

All data in the edition are the last available data, published as of March, 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.

United Bulgarian Bank
Chief Economist Structure

For contacts:

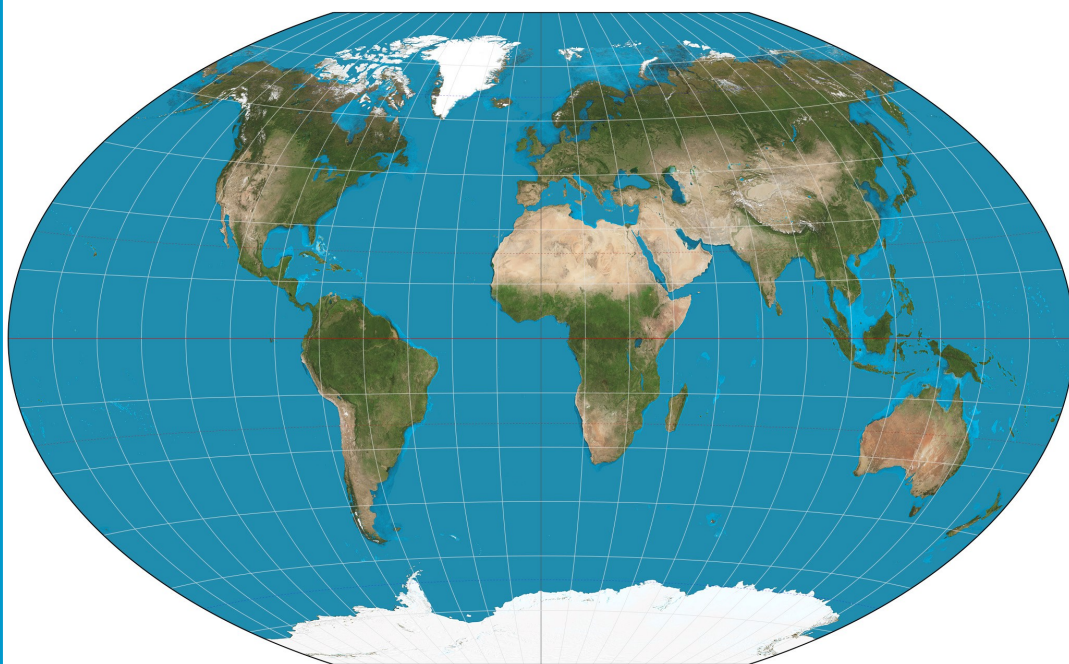
Petya Tsekova
Chief Economist
e-mail:
cekova_p@ubb.bg
tel.:+359 2 811 2980

Zafira Boyuklieva
Chief Analyst
e-mail:
boyuklieva_z@ubb.bg
tel.:+359 2 811 2981

Source: https://en.wikipedia.org/wiki/World_map

HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



March 2018

Sofia

- ◆ *The eurozone economy as a whole will outstrip its potential growth rate in 2018-2020. As a result, the unemployment rate will continue to decline, while supporting private consumption growth despite limited real wage growth. Fiscal policy is expected to remain broadly neutral*
- ◆ *Global growth prospects remain strong and financial conditions continue to be ambitious, despite the recent volatility in financial markets*
- ◆ *In 2018 USA GDP growth will be supported by private demand as well as by good labor market performance*
- ◆ *The Japanese economy is expected to continue its moderate expansion. Domestic demand is likely to follow an upward trend, with a favorable revenue-to-cost cycle remaining in both the household and corporate sectors*
- ◆ *Chinese economy will gradually cool down, with growth about 6%*
- ◆ *Governing Council of the ECB remained unchanged the interest rate on the main re-financing operations and the interest rates on the marginal lending facility and the deposit facility at 0.00%, 0.25% and -0.40% respectively*
- ◆ *In March 2018, the Bank of England maintained its bank interest rate at 0.5%*
- ◆ *In March 2018, the Federal Reserve raised the interest rate on federal funds to 1.5-1.75%*
- ◆ *In March 2018, the Japanese Central Bank kept its key interest rate at a level of -0.1%*
- ◆ *PBoC applies a restrictive regime on credit activity and calming the housing market in big cities*
- ◆ *Oil prices rose by almost 2% on March 20, 2018, backed by a weak dollar, tensions in the Middle East and fears of further declining production in Venezuela*
- ◆ *Price projections for non-ferrous metals for 2018 are on a rising trend*
- ◆ *In March 2018, there was a slowdown and even a fall in the prices of major grain contracts on world markets*

- ◆ *In January 2018 Bulgaria's current and capital account recorded a deficit of EUR 123.2 million and presented 0.2% of GDP*
- ◆ *In January 2018 Bulgaria's FDI totalled EUR 158.8 million and presented 0.3% of GDP*
- ◆ *As of the end of February 2018, the international reserves of the BNB amounted to EUR 22.2 billion, decreasing by 0.2% on a monthly basis and by 6.9% on an annual basis*
- ◆ *According to NSI preliminary data, GDP growth for 2017 is 3.6%. Ministry of Finance expects growth of 3.9% in 2018*
- ◆ *In February 2018, the overall business climate indicator rose by 0.5 percentage points compared to the previous month and reached 27.5%. Improvements in business conditions were recorded in construction, while industry declined slightly. In the retail trade and services sector, the indicator remained roughly the same as in January*
- ◆ *In January 2018 industrial production in Bulgaria increased by 0.3% m/m and by 3.5% y/y, respectively*
- ◆ *In January 2018, the turnover in 'Retail trade, except of motor vehicles and motorcycles' increased by 0.2% m/m and by 4.4% y/y, respectively*
- ◆ *In January 2018, construction output in Bulgaria increased by 5.1% on a monthly basis and by 24.2% on an annual basis*
- ◆ *In February 2018, the number of arrivals of visitors from abroad to Bulgaria was 457.4 thousand or by 4.9% more in comparison with February 2017*
- ◆ *In Q4 2017 total hourly labour cost rose by 12.2% y/y*
- ◆ *In February 2018, registered unemployment in Bulgaria was 7% and decreased by 1.2 percentage points on an annual basis*
- ◆ *In February 2018 CPI inflation in Bulgaria increased by 0.3% m/m and 2% y/y, respectively*
- ◆ *Total Producer Price Index in January 2018 increased by 0.8% compared to the previous month and by 4.1% on January 2017. Producer Price Index on Domestic Market in January 2018 increased by 1.0% compared to the previous month, and compared to the corresponding month of the previous year, there was an increase of 5.6%*

- ◆ *In January 2018 Bulgaria's Consolidated Fiscal Programme balance on a cash basis was positive, amounting to BGN 1,162.4 million, or 1.1% of the projected GDP*
- ◆ *In January 2018 Bulgaria's central government debt stood at EUR 12,139.6 million and presented 22.5% of projected GDP*
- ◆ *In January 2018 Bulgaria's broad money (monetary aggregate M3) reported BGN85.2 billion and increased by 7.7% y/y and their relative share in GDP was 81.2%. For the same period the Domestic credit increased by 6.4% y/y to BGN 53,7 billion*
- ◆ *In February 2018, the SOFIX main index of the BSE-Sofia recorded a significant decrease to 686.43 points. A decrease was also observed with BGBX 40 and BG TR30*
- ◆ *At the end of January 2018, the assets of the banking system amounted to BGN 96.5 billion, increasing by 1.1% m/m and by 5.9% y/y, respectively. Their relative share in GDP is 91.8%.*

Table of content

GLOBAL TRENDS

Advanced countries' economies	6
Euro zone.....	6
United Kingdom.....	6
USA	7
Japan.....	7
China.....	7
Policy of the Central banks	8
ECB.....	8
Bank of England.....	8
USA Federal Reserve.....	9
Bank of Japan (BoJ).....	10
People's Bank of China (PBC).....	10
International Commodity Prices	10
Petrol	10
Metals.....	11
Agricultural products.....	12

BULGARIA

External sector	13
Balance of Payments.....	13
Foreign Direct Investments.....	13
Foreign Reserves.....	14
Real sector.....	14
Gross Domestic Product	14
Business climate	15
Industrial Production Index	16
Retail Trade.....	16
Construction	17
Tourism	17
Unemployment.....	18
Household income, expenditures and consumption.....	18
Inflation.....	19
Producer Price Index in Industry.....	19
Fiscal sector.....	20
Budget Balance	20
Central Government Debt	21
Monetary sector.....	22
Capital market.....	23
Banking sector.....	24
Appendix	26
Definitions and methodological notes	45

GLOBAL TRENDS

ADVANCED COUNTRIES' ECONOMIES

Euro zone

The eurozone economy as a whole will outstrip its potential growth rate in 2018-2020. As a result, the unemployment rate will continue to decline, while supporting private consumption growth despite limited real wage growth. Fiscal policy is expected to remain broadly neutral

Further recovery with higher growth rates in EMU, but differences between countries remain. There is a change in the rate of relative growth, with EMU inertia relatively stronger than in the US. It is possible to delay the growth of EMU in 2019, but growth will remain above potential. Inflation is rising gradually from very low levels, backed by solid real economic outcomes and potentially higher (German) wage growth. However, the ECB's target of 2% will not be achieved on the horizon of 2018-2019. General inflation in the eurozone will remain low and will not reach the ECB's medium-term objective - lower but close to 2%. The eurozone economy as a whole will outstrip its growth potential in 2018-2020. As a result, the unemployment rate will continue to decline, while boosting private consumption despite limited real wage growth. Fiscal policy is expected to remain broadly neutral over the projected horizon. Higher economic growth in the euro area due to the very successful structural reforms in the Member States.

United Kingdom

Global growth prospects remain strong and financial conditions continue to be ambitious, despite the recent volatility in financial markets

In the United Kingdom, GDP is projected to grow on average by an annual rate of about 1.75%. This growth rate is expected to outpace the declining growth rate of supply in the economy, which is expected to be around 1.5% per year. As a result, a small period of excessive demand is expected by the beginning of 2020, which will then smooth out. This will affect domestic expenditure, although CPI inflation is gradually falling, as the effects of the sterling depreciation have faded. Forecast and inflation remain above the 2% target in the second and third year of the central projection of the Bank of England. Global growth prospects remain strong and financial conditions continue to be ambitious, despite the recent volatility in financial markets. UK GDP growth in Q4 2017 was slightly reduced to 0.4%, with demand composition implying less rotation in net trading and business investment. The latest activity indicators show that the main GDP growth rate in Q1 of 2018 remains similar to that in the last quarter of 2017. CPI inflation declined from 3.0% in January to 2.7% in February 2018. Inflation is expected to slow down even in the short term, although it remains above the 2% target. Wage growth has continued to grow. Unemployment remains low in the three months to January. Strengthening shorter-term wage growth measures in recent quarters and a number of indicators suggest that wage growth will further increase in response to the tightening labor market. The development of the UK's withdrawal from the European Union - and in particular the response of households, businesses and asset prices - remains the most significant influence and source of uncertainty about the economic outlook. Under such exceptional circumstances, the United Kingdom needs to balance every significant compromise between the speed with which it intends to restore inflation sustainably to the target and the support that monetary policy provides to jobs and activities.

USA

In 2018 USA GDP growth will be supported by private demand as well as by good labor market performance

The steady growth rate of H2 2017 is expected to continue until 2018, supported by a good performance of the global economy and the US fiscal stimulus (albeit to a very limited extent). At the same time, private demand will continue to be supported by good labor market performance. These trends are expected to cool in 2019, reflecting the cyclical state of the US economy, the stricter Fed policy and the tightening of the labor market. Inflation is expected to rise in comparison with 2017 and remain around the Fed's inflation target, driven by solid growth and backed by the limited labor market. The adopted tax reform and

the Bilateral Budget Act will stimulate moderate growth in the short and medium term, but will probably increase the level of government debt and reduce long-term growth. Real GDP growth in the United States will remain stable and will be supported mainly by growth in private consumption supported by stable job creation rather than strong nominal wage growth. From 2019, growth will slow down gradually, reflecting the late cyclical nature of the US economy, the stricter Fed policy and the limited labor market. The fiscal position in the US will be moderately more expansionary than in recent years as a result of the approved tax reform. The positive impact of tax reform on economic activity is much higher than expected, resulting in higher investment, better business environment and job creation. This would have a positive impact on the euro area economy.

Japan

The Japanese economy is expected to continue its moderate expansion. Domestic demand is likely to follow an upward trend, with a favorable revenue-to-cost cycle remaining in both the household and corporate sectors

The Japanese economy is growing moderately, with a good revenue-to-operating cycle. Overseas economies continue to grow as a whole. In this situation, Japan's exports are on an upward trend. On the domestic demand side, long-term business investment continues to grow following corporate profits and business moods. Private consumption grows moderately, albeit with fluctuations, against a background of steady improvement in employment and income. Investments in housing are slightly weaker. Meanwhile, public investment has kept its level and remained at a relatively high level. Reflecting these increases in demand both domestically and abroad, industrial production is on the rise, and labor market conditions continue to shrink steadily. The financial conditions are very cumulative. In terms of prices, the annual rate of change in the consumer price index (CPI for all commodities minus food) is around 1%. Inflation expectations are more or less unchanged. Investments in housing are slightly weaker. Meanwhile, public investment has kept its level and remained at a relatively high level. Reflecting these increases in demand both domestically and abroad, industrial production is on the rise, and labor market conditions continue to shrink steadily. The financial conditions are very cumulative. In terms of prices, the annual rate of change in the consumer price index (CPI for all commodities minus food) is around 1%. Inflation expectations are more or less unchanged. The Japanese economy is expected to continue its moderate expansion. Domestic demand is likely to follow an upward trend, with a favorable revenue-to-cost cycle remaining in both the household and corporate sectors, amid good financial conditions resulting from government stimulus measures. Exports are expected to remain moderately rising against the backdrop of steady growth in the overseas. The annual rate of change in the CPI is likely to continue to increase to 2%, mainly on the basis of an improvement in output and an increase in medium to long-term inflation expectations.

China

Chinese economy will gradually cool down, with growth about 6%

China's economic slowdown is expected to stay at about 2%. Chinese economy will gradually cool down, with growth about 6%. The risks to financial stability can still be effectively corrected by Chinese government bodies. In this context, there is no major crisis with emerging markets to hinder the growth of the euro area economy.

Policy of the Central banks

ECB

Governing Council of the ECB remained unchanged the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility at 0.00%, 0.25% and -0.40% respectively

On March 8, 2018 meeting the Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.40% respectively. The Governing Council expects the key ECB interest rates to remain at their present levels for an extended period of time, and well past the horizon of the net asset purchases. Regarding non-standard monetary policy measures, the

Governing Council confirms that the net asset purchases, at the current monthly pace of €30 billion, are intended to run until the end of September 2018, or beyond, if necessary, and in any case until the Governing Council sees a sustained adjustment in the path of inflation consistent with its inflation aim. The Eurosystem will reinvest the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time after the end of its net asset purchases, and in any case for as long as necessary. This will contribute both to favorable liquidity conditions and to an appropriate monetary policy stance.

Bank of England

In March 2018, the Bank of England maintained its bank interest rate at 0.5%

At its meeting on March 22, 2018, the Bank of England kept the interest rate level at 0.5 %, pointing out that wage growth is likely to increase in response to the tightening labor market and inflation is expected to remain above 2%. The Bank of England also reaffirmed that the continued tightening of monetary policy over the projection horizon would be appropriate for sustained return of inflation to its target, which raises expectations for an increase in interest rates in May. A collective monetary policy committee's assessment is that the continued tightening of monetary policy over the projection horizon will be appropriate for a sustained return of inflation to its target at a more conventional horizon. All members of the MPC are united around the view that any future increase in the bank interest rate will be gradual and to a limited extent. In view of these considerations, the members of the MPC consider that the current political position remains appropriate to balance the requirements of the competence of the MPC.

USA Federal Reserve

In March 2018, the Federal Reserve raised the interest rate on federal funds to 1.5-1.75%

The Federal Reserve raised the target range for the federal funds rate by a quarter of a percentage point to 1.5-1.75% at its March 2018 meeting in line with market expectations and based on expectations for better prospects for the economy. Also, the Federal Reserve has increased its growth forecasts for 2018 and 2019, and the new forecasts have contributed to a further increase in interest rates in 2019. The average GDP growth forecast was revised in 2018 (2.7% from 2.5% in the December forecast) and 2019 (2.4% from 2.1%). The unemployment rate is lower in 2018 (3.8% from 3.9%) and 2019 (3.6% from 3.9%). Inflation remained unchanged at 1.9% in 2018 and 2% in 2019. The median of the interest rate projection remained on hold for 2018, but indicated the further increase in 2019.

The labor market continues to grow and economic activity is growing at a moderate pace. Incomes have been strong in recent months and the unemployment rate has remained low. Recent data show that the growth rate of household spending and fixed investment in business has slowed down. On an annual basis, both general inflation and inflation for products other than food and energy continue to move below 2%. Market measures to offset inflation have increased in recent months, but remain low. In line with the statutory mandate, the Open Market Operations Committee seeks to promote maximum employment and price stability. Economic prospects have increased in recent months.

The Committee expects that, with the gradual adjustment of the monetary policy stance, economic activity will moderate in the medium term and labor market conditions remain strong. Inflation on a 12-month basis is expected to rise in the coming months and stabilize around the 2% target of the Committee over the medium term. Short-term risks to the economic outlook appear to be roughly balanced, but the Committee will continue to closely monitor developments in inflation.

When defining the timing and amount of future adjustments to the Federal Reserve target range, the Federal Reserve will assess the realized and expected economic conditions compared to its maximum employment targets and 2% inflation. This assessment will take into account a wide range of information, including labor market conditions, inflationary pressure indicators and inflation expectations and indications of financial and international developments. The Federal Reserve will closely monitor the actual and projected developments in inflation compared to the symmetrical inflation target. Economic conditions are expected to evolve in a way that will require further.

Bank of Japan (BoJ)

In March 2018, the Japanese Central Bank kept its key interest rate at a level of -0.1%

The Bank of Japan maintained its main short-term interest rate at -0.1% at its March 2018 meeting, as expected. Politicians also kept their yield target of 10-year government bonds around zero percent and maintained their optimistic economic position ahead of Governor Haruhiko Kuroda's new term. As for the amount of JGB to be purchased, the Bank will make a purchase within the annual growth rate of about 80 trillion yen. The Japanese central bank also decided to buy ETFs and J-REITs to redeem their unpaid sums at an annual rate of about 6.0 trillion yen and about 90 billion JPY, respectively. As for CP and corporate bonds, the Bank will keep its outstanding amounts to 2.2 trillion yen and 3.2 trillion yen. The Bank of Japan will continue with a quantitative and qualitative monetary easing (QQE) with a negative interest rate aimed at achieving a 2% price stability as long as it is necessary to sustain this goal in a sustainable way. It will continue to expand its monetary base, while the annual growth rate of the observed consumer price index (all commodities minus fresh food) exceeds 2% and remains above the target in a steady manner, the Bank will adjust its policy if appropriate, taking into account the development of the economy its registered activity and prices and financial conditions in order to maintain the momentum to achieve price stability.

People's Bank of China (PBC)

PBoC applies a restrictive regime on credit activity and calming the housing market in big cities

China's National Bank applies a tightening regime to keep excessive lending and prevent overheating in the housing market in big cities. There is a gradual depreciation of the Chinese yuan against the US dollar. China Central Bank will prevent excessive volatility in order to prevent surplus capital.

International Commodity Prices

Petrol

Oil prices rose by almost 2% on March 20, 2018, backed by a weak dollar, tensions in the Middle East and fears of further declining production in Venezuela

On March 20, 2018, futures on US light crude oil (WTI) traded at a price of USD 63.14 a barrel, which is a 1.21 USD/BBL gain or 1.95% versus USD 62.06 from their previous closing. Brent crude oil futures were priced at 67.33 USD/BBL, an increase of 1.16 USD/BBL, or 1.76% versus USD 66.05 from their previous closing. The tensions between Saudi Arabia and Iran gave some price support. The market also reflected the weakness of the dollar, which has become a boost for the raw material. The weaker dollar price makes crude oil imports into countries using other currencies cheaper, potentially stimulating demand. The worries about crude oil production in Venezuela also helped fuel the oil markets. The International Energy Agency said Venezuela, where the economic crisis has cut oil production by nearly half since the beginning of 2005 to significantly less than 2 million barrels, is "clearly vulnerable to an accelerated downturn," and that such an interruption could lead to a deficit in world markets. Rising crude oil production in the US, which rose by more than a fifth from mid-2016 to 10.38 million barrels per day, is also in the market. US exports are now higher than the largest exporter, Saudi Arabia. Only Russia produces more, approximately 11 million barrels, although US production is expected to overtake Russia this year. Increasing US yields, as well as rising output in Canada and Brazil, undermine the efforts of the Middle East-dominated OPEC (Opec Exporting Countries) to limit supply and raise prices. Many analysts expect global oil markets to deviate from what has been achieved in 2017 and early this year, reverting to oversupply in 2018.

Metals

Price projections for non-ferrous metals for 2018 are on a rising trend

According to Morgan Stanley, the copper price in October-December costs an average of 6,173 USD per ton, which is 7% more than the previous forecast and in 2018 it is priced at 5339 USD per ton or an improvement over the previous 1%. Aluminum

price forecast is increased by 9%, to 2094 USD per ton, or by 5% to 1984 USD per ton. The average price for nickel in the fourth quarter is USD 10,913 per tonne, up 3% on the previous estimate and USD 10,858 per tonne (+ 1%) in 2018. The most significant improvement in zinc is 13% to 2976 USD per tonne, and 10% next year to 2701 USD per tonne, respectively. Among the raw materials that will be most sought after in the next 12 months, analysts include palladium, uranium, platinum, golden silver, nickel, aluminum, mineral sand. The first position is palladium, due to the expectation that its demand will increase due to the high demand from car manufacturers as well as due to geopolitical uncertainty.

