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

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

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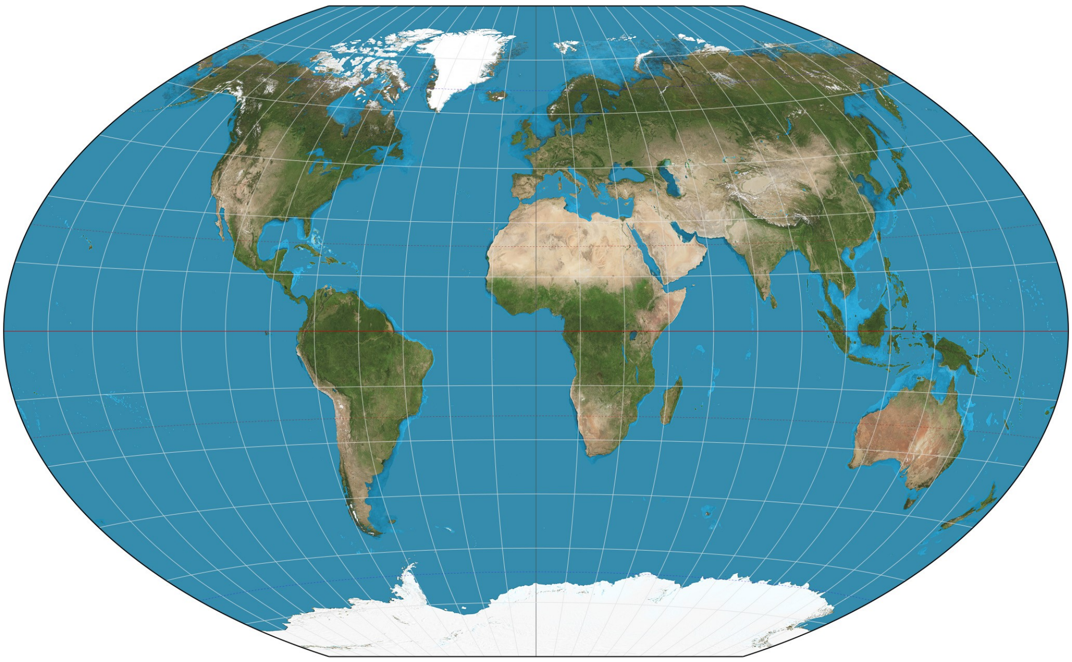
Source: https://en.wikipedia.org/wiki/World_map

HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



June, 2019

Sofia

- *The Eurozone quarterly economic growth was confirmed at 0.4% in the first quarter of 2019, above the previous three-month period's expansion of 0.2%. From the expenditure side, the largest positive contribution to the GDP growth came from household final consumption expenditure (0.3%). From the production side, services activity was the main driver of growth led by trade, transport, accommodation and food service activities (0.7% vs 0.4%). Compared with the same quarter of the previous year, the Euro Area economy expanded 1.2% in the three months to March. Considering the European Union as a whole, GDP growth picked up to 0.5% qoq (vs 0.3% in Q4); and was unchanged at 1.5% yoy. The annual inflation rate in the Euro Area is expected to fall to 1.2% in May 2019 from 1.7% in the previous month. 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 slow to 0.8% in May from 1.3% in the prior month. The Euro Area seasonally-adjusted unemployment rate fell to 7.6% in April 2019 from 7.7% in the previous month. Considering the European Union as a whole, the unemployment rate stood at 6.4% in April, unchanged from previous month. That remained the lowest rate recorded in the EU28 since the start of the EU monthly unemployment series in January 2000. The youth unemployment rate was 14.2% in the EU28 and 15.8% in the Euro Area, compared with 15.4% and 17.2% respectively in April 2018.*
- *Italy's economy advanced 0.1% on quarter in the second quarter of 2019, slightly below a preliminary reading of 0.2%. Yoy, the GDP shrank -0.1%, after being unchanged in the prior quarter. The European Commission has recommended starting disciplinary procedures against Italy on 05.06.2019 after it broke the EU's debt rules last year and is likely to do so in 2019 and 2020. The Commission will have until July 29 to decide what level of sanctions they will impose on Italy. If the Commission finds Italy is in "serious" breach of EU rules it can impose a non-interest bearing deposit worth 0.2% of GDP — around EUR 3.5bn — which would be the biggest fine ever imposed by the institution. If Italy still refuses to cooperate, it could face a fine of 0.5% of GDP and a cut to multi-billion EUR loans from the European Investment Bank, as well as EU monitoring of Italy's plans to issue more debt. Italian Deputy Prime Minister Matteo Salvini called on 28.05.2019 for a new role for the European Central Bank, which should "guarantee" government debt in order to keep bond yields low. The so-called "mini-BOT" scheme, named after Italy's Treasury bills, was drawn up by the ruling League party, and on 28.05.2019 parliament approved a resolution (non-binding vot) saying it should be considered as a way of reducing the backlog of state debts to suppliers. The Italian Ministry of Finance announced against issuing such mini-bots. ECB Governor said mini-bots would either be a parallel currency, in which case they would be illegal, or they would simply add to the already high public debt. Italy's annual inflation rate is expected to decrease to 0.9% in May of 2019 from 1.1% in the previous month. Italy's unemployment rate stood at 10.2% in April 2019, unchanged from the previous month's seven-month low.*
- *The UK economy grew by 0.5% on quarter in the first three months of 2019, accelerating from a 0.2% expansion in the previous period. Private consumption, government spending and gross capital formation contributed positively, while net trade contributed negatively to GDP growth. In an statement outside Prime Minister's office, Theresa May announced she was stepping down as prime minister. The new leader of Conservative party and respectively a new Prime Minister is expected to be elected by the end of July. All 313 Conservative members of parliament voted in the first round on 13.06.2019 for a new leader. Boris Johnson is a clear frontrunner with 114 votes. Johnson said he was "not aiming for a no-deal outcome but it is only responsible to prepare vigorously and seriously for no-deal". So the probability of a no deal Brexit (hard Brexit) increases significantly. The annual inflation rate in the United Kingdom increased to 2.1% in April 2019 from 1.9% in the previous month. The UK unemployment rate came in at 3.8% in the three months to April 2019, its lowest level since the October to December 1974 period.*
- *The US economy advanced an annualized 3.1% in the first quarter of 2019, slightly below earlier figures of a 3.2% expansion, the revised estimate showed. It follows a 2.2% growth in the previous three-month period. Personal consumption expenditure (PCE) contributed 0.9% to growth (0.82% in the advance estimate) and increased 1.3%. Exports jumped 4.8% (3.7% in the advance estimate), driven by sales of both goods (6.3%) and services (2%). On the other hand, imports decreased 2.5%. The US annual inflation rate fell to 1.8% in May 2019 from a five-month high in the*

previous month. The US unemployment rate stood at 3.6% in May 2019, unchanged from the previous month's 49-year low.

- *The Japanese economy advanced 0.6% qoq in the first quarter of 2019, stronger than a preliminary estimate of 0.5% and after an upwardly revised 0.5% growth in the previous period. In the first quarter, the largest contribution to the GDP growth came from net exports (0.4%), followed by private demand (0.1%) and changes in private inventories (0.1%). On an annualized basis, the economy grew 2.2% in the first quarter. Japan's consumer price inflation rose to 0.9% yoy in April 2019 from 0.5% in the previous month. Annual core consumer inflation, which excludes fresh food, edged up to 0.9% in April from 0.8% in March. The seasonally adjusted unemployment rate in Japan edged down to 2.4% in April 2019 from 2.5% in the previous month.*
- *China's industrial economy continued to sag in May 2019, data released on 14.06.2019 showed, as the trade war with the United States continued to hang heavy on the world's second largest economy. Industrial production – a measure of the output of the industrial sectors in China's economy, including manufacturing, mining and utilities – grew by 5.0% in May yoy, down from 5.4% the month before. This was the lowest reading since February 2002. Fixed-asset investment also grew less than expected, reinforcing expectations that Beijing needs to roll out more growth measures soon. Fixed-asset investment growth decelerated to 5.6% in January-May from the same period yoy. Private sector fixed-asset investment, which accounts for about 60% of total investment, also lost momentum. It rose 5.3%, down from 5.5%. Retail sales, a key indicator of consumer demand in China, grew by 7.2% yoy in April, which was the lowest rate of growth since May 2003. China still has a fiscal war chest of about 3.65 trillion USD to counter any further fallout from the trade war. China's consumer price inflation rose to 2.7% yoy in May 2019 from 2.5% in the previous month. Annual core inflation, which strips out volatile food and energy prices, edged down to 1.6% in May, the lowest since August 2016, from 1.7% in April.*
- *The Turkish economy shrank by -2.6 % yoy in the first quarter of 2019, following a -3 % contraction in the previous period. It was the second straight quarter of GDP decline, as household consumption and gross fixed capital formation continued to decrease while government expenditure advanced faster and net foreign demand contributed positively to growth. On a seasonally adjusted qoq basis, the economy advanced by 1.3 %, rebounding from a -2.4 % contraction in the last quarter of 2018. It was the first expansion in GDP growth since the first quarter of 2018. Turkey's annual inflation rate fell to 18.71 % in May 2019 from 19.50 % in the previous month. It was the lowest rate since August last year. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, eased to 15.87 % in May, the lowest since last July, from 16.30 % in the preceding month. Turkey's unemployment rate fell to 14.1 % in the February-April 2019 period from 10.1 % in the same period of the previous year. Youth unemployment rate, measuring job-seekers between 15 and 24 years old, jumped to 25.2 % from 17.7 % a year earlier. On a seasonally adjusted basis, the jobless rate rose to 13.7 % in March from 13.6 % in February.*
- *At 06.06.2019 meeting, which was held in Vilnius, the Governing Council of the European Central Bank (ECB) took the following monetary policy decisions: First, the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.40% respectively. The Governing Council now expects the key ECB interest rates to remain at their present levels at least through the first half of 2020. Second, the Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time. Third, regarding the modalities of the new series of quarterly targeted longer-term refinancing operations (TLTRO III), the Governing Council decided that the interest rate in each operation will be set at a level that is 10 basis points above the average rate applied in the Eurosystem's main refinancing operations. ECB is committed, and is not resigned to having a low rate of inflation forever or even for now, pointed out Draghi in his speech at an annual ECB conference in Sintra, Portugal. This applies to all instruments of ECB monetary policy stance. Further cuts in policy interest rates and mitigating measures to contain any side effects remain part of ECB tools. And the APP still has considerable headroom.*
- *At its meeting ending on 19 June 2019, the Bank of England's Monetary Policy Committee (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 435 billion GBP. Since the Committee's previous meeting, the near-term data have been broadly in line with the May Report, but downside risks to growth have increased. Globally, trade tensions have intensified. Domestically, the perceived likelihood of a no-deal Brexit has risen. Trade concerns have contributed to volatility in global equity prices and corporate bond spreads, as well as falls in industrial metals prices Increased Brexit uncertainties have put additional downward pressure on UK forward interest rates and led to a decline in the sterling exchange rate. 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.

- *Economic Projections from the June 18-19 Federal Open Market Committee meeting. The Federal Reserve on June 19 2019 signaled no interest rate cuts this year but signaled easing in 2020 following its two-day monetary policy-setting meeting. The Fed dropped a promise to be "patient" in adjusting rates and said that will act as appropriate to sustain the economic expansion. Federal Reserve issues FOMC statement June 19, 2019. On a 12-month basis, overall inflation and inflation for items other than food and energy are running below 2%. Market-based measures of inflation compensation have declined; survey-based measures of longer-term inflation expectations are little changed. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In support of these goals, the Committee decided to maintain the target range for the federal funds rate at 2.25% to 2.5%. In light of uncertainty about sustained expansion of economic activity and muted inflation pressures, the Committee will closely monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2% objective.*
- *At the Monetary Policy Meeting held June 20, 2019, the Policy Board of the Bank of Japan decided upon the following: The short-term policy interest rate: The Bank will apply a negative interest rate of minus -0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank. The long-term interest rate: The Bank will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around zero 0%. With regard to the amount of JGBs to be purchased, the Bank will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about 80 trillion JPY. The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about 6 trillion JPY and about 90 billion JPY, respectively. As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion JPY and about 3.2 trillion JPY, respectively. The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2%, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the yoy rate of increase in the observed CPI (all items less fresh food) exceeds 2% and stays above the target in a stable manner. As for policy rates, the Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, at least through around spring 2020, taking into account uncertainties regarding economic activity and prices including developments in overseas economies and the effects of the scheduled consumption tax hike.*

- *People's Bank of China Governor Yi Gang said in an exclusive interview with Bloomberg there' "tremendous" room to adjust monetary policy if the trade war deepens. Reserve requirement ratio can b cut further. A worsening trade war and job-market outlook could prompt the central bank to cut th benchmark interest rate. China's central bank governor also signaled that he's not wedded to defendin the nation's currency at a particular level, and stressed that the value of the CNY should be set by marke forces. On June 14, 2019, the People's Bank of China (PBC) decides to raise the central bank discount quo ta by RMB200 billion and the standing lending facility (SLF) quota by 100 billion CNY, aiming to enhanc liquidity support and maintain adequate liquidity for small and medium-sized banks. China's central ban said on June 17, 2019 the second phase of a cut in the reserve requirement ratio (RRR) freed about 10 billion CNY (19.8 billion USD) worth of long term funds. In open market operations, the People's Bank o China (PBOC) also injected 150 billion CNY via 14-day reverse repos to "keep liquidity level stable at end June", the bank said in a statement on its website.*
- *The Monetary Policy Committee (the Committee) of Central Bank of Turkey at a meeting on 12 June ha decided to keep the policy rate (one-week repo auction rate) constant at 24%. Recently released dat show that rebalancing trend in the economy has continued. External demand maintains its relativ strength while economic activity displays a slow pace, partly due to tight financial conditions. Current ac count balance is expected to maintain its improving trend. Developments in domestic demand condition and the tight monetary policy support disinflation. In order to contain the risks to the pricing behavior an to reinforce the disinflation process, the Committee has decided to maintain the tight monetary polic stance.*
- *Oil prices are down for a second consecutive day amid continuing concerns about global economi growth, as the devastation of renewed tensions in the Middle East since last week's attack on an oil tank er in the Gulf of Oman has been limited. Crude Oil decreased -0.18 USD/BBL or -0.35% to 51.85 on Tuesda June 18 from 52.03 in the previous trading session. Brent decreased -0.26 USD/BBL or -0.43% to 60.61 o Tuesday June 18 from 60.87 in the previous trading session. Business sentiment in the United States i generally worsening because of the escalation of tension between China and the United States. Addition pressure on the price of oil is also the message of the US energy authorities, according to which the shal yield in the country is expected to reach a record in July. Additional pressure on the price of oil is also th message of the US energy authorities, according to which the shale yield in the country is expected t reach a record in July. The oil market is under pressure because of OPEC's inability to clearly state its in tention to limit extraction, noted analysts.*
- *Since the International Grains Council has published its regular monthly report, and in the new version o the balance, there has been a minimal increase in consumption compared to the previous forecast, but i appears that there will again be an excess of production over wheat consumption and the accumulatio of a record transitional balance. These data were reflected in the prices of wheat contracts - France minu -0.50 EUR to 190.00 EUR/ton, Ukraine minus -2.00 USD and Russia minus -3.00 USD to 207.00 and 206.0 USD/ton respectively. In the United States, however, the forecast is not optimistic, and the price rise again - Chicago quoted plus 10.00 USD to 235.00 USD/ton. For maize, poor agrometeorological condition have lasted for too long, and there the changes are definitely with a price-positive sign - the yield forecas is reduced by 8.8 million ton compared to the April report. Quotations in Chicago continued upward with plus of 9.00 USD to 201.00 USD/ton. In France, corn also rose by 1.75 EUR to 176.25 EUR/ton, in Ukrain the price also jumped by plus 2.00 USD to 182.00 USD/ton. In the "Grain" sub-index of Sofia Commodit Exchange AD there are still quotes on all contracts. Bread wheat is offered at 340.00 BGN/ton, demand i 290.00-300.00 BGN/ton. Forage wheat varies between 280.00 and 320.00 BGN/ton respectively for buyin and selling and forage barley is sought at 240.00-260.00 BGN/ton. For maize and oilseed sunflower, ther are also requests for purchases of 260.00-280.00 BGN/ton and 580.00-600 BGN/ton respectively.*

- *In January – April 2019 the current and capital account was positive amounting to EUR 1,000.9 million and presented 1.7% of GDP, compared with a deficit of EUR 4.9 million (0.01% of GDP) in January – April 2018.*
- *In January-March 2019 the net flows of foreign direct investment in Bulgaria recorded a negative value of EUR 54.9 million (0.1% of GDP) dropping by EUR 65.6 million from January – April 2018 (positive value of EUR 10.7 million, 0.02% of GDP).*
- *At the end of May 2019, Bulgaria's international reserves amounted to 48.5 billion BGN (24.7 billion EUR), increasing by 0.9% mom and by 1.8% yoy, respectively.*
- *According to NSI seasonally adjusted data, the GDP growth rate in the first quarter of 2019 is 3.5% compared with the same quarter of 2018 according to the preliminary estimates. Gross Domestic Product (GDP) in Q1 of 2019 increased by 0.5% in the EU-28 compared to the previous quarter by seasonally adjusted data. For the same period, GDP in Bulgaria increased by 1.2%. GDP growth in Bulgaria is high in Q1 of 2019, but expectations are for maintaining economic activity at the levels of the previous year. This is mainly driven by external factors such as weaker trade balance in Turkey, as well as escalating trade tensions between the US and its trading partners. These factors create a real risk for the economic performance of the euro area, and then of Bulgaria.*
- *In May 2019, the total business climate indicator increases by 1.3 percentage points compared to the previous month 31.2 index points, which is due to the improved business conjuncture in construction and retail trade*
- *.According to the preliminary NSI data the Industrial Production Index, seasonally adjusted, decreased by 1.9% in April 2019 as compared to March 2019. In April 2019 the working day adjusted Industrial Production Index rose by 2.4% in comparison with the same month of 2018.*
- *According to NSI preliminary seasonally adjusted data in April 2019 the turnover in “Retail trade, except of motor vehicles and motorcycles” division at constant prices kept the level of the previous month. The working day adjusted turnover decreased by 0.2% as compared to the same month of the previous year.*
- *According to the NSI preliminary data, in April 2019 the index of production in section “Construction” calculated on the base of seasonally adjusted data increased by 0.4% mom. In April 2019 the working day adjusted index of production in construction increased by 5.8% yoy.*
- *In May 2019 inflation in Bulgaria increased by 0.1% mom and by 3.5% yoy as a result of the increase in international oil prices, which directly affected the prices of fuels and other energy commodities, food products and transport services. Our inflation expectations are for a slowdown of 2.5% by the end of 2019, 2.4% in 2020 and 2.3% by the end of 2020 as a result of the dynamics of international oil prices and prices of the commodities on the international markets.*
- *Total Producer Price Index in April 2019 increased with 0.4% mom; compared to the same month of 2018 the prices rose by 4.3%. Producer Price Index on Domestic Market in April 2019 rose by 0.4% mom; compared to the same month of 2018 the domestic prices grew by 4.0%.*
- *Preliminary data of the NSI for Q1 of 2019 indicate that the total hourly labour cost rose by 12.9% yoy.*
- *In May 2019, registered unemployment in Bulgaria reached its lowest level of 5.3%, marking and decreasing respectively by 0.3 pps on a monthly basis and by 0.8 pps on an annual basis.*
- *In January-March 2019 Bulgaria’ CFP balance on a cash basis is positive, amounting to 2,699.8 million BGN and presented 2.3% of forecasted GDP. The fiscal reserve as of 31.04.2019 amounts to 10.62 billion BGN. Based on the preliminary data and estimates, the Consolidated Fiscal Programme (CFP) balance on a cash basis as of May 2019 is expected to be positive, amounting to BGN 2,979.1 million (2.6% of the projected GDP).*
- *In January – April 2019, Bulgaria’s central government sub-sector debt amounted to EUR 11,612.1 million and accounted for 19.7% of projected GDP. According MF “Government debt Management Strategy for 2019-2021” Bulgaria’s public debt/GDP raio will stood at 19.1% in 2019, 17.7% in 2020 and 16.5% in 2021.*
- *In January-April 2019 Bulgaria’s broad money (M3) amounted to 95.784 billion BGN (82.8% of GDP) and increased by 10.4% yoy. Domestic credit amounted to BGN 59.046 billion and increased by 6.9% yoy, respectively.*
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- ***At the end of May 2019, the SOFIX core index decreased by 1.4% on a monthly basis to 582.5 points. Compared to the previous month, BGBX 40 increased by 0.9% to 115.71 points, BG TR30 increased by 0.8% to 505.92, and BGREIT increased by 1.9% to 121.54.***
- ***In April 2019, the assets of the banking system increased by 0.3% on a monthly basis and by 11% on an annual basis to BGN 108.5 billion, accounting for 93.8% of the projected GDP. Credit and advances, cash, securities portfolios and non-current assets and disposal groups classified as held for sale are increasing. Decreased cash balances in central banks and other deposits of sight.***

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GLOBAL TRENDS

ADVANCED COUNTRIE'S ECONOMIES

Eurozone

The Eurozone quarterly economic growth was confirmed at 0.4% in the first quarter of 2019, above the previous three-month period's expansion of 0.2%. From the expenditure side, the largest positive contribution to the GDP growth came from household final consumption expenditure (0.3%). From the production side, services activity was the main driver of growth led by trade, transport, accommodation and food service activities (0.7% vs 0.4%). Compared with the same quarter of the previous year, the Euro Area economy expanded 1.2% in the three months to March. Considering the European Union as a whole, GDP growth picked up to 0.5% qoq (vs 0.3% in Q4); and was unchanged at 1.5% yoy. The annual inflation rate in the Euro Area is expected to fall to 1.2% in May 2019 from 1.7% in the previous month. 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 slow to 0.8% in May from 1.3% in the prior month. The Euro Area seasonally-adjusted unemployment rate fell to 7.6% in April 2019 from 7.7% in the previous month. Considering the European Union as a whole, the unemployment rate stood at 6.4% in April, unchanged from previous month. That remained the lowest rate recorded in the EU28 since the start of the EU monthly unemployment series in January 2000. The youth unemployment rate was 14.2% in the EU28 and 15.8% in the Euro Area, compared with 15.4% and 17.2% respectively in April 2018.

The Eurozone quarterly economic growth was confirmed at 0.4% in the first quarter of 2019, above the previous three-month period's expansion of 0.2%. From the expenditure side, the largest positive contribution to the GDP growth came from household final consumption expenditure (0.3%), followed by gross fixed capital formation (0.2%), net exports (0.1%); while inventories subtracted 0.3% to the GDP. Household consumption rose 0.5% in the first quarter (vs 0.3% in Q4) and fixed investment advanced 1.1% (vs 1.4% in Q4). In addition, government spending edged up 0.1%, following a 0.6% growth in the previous period. Exports increased 0.6% (vs 1.2% in Q4) while imports rose at a slower 0.4% (vs 1.2% in Q4). From the production side, services activity was the main driver of growth led by trade, transport, accommodation and food service activities (0.7% vs 0.4%); information and communication (0.4% vs 0.6%); real estate activities (0.3%, the same as in Q4); professional and support service activities (0.5% vs 0.6%); administration and other public services (0.4% vs 0.3%); and arts, entertainment and other services (0.4% vs 0.2%). Financial and insurance activities, however, shrank 0.4%, reversing a 0.2% gain in Q4. Also, construction advanced 1.1%, the same as in Q4; and industry output edged up 0.1% (vs -0.5% in Q4), despite manufacturing production being unchanged (vs -0.3% in Q4). Among the bloc's largest economies, Germany's GDP increased 0.4% in Q1, after being unchanged in the previous period, on the back of strong fixed capital formation and household consumption; while Italian economy advanced 0.1%, emerging from its third recession in a decade, due mainly to net exports. Also, Spain's economy grew 0.7%, faster than 0.6% in the previous three-month period, mainly boosted by a rebound in fixed investment; while France's GDP growth was unchanged at 0.3% on the back of firm household consumption. Compared with the same quarter of the previous year, the Euro Area economy expanded 1.2% in the three months to March, the same pace as in the previous period. Considering the European Union as a whole, GDP growth picked up to 0.5% qoq (vs 0.3% in Q4); and was unchanged at 1.5% yoy. The annual inflation rate in the Euro Area is expected to fall to 1.2% in May 2019 from 1.7% in the previous month and below market expectations of 1.3%, a preliminary estimate showed. It is the lowest inflation rate since April last year, mainly due to a slowdown in cost of energy and services.

Prices should rise at a softer pace for energy (3.8% from 5.3% in April); and services (1.1% from 1.9%). Meanwhile, cost of food, alcohol & tobacco is expected to advanced to 1.6% from 1.5% in April, boosted by processed food, alcohol & tobacco (1.9% from 1.7%) while unprocessed food is projected to eased (0.4% from 0.8%). Also, price of non-energy industrial goods should increased further (0.3% from 0.2%). 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 slow to 0.8% in May from 1.3% in the prior month and below market forecasts of 0.9%. The Euro Area seasonally-adjusted unemployment rate fell to 7.6% in April 2019 from 7.7% in the previous month and below market expectations of 7.7%. It was the lowest jobless rate since August 2008 as the number of unemployed continued to decline. Considering the European Union as a whole, the unemployment rate stood at 6.4% in April, unchanged from previous month and down from 7.0% a year ago. That remained the lowest rate recorded in the EU28 since the start of the EU monthly unemployment series in January 2000. There were 15.802 million people unemployed, a decrease of 108,000 from the previous month and of 1.394 million from April 2018. Among EU Member States, the lowest unemployment rates in April were recorded in Czechia (2.1%), Germany (3.2%) and the Netherlands (3.3%). The highest unemployment rates were observed in Greece (18.5% in February 2019), Spain (13.8%) and Italy (10.2%). Compared with a year ago, the largest decreases were registered in Greece (18.5% from 20.6% between February 2019 and February 2018), Estonia (4.1% from 6.0% between March 2019 and March 2018) and Spain (13.8% from 15.6%). The youth unemployment rate was 14.2% in the EU28 and 15.8% in the Euro Area, compared with 15.4% and 17.2% respectively in April 2018. The lowest rates were observed in Germany (5.3%) and the Netherlands (6.2%), while the highest were recorded in Greece (38.8% in February 2019), Spain (32.7%) and Italy (31.4%).

Italy

Italy's economy advanced 0.1% on quarter in the second quarter of 2019, slightly below a preliminary reading of 0.2%. Yoy, the GDP shrank -0.1%, after being unchanged in the prior quarter. The European Commission has recommended starting disciplinary procedures against Italy on 05.06.2019 after it broke the EU's debt rules last year and is likely to do so in 2019 and 2020. The Commission will have until July 29 to decide what level of sanctions they will impose on Italy. If the Commission finds Italy is in "serious" breach of EU rules it can impose a non-interest bearing deposit worth 0.2% of GDP — around EUR 3.5bn — which would be the biggest fine ever imposed by the institution. If Italy still refuses to cooperate, it could face a fine of 0.5% of GDP and a cut to multi-billion EUR loans from the European Investment Bank, as well as EU monitoring of Italy's plans to issue more debt. Italian Deputy Prime Minister Matteo Salvini called on 28.05.2019 for a new role for the European Central Bank, which should "guarantee" government debt in order to keep bond yields low. The so-called "mini-BOT" scheme, named after Italy's Treasury bills, was drawn up by the ruling League party, and on 28.05.2019 parliament approved a resolution (non-binding vot) saying it should be considered as a way of reducing the backlog of state debts to suppliers. The Italian Ministry of Finance announced against issuing such mini-bots. ECB Governor said mini-bots would either be a parallel currency, in which case they would be illegal, or they would simply add to the already high public debt. Italy's annual inflation rate is expected to decrease to 0.9% in May of 2019 from 1.1% in the previous month. Italy's unemployment rate stood at 10.2% in April 2019, unchanged from the previous month's seven-month low.

