

All data in the edition are the last available data, published as of February, 2018

The quoted data set in this report are the last available data, published in the official source's web sites. The sources are Ministry of Finance, Bulgarian National Bank, National Statistic Institute, National Employment Agency, Bulgarian Industrial Association. The electronic system used for collecting the data from the official sources is CEIC Data Manager.

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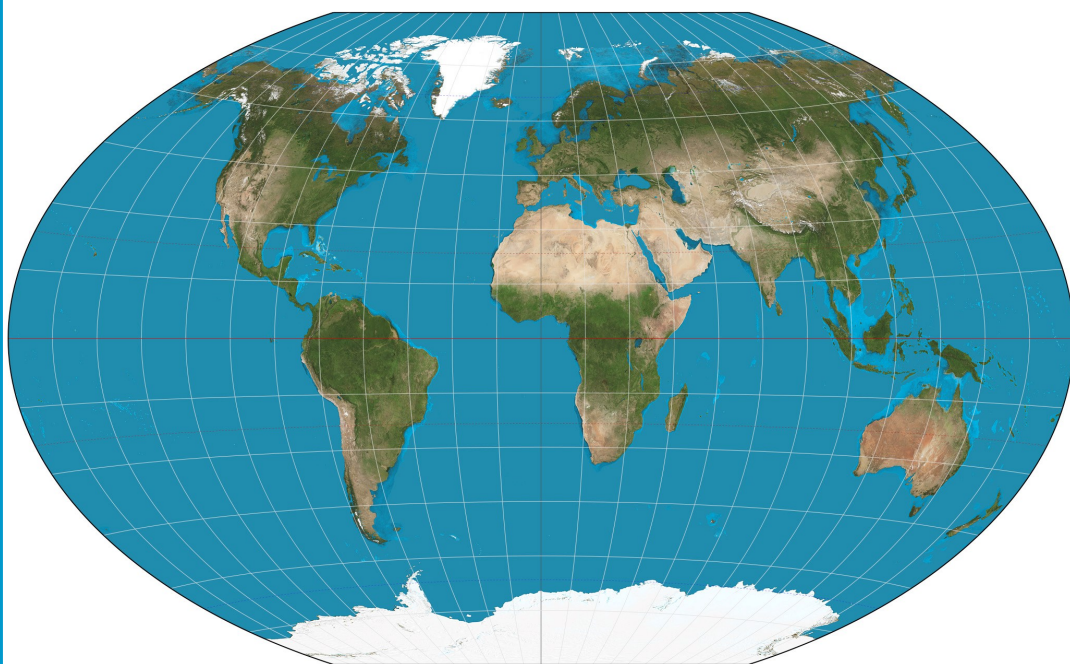
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## HIGHLIGHTS AND FORECASTS

# MONTHLY ECONOMIC REPORT



February 2018

Sofia

- *Respondents in the ECB's Q1 2018 Survey of professional forecasters reported annual HICP inflation projections - on average 1.5%, 1.7% and 1.8%, respectively in 2018, 2019 and 2020. The projected GDP growth in the euro area is 2.3%, 1.9% and 1.7%, respectively in 2018, 2019 and 2020. Unemployment expectations were revised downwards in all horizons to reach respectively 8.4%, 7.9% and 7.6% in 2018, 2019 and 2020*
- *United Kingdom's GDP in general increased by 1.8% in 2017, compared with 1.9% in 2016*
- *In Q4 2017, US GDP grew up by 2.6% compared to 3.2% in Q3 of 2017. The CPI in January 2018 increased by 2.11% y/y*
- *For the fiscal year 2018, Japan's economy is expected to grow by 1.4%. The main CPI for the year is expected to grow by 1.4%*
- *For 2018, the Chinese government is looking for GDP growth of about 6.5%, the same as in 2017, amid withdrawal efforts, debt retention, and financial risks*
- *ECB policymakers have expressed concern over the strength and volatility of the euro, which is a source of uncertainty. They also agreed that the language relating to the monetary policy stance could be revised at upcoming meetings, with some members' preference for dropping quantitative reductions in the APA in the Governing Council's communication*
- *The Central Bank of England voted unanimously to keep the percentage of banks at 0.5% on February 8, as was widely expected, with inflation expected to remain around 3% in the short term, reflecting recent higher oil prices. The bank also warned that interest rates could rise earlier than expected as the economy will grow faster than expected over the next few years, raising inflation above 2%. The Committee also unanimously voted to keep UK government bond purchases of GBP 435 billion and inventory purchases of corporate bonds from non-financial investments to GBP 10 billion*
- *US economic growth in 2018 is expected to outstrip FOMC forecasts and labor market conditions are expected to further strengthen in the medium term, increasing the likelihood of a further gradual strengthening of the policy*
- *The Japanese central bank maintained its main short-term interest rate of -0.1%. Politicians also kept their yield target of 10-year government bonds around zero percent and offered a more optimistic view of inflation expectations. With regard to the amount of JGBs to be purchased, the Bank will purchase at an annual growth rate of about 80 trillion yen*
- *PBoC maintains Interest Rates for Open Market Operations adopted following the Federal Reserve's Tension Policy*
- *Futures on US crude oil with delivery in March rose 0.78% to 62.16 dollars a barrel. The Brent increase is 0.48% to 65.15 dollars a barrel*
- *The market for precious metals and base metals and raw materials is expected to be largely balanced in 2018, with supply sufficient to meet demand*
- *On February 21, 2018 wheat price on international markets increased by 0.75% to USD 449,65 per BU compared to the previous trading session. According to Sofia Commodity Exchange data as of February 18, 2018 the price of wheat is BGN 305 per ton, for maize BGN 300 per ton and for oil sunflower BGN 580 per ton*

- *For January-December 2017, the current and capital account of Bulgaria's balance of payments is positive, amounting to EUR 2.504 billion, accounting for 5.8% of GDP*
- *In January-December 2017 Bulgaria's FDI increased by 37% compared to 2016 and amounted to EUR 901.9 million*
- *In January 2018, BNB foreign reserves amounted to BGN 43.5 billion (EUR 22.3 billion) and decreased by 5.9% on m/n and by 3.7% y/y, respectively*
- *In Q4 of 2017, Bulgaria's GDP grew up by 3.6% y/y and by 0.8% q/q 2017, respectively. Expectations are GDP growth in 2017 to grow by 3.8%*
- *In January 2018, the overall business climate indicator rose by 2.6 percentage points versus December 2017 to 27%. Business performance improvement was registered in industry and services, while in construction and retail trade, the indicator remained at roughly the same level as in the previous month*
- *In December 2017, the Industrial Production Index, computed by seasonally adjusted data, rose by 0.7% compared to November 2017. In December 2017, the calendar adjusted industrial production index recorded a growth of 2.0% compared to the corresponding month of 2016*
- *In December 2017, the turnover in 'Retail trade, except of motor vehicles and motorcycles' increased by 0.5% on a monthly basis and by 4.9% on an annual basis*
- *According to preliminary data, in December 2017, the production index in the Construction sector, calculated on a seasonally adjusted basis, was 3.0% below the level of the previous month. In December 2017, compared to the same month of 2016, the calendar-adjusted construction output index declined by 4.1%*
- *In January 2018 inflation in Bulgaria increased by 0.3% on a monthly basis and by 1.8% on an annual basis*
- *The Total Producer Price Index in December 2017 remained unchanged compared to the previous month, and an increase of 4.1% was recorded in December 2016. The Producer Price Index on Domestic Market in December 2017 increased by 0.1% compared to the previous month and compared to the same month of the previous year a growth of 5.1%*
- *In January 2018, unemployment in Bulgaria was 7.2% and decreased by 1 percentage point on an annual basis. In Q4 of 2017 unemployment in Bulgaria decreased to 5.6% according to NSI data*
- *The total income per household per household in the fourth quarter of 2017 was 1 449 BGN and increased by 9.3% compared to the same quarter of 2016. The total average household cost per person in the fourth quarter of 2017 was BGN 1,368 and increased by 13.2% compared to the same quarter of 2016*
- *Revenue from accommodation in December 2017 reached BGN 44.3 million, or 6.6% more than in December 2016*
- *In Q4 of 2017, 1 329.7 thousand Bulgarian citizens have made travel trips. The majority of them - 85.2% - traveled only in the country, 11.1% - only abroad, and 3.7% traveled both in the country and abroad. Compared to the same quarter of 2016, the total number of people aged 15 and over increased by 59.5%*
- *In 2017 the consolidated Fiscal Programme (CFP) balance on a cash basis is positive, amounting*

*to BGN 845.2 million, or 0.8% of GDP. The balance of the CFP on a cash basis for January 2018 is expected to be positive, amounting to BGN 1,211.4 million or 1.1% of GDP*

- At the end of December 2017 the central government debt stood at EUR 12,667.1 million and presented 24.9% of GDP*
- At the end of December 2017 broad money (monetary aggregate M3) increased by 7.7% y/y to BGN 85.727 billion. Domestic credit amounted at BGN 54.398 billion and increased by 6.8% y/y*
- In January 2018 the main index of BSE-Sofia SOFIX registered a growth of 5.2% to 712.73 points. The index of the most liquid companies BGBX 40 rose by 4.7% to 138.23 points. Equally weighted BG TR30 registered growth of 2.8% to 571.59 and property manager BGREIT declined by 0.6% to 115.41 points*
- Gross loans and advances to customers during the period January - December 2017 increased by BGN 1.6 billion and reported an increase of 3% y/y to BGN 56.1 billion. Their relative share in GDP amounted to 57.7%. At the end of 2017 deposits from customers within the banking system increased by BGN 4.3 billion or by 5.8% y/y to BGN 78.4 billion. Their relative share in full year GDP projection amounts to 80.7%*

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## GLOBAL TRENDS

### ADVANCED COUNTRIES' ECONOMIES

#### Euro zone

**Respondents in the ECB's Q1 2018 Survey of professional forecasters reported annual HICP inflation projections - on average 1.5%, 1.7% and 1.8%, respectively in 2018, 2019 and 2020. The projected GDP growth in the euro area is 2.3%, 1.9% and 1.7%, respectively in 2018, 2019 and 2020. Unemployment expectations were revised downwards in all horizons to reach respectively 8.4%, 7.9% and 7.6% in 2018, 2019 and 2020**

The ECB publishes the results for Q1 2018 Survey of professional forecasters. Respondents in the ECB's Q1 2018 survey reported projected annual HICP inflation averaging 1.5%, 1.7% and 1.8% respectively in 2018, 2019 and 2020. This is a revision up by 0.1 percentage points for both 2018 and 2019 compared to the previous survey. The average long-term inflation expectations (which, like all other long-term expectations in the survey for professional projections reported for 2022), remained stable at 1.9%. Respondents' expectations in the Eurozone real GDP growth forecast are 2.3%, 1.9% and 1.7% respectively in 2018, 2019 and 2020. This represents upward revisions of 0.4 and 0.2 percentage points respectively for 2018 and 2019 compared to the previous survey. The average long-term expectations for euro area real GDP growth remained unchanged at 1.6%. Unemployment expectations were revised downwards in all horizons to reach respectively 8.4%, 7.9% and 7.6% in 2017, 2018 and 2019 and 7.5% respectively in the long run. Revisions down were larger for the distant forecast horizons.

Table: Results of the ECB Survey of Professional Forecasters for Q1 2018 (annual percentage changes, unless otherwise indicated)				
Survey horizon	2018	2019	2020	Longer term
<b>HICP inflation</b>				
SPF Q1 2018	1.5	1.7	1.8	1.9
Previous SPF (Q4 2017)	1.4	1.6	-	1.9
<b>HICP inflation excluding food and energy</b>				
SPF Q1 2018	1.2	1.5	1.7	1.8
Previous SPF (Q4 2017)	1.4	1.5	-	1.8
<b>Real GDP growth</b>				
SPF Q1 2018	2.3	1.9	1.7	1.6
Previous SPF (Q4 2017)	1.9	1.7	-	1.6
<b>Unemployment rate (2)</b>				
SPF Q1 2018	8.4	7.9	7.6	7.5
Previous SPF (Q4 2017)	8.6	8.2	-	7.9

Source: ECB

#### United Kingdom

**United Kingdom's GDP in general increased by 1.8% in 2017, compared with 1.9% in 2016**

United Kingdom's GDP growth general increased by 1.8% in 2017, compared with 1.9% in 2016, and this is the slowest pace since 2012, mainly due to slower growth in services (1, 6% vs. 2.5% in 2016). Within services, output slows down at a slower pace for all components: distribution, hotels and restaurants (2.1% vs. 4.7%); transport, storage and communications (2.7% vs. 4.7%); business services and finance (1.8% vs. 2.2%); and government and other services (0.4% vs. 0.6%). Meanwhile, production grew faster (2% versus 1.3%), which is mainly driven by processing (2.7% vs. 0.9%) and mining (0.6% vs. 0%). Construction output also accelerates to 5.1% from 3.9% in 2016. The unemployment rate in the United Kingdom rose to 4.4% in Q4 of 2017 from 42-year low from 4.3% in Q3 2017, while markets expect the rate to remain unchanged. The inflation rate in the UK is 3% in January 2018, unchanged from the previous month. Prices for recreation and culture are rising, spending on food and transport has grown at a slower pace.



## USA

**In Q4 2017, US GDP grew up by 2.6% compared to 3.2% in Q3 of 2017. The CPI in January 2018 increased by 2.11% y/y**

The US economy increased by 2.6% q/q in Q4 2017, below 3.2% in the previous period. The decline in real GDP growth in the fourth quarter was due to a fall in investment in inventories partially offset by export acceleration, non-resident long-term investment, government and local government spending, and federal government spending, and increased imports. Consumer prices in the United States increased by 2.1% y/y in January to 2018, which is the same as in December and above market expectations of 1.9%. The slowdown in gasoline and electricity prices was offset by higher food and medical care costs. The monthly inflation rate rose to 0.5% from 0.2% on a widespread increase in expenditure.

## Japan

**For the fiscal year 2018, Japan's economy is expected to grow by 1.4%. The main CPI for the year is expected to grow by 1.4%**

The Japanese economy is likely to continue its moderate expansion. In the fiscal year of 2018, domestic demand is likely to follow an upward trend, with a favorable income-to-expenditure cycle remaining in both the corporate and the domestic sector, against a backdrop of strong housing conditions and grounds through past incentives of the government. Fixed business investment is likely to continue to grow due to vulnerable financial conditions, increased growth expectations and increased investment in the Olympics, as well as labor-saving investments to tackle labor shortages. Private consumption is expected to continue to moderate as employment and earnings continue to improve. Public investment is expected to remain at a relatively high level, reflecting mainly the demand associated with the Olympic Games, although the positive effects of previous stimulus measures are likely to moderate moderately. Meanwhile, overseas economies are expected to continue to grow at a moderate pace. Export is expected to continue its moderate growth trend at the end of this growth in overseas economies. For the fiscal year 2018, Japan's economy is expected to grow by 1.4%. The main CPI for the year is expected to grow by 1.4% as well as the previous forecasts. Meanwhile, overseas economies are expected to continue to grow at a moderate pace. Exports are expected to continue their moderate growth trend at the end of this growth in overseas economies. For the fiscal year 2018, Japan's economy is expected to grow by 1.4%. The main CPI for the year is expected to grow by 1.4% as well as the previous forecasts. Looking ahead, the annual rate of change in the consumer price index is likely to continue to rise and grow to 2%, mainly against the backdrop of improving the output gap and rising mid to long-term inflation expectations. Comparing the current forecasts with the previous forecasts, the growth rates of the CPI are more or less unchanged. The rate of annual CPI change of around 2% is likely to remain until the end of 2019.

## China

**For 2018, the Chinese government is looking for GDP growth of about 6.5%, the same as in 2017, amid withdrawal efforts, debt retention, and financial risks**

China's economy grew 6.8% yoy in the last quarter of 2017, which is the same as in the previous three months and exceeds market expectations of 6.7%. Considering the full 2017, the economy grew by 6.9%, far above the official target of nearly 6.5% and 26% from the 6.7% level in 2016. The strong growth in industry and exports and the sustainable real estate market were the main drivers of enlargement. For 2018, the Chinese government seeks growth of about 6.5%, the same as in 2017, amid withdrawal efforts, debt retention, and financial risks. China's consumer prices rose 1.5% yoy in January 2018, after rising 1.8% in the previous month. This is the lowest inflation since July 2017, as the price of non-food goods is growing at a slower pace and food costs are further decreasing.

## Policy of the Central banks

### ECB

**ECB policymakers have expressed concern over the strength and volatility of the euro, which is a source of uncertainty. They also agreed that the language relating to the monetary policy stance could be revised at upcoming meetings, with some members' preference for dropping quantitative reductions in the APA in the Governing Council's communication**

The effect on the euro area economy will also depend on the degree and sustainability of the exchange rate appreciation. In this context, it was noted that the exchange rate of the euro was subject to strong fluctuations in the past and that the limited ability of economists to anticipate future exchange rate developments, including the risk of a further appreciation of the euro, had to be determined. Concerns have also been expressed about the latest speeches on the international scene on the development of the exchange rate and, broadly, the overall status of international relations. The importance of complying with the agreed exchange rate statements was highlighted as what was included in the Communiqué of October 2017 at the 36th IMF International Monetary and Finance Committee meeting, which stated that excessive volatility or non-standard movements exchange rates may adversely affect the effects of economic and financial stability and that members will refrain from competitive devaluations and will not target their exchange rates for competitive purposes. The members of the Board acknowledged the need for continuity in communication, which led to re-emphasizing confidence in the prospects, especially in terms of inflation, while maintaining a political stance based on the wide range of policy instruments available and the established consistency of policy instruments. In this context, it was noted that monetary policy communication will continue to evolve in line with the changing economic situation in line with the ECB's future guidelines in order to avoid abrupt or inappropriate corrections at a later stage. However, changes in communication are generally considered premature at this point, as inflationary trends remain weak despite strong economic expansion. Therefore, the Governing Council reiterated its strong commitment to its objective of price stability and, in particular, to fulfill its promise to ensure a sustained return of inflation rates to levels below or close to 2%. It was emphasized that monetary policy had to remain patient and stubborn, while caution should be exercised with regard to the Governing Council's announcement. Board members categorically agreed that any further Governing Council communication on monetary policy would evolve progressively and in line with improvements in the medium-term inflation forecast. Communication will naturally develop in line with the ECB's future guidance if inflation makes further progress towards the Governing Council's inflation target, as set out in the established criteria for lasting inflation adjustment. The language relating to the monetary policy stance may be revised earlier this year as part of the regular re-evaluation of the upcoming monetary policy meetings. In this context, some members have expressed a preference for dropping APA reductions in the Governing Board's communication as a tangible reflection of the increased confidence in lasting adjustment of the inflation path. However, it is concluded that such a correction is premature and not yet justified. It has also been recalled, as in previous cases, that even when net purchases have ceased, the monetary policy stance will remain highly ambitious as the evolution of inflation will continue to depend on the continuation of reinvestment over a prolonged period of time and on remaining exposures of the bonds reached after purchases of net assets of the ECB.

### Bank of England

**The Central Bank of England voted unanimously to keep the percentage of banks at 0.5% on February 8, as was widely expected, with inflation expected to remain around 3% in the short term, reflecting recent higher oil prices. The bank also warned that interest rates could rise earlier than expected as the economy will grow faster than expected over the next few years, raising inflation above 2%. The Committee also unanimously voted to keep UK government bond purchases of GBP 435 billion and inventory purchases of corporate bonds from non-financial investments to GBP 10 billion**

The consumer price index fell from 3.1% in November to 3.0% in December 2017. Inflation is expected to remain around 3% in the short term reflecting recent higher oil prices. More generally, sustainable higher target inflation is preserved almost entirely due to the impact of higher import prices following the depreciation of sterling. The increase in short-term wage growth measures in recent quarters and a number of indicators showing that wage growth will further increase in response to the tightening labor market will provide confidence that wage growth and unit labor costs will grow to target rates. The increase in short-term wage growth measures in recent quarters and a number of indicators showing that wage growth will further in-



crease in response to the tightening labor market will provide confidence that wage growth and unit labor costs will grow to target rates. It is estimated that the CPI inflation rate is gradually decreasing compared to the forecast, but remains above the 2% target in the CPP central forecast. As in previous reports, the MPC projections are based on the average of a number of possible outcomes for the UK's subsequent trade relations with the European Union. Forecasts also suggest that, in the meantime, households and businesses are basing their decisions on the expectations of a smooth adjustment to new trade relations. The development of the UK's withdrawal from the European Union - and in particular the reaction of households, businesses and asset prices to them - remains the most significant influence and source of uncertainty about the economic outlook. In such exceptional circumstances, the powers of the MCC clarify that the Committee must balance any compromises between the rate at which it intends to bring inflation back to the target and the support that monetary policy provides to jobs and activities. In the past 2017, the sustainable absorption of allocations reduced the extent to which it was appropriate for the CPB to adopt an extended inflation over the target. Therefore, at its meeting in November 2017 the Committee moderately tightens the monetary policy stance to bring inflation back to the target. From November, the prospect of a greater degree of excessive demand over the projection horizon, and expectations that inflation will remain above the target, further reduced the compromise within which the MPC must balance. It is therefore appropriate to define a monetary policy that will consistently restore inflation to its target on a more conventional horizon. The Committee believes that if the economy develops broadly in line with the February inflation projection, monetary policy will have to be tightened a little earlier and slightly over the projection horizon than expected in the November report to steadily return inflation to the target. In connection with these considerations, all members consider that the current political position remains appropriate to balance the requirements of the competence of the MPC. Any future increase in the bank rate is expected to be gradual and to a limited extent. The Committee will closely monitor the incoming evidence of the progressive economic outlook and is ready to respond to developments as long as they are achieved to ensure sustainable inflation returns to the 2% target.

## USA Federal Reserve

### **US economic growth in 2018 is expected to outstrip FOMC forecasts and labor market conditions are expected to further strengthen in the medium term, increasing the likelihood of a further gradual strengthening of the policy**

In discussing monetary policy, the participants discussed the consequences of recent economic and financial developments for the prospects of economic growth, labor market conditions and inflation and, in turn, the appropriate path of the federal funds rate. The participants agreed that the gradual approach to raising the target range for the federal funds rate remains appropriate and confirms that policy adjustments will depend on their assessment of the development of the economic outlook and the risks to prospects vis-à-vis the policy objectives of the Committee. Participants expect economic activity to grow at a moderate pace in the medium term. They expect the pace of economic growth in 2018 to outperform long-term sustainability forecasts, with labor market conditions further rising. A number of participants have indicated they have increased their forecasts of economic growth in the short term in light of the strength of recent economic activity data in the United States and abroad as well as the effects of recent tax changes. Several others point out that upside risks to prospects for economic activity in the near future may increase. The majority of participants noted that a stronger prospect of economic growth increases the likelihood of further gradual policy intensification. Almost all participants continue to foresee that inflation will reach the Committee's 2% target in the medium term as economic growth remains above the trend and the labor market remains strong; many commented that recent events have increased their confidence in the prospects for further progress towards the 2% inflation target of the Committee. Two of them noted that rising economic growth rates could tighten labor market conditions even more than is currently expected, posing a risk to inflation and financial stability, which is associated with a significant overruns in full employment. Some participants have a significant risk that inflation will continue to be lower than the Committee's target. These actors do not see enough solid evidence that the strength of economic activity and the labor market are subject to significant wage or inflation pressures. Some participants have a significant risk that inflation will continue to be lower than the Committee's target. These actors do not see enough solid evidence that the strength of economic activity and the labor market are subject to significant wage or inflation pressures. They consider that the Committee can afford to increase the target range of federal funds carefully to support further strengthening of the labor market and to allow participants to assess whether influx of inflation information shows tracking the objective of the Committee. Some participants also commented on the likely evolution of the percentage of neutral federal funds. Most estimates indicate that the neutral level of the federal funds rate in re-

cent years was very low, but was expected to slowly increase over time to the longer term. The prospect of the neutral rate is uncertain and will depend on the interaction of a number of factors. For example, the neutral interest rate, which seems to have fallen sharply during the global financial crisis, when the financial difficulties curb demand, and may increase more than projected once the global economy has grown. Alternatively, the longer-term neutral rate may remain low in the absence of fundamental changes in performance trends, demographic data, or the demand for risk-free assets.

### Bank of Japan (BoJ)

**The Japanese central bank maintained its main short-term interest rate of -0.1%. Politicians also kept their yield target of 10-year government bonds around zero percent and offered a more optimistic view of inflation expectations. With regard to the amount of JGBs to be purchased, the Bank will purchase at an annual growth rate of about 80 trillion yen**

The Japanese Central Bank also unanimously decided to buy ETFs traded on the stock exchange and investment real estate investment trusts in Japan (J-REITs) so that their unpaid sums increase at an annual rate of around 6.0 trillion yen and about 90 billion yen, respectively. As for corporate purchases and corporate bonds, the Bank will maintain their levels of 2.2 trillion yen and 3.2 trillion yen. Meanwhile, in a quarterly review of the forecasts, the Central Bank of Japan maintained its primary forecast for the CPI for fiscal 2017 at 0.8%. Medium and long-term inflation expectations are expected to increase as firms' positions are gradually shifting to wage and price rises, continuing to improve the output gap. Given the time of inflation to reach 2%, politicians said it would probably be around the fiscal 2019. As for GDP, the central bank said growth rates were more or less unchanged from an earlier forecast.

### People's Bank of China (PBC)

**PBoC maintains Interest Rates for Open Market Operations adopted following the Federal Reserve's Tension Policy**

China's National Bank raised interest rates for open market operations by 5 basis points on December 14, 2017, after the decision of the Federal Reserve to tighten monetary policy. The 7-day reverse repo rate was raised to 2.5% and rose to 2.8% for the 28-day redemption exchange rate. This was the third increase in repo deals this year after March. At the same time, PBoC raised the interest rate on its one-year medium-term credit facility by 5 basis points. to 3.25%. "The upward correction reflects demand and supply and is a" normal market response "to the Federal Reserve's rise in interest rates.

## International Commodity Prices

### Petrol

**Futures on US crude oil with delivery in March rose 0.78% to 62.16 dollars a barrel. The Brent increase is 0.48% to 65.15 dollars a barrel**

Oil prices reached a two-week peak during Asian trade amid a good performance on global capital markets, but also worries about rising tensions in the Middle East. Futures on US crude oil with delivery in March rose 0.78% to 62.16 dollars a barrel. The Brent increase is 0.48% to 65.15 dollars a barrel. Meanwhile, Israeli Prime Minister, Bethamine Netanyahu, said Israel could take action directly against Iran, not just its allies in the Middle East. Tensions between the two countries rose nine days ago when an Iranian drone entered the Israeli airspace. Oil has been backed by the positive mood on capital markets, but tensions over its price can be expected due to rising US production and the weakening of the dollar. In addition, trading volumes at the beginning of the week are weaker than usual due to official holidays in the United States, China and India. The number of operating oil extraction platforms in the United States, which are an important indicator of future production, increased by 7 to 798, reaching its highest level since April 2015, according to General Electric's Baker Hughes. For the first time in June, the number of platforms is growing for the fourth consecutive week. Growing US production undermines the efforts of the Organization of Petroleum Exporting Countries and Russia to limit production by 1.8 million barrels per day by the end of 2018.

