



UNITED BULGARIAN BANK

A Member of NBG Group

BULGARIA: ECONOMIC & MARKET ANALYSES May, 2008



Current account gap widened to 7.4% of GDP in January-April 2008

Net FDI inflows plunged to 3.7% of GDP in January-April 2008

Gross external debt grew by 38.8% y/y to 89.2% of GDP as of end-March

The GDP growth accelerated to 7% y/y in Q1 2008

Consumer price inflation accelerated to 15% y/y in May. PPI inflation accelerated to 13.6% y/y in April.

Industrial sales growth rebounded to 8.4% y/y in April

Retail sales growth accelerated to 10% y/y in April

Unemployment rate fell by 0.32 pps y/y to 6.19% as of end-May

Consolidated budget surplus surged to 4.4% of GDP in January-April

Money supply grew by 28.3% y/y to 69.4% of GDP as of end-April. Claims on non-government sector slowed marginally their growth rate to 55% y/y as of end-April

Banks' net profit grew by 57.7% y/y to EUR 246.2 mn as of end-April

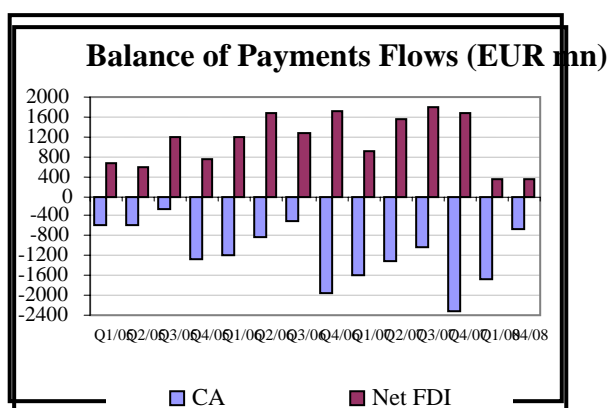
General insurance market grew by 18% y/y in Q1/2008

Infrastructure companies were the driving force for the market growth in May

I. EXTERNAL SECTOR

1. Balance of Payments

Bulgarian current account deficit totalled EUR 2.432 bn (USD1765 bn), or 7.4 pct of the GDP, from January to April 2008. The widening current account gap was backed by the trade deficit growing by EUR 453.6 mn (USD 702.3 mn). Exports played a key role for the improvement surging by 9.2% y/y as compared to 6% y/y in Q4 last year. Imports rose at a weaker pace of 5.8% y/y. The figures thus show that the foreign balance improved significantly in real terms but it was insufficient to reverse the nominal deterioration in the CA fuelled by unfavourable changes in the import prices of energy inputs.



The foreign direct investments (FDI) shrunk to 50.5 pct of the current account gap from 67.6 pct in the year-ago period. They stood at EUR 1.228 bn euro (USD 1.901 bln), or 3.7 pct of the GDP, versus EUR 1.437 bn (USD 25 bln), or 5.0 pct of the GDP. The volatility was driven by the vulnerable international markets and the energy price spikes last year.

Balance of Payments, EUR mn, Analytical Report

	2007		2008	
	April	January-April	April	January-April
Current Account	-552	-2,126	-680	-2,432
Trade Balance	-525	-2,100	-758	-2,554
-Exports of Goods	1,027	3,925	1,372	5,015
-Imports of Goods	-1,552	-6,025	-2,129	-7,569
Service Balance	-16	-76	-37	-181
-Tourism revenues	98	352	106	392
Income Balance	-31	-41	-89	-37
Net Current Transfers	21	91	204	339
Financial & Capital Account	1,129	2,882	984	3,238
Net FDI	498	1,408	345	821
-FDI inflows	540	1,438	359	1,228
-FDI abroad	-42	-35	-14	-408
Errors And Omissions	-149	-277	563	204
Overall Balance	428	479	867	1,010

Source: Central bank, preliminary data

2. External Debt

Gross external debt grew by 38.8% y/y to 89.2% of GDP as of end-March

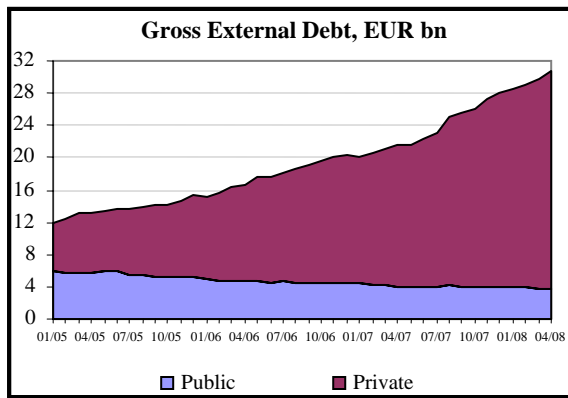
Gross external debt grew by 38.8% y/y to EUR 29.2 bn as of end-March, according to Central bank preliminary data. The debt stock reached 89.2% of the full-year GDP projection as compared to 72.8% a year earlier and 86.5% at end of February.

