



**UNITED  
BULGARIAN  
BANK**

A Member of NBG Group

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



**Current account gap widened by 75% y/y to EUR 3.68bn (13.8% of GDP) in January-September. Net FDI grew by 25.8% y/y to EUR 3.673bn (13.1% of GDP) in January-September**

**Foreign trade deficit widened by 40% y/y to EUR 5.075bn (19% of GDP) in January-September**

**Gross external debt grew by 30.6% y/y to 90% of GDP as of end-August**

**CPI slowed to 12.4% y/y in October. The index of producer prices hold the previous month level at 9% y/y in September**

**Industrial sales growth accelerated to 8.1% y/y in September**

**Retail sales growth continued its downward trend for ninth consecutive month**

**Household monetary income and expenditure increased by 15.5% y/y and 18.1% y/y respectively in September**

**Average monthly wage rose by 19.8% y/y to BGN 424 (EUR 217) in Q3**

**Unemployment continued to drop in October**

**Consolidated budget surplus widened by 59.1% y/y to EUR 1.715bn (6.1% of GDP) in January-September**

**Money supply growth slightly slowed down to 29.1% y/y as of end-September. Domestic credit growth accelerated from 45.4% y/y as of end-August to 46.3% y/y as of end-September**

**Commercial banks' net profit surged by 61.5% y/y to EUR 437.2mn as of end-September**

**Assets of pension funds increased by 56.7% y/y to EUR 1.104 bn as of end-September**

**Market capitalization of Sofia Stock Exchange increased by 134% y/y to EUR 14.891bn (53.1% of GDP) in October**

**Average housing prices grew by 30.6% y/y in Q3**

I. EXTERNAL SECTOR

1. Balance of Payments

**Current account gap widened by 75% y/y to EUR 3.68bn (13.8% of GDP) in January-September**

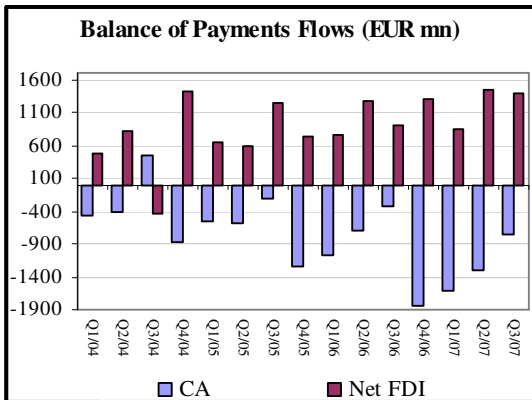
Current account (CA) gap widened by 75% y/y to EUR 3.68bn in January-September, according to Central bank preliminary data. In relative terms, the CA gap accounted for 13.8% of the projected full-year GDP in January-September relative to 8.4% a year ago and 12% in January-August. Net income balance was negative amounting to EUR 175.6mn in January-September and EUR 77.0mn in September as compared to a surplus of EUR 5.6mn in August. The deterioration of the income balance was due to repatriation of profits.

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

The service balance was the only item to mark some improvement increasing by 32.8% y/y in January-September to EUR 1.3bn. Tourism revenues rose by 18.5% y/y to EUR 2.13bn for the reporting period retaining its position as an important factor for offsetting the trade deficit. According to estimates of the chairman of the tourist association, tourism revenues are likely to reach EUR 2.5bn as of the end-2007 which corresponds to 20% y/y growth.

However, the overall balance of payments continued to improve (by 132.3% y/y to EUR 2.986bn in January-September), on the back of strong financial inflows.

The Ministry of Finance has recently revised upward its expectations for the CA deficit to 21% of GDP this year and 21.9% next year.



