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

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

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

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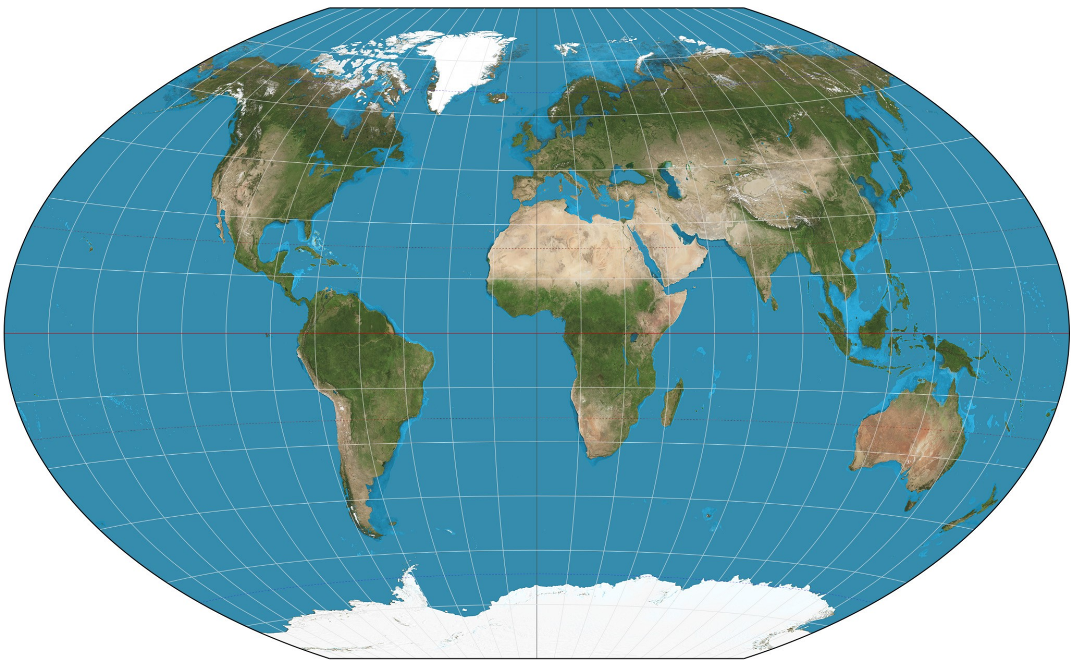
HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



November 2018

Sofia

- *The Eurozone economy grew 0.2% on quarter in the three months to September 2018, the weakest growth rate since the second quarter of 2014. The annual inflation rate in the Euro Area is expected to pick up to 2.2% in October 2018 from 2.1% in September, the highest inflation rate since December 2012. The unemployment rate in the Euro Area was unchanged at 8.1% in September 2018, the lowest level seen since November 2008. Germany is developing political instability, and early elections in the first half of 2019 are very likely;*

- *The Italian government has proposed a budget deficit of 2.4% of GDP in order to boost economic growth. This draft budget has been rejected by the European Commission because of a clear contradiction with the Stability Pact's recommendations. The actions of the European Commission have triggered a response to the markets, and the spread between 10-year German bonds and 10-year Italian bonds exceeds 3.2% (over 320 basis points). Rating agencies downgrade Italy's rating. Increasing the deficit may cause interest rates to rise. European Commission launches Excessive Debt Procedure against Italy;*

- *The UK is due to leave the European Union at 11pm on Friday 29 March, 2019. A deal has been agreed by negotiators - it now has to get the stamp of approval from UK Parliament and, finally, the 27 other EU member states. It is not certain whether the Brexit agreement will be approved by the British Parliament. The gross domestic product in the United Kingdom expanded 1.5% yoy in the third quarter of 2018, up from 1.2% in the previous period. It was the strongest pace of expansion since the third quarter of 2017. Annual inflation rate in the United Kingdom was flat at 2.4% in October of 2018, the same as in September;*

- *The US economy advanced an annualized 3.5% on qoq in the third quarter of 2018, beating market expectations of 3.3%, the advance estimate showed. It follows a 4.2% growth in the previous period which was the highest since the third quarter of 2014. The US unemployment rate was unchanged at 3.7% in October 2018, unchanged from the previous month's 49-year low;*

- *The Gross Domestic Product (GDP) in Japan expanded annually 0.30% in the third quarter of 2018 over the same quarter of the previous year. The Japanese economy contracted 0.3% qoq in the three months to September 2018, following an upwardly revised 0.8% growth in the previous period;*

- *China's corporate debt is equivalent to 160%of the country's GDP in June and off-balance-sheet borrowings by Chinese local governments is high. The government is implementing a program of deleveraging, but this program is hampered by the trade war with US. US threatens to impose additional tariffs to USD 267 billion worth of goods - meaning all Chinese imports could be subject to tariffs;*

- *The Turkish consumer price inflation increased to 25.24% yoy in October of 2018 from a 24.52% in the prior month, and beating market expectations of 24.5%. It was the highest inflation rate since July 2003. The Turkish unemployment rate increased to 11.1% in August of 2018 from 10.6% in the same month of the previous year. Turkey raised EUR 1.5 billion in the sale of euro-denominated paper that matures in February 2026. The new issue was sold at a yield of 5.25%;*

- *Sovereign bond yields have risen amid an increase in global risk-free rates and rising tensions in the sovereign debt markets of some euro area countries. Underlying inflation is expected to pick up towards the end of the year and to increase further over the medium term, supported by the ECB's monetary policy measures, the ongoing economic expansion and rising wage growth The Governing Council concluded that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term;*

- *The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 31 October 2018, the MPC voted unanimously to maintain Bank Rate at 0.75%;*

- *The Federal Open Market 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 Committee decided to maintain the target range for the federal funds rate at 2% to 2.25%;*

- *The Bank of Japan will apply a negative interest rate of minus 0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank. The Bank will purchase Japanese government bonds so that 10-year yields will remain at around zero percent. The Bank will purchase CP and corporate bonds, exchange-traded funds and Japan real estate investment trusts;*

- *The People's Bank of China announced it will help private companies ease their financing difficulties via three main channels. First, the PBOC will encourage banks to lend to private companies, increasing the amount of refinancing and rediscount. Second, the PBOC has decided to launch a supporting tool for private companies' bond financing, aiming to provide credit enhancements for private firms that are intending to raise funds via corporate bonds. Third, PBOC is promoting the establishment of equity financing support tools;*

- *According to Turkish Central Bank's Inflation Report Q3 2018, the Key Risks to Inflation Forecasts and the Likely Monetary Policy Response are: Additional deterioration in pricing behavior and expectation formation; Weaker capital flows towards emerging market economies; Further supply-side tightening in bank loans; Risks to the coordination between monetary and fiscal policies (administered prices, tax and wage policies);*

- *Crude Oil decreased 3.67USD/BBL or 6.82% to 50.11 on Friday November 23 from 54.78 in the previous trading session. For the week, crude oil decreased with 12.65%. In one month the price of crude oil fell by 26%. Brent decreased 3.64 USD/BBL or 5.83% to 62.6 on Thursday November 23 from 63.48 in the previous trading session. For the week, Brent decreased with 12.08%. In one month the price of Brent fell by 24%. Expectations are to slow down the demand in parallel with the slowdown in the global economy. However, the most significant factor remains an increase in crude oil production in the United States;*

- *In Europe the price of wheat has fallen since August. In France, the price dropped from USD 260 / ton in August to around USD 225 /ton at the end of October. In Germany, it falls in August from 260 USD /ton to around 235 USD /ton at the end of October. In Bulgaria the price of wheat has increased since July. The increase is from 160 USD /ton in July to around 230 USD /ton at the end of October.*

- *For January - September 2018, the current and capital account is positive, amounting to EUR 2559 million and accounts for 4.8% of GDP;*

- *In January-September 2018, direct investment in Bulgaria amounted to EUR 826.4 million (1.6% of GDP), up 2.2% from January-September 2017 when it was amounting to EUR 808.5 million (1.6% of GDP);*

- *In October 2018, the international reserves of the BNB amounted to BGN 47.2 billion (EUR 24.1 billion) and grew by 8.6% yoy;*

- *In its autumn macroeconomic forecast, the EC expects the growth of the Bulgarian economy to reach 3.5% in 2018 and 3.7% in 2019;*

- *According to the seasonally adjusted data, the GDP growth rate in Q3 of 2018 is 3.0% yoy;*

- *In October 2018, the total business climate indicator decreases by 1.9 percentage points to 28.5% compared to the previous month as a result of the more unfavourable conjuncture in the industry, retail trade and service sector;*

- *According to the preliminary data the Industrial Production Index, seasonally adjusted, fell by 1.2% in September 2018 as compared to August 2018. In September 2018 the working day adjusted Industrial Production Index decreased by 0.8% in comparison with the same month of 2017;*

- *According to NSI preliminary seasonally adjusted data in September 2018 the turnover in 'Retail trade, except of motor vehicles and motorcycles' division at constant prices increased by 0.3% mom. The working day adjusted turnover increased by 4.6% yoy;*

- *According to the preliminary data, in September 2018 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 2.0% below the level of the previous month. In September 2018 the working day adjusted index of production in construction decreased by 4.0% yoy;*

- *In September 2018, monthly inflation in Bulgaria was 0.7%, annual inflation reached 3.7% and the average annual rate was 2.8%;*

- *Total Producer Price Index in September 2018 increased with 0.3% mom. Compared to the same month of 2017 the prices rose by 3.7%. Producer Price Index on Domestic Market in September 2018 increased by 0.3% mom. Compared to the same month of 2017 the domestic prices grew by 3.1%;*

- *In September 2018, the number of the trips of Bulgarian residents abroad was 633.4 thousand or by 11.0% above the registered in September 2017. In September 2018, the number of arrivals of visitors from abroad to Bulgaria was 1 324.2 thousand or by 4.2% more in comparison with September 2017;*

- *The total revenues from nights spent in September 2018 reached BGN 164.2 million or by 7.6% yoy;*

- *In Q3 of 2018, unemployment in Bulgaria declined to 5.0% and decreased by 0.8 percentage points on an annual basis;*

- *In Q3 2018 the average monthly wages and salaries decreased by 0.7% qoq and amounted BGN 1 117;*

- *The total average income per household member in Q3 of 2018 was BGN 1,541 and increased by 7,7% yoy. The total average cost per person per household in Q3 of 2018 is BGN 1,518 and increases by 9,8% yoy;*

- *In September 2018 Bulgaria's CFP balance on a cash basis is positive, amounting to BGN 2,664.5 million and presented 2.5% of forecasted GDP;*

- *At the end of September 2018, the Central government sub-sector debt amounted to EUR 12,312.8 million. and accounts for 22.3% of projected GDP;*

- *The international rating agency Fitch has affirmed Bulgaria's long-term foreign and local currency credit ratings at "BBB", outlook stable. The short-term foreign and local currency credit ratings have also been affirmed at "F2";*

- *On 21 November 2018 the European Commission released the 2019 Annual Growth Survey (AGS) and the Alert Mechanism Report (AMR) for 2019;*

- *In September 2018, broad money (M3) amounted to BGN 91.611 billion (88.7% of GDP) and increased by 9.5% on an annual basis. Domestic credit amounted to BGN 56.129 billion and grew by 7.2% compared to August 2017;*

- *In October 2018, all stock indices on BSE-Sofia reported a decline: SOFIX reported a drop to 596.81 points. Equally weighted BG TR30 reported a decline of 4.04% to 499.33 points. Property manager BGREIT declined by 0.48% to 117.23 points. The index of the most liquid companies BGBX 40 reported a decline of 4.02% to 117.03 points;*

- *At the end of September 2018, the assets of the banking system reached BGN 103.2 billion, increasing by 0.2% mom and by 8.5% yoy, respectively, which is mainly formed by the balance sheet total of loans and advances.*

Table of content

GLOBAL TRENDS

Advanced countries' economies

Euro zone

The Eurozone economy grew 0.2% on quarter in the three months to September 2018, the weakest growth rate since the second quarter of 2014. The annual inflation rate in the Euro Area is expected to pick up to 2.2% in October 2018 from 2.1% in September, the highest inflation rate since December 2012. The unemployment rate in the Euro Area was unchanged at 8.1% in September 2018, the lowest level seen since November 2008. Germany is developing political instability, and early elections in the first half of 2019 are very likely.

The Eurozone economy grew 0.2% on quarter in the three months to September 2018, following a 0.4% expansion in the previous period and below market expectations of a 0.4% advance, a flash estimate showed. It was the weakest growth rate since the second quarter of 2014 as the German economy contracted for the first time in three-and-a-half years and Italy's GDP showed no growth.

Among Eurozone's largest economies, the German economy shrank 0.2% in the third quarter, following a 0.5% growth in the previous period. It was the first quarterly contraction since the three months to March 2015 due to a drop in both exports and household consumption. Also, the Italian economy stalled following a 0.2% expansion in the previous period and marking the weakest performance since the last quarter of 2014. On the other hand, France's GDP growth rate was the strongest in almost a year (0.4% vs 0.2% in Q2) and the Spanish economy continued to expand at a solid pace (0.6%, the same as in Q2). Elsewhere, a contraction was recorded in Lithuania (-0.4% vs 0.9%) while GDP growth was unchanged in Finland (at 0.3%) and slowed in the Netherlands (0.2% vs 0.7%); Portugal (0.3% vs 0.6%); Slovakia (1.1% vs 1.2%); and Cyprus (0.7% vs 0.8%). On the other hand, economic growth picked up in Austria (0.4% vs 0.3%); Latvia (1.8% vs 1.2%); and Belgium (0.4% vs 0.3%). Compared with the same quarter of the previous year, the Euro Area economy expanded 1.7% in the three months to September, following a 2.2% growth in the previous period and missing market consensus of 1.8%. The annual inflation rate in the Euro Area is expected to pick up to 2.2% in October 2018 from 2.1% in the previous month and in line with market consensus. That should be the highest inflation rate since December 2012 on the back of higher prices of services, energy, processed food and industrial goods.

Looking at the main components of euro area inflation, prices are expected to rise at a faster pace for services (1.5% vs 1.3% in September); energy (10.6% vs 9.5%); processed food, alcohol & tobacco energy (2.3% vs 2.2%) and non-energy industrial goods (0.4% vs 0.3%). Meanwhile, inflation should slow for unprocessed food (2.1% vs 3.2%). Annual core inflation, which excludes volatile prices of energy, food, alcohol & tobacco and at which the ECB looks in its policy decisions, is likely to increase to 1.1% in October from 0.9% in September and above market consensus of 1%. The unemployment rate in the Euro Area was unchanged at 8.1% in September 2018, the same as in the previous month's figure, below 8.9% a year earlier and in line with market expectations. It remained the lowest jobless rate since November 2008. Compared with August, the number of unemployed in the Euro Area rose by 2,000 to 13.153 million. Compared with the previous year, it declined by 1.309 million. Considering the European Union as a whole, the unemployment rate stood at 6.7% in September, stable compared to the prior month and down from 7.5% a year earlier. It was the lowest rate recorded in the EU28 since series began in January 2000. Among EU Member States, the lowest jobless rates in September were registered in the Czech Republic (2.3%), Germany and Poland (both 3.4%). The highest unemployment rates were observed in Greece (19.0% in July 2018) and Spain (14.9%). Compared with a year ago, the largest decreases were recorded in Cyprus (7.4% from 10.2%), Croatia (8.2% from 10.5%), Greece (19.0% from 20.9% between July 2018 and July 2017), Portugal (6.6% from 8.5%) and Spain (14.9% from 16.7%). The instability of the Eurozone is intensifying. It is not certain whether the Brexit agreement will be approved by the British Parliament. Italy's debt crisis deepens - the Italian government's conflict with the European institutions is exacerbated. Germany is developing political instability, and early elections in the first half of 2019 are very likely.

Italy

The Italian government has proposed a budget deficit of 2.4% of GDP in order to boost economic growth. This draft budget has been rejected by the European Commission because of a clear contradiction with the Stability Pact's recommendations. The actions of the European Commission have triggered a response to the markets, and the spread between 10-year German bonds and 10-year Italian bonds exceeds 3.2% (over 320 basis points). Rating agencies downgrade Italy's rating. Increasing the deficit may cause interest rates to rise. The index of Italian banking stocks has fallen substantially since the beginning of the year. Higher interest rates and lower capital adequacy can trigger a credit crunch - a substantial reduction in lending to the real economy. This credit crunch will not only lead to offset of the expansionary effect on the growth but may even cause a slowdown. The government had to submit a new budget. The Italian government refused to change the budget. European Commission launches Excessive Debt Procedure against Italy.

The Italian government has proposed a budget deficit of 2.4% of GDP in order to boost economic growth. This draft budget has been rejected by the European Commission because of a clear contradiction with the Stability Pact's recommendations - for the first time, the European Commission is making use of its power under the Pact. Italy recorded a EUR 2.3 trillion government debt equivalent to 131.80% of the country's GDP in 2017. The actions of the European Commission have triggered a response to the markets, and the spread between 10-year German bonds and 10-year Italian bonds exceeds 3.2% (over 320 basis points). The European Commission is challenging the budget forecast for 1.5% GDP growth and considers the projected budget revenue to be unrealistic. Rating agencies downgrade Italy's rating - S&P revises the country's negative outlook and says government plans are detrimental to investor confidence. Moody's downgrades Italy to one degree above the non-investment grade, although it has defined the prospect of "stable". Increasing the deficit may cause interest rates to rise. The index of Italian banking stocks has fallen substantially since the beginning of the year. Higher interest rates and lower capital adequacy can trigger a credit crunch - a substantial reduction in lending to the real economy. This credit crunch will not only lead to offset of the expansionary effect on the growth but may even cause a slowdown. The majority of Italian government securities (up to 75%) are held by Italian residents. Due to these circumstances, the possibility of financial contagion to the rest of the Eurozone is severely limited. The Eurozone grew 0.2% from July through September compared with the previous quarter, according to the European Union statistics agency. Separately, Italy’s government statistics office said growth during the third quarter was zero. Italy's unemployment rate rose to 10.1% in September 2018 from an upwardly revised 9.8% in the previous month and above market expectations of 9.9%. According to the latest EBA / ECB stress test, capital adequacy and non-performing loans shows a significant improvement. All Italian banks in the adverse scenario exceed the minimum CET1 ratio of 5.5%. Capital adequacy of banks increased from 13.72% in 12.2016 to 16.23% in 06.2018. NPL ratio to Italian banks declined from 15.16% in 12.2016 to 9.73% in 06.2018.

	10 Years Spread vs German bonds 26.10.2018	Government Debt/GDP 2017	GDP Quaterly Growth 09.2018	GDP Annual Growth 09.2019	Unemployment 09.2018	Inflation 09.2018	CAR 06.2018	NPL 06.2018
Italy	3.20%	131.80%	0.00%	0.80%	10.10%	1.40%	16.23%	9.73%

The ECB stops with the policy of quantitative easing until the end of the year, and it is not to be expected that this program will be resumed in the short term and thus help with the onset of the Italian debt crisis. The portfolio of Italian government securities, held by the ECB, amounted to EUR 362 billion or about 16% of the government debt. The government had to submit a new budget before November 13. But on that date, the Italian government refused to change the budget. European Commission launches Excessive Debt Procedure against Italy. If the Italian authorities do not meet EU conditions, then the European Commission can propose to the Council of Ministers to impose financial sanctions on the country, including an interest-free deposit amounting to 0.2% of GDP, the suspension of billions of euros in EU funds and closer fiscal monitoring by the European Commission and the European Central Bank, involving missions in Italy. If Italy continued to fail to cooperate, it could face even stricter penalties under EU rules. They might include an interest-free deposit amounting to 0.5% of GDP, EU precautionary monitoring over Italy’s plans to issue new debt and a reduction or suspension of multi-billion-euro loans from the European Investment Bank. Italy is an important foreign trade partner of Bulgaria, third for the first half of the year, both in exports (8%)

and in imports (8%). In the FDI Italy's share is 4% for 2017, making it on the fifth (5th) place.

United Kingdom

The UK is due to leave the European Union at 11pm on Friday 29 March, 2019. A deal has been agreed by negotiators - it now has to get the stamp of approval from UK Parliament and, finally, the 27 other EU member states. It is not certain whether the Brexit agreement will be approved by the British Parliament. The gross domestic product in the United Kingdom expanded 1.5% yoy in the third quarter of 2018, up from 1.2% in the previous period. It was the strongest pace of expansion since the third quarter of 2017. Annual inflation rate in the United Kingdom was flat at 2.4% in October of 2018, the same as in September.

The UK is due to leave the European Union at 11pm on Friday 29 March, 2019, after people voted by 51.9% to 48.1% for Leave in the 2016 referendum. A deal has been agreed by negotiators - it now has to get the stamp of approval from UK Parliament and, finally, the 27 other EU member states. Both sides are committed to avoiding a return to a visible Northern Ireland border with guard posts and checks. Northern Ireland would stay aligned to some EU rules on things like food products and goods standards, but the agreement would require some products being brought to Northern Ireland from the rest of the UK to be subject to new checks and controls. Also the agreement includes: commitments over citizens' rights after Brexit (people will be able to work and study where they currently live, and to be joined by family members); a proposed 21-month transition period after the UK's departure; a "fair financial settlement" from the UK (also known as the GBP 39 billion "divorce bill"); protection for 3,000 "geographical indications" including Parma ham, feta cheese, champagne and Welsh lamb. A shorter document setting out what future UK and EU relations will look like after 2020 envisages a "a free trade area and deep cooperation on goods, with zero tariffs and quotas". There would be "ambitious customs arrangements" that "build on" the arrangements in the withdrawal agreement. It is not certain whether the Brexit agreement will be approved by the British Parliament. Also the agreement should be approved by EU Parliament (simple majority) and EU Council (65% majority).

The gross domestic product in the United Kingdom expanded 1.5% yoy in the third quarter of 2018, up from 1.2% in the previous period and matching market expectations. It was the strongest pace of expansion since the third quarter of 2017 mainly driven by household consumption and exports while business investment dropped the most since the first quarter of 2016. The British economy grew by 0.6% on quarter in the three months to September 2018, following a 0.4% expansion in the previous period and matching market expectations, a preliminary estimate showed. It was the strongest growth rate since the last quarter of 2016 as household spending and exports rose firmly while business investment contracted at the fastest pace since early 2016 in part due to Brexit-related economic and political uncertainty. Annual inflation rate in the United Kingdom was flat at 2.4% in October of 2018, the same as in September but below market expectations of 2.5%. Prices slowed for transport and food but rose faster for housing and utilities and recreation and culture. The annual core inflation rate, which excludes prices of energy, food, alcohol and tobacco, was flat at 1.9%, the same as in September and in line with market expectations. On a monthly basis, consumer prices edged up 0.1%, the same as in September and below forecasts of 0.2%. The unemployment rate in the UK came in at 4.1% in the third quarter of 2018, slightly higher than market expectations of 4%. The number of unemployed rose by 21,000 from the April to June period while employment rose by 23,000 and the number of job vacancies hit a fresh record high. Average weekly earnings including bonuses rose 3% in the third quarter, the most since Q3 2015; excluding bonuses, wages grew 3.2%, the most since Q4 2008.

USA

The US economy advanced an annualized 3.5% on qoq in the third quarter of 2018, beating market expectations of 3.3%, the advance estimate showed. It follows a 4.2% growth in the previous period which was the highest since the third quarter of 2014. The US unemployment rate was unchanged at 3.7% in October 2018, unchanged from the previous month's 49-year low

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. The US economy advanced an annualized 3.5% on qoq in the third quarter of 2018, beating market expectations of 3.3%, the advance estimate showed. 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 continued to contract and net trade made the biggest drag on growth since Q2 1985. Annual inflation rate in the US increased to 2.5% in October of 2018 from 2.3% in September. Figures match market expectations, mainly due to prices of fuel oil and gasoline. On a monthly basis, consumer prices increased 0.3%, higher than 0.1% in September and matching forecasts. It is the highest monthly gain in nine months, mainly due to gasoline. The US unemployment rate was unchanged at 3.7% in October 2018, unchanged from the previous month's 49-year low and in line with market expectations. The number of unemployed increased by 111 thousand to 6.08 million and employment rose by 600 thousand to 156.56 million. The labor force participation rate increased by 0.2%age point to 62.9% in October but has shown little change over the year. The employment-population ratio edged up by 0.2%age point to 60.6% in October and has increased by 0.4%age point over the year.

Japan

The Gross Domestic Product (GDP) in Japan expanded annually 0.30% in the third quarter of 2018 over the same quarter of the previous year. The Japanese economy contracted 0.3% qoq in the three months to September 2018, following an upwardly revised 0.8% growth in the previous period

The Gross Domestic Product (GDP) in Japan expanded annually 0.30% in the third quarter of 2018 over the same quarter of the previous year. The Japanese economy contracted 0.3% qoq in the three months to September 2018, following an upwardly revised 0.8% growth in the previous period and matching market consensus, a preliminary estimate showed. Number of natural disasters weighed on personal consumption, company investment and exports. Japan's annual inflation rate edged down to 1.2% in September 2018 from 1.3% in the previous month, mainly due to lower prices of food. Still, it is the second-highest figure in the last seven months. Core inflation rate, which excludes fresh food, edged up to 1% from 0.9% in the previous month and in line with expectations. It marked the highest figure since February. On a monthly basis, consumer prices remained unchanged 0% in September, after a 0.5% rise in August and following four straight positive prints. The unemployment rate in Japan edged down to 2.3% in September of 2018 from 2.4% in the previous month and slightly below market expectations of 2.4%. It was the lowest jobless rate since May. Meanwhile, the jobs-to-applicants ratio inched higher to 1.64 from 1.63 in September and was the highest since January 1974.

China

China's corporate debt is equivalent to 160%of the country's GDP in June and off-balance-sheet borrowings by Chinese local governments is high. The government is implementing a program of deleveraging, but this program is hampered by the trade war with US. US threatens to impose additional tariffs to USD 267 billion worth of goods - meaning all Chinese imports could be subject to tariffs.

The Chinese economy grew by 1.6%quarter-on-quarter in the three months to September 2018, compared to a 1.8%expansion in the previous period and matching market estimates. Yoy, the economy advanced 6.5%in the third quarter of 2018, after a 6.7% growth in the previous three quarters and missing market expectations of 6.6%. It was the lowest growth rate since the aftermath of the global financial crisis in the first quarter of 2009, amid intense tariff dispute with the US and alarming off-balance-sheet borrowings by local governments. The Chinese economy expanded rapidly in the years after the global financial crisis partially thanks to repeated debt binges. The total amount of debt in the Chinese financial system is now more than the size of the entire economy – basically on the same level with those of developed economies such as the U.S., the U.K., and Italy. China's corporate debt is equivalent to 160% of the country's GDP in June, according to the Central Financial and Economic Affairs Commission. Off-balance-sheet borrowings by Chinese local governments could be as high as CNY 40 trillion (USD 5.78 trillion) according to S&P Global Ratings. The government is implementing a program of deleveraging, but this program is hampered by the trade war with US. Washington has introduced customs duties on Chinese imported goods for USD 250 billion, which is roughly half of China's exports to the US. US threatens to impose additional tariffs to USD 267 billion worth of goods - meaning all Chinese imports could be subject to tariffs. Due to the above risks, the PBOC has offered stimulus to avoid a sharp decline in growth. China's consumer price inflation stood at 2.5% year-on-year in October 2018, unchanged from the previous month's seven-month high and in line with market expectations. A slowdown in prices of food was offset by a faster rise in cost of non-food products. Annual core inflation, which excludes volatile items such as food and energy, edged up to 1.8% in October from 1.7% in the previous month. On a monthly basis, consumer prices went up 0.2% in October, easing from a 0.7% advance in September and also matching market consensus. Unemployment Rate in China decreased to 3.82% in the third quarter of 2018 from 3.83% in the second quarter of 2018. This is a record low from 2002.

Turkey

The Turkish consumer price inflation increased to 25.24% yoy in October of 2018 from a 24.52% in the prior month, and beating market expectations of 24.5%. It was the highest inflation rate since July 2003. The Turkish unemployment rate increased to 11.1% in August of 2018 from 10.6% in the same month of the previous year. Turkey raised EUR 1.5 billion in the sale of euro-denominated paper that matures in February 2026. The new issue was sold at a yield of 5.25%.