The government sector continued to decrease its liabilities to non-residents mainly as a result of loan prepayments to the WB in the tune of EUR 275mn. Public debt totalled EUR 3.8 bn as of end-March. The foreign liabilities of the private sector soared by 51% y/y to EUR 25.4 bn and accounted for 87.1% of the total as compared to 80% a year earlier.

Debt-servicing accounted for 5.5% of GDP as compared to 5.7% of GDP for the same period last year. The drop in the relative debt service burden is explained by lower interest pays associated to the rising share of inter-company financing, which reached 34.5% of the total external debt as of end-March as compared to 30.2% a year earlier.

The share of short-term debt widened to 33.9% of the total external debt against 30.9% a year earlier.

Banks' external debt rose by 60% y/y to EUR 5.8 bn (17.6% of GDP) as of end-March. The foreign liabilities of commercial firms (state-owned and private companies) grew by 37.5% y/y to EUR 10.6 bn as of end-March.



II. REAL SECTOR

1. GDP Growth

The GDP growth accelerated to 7% y/y in Q1 2008

The GDP growth accelerated to 7% y/y in Q1 from 6.2% last year and 6.9% y/y in Q4 last year. Aggregate domestic demand and investments retained strong expansion rates as well although both indicators marked some slowdown from last year. Private consumption is not affected by the price shocks yet and advanced by 6.5% y/y in Q1 as compared to 5.3% last year and 2.8% in Q4. On the supply side, industrial output and services continued growing at high rates while the agricultural sector fell by 1.6% despite the low base from last year. The growth rate in the industry slowed to 7.7% y/y in Q1 from 14% last year but the figures are adversely affected by the catholic Easter holidays in March that have contained exports.

	2002	2003	2004	2005	2006	2007	Q1/08
Agriculture	4.7	-2.3	2.3	-9.4	-	-29.7	-1.6
Industry	4.6	5.7	4.1	4.8	7.8	14	7.7
Services	5.9	4.8	5.7	8.2	7.1	7.5	8.3
GDP	4.5	5	6.6	6.2	6.3	6.2	7
Consumption	4.2	5.9	5.4	5.3	7.3	4.9	4.7
Investment	8.5	13.9	13.5	23.3	14.7	21.7	15.5
Exports	8.1	10.7	12.7	8.5	8.7	5.2	9.2
Imports	5.1	16.4	14.6	13.1	14	9.9	5.8

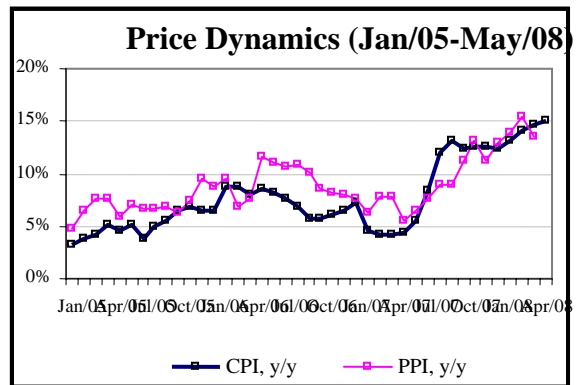
Source: Statistical Institute, preliminary data for 2007 and 2008

2. Inflation

Consumer price inflation accelerated to 15% y/y in May

The consumer price inflation accelerated again to 15% y/y in May from 14.6% y/y in April and 14.2% y/y in March, according to data of the statistical institute. The period-average index for January-

April reached 13.9% y/y and is nearly two times above the corresponding full-year rate projected in the budget law for this year. The index based on the EU-harmonised consumer basket HICP accelerated to 14% y/y in May from 13.4% y/y in April. We expect the increase in prices administered by state or municipal authorities to have an impact on the consumer basket by the end of July, as double-digit adjustments are expected in the prices of public transport, electricity, heat and water supplies.



