All data in the edition are the last available data, published as of March, 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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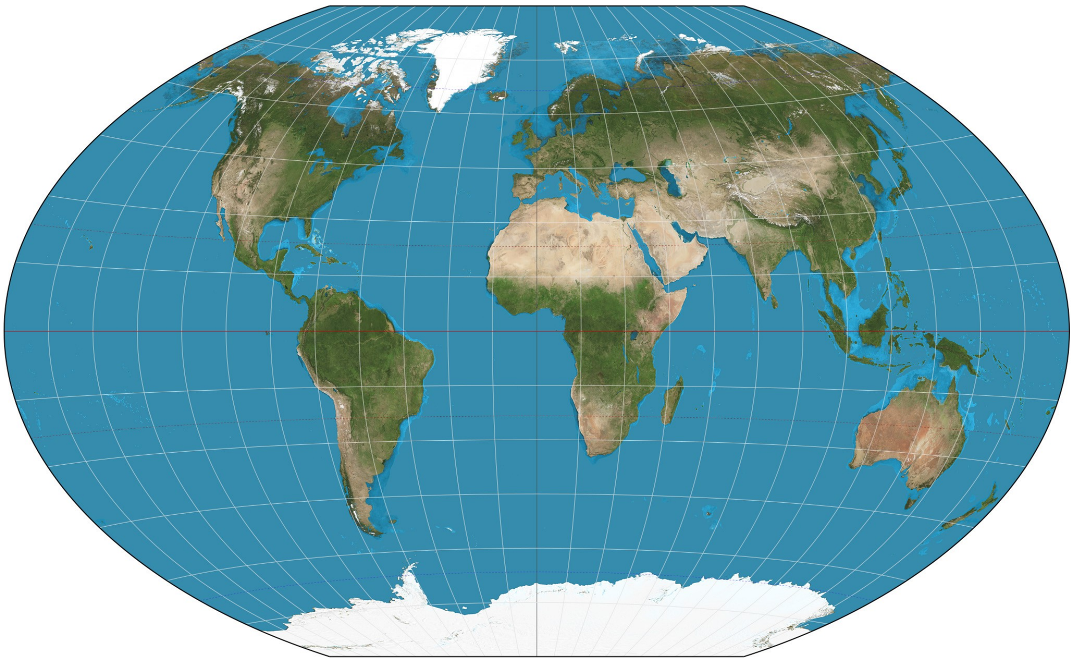
HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



March, 2019

Sofia

- *Compared with the same quarter of the previous year, the Euro Area economy expanded 1.1% in the three months to December, slightly below a flash estimate of 1.2%. In 2018, the GDP rose 1.8%, compared to 2.4% in 2017. Considering the European Union as a whole, the GDP increased 1.9% in 2018, also compared to 2.4% in 2017. The annual inflation rate in the Euro Area is expected to pick up to 1.5% in February 2019 from a nine-month low of 1.4% in the previous month. The annual core inflation is likely to edge lower to 1% in February from 1.1% in the previous month. The seasonally adjusted unemployment rate in the Euro Area was steady at 7.8% in January of 2019, the same as 7.8% in December. Considering the European Union as a whole, the unemployment rate edged down to 6.5% in January from 6.6% in December. The youth unemployment rate was 14.9% in the EU28 and 16.5% in the Euro Area, down from 15.8% and 17.7% respectively in January 2018.*

- *Italy's economy shrank -0.1% on quarter in the last three months of 2018, the same as in the previous period (-0.1%) and slightly above the -0.2% contraction previously estimated. It was the weakest economic performance since the third quarter of 2014. Italy's recession at the end of 2018 was almost unprecedented among the euro area's major members and provided further evidence of the self-inflicted damage to the economy. Italy's two straight quarterly contractions highlight deeper issues; they also mean it's the region's only major economy to slip into recession alone. Italy is facing excessive economic imbalances and the policies of its government are making matters worse, posing a threat to other euro zone countries, the European Commission said on February 27. The OECD slashed its forecast for the Italian economy to a -0.2% contraction this year, reflecting the effects of the global trade slowdown. Italy's annual inflation rate increased to 1% in February of 2019 from a nine-month low of 0.9% in the previous month. Italy's unemployment rate went up to 10.5% from an upwardly revised 10.4% in the previous month.*

- *On 13 March 2019, British Parliament debated the changes to the Brexit deal and then vote on it. In the vote, government's plan failed - British Parliament rejected the Brexit deal by 149 votes. British parliament also rejected leaving without a deal in all circumstances. More than double the number of British Parliament voted to ask the EU to postpone the UK's Brexit date of 29 March than against it. The unemployment rate in the UK came in at 4% in the fourth quarter of 2018, its lowest level since the 1970s.*

- *The US economy advanced an annualized 2.6% qoq in the fourth quarter of 2018. . Fixed investment rose faster, consumer spending remained robust and the drag from net trade was smaller. Considering full 2018, the economy advanced 2.9%, above 2.2% in 2017 and the highest growth rate since 2015. Consumer prices in the United States increased 1.5% yoy in February of 2019, following a 1.6% rise in January. Excluding food and energy, core inflation rate edged down to 2.1% from 2.2% in January. The US unemployment rate fell to 3.8% in February 2019 from 4% in the previous month.*

- *The Japanese economy advanced 0.5% qoq in the December quarter 2018, stronger than the preliminary estimate of a 0.3% expansion and recovering from a downwardly revised -0.6% contraction in the third quarter. On an annualized basis, the economy grew 1.9%, better than the preliminary figure of a 1.4% advance, slightly above forecasts of a 1.8% expansion and rebounding from a 2.4% contraction in the previous quarter. Japan's consumer price inflation inched lower to 0.2% yoy in January 2019 from 0.3% in the previous month. The seasonally adjusted unemployment rate in Japan edged up to 2.5% in January 2019 from 2.4% in the previous month.*

- *Considering full 2018, the Chinese economy expanded 6.6%, the weakest pace since 1990. China has announced tax cuts because of "developmental" difficulties. Beijing needs to be "fully prepared" and take measures - such as tax cuts of 2 trillion. CNY (265 billion EUR). . It is about to publish and implement the Foreign Investment Act and to revise the negative list regulating foreign investment access on the Chinese market. The US will postpone the increase of China's import duties to more than 200 billion USD after significant progress has been made in trade talks. China's*

Foreign Minister Van I stressed that Beijing will take all necessary measures to protect Chinese telecom giant Huawei. China's consumer price inflation fell to 1.5% year-on-year in February 2019 from 1.7% in the previous month.

- *The Turkish economy contracted by -3% yoy in the fourth quarter of 2018, compared to an upwardly revised 1.8% expansion in the previous three-month period. On a seasonally adjusted quarterly basis, the economy contracted by -2.4% in the fourth quarter, following an upwardly revised 1.6% contraction in the previous period. For 2018 as a whole, the economy grew 2.6%, compared to a 7.4% expansion in 2017. The Turkish consumer price inflation eased to 19.67% yoy in February 2019 from 20.35% in the previous month. Turkey's unemployment rate increased to 13.5% in December 2018 from 10.4% in the same month of the previous year.*

- *The ECB interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.40% respectively. The ECB Governing Council now expects the key ECB interest rates to remain at their present levels at least through the end of 2019. The ECB Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase program. A new series of quarterly targeted longer-term refinancing operations (TLTRO-III) will be launched, starting in September 2019 and ending in March 2021, each with a maturity of two years. Real GDP growth is projected to increase from 1.1% in 2019 to 1.6% in 2020 and 1.5% in 2021. HICP inflation is expected to continue to decrease in the course of 2019 and to rise over the remainder of the projection horizon, reaching 1.6% in 2021.*

- *The Bank of England has published a package of materials updating firms on our regulatory and supervisory approach in relation to our work on EU withdrawal. Package of communications does three things: First, it confirms our intention to provide firms with broad transitional relief with respect to changes to their regulatory obligations in the event that the UK withdraws from the EU in March 2019 without an implementation period. Second, it confirms our approach to changes to our rules and Binding Technical Standards as a result of EU withdrawal. In doing so, it sets out changes to obligations on firms that will apply once the transitional relief falls away. Third, it sets out the roles and responsibilities the Bank will be taking on in March 2019 if the UK leaves the EU without an implementation period.*

- *The Federal Open Market Committee continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2% objective as the most likely outcomes. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In support of these goals, the Committee decided to maintain the target range for the federal funds rate at 2.25% to 2.5% percent. In the economic projections and especially the target federal funds rate projections made by Federal Open Market Committee participants for the March 19-20 meeting no increase in federal funds rate is expected this year.*

- *The Bank of Japan will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2%, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed consumer price index (CPI, all items less fresh food) exceeds 2% and stays above the target in a stable manner. As for policy rates, the Bank of Japan intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices.*

- *The PBOC lowered the reserve requirement ratio (RRR) five times by 3.5% points in total to keep the liquidity reasonably adequate. The PBOC led the downward trend of interest rates. At end-February 2019, China's 10-year government bond yield dropped over 70 basis points compared to the beginning of last year, the lending interest rate decreased as well. The PBOC smoothed the monetary policy transmission in a market- and law-based manner. PBOC provided more policy sup-*

ports for lending, bond issuance by private enterprises and the introduction of instrument for equity financing by private enterprises, as collectively called "three arrows". The PBOC achieved balance both internally and externally. The RMB exchange rate was kept broadly stable and the foreign exchange reserves maintained at over USD 3 trillion. The PBOC effectively stabilized macro leverage ratio. At end-2018, China's macro leverage ratio stood at 249.4%, down 1.5% points from a year earlier.

- *The Central Banh of Turkey's Monetary Policy Committee has decided to maintain the tight monetary policy stance until the inflation outlook displays a significant improvement and kept 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 inflation indicators, risks to price stability continue to prevail. The Central Bank will continue to use all available instruments in pursuit of the price stability objective. Collective efforts to turn the recently enhanced coordination between monetary and fiscal policies into a sustained and systematic structure are expected to support the achievement of price stability.*

- *Oil prices in 20.03.2019 do not find a single direction, pressed by economic growth concerns limiting fuel consumption prospects. Crude Oil decreased 0.16 USD/BBL or 0.27% to 58.76 on Wednesday March 20 from 58.92 in the previous trading session. Brent increased 0.08 USD/BBL or 0.12% to 67.57 on Wednesday March 20 from 67.49 in the previous trading session. Analysts say the economic slowdown may soon hit fuel consumption.*

- *Prices of major cereals on the world stock markets started to fluctuate during the period up to 15 March, and the trend was no longer so clearly outlined. In Chicago, the price of wheat is plus 3.00 USD to 210.00 USD/ton, in France plus 2 EUR to 193.00 EUR/ ton and in Ukraine and Russia the price drops by -6.00 USD to the same 223.00 USD/ton. In Europe, prices go up thanks to Algeria and Turkey's wheat purchases from the EU, especially France, and the contracts are at 193.00 EUR/ ton for wheat and plus 1.25 EUR to 171.00 EUR/ton for corn. In Bulgaria, in the "Grain" sub-section of Sofia Commodity Exchange AD prices are downward. Bread wheat was worth 270.00 BGN/ton, the sellers offered a small margin of 290.00 BGN/ton.*

- *In January 2019 the current and capital account is positive, amounting to EUR 1161.8 million and accounts for 0.3% of GDP.*

- *In January 2019, net direct investment in Bulgaria amounted to EUR 448.2 million and presented 0.8% of projected GDP.*

- *In February 2019, Bulgaria's foreign reserves amounted to BGN 48.4 billion (EUR 24.7 billion), increasing by 1.5% mom and by 11.5% yoy, respectively.*

- *According to the seasonally adjusted data, the GDP growth rate in Q4 of 2018 is 3.2% compared with the same quarter of 2017. GDP in Q4 of 2018 increased by 0.3% in the EU-28 compared to the previous quarter by seasonally adjusted data. For the same period, GDP in Bulgaria increased by 0.8%.*

- *In February 2019, the total business climate indicator remains to its level from the previous month am 27.7%. An improvement of the business conjuncture is observed in construction and service sector, while in retail trade preserves approximately its January level. Only in industry, the indicator is reduced.*

- *According to the preliminary data the Industrial Production Index, seasonally adjusted, increased by 3.2% in January 2019 as compared to December 2018. In January 2019 the working day adjusted Industrial Production Index rose by 2.8% in comparison with the same month of 2018.*

- *According to the preliminary seasonally adjusted data in January 2019 the turnover in "Retail trade, except of motor vehicles and motorcycles" at constant prices increased by 0.4% compared to the previous month.*

- *According to the preliminary data, in January 2019 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 1.5% above the level of the previous month. In January 2019 the working day adjusted index of production in construction increased by 0.9% in comparison with the same month of 2018.*

- *In February 2019, NSI reported 0.5% monthly inflation and 3.2% annual inflation as a result of rising fuel and food prices.*

- *Total Producer Price Index in January 2019 decreased with 0.4% compared to the previous month; compared to the same month of 2018 the prices rose by 1.4%. Producer Price Index on Domestic Market in January 2019 increased by 0.1% compared to the previous month; compared to the same month of 2018 the domestic prices grew by 2.1%.*

- *In 2018 the unemployment rate in Bulgaria was 5.2% by 1.0 percentage point lower in comparison with 2017. The employment rate for the age group 20 - 64 years achieved 72.4%, by 1.1 percentage points higher compared to 2017.*

- *In January 2019 Bulgaria' CFP balance on a cash basis is positive, amounting to BGN 1005.9 million and presented 0.9% of forecasted GDP. Bulgaria's fiscal reserve as of 31.01.2019 amounts to BGN 10.5 billion.*

- *At the end of January 2019, Bulgaria's central government sub-sector debt amounted to EUR 111,839.7 million and accounts for 19.9% of projected GDP.*

- *In January 2019 broad money (monetary aggregate M3) increased annually by 10% yoy to BGN 93.729 billion. Domestic credit amounted at BGN 58.321 billion and increased by 8.6% yoy.*

- ***At the end of February 2019, the blue chip index SOFIX almost stagnated from the previous month to 585.4 points and the other stock indices reported monthly growth: BGBX 40 to 116.13 points, BG REIT to 120.89 points and BGTR30 to 506.04 points.***

- ***In January 2019 the aggregated net profits of Bulgaria's banking system amounted to BGN 77 million and declined by 34.2% yoy.***

Table of content

GLOBAL TRENDS

Advanced countries' economies

Eurozone

Compared with the same quarter of the previous year, the Euro Area economy expanded 1.1% in the three months to December, slightly below a flash estimate of 1.2%. In 2018, the GDP rose 1.8%, compared to 2.4% in 2017. Considering the European Union as a whole, the GDP increased 1.9% in 2018, also compared to 2.4% in 2017. The annual inflation rate in the Euro Area is expected to pick up to 1.5% in February 2019 from a nine-month low of 1.4% in the previous month. The annual core inflation is likely to edge lower to 1% in February from 1.1% in the previous month. The seasonally adjusted unemployment rate in the Euro Area was steady at 7.8% in January of 2019, the same as 7.8% in December. Considering the European Union as a whole, the unemployment rate edged down to 6.5% in January from 6.6% in December. The youth unemployment rate was 14.9% in the EU28 and 16.5% in the Euro Area, down from 15.8% and 17.7% respectively in January 2018.

Compared with the same quarter of the previous year, the Euro Area economy expanded 1.1% in the three months to December, slightly below a flash estimate of 1.2% and following a 1.6% growth in the previous period. In 2018, the GDP rose 1.8%, compared to 2.4% in 2017. Considering the European Union as a whole, GDP growth was unchanged at 0.3% qoq; but slowed to 1.4% yoy (vs 1.8% in Q3). In 2018, the GDP increased 1.9%, also compared to 2.4% in 2017. The Eurozone quarterly economic growth was confirmed at 0.2% in the fourth quarter of 2018, slightly above the previous period's revised figure of 0.1%. From the expenditure side, the largest positive contribution to the GDP growth came from net exports (0.2% points), followed by household final consumption expenditure (0.1% points), gross fixed capital formation (0.1% points) and government spending (0.1% points); while inventories subtracted -0.4% points to the GDP. Exports surged 0.9% in the fourth quarter (vs 0.2% in Q3) while imports rose at a slower 0.5% (vs 1.1% in Q3). In addition, the expansion was supported by increases in household consumption (0.2% vs 0.1%), fixed investment (0.6%, the same as in Q3) and government spending (0.7% vs 0.1%). From the production side, services activity was the main driver of growth led by trade, transport, accommodation and food service activities (0.2% vs 0.1%); information and communication (0.6% vs 0.7%); financial and insurance activities (0.1% vs 0.5%); real estate activities (0.3% vs 0.4%); professional and support service activities (0.5% vs -0.1%) and administration and other public services (0.3%, the same as in Q3). Also, construction advanced 1.1% (vs 0.5% in Q3). By contrast, industry output shrank -0.5% (vs -0.1% in Q3), dragged by manufacturing (-0.2% vs -0.3%). Among the bloc's largest economies, the German economy stalled in the fourth quarter 0%, after contracting in the July-September period for the first time since 2015. Also, Italy's economy contracted for the second straight period by -0.1%, due to a fall in inventories, throwing the country into recession for the third time in a decade. On the other hand, France's GDP growth rate was unchanged at 0.3% and the Spanish economy continued to expand at a solid pace (0.7% vs 0.6%). The annual inflation rate in the Euro Area is expected to pick up to 1.5% in February 2019 from a nine-month low of 1.4% in the previous month and in line with market consensus, a preliminary estimate showed. Prices should rise at a faster pace for processed food, alcohol and tobacco (2.2% vs 1.8% in January), unprocessed food (2.9% vs 1.8%) and energy (3.5% vs 2.7%). Meanwhile, non-energy industrial goods prices are set to rise 0.3%, the same pace as in the previous month, while services inflation is expected to slow to 1.3% from 1.6%. The 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 edge lower to 1% in February from 1.1% in the previous month and slightly below market consensus of 1.1%. The seasonally adjusted unemployment rate in the Euro Area was steady at 7.8% in January of 2019, the same as a downwardly revised 7.8% in December and slightly below market expectations of 7.9%. It is a new-low jobless rate since October of 2008. A year earlier, unemployment was higher at 8.6%. Compared with December, the number of unemployed in the Euro Area declined by 23,000 to 12.848 million. Compared with the previous year, it dropped by 1.233 million. Considering the European Union as a whole, the unemployment rate edged down to 6.5% in January from 6.6% in December and 7.2% a year earlier. This is the lowest rate recorded since the start of the EU monthly unemployment series in January of 2000. The number of unemployed went down by 56,000 from December to 16.222 million and fell by 1.536 million from January of 2018. Among the Member States, the lowest unemployment rates in January of 019 were recorded in Czech Republic (2.1%) and Germany (3.2%) and the highest rates were observed in Greece (18.5% in November 2018), Spain (14.1%) and Italy (10.5%). Compared with a year ago, the unemployment rate fell in all Member States except Denmark and Malta where it remained stable. The largest decreases were registered in Cyprus (from 10.1% to 7.4%), Greece (from 21.1% to 18.5% between November 2017 and November 2018) and Spain (from 16.4% to 14.1%). The youth unemployment rate was 14.9% in the EU28 and 16.5% in the Euro Area, down from 15.8% and 17.7% respectively in January 2018. 3.375 million young persons (under 25) were unemployed in the EU28, of whom 2.383 million were in the Euro Area. Compared with January 2018, youth unemployment decreased by 184,000 in the EU28 and by 141,000 in the Euro Area. The lowest rates were observed in Germany (6%), Czech Republic (6.1%) and the Netherlands (6.5%), while the highest were recorded in Greece (39.1% in November 2018), Italy (33%) and Spain (32.6%).

Italy

Italy's economy shrank -0.1% on quarter in the last three months of 2018, the same as in the previous period (-0.1%) and slightly above the -0.2% contraction previously estimated. It was the weakest economic performance since the third quarter of 2014. Italy's recession at the end of 2018 was almost unprecedented among the euro area's major members and provided further evidence of the self-inflicted damage to the economy. Italy's two straight quarterly contractions highlight deeper issues; they also mean it's the region's only major economy to slip into recession alone. Italy is facing excessive economic imbalances and the policies of its government are making matters worse, posing a threat to other euro zone countries, the European Commission said on February 27. The OECD slashed its forecast for the Italian economy to a -0.2% contraction this year, reflecting the effects of the global trade slowdown. Italy's annual inflation rate increased to 1% in February of 2019 from a nine-month low of 0.9% in the previous month. Italy's unemployment rate went up to 10.5% from an upwardly revised 10.4% in the previous month.

Italy's economy shrank -0.1% on quarter in the last three months of 2018, the same as in the previous period (-0.1%) and slightly above the -0.2% contraction previously estimated. Still, it was the second straight quarter of GDP decline, throwing the country into recession for the third time in a decade. Yoy, the economy stalled in the fourth quarter 0%, compared to a preliminary 0.1% growth and below the third-quarter expansion of 0.6%. It was the weakest economic performance since the third quarter of 2014. Italy's recession at the end of 2018 was almost unprecedented among the euro area's major members and provided further evidence of the self-inflicted damage to the economy. Italy's two straight quarterly contractions highlight deeper issues; they also mean it's the region's only major economy to slip into recession alone. Italy is facing excessive economic imbalances and the policies of its government are making matters worse, posing a threat to other euro zone countries, the European Commission said on February 27. The Commission said that high government debt and protracted weak productivity dynamics imply risks with cross-border relevance, in a context of still high level of non-performing loans and high unemployment. The government debt ratio is not expected to decline in the coming years, as the weak macroeconomic outlook and the government's current fiscal plans, though less expansionary than its initial plans for 2019, will entail a deterioration of the primary surplus. Italy's borrowing costs surged in the second half of 2018 as investors grew worried about the extra borrowing needed to finance generous policies of tax cuts and spending on welfare and earlier pensions. Italy recorded a government debt equivalent to 132.10% of the country's Gross Domestic Product in 2018, reaching a highest level since 1988. The Commission said Italian public debt was likely to rise this year, rather than fall as forecast by Rome, because the country was unlikely to secure large privatization revenues in 2019, on which the debt reduction depends. The Commission said Italian reforms broadly stalled last year and some, like the pension reform of the previous government, were reversed, which would make public finances less sustainable and hit productivity and potential GDP growth. Weak productivity growth persists because of poor functioning of labor, capital and product markets and weaknesses in the public administration and justice system. While Italian banks have significantly reduced the number of their bad loans, keeping that up could be a challenge in a slowing economy, the Commission said. The OECD slashed its forecast for the Italian economy to a -0.2% contraction this year, reflecting the effects of the global trade slowdown. The OECD said its sharp downward revision in the forecasts for Italy reflects the countries' "relatively high exposures to the global trade slowdown compared with that of France." Italy's projected -0.2% contraction this year would be the worst performance since the country's output fell 1.7% in 2013. The latest figure compares with 0.9% growth foreseen by the OECD in November. The Paris-based organization said Italy will return to growth next year, but with only a 0.5% expansion. The European Commission also foresees a slowdown for Italy this year, but with the economy still registering 0.2% expansion. Italy's annual inflation rate increased to 1% in February of 2019 from a nine-month low of 0.9% in the previous month, below earlier estimates of 1.1%. Cost rose faster mainly for unprocessed and processed food, tobacco and non-regulated energy products. Annual core inflation rate, which excludes energy and unprocessed food, decreased to 0.4% from 0.5% in January. On a monthly basis, consumer prices went up 0.1%, the same as in January and lower than flash estimates of 0.2%. The harmonized index of consumer prices advanced 1.1% from the previous year (from 0.9% in January); and fell -0.3% month-over-month (from -1.7% in January). Italy's unemployment rate went up to 10.5% from an upwardly revised 10.4% in the previous month and compared with market expectations of 10.3%. The number of unemployed increased by 0.6% and employment went up 0.1%.

United Kingdom

On 13 March 2019, British Parliament debated the changes to the Brexit deal and then vote on it. In the vote, government's plan failed - British Parliament rejected the Brexit deal by 149 votes. British parliament also rejected leaving without a deal in all circumstances. More than double the number of British Parliament voted to ask the EU to postpone the UK's Brexit date of 29 March than against it. The unemployment rate in the UK came in at 4% in the fourth quarter of 2018, its lowest level since the 1970s.

