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BULGARIA – KEY FACTS

Official Name: Republic of Bulgaria
Local Name: Република България
Nationality: 84.8% Bulgarian; 8.8% Turkish; 4.9% Roma; 1.5% Other (2011)
Capital: Sofia
Government type: Parliamentary republic
Population: 7.36 mln (2011)
Language: Bulgarian
National Currency: Bulgarian Lev (BGN)
Climate: Temperate
Area Total: 110,993.6 sq km
Administrative regions: 28 District Administration
Infrastructure: Highways – 437 km (2010);
Airports – There are 5 operating international airports - in Sofia, Plovdiv, in southern Bulgaria, Gorna Oryahovitsa, in the north of the country, and the coastal cities of Varna and Burgas, as well as 3 non-operating ones - in Stara Zagora, in southern Bulgaria, and in Ruse and Targovishte, both in the northeast of the country.
Ports – 64, including sea ports in Varna, Balchik, Burgas, Nesebar, Pomorie, Sozopol, Tsarevo and Rosenets, and river ports in Vidin, Lom, Oryahovo, Ruse, Silistra, Tutrakan and Svishtov

BULGARIA AND THE EUROPEAN UNION, BULGARIA AND THE WORLD

In the 2011-2012 Global Competitiveness Index of the World Economic Forum Bulgaria occupies the 74th place, three positions lower than in the 2010-2011 edition. Bulgaria ranks highest in macroeconomic environment, technological readiness and labour market efficiency. Greece is ranked 90th, seven positions down compared to the previous year, and remains the lowest-ranked member of the EU. Greece scores best in health and primary education, market size and infrastructure. Bulgaria falls in the category of efficiency driven economies which is a transitional stage between factor driven and innovation driven economies, while Greece is considered an innovation driven economy.

The 2012 Index of Economic Freedom ranks Bulgaria 61st in the world and 27th in Europe. Its score is slightly below the European average but well above the world average. The decrease compared to 2011 is caused by a drop in business freedom, freedom from corruption and government spending. The most important advantages of the country are the macroeconomic stability, low tax rate and competitive trade regime. Greece is ranked 119th in the world and 39th in Europe with a score lower than the global and the regional average. In the last year Greece’s score dropped the most among all 179 countries. The country is experiencing problems in labour freedom, fiscal freedom and government spending, whereas its main advantages are business freedom, financial freedom and property rights.
BULGARIA – OVERVIEW

Bulgaria started 2012 with growing economy but signs of another slowdown approaching were visible. The debt crisis in the euro zone threatens to cut short the recovery of the Bulgarian economy, which is driven mainly by intensive growth of exports to the EU member states. GDP growth slowed down for a second consecutive quarter in the end of 2011, falling behind the rates projected for the country’s real GDP growth in 2012. Nevertheless, Bulgaria managed to go through the global economic downturn relatively better than most countries in the region thanks to the government’s cautious and conservative management of public finance. Bulgaria is the only European country to see an upgrade of its credit rating by Moody’s since the beginning of 2010.

In 2012 domestic demand remains weak as Bulgarians are cutting dramatically on consumer spending while increasing savings, as a reflection of negative economic expectations, fear of a new downturn and constantly rising unemployment. The housing market, which was thriving before the global crisis, is still not demonstrating signs of recovery. On a more optimistic note, however, the European Commission forecasts gradual recovery in private consumption parallel to a stabilization of the labour market in 2012.

In terms of foreign direct investments (FDI), which are vital for Bulgaria’s economy, the situation continues to give grounds for concern as in 2011 FDI inflow was only a sixth of its 2007 levels. However, in 2011 the negative trend of the previous three years was reversed and a slight increase in annual FDI inflow was registered for the first time since 2007.

Corruption, red tape, inflation, limited access to financing and inadequate infrastructure were identified as the most problematic factors for doing business in Bulgaria in a survey conducted by the World Economic Forum and published in the Global Competitiveness Report 2011-2012.

Meanwhile, the government continues to pursue a policy of tightened public spending in order to ensure slim budget deficit. Two unpopular reforms should be launched in 2012 – retirement age should begin to rise and the privatization of loss-making state-owned companies such as the national railway company and the post services should begin. A top priority for the government is better absorption of EU funds on which it relies for massive investments in public infrastructure.