Agricultural products

In March 2018, there was a slowdown and even a fall in the prices of major grain contracts on world markets

For the period to March 16, 2018, there was a slowdown and even a fall in the prices of the main grain contracts on world exchanges, of course there were also differences. FOB price of US wheat dropped by USD 8.00 to USD 208.00 per tonne, in France the change was plus EUR 2.00 to EUR 167.00 per tonne. This time, Ukraine and Russia made no exception, and their prices were respectively minus USD 3.00 to 201 USD/tonne for Ukraine and minus 2.00 dollars to 206 USD/tonne for Russia.

For maize, the price trend has become controversial - a soothing of USD 4.00 in US to 188.00 USD/tonne, a serious increase in Ukraine due to exports plus USD 17.00 to 200.00 USD/ton plus EUR 2.00 in France to 165.25 EUR/tonne. Euronext rapeseed fell by EUR 1.50 to a price of EUR 348.50 per ton and barley in France went up by EUR 2.00 to EUR 172.00 per tonne. The price in Rotterdam for unrefined sunflower oil continued to decline slightly by 2.50 USD/t and now stands at 785.00 USD/t, and the price of refined sugar in London follows a downward trend of minus 7.70 USD to 349.00 USD/t. In the "Grain" circle of Sofia Commodity Exchange AD, the prices of the contracts show minimal changes. Bread wheat was offered at BGN 290.00-BGN300.00 per tonne, demand was at BGN 275.00 per tonne, corn was near as price – BGN 285.00-BGN290.00 per tonne of supply and BGN270.00 per tonne of demand. For oilseed sunflower, buying offers are from BGN 530.00 to BGN 545.00 per tonne and sellers remain at BGN 560.00 per tonne.

BULGARIA

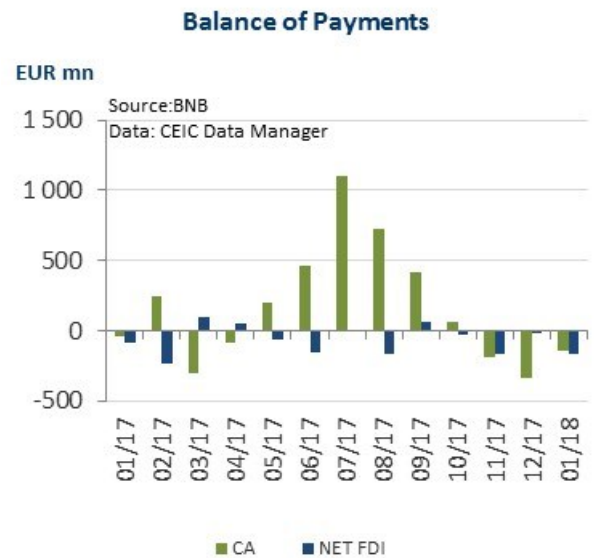
EXTERNAL SECTOR

Balance of Payments

In January 2018 Bulgaria's current and capital account recorded a deficit of EUR 123.2 million and presented 0.2% of GDP

The current and capital account recorded a deficit of EUR 123.2 million (0.2% of GDP) in January 2018, compared with a surplus of EUR 36.1 million (0.1% of GDP) in January 2017. The current account was negative amounting to EUR 139.6 million (0.3% of GDP) in January 2018, compared with a deficit of EUR 42.7 million (0.1% of GDP) in January 2017. The balance on goods recorded a deficit of EUR 292.5 million (0.5% of GDP) in January 2018, compared with a deficit of EUR 154.8 million (0.3% of GDP) in January 2017. Exports of goods amounted to EUR 2,159.6 million (4% of GDP) in January 2018, growing by EUR 335.3 million (18.4%) from January 2017 (EUR 1,824.3 million, 3.6% of GDP). In January 2017 exports grew by 11% y/y. Imports of goods amounted to EUR 2,452.1 million (4.6% of GDP) in January 2018, growing by EUR 473 million (23.9%) from January 2017 (EUR 1,979.1 million, 3.9% of GDP). In January 2017 imports grew by 21% y/y. Services recorded a positive balance of EUR 111.8 million (0.2% of GDP) in January 2018, compared with a surplus of EUR 94.5 million (0.2% of GDP) in January 2017. The net primary Income (which reflects

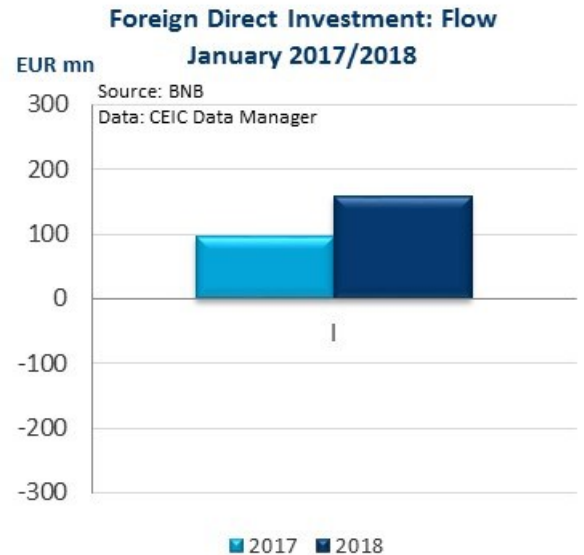
the receipt and payment of income related to the use of resources (labour, capital, land), taxes of production and imports and subsidies) recorded a surplus of EUR 3.2 million (0.01% of GDP) in January 2018, compared with a deficit of EUR 72.7 million (0.1% of GDP) in January 2017. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 37.8 million (0.1% of GDP), compared with a positive balance of EUR 90.2 million (0.2% of GDP) in January 2017. The capital account recorded a surplus of EUR 16.4 million (0.03% of GDP), compared with a positive balance of EUR 78.8 million (0.2% of GDP) in January 2017. The financial account recorded a net inflow of EUR 20.4 million (0.04% of GDP), compared with an outflow of EUR 45.9 million (0.1% of GDP) in January 2017. The net direct investment compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual was negative amounting to EUR 161.6 million (0.3% of GDP), compared with a negative balance of EUR 82.3 million (0.2% of GDP) in January 2017. Direct investment – assets dropped by EUR 24.1 million (0.04% of GDP) compared with a decline of EUR 21.4 million (0.04% of GDP) in January 2017. Direct investment – liabilities grew by EUR 137.5 million (0.3% of GDP) in January 2018, compared with an increase of EUR 60.9 million (0.1% of GDP) in January 2017. The balance on portfolio investment was positive amounting to EUR 73.7 million (0.1% of GDP), compared with a positive balance of EUR 142.9 million (0.3% of GDP) in January 2017. Portfolio investment – assets increased by EUR 156.9 million (0.3% of GDP), compared with an increase of EUR 144.8 million (0.3% of GDP) in January 2017. Portfolio investment – liabilities rose by EUR 83.3 million (0.2% of GDP) compared with an increase of EUR 1.9 million in January 2017. The balance on other investment was positive amounting to EUR 1,462.8 million (2.7% of GDP), compared with a positive balance of EUR 666.9 million (1.3% of GDP) in January 2017. Other investment – assets grew by EUR 1,349.1 million (2.5% of GDP), compared with an increase of EUR 489.2 million (1% of GDP) in January 2017. Other investment – liabilities dropped by EUR 113.7 million (0.2% of GDP) compared with a decline of EUR 177.7 million (0.4% of GDP) in January 2017. The BNB reserve assets⁵ decreased by EUR 1,358.5 million (2.5% of GDP), compared with a decline of EUR 773 million (1.5% of GDP) in January 2017. The net errors and omissions were positive amounting to EUR 143.6 million (0.3% of GDP) compared with a negative value of EUR 82 million (0.2% of GDP) in January 2017.



Foreign Direct Investments

In January 2018 Bulgaria's FDI totaled EUR 158.8 million and presented 0.3% of GDP

According to preliminary data, foreign direct investment in Bulgaria presented according to the directional principle totaled EUR 158.8 million (0.3% of GDP) in January 2018, growing by EUR 62.4 million (64.7%) from January 2017 (EUR 96.5 million, 0.2% of GDP)³. Equity (acquisition/disposal of shares and equities in cash and contributions in kind by non-residents in/from the capital and reserves of Bulgarian enterprises, and receipts/payments from/for real estate deals in the country) amounted to EUR 19.9 million in January 2018, growing by EUR 15.2 million from EUR 4.7 million in January 2017. Real estate investments of non-residents totaled EUR 0.3 million, compared with EUR 0.8 million attracted in January 2017. The largest inflow of real estate investment was from Russia (EUR 0.3 million, 95.3% of the total amount for January 2018) and Cyprus (EUR 0.1 million, 20.5% of the total amount). The net debt instruments (the change in the net liabilities between affiliated enterprises on financial loans, suppliers' credits and debt securities) amounted to EUR 139 million in January 2018, compared with EUR 61.9 million in January 2017. The largest net direct investment inflows in Bulgaria for January 2018 were from the United Kingdom (EUR 58.8 million), the Netherlands (EUR 20.8 million), and Germany (EUR 20.1 million). According to preliminary data, direct investment abroad dropped by EUR 2.7 million, compared with an increase of EUR 14.2 million in January 2017.



Foreign Reserves

As of the end of February 2018, the international reserves of the BNB amounted to EUR 22.2 billion, decreasing by 0.2% on a monthly basis and by 6.9% on an annual basis

According to data of the BNB at the end of February 2018, the international reserves of the BNB amounted to BGN 22.2 billion and decreased by 0.2% m/m and by 6.9% y/y. Cash and deposits in foreign currency amounted to BGN 16.5 billion and decreased by 0.4% m/m and by 7.9% y/y, respectively. Monetary gold placements grew up by 0.2% m/m to BGN 2.7 billion. On an annual basis, they reported a decrease of 1.3%. Investments in securities amounted to BGN 24.2 billion and reported a growth of 2.8% m/m and a decline of 6.3% on an annual basis. In terms of liabilities, the money in circulation is at the level of BGN 15 billion and reported a monthly decline of 0.4% and a growth of 9.6% y/y, respectively. Liabilities to banks amounted to BGN 11.7 billion and decreased by 1.3% m/m and by 19.8% y/y, respectively. Liabilities to the government amounted to BGN 9.6 billion and increased by 1.2% m/m, decreasing by 17% y/y. Liabilities to other depositors decreased by 0.9% m/m with a growth of 124% y/y. The deposit of the Banking Department amounts to BGN 5.6 billion. Bulgaria's international liquidity position, measured by the ratio of foreign reserves to short-term external debt, is high despite a slight decrease to 289% at the end of January 2018 compared to 314% at the end of December 2017 and 319.2% at the end of January 2017.



REAL SECTOR

Gross Domestic Product

According to NSI preliminary data, GDP growth for 2017 is 3.6%. Ministry of Finance expects growth of 3.9% in 2018

Seasonally adjusted GDP data, according to preliminary estimates, showed a growth of 3.5% in the fourth quarter of 2017 compared to the same quarter of the previous year. In the fourth quarter of 2017, Gross Domestic Product (GDP) amounted to BGN 27,427 million at current prices. Recalculated in euro, GDP is respectively EUR 14,023 million, with per capita EUR 1,982. Seasonally adjusted data show growth of 3.5% of GDP in the fourth quarter of 2017 compared with the corresponding quarter of the previous year and 0.7% compared to the third quarter of 2017. In 2017 GDP amounted to BGN 98,631 million at current prices. Recalculated in euro, GDP is respectively EUR 50,429 million, with EUR 7,099 per person. GDP in 2017, according to preliminary data, increases by 3.6% in real terms compared to 2016. GDP grew by 3.5% in the fourth quarter of 2017 compared to the same quarter of the previous year. In Q4 of 2017, compared with the same quarter of the previous year, gross value added increased by 3.7%. The dynamics of gross value added is determined by the registered growth in: Construction - by 7.0%, Real estate transactions - by 6.9%, Financial and insurance activities - by 4.1%, Industry by 3.5% Professional Activities and Scientific Research; administrative and auxiliary activities - by 3.2%, trade, repair of motor vehicles and motorcycles; transport, storage and mail; hotels and restaurants - by 2.8%, government; education; Human health and Social work - by 2.5%, and Creation and dissemination of information and creative products; telecommunications - by 2.1%. In terms of end-use components, real GDP growth has contributed to an increase in individual consumption of 3.6% and collective consumption by 1.7%. Gross fixed capital formation increased by 4.5%. Imports and exports of goods and services grew by 8.3%, respectively, of 2.0% compared to the same quarter of the previous year. GDP for 2017, obtained as a sum of quarterly data, grew in real terms by 3.6% compared to 2016. For 2017, GDP reached a nominal value of BGN 98,631 million. Recalculated in USD at an average annual exchange rate of BGN 1,73478 per USD, GDP amounted to USD56,855 million. Per capita is BGN 13,884 per volume of the indicator or USD 8,004. Recalculated in EUR the GDP is EUR 50,429 million, with per capita EUR 7,099. Gross value added amounts to BGN 85413 million. The real Value Index is 3.7% higher than the one reached in 2016. The industrial sector accounts for 28.3% of the value added of the economy, which retains its share compared to 2016. The service sector accounts for 67.4% and the agrarian sector 4.3% of value added, respectively 67.0 and 4.7% in 2016.

Meanwhile, the Ministry of Finance published its updated spring forecast. GDP growth is expected to accelerate to 3.9% in 2018, with domestic demand continuing to lead. Private consumption will weaken slightly, backed by improved consumer confidence and a real increase in disposable income for households. At the same time, the investment activity will be mainly driven by the increase in public investment. Expectations are to accelerate total exports due to the lower base of the previous year and the expected favorable dynamics in 2018, which together with the increased domestic demand growth will support the increase in imports. As a result, the negative contribution of net exports to GDP is expected to increase. GDP growth rates will remain relatively high throughout the projection horizon. Economic activity will slow slowly to 3.8% in 2019 due to the downward dynamics of domestic demand and will reach 3.7% between 2020 and 2021. Domestic demand will remain the main driver of GDP growth in terms of both consumption and consumption. investments. While investment activity is expected to moderate moderately, lower employment growth and real incomes will result in a slight slowdown in private consumption growth. The negative effect on GDP on net exports is expected to shrink to around 0.8 percentage points. in 2020 and 2021. In 2017, employment growth was higher than expected, but this did not lead to a substantial revision of the employment performance estimates in the medium term due to the significant impact of agriculture. In the medium term, labor supply constraints and negative demographic developments will affect the slowdown in employment growth until its end in 2021. Inflation expectations are rising over the projection horizon considering the dynamics seen in 2017 and the first two months of 2018, as well as updated assumptions on international food and crude oil prices. Private sector lending will continue to accelerate to the end of the projection horizon, with expectations for growth slowing down compared to the autumn forecast, given the slower recovery of loans to non-financial corporations. The risks to the implementation of the forecast continue to be mainly related to the development of the external environment and the dynamics of international prices as well as the unfavorable demographic trends in the country.

Bulgaria's MF: Spring Macroeconomic Projection	2016 (o)	2017 (o)	2018 (n)	2019 (n)	2020 (n)	2021(n)
International environment						
Global economy (real growth, %)	3.2	3.7	3.9	3.9	3.9	3.7
European economy - EU 28 (%)	2	2.4	2.3	2.1	1.9	1.8
Exchange rate (USD/EUR)	1.1	1.13	1.23	1.23	1.23	1.23
Fuel "Brent" (USD/barel)	44	54.4	64	59.8	57	55.5
Non-energy price (In USD, %)	-2.6	4.9	5.5	1.1	-0.6	-0.3
Gross Domestic Product (GDP)						
GDP(BGN million)	94 130	98 631	104 674	111 145	117 890	124 919
GDP(real growth, %)	3.9	3.6	3.9	3.8	3.7	3.7
Total consumption (%)	3.3	4.5	5	4.9	3.9	3.8
Gross Capital Formation (%)	-6.6	3.8	10.1	6.6	6.9	7
Exports (%)	8.1	4	4.9	4.9	4.7	4.6
Imports (%)	4.5	7.2	8.1	7	5.9	5.8
Labor market and prices						
Employment (ESS 2010,%)	0.5	1.8	0.6	0.3	0.2	0
Unemployment (NSI, %)	7.6	6.2	5.9	5.7	5.5	5.4
Compenastion of one employed (%)	5.8	7.5	7.4	6.9	6.5	6.3
GDP Deflator (%)	2.2	1.2	2.1	2.3	2.3	2.2
Average inflation (HCPI, %)	-1.3	1.2	1.8	2	2.1	2.1
Balance of payments						
Current account (% of GDP)	5.3	3.9	1.7	1.2	0.8	0.2
Trade balance (% of GDP)	-2	-4	-5.7	-6.3	-6.5	-6.8
FDI (% of GDP)	2.2	2.7	2.7	2.7	2.8	2.8
Monetary sector						
M3 (broad money,%)	7.6	7.7	7.9	8	8.1	8.1
Corporate loans (%)	1.6	3.8	5	5.7	6.2	6.4
Households loans (%)	2	6	4.8	5	5.5	6.2

Source: MF

Business climate

In February 2018, the overall business climate indicator rose by 0.5 percentage points compared to the previous month and reached 27.5%. Improvements in business conditions were recorded in construction, while industry declined slightly. In the retail trade and services sector, the indicator remained roughly the same as in January

Industry. The composite indicator "business climate in industry" declined by 0.5 percentage points, mainly due to managers' expected business expectations of enterprises over the next six months. The poll shows a decrease in production assurance with orders, which is accompanied by lower expectations for activity over the next three months. The insecure economic environment and the labor shortage remain the main obstacles to the development of the business, indicated by 43.4% and 30.3% respectively of the enterprises. With regard to sales prices in industry, managers expect their level to remain in the next three months.

Construction. In February, the composite business climate indicator in construction increased by 3.6 points, mainly due to the improved expectations of developers for the business situation of enterprises over the next six months. At the same time, their projections for construction activity over the next three months are more optimistic, which they believe will lead to additional recruitment. The uncertain economic environment continues to be the main factor, hampering business activity to the greatest extent. Second and third place are competition in the industry and labor shortages, although the survey shows a decrease in their unfavorable influence. As regards the construction sales prices, the managers' predominant expectations are that they remain unchanged in the next three months.

Business Climate Indicator



Retail trade. The composite benchmark "business climate in retail trade" retained its level since January. Retailers' sales volume sales over the past three months are more reserved, while sales forecasts and orders to suppliers over the next three months are more favorable. The most serious difficulties for the business remain the competition in the branch, the insufficient demand and the uncertain economic environment, and in the last month there is an increase in the negative impact of the second factor. In terms of sales prices, most traders expect them to keep their level in the next three months.

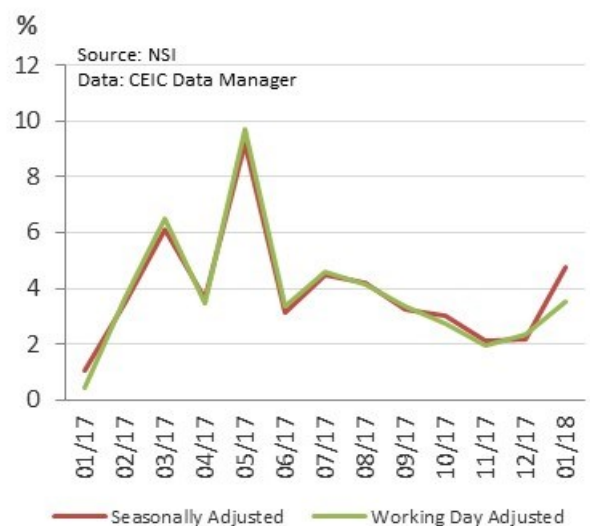
Services. In February, the composite business climate indicator in the services sector remained at roughly the same level as in the previous month. Managers' assessments and expectations about the business condition of businesses shift to more moderate views. At the same time, their forecasts for demand for services over the next three months are favorable. The main obstacles to the sector's business continue to be related to competition in the industry and the uncertain economic environment. Managers' prevailing expectations of selling prices are that they remain unchanged over the next three months.

Industrial Production Index

In January 2018 industrial production in Bulgaria increased by 0.3% m/m and by 3.5% y/y, respectively

According to NSI preliminary data, in January 2018 the industrial production index, computed from the seasonally adjusted data, increased by 0.3% compared to December 2017. In January 2018, the Industrial Production Index adjusted for growth was 3.5% compared to the corresponding month of 2017. On an annual basis, the growth of industrial production, calculated from the calendar adjusted data, was registered in the manufacturing by 10.3%, while the decrease was registered in the production and distribution of electricity and heat and gas by 8.7% and in the mining industry - by 4.6%. A more significant increase in the manufacturing compared to the previous year was observed in: repair and installation of machinery and equipment by 28.8%, manufacture of other non-metallic mineral products - by 28.3%, manufacture of vehicles, except of motor vehicles - by 25.2%, Manufacture of fabricated metal products, except machinery and equipment by 20.8%. Decrease was registered in the manufacture of tobacco products - by 39.3%, clothing manufacture - by 9.8%, leather processing; the manufacture of footwear and other articles of fur - by 3.9%.

