

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

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

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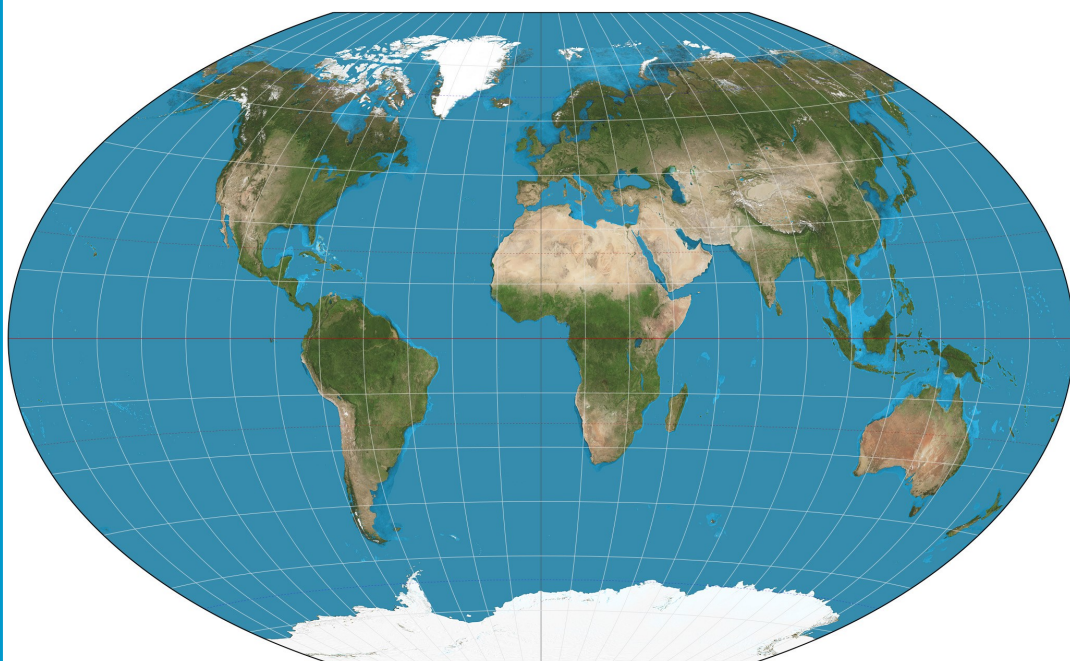
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Source: https://en.wikipedia.org/wiki/World_map

HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



May 2018

Sofia

- *The Eurozone and the European Union have slowed their economic growth in Q1 of 2018 to 2.5% yoy*
- *According to Eurostat, the UK reported its worst performance for January-March at the end of 2012. GDP grew by only 0.1% compared to 0.4% in Q4 2017, respectively. On an annual basis the economy grew by 1.2%, compared with 1.4% for the same period of the last year, respectively*
- *USA GDP rises 2.3% y/y in Q1 2018*
- *On an annual basis, GDP in Japan shrank 0.6% in Q1 2018, down from a downward revision of 0.6% in the previous period. This is the first contraction for the past two years. Private consumption and demand search are retained, while investment costs are declining*
- *China's economy grew by 6.8% in Q1 2018*
- *On 26 April 2018, the ECB decided to maintain the expected 0% refinancing rate and confirmed that purchases of net assets were planned to move on a monthly basis of EUR 30 billion by the end of September 2018, if necessary. Politicians agreed that the degree of monetary stimulus is sufficient to maintain the primary inflation target. The interest rate on the deposit facility and the marginal lending rate also remained at -0.4% and 0.25%*
- *2018 Convergence Report Released - Sustainable convergence is needed for successful adoption of the euro*
- *Bank of England keeps the percentage of banks at 0.5% on May 10, 2018 due to the sharp slow-down in GDP growth in the first quarter of 2018*
- *The US Federal Reserve maintained its target range for the stability of federal funds by 1.5-1.75% during its May 2018 meeting in line with market expectations. The Federal Reserve is expected to raise interest rates in June 2018 if inputs broadly confirm the current economic outlook. An inflation period above 2% will be consistent with the FOMC target*
- *Bank of Japan left its key short-term rate at a level of -0.1% of its meeting in April 2018, as expected. Politicians also kept their target for 10-year government bond yields at 0%, but cut their target date to reach 2% inflation*
- *PBoC applies a reasonable and neutral monetary policy and has not adopted quantitative easing or zero interest policies. After six interest rates in the US, RMB's yield curve is higher than the US dollar by 80 to 100 basis points, and spreads are stable*
- *The price of the July Brent futures on ICE Futures on May 29, 2018 was raised to USD75.62 per barrel. The value of USA WTI with July delivery on NYMEX declined to USD 66.83 per barrel*
- *In recent months, the dynamics of metals and raw material prices is quite high, with a general trend towards lasting appreciation*
- *The prices of all major grain contracts had a downward trend, noticeable return to more relaxed levels in May 2018*

- *In January – March 2018 the current and capital account was negative amounting to EUR 48.4 million and presented -0.1% of GDP*
- *In January-March 2018 Bulgaria's FDI amounted at EUR 179.1 million (0.3% of GDP) and declined by 34.4% y/y*
- *In April 2018, Bulgaria's international reserves amounted to BGN 44,0 billion and declined by 0.4% mom and by 4.7% yoy*
- *In Q1 2018 Bulgaria's GDP increased by 3.5% yoy due to the private consumption*
- *In April 2018, the total business climate indicator increases by 2.8 percentage points in comparison with the previous month as a growth of the indicator is registered in all observed sectors - industry, construction, retail trade and services*
- *According to the preliminary data the Industrial Production Index, seasonally adjusted, increased by 2.3% in March 2018 as compared to February 2018. In March 2018 working day adjusted Industrial Production Index rose by 1.7% in comparison with the same month of 2017*
- *According to the preliminary seasonally adjusted data in March 2018 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.1% compared to the previous month*
- *According to the preliminary data, in March 2018 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.7% below the level of the previous month. In March 2018 the working day adjusted index of production in construction decreased by 1.5% in comparison with the same month of 2017*
- *The consumer price index in April 2018 compared to March 2018 was 100.4%, i.e. the monthly inflation was 0.4%*
- *Total Producer Price Index in March 2018 remains unchanged compared to the previous month; compared to the same month of 2017 the prices rose by 3.0%. Producer Price Index on Domestic Market in March 2018 increased by 0.1% compared to the previous month; compared to the same month of 2017 the domestic prices grew by 4.8%*
- *In Q1 2018, the municipal authorities issued building permits for construction of 1 162 residential buildings with 6 247 dwellings, of 26 administrative buildings/offices and 1 026 other buildings. The construction of 723 residential buildings with 4 157 dwellings, of 18 administrative buildings/offices and 467 other buildings was started*
- *According to preliminary data of the National Statistical Institute in Q1 2018 the number of newly built residential buildings was 565 and the newly built dwellings in them were 1 530. Compared to the first quarter of 2017 the buildings were by 103 more (or by 22.3%) while the newly built dwellings in them decreased by 221 or by 12.6%*
- *In March 2018, the number of the trips of Bulgarian residents abroad was 461.9 thousand or by 5.6% above the registered in March 2017. The trips with other purposes (as a guest, education and visit the cultural and sport events) in March 2018 composed the greatest share of the total number of trips of Bulgarian residents abroad - 44.3%, followed by the trips with professional purpose - 30.3%, and with holiday and recreation purpose - 25.4%*
- *The total revenues from nights spent in March 2018 reached 44.9 million BGN or by 12.9% more compared to March 2017*

- *In April 2018, unemployment in Bulgaria decreased by 0.01 percentage points to 5.1% on the previous month*
- *In March 2018 Bulgaria's consolidated Fiscal Programme (CFP) balance on a cash basis is positive, amounting to BGN 592.7 million, or 0.6% of GDP*
- *In March 2018 Bulgaria's central government debt amounted at EUR 12136.8 million and presented 22.7% of GDP*
- *At the end of March 2018 Bulgaria's broad money (M3) was BGN 86.100 billion and increased by 8.4% y/y. Bulgaria's domestic credit amounted at BGN 54.745 billion and increased by 8% y/y*
- *In April 2018, the main index of BSE-Sofia SOFIX registered a growth of 1.38% to 658.11 points. The index of the most liquid companies BGBX 40 rose by 1.10% to 129.95 points. The weighted BG TR30 increased by 0.76% to 540.35 points. Property survey BGREIT rose 0.51 percent to 115.52 points*
- *In March 2018, the banking system's assets grew yn by 5.0% y/y to BGN 97.6 billion, respectively with an increase in loans and advances, securities portfolios, deposits and balance-sheet capital*

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BULGARIA

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GLOBAL TRENDS

ADVANCED COUNTRIES' ECONOMIES

Euro zone

The Eurozone and the European Union have slowed their economic growth in Q1 2018 to 2.5% y/y

According to Eurostat, the Eurozone and the European Union have slowed their economic growth in the first quarter of 2018. Both the Eurozone and the EU-28 have seen a 0.4% growth in the economy quarterly. This is the weakest progress in the single currency countries of 6 quarters. Compared to the first quarter of 2017, euro area growth is 2.5%, while that of all member states is 2.4%. In Q4 2017, annual GDP growth in the euro area and the EU was 2.8% and 2.7% respectively, while the quarterly growth rate was 0.7% and 0.6%. The economies of France and the UK were poor, while those of Spain and Italy were stagnant. In France, GDP grew in the first quarter by 0.3% at 0.7% for the period October - December 2017 by the Statistical Institute of Bulgaria commented that household consumption is still in "deadlock" also reduces growth of corporate investment and exports. Forecasts for the German economy are also not optimistic, with quarterly growth expected to remain at the end-2017 level at 0.6%. Meanwhile, industrial production in the euro area increased by 0.5% in March, indicating a reversal of the trend of the reported decline of 0.9% in February. However, the consensus forecast on the market was for a growth of 0.7% in March. This is the first increase in industrial production since November thanks mainly to durable and non-durable consumer goods. However, energy production slowed significantly to 0.8% in March from 6.7% a month earlier. Industrial production in the euro area reported an increase of 3% on an annual basis after February data revised downwards to 2.6%. ZEW's Business Climate Index of the Center for European Economic Studies (ZEW) rose to 2.4 points in May against 1.9 points in the previous month and was above market expectations of 2 points. On the other hand, the indicator for the current state falls by 1.6 percentage points to 56.1 points.

United Kingdom

According to Eurostat, the UK reported its worst performance for January-March at the end of 2012. GDP grew by only 0.1% at 0.4% in Q4, respectively 2017. On an annual basis the economy grew by 1.2%, compared with 1.4% for the same period of the last year, respectively

For the United Kingdom, GDP ex-ante estimates for the first quarter were 0.1%, 0.3 percentage points lower than expected in February. This probably partly reflected the bad weather in late February and early March. Indicators of the survey show that growth was slightly stronger in the first quarter than predicted ex ante evaluation. The growth forecast is driven by the rising rate of bank rates due to current market incomes. Expectations are that GDP is projected to increase on average by about 1¼% per annum over the projection horizon. On the expenditure side, growth continues to shift to net trade and business investment and away from consumption. Although investments in business still discouraged by the uncertainty associated with Brexit, they support, and exports from strong global demand and ambitious financial conditions. Growth in household consumption remains weak, in line with modest growth in real income over the projection horizon. Wage growth and pressure on domestic spending are gradually rising, with the British economy expected to have a very limited lag. In the last three months the unemployment rate has declined. However, the projected GDP growth rate is still slightly faster than the declining growth rate of supply, averaging around 1½% per year. Until the beginning of 2020, a small margin of excessive demand still emerges, using higher wage growth rates and domestic expenditure pressures. The consumer price index declined to 2.5% in March 2018. The inflation rate of the most intensive components of the consumer price index seems to have peaked. Considering the impact of external and internal factors, CPI inflation is expected to decline slightly faster than in February, reaching the two-year target. These projections are driven by expectations of a slight increase in the bank's rate over the next three years.

USA

USA GDP rises 2.3% y/y in Q1 2018

The US economy, which is growing at an annual rate of 2.3%. This is above the expectations of investors, but under the Donald Trump administration's target of 3% annual growth of GDP and under the 2.9% gain in the last quarter of last year. Strong business investment helped offset weak consumer demand beyond the ocean at the beginning of the year.

Japan

On an annual basis, GDP in Japan shrank 0.6% in the first quarter, down from a downward revision of 0.6% in the previous period. This is the first contraction for the past two years. Private consumption and demand search are retained, while investment costs are declining

The Japanese economy is expected to continue its moderate expansion. In fiscal 2018, domestic demand is likely to follow an upward trend, with a favorable income-to-expenditure cycle remaining in both the corporate and household sectors, amid good financial conditions and fiscal costs stemming from government incentives. Fixed business investment is expected to continue to rise against the backdrop of financial conditions, driven mainly by investments designed to internally expand capacity in line with economic expansion, Olympic investment, and labor-saving investments to tackle labor shortages. Private consumption is also expected to follow a moderately rising trend as the employment and income situation continues to improve. Public investment is expected to remain at a relatively high level, reflecting mainly the additional budget for fiscal 2017 and demand related to the Olympic Games, although the positive effects stemming from the government's previous stimulus measures are likely to moderate moderately. Exports are expected to continue following a moderately rising trend amid stable growth in overseas economies. Meanwhile, in the quarterly review of the forecasts of the Bank of Japan said that the pace of achieving price stability of 2% is retained as output is expected to continue to improve and medium- and longer-term inflation expectations are expected to increase gradually. However, inertia is still not stable enough and price developments continue to require particular attention. For the fiscal year 2018, the core CPI is expected to grow by 1.3%, slightly lower than the previous forecast of 1.4%. At the same time, the economy is expected to increase by 1.6%, stronger than the 1.4% increase in the previous one.

China

China's economy grew by 6.8% in first quarter 2018

The growth rate is based on a comparison with the same period last year. The latest GDP values exceed the annual growth target in Beijing since 2018 from "around 6.5%". The data show sustainability of the second largest economy in the world, supported by strong consumer demand. But concerns about the Chinese economy - including rising debt levels - remain. The government is struggling to keep debt and the so-called balloon of dwellings without hurting growth. Growth data comes amid fears about Chinese export prospects, whose chances are seen against growing tensions with the United States, Beijing's largest trading partner. Chinese data on growth in 2018 will be carefully monitored for each of the impacts of the tariffs proposed by the United States. The trade imbalance between China and the US, the two largest economies in the world, is a complex issue. First, this is a structural problem and is related to China's position in the Asian value chain. Chinese enterprises import spare parts from Japan, Korea and Taiwan Province and assemble them in finished products and export to the US. Thus, the Chinese bilateral surplus with the United States reflects the surplus that the value chain in East Asia has with the United States. That is why a multilateral perspective is needed to address the issue of trade balance. Secondly, this is a macroeconomic issue. On one side of the equation of the national account is the current account balance; and on the other hand, government deficits, investment and private savings. In the case of the United States, the fiscal deficit is growing. The bigger the fiscal deficit, the greater is the current account deficit. Meanwhile, as investment increases and the pace of savings decreases, the current account deficit will increase. This makes it very difficult to solve the problem of the US trade deficit. Thirdly, when it comes to trade, we should not only deal with trade in goods but services. Because of the comparative advantages of US services trade deficit of China in the United States in trade in services increased rapidly, averaging 20% annual average over the last decade and more. In 2017 the deficit exceeds USD38 billion. As China opens the financial sector, the US can better use its comparative

advantages. By combining trade in goods and services, the two countries will have a more balanced trade relationship. Finally, let's not forget the multinational companies in the US. Through China's commercial presence, they have sold many products to China and have gathered large profits that are not included in the sales figure. After taking this into account, we may have a more comprehensive picture. The trade imbalance between China and the US is a structural and long-term problem that requires careful analysis and rational handling.

Policy of the Central banks

ECB

On 26 April 2018, the ECB decided to maintain the expected 0% refinancing rate and confirmed that purchases of net assets were planned to move on a monthly basis of EUR 30 billion by the end of September 2018, if necessary. Politicians agreed that the degree of monetary stimulus is sufficient to maintain the primary inflation target. The interest rate on the deposit facility and the marginal lending rate also remained at -0.4% and 0.25%

ECB policy makers said the risks to economic growth in the Eurozone continued to be balanced but related to global factors, including protectionism. Recently received information reports some delays in the activity, but so far remains in line with the robust and widening economy of the euro area. The growth of the euro area economy continues to support the Governing Council's conviction that inflation will gradually move closer to its target of a low but close to 2% in the medium term. At the same time, core inflation measures remained lower and still show no conclusive signs of a sustained upward trend. As regards progress towards lasting adjustment of the inflation path, the input information has generally changed slightly compared with the assessment made at the previous meeting. Basic inflation has risen slightly over its bottom, but remained some distance from the inflation target set by the Governing Council. Pressure on prices is still weak and measures on core inflation move sideways. Despite the observed slowdown in activity, the confidence in the key strength of the euro area economy and the possible convergence of inflation with the Governing Council's inflation targets remained unchanged. While core inflation measures continued to be depressed, some strain was exacerbated by the promotion of signs of strengthening nominal wage growth and long-term inflation expectations at levels consistent with the Governing Council's objective. In this context, it was noted that the relationship of the Phillips curve could be non-linear, and this could help to increase inflation more rapidly when capacity constraints become mandatory. At the same time, it was warned that the uncertainty surrounding the outlook had increased since the monetary policy meeting in March. In particular, the risks associated with global factors, including the threat of increased protectionism, have become more tangible and ensured monitoring of their impact on the medium-term prospects for growth and prices. The Eurosystem staff projections of June 2018 will provide the next occasion for a more comprehensive assessment of inflation. Board members broadly agreed that the monetary policy pursued adequately accompanies economic growth and ensure gradual convergence of inflation to below but close to 2%. The remaining uncertainty and still undermined underlying inflationary pressures continue to justify caution and underline the need to maintain patience, persistence and caution in monetary policy

2018 Convergence Report Released - Sustainable convergence is needed for successful adoption of the euro

The European Central Bank (ECB) is today publishing its 2018 Convergence Report, in line with the requirements of the Treaty on the Functioning of the European Union. The report covers Bulgaria, the Czech Republic, Croatia, Hungary, Poland, Romania and Sweden. It finds that the seven EU Member States have made progress towards fulfilling the criteria for adoption of the euro, although none of the countries fulfils all obligations. The report examines the degree of sustainable economic convergence achieved in these countries and assesses compliance with the statutory requirements to be met by national central banks to become an integral part of the Eurosystem. When assessing the sustainability of convergence, the report also takes into account the EU's enhanced economic governance framework (e.g. the Stability and Growth Pact and the macroeconomic imbalance procedure) and other relevant factors, such as the strength of the institutional environment. Economic convergence: As regards compliance with the nominal convergence criteria, some progress has been made since the publication of the ECB's 2016 Convergence Report. The cross-country differences in inflation have declined further, showing progress towards the achievement of a high degree of price stability. Over the 12-month reference period from April 2017 to March 2018, inflation

increased in the EU, mainly owing to robust economic growth and rising energy and commodity prices. This was reflected in the reference value for the price stability criterion, which was met by five of the seven countries examined in the report. The Czech Republic and Hungary recorded inflation rates above the reference value, while inflation was at the reference value in Romania and Sweden, below it in Bulgaria and Poland, and well below it in Croatia. Looking ahead, inflation is expected to increase further in the countries under review in the coming years. There are concerns regarding the sustainability of inflation convergence over the longer term in most of the countries examined. The report points to a visible improvement with regard to the fiscal criteria, with fiscal imbalances reduced in most of the countries examined. In 2017 all countries under review reported a fiscal balance within the 3% of GDP deficit ratio reference value, and no country is currently subject to an excessive deficit procedure. In 2016, Croatia was subject to such a procedure. Therefore, all the countries under review are in compliance with the deficit criterion. The debt ratio exceeds the threshold of 60% of GDP in Croatia and Hungary only, but is in both countries on a sufficiently diminishing trajectory and approaching 60% of GDP at a satisfactory pace, and can therefore be deemed compliant with the Stability and Growth Pact. None of the countries under review participates in the exchange rate mechanism (ERM II). In most countries the exchange rate exhibited a relatively high degree of volatility over the two-year reference period. The exceptions were Bulgaria (which has a currency board arrangement vis-à-vis the euro) and Croatia (which operates a tightly managed float). With regard to the convergence of long-term interest rates, five of the seven countries under review recorded long-term interest rates below the reference value of 3.2%. Long-term interest rates were above the reference value in Poland and Romania. The lowest values were recorded in the Czech Republic and Sweden. Sustainable convergence is essential: Countries adopting the euro should be able to demonstrate the sustainability of their convergence process. A prerequisite for sustainable convergence is macroeconomic stability and, in particular, a sound fiscal policy. Most of the countries under review have made progress in addressing macroeconomic imbalances in their economy. Sustainable convergence also requires sound institutions. Countries must have well-functioning product and labor markets, which is essential to cope with macroeconomic shocks. Moreover, appropriate macro prudential policies need to be in place to prevent the build-up of macroeconomic imbalances, such as excessive asset price increases and credit boom-bust cycles. Finally, an appropriate framework for the supervision and resolution of financial institutions needs to be in place, especially in view of the establishment of banking union and the Single Supervisory Mechanism. Legal convergence: In none of the seven countries examined is the legal framework fully compatible with all the requirements for the adoption of the euro. Incompatibilities persist regarding central bank independence, in particular central banks' institutional and financial independence, as well as personal independence. In addition, in all countries under review, with the exception of Croatia, there are incompatibilities as regards the prohibition of monetary financing and the legal integration of the respective central banks into the Eurosystem.

Bank of England

Bank of England keeps the percentage of banks at 0.5% on May 10, 2018 due to the sharp slowdown in GDP growth in the first quarter of 2018

Politicians noted that wage growth and pressure on domestic spending is steadily rising, while CPI inflation is expected to decline a little faster than expected. The bank also said that the recent data weakness was consistent with a temporary soft patch, suggesting that the increase in the August price is still under discussion. Preliminary estimates of GDP growth in Q1 2018 were 0.1%, 0.3 percentage points lower than expected in February. This probably partly reflected the bad weather in late February and early March. Indicators of the survey show that growth was slightly stronger in Q1 2018 compared to the preliminary estimate. On the expenditure side, growth continues to focus on net trade and business investment and remains far from consumption. Although business investment is still deterred by Brexit's insecurity, it is supported by exports as well as strong global demand and ambitious financial conditions. Growth in household consumption remains weak, in line with modest growth in real income over the projection horizon. Wage growth and pressure on domestic spending are gradually increasing, expected in a broad sense. The CCP continues to believe that the British economy has a very limited degree of delays. Hiring intentions have remained strong, and unemployment has declined somewhat over the past three months. Though modest in accordance with historical standards, the projected GDP growth rate is still slightly faster than the declining growth rate of supply, averaging around 1½% per year. Thus, in the central projection of MPC, a small margin of excessive demand is still emerging by early 2020, using higher wage growth rates and domestic expenditure pressures. The consumer price index is down to 2.5% in March

2018 and is lower than expected. The inflation rate of the most intensive components of the consumer price index seems to have peaked.

USA Federal Reserve

The US Federal Reserve maintained its target range for the stability of federal funds by 1.5-1.75% during its May 2018 meeting in line with market expectations. The Federal Reserve is expected to raise interest rates in June 2018 if inputs broadly confirm the current economic outlook. An inflation period above 2% will be consistent with the FOMC target

At the FOMC meeting held on 1-2 May 2018 in the review of monetary policy in the near future, the participants discussed the consequences of recent economic and financial developments for the prospects for economic growth, labor market conditions and inflation, and its own row decided on interest rates on federal funds. All participants expressed the view that it would be appropriate for the Committee to leave the target range as a percentage of the federal funds unchanged at the May meeting. The participants agreed that the information received during the period did not significantly change their assessment of the prospects for the economy. Participants commented that real GDP growth in recent quarters together with slightly higher inflation rates led to an increase in confidence that inflation on a 12-month basis would continue to move close to the longer-term symmetrical target of 2%. Most respondents considered that if the incoming information broadly confirmed their current economic outlook. Overall, the participants agreed that the current monetary policy stance remains broad, supporting strong labor market conditions and return on inflation to 2% on a sustainable basis. Most participants felt that if incoming information broadly confirms their current economic prospects. Overall, the participants agreed that the current Participants broadly agreed with the assessment that the gradual increase in the target range of federal funds would gradually be appropriate if the economy worsens as expected. Several participants commented that the latest inflation news, against the backdrop of continued prospects for stable economic growth, supported the belief that inflation on a 12-month basis would likely move slightly above the 2% target for a certain period. It was also noted that the temporary inflation rate of just over 2% would be in line with the Committee's symmetrical inflation target and could be helpful in securing long-term inflation expectations at a level consistent with that objective.

