

Macroeconomic environment and policies in brief

- **Financial Stability Pact has been adopted.** The National Assembly voted for two changes in the Organic Budget Law, setting a limit on the government expenditures of 40% of GDP and on the general government budget deficit of up to 2% of GDP. Simple and transparent, the adopted fiscal rules aim at ensuring the long-term sustainability of public finances. Although they provide for some flexibility in the fiscal policy response to shocks, they create incentives for further optimization of public expenditures by giving priority to growth and welfare enhancing policies and, at the same time, ensuring an adequate level of social protection.
- **GDP growth in Q1 2011 has been revised upwards** to 3.4% yoy (s.a. data) compared to the 2.5% flash estimate released a month ago. GDP growth has proved higher than 2.5% yoy EU average as well. Latest projections of some independent analytical groups are also largely in line with the government forecasts of 3.6% real GDP growth in 2011 and even by up to 0.5 pps more positive than the 4.1% government projection for 2012.

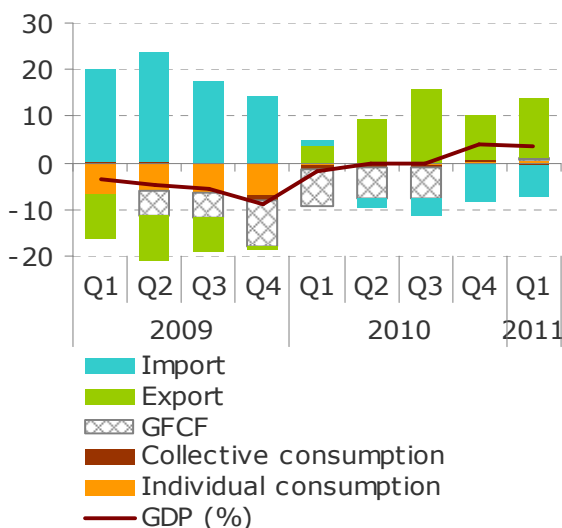
Export was the most important growth engine, though there were also signs of recovery on the domestic market with the positive contribution of private consumption. On the supply side, GVA increased by 1.1% yoy, services having the largest positive contribution for the first time since 2009.

- **Labour productivity** further increased in Q1, thus supporting the continuing decrease in real ULC. The narrowing labour share in value added, given the stronger rise in GVA pointed out to an increase in employers profits, though labour productivity improvement and wage restraint suggested that cost-related competitiveness in the tradable sector has been sustained.
- **Industrial turnover** kept increasing at double-digit growth rate as of April, largely driven by well performing foreign market sales. **Retail sales** also continued expanding, after coming to positive territory over the previous month. **Construction output** shrank further, while some positive expectations arose with the fact that business climate in this sector increased for the first time in the last several months. **Business conjuncture** remained vastly unchanged over May.
- The total number of **unemployed people** still on the decrease in May. The number of newly employed persons in the real sector remained relatively high, although slightly decreasing on a month earlier.
- After the well pronounced one-off base effect over the previous month, **consumer price inflation** measured by HICP index stabilized to 3.4% yoy as of May in line with the expectations.
- **Money supply** slightly accelerated its pace of increase compared to the two preceding months, while credit to the private sector continued its sluggish recovery. Corporate credit kept on increasing at the highest rate, though consumer credit growth remained in negative territory, although its negative change decelerated to -1.2%.
- **General government deficit (cash basis)** stood at BGN 552 mln at end-April, down 1.1 pps on a year earlier to 0.7% of GDP. For a second month in a row general government balance came positive over the month, on the back of both better revenues performance and reduction in government expenditures.
- Positive trend in **reducing spreads to benchmark German bonds** in all maturity segments continued. Registered spread to German bundesbonds with similar maturity was around 0.23% which is the lowest spread to benchmark bonds registered on the primary treasury bills market.

Recent Economic Developments

- According to the preliminary data, **GDP growth in Q1 2011 has been revised upwards to 3.4% yoy** (s.a. data). Export was the most important growth engine, thus external demand contributing by 6.2 pps. There were also signs of recovery on the domestic market with the positive contribution of private consumption estimated at 0.5 pps. Some base effects were also observed due to the low performance of the economy in Q1 2010. Bulgarian economy grew at a quarterly rate of 0.6%.

Contributions to GDP growth
(pps, yoy)



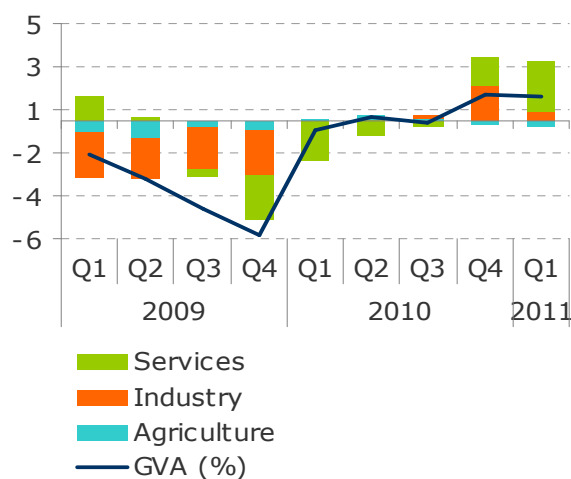
Source: NSI

- Individual consumption registered a positive yoy growth for the second consecutive quarter, expanding by 0.8% in Q1. Its improvement was largely offset by collective consumption contraction, related to Bulgaria's stringent fiscal policy, and resulted in a minor increase of 0.1% yoy in **total final consumption**. **Gross fixed capital formation** moved to positive territory in Q1, expanding by 1.6% yoy. Nonetheless, total investment growth turned out negative on the back of declining inventories. **Export** continued its trend of exceptionally high

growth, increasing by 20.1% yoy in real terms. **Imports** also recorded a growth of 8.6%.

