



UNITED BULGARIAN BANK

A Member of NBG Group

BULGARIA: ECONOMIC & MARKET ANALYSES July, 2006



Current account gap growth decelerated to 62.67 % y/y or EUR 1.815bn (7.6% of GDP) in H1. FDI inflows surged by 74.2% y/y to EUR 1.412bn (5.9% of GDP) in H1

Foreign trade deficit decelerated to 19.3% y/y in H1

The gross external debt increased to EUR 15.921bn (66.4% of GDP) in May

0.5% deflation in July (7.6% y/y)

Industrial sales and output decelerated to 9.8% y/y and 4.9% y/y respectively in June

Retail and wholesale trade decelerated respectively to 12.6% y/y and 3.2% y/y in June

Household consumption and real income increased by real 9.32% y/y and 12.06% y/y respectively in June

Average monthly wage rose by 8.5% y/y to BGN 345 (EUR 176) in H1

Unemployment rate fell to 8.96 % y/y in July

General budget surplus stood at BGN 1.45bn (3.1% of GDP) in H1

Money supply growth accelerated to 21.64% y/y at the end of July

Domestic credit growth decelerated from 24.27% y/y at end-June to 18.57% at end-July

Bank credit growth accelerated from 17% y/y as of end-May to 22.5% y/y as of end-June

Bulgarian insurance market grew by 11.46% y/y in H1

In July the broad index BG-40 hit a new all –time high of 176.32 points

Housing prices went up by 1.6% to 819.3 BGN/m² in Q2

I. EXTERNAL SECTOR

1. Balance of Payments

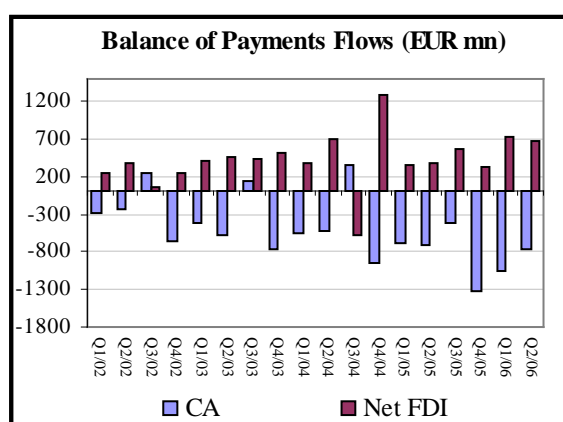
Current account gap growth decelerated to 62.67 % y/y or EUR 1.815bn (7.6% of GDP) in H1

According to Central Bank preliminary data, the current account gap dropped nearly 2 times in a

year to EUR 63.2mn in June and its growth decelerated to 62.67% y/y or EUR 1.815bn in H1. In relative terms the CA deficit represented 7.6% of the GDP in June, compared to 5.2% a year earlier.

Moderation in the external balance was due to exports outpacing the imports hike for third consecutive month and to increased tourism and transport receipts, respectively by 7.7% and 13.3%, resulting in higher service surplus. Net inflow in errors and omissions, generally attributed to labour remittance from abroad, stood at EUR 711.3mn, compared to an outflow of EUR 36.5mn for the same period of last year.

As the moderation in CA is considered as seasonal, the expectation for a CA deficit over 12% of GDP for the year remain actual.



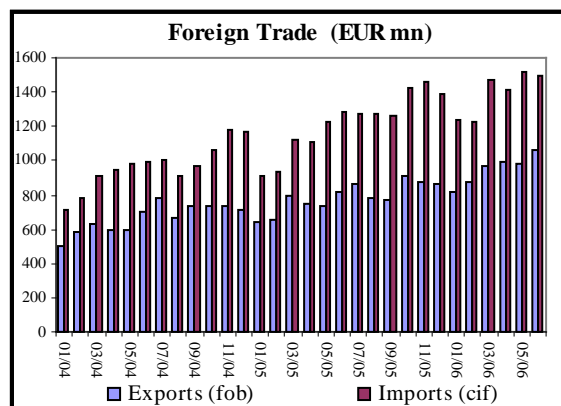
FDI inflows surged by 74.2% y/y to EUR 1.412bn (5.9% of GDP) in H1

