All data in the edition are the last available data, published as of January, 2019

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

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

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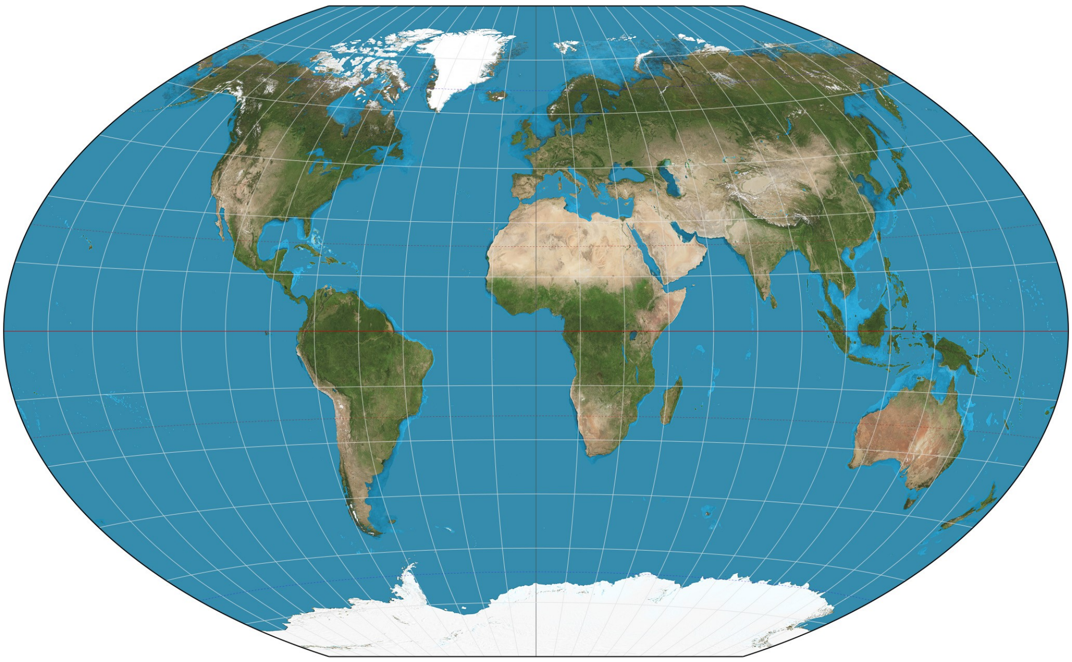
HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



January 2019

Sofia

- *Euro zone economic sentiment eased to 107.3 points in December, the lowest level since January 2017. The separate Business Climate Indicator (BCI) for the Euro Area decreased by 0.22 points to 0.82 in December, the lowest level since March 2017. The worse-than-expected sentiment reading confirms expectations of economists that forecast slowing growth of the euro zone in the last quarter of the year. Industrial production in November declined notably in Germany (-1.9% mom), France (-1.3% mom), Italy (-1.6% mom) and Spain (-1.5% mom). Annual inflation rate in the Euro Area is expected to ease to 1.6% in December of 2018 from 1.9% in the previous month. It was the lowest inflation rate since April. The Euro Area seasonally-adjusted unemployment rate fell to 7.9% in November 2018 from a downwardly revised 8% in the previous month. It remained the lowest jobless rate since October 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;*

- *The European Central Bank (ECB) appointed three temporary administrators and a three-member surveillance committee to take charge of Banca Carige and replace its Board of Directors on 02 January 2019. Italian government has flagged its readiness to help cash-strapped Banca Carige SpA, approving state guarantees on any future bond issues and signaling its support for a possible precautionary recapitalization. The annual inflation rate in Italy is expected to decrease to 1.1% in December of 2018 from 1.6% in the previous month. It is the lowest inflation rate since May. Italy's unemployment rate fell to 10.5% in November 2018 from 10.6% in the previous month;*

- *The UK Parliament voted by 432 votes to 202 to reject the deal, which sets out the terms of Britain's exit from the EU on 29 March 2019. There are 3 main alternatives to get out of the situation: 1.) No deal: A no-deal is unlikely, as a majority of Members of Parliament have demonstrated their determination to prevent it. 2.) Negotiated deal: Our base case remains that a negotiated deal (either the deal on the table or an amended version of it) will eventually pass in the House of Commons. 3.) Stay in EU: A new referendum or a decision is taken by the UK to withdraw the Brexit, although not our base case, could become a way out of the paralysis. The annual inflation rate in the United Kingdom fell to 2.3% in November 2018 from 2.4% in the previous month. The unemployment rate in the UK stood at 4.1% in the three months to October 2018, remaining close to its lowest level since the 1970s.;*

- *The Gross Domestic Product (GDP) in the United States expanded 3% in Q3 of 2018 over the same quarter of the previous year. Annual inflation rate in the United States fell to 1.9% in December of 2018 from 2.2% in November. US unemployment rate rose to 3.9% in December 2018 from a 49-year low of 3.7% in the previous month;*

- *The IMF projections foresee Japan's annual real GDP increasing by 1.1% in 2018 and 0.9% in 2019. These projections foresee Japan's inflation increasing by 1.2% in 2018 and 1.3% in 2019.apan's consumer price inflation eased to a 5-month low of 0.8% yoy in November 2018 from 1.4% in the previous month. The unemployment rate in Japan edged up to 2.5% in November of 2018 from 2.4% in the previous month;*

- *The Chinese economy advanced 6.4% yoy in Q4 of 2018, after a 6.5% growth in the previous quarter. It was the lowest growth rate since the global financial crisis. China's consumer price inflation slowed to a six-month low of 1.9% yoy in December 2018 from 2.2% in the previous month. China has vowed to take action to support its slowing economy with a package of tax cuts for small businesses and higher public spending. The International Monetary Fund has said global economic growth is forecast to slow this year 2019, with the Chinese economy expected to grow by 6.2%, down from 6.6% in 2018. China would likely succeed in stabilizing the economy and achieved soft landing. China has been embroiled in a trade dispute with the US, which has put a handbrake on global trade.*

- ***By late November, all the top tier Turkish banks had rolled over their autumn-maturing international syndicated loans. To capitalize on the improved sentiment, the Turkish sovereign returned to the bond market. For the next year 2019, KBC forecast for Turkey is decline in real GDP -0.5% and harmonized inflation 18.6%. The November contraction in Turkey's industrial production is with the magnitude at -6.5%. At least 846 firms applied for bankruptcy protection in 2018, according to government figures. The construction sector contracted -5.3% yoy in the third quarter of 2018. The Turkish consumer price inflation eased to 20.30% yoy in December 2018 from 21.62% in the previous month. It was the lowest inflation rate since August 2018;***

- ***Euro area sovereign bond spreads have been largely stable, with the exception of those for Italy, which have exhibited considerable volatility. The December 2018 Eurosystem staff macroeconomic projections for the euro area foresee annual real GDP increasing by 1.9% in 2018, 1.7% in 2019, 1.7% in 2020 and 1.5% in 2021. The December 2018 Eurosystem staff macroeconomic projections for the euro area foresee annual HICP inflation at 1.8% in 2018, 1.6% in 2019, 1.7% in 2020 and 1.8% in 2021. The aggregate fiscal stance for the euro area is expected to be broadly neutral in 2018, to loosen in 2019 and 2020, and to turn neutral again in 2021;***

- ***The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 19 December 2018, the MPC voted unanimously to maintain Bank Rate at 0.75%. Brexit uncertainties are weighing on UK financial markets. The further intensification of Brexit uncertainties, coupled with the slowing global economy, has also weighed on the near-term outlook for UK growth;***

- ***The Federal Open Market Committee (FOMC) is firmly committed to fulfilling its statutory mandate from the Congress of promoting maximum employment, stable prices, and moderate long-term interest rates. The inflation rate over the longer run is primarily determined by monetary policy, and hence the Committee has the ability to specify a longer-run goal for inflation. The Committee reaffirms its judgment that inflation at the rate of 2%, as measured by the annual change in the price index for personal consumption expenditures, is most consistent over the longer run with the Federal Reserve's statutory mandate;***

- ***Bank of Japan will take time to achieve the price stability target, it is necessary to persistently continue with the current powerful monetary easing as the momentum toward 2% inflation is maintained. Trying to normalize monetary policy prematurely before achieving the price stability target could adversely strengthen the side effects. In accordance with the strengthening of the framework for continuous powerful monetary easing in July, the long-term yields should be allowed to temporarily turn negative. It will be more difficult to overcome deflation completely if the directions of fiscal and monetary policies are different. Further coordination between the two policies is important;***

- ***The amount of cash lenders must hold as reserves will be cut by 1%, dropping by 0.5% on January 15 and a further 0.5% on January 25, the People's Bank of China. The latest reduction is the first all-inclusive required reserves cut since March 2016. It reduces the rate for major banks to 14% from January 15 and 13.5%from January 25. On January 15, the Chinese central bank injected a net CNY 560 billion (USD 83 billion) into the banking system, the highest ever recorded for a single day in a sign that the economy may be facing enormous stress;***

- ***The Monetary Policy Committee (the Committee) of Turkish central bank has decided to keep the policy rate (one-week repo auction rate) constant at 24%. 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 Committee has decided to maintain the tight monetary policy stance until inflation outlook displays a significant improvement;***

- ***Crude Oil increased 0.51 USD/BBL or 0.79% to 52.48 on Friday January 18 from 52.07 in the previous trading session. Brent increased 0.52 USD/BBL or 0.65% to 61.58 on Friday January 18 from 61.18 in the previous trading session. Production in the US has grown by 2.4 million barrels per day since January 2018, thus causing fears of oversupply. To stop the oversaturation of the market, the Organization of Petroleum Exporting Countries (OPEC), together with Russia, is making efforts to decrease supply;***

- ***There are no major changes in the prices of major cereals on the world stock markets during the period January 08-11 2019. After some fluctuations in Chicago, the price of wheat has now risen by USD 3.00 to 224.00 USD / ton, in France, Ukraine and Russia the change is zero and the quotations remained as before - 209.00 EUR / ton respectively, 237.00 USD / ton and 248.00 USD / ton. In Bulgaria, in the "Grain" sub-section of Sofia Commodity Exchange AD traders start the year at a slower pace. Bread wheat was from 350.00 to 360.00 BGN/ton, sellers bid 380.00-390.00 BGN/ ton.***

- *In January – November 2018, the current and capital account is positive, amounting to EUR 3,257.2 million and accounts for 5.9% of GDP;*
- *In January-November 2018, direct investment in Bulgaria amounted to EUR 795.4 million (1.4% of GDP), down by 40.9% yoy when it was amounting to EUR 1345 million (2.6% of GDP);*
- *As of the end of December 2018, BNB international reserves amounted to BGN 49.0 billion (EUR 25.1 billion), increasing by 3.8% mom and by 6% yoy, respectively;*
- *In December 2018, the total business climate indicator decreases by 0.5 percentage points in comparison with the previous month to 25.9% as a result of the more unfavourable business climate in industry;*
- *According to the preliminary data the Industrial Production Index, seasonally adjusted, increased by 0.4% in November 2018 mom. In November 2018 the working day adjusted Industrial Production Index rose by 1.2% yoy;*
- *According to the preliminary seasonally adjusted data in November 2018 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.8% mom and by 6.5% yoy, respectively;*
- *According to the preliminary data, in November 2018 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 1.2% below the level of the previous month. In November 2018 the working day adjusted index of production in construction decreased by 1.8% in comparison with the same month of 2017;*
- *In December 2018, Bulgaria's annual inflation slowed down to 2.7%;*
- *Total Producer Price Index in November 2018 decreased with 0.3% compared to the previous month; compared to the same month of 2017 the prices rose by 3.4%. Producer Price Index on Domestic Market in November 2018 remained unchanged compared to the previous month; compared to the same month of 2017 the domestic prices grew by 3.5%;*
- *In November 2018, the number of the trips of Bulgarian residents abroad was 426.3 thousand or by 2.1% above the registered in November 2017. In November 2018, the number of arrivals of visitors from abroad to Bulgaria was 575.2 thousand or by 3.4% more in comparison with November 2017;*
- *The total revenues from nights spent in November 2018 reached BGN 38.1 million or by 1.9% more compared to November 2017;*
- *In 2018, the average annual unemployment in Bulgaria is 6.2% and decreases by 1 pps on an annual basis;*
- *In November 2018 Bulgaria's CFP balance on a cash basis is positive, amounting to BGN 2,896.5 million and presented 2.7% of forecasted GDP;*
- *At the end of November 2018, Bulgaria's central government sub-sector debt amounted to EUR 12,233.2 million and accounts for 22.1% of projected GDP;*
- *In January-November 2018, Bulgariaa's broad money (monetary agregate M3) amounted to BGN 91,999 billion (89.1% of GDP) and increased by 9.3% yoy. Domestic credit amounted to BGN 56.997 billion and grew up by 6.5% yoy, respectively;*

- ***At the end of December 2018, the four SOFIX, BGBX 40, BG TR30 and BGREIT indexes reported an increase to 595.65 points, 116.10 points, 496.59 points and 121.19 points, respectively;***

- ***In January-November 2018 the aggregate profit of the banking system amounted to BGN 1470 million and grew by 35.1% yoy. BNB warns the banks of the risks due to the rapid growth of lending in Bulgaria.***

Table of content

GLOBAL TRENDS

Advanced countries' economies

Euro zone

Euro zone economic sentiment eased to 107.3 points in December, the lowest level since January 2017. The separate Business Climate Indicator (BCI) for the Euro Area decreased by 0.22 points to 0.82 in December, the lowest level since March 2017. The worse-than-expected sentiment reading confirms expectations of economists that forecast slowing growth of the euro zone in the last quarter of the year. Industrial production in November declined notably in Germany (-1.9% mom), France (-1.3% mom), Italy (-1.6% mom) and Spain (-1.5% mom). Annual inflation rate in the Euro Area is expected to ease to 1.6% in December of 2018 from 1.9% in the previous month. It was the lowest inflation rate since April. The Euro Area seasonally-adjusted unemployment rate fell to 7.9% in November 2018 from a downwardly revised 8% in the previous month. It remained the lowest jobless rate since October 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.

Euro zone economic sentiment eased to 107.3 points in December from 109.5 in November, the European Commission said, marking the indicators' 12th consecutive monthly drop and the lowest level since January 2017. Economists polled by Reuters had expected a less sharp fall to 108.2, but a slide of optimism among industry managers and consumers worsened the picture. The separate Business Climate Indicator (BCI) for the Euro Area decreased by 0.22 points to 0.82 in December 2018, well below market expectations of 0.99. It was the lowest level since March 2017 as managers' assessment of both past and expected production deteriorated markedly, as did their appraisal of both their overall and export order books. In addition, their views on the stocks of finished products worsened to some extent. The worse-than-expected sentiment reading confirms expectations of economists that forecast slowing growth of the euro zone in the last quarter of the year, after GDP growth eased to 0.2% in the third quarter from 0.4% in the April-June period. Industrial production in November declined notably in Germany (-1.9% mom), France (-1.3% mom), Italy (-1.6% mom) and Spain (-1.5% mom). Data from the German Federal Statistics Office show that industrial output at German factories shrank by 1.9% month-on-month in November, dashing hopes of a 0.3% increase. On an annual basis, industrial output slumped by an alarming 4.7% in November. October's decline has been revised down too, from -0.5% month-on-month to -0.8%. Germany's economy slowed last summer, with GDP shrinking by 0.2% in July-September 2018. Annual inflation rate in the Euro Area is expected to ease to 1.6% in December of 2018 from 1.9% in the previous month and below market expectations of 1.8%. It was the lowest inflation rate since April, mainly due to a slowdown in cost of energy and food, alcohol and tobacco. Looking at the main components of euro area inflation, prices are expected to increase at a softer pace for energy (5.5% compared to 9.1% in November); food, alcohol and tobacco (1.8% compared to 1.9%). On the other hand, inflation should remained unchanged for services (1.3%, the same as in November) and non-energy industrial goods (0.4%). Annual core inflation, which excludes volatile prices of energy, food, alcohol and tobacco and at which the ECB looks in its policy decisions, is likely to remain steady at 1%, unchanged from the prior month and in line with market consensus. The Euro Area seasonally-adjusted unemployment rate fell to 7.9% in November 2018 from a downwardly revised 8% in the previous month and below market expectations of 8%. It was the lowest jobless rate since October 2008 as the number of unemployed continued to decline. Considering the European Union as a whole, the unemployment rate stood at 6.7% in November, unchanged from previous month and down from 7.3% a year ago. This remained the lowest rate recorded in the EU28 since the start of the EU monthly unemployment series in January 2000. The youth unemployment rate was 15.2% in the EU28 and 16.9% in the Euro Area, compared with 16.1% and 17.8% respectively in November 2017. 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.

Italy

The European Central Bank (ECB) appointed three temporary administrators and a three-member surveillance committee to take charge of Banca Carige and replace its Board of Directors on 02 January 2019. Italian government has flagged its readi-

ness to help cash-strapped Banca Carige SpA, approving state guarantees on any future bond issues and signaling its support for a possible precautionary recapitalization. The annual inflation rate in Italy is expected to decrease to 1.1% in December of 2018 from 1.6% in the previous month. It is the lowest inflation rate since May. Italy's unemployment rate fell to 10.5% in November 2018 from 10.6% in the previous month

Though the Italian government and European Commission reached a deal for a planned Italian budget deficit of 2.04% of GDP in 2019, Italy faces unresolved structural issues as well and KBC expects the budget issue to resurface later this year. The European Central Bank (ECB) appointed three temporary administrators and a three-member surveillance committee to take charge of Banca Carige and replace its Board of Directors on 02 January 2019. The decision came after the majority of board members of Banca Carige resigned. The bank has about EUR 25 billion in assets. Italian government has flagged its readiness to help cash-strapped Banca Carige SpA, approving state guarantees on any future bond issues and signaling its support for a possible precautionary recapitalization. The government decree makes it possible for Carige to benefit from measures to boost liquidity, including a state guarantee on bonds to be issued in the future, or on financing given by the Bank of Italy. All the guarantees are to respect European Union rules on state aid, the government said. The decree includes the possibility for the lender to access -- through a specific request -- a public recapitalization for precautionary purposes. The annual inflation rate in Italy is expected to decrease to 1.1% in December of 2018 from 1.6% in the previous month. It is the lowest inflation rate since May, amid lower prices of transport and non-regulated energy products. Annual core inflation rate, which excludes energy and unprocessed food, should went down to 0.6% from 0.7%in November. On a monthly basis, consumer prices should drop - 0.1%, after falling -0.2% in November, and compared with market expectations of a +0.1%. Italy's unemployment rate fell to 10.5% in November 2018 from 10.6% in the previous month but above market expectations of 10.1%. The number of unemployed declined by 0.9% while employment remained unchanged.

United Kingdom

The UK Parliament voted by 432 votes to 202 to reject the deal, which sets out the terms of Britain's exit from the EU on 29 March 2019. There are 3 main alternatives to get out of the situation: 1.) No deal: A no-deal is unlikely, as a majority of Members of Parliament have demonstrated their determination to prevent it. 2.) Negotiated deal: Our base case remains that a negotiated deal (either the deal on the table or an amended version of it) will eventually pass in the House of Commons. 3.) Stay in EU: A new referendum or a decision is taken by the UK to withdraw the Brexit, although not our base case, could become a way out of the paralysis. The annual inflation rate in the United Kingdom fell to 2.3% in November 2018 from 2.4% in the previous month. The unemployment rate in the UK stood at 4.1% in the three months to October 2018, remaining close to its lowest level since the 1970s

The UK Parliament voted by 432 votes to 202 to reject the deal, which sets out the terms of Britain's exit from the EU on 29 March 2019. This heavy defeat with overwhelming majority of 230 Members of Parliament leaves the British government vulnerable and the Brexit paralysis ensues. Following a defeat, the government will have until Monday, 21 January to set out what it intends to do, and MPs will vote on and be able to amend the government's plans. EU said that will continue with the ratification process of the negotiated deal. "The compromise that we reached after 18 months with the British government remains today the best possible compromise" said the the bloc's chief negotiator, Michel Barnier. There are 3 main alternatives to get out of the situation: 1.) **No deal:** A no-deal is unlikely, as a majority of Members of Parliament have demonstrated their determination to prevent it. In this scenario, projection from Bank of England is GDP to fall between 4.75% and 7.75% lower by end of 2023. This is accompanied by a rise in unemployment to between 5.75% and 7.5%. Inflation in this scenario then rises to between 4.25% and 6.5%. 2.) **Negotiated deal**: Our base case remains that a negotiated deal (either the deal on the table or an amended version of it) will eventually pass in the House of Commons. The pound drifted after rejection the deal and gilts -- a traditional safe-haven investment -- sold off. Financial markets now hold the view that a 'soft' and probably later Brexit is more likely. This bumpy path is broadly consistent with our long-held expectation of a 'soft but not smooth' ('softish') Brexit. 3.) **Stay in EU**: A new referendum or a decision is taken by the UK to withdraw the Brexit, although not our base case, could become a way out of the paralysis if there were still an impasse in parliament at the end of March. The annual inflation rate in the United Kingdom fell to 2.3% in November 2018 from 2.4% in the previous month, in line with market expectations. It was the lowest inflation rate since March last year, mainly due to a slowdown in cost of transport; food and non-alcoholic beverages and recreation and culture. The unemployment rate in the UK stood at 4.1% in the three months to October 2018, remaining close to its lowest level since the 1970s and matching market expectations. The number of unemployed rose by 20,000 from the May to July period while employment increased by 79,000 and the number of job vacancies were near an all-time high. Average weekly earnings including bonuses rose 3.3% on the year, their biggest rise since the three months to July 2008; excluding bonuses, wages also grew 3.3%, the most since the end of 2008.

USA

The Gross Domestic Product (GDP) in the United States expanded 3% in the third quarter of 2018 over the same quarter of the previous year. Annual inflation rate in the United States fell to 1.9% in December of 2018 from 2.2% in November. US unemployment rate rose to 3.9% in December 2018 from a 49-year low of 3.7% in the previous month

The Gross Domestic Product (GDP) in the United States expanded annualized 3% yoy in Q3 of 2018 over the same quarter of the previous year. The US economy advanced 3.4% qoq on quarter in the third quarter of 2018, slightly below earlier estimates of a 3.5% growth, final figures showed. It follows a 4.2% expansion in the previous period which was the highest since the third quarter of 2014. Personal spending was revised slightly lower and net trade dragged down more on growth than initially estimated while inventory accumulation was higher than expected. Annual inflation rate in the United States fell to 1.9% in December of 2018 from 2.2% in November, matching market expectations. It is the lowest inflation rate since August of 2017, mainly due to a decline in gasoline cost. On a monthly basis, consumer prices edged down 0.1% after a flat reading in the previous month and also in line with forecasts. It is the first monthly decrease in consumer prices in nine months, due to a 7.5% slump in gasoline prices. The US unemployment rate rose to 3.9% in December 2018 from a 49-year low of 3.7% in the previous month, and above market expectations of 3.7%. It was the highest jobless rate since July, as the number of unemployed persons increased by 276 thousand to 6.3 million and employment advanced by 142 thousand to 156.9 million. The labor force participation rate, at 63.1%, changed little in December, and the employment-population ratio was 60.6% for the third consecutive month. Both measures were up by 0.4% over the year.

Japan

The IMF projections foresee Japan’s annual real GDP increasing by 1.1% in 2018 and 0.9% in 2019. These projections foresee Japan’s inflation increasing by 1.2% in 2018 and 1.3% in 2019.apan's consumer price inflation eased to a 5-month low of 0.8% yoy in November 2018 from 1.4% in the previous month. The unemployment rate in Japan edged up to 2.5% in November of 2018 from 2.4% in the previous month

The IMF projections foresee Japan’s annual real GDP increasing by 1.1% in 2018 and 0.9% in 2019. These projections foresee Japan’s inflation increasing by 1.2% in 2018 and 1.3% in 2019. Japan's consumer price inflation eased to a 5-month low of 0.8% yoy in November 2018 from 1.4% in the previous month, in line with market expectations. Food and transport prices rose at a slower pace while housing costs continued to fall. Core inflation rate, which excludes fresh food, slowed to 0.9% in November from 1% in the previous month and slightly below expectations of 1%. It marked the lowest core rate in three months. On a monthly basis, consumer prices declined -0.2% in November, the first monthly drop since April, after a 0.2% rise in October. The unemployment rate in Japan edged up to 2.5% in November of 2018 from 2.4% in the previous month and slightly above market expectations of 2.4%. Meanwhile, the jobs-to-applicants ratio edged up to 1.63 from 1.62 in October to match expectations.

China

The Chinese economy advanced 6.4% yoy in Q4 of 2018, after a 6.5% growth in the previous quarter. It was the lowest growth rate since the global financial crisis. China's consumer price inflation slowed to a six-month low of 1.9% yoy in December 2018 from 2.2% in the previous month. China has vowed to take action to support its slowing economy with a package of tax cuts for small businesses and higher public spending. The International Monetary Fund has said global economic growth is forecast to slow this year 2019, with the Chinese economy expected to grow by 6.2%, down from 6.6% in 2018. China would likely succeed in stabilizing the economy and achieved soft landing. China has been embroiled in a trade dispute with the US, which has put a handbrake on global trade

The Chinese economy advanced 6.4% yoy in Q4 of 2018, after a 6.5% growth in the previous quarter and matching market expectations. It was the lowest growth rate since the global financial crisis, amid intense trade dispute with the US, weakening domestic demand and alarming off-balance-sheet borrowings by local governments. Considering full 2018, the economy expanded 6.6%, the weakest pace since 1990. The Chinese economy grew by 1.5% quarter-on-quarter in the three months to December 2018, compared to a 1.6% expansion in the previous period and in line with market estimates. It was the weakest pace of quarterly expansion since the first quarter of the year. China's consumer price inflation slowed to a six-month low of 1.9% yoy in December 2018 from 2.2% in the previous month and below market consensus of 2.1%. The slowdown in inflation was mainly due to non-food prices, while food inflation remained at its lowest level in three months. China has vowed to take action to support its slowing economy with a package of tax cuts for small businesses and higher public spending. Officials said they would cut taxes "on a larger scale" in order to boost business activity, announced against a backdrop of disappointing industrial production figures and the first drop in car sales for almost three decades. The interventions, designed to soothe concerns among international investors, come after official figures on Monday revealed a 4.4% decline in exports in December – the biggest drop since 2016 – on the back of faltering demand in most of its key markets. Imports also fell by 7.6% as domestic appetite waned. The yield on the 10-year Chinese government bond fell below 3.1% to its lowest in more than two years, according to financial database Wind. Yields fall when bond prices rise, and a decline in yields typically signals expectations of a slowdown in economic growth. While exact details of the stimulus package are yet to be unveiled, the Chinese finance ministry suggested the measures would include cutting value added tax for some companies, particularly in the manufacturing sector, as well as rebates for other businesses to ward off a more damaging slowdown. China has been embroiled in a trade dispute with the US, which has put a handbrake on global trade. The new round of negotiations follows a trade truce agreed by Messrs. Trump and Xi in Argentina on December 1. Under that agreement, the U.S. is suspending tariff increases on USD 200 billion of Chinese imports until March. China has pledged to cut tariffs, buy more U.S. goods and services, ease restrictions on foreign firms operating in China and further open sectors for foreign capital. Chinese officials also indicate that Beijing is willing to put in place a mechanism for measuring how it implements those promises. But details of a full trade pact are yet to be worked out. Although Beijing and Washington are edging closer to a deal, concerns remain the dispute could be reignited. The International Monetary Fund has said global economic growth is forecast to slow this year 2019, with the Chinese economy expected to grow by 6.2%, down from 6.6% in 2018. China would likely succeed in stabilizing the economy and achieved soft landing.