- On the supply side**, GVA increased by 1.1% yoy, services having the largest positive contribution for the first time since 2009.

Contributions to GVA
(pps, yoy)

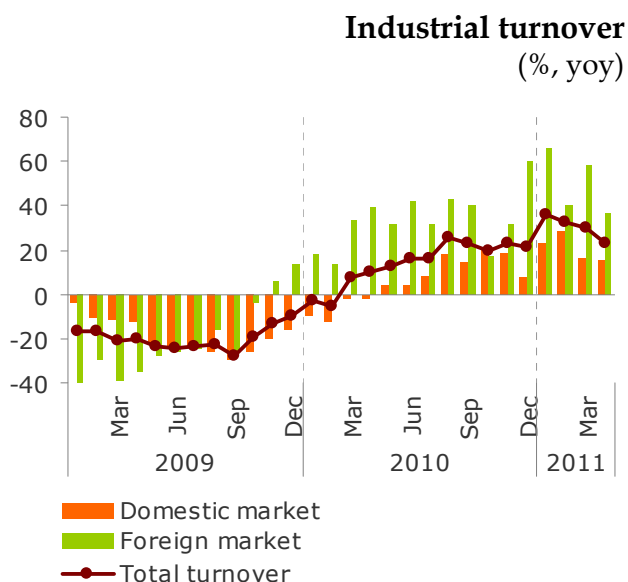


Source: NSI

- Services value added accelerated in the first three months, its rate of increase reaching 3.6% yoy and 1.7% qoq. Financial sector, real-estate, renting and business activities which increased by 6.5% yoy largely accounted for the positive developments. Industrial sector slowed its growth rate to 1.6% yoy. The construction was still in the negative territory. The GVA in agriculture decreased by 3.3% yoy, though increasing on a quarterly basis by 1.1%.
- The process of job reduction, following the narrowed hiring opportunities and seasonal activities drop in winter months made **productivity** to further increase in Q1 by 5.2% yoy. Manufacturing industry had the largest contribution, as it sustained the strong pace of productivity growth (8.9% yoy).

Productivity improvement and wage restraint have supported the further decrease in RULC, down 7% in Q1 yoy. Labour share in GVA narrowed which given the stronger rise in the latter meant that employers managed to increase their profits. Following labour productivity developments tradable sector sustained its cost-related competitiveness.

- April **industrial turnover** slowed further, though keeping its double-digit positive growth at 22.8% yoy. Foreign market sales decelerated to 36.7% yoy, thus having the largest contribution for the overall slowdown, while domestic turnover increase remained vastly unchanged at 15.1% yoy. Among foreign market sales drivers were manufacture of basic metals and manufacture of fabricated metal products - sales of weapons and ammunition in particular. According to the production purpose, intermediate consumption products had the largest share. Industrial production grew by 8.3% with the major contribution coming from energy goods.



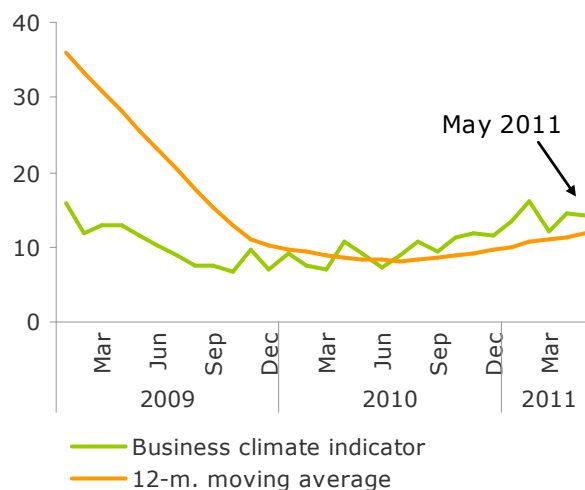
Source: NSI

- After coming to positive territory during the previous month, **retail sales** posted a 0.5% yoy increase, as other retail sale in

non-specialized stores kept standing out with the highest yoy increase of 10.6%.

- **Construction output** decrease widened further to 22.1%, as both building construction and civil engineering slump continued to deepen, shrinking by 16.3% and 29.8% respectively.
- **May business conjuncture** remained vastly unchanged compared to April. Business climate in construction increased for the first time in the last several months. Entrepreneurs reported an improvement in the current situation as well as growth in the orders received in the previous month. No changes were registered in services and retail trade, though there was a 14 pps decline in the number of business executives in retail trade sector pointing out insufficient demand as a major problem. Business climate indicator decreased only in industry, going down by 2.4 points.