## Metals

### **The market for precious metals and base metals and raw materials is expected to be largely balanced in 2018, with supply sufficient to meet demand**

Several key factors will shape what is to come in 2018 for both noble for base metals and raw materials. As a consumer of about half of the world's commodities, China will continue to exert a major influence on commodity markets in 2018. Beijing's measures against environmental pollution and excess production capacity should have strong support for aluminum, steel and iron ore. This should offset the effect of a more tight monetary policy and the slowdown in the growth of the residential property market. Aluminum, above all, may be the star. Against the backdrop of expected growth in China's production (only 2 million tonnes in the next five years) and due to the still strong domestic demand, exports are naturally declining. With steel, relocation from environmentally damaging factories to more efficient ones will generate the need for high quality iron ore, which will increase the profitability of major suppliers such as BHP Billiton, Vale and Rio Tinto. Analysts and investors, however, will also monitor economic growth outside of China. Against the backdrop of filled supply orders and rising output in key industrialized countries, there could be a recovery period for commodity stocks. The copper market is expected to be largely balanced in 2018, with supply sufficient to meet demand. What could hamper the balance is a number of labor contracts to be addressed next year in major metal-producing countries such as Chile and Peru. In the next 12 months, talks on nearly 30 different collective bargaining agreements will have to be negotiated, which could affect about 25% of the global supply of copper. This includes Escondida, the largest copper mine in the world, located in Chile, where one of the trade unions already organizes a one-day warning strike. Against the backdrop of higher prices (copper is traded close to \$ 7,000 per ton), workers will not be in the mood to retreat easily from their positions. This can cause big price movements next year. The cobalt and lithium, which are key components for batteries used in electric cars, recorded a strong year. Sales of electric cars are expected to exceed 1 million for the first time. The price of lithium carbonate increased by 36%, while the cost of cobalt doubled. However, the rising supply of both metals hides price risks next year. One of the largest manufacturers in the world, the Chilean SQM, is negotiating to settle the dispute over how much lithium can produce after the election of billionaire Sebastian Pinera as president. A number of new Lithium production projects in South Africa and Australia are likely to put an end to the shortage of the market by 2019, followed by a period of oversupply. With cobalt, the offer comes from Glencore, which is expected to double the production of its Katanga Mining division in the Democratic Republic of Congo. If all this quantity comes out of the market, then there will be surpluses in 2019. In terms of demand, China will have a key role, which is the world's largest electromobile market. Beijing restricts subsidies for car production by using a quota system that will encourage companies to produce a number of cars. Analysts expect the change to affect sales in 2018. With a nearly 10% rise in gold, the record was a decent year, although the growth was outpaced by the US share. After rising to more than \$ 1,350 an ounce in early September, which was the highest level for more than a year, the precious metal retreated to about USD 1,260 per troy ounce. Three factors will push the price of gold down in the next few months - economic growth in developed countries, interest rate hikes from the US Federal Reserve and the probable lack of major geopolitical risks or recession. The metal, however, can still be sought by investors to hedge the risk of a fall in the US stock market and because of the US government debt increase due to tax cuts by President Donald Trump. Palladium is the best-performing raw material this year, with its price jumping by more than 50 percent to a 17-year high, while car owners are switching from diesel to gasoline cars in which the metal is used. For comparison, platinum used in diesel catalysts fell to a 22-month low of 870 dollars an ounce in December. Serious performance of palladium made it more expensive than platinum for the first time since 2001, which raised fears that carmakers would start using cheaper platinum in catalysts. The big question for 2018 is whether this trend will develop. The World Palladium Investment Board has announced that it has "evidence based on personal observations" that car manufacturers are considering switching from palladium to platinum. Any such sign of change "is likely to have a significant impact on palladium demand in the short and medium term if it comes to it." The rise of electric cars poses a threat to both palladium and platinum because electric vehicles do not use catalysts.

## Agricultural products

**On February 21, 2018 wheat price on international markets increased by 0.75% to USD 449,65 per BU compared to the previous trading session. According to Sofia Commodity Exchange data as of February 18, 2018 the price of wheat is BGN 305 per ton, for maize BGN 300 per ton and for oil sunflower BGN 580 per ton**

The FOB prices of major grain contracts on world stock markets varied on February 23, 2018, mainly due to the weather situation in the different grain-producing regions and the pace of exports from different parts of the world. In Chicago, wheat fell by USD 2.00 to USD 195.00 / ton, in France there was no change (164.00 euro / ton), and in Ukraine and Russia the price continued to rise (by 2.00 dollars) due to continued purchases from Egypt to 199.00 and 208.00 USD / ton. For corn, the price change is also mixed - a USD 1.00 increase in the United States, a USD 1.00 decrease in Argentina and EUR 3.00 in France, and the corresponding prices are USD 170.00 per ton, EUR 175.00 per ton and EUR 159.00 per ton. The rapeseed in the Eurasian Union / Euronext / grew slightly with EUR 1.00 to a price of 352.00 euro / ton and the barley in France, followed by a plus of EUR 4.00 to 169.00 euro / ton. The price of unrefined sunflower oil in Rotterdam has dropped drastically by USD 10.00, and now its price is again 790.00 USD / ton, and the price of refined sugar in London slightly adjusted upwards by USD 1.80 to 362.90 USD / ton. In the "Grain" circle of Sofia Commodity Exchange AD the prices of the contracts did not undergo any significant changes. Bread wheat was available at BGN 295.00-305.00 per ton, demand was BGN 270.00 per ton, corn was near as price – BGN 290.00-300.00 per ton of supply and BGN 265.00 per ton of demand. Feed wheat in sacks and brought to different storehouses of the buyer is traded at a price of BGN 450.00 per ton and the bulk offer from place is at BGN 265.00-270.00 per ton. For oilseed sunflower, the offer "buy" is at BGN 545.00 per ton and "sellers" stay at BGN 570.00-580.00 per ton. All prices are without VAT.

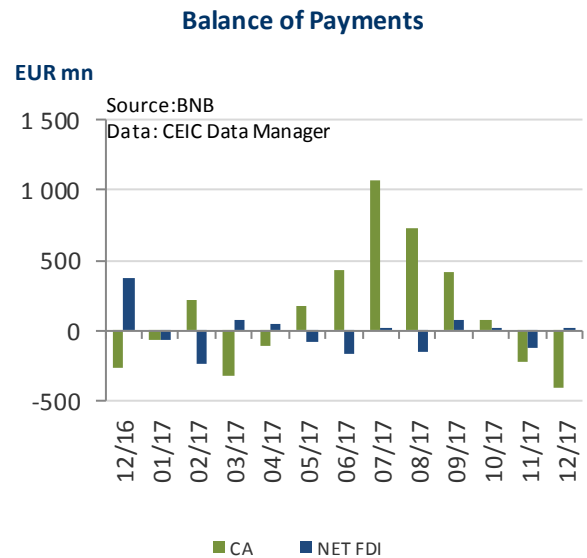
## BULGARIA

### EXTERNAL SECTOR

#### Balance of Payments

**For January-December 2017, the current and capital account of Bulgaria's balance of payments is positive, amounting to EUR 2.504 billion, accounting for 5.8% of GDP**

According to BNB data for the period January-December 2017, the current and capital account of Bulgaria's balance of payments is positive and amounts to EUR 2.504 billion, and in 2016 the statistics reported a surplus of EUR 3.631 billion. The current and capital account in December was negative and amounted to EUR 310.6 million. For comparison, a year ago there was also a deficit of EUR 248.5 million. In December 2017, the current account balance was negative and amounted to EUR 407.6 million against a deficit of EUR 274.5 million in December 2016. For January-December 2017, the current account is positive, amounting to EUR 1.980 billion, with a surplus of EUR 2,561 billion in 2016. At the end of December 2017, the current account balance was minus EUR 474.8 million, and a year earlier also had a deficit of EUR 155.4 million. Accumulated data show that last year the trade balance was down by EUR 2.041 billion, while in 2016 the deficit was EUR 984.4 million. In 2017, exports amounted to EUR 25.818 billion, rising by 11.8% (EUR 2.714 billion) compared to 2016. By comparison, in January-December 2016, the annual increase was 5.4%. In December Bulgaria exported goods for 2.105 billion euros, which is 3.6% annual growth. Last year's imports amounted to EUR 27.859 billion, with annual growth of 15.7% (EUR 3.771 billion). For comparison, import from January to December 2016 decreased year-on-year by 1.8%. In December, goods went up EUR 2.579 billion, an annual increase of 18% (EUR 393 million) a year earlier. The balance of services for the past year was positive and amounted to EUR 2.982 billion, and in 2016 it was also a plus of EUR 3.092 billion. In December, it was positive at EUR 27.4 million, compared to EUR 58.5 million in the last month of 2016. In 2017, foreign direct investment in the country, at preliminary data, amounted to EUR 901.9 million, and in the period January - December 2016 amounted to EUR 660 million. In December 2017, they decreased by EUR 12.1 million, while a year earlier the decrease was EUR 245.2 million. Foreign direct investment abroad in the last month of 2017 increased by EUR 6.6 million, an increase of EUR 123.5 million in December 2016. The central bank reported that for the whole of 2017 they rose by EUR 275.6 million, while in 2016 there was a growth of EUR 320.2 million. Taking into account changes due to exchange rate or price differences, the BNB's reserve assets, which include the external assets with which the central bank has and control and are used for direct financing of the balance of payments deficits, increased by EUR 1.472 billion in December. For comparison, the annual growth rate in the last month of 2016 was EUR 451.1 million. For 2017 the reserves of the National Bank decreased by EUR 98.9 million, while in 2016 rose to EUR 3.467 billion.

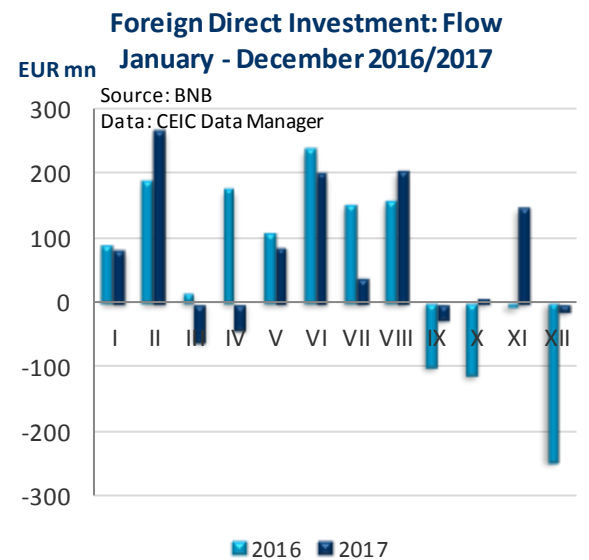


#### Foreign Direct Investments

**In January-December 2017 Bulgaria's FDI increased by 37% compared to 2016 and amounted to EUR 901.9 million**

According to BNB data, foreign direct investment, which entered the Bulgarian economy in January-December 2017, registered 36.7% annual growth and reached EUR 901.9 million and the increase was EUR 241.9 million. In December 2017, investments decreased by EUR 12.1 million, while in the last month in 2016 the decrease was by EUR 245.2 million. In 2017, the share capital (transferred / withdrawn cash and in-kind contributions to non-residents in/from the capital and reserves of Bulgarian companies, as well as receipts/payments on real estate transactions in the country) amounted to EUR 189.4 million. At the central bank, it estimated that it was lower by EUR 443.2 million of the 2016 share capital, which amounted to EUR 632.6 million. Net

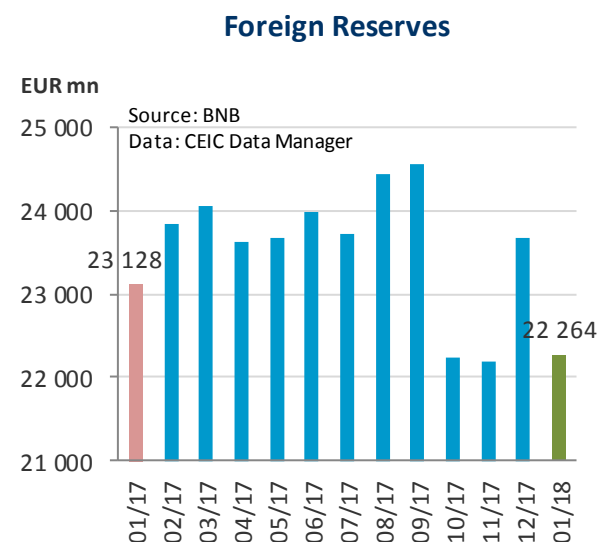
receipts from foreign real estate investments from January to December amounted to EUR 10.8 million, while in the same period in 2016 it was EUR 63.1 million or reported a decrease of 82.88% on an annual basis. By country, Russia (5.8 million, 53.6%), Germany (1.2 million, 11.5%) and Ukraine (1.2 EUR million, 11.1% of the total amount for the period) have the largest share in last year's real estate investment. According to preliminary data, the item "Reinvestment of profit" (showing the share of foreign investors in the current profit or loss of the company based on financial performance accounting data) for 2017 amounted to EUR 229.8 million, while in 2016 EUR 341.2 million. At the end of 2017, the Debt Instruments sub-item (the change in net liabilities between the non-resident companies and the direct foreign investors in financial, bond and commercial loans) reached EUR 482.7 million, against a negative value of BGN 313.8 million. The largest net direct investment in the country in January - December 2017 by country is from the Netherlands (EUR 875.7 million), Switzerland (EUR 126.6 million) and Germany (EUR 94 million).



## Foreign Reserves

**In January 2018, BNB foreign reserves amounted to BGN 43.5 billion (EUR 22.3 billion) and decreased by 5.9% on m/m and by 3.7% y/y, respectively**

According to BNB data, in January 2018, foreign reserves in Bulgaria amounted to BGN 43.5 billion (EUR 22.3 billion) and decreased by 5.9% m/m and by 3.7% y/y, respectively. In January 2018, the BNB Issue Department liabilities structure changed as follows: 3.9% decrease of the money in circulation or by BGN 600 million to BGN 15.1 billion. Liabilities to banks decreased by 15% or by BGN 2.1 billion to BGN 11.8 billion. The deposit of the Banking Department decreased by BGN 125 thousand or by 2.2% on a monthly basis. The following monthly changes occurred in currency board assets: decrease in cash and foreign currency deposits by 17.8% or by BGN 3.7 billion to BGN 17.2 billion and a slight decrease of 0.3% for monetary gold. Investment in securities increased by 4.5% to BGN 23.6 billion for one month period. Bulgaria's international liquidity position, calculated as a ratio of foreign reserves to short-term external debt at the end of November 2017, is 302.2%, compared to 321.6% at the end of 2016 and 323.2% at the end of November 2016.



## REAL SECTOR

### Gross Domestic Product

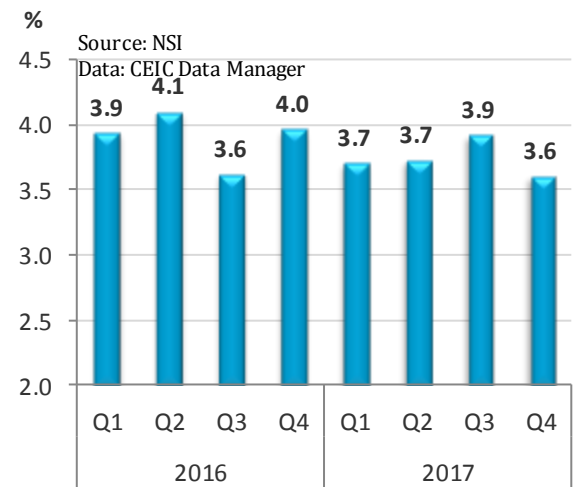
**In Q4 of 2017, Bulgaria's GDP grew up by 3.6% y/y and by 0.8% q/q 2017, respectively. Expectations are GDP growth in 2017 to grow by 3.8%**

According to the NSI express estimates for the fourth quarter of 2017 GDP in nominal terms reaches BGN 27,875 million. The realized value added in the fourth quarter of 2017 was BGN 24,060 million. By final use, final consumption (82.3%) is the largest share in GDP, which in value terms amounts to BGN 22,954 million. In Q4 of 2017 gross capital formation amounted to



BGN 6 297 million and accounted for 22.6% of GDP in relative terms. The foreign trade balance is negative. In Q4 of 2017, compared to Q3 of 2017, seasonally adjusted GDP grew up by 0.8%. Over the same period, gross value added increased by 0.9%. According to the express estimates of GDP by end-use items in the fourth quarter of 2017, the contribution to the registered economic growth compared to the third quarter of 2017 has the increase in final consumption by 2.2%. In Q4 of 2017, seasonally adjusted GDP grew by 3.6% compared to the same quarter of the previous year. Gross value added increased by 3.7%. Final consumption registered a positive economic growth of 4.7%. Gross fixed capital formation reported growth of 3.2% in the fourth quarter of 2017 compared to the corresponding quarter of the previous year. Exports and imports of goods and services increased by 2.0% and 9.4%, respectively. Expectations are that GDP will reach 3.8% in 2017. Gross domestic product in Q4 of 2017 increased by 0.6% in the EU - 28 compared to the previous quarter by seasonally adjusted data. For the same period, GDP in Bulgaria grew by 0.8%. In Q4 of 2017 compared to the previous quarter, Lithuania recorded the highest economic growth with 1.5%, Hungary, Cyprus and Finland - by 1.1%, and Poland - 1.0%, while the lowest economic growth is observed in Italy and Latvia by 0.3%. Compared to the same quarter of the previous year, seasonally adjusted data show an increase in the level of GDP in the EU 28 by 2.6% and in Bulgaria by 3.6%. In the fourth quarter of 2017, compared to the same quarter of the previous year, the highest economic growth was seen in Romania - 7.0%, Latvia and Hungary - 4.8%, Poland - 4.3%, Cyprus and Finland - 3.9%, while the lowest economic growth is observed in the United Kingdom - 1.5%.

**GDP Growth rate per quarter, YoY  
seasonally adjusted data**



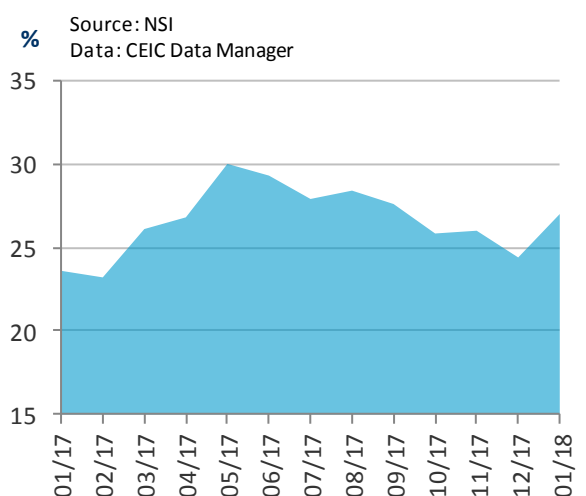
## Business climate

**In January 2018, the overall business climate indicator rose by 2.6 percentage points versus December 2017 to 27%. Business performance improvement was registered in industry and services, while in construction and retail trade, the indicator remained at roughly the same level as in the previous month**

**Industry.** The composite indicator "Business Climate in Industry" increased by 3.8 points to 28.6% as a result of the more optimistic estimates and expectations of industrial entrepreneurs for the business condition of enterprises. At the same time, their projections for production activity over the next three months are improving, but this is not accompanied by increased export expectations over the next three months. In January, the average power load was 1.3 points and above the October 2017 level and reached 76.8%, but in view of expected demand in the coming months there is a shortage of capacity. The main factor limiting business development continues to be the precarious economic environment, followed by labor shortages. Regarding selling prices in industry, managers' expectations are that they remain unchanged over the next three months.

**Construction.** In January 2018, the composite business climate indicator in construction continued to reach approximately 19.1% in December 2017. The survey recorded a slight deterioration in the estimates of the contractors for the current business situation of the enterprises, while their expectations for the next six months are more favorable. In the next half year, managers also expect new construction orders to increase, which they believe will also lead to a certain increase in activity in the short term. The insecure economic environment, competition in the industry and labor shortages are the main obstacles to the development of the business, and their negative impact has been intensifying over the last month. With regard to sales prices in construction, managers' predominant expectations are to maintain their level over the next three months.

**Business Climate Indicator**



**Retail trade.** The composite indicator "business climate in retail trade" remained at approximately the level of the previous month at 40.5%. The survey recorded an improvement in retailers' views both on the current business situation of the companies and on the volume of sales over the past three months. At the same time, however, their expectations of sales and orders to suppliers over the next three months are worsening factors of "competition in the industry", "insufficient demand" and "uncertain economic environment" continue to be the main problems for business development. With regard to sales prices, traders forecast that they will remain unchanged over the next three months.

**Services.** In January 2018, the composite business climate indicator in the services sector grew by 4.9 points to 18.1% as a result of improved managers' estimates and expectations of the business situation of the enterprises. Their opinions on current and expected demand for services are also more optimistic. Competition in the industry and the uncertain economic environment continue to hinder the fullest extent the activity in the sector, although prices fell to their negative influence. In terms of sales prices, the survey registers some expectations for an increase, although most managers expect to maintain their level over the next three months.

### Industrial Production Index

**In December 2017, the Industrial Production Index, computed by seasonally adjusted data, rose by 0.7% compared to November 2017. In December 2017, the calendar adjusted industrial production index recorded a growth of 2.0% compared to the corresponding month of 2016**

According to NSI data, in December 2017 there was an increase compared to November in the manufacturing industry by 1.5% and in the mining and quarrying by 0.7%, while the decrease was registered in the production and distribution of electric and heat energy and gas 0.2%. More significant growth in the manufacturing industry is observed in the manufacture of furniture - by 9.9%, repair and installation of machinery and equipment - by 9%, leather processing, footwear and other leather products - by 7.7%, manufacture of wood and wood products, except furniture - by 4.7%. NSI recorded a monthly decline in the manufacture of vehicles, excluding cars - by 20.5%, manufacture of tobacco products by 10.9%, manufacture of paper and paper products by 6.6%, manufacture of paper and paper products computer and communication equipment, electronics and optical products - by 5.4%. On an annual basis, the growth of industrial production, calculated from the calendar adjusted data, was registered in the manufacturing by 5.2%, while the decrease was recorded in the mining and quarrying industry by 5.2% and in the production and distribution of electricity and heat gas - by 5.1%.

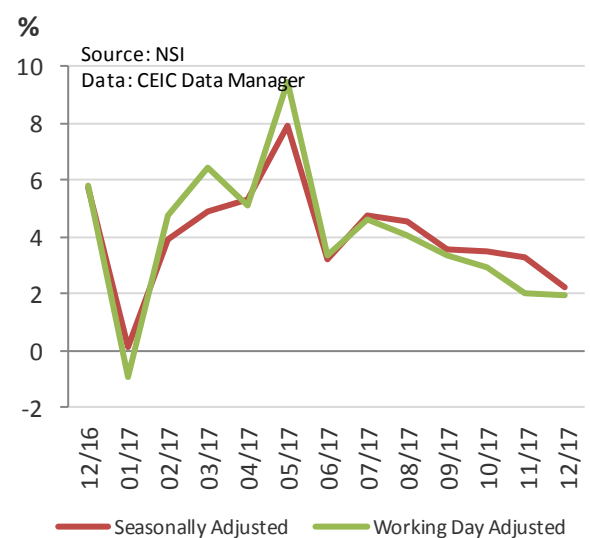
A more significant increase in the manufacturing compared to 2016 was observed in the manufacture of basic metals by 26%, in the manufacture of chemical products by 24.2%, in the manufacture of pharmaceutical substances and products by 19.4%, in the manufacture of computer and communication equipment, electronics and optical products - by 16.3%. According to statistical data, there is an annual decrease in the manufacture of tobacco products - by 35.8%, manufacture of fabricated metal products, except machinery and equipment - by 12.7%, manufacture of paper and paper products by 8, 6%, beverage production - by 6.1%.

### Retail Trade

**In December 2017, the turnover in "Retail trade, except of motor vehicles and motorcycles" increased by 0.5% on a monthly basis and by 4.9% on an annual basis**

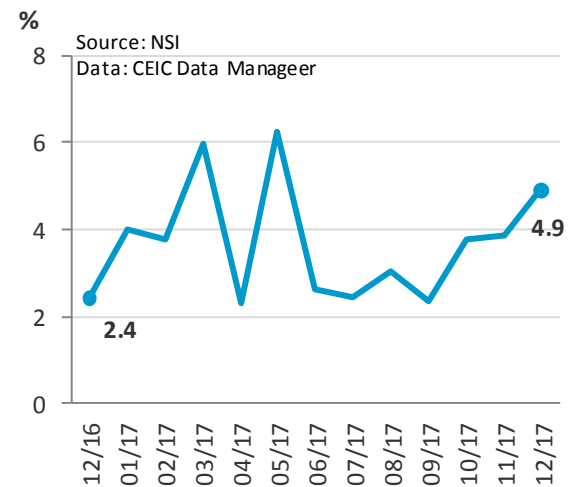
According to preliminary seasonally adjusted data, in December 2017 the turnover in "Retail trade, except of motor vehicles and motorcycles" at constant prices increased by 0.5% compared to the previous month. In December 2017, the turnover in

Industrial production Index, % change, YoY



retail trade, calculated on a calendar-adjusted basis, grew by 4.9% compared to the same month of the previous year. In December 2017, there was a more significant increase in turnover compared to the previous month in the retail trade with computers and communication equipment - by 2.1% and in the retail trade of pharmaceutical and medical goods - by 0.7%. Decrease was recorded in 'Retail sale of automotive fuel and lubricants' and in retail trade in household appliances, furniture and other household goods by 0.1%. In December 2017, compared to the same month in 2016 the turnover increased more significantly in: retail trade in various goods - by 12.6%, retail trade of food products, beverages and tobacco - by 8.4%, retail trade in household appliances, furniture and other goods households - by 7.5%, textiles, apparel, footwear and leather goods - by 7.3%, and retail trade in computers and communication equipment - by 7.0%. A decline was recorded only in the retail trade of automotive fuels and lubricants by 12.5%.

Retail trade index, % change (YoY)

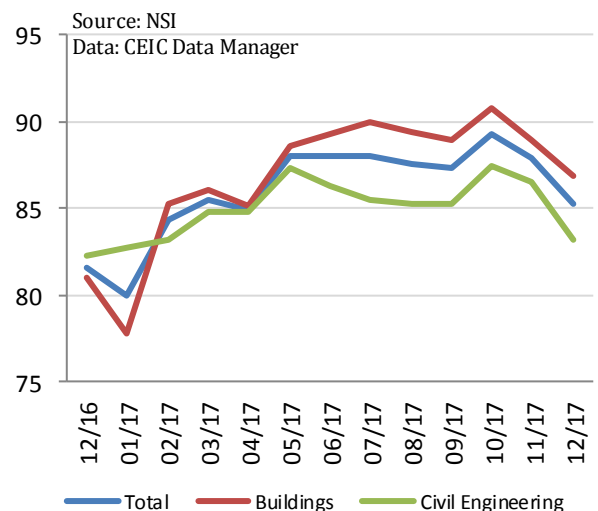


## Construction

According to preliminary data, in December 2017, the production index in the Construction sector, calculated on a seasonally adjusted basis, was 3.0% below the level of the previous month. In December 2017, compared to the same month of 2016, the calendar-adjusted construction output index declined by 4.1%

In December 2017, the construction output index, compiled from seasonally adjusted data, is below the level of the previous month, with output of civil / engineering construction down 3.8% and building construction by 2.3%. On an annual basis, the decrease in construction output in December 2017, calculated from calendar adjusted data, is determined by the negative rate of civil / engineering construction, where the decline is by 8.9%, while building construction is unchanged.

Construction Production index, seasonally adjusted data

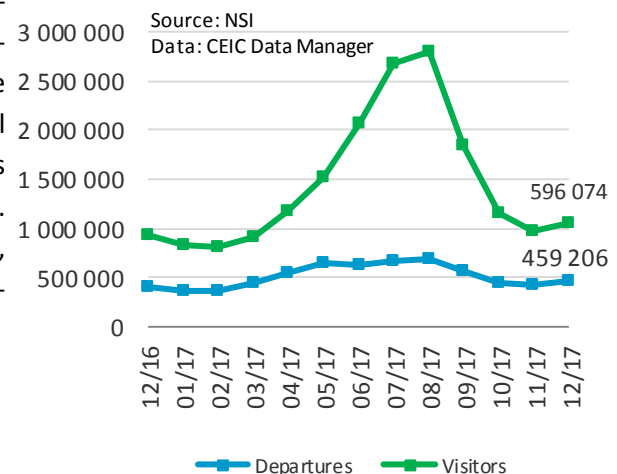


## Tourism

Revenue from accommodation in December 2017 reached BGN 44.3 million, or 6.6% more than in December 2016

In December 2017, 1,946 accommodation places with over 10 beds functioned - hotels, motels, campsites, chalets and other short-stay accommodation. The number of rooms in them is 57.5 thousand, and on the beds - 116.6 thousand. Compared to December 2016, the total number of accommodation facilities operated during the period increased by 0.4% and the beds in them decreased by 0.1%. The total number of overnight stays in all accommodation establishments registered in December 2017 was 833.3 thousand, or 3.1% more than in the same month of the previous year. Revenue from accommodation in December 2017 reached BGN 44.3 million, or 6.6% more than in December 2016. An increase in revenues was registered both by foreign citizens - by 11.9% and by Bulgarians - by 3.2%.