BULGARIA – MACROECONOMIC OVERVIEW

Gross Domestic Product (GDP)

GDP went up by 1.7% in 2011

Bulgaria’s GDP stood at BGN 75.265 bln in 2011, up by 1.7%, according to the National Statistics Institute (NSI). Gross Value Added (GVA) saw an annual rise by 1.8% to BGN 64.831 bln in 2011. In the fourth quarter of 2011, the country’s GDP increased by 1.6% year-on-year and totalled BGN 19.465 bln.

Final consumption, which contributed 76.3% to the GDP, grew by 3.0% in 2011. Gross capital formation went up by 7.2%, contributing 23.1% to the GDP. Imports and exports rose by 23.7% and 18.5%, respectively.

Bulgaria’s annual GDP growth exceeded the average for the EU-27 countries, which was 1.5% in 2011, Eurostat data showed.

EU FUNDS

In 2011 Bulgaria managed to absorb 65% of the money allotted to the country under EU structural funds, compared to 35% in 2010, according to data of the country’s Ministry of Finance (MoF). The total amount of the funds absorbed under the Operational Programmes (OP) Transport, Environment and Regional Development nearly doubled on an annual basis in 2011 to EUR 3.151 bln.
The gross value added (GVA) generated by the national economy went up by 6.8% in 2011 and totalled BGN 64.831 bln. The industrial sector grew by 12.9% to BGN 20.189 bln in terms of value and increased its share in the GVA structure to 31.1% from 29.4% a year earlier. The services recorded a 2.9% growth in 2011 to BGN 41.005 bln. The agricultural sector registered an annual rise of 22.2% in 2011 to BGN 3.637 bln.

Major Industries

According to an analysis of the Bulgarian Industrial Association, the sectors of Bulgaria’s economy with biggest development potential are information technologies, energy, pharmaceuticals and the chemical industry.

SHARE OF ECONOMIC SECTORS IN GROSS VALUE ADDED IN 2011

<table>
<thead>
<tr>
<th>Sector</th>
<th>in Current Prices (bln)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining and Quarrying, Manufacturing and Electricity</td>
<td>15.979</td>
<td>24.6</td>
</tr>
<tr>
<td>Wholesale and Retail Trade, Transportation and Accommodation</td>
<td>12.832</td>
<td>19.8</td>
</tr>
<tr>
<td>Public Administration and Defense, Education and Healthcare</td>
<td>8.111</td>
<td>12.5</td>
</tr>
<tr>
<td>Real Estate Activities</td>
<td>6.083</td>
<td>9.4</td>
</tr>
<tr>
<td>Financial Services</td>
<td>5.243</td>
<td>8.1</td>
</tr>
<tr>
<td>Construction</td>
<td>4.210</td>
<td>6.5</td>
</tr>
<tr>
<td>Agriculture, Forestry and Fishing</td>
<td>3.637</td>
<td>5.6</td>
</tr>
<tr>
<td>Information and Communication</td>
<td>3.608</td>
<td>5.6</td>
</tr>
<tr>
<td>Professional, Scientific and Technical Activities</td>
<td>3.573</td>
<td>5.5</td>
</tr>
<tr>
<td>Arts, Entertainment and Recreation</td>
<td>1.556</td>
<td>2.4</td>
</tr>
<tr>
<td>Gross Value Added</td>
<td>64.831</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Industrial Output

Industrial output inched up by 1.0% year-on-year in Q4 2011

Industrial output went up by 1.0% on the year in the fourth quarter of 2011. The mining and utilities sectors grew by 8.8% and 2.9% year-on-year, respectively, in Q4 2011, while the manufacturing sector shrank by 0.4% year-on-year.

In February 2012 industrial output decreased by 5.5%, compared to the corresponding month of the previous year. The mining sector grew by 3.1% year-on-year, while the manufacturing, electricity, heat and gas supply sectors decreased by 7.5% and 3.0% year-on-year, respectively.
Industrial Sales

Industrial sales rose by 0.8% year-on-year in December 2011

Industrial sales fell by 5.0% in December 2011 compared to November 2011 but increased by 0.8% on an annual basis. The sales of the manufacturing industry shrank by 4.3% on the year in December 2011. Sales in the manufacturing of computer, electronic and optical products marked the highest annual drop of 32.2% in December 2011, followed by manufacturing of other transport equipment, down by 29.2% year-on-year, and manufacturing of motor vehicles, trailers and semi-trailers, down by 23.6% year-on-year. Sales in the mining and quarrying industry jumped by 34.2% year-on-year in December 2011 thanks to a 47.8% annual increase in the mining of metal ores. The electricity, gas, steam and air conditioning supply industry registered a 10.9% year-on-year rise in December 2011.

