



UNITED BULGARIAN BANK

A Member of NBG Group

BULGARIA: ECONOMIC & MARKET ANALYSES July, 2008



In the period January – June 2008, the Current and Capital account deficit was EUR 3,584.6 million (10.9% of GDP),

As of end-June 2008 gross external debt was EUR 31,898 million (97.2% of GDP)

The consumer price inflation in July 2008 was 14.5%, compared to 15.3% in June.

The industrial sales in June increased their annual growth to 5.1%. For the second quarter of the 2008, the growth of the industrial sales was 5.7%.

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Domestic credit growth is 47.8% y/y as of end-June from 48.6% y/y as of end-May.

At the end of May the banking system's total assets reached BGN 66.9 billion, thus making an increase by 1.2 billion for the month which is 1.8 %

For the period January- May 2008 the gross premium for general insurance totaled to 24.5%.

The Bulgarian Stock Exchange – Sofia (BSE-Sofia) monthly turnover in June amounted to BGN 103.1 million (a daily average of BGN 5.4 million), compared to BGN 146.2 million in May

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

account deficit against 87.9% for January – June 2007.

I. EXTERNAL SECTOR

1. Balance of Payments

In the period January – June 2008, the Current and Capital account deficit was EUR 3,584.6 million (10.9% of GDP),

In the period January – June 2008, the Current and Capital account deficit was EUR 3,584.6 million (10.9% of GDP), against a deficit of EUR 2,821 million (9.8% of GDP) for the same period in 2007.

In June 2008 the Current account was negative and amounted to EUR 688.3 million, compared to a negative account of EUR 299.4 million for the same month in 2007. In the period January – June 2008, the current account deficit was EUR 3,785.5 million (11.5% of GDP), against a deficit of EUR 2,885.7 million (10% of GDP) for the same period in 2007. The main factor for the increase of the current account deficit was the higher (by EUR 1,028.3 million) trade deficit.

The trade deficit in January – June 2008 amounted to EUR 4,287.9 million (13.1% of GDP), compared to a deficit of EUR 3,259.5 million (11.3% 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 Financial account balance was positive amounting to EUR 4705.1 million, compared to a positive balance of EUR 4381.3 million for the same period in 2007.

Foreign direct investment abroad was EUR 430.4 million against EUR 84.9 million for the same period in 2007.² Foreign direct investment in Bulgaria was EUR 2,078.6 million (6.3% of GDP) against EUR 2,537.1 million (8.8% of GDP) for the same period in 2007. The direct investment covered 54.9% of the current

Portfolio investment - assets increased by EUR 95.5 million, compared to an increase of EUR

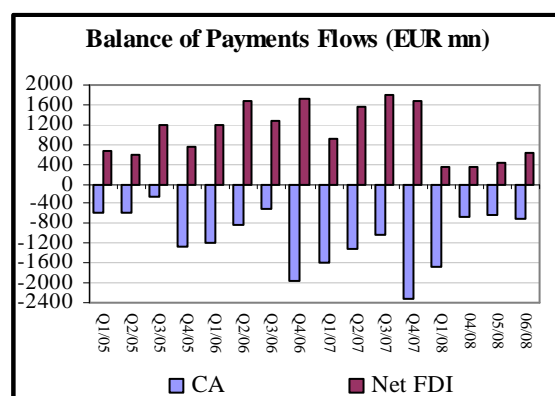
6.2 million for the same period in 2007. Portfolio investment – liabilities decreased by EUR 54.4 million. In the period January – June 2007, the liabilities decreased by EUR 209.2 million.

Other investment – assets decreased by EUR 220.3 million, compared to a decrease of EUR 536.2 million for the same period in 2007. Other investment – liabilities increased by EUR 3,069.3 million against an increase of EUR 1,651.3 million for January – June 2007.

The item Net errors and omissions was positive, amounting to EUR 151.1 million. For the same period in 2007 the item was negative amounting to EUR 664.7 million.