Turkey's industrial production decreased by 2.7% yoy in September 2018, following a downwardly revised 1.6% growth in the previous month and compared to market expectations of a 2% fall. It was the first decline in industrial production since September 2016. The Turkish consumer price inflation increased to 25.24% yoy in October of 2018 from a 24.52% in the prior month, and beating market expectations of 24.5%. It was the highest inflation rate since July 2003, as both food and housing prices increased faster while transport prices continued to rise amid a falling lira. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, rose to an all-time high of 24.34% in October from a 24.05% in the previous month. On a monthly basis, consumer prices went up 2.67% in October, beating market expectations of a 2% gain and following a 6.30% rise in September. The Turkish unemployment rate increased to 11.1% in August of 2018 from 10.6% in the same month of the previous year, as the number of unemployed went up 266 thousand to 3.67 million and employment rose 490 thousand to 29.32 million. The non-agricultural jobless rate inched up to 13.2% in August from 12.8% in the previous year. Youth unemployment rate, measuring job-seekers between 15 and 24 years old, edged up to 20.8% from 20.6% in the same month a year ago. On a seasonally adjusted basis, the unemployment rate rose to 11.2% in August from 11.0% in July. Turkey raised EUR 1.5 billion in the sale of euro-denominated paper that matures in February 2026. The new issue was sold at a yield of 5.25%, according to an official announcement. The country received orders of more than three times the size of the actual sale in a sign of robust demand. The country has now tapped the foreign debt market twice since its currency collapsed in August to an historic low. Last month it issued a five-year dollar-bond with a yield of 7.5%, or 4.48% above an equivalent US Treasury. It sold dollar bonds two other times this year, both times at lower spreads. Turkey has now raised roughly USD 7.7billion this year in international bond sales at current exchange rates. More than a third of the bonds in the latest sale were sold to investors in the UK, while a fifth went to US investors. Only 6% were sold to investors in Turkey. The USD/TRY decreased 0.0177 or 0.33% to 5.2864 on Thursday November 22 from 5.3041 in the previous trading session.

Policy of the Central banks

ECB

Sovereign bond yields have risen amid an increase in global risk-free rates and rising tensions in the sovereign debt markets of some euro area countries. Underlying inflation is expected to pick up towards the end of the year and to increase further over the medium term, supported by the ECB's monetary policy measures, the ongoing economic expansion and rising wage growth The Governing Council concluded that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

Summary of ECB Economic Bulletin, Issue 7 / 2018. According the Governing Council's monetary policy meeting in September, the risks surrounding the euro area growth outlook can still be assessed as broadly balanced. At the same time, risks relating to protectionism, vulnerabilities in emerging markets and financial market volatility remain prominent. Yet, the underlying strength of the economy continues to support the Governing Council's confidence that the sustained convergence of inflation to its aim will continue in the period ahead and will be maintained even after a gradual winding-down of the net asset purchases. Nevertheless, significant monetary policy stimulus is still needed to support the further build-up of domestic price pressures and headline inflation developments over the medium term. This support will continue to be provided by the net asset purchases until the end of the year, by the sizeable stock of acquired assets and the associated reinvestments, and by the Governing Council's enhanced forward guidance on the key ECB interest rates. In any event, the Governing Council stands ready to adjust all of its instruments as appropriate to ensure that inflation continues to move towards its aim in a sustained manner. In the euro area, sovereign bond yields have risen amid an increase in global risk-free rates and rising tensions in the sovereign debt markets of some euro area countries. Euro area equity prices have declined, reflecting a deterioration in risk sentiment. By contrast, yield spreads on corporate bonds have remained broadly unchanged. In foreign exchange markets, the euro has been broadly stable in trade-weighted terms. Some recent sector-specific developments are having an impact on the near-term growth profile. The ECB's monetary policy measures continue to underpin domestic demand. Private consumption is fostered by ongoing employment growth and rising wages. Business investment is supported by solid domestic demand, favorable financing conditions and corporate profitability. Housing investment remains robust. In addition, the expansion in global activity is expected to continue supporting euro area exports, though at a slower pace. Euro area annual HICP inflation increased to 2.2% in October 2018 from 2.1% in September, reflecting mainly higher energy and food price inflation. On the basis of current futures prices for oil, annual rates of headline inflation are likely to hover around the current level over the coming months. 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 utilization and tightening labor markets. Looking ahead, underlying inflation is expected to pick up towards the end of the year and to increase further over the medium term, supported by the ECB's monetary policy measures, the ongoing economic expansion and rising wage growth. The monetary analysis shows that broad money (M3) growth stood at 3.5% in September 2018, after 3.4% in August. The growth of loans to the private sector has strengthened further, continuing the upward trend observed since the beginning of 2014. The euro area bank lending survey for the third quarter of 2018 indicates that loan growth continues to be supported by increasing demand across all loan categories and favorable bank lending conditions for loans to enterprises and loans for house purchase. Combining the outcome of the economic analysis with the signals coming from the monetary analysis, the Governing Council concluded that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term.

Bank of England

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 31 October 2018, the MPC voted unanimously to maintain Bank Rate at 0.75%.

The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at GBP 10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at GBP 435 billion. The Monetary Policy Committee's updated projections for inflation and activity are set out in the November Inflation Report. In the Committee's central projection, conditioned on the gently rising path of Bank Rate implied by market yields and on a smooth adjustment to the average of a range of possible outcomes for the United Kingdom's eventual trading relationship with the European Union, GDP is expected to grow by around 1¾% per year on average over the forecast period. Momentum in household consumption appears greater than previously expected, supported by the strong labor market and resilient household confidence. Over the forecast period, household consumption is expected to grow modestly relative to historical rates, broadly in line with real incomes. In contrast, business investment has been more subdued than previously anticipated, as the effect of Brexit uncertainty has intensified. Under the smooth transition assumption on which the forecast is conditioned, greater clarity is expected to emerge over the coming months, boosting investment growth. The Monetary Policy Committee's projections were finalized before the Budget measures had been announced and the Committee will assess the implications at its next meeting. The Monetary Policy Committee judges that aggregate supply and demand are now broadly in balance. The labor market remains tight, with the employment rate and vacancies around record highs, and the unemployment rate at its lowest since the mid-1970s. Regular pay growth has been stronger than expected, rising to over 3%. Although modest by historical standards, the projected pace of UK GDP growth is slightly faster than the diminished rate of supply growth, which averages around 1½% per year. A margin of excess demand is therefore expected to build, feeding through into higher growth in domestic costs. The contribution of external cost pressures, which has accounted for above-target inflation since the beginning of 2017, is projected to ease over the forecast period. Taking these influences together, CPI inflation is projected to remain above the target for most of the forecast period, before reaching 2% by the end of the third year. The economic outlook will depend significantly on the nature of EU withdrawal, in particular the form of new trading arrangements, the smoothness of the transition to them and the responses of households, businesses and financial markets. The implications for the appropriate path of monetary policy will depend on the balance of the effects on demand, supply and the exchange rate. The Monetary Policy Committee judges that the monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction. At this meeting the Monetary Policy Committee judged that the current stance of monetary policy remained appropriate. The Committee also judges that, were the economy to continue to develop broadly in line with the November Inflation Report projections, an ongoing tightening of monetary policy over the forecast period would be appropriate to return inflation sustainably to the 2% target at a conventional horizon. Any future increases in Bank Rate are likely to be at a gradual pace and to a limited extent.

USA Federal Reserve

The Federal Open Market 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 Committee decided to maintain the target range for the federal funds rate at 2% to 2.25%.

Information received since the Federal Open Market Committee met in September 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 declined. Household spending has continued to grow strongly, while growth of business fixed investment has moderated from its rapid pace earlier in the year. 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 maintain the target range for the federal funds rate at 2% to 2-1/4%. 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 apply a negative interest rate of minus 0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank. The Bank will purchase Japanese government bonds so that 10-year yields will remain at around zero percent. The Bank will purchase CP and corporate bonds, exchange-traded funds and Japan real estate investment trusts.

According to Bank of Japan’s Statement on Monetary Policy:

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

People's Bank of China (PBC)

The People's Bank of China announced it will help private companies ease their financing difficulties via three main channels. First, the PBOC will encourage banks to lend to private companies, increasing the amount of refinancing and rediscount. Second, the PBOC has decided to launch a supporting tool for private companies' bond financing, aiming to provide credit enhancements for private firms that are intending to raise funds via corporate bonds. Third, PBOC is promoting the establishment of equity financing support tools.

The People's Bank of China announced it will help private companies ease their financing difficulties via three main channels, including bonds, credits and equities. First, the PBOC will encourage banks to lend to private companies, increasing the amount of refinancing and rediscount by CNY 300 billion (around USD43 billion) — the largest gain in quotas over the years. The PBOC has added a new index in the macro-prudential assessment for commercial banks and provided them with long-term, inexpensive credit funds to encourage more loans for private businesses. The central bank increased relending and rediscount quotas and lowered relending interest rates by 0.5% points for small lenders.

If the quota is used up, the PBOC can increase the quota according to market demand. Second, the PBOC has decided to launch a supporting tool for private companies' bond financing, aiming to provide credit enhancements for private firms that are intending to raise funds via corporate bonds. A pilot has begun, under which the first batch of three companies raised a total of CNY 1.9 billion with their bonds highly oversubscribed. Another 30 private businesses are preparing for the bond issuance. Third, PBOC is promoting the establishment of equity financing support tools. Private equity fund managers, securities brokers, commercial banks and financial asset investment firms are being encouraged to offer staged equity financing support for private companies. PBOC provides initial funds and encourages the participation of financial institutions and other investors. The PBOC has lowered the requirement reserve ratio (RRR) four times this year, releasing a total of some four trillion yuan in liquidity. Also, the bank's cut in cash that banks must hold as reserves unleashed a net of 2.3 trillion yuan for the monetary market this year.

Central Bank of Turkey

According to Turkish Central Bank's Inflation Report Q3 2018, the Key Risks to Inflation Forecasts and the Likely Monetary Policy Response are: Additional deterioration in pricing behavior and expectation formation; Weaker capital flows towards emerging market economies; Further supply-side tightening in bank loans; Risks to the coordination between monetary and fiscal policies (administered prices, tax and wage policies).

Additional deterioration in pricing behavior and expectation formation

In recent months, pass-through from exchange rates to consumer inflation has grown stronger, backward indexation has become more widespread, and pricing behavior has deteriorated considerably. Although exchange rate-related inflationary pressures are expected to remain relatively subdued under current circumstances, risks to the inflation outlook remain solid amid highly volatile exchange rates. In case of a failure to implement the macroeconomic rebalancing process rapidly and effectively enough to bring inflation down amid high inflation rates and risk premium levels, inflation and exchange rate expectations may feed each other and undermine the disinflation process. In such a case, any further deterioration in pricing behavior may necessitate a tighter monetary policy stance for a longer time in order to lower inflation. The deteriorated pricing behavior, tight financial conditions and the financial state of the corporate sector have recently caused inflation dynamics to change and the uncertainty over inflation and forecasts to rise. The cumulative cost pressures on firms and the decrease in their profitability, coupled with increased working capital costs, may cause the disinflationary impact of the demand channel to be more limited compared to the implications of the historical data. In the short-run, monetary policy decisions will be more sensitive to incoming data and the monetary policy stance will be revised upon detection of changes in the inflation outlook.

Weaker capital flows towards emerging market economies

The sustained monetary tightening trend and the increase in bond yields in advanced economies, heightened protectionism in global trade, Brexit developments, concerns over the budget deficit and sovereign debt of Italy, and imminent sanctions on Iran may cause the risk appetite for emerging economies to display a fluctuating pattern in the upcoming period. This, in turn, may pose a downside risk to portfolio flows to emerging economies. In case of excessive market volatility due to fluctuations in global liquidity conditions and in perceptions of risk, the CBRT may use liquidity measures intended for providing the market with the needed FX liquidity in a timely, controlled and effective manner. In addition, it may introduce additional tightening in monetary policy to curb the impact of these risks on inflation and inflation expectations.

Further supply-side tightening in bank loans

The rate and extent of the normalization to be observed in credit conditions in the upcoming period are important in terms of the outlook for economic activity. As cash flows and balance sheets of firms have been adversely affected by the increase in exchange rates and loan rates as well as by the slowdown in economic activity, conducting the necessary assessments and analyses related to the asset quality of firms will have a decisive role in the credit market. Therefore, establishing a coordination between the financial sector policies that restrict the balance sheet effects of the corporate sector and the monetary policy that focuses on inflation has become crucial for preventing the financial conditions from falling into an unproductive tightening cycle.

Risks to the coordination between monetary and fiscal policies (administered prices, tax and wage policies)

A weaker coordination between the monetary policy and the fiscal policy than envisaged is regarded as a risk with respect to disinflation and macroeconomic rebalancing. The fiscal policy outlook that the medium-term projections in the Inflation Report are based on incorporates a policy stance that focuses on disinflation and macroeconomic rebalancing and that is coordinated with the monetary policy, which is in line with the New Economy Program announced in September. Accordingly, the projections rest on an outlook where the fiscal policy introduces a tight fiscal discipline, as envisaged in the New Economy Program. Moreover, it is assumed that administered prices, tax and wage adjustments will be formulated in a way that will help reduce the backward-indexation behavior. If the fiscal policy significantly deviates from this framework leading to an adverse impact on the medium-term inflation outlook, the monetary policy stance may be revised.

International Commodity Prices

Petrol

Crude Oil decreased 3.67 USD/BBL or 6.82% to 50.11 on Friday November 23 from 53.78 in the previous trading session. For the week, crude oil decreased with 12.65%. In one month the price of crude oil fell by 26%. Brent decreased 3.64 USD/BBL or 5.83% to 62.44 on Thursday November 23 from 58.80 in the previous trading session. For the week, Brent decreased with 12.08%. In one month the price of Brent fell by 24%. Expectations are to slow down the demand in parallel with the slowdown in the global economy. However, the most significant factor remains an increase in crude oil production in the United States.

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Agricultural products

In Europe the price of wheat has fallen since August. In France, the price dropped from USD 260 /ton in August to around USD 225 /ton at the end of October. In Germany, it falls in August from 260 USD /ton to around 235 USD /ton at the end of October. In Bulgaria the price of wheat has increased since July. The increase is from 160 USD /ton in July to around 230 USD /ton at the end of October.

In Europe the price of wheat has fallen since August. In France, the price dropped from USD 260 /ton in August to around USD 225 /ton at the end of October. In Germany, it falls in August from 260 USD/ton to around 235 USD /ton at the end of October. In Bulgaria the price of wheat has increased since July. The increase is from 160 USD / ton in July to around 230 USD /ton at the end of October. According to the weekly bulletin of the Sofia Commodity Exchange, during the week the prices of the main cereals on the world exchanges had a stir without big amplitudes. In Chicago, the price of wheat remained at the same level of the previous week - 219.00 USD /ton, in France the increase was slightly by 1.00 EUR to 207.00 EUR /ton, in Ukraine with several USD down to 230.00 USD /ton, also in Russia minus 2.00 USD to 230.00 USD / ton. For maize, the change is similar at FOB prices - US minus USD 3.00 to USD 165.00 /ton, Ukraine plus USD 2.00 to USD 166.00 /ton, and in France an increase of 2.00 EUR to 180.00 EUR /ton. Rape in the European Union (Euronext) rises almost marginally by EUR 0.57 to EUR 377.00 /ton and barley in France again rose from EUR 3.00 to EUR 209.00 /ton, while in Germany it fell by EUR 5.00 to EUR 200.00 /ton. Unrefined sunflower oil continues to have a steady downward trend, down from USD 15.00 to USD 680.00/ton in Rotterdam, while refined sugar rises slightly by USD 1.40 to USD 343.20/ton in London. In Bulgaria, in the "Grain" circle of the Sofia Commodity Exchange, the quotes moved in most contracts. In bread wheat there were offerings in the range of 330.00 - 350.00 BGN /ton, versus supply 360.00 - 370.00 BGN /ton, forage wheat is sought at 310.00 BGN /ton, the supply is at 340.00 BGN /ton. For maize there were "buy" offers at a starting price of 220.00 BGN /ton for delivery in January, and for immediate delivery the price was 250.00-260.00 BGN /ton. Sellers announced 270.00 BGN /ton. All prices are without VAT.

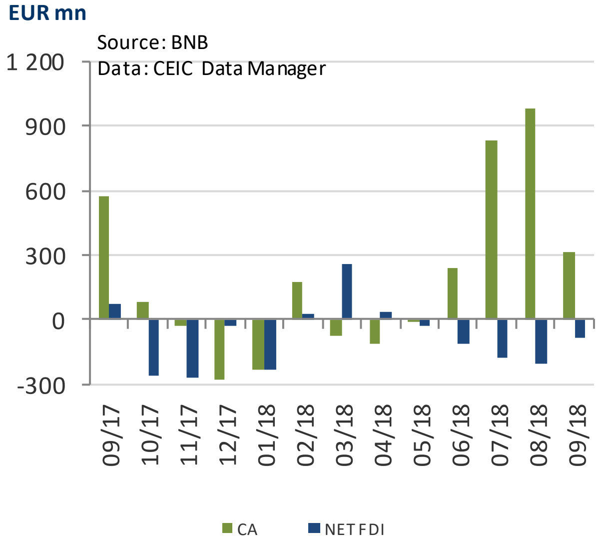
BULGARIA

EXTERNAL SECTOR

Balance of Payments

For January - September 2018, the current and capital account is positive, amounting to EUR 2559 million and accounts for 4.8% of GDP

Balance of Payments

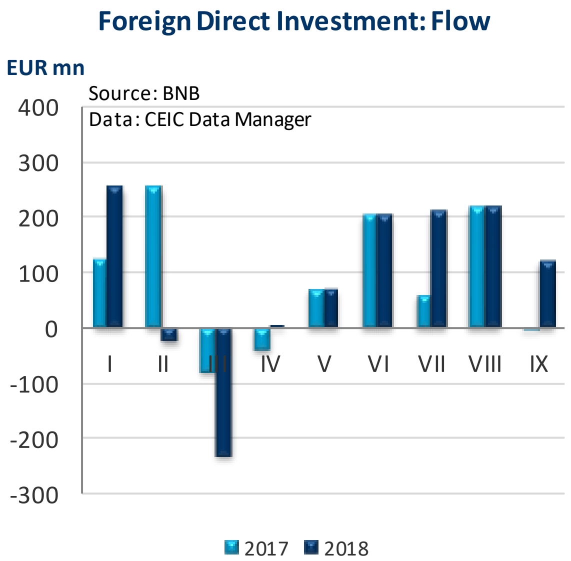


According BNB data the current and capital account recorded a surplus of EUR 369.9 million in September 2018, compared with a surplus of EUR 585.9 million in September 2017. In January – September 2018 the current and capital account was positive amounting to EUR 2,559.3 million (4.8% of GDP), compared with a surplus of EUR 3,935.7million (7.6% of GDP) in January – September 2017. The current account was positive amounting to EUR 312.7 million in September 2018, compared with a surplus of EUR 568.9 million in September 2017. In January – September 2018 the current account was positive and amounted to EUR 2,116.1 million (4% of GDP), compared with a surplus of EUR 3,597.4 million (7% of GDP) in January – September 2017. The balance on goods recorded a deficit of EUR 80.5 million in September 2018, compared with a surplus of EUR 143.3 million in September 2017. In January – September 2018 the balance on goods was negative amounting to EUR 2,030.4 million (3.8% of GDP), compared with a deficit of EUR 194.3 million (0.4% of GDP) in January – September 2017. Exports of goods amounted to EUR 2,419.3 million in September 2018, growing by EUR 62 million (2.6%) from September 2017 (EUR 2,357.3 million). In January – September 2018 exports of goods totalled EUR 19,747 million (37.4% of GDP), dropping by EUR 170.9 million (0.9%) year-on-year (from EUR 19,917.9 million, 38.6% of GDP). In January – September 2017 exports grew by 18.5% yoy. Imports of goods amounted to EUR 2,499.8 million in September 2018, growing by EUR 285.9 million (12.9%) from September 2017 (EUR 2,214 million). In January – September 2018 imports of goods totalled EUR 21,777.4 million (41.3% of GDP), growing by EUR 1,665.2 million (8.3%) from January – September 2017 (EUR 20,112.2 million, 38.9% of GDP). In January – September 2017 imports grew by 15.5% yoy. Services recorded a positive balance of EUR 366.1 million in September 2018, compared with a surplus of EUR 360.2 million in September 2017. In January – September 2018 services recorded a surplus of EUR 2,937.6 million (5.6% of GDP) compared with a positive balance of EUR 2,583.5 million (5% of GDP) in the same period of 2017. The net primary Income (which reflects the receipt and payment of income related to the use of resources (labour, capital, land), taxes of production and imports and subsidies) recorded a deficit of EUR 35.6 million in September 2018, compared with a deficit of EUR 24.9 million in September 20173. In January – September 2018 the balance on primary income was negative and equated to EUR 406.4 million (0.8% of GDP), against a deficit of EUR 371.2 million (0.7% of GDP) in January – September 2017. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 62.7 million, compared with a positive balance of EUR 90.2 million in September 2017. In January – September 2018 the net secondary income was positive amounting to EUR 1,615.3 million (3.1% of GDP), compared with a positive balance of EUR 1,579.3 million (3.1% of GDP) in the same period of 2017. The capital account recorded a surplus of EUR 57.2 million, compared with a positive balance of EUR 17.1 million in September 2017. In January – September 2018 the capital account recorded a surplus of EUR 443.2 million (0.8% of GDP), compared with a positive balance of EUR 338.3 million (0.7% of GDP) in January – September 2017. The financial account recorded a net inflow of EUR 230.8 million, compared with an inflow of EUR 347.8 million in September 2017. In January – September 2018 the financial account recorded a net inflow of EUR 2,250.2 million (4.3% of GDP) compared with an inflow of EUR 2,154.6 million (4.2% of GDP) in January – September 2017. The net direct investment compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual was negative amounting to EUR 88.8 million, compared with a positive balance of EUR 71.1 million in September 2017. In January – September 2018 direct investment recorded a negative balance of EUR 522.7 million (1% of GDP), compared with a negative balance of EUR 521.8 million (1% of GDP) in January – September 2017. Direct investment – assets grew by EUR 19.5 million compared with an increase of EUR 174.8 million in September 2017. In January – September 2018 direct investment – assets grew by EUR 615.3 million (1.2% of GDP), compared with an increase of EUR 467.1 million (0.9% of GDP) in the same period of 2017. Direct investment – liabilities grew by EUR 108.3 million in September 2018, compared with an increase of EUR 103.8 million in September 2017. In January – September 2018 direct investment – liabilities rose by EUR 1,137.9 million (2.2% of GDP), compared with an increase of EUR 988.8 million (1.9% of GDP) in the same period of 2017. The balance on portfolio investment was positive amounting to EUR 107.1 million, compared with a positive balance of EUR 235.7 million in September 2017. In January – September 2018 the balance was positive and equated to EUR 832.6 million (1.6% of GDP), compared with a positive balance of EUR 1,322.8 million (2.6% of GDP) million in January – September 2017. Portfolio investment – assets grew by EUR 90.9 million, compared with an increase of EUR 199.3 million in September 2017. In January – September 2018 they rose by EUR 686.2 million (1.3% of GDP) compared with an increase of EUR 725.8 million (1.4% of GDP) in January – September 2017. Portfolio investment – liabilities dropped by EUR 16.2 million compared with a decline of EUR 36.4 million in September 2017. In January – September 2018 portfolio investment – liabilities dropped by EUR 146.3 million (0.3% of GDP), compared with a decline of EUR 597 million (1.2% of GDP) in January – September 2017. The balance on other investment was negative amounting to EUR 411.2 million, compared with a negative balance of EUR 130.8 million in September 2017. In January – September 2018 the balance was positive and equated to EUR 871.6 million (1.7% of GDP), compared with a positive balance of EUR 605.4 million (1.2% of GDP) in January – September 2017. Other investment – assets dropped by EUR 472.6 million, compared with a decline of EUR 27.8 million in September 2017. In January – September 2018 they grew by EUR 1,336.5 million (2.5% of GDP) compared with an increase of EUR 477.2 million (0.9% of GDP) in January – September 2017. Other investment – liabilities dropped by EUR 61.3 million compared with an increase of EUR 103 million in September 2017. In January – September 2018 they grew by EUR 464.9 million (0.9% of GDP) compared with a decline of EUR 128.2 million (0.2% of GDP) in January – September 2017. The BNB reserve assets5 grew by EUR 603.6 million, compared with an increase of EUR 125.7 million in September 2017. In January – September 2018 they increased by EUR 978.2 million (1.9% of GDP), compared with an increase of EUR 770.3 million (1.5% of GDP) in the same period of 2017. The net errors and omissions were negative amounting to EUR 139.1 million compared with a negative value of EUR 238.1 million in September 2017. According to preliminary data, the item was negative totalling EUR 309.1 million (0.6% of GDP) in January – September 2018, compared with a negative value of EUR 1,781.2 million (3.4% of GDP) in the same period of 2017.

Foreign Direct Investments

In January-September 2018, direct investment in Bulgaria amounted to EUR 826.4 million (1.6% of GDP), up 2.2% from January-September 2017 when it was amounting to EUR 808.5 million (1.6% of GDP)

According to preliminary data, the net flows2 of foreign direct investment in Bulgaria presented according to the directional principle totalled EUR 826.4 million (1.6% of GDP) in January – September 2018, growing by EUR 17.8 million (2.2%) from January – September 2017 (EUR 808.5 million, 1.6% of GDP). Foreign direct investment flows in Bulgaria recorded a positive value of EUR 119.9 million in September 2018, compared with a negative one of EUR 3.5 million in September 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 13.2 million in January – September 2018, dropping by EUR 148.3 million from EUR 135.1 million in January – September 2017. Real estate investments of non-residents recorded an inflow of EUR 5.4 million, compared with EUR 15.6 million attracted in January – September 2017. The largest inflow of real estate investment was from Russia (EUR 2.8 million), Ukraine (EUR 0.7 million), and Germany (EUR 0.6 million). Reinvestment of earnings (the share of non-residents in the undistributed earnings/ loss of the enterprise based on preliminary profit and loss data) reported a net inflow of EUR 192.9 million, compared with an inflow of EUR 28.5 million in January – September 2017. The net flow on debt instruments (the change in the net liabilities be-

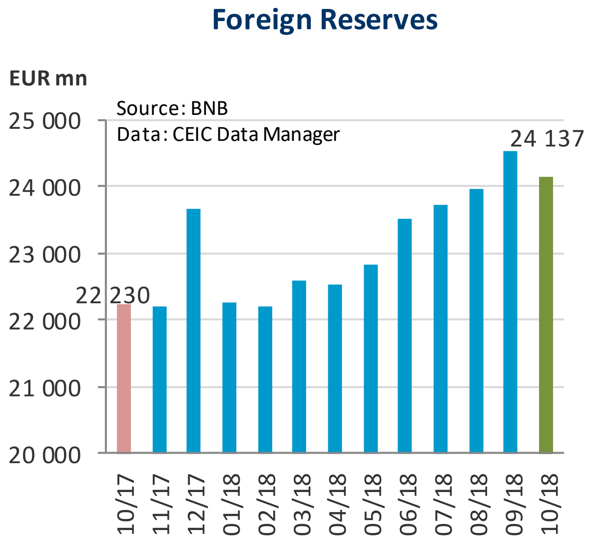


tween affiliated enterprises on financial loans, suppliers' credits and debt securities) recorded a positive value of EUR 646.7 million in January – September 2018, compared with EUR 645 million in January – September 2017. The largest net direct investment inflows in Bulgaria for January – September 2018 were from the Netherlands (EUR 725.5 million), Germany (EUR 90.4 million), and Belgium (EUR 82.7 million).

