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

United Bulgarian Bank
Chief Economist Structure

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

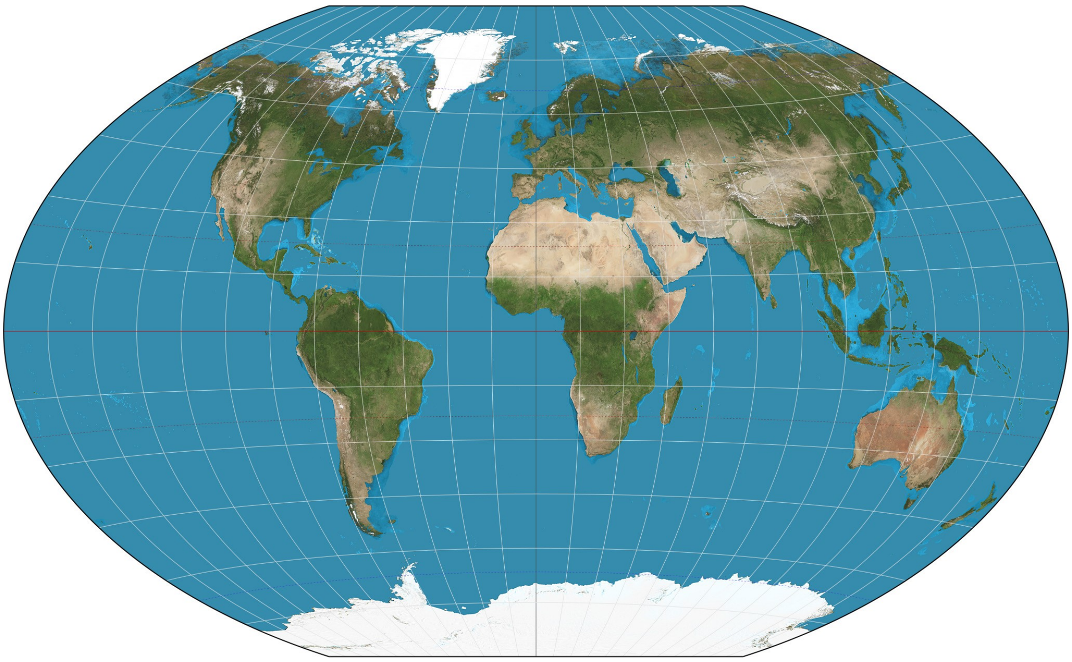
Zafira Boyuklieva
Chief Analyst
e-mail:
Zafira.Boyuklieva-Petrova@ubb.bg
tel.:+359 2 811 2981

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

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

HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



April, 2019

Sofia

- *March's decline in the euro-zone's Economic Sentiment Indicator (ESI) adds to the evidence that the economy is still growing slowly. The fall in the ESI from 106.2 in February to 105.5 is below the consensus estimate and at a 29-month low. The separate Business Climate Indicator (BCI) for the Euro Area fell to 0.53 in March 2019 from 0.69 in the previous month and well below market expectations of 0.66. It was the lowest reading since November 2016. The annual inflation rate in the Euro Area is expected to ease to 1.4% in March 2019, matching January's nine-month low, from 1.5% in the previous month. The seasonally adjusted unemployment rate in the Euro Area stood at 7.8% in February 2019, the same as the previous period. Considering the European Union as a whole, the jobless rate was at 6.5%, unchanged from the previous month and lower than a 7.1% a year earlier. It remains the lowest rate recorded since the start of the EU monthly unemployment series in January 2000.*

- *Italy may be forced to freeze some of its planned public expenditures this year as the country's growth is slower than forecast, European Commission said. Brussels had predicted in February a meagre 0.2% expansion in Italy this year, but European Commission said that growth could turn out to be "even slower" as global and domestic factors had dampened the outlook. A possible downward revision would further widen the gap with growth estimates made by Italy's government, which based its free-spending 2019 budget on the assumption of a 1% growth. Among the reforms proposed in the OECD Survey are lower and taper off Citizen's Income benefits to encourage beneficiaries to seek employment in the formal sector and introduce an in-work benefit for low -income earners. Closing the early retirement scheme introduced in 2019 would free resources to boost employment and opportunities for young people in addition to improving inter-generational equity. Italy's annual inflation rate is expected to rise to 1.0% in March 2019, the same pace as in the previous month. Italy's unemployment rate decreased to 10.7% in February 2019 from 10.5% in the previous month.*

- *The British parliament has rejected government's EU withdrawal agreement on the March 29 for a third time. The government lost by 344 votes to 286, a margin of 58. The British Prime Minister has written to the European Union to request a further delay to Brexit until 30 June. European Union leaders have granted the UK a six-month extension to Brexit, after five hours of talks in Brussels. The new deadline - 31 October - averts the prospect of the UK having to leave the EU without a deal. The UK must now hold European elections in May, or leave on 1 June. Britain's economy would be hit seven times harder than the rest of the EU and slip into recession in the event of a no-deal Brexit, the IMF forecast in a special analysis in its World Economic Outlook. The annual inflation rate in the United Kingdom rose to 1.9% in February 2019 from 1.8% in the previous month. The UK unemployment rate stood at 3.9% in the three months to February 2019, its lowest level since the November 1974-January 1975 period.*

- *The US economy advanced an annualized 2.2% qoq in the fourth quarter of 2018, well below a 2.6% growth in the previous estimate and 3.4% in the previous period. The Gross Domestic Product (GDP) in the United States expanded 3% in the fourth quarter of 2018 over the same quarter of the previous year. Considering full 2018, the economy advanced 2.9%, the most since 2015, and above 2.2% in 2017. The US annual inflation rate rose to 1.9% in March 2019 from a two-and-a-half-year low of 1.5% in the previous month. The core inflation rate, which excludes volatile items such as food and energy, edged down to 2% in March from 2.1% in February. The US unemployment rate came in at 3.8% in March 2019, unchanged from the previous month's figure.*

- *The Gross Domestic Product (GDP) in Japan advanced 0.3% in the fourth quarter of 2018 over the same quarter of the previous year. For 2018 as a whole, the economy grew 0.8%, compared to 1.9% expansion in 2017. Japan's consumer price inflation stood at 0.2% yoy in February 2019, unchanged from the previous month's 15-month low. The seasonally adjusted unemployment rate in Japan dropped unexpectedly to 2.3% in February 2019 from 2.5% in the previous month.*

- *The Chinese economy advanced 6.4% yoy in the first quarter of 2019, the same pace as in the previous quarter. The latest GDP reading remained at its lowest since the Global Financial Crisis. On a qoq basis, the economy expanded 1.4% in the first quarter, compared to a 1.5% growth in the previous period. China's economy will grow by an estimated 6.3% this year, according to a report by the Asian Development Bank. China is about to slash the employer contribution rate to the social-security fund from 18-20% (with some variation across regions) to 16%, and cut the value-added tax (VAT) rate from 16% to 13% (for most enterprises). This is on top of a previously announced reduction in the corporate income tax charged on the first CNY 3 million (USD 447,000) of taxable income. US President Trump met Chinese Vice-Premier Liu He on April 9 and said that the two nations would know “over the next four weeks” whether a trade deal could be reached. The most likely scenario remains a muddling-through trade relationship with persistent disagreement on many issues, including intellectual property protection, fair competition and balanced bilateral trade relationships. China's consumer price inflation rose to 2.3% yoy in March 2019 from 1.5% in the previous month.*

- *Treasury and Finance Minister unveiled program to help Turkey’s contracting economy. The reform package appears as a series of measures focused on to 2019 solely with the finance sector at the heart of the plans. As per the plan, the government will inject fresh capital into state-owned banks to a tune of TRY 28 billion (USD 4.9 billion) in exchange for special-purpose Treasury bonds. The government targets to keep the central government budget deficit to GDP ratio at 1.8%, achieving the end of year targets looks unattainable. Turkey’s industrial production extended its decline to six months with a 5.1% yoy decline in February. For 2019, The KBC estimate of Turkey's GDP decline is -1.5%. OECD expects decline by -1.8% in the same year. IMF expects contraction in Turkey -2.5% in 2019. The Turkish annual inflation rate rose to 19.71% in March 2019 from a six-month low of 19.67% in the prior month. Turkey's unemployment rate surged to 14.7% in December 2018-February 2019 from 10.8% in the same period of the previous year. This was the highest jobless rate since the February-April period of 2009.*

- *Based on ECB regular economic and monetary analyses, ECB decided to keep the key ECB interest rates unchanged. ECB continue to expect them 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. ECB intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time past the date when start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. The pricing of the new TLTRO-III operations will take into account a thorough assessment of the bank-based transmission channel of monetary policy, as well as further developments in the economic outlook.*

- *At its meeting ending on 20 March 2019, the Monetary Policy Committee voted unanimously to maintain Bank Rate at 0.75%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at 10 billion GBP. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at 435 billion GBP. The economic outlook will continue to depend significantly on the nature and timing of EU withdrawal, in particular: the new trading arrangements between the European Union and the United Kingdom; whether the transition to them is abrupt or smooth; and how households, businesses and financial markets respond. The appropriate path of monetary policy will depend on the balance of these effects on demand, supply and the exchange rate. The monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction.*

- *The inflation rate over the longer run is primarily determined by monetary policy, and hence the Federal Open Market Committee has the ability to specify a longer-run goal for inflation. The Committee reaffirms its judgment that inflation at the rate of 2%, as measured by the annual change in* *the price index for personal consumption expenditures, is most consistent over the longer run with the Federal Reserve's statutory mandate. The Committee would be concerned if inflation were running persistently above or below this objective. The maximum level of employment is largely determined by nonmonetary factors that affect the structure and dynamics of the labor market. In the most recent projections, the median of FOMC participants' estimates of the longer-run normal rate of unemployment was 4.4%.*

- *The funding conditions for firms and households have been highly accommodative. The expansion in the financial cycle has continued. However, financial and economic activities as a whole have shown no signs of overheating as observed during the bubble period in the late 1980s. Japan's financial system has been maintaining stability on the whole. Major financial institutions have aggressively expanded their global activities, resulting in an increase in their systemic importance and global financial connectedness. Regional Financial institutions have become more active in domestic lending to middle-risk firms and the real estate industry, as well as in securities investment.*

- *The People's Bank of China said it'll keep good control of the money supply "floodgate" and not "flood" the economy with excessive liquidity, according to a statement released late April 15. PBOC governor Yi Gang has pledged to continue to open up China's financial sector, admitting that there are still a few measures yet to materialize. Firstly, PBOC should promote financial service sector opening-up, financial market opening up and RMB exchange rate regime reform in a well-coordinated way. Secondly, pre-establishment national treatment and negative list should be applied. Thirdly, institutional arrangements for financial sector opening-up should be improved to achieve institutional and systemic opening-up. Fourthly, the business environment should be improved. Fifthly, financial regulation will be improved.*

- *The macro indicators pertaining to the Turkish economy point that the rebalancing process continues thanks to the coordinated policy actions. Current account balance is expected to maintain its improving trend. Developments in domestic demand conditions and tight monetary policy stance have led to some improvement in inflation indicators. The strong tightening in monetary policy contributes to disinflation. The yield curve has shifted downwards in response to monetary policy tightening. The Central Bank will closely monitor fluctuations and unhealthy price formations in financial markets and will use all monetary policy and liquidity management instruments to maintain price stability and support financial stability, if deemed necessary.*

- *Oil prices went up on April 18 2019, following strong demand from China's refineries, the world's second-largest oil consumer. This is happening in a tightened supply situation, as producers limit output, and US oil stocks shrink unexpectedly. Oil deliveries have fallen further this year and after the US imposed sanctions on Venezuela and Iran. Iran's crude oil exports dropped in April to its lowest daily level this year. Crude oil WTI rose 0.38 percent to 64.00 USD/BBL, an increase of 0.24 USD/BBL. Brent increased by 0.43% to 71.7979 USD/BBL, an increase of 0.31 USD/BBL. Growing crude oil production in the United States and concerns about the trade dispute between the two largest economies in the world continue to curb growth in oil prices. A steady increase in oil production in the United States, together with a slower demand, restrict the upward movement in prices.*

- *Prices of major cereals on world stock markets went down during the April 09-12. In Chicago, the price of wheat fell by -5.00 USD to 208.00 USD/ton, in France the decline was -1.00 EUR to 196.00 EUR/ton, in Russia also minus -1.00 USD to 226.00 USD/ton. Ukraine has the unity exception, there the price has risen by 1.00 USD and for wheat (226.00 USD/ton) and for maize (175.00 USD/ton). For maize in the US, quotes declined again by -2.00 USD to 168.00 USD/ton, France had a minimal fluctuation of minus -0.5 EUR to 169.25 EUR/ton. In the "Grain" sub-section of Sofia Stock Exchange, the traders become active in the beginning of the spring. Wheat is offered at 335.00 BGN/ton, the immediate delivery from the place is 270.00 BGN/ton, with quantities of more than 10000 ton and this is a very attractive price, which the buyers answered with the initial 260.00 BGN/ton.*

- *For January - February 2019, the current and capital account of Bulgaria is positive and amounts to EUR 705.2 million or 1.2% of GDP.*

- *For January-February 2019, the net inflow of direct investment in Bulgaria was negative, amounting to EUR 437.6 million (-0.7% of GDP) compared to the reported positive flow of direct investment of EUR 236.6 million (0.4% of GDP) for the same period of the previous year.*

- *At the end of March 2019, Bulgaria's international reserves amounted to BGN 48.9 billion (EUR 25 billion) and increased by 1% mom and by 10.7% yoy, respectively.*

- *The investment business inquiry of NSI carried out among industrial enterprises in March 2019 shows that in 2018 the expenditures for acquiring fixed tangible and intangible assets in industry are by 5.1% less in comparison with 2017. The plans of industrial enterprises in 2019 are for a decrease of investments by 7.3% compared to the previous year.*

- *In March 2019, the total business climate indicator preserves approximately its February level at 28% as an improvement is registered only in retail trade.*

- *According to the preliminary data the Industrial Production Index, seasonally adjusted, increased by 1.5% in February 2019 as compared to January 2019. In February 2019 the working day adjusted Industrial Production Index rose by 6.6% in comparison with the same month of 2018.*

- *According to the preliminary seasonally adjusted data in February 2019 the turnover in "Retail trade, except of motor vehicles and motorcycles" at constant prices decreased by 0.6% compared to the previous month.*

- *According to the preliminary data, in February 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 February 2019 the working day adjusted index of production in construction increased by 9.2% in comparison with the same month of 2018.*

- *In March 2019, the consumer price index in Bulgaria grew to 3.6% yoy. Over the same period, HICP grew to 2.8% yoy, respectively. Bulgaria should maintain low inflation that does not exceed by more than 1.5 percentage points the average annual inflation rate in the three EU countries with the lowest positive inflation. At the end of March 2019, Bulgaria fulfilled this condition.*

- *Total Producer Price Index in February 2019 increased with 1.8% compared to the previous month; compared to the same month of 2018 the prices rose by 3.9%. Producer Price Index on Domestic Market in February 2019 increased by 1.5% compared to the previous month; compared to the same month of 2018 the domestic prices grew by 4.1%.*

- *In March 2019, unemployment in Bulgaria declined to 5.9% from 6.2% in February 2019 and 6.8% in March 2018.*

- *In February 2019 Bulgaria' CFP balance on a cash basis is positive, amounting to BGN 1,513.4 million and presented 1.3% of forecasted GDP. The fiscal reserve as of 28.02.2019 amounts to BGN 10.4 billion. CFP balance on a cash basis as of March 2019 is expected to be positive, amounting to BGN 1,789.0 million (1.5% of the projected GDP).*

- *At the end of February 2019, Bulgaria's central government sub-sector debt amounted to EUR 11,689.2 million and accounts for 19.6% of projected GDP. MF predicts a reduction in government debt to 16.5% of GDP by the end of 2021.*

- *The MF predicts 3.4% GDP growth for 2019 and 3.3% for 2020-2022. The IMF predicts GDP growth* *for Bulgaria from 3.3% in 2019, 3% in 2020 and 2.8% in 2021-2024.*

- *In February 2019 broad money (M3) amounted to BGN 94.614 billion (81.8% of GDP) and increased on an annual basis by 10.4%. Domestic credit amounted to BGN 57.937 billion and increased compared to February 2018 by 7.7%.*

- *In March 2019, two of the leading indexes on the stock exchange fell SOFIX to 583.87 points and BGREIT to 120.64 points respectively. BG TR30 retained its level at 506.03 points. Only BGBX 40 reported an increase to 116.27 points.*

- *In February 2019 Bulgaria's banking system total assets increased to BGN 107.7 billion and thus increased by 0.7% mom and by 10.7% yoy, respectively. Their relative share in GDP is 92.6%.*

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GLOBAL TRENDS

Advanced countries' economies

Eurozone

March's decline in the euro-zone's Economic Sentiment Indicator (ESI) adds to the evidence that the economy is still growing slowly. The fall in the ESI from 106.2 in February to 105.5 is below the consensus estimate and at a 29-month low. The separate Business Climate Indicator (BCI) for the Euro Area fell to 0.53 in March 2019 from 0.69 in the previous month and well below market expectations of 0.66. It was the lowest reading since November 2016. The annual inflation rate in the Euro Area is expected to ease to 1.4% in March 2019, matching January's nine-month low, from 1.5% in the previous month. The seasonally adjusted unemployment rate in the Euro Area stood at 7.8% in February 2019, the same as the previous period. Considering the European Union as a whole, the jobless rate was at 6.5%, unchanged from the previous month and lower than a 7.1% a year earlier. It remains the lowest rate recorded since the start of the EU monthly unemployment series in January 2000.

March's decline in the euro-zone's Economic Sentiment Indicator (ESI) adds to the evidence from other surveys that the economy is still growing slowly. The fall in the ESI from 106.2 in February to 105.5 is below the consensus estimate and at a 29-month low. While much of the recent weakness has been due to the industrial sector, the services index has also been on a downward trend and both declined again in March. The slowdown is not just down to slower export growth – domestic demand has softened too. Over Q1 as a whole, the ESI averaged 106.0, which was lower than in Q3 and Q4 last year when the economy grew by 0.1% and 0.2%, respectively. The separate Business Climate Indicator (BCI) for the Euro Area fell to 0.53 in March 2019 from 0.69 in the previous month and well below market expectations of 0.66. It was the lowest reading since November 2016, as all the five components of the indicator worsened: while managers' views of the past production, their production expectations, and their assessments of both overall and export order books declined significantly, their appraisal of the stocks of finished products worsened only slightly. The annual inflation rate in the Euro Area is expected to ease to 1.4% in March 2019, matching January's nine-month low, from 1.5% in the previous month and slightly below market consensus of 1.5%. Prices should rise at a softer pace for services (1.1% vs 1.4% in February), non-energy industrial goods (0.2% vs 0.4%) and food, alcohol & tobacco (1.8% vs 2.3%), in particular processed food, alcohol & tobacco (2% vs 2.1%) and unprocessed food (1.2% vs 2.9%). Meanwhile, energy inflation is expected to accelerate to 5.3% from 3.6%. The annual core inflation, which excludes volatile prices of energy, food, alcohol & tobacco and at which the ECB looks in its policy decisions, is likely to fall to 0.8% in March from 1% in the previous month and slightly below market consensus of 0.9%. The seasonally adjusted unemployment rate in the Euro Area stood at 7.8% in February 2019, the same as the previous period and in line with market expectations. It remained the lowest jobless rate since October 2008. A year earlier, unemployment was higher at 8.5%. Considering the European Union as a whole, the jobless rate was at 6.5%, unchanged from the previous month and lower than a 7.1% a year earlier. It remains the lowest rate recorded since the start of the EU monthly unemployment series in January 2000. Among the Member States, the lowest unemployment rates in February 2019 were registered in Czech Republic (1.9%), Germany (3.1%) and the Netherlands (3.4%) and the highest rates were observed in Greece (18.0% in December 2018), Spain (13.9%) and Italy (10.7%). Compared with a year ago, the unemployment rate decreased in all Member States except Denmark and Austria where it remained stable. The largest declines were registered in Greece (from 20.8% to 18.0% between December 2017 and December 2018), Cyprus (from 9.4% to 7.1%), and Estonia (from 6.4% to 4.2%). The youth unemployment rate was 14.6% in the EU28 and 16.1% in the Euro Area, down from 15.7% and 17.7% respectively in February 2018.

Italy

Italy may be forced to freeze some of its planned public expenditures this year as the country's growth is slower than forecast, European Commission said. Brussels had predicted in February a meagre 0.2% expansion in Italy this year, but European Commission said that growth could turn out to be "even slower" as global and domestic factors had dampened the out-

look. A possible downward revision would further widen the gap with growth estimates made by Italy's government, which based its free-spending 2019 budget on the assumption of a 1% growth. Among the reforms proposed in the OECD Survey are lower and taper off Citizen's Income benefits to encourage beneficiaries to seek employment in the formal sector and introduce an in-work benefit for low-income earners. Closing the early retirement scheme introduced in 2019 would free resources to boost employment and opportunities for young people in addition to improving inter-generational equity. Italy's annual inflation rate is expected to rise to 1.0% in March 2019, the same pace as in the previous month. Italy's unemployment rate decreased to 10.7% in February 2019 from 10.5% in the previous month.

Italy may be forced to freeze some of its planned public expenditures this year as the country's growth is slower than forecast, European Commission said. Brussels had predicted in February a meagre 0.2% expansion in Italy this year, but European Commission said that growth could turn out to be "even slower" as global and domestic factors had dampened the outlook. A possible downward revision would further widen the gap with growth estimates made by Italy's government, which based its free-spending 2019 budget on the assumption of a 1% growth. Speaking after a meeting with Italian Finance Minister on the budget, European Commission said in these circumstances Italy would probably be required to freeze 2 billion EUR of spending this year in order to respect EU fiscal rules. Rome had agreed with Brussels that those EUR 2 billion would be spent only if economic conditions did not deteriorate. Now this safeguard clause "should normally be activated," said European Commission. The clause was negotiated to make sure Rome remained broadly compliant with EU rules that require countries with large public debts to gradually reduce them. Italy's debt stands above 132% of output, the second highest ratio in the EU after Greece, which went through three bailouts in recent years. European Commission added that Italian Finance Minister had assured him Italy would respect EU fiscal rules in its budgetary plans for the coming years that will be submitted to Brussels at the end of April. A clear multi-year reform programme to boost employment and productivity, while reducing steadily public debt, would lift average annual growth rates and improve inclusiveness. This is among the key policy insights of the OECD's 2019 Economic Survey of Italy, launched on 1 April 2019 by the OECD Secretary General and Italy's Minister of Finance. Among the reforms proposed in the Survey, those concerning the efficiency of public administration and justice system would have the largest impact on GDP growth by strengthening the rule of law, thus supporting investment and productivity growth. The expansion of active labour market programmes and reducing social security contributions would also generate large benefits by boosting employment and social inclusion. . Lower and taper off Citizen's Income benefits to encourage beneficiaries to seek employment in the formal sector and introduce an in-work benefit for low-income earners. Reducing the public debt ratio by steadily raising the primary budget surplus to above 2% is essential to address the risk to the broader economy of the high public debt ratio. Closing the early retirement scheme introduced in 2019 would free resources to boost employment and opportunities for young people in addition to improving inter-generational equity. Italy's annual inflation rate is expected to rise to 1.0% in March 2019, the same pace as in the previous month and in line with market expectations, a preliminary estimate showed. Annual core inflation rate, which excludes energy and unprocessed food, is expected to rise 0.5%, after increasing 0.4% in February. On a monthly basis, consumer prices should went up 0.3%, following a 0.1% gain in the prior month and matching market forecasts. The harmonized index of consumer prices is expected to advance 1.1% yoy, unchanged from the previous month; and to rebound month-over-month (2.3% from -0.3% in February). Italy's unemployment rate decreased to 10.7% in February 2019 from 10.5% in the previous month and above market expectations of 10.5%. The number of unemployed rose by 1.2% and employment dropped 0.1%.

United Kingdom

The British parliament has rejected government's EU withdrawal agreement on the March 29 for a third time. The government lost by 344 votes to 286, a margin of 58. The British Prime Minister has written to the European Union to request a further delay to Brexit until 30 June. European Union leaders have granted the UK a six-month extension to Brexit, after five hours of talks in Brussels. The new deadline - 31 October - averts the prospect of the UK having to leave the EU without a deal. The UK must now hold European elections in May, or leave on 1 June. Britain's economy would be hit seven times harder than the rest of the EU and slip into recession in the event of a no-deal Brexit, the IMF forecast in a special analysis in its World Economic Outlook. The annual inflation rate in the United Kingdom rose to 1.9% in February 2019 from 1.8% in the previous month. The UK unemployment rate stood at 3.9% in the three months to February 2019, its lowest level since the

November 1974-January 1975 period.

The British parliament has rejected government's EU withdrawal agreement on the March 29 for a third time. The government lost by 344 votes to 286, a margin of 58, and means the UK has missed an EU deadline to delay Brexit to 22 May and leave with a deal. The British Prime Minister has written to the European Union to request a further delay to Brexit until 30 June. European Union leaders have granted the UK a six-month extension to Brexit, after five hours of talks in Brussels. The new deadline - 31 October - averts the prospect of the UK having to leave the EU without a deal. The UK must now hold European elections in May, or leave on 1 June without a deal. The EU has ruled out any renegotiation of the withdrawal agreement. "The course of action will be entirely in the UK's hands," the President of EU said. "They can still ratify the withdrawal agreement, in which case the extension can be terminated." The President of EU said the UK could also rethink its strategy or choose to "cancel Brexit altogether". He added: "Let me finish with a message to our British friends: This extension is as flexible as I expected, and a little bit shorter than I expected, but it's still enough to find the best possible solution. Please do not waste this time." The Prime Minister is in talks with the opposition Labour party leader in an effort to find a way out of the Brexit impasse. Britain's economy would be hit seven times harder than the rest of the EU and slip into recession in the event of a no-deal Brexit, the IMF forecast in a special analysis in its World Economic Outlook. The IMF estimated a decline in gross domestic product of 1.4% in the year after Brexit and a further decline of 0.8% in the second year. The EU economy would also be hit, the fund predicted, but any damage would be much smaller and would constrain growth by 0.5% in 2021. "A no-deal Brexit that severely disrupts supply chains and raises trade costs could potentially have large and long-lasting negative impacts on the economies of the United Kingdom and the EU," the IMF said. By contrast, the fund's main forecast is based on a scenario in which Brexit would have only limited trade costs and growth of 1.2% in 2019 and 1.4% in 2020. These forecasts were revised down from 1.5% and 1.6% respectively in the IMF's January interim forecasts. The annual inflation rate in the United Kingdom rose to 1.9% in February 2019 from 1.8% in the previous month and above market expectations of 1.8%. Prices went up further mainly due to food, alcohol and tobacco, and recreational and cultural goods. The annual core inflation rate, which excludes prices of energy, food, alcohol and tobacco, advanced by 1.8%, easing from a 1.9% gain in January and slightly below market consensus of 1.9%. On a monthly basis, consumer prices went up 0.5%, rebounding from a 0.8% fall in the previous month and in line with forecasts. It was the highest monthly inflation rate since August last year. The UK unemployment rate stood at 3.9% in the three months to February 2019, its lowest level since the November 1974-January 1975 period and in line with market expectations. Employment continued to increase at a solid pace despite Brexit uncertainty and total pay growth was at the joint highest rate since mid-2008.

