

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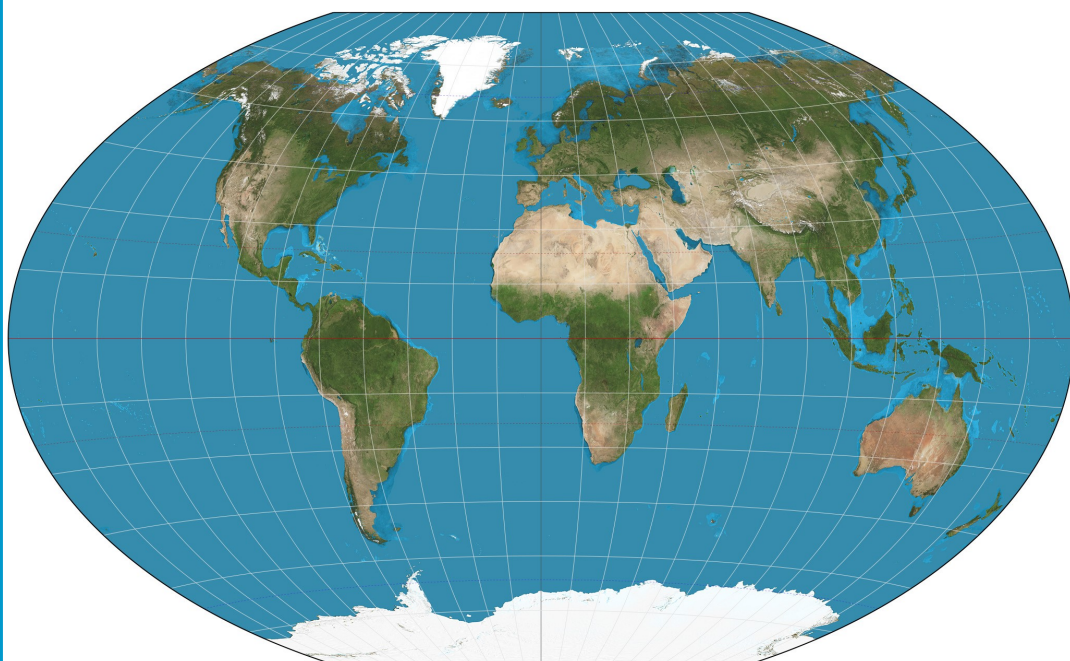
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Source: https://en.wikipedia.org/wiki/World_map

HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



September 2018

Sofia

- *ECB Survey of Professional Forecasters (SPF) for the third quarter of 2018 reported point forecasts for annual HICP inflation averaging 1.7%yoy for each of 2018, 2019 and 2020. SPF respondents' expectations for real growth in Euro area GDP averaged 2.2%yoy, 1.9%yoy and 1.6%yoy for 2018, 2019 and 2020, respectively. Unemployment rate expectations standing at 8.3%, 7.9% and 7.6% for 2018, 2019 and 2020*
- *The unemployment rate in the UK held steady at 4% in the three months to July 2018, it's joint-lowest since 1975*
- *The US unemployment rate was unchanged at 3.9% in August 2018. . This unemployment rate is below averaged 5.77% from 1948 until 2018*
- *Japan's economy is likely to continue its moderate expansion. Domestic demand is likely to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the corporate and household sectors, mainly against the background of highly accommodative financial conditions and the underpinnings through government spending. Exports are expected to continue their moderate increasing trend on the back of the firm growth in overseas economies*
- *Unemployment Rate in China decreased to 3.83% in the second quarter of 2018 from 3.89% in the first quarter of 2018. This is the lowest level of unemployment since 2002. US President Donald Trump has imposed a 10% duty on additional imports of Chinese goods for USD 200 billion from September 24. Customs duties will initially be 10%, but will increase to 25% by the end of the year*
- *Turkish lira depreciated with 34.59% in August– from 4.9027 TRY/USD in 31 July 2018 to 6.5986 TRY/USD in 31 August 2018. The Turkish consumer price inflation rose to 17.90% year-on-year in August 2018 from 15.85% in the previous month. If Turkish authorities aim at stabilizing the exchange rate and to support price stability, standard austerity measures should be expected – sharp increase of interest rates, drastic cut of public spending. The alternative option is some forms of capital controls. In both scenarios would entail a large wave of corporate difficulties and economic slowdown*
- *The key ECB interest rates, the main refinancing operations, marginal lending facility and the deposit facility will remain unchanged – 0.00%, 0.25% and -0.40%, , at least through the summer of 2019. ECB anticipates reducing the monthly net asset purchases from EUR 30 billion to EUR 15 billion at the end of September 2018 and ending net asset purchases at the end of December 2018*
- *The Bank of England voted unanimously to leave the Bank Rate unchanged at 0.75% on September 13th 2018, following a 25bps hike in the previous meeting. The decision came in line with market expectations. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at GBP 10 billion and the stock of UK government bond purchases, financed by the issuance of central bank reserves, at GBP 435 billion*
- *As the economy has strengthened, the Federal Open Market Committee's (FOMC) has gradually raised the federal funds rate from its crisis-era low near zero toward more normal levels, currently in the range of 1.75% -2%. As the most recent FOMC statement indicates, if the strong growth in income and jobs continues, further gradual increases in the target range for the federal funds rate will likely be appropriate*
- *The Bank of Japan intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity. The Bank will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around zero percent.*

- *The People's Bank of China (PBC) has decided to adjust the risk reserve requirement on financial institutions' FX forward sales from 0% to 20%, effective from August 6, 2018.*
- *The Central Bank of Turkey Monetary Policy Committee (the Committee) has decided to increase the policy rate (one week repo auction rate) from 17.75% to 24%*
- *Crude Oil increased 3.66 USD or 5.34% to 72.22 USD/BBL on Tuesday September 25 from 68.59 USD/BBL in 27 August (the previous month)*
- *During the week, rising prices of major grain contracts continued on most stock markets. On Sofia Commodity Exchange AD prices of the contracts are stable*

- *In January-July 2018 Bulgaria's current and capital account was positive amounting to EUR 1,191 million and presented 2.3% of GDP*
- *In January-July 2018 Bulgaria's foreign investments declined by 63% yoy to 219.9 million and presented 0.4% of GDP*
- *As of the end of August 2018, Bulgaria's foreign reserves amounted to BGN 46.9 billion and increased by 1% mom and by 2% compared to the end of 2017*
- *In Q2 of 2018 GDP at current prices amounts to 25 913 million BGN. In Euro terms GDP is 13 249 million Euro or 1 882 Euro per person. According to the seasonally adjusted data, the GDP growth rate in the second quarter of 2018 is 3.4% compared to the same quarter of the previous year and 0.8% compared to the first quarter of 2018*
- *In August 2018, the business conjuncture in the country is assessed as unfavourable. The total business climate indicator decreases by 2.9 percentage points to 29.2% compared to its July level as a reduced of the indicator is registered in all observed sectors - industry, construction, retail trade and services*
- *According to the preliminary data the Industrial Production Index, seasonally adjusted, decreased by 1.2% in July 2018 as compared to June 2018. In July 2018 the working day adjusted Industrial Production Index rose by 1.0% in comparison with the same month of 2017*
- *According to the preliminary seasonally adjusted data in July 2018 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.2% compared to the previous month*
- *According to the preliminary NSI data, in July 2018 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 1.5% above the level of the previous month. In July 2018 the working day adjusted index of production in construction increased by 0.9% in comparison with the same month of 2017*
- *The consumer price index for August 2018 compared to June 2018 was 100.1%, ie, monthly inflation is 0.1% and annual inflation is 3.5%*
- *Total Producer Price Index in July 2018 decreases with 0.8% compared to the previous month; compared to the same month of 2017 the prices rose by 4.7%. Producer Price Index on Domestic Market in July 2018 increased by 0.1% compared to the previous month; compared to the same month of 2017 the domestic prices grew by 3.4%*
- *In July 2018, the number of the trips of Bulgarian residents abroad was 727.5 thousand or by 9.3% above the registered in July 2017. In July 2018, the number of arrivals of visitors from abroad to Bulgaria was 2 152.8 thousand or by 6.5% more in comparison with July 2017*
- *The total revenues from nights spent in July 2018 reached 336.1 million BGN or by 6.0% more compared to July 2017*
- *In August 2018, the registered unemployment rate in Bulgaria decreased to 5.6%, according to the Employment Agency*
- *Preliminary data of the NSI for Q2 of 2018 indicate that the total hourly labour cost rose by 8.5% compared to Q2 of 2017*
- *According to the preliminary data, GDP per person employed increased by 3.0% in Q2 of 2018*

compared to the same quarter of the previous year

- *At the end of July 2018 Bulgaria's Consolidated Fiscal Programme (CFP) balance on a cash basis as of July 2018 is positive, amounting to BGN 2,015.0 million, or 1.9% of the projected GDP*
- *At the end of July 2018 Bulgaria's Central government debt stands at EUR 12,080.5 million and presented 22.6% of projected GDP*
- *At the end of July 2018 Bulgaria's M3 increased by 10% yoy to BGN 90.443 billion and presented 87.6% of GDP. The Domestic credit increased by 9.4% yoy to BGN56.495 billion and presented 53.5% of GDP*
- *In August 2018, three of the four stock indexes reported decline as follows: SOFIX to 631.83 points, BGBX 40 to 122.28 points and BG TR30 to 521.61 points, while only BGREIT registered a growth to 177.08 points*
- *In July 2018 the aggregate net profit of the banking system at the end of July amounted to BGN 951 million and grew by 23.7% yoy. As at 30 June 2018, Tier 1 Tier 1 capital and total capital adequacy ratios were 19.31%, 19.74% and 20.82% respectively (19.34%, 19.79% and 20.91% at the end of March 2018)*

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GLOBAL TRENDS

Advanced countries' economies

Euro zone

ECB Survey of Professional Forecasters (SPF) for the third quarter of 2018 reported point forecasts for annual HICP inflation averaging 1.7%yoy for each of 2018, 2019 and 2020. SPF respondents' expectations for real growth in Euro area GDP averaged 2.2%yoy, 1.9%yoy and 1.6%yoy for 2018, 2019 and 2020, respectively. Unemployment rate expectations standing at 8.3%, 7.9% and 7.6% for 2018, 2019 and 2020

The annual inflation rate in the Euro Area was confirmed at 2% yoy in August 2018, slightly below the previous month's five-and-a-half-year high of 2.1%yoy, as prices rose at a softer pace for services, energy, non-energy industrial goods and unprocessed food. Annual core inflation, which excludes volatile prices of energy, food, alcohol and tobacco and at which the ECB looks in its policy decisions, was also confirmed at 1% yoy in August, below the previous month's final reading of 1.1% yoy. On a monthly basis, consumer prices rose 0.2% mom in August, rebounding from a 0.3% mom fall in July and matching market consensus. The unemployment rate in the Euro Area came in at 8.2% in July of 2018, the same as in the previous month and the lowest rate since November of 2008. A year earlier, the unemployment rate was higher at 9.1%. Considering the EU28, the unemployment rate edged down to 6.8% from 6.9% in June and from 7.6% in July 2017. This is the lowest rate since April of 2008. 16.823 million people in the EU28, of whom 13.381 million in the Euro Area, were unemployed in July 2018, down by 82 000 in the EU28 and by 73 000 in the Euro Area from the previous month. Compared with July 2017, unemployment fell by 1.949 million in the EU28 and by 1.368 million in the Euro Area. Among the Member States, the lowest unemployment rates in July 2018 were recorded in the Czech Republic (2.3%), Germany (3.4%) and Poland (3.5%). The highest unemployment rates were observed in Greece (19.5% in May 2018) and Spain (15.1%). Compared with a year ago, the unemployment rate fell in all Member States. The largest decreases were registered in Cyprus (from 10.7% to 7.7%), Greece (from 21.7% to 19.5% between May 2017 and May 2018), Portugal (from 8.9% to 6.8%) and Croatia (from 10.9% to 8.8%). Respondents to the ECB Survey of Professional Forecasters (SPF) for the third quarter of 2018 reported point forecasts for annual HICP inflation averaging 1.7%yoy for each of 2018, 2019 and 2020. Compared with the previous survey round, this represents upward revisions of 0.2% for 2018 and 0.1% for 2019, but no change to the expectation for 2020. Average longer-term inflation expectations (which, like all other longer-term expectations in this SPF, referred to 2023) remained stable at 1.9%yoy. SPF respondents' expectations for real growth in euro area GDP averaged 2.2%yoy, 1.9%yoy and 1.6%yoy for 2018, 2019 and 2020, respectively. This represents downward revisions of 0.2% for 2018 and 0.1% for 2019, but no change for 2020. Average longer-term expectations for real GDP growth remained unchanged at 1.6%yoy. Unemployment rate expectations were little changed, standing at 8.3%, 7.9% and 7.6% for 2018, 2019 and 2020, respectively, and 7.5% for the longer term.

United Kingdom

The unemployment rate in the UK held steady at 4% in the three months to July 2018, it's joint-lowest since 1975.

UK annual inflation rate rose to 2.7%yoy in August from a 1 year low of 2.5% yoy in July and comfortably above market expectations of 2.4%. It was the highest inflation rate since February mainly boosted by rising prices of transport, recreation and culture, and food and non-alcoholic beverages. The annual core inflation rate, which excludes prices of energy, food, alcohol and tobacco, increased to a four-month high of 2.1%yoy in August, from 1.9%yoy in July. On a monthly basis, consumer prices climbed 0.7%mom in August after being unchanged in the previous month, also beating market expectations of a 0.5%mom gain. The unemployment rate in the UK held steady at 4% in the three months to July 2018, it's joint-lowest since 1975 and in line with market consensus. The number of unemployed declined by 55,000 from the February to April period while employment rose by 3,000 and the number of job vacancies hit a fresh record high. Meanwhile, annual wage growth picked up from a nine-month low as businesses found it harder to recruit staff. Latest estimates show that average weekly earnings for employees in Great Britain in nominal terms (that is, not adjusted for price inflation) increased by 2.9% excluding bonuses, and by 2.6% including bonuses, compared with a year earlier. Meanwhile, average weekly earnings for employees in Great Britain in real

terms (that is, adjusted for price inflation) increased by 0.5% excluding bonuses, and by 0.2% including bonuses, compared with a year earlier. Job vacancies rose by 14,000 to an all-time high of 833,000 in the three months to August 2018 from 819,000 in the March to May period. Year-on-year, job vacancies rose by 44,000.

USA

The US unemployment rate was unchanged at 3.9% in August 2018. . This unemployment rate is below averaged 5.77% from 1948 until 2018.

Annual inflation rate in the US fell to 2.7% yoy in August of 2018 from 2.9% yoy in July and below market expectations of 2.8% yoy. It is the lowest reading in four months amid a slowdown in cost of fuel, gasoline and shelter. Excluding food and energy, core inflation slowed to 2.2% yoy in August from 2.4% yoy in July. On a monthly basis, consumer prices went up 0.2% mom, the same as in July and matching market expectations. Increases in the indexes for shelter and energy were the main contributors to the seasonally adjusted monthly increase. The US unemployment rate was unchanged at 3.9% in August 2018, above market expectations of 3.8%. Still, the jobless rate remained close to May's 18-year low as the number of unemployed declined by 46 thousand to 6.23 million and employment fell by 423 thousand to 155.54 million. This unemployment rate is below averaged 5.77% from 1948 until 2018.

Japan

Japan's economy is likely to continue its moderate expansion. Domestic demand is likely to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the corporate and household sectors, mainly against the background of highly accommodative financial conditions and the underpinnings through government spending. Exports are expected to continue their moderate increasing trend on the back of the firm growth in overseas economies.

According to Bank of Japans' Statement on Monetary Policy Japan's economy is expanding moderately, with a virtuous cycle from income to spending operating. Overseas economies have continued to grow firmly on the whole. In this situation, exports have been on an increasing trend. On the domestic demand side, business fixed investment has continued on an increasing trend with corporate profits and business sentiment maintaining their improving trend. Private consumption has been increasing moderately, albeit with fluctuations, against the background of steady improvement in the employment and income situation. Meanwhile, housing investment has been more or less flat. Public investment also has been more or less flat, remaining at a relatively high level. Reflecting these increases in demand both at home and abroad, industrial production has been on an increasing trend, and labor market conditions have continued to tighten steadily. Financial conditions are highly accommodative. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) is in the range of 0.5-1.0%. Inflation expectations have been more or less unchanged. With regard to the outlook, Japan's economy is likely to continue its moderate expansion. Domestic demand is likely to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the corporate and household sectors, mainly against the background of highly accommodative financial conditions and the underpinnings through government spending. Exports are expected to continue their moderate increasing trend on the back of the firm growth in overseas economies. The year-on-year rate of change in the CPI is likely to increase gradually toward 2 percent, mainly on the back of the output gap remaining positive and medium- to long-term inflation expectations rising. The unemployment rate in Japan edged up to 2.5% in July of 2018 from 2.4% in the previous month and slightly above market estimates of 2.4%. A year earlier, unemployment was higher at 2.8%. Unemployment Rate in Japan averaged 2.73% from 1953 until 2018.

China

Unemployment Rate in China decreased to 3.83% in the second quarter of 2018 from 3.89% in the first quarter of 2018. This is the lowest level of unemployment since 2002. US President Donald Trump has imposed a 10% duty on additional imports of Chinese goods for USD 200 billion from September 24. Customs duties will initially be 10%, but will increase to 25% by the end of the year.

US President Donald Trump has imposed a 10% duty on additional imports of Chinese goods for USD 200 billion from September 24. Customs duties will initially be 10%, but will increase to 25% by the end of the year, which will give American companies some delay to redirect their supply chains to alternative countries. In the list of over 6,000 Chinese items are included a wide range of electronic products, routers, Internet-connected devices, data transfer and reception devices, images and voice, as well as many other consumer goods - from furniture to bags, vacuum cleaners, building materials and seafood. If China takes action against the US industry or against farmers, US President Donald Trump will immediately introduce the third phase, which is the duty of extra import for USD 267 billion. China can retaliate not only to levy higher duties to US import, but also to decrease the purchase of US government securities. China's consumer price inflation rose to a six-month high of 2.3% yoy in August of 2018 from 2.1% yoy in the previous month and slightly above market consensus of 2.2%yoy. The increase was driven by higher prices of food; clothing; rent, fuel & utilities. Annual core inflation, which excludes volatile items such as food and energy, picked up to 2% yoy in August from 1.9% in the previous month. On a monthly basis, consumer prices went up 0.7% mom in August, following a 0.3%mom rise in July and beating market expectations of 0.5% mom. It was the highest monthly rate since February. Meanwhile, the producer price index increased by 4.1% mom from a year earlier in August, after a 4.6% mom rise in the previous month and compared to market expectations of 4% mom. Unemployment Rate in China decreased to 3.83% in the second quarter of 2018 from 3.89% in the first quarter of 2018. This is the lowest level of unemployment since 2002.

Turkey

Turkish lira depreciated with 34.59% in August– from 4.9027 TRY/USD in 31 July 2018 to 6.5986 TRY/USD in 31 August 2018. The Turkish consumer price inflation rose to 17.90% yoy in August 2018 from 15.85% in the previous month. If Turkish authorities aim at stabilizing the exchange rate and to support price stability, standard austerity measures should be expected – sharp increase of interest rates, drastic cut of public spending. The alternative option is some forms of capital controls. In both scenarios would entail a large wave of corporate difficulties and economic slowdown.

The Turkish economy grew by 5.2% yoy in the second quarter of 2018, easing from a downwardly revised 7.3% yoy expansion in the previous three-month period. It was the weakest growth rate since the last quarter of 2016. The Gross Domestic Product (GDP) in Turkey expanded 0.90% qoq in the second quarter of 2018 over the previous quarter, which is lower both for the averaged 1.16%qoq from 1998 until 2018 and 1.5%qoq for the previous period. Turkish lira depreciated with 34.59% in August– from 4.9027 TRY/USD in 31 July 2018 to 6.5986 TRY/USD in 31 August 2018. The Turkish consumer price inflation rose to 17.90% yoy in August 2018 from 15.85%yoy in the previous month, and below market expectations of 21.50% yoy. Still, inflation remained well above the central bank's target of 5% and hit the highest level since December 2003 as the lira slumped to fresh record lows amid a currency crisis. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, rose to an all-time high of 17.22% yoy in August from 15.10%yoy in the previous month. On a monthly basis, consumer prices jumped 2.30%mom in August, following a 0.55% mom rise in July and beating market expectations of 2.23% mom. Turkey's vulnerability comes from its excessive borrowing in foreign currency basically from firms and banks (at more than 200% of current foreign exchange reserves); very large short-term debt to be rolled-over, large amortization on long-term external debt add to a substantial current account deficit. If Turkish authorities aim at stabilizing the exchange rate and to support price stability, and if they want to maintain capital mobility as they need to attract inflows, the only option is a very tight economic policy (increase in interest rates by a 625 bp, rapid reduction in domestic demand to support external accounts and avoid excessive inflationary pass-through), whatever the costs on an economic crash landing. This would be the best option, with a short duration if policies are convincing, but it has a clear and visible political cost for the Turkish government. Notwithstanding the increase in policy rates, the central bank has already started to provide liquidity at higher rates through specific refunding operations, local currency bond rates have jumped massively and a drastic cut in public spending is being expected. In this scenario the crucial is some form of access to international liquidity, e.g. the potential USD 15-billion loan from Qatar and/or agreement with IMF. If economic, social or political costs associated to such austerity measures are considered as too high, and if the aim is still a stabilization of the exchange rate, then the only option is the imposition of some sort of capital controls. They would probably be in the form of maturity extension, forced roll-over or conversion forex debt restructuring. In both scenarios would entail a large wave of corporate difficulties and economic slowdown. The Turkish unem-

employment rate came in at 10.2% in June 2018, unchanged from the previous year's figure. On a seasonally adjusted basis, the unemployment rate rose to 10.9% in June from 10.6% in May.

Policy of the Central banks

ECB

The key ECB interest rates, the main refinancing operations, marginal lending facility and the deposit facility will remain unchanged – 0.00%, 0.25% and -0.40%, , at least through the summer of 2019. ECB anticipates reducing the monthly net asset purchases from EUR 30 billion to EUR 15 billion at the end of September 2018 and ending net asset purchases at the end of December 2018.

Economic growth in the euro area remains solid and broad-based, as confirmed by the latest data. ECB expects the expansion to continue. In fact, the current expansion is shorter in length and smaller in size than historical averages. It has lasted just five years and real GDP is now 10% above the trough in the first quarter of 2013. In the past, growth phases lasted, on average, seven and a half years from trough to peak, with GDP increasing 21% over the same period. While risks surrounding the euro area growth outlook remain broadly balanced, uncertainties emerging from increased global protectionism, the finalization of the Brexit negotiations and vulnerabilities in emerging markets have become more visible than a few months ago. The ongoing expansion has led to strong employment gains. Since the beginning of the recovery, around 8.4 million jobs have been created. Euro area unemployment declined to 8.2% in July, the lowest level in almost ten years. Thanks to the recovery in labor markets, consumer spending is still robust. The steady rise in compensation per employee has increased household disposable income. Moreover, consumption benefits from an easier transition from unemployment to employment and increased job security. Lower unemployment not only pushes up the disposable income of those who find a job, but also reduces the perceived risk of job loss, giving workers less incentive to hold precautionary savings. According to the flash estimates, HICP inflation edged down to 2.0% in August from 2.1% in July, mainly reflecting higher energy prices. On the basis of the latest oil futures prices, headline inflation is expected to hover around the current level for the rest of the year. Although measures of underlying inflation remain generally muted, they have risen from previous lows. Looking ahead, underlying inflation is expected to pick up towards the end of the summer, supported by our monetary policy measures and strengthening domestic price pressures, which are sufficiently robust to counter the downward pressure from the euro's appreciation in 2017. Domestic price pressures have gradually risen on the back of the ongoing economic expansion and rising wage growth. In particular, the tightening in labor markets supports the pick-up in nominal wage growth both across countries and sectors. Non-wage domestic cost pressures and the stronger pricing power of domestic firms are further contributing to higher prices. Moreover, domestic producer price inflation for non-food consumer goods increased further in June, with the year-on-year growth rate at its highest level since late 2012. Services producer price inflation has been on an upward trajectory since the second quarter of 2016. The Governing Council carefully reviewed the progress achieved towards a sustained adjustment in the path of inflation, guided by three criteria: convergence, confidence and resilience. For convergence, headline inflation should be on track to reach levels consistent with the Governing Council's inflation aim of below, but close to, 2% over the medium term. In line with this criterion, the June Eurosystem staff projections see headline inflation reaching 1.7% in each of the next three years. These are the latest in a series of projections that have pointed to a convergence of headline inflation towards the Governing Council's inflation aim. Regarding confidence, uncertainty around the projected path of inflation has diminished. Moreover, underlying inflation has increased from the very low levels observed in 2016 and is expected to rise amid an expanding economy, high levels of capacity utilization and labor market tightening. Stronger underlying inflation pressures, in turn, should pass through to headline inflation. In terms of resilience, the projected path of inflation is expected to be maintained even after a gradual ending of net asset purchases. On the basis of this assessment, the Governing Council concluded that substantial progress has been made towards a sustained adjustment. Given the underlying strength of the euro area economy, together with lower longer-term inflation expectations, ECB is confident that the sustained convergence of inflation towards our aim will continue in the period ahead, even after a gradual winding-down of our net asset purchases. As a result, ECB Governing Council took a number of decisions in June. First – subject to incoming data confirming our medium-term inflation outlook – ECB anticipates reducing the

monthly net asset purchases from EUR 30 billion to EUR 15 billion at the end of September 2018 and ending net asset purchases at the end of December 2018.