Bank of Japan (BoJ)

Bank of Japan left its key short-term rate at a level of -0.1% of its meeting in April 2018, as expected. Politicians also kept their target for 10-year government bond yields at 0%, but cut their target date to reach 2% inflation

As for the amount of JGB to be purchased, the Bank will make a purchase at a more or less current pace - an annual growth rate of about 80 trillion yen. The Japanese Central Bank also unanimously decided to buy equity-centric funds (ETFs) and investment real estate investment trusts in Japan (J-REITs) so that their unpaid sums increase at an annual rate of around 6.0 trillion yen and about 90 billion yen. As for CP and corporate bonds, the Bank will keep its outstanding amounts to 2.2 trillion yen and 3.2 trillion yen. As for prices, the central bank previously said it expects inflation to reach 2% around fiscal 2019.

People's Bank of China (PBC)

PBoC applies a reasonable and neutral monetary policy and has not adopted quantitative easing or zero interest policies. After six interest rates in the US, RMB's yield curve is higher than the US dollar by 80 to 100 basis points, and spreads are stable

The PBoC has long been expecting changes in the balance sheet from the central banks of major economies. At present, yields on China's 10-year government bonds are about 3.7%, and the US with about 2.8%, and China and US interest-rate dividends are within a comfortable range. Differences in money market interest rates, such as the overnight interest rate and the seven-day interest rate between the two countries are also within convenient ranges. In short, the CNB is ready to normalize the monetary policy of major economies. The PBoC has long been expecting changes in the balance sheet from the central banks of major economies. At present, yields on China's 10-year government bonds are about 3.7%, and the US with about 2.8%, and China and US interest-rate dividends are within a comfortable range. Differences in money market interest rates, such as the overnight interest rate and the seven-day interest rate between the two countries are also within convenient ranges. In short,

the PBoC is ready to normalize the monetary policy of major economies. China is indeed faced with problems with high leverage ratios and debt accumulation. From the point of view of sound monetary policy and financial stability, the main task is to maintain a stable level of debt; the second is to optimize the structure of the debt and strike a balance between state, corporate and household debt; and the third is to have a more reasonable interest rate ratio.

International Commodity Prices

Petrol

The price of the July Brent futures on ICE Futures on May 29, 2018 was raised to USD75.62 per barrel. The value of USA WTI with July delivery on NYMEX declined to USD 66.83 per barrel

Petroleum quotes of world reference brands move divergently on May 29, 2018. The price of July Brent futures of the London ICE Futures rose by USD 0.32 to USD 75.62. The value of the USA WTI standard with July delivery to NYMEX at the same time fell to USD 66.83 a barrel. Meanwhile, Saudi Arabian energy minister Arab Khalid noted that his country has allowed the OPEC + deal to be adjusted following the volatility of the oil market. Saudi Arabia is expected to offer the participants in the agreement a reduction in yield in the second half of the year and to gradually increase production and supply of the oil market. According to various estimates, the participants in the OPEC + pact may increase output from 300,000 to 1 million barrels per day. In May, the oil price has risen to its peak since the end of 2014, after President Donald Trump took a decision exit from the nuclear deal with Iran and return sanctions to the country, incl. and export restrictions on the raw material. The risk of falling supplies to the global market also hides the declining oil production in Venezuela.

Metals

In recent months, the dynamics of metals and raw material prices is quite high, with a general trend towards lasting appreciation

Nearly two months after the US president announced he would impose an import duty of 10 percent on aluminum, his price is rising steadily. Aluminum, however, is not the only metal whose prices are constantly growing on commodity exchanges. For example, the price of nickel has risen to a 3-year maximum. This is also to some extent related to US sanctions. Investors are worried because nobody can guarantee that President Trump will not impose import duties on nickel at a later moment. Media predictions have already emerged that this may happen soon, provoking price change, as in aluminum and steel. In addition, Chinese traders are watching very carefully the dynamics of nickel prices, which should be taken as a signal that the situation may change and import duties also be introduced for this metal, which will certainly cause a very serious problem. The world economy is already showing signs of retention, and if prices of metals and raw materials continue to rise more significantly, they will kill all attempts to increase GDP. Signs of concern and anxiety are observed in Japan. Large investors and real estate dealers have asked the Russian producer RusAl to stop deliveries of aluminum as soon as the US president announced he would impose new sanctions on Russian companies, including the world's largest aluminum producer. On April 6, the United States included one of the owners of the mining giant Oleg Deripaska in the list of sanctioned individuals, which in practice threatened to bankrupt the company. As a result, the price of aluminum rose by 20% per week, the sharpest weekly rise for the metal over the past 20 years. On Monday, bids exceeded \$ 2.3K a ton on the London Metal Exchange. Only a week, aluminum, nickel, copper and oil have risen between 14 and 22 percent. It should not be forgotten that, along with rising metal prices, crude oil prices have also risen, which have already reached their highest levels since the end of 2014. All of this puts direct pressure on the world economy. There are now real risks of a leap in inflation, which, if judged by signals from the largest central banks, will fight. Most likely, the Federal Reserve (FED) will continue to raise interest rates, and the European Central Bank and the Japanese Central Bank will restrict the incentives to stop.

Agricultural products

The prices of all major grain contracts had a downward trend, noticeable return to more relaxed levels in May 2018

In Chicago, the wheat dropped by USD 3.00 to USD 220.00 / tonne, in France, the FOB Rouen change was zero (171.00 euro / ton). Ukraine and Russia follow a minus USD 8 and USD 3 to USD 196.00 and USD 212.00 a tonne. For maize, the price trend is the same, the week for Chicago is down USD 4.00 to USD 195.00 / tonne, in Russia there is no change (USD 203.00 / tonne) and EUR 0.75 in France to EUR 167.00 / tonne. The rapeseed in the Eurasian Union / Euronext / only appreciated with a minimum of 0.50 euros to a price of 354.00 euro / ton. Barley in France also fell by 4 euros to 174.00 (167.00 USD / tonne remains unchanged in Germany). The price of unrefined sunflower oil in Rotterdam has fallen most significantly by USD 15.00 / tonne to USD 775.00 / ton, and refined sugar in London is the other exception - it rose by USD 3.30 to 326.70 USD / ton. In the "Grain" circle of Sofia Commodity Exchange AD the prices of the contracts are similar, there is a supply of serious quantities of bread wheat at 287.00 BGN / t. Demand reached the same values and deals for large quantities were concluded at this price - 287.00 BGN / ton. Corn is available at 285.00 leva per tonne and the opposite search quotes are 270.00 leva per tonne. Oil-sunflower is looking for 550.00 BGN / ton. All prices are without VAT.

BULGARIA

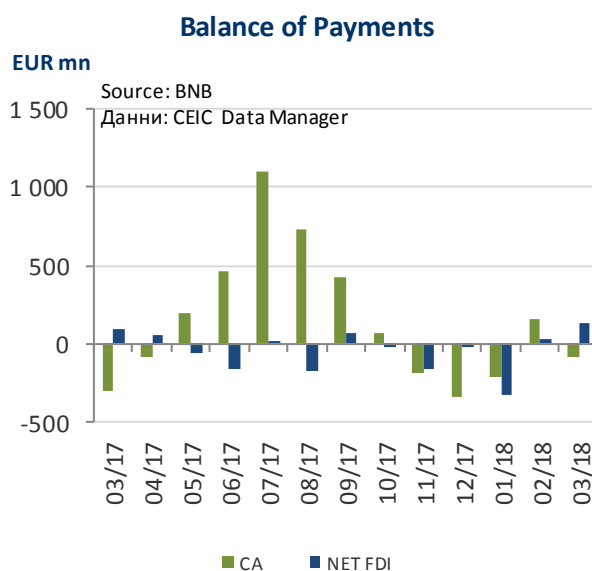
EXTERNAL SECTOR

Balance of Payments

In January – March 2018 the current and capital account was negative amounting to EUR 48.4 million and presented -0.1% of GDP

The current and capital account recorded a deficit of EUR 39.6 million in March 2018, compared with a deficit of EUR 267.4 million in March 2017. In January – March 2018 the current and capital account was negative amounting to EUR 48.4 million (0.1% of GDP), compared with a surplus of EUR 15.7 million (0.03% of GDP) in January – March 2017. The current account was negative amounting to EUR 89.6 million in March 2018, compared with a deficit of EUR 299.4 million in March 2017. In January – March 2018 the current account was negative and amounted to EUR 138.3 million (0.3% of GDP), compared with a deficit of EUR 97.5 million (0.2% of GDP) in January – March 2017. The balance on goods recorded a deficit of EUR 233 million in March 2018, compared with a deficit of EUR 353.7 million in March 2017. In January – March 2018 the balance on goods was negative amounting to EUR 847.1 million (1.6% of GDP), compared with a deficit of EUR 602.8 million (1.2% of GDP) in January – March 2017. Exports of goods

amounted to EUR 2,279.8 million in March 2018, growing by EUR 137.2 million (6.4%) from March 2017 (EUR 2,142.6 million). In January – March 2018 exports of goods totalled EUR 6,200.8 million (11.6% of GDP), increasing by EUR 255.9 million (4.3%) year-on-year (from EUR 5,944.9 million, 11.8% of GDP). In January – March 2017 exports grew by 16.3% y/y. Imports of goods amounted to EUR 2,512.8 million in March 2018, growing by EUR 16.5 million (0.7%) from March 2017 (EUR 2,496.2 million). In January – March 2018 imports of goods totalled EUR 7,047.9 million (13.1% of GDP), growing by EUR 500.2 million (7.6%) from January – March 2017 (EUR 6,547.7 million, 13% of GDP). In January – March 2017 imports grew by 20.6% y/y. Services recorded a positive balance of EUR 101.4 million in March 2018, compared with a surplus of EUR 47.6 million in March 2017. In January – March 2018 services recorded a surplus of EUR 333.8 million (0.6% of GDP) compared with a positive balance of EUR 188.9 million (0.4% of GDP) in the same period of 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 deficit of EUR 38.9 million in March 2018, compared with a deficit of EUR 68.7 million in March 2017. In January – March 2018 the balance on primary income was negative and equated to EUR 141.3 million (0.3% of GDP), against a deficit of EUR 221.9 million (0.4% of GDP) in January – March 2017. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 80.9 million, compared with a positive balance of EUR 75.4 million in March 2017. In January – March 2018 the net secondary income was positive amounting to EUR 516.3 million (1% of GDP), compared with a positive balance of EUR 538.3 million (1.1% of GDP) in the same period of 2017. The capital account recorded a surplus of EUR 50 million, compared with a positive balance of EUR 32 million in March 2017. In January – March 2018 the capital account recorded a surplus of EUR 89.8 million (0.2% of GDP), compared with a positive balance of EUR 113.2 million (0.2% of GDP) in January – March 2017. The financial account recorded a net inflow of EUR 3.8 million, compared with an outflow of EUR 141.6 million in March 2017. In January – March 2018 the financial account recorded a net inflow of EUR 187.6 million (0.3% of GDP) compared with an outflow of EUR 258.7 million (0.5% of GDP) in January – March 2017. The net direct investment compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual was positive amounting to EUR 137.3 million, compared with a positive balance of EUR 96.6 million in March 2017. In January – March 2018 direct investment recorded a negative balance of EUR 158.9 million (0.3% of GDP), compared with a negative balance of EUR 221.9 million (0.4% of GDP) in January – March 2017. Direct investment – assets increased by EUR 54.5 million compared with an increase of EUR 159.9 million in March 2017. In January – March 2018 direct investment – assets grew by EUR 33 million (0.1% of GDP), compared with an in-

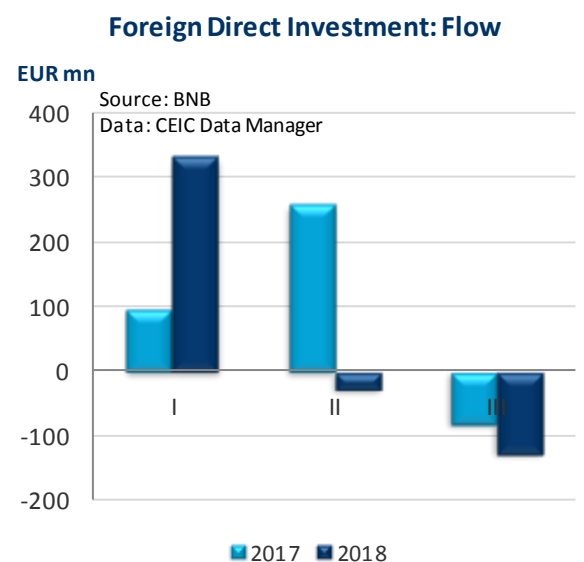


crease of EUR 151.1 million (0.3% of GDP) in the same period of 2017. Direct investment – liabilities dropped by EUR 82.8 million in March 2018, compared with an increase of EUR 63.3 million in March 2017. In January – March 2018 direct investment – liabilities rose by EUR 1 The balance on portfolio investment was positive amounting to EUR 168.3 million, compared with a positive balance of EUR 253 million in March 2017. In January – March 2018 the balance was positive and equated to EUR 494.4 million (0.9% of GDP), compared with a positive balance of EUR 431.5 million (0.9% of GDP) million in January – March 2017. Portfolio investment – assets grew by EUR 116.2 million, compared with an increase of EUR 146.6 million in March 2017. In January – March 2018 they rose by EUR 478.5 million (0.9% of GDP) compared with an increase of EUR 201.1 million (0.4% of GDP) in January – March 2017. Portfolio investment – liabilities dropped by EUR 52.1 million compared with a decline of EUR 106.4 million in March 2017. In January – March 2018 portfolio investment – liabilities dropped by EUR 15.8 million (0.03% of GDP), compared with a decline of EUR 230.4 million (0.5% of GDP) in January – March 2017. The balance on other investment was negative amounting to EUR 699.5 million, compared with a negative balance of EUR 742 million in March 2017. In January – March 2018 the balance was positive and equated to EUR 835.2 million (1.6% of GDP), compared with a negative balance of EUR 551.2 million (1.1% of GDP) in January – March 2017. Other investment – assets dropped by EUR 481 million, compared with a decline of EUR 497 million in March 2017. In January – March 2018 they grew by EUR 1,003.9 million (1.9% of GDP) compared with a decrease of EUR 343.7 million (0.7% of GDP) in January – March 2017. Other investment – liabilities grew by EUR 218.5 million compared with an increase of EUR 245 million in March 2017. In January – March 2018 they grew by EUR 168.8 million (0.3% of GDP) compared with an increase of EUR 207.5 million (0.4% of GDP) in January – March 2017. The BNB reserve assets⁵ increased by EUR 398.8 million, compared with an increase of EUR 237.7 million in March 2017. In January – March 2018 they dropped by EUR 1,035.3 million (1.9% of GDP), compared with an increase of EUR 77 million (0.2% of GDP) in the same period of 2017. The net errors and omissions were positive amounting to EUR 43.4 million compared with a positive value of EUR 125.8 million in March 2017. According to preliminary data, the item was positive totalling EUR 236.1 million (0.4% of GDP) in January – March 2018, compared with a negative value of EUR 274.5 million (0.5% of GDP) in the same period of 2017.

Foreign Direct Investments

In January-March 2018 Bulgaria's FDI amounted at EUR 179.1 million (0.3% of GDP) and declined by 34.4% y/y

According to preliminary data, foreign direct investment in Bulgaria presented according to the directional principle totaled EUR 179.1 million (0.3% of GDP) in January – March 2018, dropping by EUR 94 million (34.4%) from January – March 2017 (EUR 273.1 million, 0.5% of GDP)³. Foreign direct investment in Bulgaria decreased by EUR 125.4 million in March 2018, compared with a decline of EUR 80.1 million in March 2017. 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) recorded a negative value of EUR 161.4 million in January – March 2018, dropping by EUR 197.6 million from EUR 36.2 million in January – March 2017. Real estate investments of non-residents totaled EUR 0.2 million, compared with EUR 2.8 million attracted in January – March 2017. The largest inflow of real estate investment was from Russia (EUR 0.3 million), Kazakhstan (EUR 0.2 million), and Israel (EUR 0.2 million). Reinvestment of earnings (the share of non-residents in the undistributed earnings/ loss of the enterprise based on preliminary profit and loss data) was estimated at EUR 19.1 million, compared with EUR 86.7 million in January – March 2017. The net debt instruments (the change in the net liabilities between affiliated enterprises on financial loans, suppliers' credits and debt securities) amounted to EUR 321.4 million in January – March 2018, compared with EUR 150.2 million in January – March 2017⁴. The largest net direct investment inflows in Bulgaria for January – March 2018 were from Russia (EUR 116.9 million), the Netherlands (EUR 64.7 million), and Germany (EUR 57.9 million). According to preliminary data, direct investment abroad grew by EUR 20.2 million, compared with an increase of EUR 51.2 million in January – March 2017. Direct investment rose by EUR 11.9 million in March 2018, compared with



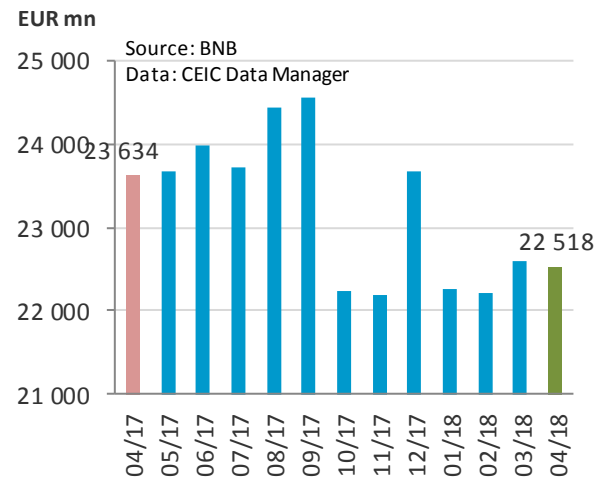
an increase of EUR 16.4 million in March 2017.

Foreign Reserves

In April 2018 Bulgaria's foreign reserves amounted at 44,0 billion and declined by 0.4% mon and by 4.7% yoy, respectively

According to BNB data, Bulgaria's international reserves at the end of April 2018 amounted to BGN 44.0 billion (EUR 22.5 billion) and decreased by 0.4% mom and by 4.7% yoy, respectively. At the end of April 2018 cash and deposits in foreign currency decreased by 8% m/m and by 11.5% yoy, respectively to BGN 15.6 billion. Monetary gold reported a monthly drop of 1.1%, down by 5.9% yoy and amounted to BGN 2.7 billion. Investment in securities increased by 4.7% mom and by 1.7% yoy, respectively to BGN 25.7 billion. From the liabilities side of the Issue Department's balance sheet, money outside banks increased by 0.8% mom and by 10.1% yoy to BGN 15.4 billion. Liabilities to banks shrank by 5.6% mom and by 13.1% yoy, respectively to BGN 11.9 billion. Liabilities to government and budget organizations increased by 4.1% mom, but down by 20.1% yoy to BGN 9.5 billion. Liabilities to other depositors increased by 1.6% mom and by 1.3 times yoy to BGN 17 billion. The bank's deposit grew 0.3% mom and down by 7.3% yoy to BGN 5.6 billion. The international liquidity position of Bulgaria, expressed by the ratio of foreign reserves/ short-term foreign debt, was good at 287.3% at the end of March 2018 compared to 289.2% at the end of February and 314.1% at the end of 2017.

Foreign Reserves



REAL SECTOR

Gross Domestic Product

In Q1 2018 Bulgaria's GDP increased by 3.5% yoy due to the private consumption

According NSI data in Q1 of 2018 the Bulgaria's GDP grew up by 3.5% yoy. The rate remains unchanged compared to the previous quarter, the main driver being household purchases, although the increase is slowing down. This shows the seasonally adjusted data of the National Statistical Institute (NSI). Growth compared to the last quarter of 2017 is 0.8%. At the beginning of the month EC projected 3.8% GDP growth for Bulgaria. According to the forecasts of the European Bank for Reconstruction and Development, the Bulgarian economy will see an increase of 3.6%. The NSI Express estimates for Q1 of 2018 show that the goods and services produced in the country in nominal terms reached BGN 21.2 billion. The realized value added was BGN 18.5 billion. By end-use elements, the largest share in GDP is held by final consumption (85.8%), which in value terms amounted to BGN 18.2 billion. In the first quarter of 2018 gross capital formation amounted to BGN 4.2 billion and occupies a 19.8% share in GDP. The foreign trade balance is negative. Gross capital formation expanded more rapidly (7.2% vs. 4.5% in Q4 2017) while a slowdown in consumption (2.4% vs. 3.8%). Exports also grew faster (4.6% vs. 2%), while imports grew with slower bits (6.8% vs. 8.3%).

GDP Growth rate per quarter, YoY seasonally adjusted data



In Q1 2018, compared to Q4 2017, seasonally adjusted GDP grew by 0.8%. Over the same period, gross value added increased by 0.7%. According to the express estimates of GDP by components of end-use in the first 3 months of 2018, the contribution to registered economic growth is represented by investments (gross fixed capital formation) by 4.8%, and exports of goods and services, which grew by 1.3%. In Q1 2018, goods and

services produced increased by 3.5% yoy. Gross value added increased by 3.2%. Final consumption recorded a positive economic growth of 2.4%. Investments are 7.2% more, while exports and imports of goods and services increase by 4.6% and 6.8%, respectively. Following strong performance in Q4 2017, the Eurozone slowed its growth to 2.5% yoy for Q1 2018. ECB growth was 2.4% compared to 2.7% in Q4 of 2017. The highest GDP growth in Q1 2018 was reported by Latvia by 5.1%, Poland by 4.9% and Hungary by 4.7%. The only country with negative growth is Denmark, which reports a minus 0.5% GDP growth. Below the EU average are the UK, Portugal, Italy. Expectations are that economic growth in Bulgaria will accelerate slightly in the coming quarters as a result of expectations for growth in consumption. Growth in exports will slow down due to rising international oil prices.

Business climate

In April 2018, the total business climate indicator increases by 2.8 percentage points in comparison with the previous month as a growth of the indicator is registered in all observed sectors - industry, construction, retail trade and services

Industry. The composite indicator ‘business climate in industry’ increases by 0.7 percentage points to 28.9% which is due to the optimistic industrial entrepreneurs’ expectations about the business situation of the enterprises over the next 6 months. At the same time, their forecasts about the export and the production activity over the next 3 months are more favourable. In period January - April 2018 the surplus power is increased, and the average capacity in industry is assessed to 73.7%, which is by 3.1 percentage points below its January level. The uncertain economic environment and the shortage of labour remain the main problems for the business development as the last inquiry registered strengthen of their negative influence. As regards the selling prices in industry, the majority of the managers expect preservation of their level over the next 3 months.

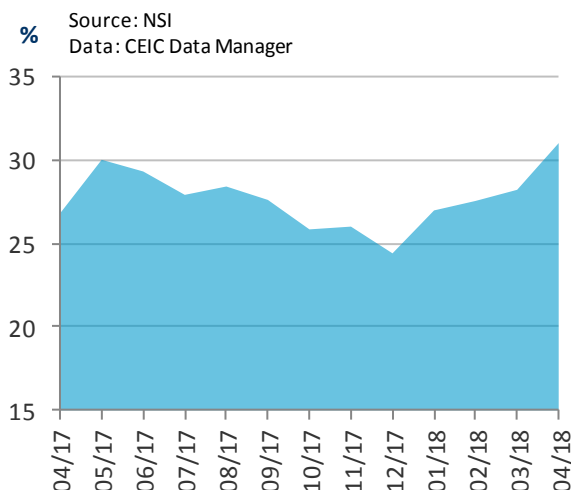
Construction. In April the composite indicator ‘business climate in construction’ increases by 5.1 percentage points to 29% as a result of the improved construction entrepreneurs’ assessments and expectations about the business situation of the enterprises. In their opinion, the present construction

activity is increased, as their forecasts about the next 3 months remain favourable. The production assurance with orders is preserved compared to January and it is assessed to be 7.0 months. At the same time, the expectations about the new orders over the next 6 months are improved. The main factors, limiting the activity in the sector continue to be connected with the uncertain economic environment, competition in the branch and shortage of labour. Concerning the selling prices in construction, the managers foresee them to remain unchanged over the next 3 months.