In H1 the inflow of foreign direct investments (FDI) accelerated to 74.2% y/y or EUR 1.412bn (5.9% of GDP, compared to 3.8% a year earlier). FDI attracted from privatisation deals in which foreign companies have acquired a larger than 10% stake in local companies totalled EUR 25mn for the reported period. The greatest amount of foreign direct investments in H1 came from Britain (20.3%), Austria (18.5%) and Netherlands (11.3%). 38.1% of the direct investments were directed to purchase of real estate and construction project. At the same time the foreign investments abroad stood at EUR 30.1mn, up 18.7% y/y. Net FDI balanced 76.1% of the current account gap, compared to 66.5% a year earlier.

In consequence the overall surplus in the financial account shrank by 2.9% y/y in H1, despite some portfolio investment outflows.

Foreign trade deficit decelerated to 19.3% y/y in H1

In June for first time since July 2004 the foreign trade deficit declined by 10.7% y/y to EUR 351.7mn and its growth decelerated to 19.3% y/y or EUR 1.171bn in H1. In relative terms it accounted for 9% of GDP compared to 8.5% a year earlier.



Moderation in the foreign trade account was due to exports twice as fast as imports in June (28.8% against 16%), thanks to non-ferrous metal production (11% of total export) and price hikes. The raw and prime materials accounted for the bulk of the import. 54.8% of the increase of the trade deficit between January and June was formed by the import of crude oil, petrochemicals and natural gas, and by the export of petrochemicals.

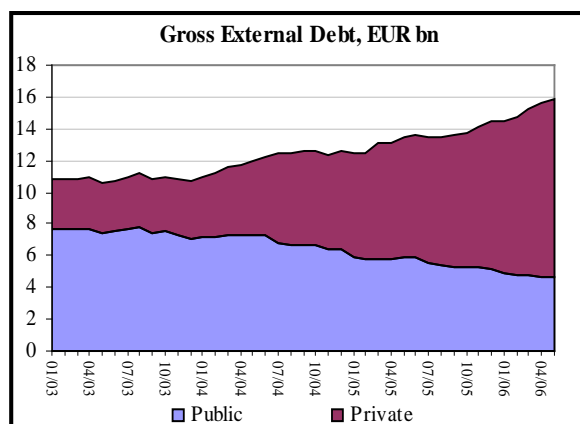
Exports to EU countries fell to 55.8% at the end of June (from 59.3% a year earlier) and the imports – to 46.9% (from 51.2%). At the same time the exports to Balkan states rose from 20.9% to 23.5%.

2. External Debt

The gross external debt increased to EUR 15.921bn (66.4% of GDP) in May

According to the Central bank preliminary data, in May the gross external debt increased by 2% m/m (EUR 311.6mn) and by 18.59% y/y (EUR 2.496bn) to EUR 15.921bn or 66.4% of GDP. The short term liabilities represented 29.5% (EUR 4.7bn) of the total external debt, compared to 24.4% a year earlier. As a result of the loan repayments towards the World Bank and the International Monetary Fund in May, the external public debt decreased by EUR 46.1 mn (1%) to EUR 4.616bn. The debt of the private sector, representing already 71% of the total external debt against 56% a year earlier, amounted EUR 11.305bn including the May growth of EUR 357.7mn (3.3%). Intra-company liabilities increased by 125 mn (3.2%) to EUR 4.053 bn by

the end of May and accounted for 35.85% of the overall private borrowing from abroad. External debt of banks (27.7% of the total external private debt), increased from EUR 3.006bn as of end-April to EUR 3.132bn as of end-May.



