

All data in the edition are the last available data, published as of June, 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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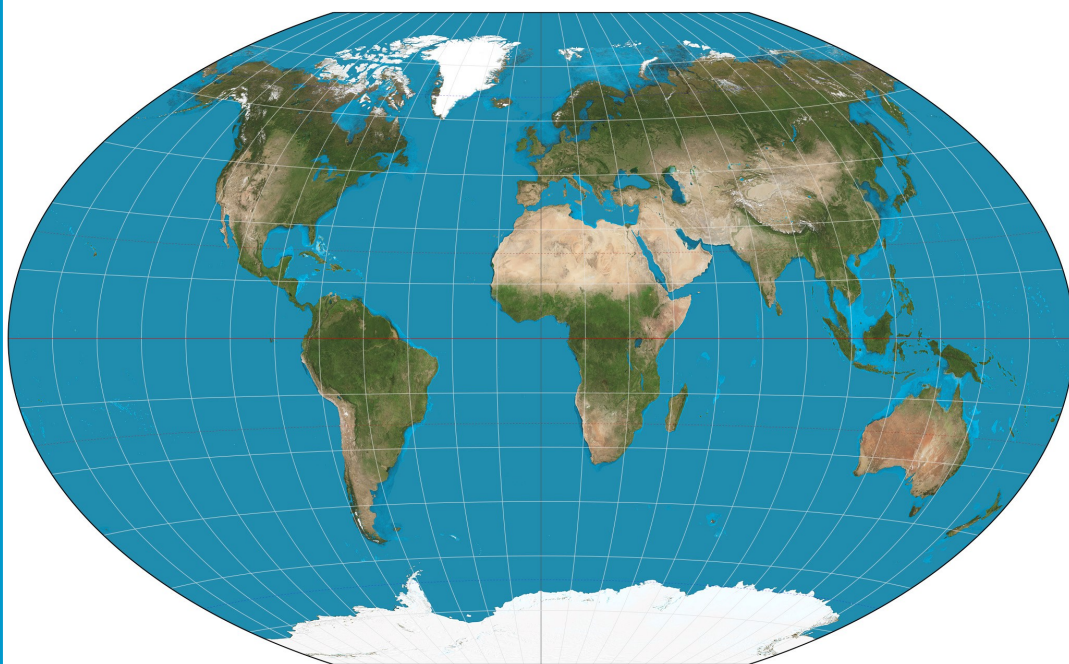
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Source: https://en.wikipedia.org/wiki/World_map

HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



June 2018

Sofia

- *In Q1 of 2018 euro area GDP grew by 2.8% yoy. In May 2018 euro area consumer prices rose by 1.9% yoy. In April 2018, unemployment in the euro area declined to 8.5%*
- *The expected growth of the UK economy is 1.3% in 2018. Consumer price inflation is 2.4% in May 2018. Unemployment in the UK as of April 2018 remained at 4.2%*
- *In Q1 of 2018, the US GDP grew at an annual rate of 2.2%. US inflation accelerated to 2.8% yoy in May 2018. Unemployment in the US declined to 3.8% in May 2018*
- *In Q1 of 2018, Japan's GDP declined by 0.6% yoy for the first time in the last two years. In April 2018, the unemployment rate in Japan was 2.5%*
- *China's GDP grew by 6.8% in Q1 of 2018 on an annual basis. The consumer price index in China rose to 1.8% in May*
- *ECB held its benchmark refinancing rate at 0 % on June 14th and said the monthly pace of the net asset purchases will be reduced to EUR 15 billion from September to December 2018, and will then end. The central bank also said it expects key interest rates to remain unchanged at least through the summer of 2019*
- *The British pound collapsed to a 7-month low against the dollar after Prime Minister Theresa May lost his vote on Brexit legislation in the House of Lords. The British pound fell by 0.3% to USD 1,3200, which is its lowest level since November. Compared to the euro, it remained almost unchanged at 87.70 pence*
- *The Federal Reserve raised the target range for the federal funds rate by a quarter of a percentage point to a range of between 1.75 % and 2 % during its June meeting, saying that the labor market has continued to strengthen and that economic activity has been rising at a solid rate. Policymakers projected two additional hikes by the end of this year, compared to one previously estimated*
- *The Central Bank of Japan (JCB) has maintained its radical program of quantitative easing on Friday and lowered its view of inflation, which means it will lag significantly behind the Fed and the ECB. As expected, the JCB kept the short-term target rate at a level minus 0.1 % leaving unchanged its goal of yielding 10-year Japanese government bonds around zero*
- *China Central Bank left interest rates on interbank loans unchanged, an unexpected decision after the Federal Reserve raised interest rates in the United States. The interest rate for the seven-day reverse repo transactions remains at 2.55%, the 14-day 2.70% and the 28 days the 2.85%*
- *Oil prices rose on June 27, 2018, provoked by supply problems in Libya and Canada, and by US officials' call for all countries to stop Iranian crude oil imports from November to avoid US sanctions*
- *Against the background of the escalation of fears of a trade war, the fall in steel and iron ore prices on 27 June 2018 rose to 4,132 yuan per metric ton. The price of aluminum rose to 2151 dollars per metric ton on a cash basis*
- *In June 2018, the prices of most of the major grain contracts on the world stock markets went down. On Sofia Commodity Exchange AD the prices of the contracts are calm, there is a supply of bread wheat at 300,00 BGN / t, the demand slightly increased to 280,00 BGN/ t. After serious deals at 287,00 BGN/t, prices will continue to gravitate around this value. Corn is offered at 300.00 BGN/ t, and the counter advertisements for search are 275.00 BGN/t. Feed barley is looking at 235.00 BGN / t, oilseed sunflower at 560.00 BGN / t and the supply is 590.00 BGN / t*

- *In January – April 2018 the current and capital account was negative amounting to EUR 123.1 million (0.2% of GDP), compared with a deficit of EUR 61.8 million (0.1% of GDP) in January – April 2017*
- *In January-April 2018 Bulgaria's foreign direct investment in Bulgaria totaled EUR 113 million (0.2% of GDP), dropping by EUR 116.2 million (50.6%) from January –April 2017 (EUR 229.2 million, 0.5% of GDP). At the end of May 2018.Bulgaria's international reserves BNB amounted to EUR 22.8 billion, increasing by 1.4% mom, but declined by 3.6% yoy*
- *In Q1 2018 Bulgaria's GDP growth rate is 3.6% compared to the same quarter of the previous year and 0.9% compared to Q4 2017*
- *In May 2018, the business conjuncture in Bulgaria continues to improve. The total business climate indicator increases by 2.1 pps compared to April 2018 and reaches new long-term maximum of 33.1% since 2009*
- *In April 2018 Bulgaria's Industrial Production Index decreased by 2.0% mom as compared to March 2018 and by 0.8% yoy, respectively*
- *In April 2018 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.9% mom and by 5% yoy, respectively*
- *In April 2018 Bulgaria's index of production in section 'Construction' increased by 0.6% mom and yoy, respectively*
- *The consumer price index in May 2018 compared to April 2018 was 100.3%, i.e. the monthly inflation was 0.3%*
- *Total Producer Price Index in April 2018 increases with 0.7% compared to the previous month; compared to the same month of 2017 the prices rose by 2.9%. Producer Price Index on Domestic Market in April 2018 increased by 0.4% compared to the previous month; compared to the same month of 2017 the domestic prices grew by 3.8%*
- *In April 2018, the number of the trips of Bulgarian residents abroad was 606.4 thousand or by 10.5% above the registered in April 2017. In April 2018, the number of arrivals of visitors from abroad to Bulgaria was 701.9 thousand or by 10.8% more in comparison with April 2017*
- *The total number of the nights spent in all accommodation establishments registered in April 2018 was 895.0 thousand, or by 1.4% less in comparison with the same month of the previous year. The total revenues from nights spent in April 2018 reached BGN 47.1 million or by 6.4% more compared to April 2017*
- *According to the preliminary data, GDP per person employed increased by 2.3% in Q1 2018 compared to the same quarter of 2017*
- *In May 2018, unemployment in Bulgaria decreased by 0.03 pps to 6.1% compared to April 2018. This was the lowest level of registered unemployed since December 2008*
- *In April 2018 Bulgaria's consolidated Fiscal Programme (CFP) balance on a cash basis is positive, amounting to BGN 1,319.1 million, or 1.3% of GDP*
- *In April 2018 Bulgaria's central government debt amounted at EUR 12,124.9 million and presented 22.7% of GDP*

- *On June 1, 2018 the international rating agency S&P Global Ratings has upgraded Bulgaria's credit rating outlook from stable to positive. The "BBB-/A-3" long- and short-term foreign and local currency sovereign credit ratings on Bulgaria have been affirmed*
- *On June 1, 2018 Fitch Ratings has affirmed Bulgaria's Long-Term Foreign and Local Currency Issuer Default Ratings (IDR) at 'BBB' with a Stable Outlook. The Short-Term Foreign- and Local-Currency IDR is also preserved at 'F2'*
- *At the end of April 2018 Bulgaria's broad money (M3) was BGN 86.200 billion and increased by 8.2% yoy. Bulgaria's domestic credit amounted at BGN 55.245 billion and increased by 8.8% yoy*
- *In May 2018, the main index of BSE-Sofia reported a decrease of 3.28% to 636.55 points. The index of the most liquid companies BGBX 40 fell 2.79% to 126.32 points. Equally weighted BG TR30 dropped 2.23% to 528.30 points. The BGREIT property company's indicator fell by 0.04% to 115.47 points*
- *In April 2018, the banking system's assets increased by 0.2% on a monthly basis and by 5.1% on an annual basis to BGN 97.8 billion. Their relative share in GDP was 92.4%*

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GLOBAL TRENDS

ADVANCED COUNTRIES' ECONOMIES

Euro zone

In Q1 of 2018 euro area GDP grew by 2.8% yoy. In May 2018 euro area consumer prices rose by 1.9% yoy. In April 2018, unemployment in the euro area declined to 8.5%

In Q1 2018 euro area GDP grew by 0.4% qoq, compared to when growth of 0.7% qoq in Q4 2017.. On an annual basis, GDP rose in the January-March period by 2.5% after growth of 2.8% at the end of the previous year and after increasing in the year 2017 by 2.5%, marking the best economic expansion since 2007 year. In Q1 2018, the European Union's (EU) GDP rose by 0.4% compared to the last three months of 2017 when it rose by 0.6% and rose 2.4% annually after an increase with 2.7% in the last quarter of 2017. The highest quarterly growth at the beginning of the year was marked by Latvia's GDP (1.7%), followed by Poland (1.6%), Hungary (1.2%), Finland (1.1%) and Slovakia 0.9%), followed by Bulgaria and Cyprus with 0.8% growth in GDP. In the first quarter of 2018 Bulgaria's GDP grew by 3.5% on an annual basis. In our country are Latvia (5.2%), Poland (4.9%), Hungary (4.7%), Czech Republic (4.5%), Romania (4.2% 8%) and Slovakia (3.6%). According to Eurostat, euro area inflation accelerated sharply in May 2018 on a monthly basis. Consumer prices rose by 1.9% in the fifth month of the year from 1.3% in the previous month. Thus, inflation is close to the target of the European Central Bank of around 2%. Compared to the same period last year, there is also a strong acceleration of pace, with inflation in the region at the time being 2.0%. Basic inflation, which excludes changes in volatile commodity prices such as energy and food and is considered a more accurate indicator, also accelerates to 1.1%. Inflation in the European Union (EU) also accelerated in May to 2.0%. By comparison, in the previous month, it was at the level of 1.5%. Compared to the same period in 2017, there is again a serious agitation - inflation then was 1.5%. The slowest acceleration of inflation across the EU is seen in two countries - Ireland with 0.7% and Greece with 0.8%. The strongest inflation in the fifth month of the year is seen in Romania (4.6%) and Estonia (3.1%). In April 2018, unemployment in the euro area declined to 8.5%, after the reported March revision of 8.6%. This is the lowest level of unemployment in the euro area since December 2008, when it was 9.2%.

United Kingdom

The expected growth of the UK economy is 1.3% in 2018. Consumer price inflation is 2.4% in May 2018. Unemployment in the UK as of April 2018 remained at 4.2%

The British Chambers of Commerce (BCC) lowered its growth expectations for the UK economy, predicting GDP growth in 2018 by 1.3%, not the 1.4% expected so far. If lower forecasts are achieved, it will be the weakest GDP growth since 2009, when Britain was still suffering from the global financial crisis. Experts also lowered their forecast for GDP growth in 2019 from 1.5% to 1.4%. The downward trend is mainly due to weaker prospects for consumer spending, business and trade investment. While real wage growth has returned to positive territory, the leading business group in the UK does not expect this to lead to significantly higher spending over the projected horizon. Growth in business investment is expected to slow down to 0.9% in 2018 from 2.4% in 2017. Expected high business spending in the UK and continued uncertainty over Britain's future relationship with the EU will continue to hold investment in business. Service growth in the services sector, a key driver of UK Gross Domestic Product growth, is expected to slow to 1.2% in 2018, which will be the poorest outcome since 2010. Overall, the forecast indicates that the economy is awaiting Brexit's uncertainty, rising interest rates and international developments, such as a possible trade war and rising oil prices. The House urges the government to focus as much as possible on the local business environment, to reduce the uncertainty faced by businesses. Consumer price growth remained at 2.4% in May, as was the forecast by the Central Bank of England. The upward pressure on inflation is mainly driven by fuel prices, which rose by 3.8% in the month - the sharpest growth since January 2011. Airline and ferry tickets have also been on the upside. However, these effects were partly overshadowed by computer gaming and energy prices, which failed to repeat their steep growth in the same period last year. The ECB expects inflation to reach an average of 2.4% this quarter, with further interest rate rises returning its level back to a target of 2% over the next three years. Unemployment in UK in April 2018 remained at 4.2% level reached in the first quar-

ter of the year. British unemployment has stabilized at the lowest level since the first quarter of 1975. Claims for unemployment benefits fell in May by 7.7 thousand after a growth of 31.2 thousand in April. Employment in the three months to the end of April increased by 146,000 to a new record high of 32.39 million, while financial market expectations were for an increase of 110,000. At the same time, the number of unemployed Britons declined by 38 000 to 1.42 million.

USA

In Q1 of 2018, the US GDP grew at an annual rate of 2.2%. US inflation accelerated to 2.8% yoy in May 2018. Unemployment in the US declined to 3.8% in May 2018

GDP growth in the US in Q1 2018 has slowed somewhat more than previous calculations amid declines in reserve and consumer spending. The country's GDP has grown at an annual rate of 2.2%. In the first data, the growth was 2.3%. For comparison, in the last quarter of last year, the country's economy grew by 2.9%. At the moment, there are signs of a faster pace of growth in the second quarter due to higher consumer spending, business investment in equipment and industrial production in April. By contrast, the real estate market continues to perform worse than expected. Economists expect the fiscal cuts on income that came into force in January to boost the economy this year, bringing GDP growth closer to the targets set by President Donald Trump's administration of 3%. Post-tax corporate earnings increased by 5.9% in the fourth quarter, with growth of 1.7% in the last three months of last year. This is the fastest rate of profit growth in the first quarter of 2016, largely due to the cut in corporate taxes to 21% from 35% previously. According to the Department of Commerce, corporate income taxes have decreased by USD 117.4 billion in the Q1. The changes also prompted dividends for companies, and wages and salaries increased by USD 119.5 billion in Q1. Consumer spending growth, accounting for more than two-thirds of US economic activity, is 1% for the first three months of the year, down 1.1% on first reading. This is also the slowest pace since the second quarter of 2013. By comparison, in the last three months of last year, the increase was 4%. Meanwhile, the increase in second-reading equipment costs was adjusted to 5.5% in January-March from 4.7% on last month's data. However, the figures are moderate compared to double-digit growth in the second half of 2017. Against this background, the increase in investment in housebuilding is down to 2% at the beginning of the year instead of remaining unchanged, as stated in the first reading. US inflation accelerated to 2.8% yoy in May compared with 2.5% in April, surpassing market expectations of 2.7%. Gasoline and rental costs are the basis for price increases both during this month and in the previous month. On a monthly basis, consumer prices grew by 0.2%, thus keeping their pace of growth in April and coinciding fully with the consensus forecast. The index, which measures inflation without food and energy, grew by 2.2% in the 12 months ending in May. The food index grows by 1.2% and the energy index - by 11.7%. Latest US economy data boost the Federal Reserve's interest rate hike this week, and if this happens, we will see the sixth interest rate increase for the past 18 months. Meanwhile, however, it became clear that higher prices put pressure on consumers as the average hourly wage, adjusted for inflation, did not change in May compared with the same month of the previous year. For workers in the manufacturing sector, wages even declined by 0.1% on an annual basis. Unemployment in the US declined to 3.8% in May, reaching its lowest level in 48 years, which is close to the central bank's full employment target.

Japan

In Q1 of 2018, Japan's GDP declined by 0.6% yoy for the first time in the last two years. In April 2018, the unemployment rate in Japan was 2.5%.

Japan's GDP decreased in Q1 2018 by 0.2% compared to the last quarter of 2017, when it rose by 0.1%. On a seasonally adjusted basis, GDP shrank by 0.6% in Q1, projected to decline by 0.1%, after an expansion of 0.6% at the end of 2017. A negative impact on GDP is the decline in capital spending by 0.1%, after growth of 0.6% in the last three months of 2017, this being the first worse business investment in a year and a half. Consumer spending in Q1 2018 remained at the level of the end of last year, rising by 0.2%. External demand added just 0.1% to the country's GDP at the beginning of the year, as imports slowed more strongly than exports. Consumer price growth in Japan slowed down in April for the second consecutive month, showing a small portion of the inflationary impulse (0.6% yoy) needed to reach the elusive central bank target of 2%. The weaker performance of inflation in April was particularly undesirable from the Japanese Central Bank (JCB), which hoped companies would raise their prices early in the new financial year. In April 2018, the unemployment rate in Japan was 2.5%, remaining at the lev-

el of the previous two months. Additionally, the indicator for job applications remained unchanged compared to the previous month at 1.59.

China

China's GDP grew by 6.8% in the first quarter of 2018 on an annual basis. The consumer price index in China rose to 1.8% in May 2018

China's GDP grew by 1.4% qoq in Q1 of 2018, compared to a 1.6% growth for Q4 of 2017. This was the worst expansion since the first quarter of 2016. On an annual basis, the economy grew by 6.8%. For 2018, the Chinese government is looking for growth of about 6.5%, against a background of withdrawal efforts, debt relief and financial risks. China's economy grew by 6.9% in 2017, exceeding the government's target of about 6.5%. The consumer price index in China has risen to 1.8% in May 2018. Although accelerated production inflation and lower consumer inflation may maintain the margins of some Chinese industries, there are no signs of a sustained recovery. The output price index is expected to slow down to 3.3% this year against an increase of 6.3% last year.

Policy of the Central banks

ECB

ECB held its benchmark refinancing rate at 0 percent on June 14th and said the monthly pace of the net asset purchases will be reduced to €15 billion from September to December 2018, and will then end. The central bank also said it expects key interest rates to remain unchanged at least through the summer of 2019

On June 14, 2018 meeting, which was held in Riga, the Governing Council of the ECB undertook a careful review of the progress towards a sustained adjustment in the path of inflation, also taking into account the latest Eurosystem staff macroeconomic projections, measures of price and wage pressures, and uncertainties surrounding the inflation outlook. Based on this review the Governing Council made the following decisions: First, as regards non-standard monetary policy measures, the Governing Council will continue to make net purchases under the asset purchase programme (APP) at the current monthly pace of EUR 30 billion until the end of September 2018. The Governing Council anticipates that, after September 2018, subject to incoming data confirming the Governing Council's medium-term inflation outlook, the monthly pace of the net asset purchases will be reduced to EUR 15 billion until the end of December 2018 and that net purchases will then end. Second, the Governing Council intends to maintain its policy of reinvesting the principal payments from maturing securities purchased under the APP for an extended period of time after the end of the net asset purchases, and in any case for as long as necessary to maintain favorable liquidity conditions and an ample degree of monetary accommodation. Third, the Governing Council decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.40% respectively. The Governing Council expects the key ECB interest rates to remain at their present levels at least through the summer of 2019 and in any case for as long as necessary to ensure that the evolution of inflation remains aligned with the current expectations of a sustained adjustment path. ECB took decisions which maintain the current ample degree of monetary accommodation that will ensure the continued sustained convergence of inflation towards levels that are below, but close to, 2% over the medium term.

Bank of England

The British pound collapsed to a 7-month low against the dollar after Prime Minister Theresa May lost his vote on Brexit legislation in the House of Lords. The British pound fell by 0.3% to USD 1,3200, which is its lowest level since November. Compared to the euro, it remained almost unchanged at 87.70 pence

The pound falls for a second day against the dollar as the market focuses on a new vote, this time in the House of Commons. Legislators in the upper house supported a corrigendum that guarantees a "meaningful vote" by parliament on a deal with the European Union. Voting in the House of Commons may further determine the outcome of the Brexit talks. The lack of clarity

will continue to postpone the recovery of the pound. The pound fell 0.3% to USD 1,3200, the lowest level since November. Compared to the euro, it remained almost unchanged at 87.70 pence. Return on 10-year government securities declined by 5 basis points to 1.27%. Earlier, it reached 1.26%, the lowest level for the period from 1 to 19 June 2018. Growing concerns about the prospect of a more tight monetary policy have also strained the British currency. The British Central Bank is expected to raise its interest rates in August by 25 basis points. While Brexit talks are just a risk factor, the ECB will look more like signs that uncertainty will not lead to weakness in key data.

USA Federal Reserve

The Federal Reserve raised the target range for the federal funds rate by a quarter of a percentage point to a range of between 1.75 percent and 2 percent during its June meeting, saying that the labor market has continued to strengthen and that economic activity has been rising at a solid rate. Policymakers projected two additional hikes by the end of this year, compared to one previously estimated

According to the US Federal Reserve, economic growth is growing at a steady pace, unemployment is declining and household spending is on the rise. Thus, expectations for a further increase in interest rates are determined to be realistic. The further gradual increase in the target range will be in line with the expansion of economic activity, the strong labor market and inflation close to the 2% target in the medium term. The Federal Reserve continues to expect three more interest rates in 2019. Fully according to market expectations, the Federal Reserve raised its basic interest rate without taking into account the misunderstanding of trade between the US and its partners. In March 2018, the Federal Reserve raised its interest rates by a 0.25% to the range of 1.50-1.75% and revised its economic outlook in 2018 and 2019 to increase. In 2018 the leading interest rate is expected to reach between 2.25 and 2.5%. For the year 2019, we also expect three rises, as predicted in March and one in 2020. The Federal Reserve has signaled that it will tolerate an acceleration of inflation above the target level by 2020. Inflation is also at a favorable pace, with the Fed's new forecasts pointing to an acceleration of over 2% to 2.1% in 2018, a level that will continue in 2020. The labor market continues to grow. Economic activity is growing steadily. Household spending is on the rise, and business investment with core capital is rising sharply. Unemployment is expected to reach 3.6% at the end of 2018 compared to the previously projected 3.8%. For GDP, the central bank projected growth of 2.8% in 2018 and slowing down to 2.4% in 2019.

Bank of Japan (BoJ)

The Central Bank of Japan (JCB) has maintained its radical program of quantitative easing on Friday and lowered its view of inflation, which means it will lag significantly behind the Fed and the ECB. As expected, the JCB kept the short-term target rate at a level minus 0.1 leaving unchanged its goal of yielding 10-year Japanese government bonds around zero

BoJ will continue to buy assets worth 80 trillion yen per year. The latest move by Japan's central bank contrasts with the decision of the European Central Bank to end its asset repurchase program this year, as well as the Federal Reserve to continue with interest rates in the country. Consumer price inflation is in the range of 0.5% to 1%. Thus, the situation looks a little more bleak than in April, when the central bank said inflation was around 1%. The ECB maintains that the economy is growing moderately without shrinking in the first quarter to seriously impact the trend as many analysts point to temporary factors such as bad weather as a reason for the decline in the first months of the year. A slower pull of the stimulus would leave Japan's central bank without tools to rely on in a new economic downturn. The Japanese economy shrank 0.6% yoy in Q1 of 2018, though growth is expected to recover again thanks to solid exports and capital spending. Before the last slowdown, the economy took advantage of the global export boom, which is still the basis for a synchronized acceleration of global growth. Basic consumer prices rose by 0.7% in April 2018 compared to the previous year, slowing down for the second consecutive month. This casts doubt on YSB's view that a robust economic recovery will force companies to raise wages, which will stimulate acceleration of inflation to its 2% target.