Retail trade. The composite indicator ‘business climate in retail trade’ increases by 0.5 percentage points to 44.1% which is due to the improved retailers’ expectations about the business situation of the enterprises over the next 6 months. Their forecasts about the orders places with suppliers from both domestic and foreign market over the next 3 months are also more favourable. The most serious difficulties for the business remain the insufficient demand, competition in the branch and uncertain economic environment, as in the last month a decrease of the negative influence of the first two factors is observed. As regards the selling prices, the prevailing retailers’ expectations are for preservation of their level over the next 3 months.

Services. In April the composite indicator ‘business climate in service sector’ increases by 7.1 percentage points to 34.1%. The competition in the branch and uncertain economic environment continue to be the main obstacles for the activity in the sector. Concerning the selling prices, the managers do not expect a change over the next 3 months.

Business Climate Indicator



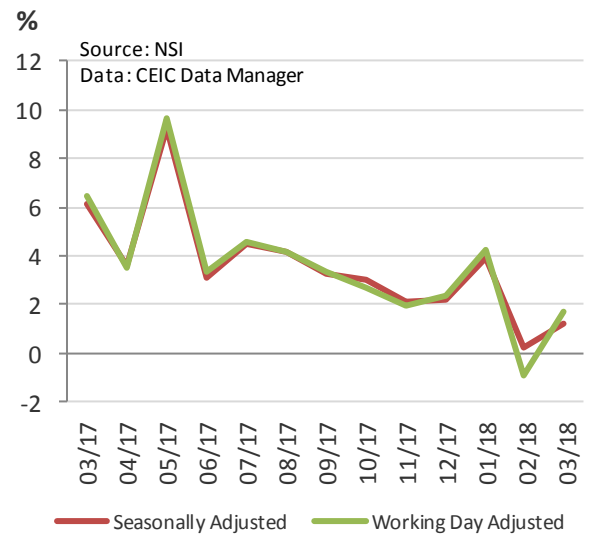
Industrial Production Index

According to the preliminary data the Industrial Production Index, seasonally adjusted³, increased by 2.3% in March 2018 as

compared to February 2018. In March 2018 working day adjusted⁴ Industrial Production Index rose by 1.7% in comparison with the same month of 2017

In March 2018 as compared to February 2018, the seasonally adjusted Industrial Production Index increased in the electricity, gas, steam and air conditioning supply by 3.8%, in the manufacturing by 1.4%, and in the mining and quarrying industry by 0.2%. The most significant production increases in the manufacturing were registered in the manufacture of food products by 7.1%, in the manufacture of computer, electronic and optical products by 6.9%, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 6.0%, in the printing and reproduction of recorded media by 5.9%. There were decreases in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 1.7%, in the manufacture of other transport equipment by 1.6%, in the manufacture of rubber and plastic products by 0.9%. On annual basis in March 2018 Industrial Production Index calculated from working day adjusted data rose in the electricity, gas, steam and air conditioning supply by 7.8% and in the manufacturing by 0.7%, while the production fell in the mining and quarrying industry by 8.7%. In the manufacturing, the more considerable increases compared to the same month of the previous year were registered in the manufacture of other transport equipment by 52.4%, in the repair and installation of machinery and equipment by 15.1%, in the manufacture of electrical equipment by 10.7%, in the manufacture of motor vehicles, trailers and semi-trailers by 9.6%. Decreases were seen in the manufacture of tobacco products by 22.0%, in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 13.2%, in the manufacture of wearing apparel by 8.4%, in the manufacture of basic metals by 5.6%.

Industrial production Index, % change, YoY

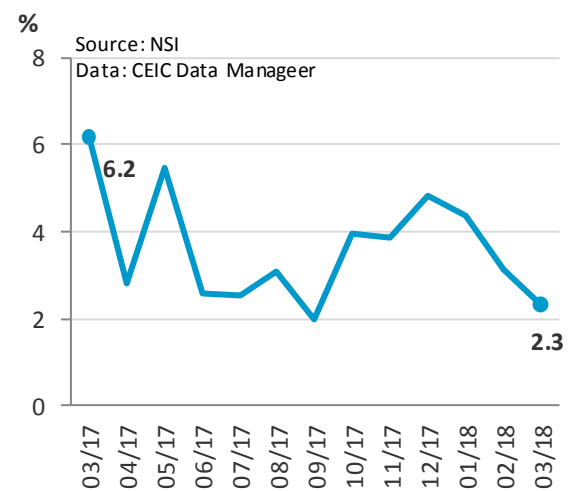


Retail Trade

According to the preliminary seasonally adjusted data in March 2018 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.1% compared to the previous month

According to the preliminary seasonally adjusted data³ in March 2018 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.1% compared to the previous month. In March 2018, the working day adjusted⁴ turnover in 'Retail trade, except of motor vehicles and motorcycles' marked rise from 2.3% in comparison with the same month of the previous year. In March 2018 compared to the previous month more significantly, growth of turnover was observed in the 'Retail sale via mail order houses or via Internet' by 8.3%, in the 'Retail sale of textiles, clothing, footwear and leather goods' by 2.1%, in the 'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles' by 1.5% and in the 'Retail sale of food, beverages and tobacco' by 1.2%. Decrease was noted in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' - 3.7% and in the 'Retail sale of automotive fuel' - 1.1%. In March 2018 compared to the same month of 2017 the turnover increased in the 'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles' by 14.6%, in the 'Retail sale via mail order houses or via Internet' by 8.9%, in the 'Retail sale of food, beverages and tobacco' by 7.7% and in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' by 4.6%. Decline was registered in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' and in the 'Retail sale of automotive fuel' - 9.8% and in the 'Retail sale of textiles,

Retail trade index, % change (YoY)



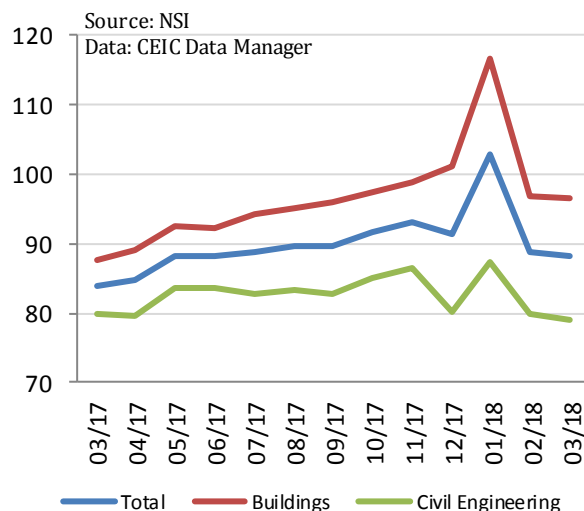
clothing, footwear and leather goods' - 7.0% and in the 'Retail sale in non-specialised stores' - 2.4%.

Construction

According to the preliminary data, in March 2018 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.7% below the level of the previous month. In March 2018 the working day adjusted index of production in construction decreased by 1.5% in comparison with the same month of 2017

According to the preliminary data, in March 2018 the index of production in section 'Construction' calculated on the base of seasonally adjusted data³ was 0.7% below the level of the previous month. In March 2018 working day adjusted data⁴ showed a decrease by 1.5% in the construction production, compared to the same month of 2017. In March 2018 the construction production, calculated from the seasonally adjusted data, was below the level of the previous month. Index the production of civil engineering fell by 1.1% and production of building construction - by 0.3%. On an annual basis in March 2018, the decrease of production in construction, calculated from working day adjusted data, was determined from the negative rate in the civil engineering, where the decline was by 5.8%, while in the building construction was registered an increase by 1.9%

Construction Production index, seasonally adjusted data

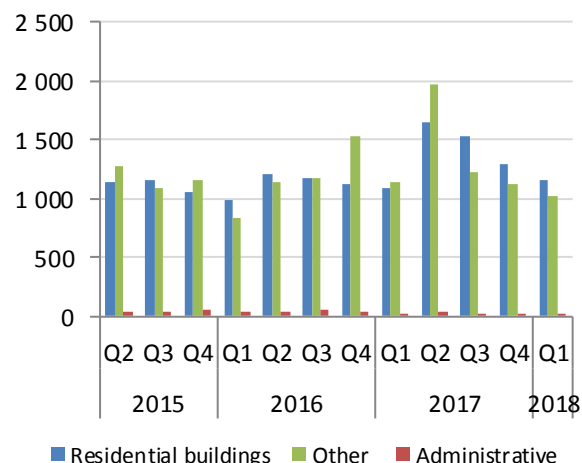


Real Estate Sector

In Q1 2018, the municipal authorities issued building permits for construction of 1 162 residential buildings with 6 247 dwellings, of 26 administrative buildings/offices and 1 026 other buildings. The construction of 723 residential buildings with 4 157 dwellings, of 18 administrative buildings/offices and 467 other buildings was started

In Q1 2018, the municipal authorities issued building permits for construction of 1 162 residential buildings with 6 247 dwellings and 815 987 sq. m gross building area, of 26 administrative buildings/offices with 33 101 sq. m gross building area and 1 026 other buildings with 638 272 sq. m gross building area. As compared to the previous quarter the issued building permits for residential buildings decreased by 10.3%, the number of their dwellings - by 14.7% and the gross building area - by 9.8%. The issued building permits of administrative buildings and of other buildings shown a drop by 13.3% and 9.2% respectively, as the gross building area of administrative buildings rose by 13.2%, while the gross building area of other buildings decreased by 7.7%. As compared to Q1 of 2017 the issued building permits for new residential buildings increased by 6.3%, their dwellings - by 33.1% and their gross building area - by 37.1%. The issued building permits of administrative buildings and of other buildings fell by 10.3% and 10.1% respectively (Figure 1) and the decline in their gross building area was by 57.2% and 21.2%. The

Building permits, issued for construction of new buildings



highest number of building permits for new residential buildings was issued in the following districts: Sofia (capital) - 205, Plovdiv - 176, Varna - 108 and Burgas - 102. Most dwellings are to be built in the districts: Sofia (capital) - 2 337, Plovdiv - 1 355, Burgas - 754 and Varna - 687. In Q1 2018 began the construction of 723 residential buildings with 4 157 dwellings and 476 224 sq. m gross building area, of 18 administrative buildings/offices with 22 623 sq. m gross building area and of 467 other buildings with 428 856 sq. m gross building area. As compared to the previous quarter the number of started residential buildings fell by 7.2%, their dwellings - by 1.4% and their gross building area - by 12.4%. The started administrative buildings marked a rise by 12.5%, but their gross building area decreased by 16.7%. The number of started other buildings dropped by 18.1% and their

gross building area - by 5.7%. As compared to the first quarter of 2017 the started new residential buildings increased by 13.1%, their dwellings - by 29.2% and the gross building area - by 16.8%. The number of started administrative buildings grew by 12.5%, while their gross building area declined by 61.8%. The started other buildings increased by 1.5% and their gross building area - by 47.5%. The construction of the highest number of new buildings were started in the following districts: Plovdiv - 140 residential buildings and 66 other buildings; Sofia (capital) - 123 residential buildings, 7 administrative buildings and 19 other buildings; Burgas - 91 residential buildings, 3 administrative buildings and 29 other buildings; Varna - 83 residential buildings and 28 other buildings.

According to preliminary data of the National Statistical Institute in Q1 2018 the number of newly built residential buildings was 565 and the newly built dwellings in them were 1 530. Compared to the first quarter of 2017 the buildings were by 103 more (or by 22.3%) while the newly built dwellings in them decreased by 221 or by 12.6%

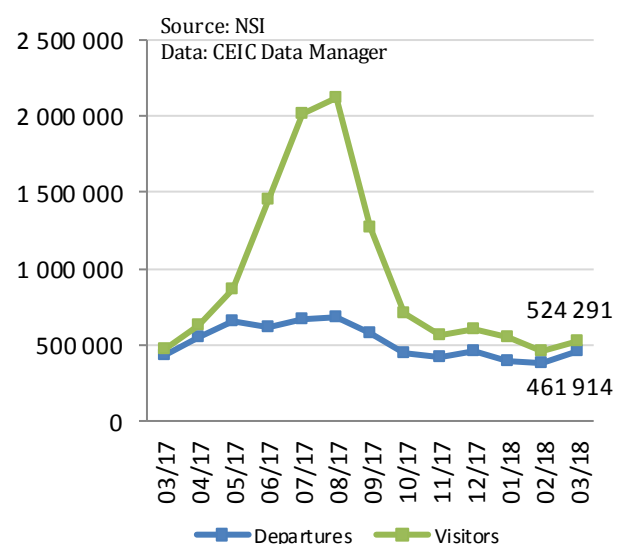
According to preliminary data of the National Statistical Institute in Q1 of 2018 the number of newly built residential buildings was 565 and the newly built dwellings in them were 1 530. Compared to the first quarter of 2017 the buildings were by 103 more (or by 22.3%), while the newly built dwellings in them decreased by 221 or by 12.6%. In Q1 of 2018, 76.6% of the newly built residential buildings were with steel-concrete construction, 19.1% with solid structure, 3.4% with 'other' and 0.9% with panel. Highest is the relative share of houses (79.1%) followed by blocks of flats (11.5%). As compared to the first quarter of 2017 the number of newly built houses, blocks of flats and country houses rose, while the number of newly built mixed buildings dropped. Highest is the number of residential buildings built in district Plovdiv - 89 buildings with 290 dwellings in them, followed by Burgas - 70 residential buildings with 249 dwellings and Varna - 67 residential buildings with 349 dwellings. Highest is the number of newly built dwellings with three rooms (37.3%), followed by the number of those with two rooms (35.8%) and lowest is the number of dwellings with six and more rooms - 4.9%. In the first quarter of 2018 the total useful space of newly built dwellings was 147.7 thousand sq. m or 5.6% less compared to the same quarter of 2017, the living floor space decreased (by 2.6%) to 97.3 thousand sq. m. The average useful floor space of a newly built dwelling increased from 89.3 sq. m in the first quarter of 2017 to 96.6 sq. m in the same quarter of 2018. The biggest average useful floor space of a newly built dwelling was recorded in districts Silistra - 258.0 sq. m and Targovishte - 240.5 sq. m, and the smallest one in Pleven - 73.3 sq. m and Vratsa - 79.0 sq. meters.

Tourism

In March 2018, the number of the trips of Bulgarian residents abroad was 461.9 thousand or by 5.6% above the registered in March 2017. The trips with other purposes (as a guest, education and visit the cultural and sport events) in March 2018 composed the greatest share of the total number of trips of Bulgarian residents abroad - 44.3%, followed by the trips with professional purpose - 30.3%, and with holiday and recreation purpose - 25.4%

In March 2018, the number of the trips of Bulgarian residents abroad was 461.9 thousand or by 5.6% above the registered in March 2017. In comparison with the same month of the previous year, an increase was observed in the total number of the trips of Bulgarians to: Romania - by 17.7%, Germany - by 7.9%, Greece - by 4.1%, Turkey - by 2.8%, Serbia - by 2.1%, and etc. At the same time decreased the number of the trips of Bulgarians to: the Netherlands - by 3.2%, Czech Republic - by 2.8%, Spain - by 0.6%, the Former Yugoslav Republic of Macedonia - by 0.5%, and etc. In comparison with March 2017, an increase was registered in the trips with all observed purposes: with holiday and recreation purpose - by 7.0%, with other purposes - by 5.2% and with professional purpose - by 4.9%. The trips with other purposes (as a guest, education and visit the cultural and sport events) in March 2018 composed the greatest share of the total number of trips of Bulgarian residents abroad - 44.3%, followed by the trips with professional purpose - 30.3%, and with holiday and recreation purpose -

Total Visitors/Departures



25.4%. In March 2018 most trips of Bulgarian citizens were made to: Turkey - 120.5 thousand, Greece - 66.2 thousand, Serbia - 42.1 thousand, Romania - 34.8 thousand, the Former Yugoslav Republic of Macedonia - 27.9 thousand, Germany - 22.3 thousand, France - 16.1 thousand, Austria - 13.7 thousand, the United Kingdom - 13.5 thousand, Italy - 12.2 thousand. In March 2018, the number of arrivals of visitors from abroad to Bulgaria was 524.3 thousand or by 10.5% more in comparison with March 2017. An increase was registered in the trips by all observed purposes: with other purposes (including as guest and passing transit) - by 14.4%, with holiday and recreation purpose - by 8.3%, and with professional purpose - by 7.2%. Transit passes through the country were 23.2% (121.4 thousand) of all visits of foreigners to Bulgaria. The share of visits of EU citizens was 48.7% of the total number of foreigners' visits to Bulgaria in March 2018 or by 9.9% more in comparison with the same month of the previous year. An increase was registered in the visits of citizens from Germany - by 25.4%, the United Kingdom - by 24.1%, Italy - by 13.9%, Greece - by 6.0%, Romania - by 3.4%, and etc. At the same time decreased the visits from Austria - by 30.3%, Czech Republic - by 28.4%, Croatia - by 4.3%, and etc. The visits of foreigners in the group 'Other European countries' increased by 8.5%, as the highest growth was observed in the visits of citizens of Turkey - by 15.4%. In March 2018, the predominant share of the visits with other purposes was 40.4%, followed by trips with holiday and recreation purpose - 39.2%, and with professional purpose - 20.4%. In March 2018 the most visits to Bulgaria were from: Turkey - 92.4 thousand, Romania - 77.1 thousand, Greece - 72.7 thousand, the Former Yugoslav Republic of Macedonia - 47.1 thousand, Serbia - 42.5 thousand, Germany - 18.9 thousand, the United Kingdom - 18.5 thousand, Israel - 15.3 thousand, Ukraine - 14.8 thousand, Italy - 10.7 thousand.

The total revenues from nights spent in March 2018 reached 44.9 million BGN or by 12.9% more compared to March 2017

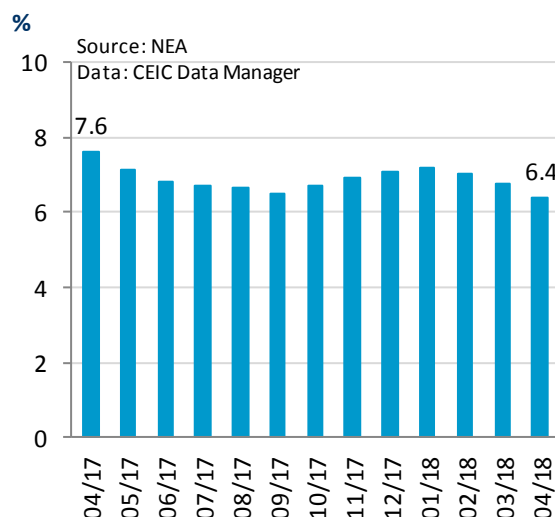
In March 2018, 1 942 accommodation establishments - hotels, motels, camping sites, mountain chalets and other establishments for short-term accommodation with more than 10 bed-places were functioned in the country. The total number of the rooms in them was 56.8 thousand and the bed-places were 114.9 thousand. In comparison with March 2017, the total number of accommodation establishments (functioned during the period) increased by 3.1%, and the bed-places in them - by 2.8%. The total number of the nights spent in all accommodation establishments registered in March 2018 was 832.9 thousand, or by 6.4% more in comparison with the same month of the previous year, as the greatest increase (by 9.9%) was observed in 3 stars accommodation establishments. In March 2018, 72.2% of all nights spent by foreign citizens and 37.3% of all nights spent by Bulgarians were realized in 4 and 5 stars hotels. In 3 stars accommodation establishments were spent 20.9% of all nights by foreigners and 32.4% of all nights by Bulgarian residents, while in the rest of accommodation establishments (with 1 and 2 stars) they were 6.9% and 30.3% respectively. The number of people in the placement in March 2018 increased by 4.8% compared to the same month of 2017 and reached 400.4 thousand, registering an increase of 5.2% for the Bulgarians and by 3.9% with foreigners. Bulgarian citizens staying in the accommodation in March 2018 are 274.2 thousand and have an average of 1.9 nights. Foreign citizens are 126.2 thousand, with 71.9% of them staying in hotels with 4 and 5 stars and spending an average of 2.5 nights. Total bed occupancy in March 2018 is 24.1%, rising by 0.5 percentage points compared to March 2017. The highest occupancy rate for beds in hotels with 4 and 5 stars - 33.8%, followed by accommodation with 3 stars - 24.2%, and with 1 and 2 stars - 14.3%.

Unemployment

In April 2018, unemployment in Bulgaria decreased by 0.01 percentage points to 5.1% on the previous month

According to EUROSTAT, unemployment in Bulgaria in April 2018 dropped to 5.1% from 5.2% in March. According to this indicator, Bulgaria is one of the EU member states with unemployment, which is lower than the average European. In April 2018, 177,000 Bulgarians were unemployed, compared with 180,000 in March and 211,000 unemployed in April 2017. The youth unemployment rate in Bulgaria decreased in April to 10.1%, from 10.4% in the previous month to 13.9% a year earlier, with a total of 18 000 young Bulgarians aged under 25 compared to 19 thousand in March and 23 thousand

Registered Unemployment Rate



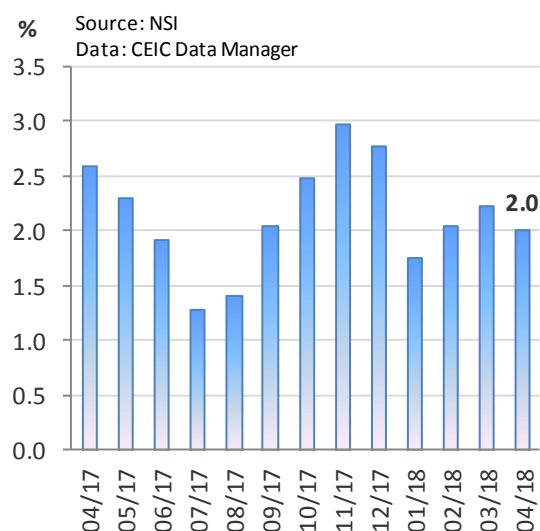
a year earlier. In April 2018, the unemployment rate in the European Union (EU) remained for the third consecutive month at 7.1% (the lowest level since September 2008), while within the euro area unemployment fell to 8.5% (lowest unemployment since December 2008) from 8.6% in March. According to European statistics, a total of 17,462 million Europeans, of which 13,880 million from the eurozone, were unemployed in the fourth month of last year, compared with March, with a decrease of 53,000 in the EU, while the number of jobless in the euro area declined within a month with 56 thousand. Compared to April 2017, the total number of unemployed Europeans declined by 1,633 million, of which 1,088 million within the single currency unit. The lowest unemployment rate in April was recorded in the Czech Republic (2.2%), followed by Malta (3.0%) and Germany (3.4%), while unemployment remained the highest in Greece (20.8% according to data for February 2018) and Spain (15.9% in April). In April, a total of 3,426 million young people under the age of 25 were unemployed in the EU (youth unemployment rate of 15.3%), a reduction of youth unemployment of 464,000 compared to a year earlier when unemployment among young Europeans was at 17.2%.

Inflation

The consumer price index in April 2018 compared to March 2018 was 100.4%, i.e. the monthly inflation was 0.4%

The consumer price index in April 2018 compared to March 2018 was 100.4%, i.e. the monthly inflation was 0.4%. The inflation rate since the beginning of the year (April 2018 compared to December 2017) has been 0.7% and the annual inflation in April 2018 compared to April 2017 was 2.0%. The annual average inflation, measured by CPI, in the last 12 months (May 2017 - April 2018) compared to the previous 12 months (May 2016 - April 2017) was 2.1%. The harmonized index of consumer prices in April 2018 compared to March 2018 was 100.3%, i.e. the monthly inflation was 0.3%. The inflation rate since the beginning of the year (April 2018 compared to December 2017) has been 0.6% and the annual inflation in April 2018 compared to April 2017 was 1.7%. The annual average inflation, measured by HICP, in the last 12 months (May 2017 - April 2018) compared to the previous 12 months (May 2016 - April 2017) was 1.4%.