Turkey

By late November, all the top tier Turkish banks had rolled over their autumn-maturing international syndicated loans. To capitalize on the improved sentiment, the Turkish sovereign returned to the bond market. For the next year 2019, KBC forecast for Turkey is decline in real GDP -0.5% and harmonized inflation 18.6%. The November contraction in Turkey's industrial production is with the magnitude at -6.5%. At least 846 firms applied for bankruptcy protection in 2018, according to government figures. The construction sector contracted -5.3% yoy in the third quarter of 2018. The Turkish consumer price inflation eased to 20.30% yoy in December 2018 from 21.62% in the previous month. It was the lowest inflation rate since August 2018

All of Turkey's larger banks regularly borrow in the international syndicated loan market twice a year, for terms of one year or, in recent years, two or three years. This means there is a regular twice-yearly season of loan refinancing at which the loan market reassesses its view of Turkish bank risk. By late November, all the top tier banks had rolled over their autumn-maturing international syndicated loans. The Turkish banks all managed to roll over their debt at the spread of 275bp over Libor. Much higher spreads notwithstanding, they had passed the test and shown that international banks were still willing to lend to Turkey. The Turkish government stepped in to stand behind Turkish banks in troubles, injecting capital in the form of subordinated debt purchases. To capitalize on the improved sentiment, the Turkish sovereign returned to the bond market, not once but twice, raising USD 2billion of five year cash in October and returning three weeks later for a EUR 1.5 billion seven year issue. Both trades were well subscribed in primary, but met with mixed reviews from bankers and investors regarding the wisdom of locking in historically high debt costs. For the next year 2019, KBC forecast for Turkey is decline in real GDP -0.5% and harmonized inflation 18.6%. European Commission forecast is decline in real GDP -1.5% and inflation 15.7%. The November contraction in Turkey's industrial production is with the magnitude at -6.5%, which is way beyond the expectations. The November industrial production contraction based on the manufacturing sector (-7.1%) and that is mostly focused on 11.9% yoy contraction in the intermediate goods production and 8.3% yoy contraction in the capital goods sector is not a good news. Turkey is facing a mounting number of applications for bankruptcy protection as a slump in economic growth takes its toll on business. Requests for konkordato, a court-sanctioned agreement that allows struggling companies to try and avoid full bankruptcy by restructuring their debt payments, have soared in recent months. At least 846 firms applied for bankruptcy protection in 2018, according to government figures. Experts say the number may actually be in the thousands. Some of the country's biggest conglomerates have had to renegotiate debts worth billions of dollars. Companies that have applied for the measure include well-known names from the retail, construction, manufacturing and energy sectors. After a long period of solid growth, Turkey's economy contracted -1.1%yoy in the third quarter. The ambitious development has been hit by financial crisis as well as the slump in the Turkish construction industry -- a key sector. The construction sector has been a driving force of the Turkish economy from the beginning of this century, who has overseen growth consistently above the global average since 2003. But the construction sector contracted -5.3% yoy in the third quarter of 2018. The construction confidence index of the Turkish Statistical Institute (TurkStat) fell 2.1% in December to 55.4, after 56.6 in the previous month. Anything below 100 indicates a pessimistic outlook. The Turkish consumer price inflation eased to 20.30% yoy in December 2018 from 21.62% in the previous month, and slightly below market expectations of 20.52%. It was the lowest inflation rate since August, mainly due to softer rises in prices of food, housing, and transport. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, declined to 19.53% in December from 20.72% in the previous month. On a monthly basis, consumer prices dropped 0.40% in December.

Policy of the Central banks

ECB

Summary of ECB Economic Bulletin, Issue 8 / 2018. Euro area sovereign bond spreads have been largely stable, with the exception of those for Italy, which have exhibited considerable volatility. The December 2018 Eurosystem staff macroeconomic projections for the euro area foresee annual real GDP increasing by 1.9% in 2018, 1.7% in 2019, 1.7% in 2020 and 1.5% in 2021. The December 2018 Eurosystem staff macroeconomic projections for the euro area foresee annual HICP inflation at 1.8% in 2018, 1.6% in 2019, 1.7% in 2020 and 1.8% in 2021. The aggregate fiscal stance for the euro area is expected to be broadly neutral in 2018, to loosen in 2019 and 2020, and to turn neutral again in 2021.

Summary of ECB Economic Bulletin, Issue 8 / 2018. Long-term risk-free rates have declined in the context of heightened geopolitical uncertainty and a perceived deterioration in the macroeconomic outlook since the Governing Council's meeting in September 2018. Euro area sovereign bond spreads have been largely stable, with the exception of those for Italy, which have exhibited considerable volatility. Although corporate earnings expectations remain robust, some downward revisions, in addition to a repricing of risk, have led to lower equity and bond prices of euro area corporations. In foreign exchange markets, the euro has broadly weakened in trade-weighted terms.

Euro area real GDP increased by 0.2%, quarter on quarter, in the third quarter of 2018, following growth of 0.4% in the previous two quarters. The latest data and survey results have been weaker than expected, reflecting a diminishing contribution from external demand and some country and sector-specific factors. While some of these factors are likely to unwind, this may suggest some slower growth momentum ahead. At the same time, domestic demand, also backed by the Governing Council's accommodative monetary policy stance, continues to underpin the economic expansion in the euro area. The strength of the labour market, as reflected in ongoing employment gains and rising wages, still supports private consumption. Moreover, business investment is benefiting from domestic demand, favourable financing conditions and improving balance sheets. Residential investment remains robust. In addition, the expansion in global activity is still expected to continue, supporting euro area exports, although at a slower pace. This assessment is broadly reflected in the December 2018 Eurosystem staff macroeconomic projections for the euro area. These projections foresee annual real GDP increasing by 1.9% in 2018, 1.7% in 2019, 1.7% in 2020 and 1.5% in 2021. Compared with the September 2018 ECB staff macroeconomic projections, the outlook for real GDP growth has been revised slightly down in 2018 and 2019. The risks surrounding the euro area growth outlook can still be assessed as broadly balanced. However, the balance of risks is moving to the downside owing to the persistence of uncertainties related to geopolitical factors, the threat of protectionism, vulnerabilities in emerging markets and financial market volatility.

According to Eurostat's flash estimate, euro area annual HICP inflation declined to 2.0% in November 2018, from 2.2% in October. On the basis of current futures prices for oil, headline inflation is likely to decrease over the coming months. Measures of underlying inflation remain generally muted, but domestic cost pressures are continuing to strengthen and broaden amid high levels of capacity utilisation and tightening labour markets, which is pushing up wage growth. Looking ahead, underlying inflation is expected to increase over the medium term, supported by the ECB's monetary policy measures, the ongoing economic expansion and rising wage growth. This assessment is also broadly reflected in the December 2018 Eurosystem staff macroeconomic projections for the euro area, which foresee annual HICP inflation at 1.8% in 2018, 1.6% in 2019, 1.7% in 2020 and 1.8% in 2021. Compared with the September 2018 ECB staff macroeconomic projections, the outlook for HICP inflation has been revised slightly up for 2018 and down for 2019. HICP inflation excluding energy and food is expected to rise from 1.0% in 2018 to 1.4% in 2019, 1.6% in 2020 and 1.8% in 2021. Broad money (M3) growth picked up in October 2018, amid an ongoing shift towards more self-sustained sources of money creation as the monthly net asset purchases under the asset purchase programme were reduced. Lending to the private sector continued to grow and remained the largest driver of broad money growth, albeit with some signs of slowing down, mainly for loans to non-financial corporations. At the same time, bank funding and lending conditions have remained very favourable. The pass-through of the monetary policy measures put in place since June 2014 continues to significantly support borrowing conditions for firms and households, access to financing – in particular for small and medium-sized enterprises – and credit flows across the euro area. The euro area general government budget deficit is projected to have declined significantly in 2018 but to increase somewhat next year. The fall in 2018 was mainly the result of favourable cyclical conditions and declining interest payments. The aggregate fiscal stance for the euro area is expected to be broadly neutral in 2018, to loosen in 2019 and 2020, and to turn neutral again in 2021.

Bank of England

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 19 December 2018, the MPC voted unanimously to maintain Bank Rate at 0.75%. Brexit uncertainties are weighing on UK financial markets. The further intensification of Brexit uncertainties, coupled with the slowing global economy, has also weighed on the near-term outlook for UK growth.

Summary of ECB Economic Bulletin, Issue 8 / 2018. The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 19 December 2018, the MPC voted unanimously to maintain Bank Rate at 0.75%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at GBP10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at GBP435 billion. Since the Monetary Policy Committee's previous meeting, the near-term outlook for global growth has softened and downside risks to growth have increased. Global financial conditions have tightened noticeably, particularly in corporate credit markets. Oil prices have fallen significantly, however, which should provide some support to demand in advanced economies. The decline in oil prices also means that UK CPI inflation is likely to fall below 2% in coming months. The Committee judges that the loosening of fiscal policy in Budget 2018, announced after the November Inflation Report projections were finalised, will boost UK GDP by the end of the Monetary Policy Committee's forecast period by around 0.3%, all else equal. Brexit uncertainties have intensified considerably since the Committee's last meeting. These uncertainties are weighing on UK financial markets. UK bank funding costs and non-financial high-yield corporate bond spreads have risen sharply and by more than in other advanced economies. UK-focused equity prices have fallen materially. Sterling has depreciated further, and its volatility has risen substantially. Market-based indicators of inflation expectations in the United Kingdom have risen, including at longer horizons. The further intensification of Brexit uncertainties, coupled with the slowing global economy, has also weighed on the near-term outlook for UK growth. Business investment has fallen for each of the past three quarters and is likely to remain weak in the near term. The housing market has remained subdued. Indicators of household consumption have generally been more resilient, although retail spending may be slowing. The Monetary Policy Committee has previously noted that shifting expectations about Brexit among financial markets, businesses and households could lead to greater-than-usual short-term volatility in UK data. Judging the appropriate stance of monetary policy requires separating these shorter-term developments from other more persistent factors affecting inflation and from the dynamics of the economy once greater clarity emerges about the nature of EU withdrawal.

USA Federal Reserve

Statement on Longer-Run Goals and Monetary Policy Strategy. The Federal Open Market Committee (FOMC) is firmly committed to fulfilling its statutory mandate from the Congress of promoting maximum employment, stable prices, and moderate long-term interest rates. The inflation rate over the longer run is primarily determined by monetary policy, and hence the Committee has the ability to specify a longer-run goal for inflation. The Committee reaffirms its judgment that inflation at the rate of 2%, as measured by the annual change in the price index for personal consumption expenditures, is most consistent over the longer run with the Federal Reserve's statutory mandate. The Committee considers a wide range of indicators in making these assessments. Information about Committee participants' estimates of the longer-run normal rates of output growth and unemployment is published four times per year in the Federal Open Market Committee's Summary of Economic Projections. For example, in the most recent projections, the median Federal Open Market Committee participants' estimates of the longer-run normal rate of unemployment was 4.6%.

The Federal Open Market Committee (FOMC) is firmly committed to fulfilling its statutory mandate from the Congress of promoting maximum employment, stable prices, and moderate long-term interest rates. The Committee seeks to explain its monetary policy decisions to the public as clearly as possible. Such clarity facilitates well-informed decision making by households and businesses, reduces economic and financial uncertainty, in-creases the effectiveness of monetary policy, and enhances transparency and accountability, which are essential in a democratic society. Inflation, employment, and long-term interest rates fluctuate over time in response to economic and financial disturbances. Moreover, monetary policy actions tend to influence economic activity and prices with a lag. Therefore, the Committee's policy decisions reflect its longer-run goals, its medium-term outlook, and its assessments of the balance of risks, including risks to the financial system that could impede the attainment of the Committee's goals. The inflation rate over the longer run is primarily determined by monetary policy, and hence the Committee has the ability to specify a longer-run goal for inflation. The Committee reaffirms its judgment that inflation at the rate of 2%, as measured by the annual change in the price index for personal consumption expenditures, is most consistent over the longer run with the Federal Reserve's statutory mandate. The Committee would be concerned if inflation were running persistently above or below this objective. Communicating this symmetric inflation goal clearly to the public helps keep longer-term inflation expectations firmly anchored, thereby fostering price stability and moderate long-term interest rates and enhancing the Committee's ability to promote maximum employment in the face of significant economic disturbances. The maximum level of employment is largely determined by nonmonetary factors that affect the structure and dynamics of the labor market. These factors may change over time and may not be directly measurable. Consequently, it would not be appropriate to specify a fixed goal for employment; rather, the Committee's policy decisions must be informed by assessments of the maximum level of employment, recognizing that such assessments are necessarily uncertain and subject to revision. The Committee considers a wide range of indicators in making these assessments. Information about Committee participants' estimates of the longer-run normal rates of output growth and unemployment is published four times per year in the Federal Open Market Committee's Summary of Economic Projections. For example, in the most recent projections, the median of Federal Open Market Committee participants' estimates of the longer-run normal rate of unemployment was 4.6%. In setting monetary policy, the Committee seeks to mitigate deviations of inflation from its longer-run goal and deviations of employment from the Committee's assessments of its maximum level. These objectives are generally complementary. However, under circumstances in which the Committee judges that the objectives are not complementary, it follows a balanced approach in promoting them, taking into account the magnitude of the deviations and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with its mandate.

The Committee intends to reaffirm these principles and to make adjustments as appropriate at its annual organizational meeting each January.

Bank of Japan (BoJ)

Summary of Opinions at the Monetary Policy Meeting of Bank of Japan on December 19 and 20, 2018. Although it will take time to achieve the price stability target, it is necessary to persistently continue with the current powerful monetary easing as the momentum toward 2% inflation is maintained. Trying to normalize monetary policy prematurely before achieving the price stability target could adversely strengthen the side effects. In accordance with the strengthening of the framework for

continuous powerful monetary easing in July, the long-term yields should be allowed to temporarily turn negative. It will be more difficult to overcome deflation completely if the directions of fiscal and monetary policies are different. Further coordination between the two policies is important.

Summary of Opinions at the Monetary Policy Meeting of Bank of Japan on December 19 and 20, 2018. Although it will take time to achieve the price stability target, it is necessary to persistently continue with the current powerful monetary easing as the momentum toward 2% inflation is maintained. In a situation where there are high uncertainties regarding economic and price developments, it is important to sustain moderate economic expansion while avoiding an accumulation of imbalances, and essential to continue with the current monetary easing while carefully examining the positive effects and side effects of the policy. Trying to normalize monetary policy prematurely before achieving the price stability target could adversely strengthen the side effects. Since the impact of these effects is cumulative, it is necessary to achieve the price stability target at the earliest possible time by conducting additional monetary easing and strengthening the commitment. In accordance with the strengthening of the framework for continuous powerful monetary easing in July, the long-term yields should be allowed to temporarily turn negative. It is natural for such yields to move upward and downward more or less symmetrically from around zero percent. It would be desirable to increase or decrease the amount of Japanese government bond (JGB) purchases in a flexible manner while bearing in mind the approximate amount to be purchased -- that is, an annual pace of increase in the amount outstanding of the Bank's JGB holdings of about GPY 80 trillion. It will be more difficult to overcome deflation completely if the directions of fiscal and monetary policies are different. Further coordination between the two policies is important.

People's Bank of China (PBC)

The amount of cash lenders must hold as reserves will be cut by 1%, dropping by 0.5% on January 15 and a further 0.5% on January 25, the People's Bank of China said on its website. The latest reduction is the first all-inclusive required reserves cut since March 2016. It reduces the rate for major banks to 14% from January 15 and 13.5%from January 25. On January 15, the Chinese central bank injected a net CNY 560 billion (USD 83 billion) into the banking system, the highest ever recorded for a single day in a sign that the economy may be facing enormous stress.

China's central bank took a further step to secure liquidity to the slowing economy, amid investor jitters over the outlook and expectations that more easing moves are in the pipeline. The amount of cash lenders must hold as reserves will be cut by 1%, dropping by 0.5% on January 15 and a further 0.5% on January 25, the People's Bank of China said on its website. The cut will release a net CNY 800 billion (USD 117 billion) of liquidity and will offset a funding squeeze ahead of the Chinese New Year, it said in separate statement. The latest reduction is the first all-inclusive required reserves cut since March 2016. It reduces the rate for major banks to 14% from January 15 and 13.5%from January 25. China's top leaders have pledged to keep monetary policy prudent while striking an "appropriate" balance between tightening and loosening in 2019, as part of a broader effort to ratchet up stimulus to support growth. Today's cut is still "targeted" easing rather than wide-ranging stimulus, the PBOC said, adding that its "prudent monetary policy stance hasn't changed." Implementing the cut in two phases ensures "overall banking liquidity stays reasonable and sufficient while balancing internal and external factors to keep the yuan's exchange rate at a reasonable and equilibrium level". The PBOC had cut reserve requirement ratios for some banks four times in 2018, and recently introduced a targeted version of its Medium-Term Lending Facility to supply lower-cost funding to banks, a move analysts see as a toned-down version of broad rate cut. On January 15, the Chinese central bank injected a net CNY 560 billion (USD 83 billion) into the banking system, the highest ever recorded for a single day in a sign that the economy may be facing enormous stress. "At present, it is the peak of the tax period, and the total liquidity of the banking system is declining rather quickly", according the central bank.

Central Bank of Turkey

Decision of the Monetary Policy Committee 16 of Turkish central bank January 2019. The Monetary Policy Committee (the Committee) has decided to keep the policy rate (one-week repo auction rate) constant at 24%. 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 Committee has decided to maintain the tight monetary policy stance until inflation outlook displays a significant improvement.

Decision of the Monetary Policy Committee of Turkish central bank 16 January 2019. The Monetary Policy Committee (the Committee) 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 tight financial conditions. Current account balance is expected to maintain its improving trend. 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 Committee has decided to maintain the tight monetary policy stance until inflation outlook displays a significant improvement. The 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 Committee to revise its stance.

International Commodity Prices

Petrol

Crude Oil increased 0.51 USD/BBL or 0.79% to 52.48 on Friday January 18 from 52.07 in the previous trading session. Brent increased 0.52 USD/BBL or 0.65% to 61.58 on Friday January 18 from 61.18 in the previous trading session. Production in the US has grown by 2.4 million barrels per day since January 2018, thus causing fears of oversupply. To stop the oversaturation of the market, the Organization of Petroleum Exporting Countries (OPEC), together with Russia, is making efforts to decrease supply

Oil prices are down on January 17 after US crude oil production has reached an unprecedented 12 million barrels a day at a time when worries about weakening demand are emerging, Reuter's reports. Futures on US crude oil with delivery in February fell 0.69% to 51.95 dollars per barrel. The Brent reported a price drop of 0.55% to 60.98 dollars per barrel. US crude oil production reached a record 11.9 million barrels per day in the week ending January 11, the Energy Information Administration reported on January 16. For comparison, just a week earlier, US production was at 11.7 million barrels. Production in the US has grown by 2.4 million barrels per day since January 2018, thus causing fears of oversupply. Together with the sharp increase in crude oil production in the United States and exports also rose, reaching a record 3.2 million barrels per day at the end of last year. But the growing oil supply from the US is happening at a time when demand concerns are compounded by the slowdown in the global economy. To stop the oversaturation of the market, the Organization of Petroleum Exporting Countries (OPEC), together with Russia, is making efforts to decrease supply. This prevents the price of oil from falling more seriously.

Agricultural products

There are no major changes in the prices of major cereals on the world stock markets during the period January 08-11 2019. After some fluctuations in Chicago, the price of wheat has now risen by USD 3.00 to 224.00 USD / ton, in France, Ukraine and Russia the change is zero and the quotations remained as before - 209.00 EUR / ton respectively, 237.00 USD / ton and 248.00 USD / ton. In Bulgaria, in the "Grain" sub-section of Sofia Commodity Exchange AD traders start the year at a slower pace. Bread wheat was from 350.00 to 360.00 BGN/ton, sellers bid 380.00-390.00 BGN/ ton.

There are no major changes in the prices of major cereals on the world stock markets during the period January 08-11 2019. After some fluctuations in Chicago, the price of wheat has now risen by USD 3.00 to 224.00 USD / ton, in France, Ukraine and Russia the change is zero and the quotations remained as before - 209.00 EUR / ton respectively, 237.00 USD / ton and 248.00 USD / ton. For maize (FOB prices) the changes are weak -US plus USD 2.00 to 170.00 USD / ton, Ukraine has no change from 171.00 USD / ton, France is minus EUR 4.00 euro to 176.00 euro / ton. Rape in the European Union / Euronext / again rose slightly by EUR 1.75 and was quoted at 367.50 EUR / ton and barley in France and Germany followed a tendency of depreciation - by EUR 5.00 in the first country and with zero difference in the second and corresponding prices 205.00 EUR / ton and

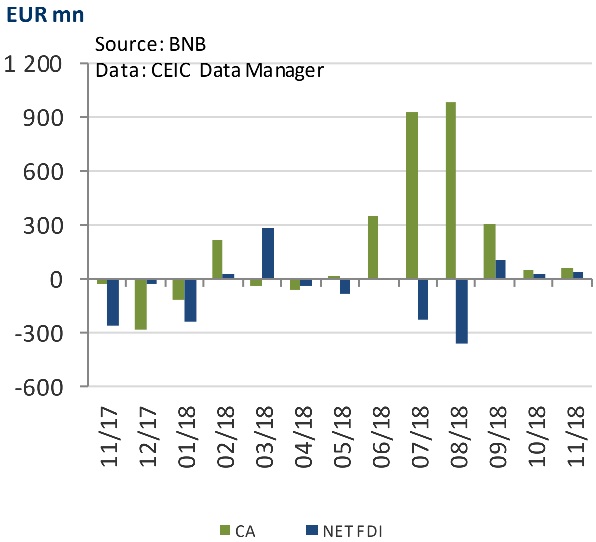
199.50 EUR / ton. The unrefined sunflower oil on the Rotterdam exchange stopped its downward movement and rose by USD 7.00 to 677.00 USD / ton. Refined sugar is the commodity that made the most striking turnaround at the beginning of the year after a long downturn - it shot up USD 19.90 to 344.10 USD / ton in London. In Bulgaria, in the "Grain" sub-section of Sofia Commodity Exchange AD traders start the year at a slower pace. Bread wheat was from 350.00 to 360.00 BGN/ton, sellers bid 380.00-390.00 BGN/ ton. The maize also showed only quotations to buy February - 250.00 BGN/ ton, for immediate delivery the price ranges from 270.00-280.00 BGN/ ton in demand up to 300.00 BGN/ ton of supply. All prices are without VAT.

BULGARIA

EXTERNAL SECTOR

Balance of Payments

Balance of Payments



In January – November 2018, the current and capital account is positive, amounting to EUR 3,257.2 million and accounts for 5.9% of GDP

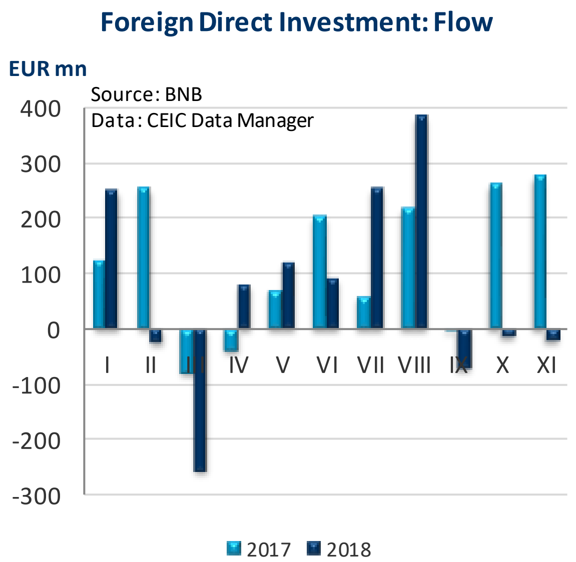
The current and capital account recorded a surplus of EUR 141.4 million in November 2018, compared with a surplus of EUR 26.1 million in November 2017. In January – November 2018 the current and capital account was positive amounting to EUR 3,257.2 million (5.9% of GDP), compared with a surplus of EUR 4,081.2 million (7.9% of GDP) in January – November 2017. The current account was positive amounting to EUR 58.6 million in November 2018, compared with a deficit of EUR 26.1 million in November 2017. In January – November 2018 the current account was positive and amounted to EUR 2,657.1 million (4.8% of GDP), compared with a surplus of EUR 3,650.1 million (7.1% of GDP) in January – November 2017. The balance on goods recorded a deficit of EUR 167.2 million in November 2018, compared with a deficit of EUR 119.5 million in November 2017. In January – November 2018 the balance on goods was negative amounting to EUR 1,998.3 million (3.6% of GDP), compared with a deficit of EUR 371.3 million (0.7% of GDP) in January – November 2017. Exports of goods amounted to EUR 2,595.3 million in November 2018, growing by EUR 147.7 million (6%) from November 2017 (EUR 2,447.6 million). In January – November 2018 exports of goods totalled EUR 25,393.1 million (46% of GDP), growing by EUR 547.5 million (2.2%) year-on-year (from EUR 24,845.6 million, 48.1% of GDP). In January – November 2017 exports grew by 17.9% yoy. Imports of goods amounted to EUR 2,762.5 million in November 2018, growing by EUR 195.5 million (7.6%) from November 2017 (EUR 2,567.1 million). In January – November 2018 imports of goods totalled EUR 27,391.4 million (49.6% of GDP), growing by EUR 2,174.4 million (8.6%) from January – November 2017 (EUR 25,217 million, 48.8% of GDP). In January–November 2017 imports grew by 15.1% yoy. Services recorded a positive balance of EUR 108.7 million in November 2018, compared with a surplus of EUR 56.2 million in November 2017. In January – November 2018 services recorded a surplus of EUR 3,210.3 million (5.8% of GDP) compared with a positive balance of EUR 2,735.6 million (5.3% of GDP) in the same period of 2017. The net primary Income (which reflects the receipt and payment of income related to the use of resources (labour, capital, land), taxes of production and imports and subsidies) recorded a surplus of EUR 11.8 million, compared with a deficit of EUR 46 million in November 20173. In January – November 2018 the balance on primary income was negative and equated to EUR 375.9 million (0.7% of GDP), compared with a deficit of EUR 447.4 million (0.9% of GDP) in January – November 2017. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 105.4 million, compared with a positive balance of EUR 83.2 million in November 2017. In January – November 2018 the net secondary income was positive amounting to EUR 1,821.1 million (3.3% of GDP), compared with a positive balance of EUR 1,733.2 million (3.4% of GDP) in the same period of 2017. The capital account recorded a surplus of EUR 82.8 million, compared with a positive balance of EUR 52.2 million in November 2017. In January – November 2018 the capital account recorded a surplus of EUR 600.1 million (1.1% of GDP), compared with a positive balance of EUR 431.1 million (0.8% of GDP) in January – November 2017. The financial account recorded a net outflow of EUR 150 million, compared with an outflow of EUR 300.1 million in November 2017. In January – November 2018 the financial account recorded a net inflow of EUR 2,602.3 million (4.7% of GDP) compared with an inflow of EUR 1,685.5 million (3.3% of GDP) in January – November 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 33.7 million, compared with a negative balance of EUR 266.5 million in November 2017. In January – November 2018 direct investment recorded a negative balance of EUR 515.6 million (0.9% of GDP), compared with a negative balance of EUR 1,045.7 million (2% of GDP) in January – November 2017. Direct investment – assets grew by EUR 35.2 million compared with an increase of EUR 45.9 million in November 2017. In January – November 2018 direct investment – assets grew by

EUR 670.2 million (1.2% of GDP), compared with an increase of EUR 445.3 million (0.9% of GDP) in the same period of 2017. Direct investment – liabilities grew by EUR 1.5 million in November 2018, compared with an increase of EUR 312.3 million in November 2017. In January – November 2018 direct investment – liabilities rose by EUR 1,185.9 million (2.1% of GDP), compared with an increase of EUR 1,491 million (2.9% of GDP) in the same period of 2017. The balance on portfolio investment was positive amounting to EUR 417.9 million, compared with a positive balance of EUR 354.5 million in November 2017. In January – November 2018 the balance was positive and equated to EUR 1336.9 million (2.4% of GDP), compared with a positive balance of EUR 2,338.2 million (4.5% of GDP) million in January – November 2017. Portfolio investment – assets declined by EUR 64 million, compared with an increase of EUR 190.3 million in November 2017. In January – November 2018 they rose by EUR 818.3 million (1.5% of GDP) compared with an increase of EUR 1,505 million (2.9% of GDP) in January – November 2017. Portfolio investment – liabilities dropped by EUR 481.9 million compared with a decline of EUR 164.1 million in November 2017. In January – November 2018 portfolio investment – liabilities dropped by EUR 518.6 million (0.9% of GDP), compared with a decline of EUR 833.2 million (1.6% of GDP) in January – November 2017. The balance on other investment was negative amounting to EUR 614 million, compared with a negative balance of EUR 375.6 million in November 2017. In January – November 2018 the balance was positive and equated to EUR 1,185.5 million (2.1% of GDP), compared with a positive balance of EUR 1,977 million (3.8% of GDP) in January – November 2017. Other investment – assets dropped by EUR 411.1 million, compared with a decrease of EUR 198.9 million in November 2017. In January – November 2018 they grew by EUR 1,981.7 million (3.6% of GDP) compared with an increase of EUR 1,862 million (3.6% of GDP) in January – November 2017. Other investment – liabilities grew by EUR 202.9 million compared with an increase of EUR 176.7 million in November 2017. In January – November 2018 they grew by EUR 796.2 million (1.4% of GDP) compared with a decline of EUR 115 million (0.2% of GDP) in January – November 2017. The BNB reserve assets5 increased by EUR 34 million, compared with a decrease of EUR 3.2 million in November 2017. In January – November 2018 they increased by EUR 519 million (0.9% of GDP), compared with a decline of EUR 1,571.6 million (3% of GDP) in the same period of 2017. The net errors and omissions were negative amounting to EUR 291.5 million compared with a negative value of EUR 326.2 million in November 2017. According to preliminary data, the item was negative totalling EUR 654.9 million (1.2% of GDP) in January – November 2018, compared with a negative value of EUR 2,395.7 million (4.6% of GDP) in the same period of 2017.

