HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT

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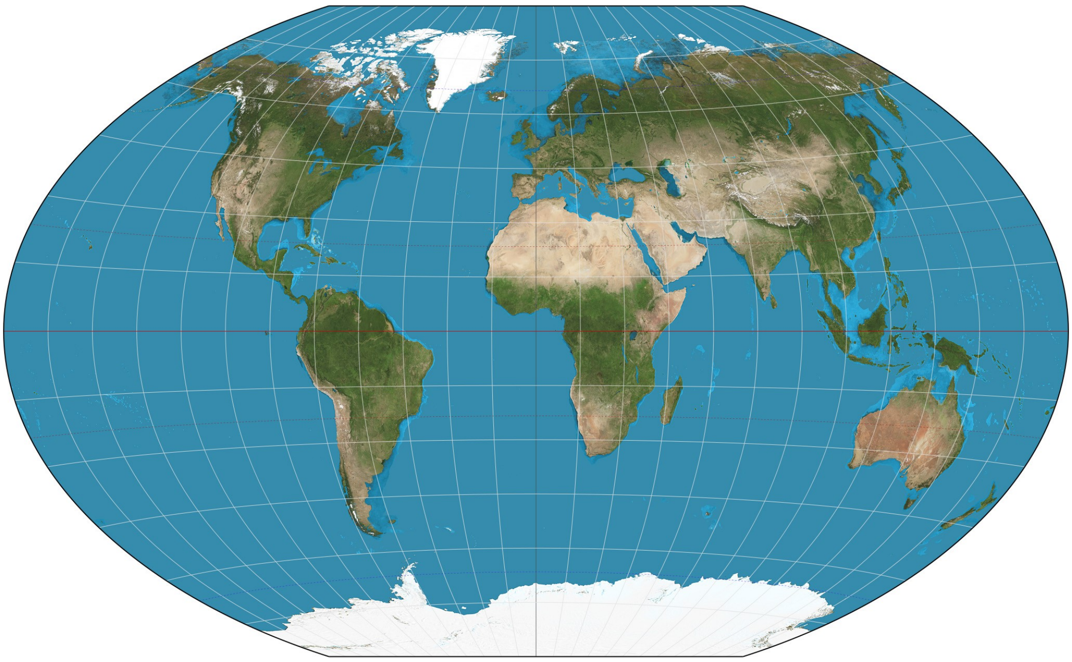

Source: https://en.wikipedia.org/wiki/World_map

December 2018

Sofia

- *The Eurozone economy grew 0.2% qoq in the three months to September 2018, unrevised from a second estimate and following a 0.4 % expansion in the previous period. It was the weakest growth rate since the second quarter of 2014. The surprisingly weak growth performance in Q3 '18 was mainly due to temporary problems in the automotive industry. The annual inflation rate in the Euro Area is expected to ease to 2.0% in November 2018 from a near six-year high of 2.2% in the previous month. The unemployment rate in the Euro Area was steady at 8.1% in October of 2018, the same as in each of the previous three months. It remained the lowest jobless rate since November of 2008. While a 'no deal' Brexit is not the most likely outcome, the economic risks it poses and the political fault lines it exposes means it looks set to be a key focus for markets into early 2019. Despite the attempts to reach an agreement between Italy and the European Commission on the budget deficit, the likelihood of fines can not be ignored.*

- *The Italian economy unexpectedly shrank -0.1% qoq in the third quarter of 2018, following a 0.2% growth in the previous period, the final estimate showed. It was the first contraction since the second quarter of 2014. Reports showed that manufacturing and services continued to shrink while confidence has fallen. Italy's unemployment rate rose to 10.6% in October 2018 from an upwardly revised 10.3% in the previous month and above market expectations. The growing risk of recession is putting pressure on Italy's new government, which took office in June, to change course and comply with EU fiscal rules. The ECB's chief economist said there is little the central bank can do in this situation. The European Commission decided against launching a disciplinary procedure against Italy over its budget after the country's government pledged to rein in its spending.*

- *The British government postponed the vote on the Brexit agreement by the British Parliament. The reason is that the agreement was expected to be rejected by a substantial majority. While a 'no deal' Brexit is not the most likely outcome, the economic risks it poses and the political fault lines it exposes means it looks set to be a key focus for markets into early 2019. According Bank of England special report "EU withdrawal scenarios and monetary and financial stability", In case of "no deal no transition" hard Brexit, unemployment would rise to between 5.75% and 7.5%. Inflation in that case then rises to between 4.25% and 6.5%. Relative to the November 2018 Bank of England projection, GDP is between 4.75% and 7.75% lower by end-2023.*

- *The US economy advanced an annualized 3.5% on quarter in the third quarter of 2018, in line with earlier figures, the second estimate showed. Annual inflation rate in the US fell to 2.2% in November of 2018 from 2.5% in October. The US unemployment rate was unchanged at a 49-year low of 3.7% in November 2018.*

- *The Gross Domestic Product (GDP) in Japan stagnated 0% in the third quarter of 2018. The Japanese economy shrank -0.6 % on quarter in the third quarter of 2018, faster than a preliminary estimate of a 0.3% drop and market expectations of a 0.5% decline. It is the steepest contraction since the second quarter of 2014. Natural disasters like flood and earthquake weighed more on personal consumption and capital investment than initially estimated. The unemployment rate in Japan edged up to 2.4% in October of 2018 from a 4-month low of 2.3% in the previous month.*

- *China's consumer price inflation slowed to 4-month low of 2.2% year-on-year in November 2018 from 2.5% in the previous month. Presidents Trump and Xi Jinping agreed to a 90-day cease-fire in the China-US trade war. U.S. promised to delay until March a planned 15 % jump in the September round of 10% tariffs targeting some USD 250 billion in Chinese exports The detention in Canada of Meng Wanzhou, Huawei's CFO and the daughter of its founder, is further inflaming tensions between the US and China. The real competition is over global leadership in advanced technology industries.*

- *The Turkish economy grew by 1.6% yoy in the third quarter of 2018, slowing from an upwardly revised 5.3% expansion in the previous three-month period. More important, on a quarterly base*

GDP in Turkey contracted 1.10% in the third quarter of 2018 over the previous quarter. Turkey enters in a period of stagflation. The Turkish consumer price inflation eased to 21.62% yoy in November 2018 from a near 15-year high of 25.24% in the prior month. The economy will probably contract by -2% in 2019, Moody's said. IMF expects growth in Turkey 0.4% in 2019, OECD expects contract by -0.4% in the same year, EBRD expects growth in Turkey of 1% in 2019. The Turkish unemployment rate increased to 11.4% in September of 2018 from 10.6% in the same month of the previous year. The banking sector is among the hardest hit from the crisis. The reason is the failure of real-sector companies to roll over external debts. Turkish non-financial companies had USD 331 billion of foreign-exchange liabilities at the end of August, almost triple their FX assets. The government has set up a Credit Guarantee Fund to take some corporate risk onto its own balance sheet. More radical steps may be needed, with some investors calling for a bank recapitalization program to be financed by taxpayers and shareholders.

- *At 13 December 2018 meeting the Governing Council of the European Central Bank decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.40% respectively. The net purchases under the asset purchase program will end in December 2018. The European Central Bank intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase program for an extended period of time past the date when it starts raising the key ECB interest rates. According the Statement on Single Supervisory Mechanism (SSM) risk appetite, SSM promotes the sustainability of bank business models that are consistent with sound risk management and controls, backed by sufficient capital and liquidity to be able to withstand adverse economic and financial conditions.*

- *Although the nature of EU withdrawal is not known at present, and its impact on the balance of demand, supply and the exchange rate cannot be determined in advance, under all circumstances, the Bank of England will respond to any material change in the outlook to bring inflation sustainably back to the 2% target while supporting jobs and activity. The Bank of England judges that the UK banking system is strong enough to serve UK households and businesses even in a disorderly Brexit*

- *The Federal Reserve raised the target range for the federal funds rate by 0.25% to 2.25-2.5% during its 19 December 2018 meeting. Information received since the Federal Open Market Committee met in November 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 remained low. Fed officials now only expect two rate rises next year, down from three previously.*

- *At the Monetary Policy Meeting held 19 December 2018, the Bank of Japan decided upon the following: 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 PBC Governor YI Gang's Statement at the Ministerial Meeting of the 38th Meeting of the International Monetary and Financial Committee (IMFC), the Chinese economy has continued to grow steadily in 2018, with progress achieved in structural upgrading and efficiency improvement. The regulatory authorities have strengthened coordination to ensure orderly deleveraging. At the same time, the regulation of wealth management product, shadow banking, and internet finance has been significantly enhanced. Since the beginning of this year, China has announced a series of important opening-up measures in the financial sector, including relaxing foreign equity caps on banks, securities firms, and insurance companies, easing restrictions on the establishment of foreign financial institutions in China with expanded scope of business. At the same time, China will continue to push ahead with the market-based reforms of interest rate and exchange rate regimes,*

and keep the RMB exchange rate broadly stable at an adaptive equilibrium level.

- ***The Turkish Central Bank has decided to keep the policy rate (one-week repo auction rate) constant at 24%. According to Turkish Central Bank's Financial Stability Report November 2018, the down-trend in capacity utilization rates seen since end-2017 has had a dampening effect on the demand for new investments in the manufacturing industry. The weak domestic demand due to the contraction in economic activity, exchange rate developments and price uncertainty played a role in the deceleration in retail loans triggered by tightened credit conditions.***

- ***Crude oil decreased 3.03 USD/BBL or 6.15% to 46.24 on Tuesday December 18 from 49.27 in the previous trading session. Brent decreased 3.35 USD/BBL or 5.62% to 56.26 on Tuesday December 18 from 59.61 in the previous trading session. Oil becomes cheaper in a third session under the weight of fears of oversupply. Both the most traded sorts of oil have depreciated by more than 30% compared to their levels since early October. Oil production from seven large shale basins in the US is expected to peak for the first time to 8.03 million barrels per day by the end of the year, according to data from the Energy Information Administration. With lower oil prices, shale oil producers who will no longer be profitable to pump oil will eventually stop working and reduce supplies, but this will take some time, analysts say.***

- ***The increase in basic cereal prices on world stock exchanges, which began in early December, continued in the last week. In Chicago, the price of wheat rose by USD 7.00 dollars to USD 225.00 USD / ton, in France there was a plus of EUR 5.00 to EUR 210.00 /ton. Russia also raised its price again by nearly USD 5 to USD 242.20 / ton. In Bulgaria, in the "Grain" circle of Sofia Commodity Exchange AD, the quotes stayed close together on most contracts, but prices rose slightly. Bread wheat ranges between BGN 350.00 and BGN 360.00 BGN/ ton respectively for supply and demand.***

- *For January – October 2018, the current and capital account is positive, amounting to EUR 3,126.2 million and accounts for 5.9% of GDP;*
- *In January-October 2018, direct investment in Bulgaria amounted to EUR 842.2 million (1.6% of GDP), down by 21.2% yoy when it was amounting to EUR 1070.2 million (2.1% of GDP);*
- *At the end of November 2018, BNB foreign reserves amounted to BGN 47.3 billion (BGN 24.2 billion), increasing by 0.1% mom and by 8.8% yoy, respectively;*
- *According to the seasonally adjusted data, the GDP growth rate in the third quarter of 2018 is 3.1% compared with the same quarter of 2017 according to the preliminary estimates;*
- *In November 2018, the total business climate indicator increases by 0.6 percentage points in comparison with October, which is due to the improved business conjuncture in industry and retail trade;*
- *According to the preliminary data the Industrial Production Index, seasonally adjusted, increased by 0.8% mom in October 2018. The working day adjusted Industrial Production Index rose by 1.6% yoy in October 2018;*
- *According to the preliminary seasonally adjusted data in October 2018 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.5% mom;*
- *According to the preliminary data, in October 2018 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 3.3% above the level of the previous month. In October 2018 the working day adjusted index of production in construction increased by 1.8% in comparison with the same month of 2017;*
- *In November 2018, annual inflation slowed down to 3.1%;*
- *Total Producer Price Index in October 2018 increased with 1.3% compared to the previous month; compared to the same month of 2017 the prices rose by 4.4%. Producer Price Index on Domestic Market in October 2018 increased by 0.8% compared to the previous month; compared to the same month of 2017 the domestic prices grew by 3.9%;*
- *In October 2018, the number of the trips of Bulgarian residents abroad was 454.7 thousand or by 3.6% above the registered in October 2017. In October 2018, the number of arrivals of visitors from abroad to Bulgaria was 739.3 thousand or by 3.8% more in comparison with October 2017;*
- *The total revenues from nights spent in October 2018 reached 49.9 million BGN or by 11.5% more compared to October 2017;*
- *In Bulgaria, unemployment is below the EU average in October, reaching 5.4%;*
- *According to the preliminary data, GDP per person employed increased by 3.7% in Q3 of 2018 compared to the same quarter of the previous year;*
- *In October 2018 Bulgaria' CFP balance on a cash basis is positive, amounting to BGN 2,844.3 million and presented 2.6% of forecasted GDP;*
- *At the end of October 2018, the Central government sub-sector debt amounted to EUR 12,220.3 million and accounts for 22.1% of projected GDP;*
- *The international S&P Global Ratings agency affirmed its 'BBB-/A-3' long- and short-term foreign*

and local currency sovereign credit ratings on Bulgaria. The outlook was also affirmed and remains positive;

- *The Parliament adopted the draft budget 2019;*

- *In October 2018, broad money (M3) amounted to BGN 92,408 billion (89.5% of GDP) and increased by 9.7% yoy. Domestic credit amounted to BGN 56.684 billion and grew up by 7.3% yoy, respectively;*

- *In November 2018, three of the four BSE-Sofia indices fell (SOFIX to 592.12 points, BGBX 40 to 115.12 points and BG TR30 to 489.60 points) and only BGREIT registered a minimum growth of 0.20 pps to 117.46 points;*

- *By the end of October 2018, the aggregate net profit of the banking system is EUR 1379 million and Increased by 37.9% yoy due to reduced impairment costs by 37.5% for a period of one year.*

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GLOBAL TRENDS

Advanced countries' economies

Euro zone

The Eurozone economy grew 0.2% qoq in the three months to September 2018, unrevised from a second estimate and following a 0.4 % expansion in the previous period. It was the weakest growth rate since the second quarter of 2014. The surprisingly weak growth performance in Q3 '18 was mainly due to temporary problems in the automotive industry. The annual inflation rate in the Euro Area is expected to ease to 2.0% in November 2018 from a near six-year high of 2.2% in the previous month. The unemployment rate in the Euro Area was steady at 8.1% in October of 2018, the same as in each of the previous three months. It remained the lowest jobless rate since November of 2008. While a 'no deal' Brexit is not the most likely outcome, the economic risks it poses and the political fault lines it exposes means it looks set to be a key focus for markets into early 2019. Despite the attempts to reach an agreement between Italy and the European Commission on the budget deficit, the likelihood of fines can not be ignored.

The Euro Area economy grew 1.6% yoy in the third quarter of 2018, following a 2.2% expansion in the previous period, the final estimate showed. This value is lower than the average 1.71% for the period from 1995 until 2018. The Eurozone economy grew 0.2% qoq in the three months to September 2018, unrevised from a second estimate and following a 0.4 % expansion in the previous period. It was the weakest growth rate since the second quarter of 2014 partly due to a negative contribution from external demand. Industry output shrank -0.2% (vs 0.4% in Q2), dragged by manufacturing (-0.4% vs 0.6%). The surprisingly weak growth performance in Q3 '18 was mainly due to temporary problems in the automotive industry. Among the bloc's largest economies, Germany's output contracted -0.2% in the third quarter (vs 0.5% in Q2), the first output fall since Q1 2015 due to a drop in both exports and household consumption. Also, Italy's economy shrank -0.1% (vs 0.2% in Q2), the first contraction since Q2 2014, due to declines in investment and private consumption. 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). Considering the European Union as a whole, GDP growth eased to 0.3% qoq (vs 0.5% in Q2); and to 1.8% yoy (vs 2.1% in Q2). The annual inflation rate in the Euro Area is expected to ease to 2.0% in November 2018 from a near six-year high of 2.2% in the previous month and slightly below market consensus of 2.1%. Prices should rise at a softer pace for services, energy, and food, alcohol and tobacco. 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 decrease to 1% in November from 1.1% in October and also below market consensus of 1.1%. The unemployment rate in the Euro Area was steady at 8.1% in October of 2018, the same as in each of the previous three months but higher than market expectations of 8%. It remained the lowest jobless rate since November of 2008. Considering the European Union as a whole, the unemployment rate was 6.7% in October, stable compared with September and down from 7.4% in October of 2017. This remains the lowest rate for the EU since the series began in January of 2000. Among the Member States, the lowest unemployment rates in October 2018 were recorded in Czech Republic (2.2%) and Germany (3.3%). The highest were observed in Greece (18.9% in August 2018) and Spain (14.8%). In France, the jobless rate was 8.9% and in Italy 10.6%. While a 'no deal' Brexit is not the most likely outcome, the economic risks it poses and the political fault lines it exposes means it looks set to be a key focus for markets into early 2019. Despite the attempts to reach an agreement between Italy and the European Commission on the budget deficit, the likelihood of fines can not be ignored.

Italy

The Italian economy unexpectedly shrank -0.1% qoq in the third quarter of 2018, following a 0.2%growth in the previous period, the final estimate showed. It was the first contraction since the second quarter of 2014. Reports showed that manufacturing and services continued to shrink while confidence has fallen. Italy's unemployment rate rose to 10.6% in October 2018 from an upwardly revised 10.3% in the previous month and above market expectations. The growing risk of recession is putting pressure on Italy's new government, which took office in June, to change course and comply with EU fiscal rules. The ECB's chief economist said there is little the central bank can do in this situation. The European Commission decided against

launching a disciplinary procedure against Italy over its budget after the country's government pledged to rein in its spending.

The Italian economy advanced 0.7% yoy in the third quarter of 2018, after a 1.2% expansion in the previous quarter and missing market consensus of a 0.8% growth. It was the weakest growth rate since the first quarter of 2015. More important, the Italian economy unexpectedly shrank -0.1% qoq in the third quarter of 2018, following a 0.2%growth in the previous period, the final estimate showed. It was the first contraction since the second quarter of 2014. Reports showed that manufacturing and services continued to shrink while confidence has fallen. Italy's unemployment rate rose to 10.6% in October 2018 from an upwardly revised 10.3% in the previous month and above market expectations of 10.1%. The number of unemployed increased by 2.4% while employment remained broadly stable. Despite a modest improvement, the 10-year spread between Italy and German government bonds remains around 3%, compared with about 1.5% a year ago.

	10 Years Spread vs German bonds 06.12..2018	Government Debt/GDP 2017	GDP Quaterly Growth 09.2018	GDP Annual Growth 09.2019	Unemployment 10.2018	Inflation 10.2018	CAR 06.2018	NPL 06.2018
Italy	2.96%	131.80%	-0.10%	0.70%	10.60%	1.70%	16.23%	9.73%

Italy will be paying more than EUR 5 billion in extra debt interest in 2019 if the higher yields "remain consistent with current market expectations," the Bank of Italy says. That would jump to about EUR 9 billion in 2020. Almost EUR 200 billion Italian bonds mature in 2019. The government budget deficit implies the need for additional loans of EUR 57 billion. This means that in 2019 the Italian government will have to issue a debt of EUR260 billion. Further declines in government securities would also affect the capital of the country's smaller banks. The Italian banks' liquidity is not high - for 06.2018 Banca d'Italia has a debt of EUR 481 billion to the TARGET2 payment system. The ECB's chief economist said there is little the central bank can do in this situation, unless Italy requests an Outright Monetary Transactions (OMTs) — a program under which the ECB buys short-term bonds in the secondary market - in this case of Italy, to being down funding costs for the country. However, there are "strict and effective" fiscal conditions that need to be met, which most likely take the form of austerity measures and structural reforms. ECB President made similar comments last month. He told that what is available for the ECB towards a specific country is OMT and that requires a financial rescue from the euro zone bailout fund - the European Stability Mechanism. The growing risk of recession is putting pressure on Italy's new government, which took office in June, to change course and comply with EU fiscal rules. The Italian government proposed cutting the target from 2.4% to 2.04%. The same applies to Italy's 2019 GDP target of 1.5% - the government proposed cutting the target from 1.5% to 1%. The Europen Commision said talks with Italy were progressing well, but that more work needed to be done. If no compromise is reached the commission is expected to put Italy into excessive deficit procedure, a disciplinary process that could eventually see fines levied on Italy starting at 0.2% of GDP. In an effort to avoid these fines, the Italian government has dropped the so-called "golden pensions", the largest pension packages for civil servants, and increased eco taxes for luxury cars. The European Commission decided against launching a disciplinary procedure against Italy over its budget after the country's government pledged to rein in its spending.

United Kingdom

The British government postponed the vote on the Brexit agreement by the British Parliament. The reason is that the agreement was expected to be rejected by a substantial majority. While a 'no deal' Brexit is not the most likely outcome, the economic risks it poses and the political fault lines it exposes means it looks set to be a key focus for markets into early 2019. According Bank of England special report "EU withdrawal scenarios and monetary and financial stability", In case of "no deal no transition" hard Brexit, unemployment would rise to between 5.75% and 7.5%. Inflation in that case then rises to between 4.25% and 6.5%. Relative to the November 2018 Bank of England projection, GDP is between 4.75% and 7.75% lower by end-2023.

The British government postponed the vote on the Brexit agreement by the British Parliament. The reason is that the agreement was expected to be rejected by a substantial majority - more than 100 votes. The attempts by the government to renegotiate the agreement with the EU leaders for now are unsuccessful. The positions of the British Prime Minister are at risk. While a 'no deal' Brexit is not the most likely outcome, the economic risks it poses and the political fault lines it exposes means it looks set to be a key focus for markets into early 2019. According Bank of England special report "EU withdrawal scenarios and monetary and financial stability" analyses the economic effects of the Withdrawal Agreement and the Political Declaration setting out the framework for the future relationship between the EU and the UK, as well as the consequences of leaving the EU without a Withdrawal Agreement. This analysis includes four scenarios with the timelines up to five years. The scenarios illustrate what could happen under a range of key assumptions. Building the scenarios requires making key assumptions about the form of the new relationship between the UK and EU, the degree of preparedness across firms and critical infrastructure, and how macro policies respond. The Treasury Committee asked for the scenarios to be presented relative to the "present situation." This can be interpreted either: i) as the path the economy is currently on, represented by the Bank of England most recent, November 2018, forecast; or ii) as the path the economy was on prior to the EU referendum, represented by the Bank of England May 2016 forecast. Both are used as references for the four scenarios. The Withdrawal Agreement and the Political Declaration could be consistent with different outcomes for the future relationship between the UK and EU. The two scenarios presented for the Economic Partnership differ in their underlying assumptions about trade barriers between the UK and the EU. In a scenario in which the UK retains a "Close Economic Partnership" with the EU including comprehensive arrangements for free trade in goods and some trade in business and financial services, there could be some recovery of output part of the way towards the May 2016 path over the five year period that is the focus of the Bank's statutory objectives. But in a scenario in which there is a "Less Close Economic Partnership" with the EU, customs checks and greater regulatory barriers to trade mean that output could fall below the November path and so further below the May 2016 path. The range reflects the sensitivity to the key assumptions about the extent to which trade barriers rise, and how rapidly uncertainty declines. GDP is between 1.25% and 3.75% lower than the May 2016 trend by end-2023. Relative to the November 2018 Inflation Report projection, by end-2023 it is 1.75% higher in the Close scenario, and 0.75% lower in the Less Close scenario. This is accompanied by a slightly lower level of unemployment relative to the Inflation Report in the Close scenario, and a slightly higher level in the Less Close scenario. In both the Close and Less Close scenarios, inflation is a little lower in the near term reflecting the appreciation of sterling. Inflation then rises above the Inflation Report forecast in the Less Close scenario as customs barriers take effect from 2021. There are two hard Brexit scenarios (no deal no transition Brexit).

In the disruptive scenario, tariffs and other barriers to trade between the UK and EU are introduced suddenly. No new trade deals are implemented within the five year period, but the UK replicates deals acquired by virtue of EU membership. While the UK recognises EU product standards, the EU does not reciprocate. The EU does not take action to address remaining risks of disruption to financial markets. In the disorderly scenario, the UK loses existing trade arrangements that it currently has with non-EU countries through membership of the EU. The UK's border infrastructure is assumed to be unable to cope smoothly with customs requirements. There is a pronounced increase in the return investors demand for holding sterling assets. There are spillovers across asset classes. In these scenarios GDP is between 7.75% and 10.5% lower than the May 2016 trend by end-2023. Relative to the November 2018 Inflation Report projection, GDP is between 4.75% and 7.75% lower by end-2023. This is accompanied by a rise in unemployment to between 5.75% and 7.5%. Inflation in these scenarios then rises to between 4.25% and 6.5%.

USA

The US economy advanced an annualized 3.5% on quarter in the third quarter of 2018, in line with earlier figures, the second estimate showed. Annual inflation rate in the US fell to 2.2% in November of 2018 from 2.5% in October. The US unemployment rate was unchanged at a 49-year low of 3.7% in November 2018.

The US economy advanced an annualized 3.5% on quarter in the third quarter of 2018, in line with earlier figures, the second estimate showed. It follows a 4.2% growth in the previous period which was the highest since the third quarter of 2014. Upward revisions to nonresidential fixed investment and private inventory investment were offset by a downward revision to consumer spending and a higher drag from net trade. Annual inflation rate in the US fell to 2.2% in November of 2018 from 2.5% in October, matching market expectations. It is the lowest reading since February. On a monthly basis, consumer prices were unchanged after rising 0.3% in October and also in line with forecasts. The gasoline index declined 4.2%, offsetting increases in an array of indexes including shelter and used cars and trucks. The US unemployment rate was unchanged at a 49-year low of 3.7% in November 2018, in line with market expectations. The number of unemployed decreased by 100 thousand to 5.98 million and employment rose by 233 thousand to 156.80 million. Both the labor force participation rate, at 62.9%, and the employment-population ratio, at 60.6%, were unchanged in November.

Japan

The Gross Domestic Product (GDP) in Japan stagnated 0% in the third quarter of 2018. The Japanese economy shrank -0.6 % on quarter in the third quarter of 2018, faster than a preliminary estimate of a 0.3% drop and market expectations of a 0.5% decline. It is the steepest contraction since the second quarter of 2014. Natural disasters like flood and earthquake weighed more on personal consumption and capital investment than initially estimated. The unemployment rate in Japan edged up to 2.4% in October of 2018 from a 4-month low of 2.3% in the previous month.

The Gross Domestic Product (GDP) in Japan stagnated 0% in the third quarter of 2018 over the same quarter of the previous year. The Japanese economy shrank -0.6 % on quarter in the third quarter of 2018, faster than a preliminary estimate of a 0.3% drop and market expectations of a 0.5% decline. It is the steepest contraction since the second quarter of 2014, following a downwardly revised 0.7% expansion in the previous period. Natural disasters like flood and earthquake weighed more on personal consumption and capital investment than initially estimated. Japan's consumer price inflation rose to 1.4% yoy in October 2018 from 1.2% in the previous month and matching market estimates. It was the highest rate since February, mainly due to a jump in prices of food. Core inflation rate, which excludes fresh food, stood at 1%, unchanged from the previous month and in line with expectations. The unemployment rate in Japan edged up to 2.4% in October of 2018 from a 4-month low of 2.3% in the previous month and slightly above market expectations of 2.3%. Meanwhile, the jobs-to-applicants ratio fell unexpectedly to 1.62 from 1.64 in September and missing estimates of 1.65.

China

China's consumer price inflation slowed to 4-month low of 2.2% year-on-year in November 2018 from 2.5% in the previous month. Presidents Trump and Xi Jinping agreed to a 90-day cease-fire in the China-US trade war. U.S. promised to delay until March a planned 15 % jump in the September round of 10% tariffs targeting some USD 250 billion in Chinese exports The detention in Canada of Meng Wanzhou, Huawei's CFO and the daughter of its founder, is further inflaming tensions between the US and China. The real competition is over global leadership in advanced technology industries.