Inflation, YoY

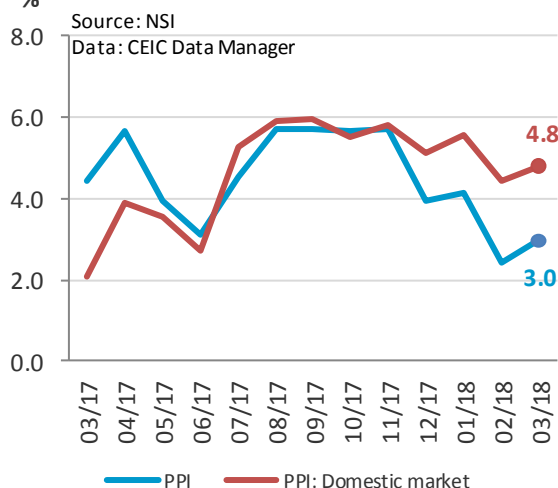


Producer Price Index in Industry

Total Producer Price Index in March 2018 remains unchanged compared to the previous month; compared to the same month of 2017 the prices rose by 3.0%. Producer Price Index on Domestic Market in March 2018 increased by 0.1% compared to the previous month; compared to the same month of 2017 the domestic prices grew by 4.8%

The Total Producer Price Index in Industry in March 2018 remains unchanged compared to the previous month. Higher prices were registered in the mining and quarrying industry by 0.4%, in the manufacturing the prices did not change, and in the electricity, gas, steam and air conditioning supply the prices decreased by 0.1%. In the manufacturing, while prices went down in the manufacture of basic metals by 1.1%, and in the manufacture of motor vehicles, trailers and semi-trailers by 0.9%. More significant increase in prices were reported in the manufacture of leather and related products by 1.7%, as well as in the manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials by 1.2%. The Total Producer Price Index in March 2018 increased by 3.0% compared to the same month of 2017. The prices rose in the electricity, gas,

Producer Price Index in Industry, % change (YoY)



steam and air conditioning supply by 11.6%, in manufacturing by 0.7%, and in the mining and quarrying industry by 0.1%. In the manufacturing more significant increase in prices were seen in the manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials by 6.9%, and in the manufacture of paper and paper products by 5.1%, while the producer prices dropped in the manufacture of tobacco products by 7.3% and in the manufacture of other transport equipment by 2.2%.

Producer Price Index on Domestic Market in March 2018 increased by 0.1% compared to the previous month. The domestic prices went up in the mining and quarrying industry by 0.5% and in manufacturing by 0.1%, while in the electricity, gas, steam and air conditioning supply the prices remained unchanged. In the manufacturing tobacco products - all by 0.5%. 2, compared to the previous month the prices went up in the manufacture of furniture by 0.9% in the manufacture of wearing apparel by 0.7% and in the manufacture of textiles by 0.5%. The domestic prices went down in the manufacture of chemicals and chemical products by 0.7% and in the manufacture. Producer Price Index on Domestic Market in March 2018 increased by 4.8% compared to the same month of 2017. The domestic prices rose in the electricity, gas, steam and air conditioning supply by 12.1%, in the mining and quarrying industry by 2.9% and in the manufacturing by 0.8%. In the manufacturing compared to March 2017 the prices went up in the manufacture of wood and of products of wood and cork, except furniture by 5.3% and in the manufacture of furniture by 3.5%. A decrease in the prices was reported in the manufacture of tobacco products by 8.8% and in the manufacture of rubber and plastic products by 0.9%.

Producer Price Index on Non-domestic Market in March 2018 decreased by 0.2% compared to the previous month. In the manufacturing the non-domestic prices decreased by 0.1%. More significant price decrease were reported in manufacture of basic metals by 1.2% and in the manufacture of motor vehicles, trailers and semi-trailers by 1.0% and in the manufacture of fabricated metal products, except machinery and equipment by 0.2%, while prices went up in the manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials by 2.5%, in manufacture leather and related products by 2.4%, and in the manufacture of wearing apparel by 1.1%. Producer Price Index on Non-domestic Market in March 2018 increased by 0.3% compared to the same month of 2017. In the manufacturing, the prices went up by 0.6%. The non-domestic prices rose in the manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials by 9.0%, in the manufacture of paper and paper products by 8.9% and in the manufacture of leather and related products by 6.3%. The prices fell in the manufacture of other transport equipment and in the manufacture of chemicals and chemical products - both by 3.9% and in the manufacture of tobacco products by 3.7%.

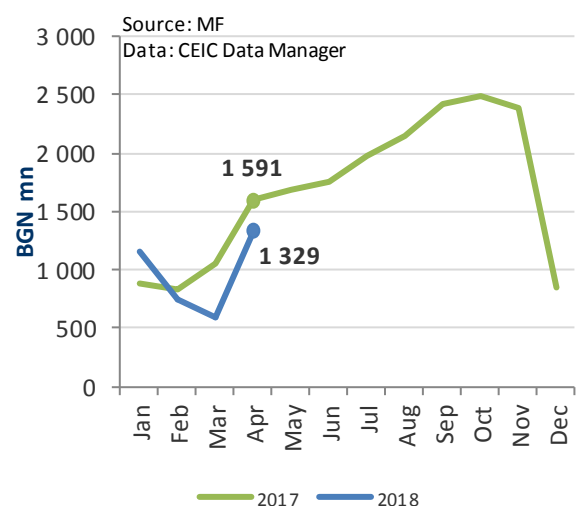
FISCAL SECTOR

Budget Balance

In March 2018 Bulgaria's consolidated Fiscal Programme (CFP) balance on a cash basis is positive, amounting to BGN 592.7 million, or 0.6% of GDP

According MF data the Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-March 2018 is positive, amounting to BGN 592.7 million, or 0.6% of the projected GDP, and is formed by a national budget surplus of BGN 880.2 million and by a EU funds deficit of BGN 287.6 million. The underlying factors for the excess of revenues over expenditures as of March are the good parameters of national budget tax and social security revenue performance. The CFP revenues and grants in March 2018 stand at BGN 9,218.8 million, or 24.1% of the annual estimates. Compared to the same period of the previous year, tax and non-tax revenues have risen by BGN 621.1 million, or by 7.3%, with grant proceeds being lower. Tax proceeds, including revenues from social security contributions, total BGN 7,828.6 million, which ac-

Budget position monthly



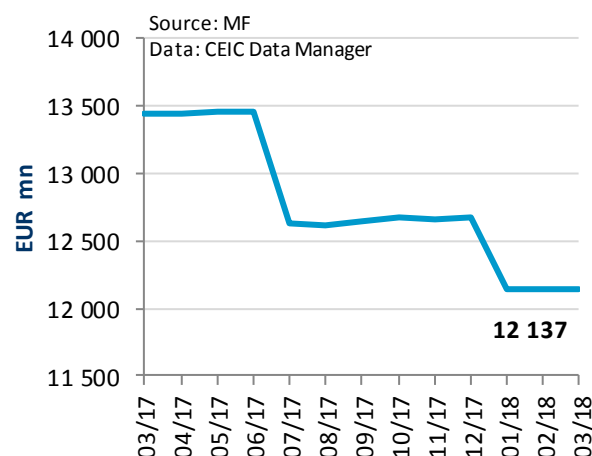
counts for 25.1% of the revenues planned for the year. Compared to the data for March 2017, tax proceeds have risen by 7.4%, or by BGN 539.8 million, in nominal terms. Direct tax revenues amount to BGN 1,453.2 million, or 25.2% of the estimates planned for the year, growing by BGN 122.4 million (9.2%) compared to the same period of the previous year. Indirect tax revenues amount to BGN 3,829.3 million, which accounts for 25.3% of the annual estimates. Compared to the data as of March 2017, proceeds in this group have grown by BGN 115.3 million, or by 3.1%. VAT proceeds amount to BGN 2,561.3 million, or 26.2% of those planned. The amount of non-refunded VAT as of 31/03/2018 is BGN 70.8 million. The excise duty revenues amount to BGN 1,195.6 million, or 23.2% of the annual estimates. Customs duty proceeds amount to BGN 63.8 million, or 33.5% 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 330.0 million, or 30.1% of the annual estimates. Revenues from social security and health insurance contributions are BGN 2,216.1 million, which accounts for 24.3% 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 282.2 million, or by 14.6%, in nominal terms. Non-tax revenues amount to BGN 1,254.1 million, which accounts for a performance of 26.7% of the annual estimates. Grant proceeds amount to BGN 136.2 million. CFP expenditures, including the contribution of the Republic of Bulgaria to the EU budget for March 2018, amount to BGN 8,626.2 million, which accounts for 21.9% of the annual estimates. For comparison, CFP expenditures for the same period of 2017 amount to BGN 7,780.6 million. The nominal increase is due both to the higher national budget expenditures and to the increasing expenditures under the European Union fund accounts. 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 system of secondary education) and the increase in capital expenditures (mainly under EU fund accounts). Non-interest expenditures amount to BGN 7,939.6 million, which accounts for 21.3% of the annual estimates. Non-interest current expenditure as of March 2018 amount to BGN 7,378.6 million, or 23.7% of the annual estimates, capital expenditures (including net increment of state reserve) amount to BGN 554.1 million, or 9.0% of the estimates to the 2018 State Budget of the Republic of Bulgaria. The current and capital transfers to other countries amount to BGN 6.9 million. Interest payments amount to BGN 378.4 million, or 52.4% of those planned for 2018. The part of Bulgaria's contribution to the EU budget, as paid from the central budget as of 31/03/2018, amounts to BGN 308.2 million, which complies with the existing legislation in the area of EU own resources. The fiscal reserve as of end-March 2018 is BGN 10.1 billion, including BGN 9.5 billion of fiscal reserve deposits in the BNB and in banks and BGN 0.6 billion of receivables under the EU Funds for certified expenditures, advance payments, etc.

Central Government Debt

In March 2018 Bulgaria's central government debt amounted at EUR 12136.8 million and presented 22.7% of GDP

According to MF data in March 2018 Bulgaria's central government debt as at end-March 2018 stood at EUR 12,136.8 million. Domestic debt amounted to EUR 2,949.7 million and external debt – to EUR 9,187.2 million. At the end of the reporting period the central government debt-to-GDP ratio was 22.7%, with the share of domestic debt being 5.5% and of external debt – 17.2% of GDP. In the central government debt structure, domestic debt at the end of the period amounted to 24.3%, and external debt – to 75.7%. The weighted average interest rate on debt for the period 01.01.2018 – 31.03.2018 is 2.69%, decreasing by 10 basis points as compared to the same period of 2017 (2.79%). As of 31 March 2018, the central government guaranteed debt amounted to EUR 351.2 million. Domestic guarantees amounted to EUR 36.2 million and external guarantees – to EUR 315.0 million. The central government guaranteed debt/GDP ratio was 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(1) of the Government Debt Law,

Central Government Debt

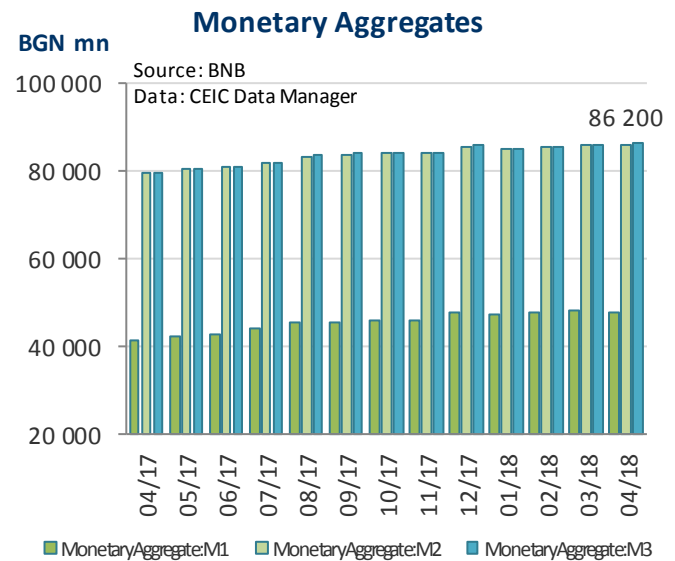


at end-March 2018 the government debt reached EUR 11,472.6 million, or 21.4% of GDP. Domestic debt amounted to EUR 2,887.0 million and external debt – to EUR 8,585.6 million. Government guaranteed debt in March 2018 amounted to EUR 1,018.0 million. Domestic guarantees amounted to EUR 36.2 million, with the government guaranteed debt-to-GDP ratio being 1.9%.

MONETARY SECTOR

At the end of March 2018 Bulgaria's broad money (M3) was BGN 86.100 billion and increased by 8.4% y/y. Bulgaria's domestic credit amounted at BGN 54.745 billion and increased by 8% y/y

In March 2018 broad money (monetary aggregate M3) increased annually by 8.4% compared to 8.1% annual growth in February 2018. At the end of March 2018 M3 was BGN 86.100 billion (82.1% of GDP) compared to BGN 85.672 billion (81.7% of GDP) in February 2018. Its most liquid component – monetary aggregate M1 – increased by 17.2% annually in March 2018 (17.6% annual growth in February 2018). At the end of March 2018, deposits⁵ of the non-government sector⁶ were BGN 72.399 billion (69% of GDP), increasing annually by 5.6% (5.6% annual growth in February 2018). Deposits of Non-financial corporations were BGN 21.674 billion (20.7% of GDP) at the end of March 2018. Compared to the same month of 2017 they increased by 13% (13.6% annual growth in February 2018). Deposits of financial corporations decreased by 31.1% annually in March 2018 (32.4% annual decline in February 2018) and at the end of the month they reached BGN 2.652 billion (2.5% of GDP). Deposits of Households and NPISHs were BGN 48.073 billion (45.8% of GDP) at the end of March 2018. They increased by 5.5% compared to the same month of 2017 (5.4% annual growth in February 2018). Net domestic assets were BGN 53.173 billion at the end of March 2018. They increased by 8.8% compared to the same month of 2017 (8.5% annual growth in February 2018). At the end of the month their basic component – domestic credit – was BGN 54.745 billion and increased by 8% compared to March 2017 (7.2% annual growth in February 2018). In March 2018 claims on the non-government sector⁷ increased by 5.3% annually (4.8% annual increase in February 2018) reaching BGN 54.956 billion. At the end of March 2018, claims on loans to the non-government sector amounted to BGN 53.846 billion (51.3% of GDP) compared to BGN 53.291 billion (50.8% of GDP) at the end of February 2018. They increased annually by 5.6% in March 2018 (5% annual growth in February 2018). The change of loans to the non-government sector was influenced also by net sales of loans by Other monetary financial institutions (Other MFIs) - their volume for the last twelve months was BGN 70.4 million. On an annual basis, loans sold⁸ by Other MFIs were BGN 134.8 million (of which BGN 10.3 million in March 2018), while the amount of repurchased loans was BGN 64.4 million (there were no loan repurchases in March 2018). In March 2018, loans to Non-financial corporations increased by 2.3% annually (2% annual growth in February 2018) and at the end of the month amounted to BGN 31.451 billion (30% of GDP). Loans to Households and NPISHs were BGN 19.974 billion (19% of GDP) at the end of March 2018. They increased by 6.3% compared to the same month of 2017 (6.1% annual growth in February 2018). At the end of March 2018 loans for house purchases were BGN 9.653 billion and increased by 9.1% annually (8.5% annual growth in February 2018). Consumer loans amounted to BGN 7.919 billion and compared to March 2017 they increased by 7.2% (6.9% annual growth in February 2018). On an annual basis other loans decreased by 5.8% (2.3% annual decline in February 2018) and reached BGN 1.111 billion. Loans granted to financial corporations were BGN 2.421 billion at the end of March 2018 (2.3% of GDP). Compared to March 2017, they increased by 64.5% (53% annual growth in February 2018).



CAPITAL MARKET

In April 2018, the main index of BSE-Sofia SOFIX registered a growth of 1.38% to 658.11 points. The index of the most liquid

companies BGBX 40 rose by 1.10% to 129.95 points. The weighted BG TR30 increased by 0.76% to 540.35 points. Property survey BGREIT rose 0.51 percent to 115.52 points

After two consecutive months of decline, SOFIX's main index of BSE-Sofia returned to its peak in April 2018, and the 15 most liquid companies included in it, the issues of 10 of them ended the fourth month of the year. In April 2018, for the first time since the beginning of the year, the monthly balance sheet for the most liquid companies of SOFIX is positive - the winning shares are more than the losers with a ratio of 10 to 4 and one issue with zero change. A year earlier, in April 2017, the ratio was negative for 10 losers and 5 winning shares. Unlike in the first three months of the year, there are no emissions in the two-digit decline in April, as well as two-digit growth. In April the total volume of trades in the 15 most liquid companies was BGN 16,334,198, which is BGN 4,770,675 more compared to March in which BGN 11,563,523 was reported. Last April, as well as in March, 3 issues have sold over 1 million leva as well as a year earlier when they were also 3. Leaders in April 2018 were: Sopharma with 9 185 398 leva, Industrial Holding Bulgaria with BGN 6 902 602 and Chimimport with BGN 1 878 394. The most profitable company in April 2018 was Zaharni Zavodi AD, which achieved a two-digit

Date	SOFIX	BGBX40	BGREIT	BGTR30
04.2017	657.3	130.3	108.4	519.9
05.2017	661.2	130.6	111.1	516.7
06.2017	703.5	134.2	113.8	535.5
07.2017	715.2	135.5	115.0	548.7
08.2017	705.4	134.9	115.3	556.1
09.2017	688.1	134.3	114.9	559.3
10.2017	671.4	131.2	115.9	547.1
11.2017	665.0	130.5	114.0	547.9
12.2017	677.5	132.0	116.1	556.0
01.2018	712.7	138.2	115.4	571.6
02.2018	686.4	133.3	116.5	558.0
03.2018	649.2	128.5	114.9	536.3
04.2018	658.1	130.0	115.5	540.4

Source: Bulgarian Stock Exchange-Sofia

growth of 53.12%. Second is Advance Equity Holding AD. The third position is Svilosa AD, which achieved a growth of 13.64%. The fourth position in the rankings is Sv. St. Konstantin and Elena Holding AD, which achieved a growth of 7.27%. The last company in the ranking is M + S Hydraulic AD, which marks a one-digit growth of 6.08%. Top 5 losers in April 2018 is headed by CEZ Electro Bulgaria AD with a decrease of 10.85%. Second is Trace Group Hold AD with a decrease of 8.33%. The third position occupies Billboard AD. The fourth position in the ranking with a decrease of 6.14% is occupied by Sirma Group Holding AD. The last position in the ranking is CB First Investment Bank AD, which marks a one-digit drop of 3.94%.

BANKING SECTOR

In March 2018, the banking system's assets grew up by 5.0% y/y to BGN 97.6 billion, respectively with an increase in loans and advances, securities portfolios, deposits and balance-sheet capital

According to BNB data, the aggregate profit of the banking system for Q1 2018 is BGN 267 million (compared to BGN 288 million for the same period last year). The cost of impairment of financial assets not reported at fair value through profit or loss for the current quarter is BGN 106 million (compared to BGN 125 million a year earlier). As of March 31, 2018, the ROA and ROE levels of the banking system were 1.10% and 8.88% respectively.

Indicator (BGN'000)	31.03.2017	31.03.2018	Y/Y (%)
Interest Income	774 060	720 846	-6.9
Interest Expense	103 214	74 805	-27.5
Net interest income	670 846	646 041	-3.7
Impairment	124 959	106 411	-14.8
Fee and commission income	264 937	281 726	6.3
Fee and commission expenses	33 278	39 185	17.8
Net fee and commission income	231 659	242 541	4.7
Administration costs	386 657	415 082	7.4
Personal cost	193 532	204 076	5.4
Total operating income, net	875 341	852 239	-2.6
Net Profit	287 602	267 194	-7.1

Source: BNB, Calculations : UBB

According to BNB data, the assets of the banking sector decreased by 0.2% (BGN 238 million) compared to December 2017 and amounted to 97.6 billion BGN at the end of March 2018. The share of the five largest credit institutions in the assets of the banking system increased to 59.1%. As of the end of March 2018 at banking system level, a decline in cash balances with central banks and cash holdings was recorded, while an increase in other deposits of sight. The share of assets in the money position, cash balances with central banks and other sight deposits is decreasing, but remains significant - 18.9%. There is a decline in the total portfolio of securities and also in the share of balance sheet assets - up to 13.4% at the end of March. Growth is recorded in the balance sheet total of loans and advances and its share is increased to 63.0%. Gross loan portfolio (excluding loans and advances to the central banks and credit institutions sector) increased by 4.1% y/y to BGN 57.0 billion at the end of March 2018. Loans to non-financial corporations increased by 0.9% y/y to BGN 33.6 billion, for households by 7.2% y/y to BGN 20.2 billion, for other financial corporations with 33.5% y/y to BGN 2.6 billion. Government loans reported an annual decline of 8.6%. Attracted funds from customers in the banking system increased by 5.5% y/y to BGN 78.6 billion. An increase was recorded in household deposits (by 5.1% y/y to BGN 49.8 billion), general government (by 19.3% y/y to BGN 2.2 billion) and other non-financial corporations (12.6% y/y to BGN 23.8 billion), while other financial corporations decreased by 31.7% y/y to BGN 2.8 billion.

Bulgaria Intermediation Indicators	31.03.2017 BGN'000	31.12.2017 BGN'000	28.02.2018 BGN'000	31.03.2018 BGN'000	Change m/m (%)	Change y/y (%)	Change yend (%)	Share in GDP (%)
BANKING SYSTEM TOTAL ASSETS	92 925 284	95 850 484	97 320 309	97 570 257	0.3	5.0	1.8	92.2
Loans to central governments	651 166	614 592	592 253	595 261	0.5	-8.6	-3.1	0.6
Loans to non-financial corporations	33 312 725	33 516 791	33 342 388	33 604 455	0.8	0.9	0.3	31.6
Loans to financial corporations	1 944 517	2 352 930	2 489 626	2 596 896	4.3	33.5	10.4	2.4
Retail loans, incl.:	18 849 995	19 972 030	20 056 098	20 207 797	0.8	7.2	1.2	19.0
Mortgage loans	8 840 656	9 444 146	9 820 212	9 928 714	1.1	12.3	5.1	9.3
Consumer loans	8 756 720	9 264 095	9 048 891	9 132 875	0.9	4.3	-1.4	8.6
Micro credits and other loans	1 252 619	1 263 789	1 186 995	1 146 208	-3.4	-8.5	-9.3	1.1
TOTAL LOANS	54 758 403	56 456 343	56 480 365	57 004 409	0.9	4.1	1.0	53.5
ATTRACTED SOURCES FROM CLIENTS, incl.:	74 506 997	76 747 619	78 306 251	78 611 229	0.4	5.5	2.4	74.1
Local government deposits	1 817 569	1 824 421	2 158 715	2 168 881	0.5	19.3	18.9	2.0
Non-financial corporations deposits	21 168 020	23 709 705	23 690 781	23 831 960	0.6	12.6	0.5	22.4
Financial corporations deposits	4 122 560	2 842 120	2 763 346	2 815 136	1.9	-31.7	-0.9	2.6
Households and NPISHs deposits	47 398 848	48 371 373	49 693 409	49 795 252	0.2	5.1	2.9	47.1
Equity	12 184 741	12 468 136	12 299 768	12 034 184	-2.2	-1.2	-3.5	11.6
Net profit (annualised)	287 602	1 088 190	189 144	267 194		-7.1		
BANKING INDICATORS (%)								
ROE	9.4	9.5	9.2	8.9	-1.2	0.4	-1.2	
ROA	1.2	1.2	1.2	1.1	-0.1	0.1	-0.1	
Capital adequacy	22.7	22.1	n.a	20.9				
Liquidity	n.a	n.a	n.a	327.9				
NPL	13.2	10.2	n.a	9.3	0	0.06	-0.13	
GDP, BGN '000	96 800 000	99 624 000	105 609 000	105 609 000				
EUR/BGN	1.95583	1.95583	1.95583	1.95583				

Source: BNB, MF, Calculations: UBB

At the end of March 2018 the gross amount of non-performing loans and advances in the banking system amounted to BGN 7715 million (compared to BGN 8292 million as at 31 December 2017). Their share in the total amount of gross loans and advances decreased to 9.3% (against 10.2% at the end of December 2017). The net value of non-performing loans and advances (after deduction of impairment inherent in this impairment category) is also down and at the end of the quarter it is BGN 3574 million or 4.6% of the total net value of loans and advances (at 5.5% December 2017).

