



**UNITED
BULGARIAN
BANK**

A Member of NBG Group

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



Current account gap widened by 68.5% y/y to EUR 3.041bn (11.4% of GDP) in January-July. FDI grew by 14.2% y/y to EUR 2.667bn (10% of GDP) in the reported period

Foreign trade deficit worsened by 44.4% y/y to EUR 3.887bn (14.5% of GDP) in January-July

Gross external debt rose to EUR 21.177bn (79.2% of GDP) in June

GDP growth accelerated to 6.6% y/y in Q2 and 6.4% y/y in H1

3.1% inflation in August (12% y/y)

Industrial sales and output grew by 11.7 % y/y and 13% y/y respectively in July

Retail and wholesales growth decelerated to 5.8% y/y and 0.2% y/y respectively in July

Household monetary income and expenditure increased by 26% y/y and 33% y/y respectively in July

Unemployment dropped to 7% as of end-August

General budget surplus widened by 46% y/y to BGN 2.42bn (4.5% of GDP) in January-July

Money supply growth accelerated to 29.06% y/y at the end of July. Domestic credit growth accelerated from 35.3% y/y as of end-June to 39.3% as of end-July

Loans extended to corporate clients and households increased by 49.3% y/y in July

Insurance market grew 19.3% y/y to BGN 700.6mn in H1

BG-40 hit a new all time high of 420.76 points in August

I. EXTERNAL SECTOR

1. Balance of Payments

Current account gap widened by 68.5% y/y to EUR 3.041bn (11.4% of GDP) in January-July

According to Central Bank preliminary data, the current account gap widened by 194% y/y to EUR 131.5mn in July only and by 68.5% y/y to EUR 3.041bn in January-July. In relative terms the CA deficit represented 11.4% of the GDP, compared to 7.2% a year earlier.

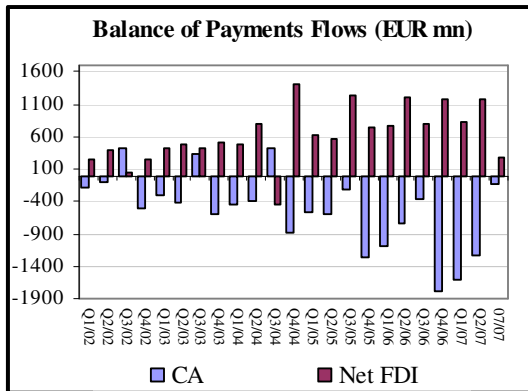
The trade balance continued to be the main reason for the CA deterioration.

The services balance improved to EUR 726.5mn in January-July (from EUR 517.3mn a year earlier), thanks to the 16% y/y hike in receipts from tourism. At the same time, the net transfers dropped by 46% y/y to EUR 205mn.

However, the overall balance of payments continued to improve (by 6.4% y/y to EUR 1.178bn in January-July), on the back of strong financial inflows.

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 grew by 14.2% y/y to EUR 2.667bn (10% of GDP) in January-July

FDI inflows increased to EUR 2.667bn (10% of GDP) in January-July, compared to EUR 2.335bn (9.2% of GDP) a year earlier. Thus they covered only 87.7% of current account deficit, versus 129.4% in the same period last year.

The attracted equity capital for January-July amounted to EUR 1.608bn (60.3% of total FDI), including EUR 1.4mn from privatisation deals. The reinvested earnings for the reported period are estimated to EUR 172.3mn.

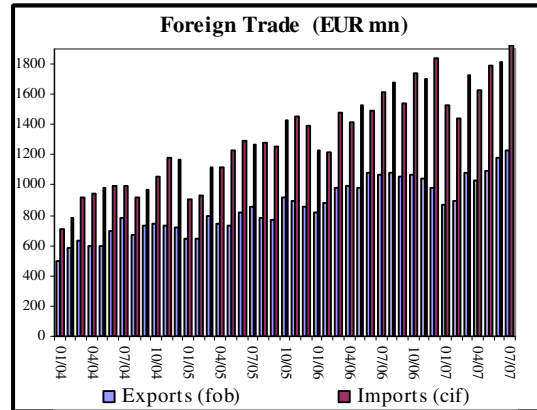
By country, the largest investments in Bulgaria for the period concerned came from UK (14.6%), Austria (12.3%) and Luxembourg (9.5%).