Foreign Direct Investments

In January-November 2018, direct investment in Bulgaria amounted to EUR 795.4 million (1.4% of GDP), down by 40.9% yoy when it was amounting to EUR 1345 million (2.6% of GDP)

According to preliminary data, the net flows of foreign direct investment in Bulgaria presented according to the directional principle totalled EUR 795.4 million (1.4% of GDP) in January – November 2018, dropping by EUR 549.7 million (40.9%) from January – November 2017 (EUR 1,345 million, 2.6% of GDP). Foreign direct investment flows in Bulgaria recorded a negative value of EUR 21.9 million in November 2018, compared with EUR 274.1 million in November 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 5.7 million in January – November 2018, dropping by EUR 182.7 million from a positive value of EUR 177 million in January – November 2017. Real estate investments of non-residents recorded an inflow of EUR 7.1 million, compared with EUR 18.7 million attracted in January – November 2017. The largest inflow of real estate investment was from Russia (EUR 3.4 million), Ukraine (EUR 0.8 million), and Germany (EUR 0.8 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 95.9 million in January – November 2017. The net flow on debt instruments (the change in the net liabilities between affili-

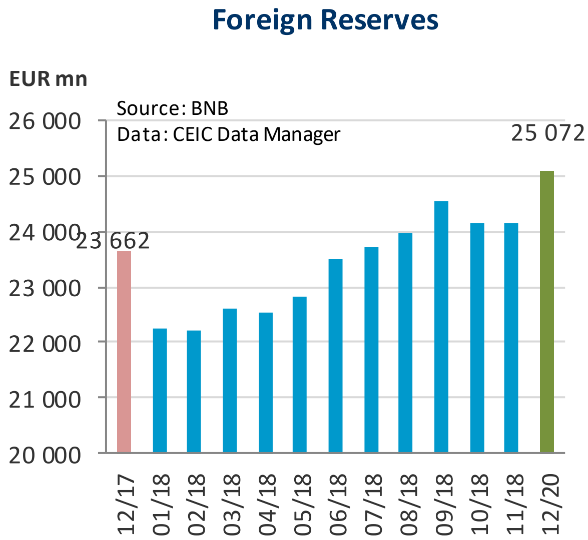


ated enterprises on financial loans, suppliers' credits and debt securities) recorded a positive value of EUR 608.2 million in January – November 2018, compared with EUR 1,072.1 million in January – November 20175. The largest net direct investment inflows in Bulgaria for January – November 2018 were from the Netherlands (EUR 767.1 million), Germany (EUR 122 million), and Belgium (EUR 67.9 million). According to preliminary data, direct investment abroad recorded a net inflow of EUR 279.7 million, compared with a positive value of EUR 299.4 million in January – November 2017. It recorded an inflow of EUR 11.8 million in November 2018, compared with EUR 7.7 million in November 2017. According to preliminary data, the stocks of foreign direct investment in Bulgaria stood at EUR 41,936.2 million at the end of the third quarter of 2018, compared with EUR 41,362.9 million at end-2017. Equity and reinvestment of earnings totalled EUR 32,046.8 million, growing by EUR 172.8 million from EUR 31,874 million in December 2017. Debt instruments amounted to EUR 9,889.4 million, growing by EUR 400.5 million from December 2017 (EUR 9,488.9 million).

Foreign Reserves

As of the end of December 2018, BNB international reserves amounted to BGN 49.0 billion (EUR 25.1 billion), increasing by 3.8% mom and by 6% yoy, respectively

According to the BNB, the international reserves of Bulgaria at the end of 2018 amounted to BGN 49.0 billion (EUR 25.1 billion), increasing by 3.8% mom and by 6% yoy, respectively. On the assets side, cash and deposits denominated in foreign currency increased by 13.1% mom, but down 5.3% yoy, respectively. Monetary gold deposits grew by 4.3% mom and by 3.6% yoy, respectively. Investment in securities declined by 2.3% mom, with an increase of 16.7% yoy, respectively. On the liabilities side, money outside banks exceeded BGN 17.3 billion, increasing by 4.4% per month and by 10.3% yoy, respectively. Liabilities to banks increased by 23.2% mom and by 9.9% yoy, respectively. Liabilities to the government and budget organizations declined by 19.0% mom and by 8.4% yoy, respectively. Liabilities to other depositors decreased by 0.5% mom, with a growth of 32.3% yoy, respectively, exceeding BGN 2.1 billion. The deposit of the Banking Department amounted to BGN 5.7 billion and increased by 3.8% mom and by 0.6% yoy, respectively. Bulgaria's international liquidity position, calculated as a ratio of international reserves to short-term external debt at the end of October 2018, was 297.8%, 304.8% at the end of September, 314.1% at the end of December 2017 and 306.8% in October 2017.



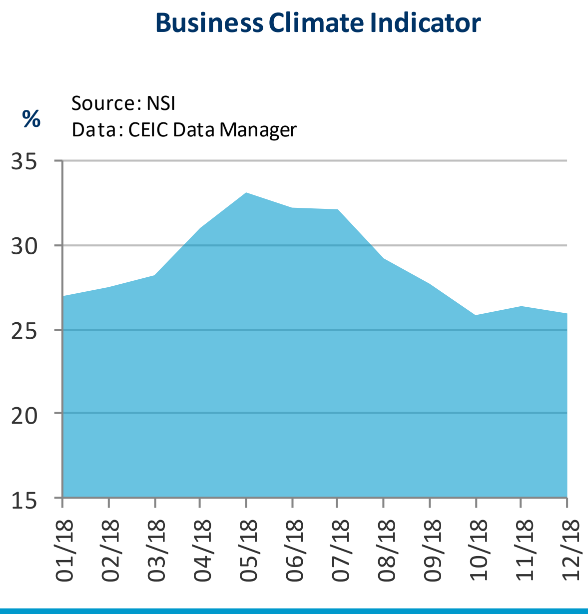
REAL SECTOR

Business Climate

In December 2018, the total business climate indicator decreases by 0.5 percentage points in comparison with the previous month to 25.9% as a result of the more unfavourable business climate in industry

According NSI data in December 2018, the total business climate indicator decreases by 0.5 percentage points in comparison with the previous month to 25.9% as a result of the more unfavourable business climate in industry.

Industry. The composite indicator 'business climate in industry' decreases by 2.7 percentage points to 24.3% mainly due to the more reserved industrial entrepreneurs' expectations about the business situation of the enterprises over the next 6 month. In their opinion, the present production activi-



ty is preserved, as their expectations about the activity over the next 3 months are more favourable. The uncertain economic environment and shortage of labour remain the most serious obstacles for the business development, pointed out respectively by 37.0% and 34.1% of the enterprises. As regards the selling prices in industry, the majority of the managers foresee preservation of their level over the next 3 months.

Construction. In December, the composite indicator 'business climate in construction' preserves approximately its level from the previous month at 26.5%. The inquiry registers an improvement in the construction entrepreneurs' assessments about the present business situation of the enterprises, while their expectations over the next 6 months are more reserved.The main problems for the activity continue to be connected with the shortage of labour, uncertain economic environment and competition in the branch, although in the last month a decrease of their negative influence is reported. Concerning the selling prices in construction, the managers do not expect a change over the next 3 months.

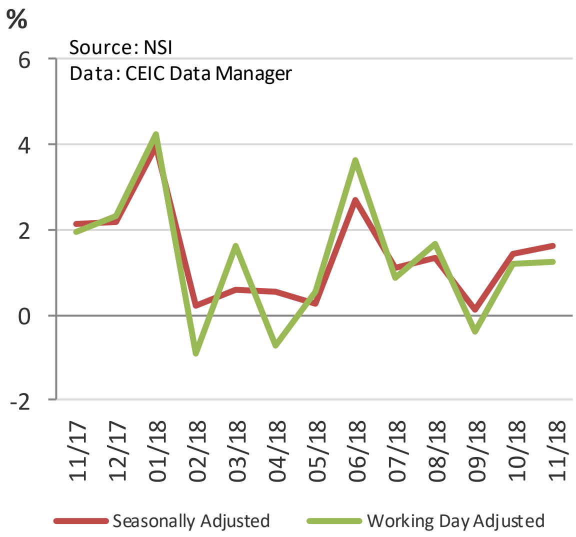
Retail trade. The composite indicator 'business climate in retail trade' increases by 3.2 percentage points to 41.8% which is due to the optimistic retailers' assessments and expectations about the business situation of the enterprises. However, their expectations about both the volume of sales and the orders placed with suppliers over the next 3 months are more unfavourable. The most serious difficulty for the business remains the competition in the branch, pointed out by 57.0% of the enterprises. In the last month an increase of the negative influence of the factor 'insufficient demand' is observed, which shifts to the third place the factor 'uncertain economic environment'. The retailers foresee the selling prices to preserve their level over the next 3 months.

Service sector. In December, the composite indicator 'business climate in service sector' remains to its November level at 13.0%. As regards the demand for services, the present tendency is assessed as reduced, as also the expectations over the next 3 months are more reserved. Competition in the branch and uncertain economic environment continue to be the main obstacles for the activity of the enterprises. Concerning the selling prices in the service sector, the managers expect them to remain unchanged over the next 3 months.

Industrial Production Index

According to the preliminary data the Industrial Production Index, seasonally adjusted, increased by 0.4% in November 2018 mom. In November 2018 the working day adjusted Industrial Production Index rose by 1.2% yoy

Industrial production Index, % change, YoY



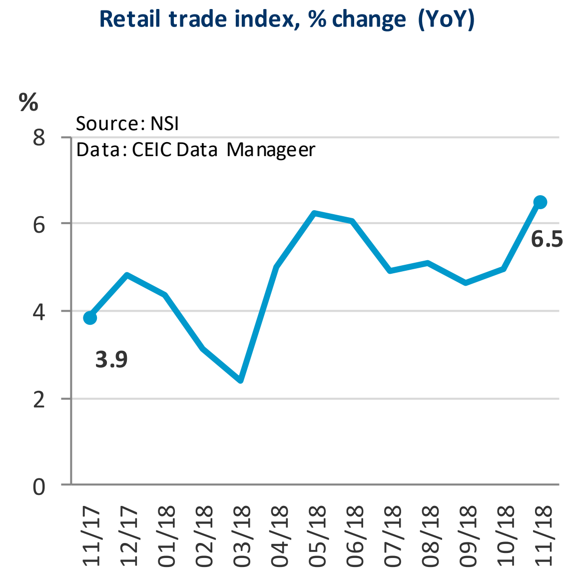
According to the preliminary data the Industrial Production Index, seasonally adjusted, increased by 0.4% in November 2018 as compared to October 2018. In November 2018 the working day adjusted Industrial Production Index rose by 1.2% in comparison with the same month of 2017. In November 2018 as compared to October 2018, the seasonally adjusted Industrial Production Index increased in the mining and quarrying industry by 3.2%, in the electricity, gas, steam and air conditioning supply by 1.3% and in the manufacturing by 0.3%. The most significant production increases in the manufacturing were registered in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 5.2%, in the manufacture of wearing apparel by 3.9%, in the manufacture of rubber and plastic products and in the manufacture of electrical equipment - by 3.6%, in the manufacture of fabricated metal products, except machinery and equipment by 3.5%. There were decreases in the manufacture of chemicals and chemical products by 15.8%, in the manufacture of tobacco products by 10.4%, in the manufacture of paper and paper products by 7.5%, in the manufacture of computer, electronic and optical products by 5.8%. On annual basis in November 2018 Industrial Production Index calculated from working day adjusted data rose in the manufacturing by 2.0%, while the production went down in the electricity, gas, steam and air conditioning supply by 3.9% and in the mining and quarrying industry by 2.6%. 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 46.3%, in the manufacture of beverages by 18.1%, in the manufacture of electrical equipment by

17.9%, in the manufacture of motor vehicles, trailers and semi-trailers by 17.7%. Decreases were seen in the manufacture of chemicals and chemical products by 14.6%, in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 11.2%, in the manufacture of wearing apparel by 9.8%, in the manufacture of textiles by 6.5%.

Retail Trade

According to the preliminary seasonally adjusted data in November 2018 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.8% mom and by 6.5% yoy, respectively

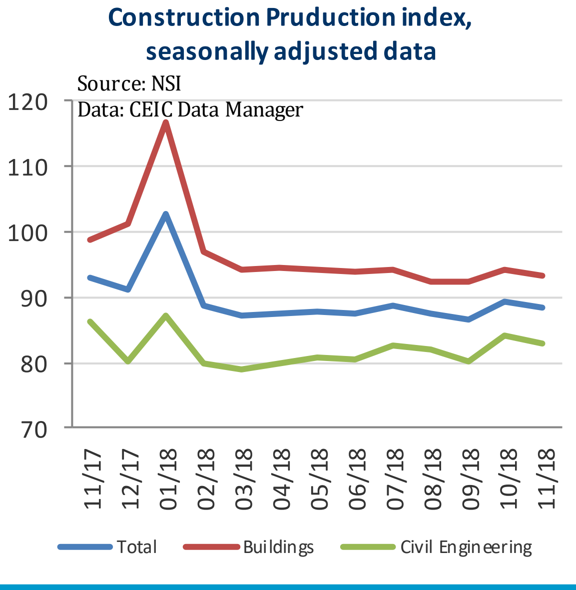
According to the preliminary seasonally adjusted data in November 2018 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices increased by 0.8% mom. In November 2018, the working day adjusted turnover in 'Retail trade, except of motor vehicles and motorcycles' marked rise from 6.5% yoy. In November 2018 compared to the previous month, more significant growth of turnover was observed in the 'Retail sale of textiles, clothing, footwear and leather goods' by 5.5%, in the 'Retail sale of automotive fuel' by 2.4% and in the 'Retail sale of food, beverages and tobacco' by 1.1%. Decrease was noted in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles' - 1.0% and in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' - 0.6%.In November 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 15.0%, in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles' by 14.9%, in the 'Retail sale of textiles, clothing, footwear and leather goods' and in the 'Retail sale of food, beverages and tobacco' by 9.0%. Decline was registered in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' - 5.4%.



Construction

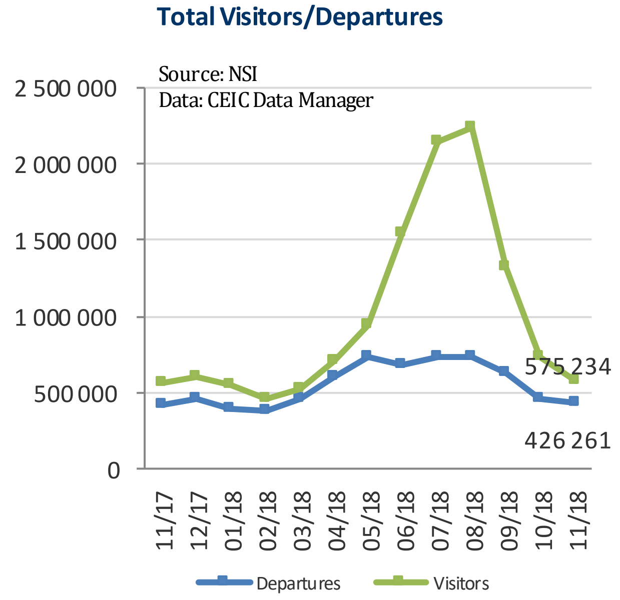
According to the preliminary data, in November 2018 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 1.2% below the level of the previous month. In November 2018 the working day adjusted index of production in construction decreased by 1.8% in comparison with the same month of 2017

According to the preliminary data, in November 2018 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 1.2% below the level of the previous month. In November 2018 working day adjusted data also showed a decrease by 1.8% in the construction production, compared to the same month of 2017. In November 2018 the construction production index, calculated from the seasonally adjusted data, was under the level of the previous month. Index the production of civil engineering fell by 1.4% and production of building construction - by 1.0%. On an annual basis in November 2018, the decrease of production in construction, calculated from working day adjusted data, was determined from the negative rate in the building construction, where the drop was by 2.0% and in the civil engineering - by 1.5%.



Tourism

In November 2018, the number of the trips of Bulgarian residents abroad was 426.3 thousand or by 2.1% above the registered in November 2017. In November 2018, the number of arrivals of visitors from abroad to Bulgaria was 575.2 thousand or by 3.4% more in comparison with November 2017



In November 2018, the number of the trips of Bulgarian residents abroad was 426.3 thousand or by 2.1% above the registered in November 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 11.7%, Austria - by 8.8%, Italy - by 4.1%, Serbia - by 3.8%, Germany - by 3.2%, Belgium - by 0.8%, and etc. At the same time decreased the trips to: the United Kingdom - by 7.1%, Romania - by 1.2%, Greece - by 1.0%, the Former Yugoslav Republic of Macedonia - by 0.8%, and etc. In comparison with November 2017, an increase was registered in the trips with all observed purposes: with professional purpose - by 3.8%, with other purposes - by 1.8%, and with holiday and recreation purpose - by 0.7%. The trips with other purposes (as a guest, education and visit the cultural and sport events) in November 2018 composed the greatest share of the total number of trips of Bulgarian residents abroad - 46.0%, followed by the trips with professional purpose - 28.3%, and with holiday and recreation purpose - 25.7%. In November 2018 most trips of Bulgarian citizens were made to: Turkey - 121.9 thousand, Greece - 73.8 thousand, Romania - 40.7 thousand, Serbia - 33.1 thousand, Germany - 21.9 thousand, the Former Yugoslav Republic of Macedonia - 20.9 thousand, Italy - 15.9 thousand, Austria - 15.2 thousand, the United Kingdom - 12.6 thousand, Spain - 10.1 thousand. In November 2018, the number of arrivals of visitors from abroad to Bulgaria was 575.2 thousand or by 3.4% more in comparison with November 2017. An increase was registered in the trips with other purposes (including as guest and passing transit) - by 7.8% and with holiday and recreation purpose - by 0.6%, while those with professional purpose decrease by 1.4%. Transit passes through the country were 28.6% (164.3 thousand) of all visits of foreigners to Bulgaria. The share of visits of EU citizens was 54.8% of the total number of foreigners' visits to Bulgaria in November 2018 or by 1.1% more in comparison with the same month of the previous year. An increase was registered in the visits of citizens from Poland - by 52.6%, Italy - by 23.7%, the United Kingdom - by 14.6%, the Netherlands - by 5.8%, Romania - by 1.4%, and etc. At the same time decreased the visits from Germany - by 10.6%, Austria - by 6.3%, France - by 3.3%, Greece - by 3.0%, and etc. The visits of foreigners in the group 'Other European countries' increased by 7.0%, as the highest growth was observed in the visits of citizens of Serbia - by 20.7%. In November 2018, the predominant share of the visits with other purposes was 47.4%, followed by trips with holiday and recreation purpose - 31.9%, and with professional purpose - 20.7%. In November 2018 the most visits to Bulgaria were from: Romania - 130.1 thousand, Greece - 94.0 thousand, Turkey - 87.6 thousand, Serbia - 49.4 thousand, the Former Yugoslav Republic of Macedonia - 46.4 thousand, Ukraine - 16.7 thousand, Germany - 15.2 thousand, the United Kingdom - 11.5 thousand, Italy - 10.8 thousand, Poland - 9.0 thousand.

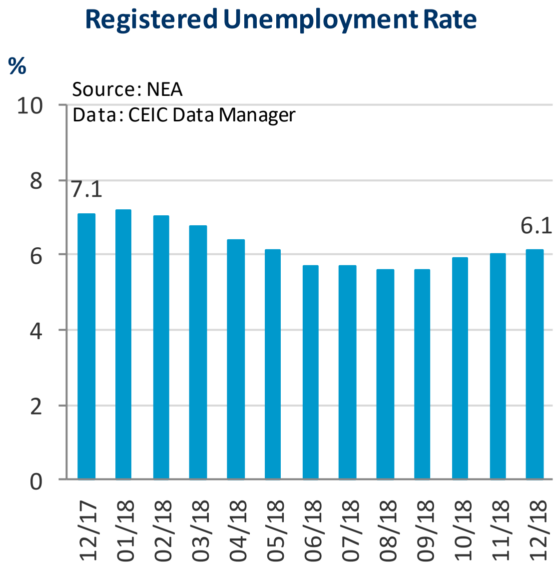
The total revenues from nights spent in November 2018 reached 38.1 million BGN or by 1.9% more compared to November 2017

In November 2018, 1 844 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 54.1 thousand and the bed-places were 109.8 thousand. Compared to November 2017, the total number of accommodation establishments (functioned during the period) and the bed-places in them, increased by 3.2%. The total number of the nights spent in all accommodation establishments registered in November 2018 was 684.6 thousand, or by 3.7% less in comparison with the same month of the previous year, as the greatest decrease (by 10.2%) was observed in 1 and 2 stars accommodation establishments. In November 2018, 69.1% of all nights spent by foreign citizens and 37.3% of all nights spent by Bulgarians were realized in 4 and 5 stars hotels. In 3 stars accommodation establishments were spent 21.6% of all nights by foreigners and 31.5% of all nights by Bulgarian residents, while in the rest of accommodation establishments (with 1 and 2 stars) they were 9.3% and 31.2% respectively. In November 2018, the number of arrivals in all accommodation establishments decreased by 0.2% compared to the same month of 2017 and reached 371.1 thousand, as a decrease was registered by 2.9% for foreigners and an increase by 0.9% for Bulgarians. Bulgarians spent the nights in accommodation establishments in November 2018 were 273.2 thousand and spent 1.8 nights on the average. The arrivals of foreigners were 97.9 thousand, and had on average 2.0 nights, as 73.1% of them spent nights in hotels with 4 and 5 stars. In November 2018, the total occupancy of the bed-places in accommodation establishments was 21.4%, as compared to November 2017 decreased by 1.5 percentage points. The highest was occupancy of the bed-places in 4 and 5 stars accommodation establishments - 27.2%, followed by 3 stars accommodation establishments - 22.7%, and with 1 and 2 stars - 14.6%.The total revenues from nights spent in November 2018 reached 38.1 million BGN or by 1.9% more compared to November 2017. An increase of the revenues was registered from Bulgarian - by 3.9%, while those from foreigners decreased by 0.7%.

Unemployment

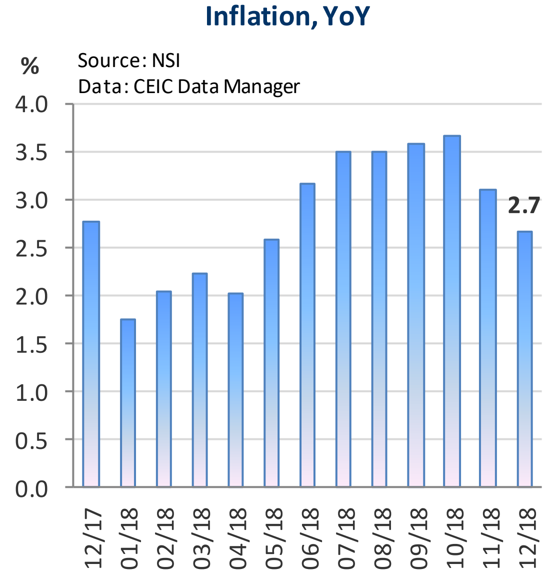
In 2018, the average annual unemployment in Bulgaria is 6.2% and decreases by 1 pps on an annual basis

According to the Employment Agency, the average annual unemployment in 2018 was 6.2%, compared to the previous year, the rate decreased by 1 percentage point on an annual basis. The past year marks the historically lowest values of the number of registered unemployed in Bulgaria, the data show. Their average monthly number in 2018 was 202,995 - by 33,757 less than in 2017. The most significant is the decrease in the number of long-term unemployed. For the year, their number decreased by 19,247 persons or by 26%. Their average monthly number for 2018 is 65 074 persons, which is 32.1% of the average annual number of unemployed in the year. Thus, the average duration of registration in the Labor Offices decreased from 5.8 months in December 2017 to 4.8 months in December 2018. Data for December 2018 reported unemployment of 6.1% - 1 percentage point lower than in the same month of 2017, with the number of registered unemployed being 201 466. Compared to November 2018, the number of unemployed was has risen by just over 3500 people. Slight growth is seasonal due to the lower economic activity of the business at the end of the year. Newly registered as unemployed in December were 25,562, of which 1036 were inactive, i.e. were neither employed nor students, nor were they looking for a job. Since the beginning of the year, the labor mediators have activated 69 239 persons through the organization of labor exchanges, information events, etc. In December, a total of 15,322 people went to work, with 79.5% of them in the real economy. The subsidized employment includes 3139 persons: 3069 - under the “Human Resources Development” Operational Program schemes, 43 - by programs, and 27 by measures for training and employment. Since the beginning of the year, a total of 16,119 unemployed have been enrolled in training to acquire new qualifications and key competencies, and graduates have successfully completed 14,489 people. The number of job vacancies on the primary labor market in December was 7526, with 80.4% of them in the private sector. The largest share of vacancies was reported in manufacturing (31.0%), trade, repair of motor vehicles and motorcycles (15.2%), hotels and restaurants (7.8%), administrative and support activities (7.7%), construction (5.6%), and others. The most sought-after groups of professions during the month are: operators of stationary machinery and equipment; vendors; workers in mining and manufacturing, construction and transport; waste collectors and related workers; business and administrative technicians and applied specialists; personnel employed in the personal services (bartenders, waiters, chefs, cameramen, etc.); skilled workers in the food, apparel, woodworking and related industries; metallurgists, machine builders and related workers and craftsmen; drivers of vehicles and mobile equipment, etc.