Foreign Reserves

In October 2018, the international reserves of the BNB amounted to BGN 47.2 billion (EUR 24.1 billion) and grew by 8.6% yoy

According to BNB data at the end of October 2018, international reserves amounted to BGN 47.2 billion (EUR 24.1 billion) and decreased by 1.6% mom. Over a period of one year, international reserves grew by 8.6%. At the end of October 2018 cash and deposits in foreign currency amounted to BGN 17.1 billion and decreased by 5.2% mom, with growth of 3.3% yoy, respectively. Monetary gold amounted to BGN 2.7 billion and grew by 5.2% mom, with a decline of 1.9% yoy, respectively. Investment in securities amounted to BGN 27.4 billion and increased by 0.1% mom and by 13.9% yoy, respectively. At the end of October 2018, money outside banks amounted to BGN 16.5 billion, decreasing by 1.1% mom and increasing by 10.5% yoy, respectively. Liabilities to banks decreased by 5.2% mom and by 23.9% yoy exceeding BGN 12.6 billion. Liabilities to the government and budget organizations amounted to BGN 10.5 billion and decreased by 1% mom and by 5.4% yoy, respectively. Liabilities to other depositors amounted to BGN 2.1 billion and increased by 1.2% mom and by 33.2% yoy. The deposit of the Banking Department amounted to BGN 5.5 billion and grew by 2.9% on a monthly basis, down from 3.7% on an annual basis. Bulgaria's international liquidity position, calculated as a ratio of international reserves to short-term external debt, is high, although the deficit slightly decreased to a level of 295.5% at the end of August 2018 compared to 300.3% at the end of July 2018 and 306.8% in August 2017.

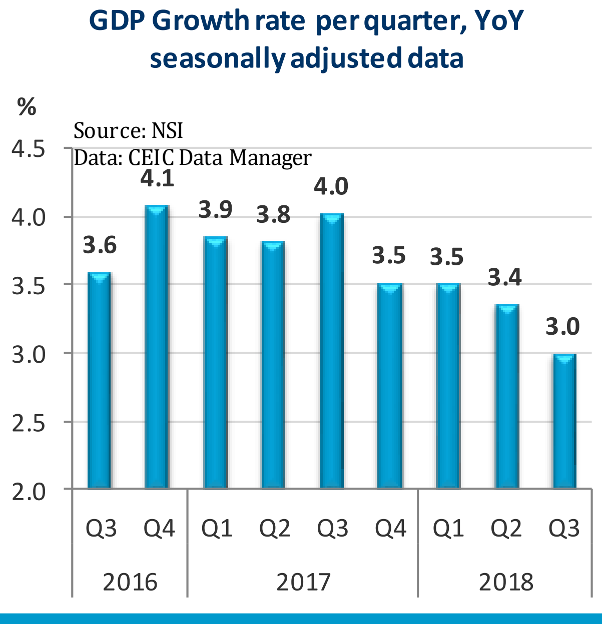


REAL SECTOR

Gross Domestic Product

In its autumn macroeconomic forecast, the EC expects the growth of the Bulgarian economy to reach 3.5% in 2018 and 3.7% in 2019

The European Commission expects the growth of the Bulgarian economy to reach 3.5% in 2018, which is a slight decrease compared to the summer macroeconomic forecast, but retains its expectations for a 3.7% growth in 2019. Domestic demand is the main driver of the domestic economic activity. Private consumption growth is supported by positive developments in the labour market, positive consumer sentiment and increased real disposable income. Investment remains strong, enjoying the support of the low interest rate environment and EU funding absorption. According to the Commission, domestic demand is expected to remain the engine of GDP growth with 3.7% in 2019 and 3.6% in 2020. In 2019, public consumption is set to accelerate due to additional rises in public sector wages, with private consumption remaining high, although somewhat more moderate than in 2018. Investment is set to contribute further to the economy's growth, as more projects co-financed by the EU get underway or progress. The contribution of the exter-



nal sector to growth is forecast to be less negative in 2019 and 2020 as exports are expected to rebound, while import growth is set to moderate somewhat. The Commission forecasts headline inflation to reach 2.6% on average in 2018 due to the rise in energy prices passing through to service prices, while strong domestic demand and increases in unprocessed food prices due to a lower harvest over the summer. Over the next two years, inflation is expected to decrease somewhat to 2.0% in 2019 and 1.8% in 2020 as a result of base effects with international prices. The unemployment rate in Bulgaria came close to its pre-crisis low. The Commission expects the unemployment rate to decline further to 5.7% by 2020. According to the Commission the strong fiscal stance will be preserved, expected to lead to sustained budget surpluses over the forecast period. Strong GDP growth and higher wages in the economy are expected to boost tax revenue and balance the expected current expenditure increases. At the same time, EU funds are set to continue finance a large part of public investment growth. Public debt is forecast to drop to below 20% of GDP by 2020.

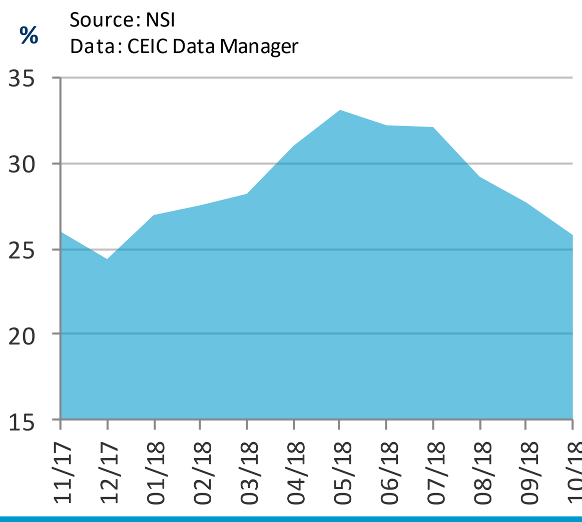
According to the seasonally adjusted data, the GDP growth rate in Q3 of 2018 is 3.0% yoy
In Bulgaria GDP expanded with 3.0% yoy in Q3 2018 and with 0.5% qoq. According to the flash GDP estimates for Q3 of 2018, the GDP at current prices amounted to BGN 29 001 million. Gross Value Added in the third quarter of 2018 amounted to BGN25 124 million. In the structure of GDP by the expenditure approach the largest share has the final consumption (70.5%), which in nominal terms amounted to BGN 20 446 million.In Q3 of 2018 gross capital formation is BGN 5 605 million and has a share of 19.3% in GDP. The external balance (exports minus imports) has a positive sign. According to the seasonally adjusted data1, the GDP growth rate in Q3 of 2018 is 0.5% qoq. GVA increase in Q3 of 2018 is also 0.5%. According to the flash estimates by final expenditure, the GDP growth at seasonally adjusted data in the third quarter of 2018 compared to the second quarter of 2018 is determined by increase of the export of goods and services - with 2.2% and final consumption - with 1.4%. The Q3 of 2018 GDP at seasonally adjusted data increased by 3.0% compared to the same quarter of the previous year. Gross value added increased by 2.7%. As regards the expenditure components of GDP, the final consumption registered a positive economic growth by 6.9%. Gross fixed capital formation increased by 6.2% yoy in Q3 of 2018 at seasonally adjusted data. Imports of goods and services increased by 5.1%, while exports of goods and services decreased by 3.2%.

GDP in Q3 of 2018 increased by 0.3% in the EU- 28 compared to the previous quarter by seasonally adjusted data. For the same period, GDP in Bulgaria increased by 0.5%. Compared to the previous quarter, in the third quarter of 2018, Romania recorded the highest economic growth - 1.9%, Latvia - 1.8%, Poland - 1.7%, Hungary - 1.2% and Slovakia - 1.1%, while Germany and Lithuania have a decrease by 0.2 and 0.4% respectively. Compared to the same quarter of the previous year, seasonally adjusted data showed an increase of GDP in the EU-28 by 1.9% and in Bulgaria by 3.0%. In Q3 of 2018, compared to the same quarter of the previous year, the highest economic growth was observed in Poland - 5.7%, Latvia - 5.5%, Hungary - 5.0%, Slovakia - 4.5% and Romania - 4.1%.

Business Climate

In October 2018, the total business climate indicator decreases by 1.9 percentage points to 28.5% compared to the previous month as a result of the more unfavourable conjuncture in the industry, retail trade and service sector
In October 2018, the total business climate indicator decreases by 1.9 percentage points to 28.5% compared to the previous month as a result of the more unfavourable conjuncture in the industry, retail trade and service sector.
Industry. The composite indicator 'business climate in industry' decreases by 2.4 percentage points mainly due to the reduced industrial entrepreneurs' expectations about the business situation of the enterprises over the next 6 months. At the same time the present production activity is assessed as slightly decreased, while the forecasts about the activity over the next 3

Business Climate Indicator



months are more favourable. In October, the average capacity utilization is by 1.5 percentage points over its July level and it reaches 77.5%. The uncertain economic environment and shortage of labour remain the main obstacles for the activity pointed out respectively by 40.2% and 35.9% of the enterprises. As regards the selling prices in industry, the majority of the managers foresee preservation of their level over the next 3 months.

Construction. In October the composite indicator 'business climate in construction' increases by 2.6 percentage points as a result of the improved construction entrepreneurs' assessments about the present business situation of the enterprises. In their opinion, the present construction activity remains to its level from the previous month, but their forecasts over the next 3 months are more unfavourable. In October, the production assurance with orders is preserved and it is assessed to be 5.3 months. However, the construction entrepreneurs' expectations about the new orders over the next 6 months are pessimistic. The main factors, limiting the business continue to be connected with the shortage of labour, uncertain economic environment and competition in the branch Concerning the selling prices in construction, the prevailing managers' expectations are them to remain unchanged over the next 3 months.

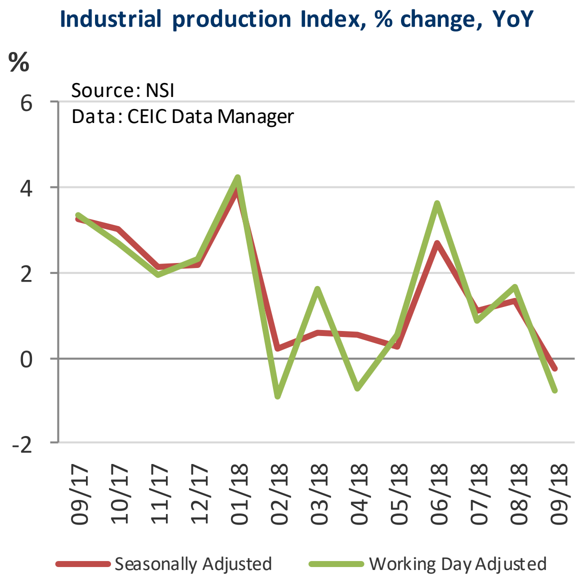
Retail trade. The composite indicator 'business climate in retail trade' decreases by 2.5 percentage points which is due to the more reserved retailers' expectations about the business situation of the enterprises over the next 6 months. However, their forecasts about the volume of sales and orders placed with suppliers over the next 3 months are more favourable.

The most serious difficulty for the business remains the competition in the branch, followed by the insufficient demand and uncertain economic environment, as in the last month strengthen of the negative influence of all three factors is observed. As regards the selling prices, the retailers foresee certain increase over the next 3 months.

Service sector. In October the composite indicator 'business climate in service sector' decreases by 4.5 percentage points as a result of the more unfavourable managers' assessments and expectations about the business situation of the enterprises. As regards the present and the expected demand for services their opinions are also more reserved. The main problems for the activity of the enterprises continue to be connected with the competition in the branch and uncertain economic environment. The managers' expectations are the selling prices in service sector to remain unchanged over the next 3 months.

Industrial Production Index

According to the preliminary data the Industrial Production Index, seasonally adjusted, fell by 1.2% mom. In September 2018 the working day adjusted Industrial Production Index decreased by 0.8% in comparison with the same month of 2017



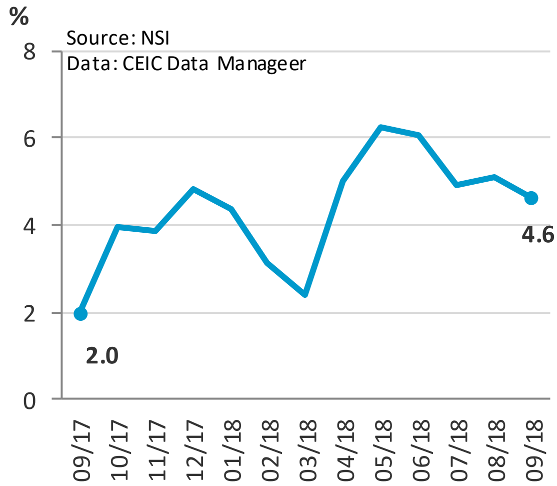
According to NSI preliminary data the Industrial Production Index, seasonally adjusted3, fell by 1.2% in September 2018 as compared to August 2018. In September 2018 the working day adjusted Industrial Production Index decreased by 0.8% in comparison with the same month of 2017. In September 2018 as compared to August 2018, the seasonally adjusted Industrial Production Index decreased in the electricity, gas, steam and air conditioning supply by 1.9% and in the manufacturing by 1.4%, while in the mining and quarrying industry the production increased by 3.2%. The most significant production decreases in the manufacturing were registered in the manufacture of fabricated metal products, except machinery and equipment by 17.8%, in the repair and installation of machinery and equipment by 16.7%, in the manufacture of chemicals and chemical products by 8.6%, in the manufacture of textiles by 6.8%. There were increases in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 11.8%, in the manufacture of tobacco products by 8.6%, in the manufacture of other transport equipment by 7.4%, in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 6.5%. On annual basis in September 2018 Industrial Production Index calculated from working day adjusted data went down in the mining and quarrying industry by 12.2% and in the in the electricity, gas, steam and air conditioning supply by 4.7%, while the production rose in the manufacturing by 0.8%. In the manufacturing, the more considerable increases compared to the same month of the previous year were registered in the manufacture of computer, electronic and optical products by 32.6%, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 24.7%, in the manufacture of other transport equipment by 18.0%, in the manufacture of motor vehicles, trailers and semi-trailers by 14.7%. Decreases were seen in the manufacture of tobacco products by 24.2%, in the manufacture of fabricated metal products, except machinery and equipment by 13.3%, in the manufacture of basic metals by 12.1%, in the manufacture of chemicals and chemical products by 10.1%.

Retail Trade

According to NSI preliminary seasonally adjusted data in September 2018 the turnover in ‘Retail trade, except of motor vehicles and motorcycles’ division at constant prices increased by 0.3% mom. The working day adjusted turnover increased by 4.6% yoy

According to NSI preliminary seasonally adjusted data in September 2018 the turnover in ‘Retail trade, except of motor vehicles and motorcycles’ at constant prices increased by 0.3% compared to the previous month. In September 2018, the working day adjusted4 turnover in ‘Retail trade, except of motor vehicles and motorcycles’ marked rise from 4.6% in comparison with the same month of the previous year. In September 2018 compared to the previous month growth of turnover was observed in the ‘Retail sale of textiles, clothing, footwear and leather goods’ by 3.9%, in the ‘Retail sale via mail order houses or via Internet’ by 2.3%, in the ‘Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles’ by 1.2%, in the ‘Retail sale in non-specialised stores’ by 0.7% and in the ‘Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances’ by 0.6%. Decrease was noted in the ‘Retail sale of automotive fuel’ - 2.7% and in the ‘Retail sale of computers, peripheral units and software; telecommunications equipment’ - 1.2%. In September 2018 compared to the same month of 2017, the turnover increased more significantly in the ‘Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles’ by 12.5%, in the ‘Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances’ by 7.0%, in the ‘Retail sale of food, beverages and tobacco’ by 6.8% and in the ‘Retail sale of textiles, clothing, footwear and leather goods’ by 6.2%. Decline was registered in the ‘Retail sale of automotive fuel’ - 3.8%, and in the ‘Retail sale of computers, peripheral units and software; telecommunications equipment’ - 0.5%.

Retail trade index, % change (YoY)

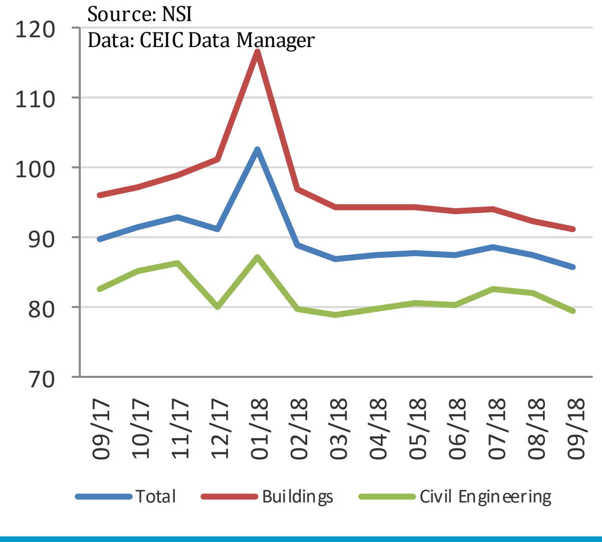


Construction

According to the preliminary data, in September 2018 the index of production in section ‘Construction’ calculated on the base of seasonally adjusted data was 2.0% below the level of the previous month. In September 2018 the working day adjusted index of production in construction decreased by 4.0% in comparison with the same month of 2017

According to the preliminary data, in September 2018 the index of production in section ‘Construction’ calculated on the base of seasonally adjusted data was 2.0% below the level of the previous month. In September 2018 working day adjusted data showed a decrease by 4.0% in the construction production, compared to the same month of 2017. In September 2018 the construction production, calculated from the seasonally adjusted data, was under the level of the previous month. Index the production of civil engi-

Construction Pruduction index, seasonally adjusted data



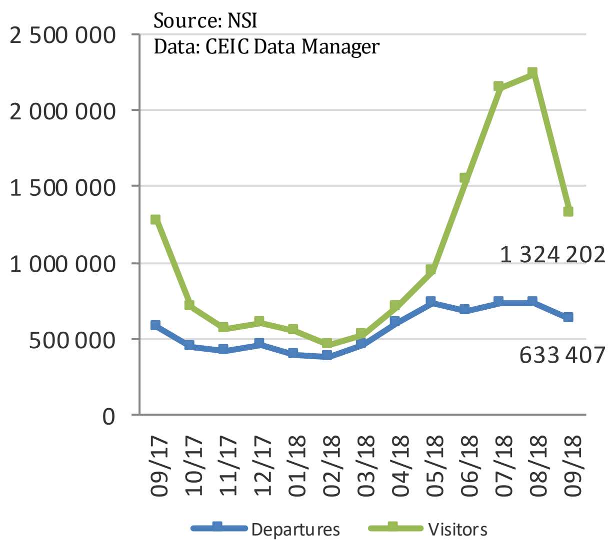
neering fell by 3.1% and production of building construction - by 1.1%. On an annual basis in September 2018, the decrease of production in construction, calculated from working day adjusted data, was determined from the negative rate in the building construction, where the drop was by 5.1% and in the civil engineering - by 2.5%.

Tourism

In September 2018, the number of the trips of Bulgarian residents abroad was 633.4 thousand or by 11.0% above the registered in September 2017. In September 2018, the number of arrivals of visitors from abroad to Bulgaria was 1 324.2 thousand or by 4.2% more in comparison with September 2017

In September 2018, the number of the trips of Bulgarian residents abroad was 633.4 thousand or by 11.0% above the registered in September 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 31.9%, Romania - by 14.8%, Serbia - by 12.8%, Germany - by 6.9%, Greece - by 5.9%, the Former Yugoslav Republic of Macedonia - by 2.4%, and etc. At the same time decreased the trips to: Hungary - by 8.7%, Portugal - by 7.6%, Cyprus - by 2.2%, Ukraine - by 1.9%, and etc. In comparison with September 2017, an increase was registered in the trips with all observed purposes: with holiday and recreation purpose - by 13.4%, with professional purpose - by 11.1%, and with other purposes - by 9.1%. The trips with other purposes (as a guest, education and visit the cultural and sport events) in September 2018 composed the greatest share of the total number of trips of Bulgarian residents abroad - 44.5%, followed by the trips with holiday and recreation purpose - 34.9%, and with professional purpose - 20.6%. In September 2018 most trips of Bulgarian citizens were made to: Greece - 156.2 thousand, Turkey - 152.6 thousand, Serbia - 47.4 thousand, Romania - 45.5 thousand, Germany - 41.4 thousand, the Former Yugoslav Republic of Macedonia - 33.4 thousand, Austria - 19.9 thousand, the United Kingdom - 16.5 thousand, Italy - 15.9 thousand, France - 14.6 thousand. In September 2018, the number of arrivals of visitors from abroad to Bulgaria was 1 324.2 thousand or by 4.2% more in comparison with September 2017 (Figure 4). An increase was registered in the trips with other purposes (including as guest and passing transit) - by 6.6% and with holiday and recreation purpose - by 5.8%, while those with professional purpose decreased by 6.2%. Transit passes through the country were 25.7% (340.0 thousand) of all visits of foreigners to Bulgaria. The share of visits of EU citizens was 62.9% of the total number of foreigners' visits to Bulgaria in September 2018 or by 3.1% more in comparison with the same month of the previous year. An increase was registered in the visits of citizens from the United Kingdom - by 19.7%, Poland - by 17.8%, France - by 14.6%, Italy - by 3.9%, Romania - by 3.2%, Germany - by 2.7%, Austria - by 2.4%, and etc. At the same time decreased the visits from Czech Republic - by 20.7%, Belgium - by 10.9%, Greece - by 2.6%, and etc. The visits of foreigners in the group 'Other European countries' increased by 4.1%, as the highest growth was observed in the visits of citizens of Ukraine - by 32.5%. In September 2018, the predominant share of the visits with holiday and recreation purpose was 46.6%, followed by trips with other purposes - 39.2%, and with professional purpose - 14.2%. In September 2018 the most visits to Bulgaria were from: Germany - 184.0 thousand, Romania - 163.1 thousand, Turkey - 157.6 thousand, Greece - 97.0 thousand, Poland - 71.5 thousand, Serbia - 58.0 thousand, the United Kingdom - 53.9 thousand, Ukraine - 49.7 thousand, Russian Federation - 47.1 thousand, France - 45.9 thousand.

Total Visitors/Departures



The total revenues from nights spent in September 2018 reached BGN 164.2 million or by 7.6% yoy

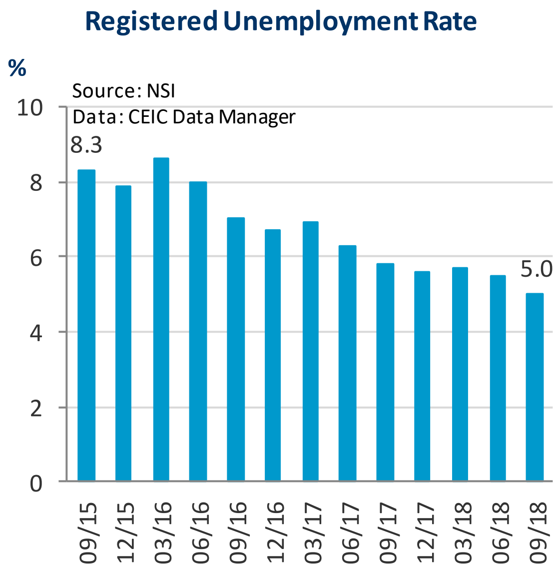
In September 2018, 2 841 accommodation establishments - hotels, motels, camping sites, mountain chalets and other establishments for short-term accommodation with more than 10 bed-places were functioned in the country. The total number of the rooms in them was 129.5 thousand and the bed-places were 292.4 thousand. In comparison with September 2017, the total number of accommodation establishments (functioned during the period) increased by 4.1% and the bed-places in them - by 2.4%. The total number of the nights spent in all accommodation establishments registered in September 2018 was 3 168.5

thousand, or by 2.6% more in comparison with the same month of the previous year, as the greatest increase (by 3.8%) was observed in 4 and 5 stars accommodation establishments. In September 2018, 73.5% of all nights spent by foreign citizens and 32.0% of all nights spent by Bulgarians were realized in 4 and 5 stars hotels. In 3 stars accommodation establishments were spent 21.1% of all nights by foreigners and 31.0% of all nights by Bulgarian residents, while in the rest of accommodation establishments (with 1 and 2 stars) they were 5.4% and 37.0% respectively. In September 2018, the number of arrivals in all accommodation establishments increased by 4.8% compared to the same month of 2017 and reached 835.8 thousand, as an increase was registered for foreigners by 7.8% and by 1.2% for Bulgarians. Bulgarians spent the nights in accommodation establishments in September 2018 were 365.7 thousand and spent 2.4 nights on the average. The arrivals of foreigners were 470.1 thousand, on average 4.8 nights, 71.9% of them spent nights in hotels with 4 and 5 stars. In September 2018, the total occupancy of the bed-places in accommodation establishments was 37.4%, remaining at the same level compared to September 2017. The highest was occupancy of the bed-places in 4 and 5 stars accommodation establishments - 50.5%, followed by 3 stars accommodation establishments - 32.2%, and with 1 and 2 stars - 20.1%. The total revenues from nights spent in September 2018 reached 164.2 million BGN or by 7.6% more compared to September 2017. An increase in revenues was registered from both foreigners - by 9.8% and Bulgarians - by 0.4%.

Unemployment

In Q3 of 2018, unemployment in Bulgaria declined to 5.0% and decreased by 0.8 percentage points on an annual basis

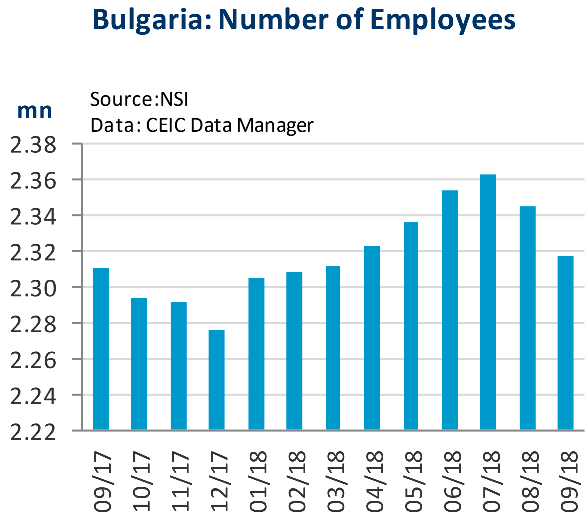
According to NSI data in Q3 of 2018, unemployment in Bulgaria fell to 5.0%, while on an annual basis it decreased by 0.8 percentage points. In Q2 of 2018 unemployment in our country fell to 5.5% and in Q1 2018 to 5.7%. For the period July-September 2018, the unemployment rate for men is 5.4% and for women 4.5%. The number of unemployed persons is 168.3 thousand, of which 97.2 thousand (57.7%) are men and 71.1 thousand (42.3%) - women. Of all persons without work, 2.3% have higher education, 4.3% have secondary education and 14.0% with basic and lower education. There is a declining share of long-term unemployed (one or more years). In Q3 2018 they were 105.2 thousand, or 62.5% of all unemployed. Of the total number of unemployed persons, 33.0 thousand, or 19.6%, are looking for the first job. Youth unemployment (people between 15-29 years of age) was 8.2% - by 1.7 percentage points lower than in the same quarter of 2017. For men, the unemployment rate is 8.8% and for women - 7.2%, decreasing by 1.5 and 2.2 percentage points respectively. Employment data in the country show that in the third quarter of 2018 the total number of employed aged 15 and over was 3.205 million, or 53.3% of the population aged 15 and over. In Q3 2018, more then 2 million people, or 62.6% of all employed, work in the service sector, 974.1 thousand (30.4%) work in the industry and 224.7 thousand (7.0%) in agriculture, forestry and fisheries. The employment rate for the population aged 15-29 is 41.9% (47.2% for men and 36.3% for women). Employment aged 20-64 was 73.5%, 77.6% for men and 69.3% for women respectively. Compared to Q3 2017, the employment rate (20-64 years) is higher by 0.5 percentage points, with the increase for men by 0.7 percentage points and for women by 0.3 percentage points. The employed persons aged 55-64 are 595.5 thousand, or 61.7% of the population in the same age group. Compared to the third quarter of 2017, the employment rate for the 55-64 year-old population increased by 1.3 percentage points.



