

Country report

LEASING MARKET IN BULGARIA

In Bulgaria over 200 companies are registered to offer leasing. Out of those approximately 30 are active and form the leasing market in the country. The members of Bulgarian Association for Development of the Leasing Business (BADLB) and Bulgarian Association of the Leasing Companies (BALC) have a market quota of over 90%. By the end of 2005 BADLB and BALC are going to merge, as decision for the merger has been agreed on from both associations. Thus the members of the new Bulgarian Association for Leasing (BAL) are going to reach 18. Some of the current initiatives of the associations include surveys of the leasing market, discussions on Bulgarian commercial and tax legislation, concerning the leasing activities, discussion on statistical reporting of the leasing companies at BNB.

Size and structure

There is no official information of the size of the leasing sector. The associations have completed joint market surveys in which other companies except our members have also been invited. In our opinion those surveys represent at least 80% of the market. Following that the size of the market has been estimated by the outstanding net lease receivables from financial leasing contracts towards the period as follows:

2001 - 41 mio EUR

2002 - 105 mio EUR

2003 - 133 mio EUR

2004 – 201 mio EUR

2005 (first six months) – 323 mio EUR

** Exchange rate (1 EUR = 1,95583 BGL)*

As it could be noticed the volume of transactions concluded by the participants in the surveys continuously increased. This evolution could be explained through some factors: the increase of the number of participating companies in the surveys, the entering of new leasing companies affiliated with big international financial groups, the growth of the underlying asset supply markets and the increasing customer awareness of the leasing services. The overall growth in Bulgarian leasing market is strong (rate of 50% in 2004), which is typical for most countries in Central and Eastern Europe but as far as the size of the market is concerned Bulgaria is still far behind.

In Bulgaria the share of financial leasing contracts is over 99% of the market and operating leasing is used mainly by corporative companies.

Ownership of the leasing companies

The structure of the sector is as follows:

- **Leasing companies affiliated to banks**
- **Leasing companies affiliated to car dealers**
- **Independent leasing firms**

The leasing companies affiliated to banks offer financial leasing for different types of assets. They are Interlease (subsidiary of National Bank of Greece), HVB Leasing (HVB Group, presented in Bulgaria by HVB Bank Biochim), Unicredit Leasing Bulgaria (Unicredit Group, presented in Bulgaria by Bulbank), Raiffeisen Leasing Bulgaria (Raiffeisen Group, presented in Bulgaria by Raiffeisenbank Bulgaria), Hebros Leasing (Hebros bank), Unionleasing (Unionbank), EFG Leasing (EFG Group presented in Bulgaria by Postbank), Pireous Leasing Bulgaria (Pireous bank), DSK Leasing (OTP Group presented in Bulgaria by DSK bank), Porsche Leasing (Porsche Bank AG), Sogelease (SG Expressbank), Prolease (ProCredit bank) and others.

The leasing companies affiliated to car dealers or in some cases the actual car dealers are as follows: Afin Bulgaria (offering leasing for Iveco), Promobile Leasing (affiliated to Promobile, car dealer for Renault), Moto Pfohe (car dealer offering leasing for Ford, Jaguar and Land Rover), Sofia Leasing (affiliated to Sofia France Auto, car dealer for Peugeot), Automotor Corporation (car dealer offering leasing for Citroen), Bohemia Auto (affiliated to Euratek, car dealer for Skoda), ITA Leasing (affiliated to Auto Italia, car dealer for Fiat), Scania Credit AB (affiliated to Scania Bulgaria, car dealer for Scania), Balkan Star Services (affiliated to Balkan Star, car dealer for Mercedes-Benz) and others.

There are many smaller leasing companies, which are not affiliated with banks or car dealers. They are specialized in financial leasing for specific types of assets. Some of the bigger independent leasing firms are TBI Leasing, BM Leasing, Unitrade Leasing, Vanto Leasing, Unilease and others.

The main financing sources available to the leasing companies in Bulgaria are the banks. The share of leasing companies affiliated to banks is as follows:

- **2001 – 40%**
- **2003 – 47%**
- **2004 – 72%**
- **2005 (as of 30.06) – 76%**

The increase is due to the reduction of interests in the sector and the opportunity for financing of larger assets. Also major factor is the acquiring of leasing companies by banks and the entering of international companies in Bulgaria like Hebros Leasing, Unicredit Leasing Bulgaria, Pireous Leasing, EFG Leasing, Porsche Leasing Bulgaria and others.

Structure of the market by asset type

The most important segments of the leasing market are industrial equipment (38%), commercial vehicles (32%) and cars (23%). The structure of the market remains relatively the same as for 2004. There is a slight increase of the leasing activity on cars which is due to the fact that leasing is the favourite financing tool for purchasing cars and the strong growth of new car sales. The real estate leasing is still offered by only few leasing companies in Bulgaria, but following the tendencies in Europe we are expecting its share to grow.

In Bulgaria machinery and industrial equipment have a traditionally high share in the volume on the market. The 38% share is very high both compared to the region and to the European markets as a whole. The fact that it is the most important segment in the Bulgarian leasing market shows the importance of leasing for the renewing of the machinery park in the country and the raising of the competitiveness of the Bulgarian economy.

Structure of the market by contract type

The structure of the market, determined by contract term is relatively similar to those of other Central and European countries. The majority of equipment leasing contracts have a maturity situated between 2 to 5 years – 74,01% of all new leasing contracts (excluding real estate) fall into this category in 2004 and 80,11 % in 2005 (first six months).

Most real estate leasing contracts have tenor longer than 8 years. The increase of real estate contracts between 2004 and 2005 (first six months) is around 100% and most of the new contracts fall within this time frame. The share of shorter contracts (up to 4 years) and those between 4 – 8 years went down compared to 2004 while those longer than 8 years rose from 8,22% (2004) to 83,27% (as of 30.06.2005). Similar tendency can be seen in other Central and European countries.

Legislation and regulation

Currently important issue for the leasing companies is the revision of tax and legislative acts by the Bulgarian government which include:

- The adoption of new VAT act, based on the 6th EEC VAT directive which defines the following changes: the VAT on full payout financial leases with transferring of the ownership at the contract's end will be chargeable upon the delivery of the leased goods. Considering that currently VAT is chargeable on each installment and the fact that said leases represent more than 90% of the leasing market, we assess that such change would have a serious impact on the competitiveness of the leasing business. Moreover, we are concerned about numerous transition effects, including treatment of leasing contracts with goods delivered prior to the change and the treatment of cases of cancelled contracts.

- The Consumer Lending Act draft in which main points of concern are:
 - The right of the consumer to turn back the stock in 7 days;
 - The termination of the contract can occur only if the overdue payments are 20% of the net value of the stock.

Currently Bulgarian leasing market is not being regulated. Bulgarian Association for Leasing and Bulgarian National Bank (BNB) have initiated discussions over the monitoring of the sector and reporting of leasing deals. We have expressed our positive position towards reporting of leasing deals with the BNB credit registry, but only under the condition that leasing companies will be able to have access to the register as the commercial banks do. We have also cooperated in the determining of formats for statistical reporting which is going to be put into practice until the end of November. Thus BNB will start monitoring the leasing market by asking for quarterly reports.

We believe that the leasing market in Bulgaria is highly competitive. The continuous entering of new companies, with international experience is causing an increase in the offered types of assets for leasing and improvement in the financial terms for the lessee. We believe that over 75% of the volume of leasing deals is formed by small and medium business which defines its importance for this sector. We are expecting that the growth of the market in Bulgaria is going to continue and leasing is going to become more and more attractive type of finance.

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Prepared by: Bulgarian Association for Leasing