

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

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

United Bulgarian Bank
Chief Economist Structure

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

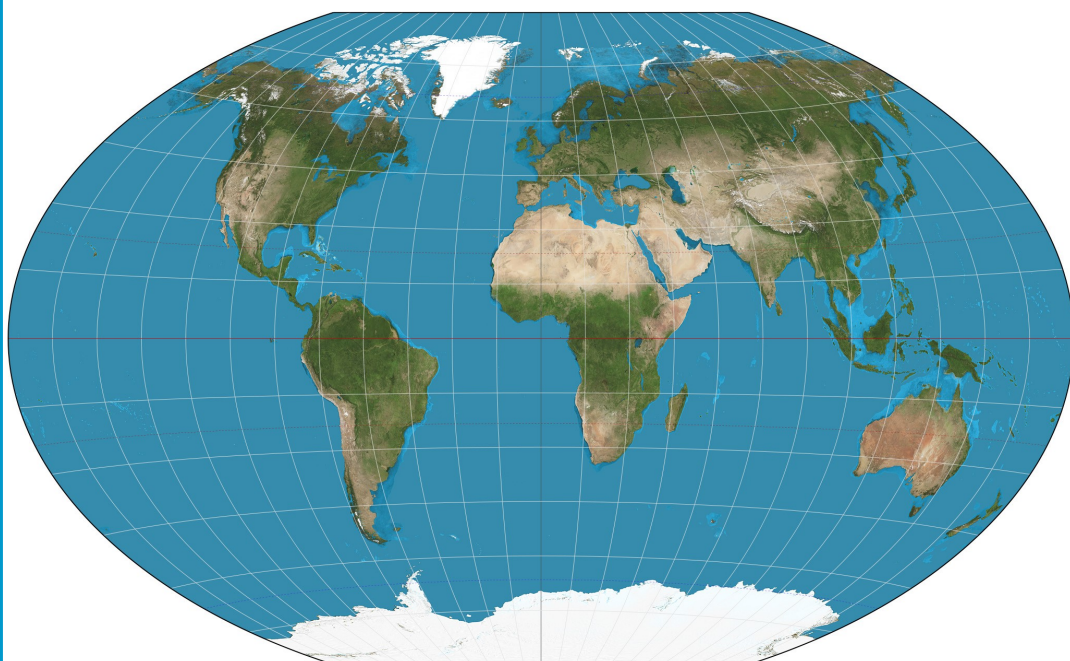
Zafira Boyuklieva
Chief Analyst
e-mail:
Zafira.Boyuklieva-
Petrova@ubb.bg
tel.:+359 2 811 2981

Petar Ignatiev
Chief Analyst
e-mail:
Petar.Ignatiev@ubb.bg
tel.:+359 2 811 2982

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

HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



October 2018

Sofia

- *The September 2018 ECB staff macroeconomic projections for the euro area foresee annual HICP inflation averaging 1.7% for each of 2018, 2019 and 2020. The September 2018 ECB staff macroeconomic projection foresee annual real GDP increasing by 2.0% in 2018, 1.8% in 2019 and 1.7% in 2020. Compared with the June 2018 Eurosystem staff macroeconomic projections, the outlook for real GDP growth has been revised down slightly for 2018 and 2019, mainly due to a weaker contribution from foreign demand. The euro area unemployment rate stood at 8.1% in August – the lowest level seen since November 2008.*
- *GDP in the United Kingdom expanded 1.2% yoy in Q2 of 2018, revised from a preliminary estimate of 1.3 percent and little-changed from a near six-year low of 1.1% in the previous period. Annual inflation rate in the United Kingdom eased to 2.4% in September of 2018 from 2.7% in August. It is the lowest reading in three months. The unemployment rate in the UK was unchanged at 4% in the three months to August 2018, the lowest since 1975.*
- *The US economy advanced an annualized 3.5% on quarter in the third quarter of 2018, beating market expectations of 3.3%. The unemployment rate in the US declined to 3.7% in September of 2018 from 3.9% in each of the previous two months and below market expectations of 3.8%. It is the lowest jobless rate since December of 1969.*
- *Japan's consumer price inflation edged down to 1.2% yoy in September 2018 from 1.3% in the previous month. The unemployment rate in Japan edged down to 2.4% in August of 2018 from 2.5% in the previous month.*
- *The Chinese economy advanced 6.5% yoy in the September quarter of 2018, after a 6.7% growth in the previous period and missing market consensus of 6.6%. It was the lowest growth rate since the first quarter of 2009 during global financial crisis, amid intense tariff dispute with the US and alarming off-balance-sheet borrowings by local governments.*
- *The Turkish consumer price inflation climbed to 24.52% yoy in September 2018, the highest level since August 2003. New economic program, based on "balancing, discipline, and change," included cutting public spending by USD10 billion. The government program does not provide measures for recapitalization of banks. Turkey made a comeback in the international bond markets.*
- *The Governing Council decided to keep the key ECB interest rates unchanged and continues to expect them to remain at their present levels at least through the summer of 2019. After September 2018, the monthly pace of the net asset purchases will be reduced to €15 billion until the end of December 2018. The Governing Council of ECB intends to reinvest the principal payments from maturing securities purchased under the APP for an extended period of time after the end of the net asset purchases.*
- *The Financial Policy Committee continues to judge that the UK banking system would be strong enough to serve UK households and businesses through a disorderly, cliff-edge Brexit. The Financial Policy Committee has been monitoring risks of disruption that could arise in the absence of an implementation period or any other agreement.*
- *In view of realized and expected labor market conditions and inflation, the Federal Open Market Committee decided to raise the target range for the federal funds rate to 2% to 2.25%. The Committee expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2% objective over the medium term.*
- *The Bank of Japan will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2%.*

- *The People's Bank of China (PBOC) has decided to cut the risk reserve requirement on financial institutions, currently 15.5% for large institutions and 13.5% for smaller banks, by 100 basis points effective October 15. This cut shows the central bank is probably worried about the impact of external shocks to markets such as trade war between China and USA.*
- *According to Macroeconomic Outlook and Monetary Policy in Turkey, rebalancing in the economic activity has become more significant. External demand maintains its strength, while slowdown in domestic demand accelerates. Deterioration in the pricing behavior poses upside risks on the inflation outlook, despite weaker domestic demand conditions. A strong monetary tightening has been delivered to support price stability. The Central Bank will continue to use all available instruments in pursuit of the price stability objective*
- *Crude oil fell by -3.73 USD or -5.48% to 68.07 USD / barrel on 23 October from 71.794USD / barrel on September 23 (the previous month). The price of Brent decreased by -2.62 USD or -3.35% to 78.31 USD / barrel on Tuesday 25 September from 80.94 USD / barrel on September 23 (the previous month).*
- *The two-week period passed under the expectation of the US Department of Agriculture's new forecast, and the markets took a wait-and-see position, with no major changes expected. Unlike in recent years, we see an excess of consumption over production in the 2018/2019 balance sheet. On Sofia Commodity Exchange AD prices were retained on most contracts, but sellers were a minority.*

- *In January – August 2018 the current and capital account was positive amounting to EUR 2,364.7 million and presented 4.5% of GDP*
- *In January- August 2018 Bulgaria's foreign investments declined by 71.6% yoy to EUR 230.5 million and presented 0.4% of GDP*
- *In September 2018, international reserves amounted to BGN 48 billion (EUR 24.5 billion), increasing by 2.4% mom and by 3.4% compared to the end of 2017*
- *In September 2018, the total business climate indicator decreases by 1.5 percentage points in comparison with August to 27.7%, which is due to the more unfavourable business climate in construction and service sector*
- *According to the preliminary data the Industrial Production Index, seasonally adjusted, increased by 0.8% mom in August 2018. In August 2018 the working day adjusted Industrial Production Index rose by 2.3% yoy*
- *According to the preliminary seasonally adjusted data in August 2018 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.5% mom*
- *According to the preliminary data, in August 2018 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.6% below the level of the previous month. In August 2018 the working day adjusted index of production in construction decreased by 1.1% yoy*
- *The consumer price index in September 2018 compared to August 2018 was 100.3%, i.e. the monthly inflation was 0.3%*
- *Total Producer Price Index in August 2018 decreases with 0.1% mom and by 3.8% yoy, respectively. Producer Price Index on Domestic Market in August 2018 increased by 0.1% mom and by 3.1% yoy, respectively*
- *In August 2018, the number of the trips of Bulgarian residents abroad was 736.7 thousand or by 8.3% above the registered in August 2017. In August 2018, the number of arrivals of visitors from abroad to Bulgaria was 2 240.2 thousand or by 5.4% more in comparison with August 2017*
- *The total revenues from nights spent in August 2018 reached 348.0 million BGN or by 7.5% more compared to August 2017*
- *In September 2018, the registered unemployment rate in Bulgaria was 5.6%, retaining its value in August and declining by 0.9 percentage points on an annual basis*
- *At the end of July 2018 Bulgaria's Consolidated Fiscal Programme (CFP) balance on a cash basis as of August 2018 is positive, amounting to BGN 2,388.1 million, or 2.3% of the projected GDP*
- *At the end of August 2018 Bulgaria's Central government debt stands at EUR 12,083.6 million and presented 22.6% of projected GDP*
- *In August 2018 broad money (monetary aggregate M3) increased by 9.6% yoy to was BGN 91.462 billion and presented 88.6% of GDP. Domestic credit – was BGN 56.291 billion and increased by 8.1% yoy*
- *At the end of September 2018, SOFIX o reported a decline of 1.18% to 624.39 points. The index of the most liquid companies BGBX 40 dropped 0.29% to 121.93 points. Equally weighted BG TR30*

dropped 0.24% to 520.34 points. The BGREIT property index rose 0.61 percent to 117.79 points

- *As of the end of August 2018, the aggregate net profit of the banking system in Bulgaria increased by 19.1% yoy to BGN 1.088 million. The BNB introduces a new countercyclical buffer for banks from 1 October 2019*

Table of content

GLOBAL TRENDS

Advanced countries' economies	7
Euro zone.....	7
United Kingdom.....	7
USA	8
Japan.....	8
China.....	9
Turkey.....	9
Policy of the Central banks	10
ECB.....	10
Bank of England	10
USA Federal Reserve.....	11
Bank of Japan (BoJ).....	11
People's Bank of China (PBC).....	12
Central Bank of Turkey	12
International Commodity Prices	12
Petrol	12
Agricultural products.....	13

BULGARIA

External sector	14
Balance of Payments.....	14
Foreign Direct Investments.....	15
Foreign Reserves.....	16
Real sector.....	16
Business Climate	16
Industrial Production Index	17
Retail Trade.....	17
Construction	18
Tourism	18
Unemployment.....	20
Inflation.....	20
Producer Price Index in Industry.....	21
Fiscal sector	22
Budget Balance	22
Central Government Debt	23
Monetary sector.....	23
Capital market.....	24
Banking sector.....	25
Appendix	27
Definitions and methodological notes	46

GLOBAL TRENDS

Advanced countries' economies

Euro zone

The September 2018 ECB staff macroeconomic projections for the euro area foresee annual HICP inflation averaging 1.7% for each of 2018, 2019 and 2020. The September 2018 ECB staff macroeconomic projection foresees annual real GDP increasing by 2.0% in 2018, 1.8% in 2019 and 1.7% in 2020. Compared with the June 2018 Eurosystem staff macroeconomic projections, the outlook for real GDP growth has been revised down slightly for 2018 and 2019, mainly due to a weaker contribution from foreign demand. The euro area unemployment rate stood at 8.1% in August – the lowest level seen since November 2008.

The latest economic indicators and survey results confirm ongoing broad-based growth of the euro area economy, despite some moderation following the strong growth performance in 2017. Euro area real GDP increased by 0.4% qoq in the second quarter of 2018, the same rate as in the previous quarter. The ECB's monetary policy measures continue to underpin domestic demand. Private consumption is supported by ongoing employment gains, which, in turn, partly reflect past labour market reforms, and by rising wages. Business investment is fostered by the favourable financing conditions, rising corporate profitability and solid demand. Housing investment remains robust. In addition, the expansion in global activity is expected to continue, supporting euro area exports. The September 2018 ECB staff macroeconomic projections for the euro area foresee annual real GDP increasing by 2.0% in 2018, 1.8% in 2019 and 1.7% in 2020. Compared with the June 2018 Eurosystem staff macroeconomic projections, the outlook for real GDP growth has been revised down slightly for 2018 and 2019, mainly due to a weaker contribution from foreign demand. Although risks relating to rising protectionism, vulnerabilities in emerging markets and financial market volatility have gained more prominence recently, the risks surrounding the euro area growth outlook can still be assessed as broadly balanced overall. According to Eurostat's flash estimate, euro area annual HICP inflation was 2.1% in September 2018, nearly the same as 2.0% in August. Looking ahead, on the basis of current futures prices for oil, annual rates of headline inflation are likely to hover around current levels for the remainder of the year. While measures of underlying inflation remain generally muted, they have been increasing from earlier lows. Domestic cost pressures are strengthening and broadening amid high levels of capacity utilisation and tightening labour markets, which is pushing up wage growth. Underlying inflation is expected to pick up towards the end of the year and thereafter to increase gradually over the medium term, supported by the ECB's monetary policy measures, the continuing economic expansion and rising wage growth. This assessment is also broadly reflected in the September 2018 ECB staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.7% in 2018, 2019 and 2020. The outlook for HICP inflation is unchanged compared with the June 2018 Eurosystem staff macroeconomic projections. HICP inflation excluding energy and food is projected to rise gradually from 1.1% in 2018 to 1.5% in 2019 and 1.8% in 2020. The aggregate fiscal stance for the euro area is projected to be broadly neutral in 2018, mildly expansionary in 2019, and broadly neutral again in 2020. Overall, the euro area budget deficit is expected to decline further over the projection horizon, mainly as a result of favourable cyclical conditions and declining interest payments. Although the euro area government debt-to-GDP ratio will continue to decline, it will remain elevated. Short-term indicators point to continuing strength in the labour market in the third quarter of 2018. The euro area unemployment rate stood at 8.1% in August – the lowest level seen since November 2008. Survey indicators have moderated somewhat from very high levels, but still point to continued employment growth in the third quarter of 2018. While indicators of labour shortages have moderated slightly in some sectors and countries, they remain at historically very high levels.

United Kingdom

GDP in the United Kingdom expanded 1.2% yoy in Q2 of 2018, revised from a preliminary estimate of 1.3 percent and little-changed from a near six-year low of 1.1% in the previous period. Annual inflation rate in the United Kingdom eased to 2.4% in September of 2018 from 2.7% in August. It is the lowest reading in three months. The unemployment rate in the UK was unchanged at 4% in the three months to August 2018, the lowest since 1975.

GDP in the United Kingdom expanded 1.2% yoy in Q2 of 2018, revised from a preliminary estimate of 1.3 percent and little-changed from a near six-year low of 1.1% in the previous period. Household consumption rose the least since the Q1 of 2012. Annual inflation rate in the United Kingdom eased to 2.4% in September of 2018 from 2.7% in August, below market expectations of 2.6%. It is the lowest reading in three months, mainly due to a slowdown in cost of food, transport and recreation and culture and a fall in clothing prices. The annual core inflation rate, which excludes prices of energy, food, alcohol and tobacco, fell to 1.9% from a four-month high of 2.1% in August. On a monthly basis, consumer prices edged up 0.1%, well below 0.7% in August and market expectations of 0.2%. The unemployment rate in the UK was unchanged at 4% in the three months to August 2018, the lowest since 1975 and matching market expectations. The number of unemployed dropped by 47,000 from the March to May period while employment unexpectedly declined by 5,000, the first fall in near a year. Latest estimates show that average weekly earnings for employees in Great Britain in nominal terms (that is, not adjusted for price inflation) increased by 3.1% excluding bonuses, the most since the three months to January of 2009 and by 2.7% including bonuses, compared with a year earlier. Meanwhile, the average weekly earnings for employees in Great Britain in real terms (that is, adjusted for price inflation) increased by 0.7% excluding bonuses, and by 0.4% including bonuses, compared with a year earlier. There were 832,000 job vacancies for July to September 2018, little changed from the period ended in June and 35,000 more compared to a year earlier.

USA

The US economy advanced an annualized 3.5% on quarter in the third quarter of 2018, beating market expectations of 3.3%. The unemployment rate in the US declined to 3.7% in September of 2018 from 3.9% in each of the previous two months and below market expectations of 3.8%. It is the lowest jobless rate since December of 1969.

The Gross Domestic Product (GDP) in the United States expanded 3% in the third quarter of 2018 over the same quarter of the previous year. GDP Annual Growth Rate in the United States averaged 3.20% from 1948 until 2018. The US economy advanced an annualized 3.5% on quarter in the third quarter of 2018, beating market expectations of 3.3%. It follows a 4.2% growth in the previous period which was the highest since the third quarter of 2014. Consumer spending rose faster and inventories rebounded. On the other hand, investment in structures fell the most in near three years, residential investment continued to contract and net trade made the biggest drag on growth since Q2 1985. Exports fell 3.5% (+9.3% in Q2), mainly due to a decline in soybean exports to China after Beijing's tariffs took effect. Annual inflation in the US fell to 2.3% in September of 2018 from 2.7% in August and below market expectations of 2.4%. It is the lowest inflation rate in seven months, mainly due to a sharp slowdown in gas prices and smaller increases in fuel and shelter costs. Excluding food and energy, core inflation was steady at 2.2%, the same as in August but below forecasts of 2.3%. On a monthly basis, consumer prices edged up 0.1%, below 0.2% in August and forecasts of 0.2%. The unemployment rate in the US declined to 3.7% in September of 2018 from 3.9% in each of the previous two months and below market expectations of 3.8%. It is the lowest jobless rate since December of 1969. The number of unemployed persons decreased by 270,000 to 6.0 million. Over the year, the unemployment rate and the number of unemployed persons declined by 0.5 percentage point and 795,000, respectively.

Japan

Japan's consumer price inflation edged down to 1.2% yoy in September 2018 from 1.3% in the previous month. The unemployment rate in Japan edged down to 2.4% in August of 2018 from 2.5% in the previous month.

Japan's consumer price inflation edged down to 1.2% yoy in September 2018 from 1.3% in the previous month. It was the second-highest figure in the last seven months. The goods index rose 2.1%, whereas the services index edged up 0.2%. The unemployment rate in Japan edged down to 2.4% in August of 2018 from 2.5% in the previous month and slightly below market expectations of 2.5%. This rate is closed to averaged unemployment rate 2.73% from 1953 until 2018. According to Bank of Japan's Statement on Monetary Policy on September 19 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. The yoy rate of change in the CPI is likely to increase gradually toward 2%, mainly on the back

of the output gap remaining positive and medium- to long-term inflation expectations rising. Risks to the Japanese economy include the following: the U.S. macroeconomic policies and their impact on global financial markets; the consequences of protectionist moves and their effects; developments in emerging and commodity-exporting economies including the effects of the two aforementioned factors; negotiations on the United Kingdom's exit from the European Union (EU) and their effects; and geopolitical risks.

China

The Chinese economy advanced 6.5% yoy in the September quarter of 2018, after a 6.7% growth in the previous period and missing market consensus of 6.6%. It was the lowest growth rate since the first quarter of 2009 during global financial crisis, amid intense tariff dispute with the US and alarming off-balance-sheet borrowings by local governments.

The Chinese economy advanced 6.5% yoy in the September quarter of 2018, after a 6.7% growth in the previous period and missing market consensus of 6.6%. It was the lowest growth rate since the first quarter of 2009 during global financial crisis, amid intense tariff dispute with the US and alarming off-balance-sheet borrowings by local governments. For the first three quarters of the year, China's economy expanded 6.7% compared to the same period 2017, amid continued efforts to deleverage debt and contain financial risks. Recently, S&P Global Ratings said off-balance-sheet debt by Chinese local governments could now be as high as CNY 40 trillion (USD 7.95 trillion), representing a "debt iceberg with titanic credit risks". The value added of the primary industry was up by 3.4%; the secondary industry by 5.8%; and the tertiary industry by 7.7%.

Industrial production rose 5.8% yoy in September of 2018, after a 6.1% gain in the previous month and below market estimates of 6%. It was the weakest reading since February 2016, mainly due to a slowdown in manufacturing output (5.7% vs 6.1% in August). Growth of infrastructure investment fell to 3.3%. It's decelerated in every month since November 2017. Growth of property development investment ticked down to 9.9%. China and the United States have been in a trade war in recent months. Washington has introduced customs duties on Chinese imported goods for USD 250 billion, which is roughly half of China's exports to the US. Beijing replied with a duties of USD 110 billion in imported US goods, including soybeans, cars and planes. Experts warn that the effects of the trade war will become more substantial in the fourth quarter. China's consumer price inflation rose to a seven-month high of 2.5% year-on-year in September of 2018 from 2.3% in the previous month and matching market consensus. On a monthly basis, consumer prices went up 0.7% in September, the same as in August and in line with market expectations. It remained the highest monthly figure since February.

Turkey

The Turkish consumer price inflation climbed to 24.52% yoy in September 2018, the highest level since August 2003. Turkish finance minister unveiled a new economic program, based on "balancing, discipline, and change," included cutting public spending by USD10 billion. The government program does not provide measures for recapitalization of banks. Turkey made a comeback in the international bond markets.

The Turkish consumer price inflation climbed to 24.52% yoy in September 2018, the highest level since August 2003, as the impact of a currency crisis continued to hurt the economy. The sharp increase in inflation came in despite a 625 basic points hike in interest rates on September 13th. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, rose to an all-time high of 24.05% in September from 17.22% in the previous month. On a monthly basis, consumer prices jumped 6.30% in September, far above market expectations of a 3.60% climb and following a 2.3% rise in August. Turkish lira has recovered from its historic low level in August of TRY 7.2149 to the USD to TRY 5.66210 to the USD in 22 October, but is still down by about a third for the year to date. Turkish finance minister Berat Albayrak unveiled a new economic program. The plan, to be implemented over the next three years, would be based on "balancing, discipline, and change," Albayrak said during a presentation in Istanbul, and included cutting public spending by USD10 billion (EUR8.5 billion) to bring down the budget deficit as well as rein in runaway inflation. Albayrak, admitted though that the program would lower economic growth substantially, which was now expected to be 3.8% in 2018 and 2.3% in 2019 — both revised down from previous forecasts of 5.5%. The government expects inflation to continue to rise to 20.8% by the end of the year, before moderating only slightly to 15.9% in 2019. For 2020 and 2021, the forecasts were more optimistic, with rates of 9.8% in 2020 and 6.0% a year later. One of the measures to achieve this is a reduction in spending on showpiece infrastructure projects that have ac-

counted for a large proportion of government expenditure. Albayrak said that in 2019 projects whose tender had not been carried out would be suspended. The government program does not provide measures for recapitalization of banks that accumulate nonperformed loans due to both depreciation of the Turkish lira and a sharp increase in the interest rate from 17.5% to 24%. Turkey made a comeback in the international bond markets after receiving bids worth USD 6 billion for its 5 year dollar-denominated bond. This means that companies and banks in the country now have better access to the international capital markets, allowing them to borrow at better rates. The bond issuance Tuesday, expected to mature in December 2023, had a yield of 7.5% for the investor, and received bids of three times the amount that was on offer. The country had appointed Deutsche Bank, Goldman Sachs and Societe Generale to advise on the sale of its five-year bond, its third bond sale this year. "60% of the bonds have been sold to investors in the U.S., 23% in the U.K., 11% in other Europe, 5 percent in Turkey, and 1% in other regions," the finance ministry said in an official statement.

Policy of the Central banks

ECB

The Governing Council decided to keep the key ECB interest rates unchanged and continues to expect them to remain at their present levels at least through the summer of 2019. After September 2018, the monthly pace of the net asset purchases will be reduced to €15 billion until the end of December 2018. The Governing Council intends to reinvest the principal payments from maturing securities purchased under the APP for an extended period of time after the end of the net asset purchases.

