



**UNITED
BULGARIAN
BANK**

A Member of NBG Group

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



Current account gap widened by 69.3% y/y to EUR 3.203bn (12% of GDP) in January-August. FDI grew by 21.7% y/y to EUR 3.396bn (12.7% of GDP) in the reported period

Foreign trade deficit worsened by 28.1% y/y to EUR 4.472bn (16.7% of GDP) in January-August

Gross external debt rose to EUR 22.003bn (82.3% of GDP) in July

1.3% inflation in September (13.1% y/y)

Industrial sales and output grew by 6.2% y/y and 7.3% y/y respectively in August

Retail sales growth slowed to real 3.7% in August

Household monetary income and expenditure increased by 22.3% y/y and 18.8% y/y respectively in August

Unemployment dropped to 6.78% as of end-September

General budget surplus widened by 44.4% y/y to BGN 2.84bn (5.5% of GDP) in January-August

Money supply growth accelerated to 30.4% y/y at the end of August. Domestic credit growth accelerated from 39.3% y/y as of end-July to 45.4% as of end-August

Loans extended to corporate clients and households increased by 54.6% y/y in August

12.88% is the average return provided by the universal pension funds for the past two years

Bulgarian stock indices hit new highs in September

I. EXTERNAL SECTOR

1. Balance of Payments

Current account gap widened by 69.3% y/y to EUR 3.203bn (12% of GDP) in January-August

According to Central Bank preliminary data, the current account gap widened by 85.3% y/y to EUR 160.7mn in August only and by 69.3% y/y to EUR 3.203bn in January-August. In relative terms the CA deficit represented 12% of the GDP, compared to 7.5% a year earlier.

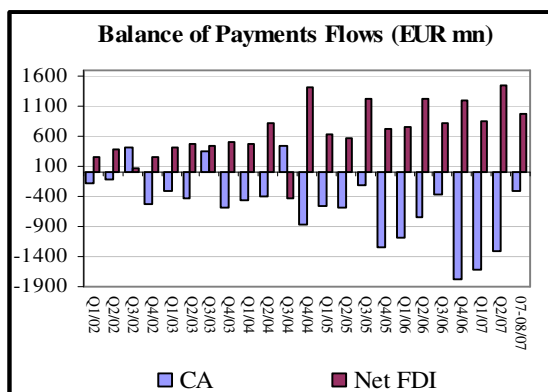
The trade balance continued to be the main reason for the CA deterioration.

The services balance improved to EUR 1.332bn in January-August (from EUR 854.7mn a year earlier), thanks to the 17.8% y/y hike in receipts from tourism. At the same time, the net transfers and income continued to deteriorate.

However, the overall balance of payments continued to improve (by 73.4% y/y to EUR 1.646bn in January-August), 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 21.7% y/y to EUR 3.396bn (12.7% of GDP) in January-August

FDI inflows increased to EUR 3.396bn (12.7% of GDP) in January-August, compared to EUR 2.791bn (11.1% of GDP) a year earlier. Thus they covered 106% of current account deficit, versus 147.6% in the same period last year.

The attracted equity capital for January-August amounted to EUR 2.209bn (65% of total FDI), including EUR 18.6mn from privatisation deals. The reinvested earnings for the reported period are estimated to EUR 221.3mn.

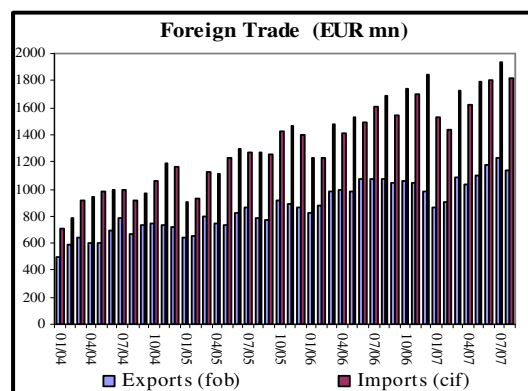
By country, the largest investments in Bulgaria for the period concerned came from UK (12.5%), Austria (11.2%) and Belgium (9.4%).

At the same time the foreign investments abroad was EUR 108.7mn versus EUR 58.9mn a year earlier.