The Overall balance was positive, amounting to EUR 1,271.5 million compared to a positive overall balance of EUR 895.6 million for the same period in 2007.

In the period January – June 2008 the BNB reserve assets³ increased by EUR 1,271.5 million.



Source: Bulgarian National Bank

¹ 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.

² 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.

³ Excluding valuation changes.

2. External Debt

Balance of Payments, EUR mn, Analytical Report

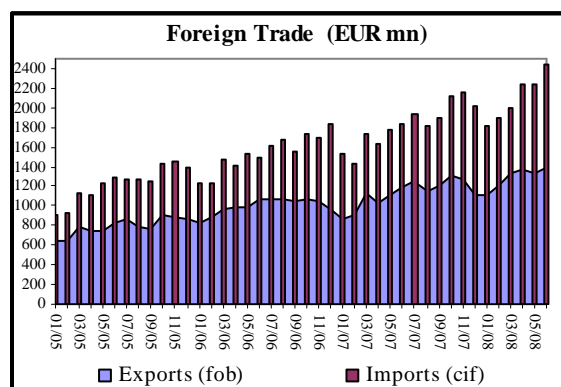
	2007		2008	
	June	Jan-June	June	Jan-June
Current Account	-284.5	2821.0	-687.9	3584.6
Trade Balance	-558.2	3259.5	-913.9	4287.9
Exports of Goods	1179.6	6205.1	1393.5	7730.2
Import of Goods	-1738	-9465	-2307	-12018
Service Balance	286.1	309.2	265.2	217.2
Travel Revenues	206.3	243.0	224.9	189.3
Income Balance	-69.1	-88.3	-119.7	-184.5
Net Current Transfers	41.8	153.0	80.0	469.7
Financial & Capital Account	1134.0	4446.0	1437.9	4906.0
Net FDI	475.8	2452.2	596.4	1648.2
FDI inflows	517.0	2537.1	607.6	2078.6
FDI abroad	-41.3	-84.9	-11.2	-430.4
Errors and Omissions	-254.9	-664.7	-352.1	151.1
Overall balance	-579.7	-640.3	-397.5	1271.5

Source: Central bank, preliminary data

Exports (FOB) amounted to EUR 7,730.2 million against EUR 6,205.1 million for the same period in 2007, increasing by 24.6% y/y against 8.4% for the same period in the previous year. Imports (FOB) amounted to EUR 12,018 million, against EUR 9,464.6 million for January – June period in 2007, increasing by 27% y/y against 18.9% for the same period in the previous year. The difference in imports growth rates y/y for the reporting period in 2008 and for the same period in 2007 was due mainly to the increase of crude oil and natural gas prices.

Income (net) item was negative amounting to EUR 184.5 million compared to a negative item of EUR 88.3 million for the same period in 2007.

Net Current transfers amounted to EUR 469.7 million (1.4% of GDP) against EUR 153 million (0.5% of GDP) for the same period in 2007.



Source: Bulgarian National Bank

As of end-June 2008 gross external debt was EUR 31,898 million (97.2% of GDP)

As of end-June 2008 gross external debt⁴ was EUR 31,898 million (97.2% of GDP) and increased by EUR 3,774.2 million (13.4%) against the end of 2007 (EUR 28,123.7 million, 97.3% of GDP). This was mainly due to the increase of Banks' liabilities (EUR 2,120.4 million, 36.9%). By end-June 2008 long-term liabilities amounted to EUR 19,898.9 million (62.4% of total debt), and short-term liabilities came to EUR 11,999.1 million (37.6% of total debt).

General Government's external debt amounted to EUR 2,661.9 million⁶ (8.1% of GDP) as of end-June 2008, decreasing by EUR 362.3 million (12%) 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 7,868 million (24% of GDP) increasing by EUR 2120.4 million (36.9%) against the end of 2007. Other Sectors' debt⁷ was EUR 11,190.5 million, increasing by EUR 1,420.6 million (14.5%) relative to the end of 2007. As of end-June 2008 the stock of Direct Investment liabilities³ was EUR 10,177.6 million, increasing by EUR 595.4 million (6.2%) against the end of 2007.