Broad money (M3) growth moderated in the context of reduced monthly net asset purchases under the asset purchase programme (APP). M3 grew by 4.0% in July 2018, after 4.5% in June. Apart from some volatility in monthly flows, M3 growth is increasingly supported by bank credit creation. The narrow monetary aggregate M1 remained the main contributor to broad money growth. The recovery in the growth of loans to the private sector observed since the beginning of 2014 is proceeding. The annual growth rate of loans to non-financial corporations (NFCs) stood at 4.1% in July 2018, while the annual growth rate of loans to households stood at 3.0%, both unchanged from June. The pass-through of the monetary policy measures put in place since June 2014 continues to significantly support borrowing conditions for firms and households, access to financing – in particular for small and medium-sized enterprises – and credit flows across the euro area. The flow of total external financing to euro area NFCs increased considerably in the second quarter of 2018. Based on the regular economic and monetary analyses, the Governing Council made the following decisions. First, the Governing Council decided to keep the key ECB interest rates unchanged and continues to expect them to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term. Second, after September 2018, the monthly pace of the net asset purchases will be reduced to €15 billion until the end of December 2018. The Governing Council anticipates that, subject to incoming data confirming its medium-term inflation outlook, net purchases will then end. Third, the Governing Council intends to reinvest the principal payments from maturing securities purchased under the APP for an extended period of time after the end of the net asset purchases, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Bank of England

The Financial Policy Committee continues to judge that the UK banking system would be strong enough to serve UK households and businesses through a disorderly, cliff-edge Brexit. The Financial Policy Committee has been monitoring risks of disruption that could arise in the absence of an implementation period or any other agreement.

The Financial Policy Committee continues to judge that the UK banking system would be strong enough to serve UK households and businesses through a disorderly, cliff-edge Brexit. The UK banking system lies at the core of the UK financial system. Reflecting the substantial increase in its resilience over the past decade, the UK banking system now has the capacity to absorb, in addition to a disorderly, cliff-edge Brexit, further misconduct costs and stresses that could arise from intensifying An implemen-

tation period would reduce the risks of disruption to the supply of financial services to UK and EU households and businesses as the UK exits the EU. The Financial Policy Committee has been monitoring risks of disruption that could arise in the absence of an implementation period or any other agreement. There has been considerable progress in the UK to address these risks, but only limited progress in the EU. In the limited time remaining, it is not possible for companies on their own to mitigate fully the risks of disruption to cross-border financial services. The need for authorities to complete mitigating actions is now pressing. The risk appetite of creditors remains strong. But financial conditions have tightened over the course of the year and borrower demand has been restrained. As a consequence credit growth has slowed. The Committee is concerned by the rapid growth of leveraged lending, including to UK businesses. The FPC will assess any implications for banks in the 2018 stress test and also review how the increasing role of non-bank lenders and changes in the distribution of corporate debt could pose risks to financial stability.

USA Federal Reserve

In view of realized and expected labor market conditions and inflation, the Federal Open Market Committee decided to raise the target range for the federal funds rate to 2% to 2.25%. The Committee expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2% objective over the medium term.

Federal Reserve issues Federal Open Market Committee's (FOMC) statement. Information received since the Federal Open Market Committee met in August indicates that the labor market has continued to strengthen and that economic activity has been rising at a strong rate. Job gains have been strong, on average, in recent months, and the unemployment rate has stayed low. Household spending and business fixed investment have grown strongly. On a 12-month basis, both overall inflation and inflation for items other than food and energy remain near 2%. Indicators of longer-term inflation expectations are little changed, on balance. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2% objective over the medium term. Risks to the economic outlook appear roughly balanced. In view of realized and expected labor market conditions and inflation, the Committee decided to raise the target range for the federal funds rate to 2% to 2.25%. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2% inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.

Bank of Japan (BoJ)

The Bank of Japan will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control", aiming to achieve the price stability target of 2%

The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control", aiming to achieve the price stability target of 2%, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2% and stays above the target in a stable manner. As for policy rates, 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. It will examine the risks considered most relevant to the conduct of monetary policy and make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target.

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 (PBoC) has decided to cut the risk reserve requirement on financial institutions currently 15.5% for large institutions and 13.5% for smaller banks, by 100 basis points effective October 15. This cut shows the central bank is probably worried about the impact of external shocks to markets such as trade war between China and USA.

China's central bank cut the amount of reserves that most banks must hold to lower financing costs and spur growth, amid concerns over a potential economic drag from an escalating trade dispute with the United States. The reserve requirement cut, the fourth by the People's Bank of China (PBoC) this year, comes after Beijing has pledged to expedite plans to invest billions of dollars in infrastructure projects as the economy shows signs of cooling further, with investment growth slowing to a record low. Reserve requirement ratios (RRRs) - currently 15.5% for large institutions and 13.5% for smaller banks - would be cut by 100 basis points effective Oct. 15, the PBOC said. The central bank will inject a net 750 billion yuan (\$109.2 billion) in cash into the banking system with the cut by releasing a total of 1.2 trillion yuan in liquidity, with 450 billion yuan of that to offset maturing medium-term lending facility (MLF) loans. The RRR cut would not create depreciation pressure on the yuan, the PBoC said, adding that the central bank would keep the foreign exchange markets stable. This cut shows the central bank is probably worried about the impact of external shocks to markets such as trade war between China and USA, which has magnified concerns about the outlook for China's economy. The RRR cuts also had to do with kind of smoothing out the deleveraging process, just providing liquidity to the banks that might have been experiencing a credit crunch as they were trying to clamp down in shadow banking. Economic growth in China is slowing and the PBOC is more proactive in terms of trying to provide stimulus.

Central Bank of Turkey

According to Macroeconomic Outlook and Monetary Policy in Turkey, rebalancing in the economic activity has become more significant. External demand maintains its strength, while slowdown in domestic demand accelerates. Deterioration in the pricing behavior poses upside risks on the inflation outlook, despite weaker domestic demand conditions. A strong monetary tightening has been delivered to support price stability. The Central Bank will continue to use all available instruments in pursuit of the price stability objective

According to Macroeconomic Outlook and Monetary Policy in Turkey (presentation in 2018 Annual Meeting of the IMF and the World Bank Group in Bali), rebalancing in the economic activity has become more significant. Domestic economic activity has decelerated in the second quarter. Economic slowdown is domestic demand-driven. Net exports continue to support economic activity. External demand maintains its strength and contributes to export growth. Real exchange rate is at historically low levels. Recent data indicate a sharp improvement trend in external balance. Current account deficit will continue to narrow. Tourism revenues have posted a strong rebound. External debt roll-over ratios have remained stable.

Deterioration in the pricing behavior poses upside risks on the inflation outlook, despite weaker domestic demand conditions. CPI inflation and core indicators recorded significant increases. Exchange rate depreciation has increased inflationary pressures. Demand conditions are expected to limit upside risks on inflation. A strong monetary tightening has been implemented to support price stability by raising the policy rate (one week repo auction rate) from 17.75% to 24%. Loan growth has continued to decelerate. The Central Bank will continue to use all available instruments in pursuit of the price stability objective.

International Commodity Prices

Petrol

Crude oil fell by -3.73 USD or -5.48% to 68.07 USD / barrel on 23 October from 71.794USD / barrel on September 23 (the previous month). The price of Brent crude oil decreased by -2.62 USD or -3.35% to 78.31 USD / barrel on Tuesday 25 September from 80.94 USD / barrel on September 23 (the previous month).

Crude oil fell by -3.73 USD or -5.48% to 68.07 USD / barrel on 23 October from 71.794USD / barrel on September 23 (the previous month). The price of Brent oil decreased by -2.62 USD or -3.35% to 78.31 USD / barrel on Tuesday 25 September from

80.94 USD / barrel on September 23 (the previous month).

China's trade war with the US is beginning to influence China's growth, which may negatively affect oil demand in the country. Concerns about the trade war, coupled with US oil reserves, curb the upward trend. Crude oil reserves in the United States rose 6.5 million barrels last week, which is the fourth consecutive weekly increase and is almost three times higher than analysts' forecasts. Stocks rose sharply, as crude oil production in the US rose by nearly a third from mid-2016 to about 11 million barrels of oil per day. The rising drilling activity is currently a signal that new growth in production volumes can be expected. At the same time, oil exports from Iran may increase in October, as buyers are trying to buy more volumes before the sanctions come into effect in early November. Investment Bank J.P. Morgan raised its forecast for Brent's price in 2019 to USD 83.50 a barrel, largely due to the expected effect of Iranian sanctions and declining free production capacity. However, they are the opposite opinion of the company Eastport. They believe that oil prices will fall in the coming months, as rising US production will be able to meet demand.

Agricultural products

The two-week period passed under the expectation of the US Department of Agriculture's new forecast, and the markets took a wait-and-see position, with no major changes expected. Unlike in recent years, we see an excess of consumption over production in the 2018/2019 balance sheet. On Sofia Commodity Exchange AD prices were retained on most contracts, but sellers were a minority.

The past two-week period passed under the expectation of the US Department of Agriculture's new forecast, and the markets took a wait-and-see position, with no major changes expected. The forecast for global soybean crops has deteriorated as well as for wheat with a reduction in prospects in Australia and Russia. Unlike in recent years, we see an excess of consumption over production in the 2018/2019 balance sheet. In Chicago, the price of wheat reacted with a plus of USD 4.00 to 220.00 USD / ton, in France there was a decrease of 2.00 euros to 204.00 EUR / ton, in Ukraine the old price remained at 230.00 USD / ton, and in Russia the trend turned - minus 2.95 dollars to 233.95 USD / ton. In corn, there is also some controversial movement in FOB prices - US plus 4.00 dollars to 173.00 USD / ton, Russia minus 5.00 dollars to 180.00 USD / ton, and in France there was a slight movement with 0.50 euros to 174.00 USD / ton. Rape in the European Union (Euronext) fell by 1.25 euros to 370.75 EUR / ton and barley in France and Germany remained unchanged in the first and plus 2.00 euros in the second - respectively 208.00 and 205.00 EUR / ton. Unrefined sunflower oil ceased dropping and rose by 2.00 dollars to 712.00 USD /ton in Rotterdam. Impressive is the reversal of refined sugar, which has been steadily rising in recent weeks with a surge of 15.70 dollars to 378.60 USD / ton in London. In the "Grain" Circle at Sofia Stock Exchange AD prices were retained on most contracts, but sellers were a minority. After the previous transactions for serious quantities of wheat bread with immediate delivery at 405.00 BGN / ton, the demand continued at the same price, but this week there was also demand in the range 340.00-370.00 BGN / ton. Feed wheat is looking for 300.00-320.00 BGN / ton, the offer is 350.00 BGN / ton. For maize, there were also only "buy" bids at a starting price of 220.00 BGN / ton for delivery in January, and for immediate delivery the price was 240.00-250.00 BGN / ton. Oilseed sunflower is being sought from a place at 520.00-530.00 BGN / ton, the sellers announced 580.00-600.00 BGN / ton. All prices are without VAT.

BULGARIA

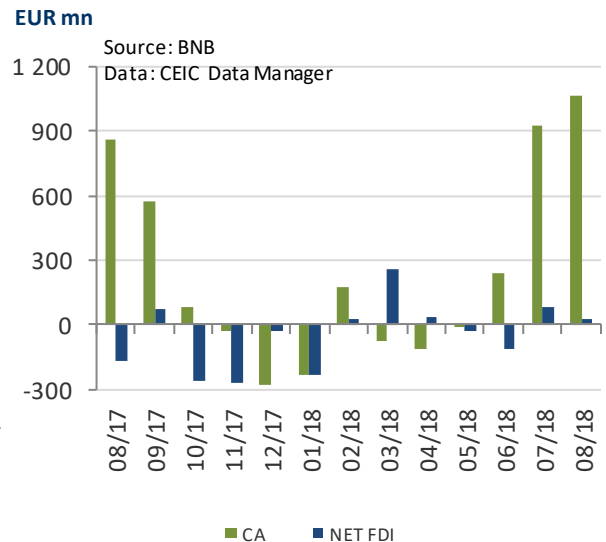
EXTERNAL SECTOR

Balance of Payments

In January – August 2018 the current and capital account was positive amounting to EUR 2,364.7 million and presented 4.5% of GDP

The current and capital account recorded a surplus of EUR 1,197.2 million in August 2018, compared with a surplus of EUR 908.1 million in August 2017. In January – August 2018 the current and capital account was positive amounting to EUR 2,364.7 million (4.5% of GDP), compared with a surplus of EUR 3,349.8 million (6.5% of GDP) in January – August 2017. The current account was positive amounting to EUR 1,062.4 million in August 2018, compared with a surplus of EUR 861.4 million in August 2017. In January – August 2018 the current account was positive and amounted to EUR 1,972.7 million (3.7% of GDP), compared with a surplus of EUR 3,028.5 million (5.9% of GDP) in January – August 2017. The balance on goods recorded a deficit of EUR 52.6 million in August 2018, compared with a deficit of EUR 73 million in August 2017. In January – August 2018 the balance on goods was negative amounting to EUR 1,938.2 million (3.7% of GDP), compared with a deficit of EUR 337.6 million (0.7% of GDP) in January – August 2017. Exports of goods amounted to EUR 2,367.1 million in August 2018, growing by EUR 99.2 million (4.4%) from August 2017 (EUR 2,267.9 million). In January – August 2018 exports of goods totalled EUR 17,405 million (33% of GDP), dropping by EUR 155.6 million (0.9%) yoy (from EUR 17,560.6 million, 34% of GDP). In January – August 2017 exports grew by 19% yoy. Imports of goods amounted to EUR 2,419.7 million in August 2018, growing by EUR 78.8 million (3.4%) from August 2017 (EUR 2,340.9 million). In January – August 2018 imports of goods totalled EUR 19,343.2 million (36.6% of GDP), growing by EUR 1,445 million (8.1%) from January – August 2017 (EUR 17,898.2 million, 34.6% of GDP). In January – August 2017 imports grew by 15.9% yoy. Services recorded a positive balance of EUR 816.6 million in August 2018, compared with a surplus of EUR 771.8 million in August 2017. In January – August 2018 services recorded a surplus of EUR 2,568.6 million (4.9% of GDP) compared with a positive balance of EUR 2,223.3 million (4.3% of GDP) in the same period of 2017. The net primary Income (which reflects the receipt and payment of income related to the use of resources (labour, capital, land), taxes of production and imports and subsidies) recorded a surplus of EUR 37.8 million in August 2018, compared with a deficit of EUR 27.7 million in August 2017. In January – August 2018 the balance on primary income was negative and equated to EUR 210.3 million (0.4% of GDP), against a deficit of EUR 346.2 million (0.7% of GDP) in January – August 2017. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 260.6 million, compared with a positive balance of EUR 190.2 million in August 2017. In January – August 2018 the net secondary income was positive amounting to EUR 1,552.6 million (2.9% of GDP), compared with a positive balance of EUR 1,489.1 million (2.9% of GDP) in the same period of 2017. The capital account recorded a surplus of EUR 134.8 million, compared with a positive balance of EUR 46.7 million in August 2017. In January – August 2018 the capital account recorded a surplus of EUR 392 million (0.7% of GDP), compared with a positive balance of EUR 321.2 million (0.6% of GDP) in January – August 2017. The financial account recorded a net inflow of EUR 671.1 million, compared with an inflow of EUR 761.7 million in August 2017. In January – August 2018 the financial account recorded a net inflow of EUR 2,348.2 million (4.4% of GDP) compared with an inflow of EUR 1,806.8 million (3.5% of GDP) in January – August 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 22.2 million, compared with a negative balance of EUR 165.5 million in August 2017. In January – August 2018 direct investment recorded a positive balance of EUR 56.5 million (0.1% of GDP), compared with a negative balance of EUR 592.8 million (1.1% of GDP) in January – August 2017. Direct investment – assets grew by EUR 55 million compared with an increase of EUR 40.3 million in August 2017. In January – August 2018 direct investment – assets grew by EUR 617.4 million (1.2% of GDP), compared with an increase of EUR 292.2 million (0.6% of GDP) in the same period of 2017. Direct investment – liabilities grew by EUR 32.8 million in August 2018, com-

Balance of Payments



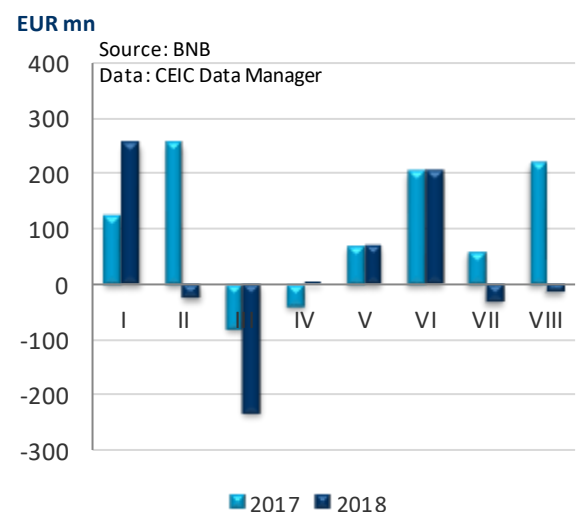
pared with an increase of EUR 205.8 million in August 2017. In January – August 2018 direct investment – liabilities rose by EUR 560.9 million (1.1% of GDP), compared with an increase of EUR 885.1 million (1.7% of GDP) in the same period of 2017. The balance on portfolio investment was positive amounting to EUR 86 million, compared with a positive balance of EUR 45.2 million in August 2017. In January – August 2018 the balance was positive and equated to EUR 682 million (1.3% of GDP), compared with a positive balance of EUR 1,087.1 million (2.1% of GDP) million in January – August 2017. Portfolio investment – assets grew by EUR 56.6 million, compared with an increase of EUR 28.9 million in August 2017. In January – August 2018 they rose by EUR 585.7 million (1.1% of GDP) compared with an increase of EUR 526.5 million (1% of GDP) in January – August 2017. Portfolio investment – liabilities dropped by EUR 29.4 million compared with a decline of EUR 16.4 million in August 2017. In January – August 2018 portfolio investment – liabilities dropped by EUR 96.3 million (0.2% of GDP), compared with a decline of EUR 560.6 million (1.1% of GDP) in January – August 2017. The balance on other investment was positive amounting to EUR 334.6 million, compared with a positive balance of EUR 227.3 million in August 2017. In January – August 2018 the balance was positive and equated to EUR 1,164.6 million (2.2% of GDP), compared with a positive balance of EUR 736.2 million (1.4% of GDP) in January – August 2017. Other investment – assets grew by EUR 478.3 million, compared with an increase of EUR 63.6 million in August 2017. In January – August 2018 they grew by EUR 1,807 million (3.4% of GDP) compared with an increase of EUR 504.9 million (1% of GDP) in January – August 2017. Other investment – liabilities increased by EUR 143.7 million compared with a decline of EUR 163.6 million in August 2017. In January – August 2018 they grew by EUR 642.4 million (1.2% of GDP) compared with a decrease of EUR 231.3 million (0.4% of GDP) in January – August 2017. The BNB reserve assets⁵ grew by EUR 230.5 million, compared with an increase of EUR 680.8 million in August 2017. In January – August 2018 they increased by EUR 374.6 million (0.7% of GDP), compared with an increase of EUR 644.6 million (1.2% of GDP) in the same period of 2017. The net errors and omissions were negative amounting to EUR 526 million compared with a negative value of EUR 146.4 million in August 2017. According to preliminary data, the item was negative totalling EUR 16.6 million (0.03% of GDP) in January – August 2018, compared with a negative value of EUR 1,543 million (3% of GDP) in the same period of 2017.

Foreign Direct Investments

In January- August 2018 Bulgaria's foreign investments declined by 71.6% yoy to EUR 230.5 million and presented 0.4% of GDP

According to preliminary data, foreign direct investment in Bulgaria presented according to the directional principle totalled EUR 230.5 million (0.4% of GDP) in January – August 2018, dropping by EUR 581.5 million (71.6%) from January – August 2017 (EUR 812 million, 1.6% of GDP). Foreign direct investment in Bulgaria decreased by EUR 14.1 million in August 2018, compared with an increase of EUR 217.4 million in August 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 27.1 million in January – August 2018, dropping by EUR 201.5 million from EUR 174.4 million in January – August 2017. Real estate investments of non-residents totalled EUR 4.6 million, compared with EUR 13.3 million attracted in January – August 2017. The largest inflow of real estate investment was from Russia (EUR 2.5 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 33.6 million in January – August 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 275.6 million in January – August 2018, compared with EUR 671.2 million in January – August 2017. The largest net direct investment inflows in Bulgaria for January – August 2018 were from the Netherlands (EUR 264.9 million), Russia (EUR 158.5 million), and Germany (EUR 79.7 million).

Foreign Direct Investment: Flow

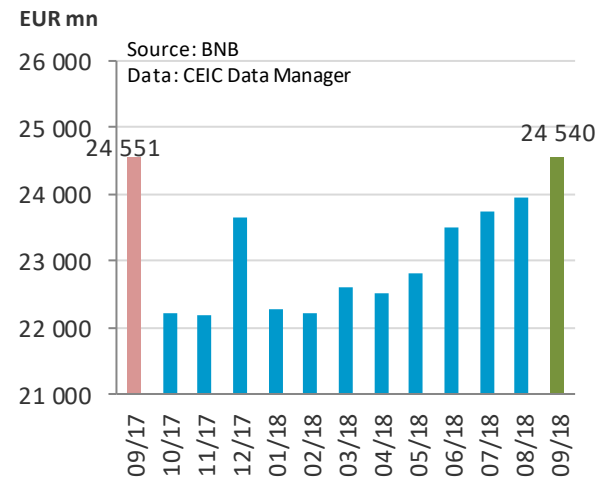


Foreign Reserves

In September 2018, international reserves amounted to BGN 48 billion (EUR 24.5 billion), increasing by 2.4% mom and by 3.4% compared to the end of 2017

According to data of the BNB at the end of September 2018, the international reserves amounted to BGN 48.0 billion (EUR 24.5 billion), increasing by 2.4% mom and by 3.4% yend 2017, respectively. In terms of assets, cash and deposits in foreign currency increased by 3% mom but declined by 10.1% yoy. Monetary gold deposits reported a decline of 1.3% mom and 6.3% yoy, respectively. Investment in securities increased by 2.4% on a monthly basis and by 8.9% on an annual basis. On the liabilities side, money in circulation increased by 0.4% mom and by 10.4% yoy, respectively. Liabilities to banks increased by 6.1% mom but decreased by 9.4% yoy. Liabilities to the government and the budget increased by 4% mom, with a decline of 3.6% yoy, respectively. Liabilities to other depositors increased by 0.1% mom and by 37.1% yoy, respectively. The deposit of the Banking Department shrank 1.1% mom and by 5.9% yoy, respectively. Bulgaria's international liquidity position, calculated as a ratio of foreign reserves to short-term external debt, is high at 300.3% at the end of July 2018, although it declined from 317% in July 2017, 314% at the end of 2017 and 301.6% at the end of June 2018.

Foreign Reserves



REAL SECTOR

Business Climate

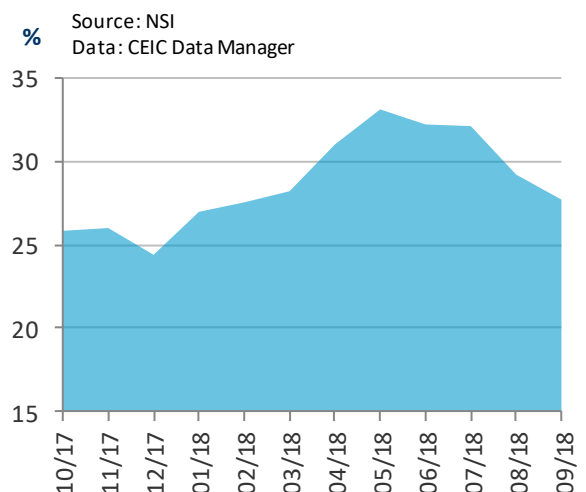
In September 2018, the total business climate indicator decreases by 1.5 percentage points in comparison with August to 27.7%, which is due to the more unfavourable business climate in construction and service sector

In September 2018, the total business climate indicator decreases by 1.5 percentage points in comparison with August to 27.7%, which is due to the more unfavourable business climate in construction and service sector.