People's Bank of China (PBC)

China Central Bank left interest rates on interbank loans unchanged, an unexpected decision after the Federal Reserve raised interest rates in the United States. The interest rate for the seven-day reverse repo transactions remains at 2.55%, the 14-day 2.70% and the 28 days the 2.85%

China Central Bank left interest rates on interbank loans unchanged, an unexpected decision after the Federal Reserve raised interest rates in the United States. The interest rate for the seven-day reverse repo deals remains at 2.55%, 14-day rates - 2.70%, and 28-day - 2.85%. Reverse repo transactions are one of the most commonly used instruments for controlling liquidity in the financial system. The markets expected the Chinese Central Bank to follow the Federal Reserve and raise interest rates to keep the bond between US and Chinese bonds stable, reducing the risk of potential outflows of capital that could put pressure on the yuan. China's central bank injects net 70 billion yuan through reverse repo deals in the open market. Economic data for May 2018 showed a weakness in the economy and therefore the decision to keep interest rates in order to keep the momentum of economic growth. Yuan has risen by about 1.7% against the dollar since the beginning of this year. In March 2018, China carefully raised interest rates in the country, following the Federal Reserve's decision, recalling that it was strictly observing what is happening on world markets.

International Commodity Prices

Petrol

Oil prices rose on June 27, 2018, provoked by supply problems in Libya and Canada, and by US officials' call for all countries to stop Iranian crude oil imports from November to avoid US sanctions

At the close of trading in New York, US light crude rose USD 2.45 or 3.6% to USD 70.53 a barrel, and London Brent USD 1.58 to USD 76.31 a barrel. London's Brent crude from the North Sea, with delivery in August, rose 25 cents to USD 76.56 per a barrel. In the Asian electronic session, US light crude oil with delivery in August raised its price by 29 cents to USD 70.82 a barrel. Futures on US crude oil with delivery in August rose 0.33% to USD 70.76 a barrel. The Brent increase is 0.30% to USD 76.54 a barrel. Oil prices went up after a call to reduce imports from Iran. Libya will also continue to be a significant point of concern in the oil supply chain. The struggle between the official government and the rebels leaves it unclear who will run Libya's large oil reserves, although according to various sources on June 26, 2018, oil ports in the country are working normally. According US Oil Institute the crude oil reserves in the United States fell by 9.2 million barrels to 421.4 million barrels for the week ending June 22. The Organization of Petroleum Exporting Countries and other Non-Cartel countries said they would increase production. OPEC's largest producer, Saudi Arabia, plans to produce up to 11 million barrels a day in July - the largest volume in its history. For comparison, in June the Arab country produces 10.8 million barrels of oil per day. Given the significant decline in Iran's oil supplies (as sanctioned by the United States) and supply risks in Venezuela and Libya, we expect oil prices to rise in the next 6 months, despite the "OPEC +" decision.

Metals

Against the background of the escalation of fears of a trade war, the fall in steel and iron ore prices on 27 June 2018 rose to 4,132 yuan per metric ton. The price of aluminum rose to 2151 dollars per metric ton on a cash basis

On June 18, 2018, US President Donald Trump announced that he was ready to further escalate the trade conflict with China and to levy 10% of China's customs duties and a further USD 200 billion. Steel futures declined by 4.3% on June 20, 2018 in Shanghai, a record against the fall of March 29. The iron ore of the Dalian Commodity Exchange (DCE) lost 6.4 percent (the biggest decline since March 23), closing at a decline of 5 percent. Hot rolled steel on Tuesday shrank by 3.1% in Shanghai. At the London Metal Exchange, the price of aluminum reached USD 2151 per metric ton on a cash basis. Quarterly contracts are quoted at USD 2142 per metric ton. US-imposed Sanctions against Rusal blocked USD 3 billion of aluminum. The metal produced by

the company represents more than a third of the stocks in warehouses monitored by the London Metal Exchange. Russia provides around 6% of the world's aluminum production, and if Washington decides to extend sanctions to nickel, it could have a bigger impact as the country forms 10% of the world's supplies. Sanctions on copper would have lesser consequences, as Russia provides about 4% of world production. While Russian supplies of aluminum are declining, China continues to produce large quantities of metal. Production of primary aluminum for the first quarter of 2018 increased by 0.3% to 8.12 million tons.

Agricultural products

In June 2018, the prices of most of the major grain contracts on the world stock markets went down. On Sofia Commodity Exchange AD the prices of the contracts are calm, there is a supply of bread wheat at 300.00 BGN / t, the demand slightly increased to BGN 280.00 / t. After serious deals at 287.00 BGN/t, prices will continue to gravitate around this value. Corn is offered at 300.00 BGN/t, and the counter advertisements for search are 275.00 BGN/t. Feed barley is looking at 235.00 BGN / t, oilseed sunflower at 560.00 BGN / t and the supply is 590.00 BGN / t

In Chicago, wheat fell 9.00 dollars to 217.00 USD / t, and France FOB Rouen did not make the exception, where large export purchases in North Africa had pushed the market but now the change is minus EUR 4 to 182.00 EUR/t. In Ukraine, the change is at the top - plus USD 3 to 207.00 USD / t, and Russia also makes slight adjustments in the quotes with one dollar to 210.00 USD / t. For maize, the change for the week in Chicago and Russia is mixed with new minus USD 6.00 and plus USD 5.00 to USD 170.00 and 200.00USD / t, while in France there was a decline of EUR to 166.75 EUR / t. The rapeseed in the European Union (Euronext) changed downwards by EUR 4 to a price of 351.75 EUR/t. Barley in France is the other exception - it rose by EUR 8.00 to 203.00 EUR / t and in Germany there was no change (171.00 EUR/t). The price of unrefined sunflower oil in Rotterdam is again variable - for the last month, fluctuations are plus or minus USD 50, and this week the price has climbed by USD 50 to 760.00 USD / t. Sugar in London turned the trend and rose by USD 11.90 to USD 347.50 / ton. In the "Grain" circle of Sofia Commodity Exchange AD the prices of the contracts are calm, there is a supply of bread wheat at 300.00 BGN / t, the demand slightly increased to 280.00 BGN / t. After the deals a week ago for serious quantities at 287.00 leva per ton, the prices will obviously continue to gravitate around this value. Corn is offered at 300.00 BGN/t, and the counter advertisements for search are 275.00 BGN/t. Feed barley is looking at 235.00 BGN / t oilseed sunflower at 560.00 BGN / t and the supply is 590.00 BGN / t. All prices are without VAT.

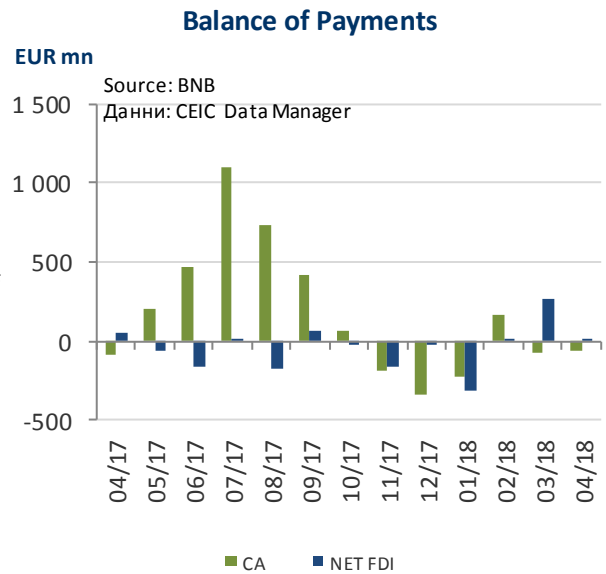
BULGARIA

EXTERNAL SECTOR

Balance of Payments

In January – April 2018 the current and capital account was negative amounting to EUR 123.1 million (0.2% of GDP), compared with a deficit of EUR 61.8 million (0.1% of GDP) in January – April 2017

According BNB data the current and capital account recorded a surplus of EUR 14.2 million in April 2018, compared with a deficit of EUR 77.6 million in April 2017. In January – April 2018 the current and capital account was negative amounting to EUR 123.1 million (0.2% of GDP), compared with a deficit of EUR 61.8 million (0.1% of GDP) in January – April 2017. The current account was negative amounting to EUR 63.1 million in April 2018, compared with a deficit of EUR 86 million in April 2017. In January – April 2018 the current account was negative and amounted to EUR 201.6 million (0.4% of GDP), compared with a deficit of EUR 183.5 million (0.4% of GDP) in January – April 2017. The balance on goods recorded a deficit of EUR 289.7 million in April 2018, compared with a deficit of EUR 266.5 million in April 2017. In January – April 2018 the balance on goods was negative amounting to EUR 1,154.5 million (2.2% of GDP), compared with a deficit of EUR 869.3 million (1.7% of GDP) in January – April 2017. Exports of goods amounted to EUR 2,143.8 million in April 2018, growing by EUR 210.7 million (10.9%) from April 2017 (EUR 1,933.1 million). In January – April 2018 exports of goods totaled EUR 8,252.4 million (15.4% of GDP), increasing by EUR 374.4 million (4.8%) year-on-year (from EUR 7,878 million, 15.6% of GDP). In January – April 2017 exports grew by 13.5% yoy. Imports of goods amounted to EUR 2,433.5 million in April 2018, growing by EUR 233.9 million (10.6%) from April 2017 (EUR 2,199.6 million). In January – April 2018 imports of goods totaled EUR 9,406.9 million (17.5% of GDP), growing by EUR 659.6 million (7.5%) from January – April 2017 (EUR 8,747.3 million, 17.3% of GDP). In January – April 2017 imports grew by 19.5% yoy. Services recorded a positive balance of EUR 81 million in April 2018, compared with a surplus of EUR 57.8 million in April 2017. In January – April 2018 services recorded a surplus of EUR 417.1 million (0.8% of GDP) compared with a positive balance of EUR 246.7 million (0.5% 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 surplus of EUR 40.4 million in April 2018, compared with a deficit of EUR 38.7 million in April 2017. In January – April 2018 the balance on primary income was negative and equated to EUR 88.7 million (0.2% of GDP), against a deficit of EUR 260.7 million (0.5% of GDP) in January – April 2017. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 105.3 million, compared with a positive balance of EUR 161.5 million in April 2017. In January – April 2018 the net secondary income was positive amounting to EUR 624.5 million (1.2% of GDP), compared with a positive balance of EUR 699.8 million (1.4% of GDP) in the same period of 2017. The capital account recorded a surplus of EUR 77.2 million, compared with a positive balance of EUR 8.5 million in April 2017. In January – April 2018 the capital account recorded a surplus of EUR 78.5 million (0.1% of GDP), compared with a positive balance of EUR 121.7 million (0.2% of GDP) in January – April 2017. The financial account recorded a net inflow of EUR 320.3 million, compared with an outflow of EUR 197.9 million in April 2017. In January – April 2018 the financial account recorded a net inflow of EUR 656.5 million (1.2% of GDP) compared with an outflow of EUR 456.7 million (0.9% of GDP) in January – April 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 2.4 million, compared with a positive balance of EUR 56.1 million in April 2017. In January – April 2018 direct investment recorded a negative balance of EUR 39.7 million (0.1% of GDP), compared with a negative balance of EUR 165.8 million (0.3% of GDP) in January – April 2017. Direct investment – assets dropped by EUR 0.7 million compared with a decrease of EUR 58.8 million in April 2017. In January – April 2018 direct investment – assets grew by

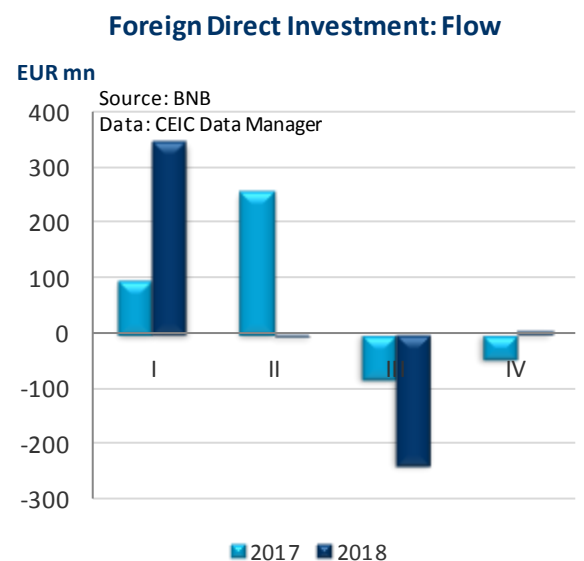


EUR 99.1 million (0.2% of GDP), compared with an increase of EUR 92.3 million (0.2% of GDP) in the same period of 2017. Direct investment – liabilities dropped by EUR 3.2 million in April 2018, compared with a decline of EUR 114.9 million in April 2017. In January – April 2018 direct investment – liabilities rose by EUR 138.8 million (0.3% of GDP), compared with an increase of EUR 258.1 million (0.5% of GDP) in the same period of 2017. The balance on portfolio investment was positive amounting to EUR 455.7 million, compared with a negative balance of EUR 119.6 million in April 2017. In January – April 2018 the balance was positive and equated to EUR 961 million (1.8% of GDP), compared with a positive balance of EUR 311.9 million (0.6% of GDP) million in January – April 2017. Portfolio investment – assets grew by EUR 98.1 million, compared with an increase of EUR 31.9 million in April 2017. In January – April 2018 they rose by EUR 588.7 million (1.1% of GDP) compared with an increase of EUR 233 million (0.5% of GDP) in January – April 2017. Portfolio investment – liabilities dropped by EUR 357.6 million compared with an increase of EUR 151.5 million in April 2017. In January – April 2018 portfolio investment – liabilities dropped by EUR 372.3 million (0.7% of GDP), compared with a decline of EUR 78.9 million (0.2% of GDP) in January – April 2017. The balance on other investment was negative amounting to EUR 61.9 million, compared with a positive balance of EUR 257.6 million in April 2017. In January – April 2018 the balance was positive and equated to EUR 795.9 million (1.5% of GDP), compared with a negative balance of EUR 293.7 million (0.6% of GDP) in January – April 2017. Other investment – assets dropped by EUR 98 million, compared with an increase of EUR 412.8 million in April 2017. In January – April 2018 they grew by EUR 934.7 million (1.7% of GDP) compared with an increase of EUR 69.1 million (0.1% of GDP) in January – April 2017. Other investment – liabilities dropped by EUR 36.1 million compared with an increase of EUR 155.2 million in April 2017. In January – April 2018 they grew by EUR 138.7 million (0.3% of GDP) compared with an increase of EUR 362.7 million (0.7% of GDP) in January – April 2017. The BNB reserve assets dropped by EUR 101.5 million, compared with a decline of EUR 379.5 million in April 2017. In January – April 2018 they decreased by EUR 1,136.8 million (2.1% of GDP), compared with a decline of EUR 302.4 million (0.6% of GDP) in the same period of 2017. The net errors and omissions were positive amounting to EUR 306.1 million compared with a negative value of EUR 120.3 million in April 2017. According to preliminary data, the item was positive totaling EUR 779.6 million (1.5% of GDP) in January – April 2018, compared with a negative value of EUR 394.8 million (0.8% of GDP) in the same period of 2017.

Foreign Direct Investments

In January-April 2018 Bulgaria's foreign direct investment in Bulgaria totaled EUR 113 million (0.2% of GDP), dropping by EUR 116.2 million (50.6%) from January –April 2017 (EUR 229.2 million, 0.5% of GDP)

According to preliminary data, foreign direct investment in Bulgaria presented according to the directional principle totaled EUR 113 million (0.2% of GDP) in January – April 2018, dropping by EUR 116.2 million (50.6%) from January –April 2017 (EUR 229.2 million, 0.5% of GDP). Foreign direct investment in Bulgaria increased by EUR 4.5 million in April 2018, compared with a decline of EUR 43.9 million in April 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 million in January – April 2018, dropping by EUR 205.4 million from EUR 44.5 million in January – April 2017. Real estate investments of non-residents totalled EUR 3.4 million, compared with EUR 3.3 million attracted in January – April 2017. The largest inflow of real estate investment was from Russia (EUR 2.1 million), Kazakhstan (EUR 0.5 million), and Israel (EUR 0.4 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 58.3 million in January – April 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 258.4 million in January – April 2018, compared with EUR 126.4 million in January – April 2017. The largest net direct investment inflows in Bulgaria for Janu-

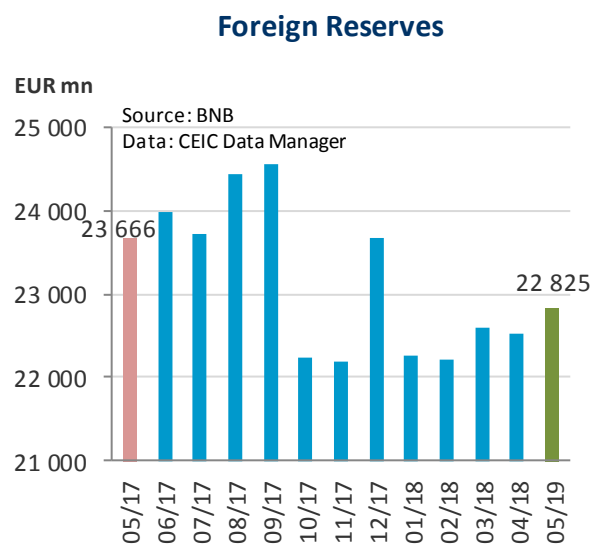


ary – April 2018 were from the Netherlands (EUR 149.1 million), Germany (EUR 119 million), and Russia (EUR 116.7 million).

Foreign Reserves

At the end of May 2018, Bulgaria’s international reserves BNB amounted to EUR 22.8 billion, increasing by 1.4% mom, but declined by 3.6% yoy

According to BNB data at the end of May 2018, Bulgaria’s international reserves amounted to BGN 44.6 billion (EUR 22.8 billion) and increased by 1.4% mom, reporting decline of 3.6%yoy. On the assets side, cash and deposits in foreign currency amounted to BGN 16.3 billion and reported an annual decline of 11.4%, with a monthly growth of 5%. Monetary gold deposits rose by 2.4% mom to BGN 2.8 billion, but declined by 1.3% yoy. Investment in securities amounted to BGN 25 billion and decreased by 1% mom, but increased by 2% yoy, respectively. On the liabilities side, money outside banks reached BGN 15.5 billion, increasing by 0.9%mom and by 11.4% yoy, respectively. Liabilities to banks amounted to BGN 12.3 billion and increased by 3.1% mom, down 11.3% yoy, respectively. Liabilities to the government and other budget organizations amounted to BGN 9.1 billion and decreased respectively by 3.5% mom and by 21.9% yoy, respectively. Liabilities to other depositors amounted to BGN 2 billion and reported a monthly increase of



19.1% and more 1.3 times annually. The BNB “Issue” Department deposit amounted to BGN 5.7 billion, increasing by 1.7% mom, but declining by 3.9% yoy, respectively. .Bulgaria's international liquidity position, as measured by the ratio of short-term foreign debt / international reserves, is high, according to the latest data as of March 2018 - 287.4% versus 289.3% as of February 2018 and 325.4% as of March 2017.

REAL SECTOR

Gross Domestic Product

In Q1 2018 Bulgaria’s GDP growth rate is 3.6% compared to the same quarter of the previous year and 0.9% compared to Q4 2017

According to the NSI preliminary data, the Gross Domestic Product at current prices in Q1 of 2018 amounted to BGN 21 479 million. The GDP per person amounted to BGN. 3 048 In USD terms at average quarterly exchange rate of 1.59128 BGN per dollar, the GDP amounted to USD 13 498 million or USD 1 915 dollars per person. In Euro terms, the GDP amounted to EUR 10 982 million or EUR 1 558 per person. Gross value added BGN 782 million. at current prices in Q1 of 2018. As compared to the first quarter of 2017 the share of the agricultural sector in the gross value added of the economy decreases with 0.3 percentage points (pp) to 2.2%. The share of industrial sector retains its level of 29.3%. The relative share of value added from service activities increases from 68.2% to 68.5% compared to the corresponding period of the previous year. In the first quarter of 2018 the final consumption expenditure¹ formed 86.2% of GDP. Investments (gross fixed capital formation²) formed 18.2% of GDP. The external balance (exports-imports) is negative. According to the seasonally adjusted data, GDP in the first quarter of 2018 increased by 0.9% compared with the previous quarter. In Q1 of 2018 gross value added of the total economy rises by 0.9% also. According to the

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



According to the seasonally adjusted data, GDP in the first quarter of 2018 increased by 0.9% compared with the previous quarter. In Q1 of 2018 gross value added of the total economy rises by 0.9% also. According to the

preliminary estimates of GDP by final expenditure, in Q1 of 2018 compared with the previous quarter, the final consumption increased by 0.5%. For the same period, gross fixed capital formation increased by 4.6%. In Q1 of 2018, seasonally adjusted exports of goods and services increased its level compared to the previous quarter by 1.1%, while imports of goods and services decreased by 2.2%. During Q1 2018 GDP increased by 3.6% compared to the same quarter of the previous year according to the seasonally adjusted data. Gross value added increased by 3.4% compared to the same quarter of previous year. The indicators' movement is determined by the increase recorded in: Real estate activities - 6.7%, Construction - 6.6%, Financial and insurance activities - 5.5%, Information and communication - 3.7%, Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply, waste management and remediation activities - 3.4%, Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities - 2.6%, Professional, scientific and technical activities; administrative and support service activities - 2.1%. As regards the expenditure components of GDP, main contributors to the registered positive economic growth are the gross fixed capital formation - with growth of 7.0%, individual final consumption of NPISH - 6.8%, individual final consumption of households - 3.4% and collective final consumption of the general government - 1.7%. Exports of goods and services increased by 4.4%, imports of goods and services increased by 4.6%. Gross Domestic Product in Q1 of 2018 increased by 0.4% in the EU-28 compared to the previous quarter by seasonally adjusted data. For the same period, GDP in Bulgaria increased by 0.9%. Compared to the previous quarter, in the first quarter of 2018 Latvia and Poland recorded the highest economic growth - 1.6%, Hungary and Finland - 1.2%, while Estonia registered decline by 0.1%. Compared to the same quarter of the previous year, seasonally adjusted data showed an increase in GDP in the EU-28 by 2.4% and in Bulgaria by 3.6%. In Q1 of 2018, compared to the same quarter of the previous year, the highest economic growth was observed in Latvia - 5.1%, Poland and Slovenia - 5.0%, Hungary - 4.7% and Czech Republic - 4.4%, while decline with 0.5% was seen in Denmark.

Business climate

In May 2018, the business conjuncture in Bulgaria continues to improve. The total business climate indicator increases by 2.1 pps compared to April 2018 and reaches new long-term maximum of 33.1% since 2009

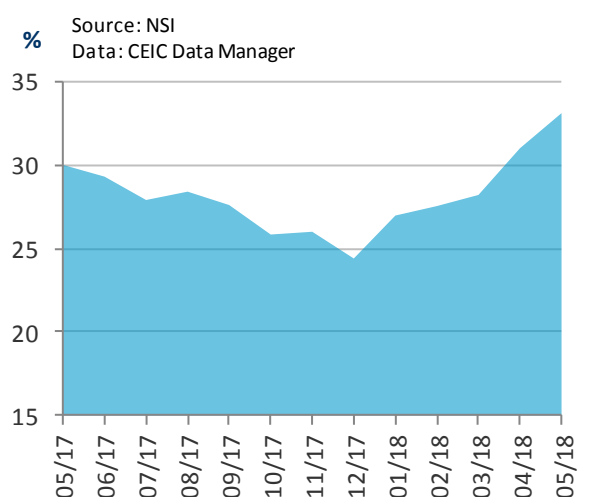
According NSI data in May 2018, the business conjuncture in Bulgaria continues to improve. The total business climate indicator increases by 2.1 pps compared to April 2018 and reaches new long-term maximum (33.1%) since 2009.

Industry. The composite indicator 'business climate in industry' increases by 1.4 pps to 30.3% as a result of the optimistic industrial entrepreneurs' assessments about the present business situation of the enterprises. The inquiry reports certain improvement of the production assurance with orders, which is accompanied with favorable expectations about the production activity over the next 3 months. The main factors limiting the enterprises continue to be connected with the uncertain economic environment and the shortage of labor. Concerning the selling prices in industry, the prevailing managers' expectations are them to remain unchanged over the next 3 months.