Non-performing loans Total	Gross book value / nominal value					Cumulative impairment, accumulated negative changes in fair value due to credit risk and provisions	Non-performing loans > 90 days	Relative share of non-performing loans (%)
	Performed	Non-performed						
		Unlikely to be repaid, without arrears or overdue ≤ 90 days	Overdue > 90 days ≤ 180 days	Overdue > 180 days				
Loans and Advances	82 952 361	75 237 104	2 249 833	366 234	5 099 190	-4 773 559	7 715 257	9.3
Central banks	12 779 416	12 779 416	0	0	0	-165	0	0.0
General governments	595 261	593 078	1 084	1 099	0	-3 646	2 183	0.4
Credit Institutions	13 140 743	13 136 576	0	0	4 167	-9 844	4 167	0.0
Other financial corporations	2 596 896	2 545 095	2 373	83	49 345	-65 267	51 801	2.0
Non-financial corporations	33 632 247	27 945 462	1 717 428	215 098	3 754 259	-3 370 052	5 686 785	16.9
Retail Exposures, including	20 207 798	18 237 477	528 948	149 954	1 291 419	-1 324 585	1 970 321	9.8
Of which: Loans secured by residential property	9 928 714	8 930 424	293 200	68 700	636 390	-461 208	998 290	10.1
Of which: Consumer Loans	9 132 875	8 310 050	229 446	79 358	514 021	-731 053	822 825	9.0

Source: BNB, Calculations UBB

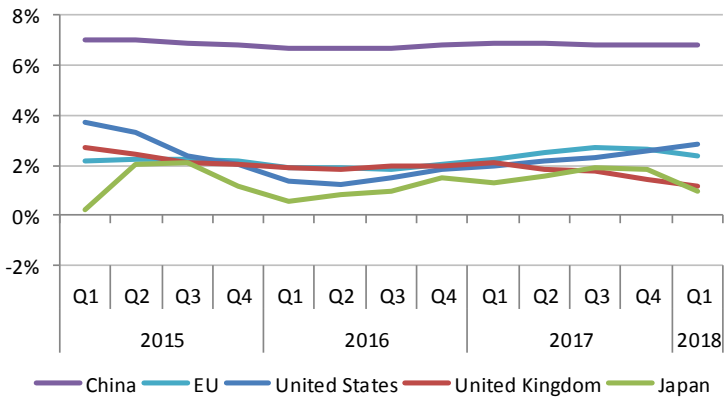
The report on non-performing loans and advances has been updated according to the new model F_18. New benchmarks and guidelines for credit institutions are in force as of 1 January 2018 in relation to the application from 1 January 2018 of the new standard for accounting for financial instruments IFRS 9 Financial Instruments and Implementing Regulation (EU) 2017 / 1443 of 29 June 2017. More information is available in the "Reporting Requirements" section of the BNB website

The liquidity buffer and net outgoing liquidity flows, calculated in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council and Commission Delegated Regulation (EU) 2015/61, amounted to 25.2 billion leva and 7.7 billion. The ratio between the two amounts - the liquidity coverage ratio (LCR), is 327.9%. With effect from January 1, 2018, the introduction introduced under Art. 412 (1) of Regulation (EU) No 575/2013, a liquidity coverage requirement. The liquidity ratio is calculated as defined in Art. 4 (1) of the Commission Delegated Regulation (EU) 2015/61. The liquidity ratio is equal to the ratio of the credit institution's liquidity buffer to its net outflow of liquidity flows over a 30-day stress period and is expressed as a percentage. Credit institutions shall maintain a liquidity coverage ratio of at least 100%.

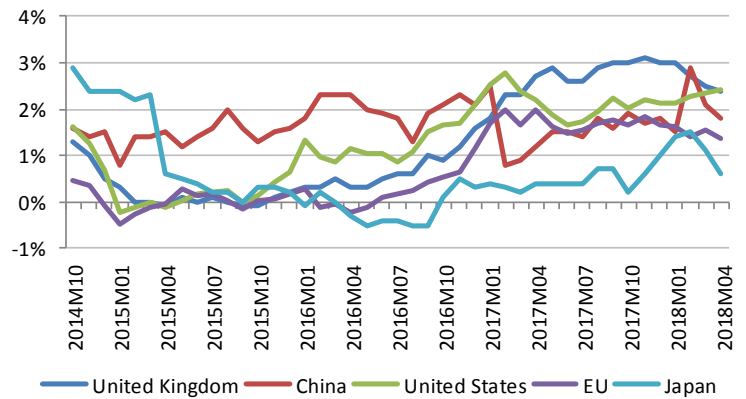
Equity in the balance sheet of the banking system at the end of March 2018 amounted to BGN 12.0 billion, down by BGN 563 million (4.5%) in the quarter. As at 31 March 2018, the Tier 1 ratio was 19.79% and the total capital adequacy ratio was 20.91%.

Appendix

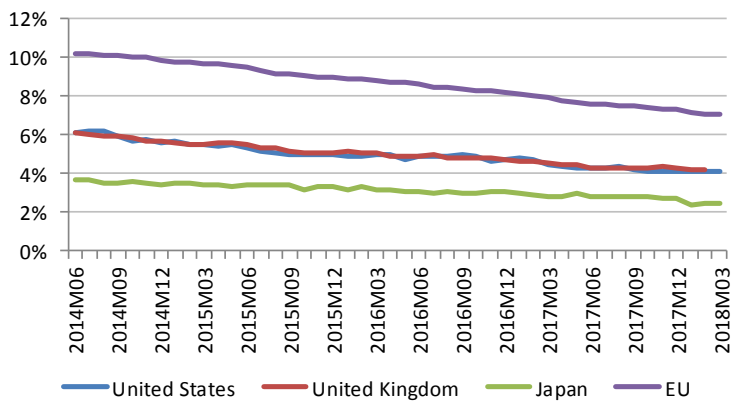
Advanced Economies: GDP growth rate compared to the same quarter of the previous year



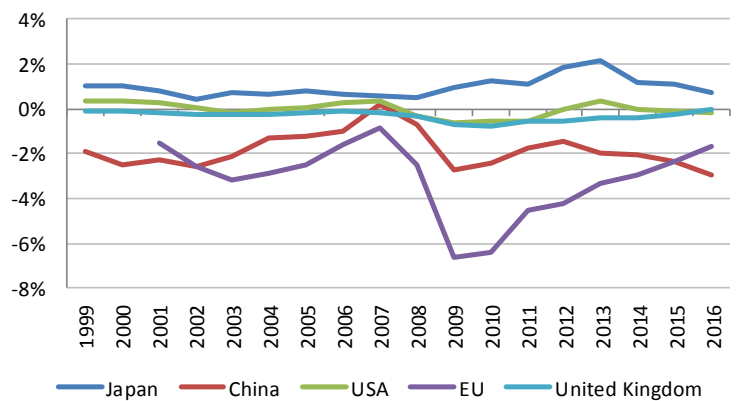
Advanced economies: Inflation by country, monthly (y/y)



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

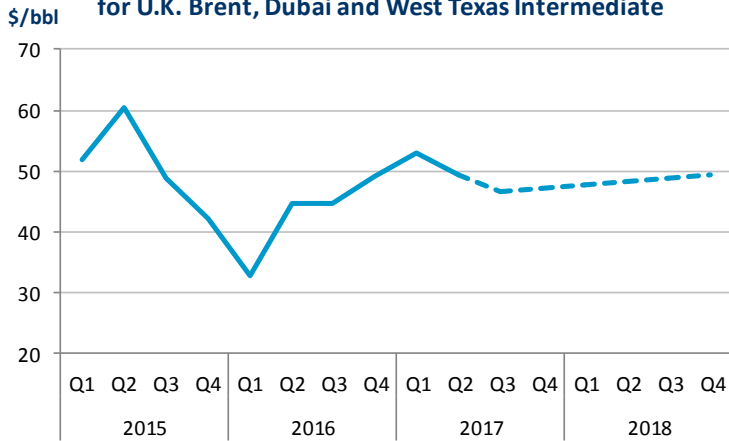


Advanced economies: Budget surplus/deficit to GDP (%)

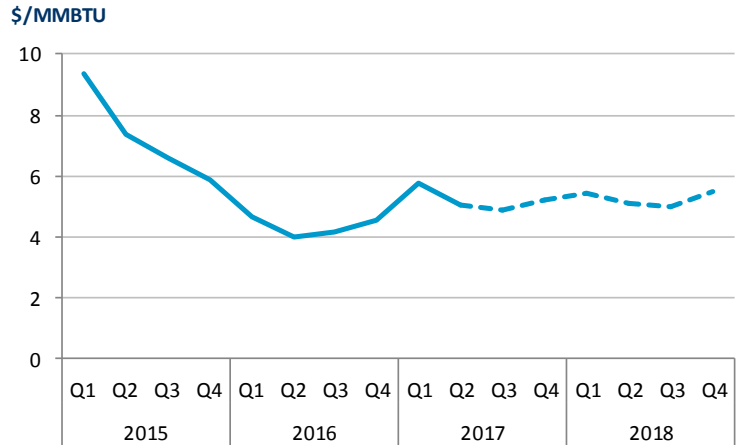


Overseas Prices of Oil Products

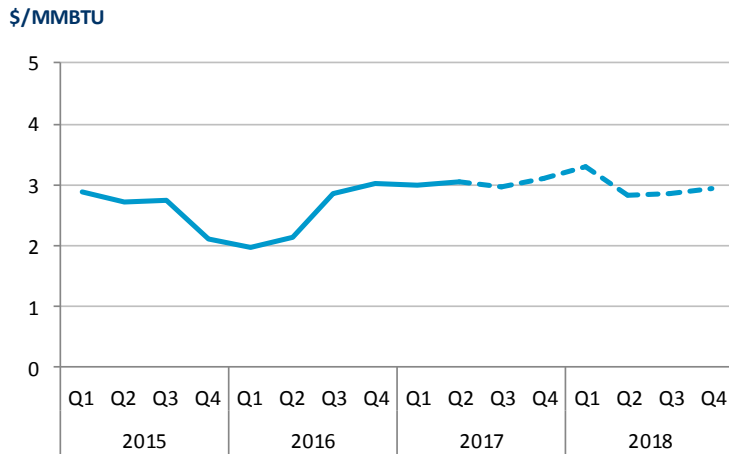
Spot Crude: Petroleum price - average of spot prices for U.K. Brent, Dubai and West Texas Intermediate



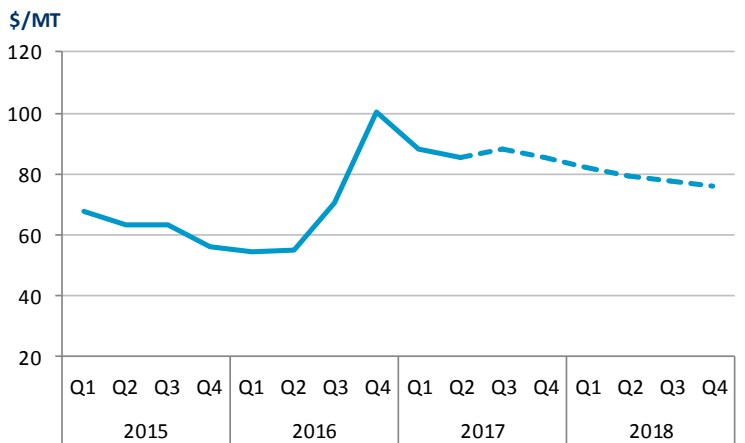
Natural Gas: Russian in Germany



Natural Gas: US, domestic market

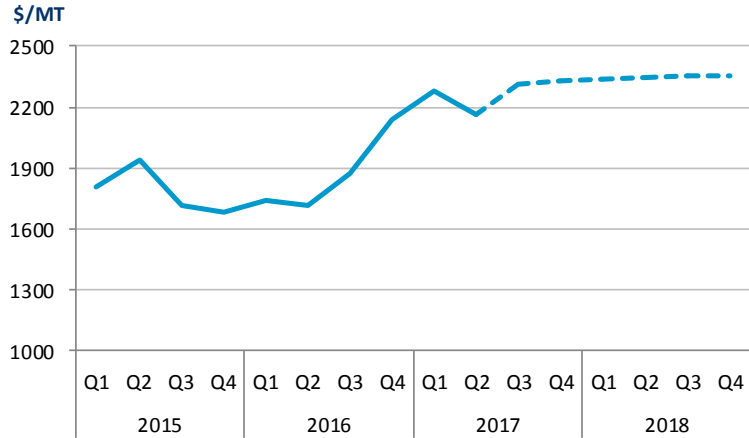


Coal: Australian, export markets

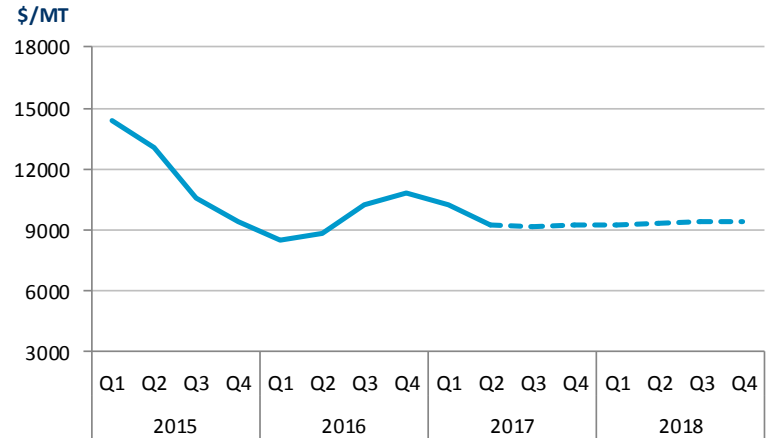


Overseas Prices of Metals

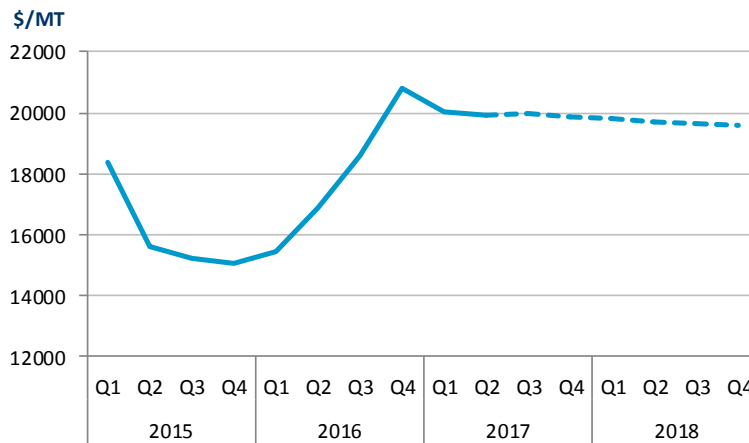
Lead



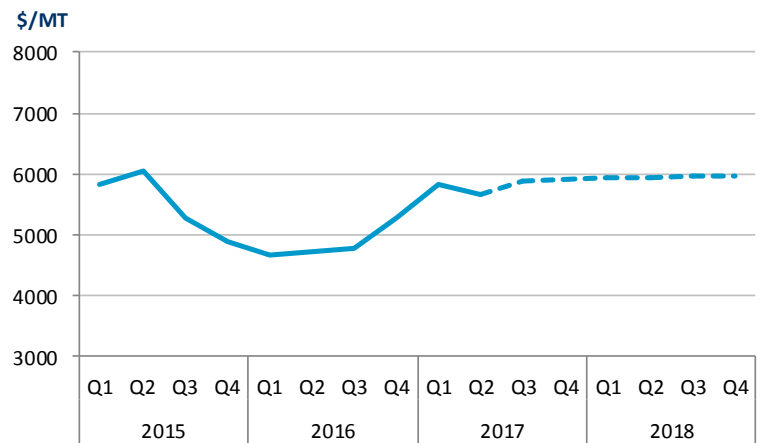
Nickel



Tin

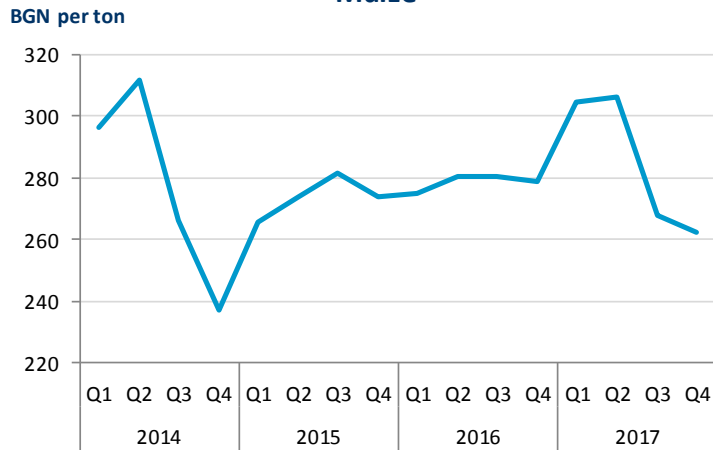


Copper

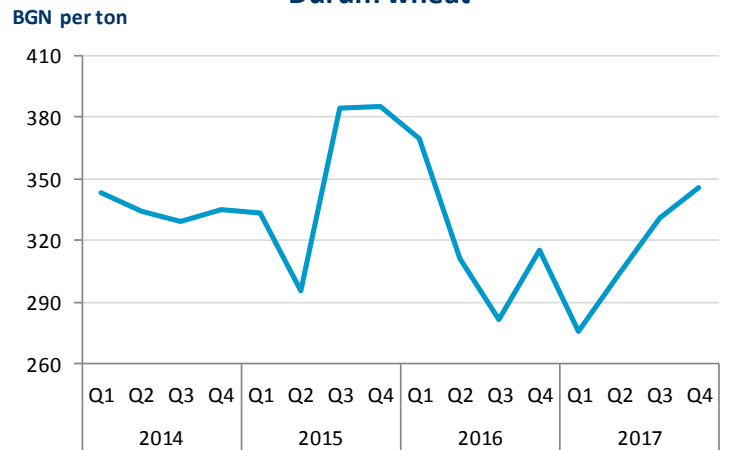


Bulgaria: Prices of Agriculture products

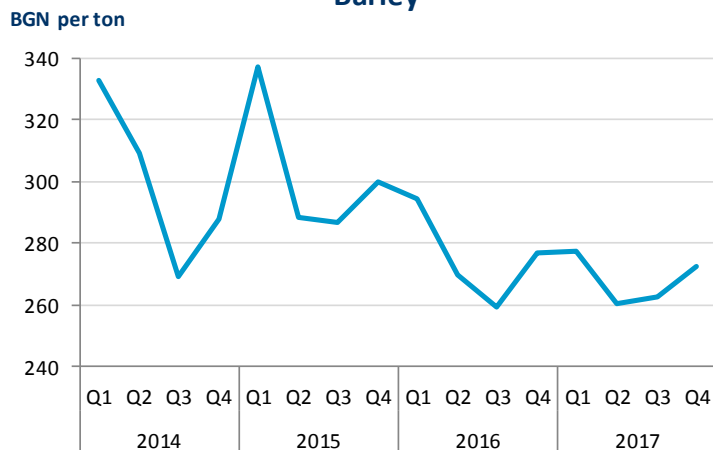
Maize



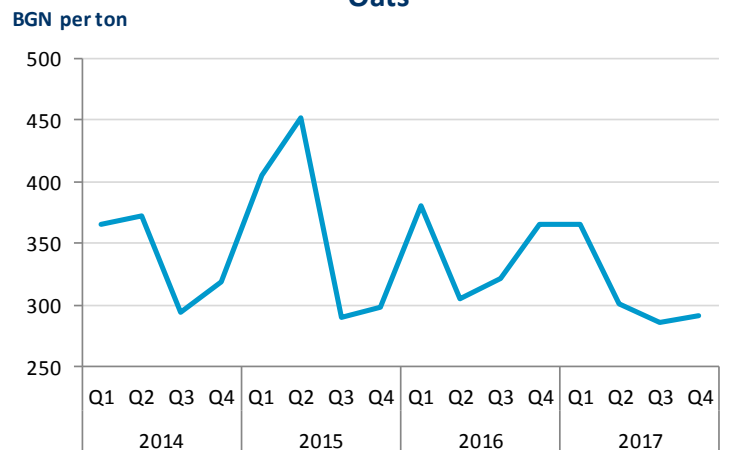
Durum wheat



Barley

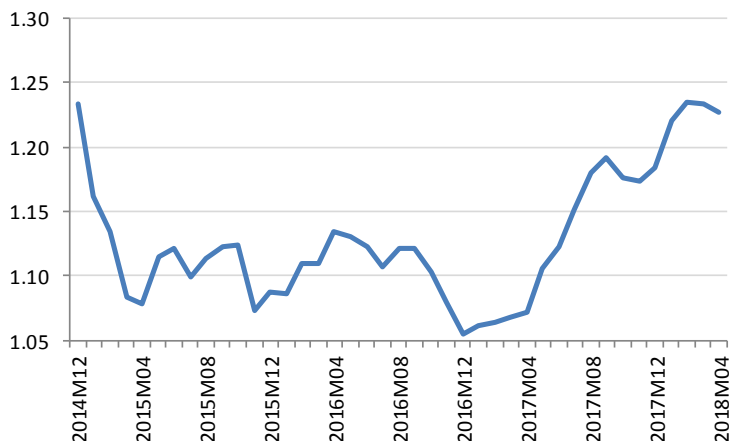


Oats

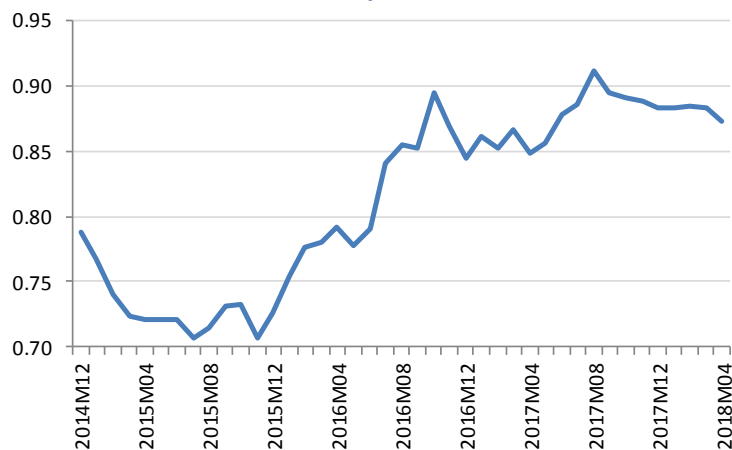


Overseas FX Rates

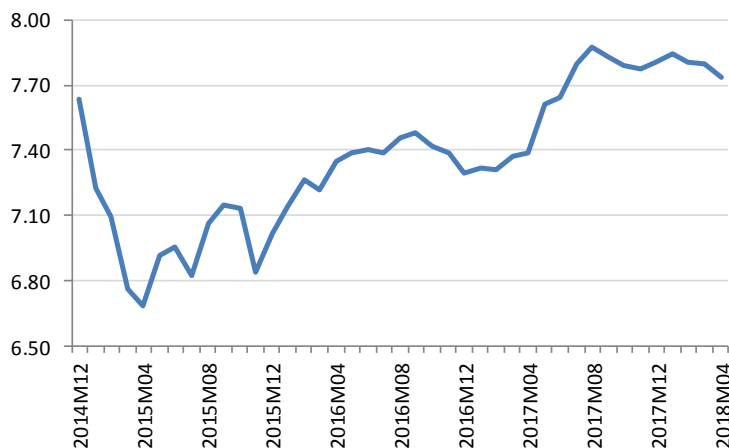
EUR/USD



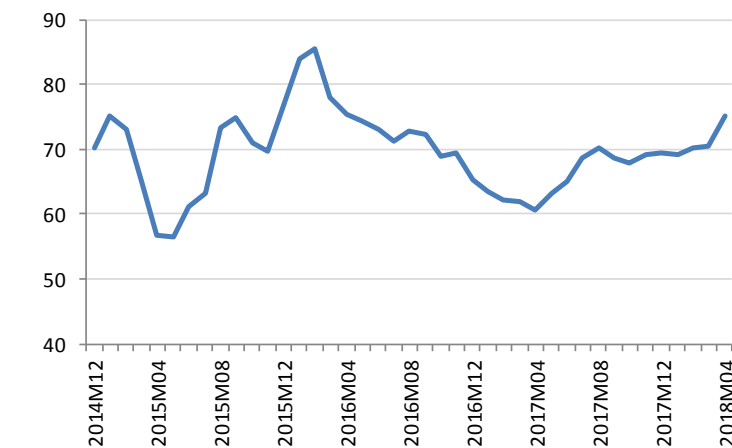
EUR/GBP



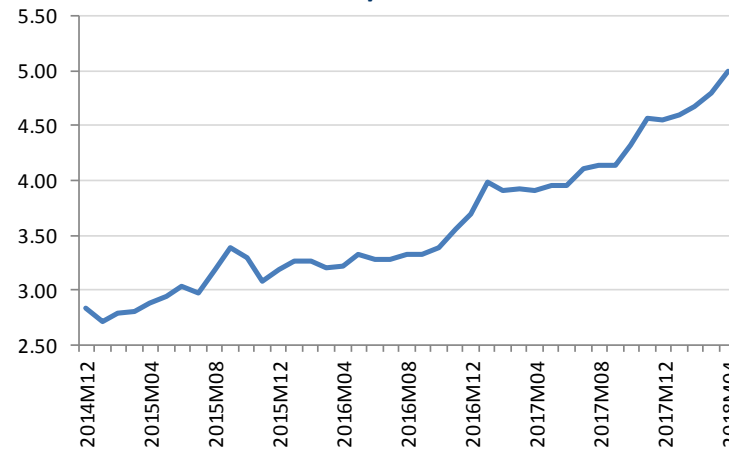
EUR/CNY



EUR/RUB



EUR/TRY

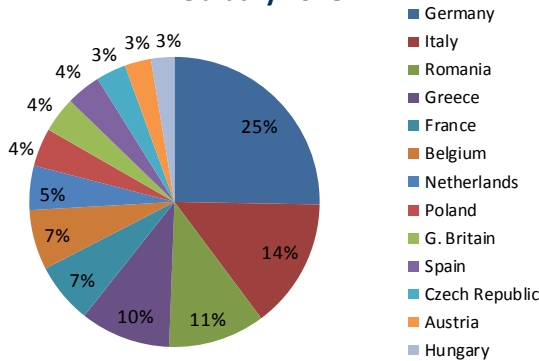


EUR/JPY

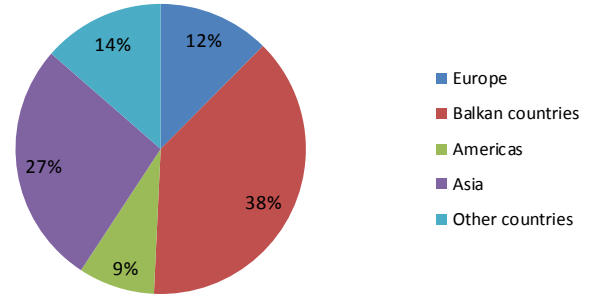


Bulgaria: External Sector Indicators

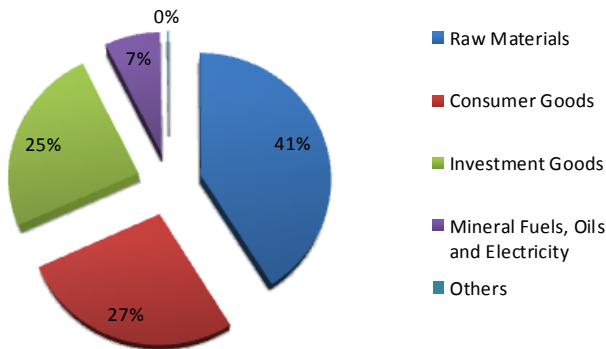
Exports: FOB by EU countries: January - February 2018