Business climate
(balance)



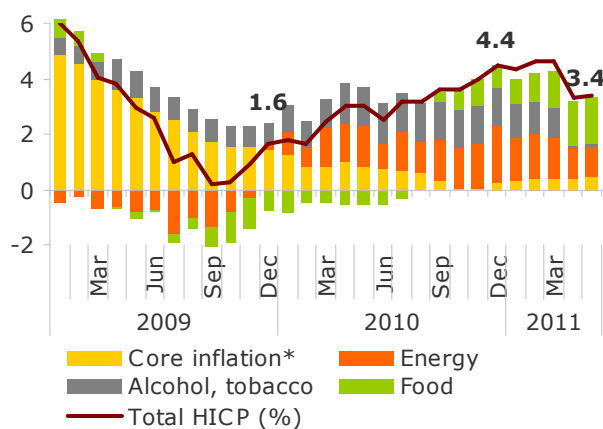
Source: NSI

- The **total number of unemployed people** in May fell by 4.5% over the month to reach 328.5K, going down by 6.9% in yoy terms. Both unemployment inflow and outflow decreased on a month earlier, while the latter remained

59% higher than the inflow, thus contributing to the overall decline. People who started working decreased to 20.1K (down 12.7% over the month) mainly due to the reduced activity under the implemented labour market programs and measures (LMPM). Lower demand of LMPM is usually linked to the seasonal activities revival on the primary labour market during spring. The number of persons who get job in the real sector remained relatively high, although slightly decreasing on a month earlier. Manufacturing, trade, construction, hospitality industry and real estate activities registered an increase in the number of jobs occupied.

related categories, core inflation remained subdued.

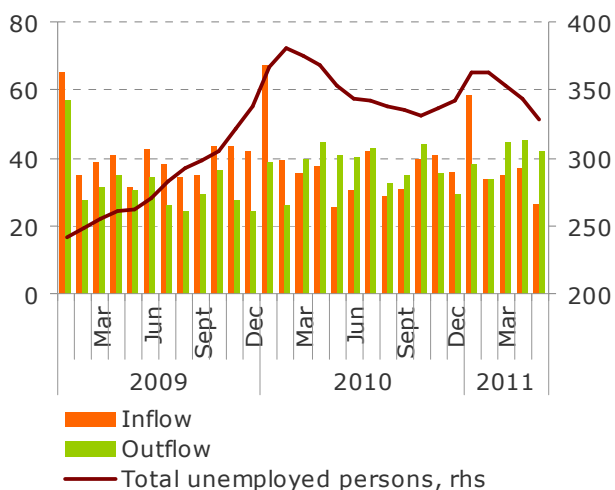
Contribution by HICP components (pps, yoy)



*incl. services and non-energy industrial goods

Source: NSI

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



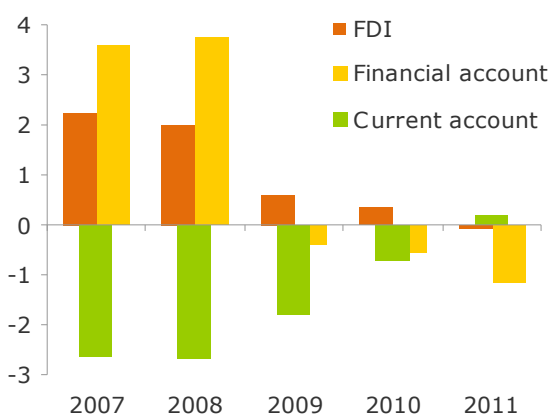
Source: EA

- After a pronounced slowdown over the previous month, **consumer prices stabilized to 3.4% yoy as of May**. Food prices monthly rate of change continued decelerating and moved to negative territory following a seasonal pattern in their price dynamics, though keeping their high rate of increase in yoy terms. Energy prices annual inflation also slowed, as a result of the crude oil price decrease on world markets. With the exception of some food and energy

- Current account surplus** amounted to EUR 214.9 mln in January-April 2011, being 0.6% of GDP, driven mainly by the **continuing growth in exports**. Merchandise exports in April rose by 35.4% yoy, pointing to a 50.4% cumulative increase in the first four months in 2011 compared to the corresponding period a year earlier. Imports kept on growing as well, up by 20.4% yoy. In Jan-Apr imports totaled EUR 6.5 bn, rising by 27.4% compared to the same period of 2010.
- “Services” balance** contributed to the positive CA dynamics, expanding its surplus to EUR 88.7 mln over the month, while reaching EUR 229.9 mln for Jan-Apr. Income deficit shrank by 17.5% yoy, down to EUR 361.1 mln for the first four months of the year. Since the beginning of 2011 net transfers have shrunk only by 7.5% on a year earlier, down to EUR 470.7 mln.
- Financial account deficit** diminished to EUR 242.7 mln, while the accumulated negative balance in Jan-Apr reached EUR 1.17 bn. Practically there have been no FDI since the beginning of 2011,

furthermore Jan-Apr FDI were negative at EUR 62.5 mln. "Other investments" balance was also negative at EUR 1.05 bn for the first four months of 2011. Banks continued exporting capitals out of the country, mainly through withdrawing previously made foreigners deposits, as well as opening new deposits abroad by local banks. Foreign deposits taken out of Bulgarian banking system since the beginning of the year amounted to EUR 566 mln, while domestic banks deposits opened abroad totaled EUR 617.2 mln. In April alone banks acquired foreign assets in the form of deposits worthing EUR 254 mln.