At the same time the foreign investments abroad was EUR 102.9mn versus EUR 44.2mn a year earlier.

Foreign trade deficit widened by 44.4% y/y to EUR 3.887bn (14.5% of GDP) in January-July

According to Central bank preliminary data, the foreign trade deficit widened by 31.1% y/y to EUR 600.8mn in July only and 44.4% y/y to EUR 3.887bn in January-July. In relative terms it accounted for 14.5% of GDP compared to 10.7% a year earlier.

Imports grew much faster than exports in January-July: 18.8% y/y versus 8.6% y/y, reaching EUR 11.273bn and EUR 7.386bn respectively. The data may undergo serious revisions in the favour of the trade balance with EU.



2. External Debt

Gross external debt rose to EUR 21.177bn (79.2% of GDP) in June

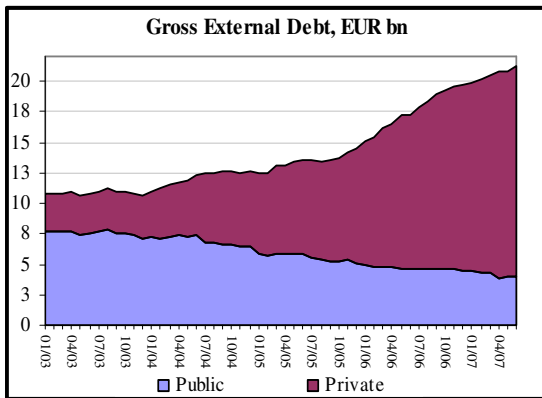
The gross external debt rose by 22.5% y/y and 2.3% on a monthly basis to EUR 21.177bn at the end of June, accounting for 79.2% of projected full-year GDP (68.9% a year earlier).

The short term liabilities represented 31.1% (EUR 6.574bn) of the total external debt, compared to 28.6% a year earlier. The servicing of the total

debt as a percentage to GDP has expanded by 1.8 pps y/y to 10.3%.

The public external debt shrank by 12.6% y/y to 4.035bn (15.1% of GDP) in June. On monthly basis however, it increased marginally by 2.8% (EUR 110.8mn).

Amounted EUR 17.142bn at the end of June, private external debt represented 80.9% of the total, which shows an increase of 7.6% as compared to the structure one year ago. External debt of the banks increased in June (EUR 212.8mn; 6.2%), the foreign liabilities of commercial firms and the intra-company liabilities increased - by EUR 102.8mn (1.3%) and EUR 44.8mn (0.7%) respectively. On annual base, the liabilities in the private sector to external lenders continue to rise at a very quick pace: 35.3% as of end-May.



II. REAL SECTOR

1. Gross Domestic Product

GDP growth accelerated to 6.6% y/y in Q2 and 6.4% y/y in H1

According to preliminary data of the NSI data, GDP growth accelerated to 6.6% y/y in Q2 and 6.4% y/y in H1 relative to 6.2% y/y in Q1 and 6.1% last year. GDP stood at BGN 12.980bn (EUR 6.637bn) in Q2 and BGN 24.474bn (EUR 12.513bn) in H1.

While the value added in the industrial and service sectors increased by 10.5% and 9.5% y/y respectively in Q2, the agricultural sector plunged 5.3% for the same period as a result of unfavourable weather conditions. The agricultural sector would register a much steeper deterioration in Q3 and that could weaken the overall economic growth to about 6%.

On the demand side of the economy, the growth rate is still fuelled by investments and domestic consumption, slowing to 5.2% and 24.7% y/y respectively in Q2. The export accelerated to 5.7% from 2.2% in the first quarter and the import slowed from 13.2% to 10.7%.

Real changes (% y/y)	2004	2005	2006	Q1/07	Q2/07	H1/07
Agriculture	2,3	-9,5	-1,9	2,5	-5,3	-2,3
Industry	4,1	4,7	8,3	7,6	10,5	9,1
Services	5,7	8,3	6,1	8,1	9,5	8,8
Correction items	17,3	11,2	6,5	0,3	-2,4	-1,1
GDP	6,6	6,2	6,1	6,2	6,6	6,4
Consumption	5,4	5,3	6,5	7	5,2	6
Investment (excl. inventories)	13,5	23,3	17,6	35,9	24,7	29,6
Export	12,7	8,5	9,0	2,2	5,7	4,1
Import	14,5	13,1	15,2	13,2	10,7	11,9

Source: National Statistics Institute

2. Inflation

3.1% inflation in August

According to NSI, consumer prices rose by 3.1% m/m in August. Inflation from the beginning of the year accelerated to 7.5%, while the year-on-year August inflation quickened to 12%.

