

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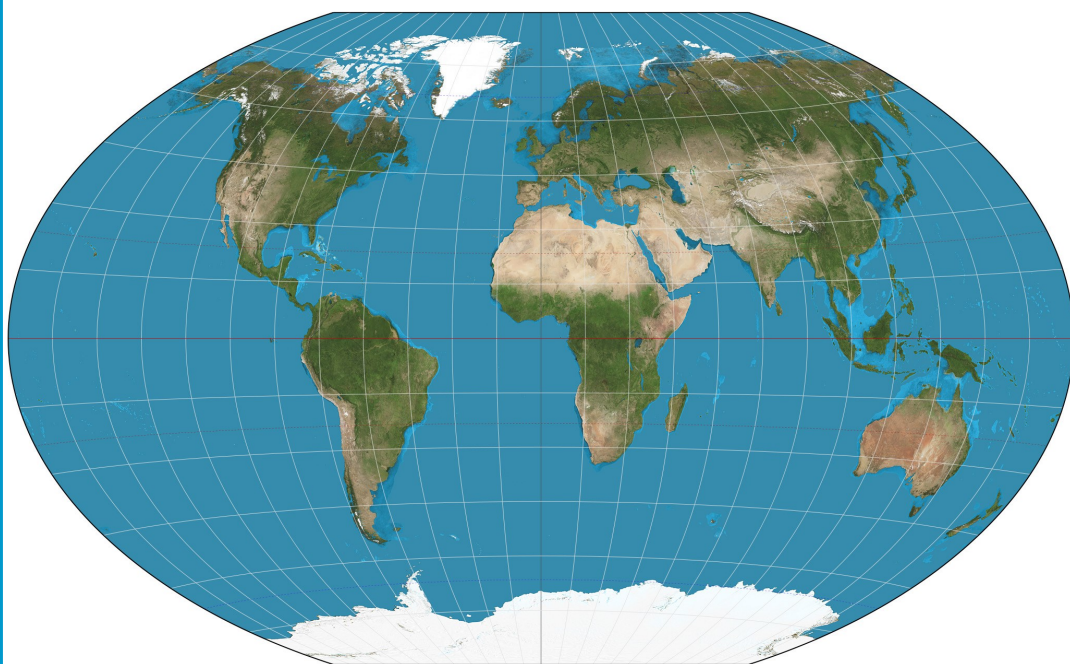
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Source: https://en.wikipedia.org/wiki/World_map

HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



July 2018

Sofia

- *The EC lowered its GDP growth forecast to 2.3% in 2018 and 2.1% in 2019. The Eurozone GDP growth forecast is adjusted to 2.1% in 2018 and 2% in 2019. In June 2018, the euro area CPI increased by 0.1% on a monthly basis and by 2% on an annual basis, reaching the ECB's medium-term target for inflation of just below 2%*
- *In Q1 of 2018, Britain's GDP grew by 0.2% quarter on quarter and by 1.2% on an annual basis. Wage growth in the UK has slowed down to its worst pace in six months, despite a record employment rate of 75.7%*
- *USA tax cuts will boost the US economy in 2018 and 2019. The target growth, which the Trump administration will achieve, thanks to the measures it takes, is 3%. The US and the EU have reached a joint work agreement to cut trade barriers and strengthen the World Trade Organization*
- *Japan's central bank remains optimistic about the country's economy, but in some areas companies are worried about rising costs due to labor shortages, which is a sign of tightening the labor market*
- *In Q2 2018 China's GDP grew by 1.8% quarter on quarter and 6.7% on an annual basis. Expectations are for further delays in the second half of the year as well as rising credit risk*
- *In June 2018, inflation in Turkey rose to 15.39% from 12.15% in the previous month*
- *The Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility should remain unchanged - 0.00%, 0.25% and -0.40%, respectively. The expectations are that they should be maintained at this level by the end of the summer of 2019*
- *It is expected that the introduction of more and more duties will lead to slower economic growth and a faster acceleration of inflation, which will hamper monetary policy. At the next meeting of the Bank on August 2, 2018 to be presented and updated economic forecasts as well as an increase in the interest rate Federal Reserve*
- *The US Federal Reserve appears confident in the power of the US economy, and for now retains its interest rates in 2018*
- *The BoJ is preparing to change its policy. The central of Japan is leading initial talks to change interest rates and redundancy incentives*
- *Yuan devalued 7% since the beginning of the year and reached 6.84 yuan per dollar. China's central bank has earmarked 502 billion yuan or about USD 74 billion new loans to commercial banks under the Medium-Term Lending Facility. Thus the total new cash issue since the beginning of 2018 reached 4.6 trillion yuan or 700 billion dollars*
- *At its meeting on July 24, 2018, the Turkish Central Bank did not raise interest rates, keeping the main one-week repo rate at 17.75%*
- *Futures on US crude oil WTI changed several times during the Asian session but stabilized at USD 69.30 per barrel. The Brent variety also rises 0.46% to 74.27 dollars a barrel*
- *After the previous depreciation, since mid-July 2018, prices for all grain contracts on the world stock markets have risen*

- *The priorities of the Bulgarian presidency of the Council of the EU in the field of economic and financial affairs were focused on field of banking legislation, the construction of the Union on capital markets, the legislative package for removing the obstacles to the cross-border offering of investment funds, the review of the European System of Financial Supervision, taxation and company law, the taxation of the digital economy, measures to strengthen administrative cooperation to counter Value Added Tax (VAT) fraud*
- *Bulgaria has received a roadmap for reforms and an indicative date for simultaneous entry into ERM II and the Banking Union*
- *In January – May 2018 the current and capital account was negative amounting to EUR 38.7 million and presented 0.1% of GDP*
- *In January-May 2018 Bulgaria's foreign investments amounted 120.5 million and decreased by 58.6% yoy*
- *In June 2018, the Bulgaria's international reserves amounted to BGN 46 billion (EUR 23.5 billion) and increased by 3% mom*
- *In June 2018, the total business climate indicator decreases by 0.9 pps to 32.2% in comparison with the previous month as a result of the unfavourable business climate in construction and service sector*
- *In May 2018, the industrial production index, computed from seasonally adjusted data, rose by 1.8% on a monthly basis and remained at the level of the corresponding month in 2017*
- *In May 2018 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.6% mom and by 6.3% yoy, respectively*
- *In May 2018 the index of production in section 'Construction' increased by 0.7% mom but decreased by 0.5% yoy, respectively*
- *The consumer price index for June 2018 compared to May 2018 is 100.1%, ie, monthly inflation is 0.1%, annual 3.2%, and annual average inflation 2.2%*
- *Total Producer Price Index in May 2018 increased by 1.4% mom and by 5.7% yoy, respectively. Producer Price Index on Domestic Market in May 2018 increased by 0.5% mom and by 4.8% yoy, respectively*
- *House prices in Bulgaria above the average growth for the EU in the first 3 months of 2018*
- *In May 2018, the number of the trips of Bulgarian residents abroad was 728.9 thousand or by 11.6% above the registered in May 2017. In May 2018, the number of arrivals of visitors from abroad to Bulgaria was 938.6 thousand or by 8.4% more in comparison with May 2017*
- *The total number of the nights spent in all accommodation establishments registered in May 2018 was 1 571.8 thousand, or by 20.0% more in comparison with the same month of the previous year. The total revenues from nights spent in May 2018 reached BGN 78.3 million or by 27.2% more compared to May 2017* According to Eurostat data in May 2018, unemployment in Bulgaria is 5%
- *In May 2018 Bulgaria's consolidated Fiscal Programme (CFP) balance on a cash basis is positive, amounting to BGN 1,421.6 million, or 1.4% of GDP*

- *In May 2018 Bulgaria's central government debt amounted at EUR 12,095.9 million and presented 22.6% of GDP*
- *In May 2018 Bulgaria's broad money amounted at 87.458 billion and increased by 8.8% yoy. For the same period the domestic credit totaled 55.624 billion and increased by 9.1% yoy*
- *In June 2018, the four stock indexes SOFIX, BGBX 40 and BG TR30 reported a decline and only BGREIT registered growth*
- *In June 2018 Bulgaria's banking system assets increased by 0.8% mom and by 5.5% yoy, respectively and amounted at BGN 98.5 billion*

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GLOBAL TRENDS

ADVANCED COUNTRIES' ECONOMIES

Euro zone

The EC lowered its GDP growth forecast to 2.3% in 2018 and 2.1% in 2019. The Eurozone GDP growth forecast is adjusted to 2.1% in 2018 and 2% in 2019. In June 2018, the euro area CPI increased by 0.1% on a monthly basis and by 2% on an annual basis, reaching the ECB's medium-term target for inflation of just below 2%

According to the EC's summer interim forecast, the Eurozone's GDP in 2018 will grow by 2.1% compared with May 2.3%. The figures for 2019, as before, are for an expected increase of 2%. The GDP projection for the EU-27 (excluding the United Kingdom) for 2018 is reduced to 2.3% from 2.5% in 2019, leaving unchanged at 2.1%. As a result of the rise in oil prices started in spring, inflation is forecast at an average of 1.9% in the European Union and 1.7% in the euro area this year. This represents an increase by itself compared to spring by 0.2 percentage points in both cases. The forecast for 2019 is increased by 0.1 percentage points for the euro area to 1.7%, but remains unchanged for the EU at 1.8%. Commission experts point to weakening rates of economic growth in the first half of 2018, expecting some improvement in the second half as a result of improving labor market conditions, reducing household indebtedness. Commission experts point to weakening rates of economic growth in the first half of 2018, expecting some improvement in the second half as a result of improving labor market conditions, reducing household indebtedness. The European Commission worsens its estimate of the economic upturn of the UK in 2018 to 1.3% from May 1.5%, keeping its forecast for next year - 1.2%. It is expected that Germany's GDP, the largest economy in the Eurozone this year, will grow by 1.9% and in 2019 - also by 1.9%, while previously projected by 2.3% and 2.1%. France is expected to worsen this year to 1.7% from 2% and next year to 1.7%. At the same time, the EC improves its forecast for Finland in 2018 to 2.8% from 2.5%. An increase in consumer prices is also expected in Germany, France and also in the UK.

Eurostat consumer price index rose in June by 0.1 against May, when it also rose by 0.1%, while annual inflation rose by 2.0%, after growth of 1.9% May. This represents a first rise in euro area inflation over more than a year above the European Central Bank (ECB) medium-term target of inflation of just under 2%. The rise in inflation was mainly due to the sharp increase in energy prices in June, up 8.0% year on year, after their growth was 6.1% in May. At the same time, food, beverages and tobacco prices rose by 2.7%, after an increase of 2.5% a month earlier, while services prices grew by 1.3% after an increase in May with 1.6%. The main consumer price index (excluding volatile food, tobacco and energy prices) slowed its growth to 0.9% from 1.1% in May and under preliminary data for an increase of 1.0%. Inflation in EU remains stable in the sixth month of 2018 at a level of 2% on a monthly basis. Compared to the same period in 2017, however, serious acceleration was reported - by 1.5%. The slowest rate of inflation of below 1% within the EU was observed in Ireland by 0.7%. The strongest inflation in June was recorded in Romania - 4.7%, and Estonia - 3.9%.

United Kingdom

In Q1 of 2018, Britain's GDP grew by 0.2% quarter on quarter and by 1.2% on an annual basis. Wage growth in the UK has slowed down to its worst pace in six months, despite a record employment rate of 75.7%

UK Gross Domestic Product expanded in Q1 of 2018 by 0.2% compared to the previous quarter when it grew by 0.4%. This is a slight upward revision from the previous ONS expansion estimate of 0.1%. UK Gross Domestic Product expanded in the first quarter of 2018 by 0.2% compared to the previous quarter when it grew by 0.4%. This is a slight upward revision from the previous ONS expansion estimate of 0.1%. UK Gross Domestic Product expanded in the first quarter of 2018 by 0.2% compared to the previous quarter when it grew by 0.4%. This is a slight upward revision from the previous ONS expansion estimate of 0.1%. British statistics noted that the main reason for this upward revision was "a significantly improved method of assessing construction output, according to which construction shrank in the first quarter by only 0.8% instead of the previous estimate of a decrease of 2.7%. Production in the services sector remained unchanged, increasing by 0.3%, while total production growth rose by 0.4% instead of 0.6%, as industrial production contracted by 0.1%. Consumer spending rose by 0.2%, and government spending - by 0.4%, and this data was unchanged from the previous ONS estimate, while business investment shrank 0.4% in-

stead of 0.2%. The shrinking trade deficit in the first quarter to 3.17 billion pounds from 3.49 billion dollars in the last quarter of 2017 contributed 0.1 percentage points to the weak economic growth at the beginning of the year. Wage growth in the UK has slowed down to its worst pace in six months, despite record employment, making it more difficult for the Central Bank (ECB) to decide whether to raise interest rates. The average weekly payout increased by 2.5% yoy for the three months to May, losing momentum, after three months to the end of April rising by 2.6%, the lowest growth rate since November 2017. This means that in May consumer inflation of 2.4% on an annual basis, real wages of British workers grew by only 0.2% in the reporting period. Growth of average weekly earnings, excluding bonuses, slowed down to 2.7% from 2.8% in the three months to the end of April, excluding real inflation, real non-bonus earnings rose between 0.2% and 0.3%. At the same time, unemployment remained at its lowest level since 1975 - 4.1%, while the share of workers has risen to a record 75.7%, after the first three months of the year were created 137 thousand. work places. Claims for unemployment benefits increased in June by 7.8 thousand, after declining by 3 thousand in May. We recall that on Monday, British official statistics, ONS, reported that net migration from the EU (the number of arrivals minus the UK leaving) dropped to 101,000 in 2017 (the lowest level since 5 years), amid uncertainty on the future links of the UK with the other 27 EU member states, following Brexit's official date at the end of March 2019.

USA

USA tax cuts will boost the US economy in 2018 and 2019. The target growth, which the Trump administration will achieve, thanks to the measures it takes, is 3%. The US and the EU have reached a joint work agreement to cut trade barriers and strengthen the World Trade Organization

In its annual assessment of the US economy, the IMF released a critical report warning of the negative effects of a number of administrative measures, including plans to impose the US trading partners' large-scale US trade tariffs, in order to reduce the US's huge trade deficit. The IMF predicts that US economic growth will reach 2.9% in 2018 and 2.7% in 2019. This is a significant increase from last year's forecast when growth was expected to be 2.3%. After the initial boost, thanks to a USD 1.5 trillion tax cut, the IMF predicts growth will slow down in the coming years, reaching 1.4% in 2023. The target growth, which the Trump administration will achieve, thanks to the measures it takes, is 3%. Later, on July 26, 2018, the IMF supported the agreement reached between the EU and the United States. During a meeting between US President Donald Trump and EC President Jean-Claude Juncker, the US and the EU have agreed to work together to cut trade barriers and strengthen the World Trade Organization along with other partners. The EU is committed to increasing US imports of LNG and agricultural output. The parties have agreed to start a close dialogue on business standards with a view to lightening the trade process, removing bureaucratic hurdles and cutting costs. Trump noted that they had agreed with Juncker to "join forces to protect American and European companies." The consensus for the purposes is by the formula "Three Zeros" - zero tariffs, zero non-tariff barriers and zero subsidies for industrial goods outside the automotive sector.

Japan

Japan's central bank remains optimistic about the country's economy, but in some areas companies are worried about rising costs due to labor shortages, which is a sign of tightening the labor market

The Japanese economy is expected to continue to grow moderately. While many regions enjoy a steady recovery, backed by strong demand, in some areas more and more companies complain that labor shortages increase costs and affect production. The tightening labor market continues to help raise wages and household incomes. The shortage of labor restricts the business of some companies. Among the external risks to the Japanese economy was the trade conflict between the US and China. Some Central-Japan companies are already seeing a negative effect on their profit caused by delays in the export of electronic parts. On the other hand, the heavy rains in Western Japan are expected to have a negative impact on factory production, distribution and consumer mood. More than five years later, the program of quantitative easing succeeded in supporting the recovery of the economy, but not the inflation that remained under the central bank's goal. Consumer prices in Japan rose by 0.8% in June compared to last year. This is the 18th consecutive month of accelerating inflation amid rising energy prices. However, the indicator is still far from the target set by the Japanese Central Bank (YCB) in 2013 for inflation of 2%. Oil prices have risen by 16.1% and that of electricity has grown by 3.1%. The Core Consumer Price Index, which excludes fresh products, re-

mained at 101.0 points versus the 100 basis point for 2015. Inflation is expected to accelerate to 1.3% in 2018. This figure has been revised against 1.4% in January.

China

In Q2 2018 China's GDP grew by 1.8% quarter on quarter and 6.7% on an annual basis. Expectations are for further delays in the second half of the year as well as rising credit risks

According to China's statistics office, the country's GDP grew by 6.7% yoy in the second quarter of 2018 compared to 6.8% in Q1 of 2018. We recall that Beijing's goal is for economic growth of around 6.5% in 2018. Data on a quarterly basis show that GDP expanded by 1.8% in the second quarter of 2018 compared to Q1 2018. The pace in Q1 was 1.4%. Expectations are the trade war to slow the economy of the country. China and the US have imposed USD 34 billion of reciprocal duties last month and are levying USD 16 billion more, and Donald Trump's administration plans to levy 10% duty on Chinese goods for another USD 200 billion. According to various estimates, the commercial war may take between 0.2 and 0.5 pp. of China's GDP growth over the next 12 months. Investments in buildings, plant and other fixed assets continued to weaken, increasing by 6.0% in the first half of the year to 6.1% in the first five months. According to economists, the cost of railways, motorways and other infrastructure has increased by 3% over the six months compared to 15% throughout 2017.

Expectations are for further delays in the second half of the year as well as rising credit risks. The effects of debt control will remain in the future, and highly indebted local governments and developers will feel the most pressure. Authorities in China will take a more active tax policy to help overcome uncertainty coming from outside. Tax policy will focus on tax cuts for companies, and the pace of launch of special bonds to local governments will be accelerated. The government will provide a tax relief of 65 billion yuan (USD 9.6 billion) by extending its preferential policy, which will already apply to all companies, not only for small technology companies. This step is an addition to the original goal of cutting taxes and charges by 1.1 trillion yuan this year. Prudent monetary policy will not be either too strict or too liberal. At the beginning of July 2018, the US imposed 25% Chinese import duties on USD 34 billion, and China repudiated the same amount of US import goods to the same amount. Recently, the National Development and Reform Commission in Beijing announced that despite the escalating trade conflict with the United States, China remains confident it will achieve its economic growth target of 6.5% in 2018.

Turkey

In June 2018, inflation in Turkey rose to 15.39% from 12.15% in the previous month

According to data from the Turkish Institute of Statistics, inflation in Turkey registered a sharp increase in June 2018, reaching 15.39%. In May, consumer prices in the country rose 12.15%, the highest since November 2017. For comparison, in April inflation was 10.85%. The biggest monthly increase in prices was observed for food and non-alcoholic beverages - 5.98%, but also strong growth in transport. The biggest increase in prices on an annual basis was reported in transport - 24.26%. We recall that Turkish citizens voted in early presidential and parliamentary elections on June 24-th President Recep Tayyip Erdogan was declared the winner of the presidential election. The final election results are expected to be announced by the Electoral Commission on July 26, 2018. Meanwhile, the Turkish lira reacted to new data with a decline, with a 1.3% drop on the US dollar. Since the beginning of 2018, the Turkish currency has lost more than 20% of its value, and this, in turn, makes imports more expensive and fuel inflation again.

Policy of the Central banks

ECB

The Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility should remain unchanged - 0.00%, 0.25% and -0.40%, respectively. The expectations are that they should be maintained at this level by the end of the summer of 2019

On July 2018 meeting the Governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.40% respectively. The Governing Council expects the key ECB interest rates to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term. Regarding 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. The Governing Council intends to reinvest 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.

Bank of England

It is expected that the introduction of more and more duties will lead to slower economic growth and a faster acceleration of inflation, which will hamper monetary policy. At the next meeting of the Bank on August 2, 2018 to be presented and updated economic forecasts as well as an increase in the interest rate

Macroeconomic data of the UK show more confident that the economic slowdown in the first quarter of 2018 largely depends not only on economic factors. Expectations are expected at the next meeting of the Bank on August 2 to present and update forecasts for the economy as well as an increase in the interest rate. If the UK economy continues to work as expected, the continued tightening of monetary policy over the next few years will be a good move to bring inflation back to its goal. When the British Central Bank took its previous decision to raise the country's interest rate, the economy almost stopped growing in the first three months of the year. Expectations for the second quarter are, however, much better. It is expected that the introduction of more and more duties will lead to slower economic growth and a faster acceleration of inflation, which will hamper monetary policy. Central bankers will have to consider a possible shrinkage of global trade. Protectionism affects the real economy by reducing trade flows, disturbing supply chains and higher prices of imported goods. On the other hand, the confidence of business and consumers can be indirectly affected.

USA Federal Reserve

The US Federal Reserve appears confident in the power of the US economy, and for now retains its interest rates in 2018

According to the US Federal Reserve, the uncertainties and risks posed by trade policy could ultimately have a negative impact on business climate and investment costs. At its last meeting, the Fed raised rates in the range of 1.75% -2%. Overall, the institution appears confident in the strength of the US economy and supports its initial intentions to raise the base rate during the year. Central bankers, however, are already paying attention to problems that can pull the country's economy from the upward trend. At the same time, the continued growth of the economy may raise inflationary pressures or lead to financial imbalances, so the policy of raising interest should continue. Expectations are that the US economy will grow by 4% in the second quarter, backed by strong domestic consumption and business confidence, as well as rising investment. According to the Federal Reserve, economic activity is rising solidly and the labor market continues to strengthen. Inflation revolves around the 2% target set by the institution. This is also the reason for rising interest rates last month, even though talks raise concerns about the upward trend of the US economy.

Bank of Japan (BoJ)

The BoJ is preparing to change its policy. The central of Japan is leading initial talks to change interest rates and redundancy incentives

Interest rates on 10-year government bonds in Japan rose by six basis points to 0.09%, a level not reported since the beginning of February. The aim of such changes is to make massive incentives more effective. The head of the BoJ, Haruhiko Kuroda,

launched a massive bond redeeming program in the distant year of 2013. The goal was to raise the level of inflation. Currently, however, it seems that the target of 2% inflation is unattainable, even against the backdrop of serious monetary stimuli. Buying bonds, however, has led to an increase in government debt of over 40% over the past five years. At the same time, the goals of the Japanese central bank do not seem to be achieved. And this largely points to the ineffectiveness of the bank's policy. Interest rates on 20-year Japanese government bonds also rose 6 basis points to 0.535%, moving away from their 18-month minimum at 0.475%, achieved earlier in early July 2018. The yen continues to appreciate against other major currencies. The dollar swapped early this morning at levels of 110.90 yen. The appreciation of the Japanese national currency triggered a decline in stock indices in the country. The Nikkei 225 Index lost nearly 300 points, or 1.3%. Losses also recorded the other indices in the region, with the Australian base index falling by 0.9% and South Korea's KOSPI by 0.4% on July 23, 2018.

People's Bank of China (PBC)

Yuan devalued 7% since the beginning of the year and reached 6.84 yuan per dollar. China's central bank has earmarked 502 billion yuan or about USD 74 billion new loans to commercial banks under the Medium-Term Lending Facility. Thus the total new cash issue since the beginning of 2018 reached 4.6 trillion yuan or 700 billion dollars

The Central Bank of China has sharply increased the inflow of money into the country's financial system. The aim is to support the economy in a tough commercial war with the United States. The first step was the release of 502 billion yuan or about 74 billion dollars of new loans to commercial banks under the Medium-term Lending Facility. With this merger, the total new cash issue since the beginning of 2018 has reached 4.6 trillion yuan or 700 billion dollars. After all, the yuan depreciated by 7% since the beginning of the year and reached 6.84 yuan per dollar. China can not respond symmetrically to US-imposed duties on its own goods simply because their imports are much smaller. US goods imported to China last year were worth USD 135 billion, while Chinese imports to the US were over USD 500 billion.