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



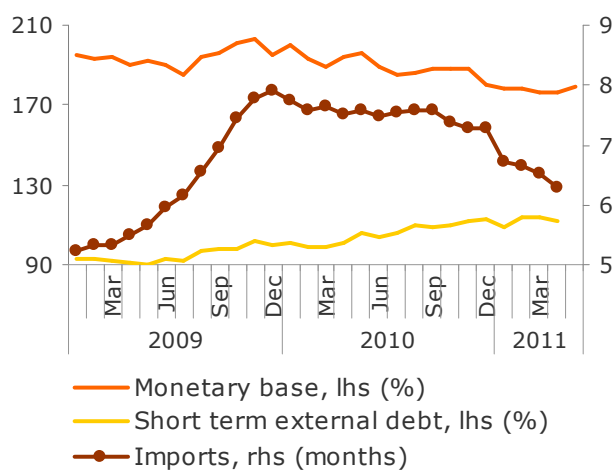
Source: BNB

- April **balance of payments** was negative at EUR 258.3 mln. Since the beginning of 2011 the BoP deficit reached EUR 923.1 mln.
- Bulgaria's **gross external debt** continued to decrease, falling by 3.1% yoy and 0.7% over the month to EUR 36.01 bn (93.2% of GDP) as of end-April. Again the main driving force behind the decline was the banking sector activities. Banks indebtedness lowered to EUR 6.27 bn, down 17% on a year earlier, accounting for 17.4% of the total external debt. On the other hand, non-banking sector had a negative contribution to the GED

decrease, as the 1.3% drop in inter-company borrowing was not able to offset the 3.9% yoy increase in firms' exposure to foreigners. Gross external debt in the government sector which accounted for 7.6% of the total, remained practically unchanged compared to March at EUR 2.5 bn, while dropping by 4.8% yoy. Total public debt amounted to EUR 4.1 bn (10.7% of GDP). In terms of maturity structure, short-term debt by original maturity declined 1.7% mom, down 8.3% compared to April 2010, providing BNB reserves coverage at 112.13%.

- **Gross international reserves** had their first positive growth since February both on a monthly and annual basis. They grew by 2.3% and 0.3% respectively, amounting to BGN 12.2 bn at the end of May. Monetary base coverage reached 179.3% and the stock of reserves was enough to cover 6.3 months of imports as of end-April.

Coverage with FX Reserves



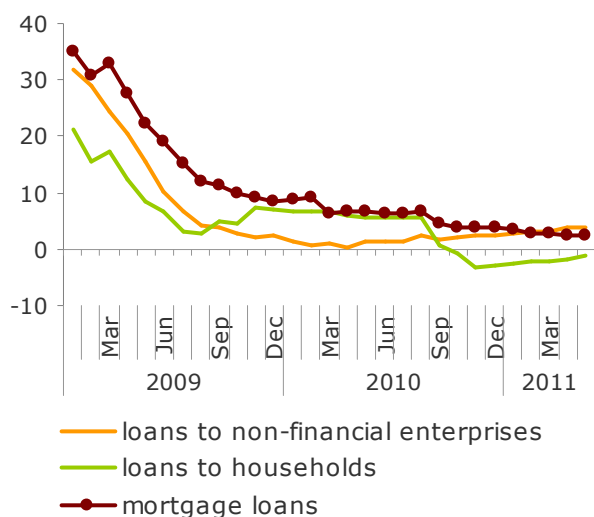
Source: BNB, MoF

- **Money supply** grew by 7.9% yoy in May at a pace slightly faster than the 7.4% and 7.6% rates of increase posted in March and April respectively. Liquid money (M1) rose by 3.5% as of end-May, standing as the main factor behind M3 annual growth. Nevertheless, broad

money increase could be attributed largely to the faster growth of quasi money, up 10.4% yoy. Total deposits posted a 8.6% yoy increase on the back of private enterprises deposits 8.8% growth. Households' deposits slowed marginally their annual rate of increase to 11.8% from 12% at the end of the previous month.

- **Credit to the private sector** continued its sluggish recovery, posting a 0.1% mom increase, thus being 2.2% up on a year earlier. Credit stock developments in the last few months remained largely unchanged. Corporate credit also kept on recovering, although its growth in yoy terms slowed marginally to 3.7%. Although still in negative territory, consumer credit growth improved, thus its negative change decelerated to -1.2% in May compared to -1.7% in April. The tendency observed in the last few months for mortgages growth slowdown broke in May, as it stabilized at 2.6%.

Annual Credit Growth Rate



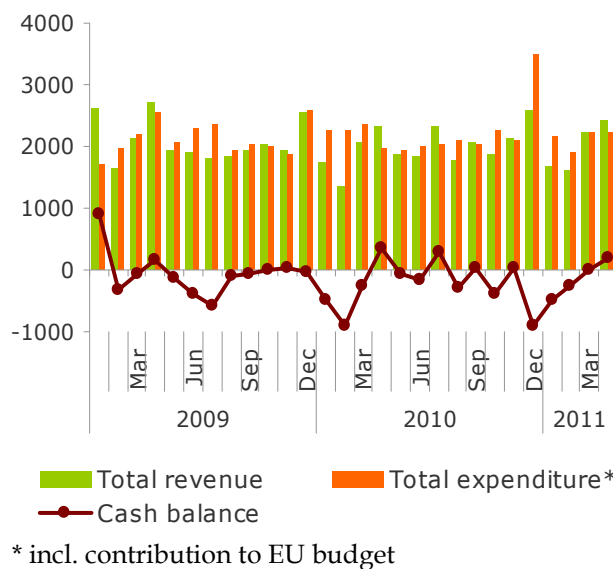
Source: BNB, MoF

- **Interest rates** on BGN denominated credits increased in May both for short and long term loans. Rates on FX denominated long term credits also rose, while the cost of FX short term credits declined. Despite the interest rates

dynamics, newly granted credits increased by 7.4% over the month. Interest rates on deposits increased for all types, durations and currencies. At the same time monthly flows of newly taken deposits increased by 9.5% compared to the previous month.