Industry. The composite indicator 'business climate in industry' preserves its level from the previous month at 27.6%. The industrial entrepreneurs assess the present production activity as favourable. However, according to them the production assurance with orders is decreased, which is accompanied by reduced expectations about the activity of the enterprises over the next 3 months. The main factors limiting the business continue to be connected with the uncertain economic environment and shortage of labour. Concerning the selling prices in industry, the prevailing managers' expectations are them to remain unchanged over the next 3 months.

Construction. In September 2018 the composite indicator 'business climate in construction' decreases by 5.8 percentage points to 25.7%, which is due to the shifting of the construction entrepreneurs' assessments and expectations about the business situation of the enterprises from 'better' towards preserving 'the same'. At the same time their opinions about the construction activity over the last 3 months, as well their expectations over the next 3 months are more unfavourable. The shortage of labour, uncertain economic environment and competition in the branch remain the main problems for development of the activity. As regards the selling prices in construction, the managers foresee preservation of their level over the next 3 months.

Business Climate Indicator



Retail trade. The composite indicator ‘business climate in retail trade’ remains approximately to its August level at 40.1%. The retailers’ assessments about the volume of sales over the last 3 months are favourable, as in their forecasts over the next 3 months certain improvement is reported. The main obstacles for the business development continue to be connected with the competition in the branch, uncertain economic environment and insufficient demand. Concerning the selling prices, the retailers expect them to remain unchanged over the next 3 months.

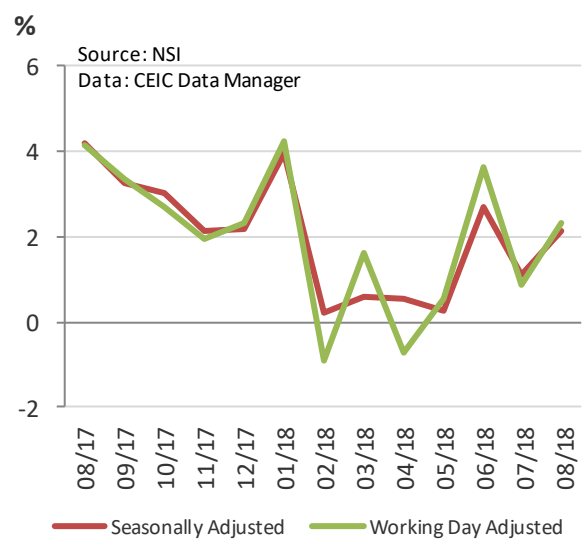
Service sector. In September 2018 the composite indicator ‘business climate in service sector’ decreases by 1.7 percentage points to 17.3% mainly due to the shifting of the managers’ assessments about the present business situation of the enterprises from ‘better’ towards preserving ‘the same’. Their opinions about the present demand for services are more reserved, as their expectations over the next 3 months are worsened. The most serious difficulties for the activity remain the competition in the branch and uncertain economic environment, as in the last month strengthen of the negative impact of the first factor is reported. As regards the selling prices in service sector, the managers foresee preservation of their level over the next 3 months.

Industrial Production Index

In August 2018 as compared to July 2018 Industrial Production Index, seasonally adjusted, increased by 0.8%. In August 2018 the working day adjusted Industrial Production Index rose by 2.3% in comparison with the same month of 2017

According to NSI preliminary data the Industrial Production Index, seasonally adjusted, increased by 0.8% in August 2018 as compared to July 2018. In August 2018 the working day adjusted Industrial Production Index rose by 2.3% in comparison with the same month of 2017. In August 2018 as compared to July 2018, the seasonally adjusted Industrial Production Index increased in the manufacturing by 1.6% and in the electricity, gas, steam and air conditioning supply by 1.3%, while in the mining and quarrying industry the production decreased by 2.1%. The most significant production increases in the manufacturing were registered in the repair and installation of machinery and equipment by 14.8%, in the manufacture of electrical equipment by 11.5%, in the manufacture of beverages by 4.7%, in the manufacture of chemicals and chemical products by 4.5%. There were decreases in the manufacture of tobacco products by 11.0%, in the manufacture of other transport equipment by 7.5%, in the manufacture of rubber and plastic products by 6.0%, in the manufacture of furniture by 5.5%. On annual basis in August 2018 Industrial Production Index calculated from working day adjusted data rose in the manufacturing by 5.0%, while the production fell in the mining and quarrying industry by 17.4% and in the electricity, gas, steam and air conditioning supply by 2.2%. In the manufacturing, the more considerable increases compared to the same month of the previous year were registered in the repair and installation of machinery and equipment by 32.3%, in the manufacture of electrical equipment by 26.1%, in the manufacture of motor vehicles, trailers and semi-trailers by 23.1%, in the manufacture of other transport equipment by 15.2%. Decreases were seen in the manufacture of tobacco products by 37.9%, in the manufacture of chemicals and chemical products by 8.7%, in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 7.7%.

Industrial production Index, % change, YoY



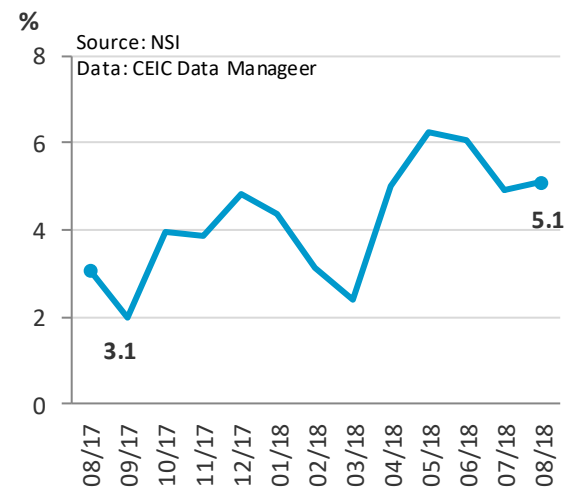
Retail Trade

According to the preliminary seasonally adjusted data in August 2018 the turnover in ‘Retail trade, except of motor vehicles and motorcycles’ at constant prices increased by 0.5% mom

According to the preliminary seasonally adjusted data in August 2018 the turnover in ‘Retail trade, except of motor vehicles and motorcycles’ at constant prices increased by 0.5% compared to the previous month. In August 2018, the working day ad-

justed turnover in 'Retail trade, except of motor vehicles and motorcycles' marked rise from 5.1% in comparison with the same month of the previous year. In August 2018 compared to the previous month growth of turnover was observed in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' by 2.4%, in the 'Retail sale via mail order houses or via Internet' by 1.1%, in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' by 0.9%, in the 'Retail sale of automotive fuel' by 0.8% and in the 'Retail sale of food, beverages and tobacco' by 0.4%. Decrease was noted in the 'Retail sale of textiles, clothing, footwear and leather goods' - 2.3% and in the 'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles' - 0.5%. In August 2018 compared to the same month of 2017, the turnover increased more significantly in the 'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles' by 11.8% and in the 'Retail sale of food, beverages and tobacco' by 9.0%. Decline was registered in the 'Retail sale in nonspecialised stores' - 1.3%, in the 'Retail sale of textiles, clothing, footwear and leather goods' - 1.2%, in the 'Retail sale of automotive fuel' - 1.0% and in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' - 0.6%.

Retail trade index, % change (YoY)

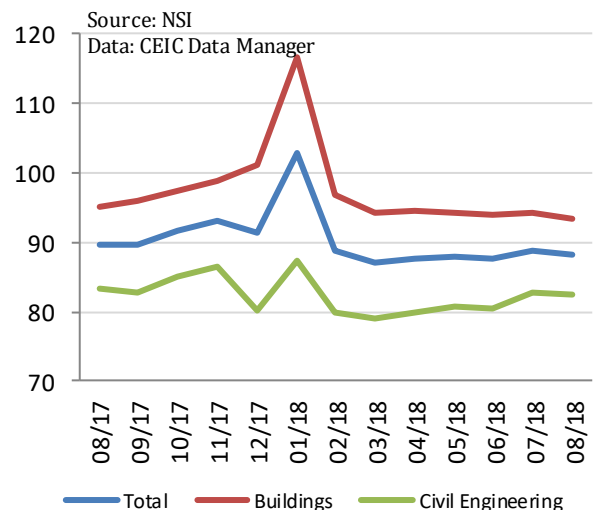


Construction

According to the preliminary data, in August 2018 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.6% below the level of the previous month. In August 2018 the working day adjusted index of production in construction decreased by 1.1% yoy

According to the preliminary data, in August 2018 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.6% below the level of the previous month. In August 2018 working day adjusted data showed a decrease by 1.1% in the construction production, compared to the same month of 2017. In August 2018 the construction production, calculated from the seasonally adjusted data, was under the level of the previous month. Index the production of building construction fell by 0.8% and production of civil engineering - by 0.3%. On an annual basis in August 2018, the decrease of production in construction, calculated from working day adjusted data, was determined from the negative rate in the building construction, where the drop was by 2.8%, while in the civil engineering was registered an increase by 1.1%.

Construction Production index, seasonally adjusted data



Tourism

In August 2018, the number of the trips of Bulgarian residents abroad was 736.7 thousand or by 8.3% above the registered in August 2017. In August 2018, the number of arrivals of visitors from abroad to Bulgaria was 2 240.2 thousand or by 5.4% more in comparison with August 2017

In August 2018, the number of the trips of Bulgarian residents abroad was 736.7 thousand or by 8.3% above the registered in August 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: Turkey - by 35.0%, Germany - by 13.9%, France - by 11.1%, Romania - by 10.7%, Austria - by 10.1%, the United Kingdom - by 6.2%, the Former Yugoslav Republic of Macedonia - by 3.6%. At the same time decreased the trips to: USA - by 13.0%, Ukraine - by 12.9%, Israel - by 3.3% and etc. In comparison with August 2017, an increase was registered in the trips

with all observed purposes: with professional purpose - by 18.8%, with holiday and recreation purpose - by 9.6%, and with other purposes - by 4.0%. The trips with holiday and recreation purpose in August 2018 composed the greatest share of the total number of trips of Bulgarian residents abroad - 43.4%, followed by the trips with other purposes (as a guest, education and visit the cultural and sport events) - 42.9%, and with professional purpose - 13.7%. In August 2018 most trips of Bulgarian citizens were made to: Greece - 195.5 thousand, Turkey - 142.1 thousand, the Former Yugoslav Republic of Macedonia - 53.6 thousand, Germany - 47.1 thousand, Romania - 45.9 thousand, Serbia - 45.8 thousand, Italy - 28.6 thousand, Austria - 21.3 thousand, the United Kingdom - 21.0 thousand, France - 18.7 thousand.

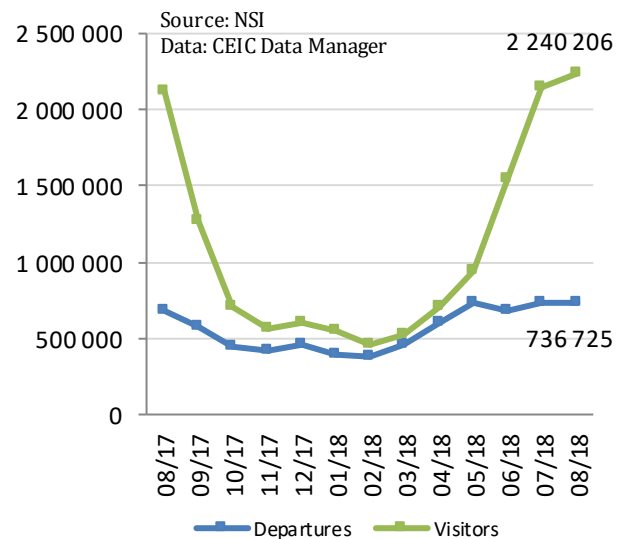
In August 2018, the number of arrivals of visitors from abroad to Bulgaria was 2 240.2 thousand or by 5.4% more in comparison with August 2017.

An increase was registered in the trips with all observed purposes: with professional purpose - by 12.9%, with other purposes (including as guest and passing transit) - by 5.8% and with holiday and recreation purpose - by 4.2%. Transit passes through the country were 26.2% (586.1 thousand) of all visits of foreigners to Bulgaria. The share of visits of EU citizens was 62.3% of the total number of foreigners' visits to Bulgaria in August 2018 or by 5.3% more in comparison with the same month of the previous year. An increase was registered in the visits of citizens from Slovakia - by 25.0%, the Netherlands - by 21.5%, France - by 19.3%, the United Kingdom - by 17.1%, Romania - by 13.9%, Belgium - by 6.9%, Germany - by 4.4%, and etc. At the same time decreased the visits from Poland - by 10.9%, Italy - by 6.3%, Austria - by 5.9%, and etc. The visits of foreigners in the group 'Other European countries' increased by 6.2%, as the highest growth was observed in the visits of citizens of Ukraine - by 33.2%. In August 2018, the predominant share of the visits with holiday and recreation purpose was 54.7%, followed by trips with other purposes - 38.0%, and with professional purpose - 7.3%. In August 2018 the most visits to Bulgaria were from: Germany - 287.4 thousand, Romania - 285.1 thousand, Turkey - 277.1 thousand, Greece - 165.8 thousand, Poland - 114.9 thousand, Russian Federation - 112.6 thousand, Ukraine - 98.8 thousand, the United Kingdom - 82.7 thousand, France - 72.8 thousand Serbia - 72.8 thousand.

The total revenues from nights spent in August 2018 reached 348.0 million BGN or by 7.5% more compared to August 2017

In August 2018, 3 229 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 137.7 thousand and the bed-places were 320.7 thousand. In comparison with August 2017, the total number of accommodation establishments (functioned during the period) increased by 2.7% and the bed-places in them - by 2.4%. The total number of the nights spent in all accommodation establishments registered in August 2018 was 6 080.4 thousand, or by 2.3% more in comparison with the same month of the previous year, as the greatest increase (by 5.0%) was observed in 3 stars accommodation establishments. In August 2018, 63.7% of all nights spent by foreign citizens and 26.1% of all nights spent by Bulgarians were realized in 4 and 5 stars hotels. In 3 stars accommodation establishments were spent 27.6% of all nights by foreigners and 27.2% of all nights by Bulgarian residents, while in the rest of accommodation establishments (with 1 and 2 stars) they were 8.7% and 46.7% respectively. In August 2018, the number of arrivals in all accommodation establishments increased by 4.9% compared to the same month of 2017 and reached 1 317.8 thousand, as an increase was registered for foreigners by 5.9% and by 3.3% for Bulgarians. Bulgarians spent the nights in accommodation establishments in August 2018 were 510.2 thousand and spent 3.2 nights on the average. The arrivals of foreigners were 807.6 thousand, as 63.6% of them spent nights in hotels with 4 and 5 stars. On the average 5.5 nights were spent by foreigners. In August 2018, the total occupancy of the bed-places in accommodation establishments was 61.5%, as compared to August 2017 decreased by 0.8 percentage points. The highest was occupancy of the bed-places in 4 and 5 stars accommodation establishments - 74.7%, followed by 3 stars accommodation establishments - 62.1%, and with 1 and 2 stars - 40.7%. The total revenues from nights spent in August 2018 reached 348.0 million BGN or by 7.5% more compared to August 2017. An increase in revenues was registered from both Bulgarians - by 9.0% and foreigners - by 7.2%.

Total Visitors/Departures

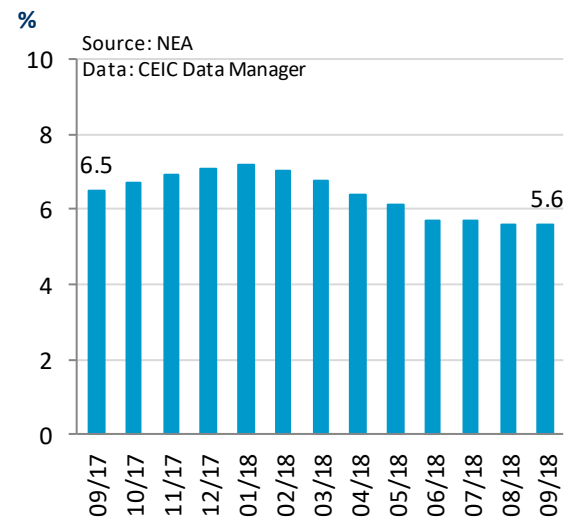


Unemployment

In September 2018, the registered unemployment rate in Bulgaria was 5.6%, retaining its value in August and declining by 0.9 percentage points on an annual basis

According to the Employment Agency, the registered unemployment rate in September 2018 was 5.6%, retaining its value in August but decreasing by 0.9 percentage points on an annual basis. From the beginning of the year to the end of September the number of registered unemployed in the labor offices has decreased by over 22%. By the end of September, they had a total of 183,846, down 0.1% from the previous month and 13.8% compared to a year earlier. Newly registered unemployed in the first autumn month were 25 868, of which 1 592 were inactive, were neither employed nor students, nor were they looking for a job. 48 369 persons have been activated since the beginning of the year through the organization of job fairs, information events, meetings with the graduates of the Career Centers, as well as through the work of youth, Roma and labor mediators, etc. A total of 18,280 people entered the job in September, with 88.9% of them in the real economy. Subsidized employment includes 2029 persons - 1092 under the Human Resources Development Operational Program, 672 programs and 265 training and employment measures. Since the beginning of the year, a total of 15,376 unemployed have been enrolled in training to acquire new qualifications and key competencies, while graduates have successfully completed 14,276. At the end of September, 1104 unemployed were in training. The professions in which the students are trained are in the professional fields: audiovisual arts and techniques, computer science, applied informatics, construction, gardening (parks and gardens), production technologies - textiles, apparel, shoes and leathers, hospitality, catering, and key competencies are mainly focused on acquiring digital skills. Job vacancies on the primary labor market in September were 17 063, with 65.8% of them in the private sector. The highest share of vacancies was reported in manufacturing (25.2%), education (14.2%), administrative and auxiliary activities and trade (by 13.1%), hotels and restaurants (5.9%), construction (4.7%), etc. The most popular groups of professions during the month are: lecturers; operators of stationary machinery and equipment; workers in mining and manufacturing, construction and transport; vendors; personnel employed in the personal services (bartenders, waiters, chefs, cameramen, etc.); skilled workers in the food, clothing, wood and related industries; waste collectors and related workers; metallurgists, machine-building and related workers and craftsmen, etc.

Registered Unemployment Rate

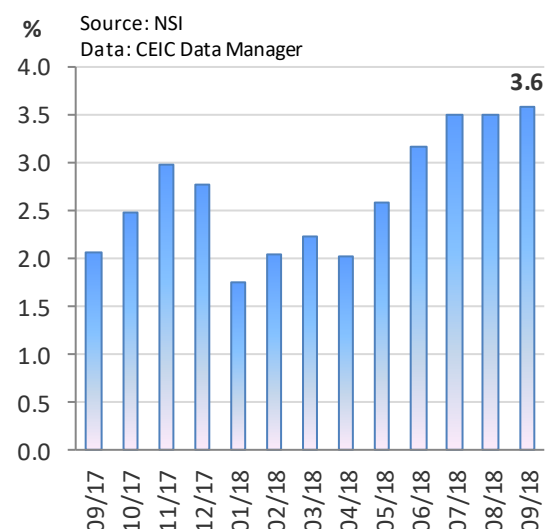


Inflation

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

The consumer price index in September 2018 compared to August 2018 was 100.3%, i.e. the monthly inflation was 0.3%. The inflation rate since the beginning of the year (September 2018 compared to December 2017) has been 2.1% and the annual inflation in September 2018 compared to September 2017 was 3.6%. The annual average inflation, measured by CPI, in the last 12 months (October 2017 - September 2018) compared to the previous 12 months (October 2016 - September 2017) was 2.7%. The harmonized index of consumer prices in September 2018 compared to August 2018 was 99.7%, i.e. the monthly inflation was -0.3%. The inflation rate since the beginning of the year (September 2018 compared to December 2017) has been 2.5% and the annual inflation in September 2018 compared to September 2017 was 3.6%. The groups 'Recreation and culture' and 'Restaurants and hotels' had

Inflation, YoY

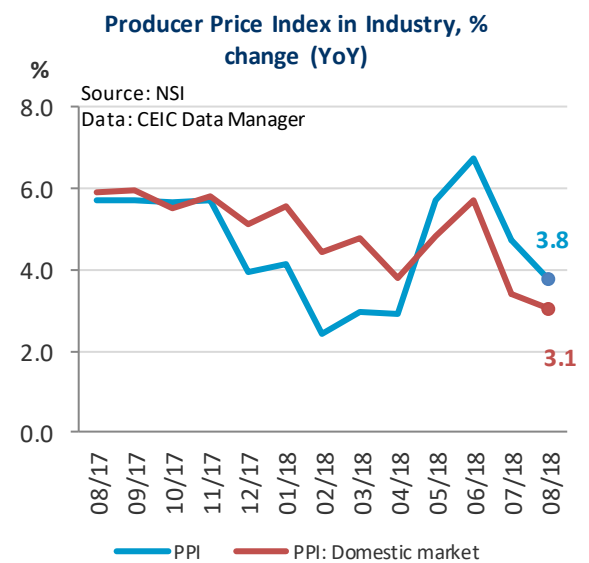


the biggest downward impact on the total HICP that measures the change in prices of goods and services, consumed by all households (including foreign households) on the economic territory of the country. Differences between CPI and HICP are due to different coverage of the HICP and CPI in respect of treatment of the consumption by both non-resident and institutional households. The annual average inflation, measured by HICP, in the last 12 months (October 2017 - September 2018) compared to the previous 12 months (October 2016 - September 2017) was 2.3%.

Producer Price Index in Industry

Total Producer Price Index in August 2018 decreases with 0.1% mom and by 3.8% yoy, respectively. Producer Price Index on Domestic Market in August 2018 increased by 0.1% mom and by 3.1% yoy, respectively

The Total Producer Price Index in Industry in August 2018 went down with 0.1% mom. Lower prices were registered in the mining and quarrying industry by 2.6% and in manufacturing by 0.2%, while in the electricity, gas, steam and air conditioning supply the prices increased by 0.3%. In the manufacturing3, more significant decrease in prices were reported in the manufacture of basic metals by 2.5%, while prices went up in the manufacture of other transport equipment by 1.1% in the manufacture of paper and paper products - by 0.8% and in printing and reproduction of recorded media by 0.6%. The Total Producer Price Index in August 2018 increased by 3.8% yoy. The prices rose in manufacturing by 4.3%, in the electricity, gas, steam and air conditioning supply by 3.3% while prices decreased in the mining and quarrying industry by 1.9%. In the manufacturing more significant increase in prices were seen in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 5.4% in the manufacture of paper and paper products by 5.3% and in the manufacture of leather and related products by 4.4%. The producer prices dropped in other manufacturing by 1.1%.



Producer Price Index on Domestic Market in August 2018 increased by 0.1% mom. The domestic prices went up in manufacturing by 0.4% in the electricity, gas, steam and air conditioning supply by 0.1%, while the prices decreased in the mining and quarrying industry by 2.5%. In the manufacturing, compared to the previous month the prices went up in the manufacture of other transport equipment by 2.0% and in the manufacture of chemicals and chemical products by 1.1%. The domestic prices went down in the manufacture of electrical equipment by 0.3%. Producer Price Index on Domestic Market in August 2018 increased by 3.1% yoy. The prices rose in manufacturing and in the electricity, gas, steam and air conditioning supply - both by 3.3% and in the mining and quarrying industry the prices fell by 0.8%. In the manufacturing compared to August 2017 the prices went up in the manufacture of chemicals and chemical products by 4.7%, in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 4.6%, and in the manufacture of paper and related products by 4.1%. A decrease in the prices was reported in the manufacture of computer, electronic and optical products by 0.5%, as well as in other manufacturing by 0.4%.

