



UNITED BULGARIAN BANK

A Member of NBG Group

BULGARIA: ECONOMIC & MARKET ANALYSES August, 2008



In the period January – July 2008, the Current and Capital account deficit was EUR 4,341.2 mn (13.2% of GDP), against a deficit of EUR 3,006.1 mn (10.4% of GDP) for the same period in 2007.

As of end-July 2008 gross external debt was EUR 32,673.7 mn (99.5% of GDP) and increased by EUR 3,819.4 mn (13.2%) against the end of 2007 (EUR 28,854.3 mn, 99.8% of GDP).

In the second quarter of 2008 the Gross domestic product (GDP) is amounted to BGN 158944.3 mn, which is 7.1% more compared to the same period previous year.

The inflation 2008 decreased from 15.3% in July to 11.2% in August

The industrial sales in August increased their annual growth to 10.7%

The retail sales growth with 6.0% which is mostly due to the trade with pharmacy and medical goods – 7.1% and textile -6.3%.

The total amount of the revenues on the consolidated fiscal program (CFP) for the first 7 months of the year mounted to BGN 16 442.4 mn which is 60.5% of the expected revenues till the end of 2008

The money supply growth in July was 2.45%. On annual base it slows down up to 23.83% compared to 24.4% in June.

Net domestic credit reached BGN 39.133 billion at the end of August 2008, which is a 43.6% increase compared to the same month of 2007 (47.8% annual growth in July).

At the end of July the total assets of the banking system came up to BGN 66.9 billion, or EUR 34.2 billion, thus marking an increase by BGN 1.2 billion (1.8%) for the month, and by BGN 18.4 billion (37.9%) against 31 July 2007.

Net assets of the nine private pension companies rose nearly with 22.33% compare to the end of 2007 and reached BGN 2 394 550 for the first half of 2008.

The Bulgarian Stock Exchange – Sofia (BSE-Sofia) monthly turnover in July amounted to BGN 126.9 mn (a daily average of BGN 5.5 mn), compared to BGN 103.1 mn in June.

For the second half of the second quarter of 2008 the price of the real estate grew with 5.5%, according to the NSI

I. EXTERNAL SECTOR

1. Balance of Payments

In the period January – July 2008, the Current and Capital account deficit was EUR 4,341.2 mn (13.2% of GDP¹), against a deficit of EUR 3,006.1 mn (10.4% of GDP) for the same period in 2007.

In the period January – July 2008, the *Current and Capital account* deficit was EUR 4,341.2 mn (13.2% of GDP²), against a deficit of EUR 3,006.1 mn (10.4% of GDP) for the same period in 2007.

In July 2008 the *Current account* was negative and amounted to EUR 424 mn, compared to a negative account of EUR 257.7 mn for the same month in 2007. In the period January – July 2008, the current account deficit was EUR 4,556.3 mn (13.9% of GDP), against a deficit of EUR 3,093.1 mn (10.7% of GDP) for the same period in 2007. The main factor for the increase of the current account deficit was the higher (by EUR 1,405.4 mn) trade deficit.

The *trade deficit*³ in January – July 2008 amounted to EUR 5,190.2 mnion (15.8% of GDP), compared to a deficit of EUR 3,784.9 mnion (13.1% of GDP) for the same period in 2007. The trade deficit increase was also due to the increase of crude oil and natural gas prices.

The *Capital account* balance was positive amounting to EUR 215.1 mn, compared to a positive balance of EUR 87 mn for the same period in 2007.

The *Financial account* balance was positive amounting to EUR 6,117.9 mn, compared to a positive balance of EUR 5,324.1 mn for the same period in 2007.

Foreign direct investment abroad was EUR 460 mnion against EUR 109.7 mnion for the same period in 2007.⁴ *Foreign direct investment in*

*Bulgaria*⁵ was EUR 2,847.3 mn (8.7% of GDP) against EUR 3,325.9 mn (11.5% of GDP) for the same period in 2007. The direct investment covered 62.5% of the current account deficit against 107.5% for January – July 2007.