On 13 March 2019, British Parliament debated the changes to the Brexit deal and then vote on it. But before the evening vote, the government's top legal adviser Geoffrey Cox published his view on the new-look deal. Crucially, he said despite the changes, the legal risk of the UK being tied to EU rules after Brexit "remains unchanged". In the vote, government's plan failed - British Parliament rejected the Brexit deal by 149 votes. On 14 March 2019, British Parliament were due to vote on a motion (or proposal) which had been put forward by Mrs. May's government. The motion was to rule out leaving the EU without a deal on 29 March specifically. But, due to another amendment being passed by just four votes, the government's motion was changed - and ended up being much stronger than it had wanted. Instead of calling to rule out leaving the EU without a deal on 29 March specifically, it now called to rule out leaving without a deal in all circumstances. The government was against this, so it was then in the unusual position of telling its own majority to vote against its own motion. However some refused to obey and the motion was passed. On 15 March 2019, British Parliament voted on the government's plan for its next steps: to ask the EU to postpone the UK's Brexit date of 29 March. More than double the number of British Parliament voted for the plan than against it. It means the UK may not now leave on 29 March as previously planned. With just under two weeks to go before the scheduled exit date, the margin of the Government defeat on its agreement proposals might suggest that a 'crash out' Brexit is likely. For this to be avoided, a level of political realism and compromise not evident in the UK to this point will need to emerge. That said, as the debate is mainly concentrated on the Irish border rather than on a wide range of issues, we believe a deal is still possible with further 'clarifications' or re-structuring of commitments around the Irish border. For this reason, a 'softish but not smooth' Brexit remains KBC's base scenario. It should also be noted that financial markets are strongly of the view and perhaps even overly complacent that some solution will be found to ensure the UK does not crash out of the EU on March 29th. The unemployment rate in the UK came in at 4% in the fourth quarter of 2018, its lowest level since the 1970s and in line with market expectations. The number of unemployed fell by 14,000 on the quarter while employment increased by 167,000. Earnings growth held at 3.4% on the year in Q4, the biggest rise since the three months to July 2008.

USA

The US economy advanced an annualized 2.6% qoq in the fourth quarter of 2018. . Fixed investment rose faster, consumer spending remained robust and the drag from net trade was smaller. Considering full 2018, the economy advanced 2.9%, above 2.2% in 2017 and the highest growth rate since 2015. Consumer prices in the United States increased 1.5% yoy in February of 2019, following a 1.6% rise in January. Excluding food and energy, core inflation rate edged down to 2.1% from 2.2% in January. The US unemployment rate fell to 3.8% in February 2019 from 4% in the previous month.

The US economy advanced an annualized 2.6% qoq in the fourth quarter of 2018, beating market expectations of a 2.4% growth, the initial estimate showed. Fixed investment rose faster, consumer spending remained robust and the drag from net trade was smaller. Considering full 2018, the economy advanced 2.9%, above 2.2% in 2017 and the highest growth rate since

2015. Personal consumption expenditure (PCE) contributed 1.92% points to growth (2.37% points in Q3) and rose 2.8% (3.5% in Q3). Spending rose less for nondurable goods (2.8% compared to 4.6%) and services (2.4% compared to 3.2%) but increased more for durables (5.9% compared to 3.7%). Fixed investment contributed 0.69% points to growth (0.21% points in Q3) and rose 3.9% (1.1% in Q3). Investment rose faster for equipment (6.7% compared to 3.4%) and intellectual property products (13.1% compared to 5.6%) but continued to decline for residential investment (-3.5% compared to -3.6%). The contribution from private inventories was 0.13% points, below 2.33% points in Q3. Exports increased 1.6% (-4.9% in Q3). Imports rose 2.7% (9.3% in Q3). As a result, the impact from trade was -0.22%, compared to -1.99% in the previous quarter which was the biggest drag on growth since the first quarter of 1984. Government spending and investment added 0.07% points to growth, below 0.44% points in Q3. It increased 0.4%, lower than 2.6% in Q3. The partial shutdown, which began on December 22nd, is estimated to have lowered fourth-quarter GDP growth by about 0.1% point when accounting for the impact of reductions in services provided by the federal government. Considering full 2018, the economy advanced 2.9%, above 2.2% in 2017 and the highest growth rate since 2015. The biggest upward contribution came from personal spending (1.81% points compared to 1.73% points), followed by fixed investment (0.91% points compared to 0.81% points); inventories (0.12% points compared to a flat reading); and public expenditure (0.26% points compared to -0.01% points). On the other hand, net trade subtracted 0.22% points to growth, compared to -0.31% points in 2017. Consumer prices in the United States increased 1.5% yoy in February of 2019, following a 1.6% rise in January and below market expectations of 1.6%. It is the lowest inflation rate since September of 2016, mainly due to a fall in cost of gasoline and clothing while prices of electricity stalled. On a monthly basis, consumer prices went up 0.2% after a flat reading in January, matching forecasts. It is the first monthly rise in the CPI, due to prices of food, gasoline and rents. Excluding food and energy, core inflation rate edged down to 2.1% from 2.2% in January, below forecasts of 2.2%. The US unemployment rate fell to 3.8% in February 2019 from 4% in the previous month and below market expectations of 3.9%. The number of unemployed persons decreased by 300,000 to 6.2 million. Among the unemployed, the number of job losers and persons who completed temporary jobs (including people on temporary layoff) declined by 225,000. This decline reflects, in part, the return of federal workers who were furloughed in January due to the partial government shutdown. The labor force participation rate held at 63.2% in February and has changed little over the year. The employment-population ratio, at 60.7%, was unchanged over the month but was up by 0.3%age point over the year.

Japan

The Japanese economy advanced 0.5% qoq in the December quarter 2018, stronger than the preliminary estimate of a 0.3% expansion and recovering from a downwardly revised -0.6% contraction in the third quarter. On an annualized basis, the economy grew 1.9%, better than the preliminary figure of a 1.4% advance, slightly above forecasts of a 1.8% expansion and rebounding from a 2.4% contraction in the previous quarter. Japan's consumer price inflation inched lower to 0.2% yoy in January 2019 from 0.3% in the previous month. The seasonally adjusted unemployment rate in Japan edged up to 2.5% in January 2019 from 2.4% in the previous month.

The Japanese economy advanced 0.5% qoq in the December quarter 2018, stronger than the preliminary estimate of a 0.3% expansion and recovering from a downwardly revised -0.6% contraction in the third quarter. The latest GDP reading was above market expectations of a 0.4% growth, supported by a rebound in household consumption and an upward revision of business spending following a series of natural disasters. Private demand expanded 0.9% in the fourth quarter, faster than a 0.7% rise in the preliminary estimate and swinging from a 0.5% decline in the preceding period. Private consumption went up 0.4%, compared to a 0.6% increase in the preliminary figure, which was a rebound from a 0.2% fall in the prior quarter. Also, capital expenditure grew by 2.7%, the strongest pace since the first quarter of 2015, faster than the preliminary 2.4% but slightly below market consensus of 2.8%. The move followed a 2.6% decline in the third quarter. In addition, public demand rose 0.2%, down from a preliminary 0.4% rise, still rebounding from a 0.3% contraction in the preceding quarter, mainly boosted by government spending (0.7% vs 0.2% in Q3 vs a preliminary 0.8%). Exports of goods and services expanded 1.0%, higher than the preliminary reading of a 0.9% gain. The latest figure followed a 1.4% drop in the September quarter and marking the steepest growth in a year. Meantime, imports advanced 2.7%, unrevised from the preliminary data, after shrinking 0.7% in the previous three months and reaching the strongest gain since the September quarter of 2015. On an annualized basis, the economy grew 1.9%, better than the preliminary figure of a 1.4% advance, slightly above forecasts of a 1.8% expansion and rebounding from a 2.4%

contraction in the previous quarter. Japan's consumer price inflation inched lower to 0.2% yoy in January 2019 from 0.3% in the previous month and in line with market expectations. It was the lowest inflation rate since October 2017, amid further decreases in prices of food, transport and housing. Annual core consumer inflation, which excludes fresh food, went up to 0.8% in January from a seven-month low of 0.7% in December and matching market consensus. The figure came in well below the Bank of Japan's target of 2%. On a monthly basis, consumer prices rose by 0.3% in January, following a 0.2% drop in December and reaching the first monthly increase in three months. The seasonally adjusted unemployment rate in Japan edged up to 2.5% in January 2019 from 2.4% in the previous month and slightly above market expectations of 2.4%. Meanwhile, the jobs-to-applicants ratio remained unchanged at 1.63 and in line with consensus.

China

Considering full 2018, the Chinese economy expanded 6.6%, the weakest pace since 1990. China has announced tax cuts because of "developmental" difficulties. Beijing needs to be "fully prepared" and take measures - such as tax cuts of 2 trillion. CNY (265 billion EUR). . It is about to publish and implement the Foreign Investment Act and to revise the negative list regulating foreign investment access on the Chinese market. The US will postpone the increase of China's import duties to more than 200 billion USD after significant progress has been made in trade talks. China's Foreign Minister Van I stressed that Beijing will take all necessary measures to protect Chinese telecom giant Huawei. China's consumer price inflation fell to 1.5% year-on-year in February 2019 from 1.7% in the previous month.

Considering full 2018, the Chinese economy expanded 6.6%, the weakest pace since 1990. The primary sector went up 3.5%, down from 3.9% in 2017, mainly due to production of grain (-0.6% from 2017); and pork, beef, mutton and poultry (-0.3%). Industrial output rose 6.2%, 0.4% point lower than in 2017. Manufacturing advanced 6.5%, electricity, thermal power, gas and water supply grew by 9.9% and the mining sector went up 2.3%. The value added of the high-tech manufacturing, strategic emerging industries and equipment manufacturing increased by 11.7%, 8.9% and 8.1%, respectively over the previous year. The services sector increased 7.7%, slower than 8.2% growth in 2017. On the expenditure side, final consumption accounted for 76.2% of the GDP, with retail sales rising 9%, lower than 10.2% in 2017. Capital formation accounted for 32.4% of the GDP, with property investment growing by 9.5%, 2.5% points faster than the pace in 2017. Investment in residential buildings increased 13.4%, 0.4% higher than in 2017 and accounting for 70.8% of real estate development investment. At the same time, fixed asset investment went up 5.9%, 1.3% lower than in 2017. Private investment went up 8.7%, 2.7% points faster than in 2017. Investment by the state holding enterprises edged up 1.9%. Total trade grew 9.7% from 2017. Exports increased by 7.1%, while imports went up at a faster 12.9%. China has announced tax cuts because of "developmental" difficulties. Beijing needs to be "fully prepared" and take measures - such as tax cuts of 2 trillion. CNY (265 billion EUR) and other steps helping companies such as reducing the insurance burden. In transport and construction, value added tax will be reduced from 10% to 9%, in production - from 16% to 13%. The US will postpone the increase of China's import duties to more than 200 billion USD after significant progress has been made in trade talks. This was announced by US President Donald Trump. Since Trump delayed a threatened March 1 tariff hike on Chinese goods following a late February round of talks, no new face-to-face meetings have been scheduled in the negotiations. But Trump and other administration officials have since sought to portray the talks as still making progress. A summit to seal a trade deal between U.S. President Donald Trump and Chinese President Xi Jinping is possible at the end of April. In addition, China will expand the spheres in which foreign capital may be involved this year. It is about to publish and implement the Foreign Investment Act and to revise the negative list regulating foreign investment access on the Chinese market to mitigate or abolish restrictions on access to foreign investment in areas not included in the list. China's Foreign Minister Van I stressed that Beijing will take all necessary measures to protect Chinese telecom giant Huawei. "The task of the Chinese government is to take on this responsibility," said Van I, adding that the company is subject to "targeted political pressure" by the United States. China's consumer price inflation fell to 1.5% year-on-year in February 2019 from 1.7% in the previous month and matching market consensus. This was the lowest inflation rate since January last year, mainly due to a marked slowdown in prices of food. Annual core inflation, which strips out volatile food and energy prices, edged down to 1.8% in February from 1.9% the previous month. On a monthly basis, consumer prices went up 1.0% in February, after a 0.5% rise in January and above market expectations of 0.7% gain. It marked the highest monthly figure in a year.

Turkey

The Turkish economy contracted by -3% yoy in the fourth quarter of 2018, compared to an upwardly revised 1.8% expansion in the previous three-month period. On a seasonally adjusted quarterly basis, the economy contracted by -2.4% in the fourth quarter, following an upwardly revised 1.6% contraction in the previous period. For 2018 as a whole, the economy grew 2.6%, compared to a 7.4% expansion in 2017. The Turkish consumer price inflation eased to 19.67% yoy in February 2019 from 20.35% in the previous month. Turkey's unemployment rate increased to 13.5% in December 2018 from 10.4% in the same month of the previous year.

The Turkish economy contracted by -3% yoyr in the fourth quarter of 2018, compared to an upwardly revised 1.8% expansion in the previous three-month period and worse than market expectations of -2.7% contraction. This was the first contraction since the third quarter of 2016, as household consumption and fixed investment fell while government spending rose at a softer pace. On the positive note, net external demand contributed positively to the GDP due to a drop in imports prompted by falling lira. On a seasonally adjusted quarterly basis, the economy contracted by -2.4% in the fourth quarter, following an upwardly revised -1.6% contraction in the previous period. For 2018 as a whole, the economy grew 2.6%, compared to a 7.4% expansion in 2017. On the expenditure side, household consumption tumbled -8.9%, after a 0.8% rise in Q3 and fixed investment slumped -12.9%, following a -4.7% fall in the previous period. In addition, government spending went up at a softer 0.5% (vs 3.4% in Q3). On the other hand, net external demand contributed positively to the GDP growth, as exports increased 10.6% (vs 13.6% in Q3) and imports tumbled -24.4% (vs -16.8% in Q3) due to a weak lira. On the production side, industrial production shrank by -6.4% (vs -0.1% in Q3) dragged by manufacturing (-7.4% vs 0.5%) and agriculture contracted by -0.5%, reversing a 1.8% increase in the previous period. Meantime, construction output shrank by -8.7%, following a -5.6% contraction in the third quarter. Also, services output contracted -0.3% (vs -4.8% in Q3), mainly due to financial and insurance activities (-16.2% vs -8.4%); professional, administrative and support service activities (-10.2% vs -7.3%), while both public administration, education, human health and social work activities (5.7% vs 11.4%) and information and communication (2.9% vs 3.4%) grew at a softer pace. In contrast, real estate expansion accelerated to 4.7% in the three months to December from 2.3% in the previous period. The Turkish consumer price inflation eased to 19.67% yoy in February 2019 from 20.35% in the previous month and slightly below market expectations of 19.9%. It was the lowest inflation rate since last August. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, declined to a six-month low of 18.12% in February from 19.02% in the previous month. On a monthly basis, consumer prices went up 0.16% in February, following a 1.06% rise in January and compared to market expectations of 0.4%. Turkey's unemployment rate increased to 13.5% in December 2018 from 10.4% in the same month of the previous year. Youth unemployment rate, measuring job-seekers between 15 and 24 years old, also rose to 24.5% from 19.2% in the same month a year ago. On a seasonally adjusted basis, the unemployment rate rose to 12.7% in December from 12.1% in November.

Policy of the Central banks

ECB

The interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.40% respectively. The Governing Council now expects the key ECB interest rates to remain at their present levels at least through the end of 2019. The Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase program. A new series of quarterly targeted longer-term refinancing operations (TLTRO-III) will be launched, starting in September 2019 and ending in March 2021, each with a maturity of two years. Real GDP growth is projected to increase from 1.1% in 2019 to 1.6% in 2020 and 1.5% in 2021. HICP inflation is expected to continue to decrease in the course of 2019 and to rise over the remainder of the projection horizon, reaching 1.6% in 2021.

At meeting in 7 March 2019 the Governing Council of the European Central Bank (ECB) took the following monetary policy decisions: (1) The interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.40% respectively. The Governing Council now expects the key

ECB interest rates to remain at their present levels at least through the end of 2019, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term. (2) The Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase program for an extended period of time past the date when it starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favorable liquidity conditions and an ample degree of monetary accommodation. (3) A new series of quarterly targeted longer-term refinancing operations (TLTRO-III) will be launched, starting in September 2019 and ending in March 2021, each with a maturity of two years. These new operations will help to preserve favorable bank lending conditions and the smooth transmission of monetary policy. Under TLTRO-III, counterparties will be entitled to borrow up to 30% of the stock of eligible loans as at 28 February 2019 at a rate indexed to the interest rate on the main refinancing operations over the life of each operation. Like the outstanding TLTRO program, TLTRO-III will feature built-in incentives for credit conditions to remain favorable. Further details on the precise terms of TLTRO-III will be communicated in due course. (4) The Eurosystem's lending operations will continue to be conducted as fixed rate tender procedures with full allotment for as long as necessary, and at least until the end of the reserve maintenance period starting in March 2021. *ECB staff macroeconomic projections for the euro area, March 2019.* In the shorter term, a combination of global uncertainties (such as threats of an escalation of protectionist measures and the possibility of a disorderly Brexit) as well as adverse domestic factors in some euro area countries are likely to continue to weigh on euro area activity. These factors include, notably, the very accommodative stance of monetary policy, rising wages, a recovery in foreign demand and some fiscal loosening. As these favorable factors are expected to gradually prevail, real GDP growth is projected to increase from 1.1% in 2019 to 1.6% in 2020 and 1.5% in 2021. Compared with the December 2018 projections, real GDP growth for 2019 has been revised down by 0.6% point. HICP inflation is expected to continue to decrease in the course of 2019 and to rise over the remainder of the projection horizon, reaching 1.6% in 2021. The decrease in HICP inflation in 2019 is accounted for by a sharp decline in HICP energy inflation, reflecting the recent drop in oil prices. HICP inflation excluding energy and food is projected to pick up gradually over the projection horizon, reflecting the continued but more moderate strengthening in economic activity and the tightening of labor markets. Compared with the December 2018 projections, HICP inflation has been revised down over the entire projection horizon, mainly reflecting recent weaker data outturns, the weaker outlook for economic growth and a downward revision to the oil price assumptions.

Bank of England

The Bank of England has published a package of materials updating firms on our regulatory and supervisory approach in relation to our work on EU withdrawal. Package of communications does three things: First, it confirms our intention to provide firms with broad transitional relief with respect to changes to their regulatory obligations in the event that the UK withdraws from the EU in March 2019 without an implementation period. Second, it confirms our approach to changes to our rules and Binding Technical Standards as a result of EU withdrawal. In doing so, it sets out changes to obligations on firms that will apply once the transitional relief falls away. Third, it sets out the roles and responsibilities the Bank will be taking on in March 2019 if the UK leaves the EU without an implementation period.

The Bank of England has published a package of materials updating firms on our regulatory and supervisory approach in relation to our work on EU withdrawal. Package builds on our previous engagement with firms on their preparations around EU withdrawal, and acts as a contingency for a scenario in which the implementation period, which has been agreed in principle as part of the UK's Withdrawal Agreement with the EU, does not take effect on 29 March 2019. It reflects close coordination between the Bank and the FCA whose package of communications has also been released today. Package of communications does three things: First, it confirms our intention to provide firms with broad transitional relief with respect to changes to their regulatory obligations in the event that the UK withdraws from the EU in March 2019 without an implementation period. Our position remains to use the transitional power in such a way that in all but certain limited exceptions – as noted in today's announcement – UK regulated firms do not generally need to take action now to implement changes in UK law arising from the UK's withdrawal by March 2019. Today the Bank is publishing draft directions that will implement transitional relief for a period of 15 months from exit day, subject to limited exceptions. This is in line with the approach taken by the FCA. We are also publishing detailed guidance for firms on how this transitional relief will apply. The Bank's use of the temporary transitional power is subject to the Financial Services and Markets Act 2000 (Amendment) (EU Exit) Regulations 2019 Statutory Instrument being made law. Second, it confirms our approach to changes to our rules and Binding Technical Standards as a result of EU withdrawal. In doing so, it sets out changes to obligations on firms that will apply once the transitional relief falls away. The changes we are making are to ensure that there is a functioning legal framework for UK financial regulation when the UK leaves the EU. They do not reflect any change in Bank or PRA policy, except to reflect the UK's withdrawal from the EU. The Bank is today publishing the rule and BTS instruments in near-final form. Third, it sets out the roles and responsibilities the Bank will be taking on in March 2019 if the UK leaves the EU without an implementation period. The transferred responsibilities – which include, for example, the production of Solvency II technical information – would take effect on exit day.

USA Federal Reserve

The Federal Open Market Committee continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2% objective as the most likely outcomes. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In support of these goals, the Committee decided to maintain the target range for the federal funds rate at 2.25% to 2.5% percent. In the economic projections and especially the target federal funds rate projections made by Federal Open Market Committee participants for the March 19-20 meeting no increase in federal funds rate is expected this year.

Federal Open Market Committee statement. Information received since the Federal Open Market Committee met in January indicates that the labor market remains strong but that growth of economic activity has slowed from its solid rate in the fourth quarter. Payroll employment was little changed in February, but job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Recent indicators point to slower growth of household spending and business fixed investment in the first quarter. On a 12-month basis, overall inflation has declined, largely as a result of lower energy prices; inflation for items other than food and energy remains near 2%. On balance, market-based measures of inflation compensation have remained low in recent months, and survey-based measures of longer-term inflation expectations are little changed. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In support of these goals, the Committee decided to maintain the target range for the federal funds rate at 2-1/4 to 2-1/2%. The Committee continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2% objective as the most likely outcomes. In light of global economic and financial developments and muted inflation pressures, the Committee will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate to support these outcomes. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2% inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. In the economic projections and especially the target federal funds rate projections made by Federal Open Market Committee participants for the March 19-20 meeting no increase in federal funds rate is expected this year.

Bank of Japan (BoJ)

The Bank of Japan will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2%, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed consumer price index (CPI, all items less fresh food) exceeds 2% and stays above the target in a stable manner. As for policy rates, the Bank of Japan intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices.

Statement on Monetary Policy Meeting of Bank of Japan on March 15 2019. (1) Yield curve control: The Bank decided, by a 7-2 majority vote, to set the following guideline for market operations for the intermeeting period. The short-term policy interest rate: The Bank will apply a negative interest rate of minus -0.1 percent to the Policy-Rate. The long-term interest rate: The Bank will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices. 1 With regard to the amount of JGBs to be purchased, the Bank will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about 80 trillion JPY. (2) Guidelines for asset purchases With regard to asset purchases other than JGB purchases, the Bank decided, by a unanimous vote, to set the following guidelines. a) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about 6 trillion JPY and about 90 billion JPY, respectively. With a view to lowering risk premium of asset prices in an appropriate manner, the Bank may increase or decrease the amount of purchases depending on market conditions. b) As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion JPY and about 3.2 trillion JPY, respectively. 2. Japan's economy is expanding moderately, with a virtuous cycle from income to spending operating, although exports and production have been affected by the slowdown in overseas economies. Overseas economies have been growing moderately on the whole, although slowdowns have been observed. In this situation, exports have shown some weakness recently. On the domestic demand side, business fixed investment has continued on an increasing trend, with corporate profits and business sentiment staying at favorable levels on the whole. Private consumption has been increasing moderately, albeit with fluctuations, against the background of steady improvement in the employment and income situation. Meanwhile, housing investment has been more or less flat. Public investment also has been more or less flat, remaining at a relatively high level. Reflecting these developments in demand both at home and abroad, industrial production has been on a moderate increasing trend, although it has shown some weakness recently. Labor market conditions have continued to tighten steadily. Financial conditions are highly accommodative. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) is in the range of 0.5-1.0%. Inflation expectations have been more or less unchanged. 3. With regard to the outlook, Japan's economy is likely to continue its moderate expansion, despite being affected by the slowdown in overseas economies for the time being. Domestic demand is likely to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the corporate and household sectors, mainly against the background of highly accommodative financial conditions and the underpinnings through government spending. Although exports are projected to show some weakness for the time being, they are expected to be on a moderate increasing trend on the back of overseas economies growing moderately on the whole. The year-on-year rate of change in the CPI is likely to increase gradually toward 2 percent, mainly on the back of the output gap remaining positive and medium- to long-term inflation expectations rising. 4. Risks to the outlook include the following: the U.S. macroeconomic policies and their impact on global financial markets; the consequences of protectionist moves and their effects; developments in emerging and commodity-exporting economies including the effects of the two aforementioned factors; negotiations on the United Kingdom's exit from the European Union (EU) and their effects; and geopolitical risks. 5. The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner. As for policy rates, the Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, taking into account uncertainties regarding economic activity and prices including the effects of the consumption tax hike scheduled to take place in October 2019. It will examine the risks considered most relevant to the conduct of monetary policy and make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target.