II. REAL SECTOR

1. Inflation

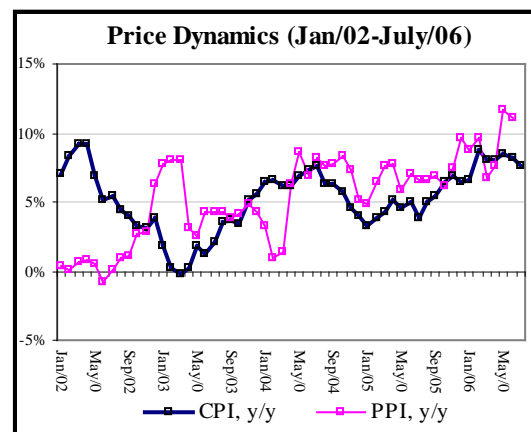
0.5% deflation in July (7.6% y/y)

According to NSI, July consumer price inflation went down by 0.5% m/m and thus cumulative inflation since the beginning of the year decelerated to 2.4%, and between July 2005 and July 2006 – to 7.6%.

The main disinflation factor in July was the foods, whose prices fell by 2.3% m/m, principally due to the seasonal prices' vegetables reduction (-18.9%). Non-food products prices rose by 0.5% m/m, including the hike of fuels and hot water and heating, respectively by 5% and 8%.

Government expects 6.9% end-year inflation.

According to NSI data, the producer prices inflation (PPI) slowed to 0.3% m/m and 11.1% y/y in June due to the disinflation in the mining of coal and peat (-0.5%) and the deceleration of the metal ores' hike (to 0.9% m/m and 116.3% y/y). The most important monthly increases were registered in the manufacture of electrical machinery and apparatus (7.6%) and household appliances (2.4%). On the contrary, there was deflation in some product groups, having big implications for consumer prices as manufacture of basic metals (-0.8%), pulp and paper (-0.6%), radio, television and communication equipments (-0.2%), and wearing apparel (-0.1%). The producer prices in the electricity, water and gas supply remained unchanged at monthly basis, but marked a 8.1% growth at yearly basis.



2. Industrial Sales

Industrial sales and output growth slowed respectively to 9.8% y/y and 4.9% in June

The output growth slowed steeply from 10.3% y/y in May to 4.9% y/y in June, due to lower pace in the mining (11.9%) and manufacturing (4.2%) industries. The deceleration touched all activities and a number of them registered even a drop: manufactures of foods, rubber, publishing, household appliances besides these of tobacco, radio and television equipment. The most important was the increase in manufacture of office machinery and computers (54.4 y/y), fabricated metal products (34.9% y/y) and transport equipment (25.8% y/y). The electricity, gas and water supply registered however a increase of 6.5% m/m and 5.3% y/y.

The industrial output growth also decelerated but less steeply than the sales' one: from 11.5% y/y in May to 9.8% y/y in June.

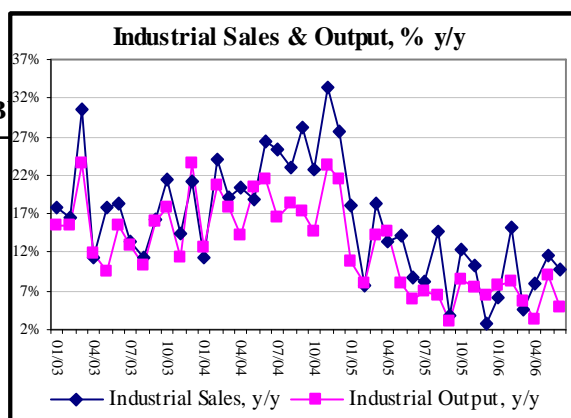
There was a slight acceleration in Q2 compared to Q1 as sale and output indicators grew by 8.6% y/y and 6% y/y in Q1 and 9.6% y/y and 7.4% y/y in Q2.

3. Retail Sales

Retail trade growth decelerated to 12.6% y/y in June

According to NSI data, retail trade growth slowed to 12.6% in June, as a result of deceleration in the sale of foods and beverages, pharmaceutical and medical goods. The most important increase in the retail trade was marked again by the household appliances (19.9%) and the least - by the foods, beverages and tobacco (4.9%).