China's consumer price inflation slowed to 4-month low of 2.2% year-on-year in November 2018 from 2.5% in the previous month and below market consensus of 2.4%. Food inflation hit its lowest in three months and cost of non-food increased the least in seven months. The trade war between China and the US continued in December at a high pace. Presidents Trump and Xi Jinping agreed to a 90-day cease-fire. The White House's version of events is as follows: China pledged to buy a "very substantial" amount of U.S. agricultural, energy and industrial goods, with purchases of farm products beginning immediately. Beijing also agreed to negotiate immediately on Chinese practices such as forced technology transfers, intellectual property protection, non-tariff barriers and cyber theft. In exchange, U.S. promised to delay until March a planned 25 % jump in the September round of 10% tariffs targeting some USD 250 billion in Chinese exports. Trump said China, home to the world's largest auto market, would remove tariffs on U.S. auto exports, which increased to 40% in July. But Beijing has said nothing about the 90 day extension, nor about which goods it's planning to buy, nor how it will buy them. According to Beijing, the upcoming talks will focus on scrapping all tariffs imposed by both countries and on reaching a consensus on trade. The detention in Canada of Meng Wanzhou, Huawei's CFO and the daughter of its founder, is further inflaming tensions between the US and China. Her arrest is linked to a US extradition request on charges of violating sanctions against Iran over the period 2009-2014. China says her detention is a human rights violation and is demanding her swift release. The importance of the U.S. market and U.S. components in supply chains mean that decisions by U.S. regulators to limit market access to key elements of the U.S. economy or U.S. produced technology can cripple foreign firms, creating existential risk for the Chinese economy. The West fears companies such as Huawei as providing communications systems that may be subtly compromised by the Chinese government. They also fear that China is stealing U.S. technological secrets that can then be used not only to enhance China's commercial prowess but its military might as well. In the last major sanctions case ZTE — the United States threatened to block ZTE's access to semiconductors manufactured in the United States. The real competition is over global leadership in advanced technology industries. For now, the dependence of Huawei and the Chinese high-tech sector on American technology has left China vulnerable. 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 economy grew by 1.6% yoy in the third quarter of 2018, slowing from an upwardly revised 5.3% expansion in the previous three-month period. More important, on a quarterly base GDP in Turkey contracted 1.10% in the third quarter of 2018 over the previous quarter. Turkey enters in a period of stagflation. The Turkish consumer price inflation eased to 21.62% yoy in November 2018 from a near 15-year high of 25.24% in the prior month. The economy will probably contract by -2% in 2019, Moody's said. IMF expects growth in Turkey 0.4% in 2019, OECD expects contract by -0.4% in the same year, EBRD expects growth in Turkey of 1% in 2019. The Turkish unemployment rate increased to 11.4% in September of 2018 from 10.6% in the same month of the previous year. The banking sector is among the hardest hit from the crisis. The reason is the failure of real-sector companies to roll over external debts. Turkish non-financial companies had USD 331 billion of foreign-exchange liabilities at the end of August, almost triple their FX assets. The government has set up a Credit Guarantee Fund to take some corporate risk onto its own balance sheet. More radical steps may be needed, with some investors calling for a bank recapitalization program to be financed by taxpayers and shareholders.

The Turkish economy grew by 1.6% yoy in the third quarter of 2018, slowing from an upwardly revised 5.3% expansion in the previous three-month period and below market expectations of 2%. This was the weakest growth rate since a contraction in the third quarter of 2016, as household consumption and government spending increased at a softer pace while fixed investment fell. On the other hand, net external demand contributed positively to the expansion as a weak lira boosted exports. The biggest decline is in a construction output, which shrank by 5.3%, following a 1.0% growth in the second quarter. More important, on a quarterly base GDP in Turkey contracted 1.10% in the third quarter of 2018 over the previous quarter. The decline is expected to continue in the next two quarters. Turkey enters in a period of stagflation. The economy will probably contract by -2% in 2019, Moody's said. IMF expects growth in Turkey 0.4% in 2019, OECD expects contract by -0.4% in the same year, EBRD expects growth in Turkey of 1% in 2019. The Turkish consumer price inflation eased to 21.62% yoy in November 2018 from a near 15-year high of 25.24% in the prior month, and below market expectations of 22.58%. It was the lowest inflation rate since August mainly due to a favorable trend in oil, lira recovery and tax cuts in consumer durables, furniture and automobile introduced by the government in early November. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, dropped to 20.72% in November from an all-time high of 24.34% in the previous month. On a monthly basis, consumer prices fell 1.44% in November. This was the first monthly decline in consumer prices since June 2017, due to decreases in costs of transportation (-6.46%); furnishing and household equipment (-2.85%); recreation and culture (-2.08%); miscellaneous goods and services (-0.96%); and food and non-alcoholic beverages (-0.74%). The Turkish unemployment rate increased to 11.4% in September of 2018 from 10.6% in the same month of the previous year. The number of unemployed went up 330 thousand from a year earlier to 3.75 million in September, and employment rose 266 thousand to 29.06 million. The non-agricultural jobless rate went up to 13.5% in September from 12.8% in the previous year. Youth unemployment rate, measuring job-seekers between 15 and 24 years old, rose to 21.6% from 20.0% in the same month a year ago. On a seasonally adjusted basis, the unemployment rate inched up to 11.3% in September from 11.2% in August. The banking sector is among the hardest hit from the crisis. The reason is the failure of real-sector companies to roll over external debts. The crisis in the real sector has had an immediate effect on its financiers in the banking system. Many Turkish banks — downgraded several times by international credit rating agencies this year — are in need of restructuring. Public banks, in particular Ziraat, Vakifbank and Halkbank, are known to have serious balance-sheet problems. Monthly risk analysis reports by the Banks Association of Turkey suggest that loan repayments are not yet a problem. As of September, delayed loan payments amounted to USD 570 million, or 3.3%, out of some USD 18 billion in issued loans. Overdue loan payments under close monitoring but not yet subject to legal action are in Group 2. Together with the officially delayed payments above, they amount to between 17% and 18% of the total. Also, the capital structure of banks, especially public ones, has weakened. In a first step to address this problem in September, Halkbank and Vakifbank issued TRY 5 billion (USD 1 billion) subordinated bonds each, to be sold to qualified investors. The legal status of the state-owned Development Bank was amended in October. It was already known that the bank would be tapped to handle the non-performing loans of other banks. In this operation, the Development Bank was tasked with issuing asset-backed securities worth TRY 3.1 billion (some USD 600 million) and swapping those lira-denominated five-year bonds that have yields of 18.5% with the bonds of the public banks. Turkish non-financial companies had USD 331 billion of foreign-exchange liabilities at the end of August, almost triple their FX assets. The government has set up a Credit Guarantee Fund to take some corporate risk onto its own balance sheet. More radical steps may be needed, with some investors calling for a bank recapitalization program to be financed by taxpayers and shareholders.

Policy of the Central banks

ECB

At 13 December 2018 meeting the Governing Council of the European Central Bank decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.40% respectively. The net purchases under the asset purchase program will end in December 2018. The European Central Bank intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase program for an extended period of time past the date when it starts raising the key ECB interest rates. According the Statement on Single Supervisory Mechanism (SSM) risk appetite, SSM promotes the sustainability of bank business models that are consistent with sound risk management and controls, backed by sufficient capital and liquidity to be able to withstand adverse economic and financial conditions.

At 13 December 2018 meeting the Governing Council of the European Central Bank (ECB) decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.40% respectively. The European Central Bank expects the key ECB interest rates to remain at their present levels at least through the summer of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term. Regarding non-standard monetary policy measures, the net purchases under the asset purchase programme (APP) will end in December 2018. At the same time, the European Central Bank is enhancing its forward guidance on reinvestment. Accordingly, the European Central Bank intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favorable liquidity conditions and an ample degree of monetary accommodation. According the Statement on Single Supervisory Mechanism (SSM) risk appetite, published on 10 December 2018, SSM promotes the sustainability of bank business models that are consistent with sound risk management and controls, backed by sufficient capital and liquidity to be able to withstand adverse economic and financial conditions. Banks that do not meet these threshold conditions must take appropriate measures to strengthen their position or else they may need to exit the market. Therefore, the objective of the SSM is not to prevent bank failures in themselves. A zero-failure policy is neither feasible nor desirable. Banks can and should exit the market if they are managed in a risky and unsound manner, or if they are structurally incapable of maintaining their competitiveness based on a sound business model. Furthermore, a zero-failure policy would be inconsistent with the principle that the owners and managers of banks are ultimately responsible for the consequences of their decisions and actions. A zero-failure policy would thus foster moral hazard.After assessing the sustainability of a bank's business model, its risk profile and plausible recovery measures, the SSM may determine that the bank is no longer viable from a capital or liquidity perspective, and declare it to be failing or likely to fail. The Single Resolution Board (SRB) subsequently takes charge of the decision whether to resolve the bank in question.

Bank of England

Although the nature of EU withdrawal is not known at present, and its impact on the balance of demand, supply and the exchange rate cannot be determined in advance, under all circumstances, the Bank of England will respond to any material change in the outlook to bring inflation sustainably back to the 2% target while supporting jobs and activity. The Bank of England judges that the UK banking system is strong enough to serve UK households and businesses even in a disorderly Brexit.

According Bank of England special report “EU withdrawal scenarios and monetary and financial stability”, the outlook for inflation, growth and employment depends significantly on the nature of EU withdrawal, in particular: the form of new trading arrangements between the EU and UK; whether the transition to them is abrupt or smooth; and how households, businesses and financial markets respond. There is little that monetary policy can do to offset supply shocks. Large negative supply shocks occur relatively rarely in advanced economies. The implications of these developments for the appropriate path of monetary policy will depend on the balance of their effects on demand, supply and the exchange rate. The Bank of England judges that the monetary policy response to EU withdrawal, whatever form EU withdrawal takes, will not be automatic and could be in either direction. Although the nature of EU withdrawal is not known at present, and its impact on the balance of demand, supply and the exchange rate cannot be determined in advance, under all circumstances, the Bank of England will respond to any material change in the outlook to bring inflation sustainably back to the 2% target while supporting jobs and activity. Securing an Implementation Period will minimise the near-term financial stability and economic risks of a disruptive withdrawal from the EU outlined above by providing time for authorities, infrastructure providers, financial and non-financial businesses time to address cliff edge risks. The Bank of England - alongside other domestic authorities and financial companies themselves - has put extensive contingency plans in place to support institutional resilience and market functioning in the event that the UK leaves the EU without an implementation period. The Bank of England judges that the UK banking system is strong enough to serve UK households and businesses even in a disorderly Brexit.

- The severity of the UK economic stress in the 2018 stress test which the major UK banks have passed is significantly greater than the economic scenario for Brexit based on 'worst case' assumptions.
- There is sufficient capital to absorb losses in a worst case Brexit.
- Major UK banks hold more than GBP 1 trillion of high-quality liquid assets. In addition, banks have pre-positioned collateral at the Bank of England that would allow them to borrow a further GBP 300 billion. The Bank is able to lend in all major currencies.

USA Federal Reserve

The Federal Reserve raised the target range for the federal funds rate by 0.25% to 2.25-2.5% during its 19 December 2018 meeting. Information received since the Federal Open Market Committee met in November 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 remained low. Fed officials now only expect two rate rises next year, down from three previously.

The Federal Reserve raised the target range for the federal funds rate by 0.25% to 2.25-2.5% during its December meeting and lowered forecasts for interest rate hikes in 2019 amid recent volatility in financial markets and slowing global growth. It is the fourth hike this year on the back of solid economic growth and strong labor market and despite heavy criticism from President Donald Trump. Fed officials now only expect two rate rises next year, down from three previously. Federal Open Market Committee Statement on 19.12.2018: Information received since the Federal Open Market Committee met in November 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 remained low. 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 judges that some 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 judges that risks to the economic outlook are roughly balanced, but will continue to monitor global economic and financial developments and assess their implications for the economic outlook. In view of realized and expected labor market conditions and inflation, the Committee decided to raise the target range for the federal funds rate to 2.25% to 2.5% percent. 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)

At the Monetary Policy Meeting held 19 December 2018, the Bank of Japan decided upon the following: 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.

At the Monetary Policy Meeting held 19 December 2018, the Policy Board of the Bank of Japan decided upon the following. The Bank of Japan decided to set the following guideline for market operations for the intermeeting period. 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 of Japan will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around zero percent 0%. 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 JPY 80 trillion. The Bank of Japan 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 GPY 6 trillion and about GPY 90 billion, 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 of Japan will maintain their amounts outstanding at about JPY 2.2 trillion and about JPY 3.2 trillion, respectively. The Bank of Japan will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2%, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the yoy rate of increase in the observed CPI (all items less fresh food) exceeds 2% and stays above the target in a stable manner. As for policy rates, the Bank Of Japan intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices including the effects of the consumption tax hike scheduled to take place in October 2019. It will examine the risks considered most relevant to the conduct of monetary policy and make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target.

People's Bank of China (PBC)

According PBC Governor YI Gang's Statement at the Ministerial Meeting of the 38th Meeting of the International Monetary and Financial Committee (IMFC), the Chinese economy has continued to grow steadily in 2018, with progress achieved in structural upgrading and efficiency improvement. The regulatory authorities have strengthened coordination to ensure orderly deleveraging. At the same time, the regulation of wealth management product, shadow banking, and internet finance has been significantly enhanced. Since the beginning of this year, China has announced a series of important opening-up measures in the financial sector, including relaxing foreign equity caps on banks, securities firms, and insurance companies, easing restrictions on the establishment of foreign financial institutions in China with expanded scope of business. At the same time, China will continue to push ahead with the market-based reforms of interest rate and exchange rate regimes, and keep the RMB exchange rate broadly stable at an adaptive equilibrium level.

According PBC Governor YI Gang's Statement at the Ministerial Meeting of the 38th Meeting of the International Monetary and Financial Committee (IMFC), the Chinese economy has continued to grow steadily in 2018, with progress achieved in structural upgrading and efficiency improvement. In the first half of the year, GDP grew by 6.8 percent, and consumption and investment grew steadily. In August, total retail sales of consumer goods increased by 9.0% yoy and CPI rose by 2.3% yoy. In the first eight months of this year, import and export maintained steady growth, and the total value of import and export of goods increased by 9.1% yoy, of which imports increased by 13.7% and exports increased by 5.4%. From January to August, China's trade surplus had narrowed by 33.4%. As of end-August, broad money M2 increased by 8.2%, and RMB loans grew by 13.2%. The authorities have focused more on the quality of economic growth, and growth has become more balanced. In the first half of the year, consumption contributed 78.5% to GDP growth, an increase of 14.2% points over the same period of the previous year; contribution of the service sector to growth increased further to 60.5%, 1.4% points higher than that in the same period of last year. At the same time, the use of clean energy has increased, and energy consumption per unit of GDP has been further reduced. The financial sector as a whole is sound, and overall risks are in control. China has continuously taken measures to strengthen financial supervision and regulation. In the second half of this year, the State Council's Financial Stability and Development Committee has focused on the prevention and resolution of financial risks. The regulatory authorities have strengthened coordination to ensure orderly deleveraging. At the same time, the regulation of wealth management product, shadow banking, and internet finance has been significantly enhanced. As a result, risks are well contained and risk awareness and market discipline have been strengthened. In 2018, China has continued to pursue prudent monetary policy stance, kept liquidity appropriate and ample, further improved the dual-pillar framework with focus on both monetary policy and macro-prudential policy, and actively pushed forward with financial reform and opening up. Since the beginning of this year, China has announced a series of important opening-up measures in the financial sector, including relaxing foreign equity caps on banks, securities firms, and insurance companies, easing restrictions on the establishment of foreign financial institutions in China with expanded scope of business. Most of the measures have been implemented, and the remaining ones are expected to take effect by the end of this year. Compared with efforts in the past, these measures are more intensive and broad-based. Foreign financial institutions will have greater presence in China, and China's financial industry is expected to be more competitive. In line with the principle of pre-entry national treatment with a negative list, China will take further steps to open up the financial sector in a proactive and orderly manner, and create a fair, friendly, and predictable business environment. Looking ahead, China's monetary policy is expected to remain neutral with more focus on guiding expectations. Proactive adjustment and fine-tuning are needed to ensure that the monetary stance will remain appropriate in a changing economic and financial environment, both domestically and externally. It is expected that a well designed and implemented monetary policy will create a conducive financial environment for the supply-side structural reforms and high-quality economic growth. At the same time, China will continue to push ahead with the market-based reforms of interest rate and exchange rate regimes, and keep the RMB exchange rate broadly stable at an adaptive equilibrium level. China will continue to let the market play a decisive role in the formation of the RMB exchange rate. People's Bank of China will not engage in competitive devaluation, and will not use the exchange rate as a tool to deal with trade frictions. Since the beginning of this year, China has continued to implement proactive fiscal policies, and has adopted a series of measures to ease the burden on market participants. Fiscal policies have been playing a greater role in expanding domestic demand and promoting structural adjustment.

Central Bank of Turkey

The Turkish Central Bank has decided to keep the policy rate (one-week repo auction rate) constant at 24%. According to Turkish Central Bank's Financial Stability Report November 2018, the downtrend in capacity utilization rates seen since end-2017 has had a dampening effect on the demand for new investments in the manufacturing industry. The weak domestic demand due to the contraction in economic activity, exchange rate developments and price uncertainty played a role in the deceleration in retail loans triggered by tightened credit conditions.

The Turkish Central Bank has decided to keep the policy rate (one-week repo auction rate) constant at 24%. Recently released data show that rebalancing trend in the economy has become more noticeable. External demand maintains its strength while slowdown in economic activity continues, partly due to tighter financial conditions. While developments in import prices and domestic demand conditions have led to some improvement in the inflation outlook, risks on price stability continue to prevail. Accordingly, the Turkish Central Bank has decided to maintain the tight monetary policy stance until inflation outlook displays a significant improvement. The Turkish Central Bank will continue to use all available instruments in pursuit of the price stability objective. Inflation expectations, pricing behavior, lagged impact of recent monetary policy decisions, contribution of fiscal policy to rebalancing process, and other factors affecting inflation will be closely monitored and, if needed, further monetary tightening will be delivered. It should be emphasized that any new data or information may lead the Turkish Central Bank to revise its stance. According to Turkish Central Bank's Financial Stability Report November 2018, the downtrend in capacity utilization rates seen since end-2017 has had a dampening effect on the demand for new investments in the manufacturing industry. Even though aggregate corporate financial leverage has increased to around 65 percent since May 2018 due to exchange rate developments, the ratio of corporate loans to GDP remains below global, G20 and EME averages. On the other hand, the downtrend in the household leverage ratio further accelerated, pushing the ratio below 45 percent. This was due to the supply and demand-driven deceleration in liabilities growth and the exchange rate-driven acceleration in asset growth. The household debt/ GDP ratio stood at 16.6 percent as of March 2018. The weak domestic demand due to the contraction in economic activity, exchange rate developments and price uncertainty played a role in the deceleration in retail loans triggered by tightened credit conditions. FX credit balance has declined compared to the previous Report period, as this development is attributed to exchange rate developments driven by the volatility in global financial markets, the normalization process in monetary policies of advanced economies and weakened risk appetite as well as to the shrinking FX credit demand. Both domestic and external FX loans of the corporate sector have a long-term maturity profile. The increase, particularly in the share of domestic FX loans with a maturity of five years or longer, is a favorable development in terms of corporate FX risk. Recently, alongside the tightening in credit conditions credit demand has been declining.

International Commodity Prices

Petrol

Crude oil decreased 3.03 USD/BBL or 6.15% to 46.24 on Tuesday December 18 from 49.27 in the previous trading session. Brent decreased 3.35 USD/BBL or 5.62% to 56.26 on Tuesday December 18 from 59.61 in the previous trading session. Oil becomes cheaper in a third session under the weight of fears of oversupply. Both the most traded sorts of oil have depreciated by more than 30% compared to their levels since early October. Oil production from seven large shale basins in the US is expected to peak for the first time to 8.03 million barrels per day by the end of the year, according to data from the Energy Information Administration. With lower oil prices, shale oil producers who will no longer be profitable to pump oil will eventually stop working and reduce supplies, but this will take some time, analysts say.

Oil prices are decreased by more than 1% on Tuesday and the negative trend continues in a third consecutive session, Reuter's reports. Among the reasons for the reaction of the markets are data on increasing stocks and record US oil shale production, which raise concerns over oversupply. Concerns about the future oil demand amid the weakening of global economic growth and doubts about the effect of planned oil production cuts (OPEC) also put pressure on prices, commented traders. Crude oil decreased 3.03 USD/BBL or 6.15% to 46.24 on Tuesday December 18 from 49.27 in the previous trading session. Brent decreased 3.35 USD/BBL or 5.62% to 56.26 on Tuesday December 18 from 59.61 in the previous trading session. Oil becomes cheaper in a third session under the weight of fears of oversupply. Both the most traded oil sorts have depreciated by more than 30% compared to their levels since early October, with crude oil currently being traded at prices that have not been observed since October 2017. Stocks at the US oil storage facility in Cushing, Oklahoma, where supplies are being made under the crude oil contracts, have risen by more than 1 million barrels a week from 11 to 14 December, traders said, citing data from company Genscape. Meanwhile, oil production from seven large shale basins in the US is expected to peak for the first time to 8.03 million barrels per day by the end of the year, according to data from the Energy Information Administration. With lower oil prices, shale oil producers who will no longer be profitable to pump oil will eventually stop working and reduce supplies, but this will take some time, analysts say. Meanwhile, industrial production in China has grown at its weakest pace in nearly three years, as the economy continues to lose momentum.

Agricultural products

The increase in basic cereal prices on world stock exchanges, which began in early December, continued in the last week. In Chicago, the price of wheat rose by USD 7.00 dollars to USD 225.00 USD / ton, in France there was a plus of EUR 5.00 to EUR 210.00 /ton. Russia also raised its price again by nearly USD 5 to USD 242.20 / ton. In Bulgaria, in the "Grain" circle of Sofia Commodity Exchange AD, the quotes stayed close together on most contracts, but prices rose slightly. Bread wheat ranges between BGN 350.00 and BGN 360.00 BGN/ ton respectively for supply and demand.

The increase in basic cereal prices on world stock exchanges, which began in early December, continued in the last week. In Chicago, the price of wheat rose by USD 7.00 dollars to USD 225.00 USD / ton, in France there was a plus of EUR 5.00 to EUR 210.00 /ton. In Ukraine, after the previous significant appreciation, there was now no change and the price remained USD 236.30 / ton. Russia also raised its price again by nearly USD 5 to USD 242.20 / ton. For corn, the change is more controversial at FOB prices - US plus USD 4.00 to USD 170.00 USD / ton, Ukraine minus USD 1.00 to USD 167.00 USD / ton, France plus EUR 3.00 up to EUR 177.00 / ton. Rape in the European Union (Euronext) slightly declined by EUR 1.50 and was priced at EUR 369.50 / ton and barley in France and Ukraine had contradictory trends - plus EUR 4.00 in the first country and zero 0 change in the second and corresponding prices from EUR 210.00 / ton and USD 238.00 USD / ton. The interesting development of unrefined sunflower oil during the week continues. The price collapse has ceased and after the spectacular turnaround and appreciation plus USD 25.00 a week ago, now the Rotterdam exchange price goes up slightly upwards plus USD 2 to USD 687.00 USD / ton. Refined sugar continues to be overly volatile in its movement, now it has reversed the trend and has risen by USD 3.60 to USD 345.20 / ton in London. In Bulgaria, in the "Grain" circle of Sofia Commodity Exchange AD, the quotes stayed close together on most contracts, but prices rose slightly. Bread wheat ranges between BGN 350.00 and BGN 360.00 BGN/ ton respectively for supply and demand, feed wheat is sought at BGN 310.00 to 330.00 BGN / ton, the offer is BGN 340.00 BGN/ ton. For maize, "buy" bids rose to BGN 250.00 BGN/ ton for delivery in January, and for immediate delivery the price was BGN 260.00-280.00 BGN/ ton. Sellers, however, were missing. Oil sunflower is looking for BGN 540.00-550.00 BGN/ ton, the offer is BGN 570.00-580.00 BGN/ ton. All prices are without VAT.

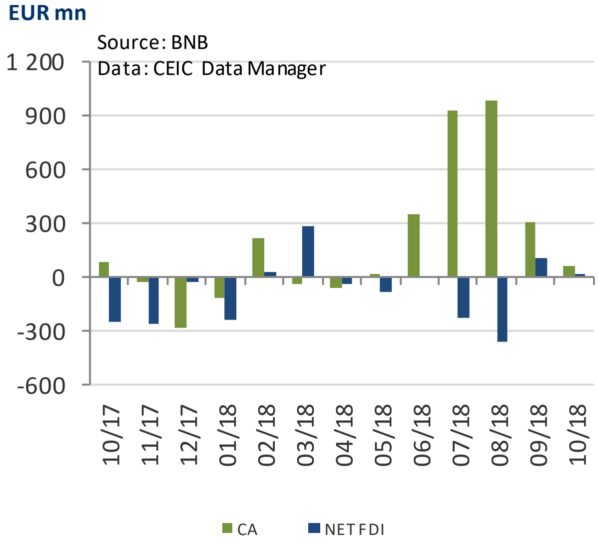
BULGARIA

EXTERNAL SECTOR

Balance of Payments

For January – October 2018, the current and capital account is positive, amounting to EUR 3,126.2 million and accounts for 5.9% of GDP

Balance of Payments



The current and capital account recorded a surplus of EUR 131.8 million in October 2018, compared with a surplus of EUR 119.4 million in October 2017. In January – October 2018 the current and capital account was positive amounting to EUR 3,126.2 million (5.9% of GDP), compared with a surplus of EUR 4,055.1 million (7.8% of GDP) in January – October 2017. The current account was positive amounting to EUR 56.1 million in October 2018, compared with a surplus of EUR 78.8 million in October 2017. In January – October 2018 the current account was positive and amounted to EUR 2,609 million (4.9% of GDP), compared with a surplus of EUR 3,676.2 million (7.1% of GDP) in January – October 2017. The balance on goods recorded a deficit of EUR 233.3 million in October 2018, compared with a deficit of EUR 57.6 million in October 2017. In January – October 2018 the balance on goods was negative amounting to EUR 1,829 million (3.5% of GDP), compared with a deficit of EUR 251.9 million (0.5% of GDP) in January – October 2017. Exports of goods amounted to EUR 2,756.4 million in October 2018, growing by EUR 276.3 million (11.1%) from October 2017 (EUR 2,480.1 million). In January – October 2018 exports of goods totalled EUR 22,872.2 million (43.3% of GDP), growing by EUR 474.2 million (2.1%) year-on-year (from EUR 22,398.1 million, 43.4% of GDP). In January – October 2017 exports grew by 18.3% yoy. Imports of goods amounted to EUR 2,989.7 million in October 2018, growing by EUR 452 million (17.8%) from October 2017 (EUR 2,537.7 million). In January – October 2018 imports of goods totalled EUR 24,701.3 million (46.8% of GDP), growing by EUR 2,051.3 million (9.1%) from January – October 2017 (EUR 22,649.9 million, 43.8% of GDP). In January – October 2017 imports grew by 15.1% yoy. Services recorded a positive balance of EUR 157.5 million in October 2018, compared with a surplus of EUR 95.8 million in October 2017. In January – October 2018 services recorded a surplus of EUR 3,110.1 million (5.9% of GDP) compared with a positive balance of EUR 2,679.4 million (5.2% of GDP) in the same period of 2017. The net primary Income (which reflects the receipt and payment of income related to the use of resources (labour, capital, land), taxes of production and imports and subsidies) recorded a surplus of EUR 32.8 million, compared with a deficit of EUR 30.2 million in October 20173. In January – October 2018 the balance on primary income was negative and equated to EUR 387.5 million (0.7% of GDP), compared with a deficit of EUR 401.4 million (0.8% of GDP) in January – October 2017. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 99.1 million, compared with a positive balance of EUR 70.7 million in October 2017. In January – October 2018 the net secondary income was positive amounting to EUR 1,715.4 million (3.2% of GDP), compared with a positive balance of EUR 1,650 million (3.2% of GDP) in the same period of 2017. The capital account recorded a surplus of EUR 75.8 million, compared with a positive balance of EUR 40.6 million in October 2017. In January – October 2018 the capital account recorded a surplus of EUR 517.2 million (1% of GDP), compared with a positive balance of EUR 378.9 million (0.7% of GDP) in January – October 2017. The financial account recorded a net inflow of EUR 145.8 million, compared with an outflow of EUR 168.9 million in October 2017. In January – October 2018 the financial account recorded a net inflow of EUR 2,706.8 million (5.1% of GDP) compared with an inflow of EUR 1,985.6 million (3.8% of GDP) in January – October 2017. The net direct investment compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual was positive amounting to EUR 5.3 million, compared with a negative balance of EUR 257.4 million in October 2017. In January – October 2018 direct investment recorded a negative balance of EUR 574.3 million (1.1% of GDP), compared with a negative balance of EUR 779.2 million (1.5% of GDP) in January – October 2017. Direct investment – assets grew by EUR 16.1 million compared with a decline of EUR 67.6 million in October 2017. In January – October 2018 direct investment – assets grew by EUR 609.3 million (1.2% of GDP), compared with an increase of EUR 399.5 million (0.8% of GDP) in the same period of 2017. Direct investment –