Industrial production Index, % change, YoY



Retail Trade

In January 2018, the turnover in 'Retail trade, except of motor vehicles and motorcycles' increased by 0.2% m/m and by 4.4% y/y, respectively

According to preliminary seasonally adjusted NSI data in January 2018, the turnover in "Retail trade, except of motor vehicles and motorcycles" at constant prices increased by 0.2% compared to the previous month. In January 2018, the retail trade, calculated on a calendar-adjusted basis, grew by 4.4% compared to the same month of the previous year. In January 2018, compared with the same month of 2017, the turnover grew more significantly in: retail trade in computers and communication equipment - by 5.7%, retail trade in household appliances, furniture and other household goods and pharmaceuticals and medical goods retail - 5.5%, and retail trade by mail, telephone or internet - by 4.8%. The decline was registered only in the retail trade of textiles, clothing, footwear and leather goods - by 10.1%.

Construction

In January 2018, construction output in Bulgaria increased by 5.1% on a monthly basis and by 24.2% on an annual basis

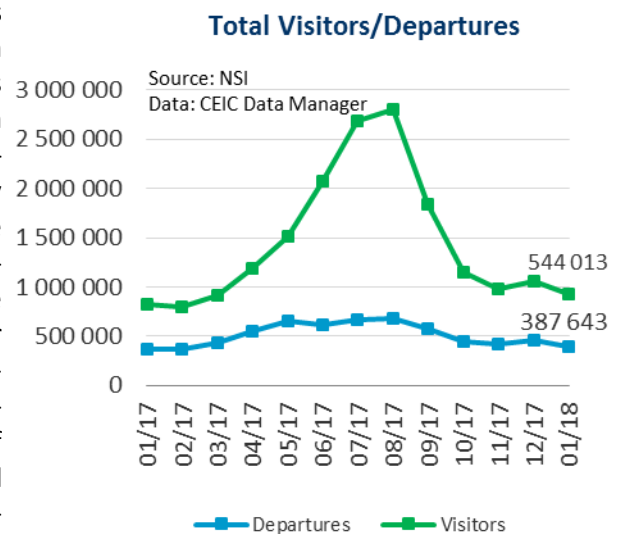
According to preliminary NSI data, in January 2018, the construction output index, calculated on the basis of seasonally adjusted data, was 5.1% above the previous month's level. In January 2018, compared to the same month of 2017, the calendar-adjusted construction output index increased by 24.2%. In January 2018, the production output index, compiled from seasonal-

ly adjusted data, was above the level of the previous month, with output from building construction increasing by 5.3% and civil / engineering construction by 4.8%. On an annual basis, the growth of construction output in January 2018, calculated from calendar adjusted data, is determined by the positive rate in building construction, where the increase is by 31.6% and in civil / engineering by 15.5%.

Tourism

In February 2018, the number of arrivals of visitors from abroad to Bulgaria was 457.4 thousand or by 4.9% more in comparison with February 2017

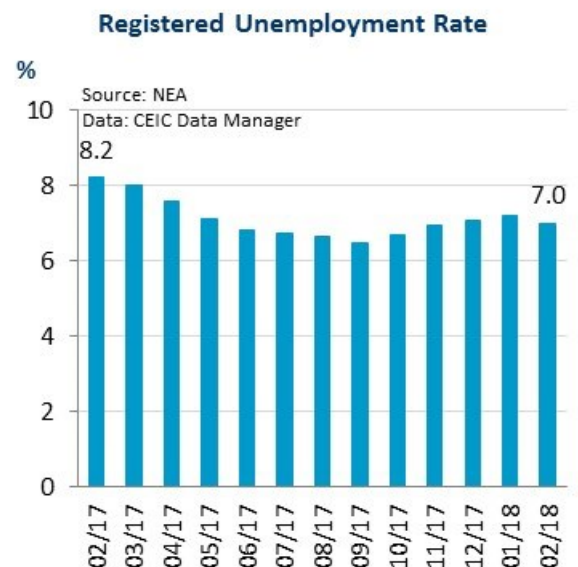
In January 2018, 1 894 accommodation establishments - hotels, motels, camping sites, mountain chalets and other establishments for short-term accommodation with more than 10 bed-places were functioned in the country. The total number of the rooms in them was 56.2 thousand and the bed-places were 124.0 thousand. In comparison with January 2017, the total number of accommodation establishments (functioned during the period) increased by 5.4%, and the bed-places in them - by 3.7%. The total number of the nights spent in all accommodation establishments registered in January 2018 was 910.0 thousand, or by 13.5% more in comparison with the same month of the previous year. The total revenues from nights spent in January 2018 reached BGN 50.0 million or by 20.2% more compared to January 2017. In February 2018, the number of the trips of Bulgarian residents abroad was 379.5 thousand or by 3.5% above the registered in February 2017. The trips with other purposes (as a guest, education and visit the cultural and sport events) in February 2018 composed the greatest share of the total number of trips of Bulgarian residents abroad - 49.7%, followed by the trips with professional purpose - 27.6%, and with holiday and recreation purpose - 22.7%. In February 2018, the number of arrivals of visitors from abroad to Bulgaria was 457.4 thousand or by 4.9% more in comparison with February 2017. In February 2018, the predominant share of the visits with holiday and recreation purpose was 42.2%, followed by trips with other purposes - 37.7%, and with professional purpose - 20.1%.



Unemployment

In February 2018, registered unemployment in Bulgaria was 7% and decreased by 1.2 percentage points on an annual basis

According to the Employment Agency, the registered unemployment rate in February decreased to 7%, the decrease being by 0.2 pps compared to January 2018. On an annual basis there is a significant decrease in unemployment - by 1.2 pps. A total of 230,611 were the unemployed registered in the Labor Offices in February, their number decreasing by 2.8% on a monthly basis. The comparison with a year earlier shows that they are down by 14.5%. Newly registered unemployed last February were 20,260 persons. Of these, 839 were inactive, did not work, did not study, and did not look for a job. Since the beginning of the year, mediators and their partners have activated 12,597 people. The activity of the labor offices is also targeted at employees, students and retirees, and during the month 400 persons from this category have registered as job seekers, remind them. Data for February 2018 show that 18,145 persons were employed. Significant is the share of the real economy - over 86% of total work. As a result of the active measures to promote employment among the unemployed, a total of 2 437 persons were included in the subsidized employment in the month, incl. 1 336 under OP Human Resources Development, 1,038 persons under other programs and 63 - under different measures.



Household income, expenditures and consumption

In Q4 2017 total hourly labour cost rose by 12.2% y/y

Preliminary data of the NSI for the fourth quarter of 2017 indicate that the total hourly labour cost rose by 12.2% compared to the fourth quarter of 2016. The total hourly labour cost grew by 11.7% in industry, by 11.8% in services and by 11.9% in construction. The breakdown by economic activities showed that the highest annual growths in total labour costs were recorded in 'Education' - 20.2%, 'Other service activities' - 19.1% and 'Administrative and support service activities' - 15.0%. The lowest increase in total labour costs was observed in 'Arts, entertainment and recreation' by 1.1%, 'Electricity, gas, steam and air conditioning supply' by 3.7% and 'Financial and insurance activities' - 6.9%. In the structure of the total labour costs, the wages and salaries costs per hour worked grew by 12.0% in comparison with a year earlier, while the other (non-wage) costs rose by 13.2%. Among the economic activities in the fourth quarter of 2017 compared to the fourth quarter of 2016 the growth rate of wages and salaries component ranged from 1.0% in 'Arts, entertainment and recreation' to 20.1% in 'Education'.

Inflation

In February 2018 CPI inflation in Bulgaria increased by 0.3% m/m and 2% y/y, respectively

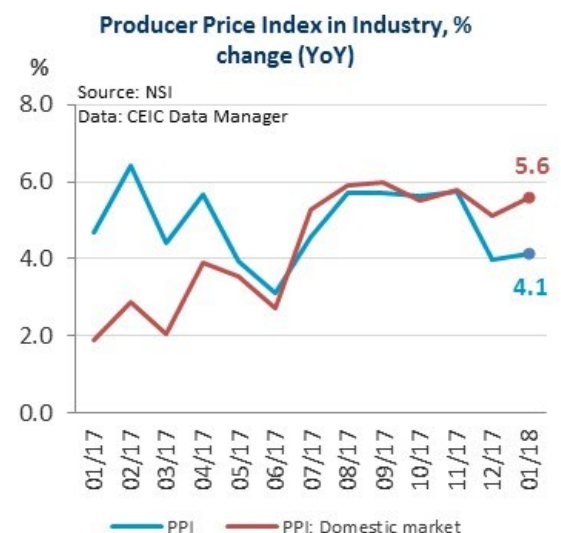
The consumer price index for February 2018 was 100.3% against January 2018, ie, monthly inflation is 0.3%. Inflation from the beginning of the year (February 2018 versus December 2017) was 0.6% and annual inflation in February 2018 compared to February 2017 was 2.0%. The average annual inflation for the period March 2017 - February 2018 compared to the period March 2016 - February 2017 is 2.1%. The harmonized consumer price index for February 2018 compared to January 2018 was 100.2%, i.e. monthly inflation is 0.2%. Inflation from the beginning of the year (February 2018 versus December 2017) was 0.4% and annual inflation in February 2018 compared to February 2017 was 1.5%. The average annual inflation for the period March 2017 - February 2018 compared to March 2016 - February 2017 is 1.3%.



Producer Price Index in Industry

Total Producer Price Index in January 2018 increased by 0.8% compared to the previous month and by 4.1% on January 2017. Producer Price Index on Domestic Market in January 2018 increased by 1.0% compared to the previous month, and compared to the corresponding month of the previous year, there was an increase of 5.6%

Total Producer Price Index in January 2018 increased by 0.8% from the previous month. Higher prices were registered in the electricity, gas, steam and air conditioning supply by 2.3%, in the manufacturing by 0.6% and in the mining and quarrying industry by 2.5%. A more significant rise in prices in the manufacturing was seen in the manufacture of basic metals by 2.2%, in the manufacture of computer equipment, electronic and optical products by 1.7% and in the manufacture of tobacco 5.6%, rubber and plastic production by 1.0%, and printing and reproduction of recorded media by 0.5%. Total Producer Price Index in January 2018 increased by 4.1% compared to the same month of 2017. Price increases were recorded in: electricity, gas, steam and air conditioning supply by 12.2%, manufacturing by 2.0% and mining and quarrying by 1.7%. In the manufacturing industry, the prices of timber and derived products, excluding furniture - by 6.6%, in the manufacture of paper and paper



March 2018

products by 5.8% and in the manufacture of wood and wood products in the manufacture of motor vehicles, trailers and semi-trailers - by 4.9%, while the decrease was registered in the manufacture of tobacco products by 3.5% and in the manufacture of motor vehicles and motorcycles by 2.5%.

Producer price index on the domestic market in January 2018 increased by 1.0% compared to the previous month. Price increases were recorded in the electricity, gas, steam and air conditioning supply by 2.2% in the processing and extractive industries by 0.4%. In the manufacturing industry, a rise in prices compared to the previous month was observed in the manufacture of basic metals by 2.1% and in the manufacture of pharmaceutical substances and products by 1.4%, while the reduction was registered in the manufacture of tobacco products by 6.9%, and in the manufacture of rubber and plastic products by 0.8%. The domestic producer price index in January 2018 increased by 5.6% compared to the same month of 2017. Price increases were registered in the electricity, gas, steam and air conditioning supply by 12.1%, in the mining and quarrying industry by 4.3% and in the manufacturing by 1.9%. Higher Prices in Manufacturing vs. January 2017 were also recorded in: manufacture of wood and of products of wood, except furniture - by 6.9%, manufacture of basic metals by 6.3% and manufacture of chemicals - 5.3%. Price decreases were observed in the manufacture of tobacco products - by 2.9%, and in the manufacture of computer equipment, electronic and optical products - by 1.1%.

Producer price indices on the international market. The producer price index on the international market in January 2018 increased by 0.5% compared to the previous month. In the manufacturing industry, price growth was reported by 0.8%. A more significant increase was registered in the manufacture of computer equipment, electronic and optical products - by 2.5%, and in the manufacture of basic metals - by 2.3%, while the decline was observed in the manufacture of tobacco products - by 2.1%, and in the manufacture of timber and derived products, excluding furniture - by 1.5%. The producer price index on the international market in January 2018 increased by 2.1% compared to the same month of 2017. In the manufacturing industry, the price increase was 2.0%. Higher prices were also recorded in: manufacture of paper, paperboard and paper and paper products - by 13.0%, manufacture of wood and wood products, except furniture - by 6.2%, and manufacture of motor vehicles, trailers and semi-trailers - by 5.1%. The decrease in prices was observed in the manufacture of tobacco products - by 4.9%, and in the manufacture of motor vehicles, except of motor vehicles - by 4.2%.

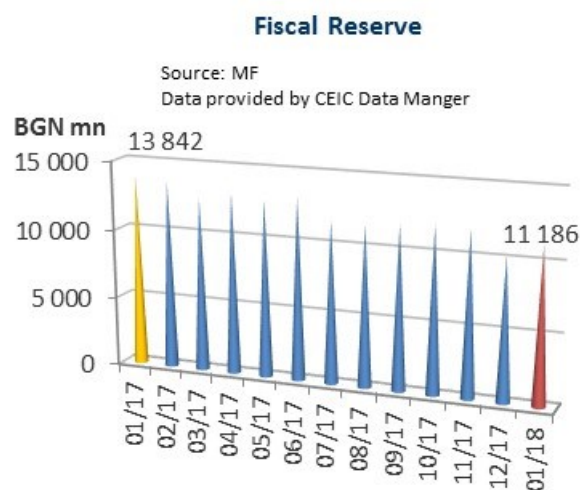
FISCAL SECTOR

Budget Balance

In January 2018 Bulgaria's Consolidated Fiscal Programme balance on a cash basis was positive, amounting to BGN 1,162.4 million, or 1.1% of the projected GDP

According MF the Consolidated Fiscal Programme (CFP) balance on a cash basis for January 2018 is positive, amounting to BGN 1,162.4 million, or 1.1% of the projected GDP, and is formed by a national budget surplus of BGN 1,243.0 million and by a EU funds deficit of BGN 80.6 million. For comparison, a CFP deficit of BGN 884.2 million (0.9% of GDP) was reported for January 2017. The underlying factors for the excess of revenues over expenditures in January are the good parameters of national budget tax and social security revenue performance. The CFP revenues and grants in January 2018 stand at BGN 3,706.3 million, or 9.7% of the annual estimates. Compared to the same period of the previous year, tax and non-tax revenues have risen by BGN 505.3 million, or by 15.8%, with grant proceeds being lower. Tax proceeds, including revenues from social security contributions, total BGN 3,346.3 million, which accounts for 10.7% of the revenues planned for the year. Compared to the data for January 2017, tax proceeds have risen in nominal terms by 16.1%, or by BGN 464.3 million. Direct tax revenues amount to BGN 405.4 million, or 7.0% of the estimates planned for the year, growing by BGN 123.1 million (43.6%) compared to the same period of the previous year. Indirect tax revenues amount to BGN 2,160.0 million, which accounts for 14.3% of the annual estimates. Compared to the data for January 2017, proceeds in this group have grown by BGN 222.2 million, or by 11.5%. VAT proceeds amount to BGN 1,430.6 million, or 14.6% of those planned. Compared to the same period of the previous year, VAT revenues have grown by BGN 154.9 million, or by 12.1%. The amount of non-refunded VAT as of 31 January 2018 is BGN 58.5 million. The excise duty revenues amount to BGN 699.9 million, or 13.6% of the annual estimates. Customs duty proceeds amount to BGN 23.1 million, or 12.2% 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 66.8 million, or 6.1% of the annual estimates. Revenues from social security and health insurance contributions are BGN 714.1 million, which accounts for 7.8% of the estimates for the year. Compared to the same period of the previous year, the revenues from social security contributions have risen by BGN 104.8 million,

or by 17.2%, in nominal terms. Non-tax revenues amount to BGN 347.8 million, which accounts for a performance of 7.4% of the annual estimates. Grant revenues amount to BGN 12.3 million, or 0.5% of those planned for the year. CFP expenditures, including the contribution of the Republic of Bulgaria to the EU budget for January 2018, amount to BGN 2,543.9 million, which accounts for 6.5% of the annual estimates. For comparison, CFP expenditures for the same period of 2017 amount to BGN 2,454.6 million. The increasing expenditures as against the same period of 2017 are mainly due to the higher amount of social payments related to the baseline effect for pension expenditures as a result of the increase in July 2017, the two-step increase in the minimum pension in 2017 (as from July and October), the higher staff costs mostly resulting from the increase in the remuneration of pedagogical staff within the secondary education, etc. Non-interest expenditures amount to BGN 2,366.3 million, which accounts for 6.3% of the annual estimates. The non-interest current expenditures for January 2018 amount to BGN 2,262.8 million, or 7.3% of the estimates for the year, capital expenditures (including net increment of state reserve) amount to BGN 101.3 million, or 1.6% of the 2018 State Budget of the Republic Bulgaria Law estimates. The current and capital transfers to other countries amount to BGN 2.2 million, or 15.6% of the estimates for the year. Interest payments amount to BGN 93.5 million, or 12.9% of those planned for 2018. The part of Bulgaria's contribution to the EU budget, as paid from the central budget as of 31 January 2018, amounts to BGN 84.0 million, which complies with the existing legislation in the area of EU own resources. Fiscal reserve as of 31 January 2018 is BGN 11.2 billion, including BGN 9.8 billion deposits in BNB and banks and BGN 1.4 billion receivables under the EU Funds for certified expenditure, advance payments, etc.

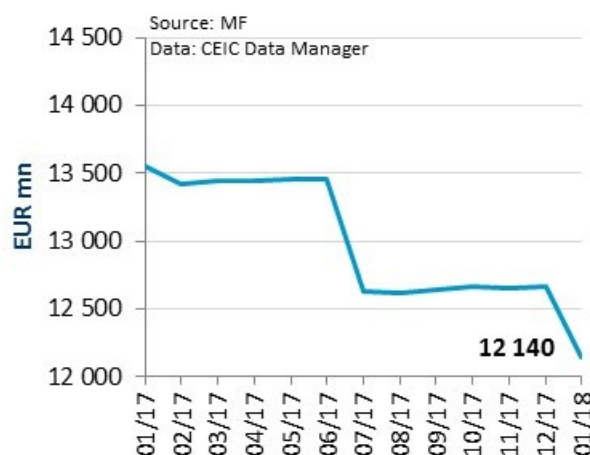


Central Government Debt

In January 2018 Bulgaria's central government debt stood at EUR 12,139.6 million and presented 22.5% of projected GDP

According to MF the central government debt as at end-January 2018 stood at EUR 12,139.6 million. The debt has decreased by approximately EUR 527.5 million as compared to end-2017 due to the repayments during the month on GS issued on the domestic market. Domestic debt amounted to EUR 2,940.1 million and external debt – to EUR 9,199.5 million. At the end of the reporting period the central government debt/GDP ratio was 22.5 %, with the share of domestic debt being 5.4 % and of external debt – 17.1 %. In the central government debt structure, domestic debt at the end of the period amounted to 24.2 %, and external debt – to 75.8 %. The weighted average interest rate on debt for the period 01.01.2018 – 31.01.2018 is 2.70 %, decreasing by 12 basis points as compared to the same period of 2017 (2.82 %). As of 31 January 2018, the central government guaranteed debt was EUR 371.8 million. Domestic guarantees amounted to EUR 35.1 million and external guarantees – to EUR – 336.7 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-January 2018 the government debt reached EUR 11,487.7 million, being 21.3 % of GDP. Domestic debt amounted to EUR 2,886.9 million and external debt – to EUR 8,600.8 million. Government guaranteed debt in January 2018 amounted to EUR 1,018.8 million. Domestic guarantees amounted to EUR 35.2 million, the government guaranteed debt/GDP ratio being 1.9 %.