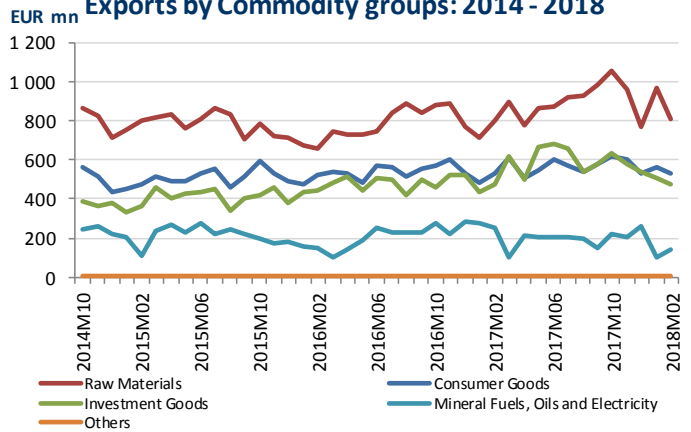
Exports: FOB by Non EU countries: January - February 2018



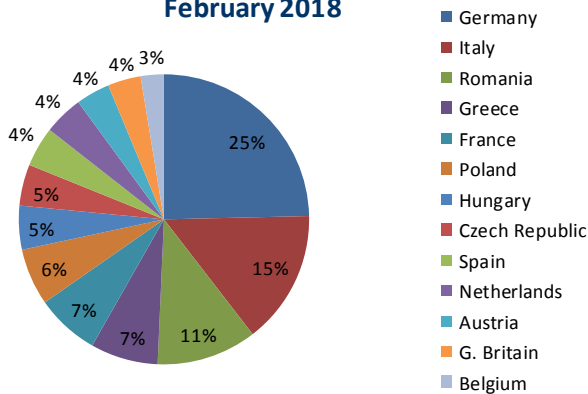
Exports: FOB: Commodity groups - percentage shares for February 2018



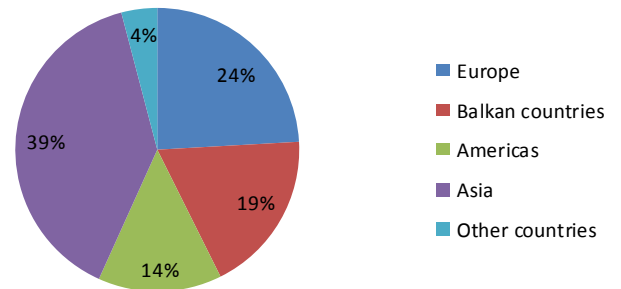
Exports by Commodity groups: 2014 - 2018



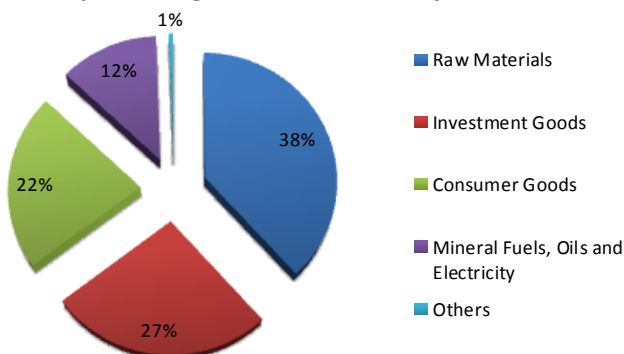
Imports: CIF by EU Countries: January - February 2018



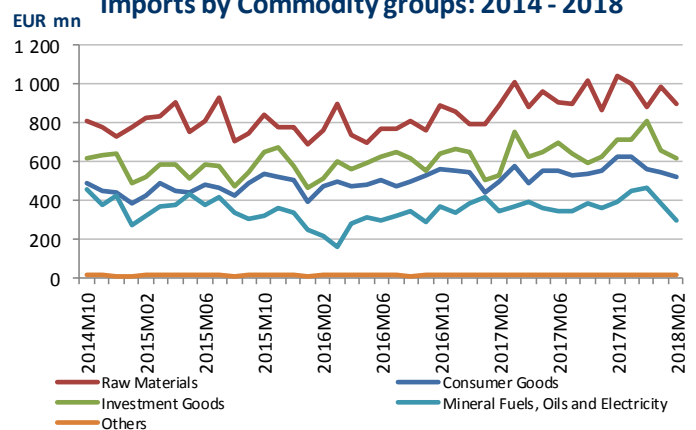
Imports: CIF by Non EU Countries: January - February 2018



Imports: CIF - Commodities groups - percentage share for February 2018

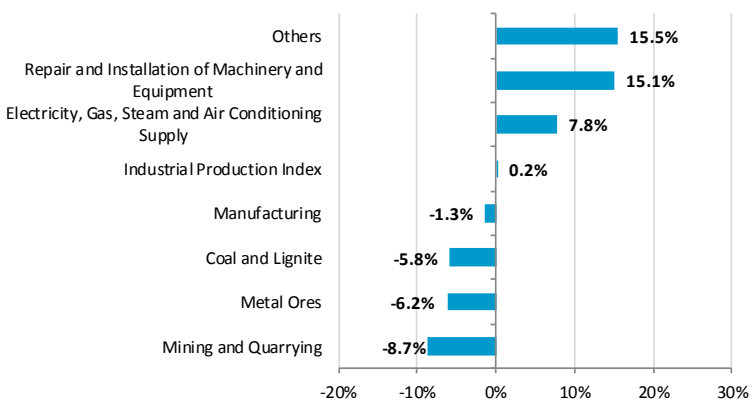


Imports by Commodity groups: 2014 - 2018

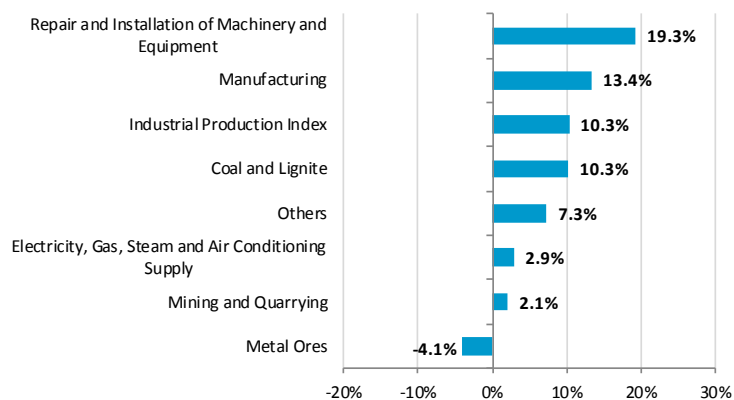


Bulgaria: Real Sector Indicators

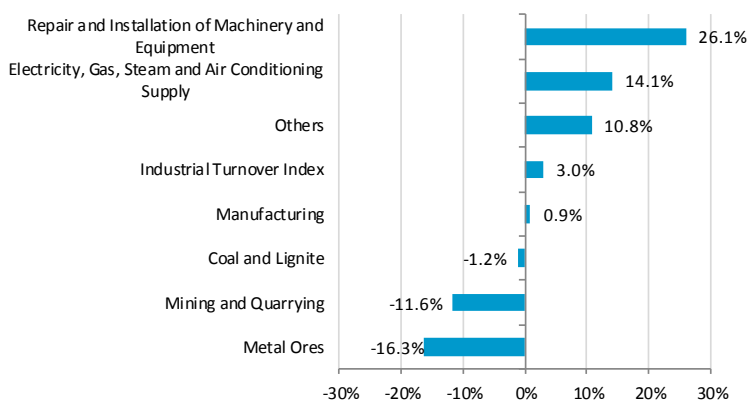
Industrial Production Index: % change in March 2018 compared to March 2017



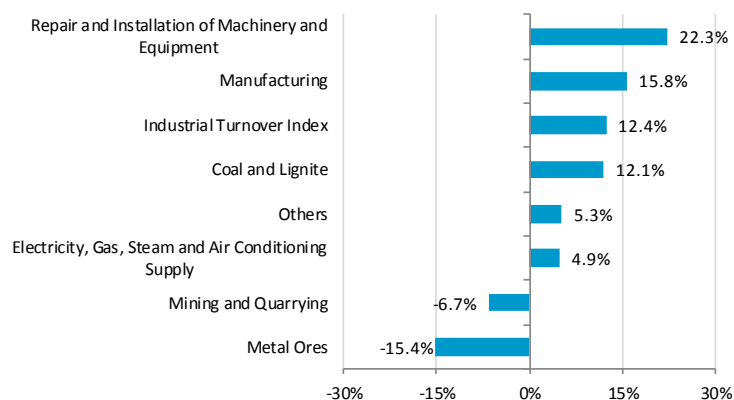
Industrial Production Index: % change in March 2018 compared to February 2018



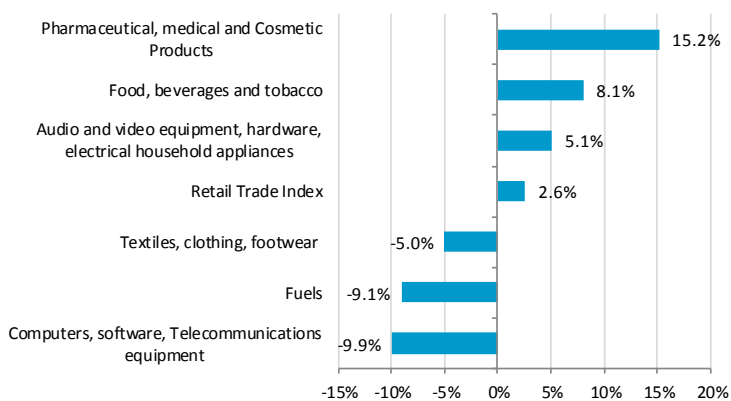
Industrial Turnover Index: % change in March 2018 compared to March 2017



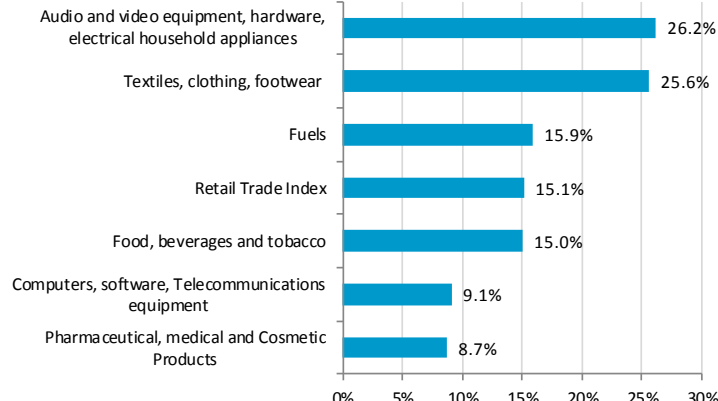
Industrial Turnover Index: % change in March 2018 compared to February 2018



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

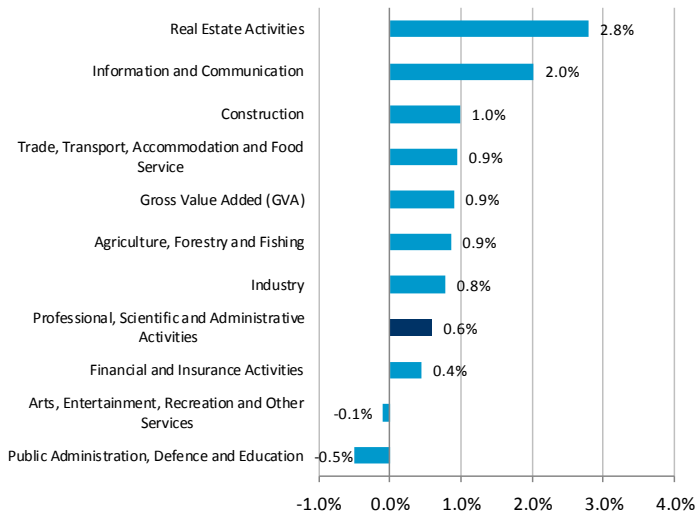


Retail Trade Index: % change in March 2018 compared to February 2018

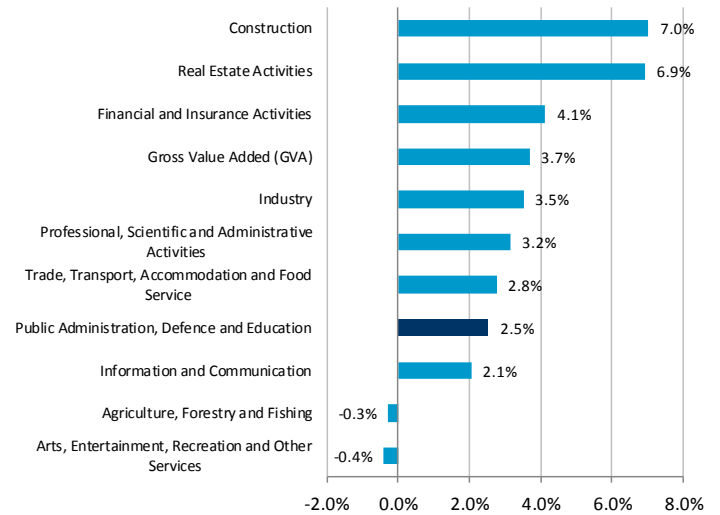


Bulgaria: Real Sector Indicators

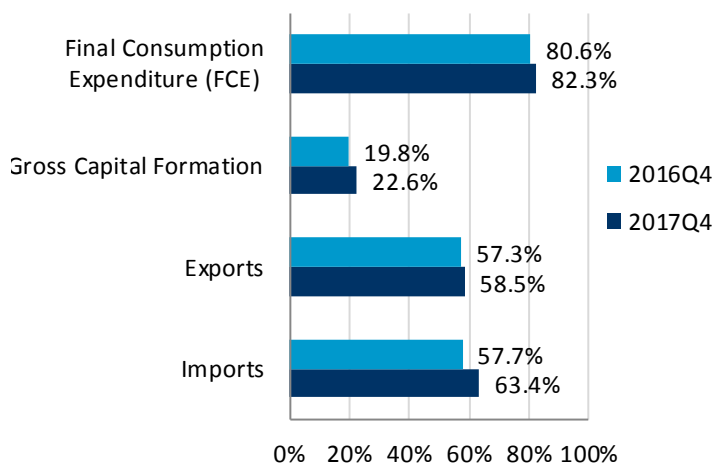
Gross Value Added by Economic Sectors: Percentage Change of Q4 2017 compared to Q3 2017



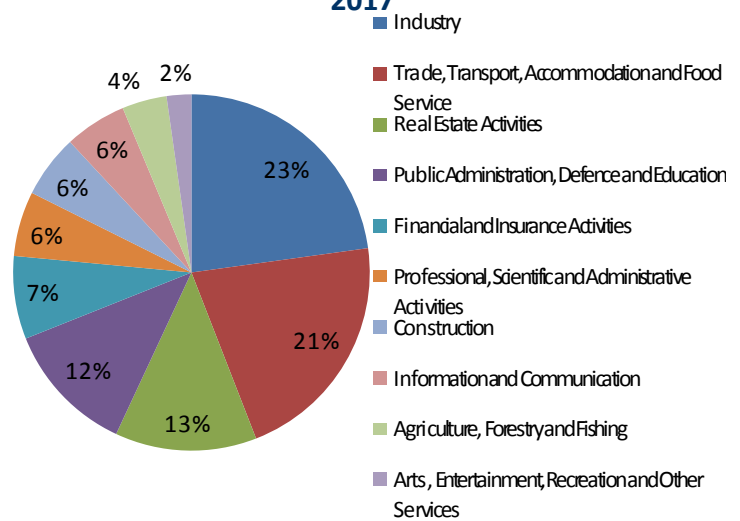
Gross Value Added by Economic Sectors: Percentage change of Q4 2017 compared to Q4 of 2016



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

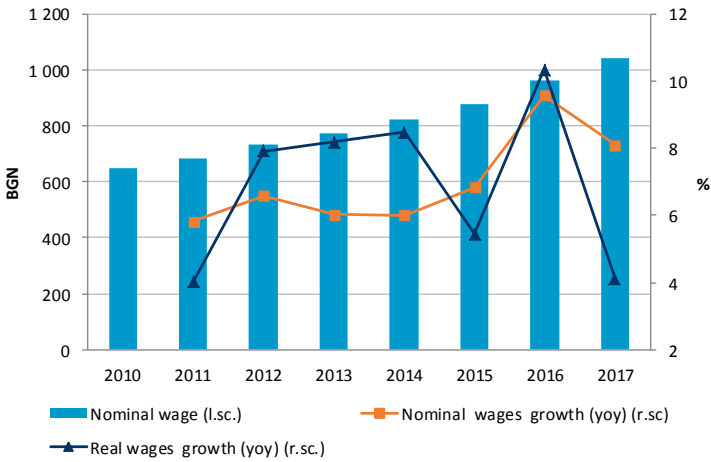


Bulgaria: Industries' relative share to GVA for Q4 2017

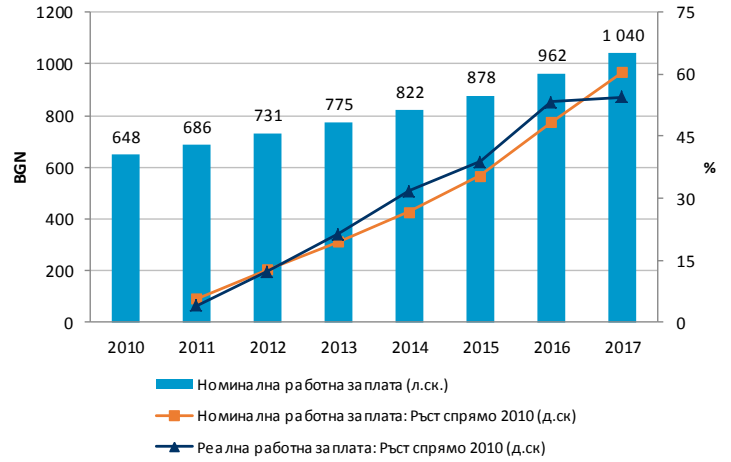


Bulgaria: Real Sector Indicators

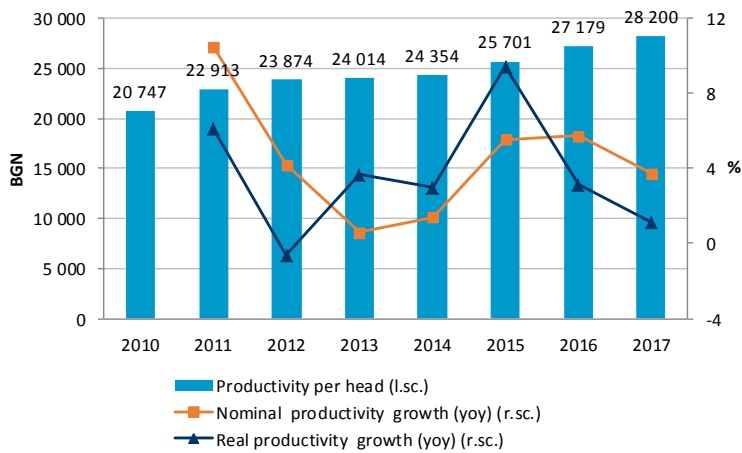
Nominal and Real Wage Dynamics: YoY (%)



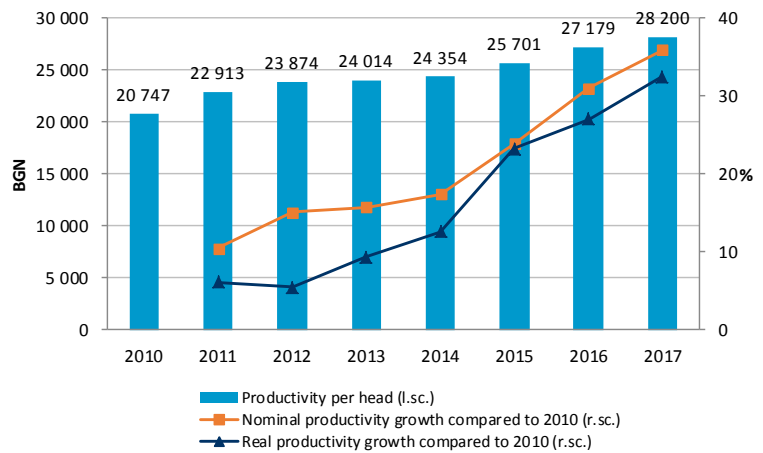
Nominal and Real Wage Dynamics compared to 2010 (%)