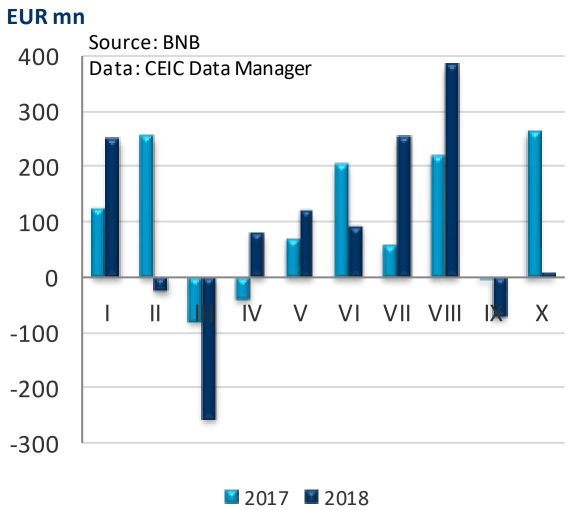
liabilities grew by EUR 10.8 million in October 2018, compared with an increase of EUR 189.8 million in October 2017. In January – October 2018 direct investment – liabilities rose by EUR 1,183.6 million (2.2% of GDP), compared with an increase of EUR 1,178.8 million (2.3% of GDP) in the same period of 2017. The balance on portfolio investment was positive amounting to EUR 68.7 million, compared with a positive balance of EUR 661 million in October 2017. In January – October 2018 the balance was positive and equated to EUR 898.3 million (1.7% of GDP), compared with a positive balance of EUR 1,983.8 million (3.8% of GDP) million in January – October 2017. Portfolio investment – assets grew by EUR 156.6 million, compared with an increase of EUR 588.9 million in October 2017. In January – October 2018 they rose by EUR 879.2 million (1.7% of GDP) compared with an increase of EUR 1,314.7 million (2.5% of GDP) in January – October 2017. Portfolio investment – liabilities grew by EUR 87.9 million compared with a decline of EUR 72.1 million in October 2017. In January – October 2018 portfolio investment – liabilities dropped by EUR 19.2 million (0.04% of GDP), compared with a decline of EUR 669.1 million (1.3% of GDP) in January – October 2017. The balance on other investment was positive amounting to EUR 557.1 million, compared with a positive balance of EUR 1,747.2 million in October 2017. In January – October 2018 the balance was positive and equated to EUR 1,799.6 million (3.4% of GDP), compared with a positive balance of EUR 2,352.6 million (4.6% of GDP) in January – October 2017. Other investment – assets grew by EUR 588.5 million, compared with an increase of EUR 1,583.7 million in October 2017. In January – October 2018 they grew by EUR 2,392.7 million (4.5% of GDP) compared with an increase of EUR 2,060.9 million (4% of GDP) in January – October 2017. Other investment – liabilities grew by EUR 31.5 million compared with a decline of EUR 163.5 million in October 2017. In January – October 2018 they grew by EUR 593.1 million (1.1% of GDP) compared with a decline of EUR 291.7 million (0.6% of GDP) in January – October 2017. The BNB reserve assets5 dropped by EUR 493.2 million, compared with a decrease of EUR 2,338.7 million in October 2017. In January – October 2018 they increased by EUR 485 million (0.9% of GDP), compared with a decline of EUR 1,568.4 million (3% of GDP) in the same period of 2017. The net errors and omissions were positive amounting to EUR 14 million compared with a negative value of EUR 288.3 million in October 2017. According to preliminary data, the item was negative totalling EUR 419.4 million (0.8% of GDP) in January – October 2018, compared with a negative value of EUR 2,069.5 million (4% of GDP) in the same period of 2017.

Foreign Direct Investments

In January-October 2018, direct investment in Bulgaria amounted to EUR 842.2 million (1.6% of GDP), down by 21.2% yoy when it was amounting to EUR 1070.2 million (2.1% of GDP)

According to preliminary data, the net flows of foreign direct investment in Bulgaria presented according to the directional principle totalled EUR 842.2 million (1.6% of GDP) in January – October 2018, dropping by EUR 228.7 million (21.4%) from January – October 2017 (EUR 1,070.9 million, 2.1% of GDP). Foreign direct investment flows in Bulgaria recorded a positive value of EUR 9.9 million in October 2018, compared with EUR 262.3 million in October 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 14.6 million in January – October 2018, dropping by EUR 170.5 million from a positive value of EUR 155.8 million in January – October 2017. Real estate investments of non -residents recorded an inflow of EUR 6.2 million, compared with EUR 16.8 million attracted in January – October 2017. The largest inflow of real estate investment was from Russia (EUR 3 million), Germany (EUR 0.8 million), and Ukraine (EUR 0.7 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 positive value of EUR 192.9 million, compared with a positive value of EUR 62.2million in January – October 2017. The net flow on debt instruments (the change in the net liabilities between affiliated enterprises on financial loans, suppliers' credits and debt securities) recorded a positive value of EUR 664 million in January – October 2018, compared with EUR 852.9 million in January – October 2017. The largest net direct investment inflows in Bulgaria for January – October

Foreign Direct Investment: Flow

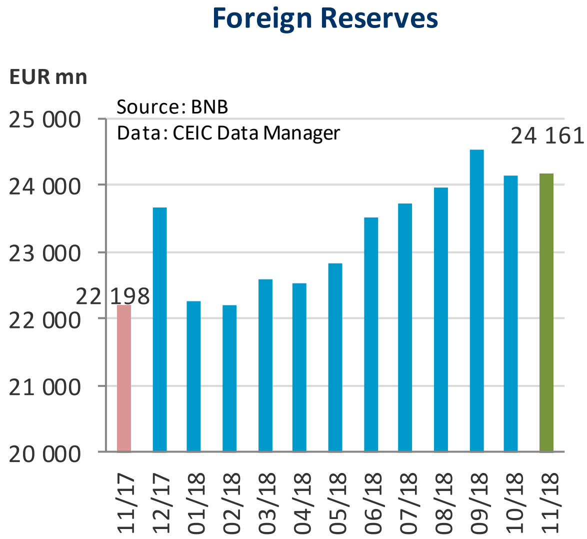


2018 were from the Netherlands (EUR 753.6 million), Germany (EUR 111.6 million), and Belgium (EUR 86.2 million). According to preliminary data, direct investment abroad recorded a net inflow of EUR 267.9 million, compared with a positive value of EUR 293.3 million in January – October 2017. It recorded an inflow of EUR 15.2 million in October 2018, compared with EUR 6.5 million in October 2017.

Foreign Reserves

At the end of November 2018, BNB foreign reserves amounted to BGN 47.3 billion (BGN 24.2 billion), increasing by 0.1% mom and by 8.8% yoy, respectively

According to BNB data at the end of November 2018, the BNB foreign reserves amounted to BGN 47.3 billion (BGN 24.2 billion) and increased by 0.1% mom and by 8.8% yoy, respectively. On the assets side, cash and deposits in foreign currency amounted to BGN 17.5 billion, increasing by 2.7% mom and by 7.3% yoy, respectively. Monetary gold deposits reported a decline of 0.8% yoy. Securities investments recorded a monthly decline of 1.5%, with growth of 10.9% on an annual basis. On the liabilities side, money in circulation exceeded BGN 16.6 billion and increased by 0.8% mom and by 11.3% yoy, respectively. Liabilities to banks amounted to BGN 12.4 billion and decreased by 2% mom with reported growth of 20% yoy, respectively. Liabilities to the government and budget organizations amounted to BGN 10.6 billion and increased by 1.7% mom, falling by 2.6% yoy, respectively. Liabilities to other depositors increased by 0.3% mom and by 34.2% yoy, respectively. The deposit of the Banking Department amounted to BGN 5.5 billion and decreased by 0.3% mom and by 3.7% yoy, respectively. Bulgaria's international liquidity position, calculated as a ratio of foreign reserves to short-term external debt, improved to 304.8% by the end of September 2018, compared to 295% at the end of August 2018, but still below the 326% reported for September 2017.



REAL SECTOR

Gross Domestic Product

According to the seasonally adjusted data, the GDP growth rate in Q3 of 2018 is 3.1% yoy

In Q3 of 2018 Gross Domestic Product (GDP) at current prices amounts to BGN 29 822 million. In Euro terms GDP is EUR 15 248 million or EUR 2 166 per person. According to the seasonally adjusted data, the GDP growth rate in the third quarter of 2018 is 3.1% compared to the same quarter of the previous year and 0.7% compared to Q2 of 2018. According to the preliminary data, Gross Domestic Product at current prices in the third quarter of 2018 is BGN 29 822 million. The GDP per person amounted to BGN 4 236. In USD terms at average quarterly exchange rate of BGN 1.68233 per dollar, the GDP amounted to USD 17 726 million or USD 2 518 per person. In Euro terms, the GDP is EUR 15 248 million or EUR 2 166 per person. Gross value added (GVA) at current prices in the third quarter of 2018 equals to BGN 26 116 million. As compared to the third quarter of 2017 the share of the agricultural sector in the gross value added of the economy decreases with 0.8 percentage points to 7.2%. The share of industrial sector decreases with 0.9 percentage points to 27.6%. The relative share of value added from

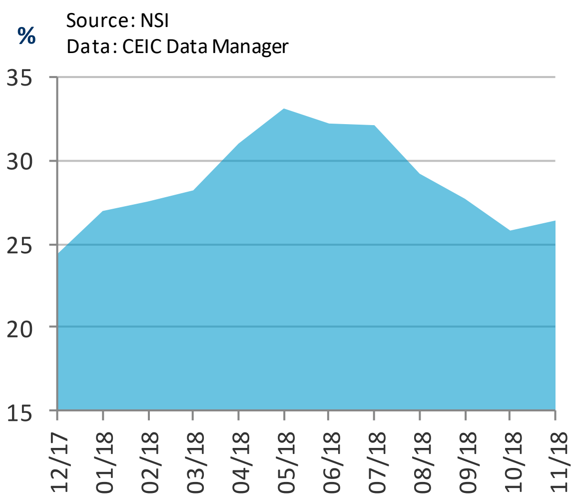
service activities increases from 63.5% to 65.2% compared with the corresponding period of the previous year. In Q3 of 2018 the final consumption expenditure1 formed 69.9% of GDP. Investments (gross fixed capital formation) formed 17.4% of GDP. The external balance (exports-imports) is positive. According to the seasonally adjusted data, GDP in the third quarter of 2018 increased by 0.7% qoq. In Q3 of 2018 gross value added of the total economy rises also by 0.7%. According to the preliminary estimates of GDP by expenditure aproach, in the third quarter of 2018 compared with the previous quarter, the final consumption increased by 1.4%. For the same period, gross fixed capital formation decreased by 1.5%. In the third quarter of 2018, seasonally adjusted imports of goods and services decreases its level compared to the previous quarter by 0.8%, while exports of goods and services has a positive growth of 1.7%. During the third quarter of 2018 GDP increases by 3.1% yoy according to the seasonally adjusted data. Gross value added increase is 3.0% compared to the same quarter of previous year. The indicators' movement is determined by the increase recorded in: Real estate activities - 21.6%, Information and communication - 5.2%, Financial and insurance activities - 5.1%, Professional, scientific and technical activities; administrative and support service activities - 3.7%, Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities - 2.7%. As regards the expenditure components of GDP, main contributors to the registered positive economic growth are the individual final consumption - with growth of 7.7%, gross fixed capital formation - growth of 7.0% and collective final consumption of the general government - growth of 3.6%. Exports of goods and services decreases by 3.6%, while imports of goods and services increases by 4.0%.

Business Climate

In November 2018, the total business climate indicator increases by 0.6 percentage points in comparison with October, which is due to the improved business conjuncture in industry and retail trade

According to NSI data in November 2018, the total business climate indicator increases by 0.6 percentage points in comparison with October, which is due to the improved business conjuncture in industry and retail trade.

Business Climate Indicator



Industry. The composite indicator 'business climate in industry' increases by 1.8 percentage points as a result of the improved industrial entrepreneurs' expectations about the business situation of the enterprises over the next 6 months. The inquiry registers certain increase of the production assurance with orders, which is not accompanied by increased expectations about the production activity over the next 3 months. The main factors limiting the business continue to be connected with the uncertain economic environment and shortage of labour. Concerning the selling prices in industry, the managers' expectations are them to remain unchanged over the next 3 months.

Construction. In November the composite indicator 'business climate in construction' decreases by 2.2 percentage points, which is due to the more reserved construction entrepreneurs' assessments about the present business situation of the enterprises. Their opinions about the construction activity over the last 3 months, as well their expectations over the next 3 months are also more unfavourable. The uncertain economic environment, shortage of labour and competition in the branch remain the most serious difficulties for the activity of the enterprises. As regards the selling prices in construction, the majority of the managers foresee preservation of their level over the next 3 months.

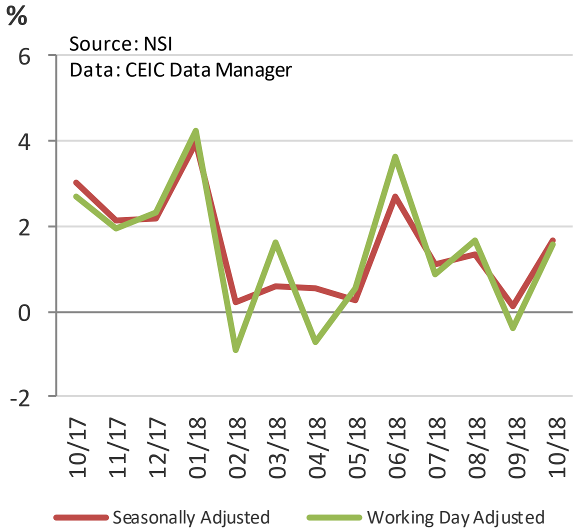
Retail trade. The composite indicator 'business climate in retail trade' increases by 1.0 percentage point in comparison with October as a result of the improved retailers' expectations about the business situation of the enterprises over the next 6 months. Their forecasts as regards the volume of sales and the orders placed with suppliers over the next 3 months remain also favourable. The competition in the branch continues to be the main obstacle for the business, followed by the uncertain economic environment and insufficient demand. Concerning the selling prices, the prevailing retailers' expectations are them to remain unchanged over the next 3 months.

Service sector. In November, the composite indicator 'business climate in service sector' remains approximately to its level from the previous month. The managers' expectations about the business development in the sector over next 6 months are more optimistic, as also their forecast about the demand for services over the next 3 months are improved.The main factors, limiting the activity of the enterprises remain the competition in the branch and uncertain economic environment, as in the last month strengthen of the unfavourable impact of the first factor is reported. As regards the selling prices, the inquiry registers certain expectations for increase over the next 3 months, although the majority of the managers foresee preservation of their level.

Industrial Production Index

According to the preliminary data the Industrial Production Index, seasonally adjusted, increased by 0.8% mom in October 2018. The working day adjusted Industrial Production Index rose by 1.6% yoy in October 2018

Industrial production Index, % change, YoY



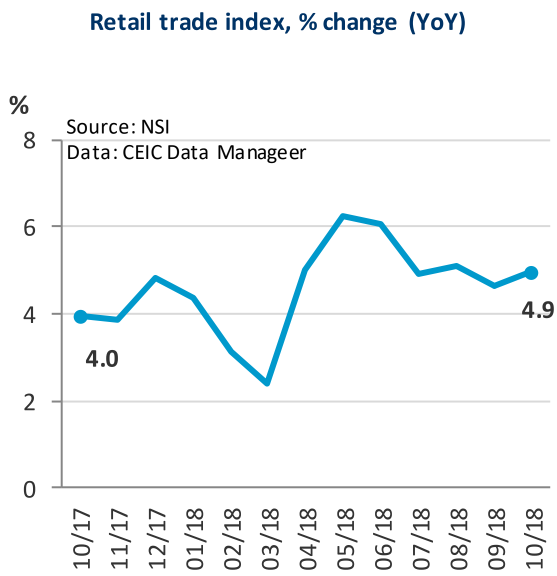
According to the preliminary data the Industrial Production Index, seasonally adjusted, increased by 0.8% in October 2018 as compared to September 2018. In October 2018 the working day adjusted4 Industrial Production Index rose by 1.6% in comparison with the same month of 2017. In October 2018 as compared to September 2018, the seasonally adjusted Industrial Production Index increased in the manufacturing by 0.9% and in the mining and quarrying industry by 0.3%, while in the electricity, gas, steam and air conditioning supply the production fell by 2.0%.The most significant production increases in the manufacturing were registered in the manufacture of other transport equipment by 29.4%, in the manufacture of tobacco products by 28.3%, in the manufacture of chemicals and chemical products by 15.2%, in the manufacture of fabricated metal products, except machinery and equipment by 14.0%. There were decreases in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 8.7%, in the manufacture of basic metals by 4.4%, in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials and in the repair and installation of machinery and equipment by 4.2%. On annual basis in October 2018 Industrial Production Index calculated from working day adjusted data rose in the manufacturing by 2.6%, while the production went down in the mining and quarrying industry by 6.3% and in the electricity, gas, steam and air conditioning supply by 3.8%. In the manufacturing, the more considerable increases compared to the same month of the previous year were registered in the manufacture of other transport equipment by 71.7%, in the manufacture of tobacco products by 25.7%, in the repair and installation of machinery and equipment by 23.8%, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 16.8%. Decreases were seen in the manufacture of basic metals by 16.7%, in the manufacture of wearing apparel by 11.8%, in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 8.9%, manufacture of fabricated metal products, except machinery and equipment by 7.8%.

Retail Trade

According to NSI preliminary seasonally adjusted data in October 2018 the turnover in 'Retail trade, except of motor vehicles and motorcycles' division at constant prices increased by 0.5% mom. The working day adjusted turnover increased by 4.9% yoy

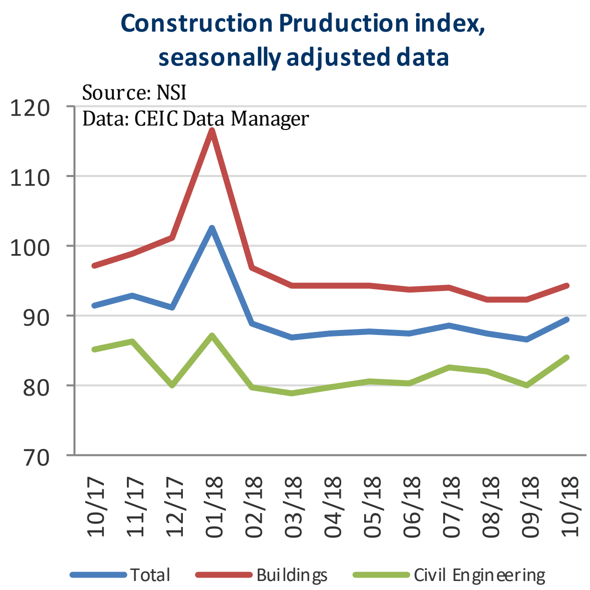
According to the preliminary seasonally adjusted data in October 2018 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.5% compared to the previous month. In October 2018, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' marked rise from 4.9% yoy. In October 2018 compared to the previous month more significant growth of turnover was observed in the 'Retail sale via mail order houses or via Internet' by 4.4% and in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles' by

3.4%. Decrease was noted in the ‘Retail sale of computers, peripheral units and software; telecommunications equipment’ - 2.8% and in the ‘Retail sale of textiles, clothing, footwear and leather goods’ - 1.6%. In October 2018 compared to the same month of 2017, the turnover increased more significantly in the ‘Retail sale via mail order houses or via Internet’ by 17.4%, in the ‘Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles’ by 16.0%, in the ‘Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances’ by 10.4% and in the ‘Retail sale of food, beverages and tobacco’ by 7.3%. Decline was registered in the ‘Retail sale of computers, peripheral units and software; telecommunications equipment’ - 7.1% and in the ‘Retail sale of automotive fuel’ - 1.7%.



Construction

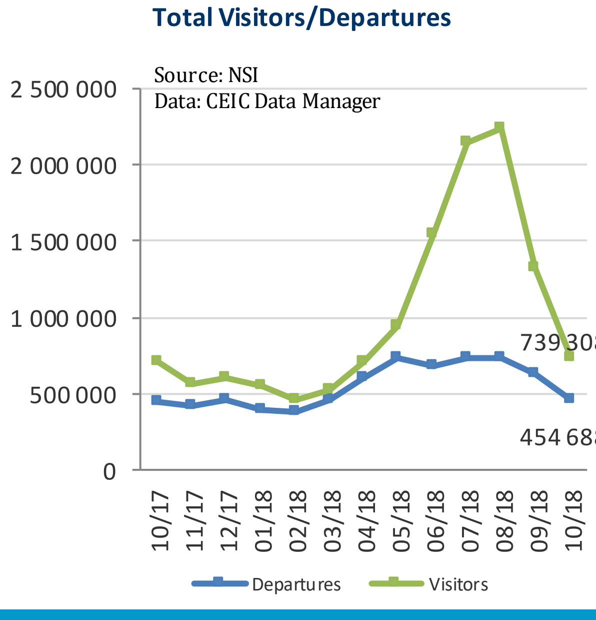
According to the preliminary data, in October 2018 the index of production in section ‘Construction’ calculated on the base of seasonally adjusted data was 3.3% above the level of the previous month. In October 2018 the working day adjusted index of production in construction increased by 1.8% in comparison with the same month of 2017



According to the preliminary data, in October 2018 the index of production in section ‘Construction’ calculated on the base of seasonally adjusted data3 was 3.3% above the level of the previous month. In October 2018 working day adjusted data4 also showed an increase by 1.8% in the construction production, compared to the same month of 2017. In October 2018 the construction production, calculated from the seasonally adjusted data, was above the level of the previous month. Index the production of civil engineering rose by 5.0% and production of building construction - by 2.0%. On an annual basis in October 2018, the increase of production in construction, calculated from working day adjusted data, was determined from the positive rate in the civil engineering, where the growth was by 2.5% and in the building construction - by 1.2%.

Tourism

In October 2018, the number of the trips of Bulgarian residents abroad was 454.7 thousand or by 3.6% above the registered in October 2017. In October 2018, the number of arrivals of visitors from abroad to Bulgaria was 739.3 thousand or by 3.8% more in comparison with October 2017



In October 2018, the number of the trips of Bulgarian residents abroad was 454.7 thousand or by 3.6% above the registered in October 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 20.9%, Germany - by 4.5%, Spain - by 3.5%, Austria - by 3.3%, Italy - by 3.0%, Serbia - by 2.6%, Romania - by 2.0%, and etc. At the same time decreased the trips to: the United Kingdom - by 2.7%, Greece - by 2.4%, the Former Yugoslav Republic of Macedonia - by 1.5%, and etc. In October 2018 most trips of Bulgarian citizens were made to: Turkey - 106.3 thousand, Greece -

100.2 thousand, Romania - 33.6 thousand, Serbia - 32.6 thousand, Germany - 25.4 thousand, the Former Yugoslav Republic of Macedonia - 25.3 thousand, Austria - 15.9 thousand, Italy - 15.4 thousand, the United Kingdom - 15.1 thousand, Spain - 11.4 thousand. In October 2018, the number of arrivals of visitors from abroad to Bulgaria was 739.3 thousand or by 3.8% more in comparison with October 2017. An increase was registered in the trips with other purposes (including as guest and passing transit) - by 4.7%, with professional purpose - by 3.3%, and with holiday and recreation purpose - by 2.8%. Transit passes through the country were 29.7% (219.7 thousand) of all visits of foreigners to Bulgaria. The share of visits of EU citizens was 55.5% of the total number of foreigners' visits to Bulgaria in October 2018 or by 2.7% more in comparison with the same month of the previous year. An increase was registered in the visits of citizens from France - by 8.2%, Poland - by 7.6%, the United Kingdom - by 5.9%, Germany - by 3.9%, Romania - by 1.2%, and etc. At the same time decreased the visits from Italy - by 3.7%, Austria - by 1.8%, Greece - by 0.6%, and etc. The visits of foreigners in the group 'Other European countries' increased by 6.7%, as the highest growth was observed in the visits of citizens of Serbia - by 24.9%. In October 2018, the predominant share of the visits with other purposes was 46.0%, followed by trips with holiday and recreation purpose - 34.9%, and with professional purpose - 19.1%. In October 2018 the most visits to Bulgaria were from: Romania - 142.6 thousand, Turkey - 106.8 thousand, Greece - 96.6 thousand, the Former Yugoslav Republic of Macedonia - 56.8 thousand, Serbia - 53.8 thousand, Germany - 42.1 thousand, Ukraine - 22.9 thousand, Poland - 20.2 thousand, the United Kingdom - 19.3 thousand, Italy - 13.9 thousand.

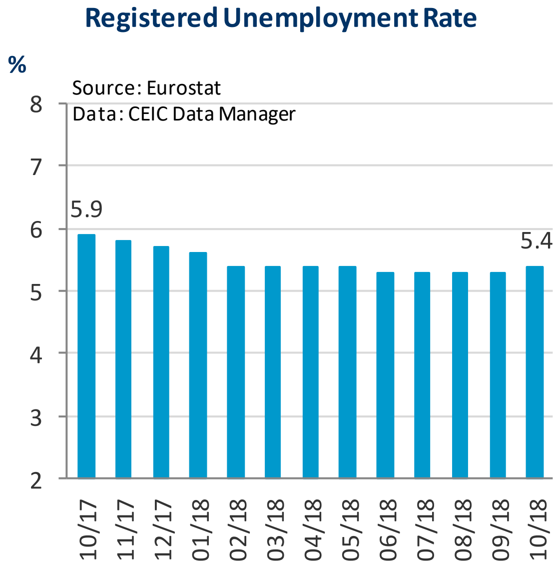
The total revenues from nights spent in October 2018 reached 49.9 million BGN or by 11.5% more compared to October 2017

In October 2018, 2 011 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 72.4 thousand and the bed-places were 152.5 thousand. In comparison with October 2017, the total number of accommodation establishments (functioned during the period) increased by 2.7% and the bed-places in them decreased by 1.2%. The total number of the nights spent in all accommodation establishments registered in October 2018 was 908.5 thousand, or by 5.1% more in comparison with the same month of the previous year, as the greatest increase (by 8.3%) was observed in 4 and 5 stars accommodation establishments. In October 2018, 76.4% of all nights spent by foreign citizens and 34.5% of all nights spent by Bulgarians were realized in 4 and 5 stars hotels. In 3 stars accommodation establishments were spent 15.6% of all nights by foreigners and 32.1% of all nights by Bulgarian residents, while in the rest of accommodation establishments (with 1 and 2 stars) they were 8.0% and 33.4% respectively. In October 2018, the number of arrivals in all accommodation establishments increased by 3.9% compared to the same month of 2017 and reached 438.8 thousand, as an increase was registered for Bulgarians by 4.0% and by 3.9% for foreigners. Bulgarians spent the nights in accommodation establishments in October 2018 were 283.2 thousand and spent 1.9 nights on the average. The arrivals of foreigners were 155.6 thousand, on average 2.4 nights, 74.2% of them spent nights in hotels with 4 and 5 stars. In October 2018, the total occupancy of the bed-places in accommodation establishments was 21.1%, as compared to October 2017 increased by 1.1 percentage points. The highest was occupancy of the bed-places in 4 and 5 stars accommodation establishments - 23.5%, followed by 3 stars accommodation establishments - 23.2%, and with 1 and 2 stars - 15.8%. The total revenues from nights spent in October 2018 reached 49.9 million BGN or by 11.5% more compared to October 2017. An increase in revenues was registered from both foreigners - by 12.9% and Bulgarians - by 9.8%.