Second, ECB intends to continue reinvesting the principal payments from maturing securities purchased under the asset purchase program for an extended period of time after the end of net purchases, and in any case for as long as necessary to maintain favorable liquidity conditions and an ample degree of monetary policy accommodation. Third, the key ECB interest rates will remain at their present levels at least through the summer of 2019. Main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged - 0.00%, 0.25% and -0.40%, respectively. Together, these measures will continue to provide the necessary degree of monetary policy accommodation to bring inflation back towards a level that is below, but close to, 2%. Looking ahead, monetary policy will continue to be firmly guided by the outlook for price stability and stance of ECB will evolve in a data-dependent and time-consistent manner.

Bank of England

The Bank of England voted unanimously to leave the Bank Rate unchanged at 0.75% on September 13th 2018, following a 25bps hike in the previous meeting. The decision came in line with market expectations. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at GBP 10 billion and the stock of UK government bond purchases, financed by the issuance of central bank reserves, at GBP 435 billion.

In the MPC's most recent economic projections, set out in the August Inflation Report, GDP was expected to grow by around 1.75% per year on average over the forecast period, conditioned on the gently rising path of Bank Rate implied by market yields at that time. Although modest by historical standards, the projected pace of GDP growth was slightly faster than the diminished rate of supply growth, which averaged around 1.5% per year. With a very limited degree of slack remaining, a small margin of excess demand was therefore projected to emerge by late 2019 and build thereafter, feeding through into higher growth in domestic costs than has been seen over recent years. The contribution of external cost pressures, which has accounted for above-target inflation since the beginning of 2017, was projected to ease over the forecast period. Taking these influences together, and conditioned on the gently rising path of Bank Rate, CPI inflation remained slightly above 2% through most of the forecast period, reaching the target in the third year. Recent news in UK macroeconomic data has been limited and the MPC's August projections appear to be broadly on track. UK GDP grew by 0.4% in 2018 Q2 and by 0.6% in the three months to July. The UK labour market has continued to tighten, with the unemployment rate falling to 4.0% and the number of vacancies rising further. Regular pay growth has risen further to around 3% on a year earlier. CPI inflation was 2.5% in July. The global economy still appears to be growing at above-trend rates, although recent developments are likely to have increased downside risks around global growth to some degree. In emerging market economies, indicators of growth have continued to soften and financial conditions have tightened further, in some cases markedly. Recent announcements of further protectionist measures by the United States and China, if implemented, could have a somewhat more negative impact on global growth than was anticipated at the time of the August Report. The MPC continues to recognise that the economic outlook could be influenced significantly by the response of households, businesses and financial markets to developments related to the process of EU withdrawal. Since the Committee's previous meeting, there have been indications, most prominently in financial markets, of greater uncertainty about future developments in the withdrawal process. The Committee judges that, were the economy to continue to develop broadly in line with the August Inflation Report projections, an ongoing tightening of monetary policy over the forecast period would be appropriate to return inflation sustainably to the 2% target at a conventional horizon. As before, these projections were conditioned on the expectation of a smooth adjustment to the average of a range of possible outcomes for the United Kingdom's eventual trading relationship with the European Union. At this meeting, the Committee judged that the current stance of monetary policy remained appropriate. Any future increases in Bank Rate are likely to be at a gradual pace and to a limited extent.

USA Federal Reserve

As the economy has strengthened, the Federal Open Market Committee's (FOMC) has gradually raised the federal funds rate from its crisis-era low near zero toward more normal levels, currently in the range of 1.75% -2%. As the most recent FOMC

statement indicates, if the strong growth in income and jobs continues, further gradual increases in the target range for the federal funds rate will likely be appropriate.

Excerpts from Fed Chairman Jerome H. Powell speech at the symposium sponsored by the Federal Reserve Bank of Kansas City, Jackson Hole, Wyoming: Over the course of a long recovery, the U.S. economy has strengthened substantially. The unemployment rate has declined steadily for almost nine years and, at 3.9%, is now near a 20-year low. Most people who want jobs can find them. Inflation has moved up and is now near the Federal Open Market Committee's (FOMC) objective of 2% after running generally below that level for six years. With solid household and business confidence, healthy levels of job creation, rising incomes, and fiscal stimulus arriving, there is good reason to expect that this strong performance will continue. As the economy has strengthened, the FOMC has gradually raised the federal funds rate from its crisis-era low near zero toward more normal levels, currently in the range of 1.75% -2%. Federal Reserve is also allowing our securities holdings--assets acquired to support the economy during the deep recession and the long recovery--to decline gradually as these securities are paid off. There are two opposing questions that regularly arise in discussions of monetary policy both inside and outside the Fed:

1. With the unemployment rate well below estimates of its longer-term normal level, there is a risk the FOMC tightening monetary policy more sharply to head off overheating and inflation.
2. With no clear sign of an inflation problem, it is possible the FOMC tightening policy at all, at the risk of choking off job growth and continued expansion.

Federal Reserve sees the current path of gradually raising interest rates as the FOMC's approach to taking seriously both of these risks. The experience of Federal Reserve did, however, prompt one overwhelmingly important lesson for monetary policymakers: Anchoring longer-term inflation expectations is a vital precondition for reaching all other monetary policy goals. Federal Reserve is also aware that, over time, inflation has become much less responsive to changes in resource utilization. While inflation has recently moved up near 2%, Federal Reserve has seen no clear sign of acceleration above 2%, and there does not seem to be an elevated risk of overheating. Federal Reserve believes that this good news results in part from the ongoing normalization process, which has moved the stance of policy gradually closer to the FOMC's rough assessment of neutral as the expansion has continued. As the most recent FOMC statement indicates, if the strong growth in income and jobs continues, further gradual increases in the target range for the federal funds rate will likely be appropriate.

Bank of Japan (BoJ)

The Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity. The Bank will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around zero percent.

The Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices including the effects of the consumption tax hike scheduled to take place in October 2019. The Bank will apply a negative interest rate of minus -0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank. The Bank will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices. With regard to the amount of JGBs to be purchased, the Bank will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about 80 trillion yen. The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively. With a view to lowering risk premia of asset prices in an appropriate manner, the Bank may increase or decrease the amount of purchases depending on market conditions. As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

The Bank, under the condition that yield curve control can be conducted appropriately, will reduce the size of the Policy-Rate Balance in financial institutions' current account balances at the Bank -- to which a negative interest rate is applied -- from the current level of about 10 trillion yen on average. This Balance is calculated assuming that arbitrage transactions take place in full among financial institutions.

People's Bank of China (PBC)

The People's Bank of China (PBC) has decided to adjust the risk reserve requirement on financial institutions' FX forward sales from 0% to 20%, effective from August 6, 2018.

Recently, due to trade frictions and changes in the international currency market, the foreign exchange market has showed signs of pro-cyclical fluctuations. In order to prevent macro financial risks, facilitate sound operation of financial institutions, and strengthen macro-prudential management, the People's Bank of China (PBC) has decided to adjust the risk reserve requirement on financial institutions' FX forward sales from 0 to 20 percent, effective from August 6, 2018. Specifically, the PBC requires financial institutions to deposit reserves equivalent to 20 percent of their contracted volume of FX forward sales (including options and swaps), as a risk reserve for potential loss, which, after being transmitted through pricing, will curb enterprises' pro-cyclical FX forward sales behavior. Therefore, the measure is a transparent, non-discriminatory, and price-based counter-cyclical macro-prudential policy tool. The FX risk reserves are deposited by financial institutions and not by enterprises. Enterprises can conduct FX forward sales in accordance with existing regulations. The FX forward sales remains a risk management tool for enterprises. In order to satisfy the requirement for FX risk reserves, banks will adjust their asset-liability management, and contain enterprises' pro-cyclical behavior in FX forward sale through price transmission. It will have little impact on enterprises with actual hedging demand. Standing Lending Facility (SLF) the PBC kept stable at end of June the overnight, 7-day, and 1-month SLF interest rates to 3.40 percent, 3.55 percent, and 3.90 percent, respectively. In H1, the PBC conducted a total of RMB 2410 billion MLF operations, all with maturities of 1 year. A total of RMB 1186.5 billion MLF operations was conducted in Q2 and the bid rate of the last operation recorded 3.30 percent, 5 basis points higher than that in Q1.

Central Bank of Turkey

The Central Bank of Turkey Monetary Policy Committee (the Committee) has decided to increase the policy rate (one week repo auction rate) from 17.75% to 24%.

In August is observed new sharp depreciation of Turkish lira of 23.66% on a monthly average basis – from 4.76160 TRY/USD in July to 5.88801 TRY/USD in August. The Turkish consumer price inflation rose to 17.90 percent year-on-year in August 2018 compare from 15.85 percent in the previous month. Still, inflation remained well above the central bank's target of 5 percent and hit the highest level since December 2003 as the lira slumped to fresh record lows amid a currency crisis. The Central Bank of Turkey admitted that recent developments regarding the inflation outlook indicate significant risks to price stability. The Monetary Policy Committee (the Committee) has decided to increase the policy rate (one week repo auction rate) from 17.75 percent to 24 percent. Recently released data indicate a more significant rebalancing trend in the economic activity. External demand maintains its strength, while slowdown in domestic demand accelerates. Recent developments regarding the inflation outlook point to significant risks to price stability. Price increases have shown a generalized pattern across subsectors, reflecting the movements in exchange rates. Deterioration in the pricing behavior continues to pose upside risks on the inflation outlook, despite weaker domestic demand conditions. Accordingly, the Committee has decided to implement a strong monetary tightening to support price stability. The Central Bank will continue to use all available instruments in pursuit of the price stability objective. Tight stance in monetary policy will be maintained decisively until inflation outlook displays a significant improvement. Inflation expectations, pricing behavior, lagged impact of recent monetary policy decisions, contribution of fiscal policy to rebalancing process, and other factors affecting inflation will be closely monitored and, if needed, further monetary tightening will be delivered. It was announced in the Press Release on Financial Markets of 13 August 2018 that in the framework of the intraday and overnight standing facilities, the Central Bank would provide the banks with all the liquidity that they needed. The Central Bank of Turkey has decided that, to be effective from 29 August 2018, the banks' borrowing limits for overnight transactions at the Interbank Money Market established within the Central Bank of Turkey would be twice the limits applicable before 13 August 2018. To support effective functioning of financial markets and flexibility of the banks in their liquidity management, Turkish lira reserve requirement ratios have been reduced by 250 basis points for all maturity brackets. Reserve requirement ratios for non-core FX liabilities have been reduced by 400 basis points. The maximum average maintenance facility for FX liabilities has been raised to 8 percent. In addition to US dollars, euro can be used for the maintenance against Turkish lira reserves under the reserve options mechanism. With this revision, approximately 10 billion TL, 6 billion US dollars, and 3 billion US dollars equivalent of gold liquidity will be provided to the financial system. Turkish Lira currency swap

market has been opened at the Central Bank to increase the efficiency in Turkish lira and foreign exchange liquidity management. The transactions will be conducted via quotation method with banks authorised in the Foreign Exchange and Banknotes Market within their pre-determined limits. In addition to the Turkish lira-settled forward foreign exchange sale auctions held at the Central Bank, transactions will also be conducted at the Derivatives Market (VIOP) operating under Borsa İstanbul (BİST) to contribute to the effective functioning of foreign exchange markets. Other measures against devaluation of the Turkish lira are restrictions of the use of credit cards and consumer loans and an increase in the tax on foreign currency deposits.

International Commodity Prices

Petrol

Crude Oil increased 3.66 USD or 5.34% to 72.22 USD/BBL on Tuesday September 25 from 68.59 USD/BBL in 27 August (the previous month).

Crude Oil increased 3.66 USD/BBL or 5.34% to 72.25 USD/BBL on Tuesday September 25 from 68.59 USD/BBL in 27 August (the previous month). Brent increased 5.98 USD/BBL or 7.91% to 81.58 USD/BBL on Tuesday September 25 from 75.60 USD/BBL in 27 August (the previous month). Brent price has passed the threshold of 81 USD a barrel, its highest level of nearly four years, against the backdrop of tightening the oil market, and once OPEC leaders have signaled that they will not increase yields for the moment. J.P. Morgan wrote in his latest market forecast that "an increase of up to 90 USD / barrel is likely" in the coming months due to US sanctions on Iranian oil exports. The bank predicts average Brent and crude oil prices will reach 85 USD / BBL and 76 USD / BBL in the next six months. At a meeting of OPEC oil ministers in and outside OPEC in Algiers over the weekend, the 15-member cartel and its partners refrained from rising yields in the short term, despite US President Donald Trump's demand to work harder to cut prices. Ministers said they would boost oil production only on condition that customers want more supplies. Iran's oil exports reached an average of 2.1 million barrels per day last year, and analysts say the sanctions will probably eliminate between 500,000 and 1 million barrels a day from the market. OPEC and Russia have pledged to increase yields to respond to a shortage created by the expected reduction in Iranian crude oil production but no formal decision has been taken so far. In its latest report on oil, the International Energy Agency (IEA) reported that global oil supplies peaked in August by a hundred million barrels per day even against the background of Venezuela's production crash and the imminent sanctions against Iran, the third largest producer in OPEC. However, the IEA has highlighted market tightening and noted that distortions of supply from a large producer could have a material impact on prices.

Agricultural products

During the week, rising prices of major grain contracts continued on most stock markets. On Sofia Commodity Exchange AD prices of the contracts are stable.

During the week, rising prices of major grain contracts continued on most stock markets. In Chicago, the price of wheat rose by USD 10.00 to USD 220.00 / ton, in France there was a plus of 4.00 EUR to 205.00 EUR/ ton. In Russia and Ukraine, the movement is more controversial - in the first wheat rose by at least 90 cents to 227.90 USD / ton, and in the second there was a drop of 1.00 USD to 216.00 USD / ton. For maize, there is also a change in FOB prices - US plus USD 4.00 to USD 157.00 / ton, Russia plus USD 3.00 to USD 193.00 / ton and France minus 2.00 EUR to 175.00 EUR/ ton. Rapeseed in the European Union (Euronext) again fell by 3.25 EUR and was priced at 365.00 EUR/ ton and barley in France and Germany went up with a plus of 3.00 EUR and in both countries to respectively 204.00 and 205.00 EUR/ ton. Unrefined sunflower oil continues to become cheaper by a new USD 17.50 to 695.00 USD / ton, and refined sugar turned the trend and dropped 2.40 USD to 330.20 USD/ton. Prices are respectively from Rotterdam for oil and London for sugar. On Sofia Commodity Exchange AD prices of the contracts are stable. There is an abundant supply of bread wheat at 405.00 BGN / ton in response to large demand (over 33,000 tons), the starting price of which is already 372.00 BGN /ton. Feed barley is looking for 280.00 BGN / ton. For maize, there were only "buy" bids at a starting price of 220.00 BGN / ton for immediate delivery. Oilseed sunflower is sought from a place at 535.00 BGN / ton starting price. All prices are without VAT

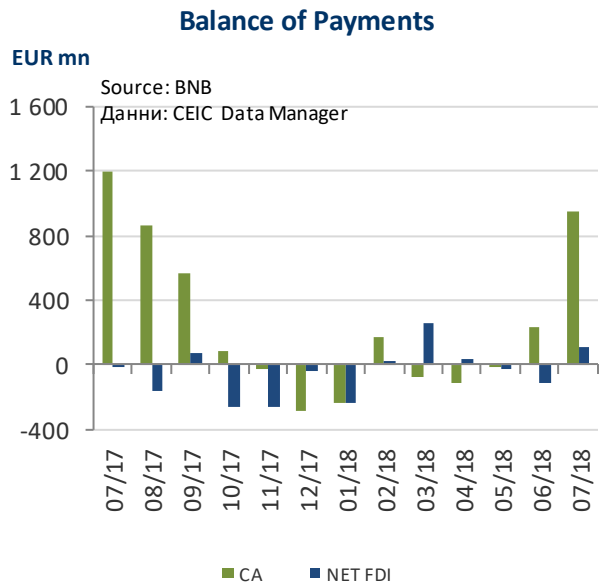
BULGARIA

EXTERNAL SECTOR

Balance of Payments

In January-July 2018 Bulgaria's current and capital account was positive amounting to EUR 1,191 million and presented 2.3% of GDP

The current and capital account recorded a surplus of EUR 1,010.5 million in July 2018, compared with a surplus of EUR 1,280 million in July 2017. In January – July 2018 the current and capital account was positive amounting to EUR 1,191 million (2.3% of GDP), compared with a surplus of EUR 2,441.7 million (4.8% of GDP) in January – July 2017. The current account was positive amounting to EUR 947.8 million in July 2018, compared with a surplus of EUR 1,200.2 million in July 2017. In January – July 2018 the current account was positive and amounted to EUR 933.7 million (1.8% of GDP), compared with a surplus of EUR 2,167.2 million (4.3% of GDP) in January – July 2017. The balance on goods recorded a deficit of EUR 215.1 million in July 2018, compared with a surplus of EUR 161 million in July 2017. In January – July 2018 the balance on goods was negative amounting to EUR 1,872.3 million (3.5% of GDP), compared with a deficit of EUR 264.7 million (0.5% of GDP) in January – July 2017. Exports of goods amounted to EUR 2,510.2 million in July 2018, growing by EUR 118.3 million (4.9%) from July 2017 (EUR 2,391.9 million). In January – July 2018 exports of goods totalled EUR 15,134.3 million (28.7% of GDP), dropping by EUR 158.4 million (1%) year-on-year (from EUR 15,292.7 million, 30.3% of GDP). In January – July 2017 exports grew by 19.7% yoy. Imports of goods amounted to EUR 2,725.2 million in July 2018, growing by EUR 494.3 million (22.2%) from July 2017 (EUR 2,230.9 million). In January – July 2018 imports of goods totalled EUR 17,006.6 million (32.2% of GDP), growing by EUR 1,449.2 million (9.3%) from January – July 2017 (EUR 15,557.3 million, 30.8% of GDP). In January – July 2017 imports grew by 16.6% yoy. Services recorded a positive balance of EUR 750.3 million in July 2018, compared with a surplus of EUR 723.6 million in July 2017. In January – July 2018 services recorded a surplus of EUR 1,758.6 million (3.3% of GDP) compared with a positive balance of EUR 1,451.5 million (2.9% 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 56.2 million in July 2018, compared with a deficit of EUR 12.7 million in July 2017. In January – July 2018 the balance on primary income was negative and equated to EUR 244.1 million (0.5% of GDP), against a deficit of EUR 318.6 million (0.6% of GDP) in January – July 2017. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 356.4 million, compared with a positive balance of EUR 328.4 million in July 2017. In January – July 2018 the net secondary income was positive amounting to EUR 1,291.5 million (2.4% of GDP), compared with a positive balance of EUR 1,298.9 million (2.6% of GDP) in the same period of 2017. The capital account recorded a surplus of EUR 62.7 million, compared with a positive balance of EUR 79.8 million in July 2017. In January – July 2018 the capital account recorded a surplus of EUR 257.3 million (0.5% of GDP), compared with a positive balance of EUR 274.5 million (0.5% of GDP) in January – July 2017. The financial account recorded a net inflow of EUR 915.7 million, compared with an inflow of EUR 870.2 million in July 2017. In January – July 2018 the financial account recorded a net inflow of EUR 1,774.2 million (3.4% of GDP) compared with an inflow of EUR 1,045.1 million (2.1% of GDP) in January – July 2017. The net direct investment compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual was positive amounting to EUR 109 million, compared with a negative balance of EUR 7.3 million in July 2017. In January – July 2018 direct investment recorded a positive balance of EUR 59 million (0.1% of GDP), compared with a negative balance of EUR 427.3 million (0.8% of GDP) in January – July 2017. Direct investment – assets grew by EUR 47.4 million compared with an increase of EUR 90.2 million in July 2017. In January – July 2018 direct investment – assets grew by EUR 553.3 million (1% of GDP), compared with an increase of EUR 251.9 million (0.5% of GDP) in the same period of 2017. Direct investment – liabilities dropped by EUR 61.6 million in July 2018, compared with an increase of EUR 97.4 million in July 2017. In January – July 2018 direct investment – liabilities rose by EUR 494.3



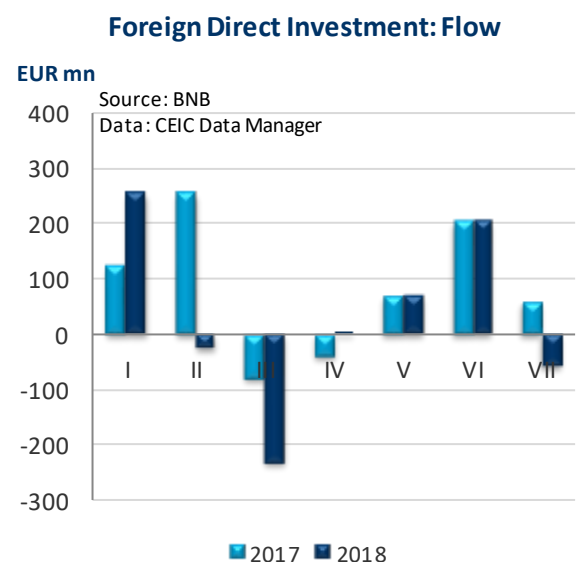
million (0.9% of GDP), compared with an increase of EUR 679.3 million (1.3% of GDP) in the same period of 2017. The balance on portfolio investment was negative amounting to EUR 11.1 million, compared with a positive balance of EUR 342.8 million in July 2017. In January – July 2018 the balance was positive and equated to EUR 660.4 million (1.3% of GDP), compared with a positive balance of EUR 1,041.9 million (2.1% of GDP) million in January – July 2017. Portfolio investment – assets grew by EUR 33.4 million, compared with a decrease of EUR 12.9 million in July 2017. In January – July 2018 they rose by EUR 526.3 million (1% of GDP) compared with an increase of EUR 497.6 million (1% of GDP) in January – July 2017. Portfolio investment – liabilities grew by EUR 44.5 million compared with a decline of EUR 355.7 million in July 2017. In January – July 2018 portfolio investment – liabilities dropped by EUR 134.1 million (0.3% of GDP), compared with a decline of EUR 544.3 million (1.1% of GDP) in January – July 2017. The balance on other investment was positive amounting to EUR 546.1 million, compared with a positive balance of EUR 757.7 million in July 2017. In January – July 2018 the balance was positive and equated to EUR 838.1 million (1.6% of GDP), compared with a positive balance of EUR 508.9 million (1% of GDP) in January – July 2017.

Other investment – assets grew by EUR 706.2 million, compared with an increase of EUR 447.5 million in July 2017. In January – July 2018 they grew by EUR 1,328.8 million (2.5% of GDP) compared with an increase of EUR 441.3 million (0.9% of GDP) in January – July 2017. Other investment – liabilities increased by EUR 160.1 million compared with a decline of EUR 310.1 million in July 2017. In January – July 2018 they grew by EUR 490.7 million (0.9% of GDP) compared with a decrease of EUR 67.6 million (0.1% of GDP) in January – July 2017. The BNB reserve assets⁵ grew by EUR 287.7 million, compared with a decline of EUR 209.3 million in July 2017. In January – July 2018 they increased by EUR 144.1 million (0.3% of GDP), compared with a decrease of EUR 36.2 million (0.1% of GDP) in the same period of 2017. The net errors and omissions were negative amounting to EUR 94.9 million compared with a negative value of EUR 409.8 million in July 2017. According to preliminary data, the item was positive totalling EUR 583.3 million (1.1% of GDP) in January – July 2018, compared with a negative value of EUR 1,396.6 million (2.8% of GDP) in the same period of 2017.