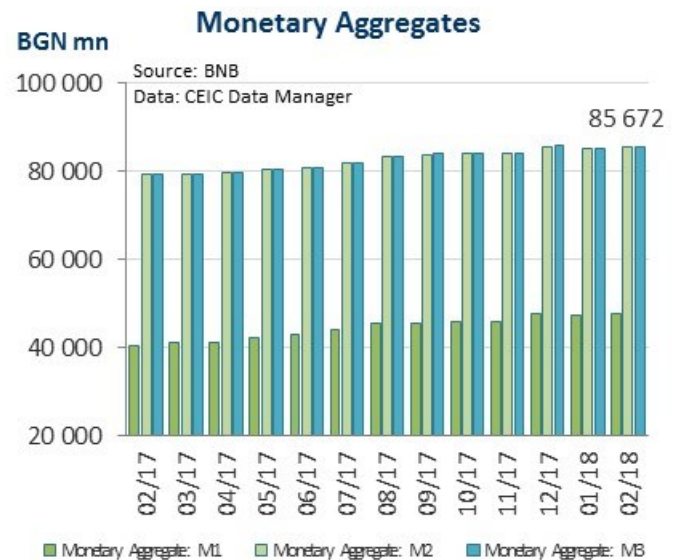
Central Government Debt



MONETARY SECTOR

In January 2018 Bulgaria's broad money (monetary aggregate M3) reported BGN85.2 billion and increased by 7.7% y/y and their relative share in GDP was 81.2%. For the same period the Domestic credit increased by 6.4% y/y to BGN 53,7 billion

According BNB data in January 2018 broad money (monetary aggregate M3) increased annually by 7.7% compared to 7.7% annual growth in December 2017. At the end of January 2018 M3 was BGN 85.201 billion (81.2% of GDP³) compared to BGN 85.728 billion (86% of GDP) in December 2017. Its most liquid component – monetary aggregate M1 – increased by 16.9% annually in January 2018 (16.9% annual growth in December 2017). At the end of January 2018, deposits⁵ of the non-government sector⁶ were BGN 71.769 billion (68.4% of GDP), increasing annually by 5.9% (6.2% annual growth in December 2017). Deposits of Non-financial corporations were BGN 21.689 billion (20.7% of GDP) at the end of January 2018. Compared to the same month of 2017 they increased by 14.5% (13.8% annual growth in December 2017). Deposits of financial corporations decreased by 28% annually in January 2018 (26.9% annual decline in December 2017) and at the end of the month they reached BGN 2.490 billion (2.4% of GDP). Deposits of Households and NPISHs were BGN 47.591 billion (45.4% of GDP) at the end of January 2018. They increased by 4.8% compared to the same month of 2017 (5.4% annual growth in December 2017). Net domestic assets were BGN 52.857 billion at the end of January 2018. They increased by 7.8% compared to the same month of 2017 (8% annual growth in December 2017). At the end of the month their basic component – domestic credit – was BGN 53.702 billion and increased by 6.4% compared to January 2017 (6.7% annual growth in December 2017). In January 2018 claims on the non-government sector⁷ increased by 4.6% annually (4.5% annual increase in December 2017) reaching BGN 54.270 billion. At the end of January 2018, claims on loans to the non-government sector amounted to BGN 53.140 billion (50.7% of GDP) compared to BGN 52.926 billion (53.1% of GDP) at the end of December 2017. They increased annually by 4.8% in January 2018 (4.7% annual growth in December 2017). The change of loans to the non-government sector was influenced by net sales of loans by Other monetary financial institutions (Other MFIs) - their volume for the last twelve months was BGN 52.9 million. On an annual basis, loans sold⁸ by Other MFIs were BGN 123.9 million (of which BGN 1.3 million in January 2018), while the amount of repurchased loans was BGN 71 million (of which BGN 10.3 million in January 2018). In January 2018, loans to Non-financial corporations increased by 1.6% annually (1.6% annual growth in December 2017) and at the end of the month amounted to BGN 31.097 billion (29.6% of GDP). Loans to Households and NPISHs were BGN 19.741 billion (18.8% of GDP) at the end of January 2018. They increased by 6.1% compared to the same month of 2017 (6% annual growth in December 2017). At the end of January 2018 loans for house purchases were BGN 9.506 billion and increased by 8.2% annually (7.4% annual growth in December 2017). Consumer loans amounted to BGN 7.774 billion and compared to January 2017 they increased by 6.5% (5.8% annual growth in December 2017). On an annual basis other loans⁹ increased by 3.3% (15% annual growth in December 2017) and reached BGN 1.204 billion. Loans granted to financial corporations were BGN 2.301 billion at the end of January 2018 (2.2% of GDP). Compared to January 2017, they increased by 53% (54.1% annual growth in December 2017).



CAPITAL MARKET

According to BSE-Sofia in February 2018, the main index of BSE-Sofia registered a decrease of 3.69% to 686.43 points. In January 2018 SOFIX registered a growth of 5.21% to 712.73 points. The index of the most liquid companies BGBX 40 declined by 3.57% to 133.30 in February, while in January it rose by 4.72% to 138.23 points. Equally weighted BG TR30 dropped 2.38% to 557.97 points in February, while in January it recorded a growth of 2.81% to 571.59 points. Property manager BGREIT rose 0.96% to 116.52 in February, down 0.59% in January, to 115.41 points. In February 2018, First Investment Bank (587,400,000)

was among the 15 most liquid companies. Chimimport (BGN 560,772,265) followed by Sopharma (555,367,344 leva), Monbat (380,250,000 leva) and M + S hydraulics (324,158,160 leva). Following a change in the SOFIX base of September 18, the group of holdings in the index was increased by another and in February the issues of four of the five holding companies included in SOFIX are at a loss and only the issue of Stara Planina Hold is profitable (+0.63 %). The company with the highest turnover in February 2018 is Chimimport AD, with a volume of BGN 5,056,492. The second place is the only representative of the special investment purpose companies in the FairPlay Properties REIT with a total amount of BGN 1 910 725. The last position in the ranking is Sopharma AD with a total amount of BGN 837 837. With the smallest number of concluded deals in the ranking is Velgrass Asset Management AD-Sofia, and with the largest Chimimport AD. The most profitable company in February 2018 was Bulland Investments REIT, which achieved a growth of 22.22%. In second place is another representative of the special investment purpose companies - Roy Property Fund REIT with a growth of 17.65%. The other three companies registered one-digit growths, the lowest being at Alterco AD, which is also the last position in the ranking. Top 5 losers in February 2018 is headed by CEZ Electro Bulgaria AD with a two-digit drop of 13.08%. Alcomet AD is second with a decline of 11.92%. The third and fourth positions in the ranking are held by Bulgartabac-Holding AD and Neochim AD respectively. The last company in the ranking is CEZ Distribution Bulgaria AD, marking a one-digit drop of 9.42%.

BSE-Sofia 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	703.0	134.1	113.8	534.7
07.2017	715.2	135.5	115.0	548.7
08.2017	705.4	134.9	115.3	556.1
09.2017	668.1	134.3	114.9	559.3
10.2017	671.4	131.2	115.9	547.1
11.2017	665.0	130.5	114.0	574.9
12.2017	677.5	132.0	116.1	556.0
01.2018	712.7	138.2	115.4	571.6
02.2018	686.4	133.3	116.5	558.0

Source: Bulgarian Stock Exchange-Sofia

BANKING SECTOR

At the end of January 2018, the assets of the banking system amounted to BGN 96.5 billion, increasing by 1.1% m/m and by 5.9% y/y, respectively. Their relative share in GDP is 91.8%.

According to BNB data, in January 2018 the banking system realized BGN 116.9 million net profit, which increased by 24.1% y/y. Impairment costs on financial assets not reported at fair value through profit or loss at the end of January 2018 amounted to BGN 31.8 million (or 32.9% less on an annual basis).

Indicator (BGN'000)	Jan 2017	Jan 2018	Y/Y (%)
Interest Income	263 685	246 981	-6.3
Interest Expence	37 990	26 514	-30.2
Net interest Income	225 695	220 467	-2.3
Impairment	47 430	31 843	-32.9
Fee and commission income	83 111	95 831	15.3
Fee and commission expenses	11 091	14 663	32.2
Net fee and com mission income	72 020	81 168	12.7
Administration costs	124 764	131 320	5.3
Personal cost	63 839	70 033	9.7
Net operating income	289 720	300 438	3.7
Net Profit	94 242	116 914	24.1

Source:BNB, UBB's Calculations

At the end of January 2018, the assets of the banking system amounted to BGN 96.5 billion, increasing by 1.1% m/m and by 5.9% y/y, respectively. Their relative share in GDP is 91.8%. Gross loans and advances in January 2018 amounted to BGN 56.2 billion and increased by 3.1% y/y. On a monthly basis, their trend is negative at a level of -0.5%. Loans to non-financial corporations reported a monthly decline of 0.4%, while retaining the level on an annual basis to BGN 33.2 billion. At the end of January 2018, loans to households amounted to BGN 19.9 billion and grew by 6.6% y/y, with a monthly decline of 0.4%. Housing loans reported a monthly growth of 3.4% and an annual accelerating of 11.1%. Consumer loans declined by 2.8% m/m, but increased by 3.9% y/y. At the end of January 2018, the borrowed funds from customers in the banking system amounted to BGN 77.9 billion, increasing by 1.5% m/m and by 5.8% y/y. Deposits of non-financial institutions amounted to BGN 23.7 billion and increased by 13.7% y/y, down 0.2% on a monthly basis. Deposits of the households amounted to BGN 49.3 billion, which increased by 2% on a monthly basis and by 4.5% on an annual basis. Equity balance sheet item in January 2018 decreased to BGN 12.1 billion (1.8%) as a result of the decline in other comprehensive income, revaluation reserves and other reserves.

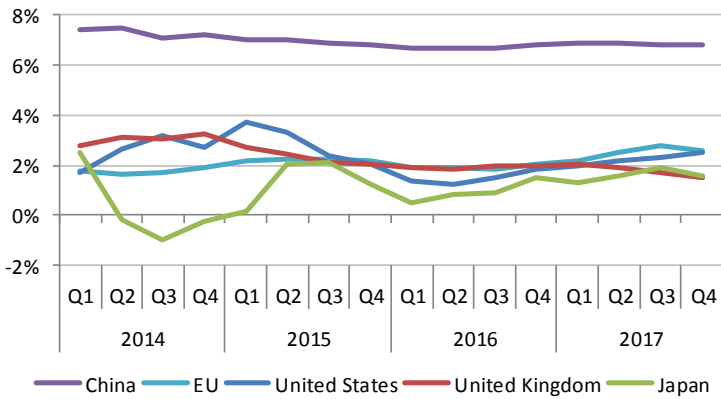
Bulgaria Intermediation Indicators	31.01.2017 BGN'000	31.12.2017 BGN 000	31.01.2018 BGN'000	Change m/m (%)	Change y/y (%)	Change yend (%)	Share in GDP (%)
BANKING SYSTEM TOTAL ASSETS	91 518 226	95 850 484	96 929 889	1.1	5.9	1.1	91.8
Loans to central governments	658 280	614 592	593 067	-3.5	-9.9	-3.5	0.6
Loans to non-financial corporations	33 195 483	33 516 791	33 206 378	-0.9	0.0	-0.9	31.4
Loans to financial corporations	1 981 430	2 352 930	2 494 165	6.0	25.9	6.0	2.4
Retail loans, incl.:	18 664 308	19 972 030	19 888 561	-0.4	6.6	-0.4	18.8
Mortgage loans	8 789 812	9 444 146	9 765 974	3.4	11.1	3.4	9.2
Consumer loans	8 663 738	9 264 095	9 000 627	-2.8	3.9	-2.8	8.5
Micro credits and other loans	1 210 378	1 263 789	1 121 960	-11.2	-7.3	-11.2	1.1
TOTAL LOANS	54 499 501	56 456 343	56 182 171	-0.5	3.1	-0.5	53.2
ATTRACTED SOURCES FROM CLIENTS, incl.:	73 604 069	76 747 619	77 887 823	1.5	5.8	1.5	73.8
Local government deposits	1 784 376	1 824 421	2 143 210	17.5	20.1	17.5	2.0
Non-financial corporations deposits	20 827 992	23 709 705	23 671 650	-0.2	13.7	-0.2	22.4
Financial corporations deposits	3 789 166	2 842 120	2 730 552	-3.9	-27.9	-3.9	2.6
Households and NPISHs deposits	47 202 535	48 371 373	49 342 411	2.0	4.5	2.0	46.7
Equity	12 238 979	12 468 136	12 242 650	-1.8	0.0	-1.8	11.6
Net profit (annualised)	94 242	1 088 190	116 914		24.1		
BANKING INDICATORS (%)							
ROE	9.2	9.5	11.5	-1.2	0.4	-1.2	
ROA	1.2	1.2	1.4	-0.1	0.1	-0.1	
Capital adequacy	n.a.	22.1	n.a.				
Liquidity	37.9	37.1	n.a.	-0.4	1.1	-0.4	
NPL	n.a.	8.4	n.a.				
GDP, BGN '000	96 800 000	99 624 000	105 609 000				
EUR/BGN	1.95583	1.95583	1.95583				

Source: BNB, MF, UBB Calculations

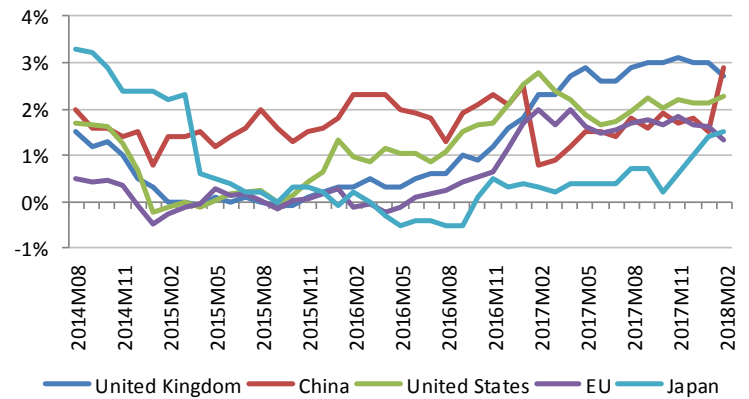
As of 31 December 2017, the capital adequacy ratios of the banking system did not change significantly. The total amount of risk exposures (BGN 52.1 billion at the end of the period) determined the slight decrease in Tier 1, Tier 1 and Total Capital Adequacy ratios to 20.41%, 20.86% and 22.08% as at 31 December 2017 (20.53%, 20.99% and 22.20% at the end of September 2017).

Appendix

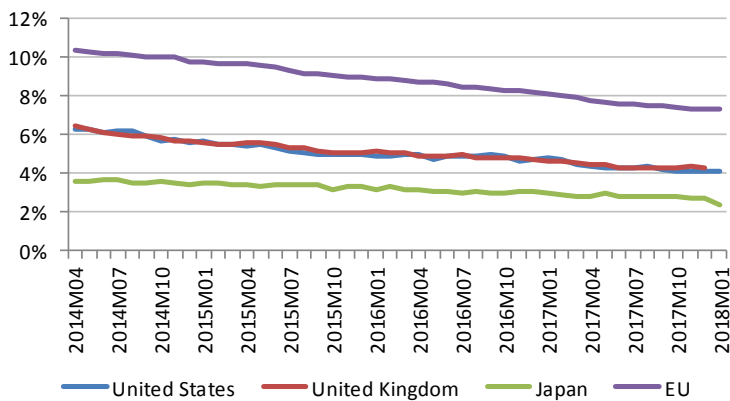
Advanced Economies: GDP growth rate compared to the same quarter of the previous year



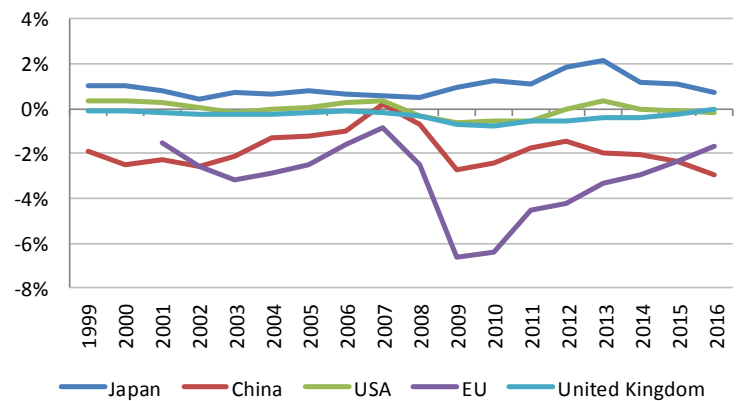
Advanced economies: Inflation by country, monthly (y/y)



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

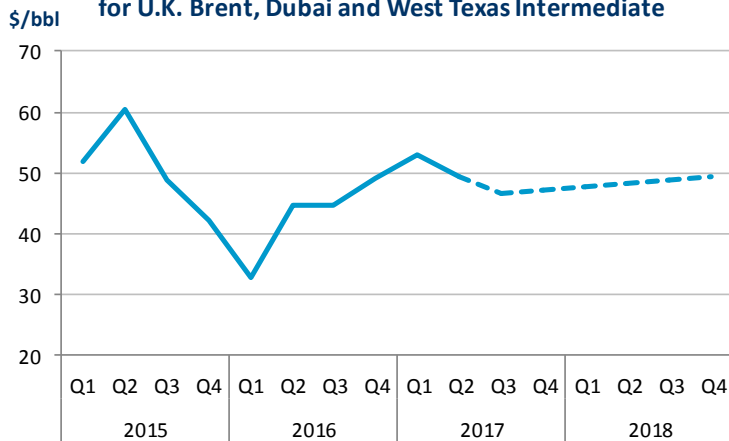


Advanced economies: Budget surplus/deficit to GDP (%)

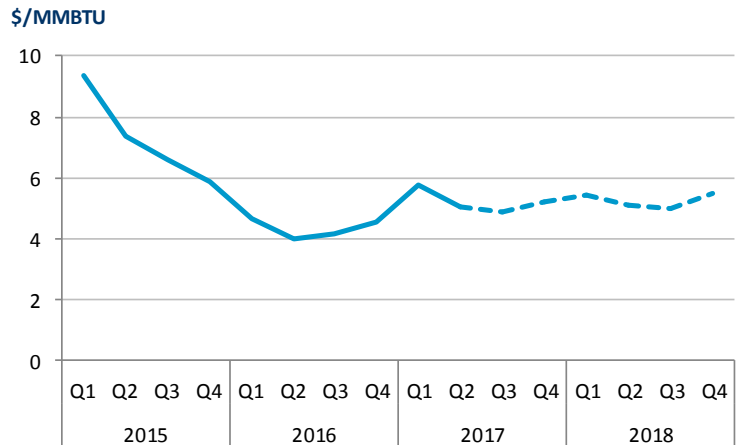


Overseas Prices of Oil Products

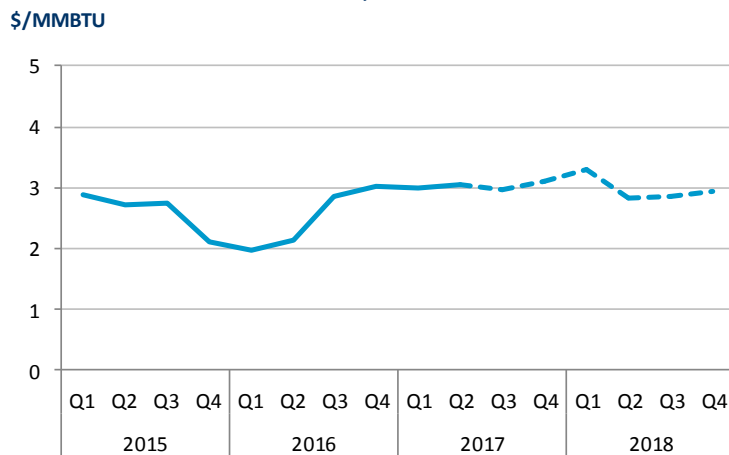
Spot Crude: Petroleum price - average of spot prices for U.K. Brent, Dubai and West Texas Intermediate



