



UNITED BULGARIAN BANK

A Member of NBG Group

BULGARIA: ECONOMIC & MARKET ANALYSES June, 2007



Current account gap widened by 47.9% y/y to EUR 2.591bn (9.7% of GDP) in January-May. FDI in Bulgaria decreased to EUR 1.530bn (5.7% of GDP) in the reported period

Foreign trade deficit worsened by 44.3% y/y to EUR 2.664bn (10% of GDP) in January-May

Gross external debt increased to EUR 20.506bn (76.7% of GDP) in April

0.4% deflation in June (5.6% y/y inflation)

Industrial sales and output grew by 11 % y/y and 6.9% y/y respectively in May

Retail and wholesales growth decelerated to 6.7% y/y and 3.6% y/y respectively in May

Household monetary income and expenditure increased by 17.2% y/y and 16.2% y/y respectively in May

Unemployment reached 7.42% as of end-June

General budget surplus widened by 50.3% y/y to BGN 1.85bn (3.5% of GDP) in January-May

Money supply growth decelerated to 27.7% y/y at the end of May. Domestic credit growth decelerated from 28.7% y/y as of end-April to 33.9% as of end-May

Loans extended to corporate clients and households increased by 44.4% y/y in May

9.17% is the average return provided by the universal pension funds for the past two years

BG-40 hit a new all time high of 309.9 points in June

Housing prices went up by 27% y/y in Q2

I. EXTERNAL SECTOR

1. Balance of Payments

Current account gap widened by 47.9% y/y to EUR 2.591bn (9.7% of GDP) in January-May

According to Central Bank preliminary data, the current account gap widened by 55.2% y/y to EUR 456.8mn in May and by 47.9% y/y to EUR 2.591bn in January-May. In relative terms the CA deficit represented 9.7% of the GDP at end-May, compared to 7% a year earlier.

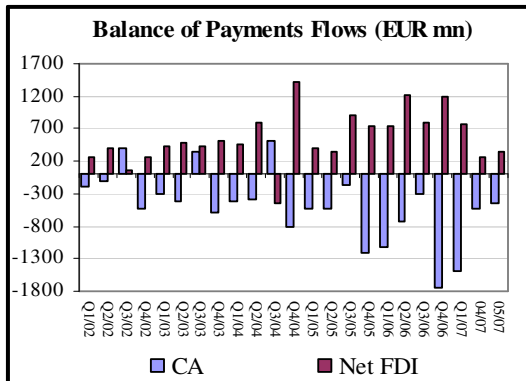
The trade balance continued to be the main reason for the CA deterioration.

The net transfers decreased by half due to the contribution of EUR 129mn paid to the EU budget and despite the increase of earnings from abroad. Receipts from tourism improved by 16.3% y/y before the start of summer season.

The overall balance of payments remained on a surplus of EUR 315.9mn; down 42.3% y/y, despite the large inflow booked in net currency and deposits in the financial account.

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 decreased to EUR 1.530bn (5.7% of GDP) in January-May

FDI inflows decreased to EUR 1.530bn (5.7% of GDP) in January-May, compared to EUR 1.697bn (6.8% of GDP) a year earlier. Thus they covered only 60% of current account deficit, versus 96.8% in the same period last year.

The attracted equity capital for January-May amounted to EUR 1.088bn (71.1% of total FDI), including EUR 1.4mn from privatisation deals. The reinvested earnings for the reported period are estimated to EUR 134.5mn.

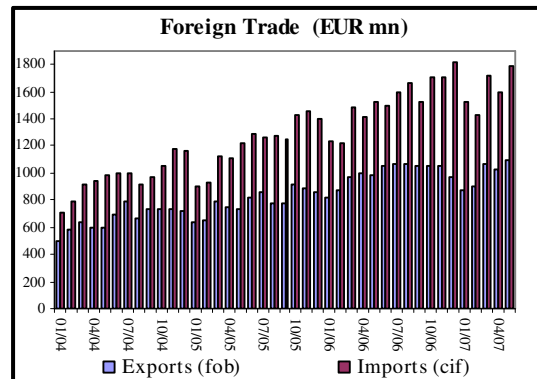
The largest investments came from UK (15.4%), Luxembourg (12.5%) and Spain (9.5%).

At the same time the foreign investments abroad was EUR 47mn versus EUR 27.9mn for the same period last year.

Foreign trade deficit widened by 44.3% y/y to EUR 2.664bn (10% of GDP) in January-May

According to Central bank preliminary data, the foreign trade deficit widened by 29.7% y/y to EUR 590.3mn in May and 44.3% y/y to EUR 2.664bn in January-May. In relative terms it accounted for 10% of GDP compared to 7.4% a year earlier.