Foreign Direct Investments

In January-July 2018 Bulgaria's foreign investments declined by 63% yoy to EUR 219.9 million and presented 0.4% of GDP

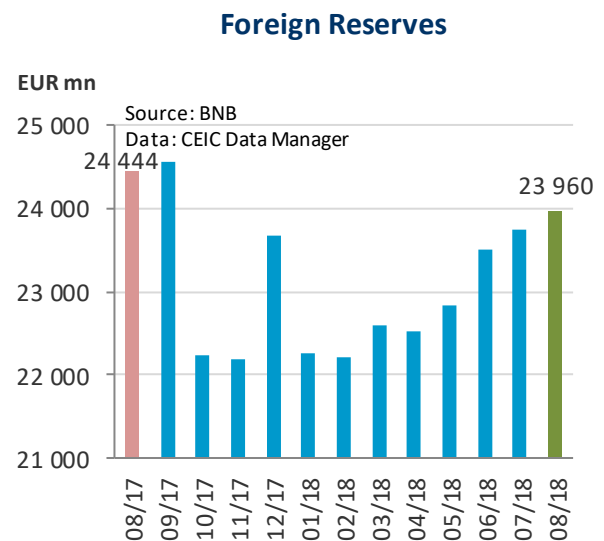
According to preliminary data, foreign direct investment in Bulgaria presented according to the directional principle totalled EUR 219.9 million (0.4% of GDP²) in January – July 2018, dropping by EUR 374.8 million (63%) from January – July 2017 (EUR 594.6 million, 1.2% of GDP). Foreign direct investment in Bulgaria decreased by EUR 56.8 million in July 2018, compared with an increase of EUR 59.2 million in July 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 26.2 million in January – July 2018, dropping by EUR 209.7 million from EUR 183.5 million in January – July 2017. Real estate investments of non-residents totalled EUR 4.2 million, compared with EUR 10.5 million attracted in January – July 2017. The largest inflow of real estate investment was from Russia (EUR 2.1 million), Ukraine (EUR 0.7 million), and Germany (EUR 0.4 million). Reinvestment of earnings (the share of non-residents in the undistributed earnings/ loss of the enterprise based on preliminary profit and loss data) was estimated at a negative value of EUR 18 million, compared with a negative value of EUR 97.5 million in January – July 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 264.1 million in January – July 2018, compared with EUR 508.6 million in January – July 2017. The largest net direct investment inflows in Bulgaria for January – July 2018 were from the Netherlands (EUR 221.4 million), Russia (EUR 157.9 million), and Germany (EUR 80.5 million).



Foreign Reserves

As of the end of August 2018, Bulgaria's foreign reserves amounted to BGN 46.9 billion and increased by 1% mom and by 2% compared to the end of 2017

According to data of the BNB at the end of August 2018, Bulgaria's foreign reserves amounted to BGN 46.9 billion (EUR 23.9 billion) and increased by 1% mom and by 2% yend, respectively. Cash and deposits denominated in foreign currency amounted to BGN 17.5 billion and decreased by 4.3% mom and by 10.1% yoy, respectively. Investments in monetary gold amounted to BGN 2.6 billion and decreased by 0.6% mom and by 5.7% yoy, respectively. Securities investments are the only asset item of the Issue Department's balance sheet, which grew up by 4.6% mom and by 4.9% yoy to BGN 26.7 billion. For the period end of August 2018, the money in circulation amounted to BGN 16.6 billion and rose by 2.4% mom and by 11.1% yoy, respectively. Liabilities to banks amounted to BGN 12.6 billion and decreased by 3.9% on mom and by 15.7% yoy, respectively. Liabilities to the government and budget organizations amounted to BGN 10.2 billion and increased by 6% mom and reported decline of 5% yoy, respectively. Liabilities to depositors amounted to BGN 2 billion and increased by 0.3% mom and by 38% yoy, respectively. The deposit of the Banking Department decreased by 0.4% mom and by 5.5% yoy, respectively. Bulgaria's international liquidity position, expressed by the ratio of foreign reserves to short-term external debt, improved to 301.7% at the end of June 2018 compared to 295.9% at the end of May 2018 and 287.4% reported in April and May 2018.

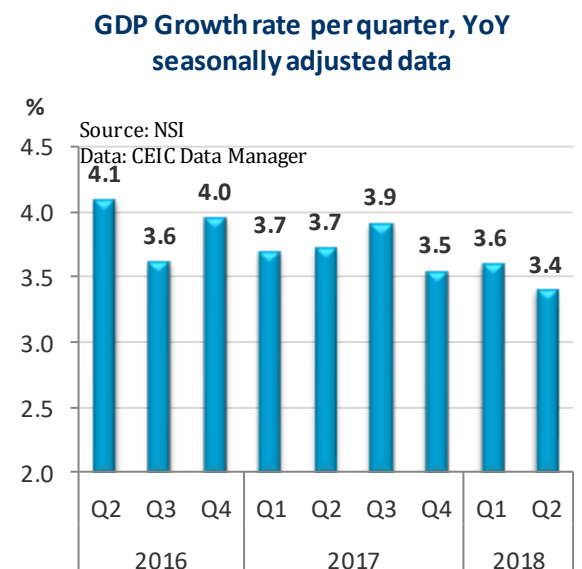


REAL SECTOR

Gross Domestic Product

In Q2 of 2018 GDP at current prices amounts to 25 913 million BGN. In Euro terms GDP is EUR 13 249 million or EUR 82 Euro per person. According to the seasonally adjusted data, the GDP growth rate in the second quarter of 2018 is 3.4% compared to the same quarter of the previous year and 0.8% compared to the first quarter of 2018

According to the preliminary data, Gross Domestic Product at current prices in Q2 of 2018 amounted to BGN 25 913 million. The GDP per person amounted to BGN3 680. In USD terms at average quarterly exchange rate of BGN 1.64261 per dollar, the GDP amounted to USD 15 776 million or 2 240 dollars per person. In Euro terms, the GDP amounted to 13 249 million Euro or 1 882 Euro per person. Gross value added (GVA) at current prices in the second quarter of 2018 equals to BGN 22 235 million. As compared to the second quarter of 2017 the share of the agricultural sector in the gross value added of the economy decreases with 0.8 percentage points to 3.3%. The share of industrial sector decreases with 0.2 percentage points to 29.3%. The relative share of value added from service activities increases from 66.4% to 67.4% compared to the corresponding period of the previous year. According to the seasonally adjusted data, GDP in the second quarter of 2018 increased by 0.8% compared with the previous quarter. In Q2 of 2018 gross value added of the total economy rises by 0.5%. According to the preliminary estimates of GDP by final expenditure, in the second quarter of 2018 compared with the previous quarter, the final consumption increased by 2.0%. For the same period, gross fixed capital formation increased by 0.3%. In the second quarter of 2018, seasonally adjusted imports of goods and services increased its level compared to the previous quarter by 0.9%, while exports



of goods and services decreased by 1.3%. During the second quarter of 2018 GDP increased by 3.4% compared to the same quarter of the previous year according to the seasonally adjusted data. Gross value added increased by 3.0% compared to the same quarter of previous year. The indicators' movement is determined by the increase recorded in: Real estate activities - 7.2%, Financial and insurance activities - 6.0%, Construction - 5.9%, Information and communication - 4.9%, Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply, waste management and remediation activities - 3.0%. As regards the expenditure components of GDP, main contributors to the registered positive economic growth are the individual final consumption - with growth of 5.0%, gross fixed capital formation - growth of 4.6% and collective final consumption of the general government - growth of 2.3%. Exports of goods and services increased by 1.7%, imports of goods and services increased by 4.3%.

Gross Domestic Product (GDP) in the second quarter of 2018 increased by 0.4% in the EU-28 compared to the previous quarter by seasonally adjusted data. For the same period, GDP in Bulgaria increased by 0.8%. Compared to the previous quarter, in the second quarter of 2018, Malta recorded the highest economic growth - 1.9%, Estonia and Romania - 1.4% each, Slovakia and Croatia - 1.1% each. Compared to the same quarter of the previous year, seasonally adjusted data showed an increase in GDP in the EU-28 by 2.1% and in Bulgaria by 3.4%. In the Q2 of 2018, compared to the same quarter of the previous year, the highest economic growth was observed in Malta - 5.7%, Poland - 5.0%, Hungary - 4.6%, Latvia - 4.4%, Slovenia - 4.3%.

Business Climate

In August 2018, the business conjuncture in the country is assessed as unfavourable. The total business climate indicator decreases by 2.9 percentage points to 29.2% compared to its July level as a reduced of the indicator is registered in all observed sectors - industry, construction, retail trade and services

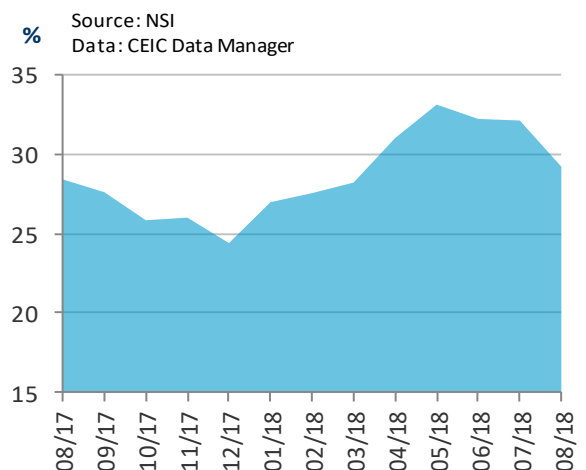
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Industry. The composite indicator 'business climate in industry' decreases by 1.9 percentage points to 27.7%, which is due to the worsened industrial entrepreneurs' expectations about the business situation of the enterprises over the next 6 months. The inquiry registers an improvement of the production assurance with orders, but that is not accompanied by increased expectations about the production activity over the next 3 months. The uncertain economic environment and shortage of labour remain the main obstacles for the business development pointed out respectively by 37.7% and 33.7% of the enterprises. As regards the selling prices in industry, the managers forecast preservation of their level over the next 3 months.

Construction. In August the composite indicator 'business climate in construction' drops by 3.8 percentage points to 31.5% as a result of the more reserved construction entrepreneurs' assessments and expectations about the business situation of the enterprises. Their opinions about the present construction activity are improved in comparison with the last month, while their forecasts about the next 3 months are the activity to keep the same level. In August the inquiry reports strengthen of the negative impact of the factors 'shortage of labour' and 'competition in the branch', which shift to the third place the difficulties of the enterprises, connected with the uncertain economic environment. Concerning the selling prices in construction, the prevailing managers' expectations are them to remain unchanged over the next 3 months.

Retail trade. The composite indicator 'business climate in retail trade' decreases by 4.0 percentage points to 40.0%, which is due to the shifting of the retailers' assessments and expectations about the business situation of the enterprises from 'better' towards preserving 'the same'. Their opinions about the volume of sales over the last 3 months, as well as their expectations over the next 3 months are more unfavourable. The most serious problem limiting the activity of the enterprises remains the

Business Climate Indicator



competition in the branch, followed by uncertain economic environment and the insufficient demand. As regards the selling prices the majority of the retailers foresee preservation of their level over the next 3 months.

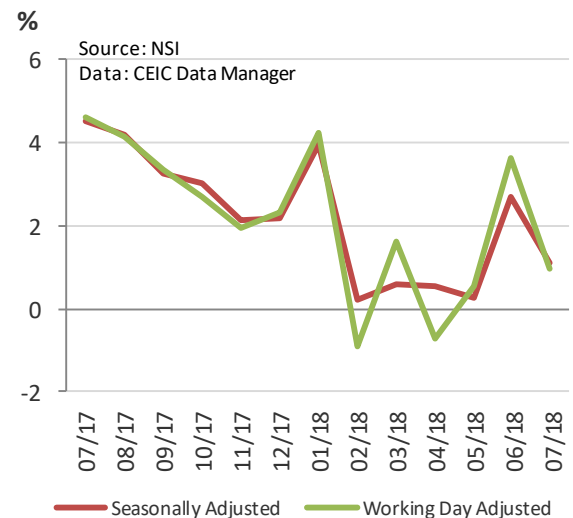
Service sector. In August the composite indicator ‘business climate in service sector’ decreases by 2.8 percentage points to 19.1% as a result of the more unfavourable managers’ expectations about the business situation of the enterprises over the next 6 months. However, their opinions about the present and expected demand for services are more optimistic. The main obstacles for the business continue to be connected with the competition in the branch and uncertain economic environment, as in the last month a decrease of the negative impact of the second factor is observed.

Industrial Production Index

According to the preliminary data the Industrial Production Index, seasonally adjusted, decreased by 1.2% in July 2018 as compared to June 2018. In July 2018 the working day adjusted Industrial Production Index rose by 1.0% in comparison with the same month of 2017

According to the preliminary data the Industrial Production Index, seasonally adjusted³, decreased by 1.2% in July 2018 as compared to June 2018. In July 2018 the working day adjusted⁴ Industrial Production Index rose by 1.0% in comparison with the same month of 2017. July 2018 as compared to June 2018, the seasonally adjusted Industrial Production Index decreased in the mining and quarrying industry by 17.4%, in the electricity, gas, steam and air conditioning supply by 0.7% and in the manufacturing by 0.5%. The most significant production decreases in the manufacturing were registered in the manufacture of tobacco products by 13.0%, in the manufacture of other transport equipment by 6.9%, in the manufacture of beverages by 6.8%, in the manufacture of leather and related products by 4.5%. There were increases in the manufacture of fabricated metal products, except machinery and equipment by 15.1%, in the manufacture of textiles by 7.1%, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 3.4%, in the manufacture of rubber and plastic products by 1.8%. On annual basis in July 2018 Industrial Production Index calculated from working day adjusted data rose in the manufacturing by 2.1%, while the production fell in the mining and quarrying industry by 8.8% and in the electricity, gas, steam and air conditioning supply by 5.2%. 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 31.5%, in the manufacture of motor vehicles, trailers and semi-trailers by 16.9%, in the manufacture of rubber and plastic products by 15.4%, in the manufacture of leather and related products by 15.3%. Decreases were seen in the manufacture of tobacco products by 13.3%, in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 9.7%, in the manufacture of chemicals and chemical products by 8.7%, in the manufacture of fabricated metal products, except machinery and equipment by 7.0%.

Industrial production Index, % change, YoY



Source: NSI
Data: CEIC Data Manager

Retail Trade

According to the preliminary seasonally adjusted data in July 2018 the turnover in ‘Retail trade, except of motor vehicles and motorcycles’ at constant prices increased by 0.2% compared to the previous month

According to the preliminary seasonally adjusted data³ in July 2018 the turnover in ‘Retail trade, except of motor vehicles and motorcycles’ at constant prices increased by 0.2% compared to the previous month. In July 2018, the working day adjusted⁴ turnover in ‘Retail trade, except of motor vehicles and motorcycles’ marked rise from 4.9% in comparison with the same month of the previous year. In July 2018 compared to the previous month increase of turnover was observed in the ‘Retail sale via mail order houses or via Internet’ by 0.6%, in the ‘Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances’ by 0.4%, in the ‘Retail sale of food, beverages and tobacco’ and in the ‘Dispensing chemist; retail sale

of medical and orthopedic goods, cosmetic and toilet articles' by 0.1%. Decrease was noted in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' - 2.3%, in the 'Retail sale in non-specialised stores' - 0.3%, in the 'Retail sale of automotive fuel' - 0.2% and in the 'Retail sale of textiles, clothing, footwear and leather goods' - 0.1%. July 2018 compared to the same month of 2017, the turnover increased more significantly in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles' by 14.0%, in the 'Retail sale via mail order houses or via Internet' by 13.4% and in the 'Retail sale of food, beverages and tobacco' by 9.7%. More significant decline was registered in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' - 6.1%, in the 'Retail sale in non-specialised stores' - 1.1% and in the 'Retail sale of automotive fuel' - 0.7%.

Construction

According to the preliminary data, in July 2018 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 1.5% above the level of the previous month. In July 2018 the working day adjusted index of production in construction increased by 0.9% in comparison with the same month of 2017

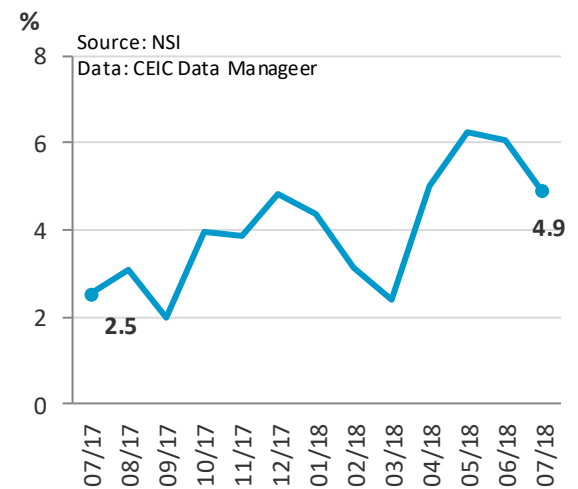
According to the preliminary data, in July 2018 the index of production in section 'Construction' calculated on the base of seasonally adjusted data³ was 1.5% above the level of the previous month. In July 2018 working day adjusted data⁴ showed an increase by 0.9% in the construction production, compared to the same month of 2017. In July 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 2.8% and production of building construction - by 0.6%. On an annual basis in July 2018, the increase of production in construction, calculated from working day adjusted data, was determined from the positive rate in the civil engineering, where the growth was by 2.2%, while in the building construction was registered a decrease by 0.1%.

Tourism

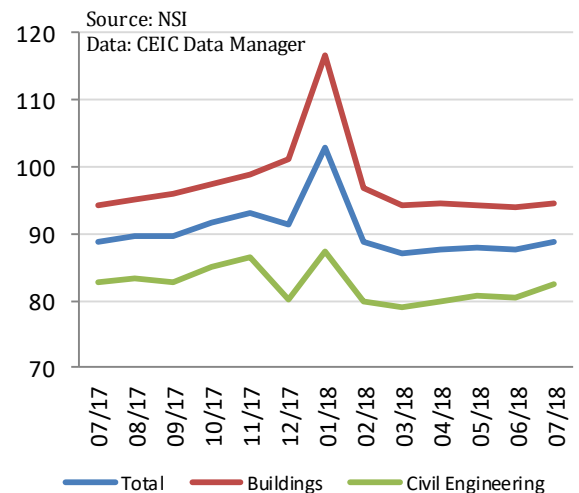
In July 2018, the number of the trips of Bulgarian residents abroad was 727.5 thousand or by 9.3% above the registered in July 2017. In July 2018, the number of arrivals of visitors from abroad to Bulgaria was 2 152.8 thousand or by 6.5% more in comparison with July 2017

In July 2018, the number of the trips of Bulgarian residents abroad was 727.5 thousand or by 9.3% above the registered in July 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: Greece - by 14.4%, Turkey - by 14.2%, the Former Yugoslav Republic of Macedonia - by 8.9%, Austria - by 8.7%, Serbia - by 5.9%, Romania - by 4.4%, Italy - by 1.5%. At the same time decreased the trips to: Ukraine - by 16.0%, Portugal - by 5.5%, Germany - by 2.5%, Malta - by 1.8% and etc. In comparison with July 2017, an

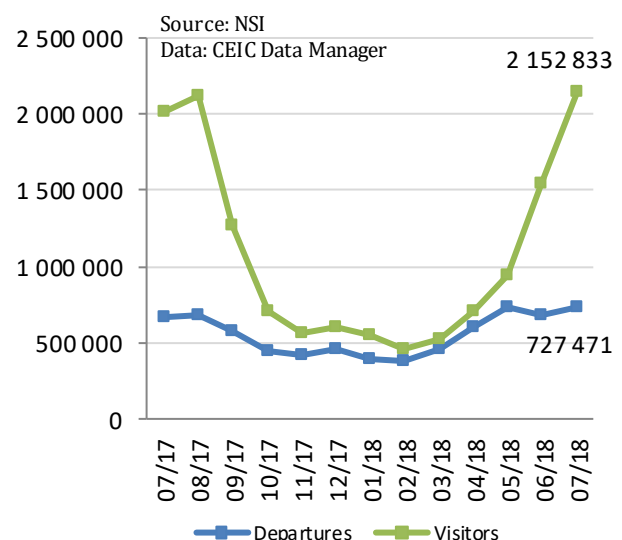
Retail trade index, % change (YoY)



Construction Production index, seasonally adjusted data



Total Visitors/Departures



increase was registered in the trips with all observed purposes: with professional purpose - by 23.9%, with holiday and recreation purpose - by 6.9%, and with other purposes - by 5.5%. The trips with other purposes (as a guest, education and visit the cultural and sport events) in July 2018 composed the greatest share of the total number of trips of Bulgarian residents abroad - 40.5%, followed by the trips with holiday and recreation purpose - 39.9%, and with professional purpose - 19.6%. In July 2018 most trips of Bulgarian citizens were made to: Turkey - 167.3 thousand, Greece - 150.4 thousand, Germany - 66.1 thousand, Romania - 62.8 thousand, Serbia - 38.1 thousand, the Former Yugoslav Republic of Macedonia - 33.3 thousand, Italy - 28.8 thousand, Austria - 22.6 thousand, the United Kingdom - 19.6 thousand, Spain - 18.5 thousand.

In July 2018, the number of arrivals of visitors from abroad to Bulgaria was 2 152.8 thousand or by 6.5% more in comparison with July 2017. An increase was registered in the trips with all observed purposes: with professional purpose - by 16.7%, with other purposes (including as guest and passing transit) - by 10.3% and with holiday and recreation purpose - by 3.1%. Transit passes through the country were 24.7% (532.3 thousand) of all visits of foreigners to Bulgaria. The share of visits of EU citizens was 61.3% of the total number of foreigners' visits to Bulgaria in July 2018 or by 4.9% more in comparison with the same month of the previous year. An increase was registered in the visits of citizens from the United Kingdom - by 30.4%, Czech Republic - by 26.6%, Belgium - by 25.4%, Romania - by 9.6%, Austria - by 7.6%, Poland - by 4.5%, Germany - by 2.5%, and etc. At the same time decreased the visits from Hungary - by 25.4%, Denmark - by 15.6%, the Netherlands - by 7.2%, France - by 4.9%, and etc. The visits of foreigners in the group 'Other European countries'¹ increased by 9.0%, as the highest growth was observed in the visits of citizens of Ukraine - by 25.9%. In July 2018, the predominant share of the visits with holiday and recreation purpose was 57.2%, followed by trips with other purposes - 35.4%, and with professional purpose - 7.4%. In July 2018 the most visits to Bulgaria were from: Romania - 296.2 thousand, Germany - 234.4 thousand, Turkey - 211.0 thousand, Greece - 139.2 thousand, Russian Federation - 137.1 thousand, Poland - 120.0 thousand, Ukraine - 104.8 thousand, the United Kingdom - 72.4 thousand, Serbia - 72.0 thousand, Czech Republic - 70.3 thousand.

The total revenues from nights spent in July 2018 reached 336.1 million BGN or by 6.0% more compared to July 2017

In July 2018, 3 206 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 136.4 thousand and the bed-places were 312.8 thousand. In comparison with July 2017, the total number of accommodation establishments (functioned during the period) increased by 3.0% while the bed-places in them decreases by 2.5%. The total number of the nights spent in all accommodation establishments registered in July 2018 was 5 945.3 thousand, or by 1.1% less in comparison with the same month of the previous year, as the greatest decrease (by 5.4%) was observed in 1 and 2 stars accommodation establishments. In July 2018, 62.2% of all nights spent by foreign citizens and 24.3% of all nights spent by Bulgarians were realized in 4 and 5 stars hotels. In 3 stars accommodation establishments were spent 27.4% of all nights by foreigners and 26.4% of all nights by Bulgarian residents, while in the rest of accommodation establishments (with 1 and 2 stars) they were 10.4% and 49.3% respectively. In July 2018, the number of arrivals in all accommodation establishments increased by 1.1% compared to the same month of 2017 and reached 1 233.3 thousand, as an increase was registered for foreigners by 4.0% and decrease by 3.7% for Bulgarians. Bulgarians spent the nights in accommodation establishments in July 2018 were 439.9 thousand and spent 3.3 nights on the average. The arrivals of foreigners were 793.4 thousand, as 63.5% of them spent nights in hotels with 4 and 5 stars. On the average 5.7 nights were spent by foreigners. In July 2018, the total occupancy of the bed-places in accommodation establishments was 61.8%, as compared to July 2017 decreased by 1.0 percentage point. The highest was occupancy of the bed-places in 4 and 5 stars accommodation establishments - 75.8%, followed by 3 stars accommodation establishments - 61.9%, and with 1 and 2 stars - 41.3%. The total revenues from nights spent in July 2018 reached 336.1 million BGN or by 6.0% more compared to July 2017. An increase in revenues was registered from both foreigners - by 6.5% and Bulgarians - by 3.9%.

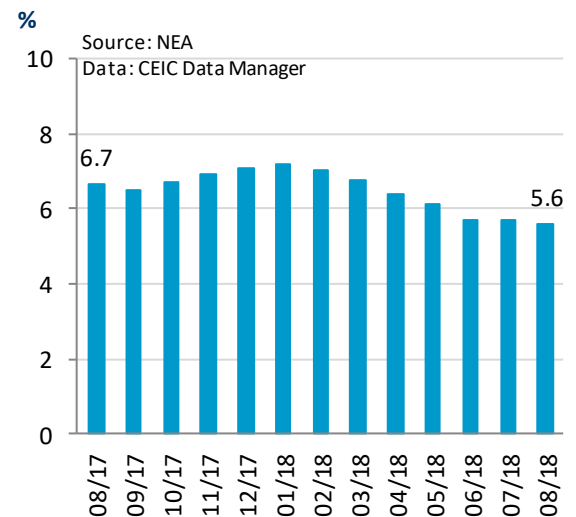
Unemployment

In August 2018, the registered unemployment rate in Bulgaria decreased to 5.6%, according to the Employment Agency

In August 2018, unemployment in Bulgaria continued to decline and reached 5.6%, according to data from the Employment

Agency. A minimum decrease of 0.1 percentage points is reported against July 2018 and by 1.1 percentage points on an annual basis. Registered unemployed at the end of August 2018 had a total of 183,962, their number shrinking by 1% compared to the previous month and by 15.8% compared to a year earlier. From the beginning of the year to the end of August their number in the labor offices decreased by over 22%. Newly registered during the month were 22,189, of which 1,416 were inactive, i.e. were neither employed nor students, nor were they looking for a job. In addition to the unemployed, the activity of the Labor Offices is also targeted at employed, learners and retirees, and in August 629 people from these groups were registered as jobseekers. A total of 15,764 persons went to work during the month, with 81.6% of them in the real economy. As a result of the implementation of the active measures to promote employment among the unemployed, 2 893 persons - 2 050 - under the Human Resource Development Operational Program, 576 - under the programs and 267 training measures and employment. During the month a total of 932 unemployed persons were included in training for acquiring new qualifications and key competencies. The main professions in which students are trained are in the field of construction, landscaping and floriculture, health care and adult assistance, and key competences are mainly focused on acquiring skills for learning, initiative and entrepreneurship, digital skills. The number of job vacancies on the primary labor market in August was 18 024, with 64.4% of them in the private sector. The largest share of vacancies last month was reported in manufacturing (22.1%), administrative and auxiliary activities (17.7%), education (16%), trade (12.1%), construction, 2%), hotels and restaurants (6.2%), etc. The most sought-after groups of professions in August are for teachers, personnel employed in the personal services sector (bartenders, waiters, chefs, cameramen, etc.), mining and manufacturing workers, construction and transport operators, stationary machinery and equipment operators; waste collectors and related workers; vendors; metallurgists, machine-building and related workers and craftsmen, etc.