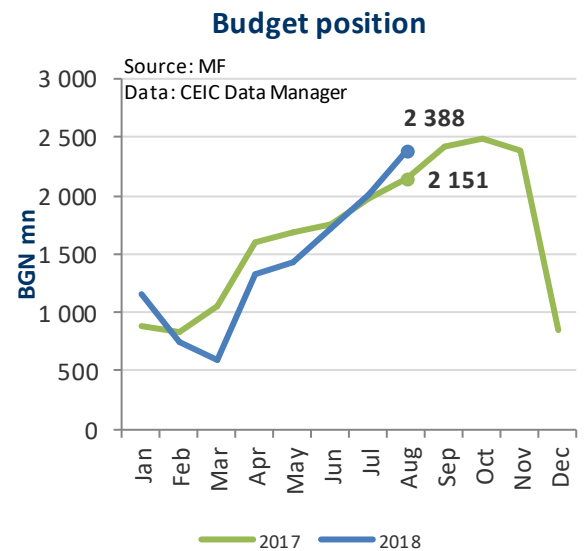
Producer Price Index on Non-domestic Market in August 2018 decreased by 0.6% mom. In the manufacturing the non-domestic prices decreased by 0.7%. More significant price decrease were reported in manufacture of basic metals by 3.0%, while prices went up in the manufacture of paper and paper products by 1.8%, and in the other manufacturing by 0.8%. Producer Price Index on Non-domestic Market in August 2018 increased by 4.9% yoy. In the manufacturing, the prices went up by 5.2%. The non-domestic prices rose in the manufacture of paper and paper products by 7.3%, in the manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials by 6.6% in the manufacture of leather and related products by 5.3%. The prices fell in the manufacture of furniture by 1.5% and in other manufacturing by 1.4%.

FISCAL SECTOR

Budget Balance

At the end of August 2018 Bulgaria's Consolidated Fiscal Programme (CFP) balance on a cash basis as of August 2018 is positive, amounting to BGN 2,388.1 million, or 2.3% of the projected GDP

According to MF the Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-August 2018 is positive, amounting to BGN 2,388.1 million, or 2.3% of the projected GDP, and is formed by a national budget surplus of BGN 2,535.2 million and by a EU funds deficit of BGN 147.1 million. The CFP revenues and grants in August 2018 stand at BGN 25,975.8 million, or 68.0% of the annual estimates. Compared to the same period of the previous year, tax and non-tax revenues have risen by BGN 2,397.7 million, or by 10.8%, and grant proceeds – by BGN 293.3 million, or by 29.5%. Tax proceeds, including revenues from social security contributions, total BGN 21,344.1 million, which accounts for 68.5% of the tax revenues planned for the year. Compared to the data for August 2017, tax proceeds have risen by 10.0%, or by BGN 1,941.6 million, in nominal terms. Direct tax revenues amount to BGN 3,978.3 million, or 69.1% of the estimates planned for the year, growing by BGN 422.9 million (11.9%) compared to the same period of the previous year. Indirect tax revenues amount to BGN 10,348.2 million, which accounts for 68.3% of the annual estimates. Compared to the data as of August 2017, proceeds in this group have grown by BGN 706.2 million, or by 7.3%. VAT proceeds amount to BGN 6,777.1 million, or 69.3% of those planned. The amount of non-refunded VAT as of 31/08/2018 is BGN 67.0 million. The excise duty revenues amount to BGN 3,386.2 million, or 65.8% of the annual estimates. Customs duty proceeds amount to BGN 157.4 million, or 82.8% 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 833.7 million, or 75.9% of the annual estimates. Revenues from social security and health insurance contributions are BGN 6,184.0 million, which accounts for 67.7% 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 744.6 million, or by 13.7%, in nominal terms. Non-tax revenues amount to BGN 3,343.6 million, or 71.1% of the annual estimates. Grant proceeds amount to BGN 1,288.1 million. CFP expenditures, including the contribution of the Republic of Bulgaria to the EU budget for August 2018, amount to BGN 23,587.7 million, which accounts for 60.0% of the annual estimates. For comparison, the expenditures for the same period of the previous year amount to BGN 21,133.4 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 minimum 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 22,261.6 million, which accounts for 59.7% of the annual estimates. Non-interest current expenditure as of August 2018 amount to BGN 20,328.1 million, or 65.4% of the estimates for the year, capital expenditures (including net increment of state reserve) amount to BGN 1,015.1 million, or 30.8% of the estimates to the 2018 State Budget of the Republic of Bulgaria. The current and capital transfers to other countries amount to BGN 37.6 million. Interest payments amount to BGN 587.8 million, or 81.4% of those planned for 2018. The part of Bulgaria's contribution to the EU budget, as paid from the central budget as of 31/08/2018, amounts to BGN 738.2 million, which complies with the existing legislation in the area of EU own resources. The fiscal reserve as of 31/08/2018 amounts to BGN 10.9 billion, including BGN 10.6 billion of fiscal reserve deposits in the BNB and in banks and BGN 0.3 billion of receivables under the EU Funds for certified expenditure, advance payments, etc.

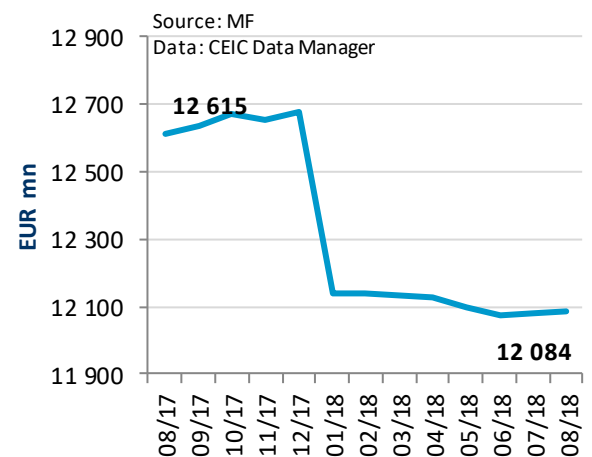


Central Government Debt

At the end of August 2018 Bulgaria's Central government debt stands at EUR 12,083.6 million and presented 22.6% of projected GDP

According to MF the central government debt as at end-August 2018 stood at EUR 12,083.6 million. Domestic debt amounted to EUR 2,958.7 million and external debt – to EUR 9,124.9 million. At the end of the reporting period the central government debt/GDP ratio was 22.6%, with the share of domestic debt being 5.5% and of external debt – 17.1%. In the central government debt structure, domestic debt at the end of the period amounted to 24.5%, and external debt – to 75.5%. As of 31 August 2018, the central government guaranteed debt was EUR 305.9 million. Domestic guarantees amounted to EUR 34.4 million and external guarantees – to EUR 271.5 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, paragraph 1 of the Government Debt Law, at end-August 2018 the government debt reached EUR 11,411.8 million, being 21.3% of GDP. Domestic debt amounted to EUR 2,887.4 million and external debt – to EUR 8,524.4 million. Government guaranteed debt in August 2018 amounted to EUR 971.4 million. Domestic guarantees amounted to EUR 34.4 million, the government guaranteed debt/ GDP ratio being 1.8%.

Central Government Debt

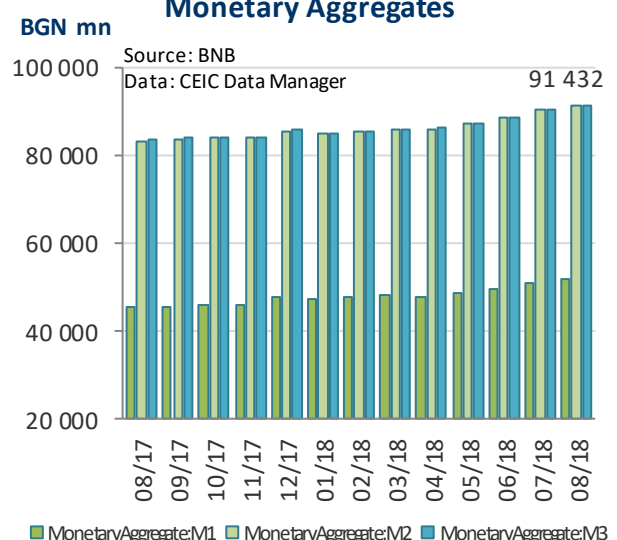


MONETARY SECTOR

In August 2018 broad money (monetary aggregate M3) increased by 9.6% yoy to was BGN 91.462 billion and presented 88.6% of GDP. Domestic credit – was BGN 56.291 billion and increased by 8.1% yoy

In August 2018 broad money (monetary aggregate M3) increased annually by 9.6% compared to 10.4% annual growth in July 2018. At the end of August 2018 M3 was BGN 91.462 billion (88.6% of GDP) compared to BGN 90.443 billion (87.6% of GDP) in July 2018. At the end of August 2018, deposits of the non-government sector were BGN 76.046 billion (73.7% of GDP), increasing annually by 8% (8.8% annual growth in July 2018). Deposits of Non-financial corporations were BGN 23.848 billion (23.1% of GDP) at the end of August 2018. Compared to the same month of 2017 they increased by 14% (16.4% annual growth in July 2018). Deposits of financial corporations decreased by 22.5% yoy in August 2018 (18% annual decline in July 2018) and at the end of the month they reached BGN 2.600 billion (2.5% of GDP). Deposits of Households and NPISHs were BGN 49.598 billion (48% of GDP) at the end of August 2018. They increased by 7.6% compared to the same month of 2017 (7.3% annual growth in July 2018). Net domestic assets were BGN 55.364 billion at the end of August 2018. They increased by 8.4% compared to the same month of 2017 (8.7% yoy growth in July 2018). At the end of the month their basic component – domestic credit – was BGN 56.291 billion and increased by 8.1% compared to August 2017 (8.1% annual growth in July 2018). In August 2018 claims on the non-government sector increased by 8.2% yoy (7.5% annual increase in July 2018) reaching BGN 58.068 billion. At the end of August 2018, claims on loans to the non-government sector amounted to BGN 56.496 billion (54.7% of GDP) compared to BGN 56.162 billion (54.4% of GDP) at the end of July 2018. They increased by 7.6% yoy in August 2018 (7.1% annual growth in July 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 95 million. On an annual basis, loans sold by Other MFIs were BGN 126.4 million (of which BGN 10.4 million in August 2018), while the amount

Monetary Aggregates



of repurchased loans was BGN 31.4 million (there were no loan repurchases in August 2018).

In August 2018, loans to Non-financial corporations increased by 4.2% annually (3.4% annual growth in July 2018) and at the end of the month amounted to BGN 32.491 billion (31.5% of GDP). Loans to Households and NPISHs were BGN 21.335 billion (20.7% of GDP) at the end of August 2018. They increased by 10.2% compared to the same month of 2017 (10% annual growth in July 2018). At the end of August 2018 loans for house purchases were BGN 10.150 billion and increased by 9.6% yoy (9.2% yoy growth in July 2018). Consumer loans amounted to BGN 8.901 billion and compared to August 2017 they increased by 15.4% (15% yoy growth in July 2018). On an annual basis other loans decreased by 10.4% (6.4% annual decline in July 2018) and reached BGN 951.9 million. Loans granted to financial corporations were BGN 2.670 billion at the end of August 2018 (2.6% of GDP). Compared to August 2017, they increased by 35% (35.9% annual growth in July 2018).

CAPITAL MARKET

At the end of September 2018, SOFIX o reported a decline of 1.18% to 624.39 points. The index of the most liquid companies BGBX 40 dropped 0.29% to 121.93 points. Equally weighted BG TR30 dropped 0.24% to 520.34 points. The BGREIT property index rose 0.61 percent to 117.79 points

In September 2018, the main index of BSE-Sofia SOFIX reported a decline of 1.18% to 624.39 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 0.29% to 121.93 points in September. Equally weighted BG TR30 dropped 0.24% to 520.34 points in September. BGREIT, the property developer, rose 0.61% to 117.79 in September. Of the SOFIX issues of 15 companies, in September this year the ratio of losers to winners was 8: 6, with losers two more than winners and one unchanged. A year earlier, in September 2017, the ratio was far more negative, with a ratio of 10 to 5 and losers twice as much as the winning issues. Unlike August, when there was a loss of more than 10% of the issue (-17.44% - Trace Group Hold due to the Svoqe crash), there was no issue in the eighth month with a loss of more than 10%. Turnover in September was BGN 6,328,635 and smaller than in August, when SOFIX issues were reported at BGN 7,444,442. From September 25, 2018 SOFIX includes: M + S Hydraulic AD-Kazanlak and Elana AgroCredit AD-Sofia, in the place of Industrial Holding Bulgaria AD-Sofia and Doverie

Date	SOFIX	BGBX40	BGREIT	BGTR30
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
09.2018	624.4	121.9	117.8	520.3

Source: Bulgarian Stock Exchange-Sofia

United Holding AD-Sofia. In September, as well as in August deals with over BGN 1 million were realized by only two companies: Sopharma (BGN 1 373 097) and Central Cooperative Bank (1 030 693 BGN), while a year earlier in the same month were 7 issues. The top five is complemented by M + S Hydraulic (836,394 leva), Eurohold Bulgaria (684,916 leva) and Chimimport (662,393 leva). In September 2018, Sopharma retained the leading position by market capitalization (BGN 547 279 470), followed by Chimimport (BGN 512 843 011). The top five is complemented by CB First Investment Bank (BGN 427,900,000), Eurohold Bulgaria (325,917,240 leva) and M + S Hydraulics (BGN 317,533,860). Holdings in September are two less than August, as Industrial Holding Bulgaria AD-Sofia and Doverie United Holding AD-Sofia emerged from the composition of the main index of the BSE on 25 September. Of the remaining five holdings two are profitable - Traise Group Hold (+ 3.11%) and Stara Planina Hold (+ 0.75%), while three are at a loss: Sirma Group Holding (-1.16%), Eurohold Bulgaria (-1.21% Holding Varna (-2.63%). The company with the highest turnover for the month of September 2018 is 235 Holdings AD, with a total volume of BGN 5 033 840. Atomenergoremont JSC was ranked second with a total volume of BGN 1 501 829. In the ranking there is one representative of the special purpose vehicles. With the smallest number of concluded deals in the ranking are 235 Holdings AD and Atomenergoremont AD, and with the largest Sopharma AD, Chimimport AD and Industrial Holding Bulgaria AD. The most profitable company in September 2018 was 235 Holdings AD, which achieved a growth of 76.06%. M + S Hydraulic AD ranked second, followed by Active Properties REIT with a growth of 5.24%. The last two companies in the ranking are one-digit growth, respectively NEO LONDON CAPITAL EAD with a growth of 4.17% and Industrial Holding Bulgaria AD with a growth of 3.14%. The

top 5 of the losers in September 2018 was headed by Albena AD with a decline of 6.54%. Second place is Monbat AD with a decline of 4.38%. The other three companies in the ranking also scored one-digit declines.

BANKING SECTOR

As of the end of August 2018, the aggregate net profit of the banking system in Bulgaria increased by 19.1% yoy to BGN 1.088 million. The BNB introduces a new countercyclical buffer for banks from 1 October 2019

According to the BNB, the profit of the banking system at the end of August 2018 was BGN 1,088 million (compared to BGN 913 million in the same period last year). The cost of impairment of financial assets not reported at fair value through profit or loss for the eight months is BGN 301 million (compared to BGN 329 million a year earlier).

Indicator (BGN'000)	31.08. 2017	31.08. 2018	Change Y/Y (%)
Interest Income	2 046 278	2 010 218	-1.8
Interest Expence	256 262	199 169	-22.3
Net interest Income	1 790 016	1 811 049	1.2
Impairment	329 405	301 307	-8.5
Fee and commission income	755 112	818 648	8.4
Fee and commission expenses	97 311	117 832	21.1
Net fee and commission income	657 801	700 816	6.5
Administration costs	1 051 562	1 108 199	5.4
Personal cost	525 275	562 965	7.2
Total operating income, net	2 522 397	2 721 601	7.9
Net Profit	913 228	1 087 961	19.1

Source: BNB, Calculations: UBB

As of the end of August 2018, the assets of the banking system increased by 0.7% and by 8.8% yoy to BGN 103.0 billion. Their relative share in GDP was 96.6%. Gross loan portfolio (excluding loans and advances to the sector central banks and credit institutions) increased by 0.7% mom and 7.6% yoy, respectively to BGN 60.2 billion. Loans to non-financial corporations increased (by 0.2% mom and by 4.1% yoy, respectively. Loans for other financial corporations increased by 3.0% mom and by 28.6% yoy, respectively. Loans to households by grew up by 0.9% mom and by 10.6% yoy, respectively. Loans for general government sector by rose by 14.4% mom and by 15.6% yoy, respectively. Attracted funds from clients in the banking system increased by 1.1% on a monthly basis and by 9.2% on an annual basis to BGN 82.3 billion. Their relative share of GDP is 77.9%. Growth is also reported in deposits of households by 0.9% mom and by 8% yoy, respectively to BGN 51.6 billion. Deposits to other financial corporations reported growth of 2.5% mom, with a negative annual trend of 17.7% to BGN 2.9 billion. Deposits to general government increased by 20.2% mom and by 53.9% yoy to BGN 2.8 billion. Decrease was recorded in deposits of non-financial corporations by 0.3% mom, with growth of 12.2% yoy to BGN 25.7 billion.

Bulgaria Intermediation Indicators	31.08.2017 BGN'000	31.12.2017 BGN'000	31.07.2018 BGN'000	31.08.2018 BGN'000	Change m/m (%)	Change y/y (%)	Change yend (%)	Share in GDP (%)
BANKING SYSTEM TOTAL ASSETS	94 684 945	95 850 484	102 286 880	103 004 025	0.7	8.8	7.5	95.2
Loans to central governments	619 510	614 592	626 101	716 337	14.4	15.6	16.6	0.7
Loans to non-financial corporations	33 338 755	33 516 791	34 634 871	34 715 905	0.2	4.1	3.6	32.1
Loans to financial corporations	2 382 753	2 352 930	2 975 516	3 064 359	3.0	28.6	30.2	2.8
Retail loans, incl.:	19 598 320	19 972 030	21 500 375	21 684 019	0.9	10.6	8.6	20.1
Mortgage loans	9 142 240	9 444 146	10 316 315	10 423 516	1.0	14.0	10.4	9.6
Consumer loans	9 099 904	9 264 095	10 129 285	10 235 688	1.1	12.5	10.5	9.5
Micro credits and other loans	1 356 176	1 263 789	1 054 775	1 024 815	-2.8	-24.4	-18.9	0.9
TOTAL LOANS	55 939 338	56 456 343	59 736 863	60 180 620	0.7	7.6	6.6	55.7
ATTRACTED SOURCES FROM CLIENTS, incl.:	76 218 959	76 747 619	82 295 942	83 220 001	1.1	9.2	8.4	77.0
Local government deposits	1 859 158	1 824 421	2 381 392	2 862 103	20.2	53.9	56.9	2.6
Non-financial corporations deposits	22 979 877	23 709 705	25 858 165	25 790 344	-0.3	12.2	8.8	23.8
Financial corporations deposits	3 606 173	2 842 120	2 895 271	2 969 086	2.5	-17.7	4.5	2.7
Households and NPISHs deposits	47 773 751	48 371 373	51 161 114	51 598 468	0.9	8.0	6.7	47.7
Equity	12 274 789	12 468 136	12 219 745	12 358 686	1.1	0.7	-0.9	11.4
Net profit (annualised)	913 228	1 088 190	950 557	1 087 961		19.1		
BANKING INDICATORS (%)								
ROE	11.2	9.5	13.3	13.2	-0.1	2.0	3.7	
ROA	1.4	1.2	1.6	1.6	0.0	0.1	0.3	
Capital adequacy	n.a.	22.1	n.a.	n.a.	n.a.	n.a.	n.a.	
Liquidity coverage(%)	n.a.	n.a.	325.9	349.2	23.3	n.a.	n.a.	
NPL	n.a.	10.2	n.a.	n.a.	n.a.	n.a.	n.a.	
GDP, BGN '000	101 043 000	101 043 000	108 141 000	108 141 000				
EUR/BGN	1.95583	1.95583	1.95583	1.95583				

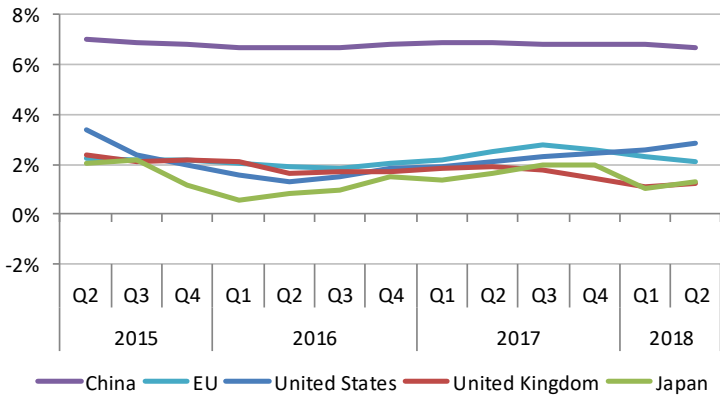
Source: BNB, MF; Calculations: UBB

Equity in the balance sheet of the banking system at the end of August 2018 amounted to BGN 12.4 billion, increasing by BGN 139 million or 1.1% mom. The calculated under the Commission's requirements (in addition to Regulation (EU) No 575/2013 of the European Parliament and Council Regulation (EU) No 2015/61) a liquidity buffer and net outflow of liquidity at the end of August amounted to BGN 24.5 billion and BGN 7.0 billion. The ratio between the two values - the liquidity coverage ratio is 349.2%.

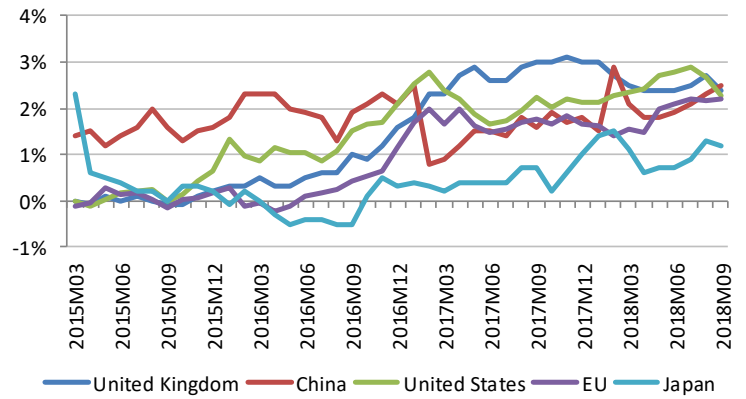
The BNB introduced a new countercyclical buffer for banks from October 1, 2019. After one year, Bulgarian banks will have to set aside additional capital to cover the growing cyclical risk. This is clear from a BNB announcement that it is clear that the countercyclical buffer, which since its introduction so far was 0%, was set at 0.5% as of 1 October 2019. "Trends in the economic environment and credit activity give reason to believe that the country is in the upward phase of the economic and financial cycle. Against the background of increased economic activity, the claims of the banking system in the non-government sector are growing at a rate above those in recent years, especially in the segment of household loans, "the BNB said in a series of actions credit institutions have indicated the need to maintain conservative credit standards and adequate capital support for credit growth." "The current favorable economic conditions provide an opportunity to further strengthen the capital position of credit institutions, thereby increasing their resilience against losses in the future materialization of cyclical systemic risks resulting from possible adverse developments in the economic environment To preserve the high sustainability of the banking system to future unfavorable developments will help maintain credit growth rates and credit standards reflecting the long-term nature of credit risk within the economic and financial cycle. For Bulgarian banks, the introduction of the buffer will mean that the CET1 requirement will increase by another 0.5% for all their risk exposures in the country, while for those with other countries the analogous buffers introduced by the respective local oversight. This extra buffer is superimposed on those already introduced by the BNB.

