

## ***Household wealth and debt in Q4 2011:***

### **Are bank deposits favored way to save despite inflation and yield?**

**Household net financial wealth (financial assets less debt) increased by almost BGN 1.8 billion during the fourth quarter, and by over BGN 4 billion in 2011 – a record annual amount historically.** Bank deposits were again responsible for the large chunk of the increase and went up by over BGN 1.4 billion during the last quarter, including yields. In the past sixteen quarters, deposits have been the favored savings alternative for domestic households independent of fluctuations in average yields and particularly inflation rates, as indicated by the low correlations for both variables compared with growth in bank deposits. Relationships using annual data for longer periods (since 1999 on inflation and since 2004 on yields), including extended terms with negative real deposit interest rates, indicate similar outcomes. Still, the lower levels of inflation during the past four years compared to earlier periods and the relative stability of yields on deposits may have only made perception of deposits more favorable. The lack of other developed investment and saving alternatives domestically, and the poor state of the housing market also likely have played a role. In parallel, households continued to deleverage, as the leverage ratio<sup>1</sup> dropped below 52% – well down from its all time high of 71% in Q1 2009. **We expect to see the leverage ratio go down further to 47% by the end of the current year, as growth in financial assets outpaces liabilities meaningfully for a fourth consecutive year, and only from 2013 on are we likely to see converging growth rates between household assets and liabilities.**

**Losses in assets related to the domestic financial market (with the exception of compensatory notes) continued during the quarter.** Investments in publicly traded shares of companies booked a BGN 285 million loss for the year and are now responsible for only 2.2% of household financial assets – the lowest share since year

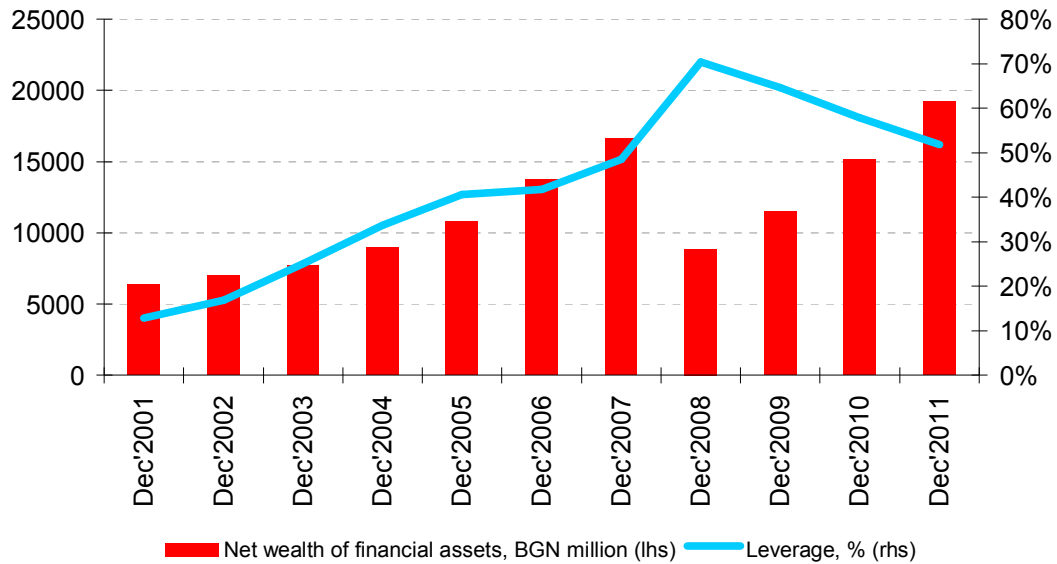
2000. Collective investment schemes, like mutual funds, were more stable QoQ, but were also down YoY by almost 17%, as most of the yearly decline was due to foreign registered funds. Bank deposits again booked double digit gains on the year and managed to gain some share to reach over 77.3% of all financial assets at the end of 2011. On annual basis, local currency bank deposits grew almost four times faster than foreign currency ones, helped by more attractive yield offerings. Pension funds asset growth continued to decline in annual terms dropping below 15% YoY at the end of the year, as the trend is likely to continue with lower returns from investments. Pension funds made BGN 30 million during the quarter, judging by the difference in gross contributions and the change in net assets. For the whole year 2011 though they lost almost BGN 224 million, measured in the same way. **We might start to see some relative stability on the domestic financial market during the current year, but the large pie of savings is likely to continue to be channeled into bank deposits.**

