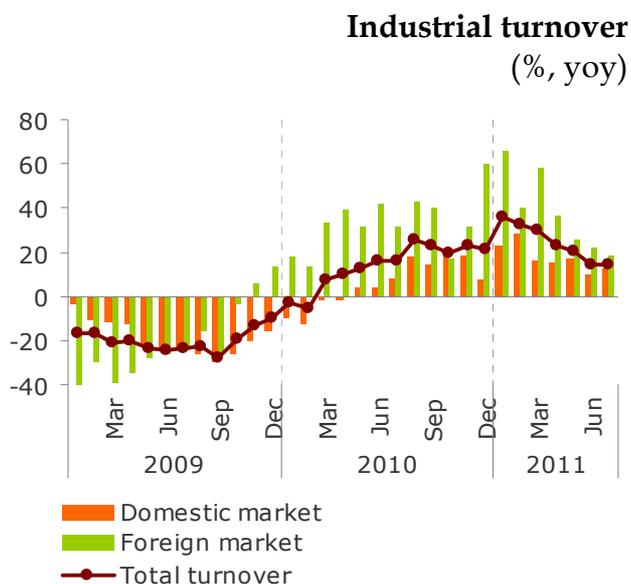


## Macroeconomic environment and policies in brief

- Despite some short-term fluctuations **industrial production and business climate** in the country are steadily improving since mid-2010. Industrial turnover annual growth rate also stabilized, as foreign market sales slowdown has been compensated by the increase in domestic turnover. Though short-term business statistics are steadily picking up, **retail sales and construction production index** decrease widened in recent months owing to current business juncture and still fragile domestic demand recovery.
- Seasonal recovery in the **labor market** continued in the third quarter, which was confirmed by the downward dynamics of monthly registered unemployment, which reached 9.6% at the end of August. In line with expectations **headline HICP inflation** moderated significantly starting Q2, thus august reading of 3.1% on a year-on-year basis stabilized around EU average. Weak labour market kept inflation in check, as real unit labour costs have been on the decrease since H2 2010.
- **Current account balance** continued to improve, as the surplus for the first seven months of 2011 stood 2.3% of GDP, reaching a new historical high in the period. In July alone, CA surplus stood at EUR 641.7 mln, reflecting positive dynamics in trade and services balance and higher current transfers, especially from EU funds. **Services** sector improved substantially, as its surplus almost doubled in July over the previous month amid the ongoing holiday season, increasing by 4.6% yoy to EUR 623.8 mln. **The overall balance of payments** came positive at EUR 37.7 mln, thus the accumulated deficit in January-July diminished to EUR 534.9 mln, being EUR 801.9 mln a year earlier.
- Annual **credit growth rate** accelerated to 3.3% in August, as corporate loans gathered speed. Consumer credits kept contributing negatively, while mortgages slowed further at the end of the month. **Interest rates** on new business corporate credits increased, accompanied by a significant increase in their volumes compared to last several months. Assuming that these developments persist over the next few months, they should be considered as a positive sign, meaning that banks are regaining confidence in the real economy.
- **Fiscal consolidation** continued in 2011 supported by measures with regard to expenditure, control mechanisms strengthening and gradual improvement on the revenue side. General government deficit amounted to 1% of GDP in Jan-Aug 2011, down by 1.2 pps yoy, on the back of better-than-expected indirect tax revenues and stringent expenditure policies.
- Since August 2011, there has been a **clear trend of reduction of the yield on domestic government debt on the primary market in all maturity segments**. Against the backdrop of the high uncertainty on government debt markets in Europe, these results distinguish Bulgaria as a sovereign debt issuer and strengthen its status of a low-risk issuer in Central and Eastern Europe. Investors continue to have strong confidence in the policy aimed at attaining low budget deficit and overall fiscal discipline.

## Recent Economic Developments

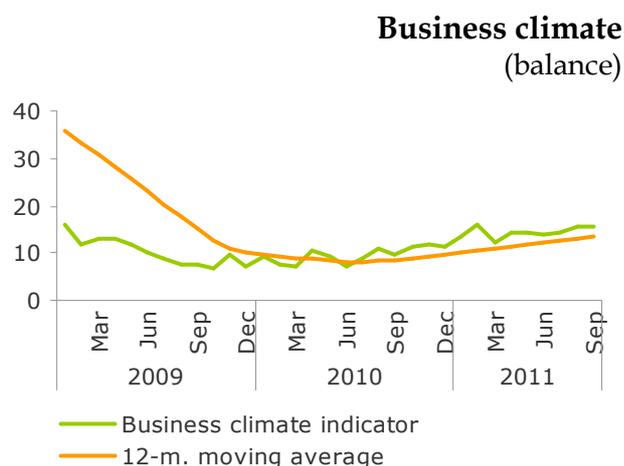
- **Industrial turnover** annual growth rate stabilized at 14.8% yoy in July. For a fourth month in a row, foreign market turnover decelerated and reached 19.1% yoy, thus its slowdown has been compensated by the 12.3% yoy increase in domestic turnover. Manufacture of basic metals and production of precious and non-ferrous metals in particular, largely accounted for the foreign market sales increase. According to the production purpose, products for intermediate consumption had again the largest share.
- **Industrial production** grew by 4.7% in real terms compared to the 1.6% increase in the previous month. According to the production purpose, products for intermediate consumption had the largest positive contribution.



