



UNITED BULGARIAN BANK

A Member of NBG Group

BULGARIA: ECONOMIC & MARKET ANALYSES June, 2008



In the period January – May 2008, the Current and Capital account deficit was EUR 2,859 million (8.7% of GDP)

Foreign direct investment in Bulgaria was EUR 1,705.3 million (5.2% of GDP)

As of end-May 2008 gross external debt was EUR 30,987.1 million (94.4% of GDP and increased by EUR 2,863.4 million (10.2%)

The consumer price inflation continued to increase to 15.3% y/y in June from 15% y/y in May and 14.6% y/y in April

The industrial sales slowed down the temp of their growth to 3.8%

Retail sales growth accelerated to 6.1%y/y in May

Unemployment rate fell by 0.22 pps y/y to 5.97% as of end-June

The total amount of the revenues on the consolidated fiscal program (CFP) at the end of May are 25.1 % higher compared to the same period of the 2007

Money supply (M3) grew by 27.4% y/y to BGN 43.1 bn or 70% of the projected GDP as of end-May

Domestic credit growth decelerated to 48.6% y/y as of end-May from 47.7% y/y as of end-April

At the end of May the banking system's total assets reached BGN 62.1 billion. Over the month, the balance-sheet total grew by 1.4%, or by 38.4% as compared to May 2007

The Bulgarian Stock Exchange – Sofia (Sofia)monthly turnover in May amounted to BGN 146.2 million (a daily average of BGN 7.3 million), compared to BGN 227.0 million in April

I. EXTERNAL SECTOR

1. Balance of Payments¹

In the period January – May 2008, the Current and Capital account deficit² was EUR 2,859 million (8.7% of GDP). Foreign direct investment in Bulgaria was EUR 1,705.3 million (5.2% of GDP)

In the period January – May 2008, the Current and Capital account deficit was EUR 2,859 million (8.7% of GDP³), against a deficit of EUR 2536.5 million (8.8% of GDP) for the same period in 2007, according to BNB data.

In May 2008 the Current account was negative and amounted to EUR 627.4 million, compared to a negative account of EUR 460.5 million for the same month in 2007. In the period January – May 2008, the current account deficit was EUR 3,059.4 million (9.3% of GDP), against a deficit of EUR 2,586.3 million (8.9% of GDP) for the same period in 2007. The main factor for the increase of the current account deficit was the higher (by EUR 664.2 million) trade deficit.

The trade deficit³ in January – May 2008 amounted to EUR 3,365.5 million (10.3% of GDP), compared to a deficit of EUR 2,701.3 million (9.3% 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 Capital account balance was positive amounting to EUR 200.4 million, compared to a balance of EUR 49.8 million for the same period in 2007.

The Financial account balance was positive amounting to EUR 3,510.8 million, compared to a positive balance of EUR 3,262.2 million for the same period in 2007.

Foreign direct investment abroad was EUR 418.2 million against EUR 43.6 million for the same period in 2007. Foreign direct investment in Bulgaria was EUR 1,705.3 million (5.2% of

GDP) against EUR 2,020.1 million (7% of GDP) for the same period in 2007. The direct investment covered 55.7% of the current account deficit against 78.1% for January – May 2007.

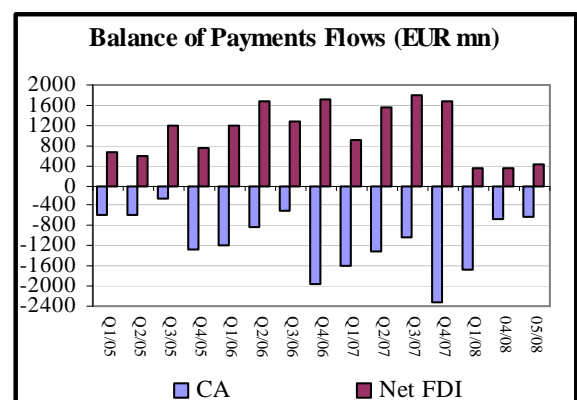
Portfolio investment - assets decreased by EUR 38.4 million, compared to a decrease of EUR 57 million for the same period in 2007. Portfolio investment – liabilities decreased by EUR 91.2 million. In the period January – May 2007, the liabilities decreased by EUR 220.3 million.