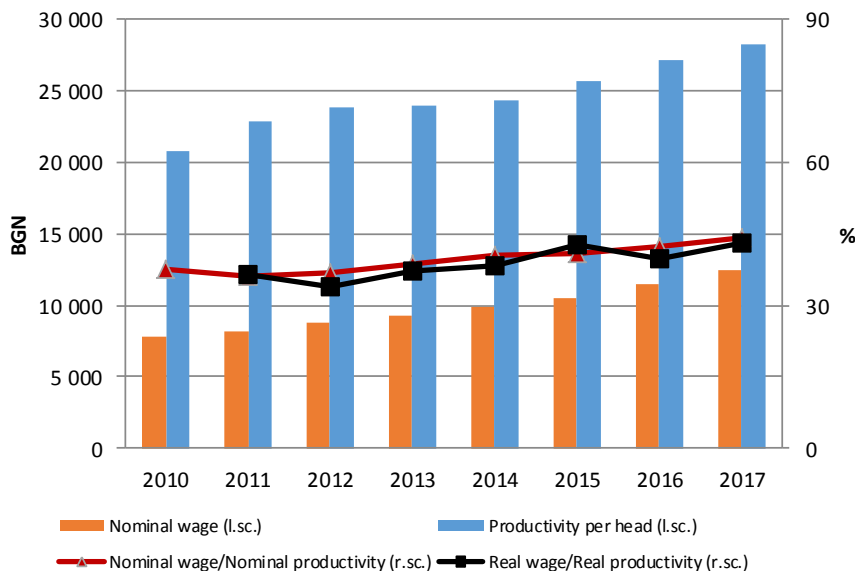
Nominal and Real Productivity per Head Dynamics, YoY (%)



Nominal and Real Productivity Dynamics compared to 2010 (%)

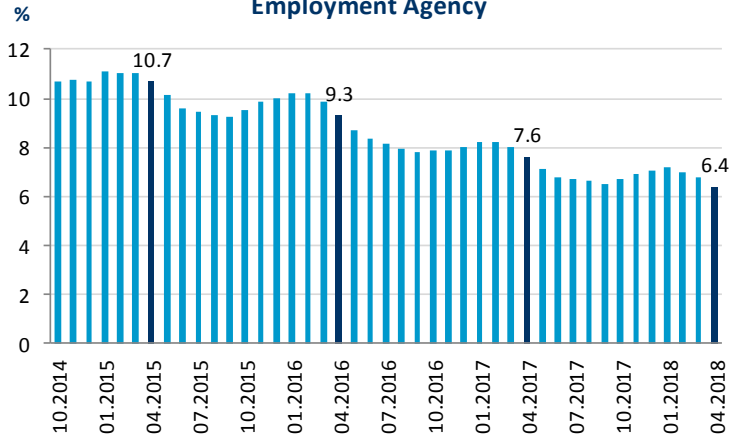


Average Wage to Productivity Ratio Dynamics, YoY (%)

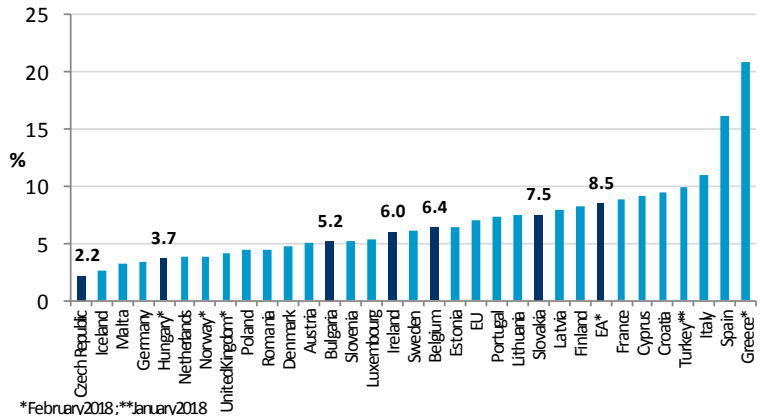


Bulgaria: Real Sector Indicators

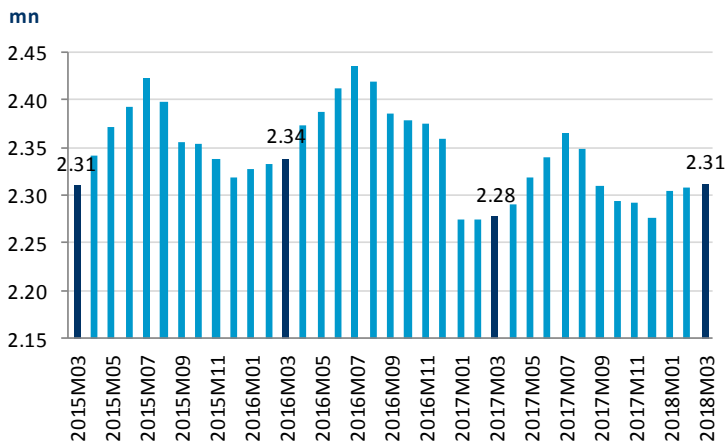
Registered Unemployment Rate: National Employment Agency



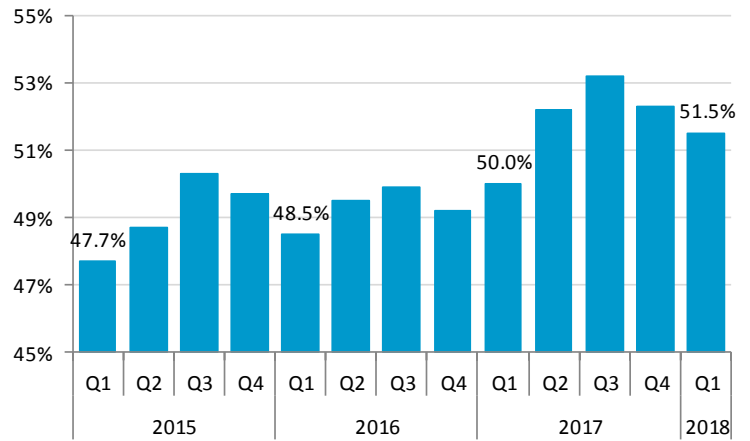
EU: Unemployment rate seasonally adjusted by country, March 2018



Bulgaria: Number of Employees

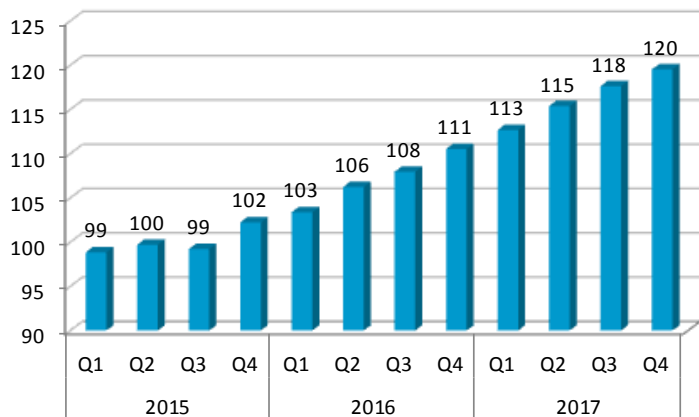


Bulgaria: Employment Rate

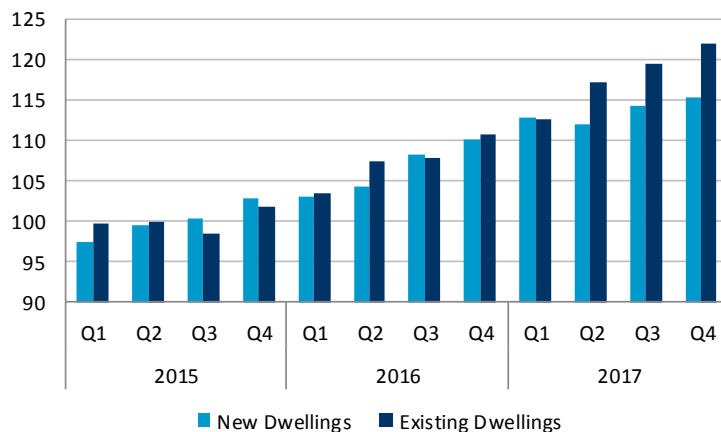


Bulgaria: Real Sector Indicators

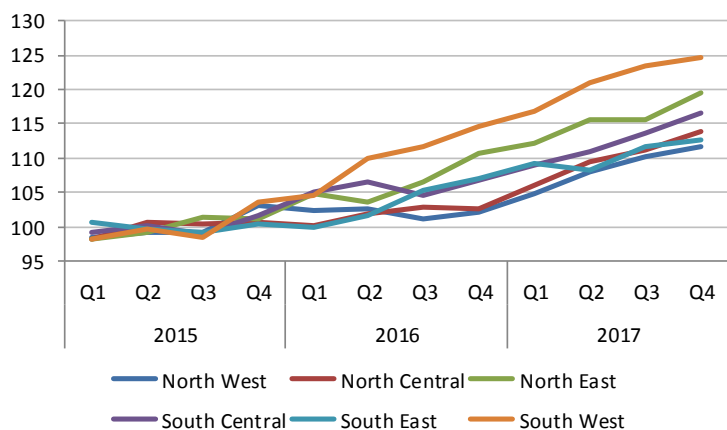
House Price Index (HPI)



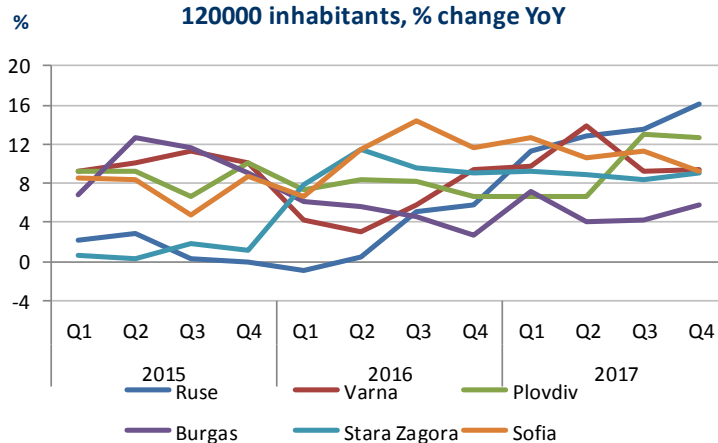
HPI: New and existing dwellings



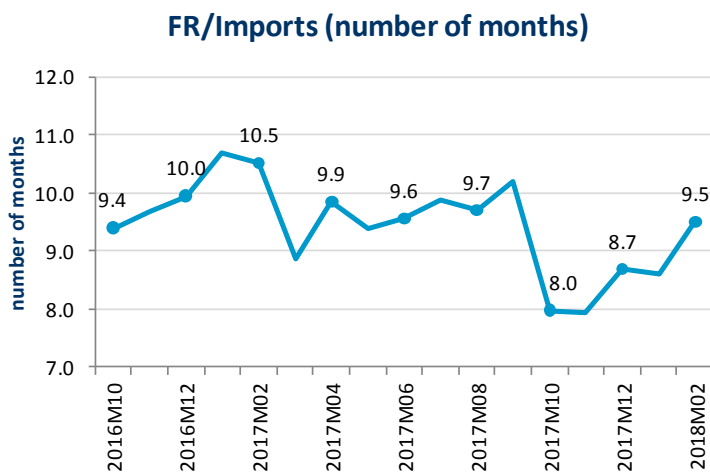
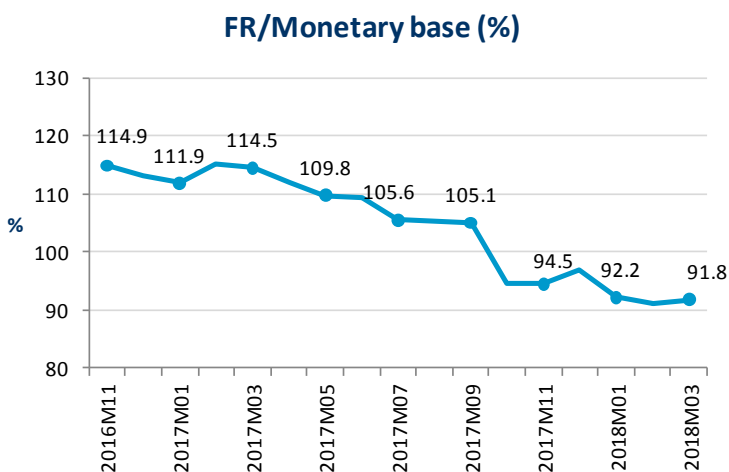
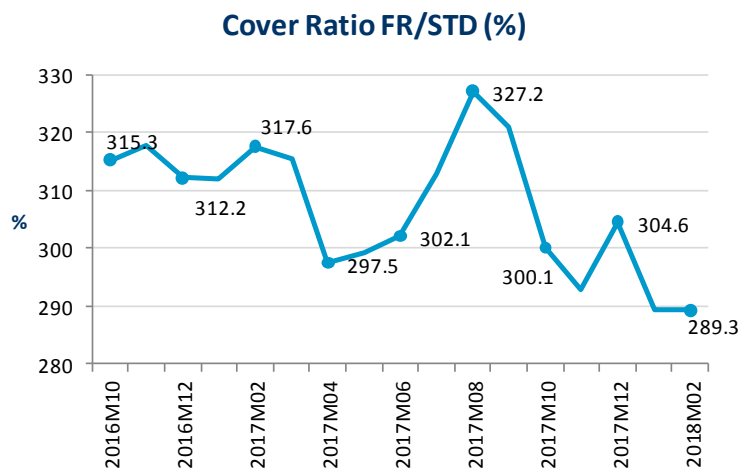
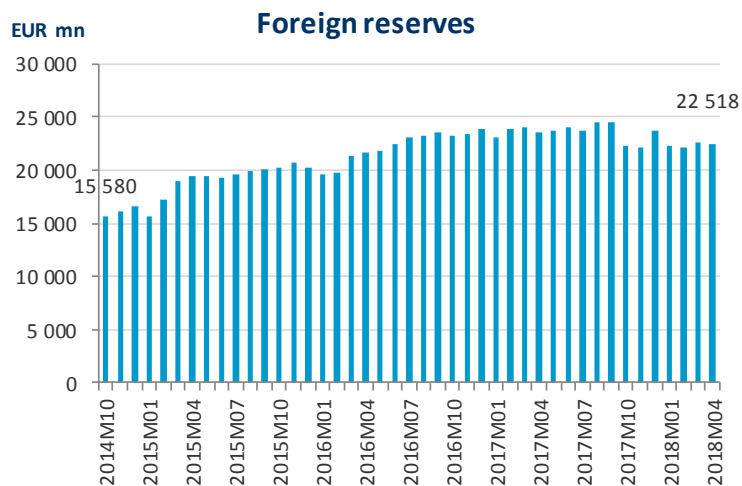
House Price index by regions



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

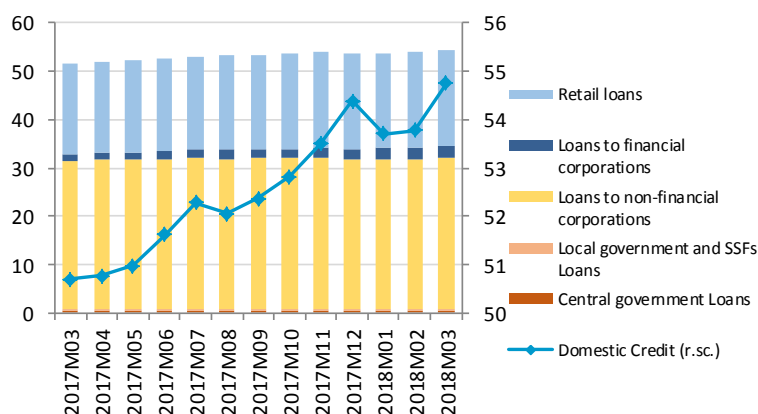


Bulgaria: Monetary Sector Indicators

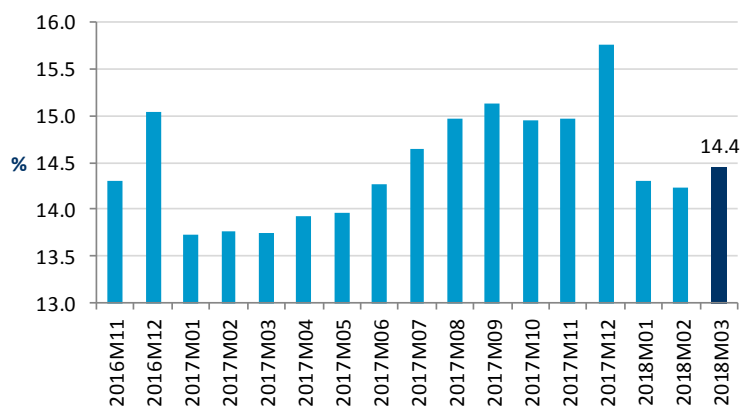


Bulgaria: Monetary Sector Indicators

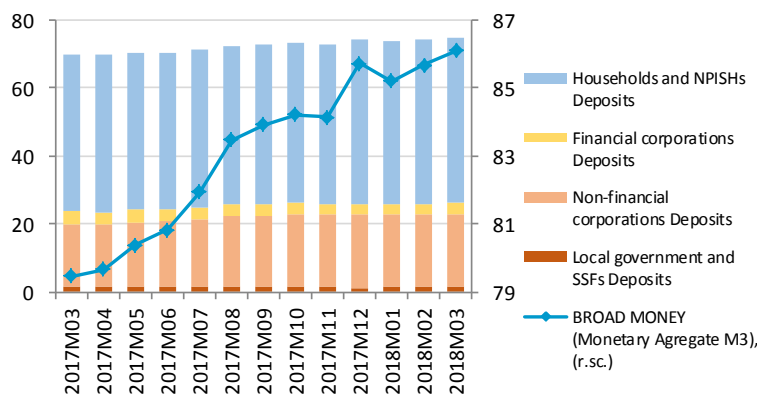
Loans and Domestic Credit (BGN bn)



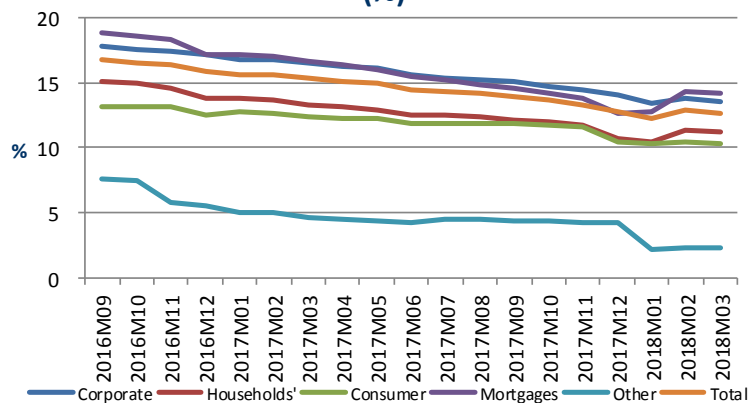
Money in circulation/GDP (%)



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

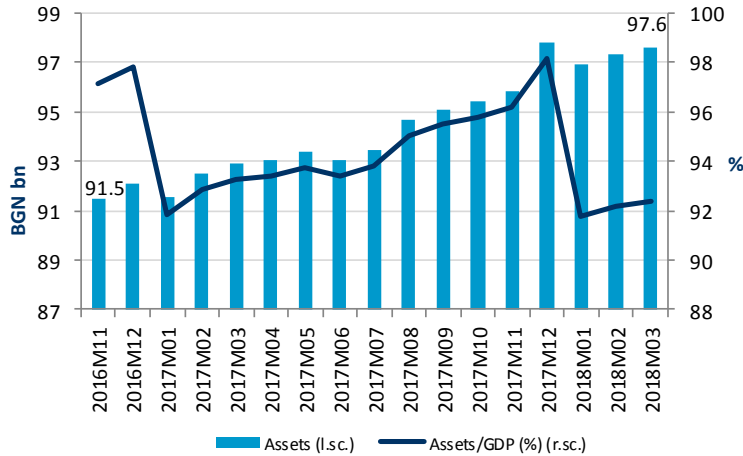


Banking sector: Bad and restructured loans (%)

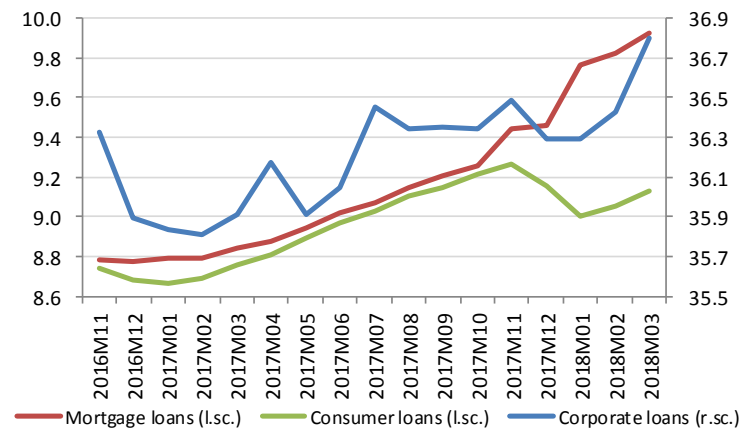


Bulgaria: Banking Sector Indicators

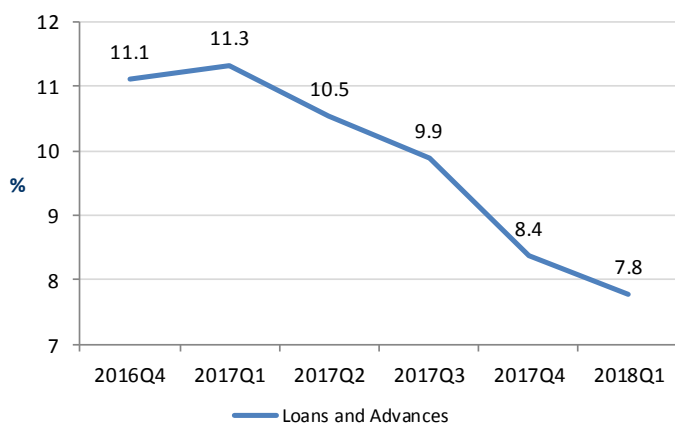
Assets



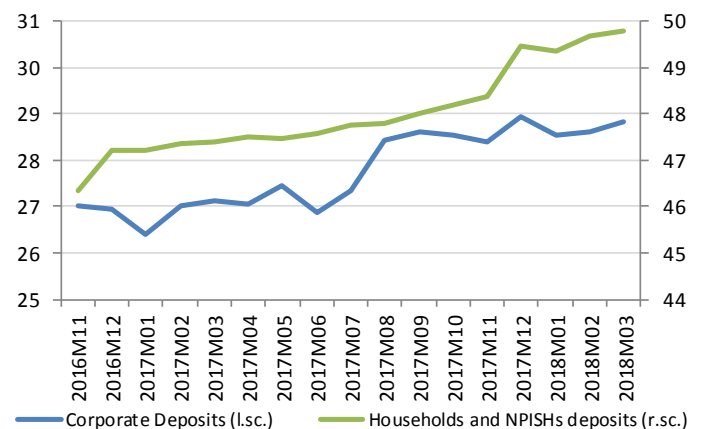
Loans (BGN bn)



Banking System Non Performing Loans (%)

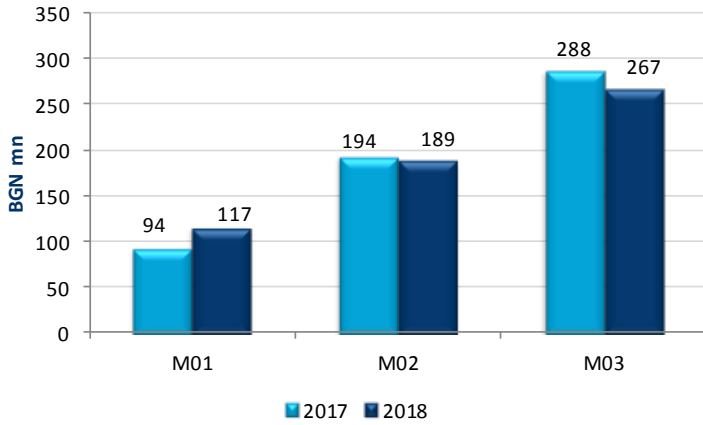


Deposits (BGN bn)