Source: NSI

- **Retail sales** slump expanded further to 3% yoy in July, led by the decrease in major components such as retail sales of audio and video equipment, down 8.1% yoy, followed by computers, software and telecommunications equipment, down by 6.2%.

- **Construction production index** decrease also widened to 14.4% yoy, being 3.7% in June. Building construction decreased by 9.7%, while civil engineering slightly slowed its negative growth to 20.6% from -21.9% in the previous month.



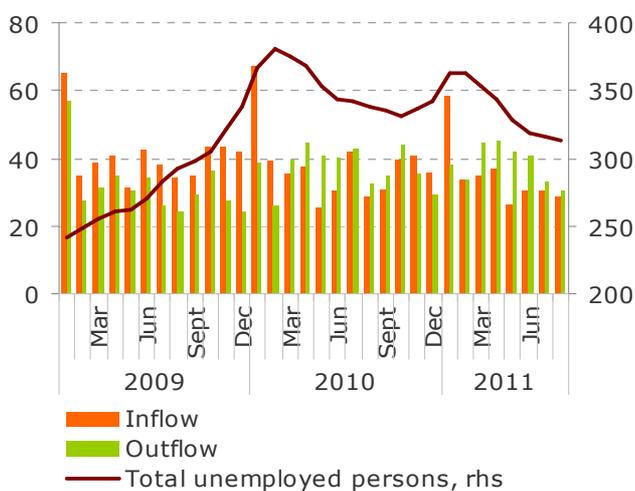
Source: NSI

- After the positive developments in the last two months, **business climate** in September remained practically unchanged from its level in August, while growing by 6 points yoy. Respondents in the services sector reported an increase in demand in recent months. An increase in orders has been also recorded in industry, though production expectations deteriorated in all sectors.
- **Registered unemployed people** marginally decreased by 0.5% mom to 313.8K in August, corresponding to a jobless rate of 9.6%<sup>1</sup>. Unemployment inflow stepped down by 4.2%, strongly influenced by the decrease in laid-offs in education and administrative and subsidiary activities. The outflow of unemployed people also declined, down 8% mom, mainly due to the lower

<sup>1</sup> The jobless rate was recalculated using the Census 2011 data on 15-64 working age population.

number of persons who started working – 12.3K. Albeit demand of labour on the primary labour market usually increases in August, due to the forthcoming school year beginning, most of these jobs would be occupied in September. Scope of active labour market measures financed with state budget funds has been further narrowed over the month, thus making the largest contribution to the overall decline in the number of persons settled on job in August.

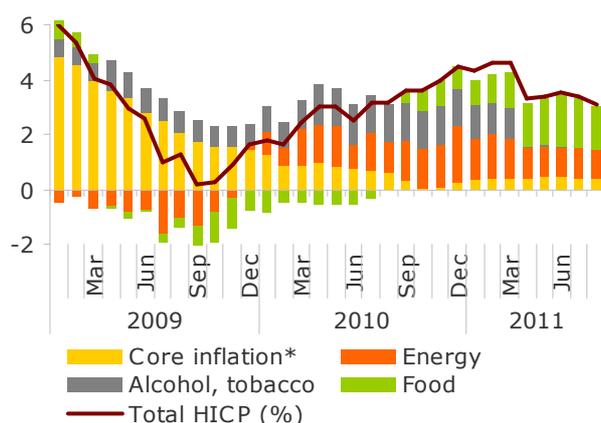
#### Inflow, outflow and total number of unemployed people (in thousands)



Source: EA

- August **inflation rate** stepped down by 0.1% mom, thus annual HICP index moderated further to 3.1% and stabilized close to EU average. Food prices decline largely accounted for the overall monthly deflation owing to the downward seasonal correction in unprocessed food prices (fruits and vegetables). The annual rate of increase in consumer prices kept decelerating on the back of slowing processed food and energy price inflation amid easing agricultural and energy commodity prices. Core inflation (services and non-energy industrial good) remained subdued, showing practically no change at 0.7% yoy.