Total Visitors/Departures



**In Q4 of 2017, 1 329.7 thousand Bulgarian citizens have made travel trips. The majority of them - 85.2% - traveled only in the country, 11.1% - only abroad, and 3.7% traveled both in the country and abroad. Compared to the same quarter of 2016, the total number of people aged 15 and over increased by 59.5%**

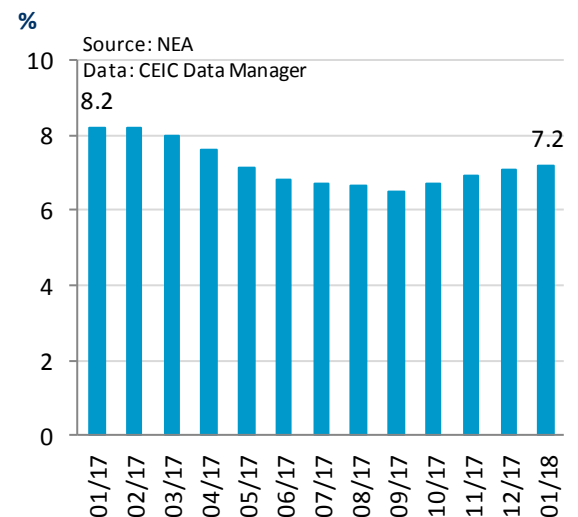
In the fourth quarter of 2017, the Bulgarians aged 25-44 years traveled the most - 529.9 thousand, or 39.8% of all traveled persons. In all age groups, the relative share of travel in the country is predominant, with the highest share for those aged 15-24 - 89.3% of the travelers in this age group. For journeys abroad, the share of travelers aged 45-64 is the largest - 15.4% of those traveled in the respective age group. The cost structure by species with the highest relative share in the country is 40.7%, while transport costs abroad - 31.9%. In the fourth quarter of 2017, the average cost of traveling for personal purposes to a person aged 15 and over was BGN 202.42 in the country and BGN 535.89 abroad. At the same time, the cost of one person for a professional trip is average BGN 151.72 in the country and BGN 958.15 abroad.

## Unemployment

**In January 2018, unemployment in Bulgaria was 7.2% and decreased by 1 percentage point on an annual basis**

According to the Employment Agency, the registered unemployment rate in January is 7.2%. The comparison with the previous month reports a minimum increase of 0.1 percentage points, while the annual decline is 1.0 percentage point. Newly registered unemployed in January were 30,446. Of these, 900 were inactive, ie. were neither employed nor students, nor were they looking for a job. At the beginning of the year the mediators and their partners activated 7,048 individuals. In addition to the unemployed, the services provided at the labor offices are also targeted at employees, students and retirees. 434 people from these groups are registered as job seekers during the month. Monthly data show that 17,270 people were employed in January, with over 85% of the real economy. Employers have declared 13,879 jobs in the primary labor market, with over two thirds of them in the private sector - 71.4%. The largest labor force demand was seen in manufacturing (30.4%), government (13.6%), trade (13.5%). The most sought after professions are nannies and caregivers for people; machine operators, store vendors, skilled food production workers, and more.

**Registered Unemployment Rate**



**In Q4 of 2017 unemployment in Bulgaria decreased to 5.6% according to NSI data**

According to NSI data in Q4 of 2017, the number of unemployed persons is 189.3 thousand and the unemployment rate - 5.6%, compared to the fourth quarter of 2016, the number of unemployed persons decreased by 11.9% , while the unemployment rate - by 1.1 percentage points. Over the same period, the unemployment rate decreased by 1.2 percentage points for men and 0.8 percentage points for women, reaching almost the same figures for men and women in the fourth quarter of 2017 (respectively 5.6 and 5.7% ). Of the total number of unemployed, 101.4 thousand (53.6%) are men and 87.9 thousand (46.4%) - women. Of all unemployed, 16.8% have higher education, 48.0% - with secondary and 35.2% - with basic or lower education. Unemployment rates by degree of education are respectively 3.1% for higher education, 4.7% for secondary education and 16.6% for primary and lower education. In Q4 of 2017, long-term unemployed (one or more years) were 105.2 thousands and compared to Q4 2016 decreased by 0.8 percentage points. The long-term unemployment rate is 3.2% for men and 3.1% for women respectively. Of the total number of unemployed, 33.2 thousand, or 17.5%, are looking for the first job.

## Household income, expenditures and consumption

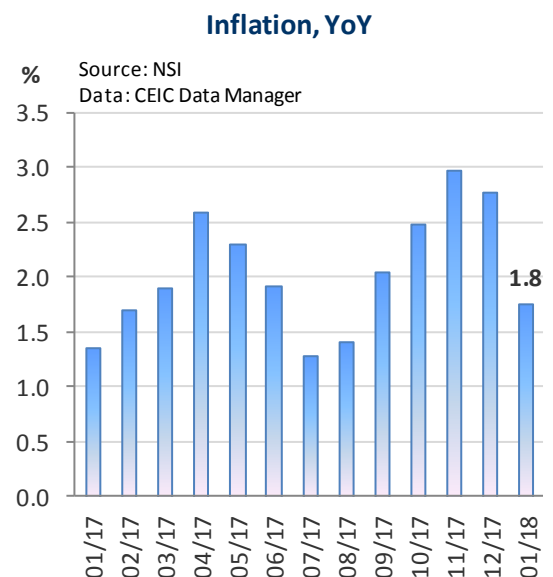
**The total income per household per household in the fourth quarter of 2017 was 1 449 BGN and increased by 9.3% compared to the same quarter of 2016. The total average household cost per person in the fourth quarter of 2017 was 1,368 BGN and increased by 13.2% compared to the same quarter of 2016**

The total income per household per household in the fourth quarter of 2017 was 1 449 BGN and increased by 9.3% compared to the same quarter of 2016. In the structure of the total income, the highest relative share is income from wages (53.9%), followed by income from pensions (26.2%), self-employed income (7.0%) and income from social benefits and benefits (3.4%). In nominal terms in the fourth quarter of 2017 compared to the same quarter of 2016, the average income per household per income source is changed as follows: Wage income increases from BGN 715 to BGN 781 (by 9, 2%); Income from pensions increased from BGN 372 to BGN 380 (by 2.3%). Self-employment income increased from BGN 79 to BGN 102 (29.6%). The income from social benefits and benefits remains unchanged – BGN 49. In the fourth quarter of 2017, the relative share of household monetary income in total income was 99.0%, and the share of income from kind was 1.0%. The total average household cost per person in the fourth quarter of 2017 was BGN 1,368 and increased by 13,2% compared to the same quarter of 2016. In the structure of the total expenditure, food expenditure (31.0%), followed by housing costs (18.8%), taxes and social contributions (12.2%) and transport and communications (10, 5%). As absolute figures in Q4 2017, compared to the same quarter of 2016 per household expenditure by type is changed as follows: The cost of food and non-alcoholic beverages increases from BGN 376 to BGN 424 (by 12.5%). The cost of housing (water, electricity, heating, furnishings and home maintenance) increased from BGN 219 to BGN 257 (by 17.3%); The cost of transport and communications increased from BGN 129 to BGN 143 (by 10.5%); Health costs increased from BGN 67 to BGN 74 (by 10.8%); The cost of alcoholic beverages and cigarettes increased from BGN 55 to BGN 59 (6.8%); The cost of clothing and footwear increased from BGN 54 to BGN 57 (by 4.1%); The cost of leisure, cultural recreation and education decreased from BGN 48 to BGN 47 (by 1.6%). Consumption of basic food products per person per household in Q4 of 2017 is changing compared to Q4 of 2016. An increase is recorded in the consumption of bread, meat, meat products, yoghurt, vegetables, fruits and eggs. The consumption of cheese and potatoes decreases. No change is the consumption of fresh milk, ripe beans and oil.

## Inflation

**In January 2018 inflation in Bulgaria increased by 0.3% on a monthly basis and by 1.8% on an annual basis**

According to NSI preliminary data, the index of consumer prices in January 2018 compared to December 2017 is 100.3%, i.e. the monthly inflation is 0.3%. Annual inflation in January 2018 compared to January 2017 was 1.8%. The average annual inflation for the period February 2017 - January 2018 compared to February 2016 - January 2017 was 2.1%. According to preliminary NSI data, the harmonized index of consumer prices in January 2018 compared to December 2017 is 100.2%, ie, monthly inflation is 0.2%. Annual inflation in January 2018 compared to January 2017 was 1.3%. The average annual inflation for the period February 2017 - January 2018 compared to the February 2016 to January 2017 period was 1.3%.

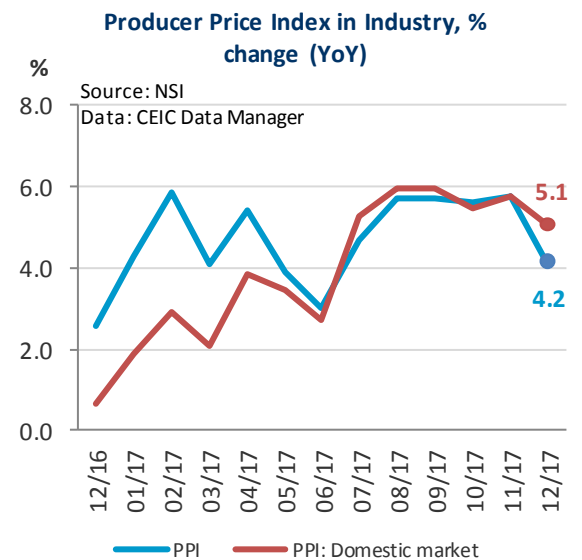




## Producer Price Index in Industry

The Total Producer Price Index in December 2017 remained unchanged compared to the previous month, and an increase of 4.1% was recorded in December 2016. The Producer Price Index on Domestic Market in December 2017 increased by 0.1% compared to the previous month and compared to the same month of the previous year a growth of 5.1%

The overall Producer Price Index in December 2017 remained unchanged from the previous month. Higher prices were registered in the mining and quarrying industry by 4.6%. Electricity, gas, steam and air conditioning supply by 0.3% and 0.4% in the manufacturing. A more significant fall in prices in the manufacturing was seen in the manufacture of basic metals by 2.0% and in manufacture, unclassified Other - by 0.4%, and an increase was recorded in the manufacture of paper, paperboard and articles of paper and cardboard - by 0.6%, as well as in the repair and installation of machinery and equipment and in the manufacture of chemical products by 0.5%. The Total Producer Price Index in December 2017 increased by 4.1% compared to the same month of 2016. Price increases were recorded in: electricity, gas, steam and air conditioning supply by 10.1%, mining and quarrying by 7.9% and manufacturing by 2.0%. In the manufacturing, more significant price increases were observed in the manufacture of wood and of products of wood, not furniture - by 6.9%, paper, cardboard and other products of paper and paperboard - by 5.3%, as well as in the manufacture of motor vehicles, trailers and semi-trailers - by 4.0%, while the decrease was registered in the manufacture of motor vehicles, except of motor vehicles - by 3.5%, and in the manufacture of computer equipment, electronic and optical products - by 2, 8%.



**Producer Price Index on Domestic Market** in December 2017 increased by 0.1% from the previous month. Price increases were recorded in the manufacturing by 0.1%, a decrease was observed in the mining and quarrying industry by 0.3%, and in the production and distribution of electricity and heat and gas no change was reported. In the manufacturing industry price increases compared to the previous month are in the manufacture of motor vehicles, trailers and semi-trailers - by 2.1% and in the manufacture of chemical products - by 1.1%, while in the manufacture of wearing apparel - by 0.4%, and in the manufacture of basic metals - by 0,2%. Producer Price Index on Domestic Market in December 2017 increased by 5.1% compared to the same month of 2016. Price increases were registered in the electricity, gas, steam and air conditioning supply by 10.1%, in the mining and quarrying industry by 4.2% and in the manufacturing by 2.2%. Higher prices in manufacturing as compared to December 2016 were also recorded in: manufacture of wood and products of wood, except furniture - by 6,3%, manufacture of chemicals by 4,5% and manufacture of motor vehicles , trailers and semi-trailers - 3.4%. Price decreases were observed in the manufacture of computer equipment, electronic and optical products by 0.6% and in the manufacture of other non-metallic mineral products by 0.3%.

**The producer price index on the international market** in December 2017 decreased by 0.2% compared to the previous month. In the manufacturing, prices fell by 0.9%. A more significant decrease was recorded in the manufacture of basic metals by 2.4%, in the manufacture of furniture by 1.9% and in non-classified production by 0.5% and in the manufacture of paper, cardboard and paper and paper products by 1,1% and in the manufacture of rubber and plastic products by 0,6%. The producer price index on the international market in December 2017 increased by 2.3% compared to the same month of 2016. In the manufacturing, price increases were 1.7%. Higher prices were also recorded in: manufacture of paper, paperboard and paperboard products - by 14.3%, manufacture of wood and of products of wood, not furniture - by 7.7%, and manufacture of rubber products and plastics - by 7.0%. Price reductions were observed in the manufacture of motor vehicles, non-automotive - by 4.7%, and in the manufacture of computer equipment, electronic and optical products - by 4.0%.



## FISCAL SECTOR

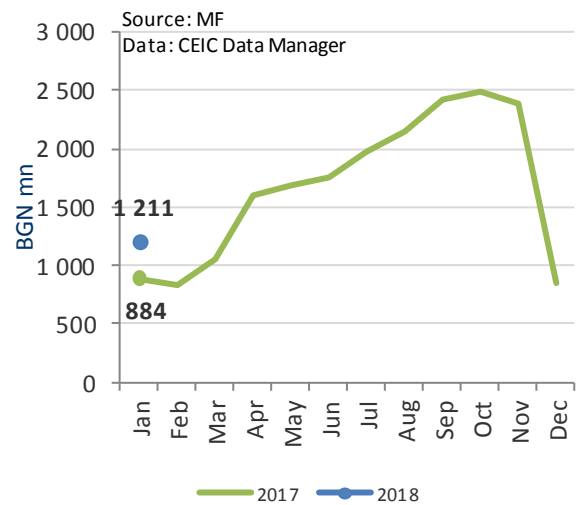
### Budget Balance

**In 2017 the consolidated Fiscal Programme (CFP) balance on a cash basis is positive, amounting to BGN 845.2 million, or 0.8% of GDP. The balance of the CFP on a cash basis for January 2018 is expected to be positive, amounting to BGN 1,211.4 million or 1.1% of GDP**

According to MF data the 2017 Consolidated Fiscal Programme (CFP) balance on a cash basis is positive, amounting to BGN 845.2 million, or 0.8% of the projected GDP, and is formed by a national budget surplus of BGN 309.1 million and by a surplus of EU funds of BGN 536.1 million. For comparison, the 2017 State Budget of the Republic of Bulgaria Law estimates a CFP deficit of BGN 1,330.0 million for the year, which means that a nominal improvement in the budget balance by almost BGN 2.2 billion is reported for the year as compared to what is set in the Programme. The national budget balance reports an improvement in structural terms as compared to 2016 mainly due to the growth of tax revenues, including from social security and health insurance contributions, while the balance of EU fund accounts has deteriorated this year due to a baseline effect in 2016 related to the EU grants reimbursed to Bulgaria at the beginning of 2016 for expenditures incurred at the end of 2015 when was the peak of project payments under the previous 2007 – 2013 programming period. The CFP revenues and grants in 2017 stand at BGN 35,315.2 million, or 99.6% of the annual estimates. In structural terms, tax and social security revenues exceed the estimates for the year by 5.5 per cent, while the performance of non-tax and grant revenues is lower than the annual estimates. Compared to the previous year, tax and non-tax revenues have risen by BGN

2,741.7 million, or by 8.8%, with grant proceeds being lower. Tax proceeds, including revenues from social security contributions, total BGN 29,581.3 million, which accounts for 105.5% of the revenues planned for the year. An over-performance of the annual estimates is reported for most of the main taxes and social security contributions. Compared to the 2016 data, tax proceeds have risen in nominal terms by 10.0%, or by BGN 2,678.6 million. Direct tax revenues amount to BGN 5,644.3 million, or 110.8% of the estimates planned for the year, growing by BGN 607.0 million (12.1%) as compared to the same period of the previous year. Indirect tax revenues amount to BGN 14,532.5 million, which accounts for 103.7% of the annual estimates. Compared to the 2016 data, proceeds in this group have grown by BGN 970.8 million, or by 7.2%. VAT proceeds amount to BGN 9,320.2 million, or 106.1% of those planned. Compared to the previous year, VAT revenues have risen by BGN 767.3 million, or by 9.0%. The amount of non-refunded VAT as of 31 December 2017 is BGN 50.5 million. The excise duty revenues amount to BGN 4,984.5 million, or 98.9% of the annual estimates. Customs duty proceeds amount to BGN 194.3 million, or 117.0% of the estimates for the year. Proceeds from other taxes, including property taxes and other taxes under the Corporate Income Tax Law, amount to BGN 1,039.4 million, or 104.9% of the annual estimates. Revenues from social security and health insurance contributions are BGN 8,365.1 million, which accounts for 105.4% of the estimates for the year. Compared to the previous year, the revenues from social security contributions have risen by 14.3%, or by BGN 1,047.3 million, in nominal terms. Non-tax revenues amount to BGN 4,213.2 million, which accounts for a performance of 88.5% of the annual estimates. Grant revenues amount to BGN 1,520.7 million, or 57.5% of those planned for the year. CFP expenditures, including the contribution of the Republic of Bulgaria to the EU budget for 2017, amount to BGN 34,469.9 million, which accounts for 93.7% of the annual estimates. For comparison, the 2016 CFP expenditures amount to BGN 32,491.4 million. The higher expenditures, as compared to 2016, are mainly due to the greater amount of social security and health insurance payments (a baseline effect of pension expenditures since their increases as from July 2016 and July 2017, the two-step increase in the minimum pension in 2017 (as from July and October)), as well as the higher subsidy expenditures and the higher staff costs, including due to the increase in social security contribution expenditures linked to the higher contribution to the Pensions to Persons Pursuant to Article 69 Fund of the Social Insurance Code by 20 pps as against 2016. Non-interest expenditures amount to BGN 32,789.6 million, which accounts for 94.9% of the annual estimates. Non-interest current expenditures for 2017 amount to BGN 29,033.7 million, or

**Budget position monthly**



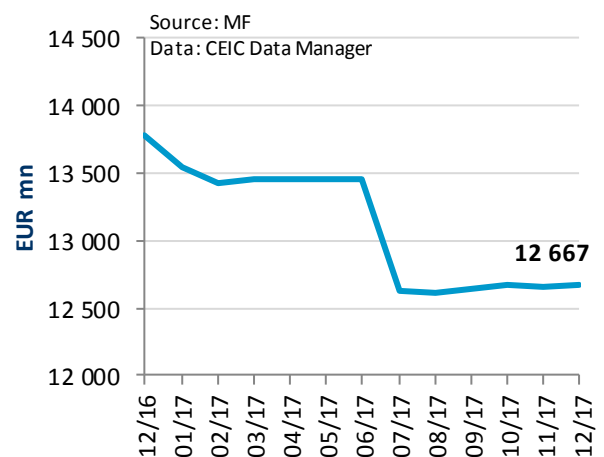
102.5% of the estimates for the year, capital expenditures (including net increment of state reserve) amount to BGN 3,755.9 million, or 60.5% of the 2017 State Budget of the Republic Bulgaria Law estimates. Interest payments amount to BGN 792.1 million, or 95.8% of those planned for 2017. The part of Bulgaria's contribution to the EU budget, as paid from the central budget in 2017, amounts to BGN 888.2 million, which complies with the existing legislation in the area of EU own resources. The fiscal reserve [1] as of 31/12/2017 is BGN 10.3 billion, including BGN 9.8 billion of fiscal reserve deposits in the BNB and in banks and BGN 0.5 billion of receivables under the EU Funds for certified expenditure, advance payments, etc. Based on preliminary data and estimates the balance of the Consolidated Fiscal Programme (CFP) on a cash basis for January 2018 is expected to be positive, amounting to BGN 1,211.4 million (1.1% of the forecast GDP). For comparison, a CFP surplus of BGN 884.2 million (0.9% of GDP) was reported for January 2017. The main factors for the excess of revenues over expenditures in January are the good performance parameters of tax revenues and revenues from social security contributions to the national budget.

## Central Government Debt

**At the end of December 2017 the central government debt stood at EUR 12,667.1 million and presented 24.9% of GDP**

According to MF data at the end of December 2017 the central government debt stood at EUR 12,667.1 million. During the month, an issue of bonds with a maturity of 7 years and 6 months and a volume of BGN 80.0 million was reopened on the domestic market. Domestic debt amounted to EUR 3,468.2 million and external debt – to EUR 9,189.9 million. At the end of the reporting period the central government debt/GDP ratio was 24.9%, with the share of domestic debt being 6.8% and of external debt – 18.1%. In the central government debt structure, domestic debt at the end of the period amounted to 27.4%, and external debt – to 72.6%. The weighted average interest rate on debt for the period January – December 2017 is 2.70%, decreasing by 14 basis points as compared to the same period of 2016 (2.84%). As of 31 December 2017, the central government guaranteed debt was EUR 373.6 million. Domestic guarantees amounted to EUR 35.1 million and external guarantees – to EUR 338.5 million. The central government guaranteed debt/GDP ratio is 0.7%. According to the official register of government and government guaranteed debt, kept by the Ministry of Finance on the grounds of Article 38, paragraph 1 of the Government Debt Law, at end-December 2017 the government debt reached EUR 12,032.8 million, being 23.6% of GDP. Domestic debt amounted to EUR 3,431.6 million and external debt – to EUR 8,601.2 million. Government guaranteed debt in December 2017 amounted to EUR 1,020.8 million. Domestic guarantees amounted to EUR 35.1 million, the government guaranteed debt/GDP ratio being 2.0%.

Central Government Debt

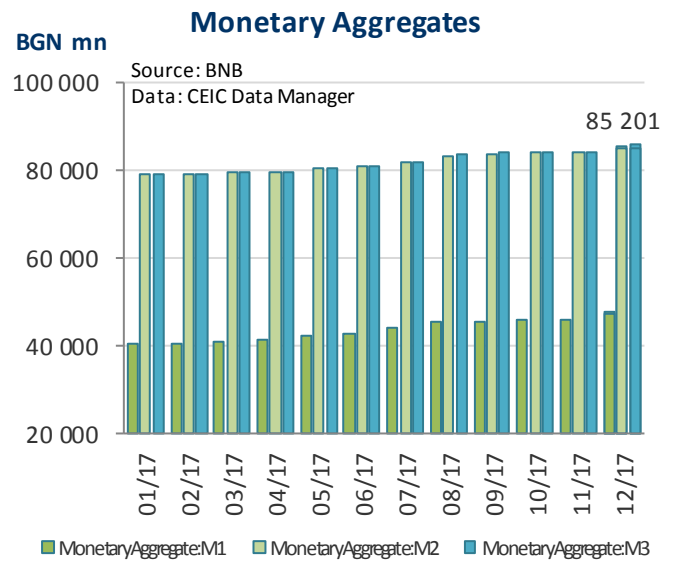


## MONETARY SECTOR

**At the end of December 2017 broad money (monetary aggregate M3) increased by 7.7% y/y to BGN 85.727 billion. Domestic credit amounted at BGN 54.398 billion and increased by 6.8% y/y**

According to BNB data in December 2017 broad money (monetary aggregate M3) increased by 7.7% y/y compared to 7% annual growth in November 2017. At the end of December 2017 M3 was BGN 85.727 billion (86% of GDP) compared to BGN 84.143 billion (84.4% of GDP) in November 2017. Its most liquid component – monetary aggregate M1 – increased by 16.9% y/y in December 2017 (15% y/y growth in November 2017). At the end of December 2017, deposits of the non-government sector were BGN 72.383 billion (72.6% of GDP), increasing annually by 6.1% (5.3% y/y growth in November 2017). Deposits of Non-financial corporations were BGN 22.038 billion (22.1% of GDP) at the end of December 2017. Compared to the same month of 2016 they increased by 13.8% (12.2% y/y growth in November 2017). Deposits of financial corporations decreased by 26.9% y/y

in December 2017 (28.3% y/y decline in November 2017) and at the end of the month they reached BGN 2.518 billion (2.5% of GDP). Deposits of Households and NPISHs were BGN 47.827 billion (48% of GDP) at the end of December 2017. They increased by 5.4% compared to the same month of 2016 (5.1% annual growth in November 2017). Net domestic assets were BGN 53.771 billion at the end of December 2017. They increased by 8.1% compared to the same month of 2016 (9.3% annual growth in November 2017). At the end of the month their basic component –domestic credit – was BGN 54.398 billion and increased by 6.8% compared to December 2016 (7.3% y/y growth in November 2017). In December 2017 claims on the non-government sector<sup>7</sup> increased by 4.6% y/y compared to 4.1% y/y increase in November 2017) reaching BGN 54.040 billion. At the end of December 2017, claims on loans to the non-government sector amounted to BGN 52.942 billion (53.1% of GDP) compared to BGN 53.252 billion (53.4% of GDP) at the end of November 2017. They increased annually by 4.8% in December 2017 (4.2% y/y growth in November 2017). The change of loans to the nongovernment sector was influenced by net sales of loans by Other monetary financial institutions (Other MFIs) – their volume for the last twelve months was BGN 61.9 million. On an annual basis, loans sold by Other MFIs were BGN 124.8 million (of which BGN 7.8 million in December 2017), while the amount of repurchased loans was BGN 62.9 million (of which BGN 6.5 million in December 2017). In December 2017, loans to Non-financial corporations increased by 1.7% annually (1.3% y/y growth in November 2017) and at the end of the month amounted to BGN 31.083 billion (31.2% of GDP). Loans to Households and NPISHs were BGN 19.626 billion (19.7% of GDP) at the end of December 2017. They increased by 6% compared to the same month of 2016 (6.4% y/y growth in November 2017). At the end of December 2017 loans for house purchases were BGN 9.414 billion and increased by 7.4% annually (6.8% annual growth in November 2017). Consumer loans amounted to BGN 7.737 billion and compared to December 2016 they increased by 5.8% (6.7% annual growth in November 2017). On an annual basis other loans<sup>9</sup> increased by 15% (24.1% annual growth in November 2017) and reached BGN 1.224 billion. Loans granted to financial corporations were BGN 2.233 billion at the end of December 2017 (2.2% of GDP). Compared to December 2016, they increased by 54.1% (37.1% annual growth in November 2017). At the end of December 2017 the relative share of bad and restructured loans decreased to 13.0% compared to 15.6% at the end of 2016.



## CAPITAL MARKET

**In January 2018 the main index of BSE-Sofia SOFIX registered a growth of 5.2% to 712.73 points. The index of the most liquid companies BGBX 40 rose by 4.7% to 138.23 points. Equally weighted BG TR30 registered growth of 2.8% to 571.59 and property manager BGREIT declined by 0.6% to 115.41 points**

The bottom line from the first month of 2018 for the most liquid companies on BSE-Sofia included in SOFIX is not very good. For the first time in a long time, losing emissions are more than profitable at a ratio of 8 to 7. A year earlier, in January 2017, the ratio was 9 to 6 in favor of the winners. Last month, however, the shares of three of the 15 companies registered two-digit growth: Chimimport (+36.4%), Central Cooperative Bank (+24.0%) and Industrial Holding Bulgaria (+ 16.0%). Last month, 3 issues generated sales of over 1 million leva, while a year earlier were 4. The leaders in the first month of 2018 are: Chimimport with BGN 8 506 579, Sopharma with 2 685 312 leva and CB Central Cooperative Bank

Bulgarian Stock Exchange Indexes on Monthly Basis				
Date	SOFIX	BGBX40	BGREIT	BGTR30
01.2017	602.3	117.0	107.3	470.4
02.2017	611.1	120.6	107.8	486.1
03.2017	634.0	124.9	108.6	503.8
04.2017	657.3	130.3	108.4	519.9
05.2017	661.2	130.6	111.1	516.7
06.2017	703.5	134.2	113.8	535.5
07.2017	715.2	135.5	115.0	548.7
08.2017	705.4	134.9	115.3	556.1
09.2017	688.1	134.3	114.9	559.3
10.2017	671.4	131.2	115.9	547.1
11.2017	665.0	130.5	114.0	547.9
12.2017	677.5	132.0	116.1	556.0
01.2018	712.7	138.2	115.4	571.6

Source: Bulgarian Stock Exchange-Sofia

with BGN 1 053 325. In January 2018, TB CCB (BGN 640 200 000) was headed by market capitalization among the 15 most liquid companies. Followed by Chimimport (BGN 584,736,891) and Sopharma (BGN 574,239,050), Monbat (417,300,000) and Eurohold Bulgaria (BGN 284,436,864) were among the top five companies. Following the change of the SOFIX base on September 18, 2017, the group of holdings was increased by one more. In January 2018, the emissions of four of the five holding companies included in SOFIX were at a loss and only the shares of Industrial Holding Bulgaria were profitable (+16.0%). The company with the highest turnover for January 2018 was Chimimport AD, with a total volume of BGN 8 506 579. Second place was for Sopharma AD with a total amount of BGN 2 685 312. In the list there is only one representative of the special investment vehicles - Advance Terrafund REIT, which occupied 8th position respectively. With the smallest number of transactions in the ranking are Chimsab Bulgaria AD, CEZ Electro Bulgaria AD and Velgraf Asset Management AD-Sofia, and with the largest Chimimport AD and CB Central Cooperative Bank AD. The most profitable company in January 2018 was Severcoop Gamza Holding AD, which achieved a growth of 96.08%. Chimimport AD ranked second, followed by CB Central Cooperative Bank AD with a growth of 24.02%. The last two companies in the ranking also registered significant growth, respectively Corado-Bulgaria AD with a growth of 19.71% and Bulgarian Stock Exchange-Sofia AD with a growth of 18.55%. The top 5 of the losers in January 2018 is headed by Bulgartabac Holding AD with a decrease of 17.58%. Second is Real Estate Bulgaria REIT with a decline of 5.58%. The other three companies in the ranking also scored one-digit declines.