People’s Bank of China (PBC)

The PBOC lowered the reserve requirement ratio (RRR) five times by 3.5% points in total to keep the liquidity reasonably adequate. The PBOC led the downward trend of interest rates. At end-February 2019, China’s 10-year government bond yield dropped over 70 basis points compared to the beginning of last year, the lending interest rate decreased as well. The PBOC smoothed the monetary policy transmission in a market- and law-based manner. PBOC provided more policy supports for lending, bond issuance by private enterprises and the introduction of instrument for equity financing by private enter-

prises, as collectively called “three arrows”. The PBOC achieved balance both internally and externally. The RMB exchange rate was kept broadly stable and the foreign exchange reserves maintained at over USD 3 trillion. The PBOC effectively stabilized macro leverage ratio. At end-2018, China’s macro leverage ratio stood at 249.4%, down 1.5% points from a year earlier.

Governor Yi Gang Answer Press Questions. In the past year, the situation was grim and complicated, and rarely seen for years. The external uncertainties arise from continuous Fed rate hikes and China-U.S. trade friction, while at home the cyclical and structural factors entwined with a coincidence of strengthening supervision and regulating local government debts, resulting in the shrinking social credit, prominent difficulties and high costs of financing for small and micro businesses (SMBs) and private enterprises as well as a mounting downward pressure on China’s economy. In response to the changes in the trends of economic and financial operations, under the coordinated leadership of the Financial Stability and Development Committee under the State Council, the PBOC made pre-emptive adjustments in a timely and proactive manner. First, the PBOC lowered the reserve requirement ratio (RRR) five times by 3.5% points in total to keep the liquidity reasonably adequate and maintain the reasonable growth of money, credit and aggregate financing to the real economy (AFRE). Second, the PBOC led the downward trend of interest rates. At end-February 2019, China’s 10-year government bond yield dropped over 70 basis points compared to the beginning of last year, the lending interest rate decreased as well. Third, the PBOC smoothed the monetary policy transmission in a market- and law-based manner. PBOC provided more policy supports for lending, bond issuance by private enterprises and the introduction of instrument for equity financing by private enterprises, as collectively called “three arrows”. The financial sector offered greater support to SMBs and private enterprises. Fourth, the PBOC achieved balance both internally and externally. The RMB exchange rate was kept broadly stable at an adaptive and equilibrium level, while the balance of payments moved towards a general equilibrium, and the foreign exchange reserves maintained at over USD 3 trillion. Fifth, the PBOC effectively stabilized macro leverage ratio. PBOC capped the total amount of social credit and money, stabilized growth while preventing risks to ensure that the growth of M2 and AFRE is generally in line with the nominal GDP growth. At end-2018, China’s macro leverage ratio stood at 249.4%, down 1.5% points from a year earlier. With a closer look, you may find that all the five aspects I mentioned above display status of dilemmas or conundrums. Therefore, PBOC must strike a balance in coping with these dilemmas and conundrums. In 2019, new changes are taking place in both internal and external landscapes. Staged progress has been made in China-U.S. economic and trade talks, expectations pertaining to a Fed rate hike have weakened, and policies which clarify financial regulation and management of local government debts have stabilized market expectations. Certainly, the global economic outlook remains intricate and complicated, the world’s economy is still under downward pressure, and China faces considerable challenges associated with economic and financial risks. The PBOC will act in accordance with the requirements of the CPC Central Committee and the State Council and continue implementing prudent monetary policy, so as to forestall and defuse financial risks, better serve the real economy, and facilitate high-quality economic development.

Central Bank of Turkey

The Central Banh of Turkey’s Monetary Policy Committee has decided to maintain the tight monetary policy stance until the inflation outlook displays a significant improvement and kept 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 inflation indicators, risks to price stability continue to prevail. The Central Bank will continue to use all available instruments in pursuit of the price stability objective. Collective efforts to turn the recently enhanced coordination between monetary and fiscal policies into a sustained and systematic structure are expected to support the achievement of price stability.

Summary of the Monetary Policy Committee Meeting 6 March 2019. Monetary Policy and Risks. As the deceleration in global growth became more pronounced, the outlook regarding the monetary policy stance of advanced economies further eased compared to the previous MPC meeting period. This outlook implies more favorable conditions in terms of portfolio flows to emerging economies, however elevated levels of uncertainty over global economic policies and global financial risks keep the downside risks to portfolio flows alive. While developments in import prices and domestic demand conditions have led to some improvement in inflation indicators, risks to price stability continue to prevail. Elevated levels of inflation and inflation expectations, and uncertainties over the course of cost factors and pricing behavior continue to pose risks to the inflation outlook in the coming period. Accordingly, the Committee has decided to maintain the tight monetary policy stance until the inflation outlook displays a significant improvement and kept the policy rate (one-week repo auction rate) constant at 24%. 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 the rebalancing process, and other factors affecting inflation will be closely monitored and, if needed, further monetary tightening will be delivered. The fiscal policy outlook that the monetary policy is based on incorporates a policy stance that focuses on price stability and macroeconomic rebalancing and that is coordinated with the monetary policy. Accordingly, the monetary policy stance assumes that administered price and tax adjustments are formulated in a way that will help reducing the backward indexation behavior. If the fiscal policy significantly deviates from this framework leading to an adverse impact on the medium-term inflation outlook, the monetary policy stance may be revised. Collective efforts to turn the recently enhanced coordination between monetary and fiscal policies into a sustained and systematic structure are expected to support the achievement of price stability. Moreover, continued structural steps focusing on reducing rigidity and volatility in inflation will contribute to price stability and therefore social welfare.

International Commodity Prices

Petrol

Oil prices in 20.03.2019 do not find a single direction, pressed by economic growth concerns limiting fuel consumption prospects. Crude Oil decreased 0.16 USD/BBL or 0.27% to 58.76 on Wednesday March 20 from 58.92 in the previous trading session. Brent increased 0.08 USD/BBL or 0.12% to 67.57 on Wednesday March 20 from 67.49 in the previous trading session. Analysts say the economic slowdown may soon hit fuel consumption.

Oil prices for one day do not find a single direction, pressed by economic growth concerns limiting fuel consumption prospects. They receive some support from the oil-supply-side deal (OPEC) and US sanctions against Iran and Venezuela, according to Reuters. Crude Oil decreased 0.16 USD/BBL or 0.27% to 58.76 on Wednesday March 20 from 58.92 in the previous trading session. Brent increased 0.08 USD/BBL or 0.12% to 67.57 on Wednesday March 20 from 67.49 in the previous trading session. Analysts say the economic slowdown may soon hit fuel consumption. Oil has become cheaper as its prices rose by more than a quarter this year, backed by OPEC +'s bid to curb its 1.2 million-BBL supply a day, as well as US sanctions against oil exporters Iran and Venezuela. At the same time, oil prices are supported at levels above 50 USD/BBL, as investments in shale production growth in the United States will stop below this price.

Agricultural products

Prices of major cereals on the world stock markets started to fluctuate during the period up to 15 March, and the trend was no longer so clearly outlined. In Chicago, the price of wheat is plus 3.00 USD to 210.00 USD/ton, in France plus 2 EUR to 193.00 EUR/ ton and in Ukraine and Russia the price drops by -6.00 USD to the same 223.00 USD/ton. In Europe, prices go up thanks to Algeria and Turkey's wheat purchases from the EU, especially France, and the contracts are at 193.00 EUR/ton for wheat and plus 1.25 EUR to 171.00 EUR/ton for corn. In Bulgaria, in the "Grain" sub-section of Sofia Commodity Exchange AD prices are downward. Bread wheat was worth 270.00 BGN/ton, the sellers offered a small margin of 290.00 BGN/ton.

Prices of major cereals on the world stock markets started to fluctuate during the period up to 15 March, and the trend was no longer so clearly outlined. In Chicago, the price of wheat is plus 3.00 USD to 210.00 USD/ton, in France plus 2 EUR to 193.00 EUR/ ton and in Ukraine and Russia the price drops by -6.00 USD to the same 223.00 USD/ton. There is no change in US maize and the price is 171.00 USD/ton, Ukraine minus 2.00 USD to 170.00 USD/ton. In Europe, prices go up thanks to Algeria and Turkey's wheat purchases from the EU, especially France, and the contracts are at 193.00 EUR/ton for wheat and plus 1.25 EUR to 171.00 EUR/ton for corn. Combined with good forecasts for the future harvest in the early spring, Germany is optimistic. Rape in the European Union / EuroNext / did not change significantly (minus -0.75 EUR) and was priced at 356.75 EUR/ ton and barley in France and Germany was upward - 177.00 and 179.00 EUR/ton. Unrefined sunflower oil in the Rotterdam exchange after the serious decline of 2 weeks ago rose again by 5.00 EUR and the price is already 710.00 EUR/ton. Refined sugar again did not show stabilization in the direction of movement and after the tangible appreciation before, it now gravitates at 339.80 USD/ton in London. In Bulgaria, in the "Grain" sub-section of Sofia Commodity Exchange AD prices are downward. Bread wheat was worth 270.00 BGN/ton, the sellers offered a small margin of 290.00 BGN/ton. The maize has no search quotes, the offer is 300.00 BGN/ton. All prices are without VAT.

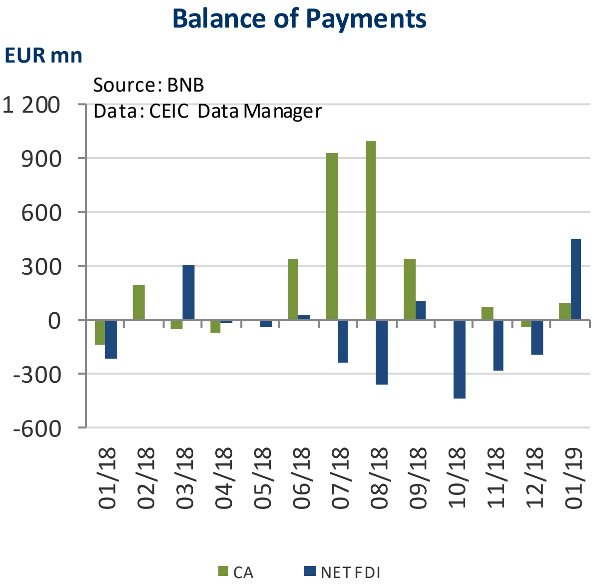
BULGARIA

EXTERNAL SECTOR

Balance of Payments

In January 2019 the current and capital account is positive, amounting to EUR 161.8 million and accounts for 0.3% of GDP.

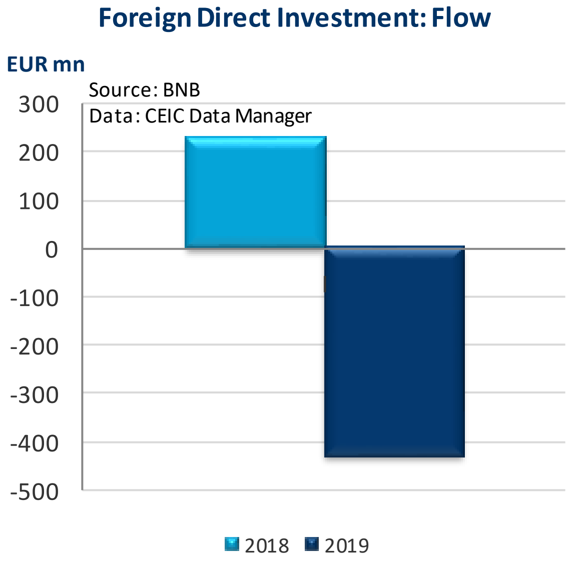
According BNB preliminary data the current and capital account recorded a surplus of EUR 161.8 million (0.3% of GDP) in January 2019, compared with a deficit of EUR 123.2 million (0.2% of GDP) in January 2018. The current account was positive amounting to EUR 88.7 million (0.2% of GDP) in January 2019, compared with a deficit of EUR 139.4 million (0.3% of GDP) in January 2018. The balance on goods recorded a deficit of EUR 64.5 million (0.1% of GDP) in January 2019, compared with a deficit of EUR 205.5 million (0.4% of GDP) in January 2018. Exports of goods amounted to EUR 2,336.1 million (4% of GDP) in January 2019, growing by EUR 180.2 million (8.4%) from January 2018 (EUR 2,156 million, 3.9% of GDP). In January 2018 exports grew by 13.9% yoy. Imports of goods amounted to EUR 2,400.6 million (4.1% of GDP) in January 2019, growing by EUR 39.2 million (1.7%) from January 2018 (EUR 2,361.4 million, 4.3% of GDP). In January 2018 imports grew by 20% yoy. Services recorded a positive balance of EUR 110.1 million (0.2% of GDP) in January 2019, compared with a surplus of EUR 91.9 million (0.2% of GDP) in January 2018. 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 10.6 million, compared with a deficit of EUR 67.8 million (0.1% of GDP) in January 2018. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 32.5 million (0.1% of GDP), compared with a positive balance of EUR 42 million (0.1% of GDP) in January 2018. The capital account recorded a surplus of EUR 73.1 million (0.1% of GDP), compared with a positive balance of EUR 16.3 million in January 2018. The financial account recorded a net outflow of EUR 32.8 million (0.1% of GDP), compared with an outflow of EUR 121.1 million (0.2% of GDP) in January 2018. 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 448.2 million (0.8% of GDP), compared with a negative balance of EUR 224.5 million (0.4% of GDP) in January 2018. Direct investment – assets dropped by EUR 49 million (0.1% of GDP) compared with an increase of EUR 81.9 million (0.1% of GDP) in January 2018. Direct investment – liabilities dropped by EUR 497.2 million (0.8% of GDP) in January 2019, compared with an increase of EUR 306.4 million (0.6% of GDP) in January 2018. The balance on portfolio investment was negative amounting to EUR 65.7 million (0.1% of GDP), compared with a positive balance of EUR 66.1 million (0.1% of GDP) in January 2018. Portfolio investment – assets declined by EUR 33.6 million (0.1% of GDP), compared with an increase of EUR 194.2 million (0.4% of GDP) in January 2018. Portfolio investment – liabilities grew by EUR 32.1 million (0.1% of GDP) compared with an increase of EUR 128.1 million (0.2% of GDP) in January 2018. The balance on other investment was positive amounting to EUR 334.9 million (0.6% of GDP), compared with a positive balance of EUR 1,392.3 million (2.5% of GDP) in January 2018. Other investment – assets grew by EUR 487 million (0.8% of GDP), compared with an increase of EUR 1,379.2 million (2.5% of GDP) in January 2018. Other investment – liabilities grew by EUR 152.2 million (0.3% of GDP) compared with a decline of EUR 13.1 million in January 2018. The BNB reserve assets dropped by EUR 715.2 million (1.2% of GDP), compared with a decrease of EUR 1,358.5 million (2.5% of GDP) in January 2018. The net errors and omissions were negative amounting to EUR 194.6 million (0.3% of GDP) compared with a positive value of EUR 2.1 million in January 2018.



Foreign Direct Investments

In January 2019, net direct investment in Bulgaria amounted to EUR 448.2 million and presented 0.8% of projected GDP.

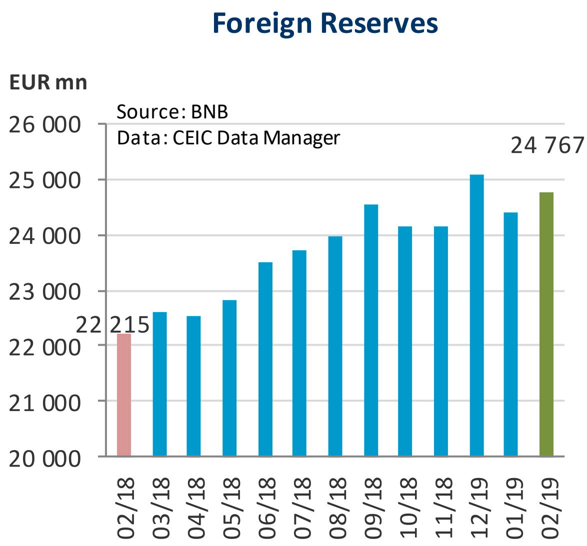
According to preliminary data, the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a negative value of EUR 427.5 million (0.7% of GDP) in January 2019, dropping by EUR 656.2 million from January 2018 (EUR 228.7 million, 0.4% of GDP). Equity (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 556.8 million in January 2019, dropping by EUR 515.6 million from a negative value of EUR 41.2 million in January 2018. Real estate investments of non-residents recorded an outflow of EUR 0.1 million, compared with an inflow of EUR 2 million in January 2018. The net flow on debt instruments (the change in the net liabilities between affiliated enterprises on financial loans, suppliers' credits and debt securities) recorded a positive value of EUR 129.3 million in January 2019, compared with EUR 249.6 million in January 2018. The largest net direct investment inflows in Bulgaria for January 2019 were from Ireland (EUR 69.9 million), Luxembourg (EUR 24 million), and the Netherlands (EUR 22.4 million). According to preliminary data, direct investment abroad grew by EUR 20.7 million, compared with an increase of EUR 4.3 million in January 2018. 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

In February 2019, Bulgaria's foreign reserves amounted to BGN 48.4 billion (EUR 24.7 billion), increasing by 1.5% mom and by 11.5% yoy, respectively.

According to BNB data in February 2019, Bulgaria's foreign reserves amounted to BGN 48.4 billion (EUR 24.7 billion), increasing by 1.5% mom and by 11.5% yoy, respectively. Cash and deposits in foreign currency increased by 1% mom and by 12.8% yoy, respectively. Investments in gold increased by 0.5% mom and by 7.3% yoy, respectively. Investment in securities rose by 2% mom and by 11% yoy to BGN 26.9 billion. For the same period, money outside banks exceeded BGN 16 billion and increased by 0.2% mom and by 11.6% yoy, respectively. Liabilities to banks amounted to BGN 14.2 billion and increased by 0.1% mom and by 22.2% yoy, respectively. Commitments to the budget amounted to BGN 9.5 billion and increased by 7.5% mom and by 0.3% yoy, respectively. Liabilities to other depositors increased by 31.5% on an annual basis to. BGN 2.1 billion. The deposit of the "Banking" Department amounted to BGN 5.7 billion and increased by 2.4% on an annual basis. Bulgaria's international liquidity position, calculated as a ratio of foreign reserves to short-term external debt, improves to 318% at the end of December 2018 compared to 314.1% at the end of 2017 and 289.3% at the end of February 2018.



REAL SECTOR

Gross Domestic Product

According to the seasonally adjusted data, the GDP growth rate in Q4of 2018 is 3.2% compared with the same quarter of 2017. GDP in Q4 of 2018 increased by 0.3% in the EU-28 compared to the previous quarter by seasonally adjusted data. For the same period, GDP in Bulgaria increased by 0.8%.

GDP Growth rate per quarter, YoY seasonally adjusted data

According to the preliminary NSI data the produced Gross Domestic Product at current prices for Q4 of 2018 is BGN 29 813 million. GDP per person is BGN 4 240. GDP is USD 17 398 million and USD 2 474 per person using the average for the quarter exchange rate of 1.713595 BGN for 1 USD. In Euro terms GDP is EUR 15 243 million or EUR 2 168 per person. The GVA generated by the national economy during the fourth quarter of 2018 amounted to BGN 25 785 million at current prices. The share of agricultural sector in GVA of the national economy decreases by 0.2 percentage points to 3.0% in Q4 of 2018 compared to the same quarter of 2017. The Industrial sector decreases its relative share in the GVA of the national economy by 2.6 percentage points compared to the same quarter of the previous year to 23.5%. As compared with the fourth quarter of 2017, the service sector increases its share into gross value added of the economy from 70.7% to 73.5%. For the final consumption3, 81.0% of the GDP is used during the fourth quarter of 2018. Investments (gross fixed capital formation) form 20.1% of the GDP. The external balance (exports-imports of goods and services) is negative. In Q4 of 2018 GDP increases by 0.8% compared to the previous quarter. For the same period GVA increase is also 0.8%. According to the preliminary data for Q4 of 2018, the final consumption decreases by 0.1% compared to the previous quarter. Gross fixed capital formation increases by 2.8% for the same period. In Q4 of 2018 the export of goods and services increases by 3.1% and the import of goods and services increases by 2.4% compared to the previous quarter. GDP for Q4 of 2018 increases by 3.2% compared to the same quarter of the previous year. During the fourth quarter of 2018 GVA increases by 2.9% compared to Q4 of 2017. The growth is based on the increase in the following economic activities: Financial and insurance activities - 7.5%, Real estate activities - 7.1%, Information and communication - 4.4%, Construction - 3.3%, Professional, scientific and technical activities; administrative and support service activities and Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities - by 2.5% each, Public administration and defence; compulsory social security; education; human health and social work activities - 2.0%, Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply, waste management and remediation activities - 1.7%. With reference to the expenditure components of GDP, contributors to the registered positive economic growth are the growth in the individual final consumption - 5.7% and in the collective consumption - 4.0%. The Gross fixed capital formation increases by 6.6%. Import and export of goods and services increase by 1.6% and 1.4% respectively compared to the same quarter of the previous year. GDP for 2018 obtained as a sum of quarterly data increases in real terms with 3.1% in comparison to the previous year. The nominal value of the GDP for 2018 is BGN 107 925 million. GDP reaches USD 65 108 million dollars using the average annual exchange rate of 1.65763 BGN for 1 USD. GDP per person is BGN 15 311 or USD 9 237. In euro GDP is 55 181 million or EUR 7 829 per person. Gross value added at current prices amounts to BGN 93 513 million. In real terms GVA increases by 3.0% in comparison with the 2017. The Industry' relative share in the GVA of the national economy is 27.4%, which is decrease by 1.0 percentage points compared with 2017. The service sector creates 68.4% of the total GVA and agriculture 4.2%, respectively 66.9% and 4.7% in 2017.

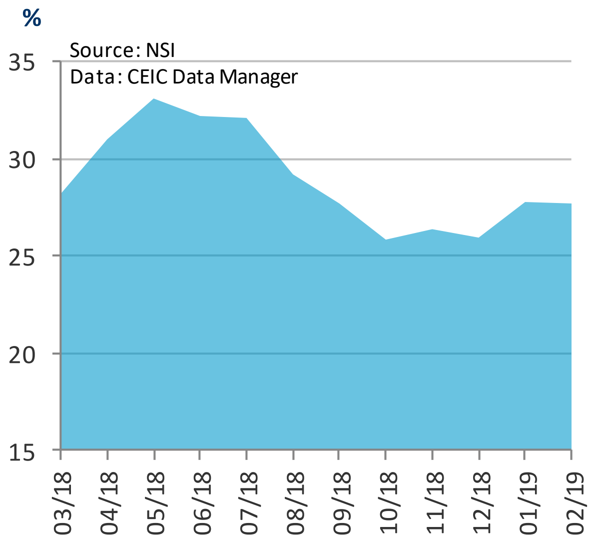
GDP in Q4 of 2018 increased by 0.3% in the EU-28 compared to the previous quarter by seasonally adjusted data. For the same period, GDP in Bulgaria increased by 0.8%. Compared to the previous quarter, in Q4 of 2018, Estonia recorded the highest economic growth - 2.2%, Lithuania - 1.3%, Latvia and Sweden - 1.2% each, Cyprus - 1.1%, while in Greece and Italy a decrease by 0.1% is observed. Compared to the same quarter of the previous year, seasonally adjusted data showed an increase of GDP in the EU-28 by 1.4% and in Bulgaria by 3.2%. In Q4 of 2018, compared to the same quarter of the previous year, the highest economic growth was observed in Latvia - 5.6%, Hungary - 4.9%, Poland - 4.6%, Estonia - 4.3%, Romania and Slovakia - 4.0% each.

Business Climate

In February 2019, the total business climate indicator remains to its level from the previous month ат 27.7%. An improvement of the business conjuncture is observed in construction and service sector, while in retail trade preserves approximately its January level. Only in industry, the indicator is reduced.

Industry. The composite indicator 'business climate in industry' decreases by 2.3 percentage points то 26.1%, which is due to the more unfavourable industrial entrepreneurs' assessments and expectations about the business situation of the enterprises. At the same time, the inquiry registers certain worsening of the production assurance with orders, which is accompanied by reduced expectations about the activity over the next 3 months. The uncertain economic environment and shortage of labour remain the main obstacles for the business development pointed out respectively by 35.3% and 33.9% of the enterprises. As regards the selling prices in industry, the managers' expectations are for preservation of their level over the next 3 months.

Business Climate Indicator



Construction. In February 2019, the composite indicator 'business climate in construction' increases by 1.3 percentage points то 29.0% as a result of the improved construction entrepreneurs' expectations about the business situation of the enterprises over the next 6 months. The inquiry registers an increase of the new orders inflow over the last month, as their forecasts about the activity over the next 3 months are optimistic. The main factors limiting the enterprises in the sector remain the uncertain economic environment, shortage of labour and competition in the branch. Concerning the selling prices in construction, the majority of the managers foresee them to remain unchanged over the next 3 months.