Italy's economy advanced 0.1% on quarter in the second quarter of 2019, slightly below a preliminary reading and market expectations of 0.2%, final estimates showed. It follows a 0.1% contraction in the previous period, emerging from its third recession in a decade. Industry and agriculture contributed to the increase in activity. Yoy, the GDP shrank -0.1%, after being unchanged in the prior quarter and missing market consensus of a 0.1% growth. The European Commission has recommended starting disciplinary procedures against Italy on 05.06.2019 after it broke the EU's debt rules last year and is likely to do so in 2019 and 2020. The European Council will consider whether to start an "excessive deficit procedure" against Rome which could result in billions of euros in fines. Italy had a public debt at 132% of GDP in 2018 and predicted to increase at 133% in 2019 and 135% in 2020, which is well above the limit of 60% set by the EU. Italy narrowly avoided disciplinary action over last year's budget when the Commission refused to accept it, saying it would not cut the debt. The Italian government plan consists of a flat tax, which would do away with tax bands and impose a single lower percentage rate. Deputy Prime Minister Salvini has said the tax cuts will act as a “fiscal shock” to stimulate the Italian economy, which is the slowest growing in the EU according to European Commission figures. European Commission has repeatedly written to Italian government asking it to cut its budget deficit to 1.8% (rather than the 2.4% predicted by this tax cut) to make sure it is on track to reduce its public debt but the League has remained defiant. The first step is the EU’s Economic and Financial Committee, made up of national finance ministers and the heads of central banks in member states, will now have two weeks to decide whether to back the recommendation to proceed with disciplinary action. If they do, the European Commission can then formally call for the opening of disciplinary action against Italy. From July 8-9, finance ministers from the 28 EU member states will come for their monthly meeting where they are expected to decide on the formal opening of disciplinary proceedings if the Commission has recommended it. If the Commission starts disciplinary proceedings, Italy will be required to adopt immediate austerity measures such as high taxes and spending cuts to correct its deviation from the fiscal targets set by the EU within three to six months. The Commission will have until July 29 to decide what level of sanctions they will impose on Italy. If the Commission finds Italy is in “serious” breach of EU rules it can impose a non-interest bearing deposit worth 0.2% of GDP — around EUR 3.5bn — which would be the biggest fine ever imposed by the institution. If Italy still refuses to cooperate, it could face a fine of 0.5% of GDP and a cut to multi-billion EUR loans from the European Investment Bank, as well as EU monitoring of Italy’s plans to issue more debt. Italian Deputy Prime Minister Matteo Salvini called on 28.05.2019 for a new role for the European Central Bank, which should “guarantee” government debt in order to keep bond yields low. He did not spell out exactly what he wanted the ECB to do. The so-called “mini-BOT” scheme, named after Italy’s Treasury bills, was drawn up by the ruling League party, and on 28.05.2019 parliament approved a resolution (non-binding vot) saying it should be considered as a way of reducing the backlog of state debts to suppliers. Most parliamentary resolutions are never translated into bills or laws. The idea is to issue shot-term government notes in small denominations of 10, 50 or 100 EUR without interest or maturity and to be given to private companies to which the Italian state owes money. Under the original plan, drawn up a few years ago, initially some 70 billion EUR of these small denomination, interest-free bonds would be issued by the Treasury to firms and individuals owed money by the state as payment for services or as tax rebates. They could then be used as money to pay taxes and buy any services or goods provided by the state, including, for example, petrol at stations run by state-controlled oil company ENI. The Italian Ministry of Finance announced against issuing such mini-bots. ECB Governor said mini-bots would either be a parallel currency, in which case they would be illegal, or they would simply add to the already high public debt. Italy’s annual inflation rate is expected to decrease to 0.9% in May of 2019 from 1.1% in the previous month and compared with market expectations of 1.3%. It is the lowest inflation rate since January, mainly due to lower food prices. Annual core inflation rate, which excludes energy and unprocessed food, is expected to ease to 0.5% in May from 0.6% in the prior month. Italy's unemployment rate stood at 10.2% in April 2019, unchanged from the previous month's seven-month low and below market expectations of 10.3%. The number of unemployed increased 0.2% while employment was unchanged.

United Kingdom

In the first quarter of 2019, the British economy grew 1.8% yoy from 1.4% in the previous period. This is the highest growth since the third quarter of 2017. Annual inflation in the United Kingdom was 1.9% in March 2019, unchanged from the previous month. The annual rate of base inflation excluding energy, food, alcohol and tobacco prices rose 1.8%, just as in February. United Kingdom will have to hold European elections, despite the government's hopes that a deal on Brexit will be concluded by then. Negotiations between Labor and the government aimed at breaking the deadlock of Brexit ended without agreement.

The British economy grew by 1.8% yoy in the first quarter of 2019, up from 1.4% in the previous period and in line with the market consensus. This is the highest growth since the third quarter of 2017. In terms of spending, household spending rose by 1.9% in the first quarter (from 1.7% in the fourth quarter); and government spending grew by 2.2% (against 1.0% in the fourth quarter). In addition, fixed investment increased by 1.7% (from -1.1% in the fourth quarter), despite a further decline in business investment (-1.4% vs. -2.5%). Imports rose 10.2% after an increase of 2.6% in the fourth quarter; and exports rose by a much slower 1.5% after a 0.2% growth in the previous period. As a result, the trade deficit rose sharply to 17,510 billion GBP from 4,268 billion GBP in the first quarter of 2018. From a manufacturing perspective, the service sector grew by 2%, as well as in the fourth quarter, as the output increased for: distribution, hotels and restaurants (4.3% vs. 3.5%); transport storage and communications (4.5% vs. 3.9%); business services and finance (0.9% vs. 1.4%); and government and other services (1.2% vs. 1.1%). Industrial production increased by 0.6% (from -0.7% in the fourth quarter), with manufacturing increasing (1.2% vs. -1.3%) and mining (6% vs. 8.7 %). On the other hand, the production of utilities decreased for the fourth consecutive period (-5.9% vs. -2.5%) and the water supply, sanitation, waste management and restoration activities decreased for the second consecutive quarter (-0.4% -0.7%). Expansion of construction accelerated to 2.8% from 0.3% in the fourth quarter. Annual inflation in the United Kingdom was 1.9% in March 2019, unchanged from the previous month and below market expectations of 2%. Prices slowed down for food and non-alcoholic beverages, while transport costs rose and inflation was stable for housing and communal services. The annual rate of base inflation excluding energy, food, alcohol and tobacco prices rose 1.8%, just as in February and slightly below consensus of 1.9%. The United Kingdom will have to hold European elections, despite the government's hopes that a deal on Brexit will be concluded by then, the British Deputy Prime Minister de facto says. The United Kingdom had to leave the EU on March 29, but as the parliament did not reach an agreement, the EU extended the deadline until October 31st. The United Kingdom may leave the bloc earlier, but if it does not leave before May 23, it is legally obliged to participate in the EU elections. The government resumed talks with Labor to try to overcome the impasse in parliament regarding the conditions for withdrawal from the EU. Negotiations between Labor and the government aimed at breaking the deadlock of Brexit ended without agreement.

USA

The US economy advanced an annualized 3.1% in the first quarter of 2019, slightly below earlier figures of a 3.2% expansion, the revised estimate showed. It follows a 2.2% growth in the previous three-month period. Personal consumption expenditure (PCE) contributed 0.9% to growth (0.82% in the advance estimate) and increased 1.3%. Exports jumped 4.8% (3.7% in the advance estimate), driven by sales of both goods (6.3%) and services (2%). On the other hand, imports decreased 2.5%. The US annual inflation rate fell to 1.8% in May 2019 from a five-month high in the previous month. The US unemployment rate stood at 3.6% in May 2019, unchanged from the previous month's 49-year low.

The US economy advanced an annualized 3.1% in the first quarter of 2019, slightly below earlier figures of a 3.2% expansion and in line with market expectations, the revised estimate showed. It follows a 2.2% growth in the previous three-month period. Personal consumption expenditure (PCE) contributed 0.9% to growth (0.82% in the advance estimate) and increased 1.3% (1.2% in the advance estimate). Fixed investment made a positive contribution of 0.18% compared to 0.27% in the advance estimate and went up 1.0% (1.5% in the advance estimate). The contribution from private inventories turned less positive than previously expected (0.60% compared to 0.65% in the advance estimate). Exports jumped 4.8% (3.7% in the advance estimate), driven by sales of both goods (6.3%) and services (2%). On the other hand, imports decreased 2.5%. Government spending and investment added 0.42% to growth, above 0.41% in the previous release. It went up 2.5%, higher than 2.4% in the advance estimate. The US annual inflation rate fell to 1.8% in May 2019 from a five-month high in the previous month and just below forecasts of 1.9%, raising expectations that the Federal Reserve will start cutting interest rates this year. On a monthly basis, consumer prices gained 0.1% in May, easing from a 0.3% advance in April. The core inflation rate, which excludes volatile items such as food and energy, edged down to 2.0% in May from 2.1% in April, also below market consensus. The US unemployment rate stood at 3.6% in May 2019, unchanged from the previous month's 49-year low and matching market expectations. The number of unemployed increased by 64 thousand to 5.9 million while employment rose by 113 thousand to 156.8 million. Both the labor force participation rate, at 62.8%, and the employment-population ratio, at 60.6%, were unchanged in May.

Japan

The Japanese economy advanced 0.6% qoq in the first quarter of 2019, stronger than a preliminary estimate of 0.5% and after an upwardly revised 0.5% growth in the previous period. In the first quarter, the largest contribution to the GDP growth came from net exports (0.4%), followed by private demand (0.1%) and changes in private inventories (0.1%). On an annualized basis, the economy grew 2.2% in the first quarter. Japan's consumer price inflation rose to 0.9% yoy in April 2019 from 0.5% in the previous month. Annual core consumer inflation, which excludes fresh food, edged up to 0.9% in April from 0.8% in March. The seasonally adjusted unemployment rate in Japan edged down to 2.4% in April 2019 from 2.5% in the previous month.

The Japanese economy advanced 0.6% qoq in the first quarter of 2019, stronger than a preliminary estimate of 0.5% and after an upwardly revised 0.5% growth in the previous period. In the first quarter, the largest contribution to the GDP growth came from net exports (0.4%), followed by private demand (0.1%) and changes in private inventories (0.1%). Net exports contributed positively to the GDP expansion for the first time in four quarters, as imports of goods and services plunged 4.6% (vs 3% in Q4), the biggest decrease since the first quarter of 2009. Meantime, exports fell at a slower 2.4% (vs 1.2% in Q4), the steepest decline since the second quarter of 2015. Meanwhile, private demand growth eased to 0.1% in the March quarter from 0.9% in the preceding period. Private consumption contracted -0.1%, compared to a 0.3% advance in Q4. Meanwhile, business spending grew by 0.3%, against a preliminary estimate of a 0.3% decline and following a 2.7% growth in Q4. Public demand increased by 0.2% in the March quarter, easing from a 0.3% advance in Q4. Public investment rebounded (1.2% vs -1.5% in Q4), while government spending contracted for the first time since the second quarter of 2017 (-0.1% vs 0.7% in Q4). On an annualized basis, the economy grew 2.2% in the first quarter, better than the preliminary figure of 2.1% and following an upwardly revised 1.8% advance in the previous quarter. This was the highest annualized rate in three quarters. Japan's consumer price inflation rose to 0.9% yoy in April 2019 from 0.5% in the previous month and in line with market consensus. It was the highest inflation rate since October last year, with prices of food surging following declines in the prior four months. On a seasonally adjusted monthly basis, consumer prices increased by 0.1%, after remaining unchanged in the prior two months. Annual core consumer inflation, which excludes fresh food, edged up to 0.9% in April from 0.8% in March and matching expectations. Still, the latest figure remained well below the Bank of Japan's 2% target. The seasonally adjusted unemployment rate in Japan edged down to 2.4% in April 2019 from 2.5% in the previous month and in line with market estimates. Meanwhile, the jobs-to-applicants ratio remained unchanged at a high level of 1.63 and also matching consensus.

China

China's industrial economy continued to sag in May 2019, data released on 14.06.2019 showed, as the trade war with the United States continued to hang heavy on the world's second largest economy. Industrial production – a measure of the output of the industrial sectors in China's economy, including manufacturing, mining and utilities – grew by 5.0% in May yoy, down from 5.4% the month before. This was the lowest reading since February 2002. Fixed-asset investment also grew less than expected, reinforcing expectations that Beijing needs to roll out more growth measures soon. Fixed-asset investment growth decelerated to 5.6% in January-May from the same period yoy. Private sector fixed-asset investment, which accounts for about 60% of total investment, also lost momentum. It rose 5.3%, down from 5.5%. Retail sales, a key indicator of consumer demand in China, grew by 7.2% yoy in April, which was the lowest rate of growth since May 2003. China still has a fiscal war chest of about 3.65 trillion USD to counter any further fallout from the trade war. China's consumer price inflation rose to 2.7% yoy in May 2019 from 2.5% in the previous month. Annual core inflation, which strips out volatile food and energy prices, edged down to 1.6% in May, the lowest since August 2016, from 1.7% in April.

China's industrial economy continued to sag in May 2019, data released on 14.06.2019 showed, as the trade war with the United States continued to hang heavy on the world's second largest economy. A new batch of data from the National Bureau of Statistics (NBS) showed further deterioration on April's numbers, and pointed to an ongoing slump across key manufacturing and production sectors, many of which are reliant on strong exports. Industrial production – a measure of the output of the industrial sectors in China's economy, including manufacturing, mining and utilities – grew by 5.0% in May yoy, down from 5.4% the month before and below the expectations of a poll of economists, which had predicted 5.5% growth.

The figure measures a period in which the US more than doubled tariffs on USD 200 billion USD of Chinese goods from 10% to 25% and indicates the damage being done by the ongoing trade war. Fixed-asset investment also grew less than expected, reinforcing expectations that Beijing needs to roll out more growth measures soon. Fixed-asset investment growth decelerated to 5.6% in January-May from the same period yoy. Analysts had expected it to remain unchanged from 6.1% in the first four months of the year. Private sector fixed-asset investment, which accounts for about 60% of total investment, also lost momentum. It rose 5.3%, down from 5.5%. Retail sales, a key indicator of consumer demand in China, grew by 7.2% yoy in April, which was the lowest rate of growth since May 2003. China still has a fiscal war chest of about 3.65 trillion USD to counter any further fallout from the trade war, according to an analysis of government spending by Bloomberg last month. Central and local authorities had at least 25.1 trillion CNY (3.65 trillion USD) unspent in their budgets this year, data compiled using official budget plans showed. That's two trillion CNY more than the ammunition China had in the same period last year. China's consumer price inflation rose to 2.7% yoy in May 2019 from 2.5% in the previous month and matching market consensus. It was the highest inflation rate since February last year, as food cost increased the most since January 2012, with pork prices being persistently high following an outbreak of African swine fever. The politically sensitive food inflation jumped to a near 7-1/2-year high of 7.7% in May from 6.1% in April Non-food price inflation came in at 1.6% in May, little-changed from the prior's month 1.7%. Annual core inflation, which strips out volatile food and energy prices, edged down to 1.6% in May, the lowest since August 2016, from 1.7% in April.

Turkey

The Turkish economy shrank by -2.6 % yoy in the first quarter of 2019, following a -3 % contraction in the previous period. It was the second straight quarter of GDP decline, as household consumption and gross fixed capital formation continued to decrease while government expenditure advanced faster and net foreign demand contributed positively to growth. On a seasonally adjusted qoq basis, the economy advanced by 1.3 %, rebounding from a -2.4 % contraction in the last quarter of 2018. It was the first expansion in GDP growth since the first quarter of 2018. Turkey's annual inflation rate fell to 18.71 % in May 2019 from 19.50 % in the previous month. It was the lowest rate since August last year. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, eased to 15.87 % in May, the lowest since last July, from 16.30 % in the preceding month. Turkey's unemployment rate fell to 14.1 % in the February-April 2019 period from 10.1 % in the same period of the previous year. Youth unemployment rate, measuring job-seekers between 15 and 24 years old, jumped to 25.2 % from 17.7 % a year earlier. On a seasonally adjusted basis, the jobless rate rose to 13.7 % in March from 13.6 % in February.

The Turkish economy shrank by -2.6% yoy in the first quarter of 2019, following a -3% contraction in the previous period and compared with market expectations of a -2.5% contraction. It was the second straight quarter of GDP decline, as household consumption and gross fixed capital formation continued to decrease while government expenditure advanced faster and net foreign demand contributed positively to growth. On the expenditure side, household consumption decreased -4.7%, after an -8.9% drop in Q4 and fixed investment slumped -13%, following a -12.9% fall in the previous period. On the other hand, government spending rose 7.2% (vs 0.5% in Q4) and contributed positively to the GDP growth. Net external demand also contributed positively to the GDP growth, as exports increased 9.5% (vs 10.6% in Q4) and imports decreased -28.8% (vs -24.4% in Q4) due to a weak lira. On the production side, industrial production shrank by -4.3% (vs -6.4% in Q4) dragged by manufacturing (-4.7% vs -7.4%) and agriculture expanded by 2.5%, reversing a -0.5% fall in the previous period. Meantime, construction output shrank by -10.9%, following an -8.7% contraction in the third quarter. Also, services output contracted -4% (vs -0.3% in Q4), mainly due to professional, administrative and support service activities (-13% vs -10.2%), while financial and insurance activities rebounded (1.5% vs -16.2%); and public administration, education, human health and social work activities (8.8% vs 5.7%) and information and communication (2.3% vs 2.9%) continued to grow. At the same time, real estate expanded by 2% in the three months to March, easing from a 4.7% rise in the previous period. On a seasonally adjusted qoq basis, the economy advanced by 1.3%, rebounding from a -2.4% contraction in the last quarter of 2018. It was the first expansion in GDP growth since the first quarter of 2018. Turkey's annual inflation rate fell to 18.71% in May 2019 from 19.50% in the previous month and below market expectations of 19.1%. Annual core inflation eased to 15.87% in May, the lowest since last July, from 16.30% in the preceding month. Turkey's unemployment rate fell to 14.1% in the February-April 2019 period from 10.1% in the same period of the previous year. The number of unemployed people rose by 1.334 million from a year ago to 4.544 million while employment dropped by 704 thousand to 27.795 million. Youth unemployment rate, measuring job-seekers between 15 and **24 years old, jumped to 25.2% from 17.7% a year earlier. On a seasonally adjusted basis, the jobless rate rose to 13.7% in March from 13.6% in February.**

POLICY OF THE CENTRAL BANKS

This was the low-est

European Central Bank (ECB)

At 06.06.2019 meeting, which was held in Vilnius, the Governing Council of the European Central Bank (ECB) took the following monetary policy decisions: First, the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.40% respectively. The Governing Council now expects the key ECB interest rates to remain at their present levels at least through the first half of 2020. Second, the Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time. Third, regarding the modalities of the new series of quarterly targeted longer-term refinancing operations (TLTRO III), the Governing Council decided that the interest rate in each operation will be set at a level that is 10 basis points above the average rate applied in the Euro system's main refinancing operations. ECB is committed, and is not resigned to having a low rate of inflation forever or even for now, pointed out Draghi in his speech at an annual ECB conference in Sintra, Portugal. This applies to all instruments of ECB monetary policy stance. Further cuts in policy interest rates and mitigating measures to contain any side effects remain part of ECB tools. And the APP still has considerable headroom.

At 06.06.2019 meeting, which was held in Vilnius, the Governing Council of the European Central Bank (ECB) took the following monetary policy decisions: (1) The interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.40% respectively. The Governing Council now expects the key ECB interest rates to remain at their present levels at least through the first half of 2020, and in any case for as long as necessary to ensure the continued sustained convergence of inflation to levels that are below, but close to, 2% over the medium term. (2) The Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the asset purchase programme for an extended period of time past the date when it starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favorable liquidity conditions and an ample degree of monetary accommodation. (3) Regarding the modalities of the new series of quarterly targeted longer-term refinancing operations (TLTRO III), the Governing Council decided that the interest rate in each operation will be set at a level that is 10 basis points above the average rate applied in the Euro system's main refinancing operations over the life of the respective TLTRO. For banks whose eligible net lending exceeds a benchmark, the rate applied in TLTRO III will be lower and can be as low as the average interest rate on the deposit facility prevailing over the life of the operation plus 10 basis points. *Speech by Mario Draghi, President of the ECB, ECB Forum on Central Banking, Sintra, 18 June 2019* In this environment, what matters is that monetary policy remains committed to its objective and does not resign itself to too-low inflation. And, as I emphasized at ECB last monetary policy meeting, ECB is committed, and are not resigned to having a low rate of inflation forever or even for now. ECB has described the overall orientation of ECB monetary policy as being “patient, persistent and prudent”. Patient, because faced with repeated negative shocks ECB has had to extend the policy horizon. Persistent, because monetary policy will remain sufficiently accommodative to ensure the sustained convergence of inflation to ECB aim. And prudent, because ECB will pay close attention to underlying inflation dynamics and to risks and will adjust policy appropriately. This orientation is expressed in ECB current policy framework, which allows us to adapt ECB forward guidance and react flexibly as the macroeconomic situation evolves. That was illustrated by the monetary policy decisions taken at ECB meeting earlier in June. Looking forward, the risk outlook remains tilted to the downside, and indicators for the coming quarters point to lingering softness. The risks that have been prominent throughout the past year, in particular geopolitical factors, the rising threat of protectionism and vulnerabilities in emerging markets have not dissipated. The prolongation of risks has weighed on exports and in particular on manufacturing. In the absence of improvement, such that the sustained return of inflation to ECB aim is threatened, additional stimulus will be required. In ECB recent deliberations, the members of the Governing Council expressed their conviction in pursuing ECB aim of inflation close to 2% in a symmetric fashion. Just as ECB policy framework has evolved in the past to counter new challenges, so it can again. In the coming weeks, the Governing Council will deliberate how ECB instruments can be adapted commensurate to the severity of the risk to price stability. ECB remains able to enhance ECB forward guidance by adjusting its bias and its conditionality to account for variations in the adjustment path of inflation. This applies to all instruments of ECB monetary policy stance. Further cuts in policy interest rates and mitigating measures to contain any side effects remain part of ECB tools. And the APP still has considerable headroom. Moreover, the Treaty requires that ECB actions are both necessary and proportionate to fulfil ECB mandate and achieve ECB objective, which implies that the limits we establish on ECB tools are specific to the contingencies ECB faces. If the crisis has shown anything, it is that ECB will use all the flexibility within ECB mandate to fulfil

All these options were raised and discussed at ECB last meeting. What matters for ECB policy calibration is ECB medium-term policy aim: an inflation rate below, but close to, 2%. That aim is symmetric, which means that, if ECB is to deliver that value of inflation in the medium term, inflation has to be above that level at some time in the future. But fiscal policy should play its role. Over the last 10 years, the burden of macroeconomic adjustment has fallen disproportionately on monetary policy. ECB has even seen instances where fiscal policy has been pro-cyclical and countered the monetary stimulus. If the unbalanced macroeconomic policy-mix in the euro area in part explains the slide into disinflation, so a better policy mix can help bring it to a close. Monetary policy can always achieve its objective alone, but especially in Europe where public sectors are large, it can do so faster and with fewer side effects if fiscal policies are aligned with it.

Bank of England (BoE)

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At its meeting ending on 19 June 2019, the Bank of England's Monetary Policy Committee (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 435 billion GBP. Since the Committee's previous meeting, the near-term data have been broadly in line with the May Report, but downside risks to growth have increased. Globally, trade tensions have intensified. Domestically, the perceived likelihood of a no-deal Brexit has risen. Trade concerns have contributed to volatility in global equity prices and corporate bond spreads, as well as falls in industrial metals prices Increased Brexit uncertainties have put additional downward pressure on UK forward interest rates and led to a decline in the sterling exchange rate. 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 19 June 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 435 billion GBP. The MPC's most recent economic projections, set out in the May Inflation Report, assumed a smooth adjustment to the average of a range of possible outcomes for the United Kingdom's eventual trading relationship with the European Union and were conditioned on a path for Bank Rate that rose to around 1% by the end of the forecast period. In those projections, GDP growth was a little below potential during 2019 as a whole, reflecting subdued global growth and ongoing Brexit uncertainties. Growth then picked up above the subdued pace of potential supply growth, such that excess demand rose above 1% of potential output by the end of the forecast period. As excess demand emerged, domestic inflationary pressures firmed, such that CPI inflation picked up to above the 2% target in two years' time and was still rising at the end of the three-year forecast period. Since the Committee's previous meeting, the near-term data have been broadly in line with the May Report, but downside risks to growth have increased. Globally, trade tensions have intensified. Domestically, the perceived likelihood of a no-deal Brexit has risen. Trade concerns have contributed to volatility in global equity prices and corporate bond spreads, as well as falls in industrial metals prices. Forward interest rates in major economies have fallen materially further. Increased Brexit uncertainties have put additional downward pressure on UK forward interest rates and led to a decline in the sterling exchange rate. As expected, recent UK data have been volatile, in large part due to Brexit-related effects on financial markets and businesses. After growing by 0.5% in 2019 Q1, GDP is now expected to be flat in Q2. That in part reflects an unwind of the positive contribution to GDP in the first quarter from companies in the United Kingdom and the European Union building stocks significantly ahead of recent Brexit deadlines. Looking through recent volatility, underlying growth in the United Kingdom appears to have weakened slightly in the first half of the year relative to 2018 to a rate a little below its potential. The underlying pattern of relatively strong household consumption growth but weak business investment has persisted. CPI inflation was 2.0% in May. It is likely to fall below the 2% target later this year, reflecting recent falls in energy prices. Core CPI inflation was 1.7% in May, and core services CPI inflation has remained slightly below levels consistent with meeting the inflation target in the medium term. The labor market remains tight, with recent data on employment, unemployment and regular pay in line with expectations at the time of the May Report. Growth in unit wage costs has remained at target-consistent levels. The Committee continues to judge that, were the economy to develop broadly in line with its May Inflation Report projections that included an assumption of a smooth Brexit, 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 MPC judges at this meeting that the existing stance of monetary policy is appropriate.

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 Committee will always act to achieve the 2% inflation target.

USA Federal Reserve

Economic Projections from the June 18-19 Federal Open Market Committee meeting. The Federal Reserve on June 19 2019 signaled no interest rate cuts this year but signaled easing in 2020 following its two-day monetary policy-setting meeting. The Fed dropped a promise to be "patient" in adjusting rates and said that will act as appropriate to sustain the economic expansion. Federal Reserve issues FOMC statement June 19, 2019. On a 12-month basis, overall inflation and inflation for items other than food and energy are running below 2%. Market-based measures of inflation compensation have declined; survey-based measures of longer-term inflation expectations are little changed. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In support of these goals, the Committee decided to maintain the target range for the federal funds rate at 2.25% to 2.5%. In light of uncertainty about sustained expansion of economic activity and muted inflation pressures, the Committee will closely monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2% objective.