Registered Unemployment Rate



Preliminary data of the NSI for Q2 of 2018 indicate that the total hourly labour cost rose by 8.5% compared to Q2 of 2017

Preliminary data of the NSI for Q2 of 2018 indicate that the total hourly labour cost rose by 8.5% compared to Q2 of 2017. The total hourly labour cost grew by 10.0% in industry, by 7.0% in services and by 10.5% in construction. The breakdown by economic activities showed that the highest annual growths in total labour costs were recorded in 'Information and communication' - 14.9%, 'Administrative and support service activities' - 12.7% and 'Arts, entertainment and recreation' - 11.6%. A decrease in total labour costs was observed in 'Real estate activities' by 7.5%. In the structure of the total labour costs, the wages and salaries costs per hour worked grew by 8.3% in comparison with a year earlier, while the other (non-wage) costs rose by 9.4%. Among the economic activities in the second quarter of 2018 compared to the second quarter of 2017 the growth rate of wages and salaries component ranged from 15.8% in 'Information and communication' to (-8.0%) in 'Real estate activities'.

According to the preliminary data, GDP per person employed increased by 3.0% in Q2 of 2018 compared to the same quarter of the previous year

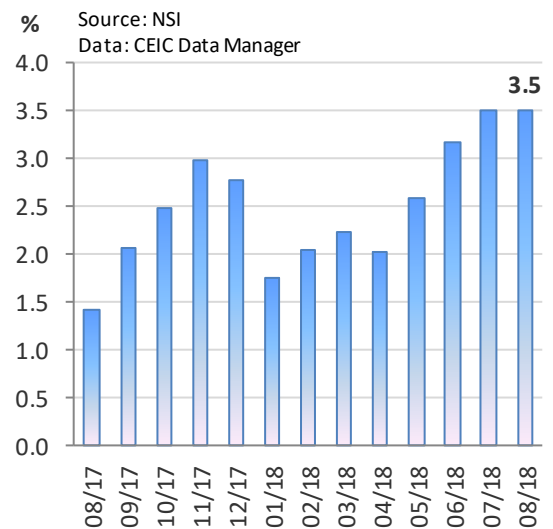
According to the preliminary data, GDP per person employed increased by 3.0% in the second quarter of 2018 compared to the same quarter of the previous year. The number of persons employed in the economy is 3 625.5 thousands and the total number of hours worked is 1 516.1 million. Compared with the same quarter of the previous year the structure of employment by economic sector in the second quarter of 2018 shows an increase in the relative share of industrial and services sectors. GDP is BGN 7 147.5 per person employed and BGN 17.1 per hour worked. Gross value added per person employed increases in real terms by 1.0% and GVA per hour worked in real terms increased by 0.8% in the second quarter of 2018 compared to the corresponding quarter of the previous year. GVA per person employed in industrial sector is BGN 7 219.7 and GVA per hour worked is BGN 16.8 according to the preliminary data for the second quarter of 2018. In service sector an average of BGN 6 328.2 Gross value added is produced by person employed or an average of BGN 15.2 GVA per hours worked. The lowest labor productivity is in agricultural sector BGN 1 095.2 GVA per person employed and BGN 2.7 per hours worked.

Inflation

The consumer price index for August 2018 compared to June 2018 was 100.1%, ie, monthly inflation is 0.1% and annual inflation is 3.5%

The consumer price index in August 2018 compared to July 2018 was 100.1%, i.e. the monthly inflation was 0.1%. The inflation rate since the beginning of the year (August 2018 compared to December 2017) has been 1.8% and the annual inflation in August 2018 compared to August 2017 was 3.5%. The annual average inflation, measured by CPI, in the last 12 months (September 2017 - August 2018) compared to the previous 12 months (September 2016 - August 2017) was 2.6%. Similar to previous months, the appreciation comes mainly from fuel prices, certain types of food and services such as water and waste water, courier and hotel services. The latter have recorded a record 28.5% increase over the past two decades. The harmonized index of consumer prices in August 2018 compared to July 2018 was 100.3%, i.e. the monthly inflation was 0.3%. The inflation rate since the beginning of the year (August 2018 compared to December 2017) has been 2.8% and the annual inflation in August 2018 compared to August 2017 was 3.7%. The annual average inflation, measured by HICP, in the last 12 months (September 2017 - August 2018) compared to the previous 12 months (September 2016 - August 2017) was 2.1%.

Inflation, YoY



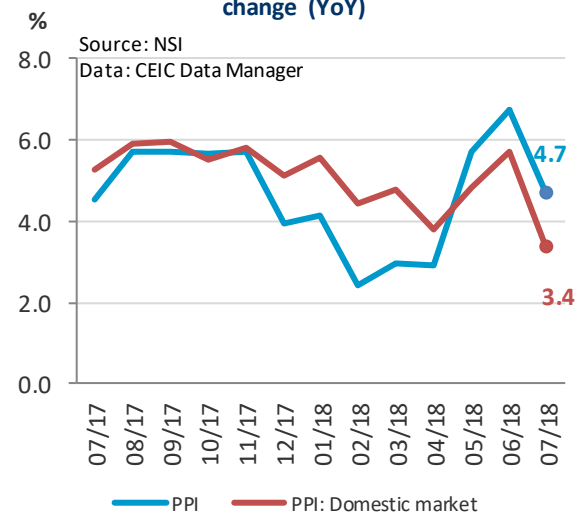
Producer Price Index in Industry

Total Producer Price Index in July 2018 decreases with 0.8% compared to the previous month; compared to the same month of 2017 the prices rose by 4.7%. Producer Price Index on Domestic Market in July 2018 increased by 0.1% compared to the previous month; compared to the same month of 2017 the domestic prices grew by 3.4%

The Total Producer Price Index in Industry in July 2018 went down with 0.8% compared to the previous month. Lower prices were registered in the mining and quarrying industry by 8.4% and in manufacturing by 1.0%, while in the electricity, gas, steam and air conditioning supply the prices increased by 1.1%. In the manufacturing³, more significant decrease in prices were reported in the manufacture of basic metals by 7.6%, as well as in the manufacture of furniture by 0.4%, while prices went up in the manufacture of tobacco products by 1.4% in the manufacture of fabricated metal products, except machinery and equipment, in the manufacture of leather and related products and in the manufacture of paper and paper products - all by 0.5%. The Total Producer Price Index in July 2018 increased by 4.7% compared to the same month of 2017. The prices rose in manufacturing by 5.2%, in the electricity, gas, steam and air conditioning supply by 3.7% and in the mining and quarrying industry by 3.1%. In the manufacturing more significant increase in prices were seen in the manufacture of basic metals by 5.7%, in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 5.6% and in the manufacture of leather and related products by 5.3%, while the producer prices dropped in other manufacturing by 1.7% and in the manufacture of tobacco products by 0.6%.

Producer Price Index on Domestic Market in July 2018 remained at the level of the previous month. The domestic prices went up in the electricity, gas, steam and air conditioning supply by 1.3%, while the prices decreased in the mining and quarrying industry by 5.7% and in manufacturing by 0.1%. In the manufacturing², compared to the previous month the prices went down in the manufacture of basic metals by 6.4% and in the manufacture of furniture by 0.6%. The domestic prices went up in the manufacture of tobacco products by 2.2% and in the manufacture of leather and related products by 1.8%. Producer Price Index on Domestic Market in July 2018 increased by 3.4% compared to the same month of 2017. The prices rose in the mining

Producer Price Index in Industry, % change (YoY)



and quarrying industry by 5.0%, in manufacturing by 3.4% and in the electricity, gas, steam and air conditioning supply by 3.3%. In the manufacturing compared to July 2017 the prices went up in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 4.5%, in the manufacture of paper and related products by 4.3% and in the manufacture of furniture by 3.6%. A decrease in the prices was reported in the manufacture of computer, electronic and optical products and in other manufacturing - both by 0.4%, as well as in the manufacture of rubber and plastic products by 0.3%.

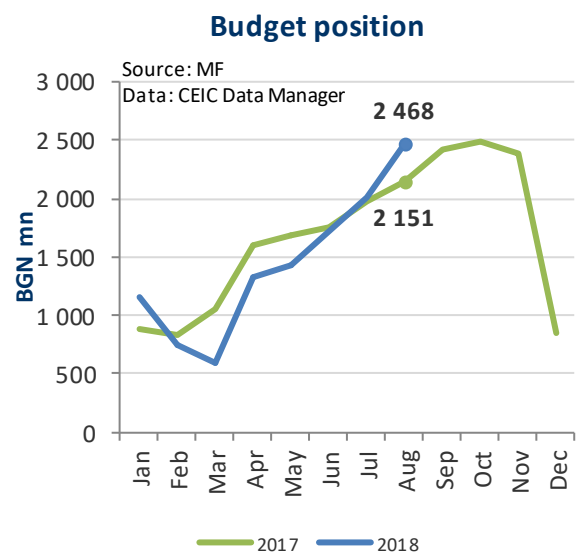
Producer Price Index on Non-domestic Market in July 2018 decreased by 2.1% compared to the previous month. In the manufacturing² the non-domestic prices decreased by 1.8%. More significant price decrease were reported in manufacture of basic metals by 7.9%. Producer Price Index on Non-domestic Market in July 2018 increased by 6.8% compared to the same month of 2017. In the manufacturing, the prices went up by 6.9%. The non-domestic prices rose in the manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials by 7.0% in the manufacture of leather and related products by 6.6% and in the manufacture of basic metals by 6.4%. The prices fell in other manufacturing by 2.3% and in the manufacture of tobacco products by 2.2%.

FISCAL SECTOR

Budget Balance

At the end of July 2018 Bulgaria's Consolidated Fiscal Programme (CFP) balance on a cash basis as of July 2018 is positive, amounting to BGN 2,015.0 million, or 1.9% of the projected GDP

According MF data the Consolidated Fiscal Programme (CFP) balance on a cash basis as of July 2018 is positive, amounting to BGN 2,015.0 million, or 1.9% of the projected GDP, and is formed by a national budget surplus of BGN 2,360.4 million and by a EU funds deficit of BGN 345.5 million. The CFP revenues and grants in July 2018 stand at BGN 22,547.5 million, or 59.0% of the annual estimates. Compared to the same period of the previous year, tax and non-tax revenues have risen by BGN 2,075.8 million (10.6%), with grant proceeds being of a similar amount. Tax proceeds, including revenues from social security contributions, total BGN 18,754.5 million, which accounts for 60.2% of the tax revenues planned for the year. Compared to the data for July 2017, tax proceeds have risen in nominal terms by 10.3%, or by BGN 1,751.6 million. Direct tax revenues amount to BGN 3,619.3 million, or 62.9% of the estimates planned for the year, growing by BGN 393.6 million (12.2%) compared to the same period of the previous year. Indirect tax revenues amount to BGN 8,978.6 million, which accounts for 59.2% of the annual estimates. Compared to the data as of July 2017, proceeds in this group have grown by BGN 639.9 million, or by 7.7%. VAT proceeds amount to BGN 5,949.5 million, or 60.8% of those planned. The amount of non-refunded VAT as of 31/07/2018 is BGN 66.0 million. The excise duty revenues amount to BGN 2,868.4 million, or 55.7% of the annual estimates. Customs duty proceeds amount to BGN 137.4 million, or 72.3% 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 763.7 million, or 69.6% of the annual estimates. Revenues from social security and health insurance contributions are BGN 5,392.8 million, which accounts for 59.1% 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 656.8 million, or by 13.9%, in nominal terms. Non-tax revenues amount to BGN 2,920.4 million, or 62.1% of the annual estimates. Grant proceeds amount to BGN 872.7 million. CFP expenditures, including the contribution of the Republic of Bulgaria to the EU budget for July 2018, amount to BGN 20,532.5 million, which accounts for 52.2% of the annual estimates. For comparison, the expenditures for the same period of the previous year amount to BGN 18,505.9 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 growth in national budget expenditures is 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 mini-



mum pension in 2017 as from July and October, as well as the new increase in pensions as from July 2018), the higher staff costs mostly resulting from the increase in the remuneration of pedagogical staff within the system of secondary education, etc., with mostly capital expenditures under EU fund accounts growing. Non-interest expenditures amount to BGN 19,388.3 million, which accounts for 52.0% of the annual estimates. Non-interest current expenditures as of July 2018 amount to BGN 17,742.2 million, or 57.0% of the estimates for the year, capital expenditures (including net increment of state reserve) amount to BGN 1,615.8 million, or 26.3% of the estimates to the 2018 State Budget of the Republic of Bulgaria. The current and capital transfers to other countries amount to BGN 30.3 million. Interest payments amount to BGN 489.9 million, or 67.8% of those planned for 2018.

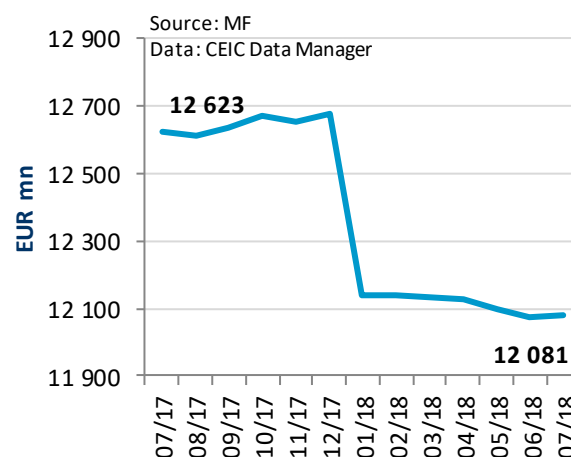
The part of Bulgaria’s contribution to the EU budget, as paid from the central budget as of 31/07/2018, amounts to BGN 654.4 million, which complies with the existing legislation in the area of EU own resources, i.e. Council Decision 2014/335/EU on the system of own resources of the European Union. The fiscal reserve as of 31/07/2018 amounts to BGN 10.8 billion, including BGN 10.0 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

At the end of July 2018 Bulgaria’s Central government debt stands at EUR 12,080.5 million and presented 22.6% of projected GDP

According to MF data Bulgaria’s Central government debt stands at EUR 12,080.5 million. Domestic debt amounts to EUR 2,957.8 million and external debt – to EUR 9,122.7 million. At the end of the reporting period the central government debt-to-GDP ratio is 22.6%, with the share of domestic debt being 5.5% and of external debt – 17.1% of GDP. In the central government debt structure, at the end of the period domestic debt amounts to 24.5%, and external debt – to 75.5%. As of 31 July 2018, the central government guaranteed debt amounts to EUR 318.0 million. Domestic guarantees amount to EUR 34.6 million and external guarantees – to EUR 283.4 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(1) of the Government Debt Law, at end-July 2018 government debt reaches EUR 11,409.5 million, or 21.3% of GDP. Domestic debt amounts to EUR 2,887.4 million and external debt – to EUR 8,522.1 million. Government guaranteed debt amounts to EUR 985.0 million in July 2018. Domestic guarantees amount to EUR 34.6 million, with the government guaranteed debt-to-GDP ratio being 1.8%.

Central Government Debt

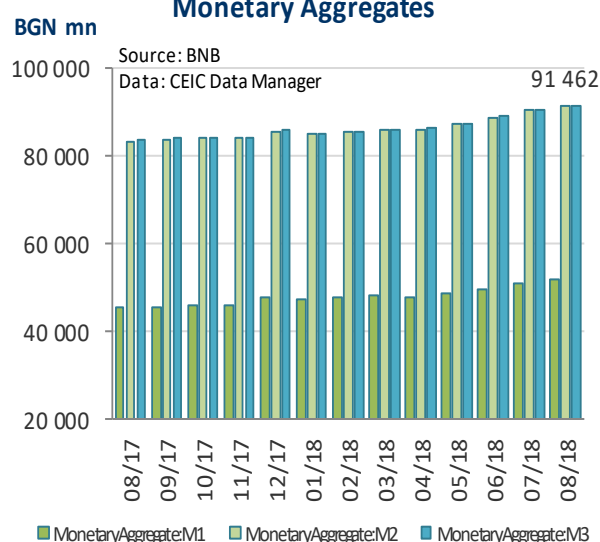


MONETARY SECTOR

At the end of July 2018 Bulgaria’s M3 increased by 10% yoy to BGN 90.443 billion and presented 87.6% of GDP. The Domestic credit increased by 9.4% yoy to BGN56.495 billion and presented 53.5% of GDP

In July 2018 broad money (monetary aggregate M3) increased annually by 10.4% compared to 10% annual growth in June 2018. At the end of July 2018 M3 was BGN 90.443 billion (87.6% of GDP3) compared to BGN 88.885 billion (86.1% of GDP) in June 2018. Its most liquid component – monetary aggregate M14 – increased by 15.7% annually in July 2018 (15.8% annual growth in June 2018). At the end of July 2018, deposits5 of the non-government sector6 were BGN 75.244 billion (72.9% of GDP), increasing annually by 8.8% (8.5% annual growth in June 2018). Deposits of Non-financial corporations

Monetary Aggregates



were BGN 23.269 billion (22.5% of GDP) at the end of July 2018. Compared to the same month of 2017 they increased by 16.4% (15.6% annual growth in June 2018). Deposits of financial corporations decreased by 18% annually in July 2018 (13.7% annual decline in June 2018) and at the end of the month they reached BGN 2.591 billion (2.5% of GDP). Deposits of Households and NPISHs were BGN 49.384 billion (47.8% of GDP) at the end of July 2018. They increased by 7.3% compared to the same month of 2017 (7% annual growth in June 2018). Net domestic assets were BGN 55.564 billion at the end of July 2018. They increased by 8.7% compared to the same month of 2017 (10.9% annual growth in June 2018). At the end of the month their basic component – domestic credit – was BGN 56.495 billion and increased by 8.1% compared to July 2017 (9.4% annual growth in June 2018). In July 2018 claims on the non-government sector⁷ increased by 7.5% annually (7.1% annual increase in June 2018) reaching BGN 57.715 billion. At the end of July 2018, claims on loans to the non-government sector amounted to BGN 56.162 billion (54.4% of GDP) compared to BGN 55.586 billion (53.8% of GDP) at the end of June 2018. They increased annually by 7.1% in July 2018 (6.7% annual growth in June 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 83.4 million. On an annual basis, loans sold⁸ by Other MFIs were BGN 119.4 million (of which BGN 19.5 million in July 2018), while the amount of repurchased loans was BGN 36 million (there were no loan repurchases in July 2018). In July 2018, loans to Non-financial corporations increased by 3.4% annually (3.8% annual growth in June 2018) and at the end of the month amounted to BGN 32.357 billion (31.3% of GDP). Loans to Households and NPISHs were BGN 21.153 billion (20.5% of GDP) at the end of July 2018. They increased by 10% compared to the same month of 2017 (9.2% annual growth in June 2018). At the end of July 2018 loans for house purchases were BGN 10.038 billion and increased by 9.2% annually (9% annual growth in June 2018). Consumer loans amounted to BGN 8.794 billion and compared to July 2017 they increased by 15% (15.1% annual growth in June 2018). On an annual basis other loans⁹ decreased by 6.4% (15.4% annual decline in June 2018) and reached BGN 991.2 million. Loans granted to financial corporations were BGN 2.651 billion at the end of July 2018 (2.6% of GDP). Compared to July 2017, they increased by 35.9% (30.1% annual growth in June 2018).

CAPITAL MARKET

In August 2018, three of the four stock indexes reported decline as follows: SOFIX to 631.83 points, BGBX 40 to 122.28 points and BG TR30 to 521.61 points, while only BGREIT registered a growth to 177.08 points

In August the main index of BSE-Sofia reported a decrease of 0.35% to 631.83 points. We recall that the "blue chips" indicator ended in 2017 with an increase of 15.77% yoy to 677.45 points. The index of the most liquid companies BGBX 40 declined by 0.34% to 122.28 points in August. Equally weighted BG TR30 dropped 0.74% to 521.61 points in August. BGREIT's property developer rose 1.05 percent to 117.08 in August. In August 2018, the ratio of losers to winning issues is 7:8, with the losers' one more than winners. Unlike in July, when all losing issues declined by less than 10%, in August one of the losers that reported a 10% fall in their share price was Trace Group Hold, whose shares fell 17.44% due to the crash near Svoge, where 17 people died. Turnover in August 2018 was 1.5 times higher than in July and amounted to BGN 7 444 442. In August 2018, Sopharma retained the leading position by market capitalization (BGN 544,583,512), followed by Chimimport (BGN 512,843,011). The top five is complemented by CB First Investment Bank (BGN 425,700,000), Eurohold Bulgaria (BGN 325,917,240) and Monbat (BGN 327,600,000). Holdings in August are also presented in July. Of the seven holdings included in SOFIX, profit are: Holding Varna (+ 1.60%), Industrial Holding

Date	SOFIX	BGBX40	BGREIT	BGTR30
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
07.2018	634.0	122.7	115.9	525.5
08.2018	631.8	122.3	117.1	521.6

Source: Bulgarian Stock Exchange-Sofia

Bulgaria (+ 1.54%), Eurohold Bulgaria (+ 1.23%) and Stara Planina Hold (+ 0.75%). Loss reported: Trace Group Hold (-17.44%), Trust United Holding (-4.71%) and Sirma Group Holding (-1.15%). The company with the highest turnover for the month of August 2018 is CB Central Cooperative Bank AD, with a total volume of BGN 2 600 021. The second place is 235 Holdings AD with a

total amount of BGN 2 017 840. In the list there are two representatives of the special investment vehicles. With the smallest number of trades in the ranking, 235 Holdings AD and Development Industry Holding AD are listed, with the largest Advance Terrafund REIT, Bulgarian Stock Exchange AD and Corado Bulgaria AD. The most profitable company in August 2018 was 235 Holdings AD, which achieved a growth of 37.50%. The second place is St. St. Konstantin and Elena Holding AD, followed by Elhim Iskra AD with a growth of 10.58%. The last two companies in the ranking have one-digit growth, respectively First Investment Bank AD with growth of 9.01% and Holding New Vent AD with a growth of 6.21%.

BANKING SECTOR

In July 2018 the aggregate net profit of the banking system at the end of July amounted to BGN 951 million and grew by 23.7% yoy. As at 30 June 2018, Tier 1 Tier 1 capital and total capital adequacy ratios were 19.31%, 19.74% and 20.82% respectively (19.34%, 19.79% and 20.91% at the end of March 2018)

According to BNB data, the aggregate net profit of the banking system at the end of July amounted to BGN 951 million and grew by 23.7% on an annual basis. Impairment costs of financial assets not reported at fair value through profit or loss for the period are BGN 270 million (compared to BGN 287 million a year earlier).

Indicator (BGN'000)	31.07. 2017	31.07. 2018	Change Y/Y (%)
Interest Income	1 791 607	1 755 359	-2.0
Interest Expencc	227 329	174 791	-23.1
Net interest Income	1 564 278	1 580 568	1.0
Impairment	286 674	270 135	-5.8
Fee and commission income	655 502	710 260	8.4
Fee and commission expenses	82 099	100 176	22.0
Net fee and commission income	573 403	610 084	6.4
Administration costs	920 727	968 296	5.2
Personal cost	459 956	490 938	6.7
Total operating income, net	2 188 995	2 380 154	8.7
Net Profit	790 353	950 556	20.3

Source: BNB, Calculations: UBB

According to data of the BNB at the end of July 2018, the assets of the banking system increased on a monthly basis by 2.1% (BGN 2.2 billion) to BGN 102.3 billion. The position of money, cash balances with central banks and other sight deposits are increasing and its share in total assets at the end of the month is 19.8%. Other deposits of sight and cash are growing. The balance (net) amount of loans and advances increases monthly, with its share in assets reaching 62.2% of the assets. There is a slight decrease in securities portfolios and their share is down 13.1%. Gross loans and advances to customers increased by 1.4% compared to the end of June and by 7.6% on an annual basis to BGN 59.7 billion (55.8% of GDP). Loans to non-financial corporations (by 1.1% on a monthly basis and by 4.9% on an annual basis) increased for other financial corporations (by 9.4% on a monthly basis and by 23.7% on an annual basis) with 0.8% on a monthly basis and 10.4% on an annual basis) and general government (by 0.9% on a monthly basis and by 0.8% on an annual basis). At the end of July 2018 customer deposits in the banking system increased during the month by 9% mom and 10.6% yoy at the end of the period totaled BGN 82.3 billion (76,5% of GDP). There was an increase in deposits from non-financial corporations (by 5.9% on a monthly basis and by 20.0% annually) to BGN 25.5 billion. Household deposits grew by 0.8% on a monthly basis and by 7.5% on an annual basis, the total amount exceeding BGN 51.2 billion. Deposits from other financial corporations decreased by 8.1% on a monthly basis and by 14.7% on an annual basis. Deposits in the general government sector decreased by 2.4% on a monthly basis but increased by 24.1% yoy to BGN 2.4 billion.