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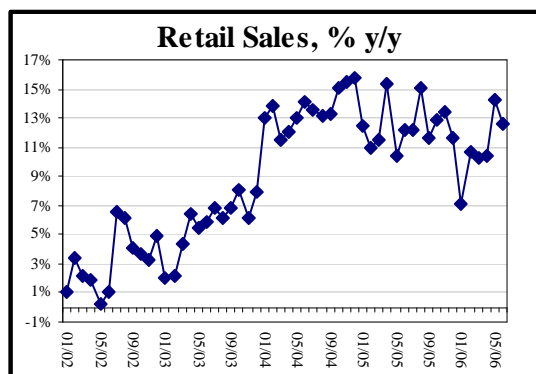
end-June, compared to BGN 99 a quarter earlier. However, the average wage in the private sector grew faster than in the public one (10.36% y/y versus 7.36% y/y). The highest wages were in the financial intermediation - BGN 1108 (EUR 567) and the lowest - in the hotels and restaurants - BGN 218 (EUR 111).

6. Unemployment

Unemployment dropped by 1.99% y/y to 8.96% as of end-July

According to the Social Ministry, the unemployment rate fell by 0.22% m/m and 1.99% y/y to 8.96% in July, which is the lowest level for the last 16 years.

The current trend of y/y improvement will be probably maintained in the second half of the year.



The wholesale trade kept the positive development from the last two months, but its growth decelerated from 5.8% in May to 3.2% in June.

On monthly base the net receipts grew moderately in the retail (3.9%) and the wholesale trade (4.6%).

4. Household Consumption

Household monetary income increased by 12.06% y/y in June

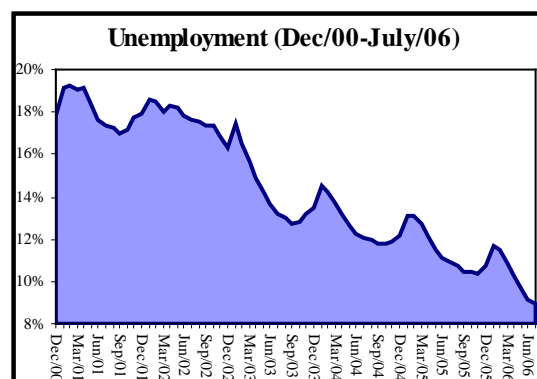
In June the growth of household monetary income overpaced the expenditure one: 12.06% y/y against 9.32%. Wages and entrepreneurship increased their weights in the structure of incomes to the detriment of the pensions, family allowances and other social benefits. The share of natural production in the total household income decreased from 2.1% to 1.8% in a year.

At the same time the payments for communications, miscellaneous goods and services and household plot are moving down on the expenditure side of the households' budgets in favour of all other groups.

5. Average monthly wage

Average monthly wage rose by 8.5% y/y to BGN 345 (EUR 176) in H1

According to NSI preliminary data, the average wage in H1 stood at BGN 345 (EUR 176), up 4.86% q/q and 8.5 y/y. The salary gap between the public and the private sectors (BGN 423 and BGN 309 respectively) increased to BGN 114 at



III. FISCAL SECTOR

General budget surplus stood at BGN 1.45bn (3.1% of GDP) in H1

In the republican budget the receipts increased by 9.3% y/y in June mainly due to the 13.3% growth of the indirect taxes revenues. Concretely, the VAT and duties revenues rose respectively by 13.4% and 23.1% as a result of the high import of fuels and non-ferrous metals and the rise in their prices, and the excises ones - by 22.7% due to their hike in the beginning of the year. The increase by 27.9% of the direct taxes revenues was due to the receipts of the corporate tax, increased by 26% as a result of higher firm profit. The realized expenses decreased by 5.4% y/y in June as a result of lower subsidies and capital investments. In consequence the republican budget surplus increased by 168% y/y in June and accelerated to 44.4% (BGN 1.45bn) in H1.