Imports grew much faster than exports in January-May: 17.4% y/y versus 6.7% y/y, reaching EUR 7.626bn and EUR 4.962bn respectively. The data may undergo serious revisions in the favour of the trade balance with EU.



2. External Debt

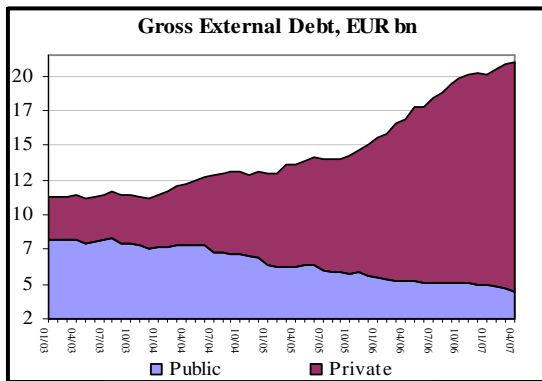
The gross external debt increased to EUR 20.506bn (76.7% of GDP) in April

The gross external debt increased by 25% y/y (EUR 4.112bn) to EUR 20.506bn as of the end of April, accounting for 76.7% of projected full-year GDP (compared to 65.3% a year earlier). On monthly base, the debt increased by 0.2% (EUR 32.8mn).

The short term liabilities represented 32.8% (EUR 6.678bn) of the total external debt, compared to 28.9% a year earlier.

The external public debt decreased by EUR 287mn (6.8%) in April and by EUR 755.1mn (16.05%) y/y and stood at 3.951bn. The monthly reduction was due to the early debt payment of EUR 230mn to the IMF.

Amounted EUR 16.555bn at the end of April, private external debt represented 80.7% of the total, which shows an increase of 9.4% as compared to the structure one year ago. External debt of the banks increased the most in April (EUR 210mn; 6%), followed by the foreign liabilities of commercial firms (EUR 73.5mn; 1%) and the intra-company liabilities (EUR 27mn; 0.4%). On annual base, the liabilities in the private sector to external lenders continue to rise at a very quick pace: 41.6% as of end-April. However, a slight downward correction is expected in May, due to withdrawal of bank reserves from central and symmetric transfers to foreign parent companies.



II. REAL SECTOR

1. Inflation

0.4% deflation in June

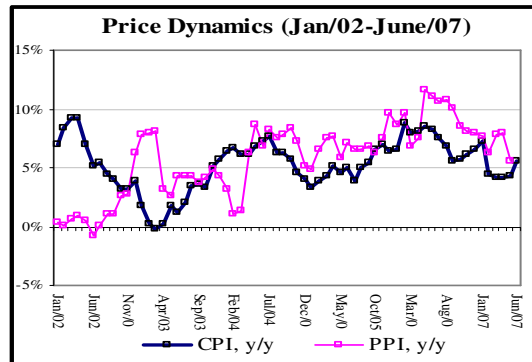
According to NSI, consumer prices fell by 0.4% m/m in June. Inflation from the beginning of the year decelerated to 2%, while the year-on-year June inflation quickened to 5.6%.

In June food prices fell by 1.3% m/m, pulled down by a 40% decrease in the price of potatoes and potato products, and a 15.9% drop in the price of fresh and frozen vegetables. At the same time non-food prices grew by 0.1% m/m, the fuel reporting the sharpest increase – between 0.4% and 4.2% for the different types. Catering and services also went up respectively by 0.3% and 0.2% m/m.

The EU-harmonized monthly consumer price index (HICP) fell 0.2% in June and the annual one reached 5.3%.

The rate of inflation is expected to increase in the second half of the year due to the hike in electricity and gas prices and the possible salary increase in the private sector.

The government expects inflation to slow down to 3.4% this year, while the IMF has projected an end-year inflation of under 4.5%.



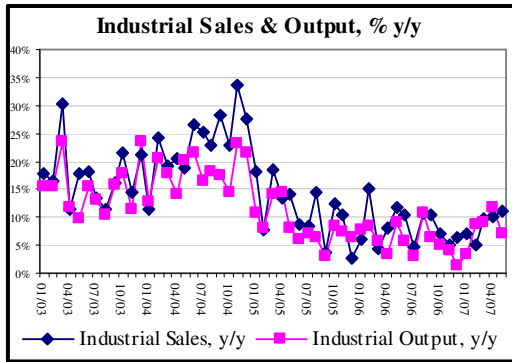
According to NSI data, producer prices inflation (PPI) on the domestic market slowed to 5.5% y/y in June from 7.9% y/y in April, due to the downward correction in ore mining, which have been reporting double digit prices hike for several months. That affects the prices of metal processing and other manufacturing branches, relying on metal inputs. Food prices grew at faster pace (11%) in May due to the unfavourable weather conditions.