Construction. In May 2018 the composite indicator 'business climate in construction' increases by 8.1pps to 37.1% which is due to the improved construction entrepreneurs' assessments and expectations about the business situation of the enterprises. Their opinions about the construction activity over the last 3 months, as well their expectations over the next 3 months are more favorable. The uncertain economic environment, shortage of labor and competition in the branch remain the most serious problems for the activity of the enterprises. As regards the selling prices in construction, the majority of the managers foresee preservation of their level over the next 3 months.

Retail trade. The composite indicator 'business climate in retail trade' decreases by 1.6 pps to 42.5% as a result of the more reserved retailers' assessments and expectations about the business situation of the enterprises. However, their forecasts

Business Climate Indicator



about the volume of sales and orders places with suppliers over the next 3 months are more favourable.

In the last month the inquiry reports, strengthen of the negative impact of the factor ‘competition in the branch’, which shifts the enterprises’ difficulties related to the insufficient demand and uncertain economic environment. Concerning the selling prices, the prevailing retailers’ expectations are them to remain unchanged over the next 3 months.

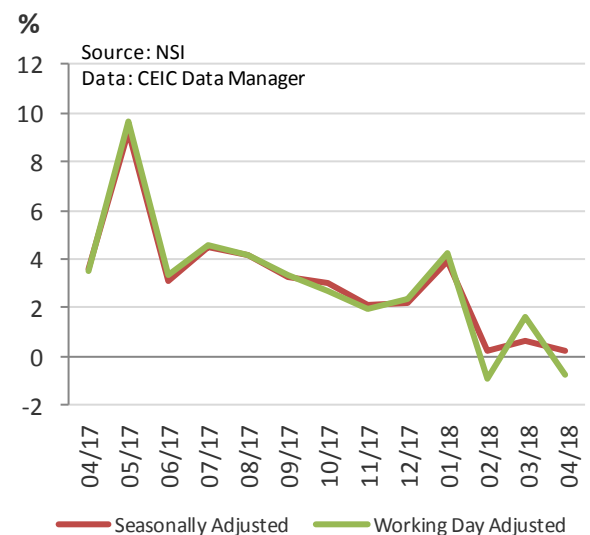
Service sector. In May 2018 the composite indicator ‘business climate in service sector’ increases by 0.9 pps to 25% which is due to the more favorable managers’ assessments and expectations about the business situation of the enterprises. With regard to the demand for services, the present tendency is assessed as improved, but their expectations over the next 3 months are more reserved. The most serious obstacles for the business development in the sector continue to be connected with the competition in the branch and uncertain economic environment. As regards the selling prices, the inquiry registers certain expectations for increase, although the majority of the managers foresee preservation of their level over the next 3 months.

Industrial Production Index

In April 2018 Bulgaria’s Industrial Production Index decreased by 2.0% mom as compared to March 2018 and by 0.8% yoy, respectively

According to the preliminary NSI data the Industrial Production Index decreased by 2.0% in April 2018 as compared to March 2018. In April 2018 working day adjusted data presented 0.8% decline compared to the same month of 2017. Industrial Production Index fell in the electricity, gas, steam and air conditioning supply by 6.4%, in the manufacturing by 2.1%, and in the mining and quarrying industry by 0.6%. The most significant production decreases in the manufacturing were registered in the manufacture of fabricated metal products, except machinery and equipment by 12.5%, in the manufacture of food products by 7.4%, in the manufacture of computer, electronic and optical products by 7.0%, in the manufacture of leather and related products by 6.2%. There were increases in the manufacture of tobacco products by 4.6%, in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 4.3%, in the manufacture of machinery and equipment n.e.c. by 4.0%, in the manufacture of motor vehicles, trailers and semi-trailers by 3.5%. On annual basis in April 2018 Industrial Production Index calculated from working day adjusted data went down in the electricity, gas, steam and air conditioning supply by 3.6%, in the mining and quarrying industry by 2.4%, and in the manufacturing by 1.1%. In the manufacturing, the more considerable decreases compared to the same month of the previous year were registered in the manufacture of fabricated metal products, except machinery and equipment by 24.8%, in the manufacture of tobacco products by 19.2%, in the manufacture of chemicals and chemical products by 9.8%, in the manufacture of wearing apparel by 9.2%. Increases were seen in the manufacture of other transport equipment by 55.9%, in the manufacture of motor vehicles, trailers and semi-trailers by 22.9%, in the repair and installation of machinery and equipment by 15.4%, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 13.7%.

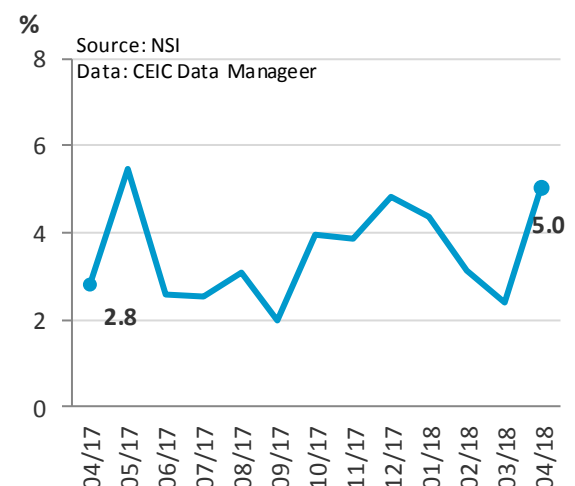
Industrial production Index, % change, YoY



Retail Trade

In April 2018 the turnover in ‘Retail trade, except of motor vehicles and motorcycles’ at constant prices increased by 0.9% mom and by 5% yoy, respectively

Retail trade index, % change (YoY)



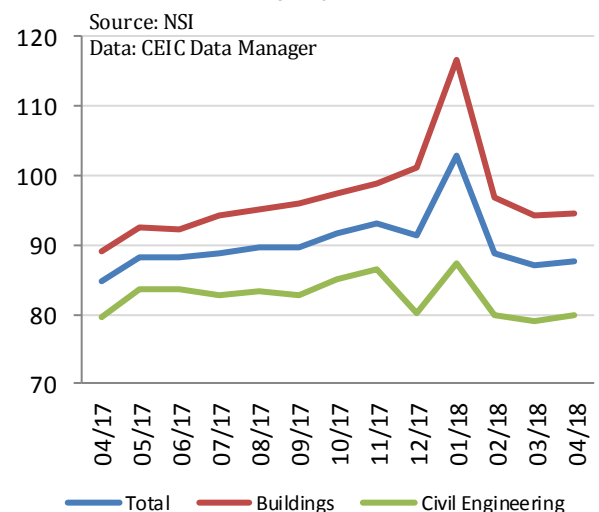
According to the preliminary seasonally adjusted data in April 2018 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.9% mom. In April 2018, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' marked rise from 5.0% in comparison with the same month of the previous year. In April 2018 compared to the previous month more significantly, growth of turnover was observed in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' by 6.0%, in the 'Retail sale of automotive fuel' by 4.7%, the 'Retail sale via mail order houses or via Internet' by 2.2%. Decrease was noted in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles' - 2.6%. In April 2018 compared to the same month of 2017 the turnover increased in the 'Retail sale via mail order houses or via Internet' by 16.4%, in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles' by 9.1%, in the 'Retail sale of food, beverages and tobacco' by 7.0%, in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' by 4.9%, in the 'Retail sale in non-specialized stores' by 3.3% and in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' by 3.1%. Decline was registered in the 'Retail sale of textiles, clothing, footwear and leather goods' - 4.3%.

Construction

In April 2018 Bulgaria's index of production in section 'Construction' increased by 0.6% mom and yoy, respectively

According to the NSI preliminary data, in April 2018 the index of production in section 'Construction' calculated on the base of seasonally adjusted data³ was 0.6% above the level of the previous month. In April 2018 working day adjusted data^{0.6%} in the construction production, compared to the April 2017. In April 2018 the construction production, calculated from the seasonally adjusted data, was above the level of the previous month. Index the production of civil engineering rose by 1.1% and production of building construction - by 0.3%. On an annual basis in April 2018, the increase of production in construction, calculated from working day adjusted data, was determined from the positive rate in the building construction, where the growth was by 2.2%, while in the civil engineering was registered a decline by 1.4%

Construction Production index, seasonally adjusted data

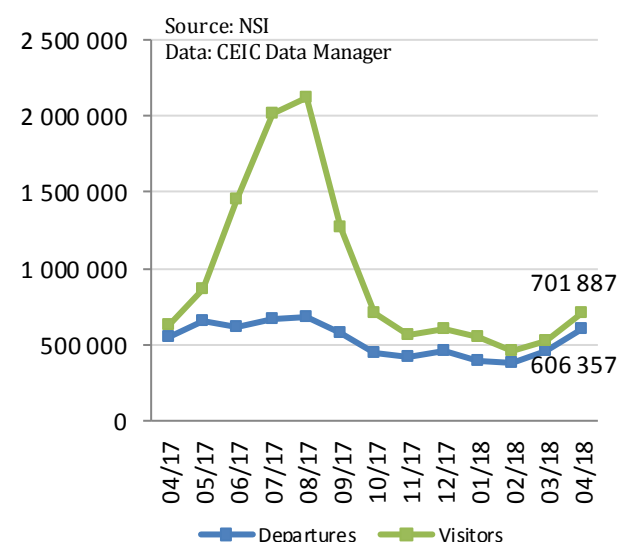


Tourism

In April 2018, the number of the trips of Bulgarian residents abroad was 606.4 thousand or by 10.5% above the registered in April 2017. In April 2018, the number of arrivals of visitors from abroad to Bulgaria was 701.9 thousand or by 10.8% more in comparison with April 2017

In April 2018, the number of the trips of Bulgarian residents abroad was 606.4 thousand or by 10.5% above the registered in April 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: Belgium - by 40.7%, the Former Yugoslav Republic of Macedonia - by 20.1%, Turkey - by 15.6%, Serbia - by 14.7%, Romania - by 11.9%, Germany - by 3.3%, Greece - by 1.8%, Italy - by 0.9%, Austria - by 0.9%, and etc. At the same time decreased the number of the trips of Bulgarians to: the United Kingdom - by 3.9%, Spain - by 2.0%, France - by 1.5%, Czech Republic - by 1.4%, and etc. In comparison with April 2017, an increase was registered in the trips with professional purpose - by 20.5% and with holiday and recreation purpose - by 19.1%, while those with other purposes decreased by 0.2%. The trips with

Total Visitors/Departures



other purposes (as a guest, education and visit the cultural and sport events) in April 2018 composed the greatest share of the total number of trips of Bulgarian residents abroad - 41.9%, followed by the trips with professional purpose - 30.1%, and with holiday and recreation purpose - 28.0%. In April 2018 most trips of Bulgarian citizens were made to: Turkey - 140.5 thousand, Greece - 115.5 thousand, Serbia - 54.8 thousand, Romania - 41.8 thousand, the Former Yugoslav Republic of Macedonia - 39.5 thousand, Germany - 36.7 thousand, Italy - 28.5 thousand, Austria - 18.7 thousand, Spain - 15.5 thousand, the United Kingdom - 14.7 thousand. In April 2018, the number of arrivals of visitors from abroad to Bulgaria was 701.9 thousand or by 10.8% more in comparison with April 2017. An increase was registered in the trips by all observed purposes: with other purposes (including as guest and passing transit) - by 15.1%, with holiday and recreation purpose - by 8.4%, and with professional purpose - by 7.4%. Transit passes through the country were 25.1% (175.9 thousand) of all visits of foreigners to Bulgaria. The share of visits of EU citizens was 56.2% of the total number of foreigners' visits to Bulgaria in April 2018 or by 9.5% more in comparison with the same month of the previous year. An increase was registered in the visits of citizens from France - by 42.5%, the United Kingdom - by 26.1%, Poland - by 17.9%, Greece - by 13.1%, Romania - by 6.1%, and etc. At the same time decreased the visits from Austria - by 10.3%, Germany - by 2.3%, Italy - by 2.1%, and etc. The visits of foreigners in the group 'Other European countries' increased by 11.2%, as the highest growth was observed in the visits of citizens of Serbia - by 23.1%. In April 2018, the predominant share of the visits with other purposes was 40.1%, followed by trips with holiday and recreation purpose - 39.4%, and with professional purpose - 20.5%. In April 2018 the most visits to Bulgaria were from: Romania - 163.5 thousand, Turkey - 100.8 thousand, Greece - 83.7 thousand, the Former Yugoslav Republic of Macedonia - 49.5 thousand, Serbia - 48.9 thousand, Germany - 24.5 thousand, Ukraine - 19.4 thousand, the United Kingdom - 17.2 thousand, Italy - 14.9 thousand, Israel - 14.4 thousand.

The total number of the nights spent in all accommodation establishments registered in April 2018 was 895.0 thousand, or by 1.4% less in comparison with the same month of the previous year. The total revenues from nights spent in April 2018 reached 47.1 million BGN or by 6.4% more compared to April 2017

According to NSI data in April 2018, 2 037 accommodation establishments - hotels, motels, camping sites, mountain chalets and other establishments for short-term accommodation with more than 10 bed-places were functioned in Bulgaria. The total number of the rooms in them was 68.8 thousand and the bed-places were 143.6 thousand. In comparison with April 2017, the total number of accommodation establishments (functioned during the period) increased by 3.7%, while the bed-places in them decreased by 3.4%. The total number of the nights spent in all accommodation establishments registered in April 2018 was 895.0 thousand, or by 1.4% less in comparison with the same month of the previous year, as the greatest decrease (by 3.6%) was observed in 1 and 2 stars accommodation establishments. In April 2018, 73.4% of all nights spent by foreign citizens and 36.1% of all nights spent by Bulgarians were realized in 4 and 5 stars hotels. In 3 stars accommodation establishments were spent 18.9% of all nights by foreigners and 31.1% of all nights by Bulgarian residents, while in the rest of accommodation establishments (with 1 and 2 stars) they were 7.7% and 32.8% respectively. In April 2018, the number of arrivals in all accommodation establishments decreased by 0.8% compared to the same month of 2017 and reached 432.2 thousand, as a decrease was registered for Bulgarians by 4.2% and an increased - by 5.5% for foreigners. Bulgarians spent the nights in accommodation establishments in April 2018 were 270.2 thousand and spent 1.9 nights on the average. The arrivals of foreigners were 162.0 thousand, as 72.5% of them spent nights in hotels with 4 and 5 stars. On the average 2.3 nights were spent by foreigners. In April 2018, the total occupancy of the bed-places in accommodation establishments was 22.0%, as compared to April 2017 decreased by 1.9 percentage points. The highest was occupancy of the bed-places in 4 and 5 stars accommodation establishments - 25.4%, followed by 3 stars accommodation establishments - 24.4%, and with 1 and 2 stars - 15.4%. The total revenues from nights spent in April 2018 reached 47.1 million BGN or by 6.4% more compared to April 2017. An increase in revenues was registered from both foreigners - by 9.9% and Bulgarians - by 2.6%.

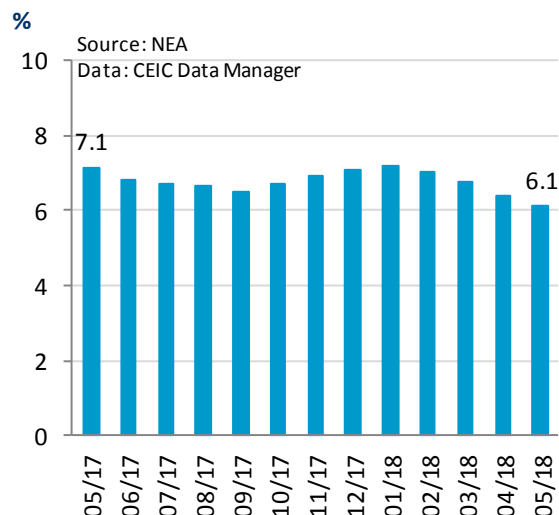
Unemployment

In May 2018, unemployment in Bulgaria decreased by 0.03 percentage points to 6.1% compared to April 2018. This was the lowest level of registered unemployed since December 2008

According to data from the Employment Agency, the trend of decreasing unemployment continues in May 2018, reaching 6.1%

at the end of the month, recording a decrease of 0.3 percentage points compared to April 2018. The annual decrease was 1 percentage point. This shows data from the Employment Agency, published today, which also confirm the conclusions of Eurostat. In May 2018, the lowest registered unemployment rate since December 2008 has been reached. In May 2018, the lowest registered unemployment rate since December 2008 has been reached. The registered unemployed at the end of the month are in total 200 458, their number shrinking by 5% compared to the previous month and by 14.3% compared to a year earlier. Newly registered unemployed in May were 19,963. Of these, 1,258 were inactive, ie. were neither employed nor students, nor were they looking for a job. Since the beginning of the year, 28,272 people have been activated by the employees of the labor offices. A total of 21 740 persons went to work during the month, with 91.3% of them being employed in the real economy. As a result of the active measures to promote employment among the unemployed, 1 889 persons are included in subsidized employment in the month: 708 - under OP Human Resources Development, 397 - under other programs and 784 - by measures. The number of job vacancies in the primary labor market in May was 21 301, with 87.3% of them in the private sector. The largest share of vacancies was reported in manufacturing (25.1%), hotels and restaurants (17.7%), trade (13.6%), real estate (13.2%), forestry and fisheries (5.2%) and others. The most wanted occupational groups in May were: staff employed in the personal services (bartenders, waiters, chefs, cabinets, etc.); vendors; workers in the mining and processing industries; workers in agriculture, forestry and fisheries; operators of stationary machinery and equipment; drivers of motor vehicles and mobile equipment; waste collectors and related workers; assistants in food preparation; cleaners; skilled workers in the food, clothing, woodwork and related industries, etc.

Registered Unemployment Rate



Household income, expenditures and consumption

According to the preliminary data, GDP per person employed increased by 2.3% in Q1 2018 compared to the same quarter of 2017

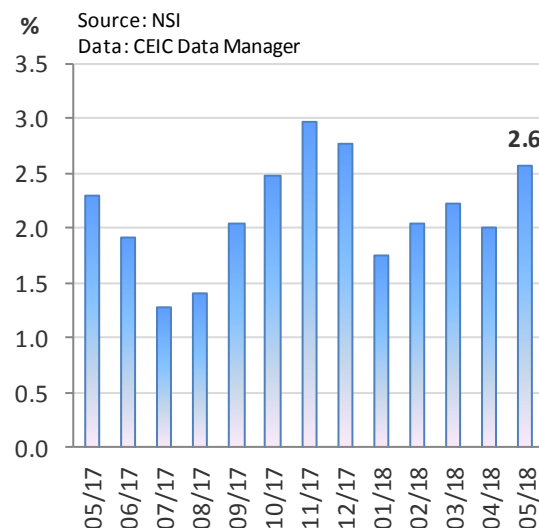
According to the preliminary NSI data, GDP per person employed increased by 2.3% in Q1 of 2018 compared to the same quarter of 2017. The number of persons employed in the economy is 3 439.0 thousands and the total number of hours worked is 1 393.4 million. Compared with the same quarter of the previous year the structure of employment by economic sector in Q1 2018 shows an increase in the relative share of economic sectors industry and services. GDP is 6 245.7 BGN per person employed and 15.4 BGN per hour worked. Gross value added per person employed increases in real terms by 3.5% and GVA per hour worked in real terms increased by 3.4% in Q1 of 2018 compared to the corresponding quarter of the previous year. GVA per person employed in industrial sector is BGN 6 182.4 and GVA per hour worked is BGN 14.5 according to the preliminary data for Q1 of 2018. In service sector an average of BGN 5 509 Gross value added is produced by person employed or an average of BGN 13.0 GVA per hours worked. The lowest labor productivity is in agricultural sector - BGN 708.0 GVA per person employed and BGN 2.3 per hours worked.

Inflation

The consumer price index in May 2018 compared to April 2018 was 100.3%, i.e. the monthly inflation was 0.3%

The rise in international fuel prices is the main factor for the dynamics of inflation in Bulgaria in May 2018. According NSI data the consumer price in-

Inflation, YoY

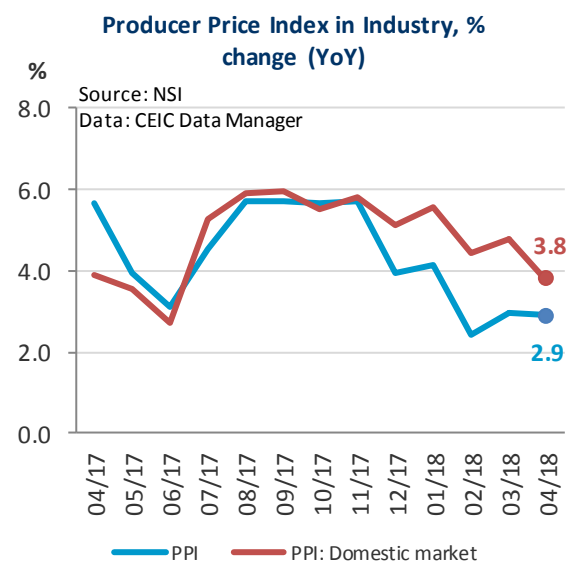


dex in May 2018 compared to April 2018 was 100.3%, i.e. the monthly inflation was 0.3%. The inflation rate since the beginning of the year has been 1.0% and the annual inflation in May 2018 compared to May 2017 was 2.6%. The annual average inflation, measured by CPI, in the last 12 months compared to the previous 12 months was 2.1%. Transport prices rose by 2.6% most in May, followed by clothing and footwear by 0.7%. Among non-food commodities, the most noticeable is the price increase for fuels - for diesel, 5.1%, for gasoline A95H - 4.7% and for A98H - 7%. International flights have raised their prices by 5.2%. Motor insurance also rose again - only 4.8% per month. In May, shoes increased by 1.2% and clothing by 0.5%. In the case of food, the cabbage grew by 26.2%, followed by the potatoes - by 21.2%, the apples by 6.4%, the butter by 3.6%. On the other hand, eggs were sold cheaper - 9.9%, tomatoes 7.5% and cucumbers - 8.9%, peppers - 13.6%, beer - by 1.4%, etc. In May, organized tourist trips in the country fell by 3%, hotels in resorts - by 2.7%, TVs - by 2.6%, bicycles - by 0.6%. Prices of medical and dental services, as well as prices of medicinal products, remained at the level of the previous month. The harmonized index of consumer prices in May 2018 compared to April 2018 was 100.4%, i.e. the monthly inflation was 0.4%. The inflation rate since the beginning of the year has been 1.0% and the annual inflation in May 2018 compared to May 2017 was 2.3%. The annual average inflation, measured by HICP, in the last 12 months compared to the previous 12 months was 1.5%.

Producer Price Index in Industry

Total Producer Price Index in April 2018 increases with 0.7% compared to the previous month; compared to the same month of 2017 the prices rose by 2.9%. Producer Price Index on Domestic Market in April 2018 increased by 0.4% compared to the previous month; compared to the same month of 2017 the domestic prices grew by 3.8%

According NSI data the Total Producer Price Index in Industry in April 2018 rose with 0.7% compared to the previous month. Higher prices were registered in manufacturing by 1.1%, while prices decreased in the mining and quarrying industry by 1.3% and in the electricity, gas, steam and air conditioning supply by 0.2%. In the manufacturing³, more significant increase in prices were reported in the manufacture of tobacco products by 5.4%, as well as in the manufacture of basic metals by 0.9%, while prices went down in the manufacture leather and related products by 1.0% and in the manufacture of chemicals and chemical products and in printing and reproduction of recorded media - both by 0.3%. The Total Producer Price Index in April 2018 increased by 2.9% compared to the same month of 2017. The prices rose in the electricity, gas, steam and air conditioning supply by 8.8%, in manufacturing by 1.3%, and in the mining and quarrying industry by 0.5%. 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 6.5%, and in the manufacture of paper and paper products by 5.2%, while the producer prices dropped in the manufacture of chemicals and chemical products by 2.2% and in the manufacture of other transport equipment by 1.9%.



