

Bulgaria

Households under more strain, despite less appetite for debt

Milen Kassabov Senior Economist

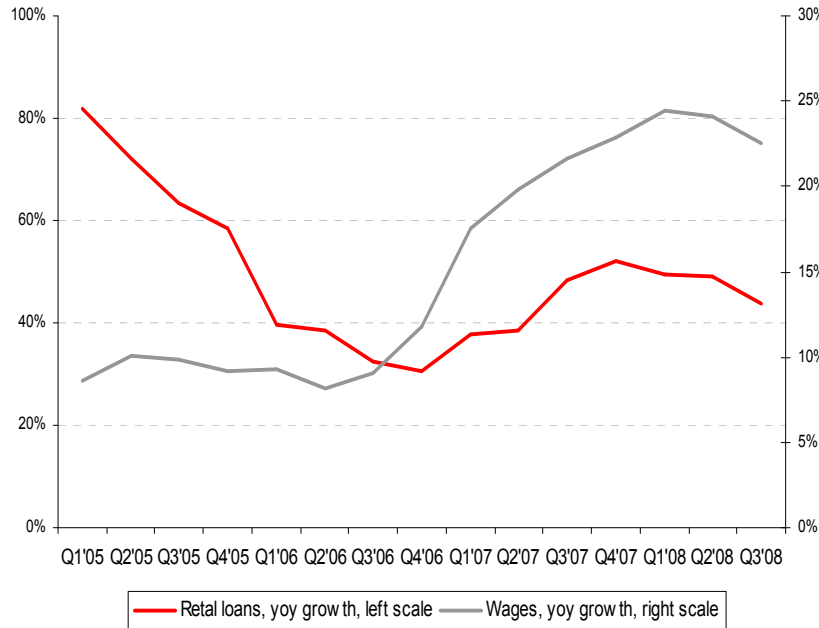
Sofia, 30rd January 2009

AGENDA

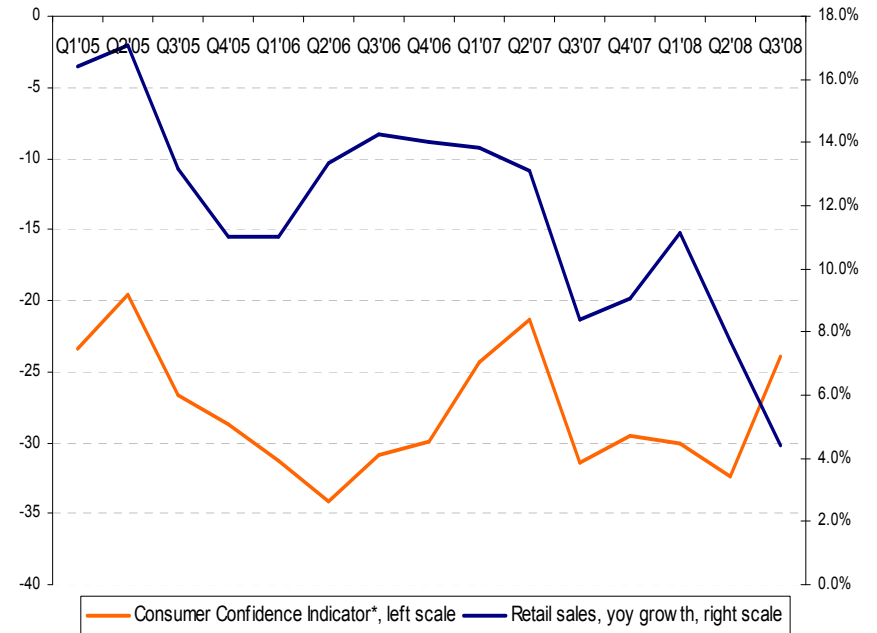
- **Recent developments in household's financial behaviour**
- **Structural dynamics in household's financial position**

Recent developments in household's financial behaviour

Solid wage and loan growth through Q3 in 2008...



...leading to high confidence and healthy spending growth rates



Favourable economic environment continued to stimulate high loan and wages growth into 2008 through Q3, keeping consumer confidence and retail spending at strong levels.