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

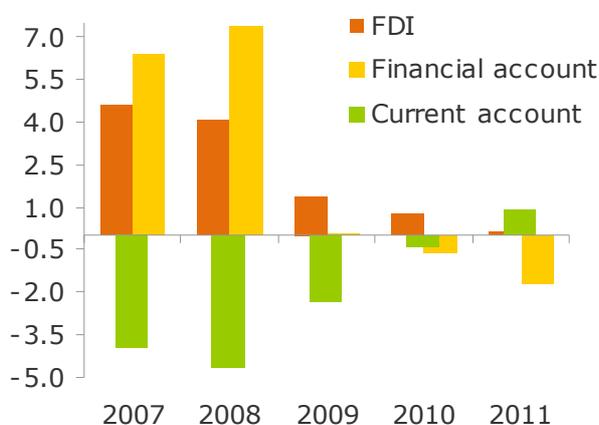


Source: NSI, MF

- Current account surplus** reached EUR 885.8 mln (2.3% of GDP) for the first seven months, reaching a new historical high in the period. In July alone, CA surplus stood at EUR 641.7 mln, reflecting positive dynamics in trade and services balance and higher current transfers, especially from EU funds. Export of goods in July surprised on the positive side. It continued rising at an accelerating pace, up 20.1% yoy to EUR 1.8 bn, despite the relatively high base and reversing the slowdown tendency. Thus its July level is the highest monthly value ever. The accumulated growth in January-July stood at 37.2% yoy. Import kept decelerating its pace of increase, posting an 11.9% yoy growth, compared to the revised 13.7% annual growth in June. For the first seven months imported goods total value reached 12.06 bn, up 21.2% on a year earlier. Climbing exports along with restricted imports resulted in a EUR 50.9 mln trade surplus in July and an accumulated EUR 590.5 mln surplus (1.5% of GDP) from the beginning of 2011.
- Services sector performed rather outstanding as its surplus almost doubled in July over the month, increasing by 4.6% yoy to EUR 623.8

mln. Bulgarians continued to spend less on other services, including telecommunication, financial, construction and insurance services, thus the surplus on “Services” reached EUR 1.26 bn (3.2% of GDP) in January-July. Income deficit for this period widened by 13.4% yoy to EUR 919.6 mln, due to data revision. Net current transfers increased by 15.1% to EUR 1.13 bn for the first seven months over the same period of 2010.

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

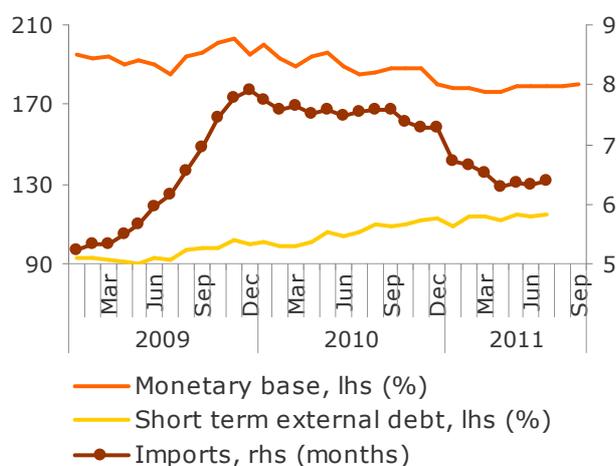


Source: BNB

- **Financial account balance** remained negative at EUR 685 mln in July, while the accumulated deficit for the first seven months of 2011 reached EUR 1.7 bn. The accumulated net FDI in the country came to EUR 183.8 mln. Foreign liabilities repayment from local banks and companies, along with higher deposits in banks abroad, resulted in a negative balance in “Other investments” at 742.3 mln in July alone and 1.59 bn since January.
- **July balance of payments** came positive at EUR 37.7 mln, thus the accumulated deficit in January-July diminished to EUR 534.9 mln, being EUR 801.9 mln a year earlier.

- **Gross external debt (GED)** decreased marginally to 93.6% of GDP (EUR 36.2 bn) at end-July, decreasing by 10.2 pps yoy and 0.4 pps mom. Banking system external debt stock started to contract in yoy terms in mid-2009, thus its decrease accelerated in end-2010 and 2011. This dynamics eased during recent months. Banking sector foreign debt stood at 17.7% of GED at end-July, down 9.4% yoy. Regarding the non-banking sector, “other sectors” foreign debt rose 2.8% yoy, as firms borrowed more short-term and long-term loans. Meanwhile, intercompany loans decreased by 2.8% yoy, as local firms repaid outstanding debt to their mother-companies abroad. In terms of maturity structure, there was practically no change, as short-term and long-term debt remained at 70% and 30%, respectively.

