



**UNITED  
BULGARIAN  
BANK**

A Member of NBG Group

**BULGARIA:  
ECONOMIC & MARKET ANALYSES  
April, 2007**



**Current account gap widened by 37.3% y/y to EUR 1.502bn (5.6% of GDP) in January-March. FDI in Bulgaria stood at EUR 770.8mn (2.9% of GDP) in the reported period**

**Foreign trade deficit worsened by 40.9% y/y to EUR 1.485bn (5.6% of GDP) in January-March**

**The gross external debt increased to EUR 19.923bn (74.6% of GDP) in February**

**0.1% inflation in April (4.2% y/y)**

**Industrial sales and output grew by 9.8% y/y and 8.7% y/y respectively in March**

**Retail and wholesales trade grew by 13.4% y/y and 5.2% y/y respectively in March**

**Household monetary expenditure and income increased by 20% y/y and 19.7% y/y respectively in March**

**Average monthly wage rose by 16.7% y/y to BGN 384 (EUR 196) in Q1**

**Unemployment dropped by 1.85% y/y to 8.38% as of end-April**

**Drop in the tax revenues was stopped in March**

**Money supply growth accelerated to 28.2% y/y at the end of March. Domestic credit growth accelerated from 22.5% y/y as of end-February to 26.2% as of end-March**

**Loans extended to corporate clients and households increased by 36.1% y/y in March**

**End-March pension funds assets up 41% y/y**

**BSE in expectation of forthcoming IPOs**

**Housing prices went up by 9.3% from the start of the year**

**I. EXTERNAL SECTOR**

**1. Balance of Payments**

**Current account gap widened by 37.3% y/y to EUR 1.502bn (5.6% of GDP) in January-March**

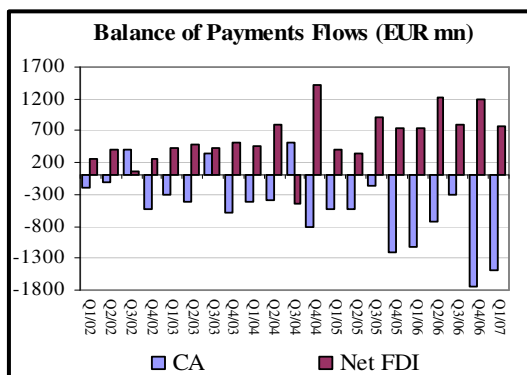
According to Central Bank preliminary data, the current account gap widened by 15.3% y/y to EUR 511.3mn in March and by 37.3% y/y to EUR 1.502bn in January-March. In relative terms the CA deficit represented 5.6% of the GDP at end-March, compared to 4.4% a year earlier.

The trade balance continued to be the main reason for the CA deterioration.

However the current account deficit was more than offset by the surplus of financial account, improved by 82% to EUR 1.578bn. Thus the overall balance was positive (EUR 51.3mn) at difference of that of last year (-EUR 218mn).

BNB warns that the CA data may undergo serious revisions due to the problems met with the foreign trade data collection after Bulgaria's EU entry.

Finance minister estimated that the CA deficit is likely to reach 18% of GDP this year, against initial expectations in the range of 15-16%.



**FDI in Bulgaria stood at EUR 770.8mn (2.9% of GDP) in January-March**

FDI inflows decreased to EUR 770.8mn (2.9% of GDP) in January-March, compared to EUR 789mn (3.1% of GDP) a year earlier. Thus they covered only 51.3% of current account deficit, versus 72.2% in the same period last year.

The attracted equity capital for January-March amounted to EUR 555.3mn (72% of total FDI), including EUR 1.4mn from privatisation deals. The

reinvested earnings for the reported period are estimated to EUR 78.4mn.

Foreign investors were mostly interested in real estate (27.5% of total FDI), financial services (24.1%) and construction (13.8%).