**Household debt declined slightly again during the quarter, and remained in negative growth territory on annual basis for sixth quarter in a row. The overall decline since the peak at the end of September 2009 has reached just over BGN 500 million.** Foreign currency debt continued to grow by a healthy pace in all bank debt varieties excluding overdrafts, while debt in local currency declined across the board. Non-bank consumer loans finished the year with a smart 9.4% YoY growth, while leasing activity remained depressed, with its share in household debt slashed by half since the end of year 2008.

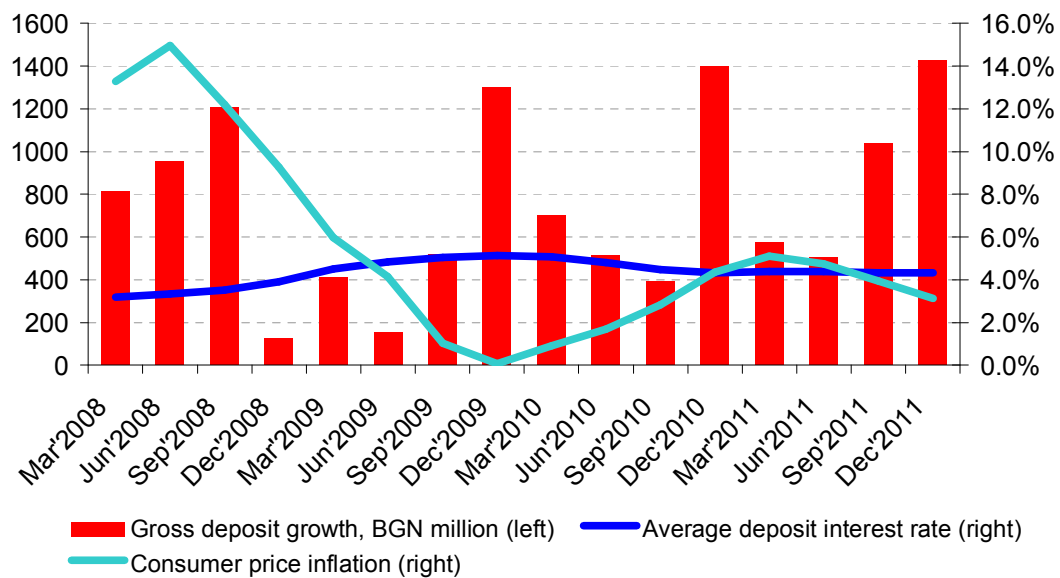
**Gross housing wealth declined by around BGN 3 billion to 208 billion BGN, calculated via average prices. Thus, total net household wealth, including its financial and housing components adjusted for household debt, is estimated at just over BGN 227 billion at the end of 2011, down by 3.6% on an annual basis.**

<sup>1</sup> Leverage ratio calculated as debt is divided by assets.