Inflation

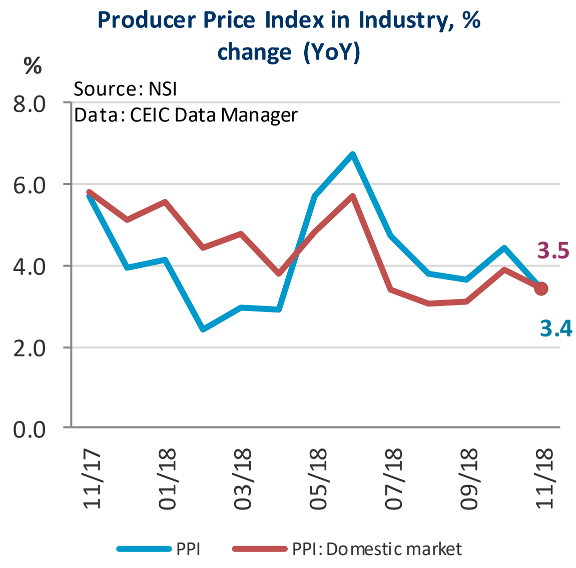
In December 2018, Bulgaria's annual inflation slowed down to 2.7%



According to NSI data, the Consumer Price Index for December 2018 compared to November 2018 is 100.0%, ie, monthly inflation is 0.0%. Annual inflation in December 2018 compared to December 2017 was 2.7%. The average annual inflation for January - December 2018 compared to January - December 2017 was 2.8%. The major driver of price growth in 2018 are the prices of fuels that went up as a result of rising oil quotations in international markets. In transport, the appreciation is most evident - inflation is 4.9% compared to 2017. The effect of higher oil prices is also visible in the housing and communal services where liquid fuels are up 10.6%, the natural gas with 8.5%, and heat - by 11.6% for the year. The prices of waste water collection, discharge and treatment services are also rising significantly (13.7% in 2018) following a decision by the Energy and Water Regulatory Commission (CESR) at the end of 2017, . Water and sewerage services, along with short-term hotel accommodation (13.8% higher), are the main drivers of inflation in services to 3.9% in the year. For comparison, a year earlier, the appreciation was only 0.5%. The largest group of goods in the consumer basket - food (just under a third of all goods and services observed) rises relatively weakly in 2018. Inflation here is 2.2% compared to 2017, with higher prices being bread and cereal products that rose after the poor cereal harvest in Bulgaria and the EU. The Harmonized Index of Consumer Prices for December 2018 compared to November 2018 is 100.0%, that is, monthly inflation is 0.0%. Annual inflation in December 2018 compared to December 2017 was 2.3%. The average annual inflation for January - December 2018 compared to January - December 2017 was 2.6%. The main difference between the CPI and the HICP is derived from the lower weight of the administrative increases in electricity, heat, water and natural gas. Food also has a lesser impact on overall inflation in Europe, as less of the average European income goes to them. Inflation forecasts are cautious because, as a small and open economy, Bulgaria is subject to external price effects. Overall, however, a significant acceleration in price growth in the country this year is not expected. According to the IMF and European Commission economic forecast, the pace will slow down in 2019. On the other hand, the Treasury is raising growth to 3%. The Bulgarian National Bank expects a slowdown of 2.2% in 2019.

Producer Price Index in Industry

Total Producer Price Index in November 2018 decreased with 0.3% compared to the previous month; compared to the same month of 2017 the prices rose by 3.4%. Producer Price Index on Domestic Market in November 2018 remained unchanged compared to the previous month; compared to the same month of 2017 the domestic prices grew by 3.5%



The Total Producer Price Index in Industry in November 2018 went down with 0.3% compared to the previous month. Lower prices were registered in manufacturing by 0.8%, while the prices went up in the mining and quarrying industry by 1.3% and in the electricity, gas, steam and air conditioning supply by 0.8%. In the manufacturing, more significant decrease in prices were reported in the manufacture of furniture and in the manufacture of rubber and plastic products - both by 0.7%, while prices went up in the manufacture of chemicals and chemical products by 1.2%, and in the manufacture of basic pharmaceutical products and pharmaceutical preparations and in the repair and installation of machinery and equipment - both by 0.4%. The Total Producer Price Index in November 2018 increased by 3.4% compared to the same month of 2017. The prices rose in the electricity, gas, steam and air conditioning supply by 6.8% and in manufacturing by 2.7%, while prices decreased in the mining and quarrying industry by 3.6%. 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 4.5%, in the manufacture of chemicals and chemical products by 4.1% and in the manufacture of paper and paper products by 4.0%. The producer prices dropped in other manufacturing by 0.3%.

Producer Price Index on Domestic Market in November 2018 remained unchanged compared to the previous month. The domestic prices went up in the mining and quarrying industry by 1.1% and in the electricity, gas, steam and air conditioning supply by 0.3%, while in manufacturing prices decreased by 0.2%. In the manufacturing, compared to the previous month the prices went down in the manufacture of furniture by 1.2% and in the manufacturing of electrical equipment by 0.5%. The domestic prices went up in manufacture of chemicals and chemical products by 2.2%. Producer Price Index on Domestic Market in November 2018 increased by 3.5% compared to the same month of 2017. The prices rose in the electricity, gas, steam and air conditioning supply by 5.2% and in manufacturing by 3.0%, while in the mining and quarrying industry the prices fell by 3.7%. In the manufacturing compared to November 2017 the prices went up in the manufacture of chemicals and chemical products by 6.7% and in the repair and installation of machinery and equipment by 4.4%. A decrease in the prices was reported in the manufacture of basic metals by 2.8% and in the manufacture of rubber and plastic products by 0.9%.

Producer Price Index on Non-domestic Market in November 2018 decreased by 0.9% compared to the previous month. In the manufacturing the non-domestic prices fell by 1.3%. More significant price decrease was reported in manufacture of rubber and plastic products by 1.2% and in the manufacture of food products by 0.5%. Prices went up in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 1.3%. Producer Price Index on Non-domestic Market in November 2018 increased by 3.4% compared to the same month of 2017. In the manufacturing, the prices went up by 2.5%. The non-domestic prices rose in the manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials by 4.9%, in the manufacture of paper and paper products by 4.4% and in the manufacture of leather and related products by 4.2%. The prices fell in the manufacture of furniture by 0.5%.

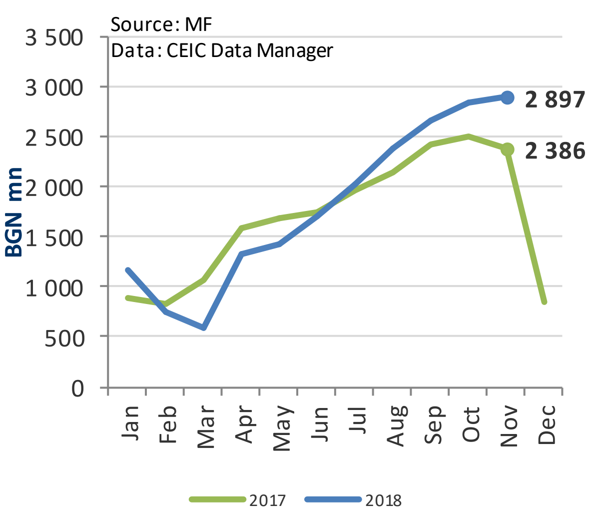
FISCAL SECTOR

Budget Balance

In November 2018 Bulgaria' CFP balance on a cash basis is positive, amounting to BGN 2,896.5 million and presented 2.7% of forecasted GDP

According MF data the Consolidated Fiscal Programme (CFP) balance on a cash basis as of end-November 2018 is positive, amounting to BGN 2,896.5 million, or 2.7% of the projected GDP, and is formed by a national budget surplus of BGN 3,286.2 million and by a EU funds deficit of BGN 389.7 million. The CFP revenues and grants in November 2018 stand at BGN 35,809.6 million, or 93.7% of the annual estimates. Compared to the same period of the previous year, tax and non-tax revenues have risen by BGN 3,448.3 million, or by 11.2%, and grant proceeds – by BGN 457.9 million, or by 36.8%. Tax proceeds, including revenues from social security contributions, total BGN 29,273.2 million, which accounts for 94.0% of the tax revenues planned for the year. Compared to the data for November 2017, tax proceeds have risen in nominal terms by 9.3%, or by BGN 2,495.1 million. Direct tax revenues amount to BGN 5,246.4 million, or 91.1% of the estimates planned for the year, growing by BGN 428.2 million (8.9%) compared to the same period of the previous year. Indirect tax revenues amount to BGN 14,397.0 million, which accounts for 95.0% of the annual estimates. Compared to the data as of November 2017, proceeds in this group have grown by BGN 989.5 million, or

Budget position



by 7.4%. VAT proceeds amount to BGN 9,302.2 million, or 95.1% of those planned. The amount of non-refunded VAT as of 30 November 2018 is BGN 61.3 million. The excise duty revenues amount to BGN 4,844.9 million, or 94.1% of the annual estimates. Customs duty proceeds amount to BGN 212.5 million, or 111.8% of the estimates for the year. Proceeds from other taxes, including property taxes and other taxes under the Corporate Income Tax Law, amount to BGN 1,043.9 million, or 95.1% of the annual estimates. Revenues from social security and health insurance contributions are BGN 8,585.8 million, which accounts for 94.0% of the estimates for the year. Compared to the same period of the previous year, the revenues from social security contributions have risen by BGN 1,002.8 million, or by 13.2%, in nominal terms. Non-tax revenues amount to BGN 4,833.5 million, or 102.8% of the annual estimates. Grant proceeds amount to BGN 1,702.9 million. CFP expenditures, including the contribution of the Republic of Bulgaria to the EU budget for November 2018, amount to BGN 32,913.1 million, which accounts for 83.7% of the annual estimates. For comparison, the expenditures for the same period of the previous year amount to BGN 29,517.5 million. The nominal increase is due both to the higher national budget expenditures and to the increasing expenditures under the European Union fund accounts. The growth in national budget expenditures is mainly due to the higher amount of health insurance and social payments (baseline effect for pension expenditures as a result of the increase in July 2017, the two-step increase in the minimum pension in 2017 as from July and October, as well as the new increase in pensions as from July 2018), the higher staff costs mostly resulting from the increase in the remuneration of pedagogical staff within the system of secondary education, etc., with mostly capital expenditures under EU fund accounts growing. Non-interest expenditures amount to BGN 31,266.2 million, which accounts for 83.9% of the annual estimates. Non-interest current expenditures as of November 2018 amount to BGN 28,335.4 million, capital expenditures (including net increment of state reserve) amount to BGN 2,880.6 million. The current and capital transfers to other countries amount to BGN 50.2 million. Interest payments amount to BGN 652.7 million, or 90.4% of those planned for 2018. The part of Bulgaria's contribution to the EU budget, as paid from the central budget as of 30.11.2018, amounts to BGN 994.2 million, which complies with the existing legislation in the area of EU own resources, i.e. Council Decision 2014/335/EU on the system of own resources of the European Union. The fiscal reserve as of 30.11.2018 amounts to BGN 11.3 billion, including BGN 11.0 billion of fiscal reserve deposits in the BNB and in banks and BGN 0.3 billion of receivables under the EU Funds for certified expenditure, advance payments, etc.

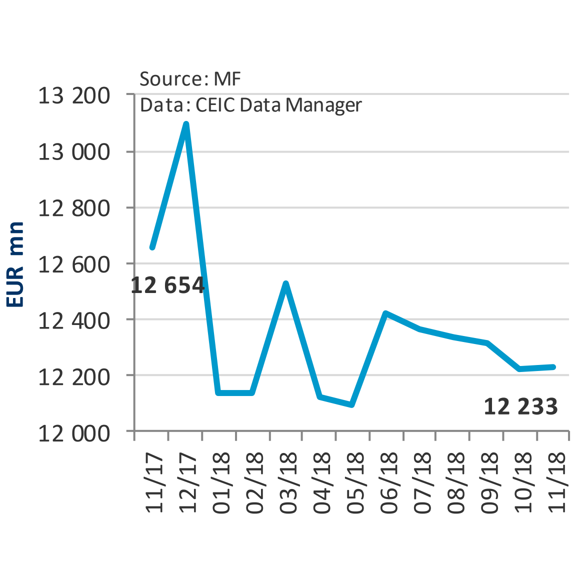
Central Government Debt

At the end of November 2018, Bulgaria's central government sub-sector debt amounted to EUR 12,233.2 million and accounts for 22.1% of projected GDP

According MF data Bulgaria's central government debt stands at EUR 12,233.2 million as at end-November 2018. Domestic debt amounts to EUR 3,119.1 million and external debt – to EUR 9,114.2 million. At the end of the reporting period the central government debt-to-GDP is 22.1%, with the share of domestic debt being 5.6% and of external debt – 16.5% of GDP. In the central government debt structure, at the end of the period domestic debt amounts to 25.5%, and external debt – to 74.5%.

As of 30 November 2018, central government guaranteed debt amounts to EUR 91.3 million. Domestic guarantees amount to EUR 35.0 million and external guarantees – to EUR 56.3 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-November 2018 government debt reaches EUR 11,302.4 million, or 20.4% of GDP. Domestic debt amounts to EUR 2,788.7 million and external debt – to EUR 8,513.7 million. Government guaranteed debt amounts to EUR 958.6 million in November 2018. Domestic guarantees amount to EUR 35.0 million, with the government guaranteed debt-to-GDP ratio being 1.7%.

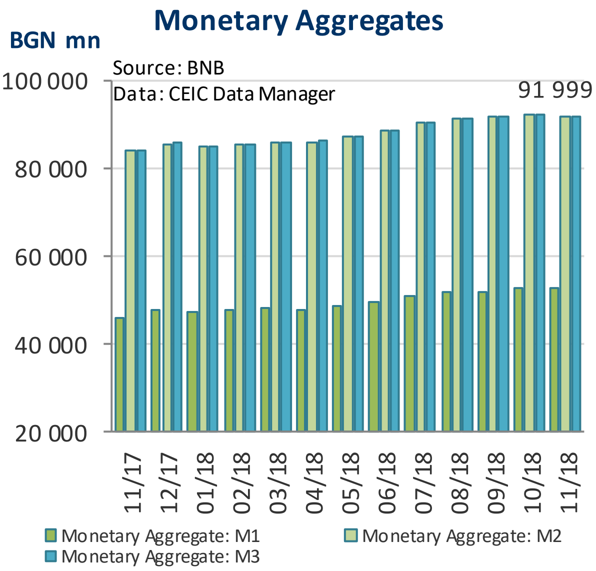
Central Goverment Debt



MONETARY SECTOR

In January-November 2018, Bulgaria's broad money (monetary aggregate M3) amounted to BGN 91,999 billion (89.1% of GDP) and increased by 9.3% yoy. Domestic credit amounted to BGN 56.997 billion and grew up by 6.5% yoy, respectively

In January-November 2018 broad money (monetary aggregate M3) increased annually by 9.3% compared to 9.7% yoy growth in October 2018. At the end of November 2018 M3 was BGN 91.999 billion (89.1% of GDP) compared to BGN 92.408 billion (89.5% of GDP) in October 2018. Its most liquid component – monetary aggregate M1 – increased by 14.5% yoy in November 2018 (14.8% yoy growth in October 2018). At the end of November 2018, deposits of the non-government sector6 were BGN 76.566 billion (74.2% of GDP), increasing by 7.9% yoy (8.4% yoy growth in October 2018). Deposits of Non-financial corporations were BGN 23.080 billion (22.4% of GDP) at the end of November 2018. Compared to the same month of 2017 they increased by 6.7% (12.1% yoy growth in October 2018). Deposits of financial corporations increased by 17.1% yoy in November 2018 (5.5% yoy decline in October 2018) and at the end of the month they reached BGN 3.024 billion (2.9% of GDP). Deposits of Households and NPISHs were BGN 50.462 billion (48.9% of GDP) at the end of November 2018. They increased by 8% compared to the same month of 2017 (7.5% yoy growth in October 2018). Net domestic assets were BGN 56.137 billion at the end of November 2018. They increased by 7% compared to the same month of 2017 (7.7% yoy growth in October 2018). At the end of the month their basic component – domestic credit – was BGN 56.997 billion and increased by 6.5% compared to November 2017 (7.3% yoy growth in October 2018). In November 2018 claims on the non-government sector increased by 8.7% yoy (8.4% yoy increase in October 2018) reaching BGN 59.144 billion. At the end of November 2018, claims on loans to the non-government sector amounted to BGN 57.617 billion (55.8% of GDP) compared to BGN 57.122 billion (55.3% of GDP) at the end of October 2018. They increased by 8.2% yoy in November 2018 (7.8% yoy growth in October 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 140.6 million. On an annual basis, loans sold by Other MFIs were BGN 160.1 million (of which BGN 22.2 million in November 2018), while the amount of repurchased loans was BGN 19.5 million (there were no loan repurchases in November 2018). In November 2018, loans to Non-financial corporations increased by 5.5% yoy (4.8% yoy growth in October 2018) and at the end of the month amounted to BGN 33.054 billion (32% of GDP). Loans to Households and NPISHs were BGN 21.757 billion (21.1% of GDP) at the end of November 2018. They increased by 10% compared to the same month of 2017 (10% yoy growth in October 2018). At the end of November 2018 loans for house purchases were BGN 10.415 billion and increased by 10.2% yoy (10.2% yoy growth in October 2018). Consumer loans amounted to BGN 9.098 billion and compared to November 2017 they increased by 16% (15.9% yoy growth in October 2018). On an annual basis other loans decreased by 22.5% (20.7% yoy decline in October 2018) and reached BGN 873.7 million. Loans granted to financial corporations were BGN 2.805 billion at the end of November 2018 (2.7% of GDP). Compared to November 2017, they increased by 32.3% (32.1% yoy growth in October 2018).



CAPITAL MARKET

At the end of December 2018, the four SOFIX, BGBX 40, BG TR30 and BGREIT indexes reported an increase to 595.65 points, 116.10 points, 496.59 points and 121.19 points, respectively

According to BSE-Sofia data in December 2018, the main index of BSE-Sofia reported a growth of 0.60% to 595.65 points. We recall that the "blue chips" measure ended in 2017 with an increase of 15.77% yoy to 677.45 points. The index of the most liquid companies BGBX 40 rose by 0.85% to 116.10 points. Equally weighted BG TR30 rose by 1.43% to 496.59 points. The BGREIT property index rose by 3.18% to 121.19 points. In December the market leader was Chimimprot (BGN 478,094,303), ahead of Sopharma (BGN 474,488,604). The top five is complemented by First Investment Bank (BGN 370,700,000), Eurohold Bulgaria

(BGN 318,016,216) and Monbat (BGN 308,100,000), ahead of M + S hydraulics (BGN 301,755,780). In SOFIX after September 25, five holdings remained, of which two were profitable in December - Holding Varna (+ 12.23%) and Trace Group Hold (+ 1.43%), and three were at a loss - Sirma Group Holding 5.24%), Stara Planina Hold (-2.96%) and Eurohold Bulgaria (-0.62%). The company with the highest turnover in December 2018 is Velgraf Asset Management AD, with a total volume of BGN 20 336 728. Second place is Rodna Zemia Holding AD with a total amount of BGN 6 663 760. There are three representatives of the Special Purpose Vehicles. With the smallest number of concluded deals in the ranking are Web Finance Holding AD, Park REIT and Rodna Land Holding AD, and with the largest Gradeus AD, Advance Terrafund REIT and Velgraf Asset Management AD. The most profitable company in December 2018 was Park REIT, which achieved a three digit growth of 105.00%. Second, Northcoop Gamza Holding AD is ranked second, followed by Oil and Gas Exploration and Production with a growth of 21.95%. The last two companies in the ranking also have two-digit growth, respectively Zaharni Zavodi AD with a growth of 20.86% and Holding Varna AD with a growth of 17.22%. The top 5 of the losers in December 2018 is headed by Sirma Group Holding AD with a decline of 5.83%. The second place is the Bulgarian Stock Exchange with a decrease of 5.26%. The other three companies in the ranking also scored one-digit declines.

Bulgarian Stock Exchange Indexes on Monthly Basis

Date	SOFIX	BGBX40	BGREIT	BGTR30
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
12.2018	594.5	115.9	121.1	496.1

Source: Bulgarian Stock Exchange-Sofia

BANKING SECTOR

In January-November 2018 the aggregate profit of the banking system amounted to BGN 1470 million and grew by 35.1% yoy. BNB warns the banks of the risks due to the rapid growth of lending in Bulgaria

According to BNB data for the period January-November 2018, the aggregate profit of the banking system amounted to BGN 1470 million (compared to BGN 1088 million in the same period last year) and increased by 35.1% yoy. The impairment costs of financial assets not reported at fair value through profit or loss as at 30 November 2018 amounted to BGN 450 million (compared to BGN 640 million a year earlier). As of November 30, 2018, the ROA and ROE levels of the banking system were 1.5% and 12.7%, respectively.

Indicator (BGN'000)	30.11. 2017	30.11. 2018	Change Y/Y (%)
Interest Income	2 788 481	2 773 469	-0.5
Interest Expence	339 996	271 798	-20.1
Net interest Income	**2 448 485**	**2 501 671**	**2.2**
Impairment	640 245	449 637	-29.8
Fee and commission income	1 047 978	1 140 639	8.8
Fee and commission expenses	137 861	166 853	21.0
Net fee and commission income	**910 117**	**973 786**	**7.0**
Administration costs	1 457 406	1 549 616	6.3
Personal cost	724 760	779 380	7.5
Total operating income, net	3 503 507	3 787 902	8.1
Net Profit	**1 088 190**	**1 470 229**	**35.1**

Source: BNB, Calculations: UBB

In January - November 2018, the banking system's assets amounted to BGN 103.7 billion and grew up by 8.2% yoy as a result of the increase in loans and advances, which accounted for 65% of the banking system's assets. The relative share of the assets of the banking system in GDP is 98.7%. Gross loans and advances exceeded BGN 61.3 billion and increased for the period January

- November by 0.8% mom and by 8.5% yoy, respectively. Compared to the same period of the previous year, all types of loans were increased except for "microcredit and other loans". Loans to households and non-financial corporations increased respectively by 10.2% and 5.3% yoy, while those for other financial corporations and the general government sector by 36.6% and 19.4%, respectively. For the eleven months of 2018 attracted funds from customers in the banking system grew by 8.9% yoy to BGN 83.6 billion and all types of deposits increased compared to the same period of the previous year. Household deposits increased by 0.8% in November, with a monthly decrease of both non-financial corporations and general government by 33.9% and 5.8%, respectively. Households and non-financial corporations at the end of November accounted for 58.9% and 28.3% of total deposits, respectively.

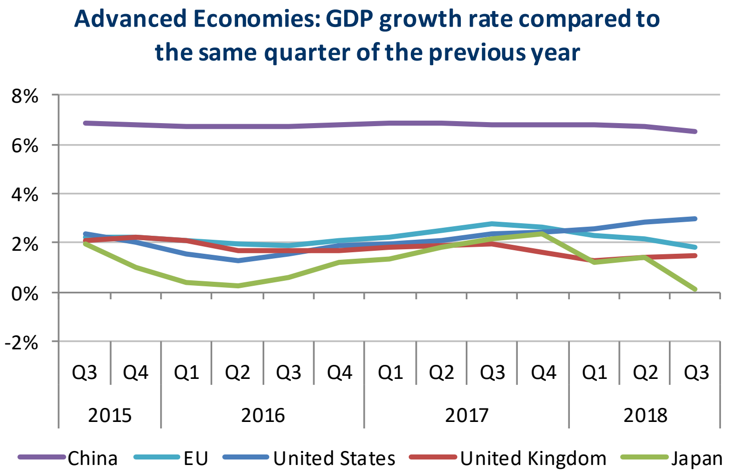
Bulgaria Intermediation Indicators	30.11.2017 BGN'000	31.12.2017 BGN'000	31.10.2018 BGN'000	30.11.2018 BGN'000	Change m/m (%)	Change y/y (%)	Change yend (%)	Share in GDP (%)
BANKING SYSTEM TOTAL ASSETS	**95 850 484**	**95 850 484**	**104 220 476**	**103 679 278**	**-0.5**	**8.2**	**8.2**	**95.9**
Loans to central governments	614 592	614 592	738 186	734 110	-0.6	19.4	19.4	0.7
Loans to non-financial corporations	33 516 791	33 516 791	34 976 693	35 309 078	1.0	5.3	5.3	32.7
Loans to financial corporrations	2 352 930	2 352 930	3 187 998	3 215 077	0.8	36.6	36.6	3.0
Retail loans, incl.:	19 972 030	19 972 030	21 899 508	22 008 360	0.5	10.2	10.2	20.4
Mortgage loans	9 444 146	9 444 146	10 607 399	10 788 901	1.7	14.2	14.2	10.0
Consumer loans	9 264 095	9 264 095	10 314 361	10 338 185	0.2	11.6	11.6	9.6
Micro credits and other loans	1 263 789	1 263 789	977 748	881 274	-9.9	-30.3	-30.3	0.8
TOTAL LOANS	**56 456 343**	**56 456 343**	**60 802 385**	**61 266 625**	**0.8**	**8.5**	**8.5**	**56.7**
ATRACTED SOURCES FROM CLIENTS, incl.:	**76 747 619**	**76 747 619**	**84 124 872**	**83 569 589**	**-0.7**	**8.9**	**8.9**	**77.3**
Local government deposits	1 824 421	1 824 421	2 753 048	2 594 527	-5.8	42.2	42.2	2.4
Non-financial corporations deposits	23 709 705	23 709 705	26 208 159	25 184 969	-3.9	6.2	6.2	23.3
Financial corporations deposits	2 842 120	2 842 120	3 092 275	3 323 128	7.5	16.9	16.9	3.1
Households and NPISHs deposits	48 371 373	48 371 373	52 071 390	52 466 965	0.8	8.5	8.5	48.5
Equity	12 468 136	12 468 136	12 575 648	12 628 479	0.4	1.3	1.3	11.7
Net profit (annualised)	1 088 190	1 088 190	1 379 375	1 470 229	6.6	35.1		
BANKING INDICATORS (%)								
ROE	9.5	9.5	13.2	12.7	-0.5	3.2	3.2	
ROA	1.2	1.2	1.6	1.5	0.0	0.3	0.3	
Capital adequacy	n.a.	22.1	n.a.	n.a.	n.a	n.a	n.a	
Liquidity coverage(%)	37.1	n.a	289.4	282.3	-7.1	n.a	n.a	
NPL	n.a.	10.2	n.a.	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				

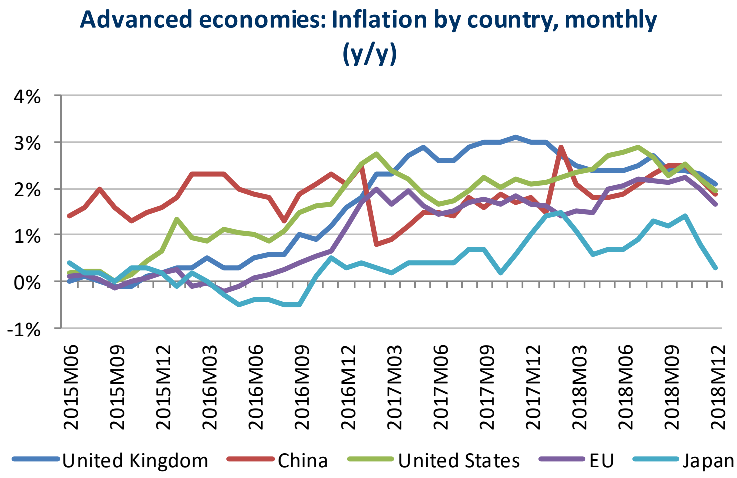
Source: BNB, MF; Calculations: UBB

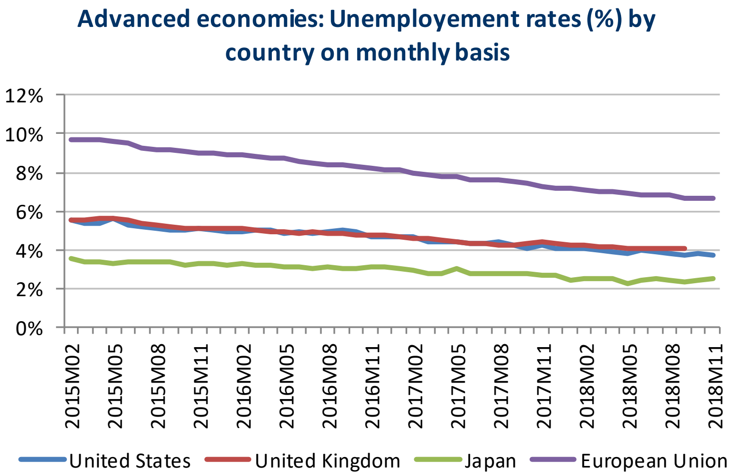
In January - November 2018, equity in the banking system's balance sheet increased by BGN 32 million (0.3%) and at the end of November amounted to BGN 12.6 billion. The liquidity buffer and net outflows at the end of November respectively BGN 26.2 billion and BGN 9.3 billion, respectively. The ratio of the two figures - the ratio of liquidity coverage was 282.3%.

