All data in the edition are the last available data, published as of July , 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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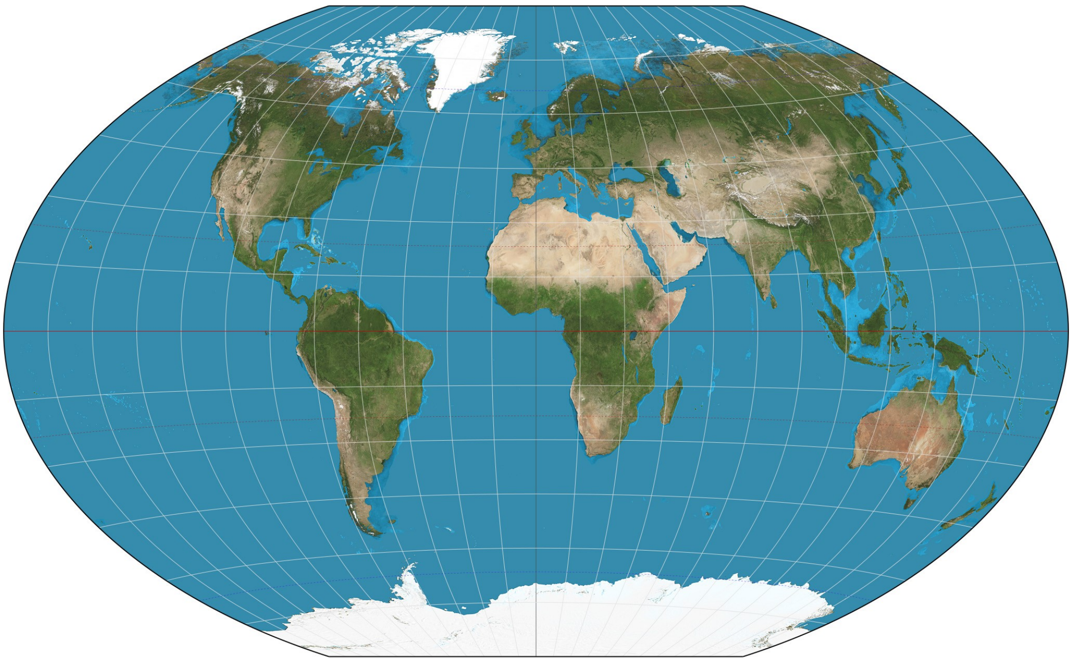
Source: https://en.wikipedia.org/wiki/World_map