PPI inflation slowed down to 13.6% y/y in April

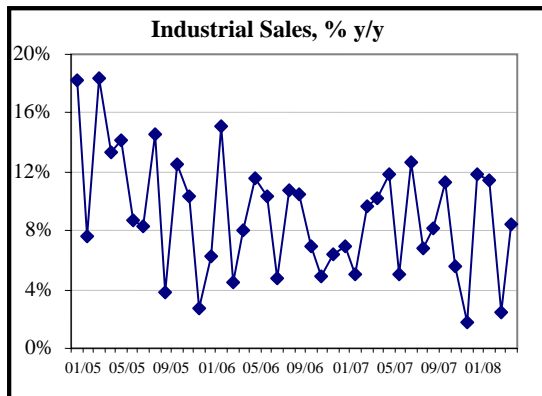
The producer price index covering industrial goods traded on the domestic market slowed to 13.6% y/y in April from 15.4% y/y in March from 13.9% y/y in February, according to NSI. Prices of metal extraction and processing were the main reason for easing the inflationary pressure of the index. Growth of food prices, however, remained high at 24% y/y accelerating slightly from the previous month.

3. Industrial Sales

Industrial sales growth rebounded to 8.4% y/y in April

Industrial sales increased by 8.4% y/y in April accelerating from revised 2.5% y/y in March, according to NSI preliminary data. Industrial output rose by 8.8% y/y in April after the plunge by 1.1% y/y in March. The figures are still below the more spectacular double-digit rates from last year but show that the steep slowdown in March is linked to one-off effects stemming mostly from the Catholic Easter holidays on major export markets. However, local producers are still facing significant risks from trending corrections in the EU consumer demand and oil price shocks. The manufacturing sector rebounded to a sales growth of 9.7% y/y in April driven by improved export performance but local producers could face significant problems in the following months as a result of the ongoing protests in the European

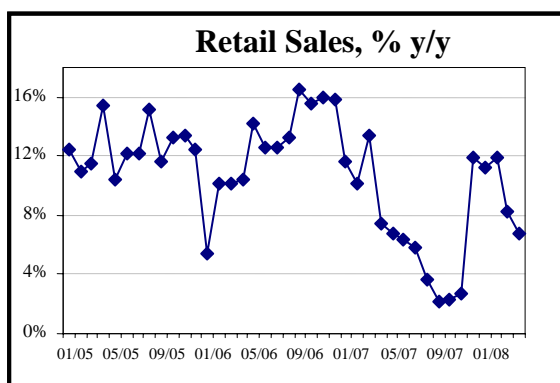
transport sector. The state dominated sector of energy utilities retained a weak sales growth of 2.2% in April, slowing from 2.7% y/y in March. Mining industries declined by 15.5% y/y.



4. Retail Sales

Retail sales growth accelerated to 10% y/y in April

Retail sales growth accelerated to 10% y/y in April from revised 8.2% y/y in March, according to NSI preliminary data. The index improved by 10.3% y/y in January-April. Only food sales increased by less than 10% y/y during the month reflecting the high price level in the sector. Wholesales growth rebounded to 5.9% y/y in April from 0.4% y/y in March and 9.8% y/y in February. The period-average wholesales growth accelerated to 4.4% y/y in January-April.

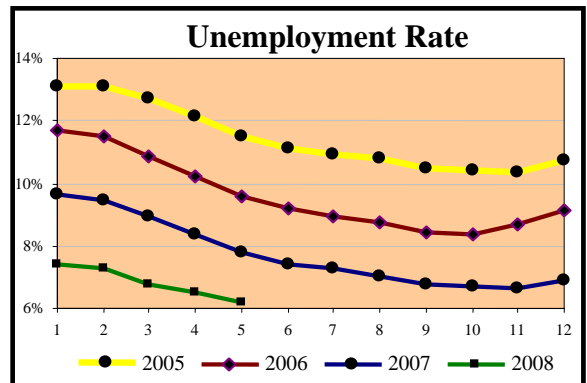


5. Unemployment

Unemployment rate fell by 0.32 pps y/y to 6.19% as of end-May

The unemployment rate dropped by 1.6pps y/y and 0.32pps m/m to 6.19% as of end-May. Entrepreneurs in manufacturing and construction sectors are complaining of increasing labour shortages in the last few months. The cabinet has

approved recently a migration strategy over the period from 2008 to 2015 with two strategic goals: (1) attracting Bulgarian emigrants and foreigners of Bulgarian origin to come back in the country and (2) attracting foreigners to work in the country. The parliament approved amendments to the social assistance act reducing the time period for receiving unemployment grants to one year from 18 months at present. The change will take effect as of Jul 1. The measure is expected to motivate unemployed people to search more actively for job opportunities.



II. FISCAL SECTOR

Consolidated budget surplus surged to 4.4% of GDP in January-April

The consolidated budget surplus more than doubled to BGN 2.7 bn (EUR 1.38 bn) in January-April, which accounted for 4.4% the projected full-year GDP as compared to 2.7% of GDP in Q1, according to data of the Finance Ministry. Financing under the EU operational programmes accounted for BGN 602.3 mn (EUR 308 mn) for the period.

