

BANKING MARKET IN BULGARIA 2008 - CEE BANKING SERIES



by Marcin Mazurek, Intelace Research
January 2008

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EXECUTIVE SUMMARY – BANKING MARKET IN BULGARIA 2008

- **Continuous growth of the economy.** The Bulgarian economy keeps growing steady since 2000. The average GDP growth rate has remained stable during 2000-2007 (in real terms 4 to 6% p.a.) resulting in doubling of GDP per capita to almost 3600EUR. The initially high unemployment rate dropped below 7% in 2007. High growth of the economy together with a tight budget policy of the government resulted in the budget surplus and impressive reduction of public debt. The major problem that could not be solved so far is persisting inflation and negative current account balance. Fortunately Bulgaria is increasingly attracting high volumes of new FDI, which is compensating the negative foreign trade balance
- **EU accession and reforms.** The long expected accession to EU came true in Jan. 2007. On the way to EU Bulgaria has done a big effort to comply with various EU requirements and regulations. Moreover, to make the country competitive and attractive place to invest, the fiscal policy has been recently significantly eased, including introduction of low corporate tax rate of 10% (effective 2007), and personal income tax flat rate of 10% (effective 2008), making Bulgaria one of the most attractive places to invest in the whole Europe. As the next step the quick joining of ERM II and adoption of EURO are on agenda
- **Banking market growth.** Since the year 2001 banking market is developing quickly, with the annual assets growth rate exceeding 28%. Moreover since 2004 a surge in both: retail and corporate volumes could be observed. Already in 2005 the Central Bank has addressed acceleration in lending with introduction of penalties on excessive credit growth. Applied measures proved to be successful and contributed to moderating of lending growth. As a side-effect the unsatisfied demand for loans (especially in corporate sector) moved to other financing forms as: leasing, corporate bonds or equity markets
- **Positive future outlook.** Current banking penetration benchmarks (Assets per capita: 3500 EUR, Assets to GDP: 97%) demonstrate that Bulgarian banking market has recently experienced a leap to the league of high growth markets. In our view the future prospects are still very good, although a decelerating growth rates are expected starting 2008. In the retail segment we assume further strong growth of mortgage and consumer lending. Also intensive use of cash is likely to drop and convert into deposits and increased use of payment instruments. In the corporate business a continued growth of lending is likely to persist, driven by new local investments and FDIs

- **Macroeconomic overview**
- **Banking market**
- **Retail banking**
- **Corporate banking**
- **Banks profitability**
- **Banks valuation**
- **Top banks profiles**
- **Mid-term forecasts**
- **Notes on Methodology**

BULGARIA – GENERAL OVERVIEW

Bulgaria - Country Map



Bulgaria - Key facts

Area: 111 thousand square kilometer

Population: ~ 7.7 million, of which:

- 51% female, 49% male
- 86% aged 15 and over
- 70% urban population

Annual growth rate: -0.9%

Average life expectancy:

- 69Y male
- 76Y female

Major cities: (inhabitants in million): Sofia (0.9), Plovdiv (0.34), Varna (0.31), Burgas (0.19), Ruse (0.16)

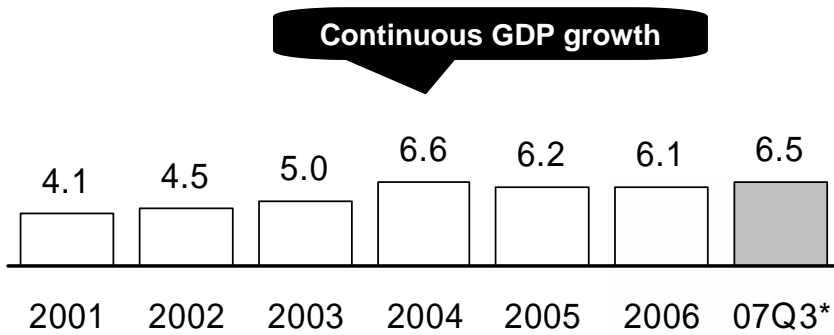
Membership in major organizations:

- NATO (2004)
- EU (2007)

