

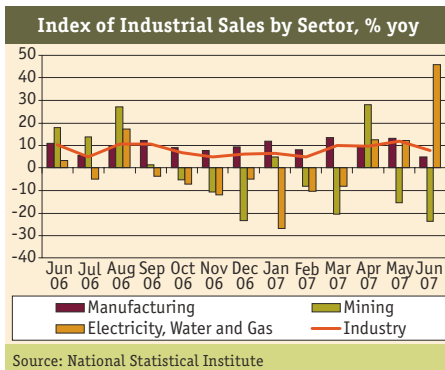
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Summary

- In June, industrial sales growth decelerated to 7.8% yoy due to a sales decrease in the mining sector, which is highly dependent on external demand and world prices.
- The consolidated budget posted a surplus of EUR 166 million (Lev 313 million) in June, leading to an increase in the government's fiscal reserve to EUR 3.62 billion (Lev 7.08 billion)
- Government and government guaranteed debt increased by EUR 4.3 million (Lev 8.4 million) to EUR 5.64 billion by the end of June as a result of a slight increase in domestic debt.
- In July, consumer price growth as measured by the CPI accelerated to 8.4% yoy. In the first seven months of 2007, CPI growth was 4.3%.
- The current account (CA) deficit widened to EUR 2.84 billion (10.6% of GDP) in January-June as compared to EUR 1.84 billion (7.1% of GDP) for the same period in 2006.*
- In January-June, foreign direct investment (FDI) amounted to EUR 2.11 billion (7.9% of GDP). Net FDI inflow covered 71% of the CA deficit.

Economic Growth

The National Statistical Institute (NSI) published preliminary data on industry growth for June 2007. Industrial sales growth decelerated to 7.8% yoy compared to 11.9% yoy in May.



Manufacturing sales growth slowed down to 1.7% mom (7.4% mom in May). On an annual basis, manufacturing sales expanded 5.1% in June as compared to 13.2% in May. Utilities sales surged 46.1% yoy. On a monthly basis, utilities sales expanded 42.4% after a contraction of 11.5% in May. Sales in the mining sector posted a larger decrease of 23.9% yoy (15.5% yoy in May). The mining sector is highly dependent on external demand and world prices, and seasonal factors affect demand in the utilities sector. Growth of industrial production outpaced growth of industrial sales in utilities (56.3% yoy) and manufacturing (6.8% yoy). Despite a 13.3% mom drop in mining sector sales, production in the sector increased 10.6% mom. Industrial sales in food and beverages, wood products, basic metals, machinery and furniture sectors are major contributors to industry growth.

* The data on current account and trade balances will be revised due to problems arising from Intrastat data coverage and quality since the start of 2007 (changes in reporting procedures under EU rules).

In June, retail trade advanced by 4.4% mom, while wholesale trade edged up 3.8% mom. In January-June, retail and wholesale trade growth slowed down to 9.1% yoy and 3.4% yoy respectively. The wide margin between retail and wholesale growth rates is a result of the structural changes of trade. Direct sales through large chains of supermarkets and department stores grew faster than retail sales in smaller stores. In January-June, sales of electrical household appliances and food posted the strongest growth rates of 11.7% yoy and 9.8% yoy respectively.

According to a survey by the NSI, business confidence in industry, construction, retail trade and service sectors remains high. In July, the composite business sentiment indicator (CBSI) decreased by 0.5 pps compared to June due to changed expectations in retail trade and service sectors. CBSI remained 1.2 pps below its 13 year high of 50.7%. In industry, business climate assessments improved by 0.9% as a result of managers' improved estimate of their companies' competitive position both on domestic and foreign markets. In construction, the CBSI index edged up 3.1 pps on a monthly basis on positive assessments of the construction orders log. In retail trade and service sectors, the CBSI fell 2.4 pps and 5 pps as a result of managers' more moderate assessment of the business situation.