Foreign trade deficit widened by 28.1% y/y to EUR 4.472bn (16.7% of GDP) in January-August

According to Central bank preliminary data, the foreign trade deficit widened by 11% y/y to EUR 579.5mn in August only and 28.1% y/y to EUR 4.472bn in January-August. In relative terms it accounted for 16.7% of GDP compared to 12.8% a year earlier.

Imports grew much faster than exports in January-August: 17.3% y/y versus 8.3% y/y, reaching EUR 13.001bn and EUR 8.529bn 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 22.003bn (82.3% of GDP) in July

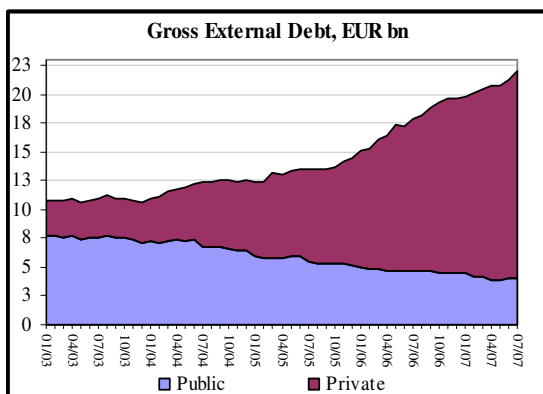
The gross external debt rose by 22% y/y and 1.4% on a monthly basis to EUR 22.003bn at the end of July, accounting for 82.3% of projected full-year GDP (71.9% a year earlier).

The short term liabilities represented 30.8% (EUR 6.770bn) of the total external debt, compared to 28.7% a year earlier. The servicing of the total

debt as a percentage to GDP has expanded by 2.2 pps y/y to 11.8%.

The public external debt shrank by 12.2% y/y to 4.060bn (15.2% of GDP) in July. On monthly basis however, it increased marginally by 0.5% (EUR 21.7mn).

Amounted EUR 17.942bn at the end of July, private external debt represented 81.5% of the total, which shows an increase of 7.1% as compared to the structure one year ago. External debt of the banks increased by 1% in July (to EUR 3.719bn), the foreign liabilities of commercial firms and the intra-company liabilities also grew - by 1.8% (to EUR 8.236bn) and 1.7% (to EUR 6.843bn) respectively. On annual base, the liabilities in the private sector to external lenders continue to rise at a very quick pace: 33.8% as of end-July.



II. REAL SECTOR

1. Inflation

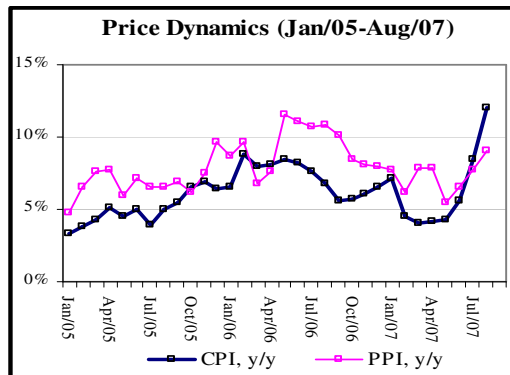
1.3% inflation in September

According to NSI, consumer prices rose by 1.3% m/m in September after rising by 3.1% a month earlier. Inflation from the beginning of the year accelerated to 8.9%, while the year-on-year September inflation quickened to 13.1%.

Inflation in September was due to the rising food prices (2.1%), as drought and floods damaged crops earlier in the year. Catering and non-food prices also went up by 2.9% and 1.3% m/m respectively. Only services prices decreased (-0.1% m/m).

The harmonised index of consumer prices (HICP), which takes uniform product weights for all EU members, accelerated at a slower pace of 1.2% m/m and 11% y/y in September due to the lower exposure of the index to food products.

Bulgaria's government expects end-year inflation to be lower than 10% in 2007. Last month the IMF raised its forecast for Bulgaria's 2007 end-inflation to around 8% from the earlier projected 4.4%.