Central Bank of Turkey

At its meeting on July 24, 2018, the Turkish Central Bank did not raise interest rates, keeping the main one-week repo rate at 17.75%

The Turkish central bank kept its interest rates unchanged, completely refuting the expectations of the financial markets to raise them, causing dramatic depreciation of the Turkish lira against the US dollar and the euro. At its meeting on July 24, 2018, the Turkish Central Bank (TCB) did not raise interest rates, keeping the main one-week repo rate at 17.75 percent. Expectations were to raise the repo rate by between 100 and 125 basis points (1% to 1.25%), given that Turkey's inflation in June reached a 14-year high of 15.39%. TCB will try to limit the depreciation of the Turkish lira, which is the basis of double-digit inflation in the country. Keeping interest rates unchanged. The US dollar rose by more than 4% to 4.9375 Turkish pounds, as early as the day before the end of the TCB session traded in a nearly two-week low of about 4.7298 pounds. There followed a certain stabilization around the 4.8700 level, but nevertheless the dollar grew during the day by 2.7%. The euro also rose sharply by more than 4% to a near two-week high of 5.7 million Turkish pounds, then stabilizing at about 5.7 million, rising by 2.74 percent within the day. It should be borne in mind that both world leading currencies are traded near their record levels against the Turkish lira, reached on July 12 this year - about 4.900 pounds for one dollar and about 5.8117 against one euro. The TCB's frustrating decision by the TCB also provoked a wave of Turkish government bond sales, increasing their yields. After the central bank kept interest rates unchanged, the yield of Turkish dollar bonds maturing in 2022 jumped to about 6.5% from 6.26% before the decision itself. It should be borne in mind that Turkey has one of the highest levels of external debt among the so-called "emerging economies, with debt accounting for about 53.5% of its gross domestic product, according to data from the IMF. This makes it highly vulnerable to the depreciation of the local currency and to the unwillingness of investors to buy Turkish government bonds. At the same time, much of the Turkish business has loans denominated in dollars and euros, making it quite sensitive to such dramatic declines in the local currency.

International Commodity Prices

Petrol

Futures on US crude oil WTI changed several times during the Asian session but stabilized at USD 69.30 per barrel. The Brent variety also rises 0.46% to 74.27 dollars a barrel

Brent crude oil rises for the third consecutive day after Saudi Arabia temporarily halted deliveries through a strategic Red Sea Strait. An upsurge in US stockpile declines over a three-year low. The reported closure of some of the Gulf corridors for Yemeni rebels has definitely supported upward movement in prices as well as a decline in US stocks as a driving force for the market. Crude oil reserves fell 3.2 million barrels to 407.6 million barrels for the week ending July 20. For comparison, analysts' forecasts were down 2.3 million barrels. Crude oil reserves at Cushing, Oklahoma, dropped 808,000 barrels, according to the US Petroleum Institute. Stocks of gasoline dropped by 4.9 million barrels compared to the preliminary expectations for a decline of 713 thousand barrels. Saudi Arabia, the largest oil exporter in the world, said it temporarily halted all oil supplies through the strategic Bay of El-Mande after an attack by two oil tankers by Yemeni hurts backed by Iran. About 4.8 million barrels of crude oil and refined petroleum products have passed through that strait in 2016 on their way to Europe, the United States and Asia. The news that China will increase infrastructure spending also helped weaken the fears that tensions on the US-China trade front will reduce demand for oil in the Asian country.

Agricultural products

After the previous depreciation, since mid-July 2018, prices for all grain contracts on the world stock markets have risen

In Chicago wheat rose USD 8 to the previous 215.00 USD / ton, in France, with 9 euros to 189.00 EUR / ton. In Ukraine and Russia, the quotations also rose slightly by 3 and 1 USD, respectively, to USD 202.00 and 204.00 USD / ton. For maize, the price change in Chicago is up by plus USD 7, again to the previous levels of 162.00 USD / ton, France also returned to the old prices with an increase of EUR 3 to 162.00 EUR/ ton. In Russia the price fluctuates, now it is plus USD 4 to 201.00 USD / ton. The rape-seed in the Eurasian Union (Euronext) is quoted at EUR 360.50 / t, and the barley in France and Germany also went up to EUR 3.00 and EUR 7.00 and reached prices of EUR 176.00 and EUR 187.00 per ton. Unrefined sunflower oil and refined sugar are the only goods that have fallen. Rotterdam's oil price this week is minus USD 10.00 to USD 770.00 / ton, and London's sugar continues to lose its "earnings" at the end of June, falling to USD 21.20 to USD 318.40 / ton. On Sofia Stock Exchange, the prices of the contracts are stable with a slight slope upwards. There is a supply of bread wheat at 320.00 BGN / t, with the feed supply at 300.00 BGN / t, the demand is 270.00 BGN / t. Feed barley is looking for 270.00 BGN / ton, the offer is at 290.00 BGN/ ton. Maize from a place is sold in the range 310.00-320.00 BGN / ton. All prices are without VAT.

BULGARIA

LEADING NEWS

The priorities of the Bulgarian presidency of the Council of the EU in the field of economic and financial affairs were focused on field of banking legislation, the construction of the Union on capital markets, the legislative package for removing the obstacles to the cross-border offering of investment funds, the review of the European System of Financial Supervision, taxation and company law, the taxation of the digital economy, measures to strengthen administrative cooperation to counter Value Added Tax (VAT) fraud

The Bulgarian Presidency was working with maximum openness and transparency, striving to maximize the balance of interests of the stakeholders.

There has been remarkable progress in the area of banking legislation. One of the main goals of the Bulgarian Presidency, which was also included in the general program, was to take decisive steps to reduce the risks in the banking sector. After very intensive negotiations and over 200 bilateral and multilateral meetings, the ECOFIN Council meeting on 25 May 2018 Bulgaria managed to negotiate a common approach to the Banking Package. A compromise has been reached on issues that are characterized by high complexity and strongly polarized positions of the Member States. Adopting and implementing the new rules will have a direct impact on risk mitigation, financial stability and confidence in the banking sector as well as overcoming the effects of the latest economic and financial crisis. Achieving a common approach to the Banking Package has a leading role in the overall completion of the Banking Union, as finding a compromise on these rules paves the way for more detailed and political discussion of the issues that concern the sharing of risks in the banking sector. Three months following the publication of the proposal for a regulation amending Regulation (EC) No 924/2009 as regards certain fees for cross-border payments in the Union and conversion fees, an agreement was reached on a negotiation mandate with the EU the European Parliament. With the adoption of this regulation, positive business and citizen goals will be achieved by aligning charges for cross-border payments in euro with those for national payments in national currency for non-euro area countries as well as achieving greater transparency of bank transfer charges for currency conversion. Considerable progress has also been made in the technical discussions on the proposal for the creation of the European Deposit Guarantee Scheme, and in four meetings and after constructive discussions, the Presidency has produced a balanced progress report reviewed and approved by ECOFIN in June. The legislative package on covered bonds, which are an important source of funding for European credit institutions, started in mid-May 2018. For this short deadline within three sessions, Bulgaria has made great progress, together with a detailed review and presented compromise texts under the Regulation on prudential treatment of covered bonds and individual elements of the Directive, which were widely supported by all Member States. The Bulgarian Presidency has begun intensive negotiations on both legislative proposals in the framework of the package of measures to deal with non-performing loans. Progress on them is also directly related to the implementation of the priority of the Bulgarian Presidency's program to reduce the risks in the banking sector and the completion of the Banking Union.

The work on building the Union on the capital markets continued and the results significantly exceeded the initial goals of our country. The Bulgarian Presidency achieved a balanced compromise on the legislative proposal for the creation of a pan-European personal pension product and after a discussion at a COREPER meeting on 19 June 2018, a negotiating mandate with the European Parliament was received, given that the question of institutions for occupational retirement provision will be re-examined during the negotiations. The proposal is essential for building the Union on capital markets. In September 2018, you are expected to vote on Parliament's position and continue the process. Success was also achieved with the discussions on the legislative package on removing barriers to cross-border investment funds, which was published in March 2018. Following the intensive negotiations, a negotiating mandate was reached at a COREPER II meeting on 20 June 2018.

The Bulgarian Presidency is also working intensively on the review of the European System of Financial Supervision, which has a high political sensitivity. Considerable success has also been achieved in the discussions on the second proposal to amend the European Market Infrastructure Regulation with the aim of strengthening the central counterparty supervisory system. Three compromise texts on the third-country central counterparty regime have been drafted to close the discussion on this part of the proposal, which has received broad support from Member States. Discussions have been launched on the package of directive and regulation for an entirely new regime for prudential requirements for investment firms. Political agreement was reached between the Council and the European Parliament in a swift procedure (through an exchange of letters), without the need for a formal dialogue on the EC's legislative proposal to amend Directive 2016/97 on the dissemination of insurance products as regards the initial the date of implementation of the transposition measures by the Member States. The Bulgarian Presidency began at a time when the EU's tax policy had to meet many challenges and expectations coming both from within, from its citizens and business, as well as from international economic development. The focus of work was continued on the fight

against fraud, the fight against tax evasion and aggressive tax planning, following the roadmap developed by the Bulgarian Presidency, published on January 26, 2018.

In the area of taxation and company law, the Bulgarian Presidency has started working with seven open files and four more were launched during the presidency. Early reaching a political agreement (in March 2018) on the mandatory automatic exchange of information related to the disclosure of cross-border tax arrangements (DAC6) was politically crucial since, on the one hand, the EU has become a pioneer in the area of tax transparency by introducing compulsory disclosure of potential aggressive tax planning schemes and, on the other hand, has expressed strong political support for international action on a global basis. The Bulgarian Presidency has given priority to work on this file and has made a commitment in its Roadmap on Tax Policy to work towards reaching an agreement at an early stage. During the Presidency, the file was discussed at four expert meetings, at a meeting of the High Level Working Group and a Permanent Representatives Committee meeting (Part II). Five of the seven compromise texts of the Directive have been drafted. Following strong work done in the Tax Questions Working Group and the High Level Working Group, the ECOFIN Council reached a political agreement on the Presidency's compromise text on 13 March 2018 and on 25 May 2018 the ECOFIN Council adopted the Directive. The taxation of the digital economy was one of the priorities of the Bulgarian Presidency. On 21 March 2018, the Commission presented a Digital Sector Tax Package, part of which is the proposal for a Council Directive laying down rules on corporate taxation for a significant digital presence (based on Article 115 TFEU). The Commission's second proposal for a digital economy is the Proposal for a Council Directive on the common system of value added tax. The technical examination of the proposed package started on 11 April 2018, the proposal for taxation of the significant digital presence was discussed at 4 meetings, which resulted in the discussion of an article member of the draft directive. At the meeting of the Working Group on Tax Matters on 13.06.2018, the Bulgarian Presidency presented the first compromise text of the Directive. In indirect taxation, the Bulgarian Presidency has achieved its priority objective by obtaining full unanimity within 6 months on the EC's proposal to take measures to strengthen administrative cooperation to counter value added tax (VAT) fraud. This was very important from a political point of view because our understanding is that strengthening administrative cooperation at EU level will significantly reduce VAT fraud in cross-border trade and provide additional budget revenue. Bulgaria has reached agreement and ECOFIN has finally adopted the dossier of mandatory compliance by Member States with the minimum standard rate of 15% already in force. In support of small and medium-sized enterprises, the Bulgarian Presidency has begun work on the EC proposal on the common VAT system for the special scheme for small businesses. During the Bulgarian Presidency, an exchange of views and a dossier on reduced VAT rates was presented and submitted, which is also part of the package of VAT reform measures.

Another main objective of the Bulgarian Presidency was to ensure a smooth and timely start of the negotiation process under the next Multiannual Financial Framework. The debate on the MFF started at the beginning of the Bulgarian Presidency and a high-level conference was organized in Sofia on March 9, 2018, which allowed an exchange of views before the publication of the EC proposal. In May 2018 the analytical work on the package was launched in the special working group under the MFF. The Bulgarian Presidency has prepared and disseminated a report on the progress of the discussions on the proposal for the next MFF in the Council, which outlines the main issues raised during the discussions. Recognizing the importance of structural reforms to enhance the sustainability of EU economies, Bulgaria is working hard on the European Commission's proposal to strengthen the Structural Reform Support Program. A common approach of the Council on this legislative proposal has been achieved.

The Bulgarian Presidency has ensured a smooth running of the European Union's economic policy coordination cycle in 2018 - the so-called European Semester.

Bulgaria has received a roadmap for reforms and an indicative date for simultaneous entry into ERM II and the Banking Union

On July, 18 2018, the government gave a mandate to Minister of Finance Vladislav Goranov to file an official application on behalf of Bulgaria to establish close cooperation with the European Central Bank (ECB). The reason for the government's decision is the support given by the Euro group on July 12, 2018 after the intention of the Bulgarian authorities to join the Bulgarian lev towards the Exchange Rate Mechanism II. With this decision, the first real step was taken in the country's accession to the euro area and the introduction of the euro. Closer cooperation is established by a decision of the ECB on whether the conditions laid down in the European Union Regulation 1024 of 2013 on the functions of the euro area central bank on macro-prudential oversight of banks in the Community are fulfilled. This is a formal decision today and is the result of long-standing communication between the Bulgarian authorities and the euro area countries, the European Commission and the ECB as part of the roadmap for Bulgaria's accession to the euro area and of the Bulgarian lev towards the ERM-2 mechanism - known as the Eurozone "waiting room". This means that if the Bulgarian proposal is accepted by the ECB, the European Banking Regulator will start an examination of the Bulgarian banking system. The practice is to inspect three of the big banks, and who they will be, will become clear from a decision of the ECB. According to data of the BNB, as at 31 May 2018, the first group, where are the largest

banks include UniCredit Bulbank, DSK Bank, United Bulgarian Bank (UBB), First Investment Bank (Fibank) and Postbank (Eurobank Bulgaria). The investigation is expected to be completed by half a year, as the numerical indicators on the Maastricht criteria for joining the euro area have been met by Bulgaria for a long time. However, the check may last for 12 months. Bulgaria has a great advantage in speeding up the procedure with the examination of three of the big banks because it has fulfilled one of the most important conditions - the Bulgarian lev is attached to the euro. This happened as soon as the currency board was introduced on July 1, 1997, after the severe banking and financial crisis. In practice, since 1 July 1997, when the new Law on the Bulgarian National Bank (BNB) was adopted, the central bank received a new basic function, to act as a currency board and to carry out banking supervision in the country. The goal of a "waitress" stay, usually two years, is to prove that our country can maintain a stable fiscal and monetary policy and it is particularly important that the country's national currency maintains a stable exchange rate against the euro over a long period of time. However, how much will Bulgaria stand in the "waiting room" is a political decision of the Eurozone countries and in this case the numerical criteria do not apply: the entry into the Schengen area is a reference, which has been postponed for a long time although we have fulfilled all the formal conditions for accession. Under the ECB's agreements with the national central banks of the non-euro area Member States to determine the ERM-2 procedures, after the end of the second year of waiting in the waiting room, the ECB checks whether the country meets the five Maastricht criteria and makes an expert judgment the readiness to enter the Eurozone.

The five criteria from Maastricht

- 1) Harmonized CPI Inflation - inflation in the Member States should not be more than 1.5 percentage points above the average among the three lowest inflationary Member States;
- 2) Budget deficit - the deficit, expressed as a percentage of GDP, should not exceed 3%. The rule allows a deficit that exceeds the threshold only under exceptional conditions.
- 3) Government debt - expressed as a percentage of GDP, should not exceed 60%. In the case of a downward trend, the rule allows debt above 60% as long as it is expected to fall below the limit in the near future.
- 4) Long-term interest rates (average yield on ten-year government bonds) - long-term interest rates should not exceed by more than 2 percentage points the average between the three lowest inflationary Member States
- 5) Stability of the exchange rate to the euro - the stability rule is more flexible than others; it is stated that the currency of the candidate country should not have devalued significantly over the last two years against the European currency.

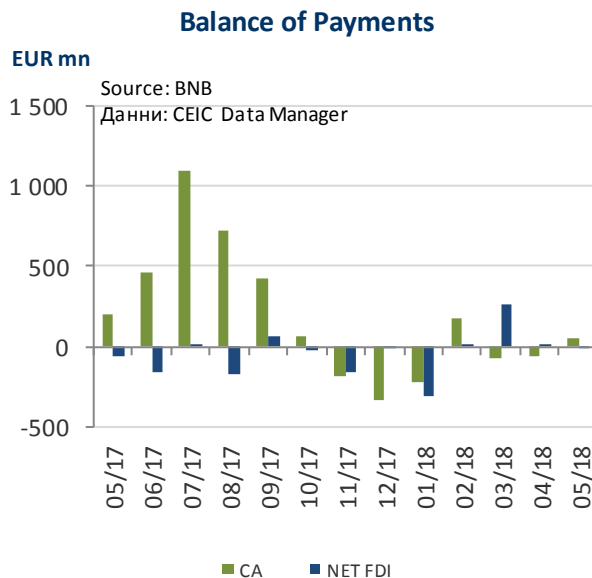
Bulgaria's request for close cooperation with the ECB and support for the overall assessment of local banks over the next 12 months is expected to strengthen anti-money laundering practices and help bridge gaps in the bankruptcy framework. The Bulgarian government's obligation to strengthen banking supervision will be a positive factor for lending. Implementing judicial reforms and improving the bankruptcy framework will accelerate the reduction of non-performing loans in the banking system. Moreover, the envisaged reforms and the positive message from the ECB on the simultaneous entry of Bulgaria into ERM-II and the EU Banking Union in the summer of 2019 will most likely increase Bulgaria's credit rating.

EXTERNAL SECTOR

Balance of Payments

In January – May 2018 the current and capital account was negative amounting to EUR 38.7 million and presented 0.1% of GDP

According to BNB data, the current and capital account recorded a surplus of EUR 82.1 million in May 2018, compared with a surplus of EUR 235.4 million in May 2017. In January – May 2018, the current and capital account was negative, amounting to EUR 38.7 million (0.1% of GDP), compared with a surplus of EUR 173.6 million (0.3% of GDP) in January – May 2017. The current account was positive, amounting to EUR 47.3 million in May 2018, compared with a surplus of EUR 200.2 million in May 2017. In January – May 2018, the current account was negative and amounted to EUR 152 million (0.3% of GDP), compared with a surplus of EUR 16.7 million (0.03% of GDP) in January – May 2017. The balance on goods recorded a deficit of EUR 317 million in May 2018, compared with a deficit of EUR 107.2 million in May 2017. In January – May 2018, the balance on goods was negative, amounting to EUR 1,454.9 million (2.8% of GDP), compared with a deficit of EUR 976.6 million (1.9% of GDP) in January – May 2017. Exports of goods amounted to EUR 2,216.7 million in May 2018, growing by EUR 2.2 million (0.1%) from May 2017 (EUR 2,214.4 million). In January – May 2018, exports of goods totaled EUR 10,395.9 million (19.7% of GDP), increasing by EUR 303.5 million (3%) year-on-year (from EUR 10,092.4 million, 20% of GDP). In January – May 2017, exports grew by 15.6% yoy. Imports of goods amounted to EUR 2,533.7 million in May 2018, growing by EUR 212 million (9.1%) from May 2017 (EUR 2,321.7 million). In January – May 2018, imports of goods totaled EUR 11,850.8 million (22.4% of GDP), growing by EUR 781.8 million (7.1%) from January – May 2017 (EUR 11,069 million, 21.9% of GDP). In January – May 2017, imports grew by 19.7% yoy. Services recorded a positive balance of EUR 167.8 million in May 2018, compared with a surplus of EUR 132.3 million in May 2017. In January – May 2018, services recorded a surplus of EUR 570.5 million (1.1% of GDP), compared with a positive balance of EUR 379 million (0.8% 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 37.8 million in May 2018, compared with a deficit of EUR 21.2 million in May 2017. In January – May 2018, the balance on primary income was negative and equated to EUR 51.1 million (0.1% of GDP), against a deficit of EUR 281.9 million (0.6% of GDP) in January – May 2017. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 158.8 million, compared with a positive balance of EUR 196.4 million in May 2017. In January – May 2018, the net secondary income was positive, amounting to EUR 783.5 million (1.5% of GDP), compared with a positive balance of EUR 896.2 million (1.8% of GDP) in the same period of 2017. The capital account recorded a surplus of EUR 34.8 million, compared with a positive balance of EUR 35.2 million in May 2017. In January – May 2018, the capital account recorded a surplus of EUR 113.3 million (0.2% of GDP), compared with a positive balance of EUR 156.9 million (0.3% of GDP) in January – May 2017. The financial account recorded a net inflow of EUR 278.2 million, compared with an inflow of EUR 393.2 million in May 2017. In January – May 2018, the financial account recorded a net inflow of EUR 937.2 million (1.8% of GDP), compared with an outflow of EUR 63.4 million (0.1% of GDP) in January – May 2017. The net direct investment compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual was negative, amounting to EUR 4.8 million, compared with a negative balance of EUR 59 million in May 2017. In January – May 2018, direct investment recorded a negative balance of EUR 46.4 million (0.1% of GDP), compared with a negative balance of EUR 224.8 million (0.4% of GDP) in January – May 2017. Direct investment – assets grew by EUR 13.2 million, compared with an increase of EUR 70.1 million in May 2017. In January – May 2018, direct investment – assets grew by EUR 112.3 million (0.2% of GDP), compared with an increase of EUR 162.4 million (0.3% of GDP) in the same period of 2017. Direct investment – liabilities grew by EUR 18 million in May 2018, compared with an increase of EUR 129.1 million in May 2017. In January – May 2018, direct investment – liabilities rose by EUR 158.7 million (0.3% of GDP), compared with an increase of EUR 387.2 million (0.8% of GDP) in the same period

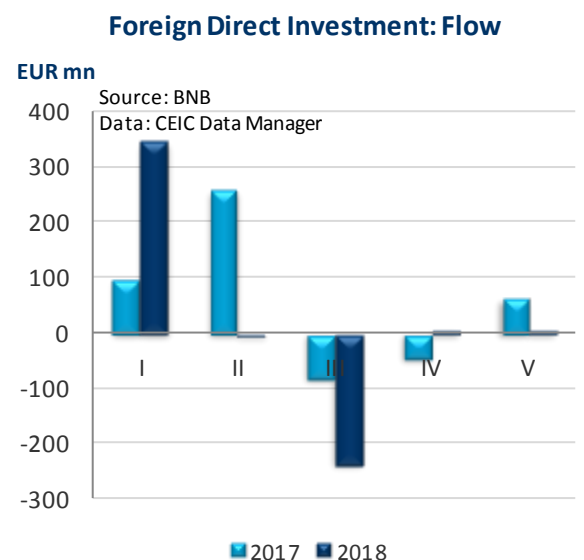


of 2017. The balance on portfolio investment was negative amounting to EUR 25.1 million, compared with a positive balance of EUR 226.2 million in May 2017. In January – May 2018 the balance was positive and equated to EUR 940.8 million (1.8% of GDP), compared with a positive balance of EUR 538.1 million (1.1% of GDP) million in January – May 2017. Portfolio investment – assets dropped by EUR 17.6 million, compared with an increase of EUR 140.9 million in May 2017. In January – May 2018 they rose by EUR 575.2 million (1.1% of GDP) compared with an increase of EUR 373.9 million (0.7% of GDP) in January – May 2017. Portfolio investment – liabilities grew by EUR 7.5 million compared with a decline of EUR 85.3 million in May 2017. In January – May 2018 portfolio investment – liabilities dropped by EUR 365.7 million (0.7% of GDP), compared with a decline of EUR 164.2 million (0.3% of GDP) in January – May 2017. The balance on other investment was positive amounting to EUR 34.6 million, compared with a positive balance of EUR 163.3 million in May 2017. In January – May 2018 the balance was positive and equated to EUR 830 million (1.6% of GDP), compared with a negative balance of EUR 130.4 million (0.3% of GDP) in January – May 2017. Other investment – assets dropped by EUR 177.6 million, compared with an increase of EUR 164.9 million in May 2017. In January – May 2018 they grew by EUR 756.4 million (1.4% of GDP) compared with an increase of EUR 234 million (0.5% of GDP) in January – May 2017. Other investment – liabilities dropped by EUR 212.2 million compared with an increase of EUR 1.7 million in May 2017. In January – May 2018 they decreased by EUR 73.6 million (0.1% of GDP) compared with an increase of EUR 364.4 million (0.7% of GDP) in January – May 2017. The BNB reserve assets⁵ grew by EUR 260.4 million, compared with an increase of EUR 94.5 million in May 2017. In January – May 2018 they dropped by EUR 876.5 million (1.7% of GDP), compared with a decline of EUR 208 million (0.4% of GDP) in the same period of 2017. The net errors and omissions were positive amounting to EUR 196.1 million compared with a positive value of EUR 157.8 million in May 2017. According to preliminary data, the item was positive totaling EUR 975.9 million (1.8% of GDP) in January – May 2018, compared with a negative value of EUR 237 million (0.5% of GDP) in the same period of 2017.

Foreign Direct Investments

In January-May 2018 Bulgaria's foreign investments amounted 120.5 million and decreased by 58.6% yoy

According to preliminary data, foreign direct investment in Bulgaria presented according to the directional principle totaled EUR 120.5 million (0.2% of GDP) in January – May 2018, dropping by EUR 170.8 million (58.6%) from January – May 2017 (EUR 291.4 million, 0.6% of GDP). Foreign direct investment in Bulgaria increased by EUR 5.6 million in May 2018, compared with an increase of EUR 62.2 million in May 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 157 million in January – May 2018, dropping by EUR 200.2 million from EUR 43.2 million in January – May 2017. Real estate investments of non-residents totaled EUR 2.2 million, compared with EUR 5.1 million attracted in January – May 2017. The largest inflow of real estate investment was from Russia (EUR 1 million), Ukraine (EUR 0.5 million), and Kazakhstan (EUR 0.3 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 28.7 million in January – May 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 – May 2018, compared with EUR 219.5 million in January – May 2017. The largest net direct investment inflows in Bulgaria for January – May 2018 were from the Netherlands (EUR 157.5 million), Germany (EUR 123.8 million), and Russia (EUR 115.9 million).