Appendix

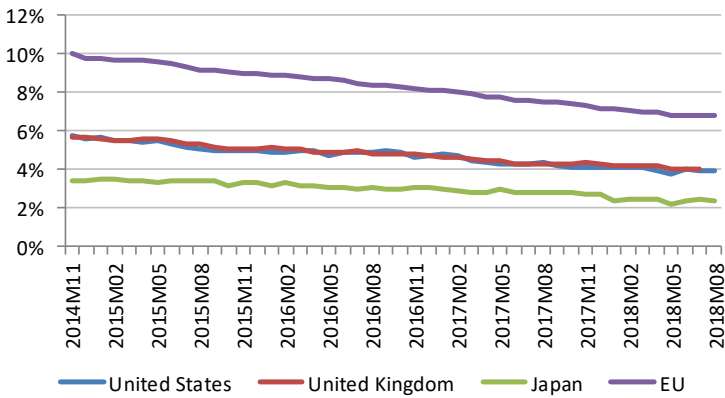
Advanced Economies: GDP growth rate compared to the same quarter of the previous year



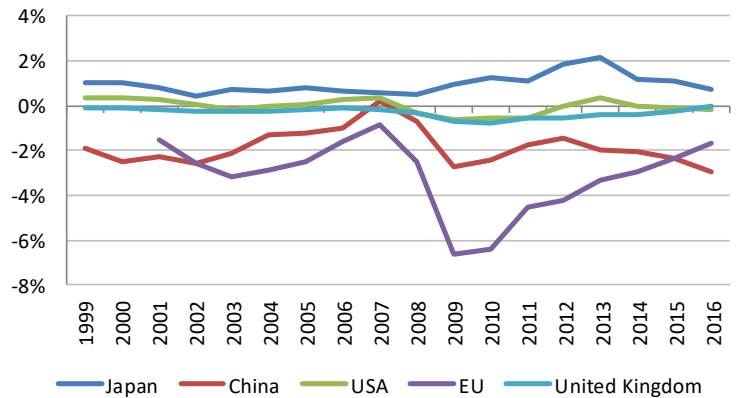
Advanced economies: Inflation by country, monthly (y/y)



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

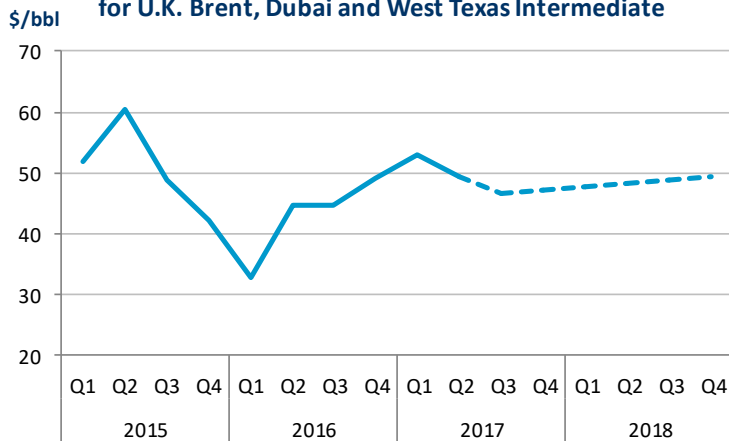


Advanced economies: Budget surplus/deficit to GDP (%)

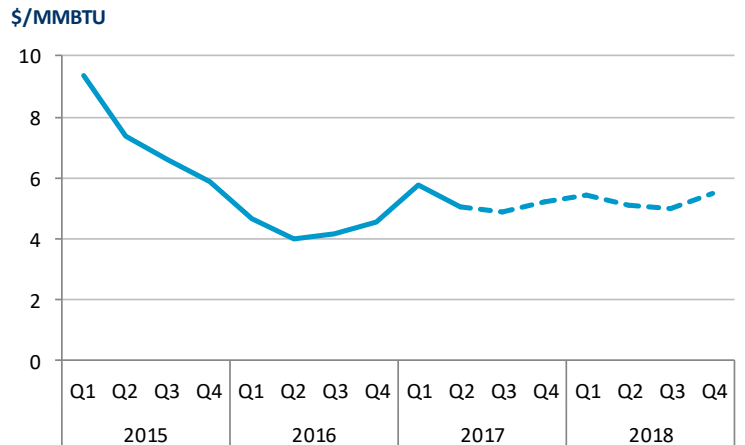


Overseas Prices of Oil Products

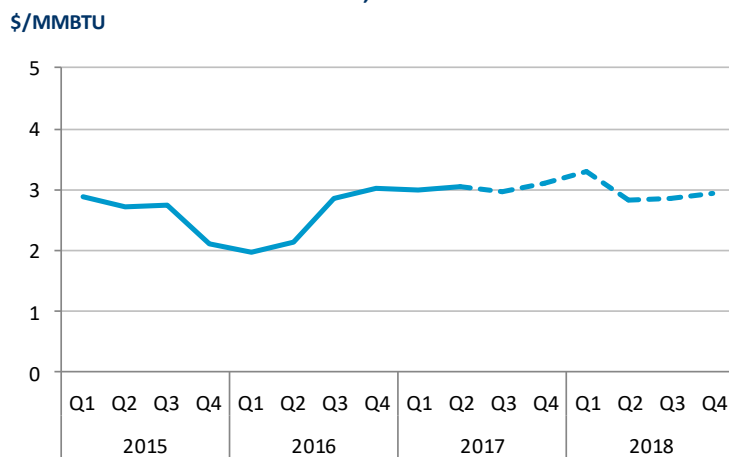
Spot Crude: Petroleum price - average of spot prices for U.K. Brent, Dubai and West Texas Intermediate



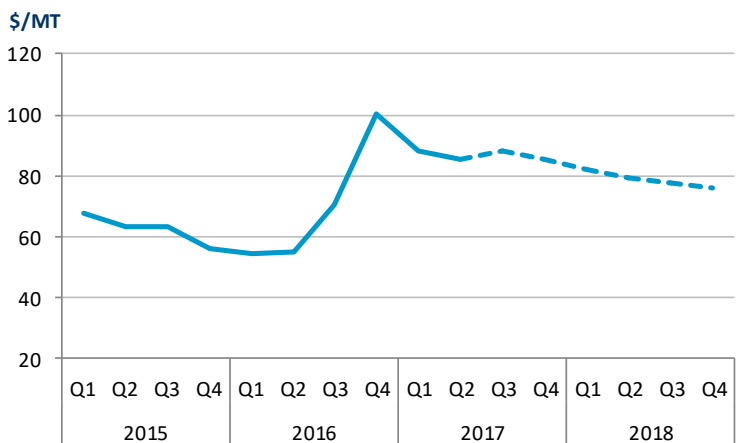
Natural Gas: Russian in Germany



Natural Gas: US, domestic market

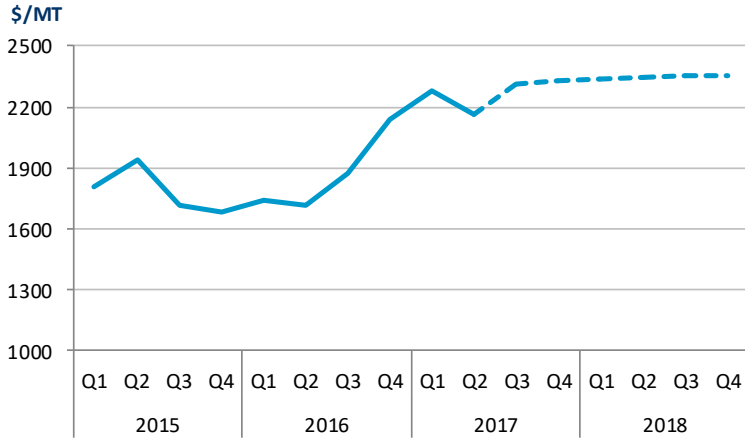


Coal: Australian, export markets

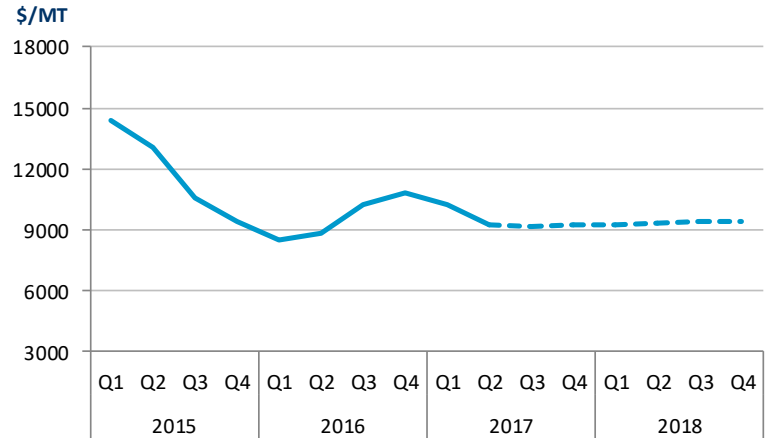


Overseas Prices of Metals

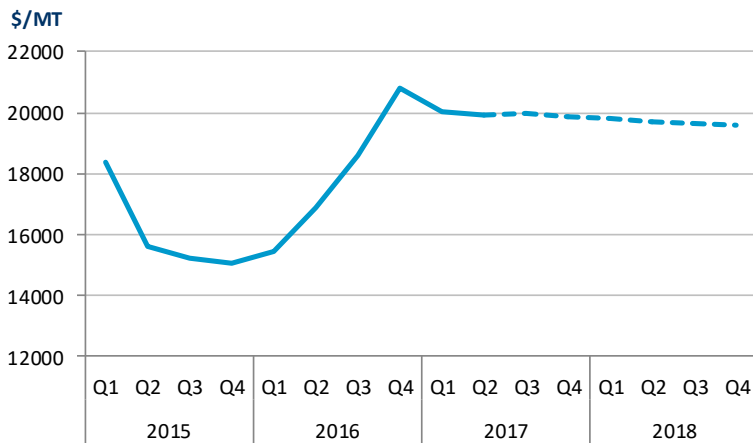
Lead



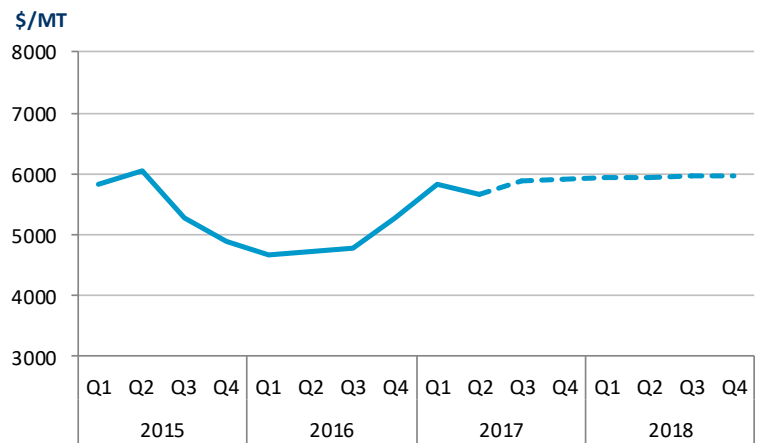
Nickel



Tin

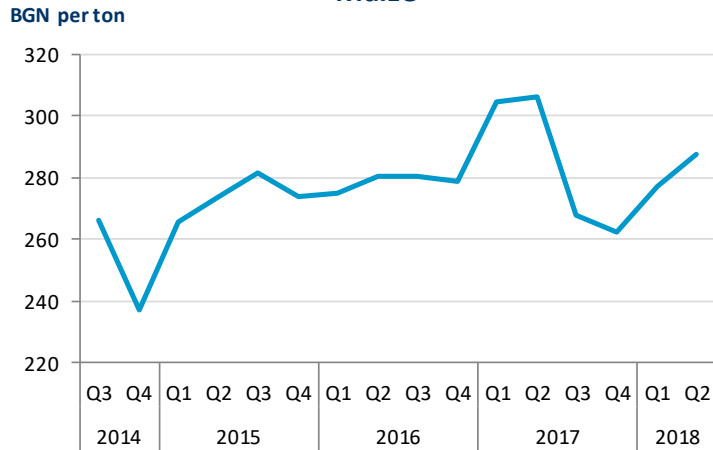


Copper

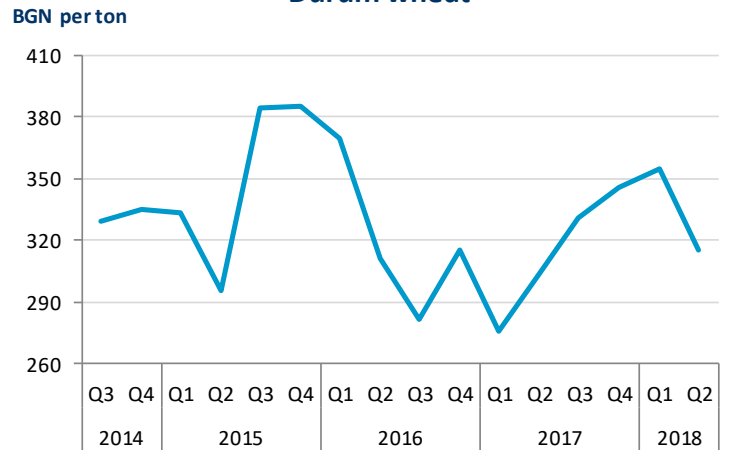


Bulgaria: Prices of Agriculture products

Maize



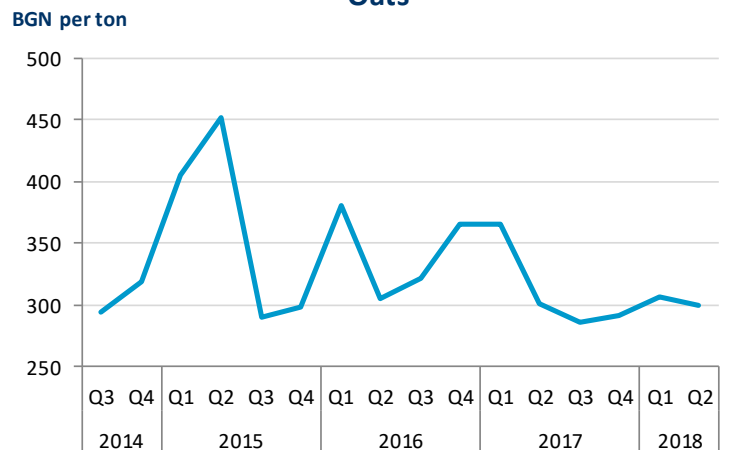
Durum wheat



Barley

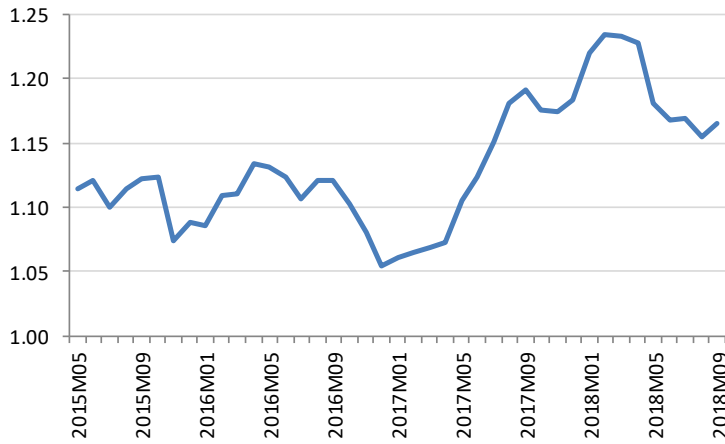


Oats

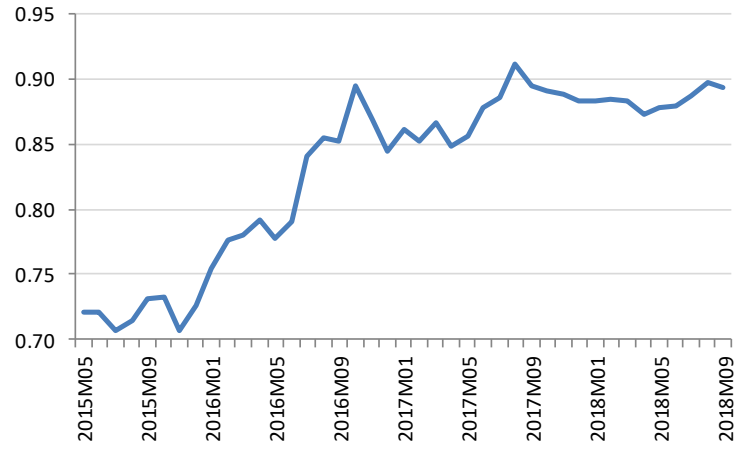


Overseas FX Rates

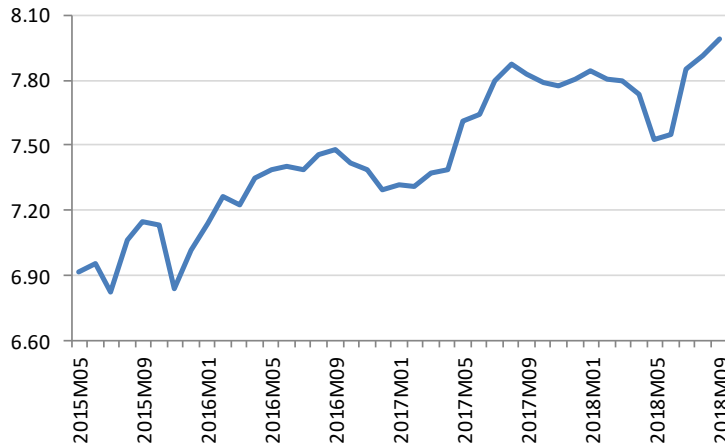
EUR/USD



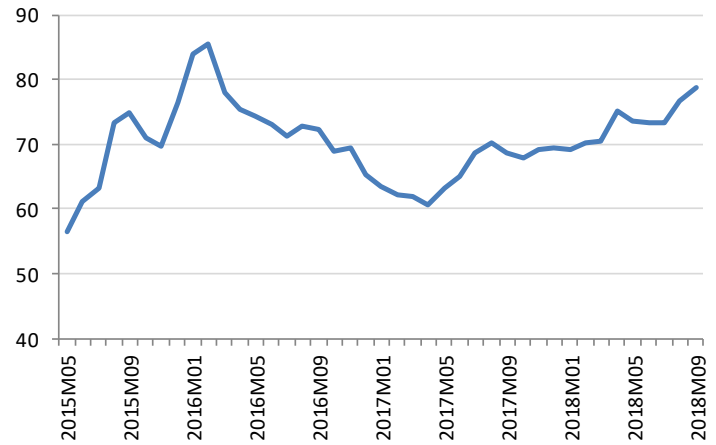
EUR/GBP



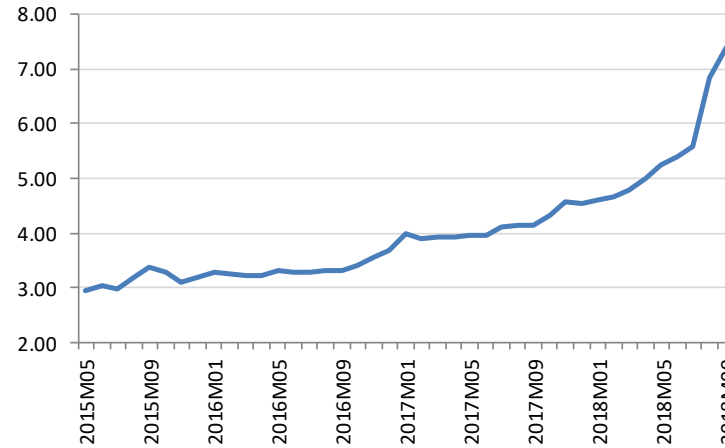
EUR/CNY



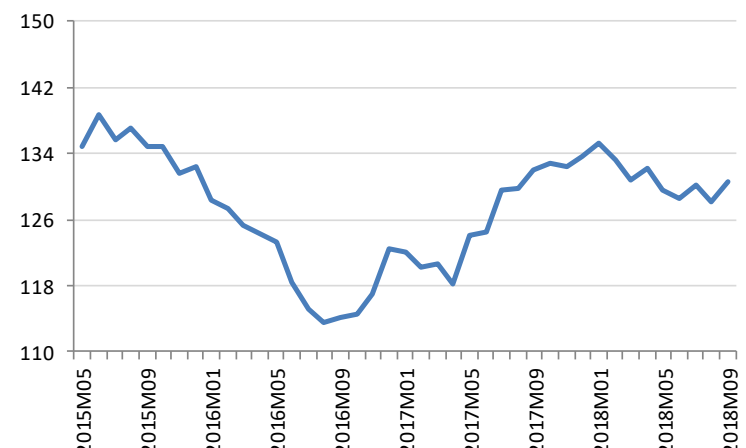
EUR/RUB



EUR/TRY

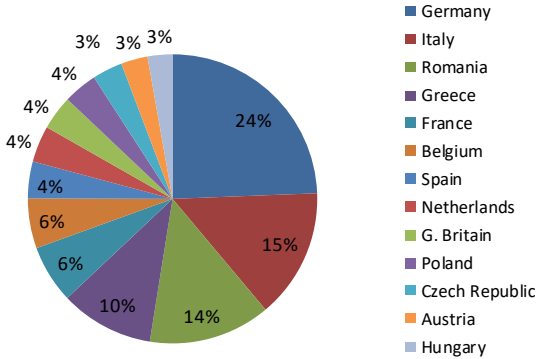


EUR/JPY

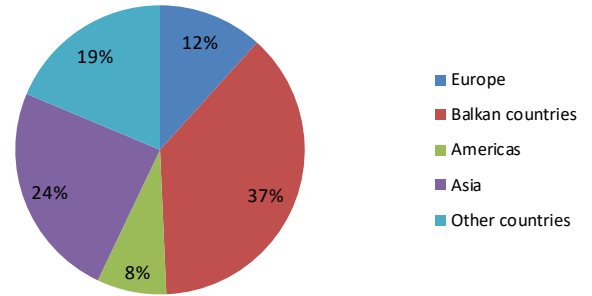


Bulgaria: External Sector Indicators

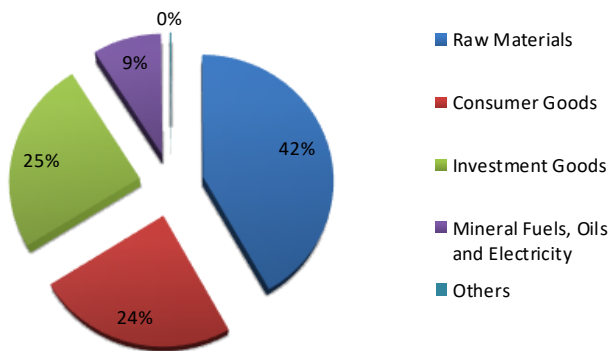
Exports: FOB by EU countries: January - July 2018