USA

The US economy advanced an annualized 2.2% qoq in the fourth quarter of 2018, well below a 2.6% growth in the previous estimate and 3.4% in the previous period. The Gross Domestic Product (GDP) in the United States expanded 3% in the fourth quarter of 2018 over the same quarter of the previous year. Considering full 2018, the economy advanced 2.9%, the most since 2015, and above 2.2% in 2017. The US annual inflation rate rose to 1.9% in March 2019 from a two-and-a-half-year low of 1.5% in the previous month. The core inflation rate, which excludes volatile items such as food and energy, edged down to 2% in March from 2.1% in February. The US unemployment rate came in at 3.8% in March 2019, unchanged from the previous month's figure.

The US economy advanced an annualized 2.2% qoq in the fourth quarter of 2018, well below a 2.6% growth in the previous estimate and 3.4% in the previous period. It compares with market expectations of 2.4%. Personal consumption expenditure and nonresidential fixed investment rose less than expected and public spending declined. On the other hand, the drag from net trade was smaller than anticipated as exports rose more and imports increased at a softer pace. The Gross Domestic Product (GDP) in the United States expanded 3% in the fourth quarter of 2018 over the same quarter of the previous year. Considering full 2018, the economy advanced 2.9%, the most since 2015, and above 2.2% in 2017. The US annual inflation rate rose to 1.9% in March 2019 from a two-and-a-half-year low of 1.5% in the previous month, slightly above market consensus of 1.8%. The core inflation rate, which excludes volatile items such as food and energy, edged down to 2% in March from 2.1% in February, staying just below forecasts of 2.1%. On a monthly basis, consumer prices rose 0.4% in March, the biggest advance since January 2018, following a 0.2% gain in February and beating market expectations of 0.3%. The US unemployment rate came in at 3.8% in March 2019, unchanged from the previous month's figure and in line with market expectations. The number of unemployed persons decreased by 24 thousand to 6.2 million while employment dropped by 201 thousand to 156.7 million. The labor force participation rate fell 0.2%age points to 63.0% and has shown little movement on net over the past 12 months. The employment-population ratio edged down 0.1% points to 60.6% in March and has been either 60.6% or 60.7% since October 2018.

Japan

The Gross Domestic Product (GDP) in Japan advanced 0.3% in the fourth quarter of 2018 over the same quarter of the previous year. For 2018 as a whole, the economy grew 0.8%, compared to 1.9% expansion in 2017. Japan's consumer price inflation stood at 0.2% yoy in February 2019, unchanged from the previous month's 15-month low. The seasonally adjusted unemployment rate in Japan dropped unexpectedly to 2.3% in February 2019 from 2.5% in the previous month.

The Gross Domestic Product (GDP) in Japan advanced 0.3% in the fourth quarter of 2018 over the same quarter of the previous year. For 2018 as a whole, the economy grew 0.8%, compared to 1.9% expansion in 2017. Japan's consumer price inflation stood at 0.2% yoy in February 2019, unchanged from the previous month's 15-month low and below market expectations of 0.3%. Prices of both food and transportation and communication fell for a third month in a row, while housing costs were flat. Annual core consumer inflation, which excludes fresh food, inched lower to 0.7% in February from 0.8% in January and also below market consensus of 0.8%. The figure came in well below the Bank of Japan's target of 2%. On a seasonally adjusted monthly basis, consumer prices were unchanged in February, after a 0.3% rise in January. The seasonally adjusted unemployment rate in Japan dropped unexpectedly to 2.3% in February 2019 from 2.5% in the previous month while markets had expected 2.5%. It was the lowest jobless rate since September last year. A year earlier, the unemployment rate was higher at 2.5%. Meanwhile, the jobs-to-applicants ratio remained unchanged at 1.63 and in line with consensus. Youth unemployment rate, measuring job-seekers between 15 and 24 years old, went up to 3.4% in February from 3.2% in January.

China

The Chinese economy advanced 6.4% yoy in the first quarter of 2019, the same pace as in the previous quarter. The latest GDP reading remained at its lowest since the Global Financial Crisis. On a qoq basis, the economy expanded 1.4% in the first quarter, compared to a 1.5% growth in the previous period. China's economy will grow by an estimated 6.3% this year, according to a report by the Asian Development Bank. China is about to slash the employer contribution rate to the social-security fund from 18-20% (with some variation across regions) to 16%, and cut the value-added tax (VAT) rate from 16% to 13% (for most enterprises). This is on top of a previously announced reduction in the corporate income tax charged on the first CNY 3 million (USD 447,000) of taxable income. US President Trump met Chinese Vice-Premier Liu He on April 9 and said that the two nations would know “over the next four weeks” whether a trade deal could be reached. The most likely scenario remains a muddling-through trade relationship with persistent disagreement on many issues, including intellectual property protection, fair competition and balanced bilateral trade relationships. China's consumer price inflation rose to 2.3% yoy in March 2019 from 1.5% in the previous month.

The Chinese economy advanced 6.4% yoy in the first quarter of 2019, the same pace as in the previous quarter but slightly above market expectations of a 6.3% expansion. Industrial output growth accelerated markedly and consumer demand strengthened amid government's pro-growth policies, which helped stabilize sentiments rattled by trade dispute with the US. The latest GDP reading remained at its lowest since the Global Financial Crisis, with financial risks mounting from alarming off-balance-sheet borrowings by local governments, amid intense trade conflict with the US and softening domestic demand. Industrial output rose by 8.5% yoy in March, easily beating market consensus of a 5.9% increase and accelerating from a 5.3% rise in the previous period. This was the fastest growth in industrial output since July 2014, when the reading showed a 9% growth. Considering the first three months of 2019, industrial production expanded 6.5% compared to the same period a year earlier. Retail sales increased by 8.7% yoy in March, faster than 8.2% gain in the previous period and above market expectations of 8.4% gain. From January to March, fixed-asset investment advanced 6.3% from a year earlier, stronger than a 6.1%

growth in the preceding quarter and in line with market consensus.

On a qoq basis, the economy expanded 1.4% in the first quarter, compared to a 1.5% growth in the previous period and matching market estimates. It was the weakest quarterly growth rate since the first quarter of 2016. China's economy will grow by an estimated 6.3% this year, according to a report by the Asian Development Bank. The growth is in line with the Chinese government's target and is anticipated to continue next year, with growth of 6.1% predicted for 2020. This is a drop from 6.8% in 2017 and 6.6% in 2018. The report predicts that recent government steps to improve investment opportunities for foreigners will boost inflows of capital into the country. China is about to slash the employer contribution rate to the social-security fund from 18-20% (with some variation across regions) to 16%, and cut the value-added tax (VAT) rate from 16% to 13% (for most enterprises). This is on top of a previously announced reduction in the corporate income tax charged on the first CNY 3 million (USD 447,000) of taxable income. These policy moves are timely and useful in combating the downward pressure on economic growth, but they also raise the risk of a future debt crisis. The loss of government revenue will not be entirely proportional to these rate reductions, as the government can also tighten enforcement to reduce tax evasion. The policy package would likely raise the central government's fiscal deficit from 2.8% of GDP to about 5%, and increase central-government debt from about 47% of GDP to perhaps 70% over the medium term. US President Trump met Chinese Vice-Premier Liu He on April 9 and said that the two nations would know "over the next four weeks" whether a trade deal could be reached. The Global Times, a publication affiliated with the flagship newspaper of the Chinese Communist Party, the People's Daily, said Trump's suggestion that a deal could be reached by the end of the month is "just an uncertain timetable". The official Xinhua news agency said that the two sides have achieved "new progress" over the agreement, while White House spokeswoman Sarah Sanders said there was still "significant work" to be done in trade talks with Beijing. The most likely scenario remains a muddling-through trade relationship with persistent disagreement on many issues, including intellectual property protection, fair competition and balanced bilateral trade relationships. China's consumer price inflation rose to 2.3% yoy in March 2019 from 1.5% in the previous month, in line with market consensus. This was the highest rate since October last year, mainly due to a surge in prices of food as an outbreak of African swine fever sent the price of pork soaring. The politically sensitive food inflation rose to a 13-month high of 4.1% in March from 0.7% in the preceding month. Cost of non-food rose 1.8% in March, little-changed from the previous month's 1.7% gain. Annual core inflation, which strips out volatile food and energy prices, stood at 1.8% in March, the same as in February. On a monthly basis, consumer prices fell 0.4% in March, after an increase of 1% in February and compared to market expectations of a 0.2% drop.

Turkey

Treasury and Finance Minister unveiled program to help Turkey's contracting economy. The reform package appears as a series of measures focused on to 2019 solely with the finance sector at the heart of the plans. As per the plan, the government will inject fresh capital into state-owned banks to a tune of TRY 28 billion (USD 4.9 billion) in exchange for special-purpose Treasury bonds. The government targets to keep the central government budget deficit to GDP ratio at 1.8%, achieving the end of year targets looks unattainable. Turkey's industrial production extended its decline to six months with a 5.1% yoy decline in February. For 2019, The KBC estimate of Turkey's GDP decline is -1.5%. OECD expects decline by -1.8% in the same year. IMF expects contraction in Turkey -2.5% in 2019. The Turkish annual inflation rate rose to 19.71% in March 2019 from a six-month low of 19.67% in the prior month. Turkey's unemployment rate surged to 14.7% in December 2018-February 2019 from 10.8% in the same period of the previous year. This was the highest jobless rate since the February-April period of 2009.

Treasury and Finance Minister Berat Albayrak in a press conference in Istanbul unveiled the long awaited program to help Turkey's contracting economy. The reform package appears as a series of measures focused on to 2019 solely with the finance sector at the heart of the plans. As per the plan, the government will inject fresh capital into state-owned banks to a tune of TRY 28 billion (USD 4.9 billion) in exchange for special-purpose Treasury bonds. Two new funds will be established aiming to take over part of the bad loans in the banking system with their focus being the energy and real estate sectors. Banks will work and isolate non-performing loans in the sectors and transfer them to two funds, which will be run by banks as well as local and international investors. While the plan is to increase the debt burden of the public sector, if managed properly it will ease part of the real sector debt problem. The state banks that were lenders to spur growth over the past couple of years are not able to collect part of their loans extended. The critical point of course becomes the selection of companies to be transferred under the to-be-established funds. Treasury and Finance Minister also added that private banks were working separately on their own plans to raise capital and will do so when needed. Turkey's central government budget recorded a deficit of TRY 24.5 billion in March compared to last year's TRY 20.2 billion. Annualized budget deficit to GDP ratio increased by 0.1% mom to 2.3% in March, above the end-year target of 1.8%. In the last 12 months to March, primary balance to GDP ratio stands at -0.1% significantly below the end-year target at 0.8% (surplus). The government targets to keep the central government budget deficit to GDP ratio at 1.8%, achieving the end of year targets looks unattainable. The budget deficit is set to reach roughly 3.5% of GDP by end 2019. As of April 16 released data, Turkey's industrial production extended its decline to six months with a 5.1% yoy decline in February in calendar adjusted terms. This is an improvement when compared with the January 2019 contraction of 7.4% yoy. Weakness in industrial production again stemmed from intermediate goods production, which posted 9.7% yoy decline while capital goods production was also down by 7.8% yoy, according to calendar adjusted numbers. Durable goods and energy were the only categories that posted growth. In addition to 7.8% yoy contraction in capital goods, machinery and equipment production, which posted 17.1% yoy drop hints that there is no revival in investment sentiment. Thus, March industrial Turkey Manufacturing PMI rose only to 47.2 in March 2019 from 46.4 in February which still points to the 12th month of contraction in manufacturing activity. Turkey's exports contracted by 0.3% yoy in March and could only post 3.34% surge during the Q1 2019; a figure making export based GDP growth not so sure. For 2019, The KBC estimate of Turkey's GDP decline is -1.5%. European Commission assessment is Turkey's GDP contraction in real GDP -1.5%. OECD expects decline by -1.8% in the same year. IMF expects contraction in Turkey -2.5% in 2019. The Turkish annual inflation rate rose to 19.71% in March 2019 from a six-month low of 19.67% in the prior month while markets had expected it to drop to 19.57%. Prices increased faster mainly for food and non-alcoholic beverages. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, dropped to a seven-month low 17.53% in March 2019 from 18.12% in the prior month. On a monthly basis, consumer prices inched up 1.03%, following a 0.16% increase in February and above market expectations of a 0.92% gain. Under the Turkey's New Economic Program (NEP) announced in September 2018, the country's inflation rate target is 15.9% in 2019, 9.8% next year and 6.0% in 2021. In January, the Central Bank of Turkey revised its year-end inflation forecast to 14.6% in 2019 from previous 15.2%. Then, it is projected to fall to 8.2% at the end of 2020 and 5.4% at the end of 2021, before stabilizing around 5% over the medium term. Turkey's unemployment rate surged to 14.7% in December 2018-February 2019 from 10.8% in the same period of the previous year. This was the highest jobless rate since the February-April period of 2009. Youth unemployment rate, measuring job-seekers between 15 and 24 years old, also rose sharply to 26.7% from 19.9% in the same month a year ago. On a seasonally adjusted basis, the unemployment rate rose to 13.3% in January from 12.7% in December.

Policy of the Central banks

ECB

Based on ECB regular economic and monetary analyses, ECB decided to keep the key ECB interest rates unchanged. ECB continue to expect them 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. ECB intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time past the date when start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. The pricing of the new TLTRO-III operations will take into account a thorough assessment of the bank-based transmission channel of monetary policy, as well as further developments in the economic outlook.

Press Conference of Mario Draghi, President of the ECB and Luis de Guindos, Vice-President of the ECB after meeting of the Governing Council of ECB, 10 April 2019: Based on ECB regular economic and monetary analyses, ECB decided to keep the key ECB interest rates unchanged. ECB continue to expect them 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. ECB intend to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time past the date when start raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation. The Governing Council stands ready to adjust all of its instruments, as appropriate, to ensure that inflation continues to move towards the Governing Council's inflation aim in a sustained manner. Details on the precise terms of the new series of targeted longer-term refinancing operations (TLTROs) will be communicated at one of ECB forthcoming meetings. In particular, the pricing of the new TLTRO-III operations will take into account a thorough assessment of the bank-based transmission channel of monetary policy, as well as further developments in the economic outlook. In the context of ECB regular assessment, ECB will also consider whether the preservation of the favourable implications of negative interest rates for the economy requires the mitigation of their possible side effects, if any, on bank intermediation. The information that has become available since the last Governing Council meeting in early March confirms slower growth momentum extending into the current year. While there are signs that some of the idiosyncratic domestic factors dampening growth are fading, global headwinds continue to weigh on euro area growth developments. The persistence of uncertainties, related to geopolitical factors, the threat of protectionism and vulnerabilities in emerging markets, is leaving marks on economic sentiment. At the same time, further employment gains and rising wages continue to underpin the resilience of the domestic economy and gradually rising inflation pressures. However, an ample degree of monetary accommodation remains necessary to safeguard favourable financing conditions and support the economic expansion, and thus to ensure that inflation remains on a sustained path towards levels that are below, but close to, 2% over the medium term. Significant monetary policy stimulus is being provided by ECB forward guidance on the key ECB interest rates, reinforced by the reinvestments of the sizeable stock of acquired assets and the new series of TLTROs.

Euro area real GDP rose by 0.2%, quarter on quarter, in the fourth quarter of 2018, following an increase of 0.1% in the third quarter. Incoming data continue to be weak, especially for the manufacturing sector, mainly on account of the slowdown in external demand, which has been compounded by some country and sector-specific factors. As the impact of these factors is turning out to be somewhat longer-lasting, the slower growth momentum is expected to extend into the current year. Looking ahead, the effect of these adverse factors is expected to unwind. The euro area expansion will continue to be supported by favourable financing conditions, further employment gains and rising wages, and the ongoing – albeit somewhat slower – expansion in global activity.

The risks surrounding the euro area growth outlook remain tilted to the downside, on account of the persistence of uncertainties related to geopolitical factors, the threat of protectionism and vulnerabilities in emerging markets. According to Eurostat's flash estimate, euro area annual HICP inflation was 1.4% in March 2019, after 1.5% in February, reflecting mainly a decline in food, services and non-energy industrial goods price inflation. On the basis of current futures prices for oil, headline inflation is likely to decline over the coming months. Measures of underlying inflation remain generally muted, but labour cost pressures have strengthened and broadened amid high levels of capacity utilisation and tightening labour markets. Looking ahead, underlying inflation is expected to increase over the medium term, supported by ECB monetary policy measures, the ongoing economic expansion and rising wage growth. Turning to the monetary analysis, broad money (M3) growth increased to 4.3% in February 2019, from 3.8% in January. Looking through some volatility in monthly flows, M3 growth continues to be backed by bank credit creation, notwithstanding a recent moderation in credit dynamics. The narrow monetary aggregate M1 remained the main contributor to broad money growth. The annual growth rate of loans to non-financial corporations rebounded to 3.7% in February 2019, from 3.4% in January, reflecting mainly a base effect. Looking through short-term volatility, the annual growth rate of loans to non-financial corporations has moderated in recent months, reflecting the typical lagged reaction to the slowdown in economic growth. At the same time, the annual growth rate of loans to households remained broadly unchanged at 3.3% in February. The euro area bank lending survey for the first quarter of 2019 suggests that overall bank lending conditions remained favourable. ECB monetary policy measures, including the new series of TLTROs that ECB announced in March, will help to safeguard favourable bank lending conditions and will continue to support access to financing, in particular for small and medium-sized enterprises. To sum up, a cross-check of the outcome of the economic analysis with the signals coming from the monetary analysis confirmed that an ample degree of monetary accommodation is still necessary for the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term. In order to reap the full benefits from ECB monetary policy measures, other policy areas must contribute more decisively to raising the longer-term growth potential and reducing vulnerabilities. The implementation of structural reforms in euro area countries needs to be substantially stepped up to increase resilience, reduce structural unemployment and boost euro area productivity and growth potential. Regarding fiscal policies, the mildly expansionary euro area fiscal stance and the operation of automatic stabilisers are providing support to economic activity. At the same time, countries where government debt is high need to continue rebuilding fiscal buffers. All countries should reinforce their efforts to achieve a more growth-friendly composition of public finances. Likewise, the transparent and consistent implementation of the European Union's fiscal and economic governance framework over time and across countries remains essential to bolster the resilience of the euro area economy. Improving the functioning of Economic and Monetary Union remains a priority. The Governing Council welcomes the ongoing work and urges further specific and decisive steps to complete the banking union and the capital markets union.

Bank of England

At its meeting ending on 20 March 2019, the Monetary Policy Committee voted unanimously to maintain Bank Rate at 0.75%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at GBP 10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at GBP 435 billion. The economic outlook will continue to depend significantly on the nature and timing of EU withdrawal, in particular: the new trading arrangements between the European Union and the United Kingdom; whether the transition to them is abrupt or smooth; and how households, businesses and financial markets respond. The appropriate path of monetary policy will depend on the balance of these effects on demand, supply and the exchange rate. The monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction.

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 20 March 2019, the MPC voted unanimously to maintain Bank Rate at 0.75%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at 10 billion GBP. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at GBP 435 billion. Since the Committee's previous meeting, the news in economic data has been mixed, but the MPC's February Inflation Report projections appear on track. In those projections, a weaker near-term outlook was expected to lead to a small margin of slack opening up this year. Thereafter, demand growth exceeded the subdued pace of supply growth and excess demand built over the second half of the forecast period. The broad-based softening in global GDP and trade growth has continued. Global financial conditions have eased, in part supported by announcements of more accommodative policies in some major economies. Shifting expectations about the potential nature and timing of the United Kingdom's withdrawal from the European Union have continued to generate volatility in UK asset prices, particularly the sterling exchange rate. Brexit uncertainties also continue to weigh on confidence and short-term economic activity, notably business investment. Employment growth has been strong, although survey indicators suggest that the outlook has softened. Most indicators of consumer spending are consistent with ongoing modest growth. As the Committee has previously noted, short-term economic data may provide less of a signal than usual about the medium-term growth outlook. CPI inflation rose slightly to 1.9% in February and is expected to remain close to the 2% target over coming months. The labour market remains tight and annual pay growth, having risen through 2018, has remained around 3.5%. Given continuing weakness in productivity growth, growth in unit wage costs has also risen, although other indicators of domestically generated inflation have remained modest. The Committee's February Inflation Report projections were conditioned on a smooth adjustment to the average of a range of possible outcomes for the United Kingdom's eventual trading relationship with the European Union. The Committee continues to judge that, were the economy to develop broadly in line with those projections, an ongoing tightening of monetary policy over the forecast period, at a gradual pace and to a limited extent, would be appropriate to return inflation sustainably to the 2% target at a conventional horizon. The economic outlook will continue to depend significantly on the nature and timing of EU withdrawal, in particular: the new trading arrangements between the European Union and the United Kingdom; whether the transition to them is abrupt or smooth; and how households, businesses and financial markets respond. The appropriate path of monetary policy will depend on the balance of these effects on demand, supply and the exchange rate. The monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction. The MPC judges at this month's meeting that the current stance of monetary policy is appropriate. The Committee will always act to achieve the 2%

inflation target.

USA Federal Reserve

The inflation rate over the longer run is primarily determined by monetary policy, and hence the Federal Open Market Committee has the ability to specify a longer-run goal for inflation. The Committee reaffirms its judgment that inflation at the rate of 2%, as measured by the annual change in the price index for personal consumption expenditures, is most consistent over the longer run with the Federal Reserve's statutory mandate. The Committee would be concerned if inflation were running persistently above or below this objective. The maximum level of employment is largely determined by nonmonetary factors that affect the structure and dynamics of the labor market. In the most recent projections, the median of FOMC participants' estimates of the longer-run normal rate of unemployment was 4.4%.

Statement on Longer-Run Goals and Monetary Policy Strategy. Inflation, employment, and long-term interest rates fluctuate over time in response to economic and financial disturbances. Moreover, monetary policy actions tend to influence economic activity and prices with a lag. Therefore, the Committee's policy decisions reflect its longer-run goals, its medium-term outlook, and its assessments of the balance of risks, including risks to the financial system that could impede the attainment of the Committee's goals. The inflation rate over the longer run is primarily determined by monetary policy, and hence the Committee has the ability to specify a longer-run goal for inflation. The Committee reaffirms its judgment that inflation at the rate of 2%, as measured by the annual change in the price index for personal consumption expenditures, is most consistent over the longer run with the Federal Reserve's statutory mandate. The Committee would be concerned if inflation were running persistently above or below this objective. Communicating this symmetric inflation goal clearly to the public helps keep longer-term inflation expectations firmly anchored, thereby fostering price stability and moderate long-term interest rates and enhancing the Committee's ability to promote maximum employment in the face of significant economic disturbances. The maximum level of employment is largely determined by nonmonetary factors that affect the structure and dynamics of the labor market. These factors may change over time and may not be directly measurable. Consequently, it would not be appropriate to specify a fixed goal for employment; rather, the Committee's policy decisions must be informed by assessments of the maximum level of employment, recognizing that such assessments are necessarily uncertain and subject to revision. The Committee considers a wide range of indicators in making these assessments. Information about Committee participants' estimates of the longer-run normal rates of output growth and unemployment is published four times per year in the FOMC's Summary of Economic Projections. For example, in the most recent projections, the median of FOMC participants' estimates of the longer-run normal rate of unemployment was 4.4%. In setting monetary policy, the Committee seeks to mitigate deviations of inflation from its longer-run goal and deviations of employment from the Committee's assessments of its maximum level. These objectives are generally complementary. However, under circumstances in which the Committee judges that the objectives are not complementary, it follows a balanced approach in promoting them, taking into account the magnitude of the deviations and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with its mandate.

Bank of Japan (BoJ)

The funding conditions for firms and households have been highly accommodative. The expansion in the financial cycle has continued. However, financial and economic activities as a whole have shown no signs of overheating as observed during the bubble period in the late 1980s. Japan's financial system has been maintaining stability on the whole. Major financial institutions have aggressively expanded their global activities, resulting in an increase in their systemic importance and global financial connectedness. Regional Financial institutions have become more active in domestic lending to middle-risk firms and the real estate industry, as well as in securities investment.

Executive Summary of Bank of Japan's Financial System Report. The funding conditions for firms and households have been highly accommodative. The expansion in the financial cycle has continued. However, financial and economic activities as a whole have shown no signs of overheating as observed during the bubble period in the late 1980s. Rapid growth of the outstanding amount of real estate loans has continued and a deviation of the real estate loans to GDP ratio from its trend has marked a record high for the post-bubble period. Based on a wide range of indicators including land prices, Japan's real estate market cannot be judged as experiencing overheating. However, possible vulnerabilities of the real estate market warrant close attention, because the financial institutions (FIs) that have been active in extending loans to rental housing businesses tend to have relatively low capital adequacy ratios. Japan's financial system has been maintaining stability on the whole. Financial institutions generally have strong resilience in terms of both capital and liquidity during tail events such as the Global financial Crisis (GFC). However, the profitability of domestic deposit-taking and lending activities has continued to decline. This seems to be mostly caused by structural factors such as the decrease in growth expectations and the secular decline in loan demand, as well as the prolonged low interest rate environment. In response, major financial institutions have aggressively expanded their global activities, resulting in an increase in their systemic importance and global financial connectedness. Regional Financial institutions have become more active in domestic lending to middle-risk firms and the real estate industry, as well as in securities investment. However, as they have generally not been able to secure profits commensurate with the increase in risk-weighted assets, their capital adequacy ratios and stress resilience have declined moderately. Should this situation persist, downward pressure on the real economy from the financial system could intensify in the event of stress, as the capital of financial institutions would decrease substantially due to increased credit costs and securities-related losses.