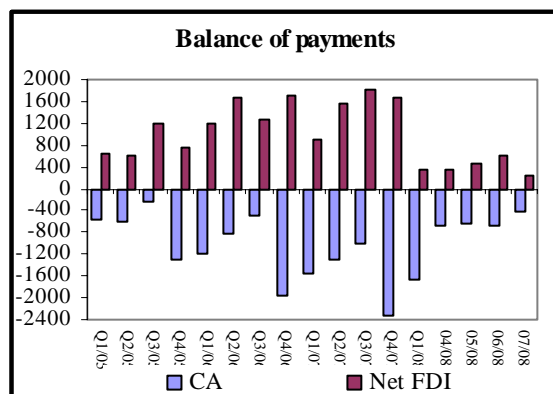
Portfolio investment - assets increased by EUR 137.5 mnion, compared to a decrease of EUR 7.4 mnion for the same period in 2007. *Portfolio investment – liabilities* decreased by EUR 123.5 mn. In the period January – July 2007, the liabilities decreased by EUR 53.1 mn.

Other investment – assets decreased by EUR 649 mn, compared to a decrease of EUR 201 mn for the same period in 2007. *Other investment – liabilities* increased by EUR 3,423.5 mn against an increase of EUR 1,999.5 mn for January – July 2007.

The item *Net errors and omissions* were negative, amounting to EUR 96.1 mn. For the same period in 2007 the item was negative amounting to EUR 1,140.1 mn.

The *Overall balance* was positive, amounting to EUR 1,680.7 mn compared to a positive overall balance of EUR 1,177.8 mn for the same period in 2007.

In the period January – July 2008 the *BNB reserve assets*⁶ increased by EUR 1,680.7 mn.



Source: Bulgarian National Bank

¹ GDP for 2007 (preliminary NSI data) - EUR 28,898 mn and GDP for 2008 estimated at - EUR 32,824 mn.

² GDP for 2007 (preliminary NSI data) - EUR 28,898 mn and GDP for 2008 estimated at - EUR 32,824 mn.

³ Exports and imports data should be interpreted carefully due to the problems with their coverage and quality in 2007 after the introduction of the INTRASTAT system as from January 1, 2007.

⁴ The difference between the investments for the two periods was mainly due to an investment made abroad in March

2008 by a Bulgarian subsidiary of a big multinational company.

⁵ The preliminary data for 2007 and 2008 are subject to revisions with the quarterly reports to the BNB from foreign direct investment enterprises, as well as with the NSI quarterly and annual data.

⁶ Excluding valuation changes.

Balance of Payments, EUR mn, Analytical Report

	2007		2008	
	June	Jan-July	June	Jan-July
Current Account	-257.7	-3093.1	424.0	-4556.3
Trade Balance	-602.5	-3784.9	-883.2	-5190.2
Exports of Goods	1242.2	7484.8	1432.7	9169.0
Import of Goods	1844.7	11269.7	-2315.9	-14359.6
Service Balance	419.5	730.3	416.5	632.5
Travel Revenues	326.3	569.3	355.8	542.5
Income Balance	-95.7	-212.2	11.3	-514.4
Net Current Transfers	20.9	173.6	31.4	515.9
Financial & Capital Account	780.4	5411.1	512.0	6333.0
Net FDI	575.8	3216.2	226.5	2387.3
FDI inflows	597.0	3325.9	243.6	2847.3
FDI abroad	-21.1	-109.7	-17.1	-460.0
Errors and Omissions	-240.4	-1140.1	320.9	-96.1
Overall balance	-282.3	1177.8	-408.9	-1680.0