**Coverage with FX Reserves**

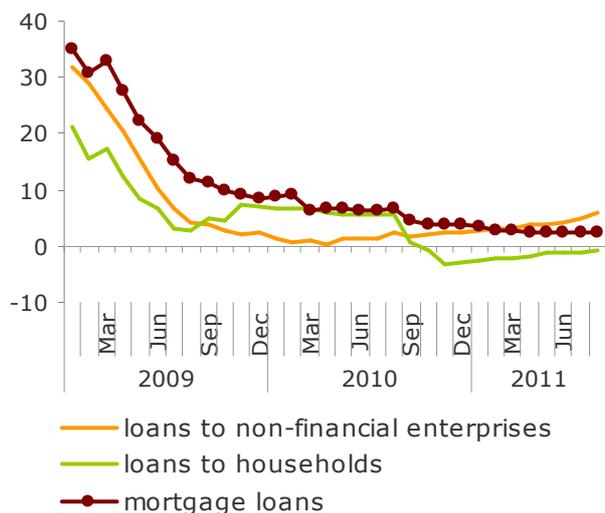


Source: BNB, MoF

- **International reserves** dropped slightly to BGN 13.1 bn in September, down by BGN 27.5 mln (0.2% mom). Their annual growth rate declined to 2.3% after accelerating to 4.8% at the end of August. Reserves dynamics was largely triggered by decrease in bank reserves and Bank Department deposit, the latter influenced by the recent sharp drop in gold prices. Monetary base coverage as

of end-September slightly improved to 180.7%. The international reserves at the end of July were sufficient to cover 6.4 months of imports and 115.1% of the short-term external debt.

**Credit growth**  
(% change, yoy)



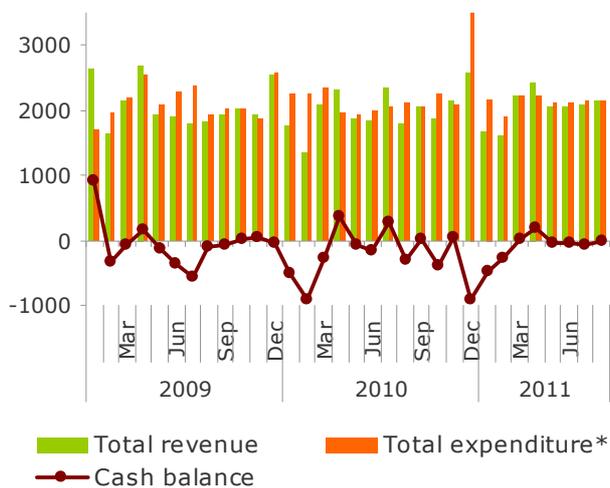
Source: BNB, MoF

- Money supply stabilized its growth rate at 9.4% in August, same as during the previous month. The ongoing summer holiday season kept on shaping monetary aggregates dynamics, as the higher demand for liquidity led to accelerated growth of the M1 aggregate. The latter stepped up by 6.8% yoy, its growth rate being 5.2% in the previous month. Quasi-money slowed their pace of increase by about 1 pp down to 11%. Total deposits grew by BGN 605.5 mln in nominal terms, up 1.3% mom and up 10.4% on a year earlier.
- Credit to the private sector continued its recovery, as its annual growth rate accelerated to 3.3% in August. As usual, credit to non-financial enterprises largely accounted for this dynamics, growing by 6.1% yoy. Consumer credits kept contributing negatively and decreased by 0.7%. Mortgages slowed further in August to 2.2% at the end of the month.
- **Interest rates** on new business corporate credits increased in August. It was more substantially observed in euro denominated credits, accompanied by a significant increase in their volumes compared to last several months. Medium and long maturities largely accounted to new loans increased volumes. Assuming that these developments persist over the next few months, they should be considered as a positive sign, meaning that banks are regaining confidence in the real economy. Interest rates on BGN and EUR denominated consumer credits slightly declined, while mortgage rates in euro increased. There was no significant change in volumes from the previous months. Deposits in BGN saw increasing rates in most maturities. At the same time rates on short-term & long-term deposits in euro went in opposite directions as short-term rates increased, while those on long-term deposits declined.
- Fiscal consolidation continued, as **general government deficit** amounted to BGN 731.1 mln (1% of GDP) on cash basis at the end of August, decreasing by BGN 805.6 mln in nominal terms (down 1.2 pps) compared to the corresponding period a year earlier.
- **Total revenue for the first eight months** accounted for 62% of the 2011 annual forecast, up by 6.1% yoy in nominal terms. Tax revenues increased by 11.3% owing to indirect taxes (up 13.1% yoy), while VAT receipts in January-August came 12.6% higher compared to the same period of 2010. Excises increased as well, up 13.8% yoy. Direct taxes and social and health insurance contributions<sup>2</sup> had also a

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

positive contribution to total revenue dynamics. Meanwhile, both non-tax revenue and grants collected during the first eight months decreased in yoy terms.

**Consolidated Budget**  
(monthly value, mln BGN)



\* incl. contribution to EU budget

Source: MoF

- **Total expenditure** accounted for 60.2% of the annual forecast. Compared to the same period of 2010 total expenditure grew by 0.8% in nominal terms, mainly driven by the social payments increase. Expenditure on maintenance, social and health insurance contributions and interest also went up. The impact of these spending item increases on total expenditure dynamics was partially offset by reduction in capital expenditures, wages and salaries and subsidies payments.
- **Fiscal reserve** amounted to approximately BGN 5 bn at end-August.
- **General government debt**, including government guaranteed debt, stood at 15.6% of GDP. External debt amounted to 8.5% of GDP, domestic debt - to 5.5% of GDP, while guaranteed debt came to 1.6% of GDP.

