

Bulgaria



Early July 2009 saw a fundamental shift in the Bulgarian political scene, with victory in the country's parliamentary elections by the right-wing Citizens for European Development of Bulgaria party under the leadership of Sofia mayor Boyko Borisov. In gaining over 40% of the vote they won the elections over the Bulgarian Socialist Party led by former prime minister Sergei Stanishev. During the last year, Bulgaria's main political challenge has been the management of the financial crisis in the face of the EU sanctions imposed because of certain cases of misappropriation of European funds.

Bulgaria's population of 7.3 million people is made up of a substantial majority of ethnic Bulgarians (84%) with minorities of Muslim (9.4%) and Roma (4.7%) origin. After two years within the EU, Bulgaria still has the lowest per-capita annual income of any EU country, although, the average gross monthly wage rose by 17.9% to EUR 289. In recent years, the country has successfully combated unemployment, which fell from 12% in 2004 to 6.3% in 2008. This downward trend is now in reverse, however, and unemployment is expected to rise again to some 9% by the end of 2009.

Prudent fiscal policies over the last decade have driven a major reduction in the amount of public debt, from over 100% of GDP in 1997 to less than 17% in 2008.

GDP grew in 2008 by 3.5% to EUR 34.1 billion, although it is now believed to be falling during 2009. This will be driven by a 12.2% decline in the industrial sector and a 3.1% fall in agriculture, although the services sector expanded by 0.9%.

Exports and imports were down in 2008 by 6% and 3.2% respectively, replacing the solid growth experienced in previous years. The decline continued further as exports fell significantly during February 2009 while imports outweighed this further contracting. One positive news might be that although the outlook for Bulgaria's export sector remains bleak in 2009, the potential for imports to reduce even further will help to improve Bulgaria's net trade position.

Consumer price inflation averaged 12.3% in 2008, after spiking above 15% in the middle of the year. The fall in world energy prices and a successful harvest in 2008 helped to bring inflation down to 7.8% by the end of the year. With world oil prices still far below the peak levels of 2008, a recession-driven drop in energy consumption



and general deflationary trends, inflation is expected to decline to an average of 3.5% in 2009.

Overall, risks to Bulgaria's growth prospects are mounting due to the global downturn and volatile global food and energy prices. The large current account deficit (over 25% of GDP in 2008) and high private sector debt remain sources of vulnerability in light of the reduction in private external financing. Bulgaria is however, relatively well positioned to face the current slowdown with its foreign exchange reserves accumulated in the fiscal reserve account and the banking sector.