- **General government deficit** (cash basis) stood at BGN 552 mln at end-April, (0.7% of GDP), down by 1.1 pps on a year earlier. For a second month in a row general government balance came positive over the month, accounting for a surplus of BGN 190.5 mln in April alone.

Consolidated budget (monthly value, mln BGN)



Source: MoF

- **Total revenue and grants** pace of increase decelerated to 4.2% yoy, being 7.4% in March, though total revenue collected in Jan-Apr was up 6.1% than a year earlier. Tax revenue increase by 11.2% yoy largely accounted for the favorable developments, while non-tax receipts and grants decreased compared to the same period of 2010. All main tax groups posted an increase on a year earlier. The amount of indirect tax revenue accumulated until end-April increased by 17.9% yoy, while the direct

tax receipts grew by 1.4%. Social and health insurance contributions were also higher¹. Concerning tax revenues dynamics in April alone, CIT, PIT, VAT and excises receipts expanded, while those of custom duties and other taxes contracted compared to April 2010. The remainder of the annual BNB excess of revenue over expenditure for 2010 has also been received as a transfer amounting at BGN 200.9 mln.

- **Total expenditure**, including EU budget contribution, came 3.3% lower in nominal terms compared to the same period a year ago. The largest contribution to expenditure reduction during the period concerned came from capital expenditure and subsidies, followed by wages and salaries, and maintenance.
- **Fiscal reserve** remained unchanged at the amount of BGN 4.7 bn at end-April.
- **General government debt**, including government guaranteed debt, at end-April remained unchanged over the month and amounted to 15.1% of GDP. Domestic debt was 5.1% of GDP, while the external one came to 8.5%. Government guaranteed debt totaled approximately 1.5% of GDP.

¹ Social security contribution has been increased by 1.8 pps since the beginning of 2011.

Key Economic Indicators

		2008	2009	2010	Q2'10	Q3'10	Q4'10	Q1'11	XII'10	I'11	II'11	III'11	IV'11	V'11
GDP*														
Gross Domestic Product*	%, y/y	6.1	-5.5	0.2	-0.4	0.0	3.8	3.4						
Consumption	%, y/y	2.5	-7.3	-1.1	-1.3	-1.4	0.0	0.1						
Investment	%, y/y	16.3	-24.9	-14.0	-18.7	-17.4	-4.8	-9.4						
Export	%, y/y	3.0	-11.2	16.2	16.5	27.6	15.1	20.1						
Import	%, y/y	4.2	-21.0	4.5	2.9	5.3	10.7	8.6						
Agriculture	%, y/y	29.6	-6.1	3.9	3.0	1.3	-2.3	-3.3						
Industry	%, y/y	4.4	-7.8	1.9	-0.2	0.4	6.2	1.6						
Services	%, y/y	5.0	-0.8	-0.9	-1.0	-0.4	2.1	3.6						
Adjustments	%, y/y	5.7	-16.5	-0.2	-1.7	3.5	5.9	8.5						
Short term business statistics														
Industrial production	%, y/y	0.7	-18.3	2.0	1.5	4.4	5.2	10.3	6.7	10.2	15.4	7.2	8.3	
Industrial turnover	%, y/y	13.7	-20.2	14.1	13.0	21.5	21.1	32.2	21.0	35.9	32.2	30.1	22.8	
Retail trade turnover	%, y/y	8.9	-8.9	-5.6	-8.4	-4.1	-4.3	0.4	-3.5	-0.1	-0.1	1.4	0.5	
Construction output	%, y/y	12.7	-14.5	-18.0	-20.7	-15.0	-8.5	-14.8	-14.2	-12.2	-13.1	-18.4	-22.1	
Total business climate	balance	38.0	10.2	9.6	9.1	9.7	11.5	13.8	11.5	13.4	16.1	12.0	14.4	14.2
Industrial confidence	balance	39.9	12.3	13.4	14.6	14.7	15.0	21.6	16.0	20.2	24.3	20.4	24.5	22.1
Retail trade confidence	balance	41.3	13.5	10.1	8.2	8.8	13.0	13.0	12.4	12.4	11.3	15.4	11.2	11.2
Construction confidence	balance	40.3	8.5	5.1	5.9	4.0	2.9	4.7	1.4	1.9	7.0	5.3	2.0	5.7
Services confidence	balance	28.7	5.1	5.6	2.0	6.1	11.8	8.1	11.9	12.3	13.5	-1.4	9.7	9.8
Labour market														
Participation rate (15+)	level	53.8	53.0	52.0	52.2	52.5	52.1	50.8						
Employment rate (15+)	level	50.8	49.4	46.7	47	47.5	46.3	44.7						
Employment (LFS)	%, y/y	3.3	-3.2	-6.2	-6.9	-5.4	-4.7	-4.0						
Unemployment rate (LFS)	level	5.6	6.8	10.2	10	9.5	11.2	12.0						
Unemployment rate (Employment agency)	level	6.3	7.6	9.5	9.6	9.1	9.1	9.7	9.2	9.8	9.8	9.5	9.3	8.9
Nominal wage	%, y/y	26.5	11.8	6.3	8.7	9.4	10.4	8.4	10.6	8.5	8.7	8.3		
Real wage**	%, y/y	13.0	9.1	3.2	5.7	5.9	6.1	3.7	5.8	4.0	3.9	3.6		
Labour productivity (GDP per employed)	%, y/y	3.5	-2.9	6.4	8.2	5.7	7.8	5.2						
Real ULC	%, y/y	3.7	8.1	-2.2	1.7	-6.2	-6.7	-7.0						
Prices														
Harmonized index of consumer prices	%, y/y	11.9	2.5	3.0	2.9	3.3	4.0	4.5	4.4	4.3	4.6	4.6	3.3	3.4
Domestic producer prices	%, y/y	13.3	-4.3	7.2	5.6	9.5	11.1	11.9	12.0	11.1	12.5	12.1	10.7	
Consolidated fiscal program (cumulative)														
Revenue and grants	mln BGN	27313	25041	23933	11189	17346	23933	5530	23933	1675	3303	5530	7950	
Total expenses	mln BGN	25323	25667	26755	12704	18872	26755	6272	26755	2153	4053	6272	8502	
Contribution to EU budget	mln BGN	720	746	670	359	529	670	250	670	60	211	250	286	
Cash deficit(-) / surplus(+)	mln BGN	1990	-626	-2823	-1515	-1527	-2823	-742	-2823	-477	-751	-742	-552	
	% GDP	2.9	-0.9	-4.0	-2.2	-2.2	-4.0	-1.0	-4.0	-0.6	-1.0	-1.0	-0.7	
Government and gov. guaranteed debt	mln BGN	10710	10641	11775	10970	11397	11775	11444	11775	11501	11449	11444	11403	
	% GDP	15.5	15.6	16.7	15.6	16.2	16.7	15.1	16.7	15.2	15.1	15.1	15.1	
Fiscal reserve	bln BGN	8382	7673	6012	6029	6711	6012	4699	6012	5412	5072	4699	4683	
	%, y/y	12.5	-8.5	-21.6	-27.1	-12.7	-21.6	-26.1	-21.6	-26.7	-20.1	-26.1	-29.8	