**Net FDI grew by 25.8% y/y to EUR 3.673bn (13.1% of GDP) in January-September**

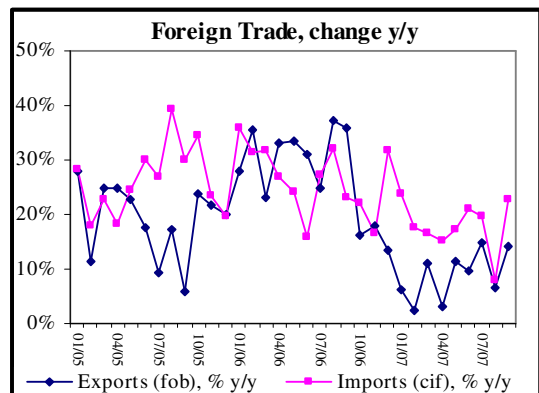
Net FDI inflows increased by 70.8% y/y to EUR 319.9mn in September and 25.8% y/y to EUR 3.67bn in January-September, according to Central bank preliminary data. Net FDI accounted for 13.1% of the revised full-year GDP projection of the government. Thus they covered the whole current account deficit in January-September but the coverage ratio worsened by 4.5 percentage points as compared to the revised data for January-August.

By country, the largest investments in Bulgaria for the reporting period came from UK (15.4%), Austria (8.6%) and Belgium (8.5%).

By branch, the largest investments were attracted in real estate, renting and business activities (EUR 1459.7 mn), financial intermediation (EUR 1044 mn) and construction (EUR 488.9 mn).

**Foreign trade deficit widened by 40% y/y to EUR 5.075bn (19% of GDP) in January-September**

Foreign trade deficit widened by 44.3% y/y to EUR 599mn in September alone and 40% y/y to EUR 5.076bn in January-September, according to Central bank preliminary data. In relative terms, it accounted for 19% of GDP as compared to 14.5% a year earlier. Imports (cif) accelerated to 22.9% y/y in September after an one-off slowdown in August. Exports also accelerated but their growth rate of 14.2% remains significantly below the imports' performance and does not provide any signals for a near-term reversal in the merchandise foreign trade.



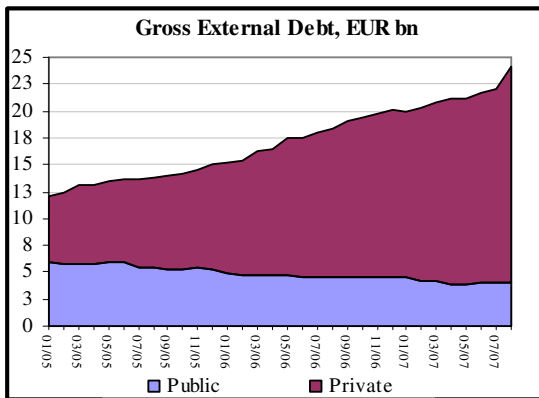
**2. External Debt**

**Gross external debt grew by 30.6% y/y to 90% of GDP as of end-August**

Gross external debt grew by 30.6% y/y and 9.3% m/m to EUR 24.063 bn as of end-August accounting for 90% of the projected full -year GDP, according to the Central bank preliminary data. The foreign debt growth was due to an increase in the foreign liabilities of the private sector - 44.7% y/y against an 11.8% decline of the state debt to non-residents. The private sector debt accelerated its expansion rate from 34% y/y as of end-July. The public sector debt amounted to EUR 4.1bn as of end-August ( 15.2% of GDP).

The share of short-term debt stayed flat in August as compared to a previous month at 30.3% of the total external debt. In January-August the external debt servicing amounted to EUR 3.4 bn (12.7% of GDP) against 10.4% of GDP for the same period last year.

Banks' external debt rose by 35.2% y/y and by 6.7% m/m reaching near EUR 4.0 bn (14.9% of GDP). The growing share of external credit lines to the banking system is directed to local subsidiaries of foreign investors at very low default risks and favourable interest rates. The foreign liabilities of commercial firms grew by 40% y/y and 3.7% m/m to EUR 8.6bn. The intra-company liabilities soared by 21.8% m/m and by 51.3% y/y as of end-August to EUR 8.341bn (34.7% of the total external debt against 31.1% a month earlier) shaping up a relatively low risk profile of the debt structure.