Other investment – assets decreased by EUR 938.9 million, compared to a decrease of EUR 563 million for the same period in 2007. Other investment – liabilities increased by EUR 1,401.7 million against an increase of EUR 920.9 million for January – May 2007.

The item Net errors and omissions was positive, amounting to EUR 222.3 million. For the same period in 2007 the item was negative amounting to EUR 409.9 million.

The Overall balance was positive, amounting to EUR 874.1 million compared to a positive overall balance of EUR 315.9 million for the same period in 2007.

In the period January – May 2008 the BNB reserve assets⁴ increased by EUR 874.1 million.



Source: Bulgarian National Bank

¹ The data are in accordance with the analytical presentation of the balance of payments. The data for 2007 and 2008 are preliminary.

² The data for April 2008 are revised. With the June 2008 report revisions of the May 2008 data are to be presented.

³ GDP for 2007 (preliminary NSI data) – EUR 28, 898 million and forecast GDP for 2008 – EUR 32,824 million.

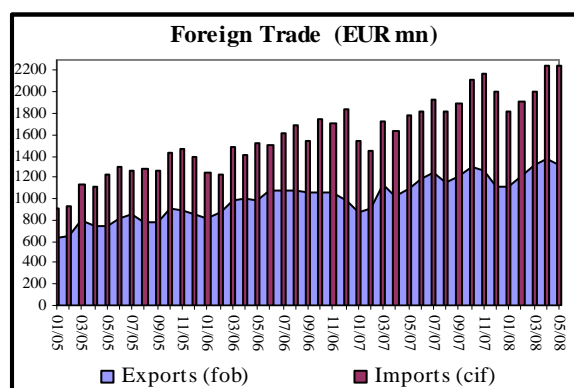
⁴ This does not include the changes due to exchange rate difference.

Balance of Payments, EUR mn, Analytical Report

	2007		2008	
	May	Jan-May	May	Jan-May
Current Account	-460.5	-2586.3	-627.4	-3059.4
Trade Balance	-601.3	-2701.3	-804.5	-3365.5
Exports of Goods	1099.3	5020.5	1321.0	6336.7
Import of Goods	-1701	-7726.8	-2126	-9702
Service Balance	99.2	23.0	122.5	-52.8
Travel Revenues	74.0	36.7	69.2	-35.7
Income Balance	21.5	-19.2	6.2	-29.4
Net Current Transfers	20.1	111.3	48.3	388.4
Financial & Capital Account	430.3	3312.0	468.4	3711.2
Net FDI	573.6	1976.5	445.8	1287.2
FDI inflows	582.5	2020.1	456.2	1705.3
FDI abroad	-9.0	-10.4	-43.6	-418.2
Errors and Omissions	-133.2	-409.9	23.5	222.3
Overall balance	-163.4	315.9	-135.5	874.1
Source: Bulgarian National Bank				

Exports (FOB) amounted to EUR 6,336.7 million against EUR 5,025.5 million for the same period in 2007, increasing by 26.1% y/y against 8% for the same period in the previous year. Imports (FOB) amounted to EUR 9,702.2 million, against EUR 7,726.8 million for January – May period in 2007, increasing by 25.6% y/y against 18.2% 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 to the increase of crude oil and natural gas prices. The balance on the Services item was negative, amounting to EUR 52.8 million (0.2% of GDP), against a positive balance amounting to EUR 23 million (0.1% of GDP) for the same period in 2007.

Income (net) item was negative amounting to EUR 29.4 million compared to a negative item of EUR 19.2 million for the same period in 2007. Net Current transfers amounted to EUR 388.4 million (1.2% of GDP) against EUR 111.3 million (0.4% of GDP) for the same period in 2007.



Source: Bulgarian National Bank

2. External Debt

As of end-May 2008 gross external debt⁵ was EUR 30,987.1 million (94.4% of GDP and increased by EUR 2,863.4 million (10.2%)

As of end-May 2008 gross external debt⁵ was EUR 30,987.1 million (94.4% of GDP⁶) and increased by EUR 2,863.4 million (10.2%) against the end of 2007 (EUR 28,123.7 million, 97.3% of GDP). This was mainly due to the increase of Direct Investment liabilities (EUR 1,459.8 million, 15.2%). By end-May 2008 long-term liabilities amounted to EUR 20,502.6 million (66.2% of total debt), and short-term liabilities came to EUR 10,484.5 million (33.8% of total debt).