2. Industrial Sales

Industrial sales and output grew by 11 % y/y and 6.9% y/y respectively in May

Industrial sales growth slightly accelerated from revised 10.2% y/y in April to 11% y/y in May. The sales in mining sector fell again - by 15.9% y/y, after a rebound in the previous month. On the contrary, the manufacturing industries registered a significant improvement to 12.4% y/y. For second month in a row, energies utilities reported a double digit y/y growth, despite the closure of two of power units in Kozloduy.

Industrial production grew at a much weaker rate of 6.9% y/y in May, after the surprising 11.7% in April.



3. Retail Sales

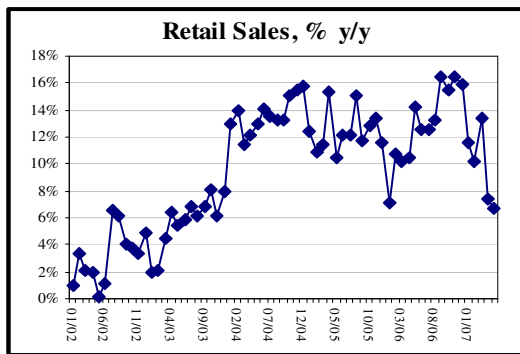
Retail sales growth decelerated to 6.7% y/y in May

According to NSI data, the retail trade grew by real 6.7% y/y in May decelerating from 7.4% y/y in April.

The wholesale trade also decelerated in May - to 3.6% y/y from 4.6% y/y in April.

On monthly base the retail and wholesales receipts marked an increase of 2.5% and 4.5% respectively.

The period average increase in retail and wholesale trade was reported at real 9.7% and 4.1% y/y respectively in January-May.



4. Household Consumption

Household monetary income and expenditure increased by 17.2% y/y and 16.2% y/y respectively in May

Household monetary income and expenditure increased by 17.2% y/y and 16.2% y/y respectively, reaching BGN 559.41 and BGN 535.59 in May.

Income from property and property sale, entrepreneurship, 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, beverages and tobacco; transport; recreation, culture and education; and taxes are moving up on the expenditure side of the households' budgets in detriment of the other items.

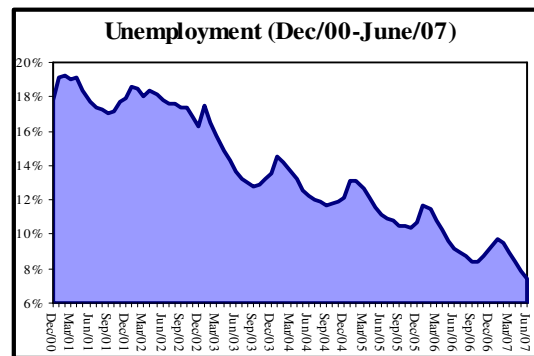
5. Unemployment

Unemployment reached 7.42% as of end-June

According to the National Employment Agency, unemployment rate fell to 7.42% (274 820 unemployed) in June, the lowest figure registered since July 1991. The June rate is down 0.4% (14 933 people) from May and 1.76% (65 239 people) from 2006.

Seasonal employment characteristic for this time of the year and the considerable number of people who took jobs contributed to the downward trend of unemployment.

A total of 17 900 new jobs opened up in June, a large part of them in trade, construction, agriculture and tourism sectors.



III. FISCAL SECTOR

The general budget surplus widened by 50.3% y/y to BGN 1.85bn (3.5% of GDP) in January-May

In January – May a surplus of BGN 1.67bn was booked in the republican budget, up 35% y/y.

Revenues in the republican budget increased by 21.2% y/y in May principally due to the 24% y/y rise in indirect taxes. VAT receipts registered a record 44.7% y/y increase in May, the delay in the collection, due to the new VAT regime, being

recovered. The revenues of excise taxes grew slower - by 3.4% y/y, as a result of high basis from May 2006. On the contrary, the duties revenues were reduced by 64.5% y/y in May, due to the adopted EU common customs tariff with third countries. The growth of profit and income taxes revenues, respectively by 20.2% and 20.1% y/y, pushed up the direct taxes revenues (by 13.1% y/y).