Unemployment

In Bulgaria, unemployment is below the EU average in October, reaching 5.4%

According to Eurostat data in Bulgaria, the seasonally adjusted unemployment rate in October is below the EU average and reaches 5.4%, equivalent to 177,000 people. Compared to September 2018, there was a minimum increase of 0.1 percentage points. On an annual basis however, there is a slight decline of 0.5 percentage points. According to Eurostat, unemployment in the European Union remains stable at 6.7% in October compared to September 2018. On an annual basis, there was a decrease of 0.7 percentage points compared to registered 7.4% in October 2017. This is also the lowest level of unemployment since the monthly statistics of the European service. In the euro area, the seasonally adjusted unemployment rate also remained unchanged at 8.1% mom and there is a decline in the same period last year when it was 8.8%. These are the lowest values registered in the euro area since November 2008. According to Eurostat, 16.626 million men and women in the EU, of which 13.172 million in the euro area, were unemployed in October 2018 compared to September, their number decreased by 4000 in the EU and increased by 12 000 in the euro area. On an annual basis there is a decrease of over 1.5 million EU and 1.1 million in the euro area. Among Member States, unemployment was lowest in the Czech Republic (2.2%) and Germany (3.3%) last month. Highest figures continue to be reported in Greece (18.9% in August 2018) and Spain (14.8%).



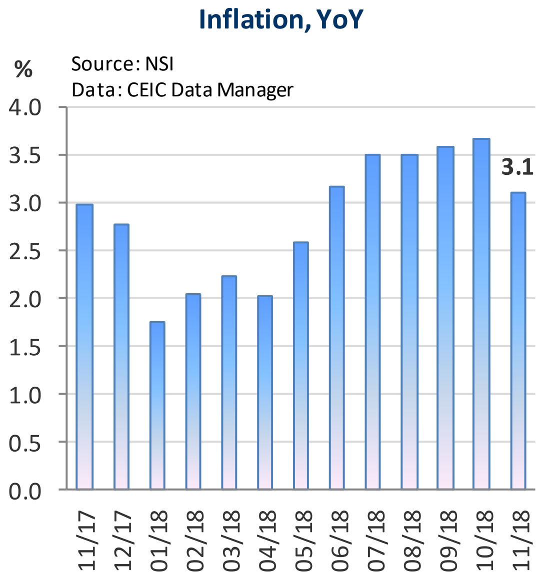
According to the preliminary data, GDP per person employed increased by 3.7% in Q3 of 2018 compared to the same quarter of the previous year

The number of persons employed in the economy is 3 681.7 thousands and the total number of hours worked is 1 477.2 millions. Compared with the same quarter of the previous year the structure of employment by economic sector in the third quarter of 2018 shows an increase in the relative share of industrial and services sectors. Gross value added per person employed increases in real terms by 2.3% and GVA per hour worked in real terms also increased by 2.3% in the third quarter of 2018 compared to the corresponding quarter of the previous year. GVA per person employed in industrial sector is BGN 7 798.9 and GVA per hour worked is BGN 18.7 according to the preliminary data for the third quarter of 2018. In service sector an average of 7 427.0 BGN Gross value added is produced by person employed or an average of 18.7 BGN GVA per hours worked. The lowest labor productivity is in agricultural sector - 2 605.1 BGN GVA per person employed and 6.7 BGN per hours worked.

Inflation

In November 2018, annual inflation slowed down to 3.1%

According to NSI data, the consumer price index for November 2018 compared to October 2018 was 99.9%, i.e., monthly inflation is minus 0.1%. Inflation from the beginning of the year (November 2018 versus December 2017) was 2.7% and annual inflation for November 2018 was 3.1% compared to November 2017. Average annual inflation for the period December 2017 - November 2018 compared to the period December 2016 - November 2017 is 2.8%. After six months of almost continuous acceleration, the rate of inflation in the country slightly slowed down. The main reason for this is the more moderate increase in fuel prices, and some food products are deflated. Monthly inflation is negative - 0.1% compared to October, with decreasing prices for liquid fuels for domestic and fuel for personal transport. They are cheaper by 3.1% and 4.5%, respectively compared to October. The Harmonized Index of Consumer Prices for November 2018 compared to October 2018 was 99.7%, i.e., monthly inflation is minus 0.3%. Inflation from the beginning of the year is 2.3% and annual inflation in November 2018 compared to November 2017 is 3.0%. The average annual inflation rate for the period December 2017 - November 2018 compared to December 2016 - November 2017 was 2.6%. The difference with the Bulgarian indicator comes from the higher weight of transport in the European methodology when calculating the index. According to NSI data, fuel for transport vehicles recorded inflation of 9.4% annually in November, which is a slowdown compared to 17.2% in October. Household liquid fuel prices also slowed slightly - from a 20.6% increase a month ago to 14.6% in November. The slowdown is due to falling oil prices on international markets. Along with fuel, food prices also went down. Data show that dairy products, oils and fruits are cheaper in November 2018 compared to the same period of the previous year. The growth rate of vegetable prices also slowed somewhat - from 10.3% in October to 9.3% in November. On the other hand, bakery and cereal products are up 10.9%, probably because of the poor cereal harvest this year, which has risen raw material prices. Looking ahead Experts' expectations are that in 2019 the growth of prices will stabi-

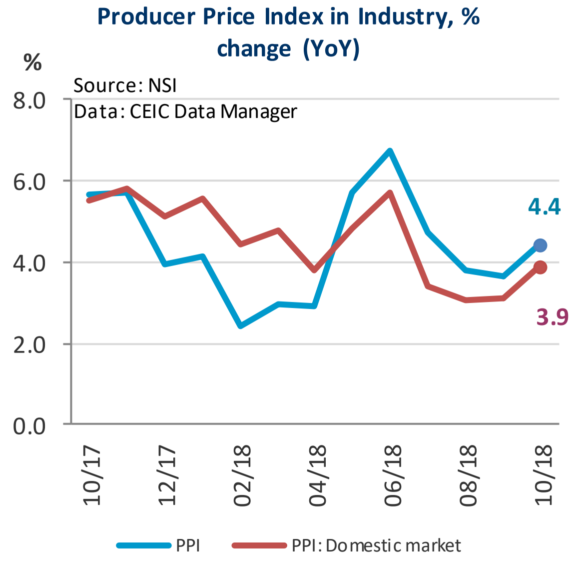


lize and even begin to decline. Expectations are that the slowdown in growth will come from the weaker rate of base inflation, international oil prices and commodity prices.

Producer Price Index in Industry

Total Producer Price Index in October 2018 increased with 1.3% compared to the previous month; compared to the same month of 2017 the prices rose by 4.4%. Producer Price Index on Domestic Market in October 2018 increased by 0.8% compared to the previous month; compared to the same month of 2017 the domestic prices grew by 3.9%

The Total Producer Price Index in Industry in October 2018 went up with 1.3% compared to the previous month. Higher prices were registered in the electricity, gas, steam and air conditioning supply the prices increased by 1.6% and in manufacturing by 1.3%, while in the mining and quarrying industry the prices decreased by 0.7% In the manufacturing3, more significant increase in prices were reported in the manufacture of basic metals by 5.3%, as well as in the manufacture of beverages by 0.6%, while prices went down in the manufacture of other transport equipment by 0.4% and in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 0.3%.The Total Producer Price Index in October 2018 increased by 4.4% compared to the same month of 2017. The prices rose in the electricity, gas, steam and air conditioning supply by 5.9% and in manufacturing by 4.5%, while prices decreased in the mining and quarrying industry by 5.6%.In the manufacturing more significant increase in prices were seen in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 5.2%, in the manufacture of leather and related products by 4.8% and in the manufacture of paper and paper products by 4.6%. The producer prices dropped in other manufacturing by 1.1%.



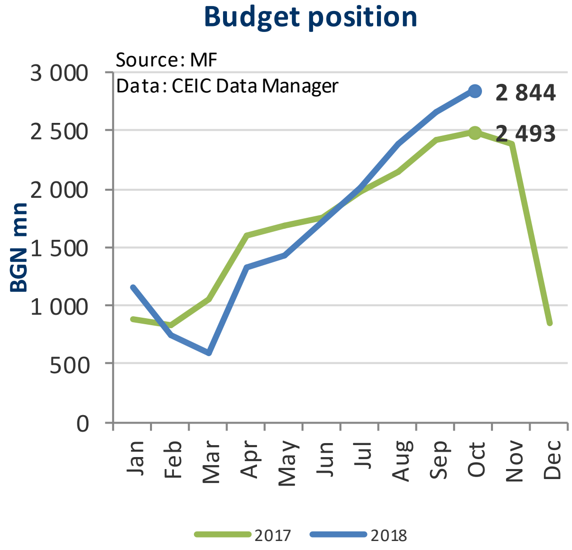
Producer Price Index on Domestic Market in October 2018 increased by 0.8% compared to the previous month. The domestic prices went up in the mining and quarrying industry by 2.0%, in the electricity, gas, steam and air conditioning supply by 0.9%, and in manufacturing by 0.6%. In the manufacturing2, compared to the previous month the prices went up in the manufacture of basic metals by 2.1% and in the manufacturing of chemicals and chemical products by 0.7%. The domestic prices went down in the printing and reproduction of recorded media by 0.2%. Producer Price Index on Domestic Market in October 2018 increased by 3.9% compared to the same month of 2017. The prices rose in the electricity, gas, steam and air conditioning supply by 4.9% and in manufacturing by 4.0%, while in the mining and quarrying industry the prices fell by 4.2%. In the manufacturing compared to October 2017 the prices went up in the manufacture of chemicals and chemical products by 5.9% and in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 4.3%. A decrease in the prices was reported in the manufacture of basic metals by 3.9%.

Producer Price Index on Non-domestic Market in October 2018 increased by 2.2% compared to the previous month. In the manufacturing the non-domestic prices rose by 2.0%. More significant price increase was reported in manufacture of basic metals by 5.9%, while prices went down in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 1.3%. Producer Price Index on Non-domestic Market in October 2018 increased by 5.3% compared to the same month of 2017. In the manufacturing, the prices went up by 5.0%. The non-domestic prices rose in the manufacture of paper and paper products by 6.6%, in the manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials by 6.3% in the manufacture of leather and related products by 5.3%. The prices fell in other manufacturing by 1.3%.

FISCAL SECTOR

Budget Balance

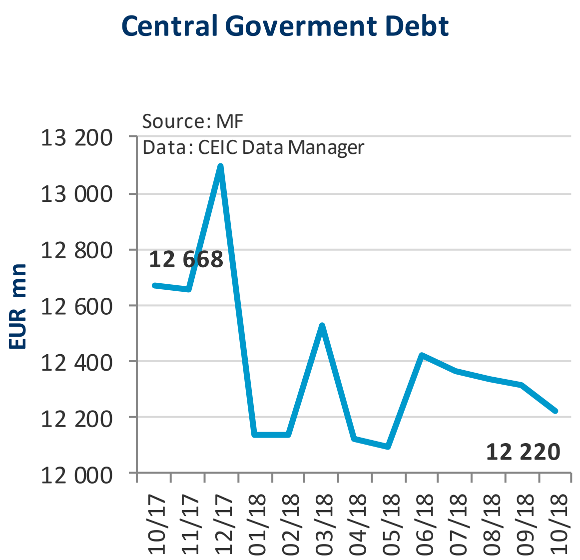
In October 2018 Bulgaria' CFP balance on a cash basis is positive, amounting to BGN 2,844.3 million and presented 2.6% of forecasted GDP



According MF data the CFP balance on a cash basis as of October 2018 is positive, amounting to BGN 2,844.3 million (2.6% of forecast GDP) and is formed by a surplus under the national budget of BGN 3,220.8 million and a deficit under EU funds of BGN 376.6 million. The CFP revenues and grants as of October 2018 stand at BGN 32,612.8 million, or 85.3% of the annual estimates. Compared to the same period of the previous year, tax and non-tax revenues have grown by BGN 3,066.5 million, or 10.9%, and grant proceed – by BGN 379.7 million, (63.3%). Tax proceeds, including revenues from social security and health insurance contributions, total BGN 26,760.9 million, which is 85.9% of the annual plans. Compared to the data for October 2017, tax revenues have risen by 9.4% (BGN 2,292.0 million) in nominal terms. Revenues from direct taxes amount to BGN 4,800.4 million, or 83.4% of the annual estimates, growing, as compared to same period of the previous year, by BGN 402.2 million (9.1%). Indirect tax revenues amount to BGN 13,192.1 million, or 87.0% of the annual plans. Compared to the data for October 2017, revenues in this group have grown by BGN 895.8 million (7.3%). The VAT proceeds amount to BGN 8,586.8 million, or 87.8% of the plan. The amount of the non-refunded VAT as of 31.10.2018 is BGN 67.4 million. The excise duty revenues amount to BGN 4,373.9 million, (84.9% of the annual estimates). Custom duties revenues are BGN 198.3 million or 104.3% of the annual plan. Proceeds from other taxes, including property taxes and other taxes under the Corporate Income Tax Law, amount to BGN 981.2 million, or 89.4% performance of the annual estimates. Revenues from social security and health insurance contributions are BGN 7,787.3 million, or 85.3% of those planned for the year. Compared to the same period of the previous year these revenues have risen by 13.4% (BGN 918.6 million) in nominal terms. Non-tax revenues amount to BGN 4,352.3 million, or 92.5% of the annual estimates. Proceeds from grants amount to BGN 1,499.6 million. The expenditures under the CFP, including the contribution of the Republic of Bulgaria to the EU budget, amount to BGN 29,768.6 million as of October 2018, which is 75.7% of the annual estimates. For comparison, the expenditures for the same period of the previous year were to the amount of BGN 26,673.3 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 28,228.6 million, which is 75.7% of the annual plans. Non-interest current expenditures as of October 2018 amount to BGN 25,692.5 million and capital expenditures (including net increment of state reserve) amount to BGN 2,492.5 million. The current and capital transfers to other countries amount to BGN 43.5 million. Interest payments amount to BGN 630.4 million, or 87.3% of those planned for 2018. The part of Bulgaria's contribution to the EU budget, paid from the central budget as of 31.10.2018, amounts to BGN 909.6 million, which complies with the current legislation in the area of EU own resources – Council Decision 2014/335/EU, Euratom on the system of own resources of the European Union. Fiscal reserve as of 31.10.2018 is BGN 11.1 billion, including BGN 10.8 billion fiscal reserve deposits in BNB and banks and BGN 0.3 billion receivables under the EU Funds for certified expenditure, advance payments, etc.

Central Government Debt

At the end of October 2018, the Central government sub-sector debt amounted to EUR 12,220.3 million and accounts for 22.1% of projected GDP



According MF data Bulgaria's central government debt stands at EUR 12,220.3 million as at end-October 2018, with the debt reduction trend being preserved. Domestic debt amounts to EUR 3,127.9 million and external debt – to EUR 9,092.4 million. At the end of the reporting period the central government debt-to- GDP ratio is 22.1%, with the share of domestic debt being 5.7% and of external debt – 16.4% of GDP. In the central government debt structure, at the end of the period domestic debt amounts to 25.6%, and external debt – to 74.4%. As of 31 October 2018, central government guaranteed debt amounts to EUR 92.7 million. Domestic guarantees amount to EUR 35.2 million and external guarantees – to EUR 57.6 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-October 2018 government debt reaches EUR 11,280.6 million, or 20.4% of GDP. Domestic debt amounts to EUR 2,788.8 million and external debt – to EUR 8,491.9 million. Government guaranteed debt amounts to EUR 960.4 million in October 2018. Domestic guarantees amount to EUR 35.2 million, with the government guaranteed debt-to-GDP ratio being 1.7%.

The international S&P Global Ratings agency affirmed its 'BBB-/A-3' long- and short-term foreign and local currency sovereign credit ratings on Bulgaria. The outlook was also affirmed and remains positive

S&P Global Ratings summarises that Bulgaria's monetary conditions continue to improve, credit conditions support growth, and the country is making steadfast progress on entering the Exchange Rate Mechanism II (ERM II). The Rating Agency also anticipates robust growth in 2018-2021 on the back of strong private consumption and accelerating investments. The continued absorption of EU funding and the tightening labour market conditions will support productivity over time. The positive outlook reflects the considerable likelihood that Bulgaria will join the Exchange Rate Mechanism II (ERM II). The Agency believes that this aspiration toward eurozone membership would also support the country's continued effort to address remaining institutional impediments and structural issues. S&P Global Ratings could raise the ratings on Bulgaria if the Bulgarian lev enters ERM II, which would further support the credibility and effectiveness of monetary policy. Additional progress on institutional and structural reforms, for example regarding the judiciary system, could also facilitate improving creditworthiness. The Agency could revise the outlook to stable if the improvements in banks' balance sheets reversed or if pressures on Bulgaria's balance of payments emerged, for example due to rebuilding of imbalances or an external shock to Bulgaria's open economy. The outlook could also be revised to stable if Bulgaria's path toward euro adoption were derailed for a protracted period

Parliament adopted the draft budget 2019

According to the Budget Report, GDP growth in 2019 will accelerate due to stronger public investment and public consumption. The growth of total fixed capital formation is expected to reach 9.5%. Economic growth is projected to be 3.5% between 2020 and 2021. The average annual inflation estimated by the government for the Harmonized Index of Consumer Prices for the year 2019 is 3% and end-year inflation will slow to 2.6%. By comparison, this year was expected to increase prices of goods and services by about 1.4%, but in the last months it is doubled. Unemployment will continue to decline - to 4.8%. This requires careful monitoring of the implementation reports of the Maastricht ERM II membership criteria.

The Maastricht criteria are five (four if the fiscal ones are combined):

1) Inflation measured by the Harmonized Indices of Consumer Prices - up to 1.5 percentage points above the average of the three countries with the lowest inflation (countries with too low inflation due to extra-policy factors) are excluded;

2) Budget deficit as a percentage of GDP below 3%;

3) Government debt as a percentage of GDP below 60%. An exception is possible if the pace of fiscal consolidation is assessed as sufficient to predict the fulfillment of the criterion;
4) Long-term interest rates, measured by average yield on ten-year government bonds, should not exceed by 2 percentage points the average among the three lowest inflation-rated Member States;
5) Stability of the exchange rate to the euro - measured with respect to the range of deviation during ERM II stay.
Criteria must be met in a sustainable way, ie previous developments and projections of indicators in the future are assessed.

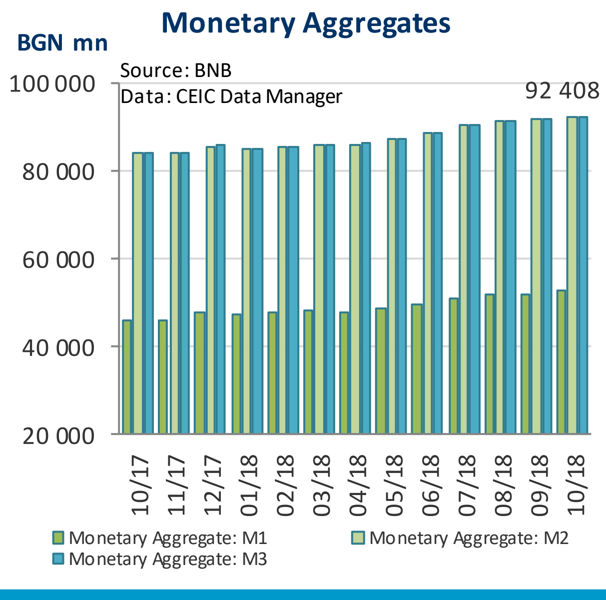
Foreign direct investment (FDI) is projected to gradually increase at a rate close to nominal GDP growth. As a result, incoming FDI will amount to about 3.5-3.6% of GDP per year over the entire forecast period. However, if the structure of direct investment remains the same as in 2018, it will mean that the capital inflow will be one third less, and new direct investment, other than reinvestment of profits, little. From the three-year budget forecast, it is clear that, in order to achieve the expected growth, domestic consumption and fewer investments are relied on. Otherwise, a slight acceleration of foreign trade growth is expected in 2019. Positive trading conditions are expected, but the dynamics in terms of volume will predestinate overall growth and nominal growth in imports will continue to outstrip exports. There will be a more substantial deterioration of the trade balance to 6.1% of GDP. The change in the balances of other articles will be minimal, with the changes mutually compensated, and the current account surplus is expected to decrease to 0.9% of GDP. The budget draft 2019 was designed to allow economic growth of 3.7%. From 2019, salaries in the entire budget sector have risen by 10%. There are, however, two conditions - half of the increase is to be a solid amount to increase the salaries of the clerks, and the second half to receive only those who are considered to have earned it. 20% will increase teachers' wages, which will cost the MF more than BGN 1 billion. The minimum wage will rise from BGN 510 to BGN 560. With more than BGN 874 million more will be the money for pensions and social welfare, and in total in 2019 this state will pay nearly BGN 14 billion. The budget for the healthcare sector will increase with BGN 546 million and for Defense and Security by BGN 478 million (of which BGN 331 million for defense and BGN60 million for the police). The Education sector will receive BGN 360 million more. In 2019, the state will pay the largest amount of human resources – BGN 5.1 billion, compared to BGN 4.4 billion for 2018. According to the bill, the revenues will be BGN 43.8 billion or nearly BGN 4.6 billion more than the current year, and the cost will reach BGN 44.45 billion, which is BGN 5.8 billion more than expected this year. In nominal terms for next year's salaries, the state will pay BGN 6.5 billion, compared to BGN 5.7 billion for this year. Total tax-insurance income for next year is expected to reach BGN 34.5 billion (with planned BGN 32 billion for this year). The estimated corporate income tax for 2019 is BGN 2.83 billion. From taxes on the incomes of individuals for 2019 the Ministry of Finance will amount to BGN 3.88 billion, the effect of the increase of BGN 50 on the minimum wages for next year amounted to BGN 19.8 million. The increase in teachers' salaries will lead to an increase of the revenues from DDFL by BGN 23.1 million. The projected VAT revenue for 2019 is BGN 10.83 billion, with a relative share of consumption of 11.9%. A positive effect on VAT revenues will also be the increase in the excise rates for heated tobacco products of BGN 152 per kg. to BGN 233 / kg, which came into force on October 1, 2018 and is estimated at BGN 1.3 million for 2019. In 2019, excise taxes planned to raise BGN 5.33 billion, and from customs duties - BGN 237 million. Estimated income tax on insurance premiums for 2019 is BGN 39.7 million. The MF will comply with NATO's requirement for Bulgaria to allocate 2% of GDP to defense by 2024, with 1.58% of GDP for the sector or BGN 1.839 billion for the sector in 2019. The pensions are provided with BGN 1.5 billion more compared to this year. For social and health insurance payments, the amount will reach over BGN 17 billion. Disabled people will receive an additional BGN 150 million. In the sector "Education" another BGN 25 million will be allocated for the next year and for activities of interest groups, BGN 8 million - for differentiated child nutrition supplements, BGN 8 million - on the mechanism for working with children and students from vulnerable groups. For dual training and vocational secondary schools with a future shortage of workers - BGN 1.6 million. For the first time since September 1, 2019, i.e. the following school year, additional activities in kindergartens and schools are envisaged, such as sports, hours in languages and arts now paid by parents, pass through the budgets of children's and educational institutions. The aim is to have the activities accounted for officially and to pay taxes on them. Higher education increases the transfer of students and PhD students by BGN 38 million, the distribution being based on the rating system. For the first time, the state will pay all or part of the fees for training students in specialties with future shortages in the labor market. For this purpose BGN 2 million will be allocated. As in the current year, the amount of the fiscal reserve can not fall to BGN 4.5 billion. The maximum amount of the government debt at the end of 2019 should be BGN 22.2 billion at a ceiling of 23.5 billion in 2018. The idea is for the debt to continue to decline - from 22.5% in 2018 to 20.5% in 2019 to reach 17.7% in 2021. The maximum amount of the new government the debt that can be taken is BGN 1 billion. In the period 2019-2021, the government plans to sell government securities between BGN 800 million and BGN 1.25 billion. The party subsidy remains at the amount of BGN 11 per vote. From 2019 the state equalization subsidy for municipalities will be allocated according to a new formula. Thus, starting in 2019, 217 small municipalities will receive money on this line, and 19 "rich" will receive a zero subsidy. It will be determined on the basis of constant tax revenues as of 31 December 2017 per inhabitant, which are lower than 120% of their country-wide per capita. Those who have earnings above 120% above country average per capita will not receive a grant. According to the estimates of the Ministry of Finance, some BGN 22 million will be redistributed to more deprived settlements. The change of the equalizing subsidy formula mainly affects large municipalities such as Sofia, Plovdiv, Burgas, Varna, including the small municipality of Zlatitsa, which probably has a solid income for the Aroubis plant located on its territory. The municipalities will receive a total of BGN 3.2 billion, or by BGN 477 million more subsidies next year. In addition, in 2019 the target subsidy for capital expenditures is increased by BGN 10 million. The money will be directed to 131 small municipalities from the 4th and 5th categories, each of which will receive BGN 25,000 additional for capital expenditure. The total amount under this item is BGN 179 million. The planned transfer for municipalities for winter maintenance and snow removal of municipal roads amounts to BGN 38.2 million. Starting May 2019, each cigarette case in the European Union will have a unique serial number that will track all of its way from the manufacturer through the distributor to the point where the customer bought it. These texts were also adopted by the majority as part of the State Budget Act. The amendments are part of the Excise Duties and Tax Warehouses Act. In particular, the idea is a smaller excise label, which will not show the price of the cigarette brand, thus no need to print new security signs and destroy the old ones. The price will be indicated on the packaging itself. For the period 2019-2021, regarding the social and health insurance contributions, it is envisaged:

- Preservation of the proportions and ratios of the social security contributions for the state social security funds; Increase of the minimum insurable income for the self-insured persons for 2019 at the amount of BGN 560 for 2020 - BGN 610 and for 2021 - BGN 650;
- Increase of the maximum insured income for all insured persons - BGN 3 thousand; Increasing the minimum insurable income for registered farmers and tobacco producers from BGN 350 to BGN 560 from the beginning of 2019;
- Maintain minimum levels of income from basic economic activities and occupational groups from 2018 by adjusting only for positions below the minimum wage for 2019 - BGN 560;
- Preservation of the amount of the health insurance contribution - 8%; Save the amount of the social security contribution for the Teachers' Pension Fund - 4.3%. No contributions are made to the Guaranteed Employee Benefits Fund. The insurance revenues for the period 2019-2021 are projected to amount to BGN 10.37 billion for 2019, BGN 10.96 billion for 2020 and BGN 11.54 billion for 2021.

MONETARY SECTOR

In October 2018, broad money (M3) amounted to BGN 92,408 billion (89.5% of GDP) and increased by 9.7% yoy. Domestic credit amounted to BGN 56.684 billion and grew up by 7.3% yoy, respectively

In October 2018 broad money (monetary aggregate M3) increased annually by 9.7% compared to 9.2% yoy growth in September 2018. At the end of October 2018 M3 was BGN 92.408 billion (89.5% of GDP) compared to BGN 91.611 billion (88.7% of GDP) in September 2018. Its most liquid component – monetary aggregate M1 – increased by 14.8% yoy in October 2018 (13.5% yoy growth in September 2018). At the end of October 2018, deposits5 of the non-government sector6 were BGN 77.058 billion (74.6% of GDP), increasing annually by 8.4% (7.7% yoy growth in September 2018). Deposits of Non-financial corporations were BGN 24.149 billion (23.4% of GDP) at the end of October 2018. Compared to the same month of 2017 they increased by 12.1% (13% yoy growth in September 2018). Deposits of financial corporations decreased by 5.5% yoy in October 2018 (21.7% annual decline in Sep-



tember 2018) and at the end of the month they reached BGN 2.807 billion (2.7% of GDP). Deposits of Households and NPISHs were BGN 50.102 billion (48.5% of GDP) at the end of October 2018. They increased by 7.5% compared to the same month of 2017 (7.3% yoy growth in September 2018). Net domestic assets were BGN 55.777 billion at the end of October 2018. They increased by 7.7% compared to the same month of 2017 (7.8% yoy growth in September 2018). At the end of the month their basic component – domestic credit – was BGN 56.684 billion and increased by 7.3% compared to October 2017 (7.2% yoy growth in September 2018). In October 2018 claims on the non-government sector increased by 8.4% yoy (7.9% yoy increase in September 2018) reaching BGN 58.704 billion. At the end of October 2018, claims on loans to the non-government sector amounted to BGN 57.122 billion (55.3% of GDP) compared to BGN 56.705 billion (54.9% of GDP) at the end of September 2018. They increased annually by 7.8% in October 2018 (7.4% yoy growth in September 2018). The change of loans to the non-government sector was influenced also by net sales of loans by Other monetary financial institutions (Other MFIs) - their volume for the last twelve months was BGN 122.8 million. On an annual basis, loans sold by Other MFIs were BGN 145.6 million (of which BGN 21.9 million in October 2018), while the amount of repurchased loans was BGN 22.8 million (there were no loan repurchases in October 2018). In October 2018, loans to Non-financial corporations increased by 4.8% annually (4% annual growth in September 2018) and at the end of the month amounted to BGN 32.729 billion (31.7% of GDP). Loans to Households and NPISHs were BGN 21.616 billion (20.9% of GDP) at the end of October 2018. They increased by 10% compared to the same month of 2017 (9.7% yoy growth in September 2018). At the end of October 2018 loans for house purchases were BGN 10.326 billion and increased by 10.2% annually (9.9% yoy growth in September 2018). Consumer loans amounted to BGN 9.033 billion and compared to October 2017 they increased by 15.9% (15.4% yoy growth in September 2018). On an annual basis other loans decreased by 20.7% (16.9% yoy decline in September 2018) and reached BGN 893.8 million. Loans granted to financial corporations were BGN 2.777 billion at the end of October 2018 (2.7% of GDP). Compared to October 2017, they increased by 32.1% (37.2% annual growth in September 2018).