General Government's external debt amounted to EUR 2,673.5 million⁷ (8.1% of GDP) as of end-May 2008, decreasing by EUR 350.7 million (11.6%) 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 6,434.8 million (19.6% of GDP) increasing by EUR 687.3 million (12%) against the end of 2007. Other Sectors' debt was EUR 10,836.9 million, increasing by EUR 1067 million (10.9%) relative to the end of 2007. As of end-May 2008 the stock of Direct Investment liabilities³ was EUR 11,042 million, increasing by EUR 1,459.8 million (15.2%) against the end of 2007.

In January – May 2008, gross external debt service was EUR 2,462.1 million (7.5% of GDP) against EUR 2,586.4 million (9% of GDP) for the same period in 2007.

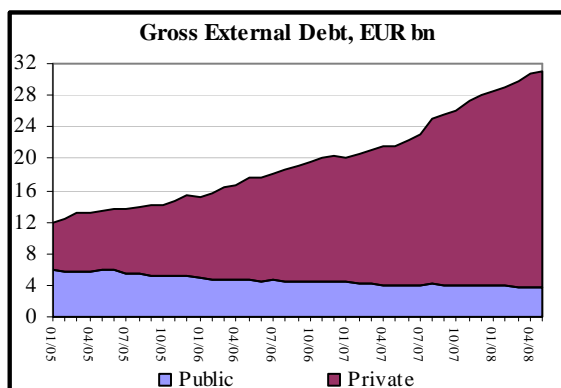
In January – May 2008, loans and deposits received from non-residents came to EUR 3,841.6 million (11.7% of GDP) compared to EUR 3,223.7 million (11.2% of GDP) for the same period in 2007.

⁵ Preliminary data. The data for April 2008 are revised. In accordance with the methodological notes with the June 2008 report the data for May 2008 are not revised.

⁶ GDP for 2007 (preliminary NSI data) – EUR 28,898 million and GDP for 2008 estimated at EUR 32,824 million

⁷ Following the resident concept.

As of end-May 2008, net external debt was EUR 14,202 million (43.3% of GDP) and increased by EUR 3,105.2 million (28%) against the end of 2007 (EUR 11,096.9 million, 38.4% of GDP).



Source: Bulgarian National Bank

II. REAL SECTOR

1. Inflation

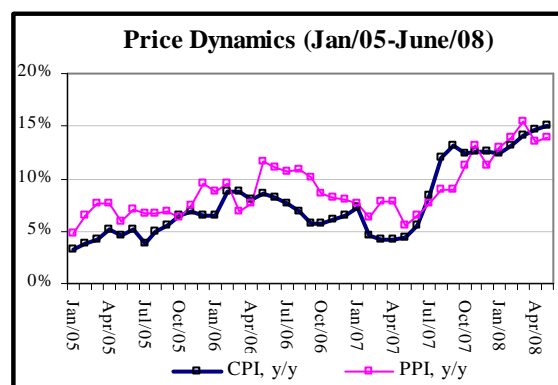
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The consumer price inflation continued to increase to 15.3% y/y in June from 15% y/y in May and 14.6% y/y in April despite the monthly drop of 0.2% in the segment of the food prices. The average index for H1 reached 14.1% y/y and is more than two times above the full-year rate projected in the budget macro-frame for 2008. The accumulated inflation since the beginning of the year is 4.6%, 0.1pps above the budget projection.

The main factor in the price dynamics of the index in May was the rise in the cost of the fuel. The prices of the non-food commodities increase with 1.5%. This was mainly due to the accelerating the prices of the fuel and cigarettes (0.42pps) in the price index. The total rise of the car fuel price in the in May is 6%.

The food products' price was negative one hand because the price of the season food-commodities in May decreased, and on other hand because the decrease of the milk production.

The most essentially was the growth of the prices of the services for free time (8.8%), and bus transportation services (2.2%).



Source: National Statistical Institute

The index based on the EU-harmonised consumer basket HICP accelerated at a faster rate of 0.7pps to 14.7% y/y in June and the monthly adjustment was also positive at 0.5% due to lower weight of food items.

