



**UNITED  
BULGARIAN  
BANK**

A Member of NBG Group

**BULGARIA:  
ECONOMIC & MARKET ANALYSES  
April, 2008**



*Current account gap widened by 6.1% y/y to 5.1% of GDP in Q1. Net FDI inflows plunged dramatically to 20.9% of CA gap in Q1*

*Foreign trade gap widened by 13.3% y/y to 5.4% of GDP in Q1*

*Gross external debt grew by 35.2% y/y to 84.8% of GDP as of end-February*

*Consumer price inflation accelerated to 14.6% y/y in April. PPI inflation accelerated to 15.4% y/y in March*

*Industrial sales growth slowed markedly to 2.2% y/y in March*

*Retail sales growth slowed down to 8.7% y/y in March*

*Household monetary expenditure slowed to nominal 15.4% y/y in March*

*Average monthly wage rose by 24.4% y/y to BGN 484 (EUR 247.5) in Q1*

*Unemployment rate fell by 1.9pps y/y to 6.51% as of end-April*

*Consolidated budget surplus widened to 2.7% of GDP in Q1*

*Money supply grew by 29% y/y to 68.5% of GDP as of end-March. Claims on non-government sector slowed their growth rate to 55.5% y/y as of end-March*

*Banks' net profit grew by 50.2% y/y to EUR 183.53 mn as of end-March*

*Net assets of the nine private pension companies rose by near 37% to EUR 1.16 bn in Q1*

*General insurance market grew by 19.7% y/y in 2007*

*Market capitalisation of the stock exchange dropped by 4% m/m at end-April*

*Average housing prices rose by 31.6% y/y to EUR/m<sup>2</sup> 664.7 in Q1*

**I. EXTERNAL SECTOR**

**1. Balance of Payments**

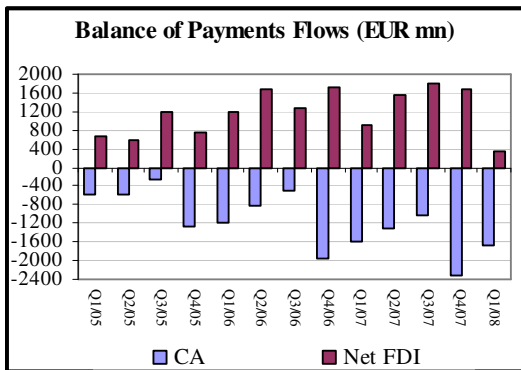
**Current account gap widened by 6.1% y/y to 5.1% of GDP in Q1**

Current account (CA) gap widened by 6.1% y/y to EUR 1.67 bn in Q1 or 5.1% of the projected full-year GDP relative to 5.4% of GDP for the same period last year, according to Central bank preliminary data. In March alone, the CA gap decreased by 14.3% y/y and by 31.6% m/m to EUR 395.4 mn.

The balance on services continued to deteriorate by 141.6% y/y to EUR 145 mn in Q1.

Net incomes and net transfers contributed positively helped by EU allocations to the local farming sector. The positive net income balance amounted to EUR 124 mn in Q1 as compared to a negative balance of EUR 9.3 mn for the same period last year. Net current transfers rose by 92% y/y to EUR 135.1 mn in Q1.

The overall balance of payments turned positive to EUR 143 mn in Q1 and resumed the process of foreign reserve accumulation that was seriously challenged in the first two months of the year.



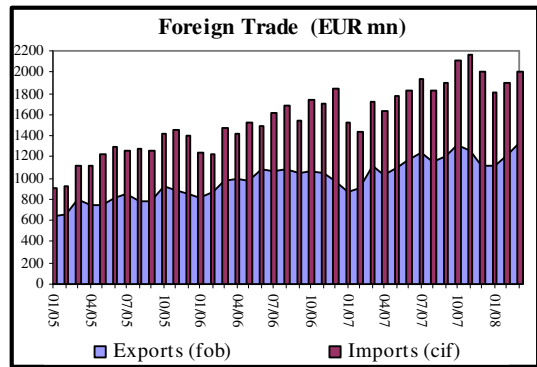
**Net FDI inflows plunged dramatically to 20.9% of CA gap in Q1**

Net FDI inflows decreased by 61.5% y/y to EUR 348.7 mn in Q1 covering 20.9% of the CA gap as compared to 57.5% a year earlier, according to Central bank preliminary data. A large part of the determination comes from unusually high investments of local entities abroad. Nevertheless, gross FDI inflows also dropped in Q1 though at a much lesser rate of 17.5% that is a clear signal of revised investment plans as a result of the global

liquidity crisis and more specifically its implications on property investments in the country coming from UK legal and natural persons in the past several years.