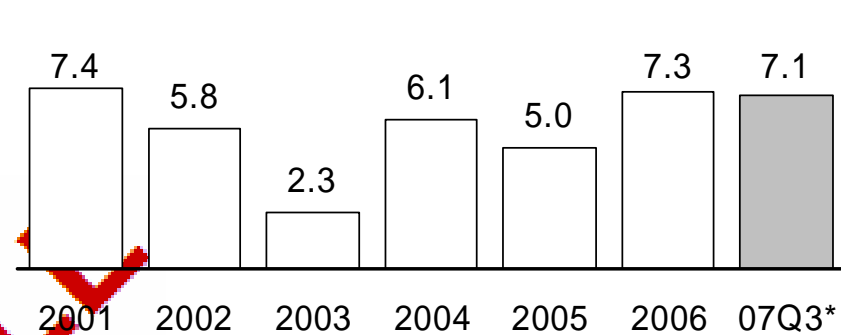
BULGARIAN GDP IS GROWING STEADY BUT INFLATION IS STILL A PROBLEM



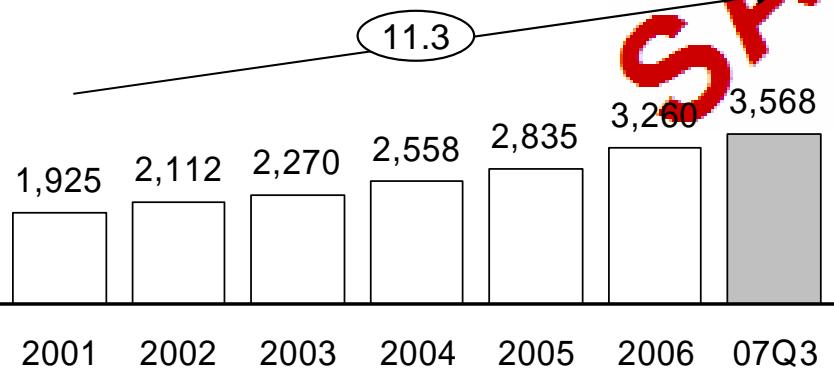
GDP real growth rate
%



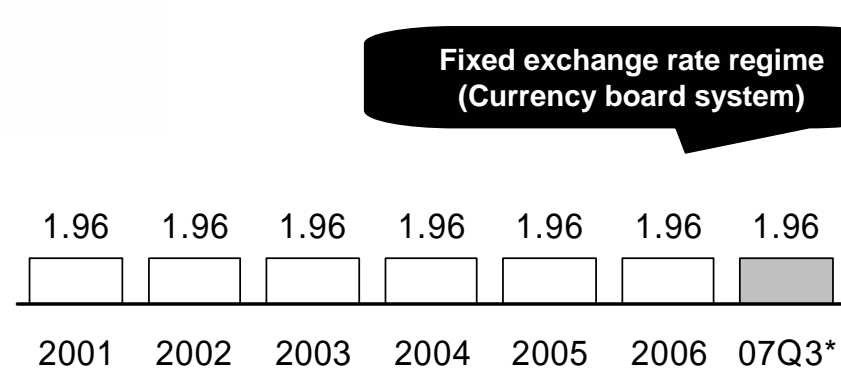
Average Inflation
%



GDP per capita
EUR



Average exchange rate
EUR/BGN



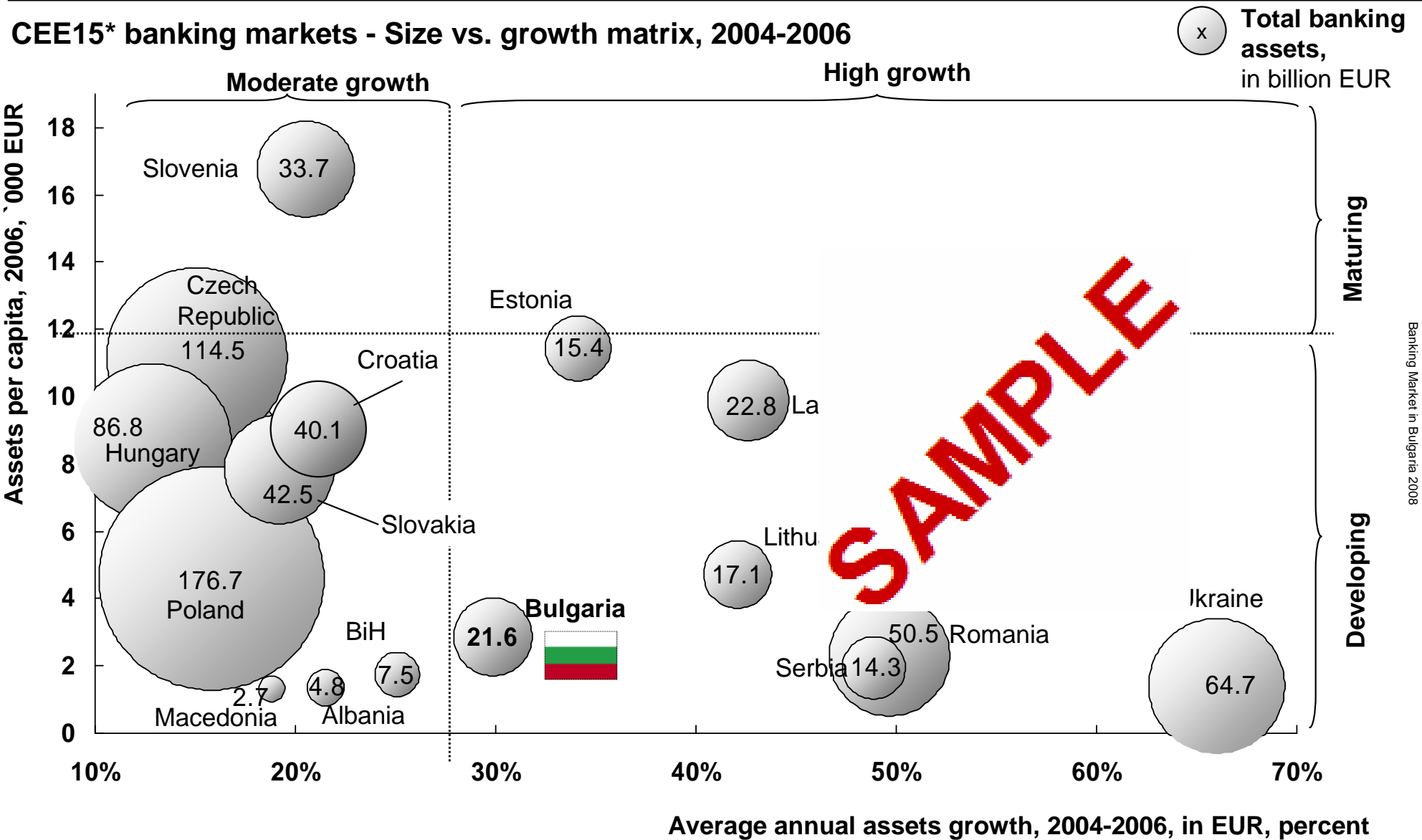
Banking Market in Bulgaria 2008