People's Bank of China (PBC)

The People's Bank of China said it'll keep good control of the money supply "floodgate" and not "flood" the economy with excessive liquidity, according to a statement released late April 15. PBOC governor Yi Gang has pledged to continue to open up China's financial sector, admitting that there are still a few measures yet to materialize. *Firstly*, PBOC should promote financial service sector opening-up, financial market opening up and RMB exchange rate regime reform in a well-coordinated way. *Secondly*, pre-establishment national treatment and negative list should be applied. *Thirdly*, institutional arrangements for financial sector opening-up should be improved to achieve institutional and systemic opening-up. *Fourthly*, the business environment should be improved. *Fifthly*, financial regulation will be improved.

China's central bank on April 17, 2019 lent CNY 200 billion (USD 40.34 billion) to financial institutions via its one-year medium-term lending facility (MLF), with the interest rate unchanged, it said in a statement. The interest rate for the one-year MLF was 3.30%, the People's Bank of China (PBOC) said, the same as the previous such operation. A batch of such loans with a value of CNY 366.5 billion expired on Wednesday and markets had speculated how the central bank would respond. In the same statement, the PBOC said it also injected CNY 160 billion through seven-day reverse repos into the market. With no reverse repos maturing, the central bank has drained a net 6.5 billion via open market operations on the day. The People's Bank of China said it'll keep good control of the money supply "floodgate" and not "flood" the economy with excessive liquidity, according to a statement released April 15. That wording had been dropped from the previous quarter's report, and its return signals increasing restraint in liquidity management as the economy improves. China's "economy has shown healthy development and economic growth is resilient", with improvement in both market expectations and financial support for the economy, according to the statement from the first-quarter meeting of the monetary policy committee, which was held on April 12. The panel is chaired by PBOC governor Yi Gang. While repeating the need for continuous counter-cyclical measures, the bank said it'll "keep strategic focus," a phrase often seen when officials want to avoid large-scale stimulus. People's Bank of China governor Yi Gang has pledged to continue to open up China's financial sector, admitting that there are still a few measures yet to materialize. Firstly, PBOC should promote financial service sector opening-up, financial market opening up and RMB exchange rate regime reform in a well-coordinated way. For the opening up of the financial sector, equal treatments should be provided for both Chinese and foreign institutions in terms of regulatory requirements and standards such as equity holding, form of establishment, shareholder qualification, scope of business and number of licenses. Chinese and foreign-funded institutions should be treated equally in a way that is more transparent and consistent with international practice. To open up the financial market, PBOC will further connect domestic and foreign capital markets, by further improving the QFII regime, Shanghai-Hong Kong Connect and Shenzhen-Hong Kong Connect. PBOC will also continue the exchange rate regime reform, to enhance the flexibility of RMB exchange rate and its role as the automatic stabilizer for the macro economy and balance of payments. Secondly, pre-establishment national treatment and negative list should be applied. Financial institutions, Chinese and foreign alike, shall have equal access to all areas excluding those listed on the negative list. Thirdly, institutional arrangements for financial sector opening-up should be improved to achieve institutional and systemic opening-up. Convergence with international rules and standards will accelerate and accounting, taxation and other supporting rules will be improved. PBOC will also strengthen top-level design and unify relevant rules. For financial services of the same or similar category, different rules should be harmonized. Fourthly, the business environment should be improved. PBOC will further cut red tapes, streamline procedures for administrative approval, and enhance its transparency and efficiency. There will be improved coordination and communication in policy making to increase transparency and have simple and transparent rules. Fifthly, financial regulation will be improved. Financial institutions, domestic or foreign, shall operate with licenses and under regulation. Greater market access will go hand in hand with better financial regulation and regulatory capacity will match openness.

Central Bank of Turkey

The macro indicators pertaining to the Turkish economy point that the rebalancing process continues thanks to the coordinated policy actions. Current account balance is expected to maintain its improving trend. Developments in domestic demand conditions and tight monetary policy stance have led to some improvement in inflation indicators. The strong tightening in monetary policy contributes to disinflation. The yield curve has shifted downwards in response to monetary policy tightening. The Central Bank will closely monitor fluctuations and unhealthy price formations in financial markets and will use all monetary policy and liquidity management instruments to maintain price stability and support financial stability, if deemed necessary.

Central Bank of Turkey Press Release on Market Developments March 25. The macro indicators pertaining to the Turkish economy point that the rebalancing process continues thanks to the coordinated policy actions. The leading indicators suggest that there has been a moderate recovery in domestic demand in the first quarter. Underpinned by the strong trend in the exports of goods and tourism demand, net exports continue to contribute to growth. In this regard, improvement in current account balance is expected to continue with further acceleration. In the economic rebalancing process, the monetary policy focuses on the price stability objective while the strong coordination with fiscal policy supports disinflation. Meanwhile, the Central Bank is decisive about its policy towards reinforcing its reserves. Accordingly, an uptrend was observed in the reserves following the financial market volatility observed last year. The recent fluctuations in gross reserves are driven by ordinary transactions and periodic factors, and there are no unforeseen incidences. The Central Bank will closely monitor fluctuations and unhealthy price formations in financial markets and will use all monetary policy and liquidity management instruments to maintain price stability and support financial stability, if deemed necessary.

Macroeconomic Outlook and Monetary Policy in Turkey Governor Presentation April 2019 Annual Meeting of the IMF and the World Bank Group.

The rebalancing trend in the economy has become more noticeable. Current account balance is expected to maintain its improving trend. Developments in domestic demand conditions and tight monetary policy stance have led to some improvement in inflation indicators. Core inflation indicators have been slowing down. The strong tightening in monetary policy contributes to disinflation. The yield curve has shifted downwards in response to monetary policy tightening.

International Commodity Prices

Petrol

Oil prices went up on April 18, following strong demand from China's refineries, the world's second-largest oil consumer. This is happening in a tightened supply situation, as producers limit output, and US oil stocks shrink unexpectedly. Oil deliveries have fallen further this year and after the US imposed sanctions on Venezuela and Iran. Iran's crude oil exports dropped in April to its lowest daily level this year. Crude oil WTI rose 0.38 percent to 64.00 USD/BBL, an increase of 0.24 USD/BBL. Brent increased by 0.43% to 71.7979 USD/BBL, an increase of 0.31 USD/BBL. Growing crude oil production in

the United States and concerns about the trade dispute between the two largest economies in the world continue to curb growth in oil prices. A steady increase in oil production in the United States, together with a slower demand, restrict the upward movement in prices.

Oil prices went up on April 18, following strong demand from China's refineries, the world's second-largest oil consumer. This is happening in a tightened supply situation, as the producers from OPEC and Russia limit output, and US oil stocks shrink unexpectedly. Crude oil WTI rose 0.38 percent to 64.00 USD/BBL, an increase of 0.24 USD/BBL. Brent increased by 0.43% to 71.7979 USD/BBL, an increase of 0.31 USD/BBL. Chinese refineries' output grew by 3.2% yoy to 53.04 million ton or 12.49 million BBL per day. At the same time, the country's economy recorded a growth of 6.4% on an annual basis. Influence on oil markets continues to be the deal between the Organization of Petroleum Exporting Countries (OPEC) and its allies, including Russia, to cut production by 1.2 million BBL per day in 2019. Oil deliveries have fallen further this year and after the US imposed sanctions on Venezuela and Iran. Iran's crude oil exports dropped in April to its lowest daily level this year. Tightening supply has fueled rising oil prices since the beginning of the year with more than 40% crude oil prices and more than 30% Brent prices. The unexpected fall in US crude oil stocks also supported price rises. According to the US Oil Institute, the "black gold" stocks in the world's largest economy declined by 3.1 million BBL to 452.7 million BBL compared with analysts' expectations for a 1.7 million BBL increase. Growing crude oil production in the United States and concerns about the trade dispute between the two largest economies in the world continue to curb growth in oil prices. A steady increase in oil production in the United States, together with a slower demand, restrict the upward movement in prices.

Agricultural products

Prices of major cereals on world stock markets went down during the April 09-12. In Chicago, the price of wheat fell by -5.00 USD to 208.00 USD/ton, in France the decline was -1.00 EUR to 196.00 EUR/ton, in Russia also minus -1.00 USD to 226.00 USD/ton. Ukraine has the unity exception, there the price has risen by 1.00 USD and for wheat (226.00 USD/ton) and for maize (175.00 USD/ton). For maize in the US, quotes declined again by -2.00 USD to 168.00 USD/ton, France had a minimal fluctuation of minus -0.5 EUR to 169.25 EUR/ton. In the "Grain" sub-section of Sofia Stock Exchange, the traders become active in the beginning of the spring. Wheat is offered at 335.00 BGN/ton, the immediate delivery from the place is 270.00 BGN/ton, with quantities of more than 10000 ton and this is a very attractive price, which the buyers answered with the initial 260.00 BGN/ton.

Prices of major cereals on world stock markets went down during the April 09-12. In Chicago, the price of wheat fell by -5.00 USD to 208.00 USD/ton, in France the decline was -1.00 EUR to 196.00 EUR/ton, in Russia also minus -1.00 USD to 226.00 USD/ton. Ukraine has the unity exception, there the price has risen by 1.00 USD and for wheat (226.00 USD/ton) and for maize (175.00 USD/ton). For maize in the US, quotes declined again by -2.00 USD to 168.00 USD/ton, France had a minimal fluctuation of minus -0.5 EUR to 169.25 EUR/ton. Rape in the European Union (Euronext) has shifted direction and was down by -1.75 EUR and was priced at 360.75 EUR/ton as well as barley in Ukraine, which fell by -3.00 USD to 198.00 USD/ton Russia has not changed (206.00 USD/ton). Unrefined sunflower oil in the Rotterdam exchange, after two weeks of severely depreciating, now bounced upwards with a plus of USD 10.00 to 700.00 USD/ ton. Refined sugar continues to show no stabilization in the direction, its movement is sinusoidal and this time falls by -7.00 USD to 323.00 USD/ ton in London. In the "Grain" subsection of Sofia Stock Exchange, the traders become active in the beginning of the spring. Wheat is offered at 335.00 BGN/ton, the immediate delivery from the place is 270.00 BGN/ton, with quantities of more than 10000 ton and this is a very attractive price, which the buyers answered with the initial 260.00 BGN/ton. Maize with instant delivery from place ranged from 290.00 to 300.00 BGN/ton on offer, buyers now gravitate around the price of 270.00 BGN/ton. Oil seed sunflower is offered at 580.00 - 600.00 BGN/ton. All prices are without VAT.

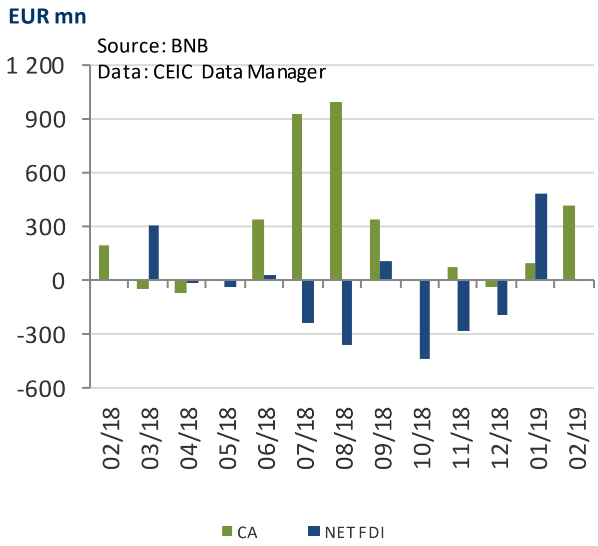
BULGARIA

EXTERNAL SECTOR

Balance of Payments

For January - February 2019, the current and capital account of Bulgaria is positive and amounts to EUR 705.2 million or 1.2% of GDP.

Balance of Payments



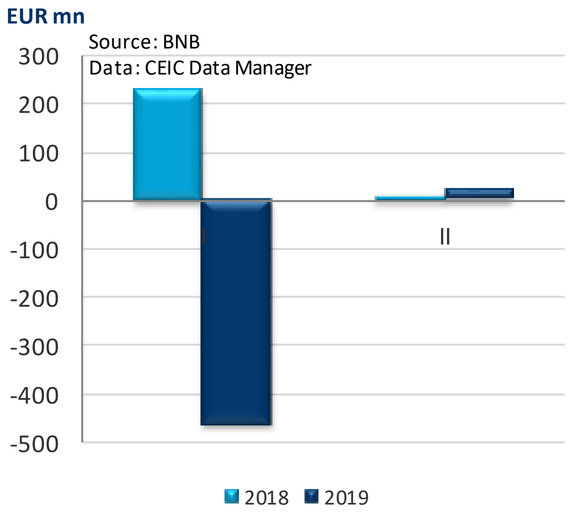
According BNB data the current and capital account recorded a surplus of EUR 537.2 million in February 2019, compared with a surplus of EUR 178.7 million in February 2018. In January – February 2019 the current and capital account was positive amounting to EUR 705.2 million (1.2% of GDP), compared with a surplus of EUR 55.6 million (0.1% of GDP) in January – February 2018. The current account was positive amounting to EUR 416.2 million in February 2019, compared with a surplus of EUR 196.4 million in February 2018. In January – February 2019 the current account was positive and amounted to EUR 511.1 million (0.9% of GDP), compared with a surplus of EUR 57 million (0.1% of GDP) in January – February 2018. The balance on goods recorded a deficit of EUR 111.1 million in February 2019, compared with a deficit of EUR 241.5 million in February 2018. In January – February 2019 the balance on goods was negative amounting to EUR 192.2 million (0.3% of GDP), compared with a deficit of EUR 447 million (0.8% of GDP) in January – February 2018. Exports of goods amounted to EUR 2,377.9 million in February 2019, growing by EUR 466.8 million (24.4%) from February 2018 (EUR 1,911.1 million). In January – February 2019 exports of goods totalled EUR 4,622.9 million (7.8% of GDP), growing by EUR 555.9 million (13.7%) year-on-year (from EUR 4,067.1 million, 7.4% of GDP). In January – February 2018 exports grew by 3.2% yoy. Imports of goods amounted to EUR 2,489 million in February 2019, growing by EUR 336.4 million (15.6%) from February 2018 (EUR 2,152.6 million). In January – February 2019 imports of goods totalled EUR 4,815.1 million (8.1% of GDP), growing by EUR 301.1 million (6.7%) from January – February 2018 (EUR 4,514.1 million, 8.2% of GDP). In January – February 2018 imports grew by 12% yoy. Services recorded a positive balance of EUR 89.4 million in February 2019, compared with a surplus of EUR 107 million in February 2018. In January – February 2019 services recorded a surplus of EUR 222 million (0.4% of GDP) compared with a positive balance of EUR 198.9 million (0.4% of GDP) in the same period of 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 66.4 million in February 2018. In January – February 2019 the balance on primary income was positive and equated to EUR 21.3 million (0.04% of GDP), compared with a deficit of EUR 134.2 million (0.2% of GDP) in January – February 2018. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 427.2 million, compared with a positive balance of EUR 397.3 million in February 2018. In January – February 2019 the net secondary income was positive amounting to EUR 460 million (0.8% of GDP), compared with a positive balance of EUR 439.3 million (0.8% of GDP) in the same period of 2018. The capital account recorded a surplus of EUR 121 million, compared with a negative balance of EUR 17.7 million in February 2018. In January – February 2019 the capital account recorded a surplus of EUR 194.1 million (0.3% of GDP), compared with a negative balance of EUR 1.4 million in January – February 2018. The financial account recorded a positive value of EUR 654.9 million, compared with a positive value of EUR 418 million in February 2018. In January – February 2019 the financial account recorded a net inflow of EUR 637.5 million (1.1% of GDP) compared with an inflow of EUR 296.9 million (0.5% of GDP) in January – February 2018. The net direct investment compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual was negative amounting to EUR 11.3 million, compared with a negative balance of EUR 8.9 million in February 2018. In January – February 2019 direct investment recorded a positive balance of EUR 468.3 million (0.8% of GDP), compared with a negative balance of EUR 233.3 million (0.4% of GDP) in January – February 2018. Direct investment – assets grew by EUR 14.3 million compared with an increase of EUR 2.4 million in February 2018. In January – February 2019 direct investment – assets dropped by EUR 24.5 million compared with an increase of EUR 84.3 million (0.2% of GDP) in the same period of 2018. Direct investment – liabilities grew by EUR 25.6 million in February 2019, compared with an increase of EUR 11.2 million in February 2018. In January – February 2019 direct investment – liabilities dropped by EUR 492.9 million (0.8% of GDP), compared with an increase of EUR 317.6 million (0.6% of GDP) in the same period of 2018. The balance on portfolio investment was positive amounting to EUR 101.7 million, compared with a positive balance of EUR 258.5 million in February 2018. In January – February 2019 the balance was positive and equated to EUR 43.3 million (0.1% of GDP), compared with a positive balance of EUR 324.6 million (0.6% of GDP) million in January – February 2018. Portfolio investment – assets grew by EUR 103.3 million, compared with an increase of EUR 168.2 million in February 2018. In January – February 2019 they rose by EUR 72.4 million (0.1% of GDP) compared with an increase of EUR 362.3 million (0.7% of GDP) in January – February 2018. 3Portfolio investment – liabilities grew by EUR 1.6 million compared with a decline of EUR 90.3 million in February 2018. In January – February 2019 portfolio investment – liabilities increased by EUR 29.1 million compared with an increase of EUR 37.8 million (0.1% of GDP) in January – February 2018. The balance on other investment was positive amounting to EUR 204.9 million, compared with a positive balance of EUR 195.3 million in February 2018. In January – February 2019 the balance was positive and equated to EUR 516.4 million (0.9% of GDP), compared with a positive balance of EUR 1,587.6 million (2.9% of GDP) in January – February 2018. Other investment – assets grew by EUR 262.8 million, compared with an increase of EUR 175.1 million in February 2018. In January – February 2019 they grew by EUR 751.8 million (1.3% of GDP) compared with an increase of EUR 1,554.2 million (2.8% of GDP) in January – February 2018. Other investment – liabilities grew by EUR 57.8 million compared with a decline of EUR 20.2 million in February 2018. In January – February 2019 they grew by EUR 235.4 million (0.4% of GDP) compared with a decline of EUR 33.3 million (0.1% of GDP) in January – February 2018. The BNB reserve assets increased by EUR 350.4 million, compared with a decline of EUR 75.6 million in February 2018. In January – February 2019 they dropped by EUR 364.8 million (0.6% of GDP), compared with a decline of EUR 1,434.2 million (2.6% of GDP) in the same period of 2018. The net errors and omissions were positive amounting to EUR 117.7 million compared with a positive value of EUR 239.2 million in February 2018. According to preliminary data, the item was negative totalling EUR 67.8 million (0.1% of GDP) in January – February 2019, compared with a positive value of EUR 241.3 million (0.4% of GDP) in the same period of 2018.

Foreign Direct Investments

For January-February 2019, the net inflow of direct investment in Bulgaria was negative, amounting to EUR 437.6 million (-0.7% of GDP) compared to the reported positive flow of direct investment of EUR 236.6 million (0.4% of GDP) for the same period of the previous year.

According to preliminary BNB data, the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a negative value of EUR 437.6 million (0.7% of GDP) in January – February 2019, dropping by EUR 674.1 million from January – February 2018 (EUR 236.6 million, 0.4% of GDP)4. Foreign direct investment flows in Bulgaria totalled EUR 21.9 million in February 2019, compared with EUR 7.8 million in February 2018. 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 574.3 million in January – February 2019, dropping by EUR 456.6 million from a negative value of EUR 117.7 million in January – February 2018. Real estate investments of non-residents recorded an outflow of EUR 0.02 million, compared with an inflow of EUR 4.7 million in January – February 2018. The largest inflow of real estate investment was from Ukraine (EUR 0.1 million) and Kazakhstan (EUR 0.1 million), whereas that from Russia dropped (by EUR 0.3 million). The net flow on debt instruments (the change in the net liabilities between affiliated enterprises on financial loans, suppliers' credits and debt securities) totalled EUR 136.7 million in January – February 2019, compared with

Foreign Direct Investment: Flow



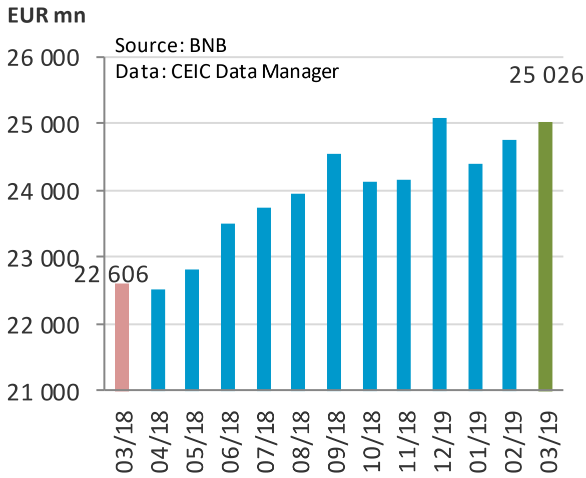
EUR 310.8 million in January – February 20185The largest net direct investment inflows in Bulgaria for January – February 2019 were from Ireland (EUR 70 million), the Netherlands (EUR 43.3 million), and Luxembourg (EUR 33.4 million). According to preliminary data, direct investment abroad recorded a positive value of EUR 30.8 million, compared with a positive value of EUR 3.3 million in January – February 2018. It totalled EUR 10.6 million in February 2019, compared with a negative value of EUR 1 million in February 2018. According to preliminary data, the stocks2 of foreign direct investment in Bulgaria stood at EUR 43,035.6 million at end - December 2018, compared with EUR 42,564.2 million at end-2017. Equity and reinvestment of earnings totalled EUR 33,868.7 million, growing by EUR 1178.2 million from EUR 32,690.5 million in December 2018. Debt instruments amounted to EUR 9,166.9 million, dropping by EUR 706.8 million from December 2017 (EUR 9,873.7 million).

Foreign Reserves

At the end of March 2019, Bulgaria's international reserves amounted to BGN 48.9 billion (EUR 25 billion) and increased by 1% mom and by 10.7% yoy, respectively.

According to BNB data at the end of March 2019 Bulgaria's international reserves amounted to BGN 48.9 billion (EUR 25 billion) and increased by 1% mom and by 10.7% yoy, respectively. On the assets side, cash and foreign currency deposits amounted to BGN 19 billion, increasing by 2.3% mom and by 12.2% yoy, respectively. Investments in monetary gold amounted to BGN 2.9 billion and reported a monthly decline of 0.4%, while on an annual basis they increased by 7.3%. Investments in securities amounted to BGN 27 billion and increased by 0.4% mom and by 10% yoy, respectively. On the liabilities side, money outside banks increased by 0.5% mom and by 10.5% yoy, respectively and exceeded BGN 16.9 billion. Liabilities to banks amounted to BGN 14.7 billion and increased by 3% mom and by 16.3% yoy, respectively. Commitments to the budget decreased by 0.1% mom reached BGN 9.6 billion. Liabilities to other depositors amounted to BGN 2.1 billion and continued to decrease their growth rate, registering an increase of 28% yoy at the end of March. The deposit of the “Banking” Department amounted to BGN 5.7 billion and grew up by 2.7% yoy. Bulgaria's international liquidity position, calculated as a ratio of international reserves to short-term external debt, is high. According BNB external sector statistic this ratio is 208% at the end of January 2019 compared to 307% at the end of December 2018 and 290% at the end of January 2018.

Foreign Reserves



REAL SECTOR

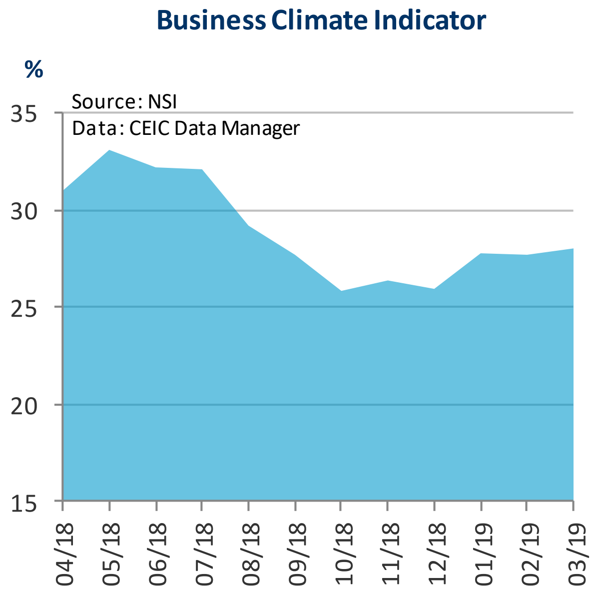
Investment Activity in Industry

The investment business inquiry of NSI carried out among industrial enterprises in March 2019 shows that in 2018 the expenditures for acquiring fixed tangible and intangible assets in industry are by 5.1% less in comparison with 2017. The plans of industrial enterprises in 2019 are for a decrease of investments by 7.3% compared to the previous year.

In March 2019, NSI carried out the regular business survey of investment activity among industrial enterprises about the investments made by them in 2018 and their investment plans in this year. According to the survey data, in 2018 the expenditures for acquiring fixed tangible and intangible assets in industry are by 5.1% less in comparison with 2017. The inquiry results of the investment activity shows that the plans of industrial enterprises in 2019 are for a decrease of investments by 7.3% compared to the 2018. The share of the private sector in the total volume of the expected expenditures for acquiring fixed tangible and intangible assets in this year is 83.3%, as the managers in this sector foresee a decrease of their investments programs by 14.8% in comparison with previous year. According to the main industrial groupings (40.8%) with an expected decrease of 14.2% compared to the previous year. In the second place in foreseen volume of investments are the energy and water-related industries (with a relative share of 28.6%) which expect an increase of 27.3% in comparison with 2018. The industries producing non-durable goods are next with relative share of 15.7% as the managers' expectations are for a decrease of the investment programs by 27.4% compared to the previous year.