CAPITAL MARKET

In November 2018, three of the four BSE-Sofia indices fell (SOFIX to 592.12 points, BGBX 40 to 115.12 points and BG TR30 to 489.60 points) and only BGREIT registered a minimum growth of 0.20 pps to 117.46 points

In November, the main index of BSE-Sofia reported a decline of 0.79% to 592.12 points. In October, SOFIX reported a decline of 4.42% to 596.81 points. “The blue chip” index 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 1.63% to 115.12 points in November. The indicator declined by 4.02% to 117.03 points in October, while in September it lost 0.29% to 121.93 points. Equally weighted BG TR30 reported a drop of 1.95% to 489.60 points in November. The indicator fell 4.04% to 499.33 points in October, while in September it lost 0.24% to 520.34 points. The gauge of property companies BGREIT reported a slight increase from 0.20 to 117.46 points in November. The index fell 0.48% to 117.23 points in October, while in September it rose by 0.61% to 117.79 points. The turnover of BSE-Sofia in November 2018 was 11 638 986 and was higher than in October, when SOFIX issues were reported at BGN 8 401 884. In November 2018 deals for over BGN 1 million were realized by three companies: Eurochol Bulgaria (BGN 4 767 945), Chimimport (BGN 2 050 150) and Sopharma (BGN 1 013 715), as well as in the eleventh month of the previous year when also three issues reported a monthly turnover of more than one million levs. The top five is complemented by Sirma Group Holding (BGN 990 757) and Holding Varna (BGN 872 770). And in November 2018, Sopharma retained the leading position by market capitalization (BGN 497 404 247), followed by Chimimport (BGN 455 327 907). As in September, First Investment Bank (377,300,000), Eurohold Bulgaria (319,991,472) and M + S Hydraulics (BGN 307,672,560) were added to the top five. In SOFIX after September 25 there were five

Bulgarian Stock Exchange Indexes on Monthly Basis

Date	SOFIX	BGBX40	BGREIT	BGTR30
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
11.2018	592.1	115.1	117.5	489.6

Source: Bulgarian Stock Exchange-Sofia

holding companies, of which three were profitable in November - Sirma Group Holding (+ 11.45%), Stara Planina Hold (+3.05%), Eurohold Bulgaria (+ 0.31%), Group Hold (-13.58%), and one is unchanged Holding Varna (0.00%). The company with the highest turnover in November 2018 is Eurohold Bulgaria AD, with a total volume of BGN 4 767 945. Atomenergoremont AD ranked second with a total volume of BGN 2,708,705. In the ranking there is one representative of the special purpose vehicles. The smallest number of deals in the ranking are 235 Holdings AD, Atomenergoremont AD and Syintetika AD and with the largest Sopharma AD, Chimimport AD and Sirma Group Holding AD. The most profitable company in November 2018 was Aktiv Properties REIT, which achieved a growth of 56.25%. Second place is Capital Concept Limited, followed by St. St. Constantine and Helena Holding AD with a growth of 14.00%. The last two companies also ranked two-digit growth, respectively, with a growth of 11.76% and Sirma Group Holding AD with a growth of 11.45%. The top 5 of the losers in November 2018 is headed by Zaharni Zavodi AD with a decline of 45.86%. Fazerles AD is second with a decline of 15.75%. The other three companies in the ranking also scored two-digit declines.

BANKING SECTOR

By the end of October 2018, the aggregate net profit of the banking system is BGN 1379 million and Increased by 37.9% yoy due to reduced impairment costs by 37.5% for a period of one year

According to BNB's data the aggregate net profit of the banking system at the end of October 2018 is BGN 1379 million and increased by 39.7% yoy. The cost of impairment of financial assets not recorded at fair value in profit or loss for the ten months is BGN 365 million (compared to BGN 585 million a year earlier).

Indicator (BGN'000)	31.10. 2017	31.10. 2018	Change Y/Y (%)
Interest Income	2 548 161	2 524 387	-0.9
Interest Expence	312 958	248 634	-20.6
Net interest Income	**2 235 203**	**2 275 753**	**1.8**
Impairment	584 595	365 339	-37.5
Fee and commission income	951 329	1 031 524	8.4
Fee and commission expenses	124 874	150 564	20.6
Net fee and commission income	**759 685**	**759 685**	**0.0**
Administration costs	1 317 705	1 401 135	6.3
Personal cost	657 765	706 829	7.5
Total operating income, net	3 190 202	3 445 576	8.0
Net Profit	**1 000 578**	**1 379 375**	**37.9**

Source: BNB, Calculations: UBB

By the end of October 2018, the assets of the banking system amounted to BGN 104.0 billion and increased by 1% mom and by15.1% yoy, respectively. Their relative share in GDP was 97.7%. The position of money, cash balances with central banks and other demand deposits, which is with the highest liquidity, continues to occupy a significant share in the total assets of the banking sector – 18.0% at the end of October. In the period January – October the share of portfolios of securities decreased to 13.0% at the end of October and that of loans and advances reached 64.3%. In October 2018 Gross loans and advances are increased by 0.8% mom and by 11.3% yoy, respectively amounting to BGN 60.8 billion. Loans to non-financial corporations increased by 0.6% mom and by 4.5% yoy up to BGN 34.9 billion. Loans for other financial corporations have been increased by 1.8% mom and by 55.6% yoy, respectively. Retail loans for households increased by 0.9% mom and by 18.1% yoy, respectively to BGN 21.9 billion. Loans for the government sector increased by 2.7% mom and by 27.2% yoy, respectively to BGN 0.7 billion. By the end of October 2018, the attracted sources from clients increased by 1.1% mom and by 11.3% yoy, respectively at the total amount of BGN 60.8 billion. Deposits of non-financial corporations accounted for monthly growth of 1.6%, with an annual increase of 25.6% to BGN 26.3 billion. Public government deposits amounted to BGN 2.7 billion and increased by 1.1% mom and by 16.1% yoy. Deposits of financial institutions amounted to BGN 3.0 billion and increased by 6.2% mom, but reported a decline of 23.1% yoy. The households' deposits exceeded BGN 52 billion and increased by 0.6% mom and by 13.3% yoy, respectively.

Bulgaria Intermediation Indicators	31.10.2017 BGN'000	31.12.2017 BGN'000	30.09.2018 BGN'000	31.10.2018 BGN'000	Change m/m (%)	Change y/y (%)	Change yend (%)	Share in GDP (%)
BANKING SYSTEM TOTAL ASSETS	**90 572 201**	**95 850 484**	**103 191 046**	**104 220 476**	**1.0**	**15.1**	**8.7**	**96.4**
Loans to central governments	580 482	614 592	717 423	738 186	2.9	27.2	20.1	0.7
Loans to non-financial corporations	33 458 812	33 516 791	34 781 832	34 976 693	0.6	4.5	4.4	32.3
Loans to financial corporrations	2 048 490	2 352 930	3 131 871	3 187 998	1.8	55.6	35.5	2.9
Retail loans, incl.:	18 539 826	19 972 030	21 702 111	21 899 508	0.9	18.1	9.7	20.3
Mortgage loans	8 762 501	9 444 146	10 498 118	10 607 399	1.0	21.1	12.3	9.8
Consumer loans	8 755 998	9 264 095	10 207 797	10 314 361	1.0	17.8	11.3	9.5
Micro credits and other loans	1 021 327	1 263 789	996 196	977 748	-1.9	-4.3	-22.6	0.9
TOTAL LOANS	**54 627 610**	**56 456 343**	**60 333 237**	**60 802 385**	**0.8**	**11.3**	**7.7**	**56.2**
ATRACTED SOURCES FROM CLIENTS, incl.:	**72 470 904**	**76 747 619**	**83 235 637**	**84 124 872**	**1.1**	**16.1**	**9.6**	**77.8**
Local government deposits	1 663 293	1 824 421	2 749 288	2 753 048	0.1	65.5	50.9	2.5
Non-financial corporations deposits	20 865 044	23 709 705	25 795 216	26 208 159	1.6	25.6	10.5	24.2
Financial corporations deposits	3 970 724	2 842 120	2 910 837	3 092 275	6.2	-22.1	8.8	2.9
Households and NPISHs deposits	45 971 843	48 371 373	51 780 296	52 071 390	0.6	13.3	7.6	48.2
Equity	12 338 370	12 468 136	12 486 303	12 575 648	0.7	1.9	0.9	11.6
Net profit (annualised)	1 186 535	1 088 190	1 219 628	1 379 375	13.1	16.3		
BANKING INDICATORS (%)								
ROE	11.5	9.5	13.0	13.2	0.1	1.6	3.6	
ROA	1.6	1.2	1.6	1.6	0.0	0.0	0.3	
Capital adequacy	n.a.	22.1	20.0	n.a.	n.a	n.a	n.a	
Liquidity coverage(%)	37.3	n.a	322.2	289.4	-32.8	n.a	n.a	
NPL	n.a.	10.2	8.5	n.a.	n.a	n.a	n.a	
GDP	101 043 000	101 043 000	108 141 000	108 141 000				
EUR/BGN	1.95583	1.95583	1.95583	1.95583				

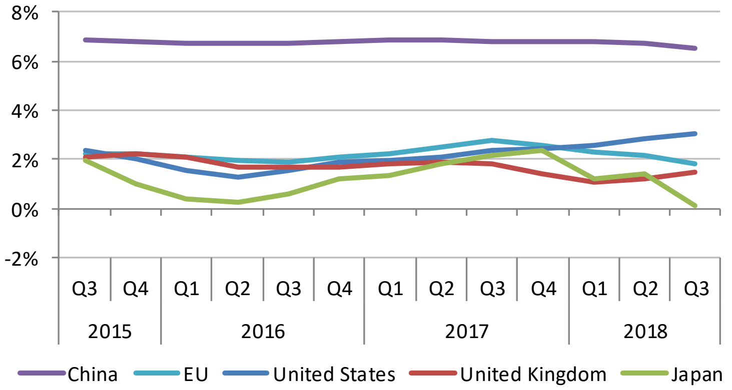
Source: BNB, MF; Calculations: UBB

The equity of overall banking system at the end of October 2018 amounted at BGN 12.6 billion. For a period of the ten months it is increased by 1.9%. As of 30 September 2018, the ratios of CET1 capital, Tier 1 capital and total capital adequacy are respectively 18.55%, 18.97% and 20.01% (compared to 19.31%, 19.74% and 20.82% at the end of June 2018).

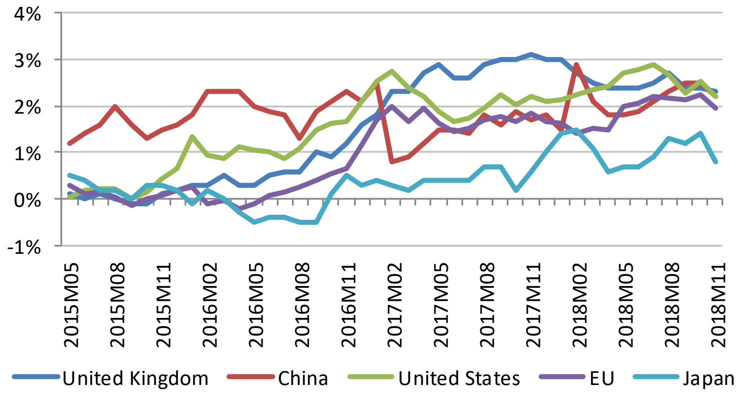
The liquid buffer and net liquidity outflows, calculated in accordance with Commission delegated Regulation (EU) 2015/61 (supplementing Regulation (EU) № 575/2013 of the European Parliament and of the Council) at the end of October, are BGN 25.3 billion and BGN 8.8 billion, respectively. The ratio between the two dimensions – the ratio of the liquidity coverage is 289.4%.

Appendix

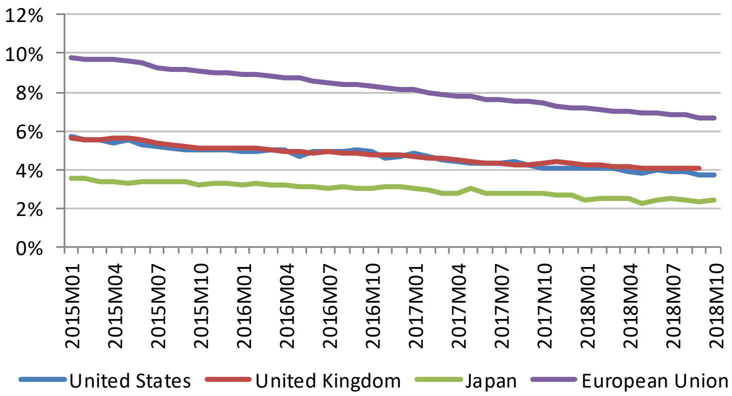
Advanced Economies: GDP growth rate compared to the same quarter of the previous year



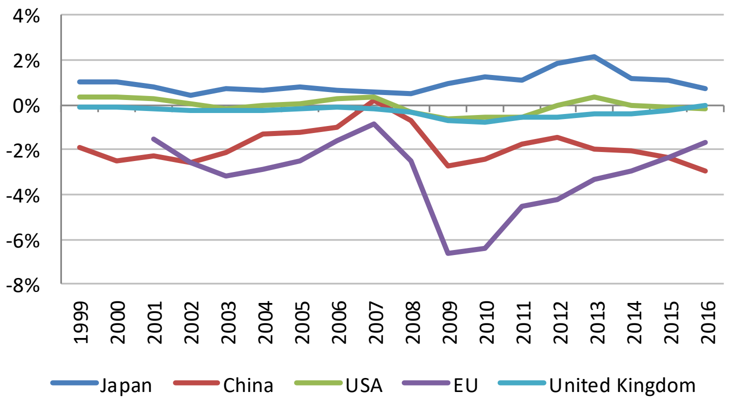
Advanced economies: Inflation by country, monthly (y/y)



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



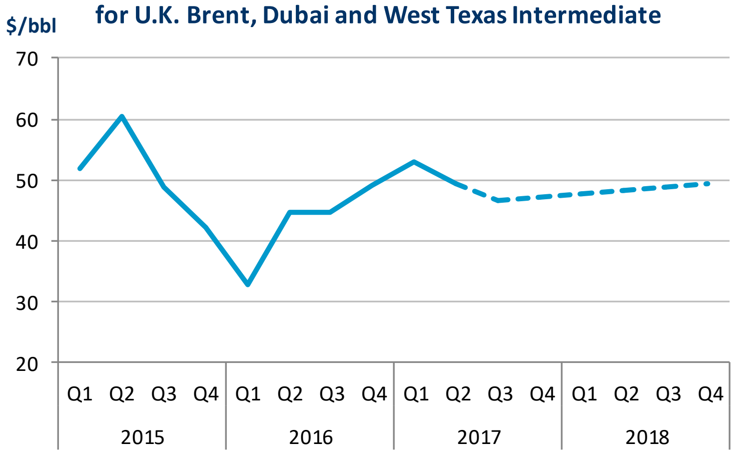
Advanced economies: Budget surplus/deficit to GDP (%)



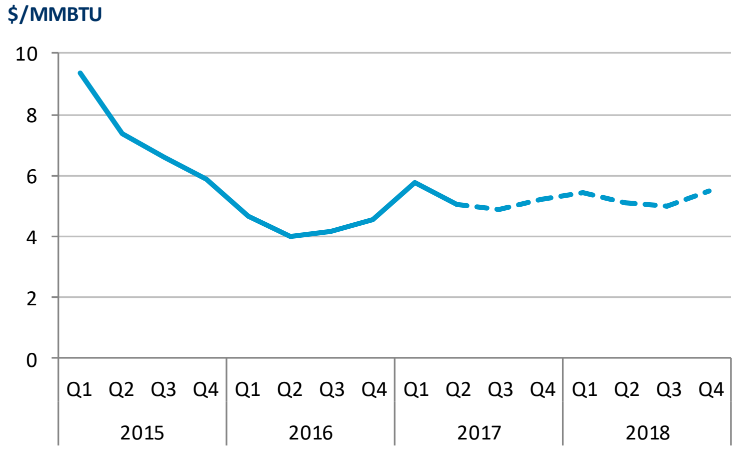
Source: IMF

Overseas Prices of Oil Products

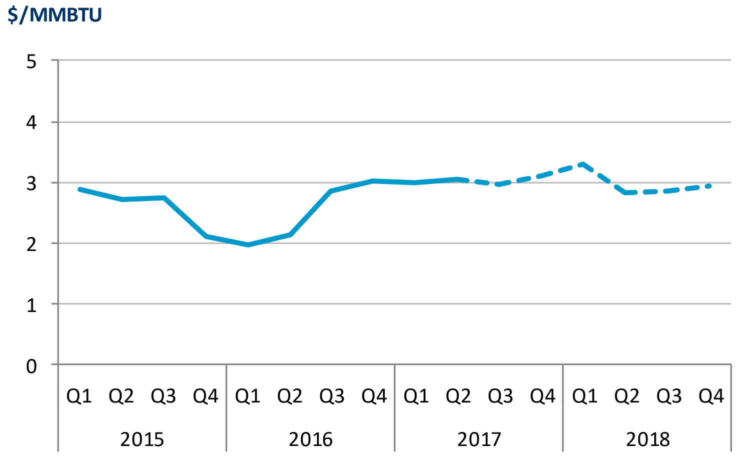
Spot Crude: Petroleum price - average of spot prices for U.K. Brent, Dubai and West Texas Intermediate