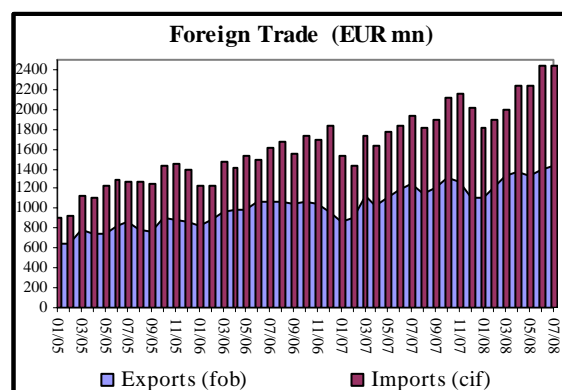
Source: Central Bank Preliminary data

Exports (FOB) amounted to EUR 9,169.4 mn against EUR 7,484.8 mn for the same period in 2007, increasing by 22.5% yoy against 10.1% for the same period in the previous year. *Imports (FOB)* amounted to EUR 14,359.6 mn, against EUR 11,269.7 mn for January – July 2007, increasing by 27.4% yoy against 18.7% for the same period in the previous year. The difference in imports growth rates yoy for the reporting period in 2008 and for the same period in 2007 was due to the increase of crude oil and natural gas prices.

The balance on *the Services item* was positive, amounting to EUR 632.5 mn (1.9% of GDP), against a positive balance amounting to EUR 730.3 mn (2.5% of GDP) for the same period in 2007.

Income (net) item was negative amounting to EUR 514.4 mn compared to a negative item of EUR 212.2 mn for the same period in 2007.

Net Current transfers amounted to EUR 515.9 mn (1.6% of GDP) against EUR 173.6 mn (0.6% of GDP) for the same period in 2007.



Source: Bulgarian National Bank

2. External Debt

As of end-July 2008 gross external debt⁷ was EUR 32,673.7 mn (99.5% of GDP⁸) and increased by EUR 3,819.4 mn (13.2%) against the end of 2007 (EUR 28,854.3 mn, 99.8% of GDP).

As of end-July 2008 gross external debt⁹ was EUR 32,673.7 mn (99.5% of GDP¹⁰) and increased by EUR 3,819.4 mn (13.2%) against the end of 2007 (EUR 28,854.3 mn, 99.8% of GDP). This was mainly due to the increase of Banks' liabilities (EUR 2,045.6 mn, 35.4%). By end-July 2008 long-term liabilities amounted to EUR 20,476.5 mn (62.7% of total debt), and short-term liabilities came to EUR 12,197.2 mn (37.3% of total debt).

General Government's external debt amounted to EUR 2,678.6 mn¹¹ (8.2% of GDP) as of end-July 2008, decreasing by EUR 420.3 mn (13.6%) against the end of December 2007. The decrease was mainly due to credit payments made to the World Bank ahead of schedule in March 2008.

Banks' external debt amounted to EUR 7,816.3 mn (23.8% of GDP) increasing by EUR 2045.6 mn (35.4%) against the end of 2007. The sector's

⁷ Preliminary data. The data for 2005 – 2007 and January – June 2008 are revised. In accordance with the methodological notes with the August 2008 report the data for July 2008 are to be revised.

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¹⁰ GDP for 2007 (preliminary NSI data) - EUR 28,898 mn and GDP for 2008 estimated at EUR 32,824 mn.

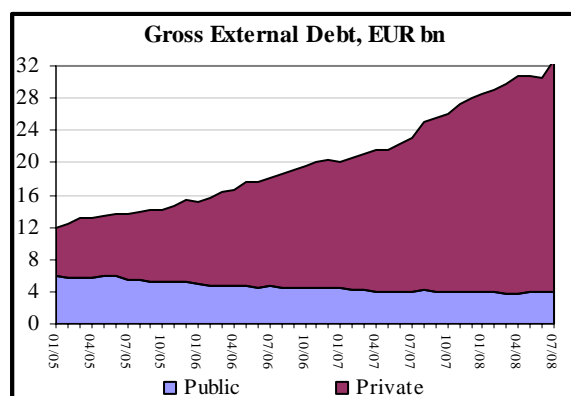
¹¹ Following the resident concept.

liabilities increase was mainly due to an increase (by EUR 1288.7 mn) of *deposits of non-residents in local banks*. *Other Sectors' debt*¹² was EUR 11,414.9 mn, increasing by EUR 1,575.5 mn (16%) relative to the end of 2007. As of end-July 2008 the stock of *Direct Investment liabilities*³ was EUR 10,763.8 mn, increasing by EUR 618.6 mn (6.1%) against the end of 2007.