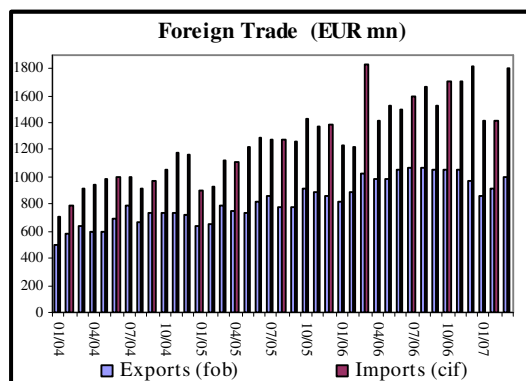
The largest investments came from UK (16.4%), Luxembourg (11.3%) and USA (9.2%).

At the same time the foreign investments abroad was EUR 10.1mn versus EUR 22.8mn for the same period last year.

**Foreign trade deficit widened by 40.9% y/y to EUR 1.485bn (5.6% of GDP) in January-March**

According to Central bank preliminary data, the foreign trade deficit widened by 30.3% y/y to EUR 555.4mn in March and 40.9% y/y to EUR 1.485bn in January-March. In relative terms it accounted for 5.6% of GDP compared to 4.2% a year earlier.

Imports grew much faster than exports in January-March: 16% y/y against 6.2% y/y. The steep deterioration was due to the metal price changes affecting the export value and to the lost export opportunities in the electricity sector. The data may undergo serious revisions in the favour of the trade balance with EU.



**2. External Debt**

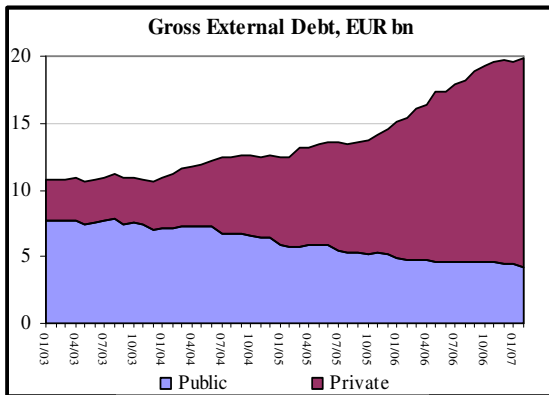
**The gross external debt increased to EUR 19.923bn (74.6% of GDP) in February**

The gross external debt increased by 29.9% y/y (EUR 4.586bn) to EUR 19.923bn as of the end of February, accounting for 74.6% of projected full-year GDP (compared to 61.1% a year earlier). On monthly base, the debt increased by 1.5% (EUR 294.4mn).

The short term liabilities represented 31% (EUR 6.175bn) of the total external debt, compared to 25.9% a year earlier.

The external public debt decreased by EUR 236.8mn (5.3%) in February and by EUR 531.7mn (5%) y/y and stood at 4.262bn. Further reduction in the state debt will be in April, as the Ministry of Finance prepaid the whole outstanding debt of SDR 204.8mn (EUR 230mn) to the IMF.

Amounted EUR 15.661bn at the end of February, private external debt represented 78.6% of the total, which shows an increase of almost 10% as compared to the structure one year ago. External debt of the banks increased the most in February (EUR 365.5mn; 12.5%), followed by the foreign liabilities of commercial firms (EUR 124mn; 1.7%) and the intra-company liabilities (EUR 39.9mn; 0.7%). On annual base, the liabilities in the private sector to external lenders continue to rise at a very quick pace: 48.5% as of end-February.