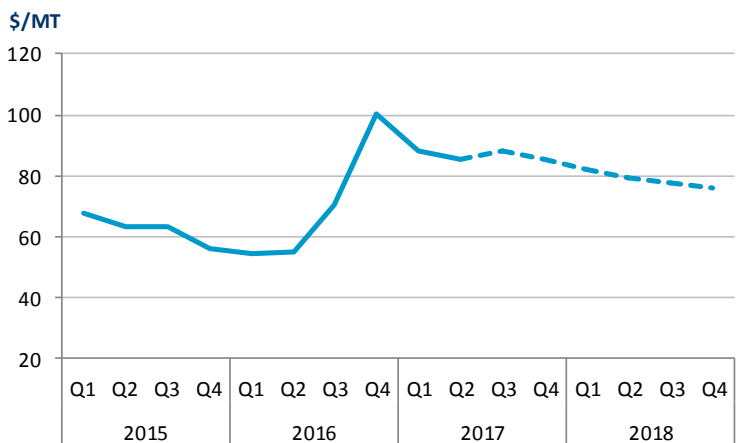
Natural Gas: Russian in Germany



Natural Gas: US, domestic market

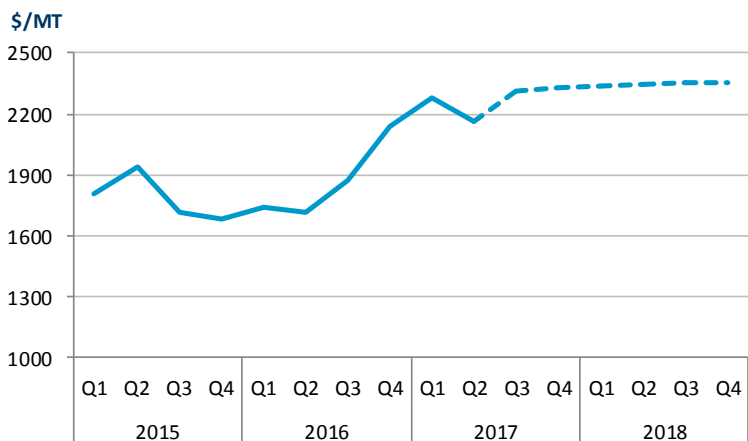


Coal: Australian, export markets

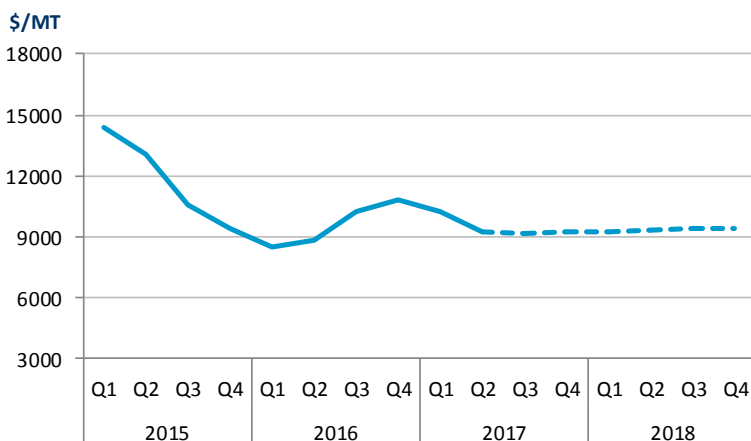


Overseas Prices of Metals

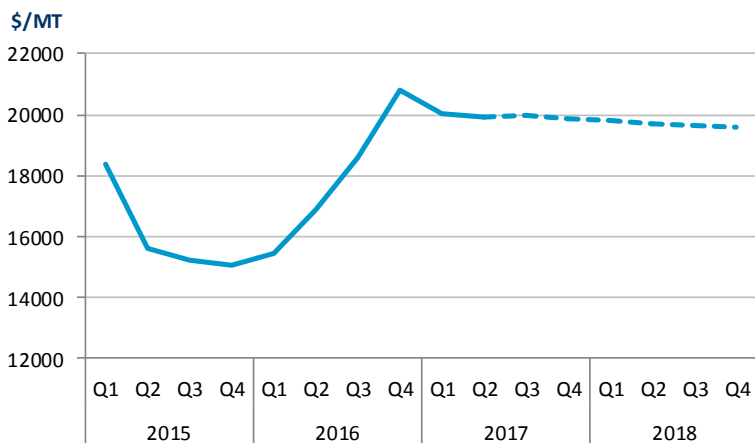
Lead



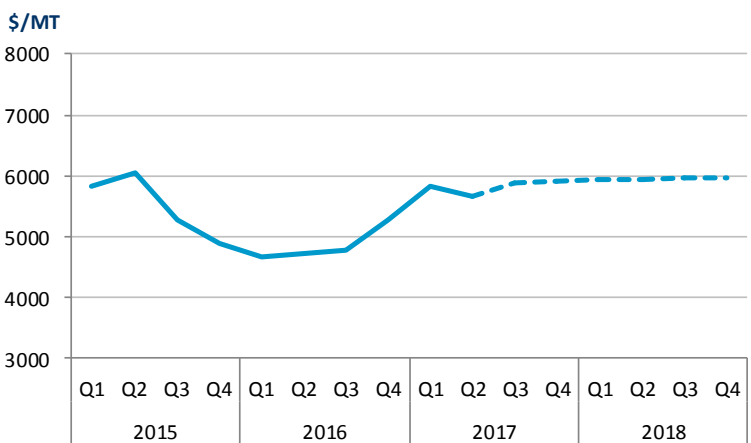
Nickel



Tin

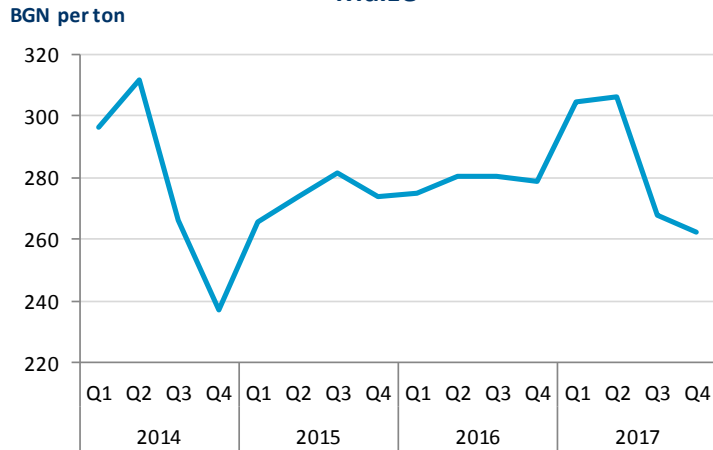


Copper

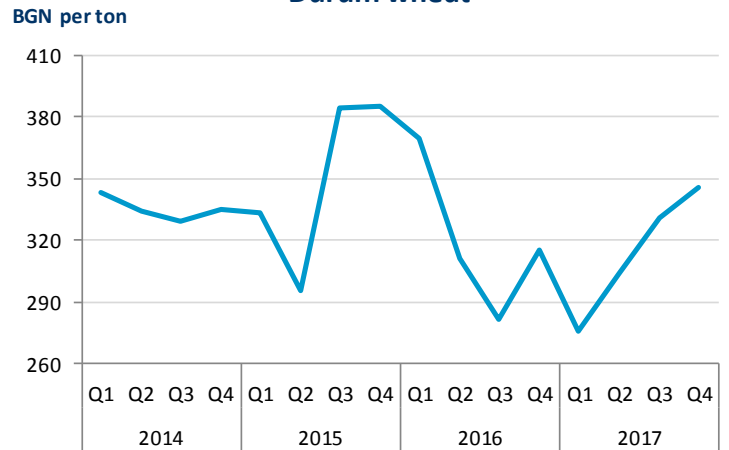


Bulgaria: Prices of Agriculture products

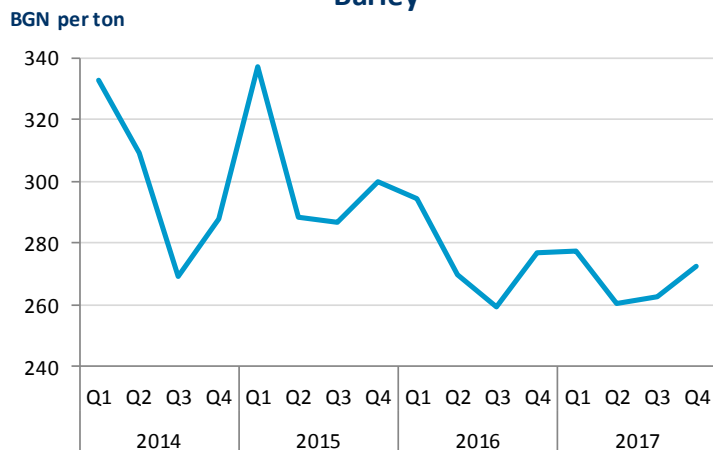
Maize



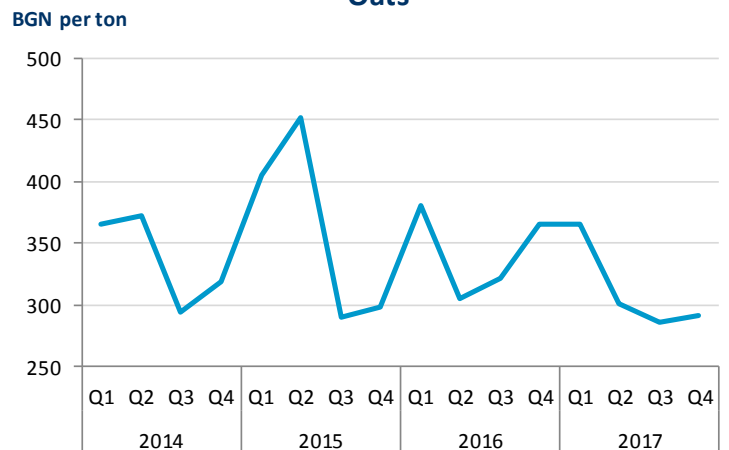
Durum wheat



Barley

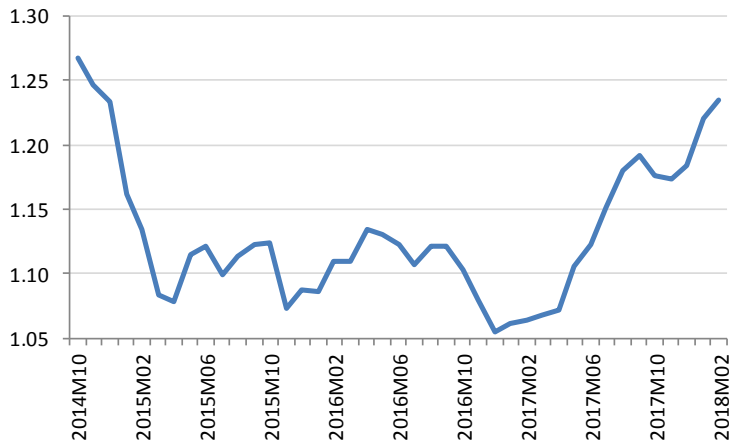


Oats

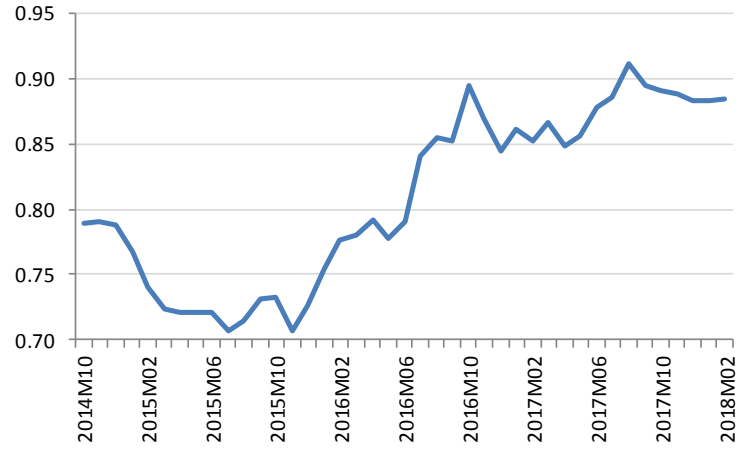


Overseas FX Rates

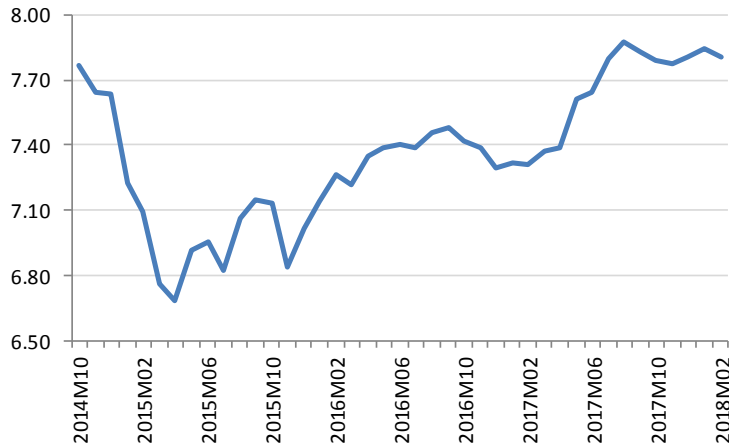
EUR/USD



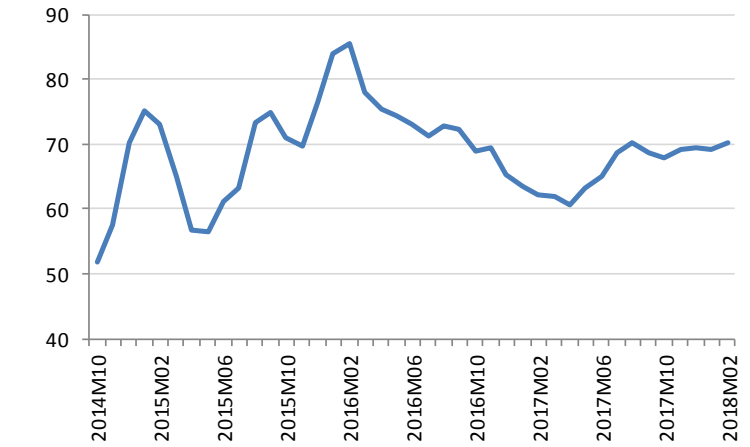
EUR/GBP



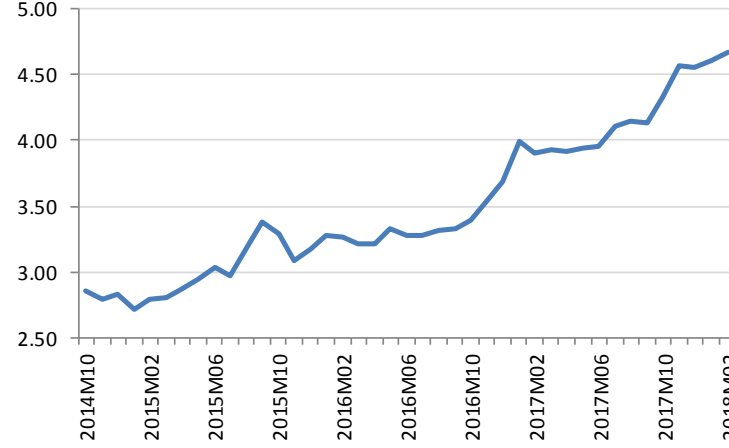
EUR/CNY



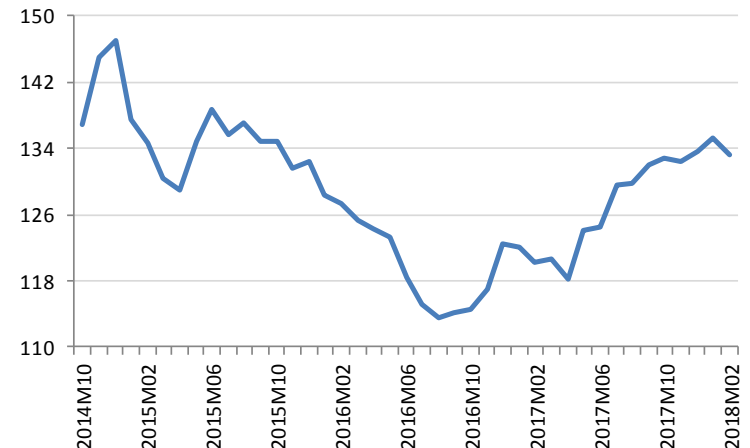
EUR/RUB



EUR/TRY

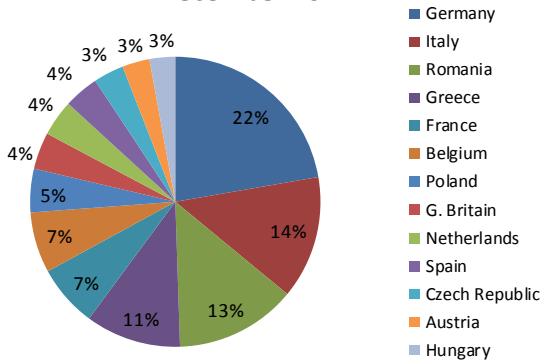


EUR/JPY

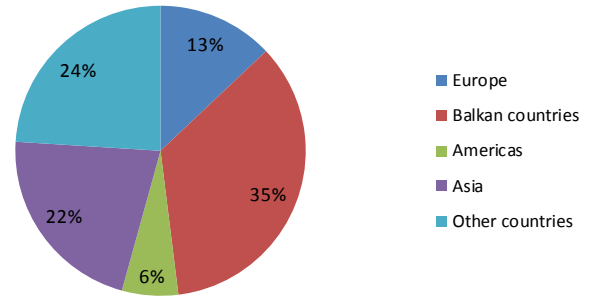


Bulgaria: External Sector Indicators

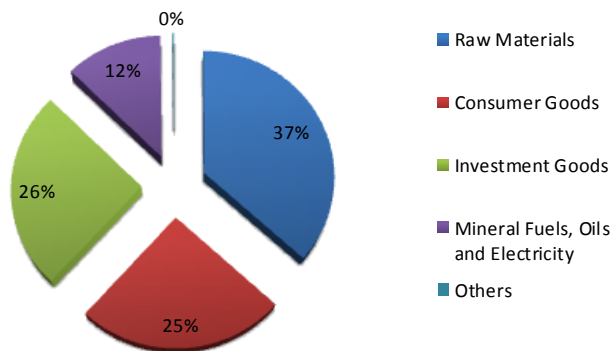
Exports: FOB by EU countries: January - December 2017



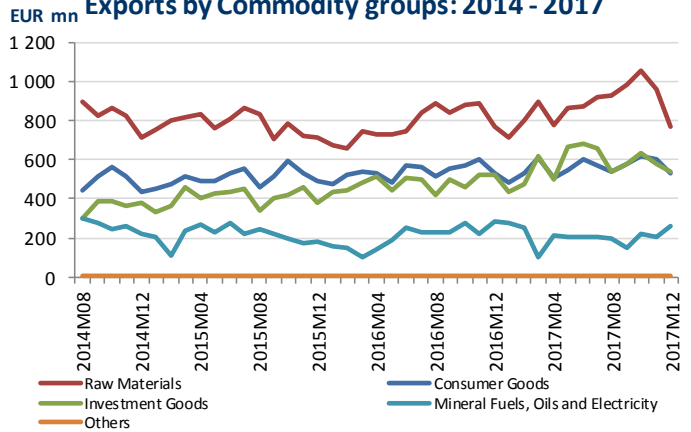
Exports: FOB by Non EU countries: January - December 2017



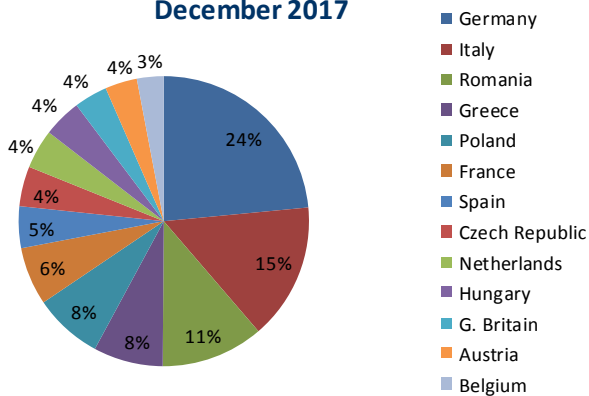
Exports: FOB: Commodity groups - percentage shares for December 2017



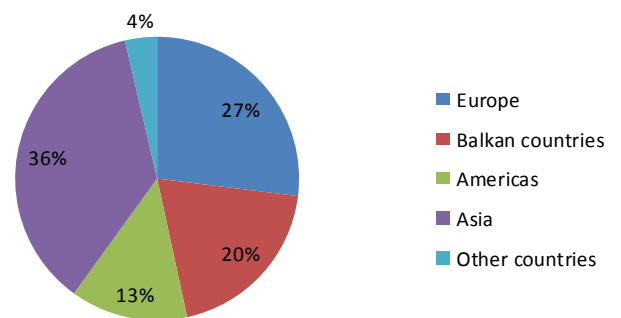
Exports by Commodity groups: 2014 - 2017



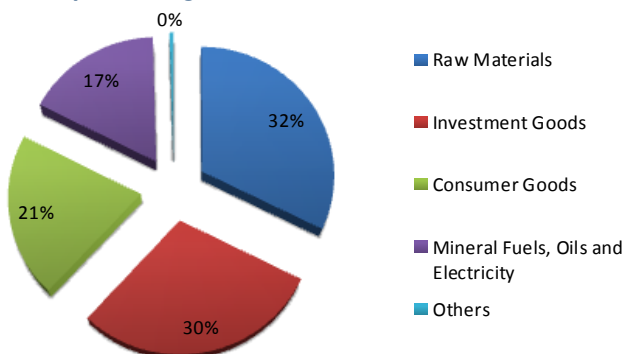
Imports: CIF by EU Countries: January - December 2017



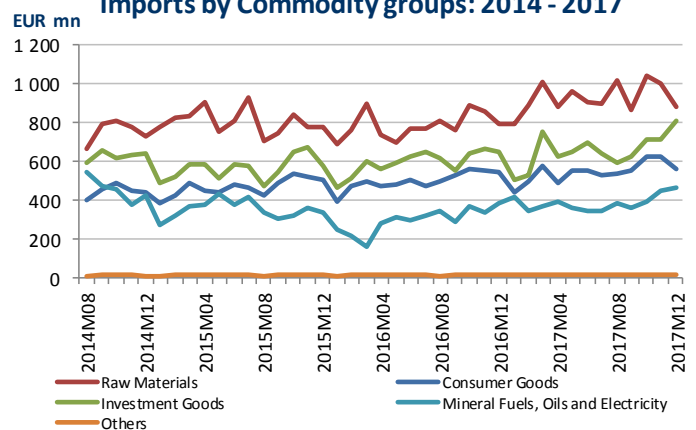
Imports: CIF by Non EU Countries: January - December 2017



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

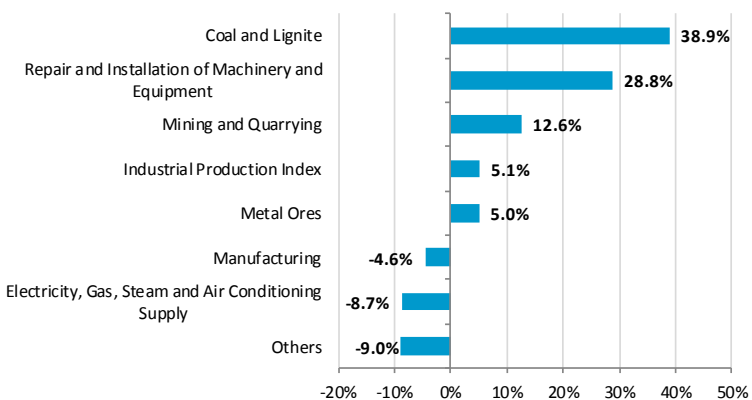


Imports by Commodity groups: 2014 - 2017

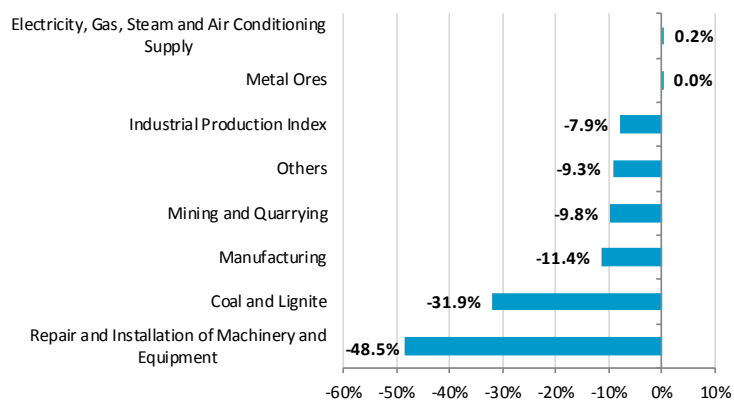


Bulgaria: Real Sector Indicators

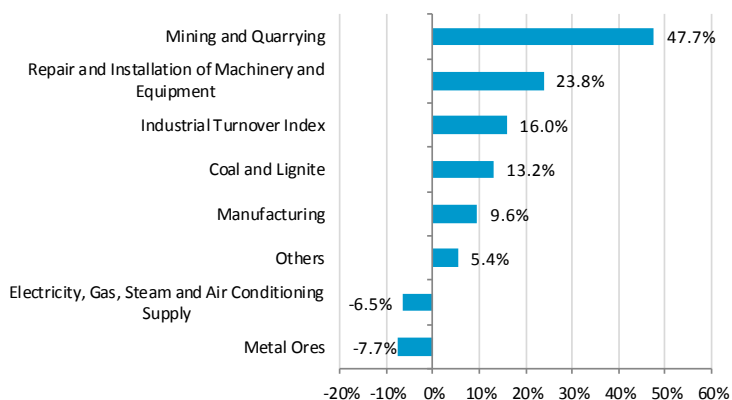
Industrial Production Index: % change in January 2018 compared to January 2017