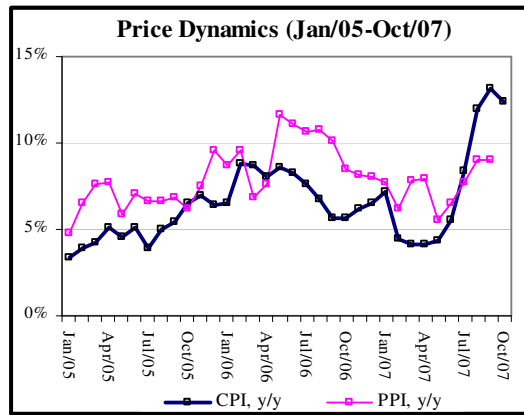


**II. REAL SECTOR**

**1. Inflation**

**CPI slowed to 12.4% y/y in October**

The consumer price index slowed to 12.4% y/y in October from 13.1% y/y in September, according to NSI data. On a monthly base, CPI also decelerated to 0.6% in October from 1.3% in September. Inflation from the beginning of the year accelerated to 9.2%. The harmonised index of consumer prices (HICP), which takes uniform product weights for all EU members, marked a slowdown to 10.6% y/y in October from 11% y/y in September. Bulgaria's government revised recently its expectations for the CPI to an end-year inflation of 9.3% from previously projected 3.1% y/y and a year-average of 7.2% from 4.4%, respectively.



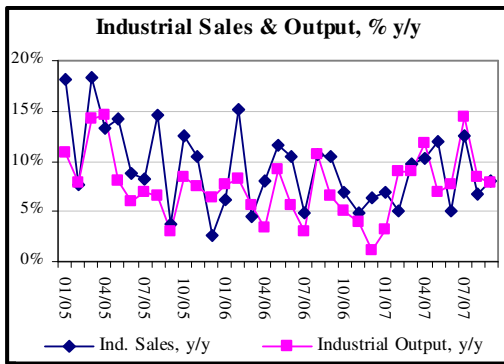
The index of producer prices hold the previous month level at 9% y/y in September according to NSI data. Food prices increased by 22.9% y/y in September versus 20.7% in August and continued to bring upward pressure on both consumer and producer indexes.

Utility sector and mining industries slowed down their inflationary rates to 11.2% y/y and 8.5% y/y in September from 14.2% y/y and 12.3% y/y respectively in August.

**2. Industrial Sales**

**Industrial sales growth accelerated to 8.1% y/y in September**

Industrial sales growth accelerated to 8.1% in September from the revised 6.8% y/y in August, according to NSI preliminary data. The hike was driven by the high growth rate of the electricity supplies (33% y/y). The decrease in the mining industry narrowed to 7% y/y in September against 19.3% in August and eased the downward pressure on the industrial sales growth. The slowdown was registered in the food and apparel industries – 0.5% y/y and 11.6% y/y respectively in September.

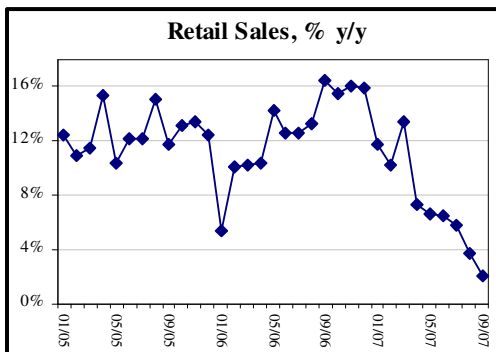


Industrial production slowed down to 7.8% y/y as compared to 8.4% y/y in August indicating negative change in inventories.

### 3. Retail Sales

*Retail sales growth continued its downward trend for ninth consecutive month*

Retail sales growth slowed to 2.1% y/y in September from 3.7% in August according to NSI data. This is the ninth consecutive month of deceleration since record highs reached at the end of last year. The wholesale trade remained flat from the previous month (0.1% y/y). Food, pharmaceutical, furniture and appliances sales continued to slow down.



### 4. Household Consumption

*Household monetary income and expenditure increased by 15.5% y/y and 18.1% y/y respectively in September*

Household monetary income and expenditure grew by 15.5% y/y and 18.1% y/y respectively to BGN 618.45 and BGN 535.39 in September, according to NSI data.

The earnings from wages and salaries, other than salaries, entrepreneurship, property, and other social benefits have increased their share in the structure of monetary income while the earning from property sale has decreased considerably its share.