* Average for the period Q1-Q3 2007

** Compound Annual Growth Rate

Source: BNB, Intelace Research

BULGARIA HAS A QUICKLY GROWING BANKING MARKET



Banking Market in Bulgaria 2008

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* major 15 CEE countries + Ukraine. Russia and Belarus not included

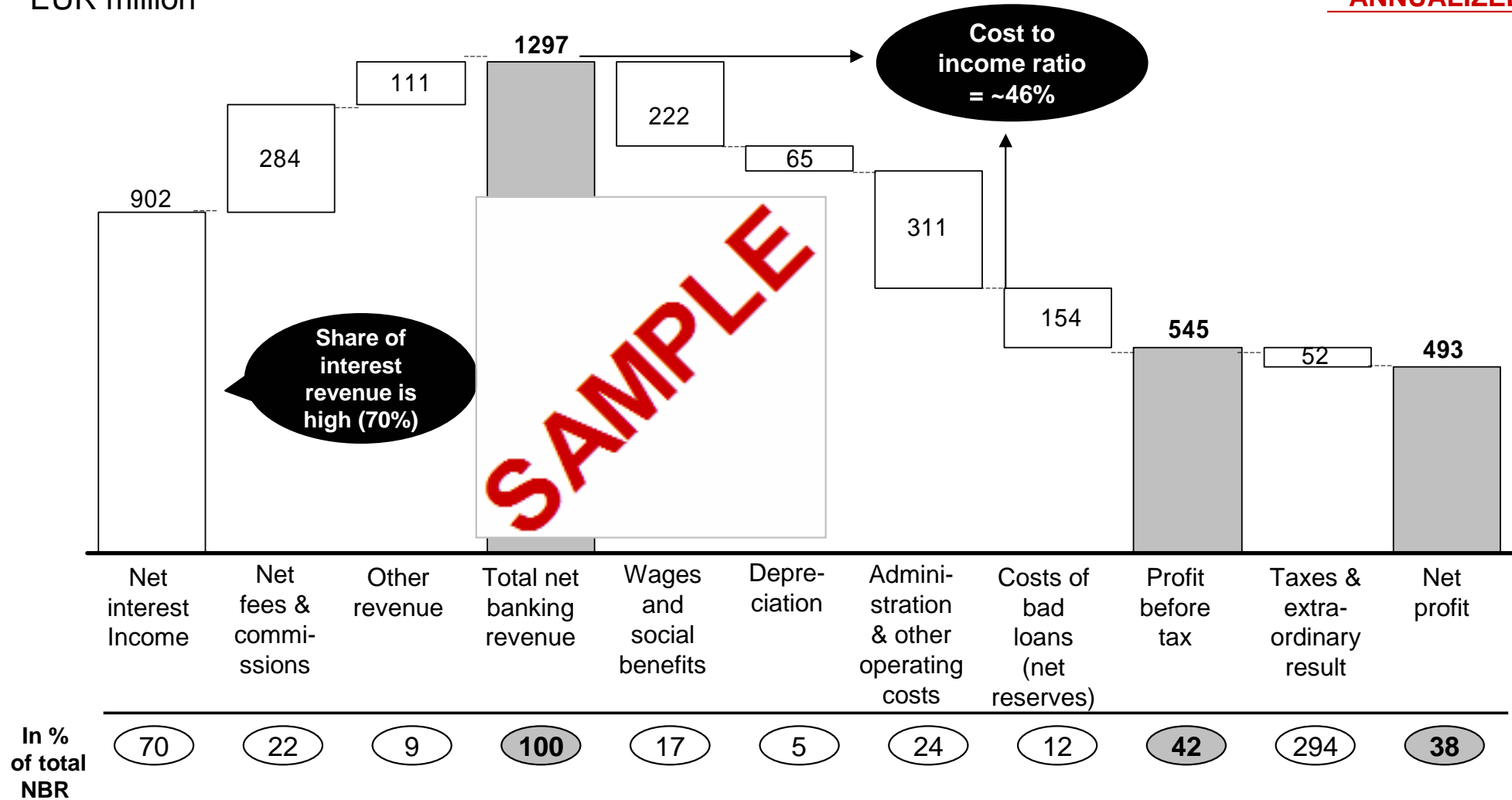
Source: Central banks, IMF, Intelace Research