In February 2012 sales in the mining sector and electricity, heat and gas supply grew by 32.2% and 18.4% year-on-year, respectively. Sales in the manufacturing sector dropped by 1.5% compared to the same month of the previous year.

Wholesale and Retail Sales

Wholesale and retail sales down 1.6% year-on-year in 2011

According to NSI data, retail sales declined by 4.3% year-on-year in the fourth quarter of 2011 and by an average 1.6% in January-December 2011.

In 2011 retail sales of pharmaceutical, medical and cosmetic products registered the highest year-on-year increase of 4.9%, while retail sales of audio and video equipment and hardware, paints and glass and electrical household appliances posted the sharpest annual fall of 7.5%.

In February 2012 retail sales went down by 6.4% year-on-year, with sales of textiles, clothing, footwear and leather goods marking the highest annual drop of 25.7%.

The wholesale sector decreased by 0.9% year-on-year in the fourth quarter of 2011 but for the whole 2011 it grew by 5.9%. Wholesale on a fee or contract basis experienced the strongest annual growth of 23.4% in 2011.
Labour Market

Unemployment rate edged up to 11.4% of the total labour force at the end of 2011

According to NSI data, unemployment in Bulgaria went up to 11.4% of the total labour force at the end of 2011 from 11.2% a year earlier.

The employed population aged 15 years and older was 2,955 million at the end of 2011, down by 2.3% year-on-year. In Q4 2011 employment in the private sector went down by 1.9% year-on-year and employment in the public sector decreased by 0.8% on the year.

CPI, Inflation

Annual inflation accelerated to 4.2% in 2011

Inflation speeded up to 4.2% in 2011, compared to 2.4% in 2010. In 2011 the sharpest increase in consumer prices was registered in transportation services, food products and non-alcoholic beverages, and alcoholic and tobacco products that went up by 8.2%, 6.9% and 5.2% year-on-year, respectively. The consumer groups that recorded a decrease were leisure, recreational and cultural services (-1.9%), communications (-0.9%) and furnishings, household equipment and house maintenance services (-0.1%).

Credits and Deposits

In 2011 deposits continued to grow. At the end of the year BNB reported total deposits in Bulgarian banks of BGN 44.6 bln, up 13.08% from 2010. Deposits represented 58.1% of the total assets of the banking system. In 2011 the deposits of households and non-profit institutions serving households (NPISHs) grew by 12.95% year-on-year to BGN 30.9 bln and the deposits of non-financial companies went up by 13.37% year-on-year to BGN 13.7 bln.

Credits amounted to BGN 52.4 bln at end-2011, up by 3.38% compared to 2010, according to BNB. Loans for households and NPISHs declined by 0.45% year-on-year to BGN 18.9 bln, while credits for non-financial companies grew by 5.67% to BGN 33.5 bln.
At the end of 2011 the non-performing loans were 18% of the total amount, compared to 15.7% a year earlier.

External Debt

According to BNB preliminary data, the country’s gross external debt went up by 4.50% year-on-year to EUR 35.38 bln at the end of 2011. General government debt declined by 3.13% on the year to EUR 2.78 bln. The banks’ debt decreased by 17.84% year-on-year to EUR 5.64 bln. The non-banking sector’s debt decreased by 1.81% to EUR 12.18 bln. Intercompany lending shrank by 0.86% to EUR 14.79 bln.

GROSS EXTERNAL DEBT STRUCTURE

At the end of 2011 government debt in nominal terms amounted to EUR 5.95 bln (up by 10.4% year-on-year), which included domestic debt of EUR 2.46 bln and external debt of EUR 3.49 bln, according to Bulgaria’s Ministry of Finance (MoF).