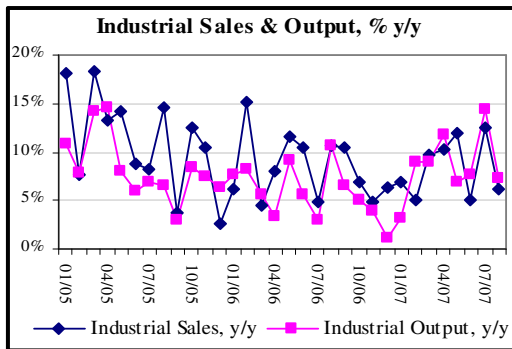
According to NSI data, producer prices inflation (PPI) on the domestic market accelerated to 9% y/y in August from 7.7% y/y in July. Prices of food supplies rose by 20.7%, pushed up by higher costs for purchase of agricultural inputs, and continue to be the main factor for the upward trend in producers' prices. Electricity supply and mining industries also registered double-digit price hikes in August (12.3% and 14.3% y/y respectively), which would probably affect the prices of the related industries in the following months.

2. Industrial Sales

Industrial sales and output grew by 6.2% y/y and 7.3% y/y respectively in August

Industrial sales growth slowed to real 6.2% in August from revised 12.6% y/y in July. Mining industries dropped by 19.6% y/y in August, while the manufacturing and utility firms posted weaker growth rates than in the previous months: 6.1% and 16.1% y/y respectively versus 12.4% and 21.2% y/y in July. A slowdown was registered in several export oriented branches such as textile, clothing and metal processing etc.

Industrial production performed in a similar pattern to 7.3% y/y in August from 14.3% in July.



3. Retail Sales

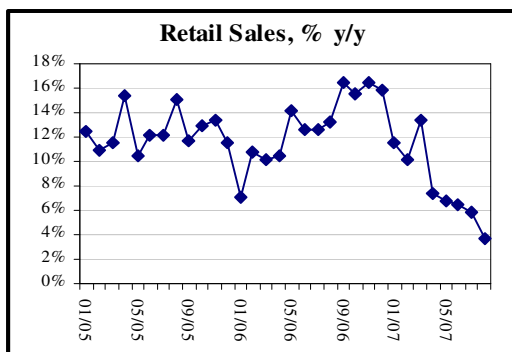
Retail sales growth slowed to real 3.7% in August

According to NSI data, the retail sales growth slowed to real 3.7% in August from 5.8% in July. This is the eighth consecutive month of deceleration since records highs reached at the end of last year.

The wholesale trade in August remained at the same level as in the same period of the last year.

On monthly base the retail and wholesales receipts marked an increase of 2.3% and 4.2% respectively.

The period average increase in retail and wholesale trade slowed to 7.8% and 2.5% y/y respectively in January-August.



4. Household Consumption

Household monetary income and expenditure increased by 22.3% y/y and 18.8% y/y respectively in August

In August the household monetary income and expenditure increased by 22.3% y/y and 18.8% respectively to BGN 607.58 and BGN 597.57.

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

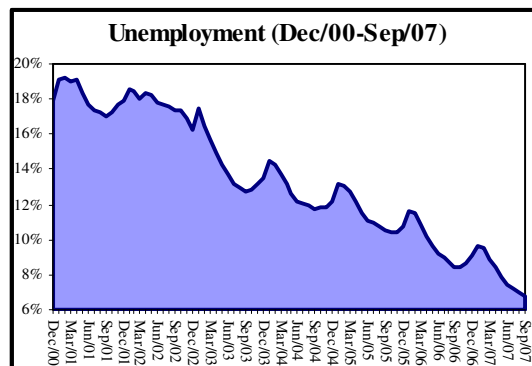
At the same time the payments for foods and non-alcoholic beverages; health and taxes are moving up on the expenditure side of the households' budgets principally to the detriment of housing, water, electricity, gas and other fuels.

5. Unemployment

Unemployment dropped to 6.78% as of end-September

Unemployment in Bulgaria continued to decrease through September and stood at 6.78%, down 0.22% m/m and 1.66% y/y. The strong economy growth and the schools hiring staff at the beginning of the school year contributed to the decline in the number of jobless people: by 19.7% y/y and by 3.16% m/m to 251 091.

The rate is only 0.08% higher than the EU level in August but suffers from big regional disparities: the unemployment dropped to 1.66% in Sofia, but the maximum unemployment registered in the country is 14.55%.