**Chart 1: Household net wealth of financial assets and leverage ratio**



**Chart 2: Growth in households bank deposits compared to inflation and yields**



**Financial Assets of Households**

VOLUMES (in BGN million)	2010		2011			
	Sep	Dec	Mar	Jun	Sep	Dec
<b>1 Currency</b>	<b>1 769.2</b>	<b>1 839.2</b>	<b>1 705.8</b>	<b>1 743.5</b>	<b>1 844.7</b>	<b>1 948.3</b>
<b>2 Deposits</b>	<b>25 945.4</b>	<b>27 344.6</b>	<b>27 917.5</b>	<b>28 421.6</b>	<b>29 460.6</b>	<b>30 885.9</b>
2a LC deposits	11 851.5	12 823.1	13 289.2	13 566.8	14 252.5	15 549.7
2b FX deposits	14 093.9	14 521.5	14 628.3	14 854.8	15 208.1	15 336.3
<b>3 Securities other than shares</b>	<b>93.4</b>	<b>97.7</b>	<b>108.7</b>	<b>103.9</b>	<b>109.5</b>	<b>107.9</b>
3a Government securities	39.6	43.2	38.2	41.5	43.4	45.7
3b Bonds (incl. mortgage bonds)	11.5	10.6	7.0	4.7	6.9	6.8
3c Compensatory notes	42.3	44.0	63.5	57.7	59.2	55.5
<b>4 Quoted shares</b>	<b>1 381.0</b>	<b>1 153.1</b>	<b>1 340.3</b>	<b>1 216.4</b>	<b>944.5</b>	<b>867.9</b>
<b>5 Mutual funds</b>	<b>408.3</b>	<b>444.1</b>	<b>416.0</b>	<b>396.7</b>	<b>363.6</b>	<b>369.2</b>
5a Open-end (managed in Bulgaria)	110.4	112.1	125.2	119.7	108.8	102.0
5b Closed-end	149.9	149.0	155.4	153.3	147.5	154.4
5c Open-end (managed abroad)	147.9	183.0	135.4	123.7	107.4	112.8
<b>6 Insurance technical reserves; pension funds</b>	<b>4 739.1</b>	<b>5 113.3</b>	<b>5 257.6</b>	<b>5 430.9</b>	<b>5 485.5</b>	<b>5 778.3</b>
6a Life insurance	489.3	514.6	527.6	552.1	565.5	584.7
6b Pension funds	3 724.7	3 987.4	4 115.0	4 280.0	4 331.9	4 572.7
6c Prepayments of insurance premiums and reserves for outstanding claims	525.1	611.3	615.1	598.7	588.1	620.9
<b>7 Financial assets (1+2+3+4+5+6)</b>	<b>34 336.4</b>	<b>35 992.0</b>	<b>36 745.8</b>	<b>37 313.0</b>	<b>38 208.3</b>	<b>39 957.6</b>

YOY CHANGE	2010		2011			
	Sep	Dec	Mar	Jun	Sep	Dec
<b>1 Currency</b>	<b>-14.8%</b>	<b>-13.8%</b>	<b>2.4%</b>	<b>3.1%</b>	<b>4.3%</b>	<b>5.9%</b>
<b>2 Deposits</b>	<b>12.6%</b>	<b>12.3%</b>	<b>11.5%</b>	<b>11.2%</b>	<b>13.5%</b>	<b>13.0%</b>
2a LC deposits	19.2%	19.3%	19.5%	19.2%	20.3%	21.3%
2b FX deposits	7.6%	6.9%	5.1%	4.8%	7.9%	5.6%
<b>3 Securities other than shares</b>	<b>-15.6%</b>	<b>-0.7%</b>	<b>17.5%</b>	<b>17.1%</b>	<b>17.2%</b>	<b>10.4%</b>
3a Government securities	20.5%	13.2%	-1.2%	8.9%	9.8%	5.8%
3b Bonds (incl. mortgage bonds)	-28.6%	-18.8%	-46.1%	-64.9%	-40.2%	-36.1%
3c Compensatory notes	-31.4%	-6.9%	55.4%	54.9%	39.8%	26.0%
<b>4 Quoted shares</b>	<b>-11.0%</b>	<b>-21.9%</b>	<b>-8.6%</b>	<b>-12.1%</b>	<b>-31.6%</b>	<b>-24.7%</b>
<b>5 Mutual funds</b>	<b>6.8%</b>	<b>13.3%</b>	<b>-0.5%</b>	<b>-1.5%</b>	<b>-10.9%</b>	<b>-16.9%</b>
5a Open-end (managed in Bulgaria)	-10.5%	-3.0%	7.7%	11.9%	-1.5%	-9.0%
5b Closed-end	-8.2%	-3.9%	1.3%	2.0%	-1.7%	3.6%
5c Open-end (managed abroad)	55.1%	50.6%	-8.8%	-14.9%	-27.4%	-38.4%
<b>6 Insurance technical reserves; pension funds</b>	<b>22.6%</b>	<b>24.4%</b>	<b>21.3%</b>	<b>21.4%</b>	<b>15.7%</b>	<b>13.0%</b>
6a Life insurance	15.8%	18.9%	13.3%	15.7%	15.6%	13.6%
6b Pension funds	26.6%	26.3%	24.5%	24.2%	16.3%	14.7%
6c Prepayments of insurance premiums and reserves for outstanding claims	4.8%	16.9%	9.0%	9.3%	12.0%	1.6%
<b>7 Financial assets (1+2+3+4+5+6)</b>	<b>10.7%</b>	<b>10.6%</b>	<b>11.3%</b>	<b>11.1%</b>	<b>11.3%</b>	<b>11.0%</b>