The main reason for the big difference between the national and the harmonized index is a result of the difference in the relative shares of the different groups of commodities and services, in the money expenditures, according to each of them. In this case these are mainly food commodities and car fuel.

In May the producer price index raised with 0.7%, according to the NSI data.

The accumulated alternation of the index since the beginning of the year is 5.4%, while the alternation to the same month previous year is 15%. After decreasing the prices in April, the product prices increase again and reach to 1.6%, partly due to the fact that producer price index increased on the international level. Despite total decrease of the prices those of metal extraction on the world market, the steel prices increased with almost 7 % in BNG.

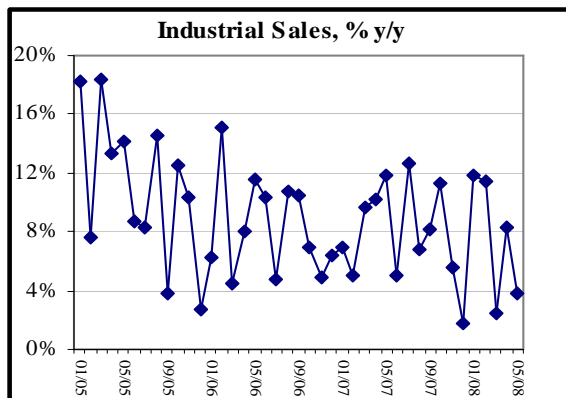
The energy utilities retained a weak sales growth of 0.3%. The investment product prices growth with 0.4%.

2. Industrial Sales

The industrial sales slowed down the temp of their growth to 3.8%

The industrial sales slowed down the temp of their growth to 3.8%, compared to April (8.3%), while in the same time the sales for the domestic market increased compare to those of the external. The industrial production kept it's relatively high level on annual base of 7.2 % (8.9 in April). The industrial sales on the domestic market increased with 6.2% in May, compared to

the same month previous year. The sales of the production of metal products, excluding machines and equipment, metal production for construction, food production and drinks, decreased in May.

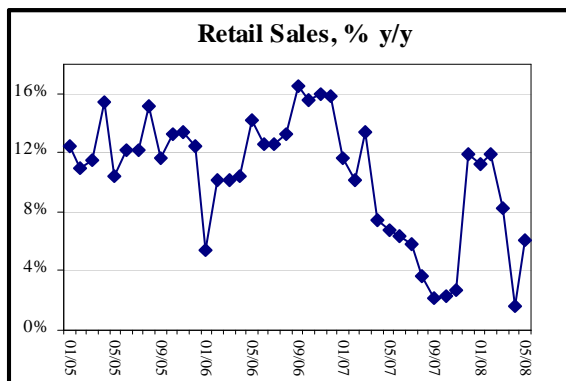


Source: National Statistical Institute

3. Retail Sales

Retail sales growth accelerated to 6.1%/y in May

Retail sales growth accelerated to 6.1% in May from 1.6% in April, according to NSI preliminary data. For January – May 2008 the index improved with 7.8%. The wholesales growth with 4.2% on annual base in May. Compared to that the wholesale for the same time previous year was 2.4%.



Source: National Statistical Institute

4. Unemployment

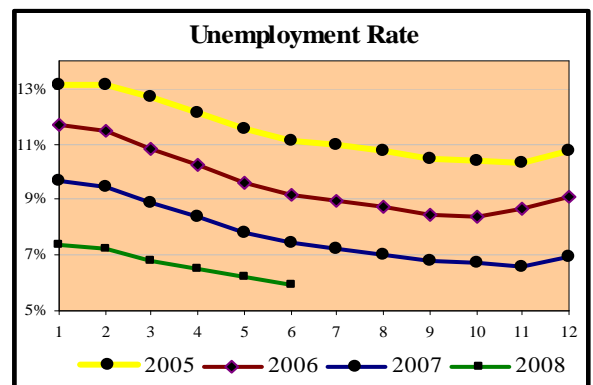
Unemployment rate fell by 0.22 pps y/y to 5.97% as of end-June

The level of registered unemployment in June reached 5.97%, which is the lowest level for the past seventeen years. The number of the unemployed people amounted to 221 089, which is a decrease of 3.5%, compare to May and

19.6%, or 53 731 people less compare to June 2007.