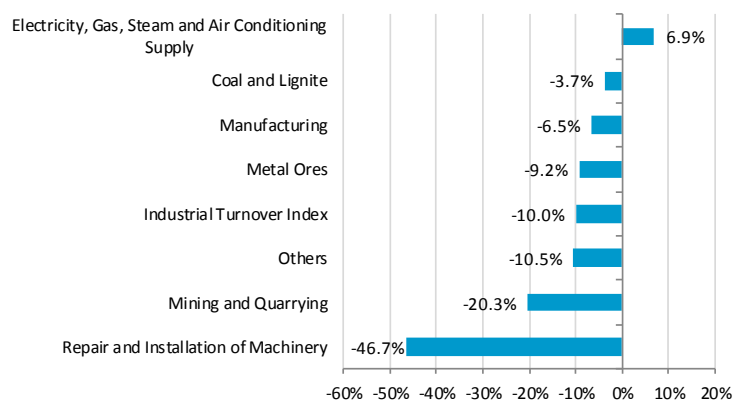
Industrial Production Index: % change in January 2018 compared to December 2017



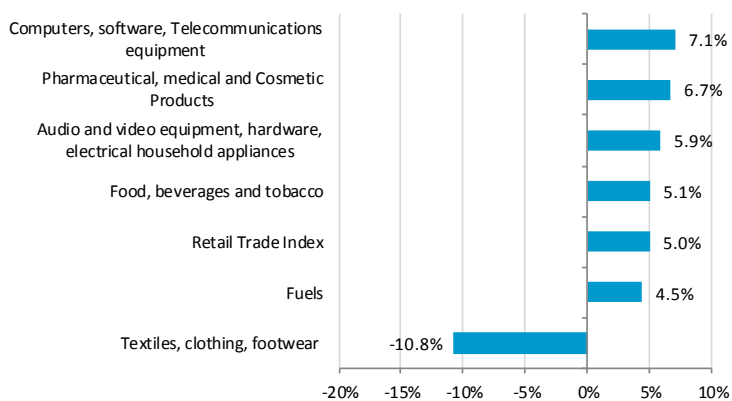
Industrial Turnover Index: % change in January 2018 compared to January 2017



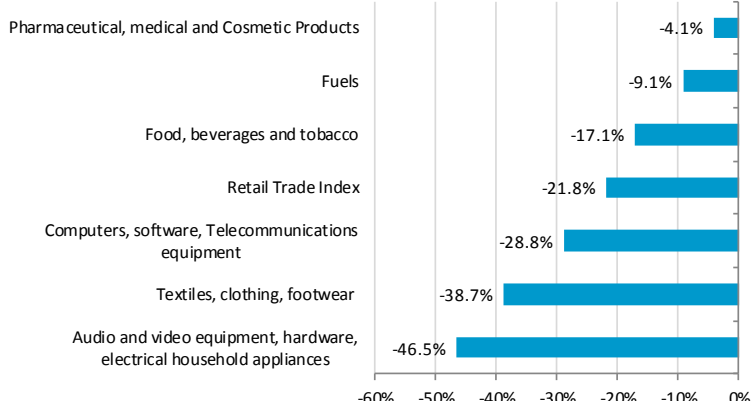
Industrial Turnover Index: % change in January 2018 compared to December 2017



Retail Trade Index: % change in January 2018 compared to January 2017

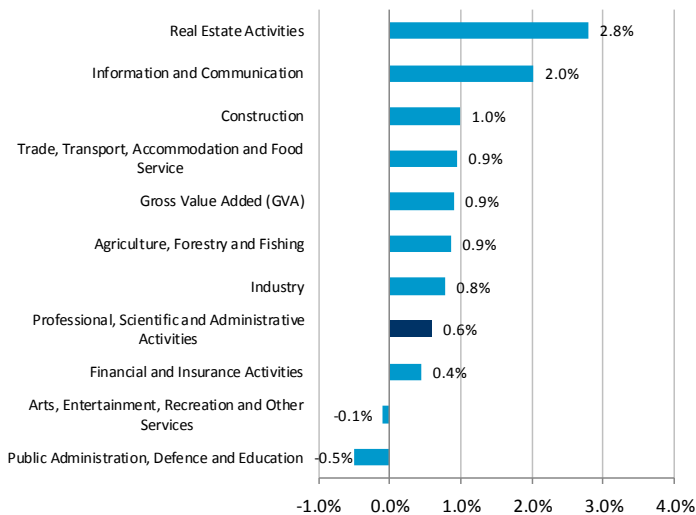


Retail Trade Index: % change in January 2018 compared to December 2017

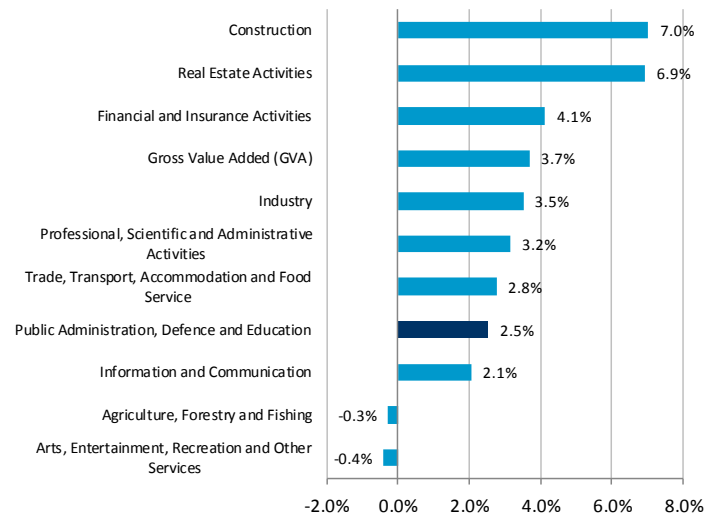


Bulgaria: Real Sector Indicators

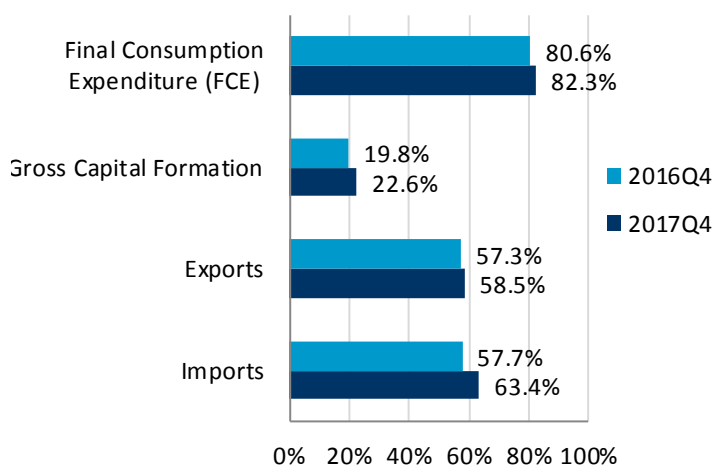
Gross Value Added by Economic Sectors: Percentage Change of Q4 2017 compared to Q3 2017



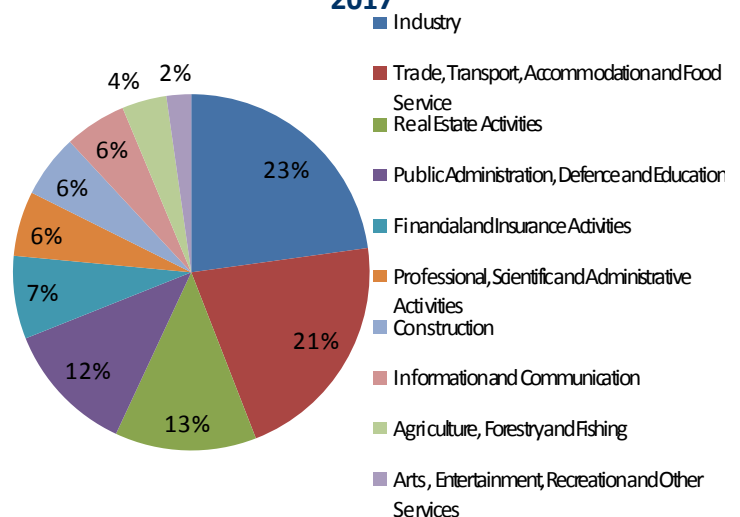
Gross Value Added by Economic Sectors: Percentage change of Q4 2017 compared to Q4 of 2016



Structure of GDP by the expenditure approach for Q4 in 2016 and 2017

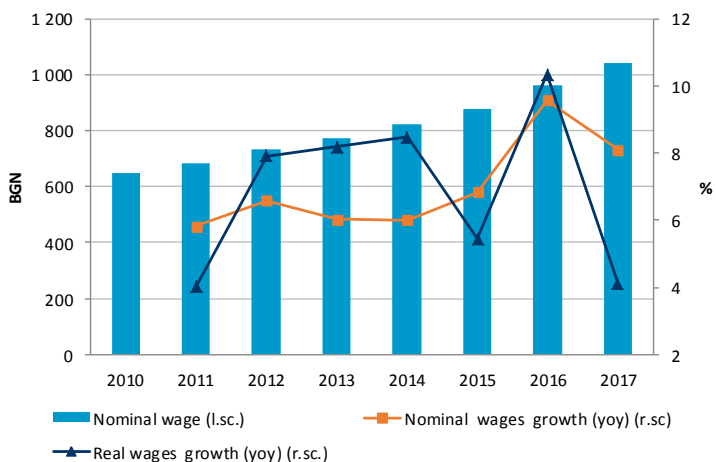


Bulgaria: Industries' relative share to GVA for Q4 2017

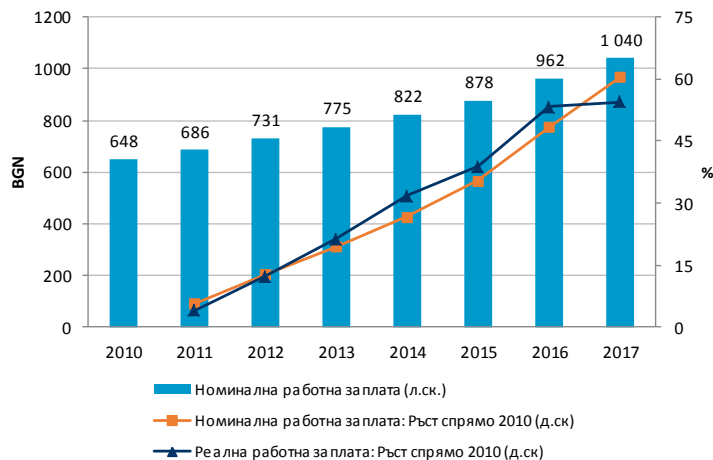


Bulgaria: Real Sector Indicators

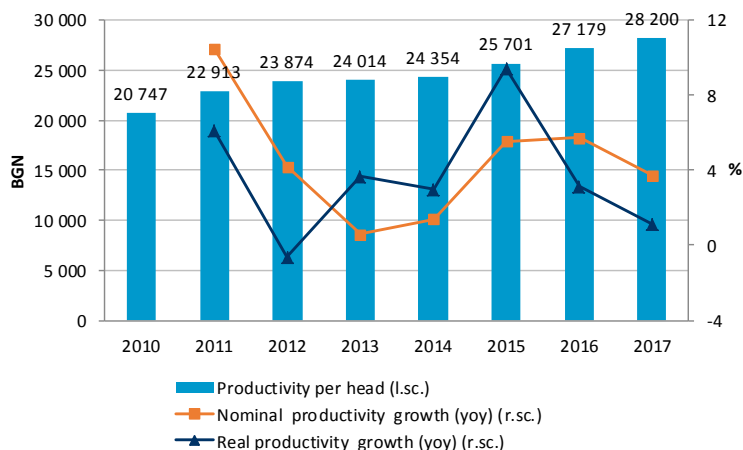
Nominal and Real Wage Dynamics: YoY (%)



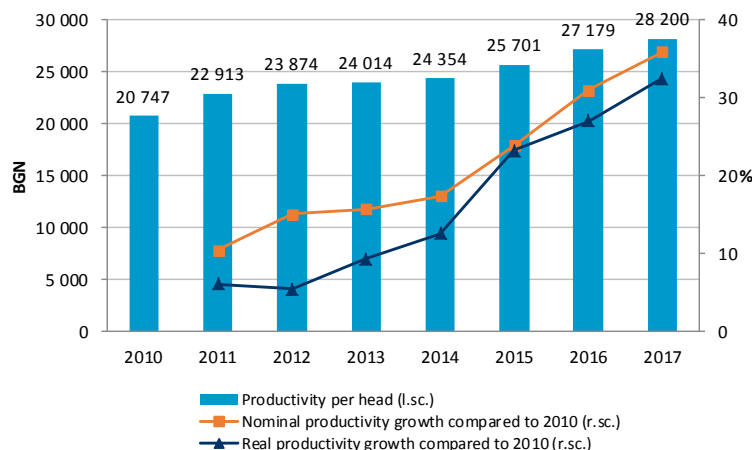
Nominal and Real Wage Dynamics compared to 2010 (%)



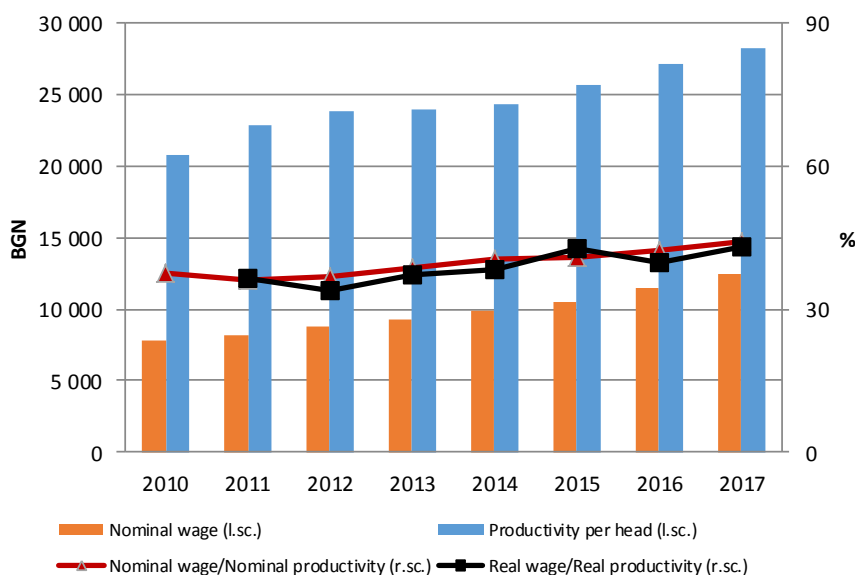
Nominal and Real Productivity per Head Dynamics, YoY (%)



Nominal and Real Productivity Dynamics compared to 2010 (%)

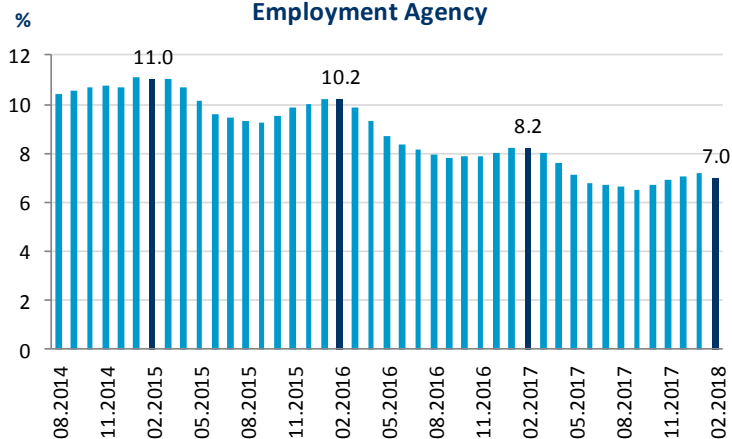


Average Wage to Productivity Ratio Dynamics, YoY (%)

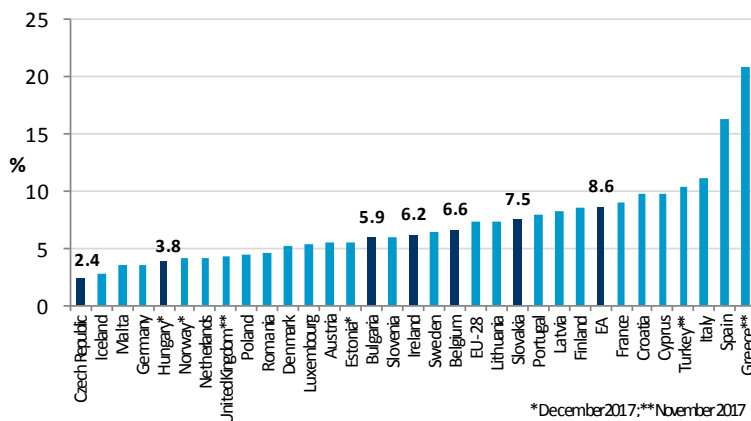


Bulgaria: Real Sector Indicators

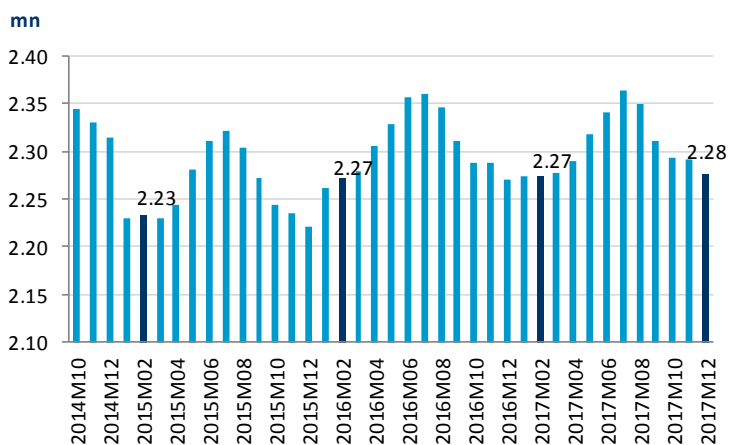
Registered Unemployment Rate: National Employment Agency



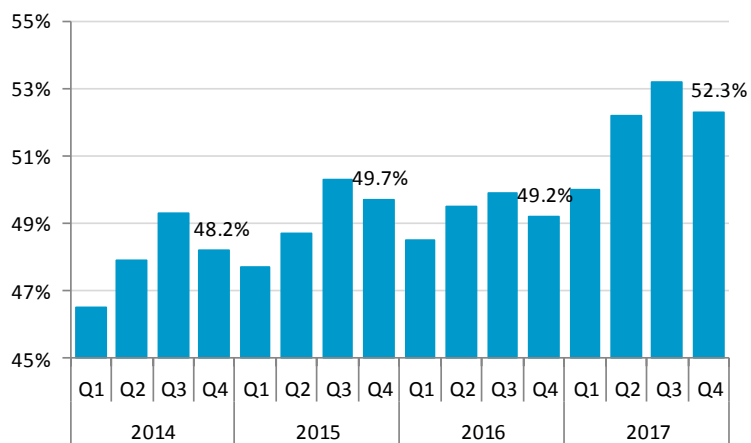
EU: Unemployment rate seasonally adjusted by country, January 2018