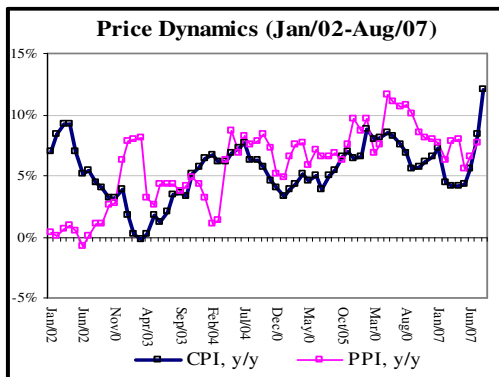
Inflation in August was mainly due to a 7.3% hike in food prices. Damages caused by summer droughts in the farming sector push up prices of agricultural crops and related food products: flour (14%), bread (12.4%), eggs (27.2%), cheese (19.8%), chicken (11.9%), pork (6.8%), milk (6.8%) etc. Prices significantly went up on cabbages (36%) and potatoes (26.1%), while those of grapes (-42.4%), peppers (-19.4%), melons (-4.4%), apples (-2.9%) and onions (-2.4%) went down.

Catering and services also went up by 4.8% and 0.3% m/m respectively. The prices of non-foods kept their level as of the previous month.

The harmonised index of consumer prices (HICP), which takes uniform product weights for all EU members, accelerated at a slower pace of 2.2% m/m and 9.3% y/y in August due to the lower exposure of the index to food products.

In a move to curb speculation, the Economy Ministry started providing consumers with weekly information on www.kzp.bg, comparing wholesale and market prices of a list of products.

According to NSI data, producer prices inflation (PPI) on the domestic market accelerated to 7.7% y/y in July from 6.5% y/y in June. Prices of food supplies surged by 14.6% and continue to be the main factor for the upward trend in producers' prices. The index in mining industries remained flat at 9.5% y/y in July, while producer prices in electricity increased by 12.1%.

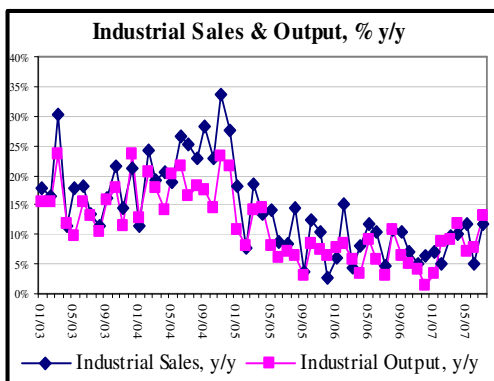


3. Industrial Sales

Industrial sales and output grew by 11.7 % y/y and 13% y/y respectively in July

Industrial sales growth accelerated to 11.7% in July from revised 5.1% y/y in June. Metals ore mining moderated its drop to 13.3% y/y. Having reached in June its weakest growth rate over the year (5.2% y/y), the manufacturing sector restored its habitual pace of growth: 11.9% y/y. For fourth month in a row, energies utilities reported a double digit y/y growth – 18.3% in July, despite the closure of two of power units in Kozloduy. The NEC reported a 30% y/y increase in the electricity exports in July.

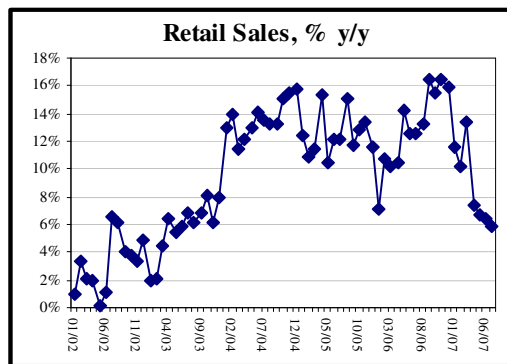
Industrial production improved to a growth rate of 13% y/y in July against revised 7.7% in June.