As the revenues rose by 0.7% y/y and the expenses dropped by 2.5% y/y in June, the monthly budget surplus widened by 34.5% y/y. Thus the accumulated since the beginning of the

year budget surplus reached BGN 1.45bn (3.1% of GDP), up by 24.85% y/y.

IV. MONETARY SECTOR

1. Monetary Aggregates

Money supply growth accelerated to 21.64% y/y at the end of July

According to Central Bank data, money supply (M3) growth slightly accelerated to 21.64% y/y as of end-July from 20.56% y/y as of end-June, principally due to the faster pace of overnight deposits in BGN (33.24%) and term-deposits in foreign currency (28.42%). On a monthly base, M3 rose by 2.56% or BGN 705.3mn. The share of foreign currency in M3 slightly decreased from 36.70% as at end-June to 36.46% as at end-July. The money base went up by 1.20% m/m to BGN 9.451bn and the money multiplier - to 2.99.

2. Domestic Credit

Domestic credit growth decelerated from 24.27% y/y at end-June to 18.57% at end-July

Domestic credit growth decelerated from 24.27% y/y as at end-June to 18.57% as at end-July, according to Central Bank data. Its currency component grew faster than that in BGN: 20.47% y/y versus 16.67% y/y. The stock of domestic credit reached BGN 19.179bn (EUR 9.806bn) and accounted for 41.51% of the projected full-year GDP. The credit to the government sector passed from - BGN 963mn as at end of June to - BGN 1.841bn a month later. The credits to non-financial enterprises accelerated to 18.64% y/y for the same period, compared to 14.64% a month earlier, and the loans to households decelerated from 38.8% y/y as at end-June to 35.87% y/y as at end-July.

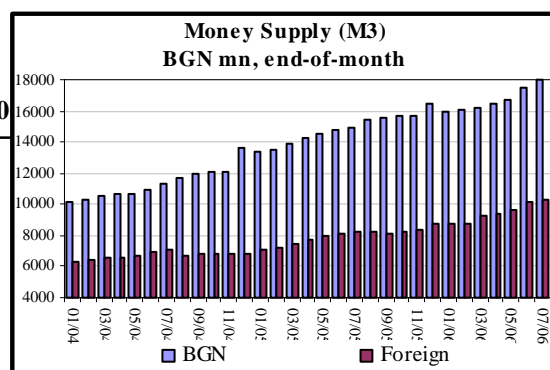
V. FINANCIAL SECTOR

Bank credit growth accelerated from 17% y/y as of end-May to 22.5% y/y as of end-June

At the end of June the assets of the Bulgarian banking system registered 2.75% m/m (BGN 964mn) and 28.9% y/y (BGN 8bn) growth and reached BGN 35.897bn or 79% of GDP.

This increase was attributed mainly to a BGN 842mn rise in the NSI deposits. The deposits made by financial institutions fell by BGN 84mn.

By the end of June, the net credit portfolio of banking system surged by 1.14% m/m (BGN 76mn) and 22.5% y/y (BGN 3.5bn) to BGN 19.1bn (42% of GDP). The drop in commercial loans was stopped, but their share continued to decrease to



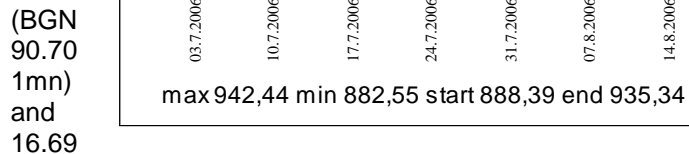
60.8% of the portfolio (compared to 65% a year earlier) in profit to consumer credits. The most important increase on monthly (5.52%) and yearly basis (71.2%) was registered by the mortgages loans, despite the deceleration.

The net profit posted by the banking system for January-June amounted BGN 342mn, up by 23.2% y/y.

Bulgarian insurance market grew by 11.46% y/y in H1

The gross premium income (GPI) of the 32 licensed insurance companies grew by 11.46% y/y to BGN 587.2mn (EUR 300.2mn) in H1, according to Financial Supervision Commission data. In relative terms, the total amount of insurance premiums accounts for some 2.7% of GDP.