Producer Price Index on Domestic Market in April 2018 increased by 0.4% compared to the previous month. The domestic prices went up in the manufacturing by 0.8%, in the electricity, gas, steam and air conditioning supply by 0.1%, while in the mining and quarrying industry the prices dropped by 1.7%. In the manufacturing², compared to the previous month the prices went up in the manufacture of tobacco products by 8.1% and in the manufacture of furniture by 0.9%. The domestic prices went down in the manufacture of basic metals by 1.4% and in the manufacture of motor vehicles, trailers and semi-trailers and in printing and reproduction of recorded media - both by 0.4%. Producer Price Index on Domestic Market in April 2018 increased by 3.8% compared to the same month of 2017. The domestic prices rose in the electricity, gas, steam and air conditioning supply by 9.0%, and in the mining and quarrying industry and manufacturing - both by 1.0%. In the manufacturing compared to April 2017 the prices went up in the manufacture of wood and of products of wood and cork, except furniture by 4.8% and in the manufacture of paper and paper products by 4.2%. A decrease in the prices was reported in the manufacture of rub-

ber and plastic products by 1.2% and in the manufacture of tobacco products by 0.7%.

Producer Price Index on Non-domestic Market in April 2018 increased by 1.2% compared to the previous month. In the manufacturing² the non-domestic prices increased by 1.4%. More significant price increase were reported in manufacture of basic metals by 1.4% and in the manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials and in the manufacture of rubber and plastic products - both by 0.8% and in the manufacture of motor vehicles, trailers and semi-trailers by 0.7%, while prices went down in the manufacture leather and related products by 1.4%, and in the manufacture of tobacco products by 1.1%. Producer Price Index on Non-domestic Market in April 2018 increased by 1.5% compared to the same month of 2017. In the manufacturing, the prices went up by 1.6%. 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 8.8%, in the manufacture of paper and paper products by 7.1% and in the manufacture of leather and related products by 4.4%. The prices fell in the manufacture of tobacco products by 4.7% and in the manufacture of chemicals and chemical products by 4.5%.

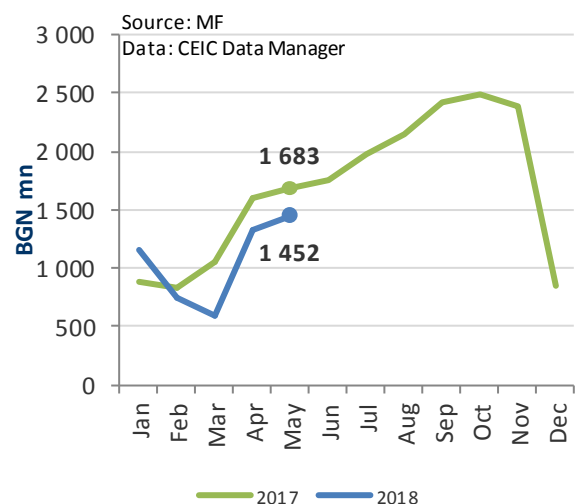
FISCAL SECTOR

Budget Balance

In April 2018 Bulgaria's consolidated Fiscal Programme (CFP) balance on a cash basis is positive, amounting to BGN 1,319.1 million, or 1.3% of GDP

According MF data the Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-April 2018 is positive, amounting to BGN 1,319.1 million, or 1.3% of the projected GDP, and is formed by a national budget surplus of BGN 1,528.6 million and by a EU funds deficit of BGN 209.5 million. Traditionally, April is characterized by an excess of CFP revenues over expenditures due to the specifics of the tax calendar. The CFP revenues and grants in April 2018 stand at BGN 12 970.8 million, or 33.9% of the annual estimates. Compared to the same period of the previous year, tax and non-tax revenues have risen by BGN 1,020.0 million, or by 8.8%, with grant proceeds being lower. Tax proceeds, including revenues from social security contributions, total BGN 10,873.8 million, which accounts for 34.9% of the revenues planned for the year. Compared to the data for April 2017, tax proceeds have risen in nominal terms by 8.9%, or by BGN 887.0 million. Direct tax revenues amount to BGN 2,332.4 million, or 40.5% of the estimates planned for the year, growing by BGN 302.3 million (14.9%) compared to the same period of the previous year. Indirect tax revenues amount to BGN 4,996.5 million, which accounts for 33.0% of the annual estimates. Compared to the data as of April 2017, proceeds in this group have grown by BGN 165.2 million, or by 3.4%. VAT proceeds amount to BGN 3,378.9 million, or 34.5% of those planned. The amount of non-refunded VAT as of 30/04/2018 is BGN 69.3 million. The excise duty revenues amount to BGN 1,523.2 million, or 29.6% of the annual estimates. Customs duty proceeds amount to BGN 79.9 million, or 42.1% 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 539.1 million, or 49.1% of the annual estimates. Revenues from social security and health insurance contributions are BGN 3,005.9 million, which accounts for 32.9% 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 374.8 million, or by 14.2%, in nominal terms. Non-tax revenues amount to BGN 1,719.5 million, which accounts for a performance of 36.6% of the annual estimates. Grant proceeds amount to BGN 377.4 million. CFP expenditures, including the contribution of the Republic of Bulgaria to the EU budget for April 2018, amount to BGN 11,651.7 million, which accounts for 29.6% of the annual estimates. For comparison, the expenditures for the same period of the previous year amount to BGN 10,426.1 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 main-

Budget position monthly



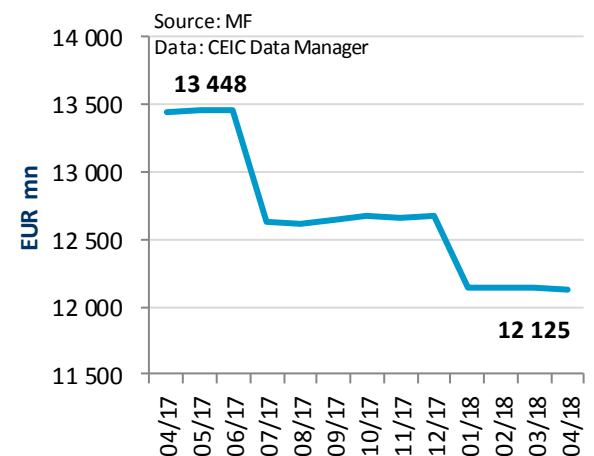
ly due to the higher amount of health insurance and social payments (baseline effect for pension expenditures as a result of the increase in July 2017, the two-step increase in the minimum pension in 2017 as from July and October), the higher staff costs (mostly resulting from the increase in the remuneration 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 10,871.3 million, which accounts for 29.2% of the annual estimates. Non-interest current expenditures as of April 2018 amount to BGN 10,132.2 million, or 32.6% of the estimates for the year, capital expenditures (including net increment of state reserve) amount to BGN 728.7 million, or 11.8% of the estimates to the 2018 State Budget of the Republic of Bulgaria). The current and capital transfers to other countries amount to BGN 10.5 million. Interest payments amount to BGN 390.1 million, or 54.0% of those planned for 2018. The part of Bulgaria's contribution to the EU budget, as paid from the central budget as of 30/04/2018, amounts to BGN 390.2 million, which complies with the existing legislation in the area of EU own resources, i.e. Council Decision 2014/335/EU on the system of own resources of the European Union, Council Regulation (EU, Euratom) No 608/2014 of 26 May 2014 laying down implementing measures for the system of own resources of the European Union and Council Regulation (EU, Euratom) No 609/2014 of 26 May 2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements, as amended by Council Regulation (EU, Euratom) 2016/804 of 17 May 2016. The fiscal reserve as of 30/04/2018 is BGN 10.7 billion, including BGN 9.9 billion of fiscal reserve deposits in the BNB and in banks and BGN 0.8 billion of receivables under the EU Funds for certified expenditure, advance payments, etc.

Central Government Debt

In April 2018 Bulgaria's central government debt amounted at EUR 12,124.9 million and presented 22.7% of GDP

According to MF data Bulgaria's Central government debt as at end-April 2018 stood at EUR 12,124.9 million. Domestic debt amounted to EUR 2,956.3 million and external debt – to EUR 9,168.6 million. At the end of the reporting period the central government debt-to-gross domestic product (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 24.4%, and external debt – to 75.6%. The weighted average interest rate on debt for the period 01.01.2018 – 30.04.2018 is 2.69%, decreasing by 10 basis points as compared to the same period of 2017 (2.79%). As of 30 April 2018, the central government guaranteed debt amounted to EUR 349.2 million. Domestic guarantees amounted to EUR 35.9 million and external guarantees – to EUR 313.3 million. The central government guaranteed debt/GDP ratio was 0.6%. 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, at end-April 2018 the government debt reached EUR 11,454.6 million, or 21.2% of GDP. Domestic debt amounted to EUR 2,887.2 million and external debt – to EUR 8,567.4 million. Government guaranteed debt in April 2018 amounted to EUR 1,015.5 million. Domestic guarantees amounted to EUR 35.9 million, with the government guaranteed debt-to-GDP ratio being 1.9%.

Central Government Debt



On June 1, 2018 Fitch Ratings has affirmed Bulgaria's Long-Term Foreign and Local Currency Issuer Default Ratings (IDR) at 'BBB' with a Stable Outlook. The Short-Term Foreign- and Local-Currency IDR is also preserved at 'F2'

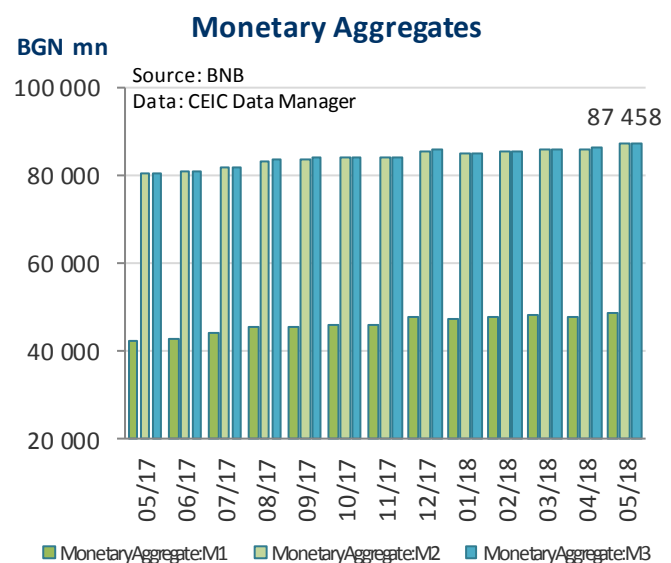
Bulgaria's ratings are supported by its sound sovereign balance sheet and credible policy framework aimed towards gradual accession to the Eurozone. The Agency also highlights the strong cyclical position of the economy, which will help the gradual convergence process towards higher income levels of higher rated sovereigns. The Agency points out that the country's economic growth is above the average rate of its 'BBB' category peers. In 2017 the real GDP growth was 3.6%. This compares with an average of 3.3% across its rating peers. Fitch forecasts Bulgaria to grow 3.7% in 2018 before slowing down to 3.4% in 2019.

Headline GDP growth will be mainly driven by domestic demand, with positive employment prospects, higher real wages and improved consumer confidence supporting growth in household consumption. Private and public sector investment look set to accelerate given the implementation of the EU programmes, the favorable financing environment and the improved business sentiment. The strength of Bulgaria's sovereign's balance sheet remains a key support to its ratings. Bulgaria achieved fiscal surpluses since 2016 (0.2% in 2016 and 0.9% in 2017). Fitch forecasts that the surpluses will remain in 2018 – 2019 with an average of 0.1%, which is lower than the Government's targets and reflects the Agency's expectations for higher spending related to absorption of EU funds and financing of priority areas. Bulgaria's external finances, according to the Agency, outperform the majority of its 'BBB' peers. The current account is expected to remain positive in 2018 –2019 (1.9% of GDP), which compares with a projected median current account deficit of 0.7% of GDP for 'BBB' peers. Furthermore, Bulgaria also has a stronger net external creditor position (15.9% of GDP in 2017) than its peers (3.5% of GDP). Developments in the banking sector have also been stable, consistent with higher economic and credit activity. There is a favorable trend of reduction in the NPL level, although, according to the Agency, it remains high by EU standards. The factors that could, individually or collectively, lead to positive rating action are stronger medium-term GDP growth potential and progressive convergence towards income levels of higher rate peers. The main factors that could, individually or collectively, lead to negative rating action are re-emergence of external imbalances and/or deterioration of competitiveness, higher fiscal deficits resulting in deterioration of the public debt trajectory, as well as materialization of contingent liabilities on the sovereign's balance sheet, for example from state-owned enterprises.

MONETARY SECTOR

At the end of April 2018 Bulgaria's broad money (M3) was BGN 86.200 billion and increased by 8.2% y/y. Bulgaria's domestic credit amounted at BGN 55.245 billion and increased by 8.8% y/y

In April 2018 broad money (monetary aggregate M3) increased annually by 8.2% compared to 8.4% annual growth in March 2018. At the end of April 2018 M3 was BGN 86.200 billion (82.2% of GDP) compared to BGN 86.100 billion (82.1% of GDP) in March 2018. Its most liquid component – monetary aggregate M1 – increased by 15.7% yoy in April 2018 (17.2% yoy growth in March 2018). At the end of April 2018, deposits of the non-government sector were BGN 72.204 billion (68.8% of GDP), increasing annually by 5.6% (5.6% annual growth in March 2018). Deposits of Non-financial corporations were BGN 21.300 billion (20.3% of GDP) at the end of April 2018. Compared to the same month of 2017 they increased by 13% (13% yoy growth in March 2018). Deposits of financial corporations decreased by 34.7% annually in April 2018 (31.1% annual decline in March 2018) and at the end of the month they reached BGN 2.561 billion (2.4% of GDP). Deposits of Households and NPISHs were BGN 48.343 billion (46.1% of GDP) at the end of April 2018. They Net domestic assets were BGN 53.752 billion at the end of April 2018. They increased by 9.6% compared to the same month of 2017 (8.8% annual growth in March 2018). At the end of the month their basic component – domestic credit – was BGN 55.245 billion and increased by 8.8% compared to April 2017 (8% annual growth in March 2018). In April 2018 claims on the non-government sector increased by 6.3% annually (5.3% annual increase in March 2018) reaching BGN 55.946 billion. At the end of April 2018, claims on loans to the non-government sector amounted to BGN 54.861 billion (52.3% of GDP) compared to BGN 53.846 billion (51.3% of GDP) at the end of March 2018. They increased annually by 6.6% in April 2018 (5.6% annual growth in March 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 76 million. On an annual basis, loans sold by Other MFIs were BGN 135.7 million (of which BGN 1.9 million in April 2018), while the amount of repurchased loans was BGN 59.7 million (there were no loan repurchases in April 2018). In April 2018, loans to Non-financial corporations increased by 2.9% annually (2.3% annual growth in March 2018) and at the end of the month amounted to BGN 31.951 billion (30.5% of GDP). Loans to Households and NPISHs



were BGN 20.650 billion (19.7% of GDP) at the end of April 2018. They increased by 9.1% compared to the same month of 2017 (6.3% annual growth in March 2018). At the end of April 2018 loans for house purchases were BGN 9.724 billion and increased by 9.3% yoy (9.1% annual growth in March 2018). Consumer loans amounted to BGN 8.510 billion and compared to April 2017 they increased by 14.4% (7.2% annual growth in March 2018). On an annual basis other loans decreased by 14.1% (5.9% annual decline in March 2018) and reached BGN 1.069 billion. Loans granted to financial corporations were BGN 2.260 billion at the end of April 2018 (2.2% of GDP). Compared to April 2017, they increased by 54.8% (64.5% annual growth in March 2018).

CAPITAL MARKET

In May 2018, the main index of BSE-Sofia reported a decrease of 3.28% to 636.55 points. The index of the most liquid companies BGBX 40 fell 2.79% to 126.32 points. Equally weighted BG TR30 dropped 2.23% to 528.30 points. The BGREIT property company's indicator fell by 0.04% to 115.47 points

In May 2018, only two of the 15 issues included in SOFIX are profitable. Of the others, 12 are losers and one issue is zero. A year earlier, in May 2017, the ratio was also negative, but significantly better - 8 losers to 7 winning shares. In contrast to April, when there were no issues recording a two-digit decline or double-digit growth, Trace Group Hold posted a 11.82% decline in stock prices last month. In May the total volume of transactions with the shares of the 15 companies of SOFIX amounted to BGN 11 553 921, which is BGN 4 780 277 less than the turnover in April, when BGN 16 334 198 were registered. Last month, only two issues had sales of over 1 million leva, while a year earlier in May 2017 were 6. Leaders in May 2018 are: Industrial Holding Bulgaria with BGN 5 987 683 and Chimimport with BGN 1 355 994. Following a change in the SOFIX base of March 19, the group of holdings increased by one. Of the six holdings included in SOFIX, there are only two: Stara Planina Hold (+ 3.27%) and Industrial Holding Bulgaria (+ 1.02%) and three are at a loss: Trace Group Hold (-11.82%), Holding Varna -6.32%) and Sirma Group Holding (-5.06%), while Eurohold Bulgaria is unchanged (0.00%). The company with the

Bulgarian Stock Exchange Indexes on Monthly Basis

Date	SOFIX	BGBX40	BGREIT	BGTR30
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
05.2018	636.6	126.3	115.5	528.3

Source: Bulgarian Stock Exchange-Sofia

highest turnover for May 2018 is Industrial Holding Bulgaria AD, with a total volume of BGN 5 987 683. The second place is Chimimport AD with a total amount of BGN 1 355 994. There is only one representative of the special investment vehicles - CCB Real Estate Fund REIT, which holds the 4th position respectively. The smallest number of transactions in the ranking are Chimsnab Bulgaria AD and CCB Real Estate Fund REIT and Chimimport AD and Sopharma AD are the largest. The most profitable company in May 2018 was Development Industry Holding AD, which achieved a growth of 7.69%. Second place is Solarpro Holding AD-Sofia, followed by Bulgarian Stock Exchange - Sofia AD with a growth of 3.51%. The last two companies in the ranking also have one-digit growth, respectively Stara Planina Hold AD with a growth of 3.27% and Holding Sveta Sofia AD with a growth of 2.78%. The top 5 of the losers in May 2018 was headed by Trace Group Hold AD with a decline of 11.88%. In the second place is Navigation Bulgarian River Shipping AD with a decrease of 11.11%. The other three companies in the ranking score one-digit declines.

BANKING SECTOR

In April 2018, the banking system's assets increased by 0.2% on a monthly basis and by 5.1% on an annual basis to BGN 97.8 billion. Their relative share in GDP was 92.4%.

According to BNB data, the aggregate profit of the banking system as at 30 April 2018 amounted to BGN 396 million (compared to BGN 413 million for the same period last year). Impairment costs for financial assets not reported at fair value through profit or loss for the four months of the year are BGN 131 million (compared to BGN 162 million as at 30 April 2017).

Indicator (BGN'000)	30.04. 2017	30.04. 2018	Y/Y (%)
Interest Income	1 026 599	963 316	-6.2
Interest Expense	134 935	99 364	-26.4
Net interest income	891 664	863 952	-3.1
Impairment	161 926	131 287	-18.9
Fee and commission income	354 041	380 150	7.4
Fee and commission expenses	44 143	51 968	17.7
Net fee and commission income	309 898	328 182	5.9
Administration costs	520 317	533 541	2.5
Personal cost	259 439	270 349	4.2
Total operating income, net	1 187 592	1 150 403	-3.1
Net Profit	412 968	396 467	-4.0

Source: BNB, Calculations: UBB

In April 2018, the banking system's assets increased by 0.2% on a monthly basis and by 5.1% on an annual basis to BGN 97.8 billion. Their relative share in GDP was 92.4%. During the month, attracted deposits and loans and advances increased. The most liquid balance sheet item - money, cash balances with central banks and other sight deposits still holds a significant share in total assets (18.7%). There is a decline in central bank cash balances and cash holdings and increases in other sight deposits. The total amount of securities portfolios decreased by 1% (BGN 129 million) compared to the end of March and its share in the balance sheet figure was 13.2% at the end of the period. Gross loan portfolio (excluding loans and advances to the central banks and credit institutions) increased by 0.9% on a monthly basis and by 4.1% on an annual basis to BGN 57.5 billion. Growth in loans to non-financial corporations amounted to 1.5% on a monthly basis and 1.7% on an annual basis to BGN 34.1 billion. Household loans increased by 0.6% m/m and by 6.7% y/y, respectively to BGN 20.3 billion. Loans to general government increased by 3.7% m/m, still reporting a year-on-year decline (-4.5% at the end of April). Loans to other financial corporations decreased by 6.1% m/m with growth of 23.1% y/y to BGN 2.4 billion. Attracted funds from customers on a monthly basis increased by 0.1% m/m and by 5.5% y/y, respectively to BGN 78.7 billion. An increase was recorded for household deposits by 0.8% m/m and by 5.7% y/y and this segment surpassing the psychological limit of BGN 50 billion (BGN 50.2 billion at the end of April). Deposits of general government increased by 12.6% m/m and by 23.9% y/y, respectively to BGN 2.4 billion. At the same time, deposits of non - financial corporations decreased by 2,4% m/m to BGN 23,3 billion.

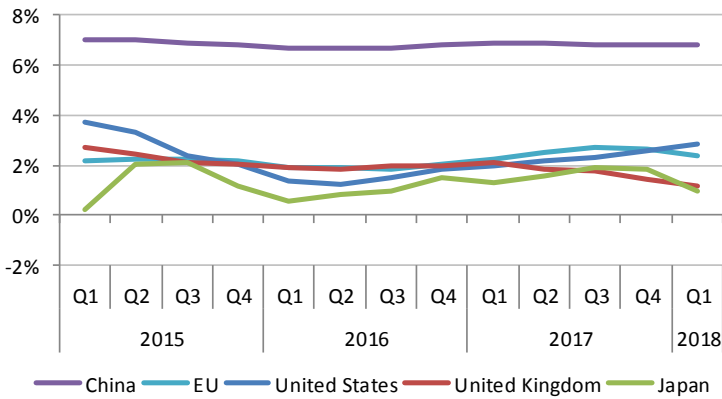
Bulgaria Intermediation Indicators	31.03.2017 BGN'000	31.12.2017 BGN'000	28.02.2018 BGN'000	31.03.2018 BGN'000	Change m/m (%)	Change y/y (%)	Change yend (%)	Share in GDP (%)
BANKING SYSTEM TOTAL ASSETS	93 016 280	95 850 484	97 570 257	97 754 014	0.2	5.1	2.0	93.2
Loans to central governments	646 622	614 592	595 261	617 464	3.7	-4.5	0.5	0.6
Loans to non-financial corporations	33 544 299	33 516 791	33 604 455	34 112 433	1.5	1.7	1.8	32.1
Loans to financial corporations	1 982 025	2 352 930	2 596 896	2 439 548	-6.1	23.1	3.7	2.5
Retail loans, incl.:	19 043 054	19 972 030	20 207 797	20 326 214	0.6	6.7	1.8	19.3
Mortgage loans	8 878 096	9 444 146	9 928 714	9 996 030	0.7	12.6	5.8	9.5
Consumer loans	8 807 719	9 264 095	9 132 875	9 196 744	0.7	4.4	-0.7	8.7
Micro credits and other loans	1 357 239	1 263 789	1 146 208	1 133 440	-1.1	-16.5	-10.3	1.1
TOTAL LOANS	55 216 000	56 456 343	57 004 409	57 495 659	0.9	4.1	1.8	54.5
ATTRACTED SOURCES FROM CLIENTS, incl.:	74 563 498	76 747 619	78 611 229	78 671 445	0.1	5.5	2.5	75.1
Local government deposits	1 970 632	1 824 421	2 168 881	2 441 081	12.6	23.9	33.8	2.1
Non-financial corporations deposits	20 901 817	23 709 705	23 831 960	23 267 901	-2.4	11.3	-1.9	22.8
Financial corporations deposits	4 187 018	2 842 120	2 815 136	2 770 439	-1.6	-33.8	-2.5	2.7
Households and NPISHs deposits	47 504 031	48 371 373	49 795 252	50 192 024	0.8	5.7	3.8	47.6
Equity	11 935 120	12 468 136	12 034 184	11 839 989	-1.6	-0.8	-5.0	11.5
Net profit (annualised)	412 968	1 088 190	267 194	396 472		-4.0		
BANKING INDICATORS (%)								
ROE	10.38	9.5	8.9	10.0	-1.2	0.4	-1.2	
ROA	1.33	1.2	1.1	1.2	-0.1	0.1	-0.1	
Capital adequacy	n.a.	22.1	20.9	n.a.				
Liquidity coverage(%)	n.a.	n.a.	327.9	392.9				
NPL	n.a.	10.2	9.3	n.a.	0	0.06	-0.13	
GDP, BGN '000	98 631 000	98 631 000	104 674 000	104 674 000				
EUR/BGN	1.95583	1.95583	1.95583	1.95583				

Source: BNB, MF, Calculations: UBB

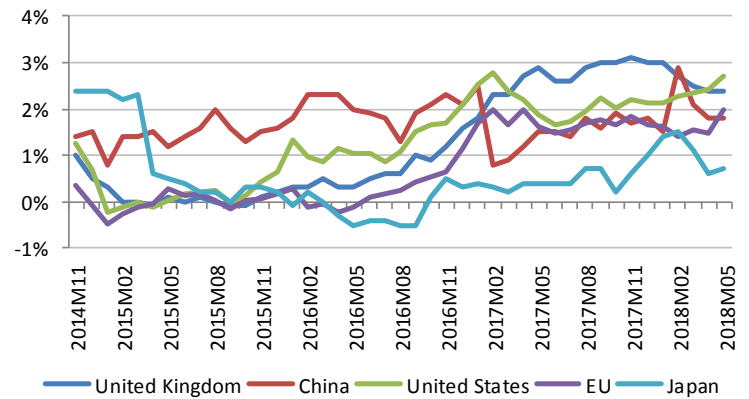
Equity in the balance sheet of the banking system in April decreased by BGN 194 million (1.6%) mainly due to the dynamics of retained earnings. Liquid Coverage (LCR) at the end of April was 392.9% (against 327.9% at the end of March). The liquidity buffer at the end of the period amounted to BGN 23.6 billion and the net outflow of liquidity was BGN 6.0 billion.