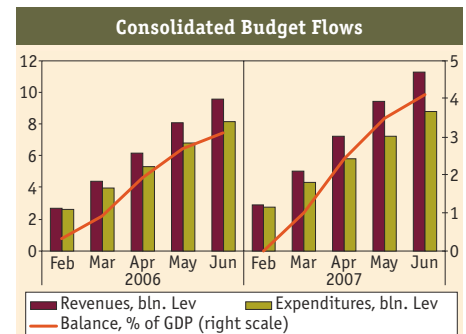
Fiscal Policy

In June, the government's fiscal reserve increased to EUR 3.62 billion (Lev 7.08 billion) from EUR 3.33 billion (Lev 6.51 billion) a month earlier. The fiscal reserve is above the government target of 2% of projected full year GDP. The surplus in January-June accounts for 4.1% of a full-year GDP projection against 3.5% in May. At the end of June, the government's fiscal reserve covered 64% of government and government guaranteed debt.

In June, the consolidated budget posted a surplus of EUR 166 million (Lev 313 million), a notable decrease from a EUR 295 million (Lev 577 million) surplus in May. In the first six months of the year, the consolidated budget achieved a surplus of EUR 1.1 billion (Lev 2.16 billion). Revenue growth accelerated to 17.4% yoy up from 16.4% yoy growth in January-May. Consolidated fiscal revenues reached EUR 5.75 billion (Lev 11.25 billion). Tax and social insurance revenues performed better than expected. Tax revenue grew 17.9% yoy and reached EUR 4.68 billion (Lev 9.15 billion). Despite a decrease in the corporate tax rate from 15% to 10%, the revenue growth was driven primarily by corporate and individual tax collections. Non-tax revenue growth decelerated for the fifth month in a row to 11.8% yoy and reached EUR 925 million (Lev 1.8 billion) in the first six months of the year.

According to the Minister of Finance, Plamen Oresharski, the strong fiscal performance will allow the government to raise pensions by 10% (in addition to the 10% raise in July) and reduce mandatory pension insurance contributions from 23% to 20% in October.

In January-June, consolidated budget expenditures accelerated to 7.9% yoy growth from 6.6% yoy in the prior month and amounted to EUR 4.5 billion (Lev 8.8 billion). The share of social expenditures in all consolidated budget allocations slightly decreased to 40% and capital expenditures marginally increased to 11.3%. The consolidated budget allocated EUR 1.8 billion (Lev 3.5 billion) to social expenditures and EUR 0.51 billion (Lev 0.99 billion) to capital expenditures. Wages and salaries and maintenance allocations increased to EUR 0.7 billion (Lev 1.38 billion) and EUR 0.89 billion (Lev 1.74 billion), with growth rates of 10.3% yoy and 4.6% yoy respectively.

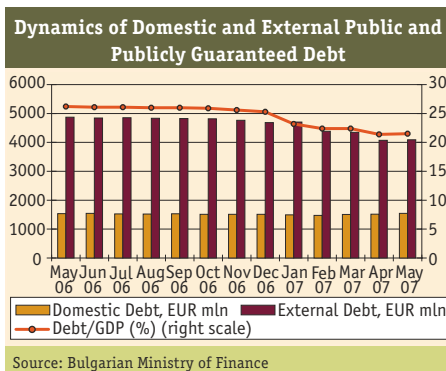


The government continues strict debt level monitoring and reduction of public debt and service costs in compliance with its Debt Management Strategy. According to the Ministry of Finance, government and government guaranteed debt increased by EUR 4.3 million (Lev 8.4 million) to EUR 5.64 billion by the end of June as a result of a slight increase in domestic debt. On an annual basis, government and government guaranteed debt decreased 11.8%. In 2007, payments on government and government guaranteed debt amounted to EUR 951 million. The debt to GDP ratio edged up to 21.6%.

External debt remained unchanged at EUR 4.09 billion. In June, Bulgarian payments on external debt amounted to EUR 43 million and new financing totaled EUR 31 million. The share of external debt in government and government guaranteed debt decreased by 0.2 pps to 72.4%. Domestic public debt increased to EUR 1.55 billion. The share of government securities denominated in Lev increased to 74.4% and securities denominated in EUR and USD decreased to 25.7%. The maturity structure of government debt slightly changed. Long-term securities decreased to 63.8% and medium-term securities increased to 35.7%.