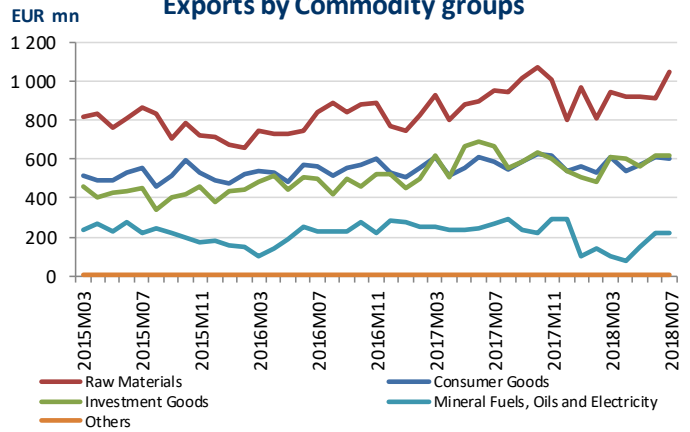
Exports: FOB by Non EU countries: January - July 2018



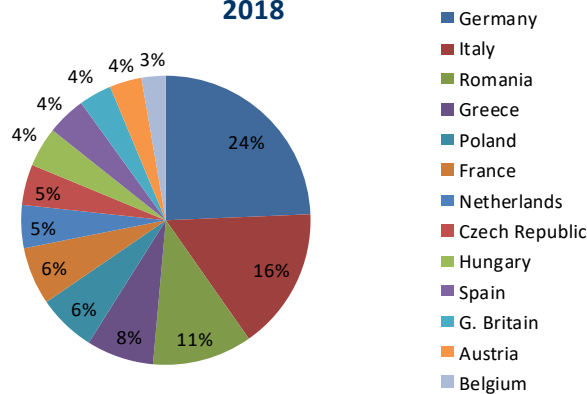
Exports: FOB: Commodity groups - percentage shares for July 2018



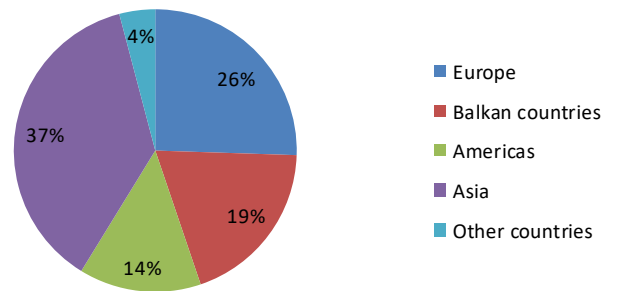
Exports by Commodity groups



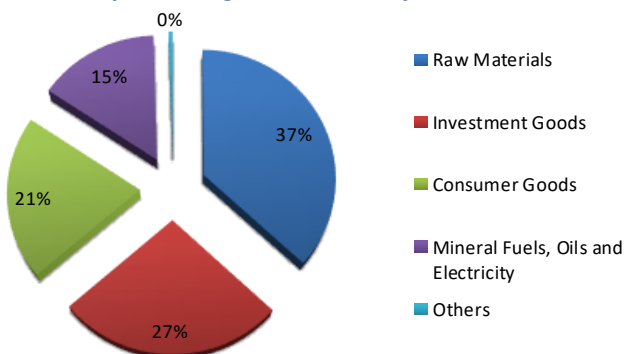
Imports: CIF by EU Countries: January - July 2018



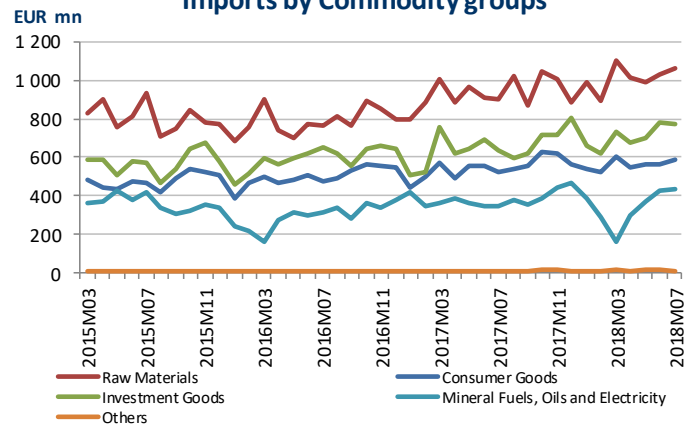
Imports: CIF by Non EU Countries: January - July 2018



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

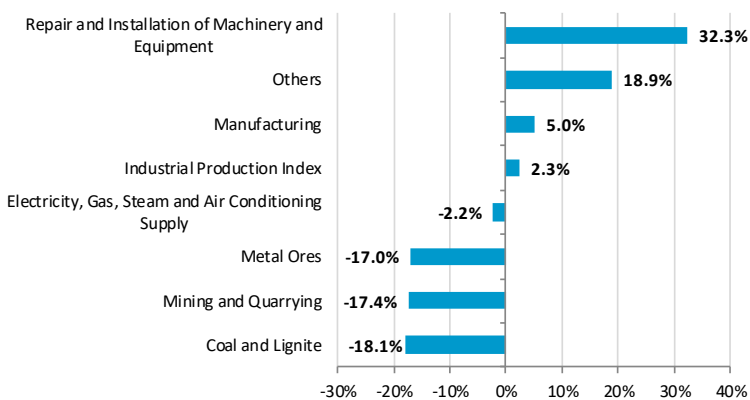


Imports by Commodity groups

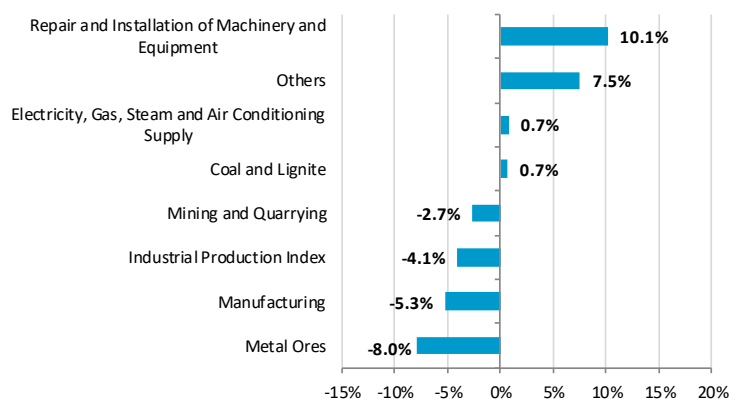


Bulgaria: Real Sector Indicators

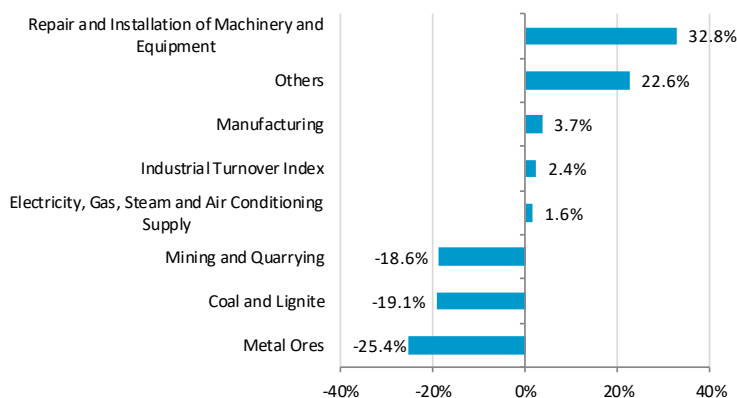
Industrial Production Index: % change in August 2018 compared to August 2017



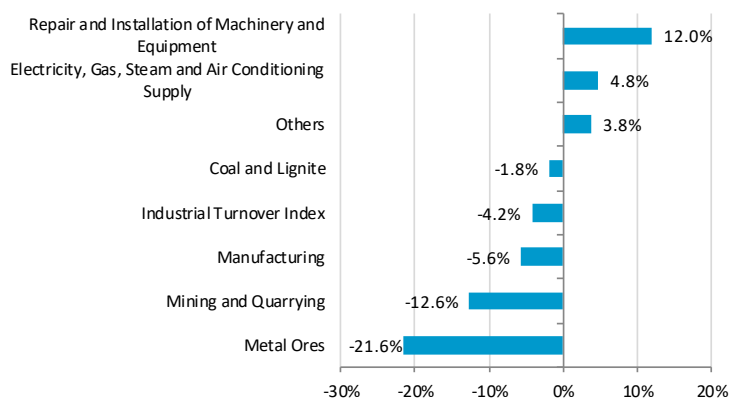
Industrial Production Index: % change in August 2018 compared to July 2018



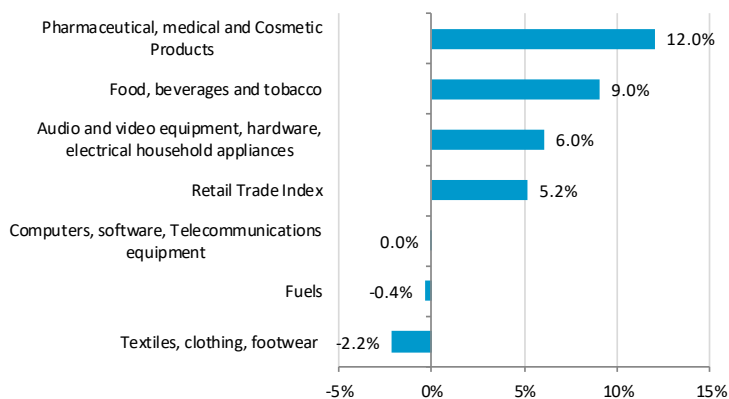
Industrial Turnover Index: % change in August 2018 compared to August 2017



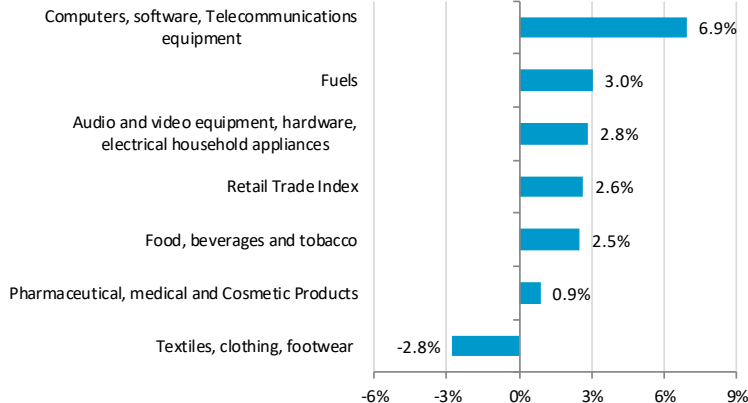
Industrial Turnover Index: % change in August 2018 compared to July 2018



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

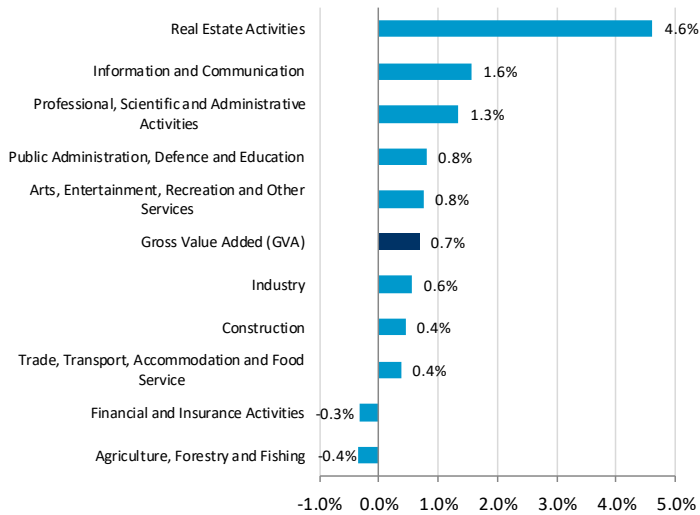


Retail Trade Index: % change in August 2018 compared to July 2018

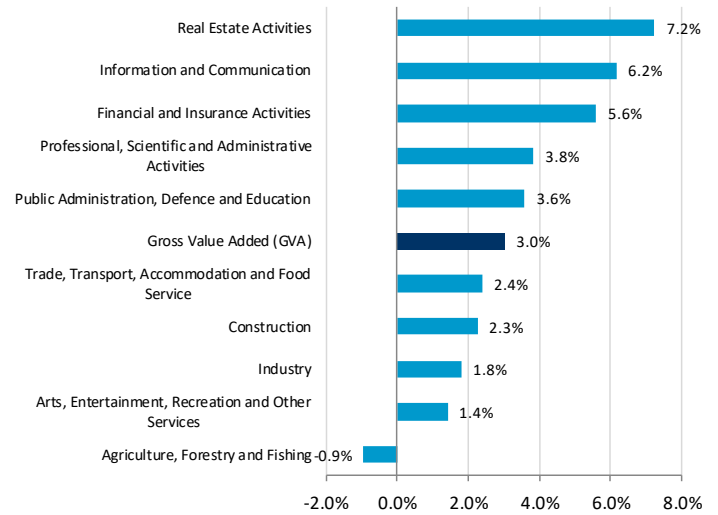


Bulgaria: Real Sector Indicators

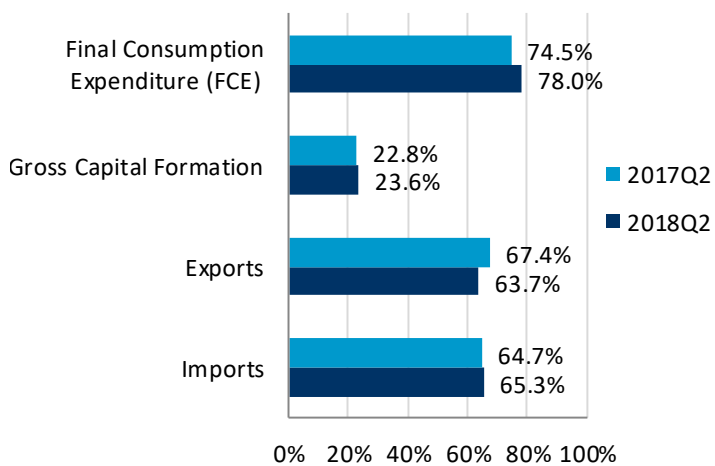
Gross Value Added by Economic Sectors: Percentage Change of Q2 2018 compared to Q1 2018



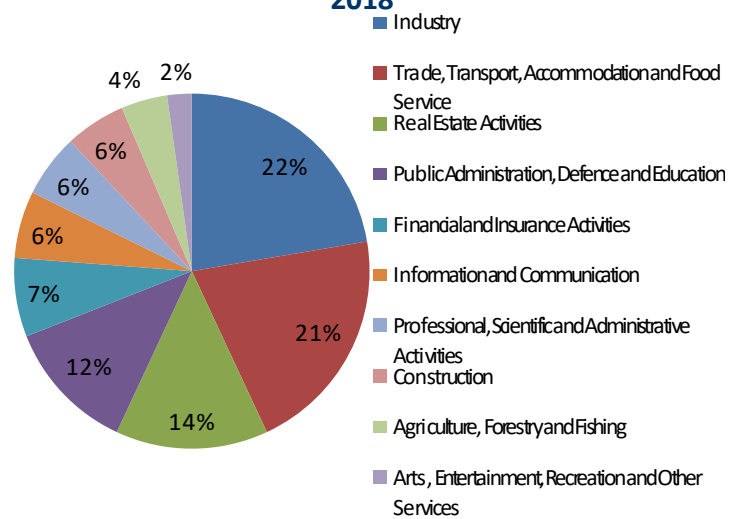
Gross Value Added by Economic Sectors: Percentage change of Q2 2018 compared to Q2 of 2017



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

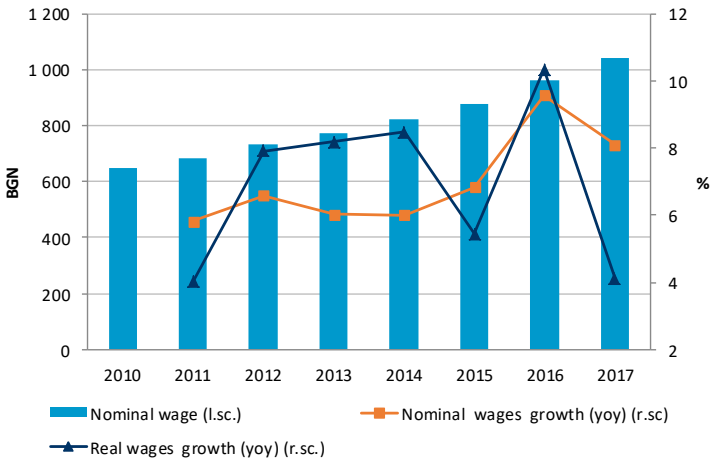


Bulgaria: Industries' relative share to GVA for Q2 2018

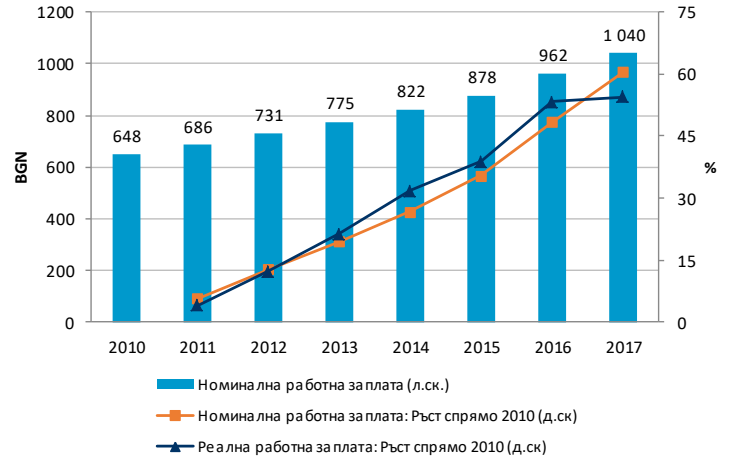


Bulgaria: Real Sector Indicators

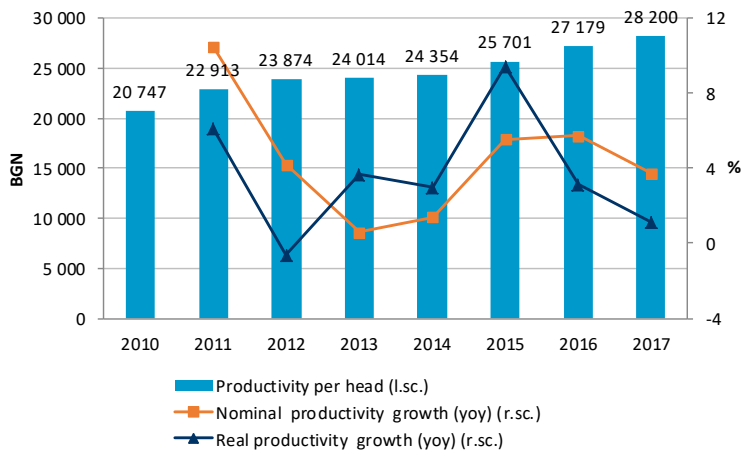
Nominal and Real Wage Dynamics: YoY (%)



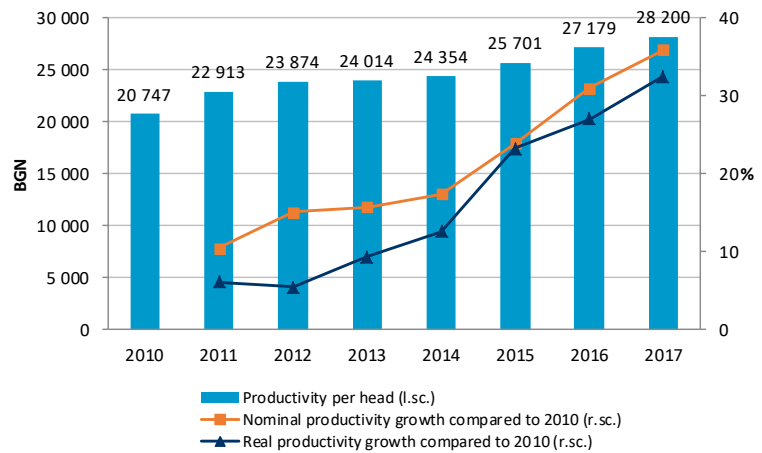
Nominal and Real Wage Dynamics compared to 2010 (%)



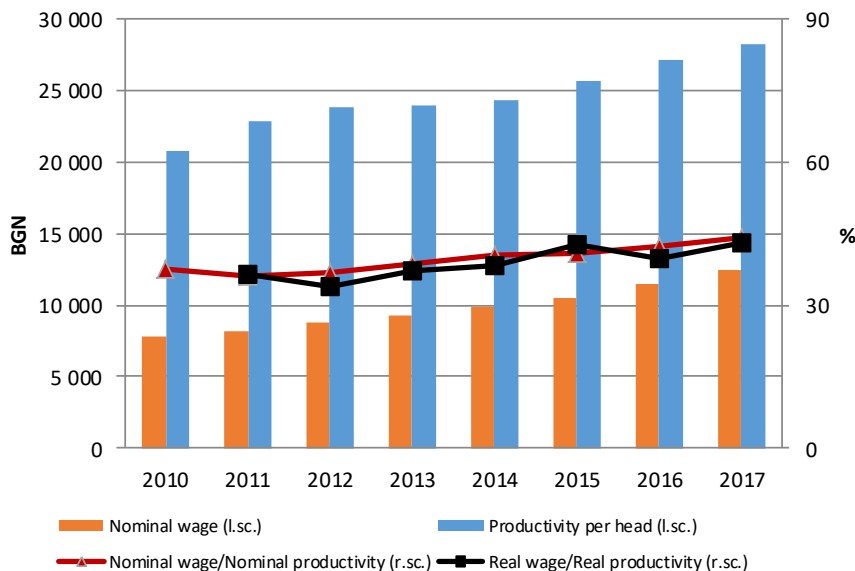
Nominal and Real Productivity per Head Dynamics, YoY (%)



Nominal and Real Productivity Dynamics compared to 2010 (%)

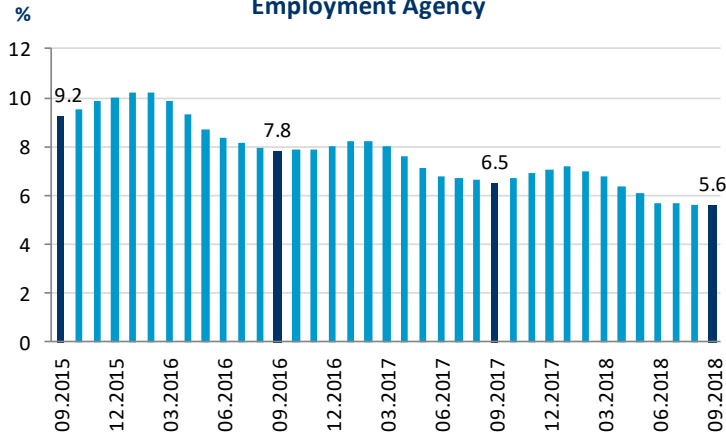


Average Wage to Productivity Ratio Dynamics, YoY (%)