In January – July 2008, gross external debt service was EUR 4,307.1 mn (13.1% of GDP) against EUR 3,627.1 mn (12.6% of GDP) for the same period in 2007.

In January – July 2008, loans and deposits received from non-residents came to EUR 7,414.4 mn (22.6% of GDP) compared to EUR 5,583.2 mn (19.3% of GDP) for the same period in 2007.

As of end-July 2008, net external debt was EUR 14,558.5 mn (44.4% of GDP) and increased by EUR 2,731.1 mn (23.1%) against the end of 2007 (EUR 11,827.4 mn, 40.9% of GDP).



Source: Bulgarian National Bank

II. REAL SECTOR

1. Gross Domestic Product

In the second quarter of 2008 the Gross domestic product (GDP) is amounted to BGN 158944.3 mn, which is 7.1% more compared to the same period previous year.

In the second quarter of 2008 the Gross domestic product (GDP) is amounted to BGN 158944.3 mn (EUR 8152.2 mn) according to the preliminary data. Compared to the second quarter of 2007 the GDP is 7.1 % more.

¹² Due to quarterly reporting of firms July 2008 data are subject to revisions.

The gross value added (GVA), created by the branches amounted to BGN 12 994.0 mn, according to the present prices. Recalculated in comparable prices the GVA increased with 6.7% compare to the same month previous year.

The industrial sector creates 32% of the gross value added of the economy, which is a decrease of 2% compared to the same month previous year. The real growth this sector is 7.4%.

The service sector increases with 7%. The main share in the GVA increases from 60.4 for the first half of 2007 to 61.7 for the same period in 2008.

The agricultural sector increases its production activity for the first half of 2008 with 6.5% compare to the same month in 2007. The average share in the sector has increased with 0.7% compared to the first half of 2007.

Real changes (% y/y)	2002	2003	2004	2005	2006	2007	Q1/08	Q2/08
Agriculture	4.7	-2.3	2.3	-9.4	-1.0	-3.0	-1.6	11.7
Industry	4.6	5.7	4.1	4.8	7.8	14	7.7	7.2
Services	5.9	4.8	5.7	8.2	7.1	7.5	8.3	5.8
GDP	4.5	5.0	6.6	6.2	6.3	6.2	7.0	7.1
Consumption	4.2	5.9	5.4	5.3	7.3	4.9	4.7	4.8
Investment (excl. inventories)	8.5	13.9	13.5	23.3	14.7	21.7	15.5	20.0
Export	8.1	10.7	12.7	8.5	8.7	5.2	9.2	5.1
Import	5.1	16.4	14.6	13.1	14.0	9.9	5.8	13.7

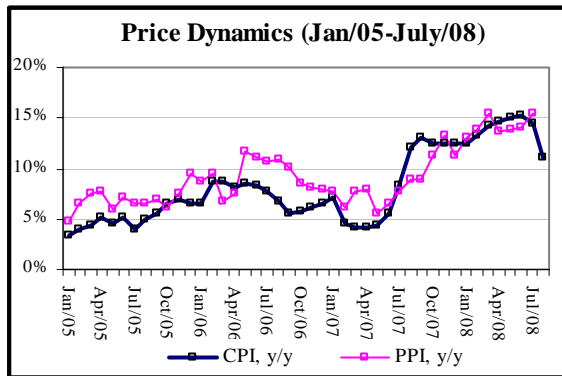
Source: National Statistical Institute

2. Inflation

The inflation 2008 decreased from 15.3% in July to 11.2% in August

The consumer prices in August retained a weak growth rate of 0.1%, as a result of that the average inflation from the beginning of the year is 6.3%. The inflation for 2008 decreased from 15.3% in July to 11.2% in August. This was on one side result of the basis effect from 2007 and on other side result of the rich crop both with the food items prices decrease on the international markets. On monthly basis, the administrative prices increased again in August, which contributed as well to the inflation index. The

price of the non-food items decreased in August, as a result of fuel price reduce with 4.7%.