Appendix

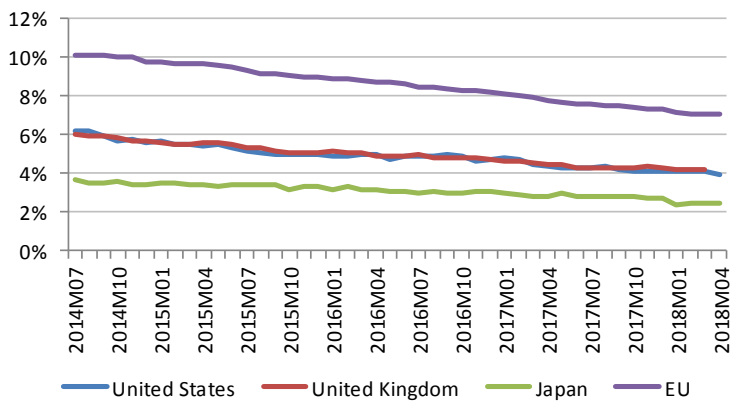
Advanced Economies: GDP growth rate compared to the same quarter of the previous year



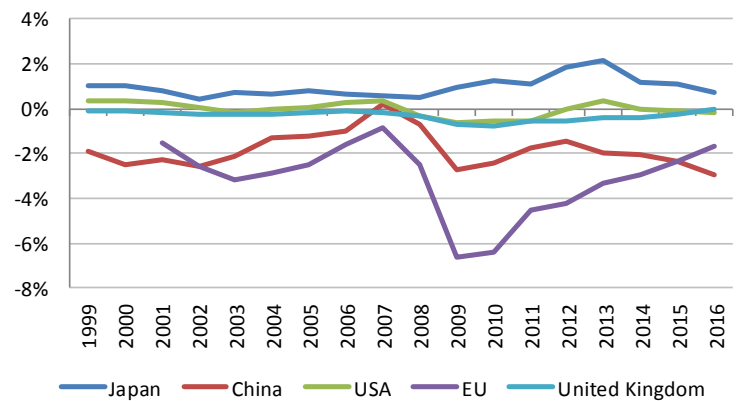
Advanced economies: Inflation by country, monthly (y/y)



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

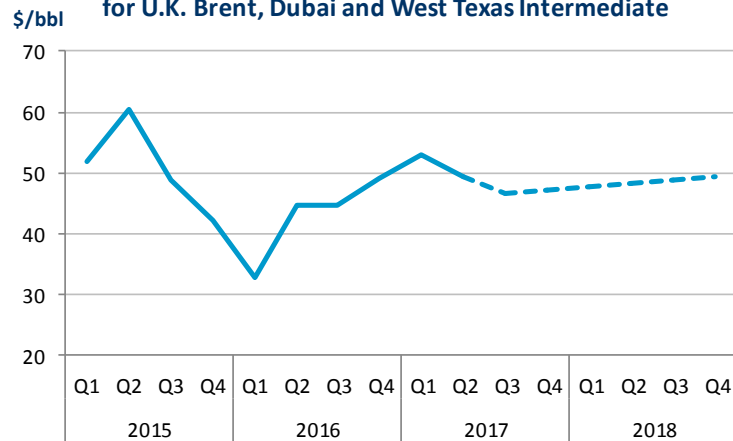


Advanced economies: Budget surplus/deficit to GDP (%)

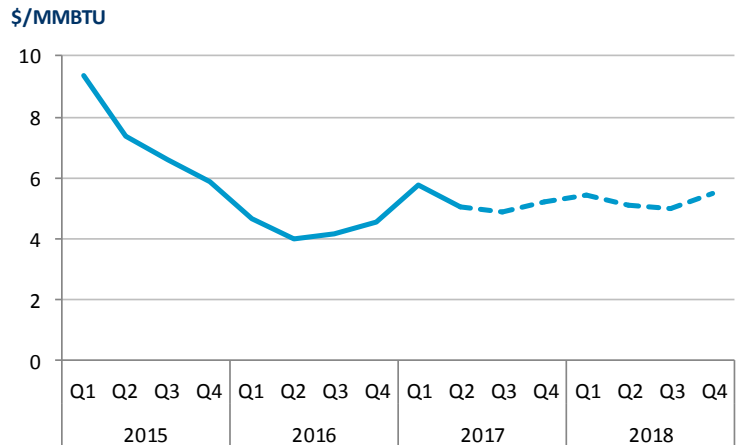


Overseas Prices of Oil Products

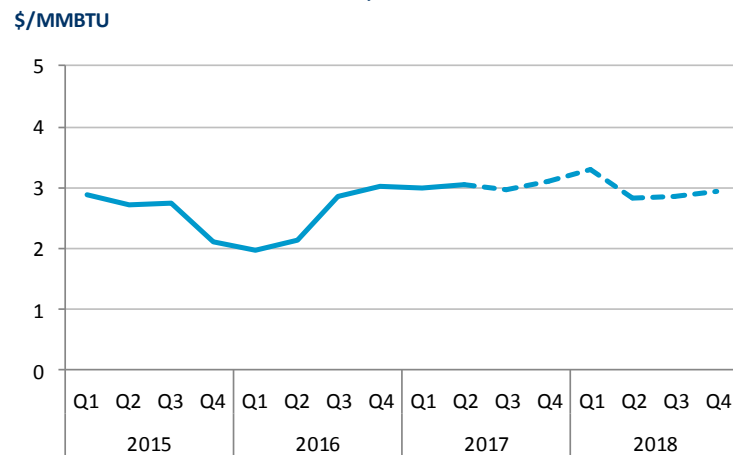
Spot Crude: Petroleum price - average of spot prices for U.K. Brent, Dubai and West Texas Intermediate



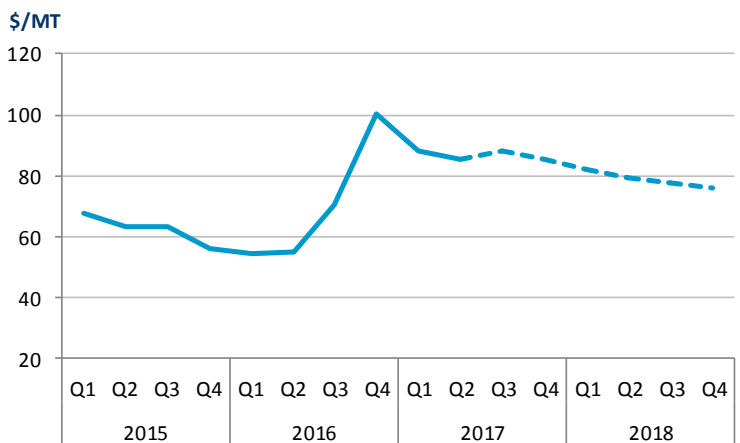
Natural Gas: Russian in Germany



Natural Gas: US, domestic market

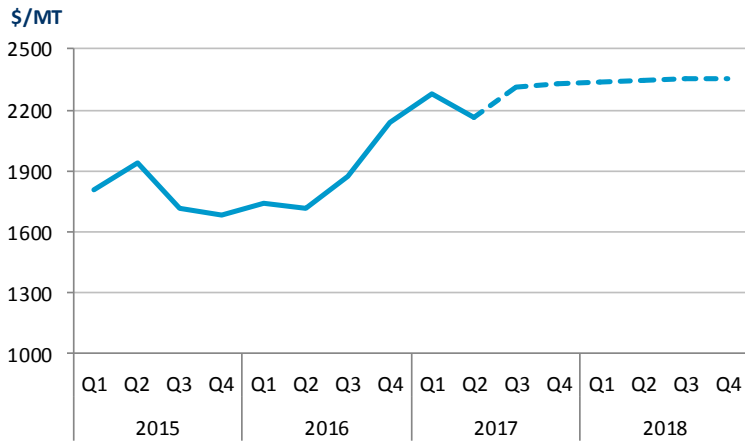


Coal: Australian, export markets

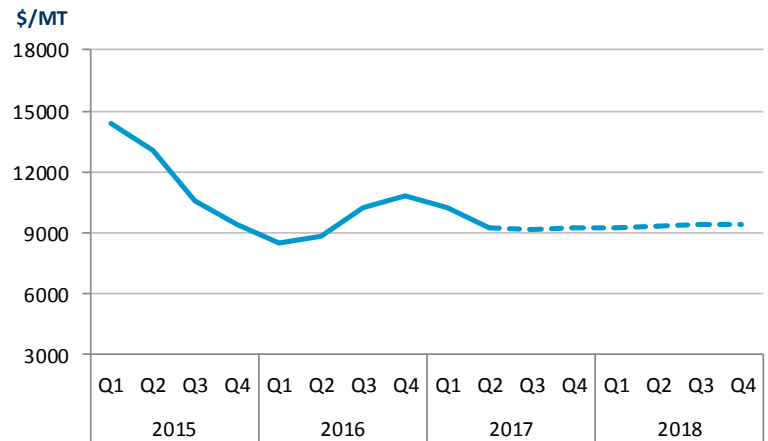


Overseas Prices of Metals

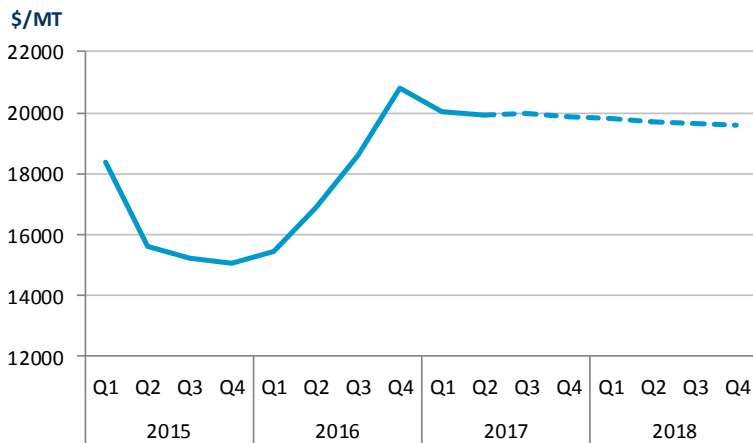
Lead



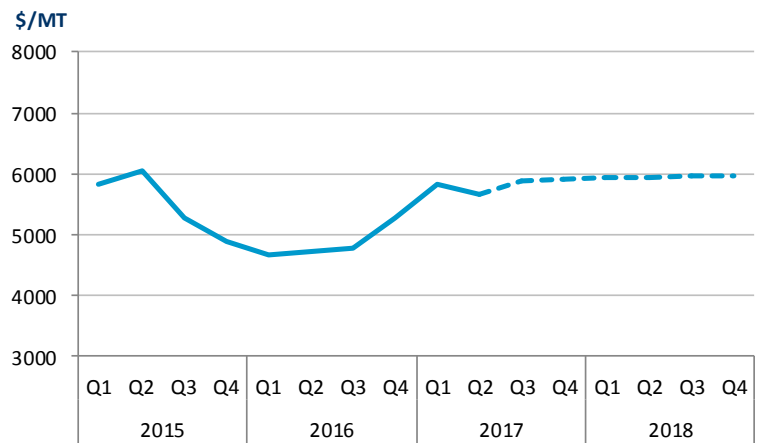
Nickel



Tin

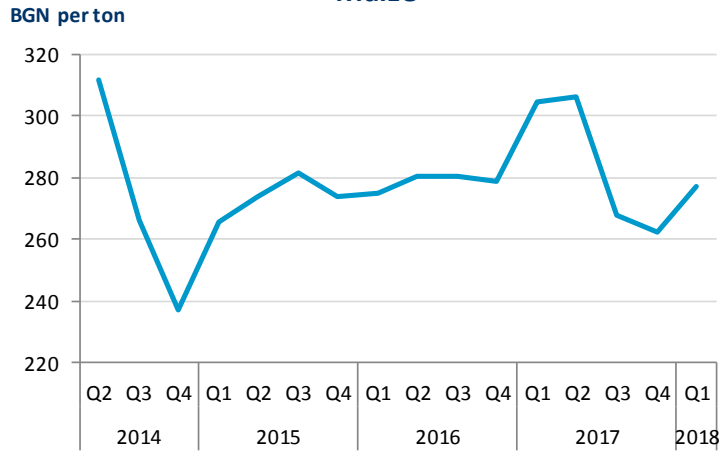


Copper

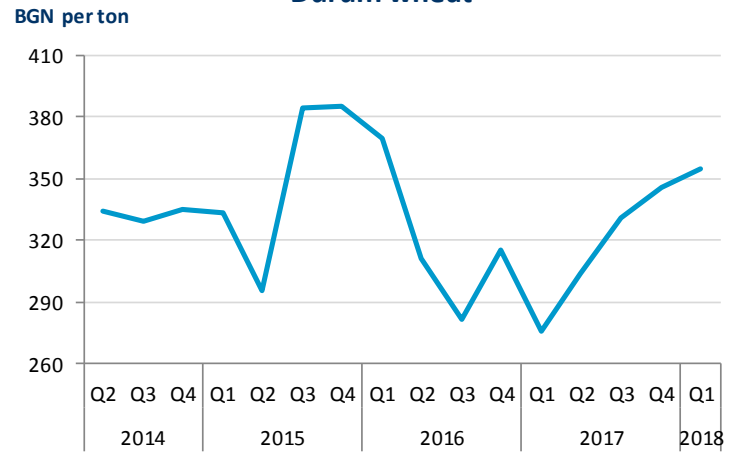


Bulgaria: Prices of Agriculture products

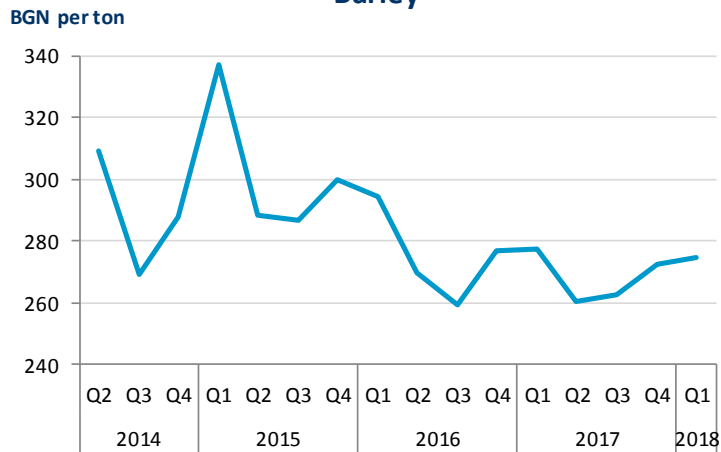
Maize



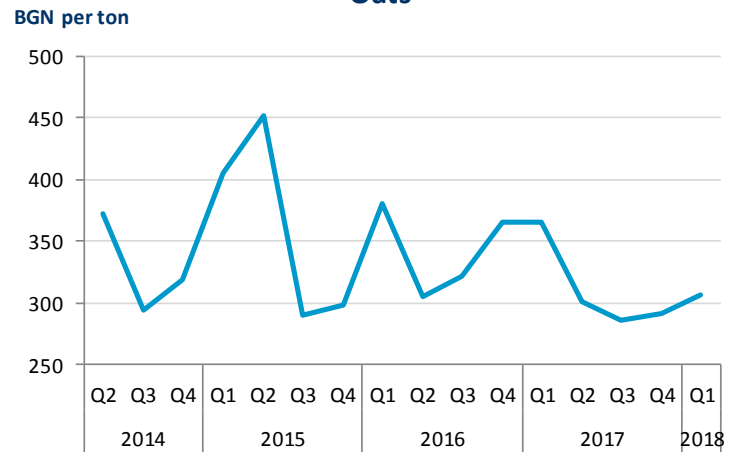
Durum wheat



Barley

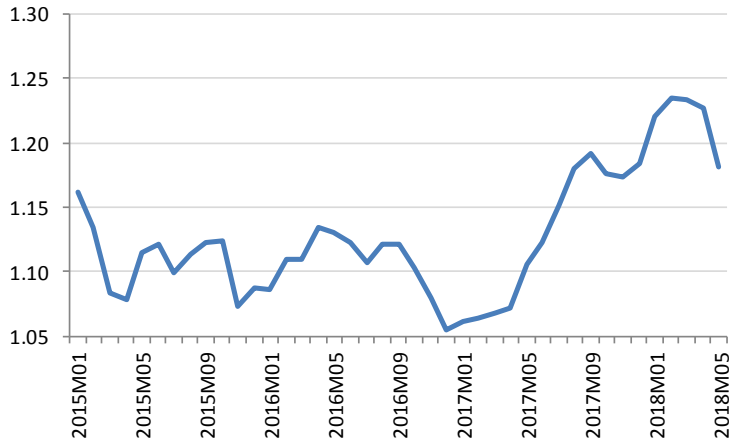


Oats

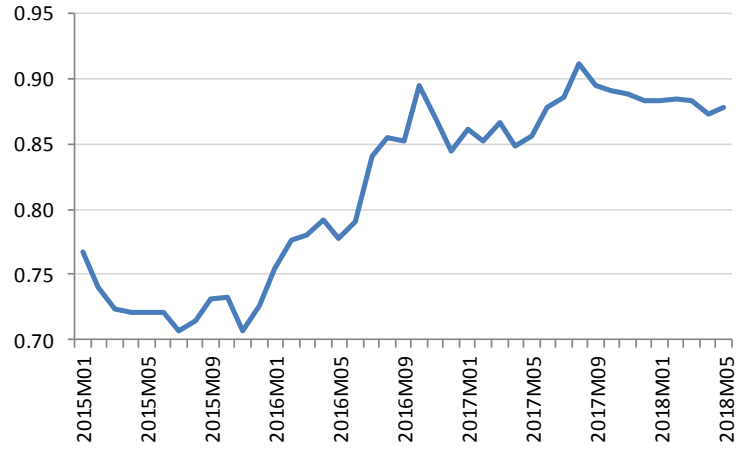


Overseas FX Rates

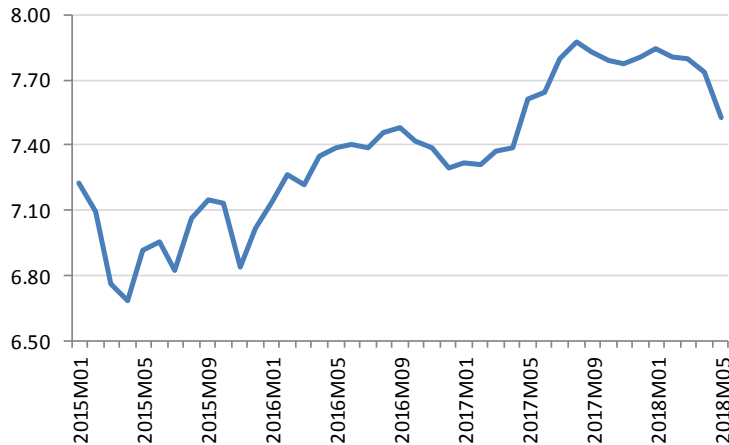
EUR/USD



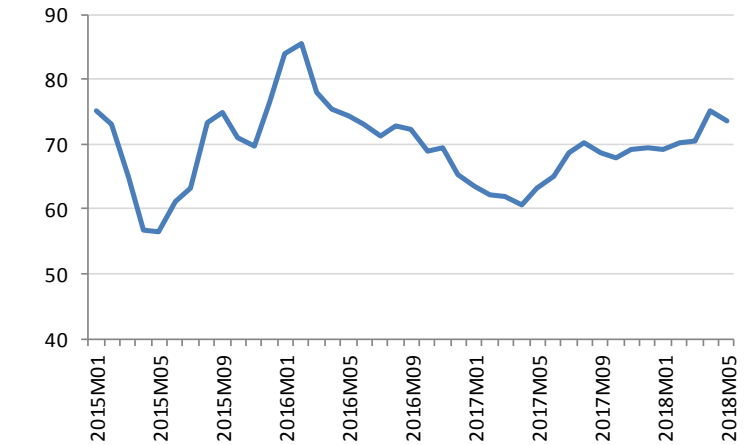
EUR/GBP



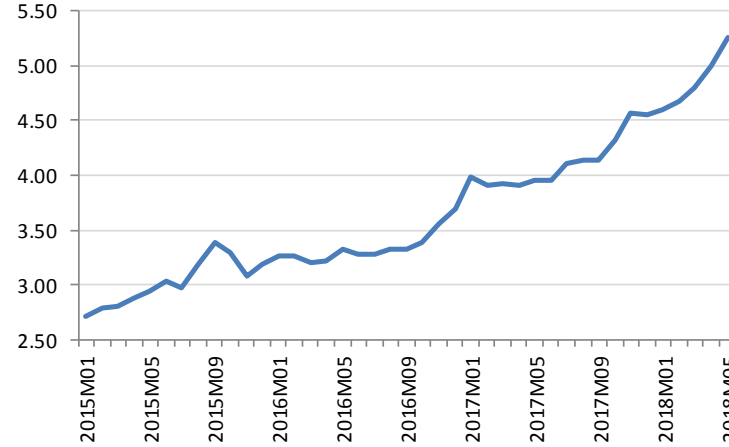
EUR/CNY



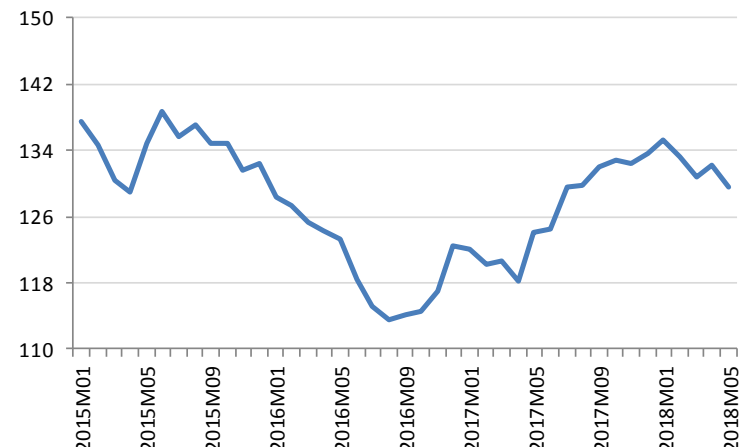
EUR/RUB



EUR/TRY

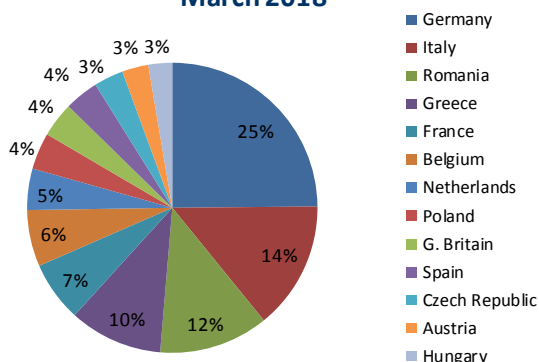


EUR/JPY

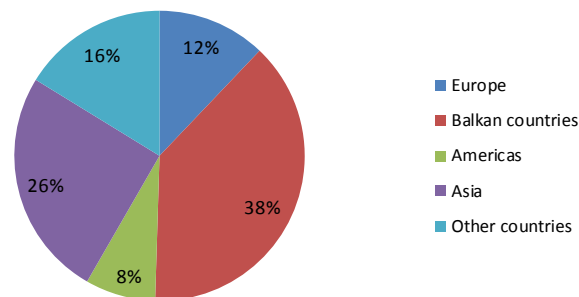


Bulgaria: External Sector Indicators

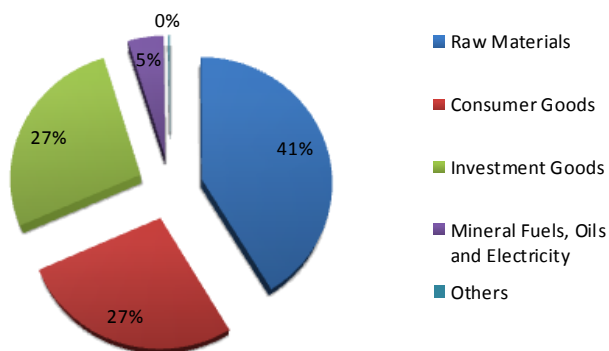
Exports: FOB by EU countries: January - March 2018