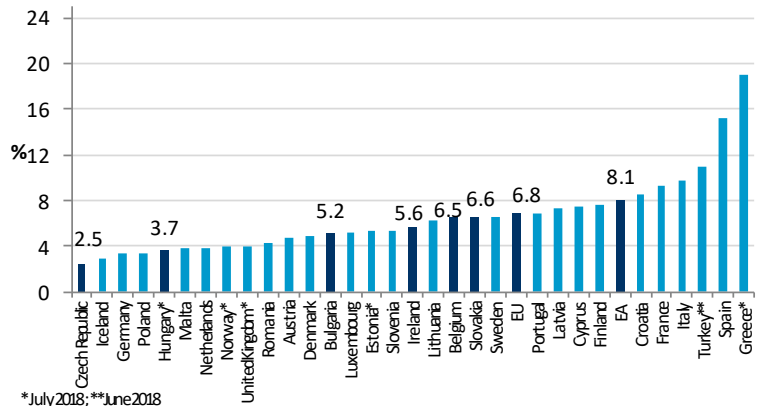


Bulgaria: Real Sector Indicators

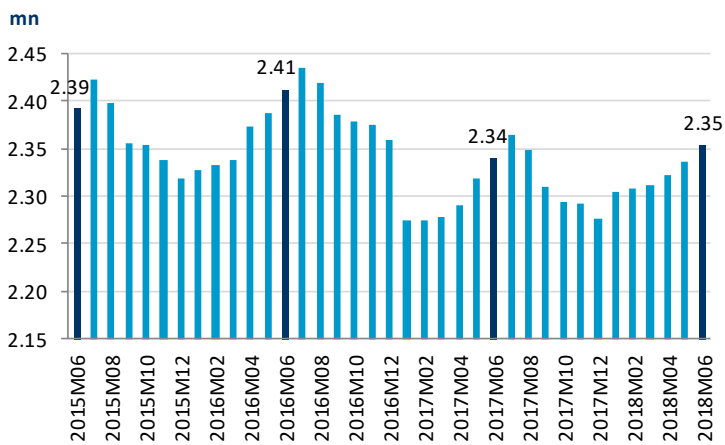
Registered Unemployment Rate: National Employment Agency



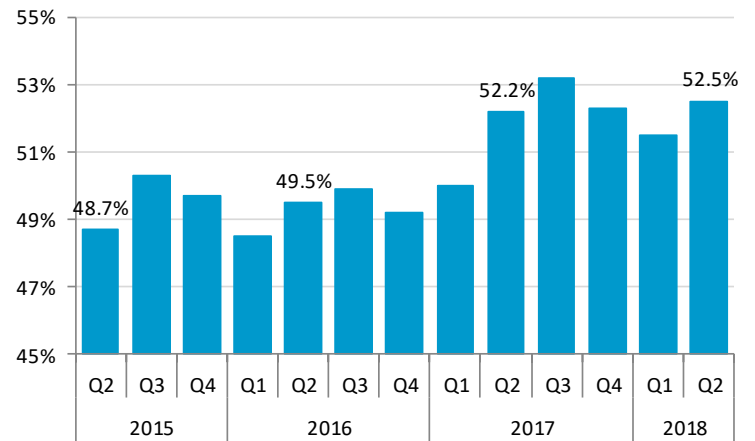
EU: Unemployment rate seasonally adjusted by country, August 2018



Bulgaria: Number of Employees

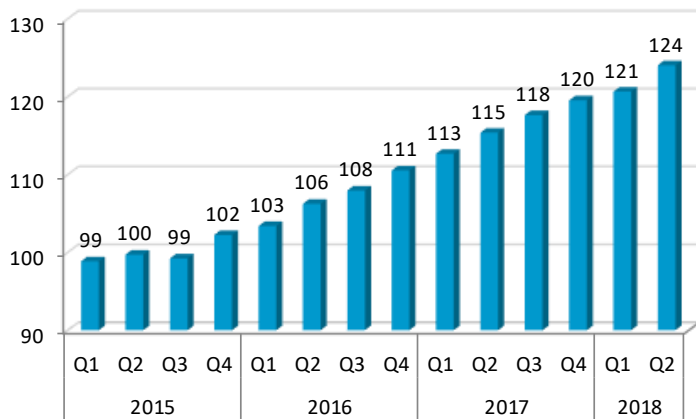


Bulgaria: Employment Rate

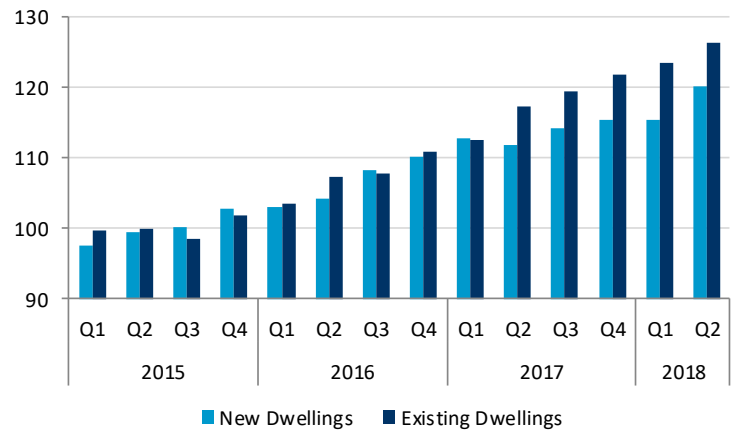


Bulgaria: Real Sector Indicators

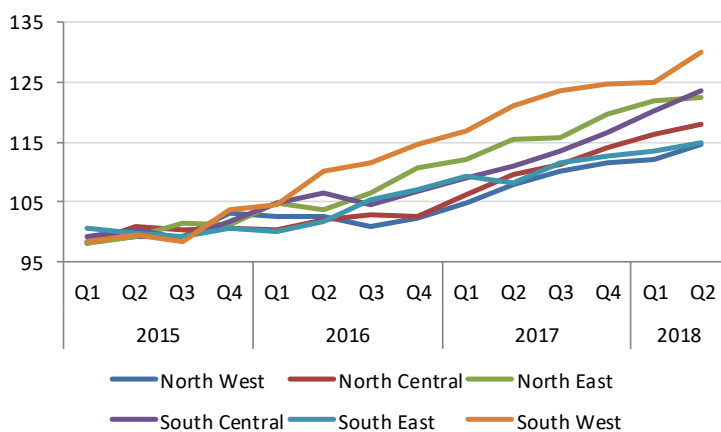
House Price Index (HPI)



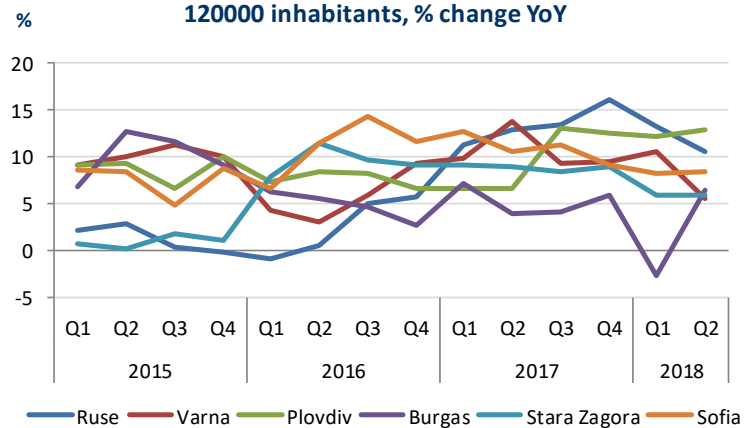
HPI: New and existing dwellings



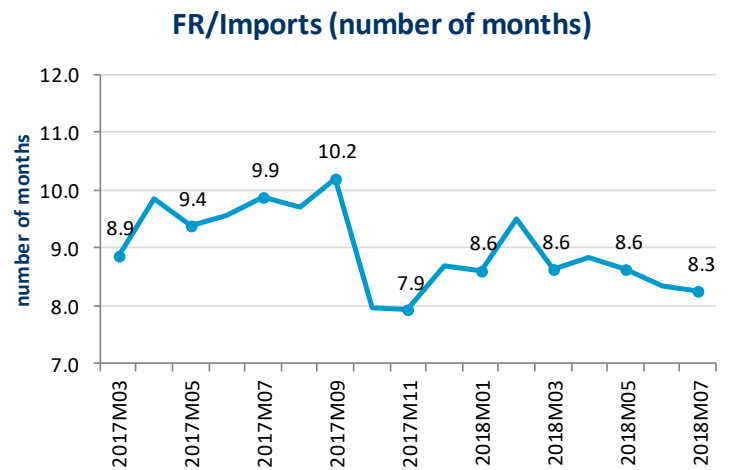
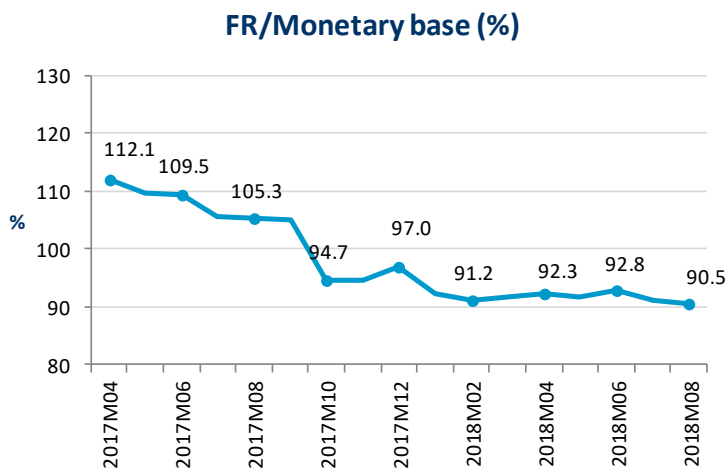
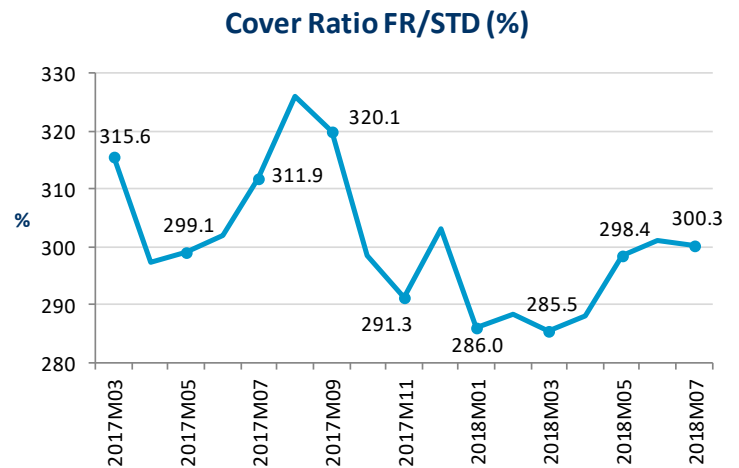
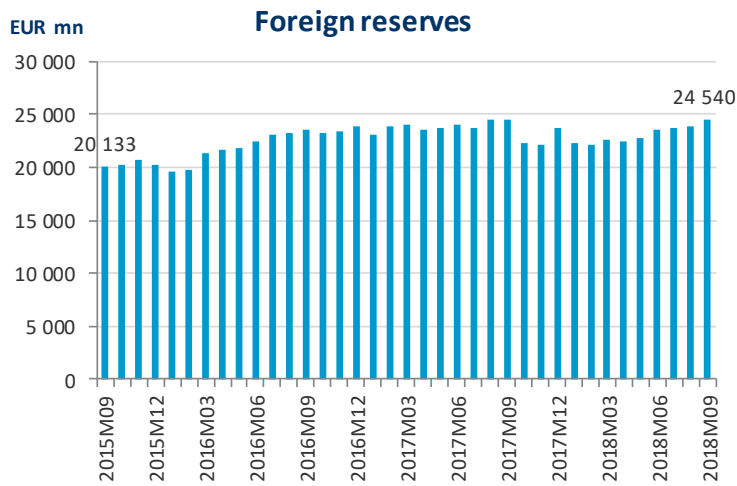
House Price index by regions



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

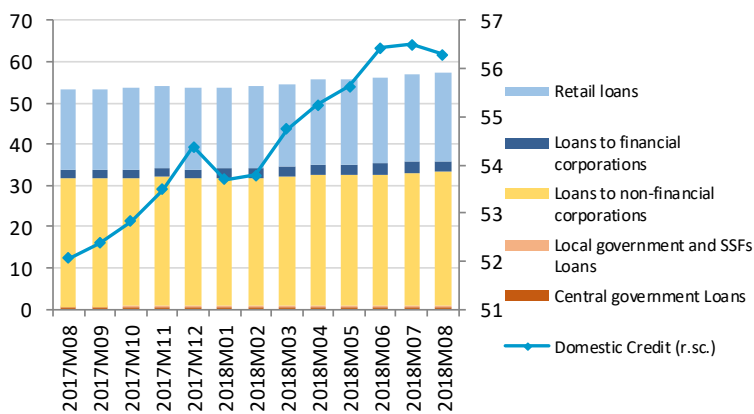


Bulgaria: Monetary Sector Indicators

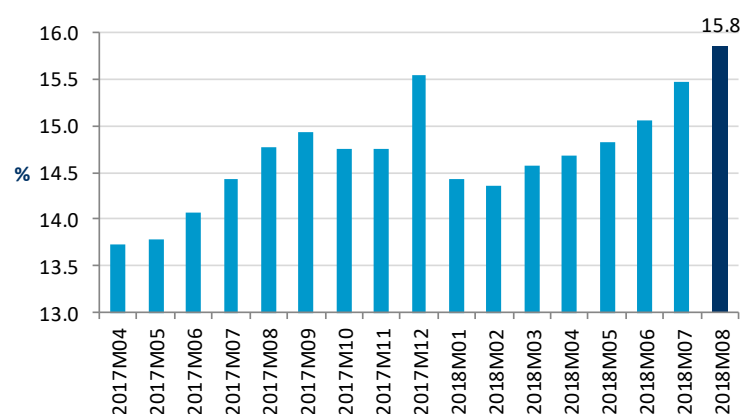


Bulgaria: Monetary Sector Indicators

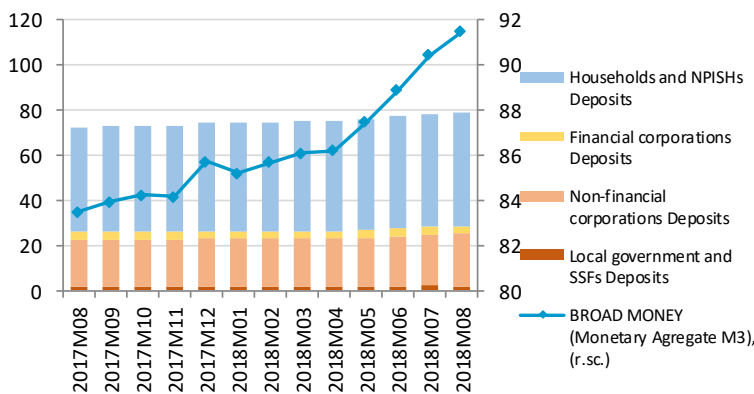
Loans and Domestic Credit (BGN bn)



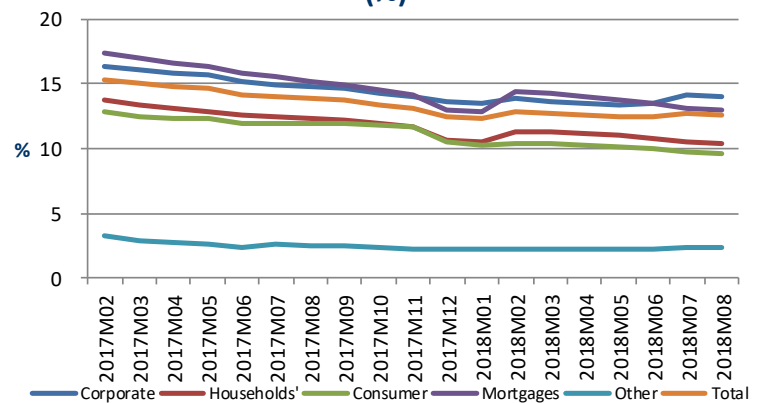
Money in circulation/GDP (%)



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

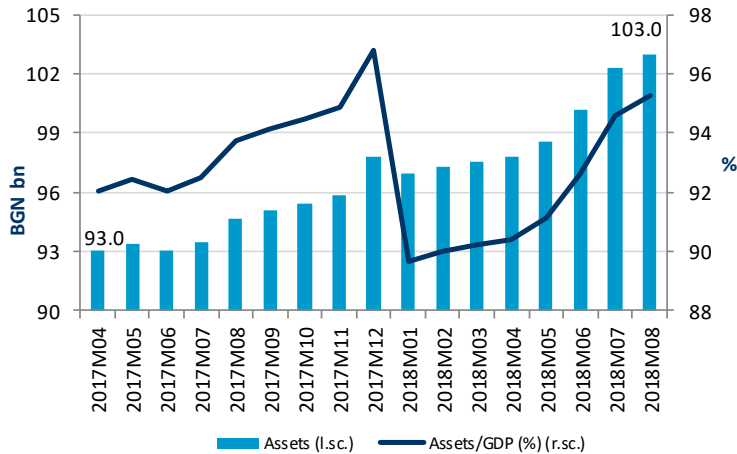


Banking sector: Bad and restructured loans (%)

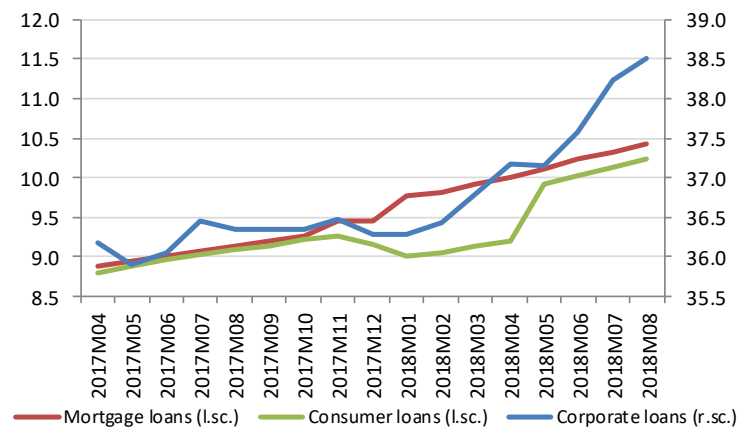


Bulgaria: Banking Sector Indicators

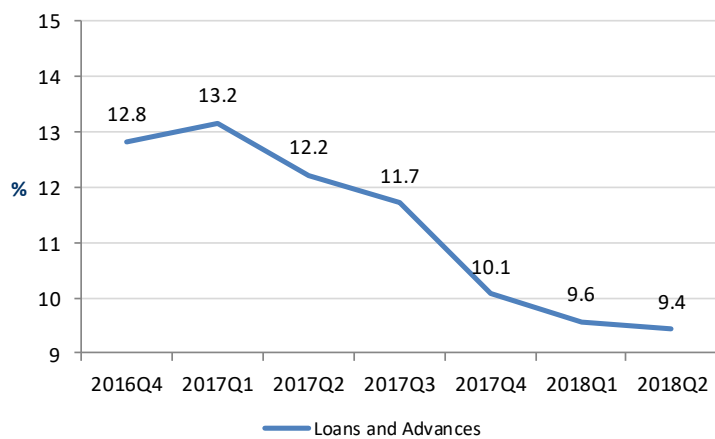
Assets



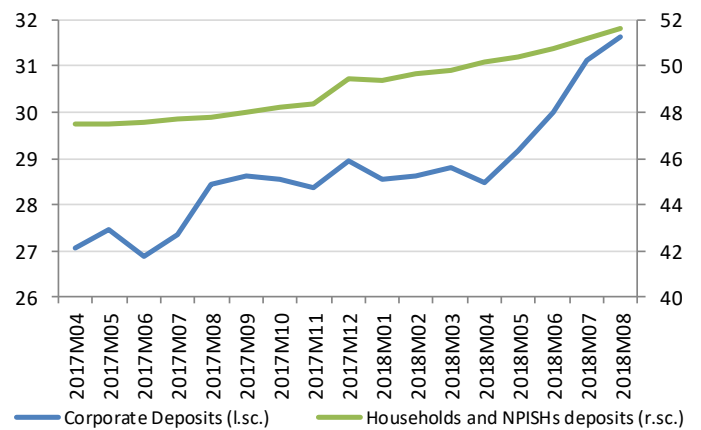
Loans (BGN bn)



Banking System Non-performing Loans (%)

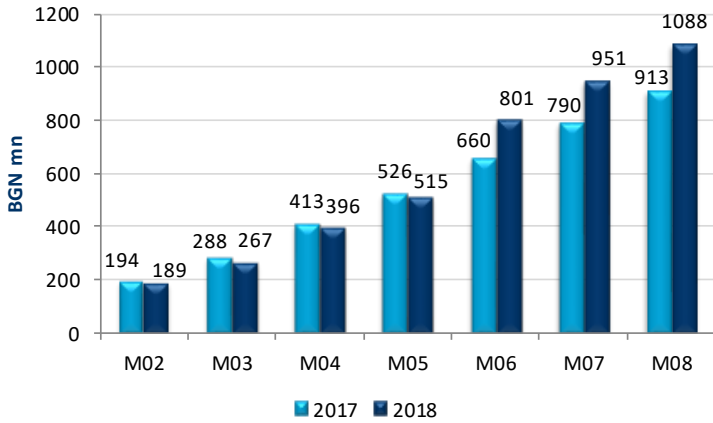


Deposits (BGN bn)