Source: National Statistical Institute

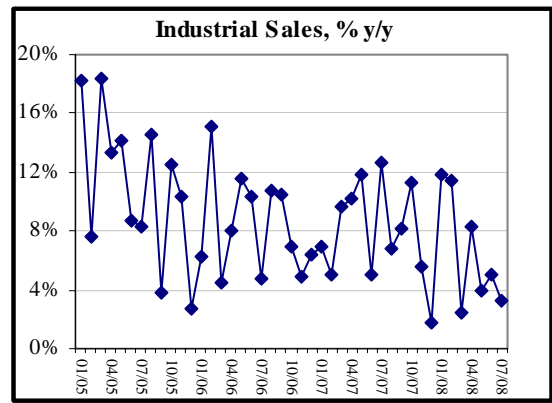
In August the HICP inflation based on the EU-harmonized consumer basket dropped with 0.1%. The accumulated inflation since the beginning of the year is 7.1%. Compared to the same month previous year the increase of the consumer prices was 11.8%.

The increase of the PPI in July is 2.9%. From the beginning of the year the PPI reached 10.7% and 15.4% compared to July previous year. The increase of the production prices was a result of the power provisions price growth and in particular the electric power (11.7%) and the thermal energy (6%).

3. Industrial Sales

The industrial sales in August increased their annual growth to 10.7%

The industrial sales in August increased their annual growth to 10.7% compared to the same month previous year. The trade with non agriculture products (17.8%) increased the revenues. This represents around 50 % of the total income in the industrial sales. The negative influence of the index is not only a result of the decrease in the trade of the household goods (2.3%), but as well the trade with machine equipment, goods, drinks and cigarettes production respectively with 8.6% and 0.5%. The revenues in the trade with vehicles, fuel increased with 10.4%.



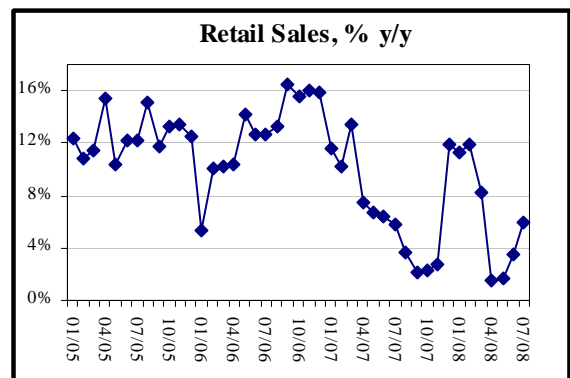
Source: National Statistical Institute

4. Retail Sales

The retail sales growth with 6.0% which is mostly due to the trade with pharmacy and medical goods – 7.1% and textile - 6.3%.

The retail sales growth with 6.0% which is mostly due to the trade with pharmacy and medical goods – 7.1% and textile - 6.3%. The negative influence over the index was caused by the lower rate in the trade with food, drinks and cigarettes production. The revenues in July increased compared to those in June. The total increase of 7.5% is partly due to the wholesale trade which from one side realizes the biggest growth of 9.1% and on other side has the biggest average share in the revenues return in the trade sector (70 %).

For the period January-July the sale revenues rose with 7%, compare to the same period in 2007.