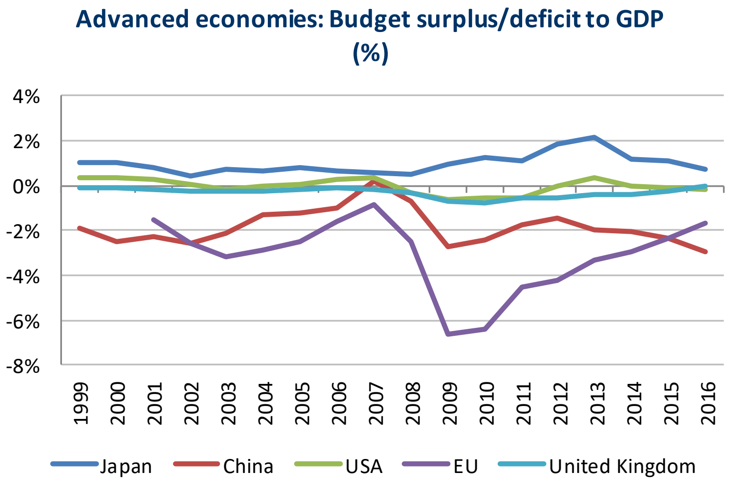
BNB warns the banks of the risks due to the rapid growth of lending in Bulgaria in the "Banks in Bulgaria" bulletin for Q3 of 2018. The share of loans and advances in the general structure of assets rose from 61.5% to 62.6% assets of the banking system at the end of September BGN 103.2 billion. The gross credit portfolio of the banking system increased by BGN 1.4 billion (2.4%) to BGN 60.3 billion. Household loans increased by BGN 375 million, for non-financial enterprises - by BGN 537 million, for other financial corporations - by BGN 414 million and receivables from the general government sector by BGN 97 million. Rapid credit growth may create cyclical risks that may arise in future interest rates or weakening economic activity. This may lead to borrowers' difficulties in servicing their loans. Interest rates in Bulgaria may go up, for example, when tightening monetary conditions in the euro area. People with bank loans can not expect their interest rates to remain the same, as contracts generally provide for interest rates to change depending on market conditions. The fixed interest rate is valid for less than 1 year in 97% of the credit agreements over the past 10 years. Other risks to economic growth in the EU that may affect Bulgaria include: US trade policy, uncertainty about the economic aspects of the UK's withdrawal from the EU; the uncertainty surrounding the political situation and the state of public finances in Italy. A negative impact on the borrowers' financial position would lead to an economic cycle entering the downward phase, which will occur within the maturity of longer-term loans, mainly residential. The BNB also points to the ongoing review of asset quality and stress tests as part of Bulgaria's entry into the EU Banking Union and the ERM II Exchange Rate Mechanism. They will cover the three largest by assets banks (UniCredit Bulbank, DSK and UBB) and the largest local banks (Fibank, CCB and Investbank) with the results expected in July 2019. BNB said in this regard: "Along with the mentioned changes in banks' attitudes towards current and potential clients, upcoming asset quality reviews and stress tests could influence the behavior of market participants, including depending on how, interpreting the results for the participating credit institutions”. In Q3 of 2018, the share of non-performing loans in banks is above the EU average, as "for some credit institutions, its high values are matched with lower than the average for the system with depreciation." However, the size of the gross non-performing loans and advances at the banking system level decreased to BGN 7.4 billion for the quarter. At the end of September, their share was down 0.6 percentage points to 8.5%. The net amount of non-performing loans and advances dropped to BGN 3.4 billion (4.1% of net loans and advances). At the end of September 2018, the capital exceeding the regulatory requirement of 8% and the specified capital buffers fully covered the amount of net non-performing loans in the banking system (residual credit risk). In order to guard against the possible consequences for the system, banks should apply credit standards that take into account not only the current but also future financial position of potential borrowers, and do not lower standards under competitive pressure, as well as not ignore the propensity of a significant proportion of potential borrowers to overestimate their debt absorption capacity. BNB stresses that currently the capital and liquidity position of the banking system as a whole is strong enough to allow the absorption of any future realization of credit, market and liquidity risk. However, a prolonged increase in the share of higher-risk assets and lower liquidity could weaken the banking sector's resilience against risk materialization. Moreover, while at the system level, credit institutions have capital above the required levels, the capital surplus is unevenly distributed within the banking sector. From this point of view, preserving and further strengthening the capital position would increase the sustainability of credit institutions.

Appendix





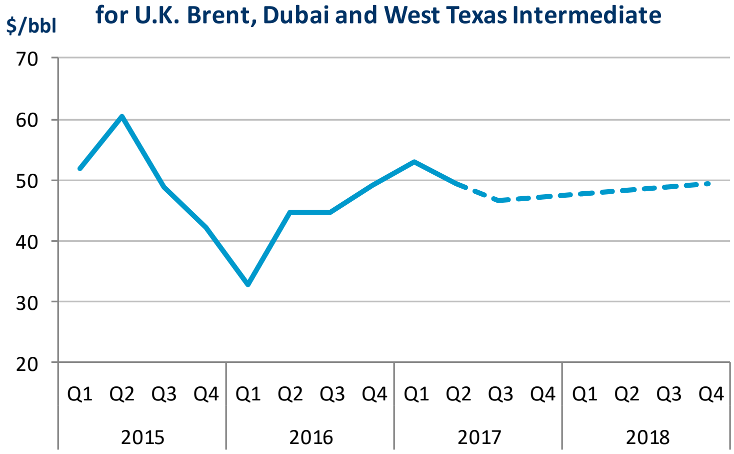




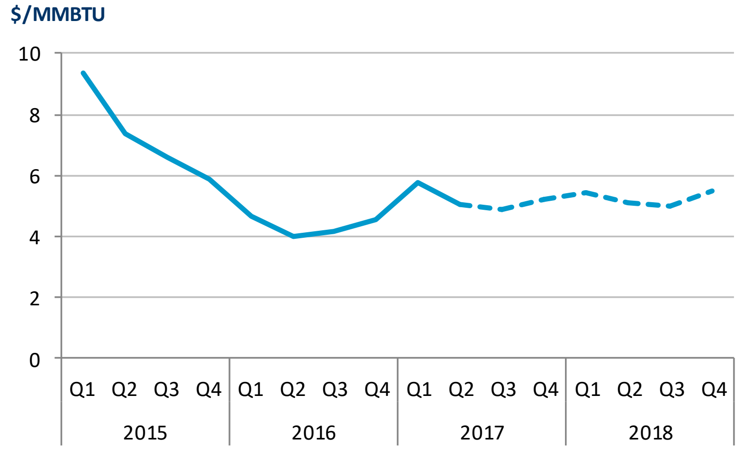
Source: IMF

Overseas Prices of Oil Products

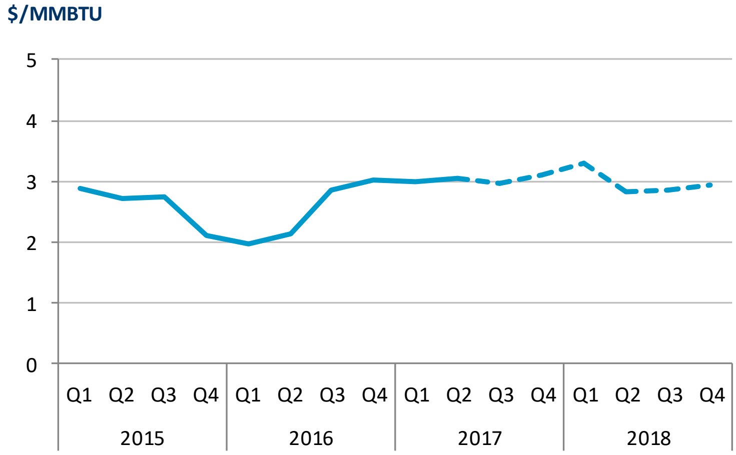
Spot Crude: Petroleum price - average of spot prices for U.K. Brent, Dubai and West Texas Intermediate



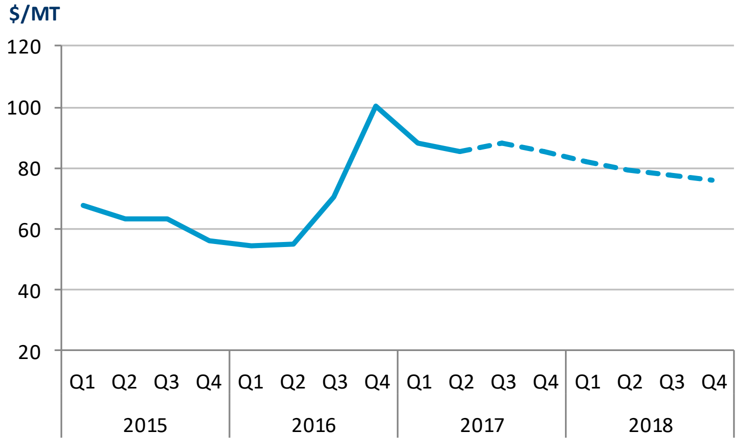
Natural Gas: Russian in Germany



Natural Gas:US, domestic market



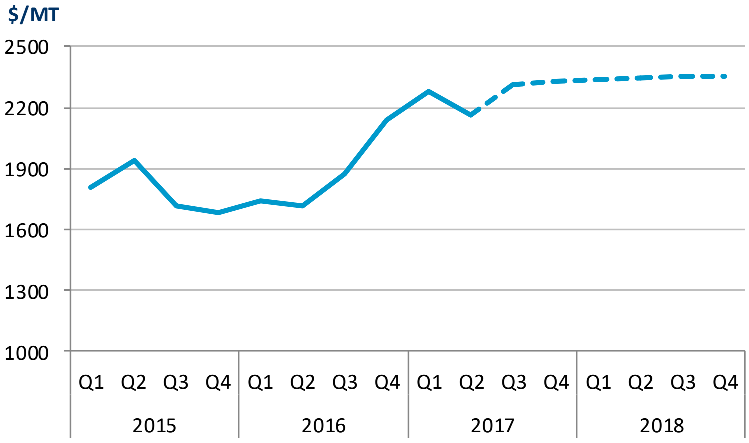
Coal: Australian, export markets



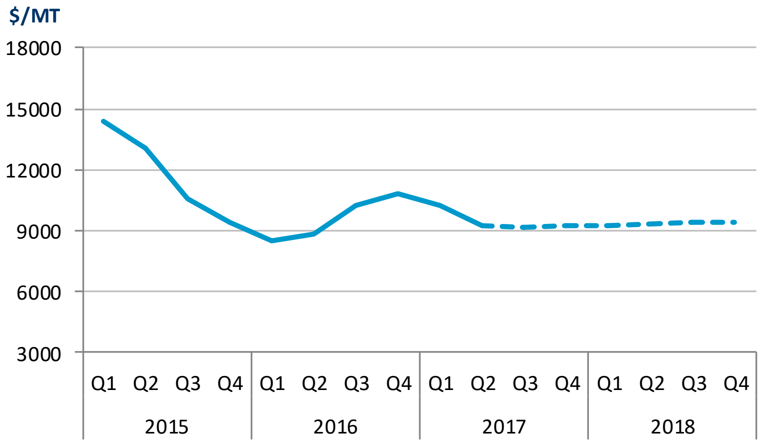
Source: IMF

Overseas Prices of Metals

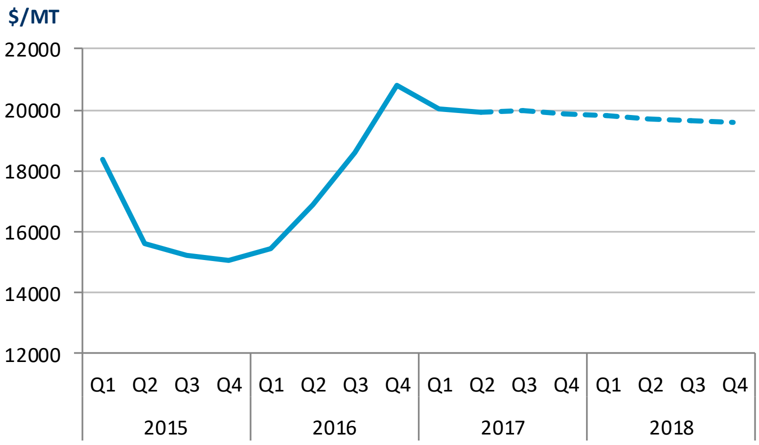
Lead



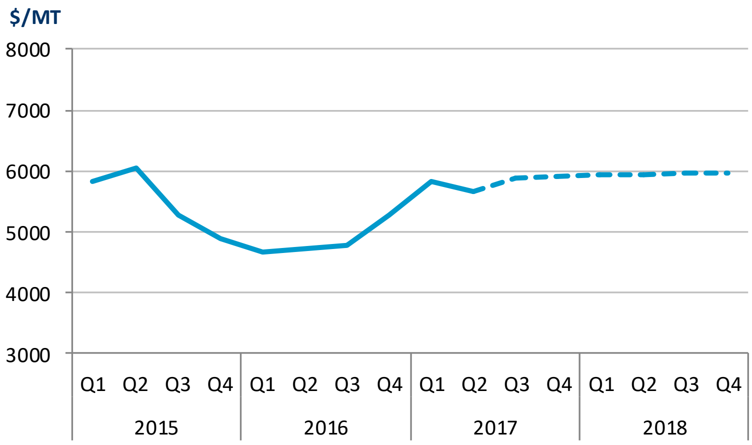
Nickel



Tin

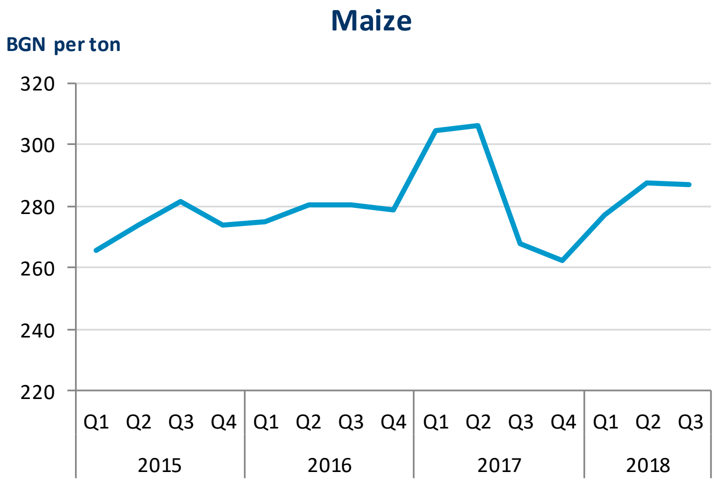


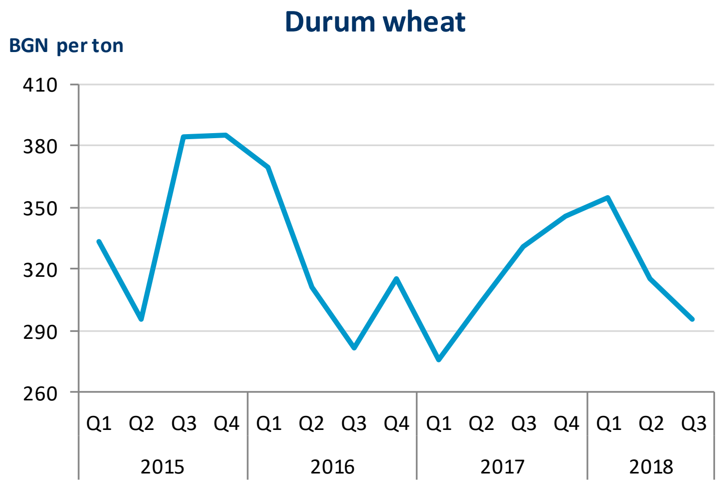
Copper

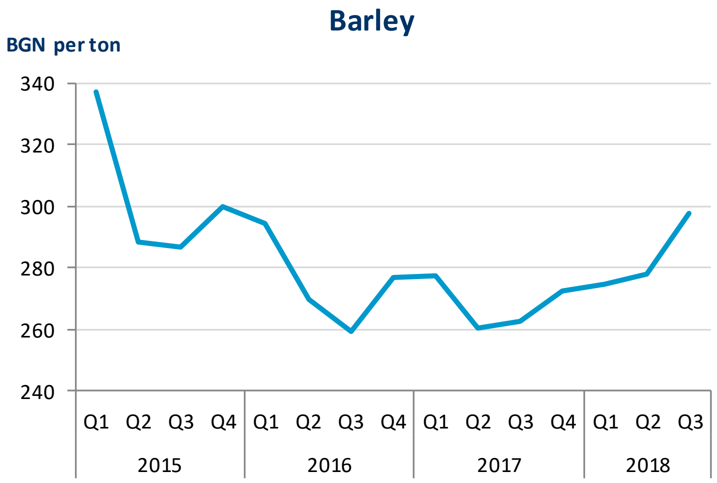


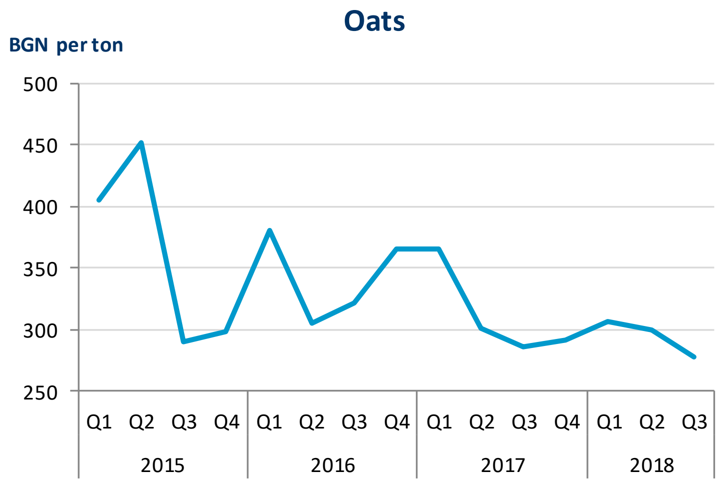
Source: IMF

Bulgaria: Prices of Agriculture products



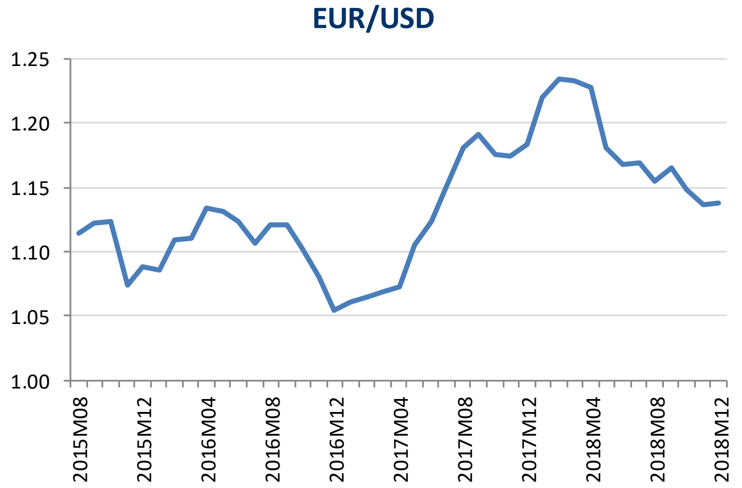


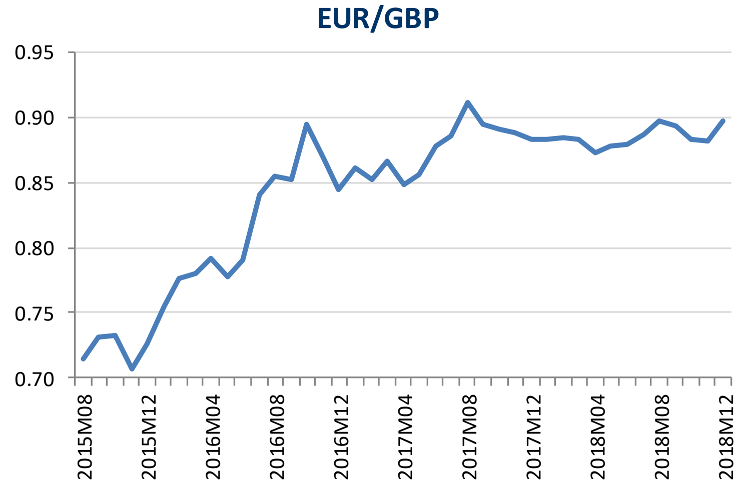


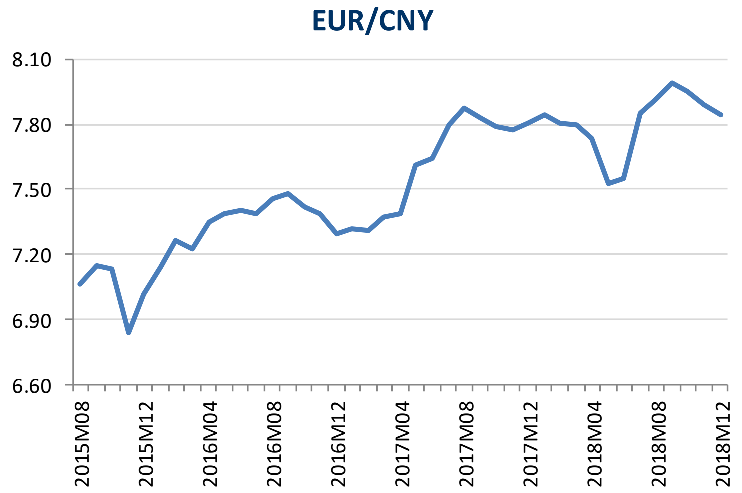


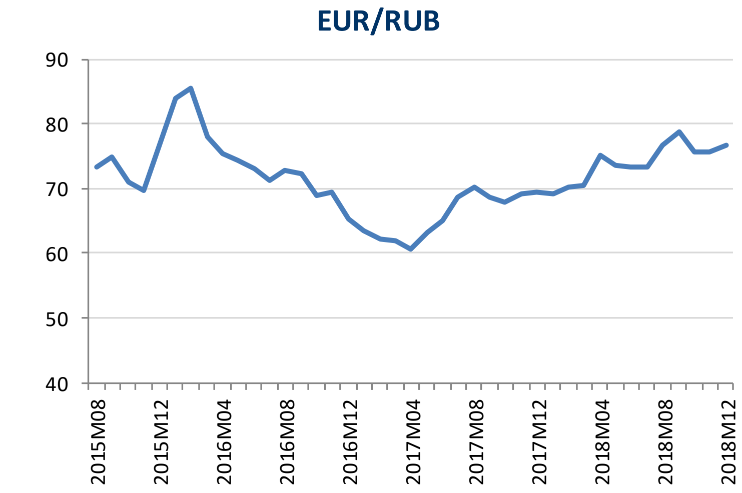
Source: NSI

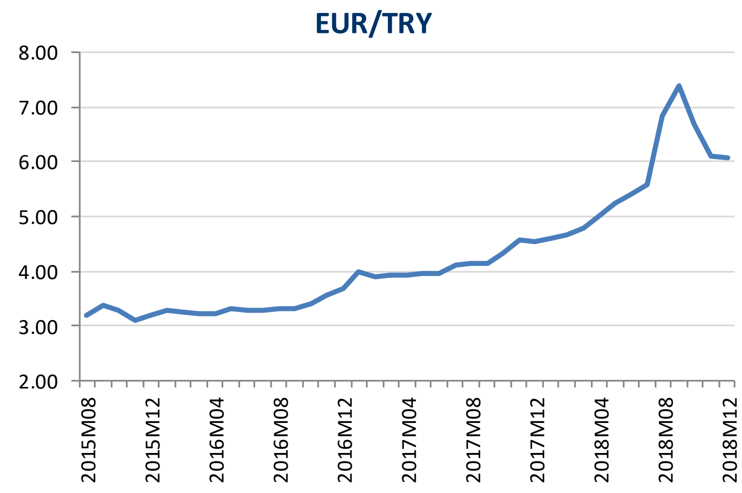
Overseas FX Rates

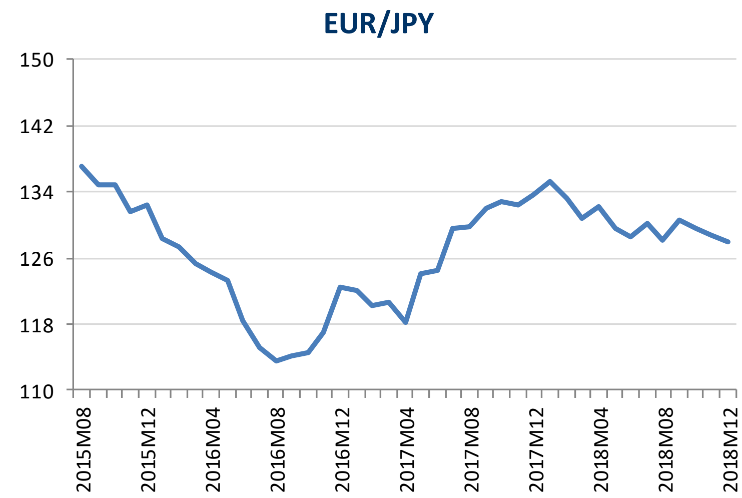








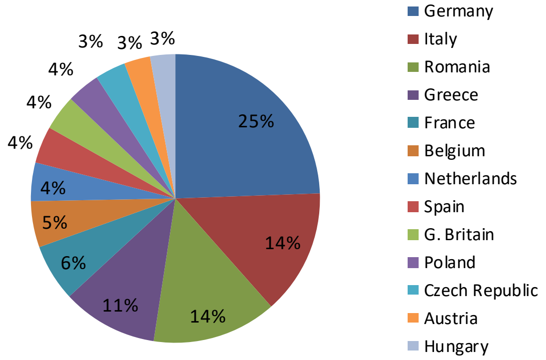




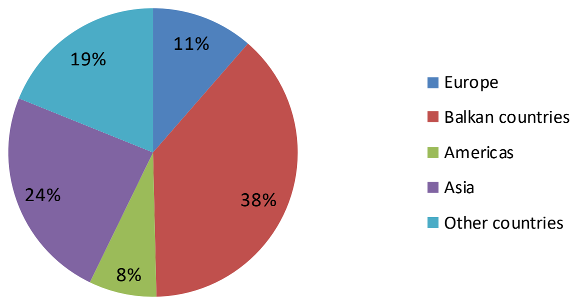
Source: ECB

Bulgaria: External Sector Indicators

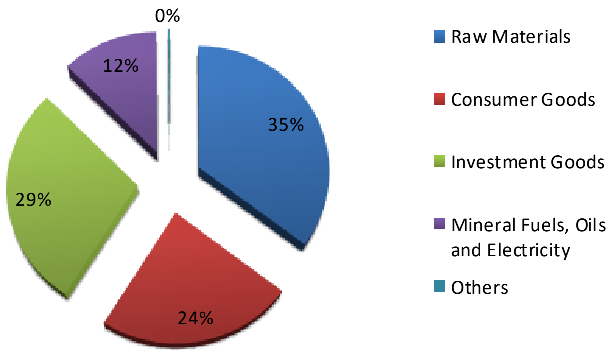
Exports: FOB by EU countries: January - October 2018