The fiscal revenues surged by 32.5% y/y to BGN 9.62 bn (EUR 4.9 bn) in January-April and indirect taxes generated about 50% of them.

The fiscal expenditures (excluding the installment for the EU budget) advanced by 14.8% y/y to BGN 6.6 bn (EUR 3.4 bn) in January-April. The Finance Minister Plamen Oresharski underlined that the government has been trying to contain the increase in consumer prices by accumulating budget surpluses and optimising the budget sector including staff cuts by 12% in some institutions. No other measures for curbing the inflation have been envisaged so far. The government is targeting a budget surplus of 3% of GDP this year in order to contain the large CA gap as well.

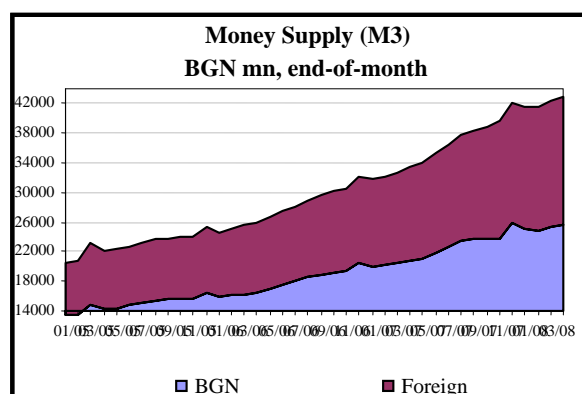
IV. MONETARY SECTOR

1. Monetary Aggregates

Money supply grew by 28.3% y/y to 69.4% of GDP as of end-April

Money supply (M3) grew by 28.3% y/y to BGN 42.8 bn (EUR 21.9 bn) or 69.4% of the projected GDP as of end-April due to the continued increase in the deposits with agreed maturity up to 2 years by 34.2% y/y, according to Central bank data. 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 24.6%y/y as of end-April relative to 42.5% y/y as of end of April last year.

The foreign reserves surged by 41.1% y/y to EUR 12.94 bn as of end-April.



2. Domestic Credit

Claims on non-government sector slowed marginally their growth rate to 55% y/y as of end-April

Domestic credit growth decelerated to 47.7% y/y as of end-April from 49% y/y as of end-March and 50.5% y/y as of end-February, according to Central Bank data. The stock of domestic credit reached BGN 36.1 bn (EUR 18.4 bn) or 58.4% of the projected full-year GDP.

Claims on non-government sector grew by 55% y/y to BGN 42 bn (EUR 21.5 bn) as of end-April slowing from 55.5% y/y as of end-March and 59.1% y/y as of end-February

Lending to non-financial companies slowed down to 59.6% as of end-April from 60.5% y/y as of end-March and 64.1% y/y as of end-February.

Credits to households and NPISH grew by 49.8% y/y to BGN 15.3 bn (EUR 7.8 bn) as of end-April.

Consumer loans increased by 47.8% y/y as of end-April relative to 45.6% y/y a month earlier and mortgage loans rose by 57% y/y slowing marginally from 57.8% y/y as of end-March.

Domestic credit, % of GDP

	04/07	03/08	04/08
Domestic credit	44.5%	57.6%	58.4%
Claims on general government	-4.9%	-7.8%	-9.6%
Claims on non-government sector	49.4%	65.4%	68.0%
o/w Loans	48.1%	64.1%	66.7%
Non-Financial Corporations	29.0%	39.6%	41.2%
Financial Corporations	0.5%	0.7%	0.8%
Households and NPISH	18.6%	23.7%	24.7%
Consumer loans	7.9%	10.0%	10.4%
Loans for house purchase	7.3%	9.7%	10.2%
Deposits of NFIs and other clients	55.4%	62.9%	63.6%
Assets	80.8%	96.4%	99.3%

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

V. FINANCIAL SECTOR

1. Banking Sector

Banks' net profit grew by 57.7% y/y to EUR 246.2 mn as of end-April

The aggregated net profit of the 29 commercial banks rose by 57.7% y/y to BGN 481.5 mn (EUR 246.2 mn) as of end-April, according to Central bank data. The growth rate improved from 50.2% y/y in Q1 and 41.6% as of the end of last year.

The total value of assets increased by 38.2% y/y and 3% m/m to BGN 61.26 bn (EUR 31.3 bn) at the end of April or 99.3% of the projected full-year GDP.