II. FISCAL SECTOR

General budget surplus widened by 44.4% y/y to BGN 2.84bn (5.5% of GDP) in January-August

A surplus of BGN 2.64bn was booked in the republican budget in January-August, up 36% y/y.

Tax-revenues in the republican budget grew by 20.5% y/y in August due to the 24.8% y/y rise in direct taxes and 19.3% y/y - in indirect taxes. VAT receipts registered a 18.1% y/y increase in August due to higher import. The revenues of excise

taxes also grew - by 34.4% y/y as a result of their hike. On the contrary, the duties revenues were reduced by 52.4% y/y in August, due to the adopted EU common customs tariff with third countries. The revenues from profit and income taxes grew respectively by 15.9% and 38.1% y/y, due to higher firm profit and lower unemployment. On the contrary the non-tax revenues dropped by 23.6% y/y due to lower property income.

Budgetary expenses marginally increased (2.2% y/y) in August due to higher transfers (+7.3%) and indexed salaries (+17.1%). All other expenditure items decreased.

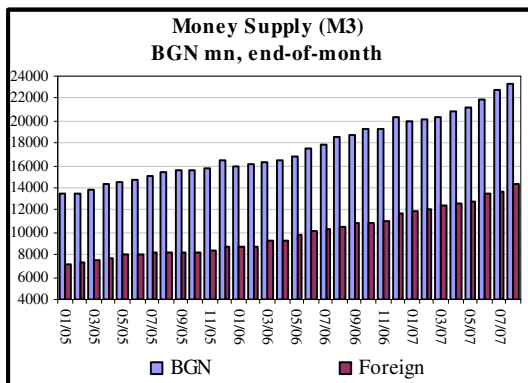
Concerning the consolidated budget, the revenues grew much faster than the expenses in January-August: 17.4% y/y versus 9.2% y/y, reaching respectively BGN 15.2bn and BGN 12bn. That resulted into a surplus of BGN 2.84bn, up 44.4% y/y.

IV. MONETARY SECTOR

1. Monetary Aggregates

Money supply growth accelerated to 30.4% y/y at the end of August

According to Central Bank data, money supply (M3) growth accelerated to 30.4% y/y as of end-August from 29.1% y/y as of end-July. The fastest growing components were the overnight deposits in BGN (34.19%) and in foreign currency (49.11%) and the deposits with agreed maturity up to 2 years in foreign currency (34.15%). On monthly base, M3 increased by BGN 1.423bn (3.9%) to BGN 37.795bn. The share of foreign currency in M3 moved up to 38.15%.



2. Domestic Credit

Domestic credit growth accelerated from 39.3% y/y as of end-July to 45.4% as of end-August

Domestic credit growth accelerated from 39.3% y/y as at end-July to 45.4% as at end-August, according to Central Bank data. The stock of domestic credit reached BGN 27.532bn (EUR 14.077bn). Claims on government sector passed from - BGN 4.121bn as at end of July to - BGN 4.612bn a month later. **Credit** to the non-government sector increased to BGN 31.350bn in August, its annual growth rate being 54.6% y/y compared to 49.4% y/y in July. It included BGN 19.013bn credits to non-financial corporations and BGN 12.026bn loans to households and NPISH, the both accelerating their growth rates to 57.9% and 50.2% y/y respectively in August compared to 54.7% and 41.7% y/y a month earlier.

In August the mortgage credits kept the same pace of growth as in the previous month: 79.4%, while the consumer and other loans accelerated to 36.4% and 17.9% respectively, versus 21.2% and 11.1% in July. On monthly base, the mortgage credits increased by BGN 213mn (4.6%) to BGN 4.883bn and represented 44.6% of all credits (except overdraft), compared to 37.4% a year earlier. The consumer loans grew by BGN 388mn (8.1%) to BGN 5.174bn in August, but their relative share shrunk from 52.1% to 47.2% in a year.