Sources: NSI, BNB, Eurostat, UniCredit Bulbank

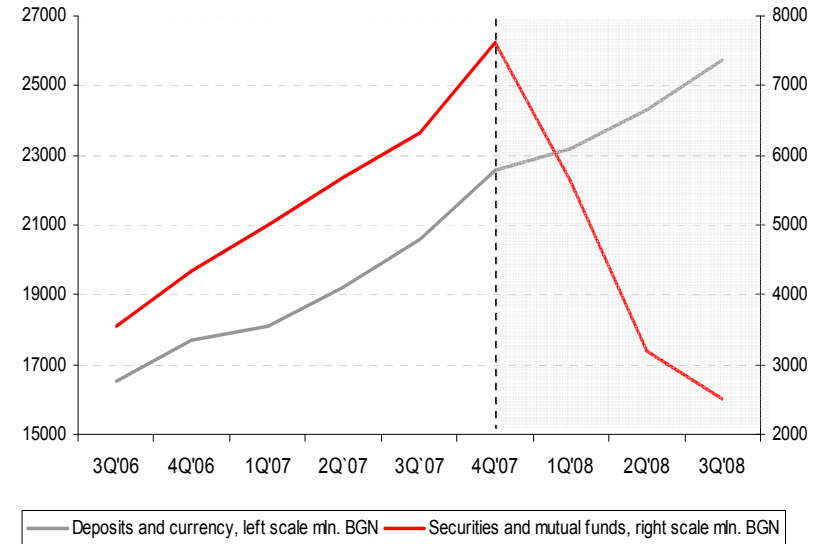
* The consumer confidence indicator is the arithmetic average of the responses (percentage balances) to the questions on expected developments over the next 12 months in the financial situation of households, the general economic situation, unemployment and savings.

Recent developments in household's financial behaviour

SOFIX index, daily chart



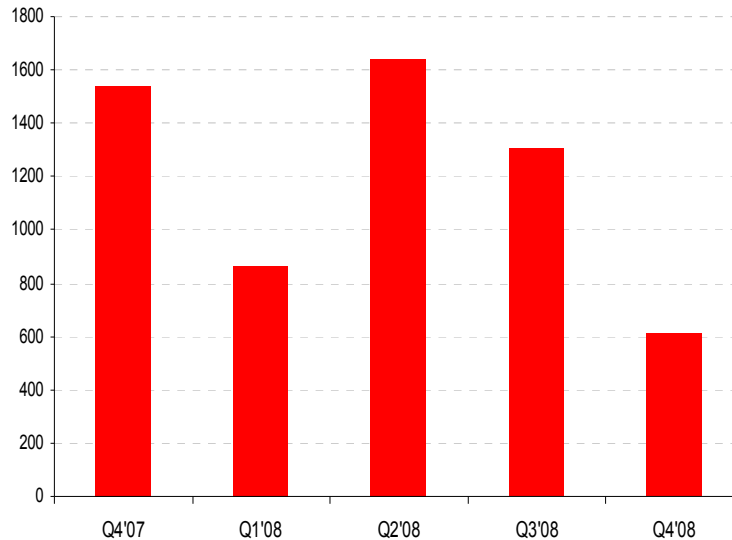
Flight to safety: savings allocated to deposits continue to rise, as investments in securities and funds drop



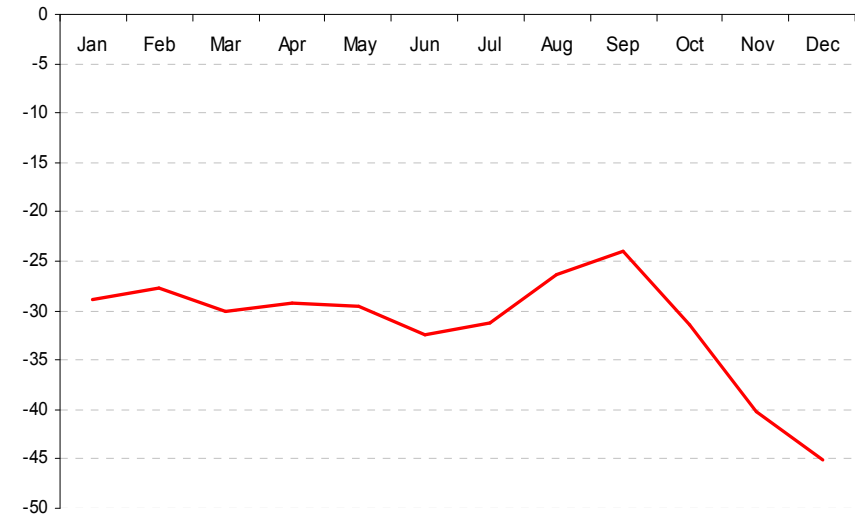
- Collapsing capital markets depleted significant wealth – through Q3, over 5.2 billion BGN lost by households via various investment alternatives, from direct share ownership to indirect contributions at pension funds; situation deteriorated further into Q4 with more losses.
- Meantime, risk aversion led to continued growth in bank deposits, perceived as a safer alternative, and supply side stimulus through higher deposit rates also helped in boosting deposit's appeal.