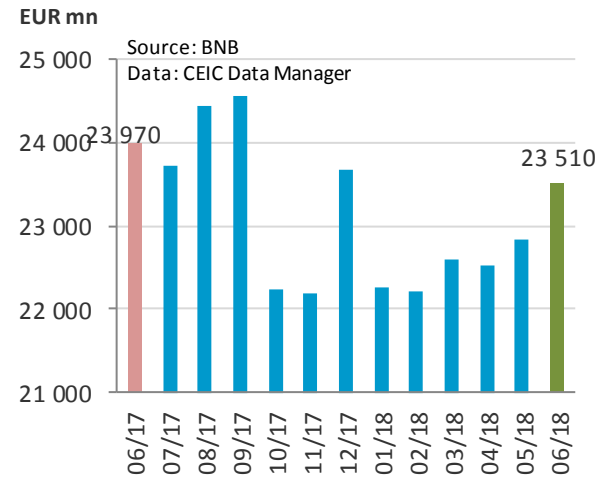


Foreign Reserves

In June 2018, the Bulgaria's international reserves amounted to BGN 46 billion (EUR 23.5 billion) and increased by 3% mom

According to BNB data Bulgaria's international reserves at the end of June 2018 amounted to BGN 46 billion (EUR 23.5 billion) and increased by 3% on a monthly basis. On an annual basis, international reserves reported a decline of 1.9%, the lowest recorded decline in the last eight months. At the end of June 2018 cash and deposits in foreign currency amounted to BGN 18.0 billion and increased by 10.3% mom, falling by 6.0% yoy, respectively. Monetary gold deposits reported a decline of 3.5% mom and 1.4% yoy, respectively. Investments in securities decreased by 1.0% mom and reported a 1.2% yoy growth, exceeding BGN 25.2 billion. By the end of June 2018, the money in circulation amounted to BGN 15.8 billion and rose by 1.7% mom and by 10.9% yoy, respectively. Liabilities to banks amounted to BGN 13.2 billion and increased by 7.4% mom, down 3.1% yoy, respectively. Liabilities to the government and budget organizations amounted to BGN 9.4 billion and increased by 3% mom, with a decline of 19.8% yoy, respectively. Liabilities to other depositors remained at the level of the previous month and amounted to BGN 2 billion. The deposit of the Banking Department amounted to BGN 5.6 billion and reported a slight decrease of 1.6% mom and by 2.8% yoy, respectively. Bulgaria's international liquidity position, calculated through the ratio of foreign reserves to short-term external debt, is high at 287.5% at the end of April 2018 and rises slightly compared to March when it was 287.3%.

Foreign Reserves



REAL SECTOR

Business climate

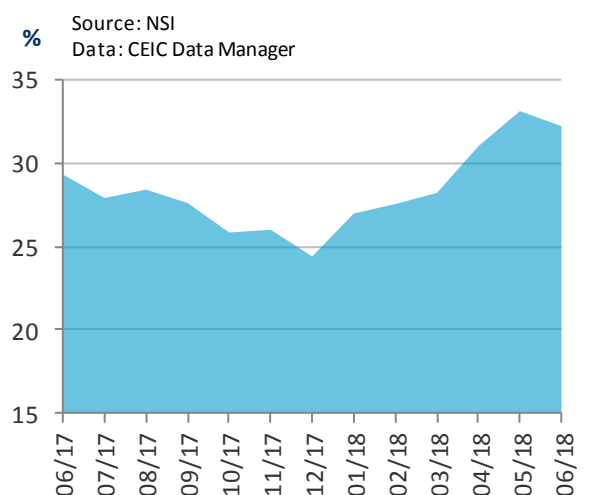
In June 2018, the total business climate indicator decreases by 0.9 pps to 32.2% in comparison with the previous month as a result of the unfavourable business climate in construction and service sector

According to NSI data in June 2018 the total business climate indicator decreases by 0.9 pps to 32.2% as a result of the unfavourable business climate in construction and service sector.

Industry. The composite indicator 'business climate in industry' increases by 1.5 percentage points to 31.8% which is due to the optimistic industrial entrepreneurs' assessments and expectations about the business situation of the enterprises. In their opinion, the present production activity is improved, as their forecasts over the next 3 months remain favourable. The uncertain economic environment and shortage of labour remain the most serious problems for the business development pointed out respectively by 36.8% and 32.5% of the enterprises. As regards the selling prices in industry, the managers foresee preservation of their level over the next 3 months.

Construction. In June 2018 the composite indicator 'business climate in construction' decreases by 3.4 percentage points to 33.7% as a result of the more reserved construction entrepreneurs' expectations about the business situation of the enterprises over the next 6 months. At the same time, their forecasts about the construction activity over the next 3 months are more unfavourable. In the last month the inquiry registers

Business Climate Indicator



strengthen of the negative impact of the factor 'shortage of labour', which shifts to the second and third place the difficulties, connected with the uncertain economic environment and competition in the branch. Concerning the selling prices in construc-

tion, the managers' expectations are them to remain unchanged over the next 3 months.

Retail trade. The composite indicator 'business climate in retail trade' increases by 0.8 percentage points to 20.0% which is due to the slightly improved retailers' assessments about the present business situation of the enterprises. However, their expectations about the volume of sales and the orders places with suppliers over the next 3 months are more reserved. The most serious problem limiting the activity of the enterprises remains the competition in the branch, followed by the insufficient demand and uncertain economic environment. As regards the selling prices, the retailers expect certain increase over the next 3 months.

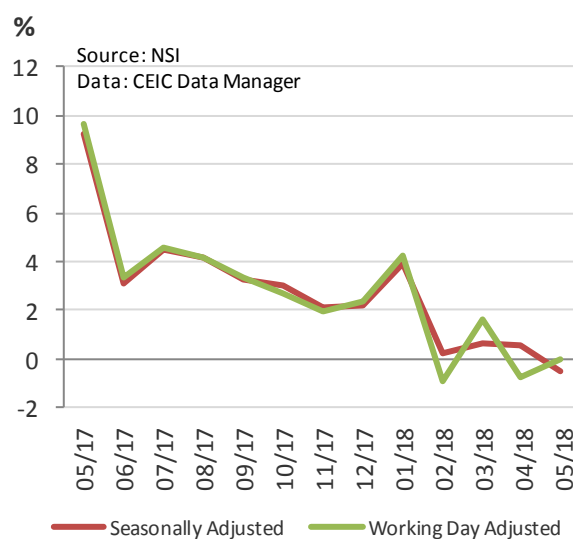
Service sector. In June 2018 the composite indicator 'business climate in service sector' drops by 4.5 percentage points to 20.8% mainly due to the more unfavourable managers' assessments about the present business situation of the enterprises. Concerning the demand for services, the present tendency is assessed as slight reduced, while the expectations over the next 3 months are improved. The competition in the branch and uncertain economic environment continue to be the factors limiting with most extend the business. The prevailing managers' expectations about the selling prices in the sector are them to remain unchanged over the next 3 months.

Industrial Production Index

In May 2018, the industrial production index, computed from seasonally adjusted data, rose by 1.8% on a monthly basis and remained at the level of the corresponding month in 2017

According to the preliminary NSI data the Industrial Production Index, seasonally adjusted, increased by 1.8% in May 2018 as compared to April 2018. In May 2018 working day adjusted Industrial Production Index remained at the level of the same month of 2017. In May 2018 as compared to April 2018, the seasonally adjusted Industrial Production Index rose in the manufacturing by 2.6% and in the mining and quarrying industry by 0.8%, while in the electricity, gas, steam and air conditioning supply the production decreased by 0.4%. The most significant production increases in the manufacturing were registered in the repair and installation of machinery and equipment by 11.5%, in the manufacture of fabricated metal products, except machinery and equipment by 9.4%, in the manufacture of beverages by 7.4%, in the manufacture of furniture by 7.3%. There were decreases in the manufacture of other transport equipment by 5.3%, in the manufacture of machinery and equipment by 4.2%, in the manufacture of textiles by 2.2%, in the manufacture of computer, electronic and optical products by 2.1%. On annual basis in May 2018 Industrial Production Index calculated from working day adjusted data rose in the manufacturing by 0.7%, while the production fell in the mining and quarrying industry by 8.2%, and in the electricity, gas, steam and air conditioning supply by 6.0%. In the manufacturing, the more considerable increases compared to the same month of the previous year were registered in the manufacture of other transport equipment by 25.3%, in the manufacture of motor vehicles, trailers and semi-trailers by 18.9%, in the repair and installation of machinery and equipment by 13.9%, in the manufacture of rubber and plastic products and in the manufacture of electrical equipment by 12.1%. Decreases were seen in the manufacture of tobacco products by 21.2%, in the manufacture of fabricated metal products, except machinery and equipment by 10.3%, 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 machinery and equipment by 9.8%, in the manufacture of textiles by 7.7%.

Industrial production Index, % change, YoY



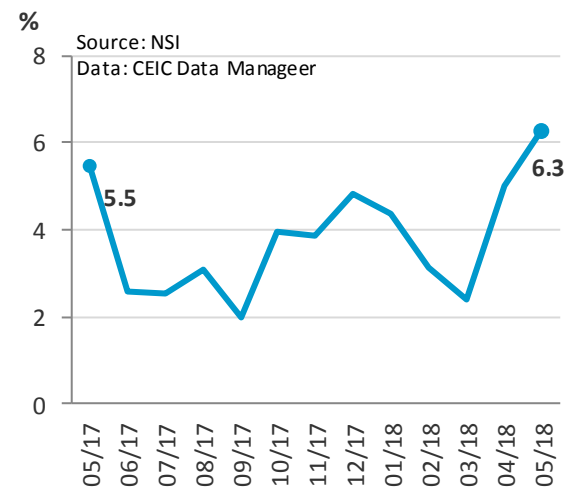
Retail Trade

In May 2018 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.6%

mom and by 6.3% yoy, respectively

According to the preliminary NSI seasonally adjusted data in May 2018 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.6% compared to the previous month. In May 2018, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' marked rise from 6.3% in comparison with the same month of the previous year. In May 2018 compared to the previous month more significantly growth of turnover was observed in the 'Retail sale of food, beverages and tobacco' by 1.8%, in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles' by 1.4% and in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' by 1.3%. Decrease was noted in the 'Retail sale via mail order houses or via Internet' - 2.5%, in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' and in the 'Retail sale of textiles, clothing, footwear and leather goods' - 0.5%. In May 2018 compared to the same month of 2017 the turnover increased in the 'Retail sale of food, beverages and tobacco' by 10.5%, in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles' by 10.2%, in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' by 8.5%. Decline was registered in the 'Retail sale of textiles, clothing, footwear and leather goods' - 6.7% and in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' - 1.0%.

Retail trade index, % change (YoY)

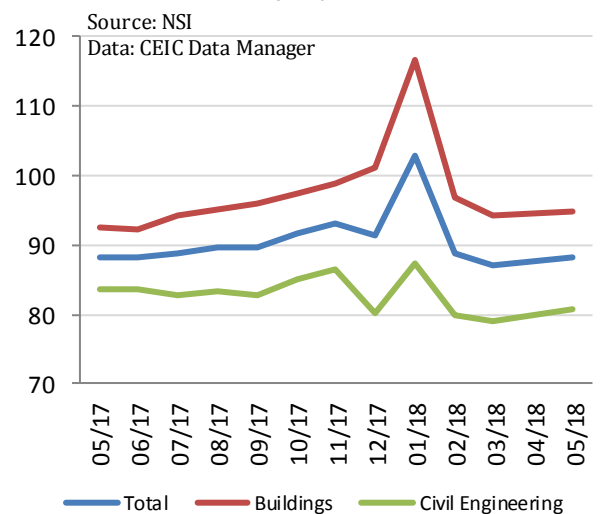


Construction

In May 2018 the index of production in section 'Construction' increased by 0.7% mom but decreased by 0.5% yoy, respectively

According to NSI preliminary data, in May 2018 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.7% above the level of the previous month. In May 2018 working day adjusted data4 showed a decrease by 0.5% in the construction production, compared to the same month of 2017. In May 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 1.0% and production of building construction - by 0.5%. On an annual basis in May 2018, the decline of production in construction, calculated from working day adjusted data, was determined from the negative rate in the civil engineering, where the drop was by 3.6%, while in the building construction was registered an increase by 2.0%.

Construction Production index, seasonally adjusted data



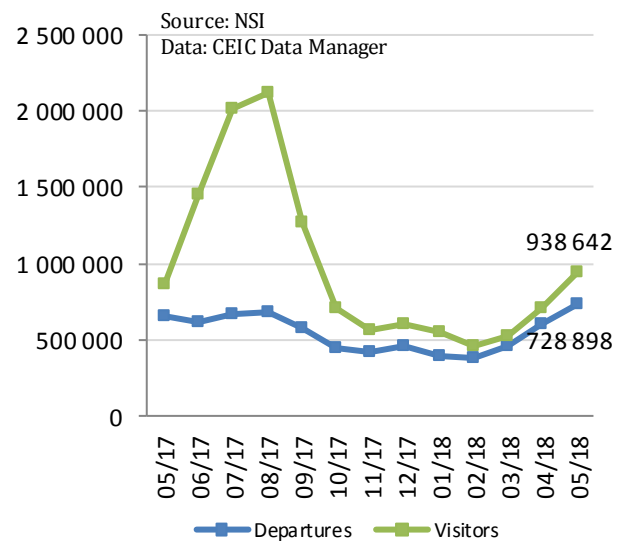
Tourism

In May 2018, the number of the trips of Bulgarian residents abroad was 728.9 thousand or by 11.6% above the registered in May 2017. In May 2018, the number of arrivals of visitors from abroad to Bulgaria was 938.6 thousand or by 8.4% more in comparison with May 2017

In May 2018, the number of the trips of Bulgarian residents abroad was 728.9 thousand or by 11.6% above the registered in May 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: Italy - by 29.4%, Belgium - by 25.1%, Serbia - by 22.0%, Spain - by 19.9%, the Former Yugoslav Republic of Macedonia - by 17.9%, Turkey - by 14.2%, Austria - by 11.4%, Romania - by 10.8%, Greece - by 10.5%, the United Kingdom - by 7.5%, Germany - by 6.3%, and etc. In comparison with May 2017, an increase was registered in the trips with all observed pur-

poses: with professional purpose - by 17.6%, with other purposes - by 12.6%, and with holiday and recreation purpose - by 6.1%. The trips with other purposes (as a guest, education and visit the cultural and sport events) in May 2018 composed the greatest share of the total number of trips of Bulgarian residents abroad - 38.6%, followed by the trips with holiday and recreation purpose - 34.3%, and with professional purpose - 27.1%. In May 2018 most trips of Bulgarian citizens were made to: Greece - 184.2 thousand, Turkey - 147.4 thousand, Romania - 58.1 thousand, the Former Yugoslav Republic of Macedonia - 45.1 thousand, Serbia - 44.8 thousand, Germany - 43.3 thousand, Italy - 28.9 thousand, Austria - 26.0 thousand, the United Kingdom - 20.0 thousand, Spain - 19.8 thousand. In May 2018, the number of arrivals of visitors from abroad to Bulgaria was 938.6 thousand or by 8.4% more in comparison with May 2017. An increase was registered in the trips with professional purpose - by 23.5% and with holiday and recreation purpose - by 14.8%, while those with other purposes (including as guest and passing transit) decreased by 2.4%. Transit passes through the country were 23.9% (224.6 thousand) of all visits of foreigners to Bulgaria. The share of visits of EU citizens was 63.7% of the total number of foreigners' visits to Bulgaria in May 2018 or by 8.2% more in comparison with the same month of the previous year. An increase was registered in the visits of citizens from Poland - by 83.2%, France - by 71.5%, Germany - by 24.0%, the United Kingdom - by 14.9%, and etc. At the same time decreased the visits from Hungary - by 11.1%, Sweden - by 6.9%, Czech Republic - by 5.9%, Greece - by 1.9%, and etc. The visits of foreigners in the group 'Other European countries' increased by 7.0%, as the highest growth was observed in the visits of citizens of Ukraine - by 21.7%. In May 2018, the predominant share of the visits with other purposes was 41.4%, followed by trips with holiday and recreation purpose - 39.0%, and with professional purpose - 19.6%. In May 2018 the most visits to Bulgaria were from: Romania - 263.1 thousand, Turkey - 101.4 thousand, Greece - 100.7 thousand, Germany - 68.8 thousand, Serbia - 48.8 thousand, the Former Yugoslav Republic of Macedonia - 47.7 thousand, the United Kingdom - 28.9 thousand, Russian Federation - 26.3 thousand, Ukraine - 24.8 thousand, Poland - 21.8 thousand.

Total Visitors/Departures



The total number of the nights spent in all accommodation establishments registered in May 2018 was 1 571.8 thousand, or by 20.0% more in comparison with the same month of the previous year. The total revenues from nights spent in May 2018 reached BGN 78.3 million or by 27.2% more compared to May 2017

In May 2018, 2 345 accommodation establishments - hotels, motels, camping sites, mountain chalets and other establishments for short-term accommodation with more than 10 bed-places were functioned in the country. The total number of the rooms in them was 107.1 thousand and the bed-places were 233.8 thousand. In comparison with May 2017, the total number of accommodation establishments (functioned during the period) increased by 4.7% and the bed-places in them - by 2.4%. The total number of the nights spent in all accommodation establishments registered in May 2018 was 1 571.8 thousand, or by 20.0% more in comparison with the same month of the previous year, as the greatest increase (by 26.4%) was observed in 4 and 5 stars accommodation establishments. In May 2018, 80.0% of all nights spent by foreign citizens and 35.3% of all nights spent by Bulgarians were realized in 4 and 5 stars hotels. In 3 stars accommodation establishments were spent 14.7% of all nights by foreigners and 32.4% of all nights by Bulgarian residents, while in the rest of accommodation establishments (with 1 and 2 stars) they were 5.3% and 32.3% respectively. In May 2018, the number of arrivals in all accommodation establishments increased by 15.6% compared to the same month of 2017 and reached 582.0 thousand, as an increase was registered for foreigners by 28.7% and for Bulgarians - by 4.6% for. Bulgarians spent the nights in accommodation establishments in May 2018 were 286.2 thousand and spent 1.9 nights on the average. The arrivals of foreigners were 295.8 thousand, as 76.1% of them spent nights in hotels with 4 and 5 stars. On the average 3.5 nights were spent by foreigners. In May 2018, the total occupancy of the bed-places in accommodation establishments was 23.6%, as compared to May 2017 increased by 2.5 percentage points. The highest was occupancy of the bed-places in 4 and 5 stars accommodation establishments - 31.0%, followed by 3 stars accommodation establishments - 18.5%, and with 1 and 2 stars - 14.3%. The total revenues from nights spent in May 2018 reached 78.3 million BGN or by 27.2% more compared to May 2017. An increase in revenues was registered from both foreigners - by

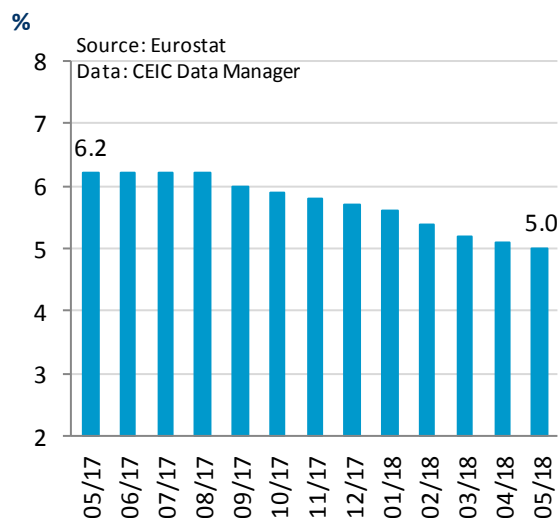
37.6% and Bulgarians - by 7.0%.

Unemployment

According to Eurostat data in May 2018, unemployment in Bulgaria is 5%

For the ninth consecutive month, unemployment in Bulgaria is below the EU average. In Bulgaria, only 5% of the working population registered with the labor offices is unemployed in May 2018, while for the EU-28 it is 7% as in April. In the euro area, unemployment is 8.4%, as in April 2018. By this indicator, our country ranks tenth among all 28 European Union member states. Data published by Eurostat for all EU countries shows that in May 2018 only 166,000 Bulgarians were unemployed while in April they were 169,000. A year ago registered unemployed in this country were 210 thousand. The number of unemployed Bulgarians reported by Eurostat in May is the smallest since the statistics for our country have existed since 1995. Youth unemployment in Bulgaria also declined in May to 11.2% from 11.5% in the previous month and from 14.0% on an annual basis (compared to May 2017). In May 2018 the unemployed youths in Bulgaria were 17 thousand as in April, while in May 2017 Bulgarian young people under the age of 25 were 24 thousand. According to Eurostat, women's unemployment in Bulgaria dropped to 4.5% compared to 5.9% a year earlier, while male unemployment fell less - to 5.4% in May versus 6.6% in May 2017. Eurostat figures show that a total of 17,207 million Europeans were unemployed in May 2018, or 1,828 million less than in May 2017, when 19,035 unemployed were declared. In Euro area unemployed were 13,656 million, while in May last year their number was 14,908 million or a decline of 1,252 million. The lowest unemployment rate in May was registered in the Czech Republic (only 2.3%), followed by Germany (3.4%), while unemployment remained the highest in Greece (20.1% on final March data) and Spain (15.8% in May). Youth unemployment in the EU is also down; unemployed young people under 25 in May were 3.377 million or 15.1%. On an annual basis (compared to May 2017), youth unemployment declined by 519,000, when 17.3% of youth unemployment was reported in all EU countries.

Registered Unemployment Rate

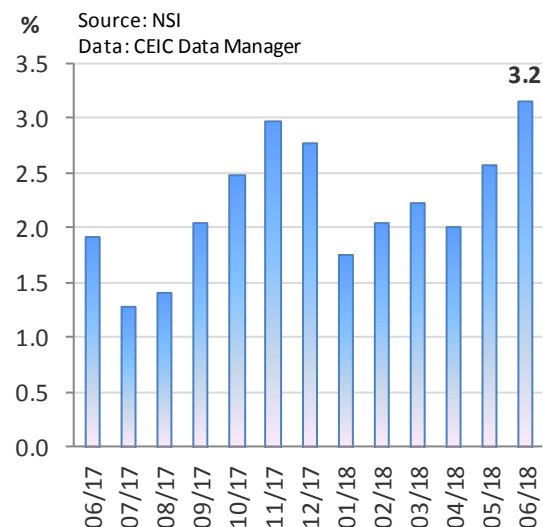


Inflation

The consumer price index for June 2018 compared to May 2018 is 100.1%, ie, monthly inflation is 0.1%, annual 3.2%, and annual average inflation 2.2%

The consumer price index in June 2018 compared to May 2018 was 100.1%, i.e. the monthly inflation was 0.1%. The inflation rate since the beginning of the year has been 1.1% and the annual inflation in June 2018 compared to June 2017 was 3.2%. The annual average inflation, measured by CPI, in the last 12 months compared to the previous 12 months was 2.2%. The main reason for the relatively high annual inflation is the transport costs of the population, which have risen mainly due to the fuel. In June, transport grew up by 8.2% yoy with half of this increase happening since New Year's holidays. Even in just one month - in June compared to May, Bulgarians' transport costs increased by a tangible 2.2%. Fuel has risen by 4.4% yoy as NSI including not only fuel for motor vehicles, but also for households' needs, as well as electricity, water and heating costs. On a monthly basis in June, there was only a significant increase in seasonal goods. The main fuels - gasoline and diesel also rose by 3.6% and 2.5%, respectively, compared to May. The harmonized index of consumer prices in June 2018 compared to May 2018 was 100.5%, i.e. the monthly inflation was

Inflation, YoY

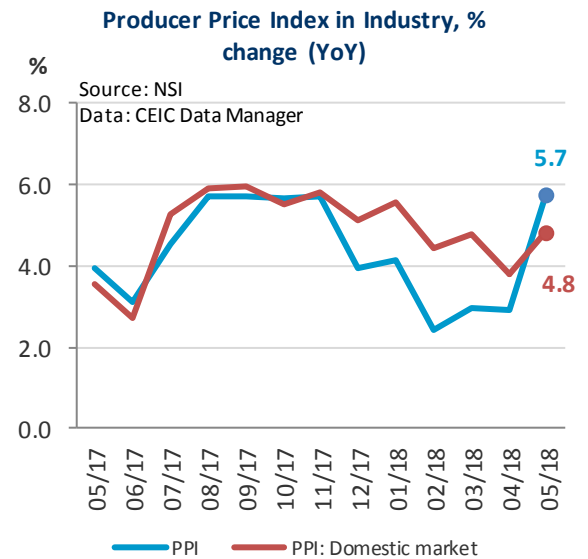


0.5%. The inflation rate since the beginning of the year has been 1.4% and the annual inflation in June 2018 compared to June 2017 was 3.0%. The annual average inflation, measured by HICP, in the last 12 months compared to the previous 12 months was 1.6%.