Source: National Statistical Institute

III. FISCAL SECTOR

The total amount of the revenues on the consolidated fiscal program (CFP) for the first 7 months of the year mounted to BGN 16 442.4 mn which is 60.5% of the expected revenues till the end of 2008

The total amount of the revenues on the consolidated fiscal program (CFP) for the first 7 months of the year mounted to BGN 16 442.4 mn which is 60.5% of the expected revenues till the end of 2008 Compared to the same period previous year the revenues are 24.4% higher (BGN 3 220 mn).The consolidated budget expenditures (including the installment for the EU budget) amounted to BGN 12 223.3 mn at the end of July, which is 48.2% of the annual prognosis. The fiscal reserve amounted to BGN 10 736.0 mn. The revenues of the republican budget at the end of July amounted to BGN 11 283.5 mn which is an increase of 61.6%, according to the prognosis, made for the 2008? Compare to the same period previous year the revenues had increased with 23.4% or BGN 2 141.4 mn as a result of the increase of indirect taxes (38.3%). The tax income at the end of July amounted to BGN 9 576.8 mn, which is 57.2% of the prognosis till the end of 2008. Compared to the same period previous year the direct taxes had increased with 22.5% (BGN 1 758.1 mn)

IV. MONETARY SECTOR

1. Monetary Aggregates

The money supply growth in July was 2.45%. On annual base it slows down up to 23.83% compared to 24.4% in June.

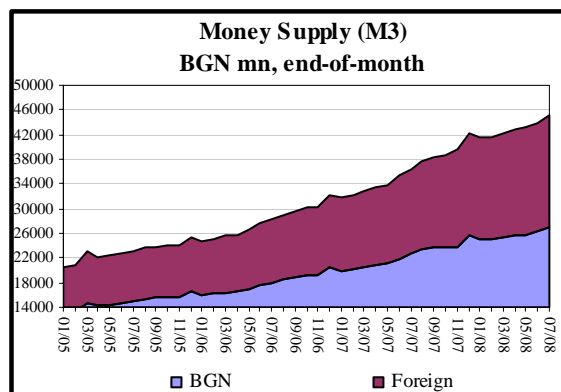
The money supply growth in July was 2.45%. On annual base it slows down up to 23.83% compared to 24.4% in June. The detonation growth was determined of the lower growth of the contracted deposits, which annual growth was 32.5%.

The currency reserves of the country continue to grow in July and reached 26 684 billion at the end of the month which is an increase of 38.3% compared to the same moth previous year. The monthly dynamics of the reserves was determined by increasing the government deposit with BGN 531 mn in the National Bank.

The money supply growth in July was supported by the net domestic assets, which increased with

47.77% on annual base. The main factor for that was again the dynamics of the receipts of the private sector. The borrowing in the non government sector continued its growth, although there was a slight slow down on annual base. The household credits rose with 48.52% while the corporate ones reached 54.97% on annual base. At the end of July the borrowings form the private sector reached BGN 46. 599 billion which is 102.75% of the trading banks assets. The credit expansion is expected to increase, as the main financial intermediary in the country is the banking sector. In the same time the continuance tendency of the interest rates raise render the demand of the borrowing.

The net domestic assets in July were persistent. This was due on one hand to the decrease of the Net Foreign Assets of the banks and on other to the of non-residents resources in the local banks.



Source: Bulgarian National Bank

2. Domestic Credit

Net domestic assets reached BGN 39.133 billion at the end of August 2008, which is a 43.6% increase compared to the same month of 2007 (47.8% annual growth in July).

Net domestic credit reached BGN 39.133 billion at the end of August 2008, which is a 43.6% increase compared to the same month of 2007 (47.8% annual growth in July). The annual growth rate of their basic component – domestic credit – was 43% in August compared to 46.8% in July 2008. Claims on the Non-government sector (which include loans, repos, securities other than shares, and shares and other equity) rose by 48.3% compared to 51.2% in July.

At the end of August 2008, claims on loans to the Non-government sector stood at BGN 46.882

billion (73% of GDP) and their annual growth rate was 49.5% (52.8% in July). Loans to Non-financial corporations increased by 53.6% annually in August (55% in July) and at the end of the month amounted to BGN 29.212 billion (45.5% of GDP). Loans to Households and NPISH's (Non-Profit Institutions Serving Households) were BGN 17.138 billion (26.7% of GDP) at the end of August, posting annual growth of 42.5% (48.5% annual growth in July). In August 2008, loans for house purchases grew by 47.3% on an annual basis compared to 50% in July. The annual growth rate of consumer loans was 36.4% in August and 47.2% in July 2008, while that of other loans – 23.8% and 26%, respectively. Net domestic assets reached BGN 39.133 billion at the end of August 2008, which is a 43.6% increase compared to the same month of 2007 (47.8% annual growth in July). The annual growth rate of their basic component – domestic credit – was 43% in August compared to 46.8% in July 2008. Claims on the Non-government sector rose by 48.3% compared to 51.2% in July.