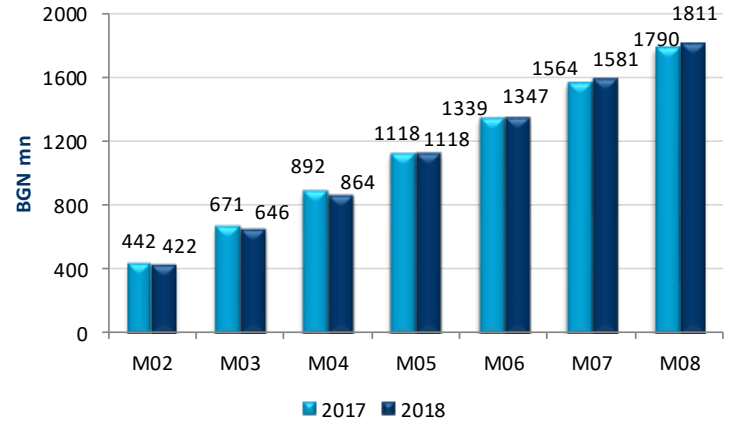


Bulgaria: Banking Sector Indicators

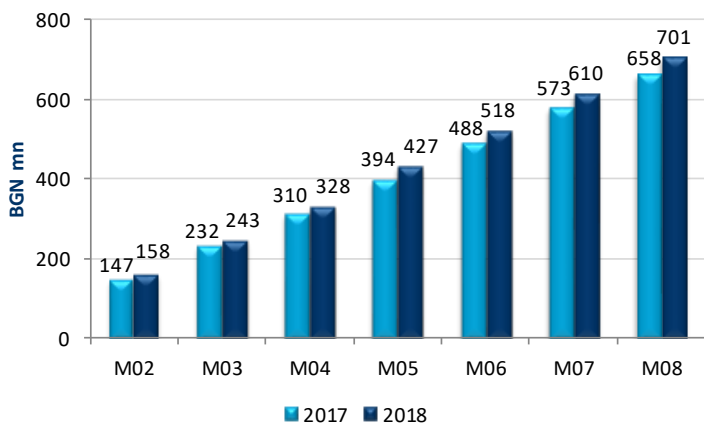
Net Profit



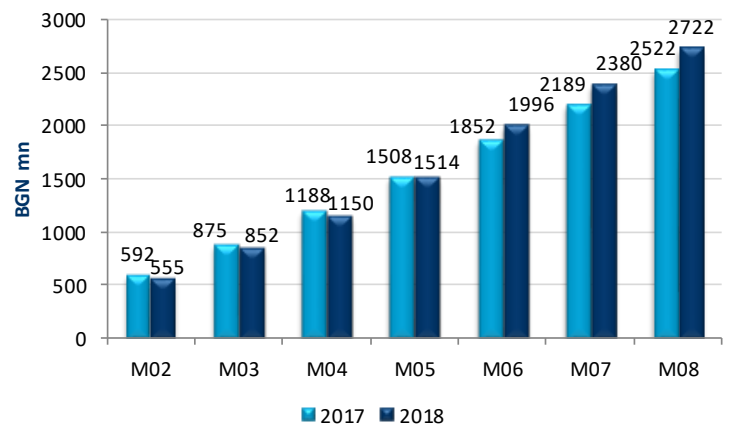
Net interest Income



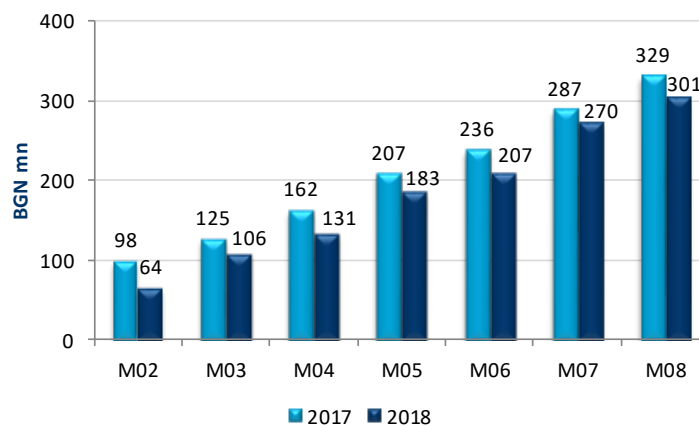
Net fee and commission income



Net operating income

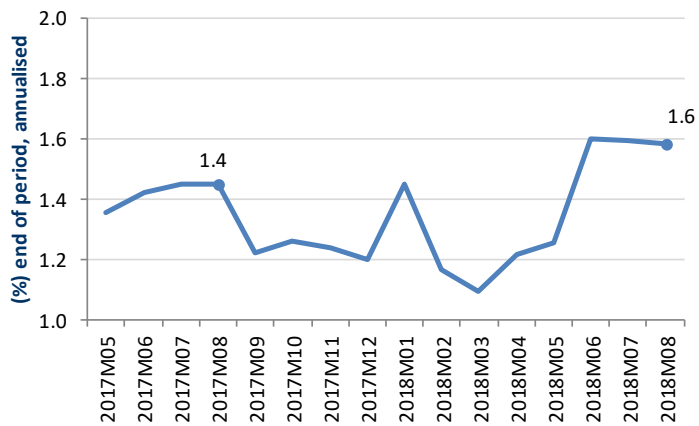


Impairment

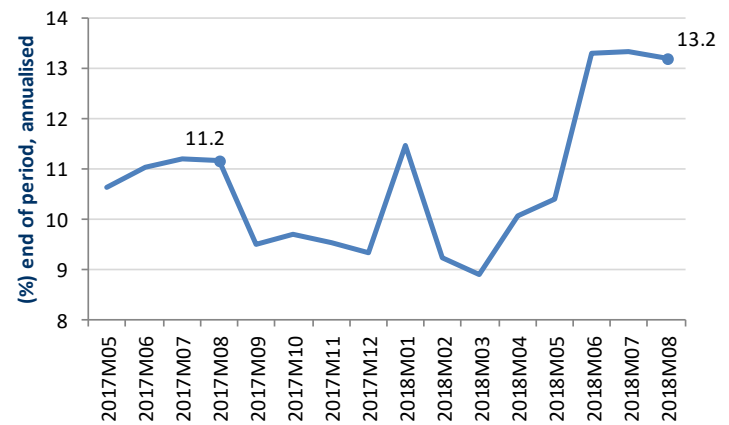


Bulgaria: Banking Sector Indicators

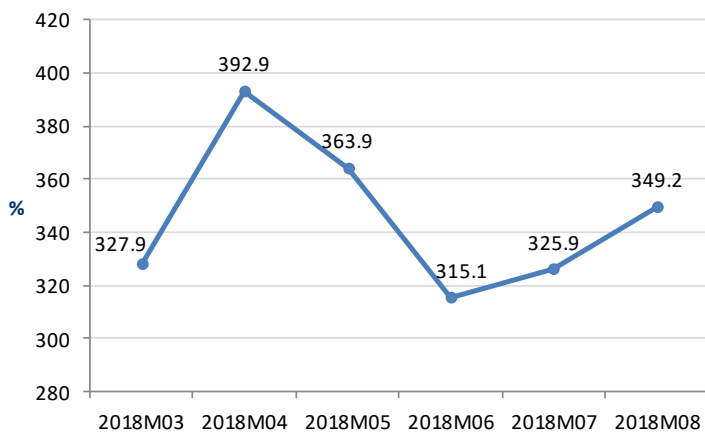
ROA



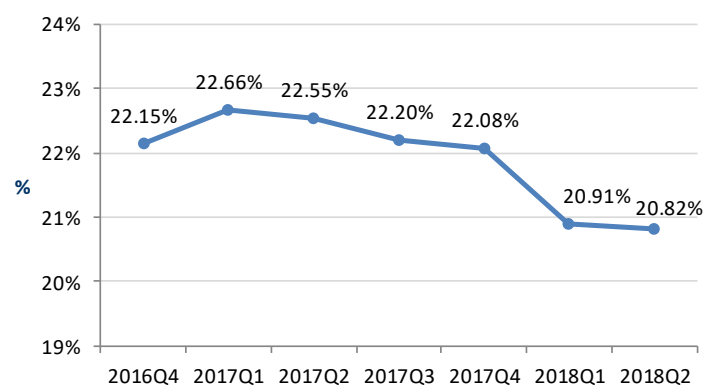
ROE



Liquidity Cover Ratio (LCR), %



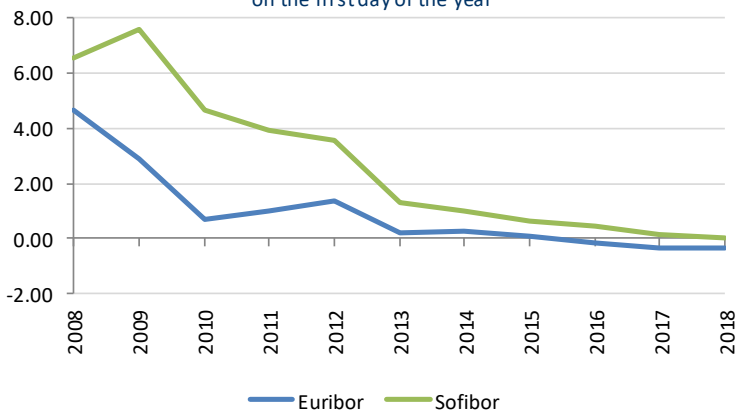
Total Capital Ratio



Bulgaria: Indexes and Interest Rates

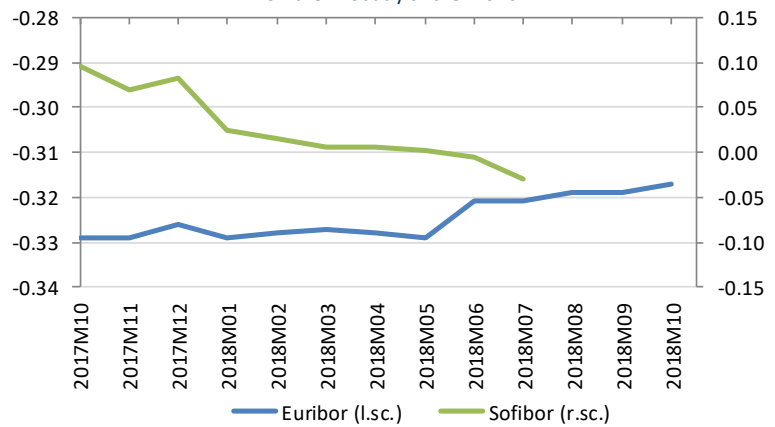
Indexes 3-months

on the first day of the year

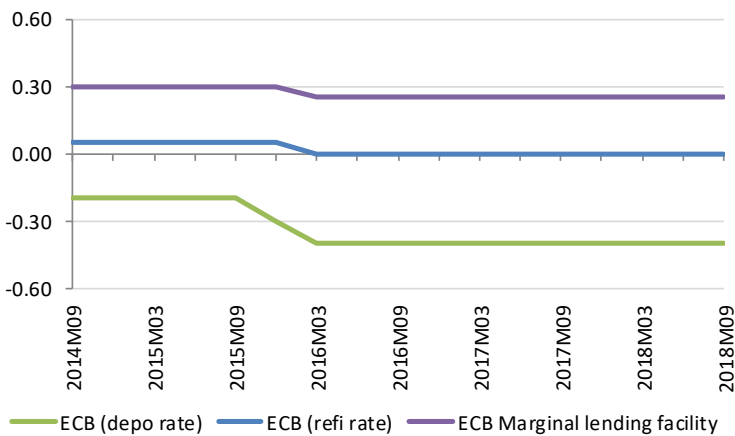


Indexes 3-months

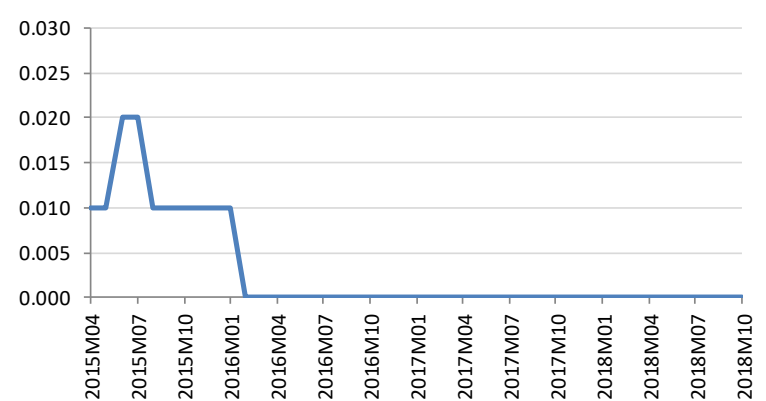
on the first day of the month



Policy Rates (in %)

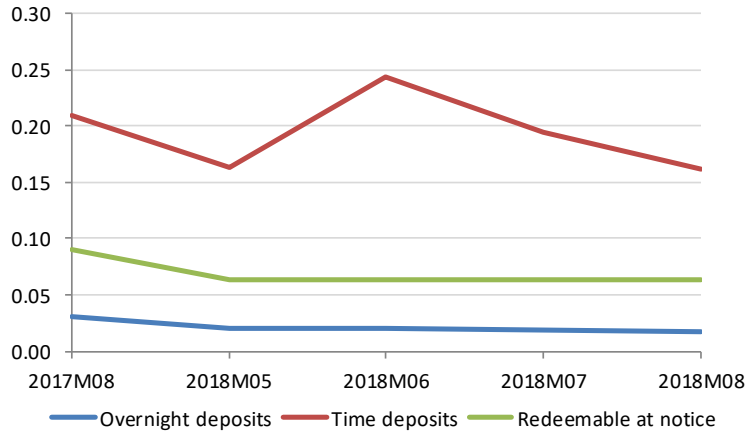


Base Interest Rate of the BNB (in %)

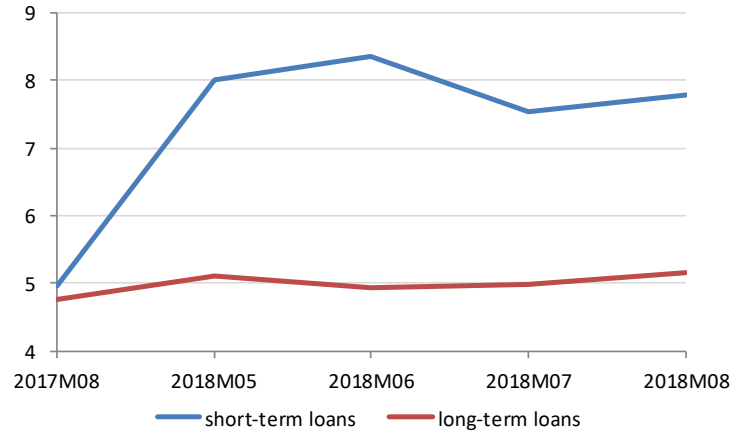


Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates

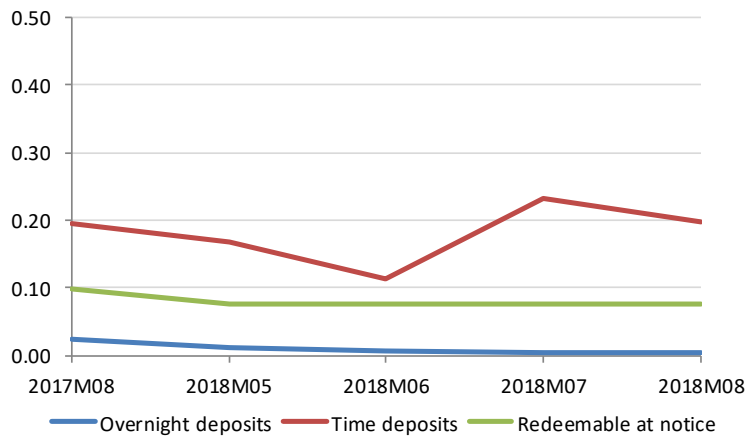
Interest Rates (%) in BGN



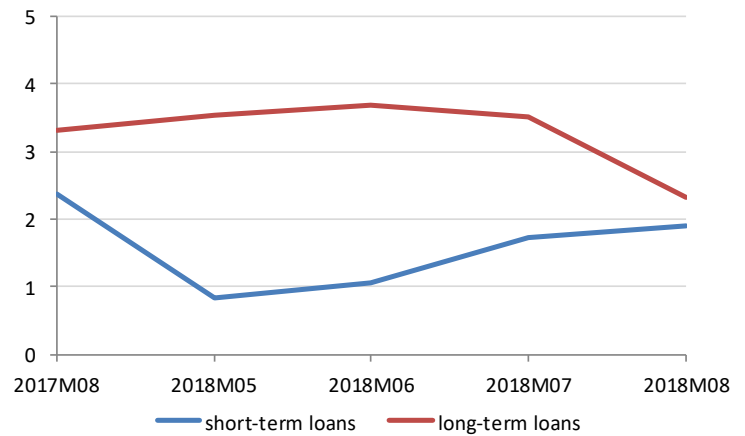
Interest Rates (%) in BGN



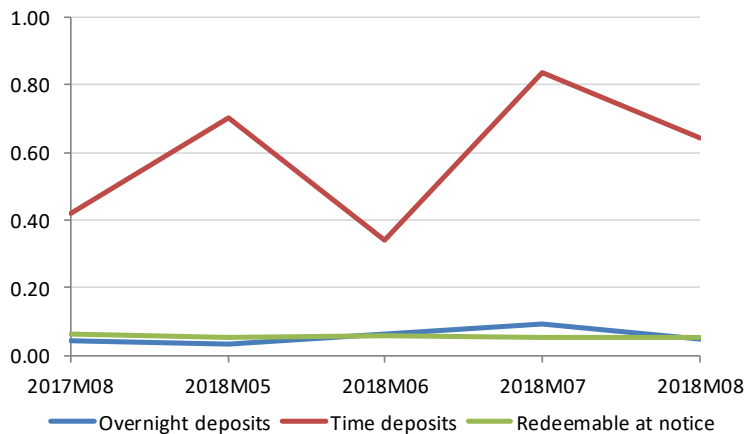
Interest Rates (%) in EUR



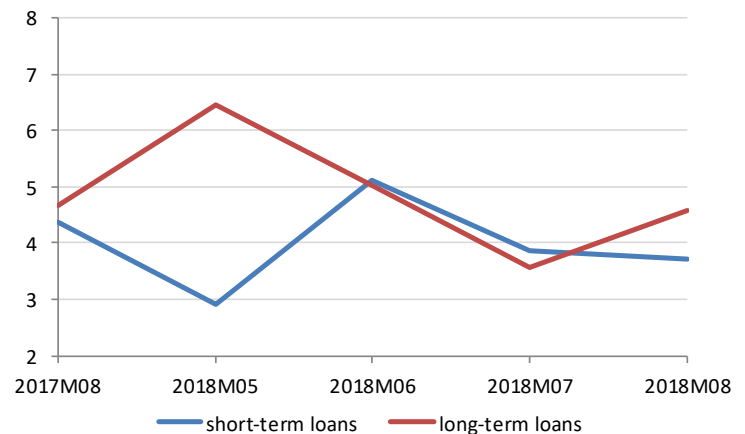
Interest Rates (%) in EUR



Interest Rates (%) in USD

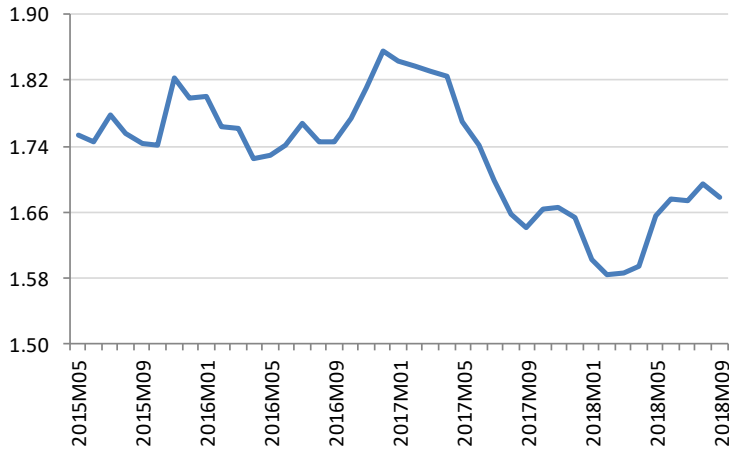


Interest Rates (%) in USD

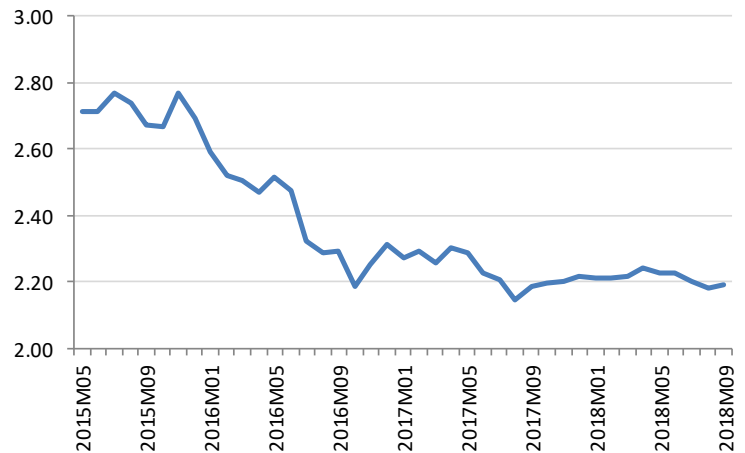


Bulgaria: FX Rates

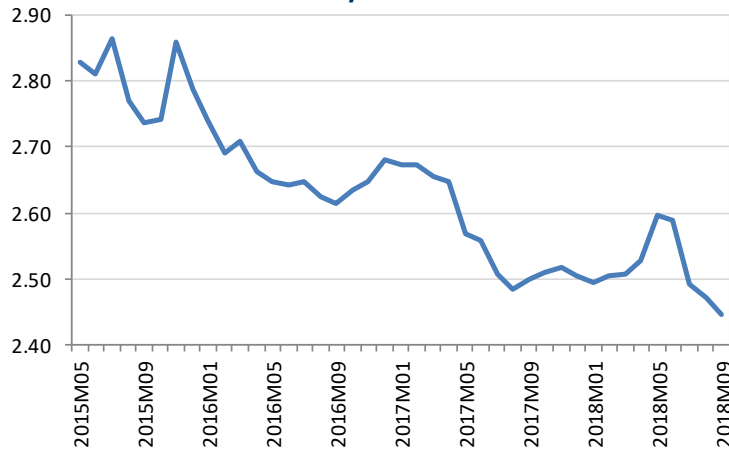
BGN/USD



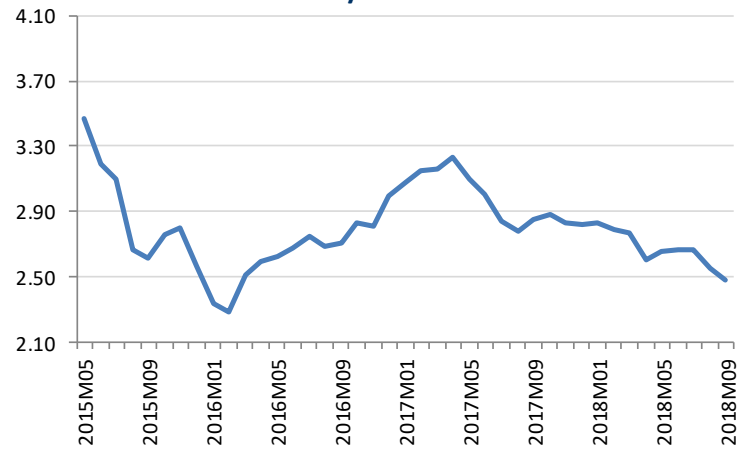
BGN/GBP



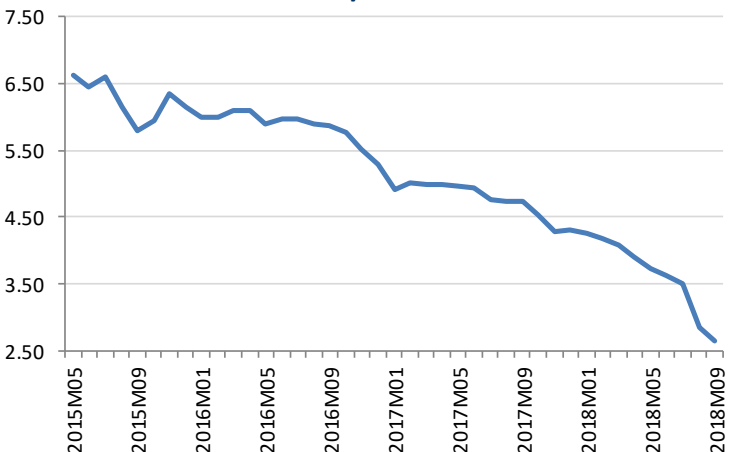
BGN/10CNY



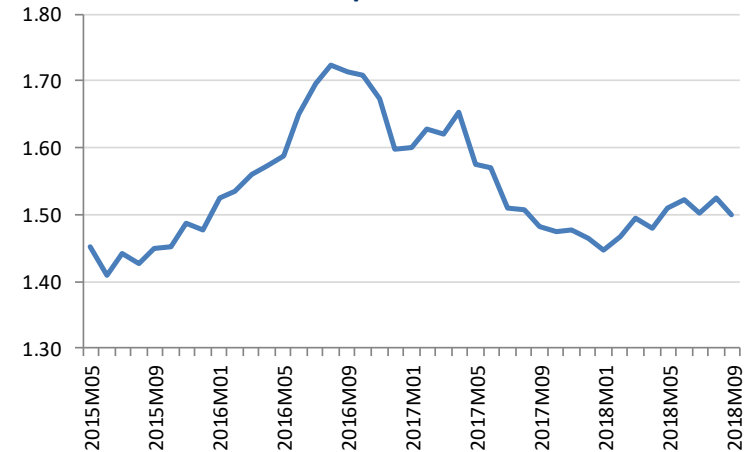
BGN/100RUB



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.

Disclaimer: This document is for information only. The analyzed digital information is provided by reliable institutional sources such as KBC, NSI, MF, BNB, OECD, ECB, EC, IMF, WB, EBRD, EMIS Internet Securities-Bulgaria, CEIC Internet Securities-Bulgaria, EMD Holdings LLC. United Bulgarian Bank (UBB) officially accepts the accuracy and completeness of the data produced by them. Nor is the extent to which the hypotheses, risks and projections in this material reflect market expectations or their real chances can be guaranteed. Estimates are indicative. The data in this publication are of a general nature and is for information purposes only. This publication should not be used as a recommendation or offer for the purchase or sale of any financial instruments and securities and does not constitute an offer or prospectus within the meaning of the Public Offering of Securities Act, the Markets in Financial Instruments Act or other similar regulatory acts, including foreign ones. UBB and KBC are not responsible for the accuracy and completeness of this information. More information on topics could be obtained upon request.