**Foreign trade gap widened by 13.3% y/y to 5.4% of GDP in Q1**

The rate of foreign trade deficit widening slowed to 13.3% y/y in Q1 from 15.2% y/y in January-February, according to Central bank preliminary data. The gap reached EUR 1.785 bn for the period, accounting for 5.4% of the projected full-year GDP as compared to 5.5% a year earlier. However, the full-year GDP forecast for this year will be revised upwards in absolute terms as a result of higher-than-projected inflation that will flatten the trade gap ratio. Merchandise exports (fob) grew by 25.7% y/y in Q1 slowing from 30.7% y/y in January-February. Imports (cif) also slowed to a growth rate of 21.6% y/y in Q1 from 25% y/y in January-February. The trade with EU members generated about 50% of the overall foreign trade gap in Q1.



**2. External Debt**

**Gross external debt grew by 35.2% y/y to 84.8% of GDP as of end-February**

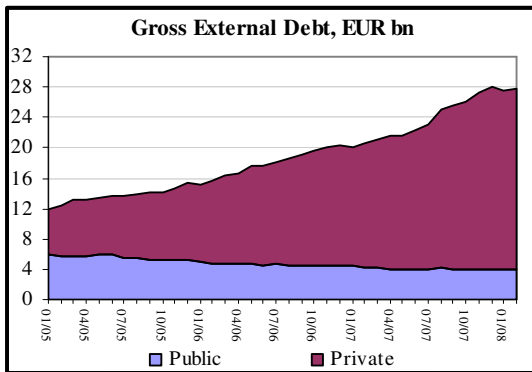
Gross external debt grew by 35.2% y/y to EUR 27.8 bn as of end-February, according to Central bank preliminary data. The debt stock reached 84.8% of the full-year GDP projection as compared to 71.2% a year earlier.

Debt-servicing accounted for 3.7% of GDP as compared to 4.4% of GDP for the same period last year. The share of short-term debt reached 32.9% of the total external debt against 30.3% as a year earlier.

Public debt decreased by 4.8% y/y to EUR 4.05 bn as of end-February. The foreign debt of the private sector continued to expand at a much

faster rate (45.6% y/y) to 85.4% of the total as compared to 79.3% a year earlier.

Internal financing within foreign-owned companies accounted for 35.6% of the total external debt. Banks' external debt rose by 56.4% y/y to EUR 5.3 bn (16.8% of GDP) as of end-February. The foreign liabilities of commercial firms (state-owned and private companies) grew by 30.3% y/y but gropped on a monthly basis by 0.04% to EUR 9.85 bn as of end-February.

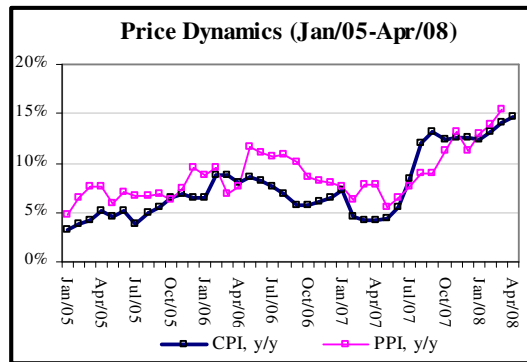


**II. REAL SECTOR**

**1. Inflation**

**Consumer price inflation accelerated to 14.6% y/y in April**

Consumer price inflation accelerated to 14.6% y/y in April from 14.2% y/y in March and 13.2% y/y in February, according to NSI data. The monthly inflation is reported at 0.9% as compared to 0.8% in March. The period-average inflation was 13.6% y/y in January-April. The harmonised index of consumer prices (HICP) used as a main price gauge by ECB, also accelerated to 13.4% in April from 13.2% y/y in March prompting that the price criterion for joining the eurozone could not be met before mid-2010 and the Central bank would be forced to revise its indicative timetable for adopting the euro. Food prices sustained its upward trend increasing by 24.6% y/y in April. Given the high inflation in Q1, the annual average index is likely to remain above 9%, according to the estimates, while the budget revenue estimates for this year are based on inflation projection of 6.9%.