**II. REAL SECTOR**

**1. Inflation**

*0.5% inflation in April*

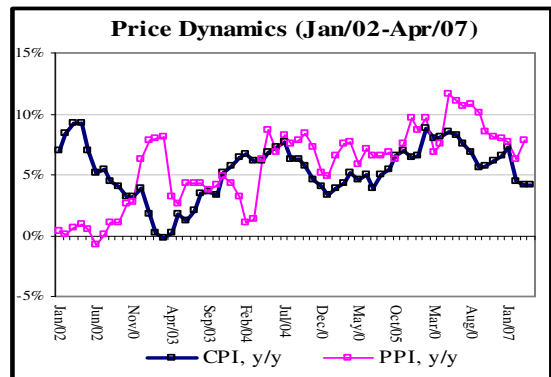
According to NSI, April consumer price inflation went up by 0.5% m/m and thus the cumulative inflation since the beginning of the year reached 2.3% and between April 2006 and April 2007: 4.2%.

In April the prices of all major groups of consumer goods went up: foods and services - by 0.5% and non-foods and catering – by 0.4%.

The EU-harmonized monthly consumer price index (HICP) rose by 0.6% in April and the annual one stood at 4.4%.

In 2007 the government projects end-year and year-average CPI inflation rates of 3.1% and 4.4% respectively.

According to NSI data, the producer prices index (PPI) rose by 7.8% y/y in March from 6.2% y/y in February. The acceleration of producer prices in manufacturing and utilities sectors were slight (respectively from 4.1% to 5.3% y/y and from 9.7% to 10.4% y/y), while in mining it was significant: from 14.9% to 22.8% y/y.



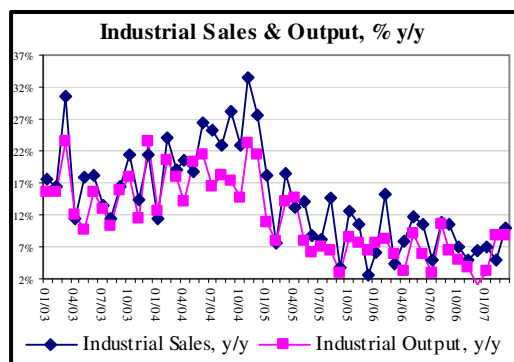
**2. Industrial Sales**

*Industrial sales and output grew by 9.8% y/y and 8.7% y/y respectively in March*

Industrial sales increased by real 9.8% y/y in March accelerating from revised 5% y/y in February.

The growth was driven by the manufacturing sector only (13.6%), as the sales in mining industries and state regulated utilities continued to decline: by 20.4% and 8.1% respectively. The manufactures of food products, textiles, fabricated metal and other non-metallic mineral products were the most dynamic.

Industrial production surged by real 8.9% y/y in March from revised 8.7% y/y in February.



**3. Retail Sales**

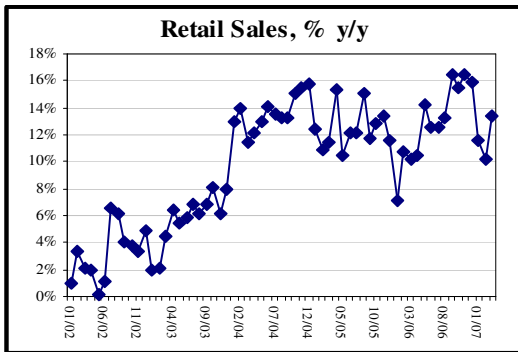
**Retail sales growth accelerated to 13.4% y/y in March**

According to NSI data, the retail trade grew by real 13.4% y/y in March accelerating from 10.2% y/y in February, the sales outside stores being the only group marking a drop.

The wholesale trade rose by real 5.2% y/y in March, improving from 3.6% in February.

On monthly base the retail and wholesale receipts increased considerably: by 10.5% and 17.9% respectively.

The period average increase in retail and wholesale trade was reported at real 11.8% and 4.1% y/y respectively in January-March.



**4. Household Consumption**

**Household monetary expenditure and income increased by 20% y/y and 19.7% y/y respectively in March**

In March the growth of household monetary expenditure overpaced the income one: 20% y/y versus 19.7% and reached respectively BGN 516.81 and BGN 548.33.

Income from entrepreneurship, property and property sale, wages and other earnings were with increased weight in the household income structure, principally to the detriment of pensions.