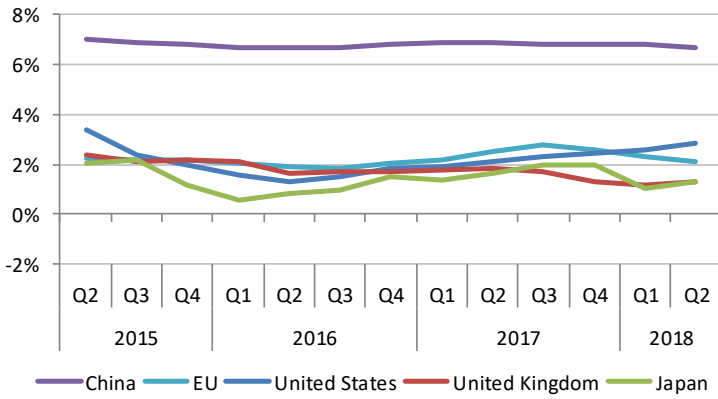
Bulgaria Intermediation Indicators	31.07.2017 BGN'000	31.12.2017 BGN'000	30.06.2018 BGN'000	31.07.2018 BGN'000	Change m/m (%)	Change y/y (%)	Change yend (%)	Share in GDP (%)
BANKING SYSTEM TOTAL ASSETS	93 016 075	95 850 484	100 135 063	102 286 880	2.1	10.0	6.7	97.7
Loans to central governments	621 233	614 592	620 234	626 101	0.9	0.8	1.9	0.6
Loans to non-financial corporations	33 019 133	33 516 791	34 245 215	34 634 871	1.1	4.9	3.3	33.1
Loans to financial corporations	2 406 225	2 352 930	2 718 319	2 975 516	9.5	23.7	26.5	2.8
Retail loans, incl.:	19 482 554	19 972 030	21 326 775	21 500 375	0.8	10.4	7.7	20.5
Mortgage loans	9 018 959	9 444 146	10 233 209	10 316 315	0.8	14.4	9.2	9.9
Consumer loans	8 964 702	9 264 095	10 021 461	10 129 285	1.1	13.0	9.3	9.7
Micro credits and other loans	1 498 893	1 263 789	1 072 105	1 054 775	-1.6	-29.6	-16.5	1.0
TOTAL LOANS	55 529 145	56 456 343	58 910 543	59 736 863	1.4	7.6	5.8	57.1
ATTRACTED SOURCES FROM CLIENTS, incl.:	74 441 632	76 747 619	80 749 429	82 295 942	1.9	10.6	7.2	78.6
Local government deposits	1 919 687	1 824 421	2 439 034	2 381 392	-2.4	24.1	30.5	2.3
Non-financial corporations deposits	21 555 461	23 709 705	24 409 714	25 858 165	5.9	20.0	9.1	24.7
Financial corporations deposits	3 395 294	2 842 120	3 149 142	2 895 271	-8.1	-14.7	1.9	2.8
Households and NPISHs deposits	47 571 190	48 371 373	50 751 539	51 161 114	0.8	7.5	5.8	48.9
Equity	11 976 927	12 468 136	12 045 780	12 219 745	1.4	2.0	-2.0	11.7
Net profit (annualised)	660 400	1 088 190	800 985	950 557		43.9		
BANKING INDICATORS (%)								
ROE	9.5	9.5	13.3	13.3	0.0	3.9	3.8	
ROA	1.2	1.2	1.6	1.6	0.0	0.4	0.4	
Capital adequacy	22.60	22.1	20.8	n.a				
Liquidity coverage(%)	n.a	n.a	315.1	325.9	10.8	n.a	n.a	
NPL	10.50	10.2	9.1	n.a.				
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

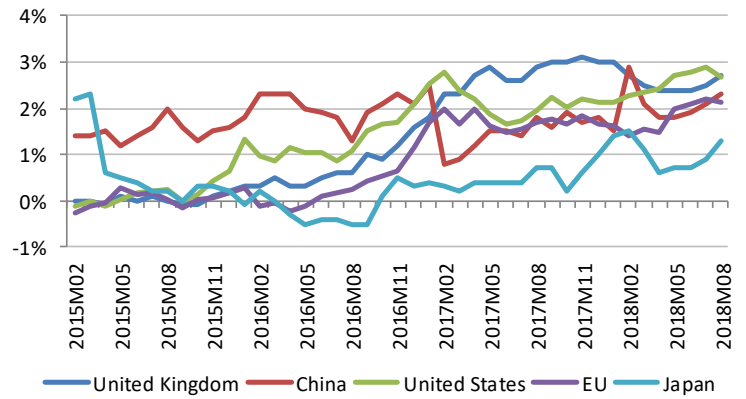
Commission liquidity buffer and net outflow of liquidity as calculated in accordance with Commission Regulation (EC) 2015/61 (supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council) are 24.7 billion levs at the end of July and BGN 7.6 billion. The ratio between the two amounts - the ratio of liquidity coverage - was 325.9%. Equity in the balance sheet of the banking system at the end of July 2018 amounted to BGN 12.2 billion, increasing by BGN 174 million (1.4% per month). As at 30 June 2018, Tier 1 Tier 1 capital and total capital adequacy ratios were 19.31%, 19.74% and 20.82% respectively (19.34%, 19.79% and 20.91% at the end of March 2018).

Appendix

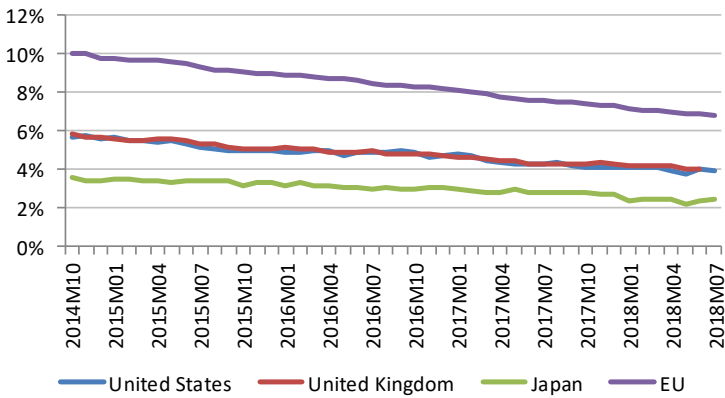
Advanced Economies: GDP growth rate compared to the same quarter of the previous year



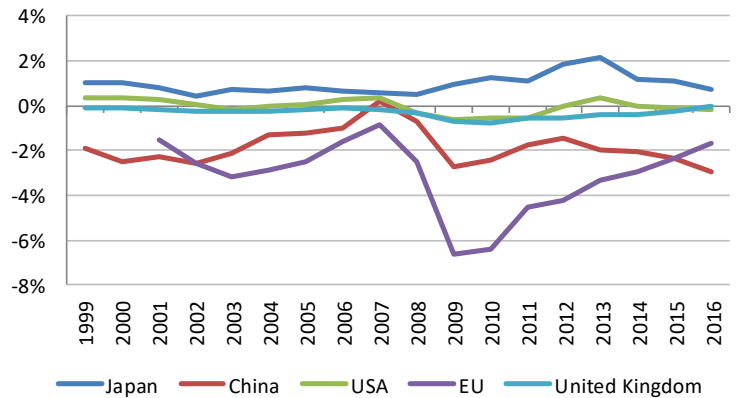
Advanced economies: Inflation by country, monthly (y/y)



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

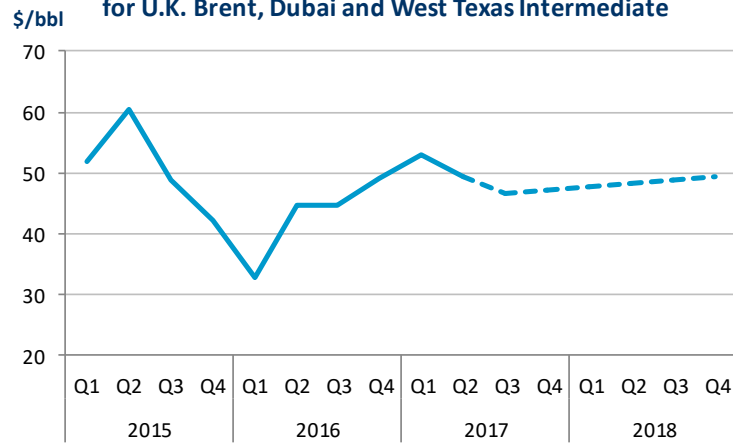


Advanced economies: Budget surplus/deficit to GDP (%)

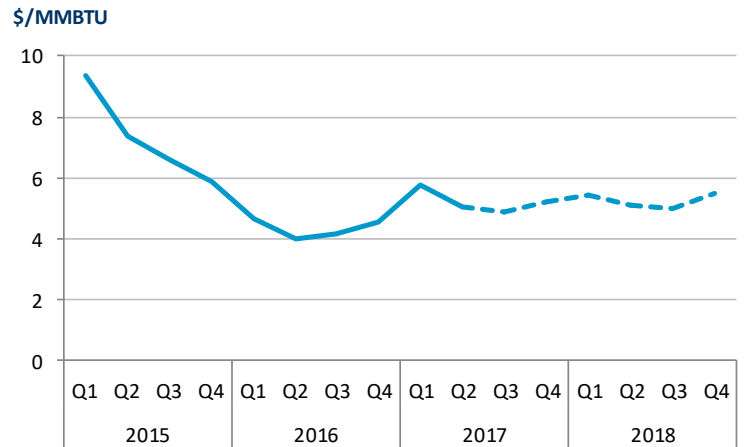


Overseas Prices of Oil Products

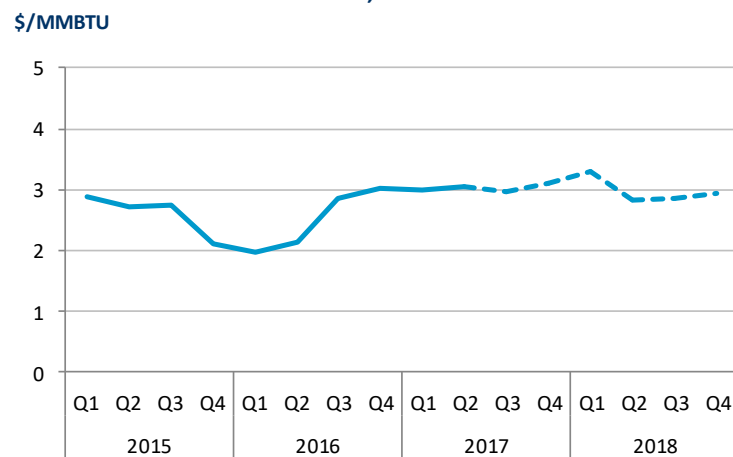
Spot Crude: Petroleum price - average of spot prices for U.K. Brent, Dubai and West Texas Intermediate



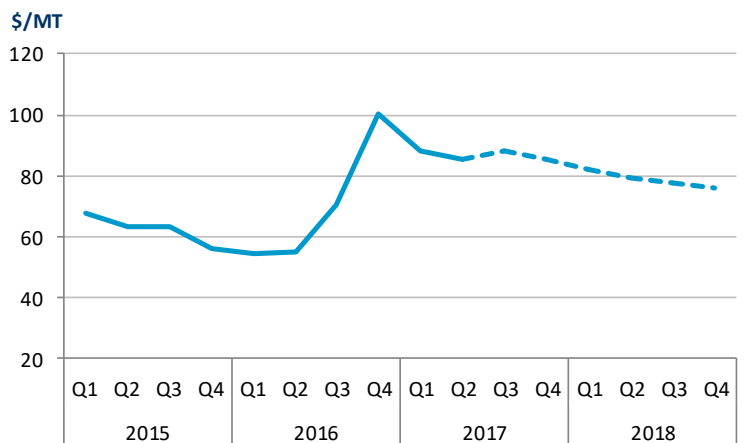
Natural Gas: Russian in Germany



Natural Gas: US, domestic market

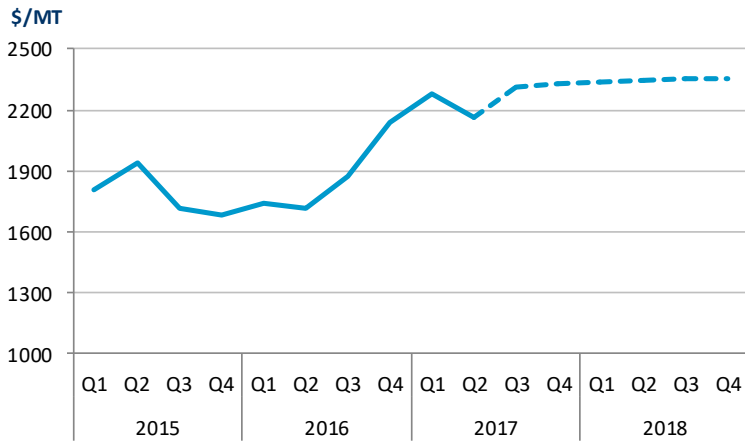


Coal: Australian, export markets

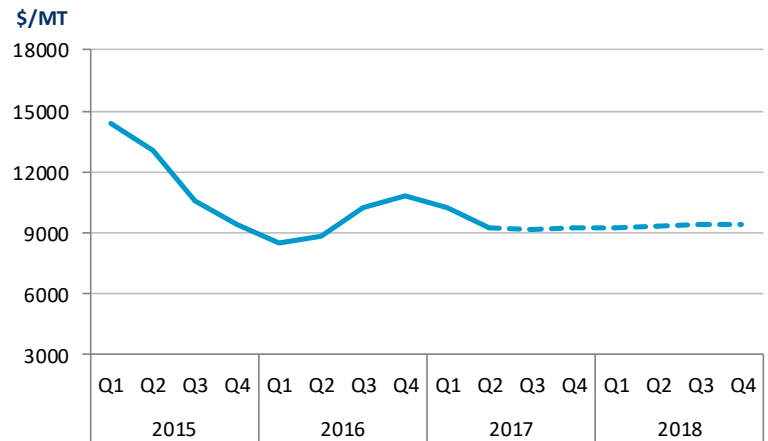


Overseas Prices of Metals

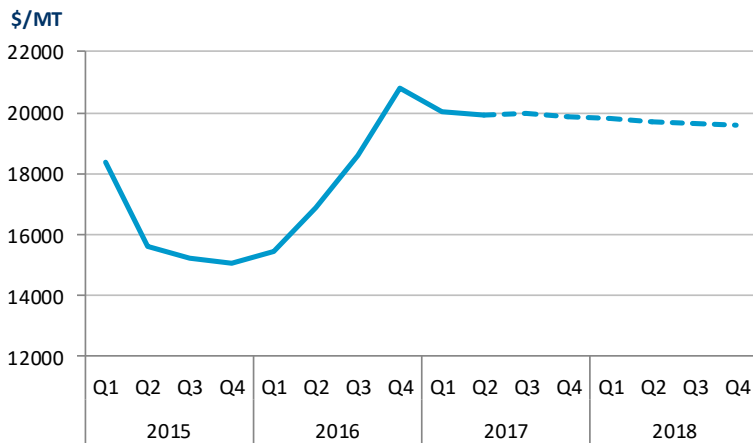
Lead



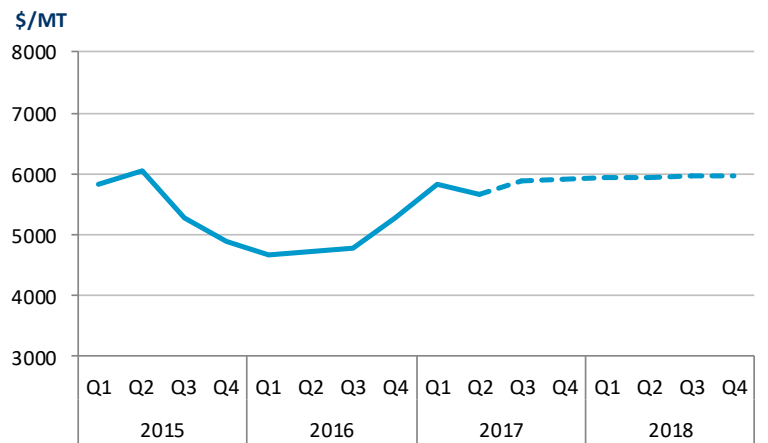
Nickel



Tin

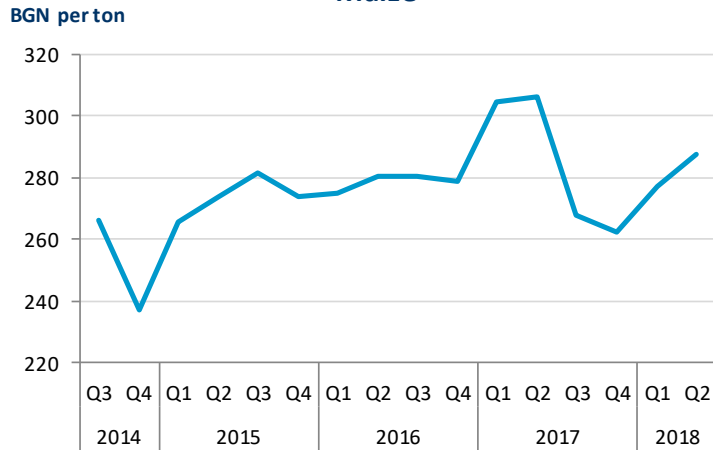


Copper

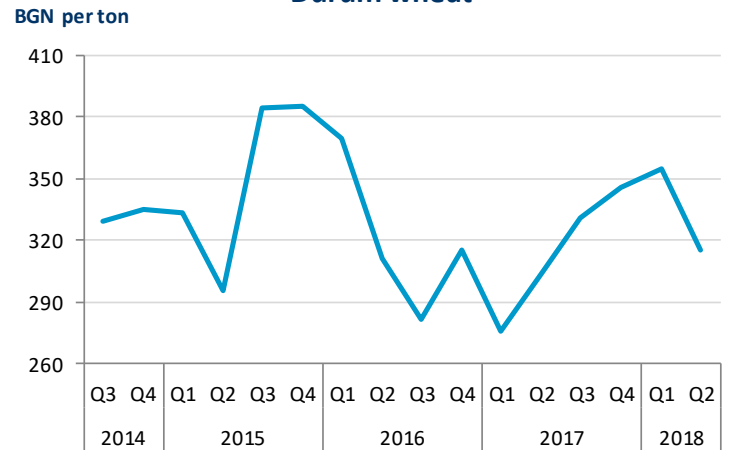


Bulgaria: Prices of Agriculture products

Maize



Durum wheat



Barley

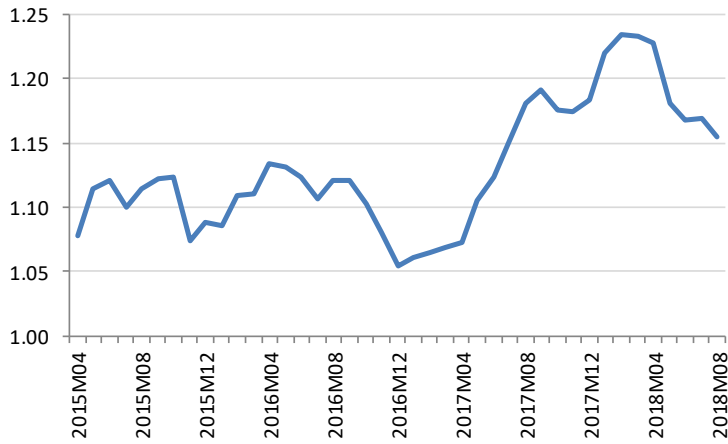


Oats

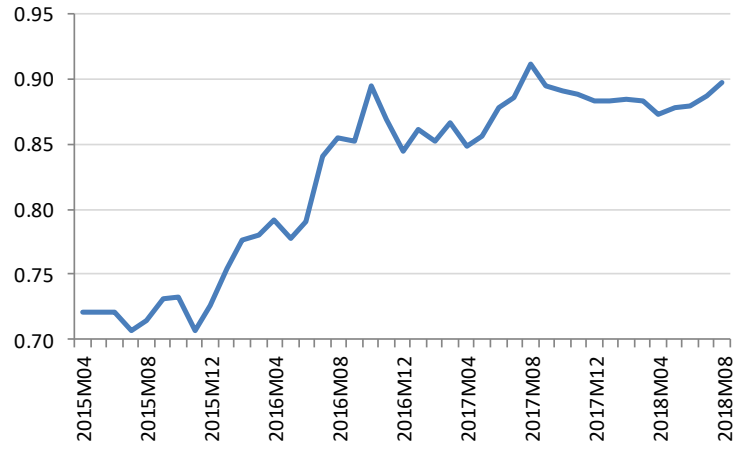


Overseas FX Rates

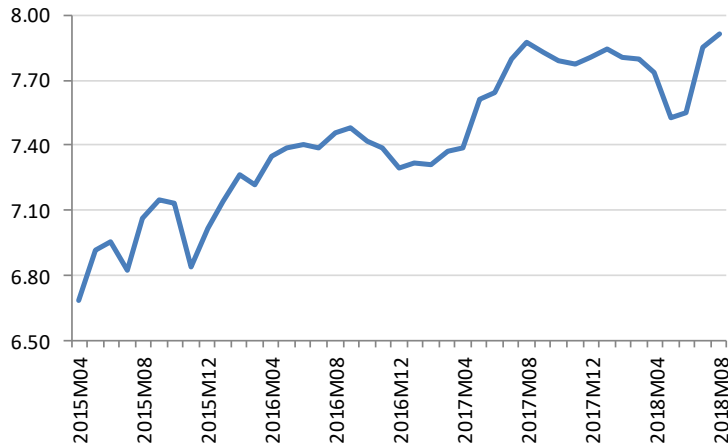
EUR/USD



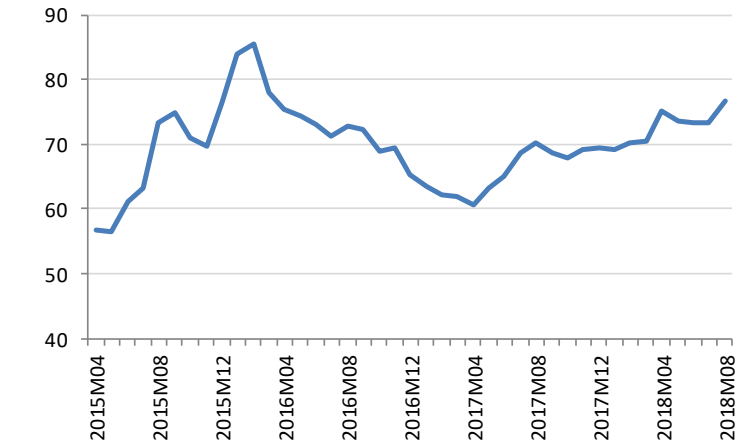
EUR/GBP



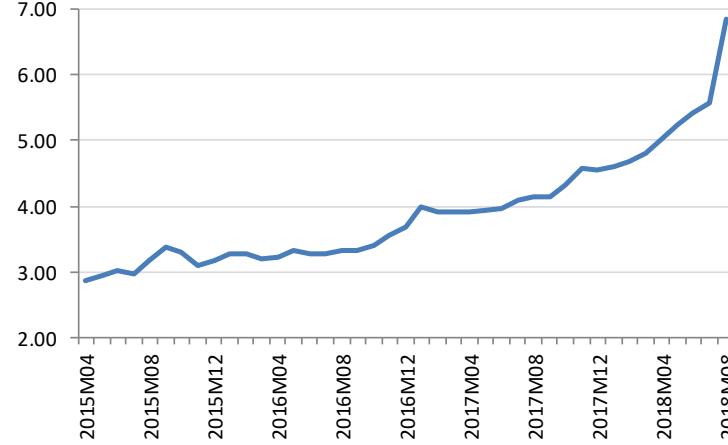
EUR/CNY



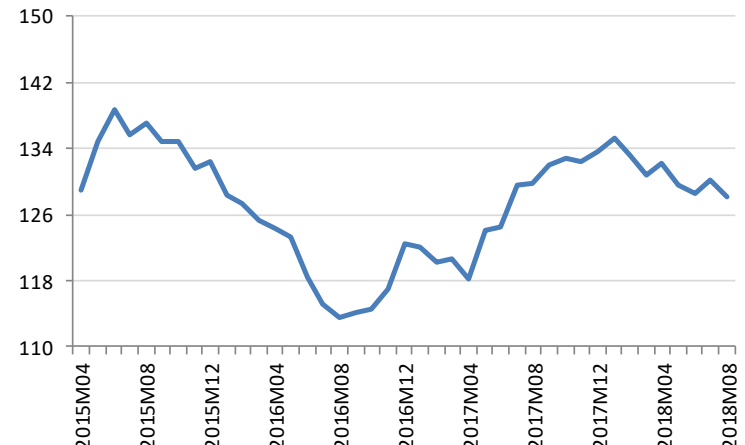
EUR/RUB



EUR/TRY

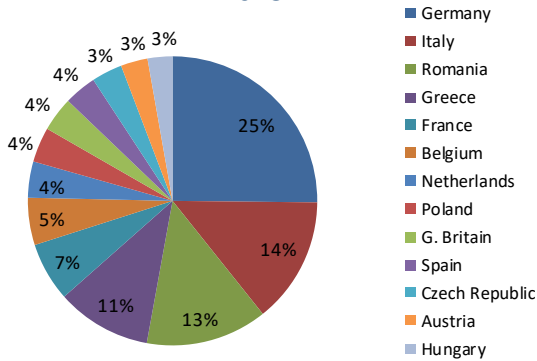


EUR/JPY

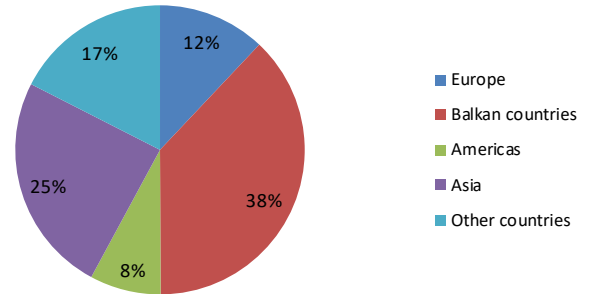


Bulgaria: External Sector Indicators

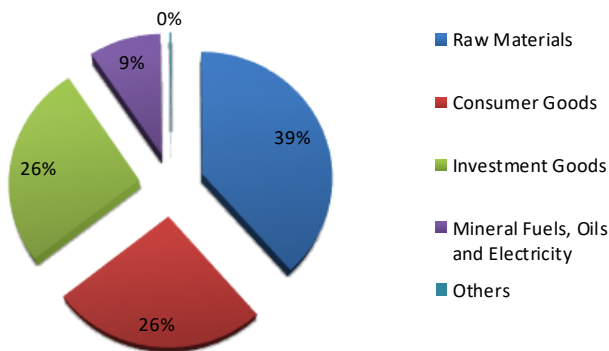
Exports: FOB by EU countries: January - June 2018