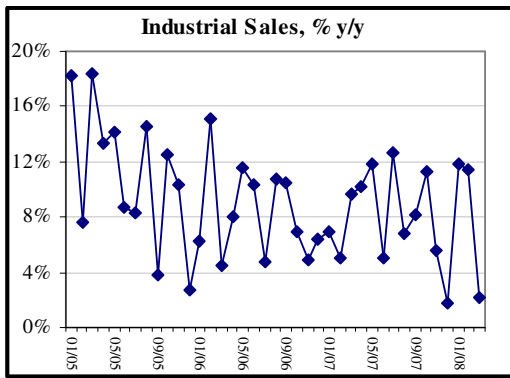
**PPI inflation accelerated to 15.4% y/y in March**

The producer price index covering industrial goods traded on the domestic market accelerated to 15.4% y/y in March from 13.9% y/y in February and 13% y/y in January, according to NSI. The manufacturing sector registered steep hikes in several branches such as wooden materials, metals casting, electrical appliances, and medical equipment but they will have insignificant lagged effects on the consumer basket. Producer prices of food products accelerated to 23.2% y/y in March from 22.6% in February and will remain a major concern for the government consumer price projections this year.

**2. Industrial Sales**

**Industrial sales growth slowed markedly to 2.2% y/y in March**

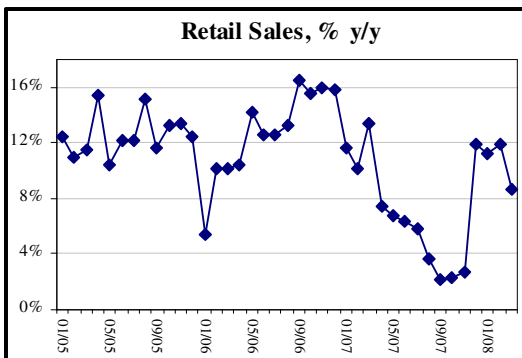
Industrial sales increased by 2.2% y/y in March slowing by a large margin from revised 11.4% y/y in February, according to NSI preliminary data. The deterioration is due to the manufacturing sector mainly, as the line sales growth weakened to 2% y/y in March from 12.9% in February. Despite liquidity problems and lower production at the country's largest steel mill Kremikovtzi, the whole branch of metal casting showed relatively stable sales and production volumes. The state dominated sector of energy utilities retained a weak sales growth rate of 2.3% in March despite the end of the government restraints on electricity exports. Industrial output dropped by 2% y/y in March as compared to a growth of 5.4% y/y in February.



### 3. Retail Sales

**Retail sales growth slowed down to 8.7% y/y in March**

Retail sales growth slowed down to 8.7% y/y in March from revised 11.9% in February, according to NSI preliminary data. The index improved by 10.6% y/y in Q1, still reflecting the strong performance in the beginning of the year influenced by lagged effects from lavish Christmas bonuses in the public administration. Wholesales increased by just 0.4% y/y in March after a short-lived rebound to 9.8% y/y in February. The period-average wholesales growth thus slowed to 3.8% y/y in Q1.



### 4. Household Consumption

**Household monetary expenditure slowed to nominal 15.4% y/y in March**

The growth of household monetary expenditure slowed down to nominal 15.4% y/y in March from 16.8% y/y in February and 20.4% y/y in January, according to the household surveys of the NSI. The household monetary income grew by 17.8% y/y as compared to a growth of 17.5% y/y in February. Revenues from ownership and sales fell

by 30.4% and 40.6% on annual basis, respectively in March.

### 5. Average Monthly Wage

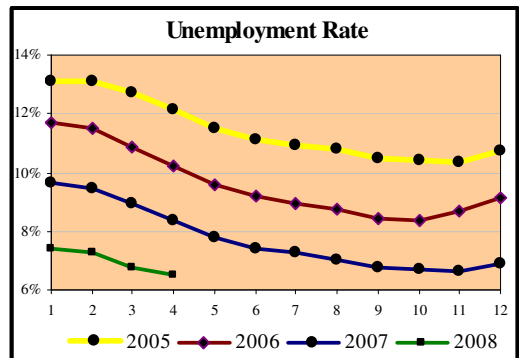
**Average monthly wage rose by 24.4% y/y to BGN 484 (EUR 247.5) in Q1**

The average gross wage rose by nominal 24.4% y/y to BGN 484 (EUR 247.5) in Q1 as compared to nominal 22.9% y/y in Q4 last year, according to NSI preliminary data. The wages in the public sector rose at a slightly faster rate of 25.4% y/y as compared to those in the private sector (24.3% y/y). The wage growth in agriculture, mining and manufacturing industries, transport, financial intermediation, real estate services and education was above the average. Wages in the public administration increased by an average of 18.2% y/y in Q1 slowing from 20.2% y/y in Q4 last year.