At the same time the payments for foods and non-alcoholic beverages; housing, water, electricity, gas and other fuels; and communications are moving down on the expenditure side of the households' budgets in favor to the other items.

**5. Average monthly wage**

**Average monthly wage rose by 16.7% y/y to BGN 384 (EUR 196) in Q1**

According to NSI preliminary data, the average wage in Q1 stood at BGN 384 (EUR 196), up by 4.6% q/q and 16.7% y/y. Average wage in the private sector grew faster than in the public one (20.1% y/y versus 13.1% y/y), reaching respectively BGN 358 and BGN 449. The highest wages were in the financial intermediation - in the public BGN 1042 (EUR 533) as well in the private sector BGN 890 (EUR 455), and the lowest – in other activities BGN 296 (EUR 151) and in the private hotels and restaurants – BGN 255 (EUR 130). The most important salary growth in public and private sectors was recorded respectively in mining (41.3%) and other activities (36.7%).

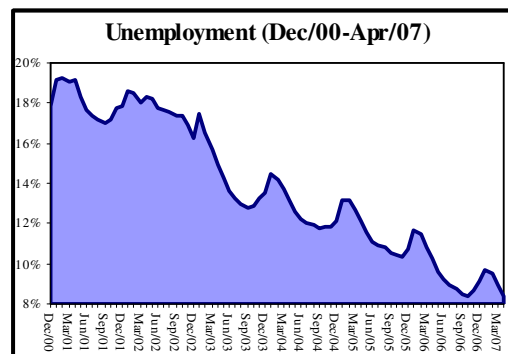
**6. Unemployment**

**Unemployment reached 8.38% as of end-April**

According to the National Employment Agency, the unemployment dropped by 0.54% m/m (20 010) and - by 1.85% y/y (68 660) to 8.38% (or 310 260 jobless) in April.

A total of 27 930 unemployed people started work in April, down 4.1% m/m.

Labour market offered 15 623 work places. The largest number of work places were offered in the processing industry, followed by the trade sector and places and agriculture. Nearly 13 100 job offers came from the private sector, which is responsible for 83.7% of the job offers.



**III. FISCAL SECTOR**

**Drop in the tax revenues was stopped in March**

The observed drop in the tax revenues in January-February was stopped in March and a surplus of BGN 403mn was booked in the republican budget in Q1, down 34.9% y/y.

In the republican budget the receipts increased by 33.7% y/y in March due to the growth of both direct and indirect taxes revenues (respectively by 44.7% and 25.1%). Despite the profit tax reduction from 15% to 10% as of the beginning of the year and the small decrease in the personal income tax burden, the revenues from profit and income taxes grew respectively by 51% and 40.8% y/y, due to higher firm profit and lower unemployment in 2006. The drop in January-February, due to the new regime of VAT taxation and collection, was stopped in March and the VAT receipts recorded even a 39% y/y increase. The revenues of excise taxes also grew - by 13% y/y, as a result both of their hike and more goods, subject to taxation. On the contrary, the duties revenues were reduced by 50.1% y/y in March.

Budgetary expenses were under their level of March 2006, principally due to the 25.1% drop in the transfers.

Concerning the consolidated budget, the revenues grew faster than the expenses in Q1: 15.4% y/y versus 9.8% y/y, reaching respectively BGN 5.05bn and BGN 4.33bn. That resulted into a surplus of BGN 540mn, up 25.8% y/y.

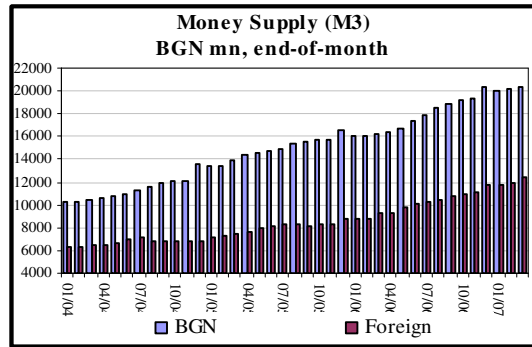
**IV. MONETARY SECTOR**

Since January 2007 BNB published the monetary statistics only monthly with a month delay.