As of end June 2008 86.3% of the gross external debt was denominated in EUR and 6.6% in USD. Compared to December 2007 the share of the EUR denominated debt increased by 0.7 p.p. and that of the USD denominated debt decreased by 1.4 p.p.

In January – June 2008, gross external debt service was EUR 2,910.7 million (8.9% of GDP) against EUR 2,954.5 million (10.2% of GDP) for

⁴ GDP for 2007 (preliminary NSI data) - EUR 28,898 million and GDP for 2008 estimated at EUR 32,824 million.

⁵ Preliminary data. The data for May 2008 are revised. In accordance with the methodological notes with the July 2008 report the data for 2005 – 2007 and January – June 2008 are to be revised.

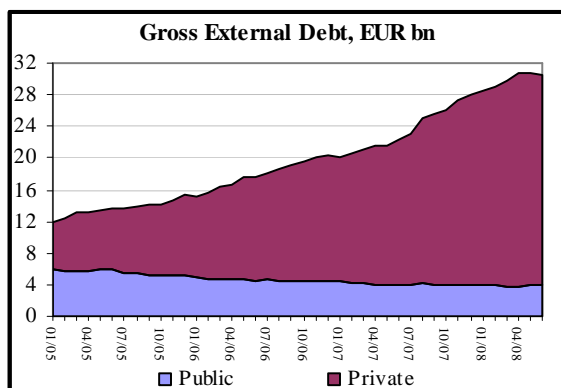
⁶ Following the resident concept.

⁷ Due to quarterly reporting of firms April - June 2008 trade credits data are subject to revisions.

the same period in 2007.

In January – June 2008, loans and deposits received from non-residents came to EUR 5,792.8 million (17.6% of GDP) compared to EUR 4,243.4 million (14.7% of GDP) for the same period in 2007.

As of end-June 2008, net external debt was EUR 13,871.3 million (42.3% of GDP) and increased by EUR 2,774.4 million (25%) against the end of 2007 (EUR 11,096.9 million, 38.4% of GDP).



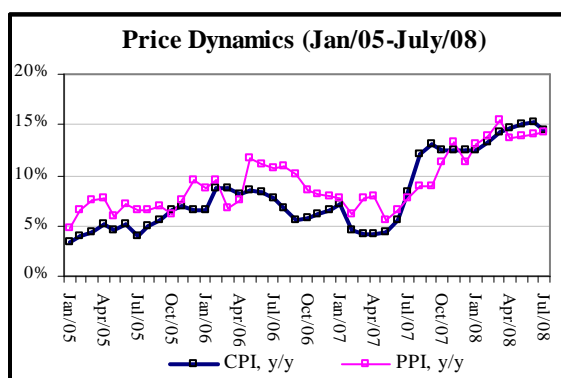
Source: Bulgarian National Bank

II. REAL SECTOR

1. Inflation

The consumer price inflation in July 2008 was 14.5%, compared to 15.3% in June.

The accumulated inflation for the period January-June 2008 is 4.7%. The y/y inflation for July 2008 is 14.5 %, which is less compared to 15.3% in June and 15 % in May. The food items for July render an account of decrease of 2%, which contributed to total deflation of 0.81. The price level of Non-food items decreased as well.



Source: National Statistical Institute

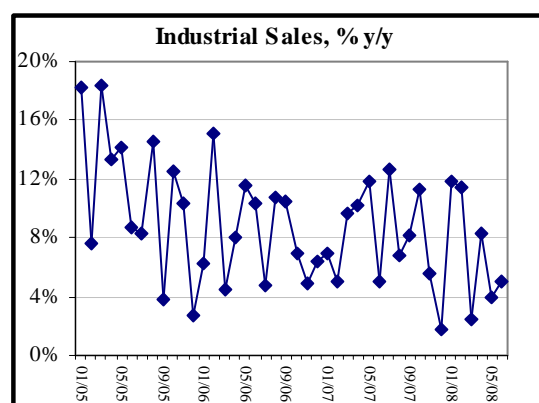
In July the HICP inflation based on the EU-harmonized consumer basket was 1.44% m/m. Compared to the same month previous year the accelerated increase of the consumer prices reach 14.43%.