Despite the fact that the inflow of the unemployed increased with 11.1%, compare to May and reached 19 568 people, it stayed lower than the outflow, included 27 612 people.

The demand of the labour force in the frame of the active policy of labor market stayed stable, but there was a process of assimilating labour places, which have been announced in the previous months, but have not been occupied and that was the reason for the acceleration. Although the level of the demand for the last two months stayed relatively the same, the demand on the primary market of labor force reduced during the active season, which found its reflection in less occupied working places - only 9 657 people in June.



Source: National Unemployment Agency

II. FISCAL SECTOR

The total amount of the revenues on the consolidated fiscal program (CFP) at the end of May are 25.1 % 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 11 756.6 mn. (EUR 6 011.05 mn.) Compared to the same period of the 2007 the revenues are 25.1 % higher, which according to the data of the Ministry of Finance, is due on one hand to the increase of the tax income (mainly to the indirect taxes).

The increase of the revenues, compared to the same period of the previous year, contribute and the revenues during the past five months in the part of the aids were mainly advance form the Cohesion and Structure funds of the EU, and as well advance form the European funds, related with the common agriculture policy.

The consolidated budget expenditures (including the installment for the EU budget) at the end of May totaled to BGN 8 451.2 mn, (EUR 4 321.02 mn.), which is 33% of the annual prognosis.

The fiscal reserve calculated on the base of the prognosed exchange rate at the end of May totaled to BGN 9 763.2 mn. (EUR 4 991.84 mn.)

The revenues of the republican budget at the end of May amounted to BGN 8 019.9 mn. (EUR 4 100.5 mn.) more, which is an increase of 43.8%, according to the prognoses made for the 2008. Compare to the same period previous year, the revenues had increased with 22.9 % or BGN 1 492.7mn. (EUR 763.2 mn.), as a result of the increase of the indirect taxes (27.5%). Compare to May 2007 the direct taxes has increased with 24.1% and non-tax income with 10.8%.

IV. MONETARY SECTOR

1. Monetary Aggregates

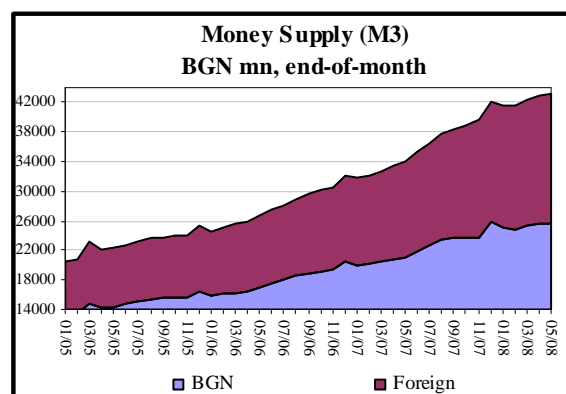
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Money supply (M3) grew by 27.4% y/y to BGN 43.1 bn or 70% of the projected GDP as of end-May due to the continued increase in the deposits with agreed maturity up to 2 years by 33% y/y as well as saving accounts which growth as of May was 37% y/y. Overnight deposits which registered a considerable growth in 2007 and main contribution to the increase in the money supply, since the beginning of the year marked a deceleration in the pace to 22%/y/y as of end-May relative to 24.6% y/y as of end of April. The money in circulation totalled to BGN 7.2 bn. and grew by 18%/y/y.

The foreign reserves of the country amounted to 25.062 bill BGN, which is a decrease with 240 mill BNG or 0.95 %. This is a result not only of the decreasing the level of the money in

circulation but as well of the trade bank's deposits withdraw from circulation from the BNB.

The government deposit was increased with 223.5 mill. BGN and at the end of May and totalled to 8.534 bill BGN. The growth in the money supply in May was mainly supported by increasing the rate of the net domestic assets, and less by the dynamics of the net foreign assets.



Source: Bulgarian National Bank

2. Domestic Credit

Domestic credit growth decelerated to 48.6% y/y as of end-May from 47.7% y/y as of end-April

Domestic credit growth decelerated to 48.6% y/y as of end-May from 47.7% y/y as of end-April according to BNB data. The stock of domestic credit reached BGN 37.0 bn or 60% of the projected full-year GDP. Claims on non-government sector grew by 54% y/y to BGN 43.5 bn as of end-May slowing from 55% y/y as of end-April. Lending to non-financial companies slowed down to 59.3% as of end-May from 59.6% y/y as of end-May. Credits to households and NPISH grew by 48.9% y/y to BGN 15.8 bn as of end-May versus 49.8% y/y in April. Consumer loans increased by 48.7% y/y as of end-May relative to 47.8% y/y a month earlier and mortgage loans rose by 55.1% y/y increasing from 45.6%/y/y in April.