Retail trade. The composite indicator 'business climate in retail trade' preserves approximately its January level at 39.7%. The retailers' forecasts about the business situation of the enterprises are more favourable. At the same time, their expectations about the volume of sales and orders placed with suppliers over the next 3 months remain optimistic. The competition in the branch, uncertain economic environment and insufficient demand continue to be the main obstacles for the activity of the enterprises. As regards the selling prices, the retailers expect certain increase, although the prevailing opinions are for preservation of their level over the next 3 months.

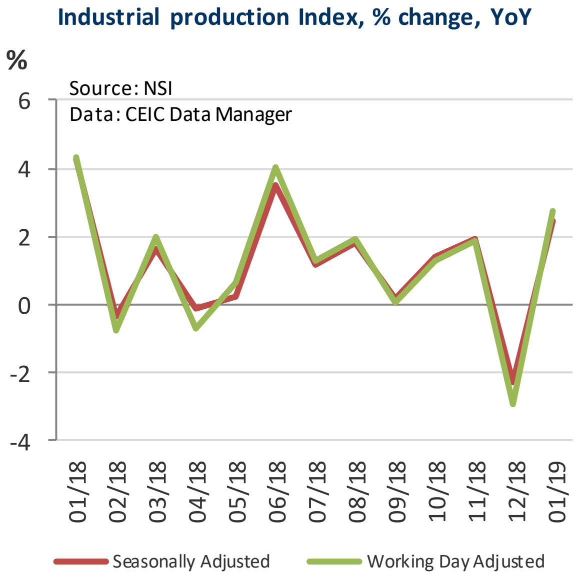
Service sector. Concerning the expected demand for services over the next 3 months their forecasts continue to improve, which according to them that will lead to additional hiring of personnel. In February 2019, the composite indicator 'business climate in service sector' increases by 3.4 percentage points to 17.6%, which is due to the favourable assessments and expectations of the managers about the business situation of the enterprises. The most serious problems for the enterprises' activity remain the competition in the branch and uncertain economic environment. The managers in the service sector foresee the selling prices to remain unchanged over the next 3 months.

Industrial Production Index

According to the preliminary data the Industrial Production Index, seasonally adjusted, increased by 3.2% in January 2019 as compared to December 2018. In January 2019 the working day adjusted Industrial Production Index rose by 2.8% in comparison with the same month of 2018.

In January 2019 as compared to December 2018, the seasonally adjusted Industrial Production Index increased in the mining and quarrying industry by 12.4%, in the manufacturing by 4.1%, and in the electricity, gas, steam and air conditioning supply by

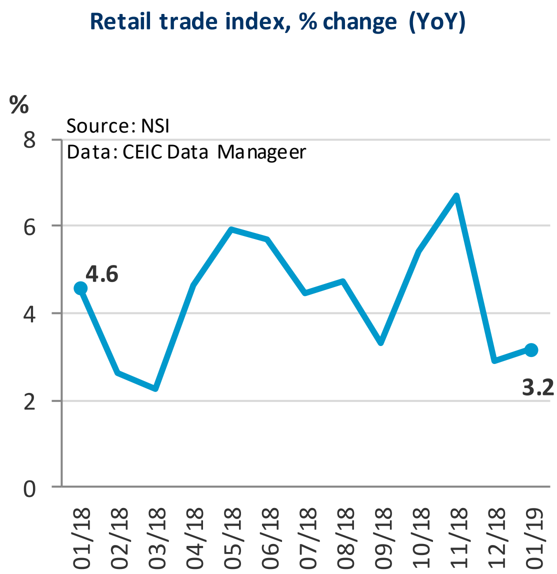
2.1%. The most significant production increases in the manufacturing were registered in the manufacture of fabricated metal products, except machinery and equipment and in the manufacture of other transport equipment by 28.5%, in the manufacture of motor vehicles, trailers and semi-trailers by 26.6%, in the manufacture of textiles by 15.0%, in the manufacture of food products by 11.8%. There were decreases in the manufacture of tobacco products by 28.2%, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 7.3%. On annual basis in January 2019 Industrial Production Index calculated from working day adjusted data rose in the mining and quarrying industry by 16.4%, and in the manufacturing by 2.9%, while the production fell in the electricity, gas, steam and air conditioning supply by 1.1%. In the manufacturing, the more considerable increases compared to the same month of the previous year were registered in the manufacture of textiles by 28.8%, in the repair and installation of machinery and equipment by 20.4%, in the manufacture of other transport equipment by 20.2%, in the manufacture of electrical equipment by 13.4%. Decreases were seen in the manufacture of tobacco products by 44.6%, in the manufacture of basic metals by 15.0%, in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 8.3%, in the manufacture of furniture by 6.4%.



Retail Trade

According to the preliminary seasonally adjusted data in January 2019 the turnover in "Retail trade, except of motor vehicles and motorcycles" at constant prices increased by 0.4% compared to the previous month.

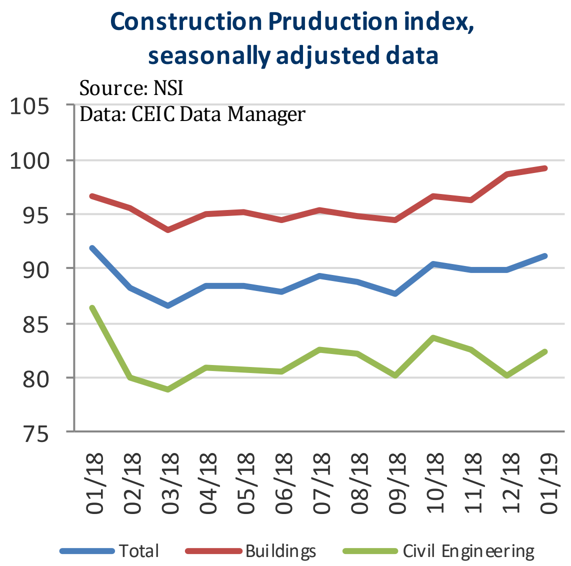
In January 2019 compared to the previous month, more significant growth of turnover was observed in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' by 18.7%, in the 'Retail sale in non-specialised stores' by 13.2% and in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' by 10.8%. The biggest decline was noted in the 'Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles' - 11.8%. In January 2019 compared to the same month of 2018, the turnover increased more significantly in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances' by 19.0%, in the 'Retail sale via mail order houses or via Internet' by 13.7% and in the 'Retail sale in non-specialised stores' by 10.6%. Decrease was registered in the 'Retail sale of food, beverages and tobacco' - 3.0% and in the 'Retail sale of computers, peripheral units and software; telecommunications equipment' - 2.0%.



Construction

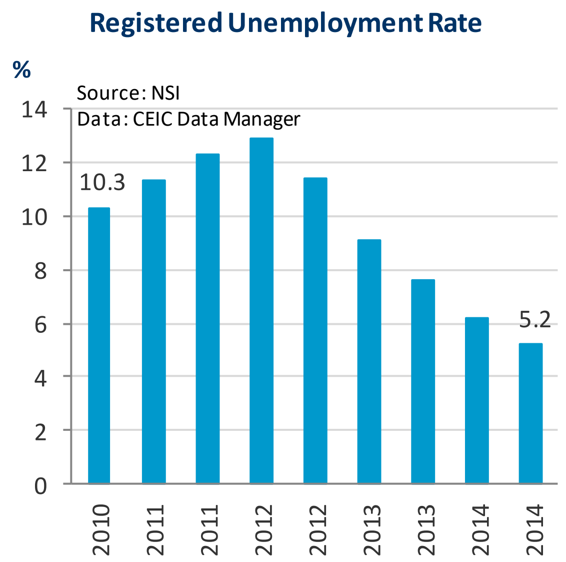
According to the preliminary data, in January 2019 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 1.5% above the level of the previous month. In January 2019 the working day adjusted index of production in construction increased by 0.9% in comparison with the same month of 2018.

In January 2019 the construction production index, calculated from the seasonally adjusted data, was above the level of the previous month. Index the production of civil engineering rose by 2.8% and production of building construction - by 0.6%. On an annual basis in January 2019, the increase of production in construction, calculated from working day adjusted data, was determined from the positive rate in the building construction, where the growth was by 4.6%, while in the civil engineering was registered a decline by 4.0%.



Unemployment

In 2018 the unemployment rate in Bulgaria was 5.2% by 1.0 percentage point lower in comparison with 2017. The employment rate for the age group 20 - 64 years achieved 72.4%, by 1.1 percentage points higher compared to 2017.



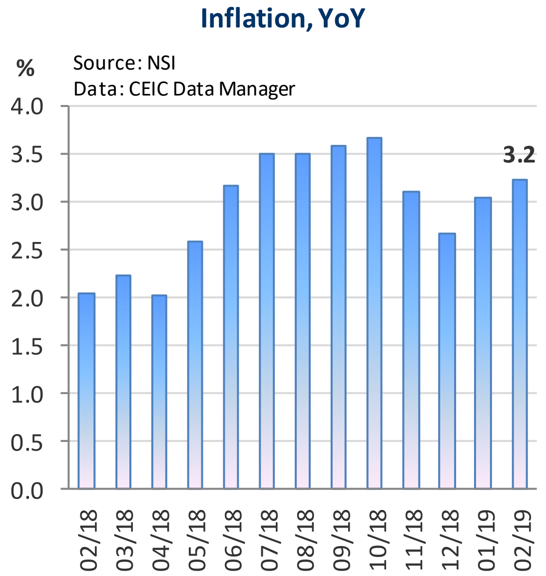
According NSI data there were 173.3 thousand unemployed persons, of whom 101.7 thousand men and 71.6 thousand women. From 2017 the number of unemployed persons has declined by 16.2%. The unemployment rate went down by 1.0 percentage point in comparison with 2017 and stood at 5.2%. Over the same period the unemployment rate decreased by 0.7 percentage points for men and by 1.2 percentage points for women, achieving 5.7% and 4.7%, respectively. The unemployment rate for the age group 15 - 29 years was 8.3%. Compared to 2017 the unemployment rates for this age group declined by 1.6 percentage points. The number of long-term unemployed persons was 101.6 thousand, accounting for 58.6% of all unemployed. The long-term unemployment rate was 3.1% (3.4% for men and 2.6% for women). There were 1 291.4 thousand economically inactive persons aged 15 - 64, of whom 552.5 thousand men and 739.0 thousand women. The inactivity rate (15 - 64 years) was 28.5% (24.1% for men and 33.0% for women). The number of discouraged persons aged 15 - 64 was 81.4 thousand representing 6.3% of the economically inactive population in this age group. The proportion of early leavers from education and training of population aged 18 – 24 was 12.7%, the same as in 2017. The proportion of population aged 30 - 34, having completed tertiary education was 33.7%, by 0.9 percentage points higher than in 2017. The proportion of young people aged 15 - 29 neither in employment nor in education and training was 18.1% (compared to 18.9% in 2017).

According NSI data in2018 the number of economically active population aged 15 - 64 was 3 239.6 thousand and represented 71.5% of population in the same age group. The total number of employed persons was 3 152.7 thousand, representing 52.4% of population aged 15 and over. Of them 1 685.3 thousand (53.5%) were men and 1 467.3 thousand (46.5%) were women. There were 3 068.9 thousand employed persons aged 15 - 64. The employment rate for the same age group was 67.7% (71.5% for men and 63.9% for women). The employment rate for the age group 20 - 64 years was 72.4%, by 1.1 percentage points higher compared to 2017. The employment rate (20 - 64 years) increased by 1.2 percentage points for men and by 1.0 percentage point for women, achieving 76.5% and 68.3% respectively. The employment rate for people aged 55 - 64 achieved 60.7% (65.4% for men and 56.4% for women). In comparison with 2017 it increased by 2.5 percentage points (by 2.9 percentage points for men and by 2.1 percentage points for women).

Inflation

In February 2019, NSI reported 0.5% monthly inflation and 3.2% annual inflation as a result of rising fuel and food prices.

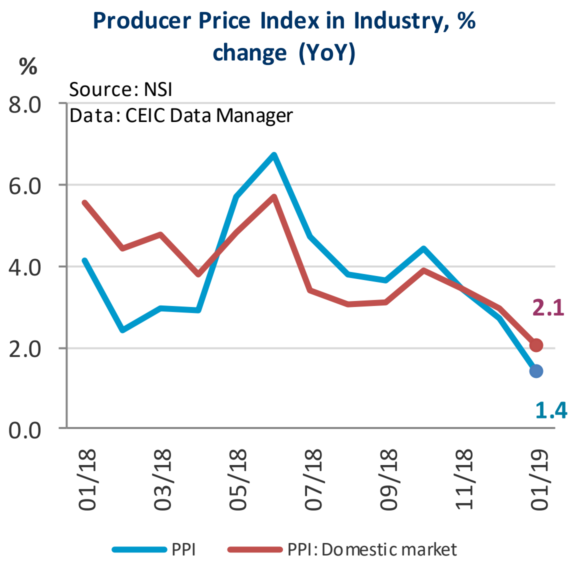
The consumer price index for February 2019 compared to January 2019 was 100.5%, ie, monthly inflation is 0.5%. Inflation from the beginning of the year was 1.1% and annual inflation in February 2019 compared to February 2018 was 3.2%. The average annual inflation for the period March 2018 - February 2019 compared to March 2017 - February 2018 is 3.0%. Inflation boom in February is re-fueling as well as food as a group. The largest A95 gasoline is up 3.5%, diesel fuel - 3%, and gas for cars - by 3.7%. Transport generally increases by 1.2%. For domestic fuel, the price increase reaches 3.4%. From food, the highest price increases are for fruits and vegetables, ranging from 35% higher prices for cabbage to 3% growth for citrus fruit. Rates, rice, different meats, sausages, milk and some dairy products are rising within 1%. The Harmonized Index of Consumer Prices for February 2019 was 100.3% versus January 2019, monthly inflation is 0.3%. Inflation from the beginning of the year is 0.5% and annual inflation in February 2019 compared to February 2018 is 2.4%. The average annual inflation for the period March 2018 - February 2019 compared to March 2017 - February 2018 is 2.8%.



Producer Price Index in Industry

Total Producer Price Index in January 2019 decreased with 0.4% compared to the previous month; compared to the same month of 2018 the prices rose by 1.4%. Producer Price Index on Domestic Market in January 2019 increased by 0.1% compared to the previous month; compared to the same month of 2018 the domestic prices grew by 2.1%.

The Total Producer Price Index in Industry in January 2019 went down with 0.4% compared to the previous month. Lower prices were registered in manufacturing by 0.9%, while the prices went up in the electricity, gas, steam and air conditioning supply by 0.9% and in the mining and quarrying industry by 0.2%. In the manufacturing the manufacturing of basic metals by 5.2% and in the printing and reproduction of recorded media by 0.2%, while prices went up in the manufacture of machinery and equipment n.e.c. by 0.8%, in the manufacture of motor vehicles, trailers and semi-trailers by 0.6%. The Total Producer Price Index in January 2019 increased by 1.4% compared to the same month of 2018. The prices rose in the electricity, gas, steam and air conditioning supply by 5.3% and in manufacturing by 0.5%, 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 tobacco products by 5.8%, in the manufacture of leather and related products by 4.8% and in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 4.7%. The producer prices dropped in the manufacture of basic metals by 5.2%.



Producer Price Index on Domestic Market in January 2019 increased with 0.1% compared to the previous month. The domestic prices went up in the electricity, gas, steam and air conditioning supply by 0.9%, while prices decreased in mining and quarrying industry by 3.3% and in manufacturing by 0.1%. In the manufacturing basic metals by 2.3%. The domestic prices went up in the manufacture of motor vehicles, trailers and semi-trailers by 2.7% and in the manufacture of machinery and equipment n.e.c by 1.2%. Producer Price Index on Domestic Market in January 2019 increased by 2.1% compared to the same month of 2018. The prices rose in the electricity, gas, steam and air conditioning supply by 4.1% and in manufacturing by 1.6%, while in the mining and quarrying industry the prices fell by 8.3%. In the manufacturing compared to January 2018 the prices went up in the manufacture of tobacco products by 7.4%, in the repair and installation of machinery and equipment by 3.7%, and in the manufacture of leather and related products by 3.6%. A decrease in the prices was reported in the manufacture of basic metals by 7.0%.

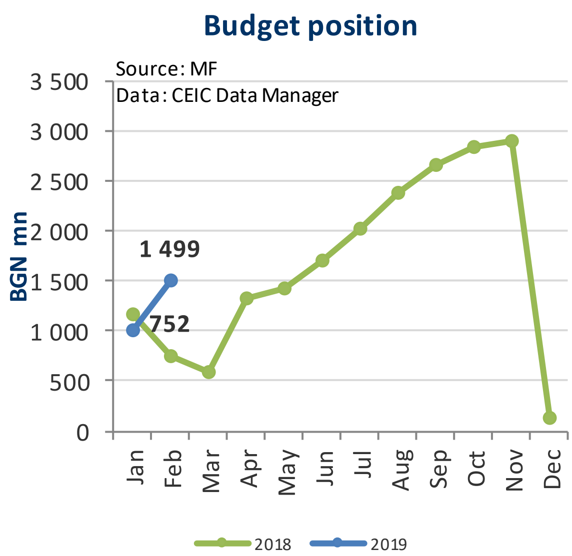
Producer Price Index on Non-domestic Market in January 2019 decreased by 1.3% compared to the previous month. In the manufacturing the non-domestic prices fell by 1.6%. More significant price decrease was reported in manufacture of basic metals by 5.8%. Prices went up in other manufacturing by 0.7% and in the manufacture of fabricated metal products, except machinery and equipment by 0.6%. Producer Price Index on Non-domestic Market in January 2019 increased by 0.5% compared to the same month of 2018. In the manufacturing, the prices went down by 0.6%. The prices fell in the manufacture of basic metals by 4.8% and in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 0.2%. 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 6.5%, and in the manufacture of leather and related products by 5.3%.

FISCAL SECTOR

Budget Balance

In January 2019 Bulgaria' CFP balance on a cash basis is positive, amounting to BGN 1,005.9 million and presented 0.9% of forecasted GDP. The fiscal reserve as of 31.01.2019 amounts to BGN 10.5 billion.

According MF data the CFP balance on a cash basis for January 2019 is positive, amounting to BGN 1,005.9 million (0.9% of forecast GDP) and is formed by a surplus under the national budget of BGN 944.1 million and a surplus under EU funds of BGN 61.7 million. The CFP revenues and grants for January 2019 stand at BGN 3,717.9 million, or 8.5% of the annual estimates. Compared to the same period of the previous year, the amount of revenues is close to that of grants. Tax proceeds, including revenues from social security and health insurance contributions, total BGN 3,034.4 million, which is 8.8% of the annual plans. Revenues from direct taxes amount to BGN 405.0 million, or 6.2% of the annual estimates, the proceeds being close to the ones for the same period of the previous year. Indirect tax revenues amount to BGN 1,789.4 million, or 10.9% of the annual plans. The VAT proceeds amount to BGN 1,354.4 million, or 12.5% of the plan. The amount of the non-refunded VAT as of 31.01.2019 is BGN 68.4 million. The excise duty revenues amount to BGN 408.5 million, (7.7% of the annual estimates). Custom duties revenues are BGN 19.9 million or 8.4% of the annual plan. Proceeds from other taxes, including property taxes and other taxes under the Corporate Income Tax Law, amount to BGN 54.4 million, or 4.6% performance of the annual estimates. Revenues from social security and health insurance contributions are BGN 785.6 million, or 7.6% of those planned for the year. Compared to the same period of the previous year these revenues have risen by 10.0% in nominal terms. Non-tax revenues amount to BGN 527.5 million, or 8.0% of the annual estimates. Proceeds from grants amount to BGN 156.0 million. The expenditures under the CFP, including the contribution of the Republic of Bulgaria to the EU budget, amount to BGN 2,712.1 million for January 2019, which is 6.1% of the annual estimates. For comparison, the expenditures for the same period of the previous year were to the amount of BGN 2,543.8 million. As compared to January 2018, the nominal increase is mainly due to the higher amount of the contribution to the general budget of the EU, the higher staff costs, the higher social payments (a baseline effect from the increase of pensions as from July 2018), the higher capital expenditures, etc. Non-interest expenditures amount to BGN 2,472.1 million, which is 5.8% of the annual plans. Non-interest current expenditures as of January 2019 amount to BGN 2,352.9 million and capital expenditures (including net increment of state reserve) amount to BGN 116.3 million. The current and capital transfers to other countries amount to BGN 2.9 million. Interest payments amount to BGN 91.0 million, or 13.6% of those planned for 2019. The part of Bulgaria's contribution to the EU budget, paid from the cen-

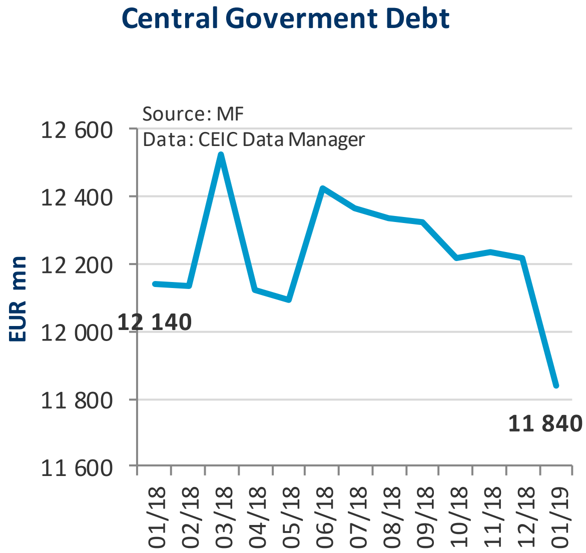


tral budget as of 31.01.2019, amounts to BGN 149.0 million, which complies with the current legislation in the area of EU own resources. Fiscal reserve as of 31.01.2019 is BGN 10.5 billion, including BGN 9.3 billion fiscal reserve deposits in BNB and banks and BGN 1.2 billion receivables under the EU Funds for certified expenditure, advance payments, etc.

Central Government Debt

At the end of January 2019, Bulgaria's central government sub-sector debt amounted to EUR 111,839.7 million and accounts for 19.9% of projected GDP.

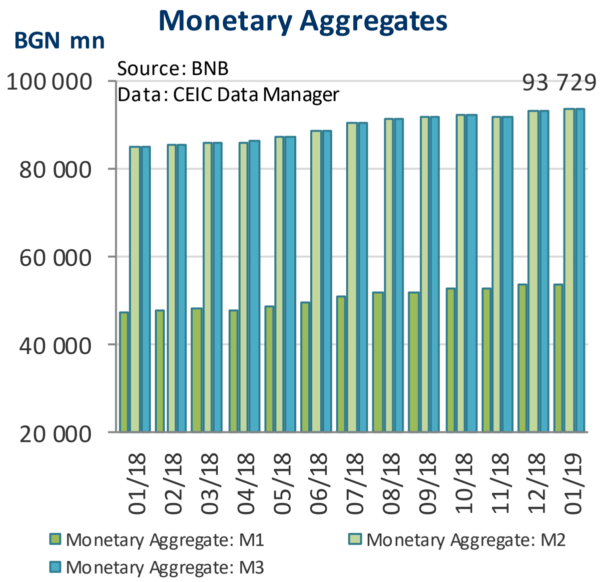
Central government debt stands at EUR 11,839.7 million as at end-January 2019. Debt decreases by BGN 377.6 million compared to end-December 2018, which is due to the maturing GS issued on the domestic market. Domestic debt amounts to EUR 2,745.4 million and external debt – to EUR 9,094.3 million. At the end of the reporting period the central government debt-to-GDP ratio is 19.9%, with the share of domestic debt being 4.6% and of external debt – 15.3% of GDP. In the central government debt structure, at the end of the period domestic debt amounts to 23.2%, and external debt – to 76.8%. As of 31 January 2019, central government guaranteed debt amounts to EUR 89.0 million. Domestic guarantees amount to EUR 34.8 million and external guarantees – to EUR 54.2 million. The central government guaranteed debt/GDP ratio is 0.1%. 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-January 2019 government debt reaches EUR 10,901.8 million, or 18.3% of GDP. Domestic debt amounts to EUR 2,408.0 million and external debt – to EUR 8,493.8 million. Government guaranteed debt amounts to EUR 958.4 million in January 2019. Domestic guarantees amount to EUR 34.8 million, with the government guaranteed debt-to-GDP ratio being 1.6%.



MONETARY SECTOR

In January 2019 broad money (monetary aggregate M3) increased annually by 10% yoy to BGN 93.729 billion. Domestic credit amounted at BGN 58.321 billion and increased by 8.6% yoy.