Recent developments in household's financial behaviour

New retail loans volume over previous quarter, million BGN



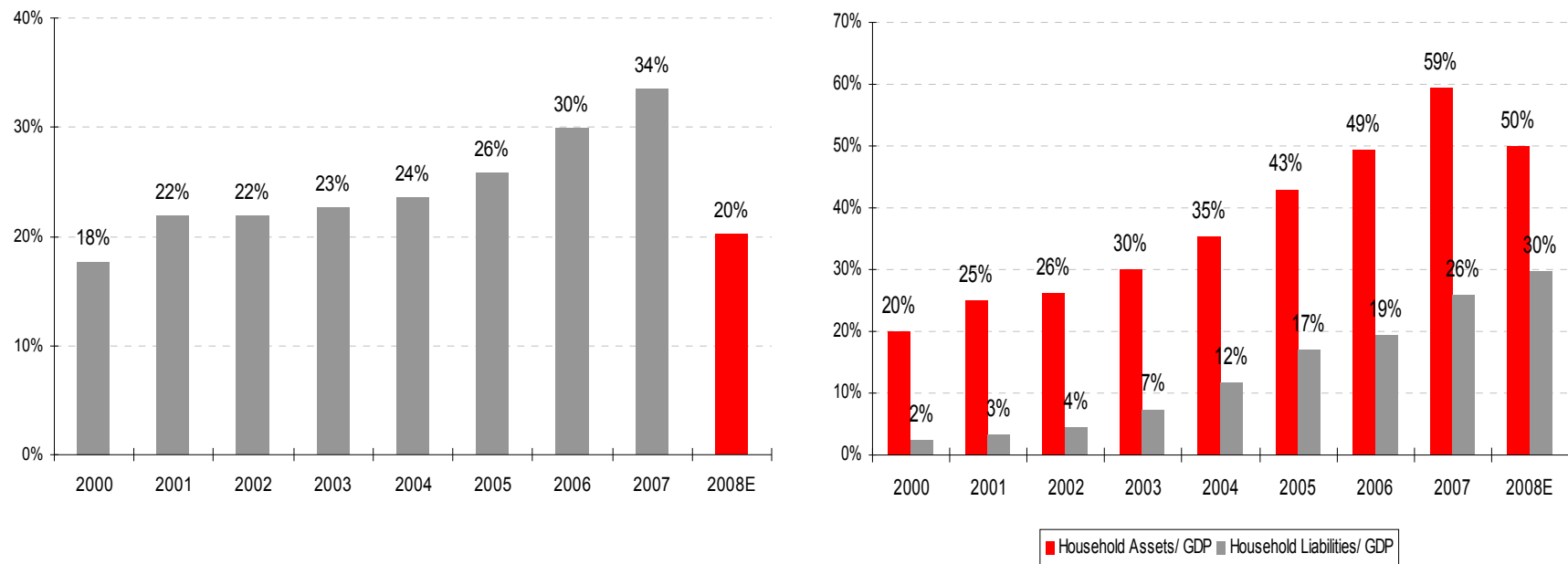
Consumer Confidence Indicator, 2008 monthly



Q4 2008 marks a turnaround point, as the economy slows down, lending growth calms, and consumer confidence dips.

Recent developments in household's financial behaviour

Evolution of net financial wealth (as a share of GDP) 2000-2008E
Assets and liabilities compared to GDP