At the end of August 2008, claims on loans to the Non-government sector stood at BGN 46.882 billion (73% of GDP) and their annual growth rate was 49.5% (52.8% in July). Loans to Non-financial corporations increased by 53.6% annually in August (55% in July) and at the end of the month amounted to BGN 29.212 billion (45.5% of GDP). Loans to Households and NPISHs (Non-Profit Institutions Serving Households) were BGN 17.138 billion (26.7% of GDP) at the end of August, posting annual growth of 42.5% (48.5% annual growth in July). In August 2008, loans for house purchases grew by 47.3% on an annual basis compared to 50% in July. The annual growth rate of *consumer loans* was 36.4% in August and 47.2% in July 2008, while that of *other loans* – 23.8% and 26%, respectively. The total amount of loans to *Financial corporations*¹³ was BGN 532 mn at the end of August 2008 and, compared to August 2007, it increased by 71.7% (79.6% annual growth in July).

The annual rates of changes in claims on loans were influenced by net sales of loans by Other MFI's mion¹⁴ - their volume for the last 12 months was BGN 2.667 billion. On an annual basis, loans sold amounted to BGN 3.025 billion,

¹³ *Financial corporations* consist of other financial intermediaries and auxiliaries, and insurance companies and pension funds.

¹⁴ *Other monetary financial institutions* include credit institutions and money market funds.

while the amount of loans repurchased were BGN 357 mn.

Net foreign credit amounted to BGN 18.268 billion at the end of August 2008 and their annual decline remained unchanged from July – 6.3%. The annual growth rate of foreign assets was 29.5% in August 2008 compared to 27.9% in July, while that of foreign liabilities was 113.3% in August and 108.6% in July 2007.

Domestic credit, % of GDP

	07/07	06/08	07/08
Domestic credit	48.3%	62.3%	63.4%
Claims on general government	-7.5%	-11.2%	-12.0%
Claims on general government	56.3%	73.5%	75.6%
o/w Loans	33.5%	44.8%	46.2%
Non-Financial Corporations	33.5%	44.8%	46.2%
Financial Corporations	0.5%	1.0%	1.0%
Households and NPISH	20.7%	26.4%	27.3%
Consumer loans	8.7%	11.0%	11.0%
Loans for house purchase	8.5%	11.0%	11.0%
Deposits of NFIs and other clients	60.6%	65.8%	67.4%
Assets	88.4%	106.5%	108.4%

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

V. FINANCIAL SECTOR

1. Banking Sector

At the end of July the total assets of the banking system came up to BGN 66.9 billion, or EUR 34.2 billion, thus marking an increase by BGN 1.2 billion (1.8%) for the month, and by BGN 18.4 billion (37.9%) against 31 July 2007.

At the end of July the total assets of the banking system came up to BGN 66.9 billion, or EUR 34.2 billion, thus marking an increase by BGN 1.2 billion (1.8%) for the month, and by BGN 18.4 billion (37.9%) against 31 July 2007. Almost half of the monthly growth came from two banks of Group 1 and Group 2. In the month the asset growth in the system was accounted for by the growth of loans and advances, primarily financed by the growth of deposits and capital. At the same time, securities and cash registered a decrease.

As of 31 July 2008, the five largest banks held 57.5% of the assets in the banking sector thus preserving their market position of June.

Loans and receivables (including financial leases) accounted for 79% of the balance sheet total of the system. Loans and advances marked a 2.4% monthly growth only in their corporate segment and the retail exposures (by 2.9% and 3.7% respectively). The corporate loans and retail exposures portfolio registered a 52.4% growth against July 2007. In July the loan impairment provisions on corporate loans dropped while retail exposures evidenced a 5.4% increase.