Business Climate

In March 2019, the total business climate indicator preserves approximately its February level at 28% as an improvement is registered only in retail trade.



According NSI data the composite indicator "business climate in industry" remains approximately to its level from the previous month at 28%. Improvement is registered only in retail trade.

Industry. In March 2019 the NSI inquiry registers a decrease of the production assurance with orders, which is accompanied by more unfavourable expectations about the activity of the enterprises over the next 3 months. The main factors, limiting the enterprises continue to be connected with the uncertain economic environment and shortage of labour, as in the last month strengthen of their negative impact is observed. Concerning the selling prices in industry, the prevailing managers' expectations are them to remain unchanged over the next 3 months.

Construction. In March 2019, the composite indicator "business climate in construction" preserves its February level. The construction entrepreneurs' expectations about both the business situation of the enterprises over the next 6 months and the activity over the next 3 months remain optimistic. As regards the employment in the branch the forecasts are also in a direction of increase. The uncertain economic environment, shortage of labour and competition in the branch remain the most serious obstacles for the business development, as the inquiry reports strengthen of the negative influence of the first factor. As regards the selling prices in construction, the managers expect preservation of their level over the next 3 months.

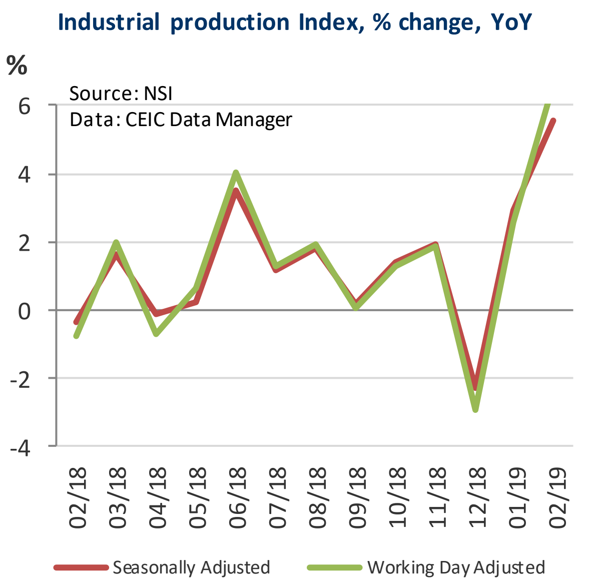
Retail trade. The composite indicator "business climate in retail trade" increases by 2.6 percentage points mainly due to the more optimistic retailers' expectation about the business situation of the enterprises over the next 6 months. At the same time, their forecasts about the volume of sales over the next 3 months are improved. The most serious problem limiting the activity of the enterprises continues to be the competition in the branch, followed by the insufficient demand and the uncertain economic environment. The majority of the retailers expect the selling prices to remain unchanged over the next 3 months.

Service sector. In March, the composite indicator "business climate in service sector" preserves approximately its February level. The managers' assessments about the present demand for services are reserved, as their expectations over the next 3 months are also shifting to the more moderate opinions. The main obstacles for the business remain related to the competition in the branch and uncertain economic environment. As regards the selling prices, the managers foresee certain increase, although the prevailing expectations are for preservation of their level over the next 3 months.

Industrial Production Index

According to the preliminary data the Industrial Production Index, seasonally adjusted, increased by 1.5% in February 2019 as compared to January 2019. In February 2019 the working day adjusted Industrial Production Index rose by 6.6% in comparison with the same month of 2018.

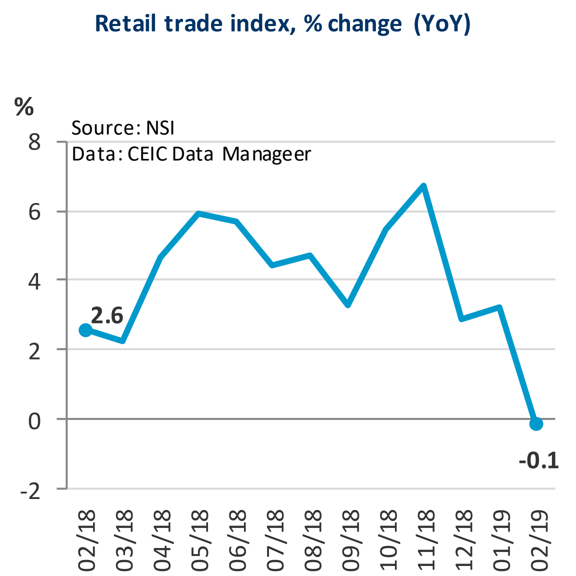
According to the preliminary data the Industrial Production Index, seasonally adjusted, increased by 1.5% in February 2019 as compared to January 2019. In February 2019 the working day adjusted Industrial Production Index rose by 6.6% in comparison with the same month of 2018. In February 2019 as compared to January 2019, the seasonally adjusted Industrial Production Index increased in the manufacturing by 1.9%, while the production went down in the mining and quarrying industry by 4.4%, and in the electricity, gas, steam and air conditioning supply by 1.4%. The most significant production increases in the manufacturing were registered in the manufacture of fabricated metal products, except machinery and equipment by 17.2%, in the printing and reproduction of recorded media by 8.6%, in the manufacture of computer, electronic and optical products by 7.5%. Major decreases were seen in the manufacture of textiles by 12.9%, in the manufacture of chemicals and chemical products by 6.6%, in the manufacture of paper and paper products by 5.3%. On annual basis in February 2019 Industrial Production Index calculated from working day adjusted data rose in the mining and quarrying industry by 16.3%, and in the manufacturing by 9.1%, while the production fell in the electricity, gas, steam and air conditioning supply by 5.2%. In the manufacturing, the more considerable increases compared to the same month of the previous year were registered in the manufacture of other transport equipment by 31.7%, in the printing and reproduction of recorded media by 25.3%, in the repair and installation of machinery and equipment by 24.7%, in the manufacture of electrical equipment by 23.5%. Important decreases were seen in the manufacture of tobacco products by 42.2%, in the manufacture of wearing apparel by 8.0%.



Retail Trade

According to the preliminary seasonally adjusted data in February 2019 the turnover in "Retail trade, except of motor vehicles and motorcycles" at constant prices decreased by 0.6% compared to the previous month.

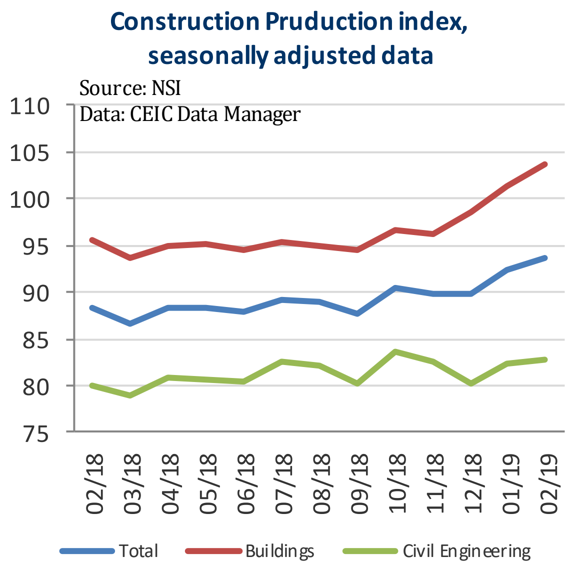
According to the preliminary seasonally adjusted data in February 2019 the turnover in „Retail trade, except of motor vehicles and motorcycles" at constant prices decreased by 0.6% compared to the previous month. In February 2019, the working day adjusted turnover in „Retail trade, except of motor vehicles and motorcycles" remains almost unchanged in comparison with the same month of the previous year. In February 2019 compared to the previous month, more significant decline of turnover was observed in the „Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances" by 5.6%, in the „Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles" by 5.1% and in the „Retail sale of food, beverages and tobacco" by 1.3%. An increase was reported in the „Retail sale in non-specialised stores" - 0.9%. In February 2019 compared to the same month of 2018, the turnover decreased in the „Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles" by 9.2% and in the „Retail sale of food, beverages and tobacco" by 7.9%. More essential growth was registered in the „Retail sale via mail order houses or via Internet" - 16.2%, in the „Retail sale of automotive fuel" - 13.2% and in the „Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances" - 11.8% and in the „Retail sale in non-specialised stores" - 11.5%.



Construction

According to the preliminary data, in February 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 February 2019 the working day adjusted index of production in construction increased by 9.2% in comparison with the same month of 2018.

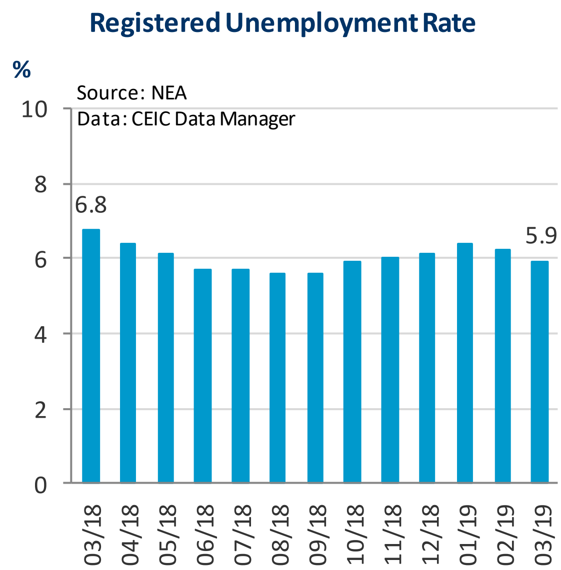
According to the preliminary data, in February 2019 the index of production in section "Construction" calculated on the base of seasonally adjusted data, was 1.5% above the level of the previous month. In February 2019 the construction production index, calculated from the seasonally adjusted data, was above the level of the previous month. Index the production of building construction rose by 2.4% and production of civil engineering - by 0.3%. In February 2019 working day adjusted data also showed an increase by 9.2% in the construction production, compared to the same month of 2018. On an annual basis in February 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 13.3% and the civil engineering - by 3.5%.



Unemployment

In March 2019, unemployment in Bulgaria declined to 5.9% from 6.2% in February 2019 and 6.8% in March 2018.

According to the Employment Agency, the level of registered unemployment in Bulgaria in March 2019 continued to decline and reached 5.9%, or 0.3% less than the previous month and 0.9% yoy. The number of registered unemployed in the Labor Offices in March 2019 decreased to 194 603, the decrease compared to February being by 5.1%. Compared to March 2018, they are 26,977 people less. The newly registered unemployed persons during the month were 21 645, of which 1 382 were inactive, ie. were neither employed nor students, nor were they looking for a job. Since the beginning of the year, the employees of the Labor Offices have activated 4,272 people by organizing information events, meetings with the graduates of the Career Centers, as well as through the work of youth, Roma, labor mediators, etc. New 499 people, including employed, retired and retired, were registered during the month as jobseekers. In March 2019, a total of 23,754 unemployed went to work, with 81.5% of them in the real economy. Another 258 persons from the group of pensioners, students and employees have found their new job. There were 4,398 persons employed on subsidized jobs during the month: 2,580 - under training and employment programs and measures and 1,818 - under the "Human Resource Development" Operational Program. The number of job vacancies in the primary labor market in March was 23,287, with 89.3% of them in the private sector. The largest share of vacancies was reported in hotels and restaurants (31.1%), manufacturing (20.0%), trade, repair of motor vehicles and motorcycles (11.4%), agriculture, forestry and fisheries 8.0%); administrative and auxiliary activities (5.5%), construction (4.3%) and others. The most wanted profiles of professions during the month are: personnel employed in the personal services (bartenders, waiters, chefs, cameramen, etc.); vendors; waste collectors and related workers; operators of stationary machinery and equipment; drivers and mobile equipment; assistant administrative staff for customer service; workers in mining and manufacturing, construction and transport; assistants in food preparation; skilled workers in the food, apparel, woodworking and related industries; workers in agriculture, forestry and fisheries, and others.

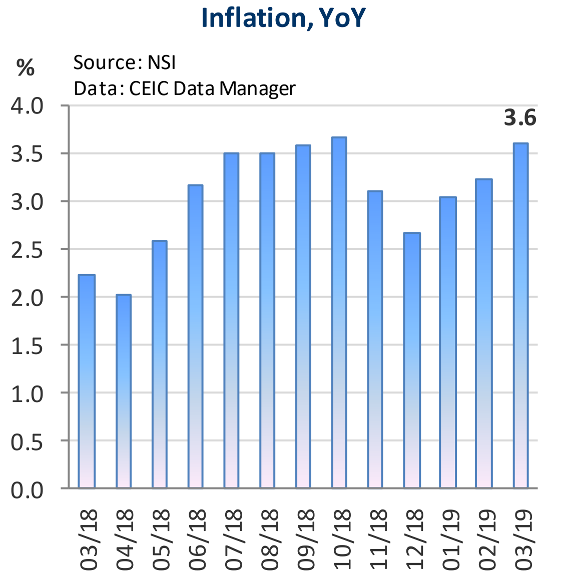


Inflation

In March 2019, the consumer price index in Bulgaria grew to 3.6% yoy. Over the same period, HICP grew to 2.8% yoy, respectively. Bulgaria should maintain low inflation that does not exceed by more than 1.5 percentage points the average annual inflation rate in the three EU countries with the lowest positive inflation. At the end of March 2019, Bulgaria fulfilled this

condition.

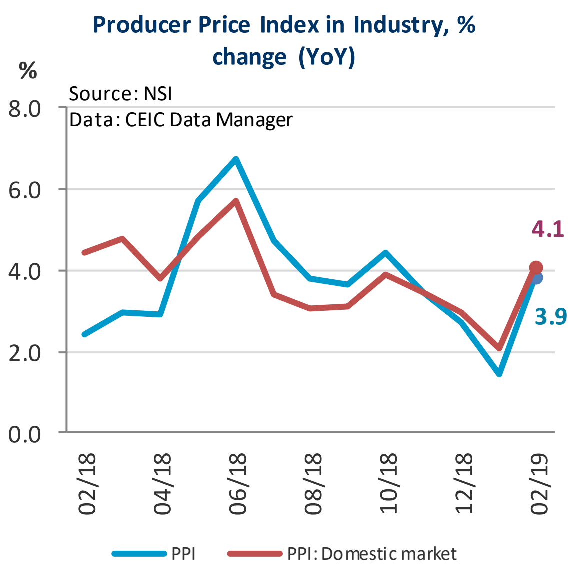
According to NSI data, the consumer price index for March 2019 compared to February 2019 is 100.1%. i.e. monthly inflation is 0.1%. Inflation from the beginning of the year (March 2019 versus December 2018) was 1.2% and annual inflation in March 2019 compared to March 2018 was 3.6%. The average annual inflation rate for the April 2018 - March 2019 period compared to April 2017 - March 2018 was 3.1%. March is the fourth consecutive month with a sharp rise in inflation after a peak of 3.7% yoy in October 2018. In March 2019, food (by 3.4%), non-food (by 1.6%), catering (by 1.2%) and services (0.2%) rose in February. Non-food goods reported a monthly decline of 0.1%. In March, transport services grew most significantly on a monthly basis - by 2.3%. The main reason for this is the upsurge in international oil prices and the corresponding increase in the gasoline price in Bulgaria by 4.5%. Food prices are also in line with rising commodity prices on international markets and generally appreciate by 0.2%. Seasonally, prices of cabbage (22%), pepper, (11.7%), potatoes (10.9%), carrots (2.6%) and ripe beans (1.7%) were highest. In March 2019, prices in clothing and footwear, communications, entertainment and culture decreased. The Harmonized Index of Consumer Prices in March 2019 compared to February 2019 is 100.2%, ie, monthly inflation is 0.2%. Inflation from the beginning of the year (March 2019 versus December 2018) was 0.7% and annual inflation in March 2019 compared to March 2018 was 2.8%. The average annual inflation for the period April 2018 - March 2019 compared to April 2017 - March 2018 was 2.9%. Bulgaria should maintain low inflation that does not exceed by more than 1.5 percentage points the average annual inflation rate in the three EU countries with the lowest positive inflation. By March 2019, Bulgaria fulfilled this condition.



Producer Price Index in Industry

Total Producer Price Index in February 2019 increased with 1.8% compared to the previous month; compared to the same month of 2018 the prices rose by 3.9%. Producer Price Index on Domestic Market in February 2019 increased by 1.5% compared to the previous month; compared to the same month of 2018 the domestic prices grew by 4.1%.

The Total Producer Price Index in Industry in February 2019 went up with 1.8% compared to the previous month. Higher prices were registered in the electricity, gas, steam and air conditioning supply by 3.1%, in manufacturing by 1.4%, and in the mining and quarrying industry by 0.3%. In the manufacturing3, more significant increase in prices were reported in the manufacturing of basic metals by 5.9% in the manufacture of leather and related products and in the repair and installation of machinery and equipment - both by 0.8%, while prices went down in the manufacture of beverages by 0.8% and in the manufacture of chemicals and chemical products by 0.5%. The Total Producer Price Index in February 2019 increased by 3.9% compared to the same month of 2018. The prices rose in the electricity, gas, steam and air conditioning supply by 8.7% and in manufacturing by 2.7%, while prices decreased in the mining and quarrying industry by 3.4%. In the manufacturing more significant increase in prices were seen in the manufacture of tobacco products by 7.5%, in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 4.6% and in the manufacture of leather and related products by 4.3%.



Producer Price Index on Domestic Market in February 2019 increased with 1.5% compared to the previous month. The domestic prices went up in mining and quarrying industry by 2.9%, in the electricity, gas, steam and air conditioning supply by 2.8%, and in manufacturing by 0.6%. In the manufacturing2, compared to the previous month the prices went up in the manufacture of basic metals by 3.1% and in the repair and installation of machinery and equipment by 1.1%. The domestic prices went down in the manufacture of motor vehicles, trailers and semi-trailers by 1.8% and in the manufacture of beverages by 0.9%. Producer Price Index on Domestic Market in February 2019 increased by 4.1% compared to the same month of 2018. The prices rose in the electricity, gas, steam and air conditioning supply by 7.0% and in manufacturing by 3.0%, while in the mining and quarrying industry the prices fell by 4.2%. In the manufacturing compared to February 2018 the prices went up in the manufacture of tobacco products by 10.1%, in the repair and installation of machinery and equipment by 4.6%, and in the manufacture of chemicals and chemical products by 3.8%. A decrease in the prices was reported in the manufacture of basic metals by 2.4%.

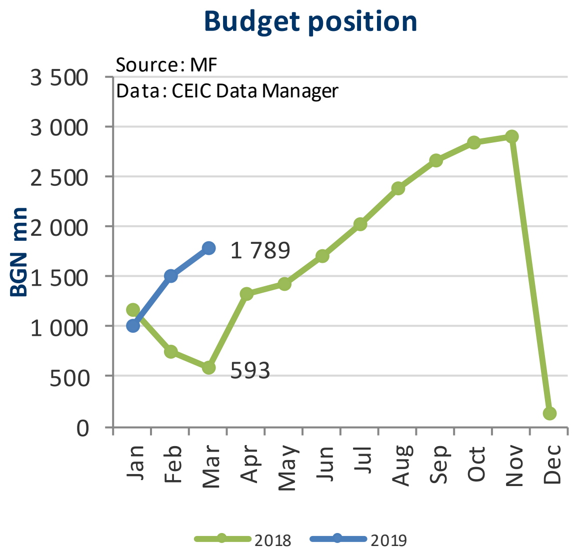
Producer Price Index on Non-domestic Market in February 2019 increased by 2.2% compared to the previous month. In the manufacturing the non-domestic prices rose by 2.2%. More significant price increase was reported in manufacture of basic metals by 6.4% and in the manufacture of leather and related products by 1.4%. Prices went down in the manufacture of paper and paper products by 0.7%, in the manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials, the manufacture of other non-metallic mineral products and in the manufacture of chemicals and chemical products - all by 0.4%. Producer Price Index on Non-domestic Market in February 2019 increased by 3.5% compared to the same month of 2018. In the manufacturing, the prices went up by 2.4%. 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 5.8%, in the manufacture of leather and related products by 4.9% and in the manufacture of rubber and plastic products by 4.4%.

FISCAL SECTOR

Budget Balance

In February 2019 Bulgaria' CFP balance on a cash basis is positive, amounting to BGN 1,513.4 million and presented 1.3% of forecasted GDP. The fiscal reserve as of 28.02.2019 amounts to BGN 10.4 billion. CFP balance on a cash basis as of March 2019 is expected to be positive, amounting to BGN 1,789.0 million (1.5% of the projected GDP).

According MF data the CFP balance on a cash basis as of February 2019 is positive, amounting to BGN 1,513.4 million (1.3% of forecast GDP) and is formed by a surplus under the national budget of BGN 1,282.8 million and a surplus under EU funds of BGN 230.6 million. The CFP revenues and grants as of February 2019 stand at BGN 7,219.7 million, or 16.5% of the annual estimates. Compared to the same period of the previous year, tax and non-tax revenues have grown by BGN 576.5 million, (9.3%), while grant proceeds (mainly grants under EU Programmes and Funds) have increased by BGN 430.9 million. It should be noted that as regards non-tax revenues there is a baseline effect in the part of revenues to the budget of the Energy Security Fund due to the amendments to the Energy Law which entered into force on 01.07.2018 and changed the mechanism of collection of revenues to the Fund's budget. For this reason the revenues to the Fund's budget for the first two months of 2019 were higher than the revenues for the same period of 2018. Tax proceeds, including revenues from social security and health insurance contributions, total BGN 5,577.0 million, which is 16.1% of the annual plans. Revenues from direct taxes amount to BGN 728.3 million, or 11.1% of the annual estimates, growing, as compared to same period of the previous year, by BGN 14.4 million (2.0%). Indirect tax revenues amount to BGN 3,101.7 million, or 18.9% of the annual plans. The VAT proceeds amount to BGN 2,196.2 million, or 20.3% of the plan. The amount of the non-refunded VAT as of 28.02.2019 is BGN 70.1 million. The excise duty revenues amount to BGN 854.6 million, (16.0% of the annual estimates). Custom duties revenues are BGN 39.9 million or 16.8% of the annual plan. Proceeds from other taxes, including property taxes and other taxes under the Corporate Income Tax Law, amount to BGN 134.3 million, or 11.5% performance of the annual estimates. Revenues from social



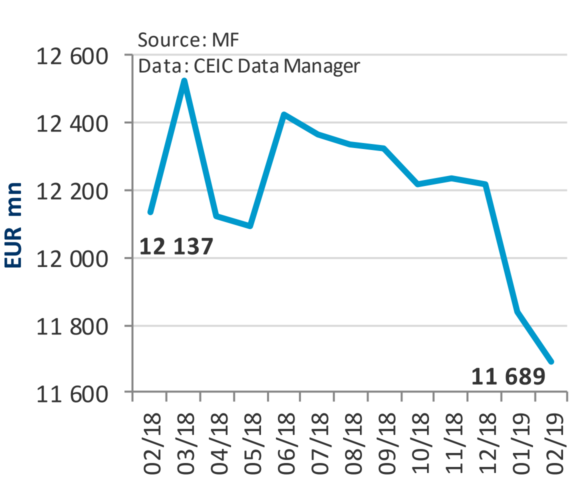
security and health insurance contributions are BGN 1,612.7 million, or 15.5% of those planned for the year. Compared to the same period of the previous year these revenues have risen by 11.1 percent in nominal terms. Non-tax revenues amount to BGN 1,175.7 million, or 17.7% of the annual estimates. Proceeds from grants amount to BGN 467.0 million. The expenditures under the CFP, including the contribution of the Republic of Bulgaria to the EU budget, amount to BGN 5,706.2 million as of February 2019, which is 12.8% of the annual estimates. For comparison, the expenditures for the same period of the previous year were to the amount of BGN 5,460.1 million. As compared to February 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 base-line effect from the increase of pensions as from July 2018), etc. As regards the staff costs as of February this year, most of the budget systems have not yet reflected the income policy for 2019. The delay is due to the technological time needed for the final meetings for the annual assessment of civil servants for 2018, which are used as a basis to apply the increase in individual salaries. The increase for January and February will be paid together with the increase for March 2019. Non-interest expenditures amount to BGN 5,231.4 million, which is 12.4% of the annual plans. Non-interest current expenditures as of February 2019 amount to BGN 4,940.2 million and capital expenditures (including net increment of state reserve) amount to BGN 286.0 million. The current and capital transfers to other countries amount to BGN 5.2 million. Interest payments amount to BGN 103.1 million, or 15.4% of those planned for 2019. The part of Bulgaria's contribution to the EU budget, paid from the central budget as of 28.02.2019, amounts to BGN 371.8 million, which complies with the current legislation in the area of EU own resources – Council Decision 2014/335/EU, Euratom on the system of own resources of the European Union, Council Regulation (EU, Euratom) No 608/2014 of 26 May 2014 laying down implementing measures for the system of own resources of the European Union, and Council Regulation (EU, Euratom) No 609/2014 of 26 May 2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements as amended by Council Regulation (EU, Euratom) No 2016/804 of 17 May 2016. Fiscal reserve as of 28.02.2019 is BGN 10.4 billion, including BGN 10.0 billion fiscal reserve deposits in BNB and banks and BGN 0.4 billion receivables under the EU Funds for certified expenditure, advance payments, etc. Based on the preliminary data and estimates, the Consolidated Fiscal Programme (CFP) balance on a cash basis as of March 2019 is expected to be positive, amounting to BGN 1,789.0 million (1.5% of the projected GDP).

Central Government Debt

At the end of February 2019, Bulgaria's central government sub-sector debt amounted to EUR 11,689.2 million and accounts for 19.6% of projected GDP. MF predicts a reduction in government debt to 16.5% of GDP by the end of 2021.

According MF data the central government debt as at end-February 2019 stood at EUR 11,689.2 million. The debt has decreased by EUR 150,5 million as compared to end-January due to the repayments on the maturing during the month GS issued on the domestic market. Domestic debt amounted to EUR 2,595.6 million and external debt – to EUR 9,093.6 million. At the end of the reporting period the central government debt/GDP ratio was 19.6%, with the share of domestic debt being 4.3% and of external debt – 15.3%. In the central government debt structure, domestic debt at the end of the period amounted to 22.2%, and external debt – to 77.8%. As of 28 February 2019, the central government guaranteed debt was EUR 87.0 million. Domestic guarantees amounted to EUR 35.5 million and external guarantees – to EUR 51.5 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, paragraph 1 of the Government Debt Law, at end-February 2019 the government debt reached EUR 10,798.9 million, being 18.1% of GDP. Domestic debt amounted to EUR 2,305.8 million and external debt – to EUR 8,493.1 million. Government guaranteed debt in February 2019 amounted to EUR 953.1 million. Domestic guarantees amounted to EUR 35.5 million, the government guaranteed debt/ GDP ratio being 1.6%. Under the government debt

Central Goverment Debt



management strategy, the MF predicts its reduction to 16.5% of GDP by the end of 2021.