Recent Economic Developments: Selected Issues, Bulgaria, June 2011 - 9 -

		2008	2009	2010	Q2'10	Q3'10	Q4'10	Q1'11	XII'10	I'11	II'11	III'11	IV'11	V'11
Financial sector														
BNB International reserves	mln BGN	12713	12919	12977	12155	12764	12977	12209	12977	12224	12329	12209	11965	12245
Monetary base coverage	%	175.3	195.2	179.8	189.2	188.6	179.8	176.3	179.8	178.6	178.5	176.3	176.7	179.3
Coverage of import with FX reserves	months	5.4	8.0	7.3	7.4	7.6	7.3	8.3	7.3	6.7	6.7	6.5	6.3	
Coverage of short-term external debt	%	96.5	100.2	112.8	103.7	108.9	112.8	113.5	112.8	108.4	113.5	113.5	112.1	
Money M1 (Narrow money)	%, y/y	-4.1	-8.8	0.8	0.9	7.7	0.8	4.9	1.4	2.0	0.5	4.9	4.5	3.5
Money M3 (Broad money)	%, y/y	8.8	4.2	6.2	8.0	8.4	6.2	7.4	6.4	7.4	6.2	7.4	7.6	7.9
Deposits	%, y/y	8.8	7.6	6.6	10.1	9.4	6.6	8.2	6.9	8.1	6.8	8.2	8.3	8.6
Credit to private sector	%, y/y	32.9	3.8	1.1	2.0	1.6	1.1	1.6	1.1	1.6	1.7	1.6	2.1	2.2
Credit to non-financial enterprises	%, y/y	33.1	2.3	2.4	1.2	1.8	2.4	3.0	2.4	2.9	3.0	3.0	3.8	3.7
Credit to households	%, y/y	31.4	5.8	-0.8	3.7	0.8	-0.8	-0.7	-0.8	-0.7	-0.7	-0.7	-0.7	-0.6
Interest rate on short-term loans	%	10.9	10.5	8.5	8.3	8.8	8.0	6.4	8.2	5.9	6.7	6.8	6.2	8.3
Interest rate on time deposits	%	5.6	7.0	5.4	5.3	5.0	5.1	5.1	5.2	5.2	4.9	5.1	4.8	5.0
Exchange rate BGN/USD	eop	1.39	1.36	1.47	1.59	1.43	1.47	1.38	1.47	1.43	1.41	1.38	1.32	1.36
	per. av.	1.34	1.41	1.48	1.54	1.52	1.44	1.43	1.48	1.46	1.43	1.40	1.35	1.36
Gross External Debt														
Gross external debt	% GDP	104.9	108.0	101.8	103.5	101.3	101.8	93.9	101.8	95.2	95.2	93.9	93.2	
Short term external debt	% GED	35.4	32.7	31.4	31.4	32.1	31.4	29.9	31.4	29.9	29.9	29.9	29.6	
Intercompany lending	% GED	36.4	38.5	40.2	40.1	40.2	40.2	40.4	40.2	41.1	41.2	40.4	40.6	
Balance of payments														
Current account	mln EUR	-8162	-3118	-356	-308	1343	-837	210	-276	63	81	66	5	
Current account, % GDP moving average		-23.4	-8.7	-1.0	-4.4	-1.2	-1.0	1.1	-1.0	0.0	0.2	1.1	1.5	
Trade balance	mln EUR	-8597	-4174	-2412	-786	-118	-941	53	-329	94	-15	-27	-177	
Trade balance, % GDP moving average		-24.6	-11.6	-6.7	-9.0	-6.7	-6.7	-4.9	-6.7	-5.6	-5.3	-4.6	-4.3	
Export, f.o.b.	mln EUR	15204	11699	15588	-4594	-4531	-5250	-4724	1399	1590	1490	1697	1602	
	%, y/y	12.5	-23.1	33.2	15.0	15.8	26.5	30.3	45.5	72.5	48.4	49.9	35.4	
Import, f.o.b.	mln EUR	-23801	-15873	-18001	3808	4413	4310	4776	-1728	-1495	-1505	-1724	-1779	
	%, y/y	14.7	-33.3	13.4	39.1	44.4	32.7	56.2	28.8	37.1	36.3	20.5	20.4	
Capital account	mln EUR	277	477	291	-90	178	140	13	85	-2	10	4	2	
Financial account	mln EUR	11473	1190	-1	152	-48	539	-928	393	-506	-67	-91	-31	
Net Foreign Direct Investments	mln EUR	6212	2498	1459	420	443	573	-80	218	225	76	-381	-7	
Net Portfolio Investments	mln EUR	-731	-570	-661	-316	-47	-153	-189	-195	-128	-55	-6	171	
Other Investments - net	mln EUR	5980	-719	-774	52	-433	119	-649	370	-595	-87	34	-404	
Change in BNB reserve assets***	mln EUR	-674	650	384	382	-722	-65	665	-279	628	-54	90	258	

