

## Bulgaria (the Republic of)

**Foreign LT: BBB/Positive, Local LT: BBB+/ Positive (Affirmed on July 21, 2006)**

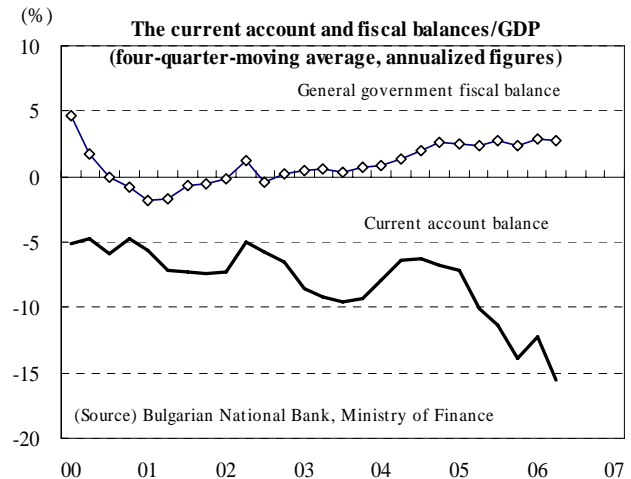
### Main Factors for the Ratings

#### Positive Factors

- Progress on political, economic and fiscal reforms in pursuit of EU accession.
- Prudent fiscal management and considerable reduction of government debt.
- Stability of currency and inflation underpinned by the currency board arrangement.
- Expanding production capacity through inflows of foreign direct investment.

#### Negative Factors

- Transformation of industrial structure still at primary stage.
- Private external debt continues growing due mainly to low-level domestic savings.



### Updated: from July 2006 to September 2006

#### Positive Factors

- On September 26, the European Commission (EC) confirmed EU accession by Bulgaria and Romania in January 2007.
- Bulgaria's GDP grew a real 6.6% year-on-year in the April-June quarter of 2006 on continued robust domestic demand.
- The general government fiscal balance in the first eight months of 2006 registered a substantial surplus of BGN1,990 million or 4.2% of GDP.
- Foreign direct investment in the first eight months of 2006 totaled EUR1,214 million or 5.0% of GDP, up 73.3% year-on-year.
- The government announced plans for privatization of state-run district heating and power generation companies on August 10.
- Unemployment rates in the April-June quarter of 2006 averaged 9.0%, half the level five years ago.
- Year-on-year growth of bank lending to the private sector decelerated to 22.9% in August 2006.

#### Negative Factors

- Current account deficit in the first seven months of 2006 grew 62.7% year-on-year to EUR1,733 million or 7.1% of GDP.

## <Prospects and Noticeable Points>

### EU accession in January 2007 confirmed by EC

#### (1) Bulgaria's EU accession confirmed

The EC gave the green light for Bulgaria and Romania to join the EU in January 2007. The final decision on their membership had been postponed from May 2006 to October 2006, due to the slow progress on reforms involving outstanding issues raised by the EC. In its final monitoring report on the progress of preparations for EU accession published on September 26, the EC concluded that Bulgaria and Romania should be ready for membership on January 1, 2007 provided that they address some of the outstanding issues. Based on this report, the EC confirmed EU membership for both countries. To address the remaining areas where further efforts will be needed even after the accession, the EC has adopted rigorous accompanying measures. First, both governments are obliged to submit a progress report twice a year starting from March 2007. Second, in case of any delay in relevant reforms, the EC will take safeguard measures, transitional measures, reduction of EU funds and cooperation and verification mechanism on the areas of judicial system and corruption, agricultural subsidies, food safety and aviation safety. Official EU membership will be realized after an approval by the EU Council and ratification of the Accession Treaty by each EU member country. To date, 21 countries have ratified the Treaty, with the remaining four countries, Belgium, Denmark, Germany and France, expected to ratify it by the end of this