### 6. Unemployment

**Unemployment rate fell by 1.9pps y/y to 6.51% as of end-April**

Unemployment rate fell by 1.9 pps y/y and 0.28 pps m/m to 6.51% in April, according to National Employment Agency. Total number of registered unemployed amounted to 241,075 people, down by 69,185 on an annual basis.



## II. FISCAL SECTOR

**Consolidated budget surplus widened to 2.7% of GDP in Q1**

The consolidated budget surplus more than tripled to BGN 1.664 bn (EUR 850.7 mn) in Q1, which accounted for 2.7% the projected full-year GDP as compared to 0.9% of GDP in January-February, according to data of the Finance Ministry.

The fiscal revenues surged by 33.4% y/y to BGN 6.744 bn (EUR 3.45 bn) in Q1, still influenced by one-off indirect tax growth effects in the base period but also pushed up by EU funds inflows. The latter reached BGN 432.5 mn (EUR 221.1 mn) during the period and pushed up the budget surplus by 0.7pps of the projected GDP. The introduction of a flat 10% personal income tax to replace the progressive scale ranging from 0% to 24% as of the beginning of the year turned out to be positive in terms of revenues for the general budget as the receipts from personal income taxes increased by 15.3% y/y during the period.

The fiscal expenditures (excluding the installment for the EU budget) advanced by 11.9% y/y to BGN 4.85 bn (EUR 2.48 bn) in Q1.

Republican budget surplus more than doubled to BGN 1.076 bn (EUR 550.5 mn) in Q1. Republican budget revenues and grants increased by 32.8% y/y to BGN 4.6 bn (EUR 2.4 bn) or 25.2% of the full-year plan. Revenues from direct taxes grew by 23% y/y or 29.6% of the government plan.

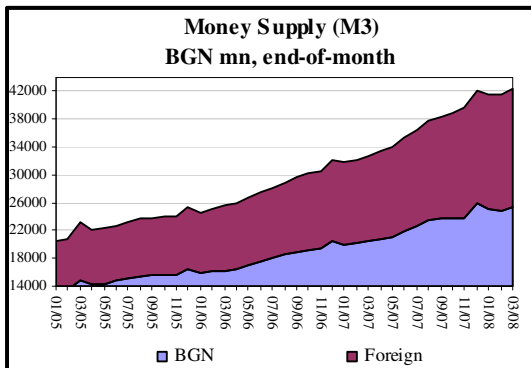
The government is targeting a budget surplus of 3% of GDP this year in order to contain the large CA gap.

**IV. MONETARY SECTOR**

**1. Monetary Aggregates**

*Money supply grew by 29% y/y to 68.5% of GDP as of end-March*

Money supply (M3) grew by 29% y/y to reach BGN 42.2 bn (EUR 21.6 bn) or 68.5% of the projected GDP as of end-March due to the continued increase in the deposits with agreed maturity up to 2 years by 36.9% y/y, according to Central bank data. The overnight deposits reversed its downward trend from the past two months advancing by 2.1% m/m and 24.1% y/y.



The foreign reserves rose by 34.9% y/y to EUR 12.114 bn as of end-March. Although the government redeemed a part of its debt to the World Bank in March, government's deposit grew by BGN 633.5 mn m/m (9.6%) to BGN 7.2 bn (EUR 3.7 bn).

**2. Domestic Credit**

*Claims on non-government sector slowed their growth rate to 55.5% y/y as of end-March*

Domestic credit growth decelerated to 49% y/y as of end-March from 50.5% y/y as of end-February and 57.8% y/y as of end-January, according to Central Bank data. The stock of domestic credit reached BGN 35.6 bn (EUR 18.19 bn) or 57.6% of the projected full-year GDP.

Claims on non-government sector decelerated their growth rate to 55.5% y/y as of end-March from 59.1% as of end-February and 61.8% y/y as of end-January.

Lending to non-financial companies slowed down to 60.5% y/y as of end-March from 64.1% y/y as of end-February.

Credits to households and NPISH slowed down to 49.5% y/y as of end-March from 53.9% y/y as of end-February which was influenced by the increase in the interests on loans as well as by the continued inflationary pressure on the consumer basket. Consumer and mortgage loans decelerated their growth rate to 45.6% y/y and 57.8% y/y as of end-March as compared to 52.9% y/y and 61% y/y as of end-February, respectively.