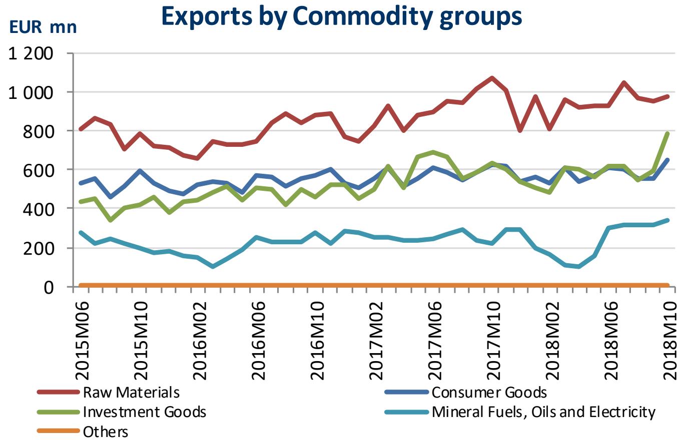
Exports: FOB by Non EU countries: January - October 2018



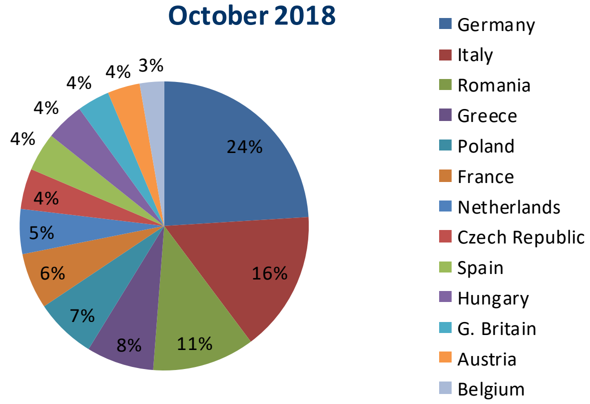
Exports: FOB: Commodity groups - percentage shares for October 2018



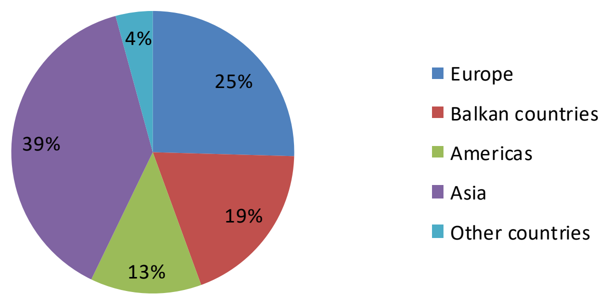
Exports by Commodity groups



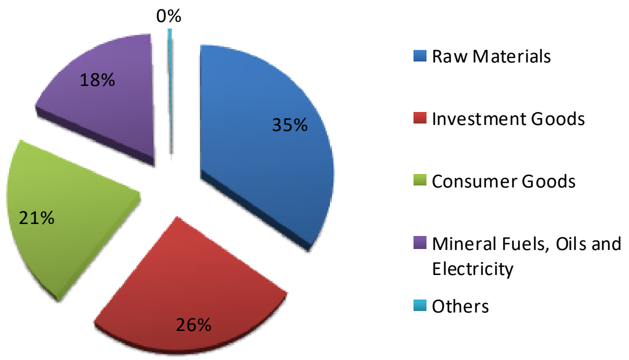
Imports: CIF by EU Countries: January - October 2018



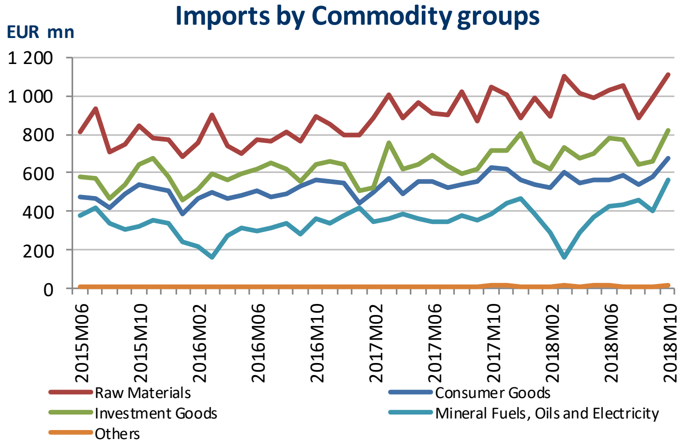
Imports: CIF by Non EU Countries: January - October 2018



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



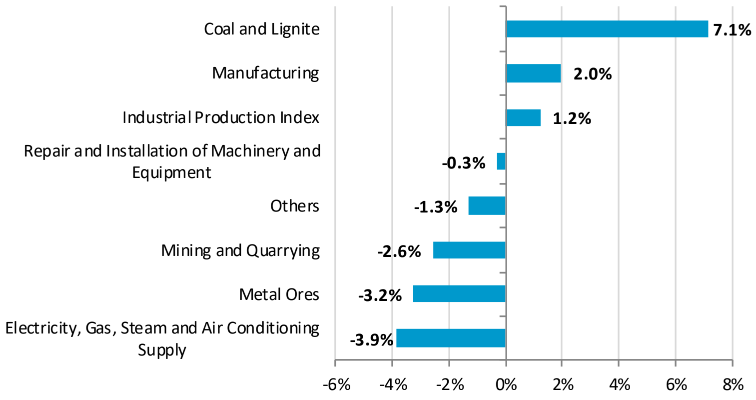
Imports by Commodity groups



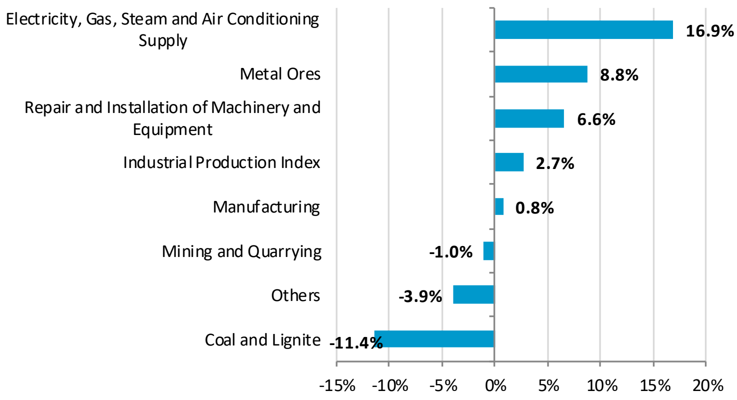
Source: BNB

Bulgaria: Real Sector Indicators

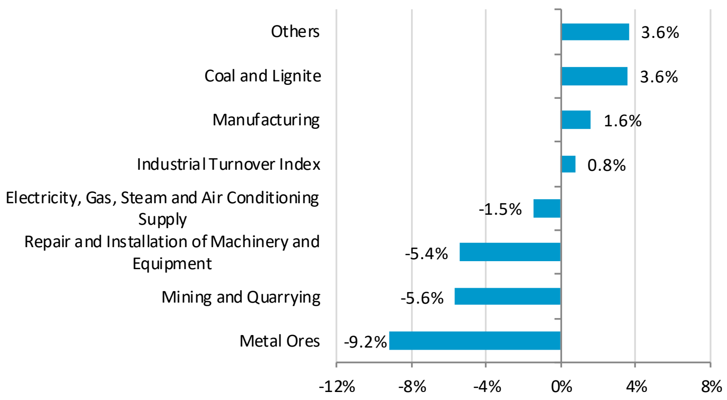
Industrial Production Index: % change in November 2018 compared to November 2017



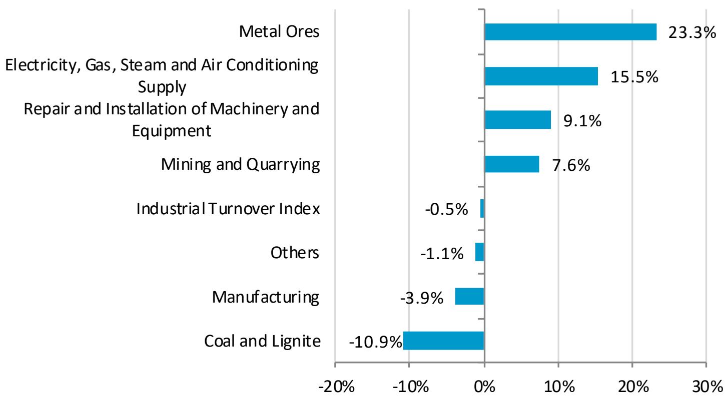
Industrial Production Index: % change in November 2018 compared to October 2018



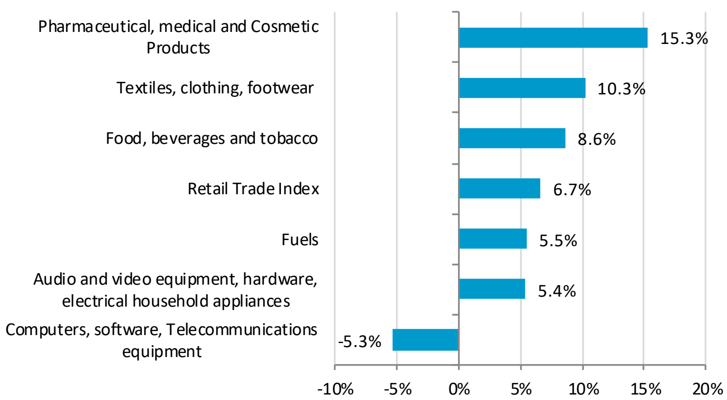
Industrial Turnover Index: % change in November 2018 compared to November 2017



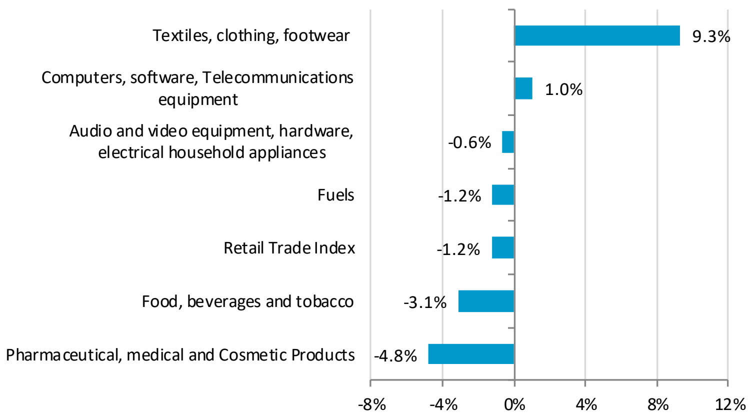
Industrial Turnover Index: % change in November 2018 compared to October 2018



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

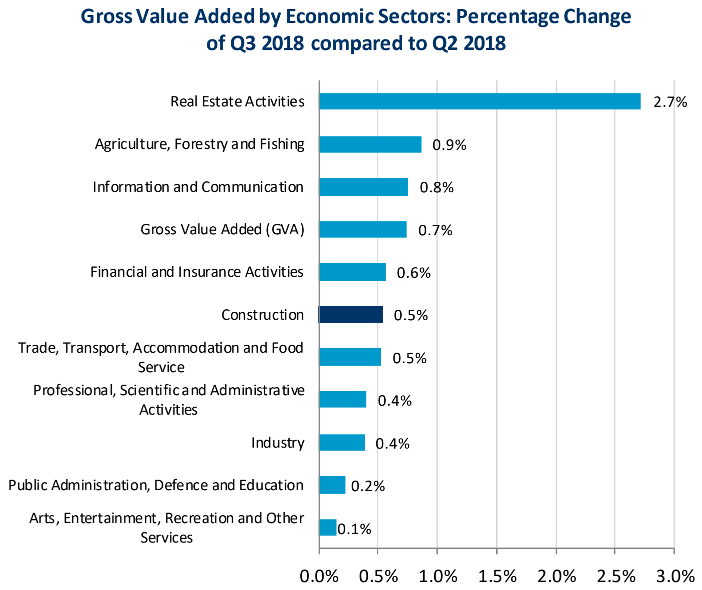


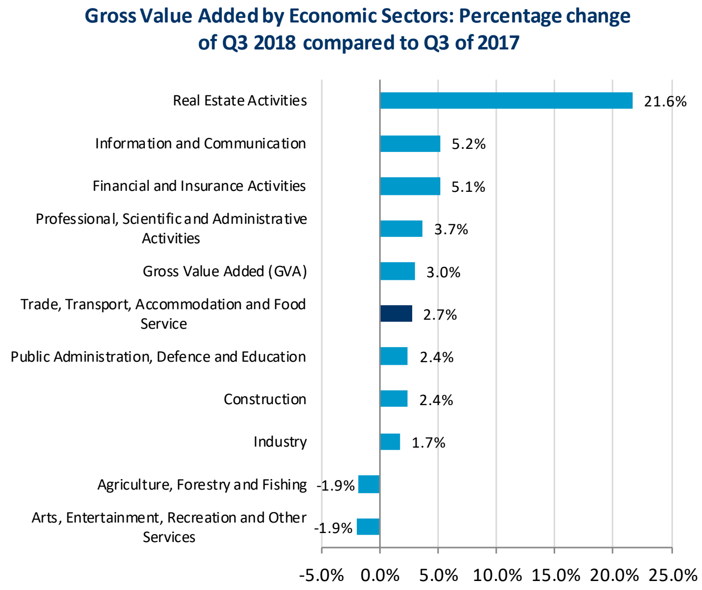
Retail Trade Index: % change in November 2018 compared to October 2018