The slight increase of the PPI for the industrial production in July was 1%. From the beginning of 2008 the PPI reached 14.2% in July.

2. Industrial Sales

The industrial sales in June increased their annual growth to 5.1%. For the second quarter of the 2008, the growth of the industrial sales was 5.7%.

The industrial sales in June increased their annual growth to 5.1%. This was mainly due to the high level of the domestic demand. The average growth of the industrial sales for the second quarter of 2008 was 5.7 %. The industrial production increased with 3.6% on annual base (6.3% for the second quarter of 2008). The reserves are lessening mainly in the field of cigarettes production, wooden material, and products, rubber, plastic and metal products. The increase of the reserves was more significant in the branches of the medical and précised optical apparatus and tools and in the vehicles. The industrial sales on the domestic market increased with 10.3% in June, compared to the same period previous year.

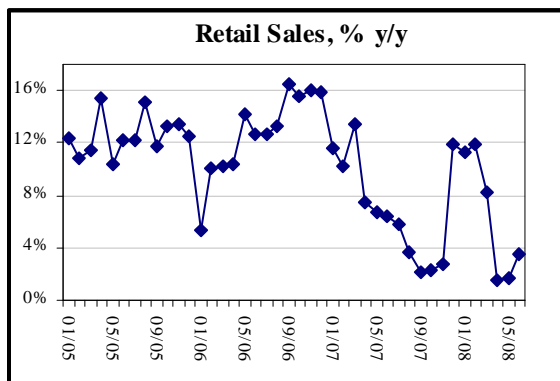


Source: National Statistical Institute

3. Retail Sales

In June the retail sales increased their growth up to 5.1% m/m and 3.5% on annual base.

The retail sales increased their growth up to 5.1% m/m in June. According to the preliminary data of the NSI, from the revised 1.7% in June, they will grow up to 3.5% on annual base. For the period January-June 2008 the index rose with 6.4% annually. The wholesale trade increased with 6.3%/y/y in June after the growth of 3.7% in May. For comparison the wholesale trade in June 2007 is amounted to 1.8%.



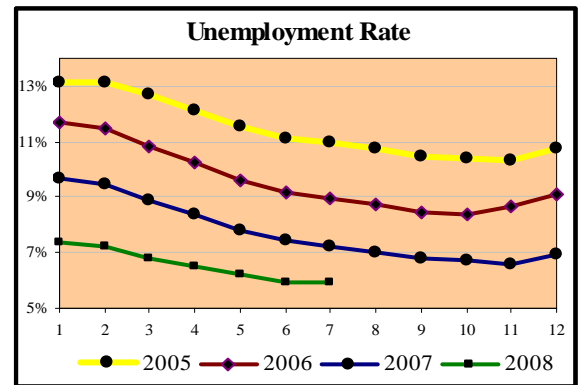
Source: National Statistical Institute

4. Unemployment

The unemployment reached 5.69% in July which is the lowest level since 1991

The level of the registered unemployed people of the National Unemployment Agency data in July is still decreasing, although there was no significant difference compared to the previous month (0.01%). The number of the unemployed amounted to 220 879, which is a 17.7%, less than the same month previous year. The level of unemployment reached its lowest point (5.96%) since 1991 and it is under 6 % for the second serial time this year. Presumably the indicator had reached its lowest point and fluctuations in the following months are not expected.

This assumption is conducted on the base of two facts: on one hand the demand of the seasonal work load on the primary labour market reduce, which reflects of the less number of hired individuals in July – 8 396 and on other hand is the narrowing of the range of the active policy which also lead to a decrease (22.3%) in the number of employed individuals according to the Employment Promotion Act (EPA).