Bulgaria had the second lowest government debt to GDP ratio in the European Union of 15% in Q3 2011, compared to 82.2% for EU-27, Eurostat data showed.

Foreign Trade

Foreign trade gap shrank by 10.8% y/y in Q4 2011

In Q4 2011 the trade deficit stood at EUR 1.168 bln, compared to EUR 1.310 bln in Q4 2010, according to data of the Bulgarian National Bank (BNB).

In 2011 the trade deficit totalled EUR 3.118 bln (8.1% of the projected full-year GDP), compared to EUR 3.684 bln (10.2% of the full-year GDP) in 2010.

In 2011 Bulgaria’s top trade partners were Germany, Italy, Romania, Turkey, Greece and Russia.
Foreign Direct Investments

FDI in Bulgaria in 2011 added up to EUR 36.829 mln. Due to the slowdown in Bulgarian and European economies, FDI flow dropped constantly between 2007 and 2010. However, the downtrend which led to five times lower FDI in 2010 compared to 2007, came to an end in 2011 when a slight recovery was registered. According to preliminary data from the Bulgarian central bank, in 2011 the FDI inflow in the country amounted to 2.7% of GDP, while in 2010 it was 4.9% of GDP. The largest investor countries in 2011 in FDI inflow were the Netherlands (EUR 556.5 mln), Austria (EUR 526.5 mln) and Russia (EUR 183.9 mln). The most significant negative net flows were to Britain (- EUR 180.3 mln), Hungary (- EUR 94.8 mln) and Germany (- EUR 54.1 mln).
Highly qualified and educated labour force
• The lowest cost of doing business in EU – 10% corporate income tax rate and the lowest average wages in EU

According to the Investment Promotion Act, in order for a foreign investor to be entitled to government support, his investments should be in the following areas: Manufacturing, Research and Development, Education, Healthcare, IT Services and Transport and Logistics.

Most of FDI in Bulgaria are traditionally concentrated in economic sectors with low added value, such as real estate, financial services and trade. With its investment strategy the government aims to shift the structure of FDI towards sectors with higher added value. The following economic sectors are considered of high priority for attracting FDI: Electronics and Electrical Engineering, Chemical Industry, Agriculture and Food Industry, Transport Equipment and Machinery, Transport and Logistics, Information and Communication Technologies (ICT), Outsourcing, Healthcare and Pharmaceuticals.

Other attractive sectors for foreign investment include mining, oil and alternative energy production.

The top foreign investors in Bulgaria are global companies operating in different sectors:
• IT and outsourcing – SAP, Hewlett-Packard, IBM, VMware
• Mechanical and electrical engineering – Liebherr, Schneider Electric, EPIQ, Yazaki
• Construction materials – Aurubis, Holcim, Italcementi Group, Solvay, Titan Cement
• Telecommunications – Cosmote (GLOBUL), Telekom Austria, A1G
• Energy – CEZ, EVN, Enel, Energo-Pro, AES
• Finance – Eurobank EFG, Citigroup, UniCredit, Raiffeisen Bank
• Food & drinks – Chipita, Coca-Cola Hellenic Bottling Company, Nestle
• Services - Ernst & Young, PricewaterhouseCoopers, ICAP Group

**Investment Strategy**

Bulgaria claims that its main advantages as an investment destination are the following
• Political and business stability – EU and NATO member
• Easy access to large markets – European Union, Russia, Middle East

**Main Financial Institutions**

**BNB is responsible for the supervision of the local banking and credit system. BNB participates in issuance of banknotes and coins in the country.**

Bulgaria is operating a restrictive monetary mechanism, prescribed by the International Monetary Fund (IMF) and called a currency board system that pegs the BGN at a fixed exchange rate to the EUR and bans the BNB from lending to the government. The Banking Department can be a lender of last resort to local commercial banks but only to ward off systemic risk.

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**FDI STOCK BY INDUSTRY (2011 in bln EUR)**

- Real Estate
- Finance
- Manufacturing
- Trade
- Transport
- Construction
- Energy
- Other

**A Shift in Investor Interest**

Apart from the recovery in their value, 2011 was characterized by a significant change in the structure of FDI by industry. The two historically dominant sectors - real estate and finance - saw a decrease in FDI flow compared to 2010. In the third major sector, manufacturing, FDI net flow was negative for the second time after 2009. Since 2005 the total share of these three sectors in the FDI flow had always been over 50%, to even reach 80% in 2008. However, they accounted for a quarter of foreign investments in Bulgaria in 2010 and less than 10% of the total FDI flow a year later. The most dynamic growth of FDI was registered in transport (EUR 498.4 mln), trade (EUR 223.2 mln) and energy (EUR 153.5 mln).