International Institutions' Forecasts

The MF predicts 3.4% GDP growth for 2019 and 3.3% for 2020-2022. The IMF predicts GDP growth for Bulgaria from 3.3% in 2019, 3% in 2020 and 2.8% in 2021-2024.

International institutions' forecasts are that global economic growth will slow down in 2019 due to weaker economic activity in both developing and developed countries. Introduced protectionist foreign trade measures, mostly from the US, will continue to curb world trade. The projections are to maintain a worsened economic situation in Turkey and a decline in GDP in this country. The growth of the European and American economies will also slow down in 2019. The EC has revised its forecasts for most of the Member States towards lower growth, with the expectation that the slowdown in economic activity that began in the second half of 2018 will shift to the current. The high base of 2018 will also have an impact and will contribute to a weaker increase in private consumption. Increasing insecurity linked to the unstable external environment will also result in a lower performance of private investment. In 2019, exhausting the one-off negative effects of 2018, is expected to recover the positive dynamics of exports. External demand from EU countries will continue to support the growth of Bulgaria's exports, but the contribution will be limited in view of the expected slowdown in economic activity among most member states. At the same time, Bulgaria's exports to Turkey will remain negatively impacted by the decline in economic activity in the country. The demand for export-oriented industries and the upward dynamics of total investment will be reflected in the acceleration of imports. Foreign trade will have a more favorable impact on GDP growth, with net exports contributing to negative growth, but will fall to 2.1 percentage points.

Bulgaria: International institutions projection for GDP growth (%)	2019	2020
BNB	3.6	-
MF	3.4	3.3
IMF	3.3	3
WB	3.1	3
EC	3.6	-
Source: BNB, MF, IMF, WB, EC		

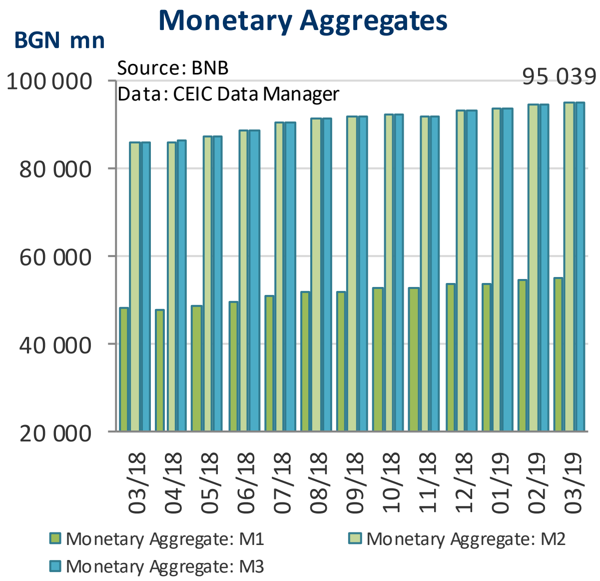
In 2019, the projected increase in public investment and export growth in Bulgaria will make a major contribution to higher growth than in 2018. Private consumption will continue to account for sustainable growth, but the pace will slow down compared to the previous year. Private consumption growth slowed down significantly in the last quarter of 2018, despite the continuing rise in households' incomes and loans. Lower growth is linked to the deterioration in consumer confidence in the second half of 2018, which is a prerequisite for a more moderate increase in household spending in 2019. Economic growth will slow slightly to 3.3% in 2020 as a result of lower government spending on consumption and investment. While private investment is expected to improve, rising private consumption growth will be curtailed by lower earnings and employment growth. The expected improvement in external demand, both by the EU and some third countries, will have an effect on the acceleration of export growth in 2020. At the same time, the growth of imports of goods and services will decrease as a result of - weak domestic demand and will limit the negative impact of the external sector on GDP growth to 0.9 percentage points. In Bulgaria GDP will continue to grow at a rate of 3.3% over the period 2021-2022. As in the previous forecast, domestic demand will remain the driving force behind both consumption and investment growth. While investment activity is expected to moderate moderately, the dynamics of private consumption will be curtailed by labor market developments linked to exhaustion of employment opportunities. Import growth will continue to outpace export growth, reflecting the negative contribution of the external sector to GDP growth by the end of the projection horizon. In 2018 Bulgaria's real GDP growth reached 3.1%, with an expected growth of 3.6% in the MF autumn forecast. The lower growth was due to the weak export performance, which resulted in a negative contribution of net exports of 2.8 percentage points. At the same time, domestic demand reported higher growth than anticipated, driven largely by the strong growth in private consumption.

The International Monetary Fund (IMF) keeps its January stance on the Bulgarian economy in 2019 - expectations for growth of

3.3%, which is a slight acceleration compared to the reported 3.1% for 2018. Overall, the pace of Bulgaria is over the average for the group of developing countries in Europe (0.8%), which includes Bulgaria and other countries like Romania, Poland and Turkey. On the other hand, the expectations of the experts are that economic growth in "Emerging Europe" will gradually accelerate until 2024 when it will reach 3.1%. For the same period, the IMF predicts growth in Bulgaria to slow to 3% in 2020 and 2.8% by 2024. IMF forecasts are slightly lower than the Treasury's forecast, expecting GDP growth of 3.4% for 2019 and 3.3% for 2020-2024. However, it should be noted that after the publication by the NSI of the official statistics for the Bulgarian economy for 2018, revisions will probably be expected in the next forecasts.

MONETARY SECTOR

In February 2019 broad money (M3) amounted to BGN 94.614 billion (81.8% of GDP) and increased on an annual basis by 10.4%. Domestic credit amounted to BGN 57.937 billion and increased compared to February 2018 by 7.7%.



In February 2019 broad money (monetary aggregate M3) increased annually by 10.4% compared to 10% annual growth in January 2019. At the end of February 2019 M3 was BGN 94.614 billion (81.8% of GDP3) compared to BGN 93.729 billion (81% of GDP) in January 2019. Its most liquid component – monetary aggregate M1 – increased by 14.1% yoy in February 2019 (13.5% yoy growth in January 2019). At the end of February 2019, deposits of the non-government sector were BGN 78.769 billion (68.1% of GDP), increasing by 9.1% yoy (8.6% yoy growth in January 2019). Deposits of Non-financial corporations were BGN 23.403 billion (20.2% of GDP) at the end of February 2019. Compared to the same month of 2018 they increased by 8.1% (6.2% yoy growth in January 2019). Deposits of financial corporations increased by 29.6% yoy in February 2019 (32.2% yoy growth in January 2019) and at the end of the month they reached BGN 3.323 billion (2.9% of GDP). Deposits of Households and NPISHs were BGN 52.043 billion (45% of GDP) at the end of February 2019. They increased by 8.5% compared to the same month of 2018 (8.5% yoy growth in January 2019). Net domestic assets were BGN 58.263 billion at the end of February 2019. They increased by 10.3% compared to the same month of 2018 (11% yoy growth in January 2019). At the end of the month their basic component – domestic credit – was BGN 57.937 billion and increased by 7.7% compared to February 2018 (8.6% yoy growth in January 2019). In February 2019 claims on the non-government sector increased by 9.3% yoy (9.1% yoy increase in January 2019) reaching BGN 59.501 billion. At the end of February 2019, claims on loans to the non-government sector amounted to BGN 57.935 billion (50.1% of GDP) compared to BGN 57.665 billion (49.9% of GDP) at the end of January 2019. They increased annually by 8.7% in February 2019 (8.5% yoy growth in January 2019). The change of loans to the non-government sector was influenced also by net sales of loans by Other monetary financial institutions (Other MFIs) - their volume for the last twelve months was BGN 296.3 million. On an annual basis, loans sold by Other MFIs were BGN 298.6 million (of which BGN 32.5 million in February 2019), while the amount of repurchased loans was BGN 2.3 million (there were no loan repurchases in February 2019). In February 2019, loans to Non-financial corporations increased by 6.2% yoy (5.8% yoy growth in January 2019) and at the end of the month amounted to BGN 33.109 billion (28.6% of GDP). Loans to Households and NPISHs were BGN 21.934 billion (19% of GDP) at the end of February 2019. They increased by 10.7% compared to the same month of 2018 (10.8% yoy growth in January 2019). At the end of February 2019 loans for house purchases were BGN 10.626 billion and increased by 11.3% yoy (11.1% yoy growth in January 2019). Consumer loans amounted to BGN 9.207 billion and compared to February 2018 they increased by 17.7% (17.6% yoy growth in January 2019). On an annual basis other loans decreased by 32.3% (27.5% yoy decline in January 2019) and reached BGN 775.7 million. Loans granted to financial corporations were BGN 2.892 billion at the end of February 2019 (2.5% of GDP). Compared to February 2018, they increased by 25.7% (24.7% yoy growth in January 2019).

CAPITAL MARKET

In March 2019, two of the leading indexes on the stock exchange fell SOFIX to 583.87 points and BGREIT to 120.64 points respectively. BG TR30 retained its level at 506.03 points. Only BGBX 40 reported an increase to 116.27 points.

According to BSE - Sofia in March 2019, SOFIX registered a loss of 0.33% compared to the previous month. The ratio between the losers and the profitable issues of SOFIX 15 most liquid companies is 10: 5. The index of the most liquid companies BGBX 40 rose by 0.03% to 116.27 points in March. Equally weighted BG TR30 kept its level at 506.03 points. BGREIT property company's estimate fell 0.21% to 120.64 points in March. Of the companies included in SOFIX, in March 2019 the ratio of losers to winning issues was 10: 5. A year earlier, in March 2018, the ratio was even worse - 13 losers versus 2 winners. Turnover in March amounted to BGN 7 187 583 and was higher by BGN 657 527 than in February, when transactions with SOFIX included for BGN 6 530 056 were reported. In March deals with over one million leva have been realized by only three public companies: Graudus (BGN 2 282 193), Industrial Holding Bulgaria (BGN 1 595 127) and Doverie United Holding (BGN 1 118 759). In March the market capitalization leader was Sopharma (BGN 471 792 647), followed by Chimimport (BGN 431 363 281). The top five is complemented by Gradus (BGN 428,751,330), CB First Investment Bank (BGN 400,400,000) and Eurohold Bulgaria (BGN 379,249,152). In SOFIX, after March 18, there are six holding companies, of which only two are profitable throughout the month - Eurohold Bulgaria (+ 20.00%) and Holding Varna (+ 1.00%). With a decrease in the share price, the third month of the year ended: Industrial Holding Bulgaria (-9.91%), Doverie United Holding (-7.61%), Sirma Group Holding (-4.75%) and Stara Planina Hold (-1.63%). The company with the highest turnover for March 2019 is 235 Holdings AD, with a total volume of BGN 6,008,128. Second place is Velgraf Asset Management AD with a total amount of BGN 3 398 025. In the ranking there are only two representatives of the special investment vehicles - the Forex Real Estate REIT and CCB Real Estate Fund REIT. With the smallest number of concluded deals in the ranking are 235 Holdings AD, Forexcom Real Estate REIT and Capital Concept Limited, and with the largest Albena AD, Industrial Holding Bulgaria AD and Gradus AD. The most profitable company in March 2019 was Momina Krepost AD, which achieved double digit growth of 56.44%. Second place is 235 Holdings AD, followed by Eurohold Bulgaria AD with growth of 20.75%. The last two companies in the ranking also registered two-digit growth, respectively Slantse Stara Zagora - Tabak AD with a growth of 19.01% and Industrial Development Holding AD with a growth of 13.99%. The top 5 of the losers in March 2019 was headed by Neochim AD with a decline of 14.48%. Second place is St. St. Constantine and Helena Holding AD with a decrease of 11.50%, followed by Central Cooperative Bank AD, which registered a decrease in March of 11.08%. Chimimport AD is the penultimate position with a decline of 10.89%. The last company in the leaderboard is down one-digit.

Bulgarian Stock Exchange Indexes on Monthly Basis

Date	SOFIX	BGBX40	BGREIT	BGTR30
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
03.2019	583.9	116.3	120.6	506.0

Source: Bulgarian Stock Exchange-Sofia

BANKING SECTOR

In February 2019 Bulgaria's banking system total assets increased to BGN 107.7 billion and thus increased by 0.7% mom and by 10.7% yoy, respectively. Their relative share in GDP is 92.6%.

According to BNB data, the aggregated net profit of the banking system in February 2019 amounted to BGN 204 million and grew up by 7.6% yoy. The impairment costs of financial assets not reported at fair value through profit or loss at the end of the reporting month are BGN 44 million (compared to BGN 64 million at the end of February 2018).

Indicator (BGN'000)	28.02. 2018	28.02. 2019	Change Y/Y (%)
Interest Income	472 131	497 652	5.4
Interest Expence	49 641	49 044	-1.2
Net interest Income	**422 490**	**448 608**	**6.2**
Impairment	64 365	43 513	-32.4
Fee and commission income	183 999	203 331	10.5
Fee and commission expenses	26 214	32 612	24.4
Net fee and commission income	**157 785**	**170 719**	**8.2**
Administration costs	259 124	266 220	2.7
Personal cost	133 929	146 015	9.0
Total operating income, net	554 625	575 617	3.8
Net Profit	**189 144**	**203 595**	**7.6**

Source: BNB, Calculations: UBB

In February 2019, the total assets of the banking system grew, with an increase in deposits, balance sheet capital and loans and advances. Compared to the end of January 2019, the total assets increased by BGN 787 million to BGN 107.7 billion and thus increased by 0.7% mom and by 10.7% yoy, respectively. Their relative share in GDP is 92.6%. The gross credit portfolio of the banking system (excluding loans and advances to the sectors of central banks and credit institutions) increased by BGN 311 million (0.5%) to BGN 61.6 billion in February. Mortgage and Consumer Loans were increased by 0.5% mom and by 0.6% mom, respectively. Their annual growth was 12% and 15.2%, respectively. Growth in loans to non-financial corporations was 0.6% mom and 6% yoy, respectively. Loans to other financial corporations increased by 1.3% mom and and by 33% yoy, respectively. Decrease was recorded for loans to the general government sector by 0.4% mom, with growth of 29.6% yoy, respectively. Deposits from customers in the banking system reported a monthly increase of 0.8% mom and by 9.3% yoy to BGN 85.6 billion. Household deposits grew up by 0.8% mom and by 8.6% yoy, respectively to a total amount of BGN 54 billion. Deposits of non-financial corporations increased by 1.3% mom and by 7.3% yoy, respectively to BGN 25.4 billion. Deposits of other financial corporations increased by 0.6% mom and by 28.2% yoy, respectively.

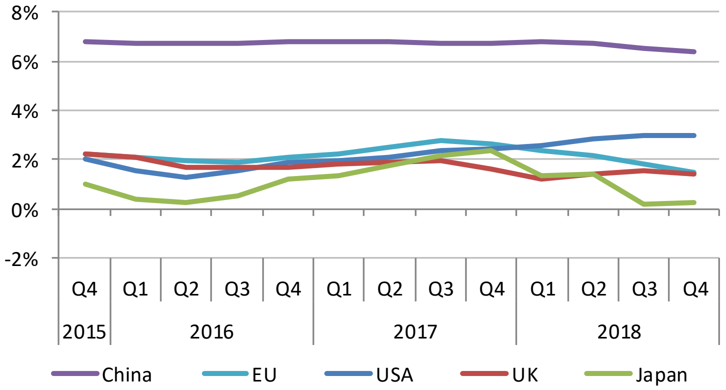
Bulgaria Intermediation Indicators	28.02.2018 BGN'000	31.12.2018 BGN'000	31.01.2019 BGN'000	28.02.2019 BGN'000	Change m/m (%)	Change y/y (%)	Change yend (%)	Share in GDP (%)
BANKING SYSTEM TOTAL ASSETS	**97 320 309**	**105 556 619**	**106 951 701**	**107 738 328**	**0.7**	**10.7**	**2.1**	**92.5**
Loans to central governments	592 253	741 199	770 336	767 575	-0.4	29.6	3.6	0.7
Loans to non-financial corporations	33 342 388	34 871 435	35 117 162	35 334 679	0.6	6.0	1.3	30.4
Loans to financial corporrations	2 489 626	3 220 084	3 267 099	3 310 322	1.3	33.0	2.8	2.8
Retail loans, incl.:	20 056 098	22 075 378	22 137 259	22 189 879	0.2	10.6	0.5	19.1
Mortgage loans	9 820 212	10 906 245	10 945 140	11 002 452	0.5	12.0	0.9	9.5
Consumer loans	9 048 891	10 332 669	10 362 336	10 423 723	0.6	15.2	0.9	9.0
Micro credits and other loans	1 186 995	836 464	829 783	763 704	-8.0	-35.7	-8.7	0.7
TOTAL LOANS	**56 480 365**	**60 908 096**	**61 291 856**	**61 602 455**	**0.5**	**9.1**	**1.1**	**52.9**
ATRACTED SOURCES FROM CLIENTS, incl.:	**78 306 251**	**84 571 339**	**84 971 027**	**85 624 052**	**0.8**	**9.3**	**1.2**	**73.6**
Local government deposits	2 158 715	2 696 635	2 820 346	2 710 931	-3.9	25.6	0.5	2.3
Non-financial corporations deposits	23 690 781	25 277 991	25 089 973	25 412 199	1.3	7.3	0.5	21.8
Financial corporations deposits	2 763 346	3 213 474	3 521 897	3 542 532	0.6	28.2	10.2	3.0
Households and NPISHs deposits	49 693 409	53 383 239	53 538 811	53 958 390	0.8	8.6	1.1	46.4
Equity	12 299 768	13 857 523	13 991 945	14 143 854	1.1	15.0	2.1	12.1
Net profit (annualised)	189 144	1 677 846	76 945	203 595		7.6		
BANKING INDICATORS (%)								
ROE	9.2	12.1	6.6	8.6	2.0	-0.6	-3.5	
ROA	1.2	1.6	0.9	1.1	0.3	0.0	-0.5	
Capital adequacy	n.a	20.4	n.a.	n.a				
Liquidity coverage(%)	n.a	294.1	281.5	276.2	-5.3		-17.9	
NPL	n.a	7.6	n.a.	n.a				
GDP	108 141 000	108 141 000	116 412 000	116 412 000				
EUR/BGN	1.95583	1.95583	1.95583	1.95583				

Source: BNB, MF; Calculations: UBB

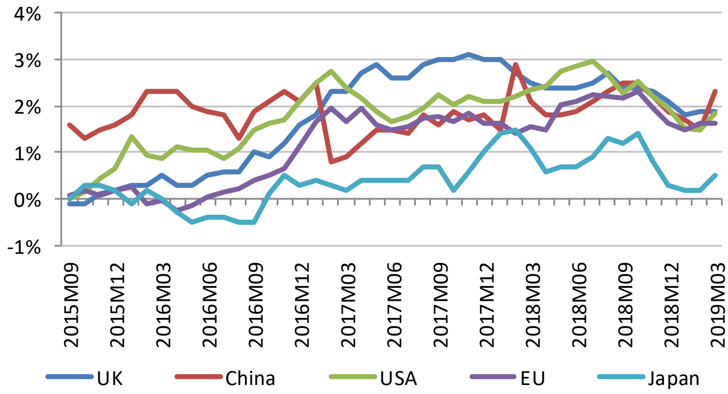
The liquidity buffer and the net outflows at the end of the reported month were BGN 28.7 billion and BGN 10.4 billion, respectively. Compared to the previous month, the liquidity buffer grew by 2.8% to BGN 775 million and the net outflows increased by 4.8% to BGN 473 million. The ratio of liquidity coverage ratio at the end of February was 276.2%. Total equity in the banking system's balance sheet at the end of February amounted to BGN 14.1 billion, with a monthly increase of BGN 152 million or by 1.1%.

Appendix

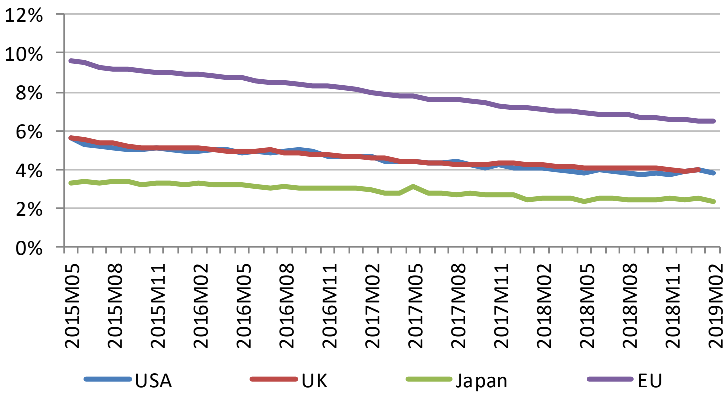
Advanced Economies: GDP growth rate compared to the same quarter of the previous year



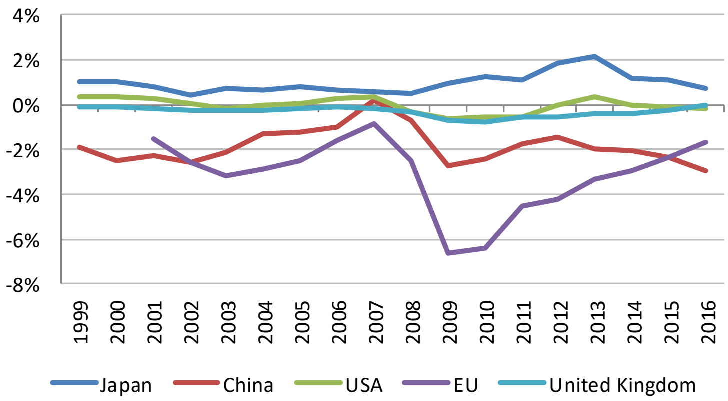
Advanced economies: Inflation by country, monthly (y/y)



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

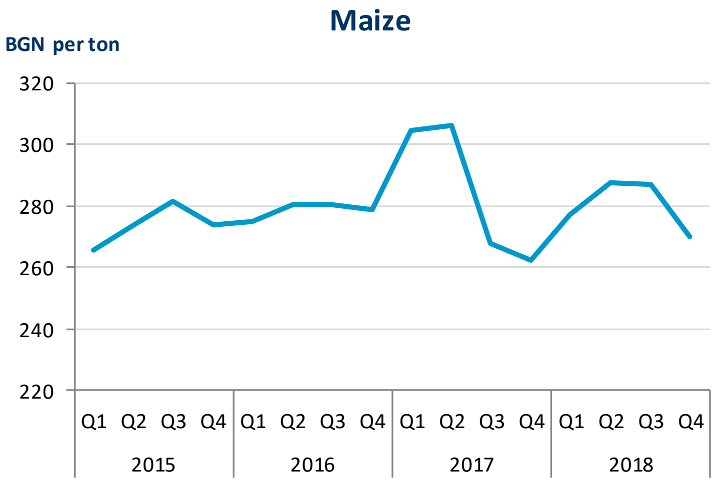


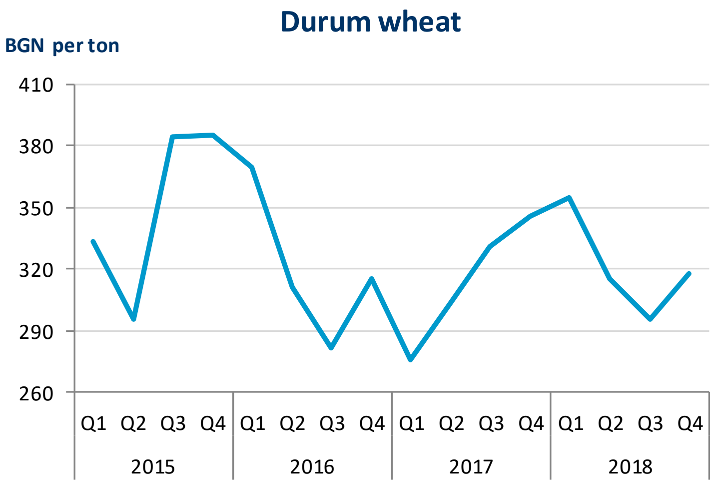
Advanced economies: Budget surplus/deficit to GDP (%)