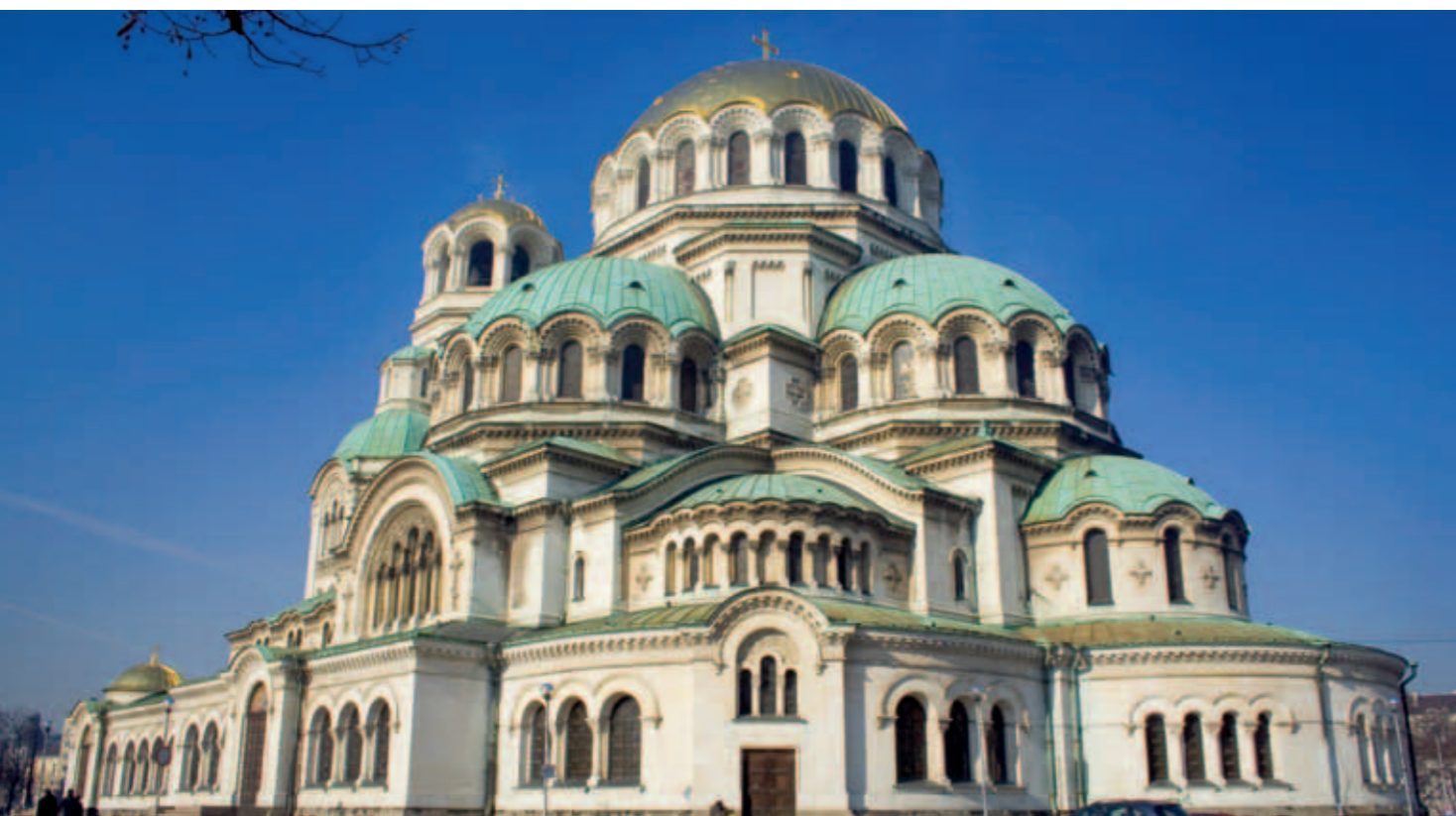
Reserves in Bulgaria's banking system grew substantially in 2008, by 17.7% to approximately EUR 35.6 billion, due to strong banking supervision and stricter regulations than are in place in other EU countries.

Lending, however, stands at the lowest rate for several years, with consumer loans in May 2009 sinking to a third

of their peak 2009 level (Bulgarian National Bank reserves). Bulgaria's largest companies are in the energy, oil and gas, telecommunications and metallurgy sectors. In the autumn of 2008, the Minister of Economy and Energy authorised seven leading energy companies to form Bulgarian Energy Holding EAD (BEH). This is now one of the region's largest energy businesses, with approximately 21,000 employees, assets of EUR 4.96 billion and consolidated revenues of some EUR 1.84 billion.

Lukoil, the country's leading refining and chemical-processing plant, is the country's largest company, followed by copper plant Aurubis Bulgaria.

The Bulgarian Telecommunication Company (BTC) is the largest business in the telecommunications, media and technology (TMT) sector, with total 2008 revenues of EUR 531.7 million. It is combating increased competition and falling demand for fixed line telephony with a focus on the underdeveloped broadband market and the aggressive promotion of ADSL services.



Bulgaria	2005/2007 Average Values	2007-2008	2008
	Change (%)	Change (%)	
Population (mil.)	-0.9	-0.8	7.3
Average monthly gross wage (EUR)	17.7	17.9	289.4
EUR Exchange rate vis-à-vis	0.0	0.0	2.0
USD Exchange rate vis-à-vis	-1.6	4.3	1.4
	Real change (%)	Real change (%)	EUR mil.
GDP	6.4	3.5	34,120
Private consumption	5.6	1.8	23,112
Public consumption	4.6	-1.5	2,585
Gross fixed capital investments	20.7	15.8	11,379
Exports (goods and services)	7.2	-6.0	20,633
Imports (goods and services)	10.9	-3.2	28,405
	Nominal change (EUR mil.)	Nominal change (EUR mil.)	EUR mil.
Trade balance	-1,523	-1,459	-8,759
Current account balance	-1,987	-1,367	-8,634
General government balance	247	-57	1,023
General government gross debt	-786	9	5,732
External debt	-961	-261	2,832
Foreign currency reserves	-434	775	12,714
	Percentage point change	Percentage point change	%
Economic activity rate	0.7	1.2	53.8
Unemployment rate	-1.8	-0.6	6.3
CPI rate (previous year = 100%)	2.8	-4.7	7.8
Central bank interest rate	0.7	1.2	5.8
Interbank SOFIBOR 12M	2.5	1.8	9.2
10-year yield on Treasury Bond	0.0	2.3	7.4

Sources used: Reuters EcoWin Pro

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