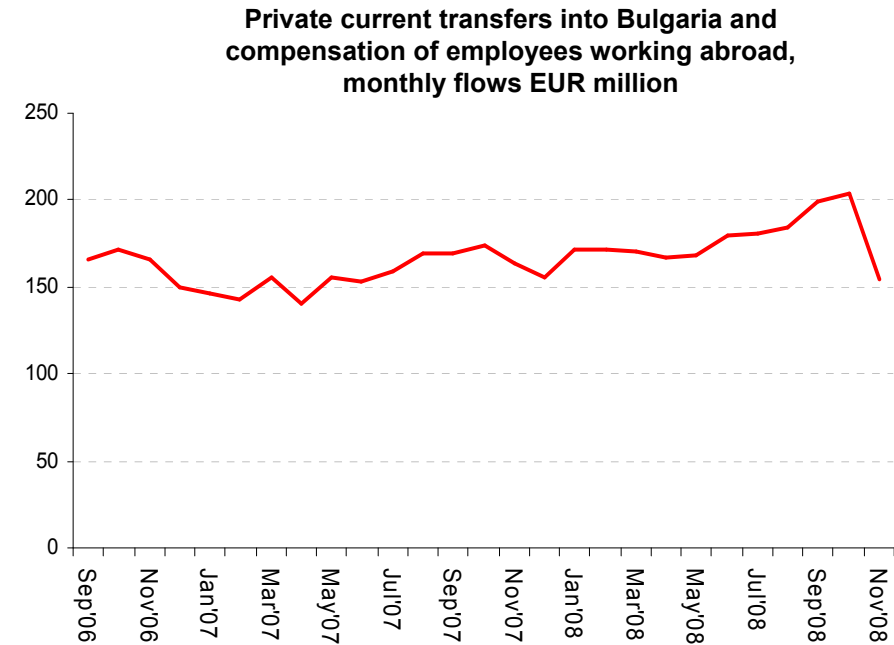


Following years of stable accumulation in net financial wealth, last year is expected to have marked a deterioration in household's financial position.

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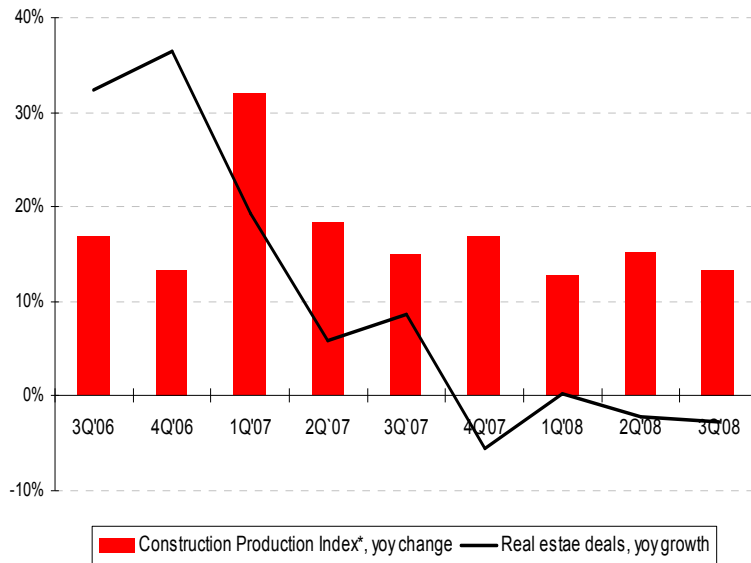
Salaries growth and remittances from abroad slowing down



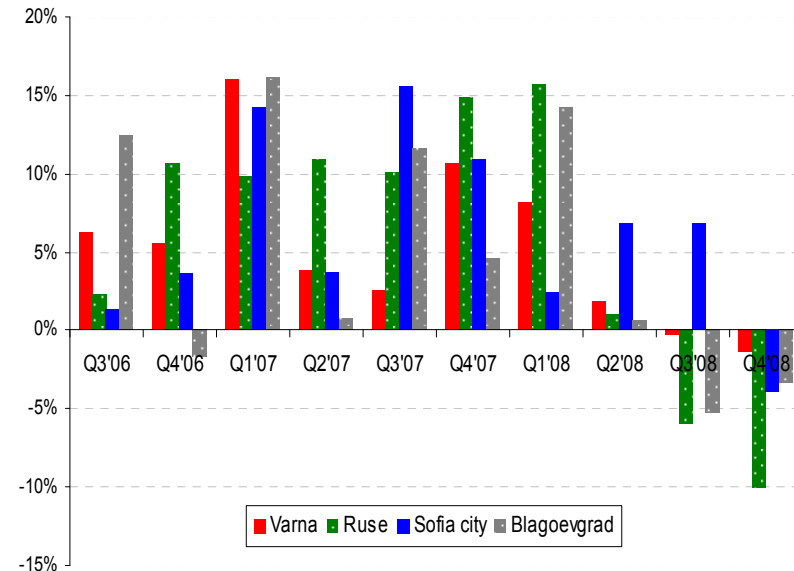
- Real wages forecast to grow marginally in Bulgaria, and even negatively in other countries in 2009.
- Private current transfers and compensation paid to employees working abroad dropped unusually in November.

Real estate deals loosing their luster as a driver of wealth

Continued pace of growth in new construction, while deals growth dissipates



District home prices, qoq growth



- Significant new supply of housing stock continued, while growth in real estate deals has evaporated since Q4 2007.
- Residential housing price growth calmed down as well.
- Regionally, some overheated districts registered negative qoq growth in Q3 2008, and almost all, including Sofia city, posted price drops in Q4.