Source: National Statistical Institute

II. FISCAL SECTOR

The total amount of the revenues on the consolidated fiscal program (CFP) at the end of June is 24.7 % higher compared to the same period of the 2007.

The total amount of the revenues on the consolidated fiscal program (CFP) at the end of May amounted to BGN 14 031.2 mn. (EUR 7 174.04 mn.) Compared to the same period of the 2007 the revenues are 24.7 % higher, which according to the data of the Ministry of Finance, is due on one hand on the base effect for 2007, related with the effects of the Bulgarian participation in the EU reflected in slowing down in the revenues in the groups of the indirect taxes and VAT for the first half of the year.

The consolidated budget expenditures (including the installment for the EU budget) at the end of June totaled to BGN 10 249.1 mn. (EUR 5 240.8 mn.), which is 40.4% of the annual prognosis.

The fiscal reserve calculated on the base of the prognosed exchange rate at the end of June totaled to BGN 10 223.5 mn. (EUR 5 227.19 mn.)

The revenues of the republican budget at the end of June amounted to BGN 9 570.0 mn. (EUR 4 893.06 mn.) more, which is an increase of 52.3%, according to the prognoses made for the 2008. Compare to the same period previous year, the revenues had increased with 23.1 % or BGN 1 797.1mn. (EUR 918.84 mn.), as a result of the increase of the indirect taxes (27.3%). Compare to the first half of 2007 the direct taxes has increased with 26.1% and non-tax income with 12.4%.

IV. MONETARY SECTOR

2. Domestic Credit

1. Monetary Aggregates

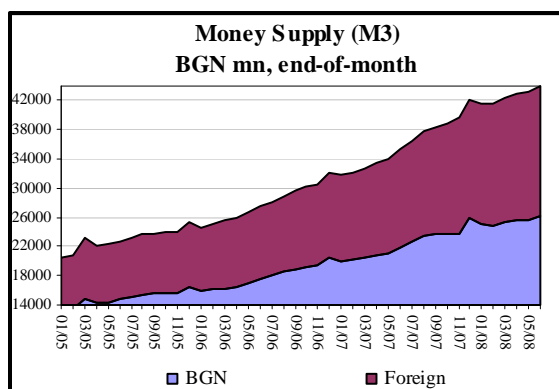
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The detention growth was determined of the lower growth of the overnight deposits, which increased with 13.6% in June. For comparison the average growth for the first five months of the year was 24.8%. The currency component of the overnight deposits marks the most significant drop with to BGN 881 219.00.

The currency reserves of the country continue to grow in June and reached BGN 25.884 billion which is an increase with 38.3% compared to the same month previous year. The monthly dynamics of the reserves was determined by increasing the government's deposit with (BGN 658 mill.) in the National bank.

The money supply growth in June was supported by growth of the net domestic assets, which increased with 48.8 %/y. The main factor for that was again the dynamics of the receipts of the private sector.



Source: Bulgarian National Bank

Domestic credit growth is 47.8% y/y as of end-June from 48.6% y/y as of end-May.

The annual growth rate of their basic component – domestic credit was 47.8% in June compared to 48.6% in May 2008. Claims on Non-government sector rose by 52% compared 54.4% in May.

At end of June 2008 claims on loans to the Non-government sector stood at BGN 44.563 (EUR 22 784) billion (69.4% of GDP). Loans to Non-financial corporations increased by 55.5% annually in June (59.3 in May) and at the end of the month amounted to BGN 27 665 (EUR 14 145) billion (43.1% of GDP). Loans to Households and NPISHs were BGN 16 273 billion (EUR 8 320) billion (25.3% of GDP) at the end of June, posting annual growth of 48.9% (48.8% annual growth in May). In June 2008 loans for house purchases grew by 53.3% an an annual basis compared to 55.2% in May. The annual growth rate of consumer loans was 74.3% in June and 48.8% in May 2008, while that of other loans – 18.5% and 7.9%, respectively.