After receiving all necessary permits, the contract for the transfer of the shares of the Bulgarian Independent Energy Exchange (BENE) between the Bulgarian Energy Holding and the Bulgarian Stock Exchange - Sofia (the Exchange) entered into force. In this way the Exchange acquired 100% of the capital of BENB. The agreed price is BGN 5.2 million. Four million leva of the price was paid at the acquisition of the shares, which finalized the sale process and the remaining BGN 1.2 million would be transferred in three equal installments within the sixth, twelfth and eighteenth months of the capital transfer. For the deferred part of the payment, BSE-Sofia provided an unconditional revolving bank guarantee.

## BANKING SECTOR

**Gross loans and advances to customers during the period January - December 2017 increased by BGN 1.6 billion and reported an increase of 3% y/y to BGN 56.1 billion. Their relative share in GDP amounted to 57.7%. At the end of 2017 deposits from customers within the banking system increased by BGN 4.3 billion or by 5.8% y/y to BGN 78.4 billion. Their relative share in full year GDP projection amounts to 80.7%**

According to BNB data at the end of December 2017, the aggregated net profit of the banking system amounted to BGN 1.2 billion, or declined by BGN 88 million compared to the end of the previous year. By the end of December 2017, ROA and ROE levels were 1.20% and 9.32%, respectively. The depreciation costs incurred for the twelve months of 2017 amounted to BGN 745 million compared to BGN 814 million at the end of 2016.

Indicator (BGN'000)	31.12. 2016	31.12. 2017	Y/Y (%)
Interest Income	3 315 885	3 042 646	- 8.24
Interest Expense	510 779	367 818	- 27.99
<b>Net interest income</b>	<b>2 805 106</b>	<b>2 674 828</b>	- <b>4.64</b>
Impairment	813 960	745 368	- 8.43
Fee and commission income	1 063 251	1 147 291	7.90
Fee and commission expenses	142 532	151 571	6.34
<b>Net fee and commission income</b>	<b>920 719</b>	<b>995 720</b>	<b>8.15</b>
<b>Administration costs</b>	<b>1 587 481</b>	<b>1 613 062</b>	<b>1.61</b>
Personal costs	755 238	796 557	5.47
Total operating income, net	4 079 504	3 886 338	- 4.74
<b>Net Profit</b>	<b>1 262 334</b>	<b>1 174 048</b>	- <b>6.99</b>

Source: BNB, Calculations: UBB

At the end of December 2017, the assets of the banking system increased by 2% m/m and by 6.2% y/y, respectively to BGN 97.2 billion, with a relative share in GDP of 100.7%. Gross loans and advances to customers during the period January - December 2017 increased by BGN 1.6 billion and reported an increase of 3% y/y to BGN 56,1 billion. Their relative share in GDP amounted to 57.7%. The credit risk mitigation measures, including substantial write-offs of non-performing loans at the ex-



pense of provisions, are causing the size of the portfolio. In the structure of the gross credit portfolio, loans to other financial corporations increased by BGN 505 million or by 24.9% y/y. Household loans grew up by BGN 1.2 billion or by 6.5% y/y, including mortgage loans increasing by 7.9% y/y and consumer loans by 5.5% y/y,, respectively. Loans to non-financial corporations reported a slight decrease of BGN 9 million or by 0.1% on an annual basis. There is also decrease in loans to the general government sector by BGN 82 million or by 11.9% on an annual basis. At the end of 2017 deposits from customers within the banking system increased by BGN 4.3 billion or by 5.8% y/y to BGN 78.4 billion. Their relative share in full year GDP projection amounts to 80.7%. In the period January - December 2017 the growth of household deposits was BGN 2.3 billion (or 4.8% y/y), and those of non-financial corporations - BGN 2.8 billion (or 13.2% annually). The deposits of the general government sector also increased by BGN 336 million or by 20.3% y/y. Deposits of other financial corporations decreased by BGN 1.1 billion or by 29% on an annual basis. Over a period of one year, the aggregate equity increased by BGN 463 million to BGN 12.6 billion, mainly due to the profit growth. As of the end of December 2017, the banking system reported an increase in deposits and assets. The increased attracted funds during the period were mainly invested in debt securities and receivables from credit institutions. This is also due to the growth of liquid assets, which increased to BGN 32.9 billion. The liquid assets ratio, calculated according to BNB Ordinance No. 11, increased to 38.97%.

Bulgaria Intermediation Indicators	31.12.2016 BGN 000	30.11.2017 BGN 000	31.12.2017 BGN 000	Change m/m (%)	Change y/y (%)	Change yend (%)	Share in GDP (%)
<b>BANKING SYSTEM TOTAL ASSETS</b>	<b>92 094 979</b>	<b>95 850 484</b>	<b>97 807 844</b>	<b>2.0</b>	<b>6.2</b>	<b>6.2</b>	<b>100.7</b>
Loans to central governments	686 170	614 592	604 299	-1.7	-11.9	-11.9	0.6
Loans to non-financial corporations	33 180 349	33 516 791	33 160 417	-1.1	-0.1	-0.1	34.1
Loans to financial corporations	2 025 583	2 352 930	2 530 322	7.5	24.9	24.9	2.6
Retail loans, incl.:	<b>18 575 301</b>	<b>19 972 030</b>	<b>19 788 604</b>	<b>-0.9</b>	<b>6.5</b>	<b>6.5</b>	<b>20.4</b>
Mortgage loans	8 771 553	9 444 146	9 460 270	0.2	7.9	7.9	9.7
Consumer loans	8 677 385	9 264 095	9 151 462	-1.2	5.5	5.5	9.4
Micro credits and other loans	1 126 363	1 263 789	1 176 872	-6.9	4.5	4.5	1.2
<b>TOTAL LOANS</b>	<b>54 467 403</b>	<b>56 456 343</b>	<b>56 083 642</b>	<b>-0.7</b>	<b>3.0</b>	<b>3.0</b>	<b>57.7</b>
<b>ATTRACTED SOURCES FROM CLIENTS, incl.:</b>	<b>74 129 417</b>	<b>76 747 619</b>	<b>78 405 885</b>	<b>2.2</b>	<b>5.8</b>	<b>5.8</b>	<b>80.7</b>
Local government deposits	1 652 435	1 824 421	1 988 208	9.0	20.3	20.3	2.0
Non-financial corporations deposits	21 375 024	23 709 705	24 189 788	2.0	13.2	13.2	24.9
Financial corporations deposits	3 905 721	2 842 120	2 772 082	-2.5	-29.0	-29.0	2.9
Households and NPISHs deposits	47 196 237	48 371 373	49 455 807	2.2	4.8	4.8	50.9
Equity	<b>12 133 492</b>	<b>12 468 136</b>	<b>12 596 784</b>	<b>1.0</b>	<b>3.8</b>	<b>3.8</b>	<b>13.0</b>
Net profit (annualised)	<b>1 262 334</b>	<b>1 088 190</b>	<b>1 174 048</b>	<b>7.9</b>	<b>-7.0</b>	<b>-7.0</b>	
<b>BANKING INDICATORS (%)</b>							
ROE	10.4	9.5	9.3	-1.1	-1.1	-1.1	
ROA	1.4	1.2	1.2	-0.2	-0.2	-0.2	
Capital adequacy	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Liquidity	38.2	37.1	39.0	1.8	0.7	0.7	
NPL	11.1	n.a.	8.4	n.a.	-2.7	-2.7	
GDP, BGN '000	88 282 000	97 156 000	97 156 000				
EUR/BGN	1.95583	1.95583	1.95583				

Source: BNB "Bank Supervision" Department, MF, Calculations: UBB

In Q4 of 2017, the downward trend in the gross amount of non-performing loans and advances from customers and banks remained, reaching BGN 5.7 billion at the end of 2017 compared to BGN 7.9 billion in at the end of 2016. Their relative share in total gross loans and advances decreased to 8.4% from 11.1% at the end of 2016.

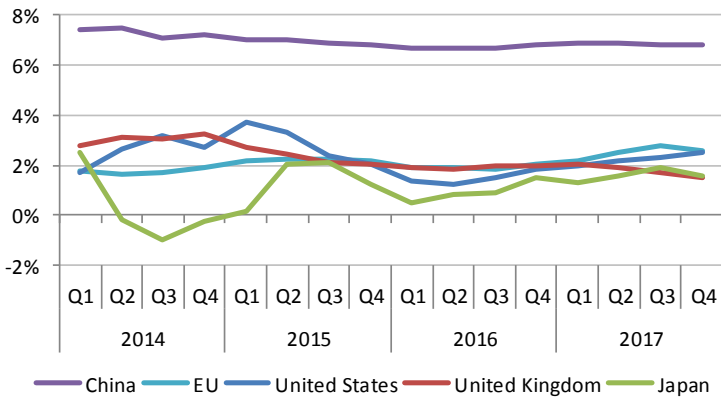
Information on performing and non-performing exposures	TOTAL	Gross Performing Loans	%	Gross Loans Past-due </=90 Days	%	Gross Loans Past-due >90 to </=180 Days	%	Gross Loans past-due over>180 Days, </= 1 year над 180 дни	%	Non-performing loans	%	Accumulated impairment, accumulated changes in fair value due to credit risk and provisions
<b>Loans and Advances</b>	<b>67 535 090</b>	<b>59 242 839</b>	<b>87.7</b>	<b>2 638 392</b>	<b>3.9</b>	<b>373 257</b>	<b>0.6</b>	<b>5 280 602</b>	<b>7.8</b>	<b>5 653 859</b>	<b>8.4</b>	<b>-4 379 307</b>
General governments	604 299	604 209	100.0	90	0.0	0	0.0	0	0.0	0	0.0	-1 095
Credit Institutions	11 451 448	11 447 167	100.0	0	0.0	0	0.0	4 281	0.0	4 281	0.0	-4 281
Other financial corporations	2 530 322	2 473 205	97.7	5 852	0.2	14	0.0	51 251	2.0	51 265	2.0	-55 988
Non-financial corporations	33 160 417	27 155 006	81.9	1 868 520	5.6	219 867	0.7	3 917 024	11.8	4 136 891	12.5	-3 164 985
Retail Exposures, including	19 788 604	17 563 252	88.8	763 930	3.9	153 376	0.8	1 308 046	6.6	1 461 422	7.4	-1 152 958
Retail Residential Mortgage Loans	9 460 270	8 323 610	88.0	390 957	4.1	71 211	0.8	674 492	7.1	745 703	7.9	-366 452
Consumer Loans	9 151 462	8 228 549	89.9	338 551	3.7	79 285	0.9	505 077	5.5	584 362	6.4	-668 903

Source: BNB, Calculations: UBB

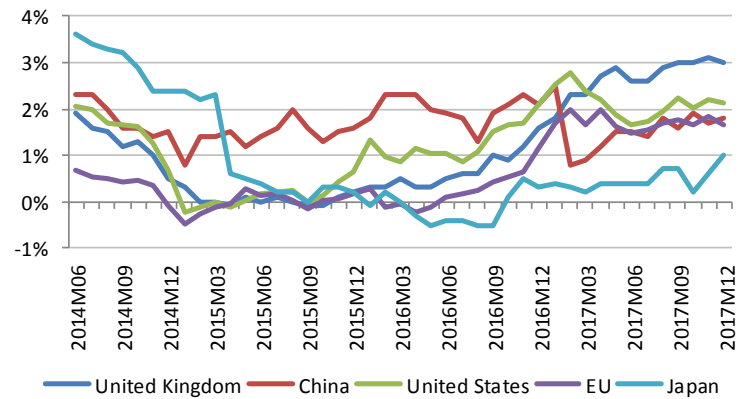
NPL includes all credit and advances (without Central banks) over 90 days past due

## Appendix

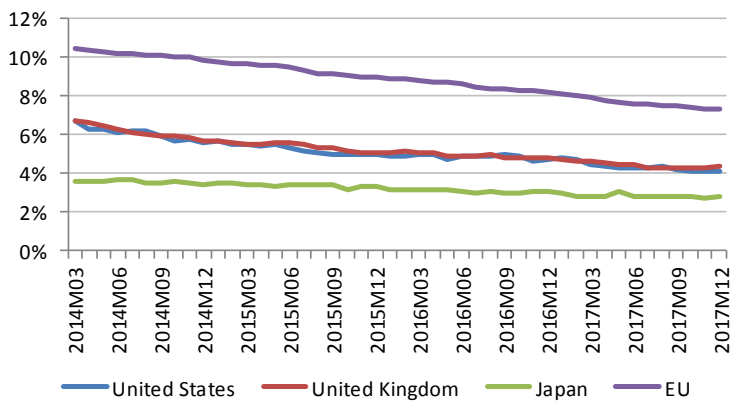
**Advanced Economies: GDP growth rate compared to the same quarter of the previous year**



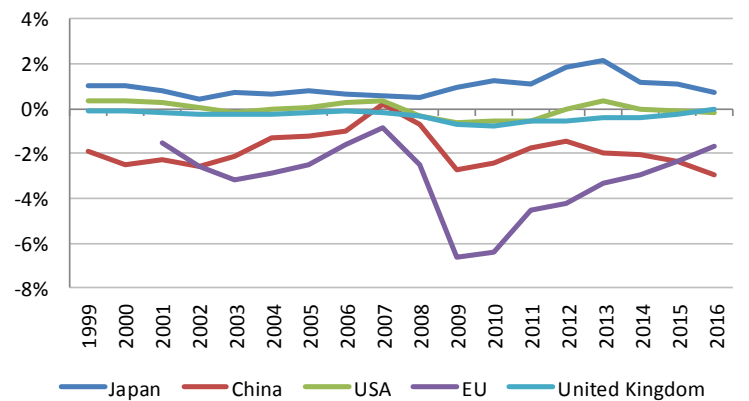
**Advanced economies: Inflation by country, monthly (y/y)**



**Advanced economies: Unemployment rates (%) by country on monthly basis**



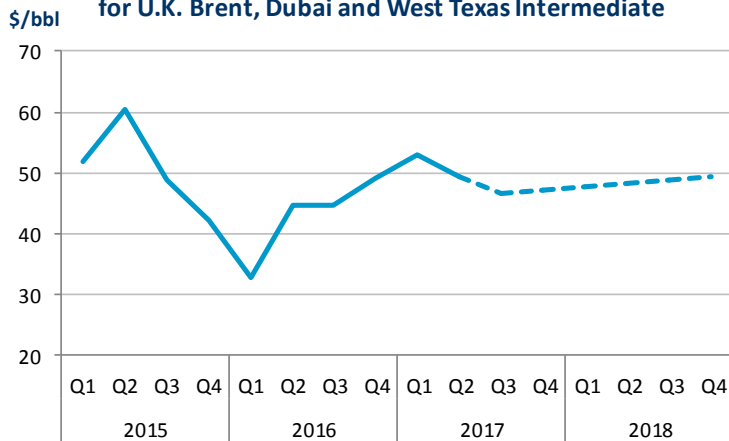
**Advanced economies: Budget surplus/deficit to GDP (%)**



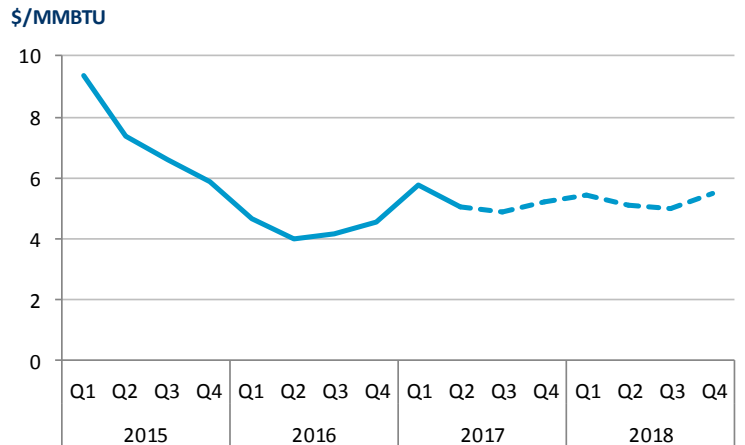


## Overseas Prices of Oil Products

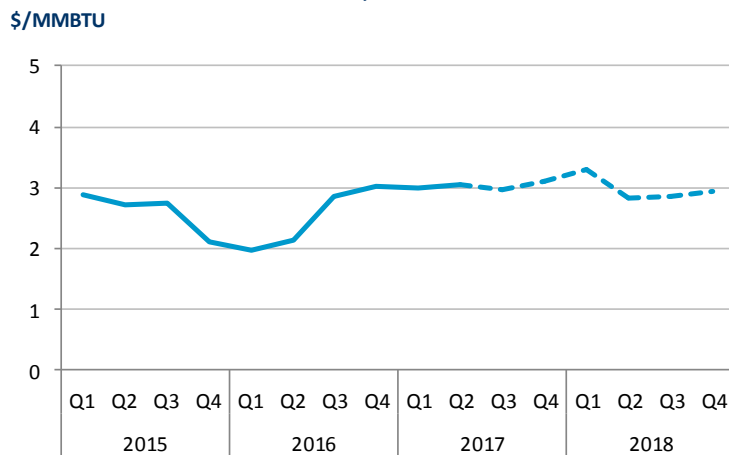
**Spot Crude: Petroleum price - average of spot prices for U.K. Brent, Dubai and West Texas Intermediate**