4. Retail Sales

Retail sales growth slowed to real 5.8% in July

According to NSI data, the retail sales growth slowed to real 5.8% in July. This is the seventh consecutive month of deceleration since records highs reached at the end of last year.



The wholesale trade also decelerated in July - to 0.2% y/y from 1.8% y/y in June.

On monthly base the retail and wholesales receipts marked an increase of 2.5% and 3.5% respectively.

The period average increase in retail and wholesale trade was reported at real 8.6% and 2.9% y/y respectively in January-July versus 9.1% and 3.4% in H1.

5. Household Consumption

Household monetary income and expenditure increased by 26% y/y and 33% y/y respectively in July

In July the growth of household monetary expenditure overpased the income one: 33% y/y versus 26% and reached respectively BGN 611.26 and BGN 602.29.

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

At the same time the payments for transport, miscellaneous goods and services, household plot and other are moving up on the expenditure side of the households' budgets in detriment of the other items.

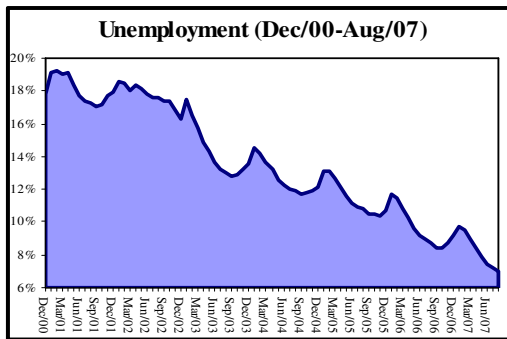
6. Unemployment

Unemployment dropped to 7% as of end-August

At 7% the August unemployment level in Bulgaria was down 1.74% from a year earlier and – 0.25% from July. Summer seasonal employment, employment programmes and encouraging measures were responsible for the lower unemployment rates.

The rate is only 0.2% higher than the EU level in July but suffers from big regional disparities: the unemployment dropped to 1.71% in Sofia, but the maximum unemployment registered in the country is 15.18%.

In August a total of 12 393 jobs opened up (1 784 more than in July) and 17 046 people started work (3 300 more).



III. FISCAL SECTOR

General budget surplus widened by 46% y/y to BGN 2.42bn (4.5% of GDP) in January-July

A surplus of BGN 2.18bn was booked in the republican budget in January-July, up 35.7% y/y.

Revenues in the republican budget grew by 30.3% y/y in July due to the 26% y/y rise in indirect taxes and 45.2% y/y - in direct taxes. VAT receipts registered a 16.8% y/y increase in July, due to higher import of ores, non-ferrous metals and mineral fuels. The revenues of excise taxes also grew - by 67.3% y/y, as a result both of their hike and more goods, subject to taxation. On the contrary, the duties revenues were reduced by 49.2% y/y in July, due to the adopted EU common customs tariff with third countries. The revenues from profit and income taxes grew respectively by 61.3% and 39.3% y/y, due to higher firm profit and lower unemployment.

Budgetary expenses increased by 11% y/y in July.

Concerning the consolidated budget, the revenues grew much faster than the expenses in January-July: 17.1% y/y versus 8.9% y/y, reaching respectively BGN 13.2bn and BGN 10.5bn. That resulted into a surplus of BGN 2.42bn, up 46% y/y.

The council of ministers approved:

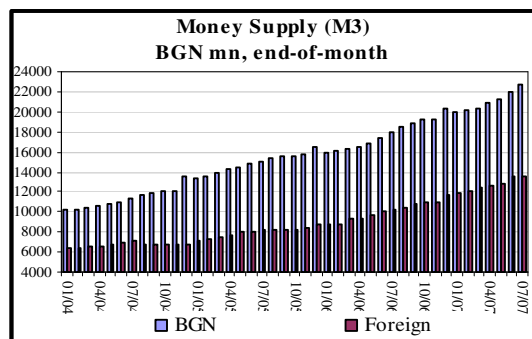
- Radical reduction in the personal income tax to a flat rate of 10% next year as compared to the current progress tax scale ranging from 0 to 24%. The government will also re-adjust wages in the public sector to compensate for possible hikes in the effective tax burden for low-income categories. Monthly wage floors will be raised by 22.2% to BGN 220 next year.
- Social insurance contributions will be cut by a total of 3pps to 20% as of October this year, including 1% for mandatory contributions to the state pension funds and 2% for transfers to the unemployment fund. Employers and workers' shares in payment of social contributions will change to 60:40 next year against 65:35 at present.
- Pensions will rise by 10% as of Oct 1 for second time this year (after the 10% hike in July). They will be adjusted in future by a rate equal to 50% of the projected CPI increase and 50% of insurance income increase in the previous year.