General insurance market expanded by 8.68% y/y to BGN 505mn (EUR 258mn) in H1. Despite the decreased incomes (respectively by 8.92% y/y and 2.44% y/y), DZI GI and Bulstrad remained leaders in the general insurance with 17.96% (BGN 90.70 1mn) and



16.69% (BGN 84.309mn) of the market. However, they fell back from the conquered last year positions by 3.47% and 1.91% principally in profit to Orel. Thanks to its exceptionally growth – 163% y/y Orel gained supplementary 3.31% of the market and moved up to 5th position. In the same manner Armeets took the 7th place from Lev Ins. In consequence, the concentration of general insurance market decreased and the first five companies hold 67.96% of it as of end-June, compared to 74.15% a year earlier.

In the structure of total premium income in the general insurance sector full car insurance accounted for the largest share of 36.19% (BGN

183mn), followed closely by the mandatory third part liability (25.59% or BGN 129mn) and fire and natural disasters insurance came third with 15.73% (BGN79mn). As a result of the numerous damages caused by the floods in the past two years, the interest in property and natural disasters insurance increased by 74.64% and 12.56% respectively.

Premiums growth of the 13 life insurance companies decelerated from 50% y/y to 32.18% y/y in a year and reached BGN 82.240mn (EUR 42.049mn) at end-June 2006. DZI and Allianz remained leaders with respectively 25.81% (BGN 21.225mn) and 25.66% (BGN 21.106mn) of the life insurance market, but the share hold by them declined from 57% to 51% between June 2005 and June 2006. Due to their high growth, Vitosha Life (135.30%) passed from 6th to 4th position and Bulstrad Life (113.78%) – from 5th to third position, overpassing Orel and AIG Life. This configuration (two steady leaders following by 4 companies of equal incomes) resulted in a higher concentrated market, as the first six companies hold 89.25%, compared to 88.13% a year earlier.

In July the broad index BG-40 hit a new all – time high of 176.32 points

The market capitalization of Sofia Stock Exchange rose by BGN 736.88mn (7.43%) to BGN 10.651bn (or 23.05% of GDP) in July. The realized turnover decreased by 45.48% m/m to BGN 128.276mn and this trend will continue during the summer.

The indexes followed a upward trend due to positive corporate reports for H1 and to expected raises of capital. BG-40 hit a new all-time high of 176.32 points and registered a 11.9% m/m and 61.5% y/y growth. SOFIX increase was more moderate: 4.7% m/m and 26.4% y/y.

BTC continued to be the company with the largest capitalization on the BSE-Sofia (BGN 2.905bn), followed by Sopharma and Interlogic Real estate with BGN 653mn and BGN 467mn respectively.

In July the most traded were again the compensation instruments and the holdings: Doverie United holding, Albena holding, Sinergon holding and Industrial holding Bulgaria. By sector, the most liquid were the financial intermediation (5375 trades), the real estate, renting and

business activities (1516 trades) and the chemical industry (1310 trades).

VI. REAL ESTATE

Housing prices went up by 1.6% to 819.3 BGN/m² in Q2

According to NSI data the average housing prices increased by 1.6% in Q2 compared to Q1 and by 20.5% y/y and reached 819.3 BGN/m².

Gabrovo (15.2%), Montana (9.5%) and Smolyan (9.2%) drove the price increase. On the contrary the prices went down in some towns as Kardjali (-4.8%), Russe (-2.5%) and Blagoevgrad (-2.1%). The most expensive in terms of housing prices in Q2 remained Sofia (1322 BGN/m²), Varna (1263.8 BGN/m²) and Burgas (1180.5 BGN/m²) and the least expensive - Lovetch (535 BGN/m²), Razgrad (540.8 BGN/m²) and Targovishte (546.1 BGN/m²).

The assets of REITs currently listed on the bourse stood at BGN 293.8mn.

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