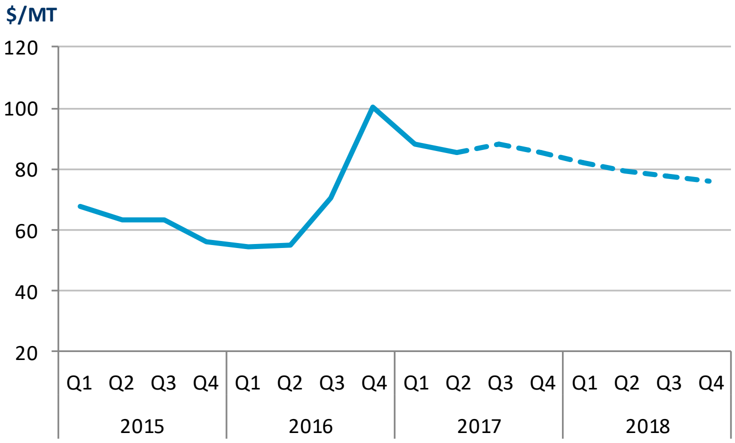
Natural Gas: Russian in Germany



Natural Gas:US, domestic market

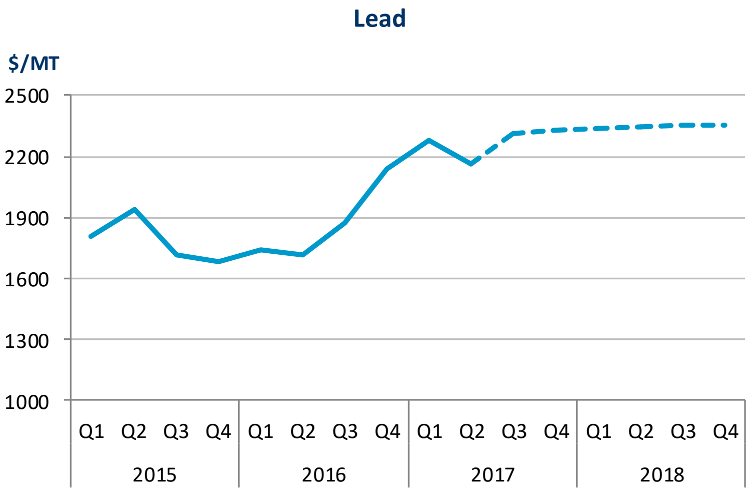


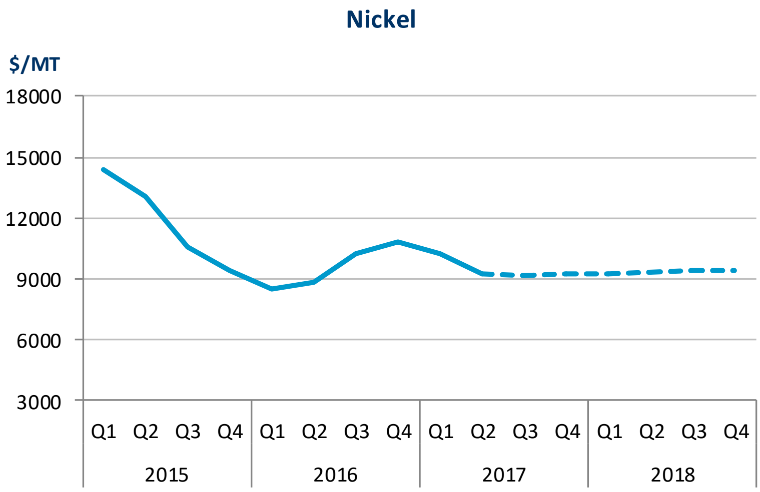
Coal: Australian, export markets

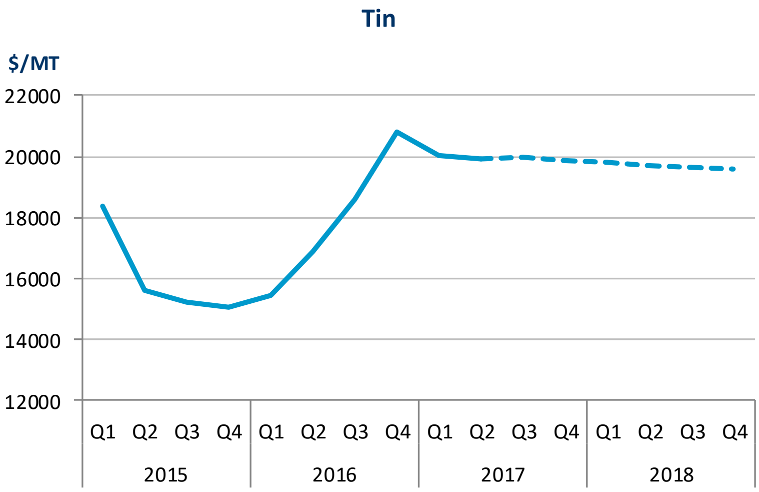


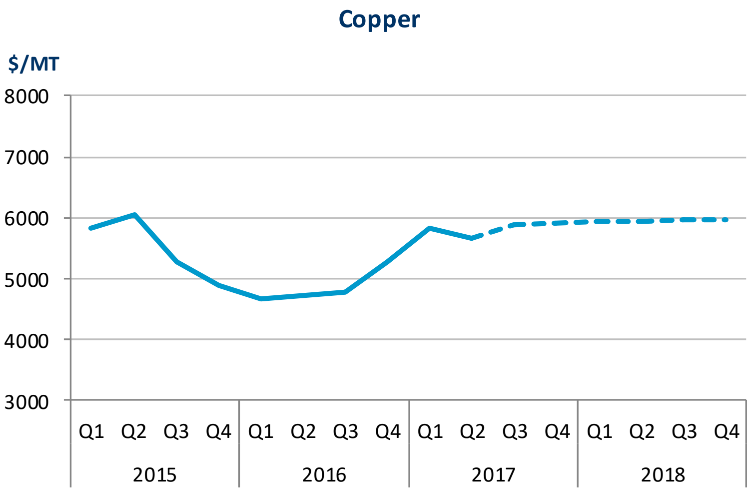
Source: IMF

Overseas Prices of Metals



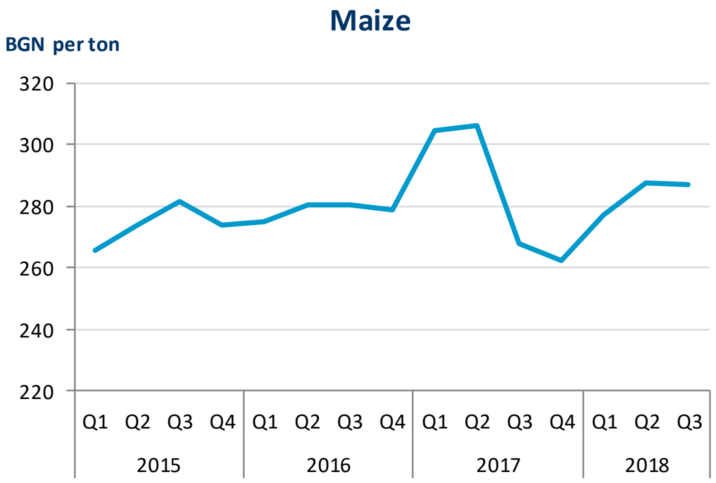


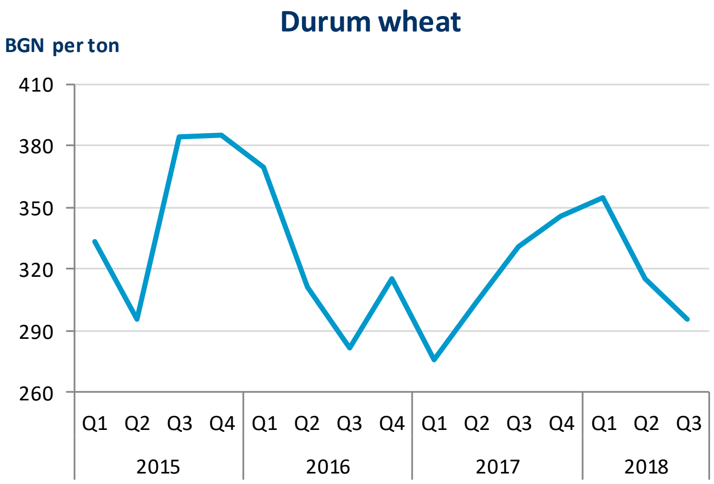


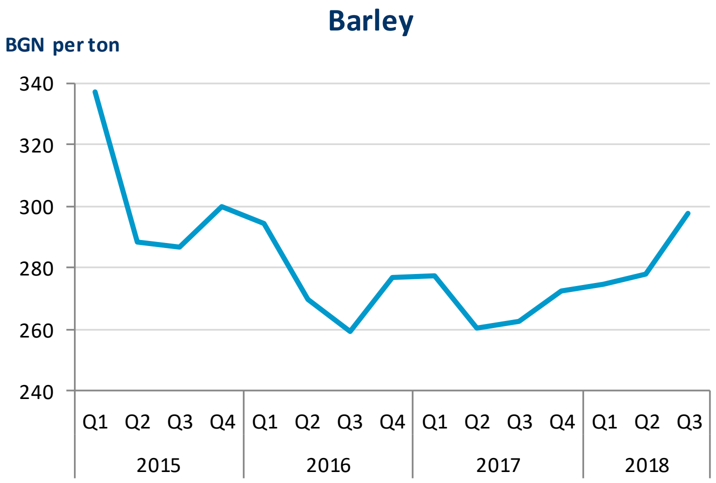


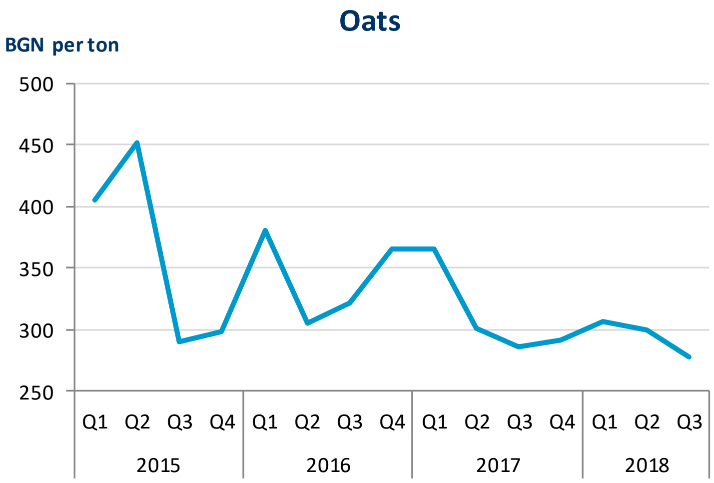
Source: IMF

Bulgaria: Prices of Agriculture products





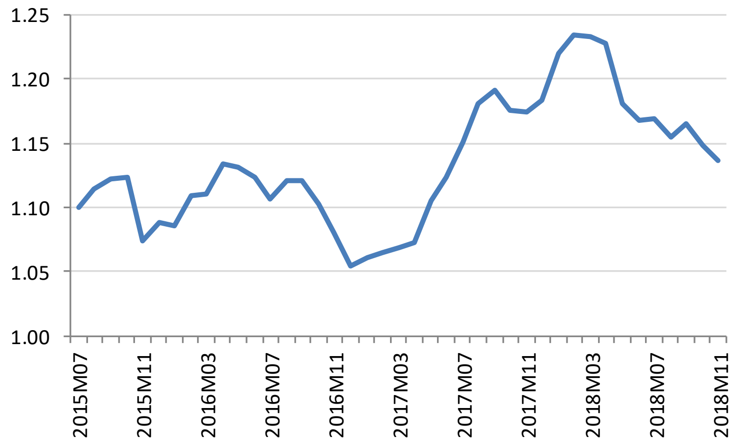




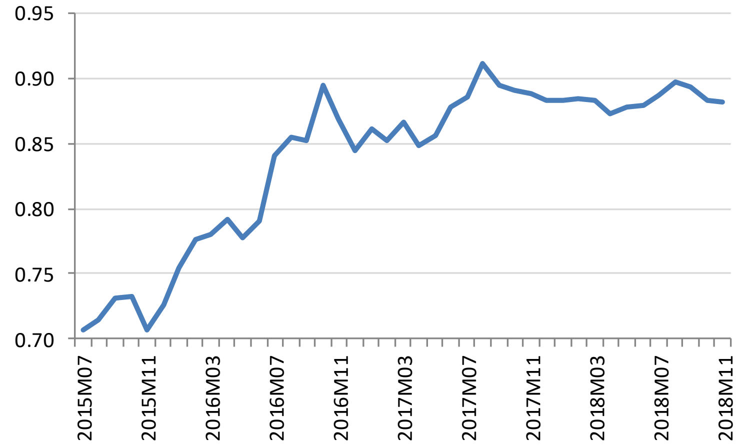
Source: NSI

Overseas FX Rates

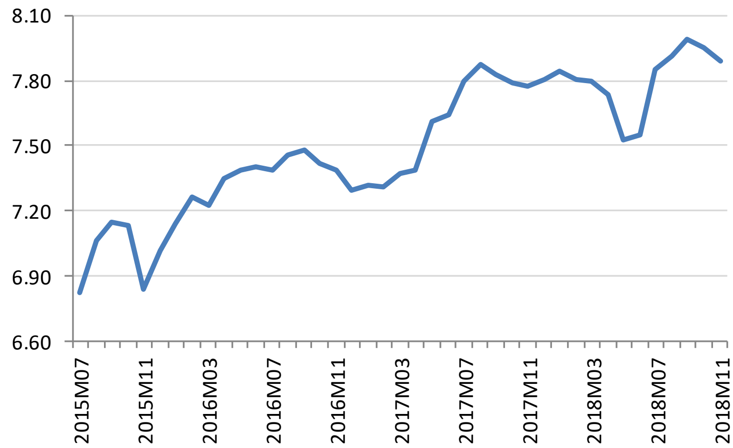
EUR/USD



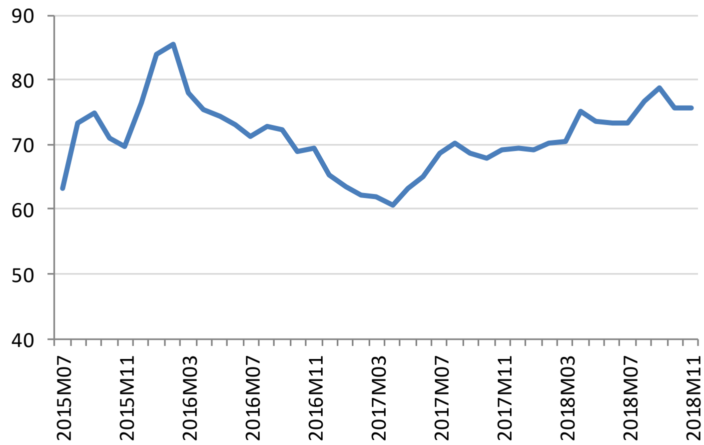
EUR/GBP



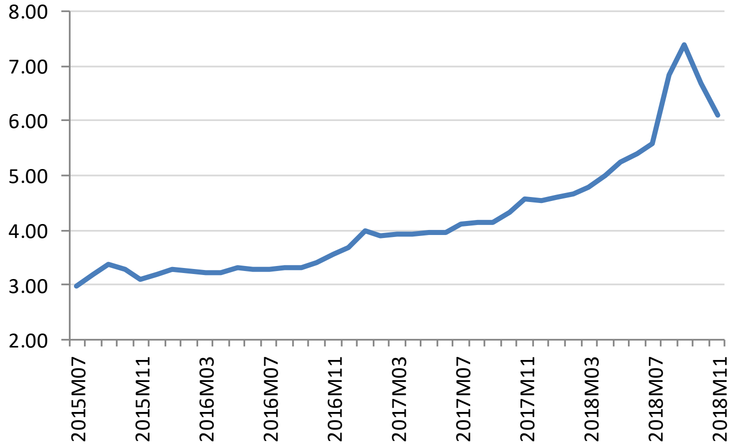
EUR/CNY



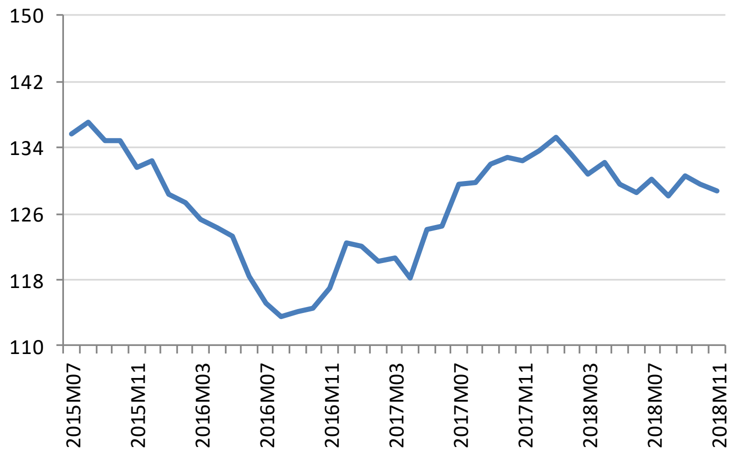
EUR/RUB



EUR/TRY



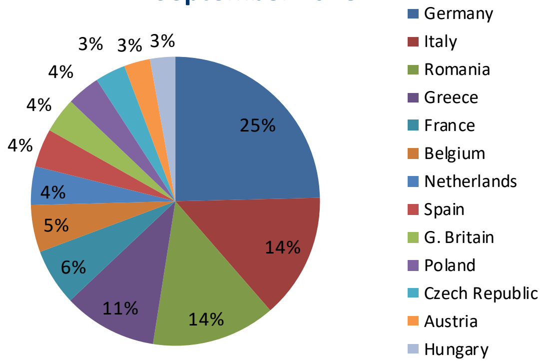
EUR/JPY



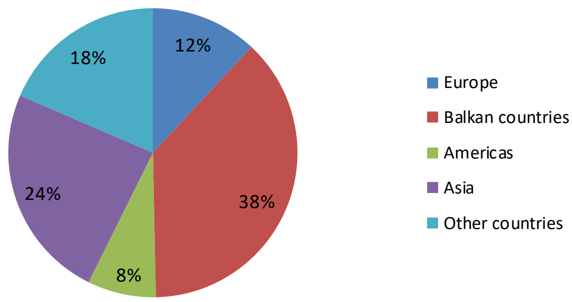
Source: ECB

Bulgaria: External Sector Indicators

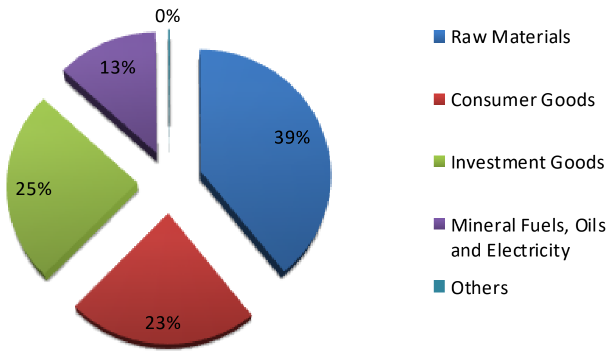
Exports: FOB by EU countries: January - September 2018



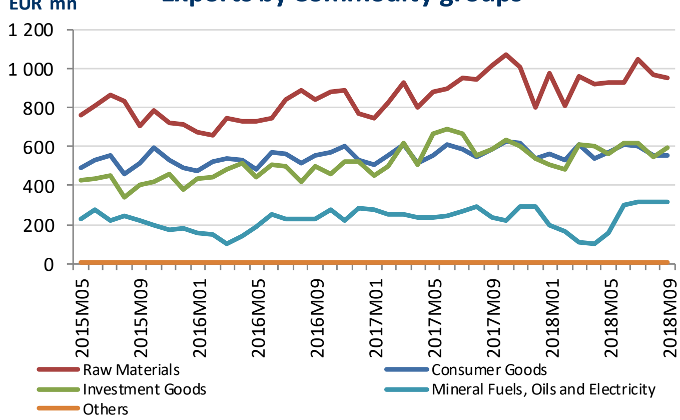
Exports: FOB by Non EU countries: January - September 2018



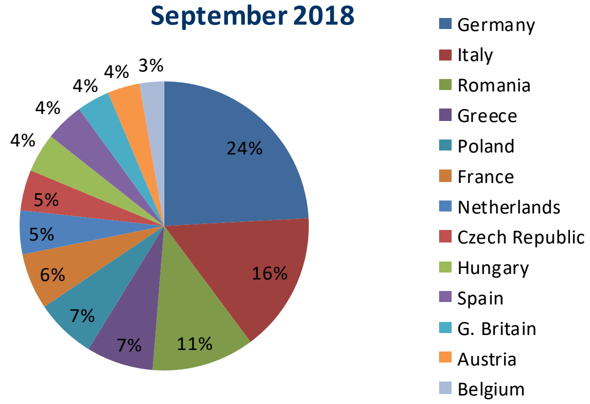
Exports: FOB: Commodity groups - percentage shares for September 2018



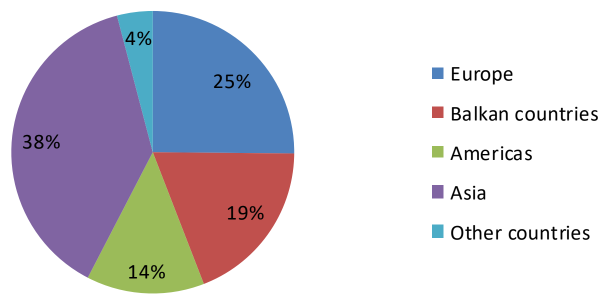
Exports by Commodity groups



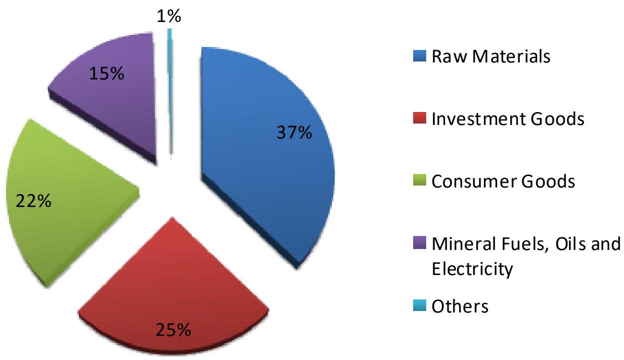
Imports: CIF by EU Countries: January - September 2018



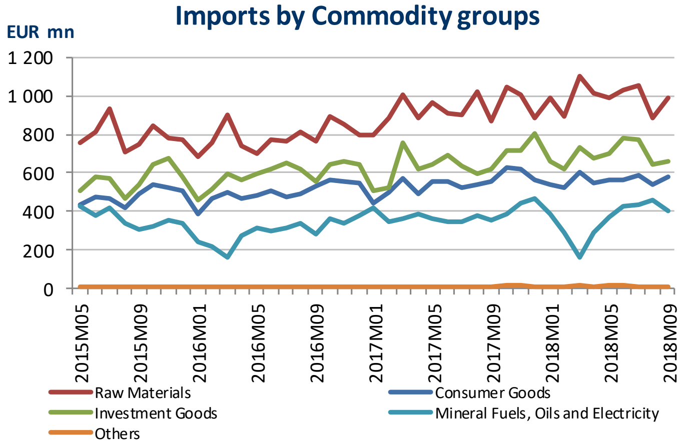
Imports: CIF by Non EU Countries: January - September 2018



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



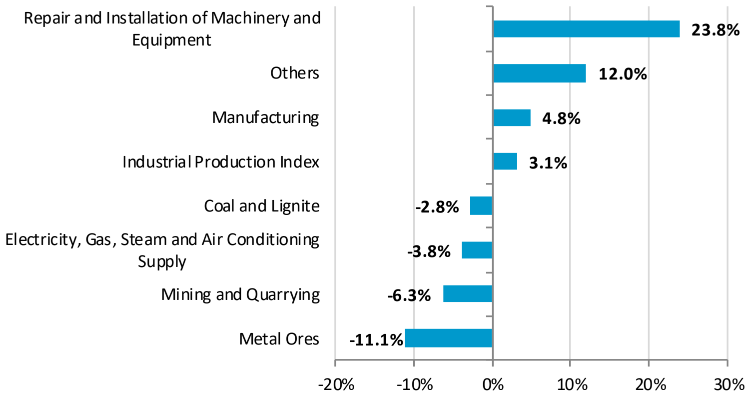
Imports by Commodity groups



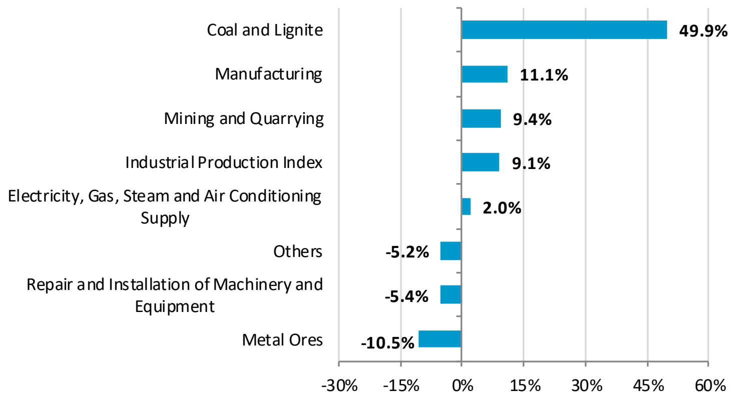
Source: BNB

Bulgaria: Real Sector Indicators

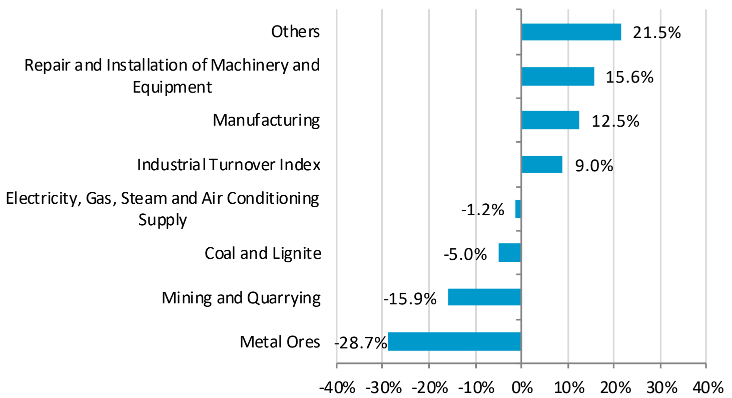
Industrial Production Index: % change in October 2018 compared to October 2017



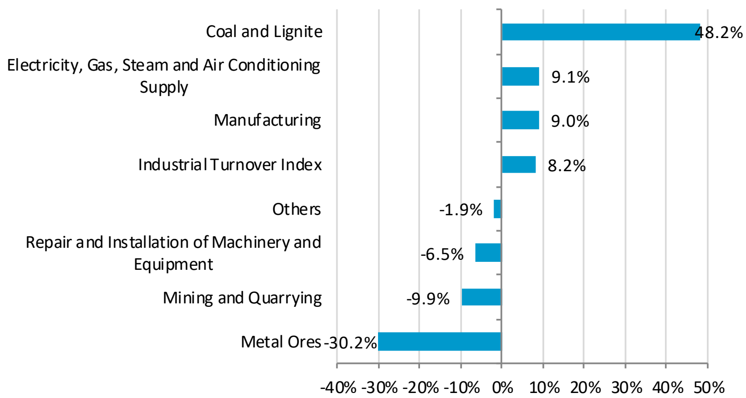
Industrial Production Index: % change in October 2018 compared to September 2018



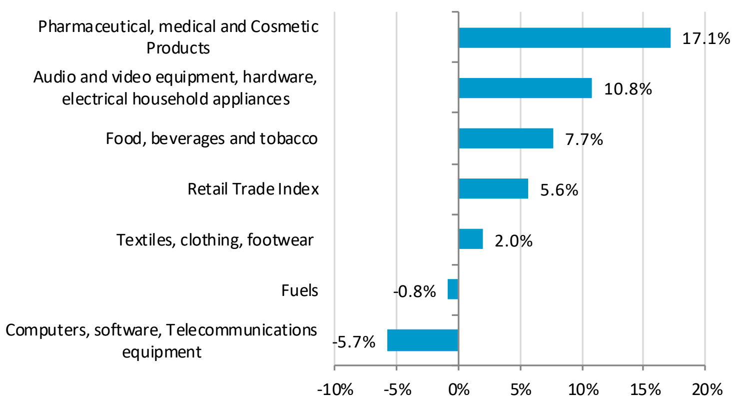
Industrial Turnover Index: % change in October 2018 compared to October 2017



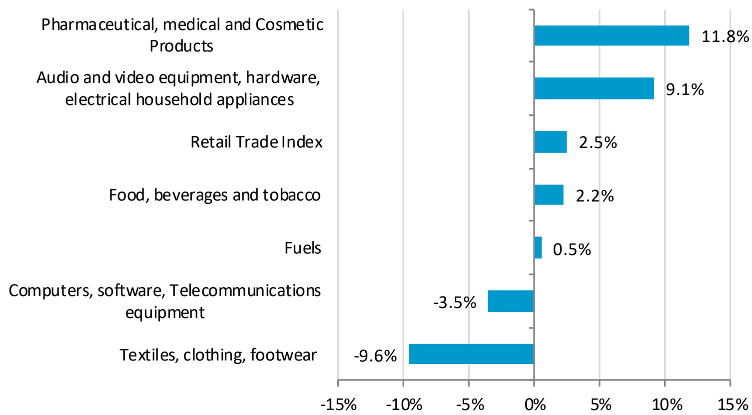
Industrial Turnover Index: % change in October 2018 compared to September 2018



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

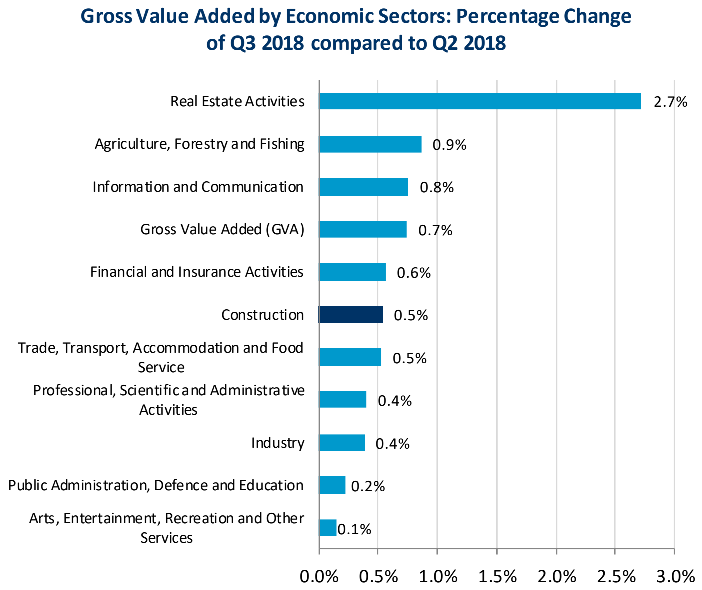


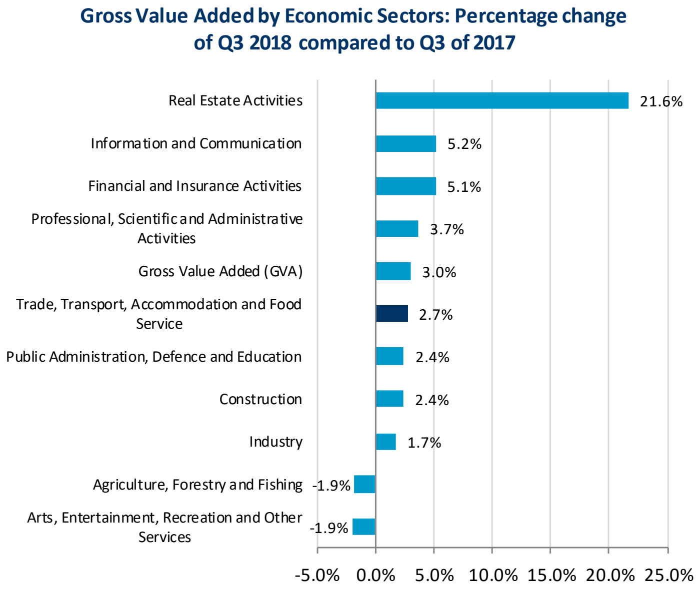
Retail Trade Index: % change in October 2018 compared to September 2018