**Domestic credit, % of GDP**

	03/07	02/08	03/08
<b>Domestic credit</b>	<b>43.5%</b>	<b>57.3%</b>	<b>57.6%</b>
Claims on general government	-3.8%	-6.8%	-7.8%
Claims on non-government sector	47.3%	64.0%	65.4%
o/w Loans	46.0%	62.7%	64.1%
<b>Non-Financial Corporations</b>	<b>27.8%</b>	<b>38.4%</b>	<b>39.6%</b>
<b>Financial Corporations</b>	<b>0.4%</b>	<b>0.7%</b>	<b>0.7%</b>
<b>Households and NPISH</b>	<b>17.8%</b>	<b>23.6%</b>	<b>23.7%</b>
Consumer loans	7.7%	10.1%	10.0%
Loans for house purchase	6.9%	9.6%	9.7%
<b>Deposits of NFIs and other clients</b>	<b>54.4%</b>	<b>62.3%</b>	<b>62.9%</b>
<b>Assets</b>	<b>81.1%</b>	<b>94.1%</b>	<b>96.4%</b>

Source: BNB's Monetary survey and Balance sheet of the banking system

## **V. FINANCIAL SECTOR**

### **1. Banking Sector**

#### ***Banks' net profit grew by 50.2% y/y to EUR 183.53 mn as of end-March***

The aggregated net profit of the 29 commercial banks rose by 50.2% y/y to BGN 359 mn (EUR 183.53 mn) as of end-March, according to Central bank data. The growth rate sped up from a deceleration to 30.8% y/y in January-February and is already above the 41.6% from the last year.

The total value of assets increased by 33.6% y/y to BGN 59.5 bn (EUR 30.4 bn) at the end of March or 96.4% of the projected full-year GDP. However, the asset growth rate decelerated from 34.8% y/y in January-February and 40% y/y in December last year. The five largest players on the market controlled 56.8% of the total assets.

The growth of the credit stock slowed further to 38.2% y/y as of end-March from 40.6 y/y as of end-February and 67.5% last year. The increase in the interest rates and the liquidity problems worldwide are expected to push down loans growth further. The credit growth is still financed by the increase of the deposits as the credits to deposits ratio stands at 89.7%.

The gross loans to enterprises amounted to BGN 25.955 bn (EUR 13.27 bn) at end-March, up by 2.3% m/m. Retail exposures rose by 0.3% m/m to BGN 13.9 bn (EUR 7.1 bn).

The stock of all deposits rose by 33.2% y/y to BGN 52.125 bn (EUR 26.651 bn) at end-March. The private sector deposits amounted to BGN 38.8 bn (EUR 19.8 bn) or near 63% of the projected full-year GDP.

The capital adequacy ratio of the banking system increased to 14.5% at end-March as compared to 13.8% at the end of the last year.

### **2. Pension Funds**

#### ***Net assets of the nine private pension companies rose by near 37% to EUR 1.16 bn in Q1***

The net assets of the nine private pension companies, which run 27 funds, increased by 36.9% y/y to BGN 2.278 bn (EUR 1.16 bn) in Q1 and accounted for 3.69% of the projected full-year GDP, according to Financial Supervision Commission data. The assets fell by 1.7% as compared to the end of last year (first time since

the start of the pension reform) due to drop in the prices of the financial instruments traded on the local and foreign stock exchanges. The number of insured persons rose by 7.3% y/y to 3.5 mn.

The weighted average annual return rates for universal, professional and voluntary funds in the last 24-month period corrected marginally downwards to 8.15%, 8.03% and 8.08% in Q1 as compared to 8.37%, 8.64%, and 8.38% a year earlier, respectively. The highest average return rate was below 13% while as of end-2007 three of the pension funds achieved average return rates of more than 15%.

The parliament approved in January changes to the regulation allowing broader opportunities for investments of pension funds adding Croatia and Macedonia to the list while the state financial commission should publish a list with admissible credit rating agencies and minimal credit rating levels corresponding to Moody's Baa3 or BBB- of S&P and Fitch.

The net assets of private pension funds are expected to increase 2.5 times to BGN 5.7 bn (EUR 2.9 bn) until 2010.

### **3. Insurance Market**

#### ***General insurance market grew by 19.7% y/y in 2007***

The gross premium revenues of the local insurance companies increased by 21.3% y/y to BGN 1.52 bn (EUR 777.3 mn) in 2007, according to Financial supervision commission data. The rate of penetration has increased to 2.7% as compared to 2.54% a year earlier.