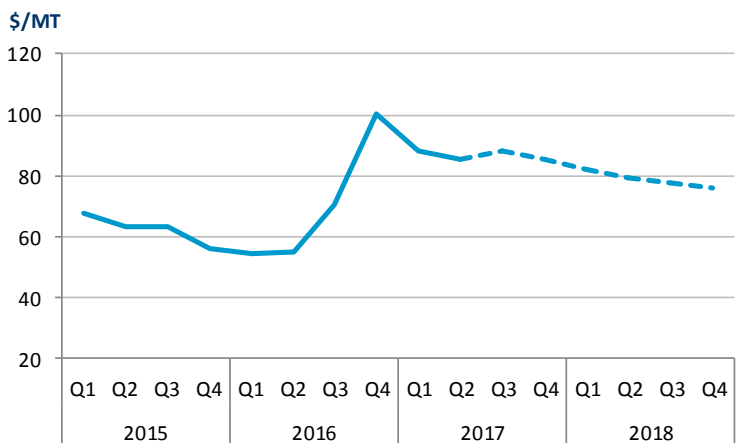
**Natural Gas: Russian in Germany**



**Natural Gas: US, domestic market**

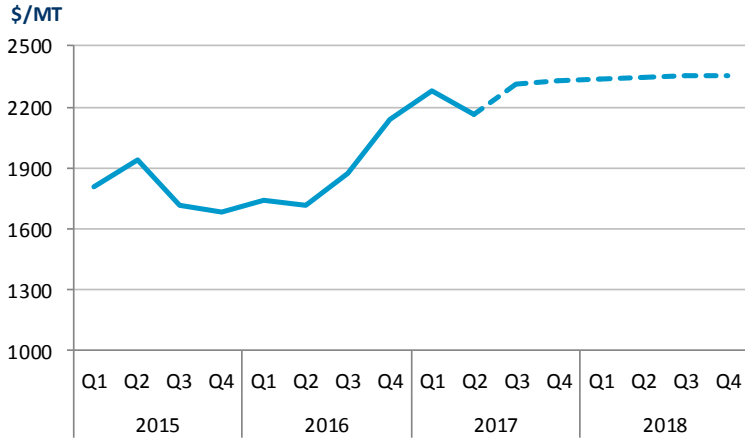


**Coal: Australian, export markets**

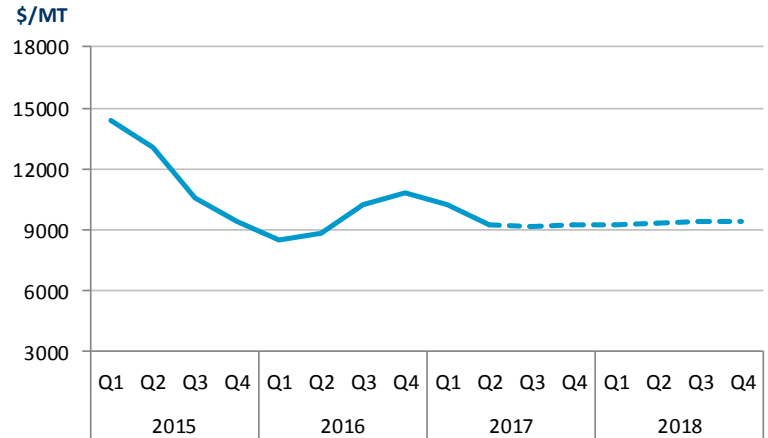


Overseas Prices of Metals

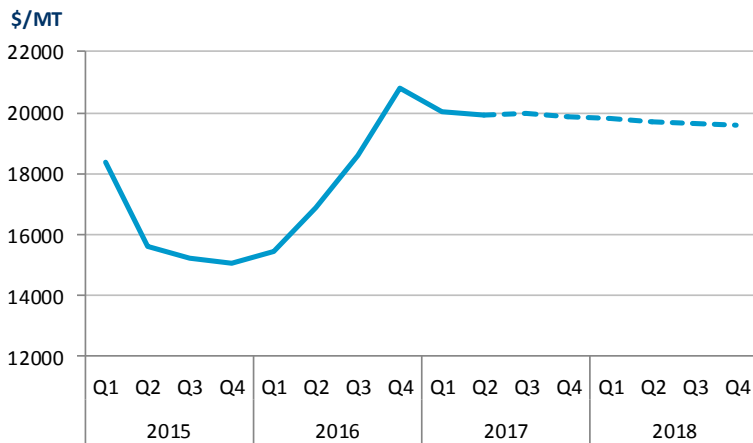
Lead



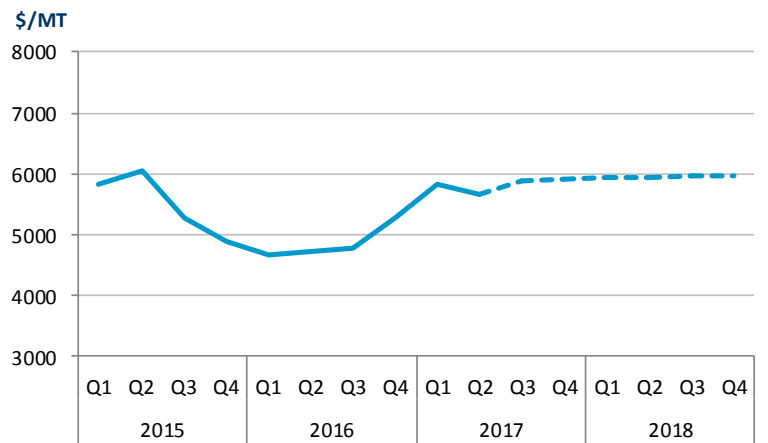
Nickel



Tin

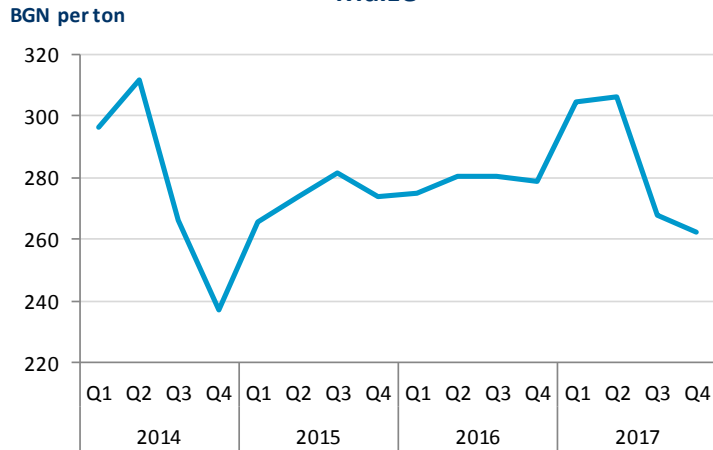


Copper

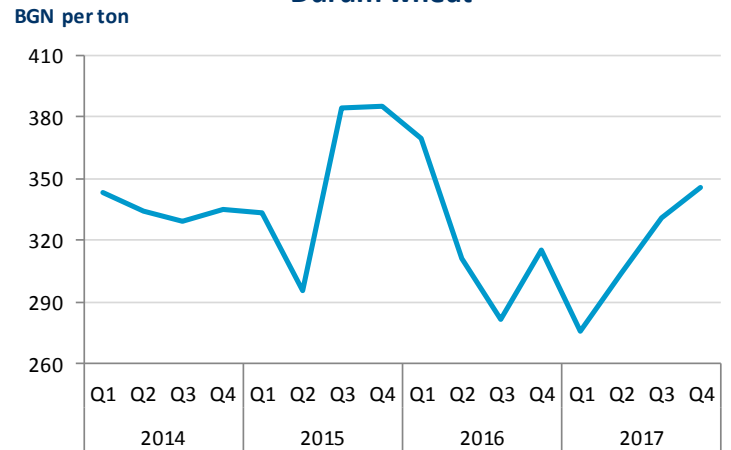


**Bulgaria: Prices of Agriculture products**

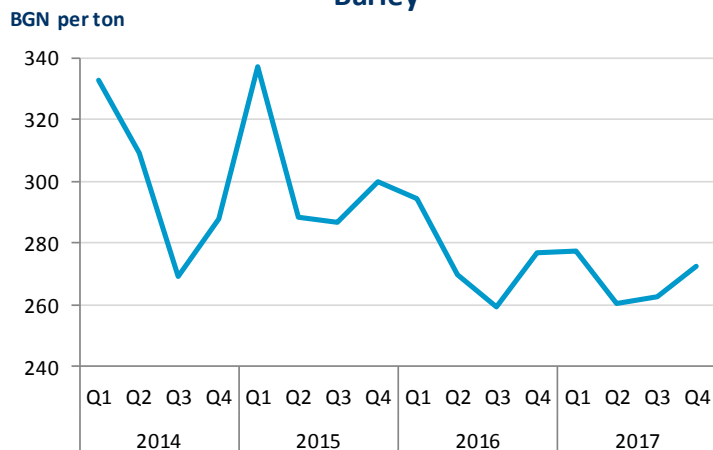
**Maize**



**Durum wheat**



**Barley**

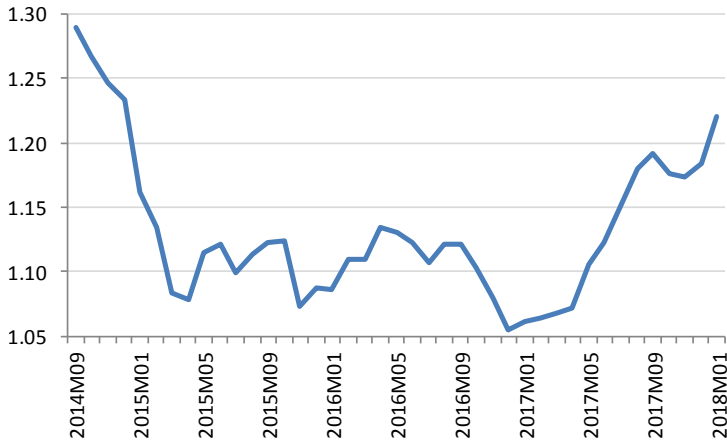


**Oats**

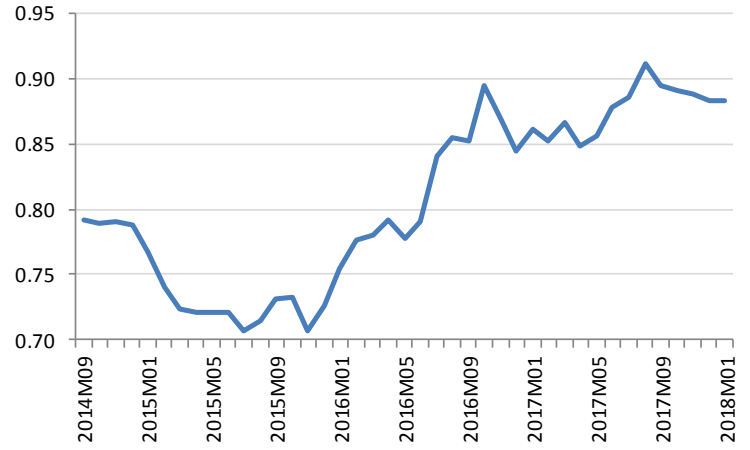


Overseas FX Rates

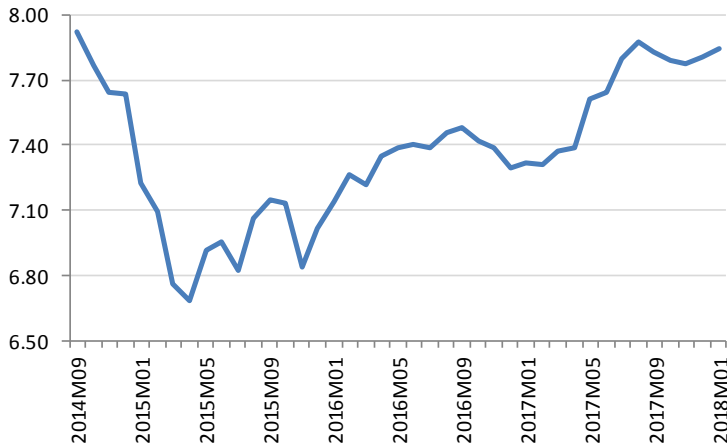
EUR/USD



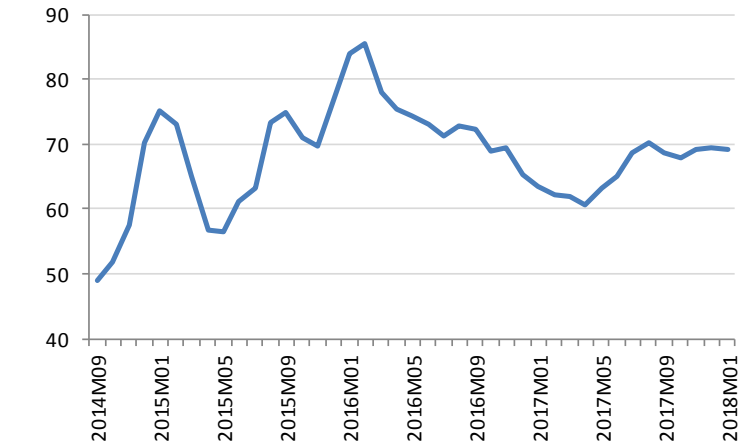
EUR/GBP



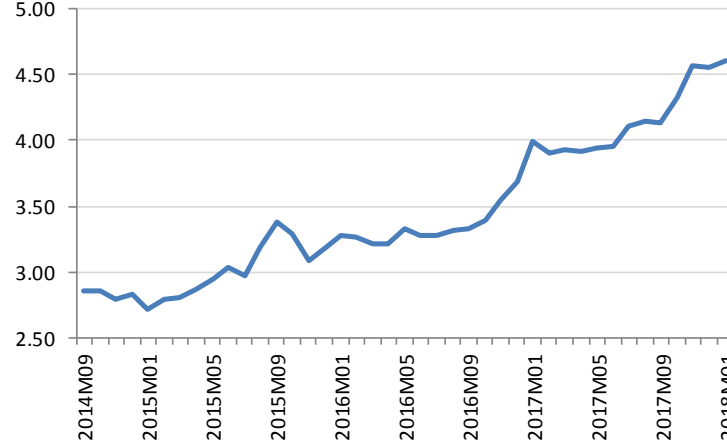
EUR/CHF



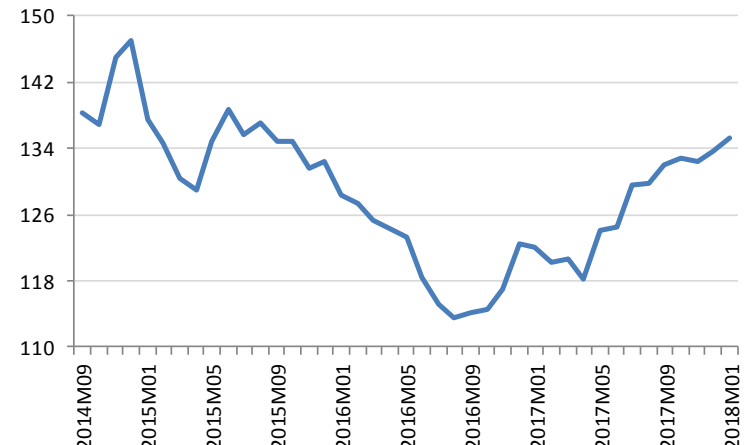
EUR/RUB



EUR/TRY

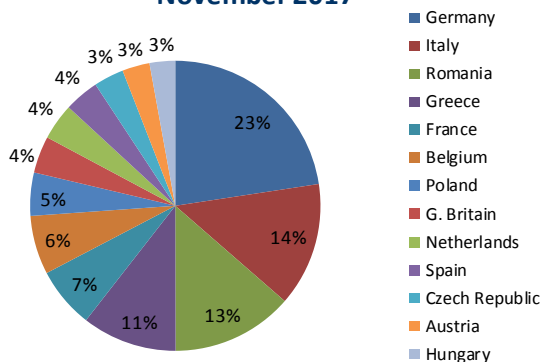


EUR/JPY

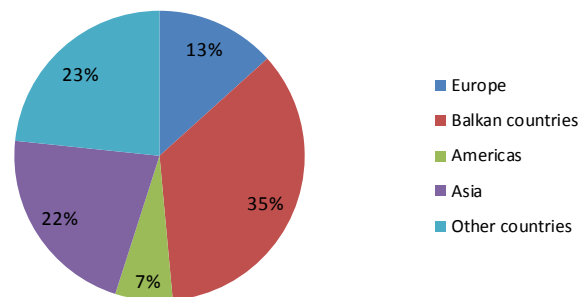


Bulgaria: External Sector Indicators

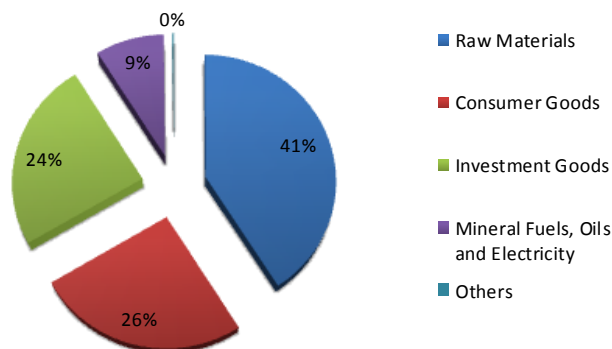
Exports: FOB by EU countries: January - November 2017



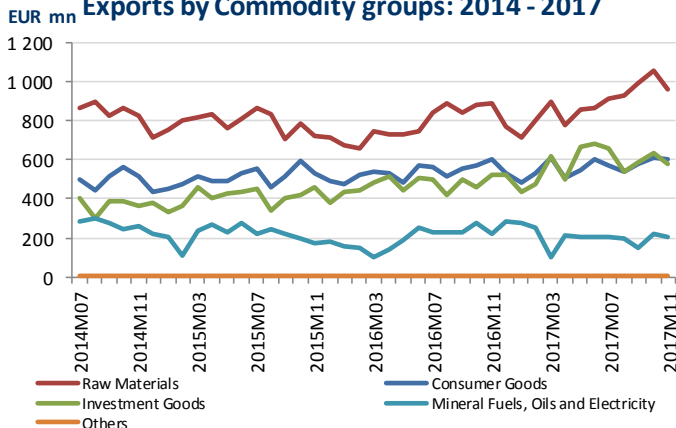
Exports: FOB by Non EU countries: January - November 2017



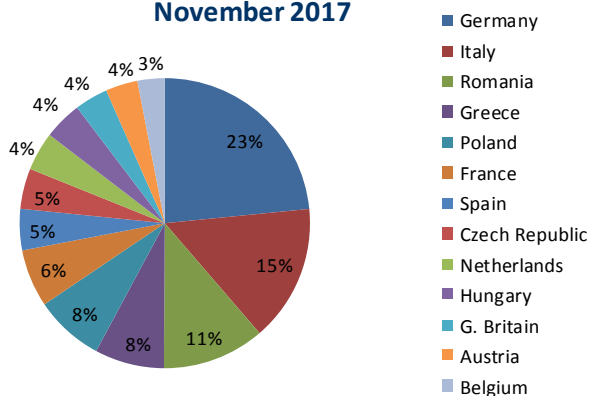
Exports: FOB: Commodity groups - percentage shares for November 2017



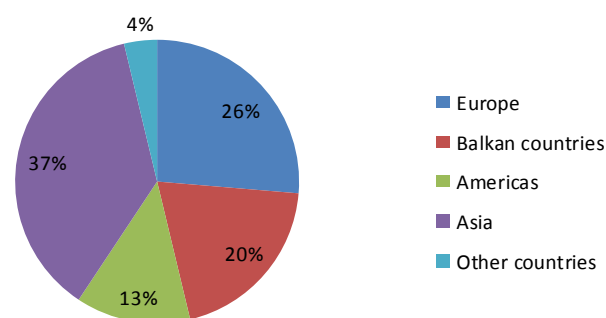
Exports by Commodity groups: 2014 - 2017



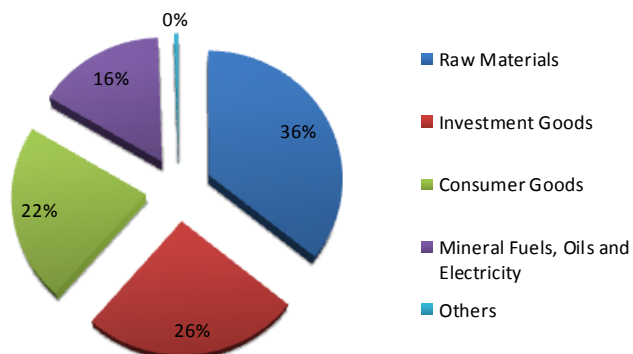
Imports: CIF by EU Countries: January - November 2017



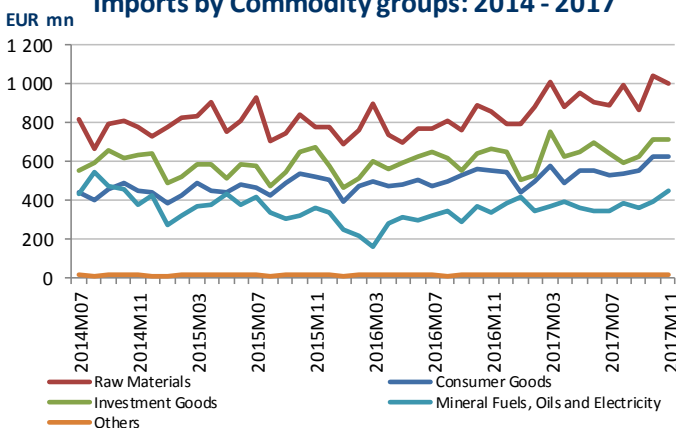
Imports: CIF by Non EU Countries: January - November 2017



Imports: CIF - Commodities groups - percentage share for November 2017



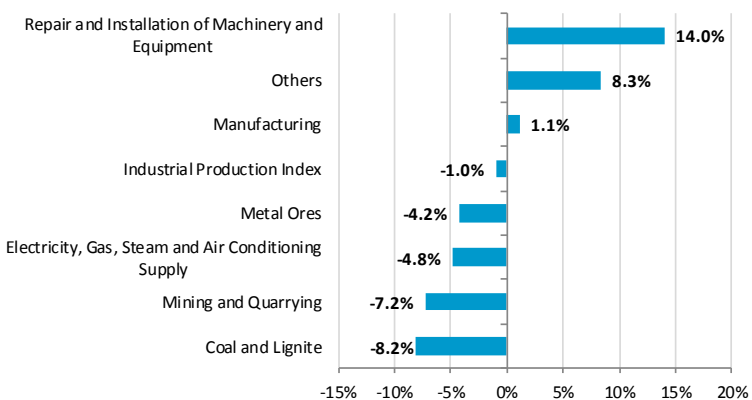
Imports by Commodity groups: 2014 - 2017



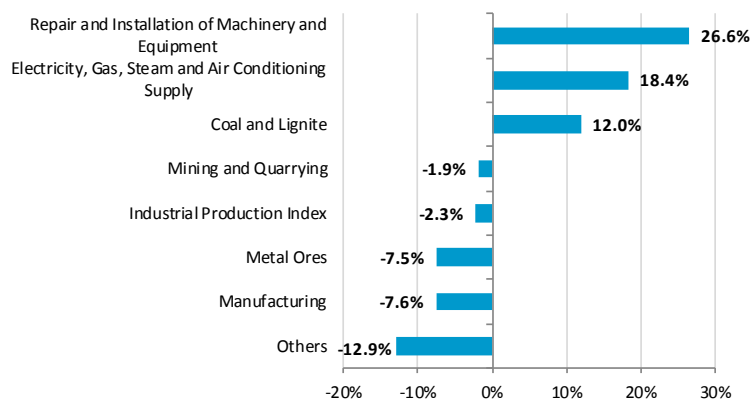


Bulgaria: Real Sector Indicators

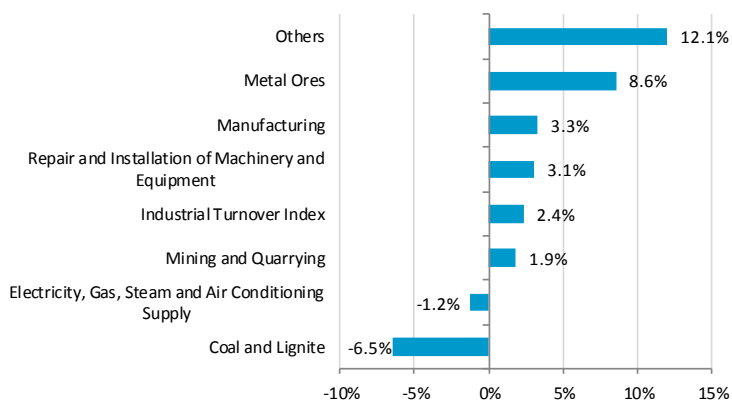
Industrial Production Indices: % change in December 2017 compared to December 2016



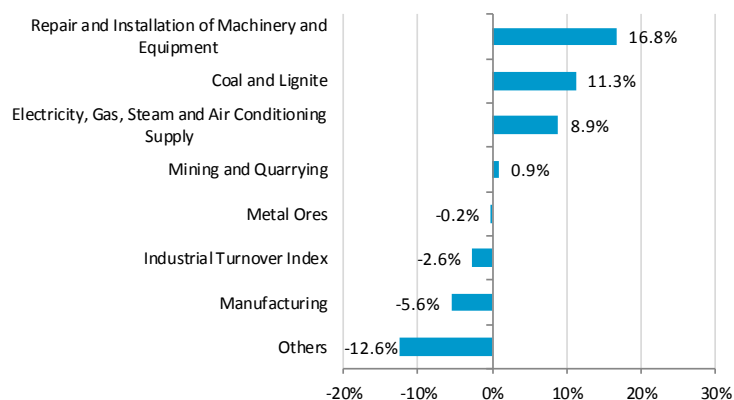
Industrial Production Indices: % change in December 2017 compared to November 2017



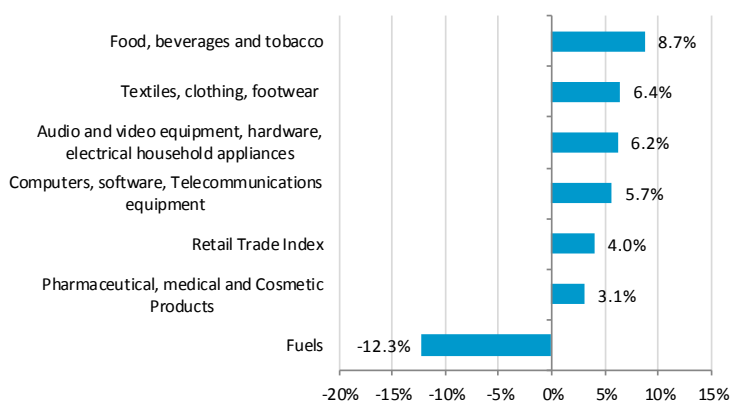
Industrial Turnover Index: % change in December 2017 compared to December 2016



Industrial Turnover Index: % change in December 2017 compared to November 2017



Retail Trade Index: % change in December 2017 compared to December 2016

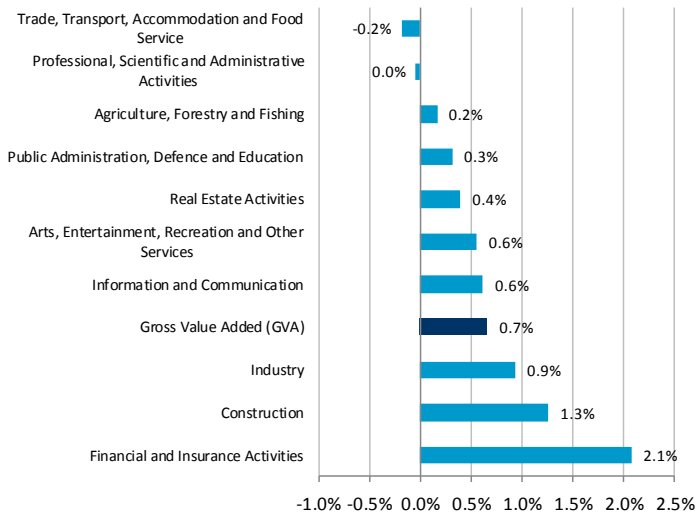


Retail Trade Index: % change in December 2017 compared to November 2017

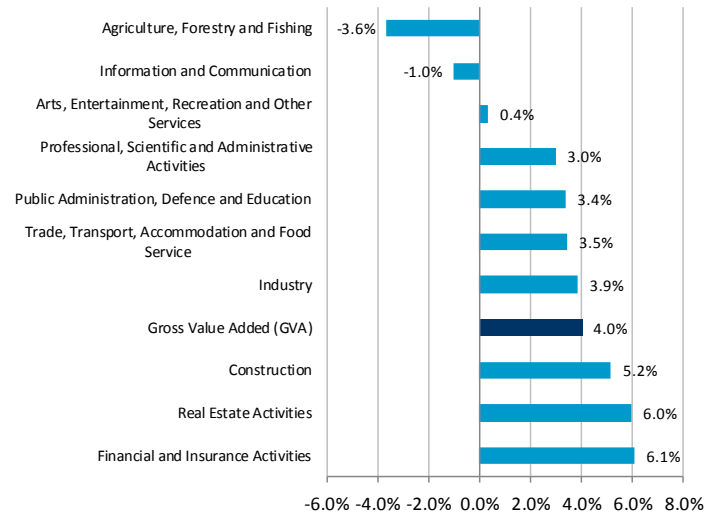


Bulgaria: Real Sector Indicators

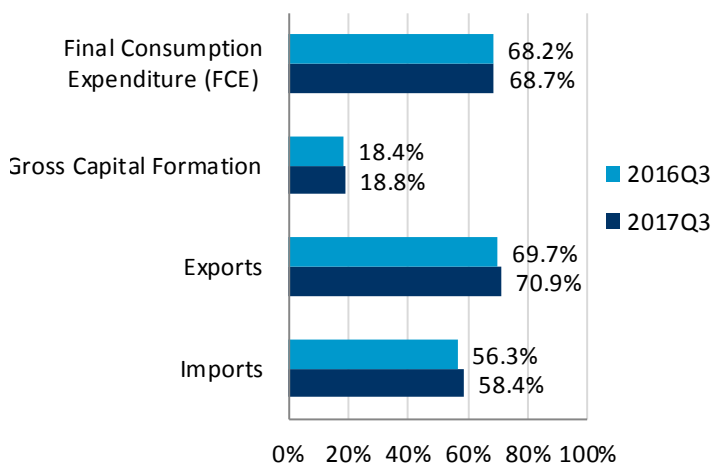
Gross Value Added by Economic Sectors: Percentage Change of Q3 2017 compared to Q2 2017



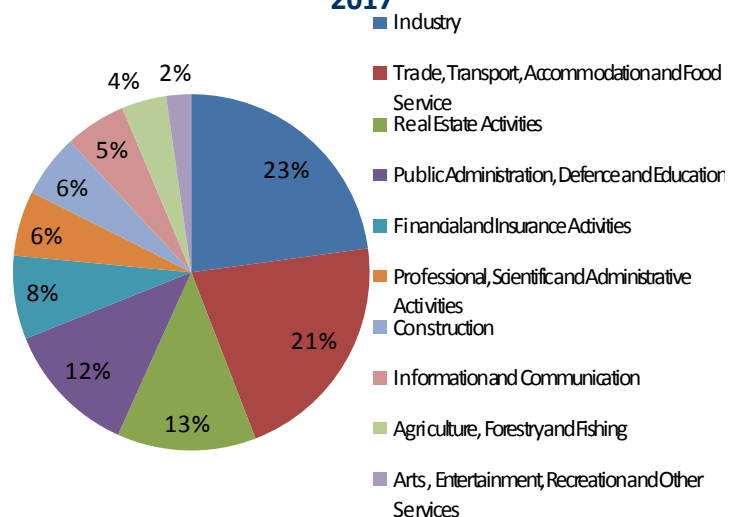
Gross Value Added by Economic Sectors: Percentage change of Q3 2017 compared to Q3 of 2016



Structure of GDP by the expenditure approach for Q3 in 2016 and 2017

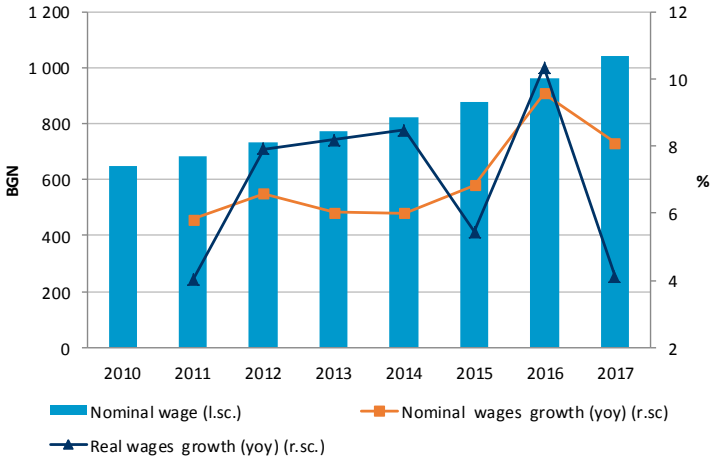


Bulgaria: Industries' relative share to GVA for Q3 2017

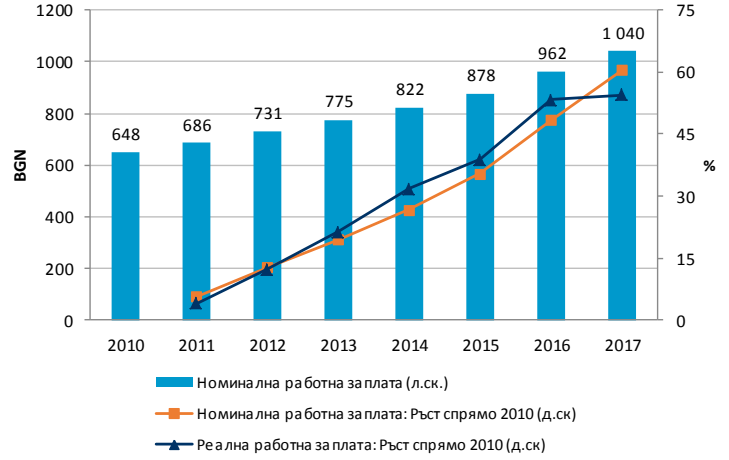


Bulgaria: Real Sector Indicators

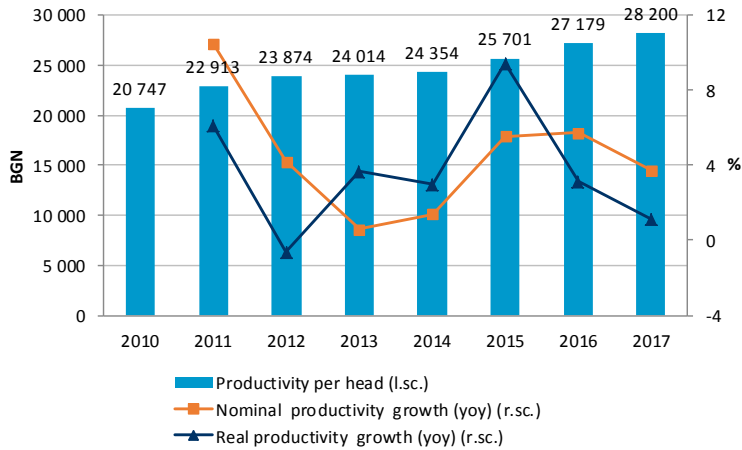
Nominal and Real Wage Dynamics: YoY (%)



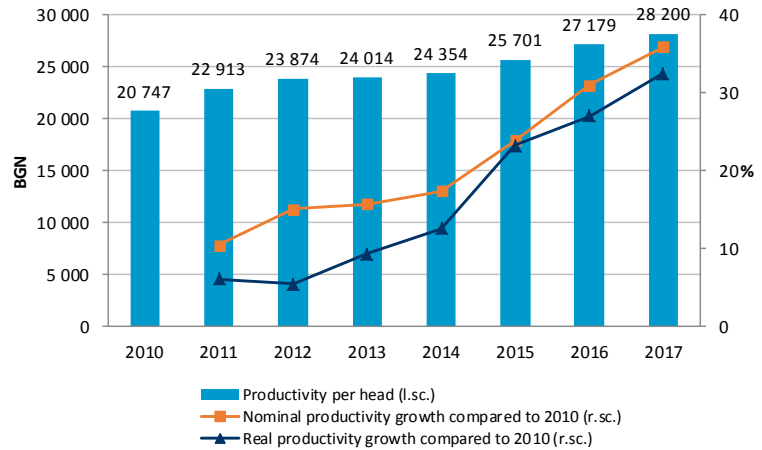
Nominal and Real Wage Dynamics compared to 2010 (%)



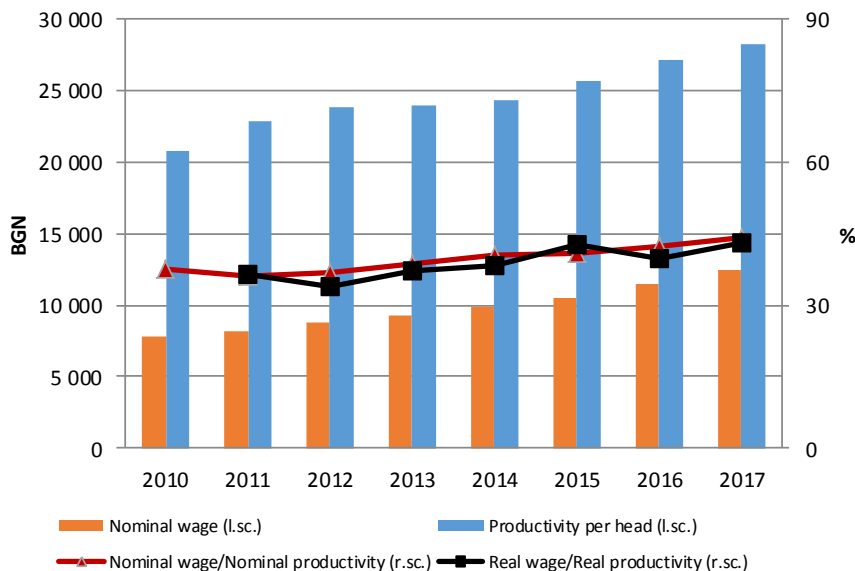
Nominal and Real Productivity per Head Dynamics, YoY (%)