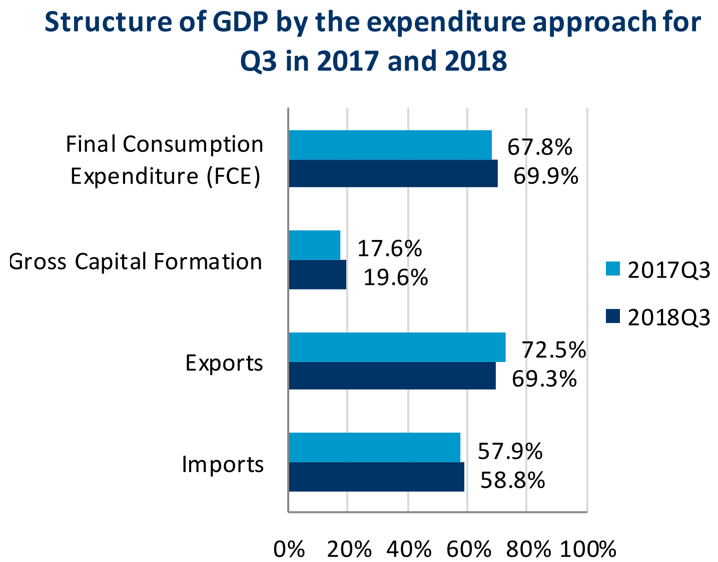


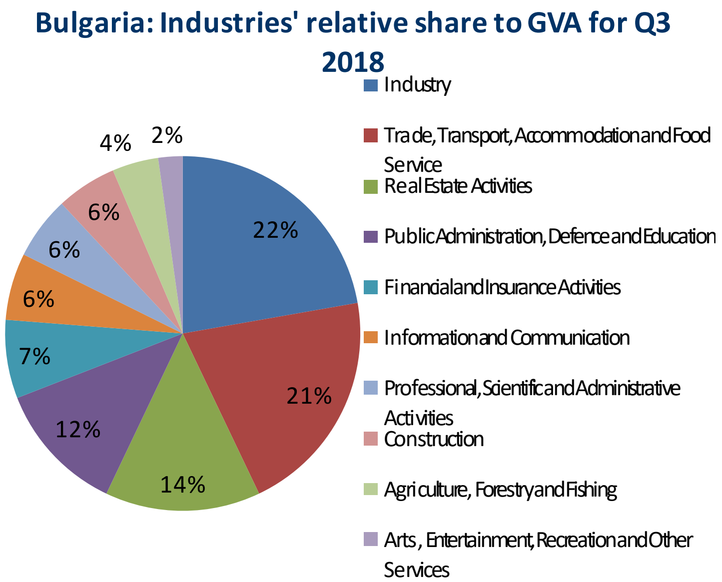
Source: NSI

Bulgaria: Real Sector Indicators



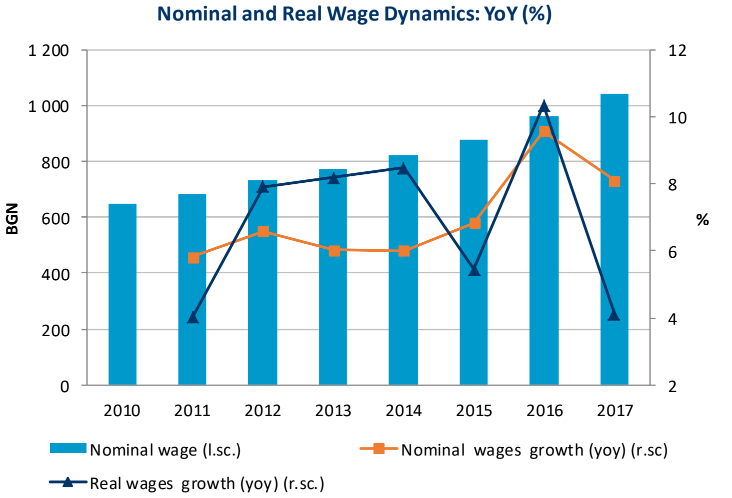


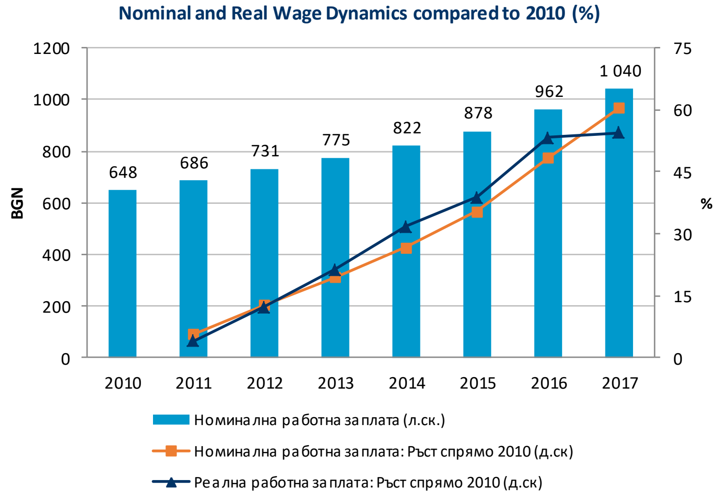


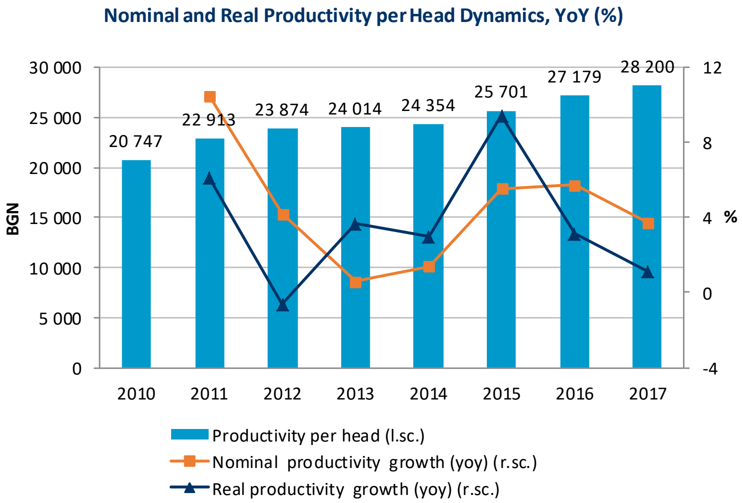


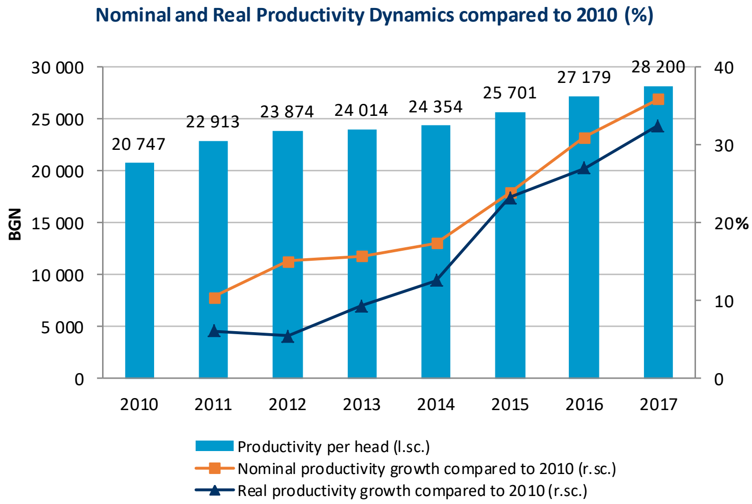
Source: NSI, EC

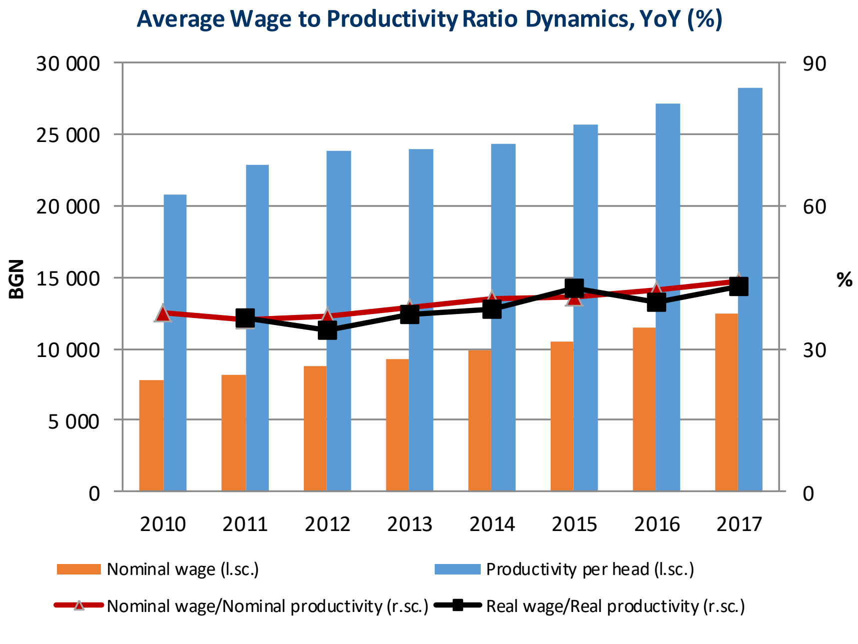
Bulgaria: Real Sector Indicators





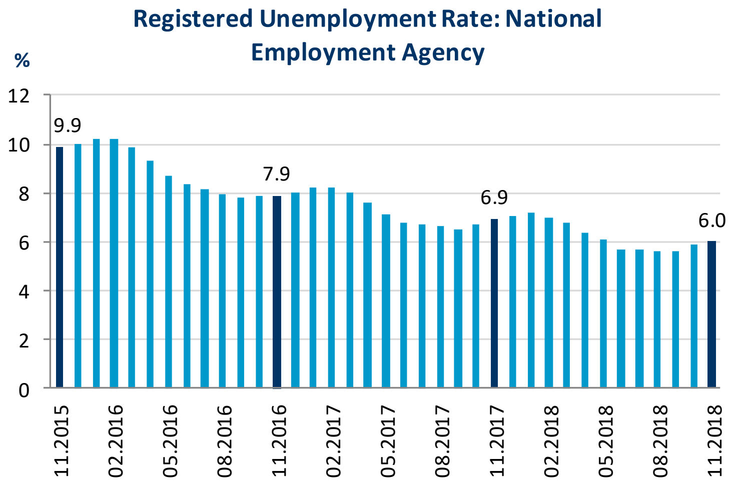


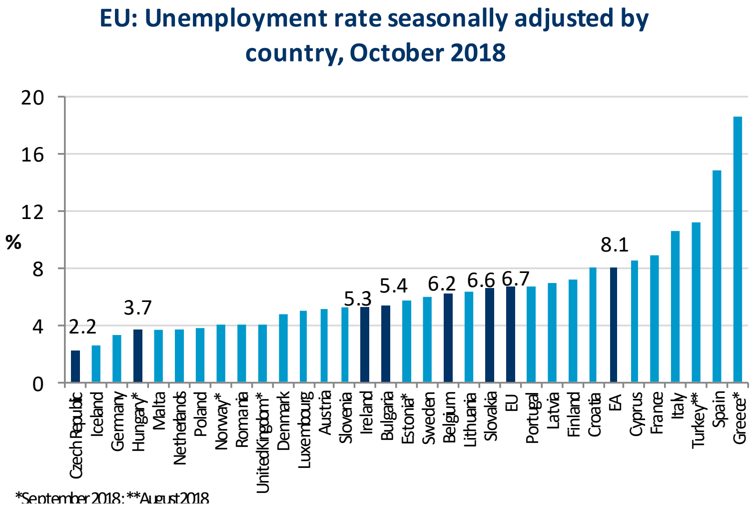


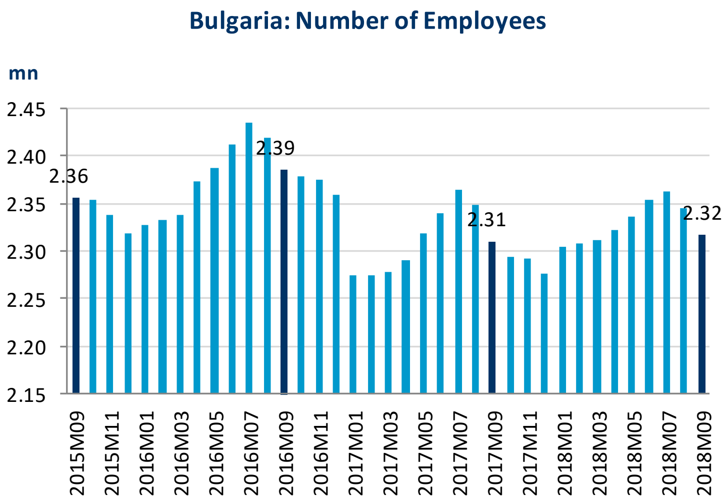


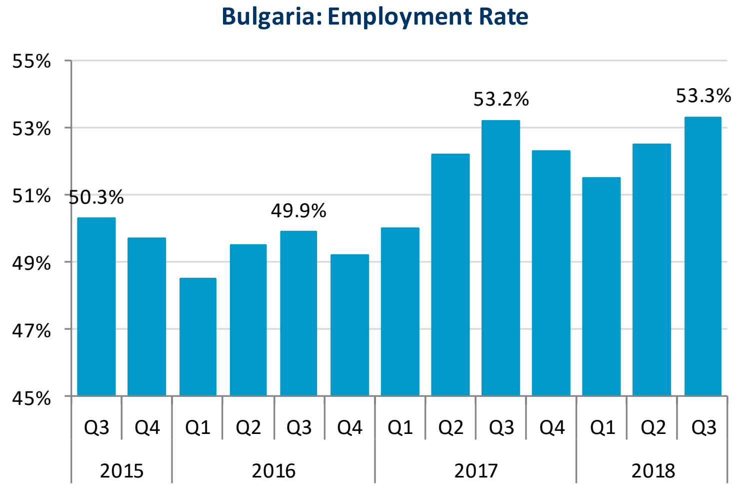
Source: NSI, UBB calculations

Bulgaria: Real Sector Indicators



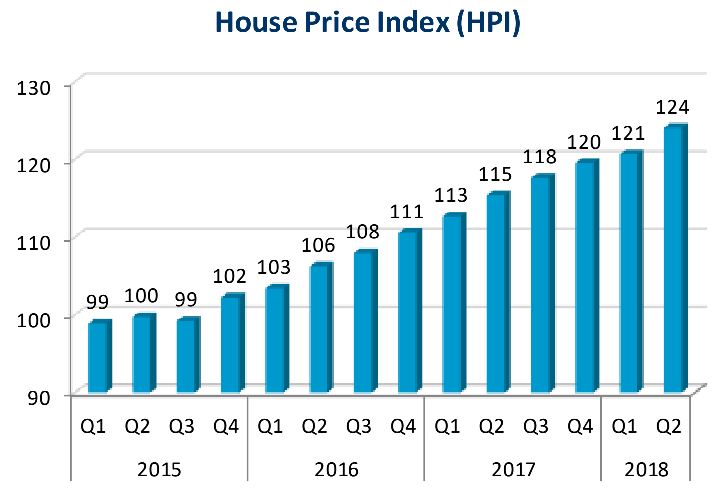


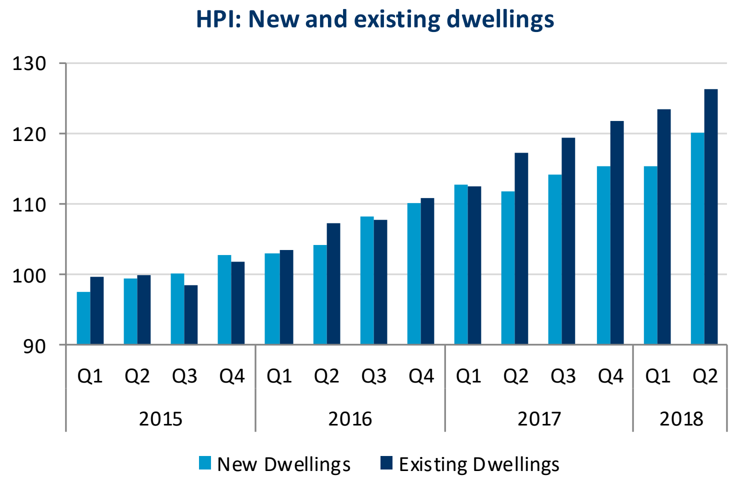


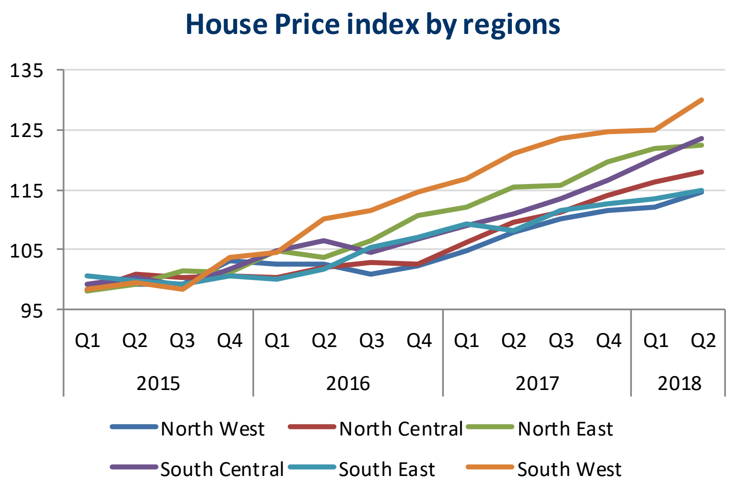


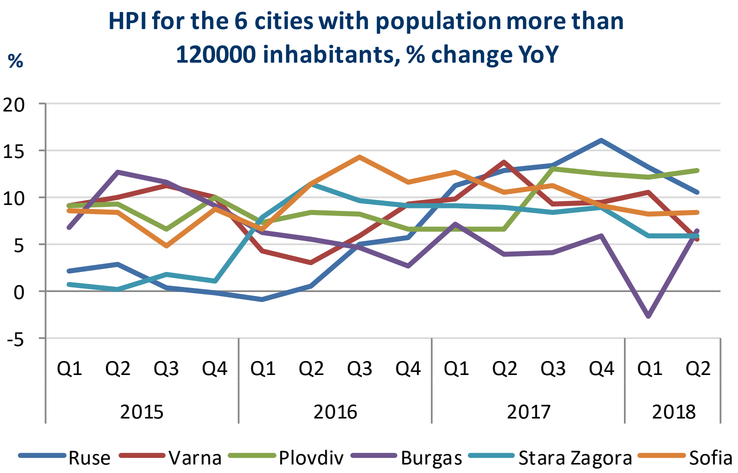
Source: NSI, EC

Bulgaria: Real Sector Indicators



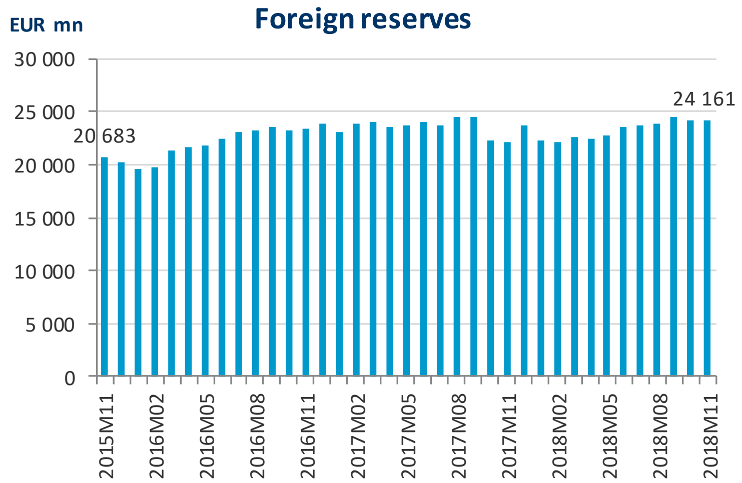


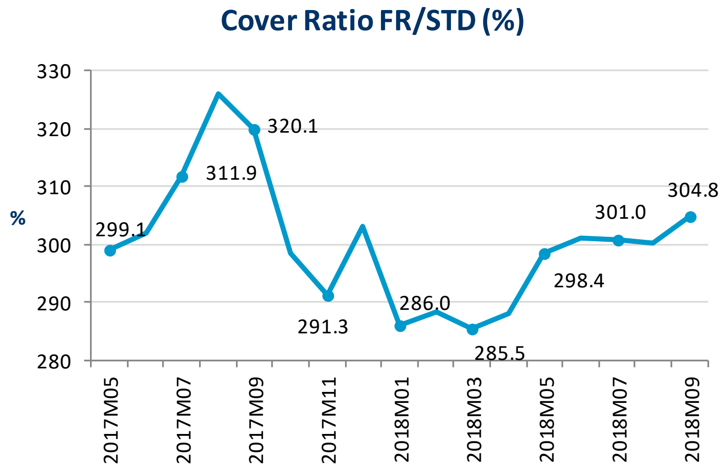


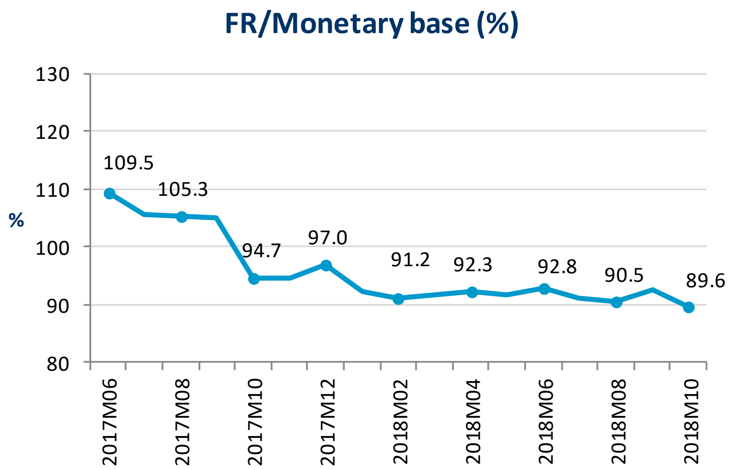


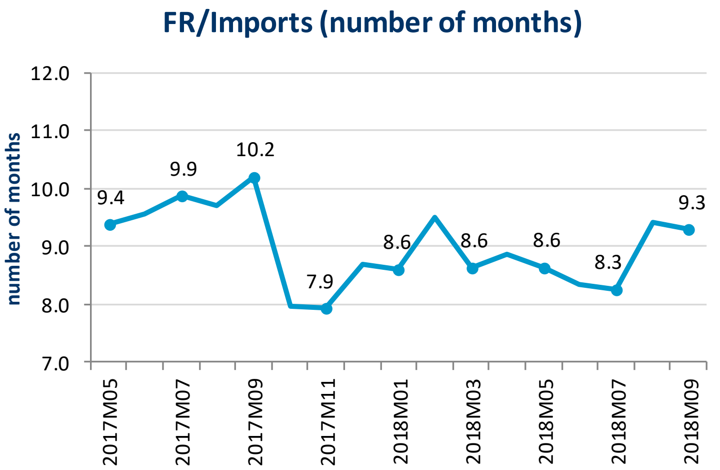
Source: NSI, EC

Bulgaria: Monetary Sector Indicators



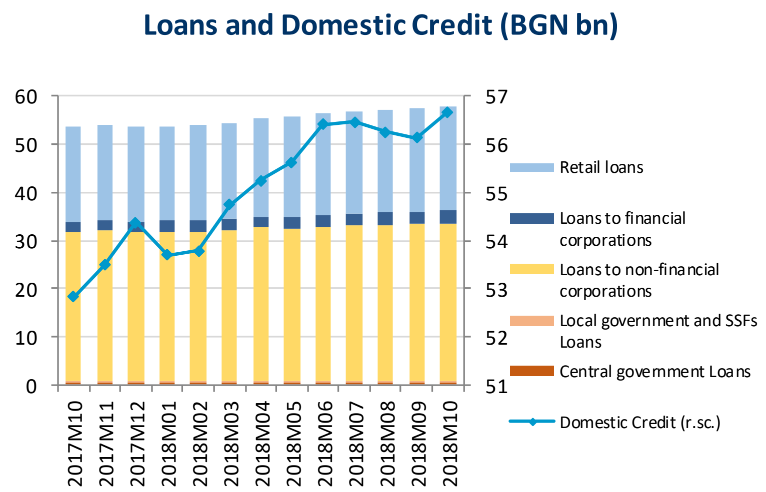


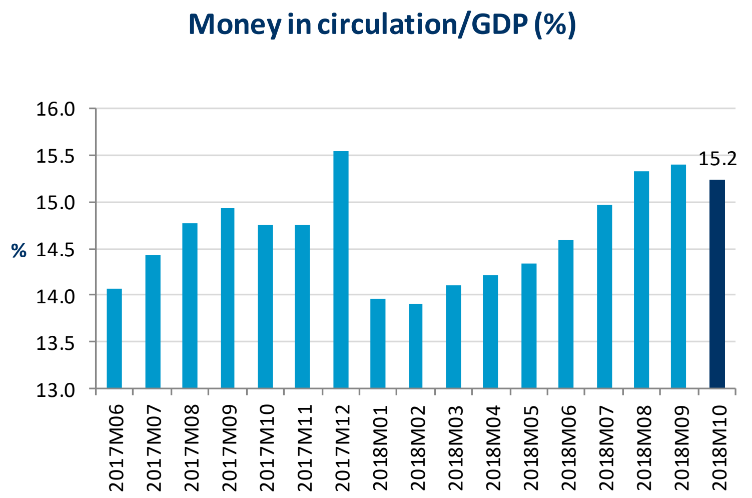


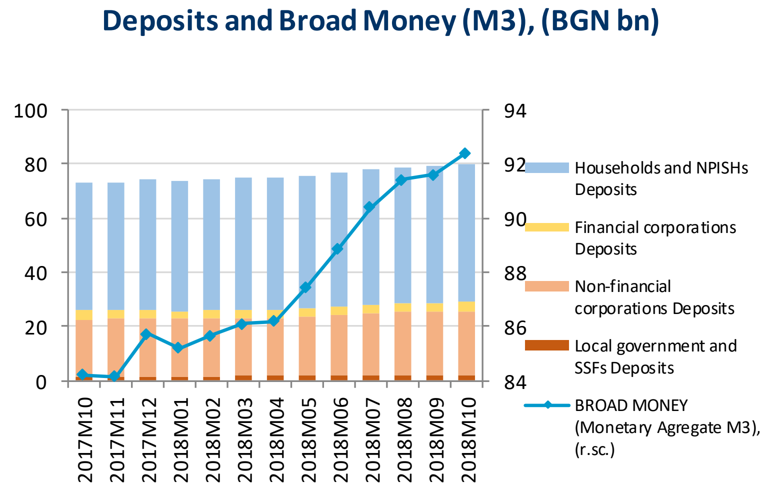


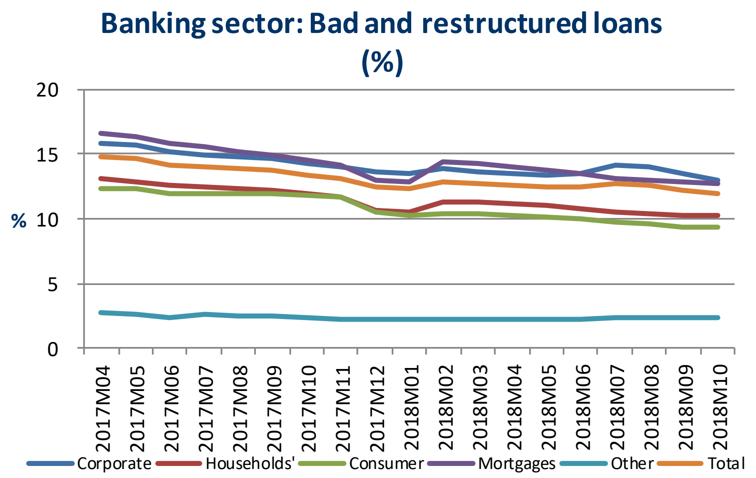
Source: BNB

Bulgaria: Monetary Sector Indicators



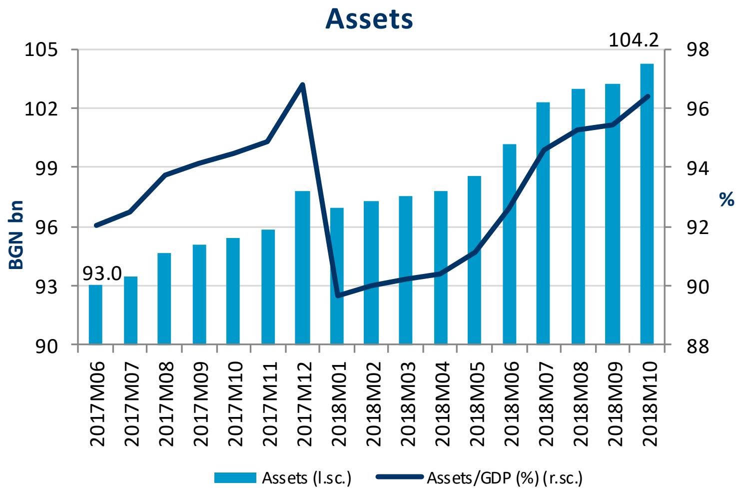


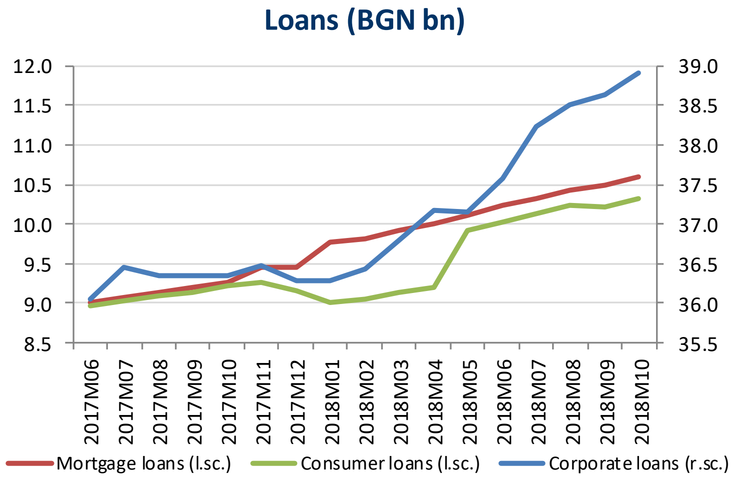


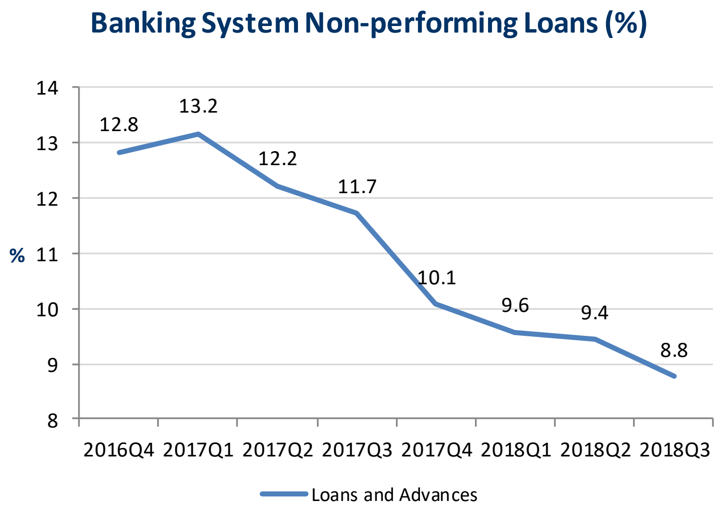


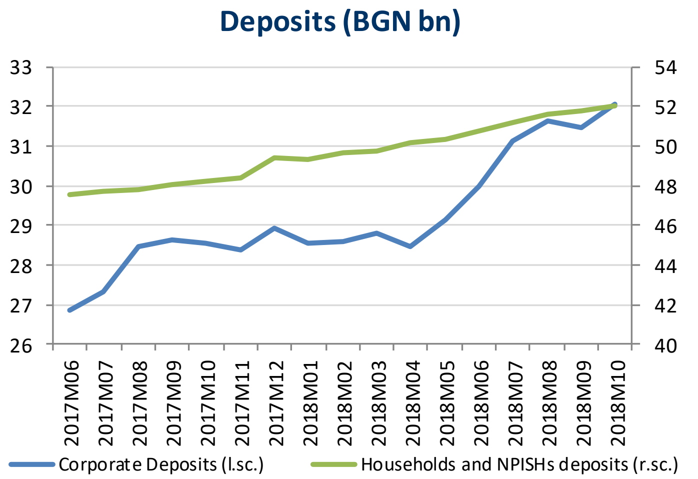
Source: BNB

Bulgaria: Banking Sector Indicators