Economic *Projections from the June 18-19 Federal Open Market Committee meeting.* The Federal Reserve on June 19 2019 signaled no interest rate cuts this year but signaled easing in 2020 following its two-day monetary policy-setting meeting. The Fed dropped a promise to be "patient" in adjusting rates and said that will act as appropriate to sustain the economic expansion. Some Federal Reserve officials now expect rate cuts in 2019. The so-called dot plot, in which individual Federal Reserve map his forecasts for interest rates showed one official indicated one cut this year, while seven officials indicated two. However, the median forecast for the federal funds rate remained at 2.4%, unchanged from last month. For 2020, however, Federal Reserve has indicated two cuts to 2.1%, down from 2.6% in March Projections. Other Economic Projections: The median projection for 2019 GDP growth was unchanged at 2.1% and revised up by a 0.1% to 2% in 2020. The 2021 estimate was held at 1.8%. The median unemployment rate forecasts 2019-21 were all lowered by a 0.1%. Officials see 3.6% this year rising to 3.7% next year and 3.8% in 2021. Officials see the jobless rate most consistent with full employment in the long run at 4.2%, versus 4.3% in March. Officials cut estimates for their preferred inflation gauge. The personal consumption expenditures price index is expected to increase just 1.5% in 2019, down from a 1.8% projection in March. By 2020, the main and core gauges are both projected to rise 1.9%, below the target. *Federal Reserve issues FOMC statement June 19, 2019.* Information received since the Federal Open Market Committee met in May indicates that the labor market remains strong and that economic activity is rising at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Although growth of household spending appears to have picked up from earlier in the year, indicators of business fixed investment have been soft. On a 12-month basis, overall inflation and inflation for items other than food and energy are running below 2%. Market-based measures of inflation compensation have declined; survey-based measures of longer-term inflation expectations are little changed. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. In support of these goals, the Committee decided to maintain the target range for the federal funds rate at 2.25% to 2.5%. The Committee continues to view sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2% objective as the most likely outcomes, but uncertainties about this outlook have increased. In light of these uncertainties and muted inflation pressures, the Committee will closely monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2% objective. In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its maximum employment objective and its symmetric 2% inflation objective. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments.

ading since February 2002, when it was 2.7%. Within industrial production, manufacturing output grew by 5.0% yoy, down from 5.3% in April.

Bank of Japan (BoJ)

At the Monetary Policy Meeting held June 20, 2019, the Policy Board of the Bank of Japan decided upon the following: The short-term policy interest rate: The Bank will apply a negative interest rate of minus -0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank. The long-term interest rate: The Bank will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around zero 0%. With regard to the amount of JGBs to be purchased, the Bank will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about 80 trillion JPY. The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about 6 trillion JPY and about 90 billion JPY, respectively. As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion JPY and about 3.2 trillion JPY, respectively. The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2%, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the yoy rate of increase in the observed CPI (all items less fresh food) exceeds 2% and stays above the target in a stable manner. As for policy rates, the Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, at least through around spring 2020, taking into account uncertainties regarding economic activity and prices including developments in overseas economies and the effects of the scheduled consumption tax hike.

Statement on Monetary Policy June 20, 2019. At the Monetary Policy Meeting held June 20, 2019, the Policy Board of the Bank of Japan decided upon the following. The Bank decided, by a 7-2 majority vote, to set the following guideline for market operations for the intermeeting period. The short-term policy interest rate: The Bank will apply a negative interest rate of minus -0.1% to the Policy-Rate Balances in current accounts held by financial institutions at the Bank. The long-term interest rate: The Bank will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around zero 0%. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.With regard to the amount of JGBs to be purchased, the Bank will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about 80 trillion JPY. Guidelines for asset purchases: With regard to asset purchases other than JGB purchases, the Bank decided, by a unanimous vote, to set the following guidelines. a) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about 6 trillion JPY and about 90 billion JPY, respectively. With a view to lowering risk premium of asset prices in an appropriate manner, the Bank may increase or decrease the amount of purchases depending on market conditions. b) As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion JPY and about 3.2 trillion JPY, respectively. Japan's economy has been on a moderate expanding trend, with a virtuous cycle from income to spending operating, although exports and production have been affected by the slowdown in overseas economies. Overseas economies have been growing moderately on the whole, although slowdowns have been observed. In this situation, exports and industrial production have shown some weakness. On the other hand, corporate profits and business sentiment have stayed at favorable levels on the whole, albeit with some weakness observed in part, and business fixed investment has continued on an increasing trend. Private consumption has been increasing moderately, albeit with fluctuations, against the background of steady improvement in the employment and income situation. Housing investment has been more or less flat. Public investment also has been more or less flat, remaining at a relatively high level. Meanwhile, labor market conditions have continued to tighten steadily. Financial conditions are highly accommodative. On the price front, the yoy rate of change in the consumer price index (CPI, all items less fresh food) is in the range of 0.5%-1.0%. Inflation expectations have been more or less unchanged. With regard to the outlook, Japan's economy is likely to continue on a moderate expanding trend, despite being affected by the slowdown in overseas economies for the time being. Domestic demand is expected to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the corporate and household sectors, mainly against the background of highly accommodative financial conditions and the underpinnings through government spending. Although exports are projected to show some weakness for the time being, they are expected to be on a moderate increasing trend on the back of overseas economies growing moderately on the whole. The yoy rate of change in the CPI is likely to increase gradually toward 2%, mainly on the back of the output gap remaining positive and medium- to long-term inflation expectations rising. Risks to the outlook include the following: the U.S. macroeconomic policies and their impact on global financial markets; the consequences of protectionist moves and their effects; developments in emerging and commodity-exporting economies such as China, including the effects of the two aforementioned factors; developments in global adjustments in IT-related goods; negotiations on the United Kingdom's exit from the European Union (EU) and their effects; and geopolitical risks. Downside risks concerning overseas economies are likely to be significant, and it also is necessary to pay close attention to their impact on firms' and households' sentiment in Japan.

The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2%, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the yoy rate of increase in the observed CPI (all items less fresh food) exceeds 2% and stays above the target in a stable manner. As for policy rates, the Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, at least through around spring 2020, taking into account uncertainties regarding economic activity and prices including developments in overseas economies and the effects of the scheduled consumption tax hike. It will examine the risks considered most relevant to the conduct of monetary policy and make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target.

PBoC

People's Bank of China Governor Yi Gang said in an exclusive interview with Bloomberg there's "tremendous" room to adjust monetary policy if the trade war deepens. Reserve requirement ratio can be cut further. A worsening trade war and job-market outlook could prompt the central bank to cut the benchmark interest rate. China's central bank governor also signaled that he's not wedded to defending the nation's currency at a particular level, and stressed that the value of the CNY should be set by market forces. On June 14, 2019, the People's Bank of China (PBC) decides to raise the central bank discount quota by RMB200 billion and the standing lending facility (SLF) quota by 100 billion CNY, aiming to enhance liquidity support and maintain adequate liquidity for small and medium-sized banks. China's central bank said on June 17, 2019 the second phase of a cut in the reserve requirement ratio (RRR) freed about 100 billion CNY (19.8 billion USD) worth of long term funds. In open market operations, the People's Bank of China (PBOC) also injected 150 billion CNY via 14-day reverse repos to "keep liquidity level stable at end-June", the bank said in a statement on its website.

People's Bank of China Governor Yi Gang said in an exclusive interview with Bloomberg there's "tremendous" room to adjust monetary policy if the trade war deepens, joining counterparts in Europe and the U.S. in displaying readiness to act to support the economy. Compared to European and Japanese peers, China does have more obvious policy space. Its benchmark one-year lending rate has stayed at 4.35% since 2015, far above zero. The amount of funds that the PBOC requires banks to park as reserves is a legacy of an era of massive capital inflows. Nevertheless, it's still at an elevated 13.5% for major banks after being reduced via universal or targeted cuts from 16% a year ago, steps that released billions of CNY of liquidity to the financial system. That space means People's Bank of China i is likely to turn to this tool before cutting rates. Some economists predict that a worsening trade war and job-market outlook could prompt the central bank to take bolder easing steps, like cutting the benchmark rate that governs a broad range of lending across the economy, including mortgages. China's central bank governor also signaled that he's not wedded to defending the nation's currency at a particular level, and stressed that the value of the CNY should be set by market forces. Whatever levers China pulls in response to a slowdown, it must calibrate the impact it will have on the CNY. Governor Yi Gang hinted that the level of 7CNY/USD is not a line in the sand. "A little bit of flexibility of CNY is good for the Chinese economy and for the global economy because it provides an automatic stabilizer for the economy," he said. "For the CNY, no number is more important than any other. The central bank of China is pretty much not intervening in the foreign-exchange market for a long time, and I hope that this situation will continue, not intervening." On June 14, 2019, the People's Bank of China (PBC) decides to raise the central bank discount quota by RMB200 billion and the standing lending facility (SLF) quota by 100 billion CNY, aiming to enhance liquidity support and maintain adequate liquidity for small and medium-sized banks. The small and medium-sized banks can apply to the PBC for liquidity support with eligible bonds, interbank certificates of deposit and bills as collateral. China's central bank said on June 17, 2019 the second phase of a cut in the reserve requirement ratio (RRR) freed about 100 billion CNY (19.8 billion USD) worth of long term funds. In open market operations, the People's Bank of China (PBOC) also injected 150 billion CNY via 14-day reverse repos to "keep liquidity level stable at end-June", the bank said in a statement on its website. The PBOC announced in May that it would implement a reduction of RRRs for some small- and medium-sized banks in three phases, as part of wider efforts to help companies weather a slowdown in the world's second largest economy. The third phase of the RRR cut is scheduled to take effect on July 15.

Central Bank of Turkey

The Monetary Policy Committee (the Committee) of Central Bank of Turkey at a meeting on 12 June has decided to keep the policy rate (one-week repo auction rate) constant at 24%. Recently released data show that rebalancing trend in the economy has continued. External demand maintains its relative strength while economic activity displays a slow pace, partly due to tight financial conditions. Current account balance is expected to maintain its improving trend. Developments in domestic demand conditions and the tight monetary policy support disinflation. In order to contain the risks to the pricing behavior and to reinforce the disinflation process, the Committee has decided to maintain the tight monetary policy stance.

Decision of the Monetary Policy Committee 12 June 2019. The Monetary Policy Committee (the Committee) of Central Bank of Turkey at a meeting on 12 June has decided to keep the policy rate (one-week repo auction rate) constant at 24%. Recently released data show that rebalancing trend in the economy has continued. External demand maintains its relative strength while economic activity displays a slow pace, partly due to tight financial conditions. Current account balance is expected to maintain its improving trend. Developments in domestic demand conditions and the tight monetary policy support disinflation. In order to contain the risks to the pricing behavior and to reinforce the disinflation process, the Committee has decided to maintain the tight monetary policy stance. The Central Bank will continue to use all available instruments in pursuit of the price stability objective. Factors affecting inflation will be closely monitored and, monetary stance will be determined to keep inflation in line with the targeted path. It should be emphasized that any new data or information may lead the Committee to revise its stance.

INTERNATIONAL COMMODITY PRICES

Oil

Oil prices are down for a second consecutive day amid continuing concerns about global economic growth, as the devastation of renewed tensions in the Middle East since last week's attack on an oil tanker in the Gulf of Oman has been limited. Crude Oil decreased -0.18 USD/BBL or -0.35% to 51.85 on Tuesday June 18 from 52.03 in the previous trading session. Brent decreased -0.26 USD/BBL or -0.43% to 60.61 on Tuesday June 18 from 60.87 in the previous trading session. Business sentiment in the United States is generally worsening because of the escalation of tension between China and the United States. Additional pressure on the price of oil is also the message of the US energy authorities, according to which the shale yield in the country is expected to reach a record in July. Additional pressure on the price of oil is also the message of the US energy authorities, according to which the shale yield in the country is expected to reach a record in July. The oil market is under pressure because of OPEC's inability to clearly state its intention to limit extraction, noted analysts.

Oil prices are down for a second consecutive day amid continuing concerns about global economic growth, as the devastation of renewed tensions in the Middle East since last week's attack on an oil tanker in the Gulf of Oman has been limited, Reuters reports. Oil prices fell by about 20% compared to April 2019, partly due to worries about the American-Chinese trade war. Another reason for the decline is the uncertainty around the date of the OPEC meeting Crude Oil decreased -0.18 USD/BBL or -0.35% to 51.85 on Tuesday June 18 from 52.03 in the previous trading session. Brent decreased -0.26 USD/BBL or -0.43% to 60.61 on Tuesday June 18 from 60.87 in the previous trading session. Business sentiment in the United States is generally worsening because of the escalation of tension between China and the United States. Additional pressure on the price of oil is also the message of the US energy authorities, according to which the shale yield in the country is expected to reach a record in July. The oil market is under pressure because of OPEC's inability to clearly state its intention to limit extraction, noted analysts.

Cereals

Since the International Grains Council has published its regular monthly report, and in the new version of the balance, there has been a minimal increase in consumption compared to the previous forecast, but it appears that there will again be an excess of production over wheat consumption and the accumulation of a record transitional balance. These data were reflected in the prices of wheat contracts - France minus -0.50 EUR to 190.00 EUR/ton, Ukraine minus -2.00 USD and Russia minus -3.00 USD to 207.00 and 206.00 USD/ton respectively. In the United States, however, the forecast is not optimistic, and the price rises again - Chicago quoted plus 10.00 USD to 235.00 USD/ton. For maize, poor agrometeorological conditions have lasted for too long, and there the changes are definitely with a price-positive sign - the yield forecast is reduced by 8.8 million ton compared to the April report. Quotations in Chicago continued upward with a plus of 9.00 USD to 201.00 USD/ton. In France, corn also rose by 1.75 EUR to 176.25 EUR/ton, in Ukraine the price also jumped by plus 2.00 USD to 182.00 USD/ton.

In the "Grain" sub-index of Sofia Commodity Exchange AD there are still quotes on all contracts. Bread wheat is offered at 340.00 BGN/ton, demand is 290.00-300.00 BGN/ton. Forage wheat varies between 280.00 and 320.00 BGN/ton respectively for buying and selling and forage barley is sought at 240.00-260.00 BGN/ton. For maize and oilseed sunflower, there are also requests for purchases of 260.00-280.00 BGN/ton and 580.00-600 BGN/ton respectively.

After the dynamic May, when prices of corn and wheat rose sharply beyond the ocean, June retained a trend upward, but with some reassuring of the changes in quotations of major cereals on world commodity markets. Since the International Grains Council has published its regular monthly report, and in the new version of the balance, there has been a minimal increase in consumption compared to the previous forecast, but it appears that there will again be an excess of production over wheat consumption and the accumulation of a record transitional balance. The main merit is on EU, Russia, Canada and China, with Russia retaining its position as a world leader in exports. These data were reflected in the prices of wheat contracts - France minus -0.50 EUR to 190.00 EUR/ton, Ukraine minus -2.00 USD and Russia minus -3.00 USD to 207.00 and 206.00 USD/ton respectively. In the United States, however, the forecast is not optimistic, and the price rises again - Chicago quoted plus 10.00 USD to 235.00 USD/ton. For maize, poor agrometeorological conditions have lasted for too long, and there the changes are definitely with a price-positive sign - the yield forecast is reduced by 8.8 million ton compared to the April report. Quotations in Chicago continued upward with a plus of 9.00 USD to 201.00 USD/ton. In France, corn also rose by 1.75 EUR to 176.25 EUR/ton, in Ukraine the price also jumped by plus 2.00 USD to 182.00 USD/ton. In barley, the change in prices is minus sign - Ukraine minus -2.00 USD to 185.00 USD/ton and in France minus -1.00 EUR to 174.00 EUR ton. Rape in the European Union (Euronext) is without change and remains at 367.50 EUR/ton. Unrefined sunflower oil in the Rotterdam commodity market fell by -7.00 USD to 730.00 USD/ton and refined sugar declined by -3.60 USD to 335.70 USD/ton on the London commodity exchange as the August delivery month. In the "Grain" sub-index of Sofia Commodity Exchange AD there are still quotes on all contracts. Bread wheat is offered at 340.00 BGN/ton, demand is 290.00-300.00 BGN/ton. Forage wheat varies between 280.00 and 320.00 BGN/ton respectively for buying and selling and forage barley is sought at 240.00-260.00 BGN/ton. For maize and oilseed sunflower, there are also requests for purchases of 260.00-280.00 BGN/ton and 580.00-600 BGN/ton respectively. All prices are without VAT.

BULGARIA

EXTERNAL SECTOR

Balance of Payments

In January – April 2019 the current and capital account was positive amounting to EUR 1,000.9 million and presented 1.7% of GDP, compared with a deficit of EUR 4.9 million (0.01% of GDP) in January – April 2018.

The current and capital account recorded a surplus of EUR 253.2 million in April 2019, compared with a deficit of EUR 12.4million in April 2018. In January – April 2019 the current and capital account was positive amounting to EUR 1,000.9 million(1.7% of GDP), compared with a deficit of EUR 4.9 million (0.01% of GDP) in January – April 2018. The current account was positive amounting to EUR 149.2 million in April 2019, compared with a deficit of EUR 78.4 million in April 2018. In January – April 2019 the current account was positive and amounted to EUR 703.7 million (1.2% of GDP), compared with a deficit of EUR 72.7 million (0.1% of GDP) in January – April 2018. The balance on goods recorded a deficit of EUR 117.6 million in April 2019, compared with a deficit of EUR 223.9 million in April 2018. In January – April 2019 the balance on goods was negative amounting to EUR 455.6 million (0.8% of GDP), compared with a deficit of EUR 858.3 million (1.6% of GDP) in January – April 2018. Exports of goods amounted to EUR 2,310.2 million in April 2019, growing by EUR 205 million (9.7%) from April 2018 (EUR 2,105.2 million). In January – April 2019 exports of goods totalled EUR 9,307.1 million (15.7% of GDP), growing by EUR 916.9 million (10.9%) year-on-year (from EUR 8,390.2 million, 15.2% of GDP). In January – April 2018 exports grew by 1.6% yoy. Imports of goods amounted to EUR 2,427.8 million in April 2019, growing by EUR 98.7 million (4.2%) from April 2018 (EUR 2,329.1 million). In January – April 2019 imports of goods totalled EUR 9,762.6 million (16.5% of GDP), growing by EUR 514.2 million (5.6%) from January – April 2018 (EUR 9,248.5 million, 16.8% of GDP). In January – April 2018 imports grew by 6.3% yoy. Services recorded a positive balance of EUR 110.6 million in April 2019, compared with a surplus of EUR 77.5 million in April 2018. In January – April 2019 services recorded a surplus of EUR 536.1 million (0.9% of GDP) compared with a positive balance of EUR 382.2 million (0.7% 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 (labor, capital, land), taxes of production and imports and subsidies) recorded a surplus of EUR 45.1 million, compared with a deficit of EUR 62.8 million in April 20183. In January – April 2019 the balance on primary income was negative and equated to EUR 34.6 million (0.1% of GDP), compared with a deficit of EUR 249.4 million (0.5% of GDP) in January – April 2018. The net secondary income (which reflects the redistribution of income) recorded a surplus of EUR 111 million, compared with a positive balance of EUR 130.8 million in April 2018. In January – April 2019 the net secondary income was positive amounting to EUR 657.8 million (1.1% of GDP), compared with a positive balance of EUR 652.7 million (1.2% of GDP) in the same period of 2018. The capital account recorded a surplus of EUR 104 million, compared with a positive balance of EUR 66.1 million in April 2018. In January – April 2019 the capital account recorded a surplus of EUR 297.2 million (0.5% of GDP), compared with a positive balance of EUR 67.9 million (0.1% of GDP) in January – April 2018. The financial account recorded a negative balance of EUR 108.5 million, compared with a positive value of EUR 164.7 million in April 2018. In January – April 2019 the financial account recorded a net inflow of EUR 503.9 million (0.9% of GDP) compared with an inflow of EUR 550.2 million (1% of GDP) in January – April 2018. The net direct investment compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual was positive amounting to EUR 126.6 million, compared with a negative balance of EUR 16.2 million in April 2018. In January – April 2019 direct investment recorded a positive balance of EUR 209 million (0.4% of GDP), compared with a positive balance of EUR 51.3 million (0.1% of GDP) in January – April 2018. Direct investment – assets dropped by EUR 21.1 million compared with an increase of EUR 49 million in April 2018. In January – April 2019 direct investment – assets grew by EUR 206.8 million (0.3% of GDP) compared with an increase of EUR 199.6 million (0.4% of GDP) in the same period of 2018. Direct investment – liabilities dropped by EUR 147.7 million in April 2019, compared with an increase of EUR 65.2 million in April 2018. In January – April 2019 direct investment – liabilities dropped by EUR 2.1 million, compared with an increase of EUR 148.3 million (0.3% of GDP) in the same period of 2018. Foreign direct investment in Bulgaria (under the directional principle) dropped by EUR 93.2 million in April 2019 according to preliminary data, compared with an increase of EUR 63.3 million in April 20184. In

January – April 2019 foreign direct investment in Bulgaria dropped EUR 54.9 million, compared with an increase of EUR 10.7 million in January – April 2018. Direct investment abroad grew by EUR 33.4 million in April 2019, compared with an increase of EUR 47.2 million in April 2018. In January – April 2019 direct investment abroad totaled EUR 154.1 million, compared with an increase of EUR 62 million in January – April 2018. More detailed information on direct investment is available in Annex 2 - Direct Investment (January – April 2019), and the data series can be found under Statistics/External Sector/Direct Investments on the BNB website. The balance on portfolio investment was positive amounting to EUR 88.2 million, compared with a positive balance of EUR 504 million in April 2018. In January – April 2019 the balance was positive and equated to EUR 349 million (0.6% of GDP), compared with a positive balance of EUR 866.5 million (1.6% of GDP) million in January – April 2018. Portfolio investment – assets grew by EUR 90.9 million, compared with an increase of EUR 102.4 million in April 2018. In January – April 2019 they rose by EUR 237.2 million (0.4% of GDP) compared with an increase of EUR 521.2 million (0.9% of GDP) in January – April 2018. Portfolio investment – liabilities grew by EUR 2.7 million compared with a decline of EUR 401.6 million in April 2018. In January – April 2019 portfolio investment – liabilities dropped by EUR 111.7 million (0.2% of GDP) compared with a decline of EUR 345.3 million (0.6% of GDP) in January – April 2018. The balance on other investment was negative amounting to EUR 134.1 million, compared with a negative balance of EUR 247.1 million in April 2018. In January – April 2019 the balance was positive and equated to EUR 293.9 million (0.5% of GDP), compared with a positive balance of EUR 693.4 million (1.3% of GDP) in January – April 2018. Other investment – assets grew by EUR 97.7 million, compared with an increase of EUR 38 million in April 2018. In January – April 2019 they grew by EUR 752.5 million (1.3% of GDP) compared with an increase of EUR 1,146.9 million (2.1% of GDP) in January – April 2018. Other investment – liabilities grew by EUR 231.8 million compared with an increase of EUR 285 million in April 2018. In January – April 2019 they grew by EUR 458.6 million (0.8% of GDP) compared with an increase of EUR 453.6 million (0.8% of GDP) in January – April 2018. The BNB reserve assets5 decreased by EUR 192.2 million, compared with a decline of EUR 101.5 million in April 2018. In January – April 2019 they dropped by EUR 325.5 million (0.6% of GDP), compared with a decline of EUR 1,136.8 million (2.1% of GDP) in the same period of 2018. The net errors and omissions were negative amounting to EUR 361.7 million compared with a positive value of EUR 177 million in April 2018. According to preliminary data, the item was negative totaling EUR 497 million (0.8% of GDP) in January – April 2019, compared with a positive value of EUR 555.1 million (1% of GDP) in the same period of 2018.

Bulgaria: Balance of payments	April 2018	April 2019	Change in EUR million	January-April 2018	January-April 2019	Change in EUR million
Current and capital account	-12.4	253.2	265.5	-4.9	1000.9	1005.8
Current account	-78.4	149.2	227.6	-72.7	703.7	776.4
Trade balance	-223.9	-117.6	106.3	-858.3	-455.6	402.7
Services, net	77.5	110.6	33.1	382.2	536.1	153.9
Primary income, net	-62.8	45.1	107.9	-249.4	-34.6	214.8
Secondary income, net	130.8	111.0	-19.8	652.7	657.8	5.0
Capital account	66.1	104.0	37.9	67.9	297.2	229.4
Capital transfers, net	49.1	64.1	14.9	81.3	202.5	121.3
Financial account	164.7	-108.5	-273.2	550.2	503.9	-46.4

Source: BNB

Foreign Direct Investments

In January-March 2019 the net flows of foreign direct investment in Bulgaria recorded a negative value of EUR 54.9 million (0.1% of GDP) dropping by EUR 65.6 million from January – April 2018 (positive value of EUR 10.7 million, 0.02% of GDP).

In January-March 2019 according to preliminary data, the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a negative value of EUR 54.9 million (0.1% of GDP) dropping by EUR 65.6 million from January – April 2018 (positive value of EUR 10.7 million, 0.02% of GDP). Foreign direct investment in Bulgaria recorded an outflow of EUR 93.2 million in April 2019, compared with an inflow of EUR 63.3 million in April 2018. Real estate investments of non-residents recorded a positive value of EUR 2.2 million, compared with EUR 9.4 million in January – April 2018. The largest inflow of real estate investment was from the Netherlands (EUR 0.5 million), Russia (EUR 0.4 million), Kazakhstan (EUR 0.4 million), Latvia (EUR 0.4 million), and Germany (EUR 0.4 million). Reinvestment of earnings (the share of non-residents in the undistributed earnings/ loss of the enterprise based on preliminary profit and loss data) was estimated at a negative value of EUR 173.3 million, compared with a positive one of EUR 80.6 million in January – April 2018.The net flow on debt instruments (the change in the net liabilities between affiliated enterprises on financial loans, suppliers' credits and debt securities) totaled EUR 656.5 million in January – April 2019, compared with EUR 142.9 million in January – April 2018. The largest net direct investment inflows in Bulgaria for January – April 2019 were from the Netherlands (EUR 260.2 million), the United Kingdom (EUR 86.5 million), and Ireland (EUR 65.2 million). According to preliminary data, direct investment abroad recorded a positive value of EUR 154.1 million (0.3% of GDP), compared with a positive value of EUR 62 million (0.1% of GDP) in January – April 2018. It totaled EUR 33.4 million in April 2019, compared with EUR 47.2 million in April 2018. According to preliminary data, the stocks 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 totaled 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).

Bulgaria: Direct investments	April 2018	April 2019	January-April 2018	January-April 2019	Change in EUR million, mom	Channge in EUR million, yoy
Direct investments, net	**16.2**	**126.6**	**51.3**	**209.0**	**110.4**	**157.7**
Direct investments in abroad	**47.2**	**33.4**	**62.0**	**151.3**	**-13.8**	**89.3**
Equity	6.1	21.1	4.3	92.4	15.0	88.1
Reinvestments of earnings	-0.5	0.0	4.2	2.4	0.5	-1.8
Debt investments	41.5	12.2	53.6	59.2	-29.3	5.6
Direct investments in a country	**63.3**	**-93.2**	**10.7**	**-54.9**	**-156.5**	**-65.6**
Equity	-28.2	2.7	-212.7	-538.0	30.9	-325.3
Reinvestments of earnings	15.4	-218.7	80.6	-173.3	-234.1	-253.9
Debt investments	76.2	142.9	122.8	656.5	66.7	533.7

Source: BNB

Foreign Reserves

At the end of May 2019, Bulgaria's international reserves amounted to 48.5 billion BGN (24.7 billion EUR), increasing by 0.9% mom and by 1.8% yoy, respectively.