HIGHLIGHTS AND FORECASTS

MONTHLY ECONOMIC REPORT



July, 2019

Sofia

- *The IHS Markit Eurozone Manufacturing PMI for euro area came in at 47.6 in June 2019, slightly weaker 47.7 in the prior month. The IHS Markit Eurozone Services PMI advanced to 53.6 in June of 2019 from 52.9 in the previous month. The Business Climate Indicator (BCI) for the euro area declined to 0.17 in June 2019 from 0.30 in the previous month. The euro area seasonally-adjusted unemployment rate fell to 7.5% in May 2019 from 7.6% in the previous month. It was the lowest jobless rate since July 2008 as the number of unemployed continued to decline. Considering the European Union as a whole, the unemployment rate edged down to 6.3% in May from 6.4% in previous month. The annual inflation rate in the euro area stood at 1.2% in June 2019, unchanged from the previous month. It remained the lowest inflation rate since April last year, due to a slowdown in cost of energy. 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 increase to 1.1% in June from 0.8% in the prior month.*
- *The European Commission concluded on 3 July 2019 that Italy was no longer breaching the EU's fiscal rules after the government reduced public spending by 7.6 billion EUR in a last-minute effort to escape a sanction procedure. As a result, Italy's deficit is expected to reach 2.04% of GDP in 2019, as previously agreed with Brussels. The structural deficit will improve by around 0.45% of Italy's GDP (around 8.2 billion EUR). As a result, the Italian deficit shifted from a deterioration of 0.2% to a structural improvement of 0.2%. The biggest test is in the autumn, when Italy has to deliver its 2020 budget, which to seek compromise with EU Commission. Government's income tax plan would bring the total amount of extra deficit in 2020 up to more than 40 billion EUR. Italy's annual inflation rate came in at 0.8% in June of 2019, the same as in the previous month. It remains at its lowest level since April of 2018. The seasonally adjusted unemployment rate in Italy fell to 9.9% in May of 2019 from a 10.1% in the previous month. It was the lowest jobless rate since February of 2012.*
- *Uncertainty surrounding the Brexit negotiations and the new Tory leader will continue to weigh on sentiment and investment decisions. Brexit withdrawal negotiations will eventually, but most likely after substantial postponement, result in an outcome that is acceptable for both the UK and the EU, without fully derailing economic momentum. The IHS Markit/CIPS UK Manufacturing PMI fell to 48.0 in June 2019 from 49.4 in the previous month. The IHS Markit/CIPS UK Services PMI fell to 50.2 in June 2019 from 51 in the previous month, missing market expectations of 51. The CBI Business Optimism Indicator for the UK increased to -13 in the second quarter of 2019 from -23 in the previous three-month period. It was the highest reading since the third quarter of 2018, mainly due to the Brexit delay. The UK unemployment rate stood at 3.8% in the three months to May 2019, its lowest level since the October to December 1974.*
- *The ISM Manufacturing PMI in the US fell to 51.7 in June 2019 from 52.1 in the previous month, beating market expectations of 51.0. Still, the latest reading pointed to weakest pace of expansion in the manufacturing sector since October 2016. The US annual inflation rate fell to 1.6% in June 2019 from 1.8% in the previous month. The core inflation rate, which excludes volatile items such as food and energy, edged up to 2.1% in June from 2% in May. The US unemployment rate rose to 3.7% in June 2019 from a 49-year low of 3.6% in the previous month.*
- *The Bank of Japan's Tankan index for big manufacturers' sentiment fell to a near three-year low of 7 in the second quarter of 2019 from 12 in the previous period. The Jibun Bank Japan Manufacturing PMI was revised lower to 49.3 in June 2019 from a preliminary estimate of 49.5, pointing to the second month of contraction in factory activity, amid US-China trade frictions and subdued global automotive sector trends. Japan's consumer price inflation fell to 0.7% yoy in May 2019 from a six month-high of 0.9% in the prior month. The seasonally adjusted unemployment rate in Japan stood at 2.4% in May 2019, unchanged from the previous month.*
- *China Q2 GDP Growth Weakest in 27 Years. The Chinese economy advanced 6.2% yoy in the Q2 2019, slowing from a 6.4% expansion. It was the lowest GDP growth rate since the Q1 1992, amid persistent trade dispute with the US, weakening global demand and alarming off-balance-sheet borrowings by local governments. China's economy expanded 6.3% in the first half of the year. Industrial production grew 6% from a year earlier in the January to June period. Retail sales rose 8.4% yoy in the first six months of the year. China's fixed-asset investment increased by 6% yoy to*

29.91 trillion CNY in the first half of 2019. Figures released earlier showed exports edged up 0.1% yoy in the first six months 2019. For June only, sales fell 1.3% from a year earlier to USD 211.8 billion, after tariffs on 200 billion USD of Chinese goods were raised from 10% to 25% by Washington in May. China's annual inflation rate stood at 2.7% in June 2019, unchanged from the previous month's 15-month high. Food inflation rose to its highest since January 2012, as pork prices were persistently high following an outbreak of African swine fever. US President Donald Trump and Chinese President Xi Jinping secured trade truce in their meeting at the G-20 in Japan in 28.06.2019. Trade negotiations for a new agreement will resume. The US will temporarily freeze additional tariffs on 300 billion USD of Chinese goods. China committed to import more US agricultural products. US President said he would allow for now the continued sale of US technology to Huawei.