According to BNB preliminary data, gross external debt amounted to EUR 20.38 billion (76.3% of GDP) at the end of May. In January-May, external debt

surged by EUR 714.6 million (3.6%). By the end of May, external debt in the banking sector decreased to EUR 3.43 billion from EUR 3.7 billion in the prior month. External debt of the banking sector had posted a marginal 1.5% increase in first five months of the year. Short-term external debt in the sector accounts for 79% of outstanding debts. Inter-company lending (direct investment) and other sector external debts showed 9.8% and 9.9% growth in the first five months of the year. Inter-company lending reached EUR 6.1 billion and other sector debts stood at EUR 7.7 billion. Long-term liabilities accounted for 67.3% of total external debt. Gross external debt service amounted to EUR 2.37 billion at the end of May (8.9% of GDP).



Monetary Sector

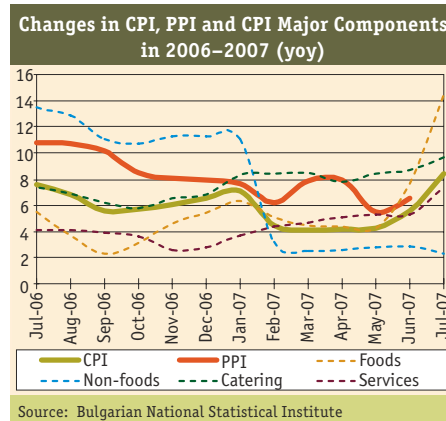
In July, consumer price growth as measured by the CPI accelerated to 8.4% yoy. While CPI growth had slowed to 2% since the start of the year in the preceding month, in the first seven months consumer price growth reached 4.3% with the last month's growth of 2.2%. The rebound in consumer price growth threatens the government strategy to accommodate the ERM-2 currency mechanism this summer and meet the Maastricht price criterion in 2009. The government inflation target for 2007 was set at 4.4% in the budget law for this year.

Consumer prices in foods, catering and service sectors increased 3.9% mom, 1.3% mom and 2.7% mom respectively. In the non-foods sector, consumer prices have not changed over the previous month. On an annual basis, food prices grew 14.5% and prices in services and catering grew 7.4% and 9.7% respectively. The drought in July strained the supply of agricultural products, causing inflationary pressure on food prices. Other inflationary factors include increasing wage demands and foreign financial inflows as well as price adjustments to EU average levels.

The harmonized index of consumer prices (HICP), calculated on the basis of consumer weights and standardized product groups of EU countries, increased 6.8% yoy in July (5.3% yoy in June). The difference between the HICP and the national CPI

is attributed to the larger weight of catering and services in the consumer basket of the EU.

In June, producer prices measured by the producer price index (PPI) increased 6.5% yoy, up from 5.5% yoy growth in May. The producer prices for the domestic market accelerated to 1.2% mom as compared to 0.7% mom growth in the prior month. The acceleration of producer prices is driven by prices in the mining sector where the PPI index surged 4.5% mom after a slight decrease of 0.4% mom in May. Prices in the utilities and manufacturing sectors posted 0.2% mom and 1.2% mom growth.



In July, the monetary base and money supply growth slowed to 2.4% mom and 2.9% mom respectively. Broad money (M3) reached EUR 18.6 billion (Lev 36.37 billion) and narrow money (M1) increased to EUR 9.3 billion (Lev 18.28 billion). On an annual basis, the growth of the money supply was 29%. The money supply multiplier was 3.52 versus 3.5 in June. The ratio of money supply to GDP increased to 69.6%. Deposits with a maturity of up to 2 years surged by EUR 232 million (Lev 454 million) to EUR 7.62 billion (Lev 14.91 billion), posting an annual growth rate of 29.6%. Deposits redeemable at notice of up to 3 months increased by EUR 54 million (Lev 106 million) to EUR 1.62 billion (Lev 3.17 billion), up 28.5% yoy.