IV. MONETARY SECTOR

1. Monetary Aggregates

Money supply growth accelerated to 29.06% y/y at the end of July

According to Central Bank data, money supply (M3) growth accelerated to 29.06% y/y as of end-July from 28.4% y/y as of end-June. The fastest growing components were the overnight deposits in BGN (36.8%) and in foreign currency (37%). On monthly base, M3 increased by BGN 1.024bn (2.9%) to BGN 36.372bn. The share of foreign currency in M3 moved down to 37.45%.



2. Domestic Credit

Domestic credit growth accelerated from 35.3% y/y as of end-June to 39.3% as of end-July

Domestic credit growth accelerated from 35.3% y/y as at end-June to 39.3% as at end-July, according to Central Bank data. The stock of domestic credit reached BGN 26.744bn (EUR 13.674bn). Claims on government sector passed from - BGN 3.825bn as at end of June to - BGN 4.121bn a month later. **Credit** to the non-government sector increased to BGN 30.046bn in July, its annual growth rate being 49.4% y/y compared to 47.9% y/y in June. It included BGN 18.406bn credits to non-financial corporations and BGN 11.352bn loans to households and NPISH, the both accelerating their growth rates to 54.7% and 41.7% y/y respectively in July compared to 53.8% and 38.6% y/y a month earlier.

The most important y/y increase in July was recorded by the mortgage credits: 79.4% compared to 74.6% in June, the annual growth rate of consumer and other loans being 21.2% and 11.1% respectively, versus 17.1% and 15.9% in June. On monthly base, the former increased by BGN 258.3mn (5.9%) to BGN 4.670bn and represented 45.2% of all credits (except overdraft), compared to 35.5% a year earlier. The consumer loans grew by BGN 167.2mn (3.6%) to BGN 4.785bn in July, but their relative share shrunk from 53.8% to 46.4% in a year.

Domestic credit, % of GDP

	07/06	06/07	07/07
Domestic credit	39,1%	49,8%	51,2%
Claims on general government	-3,0%	-6,2%	-7,9%
Claims on non-government sector	42,1%	53,9%	59,1%
o/w Loans	41,0%	52,5%	57,5%
Non-Financial Corporations	24,2%	31,7%	35,2%
Financial Corporations	0,4%	0,5%	0,6%
Households and NPISH	16,3%	20,3%	21,7%
Consumer loans	8,0%	8,6%	9,2%
Loans for house purchase	5,3%	8,1%	8,9%

Source: BNB's Monetary survey

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 49.3% y/y in July

In July the domestic credit institutions increased their total assets to BGN 48.5 bn, thus the increase reported for the month is BGN 1.296 bn (2.7%), and in a year time – BGN 12.119 bn (33.3%).

In the month under analysis, gross loans and advances have increased by BGN 1.380bn (3.7%) with the active participation of the group of five largest banks. The loans extended to corporate clients and households have a major contribution to the development of this position, marking a monthly growth of BGN 1.158 mn (4%), and year-on-year growth of 49.3%. The greatest absolute monthly growth is reported in the exposures of enterprises (BGN 736 mn). The share of classified exposures in the total amount of loans and advances remains low.

Financial liabilities reported at amortized cost in the current month increased with the same rate as reported for asset growth (2.7%). The resources attracted from credit institutions increased in the portion of short-term and long-term financing, while the resources accepted from institutions other than credit ones increased on the account of deposits. The deposits from individuals and households mark a growth of BGN 507 mn (3.2%), and at end-July they account for 39% of the attracted funds in the system. Resources coming from nonresidents have a 17.7% share of attracted funds in the banking sector.

As of 31 July 2007, the earnings in the banking sector are BGN 609 mn, an amount that is by BGN 225 mn (58.7%) more than in the same period of the previous year. The realized net interest income is leading in terms of importance.

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.