- *The Turkish lira TRY slumped more than 3% after Turkish President Recep Tayyip Erdogan's shock decision to replace the country's central bank. We expect the Central Bank of Turkey to start the easing interest rates in July 25 2019 and this will increase probability of depreciation of the Turkish lira TRY, an increase in inflation, the transformation of foreign currency loans into bad loans, deterioration in the financial statement of Turkish banks and double-dip recession at the end of the year. Moody's cut Turkey's sovereign credit rating deeper into "junk" territory on June 14, saying the risk of a balance of payments crisis continued to rise, and with it the risk of a government default. Moody's said the continued erosion in institutional strength and policy effectiveness on investor confidence was increasingly outweighing Turkey's traditional credit strengths including its large, diverse economy and the low level of government debt. In response to the financial crisis, the government introduced the New Economic Program for 2019-2021, with targets for the fiscal deficit of 1.8% of GDP in 2019 and 1.9% in 2020. However, these are based on overly optimistic projection of GDP growth. Overall, fiscal policy remains unpredictable, non-transparent and lacks credibility. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, slowed to 14.86% in June, the lowest since last July, from 15.87% in May.*
- *Eurosystem staff macroeconomic projections for the euro area, June 2019. Although real GDP growth was stronger than expected in the first quarter of 2019, recent indicators point to weaker growth in the second quarter and a moderate increase during the remainder of 2019. Altogether, real GDP growth is projected to decline from 1.8% in 2018 to 1.2% in 2019 before increasing to 1.4% in 2020 and 2021. HICP inflation is expected to moderate this year but to recover thereafter. HICP inflation is expected to moderate this year but to recover thereafter. Inflation is projected to reach 1.3% in 2019, 1.4% in 2020 and 1.6% in 2021. Energy inflation will continue to decline in the short term, on the back of downward base effects and slightly declining oil price assumptions, and stabilize thereafter. HICP inflation excluding energy and food will pick up gradually, supported by the envisaged economic expansion.*
- *Bank of England Financial Stability Report July 2019. The perceived likelihood of a no-deal Brexit has increased since the start of the year. The UK banking system remains strong enough to continue to lend through the wide range of UK economic and financial shocks that could be associated with Brexit. Most risks to UK financial stability from disruption to cross-border financial services have been mitigated. In the absence of further actions by EU authorities, some disruption to cross-border financial services is possible. The Financial Policy Committee judges that underlying domestic vulnerabilities, apart from those related to Brexit, remain at a standard level overall and global vulnerabilities remain material. As set out in the November 2018 Report, the UK economic scenario in the test was sufficiently severe to encompass the wide range of UK economic and financial shocks that could be associated with Brexit. The Financial Policy Committee also judges that the test on global exposures was of a severity that encompassed a worst-case scenario for global trade tensions.*
- *Monetary Policy in the Post-Crisis Era Chair Jerome H. Powell Speech Since the trough of the Great Recession 2008, average inflation and output growth are around 1% point lower, and the 10-year Treasury rate has averaged 2.4%. These declines are not unique to the United States. Average inflation rates for the other major advanced economies have declined by almost half, while the inflation rates of major emerging market economies are less than one-fifth of what they*

were. Indeed, with few exceptions, Federal Reserve is all facing lower rates of interest, growth, and inflation. In a number of countries, including the United States, these declines have been accompanied by strong labor markets and a much lower unemployment rate. Standard estimates of the natural rate of unemployment—u—and the neutral rate of interest—r*—have been declining for 2 decades, and particularly since the crisis. A second important feature of this new world is the tools central bankers now have to fight recessions. A legacy of the crisis is that policymakers now have a broader range of tested tools to turn to the next time the effective lower bound is reached. Finally, the crisis and Great Recession brought into stark relief the need for transparency and accountability for central banks.*