According BNB data in January 2019 broad money (monetary aggregate M3) increased by 10% yoy compared to 8.8% yoy growth in December 2018. At the end of January 2019 M3 was BGN 93.729 billion (81% of GDP) compared to BGN 93.256 billion (86.4% of GDP) in December 2018. Its most liquid component – monetary aggregate M1 – increased by 13.5% yoy in January 2019 (12.2% yoy growth in December 2018). At the end of January 2019, deposits of the non-government sector6 were BGN 77.976 billion (67.4% of GDP), increasing annually by 8.6% (7.3% yoyl growth in December 2018). Deposits of Non-financial corporations were BGN 23.039 billion (19.9% of GDP) at the end of January 2019. Compared to the same month of 2018 they increased by 6.2% (5.2% annual growth in December 2018). Deposits of financial corporations increased by 32.2% yoy in January 2019 (16.9% yoy growth in December 2018) and at the end of the month they reached BGN 3.290 billion (2.8% of GDP). Deposits of Households and NPISHs were BGN 51.647 billion (44.7% of GDP) at the end of January 2019. They increased by 8.5% compared to the same month of 2018 (7.7% annual growth in December 2018). Net domestic assets were BGN 58.687 billion at the end of January 2019. They increased by 11% compared



to the same month of 2018 (7.8% yoy growth in December 2018). At the end of the month their basic component – domestic credit – was BGN 58.321 billion and increased by 8.6% compared to January 2018 (7.5% yoy growth in December 2018). In January 2019 claims on the non-government sector increased by 9.1% yoy (8.9% yoy increase in December 2018) reaching BGN 59.213 billion. At the end of January 2019, claims on loans to the non-government sector amounted to BGN 57.665 billion (49.9% of GDP) compared to BGN 57.354 billion (53.1% of GDP) at the end of December 2018. They increased annually by 8.5% in January 2019 (8.4% annual growth in December 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 BGN 26.1 million in January 2019), while the amount of repurchased loans was BGN 2.7 million (there were no loan repurchases in January 2019). In January 2019, loans to Non-financial corporations increased by 5.8% yoy (5.4% yoy in December 2018) and at the end of the month amounted to BGN 32.914 billion (28.5% of GDP). Loans to Households and NPISHs were BGN 21.882 billion (18.9% of GDP) at the end of January 2019. They increased by 10.8% compared to the same month of 2018 (11.2% yoy growth in December 2018). At the end of January 2019 loans for house purchases were BGN 10.565 billion and increased by 11.1% yoy (11.4% yoy growth in December 2018). Consumer loans amounted to BGN 9.142 billion and compared to January 2018 they increased by 17.6% (17.7% yoy growth in December 2018). On an annual basis other loans decreased by 27.5% (24.3% yoy decline in December 2018) and reached BGN 847.5 million. Loans granted to financial corporations were BGN 2.869 billion at the end of January 2019 (2.5% of GDP). Compared to January 2018, they increased by 24.7% (23.7% yoy growth in December 2018). The change in the amount of loans to the non-government sector was also influenced by net sales of loans from Other monetary financial institutions (Other MFIs), whose volume for the last twelve months amounted to BGN 270.7 million. BGN 26.1 million in January 2019), while the amount of repurchased loans was BGN 2.7 million (there were no loan repurchases in January 2019). In January 2019, loans to Non-financial corporations increased by 5.8% yoy (5.4% yoy growth in December 2018) and at the end of the month amounted to BGN 32.914 billion (28.5% of GDP). Loans to Households and NPISHs were BGN 21.882 billion (18.9% of GDP) at the end of January 2019. They increased by 10.8% compared to the same month of 2018 (11.2% yoy growth in December 2018). At the end of January 2019 loans for house purchases were BGN 10.565 billion and increased by 11.1% yoy (11.4% yoy growth in December 2018). Consumer loans amounted to BGN 9.142 billion and compared to January 2018 they increased by 17.6% (17.7% annual growth in December 2018). On an annual basis other loans decreased by 27.5% (24.3% yoy decline in December 2018) and reached BGN 847.5 million. Loans granted to financial corporations were BGN 2.869 billion at the end of January 2019 (2.5% of GDP). Compared to January 2018, they increased by 24.7% (23.7% yoy growth in December 2018).

CAPITAL MARKET

At the end of February 2019, the blue chip index SOFIX almost stagnated from the previous month to 585.4 points and the other stock indices reported monthly growth: BGBX 40 to 116.13 points, BG REIT to 120.89 points and BGTR30 to 506.04 points.

According to BSE-Sofia at the end of February 2019, the blue chip index SOFIX almost held its level at 585.4 points, the other stock indices reported monthly growth. BGBX 40 grew by 1.1 percentage points to 116.13 points. BG REIT reported a slight increase of 0.1 percentage points to 20.89 points. BGTR30 grew by 14 percentage points to 506.04 points. At a meeting of the Board of Directors of BSE on March 7, 2019, the base of the SOFIX blue chip index was revised. The first 15 issues of shares corresponding to the provisions of Art. 9 of the BSE Rules. It was clear from the meeting that the weight of the economic group including Sopharma AD-Sofia and Sopharma Trading AD-Sofia exceeded the requirement of 20% for an economic group at the beginning of March 2019. In this respect the classification above excludes the issue of shares of Sopharma Trading AD-Sofia. The next issue according to the ranking is the issue of shares of

Bulgarian Stock Exchange Indexes on Monthly Basis

Date	SOFIX	BGBX40	BGREIT	BGTR30
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
01.2019	585.8	115.0	120.8	492.0
02.2019	585.4	116.1	120.9	506.0

Source: Bulgarian Stock Exchange-Sofia

Stara Planina Hold. It was clear from the meeting that the weight of the economic group including Sopharma AD-Sofia and Sopharma Trading AD-Sofia exceeded the requirement of 20% for an economic group at the beginning of March 2019. In this respect the classification above excludes the issue of shares of Sopharma Trading AD-Sofia. The next issue according to the ranking is the issue of shares of Stara Planina Hold. The composition of SOFIX leaves because of non-compliance with the requirements of BSE - Monbat, Albena and Trace Group Hold. In their place are added Gradus, Industrial Holding Bulgaria and Doverie United Holding. Joining SOFIX is a great success for Gradeus, which has made its primary public offering last year, and has since become an extremely important stock exchange, which has been invested by some of the largest institutional investors in Bulgaria. Other two SOFIX companies are rather returning to the index. We can recall that during the last rebalancing of the benchmark in the past year, M + S Hydraulic and Elana AgroCredit were entered into at the place of Doverie United Holding and Industrial Holding Bulgaria. What is atypical is the departure of Monbat and Albena, who are almost permanent members of the index. For the last time, Albena returns to the index in 2013, since it is a permanent component, while Monbat is an indispensable part of the index, almost throughout its life. The BSE meeting also reviewed the basis of the other major indices. In this respect, the emissions from the BGBX 40 index were the emissions of Lavena, EMKA, Billboard, Bulgarian River Shipping, Alcomet and Fair Play Properties REIT. In their place are added - Gradus, Holding Sveta Sofia, Aktiv Properties, Oil and Gas Exploration and Production, Felgrav Asset Management and Galata Investment Company. Following a revision of the BG REIT index, it dropped Bulland Investments REIT, which was replaced by Active Properties REIT. The composition of BGTR30 left Neochim, St. Konstantin and Elena, Hydraulic Elements and Systems, Industrial Capital Holding, Corado-Bulgaria, Texim Bank, Synergon Holding, Agria Group Holding, Synthetics and Trace Group Hold. In their place were added - Velgraf Asset Management, Gradus, Holding Sveta Sofia, Galata Investment Company, Himsnab Bulgaria, Rodda Land Holding, Severcoop Gamza Holding, Balkan and Sea Properties, 235 Holdings, Aktiv Properties REIT. All changes to the indexes will take effect from March 18, 2019.

BANKING SECTOR

In January 2019 the aggregated net profits of Bulgaria’s banking system amounted to BGN 77 million and declined by 34.2% yoy.

According BNB data in January 2019 the net profits of the banking system amounted to BGN 77 million (compared to BGN 117 million a year earlier) and declined 34.2% yoy. The impairment costs of financial assets that are not carried at fair value through profit or loss are BGN 24 million, or BGN 8 million less than those at 31 January 2018.

Indicator (BGN'000)	31.01. 2018	31.01. 2019	Change Y/Y (%)
Interest Income	246 981	255 653	3.5
Interest Expence	26 514	25 172	-5.1
Net interest Income	**220 467**	**230 481**	**4.5**
Impairment	31 843	23 953	-24.8
Fee and commission income	95 831	102 424	6.9
Fee and commission expenses	14 663	17 599	20.0
Net fee and commission income	**81 168**	**84 825**	**4.5**
Administration costs	131 320	132 570	1.0
Personal cost	70 033	74 512	6.4
Total operating income, net	300 438	258 741	-13.9
Net Profit	**116 914**	**76 945**	**-34.2**

Source: BNB, Calculations: UBB

In January 2019 the assets of the banking system increased by BGN 1.4 billion (1.3%) to BGN 107 billion. The investments in subsidiaries, joint ventures and associates, loans and advances and tangible assets increased. At the end of the reporting month, debt and equity instruments accounted for 12.3% of the total assets of the banking system. On a monthly basis, the amount of money and cash balances with central banks and other sight deposits did not change significantly and at the end of January its share of total assets amounted to 19.0%. The balance sheet position structure reduces cash and cash balances with central banks while other sight deposits increase. The gross banking book of the banking system (excluding loans and advances to the "central banks" and "credit institutions" sectors) increased by BGN 384 million (0.6%) in the month. All segments of the portfolio grow. Loans to non-financial corporations and households rose by 0.7% and 0.3%, respectively, as compared to end-December 2018, while loans to general government and other financial corporations increased by 3.9% and 1.5%, respectively. In the structure of gross loans and advances, receivables from credit institutions also increased (by BGN 1.6 billion, or 12.7%). Decrease in loans and advances to the central bank sector (by BGN 1.0 billion, 6.8%). Compared to the end of December 2018, deposits from clients in the banking system increased by 0.6% mom and by 9.1% yoy, respectively. Households grew up by 0.3% mom and by 8.5% yoy, other financial corporations by 9.6% mom, local government by 4.6% mom Deposits of non-financial corporations decreased by 0.7% mom and by 6% yoy, respectively.

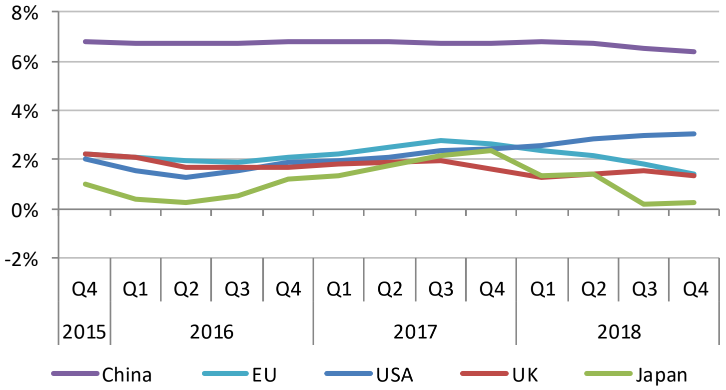
Bulgaria Intermediation Indicators	31.01.2018 BGN'000	31.12.2018 BGN'000	31.01.2019 BGN'000	Change m/m (%)	Change y/y (%)	Change yend (%)	Share in GDP (%)
BANKING SYSTEM TOTAL ASSETS	**96 929 889**	**105 556 619**	**106 951 701**	**1.3**	**10.3**	**1.3**	**91.9**
Loans to central governments	593 067	741 199	770 336	3.9	29.9	3.9	0.7
Loans to non-financial corporations	33 206 378	34 871 435	35 117 162	0.7	5.8	0.7	30.2
Loans to financial corporrations	2 494 165	3 220 084	3 267 099	1.5	31.0	1.5	2.8
Retail loans, incl.:	19 888 561	22 075 378	22 137 259	0.3	11.3	0.3	19.0
Mortgage loans	9 765 974	10 906 245	10 945 140	0.4	12.1	0.4	9.4
Consumer loans	9 000 627	10 332 669	10 362 336	0.3	15.1	0.3	8.9
Micro credits and other loans	1 121 960	836 464	829 783	-0.8	-26.0	-0.8	0.7
TOTAL LOANS	**56 182 171**	**60 908 096**	**61 291 856**	**0.6**	**9.1**	**0.6**	**52.7**
ATRACTED SOURCES FROM CLIENTS, incl.:	**77 887 823**	**84 571 339**	**84 971 027**	**0.5**	**9.1**	**0.5**	**73.0**
Local government deposits	2 143 210	2 696 635	2 820 346	4.6	31.6	4.6	2.4
Non-financial corporations deposits	23 671 650	25 277 991	25 089 973	-0.7	6.0	-0.7	21.6
Financial corporations deposits	2 730 552	3 213 474	3 521 897	9.6	29.0	9.6	3.0
Households and NPISHs deposits	49 342 411	53 383 239	53 538 811	0.3	8.5	0.3	46.0
Equity	12 242 650	13 857 523	13 991 945	1.0	14.3	1.0	12.0
Net profit (annualised)	116 914	1 677 846	76 945		-34.2		
BANKING INDICATORS (%)							
ROE	11.5	12.1	6.6	-5.5	-4.9	-5.5	
ROA	1.4	1.6	0.9	-0.7	-0.6	-0.7	
Capital adequacy	n.a	n.a.	n.a.				
Liquidity coverage(%)	n.a	294.1	281.5	-0.4	1.1	-0.4	
NPL	n.a	7.6	n.a.				
GDP	108 141 000	108 141 000	116 412 000				
EUR/BGN	1.95583	1.95583	1.95583				

Source: BNB, MF; Calculations: UBB

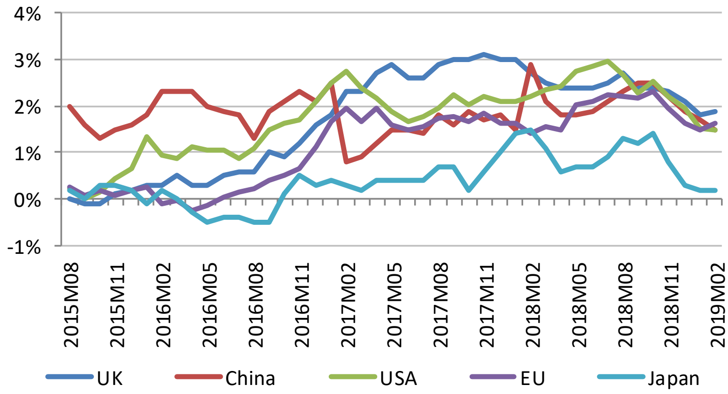
The equity in the balance sheet of the banking system increased by BGN 134 million (1.0%) in the month. Contribution to this is the growth of other reserves and accumulated other comprehensive income. Liquidity buffer and net outflows at the end of the reported month were respectively BGN 27.9 billion and BGN 9.9 billion. The liquidity coverage ratio was 281.5%.

Appendix

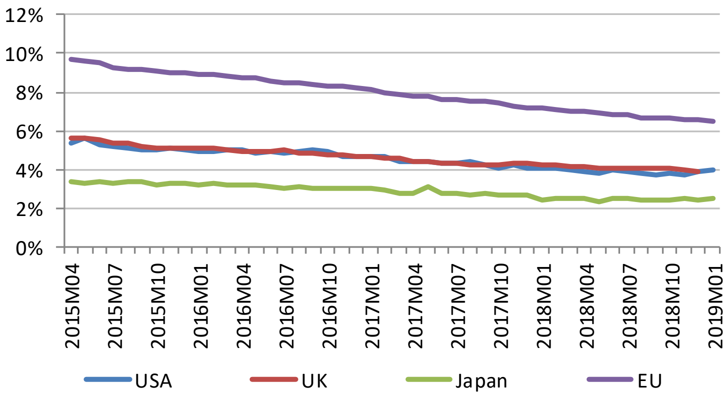
Advanced Economies: GDP growth rate compared to the same quarter of the previous year



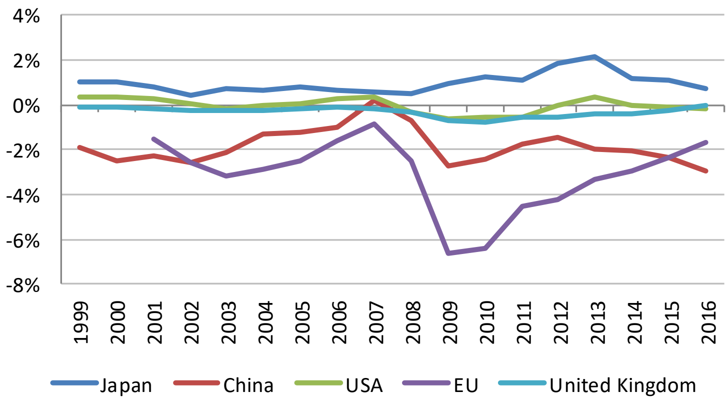
Advanced economies: Inflation by country, monthly (y/y)



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

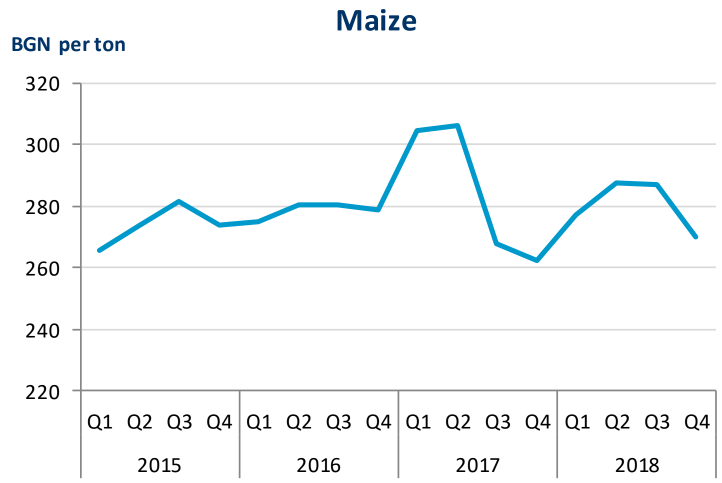


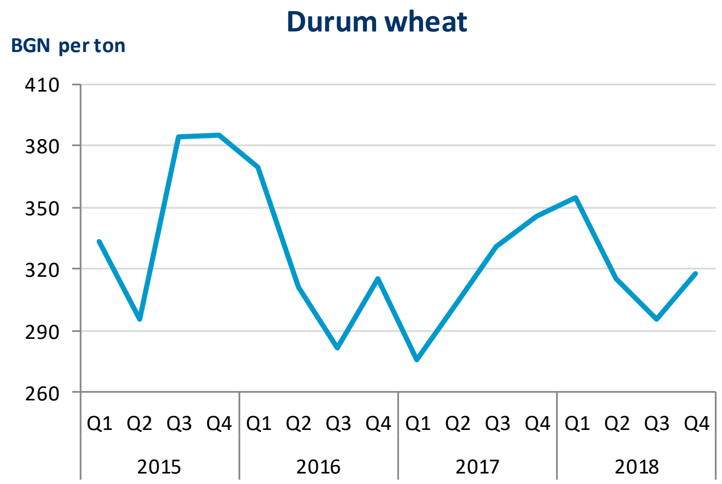
Advanced economies: Budget surplus/deficit to GDP (%)

