

Research Update:

Bulgaria Short-Term Ratings Raised To 'A-2' On Criteria Change; 'BBB' Long-Term Ratings Affirmed; Outlook Stable

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Overview

- On May 15, 2012, we published our methodology to link short-term and long-term ratings for corporate and sovereign issuers.
- Based on our criteria, we are raising our short-term foreign and local currency sovereign credit ratings on the Republic of Bulgaria to 'A-2' from 'A-3'.
- The upgrade does not reflect an improvement in our view of the country's short-term creditworthiness.
- We are also affirming our 'BBB' long-term foreign and local currency sovereign credit ratings on Bulgaria.
- The stable outlook reflects our view that Bulgaria's authorities will continue to maintain a favorable fiscal position on the back of ongoing budgetary consolidation and structural reforms, despite the likely slowdown in economic growth prospects and against its gross external debt position.

Rating Action

On Aug. 10, 2012, Standard & Poor's Ratings Services raised its short-term foreign and local currency sovereign credit ratings on Bulgaria to 'A-2' from 'A-3'. We also affirmed our 'BBB' long-term foreign and local currency sovereign credit ratings. The outlook is stable. The transfer and convertibility (T&C) assessment is 'A'.

Rationale

The raising of the short-term ratings reflects the revision of our criteria regarding the link between long-term and short-term sovereign credit ratings. According to our revised criteria, the short-term rating on a sovereign government is derived directly and solely from the long-term rating (for more details, see "Methodology: Short-Term/Long-Term Ratings Linkage Criteria For Corporate And Sovereign Issuers," published May 15, 2012). As a result, the upgrade does not reflect an improvement in our view of Bulgaria's short-term creditworthiness.

The ratings on Bulgaria reflect our view of the government's strong track record of appropriate fiscal policy and low gross and net general government debt, as well as the country's solid medium-term growth prospects despite the expected slowdown in 2012--particularly if backed by improving absorption of

EU funds and other benefits stemming from EU membership. Somewhat offsetting these strengths are Bulgaria's relatively low GDP per capita and still-large, albeit correcting, stock of external imbalances and related risks, given the adverse economic backdrop.

Outlook

The stable outlook reflects our view that Bulgaria's authorities will continue to maintain a favorable fiscal position on the back of ongoing budgetary consolidation and structural reforms, despite the likely slowdown in economic growth prospects and against its gross external debt position.

We could lower the ratings if the country's fiscal position weakens or its external liquidity position deteriorates significantly, possibly leading to a prolonged decline in income tax revenues or the crystallization of contingent liabilities on the government's balance sheet.

On the other hand, we could consider raising the ratings if the government fully implements its structural reform agenda while consolidating the budgetary position further, external conditions for the financial system ease, and exports continue to lead economic growth toward a more balanced structure--while eroding the external debt burden further--leading to higher potential growth.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Methodology: Short-Term/Long-Term Ratings Linkage Criteria For Corporate And Sovereign Issuers, May 15, 2012
- Sovereign Government Rating Methodology And Assumptions, June 30, 2011
- Criteria for Determining Transfer and Convertibility Assessments, May 19, 2009

Ratings List

Ratings Affirmed; Upgraded

	To	From
Bulgaria (Republic of)		
Sovereign Credit Rating	BBB/Stable/A-2	BBB/Stable/A-3
Short-Term Debt	A-2	A-3

Ratings Affirmed

Bulgaria (Republic of)	
Transfer & Convertibility Assessment	A

Senior Unsecured

BBB

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