## 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*	%, yoy	6.1	-5.5	0.2	0.0	3.7	3.3	2.0						
Consumption	%, yoy	2.5	-7.3	-1.1	-1.2	0.5	1.2	1.4						
Gross fixed capital formation	%, yoy	16.3	-24.9	-14.0	-21.3	-0.9	1.6	8.4						
Export	%, yoy	3.0	-11.2	16.2	27.7	15.2	21.6	12.2						
Import	%, yoy	4.2	-21.0	4.5	5.3	10.7	10.0	7.5						
Agriculture	%, yoy	29.6	-6.1	3.9	2.3	-1.5	-1.4	-2.5						
Industry	%, yoy	4.4	-7.8	1.9	-10.4	10.5	5.4	5.9						
Services	%, yoy	5.0	-0.8	-0.9	3.3	0.6	0.1	0.1						
Adjustments	%, yoy	5.7	-16.5	-0.2	3.3	5.2	7.9	5.3						
<b>Short term business statistics</b>														
Industrial production	%, yoy	0.7	-18.3	2.0	4.4	5.2	10.6	6.0	7.2	8.8	9.1	1.6	5.1	2.5
Industrial turnover	%, yoy	13.7	-20.2	14.1	21.5	21.1	32.6	19.1	30.1	23.1	20.2	14.5	15.0	13.9
Retail trade turnover	%, yoy	8.9	-8.9	-5.6	-4.1	-4.3	0.4	0.4	1.4	0.5	1.8	-0.9	-3.0	-2.7
Construction output	%, yoy	12.7	-14.5	-18.0	-15.0	-8.5	-14.8	-14.4	-18.41	-22.1	-16.9	-3.7	-14.2	-8.2
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)	%, yoy	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 (EA**)	level	6.3	7.6	9.5	9.1	9.1	10.9	10.1	10.7	10.5	10.0	9.7	9.6	9.6
Nominal wage	%, yoy	26.5	11.8	6.3	9.6	10.4	8.5	9.3	8.3	10.4	9.1	8.5		
Real wage***	%, yoy	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)	%, yoy	3.5	-2.9	6.4	5.8	7.8	5.2	6.0						
Real ULC	%, yoy	3.7	8.1	-2.2	-6.2	-6.7	-7.0	-3.4						
<b>Prices</b>														
Harmonized index of consumer prices	%, yoy	11.9	2.5	3.0	3.3	4.0	4.5	3.4	4.6	3.3	3.4	3.5	3.4	3.1
Domestic producer prices	%, yoy	13.3	-4.3	7.2	9.5	11.1	11.9	10.3	12.1	10.7	10.0	10.1	8.4	6.6
<b>Consolidated fiscal program (cummulative)</b>														
Revenue and grants	mln BGN	27313	25041	23933	17346	23933	5530	12042	5530	7950	9997	12042	14119	16242
Total expenses	mln BGN	25323	25667	26755	18872	26755	6272	12692	6272	8502	10595	12692	14839	16973
Contribution to EU budget	mln BGN	720	746	670	529	670	250	367	250	286	330	367	422	466
Cash deficit(-) / surplus(+)	mln BGN	1990	-626	-2823	-1527	-2823	-742	-651	-742	-552	-598	-651	-721	-731
	% 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	-1.0
Government and gov. guaranteed debt	mln BGN	10710	10641	11778	11397	11778	11447	11573	11447	11406	11532	11573	11708	11763
	% GDP	15.5	15.6	16.7	16.2	16.7	15.1	15.3	15.1	15.1	15.3	15.3	15.5	15.6
Fiscal reserve	bn BGN	8382	7673	6012	6711	6012	4699	5154	4699	4683	4986	5154	4881	4993
	%, yoy	12.5	-8.5	-21.6	-12.7	-21.6	-26.1	-14.5	-26.1	-29.8	-24.3	-14.5	-22.8	-19.0