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

### 5. Average Monthly Wage

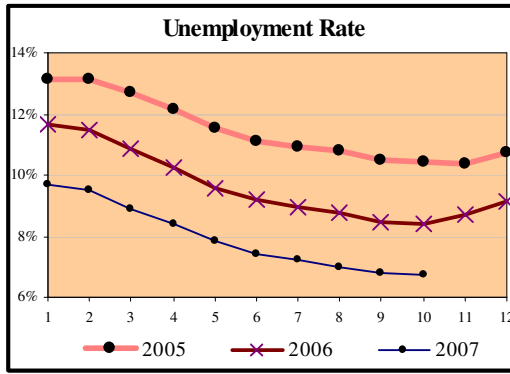
*Average monthly wage rose by 19.8% y/y to BGN 424 (EUR 217) in Q3*

The average gross wage rose by nominal 19.8% y/y to BGN 424 (EUR 216.8) in Q3 against 17.7% y/y in Q2, according to NSI preliminary data. The average wages in the private sector increased by 22.3% y/y but remain 20% below the average one in the public sector. The increase in wages is pushed up by narrowing labour supply as unemployment dropped to a 16-year low of 6.78% as of the end of September. Salaries in hotels and restaurants, construction, transport and communication, financial intermediation, mining and manufacturing marked the fastest growth rates of more than 20% in nominal terms in Q3. Wages in the public administration increased by 21.7% y/y in Q3 as planned in the state budget.

### 6. Unemployment

*Unemployment continued to drop in October*

Unemployment rate preserved its downward trend in October although the decrease was insignificant, according to National Employment Agency. It stood at 6.73%, down by 0.05pps m/m and 1.65pps y/y. The number of jobless decreased by 60,993 people over the past year to 249,376 in October. The new registrations with the labour bureaus have increased due to the closure of seasonal jobs.



**II. FISCAL SECTOR**

**Consolidated budget surplus widened by 59.1% y/y to EUR 1.715bn (6.1% of GDP) in January-September**

The consolidated budget surplus widened by 59.1% y/y to BGN 3.354bn (EUR 1.715 bn) in January-September, according to Finance Ministry data. In relative terms, the surplus accounted for 6.1% of the projected full-year GDP. The Finance Ministry also revised its full-year budget surplus expectations to 3.3% of GDP against the official target of 2%. The fiscal revenues grew by 19.5% y/y in January-September against 17.4% y/y in January-August. The fiscal expenditures rose by 9.5% y/y for the reporting period.

Republican budget surplus increased by 49.2% y/y to BGN 3.046bn (EUR 1.558bn) in January-September. Tax revenues in the republican budget grew by 22.9% y/y in January-September due to the 30.7% y/y rise in direct taxes and 20.2% y/y - in indirect taxes. VAT receipts registered a 20.3% y/y increase in January-September. The revenues from excise taxes also grew - by 33.1% y/y. On the contrary, the duties revenues decreased by 33% y/y in January-September as a result of the adoption of the EU common customs tariff with third countries. Non-tax revenues declined by 55.4% y/y due to the one-time receipts from penalties and sanctions received in to the central budget in January-September last year.

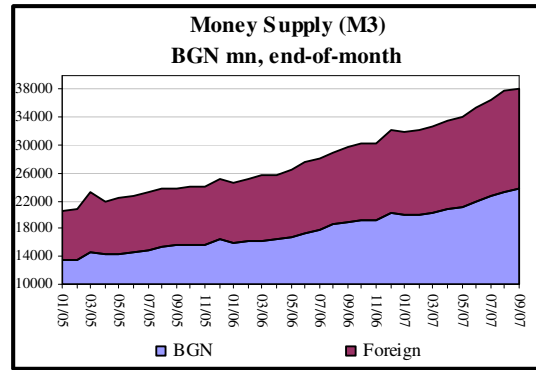
Republican budget expenditure (excl. the transfers) increased by 6.4% y/y in January-September.