Domestic credit, % of GDP

	08/06	07/07	08/07
Domestic credit	38,6%	51,2%	52,7%
Claims on general government	-3,9%	-7,9%	-8,8%
Claims on non-government sector	42,5%	59,1%	61,5%
o/w Loans	41,3%	57,5%	60,0%
Non-Financial Corporations	24,5%	35,2%	36,4%
Financial Corporations	0,5%	0,6%	0,6%
Households and NPISH	16,3%	21,7%	23,0%
Consumer loans	7,7%	9,2%	9,9%
Loans for house purchase	5,5%	8,9%	9,3%

Source: BNB's Monetary survey

V. FINANCIAL SECTOR

Loans extended to corporate clients and households increased by 54.6% y/y in August

At the end of August, the total assets in the banking system increased to BGN 50.6bn. They marked an increase of BGN 2.113bn (4.4%) in the reported month and of BGN 13,308bn (35.7%) within the one-year horizon.

In August, gross loans and advances increased by BGN 2.089bn (5.4%), of which BGN 1.336bn being loans extended to corporate clients and households. Gross loans to enterprises and retail exposures mark a 4.4% m/m growth, and 54.6% y/y growth. The greatest monthly increase in absolute terms is reported in the exposures to credit institutions (BGN 743mn) and to enterprises (BGN 668 mn). A leading role in retail exposures during the month was played by consumer loans, which increased by BGN 439mn (7.6%). For the system as a whole, the quality of risk exposures marks no significant change and remains good.

The growth rate of financial liabilities reported at amortized value is similar to the assets one. In August, the attracted funds increased by BGN 1.846bn (4.3%) up to BGN 44.4bn. This is significantly accounted for by the attracted funds from institutions other than credit ones, which marked a BGN 875mn (5.2%) growth in the month on the account of deposits received. The increase in the resources from credit institutions amounted to BGN 538mn (6.5%). Deposits from individuals and households increased at a lower growth rate – 2.6% (BGN 436mn), which reflects the impact of seasonal factors.

For the eight months of 2007, the banking sector has made a profit of BGN 744mn, by BGN 278mn (59.7%) higher than end-August 2006. The better financial result is primarily due to the increased net interest income and limiting administrative overheads.

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.

12.88% is the average return provided by the universal pension funds for the past two years

Average return provided at end-September by pension funds for the past two years were higher compared to end-June: 12.88% for universal funds, 13.75% for professional funds and 14.34% for voluntary funds versus 9.17%, 9.67% and 9.69% respectively.

There was no universal fund with yield of less than 10% at end-September. CCB-Sila was the record holder with 18.3% yield, followed by the two other companies of Chimimport – Saglasie and Lukoil – with 15.89% and 14.74% respectively. There was a record growth in the

voluntary pension funds' average net return with CCB-Sila moving up by 22.97%, followed closely by its main competitor – Badeshte – with 21.1%. The yields of the occupational funds vary between 10.66% (Allianz) and 17.66% (Saglasie). Doverie, Allianz Bulgaria and ING underperformed the market averages.

The FSC set a minimum annualized yield of 7.73% on universal funds' assets for the past 24 months and – 8.25% on occupational ones.

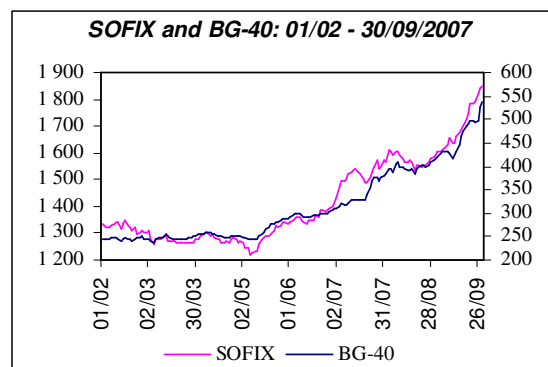
UPF CCB Sila exceeded the return cap set for the review period and has to allot funds to reserves.

The main driving force behind the yield growth of pension funds had been the legal amendment made in March 2006, which allowed these companies to invest in company stocks. Private pension funds already invested about one third of their assets in company stocks.

Bulgarian stock indices hit new highs in September

Positive expectations about the companies' financial results in the third quarter and the large amount of free cash on the BSE lifted the indices to new highs in September. The SOFIX index of the 17 blue chips added 15% to 1849.69 points, while the broad BG-40 rose 28% to 538.42 points.

The market capitalization of Sofia Stock Exchange increased by 13.3% m/m (and 148.7% y/y) to the record BGN 27.877bn (53.3% of GDP) in September. The monthly turnover of BGN 328mn was weaker than in the previous months.



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