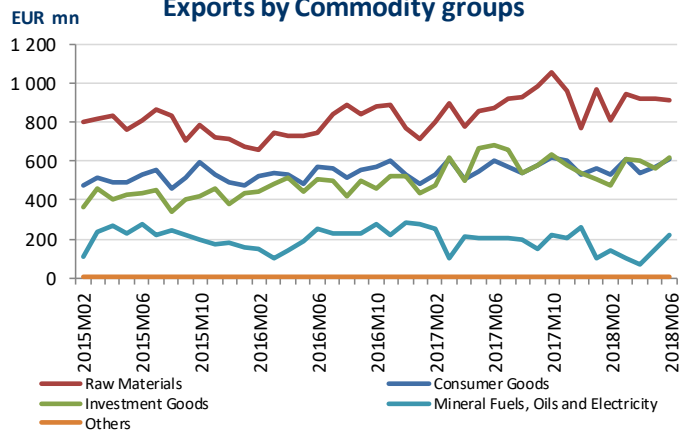
Exports: FOB by Non EU countries: January - June 2018



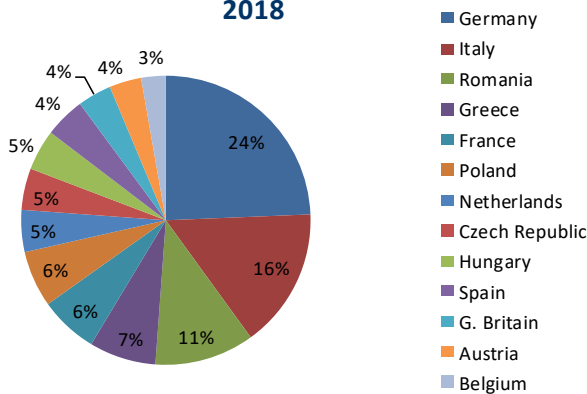
Exports: FOB: Commodity groups - percentage shares for June 2018



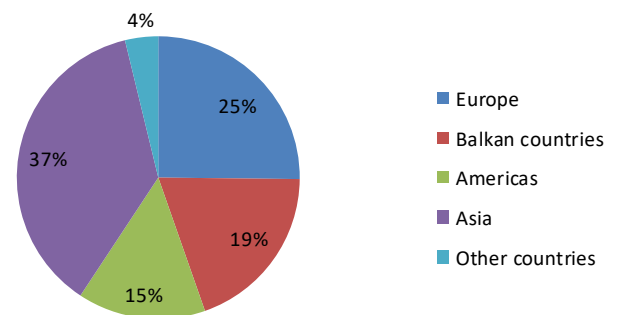
Exports by Commodity groups



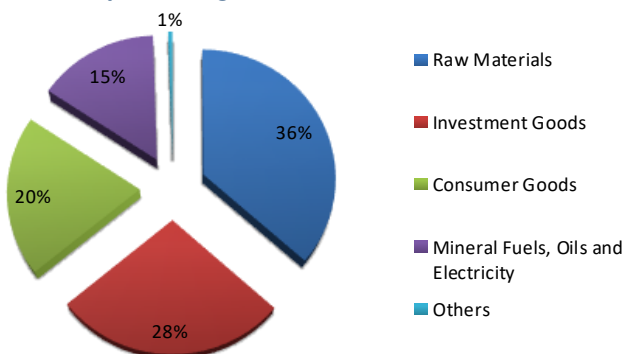
Imports: CIF by EU Countries: January - June 2018



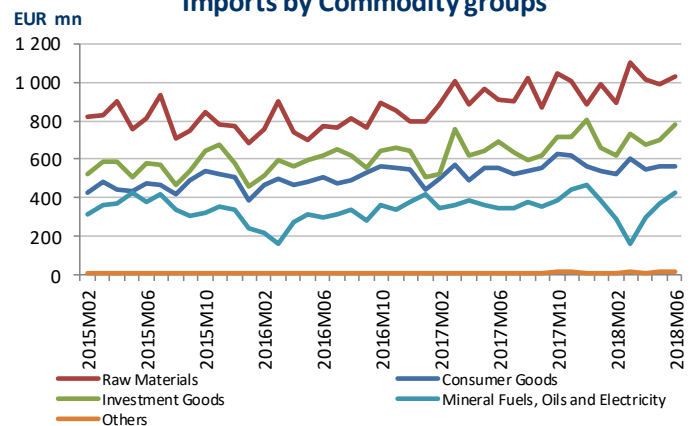
Imports: CIF by Non EU Countries: January - June 2018



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

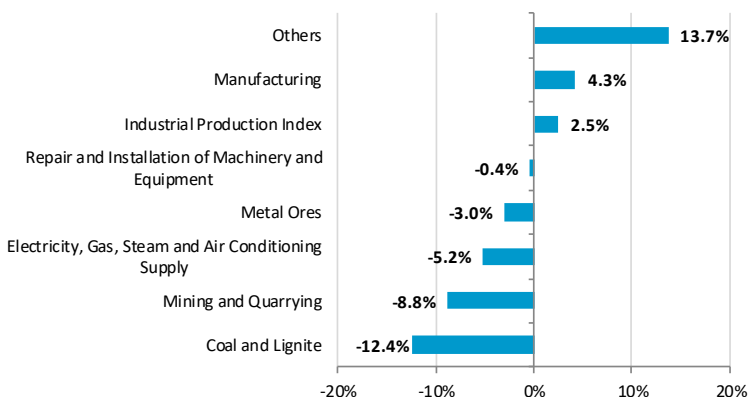


Imports by Commodity groups

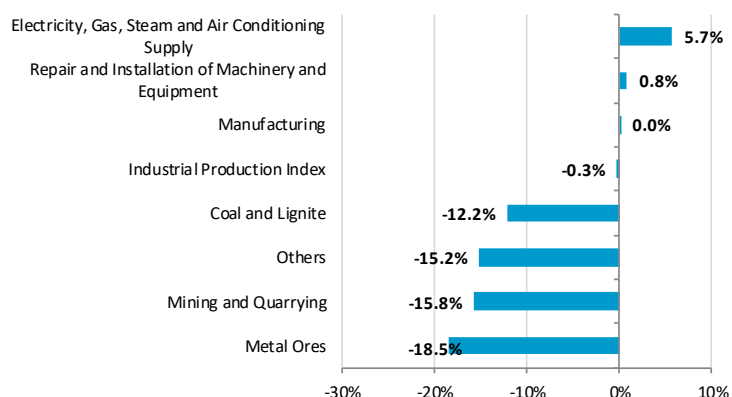


Bulgaria: Real Sector Indicators

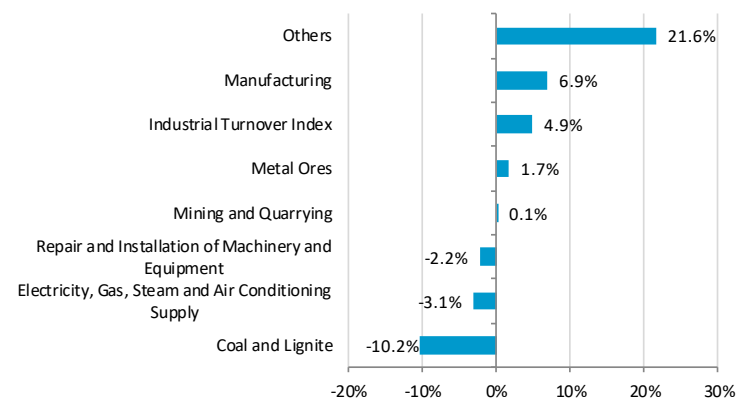
Industrial Production Index: % change in July 2018 compared to July 2017



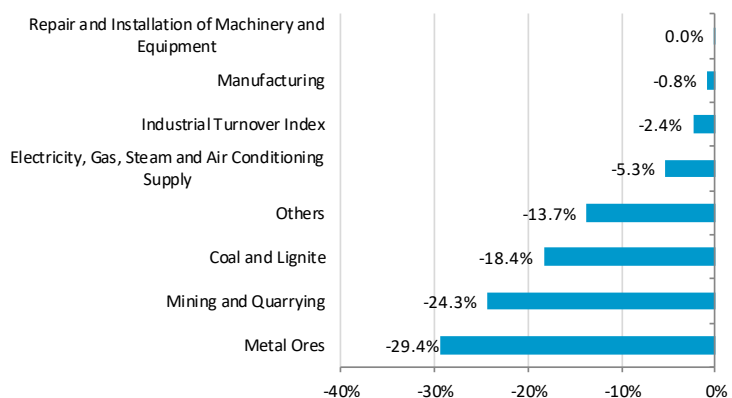
Industrial Production Index: % change in July 2018 compared to June 2018



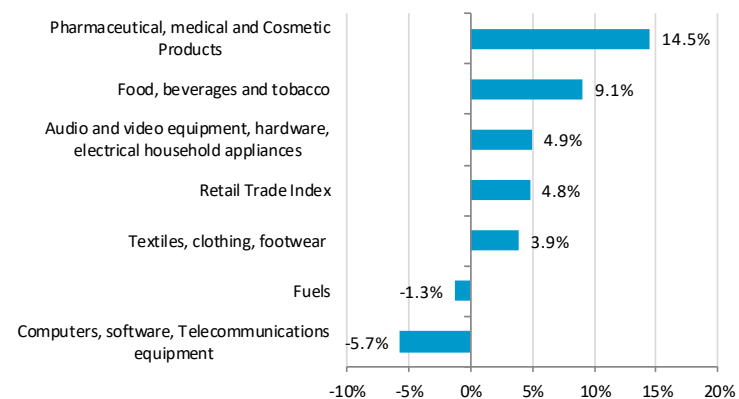
Industrial Turnover Index: % change in July 2018 compared to July 2017



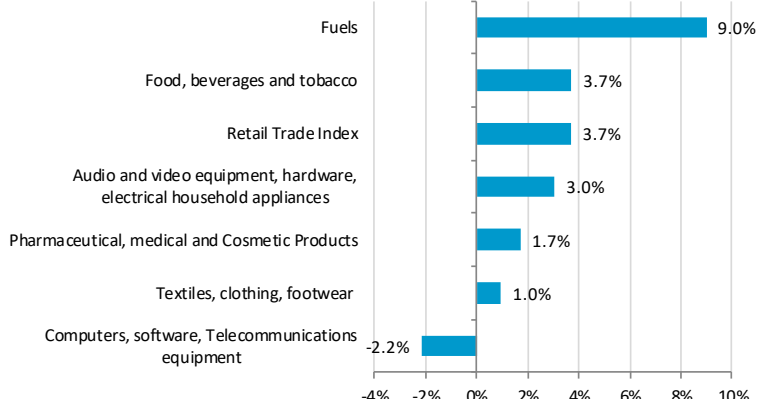
Industrial Turnover Index: % change in July 2018 compared to June 2018



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

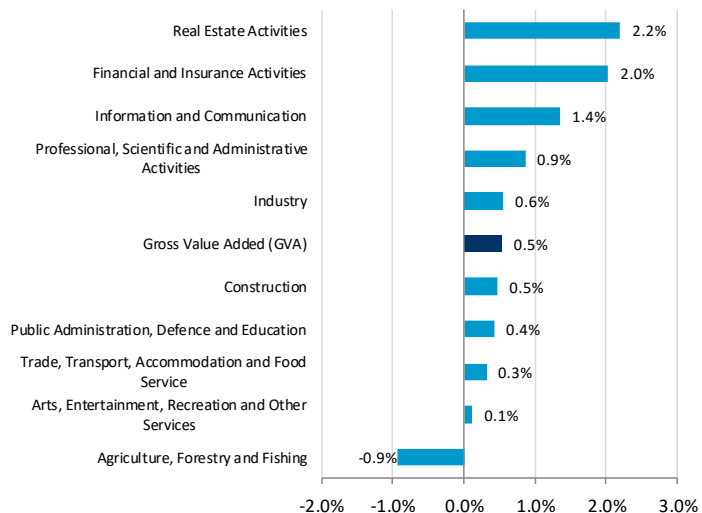


Retail Trade Index: % change in July 2018 compared to June 2018

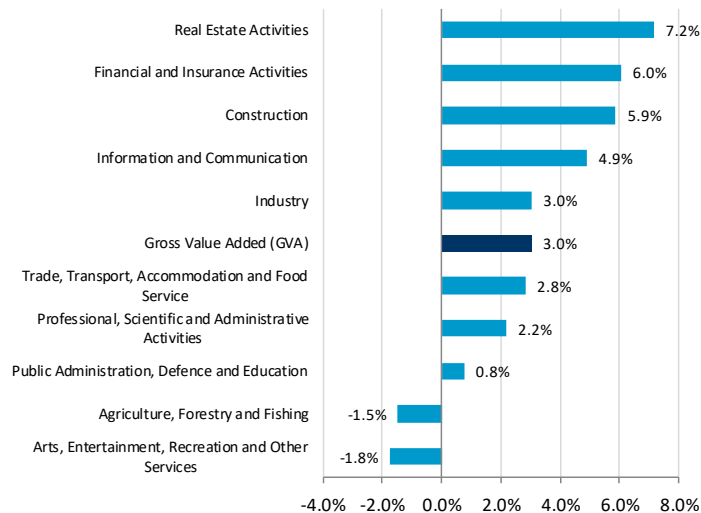


Bulgaria: Real Sector Indicators

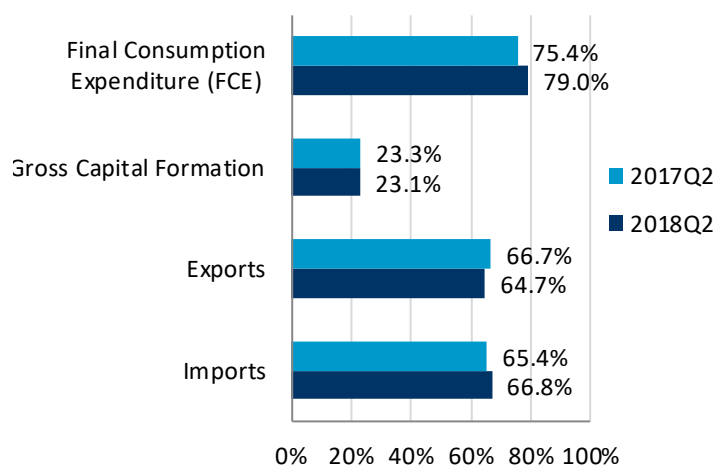
Gross Value Added by Economic Sectors: Percentage Change of Q2 2018 compared to Q1 2018



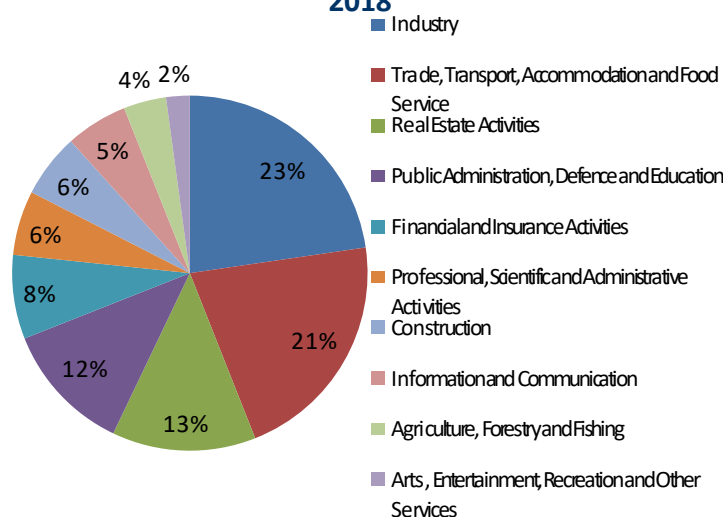
Gross Value Added by Economic Sectors: Percentage change of Q2 2018 compared to Q2 of 2017



Structure of GDP by the expenditure approach for Q2 in 2017 and 2018

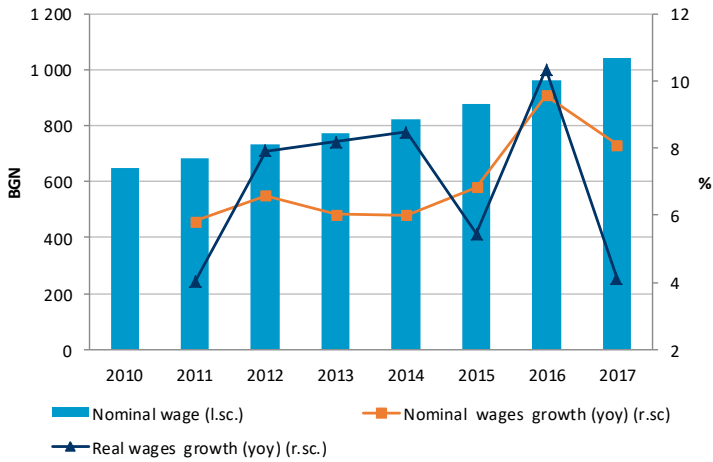


Bulgaria: Industries' relative share to GVA for Q2 2018

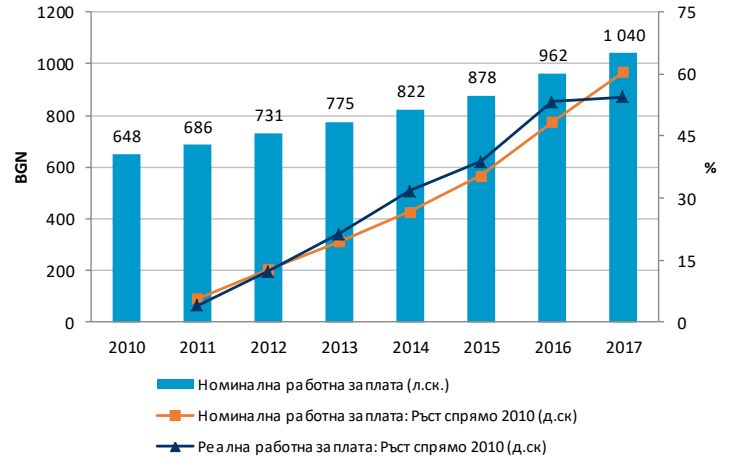


Bulgaria: Real Sector Indicators

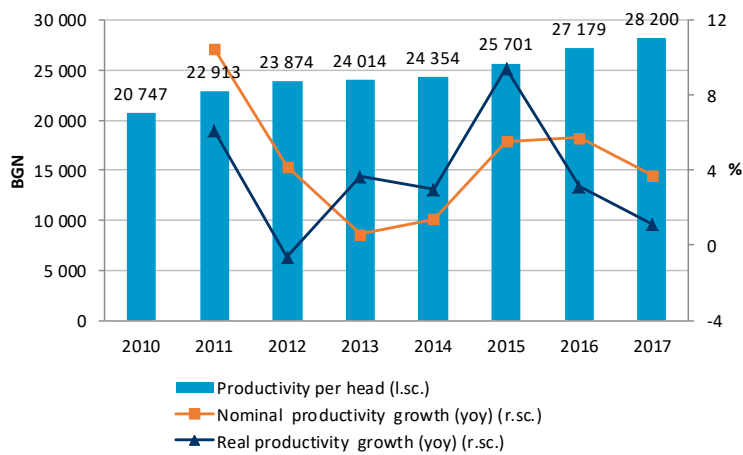
Nominal and Real Wage Dynamics: YoY (%)



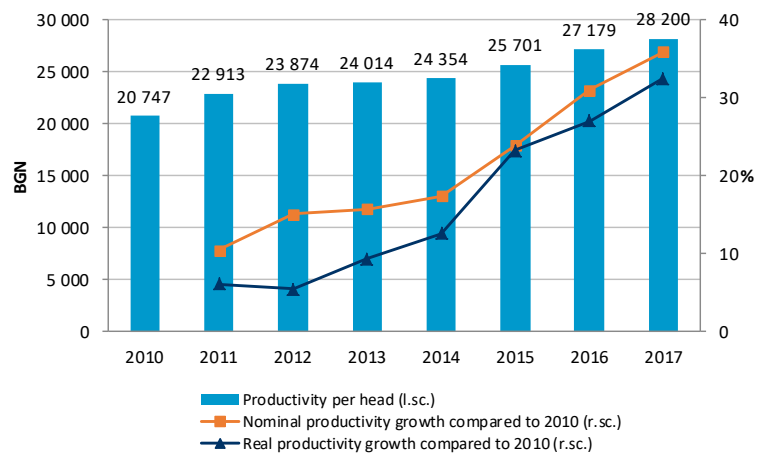
Nominal and Real Wage Dynamics compared to 2010 (%)



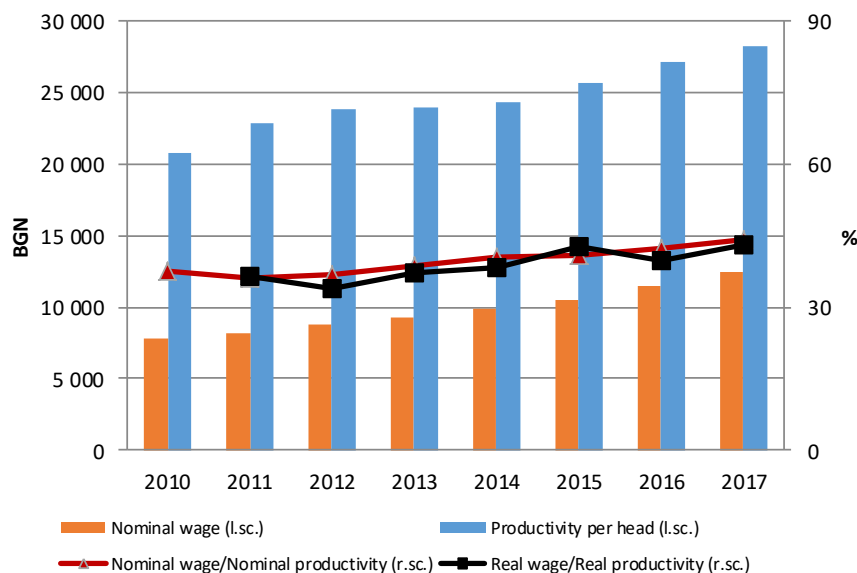
Nominal and Real Productivity per Head Dynamics, YoY (%)



Nominal and Real Productivity Dynamics compared to 2010 (%)