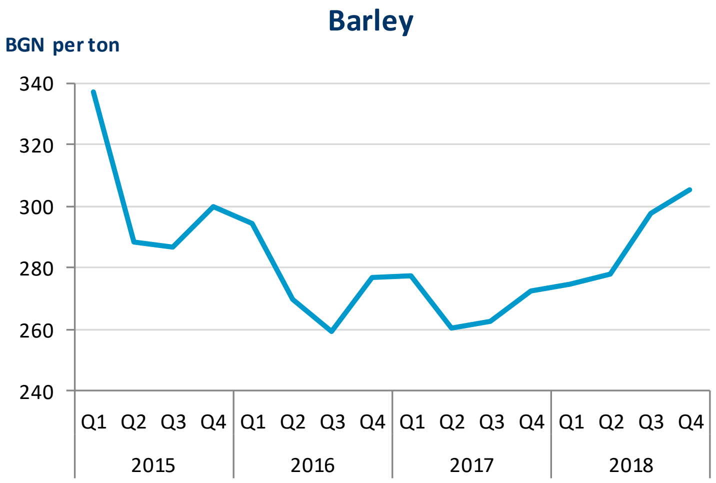


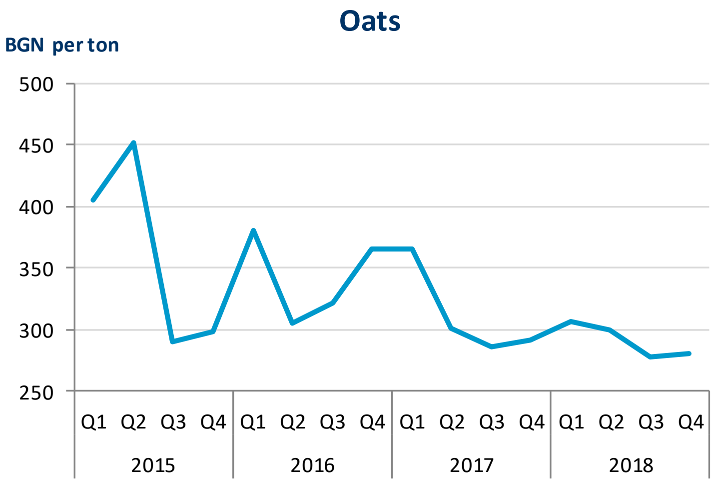
Source: IMF

Bulgaria: Prices of Agriculture products



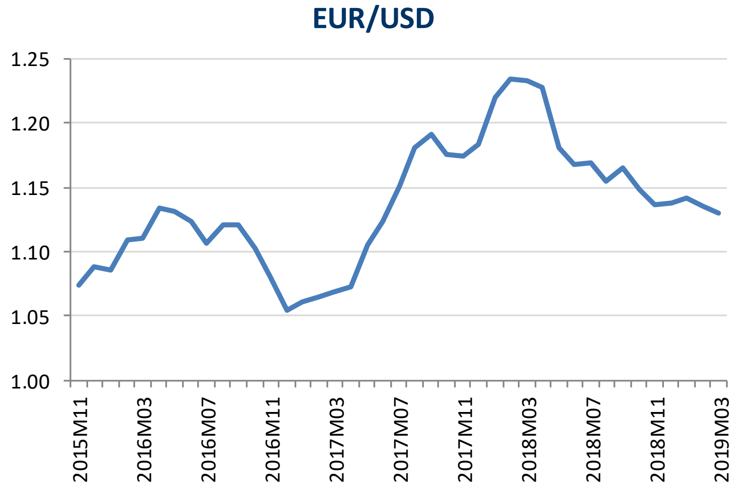


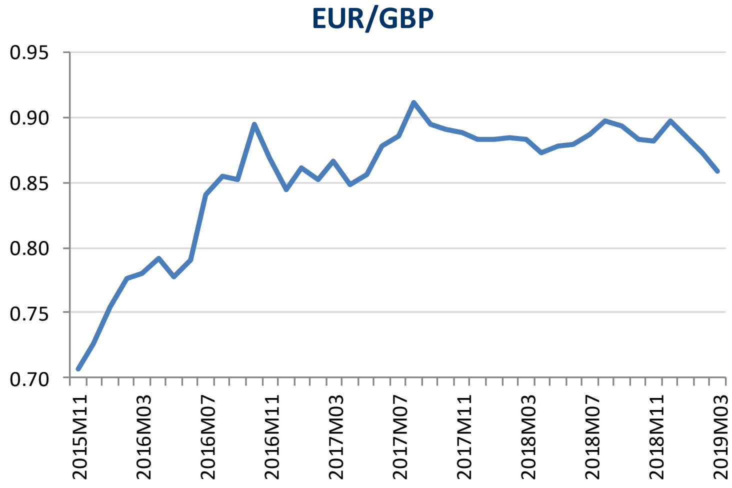


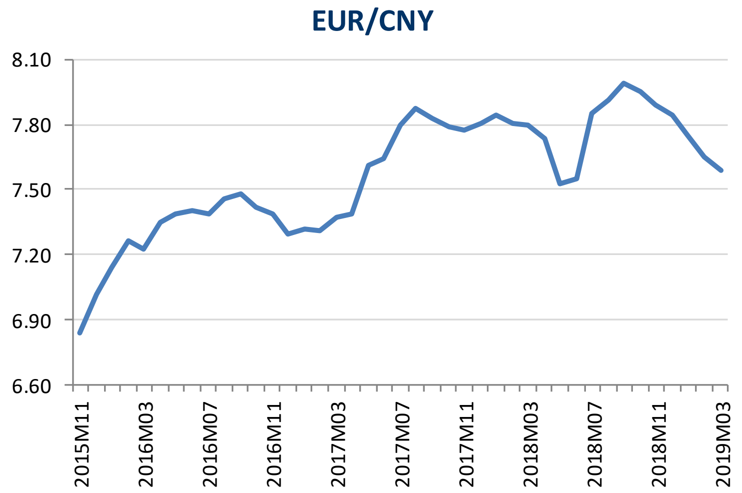


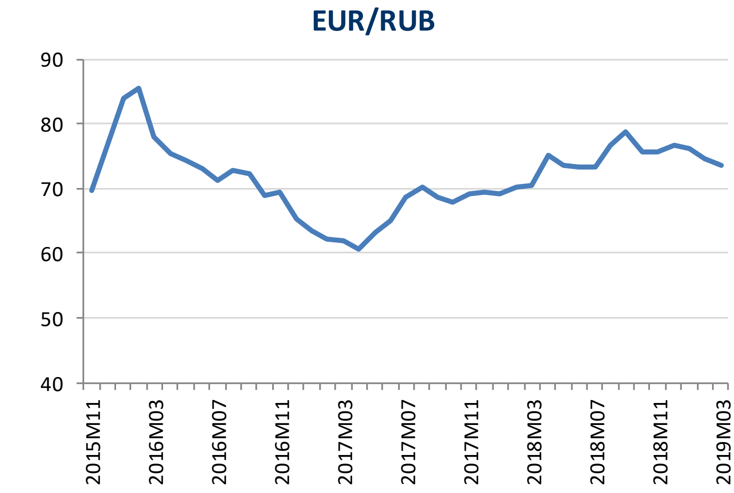
Source: NSI

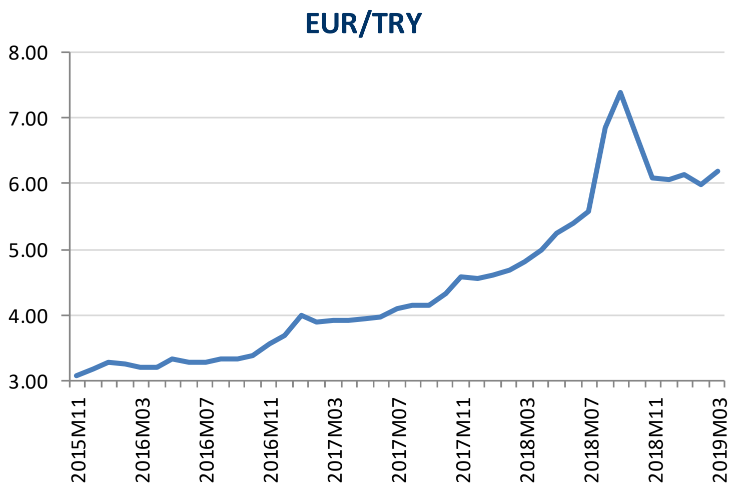
Overseas FX Rates

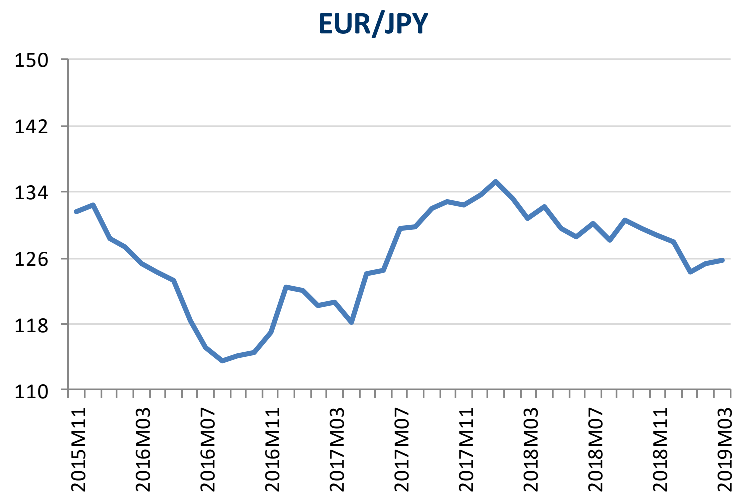






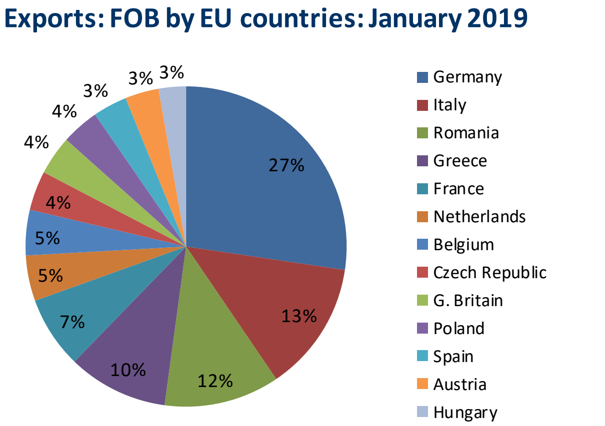


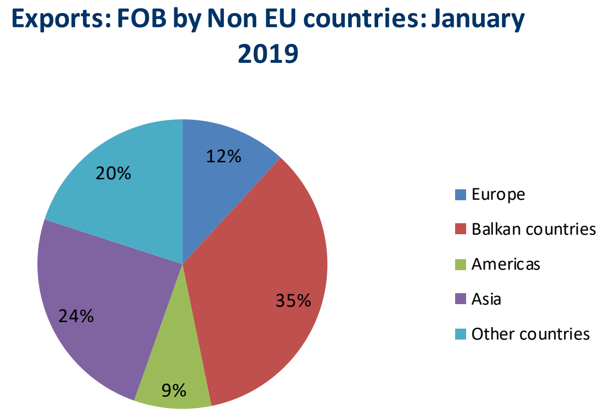


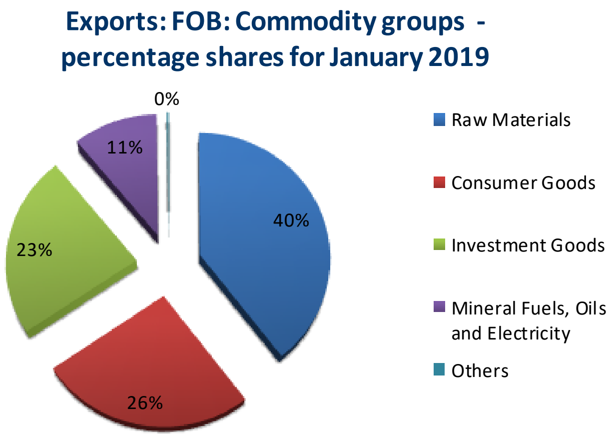


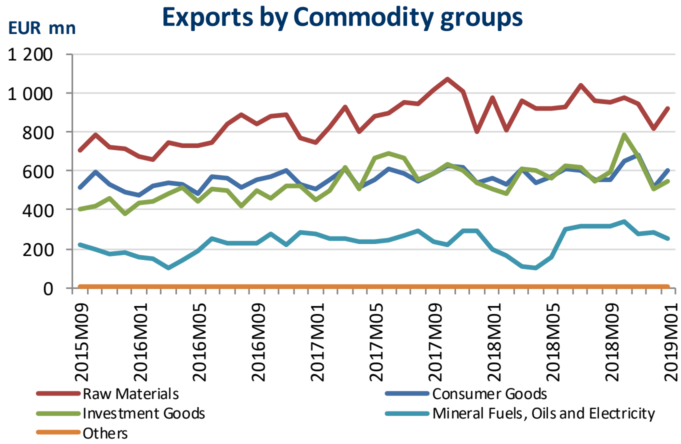
Source: ECB

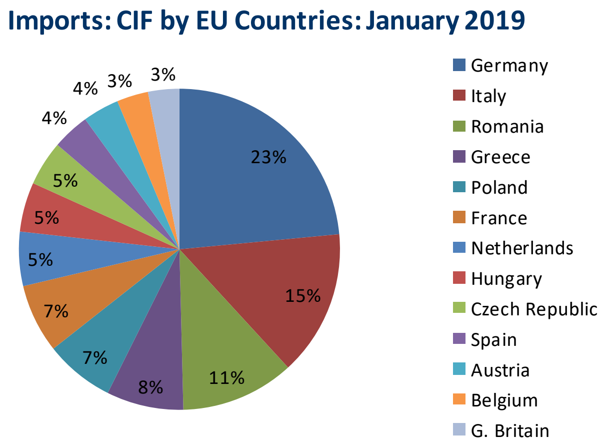
Bulgaria: External Sector Indicators

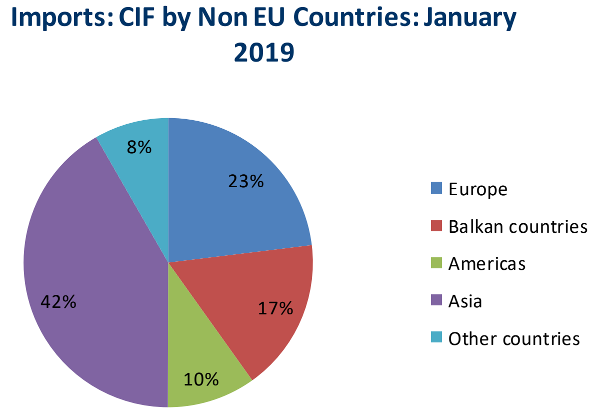


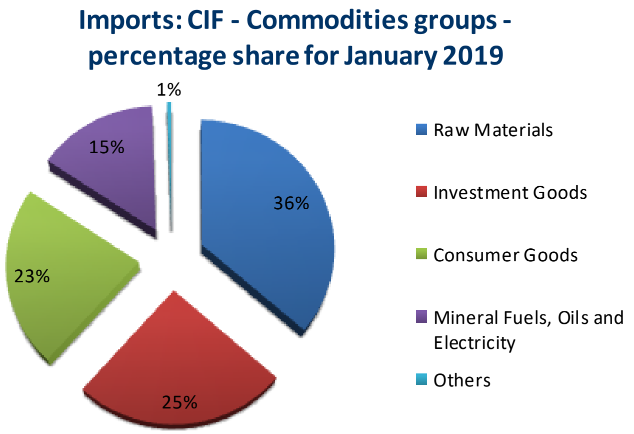


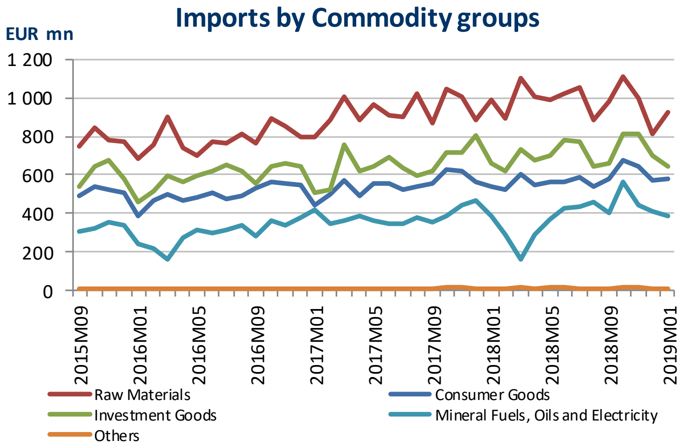








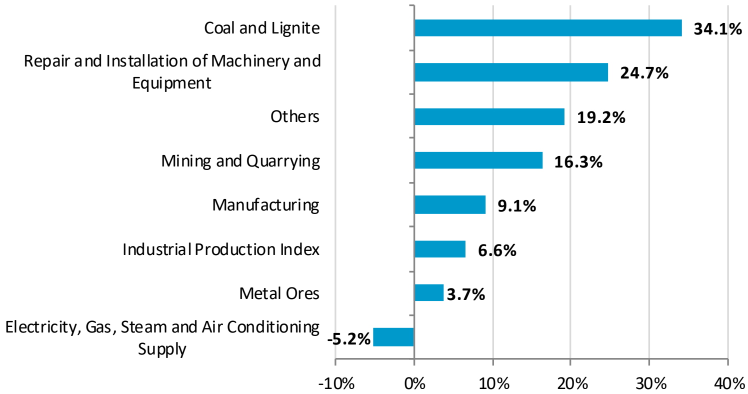




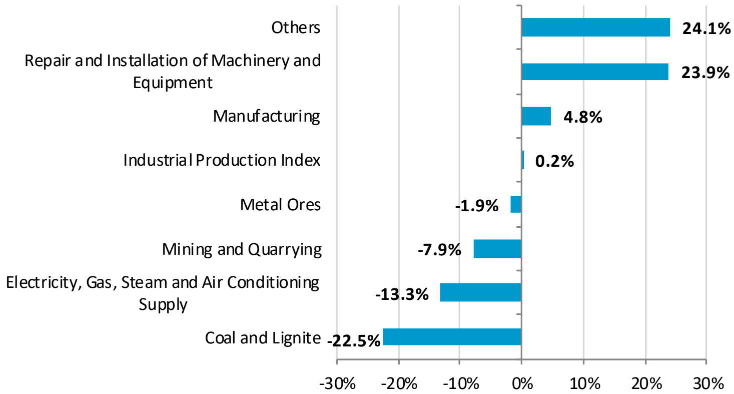
Source: BNB

Bulgaria: Real Sector Indicators

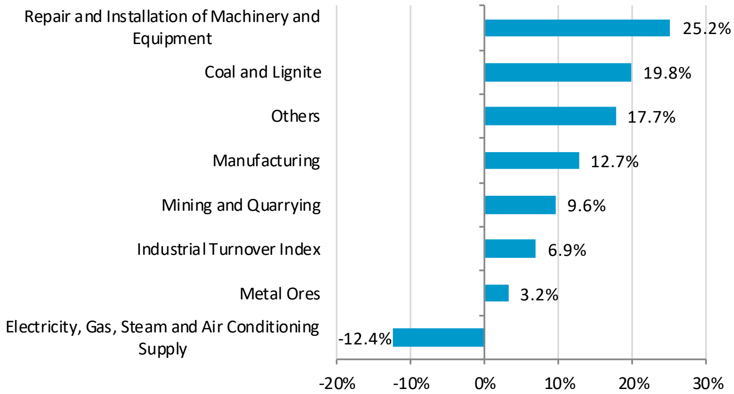
Industrial Production Index: % change in February 2019 compared to February 2018



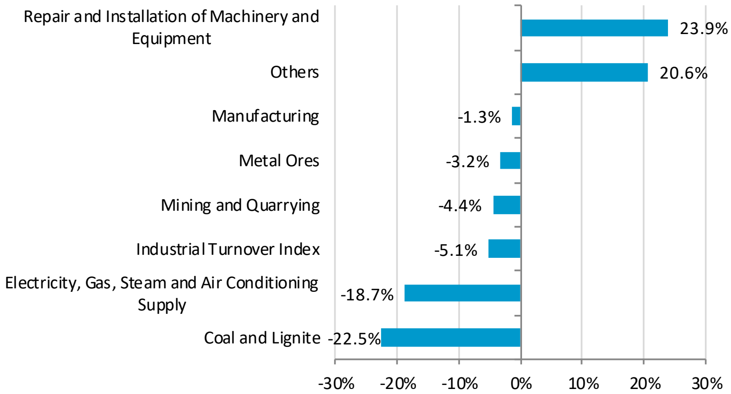
Industrial Production Index: % change in February 2019 compared to January 2019



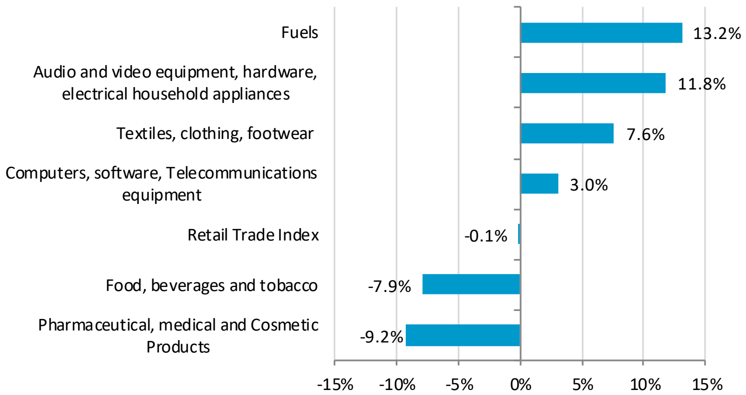
Industrial Turnover Index: % change in February 2019 compared to February 2018



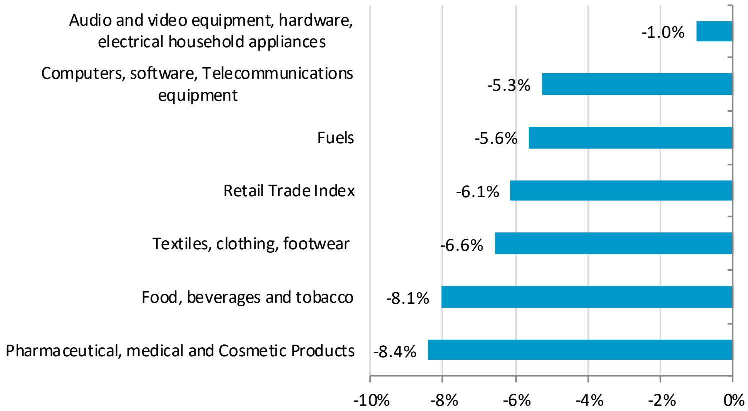
Industrial Turnover Index: % change in February 2019 compared to January 2019



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

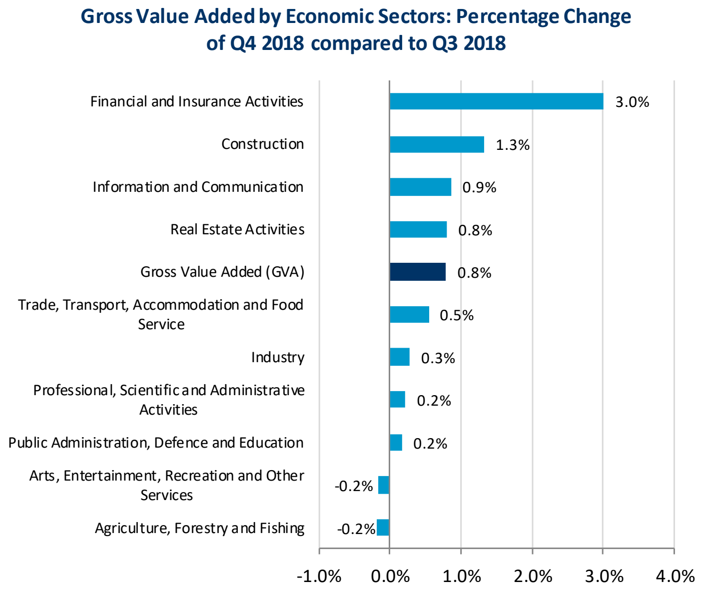


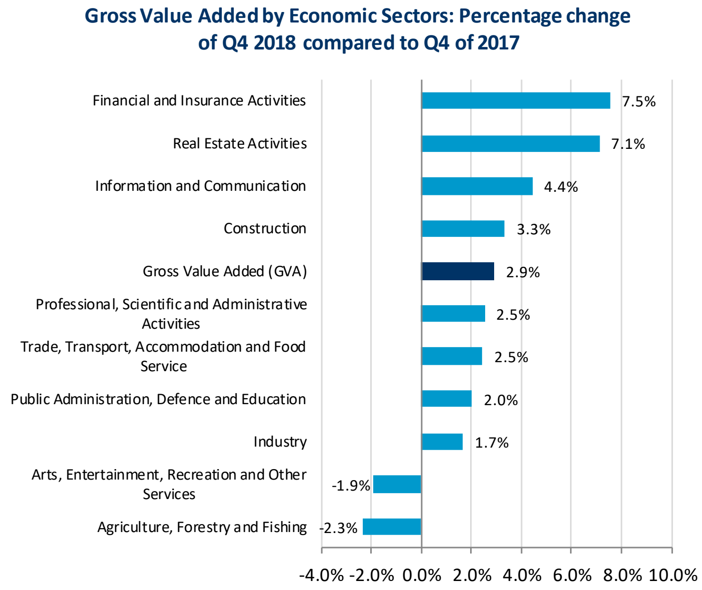
Retail Trade Index: % change in February 2019 compared to January 2019