Nominal and Real Productivity Dynamics compared to 2010 (%)

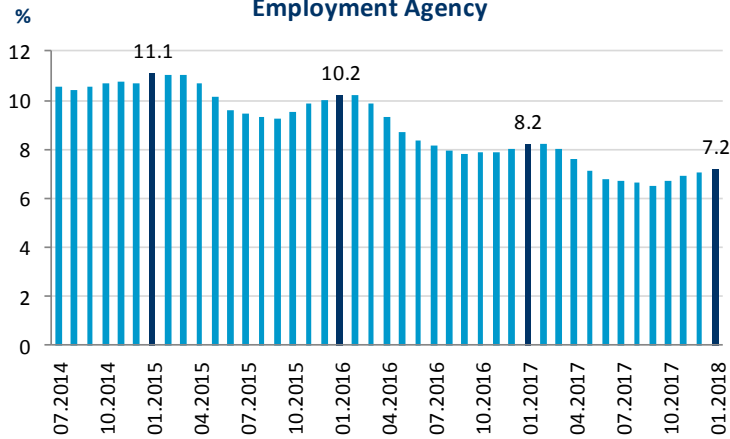


Average Wage to Productivity Ratio Dynamics, YoY (%)

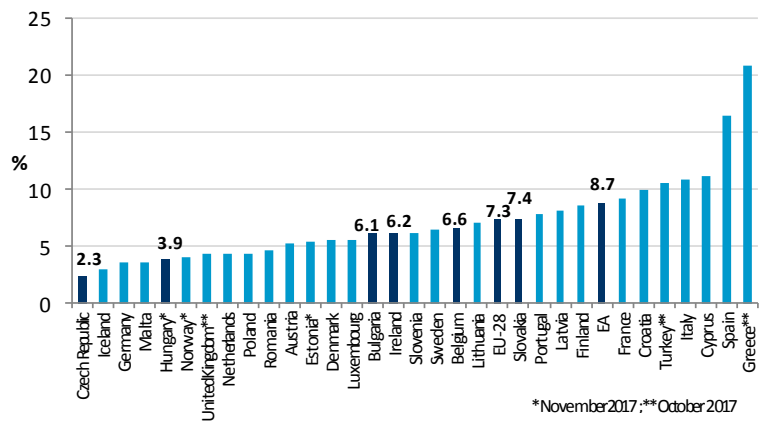


## Bulgaria: Real Sector Indicators

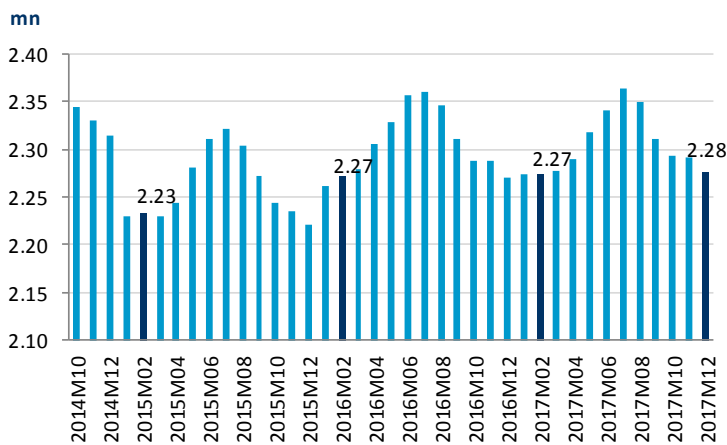
**Registered Unemployment Rate: National Employment Agency**



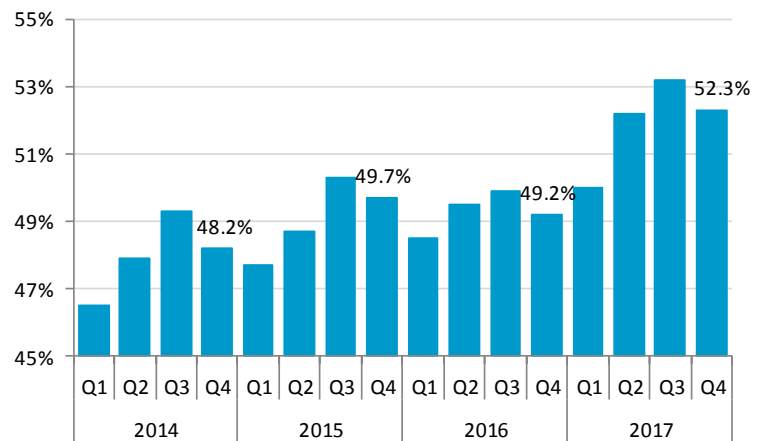
**EU: Unemployment rate seasonally adjusted by country, December 2017**



**Bulgaria: Number of Employees**

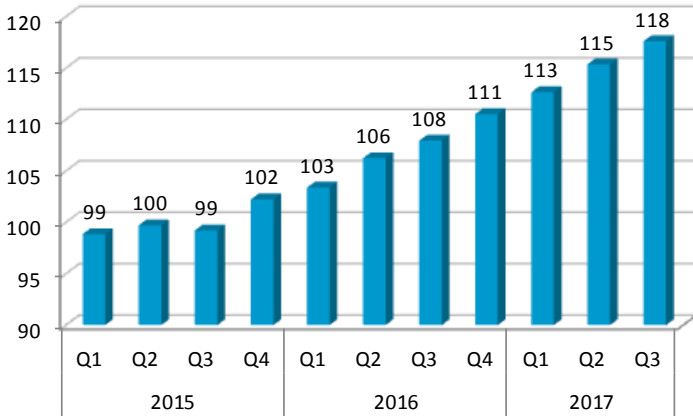


**Bulgaria: Employment Rate**

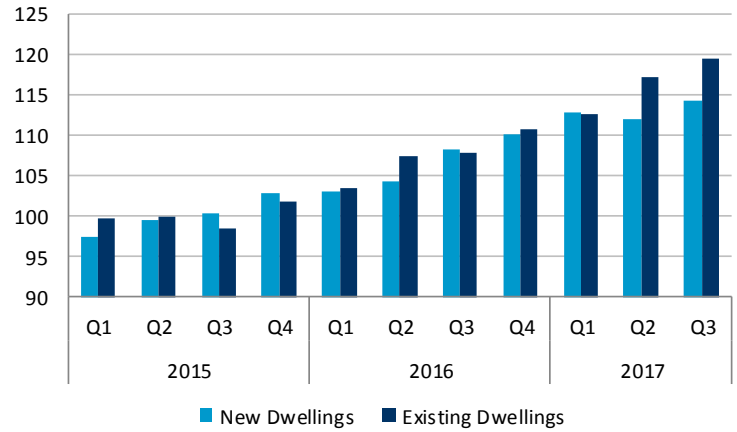


Bulgaria: Real Sector Indicators

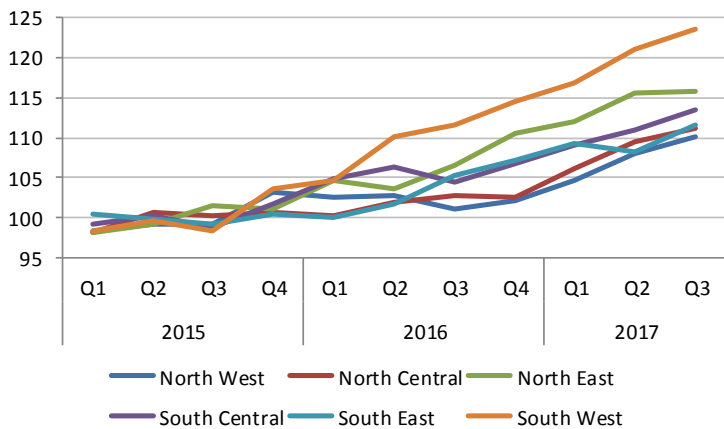
House Price Index (HPI)



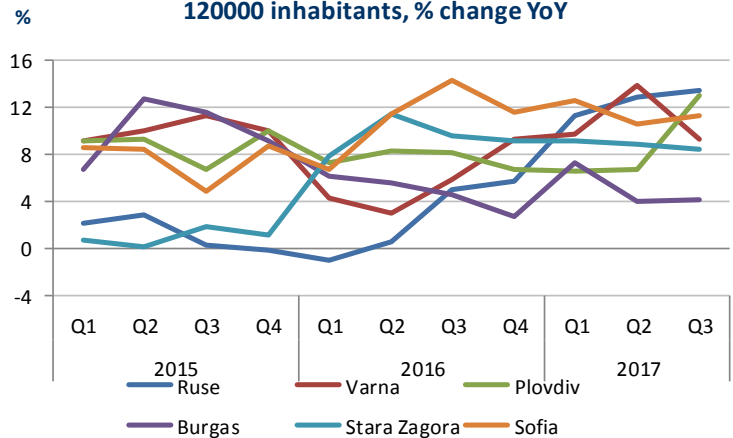
HPI: New and existing dwellings



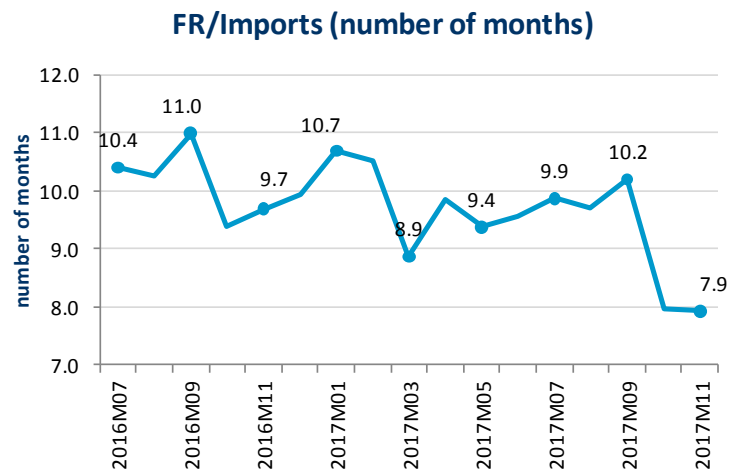
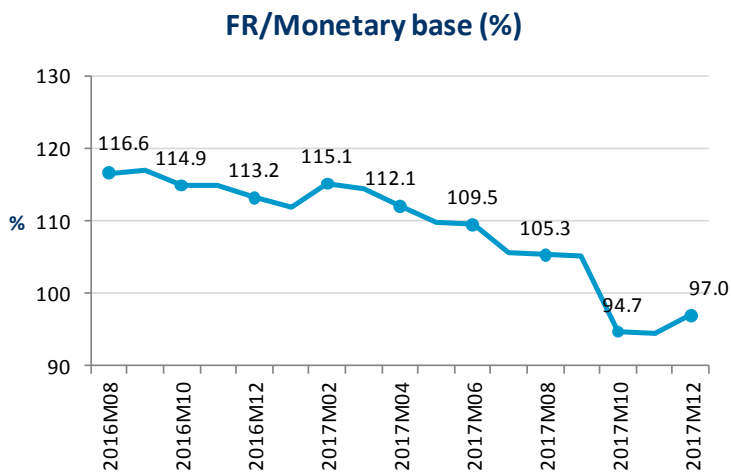
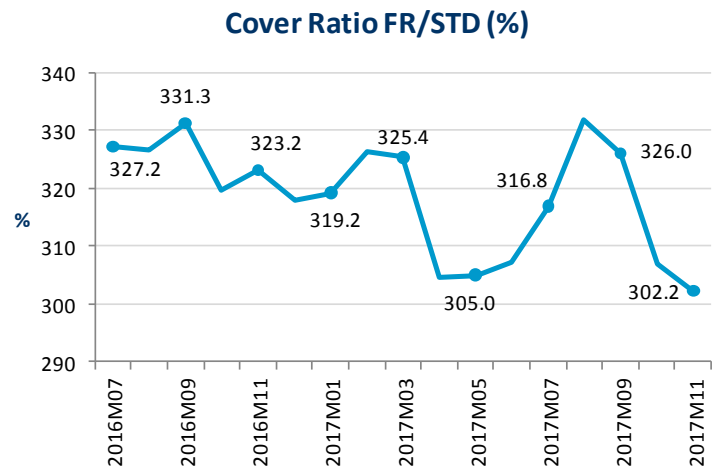
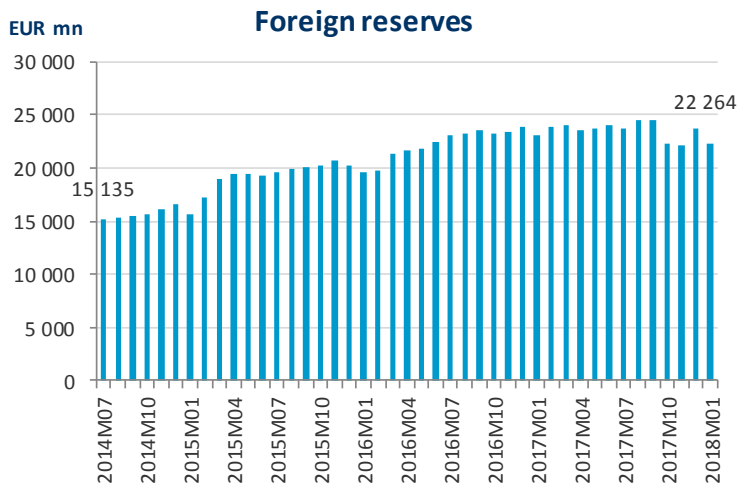
House Price index by regions



HPI for the 6 cities with population more than 120000 inhabitants, % change YoY



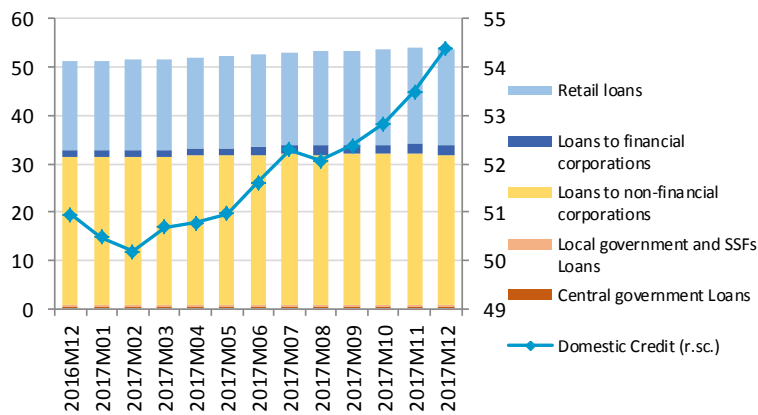
Bulgaria: Monetary Sector Indicators



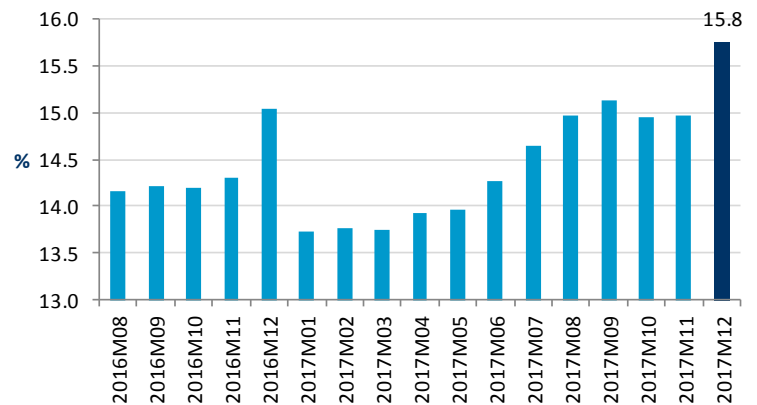


Bulgaria: Monetary Sector Indicators

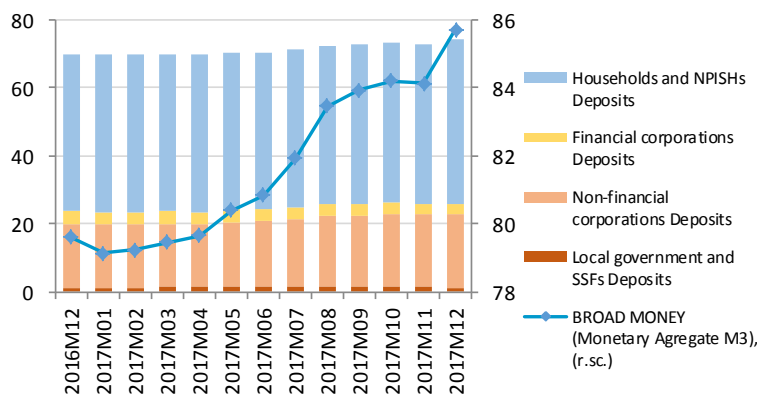
Loans and Domestic Credit (BGN bn)



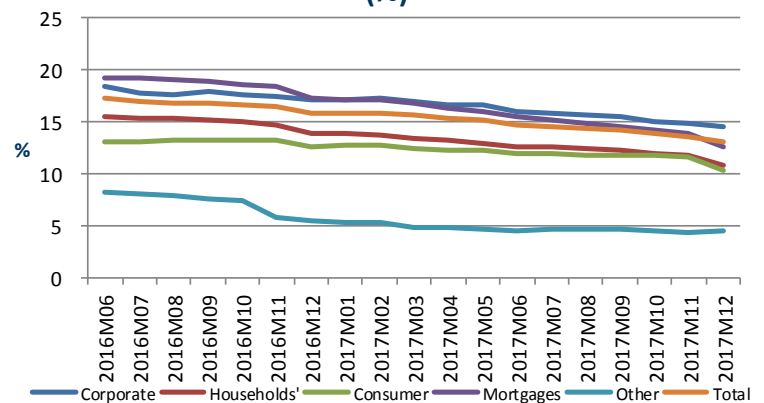
Money in circulation/GDP (%)



Deposits and Broad Money (M3), (BGN bn)

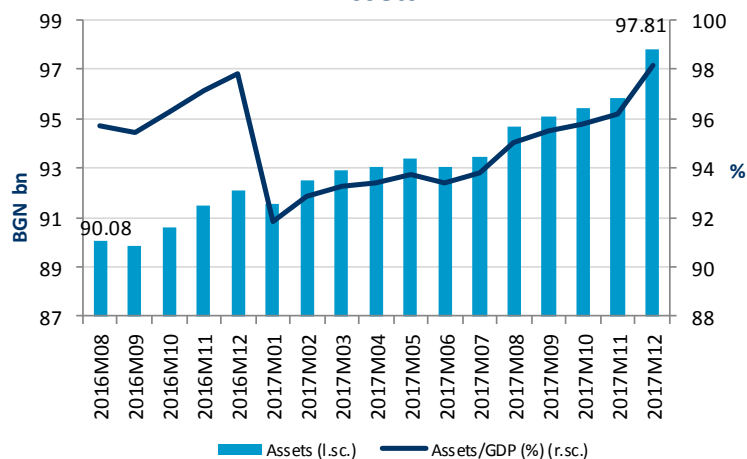


Banking sector: Bad and restructured loans (%)

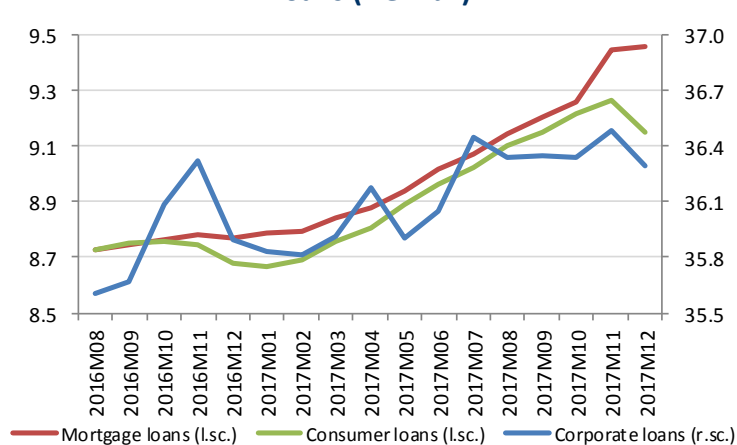


Bulgaria: Banking Sector Indicators

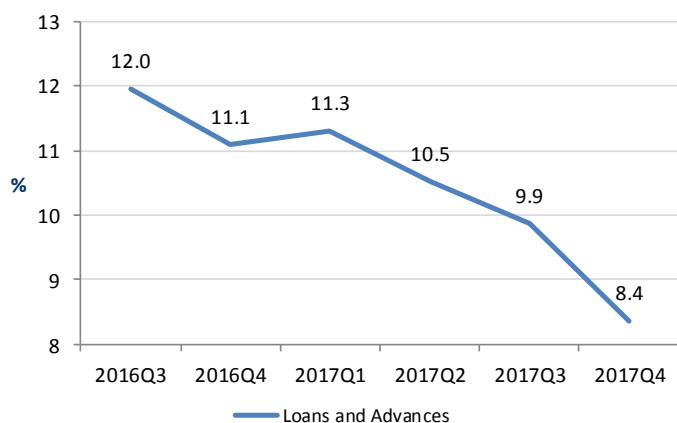
Assets



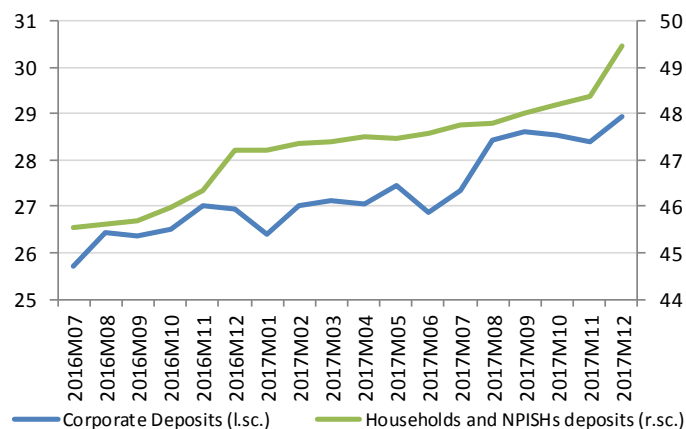
Loans (BGN bn)



Banking System Non Performing Loans (%)

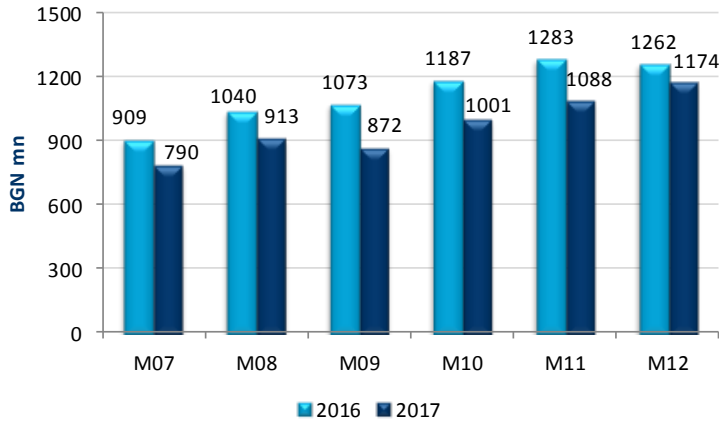


Deposits (BGN bn)

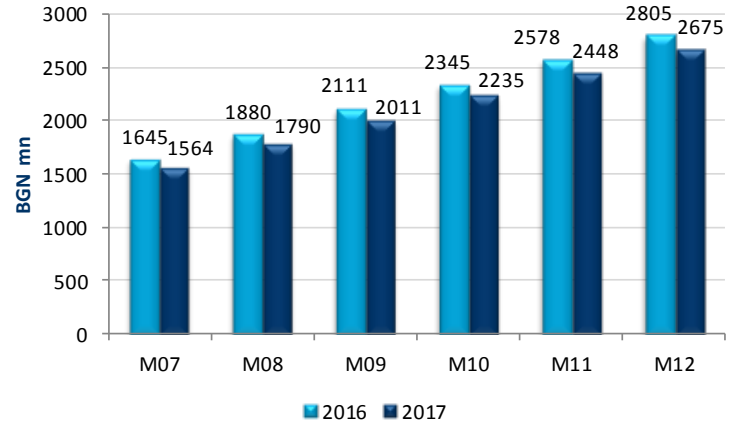


Bulgaria: Banking Sector Indicators

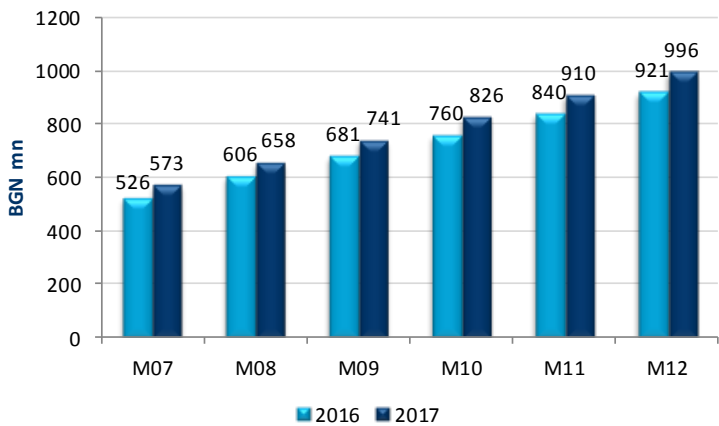
Net Profit



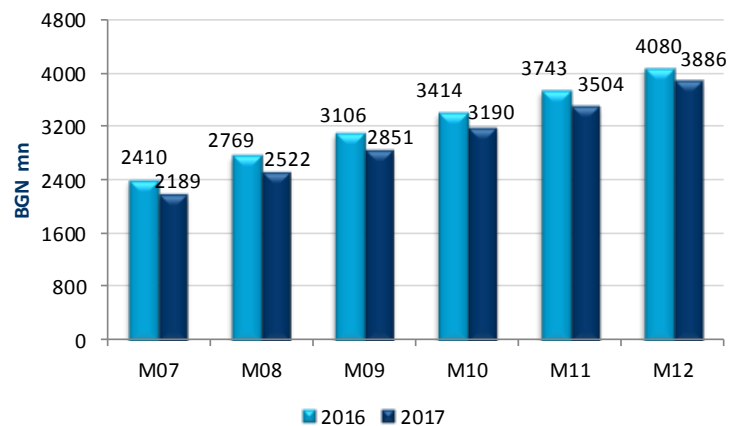
Net interest Income



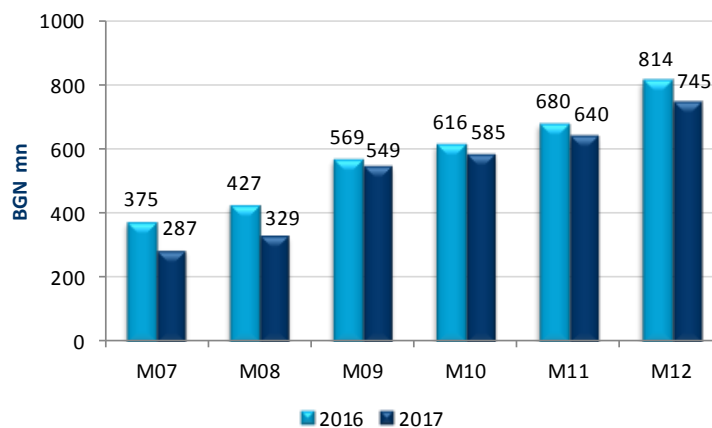
Net fee and commission income



Net operating income

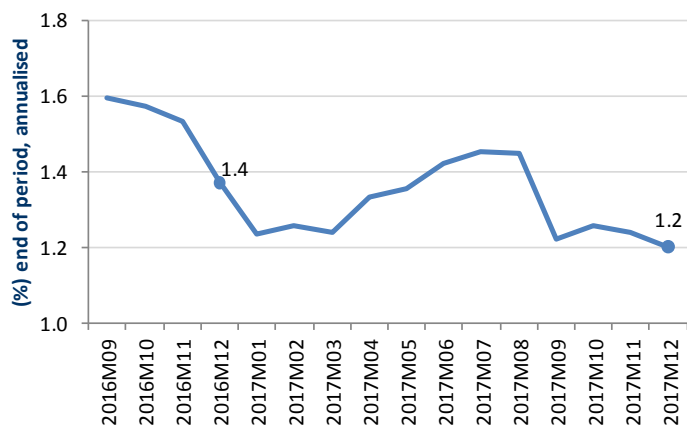


Impairment

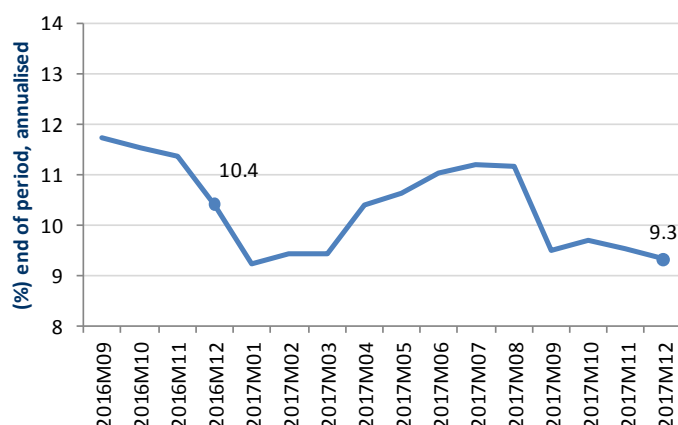


Bulgaria: Banking Sector Indicators

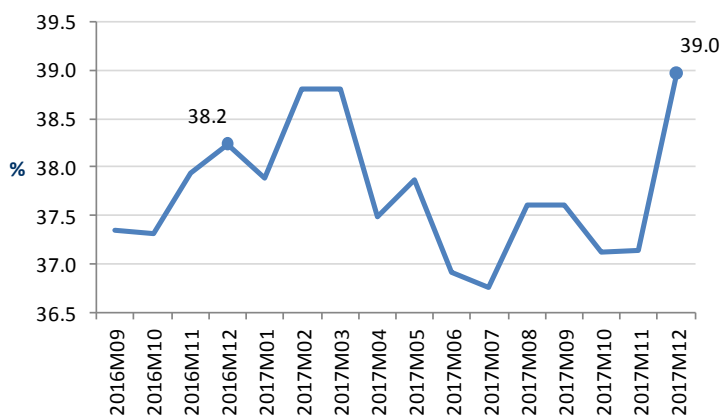
ROA



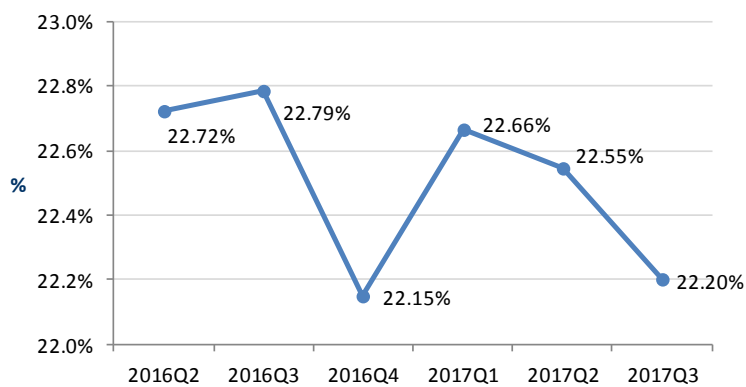
ROE



Liquid Assets Ratio (LAR)