Producer Price Index in Industry

Total Producer Price Index in May 2018 increased by 1.4% mom and by 5.7% yoy, respectively. Producer Price Index on Domestic Market in May 2018 increased by 0.5% mom and by 4.85 yoy, respectively

The Total Producer Price Index in Industry in May 2018 rose with 1.4% compared to the previous month. Higher prices were registered in the mining and quarrying industry by 2.7% and in the manufacturing by 1.8%, while prices decreased in the electricity, gas, steam and air conditioning supply by 0.2%, while prices went down in other manufacturing by 0.2%, more significant increase in prices were reported in the manufacture of basic metals by 5.6%, as well as in the manufacture of tobacco products by 1.0%. The Total Producer Price Index in May 2018 increased by 5.7% compared to the same month of 2017. The prices rose in the electricity, gas, steam and air conditioning supply by 8.9%, in manufacturing by 4.9%, and in the mining and quarrying industry by 4.4%. In the manufacturing more significant increase in prices were seen in the manufacture of basic metals by 11.7%, in the manufacture of wood and of products of wood and cork, except furniture by 6.7% and in the manufacture of paper and paper products by 5.1%, while the producer prices dropped in the manufacture of transport equipment by 1.0% and in the manufacture of chemicals and chemical products, as well as in the printing and reproduction of recorded media - both by 0.8%.



Producer Price Index on Domestic Market in May 2018 increased by 0.5% compared to the previous month. The domestic prices went up in the mining and quarrying industry by 2.8%, in manufacturing by 0.6%, while the prices in the electricity, gas, steam and air conditioning supply remained the same. In the manufacturing, in the manufacture of chemicals and chemical products and in the manufacture of beverages - all by 0.2% compared to the previous month the prices went up in the manufacture of basic metals by 1.4% and in the manufacture of tobacco products by 1.0%. The domestic prices went down in the manufacture of other transport equipment, in the manufacture of rubber and plastic products, in the manufacture of paper and paper products. Producer Price Index on Domestic Market in May 2018 increased by 4.8% compared to the same month of 2017. The domestic prices rose in the electricity, gas, steam and air conditioning supply by 8.9%, in the mining and quarrying industry by 4.8% and in manufacturing by 2.4%. In the manufacturing compared to May 2017 the prices went up in the manufacture of basic metals by 5.5% and in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 4.9%. A decrease in the prices was reported in the manufacture of rubber and plastic products by 1.2% and in other manufacturing by 0.4%.

Producer Price Index on Non-domestic Market in May 2018 increased by 2.7% compared to the previous month. In the manufacturing the non-domestic prices increased by 2.9%. More significant price increase were reported in manufacture of basic metals by 6.4% 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 tobacco products - both by 1.3%, while prices went down in other manufacturing by 0.3%. Producer Price Index on Non-domestic Market in May 2018 increased by 7.1% compared to the same month of 2017. In the manufacturing, the prices went up by 7.2%. The non-domestic prices rose in the manufacture of basic metals by 13.0%, in the manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials by 9.3% and in the manufacture of paper and paper products by 7.2%. The prices fell in the manufacture of tobacco products by 2.7% and in the manufacture of chemicals and chemical products by 2.3%.

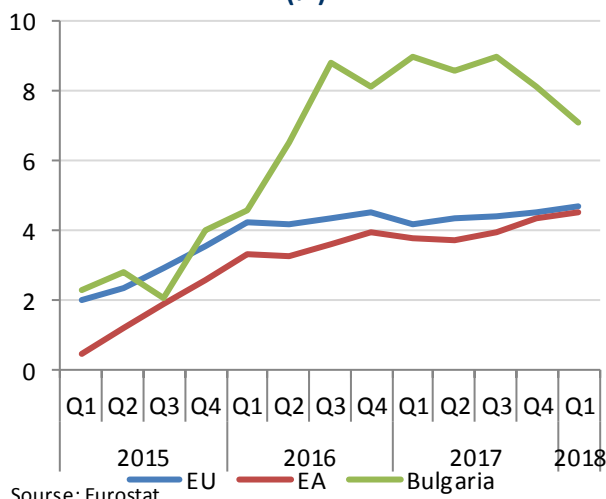
House Prices

House prices in Bulgaria above the average growth for the EU in the first 3 months of 2018

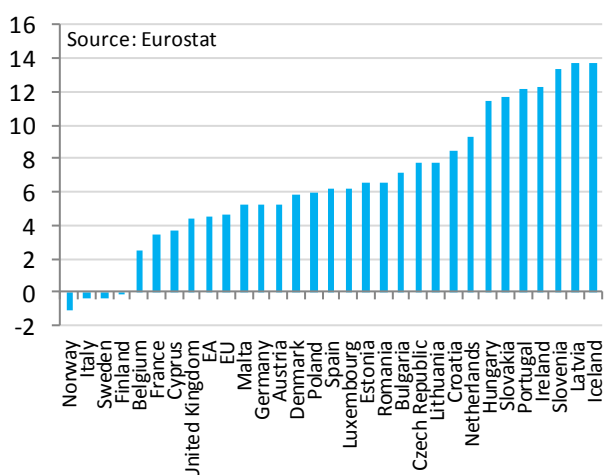
According to Eurostat, house prices in Bulgaria continue to outperform the European average in the first quarter of 2018. Across the EU, prices accelerated in the first three months, with an increase of 4.7% over the same period in 2017, while the fourth quarter also saw growth but weaker than 4.5%. In the euro area, house prices also grew, but weaker - to 4.5% at the end of March from 4.3% in the fourth quarter of 2017. The data of the European statistics for Bulgaria reported a growth of prices by 0.9% on a quarterly basis (compared to the previous three months) and by 7.1% on an annual basis (compared to March 2017), but the growth rate is slowing down from the EU. In Bulgaria in the fourth quarter of 2017 house prices rose by 1.6% on a monthly basis and by 8.2% on an annual basis respectively. According to NSI

data, prices have been steadily rising for more than two years since the third quarter of 2015, before declining, with a 0.5% drop in the third quarter of 2015. According to Eurostat data, due to the decelerated growth rate of prices on an annual basis, Bulgaria ranks 11th among all EU member states, substituting the sixth position our country occupied in the last quarter of 2017. On a quarterly basis, the pace of euro area housing price growth at the beginning of 2018 slowed to 0.6% from 0.8% at the end of last year but accelerated across the EU to 0.7% from 0,6%. The largest increase in house prices in the first three months of 2018 was recorded in Latvia (+13.7%), followed by Slovenia (+13.4%), Ireland (+12.3%) and Portugal (+12.2%). Bulgaria (+7.1%) holds 11th place on an annual basis. At the same time, housing prices fell the most in the first three months of 2017 in Sweden (-0.4%), Italy (-0.4%) and Finland (-0.1%). The most significant is the increase on a monthly basis in Latvia (+ 7.5%), Slovenia (+4.4%), Portugal (+3.7%) and Denmark (+3,2%). Bulgaria (+0.9%) occupies 15th place. The largest drop in prices was reported in Malta (-4.7%), Cyprus (-1.8%), Sweden (-0.8%) and Italy (-0.1%). Eurostat's house price data confirms the view of most analysts that economic growth will be reflected in both the EU and the Eurozone in the first three months of this year as house prices are perceived as an indicator of an increase or decrease in housing prices GDP.

House prices – annual rate of change (%)



House prices - annual rate of change for Q1 2018 by country (%)



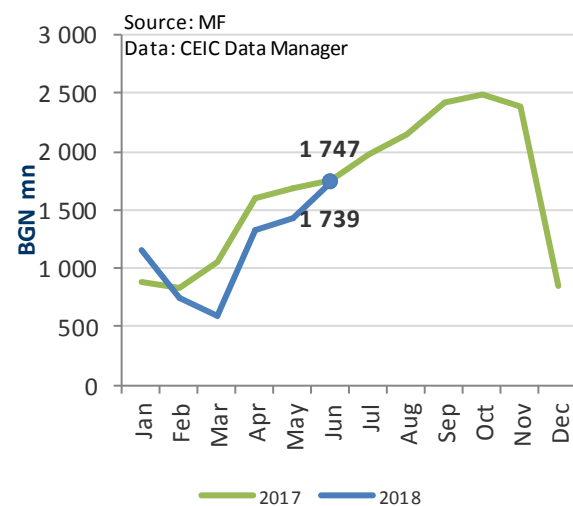
FISCAL SECTOR

Budget Balance

In May 2018 Bulgaria's consolidated Fiscal Programme (CFP) balance on a cash basis is positive, amounting to BGN 1,421.6 million, or 1.4% of GDP

Based on the monthly reports from first-level spending units, the Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-May 2018 is positive, amounting to BGN 1,421.6 million, or 1.4% of the projected GDP, and is formed by a national budget surplus of BGN 1,703.4 million and by a EU funds deficit of BGN 281.8 million. The CFP revenues and grants in May 2018 stand at BGN 15,978.4 million, or 41.8% of the annual estimates. Compared to the same period of the previous year, tax and non-tax revenues have risen by BGN 1,312.2 million, or by 9.3%, with grant proceeds be-

Budget position monthly



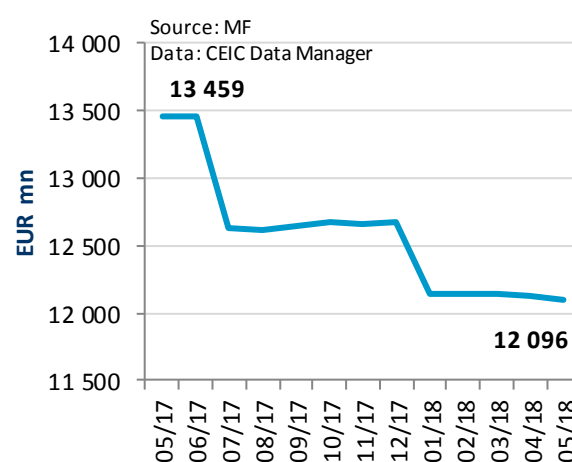
ing lower. Tax proceeds, including revenues from social security contributions, total BGN 13,405.4 million, which accounts for 43.0% of the revenues planned for the year. Compared to the data for May 2017, tax proceeds have risen in nominal terms by 9.9%, or by BGN 1,208.2 million. Direct tax revenues amount to BGN 2,742.9 million, or 47.6% of the estimates planned for the year, growing by BGN 317.7 million (13.1%) compared to the same period of the previous year. Indirect tax revenues amount to BGN 6,264.7 million, which accounts for 41.3% of the annual estimates. Compared to the data as of May 2017, proceeds in this group have grown by BGN 378.3 million, or by 6.4%. VAT proceeds amount to BGN 4,220.0 million, or 43.1% of those planned. The amount of non-refunded VAT as of 31/05/2018 is BGN 61.9 million. The excise duty revenues amount to BGN 1,928.2 million, or 37.4% of the annual estimates. Customs duty proceeds amount to BGN 98.4 million, or 51.7% 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 600.6 million, or 54.7% of the annual estimates. Revenues from social security and health insurance contributions are BGN 3,797.2 million, which accounts for 41.6% 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 468.2 million, or by 14.1%, in nominal terms. Non-tax revenues amount to BGN 2,084.8 million, which accounts for a performance of 44.3% of the annual estimates. Grant proceeds amount to BGN 488.2 million. CFP expenditures, including the contribution of the Republic of Bulgaria to the EU budget for May 2018, amount to BGN 14,556.8 million, which accounts for 37.0% of the annual estimates. For comparison, the expenditures for the same period of the previous year amount to BGN 13,033.1 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 mainly 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 13,688.2 million, which accounts for 36.7% of the annual estimates. Non-interest current expenditures as of May 2018 amount to BGN 12,647.0 million, or 40.7% of the estimates for the year, capital expenditures (including net increment of state reserve) amount to BGN 1,015.1 million, or 16.5% of the estimates to the 2018 State Budget of the Republic of Bulgaria. The current and capital transfers to other countries amount to BGN 26.0 million. Interest payments amount to BGN 412.1 million, or 57.1% of those planned for 2018. The part of Bulgaria's contribution to the EU budget, as paid from the central budget as of 31/05/2018, amounts to BGN 456.5 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, The fiscal reserve as of 31/05/2018 is BGN 10.4 billion, including BGN 9.6 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 May 2018 Bulgaria's central government debt amounted at EUR 12,095.9 million and presented 22.6% of GDP

According to MF data the central government debt as at end-May 2018 stood at EUR 12,095.9 million. Domestic debt amounted to EUR 2,949.3 million and external debt – to EUR 9,146.6 million. At the end of the reporting period the central government debt/GDP ratio was 22.6%, with the share of domestic debt being 5.5% and of external debt – 17.1%. 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 – 31.05.2018 is 2.70%, decreasing by 8 basis points as compared to the same period of 2017 (2.78%). As of 31 May 2018, the central government guaranteed debt was EUR 344.8 million. Domestic guarantees amounted to EUR 35.6 million and external guarantees – to EUR 309.2 million. The central government guaranteed debt/GDP ratio is 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,

Central Government Debt



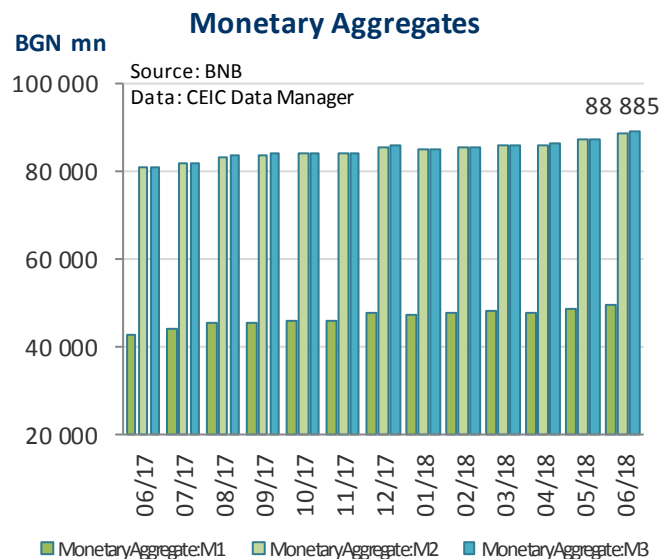
paragraph 1 of the Government Debt Law, at end-May 2018 the government debt reached EUR 11,433.2 million, being 21.4% of GDP. Domestic debt amounted to EUR 2,887.4 million and external debt – to EUR 8,545.8 million. Government guaranteed debt in May 2018 amounted to EUR 1,013.6 million. Domestic guarantees amounted to EUR 35.6 million, the government guaranteed debt/ GDP ratio being 1.9%.

MONETARY SECTOR

In May 2018 Bulgaria's broad money amounted at 87.458 billion and increased by 8.8% yoy. For the same period the domestic credit totaled 55.624 billion and increased by 9.1% yoy

According BNB data in May 2018 broad money (monetary aggregate M3) increased annually by 8.8% compared to 8.2% yoy growth in April 2018. At the end of May 2018 M3 was BGN 87.458 billion (83.4% of GDP) compared to BGN 86.200 billion (82.2% of GDP) in April 2018. Its most liquid component – monetary aggregate M1 – increased by 15.6% annually in May 2018 (15.7% annual growth in April 2018). At the end of May 2018, deposits⁵ of the non-government sector⁶ were BGN 73.213 billion (69.8% of GDP), increasing annually by 6.1% (5.6% annual growth in April 2018). Deposits of Non-financial corporations were BGN 21.865 billion (20.8% of GDP) at the end of May 2018. Compared to the same month of 2017 they increased by 12.5% (13% annual growth in April 2018). Deposits of financial corporations decreased by 30.5% yoy in May 2018 (34.7% yoy decline in April 2018) and at the end of the month they reached BGN 2.719 billion (2.6% of GDP). Deposits of

Households and NPISHs were BGN 48.630 billion (46.4% of GDP) at the end of May 2018. They increased by 6.5% compared to the same month of 2017 (5.9% annual growth in April 2018). Net domestic assets were BGN 54.800 billion at the end of May 2018. They increased by 11% compared to the same month of 2017 (9.6% annual growth in April 2018). At the end of the month their basic component – domestic credit – was BGN 55.624 billion and increased by 9.1% compared to May 2017 (8.8% yoy growth in April 2018). In May 2018 claims on the non-government sector increased by 6.3% yoy (6.3% yoy increase in April 2018) reaching BGN 56.136 billion. At the end of May 2018, claims on loans to the non-government sector amounted to BGN 55.048 billion (52.5% of GDP) compared to BGN 54.861 billion (52.3% of GDP) at the end of April 2018. They increased annually by 6.6% in May 2018 (6.6% annual growth in April 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 66.7 million. On an annual basis, loans sold⁸ by Other MFIs were BGN 124.3 million (of which BGN 3.5 million in May 2018), while the amount of repurchased loans was BGN 57.6 million (of which BGN 2.1 million in May 2018). In May 2018, loans to Non-financial corporations increased by 2.9% annually (2.9% annual growth in April 2018) and at the end of the month amounted to BGN 31.902 billion (30.4% of GDP). Loans to Households and NPISHs were BGN 20.817 billion (19.8% of GDP) at the end of May 2018. They increased by 8.8% compared to the same month of 2017 (9.1% annual growth in April 2018). At the end of May 2018 loans for house purchases were BGN 9.830 billion and increased by 9.8% annually (9.3% annual growth in April 2018). Consumer loans amounted to BGN 8.629 billion and compared to May 2017 they increased by 15% (14.4% annual growth in April 2018). On an annual basis other loans⁹ decreased by 21.6% (14.1% annual decline in April 2018) and reached BGN 1.026 billion. Loans granted to financial corporations were BGN 2.329 billion at the end of May 2018 (2.2% of GDP). Compared to May 2017, they increased by 57.7% (54.8% annual growth in April 2018).



CAPITAL MARKET

In June 2018, the four stock indexes SOFIX, BGBX 40 and BG TR30 reported a decline and only BGREIT registered growth

In June 2018, the blue chip index declined by 0.4% mom to 634.26 points. The index of the most liquid companies BGBX 40 de-

clined by 1.12% to 124.90 points in June. Equally weighted BG TR30 dropped by 0.55% to 525.39 points in June. BGREIT, the property developer, rose 0.64% to 116.21 in June. Despite the improvement, in June, the losing emissions of the SOFIX companies are predominant. Only six of the 15 issues are profitable. The remaining 8 are losers and one issue is at zero. Compared to the previous month, the number of winning issues has increased (in May the ratio was 2 winners, 12 losers and one with zero change). A year earlier, in June 2017, profitable issues were more than losers at a ratio of 9 to 4 (two issues were unchanged). Unlike in May, when there was one issue with a two-digit loss (Trace Group Hold reported a 11.82% decline in stock prices), in June all 15 companies reported a drop in their share price below 10%. In June deals for over BGN 1 million were realized by 4 companies, while in May there were only two. A year earlier - in June 2017, there were 8. In the top three in turnover in June 2018 are: Eurohold Bulgaria with BGN 10 012 368, Holding Varna with BGN 5 834 833 and Chimimport with BGN 2 834 833. In June 2018, Sopharma retained the leading position by market capitalization (BGN 548 627 449), followed by Chimimport (BGN 543 997 026). The first five are complemented by CB First Investment Bank (BGN 389,400,000), Monbat (BGN 323,700,000) and Eurohold Bulgaria (BGN 296,288,400), the ranking being the same as in May. Following a change in the SOFIX base of March 19, the group of holdings increased by one of the six SOFIX holdings, however, there is only one Sirma Group holding (+ 1.11%), while in May there were two. In June the loss was reported by Stara Planina Holding (-9.49%), Industrial Holding Bulgaria (-4.55%), Doverie United Holding (3.34%) and Eurohold Bulgaria (-1.39%). The company with the highest turnover for June 2018 is Eurohold Bulgaria AD, with a volume of BGN 10 014 486. Holding Varna AD ranked second with a total volume of BGN 5,843,861. In the ranking there is only one representative of the special investment vehicles - Delta Credit REIT - Sofia, which holds 9th position respectively. With the smallest number of concluded deals in the ranking are Investor.BG AD, Development Industry Holding AD and Velgraf Asset Management AD - Sofia, and with the largest Chimimport AD and Sopharma AD. The most profitable company in June 2018 was Alcomet AD, which achieved a growth of 37.69%. Second place is Investor.BG AD, followed by Hydroizomat AD with growth of 4.17%. The last two companies in the ranking also have one-digit growth, respectively, Chimimport AD with a growth of 2.71% and Real Estate Bulgaria REIT with a growth of 2.69%. The top 5 of the losers in June 2018 was headed by Bulgartabac-Holding AD with a decline of 12.78%. The second place is FairPlay Properties REIT with a decrease of 11.94%.

Bulgarian Stock Exchange Indexes on Monthly Basis				
Date	SOFIX	BGBX40	BGREIT	BGTR30
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
06.2018	634.3	124.9	116.2	525.4

Source: Bulgarian Stock Exchange-Sofia

BANKING SECTOR

In June 2018 Bulgaria's banking system assets increased by 0.8% mom and by 5,5% yoy, respectively and amounted at BGN 98,5 billion

According to BNB data, the aggregate earnings of the banking system at the end of May 2018 amounted to BGN 515 million (compared to BGN 526 million for the same period last year). The cost of impairment of financial assets not reported at fair value through profit is BGN 183.4 million compared to BGN 207.3 million for the same period of the previous year.

Indicator (BGN'000)	30.05. 2017	30.05. 2018	Change Y/Y (%)
Interest Income	1 284 612	1 243 864	-3.2
Interest Expeunce	166 833	126 349	-24.3
Net interest income	1 117 779	1 117 515	0.0
Impairment	207 385	183 429	-11.6
Fee and commission income	449 973	495 455	10.1
Fee and commission expenses	56 241	68 166	21.2
Net fee and commission income	393 732	427 289	8.5
Administration costs	650 521	685 290	5.3
Personal cost	326 106	347 652	6.6
Total operating income, net	1 507 810	1 514 470	0.4
Net Profit	526 395	515 217	-2.1

Source: BNB, Calculations: UBB

In May 2018, the assets of the banking system increased by 0.8% mom and by 5.5% yoy, respectively to BGN 98.5 billion. Their relative share in GDP was 92.6%. The gross credit portfolio of the banking system (excluding loans and advances to the "central banks" and "credit institutions" sectors) increased by 1.4% mom and by 5.7% yoy, respectively. The increase in loans to households amounted to BGN 790 million or by 3.9% mom and by 9.8% yoy, respectively. Growth was also seen in loans to other financial corporations (by 3.4% mom and by 25.1% yoy, respectively). Loans to non-financial corporations decreased by BGN 64 million, or a decrease of 0.2% mom with growth of 2.3% yoy, respectively, while loans to the general government sector decreased by 4.3% mom and by 2,9% yoy, respectively. BNB will monitor the mortgage loans with caution because of their relatively rapid growth. Systemic risk is not counted. More and more customers, however, buy housing with a loan and self-participation below 20%. Credit growth and property prices in the past year are far from pre-crisis levels. By comparison, then the growth for the year was over 55%, and now - about 13% at twice lower interest rates. However, according to forecasts, next year they will go up smoothly. At the end of May 2018 deposits from customers in the banking system increased by 1.1% mom and by 6.1% yoy, respectively to BGN 79.5 billion. Deposits of non-financial corporations grew by 2.1% mom and by 11.1% yoy to BGN 23.7 billion), other financial corporations (up to BGN 3.0 billion or by 9.3%mom, down by 23.1% yoy, respectively) and households deposits (up to BGN 50.4 billion or 0.4% mom and by 6.1% yoy, respectively). Deposits of the general government sector reported a decrease of up to BGN 2.3 billion or by 2.7% mom, with growth of 23.2% yoy, respectively. At the end of May 2018 deposits from customers in the banking system increased by 1.1% mom and by 6.1% yoy to BGN 79.5 billion. Deposits of non-financial corporations grew up by 2.1% mom and by 11.1% yoy to BGN 23.7 billion, other financial corporations (up to BGN 3.0 billion or by 9.3% mom and down by 23.1% yoy, respectively) and households deposits (up to BGN 50.4 billion or by 0.4% mom and by 6.1% yoy, respectively) Deposits of the general government sector reported a decrease of up to BGN 2.3 billion or by 2.7% mom, with growth of 23.2% on an annual basis, respectively.