In July attracted funds, as the principal source of financing for the banking business, increased by 1.6% – a rate near to the growth rate of assets. The increase is on account of institutions other than credit ones (BGN 538 mn) and of individuals and households (BGN 480 mn). At the end of July the deposits from the public remained the greatest source of funds with a 36% share in the total amount of attracted funds in the banking system.

During the month the balance sheet aggregate total capital increased by BGN 197 mn (2.8%), more than half of which is accounted for by the growth of current year income. The issued capital increased by BGN 90 mn as a result of the shareholders' support to three credit institutions. For a year, the item total capital increased by 38%.

As of 31 July 2008, the banking sector reported a profit of BGN 842 mn, that is by BGN 233 mnion (38.2%) higher than the result reported a year ago.

The end-July liquidity of the banking system ensures sufficient coverage of the attracted resources.

2. Pension funds

Net assets of the nine private pension companies rose nearly with 22.33% compare to the end of 2007 and reached BGN 2 394 550 for the first half of 2008.

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assets fell by 6.41 % compared to the end of the last year. The number of the insured persons rose with nearly 3% and at the moment they amounted to 3 544 185.

In the second quarter of the 2008 the pension companies have collected totally 24 188 applications for alteration the participation and transferring the resources form one pension fund to another.

Totally 21 656 individuals had change their participation from one pension fund to another. For comparison for the Q1 2008 they were 20 037, which is with 1 619 individuals more or 8.08% more. The relative share of the individuals, who had changed their pension funds, is 0.71 % in the professional pension funds – 0.86% and in the voluntary once 0.09.

3. Stock Exchange

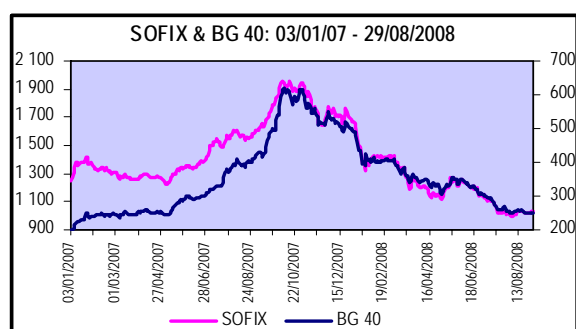
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Major deals in ordinary trading were concluded mainly for shares in Tobacco Factory Plovdiv AD, Sun Stara Zagora Tobacco AD, CB CCB AD and Enemona AD.

The prices of the Bulgarian market followed in general the patterns of the leading European and regional markets.

There were no placements on the IPO market of the BSE-Sofia in July.

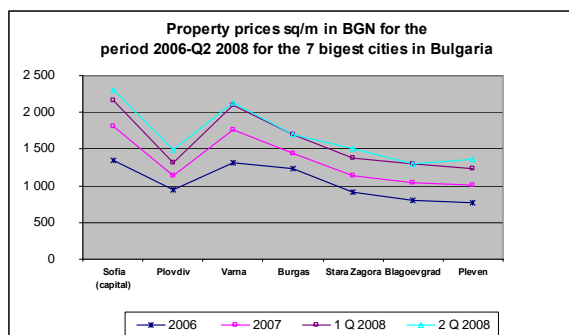


Source: Investor BG

4. Real estate

For the second half of the second quarter of 2008 the price of the real estate grew with 5.5%, according to the NSI

The prices of the property continue to grow despite the world crisis. For the second quarter of 2008 the price of the real estate grew with 5.5%, according to the NSI data. The property prices of the seven biggest cities in Bulgaria grew with 5.84% for the second quarter of the year. The most sensible growth in the prices was in Plovdiv 11.68%, Pleven 9.14%, Stara Zagora 8.24%. There was as well slight rise in the prices in Sofia 6.46%, Burgas 3% and Varna 1.78%.



Source: National Statistical Institute

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