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

**HICP deflated.

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

Recent Developments and Government Debt Review

Record low Bund spread for 6 months T-bills

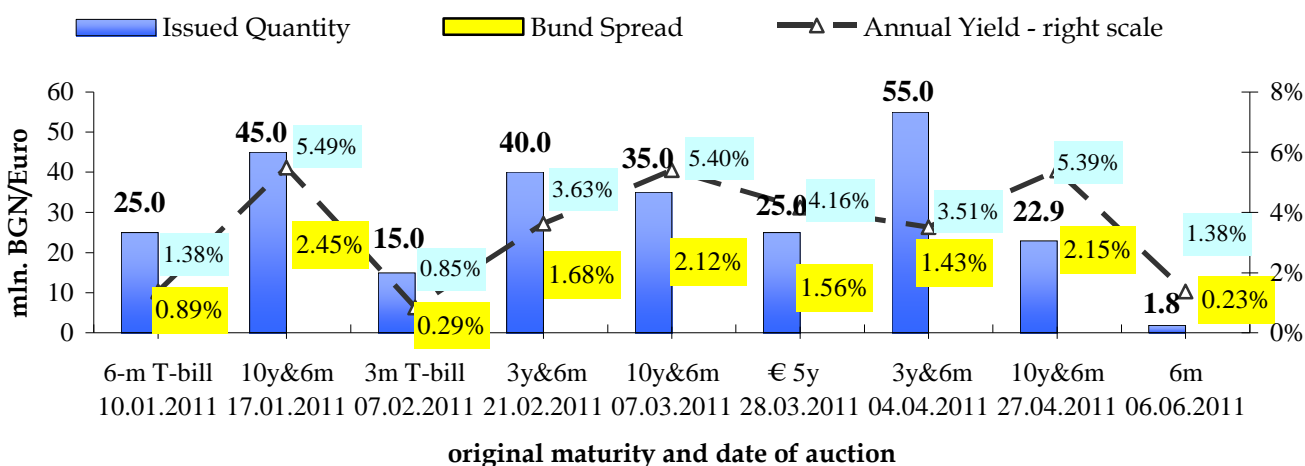
On May 9, 2011 Bulgarian Ministry of Finance (MoF) conducted auction for 6 months T-bills in a volume of BGN 25 mln. The nominal value of all submitted bids amounted to BGN 60.5 mln or demand exceeded supply nearly 2.5 times.

Despite the high investors demand for Bulgarian domestic debt, MoF decided to approve a smaller amount of securities offered for sale. The total nominal value of orders approved came to BGN 1.8 mln with an average annual yield of 1.38%.

This decision corresponds to the absence of temporary short-term liquidity imbalances in government finances and the stable outlook for budget balance and macroeconomic situation in the country. The nonparticipation in lending operations should be an additional incentive for liquidity in the financial system and hence for growth in lending to real sector.

Positive trend in reducing spreads to benchmark German bonds in all maturity segments continued. Registered spread to German bundesbonds with similar maturity was around 0.23% which is the lowest spread to benchmark bonds registered on the primary treasury bills market .

Latest Government Securities Auction Results



Additional data on the auction results can be viewed on BNB official internet site at www.bnb.bg

MF successfully re-opened 5Y Euro denominated benchmark bond.

On May 16, 2011 MoF successfully conducted an auction for 5Y euro denominated GS which is a benchmark issue in the medium term of the sovereign curve. The offered amount was EUR 35 mln with demand reaching EUR 118 mln. The issue was almost four times oversubscribed with a 3.36 cover ratio.

The average annual yield of the auction reached 4.1%, which was a 4.16% decrease compared to the previous auction in March.