RELATIVE SHARE	2010		2011			
	Sep	Dec	Mar	Jun	Sep	Dec
<b>1 Currency</b>	<b>5.2%</b>	<b>5.1%</b>	<b>4.6%</b>	<b>4.7%</b>	<b>4.8%</b>	<b>4.9%</b>
<b>2 Deposits</b>	<b>75.6%</b>	<b>76.0%</b>	<b>76.0%</b>	<b>76.2%</b>	<b>77.1%</b>	<b>77.3%</b>
2a LC deposits	34.5%	35.6%	36.2%	36.4%	37.3%	38.9%
2b FX deposits	41.0%	40.3%	39.8%	39.8%	39.8%	38.4%
<b>3 Securities other than shares</b>	<b>0.3%</b>	<b>0.3%</b>	<b>0.3%</b>	<b>0.3%</b>	<b>0.3%</b>	<b>0.3%</b>
3a Government securities	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
3b Bonds (incl. mortgage bonds)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
3c Compensatory notes	0.1%	0.1%	0.2%	0.2%	0.2%	0.1%
<b>4 Quoted shares</b>	<b>4.0%</b>	<b>3.2%</b>	<b>3.6%</b>	<b>3.3%</b>	<b>2.5%</b>	<b>2.2%</b>
<b>5 Mutual funds</b>	<b>1.2%</b>	<b>1.2%</b>	<b>1.1%</b>	<b>1.1%</b>	<b>1.0%</b>	<b>0.9%</b>
5a Open-end (managed in Bulgaria)	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
5b Closed-end	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
5c Open-end (managed abroad)	0.4%	0.5%	0.4%	0.3%	0.3%	0.3%
<b>6 Insurance technical reserves; pension funds</b>	<b>13.8%</b>	<b>14.2%</b>	<b>14.3%</b>	<b>14.6%</b>	<b>14.4%</b>	<b>14.5%</b>
6a Life insurance	1.4%	1.4%	1.4%	1.5%	1.5%	1.5%
6b Pension funds	10.8%	11.1%	11.2%	11.5%	11.3%	11.4%
6c Prepayments of insurance premiums and reserves for outstanding claims	1.5%	1.7%	1.7%	1.6%	1.5%	1.6%
<b>7 Financial assets (1+2+3+4+5+6)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**Financial Liabilities of Households**