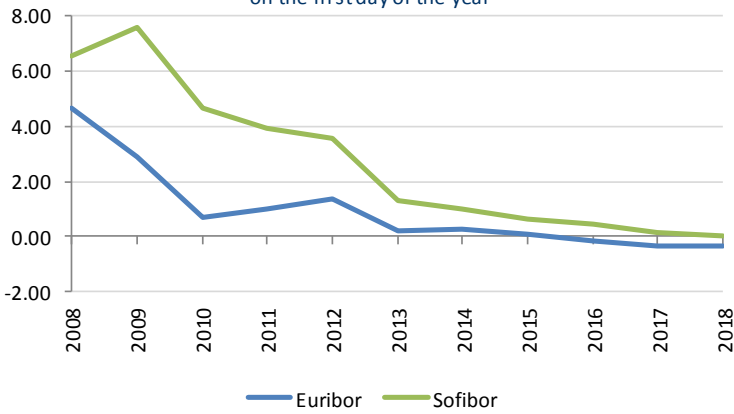
Total Capital Ratio



Bulgaria: Indexes and Interest Rates

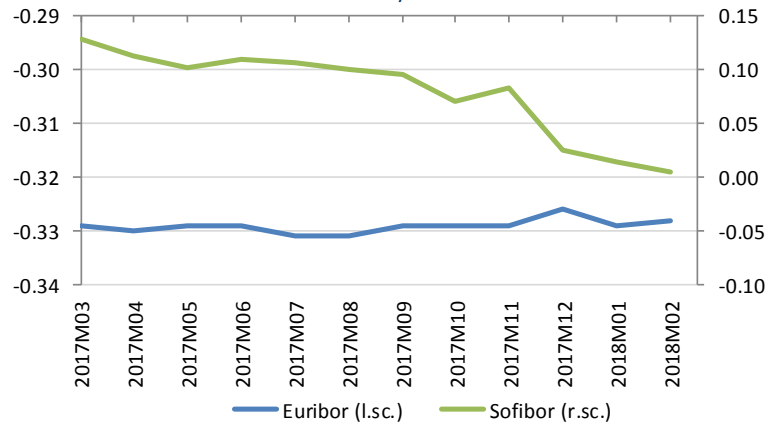
Indexes 3-months

on the first day of the year

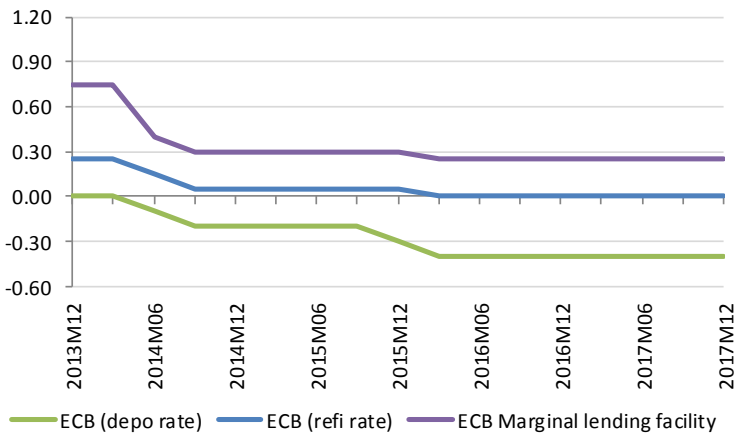


Indexes 3-months

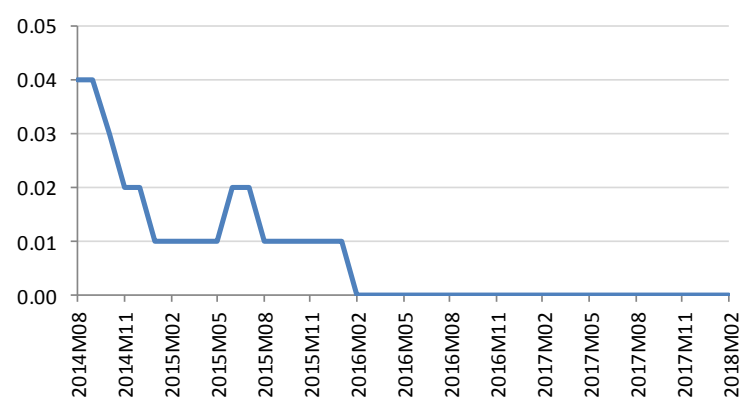
on the first day of the month



Policy Rates (in %)

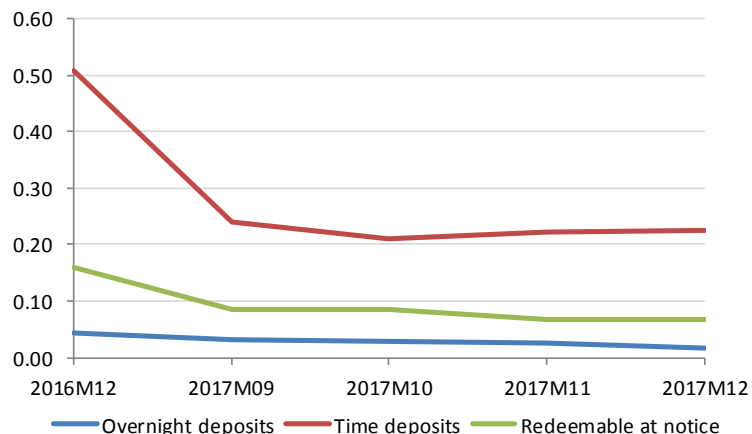


Base Interest Rate of the BNB (in %)

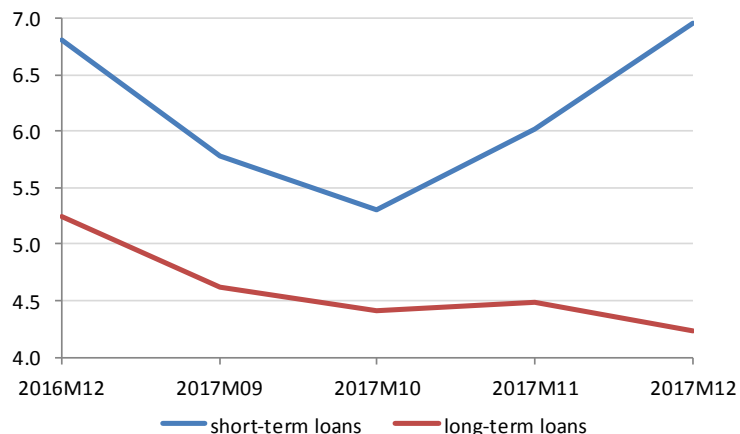


**Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates**

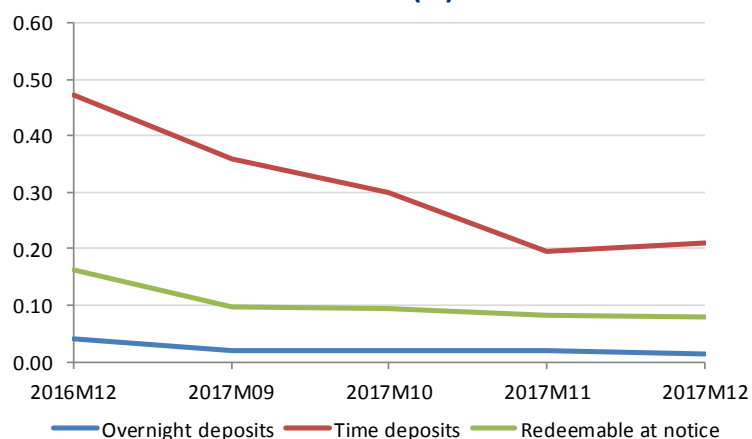
**Interest Rates (%) in BGN**



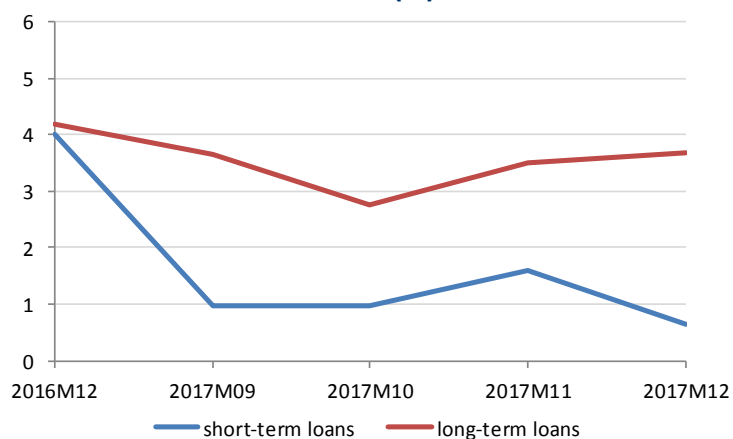
**Interest Rates (%) in BGN**



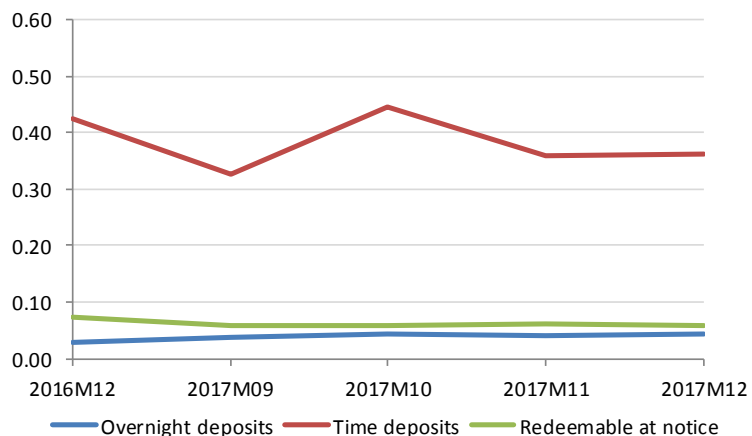
**Interest Rates (%) in EUR**



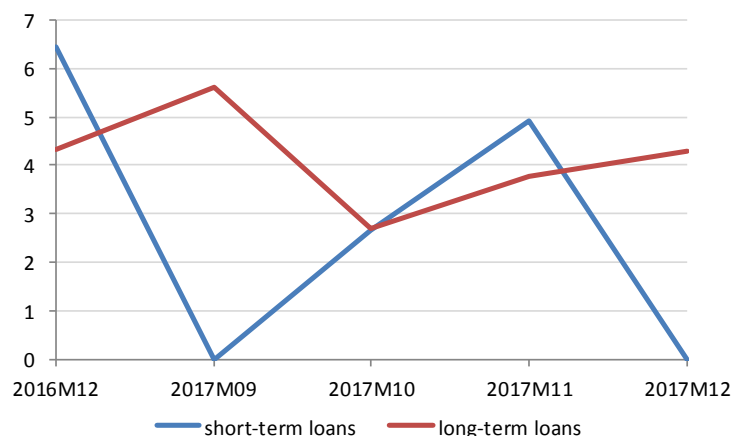
**Interest Rates (%) in EUR**



**Interest Rates (%) in USD**



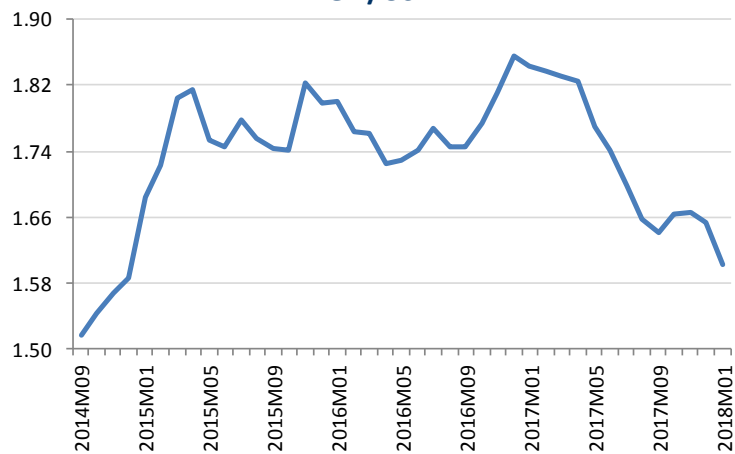
**Interest Rates (%) in USD**



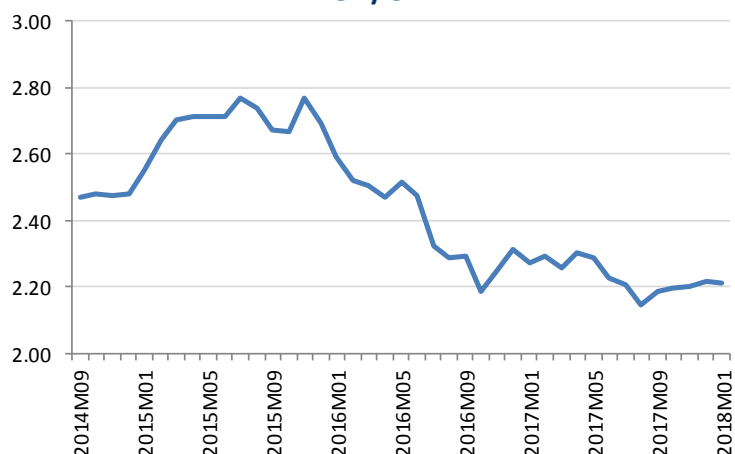


**Bulgaria: FX Rates**

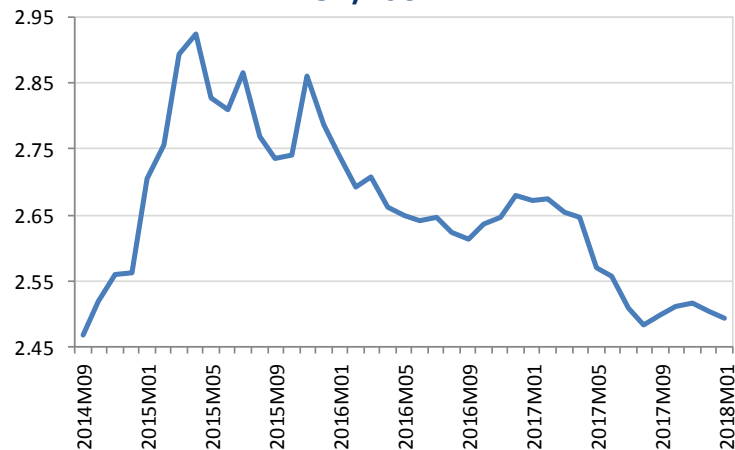
**BGN/USD**



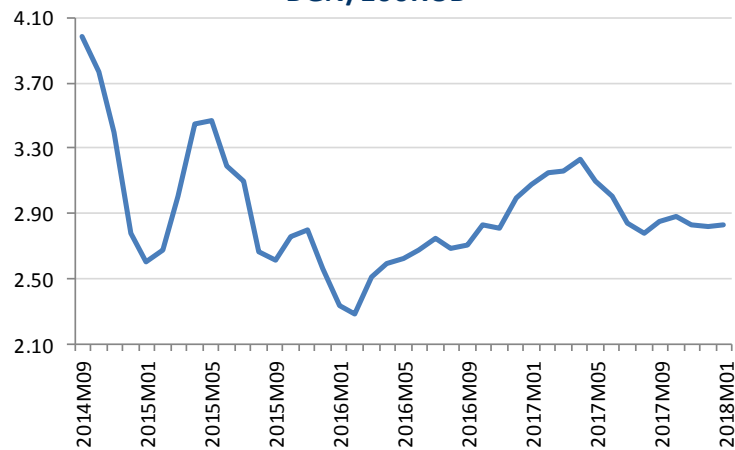
**BGN/GBP**



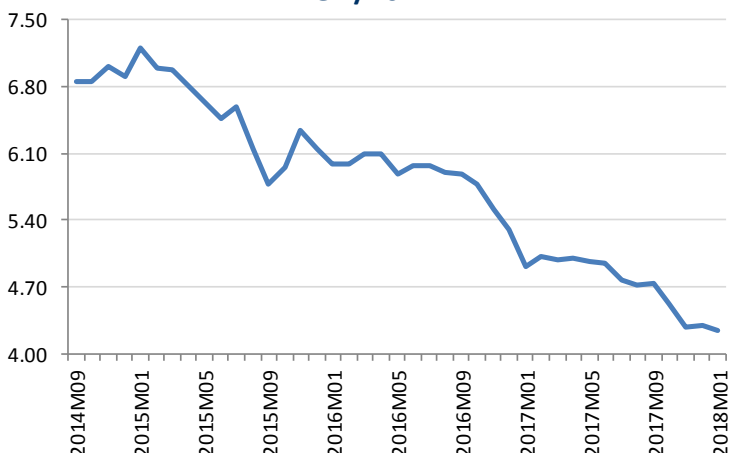
**BGN/10CHY**



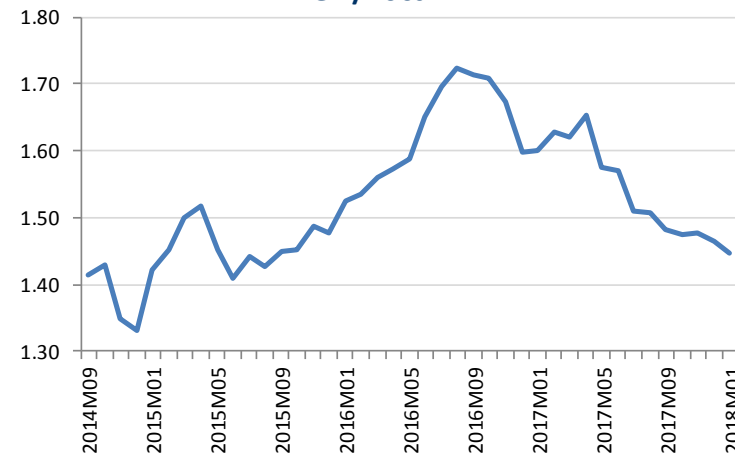
**BGN/100RUB**



**BGN/10TRY**



**BGN/100JPY**



## DEFINITIONS AND METHODOLOGICAL NOTES

The Governing Council of the ECB sets the key interest rates for the euro area, as follows: The interest rate on the main refinancing operations (MRO), which provide the bulk of liquidity to the banking system. The MRO rate defines the cost at which banks can borrow from the central bank for a period of one week. The rate on the deposit facility, which banks may use to make overnight deposits with the Eurosystem. The deposit facility rate is one of the three interest rates the ECB sets every six weeks as part of its monetary policy. The rate defines the interest banks receive for depositing money with the central bank overnight. Since June 2014, this rate has been negative. The rate on the marginal lending facility, which offers overnight credit to banks from the Eurosystem. If banks need money overnight, they can borrow from the marginal lending facility at a higher rate.

## EXTERNAL SECTOR

### CURRENT ACCOUNT

Starting from April 17th 2015, in accordance with the Statistical Data Release Calendar, BNB starts the regular dissemination of monthly balance of payments data, compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual. The implementation of the new methodological requirements of BPM6 by the EU countries was coordinated by the European System of Central Banks (ESCB) and the European Statistical System (ESS). With the implementation of the Sixth Edition of the Balance of Payments and International Investment Position Manual (IMF,2008) significant methodological changes in the reporting of trade in goods and trade in services were introduced. Based on their economic nature, certain items were reclassified from Goods (exports and imports) to Services (exports and imports), and vice versa. These methodological changes resulted in differences between the data on goods (exports and imports) compiled by the BNB for the balance of payments statistics, and the external trade statistics compiled by the NSI. Thus, the exports, imports and trade balance data compiled by the NSI do not equate to the exports, imports and trade balance data compiled by the BNB for the purposes of balance of payments statistics. According to external trade statistics, exports of goods amounted to EUR 3,483.1 mn in January – February 2015, growing by EUR 249.1 mn (7.7 %) year-on-year (compared with EUR 3,234 mn in January – February 2014). Imports of goods amounted to EUR 3,856.9 mn in January – February 2015, growing by EUR 58.9 mn (1.6 %) year-on-year (from EUR 3,797.9 mn in January – February 2014). The trade balance recorded a deficit of EUR 373.8 mn (0.9 % of GDP) in the reporting period, dropping by EUR 190.2 mn year-on-year (from a deficit of EUR 564 mn, 1.3 % of GDP in January – February 2014). Taking into consideration the analytical importance of the data on goods (exports and imports) in the external trade statistics, the BNB shall continue its practice of preparing a short text on the external trade dynamics, and maintaining the relevant data series. These materials are included in the Balance of Payments publication, and are published on the BNB website. More detailed information on these methodological changes is available in the material Compilation of the balance of payments in accordance with the methodology of the sixth edition of the Balance of Payments and International Investment Position Manual. As far as the direct investment data is concerned, the sixth edition of the Balance of Payments and International Investment Position Manual introduced principally different approach for their presentation – the Asset/Liability presentation. Taking into consideration the analytical importance of the directional principle presentation (based on the direction of the initial investment), the BNB shall continue disseminating the direct investment data according to it in the Annex Direct Investment of the Balance of Payments monthly publication as well as in the direct investment tables. In accordance with the directional principle presentation, foreign direct investment in Bulgaria amounted to EUR 53.9 mn compared with EUR 94.7 mn in February 2014. In January – February 2015 the foreign direct investment in Bulgaria inflow equated to EUR 128.2 mn compared with an inflow of EUR 137.7 mn in January – February 2014. Direct investment abroad recorded a net increase of EUR 9.4 mn in February 2015, compared with an increase of EUR 5.7 mn in February 2014. In January – February 2015 the direct investment abroad decreased by EUR 16.6 mn, against an increase of EUR 108.7 mn in the same period of 2014. More detailed information on the direct investment is available in the annex Direct Investment (January-February 2015) and in table 10. Direct Investment of the monthly Balance of Payments publication. The Current Account comprises the acquisition and provision of goods and services, income, and current transfers between the country and the rest of the world. The flows recorded on the credit side

represent that part of the gross domestic product, which is provided to the rest of the world (exports of goods and services), as well as the provision of factors of production expressed by income receivable – compensation of employees and investment income (interest, dividends, etc.). Recorded are also offsets for non-refundable real and financial resources received (transfers). The flows on the debit side represent the gross product created in the rest of the world and acquired by the domestic economy (imports of goods and services), as well as the acquisition of factors of production expressed by income payable. Recorded are also offsets to non-refundable real and financial resources provided. The Goods component of the BOP Current Account covers movable goods for which changes of ownership between residents and non-residents occur. The data on imports and exports FOB (Free on board) is based on customs declarations, as the codes used in them are after the Harmonized System for Description and Coding of Commodities of the World Customs Organization, introduced in 1988 and supplemented in 1992. With the January 2006 data the Bulgarian National Bank and the National Statistics Institute jointly apply developed by them methodology for compilation of imports at FOB prices and receipts and payments regarding the freight transportation.<sup>2</sup> The methodology is based on the analysis of the CIF-FOB correlations for the imports of goods depending on the different imports delivery categories, as well as on the different mode of transportation and nationality of the carrier.

The geographical breakdown of the Goods item of the BOP is based on the following principles:

For the intra EU trade in goods:

- In case of exports (or dispatches) is the country (or Member State) of final destination of the goods - In case of imports (or arrivals) is the country (or Member State) of consignment of the goods.

For the trade with third countries (outside EU)

- In case of exports – partner country is the country of final destination of the goods - In case of imports - partner country is the country of origin of the goods.

The Services component comprises transportation, travel, and other services. The Bulgarian National Bank derives the data on freight transportation from foreign trade data and the data on passenger transportation from travel data on the basis of estimates. With the January 2006 data the BNB introduced a new methodology for compilation of receipts and payments regarding the freight transportation. The freight transportation receipts are set up on the basis of estimated receipts of resident carriers related to the country exports of goods. The payments are calculated as an estimation of the payments made by residents on behalf of non-resident carriers related to the country imports of goods. The receipts and payments are estimated according to mode of transportation and nationality of the carrier. With the introduction of the system INTRASTAT with the January 2007 data changes in the way of compilation of receipts and payments regarding the freight transportation of Bulgaria with the rest of the EU member states took place. Due to the delay in receiving the detailed data on trade of Bulgaria with the rest of the EU member states from the NSI, as of the date of publication of the preliminary balance of payments report for the corresponding month (42 days after the close of the reporting period) the preliminary compilation of receipts and payments of freight transportation is based on data for preceding years. These estimates are subject to revisions after receiving the preliminary detailed data (with breakdown by trade partners and by type of goods) on trade with the rest of the EU member states for the reporting month.

Travel covers goods and services, including those related to health and education, acquired by travelers for business and personal purposes. By the end of 2006 the data on travel is based on data from the Ministry of Internal Affairs on the number of travelers crossing the borders and on estimates of per capita expenditures, the latter based on the methodology for estimation of the receipts and expenditures from travel services – “Methodology For Estimation of the Receipts and Expenditures from Travel in the Bulgarian Balance of Payments” (Bulgarian National Bank, Ministry of Trade and Tourism, 18 November 1999). As of the beginning of 2007 data for the number and the structure of foreigners who visited the country are based on information from the border police and NSI estimates. With the January 2010 data the BNB applies new methodology for estimation of the receipts and expenditures for travel and passenger transportation. The estimation model for the Travel item is based on the product of the number of travelers and the expenditure respective for a certain type of purpose of the travel (for more detailed information and questions, related to the methodologies applied, please contact us through the following e-mail: [press\\_office@bnbank.org](mailto:press_office@bnbank.org)). The estimates of the expenditures (receipts) by purpose of the travel are based on the data collected during the Border Survey among Traveling Bulgarians and Foreigners conducted by the BNB during the period July 2997 – August 2008. The new methodology was applied for the first time with the data for January 2010, with back data revisions for the months of 2007, 2008 and 2009.