**PROTECTED FDI IN HIGH PRIORITY SECTORS (2011 - 2020, MLN EUR)**

- Transport and Logistics
- Healthcare and Pharmaceuticals
- Agriculture and Food Industry
- Chemical Industry
- Electronics
- ICT
- Machinery
- Outsourcing

**Source: A.T. Kearney**

**FDI STOCK BY INDUSTRY (2011 in bln EUR)**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Value (bln EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate</td>
<td>1.866</td>
</tr>
<tr>
<td>Finance</td>
<td>2.801</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>4.670</td>
</tr>
<tr>
<td>Trade</td>
<td>4.915</td>
</tr>
<tr>
<td>Transport</td>
<td>6.188</td>
</tr>
<tr>
<td>Construction</td>
<td>6.524</td>
</tr>
<tr>
<td>Energy</td>
<td>8.137</td>
</tr>
</tbody>
</table>

**Source: BNB**
There are 31 commercial banks in Bulgaria – 24 banks licensed to operate in Bulgaria and seven branches of foreign banks. Foreign capital is invested in 21 of the licenced lenders.

At end-2011 the total assets of the Bulgarian banking system stood at BGN 76.8 bln (EUR 39.3 bln), according to BNB.

The total assets of top five Bulgarian banks accounted for BGN 39.7 bln (EUR 20.3 bln) in 2011, which is 51.7% of the total assets of the banking system.

### Top 10 Bulgarian Banks by Total Assets in 2011 Rank

<table>
<thead>
<tr>
<th>Rank</th>
<th>Bank</th>
<th>BGN</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Unicredit Bulbank AD</td>
<td>11,903,648,000</td>
</tr>
<tr>
<td>2</td>
<td>DSK Bank EAD</td>
<td>8,558,253,000</td>
</tr>
<tr>
<td>3</td>
<td>United Bulgarian Bank AD</td>
<td>6,715,464,000</td>
</tr>
<tr>
<td>4</td>
<td>Raiffeisenbank (Bulgaria) EAD</td>
<td>6,448,269,000</td>
</tr>
<tr>
<td>5</td>
<td>First Investment Bank AD - Fibank</td>
<td>6,101,669,000</td>
</tr>
<tr>
<td>6</td>
<td>Eurobank EFG Bulgaria AD - Postbank</td>
<td>5,998,482,000</td>
</tr>
<tr>
<td>7</td>
<td>Corporate Commercial Bank AD</td>
<td>4,043,060,000</td>
</tr>
<tr>
<td>8</td>
<td>Societe Generale Expressbank AD</td>
<td>3,288,653,000</td>
</tr>
<tr>
<td>9</td>
<td>Piraeus Bank Bulgaria AD</td>
<td>3,209,190,000</td>
</tr>
<tr>
<td>10</td>
<td>Central Cooperative Bank AD</td>
<td>3,003,212,000</td>
</tr>
</tbody>
</table>

Bulgarian Stock Exchange

**The market capitalization at the Bulgarian Stock Exchange (BSE) was EUR 6.36 bln at the end of 2011, up by 15.6% compared to the previous year.**

The BSE indices are:
- SOFIX is benchmark index based on the market capitalisation of 15 companies with greatest market value;
- BG 40 includes the 40 companies with the largest number of transactions and the highest median value during the last six months;
- BG TR30 is an index based on the price performance of the common shares of 30 selected companies;
- BG REIT covers seven issues of common shares of special investment purpose companies that operate in the field of securitisation of real estates and/or land.

### BSE Indicators Movement (Q1 2009 - Q4 2011)

According to IMF, Bulgaria will maintain its macroeconomic stability in 2012 and 2013. Expectations are for almost double growth rate of 1.5% for 2013 compared to 0.8% for 2012. IMF forecasts stabilization of inflation at levels around 2.0% and jobless rate around 12% in the next two years.