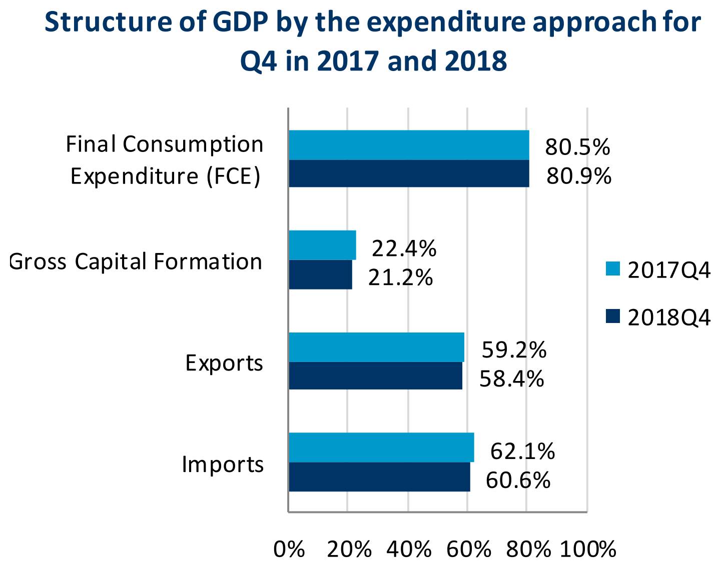


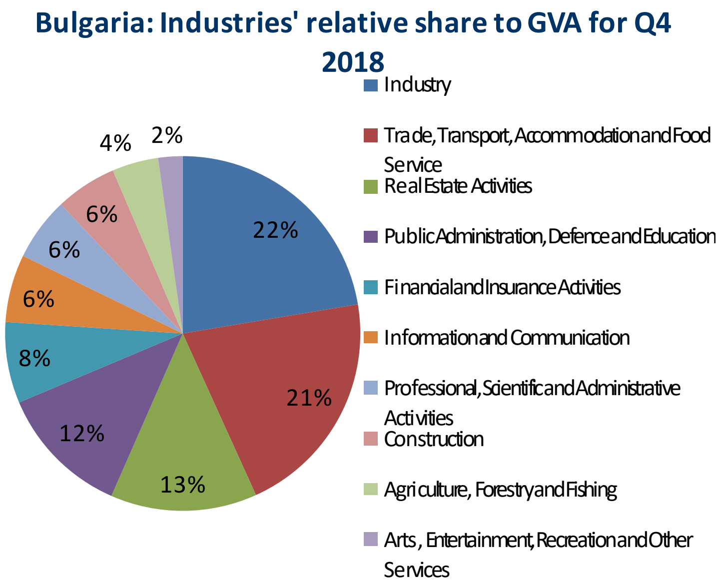
Source: NSI

Bulgaria: Real Sector Indicators



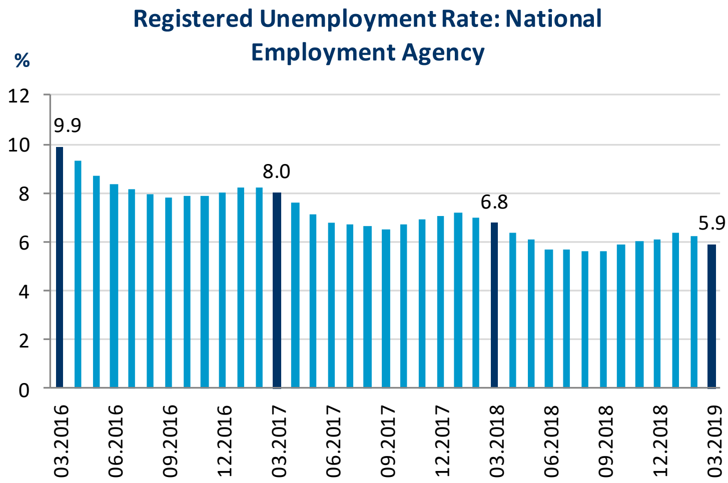


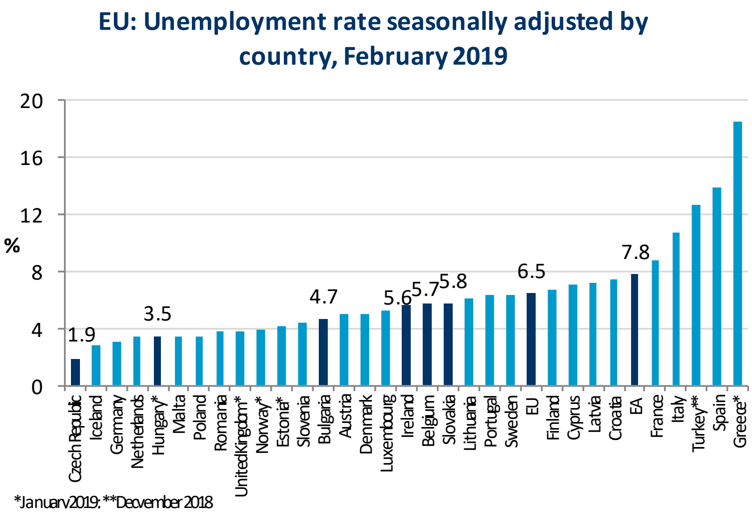


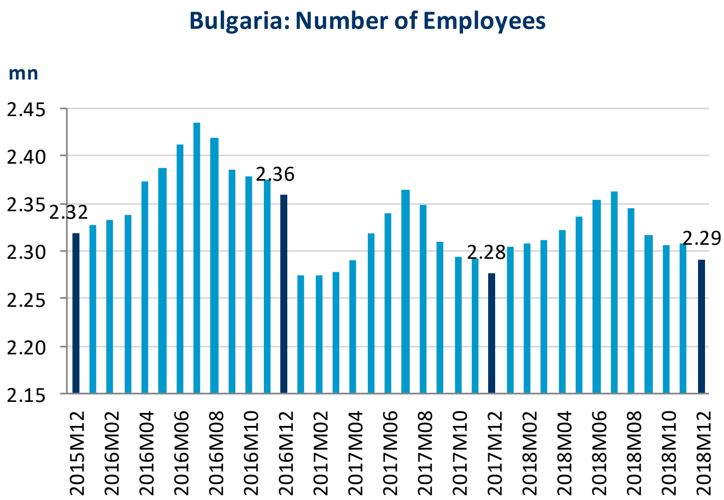


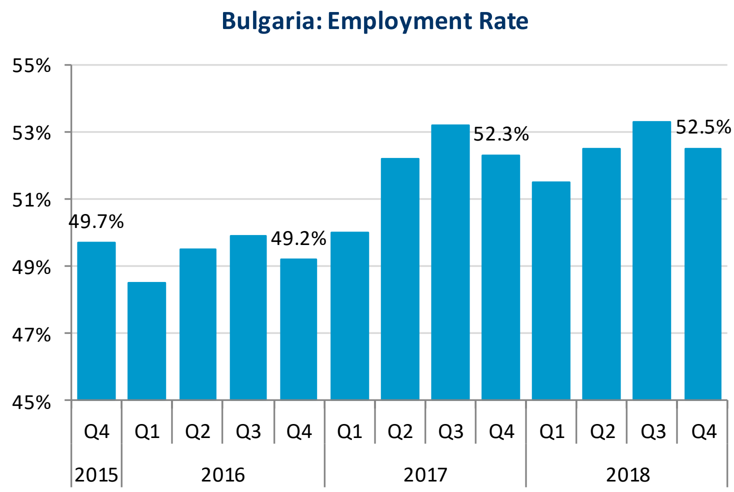
Source: NSI, EC

Bulgaria: Real Sector Indicators



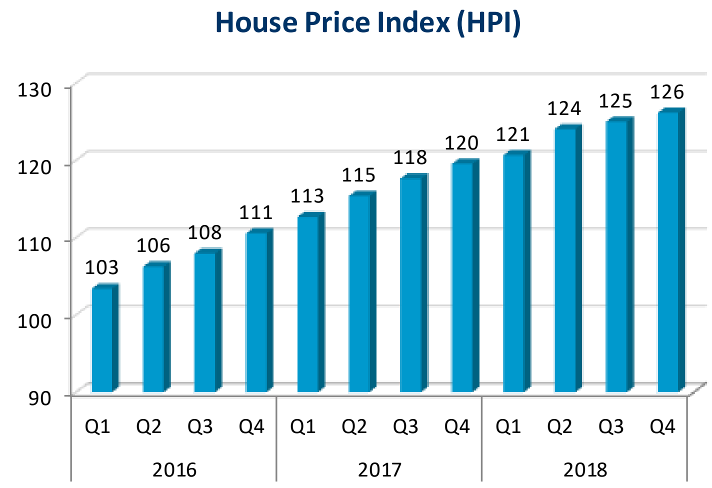


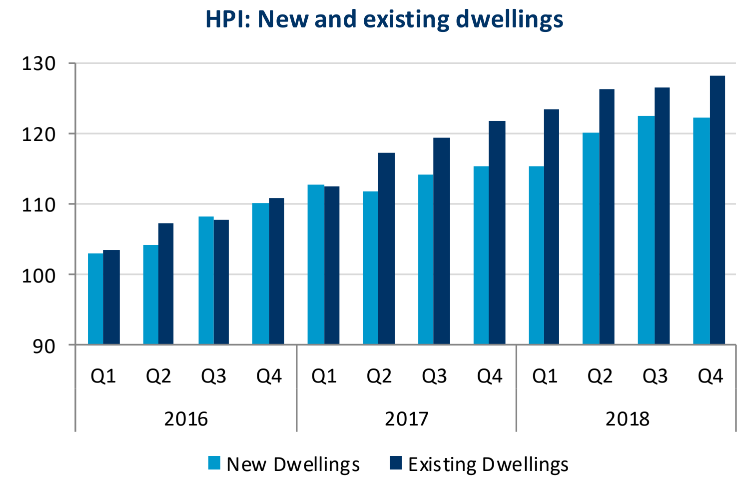


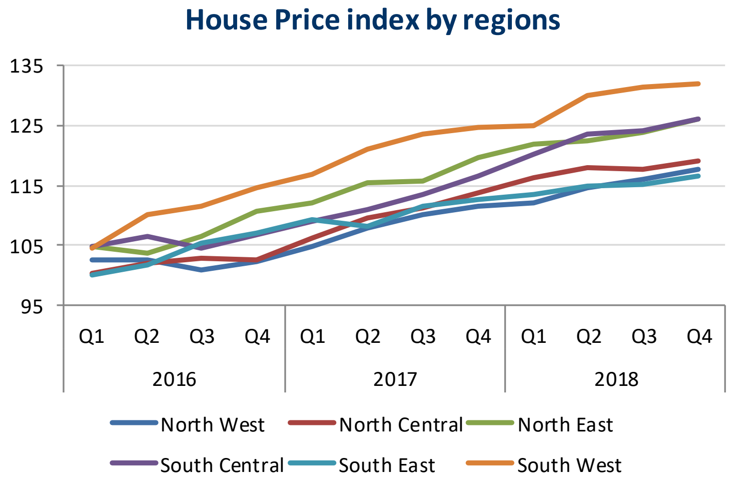


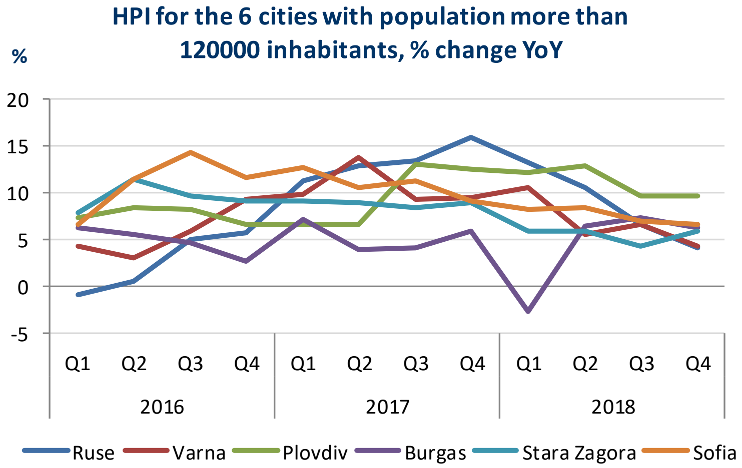
Source: NSI, EC

Bulgaria: Real Sector Indicators



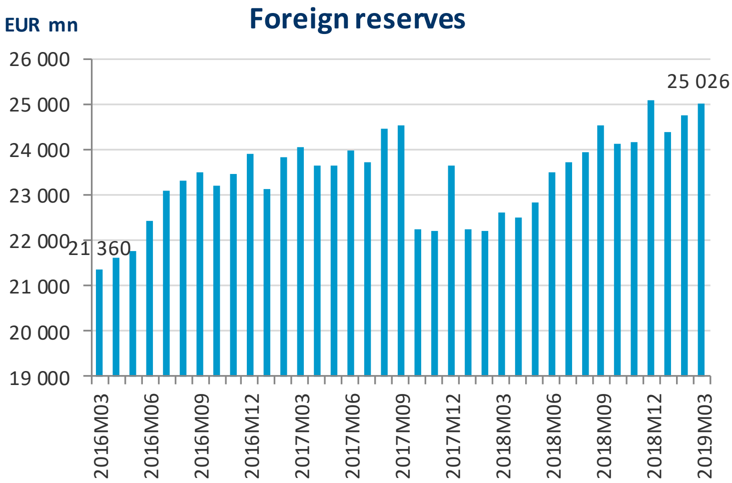


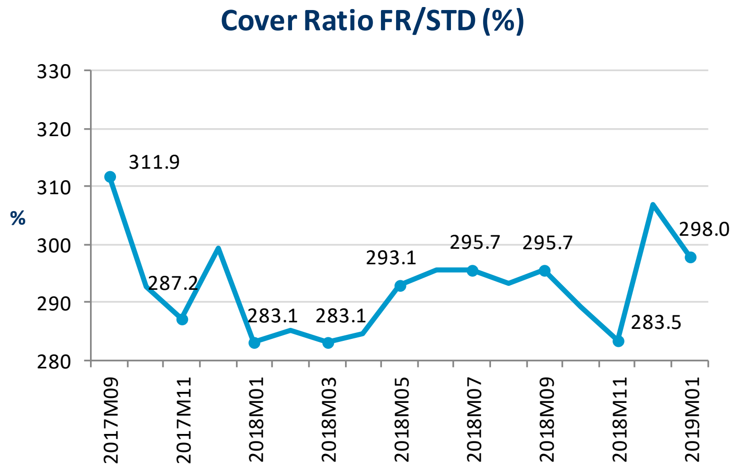


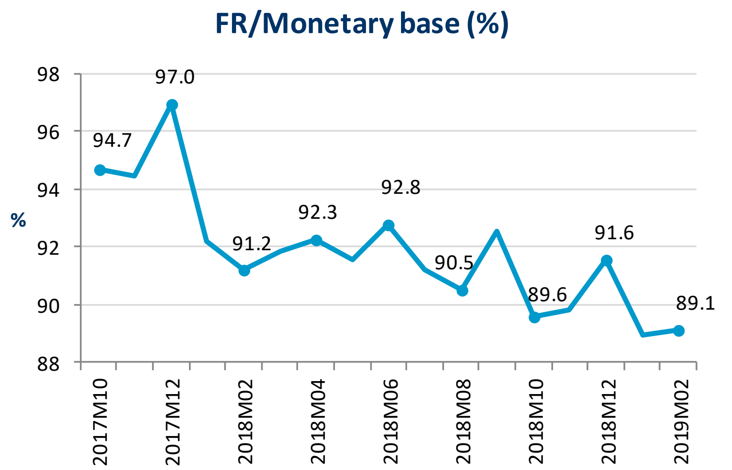


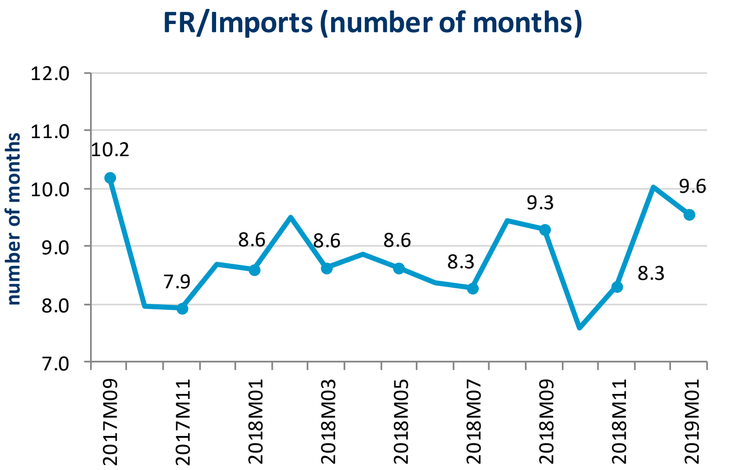
Source: NSI, EC

Bulgaria: Monetary Sector Indicators





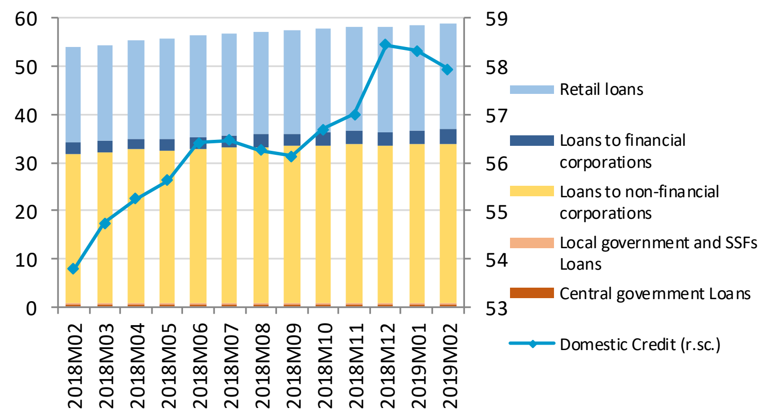




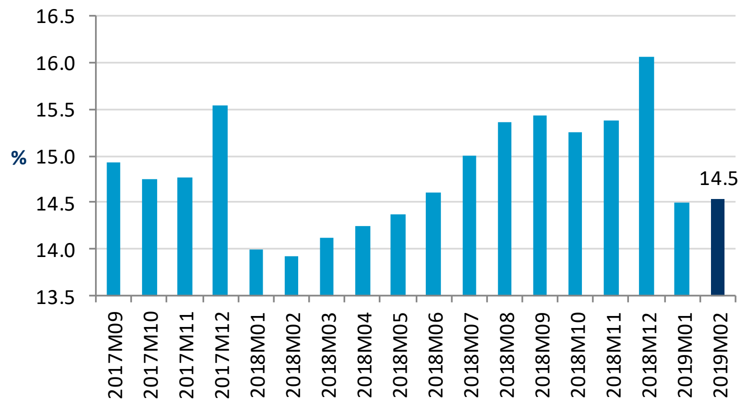
Source: BNB

Bulgaria: Monetary Sector Indicators

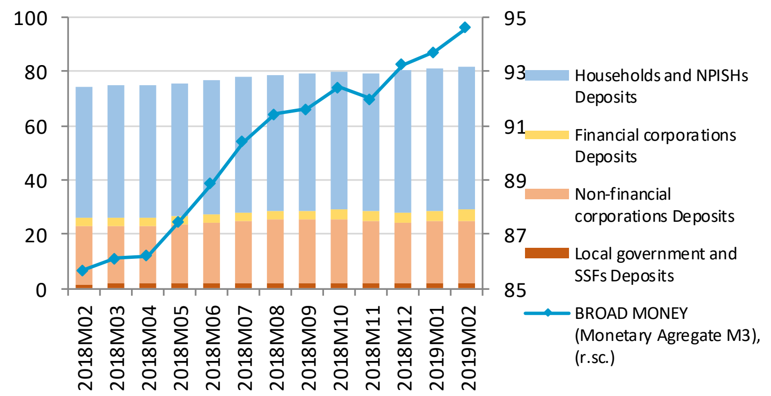
Loans and Domestic Credit (BGN bn)



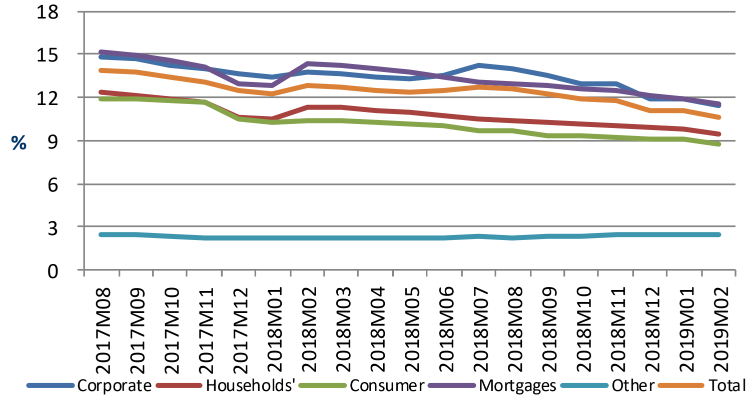
Money in circulation/GDP (%)



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

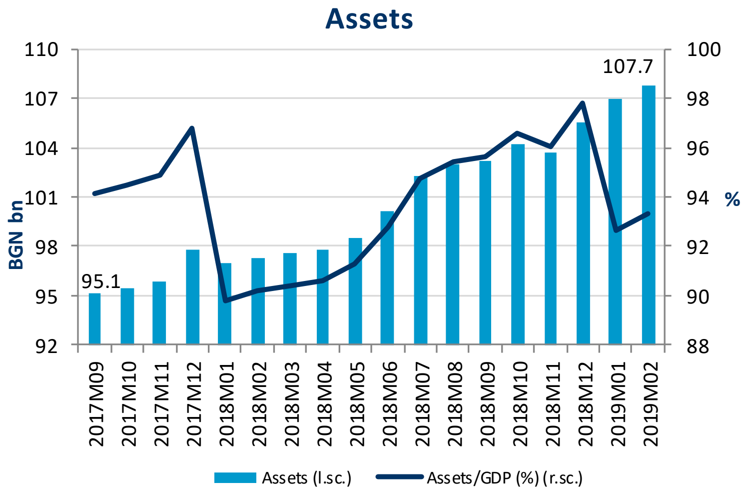


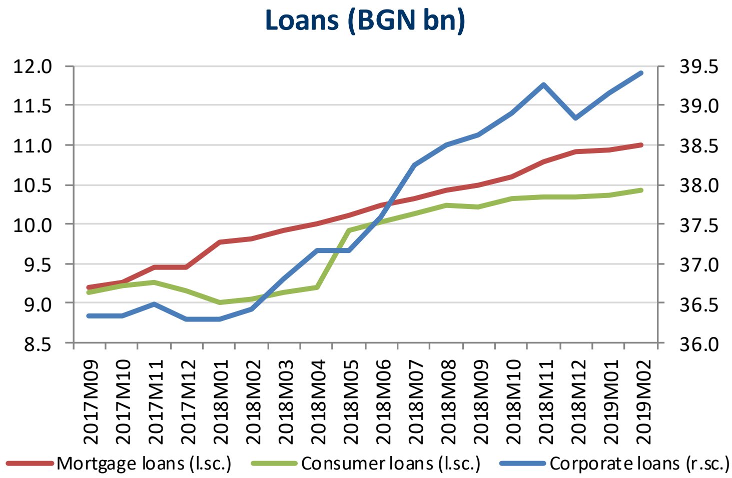
Banking sector: Bad and restructured loans (%)