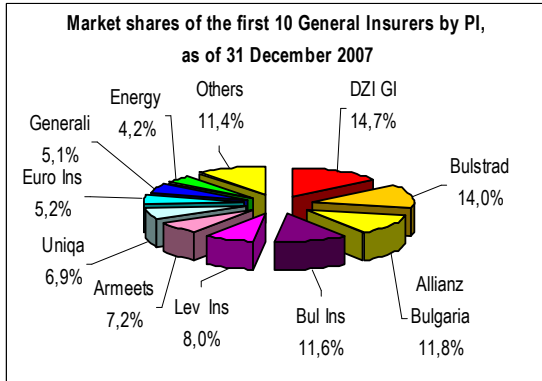
The gross premium income of general insurance companies rose by 19.7% y/y to BGN 1.268 bn (EUR 648.6 mn). The combined premium income of the life insurers surged by 30.4% to BGN 251.8 mn (EUR 128.7 mn).

The compensations paid by the general and life insurance companies increased by 24.3% to BGN 451.31 mn (EUR 230.8 mn) and 15% to BGN 78.3 mn (EUR 40 mn), respectively.

The insurance market in Bulgaria has been growing steadily in the recent years, mainly due to the rise in price of the insurances as well as the competition among other companies for better market positions. The small insurance companies are most active on the market because they lightly take the market share of the leaders. As of end-2007 the share of the four largest players has

dropped to 52% as compared to 56.7% a year earlier

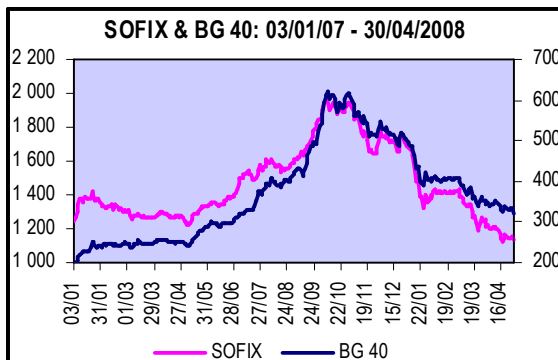
The gross premium per capita (so called insurance density) came to BGN 199/EUR 101.7 as compared to BGN 163/EUR 83.5 as of end-2006. However, the premium income per capita is still half the average for central and eastern Europe.



**4. Stock Exchange**

**Market capitalisation of the stock exchange dropped by 4% m/m at end-April**

Since the beginning of the year the blue-chip SOFIX index has declined by 34.5% to 1138.48 on April 30. The broader BG40 lost 38.3% of its value ending the month at 318.41 points. Total market capitalisation of the bourse dropped by 4% m/m or BGN 0.938 bn to BGN 22.3 bn (EUR 11.41 bn) at the end of April.



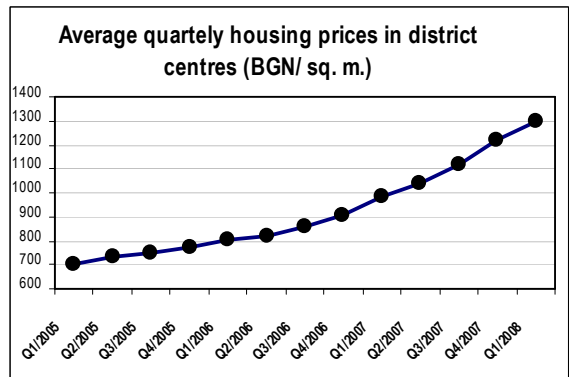
**VI. REAL ESTATE**

**Average housing prices rose by 31.6% y/y to EUR/m<sup>2</sup> 664.7 in Q1**

Average housing prices rose by 31.6% y/y to BGN/m<sup>2</sup> 1300 (EUR/m<sup>2</sup> 664.7) in Q1 slowing from 34.6% y/y in Q4 last year, according to NSI data. The increase in home prices, however, is still higher than the average growth of 28.9% posted last year. The figures cover prices in district centres and some of the smaller settlements in the district of Sofia.

The capital city Sofia continued to offer the most expensive apartments in the country (BGN/m<sup>2</sup> 2163.2/EUR/m<sup>2</sup> 1106), followed by the Black Sea city Varna (BGN/m<sup>2</sup> 2099.3/ EUR/m<sup>2</sup> 1073) and the Danube city Rouse (BGN/m<sup>2</sup> 1732/EUR /m<sup>2</sup> 886).

The steepest growth rate was recorded in Rouse (62.5%), followed by Sofia district (61.3%) and Vidin (50.8%).



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