VOLUMES (in BGN million)	2010		2011			
	Sep	Dec	Mar	Jun	Sep	Dec
<b>1 Mortgage loans</b>	<b>9 255.9</b>	<b>9 349.1</b>	<b>9 333.3</b>	<b>9 408.6</b>	<b>9 424.9</b>	<b>9 428.2</b>
<i>1a Mortgage loans of MFI</i>	8 604.8	8 709.4	8 715.6	8 765.8	8 793.3	8 807.7
1a1 Mortgage loans, local currency	3 994.0	3 932.1	3 868.5	3 802.2	3 748.0	3 694.5
1a2 Mortgage loans, foreign currency	4 610.8	4 777.3	4 847.2	4 963.6	5 045.2	5 113.1
<i>1b Mortgage loans of other FI</i>	651.1	639.7	617.6	642.8	631.7	620.6
1b1 Mortgage loans, local currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1b2 Mortgage loans, foreign currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>2 Consumption loans</b>	<b>11 247.0</b>	<b>11 164.0</b>	<b>11 084.5</b>	<b>11 086.0</b>	<b>11 075.4</b>	<b>11 049.3</b>
<i>2a Consumer loans of MFI</i>	7 602.8	7 554.3	7 532.2	7 577.5	7 574.5	7 503.6
2a1 Consumer loans, local currency	6 290.5	6 175.7	6 086.1	6 015.3	5 911.2	5 766.5
2a2 Consumer loans, foreign currency	1 312.2	1 378.6	1 446.1	1 562.3	1 663.3	1 737.1
<i>2b Consumer loans of other FI</i>	758.0	786.5	778.9	794.5	805.3	860.2
2b1 Consumer loans, local currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2b2 Consumer loans, foreign currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<i>2c Overdraft</i>	1 890.1	1 810.9	1 781.5	1 740.3	1 708.5	1 639.6
2c1 Overdraft, local currency	1 648.4	1 578.1	1 550.2	1 525.3	1 498.7	1 433.1
2c2 Overdraft, foreign currency	241.7	232.9	231.3	214.9	209.8	206.5
<i>2d Other loans</i>	913.9	909.3	893.1	881.2	893.8	948.6
2d1 Other loans, local currency	534.9	526.1	507.6	487.6	493.8	512.5
2d2 Other loans, foreign currency	379.0	383.2	385.5	393.6	400.0	436.1
<i>2e Other loans of other FI</i>	82.2	103.0	98.9	92.4	93.3	97.2
2d1 Other loans, local currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2d2 Other loans, foreign currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<i>2f Revolving credit cards (non-bank)</i>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>3 Financial leasing and hire purchase agreements</b>	<b>370.4</b>	<b>335.9</b>	<b>306.2</b>	<b>297.1</b>	<b>282.4</b>	<b>258.9</b>
<b>Total Liabilities (1+2+3)</b>	<b>20 873.4</b>	<b>20 849.1</b>	<b>20 724.0</b>	<b>20 791.7</b>	<b>20 782.7</b>	<b>20 736.5</b>

YOY CHANGE	2010		2011			
	Sep	Dec	Mar	Jun	Sep	Dec
<b>1 Mortgage loans</b>	<b>3.8%</b>	<b>3.7%</b>	<b>2.1%</b>	<b>2.1%</b>	<b>1.8%</b>	<b>0.8%</b>
<i>1a Mortgage loans of MFI</i>	4.7%	3.8%	2.7%	2.5%	2.2%	1.1%
1a1 Mortgage loans, local currency	-3.0%	-4.1%	-5.5%	-6.1%	-6.2%	-6.0%
1a2 Mortgage loans, foreign currency	12.4%	11.3%	10.3%	10.1%	9.4%	7.0%
<i>1b Mortgage loans of other FI</i>	-6.3%	2.5%	-5.3%	-2.0%	-3.0%	-3.0%
1b1 Mortgage loans, local currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1b2 Mortgage loans, foreign currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>2 Consumption loans</b>	<b>-5.2%</b>	<b>-3.7%</b>	<b>-2.5%</b>	<b>-2.3%</b>	<b>-1.5%</b>	<b>-1.0%</b>
<i>2a Consumer loans of MFI</i>	0.5%	-2.8%	-2.0%	-1.0%	-0.4%	-0.7%
2a1 Consumer loans, local currency	-2.6%	-6.9%	-6.4%	-6.0%	-6.0%	-6.6%
2a2 Consumer loans, foreign currency	19.1%	21.1%	22.1%	24.1%	26.8%	26.0%
<i>2b Consumer loans of other FI</i>	-29.8%	8.8%	12.4%	7.9%	6.2%	9.4%
2b1 Consumer loans, local currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2b2 Consumer loans, foreign currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<i>2c Overdraft</i>	-9.2%	-10.2%	-9.6%	-11.0%	-9.6%	-9.5%
2c1 Overdraft, local currency	-9.6%	-10.6%	-10.4%	-10.5%	-9.1%	-9.2%
2c2 Overdraft, foreign currency	-6.4%	-6.8%	-3.7%	-14.4%	-13.2%	-11.3%
<i>2d Other loans</i>	-9.0%	-5.0%	-2.1%	-2.8%	-2.2%	4.3%
2d1 Other loans, local currency	-18.5%	-13.5%	-9.8%	-9.9%	-7.7%	-2.6%
2d2 Other loans, foreign currency	9.0%	9.8%	10.4%	7.8%	5.5%	13.8%
<i>2e Other loans of other FI</i>	-27.4%	-6.8%	-0.5%	-0.3%	13.5%	-5.6%
2d1 Other loans, local currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2d2 Other loans, foreign currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<i>2f Revolving credit cards (non-bank)</i>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>3 Financial leasing and hire purchase agreements</b>	<b>-20.6%</b>	<b>-21.2%</b>	<b>-23.7%</b>	<b>-20.3%</b>	<b>-23.8%</b>	<b>-22.9%</b>
<b>Total Liabilities (1+2+3)</b>	<b>-1.7%</b>	<b>-0.9%</b>	<b>-0.9%</b>	<b>-0.7%</b>	<b>-0.4%</b>	<b>-0.5%</b>