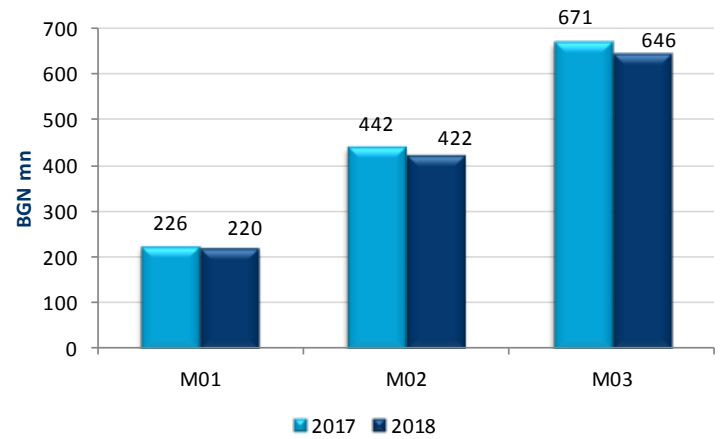


Bulgaria: Banking Sector Indicators

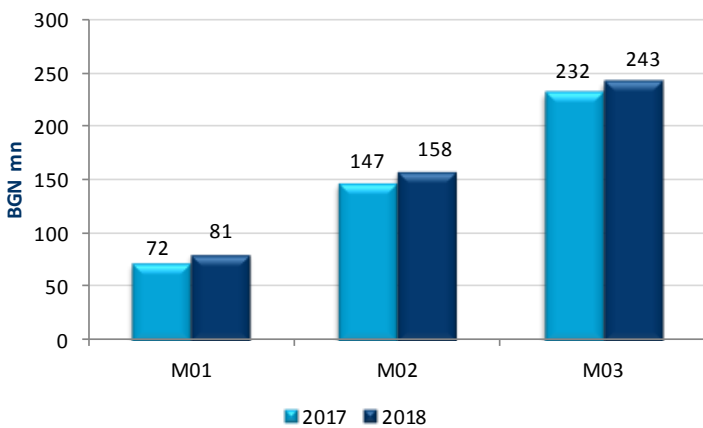
Net Profit



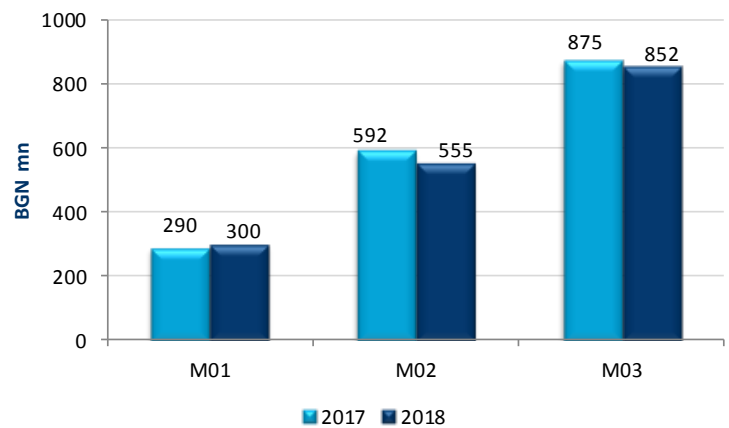
Net interest Income



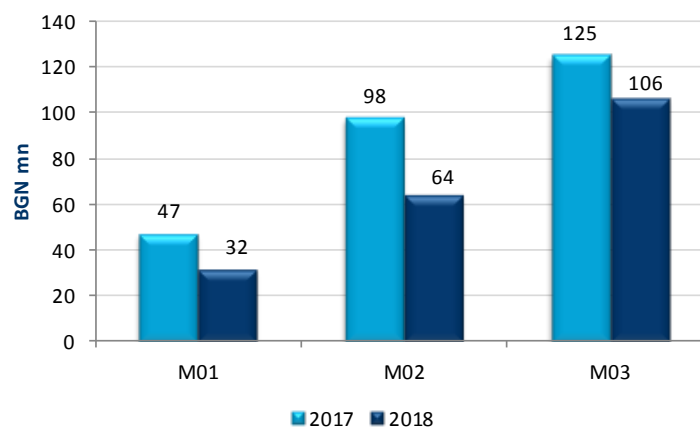
Net fee and commission income



Net operating income

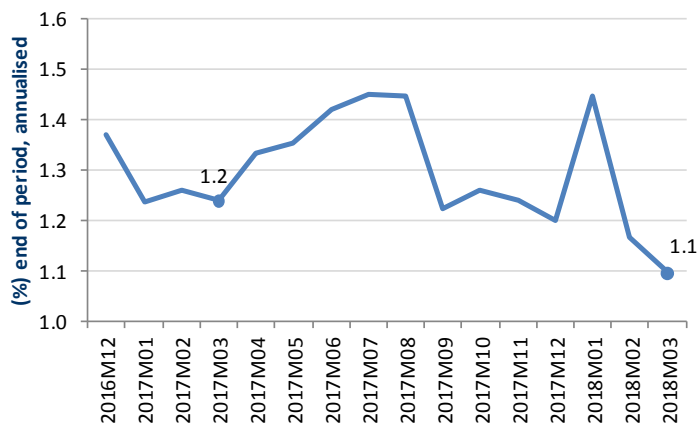


Impairment

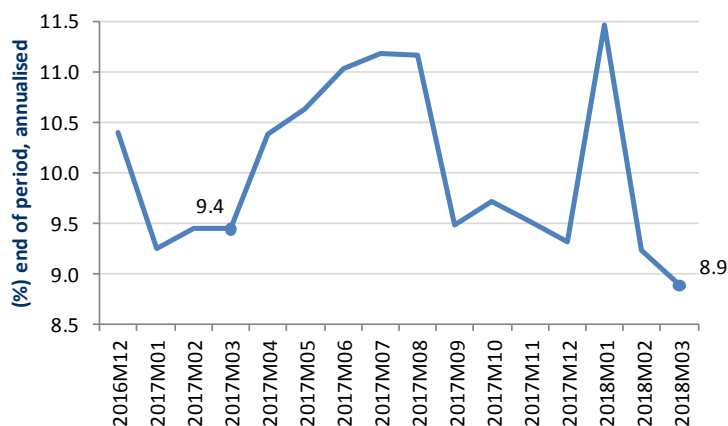


Bulgaria: Banking Sector Indicators

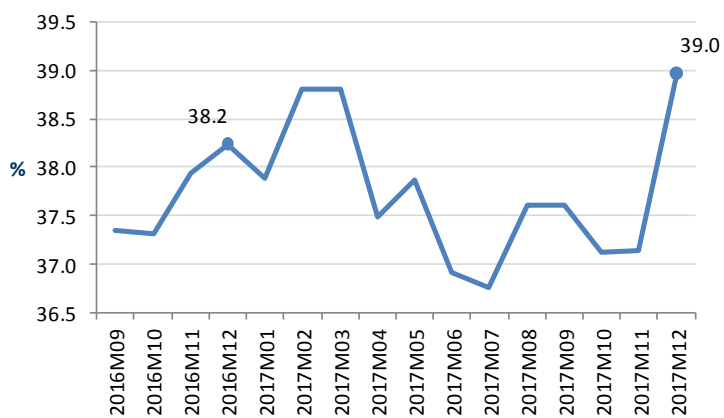
ROA



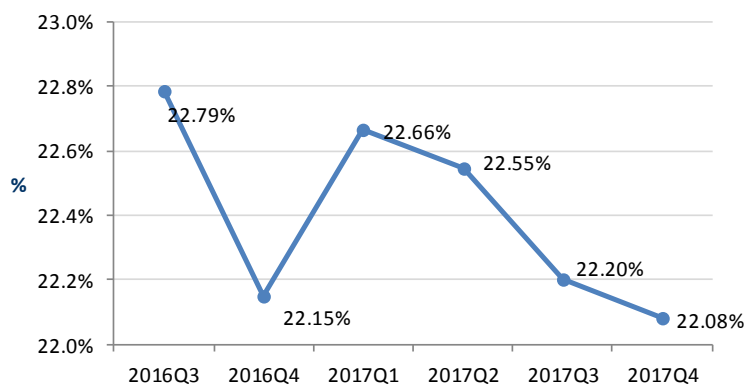
ROE



Liquid Assets Ratio (LAR)



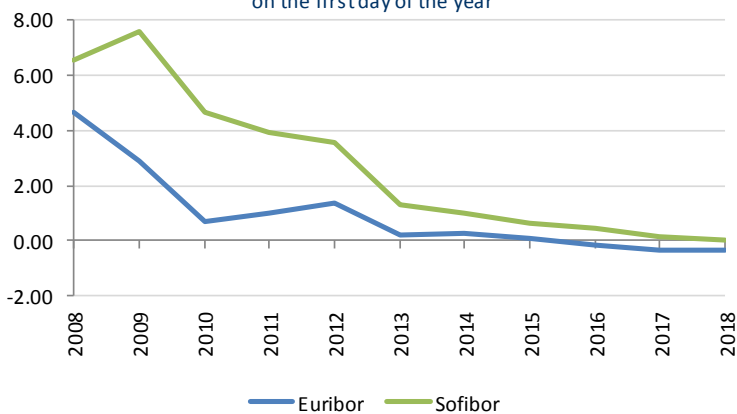
Total Capital Ratio



Bulgaria: Indexes and Interest Rates

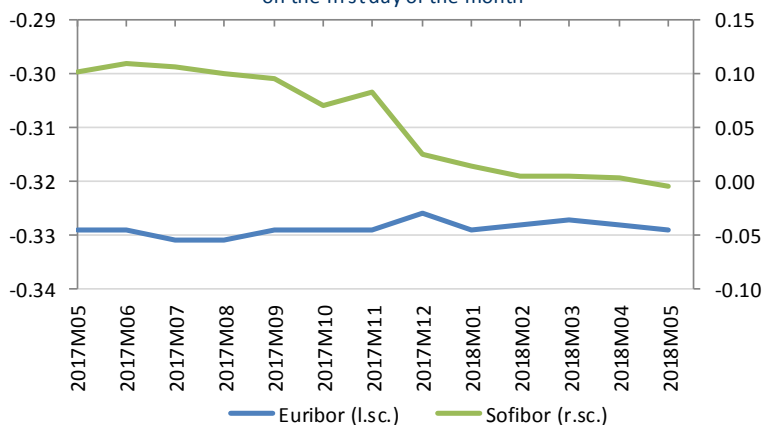
Indexes 3-months

on the first day of the year

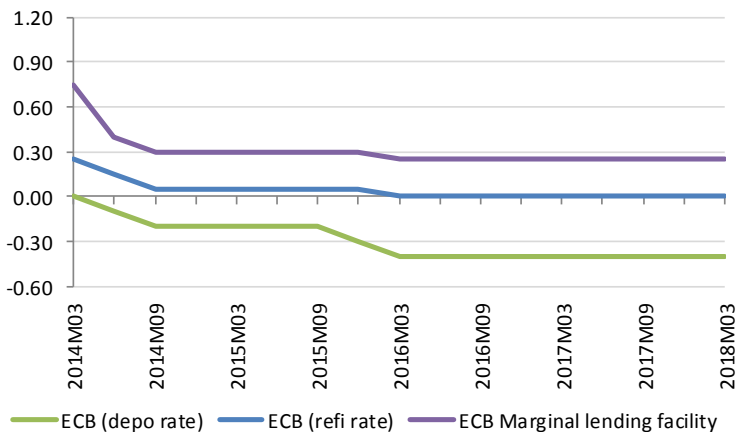


Indexes 3-months

on the first day of the month



Policy Rates (in %)

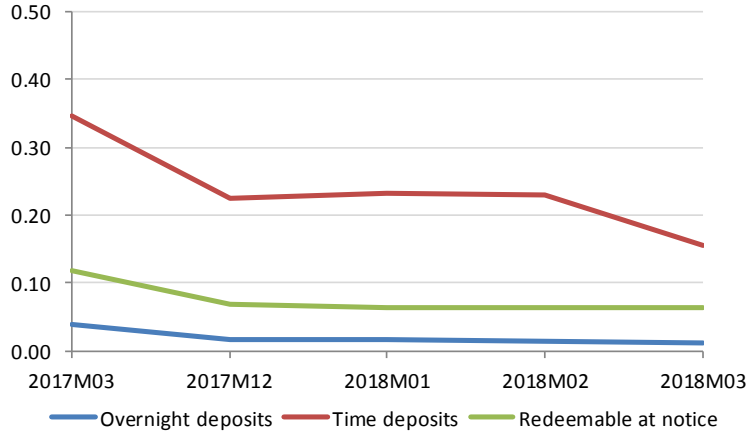


Base Interest Rate of the BNB (in %)

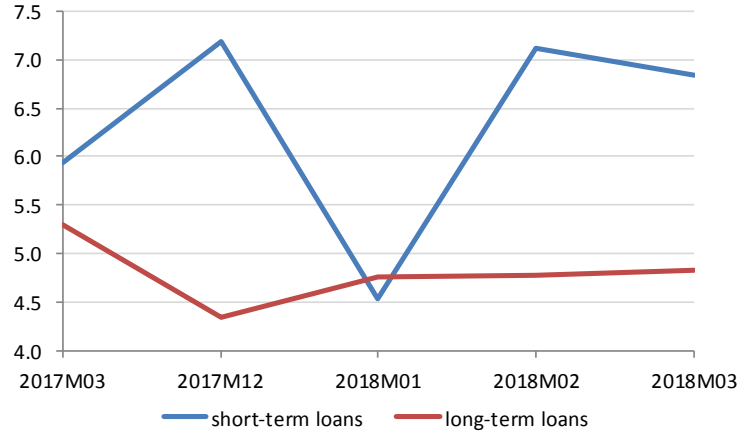


Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates

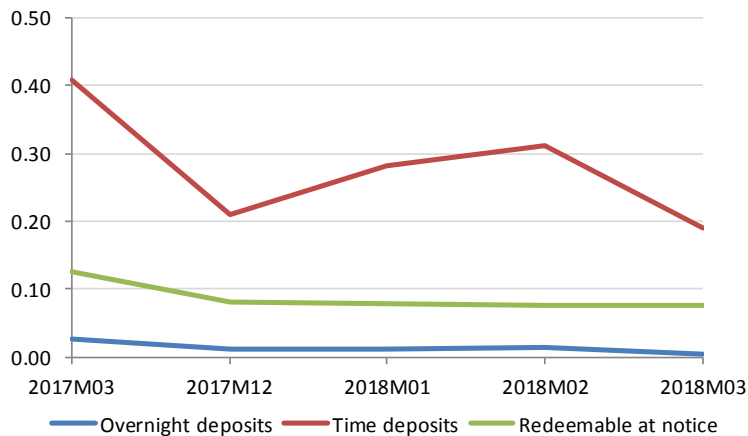
Interest Rates (%) in BGN



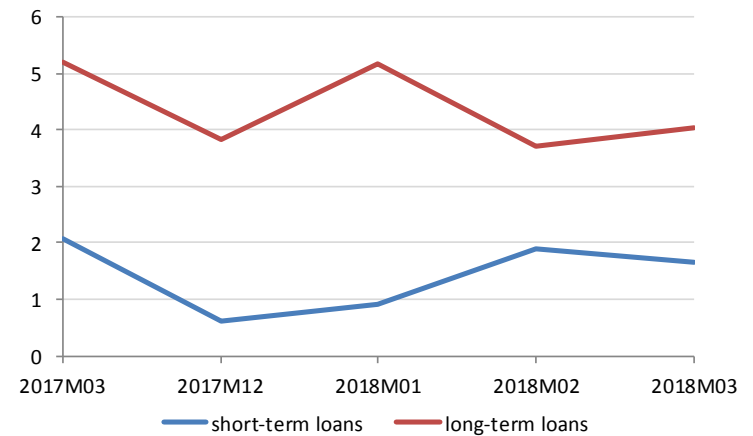
Interest Rates (%) in BGN



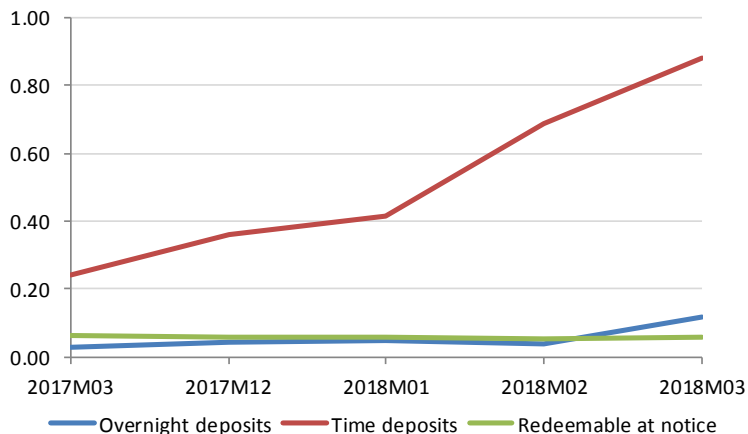
Interest Rates (%) in EUR



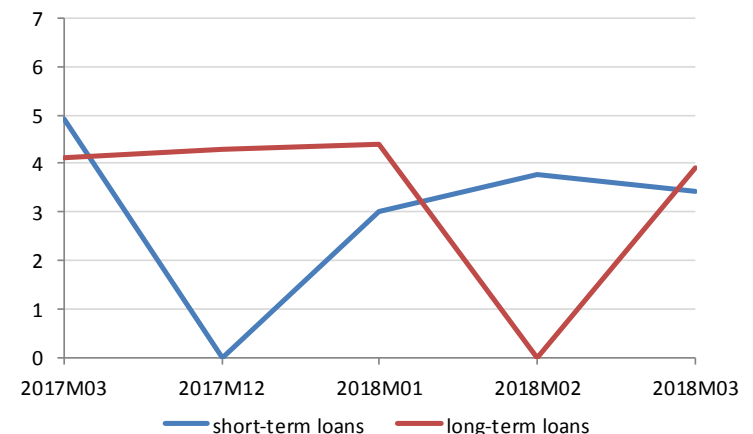
Interest Rates (%) in EUR



Interest Rates (%) in USD

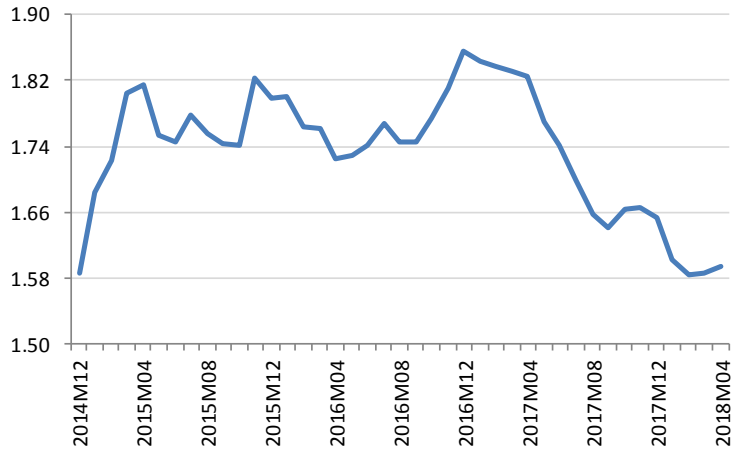


Interest Rates (%) in USD

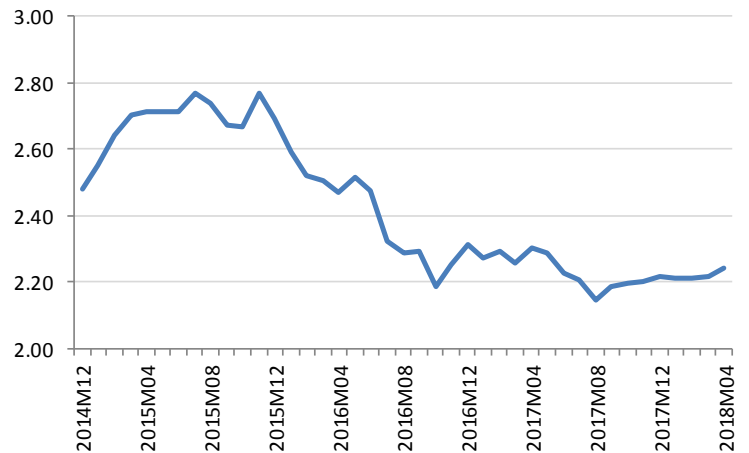


Bulgaria: FX Rates

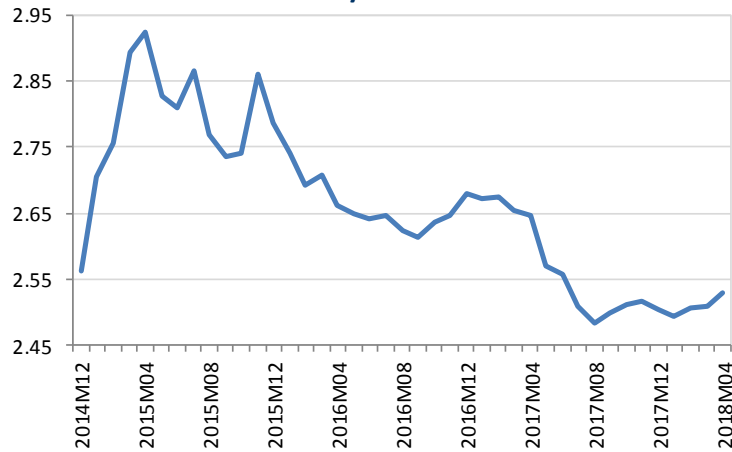
BGN/USD



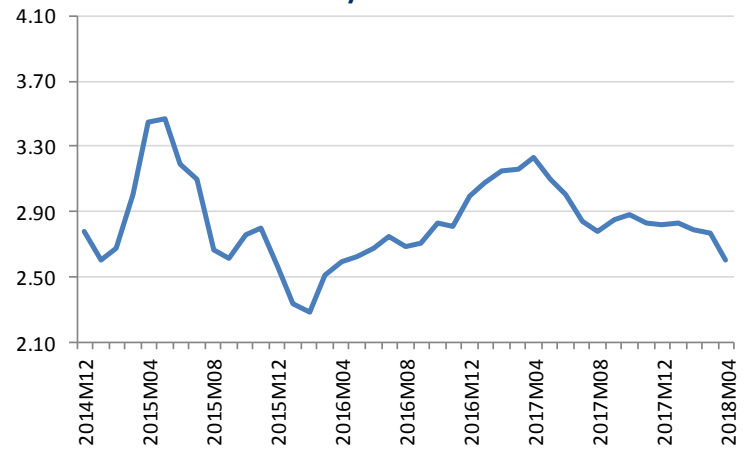
BGN/GBP



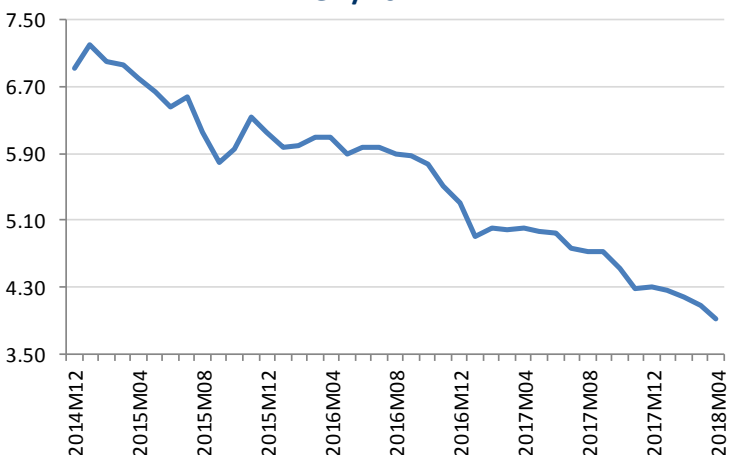
BGN/10CNY



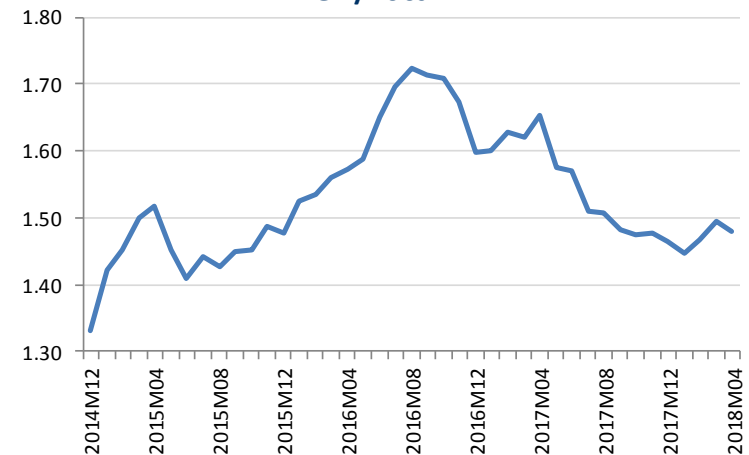
BGN/100RUB



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 1997 – 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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