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

		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	6.3	6.3	6.4	
Coverage of short-term external debt	%	96.5	100.2	112.8	108.9	112.8	112.4	113.6	112.4	112.1	114.7	113.6	115.1	
Money M1 (Narrow money)	%, yoy	-4.1	-8.8	0.8	7.7	0.8	4.9	3.7	4.9	4.5	3.5	3.7	5.2	6.8
Money M3 (Broad money)	%, yoy	8.8	4.2	6.2	8.4	6.2	7.4	8.0	7.4	7.6	7.9	8.0	9.4	9.4
Deposits	%, yoy	8.8	7.6	6.6	9.4	6.6	8.2	8.8	8.2	8.3	8.6	8.8	10.3	10.4
Credit to private sector	%, yoy	32.9	3.8	1.1	1.6	1.1	1.6	2.1	1.6	2.1	2.2	2.1	2.5	3.3
Credit to non-financial enterprises	%, yoy	33.1	2.3	2.4	1.8	2.4	3.0	4.1	3.0	3.8	3.7	4.1	4.8	6.1
Credit to households	%, yoy	31.4	5.8	-0.8	0.8	-0.8	-0.7	-0.6	-0.7	-0.7	-0.6	-0.6	-0.5	-0.4
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	7.9
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	4.8
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	94.0	93.9	93.3	93.8	94.0	93.6	
Short term external debt	% GED	35.4	32.7	31.4	32.1	31.4	29.9	29.9	30.0	29.6	29.4	29.9	30.0	
Intercompany lending	% GED	36.4	38.5	40.2	40.2	40.2	40.4	40.0	40.0	40.4	40.3	40.0	40.3	
<b>Balance of payments</b>														
Current account	mln EUR	-8162	-3118	-356	1319	-871	147	97	24	-79	127	50	642	
Current account, % GDP moving average		-23.4	-8.7	-1.0	-1.4	-1.3	0.7	1.8	0.6	1.0	1.6	1.8	2.1	
Trade balance	mln EUR	-8597	-4174	-2412	-202	-1040	-11	-630	-46	-202	-219	-208	51	
Trade balance, % GDP moving average		-24.6	-11.6	-6.7	-7.5	-7.7	-5.8	-5.0	-5.5	-5.1	-4.8	-4.9	-4.6	
Export, f.o.b.	mln EUR	15204	11699	15588	4416	4313	4777	4862	1697	1606	1660	1596	1835	
	%, yoy	12.5	-23.1	33.2	44.5	32.8	57.5	28.0	51.2	36.7	37.0	12.9	20.1	
Import, f.o.b.	mln EUR	-23801	-15873	-18001	-4618	-5352	-4788	-5492	-1743	-1808	-1879	-1804	-1784	
	%, yoy	14.7	-33.3	13.4	18.0	28.9	30.2	17.4	20.1	18.7	20.0	13.7	11.9	
Capital account	mln EUR	277	477	291	178	140	16	45	7	2	-1	45	40	
Financial account	mln EUR	11473	1190	-1	-17	358	-743	-273	-104	-57	-80	-302	-154	
Net Foreign Direct Investments	mln EUR	6212	2498	1459	422	693	-120	176	-408	109	54	12	61	
Net Portfolio Investments	mln EUR	-731	-570	-661	-50	-150	-189	-18	-6	170	-148	-40	13	
Other Investments - net	mln EUR	5980	-719	-774	-378	-185	-424	-424	101	-469	44	1	-742	
Change in BNB reserve assets****	mln EUR	-674	650	384	-722	-65	665	-92	90	258	-220	-131	-38	

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

\*\* Employment agency.

\*\*\* HICP deflated.

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

## Recent Developments and Government Debt Review

### High demand of investors in Bulgarian domestic debt

The weighted average annual yield at the auction for the sale of 3.5-year government securities (GS) held on September 12, 2011 stood at 3.29%. The achieved parameters at the auction are the best since the launching of the issue in December 2010, when the achieved yield reached 3.69%. The yield achieved is below those of EUR-denominated Eurobonds with similar residual maturity of a number of CEE countries - Lithuania (3.66%), Turkey (3.83%), Croatia (4.43%), Hungary (4.83%) and Romania (4.04%).

The total amount of bids received reached BGN 110.26 mln, while the achieved coverage ratio of 3.15 is the highest one for this issue. There was strong demand for the issue on behalf of banks as primary and non-primary dealers of GS. In the high demand of investors in Bulgarian domestic debt the Ministry of finance (MoF) decided to approve a bigger than the initially offered amount of GS. Orders amounting in nominal terms to BGN 51.5 mln have been approved, corresponding to the active government debt management policy. With the placed nominal value of the issue its total volume in circulation reached BGN 260.5 mln. The result confirmed the benchmark status of the securities in the medium-term segment of the domestic capital market.

### Fourth consecutive auction with lowest yield on government bonds

A record downward correction in the average weighted annual yield - down to 4.4%, was registered at the auction for the sale of 7-year GS held on September 19. The achieved yield on the total requested volume of securities was 4.48%. During the previous reopening of the 7-year bond issue (on August 15, 2011) the registered yield stood at 4.53%, while the highest yield of 6.09% on this issue was registered in May 2010. The achieved yield on the issue is better than the value of the current yield on EUR-denominated Eurobonds with similar residual maturity of Hungary (6.03%) and Turkey (4.83%).

Bids volume in this auction came to over BGN 160 mln and exceeded nearly three times the BGN 55 mln quantity offered. These results are considered positive, as apart the banks that have acquired approximately 34.4% of the total requested and approved nominal value, there was also a strong interest from institutional investors, including pension funds (20.8%), insurance and life insurance companies (20.7%) and other investors (24.1%).