According to BNB data, at the end of May 2019 Bulgaria's international reserves amounted to 48.5 billion BGN (24.7 billion EUR), increasing by 0.9% mom and by 1.8% yoy, respectively. On the assets side, at the end of May 2019 cash and deposits in foreign currency amounted to 18.4 billion BGN and decreased by 3% mom and by 0.1% yoy, respectively.Monetary gold investment (3 billion BGN) increased by 1.6% mom and by 0.8% yoy, respectively. Investment in securities amounted to 27.2 billion BGN and increased by 2.1% mom and by 3.2% yoy, respectively. On the liabilities side, by end-May 2019, money in circulation (17.1 billion BGN) increased by 2.4% yoy. Liabilities to banks amounted to 13.6 billion BGN and decreased by 2.5% mom and by 4.8% yoy, respectively. Liabilities to the government and budget organizations increased by 1.7% mom and by 10.2% yoy, respectively to 9.8 billion BGN. Liabilities to other depositors amounted to 2.8 billion BGN and increased by 8.9% mom and by 9.8% yoy, respectively.. The deposit of "Banking" Department amounted to 5.3 billion BGN and increased by 0.9% mom and by 0.3% yoy, respectively.

Bulgaria's international liquidity position, calculated as a ratio of the international reserves to short term external debt, is high at 297.5% at the end of March 2019, against 306.9% by the end of 2018 and 283.1% at the end of March 2018.

Cover Ratio: Foreign reserves/Short term foreign debt (%)	March 2018	Apr 2018	May 2018	June 2018	July 2018	Aug 2018	Sep 2018	Oct 2018	Nov 2018	Dec 2018
Short-term foreign debt (EUR mn)	7984.8	7 833	7 715	7 794	7 903	8 105	8 052	8 161	8 365	8168.7
Foreign reserves (EUR mn)	22 606	22 518	22 825	23 510	23 731	23 960	24 540	24 137	24 161	25 072
Cover Ratio FR /STD(%)	**283.1**	**287.5**	**295.9**	**301.6**	**300.3**	**295.6**	**304.8**	**295.8**	**288.8**	**306.9**

Source: BNB, UBB's calculations

REAL SECTOR

Gross Domestic Product

According to NSI seasonally adjusted data, the GDP growth rate in the first quarter of 2019 is 3.5% compared with the same quarter of 2018 according to the preliminary estimates. Gross Domestic Product (GDP) in Q1 of 2019 increased by 0.5% in the EU-28 compared to the previous quarter by seasonally adjusted data. For the same period, GDP in Bulgaria increased by 1.2%. GDP growth in Bulgaria is high in Q1 of 2019, but expectations are for maintaining economic activity at the levels of the previous year. This is mainly driven by external factors such as weaker trade balance in Turkey, as well as escalating trade tensions between the US and its trading partners. These factors create a real risk for the economic performance of the euro area, and then of Bulgaria.

According to NSI preliminary data, Bulgaria's GDP at current prices in Q1 2019 is 24 656 million BGN. The GDP per person amounted to 3 523 BGN. In USD terms at average quarterly exchange rate of 1.722045 BGN per dollar, the GDP amounted to 14 318 Million USD or 2 046 dollars per person. In Euro terms, the GDP is 12 606 million Euro or 1 801 Euro per person. Gross value added (GVA) at current prices in Q1 of 2019 equals to 20 950 million BGN. In Q1 of 2019, the relative share of the agricultural sector in the value added of the economy preserves its level from the first quarter of 2018. The share of industrial sector decreases with 0.4 percentage points to 29.4%. The relative share of value added from service activities increases from 67.9% in first quarter of 2018, to 68.3% in first quarter of 2019. In Q1 of 2019 the final consumption expenditure presented 5.4% of GDP. The external balance (exports-imports) is positiveand formed 83.2% of GDP. According to the seasonally adjusted data, GDP in Q1of 2019 increased by 1.2% compared with the previous quarter. In Q1 of 2019 gross value added of the total economy growth is 0.7%. According to preliminary seasonally adjusted data for the first quarter of 2019 final consumption increased by 1.3% and gross fixed capital formation by 0.2% compared to the previous quarter. In the first quarter of 2019, seasonally adjusted exports of goods and services increases its level compared to the previous quarter by 1.9% and imports of goods and services by 1.5%. During Q1 of 2019 GDP increases by 3.5% compared to the same quarter of the previous year according to the seasonally adjusted data. Gross value added increase is 3.0%. The indicators' movement is determined by the increase recorded in: Real estate activities - 6.5%, Information and communication - 4.1%, Financial and insurance activities - 3.0%, Professional, scientific and technical activities; administrative and support service activities - 2.9%, Wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; accommodation and food service activities - 2.5%. As regards the expenditure components of GDP, main contributors to the registered positive economic growth are the collective final consumption - with growth of 5.2%, individual final consumption - with 4.9% and gross fixed capital formation - growth of 2.5%. Exports of goods and services increased by 5.1%, while imports of goods and services by 3.9%.Gross Domestic Product (GDP) in Q1 of 2019 increased by 0.5% qoq in EU-28 compared to the previous quarter by seasonally adjusted data. For the same period, GDP in Bulgaria increased by 1.2%. Compared to the previous quarter, in Q1 of 2019, Croatia recorded the highest economic growth - 1.8%, Poland and Hungary - 1.5% each, Romania - 1.3% and Bulgaria - 1.2%, while a decrease by 0.1% is observed in Latvia. Compared to the same quarter of the previous year, seasonally adjusted data showed an increase of GDP in the EU-28 by 1.5% and in Bulgaria - by 3.5%. In Q1 of 2019, compared to the same quarter of the previous year, the highest economic growth is observed in Hungary - 5.2%, Romania - 5.1%, Poland - 4.7%, Estonia - 4.6% and Croatia - 3.9%, while Italy recorded a decrease by 0.1%.

Forecast: *GDP growth in Bulgaria is high in Q1 of 2019, but expectations are for maintaining economic activity at the levels of the previous year. This is mainly driven by external factors such as weaker trade balance in Turkey, as well as escalating trade tensions between the US and its trading partners. These factors create a real risk for the economic performance of the euro area, and then of Bulgaria.*

Bulgaria: Growth rates of GDP components	Growth rate, current quarter compared with the previous quarter (%)				Growth rate, current quarter compared with the same quarter of the previous year (%)			
	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2018	Q3 2018	Q4 2018	Q1 2019
Gross Value Added by economic sectors:	**0.7**	**0.7**	**0.8**	**0.8**	**3**	**3**	**2.9**	**3**
Adjustments	1.3	0.4	1.2	3.3	5	3.7	4.6	8.2
Gross Domestic Product	**0.8**	**0.7**	**0.8**	**1.1**	**3.4**	**3.1**	**3.2**	**3.5**
By final use components:								
Final consumption	1.8	1.4	-0.1	0.3	6.9	6.9	5	4.5
Gross capital formation	.	.	.	.	.	.	.	.
Gross fixed capital formation	1.1	-1.5	2.8	0.2	6.6	7	6.6	2.5
Change in inventories	.	.	.	.	.	.	.	.
Balance (exports - imports)	.	.	.	.	.	.	.	.
Exports of goods and services	-1.6	1.7	3.1	1.8	-1.9	-3.6	1.4	5
Imports of goods and services	0.7	-0.8	2.4	-0.6	5	4	1.6	1.7
Statistical discrepancy	.	.	.	.	.	.	.	.

Source: NSI

Business Climate

In May 2019, the total business climate indicator increases by 1.3 percentage points compared to the previous month 31.2 index points, which is due to the improved business conjuncture in construction and retail trade.

According NSI data in May 2019, the total business climate indicator increases by 1.3 percentage points to 31.2 compared to April 2019. An improvement of the business conjuncture is registered in industry, construction and service sector, while in retail trade the indicator preserves approximately its level from the previous month.

Industry. The composite indicator “business climate in industry” preserves approximately its April level at 29.9 indx points. The industrial entrepreneurs’ expectations about both the business situation of the enterprises over the next 6 months and their activity over the next 3 months remain favorable. The main factors limiting the business development in the sector continue to be the uncertain economic environment and shortage of labor as in May a decrease of their negative influence is observed. Concerning the selling prices in industry, the managers foresee them to remain unchanged over the next 3 months.

Construction. In May the composite indicator “business climate in construction” increases by 6.9 percentage points as a result of the more optimistic construction entrepreneurs’ assessments and expectations about the business situation of the enterprises. Their opinions about the construction activity over the last 3 months, as well their expectations over the next 3 months are also improved. However, the enquiry reported an increase in the number of the clients with delay in payments. In the last month, the negative impact of the factor “shortage of labor” is strengthened, as 51.9% of the managers is pointed out it as main problem for their activity. In second and third place remain the difficulties, connected with the uncertain economic environment and competition in the branch. As regards the selling prices, construction entrepreneurs’ expectations are for preservation of their level over the next 3 months.

Retail trade. The composite indicator "business climate in retail trade" increases by 2.1 percentage points, which is due to the improved retailers' assessments and expectations about the business situation of the enterprises. However, concerning the volume of sales and orders placed with suppliers over the next 3 months their expectations are more reserved. The competition in the branch continues to be the main factor limiting the business development, followed by the uncertain economic environment and insufficient demand. The retailers do not foresee a change of the selling prices over the next 3 months.

Service sector. In May, the composite indicator 'business climate in service sector' decreases by 2.2 percentage points as a result of the unfavorable managers' assessments about the present business situation of the enterprises. As regards the demand of services the present tendency is assessed as slightly reduced, while the expectations over the next 3 months are improved. The most serious problems for the enterprises' activity remain the competition in the branch and uncertain economic environment, though in the last month a decrease of their unfavourable influence is reported. The managers' expectations concerning the selling prices in the service sector are them to preserve their level over the next 3 months.

Industrial Production Index

According to the preliminary NSI data the Industrial Production Index, seasonally adjusted, decreased by 1.9% mom in April 2019. In April 2019 the working day adjusted Industrial Production Index rose by 2.4% yoy.

According to NSI preliminary data the Industrial Production Index, seasonally adjusted3, decreased by 1.9% in April 2019 as compared to March 2019. In April 2019 the working day adjusted Industrial Production Index rose by 2.4% in comparison with the same month of 2018. In April 2019 as compared to March 2019, the seasonally adjusted Industrial Production Index decreased in the mining and quarrying industry by 3.6%, in the electricity, gas, steam and air conditioning supply by 2.3% and in the manufacturing by 1.8%. The most significant production decreases in the manufacturing were registered in the manufacture of other non-metallic mineral products by 8.8%, in the manufacture of textiles by 7.8%, in the manufacture of furniture by 7.0%, in the manufacture of chemicals and chemical products by 6.5%. Major increases were seen in the manufacture of tobacco products by 18.2%, in the repair and installation of machinery and equipment by 8.7%, in the manufacture of computer, electronic and optical products by 4.0%. On annual basis in April 2019 Industrial Production Index calculated from working day adjusted data rose in the manufacturing by 4.3%, while the production went down in the electricity, gas, steam and air conditioning supply by 5.0% and in the mining and quarrying industry by 2.0%. 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 23.5%, in the printing and reproduction of recorded media by 18.2%, in the manufacture of electrical equipment by 17.1%, in the repair and installation of machinery and equipment by 13.8%. Important decreases were seen in the manufacture of tobacco products by 14.7%, in the manufacture of textiles by 10.8%, in the manufacture of furniture by 10.2%, in the manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials by 7.7%.

Retail Trade

According to NSI preliminary seasonally adjusted data in April 2019 the turnover in "Retail trade, except of motor vehicles and motorcycles" division at constant prices kept the level of the previous month. The working day adjusted turnover decreased by 0.2% as compared to the same month of the previous year.

In April 2019 compared to the previous month, drop of turnover was observed in the "Retail sale of automotive fuel" by 3.6% while in the "Retail sale of food, beverages and tobacco" and "Retail sale of on-food products except fuel" was registered an increase respectively by 2.4% and 0.4%. In the "Retail sale of non-food products except fuel" was reported a rise in the "Retail sale via mail order houses or via Internet" - 3.0% and in "Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles" - 1.8%. A more significant turn-down was observed in the "Retail sale of textiles, clothing, footwear and leather goods" - 5.8%. In April 2019 compared to the same month of 2018, the turnover decreased in the "Retail sale of food, beverages and tobacco" by 3.4% while in the "Retail sale of automotive fuel" and

"Retail sale of non-food products except fuel" was observed an increase respectively by 2.8% and 0.9%. A more major growth in "Retail sale of non-food products except fuel" was registered in the "Retail sale via mail order houses or via Internet" - 18.2%. A decline was reported in "Dispensing chemist; retail sale of medical and orthopedic goods, cosmetic and toilet articles" by 4.8% and in the "Retail sale of textiles, clothing, footwear and leather goods" by 4.3%.

Construction

According to the NSI preliminary data, in April 2019 the index of production in section "Construction" calculated on the base of seasonally adjusted data increased by 0.4% mom. In April 2019 the working day adjusted index of production in construction increased by 5.8% yoy.

According to NSI preliminary data, in April 2019 the index of production in section "Construction" calculated on the base of seasonally adjusted data was 0.4% above the level of the previous month.

In April 2019 working day adjusted data showed an increase by 5.8% yoy. In April 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 0.6% and production of civil engineering by 0.1%. On an annual basis in April 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 10.8%, while in the civil engineering was registered a decline by 0.9%.

Inflation

In May 2019 inflation in Bulgaria increased by 0.1% mom and by 3.5% yoy as a result of the increase in international oil prices, which directly affected the prices of fuels and other energy commodities, food products and transport services. Our inflation expectations are for a slowdown of 2.5% by the end of 2019, 2.4% in 2020 and 2.3% by the end of 2020 as a result of the dynamics of international oil prices and prices of the commodities on the international markets.

According to NSI data, the Consumer Price Index for May 2019 compared to April 2019 is 100.1%, ie, monthly inflation is 0.1%. Inflation since the beginning of the year is 1.8% and annual inflation in May 2019 compared to May 2018 is 3.5%. The average annual inflation for the period June 2018 - May 2019 compared to June 2017 - May 2018 was 3.3%. The dynamics of inflation is due to an increase in international oil prices, which has a direct impact on fuel and other energy commodity prices, food products and transport services. The Harmonized Index of Consumer Prices for May 2019 compared to April 2019 is 100.2%; monthly inflation is 0.2%. Inflation since the beginning of the year is 1.5%, and annual inflation for May 2019 compared to May 2018 is 2.9%. The average annual inflation for the period June 2018 - May 2019 compared to June 2017 - May 2018 was 3.0%.

Projection: Our inflation expectations are for a slowdown of 2.5% by the end of 2019, 2.4% in 2020 and 2.3% by the end of 2020 as a result of the dynamics of international oil prices and commodities prices on the international markets.

Bulgaria: CPI	2018 Weights (%)	May 2019 Change mom (%)	May 2019 Change yend 2018 (%)	May 2019 Change yoy (%)
Total CPI	**100.00**	**0.5**	**4.7**	**3.7**
Foods	31.55	0.2	1.3	5.6
Non-foods	35.206	0.4	2	1.9
Catering	5.363	0.4	1.5	4.7
Services	27.881	-0.4	-0.7	3.6

Source: NSI

Producer Price Index in Industry

Total Producer Price Index in April 2019 increased with 0.4% mom; compared to the same month of 2018 the prices rose by 4.3%. Producer Price Index on Domestic Market in April 2019 rose by 0.4% mom; compared to the same month of 2018 the domestic prices grew by 4.0%.

The Total Producer Price Index in Industry in April 2019 went up with 0.4% mom. Higher prices were registered in the mining and quarrying industry by 4.0% and in manufacturing by 0.5%, while in the electricity, gas, steam and air conditioning supply prices decreased by 0.3%.In the manufacturing, more significant increase in prices were reported in the manufacturing of wearing apparel by 0.5%. Prices went down in the manufacture of basic metals and in the manufacture of chemicals and chemical products - both by 1.3%.The Total Producer Price Index in April 2019 increased by 4.3% compared to the same month of 2018. The prices rose in the electricity, gas, steam and air conditioning supply by 6.9% in manufacturing by 3.5%, and in the mining and quarrying industry by 3.4%.In the manufacturing the most significant increase in prices were seen in the manufacture of basic metals by 5.0%, in the manufacture of leather and related products by 4.9%, and in the repair and installation of machinery and equipment by 4.3%.

Producer Price Index on Domestic Market in April 2019 increased by 0.4% mom. The domestic prices went up in mining and quarrying industry by 4.8%, and in the electricity, gas, steam and air conditioning supply by 0.4%, while in manufacturing the prices remained unchanged. In the manufacturing, compared to the previous month the prices went down most significantly in the manufacture of chemicals and chemical products by 1.7% and in the manufacture of wood and of products of wood and cork, except furniture, manufacture of articles of straw and plaiting materials by 0.7%. The domestic prices had a more important increase in the manufacture of basic metals by 0.6%, and in the manufacture of furniture and in the manufacture of wearing apparel - both by 0.5%. Producer Price Index on Domestic Market in April 2019 increased by 4.0% compared to the same month of 2018. The prices rose in the electricity, gas, steam and air conditioning supply by 6.2%, in the mining and quarrying industry by 4.0%, and in manufacturing by 2.7%. In the manufacturing compared to April 2018 more compelling price increase was reported repair and installation of machinery and equipment by 6.4%, in the manufacturing of chemicals and chemical products by 3.6%, and in the manufacture of machinery and equipment n.e.c. by 3.5%.

Producer Price Index on Non-domestic Market in April 2019 increased by 0.4% mom. In the manufacturing the non-domestic prices rose by 0.8%. More significant price increase was reported in manufacture of basic pharmaceutical products and pharmaceutical preparations by 1.0%, in other manufacturing by 0.6% and in the manufacture of wearing apparel by 0.5%. Prices had more compelling downturn in the manufacture of basic metals by 1.6%, in the manufacture of chemicals and chemical products by 0.8%, and in the manufacture of beverages by 0.6%. Producer Price Index on Non-domestic Market in April 2019 increased by 4.7% compared to the same month of 2018. In the manufacturing, the prices went up by 4.3%. The non-domestic prices rose most dramatically in the manufacture of leather and related products by 5.9%, in the manufacture of basic metals by 5.3% and in the manufacture of machinery and equipment n.e.c. by 3.8%.

LABOR MARKET

Preliminary data of the NSI for Q1 of 2019 indicate that the total hourly labour cost rose by 12.9% yoy.

According NSI preliminary data inQ1 of 2019 the total hourly labour cost rose by 12.9% yoy. The total hourly labour cost grew by 11.4% in industry, by 13.1% in services and by 8.4% in construction. The breakdown by economic activities showed that the highest annual growths in total labour costs were recorded in "Education" **-** 17.9%, "Other service activities" **-** 17.7% and "Real estate activities" **-** 16.9%. In the structure of the total labour costs, the wages and salaries costs per hour worked grew by 12.7% in comparison with a year earlier, while the other (non-wage) costs rose by 13.8%. Among the economic activities in the first quarter of 2019 compared to the first quarter of 2018 the growth rate of wages and salaries component ranged from 18.3% in "Other service activities" to 8.3% in "Construction".

In May 2019, registered unemployment in Bulgaria reached its lowest level of 5.3%, marking and decreasing respectively by 0.3 pps on a monthly basis and by 0.8 pps on an annual basis.

According to data of the Employment Agency in May 2019 registered unemployment reached its lowest level since January 2002. The reported figure of 5.3% is a contraction on a monthly and an annual basis, respectively, by 0.3 and 0.8 pps, rtespoectively. At the end of May, the registered unemployed in the labor offices were 175 399, with the decrease compared to April by 9 027 people. Compared to May 2018, they are 25,059 less. The newly registered unemployed during the month were 18,897, of whom 1464 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 6,843 people through the organization of information events, meetings with the graduates of the career centers, as well as through the work of youth, Roma, labor mediators, etc. The activities of employment agencies continues to cover more employees, students and pensioners, including employers also hope to find their shots. A further 608 people from these groups were registered during the month as jobseekers, the agency said. 20 533 are unemployed working in May, with 93.4% of them in the real economy. A further 459 people from the group of pensioners, students and employees also found their new job. 1362 people were supported on subsidized jobs during the month: 413 - on programs and measures for training and employment and 949 - under schemes of Operational Program "Human Resources Development". In May 2019, a total of 2405 unemployed were covered in various forms of adult training (key competencies and professional training) funded from both the state budget and the European Social Fund. Graduates of the training are 3311 unemployed in the month. The number of job vacancies on the primary labor market in May was 18,542, of which 85% were in the private sector. The largest share of vacancies was reported in manufacturing (27.6%), hotels and restaurants (19.2%), trade, repair of motor vehicles and motorcycles (14.9%), administrative and auxiliary activities (7, 4%), construction (5.5%), agriculture, forestry and fisheries (4.4%) and others. The most sought-after groups of professions this month are: staff employed in the personal services sector (bartenders, waiters, chefs, cabinets, etc.); workers in mining and manufacturing, construction and transport; vendors; operators of stationary machinery and equipment; workers in agriculture, forestry and fisheries; skilled workers in the food, apparel, woodworking and related industries; waste collectors and related workers; installers; metallurgists, machine builders and related workers and craftsmen; security and security staff, and others.

FISCAL SECTOR

Budget balance

In January-March 2019 Bulgaria' CFP balance on a cash basis is positive, amounting to 2,699.8 million BGN and presented 2.3% of forecasted GDP. The fiscal reserve as of 31.04.2019 amounts to 10.62 billion BGN. Based on the preliminary data and estimates, the Consolidated Fiscal Programme (CFP) balance on a cash basis as of May 2019 is expected to be positive, amounting to BGN 2,979.1 million (2.6% of the projected GDP).

According MF data the Consolidated Fiscal Programme (CFP) balance on a cash basis as of April 2019 is positive, amounting to BGN 2,699.8 million, or 2.3% of the projected GDP, and is formed by a national budget surplus of BGN 2,565.2 million and by a surplus of EU funds of BGN 134.6 million. The CFP revenues and grants in April 2019 stand at BGN 15,176.2 million, or 34.6% of the annual estimates. Compared to the same period of the previous year, tax and non-tax revenues have risen by BGN 1,820.8 million (14.5%), and grant proceeds (mostly EU programme and fund grants) – by BGN 384.6 million. Tax proceeds, including revenues from social security contributions, total BGN 11,965.1 million, which accounts for 34.6% of the tax revenues planned for the year. Direct tax revenues amount to BGN 2,446.9 million, or 37.3% of those planned for the year. Indirect tax revenues amount to BGN 5,610.4 million, which accounts for 34.1% of the annual estimates. VAT proceeds amount to BGN 3,798.1 million, or 35.1% of those planned. The amount of non-refunded VAT as of 30 April 2019 is BGN 83.0 million. The excise duty revenues amount to BGN 1,717.6 million, or 32.2% of the annual estimates. Customs duty proceeds amount to BGN 76.9 million, or 32.5% of the annual estimates. Proceeds from other taxes, including property taxes and other taxes under the Corporate Income Tax Law, amount to BGN 567.2 million, or 48.5% of the annual estimates. Revenues from social security and health insurance contributions are BGN 3,340.6 million, which accounts for 32.2% of the estimates for the year. Compared to the same period of the previous year, the revenues from social security contributions have risen by 11.1 per cent in nominal terms. Non-tax revenues amount to BGN 2,449.1 million, or 37.0% of the annual estimates. It should be noted that a baseline effect appears in the non-tax revenue part relating to the revenues under the Electricity System Security Fund due to the amendments to the Energy Law in force as from 1 July 2018 which have changed the mechanism for collection of revenues under the Fund's budget. The revenues under the Fund's budget for the first four months of 2019 are therefore higher than the proceeds for the same period of 2018. Grant proceeds amount to BGN 762.1 million. CFP expenditures, including the contribution of the Republic of Bulgaria to the EU budget for April 2019, amount to BGN 12,476.5 million, which accounts for 28.1% of the annual estimates. For comparison, the expenditures for the same period of the previous year amount to BGN

11,651.7 million. Compared to April 2018, the nominal increase is mainly due to the higher contribution to the EU budget, the increase in the staff costs (due to the 10% increase in the wage bill for the public sector and the next step of increasing the remunerations in the education sector), as well as the higher social and health insurance payments (a baseline effect from the pension increase in July 2018 and an increase in the health insurance payments set out in the 2019 NHIF Budget Law). Non-interest expenditures amount to BGN 11,557.9 million, which accounts for 27.3% of the annual estimates. Non-interest current expenditures as of April 2019 amount to BGN 10,775.9 million, capital expenditures (including net increment of state reserve) amount to BGN 772.5 million. The current and capital transfers to other countries amount to BGN 9.6 million. Interest payments amount to BGN 381.9 million, or 57.1% of those planned for 2019. The part of Bulgaria's contribution to the EU budget, as paid from the central budget as of 30.04.2019, amounts to BGN 536.6 million, which complies with the existing legislation in the area of EU own resources. The fiscal reserve as of 30.04.2019 amounted to BGN 10.62 billion, including BGN 10.07 billion of fiscal reserve deposits in the BNB and in banks and BGN 0.55 billion of receivables under the EU Funds for certified expenditure, advance payments, etc.

Projection: *Based on the preliminary data and estimates, the Consolidated Fiscal Programme (CFP) balance on a cash basis as of May 2019 is expected to be positive, amounting to BGN 2,979.1 million (2.6% of the projected GDP).*

Bulgaria: Fiscal reserve (BGN million)	31.01.2019	28.02.2019	31.03.2019	30.04.2019
Total fiscaal reserve, including:	**10518.8**	**10 417.5**	**10 333.4**	**10 617.6**
I. Fuoiscal reserve on deposits	**9333.3**	**9 993.3**	**9 974.0**	**10 065.6**
Fiscal reserv deposits at BNB	8920.8	9 591.8	9 578.5	9 669.6
II.. Receivables from EU funds for certified expenditures, advances and others	**1184.7**	**424.2**	**359.5**	**552.0**
MF National Fund	153.1	140.9	177.9	151.9
Paying Agency under State Fund Agricultural	1031.6	283.3	181.6	400.2

Source: Ministry of finance

Government debt

In January – April 2019, Bulgaria's central government sub-sector debt amounted to EUR 11,612.1 million and accounted for 19.7% of projected GDP. According MF "Government debt Management Strategy for 2019-2021" Bulgaria's public debt/GDP ratio will stood at 19.1% in 2019, 17.7% in 2020 and 16.5% in 2021.

According MF data Bulgaria's central government debt as at end-April 2019 stood at EUR 11,612.1 million. Domestic debt amounted to EUR 2,532.0 million and external debt – to EUR 9,080.1 million. At the end of the reporting period the central government debt/GDP ratio was 19.7 %, with the share of domestic debt being 4.3% and of external debt – 15.4%. In the central government debt structure, domestic debt at the end of the period amounted to 21.8%, and external debt – to 78.2%. As of 30 April 2019, the central government guaranteed debt was EUR 83.3 million. Domestic guarantees amounted to EUR 34.9 million and external guarantees – to EUR 48.4 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-April 2019 the government debt reached EUR 10,785.5 million, being 18.3 % of GDP. Domestic debt amounted to EUR 2,305.8 million and external debt – to EUR 8,479.7 million. Government guaranteed debt in April 2019 amounted to EUR 941.1 million. Domestic guarantees amounted to EUR 34.9 million, the government guaranteed debt/GDP ratio being 1.6 %. Projection: According MF "Government debt Management Strategy for 2019-2021" Bulgaria's public debt/GDP raio will stood at 19.1% in 2019, 17.7% in 2020 and 16.5% in 2021.