Employees under Labour Contract

In Q3 2018 the average monthly wages and salaries decreased by 0.7% qoq and amounted BGN 1 117

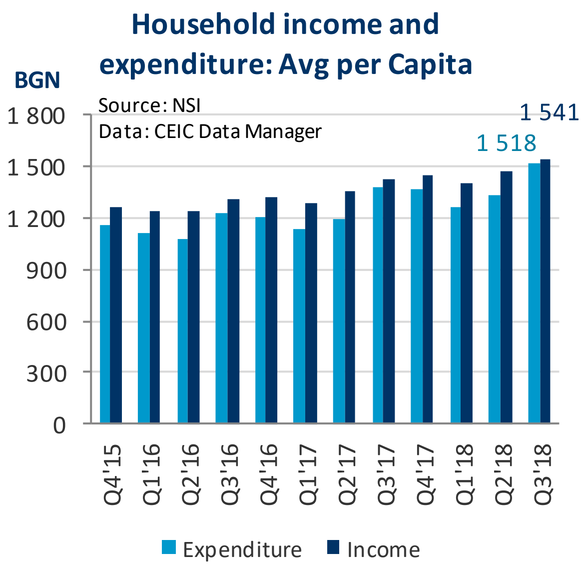
According to the preliminary NSI data at the end of September 2018 the number of employees under labour contract decreased by 36.9 thousand or 1.6% as compared to the end of June 2018 and reached 2.32 million. The highest decrease was observed in economic activities: "Accommodation and food service activities"- 14.8%, „Arts, entertainment and recreation" - 5.9% and in "Mining and quarrying" - by 2.3%. The highest increase of the number of employees was recorded in "Construction" - by 1.9% and "Education" - by 1.6%. In the structure of employees by economic activities the biggest relative share of employees was in 'Manufacturing' - 21.9% and "Wholesale and retail trade; repair of motor vehicles and motorcycles" - 16.9%. At the end of September 2018 as compared to September 2017 the number of employees under labour contract increased by 6.9 thousand or 0.3%. The highest increase in absolute figures was observed in economic activities 'Construction' - 7.0 thousand, 'Information and communication' - 4.2 thousand, and 'Human health and social work activities'- 2.6 thousand and the highest decrease - in 'Manufacturing'- 2.5 thousand. In percentages the highest increase at the end of September 2018 as compared to September 2017 was also in economic activity 'Construction' - by 5.7% and 'Information and communication' - by 5.0%, as the highest decrease was reported in 'Arts, entertainment and recreation' - by 4.4%. The average monthly wages and salaries of the employees under labour contract in July was BGN 1 120, in August - BGN 1 095 and in September 2018 – BGN 1 135.



Household Income, Expenditures and Consumption

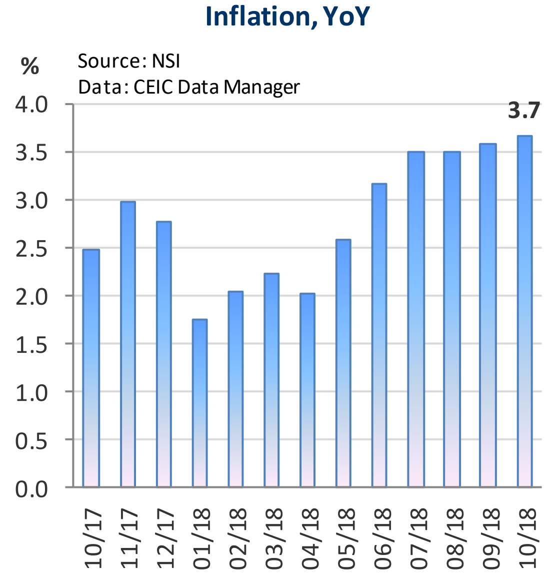
The total average income per household member in Q3 of 2018 was BGN 1,541 and increased by 7,7% yoy. The total average cost per person per household in the third quarter of 2018 is BGN 1,518 leva and increases by 9,8% yoy

The total income average per household member during Q3 2018 is BGN 1 541 and increases by 7.7% yoy. The highest relative share of income within the total income is this from wages and salaries (55.2%). The relative share of income from pensions is 27.3%, from self-employment - 7.7%. Compare to the third quarter of 2017 the relative share of income from wages and salaries increases by 0.8 percentage points (pp) and from pensions - by 1.4 pp. The share of income from self-employment remains unchanged. The nominal income by source average per capita changes during Q3 of 2018 compared to Q3 of 2017 changes as follows: Income from wages and salaries increases from BGN 778 to BGN 851 (by 9.4%); Self-employment income increases from 110 BGN to 119 BGN (by 8.4%); Income from pensions increases from BGN 371 to BGN 421 (by 13.4%); Income from social benefits decreases from BGN 43 to BGN 35 (by 19.9%). The relative share of monetary income into the total income during the third quarter of 2018 is 98.2% and the share of income in kind is 1.8%. The total expenditure average per household member during Q3 2018 is BGN 1 518 and increases by 9.8% yoy. Expenditure on food has the greatest share in forming the total expenditure - 30.1% as well as expenditure on housing - 16.5%, taxes and social insurance contributions - 12.3% and transport and communication - 11.7%.The relative share of housing expenditure decreases by 1.2 pp and share of transport increases by 0.5 pps compare to the third quarter of 2017. The expenditure by group average per capita changes as absolute values during the third quarter of 2018 compared to the same quarter of 2017 as follows: Expenditure on food and non-alcoholic beverages increases from BGN 416 to BGN 457 (by 9.8%); Expenditure on alcoholic beverages and tobacco increases from BGN 58 to BGN 60 (by 4.4%); Expenditure on housing (water, electricity, heating, furnishing and maintenance of the house) increases from BGN 245 to BGN 250 (by 1.9%); Expenditure on health increases from BGN 66 to BGN 73 (by 10.2%); Expenditure on transport and communication increases from BGN 155 to BGN 178 (by 14.6%); Expenditure on recreation, culture and education increases from BGN 87 to BGN 104 (by 19.8%); Expenditure on taxes and social insurance contributions increases from BGN 165 to BGN 187 (by 13.3%).



Inflation

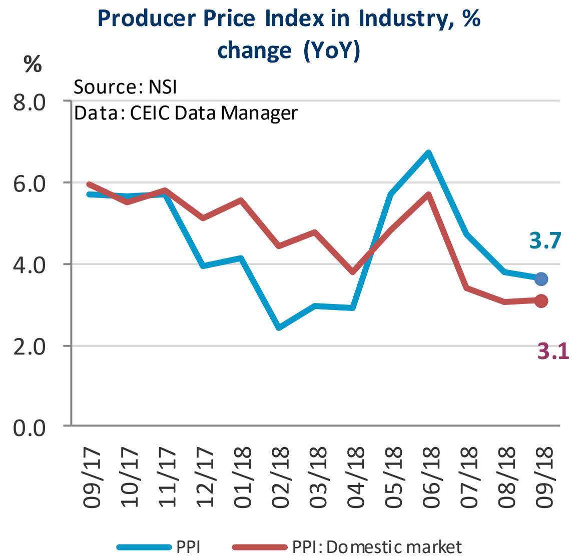
In September 2018, monthly inflation in Bulgaria was 0.7%, annual inflation reached 3.7% and the average annual rate was 2.8%



According to NSI data, the consumer price index for October 2018 compared to September 2018 is 100.7%, i.e. monthly inflation is 0.7%. Inflation from the beginning of the year (October 2018 versus December 2017) was 2.8% and annual inflation in October 2018 compared to October 2017 was 3.7%. The average annual inflation rate for the period November 2017 - October 2018 compared to November 2016 - October 2017 is 2.8%. The biggest increase in consumer prices on a monthly basis is in the categories of apparel and footwear (8.2%), entertainment and culture (4.7%), housing, water, electricity, gas and other fuels (0.8% various goods and services (0.6%) and alcoholic beverages and tobacco products (0.2%). Heat energy for heating water rose by 7.1%, while diesel fuel reported a price increase of 3.6%, and A95H car gasoline - by 3.3%. LPG is also more expensive for LTC - 3.3%, methane for LTC - by 2.9%, personal hygiene products - by 1.9%, cosmetics - by 1.1% and others. During the month under review, the largest decrease in prices of international non-food goods was recorded in non-food goods and services by 33.3%, short-stay services by 6.3%. In October 2018, the prices of medical and dental services increased by 0.4% and 0.2% respectively and drug prices declined by 0.1%. The Harmonized Index of Consumer Prices for October 2018 versus September 2018 is 100.2%, ie, monthly inflation is 0.2%. Inflation from the beginning of the year (October 2018 versus December 2017) was 2.6% and annual inflation in October 2018 compared to October 2017 was 3.6%. The average annual inflation rate for the period November 2017 - October 2018 compared to November 2016 - October 2017 is 2.5%.

Producer Price Index in Industry

Total Producer Price Index in September 2018 increased with 0.3% mom. Compared to the same month of 2017 the prices rose by 3.7%. Producer Price Index on Domestic Market in September 2018 increased by 0.3% mom. Compared to the same month of 2017 the domestic prices grew by 3.1%



Total Producer Price Index in Industry in September 2018 went up with 0.3% compared to the previous month. Higher prices were registered in the electricity, gas, steam and air conditioning supply the prises increased by 0.5% and in manufacturing by 0.3%, while in the mining and quarrying industry the prices decreased by 0.2%. In the manufacturing, while prices went down in the manufacture of basic metals by 1.2%, in the manufacture of rubber and plastic products by 0.5%. 3, more significant increase in prices were reported in the manufacture of chemicals and chemical products by 1.3%, as well as in the manufacture of wearing apparel by 1.0%. The Total Producer Price Index in September 2018 increased by 3.7% compared to the same month of 2017. The prices rose in the electricity, gas, steam and air conditioning supply by 4.2% and in manufacturing by 3.8%, while prices decreased in the mining and quarrying industry by 3.0%. In the manufacturing more significant increase in prices were seen in the manufacture of paper and paper products by 5.5%, in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials, in the manufacturing of chemicals and chemical products and in the manufacture of leather and related products - all by 4.7%. The producer prices dropped in the manufacturing of basic metals by 1.0%.

Producer Price Index on Domestic Market in September 2018 increased by 0.3% compared to the previous month. The domestic prices went up in manufacturing by 0.6% in the electricity, gas, steam and air conditioning supply by 0.3%, while the prices decreased in the mining and quarrying industry by 2.1%. In the manufacturing2, compared to the previous month the prices went up in the manufacture of chemicals and chemical products by 2.6%, in the manufacturing of wearing apparel by 1.3% and in the manufacture of furniture by 1.0%. The domestic prices went down in the manufacture of basic metals by 1.8%. Producer Price Index on Domestic Market in September 2018 increased by 3.1% compared to the same month of 2017. The prices rose in manufacturing and in the electricity, gas, steam and air conditioning supply - both by 3.5% and in the mining and quarrying industry the prices fell by 4.6%. In the manufacturing compared to September 2017 the prices went up in the manufacture of chemicals and chemical products by 7.2% and in the manufacture of paper and related products by 4.3%. A decrease in the prices was reported in the manufacture of basic metals by 2.4%.

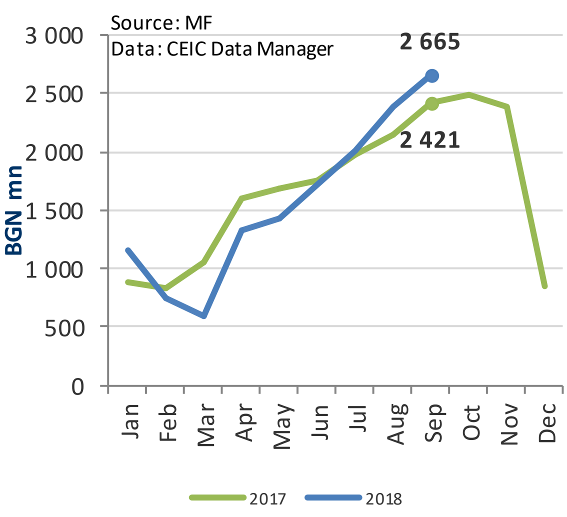
Producer Price Index on Non-domestic Market in September 2018 increased by 0.4% compared to the previous month. In the manufacturing the non-domestic prices remained unchanged. More significant price increase was reported in manufacture of wearing apparel by 0.9%, while prices went down in the manufacture of basic metals by 1.1%. Producer Price Index on Non-domestic Market in September 2018 increased by 4.5% compared to the same month of 2017. In the manufacturing, the prices went up by 4.1%. The non-domestic prices rose in the manufacture of paper and paper products by 7.7%, in the manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials by 6.0%, in the manufacture of leather and related products by 5.4%. The prices fell in the manufacture of furniture by 1.2% and in the manufacture of tobacco products by 1.1%.

FISCAL SECTOR

Budget Balance

In September 2018 Bulgaria' CFP balance on a cash basis is positive, amounting to BGN 2,664.5 million and presented 2.5% of forecasted GDP

Budget position



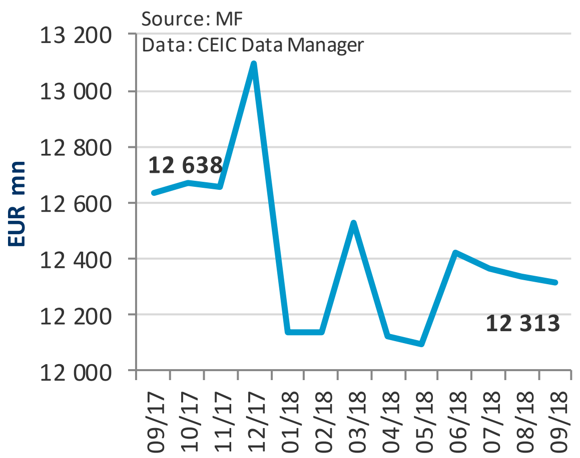
According MF data the CFP balance on a cash basis as of September 2018 is positive, amounting to BGN 2,664.5 million (2.5% of forecast GDP) and is formed by a surplus under the national budget of BGN 2,964.8 million and a deficit under EU funds of BGN 300.3 million. The CFP revenues and grants as of September 2018 stand at BGN 29,162.2 million, or 76.3% of the annual estimates. Compared to the same period of the previous year, tax and non-tax revenues have grown by BGN 2,723.8 million, or 10.9%, and grant proceed – by BGN 286.4 million, (27.3%). Tax proceeds, including revenues from social security and health insurance contributions, total BGN 23,988.4 million, which is 77.0% of the annual plans. Compared to the data for September 2017, tax revenues have risen by 9.8% (BGN 2,131.8 million) in nominal terms. Revenues from direct taxes amount to BGN 4,317.7 million, or 75.0% of the annual estimates, growing, as compared to same period of the previous year, by BGN 432.5 million (11.1%). Indirect tax revenues amount to BGN 11,838.2 million, or 78.1% of the annual plans. Compared to the data for September 2017, revenues in this group have grown by BGN 809.9 million (7.3%). The VAT proceeds amount to BGN 7,720.1 million, or 78.9% of the plan. The amount of the non-refunded VAT as of 30.09.2018 is BGN 65.8 million. The excise duty revenues amount to BGN 3,915.0 million, (76.0% of the annual estimates). Custom duties revenues are BGN 175.5 million or 92.3% of the annual plan. Proceeds from other taxes, including property taxes and other taxes under the Corporate Income Tax Law, amount to BGN 886.8 million, or 80.8% performance of the annual estimates. Revenues from social security and health insurance contributions are BGN 6,945.7 million, or 76.1% of those planned for the year. Compared to the same period of the previous year these revenues have risen by 13.4% (BGN 818.2 million) in nominal terms. Non-tax revenues amount to BGN 3,837.8 million, or 81.6% of the annual estimates. Proceeds from grants amount to BGN 1,336.0 million. The expenditures under the CFP, including the contribution of the Republic of Bulgaria to the EU budget, amount to BGN 26,497.7 million as of September 2018, which is 67.4% of the annual estimates. For comparison, the expenditures for the same period of the previous year were to the amount of BGN 23,731.6 million. The nominal growth is due both to the higher expenditures under the national budget and to the increase in expenditures under the EU funds accounts. The growth of expenditures under the national budget is mostly due to the higher health insurance and social payments (a baseline effect on expenditures on pensions from their increase as from July 2017 and the two-step increase of the minimum pension in 2017 – as from July and October, as well as the new increase of pensions as from July 2018), the higher staff costs mostly resulting from the increase in the remuneration of pedagogical staff within the secondary education, etc., while for EU funds accounts it is capital expenditures that mainly increase. Non-interest expenditures amount to BGN 25,073.5 million, which is 67.3% of the annual plans. Non-interest current expenditures as of September 2018 amount to BGN 22,893.3 million, and capital expenditures (including net increment of state reserve) amount to BGN 2,139.2 million. The current and capital transfers to other countries amount to BGN 41.0 million. Interest payments amount to BGN 601.2 million, or 83.2% of those planned for 2018. The part of Bulgaria's contribution to the EU budget, paid from the central budget as of 30.09.2018, amounts to BGN 822.9 million, which complies with the current legislation in the area of EU own resources. Fiscal reserve as of 30.09.2018 is BGN 11.2 billion, including BGN 11.0 billion fiscal reserve deposits in BNB and banks and BGN 0.2 billion receivables under the EU Funds for certified expenditure, advance payments, etc.

Central Government Debt

At the end of September 2018, the Central government sub-sector debt amounted to EUR 12,312.8 million and accounts for 22.3% of projected GDP

According MF data Central government debt stands at EUR 12,312.8 million as at end-September 2018. Domestic debt amounts to EUR 3,210.5 million and external debt – to EUR 9,102.3 million. At the end of the reporting period the central government Debt-to-GDP ratio is 22.3%, with the share of domestic debt being 5.8% and of external debt – 16.5% of GDP. In the central government debt structure, at the end of the period domestic debt amounts to 26.1%, and external debt – to 73.9%. As of 30 September 2018, central government guaranteed debt amounts to EUR 93.8 million. Domestic guarantees amount to EUR 34.9 million and external guarantees – to EUR 58.9 million. The central government guaranteed debt/GDP ratio is 0.2%. According to the official register of government and government guaranteed debt kept by the Ministry of Finance on the grounds of Article 38(1) of the Government Debt Law, at end-September 2018 government debt reaches EUR 11,389.3 million, or 21.1% of GDP. Domestic debt amounts to EUR 2,887.5 million and external debt – to EUR 8,501.8 million. Government guaranteed debt amounts to EUR 959.9 million in September 2018. Domestic guarantees amount to EUR 34.9 million, with the government guaranteed debt-to-GDP ratio being 1.8%.

Central Goverment Debt



The international rating agency Fitch has affirmed Bulgaria's long-term foreign and local currency credit ratings at "BBB", outlook stable. The short-term foreign and local currency credit ratings have also been affirmed at "F2"

The ratings are supported by the sound external and public finances and the credible policy framework aimed towards gradual accession to Eurozone membership. The ratings are constrained by lower income levels compared with the current "BBB" median and demographic challenges which could constrain growth and weigh on government finances over the long term. The agency expects the economic growth in 2018 to remain close to the one reported last year, at 3.7%, before slowing to 3.5% in 2019 and 3.0% in 2020. Domestic demand would be supported by the policy of increasing public and minimum wages as well as by the expected acceleration of the absorption of EU funds. The agency has revised upwards its forecast for the annual average inflation to 3% in 2019, from 2.8% in 2018. The rating agency points out that the monetary policy operates under the conditions of a credible currency board arrangement against the euro. According to the estimates of Fitch, Bulgaria's net foreign assets (2018F: 33% of GDP) and external liquidity ratio (2018F: 343%) are high compared with the "BBB" median of 5.3% and 143.7%, respectively, and will remain key credit strengths over the forecast period. In the area of public finances, Bulgaria is also ahead of its peers. Fitch expects the positive budget balance to be preserved and to be 0.5% of GDP at end-2018; it also expects an average deficit of 2.4% for the other countries with a "BBB" rating. Government debt levels also remain far lower than both the average ones for the countries with the same rating and most other EU member states. For the forecast period, the agency expects the public debt to continue to decline, dropping to 19.5% in 2020. According to the experts, Bulgaria's external finance metrics outperform the majority of its "BBB" peers. They also point to the improved competitiveness and current account surplus. The main factors that could, individually or collectively, lead to positive rating action are: stronger medium-term GDP growth potential; progressive convergence towards income levels of higher rated peers; progress towards Eurozone accession. The main factors that could, individually or collectively, lead to negative rating action are: re-emergence of external imbalances and/or deterioration of competitiveness; fiscal deficits that result in deterioration of the public debt trajectory; materialization of contingent liabilities of state-owned enterprises on the sovereign's balance sheet.

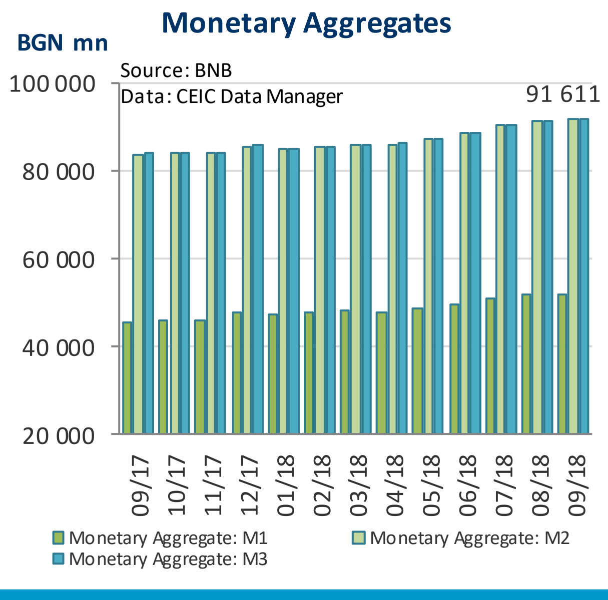
On 21 November 2018 the European Commission released the 2019 Annual Growth Survey (AGS) and the Alert Mechanism Report (AMR) for 2019

AGS states that efforts at national level should focus on delivering high-quality investment and on reforms that increase productivity growth, inclusiveness and institutional quality, continuing to ensure macro-financial stability and sound public finances. The Union level priorities are related to deepening of the Single Market, accomplishing of the Economic and Monetary Union and making progress on the principles proclaimed in the European Pillar of Social Rights. The Alert Mechanism Report identifies 13 Member States for which IDRs are to be prepared compared to 12 in the previous year. For the first time this year this group includes Romania and Greece, which was previously excluded from MIP surveillance because it was subject to a macroeconomic adjustment programme in the context of financial assistance. According to the updated scoreboard, Bulgaria needs to be examined further with regard to three indicators, namely the net international investment position (NIIP), nominal unit labour cost growth and real house price growth. The dynamics of these three indicators and the accompanying changes in the complementary indicators have marked a generally positive development in 2018. The current account surplus further increased in 2017, while the negative NIIP mainly reflects FDI has improved further. Unit labour cost growth increased markedly in 2017, but the real effective exchange rate remained broadly stable and there were some gains in export market shares. High corporate debt continues to be a concern, although the debt ratio has gradually decreased over the last few years, in part due to the robust nominal GDP growth. Credit flows are picking up again, which will support higher private investment and stronger potential growth. The ratio of non-performing loans, albeit high, in particular for the corporate sector, continues decreasing. Like the developments in some other Member States, real house prices have increased fast and construction and mortgage credit have also picked up. Following positive cyclical developments, unemployment decreased further, notably for youth and long-term unemployed and activity rates improved.

MONETARY SECTOR

In September 2018, broad money (M3) amounted to BGN 91.611 billion (88.7% of GDP) and increased by 9.5% on an annual basis. Domestic credit amounted to BGN 56.129 billion and grew by 7.2% compared to August 2017

In September 2018 broad money (monetary aggregate M3) increased annually by 9.2% compared to 9.5% yoy growth in August 2018. At the end of September 2018 M3 was BGN 91.611 billion (88.7% of GDP) compared to BGN 91.432 billion (88.6% of GDP) in August 2018. Its most liquid component – monetary aggregate M1 – increased by 13.5% yoy in September 2018 (14% yoy growth in August 2018). At the end of September 2018, deposits5 of the non-government sector6 were BGN 76.325 billion (73.9% of GDP), increasing annually by 7.7% (8% yoy growth in August 2018). Deposits of Non-



financial corporations were BGN 23.853 billion (23.1% of GDP) at the end of September 2018. Compared to the same month of 2017 they increased by 13% (13.8% annual growth in August 2018). Deposits of financial corporations decreased by 21.7% yoy in September 2018 (22.5% annual decline in August 2018) and at the end of the month they reached BGN 2.655 billion (2.6% of GDP). Deposits of Households and NPISHs were BGN 49.817 billion (48.2% of GDP) at the Net domestic assets were BGN 55.188 billion at the end of September 2018. They increased by 7.8% compared to the same month of 2017 (8.4% annual growth in August 2018). At the end of the month their basic component – domestic credit – was BGN 56.129 billion and increased by 7.2% compared to September 2017 (8.1% annual growth in August 2018). In September 2018 claims on the non-government sector increased by 7.9% yoy (8.2% yoy increase in August 2018) reaching BGN 58.253 billion. At the end of September 2018, claims on loans to the non-government sector amounted to BGN 56.705 billion (54.9% of GDP) compared to BGN 56.496 billion (54.7% of GDP) at the end of August 2018. They increased by 7.4% yoy in September 2018 (7.6% yoy growth in August 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 end of September 2018. They increased by 7.3% compared to the same month of 2017 (7.6% annual growth in August twelve months was BGN 97.9 million. On an annual basis, loans sold by Other MFIs were BGN 124.8 million (of which BGN 25.5 million in September 2018), while the amount of repurchased loans was BGN 26.9 million (there were no loan repurchases in September 2018). In September 2018, loans to Non-financial corporations increased by 4% yoy (4.2% yoy growth in August 2018) and at the end of the month amounted to BGN 32.550 billion (31.5% of GDP). Loans to Households and NPISHs were BGN 21.417 billion (20.7% of GDP) at the end of September 2018. They increased by 9.7% compared to the same month of 2017 (10.2% yoy growth in August 2018). At the end of September 2018 loans for house purchases were BGN 10.227 billion and increased by 9.9% yoy (9.6% yoy growth in August 2018). Consumer loans amounted to BGN 8.934 billion and compared to September 2017 they increased by 15.4% (15.4% yoy growth in August 2018). On an annual basis other loans9 decreased by 16.9% (10.4% annual decline in August 2018) and reached BGN 911.5 million. Loans granted to financial corporations were BGN 2.738 billion at the end of September 2018 (2.7% of GDP). Compared to September 2017, they increased by 37.2% (35% annual growth in August 2018).