The weighted average annual yield of all bids also decreased and reached 4.22% which is below the current yield of euro-denominated Eurobonds of Hungary, Lithuania and Turkey with similar remaining maturity. Reported spread to the German federal bonds was approximately 167 basis points, being almost 200 bps below the CDS index,

measuring sovereign risk premium for Bulgaria.

The successful reopening of 5Y EUR denominated benchmark bond confirmed its status in mid segment of the debt curve. The outstanding amount of the issue reached EUR 60 mln.

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

By end-April government debt totalled EUR 5249.2 mln, including EUR 1978.9 mln domestic debt and EUR 3270.3 mln external one. Government debt posted a decrease of some EUR 11.8 mln in nominal terms at the end of the previous month, mainly due to valuation adjustments and to a lesser extent to the repayments made over the month. Government debt to GDP ratio came to 13.6%.

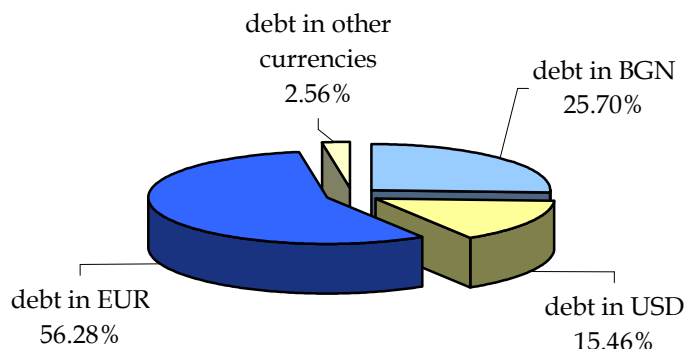
Government Debt Amount					
(million EUR)					
Structure	31.12.2010	31.1.2011	28.2.2011	31.3.2011	30.4.2011
Domestic government debt	2 011.5	1 914.6	1 900.1	1 941.5	1 978.9
External government debt	3 373.5	3 345.7	3 336.4	3 319.5	3 270.3
Government Debt, total	5 385.0	5 260.3	5 236.5	5 261.0	5 249.2
Government Debt /GDP (%)*	14.9	13.6	13.5	13.7	13.6

* 2011GDP data revised.

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

Debt currency structure changed as a result of the newly issued GS and payments on the debt made over the month. The share of BGN denominated debt reached 25.7% compared to 24.9% in March, while debt in EUR, US dollars and other currencies decreased, reaching 56.3%, 15.5% and 2.6% respectively.

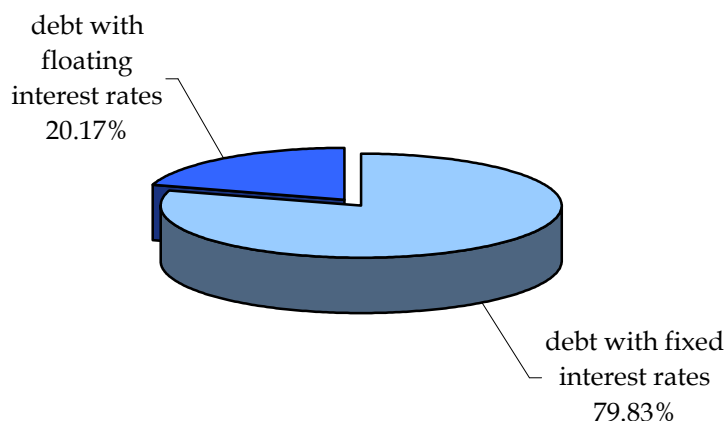
Government Debt Currency Structure as of 30 April



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

Debt interest rate structure underwent some minor changes in April - debt with fixed interests increased marginally to 79.8% of the total (being 79.6% in March), while debt with the floating interest rates narrowed to 20.2% (being 20.4% in March).

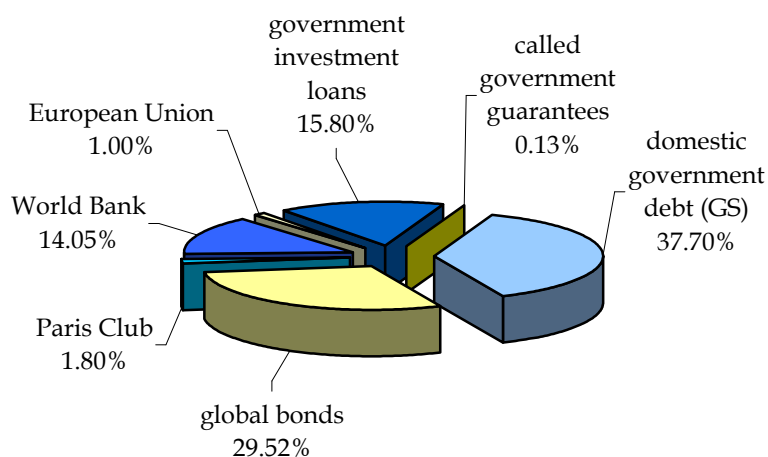
Government Debt Interest Rate Structure as of 30 April



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

Debt structure by types of instruments and creditors in March remained practically unchanged. The largest relative share belonged to GS related liabilities - 37.7%, followed by global bonds - 29.5%, government investment loans - 15.8%, obligations to the World Bank - 14%, obligations to the Paris club - 1.8%, European Union - 1% and called government guarantees - 0.1%.

Government Debt Structure by Creditor as of 30 April



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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