**IV. MONETARY SECTOR**

**1. Monetary Aggregates**

**Money supply growth slightly slowed down to 29.1% y/y as of end-September**

Money supply (M3) growth slightly slowed down from 30.4% y/y as of end-August to 29.1% y/y as of end-September, according to Central Bank data. Deposits with agreed maturity up to 2 years rose by 28% y/y as compared to 30.3% a month earlier. The monetarization of the economy reached 73% of the projected full-year GDP. The share of foreign currency in M3 remained at 38%.



**2. Domestic Credit**

**Domestic credit growth accelerated from 45.4% y/y as of end-August to 46.3% y/y as of end-September**

Domestic credit growth continued to accelerate from 45.4% y/y as of end-August to 46.3% as of end-September, according to Central Bank data. The stock of domestic credit reached BGN 28.091bn (EUR 14.362bn). Credit to non-government sector grew by 56.4% y/y as of end-September to BGN 32.364 bn (EUR 20.7bn) pushed by high growth rate of financial companies' loans by 57.6% y/y as of end-September as compared to 36% y/y a month earlier. The stock of credits to non-financial entities soared by 62% y/y reaching BGN 19.773 bn (EUR 10.1 bn) or 37.8% of GDP. The credits to households and NPISH amounted to BGN 12.23bn (EUR 6.253bn) decelerating their expansion rate from 50.2% y/y as of end-August to 48.2% y/y as of end-September.

Domestic credit, % of GDP

	09/06	08/07	09/07
<b>Domestic credit</b>	<b>39,1%</b>	<b>52,7%</b>	<b>53,7%</b>
Claims on general government	-4,2%	-8,8%	-9,7%
Claims on non-government sector	43,3%	61,5%	63,5%
o/w Loans	42,2%	60,0%	61,9%
<b>Non-Financial Corporations</b>	<b>24,9%</b>	<b>36,4%</b>	<b>37,8%</b>
<b>Financial Corporations</b>	<b>0,5%</b>	<b>0,6%</b>	<b>0,7%</b>
<b>Households and NPISH</b>	<b>16,8%</b>	<b>23,0%</b>	<b>23,4%</b>
Consumer loans	7,9%	9,9%	10,0%
Loans for house purchase	5,8%	9,3%	9,5%
<b>Deposits</b>	<b>52,1%</b>	<b>66,4%</b>	<b>67,2%</b>
<b>Assets</b>	<b>78,9%</b>	<b>96,9%</b>	<b>99,3%</b>

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

The mortgage and consumer credits slightly decelerated their growth rates as compared to the previous month to 73.8% y/y and 34.7% y/y respectively as of end-September. On a monthly base, the mortgage credits increased by BGN 57.1mn (1.2%) to BGN 4.94bn and represented 44.5% of all household credits (except overdraft). The consumer loans grew by BGN 51.5mn (1%) to BGN 5.225bn in September, presenting 47.1% of all credits extended to households and NPISH.

## V. FINANCIAL SECTOR

### **Commercial banks' net profit surged by 61.5% y/y to EUR 437.2mn as of end-September**

The total assets of the commercial banks increased by 34% y/y as of end-September to BGN 51.9 bn (EUR 26.5bn) or 99.2% of the projected full-year GDP. On a quarterly base, the biggest increase was registered in loans and receivables (including financial leasing) and in cash and cash balances with the central banks. As of end-September funds held at the Central bank rose at a faster rate ( 50% q/q) due to the increase of the minimum reserves of commercial banks by 4pps to 12% as of end-September. The stock of gross loans and advances decreased by BGN 593.753mn compared to August to BGN 39.9bn (EUR 20.4bn). All portfolio segments have increased except claims on credit institutions. Loans to non-credit institutions marked the biggest monthly increase of near 20%. Gross loans to enterprises and retail exposures rose by 3.1% m/m and 56.3% y/y. Due to the upward trend as of end-September net corporate loans and loans to the public represent 61% of the total assets.

The funds attracted by commercial banks as of end-September increased by BGN 1.149bn (2.6%) as compared to the previous month to

BGN 45.6bn (EUR 23.302bn) or 87.2% of the projected full-year GDP. Corporate deposits grew by 1% m/m to BGN 17.874bn (EUR 9.139bn) as of end-September. Deposits from individuals and households increased by BGN 1.2bn on a quarterly base and by BGN 245mn on a monthly base representing 37.9% of the total amount of the attracted funds.