CAPITAL MARKET

In October 2018, all stock indices on BSE-Sofia reported a decline: SOFIX reported a drop to 596.81 points. Equally weighted BG TR30 reported a decline of 4.04% to 499.33 points. Property manager BGREIT declined by 0.48% to 117.23 points. The index of the most liquid companies BGBX 40 reported a decline of 4.02% to 117.03 points

According to BSE "Sofia" in October 2018, the main index of BSE-Sofia reported a decrease of 4.42% to 596.81 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 reported a decline of 4.02% to 117.03 points. The measure dropped 0.29% to 121.93 in September, while in August it lost 0.34% to 122.28 points. Equally weighted BG TR30 reported a decline of 4.04% to 499.33 points. The measure went down by 0.24% to 520.34 in September, while in August it lost 0.74% to 521.61 points. Property manager BGREIT declined 0.48% to 117.23 in October. The index increased by 0.61% to 117.79 in September, while in August it rose 1.05% to 117.08 points. Turnover in October 2018 is BGN 8 401 884 and is higher than in September, when transactions with SOFIX issues amounted to BGN 6 328 635. In October transactions for over BGN 1 million were realized by three companies: Chimimport (BGN 2 523 448), Advance Terrafund REIT (BGN 1 219 031) and Sopharma (BGN 1 001 989), as well as during the tenth month of last year, when also three companies reported a monthly turnover of more than one million leva. The top five is supplemented by CB Central Cooperative Bank (979 990 BGN) and Real Estate Bulgaria REIT (920 220 BGN). In October 2018, Sopharma retained the leading position by mar-

Bulgarian Stock Exchange Indexes on Monthly Basis

Date	SOFIX	BGBX40	BGREIT	BGTR30
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
10.2018	596.8	117.0	117.2	499.3

Source: Bulgarian Stock Exchange-Sofia

ket capitalization (BGN 508 188 079), followed by Chimimport (BGN 481 688 997). As in September, First Investment Bank (385 000 000 BGN), Eurohold Bulgaria (319 003 844 BGN) and M + S Hydraulics (BGN 311 617 080) were added to the top five in SOFIX after September 25 five Holdings, with Holding Varna (+ 1.62%) and Sirma Group Holding (0.71%) and three at a loss - Trace Group Hold (-2.41%), Stara Planina Hold (-3.68%) and Eurohold Bulgaria (-0.92%). The company with the highest turnover for October 2018 is Galata Investment Company AD, with a volume of BGN 3 017 000. The second place is 235 Holdings AD with a total amount of BGN 2 980 875. In the list there are three representatives of the special purpose vehicles. With the smallest number of concluded deals in the ranking are 235 Holdings AD and Velgraf Asset Management AD, and with the largest Sopharma AD, Chimimport AD and CB Central Cooperative Bank AD. The most profitable company in October 2018 was Svetlina AD, which achieved a growth of 72.41%. The second place is Northcoop Gamza Holding AD, followed by Active Properties REIT with a growth of 8.60%. The last two companies in the ranking are one-digit growth, respectively Investor.BG AD with a growth of 3.57% and Exclusive Property REIT with a growth of 3.53%. Top 5 of the losers in October 2018 is headed by Park REIT with a decline of 21.05%. Second place is Zarneni Hrani Bulgaria AD with a decrease of 16.67%. The other three companies in the ranking also scored two-digit declines.

BANKING SECTOR

At the end of September 2018, the assets of the banking system reached BGN 103.2 billion, increasing by 0.2% mom and by 8.5% yoy, respectively, which is mainly formed by the balance sheet total of loans and advances

According to BNB data, the aggregate net profit of the banking system amounted to BGN 1.2 billion and increased by 12.1% mom and by 39.9% yoy, respectively. The impairment costs of financial assets not reported at fair value through profit or loss for the period January - September 2018 are BGN 348 million (compared to BGN 549 million a year earlier).

Indicator (BGN'000)	30.09. 2017	30.09. 2018	Change Y/Y (%)
Interest Income	2 295 982	2 263 830	-1.4
Interest Expence	284 767	223 606	-21.5
Net interest Income	**2 011 215**	**2 040 224**	**1.4**
Impairment	548 986	347 597	-36.7
Fee and commission income	851 082	920 113	8.1
Fee and commission expenses	110 439	132 955	20.4
Net fee and commission income	**740 643**	**787 158**	**6.3**
Administration costs	1 180 940	1 246 519	5.6
Personal cost	590 572	634 788	7.5
Total operating income, net	2 851 143	3 072 366	7.8
Net Profit	**871 772**	**1 219 628**	**39.9**

Source: BNB, Calculations: UBB

By the end of September 2018, the banking system's assets reached BGN 103.2 billion, increasing by 0.2% mom and by 8.5% yoy, which is mainly formed by the balance sheet total of loans and advances. Their relative share in GDP is 97.5%. In the gross credit portfolio (excluding loans and advances to the central banks and credit institutions), all types of receivables increase and exceed BGN 60.3 billion (57.0% of GDP). Loans to non-financial corporations and households were respectively 0.2% on a monthly basis and 3.9% on an annual basis to BGN 34.8 billion. Receivables from the general government sector increased by 0.2% mom and by 15.5% yoy, respectively to BGN 717 million, and those from other financial corporations - by 2.2% mom and 38.3% yoy to BGN 3.1 billion. Housing loans increased by 0.7% mom and by 14.1% yoy to BGN 10.5 billion. Consumer loans reported a monthly decline of 0.3% and annual growth of 11.6% to BGN 10.2 billion. At the end of September 2018 deposits from customers increased by 0.3% mom and by 8.6% yoy and exceeded BGN 83.2 billion. Their relative share in GDP is 78.8%, at a rate similar to that reported in the previous quarter. Deposits to companies amounted to BGN25.8 billion and remained at the level of the previous month, accounting for 11.8% growth on an annual basis. Household deposits amounted to BGN 51.8 billion, increasing by 0.4% mom and by 7.8% yoy, respectively.

Bulgaria Intermediation Indicators	30.09.2017 BGN'000	31.12.2017 BGN'000	31.08.2018 BGN'000	30.09.2018 BGN'000	Change m/m (%)	Change y/y (%)	Change yend (%)	Share in GDP (%)
BANKING SYSTEM TOTAL ASSETS	**95 112 404**	**95 850 484**	**103 004 025**	**103 191 046**	**0.2**	**8.5**	**7.7**	**95.4**
Loans to central governments	621 361	614 592	716 337	717 423	0.2	15.5	16.7	0.7
Loans to non-financial corporations	33 464 761	33 516 791	34 715 905	34 781 832	0.2	3.9	3.8	32.2
Loans to financial corporrations	2 263 932	2 352 930	3 064 359	3 131 871	2.2	38.3	33.1	2.9
Retail loans, incl.:	19 731 927	19 972 030	21 684 019	21 702 111	0.1	10.0	8.7	20.1
Mortgage loans	9 203 547	9 444 146	10 423 516	10 498 118	0.7	14.1	11.2	9.7
Consumer loans	9 147 200	9 264 095	10 235 688	10 207 797	-0.3	11.6	10.2	9.4
Micro credits and other loans	1 381 180	1 263 789	1 024 815	996 196	-2.8	-27.9	-21.2	0.9
TOTAL LOANS	**56 081 981**	**56 456 343**	**60 180 620**	**60 333 237**	**0.3**	**7.6**	**6.9**	**55.8**
ATRACTED SOURCES FROM CLIENTS, incl.:	**76 633 134**	**76 747 619**	**83 220 001**	**83 235 637**	**0.0**	**8.6**	**8.5**	**77.0**
Local government deposits	1 865 308	1 824 421	2 862 103	2 749 288	-3.9	47.4	50.7	2.5
Non-financial corporations deposits	23 071 838	23 709 705	25 790 344	25 795 216	0.0	11.8	8.8	23.9
Financial corporations deposits	3 676 872	2 842 120	2 969 086	2 910 837	-2.0	-20.8	2.4	2.7
Households and NPISHs deposits	48 019 116	48 371 373	51 598 468	51 780 296	0.4	7.8	7.0	47.9
Equity	12 262 779	12 468 136	12 358 686	12 486 303	1.0	1.8	0.1	11.5
Net profit (annualised)	871 772	1 088 190	1 087 961	1 219 628	12.1	39.9		
BANKING INDICATORS (%)								
ROE	9.5	9.5	13.2	13.0	-0.2	3.5	3.5	
ROA	1.2	1.2	1.6	1.6	0.0	0.4	0.3	
Capital adequacy	22.20	22.1	n.a.	n.a	n.a	n.a	n.a	
Liquidity coverage(%)	n.a.	n.a	349.2	322.2	-27.0	n.a	n.a	
NPL	9.90	10.2	n.a.	8.5	n.a	-1.4	-1.7	
GDP	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

As of the end of September 2018, the trend of decreasing the size and the share of non-performing loans and advances continues. At the end of the period the gross amount of non-performing loans and advances in the banking system amounted to BGN 7396 million and its share in the total amount of gross loans and advances decreased to 8.5% (9.1% at the end of June 2018 and 11% at the end of September 2017). The net value of non-performing loans and advances (after deducting the inherent for this classification impairment category) declined in the quarter to BGN 3394 million and accounted for 4.1% of the total net value of loans and advances (at 4.4% June 2018).

Non-performing loans Total	Gross book value / nominal value					Cumulative impairment, accumulated negative changes in fair value due to credit risk and provisions	Non-performing loans	Relative share of non-performing loans (%)
		Performed	Non-performed				> 90 days	
			Unlikely to be repaid, without arrears or overdue ≤ 90 days	Overdue > 90 days <= 180 days	Overdue > 180 days			
Loans and Advances	**87 412 235**	**80 016 003**	**2 103 115**	**388 135**	**4 904 982**	**-4 646 230**	**5 293 117**	**6.1**
Central banks	13 522 029	13 522 029	0	0	0	-223	0	0.0
General governments	717 423	712 360	3 568	110	1 385	-5 303	1 495	0.2
Credit Institutions	13 552 467	13 548 031	0	0	4 436	-8 790	4 436	0.0
Other financial corporations	3 131 871	3 054 448	6 338	0	71 085	-66 759	71 085	2.3
Non-financial corporations	34 786 334	29 515 955	1 530 924	225 264	3 514 191	-3 131 394	3 739 455	10.7
Retail Eexposures, including	21 702 111	19 663 180	562 285	162 761	1 313 885	-1 433 761	1 476 646	6.8
Of which: Loans secured by residential property	10 498 117	9 528 922	314 399	70 225	584 571	-462 535	654 796	6.2
Of which Consumer Loans	10 207 798	9 292 473	236 863	89 948	588 514	-840 113	678 462	6.6

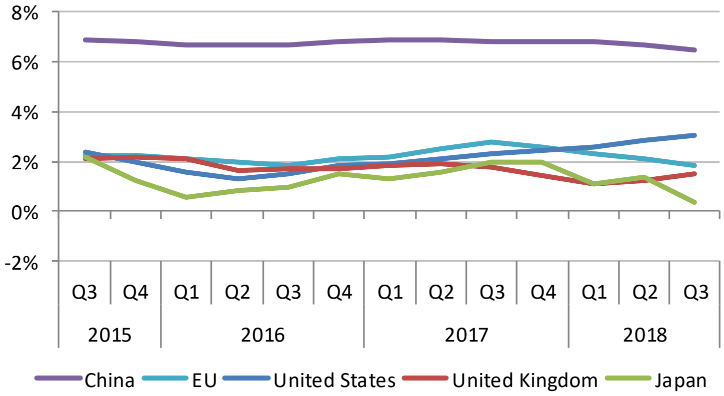
Source: BNB, Calculations: UBB

The liquidity buffer of the banking system amounted to BGN 26.0 billion at the end of September 2018, marking an increase of BGN 1.4 billion (5.8%) compared to June 2018. The liquidity coverage ratio reached 322.2%.

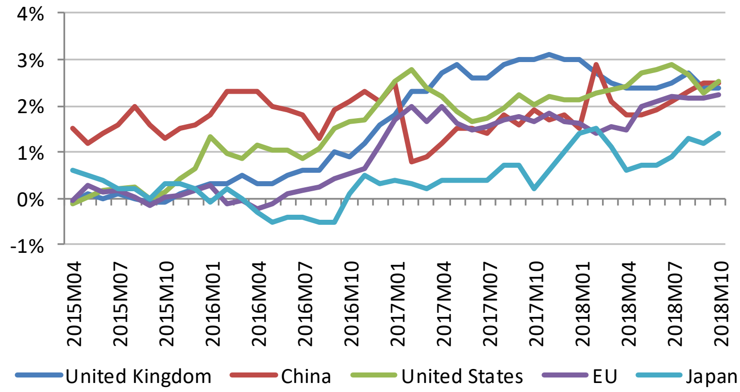
The amount of equity in the banking system's balance sheet amounted to BGN 12.5 billion at the end of September 2018, rising by 1% mom and by 1.8% yoy due to the increase in profits.

Appendix

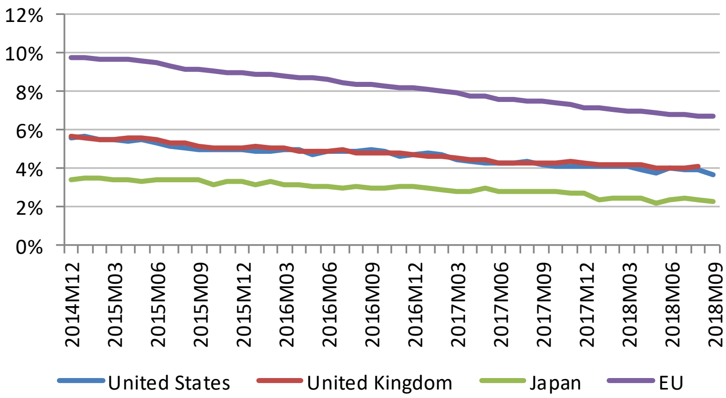
Advanced Economies: GDP growth rate compared to the same quarter of the previous year



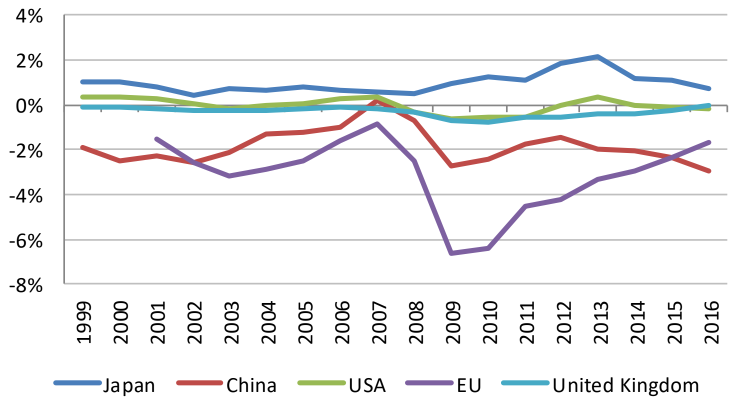
Advanced economies: Inflation by country, monthly (y/y)



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

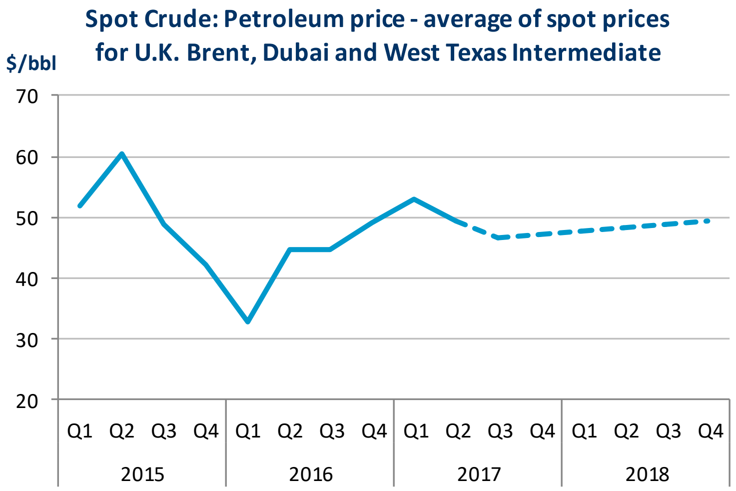


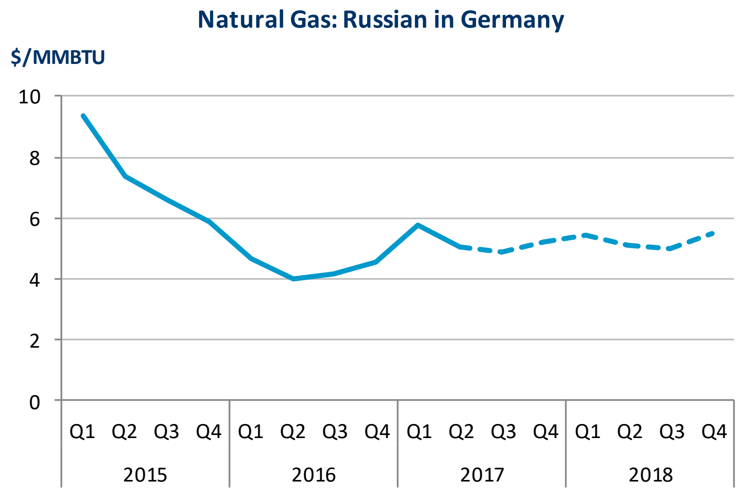
Advanced economies: Budget surplus/deficit to GDP (%)