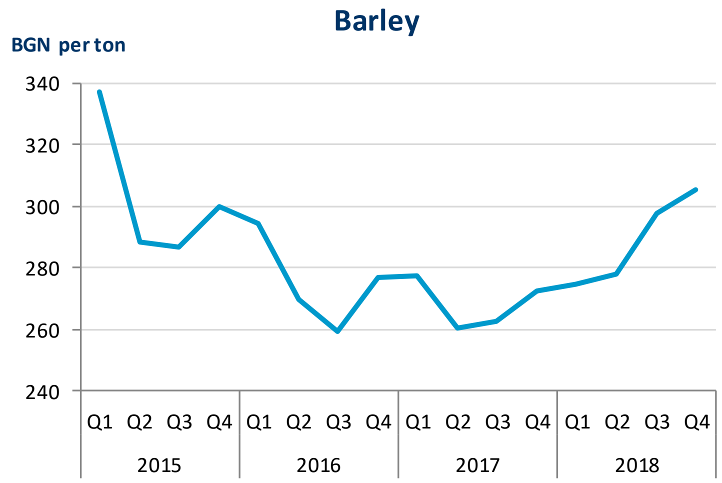


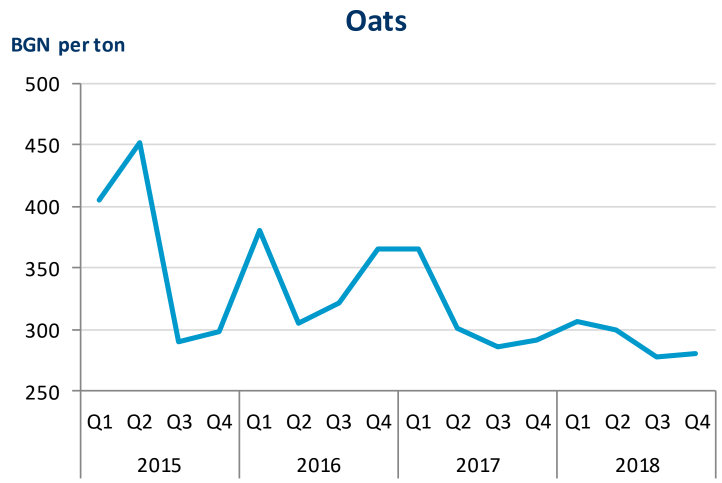
Source: IMF

Bulgaria: Prices of Agriculture products





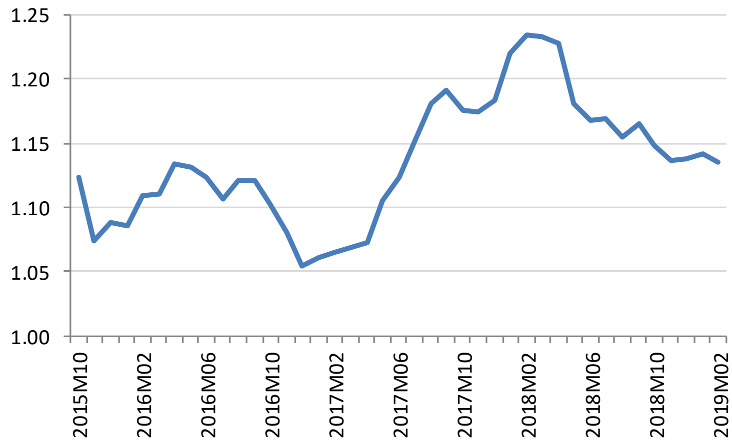




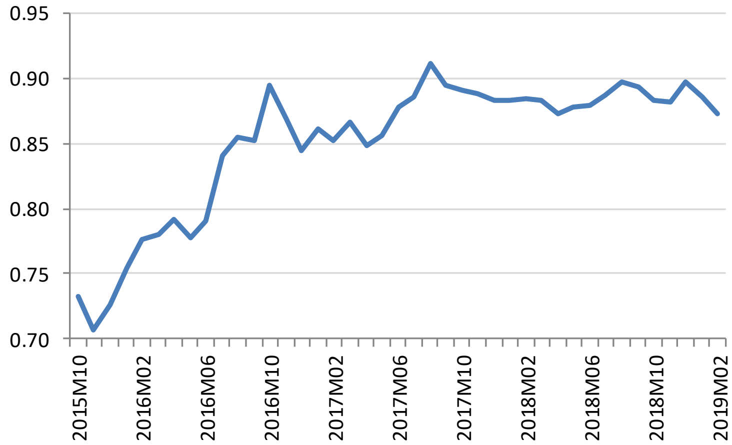
Source: NSI

Overseas FX Rates

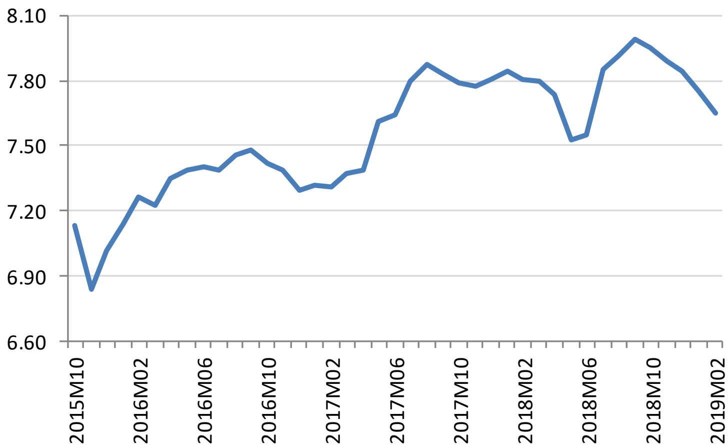
EUR/USD



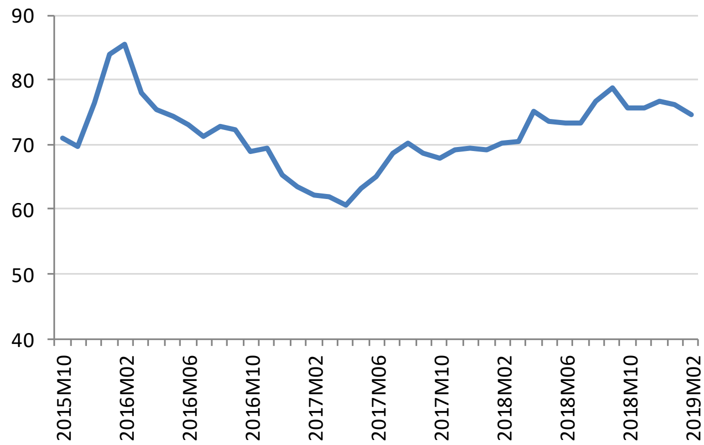
EUR/GBP



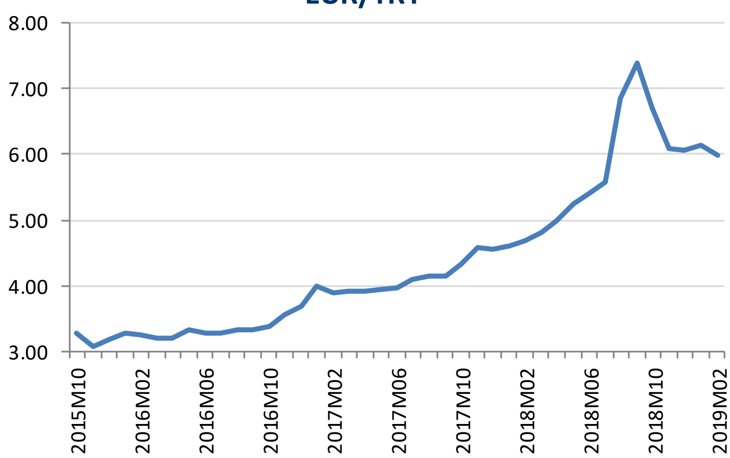
EUR/CNY



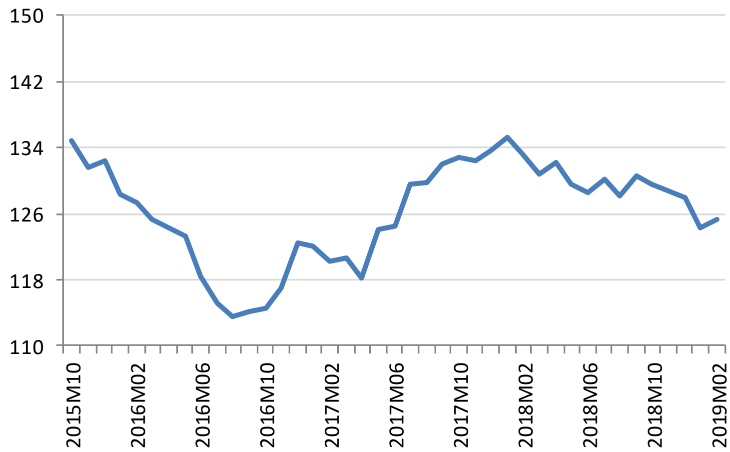
EUR/RUB



EUR/TRY



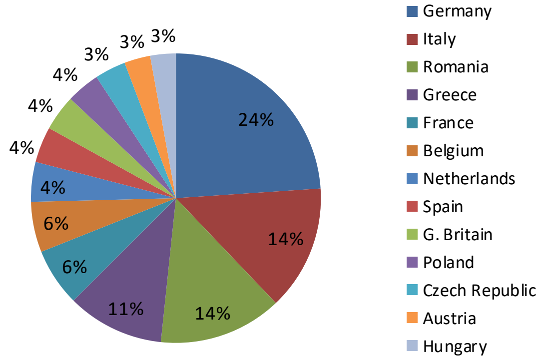
EUR/JPY



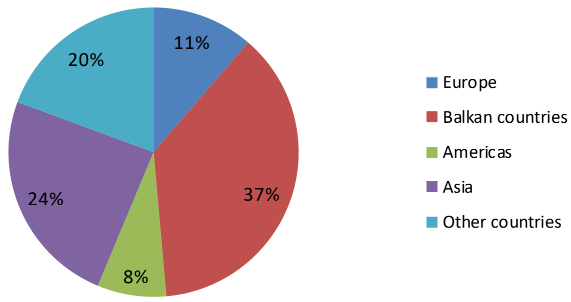
Source: ECB

Bulgaria: External Sector Indicators

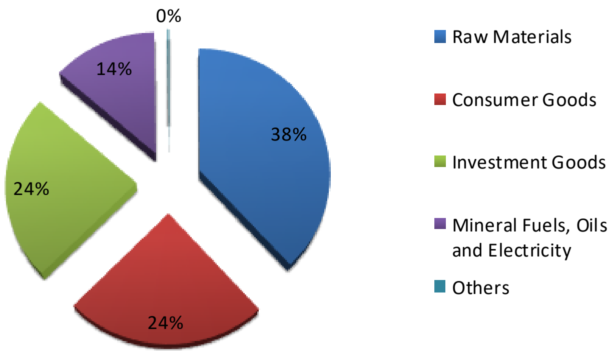
Exports: FOB by EU countries: January - December 2018



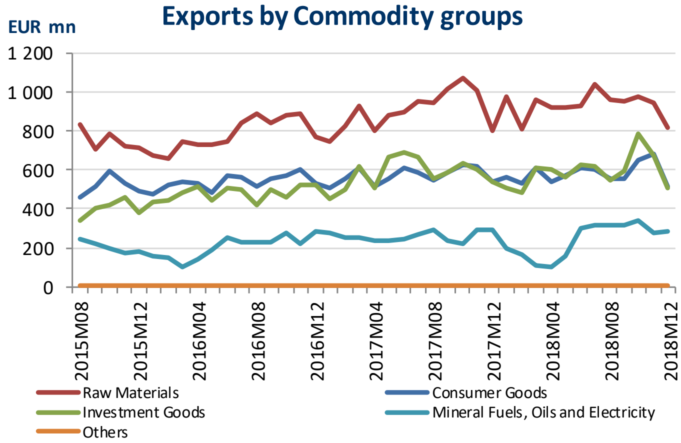
Exports: FOB by Non EU countries: January - December 2018



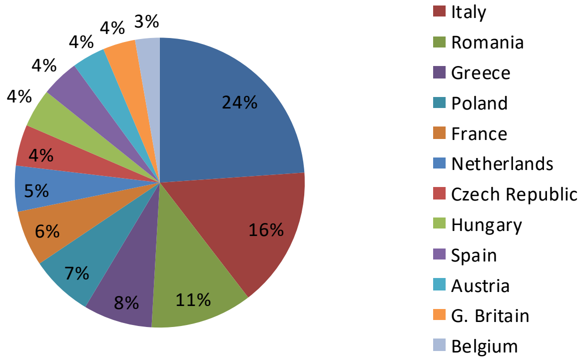
Exports: FOB: Commodity groups - percentage shares for December 2018



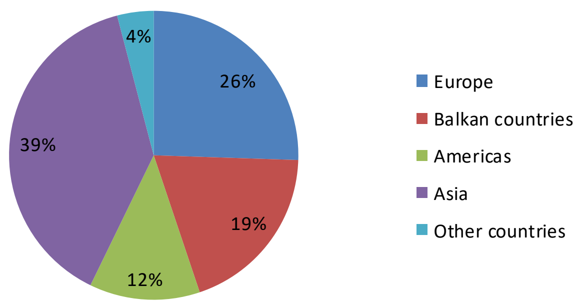
Exports by Commodity groups



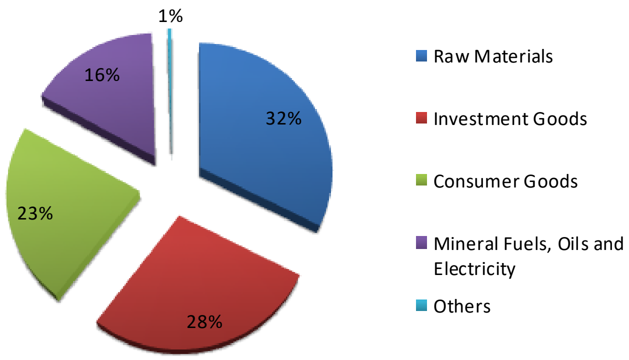
Imports: CIF by EU Countries: January - December 2018



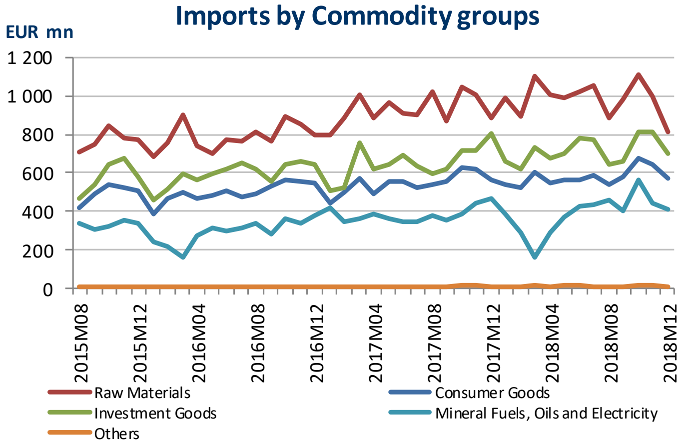
Imports: CIF by Non EU Countries: January - December 2018



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



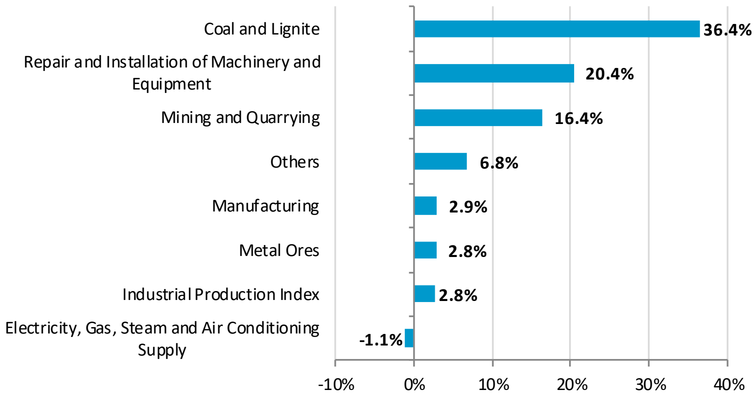
Imports by Commodity groups



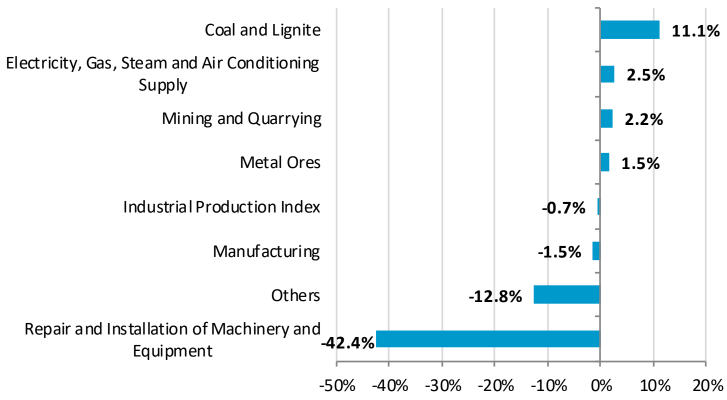
Source: BNB

Bulgaria: Real Sector Indicators

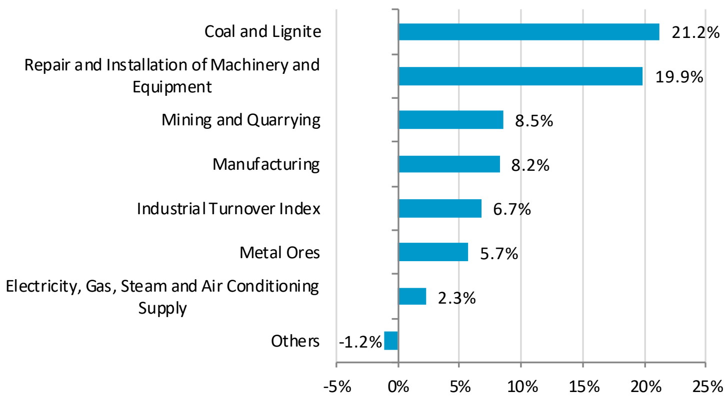
Industrial Production Index: % change in January 2019 compared to January 2018



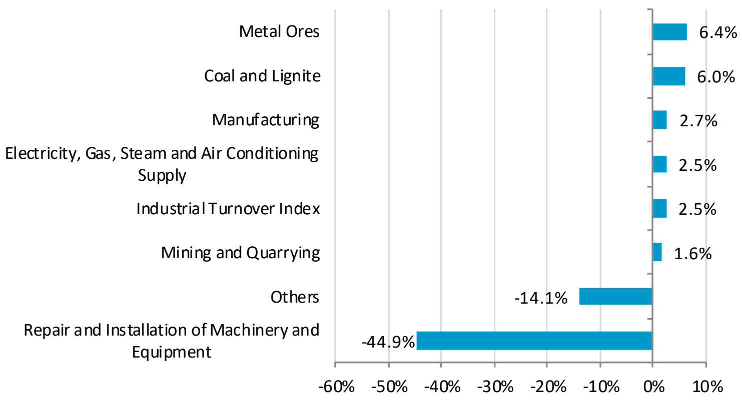
Industrial Production Index: % change in January 2019 compared to December 2018



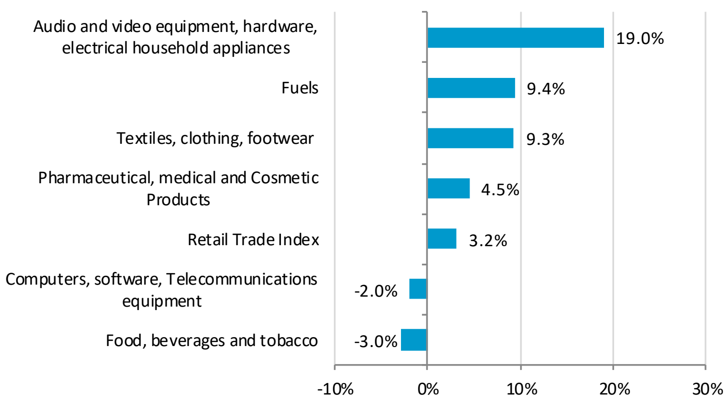
Industrial Turnover Index: % change in January 2019 compared to January 2018



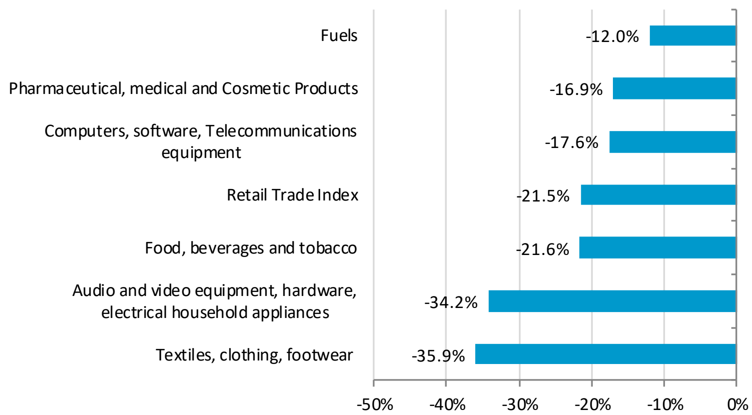
Industrial Turnover Index: % change in January 2019 compared to December 2018



Retail Trade Index: % change in January 2019 compared to January 2018

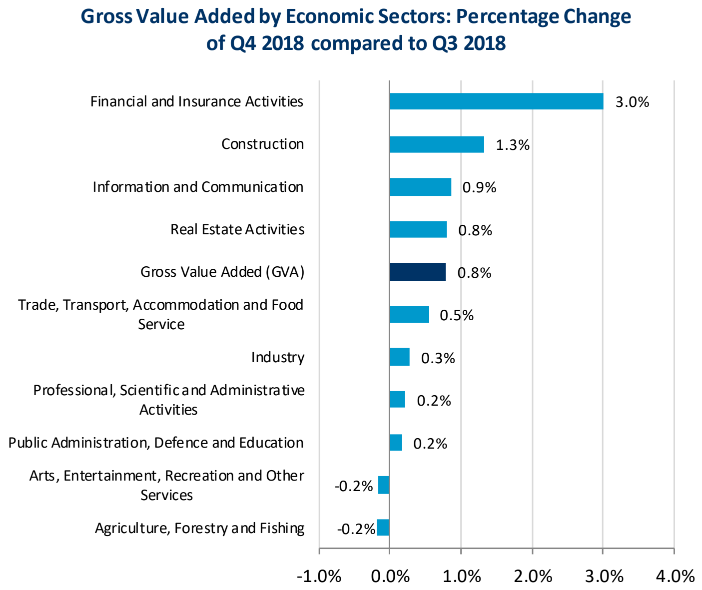


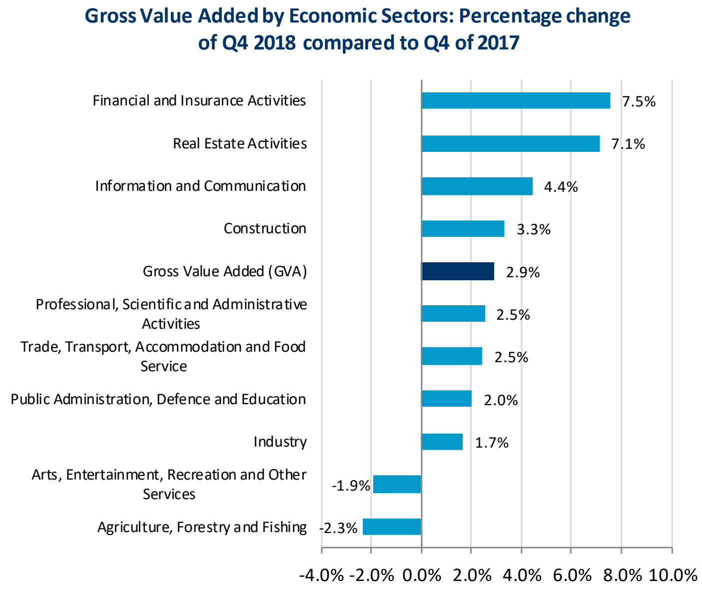
Retail Trade Index: % change in January 2019 compared to December 2018