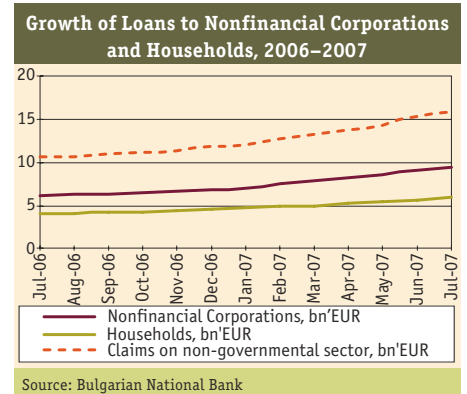
Overnight deposits increased moderately by EUR 109 million (Lev 214 million) and reached EUR 5.95 billion (Lev 11.63 billion) by the end of July. On an annual basis, overnight deposits grew 36.9%. The share of all deposits in foreign currencies decreased to 45.8% from 46.5% in June.

The Bulgarian National Bank (BNB) increased its base interest rate to 4.01% p.a. in July and 4.1% p.a. in August.

In July, claims on the non-government sector grew by EUR 512 million (Lev 1 billion) and amounted to EUR 15.78 billion (Lev 30.86 billion), which is an increase of 49.3% yoy (47.9% yoy in June).

Loans to non-financial corporations reached EUR 9.41 billion (Lev 18.4 billion), up 54.7% yoy. The monthly increase in loans to non-financial corporations is EUR 315 million (Lev 616 million), decelerating to 3.5% mom from 7.5% mom growth. The share of loans to non-financial corporations in foreign currencies increased to 66%. Loans to households amounted to EUR 5.81 billion (Lev 11.35 billion), up 41.7% yoy. The monthly growth in household loans is EUR 217 million (Lev 424 million) or 3.9% mom (2.8% mom in June).

As of September 1, the Bulgarian National Bank will increase the minimum reserve requirement (MRR) of banks from 8% to 12% to achieve a moderate bank credit growth and stable development of the banking system.



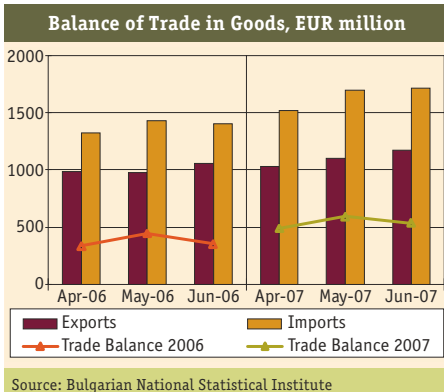
International Trade and Capital

In June, the trade deficit decreased to EUR 535 million (Lev 1.04 billion) as compared to EUR 593 million (Lev 1.16 billion) in May according to customs reports for non-EU countries and incomplete INTRASTAT files for EU states. In January-June, the trade deficit reached EUR 3.2 billion (Lev 6.26 billion), a growth of 48% yoy. In June, the trade deficit increased to 12% of GDP (10% in May).

Exports growth accelerated from 7% mom in May to 7.4% in June and reached EUR 6.14 billion (Lev 12.01 billion) in the first 6 months of the year. Bulgaria exported EUR 1.18 billion worth of goods in June, up EUR 81.8 million from exports in May. Imports grew by EUR 23.5 million or 1.4% mom as compared to 11.6% mom in May. In June, imports amounted to EUR 1.71 billion (Lev 3.35 billion). In January-June, Bulgaria imported EUR 9.34 billion (Lev 18.27 billion) worth of goods, with the EU as the largest trading partner. The share of exports to EU countries in total exports increased to 62.9% and share of imports from EU countries in total imports slightly fell to 59.9% as of the end of June*.