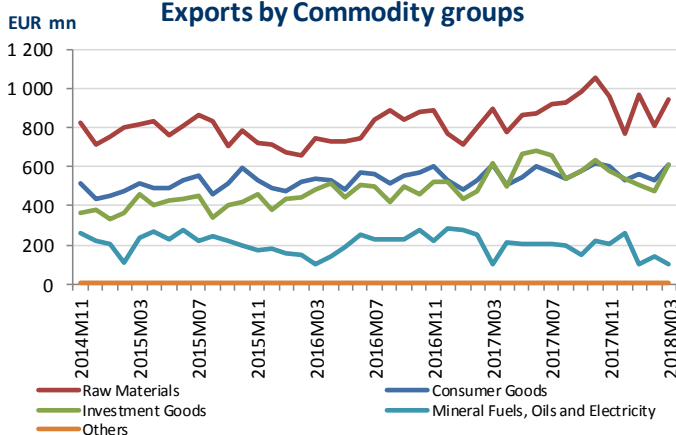
Exports: FOB by Non EU countries: January - March 2018



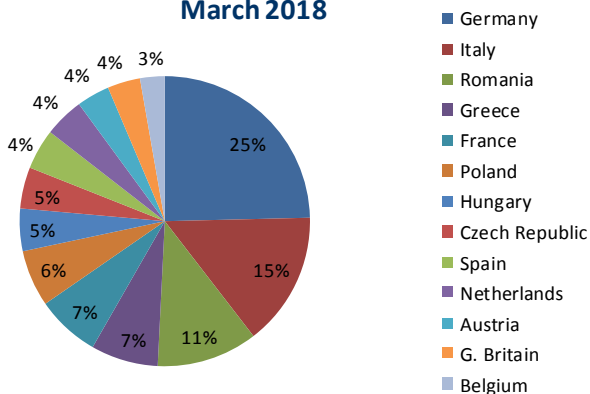
Exports: FOB: Commodity groups - percentage shares for March 2018



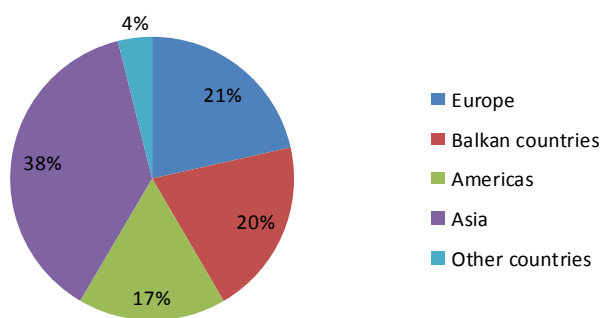
Exports by Commodity groups



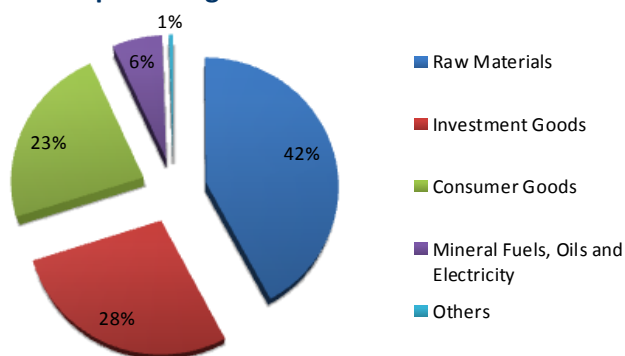
Imports: CIF by EU Countries: January - March 2018



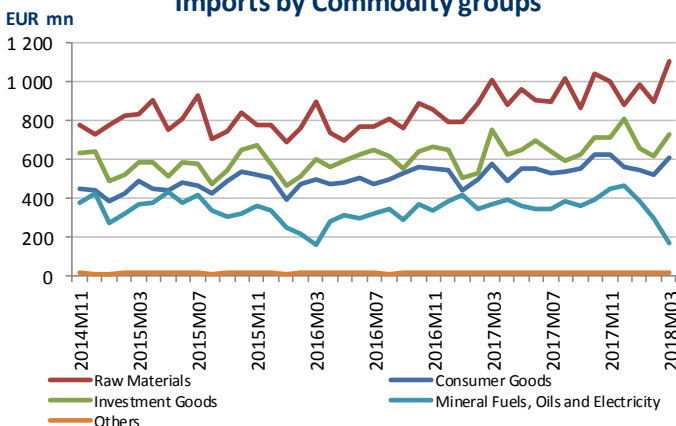
Imports: CIF by Non EU Countries: January - March 2018



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

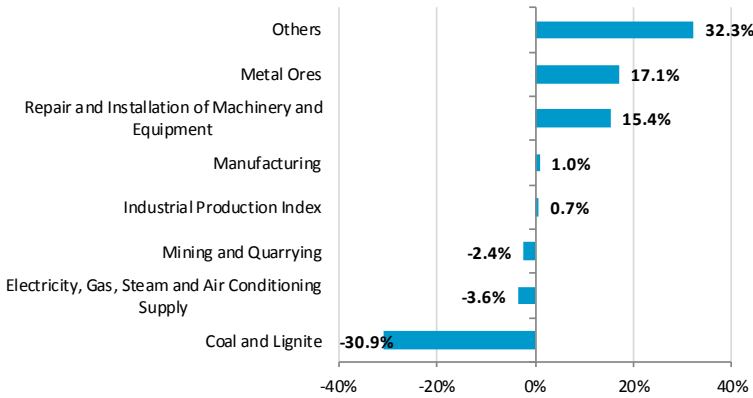


Imports by Commodity groups

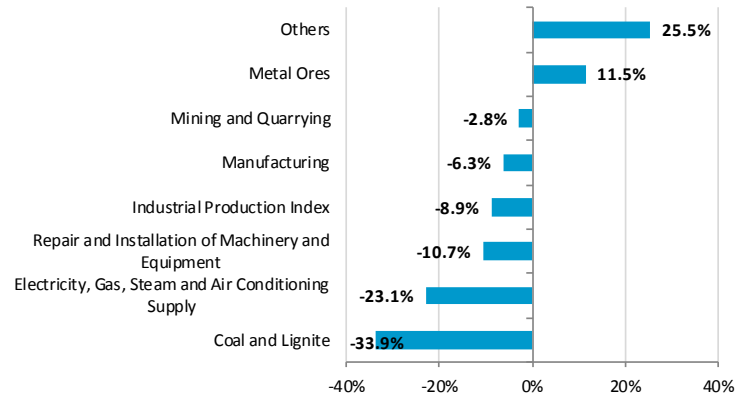


Bulgaria: Real Sector Indicators

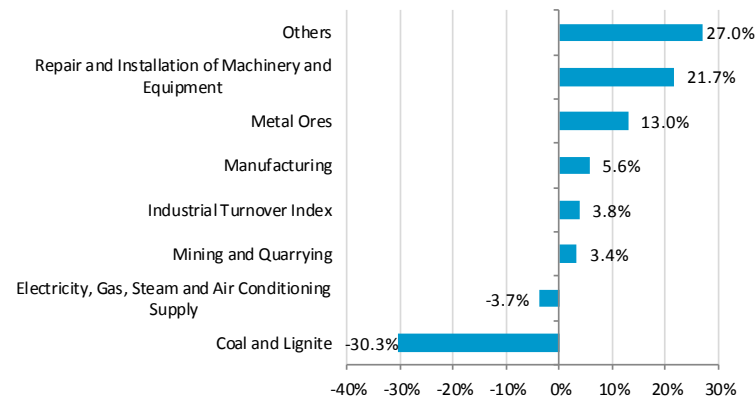
Industrial Production Index: % change in April 2018 compared to April 2017



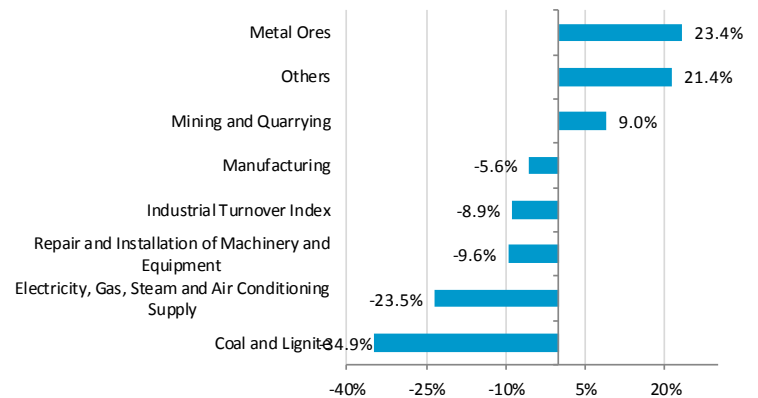
Industrial Production Index: % change in April 2018 compared to March 2018



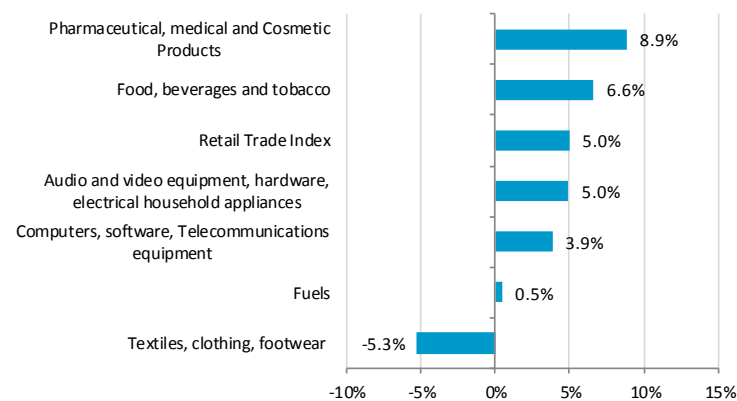
Industrial Turnover Index: % change in April 2018 compared to April 2017



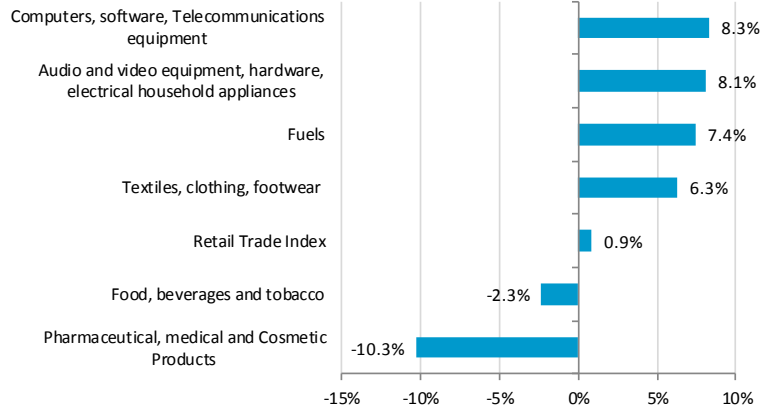
Industrial Turnover Index: % change in April 2018 compared to March 2018



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

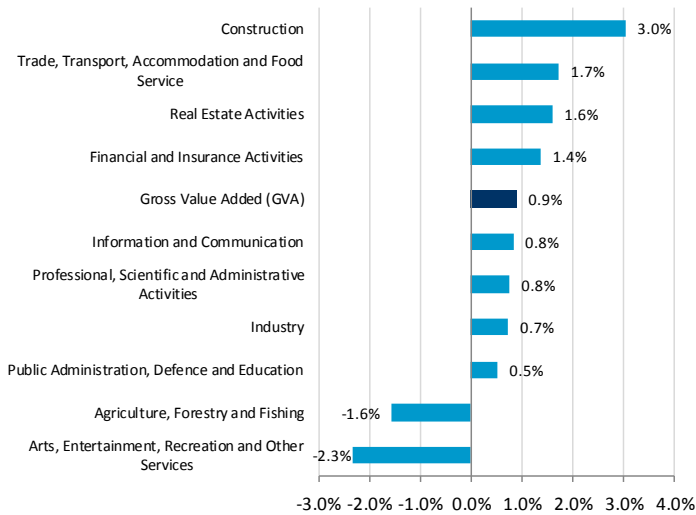


Retail Trade Index: % change in April 2018 compared to March 2018

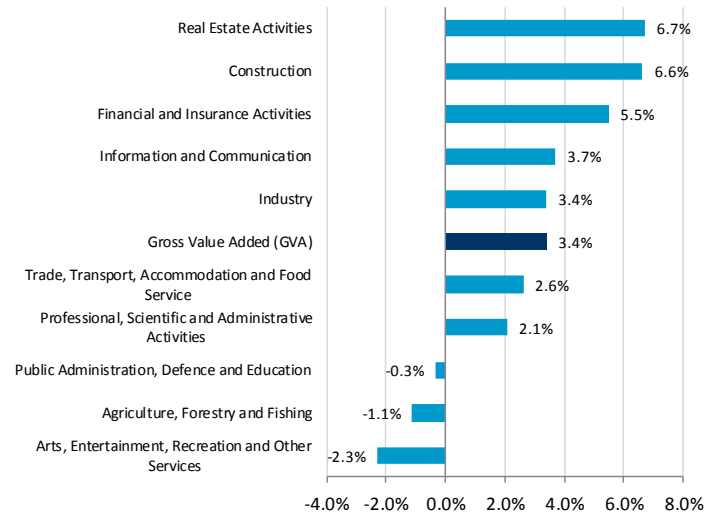


Bulgaria: Real Sector Indicators

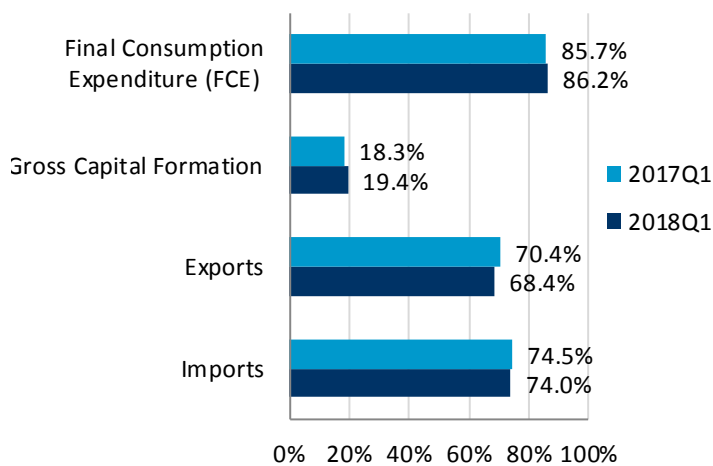
Gross Value Added by Economic Sectors: Percentage Change of Q1 2018 compared to Q4 2017



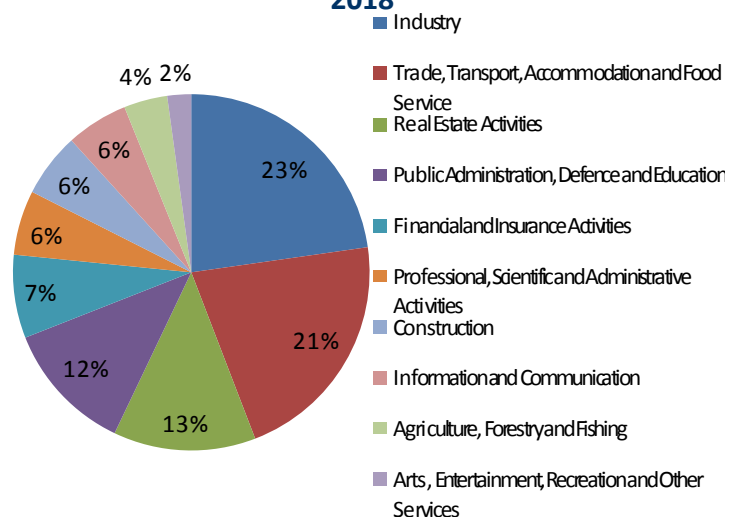
Gross Value Added by Economic Sectors: Percentage change of Q1 2018 compared to Q1 of 2017



Structure of GDP by the expenditure approach for Q1 in 2017 and 2018

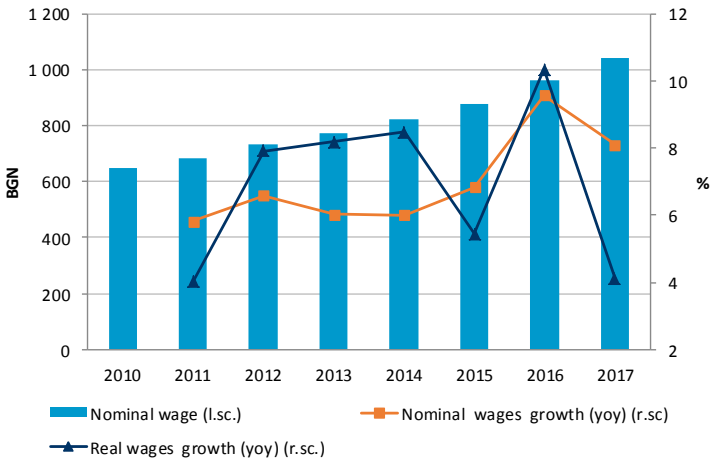


Bulgaria: Industries' relative share to GVA for Q1 2018

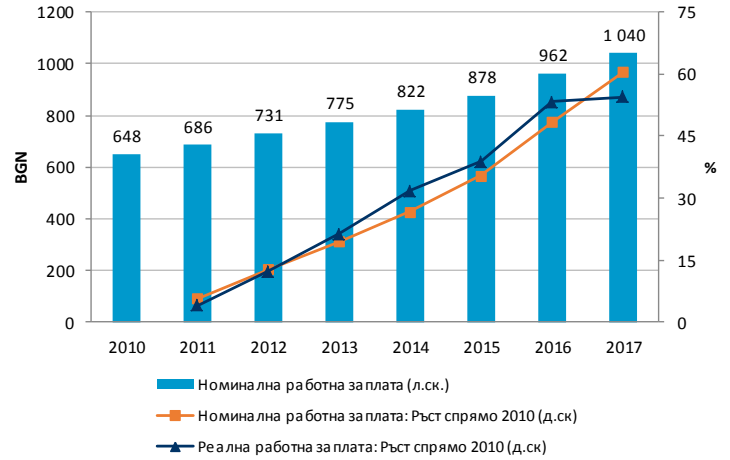


Bulgaria: Real Sector Indicators

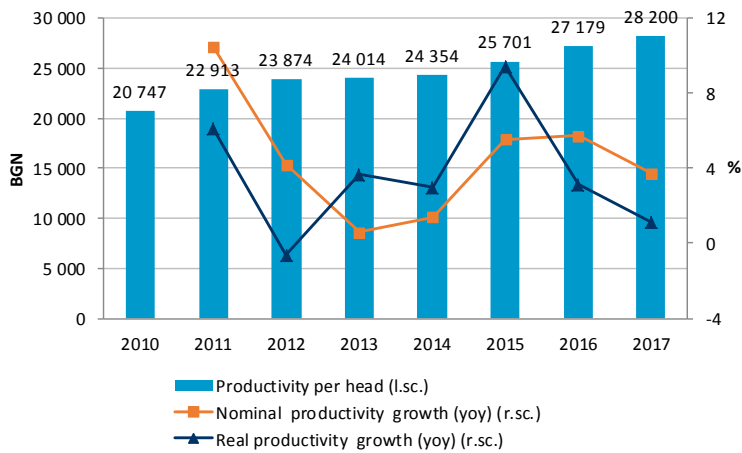
Nominal and Real Wage Dynamics: YoY (%)



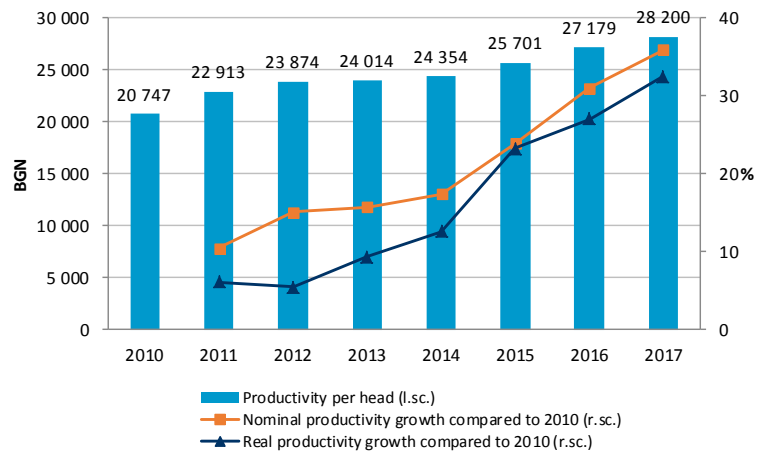
Nominal and Real Wage Dynamics compared to 2010 (%)



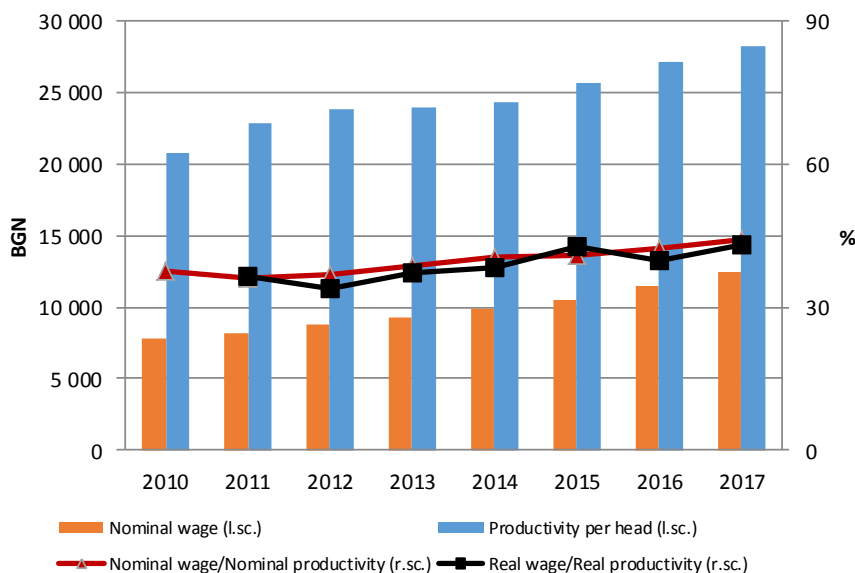
Nominal and Real Productivity per Head Dynamics, YoY (%)



Nominal and Real Productivity Dynamics compared to 2010 (%)

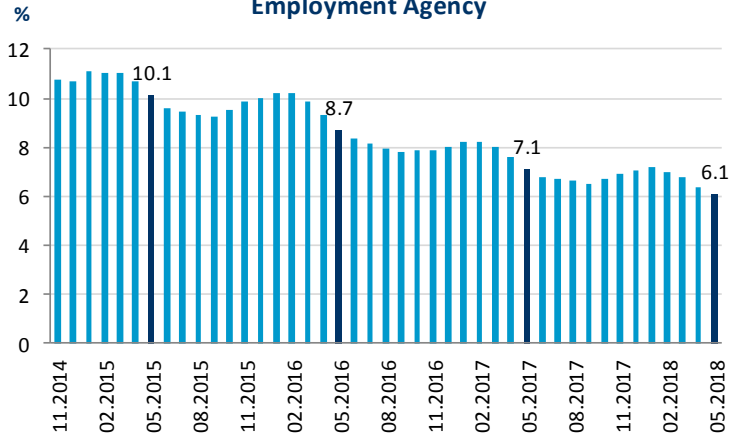


Average Wage to Productivity Ratio Dynamics, YoY (%)