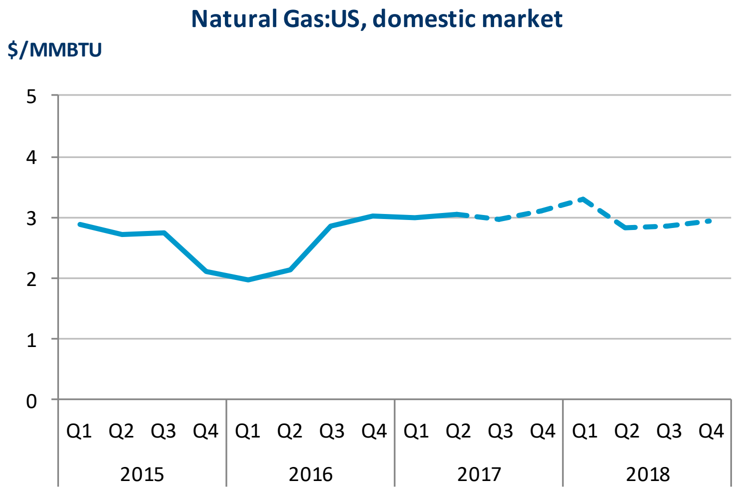


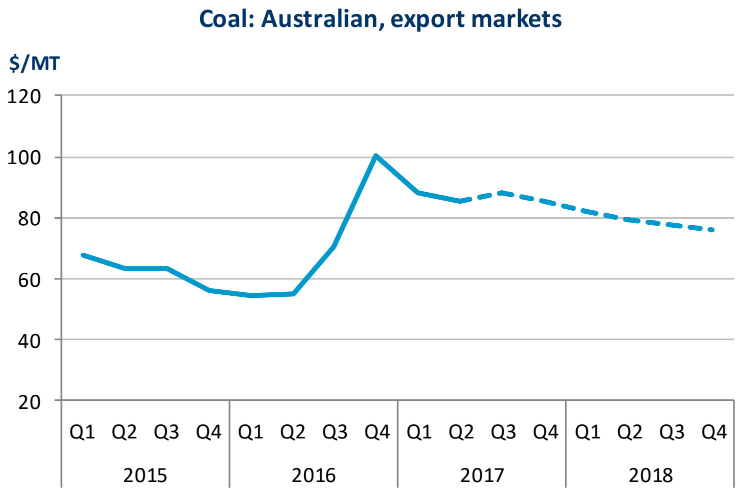
Source: IMF

Overseas Prices of Oil Products



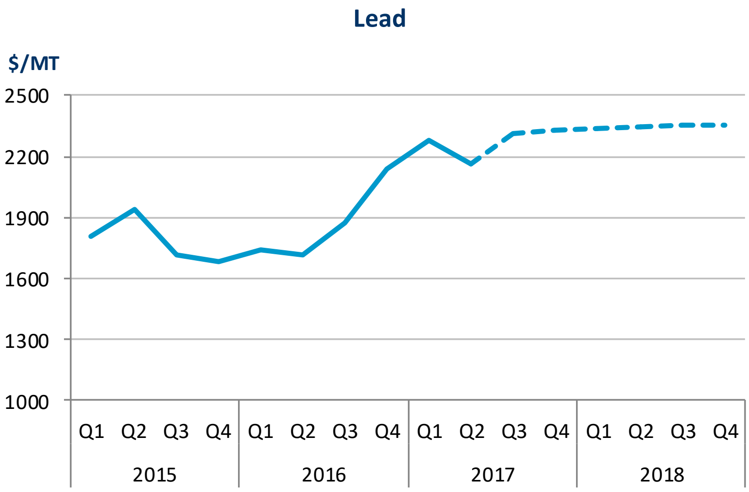


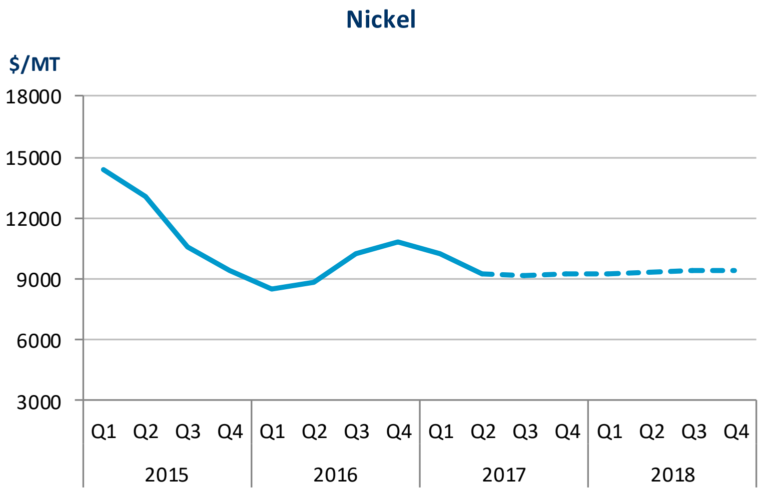


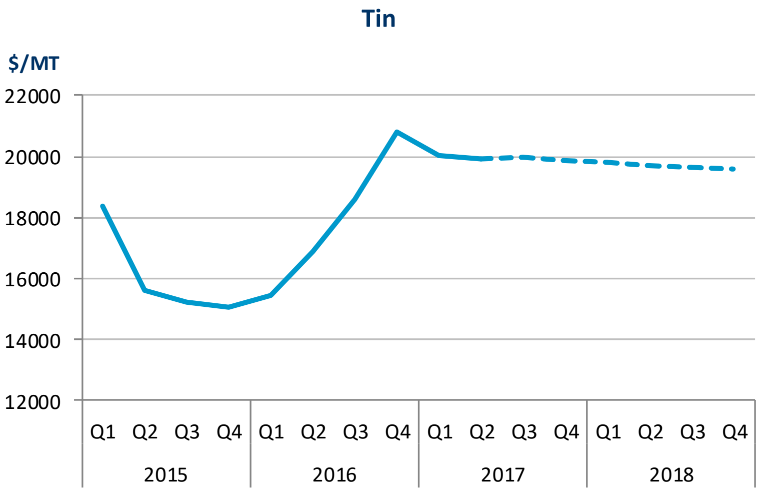


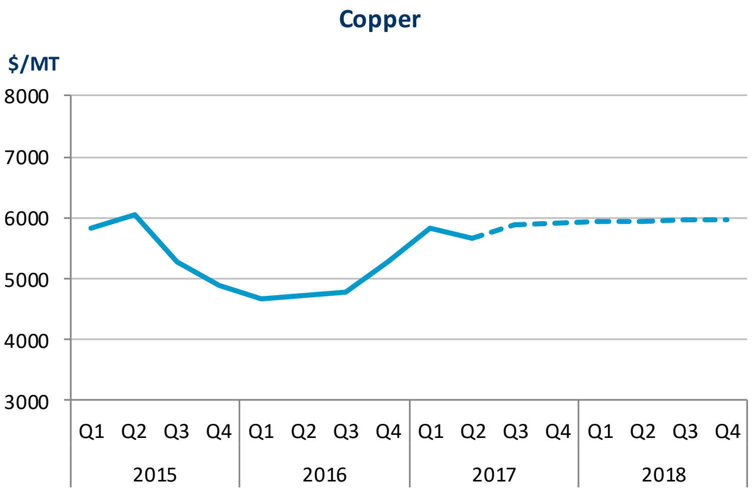
Source: IMF

Overseas Prices of Metals



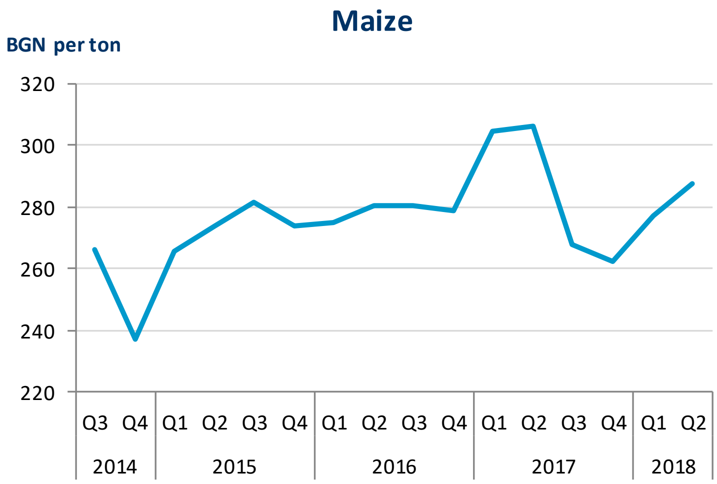


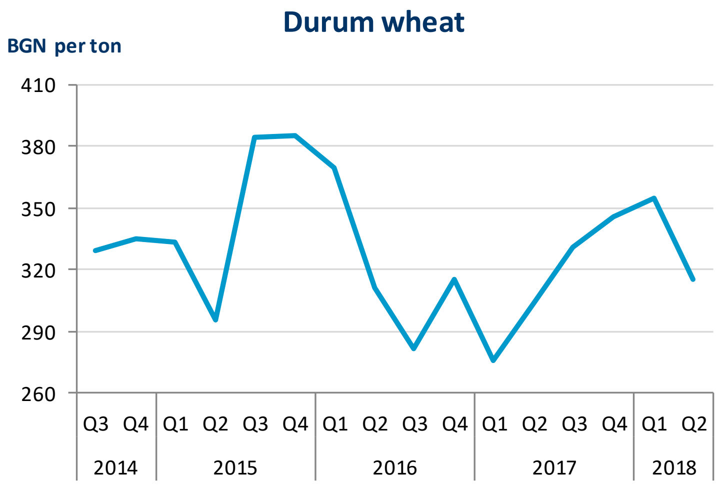


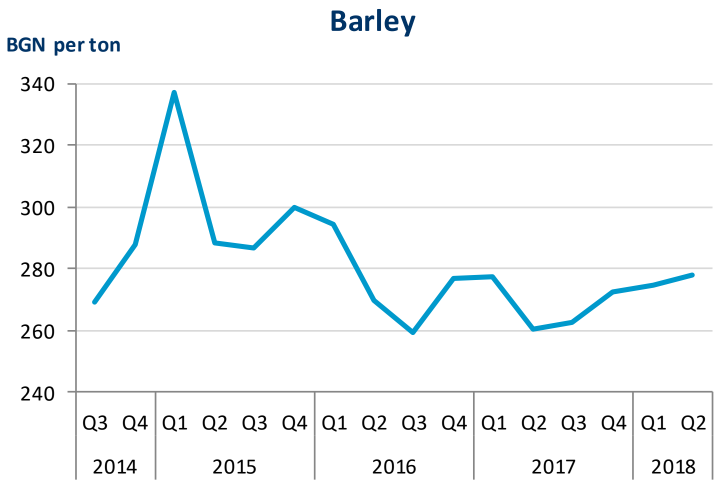


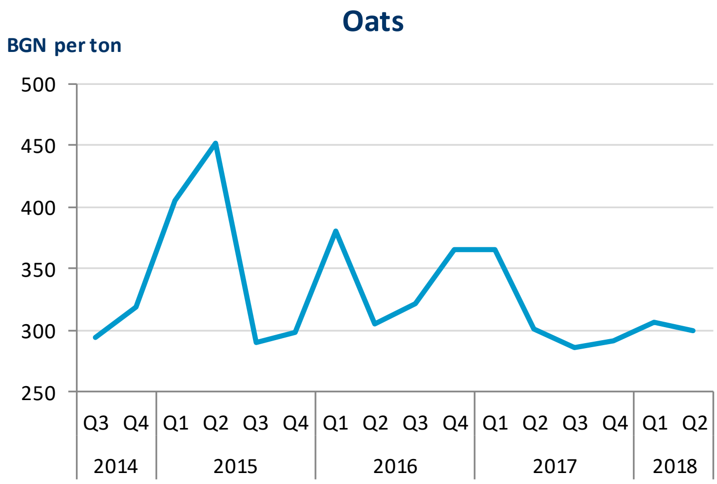
Source: IMF

Bulgaria: Prices of Agriculture products



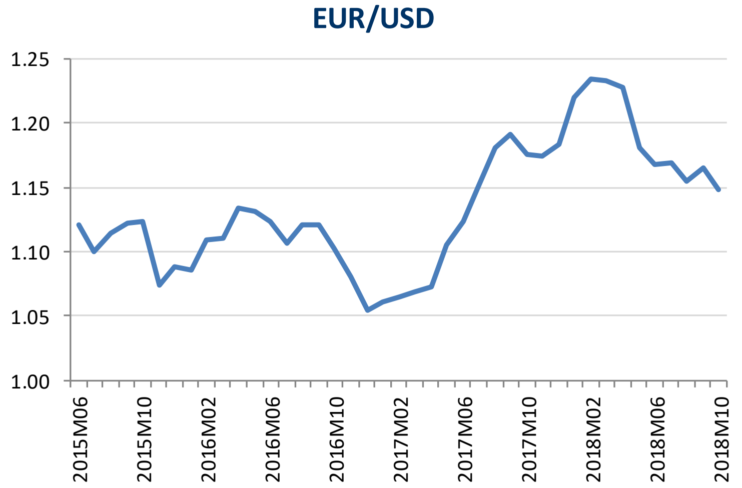


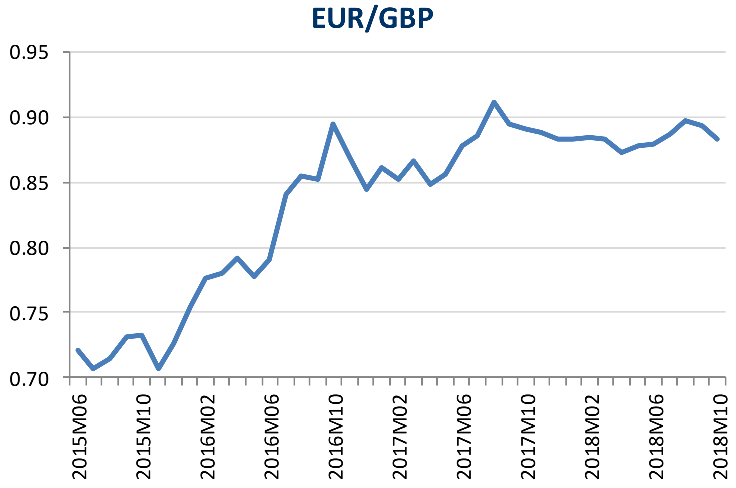


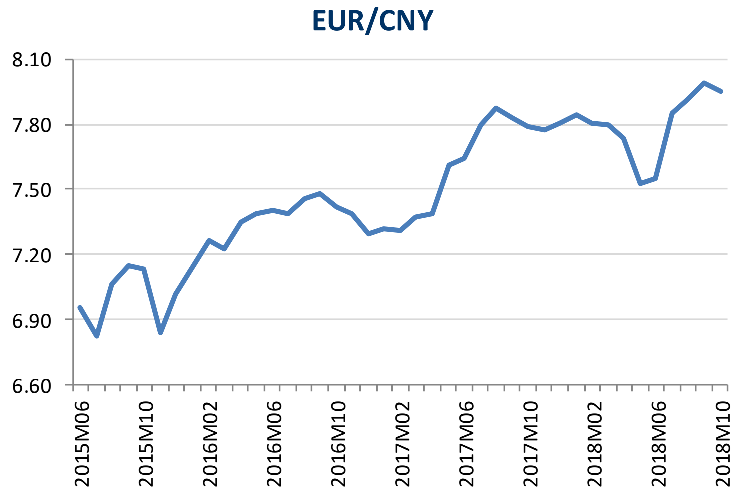


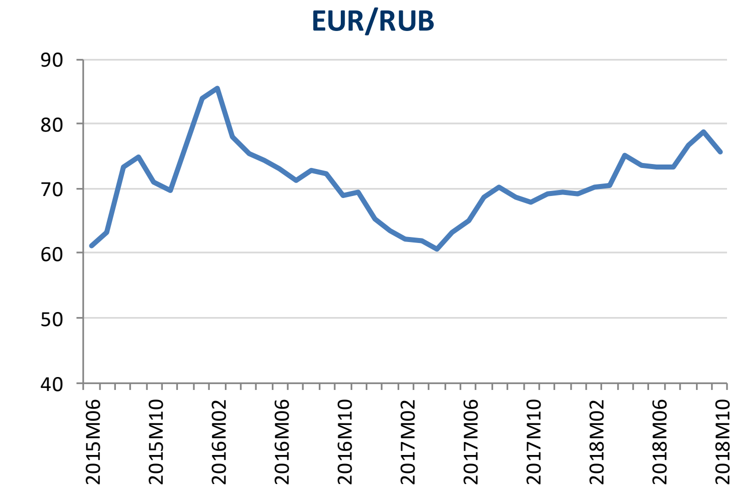
Source: NSI

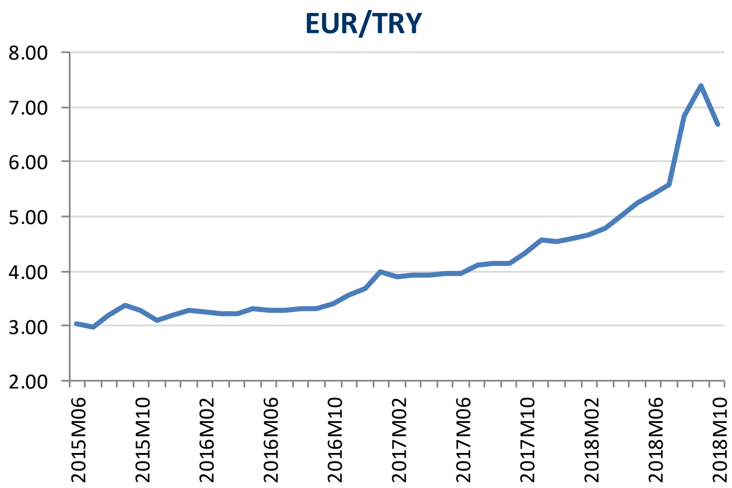
Overseas FX Rates

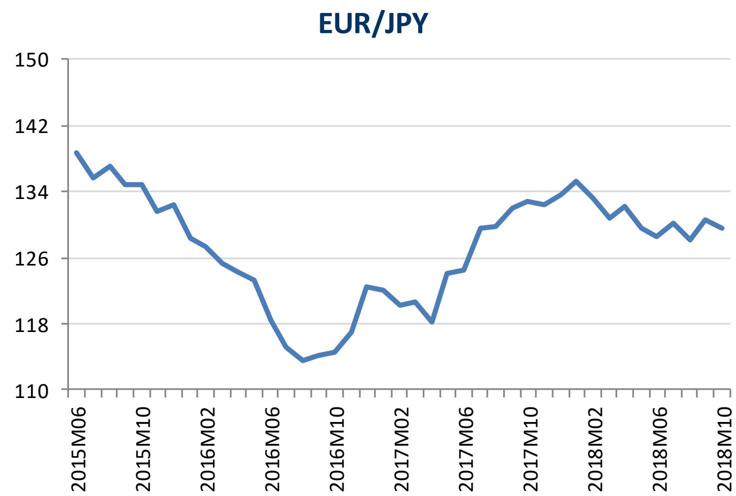






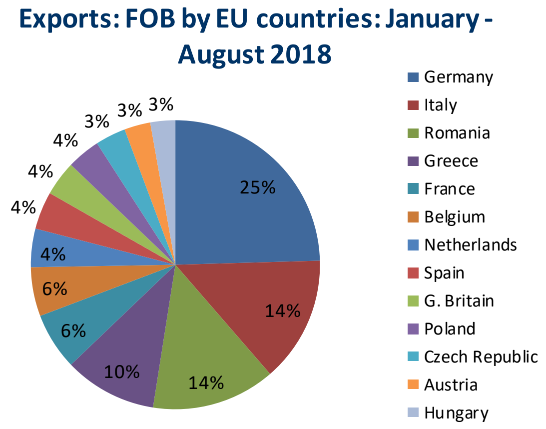


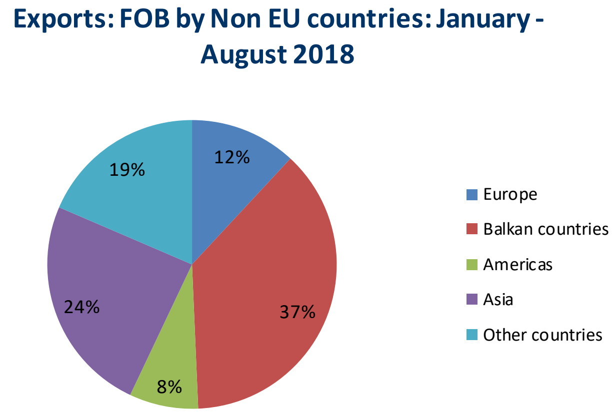


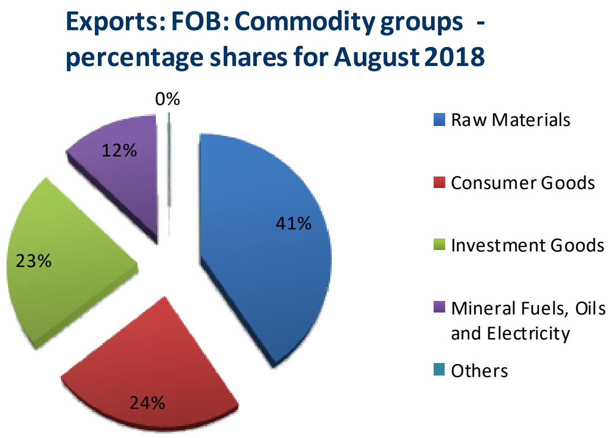


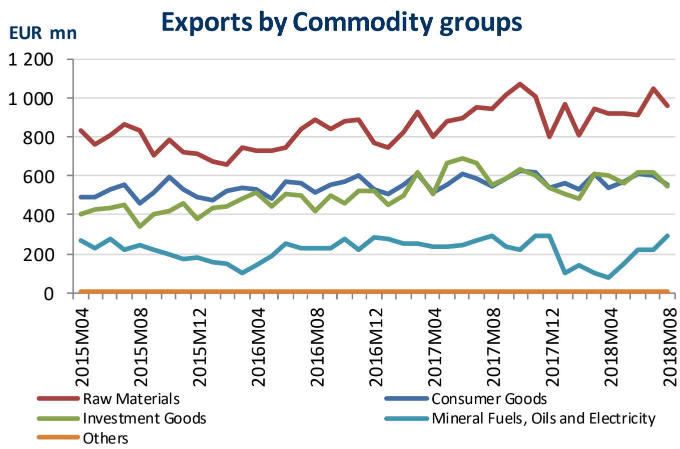
Source: ECB

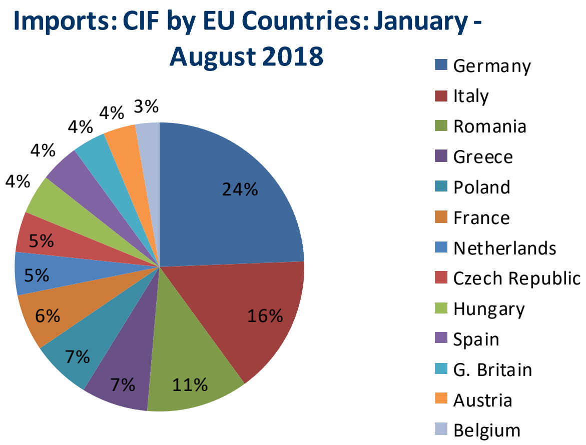
Bulgaria: External Sector Indicators

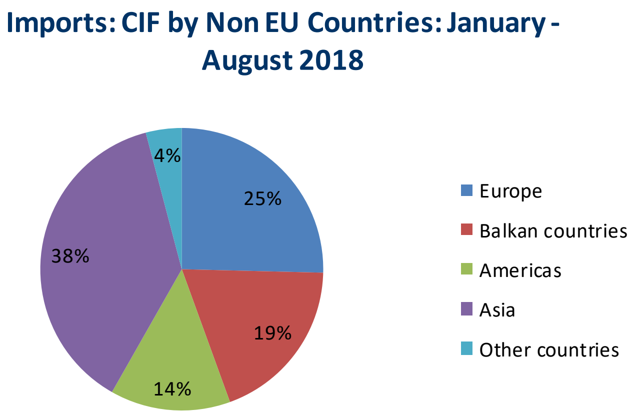


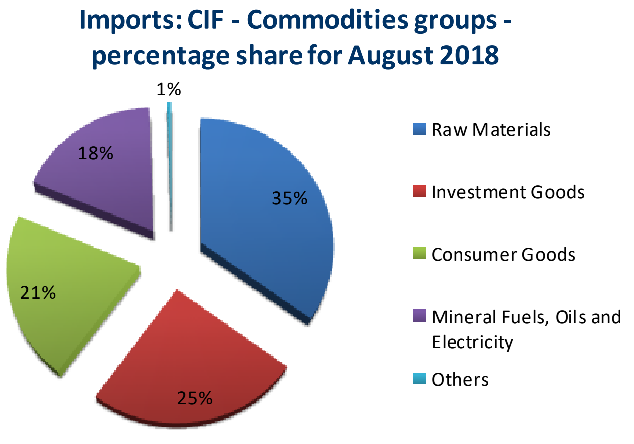


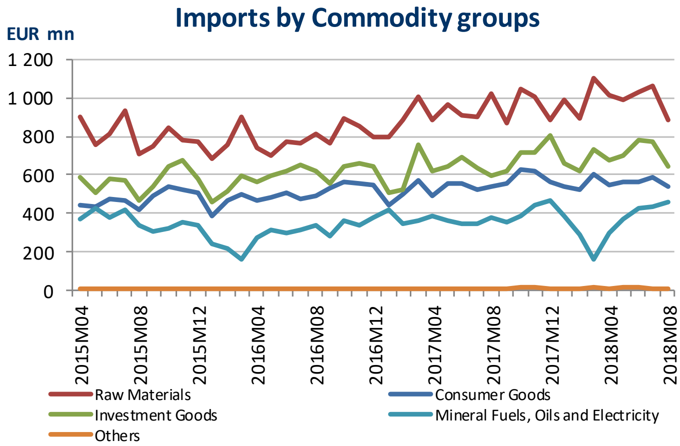








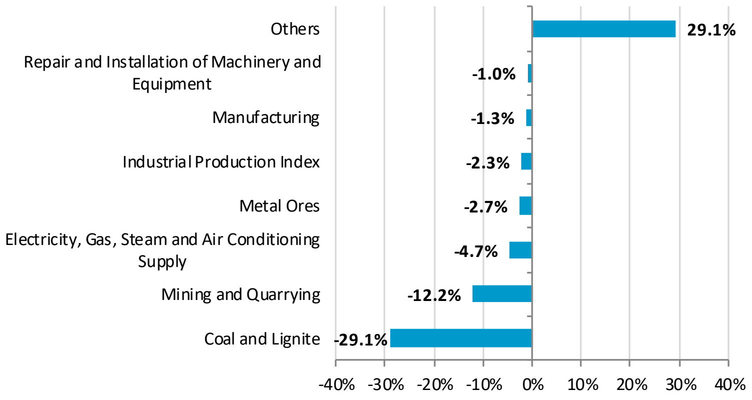




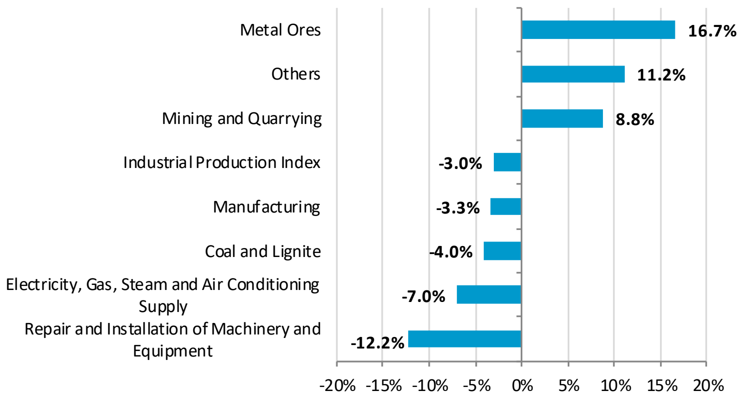
Source: BNB

Bulgaria: Real Sector Indicators

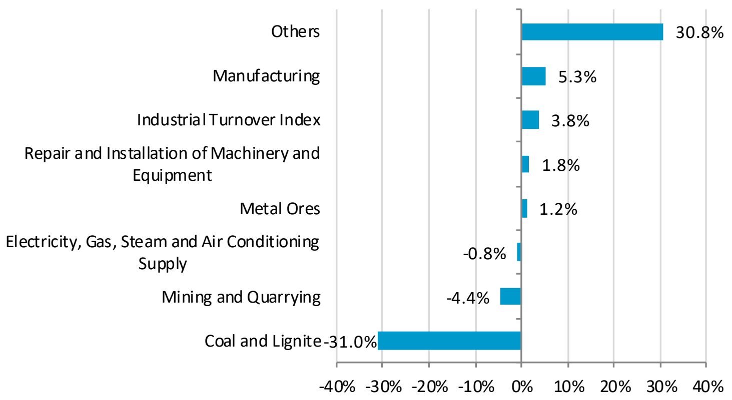
Industrial Production Index: % change in September 2018 compared to September 2017



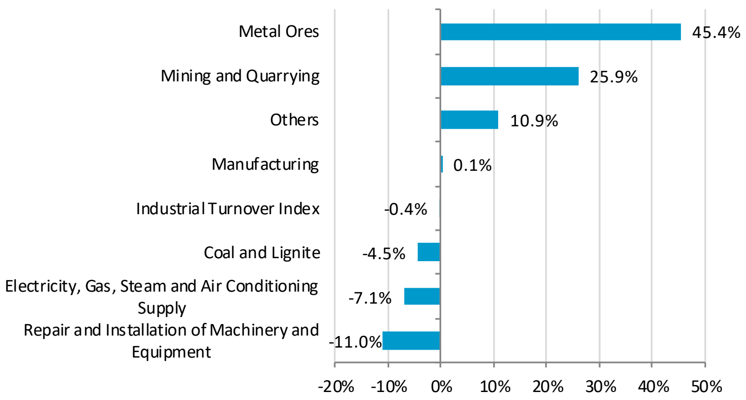
Industrial Production Index: % change in September 2018 compared to August 2018



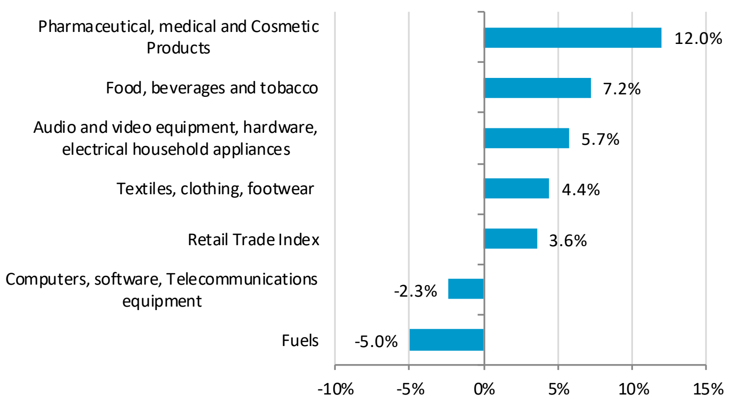
Industrial Turnover Index: % change in September 2018 compared to September 2017



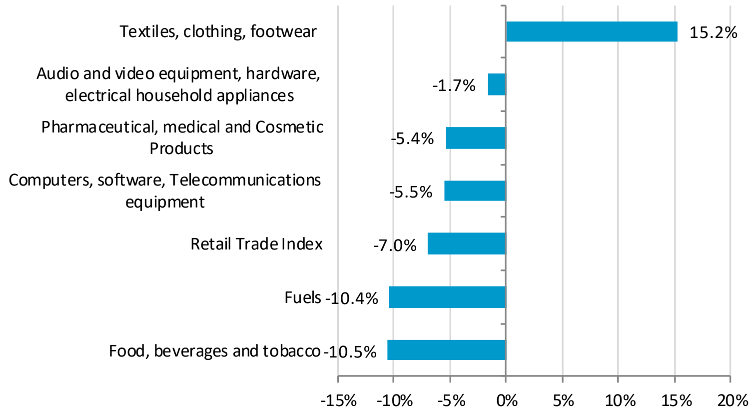
Industrial Turnover Index: % change in September 2018 compared to August 2018



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

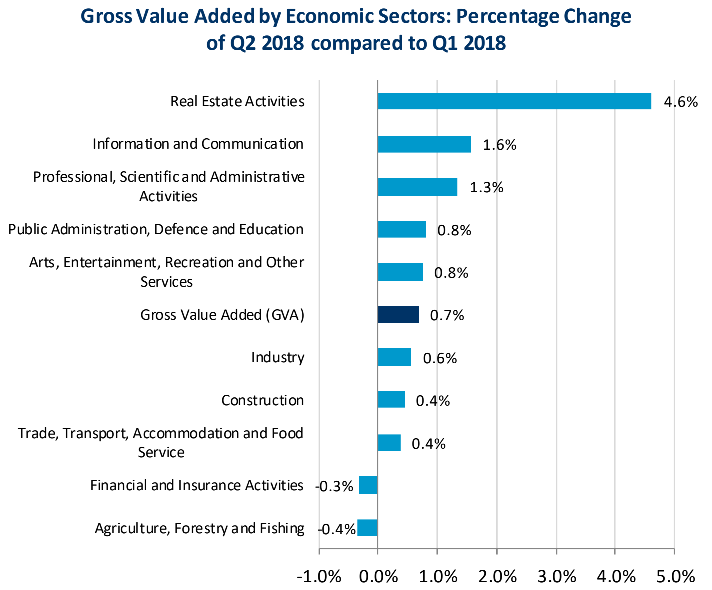


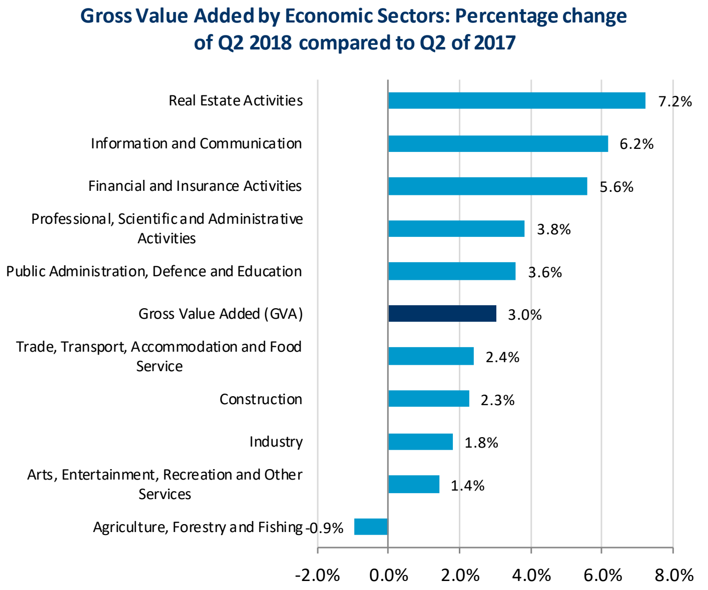
Retail Trade Index: % change in September 2018 compared to August 2018