Projection*: According MF "Government debt Management Strategy for 2019-2021" Bulgaria's public debt/GDP ratio will stood at 19.1% in 2019, 17.7% in 2020 and 16.5% in 2021*

Bulgaria: Central Government Debt Amount (million EUR)	31.12.2018	31.01.2019	28.02.2019	31.03.2019	30.04.2019
Domestic debt	3 121.40	2745.4	2595.6	2574.8	2532
External Debt	9093.9	9094.3	9093.6	9093.6	9080.1
Central Government debt, total	12 215.30	11 839.70	11689.2	11668.4	11612.1
Total Centrral government debt/GDP (%)	22.1	20.1	19.8	19.8	19.7
Domestic central government debt/GDP (%)	5.7	4.7	4.4	4.4	4.3
External central government debt/GDP (%)	16.5	15.4	15.4	15.4	15.4

Source: MF

MONETARY SECTOR

In January-April 2019 Bulgaria's broad money (M3) amounted to 95.784 billion BGN (82.8% of GDP) and increased by 10.4% yoy. Domestic credit amounted to BGN 59.046 billion and increased by 6.9% yoy, respectively.

According BNB data in April 2019 broad money (monetary aggregate M3) increased annually by 11.1% compared to 10.4% annual growth as in March 2019. At the end of April 2019 M3 was BGN 95.784 billion (82.8% of GDP) compared to BGN 95.039 billion (82.2% of GDP) in March 2019. Its most liquid component – monetary aggregate M1 – increased by 15.6% yoy in April 2019 (14.3% yoy growth in March 2019). At the end of April 2019, deposits of the non-government sector were BGN 79.414 billion (68.7% of GDP), increasing annually by 10% (9.3% yoy growth in March 2019). Deposits of Non-financial corporations were BGN 23.312 billion (20.2% of GDP) at the end of April 2019. Compared to the same month of 2018 they increased by 9.4% (7.8% yoy growth in March 2019). Deposits of financial corporations increased by 32.4% yoy in April 2019 (26.8% yoy growth in March 2019) and at the end of the month they reached BGN 3.391 billion (2.9% of GDP). Deposits of Households and NPISHs were BGN 52.712 billion (45.6% of GDP) at the end of April 2019. They increased by 9% compared to the same month of 2018 (8.9% yoy growth in March 2019). Net domestic assets were BGN 58.857 billion at the end of April 2019. They increased by 9.5% yoy compared to 10.4% yoy growth reported in March 2019). At the end of the month their basic component – domestic credit – was BGN 59.046 billion and increased by 6.9% yoy compared to 6.5% yoy growth, reported in March 2019). In April 2019 claims on the non-government sector increased by 7.7% yoy (8.5% yoy increase in March 2019) reaching BGN 60.277 billion. At the end of April 2019, claims on loans to the non-government sector amounted to BGN 58.633 billion (50.7% of GDP) compared to BGN 58.062 billion (50.2% of GDP) at the end of March 2019. They increased annually by 6.9 % in April 2019 (7.8% annual growth in March 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 375.6 million. On an annual basis, loans sold8 by Other MFIs were BGN 377.9 million (of which BGN 2.9 million in April 2019), while the amount of repurchased loans was BGN 2.3 million (there were no loan repurchases in April 2019). In April 2019, loans to Non-financial corporations increased by 4.8% annually (5.3% yoy growth in March 2019) and at the end of the month amounted to BGN 33.493 billion (29% of GDP). Loans to Households and NPISHs were BGN 22.274 billion (19.3% of GDP) at the end of April 2019. They increased by 7.9% compared to the same month of 2018 (11% annual growth in March 2019). At the end of April 2019 loans for house purchases were BGN 10.873 billion and increased by 11.8% yoy compared to 11.5% yoy growth, reported in March 2019. Consumer loans amounted to BGN 9.439 billion and compared to April 2018 they increased by 10.9% (17.9% yoy growth in March 2019). On an annual basis other loans decreased by 39.1% (33.2% annual decline in March 2019) and reached BGN 650.5 million. Loans granted to financial corporations were BGN 2.866 billion at the end of April 2019 (2.5% of GDP). Compared to April 2018, they increased by 26.8% (14.7% yoy growth in March 2019).

CAPITAL MARKET

At the end of May 2019, the SOFIX core index decreased by 1.4% on a monthly basis to 582.5 points. Compared to the previous month, BGBX 40 increased by 0.9% to 115.71 points, BG TR30 increased by 0.8% to 505.92, and BGREIT increased by 1.9% to 121.54

According to of BSE-Sofia data as of 31.05.2019, with the exception of SOFIX main index, all other indices reported monthly growth. SOFIX declined by 1.4% to 582.5 points. The index of the most liquid companies BGBX 40 rose by 0.9% to 115.71 points. Equally weighted BG TR30 increased by 0.9% to 505.92 points. Property manager BGREIT rose 1.9% to 121.54 points. In May 2019 the turnover of BSE-Sofia increased significantly by 2 075 966 BGN compared to April to 5 924 662 BGN. In contrast to April, when there were no deals for more than one million levs per issue, in May 2019 there are two companies with a monthly turnover of over 1 million BGN: Sopharma (1,949,976 BGN) and Advance Terrafund REIT (1,205,612 BGN). Among the first five companies are the Real Estate Fund Bulgaria REIT (543 377 BGN), followed by Eurohold Bulgaria (528 898 BGN) and Gradus (337 790 BGN). In May, Sopharma retained its leading position on market capitalization (478,535,541 BGN), followed by: Graudus (437,277,634 BGN), Chimimprot (430,165,049 BGN), First Investment Bank (369,600,000 BGN)) and Eurohold Bulgaria (365 422 360 BGN). Since March 18, 2019 in SOFIX there are six holding companies, including only one on profit - Doverie United Holding (+ 5.15%) and one without change in the price of shares - Eurohold Bulgaria (0.00%) in May 2019. There are four holdings with negative trend in prices: Stara Planina Hold (-3.42%), Sirma Group Holding (-2.80%), Industrial Holding Bulgaria (-1.52%) and Holding Varna (-0.48%). The company with the largest turnover in May 2019 is Holdings AD, with a volume of 8,005,452 BGN. Second place is Syintetica AD with a total volume of 2 684 412 BGN. In the ranking there are two representatives of the special investment vehicles - Advance Terrafund REIT and Real Estate Fund REIT. which dropped in May from 3.4%, followed by Sirma Group Holding AD with a decline of 2.8%.

The smallest number of deals in the rankings are Atomenergoremont AD, Capital Concept Limited and Futures Capital, and with the largest Advance Terrafund. The most profitable company in May 2019 was Sofia Commerce-Pawnowns AD, which achieved a one-digit growth of 7.9%. Holding New Vec AD is ranked second, followed by Monbat AD with a growth of 7.1%. The last two companies in the ranking also have one-digit growth, respectively Doverie United Holding AD with a growth of 5.2% and Sopharma AD with a growth of 5.0%. The top 5 of the losers in May 2019 was Agria Group Holding AD with a decline of 8.7%. Second Investment Bank AD with a drop of 6.2%, followed by Stara Planina Hold AD, which dropped in May from 3.4%, followed by Sirma Group Holding AD with a decline of 2.8%.

BSE-Sofia Indexes on Monthly Basis	SOFIX	BGBX40	BGREIT	BGTR30
Date				
01.2018	712.7	138.2	115.4	571.6
02.2018	686.4	133.3	116.5	558.0
03.2018	649.2	128.5	109.1	536.3
04.2018	658.1	130.0	115.5	540.4
05.2018	634.3	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	117.7	521,61
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	595.7	116.1	121.2	496.6
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
04.2019	583.9	114.8	120.8	504.0
05.2019	582.5	115.7	121.5	505.9
Source: BSE-Sofia				

BANKING SECTOR

In April 2019, the assets of the banking system increased by 0.3% on a monthly basis and by 11% on an annual basis to BGN 108.5 billion, accounting for 93.8% of the projected GDP. Credit and advances, cash, securities portfolios and non-current assets and disposal groups classified as held for sale are increasing. Decreased cash balances in central banks and other deposits of sight.

According to BNB data at the end of April 2019, the aggregate net profit of the banking system in Bulgaria amounted to BGN 454 million, or by BGN 58 million (14.5%) more than in the same period in 2018. The cost of impairment of financial assets not reported at fair value through profit or loss amounts to BGN 110 million (compared to BGN 131 million a year earlier).

Indicator (BGN 000)	30.04. 2018	30.04. 2019	Y/Y (%)
Interest Income	963 316	1 007 138	4.5
Interest Expence	99 364	*94 546*	-4.8
Net interest Income	***863 952***	***912 592***	***5.6***
Impairment	131 287	110 427	-15.9
Fee and commission income	380 150	*425 059*	11.8
Fee and commission expenses	51 968	64 223	23.6
Net fee and commission income	***328 182***	***360 836***	***9.9***
Administration costs	533 541	*544 040*	2.0
Personal cost	270 349	*294 237*	8.8
Total operating income, net	1 150 403	1 239 677	7.8
Net Profit	***396 467***	***454 096***	***14.5***

Source:BNB, UBB's Calculations

In April 2019, the assets of the banking system increased by 0.3% on a monthly basis and by 11% on an annual basis to BGN 108.5 billion, accounting for 93.8% of the projected GDP. Credit and advances, cash, securities portfolios and non-current assets and disposal groups classified as held for sale are increasing. Decreased cash balances in central banks and other deposits of sight. Gross loans and advances to the banking system in April decreased by 0.2% and at the end of the month amounted to 90.8 billion BGN. Central bank money decreased (by 832 million BGN, 5.6%). Receivables from credit institutions (by 106 million BGN, 0.7%) and gross loan portfolio (by 583 million BGN, to 0.9%) increased. At the end of April 2019, the gross loan portfolio for corporate and retail clients amounted to 63.4 billion BGN. Loans to non-financial corporations and households rose by 1.1% mom and by 5.4% mom, respectively. Loans to other financial corporations and general government increased by 3.0% mom and 0.3% mom, respectively. Deposits from customers in the banking system at the end of April 2019 amounted to 86.4 billion BGN and accounted for 74.4% of projected GDP. Households grew to 54.6 billion BGN (by 0.6% mom and by 8.8% yoy), to non-financial corporations to 25.3 billion BGN (or by 0.4% mom and by 9.2% yoy) and other financial corporations to 3.6 billion BGN (or 1.9% mom and by 31.5% yoy, respectively).

Bulgaria Intermediation Indicators	30.04.2018 BGN'000	31.12.2018 BGN'000	31.03.2019 BGN'000	30.04.2019 BGN'000	Change m/m (%)	Change y/y (%)	Change yend (%)	Share in GDP (%)
BANKING SYSTEM TOTAL ASSETS	**97 754 014**	**105 556 619**	**108 246 637**	**108 533 835**	**0.3**	**11.0**	**2.8**	**93.8**
Loans to central governments	617 464	741 199	771 480	774 047	0.3	25.4	4.4	0.7
Loans to non-financial corporations	34 112 433	34 871 435	35 376 593	35 749 818	1.1	4.8	2.5	30.6
Loans to financial corporrations	2 439 548	3 220 084	3 194 804	3 290 723	3.0	34.9	2.2	2.8
Retail loans, incl.:	20 326 214	22 075 378	22 421 345	23 631 880	5.4	16.3	7.1	19.4
Mortgage loans	9 996 030	10 906 245	11 263 669	11 359 046	0.8	13.6	4.2	9.8
Consumer loans	9 196 744	10 332 669	10 545 027	11 723 171	11.2	27.5	13.5	9.1
Micro credits and other loans	1 133 440	836 464	612 649	549 663	-10.3	-51.5	-34.3	0.5
TOTAL LOANS	**57 495 659**	**60 908 096**	**61 764 222**	**63 446 468**	**2.7**	**10.4**	**4.2**	**53.5**
ATRACTED SOURCES FROM CLIENTS, incl.:	**78 671 445**	**84 571 339**	**85 922 199**	**86 363 081**	**0.5**	**9.8**	**2.1**	**74.4**
Local government deposits	2 441 081	2 696 635	2 773 421	2 730 447	-1.5	11.9	1.3	2.4
Non-financial corporations deposits	23 267 901	25 277 991	25 292 066	25 396 989	0.4	9.2	0.5	21.9
Financial corporations deposits	2 770 439	3 213 474	3 574 612	3 644 227	1.9	31.5	13.4	3.1
Households and NPISHs deposits	50 192 024	53 383 239	54 282 100	54 591 418	0.6	8.8	2.3	47.0
Equity	11 839 989	13 857 523	14 160 988	13 845 580	-2.2	16.9	-0.1	12.3
Net profit (annualised)	396 472	1 677 846	309 041	454 096		14.5		
BANKING INDICATORS (%)								
ROE	10.0	12.1	13.1	9.8	-1.2	0.4	-1.2	
ROA	1.2	1.6	1.7	1.3	-0.1	0.1	-0.1	
Capital adequacy	n.a.	20.4	19.1	n.a.		`		
Liquidity coverage(%)	392.9	294.1	289.1	265.9	-23.2	-127.0	-28.2	
NPL	n.a.	7.6	7.4	n.a.	0	0.06	-0.13	
GDP, BGN '000	105 609 000	107 295 000	115 437 000	115 437 000				
EUR/BGN	1.95583	1.95583	1.95583	1.95583				

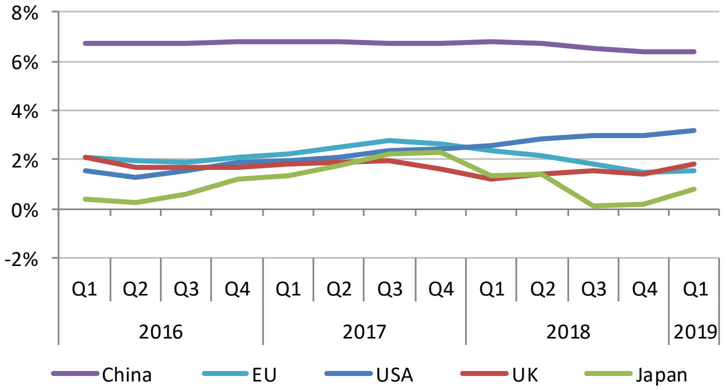
Source: BNB, MF, UBB Calculations

Equity in the balance sheet of the banking system in April 2019 decreased by 315 million BGN by 2.2% to 13.8 billion BGN. The decrease was due to the dynamics of retained earnings, while other reserves and profit increased. At the end of the first quarter of 2019, the Common Equity Tier 1 ratio was 17.88%, Tier 1 capital, 18.27%, and 19.17% of total capital adequacy, with levels of ratios remaining well above regulatory requirements. The liquidity coverage ratio at the end of April 2019 was 265.9% (compared to 289.1% at the end of March). The liquidity buffer at the end of the reporting month amounted to 28.5 billion BGN, and the net outflow of liquidity was 10.7 billion BGN.

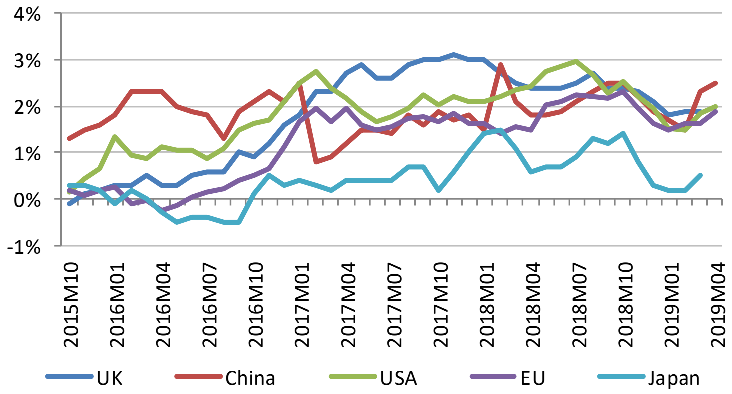
Appendix

ADVANCE ECONOMIES KEY INDICATORS

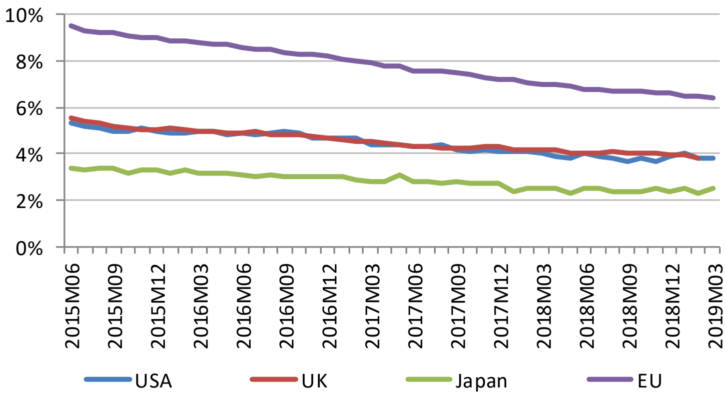
Advanced Economies: GDP growth rate compared to the same quarter of the previous year



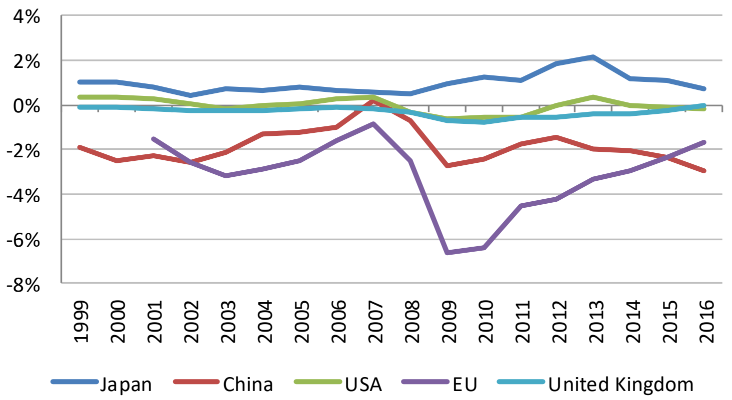
Advanced economies: Inflation by country, monthly (y/y)



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



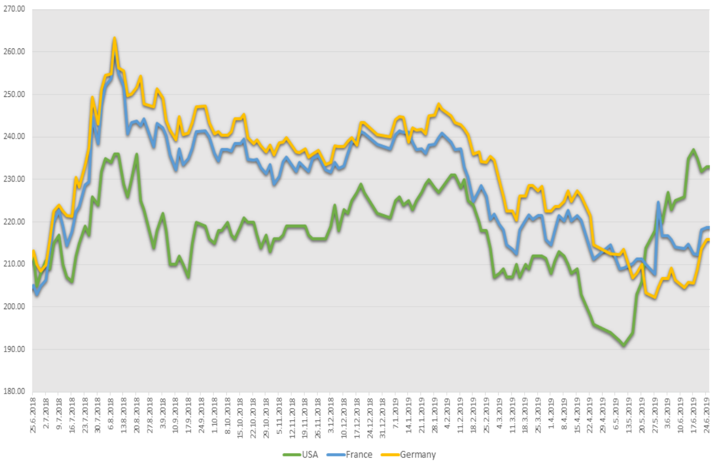
Advanced economies: Budget surplus/deficit to GDP (%)



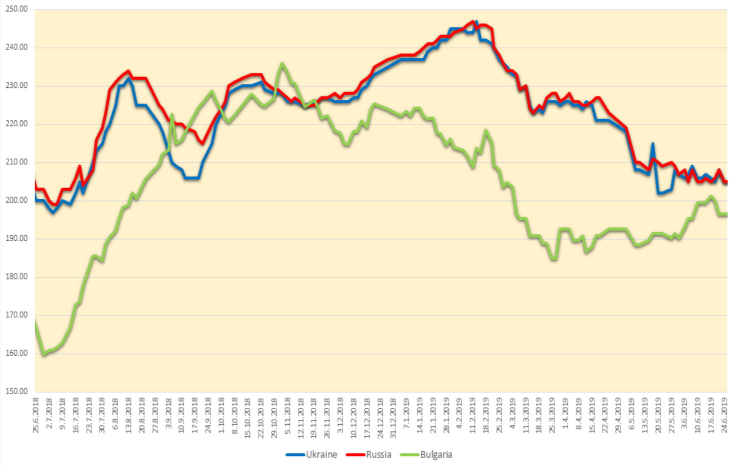
Source: IMF

International Prices of Agriculture Products

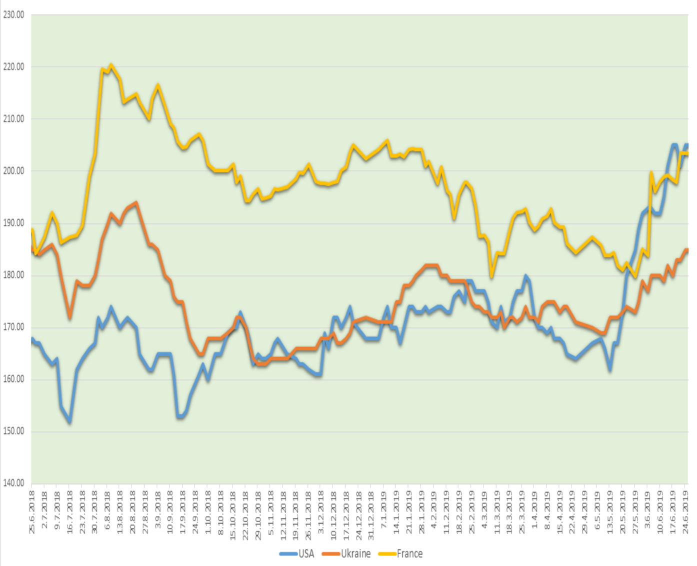
Wheat FOB price fluctuation in USA, France and Germany
07.2018 - 07.2019 (USD per ton)



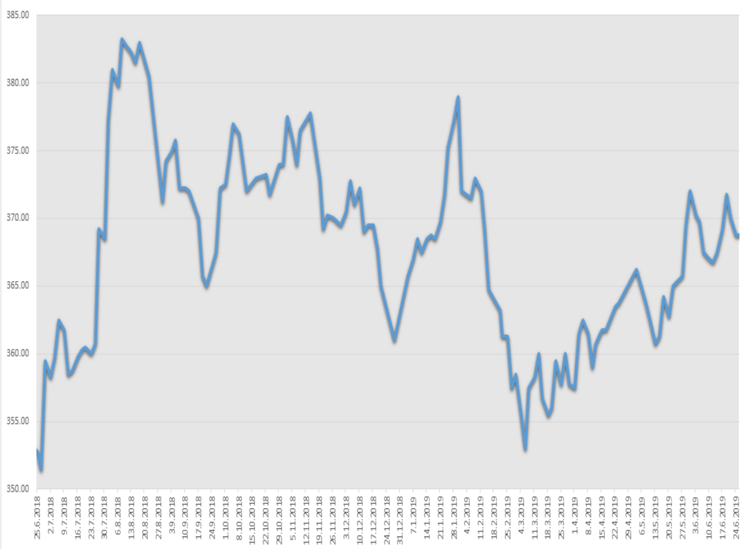
Wheat spot price fluctuation in Bulgaria, Russia and Ukraine
07.2018 - 07.2019 (USD per ton)



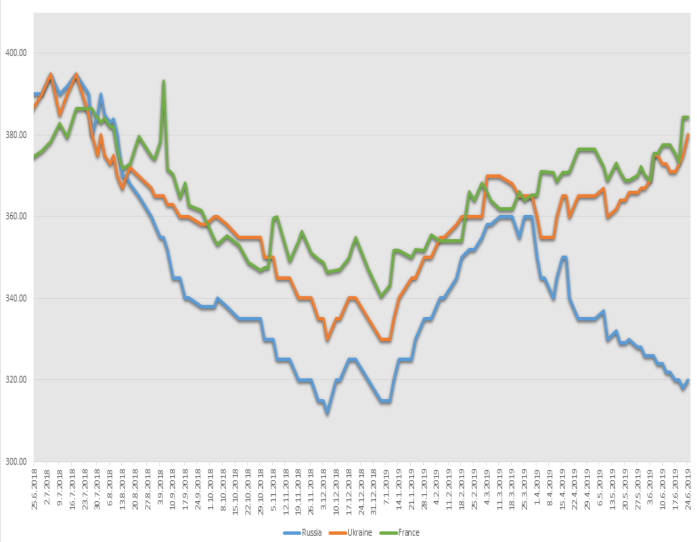
Corn spot price fluctuation in USA, Hungary and France
07.2018-07.2019 (USD per ton)



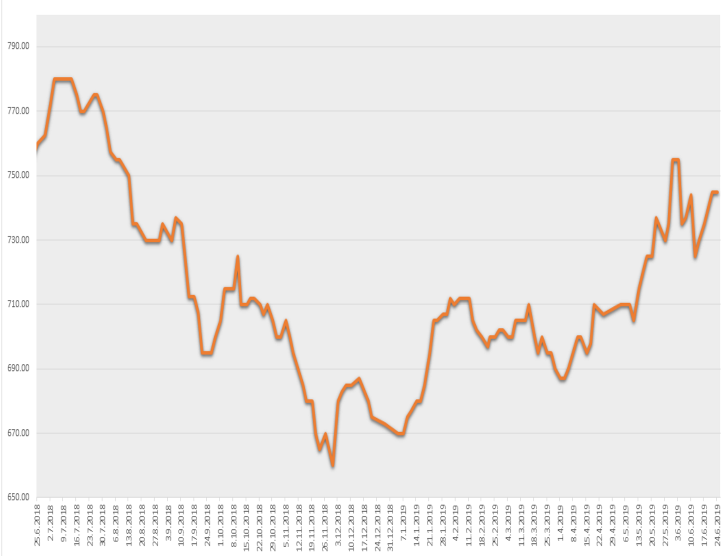
Canola price fluctuation in EURONEXT
07.2018 - 07.2019 (EUR/t)



Sunflower spot price fluctuation in Russia, Ukraine and France
07.2018 - 07.2019 (USD per ton)