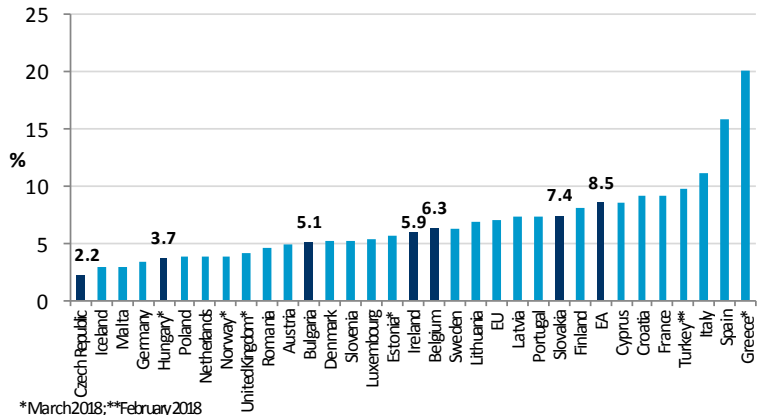


Bulgaria: Real Sector Indicators

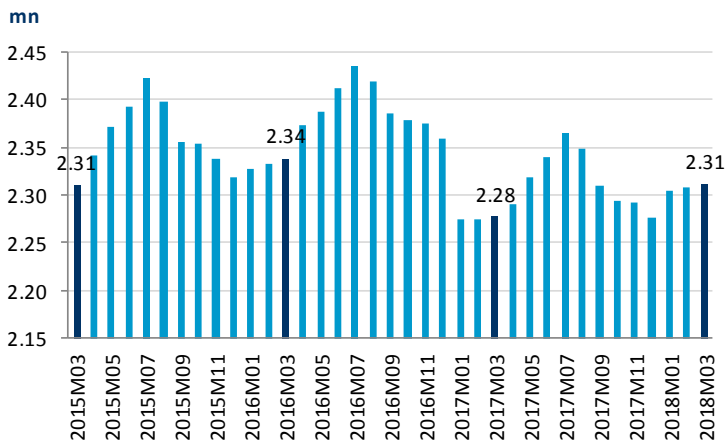
Registered Unemployment Rate: National Employment Agency



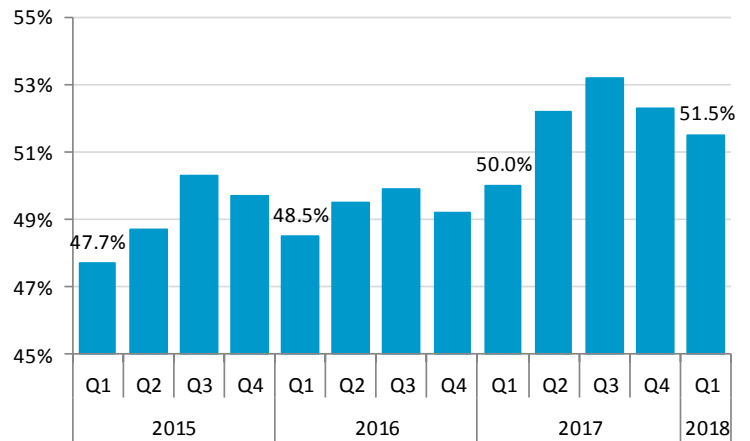
EU: Unemployment rate seasonally adjusted by country, April 2018



Bulgaria: Number of Employees

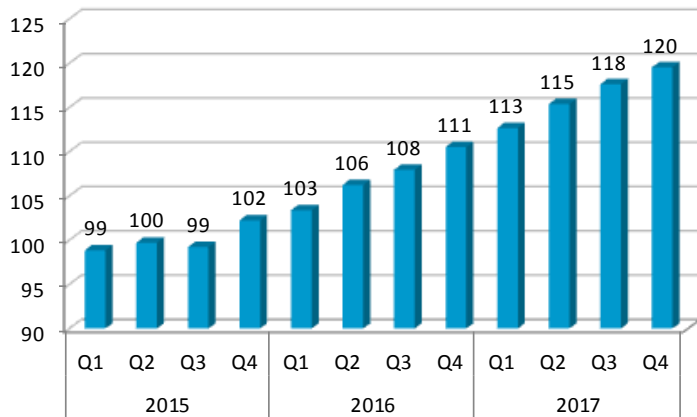


Bulgaria: Employment Rate

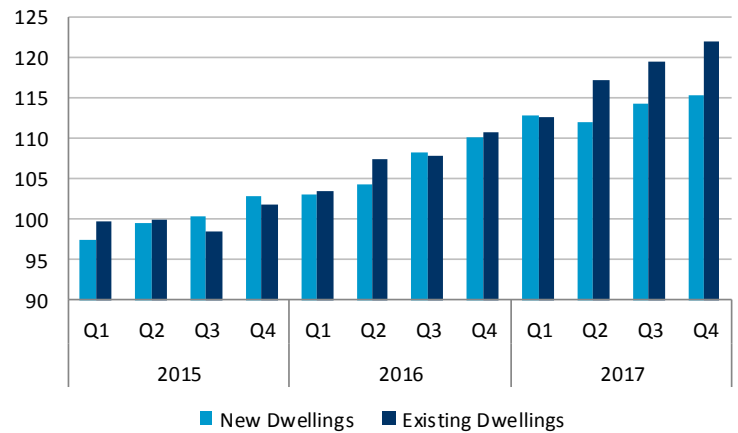


Bulgaria: Real Sector Indicators

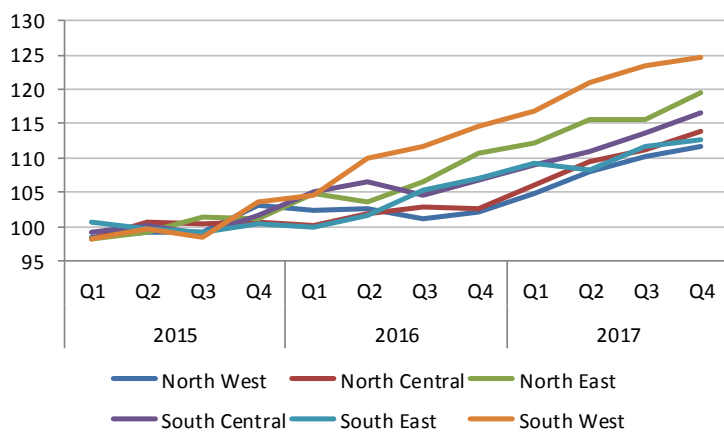
House Price Index (HPI)



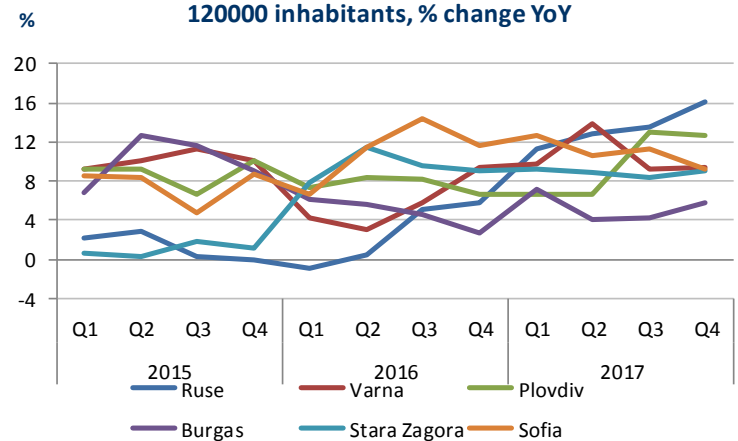
HPI: New and existing dwellings



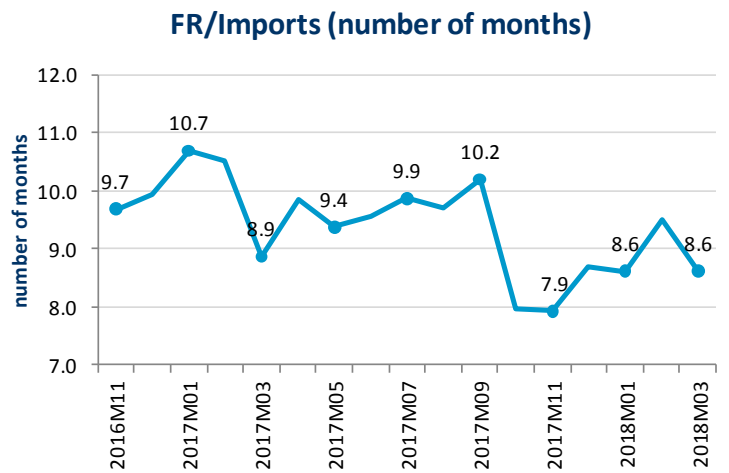
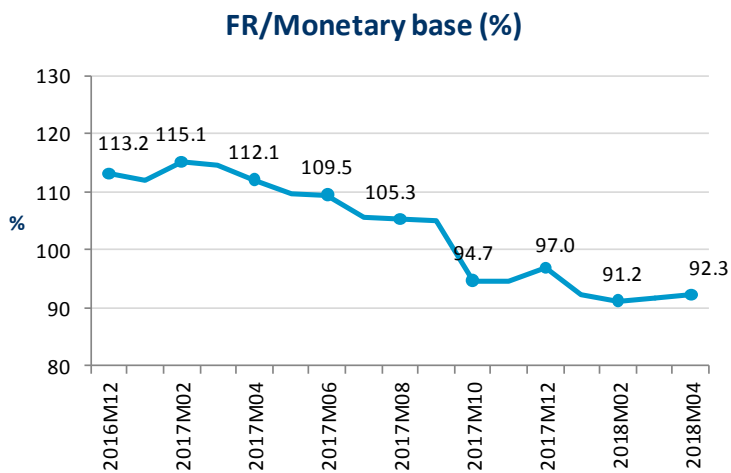
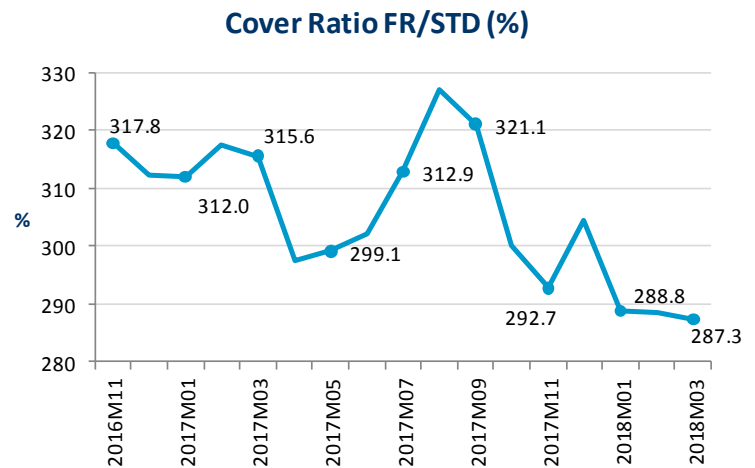
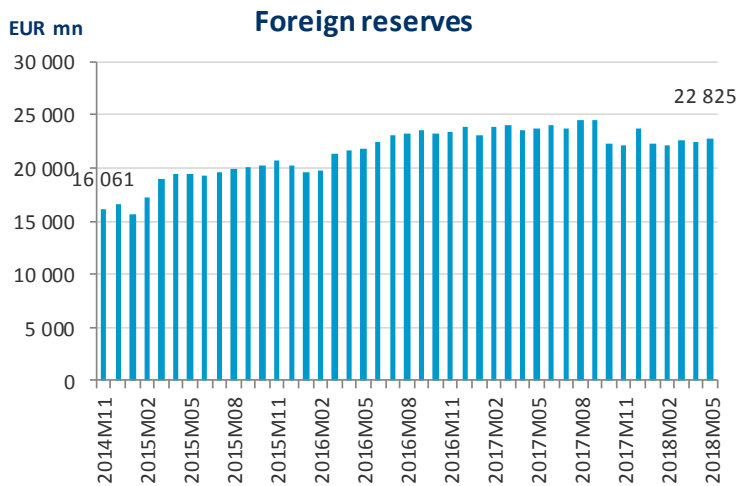
House Price index by regions



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

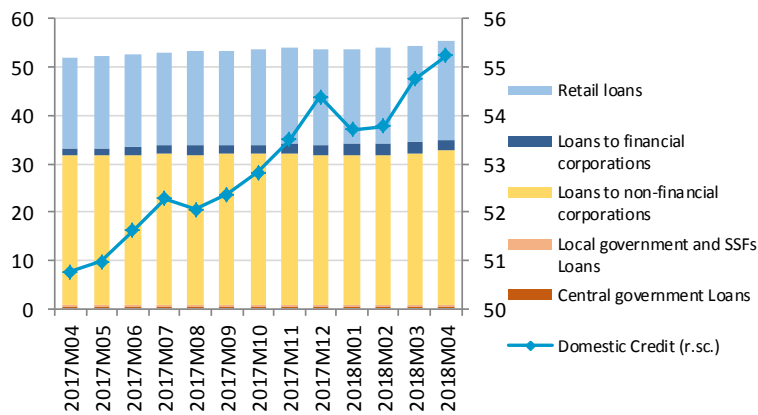


Bulgaria: Monetary Sector Indicators

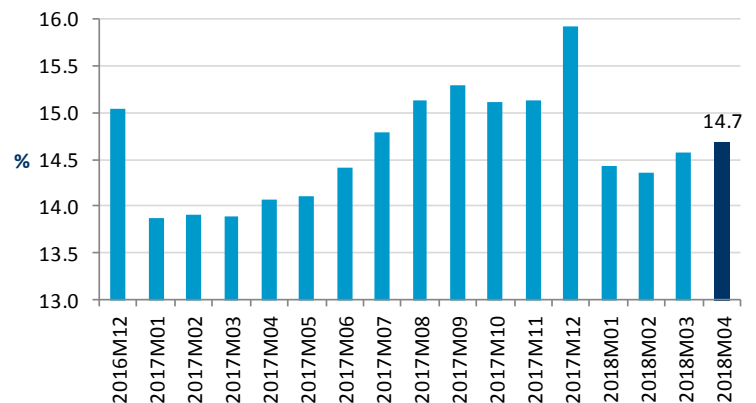


Bulgaria: Monetary Sector Indicators

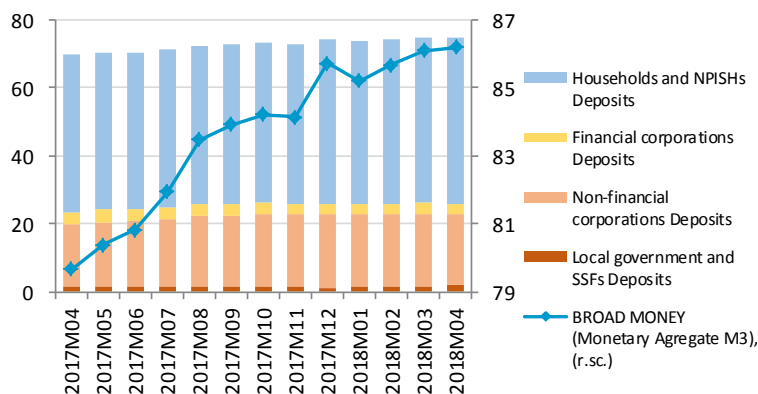
Loans and Domestic Credit (BGN bn)



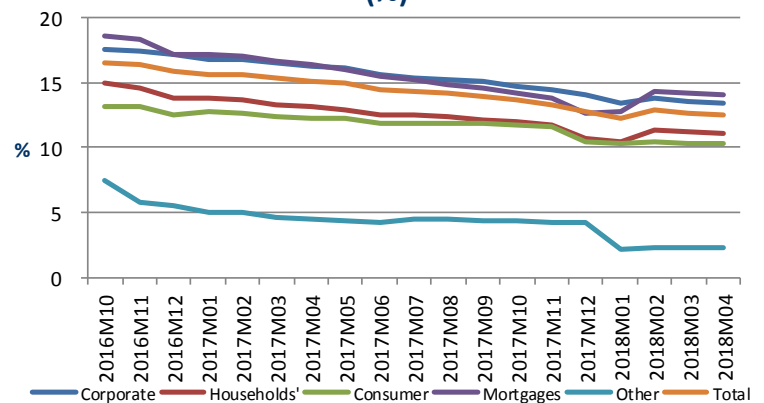
Money in circulation/GDP (%)



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

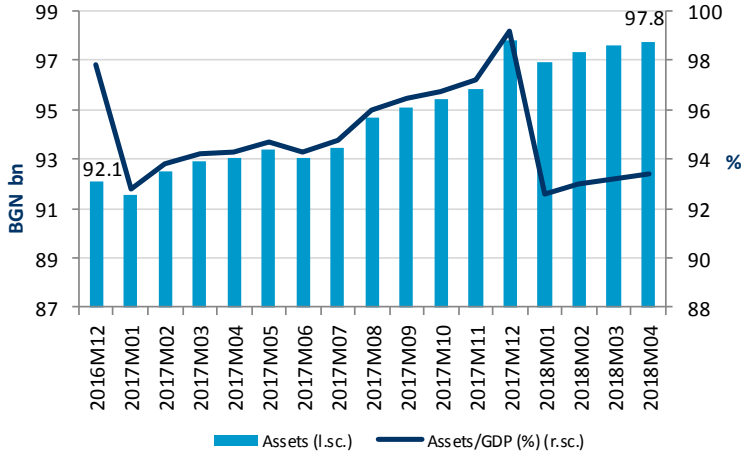


Banking sector: Bad and restructured loans (%)

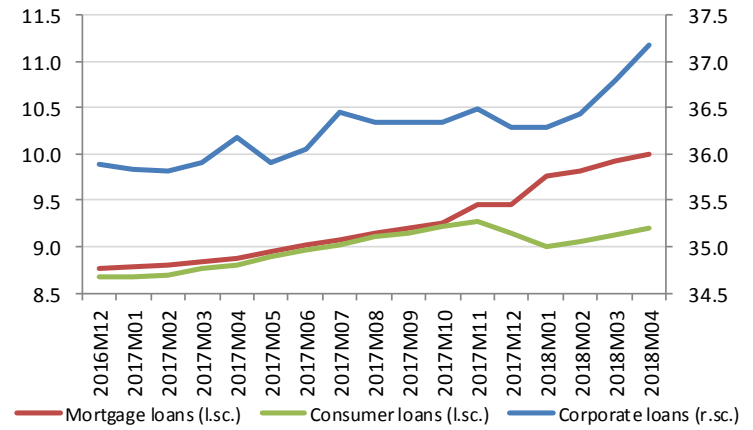


Bulgaria: Banking Sector Indicators

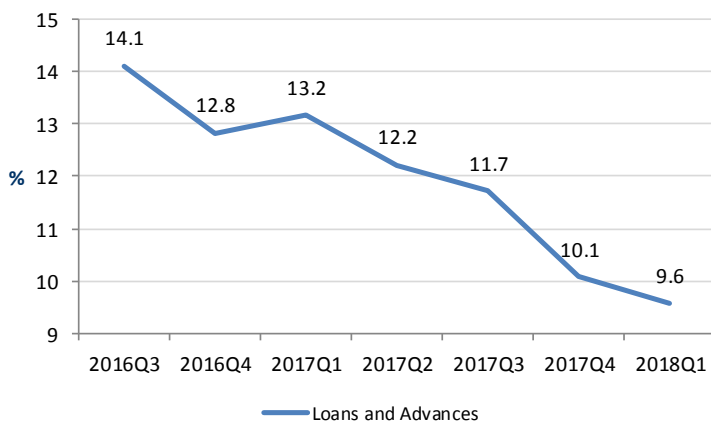
Assets



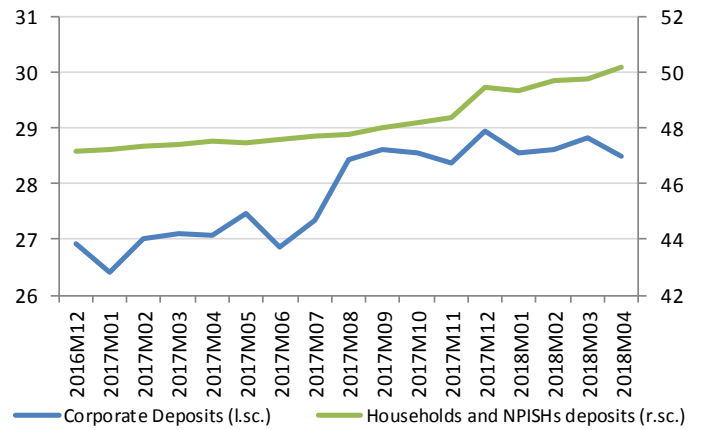
Loans (BGN bn)



Banking System Non Performing Loans (%)

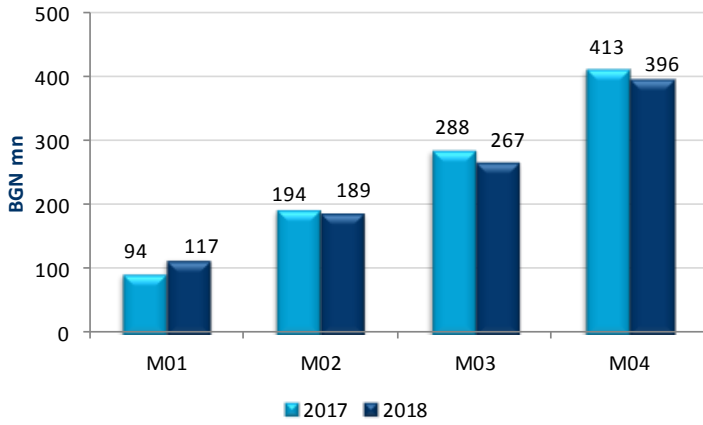


Deposits (BGN bn)