The growth of the credit stock sped up to 42.7% y/y as of end-April from 38.2% y/y as of end-March and 40.6% y/y as of end-February. Gross credits to NFIs widened by 56.5% y/y to BGN 41.45 bn (EUR 21.2 bn) and accounted to 67.2% of GDP.

The stock of all deposits rose by 38% y/y to BGN 53.8 bn (EUR 27.5 bn) at end-April. The private

sector deposits amounted to BGN 39.2 bn (EUR 20.1 bn) or 63.6% of the projected full-year GDP. The major source of financing of the banks' activities in April was the 10.3% growth of external financing. This proves that the world financial turmoil has not affected financial inflows to the country.

The Central bank reports good liquidity and quality of the credit portfolio of the banking system.

2. Insurance Market

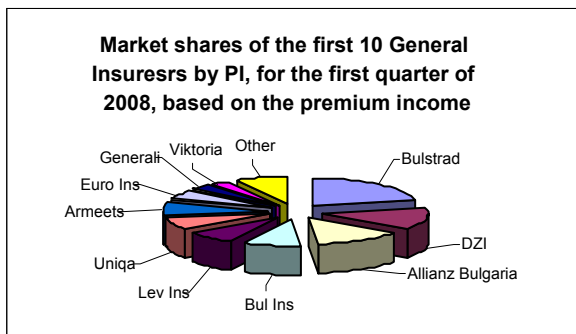
General insurance market grew by 18% y/y in Q1/2008

The gross premium revenues of the local insurance companies increased by 18.9% y/y to BGN 426.5 mn (EUR 218.1 mn) in Q1 relative to 21.3% in 2007, according to Financial supervision commission data .The rate of penetration was 0.69% as compared to 0.63% in Q1/2007 and 2.7% in 2007.

The gross premium income of general insurance companies rose by 18% y/y to BGN 360.75 mn (EUR 184.45 mn) slowing down from 19.7% last year. Car insurance bills accounted for 70.4% of the general insurance market in Q1 against 65.8% for the same period last year and 68.6% in 2007.

The paid claims under general insurance rose by 30.2% y/y to BGN 122.1 mn (EUR 62.4 mn). The assets of the general insurers rose by 17.6% y/y to BGN 1.39 bn (EUR 710.4 mn) as of end-March.

The total value of life insurance premiums grew by 24% y/y to BGN 65.74 mn (EUR 33.61 mn) relative to 30.2% last year. Life insurers paid compensations to the amount of BGN 19.3 mn (EUR 9.9 mn) or by 46.7% more on an annual basis. The assets of the companies expanded by 24.6% y/y to BGN 818.9 mn (EUR 418.7 mn).

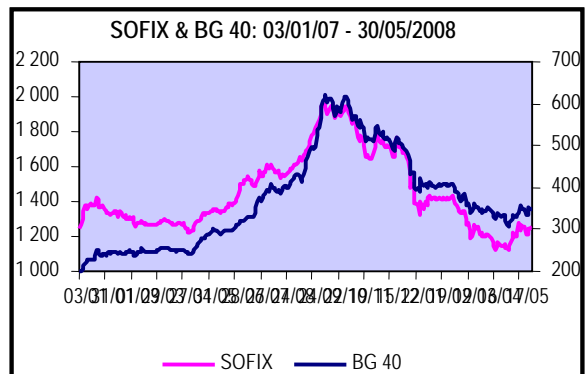


3. Stock Exchange

Infrastructure companies were the driving force for the market growth in May

Since the beginning of the year the blue-chip SOFIX index, which includes the 19 most liquid stocks on the Bulgarian Stock Exchange (BSE), has lost 27.5% of its value closing at 1260 points on May 30. The broader BG40, which tracks the 40 most liquid companies on the bourse, lost 32.2% of its value ending the month at 350.04 points. As compared to end-April, the two indexes - SOFIX and BG-40 advanced by 10.7% and 10%.

Infrastructure companies were the driving force for the market growth in May. The influence of Holding Roads, Moststroy and Trace Group Hold on the stock exchange reached extreme values over the last four weeks. In the conditions of low liquidity, fluctuations in the shares of the three companies have swayed the market between the two extremes.



Growth on the capital market started to a large extent with the rise in shares of infrastructure companies. The leap in prices of road construction companies started on May 10. The shares of Holding Roads which is part of SOFIX, went up by 7.47%. On the same day, Moststroy raised its capitalisation by 6.79%. Two days later, shares of the two companies soared to the top after they decided to raise their capital and distribute free shares. This led to a sharp increase in indexes measuring the capital market.

The road construction segment is one of the best represented economic segments on the stock exchange. It is considered a high-priority sector because of the need for new roads. This makes it interesting for investors, and the shares of the three companies are among the most traded.

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