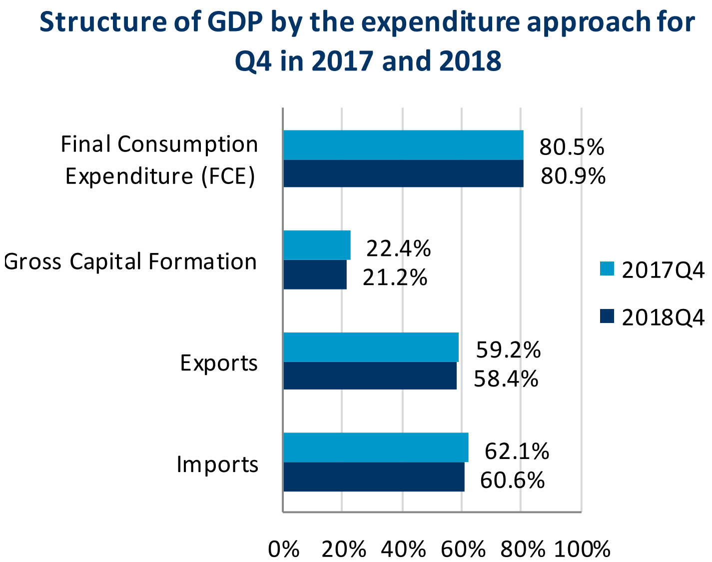


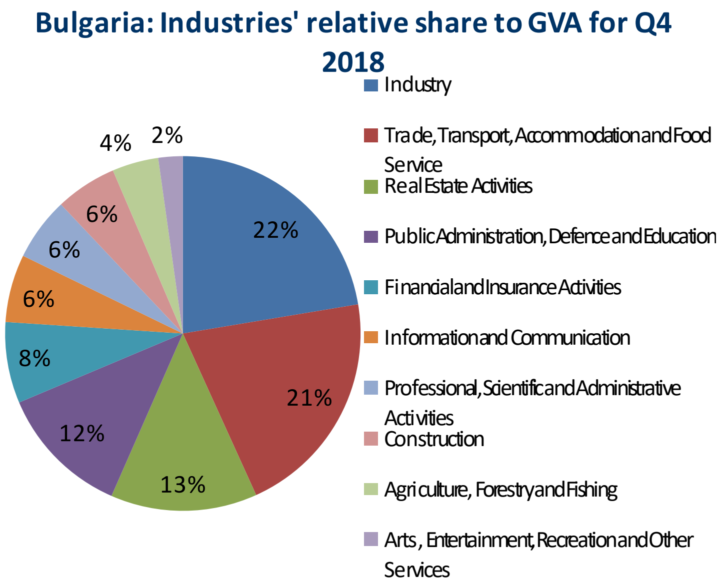
Source: NSI

Bulgaria: Real Sector Indicators



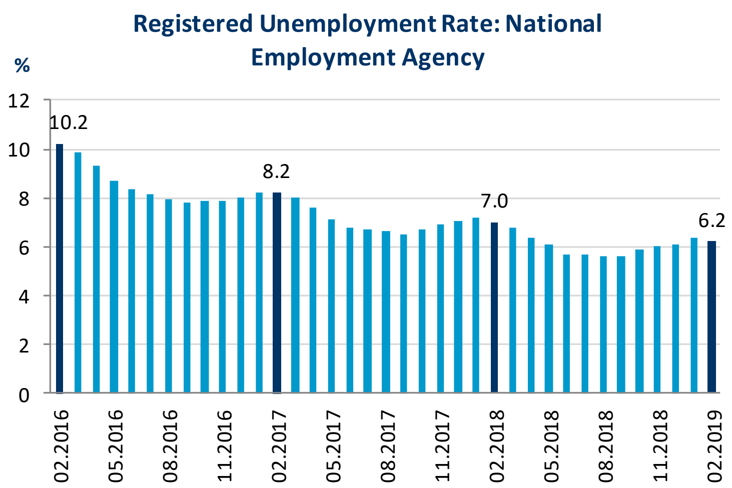


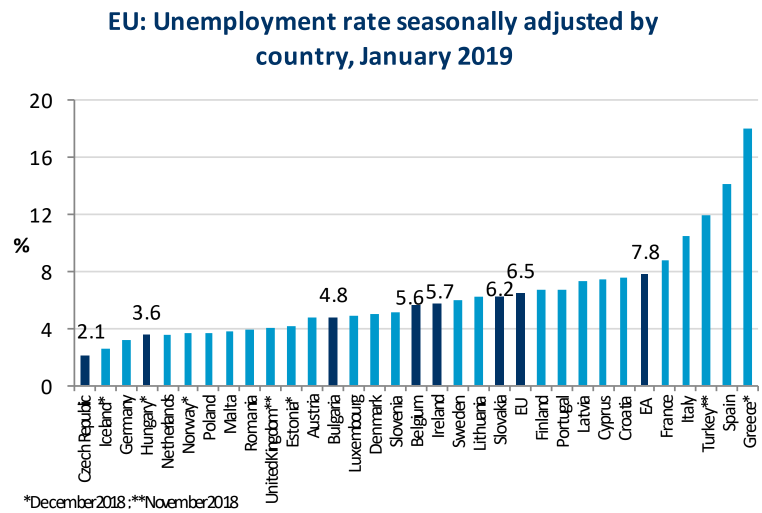


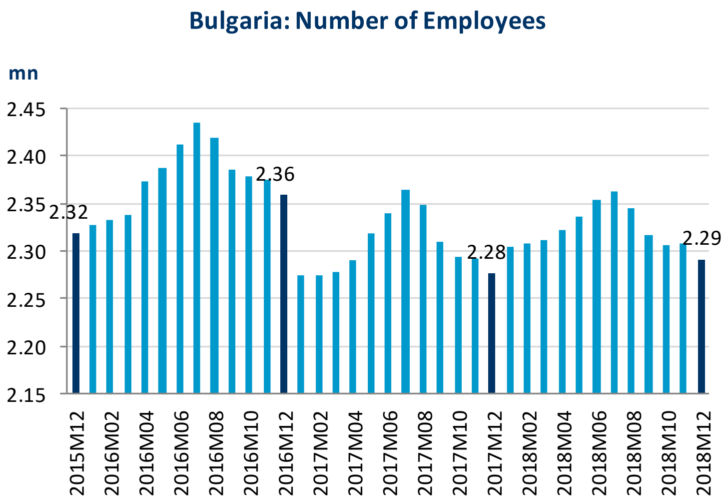


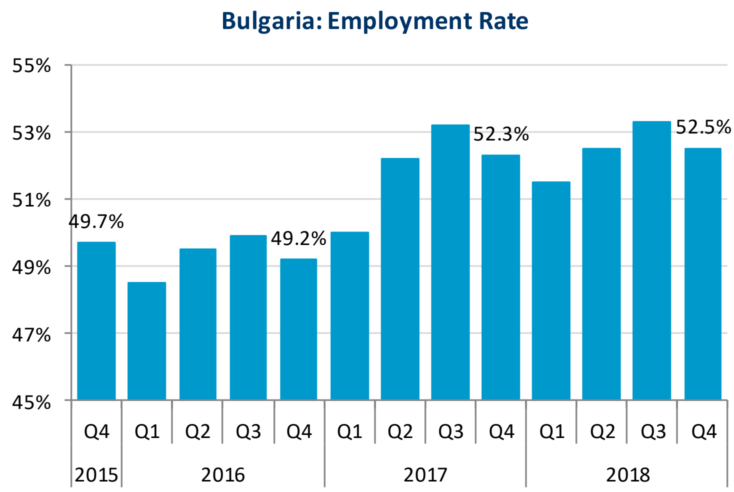
Source: NSI, EC

Bulgaria: Real Sector Indicators





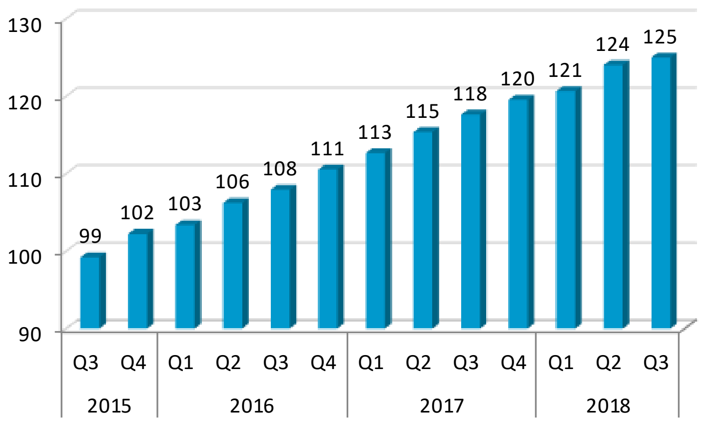




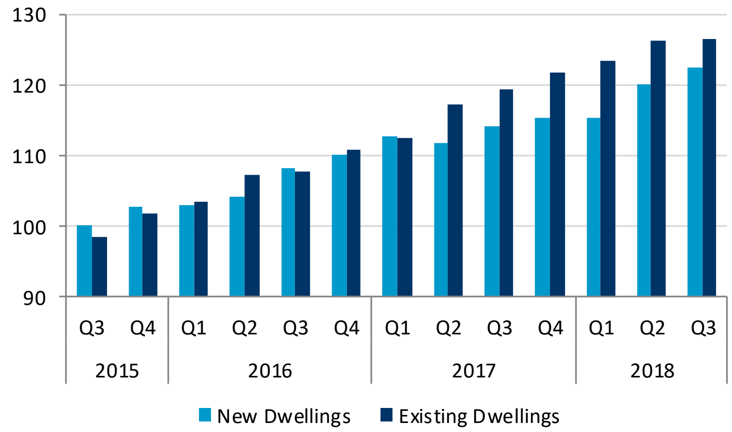
Source: NSI, EC

Bulgaria: Real Sector Indicators

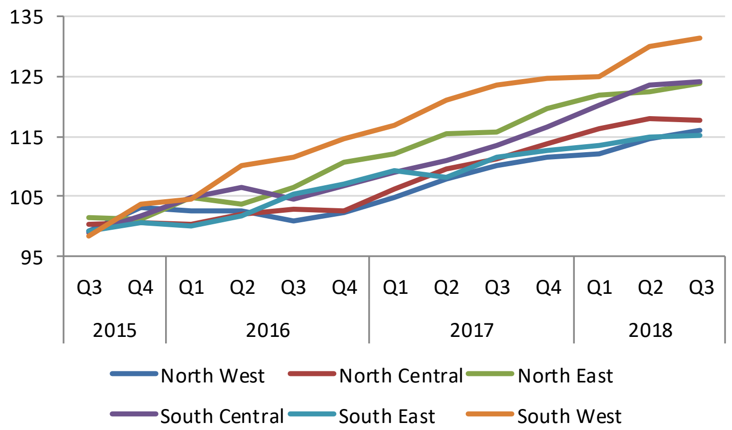
House Price Index (HPI)



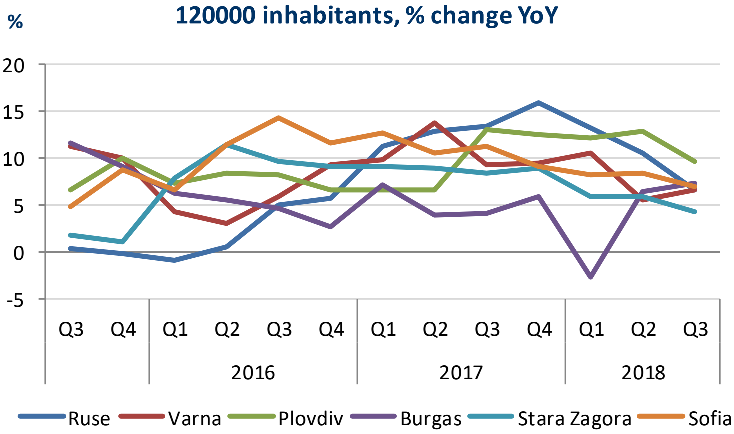
HPI: New and existing dwellings



House Price index by regions

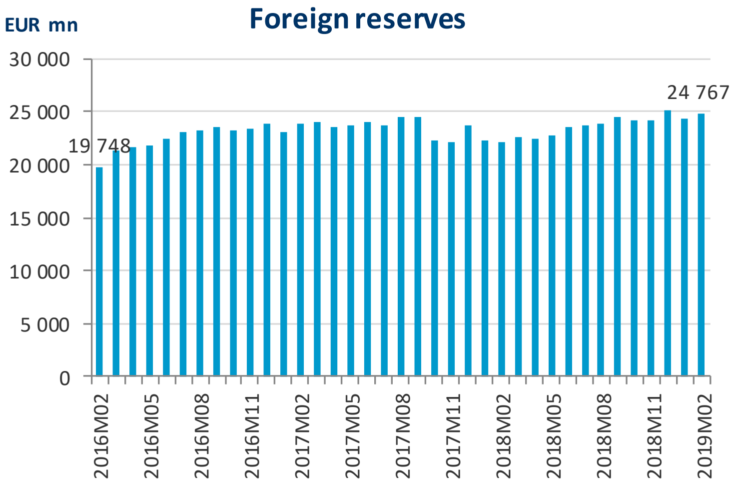


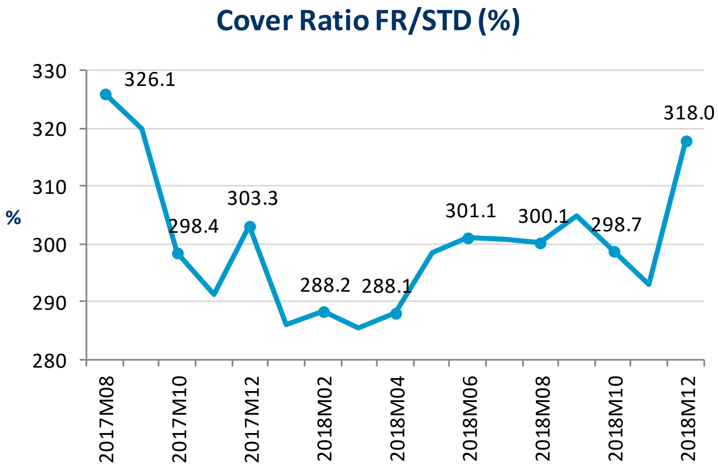
HPI for the 6 cities with population more than 120000 inhabitants, % change YoY

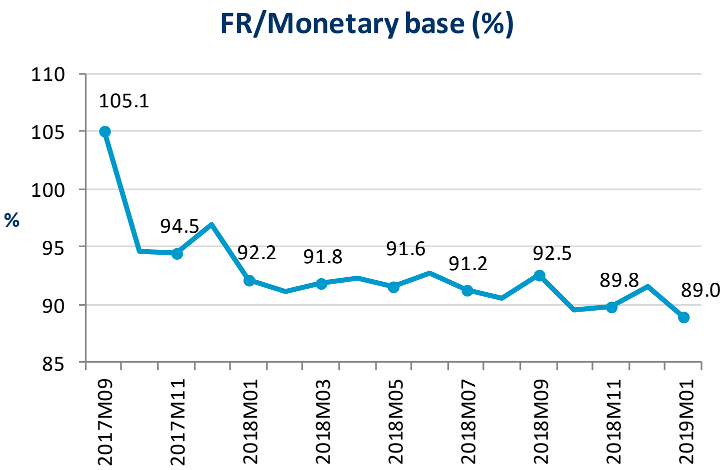


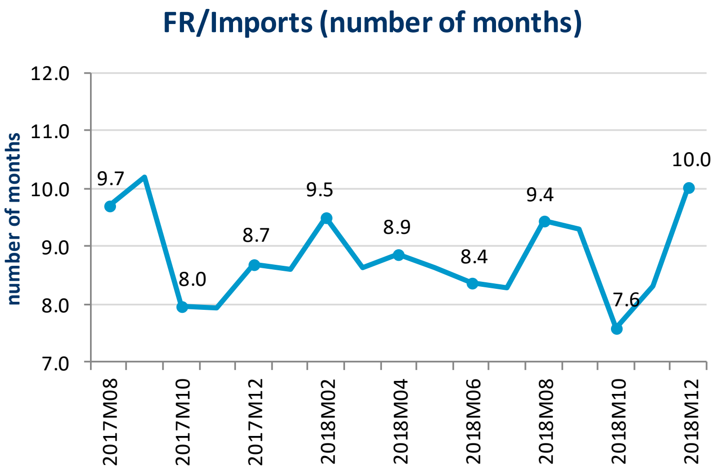
Source: NSI, EC

Bulgaria: Monetary Sector Indicators





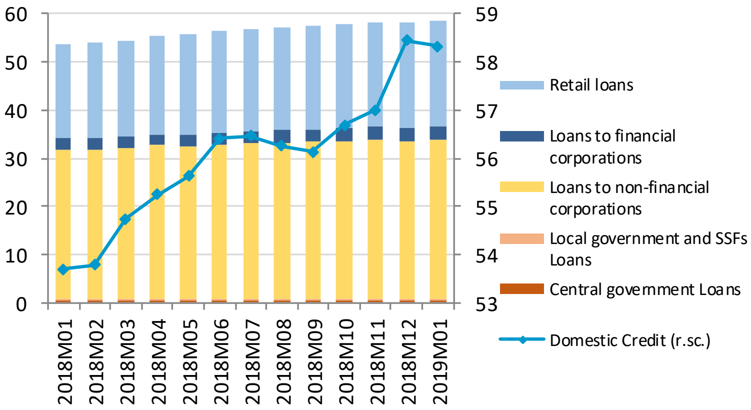




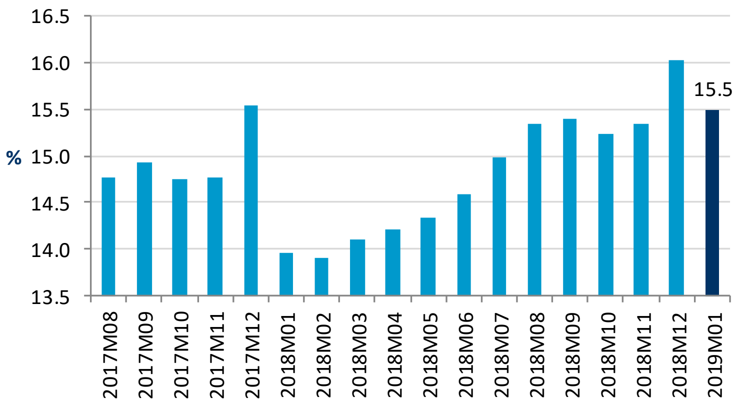
Source: BNB

Bulgaria: Monetary Sector Indicators

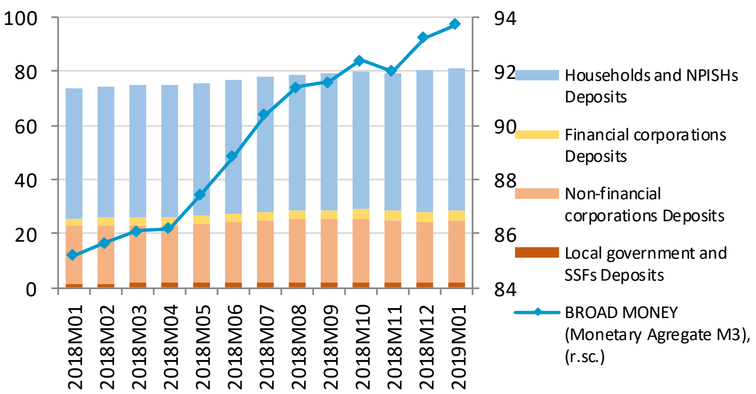
Loans and Domestic Credit (BGN bn)



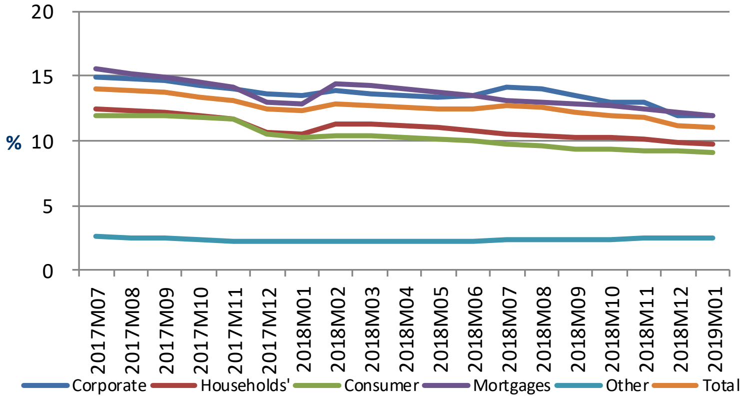
Money in circulation/GDP (%)



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

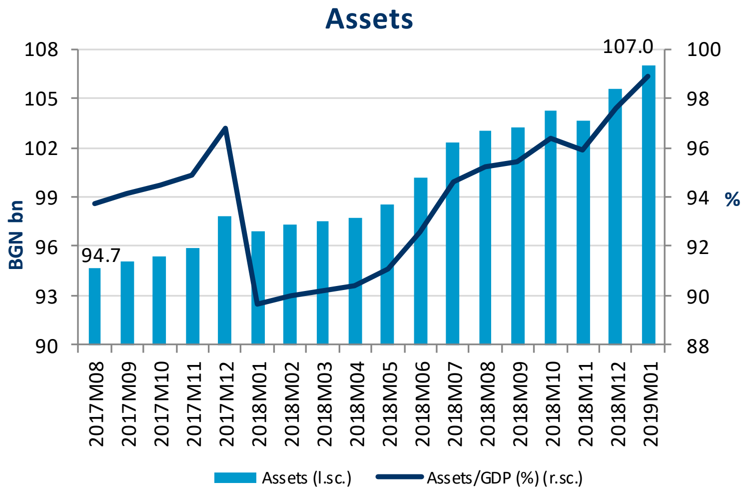


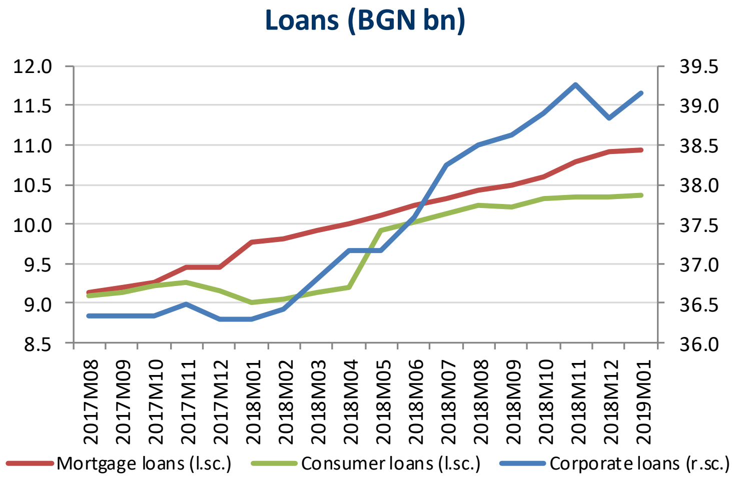
Banking sector: Bad and restructured loans (%)