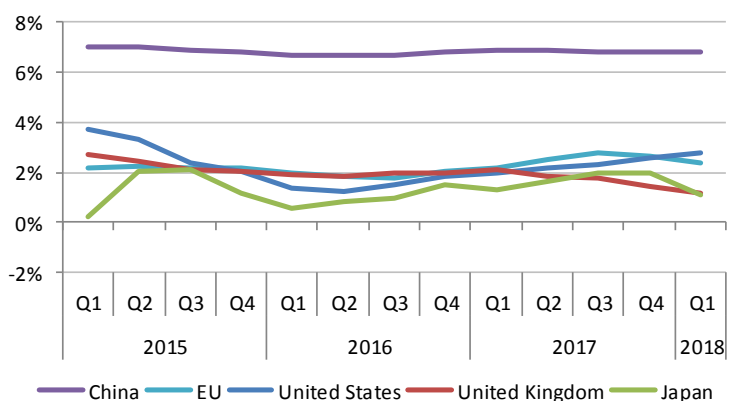
Bulgaria	31.05.2017	31.12.2017	30.04.2018	31.05.2018	Change m/m (%)	Change y/y (%)	Change yend (%)	Share in GDP (%)
Intermediation Indicators	BGN'000	BGN'000	BGN'000	BGN'000				
BANKING SYSTEM TOTAL ASSETS	93 406 386	95 850 484	97 754 014	98 525 059	0.8	5.5	2.8	93.4
Loans to central governments	608 273	614 592	617 464	590 912	-4.3	-2.9	-3.9	0.6
Loans to non-financial corporations	33 281 802	33 516 791	34 112 433	34 048 065	-0.2	2.3	1.6	32.6
Loans to financial corporations	2 017 779	2 352 930	2 439 548	2 523 237	3.4	25.1	7.2	2.3
Retail loans, incl.:	19 235 589	19 972 030	20 326 214	21 115 850	3.9	9.8	5.7	19.4
Mortgage loans	8 939 391	9 444 146	9 996 030	10 106 507	1.1	13.1	7.0	9.5
Consumer loans	8 888 986	9 264 095	9 196 744	9 925 098	7.9	11.7	7.1	8.8
Micro credits and other loans	1 407 212	1 263 789	1 133 440	1 084 245	-4.3	-23.0	-14.2	1.1
TOTAL LOANS	55 143 443	56 456 343	57 495 659	58 278 064	1.4	5.7	3.2	54.9
ATTRACTED SOURCES FROM CLIENTS, incl.:	74 938 602	76 747 619	78 671 445	79 524 742	1.1	6.1	3.6	75.2
Local government deposits	1 926 929	1 824 421	2 441 081	2 374 422	-2.7	23.2	30.1	2.3
Non-financial corporations deposits	21 379 556	23 709 705	23 267 901	23 752 353	2.1	11.1	0.2	22.2
Financial corporations deposits	4 155 529	2 842 120	2 770 439	3 028 938	9.3	-27.1	6.6	2.6
Households and NPISHs deposits	47 476 588	48 371 373	50 192 024	50 369 029	0.4	6.1	4.1	48.0
Equity	11 877 879	12 468 136	11 839 989	11 887 188	0.4	0.1	-4.7	11.3
Net profit (annualised)	526 395	1 088 190	396 472	515 217		-2.1		
BANKING INDICATORS (%)								
ROE	10.6	9.5	10.0	10.4	-1.2	0.4	-1.2	
ROA	1.4	1.2	1.2	1.3	-0.1	0.1	-0.1	
Capital adequacy	n.a.	22.1	n.a.	n.a.				
Liquidity coverage(%)	37.9	n.a.	392.9	363.9				
NPL	n.a.	10.2	n.a.	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

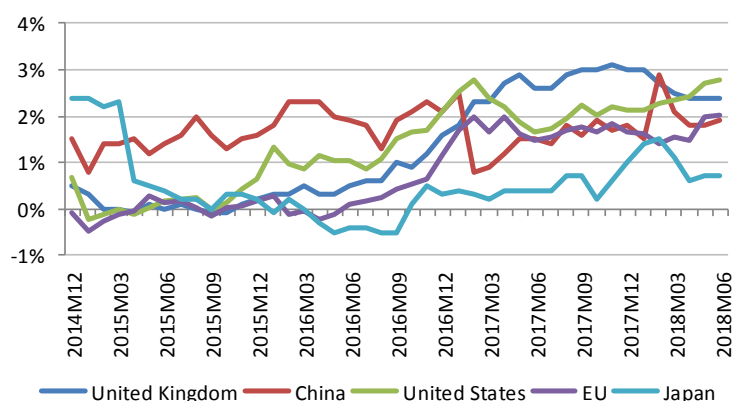
Equity in the balance sheet of the banking system at the end of May 2018 amounted to BGN 11.9 billion, an increase of 0.4% mom, with growth of 0.1% yoy, respectively. The growth in cash balances in central banks contributed to the rise in the liquidity buffer in the banking system, with the LCR at the end of May 2018 at 363.9%.

Appendix

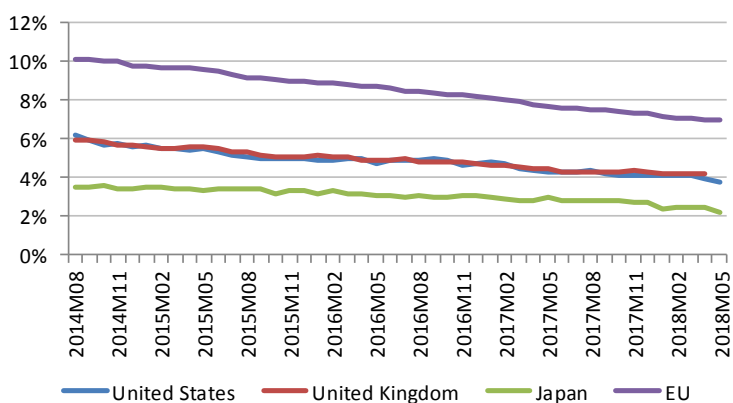
Advanced Economies: GDP growth rate compared to the same quarter of the previous year



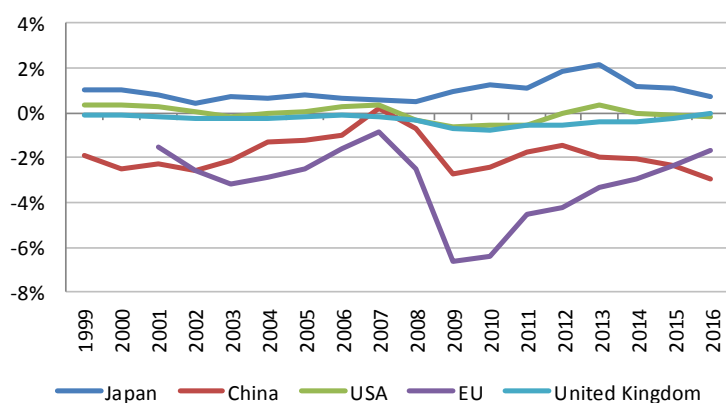
Advanced economies: Inflation by country, monthly (y/y)



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

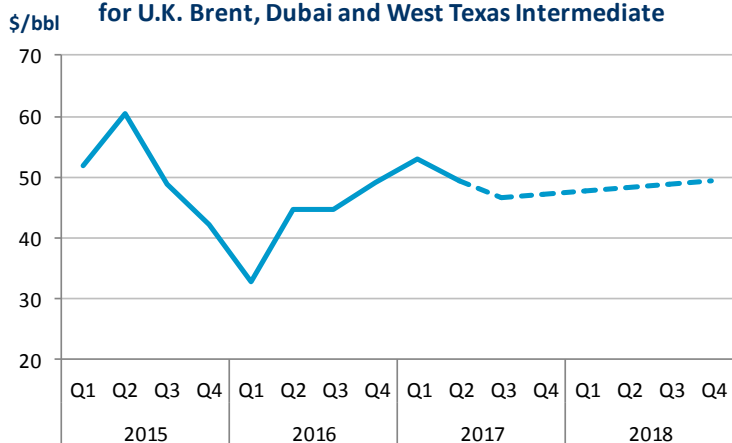


Advanced economies: Budget surplus/deficit to GDP (%)

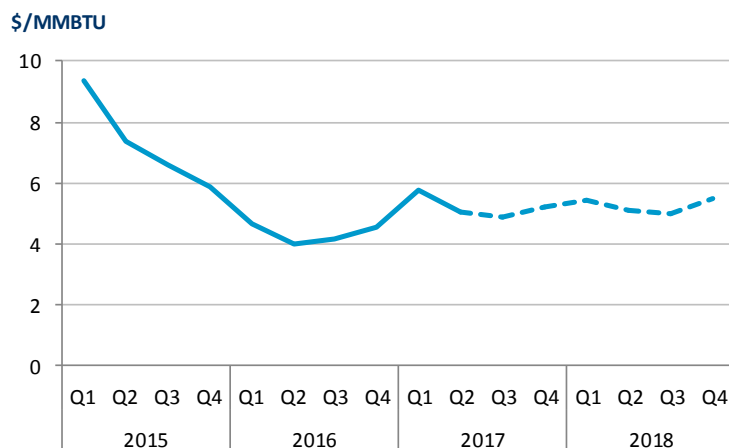


Overseas Prices of Oil Products

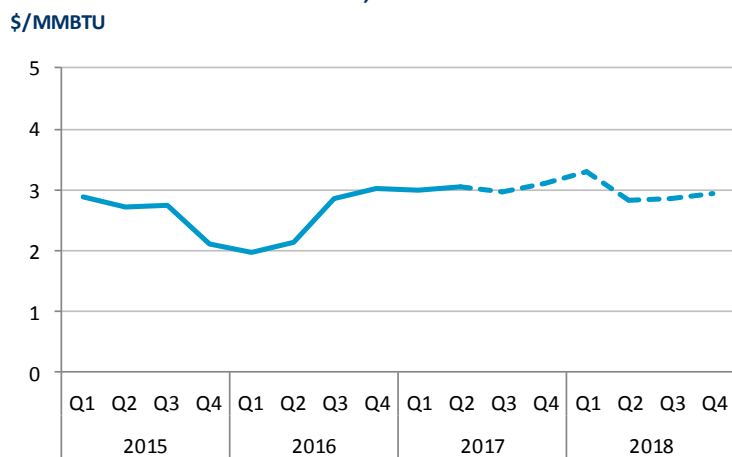
Spot Crude: Petroleum price - average of spot prices for U.K. Brent, Dubai and West Texas Intermediate



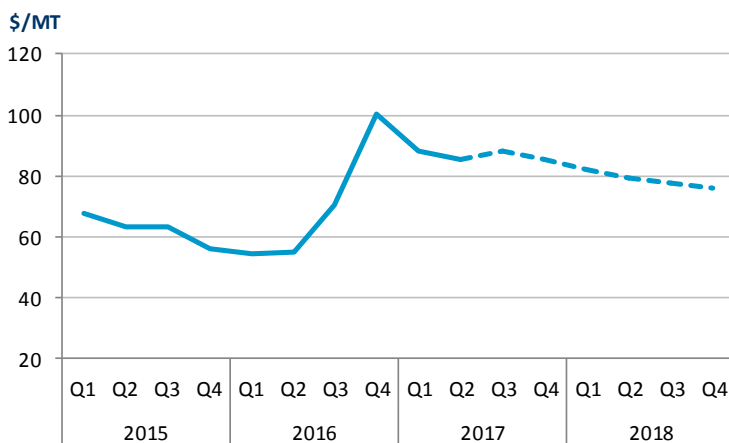
Natural Gas: Russian in Germany



Natural Gas: US, domestic market

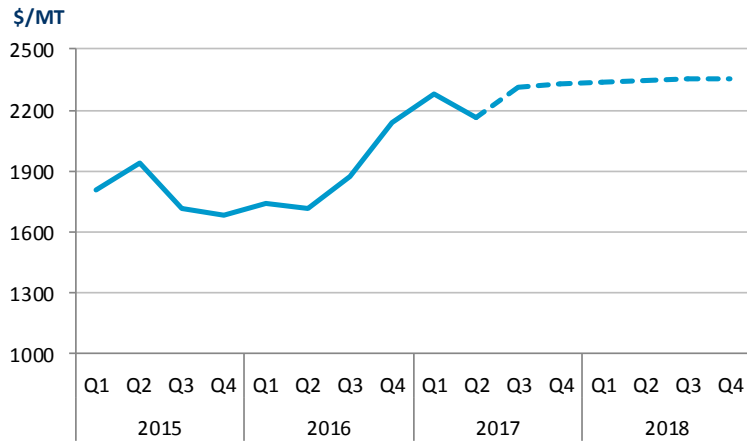


Coal: Australian, export markets

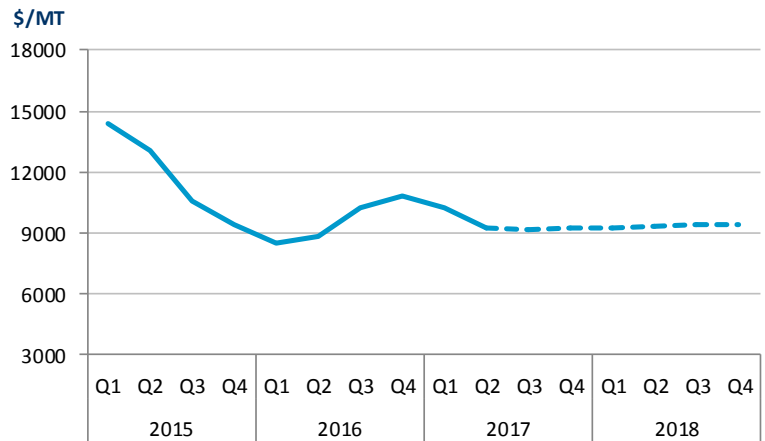


Overseas Prices of Metals

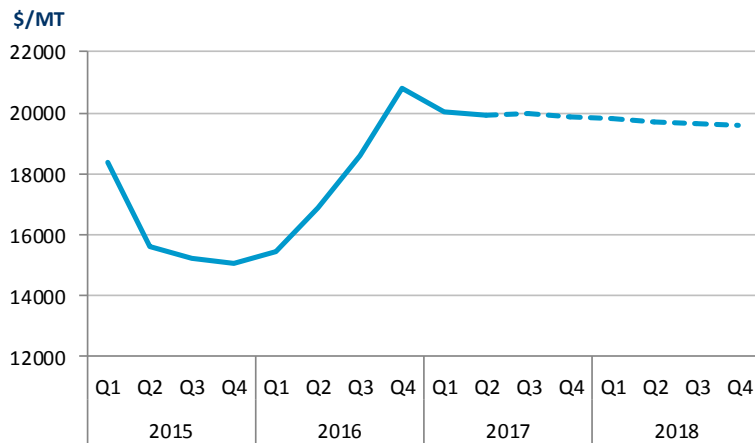
Lead



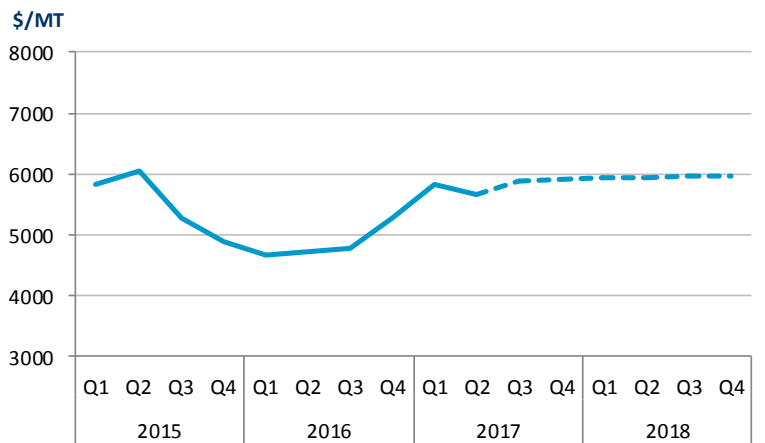
Nickel



Tin

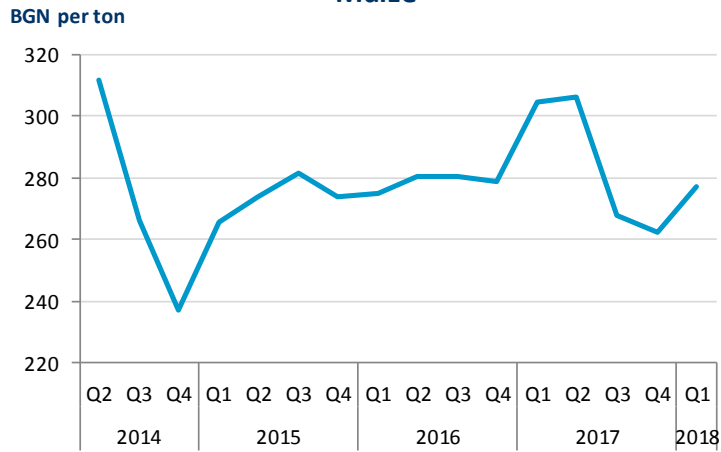


Copper

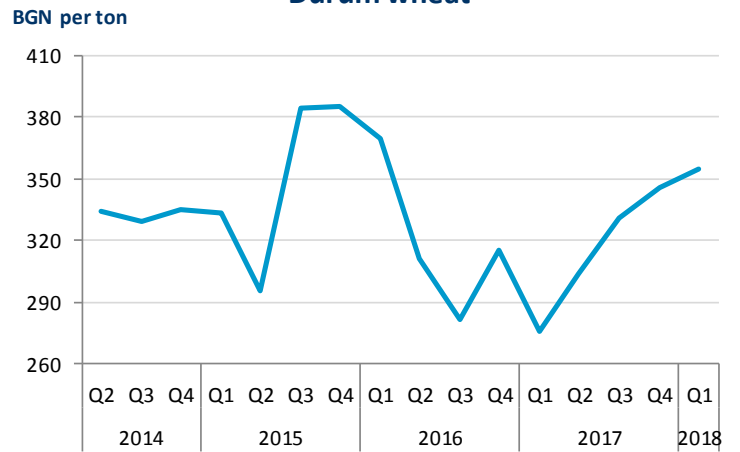


Bulgaria: Prices of Agriculture products

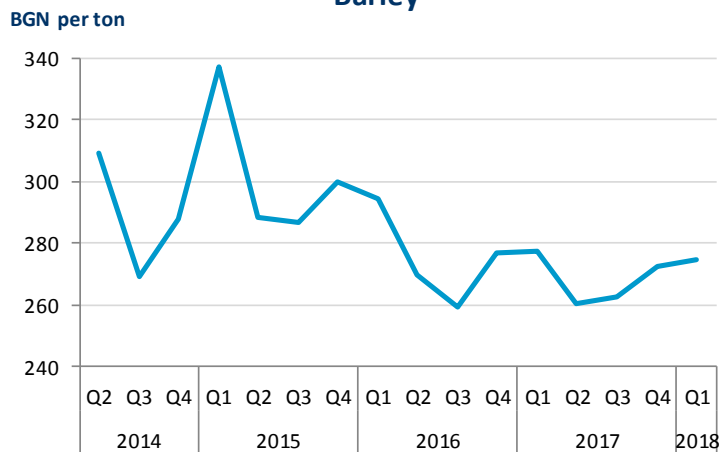
Maize



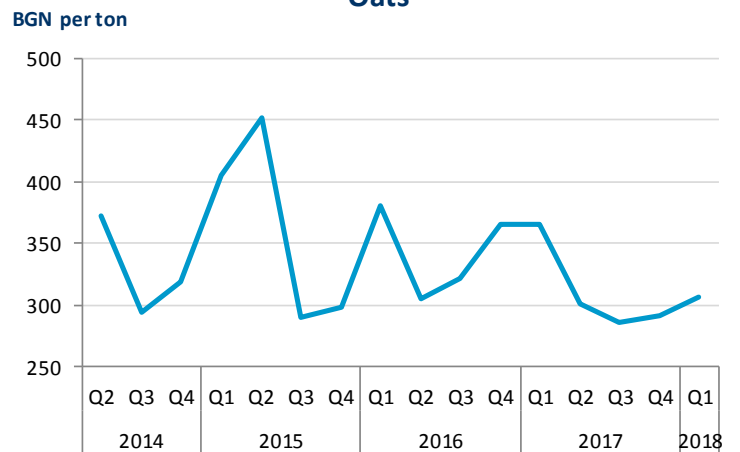
Durum wheat



Barley

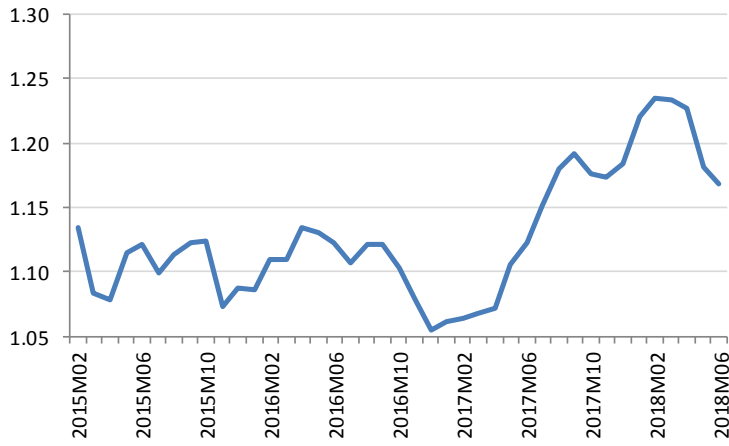


Oats

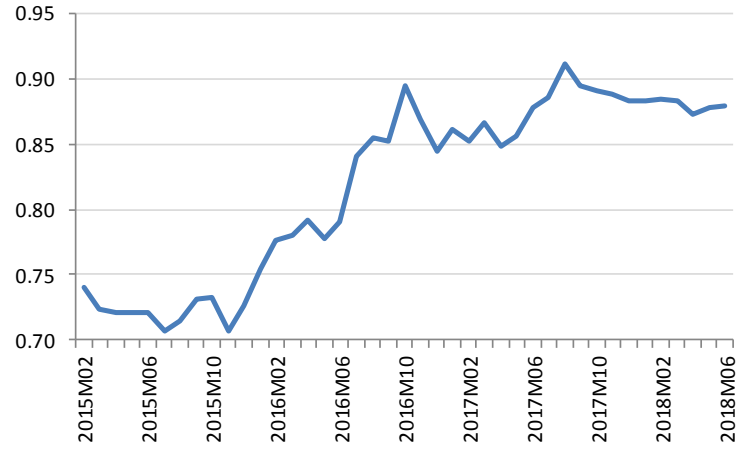


Overseas FX Rates

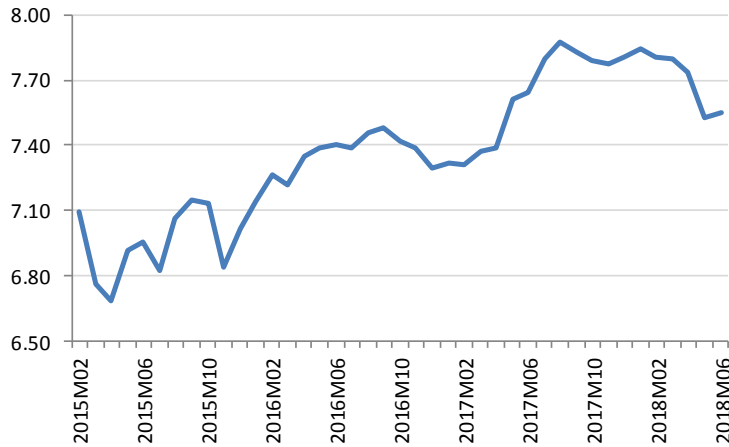
EUR/USD



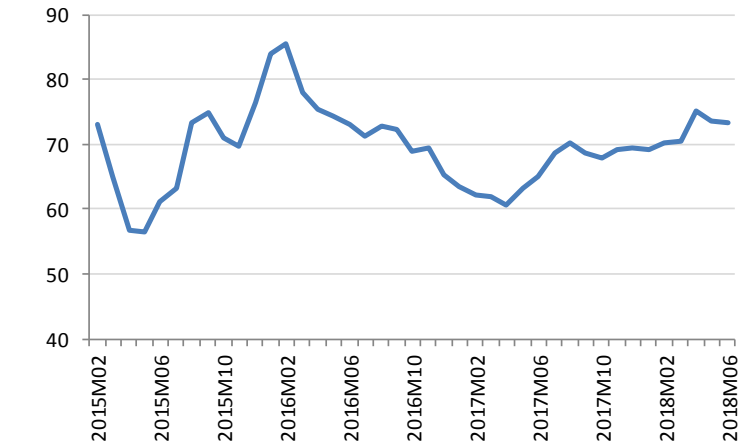
EUR/GBP



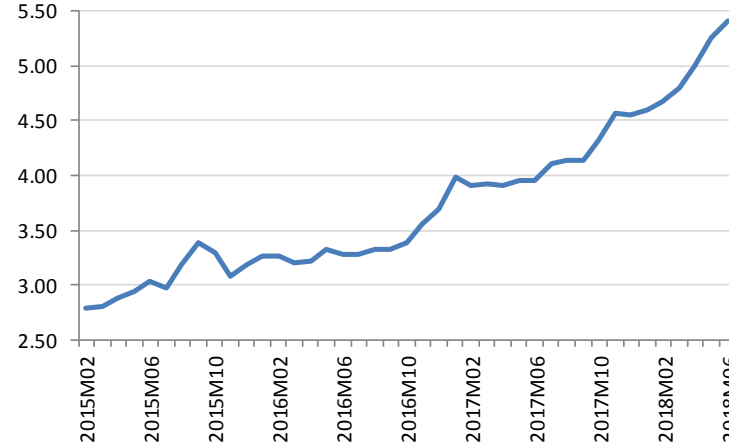
EUR/CNY



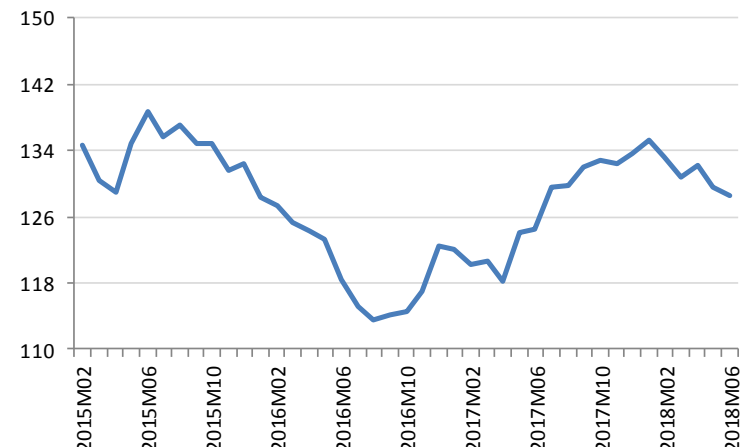
EUR/RUB



EUR/TRY

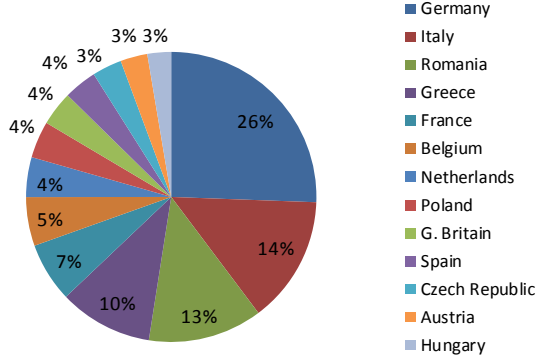


EUR/JPY

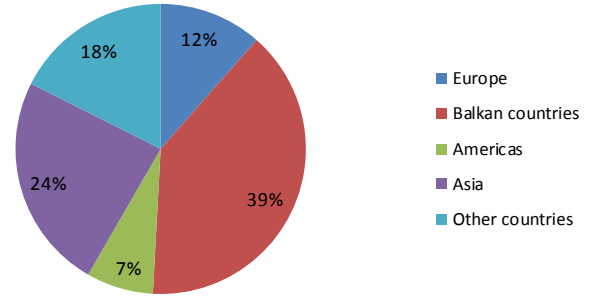


Bulgaria: External Sector Indicators

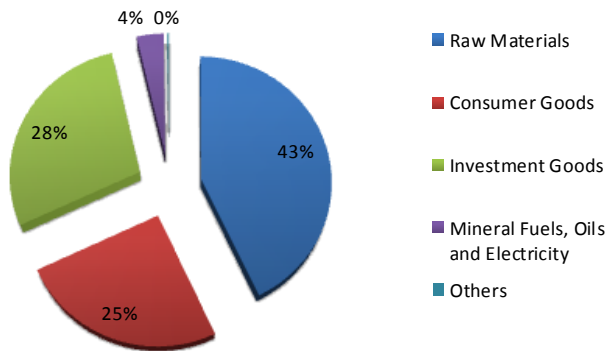
Exports: FOB by EU countries: January - April 2018