Bulgaria: Number of Employees

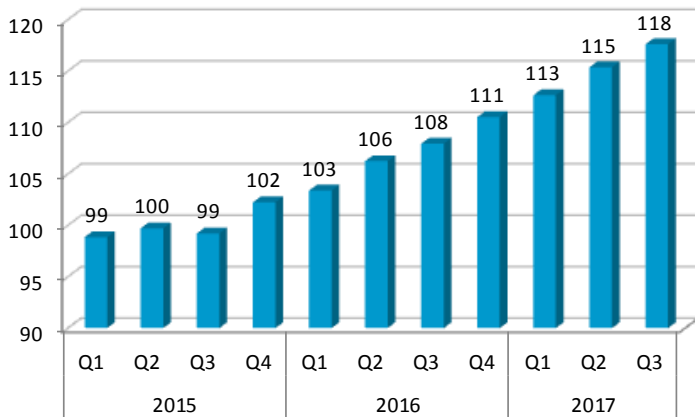


Bulgaria: Employment Rate

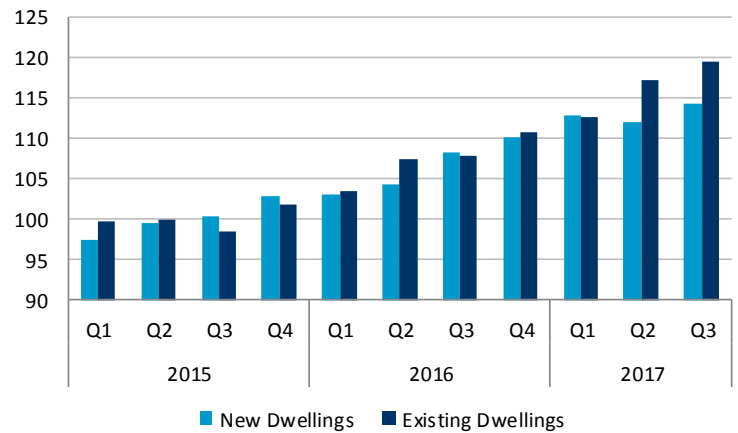


Bulgaria: Real Sector Indicators

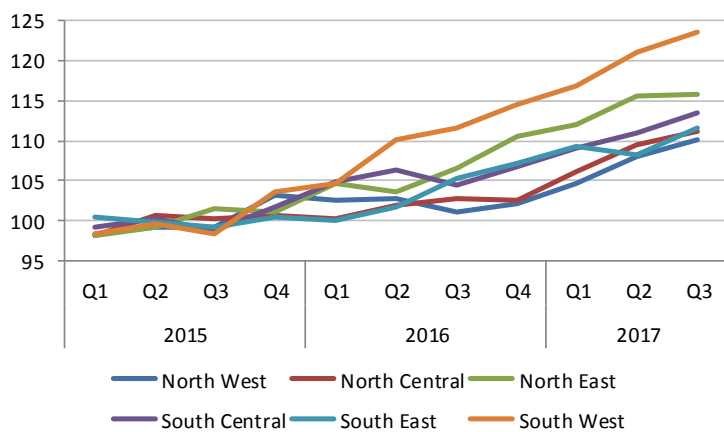
House Price Index (HPI)



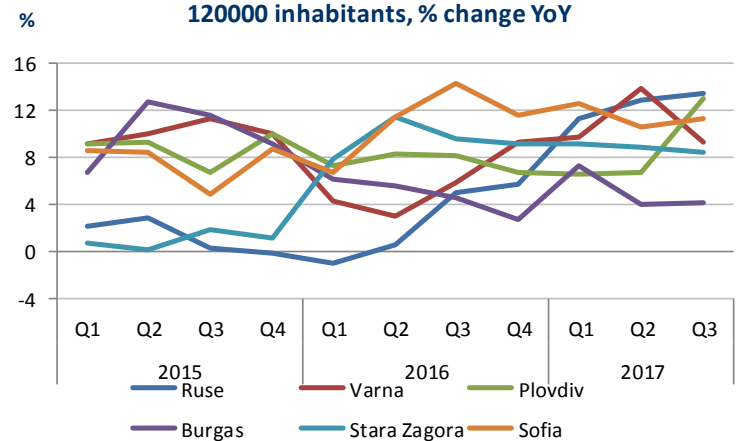
HPI: New and existing dwellings



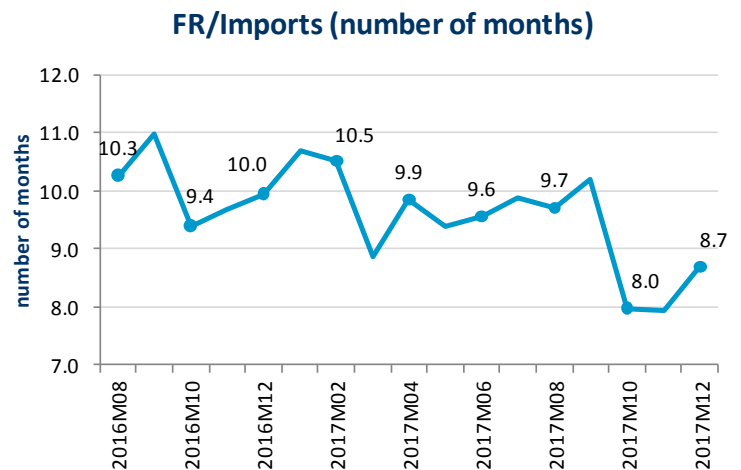
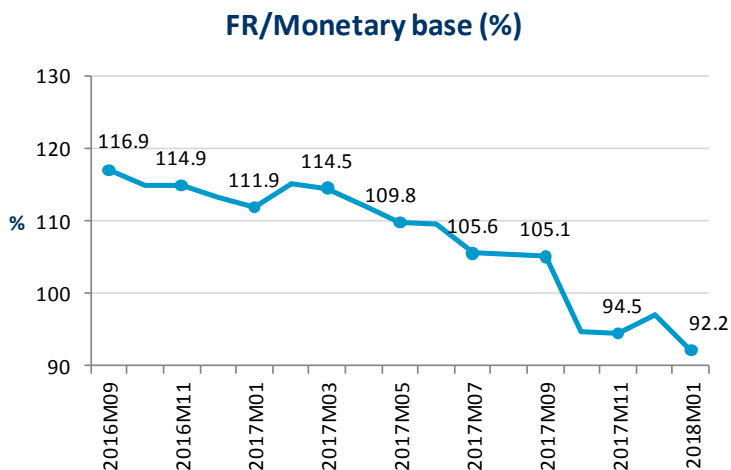
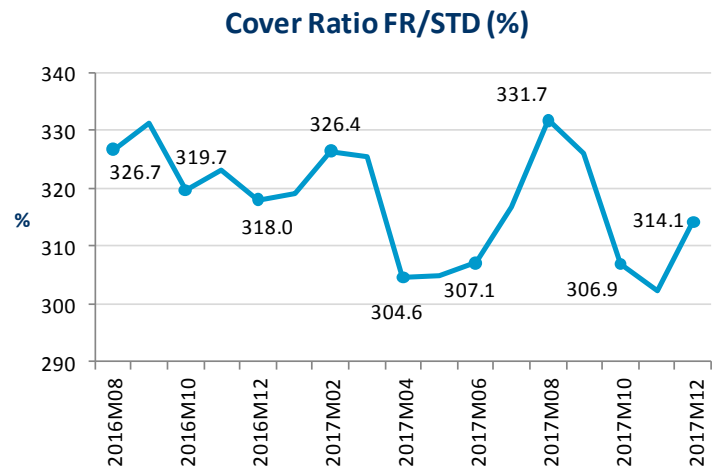
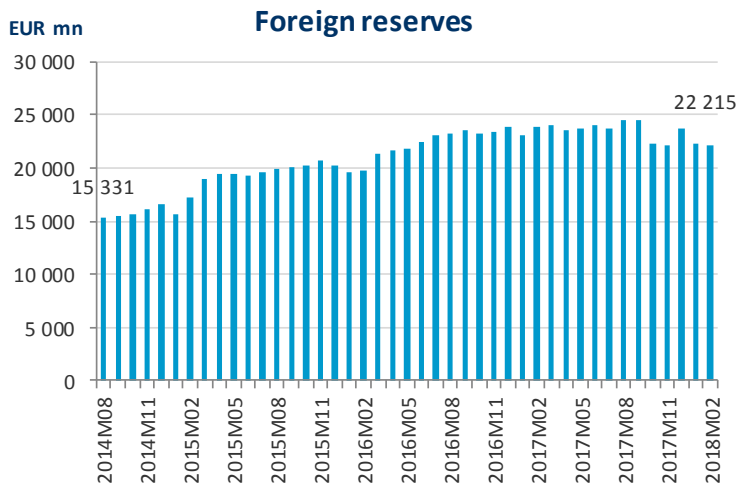
House Price index by regions



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

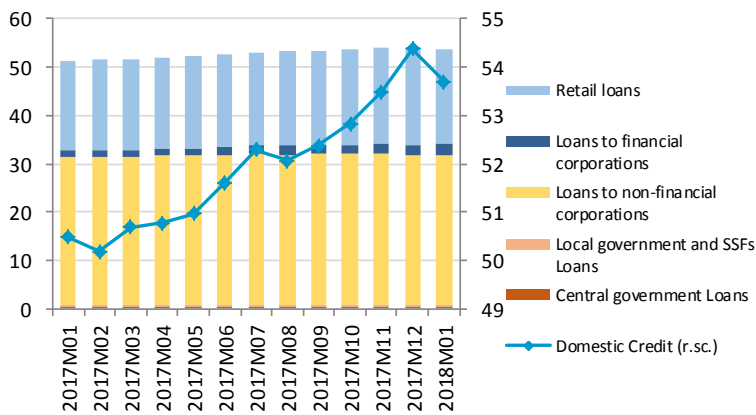


Bulgaria: Monetary Sector Indicators

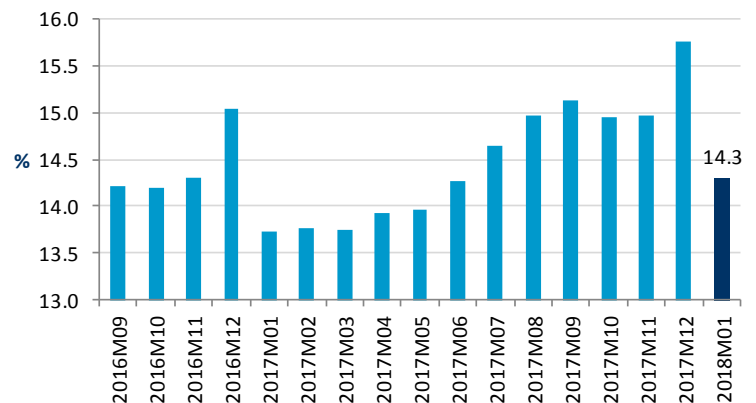


Bulgaria: Monetary Sector Indicators

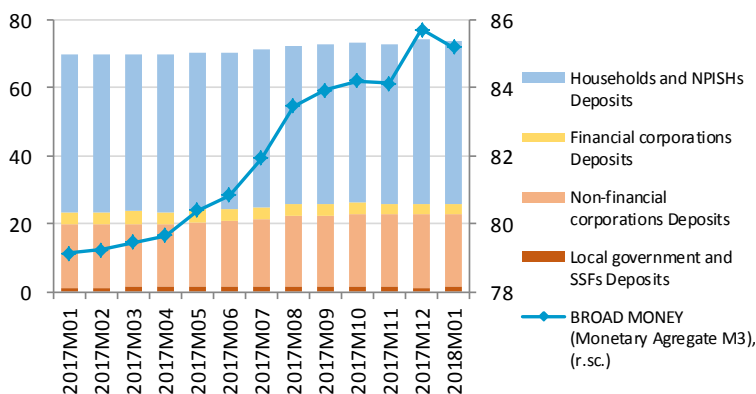
Loans and Domestic Credit (BGN bn)



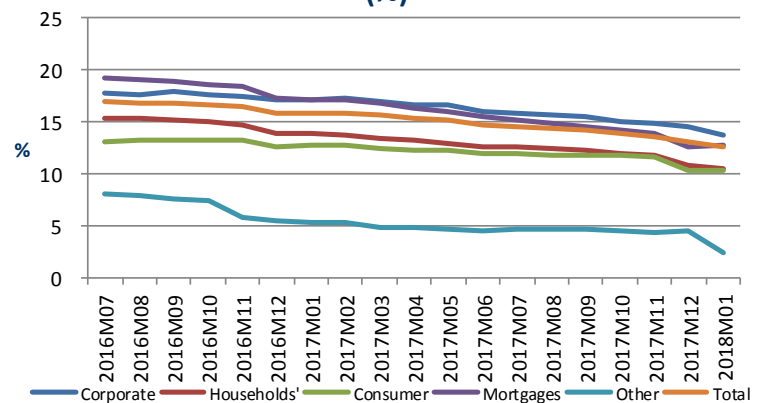
Money in circulation/GDP (%)



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

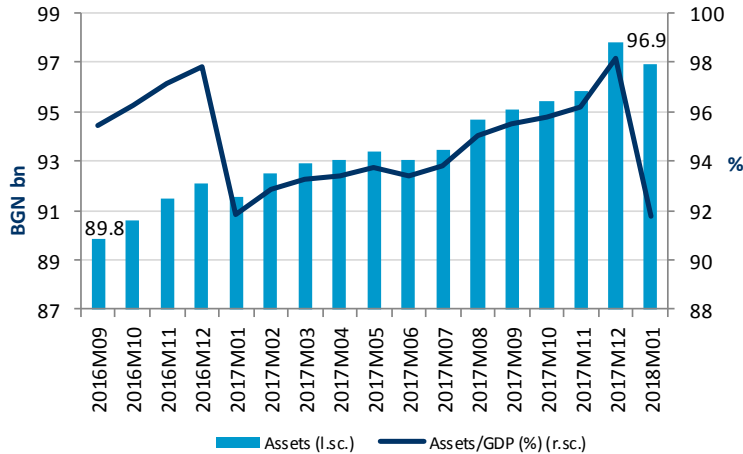


Banking sector: Bad and restructured loans (%)

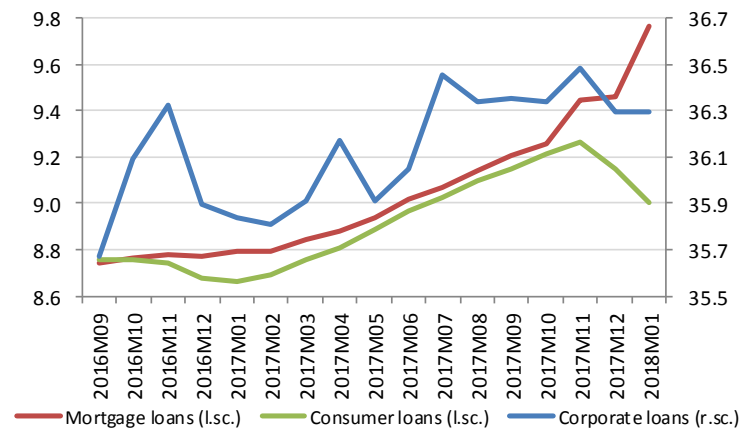


Bulgaria: Banking Sector Indicators

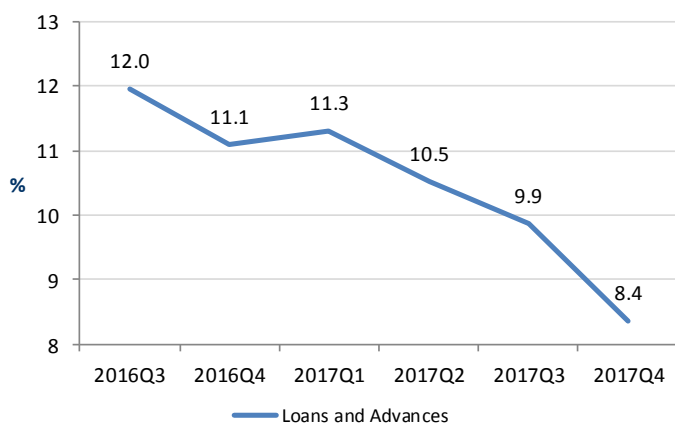
Assets



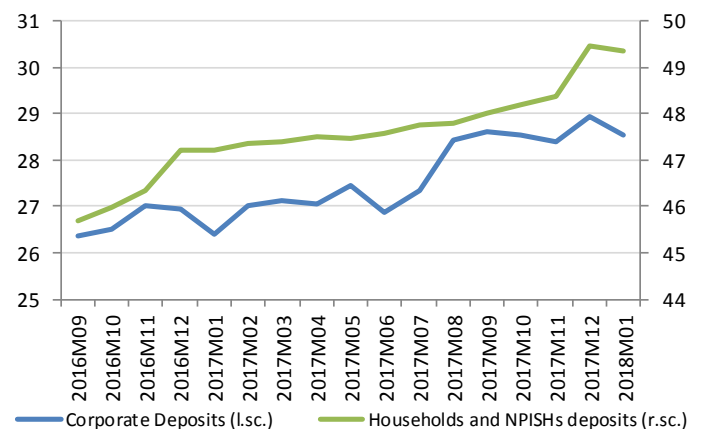
Loans (BGN bn)



Banking System Non Performing Loans (%)

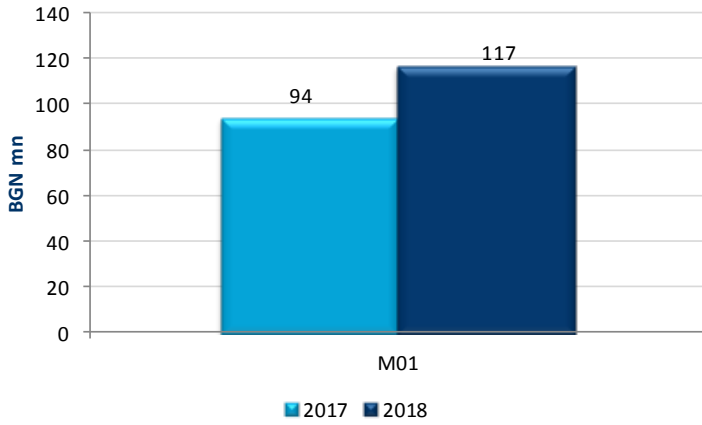


Deposits (BGN bn)