**Financial Liabilities of Households (continued)**

RELATIVE SHARE	2010		2011			
	Sep	Dec	Mar	Jun	Sep	Dec
<b>1 Mortgage loans</b>	<b>44.3%</b>	<b>44.8%</b>	<b>45.0%</b>	<b>45.3%</b>	<b>45.4%</b>	<b>45.5%</b>
<i>1a Mortgage loans of MFI</i>	41.2%	41.8%	42.1%	42.2%	42.3%	42.5%
1a1 Mortgage loans, local currency	19.1%	18.9%	18.7%	18.3%	18.0%	17.8%
1a2 Mortgage loans, foreign currency	22.1%	22.9%	23.4%	23.9%	24.3%	24.7%
<i>1b Mortgage loans of other FI</i>	3.1%	3.1%	3.0%	3.1%	3.0%	3.0%
1b1 Mortgage loans, local currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1b2 Mortgage loans, foreign currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>2 Consumption loans</b>	<b>53.9%</b>	<b>53.5%</b>	<b>53.5%</b>	<b>53.3%</b>	<b>53.3%</b>	<b>53.3%</b>
<i>2a Consumer loans of MFI</i>	36.4%	36.2%	36.3%	36.4%	36.4%	36.2%
2a1 Consumer loans, local currency	30.1%	29.6%	29.4%	28.9%	28.4%	27.8%
2a2 Consumer loans, foreign currency	6.3%	6.6%	7.0%	7.5%	8.0%	8.4%
<i>2b Consumer loans of other FI</i>	3.6%	3.8%	3.8%	3.8%	3.9%	4.1%
2b1 Consumer loans, local currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2b2 Consumer loans, foreign currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<i>2c Overdraft</i>	9.1%	8.7%	8.6%	8.4%	8.2%	7.9%
2c1 Overdraft, local currency	7.9%	7.6%	7.5%	7.3%	7.2%	6.9%
2c2 Overdraft, foreign currency	1.2%	1.1%	1.1%	1.0%	1.0%	1.0%
<i>2d Other loans</i>	4.4%	4.4%	4.3%	4.2%	4.3%	4.6%
2d1 Other loans, local currency	2.6%	2.5%	2.4%	2.3%	2.4%	2.5%
2d2 Other loans, foreign currency	1.8%	1.8%	1.9%	1.9%	1.9%	2.1%
<i>2e Other loans of other FI</i>	0.4%	0.5%	0.5%	0.4%	0.4%	0.5%
2d1 Other loans, local currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2d2 Other loans, foreign currency	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<i>2f Revolving credit cards (non-bank)</i>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>3 Financial leasing and hire purchase agreements</b>	<b>1.8%</b>	<b>1.6%</b>	<b>1.5%</b>	<b>1.4%</b>	<b>1.4%</b>	<b>1.2%</b>
<b>Total Liabilities (1+2+3)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

**Total Household Wealth (Housing and Financial Combined)**

VOLUMES (in BGN billion)	2010		2011			
	Sep	Dec	Mar	Jun	Sep	Dec
Value of real estate owned	223.630	220.635	215.692	212.494	210.940	207.982
Gross financial wealth	34.336	35.992	36.746	37.313	38.208	39.958
Debt	20.873	20.849	20.724	20.792	20.783	20.736
<b>Total net household wealth</b>	<b>237.093</b>	<b>235.778</b>	<b>231.714</b>	<b>229.015</b>	<b>228.365</b>	<b>227.204</b>

Data sources: Bulgarian National Bank, Central Depository, Financial Supervision Commission

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