**1. Monetary Aggregates**

**Money supply growth accelerated to 28.2% y/y at the end of March**

According to Central Bank data, money supply (M3) growth accelerated to 28.2% y/y as of end-March from 27.8% y/y as of end-February, principally due to the faster pace of overnight deposits in BGN (43.2%) and in foreign currency (41.7%), and term-deposits in foreign currency up to 2 years (30.4%). On monthly base, M3 increased by BGN 647mn (2%) to BGN 32.755bn. The share of foreign currency in M3 moved up to 37.8%.



**2. Domestic Credit**

**Domestic credit growth accelerated from 22.5% y/y as of end-February to 26.2% as of end-March**

Domestic credit growth accelerated from 22.5% y/y as at end-February to 26.2% as at end-March, according to Central Bank data. The stock of domestic credit reached BGN 23.877bn (EUR 12.208bn). Claims on government sector passed from - BGN 1.343bn as at end of February to - BGN 2.072bn a month later. Credit to the non-government sector increased to BGN 25.251bn in March, its annual growth rate being 36.7% y/y compared to 30.9% y/y in February. It included BGN 15.227bn credits to non-financial corporations and BGN 9.788bn loans to households and NPISH, the both accelerated from 29.6% to 36.3% y/y and from 32.4% to 37.6% y/y respectively in March.

In March, the mortgages credits grew at pace close to that in the previous month – 74.5% y/y (compared to 75.4% in February), while the consumer ones accelerated to 14.8% y/y compared to 6% in February. On monthly base, the former increased by BGN 119.9mn (3.3%) to BGN 3.803bn and represented 42.7% of all credits (except overdraft), compared to 33.3% a year earlier. The consumer loans grew by BGN 136.7mn (3.3%) to BGN 4.217bn in March, but their relative share shrunk from 56.1% to 47.4% in a year.

**Domestic credit, % of GDP**

	03/06	02/07	03/07
<b>Domestic credit</b>	<b>38,5%</b>	<b>44,9%</b>	<b>45,7%</b>
Claims on general government	-0,1%	-2,6%	-4,0%
Claims on non-government sector	38,7%	47,5%	49,6%
o/w Loans	37,6%	46,2%	48,3%
<b>Non-Financial Corporations</b>	<b>22,8%</b>	<b>27,6%</b>	<b>29,1%</b>
<b>Financial Corporations</b>	<b>0,4%</b>	<b>0,4%</b>	<b>0,5%</b>
<b>Households and NPISH</b>	<b>14,5%</b>	<b>18,1%</b>	<b>18,7%</b>
Consumer loans	7,5%	7,8%	8,1%
Loans for house purchase	4,4%	7,0%	7,3%

Source: BNB's Monetary survey, UBB's calculations

**V. FINANCIAL SECTOR**

**Loans extended to corporate clients and households increased by 36.1% y/y in March**

At the end of March total assets of banking system amount to BGN 44.518bn (85.2% of GDP). Compared to the previous month, a growth of BGN 1.407bn (3.3%) was registered and over the year – a growth of BGN 10.505bn (30.9%).

The main funding source of the assets monthly growth are the financial liabilities, increased by BGN 1.328bn (3.5%) over the month, thanks to the attracted funds of credit institutions (BGN 803.3mn).

The loans and receivables (including financial leases) reported at the end of March are BGN 33.143bn, of which BGN 33.065bn are loans and advances. For a one-year period, the loans extended to corporate clients and households have increased by BGN 6.729bn (36.1%), and against February - by BGN 1.285bn (4.1%).

At the end of the first quarter of 2007, the banking sector has made a profit of BGN 239mn, which is by BGN 25mn (11.8%) higher than the one for the same period of the last year.