### The yield on Bulgarian Government Bonds decreased for a fifth time in a row

A record decrease of the yield on Bulgarian government bonds was registered for a fifth time in a row at the auction for the sale of 5-year EUR-denominated GS held on September 26, 2011. The achieved average weighted annual yield on the approved securities volume of EUR 35 mln was 3.9%. This is the lowest yield achieved on this issue since its launching in March 2011, when it reached 4.16 %.

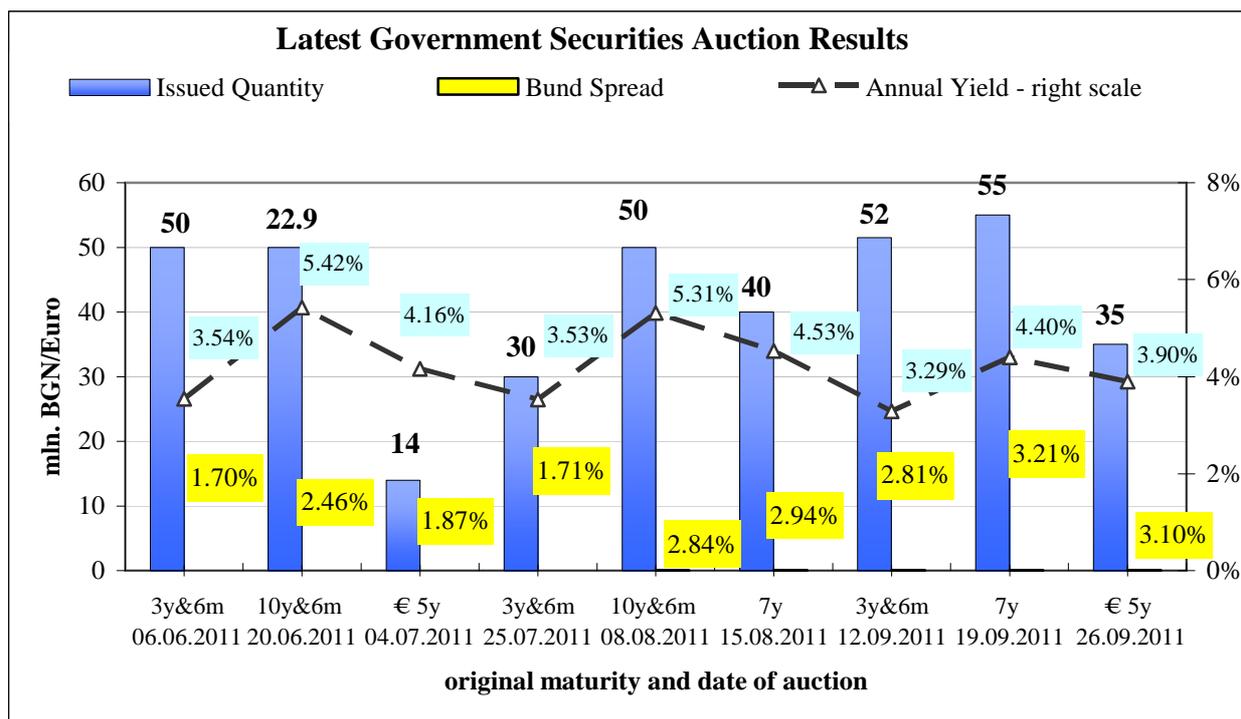
The yield on the total requested securities volume is 4.01%, lower than the average approved yield of 4.06% on the total nominal value of the issue in circulation. The yield achieved during the auction reaffirmed the positive trend of a decreasing yield in the entire debt curve spectrum. The approved yield during the action was below those on EUR-denominated Eurobonds with similar residual maturity of Lithuania (4.2%), Turkey (4.8%) and Hungary (6.25%).

Under the conditions of uncertainty on the financial markets in Europe, arising from the sovereign debt crisis in euroarea countries, the auction was conducted in an environment of strong interest, the total nominal value of bids reaching approximately EUR 67 mln. The registered coverage ratio was 1.91. With the placed nominal value of the issue, amounting to EUR 35 mln, its total volume in circulation reached EUR 109 mln. The latter confirmed the benchmark status of the securities in the medium-term segment of the domestic capital market.

Clear downward trend in the yield on domestic government

Since August 2011, there has been a clear downward trend of the yield on the primary market against the high volatility on international markets, which distinguishes Bulgaria as a sovereign debt issuer and strengthens its status of a low-risk issuer in Central and Eastern Europe. Investors continue to have strong confidence in the policy aimed at attaining low budget deficit and overall fiscal discipline.

After the upgrade of the sovereign credit rating of the Republic of Bulgaria to Baa2 by Moody's at end-July, there is a clear trend of reduction of the yield on domestic government debt on the primary market in all maturity segments. Against the backdrop of the high uncertainty on government debt markets in Europe, these results are an assessment of the investment community of the overall macroeconomic policy in Bulgaria pursued by the government.