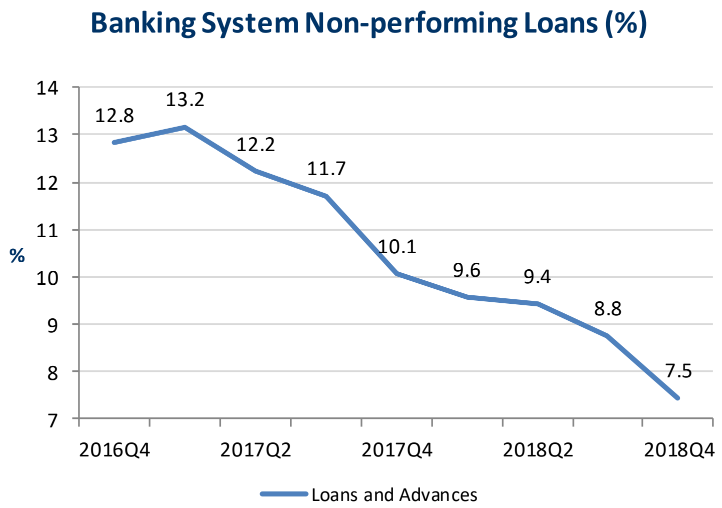


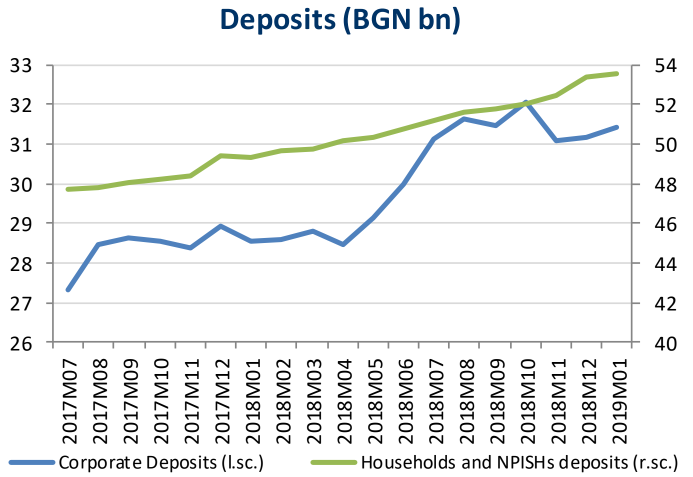
Source: BNB

Bulgaria: Banking Sector Indicators



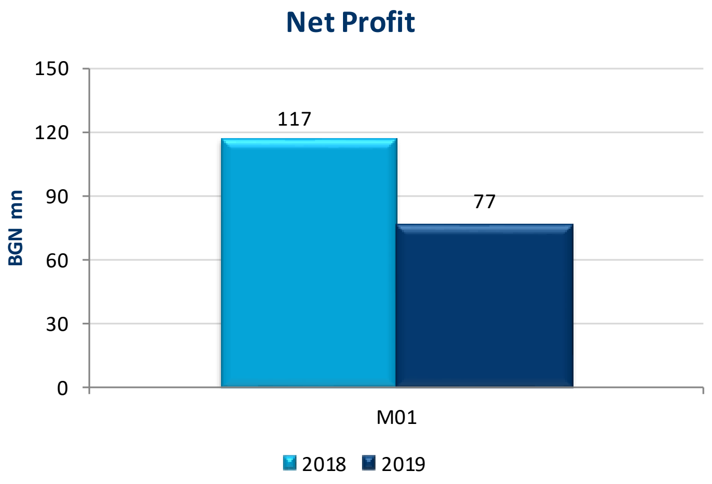


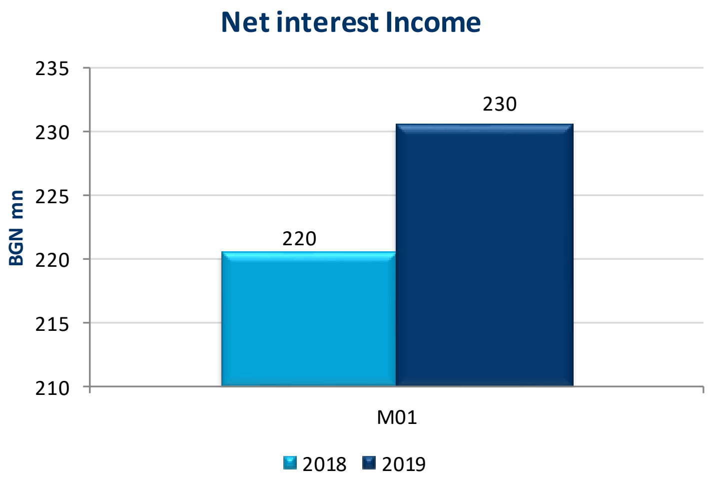


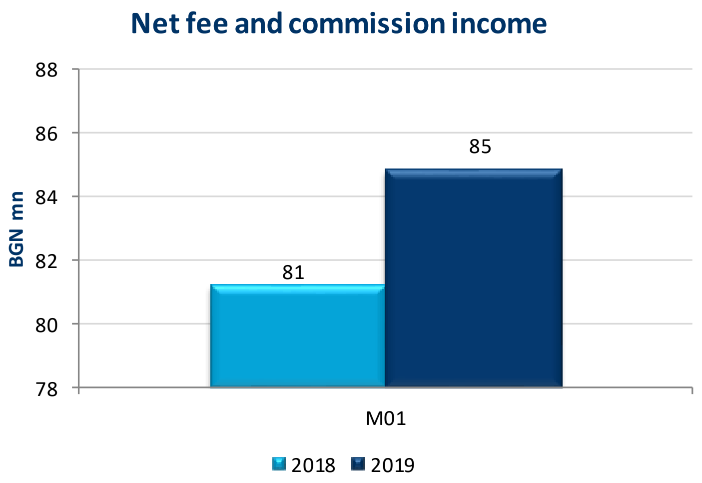


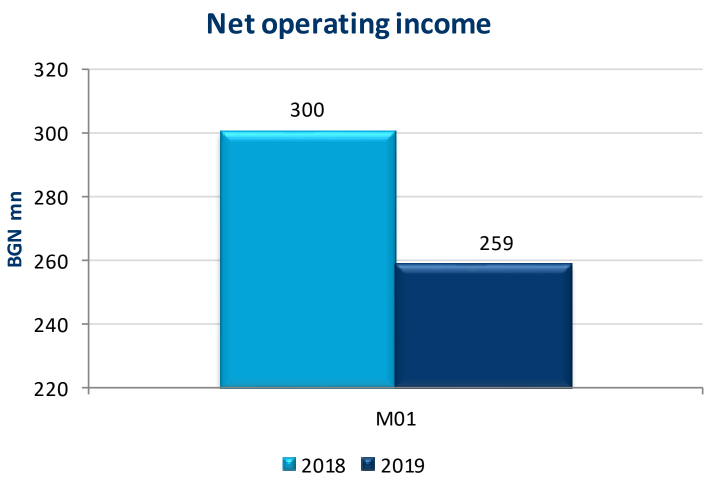
Source: BNB

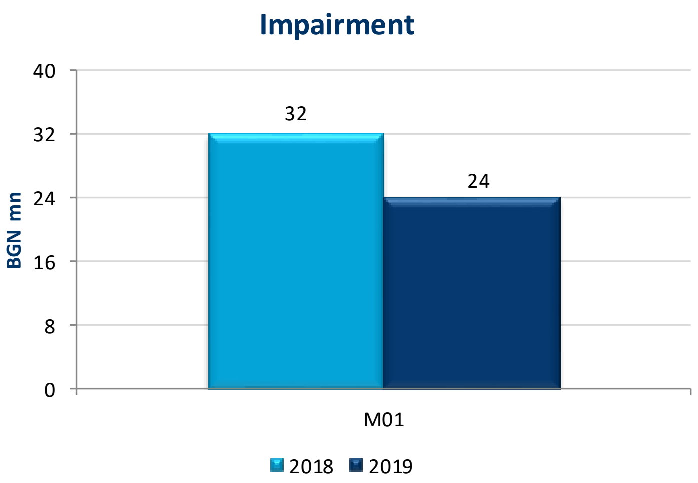
Bulgaria: Banking Sector Indicators





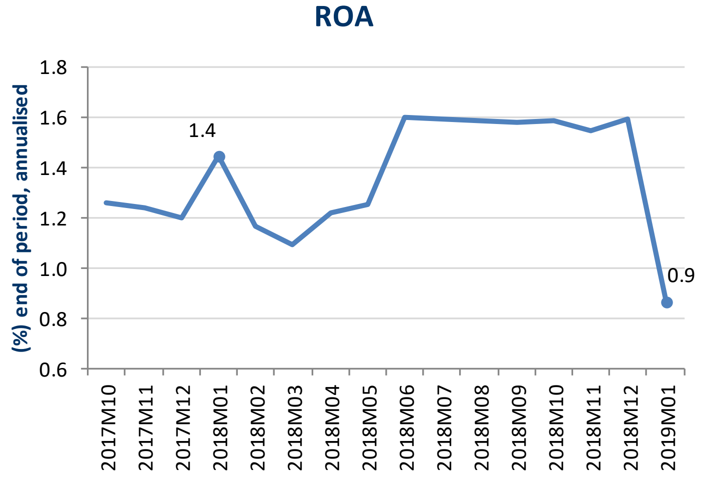


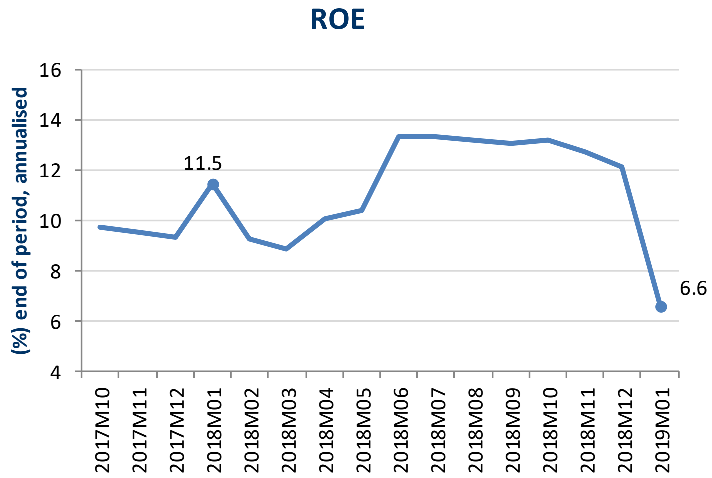


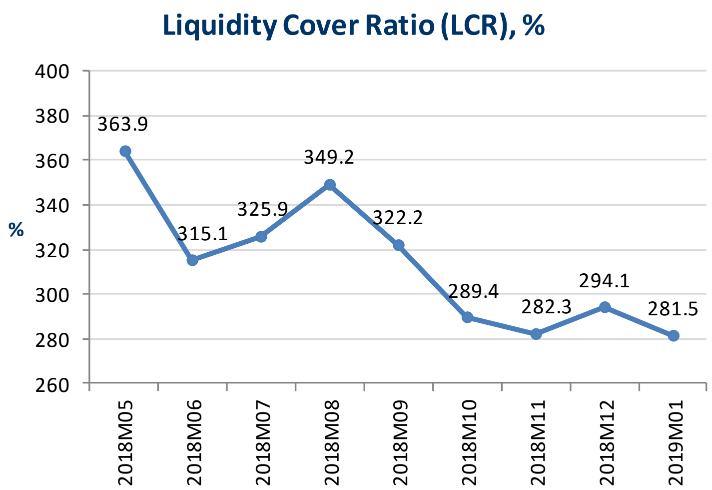


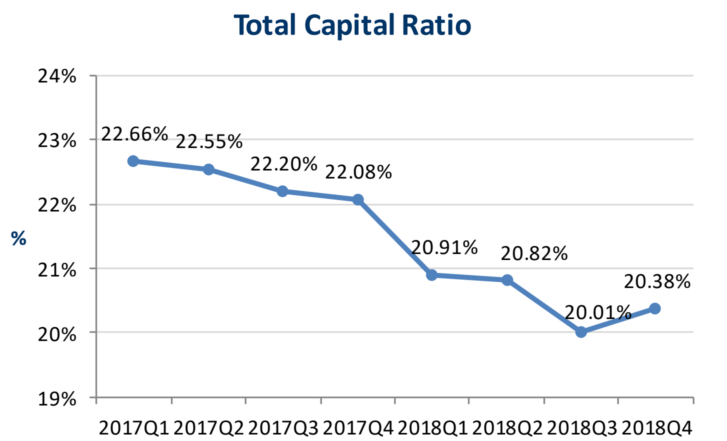
Source: BNB

Bulgaria: Banking Sector Indicators



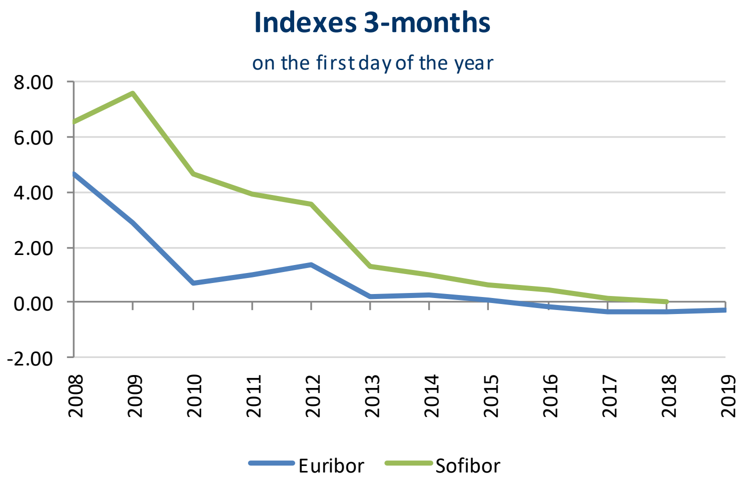


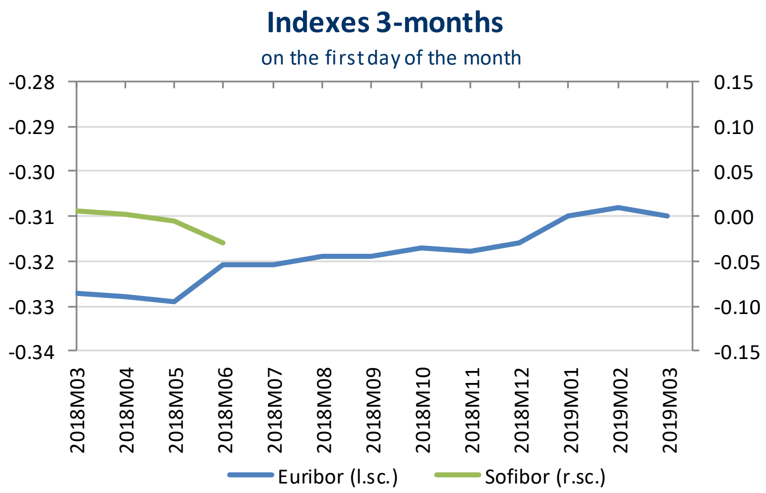


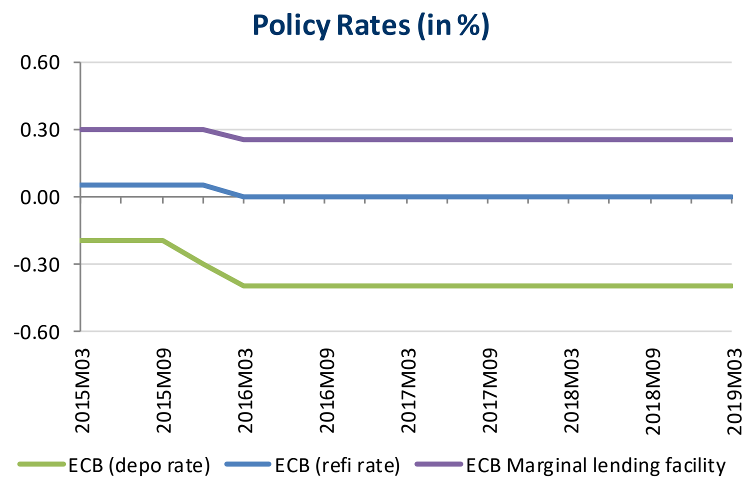


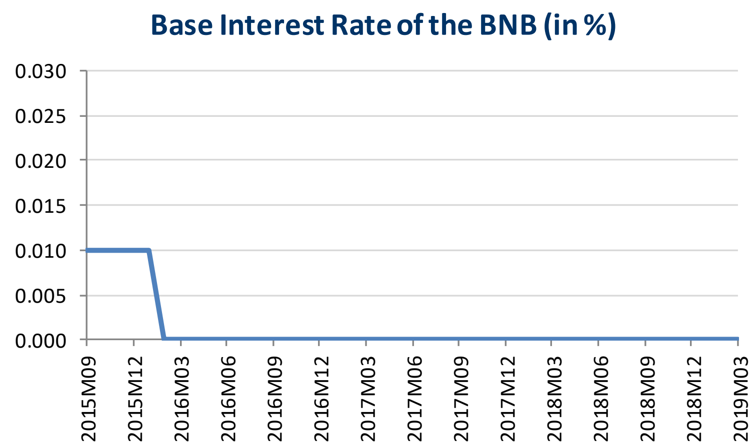
Source: BNB

Bulgaria: Indexes and Interest Rates



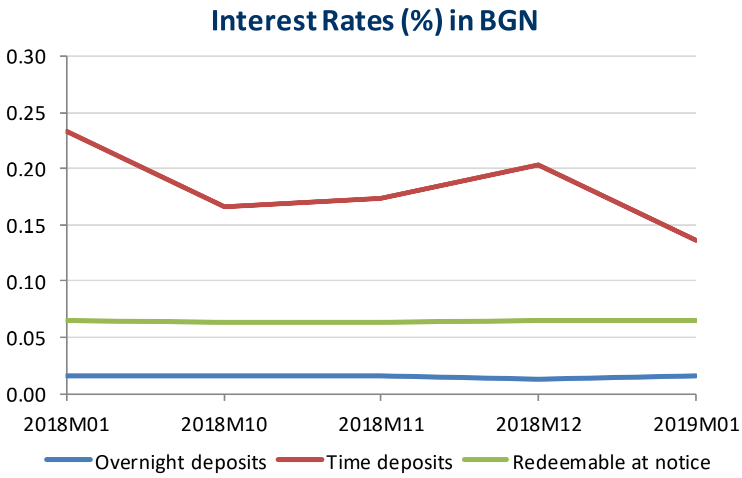


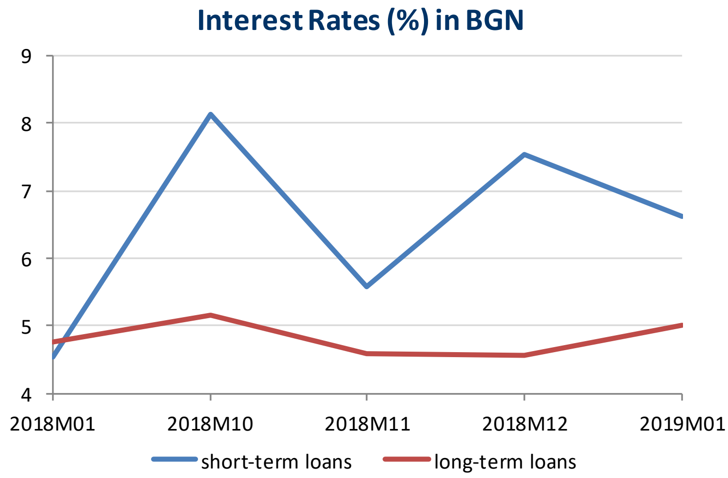


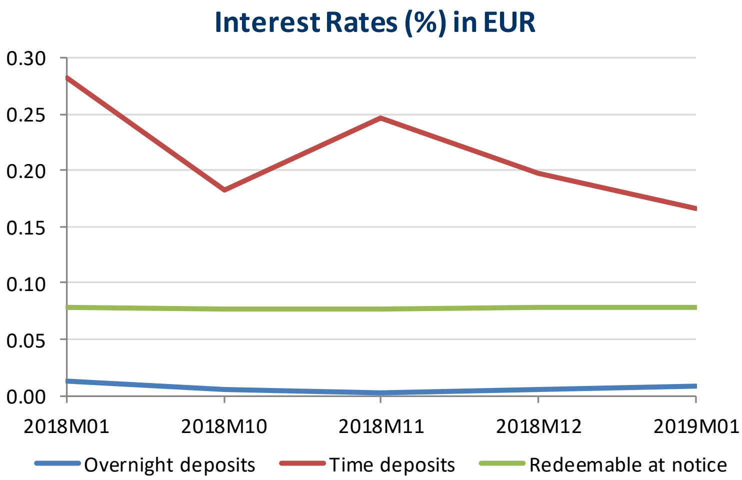


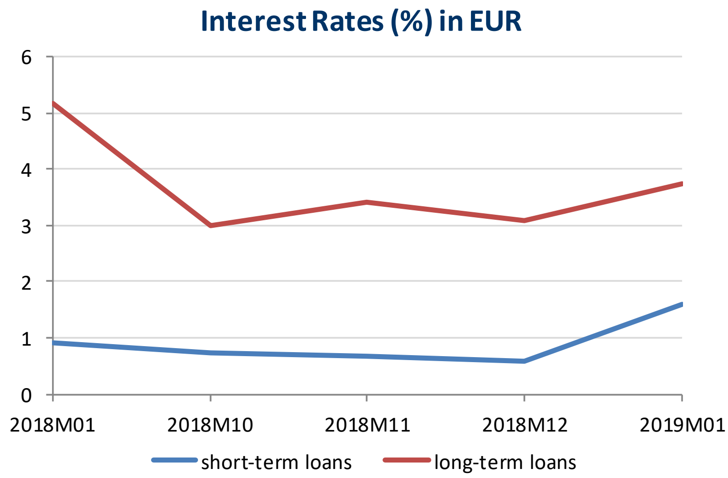
Source: ECB, BNB

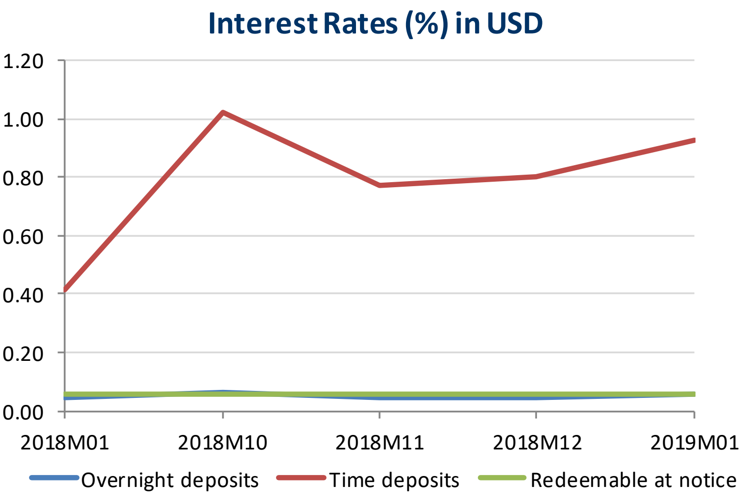
Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates

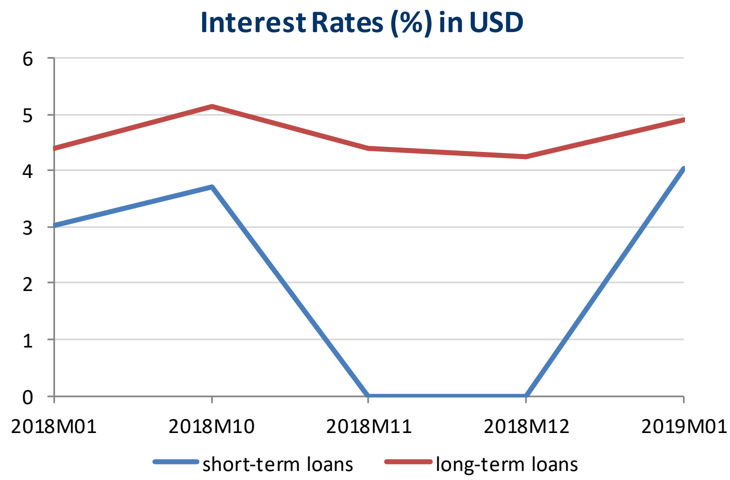






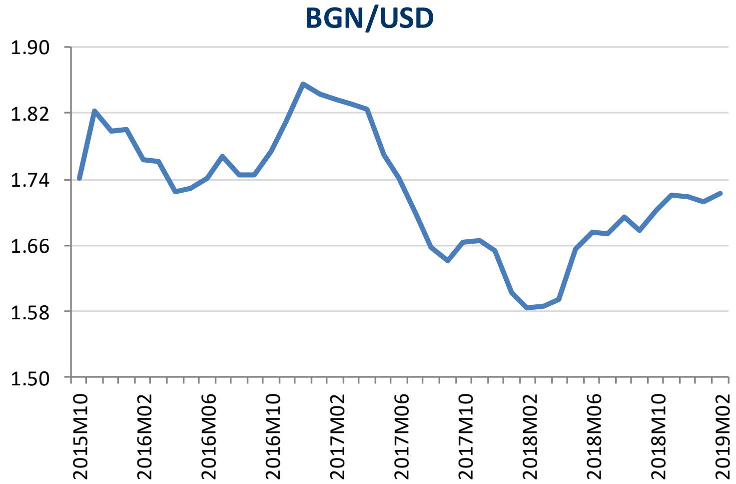


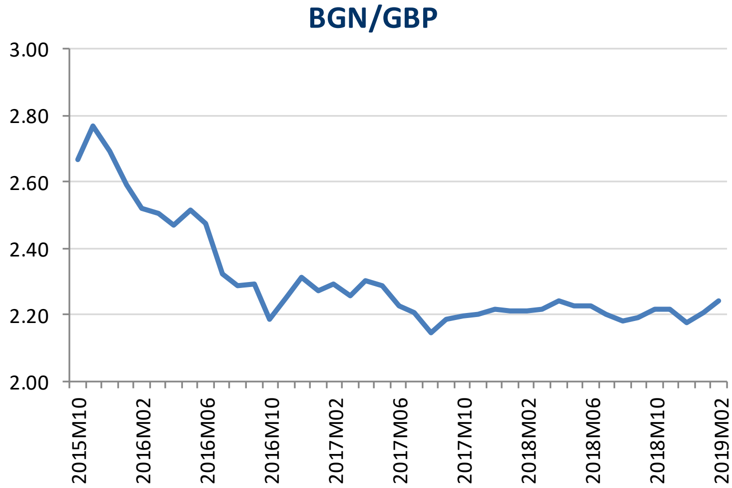


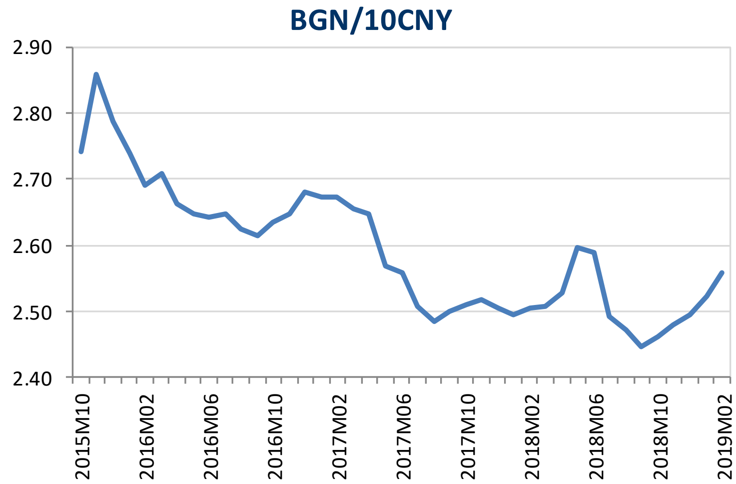


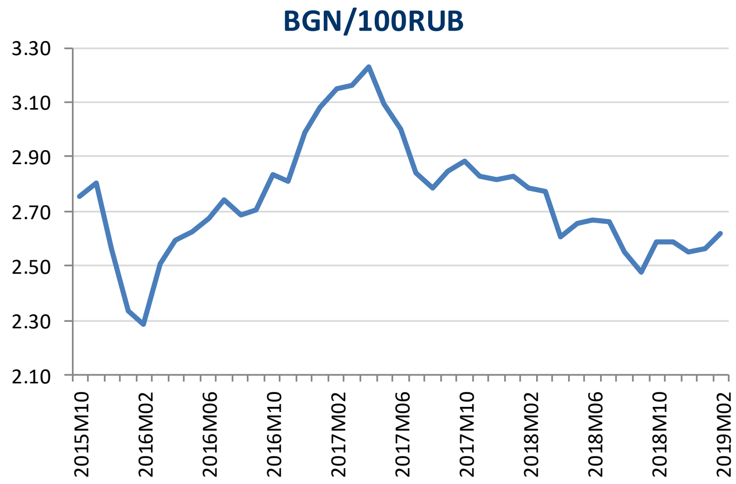
Source: BNB

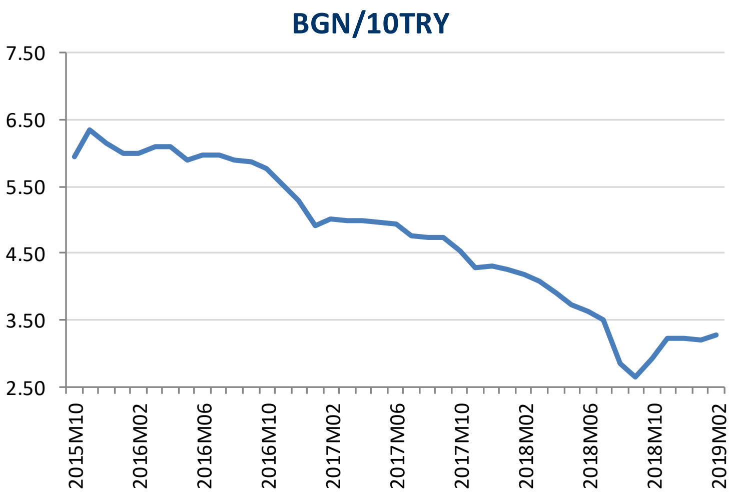
Bulgaria: FX Rates

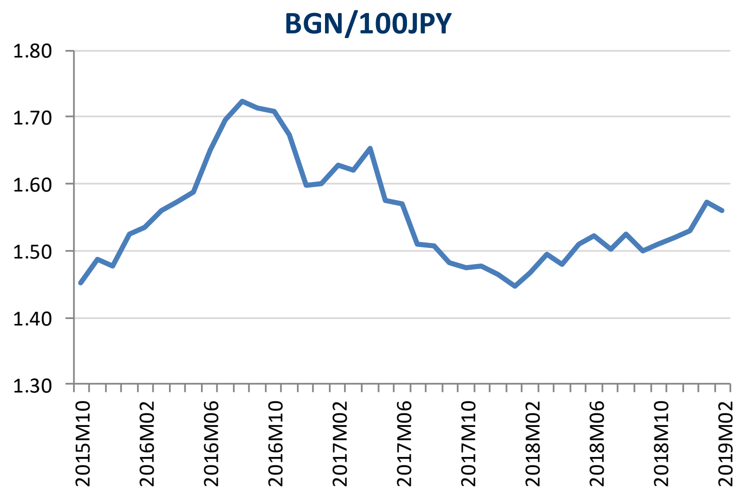












Source: ECB

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.