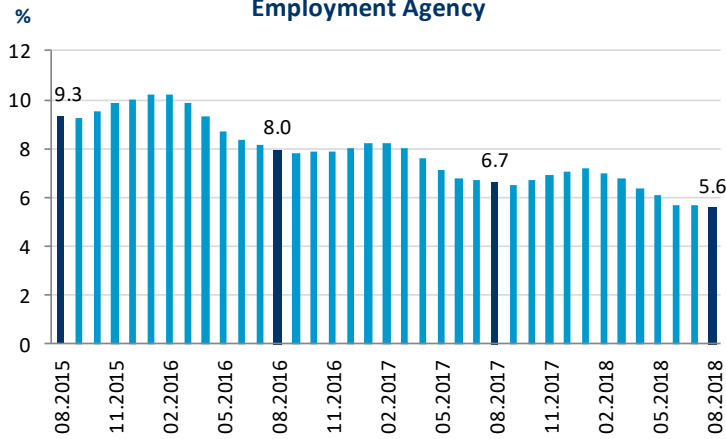


Average Wage to Productivity Ratio Dynamics, YoY (%)

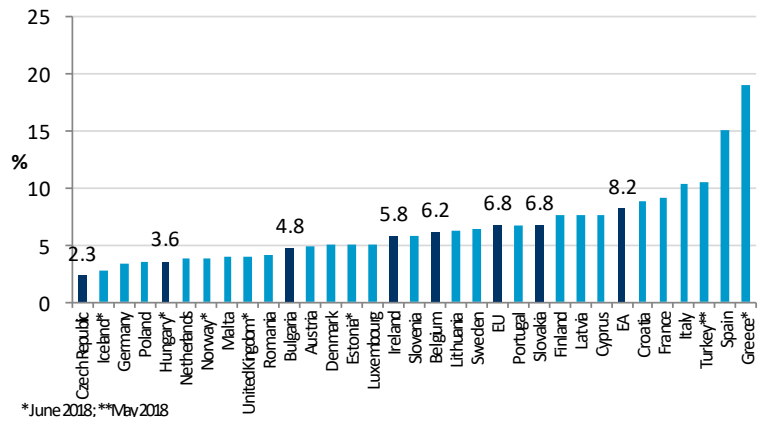


Bulgaria: Real Sector Indicators

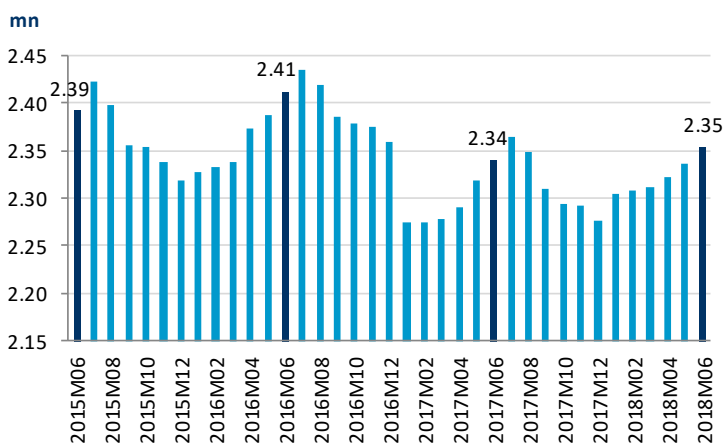
Registered Unemployment Rate: National Employment Agency



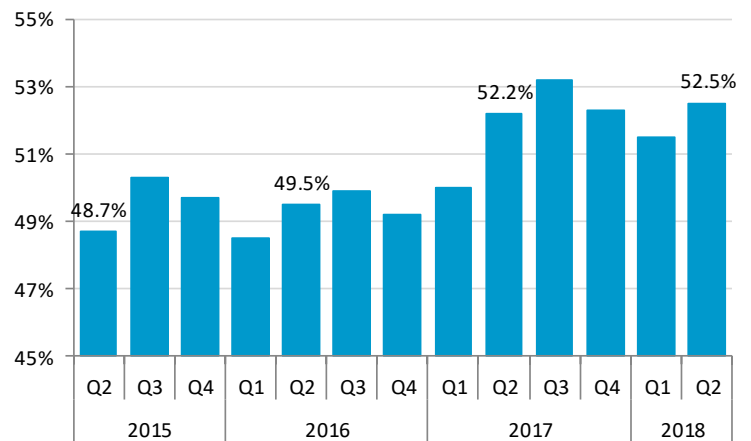
EU: Unemployment rate seasonally adjusted by country, July 2018



Bulgaria: Number of Employees

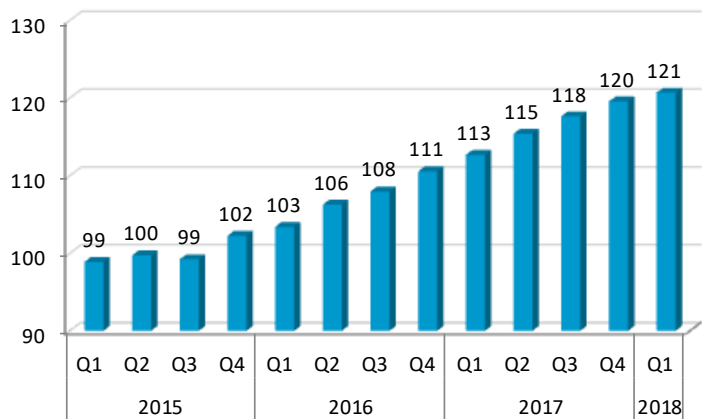


Bulgaria: Employment Rate

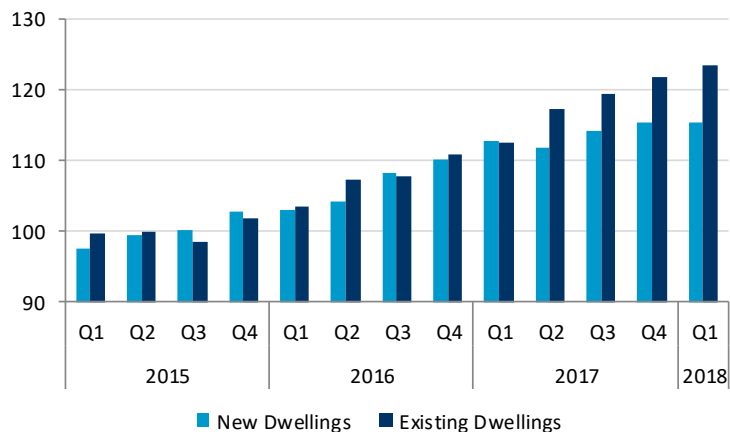


Bulgaria: Real Sector Indicators

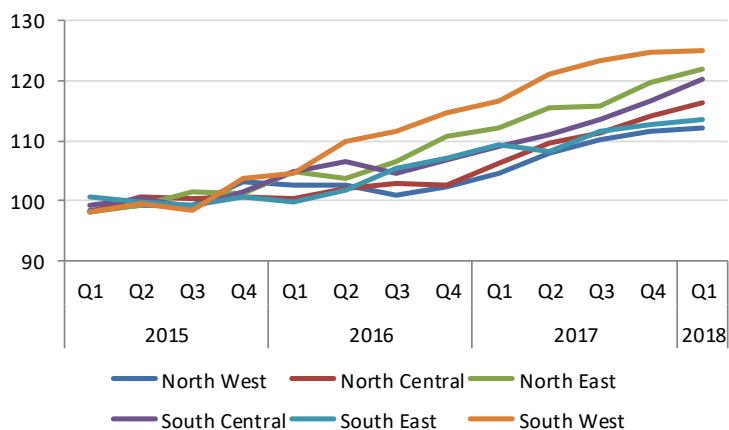
House Price Index (HPI)



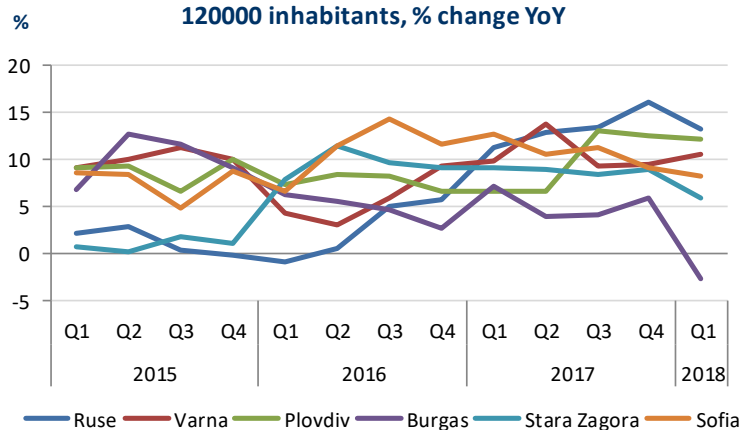
HPI: New and existing dwellings



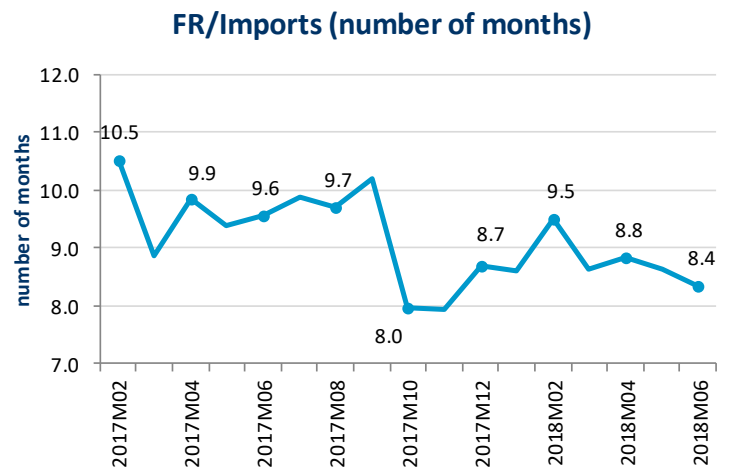
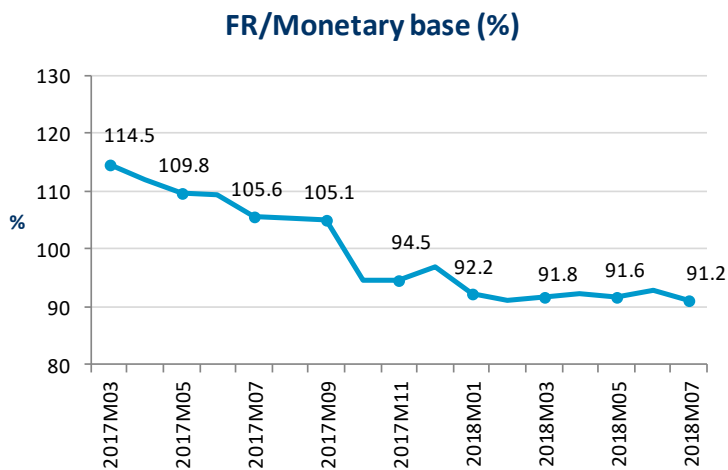
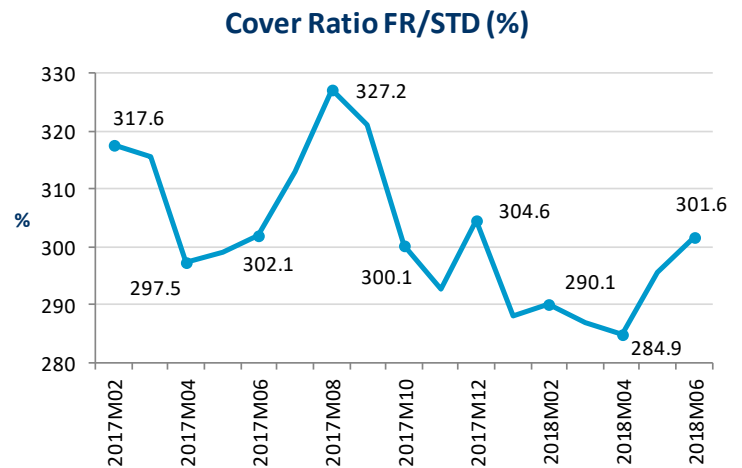
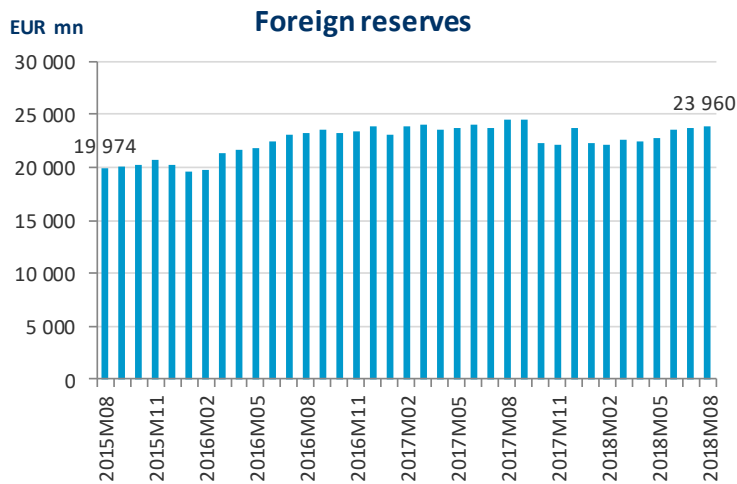
House Price index by regions



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

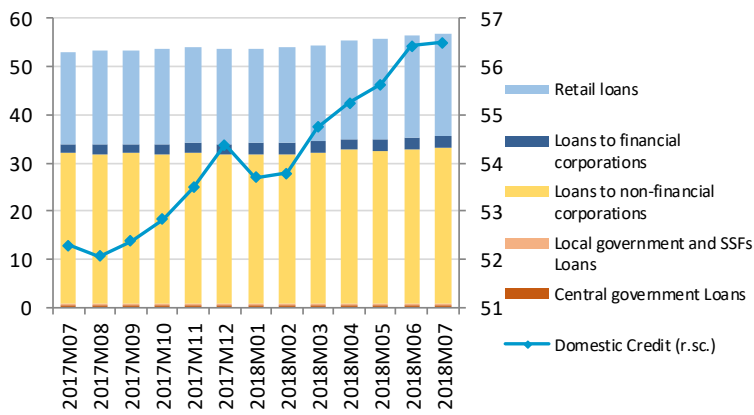


Bulgaria: Monetary Sector Indicators

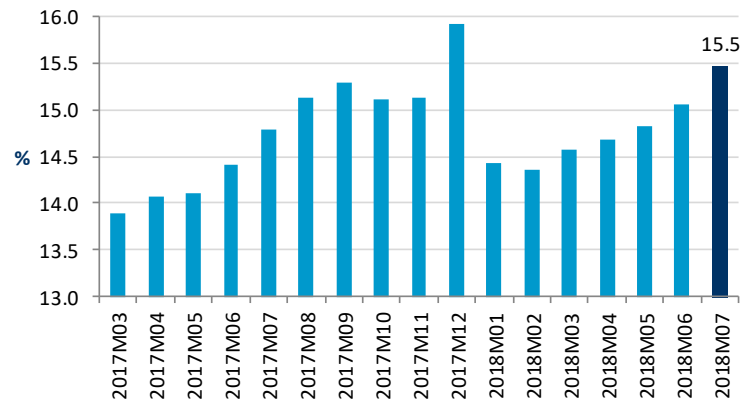


Bulgaria: Monetary Sector Indicators

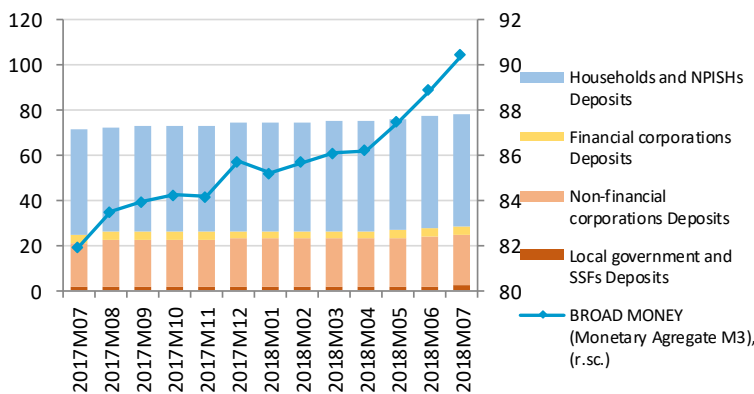
Loans and Domestic Credit (BGN bn)



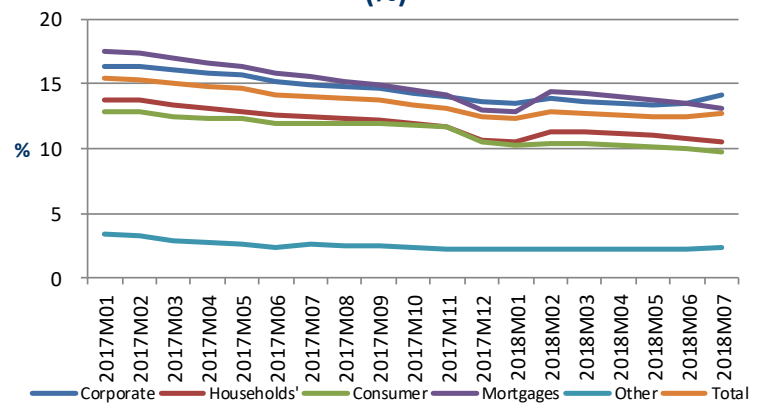
Money in circulation/GDP (%)



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

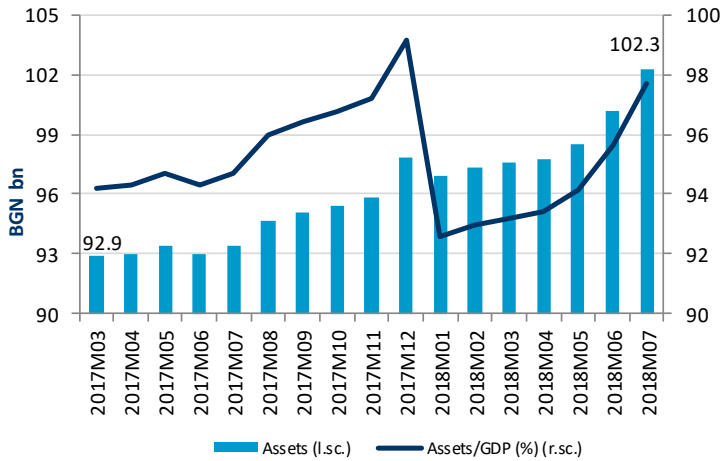


Banking sector: Bad and restructured loans (%)

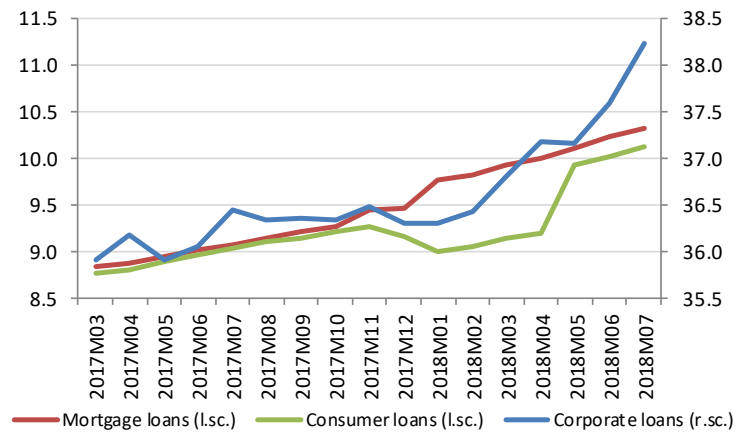


Bulgaria: Banking Sector Indicators

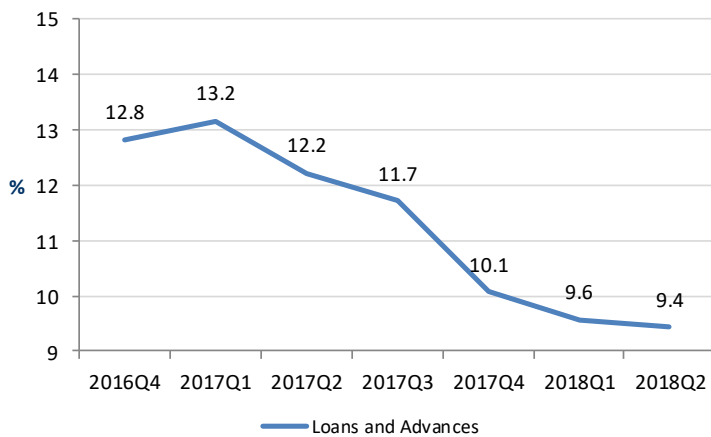
Assets



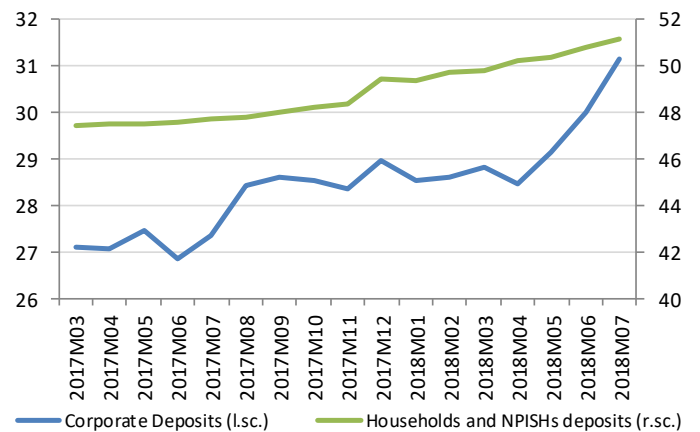
Loans (BGN bn)



Banking System Non-performing Loans (%)

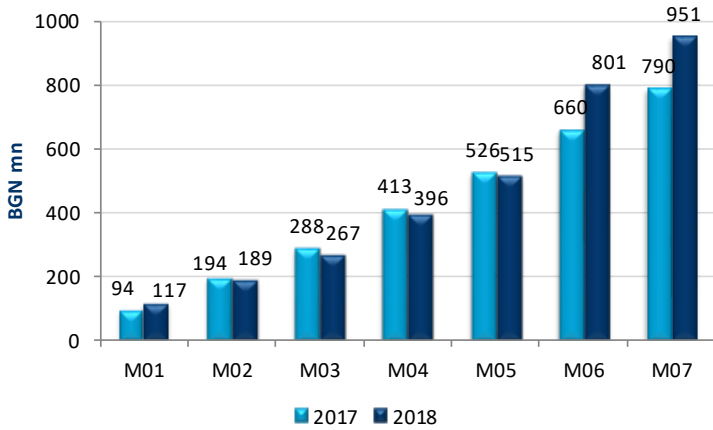


Deposits (BGN bn)

