

BULGARIA



PRESENTATION OF THE COUNTRY

Economic Indicators	2004	2005	2006	2007*	2008*
Population (in 1000 th)	7761	7719	7679	7679 (est.)	7679 (est.)
GDP (in Billions BGN)	38.275	41.948	49.091	54.864 (est)	61.711
GDP per capita	4919	5434	6392	7144 (est.)	8036 (est.)
Economic growth	5.7	5.5	6.1	6.4 (est.)	6.4 (est)
Inflation	4.0	6.5	6.5	7 (est.) 14 (sept.)	6.9 (est)
Consolidate fiscal programme: Cash deficit (-) / surplus (+) (Mill BGN)	654.4	1333.7	n.a.	2420 (aug.).	1225.5 (est)
Balance of Payment: Current Account (Mill Euro)	-1131,4	- 2621.9	- 3934.7	-5898.0 (est)	-6914.3 (est.)
Exports (Mill BGN)	22 192	25 766	31 420	15717 (q2)	n.a.
Imports (Mill BGN)	26 115	32 692	40 741	21640 (q2)	n.a.
Current account position (BGN/EURO) - constant	1.9558	1.9558	1.9558	1.9558	1.9558
Employment rate	27.17	28.94	46.7	n.a.	n.a.
Unemployment rate	12.2	10.7	9.0	7 (aug)	n.a.

MAIN RESULTS

According to preliminary data of the National Statistic Institute (NSI) data, GDP growth accelerated to 6.6% y/y in Q2 and 6.4% y/y in H1 relative to 6.2% y/y in Q1 and 6.1% last year. GDP stood at BGN 12.980bn (EUR 6.637bn) in Q2 and BGN 24.474bn (EUR 12.513bn) in H1. While the value added in the industrial and service sectors increased by 10.5% and 9.5% y/y respectively in Q2, the agricultural sector plunged 5.3% for the same period as a result of unfavourable weather conditions. The agricultural sector would register a much steeper deterioration in Q3 and that could weaken the overall economic growth to about 6%.

On the demand side of the economy, the growth rate is still fuelled by investments and domestic consumption, slowing to 5.2% and 24.7% y/y respectively in Q2. The export accelerated to 5.7% from 2.2% in the first quarter and the import slowed from 13.2% to 10.7%.

The consumer prices rose by 3.1% m/m in August. Inflation from the beginning of the year accelerated to 7.5%, while the year-on-year August inflation quickened to 12%. Inflation in August was mainly due to a 7.3% hike in food prices. Damages caused by summer droughts in the farming sector push up prices of agricultural crops and related food products: flour (14%), bread (12.4%), eggs (27.2%), cheese (19.8%), chicken (11.9%), pork (6.8%), milk (6.8%) etc. Prices significantly went up on cabbages (36%) and potatoes (26.1%), while those of grapes (-42.4%), peppers (-19.4%), melons (-4.4%), apples (-2.9%) and onions (-2.4%) went down. Catering and services also went up by 4.8% and 0.3% m/m respectively. The prices of nonfoods kept their level as of the previous month. FDI inflows increased to EUR 2.667bn (10% of GDP) in January-July, compared to EUR 2.335bn (9.2% of GDP) a year earlier. Thus they covered 87.7% of current account deficit. The attracted equity capital for January-July amounted to EUR 1.608bn (60.3% of total FDI), including EUR 1.4mn from privatisation deals. The reinvested earnings for the reported period are estimated to EUR 172.3mn. By country, the largest investments in Bulgaria for the period concerned came from UK (14.6%), Austria (12.3%) and Luxembourg (9.5%).

(Source: National Statistic Institute, United Bulgarian Bank)

DETAILED ANALYSIS OF ECONOMIC INDICATORS

TOTAL TURNOVER, DOMESTIC SALES AND EXPORT SALES

The percentage of companies expecting sales growth in 2008 (68,4%) is much higher than of those which expect a fall in sales revenues in the next 12 months (6,8 %), more realistic than the expectations for 2007 (75.7 % / 3,6%)

As a whole, the expectations for 2008 are positive – 61,6 p.p., compared to the results for 2007 (49,2 p.p.).

The total domestic sales expectations for 2008 in both sectors – industry and services – 59,4 are highest compared to the results for 2007 – 42,2 p.p. The same trend has been registered with regard to export as well – 60,6 p.p. for 2008 as compared to 44,8 p.p. for 2007.

EMPLOYMENT

The percentage of companies that expect to increase their workforce is greater than the one which believes they will have to reduce them. The balance value has a total positive value – 47,2 p.p., in comparison to 2007, when the forecast results reached 37 p.p.

The expectations for the manufacturing sector reach 42 p.p., compared to 58,9 p.p. for the service sector.

INVESTMENT

Comparing the investment results in 2007 to the forecast in 2008, the percentage of companies with positive attitude has increased from 54,6 % to 60,5 %. The percentage of companies, which has not foreseen changes in the investments level in 2007 and 2008 has decreased 33,6 % to 30,2 %. As a whole, the expectations balance value in 2007 (42,9 p.p.) has rise to 51,2 p.p. for 2007, which reflects the attempts to increase productivity in line with the growing competition in both sectors.

In a sectoral perspective, the balance value of the investment expectations in the industry sector for 2008 reaches 49,2 p.p. compared to the expected level of 25,7 p.p. in the service sector.

BUSINESS CONFIDENCE

Business Confidence's expectations relative to 2008 are better comparing with last year, leading to a positive balance. About 66,4 % of companies expect favourable

results, vs. 9,6 % whereas expect decrease.

The forecasts for 2008 (56,8 p.p.) show the strong positive trends.

At the end of the year some negative economic factors – the large increase in the price of power sources and the necessity of setting some excises to the EU levels decreased the companies' optimistic forecasts for 2008. But the stable exchange rate and the investment growth, raise the Bulgarian business optimism.

The forecasts for 2008 in the service sector reach 65,6 p.p. – slightly over the industry sector level – 54,4 p.p.