Insurance market grew 19.3% y/y to BGN 700.6mn in H1

In H1 2007 the premium income of general insurers increased by 17.9% to BGN 595.5mn (EUR 304.5mn). The first three companies have been losing market share. The leader - Bulstrad – reported a 0.15% y/y decline, down to 16.54%; the second one – DZI General Insurance marked a 3.95% decline, down to 14.02%, and the third one Allianz Bulgaria registered a 1.4% drop, down to 13.17%. The companies, which have best used

the situation, were Lev Ins, Armeets and BG Imoti, which increased their market share by 2.79%, 1.44% and 1.33% respectively on an annual basis.

Automobile insurance generated 64.4% of total revenues and 88.9% of all compensations in H1. Autocasco realised greter premium income by 38.8%, General Liability Insurance – up by 34.9% and insurance against fire and natural disasters – 8%.

The Bulgarian life insurance market registered a premium income of BGN 105.1mn (EUR 53.7mn) in H1 2007, up more than 32% y/y, according to the FSC data. Allianz Bulgaria – Life AD is again the leader in terms of premium proceeds (BGN 28.24mn) and the company's market share rose by 1.21% from the first six months of 2006, reaching 26.88% in the end of the first half of 2007. The DZI insurance and reinsurance company came second in end-June 2007 with 19.13% market share, having lost more than 6.6% of its market within twelve months. On the contrary, the third Life insurer – Uniqa Life – increased its market presence by 5% to 14.63%. Life and rent insurance accounts for the largest share of both the premium income (73.6%) and the amounts and benefits paid (67%). Life (47.8%) and accident insurances (44.2%) showed the largest growth of premium income on an annual basis, while rent and supplementary insurances marked a decrease of 27.8% and 31% respectively.

Health insurance premiums registered an insignificant 5% increase to BGN 14.4mn (EUR 7.3mn) in H1. The indisputable number one in the field is Generali - Zakrila with a market share of 41%, followed by Mediko-21 and HOME-Zdrave with the respective, significantly less 16% and 13%. The three leading companies hold 70% of the market. The first two companies in the field, however, lost some of their market share in favour of the smaller companies between March and June: Generali - Zakrila lost 6% and Medico-21 – 4%. In the structure of premium income, other health insurance set of products care came first (33%), followed by that of non-hospital care (21.8%).

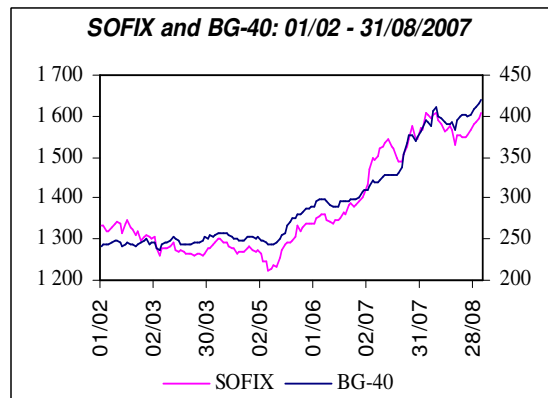
BG-40 hit a new all time high of 420.76 points in August

Bulgarian capital market continued its upward trend, boosted by the new quality issues listed on the bourse and the good half year consolidated reports and that despite the US subprime crisis and the subsequent turbulence in the international financial markets.

The BG-40 hit a new all time high of 420.76 points in August, gaining 10.4% m/m and 135.5% y/y. SOFIX made less well, adding 2.3% on a month and – 67.5% in a year to 1606.46 points.

The market capitalization of Sofia Stock Exchange increased by 8.4% to the record BGN 24.6bn (47.1% of GDP) in August. The monthly turnover registered a sixfold increase to BGN 3.7bn, mainly due to the sale of DZI to KBC.

As from September 3, the BSE-Sofia started calculating two new indices: BG-REIT and BG Total Return 30. BG-REIT is constituted of shares in special-purpose investment companies securitizing land and other real estate and is based on the market capitalization adjusted for free float. The second index - BG Total Return 30 – is based on the price fluctuations of the constituent issues (the top 30 companies ranked according to 4 equal weighted criteria: market capitalization, free float, number of transactions and value traded over the past year) and each is awarded an equal weight factor. The idea is to show the total return of the shares, including the dividends distributed.



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