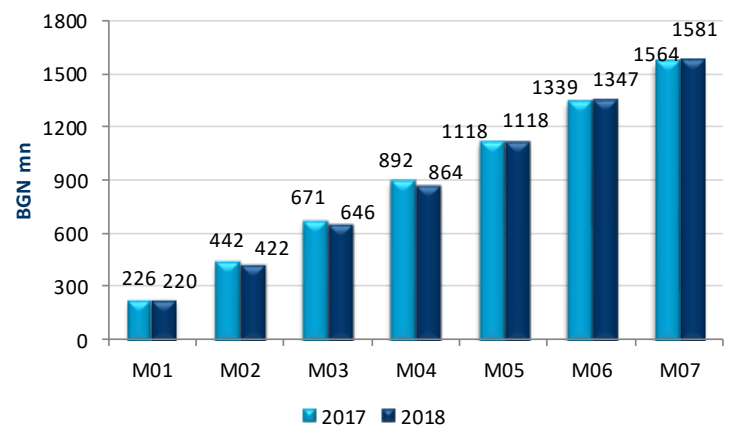


Bulgaria: Banking Sector Indicators

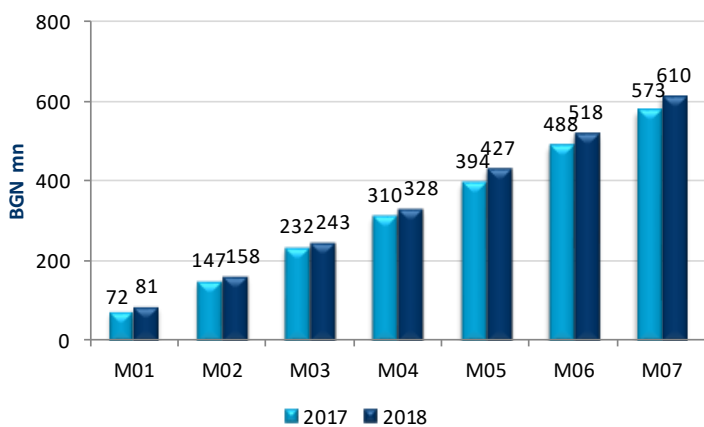
Net Profit



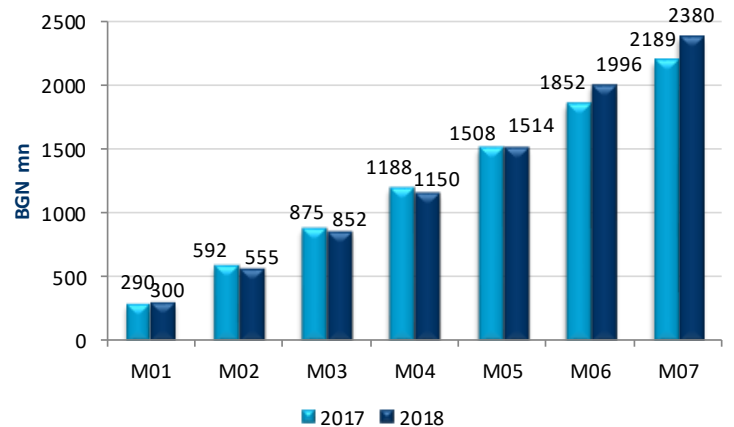
Net interest Income



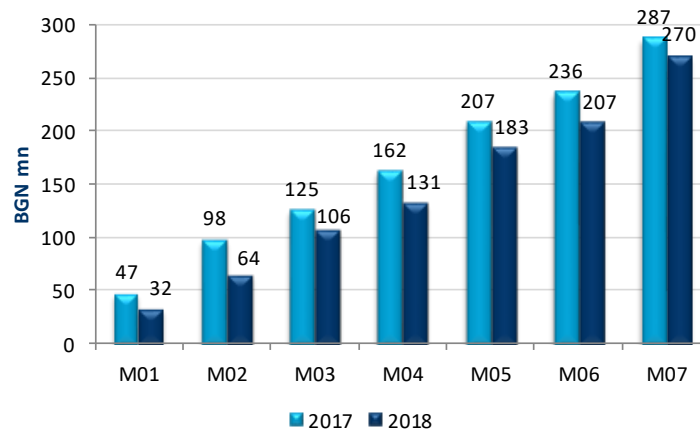
Net fee and commission income



Net operating income

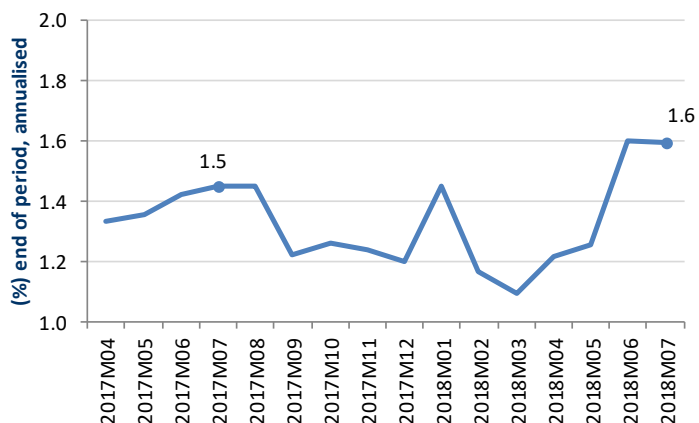


Impairment

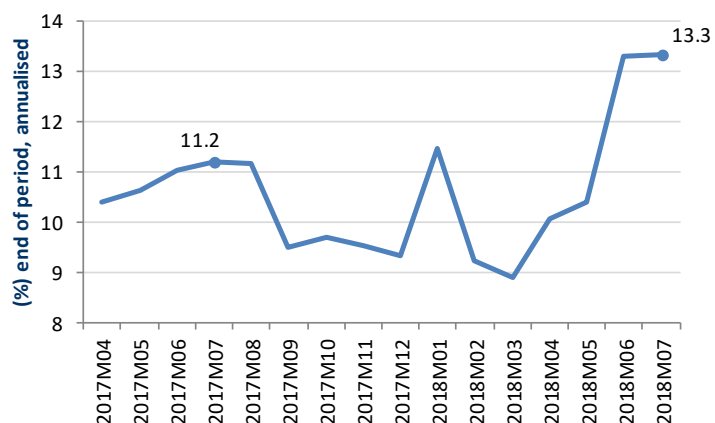


Bulgaria: Banking Sector Indicators

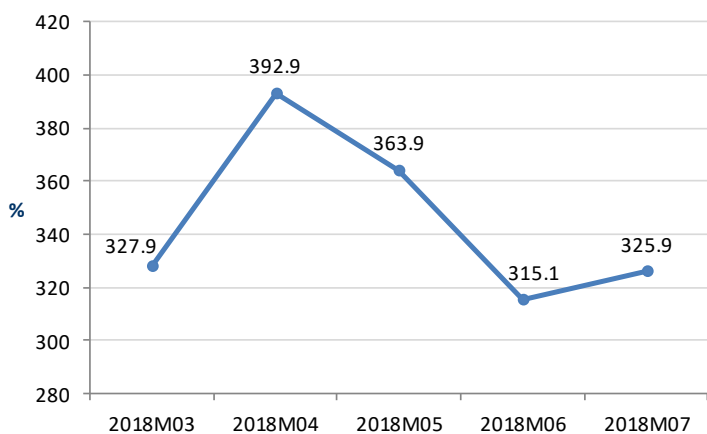
ROA



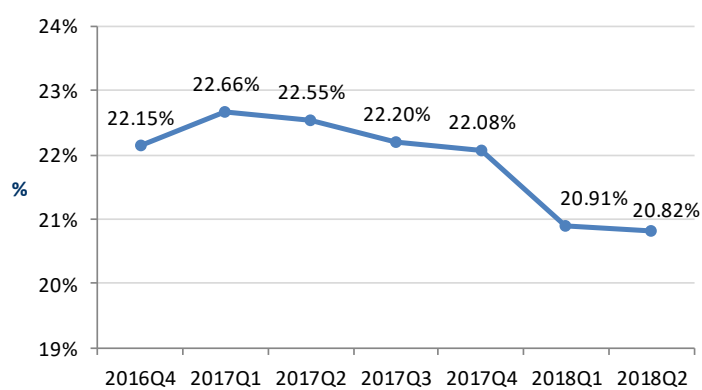
ROE



Liquidity Cover Ratio (LCR), %



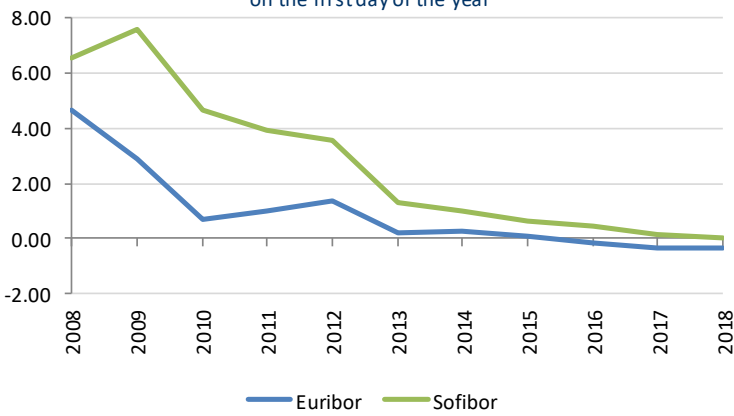
Total Capital Ratio



Bulgaria: Indexes and Interest Rates

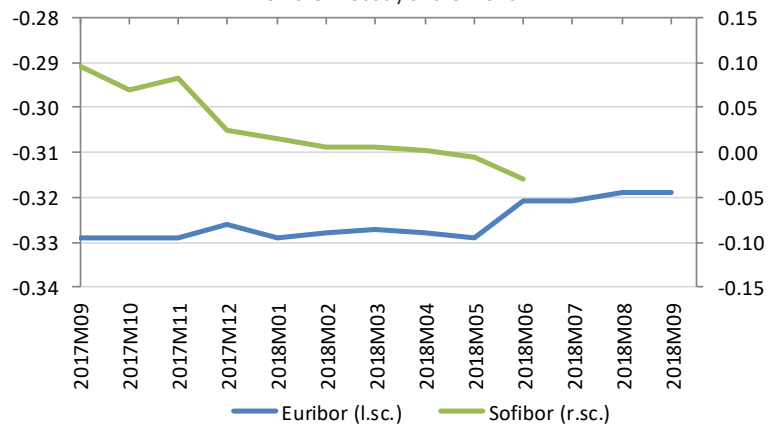
Indexes 3-months

on the first day of the year

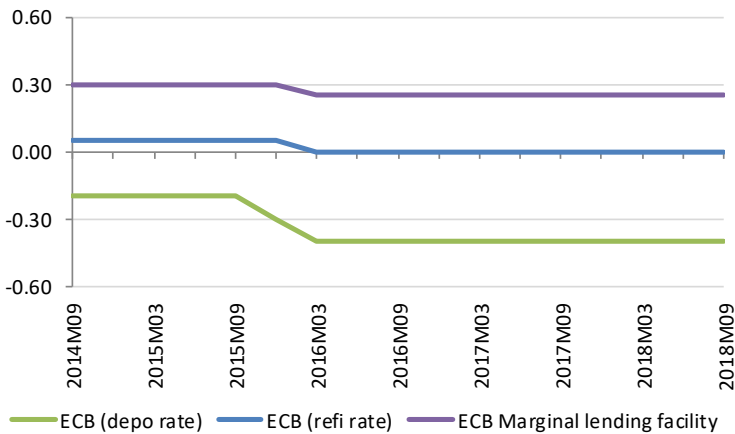


Indexes 3-months

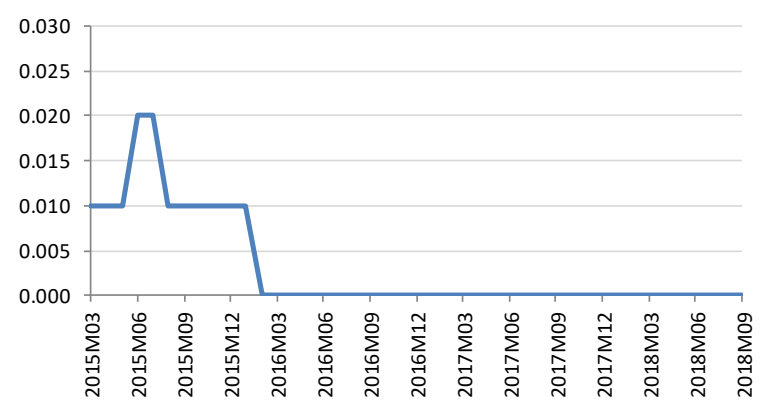
on the first day of the month



Policy Rates (in %)

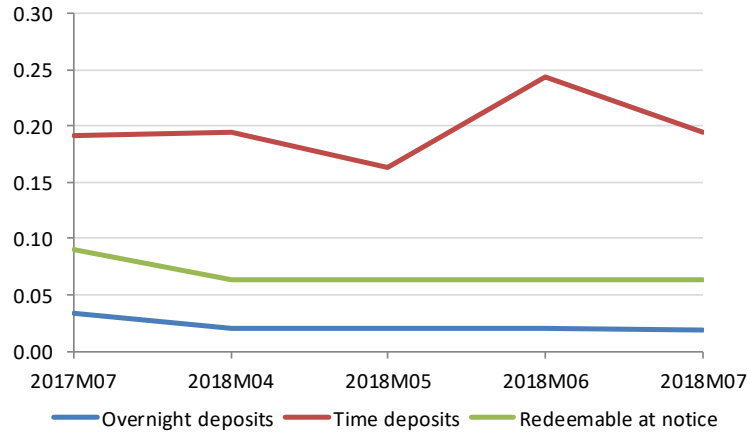


Base Interest Rate of the BNB (in %)

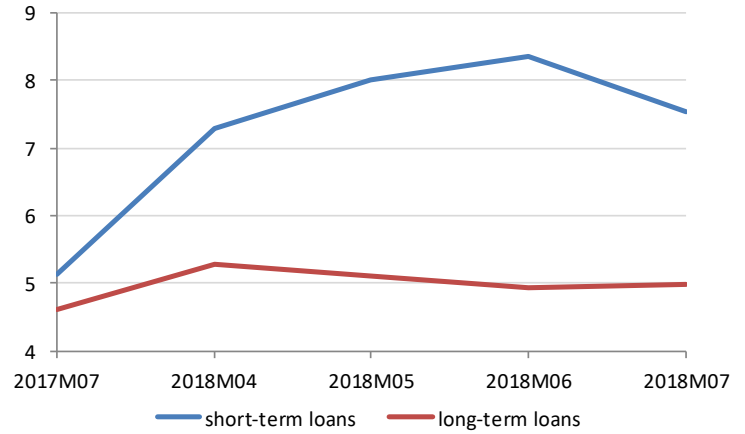


Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates

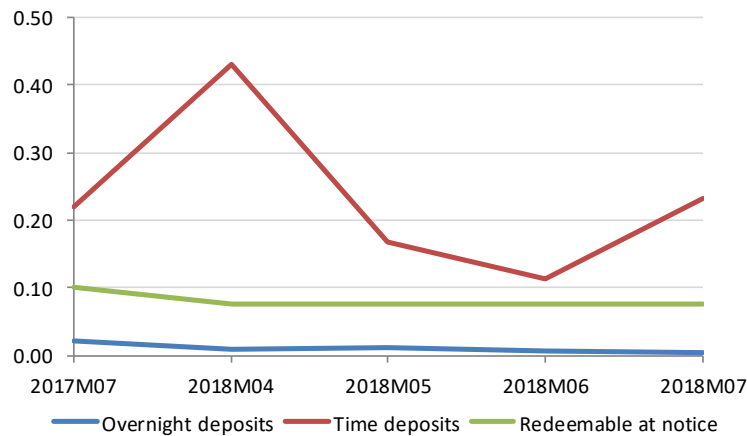
Interest Rates (%) in BGN



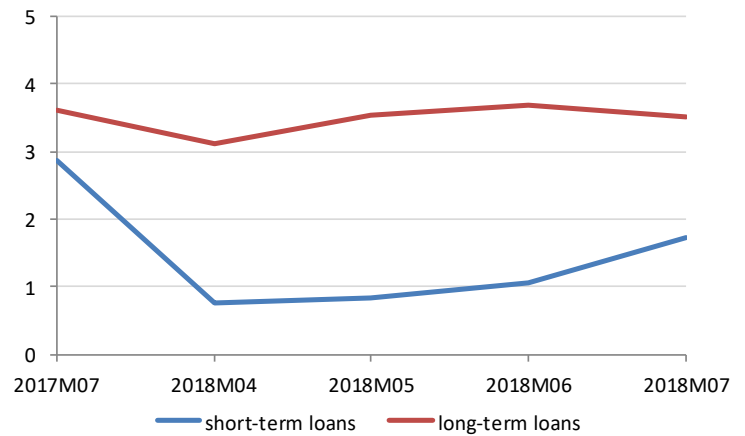
Interest Rates (%) in BGN



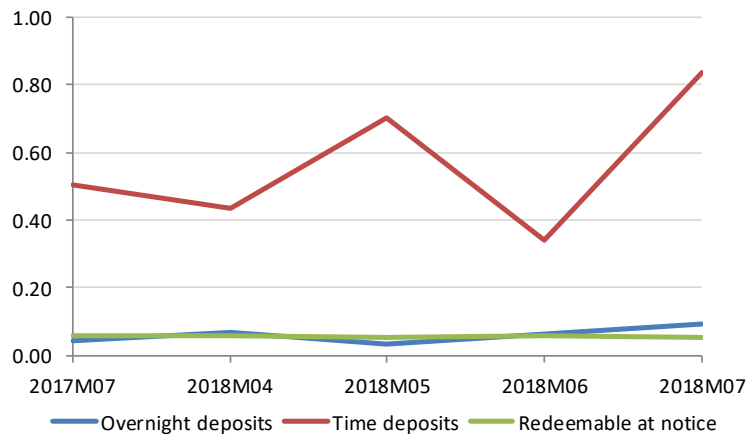
Interest Rates (%) in EUR



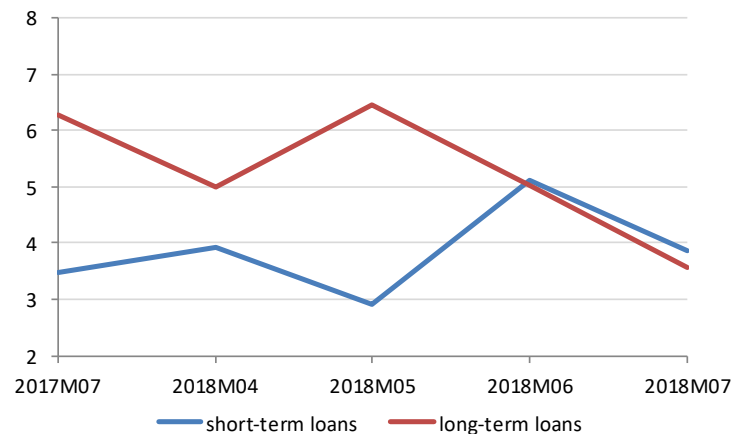
Interest Rates (%) in EUR



Interest Rates (%) in USD

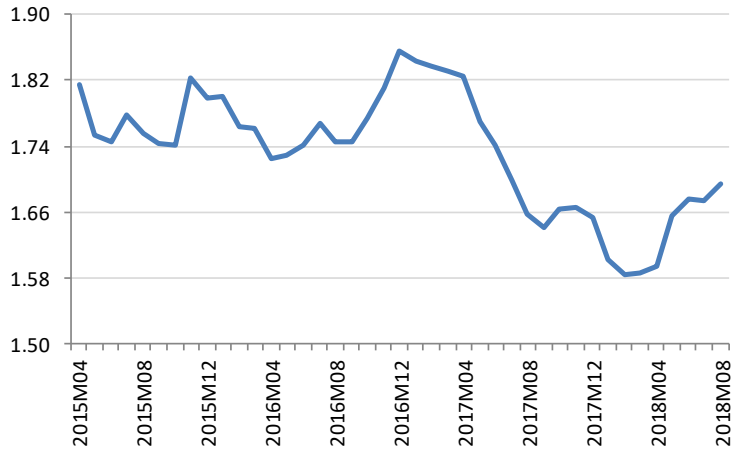


Interest Rates (%) in USD

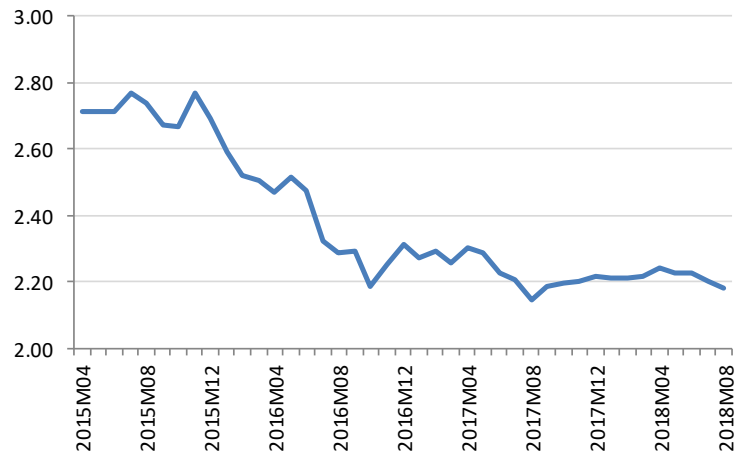


Bulgaria: FX Rates

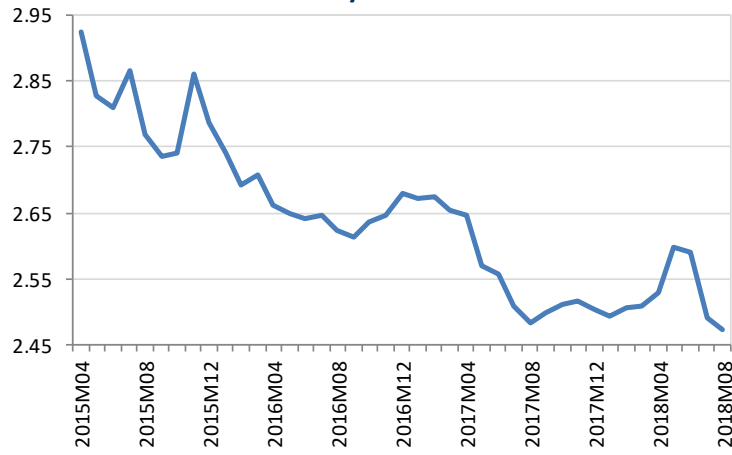
BGN/USD



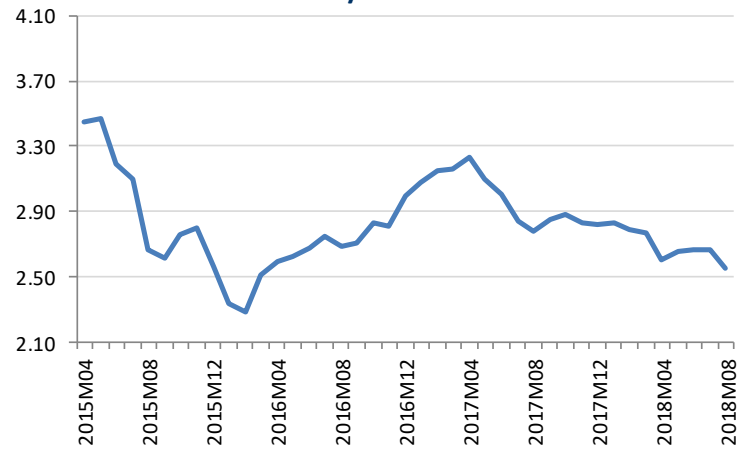
BGN/GBP



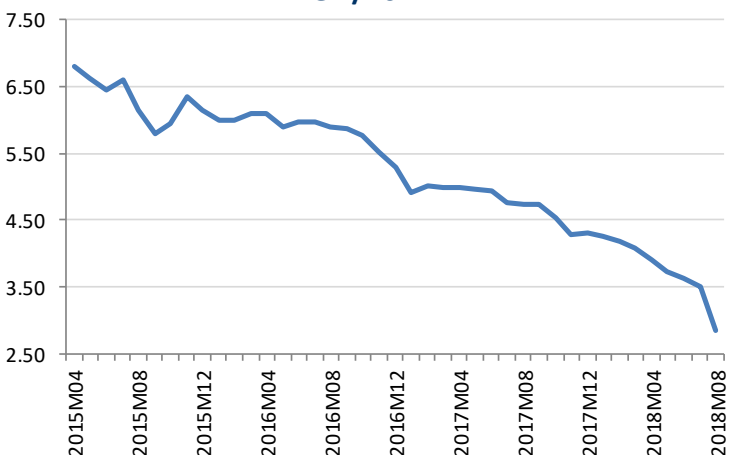
BGN/10CNY



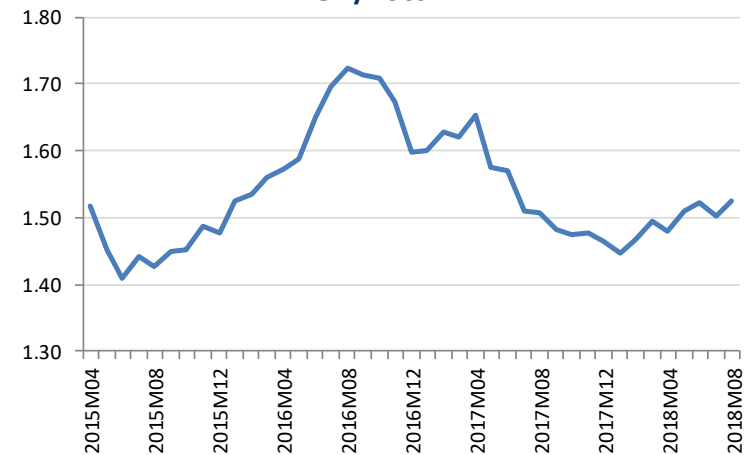
BGN/100RUB



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 2997 – August 2008. The new methodology was applied for the first time with the data for January 2010, with back data revisions for the months of 2007, 2008 and 2009.

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

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

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

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

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

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

CAPITAL ACCOUNT

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

FINANCIAL ACCOUNT

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

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

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

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

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

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

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

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

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

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

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

RESERVES AND RELATED ITEMS

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

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

REAL SECTOR

Gross Domestic Product - production approach

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

GDP - INCOME APPROACH

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

GROSS DOMESTIC PRODUCT BY FINAL EXPENDITURE

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

BUSINESS SURVEY IN INDUSTRY, CONSTRUCTION, TRADE AND SERVICE SECTOR

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

CONSUMER SURVEY

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

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

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

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

INVESTMENT ACTIVITY IN INDUSTRY

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

INDUSTRIAL PRODUCTION INDEX; INDUSTRIAL TURNOVER INDICES

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

TOURISM

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

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

The purposes of visiting a country are the following:

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

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

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

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

CONSUMER PRICE INDICES (CPI)

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

HARMONIZED INDICES OF CONSUMER PRICES (HICP)

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

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

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

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

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

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

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

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

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

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

Statistical unit

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

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

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

Data sources

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

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

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

Calculation of average prices

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

Type of index and calculation

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

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

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

Classifications

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

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

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

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

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

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

MONETARY AGGREGATES

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

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

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

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

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

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

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

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

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

MONEY SUPPLY MECHANISM

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

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

CAPITAL MARKET

SOFIX Index:

Initial date: 20 October 2000; Initial value: 100

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

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

BG REIT Index:

Initial date: 03 September 2007; Initial value: 100

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

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

BG 40 Index:

Initial date: 01 February 2005; Initial value: 100

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

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

BGTR30 Index (BG Total Return 30):

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

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

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