Domestic credit, % of GDP

	06/07	05/08	06/08
Domestic credit	47.5%	60.0%	62.3%
Claims on general government	-7.0%	-10.5%	-11.2%
Claims on non-government sector	54.4%	70.5%	73.5%
o/w Loans	32.4%	42.7%	44.8%
Non-Financial Corporations	32.4%	42.7%	44.8%
Financial Corporations	0.6%	0.8%	0.8%
Households and NPISH	19.9%	25.7%	26.4%
Consumer loans	8.4%	10.8%	10.8%
Loans for house purchase	8.0%	10.6%	10.6%
Deposits of NFIs and other clients	58.8%	64.4%	65.8%
Assets	86.1%	100.6%	106.5%

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

V. FINANCIAL SECTOR

1. Banking Sector

At the end of May the banking system's total assets reached BGN 66.9 billion, thus making an increase by 1.2 billion for the month which is 1.8 %

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 million) and of individuals and households (BGN 480 million). 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 million (2.8%), more than half of which is accounted for by the growth of current year income. The issued capital increased by BGN 90 million 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 million, that is by BGN 233 million (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. Insurance market

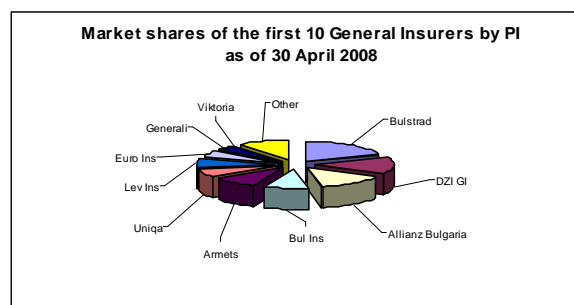
For the period January- May 2008 the gross premium for general insurance totaled to 24.5%.

For the period January- May 2008 the gross premium for general insurance totaled to BGN 592 246. and the life insurance – BGN 111 004. Compared to the same period previous year the growth is 23.9% and 27.6% or for the whole insurance sector totally 24.5%.

The growth of the premium income for the whole insurance sector on annual base amounted to BGN 114 340 thousand.

The highest percentage in the premium income, realized from the health insurance companies at the end of May 2008 is still the life insurance and rent.

The premium income for voluntary health insurance January – May 2008 amounted to BGN 13 015 thousand, which is a 3%/y decrease.



Source: Financial Supervision Commission

3. Stock Exchange

The Bulgarian Stock Exchange – Sofia (BSE-Sofia) monthly turnover in June amounted to BGN 103.1 million (a daily average of BGN 5.4 million), compared to BGN 146.2 million in May

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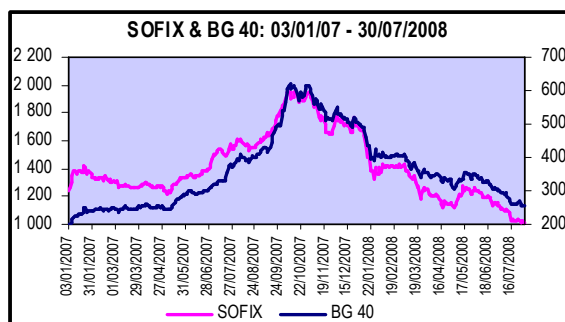
deals concluded off-stock-exchange was as follows: BGN 1.4 million in block trading, BGN 0.2 million in registered deals, and BGN 23.5 million in repos.

The volume of off-stock exchange deals in June was BGN 37.9 million.

Major deals in ordinary trading were concluded mainly for shares in Prime Property SIPC, CCB, Real Estate Fund SIPC, Capital Management SIPC and Asenova Krepost AD

As a whole the prices on the Bulgarian Stock Exchange were synchronized with those on the European and regional financial markets.

In May there were no deals made on the primary market of the Bulgarian Stock Exchange.



Source: Investor BG

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