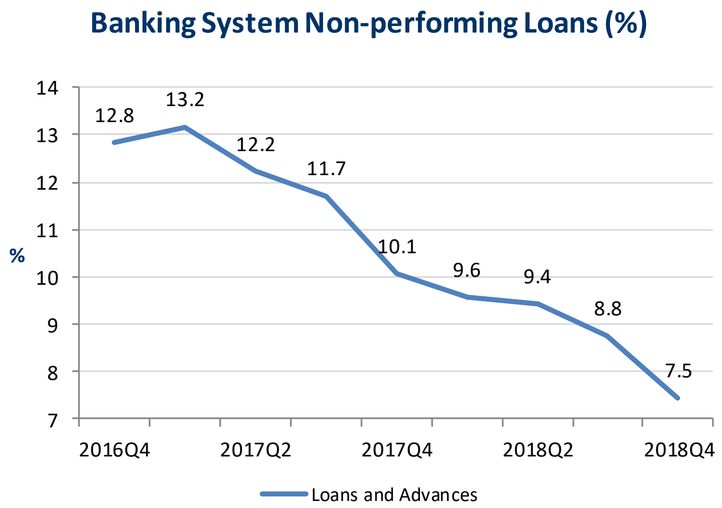


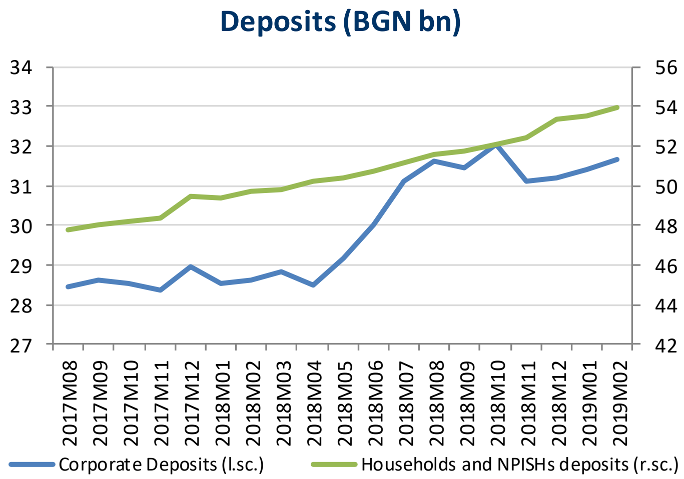
Source: BNB

Bulgaria: Banking Sector Indicators



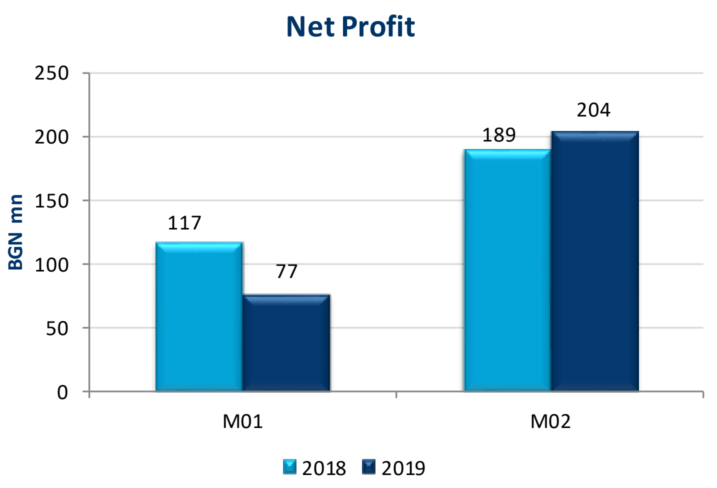


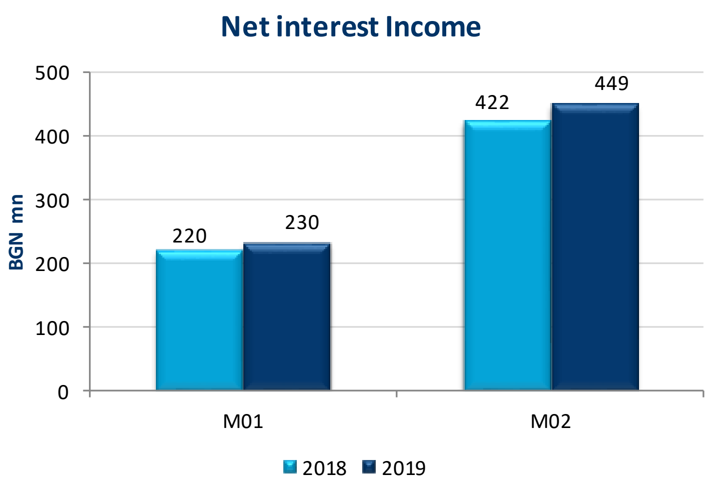


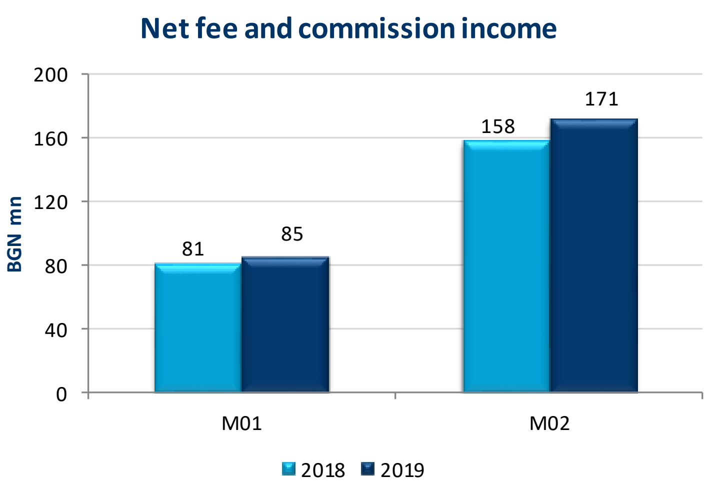


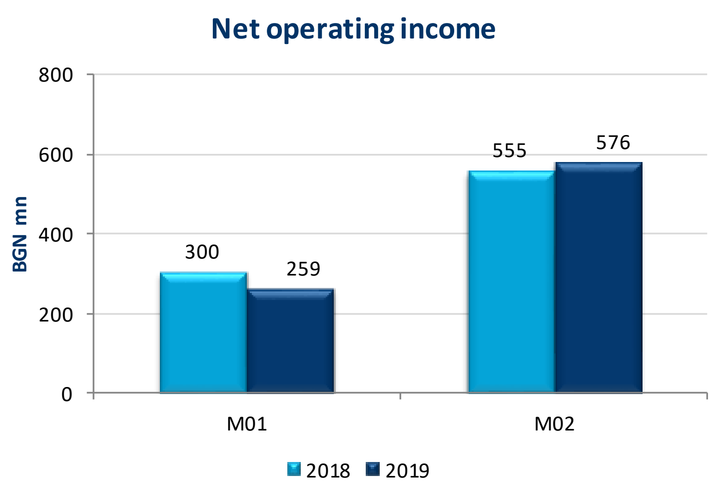
Source: BNB

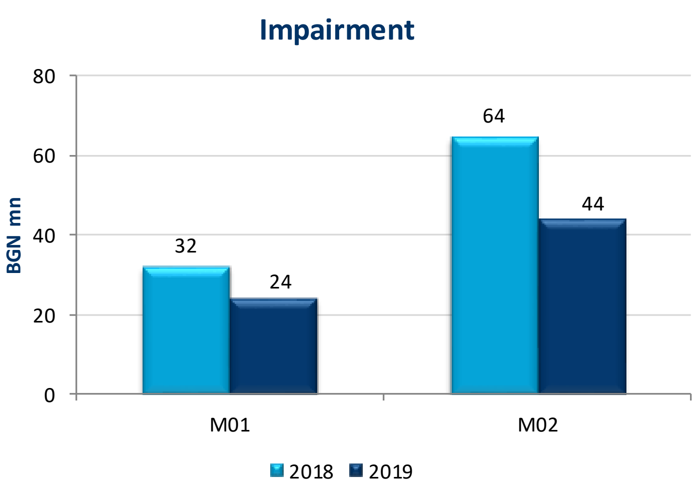
Bulgaria: Banking Sector Indicators





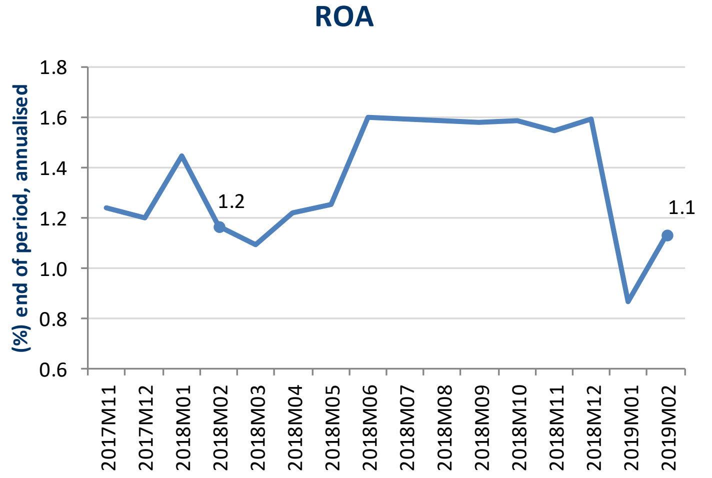


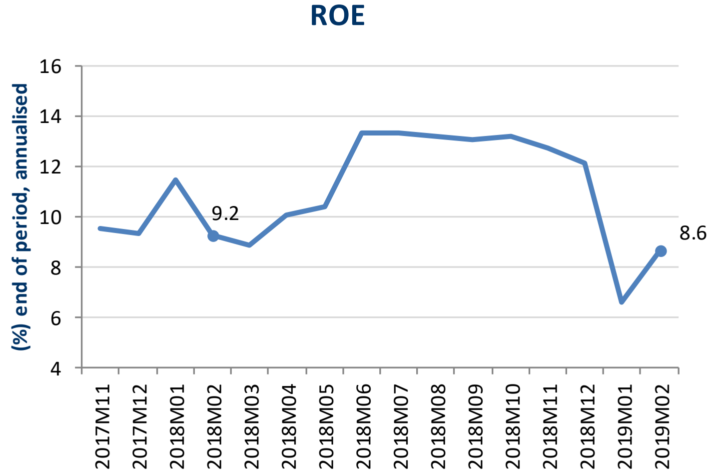


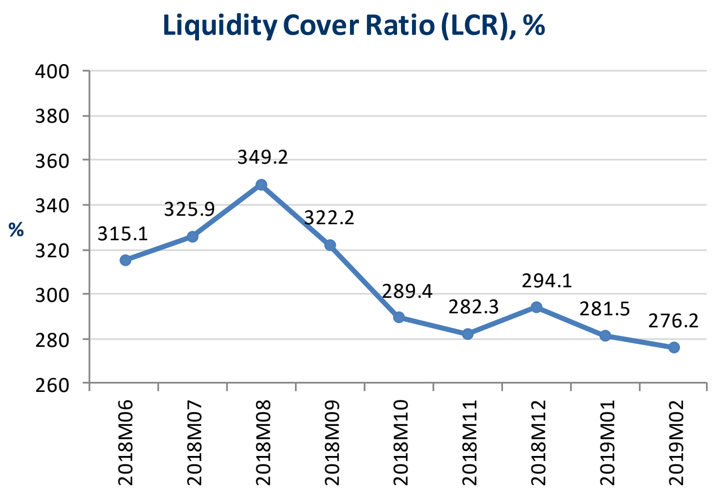


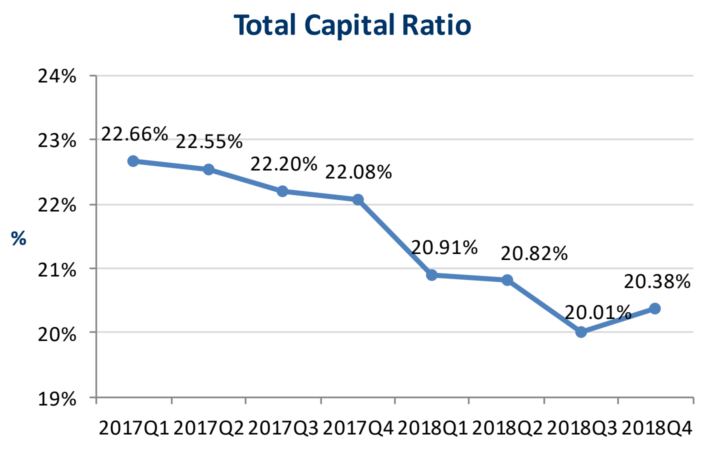
Source: BNB

Bulgaria: Banking Sector Indicators



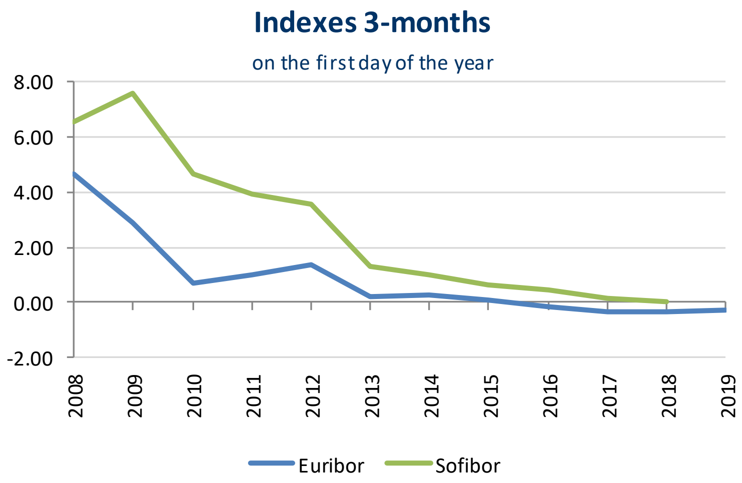


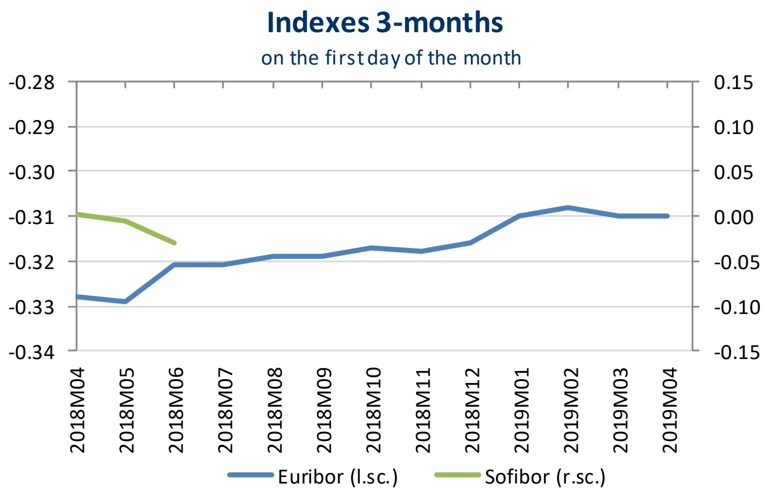


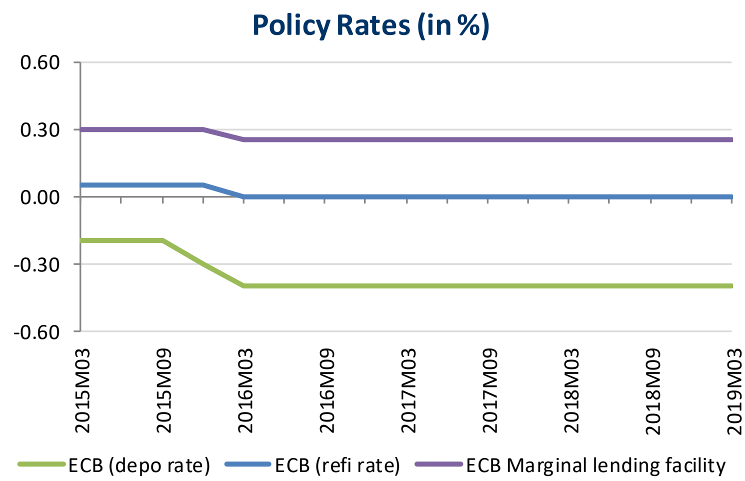


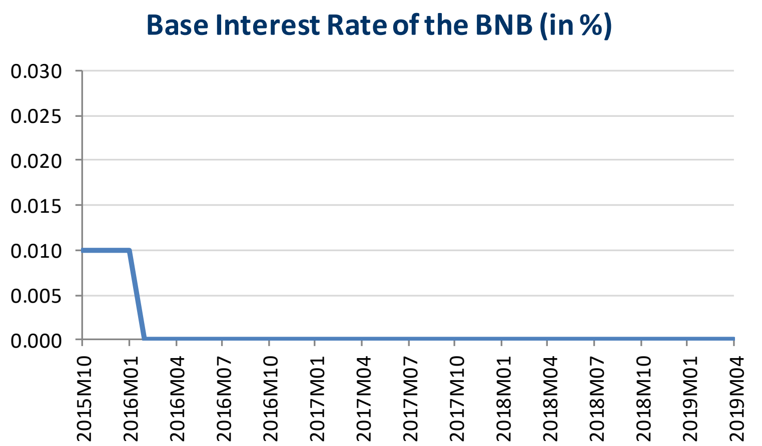
Source: BNB

Bulgaria: Indexes and Interest Rates



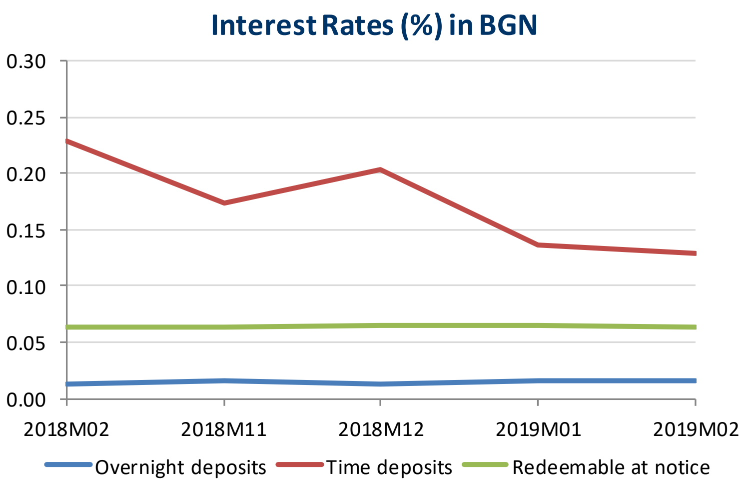


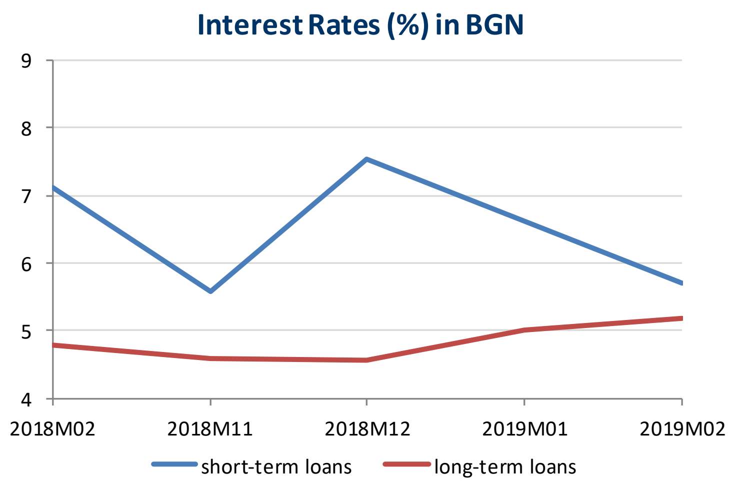


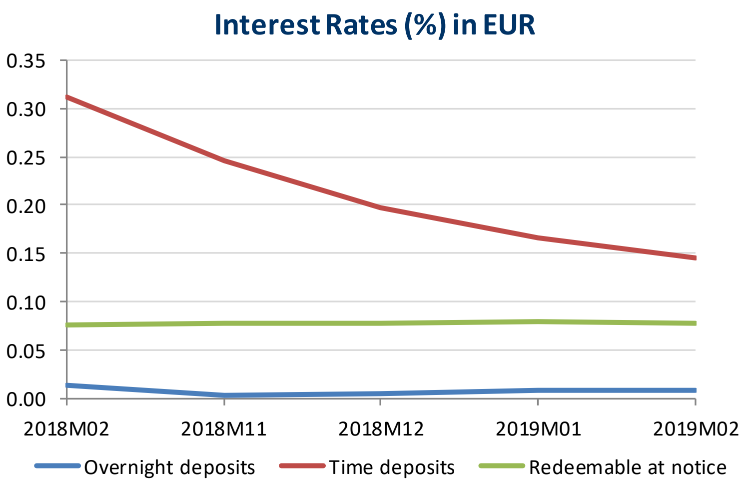


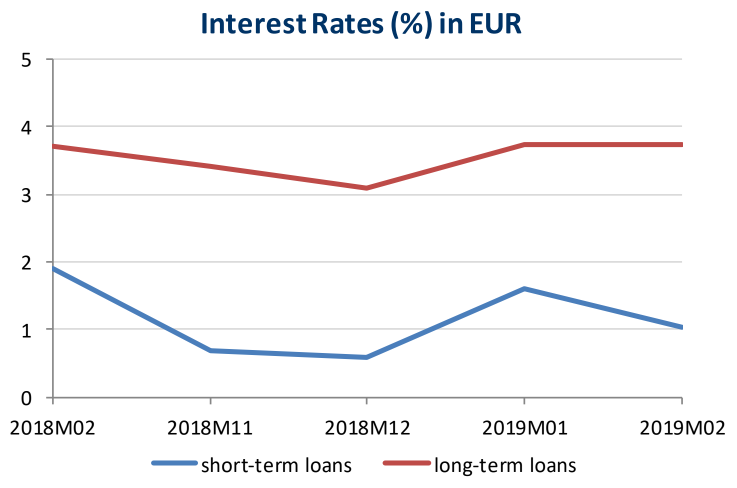
Source: ECB, BNB

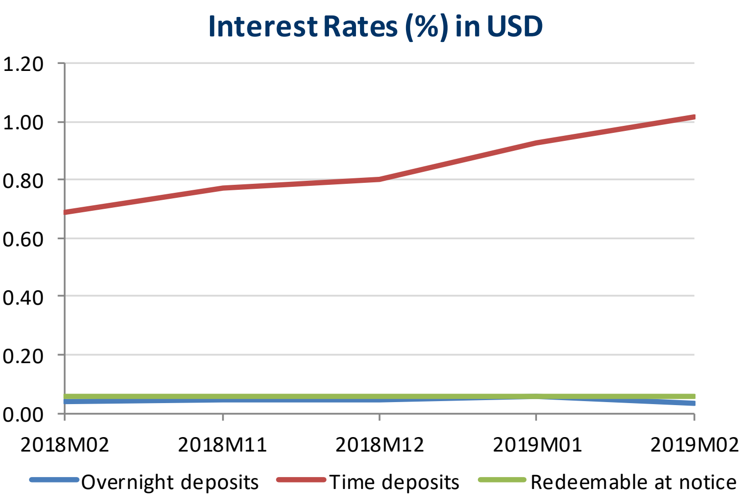
Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates

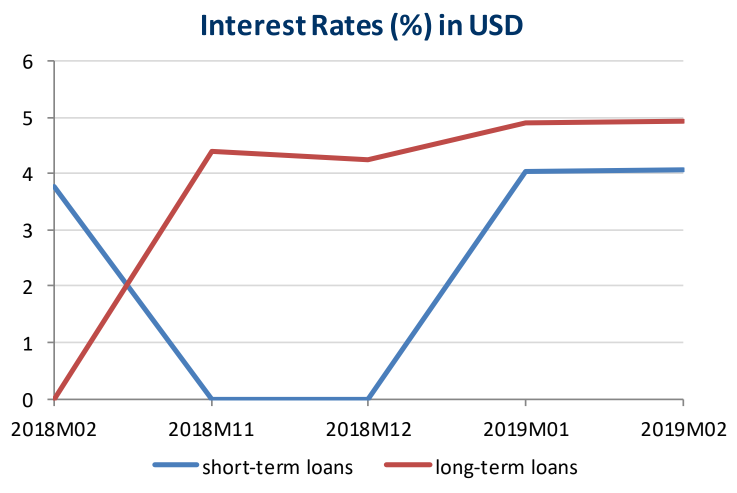






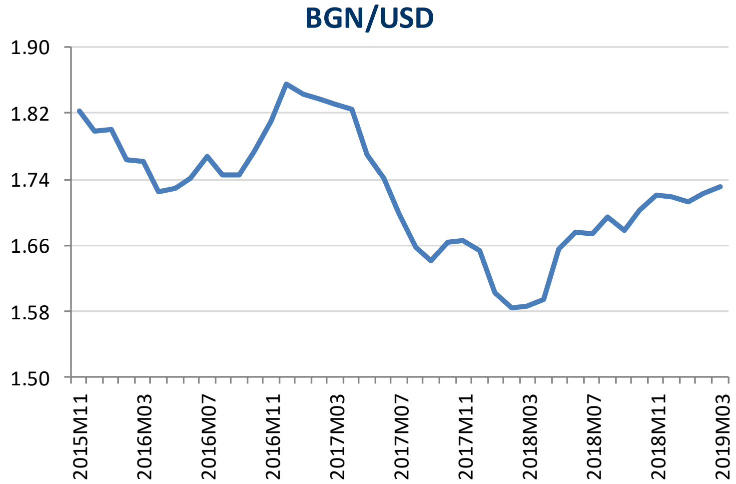


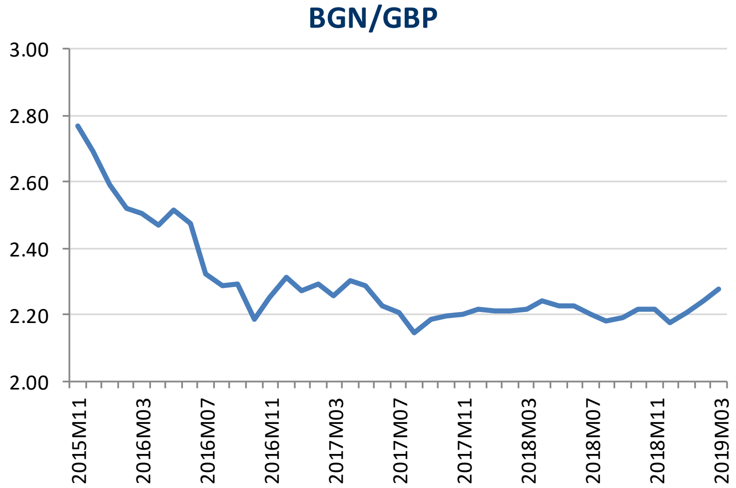


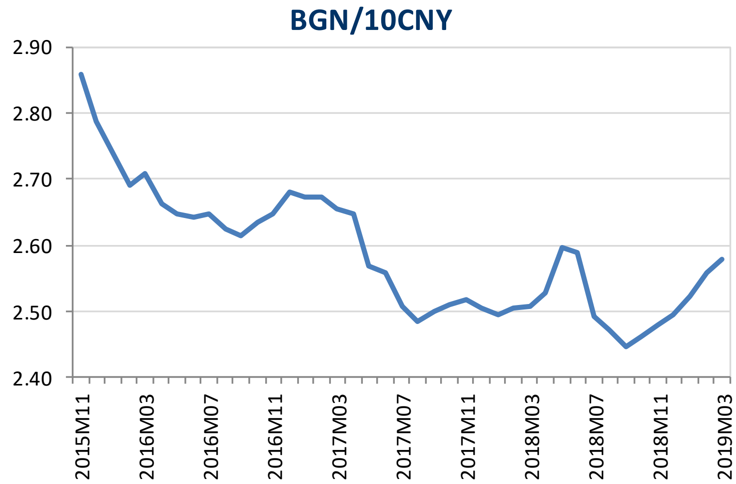


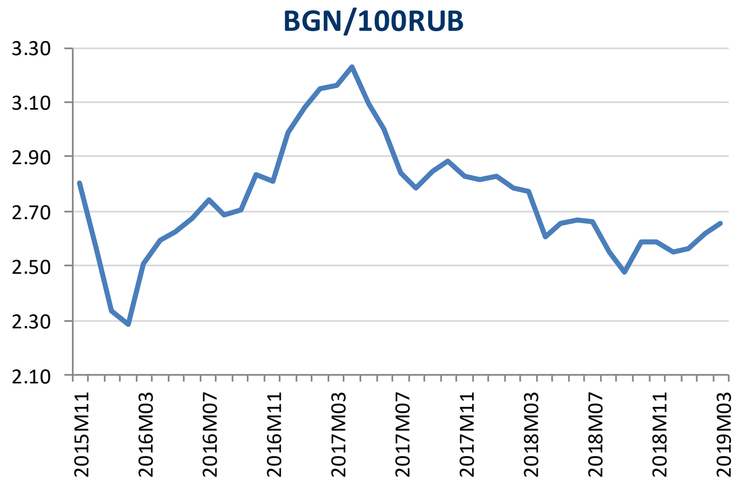
Source: BNB

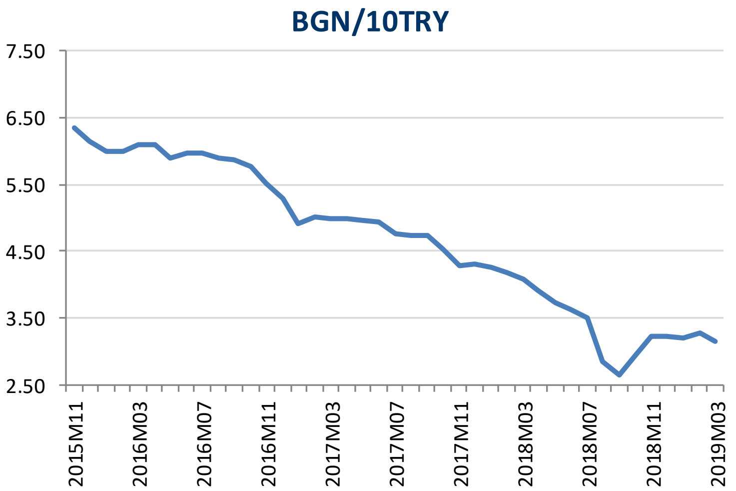
Bulgaria: FX Rates

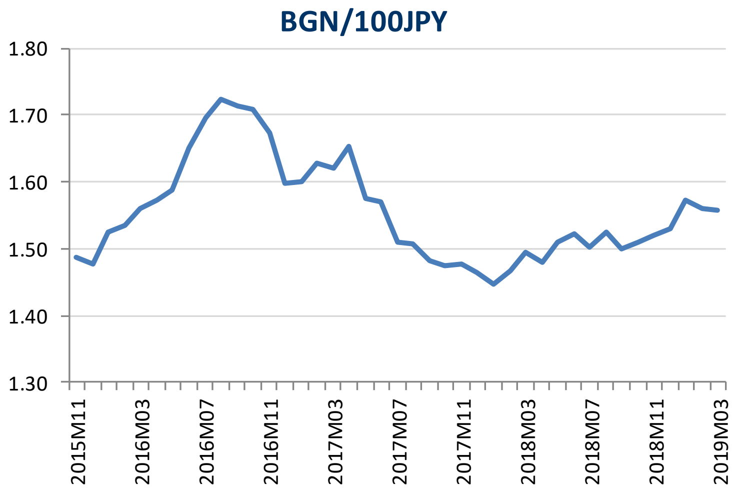












Source: ECB

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.