Budgetary expenses dropped by 16.4% y/y in May, all items of the expenditure side, excepting the operating costs, being under their level of May 2006. The contribution to the EU budget was BGN 36mn in May.

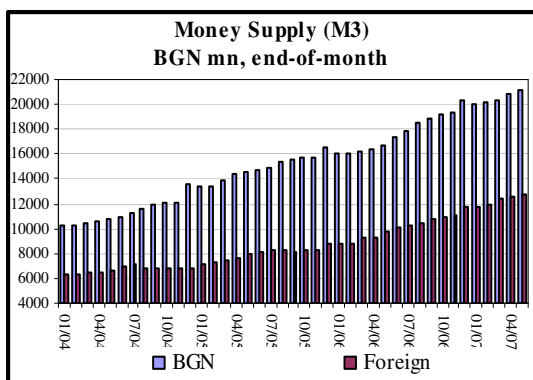
Concerning the consolidated budget, the revenues grew much faster than the expenses in January - May: 16.4% y/y versus 9.4% y/y, reaching respectively BGN 9.4bn and BGN 7.3bn. That resulted into a surplus of BGN 1.85bn, up 50.3% y/y.

IV. MONETARY SECTOR

1. Monetary Aggregates

Money supply growth decelerated to 27.7% y/y at the end of May

According to Central Bank data, money supply (M3) growth decelerated to 27.7% y/y as of end-May from 29.5% y/y as of end-April. The fastest growing components were the overnight deposits in BGN (40.4%) and in foreign currency (31.4%), and the term-deposits in foreign currency up to 2 years (32.1%). On monthly base, M3 increased by BGN 546mn (1.6%) to BGN 33.925bn. It is to note the withdrawal of bank reserves from BNB in May. The share of foreign currency in M3 moved down to 37.63%.



2. Domestic Credit

Domestic credit growth decelerated from 28.7% y/y as of end-April to 33.9% as of end-May

Domestic credit growth decelerated from 28.7% y/y as at end-April to 33.9% as at end-May, according to Central Bank data. The stock of domestic credit reached BGN 24.936bn (EUR 12.750bn). Claims on government sector passed from - BGN 2.680bn as at end of April to - BGN 3.262bn a month later. **Credit** to the non-government sector increased to BGN 27.461bn in May, its annual growth rate being 45.5% y/y compared to 39.4% y/y in April. It included BGN 16.549bn credits to non-financial corporations and BGN 10.629bn loans to households and NPISH, the both accelerated from 39.9% to 49.1% y/y and from 38.8% to 40.1% y/y respectively in May.

Mortgage credits growth accelerated from 75.8% y/y in April to 77% y/y in May and the consumer ones – from 15.6% to 16.2% y/y. On monthly base, the former increased by BGN 225.6mn (5.7%) to BGN 4.216bn and represented 43.7% of all credits (except overdraft), compared to 34.2% a year earlier. The consumer loans grew by BGN 114.8mn (2.6%) to BGN 4.475bn in May, but their relative share shrunk from 55.2% to 46.3% in a year.

Domestic credit, % of GDP

	05/06	04/07	05/07
Domestic credit	37,9%	46,7%	47,7%
Claims on general government	-1,6%	-5,1%	-6,2%
Claims on non-government sector	39,6%	51,8%	53,9%
o/w Loans	38,4%	50,5%	52,5%
Non-Financial Corporations	22,6%	30,5%	31,7%
Financial Corporations	0,4%	0,5%	0,5%
Households and NPISH	15,5%	19,5%	20,3%
Consumer loans	7,8%	8,3%	8,6%
Loans for house purchase	4,9%	7,6%	8,1%
Deposits	49,7%	58,0%	59,2%
Assets	71,3%	84,8%	85,9%

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

V. FINANCIAL SECTOR

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.

Loans extended to corporate clients and households increased by 44.4% y/y in May

At the end of May the total assets of the banking system reached BGN 44.889bn (85.9% of GDP), marking an increase by BGN 576mn (1.3%) for a month, and by BGN 9.866bn (28.2%) for a year. In the month, part of the banks restructured their assets in relation to the released additional minimum required reserves held with the BNB.

The related reduction of the cash and cash balances with central banks is accompanied by an increase in the loans and receivables (including financial leases) – by BGN 1.570 bn (4.8%) to BGN 34.488bn. Loans and advances to corporations and retail exposures registered a lower rate of growth (3.8% to BGN 27.501bn) compared to the one reported in April (4.5%), but accelerated growth (44.4%) is manifested within a one-year horizon. The loans and advances to credit institutions increased significantly – by 8.2% to BGN 7.257bn in May.