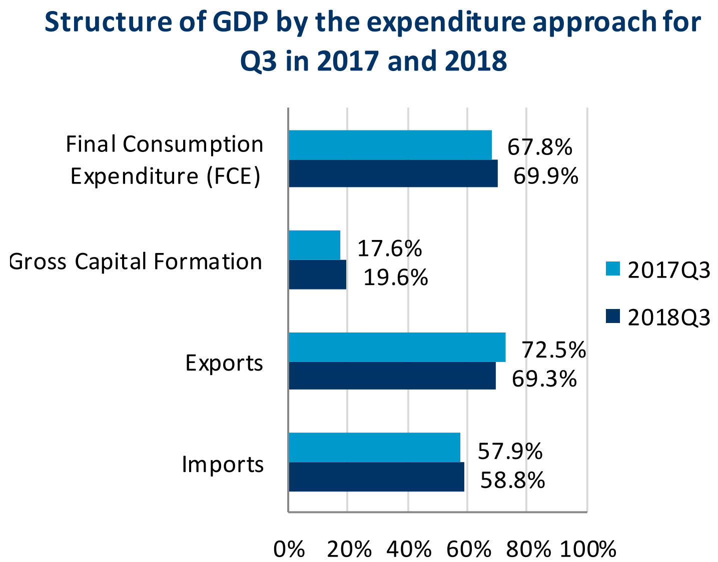


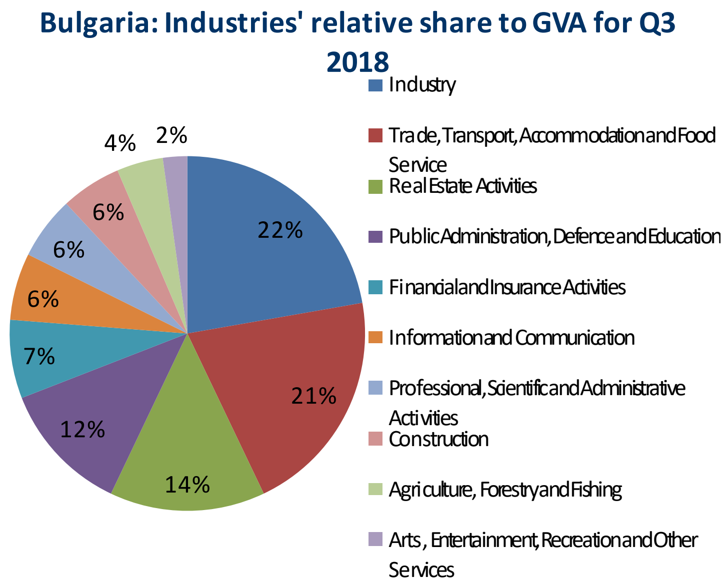
Source: NSI

Bulgaria: Real Sector Indicators



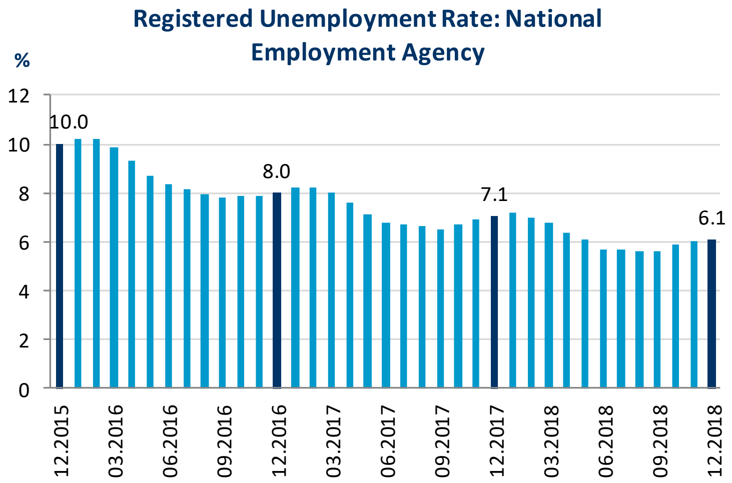


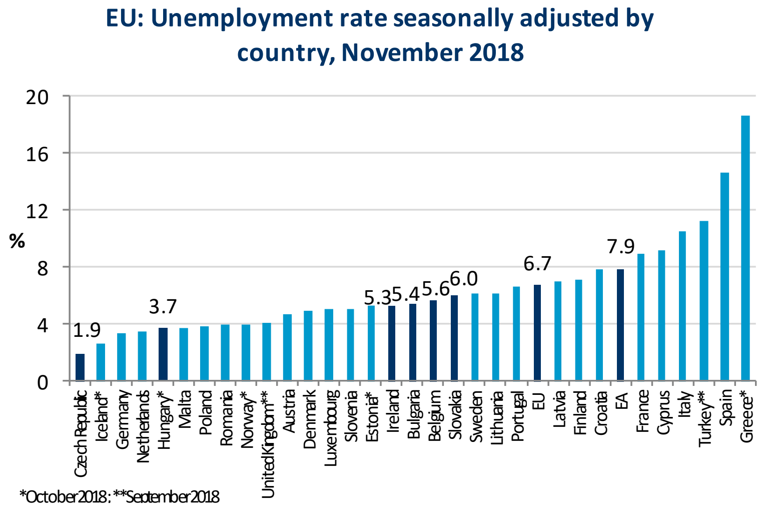


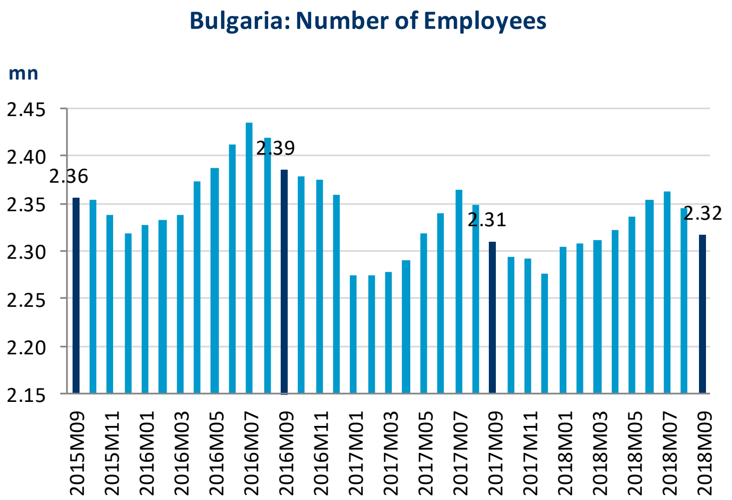


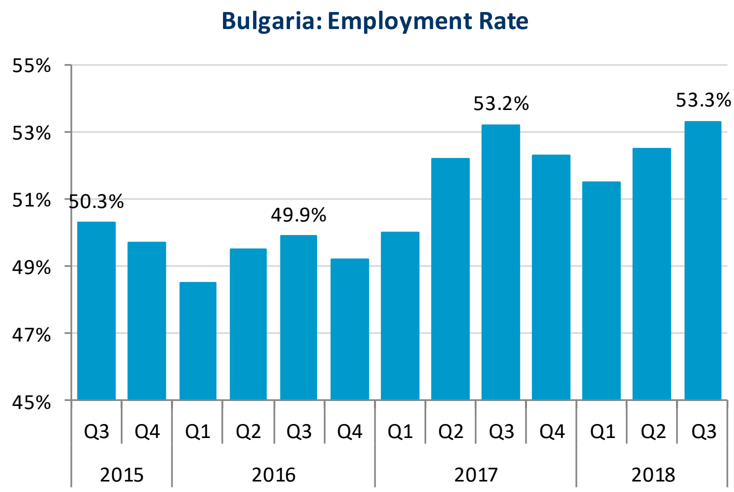
Source: NSI, EC

Bulgaria: Real Sector Indicators



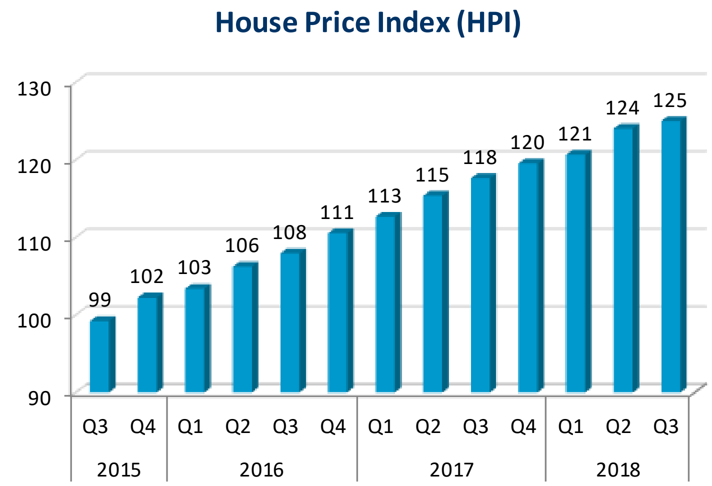


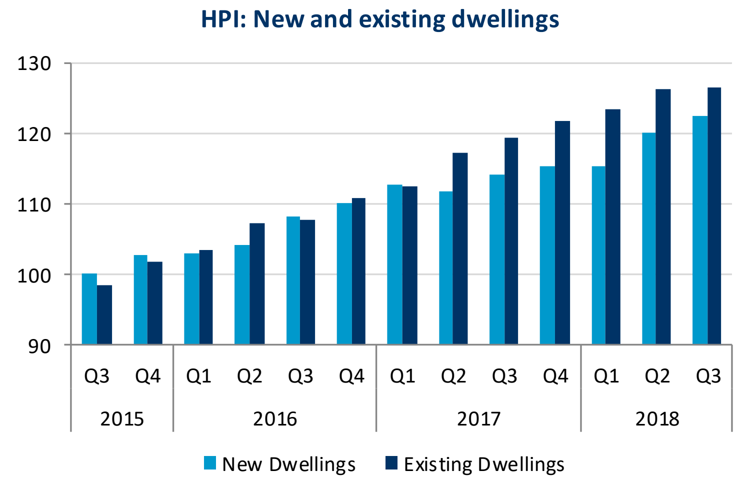


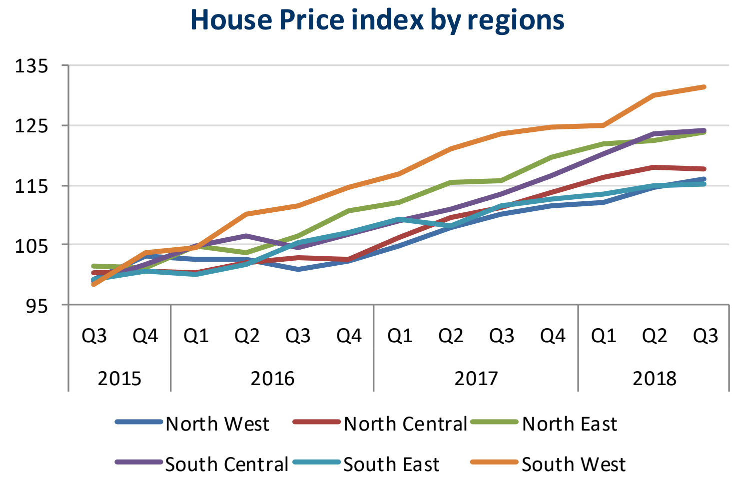


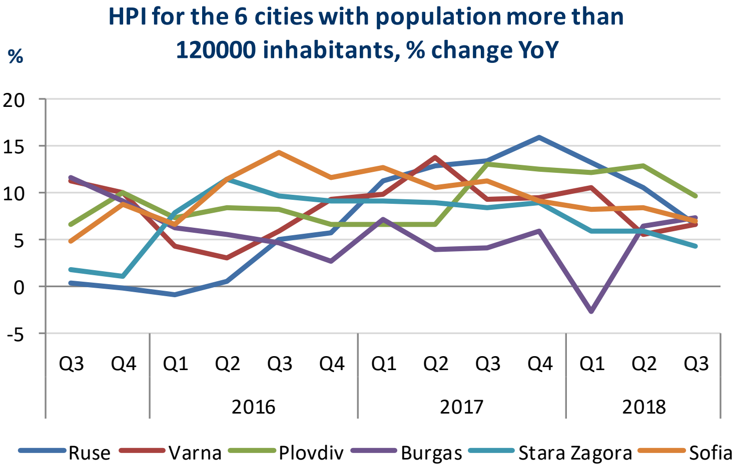
Source: NSI, EC

Bulgaria: Real Sector Indicators



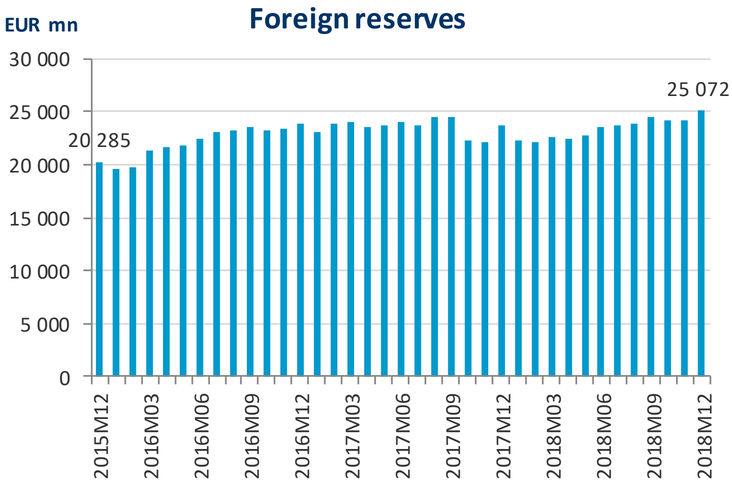


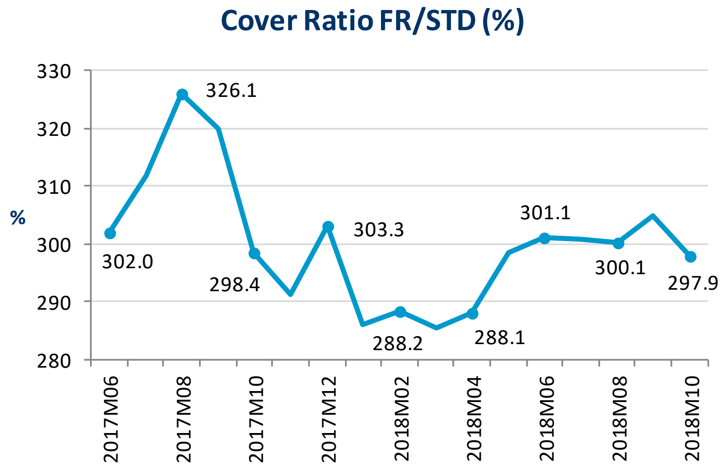


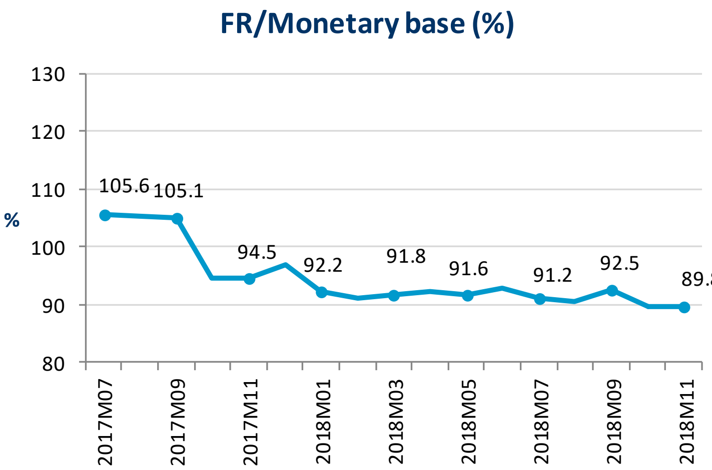


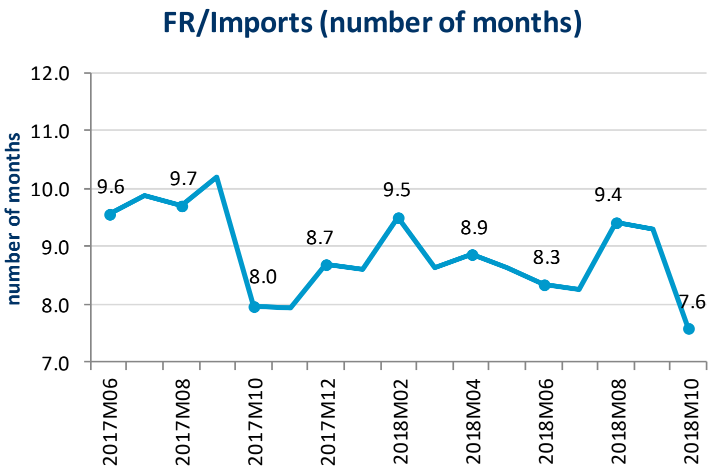
Source: NSI, EC

Bulgaria: Monetary Sector Indicators



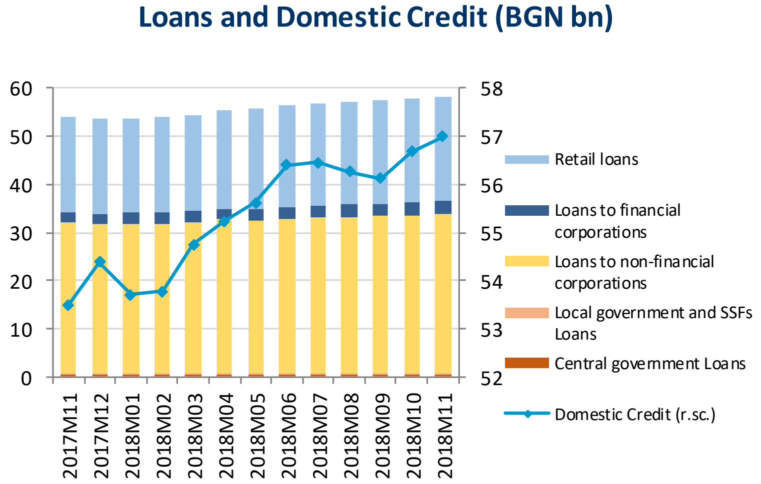


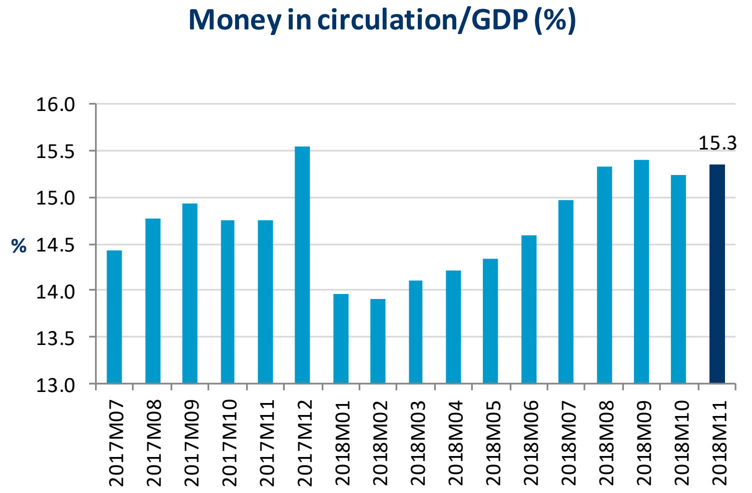


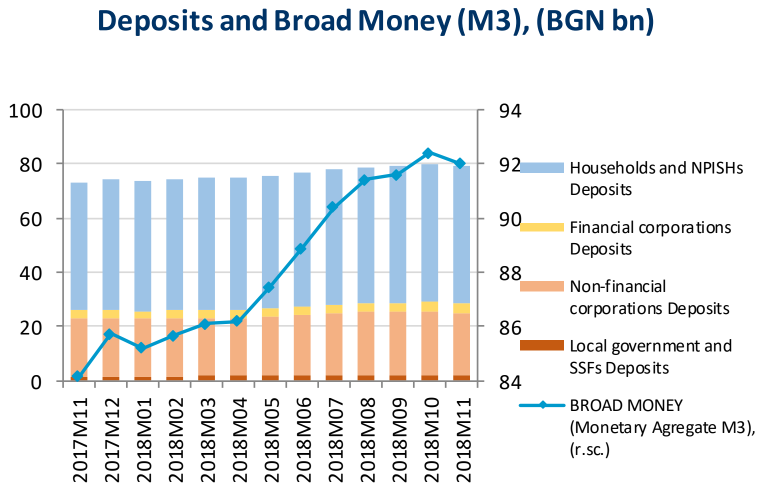


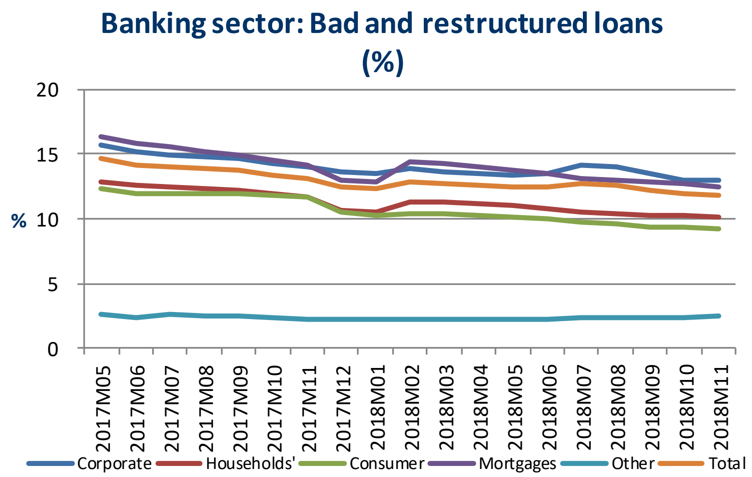
Source: BNB

Bulgaria: Monetary Sector Indicators



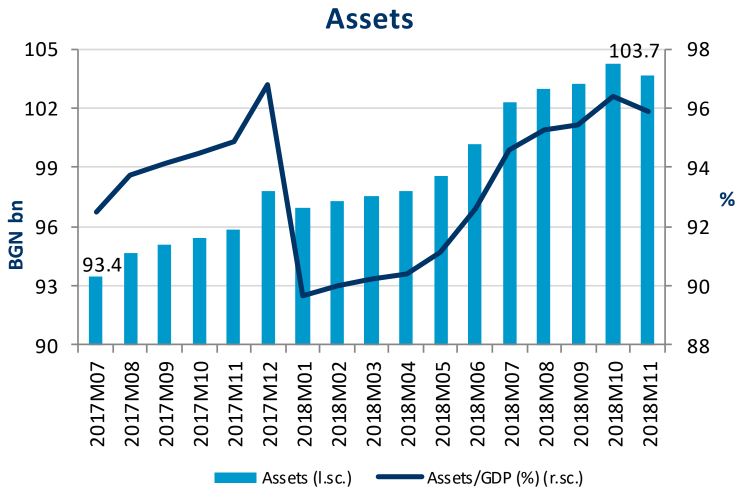


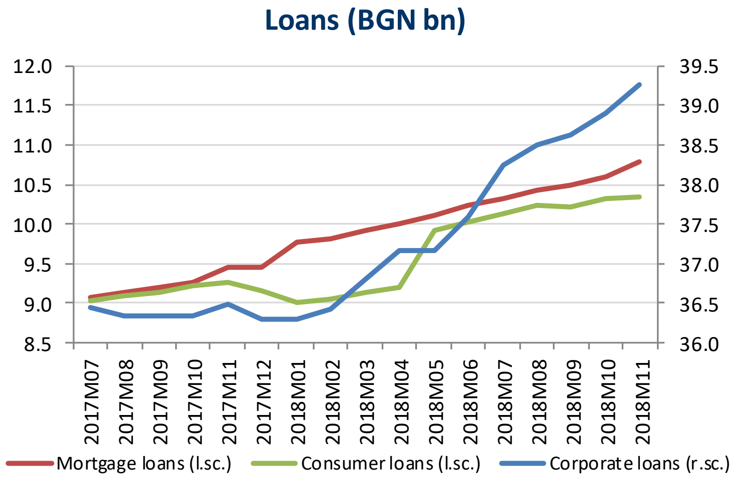


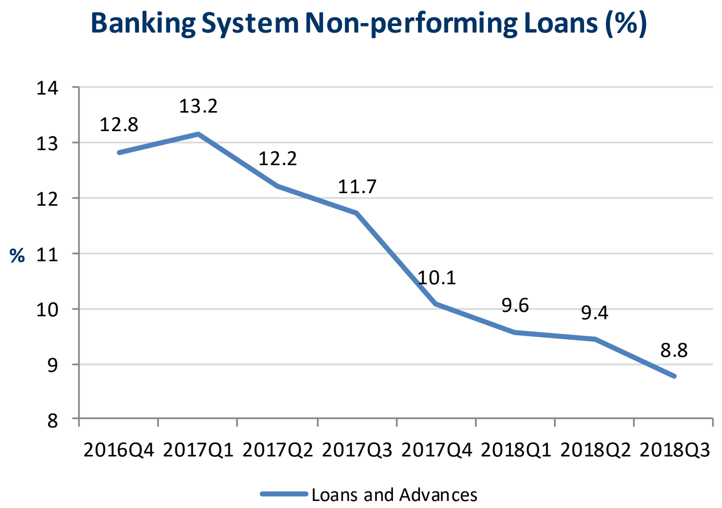


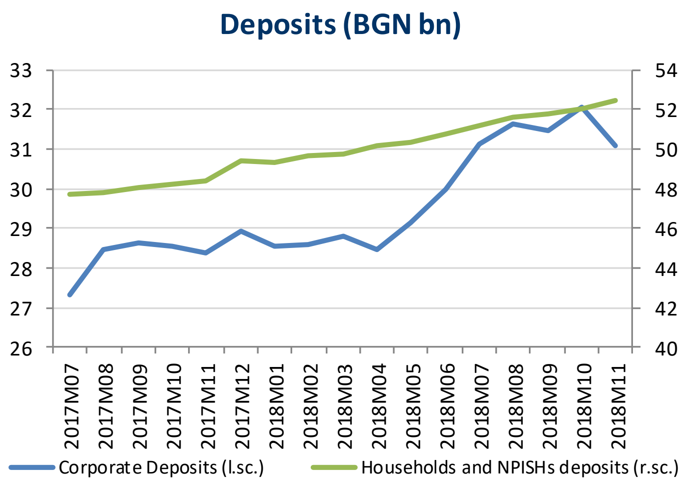
Source: BNB

Bulgaria: Banking Sector Indicators



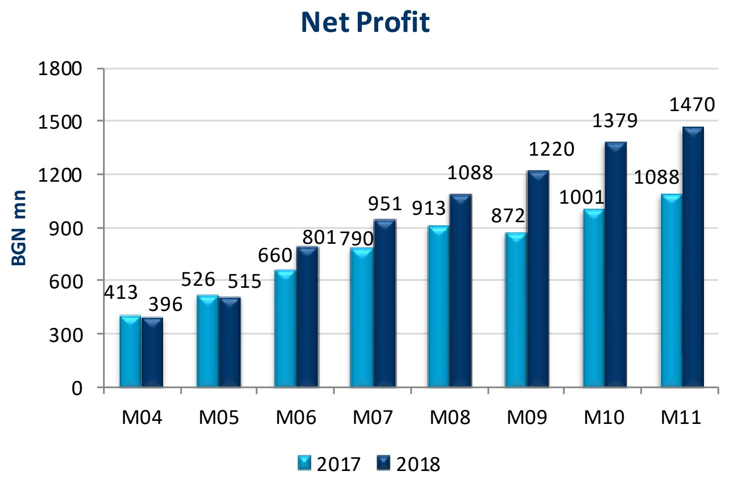


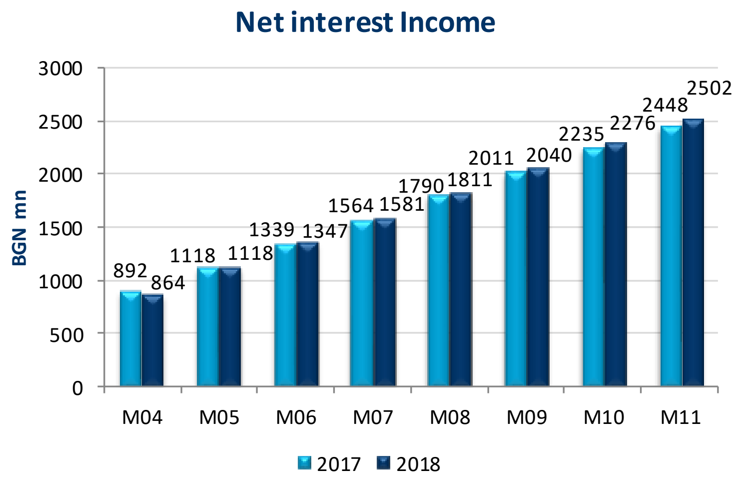


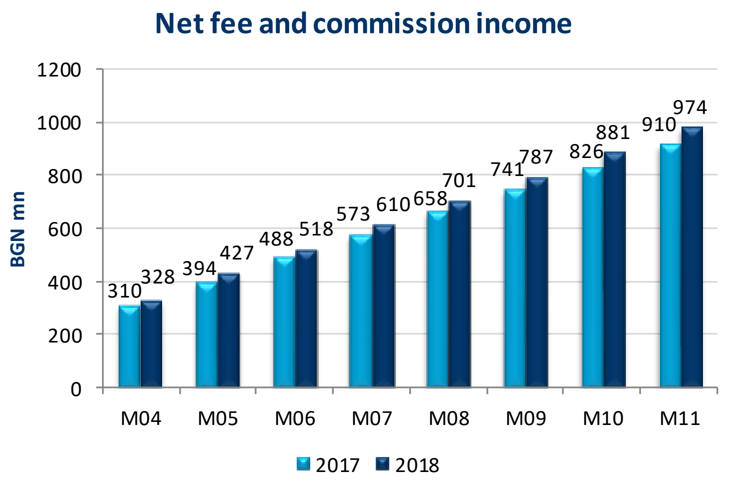


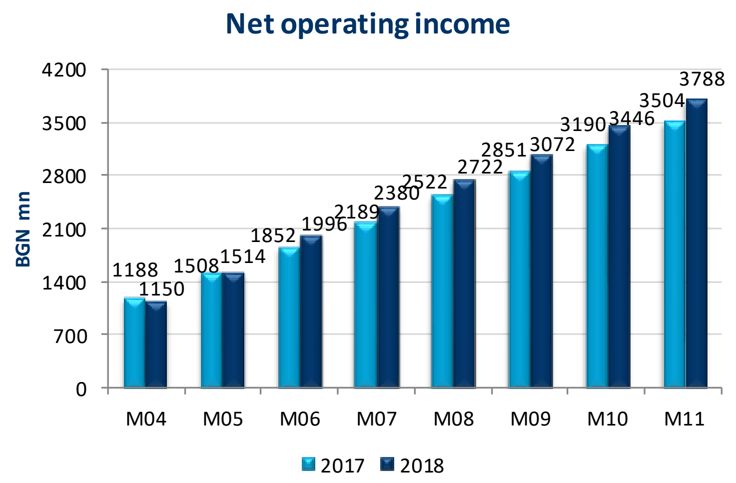
Source: BNB

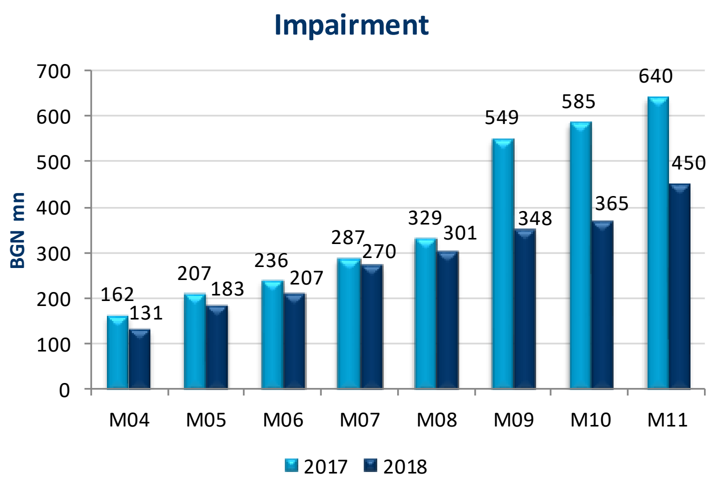
Bulgaria: Banking Sector Indicators





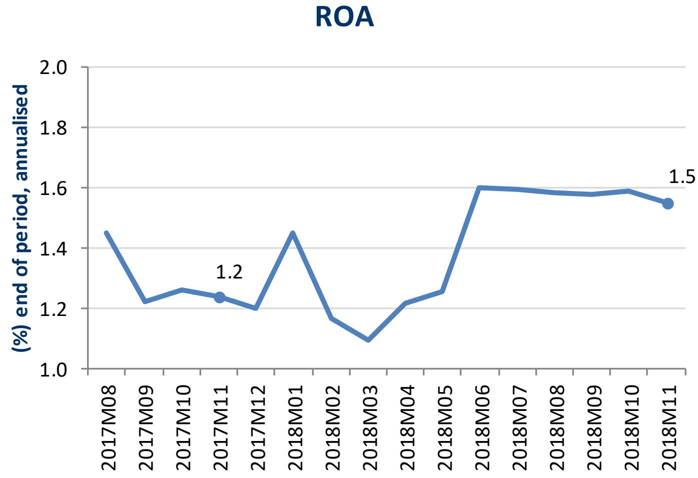


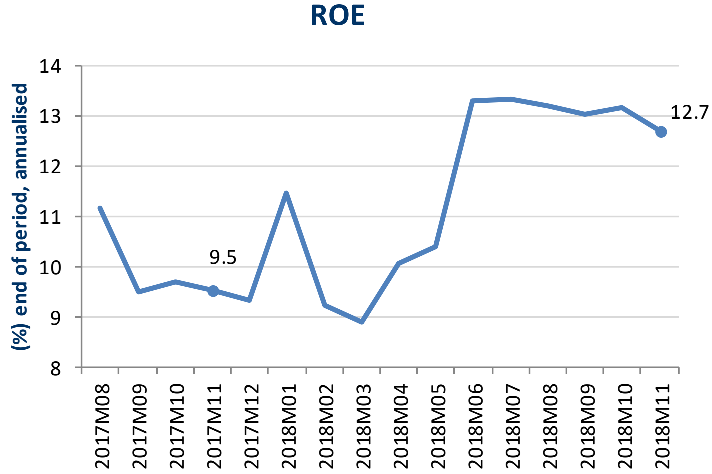


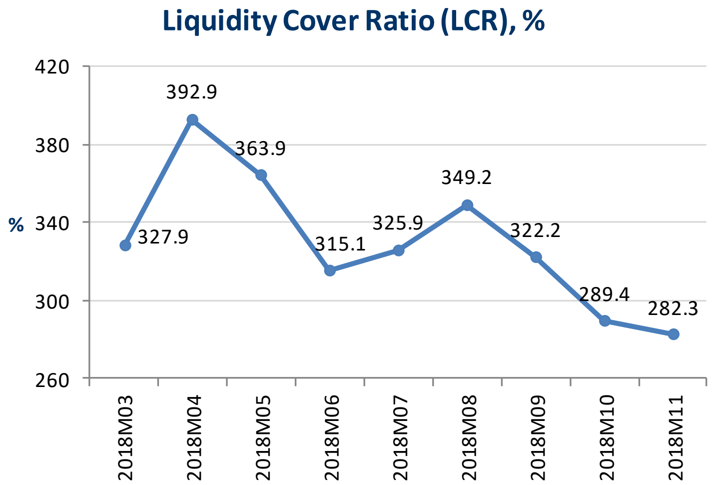


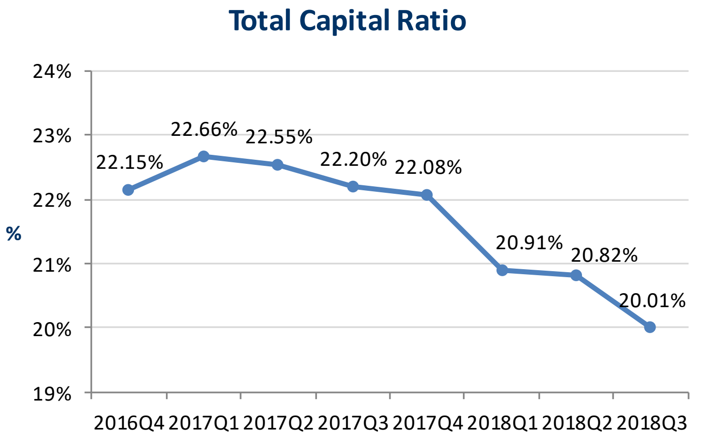
Source: BNB

Bulgaria: Banking Sector Indicators



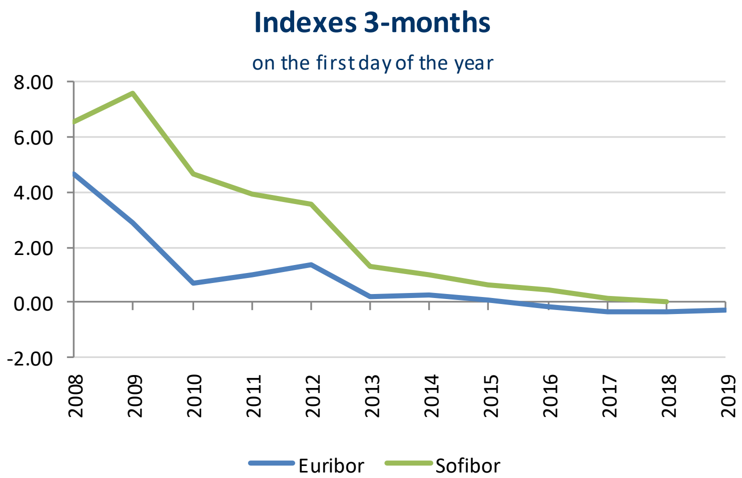


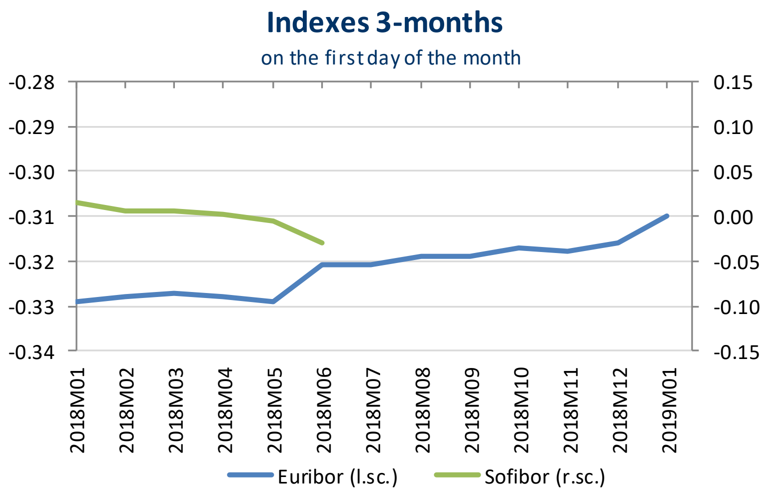


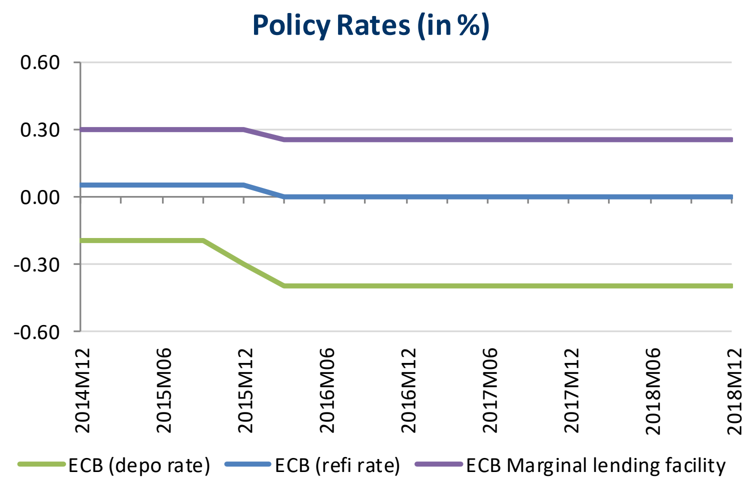


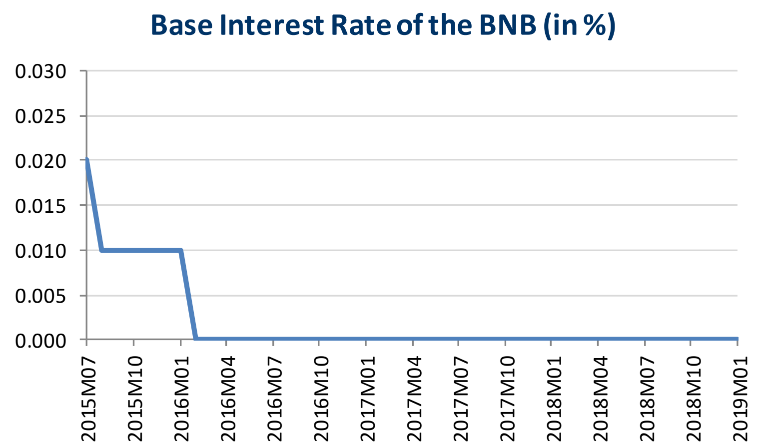
Source: BNB

Bulgaria: Indexes and Interest Rates



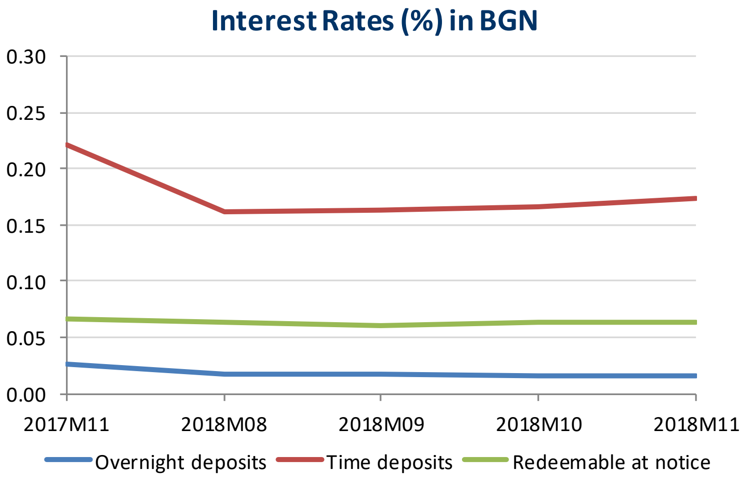


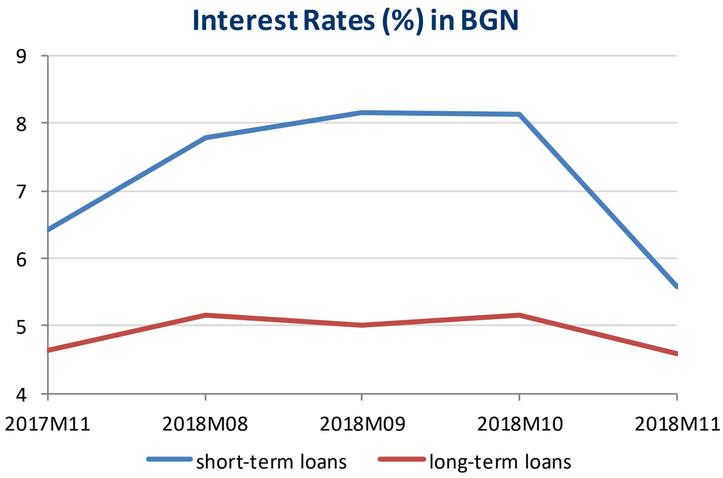


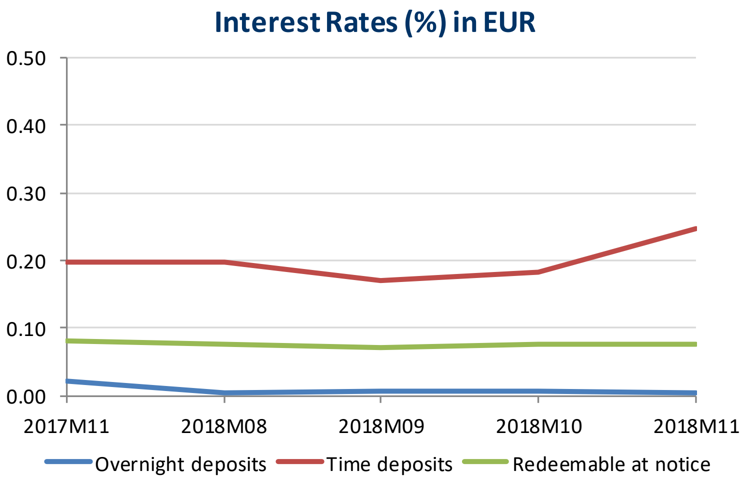


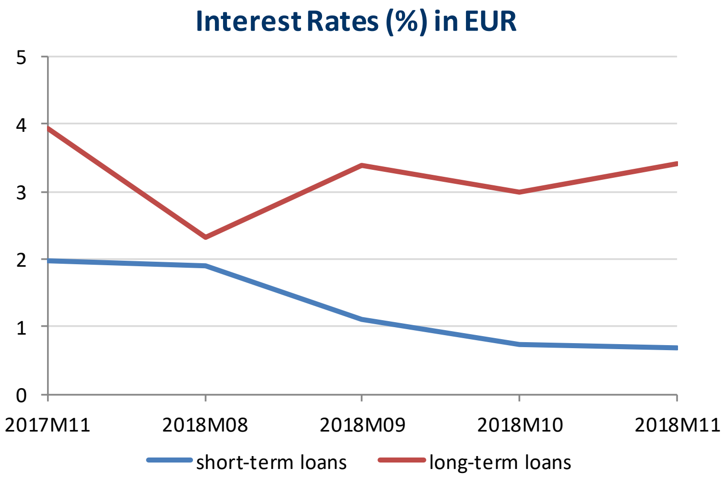
Source: ECB, BNB

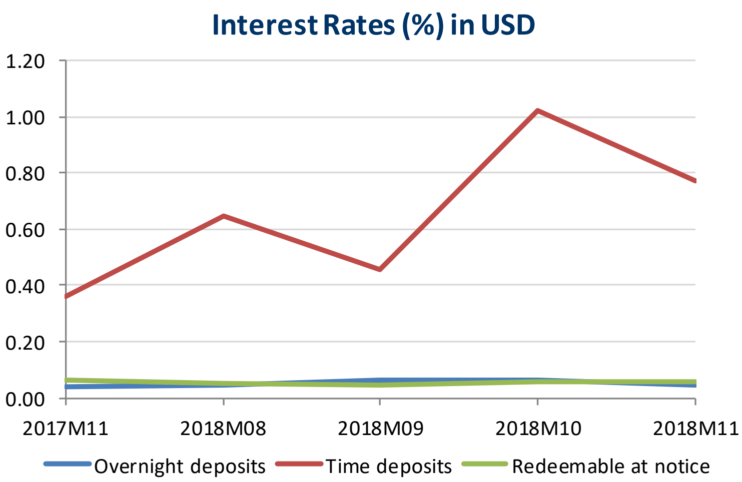
Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates

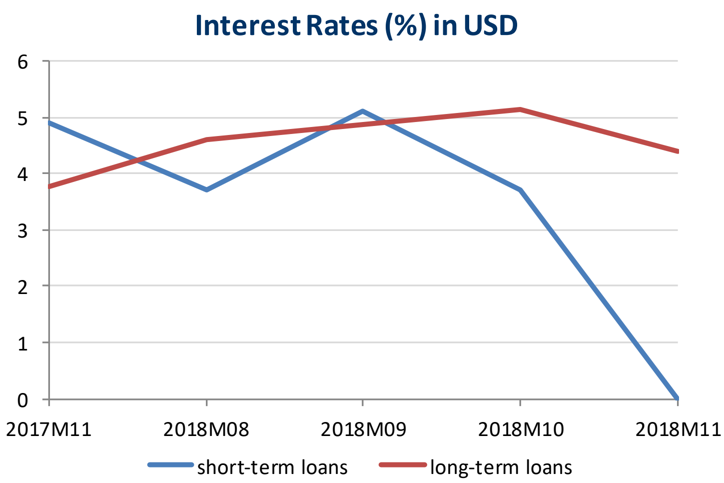






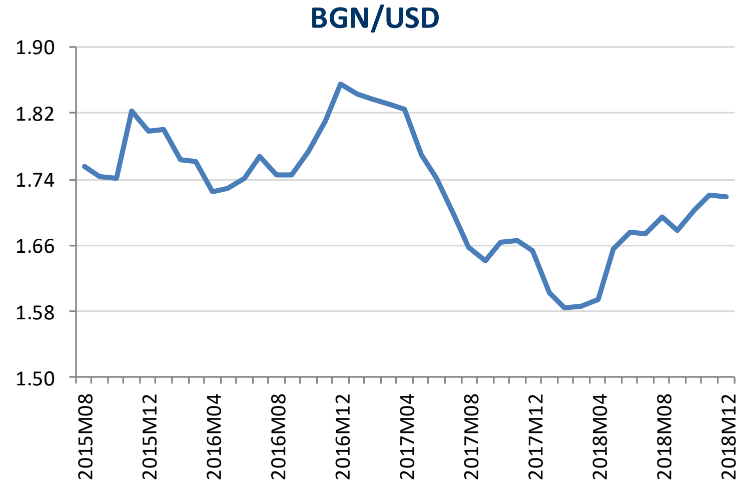


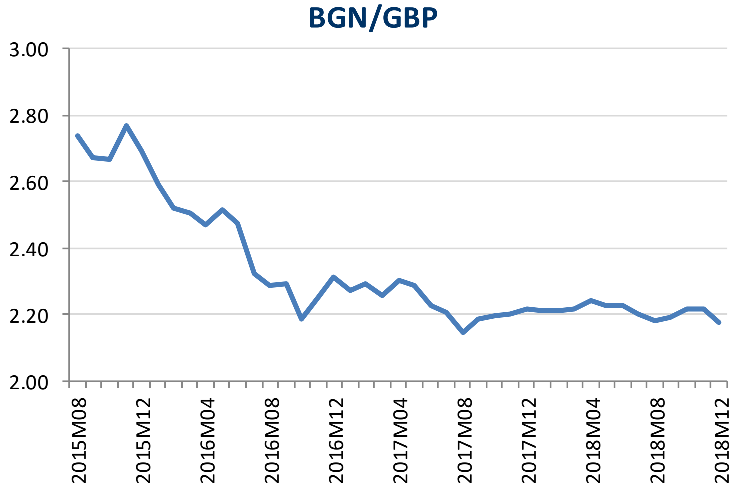


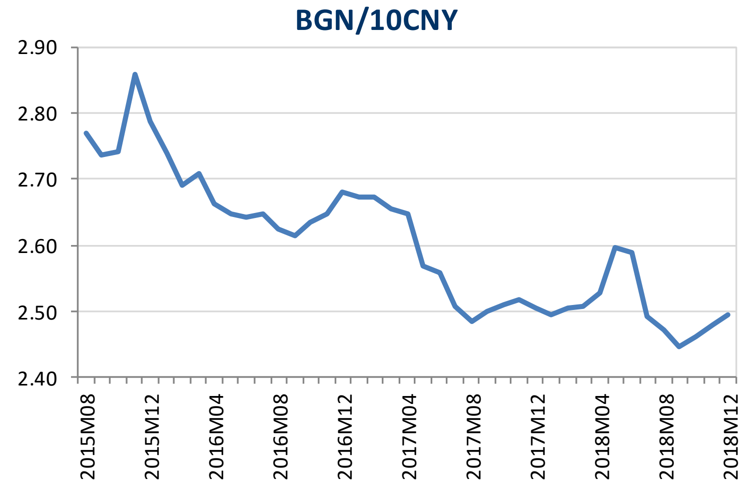


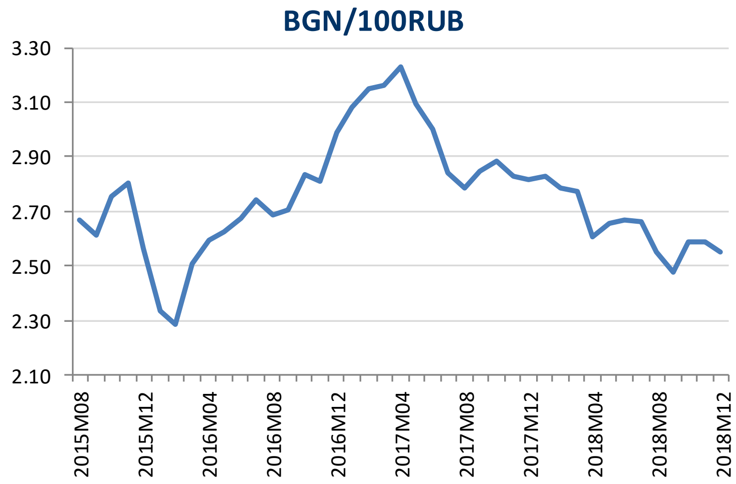
Source: BNB

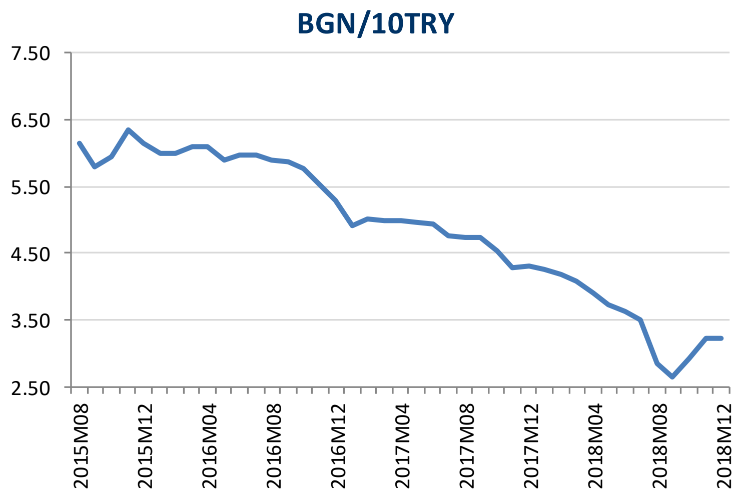
Bulgaria: FX Rates

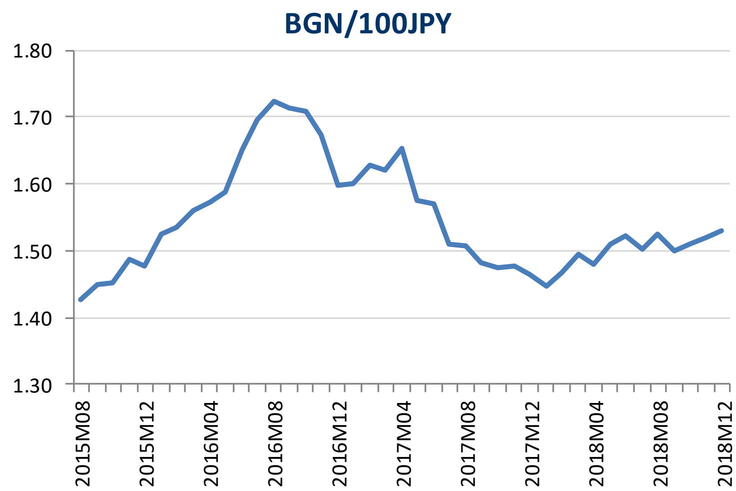












Source: ECB

DEFINITIONS AND METHODOLOGICAL NOTES

The Governing Council of the ECB sets the key interest rates for the euro area, as follows: The interest rate on the main refinancing operations (MRO), which provide the bulk of liquidity to the banking system. The MRO rate defines the cost at which banks can borrow from the central bank for a period of one week. The rate on the deposit facility, which banks may use to make overnight deposits with the Eurosystem. The deposit facility rate is one of the three interest rates the ECB sets every six weeks as part of its monetary policy. The rate defines the interest banks receive for depositing money with the central bank overnight. Since June 2014, this rate has been negative. The rate on the marginal lending facility, which offers overnight credit to banks from the Eurosystem. If banks need money overnight, they can borrow from the marginal lending facility at a higher rate.

EXTERNAL SECTOR

CURRENT ACCOUNT

Starting from April 17th 2015, in accordance with the Statistical Data Realease Calendar, BNB starts the regular dissemination of monthly balance of payments data, compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual. The implementation of the new methodological requirements of BPM6 by the EU countries was coordinated by the European System of Central Banks (ESCB) and the European Statistical System (ESS). With the implementation of the Sixth Edition of the Balance of Payments and International Investment Position Manual (IMF,2008) significant methodological changes in the reporting of trade in goods and trade in services were introduced. Based on their economic nature, certain items were reclassified from Goods (exports and imports) to Services (exports and imports), and vice versa. These methodological changes resulted in differences between the data on goods (exports and imports) compiled by the BNB for the balance of payments statistics, and the external trade statistics compiled by the NSI. Thus, the exports, imports and trade balance data compiled by the NSI do not equate to the exports, imports and trade balance data compiled by the BNB for the purposes of balance of payments statistics. According to external trade statistics, exports of goods amounted to EUR 3,483.1 mn in January – February 2015, growing by EUR 249.1 mn (7.7 %) year-on-year (compared with EUR 3,234 mn in January – February 2014). Imports of goods amounted to EUR 3,856.9 mn in January – February 2015, growing by EUR 58.9 mn (1.6 %) year-on-year (from EUR 3,797.9 mn in January – February 2014). The trade balance recorded a deficit of EUR 373.8 mn (0.9 % of GDP) in the reporting period, dropping by EUR 190.2 mn year-on-year (from a deficit of EUR 564 mn, 1.3 % of GDP in January – February 2014). Taking into consideration the analytical importance of the data on goods (exports and imports) in the external trade statistics, the BNB shall continue its practice of preparing a short text on the external trade dynamics, and maintaining the relevant data series. These materials are included in the Balance of Payments publication, and are published on the BNB website. More detailed information on these methodological changes is available in the material Compilation of the balance of payments in accordance with the methodology of the sixth edition of the Balance of Payments and International Investment Position Manual. As far as the direct investment data is concerned, the sixth edition of the Balance of Payments and International Investment Position Manual introduced principally different approach for their presentation – the Asset/Liability presentation. Taking into consideration the analytical importance of the directional principle presentation (based on the direction of the initial investment), the BNB shall continue disseminating the direct investment data according to it in the Annex Direct Investment of the Balance of Payments monthly publication as well as in the direct investment tables. In accordance with the directional principle presentation, foreign direct investment in Bulgaria amounted to EUR 53.9 mn compared with EUR 94.7 mn in February 2014. In January – February 2015 the foreign direct investment in Bulgaria inflow equated to EUR 128.2 mn compared with an inflow of EUR 137.7 mn in January – February 2014. Direct investment abroad recorded a net increase of EUR 9.4 mn in February 2015, compared with an increase of EUR 5.7 mn in February 2014. In January – February 2015 the direct investment abroad decreased by EUR 16.6 mn, against an increase of EUR 108.7 mn in the same period of 2014. More detailed information on the direct investment is available in the annex Direct Investment (January-February 2015) and in table 10. Direct Investment of the monthly Balance of Payments publication. The Current Account comprises the acquisition and provision of goods and services, income, and current transfers between the country and the rest of the world. The flows recorded on the credit side

represent that part of the gross domestic product, which is provided to the rest of the world (exports of goods and services), as well as the provision of factors of production expressed by income receivable – compensation of employees and investment income (interest, dividends, etc.). Recorded are also offsets for non-refundable real and financial resources received (transfers). The flows on the debit side represent the gross product created in the rest of the world and acquired by the domestic economy (imports of goods and services), as well as the acquisition of factors of production expressed by income payable. Recorded are also offsets to non-refundable real and financial resources provided. The Goods component of the BOP Current Account covers movable goods for which changes of ownership between residents and non-residents occur. The data on imports and exports FOB (Free on board) is based on customs declarations, as the codes used in them are after the Harmonized System for Description and Coding of Commodities of the World Customs Organization, introduced in 1988 and supplemented in 1992. With the January 2006 data the Bulgarian National Bank and the National Statistics Institute jointly apply developed by them methodology for compilation of imports at FOB prices and receipts and payments regarding the freight transportation.2 The methodology is based on the analysis of the CIF-FOB correlations for the imports of goods depending on the different imports delivery categories, as well as on the different mode of transportation and nationality of the carrier.
The geographical breakdown of the Goods item of the BOP is based on the following principles:
For the intra EU trade in goods:
- In case of exports (or dispatches) is the country (or Member State) of final destination of the goods - In case of imports (or arrivals) is the country (or Member State) of consignment of the goods.
For the trade with third countries (outside EU)
- In case of exports – partner country is the country of final destination of the goods - In case of imports - partner country is the country of origin of the goods.
The Services component comprises transportation, travel, and other services. The Bulgarian National Bank derives the data on freight transportation from foreign trade data and the data on passenger transportation from travel data on the basis of estimates. With the January 2006 data the BNB introduced a new methodology for compilation of receipts and payments regarding the freight transportation. The freight transportation receipts are set up on the basis of estimated receipts of resident carriers related to the country exports of goods. The payments are calculated as an estimation of the payments made by residents on behalf of non-resident carriers related to the country imports of goods. The receipts and payments are estimated according to mode of transportation and nationality of the carrier. With the introduction of the system INTRASTAT with the January 2007 data changes in the way of compilation of receipts and payments regarding the freight transportation of Bulgaria with the rest of the EU member states took place. Due to the delay in receiving the detailed data on trade of Bulgaria with the rest of the EU member states from the NSI, as of the date of publication of the preliminary balance of payments report for the corresponding month (42 days after the close of the reporting period) the preliminary compilation of receipts and payments of freight transportation is based on data for preceding years. These estimates are subject to revisions after receiving the preliminary detailed data (with breakdown by trade partners and by type of goods) on trade with the rest of the EU member states for the reporting month.