DURING FIRST 10 MONTHS OF 2007 BULGARIAN BANKS RECORDED ~1.3 BILLION EUR REVENUE AND 493 MILLION EUR NET PROFIT

Commercial banks - Profit and loss accounts, 01/2007-10/2007

EUR million

**NON
ANNUALIZED**



NOTES ON METHODOLOGY

Estimates and Forecasts:

- In some cases, recent or verified data was not available. Therefore, necessary short-term estimations have been done to fill the gaps. Estimates have been always indicated with the letter “E”
- Forecasts presented in the report have been marked with the letter “F”. When preparing forecasts we have built models using various factors including: latest observed trends, available forecasts of main economic indicators, seasonal changes observed in the past and other specific data considered important.

Multiple sources:

- In some cases multiple sources of similar data exist. In this situation we try to select the most appropriate one /in our view/. The source is indicated in the footer area of each slide. Nevertheless in specific cases, before interpreting the data it is recommended to get a good understanding on the methodology of data collection.

FX rates:

- As a general rule all balances like: assets, deposits, loans etc. have been converted from the local currency into Euro using **end of year** exchange rate
- All results achieved during a period of time like: profits, revenues, new sales etc. have been converted from the local currency into Euro using **average** exchange rate
- Exchange rates used in the report: 1EUR = 1.9558BGN

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About this report

This report has been prepared using publicly available sources including: financial reports, press publications, industry magazines, directories, financial databases and expert interviews.

Views presented in this report reflect solely independent and unbiased opinion of Intelace Research and the author.

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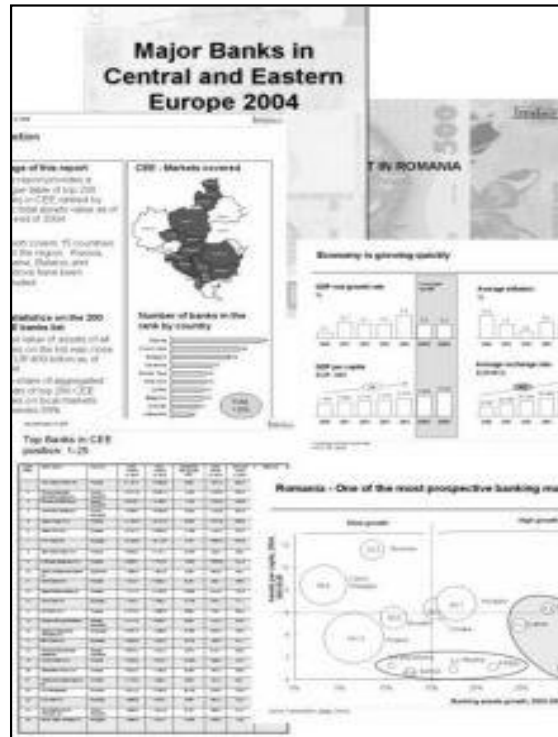
- International banks present in Poland and CEE
- Top international strategy consultants
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FIRST INVESTMENT BANK
BULGARIAN POST BANK
PIRAEUS BANK BULGARIA
SOCIETE GENERALE EXPRESSBANK
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