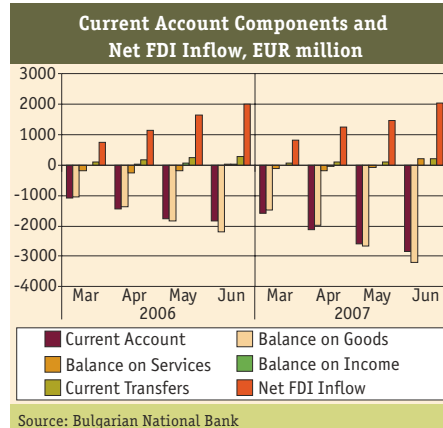
According to BNB preliminary data, the current account (CA) deficit widened to EUR 2.84 billion

* Preliminary data of the NSI.



(10.6% of GDP) in January-June as compared to EUR 1.84 billion (7.1% of GDP) for the same period in 2006*. In June, the CA deficit was EUR 247 million, a sharp drop as compared to the EUR 445 million CA deficit in May. The decline in the CA deficit is a result of a positive balance of trade in services, which is influenced by seasonal factors. The two month surplus (May-June) in services was EUR 374.3 million as opposed to a deficit of EUR 169 million in January-April. In May-September 2006, the surplus in services amounted to EUR 1.07 billion (seasonal inflows in the tourist industry) while each other month posted a deficit in services. In January-June, foreign direct investment (FDI) amounted to EUR 2.11 billion (7.9% of GDP). Net FDI inflow covered 71% of the CA deficit (57% in January-May). The foreign direct investment exceeds the government annualized estimates of EUR 2.7 billion in FDI for 2007. The financial account surplus reached EUR 3.6 billion in the first six months of the year.

In July, the Bulgarian National Bank (BNB) reserve assets increased by EUR 288 million to EUR 9.9 billion, which is 18% yoy growth.



Other Developments and Reforms Affecting the Investment Climate

The basic unemployment rate dropped to 7.25% at the end of June. Strong economic growth and increasing seasonal demand improve employment opportunities. The jobless ratio could reach an all time low of about 7% in August.

The personal income tax may be reduced to a flat rate of 10% in early 2008 from a current progressive scale from 20% to 24% if the Parliament will approve the tax changes. The radical reduction in personal income tax is supported by the leaders of three political parties that form the current coalition government.

The Financial Supervision Commission (FSC) reported that the net assets of Bulgarian private pension funds reached EUR 1 billion in August, a growth of 30% since the start of the year. Bulgarian pension reform in 2002 introduced mandatory and voluntary contributions to private pension funds in addition to mandatory contributions to the state pension fund.

The Bulgarian privatization agency received the tender documentation from 23 potential bidders for privatization of Navigation Maritime Bulgare (Navibulgar). The privatization agency will accept letters of interest from investors until September 10th and announce qualified bidders on September 28th. The privatization tender is planned to be completed in the second quarter of 2008. Navibulgar employs over 4,000 people and owns 77 cargo ships. In 2006, company revenues were EUR 200 million.

AIG Capital Partners (AIG Group) closed the deal on acquisition of fixed line telecommunication company BTC after approval from the EU competition authorities. AIG bought a 65% stake from Viva Ventures and a 25% stake from minority shareholders on the Bulgarian Stock Exchange for a total EUR 1.4 billion. BTC is a fixed line operator that covers 97% of the fixed line segment of the market with 2.9 million phone lines. Vivatel, a mobile phone operator owned by BTC, has a market share of about 10%.

Energy sector

Vereinigte BioEnergie AG (Verbio) is considering investment in production of biodiesel and bioethanol in Bulgaria. Verbio is the only industrial-scale producer of biodiesel and bioethanol in Europe. If Verbio builds facilities in Bulgaria, it will become the major supplier of biofuel in South Eastern Europe.

Kozloduy nuclear power plant reconnected 1000 Mw unit 5 to the power grid after scheduled annual maintenance to ease the electricity shortage. The power plant has two operational units 5 and 6. The smaller units 1 and 2 were decommissioned in 2003 due to EU environmental concerns, and units 3 and 4 were closed on January 1 upon Bulgaria's entry into the European Union.

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