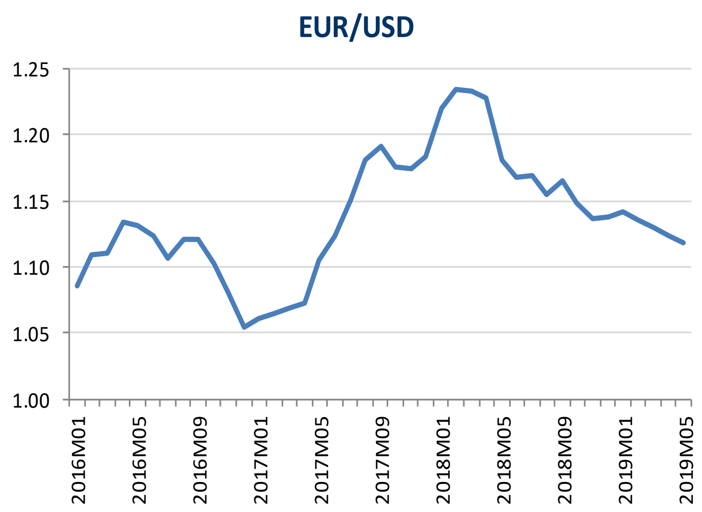


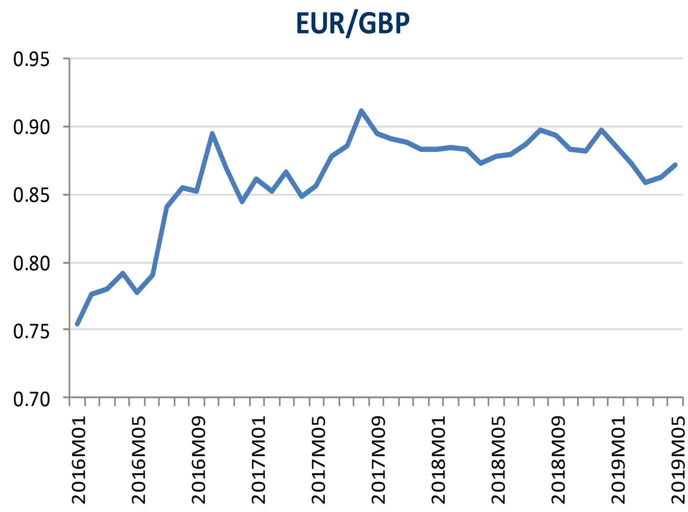
Raw sunflower oil fluctuation in Rotterdam
07.2018 - 07.2019 (USD/t)