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

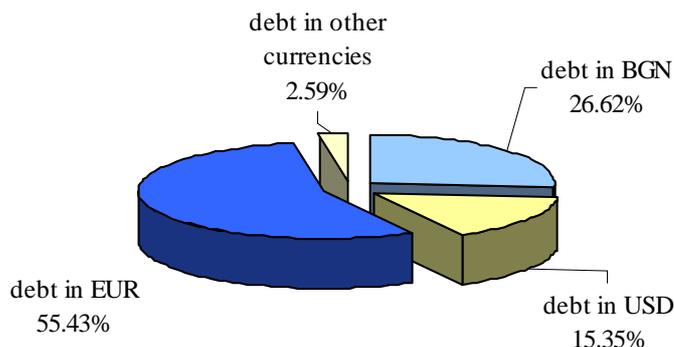
By end-August 2011 government debt totalled EUR 5415 mln in nominal terms, including domestic debt of EUR 2122.3 mln and external debt of EUR 3292.7 mln. In nominal terms, government debt posted an increase of some EUR 30 mln at the end of the previous month, which was mainly due to the increase in domestic debt after the new internal government securities financing. Government debt/GDP ratio was 14%.

Government Debt Amount					
(million EUR)					
Structure	31.12.2010	31.03.2011	30.06.2011	31.07.2011	31.08.2011
Domestic government debt	2 011.5	1 941.5	2 059.8	2 077.0	2 122.3
External government debt	3 373.5	3 319.5	3 272.1	3 307.9	3 292.7
<b>Government Debt, total</b>	<b>5 385.0</b>	<b>5 261.0</b>	<b>5 331.9</b>	<b>5 385.0</b>	<b>5 415.0</b>
<b>Government Debt /GDP (%)</b>	<b>14.9</b>	<b>13.6</b>	<b>13.8</b>	<b>13.9</b>	<b>14.0</b>

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

Public debt currency structure in August continued its positive trend toward an increase in BGN denominated debt, as its share amounted to 26.6%, from 25.9% in July. The debt denominated in EUR, USD and other currencies decreased, reaching 55.4%, 15.4% and 2.6% respectively.

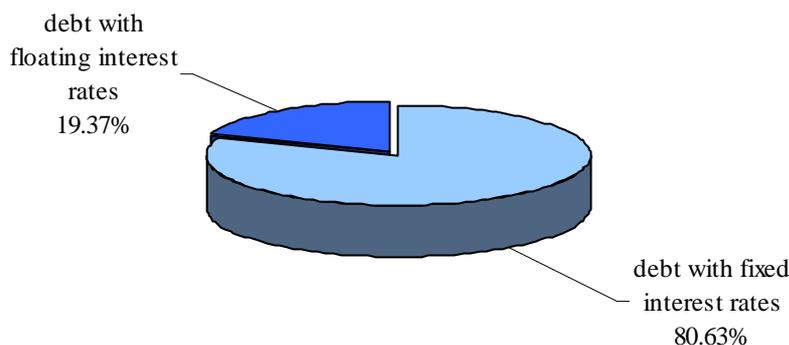
Government Debt Currency Structure as of 31 August



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

Fixed interest debt share was 80.6%, while floating interest debt came to 19.4%, which resulted from both the financing with fixed interest rate and the regular discharge of the debt with floating interest rates.

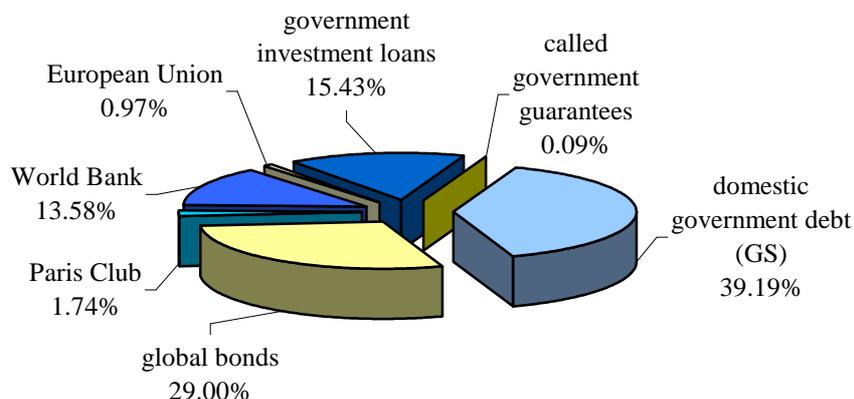
Government Debt Interest Rate Structure as of 31 August



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

Debt structure by types of instruments and creditors in August showed no significant change. Liabilities related to GS issued on the domestic market had the largest share, which came to 39.2%, followed by global bonds - 29%, government investment loans - 15.4%, obligations to the World Bank - 13.6%, obligations to the Paris club - 1.7%, European Union - 1% and called government guarantees - 0.1%.

Government Debt Structure by Creditor as of 31 August



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](mailto:M.Boikova@minfin.bg), tel. +359 2 9859 2450.