The financial liabilities measured at amortized value, which have traditionally been a source of funds, increased at a lower rate than the rate of asset growth – 1.1% to BGN 39.428bn, which is mostly contributed by the reduction of attracted resources of credit institutions. However, the deposits of institutions other than credit institutions, increased steadily to BGN 30.933bn, up by 2.1% compared to April. The funds attracted from individuals and households evidenced a sustainable growth, reaching BGN 15.678bn or approximately 40% of total funds attracted into the banking system.

The aggregated net profit of the commercial banks rose by 18.3% y/y to BGN 386mn in January-May.

The BNB approved an increase in the required reserves of the commercial banks held at the central bank by 4pps to 12% of deposits, effective as of September 1. The new measure results from the robust credit growth which raises the overall credit risk of the banking system in the conditions of falling interest rates due to the vigorous competition.

9.17% is the average return provided by the universal pension funds for the past two years

Average return provided at end-June by pension funds for the past two years were higher compared to end-March: 9.17% for universal funds, 9.67% for professional funds and 9.69% for voluntary funds versus 8.37%, 8.64% and 8.38% respectively. The yields by company vary in a

wide range: between 7.29% and 15.47% for the universal funds, 6.85% - 14.78% for the occupational funds and 8.26% - 15.50% for the voluntary ones, explained with the different speed with which the funds moved to restructure their investment portfolios after Bulgaria loosened the investment rules for pension insurance companies. Only UPF and VPF Saglasie recorded a drop in returns.

CCB Sila and Saglasie posted again the highest return rates: 15.47% and 12.13% for the universal funds, 14.78% and 13.82% for the occupational divisions and 15.50% and 11.69% for the voluntary schemes, attributed to profitable stock exchange investments.

The FSC set a minimum annualized yield of 5.50% on universal funds' assets for the past 24 months and – 5.80% on occupational ones.

UPF and PPF CCB Sila and PPF Saglasie exceeded the return cap set for the review period and has to allot funds to reserves.

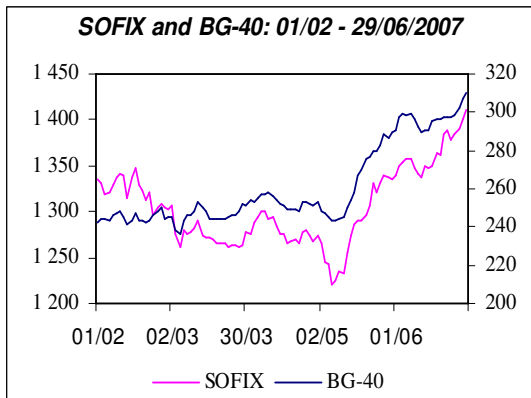
BG-40 hit a new all time high of 309.9 points in June

For second month in row, the capital market followed an upward trend, as a result of published good financial reports, the announcement of some capital increases and the successful start of trade with CCB and FIBank shares, whose IPOs were in May.

The market capitalization of Sofia Stock Exchange increased by 10.83% to the record BGN 20.777bn (or 39.7% of GDP) in June. The new listed FIBank and CCB ranked respectively third and seventh by capitalization. The realized turnover of BGN 454.548 mn was the fifth best in the history of BSE-Sofia.

BG-40 hit a new all time high of 309.9 in June, realizing a 7% m/m and 96.7% y/y growth. SOFIX came up to its record value of 22nd January (1416.81 points), but did not break it. At the end of June, it reached 1411.61 points, gaining 5.7% on a month and – 58.9% in a year.

The positive trend will continue, fed by the reports for the first half of the year and the coming IPOs (Special business systems and Devin).



VI. REAL ESTATE

Housing prices went up by 27% y/y in Q2

According to NSI data, the average housing prices in Q2 increased by 5.35% compared to Q1 and by 27% compared to same period a year ago and reached 1041.1 BGN/m² (532.3 EUR/m²).

Housing is most expensive in Varna – 1710.3 BGN/m², where the prices rose by 3.91% on the quarter. Next comes Sofia with 3.77% increase to 1647.8 BGN/m². Housing prices in the other Black Sea port – Burgas – stabilized at 1366.7 BGN/m².

The price increase was driven by smaller settlements as Vidin (23.02%), Pleven (11.04%) and Russe (10.95%).

The least expensive in terms of housing prices in Q2 remained Sofia district (457.7 BGN/m²), Kyustendil (582.5 BGN/m²) and Silistra (616 BGN/m²).

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

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