- *Summary of Opinions on Monetary Policy at the Monetary Policy Meeting of Bank of Japan on June 19 and 20, 2019. Although it will take time to achieve the price stability target, it is necessary to persistently continue with the current powerful monetary easing as the momentum toward 2% inflation is maintained. Although downside risks warrant attention, it is appropriate for the Bank of Japan to continue with the current monetary policy stance given that the main scenario regarding economic activity that Japan's economy is likely to continue on its moderate expanding trend is unchanged and the momentum toward 2% inflation is maintained. The Bank of Japan needs to constantly consider measures that enhance the sustainability of monetary easing. Amid changes in the external environment such as growing expectations for monetary easing in the United States and Europe, the Bank of Japan+ also needs to strengthen monetary easing. In addition, it is necessary to further consider in depth the feasibility of a wide range of additional easing measures, as well as their effects and side effects.*
- *The People's Bank of China (PBOC) renewed 188.5 billion CNY (about 27.4 billion U.S. dollars) of medium-term lending facility (MLF) loans which were due on 15.07.2019 and injected another 11.5 billion CNY via MLF to small and medium-sized banks. The MLF operations totaled 200 billion CNY and will mature in one year at an interest rate of 3.3%. The PBOC announced it would conduct the third phase of a cut in the reserve requirement ratio (RRR) to free around 100 billion CNY in long-term funds on 15.07.2019. On June 25, the Monetary Policy Committee of the People's Bank of China (PBOC) held the second quarterly meeting in 2019 in Beijing. The sound monetary policy will be maintained appropriate in intensity, money supply will be properly managed, and massive liquidity injection will be avoided, so as to ensure that the growth of M2 and aggregate financing to the real economy is in line with the nominal GDP growth. The PBC will continue to deepen the financial system reform, improve the two-pillar regulatory framework underpinned by monetary policy and macro prudential policy, and further improve the transmission mechanism of monetary policy. The PBOC will deepen interest rate liberalization reform, keep the RMB exchange rate basically stable at an adaptive and equilibrium level and promote the stable and sound development of economy. Effective measures will be taken to prevent and defuse financial risks, so as to achieve risk prevention while facilitating high-quality development, properly manage the intensity and pace of risk resolution, stabilize market expectations, and hold the bottom line of preventing systemic financial risks.*
- *In response to a full-blown currency crisis in mid-2018, the Central Bank of the Republic of Turkey (TCMB) raised the interest rates to 24.00% in September 2018. The result is declined of the inflation – it declines to 15.72%t in June 2019 from 18.71% in the previous month. It was the lowest inflation rate since June 2018. However, Turkish President Recep Tayyip Erdogan's decision in July 6 2019 to fire the central bank Governor liquidates central bank independence. These controversial steps further eroded the TCMB's credibility. We expect the TCMB to start the easing cycle on the meeting of the Monetary Policy Committee in July 25 2019. We expect the lira TRY to depreciate substantially after interest rate cut and consequently a sharp rise in inflation, deterioration in the financial statement of Turkish banks, decline in GDP and increase in unemployment over the coming months.*
- *Oil prices stabilize on 18.07.2019 after falling back in the previous session. The official data on 17.07.2019 showed that stocks in the US from products like gasoline rose sharply last week, suggesting weak demand during the peak travel season. Crude oil rose 0.31 USD/BBL or 0.55% to 51.85 on Thursday 18 July from 56.66 in the previous trading session. Brent oil prices rose 0.45 USD/BBL or 0.71% to 60.61 on Thursday, July 18, from 63.78 in the previous trading session. Oil prices as a whole are down this week as worries about conflict in the Middle East have fallen, oil production in the Gulf of Mexico has rebounded, and China's growth concerns remain. Weekly*