Other services item covers receipts and payments related to services other than transportation and travel (communication,

construction, financial, leasing, insurance, cultural, sport and recreational services, etc.).

Income consists of two categories: (i) compensation of employees, and (ii) investment income. Compensation of employees covers wages, salaries and other benefits paid to non-resident workers in the country or received by resident workers abroad. The compensation of employees comprises also income due to illegal employment. By the end of 2006 the BNB estimates this flow in accordance with the Methodology for Estimation of Flows due to Illegal Employment (14 March 2006).<sup>3</sup> With the January 2010 data the BNB applies new methodology for estimation of the Compensation of employees, credit. The new methodology was applied for the first time with the data for January 2010, with back data revisions for the months of 2007, 2008 and 2009.

Investment income covers receipts and payments of income associated with external financial assets and liabilities. Included are receipts and payments on direct investment, portfolio investment, other investment, and receipts on reserve assets.

Transfers are all real resources and financial items provided without a quid-pro-quo from one economy to another. Current transfers directly affect the level of disposable income of the economy, and the consumption of goods and services. That is, current transfers reduce the income and consumption potential of the donor and increase the income and consumption potential of the recipient. Included in the Current transfers are the EU pre-acquisition grants, other grants, gifts, inheritances, prizes won from lotteries, pensions, current taxes, social security contributions, etc. Sources: The Bulgarian National Bank receives information on current transfers from the Ministry of Finance, the Bulgarian Red Cross, the Agency for Foreign Aid, and from the reporting system of banks on transactions between residents and non-residents.

The item Workers remittances, credit is a sub-item of the Current transfers, credit in the Current account of the balance of payments and is a balancing item for transfers without a quid-pro-quo in cash or in kind. Applying of a new methodology for estimation of these flows became necessary not only because the above described circumstances demanded it but because of the necessity to capture inflows transferred through both official and unofficial channels. The estimates of the workers' remittances are based on the product of the number of Bulgarian emigrants, transferring money to their relatives and the amount of the average transfer. Such calculations are made separately for the official and the unofficial transfer channels. The sum of the money transferred via those two channels is recorded as the amount of Workers' remittances to Bulgaria. The data on the number of the Bulgarian emigrants are based on information from the State Agency for Bulgarians abroad, from the Bulgarian embassies and from Eurostat. The data on the percentage of the Bulgarian emigrants, transferring money; the shares of the official and unofficial channels and the average transfer for each of the channels used are based on the data collected via the Border survey. The new methodology was applied for the first time with the data for January 2010, with back data revisions for the months of 2007, 2008 and 2009.

## CAPITAL ACCOUNT

The Capital Account consists of two categories: (i) capital transfers and (ii) acquisition or disposal of non-produced, non-financial assets. If in kind, a capital transfer consists of (i) a transfer of ownership of fixed assets, or (ii) forgiveness of a liability by a creditor when no counterpart is received in return. If in cash, a transfer is a capital transfer when it is linked to, or conditional on, the acquisition or disposal of fixed assets (for example, an investment grant).

## FINANCIAL ACCOUNT

The Financial Account comprises all transactions (actual and imputed) in the external financial assets and liabilities of an economy. The external assets and liabilities are primarily classified according to type of investment. Included in Financial Account are (i) direct investment, (ii) portfolio investment and (iii) other investment.

Direct investment covers direct investment abroad, direct investment in reporting economy and mergers and acquisitions. Direct investment is a category of international investment in which a resident of one economy – a direct investor – acquires a lasting interest (at least 10 % of the ordinary shares or the voting power) in an enterprise resident in another economy – a direct investment enterprise. The direct investment includes both the initial transaction, through which the relationship between the direct investor and the direct investment enterprise is established, and all subsequent transactions between them. The direct investment covers transactions relating to changes in the direct investor's share in the equity capital of the direct investment enterprise, inter-company debt transactions as well as the share of the direct investor in the undistributed earnings/loss

of the direct investment enterprise. Direct investment is reported on a directional basis: direct investment abroad – as an asset, and direct investment in the reporting country – as a liability.

The sub item Mergers and Acquisitions shows the transactions related to mergers and acquisitions. The purpose of its inclusion was to eliminate the influence of such deals over the reported foreign direct investment data. The international practice shows that these transactions have hardly any real impact on the production capacities and employment and the conclusions drawn from the interpretation of foreign direct investment data in which data on mergers and acquisitions are included might be misleading about investment flows, developments, branch and geographical structure. (“European Central Bank, Eurostat, Foreign Direct Investment Task Force Report”, March 2004, para.332).

Portfolio investment includes portfolio investment, assets and portfolio investment, liabilities. Portfolio investment covers transactions in shares and equity if the investor’s share in the capital is less than 10 %, transactions in bonds, notes, money market and other tradable securities.

Other investment covers trade credits, loans, currency deposits, and other assets and liabilities.

According to the balance of payments conventions trade credit arise from the direct extension of credit from a supplier to a buyer, i.e this is a credit extended by a trade partner without issue of a tradable security. Loans item includes received and paid principals on short- and long-term loans between non-bank financial institutions, insurance companies and pension funds, the Bulgarian National Bank and the Ministry of Finance.

Other investment covers trade credits, loans, currency deposits, and other assets and liabilities.

According to the balance of payments conventions trade credit arise from the direct extension of credit from a supplier to a buyer, i.e this is a credit extended by a trade partner without issue of a tradable security. Loans item includes received and paid principals on short- and long-term loans between residents and non-residents if no issue of a tradable security is involved with these loans. Transactions concerning disbursements and repayments of principals on IMF loans and disbursements on loans on BOP support are not included in the item Loans. They are recorded in the relative items of group E. Reserves and Related Items. The Currency and Deposits component presents on the assets side the changes in the residents’ currency deposits held abroad, and on the liabilities side – the changes in the liabilities of the resident banks to non-residents in domestic and foreign currency. Following the basic accounting principle and conventions set in the “Balance of Payments Manual” (IMF, 1993), when compiling that item the Bulgarian National Bank excludes any changes therein due to exchange rate changes.

Items Other assets and Other liabilities includes all transactions on miscellaneous accounts receivable and payable not included elsewhere and transactions in arrears. The Net errors and omissions component is an offsetting item. This component exists in the BOP presentation because the compilation system used by the Bulgarian National Bank is not a closed one but is a combination of different sources of information. Unlike other statistical reports, such as for example the monetary statistics, the collecting of the data necessary for the balance of payments compilation could not be restricted to the accounting records of the banks as the only source of information.

The fluctuations in the Net errors and omissions, both in sign and in size, are mainly due to: (i) revisions of export and import data, (ii) the development of the methodology for compilation of certain balance of payments’ components and (iii) the existence of objective obstacles to the collection of data on certain balance of payments’ items.

## RESERVES AND RELATED ITEMS

Reserve assets include those external assets that are readily available to and controlled by the central bank (government) for direct financing of balance of payments imbalances. The reserve assets comprise monetary gold, SDRs, reserve position in the Fund, foreign exchange assets (consisting of currency and deposits and securities), and other claims. The entries under this category pertain to transactions in the BNB’s external holdings which are administered by the Issue Department. The data on reserve assets changes included in the BOP table exclude valuation changes, due to exchange rate and market price changes.

This group in the analytic presentation of the balance of payments includes also Use of Fund credit and the item Exceptional Financing. The exceptional financing comprises the BOP support as well as deferred/rescheduled payments and payments on arrears, resulting from balance of payments difficulties. In accordance with the methodology for accounting the exceptional financing transactions (“Balance of Payments Manual”, Fifth Edition (IMF, 1993), p. 454), the principal repayments on the BOP support credits are included in the Financial Account – Other investment – Liabilities – Loans – General Government.

## REAL SECTOR

### Gross Domestic Product - production approach

Gross domestic product by production approach, characterized the outcome of economic activity and is measured by value added generated in the production of goods and services by the resident units of the economic territory of the country. The GDP by production approach at market prices is calculated as the sum of gross value added at basic prices for total economy and adjustments, which include net taxes on products, non-deductible VAT and duties on imports.

### GDP - INCOME APPROACH

The income approach is an integral part of the primary distribution of income accounts. This approach reflect income as an element of value added created in the production process. Balance sheet item of income approach is the gross operating surplus / gross mixed income.

### GROSS DOMESTIC PRODUCT BY FINAL EXPENDITURE

GDP by expenditure approach is calculated as the sum of individual consumption (including final consumption expenditure of households, final consumption expenditure of non-profit institutions serving households, final government expenditure on individual consumption), collective consumption (final cost of the government, which satisfy the needs of society as a whole), gross fixed capital formation (investments made in fixed assets), changes in inventories and foreign trade balance of goods and services (the difference between exports and imports of goods and services).

### BUSINESS SURVEY IN INDUSTRY, CONSTRUCTION, TRADE AND SERVICE SECTOR

The business surveys in industry, construction, retail trade and service sector gather information about the entrepreneurs' opinions about the situation and development of their business. The replies to the questions included in the different questionnaires are presented in a three-option ordinal scale. The results are in the form of balances which are the difference between the positive and negative answering options. The survey also calculates the so-called composite indicators, such as the confidence indicator (arithmetic average of the balances of answers to specific questions), and business climate indicator (geometric average of the balances of opinions about the present and expected business situation). Some of the indicators represent numerical assessment, e.g. production assurance with orders (number of months), capacity utilization (%), etc.

### CONSUMER SURVEY

The survey is a part of the harmonized program of European Union for business and consumer surveys and it is representative for the population of 16 years and older.

The persons of 16 years and older are the object of the survey; the sample method is random, clustered, proportional to the population by regions, incl. urban/rural inhabitants (154 clusters with 8 persons per cluster). The interviewing method is face to face. The questionnaire contains standardized questions about the financial situation of households, general economic situation, inflation, unemployment, saving, intentions of making major purchases on durable goods or purchasing/building a home or buying a car. The proposed variants of answers give an opportunity to arrange them from optimistic, through neutral to pessimistic. The balance of opinions is calculated as a difference between relative shares of positive opinions and relative shares of negative opinions, as there is one specification: the strong positive opinions and the strong negative opinions are given a coefficient of 1, and the more moderate positive and negative opinions - a coefficient of 0.5.

The survey results are used to capture the direction of change of surveyed variables incl. that of the consumer confidence level, which gives an opportunity to analyze the tendencies in the development of public opinions on significant economic phenomena.

The consumer confidence indicator is an arithmetic mean of the balances of the expectations about the development over the next 12 months of the financial situation of households, general economic situation, savings and unemployment, as the last is taken with a negative sign.



## INVESTMENT ACTIVITY IN INDUSTRY

The survey gathers information about the carried out investment and investment plans of the enterprises. The inquiry is conducted twice a year - in March and in October, and the questionnaires have different content. Based on the results from the March survey is calculated the expected percentage change of the investment carried out during the current year in comparison with the investment from the previous year. Based on the data from the October survey is calculated the percentage change of the investment carried out during the current year compared to the previous year, and also the expected investment for the next year compared to the current year.

## INDUSTRIAL PRODUCTION INDEX; INDUSTRIAL TURNOVER INDICES

The Industrial Production Index is the most important short-term economic business indicator, which aims to measure at a monthly frequency the ups and downs of industrial production during the long period of time. Monthly survey allows identifying the turning points in economic development at an early stage; also, the timely industrial production index is one of the most important measures of economic activity. The Industrial Turnover Index is other important short-term indicator, which measure the development of the market of goods and services. Turnover index gives measure of the development of the receipts of sales including the sales of goods, merchant goods and services provided to other enterprises. Monthly Industrial Production and Industrial Turnover Indexes measure changes in production and respectively in turnover between two different periods of time. This information is suitable for monitoring of current economic developments and short-term forecasts. The survey do not attempt to measure the actual production level, it aims to measure the average change in value of production between two points of time.

## TOURISM

The definitions recommended by the World Tourist Organization and the Methodological manual for tourism by Eurostat are applied by the National Statistical Institute.

In accordance with these definitions an international tourist is any person who travels to a country other than his/her permanent residence for at least 24 hours but no more than one year and whose main purpose is not doing any activity for payment.

The purposes of visiting a country are the following:

- Excursion, holiday or entertainment (visits to cultural or historical landmarks, sport events and other);
- Visiting friends and relatives;
- Professional purposes (business trips, participation in conferences, congresses, concluding deals, and etc.);
- Other (education, medical treatment, and etc.) purposes.

Statistical data on the trips of Bulgarian citizens travelling abroad and visits by foreigners to Bulgaria are obtained on the basis of monthly information received from the Ministry of Interior and sample survey of the National Statistical Institute among Bulgarian and foreign citizens passing through border check points.

Data on the number of the trips of the citizens of the European Union are estimated on the basis of the information obtained from the Ministry of Interior and the airport authorities. Data on the number of citizens from 'third countries' are obtained directly from the Ministry of Interior.

Data on the purposes of the trips are obtained on the basis of the NSI's regular monthly sample survey of passing Bulgarian and foreign citizens through the border check points.

## CONSUMER PRICE INDICES (CPI)

The consumer price index (CPI) is the official measure of inflation in the Republic of Bulgaria. It measures the total relative price change of goods and services used by households for private (non-production) consumption and is calculated by applying the structure of the final monetary consumption expenditures of Bulgarian households. The main source of information for the expenditures is the household budget survey in the country. CPI in year  $t$  is calculated with the expenditures structure of year  $t-1$ .

## HARMONIZED INDICES OF CONSUMER PRICES (HICP)

The Harmonized Index of Consumer Prices (HICP) is the comparable measure of inflation across EU Member states. It is one of the criteria of price stability and readiness of Bulgaria to join the euro-zone. HICP, as well as CPI, measure the total relative price change of goods and services. Both indices are calculated using the same basket of goods and services, but differ with respect to the weights used. HICP is calculated through the use of weights, which reflect the individual and the collective consumption of all households (incl. institutional and foreign households) on the economic territory of the country. The main source of information for HICP weights is the national accounts data. HICP in year  $t$  is calculated with the weights of year  $t - 2$ . In compliance with Regulation (EC) No 2015/2010 since January 2016 the base year for HICP has been changed and the all indices have been calculated and published at 2015 as a base year.

## PRODUCER PRICE INDICES ON DOMESTIC AND ON NON-DOMESTIC MARKET IN INDUSTRY

Producer Price Index (PPI) is one of the main short-term business indicators; it is regarded as one of the important measures of the economic situation in the Country. The indices measure the average change in the prices of industrial products, which are produced and sold by Bulgarian enterprises. This is done on the bases of constant sample of groups of products, produced by the activity and sold on the domestic market or directly exported on non-domestic market and that sample is representative for total industrial production.

The surveys about the prices in agriculture are carried out in accordance with the main requirements of the EU Handbook for Agricultural Price Indices. In this way harmonization with the EU practices in the domain of agricultural price statistics is achieved from the point of view of:

- Definitions used
- Techniques of prices registration
- Type of calculated indices
- Survey periodicity
- Nomenclatures used
- Defining of the selected products by their quality, quantity, variety and other price characteristics.

The object of observation are the producer prices of produced by the farm crops, live animals and animal products and prices of products and services of goods and services currently consumed in agriculture.

Producer price in agriculture is the price received by farm selling its own agricultural products/live animals. It is recorded at the first market stage of goods - „farm gate price“. Producer price excludes subsidies on agricultural products/animals, transport costs and taxes. VAT is also excluded in the price.

The examination of prices of goods and services currently consumed in agriculture (Input I) includes five surveys which supply the information about the prices of:

- Mineral fertilizers
- Feeding stuffs
- Plant protection products
- Veterinary medicinal products
- Seeds and planting stocks.

The object of observation is the purchase price of goods and services currently consumed in agriculture. The observed unit price is the price that the buyer actually paid for the means of production. It includes taxes and fees and excludes subsidies and VAT refunded.

### Statistical unit

Observation units within the surveys of agricultural prices are farms - juridical and physical persons and agricultural and veterinary pharmacies. For each survey a list of respondents is established and during the years stable number of price registrations of products/livestock categories and means of production is maintained.

The conducted surveys are exhaustive and include all units above certain threshold defined in value terms. For the survey on the producer prices in agriculture as selection criteria a value of sales of agricultural products/animals is used and for the surveys on the prices of goods and services currently consumed in agriculture - the expenditures rising from purchases of goods

and services for intermediate consumption. The representativeness of prices is assured, both by the maintaining of regular number of price registrations and coverage of at least of 50 % of value of sales for each product/livestock category or purchase value of goods and services for intermediate consumption in the respective year.

#### **Data sources**

The sources of information are statistical questionnaires for collection of qualitative and quantitative characteristics of agricultural products/live animals and goods and services currently consumed in agriculture and quarterly questionnaires supplying information about the producer prices of agricultural products/live animals and purchasing prices of goods and services currently consumed in agriculture.

The questionnaires on the qualitative and quantitative characteristics of agricultural products/live animals and goods and services currently consumed in agriculture supply data for establishment of list of representative products defined with their quantitative and qualitative, variety and other characteristics which may have influence on the variation of prices. The established lists of products are periodically updated, as usual in the years ending to 0 or 5, when the Eurostat weighting scheme is rebased.

The quarterly questionnaires supply regular data about the prices of included in the scope of surveys agricultural products/live animals or goods and services currently consumed in agriculture.

#### **Calculation of average prices**

Within the quarterly surveys average monthly and quarterly prices are calculated. The average monthly prices are calculated as arithmetical mean derived from all registered prices. The quarterly prices are calculated as arithmetical mean from monthly prices.

#### **Type of index and calculation**

The calculation of price indices is carried out by the Laspeyres formula. This type of index has a constant weighting scheme, so that the base period of weights and prices is the same. For calculation of producer price indices as weights the value of sales of agricultural output is used and for the indices of prices of goods and services currently consumed in agriculture - the value of purchased intermediate consumption. The weights are calculated within satellite economic accounts for agriculture.

The indices are calculated at three bases: previous year, corresponding quarter of previous year and the year ending in 0 or 5 (Eurostat base).

The total index of goods and services currently consumed in agriculture (Input I) is calculated on the base of price indices of five groups of products as well as on the indices of goods and services calculated within the Survey on consumer prices index.

#### **Classifications**

For the survey of producer prices in agriculture the National classification of production in agriculture, forestry and fisheries (PRODAGRO) is used. Classification PRODAGRO is used as a basis for further product breakdown in accordance with their qualitative and quantitative characteristics. For the surveys on prices of goods and services currently consumed in agriculture own proper classifications are used. These classifications are compiled within the surveys for establishment of lists of representative products. For calculation and providing Eurostat with harmonized data of price indices in agriculture classification PRAG (Nomenclature of agricultural prices in the Eurostat New CRONOS database) is used.

#### **Consideration of the impact of quality on the prices of agricultural products**

To eliminate differences in prices associated with changes in the quality, type, quantity, packaging, selected products are defined by quality, quantity, species and other characteristics that affect the changes of prices. When particular product is dropped down from the list it has to be replaced by a new one defined by same or approximately similar characteristics. The new product should also be representative.

#### **The calculation of the indices of goods and services contributing to the agricultural investments (Input II)**

The calculation of price index of goods and services contributing to agricultural investments is also done by a Laspeyres formula. As weights the values of goods and services purchased by farms for further investments, calculated within the satellite economic accounts for agriculture are used. For calculation of total index of goods and services contributing to agricultural investments indices from other surveys conducted by NSI in the domain of the Consumer prices Statistics, Foreign trade statistics and Short-term business statistics are also used.

On the basis of indices of goods and services currently consumed in agriculture and contributing to agricultural investments, total index of prices of means of production used in agriculture (Total Input) is calculated.

## MONETARY AGGREGATES

Net Foreign Assets – a balance between gross foreign assets and liabilities of the banking sector. Gross foreign assets are reported by instrument and include Bulgaria's international forex reserves and other foreign assets of the BNB and commercial banks. Gross foreign liabilities reflect liabilities of the BNB and commercial banks to the foreign sector.

Domestic credit – incorporates credit to the consolidated general government sector and non-government sector. Credit to the consolidated general government sector includes net claims on the central government and gross claims on local government, and social security funds. Credit to the non-government sector includes gross claims on non-financial corporations, financial corporations, households and NPISHs.

Fixed assets – movable or immovable non-financial assets which monetary financial institutions intend to use over a period longer than one year in their main activity.

Other items (net) – consolidates all components of the balance sheets of the BNB and commercial banks which are not included in the instruments displayed above. They include relations between commercial banks (net), other assets and liabilities (net) and relations between the BNB and commercial banks (net). Accrued and overdue interest, derivatives, depreciation, provisions, as well as assets and liabilities which are not included elsewhere are part of the Other assets and liabilities (net) item. The balance on the Relations between the BNB and Commercial Banks (net) item reflects the float as a result of netting of claims and liabilities between commercial banks and the BNB.

Broad money (money supply) comprises liabilities with money character of banks to the resident sector with the exception of the liabilities to the central government and the banking sector (money-holding sectors). Monetary aggregate instruments are grouped by liquidity and are presented by currency and sector.

The following monetary aggregates are used: M1, M2, and M3. The M1 monetary aggregate, commonly referred to as narrow money, includes the most liquid instruments used in settlements (currency outside banks and overnight deposits in national and foreign currency). The M2 monetary aggregate comprises quasi-money and the M1 monetary aggregate. Quasi-money comprises deposits with agreed maturity of up to two years and deposits redeemable at notice of up to three months (including savings deposits). The least liquid financial instruments include repos and debt securities issued up to two years. They are denominated in national and foreign currency and together with M2 form the broadest monetary aggregate, M3, commonly referred to as money supply (broad money).

Long-term liabilities and monetary financial institutions – include liabilities of monetary financial institutions with maturity of over two years or with a notice of over three months, as well as capital and reserves. Capital and reserves comprise the statutory fund of the banking system reserves and financial result.

Money supply is based on commercial bank monetary base (currency outside banks and bank reserves) multiplication. Money supply is determined by using M1, M2 and M3 monetary aggregates.

Monetary base (reserve money) consists of currency outside banks and commercial bank funds (bank reserves). The latter include commercial bank deposits with the BNB and cash in commercial bank vaults. Commercial bank deposits include minimum required reserves and excess reserves (overnight deposits and deposits with agreed maturity). Dynamics of reserves depends on the amount of required reserves (comprising a set portion of deposits) and excess reserves. The amount of required reserves is set by the Managing Board of the BNB and is the only instrument of the central bank monetary policy under a currency board. The amounts of excess reserves reflect the liquidity of commercial banks and the trend toward greater security.

## MONEY SUPPLY MECHANISM

Money supply (M3) may be expressed as a product of monetary base and the money multiplier variable. Money multiplier characterizes the degree of multiplication effect as a result of commercial bank activity. This effect is measured by the ratios of broad money (M3) or individual monetary aggregates (M1 and M2) to reserve money. The money multiplier reflects the currency outside banks to deposits ratio and the bank reserves to deposits ratio, known as factors in determining money supply. The currency outside banks to deposits ratio depends primarily on the public behavior, while the bank reserves to deposits ratio reflects commercial bank behavior. Sources of Reserve Money: Under a stable money multiplier, total money supply may be influenced through reserve money sources. Foreign assets (net) reflect an increase/decrease in Bulgaria's forex reserves. Under a currency board changes in forex reserves at the expense of government deposit do not directly affect the monetary base and it is automatically sterilized. Claims on central government (net) – the net position of the government is a result of assets net-

ting (balances on lev loans disbursed prior to June 1997 pursuant to the former Law on the BNB and balances on forex loans under Article 45 of the Law on the BNB) its liabilities. Claims on non-government sector include only claims on shares and other equity on the non-government sector. Claims on commercial banks – the balance sheet reports balances on loans extended prior to June 1997 and unpaid interest on these loans. Remaining items (net) include assets and liabilities, which are not classified to any other item.

## CAPITAL MARKET

### SOFIX Index:

Initial date: 20 October 2000; Initial value: 100

SOFIX is an index based on the market capitalization of the included issues of common shares, adjusted with the free-float of each of them. The index covers the 15 issues of shares complying with the general requirements for selection of constituent issues that have the greatest market value of the free-float. An issue included in the index base of SOFIX shall also meet the following criteria: 1) The issues should have been traded on a market, organized by the Exchange, for at least 3 (three) months before their introduction into the SOFIX portfolio. Provided an issue has been transferred for trading from one market segment to another, the first quotation date of the issue shall be assumed as its first trading date; 2) The market capitalization of the issue shall not be less than BGN 40,000,000 and the free-float shall not be less than 25 %\* of the amount of the issue, or the market value of the free-float shall not be less than BGN 10,000,000; 3) The number of shareholders of the issue shall not be less than 500 persons; 4) The turnover of the issue during the last 12 months shall not be less than BGN 2,000,000; 5) The number of transactions executed in the issue during the last 12 months shall not be less than 750.

\* The free-float as one of the requirements for SOFIX, shall be defined as follows: 1) As from 1st September 2010 – 15 (fifteen) %; 2) As from 1st March 2011 – 20 (twenty) %; 2) As from 1st September 2011 – 25 (twenty-five) %

### BG REIT Index:

Initial date: 03 September 2007; Initial value: 100

BG REIT is an index based on the free-float-adjusted market capitalization and shall cover 7 (seven) issues of common shares of special investment purpose companies that operate in the field of securitization of real estates and/or land, i.e. real estate investment trusts (REITs), with the greatest market value of the free-float and the highest median value of the weekly turnover during the last 6 (six) months. The two criteria shall have equal weight. Beside the general requirements an issue included in the index base of BG REIT shall meet the following criteria: 1) To have been traded on a market, organized by BSE-Sofia, for at least 3 (three) months before its introduction into the BG REIT portfolio. Provided an issue has been transferred for trading from one market segment to another, the first quotation date of the issue shall be assumed as its first trading date; 2) The market capitalization of the issue shall not be less than BGN 5,000,000 (five mn. Bulgarian Leva); 3) The free-float shall not be less than 25 (twenty-five)\* % of the total volume of the issue;

\* The free-float requirements for BG REIT constituents shall be defined as follows: 1) As from 1st September 2010 – 15 (fifteen) %; 2) As from 1st March 2011 – 20 (twenty) %; 3) As from 1st September 2011 – 25 (twenty-five) %

### BG 40 Index:

Initial date: 01 February 2005; Initial value: 100

BG 40 is an index based on the price performance of the issues and shall cover 40 (forty) issues of common shares of the companies with the greatest number of transactions and the highest median value of the daily turnover during the last 6 (six) months as the two criteria shall have equal weight. Beside the general requirements the issues included in the calculation of the index should meet the following additional requirement: To have been traded on a market, organized by the Exchange, for at least 3 (three) months before their introduction into the BG 40 portfolio. Provided an issue has been transferred for trading from one market segment to another, the first quotation date of the issue shall be assumed as its first trading date. In case of more than 3 (three) companies belonging to one economic group, all compliant with the additional requirements above, only the three issues of companies belonging to that economic group with the greatest number of transactions and the highest me-

dian value of the daily turnover shall be admitted to the ranking. If as a result of the ranking it occurs that two or more issues of companies belonging to one economic group have been ranked at the same place, the issues with the greater number of transactions executed during the last 6 (six) months shall be treated with priority with respect to the inclusion.

**BGTR30 Index (BG Total Return 30):**

Initial date: 03 September 2007; Initial value: 1,000

BG TR30 is an index based on the price performance of the common shares included in the index portfolio, as each constituent issue shall have equal weight. The issues included in the calculation of the index should meet the following criteria: 1) The market capitalization of each issue should not be less than BGN 10,000,000 (10 mn.); 2) The free-float (number of shares hold by minority shareholders, i.e. by holders of not more than 5 % of the votes in the General Meeting of the issuing company) should not be less than 10 % of the total volume of the issue; 3) The size (amount) of each issue should not be less than 250,000 shares. All issues meeting the conditions above are graded to the following criteria of equal weight: 1) Market capitalization; 2) Number of transactions in the last 6 months; 3) Turnover during the last 6 months; 4) Free-float.

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