Domestic credit, % of GDP

	05/07	04/08	05/08
Domestic credit	45.5%	57.6%	60.0%
Claims on general government	-5.9%	-7.8%	-10.5%
Claims on non-government sector	51.4%	65.4%	70.5%
o/w Loans	50.1%	64.1%	42.7%
Non-Financial Corporations	30.2%	39.6%	42.7%
Financial Corporations	0.5%	0.7%	0.8%
Households and NPISH	19.4%	23.7%	25.7%
Consumer loans	8.2%	10.0%	10.4%
Loans for house purchase	7.7%	9.7%	10.2%
Deposits of NFIs and other clients	75.6%	62.9%	64.4%
Assets	81.8%	96.4%	100.6%

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 62.1 billion. Over the month, the balance-sheet total grew by 1.4%, or by 38.4% as compared to May 2007.

At the end of May the banking system's total assets reached BGN 62.1 billion. Over the month, the balance-sheet total grew by 1.4%, or by 38.4% as compared to May 2007. The monthly increase was mainly contributed by *loans and receivables (including financial leases)*, which rose by 3%. A decline was reported in *cash and cash balances with central banks*, *portfolio securities held for trading*, *available for sale*, and *held to maturity*. The market share of the five largest credit institutions did not undergo any significant change and as at end-May it comprised 56.6% of total assets.

In May, gross loans and advances increased across all segments (except for *credit institutions*), the aggregated item posting a 40.2% year-on-year increase. Loans to enterprises registered a 3.4% monthly growth and retail exposures increased by 3.8%. Over the period, specific provisions for impairment loss in retail exposures went up by 4.3%, and in the corporate segment – by 1.5%.

Attracted funds in the banking system at the end of May stood at BGN 54.5 billion. Over the month they grew by 1.3%, and in one year – by 38.3% at reported rates close to those of assets. The banks' assets were mainly financed from the 4% monthly increase in the funds attracted from institutions other than credit institutions. Deposits from individuals and households increased less but continued as the main source of financing with a 37.4% share in attracted funds. As at end-May the resource attracted from residents accounted for 75.6% of total attracted funds, while that from non-residents stood at 24.4%.

The balance-sheet aggregate total capital went up by 0.9%. The monthly change was the result of an increase in issued capital and current year income combined with a drop in reserves (including retained earnings). Over the period May 2007 - May 2008 the system's capital growth (43.3%) outpaced that of assets. The liquidity of banks at the end of May was good.

As at 31.05.2008 the banking system's earnings reached BGN 588 million, which is by 52.1% higher than the result for the comparable period of 2007.

2. Stock Exchange

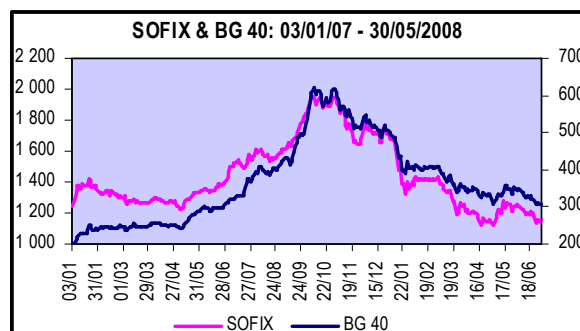
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The Bulgarian Stock Exchange – Sofia (BSE-Sofia) monthly turnover in May amounted to BGN 146.2 million (a daily average of BGN 7.3 million), compared to BGN 227.0 million in April. For the month, the turnover in block, repo and registration deals concluded off-stock-exchange was as follows: BGN 0.7 million in block trading, BGN 0.6 million in registered deals, and BGN 28.5 million in repos.

Major deals in ordinary trading were concluded mainly for shares in Corporate commercial bank AD, Bulgartabak Holding AD, Blagoevgrad – BT AD, Grain Foods Bulgaria AD and Chimimport 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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