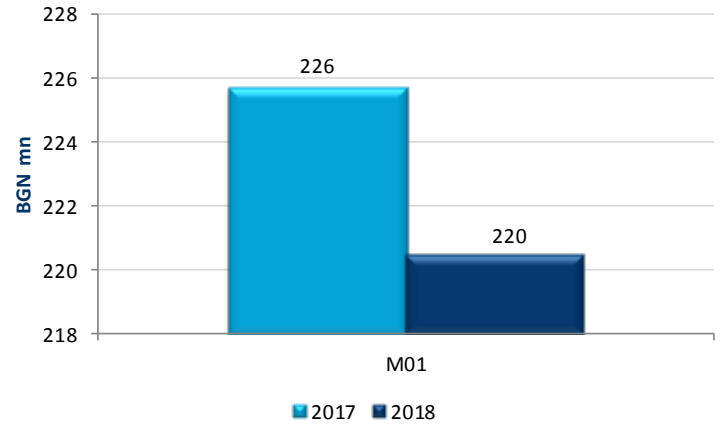


Bulgaria: Banking Sector Indicators

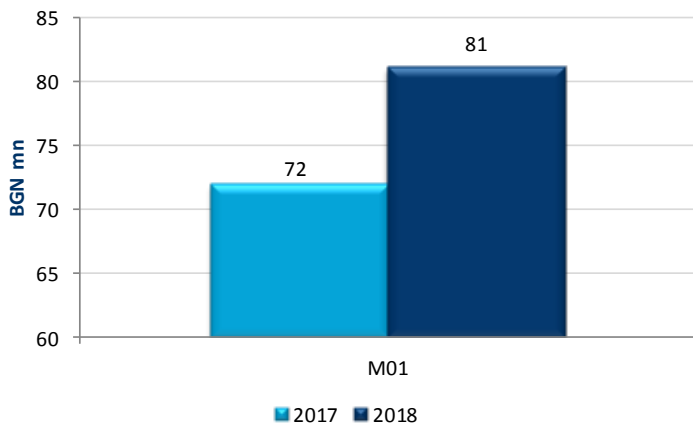
Net Profit



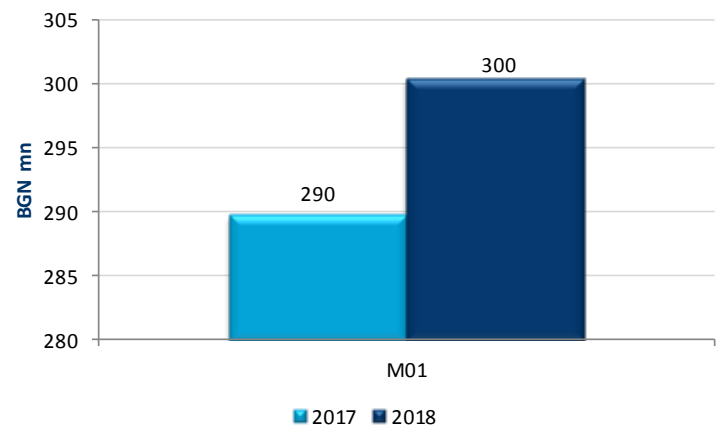
Net interest Income



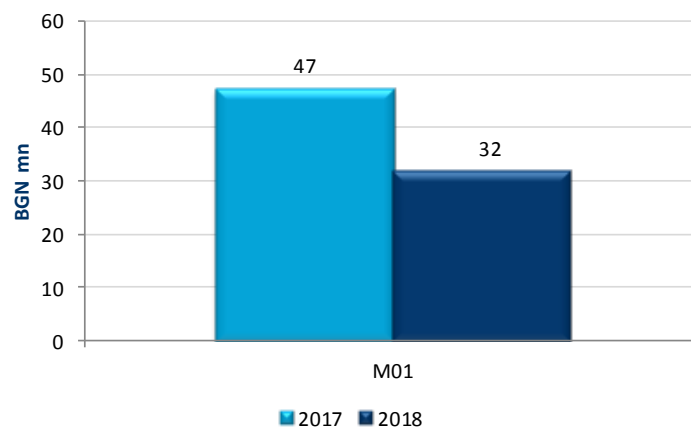
Net fee and commission income



Net operating income

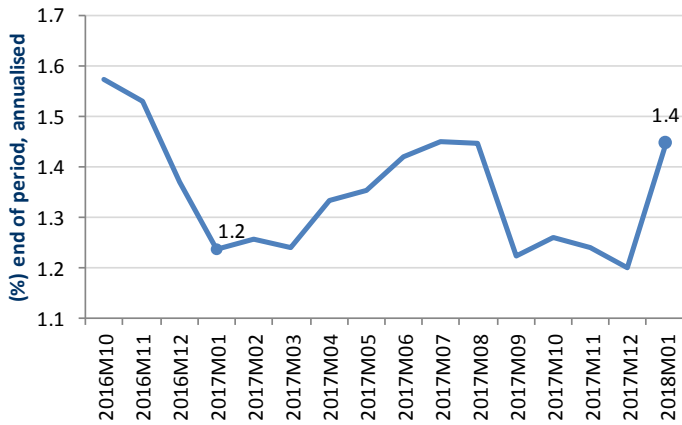


Impairment

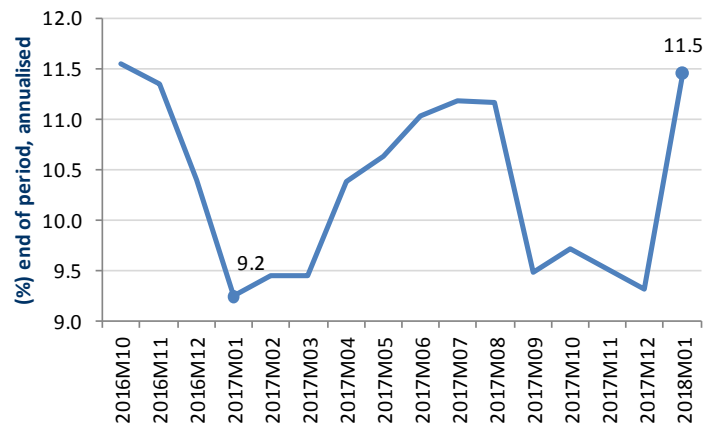


Bulgaria: Banking Sector Indicators

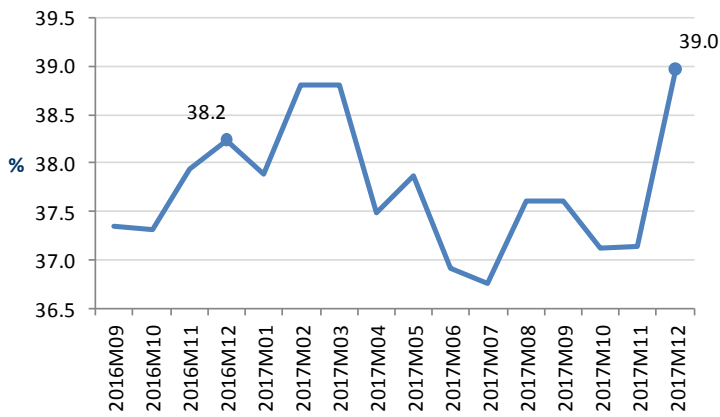
ROA



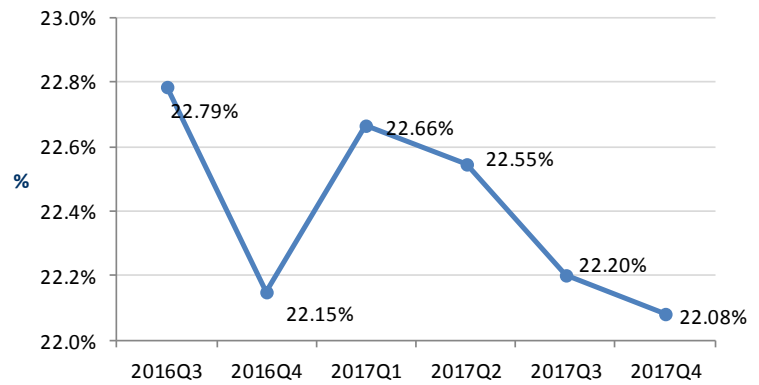
ROE



Liquid Assets Ratio (LAR)



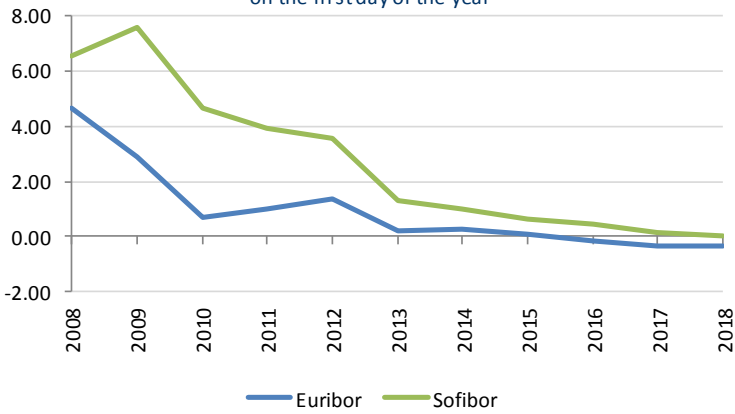
Total Capital Ratio



Bulgaria: Indexes and Interest Rates

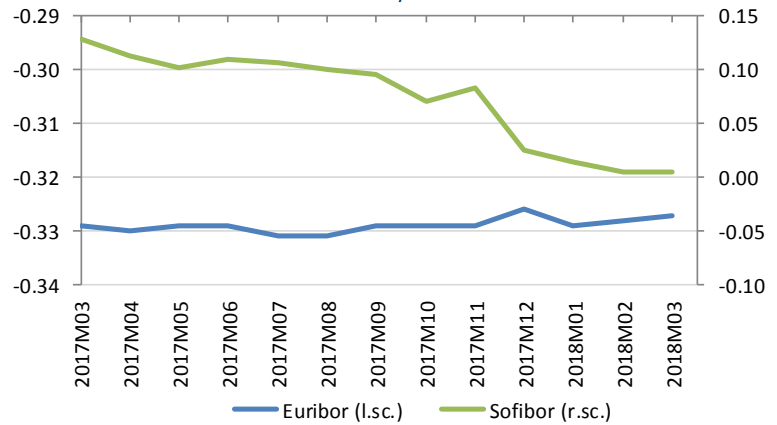
Indexes 3-months

on the first day of the year

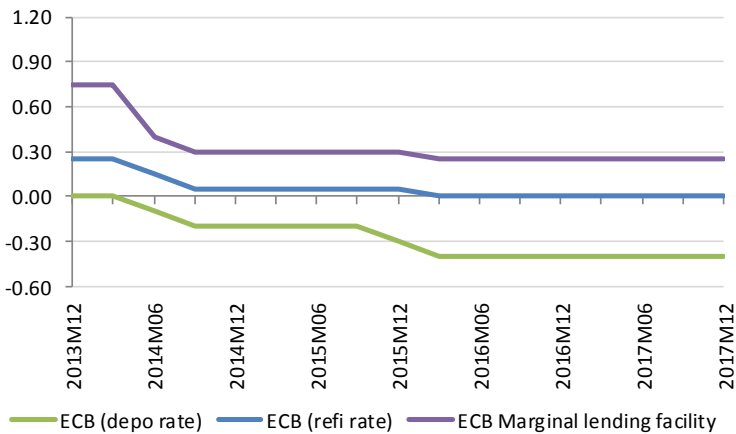


Indexes 3-months

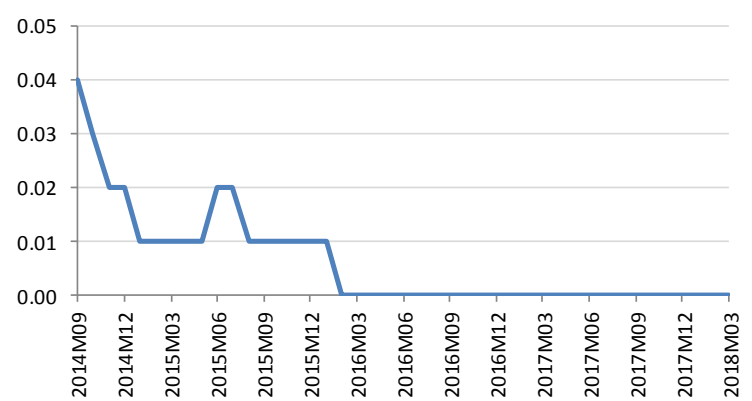
on the first day of the month



Policy Rates (in %)

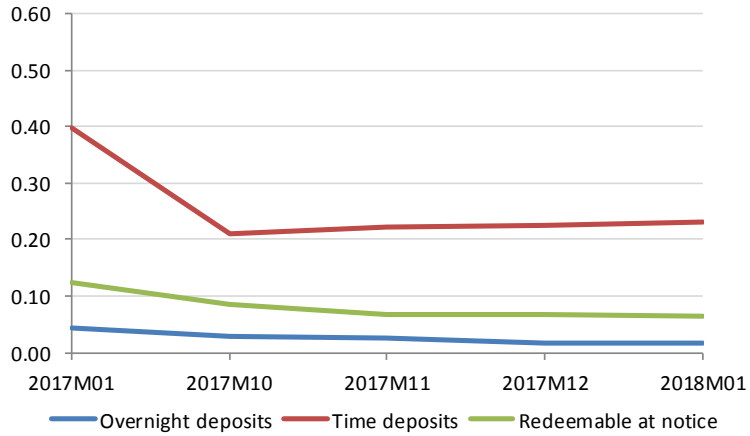


Base Interest Rate of the BNB (in %)

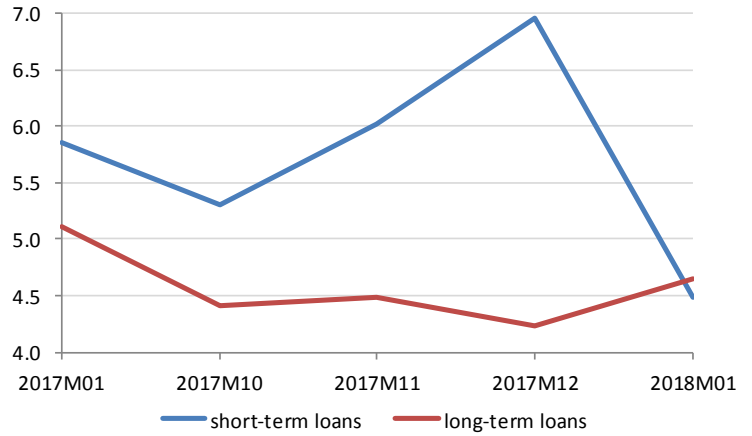


Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates

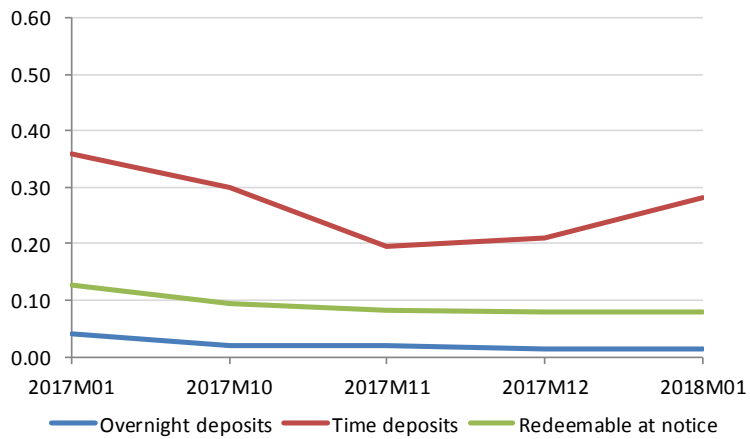
Interest Rates (%) in BGN



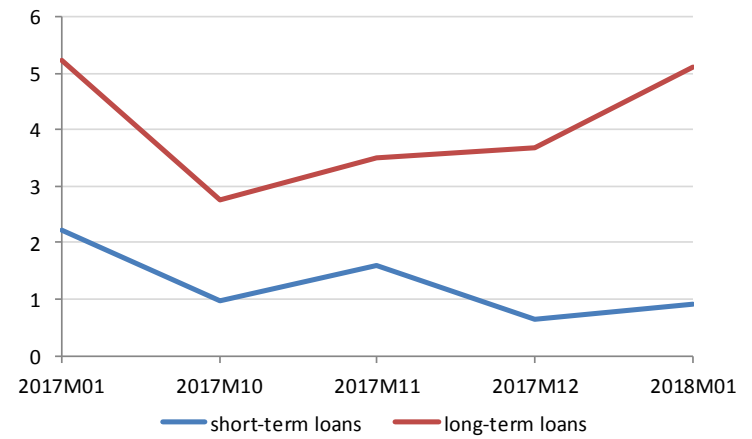
Interest Rates (%) in BGN



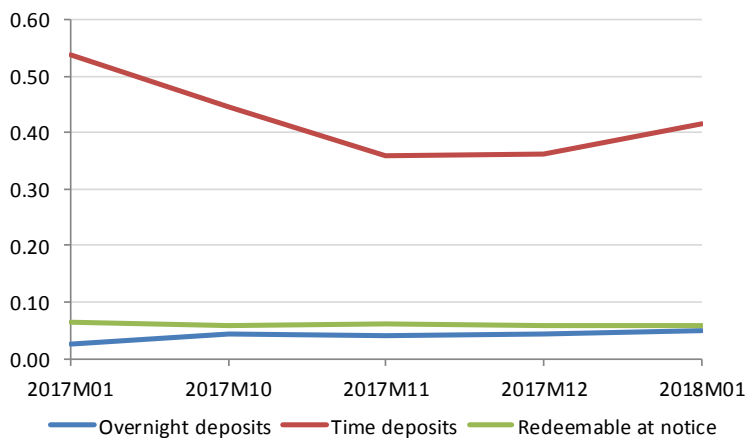
Interest Rates (%) in EUR



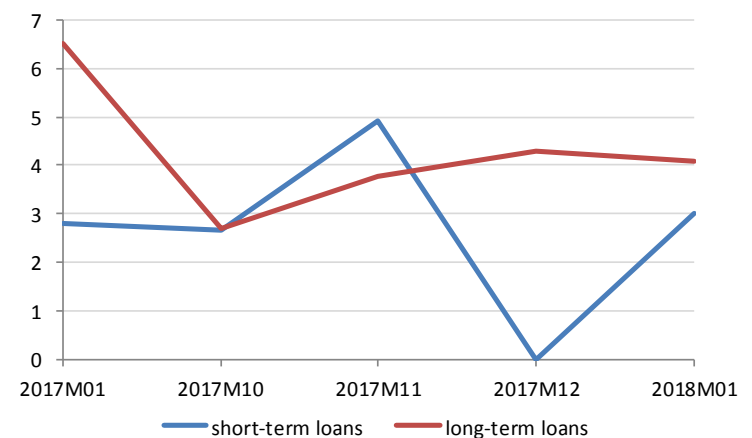
Interest Rates (%) in EUR



Interest Rates (%) in USD

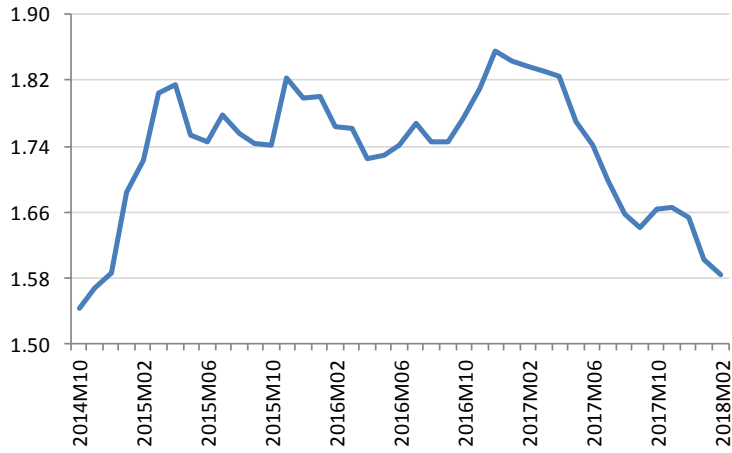


Interest Rates (%) in USD

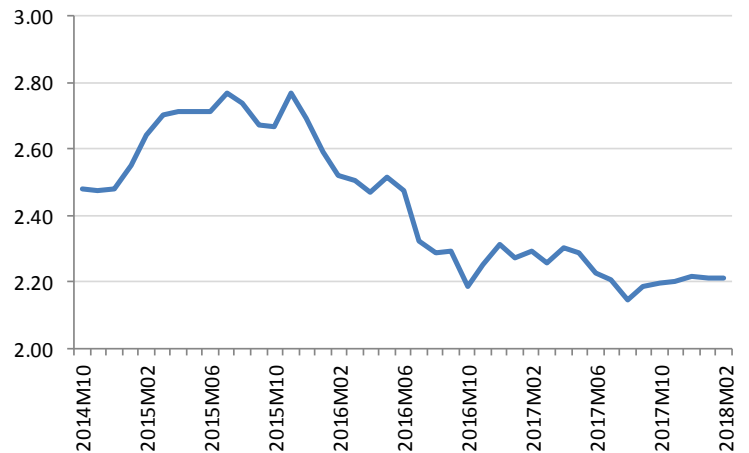


Bulgaria: FX Rates

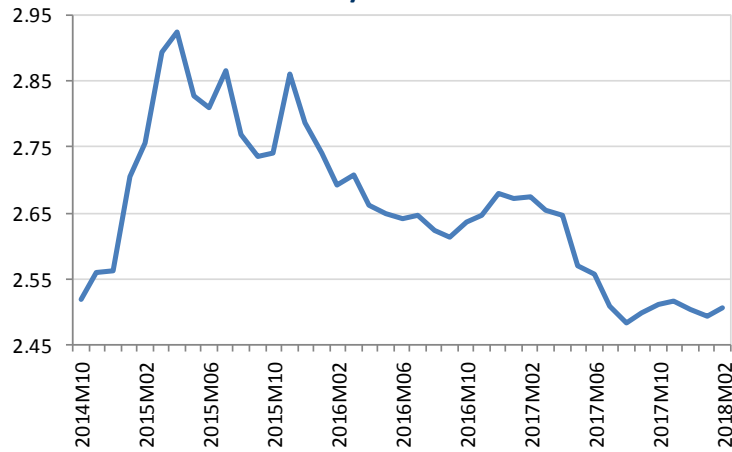
BGN/USD



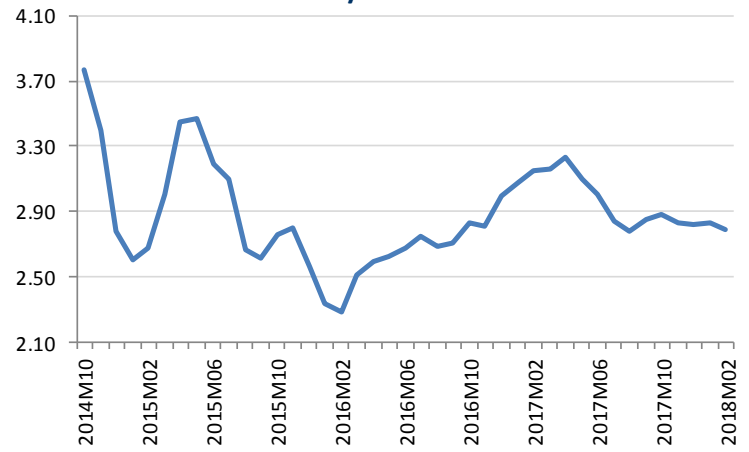
BGN/GBP



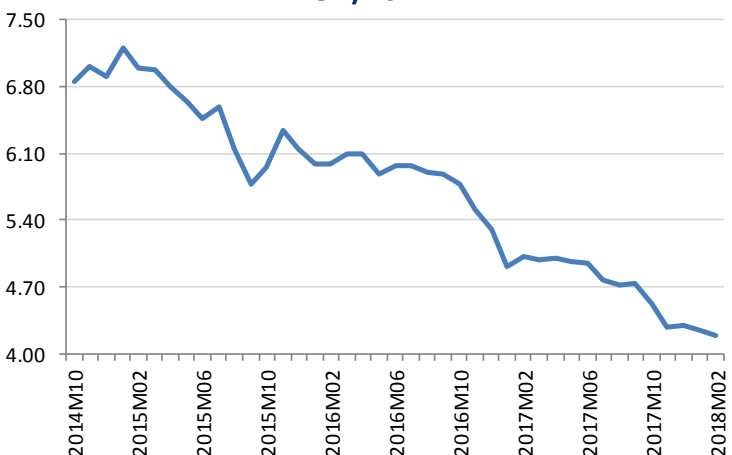
BGN/10CNY



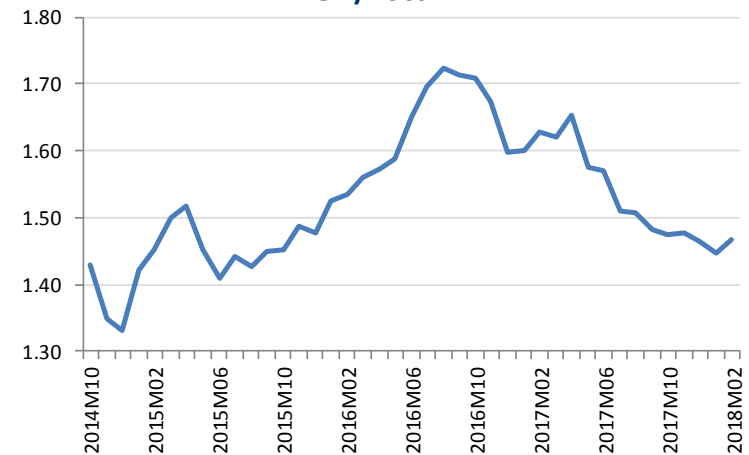
BGN/100RUB



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.² 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). 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 2007 – 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).³ 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 held 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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