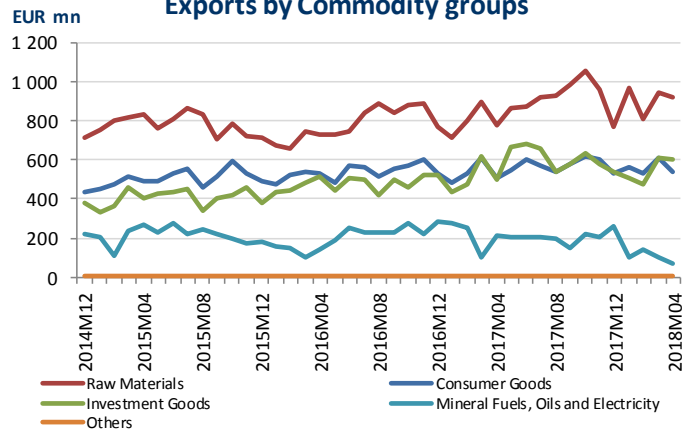
Exports: FOB by Non EU countries: January - April 2018



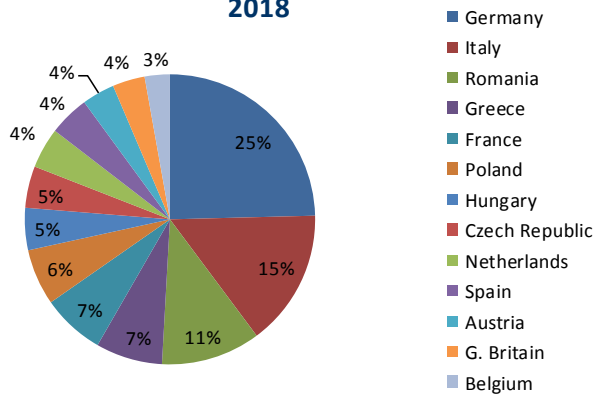
Exports: FOB: Commodity groups - percentage shares for April 2018



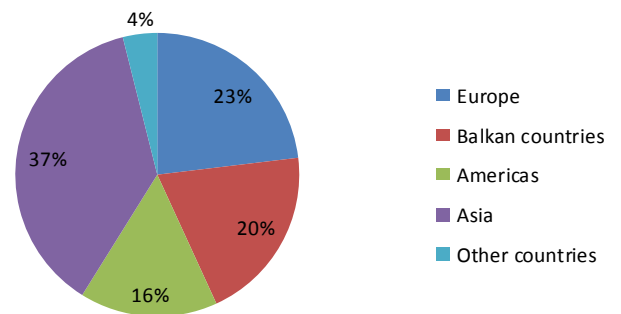
Exports by Commodity groups



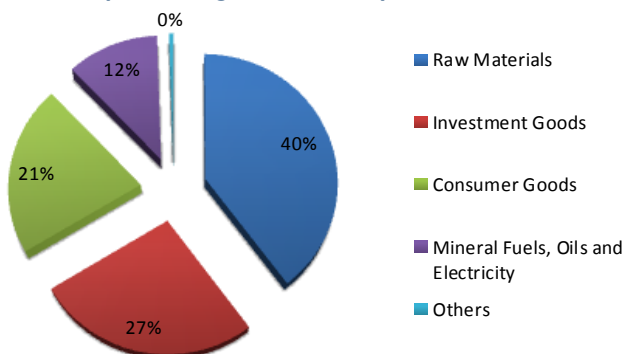
Imports: CIF by EU Countries: January - April 2018



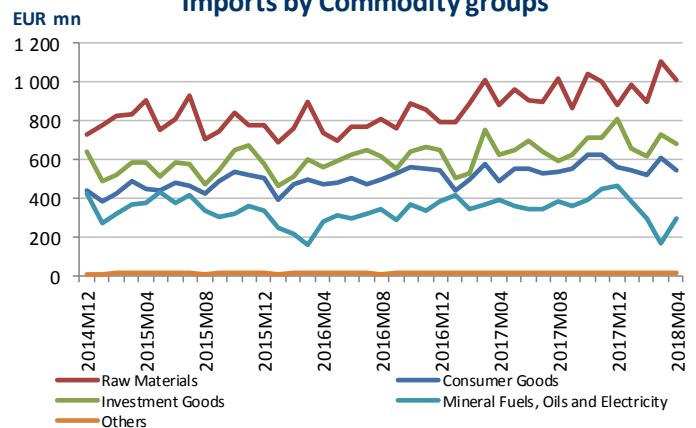
Imports: CIF by Non EU Countries: January - April 2018



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

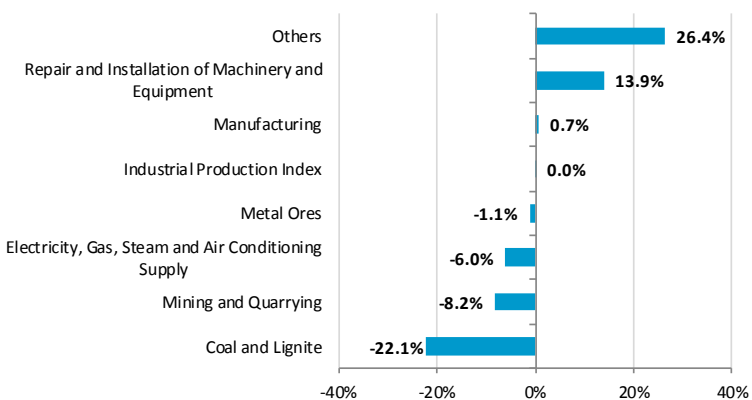


Imports by Commodity groups

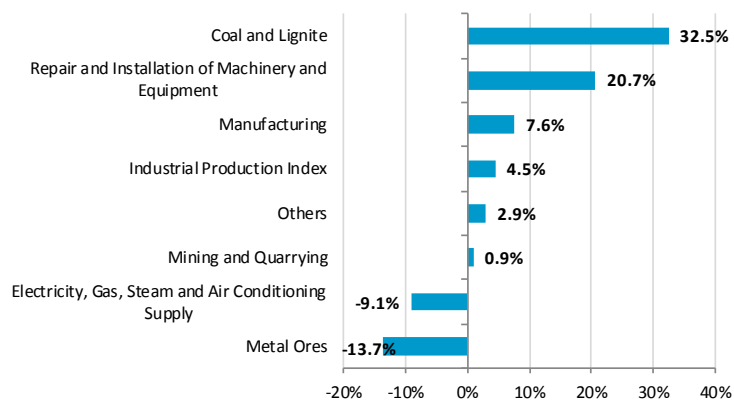


Bulgaria: Real Sector Indicators

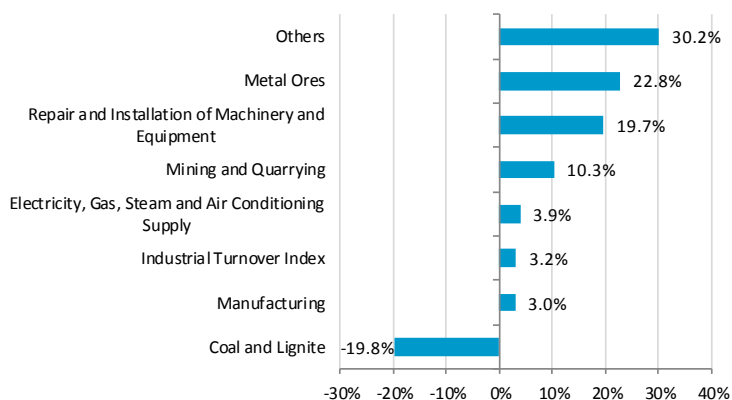
Industrial Production Index: % change in May 2018 compared to May 2017



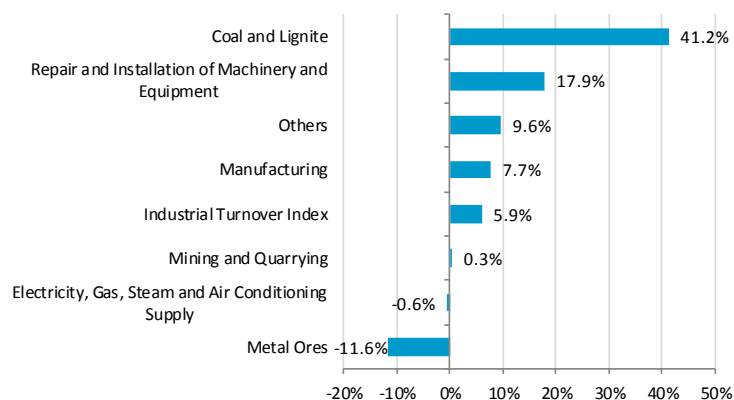
Industrial Production Index: % change in May 2018 compared to April 2018



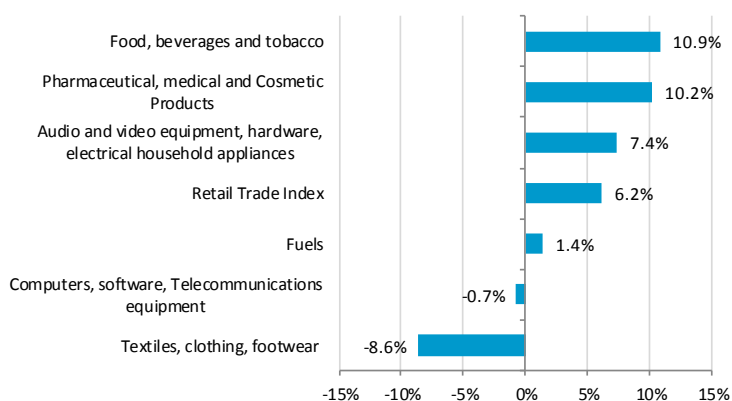
Industrial Turnover Index: % change in May 2018 compared to May 2017



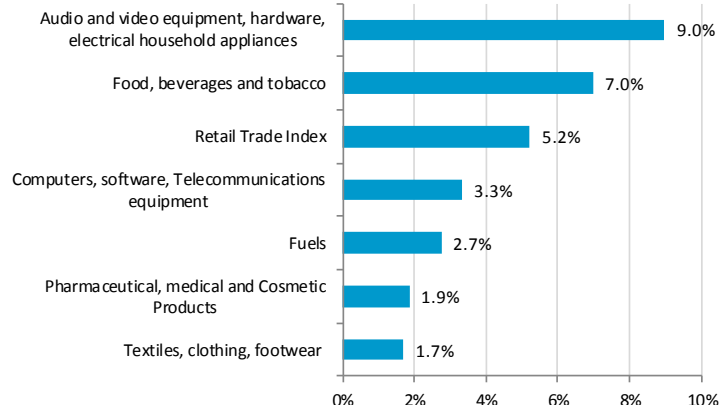
Industrial Turnover Index: % change in May 2018 compared to April 2018



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

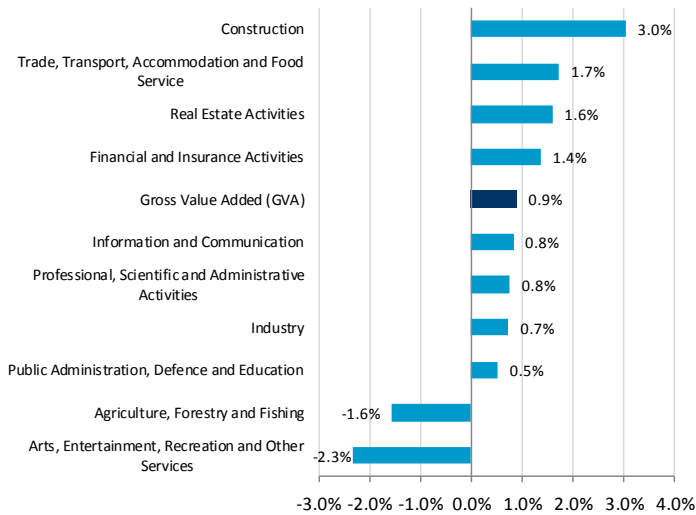


Retail Trade Index: % change in May 2018 compared to April 2018

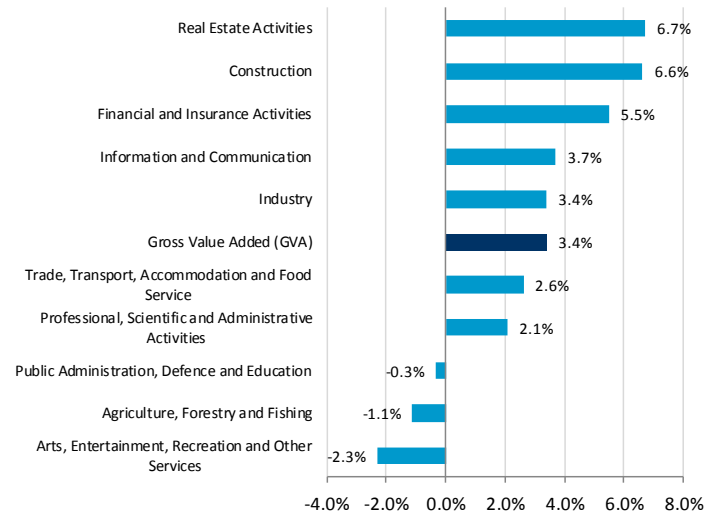


Bulgaria: Real Sector Indicators

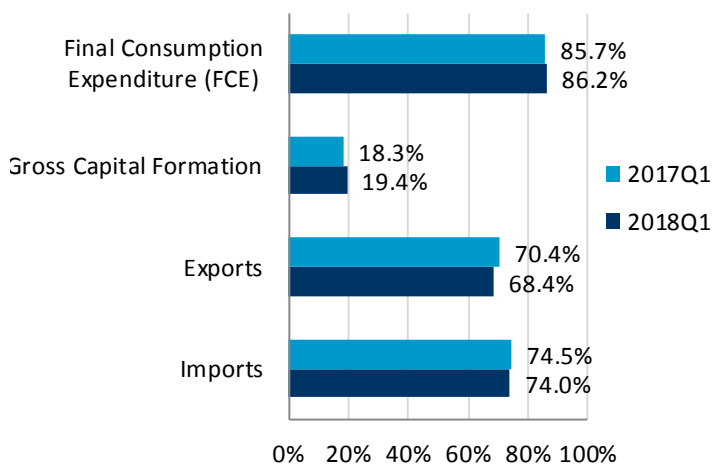
Gross Value Added by Economic Sectors: Percentage Change of Q1 2018 compared to Q4 2017



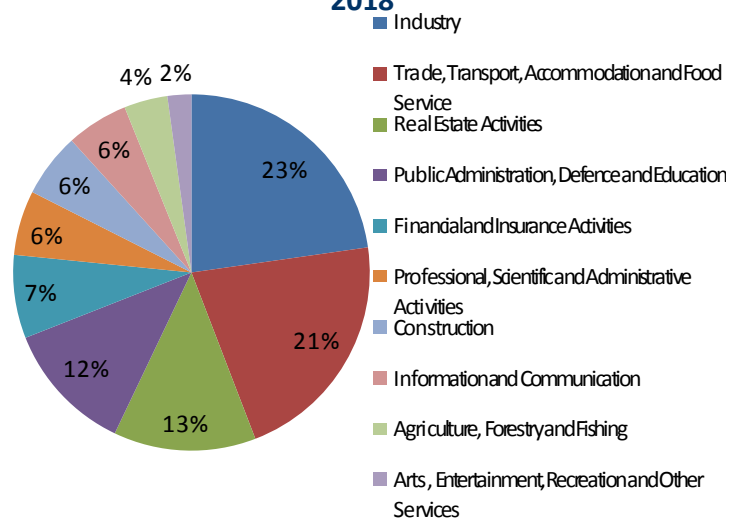
Gross Value Added by Economic Sectors: Percentage change of Q1 2018 compared to Q1 of 2017



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

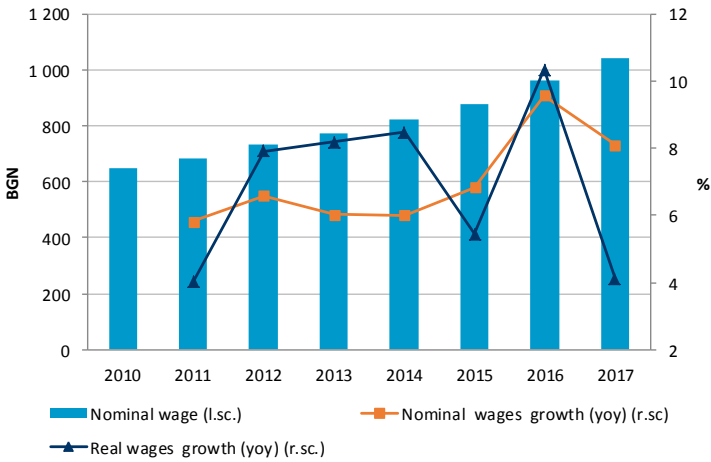


Bulgaria: Industries' relative share to GVA for Q1 2018

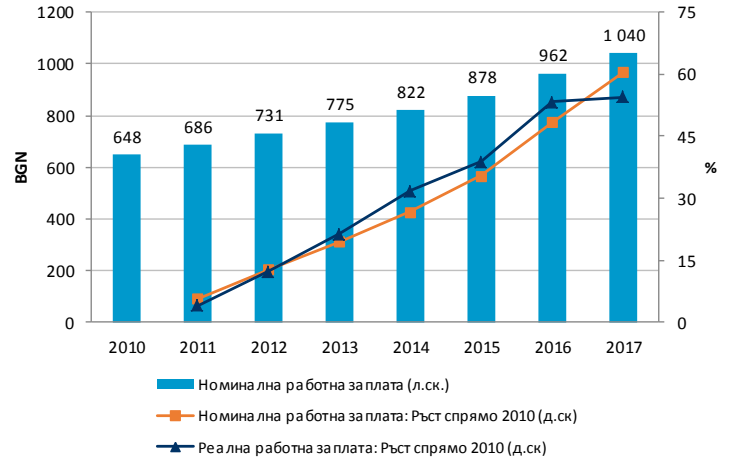


Bulgaria: Real Sector Indicators

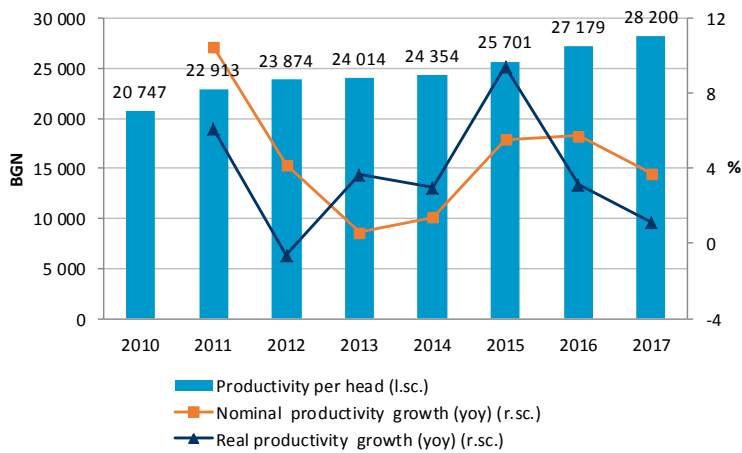
Nominal and Real Wage Dynamics: YoY (%)



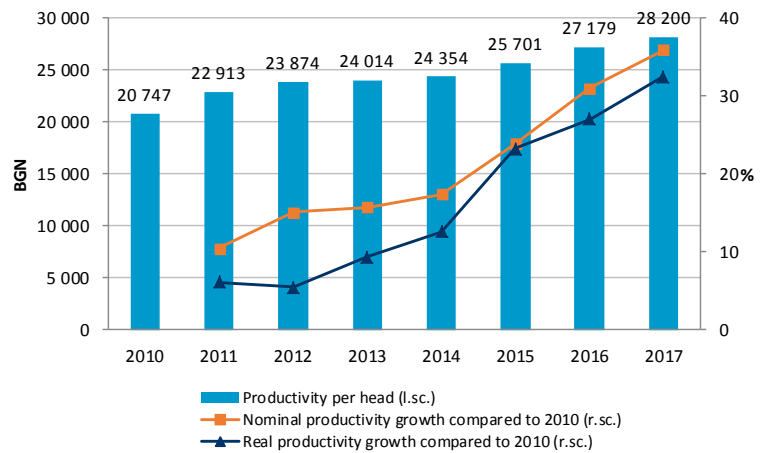
Nominal and Real Wage Dynamics compared to 2010 (%)



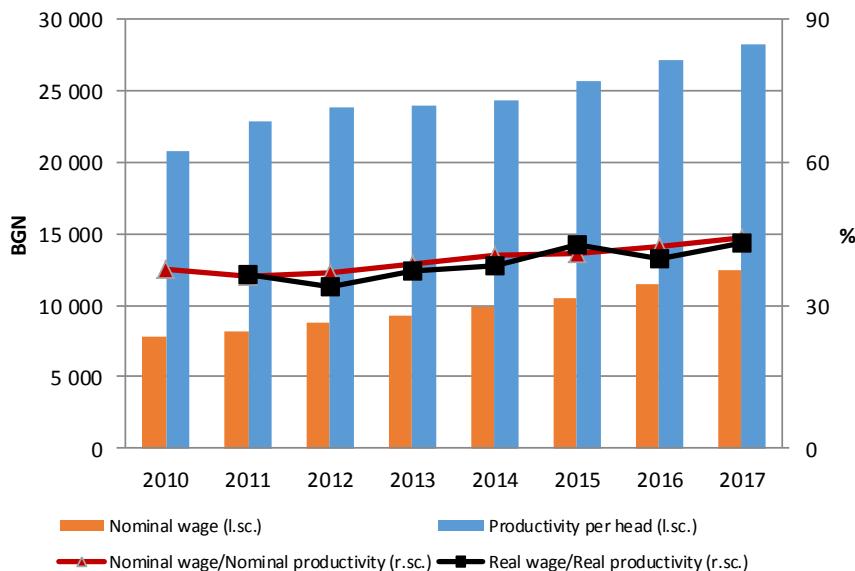
Nominal and Real Productivity per Head Dynamics, YoY (%)