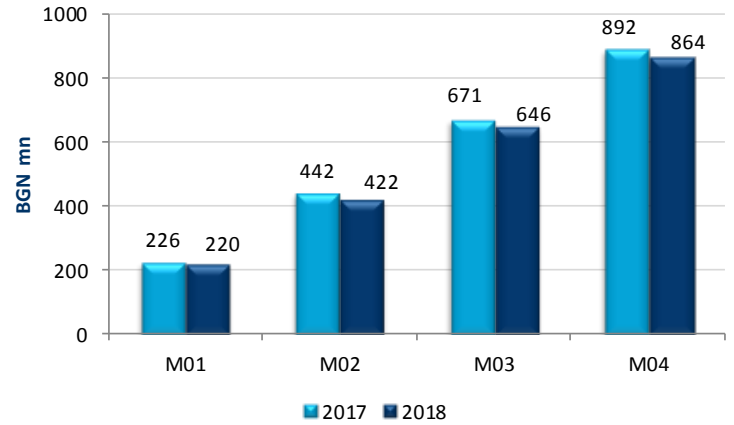


Bulgaria: Banking Sector Indicators

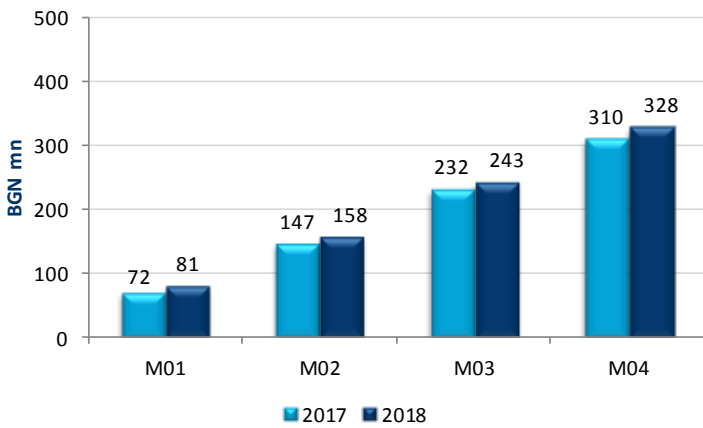
Net Profit



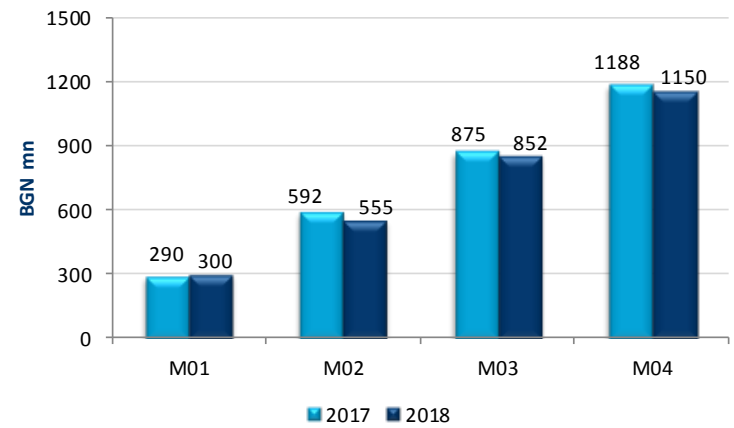
Net interest Income



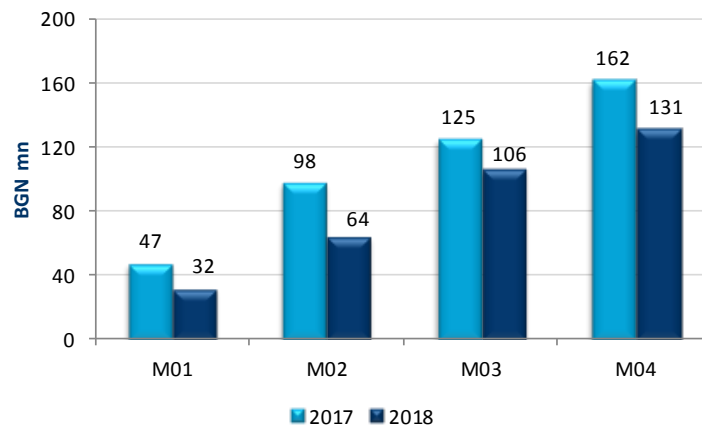
Net fee and commission income



Net operating income

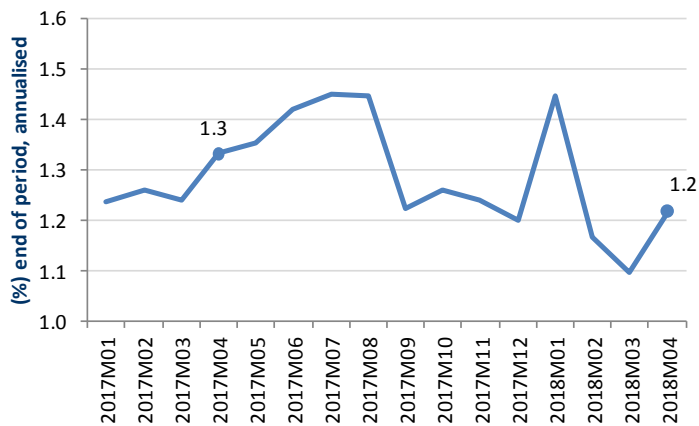


Impairment

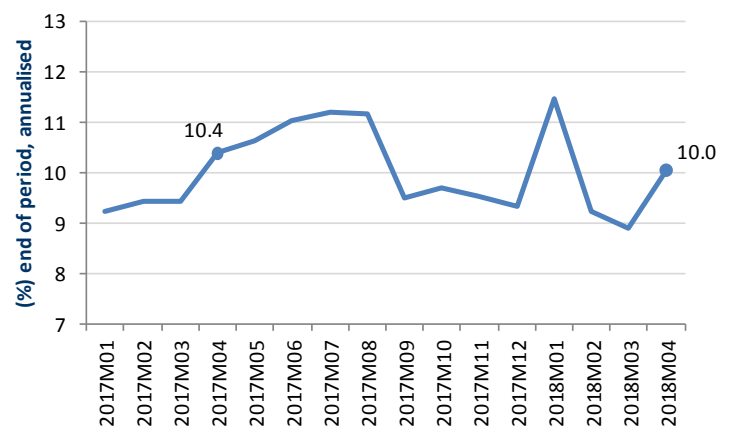


Bulgaria: Banking Sector Indicators

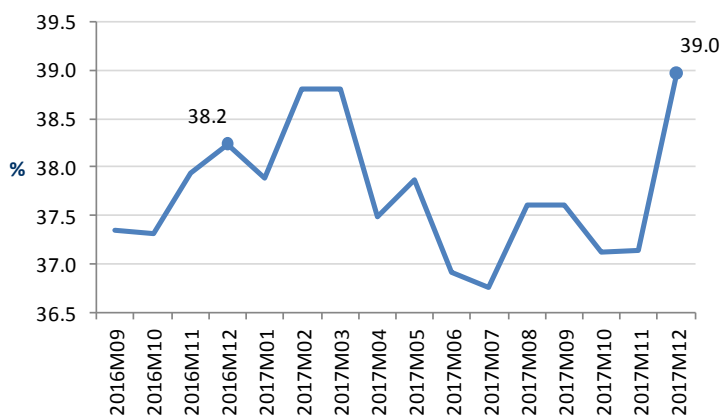
ROA



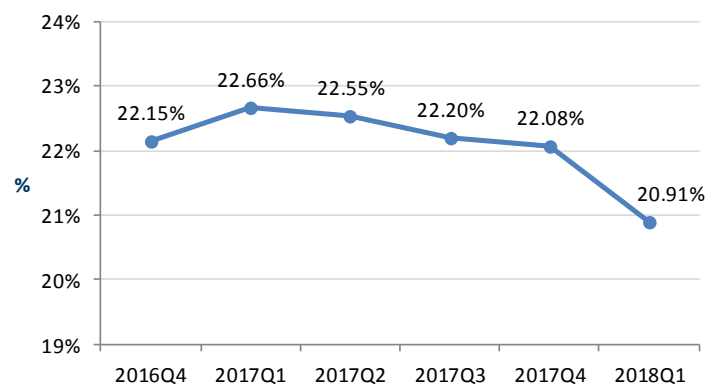
ROE



Liquid Assets Ratio (LAR)



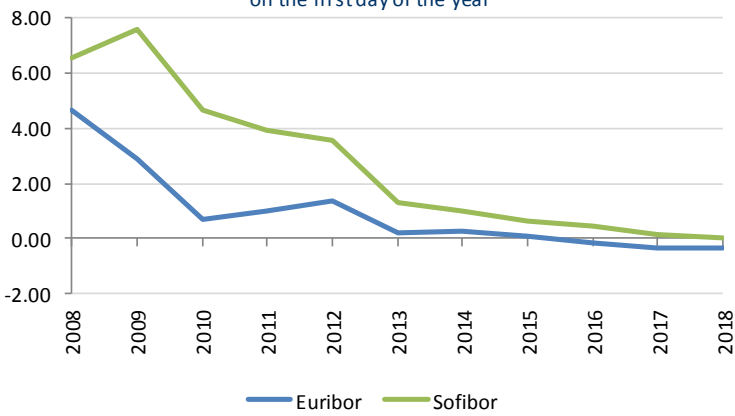
Total Capital Ratio



Bulgaria: Indexes and Interest Rates

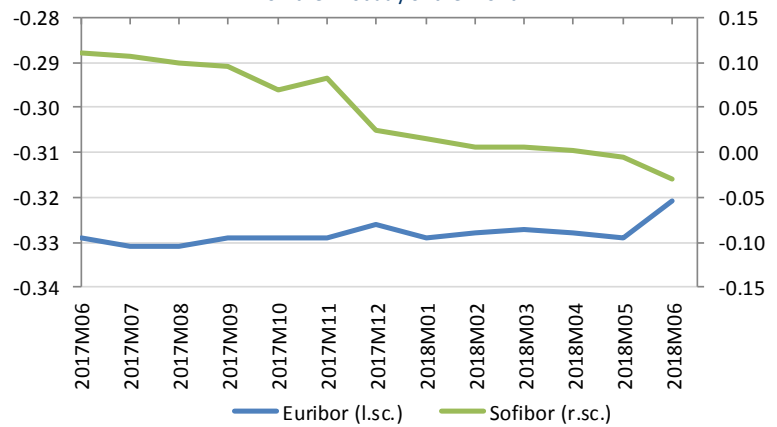
Indexes 3-months

on the first day of the year

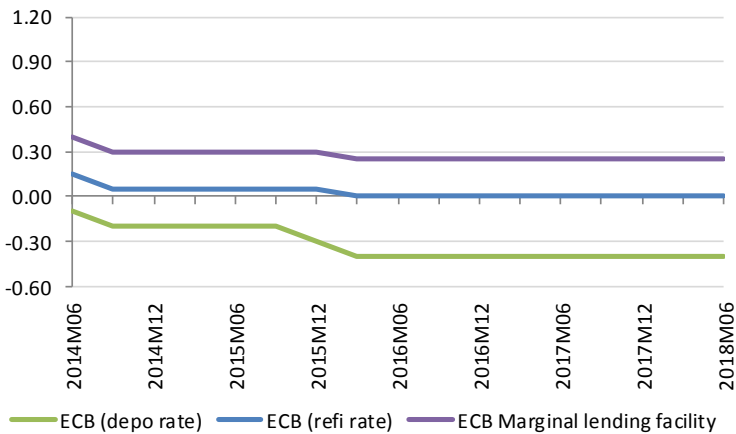


Indexes 3-months

on the first day of the month



Policy Rates (in %)

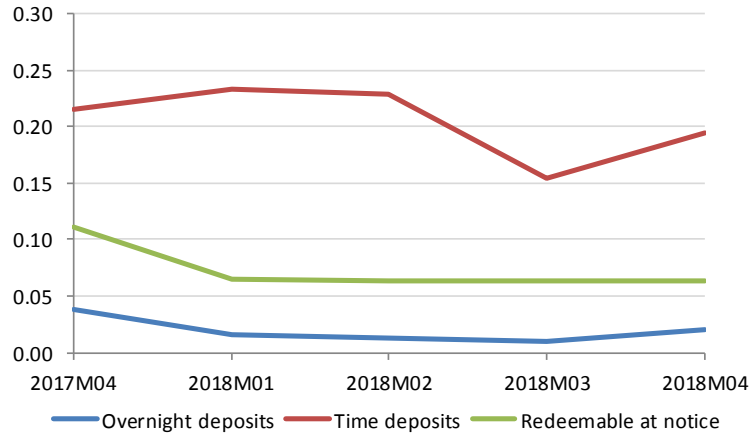


Base Interest Rate of the BNB (in %)

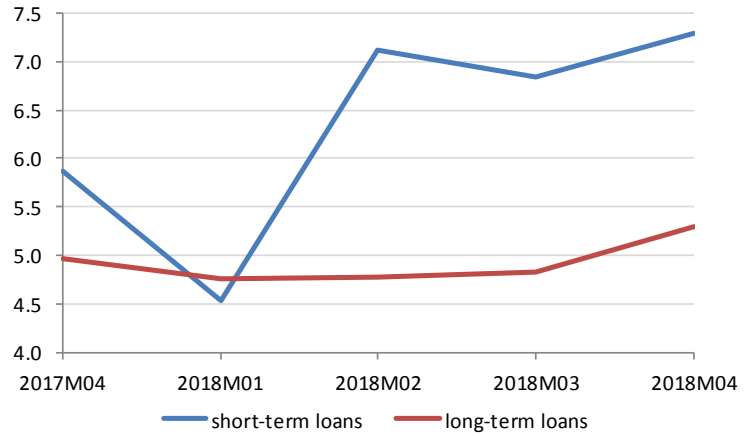


Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates

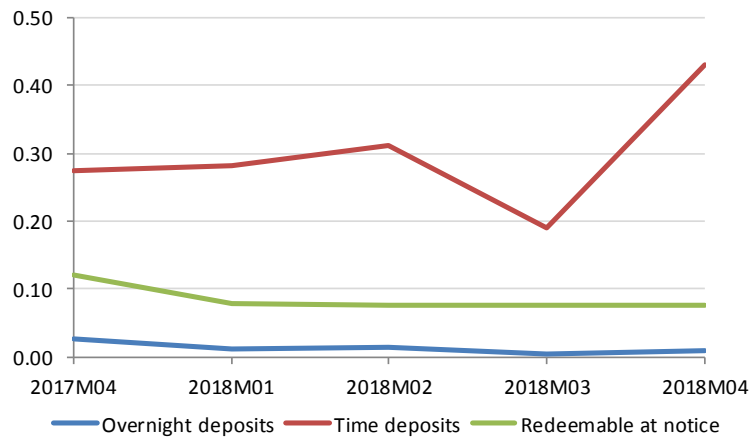
Interest Rates (%) in BGN



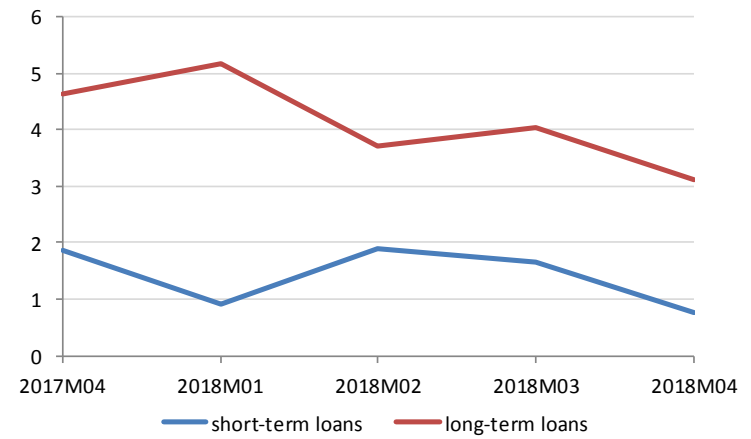
Interest Rates (%) in BGN



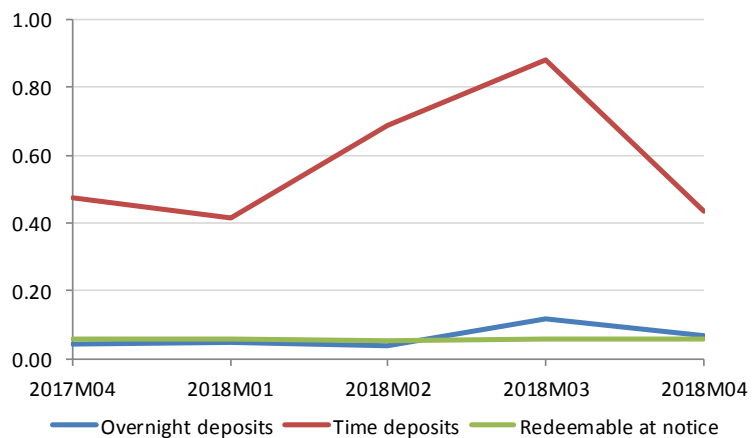
Interest Rates (%) in EUR



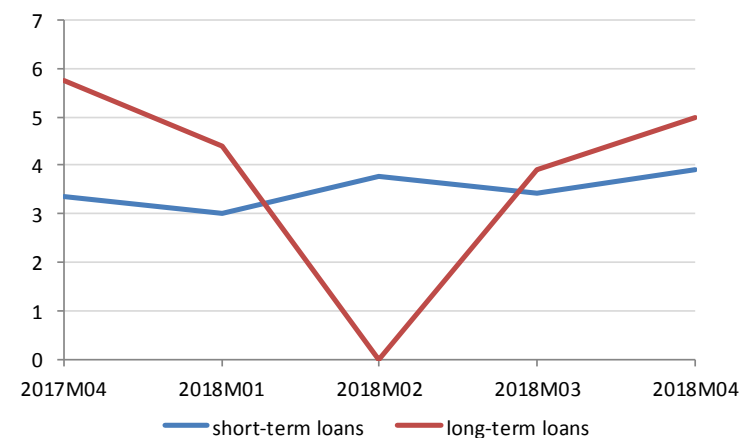
Interest Rates (%) in EUR



Interest Rates (%) in USD

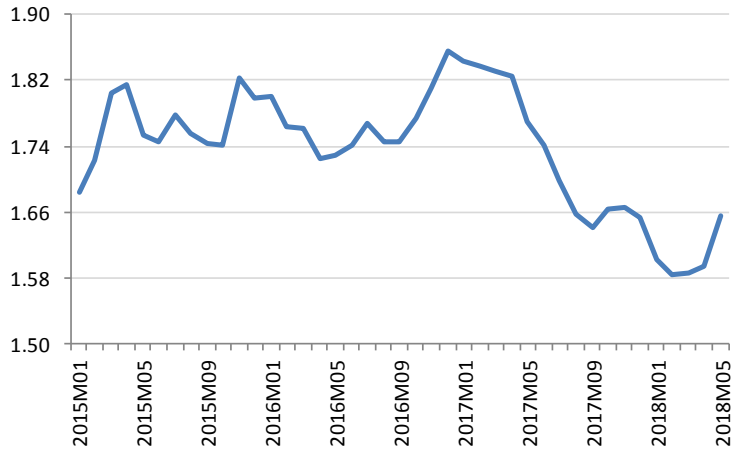


Interest Rates (%) in USD

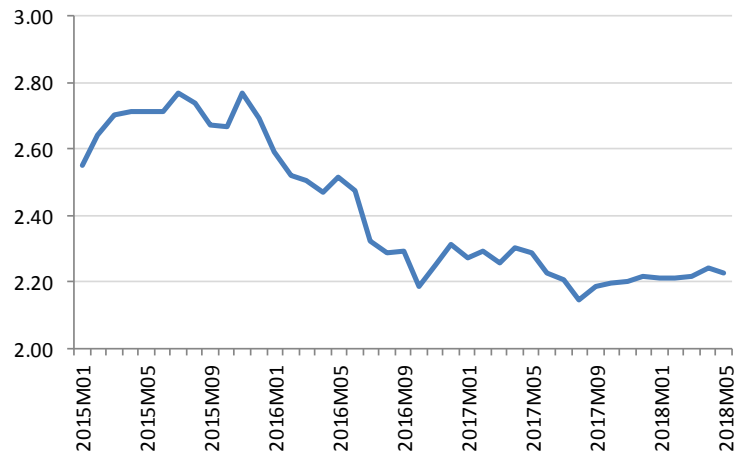


Bulgaria: FX Rates

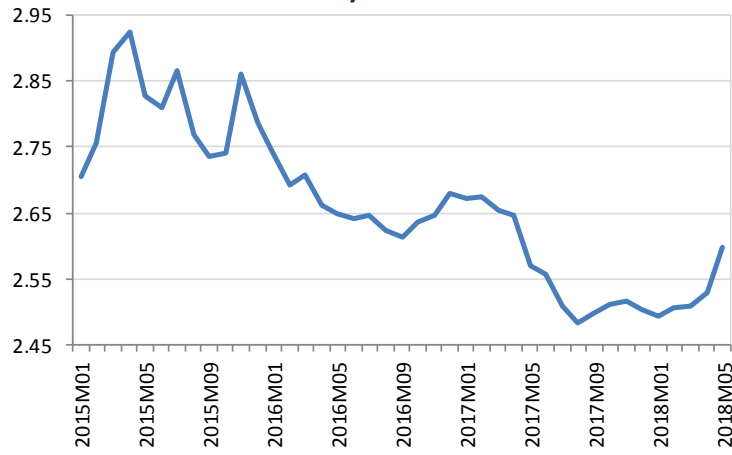
BGN/USD



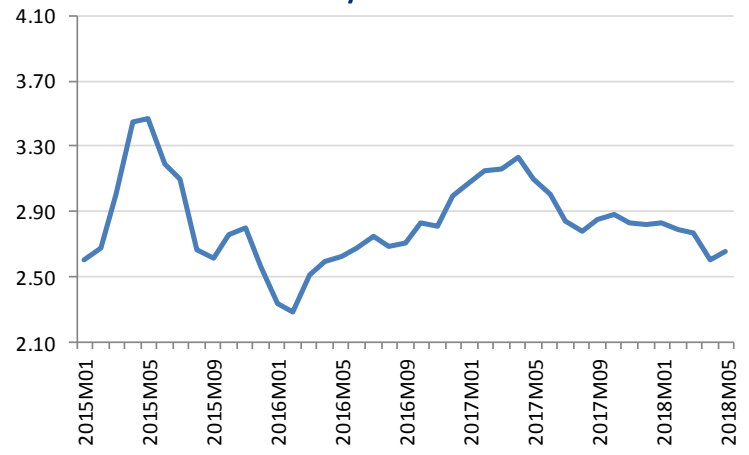
BGN/GBP



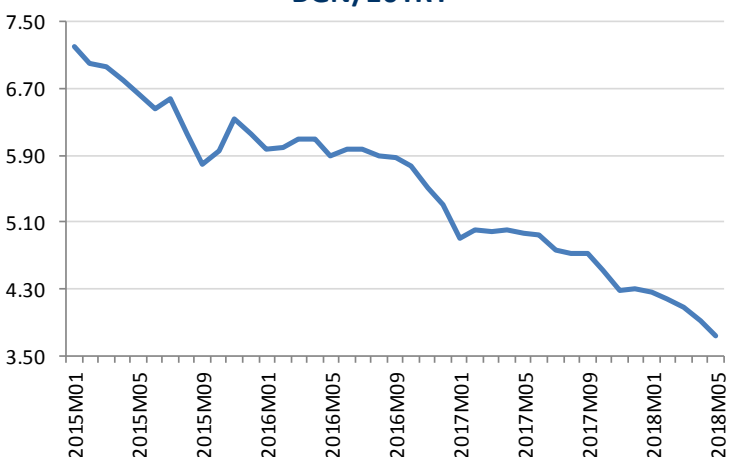
BGN/10CNY



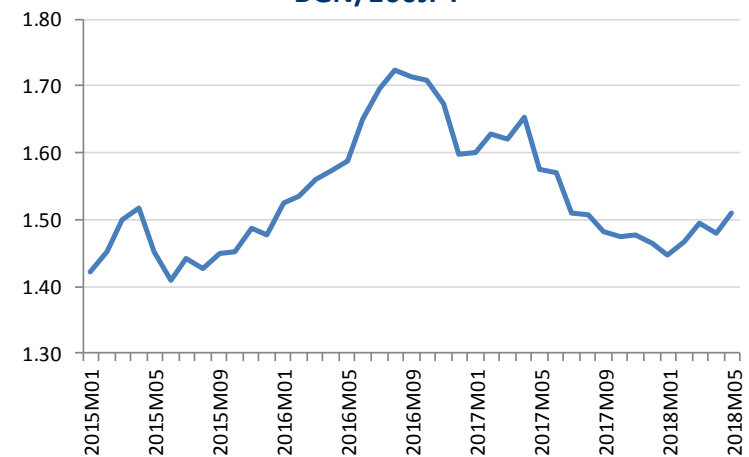
BGN/100RUB



BGN/10TRY



BGN/100JPY



DEFINITIONS AND METHODOLOGICAL NOTES

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

EXTERNAL SECTOR

CURRENT ACCOUNT

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

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

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

For the intra EU trade in goods:

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

For the trade with third countries (outside EU)

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

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

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

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

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

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

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

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

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

CAPITAL ACCOUNT

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

FINANCIAL ACCOUNT

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

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

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

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

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

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

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

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

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

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

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

RESERVES AND RELATED ITEMS

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

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

REAL SECTOR

Gross Domestic Product - production approach

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

GDP - INCOME APPROACH

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

GROSS DOMESTIC PRODUCT BY FINAL EXPENDITURE

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

BUSINESS SURVEY IN INDUSTRY, CONSTRUCTION, TRADE AND SERVICE SECTOR

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

CONSUMER SURVEY

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

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

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

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

INVESTMENT ACTIVITY IN INDUSTRY

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

INDUSTRIAL PRODUCTION INDEX; INDUSTRIAL TURNOVER INDICES

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

TOURISM

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

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

The purposes of visiting a country are the following:

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

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

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

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

CONSUMER PRICE INDICES (CPI)

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

HARMONIZED INDICES OF CONSUMER PRICES (HICP)

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

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

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

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

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

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

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

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

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

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

Statistical unit

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

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

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

Data sources

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

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

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

Calculation of average prices

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

Type of index and calculation

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

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

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

Classifications

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

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

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

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

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

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

MONETARY AGGREGATES

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

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

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

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

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

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

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

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

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

MONEY SUPPLY MECHANISM

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

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

CAPITAL MARKET

SOFIX Index:

Initial date: 20 October 2000; Initial value: 100

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

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

BG REIT Index:

Initial date: 03 September 2007; Initial value: 100

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

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

BG 40 Index:

Initial date: 01 February 2005; Initial value: 100

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

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

BGTR30 Index (BG Total Return 30):

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

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

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