The aggregated net profit of the 30 commercial banks surged by 61.5% y/y to BGN 855mn (EUR 437.2mn) in January-September, according to data of the Central bank.

**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.**

### **Assets of pension funds increased by 56.7% y/y to EUR 1.104 bn as of end-September**

The net assets of the nine private pension funds increased by 56.7% y/y to BGN 2.16 bn (EUR 1.104 bn) as of end-September, according to Financial Supervision Commission data. The stock of savings accumulated in private pension funds rose by 16.8% on a quarterly basis and account for 4% of the full-year GDP projection. The main reason for the assets' growth was the higher profitability stemming from the Bulgarian stock exchange. More than 37.4% of all investments of the funds are allocated to corporate stocks as of the end of September. The number of insured persons reached 3.35mn people, up by 7.1% y/y.

Universal funds kept more than half of the total assets – 51.85% followed by voluntary funds with a market share of 29.56% and professional funds with 18.59%.

The two largest players Dovereie and Allianz control more than 60% of the market in terms of assets.

The weighted average annual return rates for universal, professional and voluntary funds over the past 2 years improved to 12.9%, 13.8% and 14.3% as of end-September, respectively.

According to the forecasts of the social insurance experts the assets of the pension funds will reach BGN 2.5bn by the end of the year.

**Market capitalization of Sofia Stock Exchange increased by 134% y/y to EUR 14.891bn (53.1% of GDP) in October**

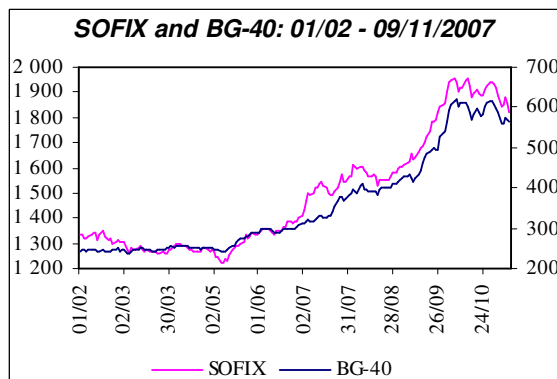
Road construction and repair company Trace Group Hold's IPO and the financial reports of the listed companies marked the trade on BSE in October. The stock market fluctuation followed investors' rush to sell off some of their liquid shares in order to raise funds for the eagerly awaited IPO of Trace Group. After Trace IPO was over, investors restored previous positions which drove indices up.

All shares of Trace Group Hold that were subscribed during the initial public offering have been paid. As much as BGN 22.1 million has been transferred on account of the company. That is the amount equivalent to the issue value of the 200,000 shares that were offered and subscribed as part of a capital raise move. The issue value of the shares stands at BGN 110.50. The shares are expected to be listed for trade on the Bulgarian Stock Exchange as of the end-November.

The BG40 index advanced from 564.42 points on October 2 to 587.19 points on November 2. The SOFIX index of the 17 blue chips added 4.6% m/m to 1935.45 points as of end-October.

The market capitalization of Sofia Stock Exchange increased by 4.48% m/m (and 134% y/y) to the record BGN 29.126bn (53.1% of GDP) in October. The monthly turnover amounted to BGN 479.4mn.

Vidin – 20% in Q3 followed by Sofia-town (15.6%) and Russe (10.1%). Home prices in Russe grew by 48.6% y/y to BGN/ m<sup>2</sup> 1302.5 (EUR/m<sup>2</sup> 666.0) in Q3 accelerating from 38.1% y/y in Q2. In absolute terms, Sofia-town kept its first place where the average housing price was BGN/ m<sup>2</sup> 1904.8 (EUR/m<sup>2</sup> 974.0) outpacing again Varna which maintained the top position for several quarters.



**VI. REAL ESTATE**

**Average housing prices grew by 30.6% y/y in Q3**

Average housing prices grew by 30.6% y/y and 7.5% q/q in Q3 reaching BGN/m<sup>2</sup> 1118.8 (EUR/m<sup>2</sup> 572.0) according to NSI data. On a quarterly base, the highest growth rate was registered in

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