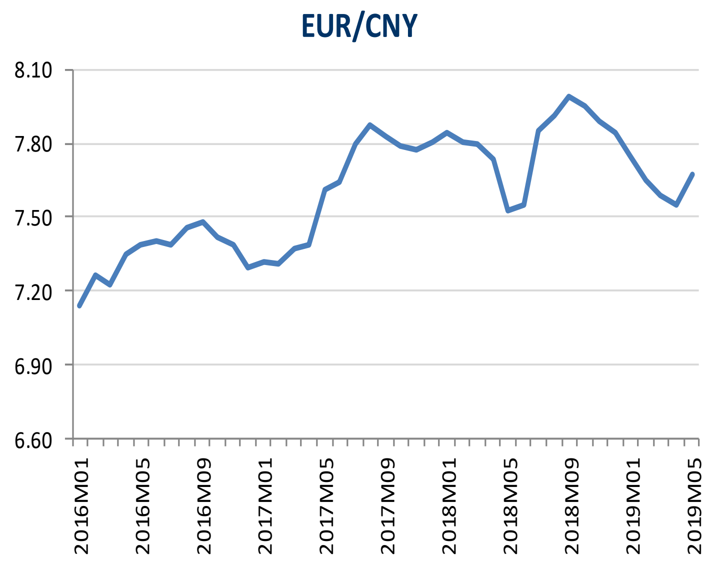


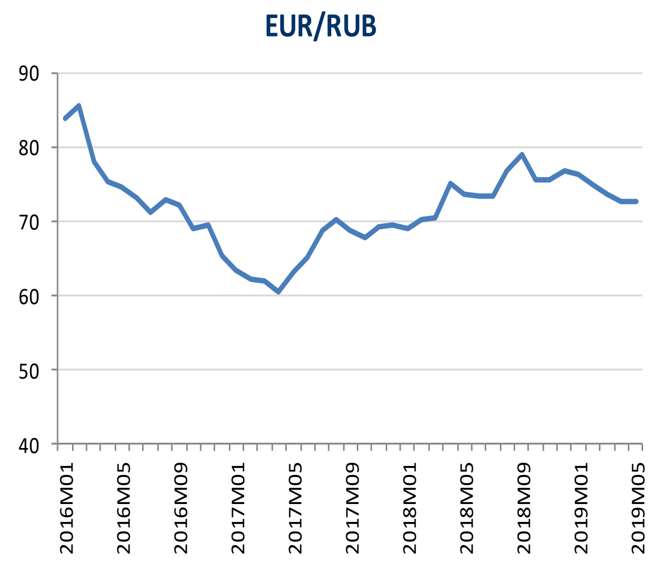
Source: SCE

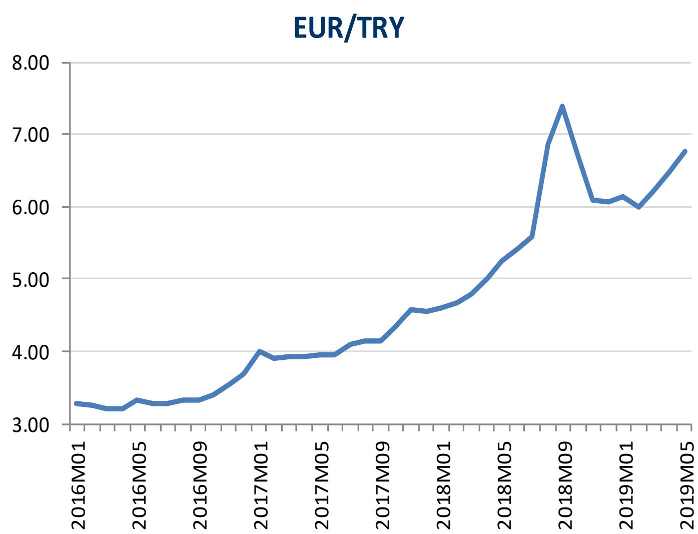
Overseas FX Rates

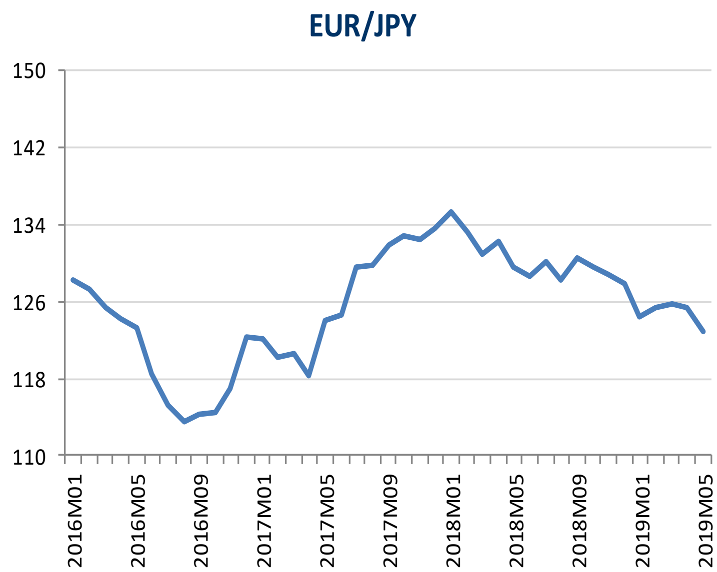






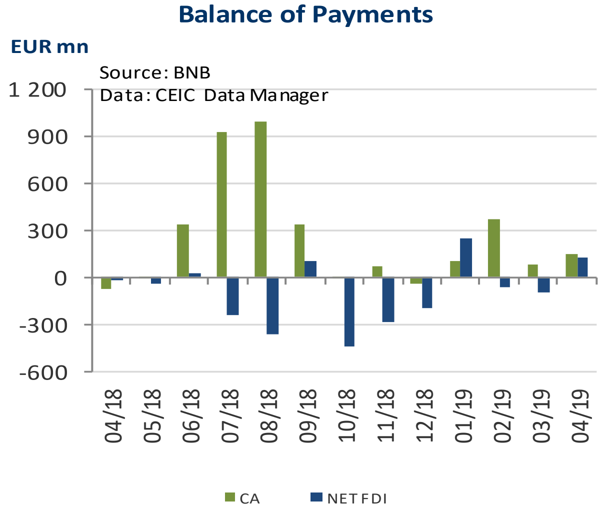


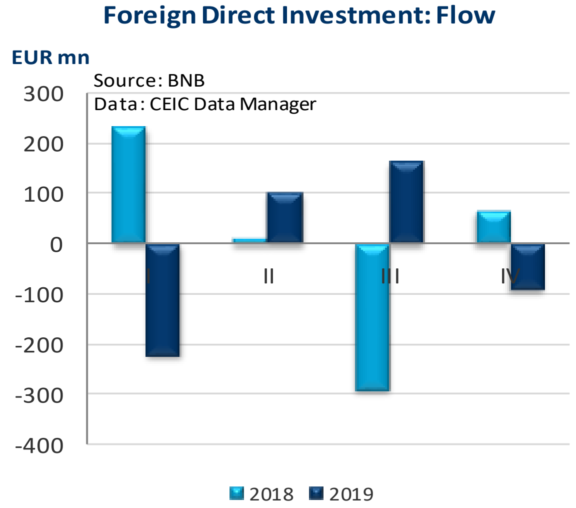


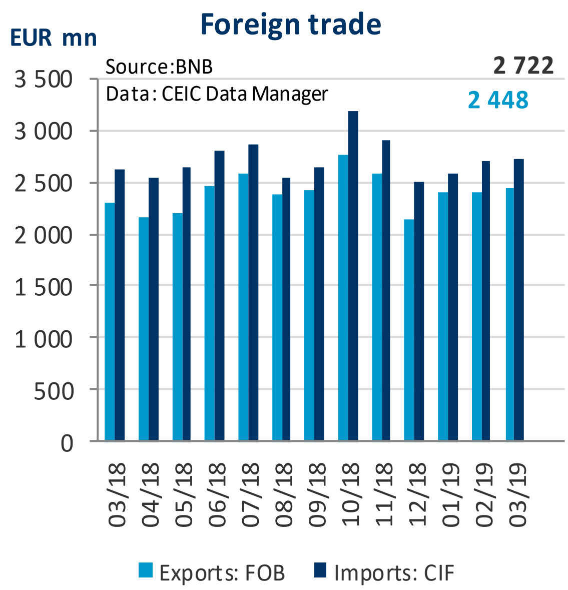


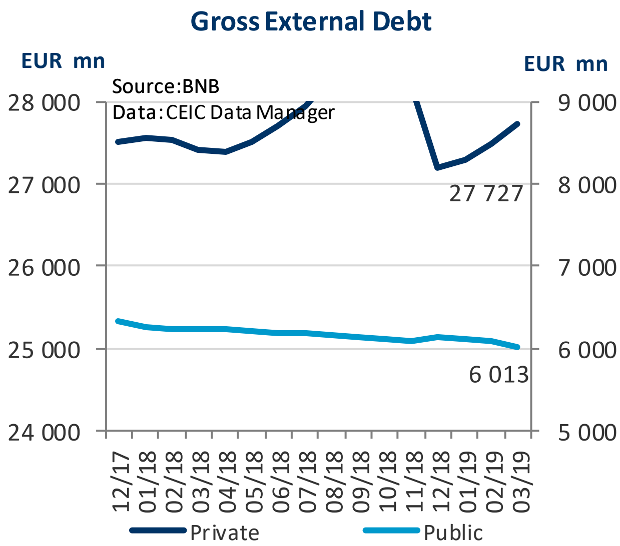
Source: ECB

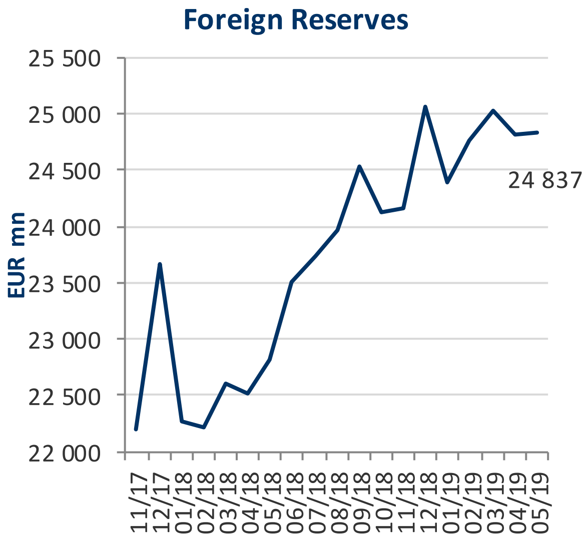
Bulgaria: External Sector Indicators





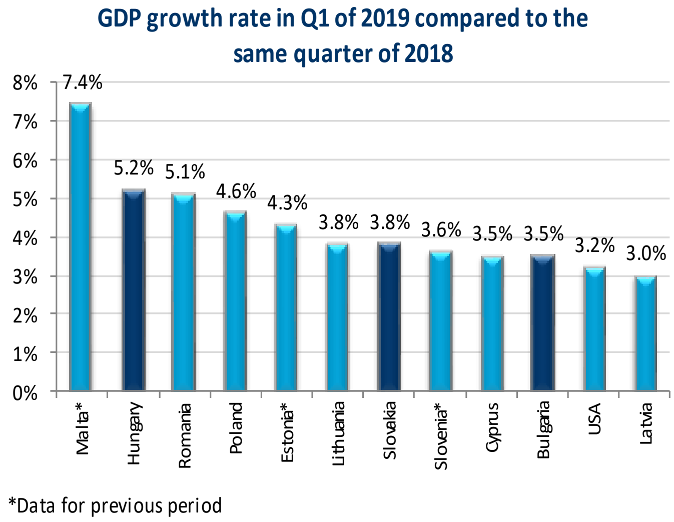


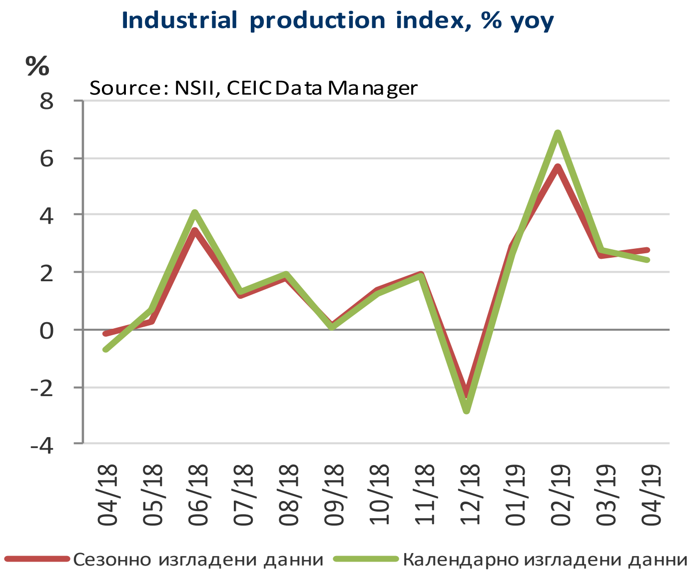


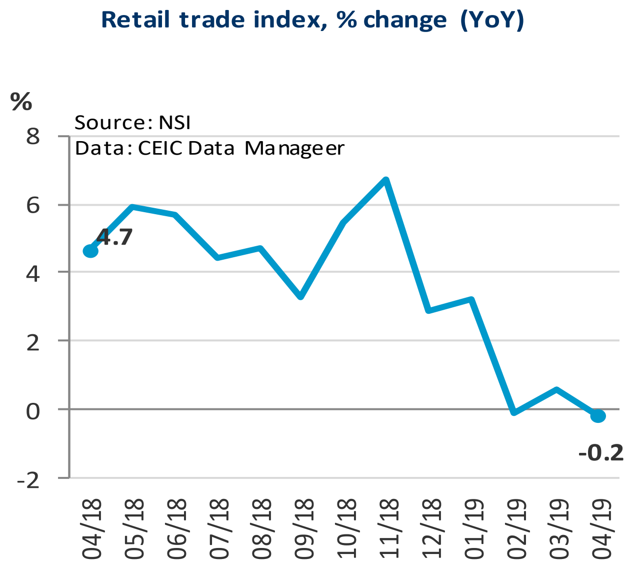


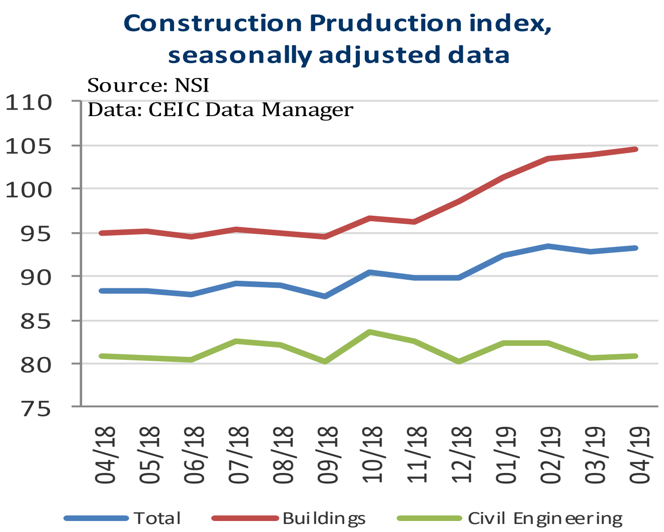
Source: BNB

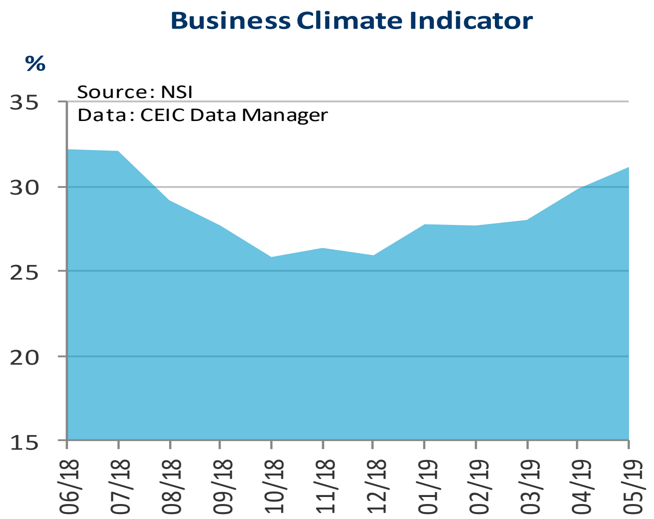
Bulgaria: Real Sector Indicators





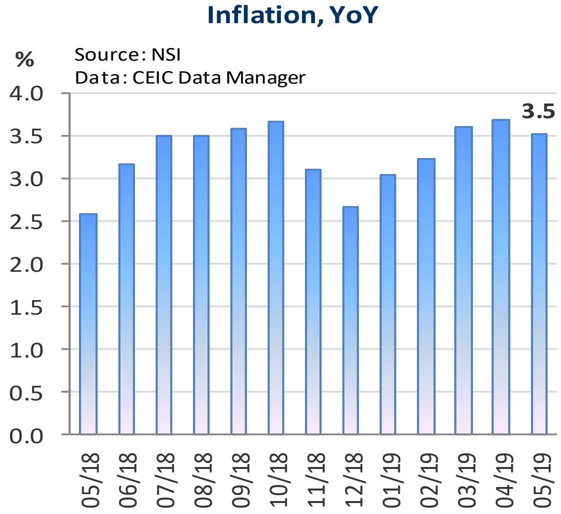


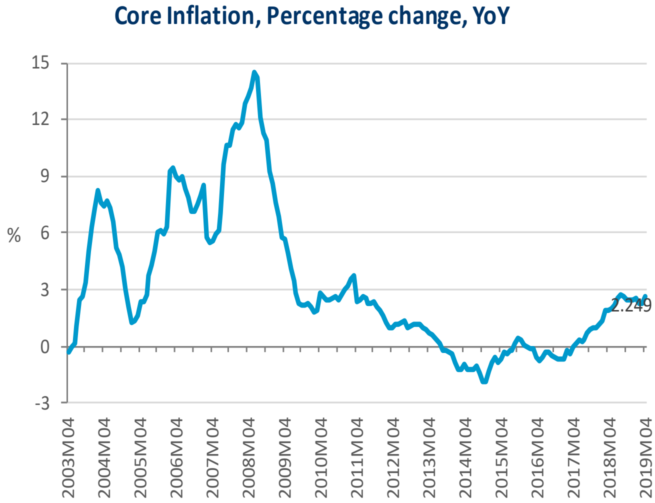


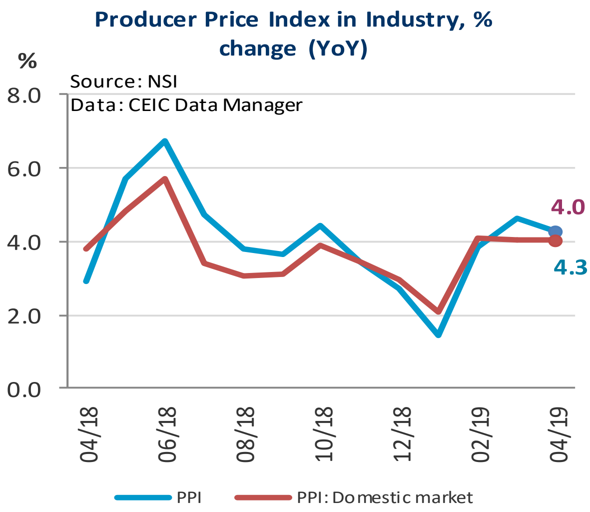


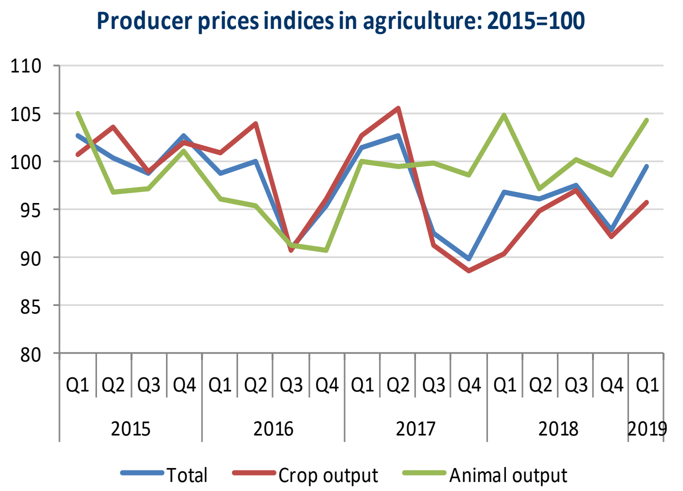
Source: NSI

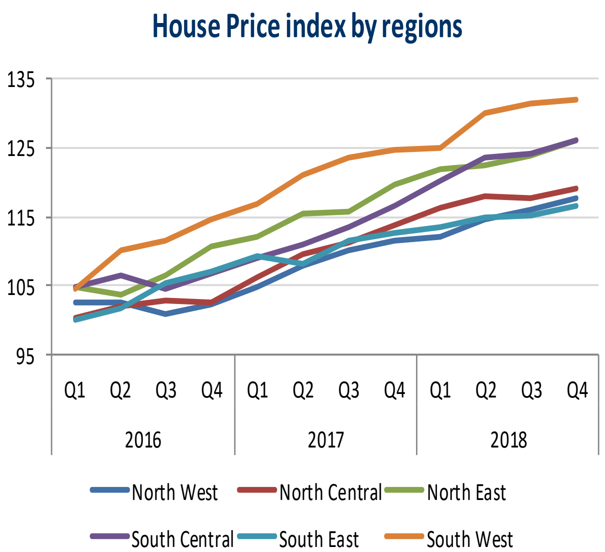
Bulgaria: Prices Indicators

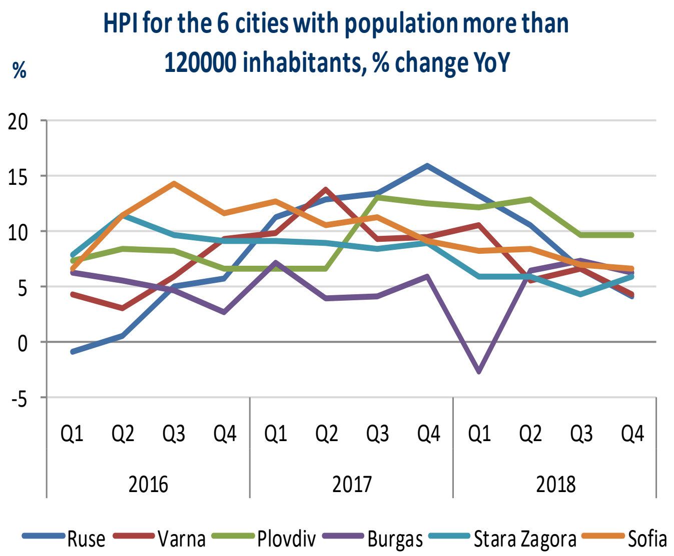






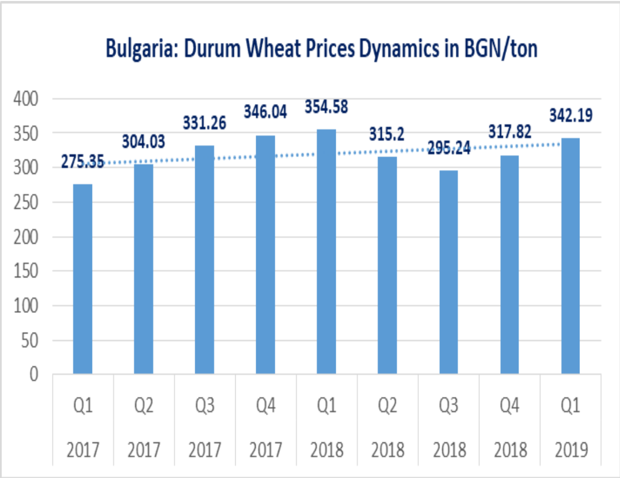


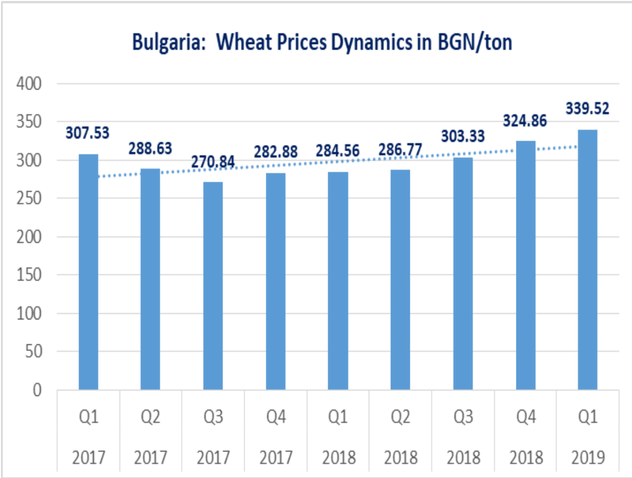


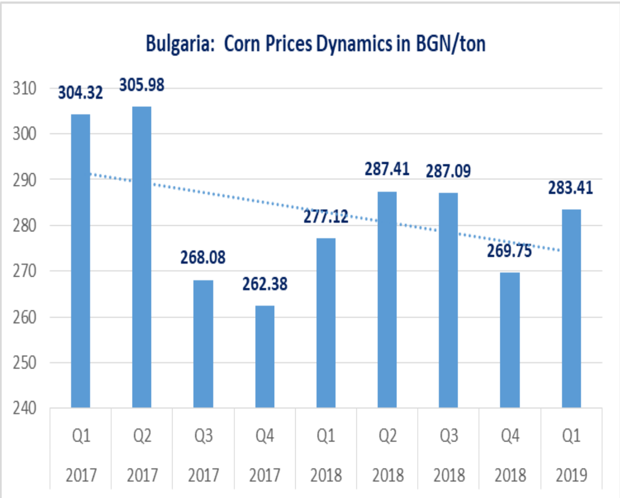


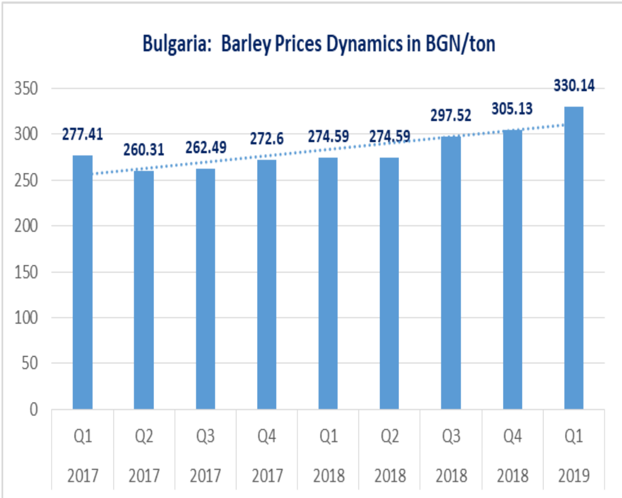
Source: NSI, EC

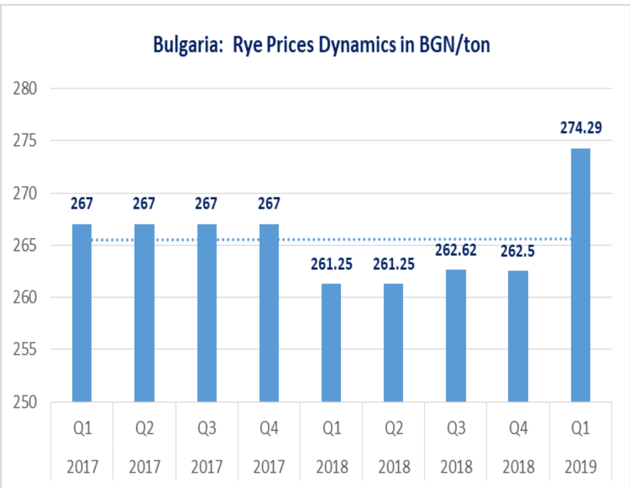
Bulgaria: Cereals Prices

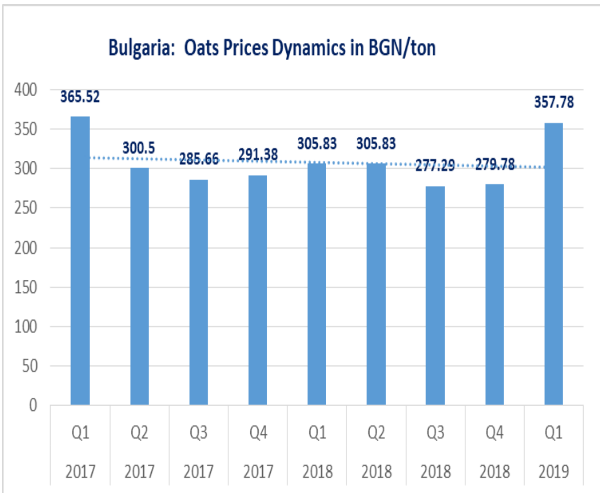






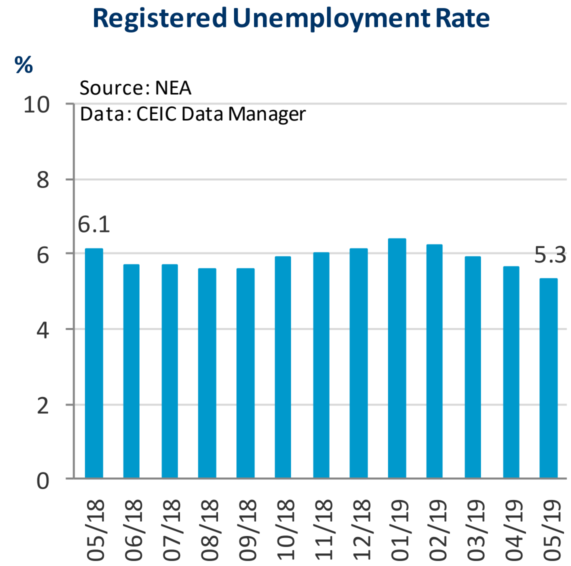


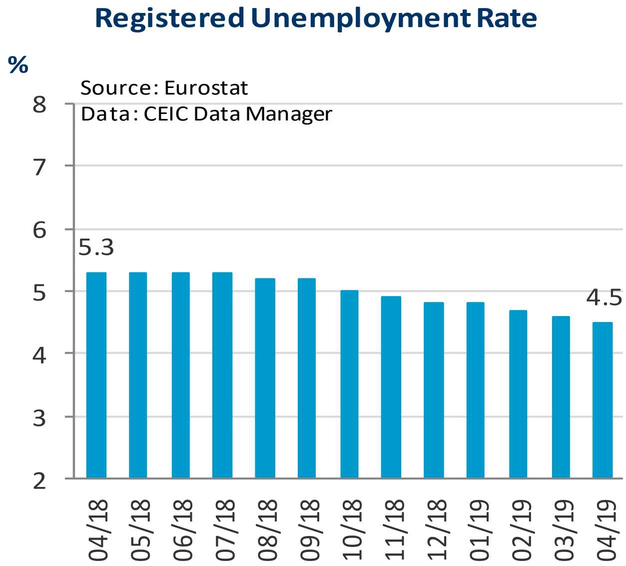


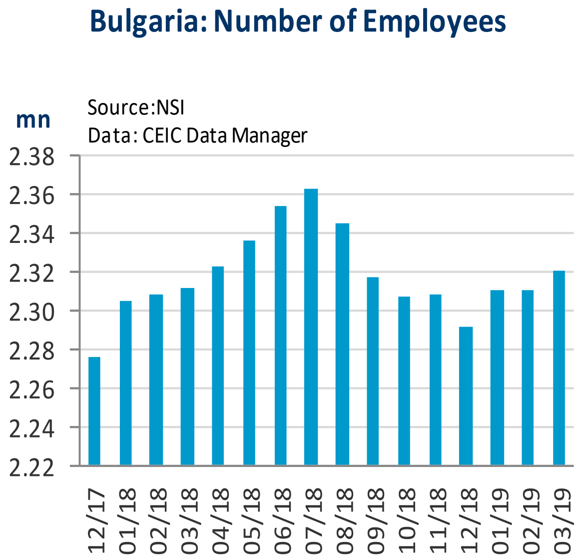


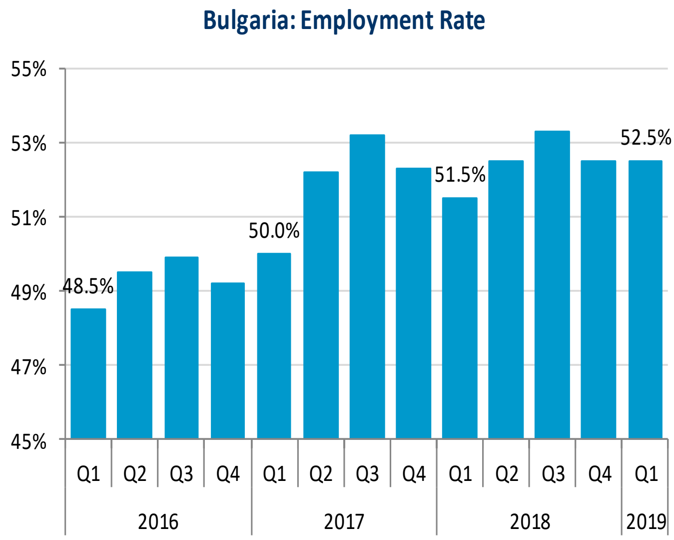
Source: NSI

Bulgaria: Labor Market Indicators



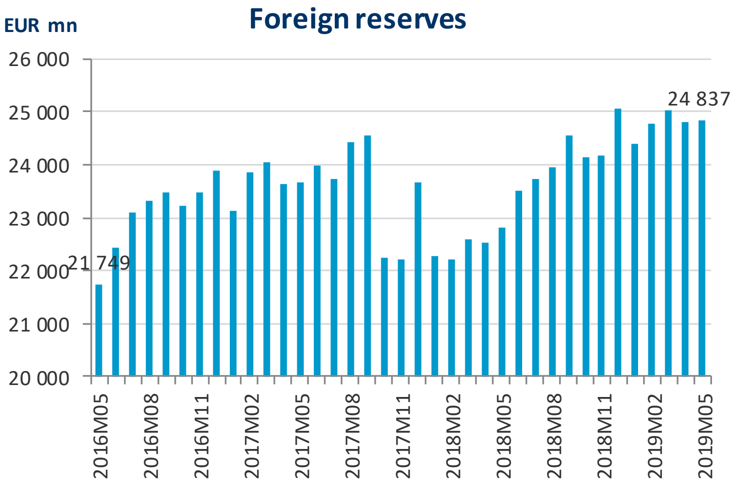


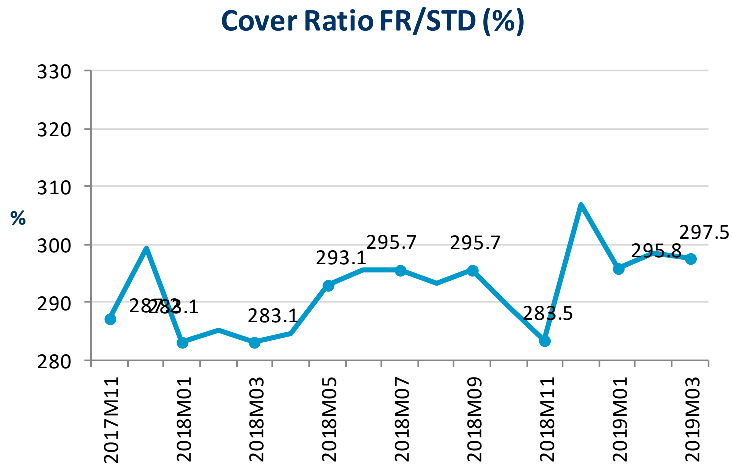


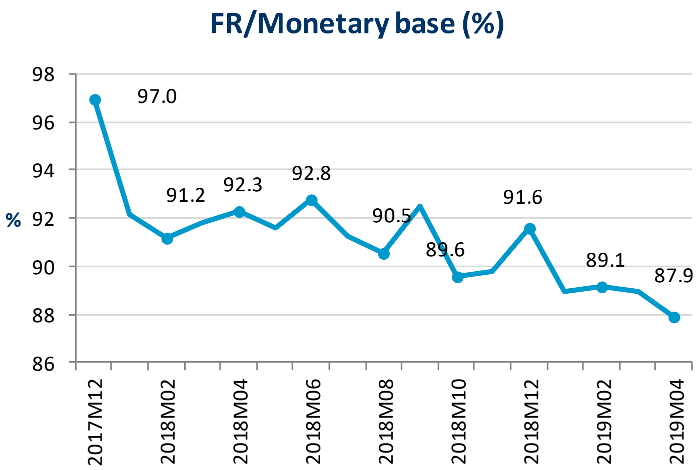


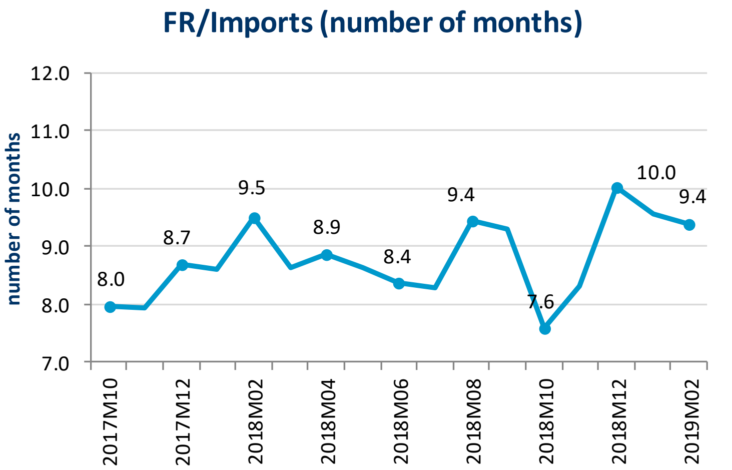
Source: NSI, EC

Bulgaria: Monetary Sector Indicators



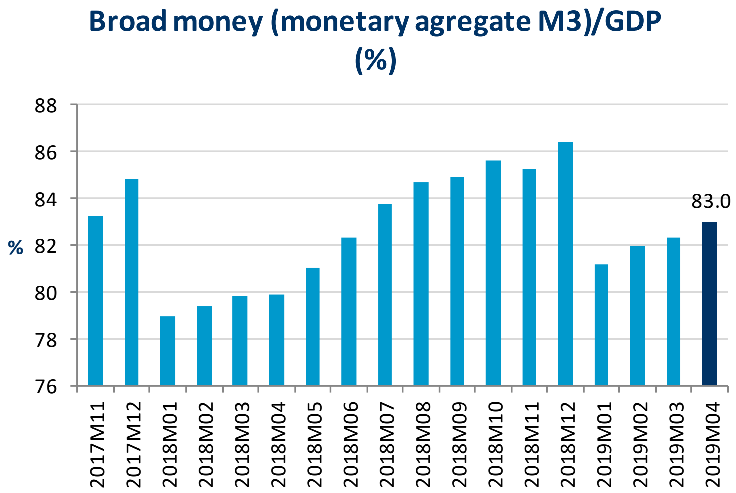


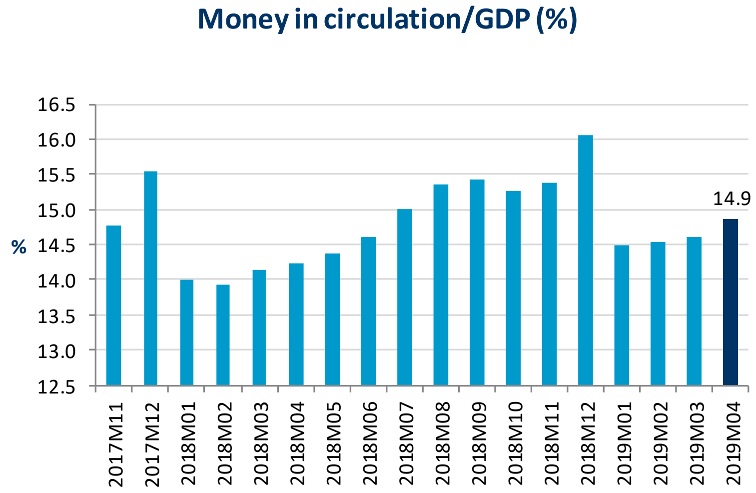


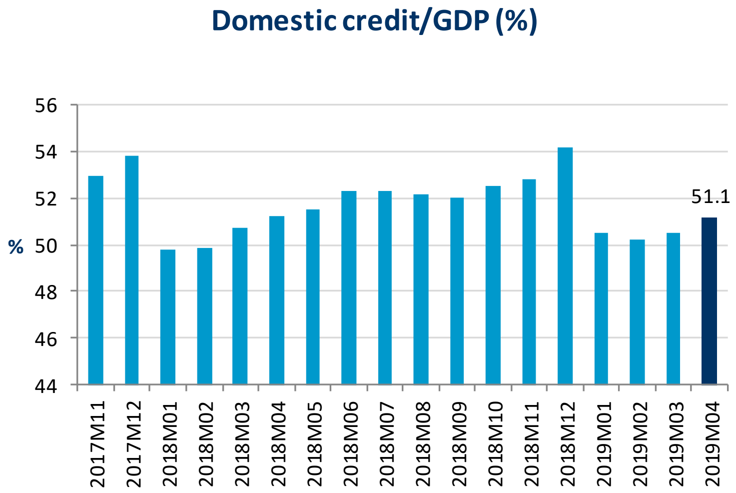


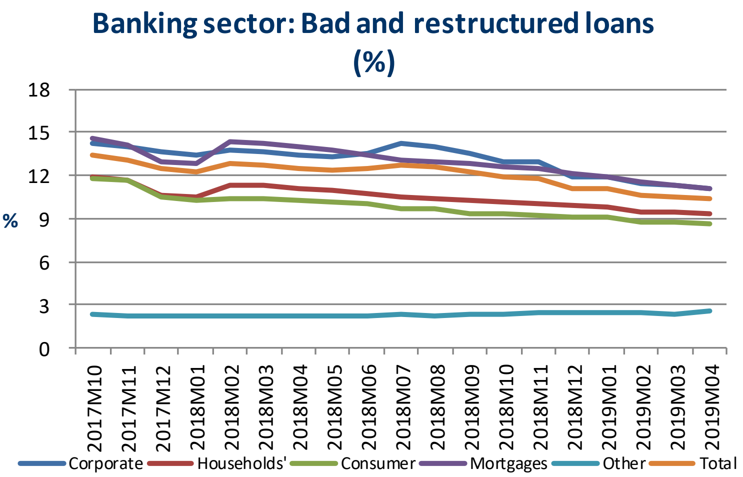
Source: BNB

Bulgaria: Monetary Sector Indicators



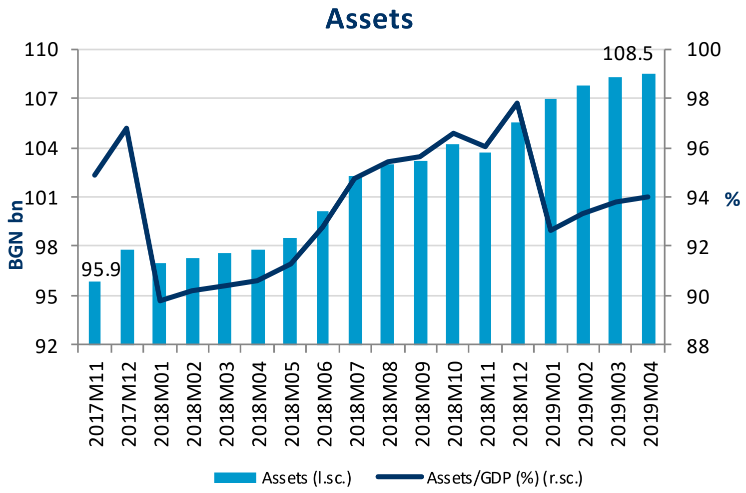