Travel covers goods and services, including those related to health and education, acquired by travelers for business and personal purposes. By the end of 2006 the data on travel is based on data from the Ministry of Internal Affairs on the number of travelers crossing the borders and on estimates of per capita expenditures, the latter based on the methodology for estimation of the receipts and expenditures from travel services – “Methodology For Estimation of the Receipts and Expenditures from Travel in the Bulgarian Balance of Payments” (Bulgarian National Bank, Ministry of Trade and Tourism, 18 November 1999). As of the beginning of 2007 data for the number and the structure of foreigners who visited the country are based on information from the border police and NSI estimates. With the January 2010 data the BNB applies new methodology for estimation of the receipts and expenditures for travel and passenger transportation. The estimation model for the Travel item is based on the product of the number of travelers and the expenditure respective for a certain type of purpose of the travel (for more detailed information and questions, related to the methodologies applied, please contact us through the following e-mail: press_office@bnbank.org). The estimates of the expenditures (receipts) by purpose of the travel are based on the data collected during the Border Survey among Traveling Bulgarians and Foreigners conducted by the BNB during the period July 2997 – August 2008. The new methodology was applied for the first time with the data for January 2010, with back data revisions for the months of 2007, 2008 and 2009.
Other services item covers receipts and payments related to services other than transportation and travel (communication,

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

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

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

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

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

CAPITAL ACCOUNT

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

FINANCIAL ACCOUNT

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

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

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

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

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

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

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

According to the balance of payments conventions trade credit arise from the direct extension of credit from a supplier to a buyer, i.e this is a credit extended by a trade partner without issue of a tradable security. Loans item includes received and paid principals on short- and long-term loans between residents and non-residents if no issue of a tradable security is involved with these loans. Transactions concerning disbursements and repayments of principals on IMF loans and disbursements on loans on BOP support are not included in the item Loans. They are recorded in the relative items of group E. Reserves and Related Items.

The Currency and Deposits component presents on the assets side the changes in the residents' currency deposits held abroad, and on the liabilities side – the changes in the liabilities of the resident banks to non-residents in domestic and foreign currency. Following the basic accounting principle and conventions set in the "Balance of Payments Manual" (IMF, 1993), when compiling that item the Bulgarian National Bank excludes any changes therein due to exchange rate changes.

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

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

RESERVES AND RELATED ITEMS

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

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

REAL SECTOR

Gross Domestic Product - production approach

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

GDP - INCOME APPROACH

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

GROSS DOMESTIC PRODUCT BY FINAL EXPENDITURE

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

BUSINESS SURVEY IN INDUSTRY, CONSTRUCTION, TRADE AND SERVICE SECTOR

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

CONSUMER SURVEY

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

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

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

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

INVESTMENT ACTIVITY IN INDUSTRY

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

INDUSTRIAL PRODUCTION INDEX; INDUSTRIAL TURNOVER INDICES

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

TOURISM

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

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

The purposes of visiting a country are the following:

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

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

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

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

CONSUMER PRICE INDICES (CPI)

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

HARMONIZED INDICES OF CONSUMER PRICES (HICP)

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

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

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

The surveys about the prices in agriculture are carried out in accordance with the main requirements of the EU Handbook for Agricultural Price Indices. In this way harmonization with the EU practices in the domain of agricultural price statistics is achieved from the point of view of:
• Definitions used
• Techniques of prices registration
• Type of calculated indices
• Survey periodicity
• Nomenclatures used
• Defining of the selected products by their quality, quantity, variety and other price characteristics.
The object of observation are the producer prices of produced by the farm crops, live animals and animal products and prices of products and services of goods and services currently consumed in agriculture.
Producer price in agriculture is the price received by farm selling its own agricultural products/live animals. It is recorded at the first market stage of goods - „farm gate price”. Producer price excludes subsidies on agricultural products/animals, transport costs and taxes. VAT is also excluded in the price.
The examination of prices of goods and services currently consumed in agriculture (Input I) includes five surveys which supply the information about the prices of:
• Mineral fertilizers
• Feeding stuffs
• Plant protection products
• Veterinary medicinal products
• Seeds and planting stocks.
The object of observation is the purchase price of goods and services currently consumed in agriculture. The observed unit price is the price that the buyer actually paid for the means of production. It includes taxes and fees and excludes subsidies and VAT refunded.

Statistical unit

Observation units within the surveys of agricultural prices are farms - juridical and physical persons and agricultural and veterinary pharmacies. For each survey a list of respondents is established and during the years stable number of price registrations of products/livestock categories and means of production is maintained.
The conducted surveys are exhaustive and include all units above certain threshold defined in value terms. For the survey on the producer prices in agriculture as selection criteria a value of sales of agricultural products/animals is used and for the surveys on the prices of goods and services currently consumed in agriculture - the expenditures rising from purchases of goods and services for intermediate consumption. The representativeness of prices is assured, both by the maintaining of regular number of price registrations and coverage of at least of 50 % of value of sales for each product/livestock category or purchase value of goods and services for intermediate consumption in the respective year.

Data sources

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

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

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

Calculation of average prices

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

Type of index and calculation

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

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

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

Classifications

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

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

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

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

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

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

MONETARY AGGREGATES

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

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

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

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

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

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

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

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

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

MONEY SUPPLY MECHANISM

Money supply (M3) may be expressed as a product of monetary base and the money multiplier variable. Money multiplier characterizes the degree of multiplication effect as a result of commercial bank activity. This effect is measured by the ratios of broad money (M3) or individual monetary aggregates (M1 and M2) to reserve money. The money multiplier reflects the currency outside banks to deposits ratio and the bank reserves to deposits ratio, known as factors in determining money supply. The currency outside banks to deposits ratio depends primarily on the public behavior, while the bank reserves to deposits ratio reflects commercial bank behavior. Sources of Reserve Money: Under a stable money multiplier, total money supply may be influenced through reserve money sources. Foreign assets (net) reflect an increase/decrease in Bulgaria's forex reserves. Under a currency board changes in forex reserves at the expense of government deposit do not directly affect the monetary base and it is automatically sterilized. Claims on central government (net) – the net position of the government is a result of assets netting (balances on lev loans disbursed prior to June 1997 pursuant to the former Law on the BNB and balances on forex loans under Article 45 of the Law on the BNB) its liabilities. Claims on non-government sector include only claims on shares and other equity on the non-government sector. Claims on commercial banks – the balance sheet reports balances on loans extended prior to June 1997 and unpaid interest on these loans. Remaining items (net) include assets and liabilities, which are not classified to any other item.

CAPITAL MARKET

SOFIX Index:

Initial date: 20 October 2000; Initial value: 100

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

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

BG REIT Index:

Initial date: 03 September 2007; Initial value: 100

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

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

BG 40 Index:

Initial date: 01 February 2005; Initial value: 100

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

BGTR30 Index (BG Total Return 30):

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

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