Nominal and Real Productivity Dynamics compared to 2010 (%)

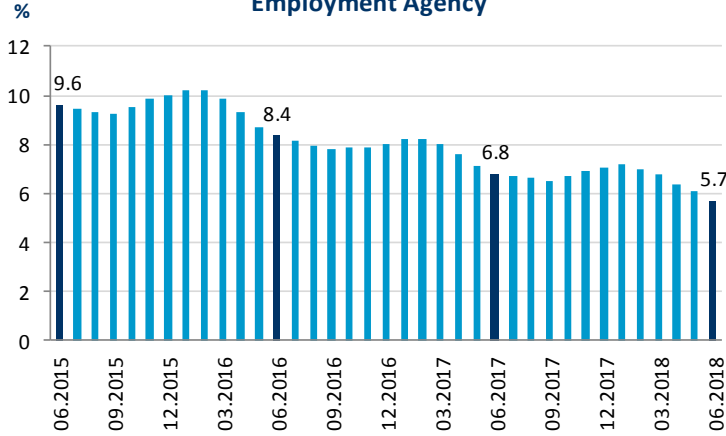


Average Wage to Productivity Ratio Dynamics, YoY (%)

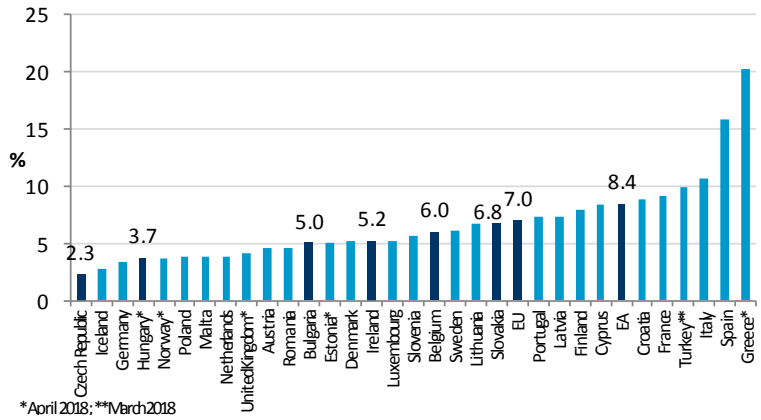


Bulgaria: Real Sector Indicators

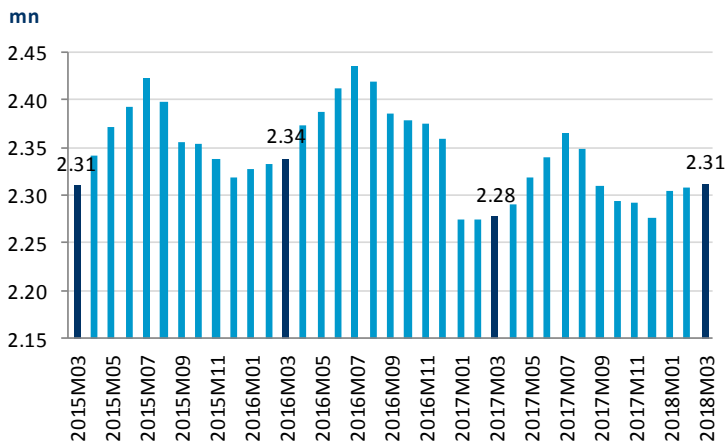
Registered Unemployment Rate: National Employment Agency



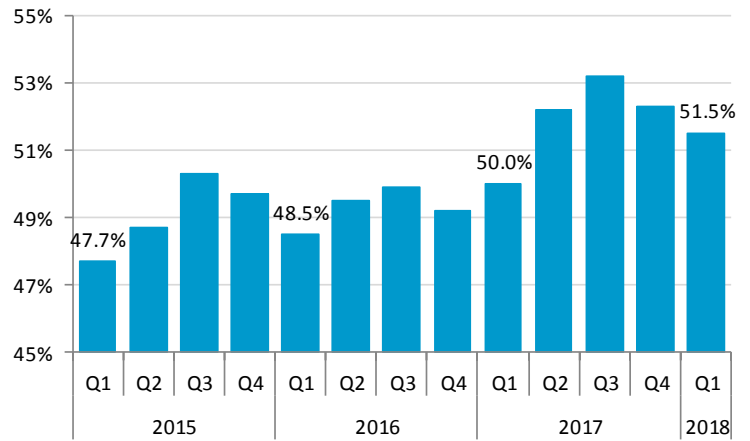
EU: Unemployment rate seasonally adjusted by country, May 2018



Bulgaria: Number of Employees

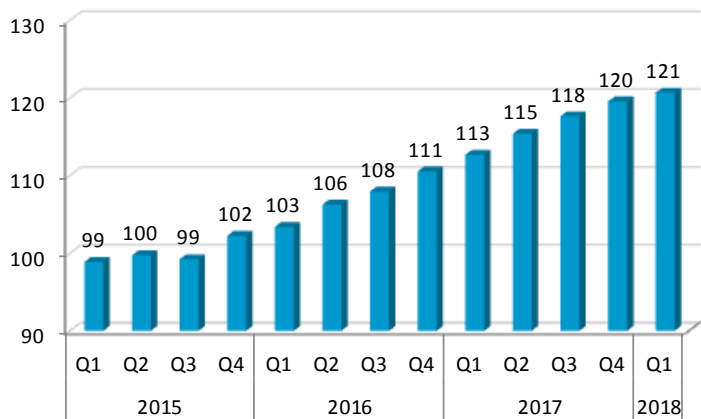


Bulgaria: Employment Rate

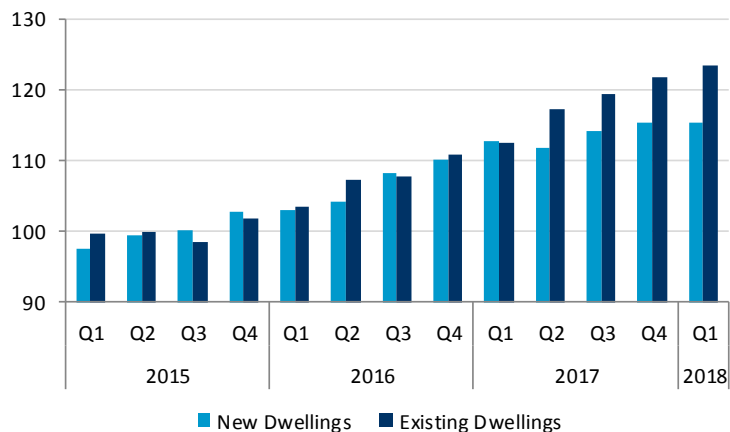


Bulgaria: Real Sector Indicators

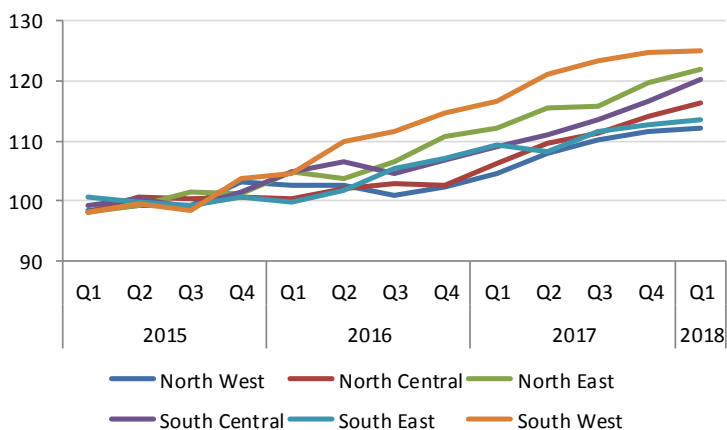
House Price Index (HPI)



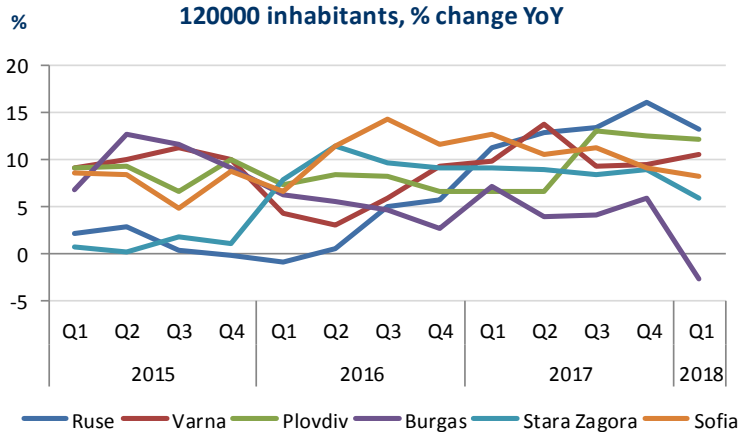
HPI: New and existing dwellings



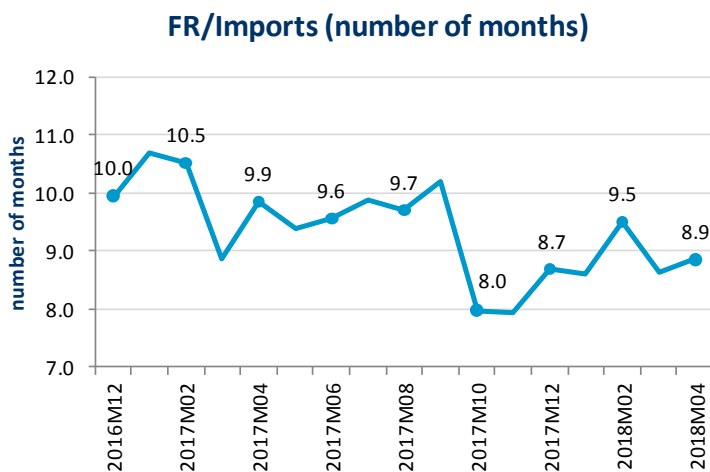
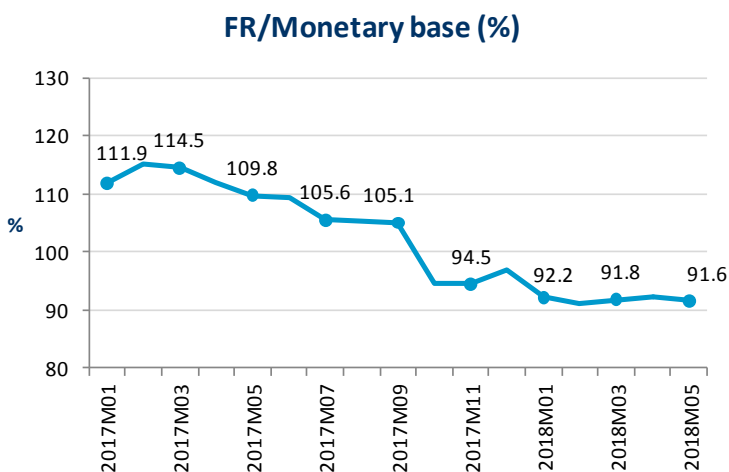
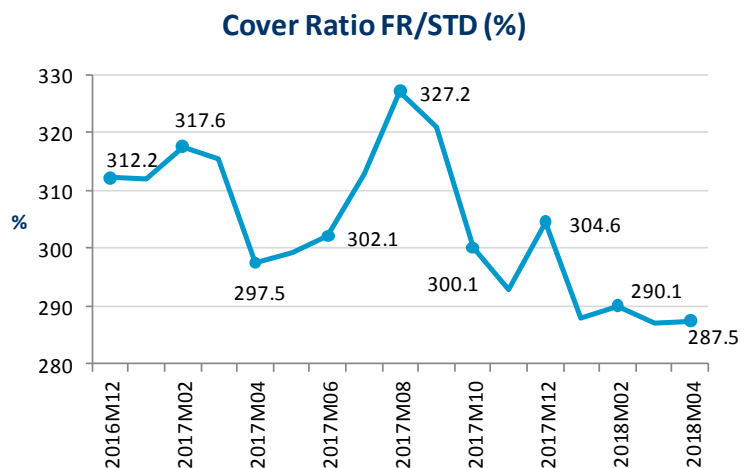
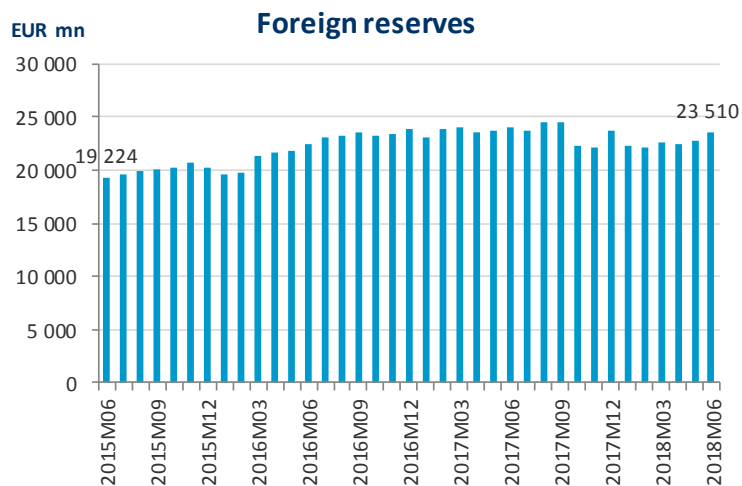
House Price index by regions



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

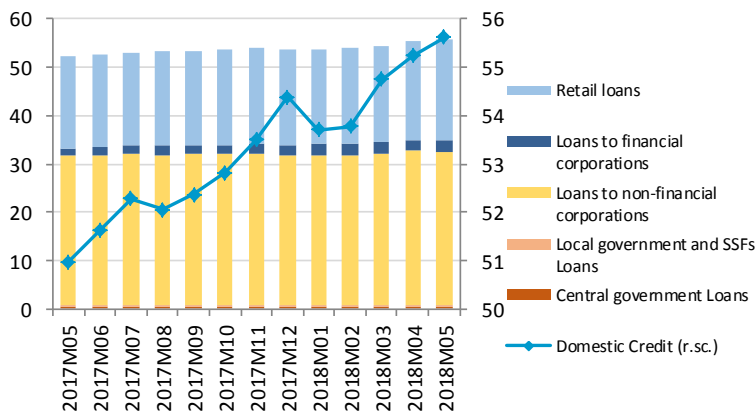


Bulgaria: Monetary Sector Indicators

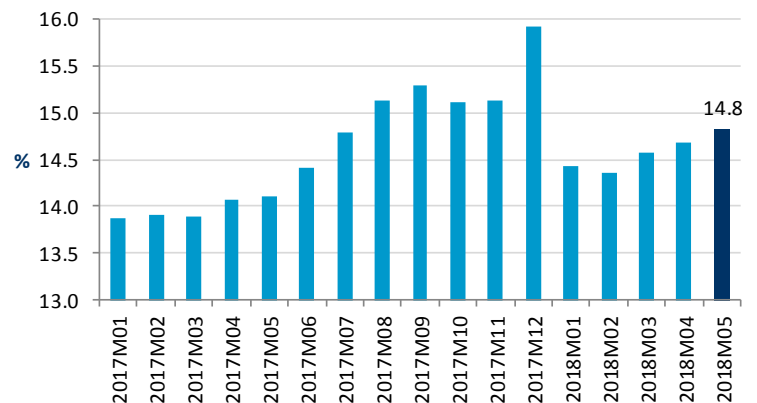


Bulgaria: Monetary Sector Indicators

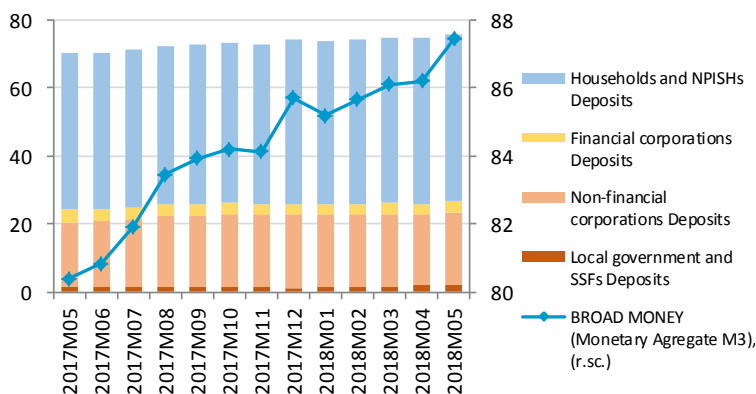
Loans and Domestic Credit (BGN bn)



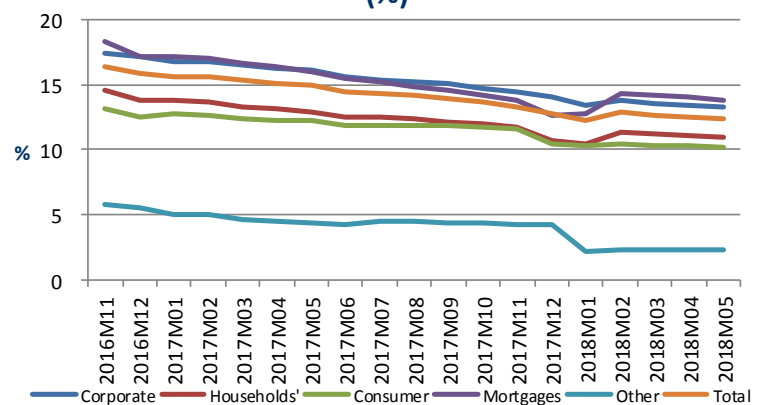
Money in circulation/GDP (%)



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

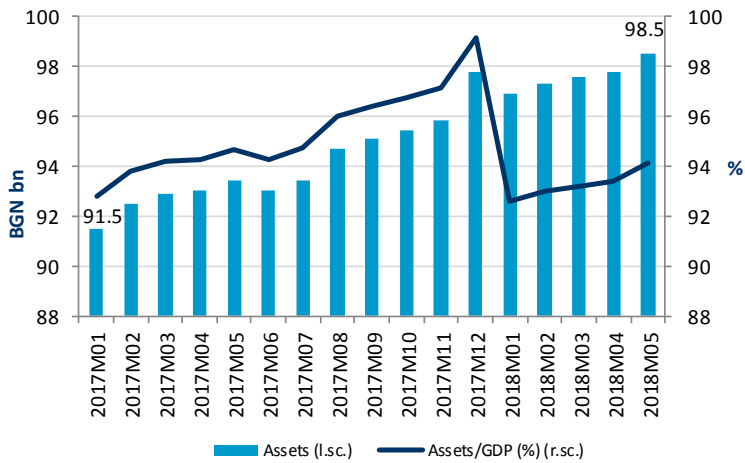


Banking sector: Bad and restructured loans (%)

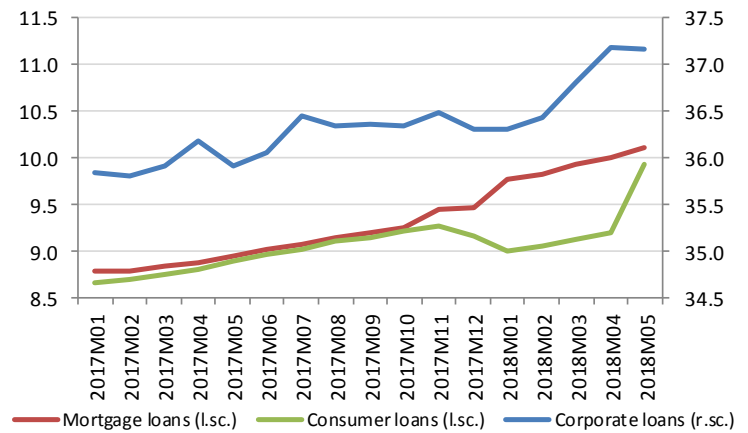


Bulgaria: Banking Sector Indicators

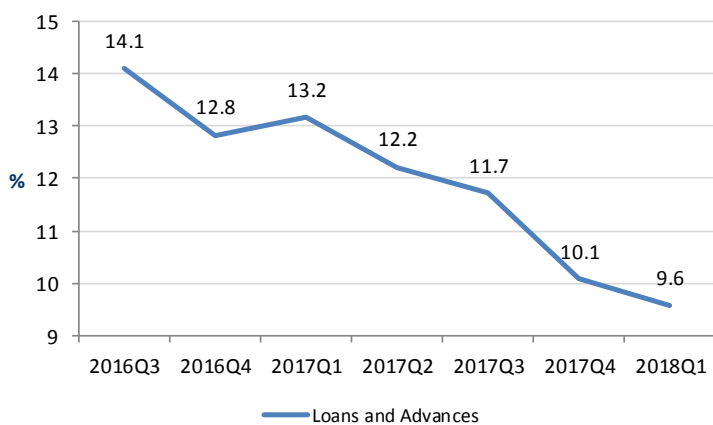
Assets



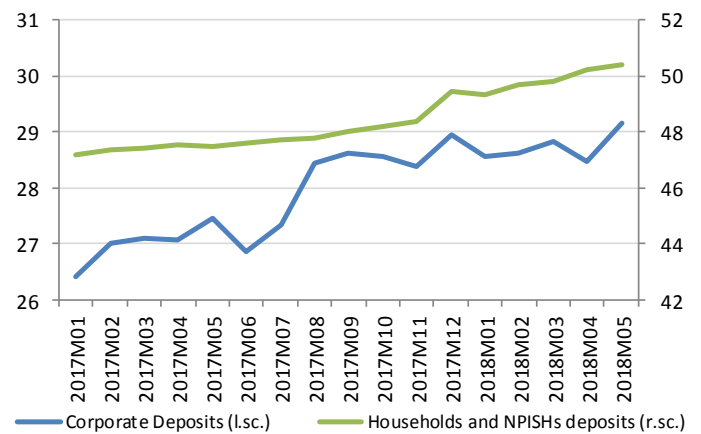
Loans (BGN bn)



Banking System Non Performing Loans (%)

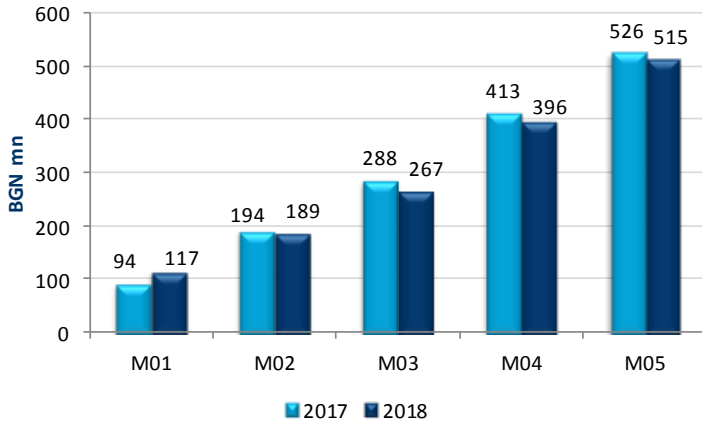


Deposits (BGN bn)