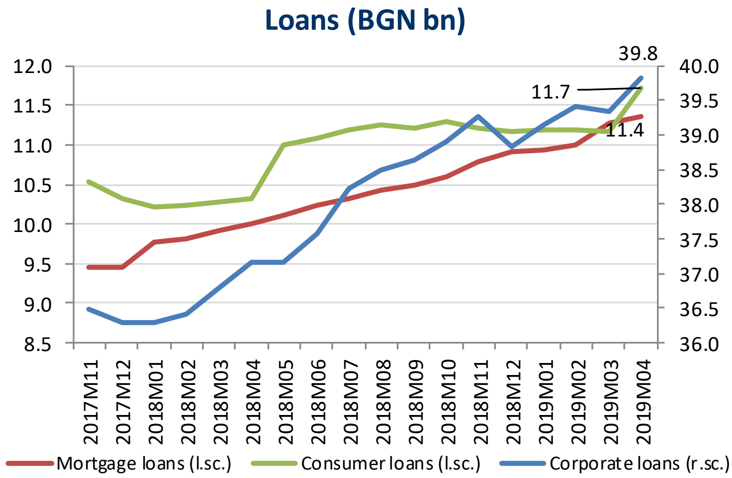


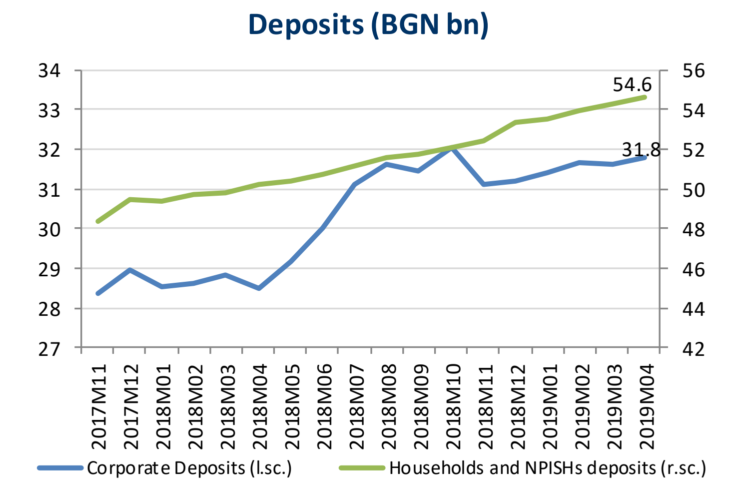


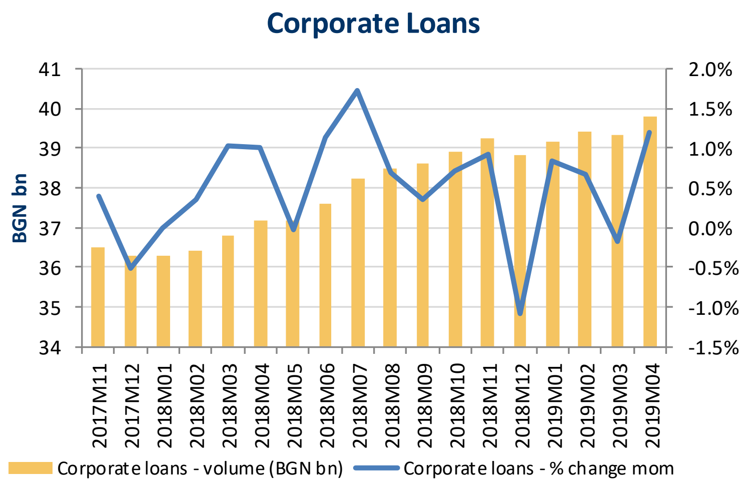
Source: BNB

Bulgaria: Banking Sector Indicators



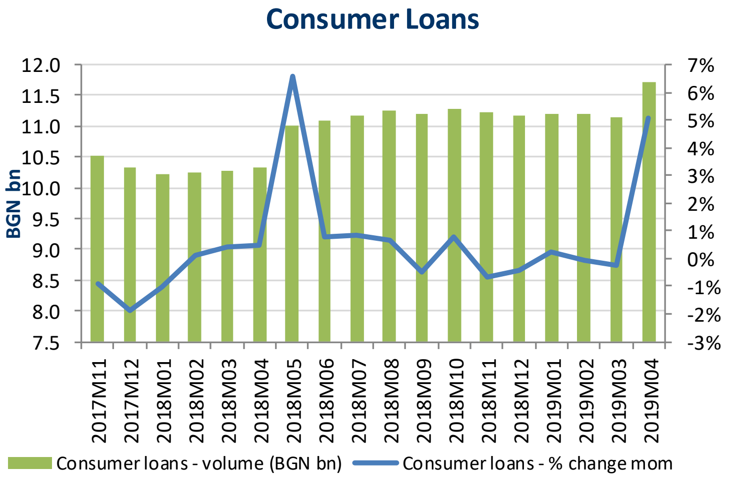


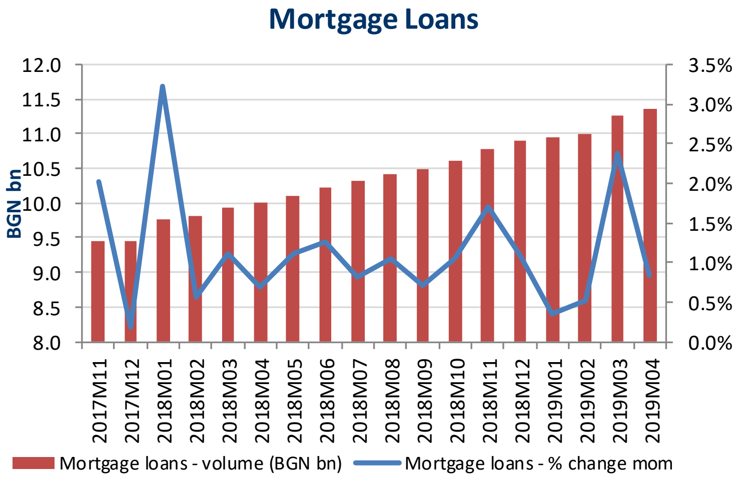


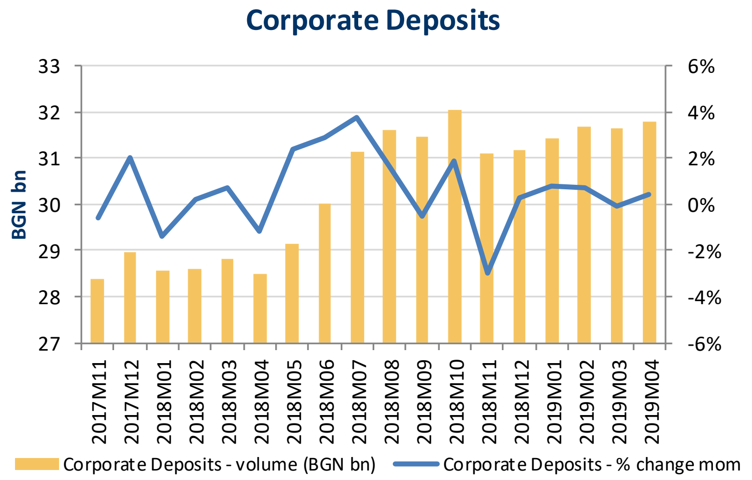


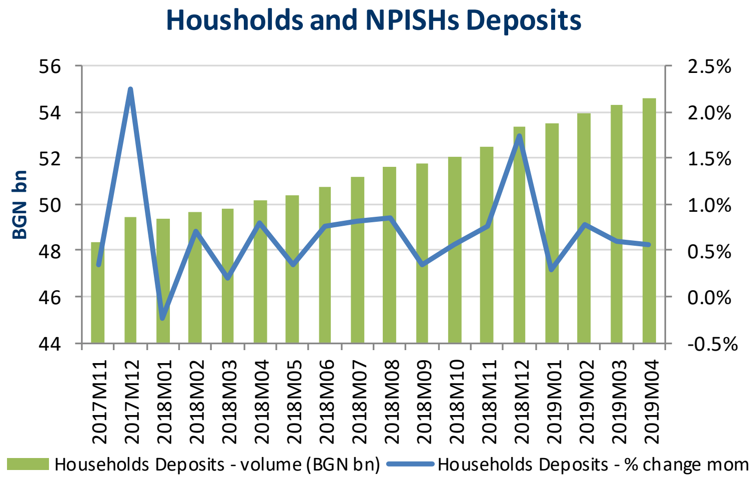
Source: BNB

Bulgaria: Banking Sector Indicators









Source: BNB

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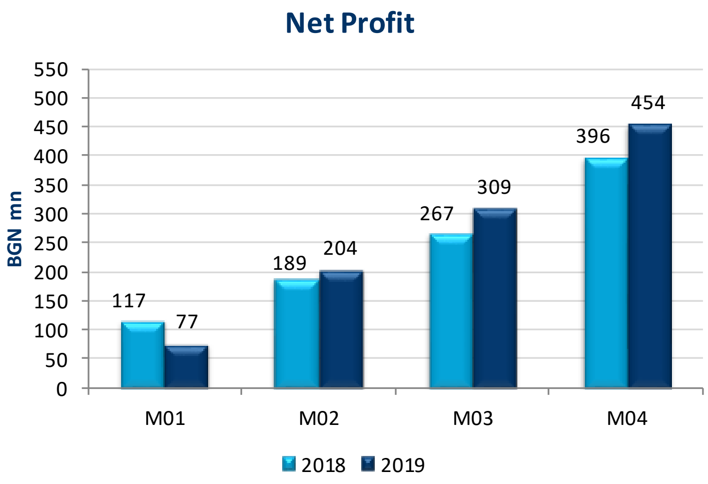
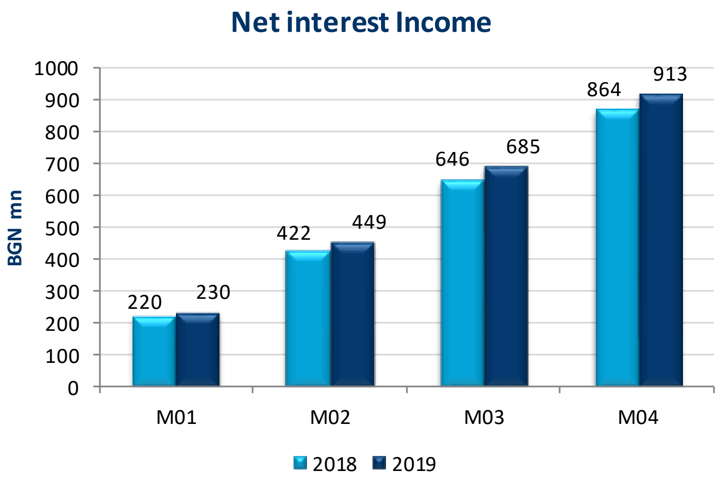
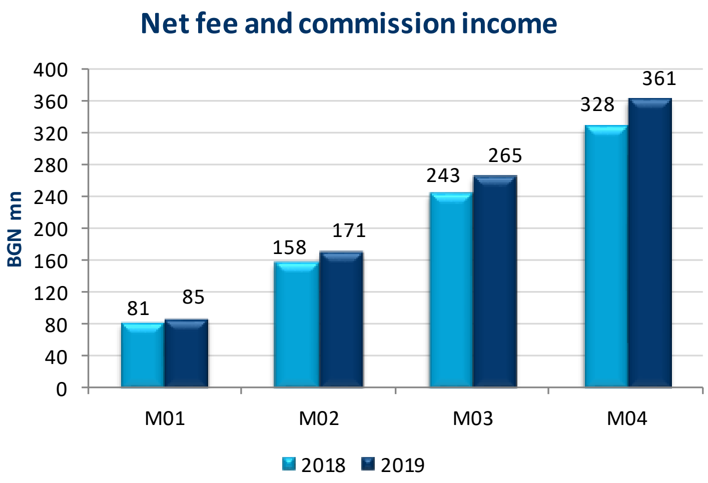
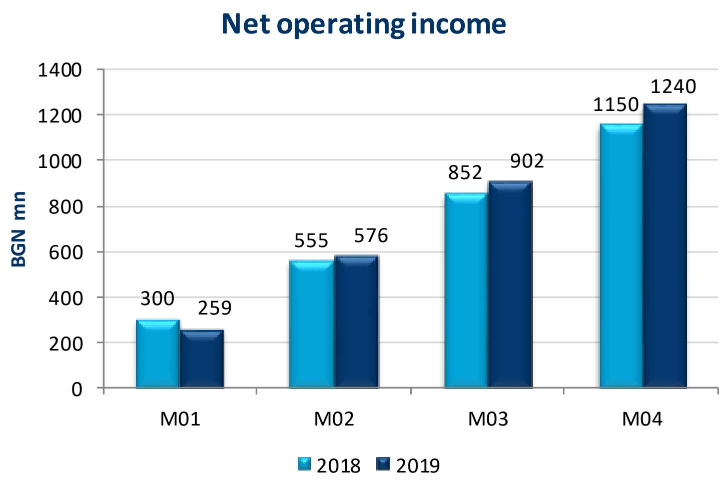
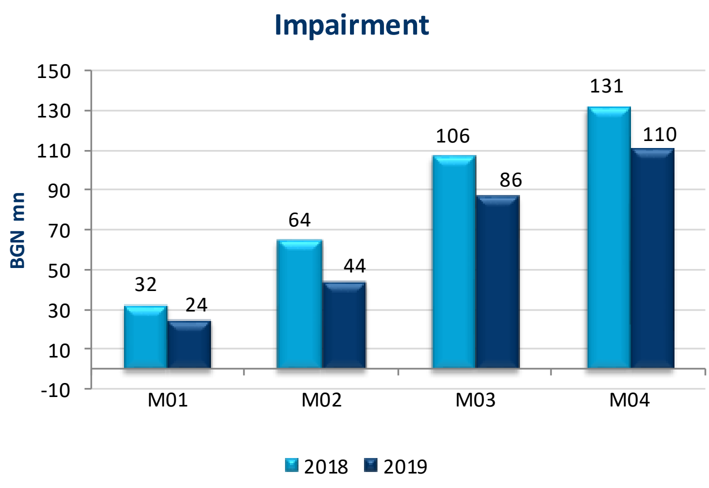




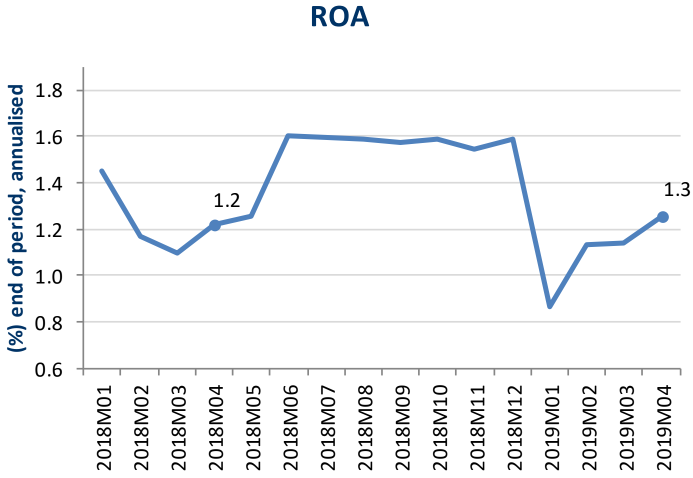


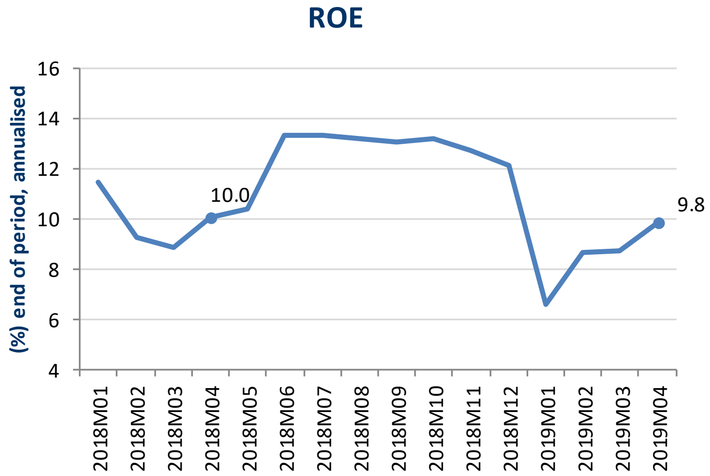


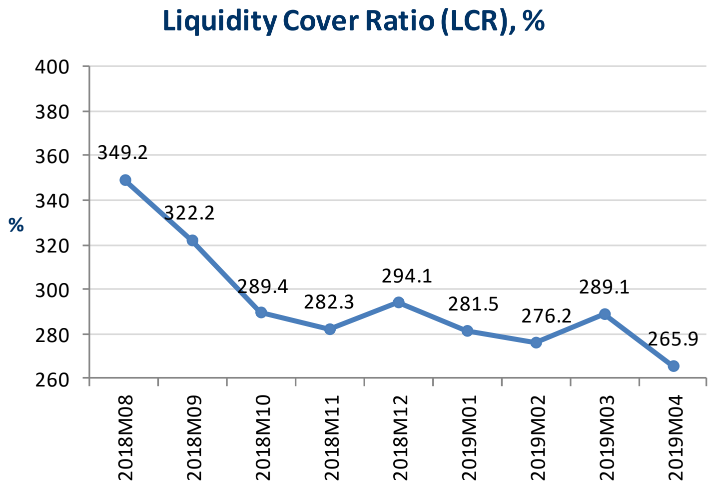


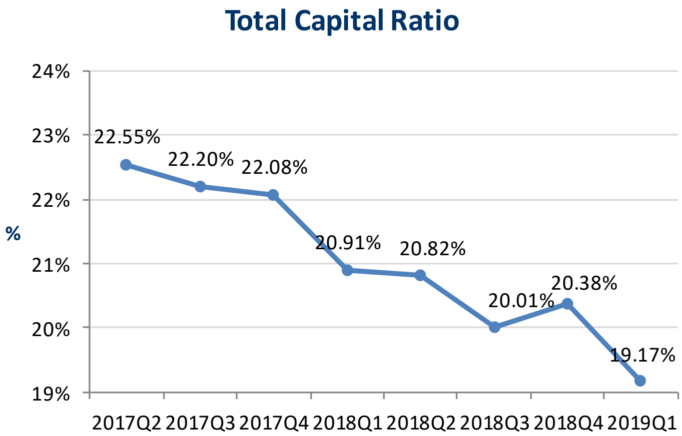
Source: BNB

Bulgaria: Banking Sector Indicators





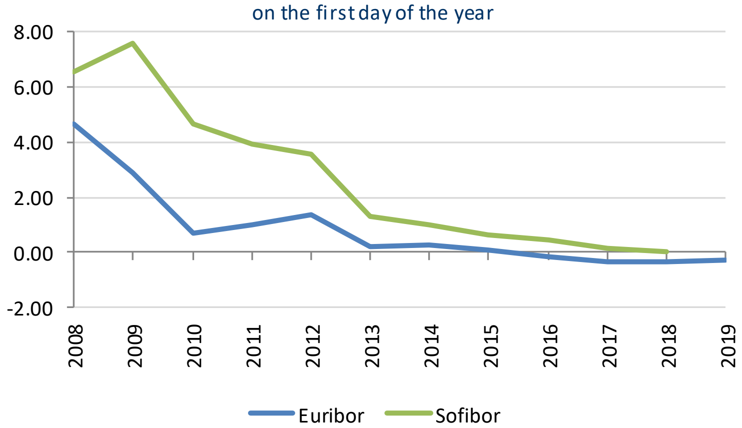




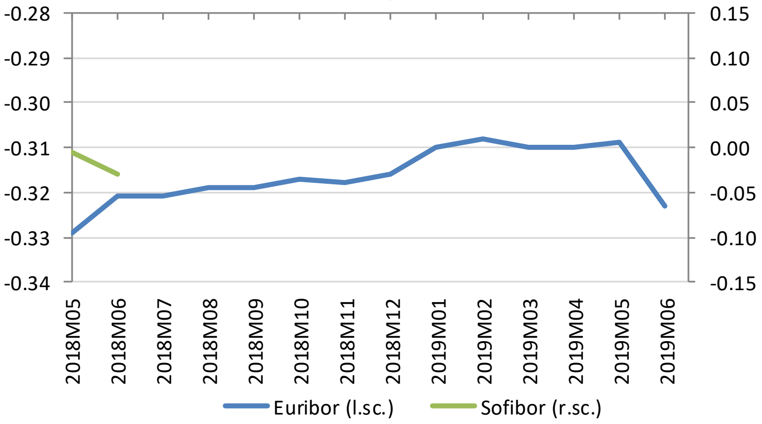
Source: BNB

Bulgaria: Indexes and Interest Rates

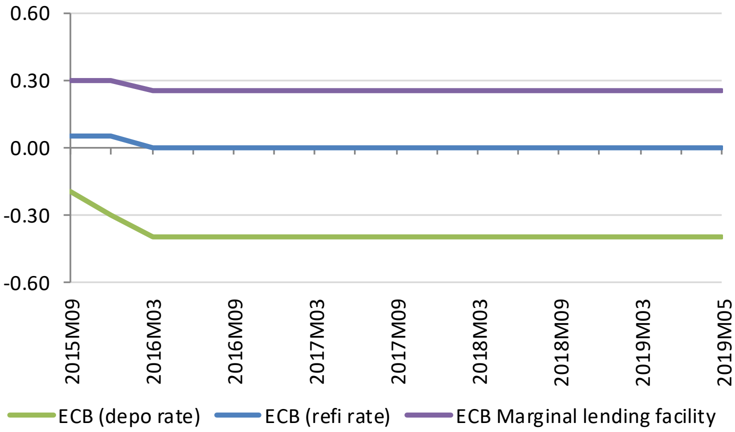
Indexes 3-months
on the first day of the year



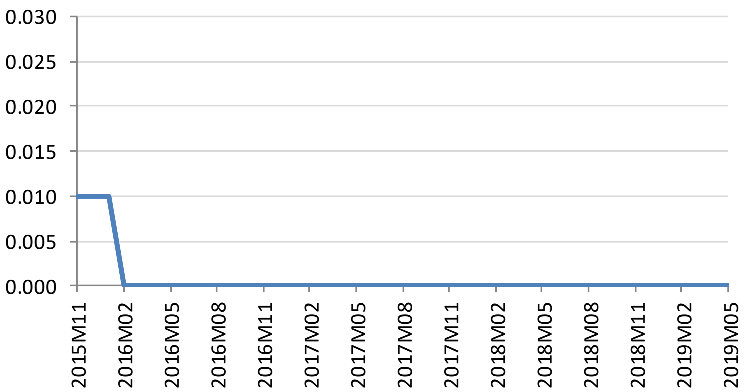
Indexes 3-months
on the first day of the month



Policy Rates (in %)

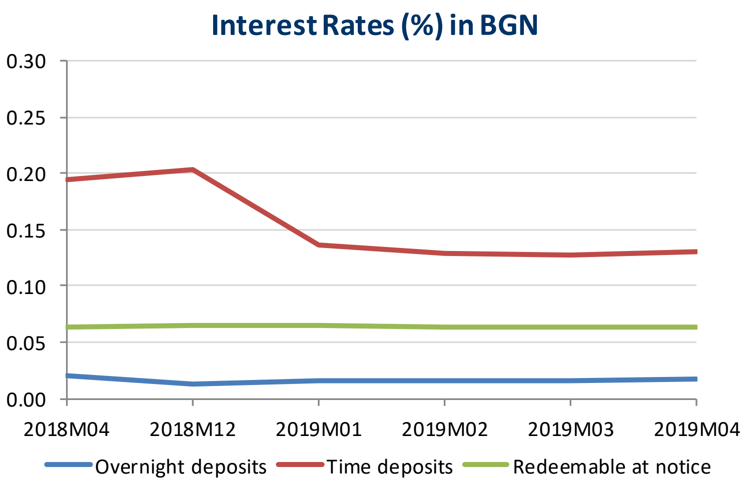


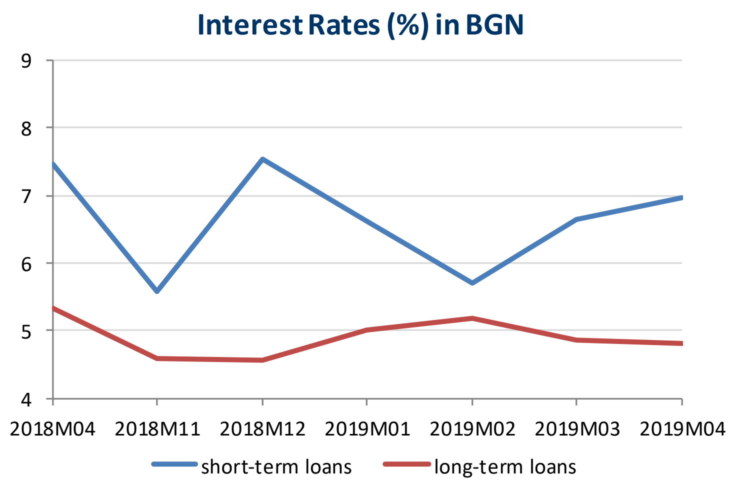
Base Interest Rate of the BNB (in %)

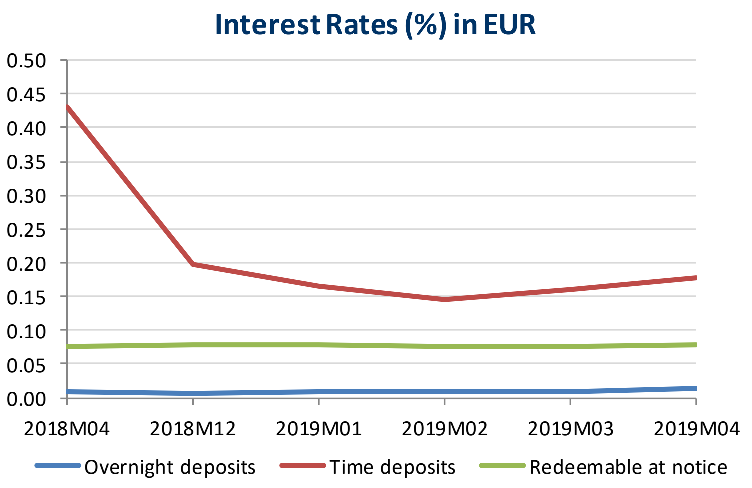


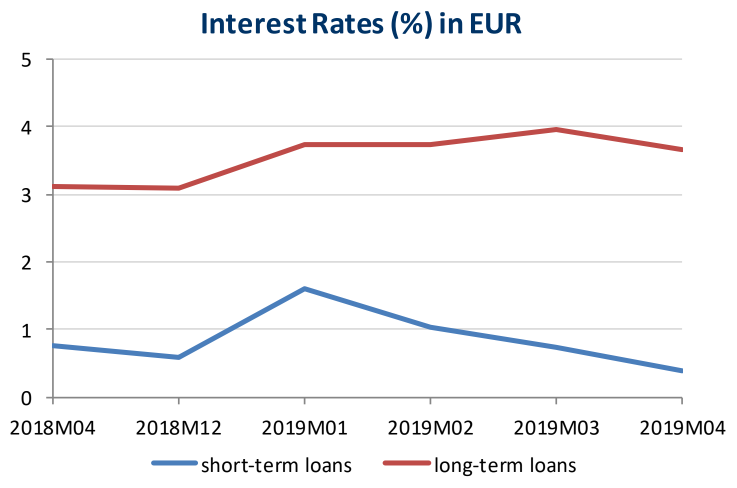
Source: ECB, BNB

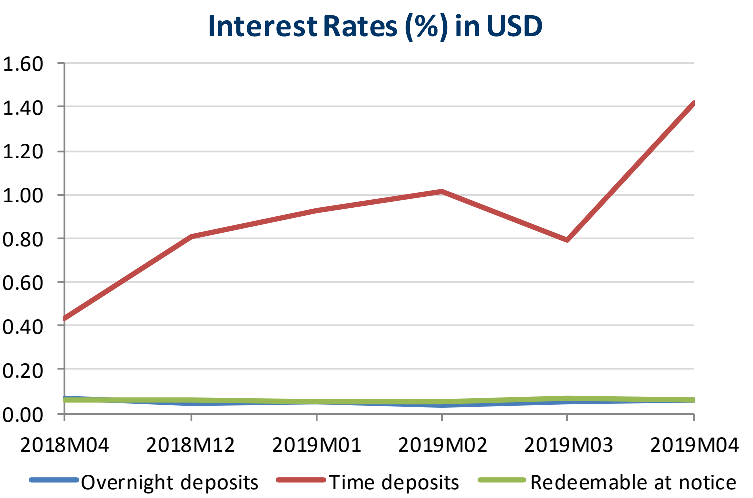
Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates

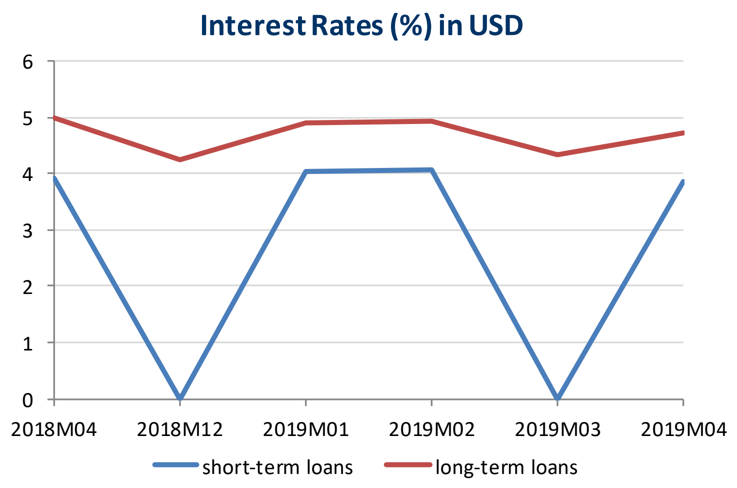








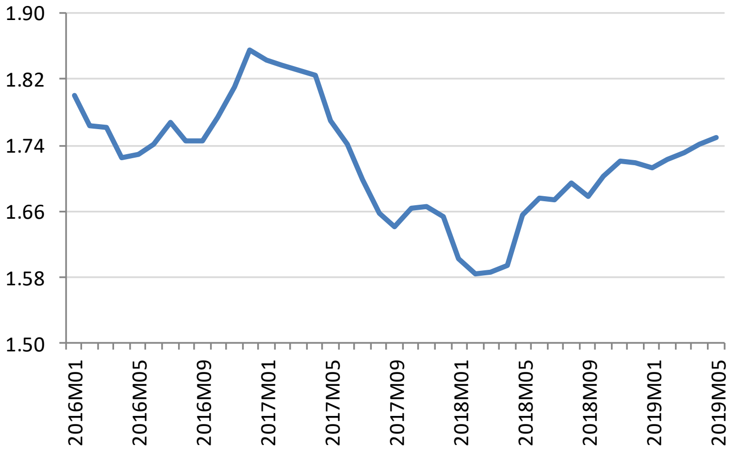




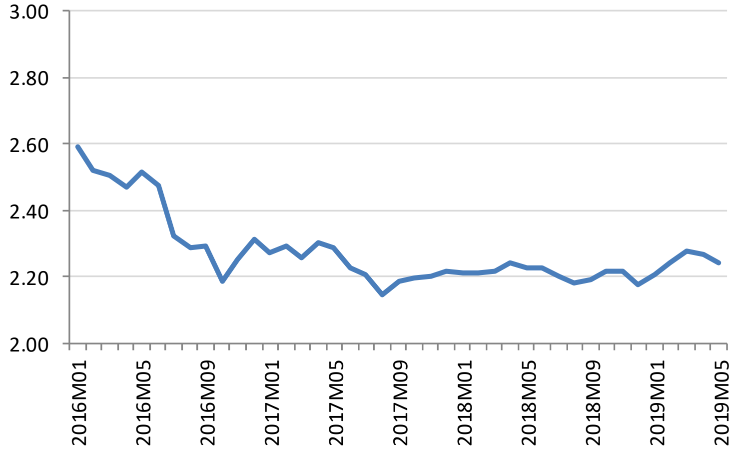
Source: BNB

Bulgaria: FX Rates

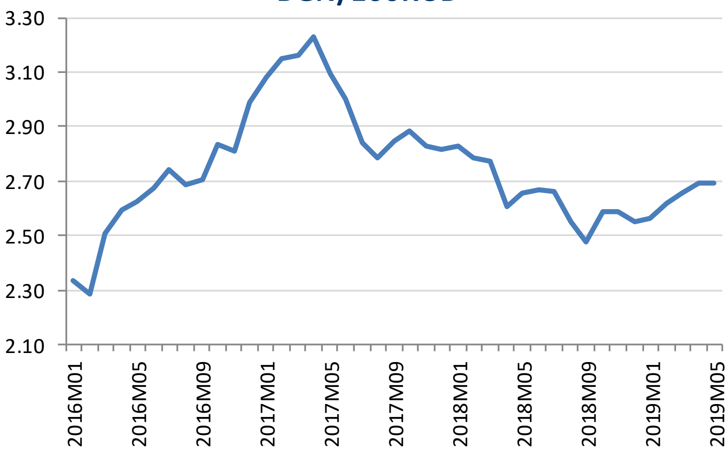
BGN/USD



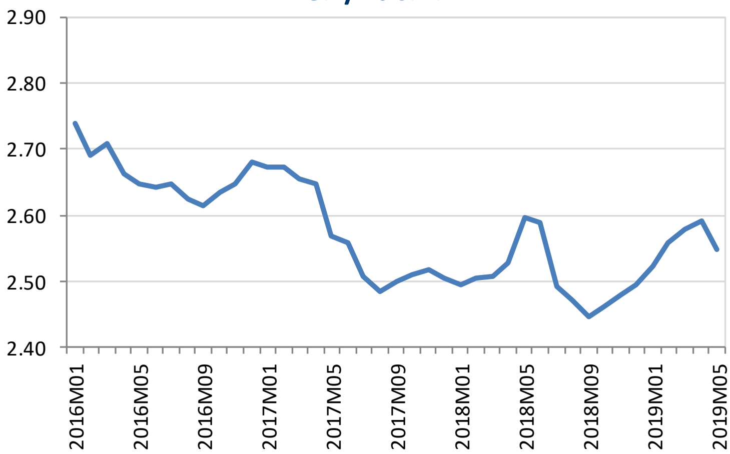
BGN/GBP



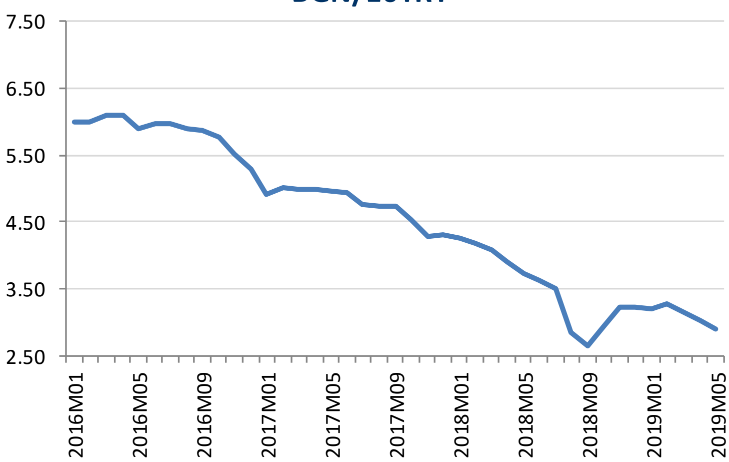
BGN/100RUB



BGN/10CNY



BGN/10TRY



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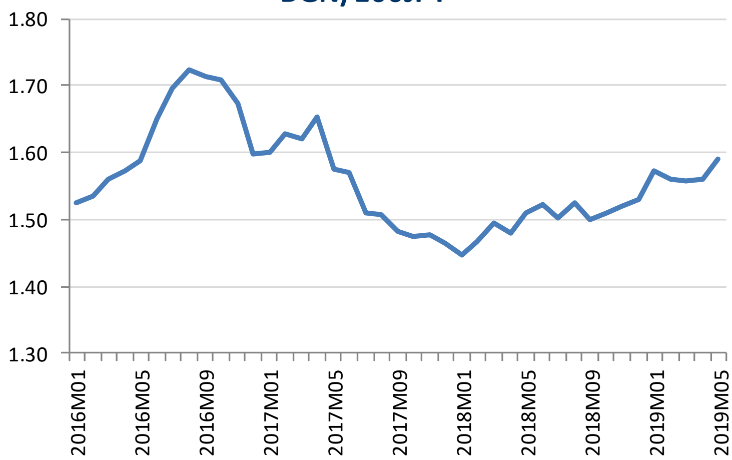

Source: ECB

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.