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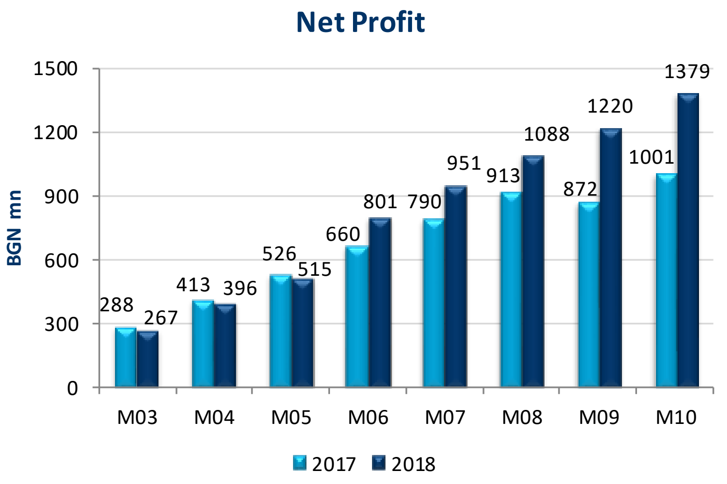
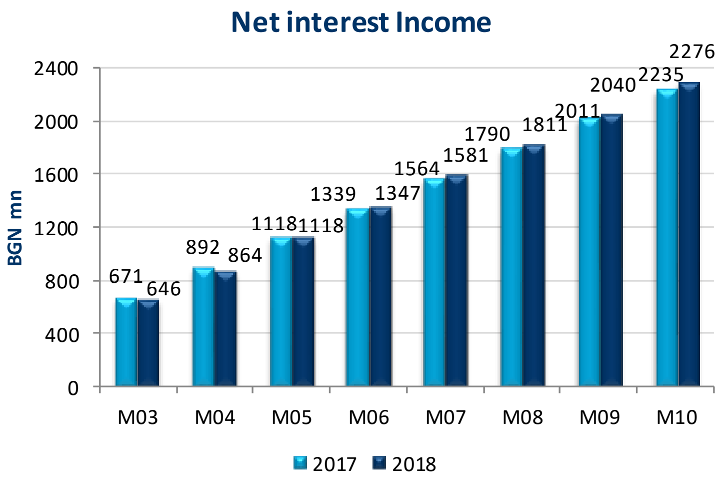
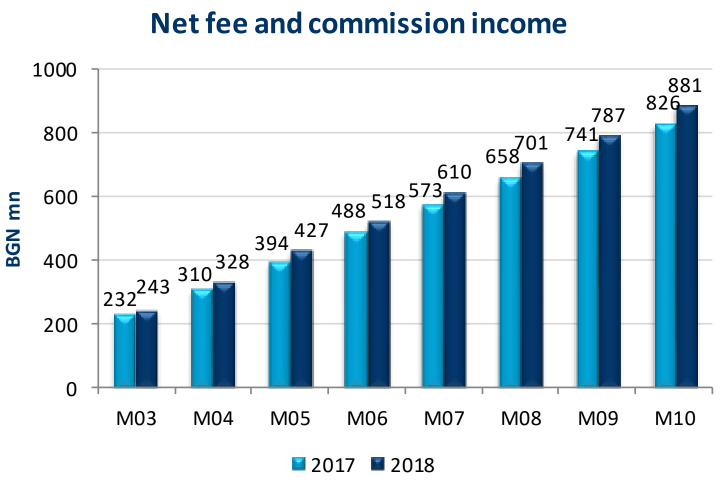
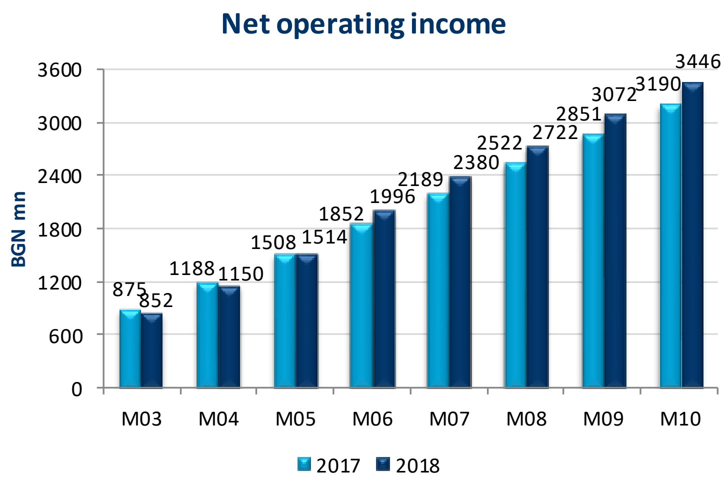
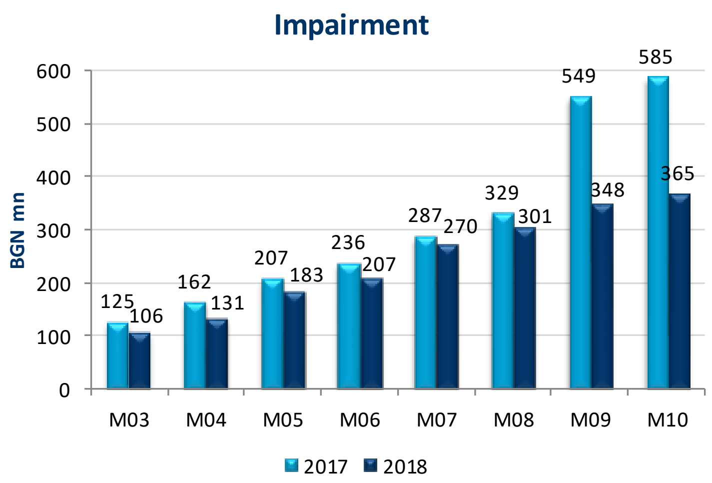




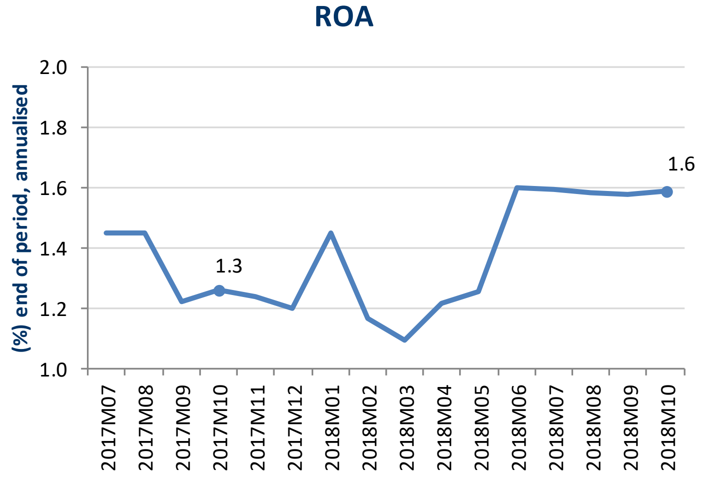


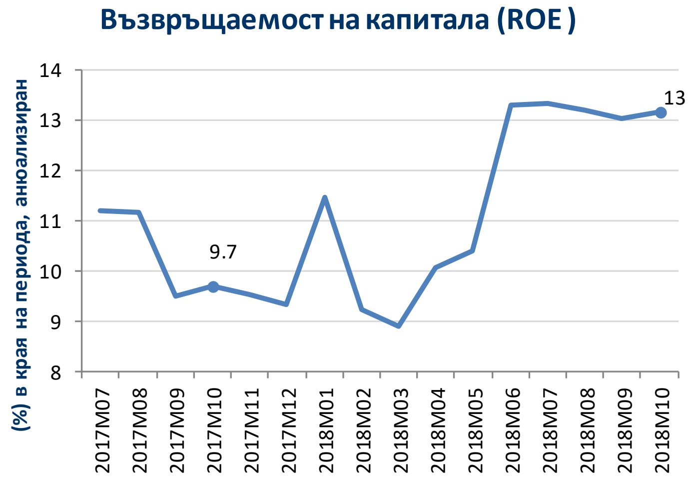


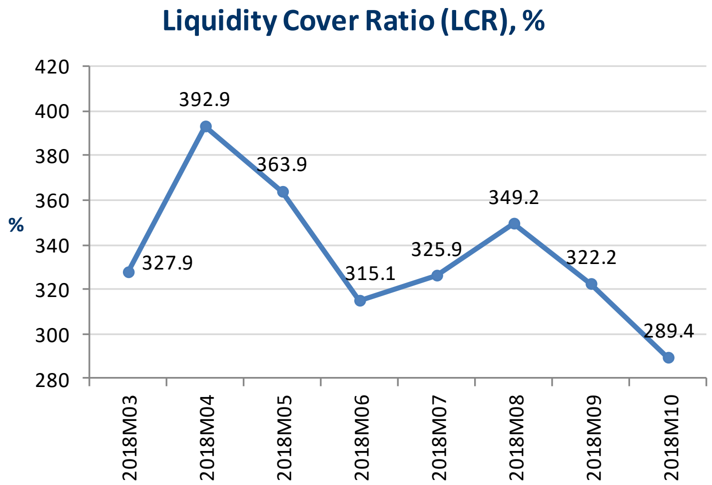


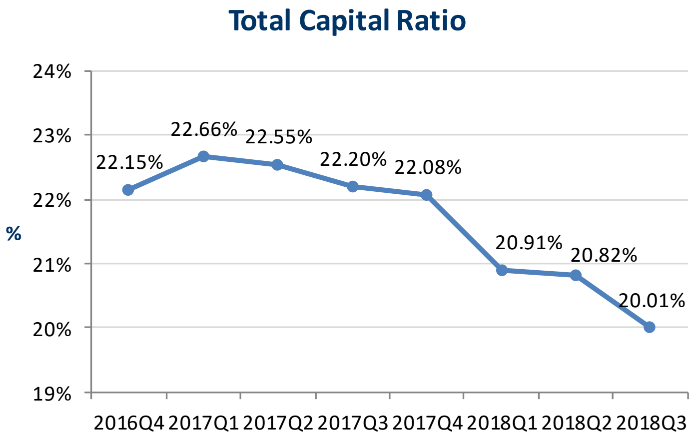
Source: BNB

Bulgaria: Banking Sector Indicators



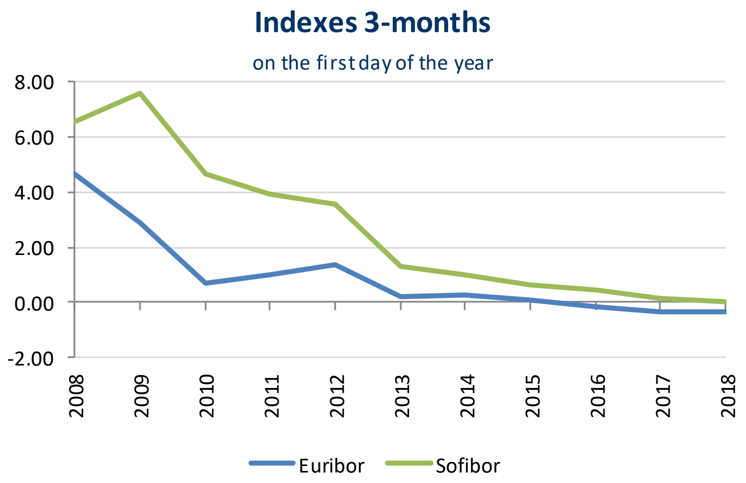


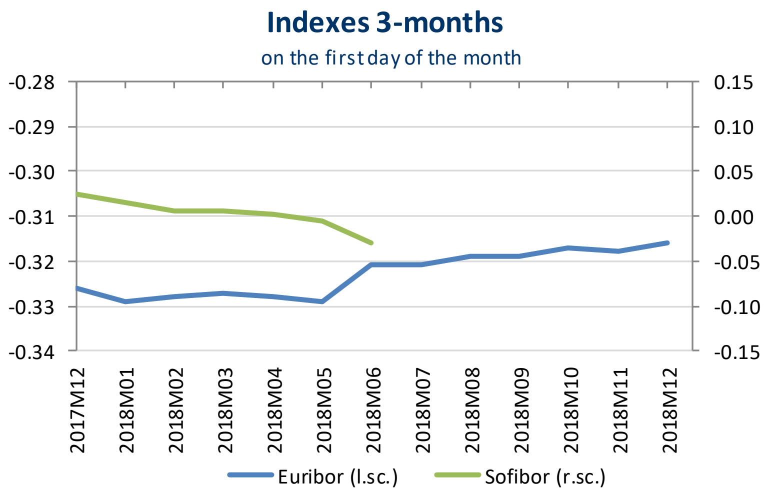


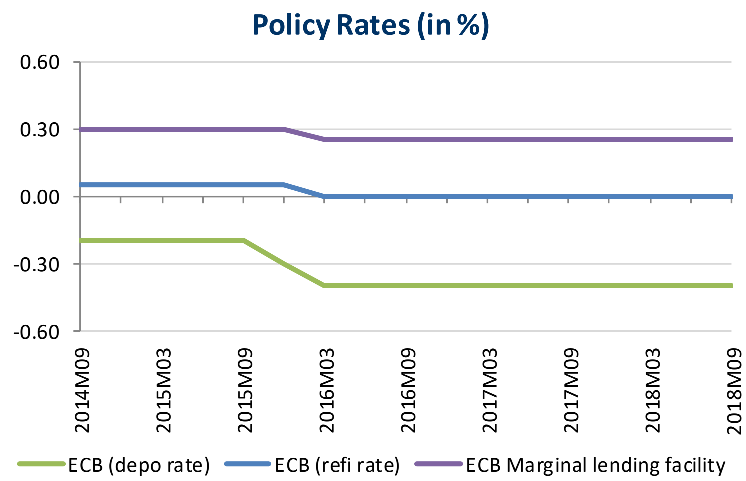


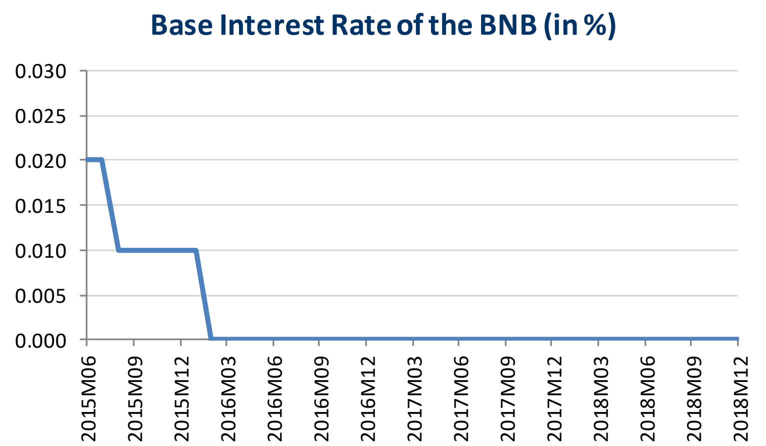
Source: BNB

Bulgaria: Indexes and Interest Rates



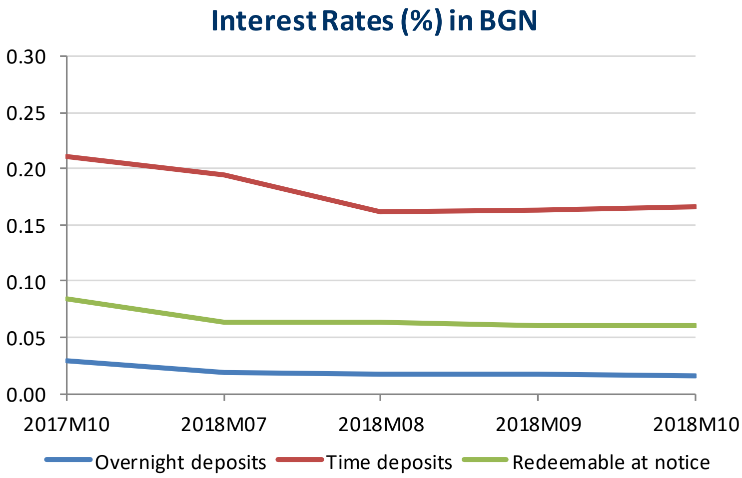


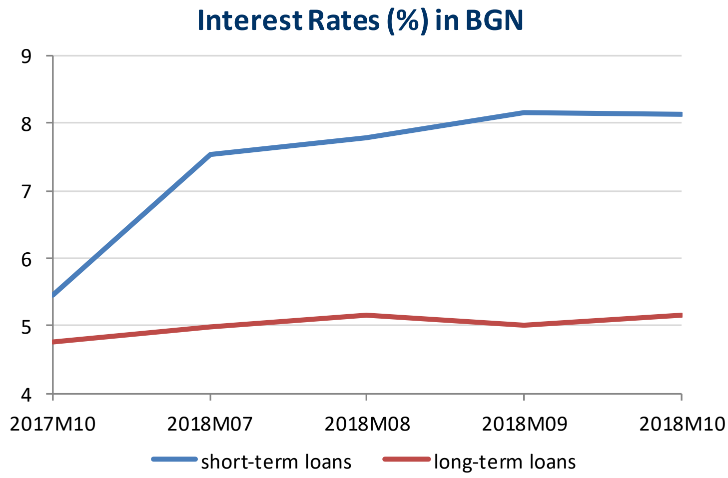


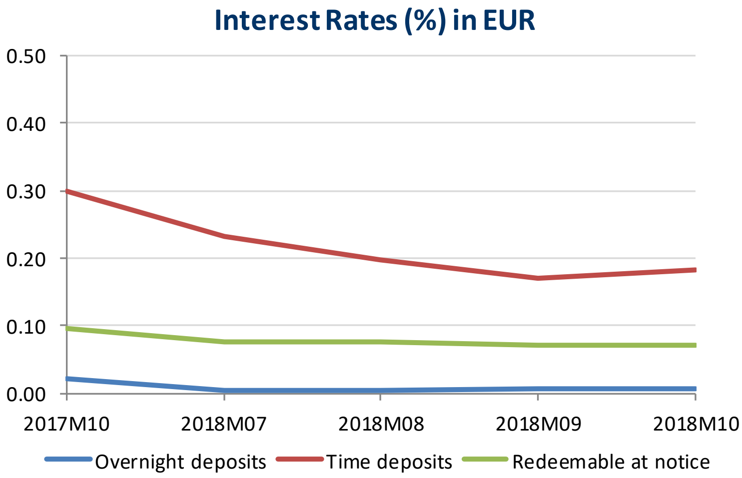


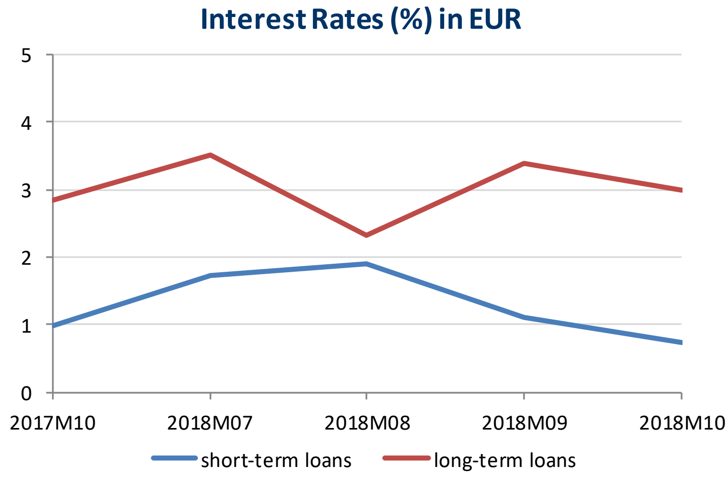
Source: ECB, BNB

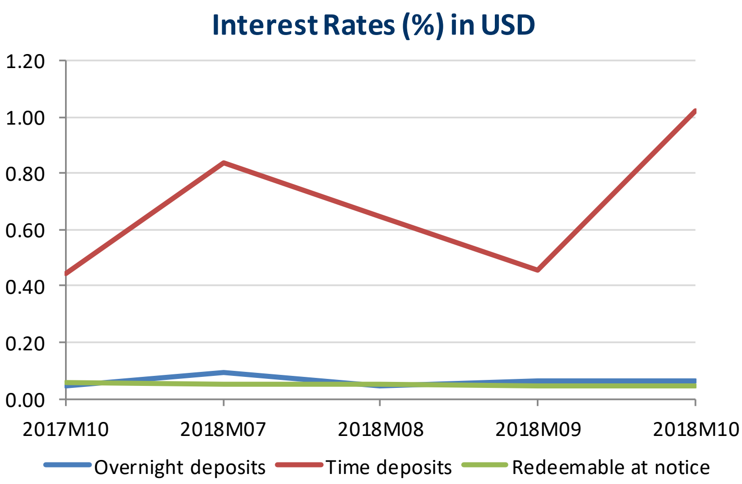
Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates

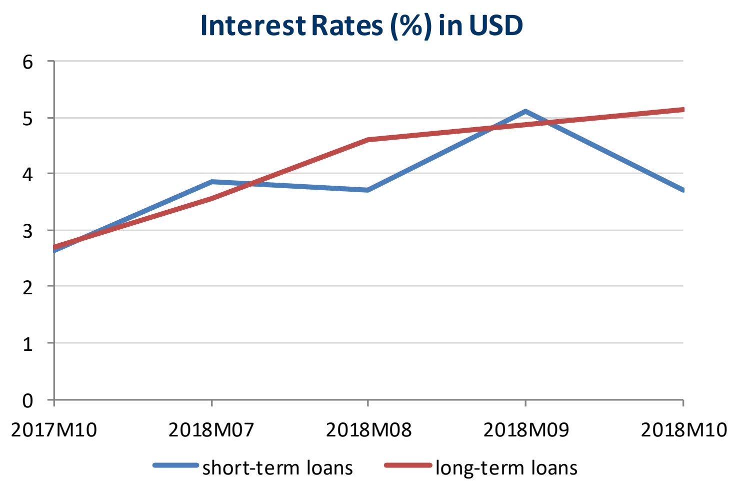








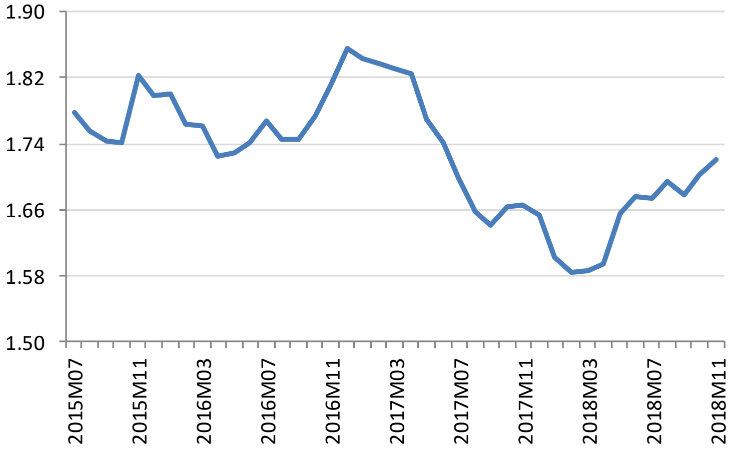




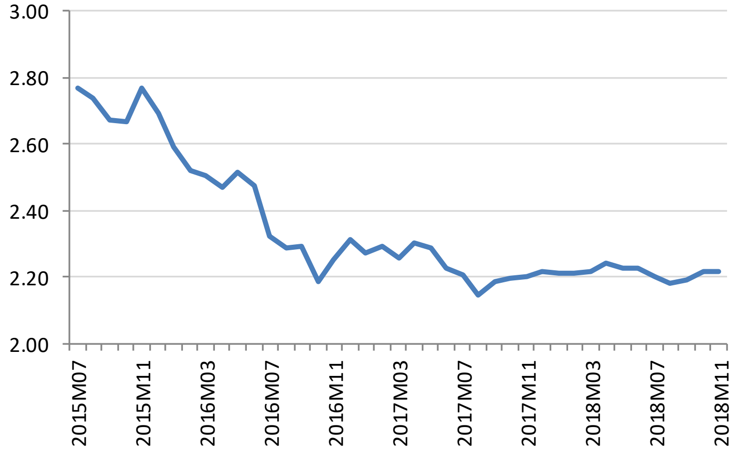
Source: BNB

Bulgaria: FX Rates

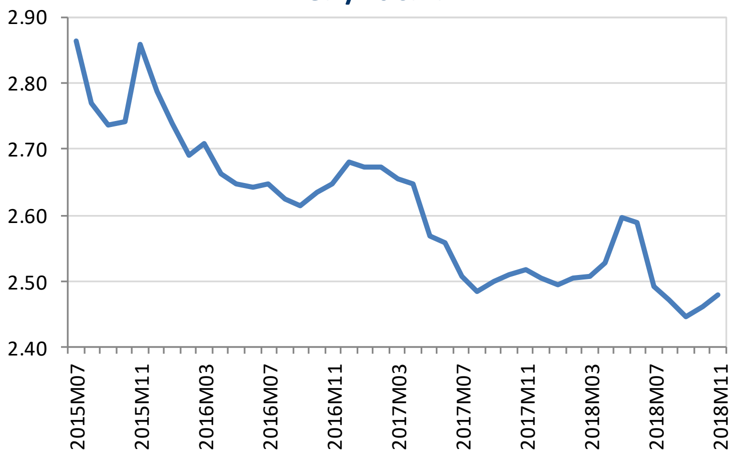
BGN/USD



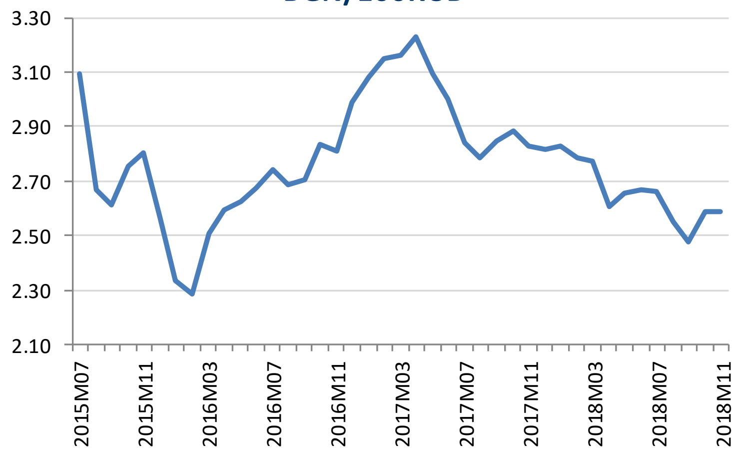
BGN/GBP



BGN/10CNY



BGN/100RUB



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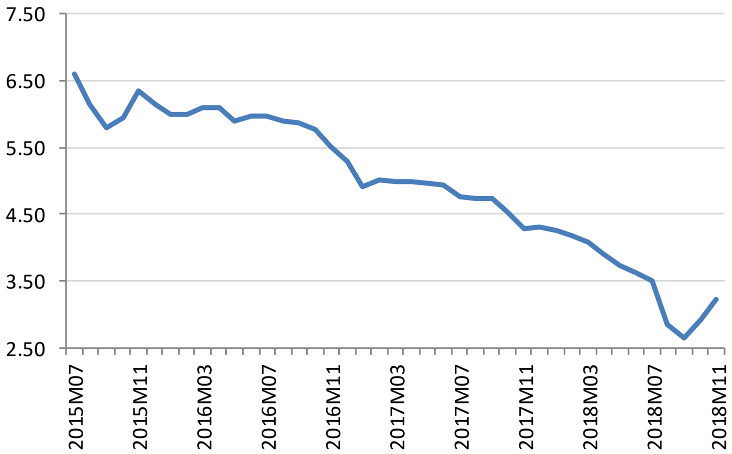
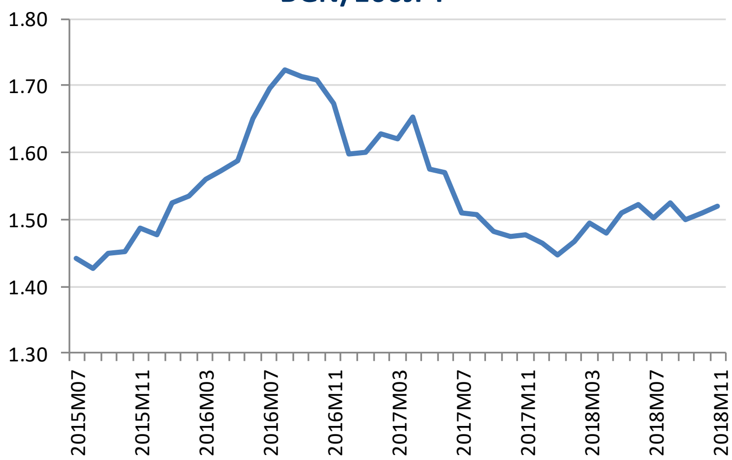


BGN/100JPY



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.