**From 1 January 2007, the BNB introduced a new consolidated financial reporting framework, applicable to the EU credit institutions. The credit portfolio includes both banks and non-banks.**

**End-March pension funds assets up 41% y/y**

The net assets of the private pension funds, operating in Bulgaria, rose by 41% on the year to BGN 1.664bn at the end of March (or roughly 3% of projected GDP).

Substantial changes were observed in their investment portfolio in Q1, compared with the

year-ago period. The relative share of government securities in the portfolios of mandatory and occupational funds decreased by more than 20% and by 25% as concerns voluntary funds. At the same time the share of stocks tripled and investments in corporate bonds and foreign securities also increased.

The number of pension fund holders totalled 3.25mn at end-March, up 8.1% y/y.

FSC licensed the first voluntary job-related fund, which will be managed by pension insurance company Allianz.

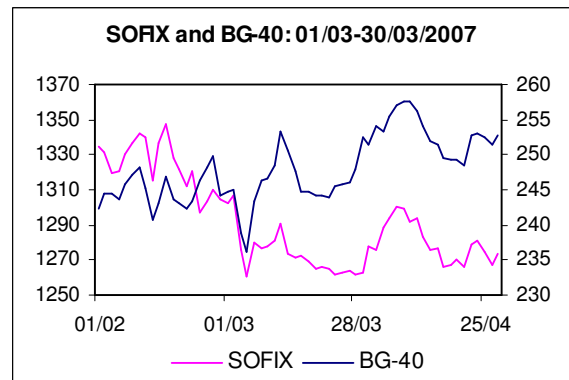
A legislative framework for setting up multiple investment portfolios with different risk exposure is under discussion.

**BSE in expectation of forthcoming IPOs**

The market capitalisation on the BSE-Sofia, plunged by BGN 500mn to BGN 17.74bn in April, driven by the forthcoming IPOs.

Bourse turnover also plunged to BGN 188mn in April from BGN 333mn in the previous month.

Over the second half of the month Bulgarian stocks were under pressure from several huge IPOs, with investors selling existing shares to participate in the IPOs. Remained unabsorbed liquidity will come back to the market, triggered an upswing.



**VI. REAL ESTATE**

**Housing prices went up by 9.3% from the start of the year**

According to NSI data, the average housing prices in Q1 increased by 9.3% compared to the end of last year and by 22.6% compared to same period

a year ago and reached 988.2 BGN/m<sup>2</sup> (505 EUR/m<sup>2</sup>).

Housing is most expensive in Varna – 1646 BGN/m<sup>2</sup>, where the prices rose by 16% on the quarter. Next comes Sofia with 14% increase to 1588 BGN/m<sup>2</sup>. Housing prices in the other Black Sea port – Burgas – stabilized at 1312 BGN/m<sup>2</sup>.

The prices in Targovishte, Blagoevrad and Silistra soared by 16%.

The least expensive in terms of housing prices in Q1 remained Sofia district (420.3 BGN/m<sup>2</sup>), Kyustendil (557.7 BGN/m<sup>2</sup>) and Silistra (568.3 BGN/m<sup>2</sup>).

Brokers projected a gradual rise of 15% to 20% for the entire 2007.

*The information contained in this bulletin is derived from public institutional sources and United Bulgarian Bank makes no representation as to the accuracy or completeness of such information. This material is not intended as an offer or a proposal for the purchase or sale of any financial instrument. Additional information on the theme researched in this report is available upon request. Contact: Chief Economist P. Tsekova phone (359 2) 811 2980, e-mail [cekova\\_p@ubb.bg](mailto:cekova_p@ubb.bg), Chief Analyst Yasen Yanchev phone (359 2) 811 2981, e-mail [yanchev\\_y@ubb.bg](mailto:yanchev_y@ubb.bg), Senior banking employee P. Rangelova phone (359 2) 811 2982, e-mail [rangelova\\_p@ubb](mailto:rangelova_p@ubb).*