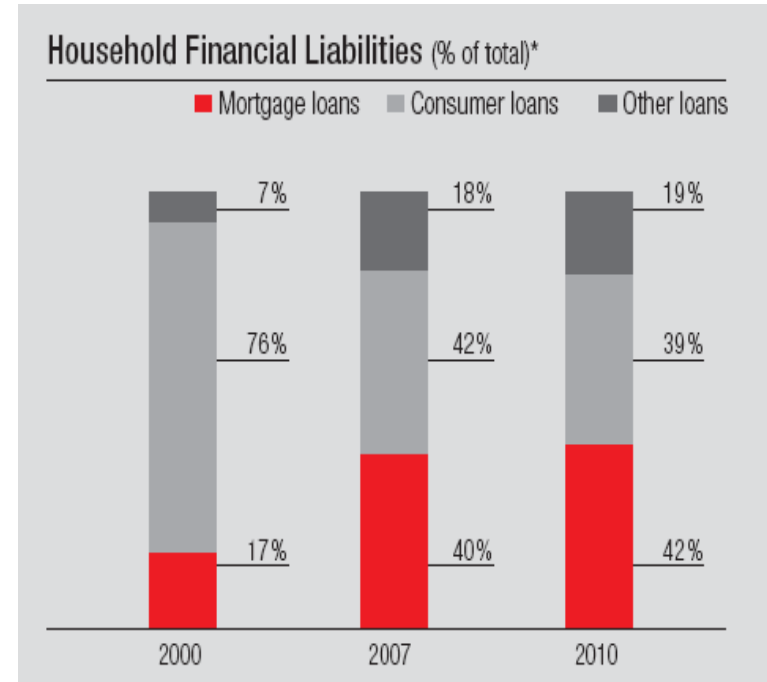
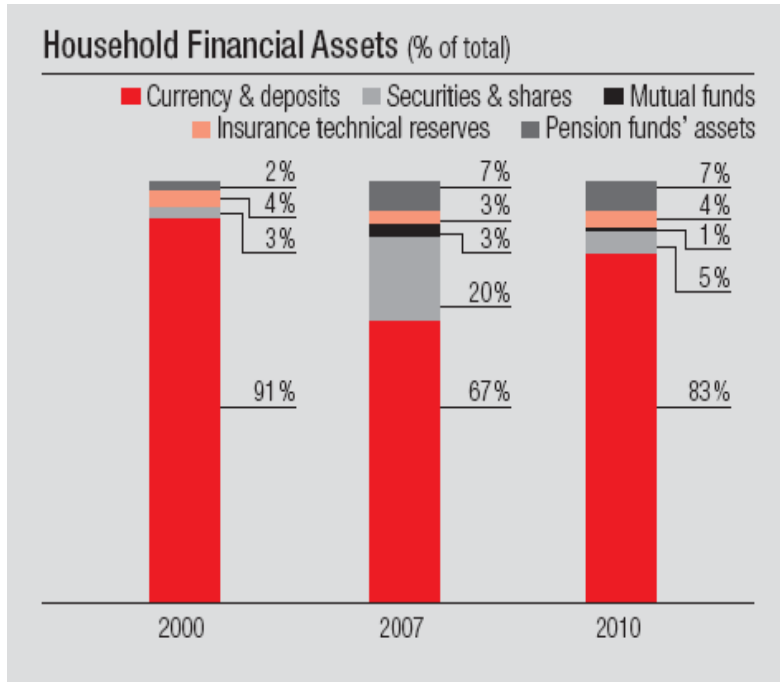
Sources: Eurostat, National Registry Agency, NSI, UniCredit Bulbank

*The Construction Production Index is a business cycle indicator showing the output and activity of construction. It measures changes in the volume of output at close and regular intervals.

Households under more strain, despite less appetite for debt

- Gross financial wealth growth expected to mark gradual recovery.
 - Tightening in credit requirements to result in further cooling in household appetite for debt.
 - Households more stretched – liabilities/ assets ratio reaching well over 60%, compared to 47% average for the CEE region.
 - Net financial wealth as a share of GDP to stabilize around 19%, below pre-crisis level.
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Structural dynamics in household's assets and liabilities



- Deposits and currency gaining back share, while securities and mutual funds decrease shares.
- Pension funds and insurance stable.
- Structure of liabilities more stable looking forward, after mortgages increased their share significantly.