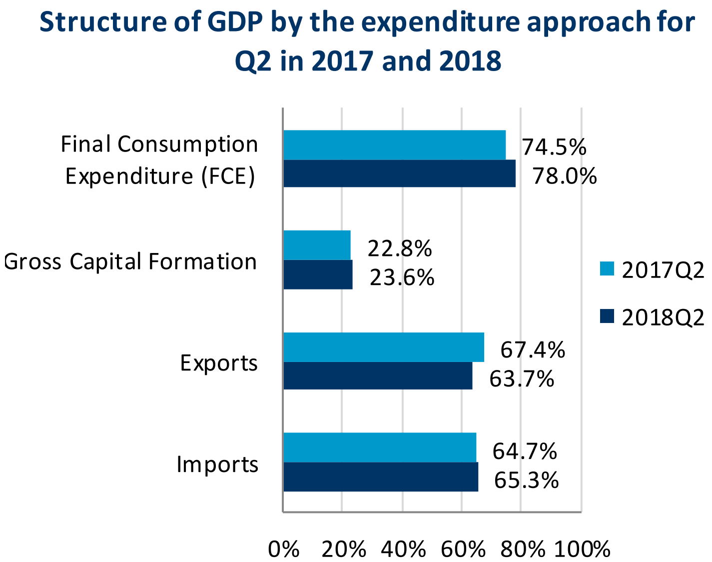


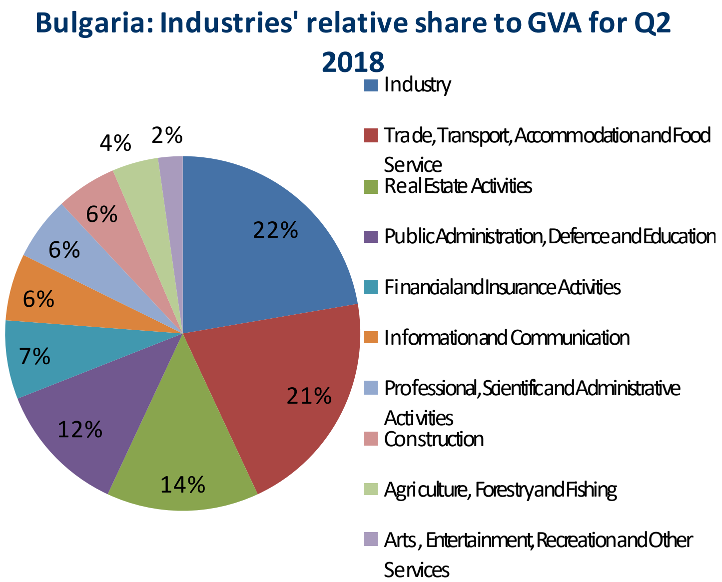
Source: NSI

Bulgaria: Real Sector Indicators



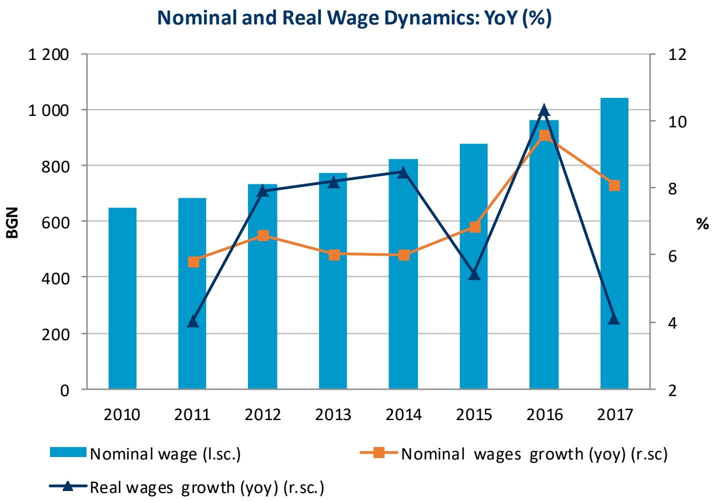


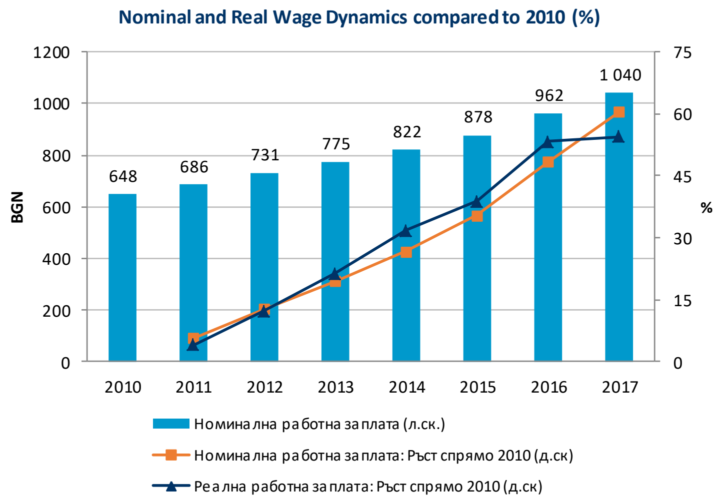


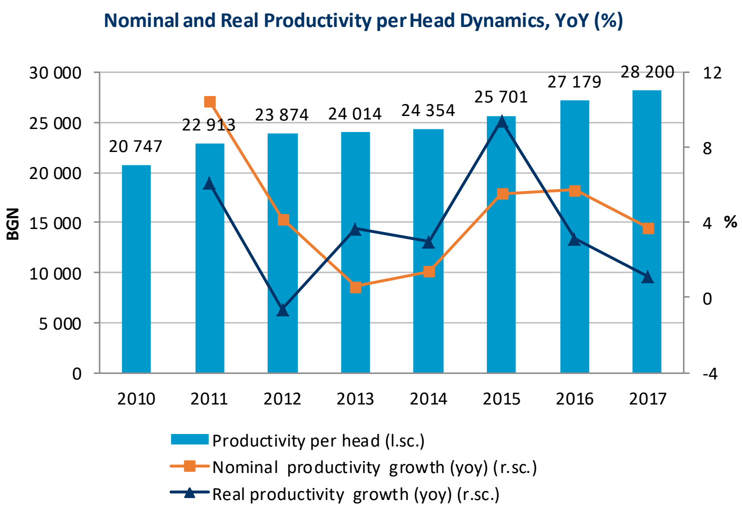


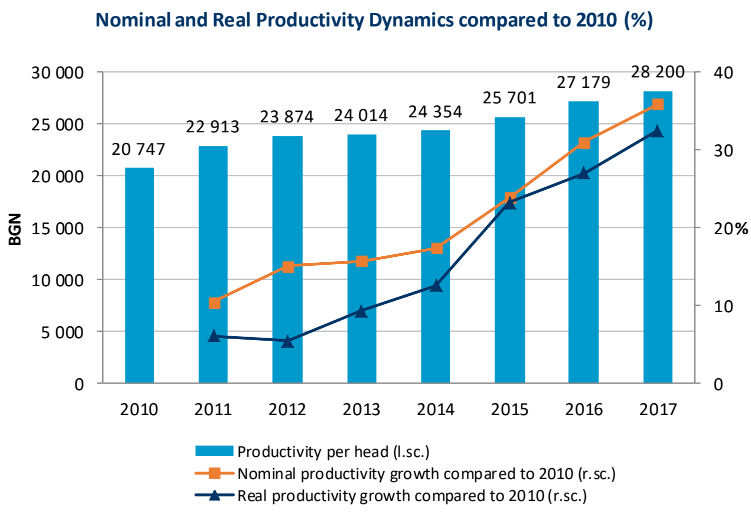
Source: NSI, EC

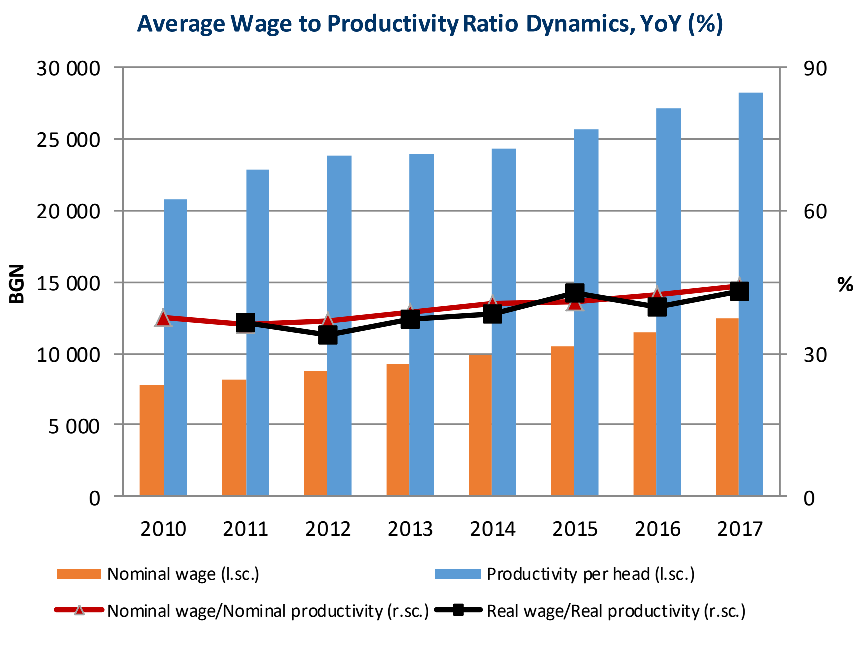
Bulgaria: Real Sector Indicators





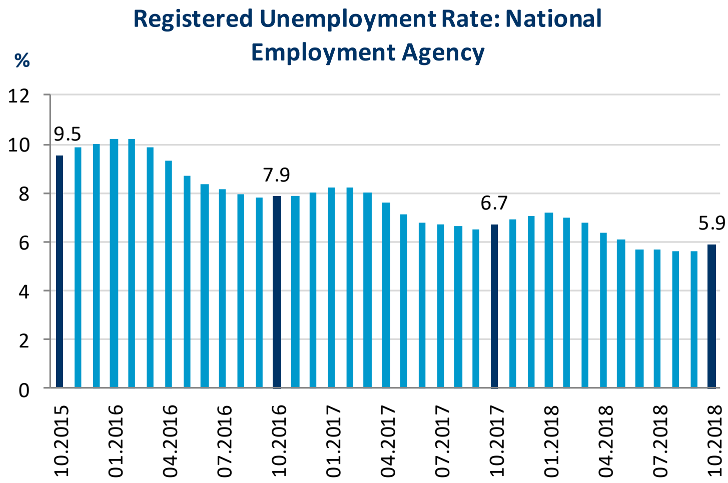


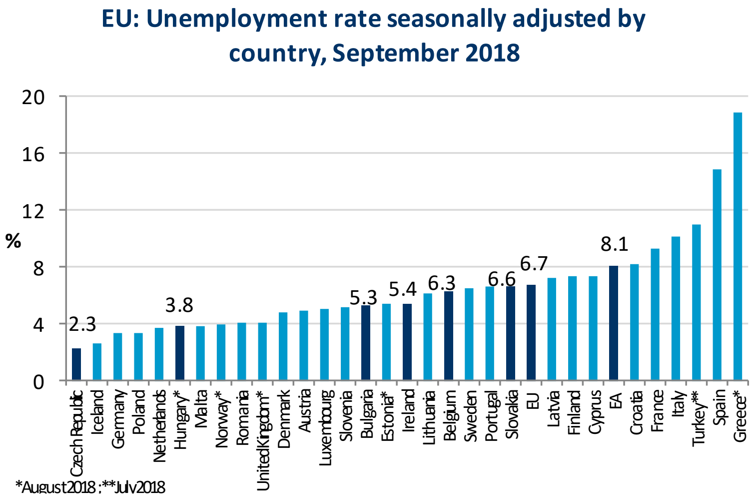


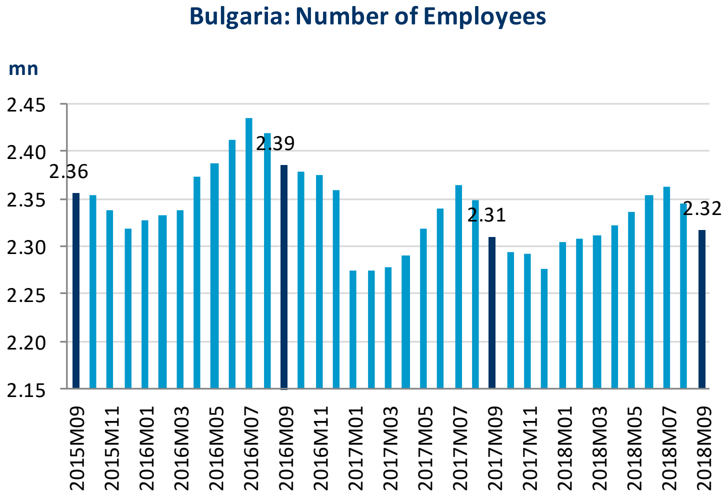


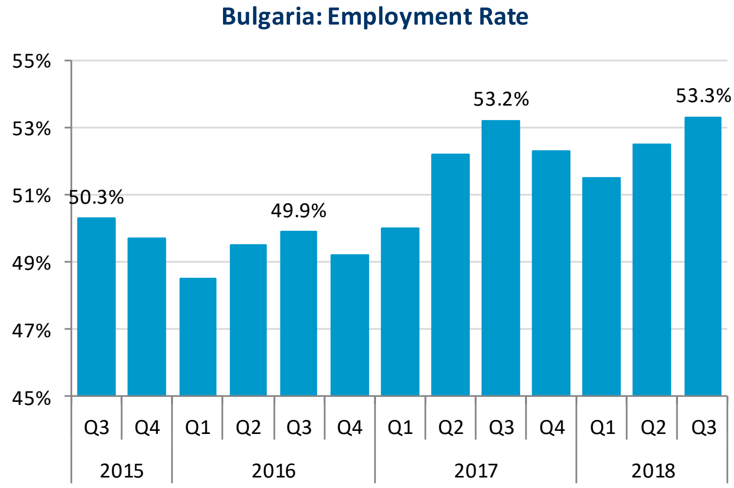
Source: NSI, UBB calculations

Bulgaria: Real Sector Indicators



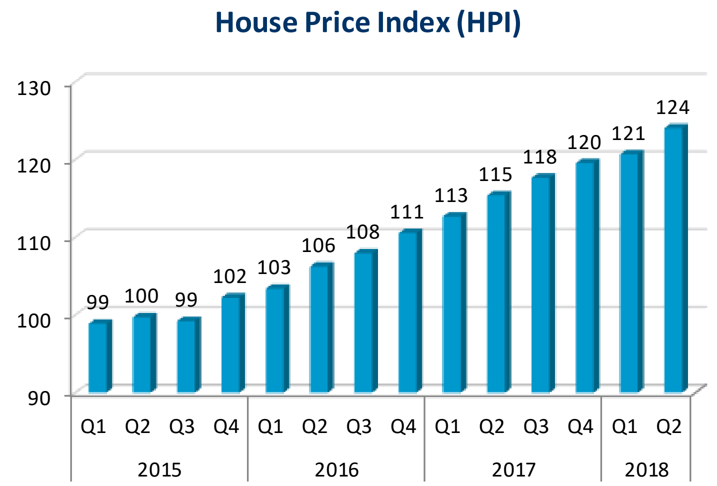


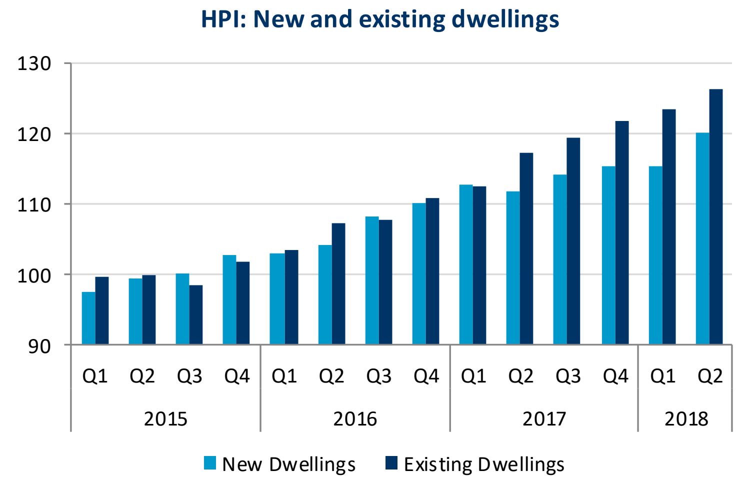


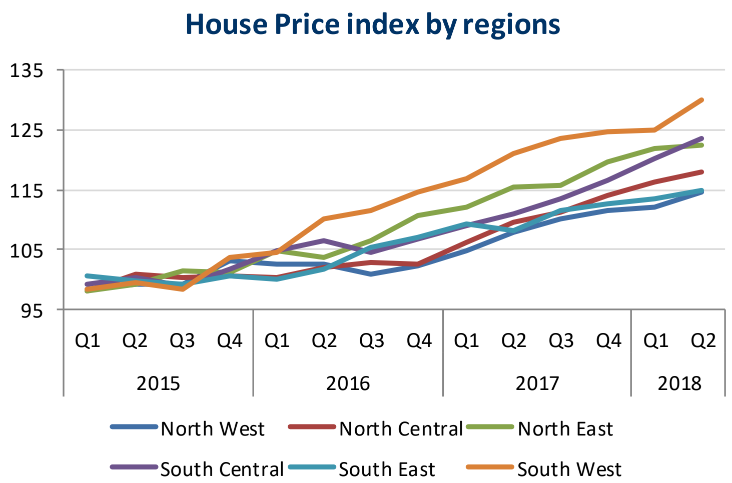


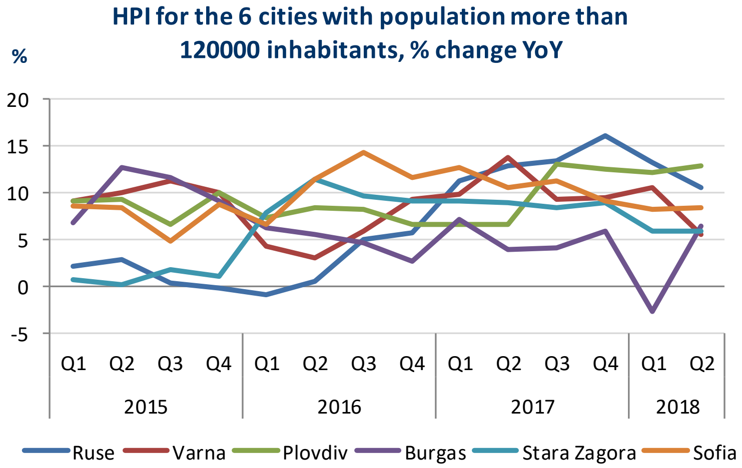
Source: NSI, EC

Bulgaria: Real Sector Indicators



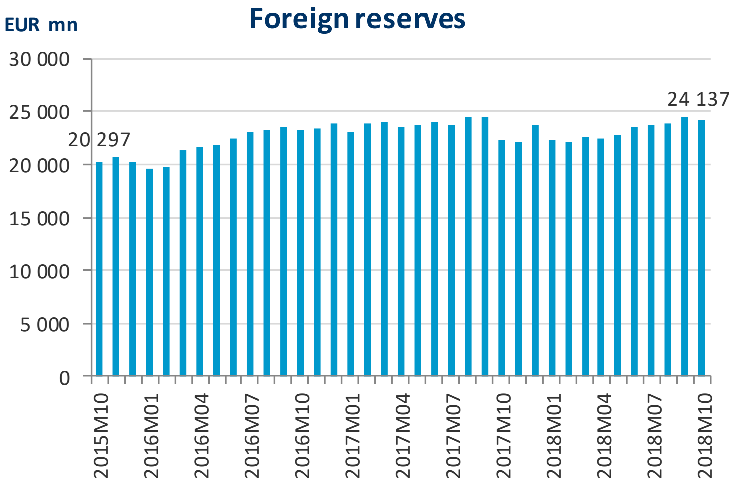


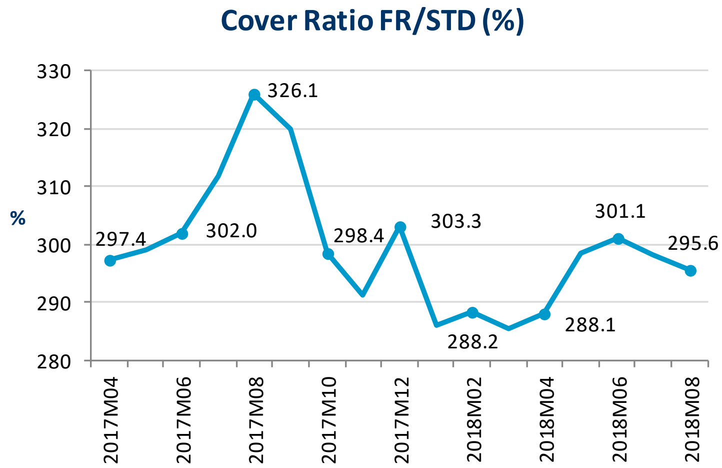


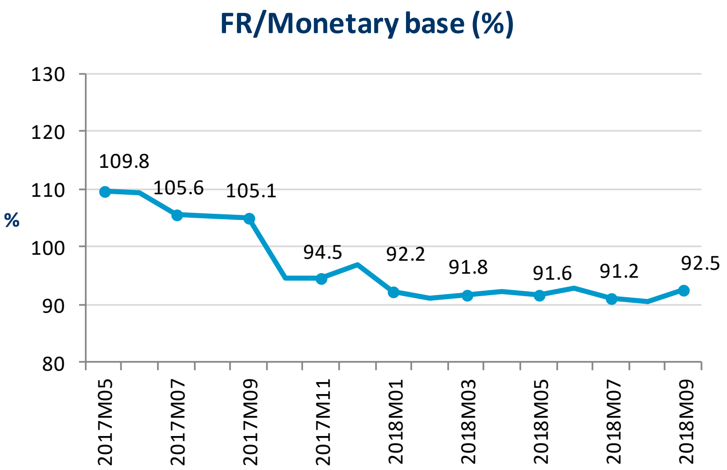


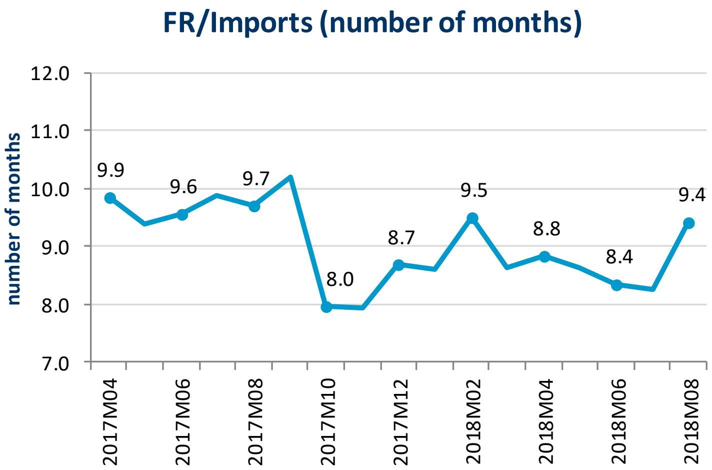
Source: NSI, EC

Bulgaria: Monetary Sector Indicators



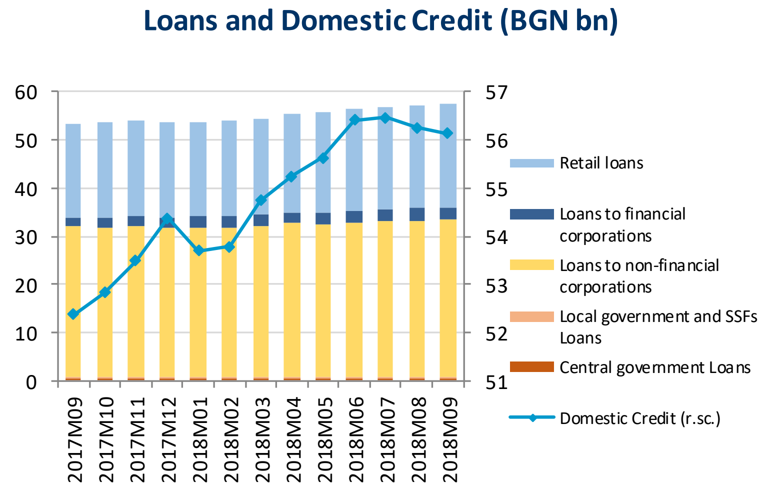


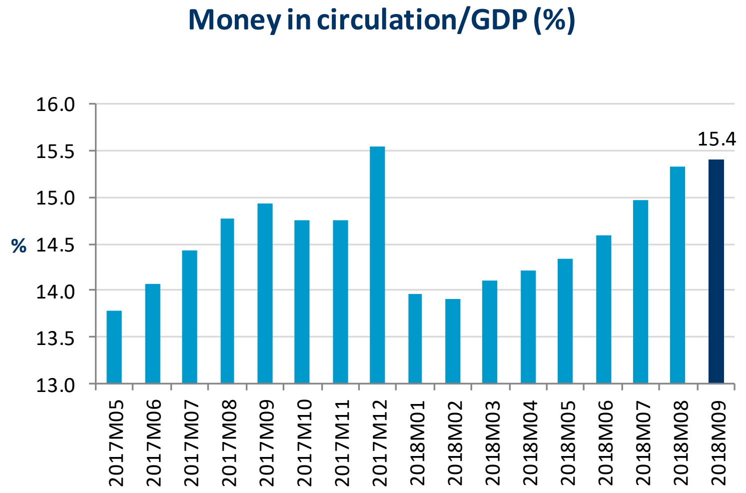


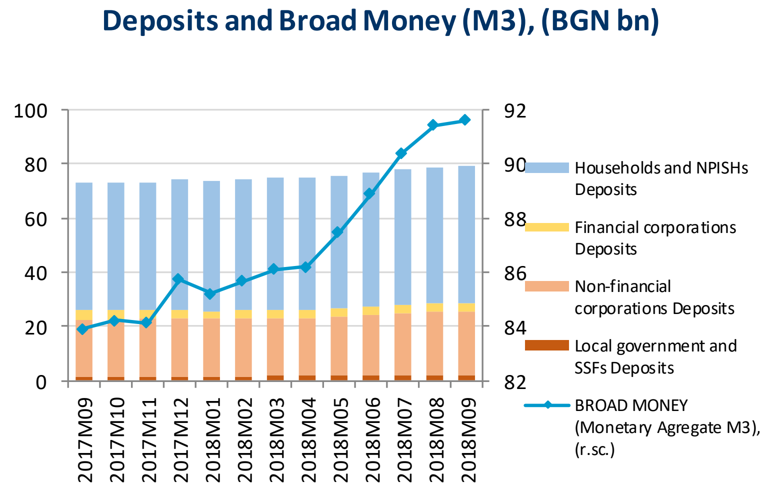


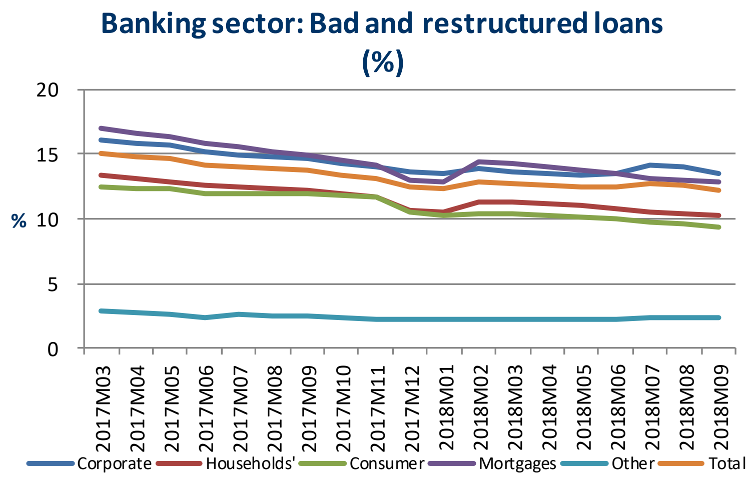
Source: BNB

Bulgaria: Monetary Sector Indicators



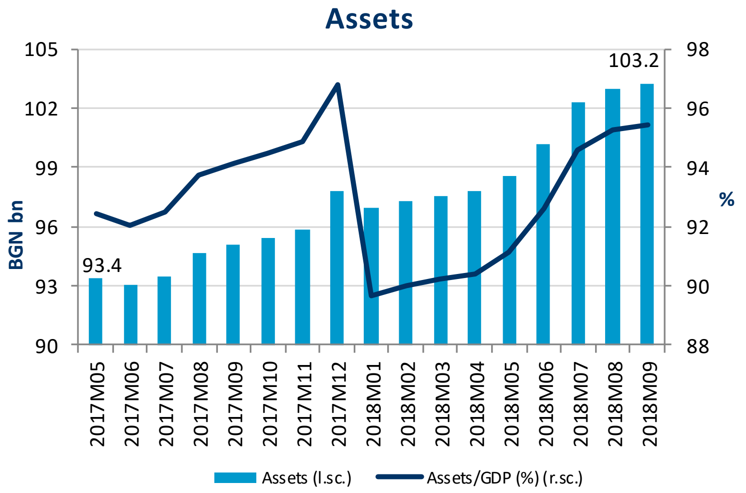


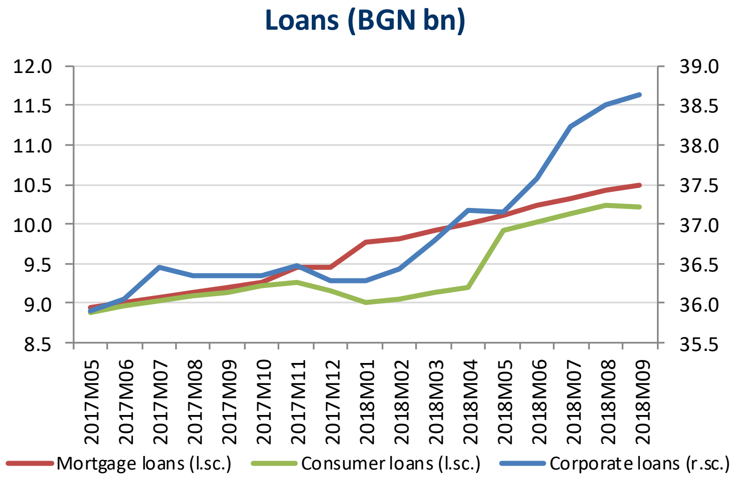


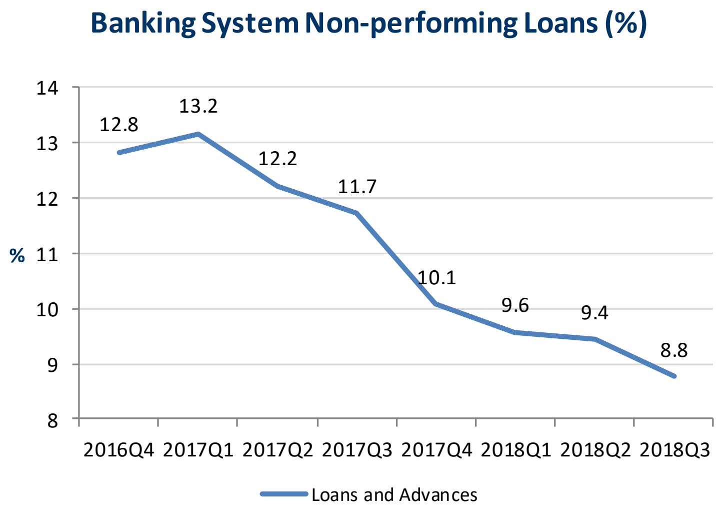


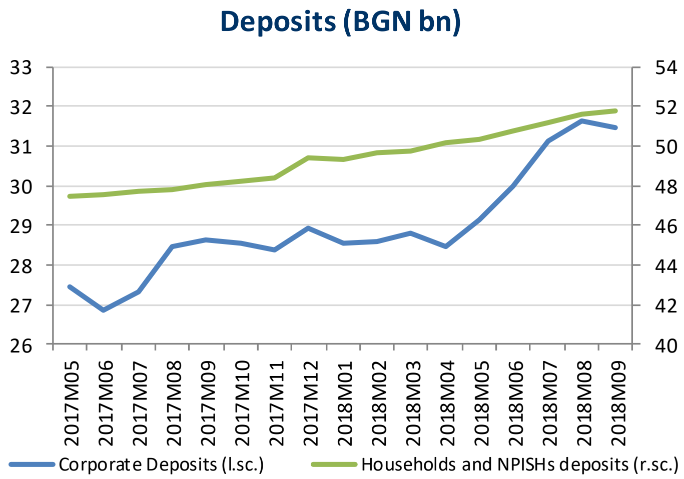
Source: BNB

Bulgaria: Banking Sector Indicators





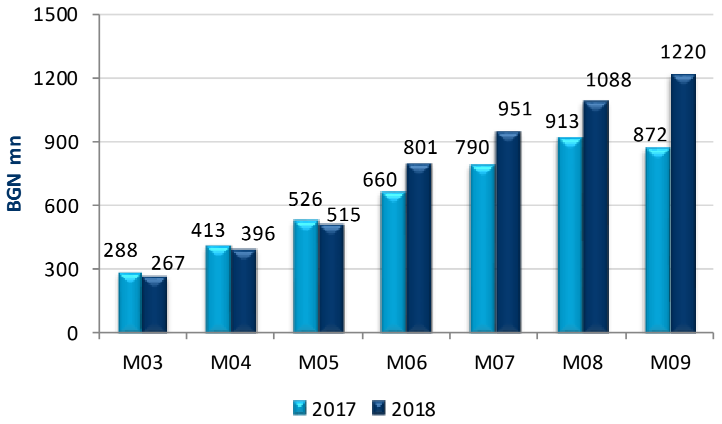