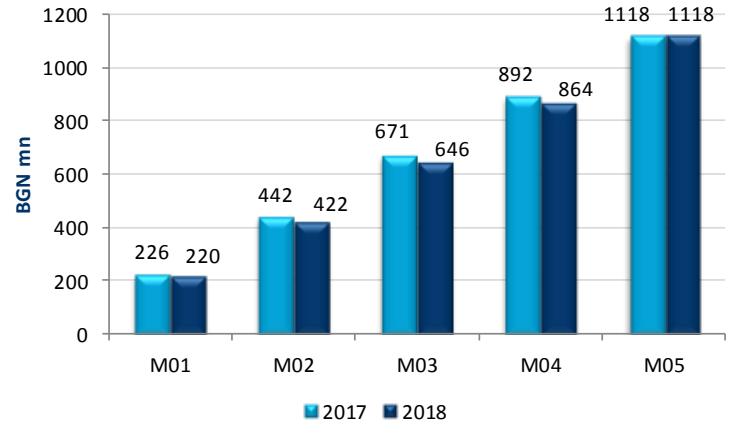


Bulgaria: Banking Sector Indicators

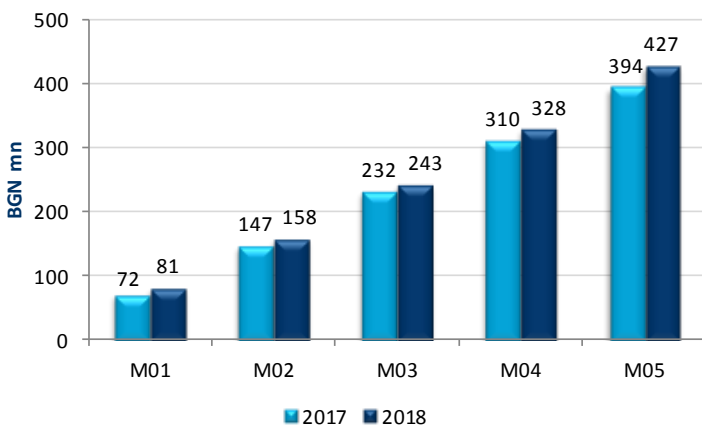
Net Profit



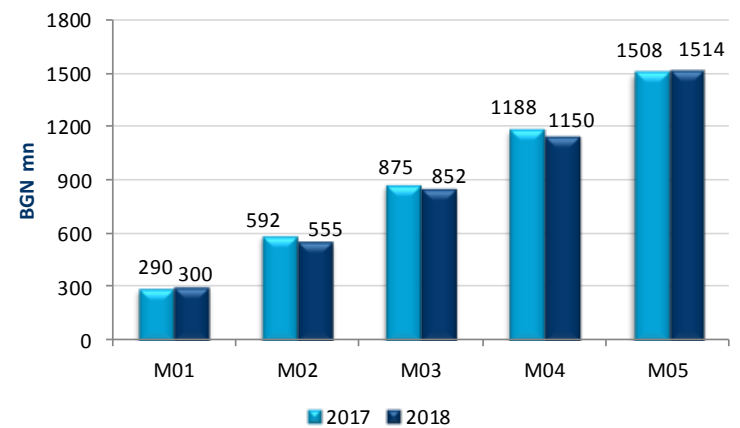
Net interest Income



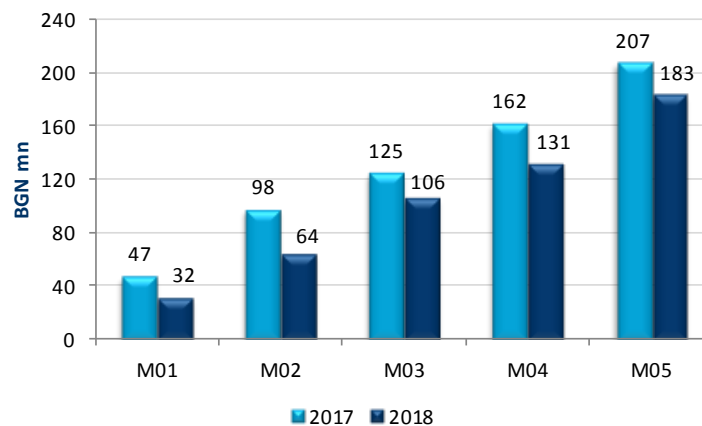
Net fee and commission income



Net operating income

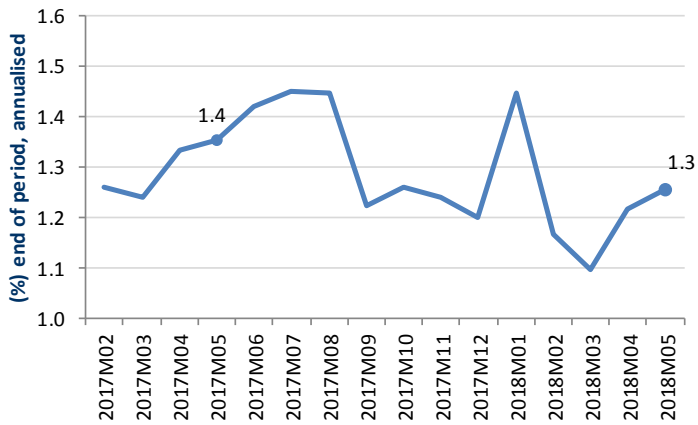


Impairment

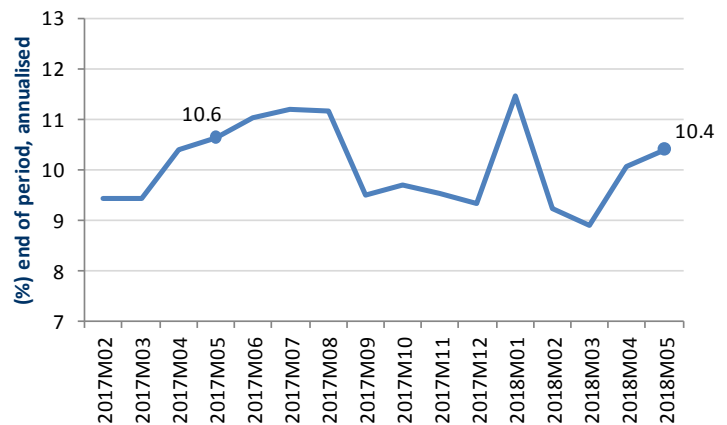


Bulgaria: Banking Sector Indicators

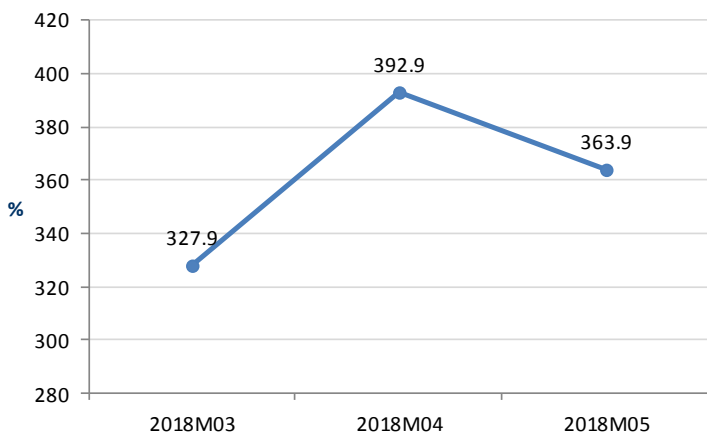
ROA



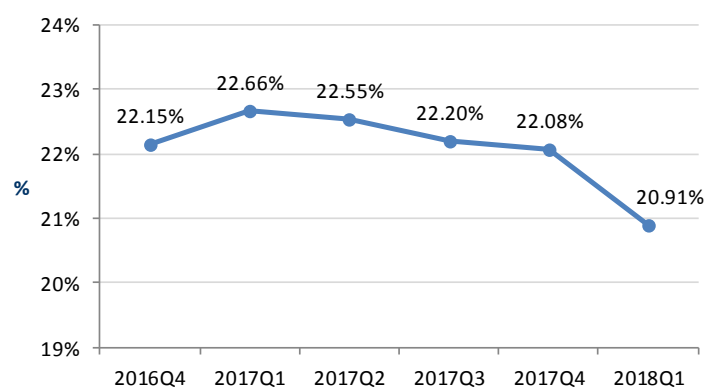
ROE



Liquidity Cover Ratio (LCR), %



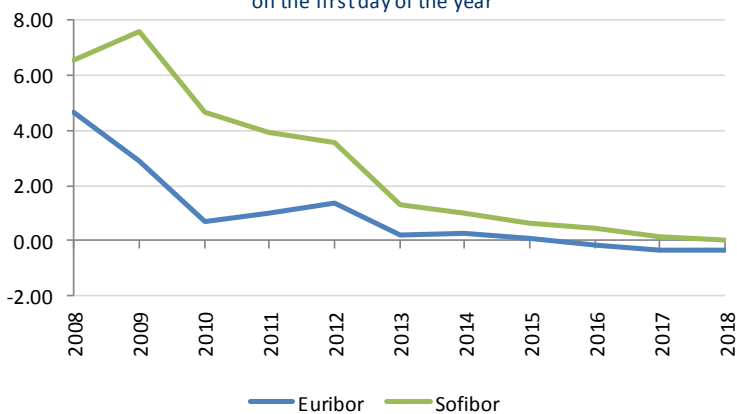
Total Capital Ratio



Bulgaria: Indexes and Interest Rates

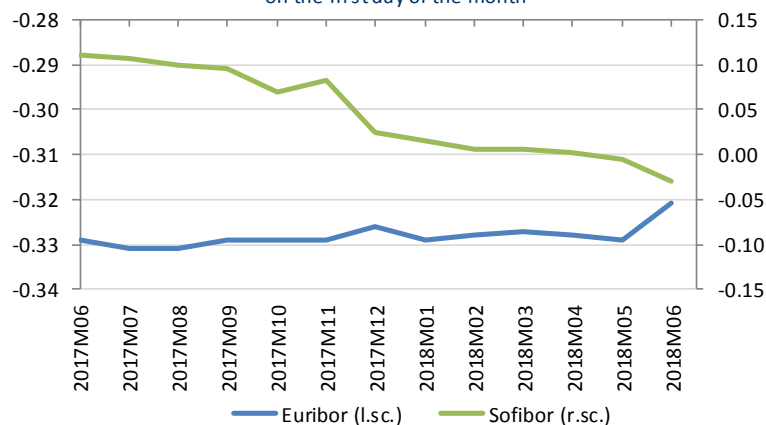
Indexes 3-months

on the first day of the year

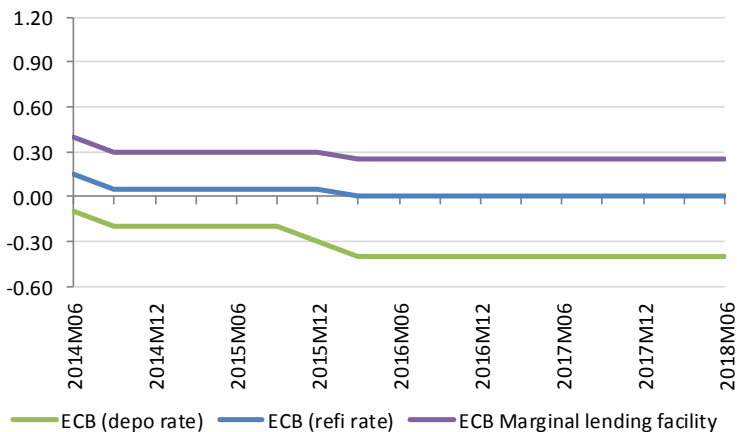


Indexes 3-months

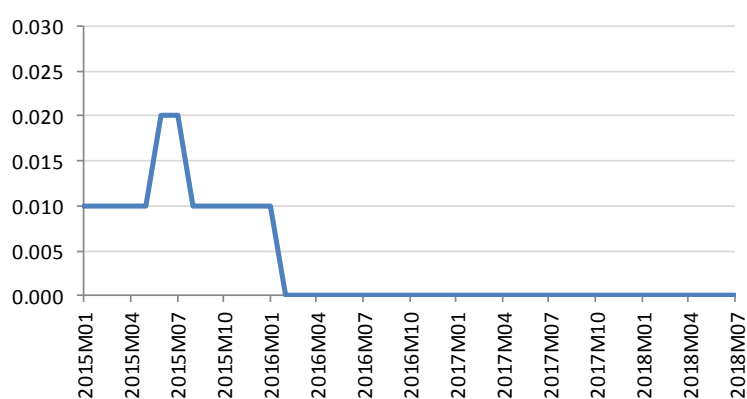
on the first day of the month



Policy Rates (in %)

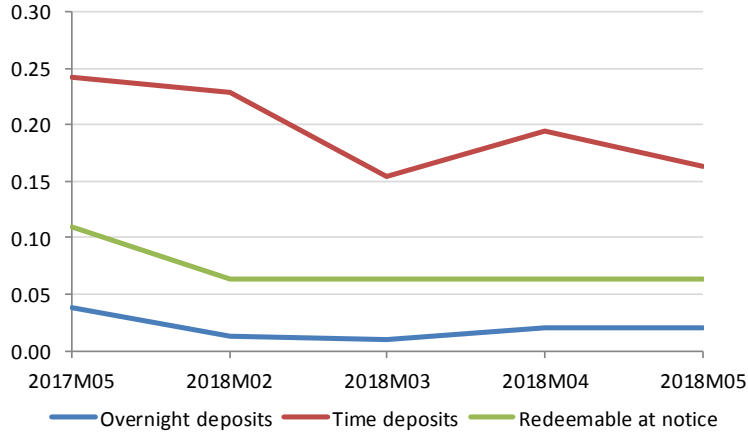


Base Interest Rate of the BNB (in %)

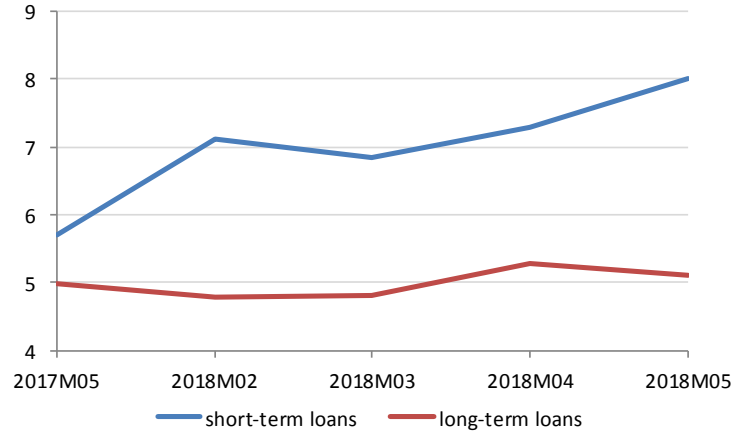


Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates

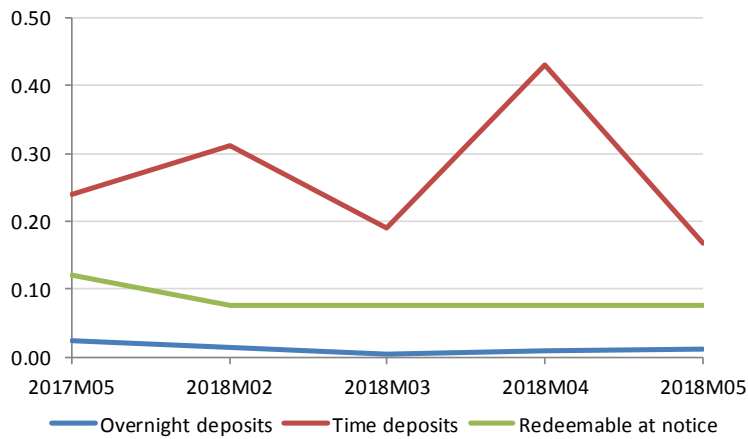
Interest Rates (%) in BGN



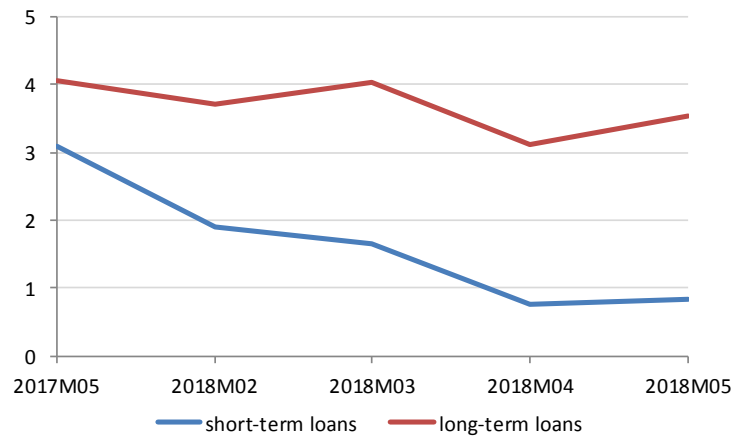
Interest Rates (%) in BGN



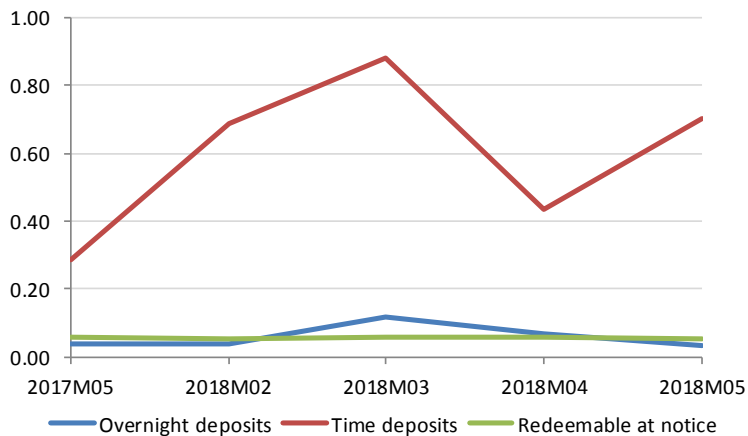
Interest Rates (%) in EUR



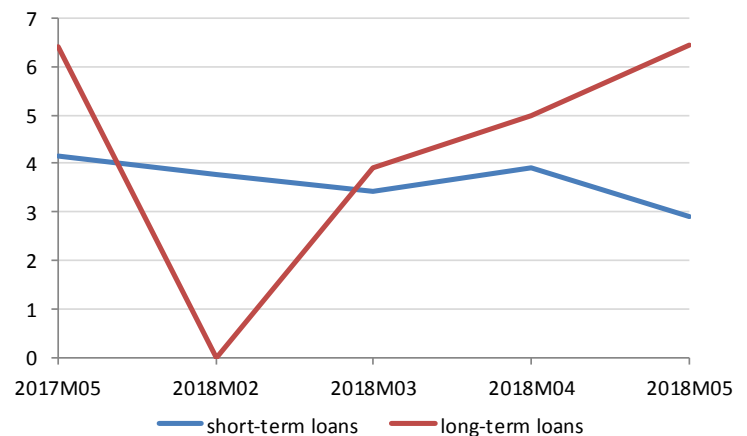
Interest Rates (%) in EUR



Interest Rates (%) in USD

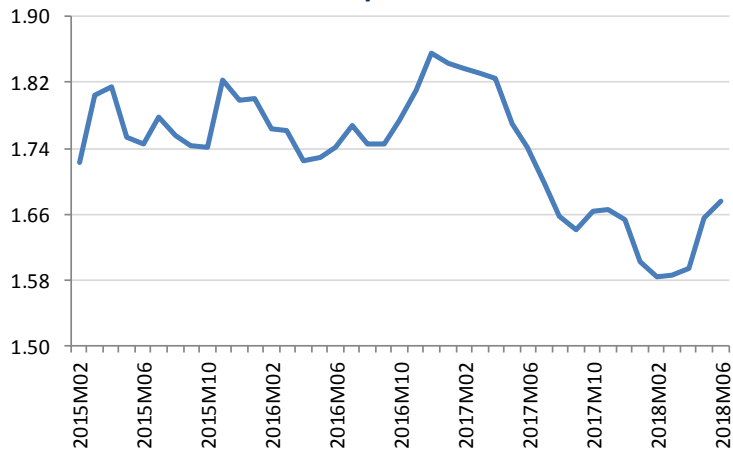


Interest Rates (%) in USD

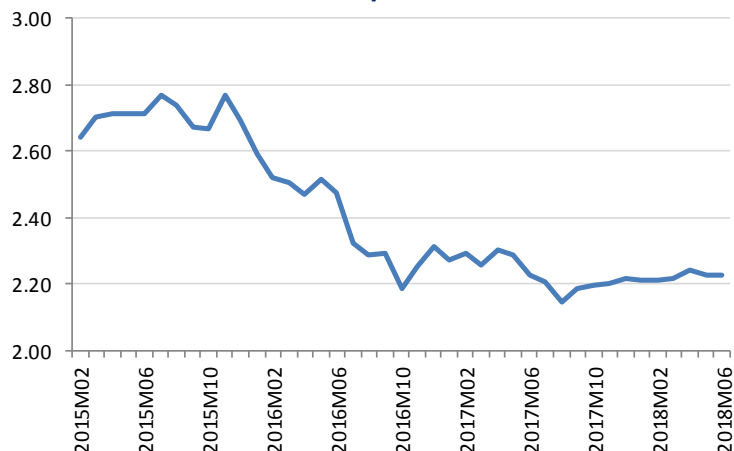


Bulgaria: FX Rates

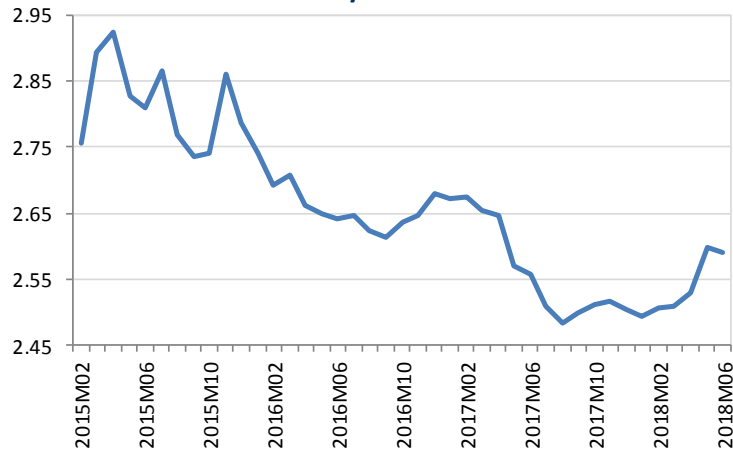
BGN/USD



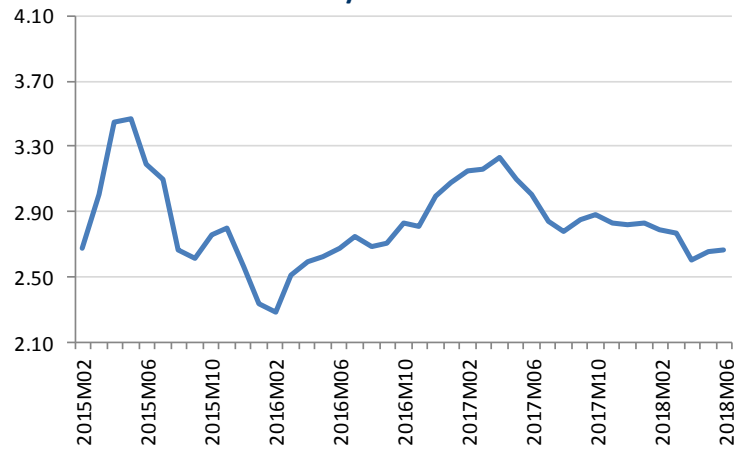
BGN/GBP



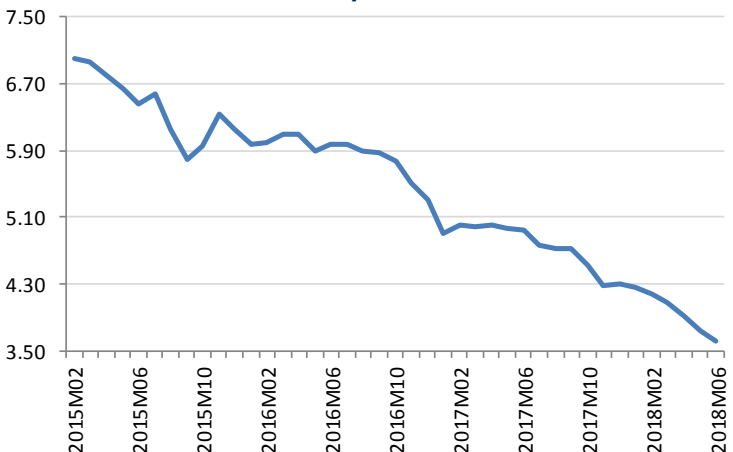
BGN/10CNY



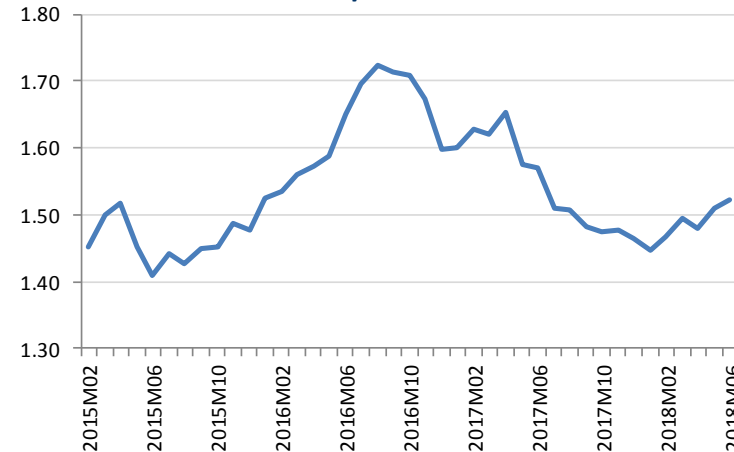
BGN/100RUB



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 hold by minority shareholders, i.e. by holders of not more than 5 % of the votes in the General Meeting of the issuing company) should not be less than 10 % of the total volume of the issue; 3) The size (amount) of each issue should not be less than 250,000 shares. All issues meeting the conditions above are graded to the following criteria of equal weight: 1) Market capitalization; 2) Number of transactions in the last 6 months; 3) Turnover during the last 6 months; 4) Free-float.

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