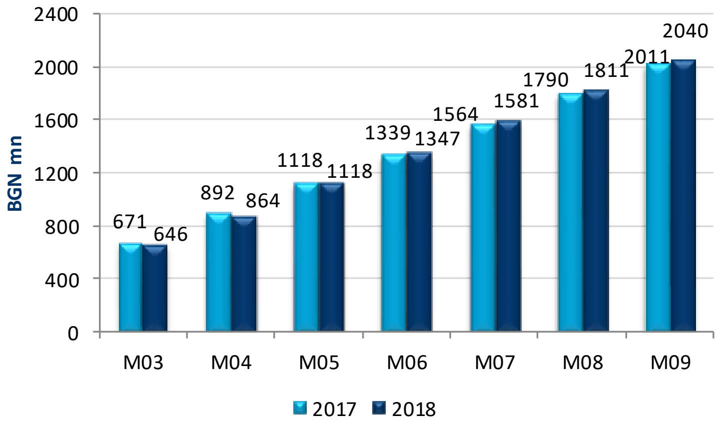
Source: BNB

Bulgaria: Banking Sector Indicators

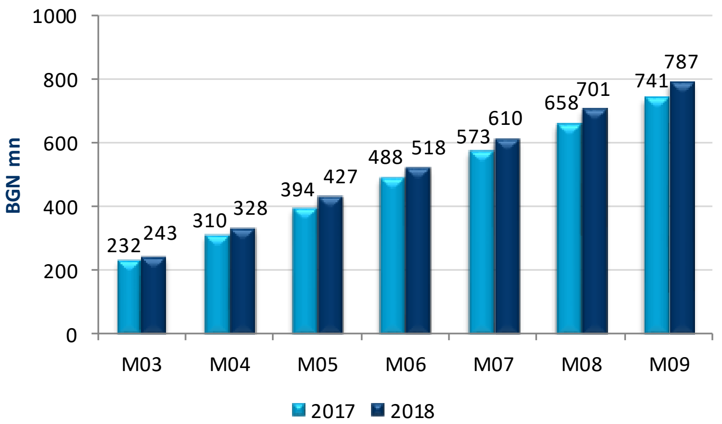
Net Profit



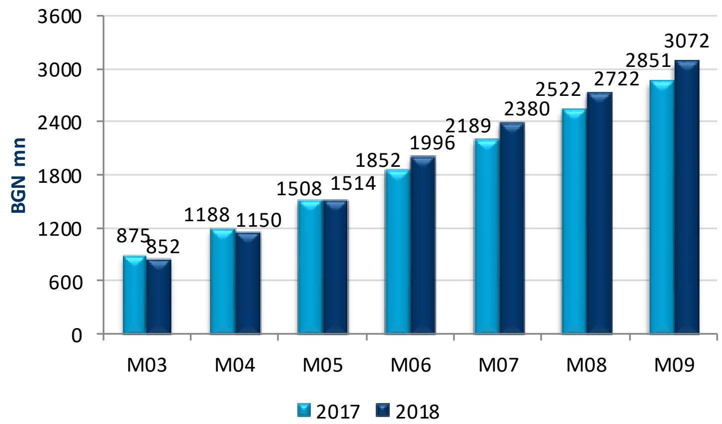
Net interest Income



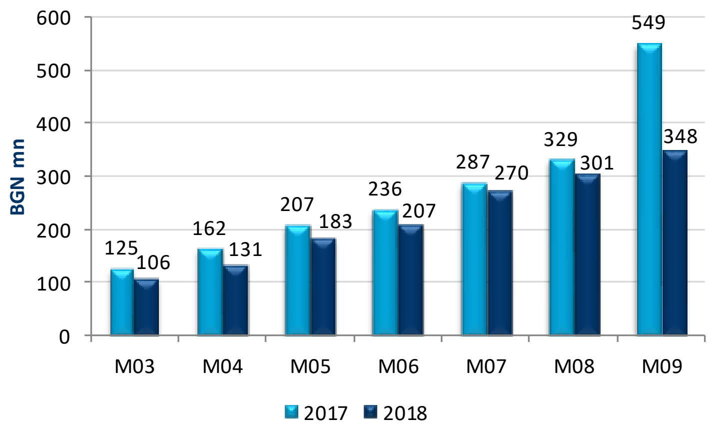
Net fee and commission income



Net operating income

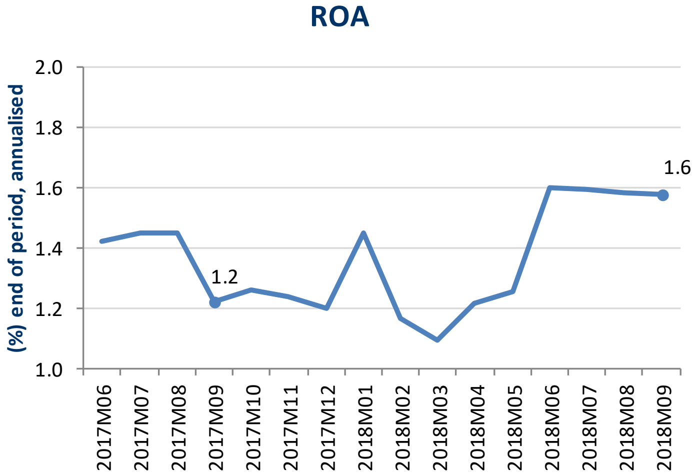


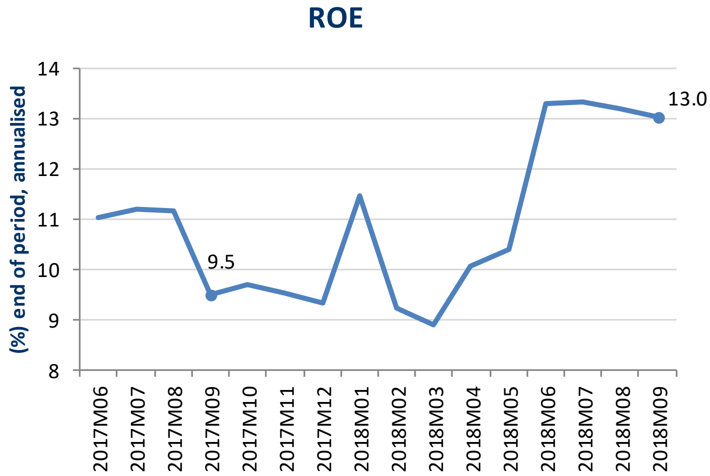
Impairment

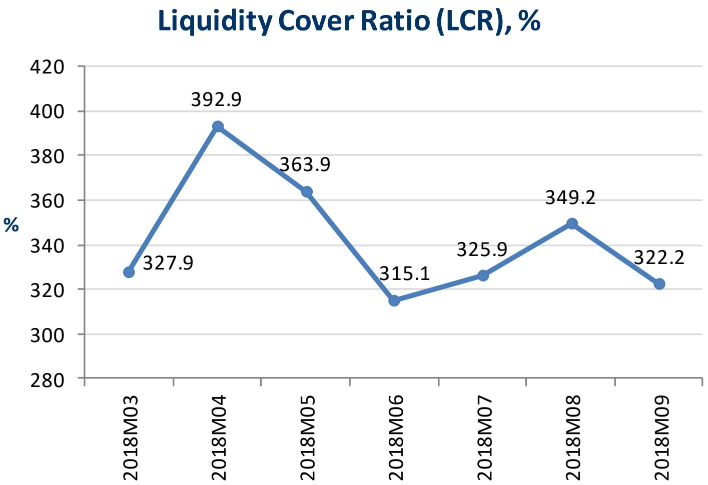


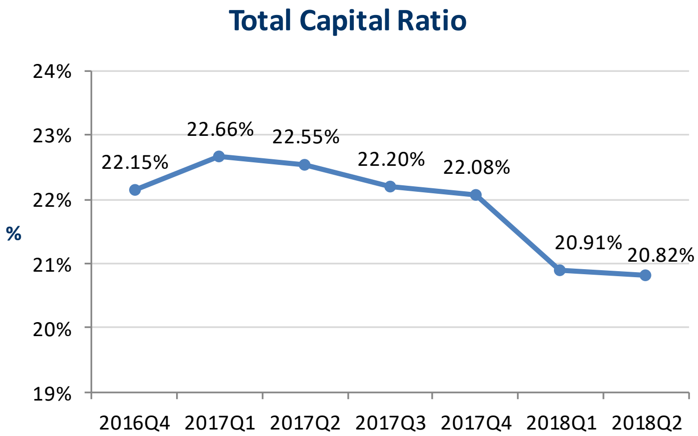
Source: BNB

Bulgaria: Banking Sector Indicators



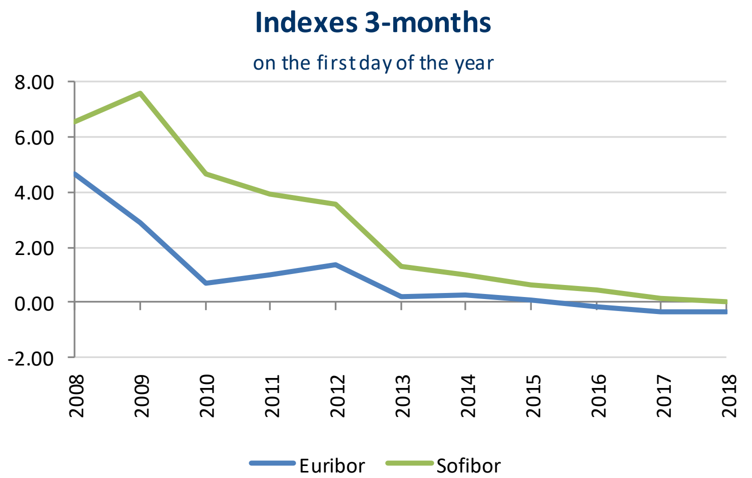


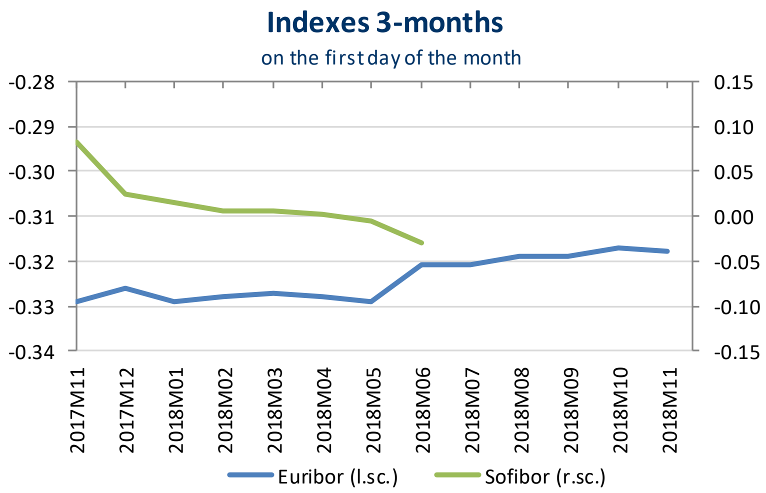


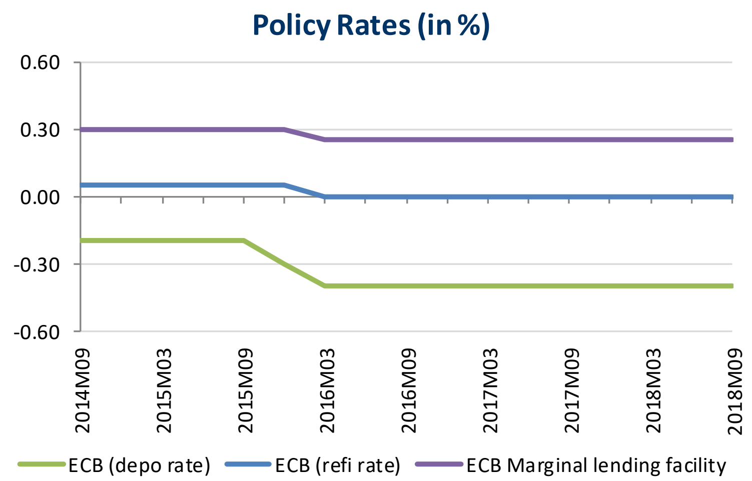


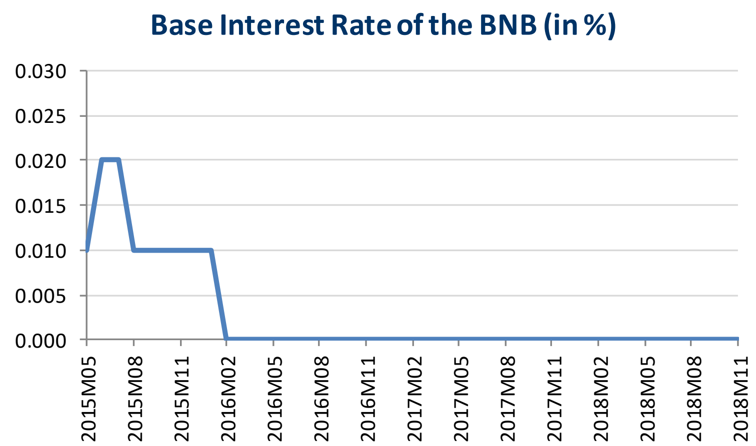
Source: BNB

Bulgaria: Indexes and Interest Rates



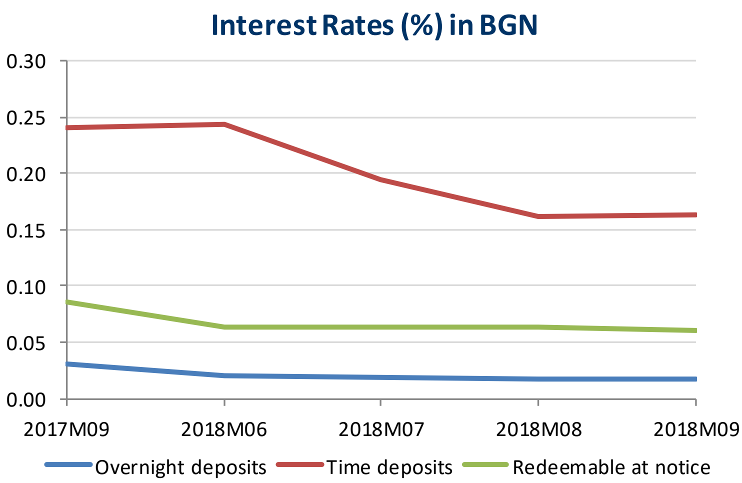


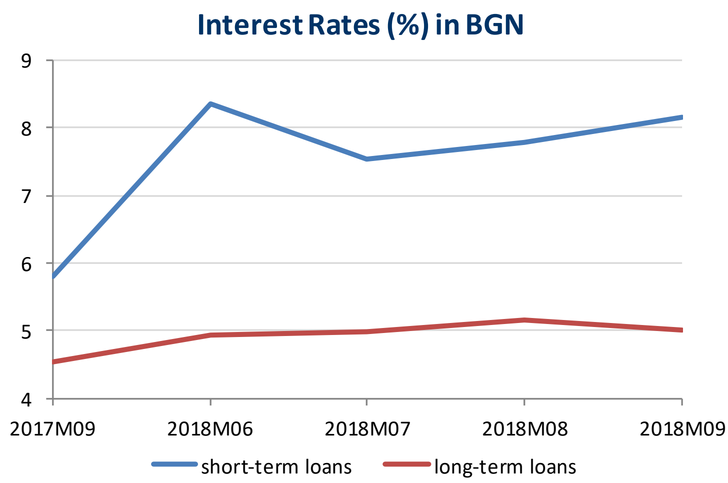


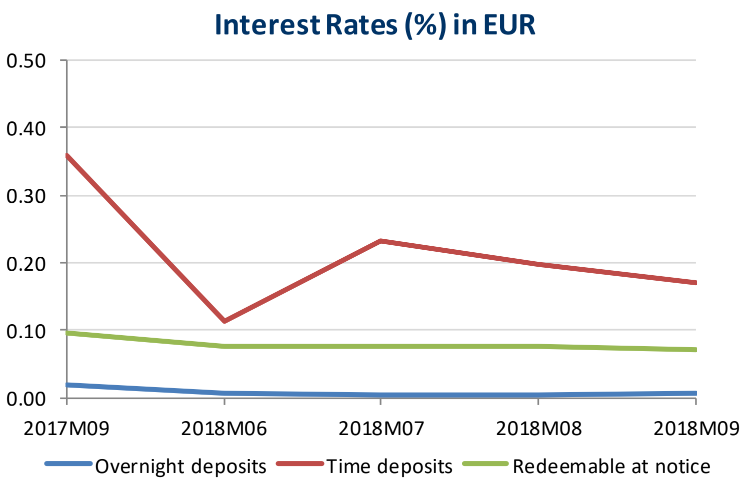


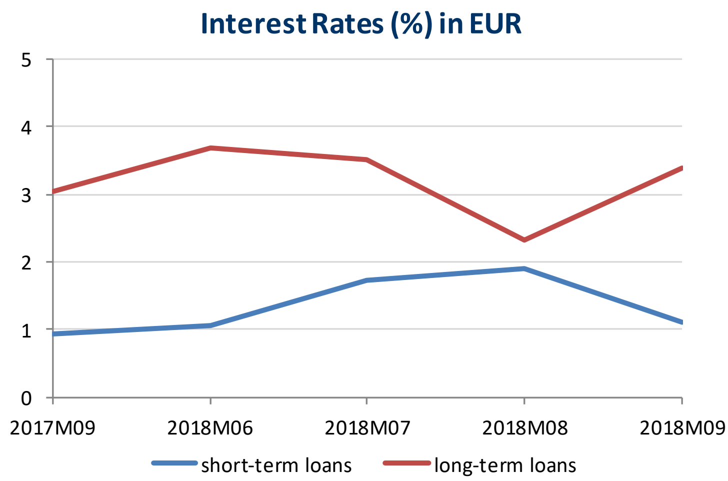
Source: ECB, BNB

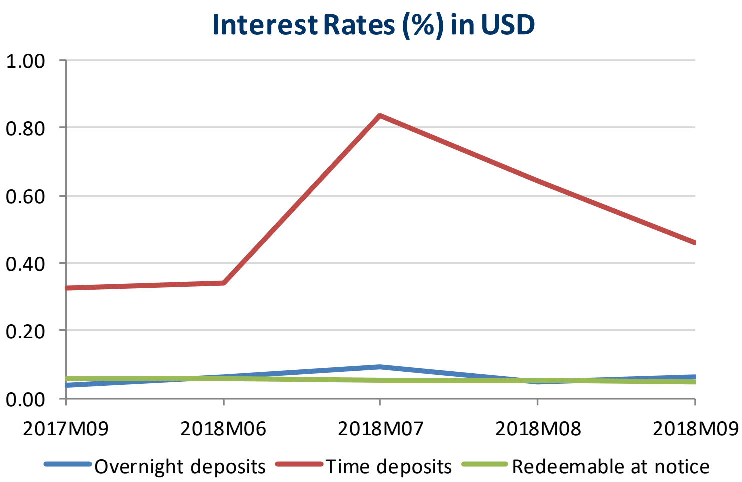
Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates

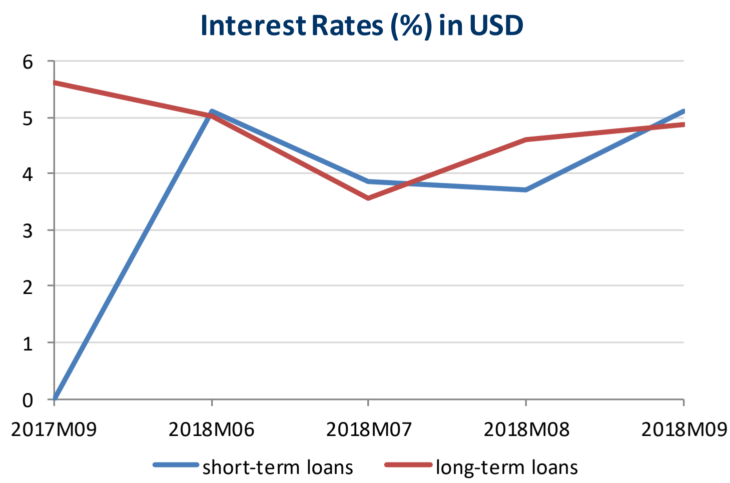






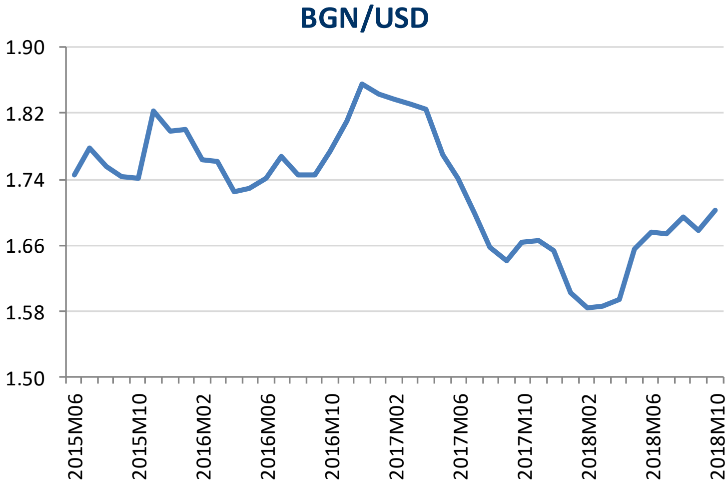


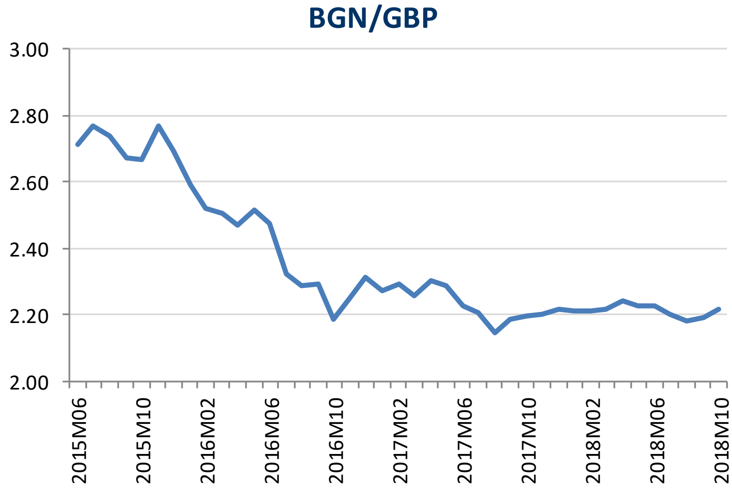


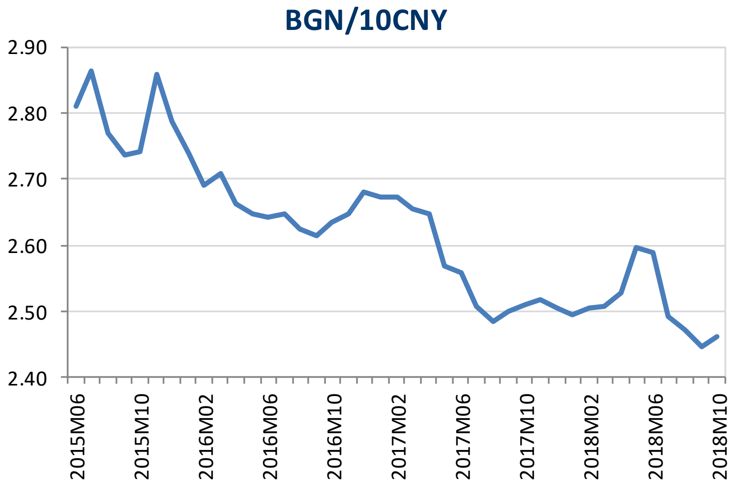


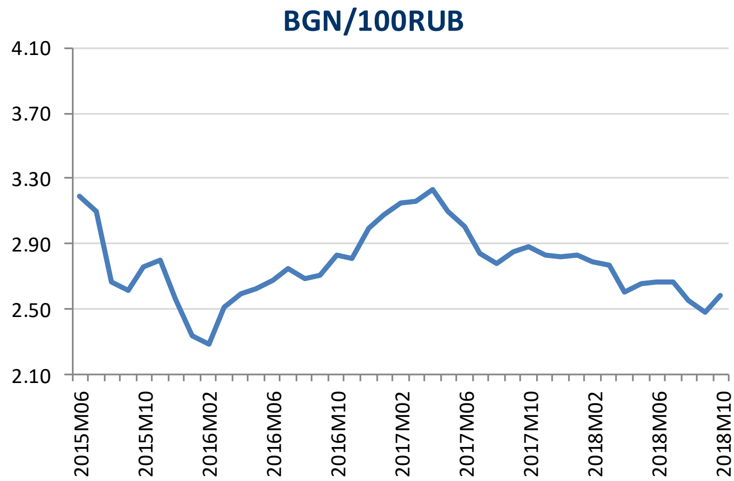
Source: BNB

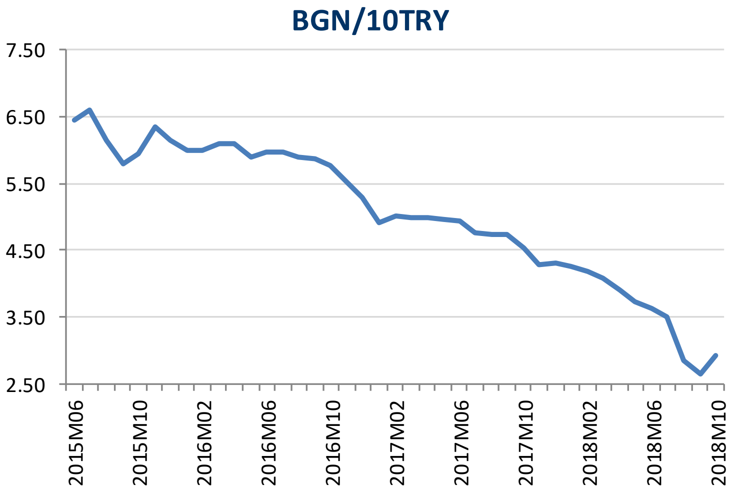
Bulgaria: FX Rates

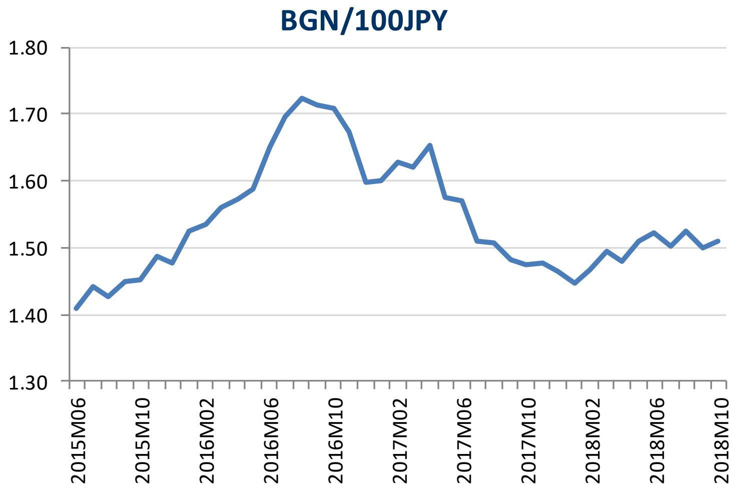












Source: ECB

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

BGTR30 Index (BG Total Return 30):

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

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