- *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. Additiona 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 – May 2019 Bulgaria's current and capital account was positive amounting to 1,432.9 million EUR (2.4% of GDP), compared with a surplus of 26.9 million EUR (0.05% of GDP) in January – May 2018.*
- *In January-May 2019 the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a negative value of 55.9 million EUR (0.1% of GDP) in January – May 2019, dropping by 147.1 million EUR from January – May 2018 (positive value of 91.2 million EUR, 0.2% of GDP).*
- *In June 2019, Bulgaria's international reserves amounted to 49.3 billion BGN (25.2 billion EUR) and rose by 1.4% mom and by 1.7% yoy, respectively.*
- *Increased private consumption, backed by significant base effects, led to GDP growth of 4.8% yoy in Bulgaria in the first quarter of 2019. Domestic demand is expected to remain the main driver of economic growth for the rest of the year, but with a switch from private consumption to investment. Net exports is expected to deteriorate as a result of the slowdown in the EU economy, Bulgaria's main trading partner. In the coming quarters of 2019, additional base effects are expected to be reported. Thus, economic growth will shrink for the rest of the year and it is expected to reach 3.2% in 2019, above the long-term economy growth potential of 3%.*
- *In June 2019, the total business climate indicator decreases by 1.3 percentage points to 29.9 index ponts in comparison with May as a result of the more unfavourable business climate in industry, construction and service sector.*
- *According to the preliminary data in May 2019 the Industrial Production Index, seasonally adjusted, remained at the level of April 2019. In May 2019 the working day adjusted Industrial Production Index rose by 0.6% in comparison with the same month of 2018.*
- *According to the preliminary seasonally adjusted data in May 2019 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices decreased by 0.2% compared to the previous month.*
- *According to the preliminary data, in May 2019 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.4% below the level of the previous month. In May 2019 the working day adjusted index of production in construction increased by 2.6% in comparison with the same month of 2018.*
- *Bulgaria's consumer price index for June 2019, compared to May 2019, was 99.4% or monthly deflation of 0.6%. Inflation from the beginning of the year is 1.2% and annual inflation is 2.8%. The average annual inflation rate for the period July 2018 - June 2019 compared to July 2017 - June 2018 was 3.3%. In the second half of 2019, the projected increase of regulated prices of heating by 3.5% and of electricity by 2.9% will accelerate inflation. Our forecast is that inflation will reach 2.5% in 2019, 2.3% in 2020. and 2.1% in 2021.*
- *Total Producer Price Index in May 2019 remains unchanged compared to the previous month; compared to the same month of 2018 the prices rose by 2.8%. Producer Price Index on Domestic Market in May 2019 fell by 0.1% compared to the previous month; compared to the same month of 2018 the domestic prices grew by 3.4%.*
- *In June 2019, the trend of decreasing registered unemployment in Bulgaria is maintained, with the level in the middle of the year standing at 5.2%. There is a decrease of 0.1 percentage points compared to the previous month and by 0.5 percentage points on an annual basis.*
- *In January-May 2019 Bulgaria' CFP balance on a cash basis is positive, amounting to 3,025.8 million BGN and presented 2.6% of forecasted GDP. The fiscal reserve as of 31.05.2019 amounts to 11.3 billion BGN. Based on the preliminary data and estimates, the Consolidated Fiscal Programme (CFP) balance on a cash basis as of June 2019 is expected to be positive, amounting to BGN 3,198.3million (2.8% of the projected GDP).*
- *In January – May 2019, Bulgaria's central government sub-sector debt amounted to EUR 11,565.1 million and accounted for 19.6% of GDP. On 19 June 2019 the MF held two auctions for the sale of 10.5-year and 20-year BGN-denominated government securities (GS) maturing on 21 December 2029 and 21 June 2039. GS totaling BGN 300.6 million, incl. BGN 200 million for 10.5-year GS and BGN 100.6 million for the 20-year GS, were offered successfully at the auctions. The average weighted yield of the auctions was 0.41% for the 10.5-year GS and 1.60% for the 20-year GS. 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.*

- ***At the end of May 2019 broad money (monetary aggregate M3) amounted at 95.445 billion BGN (82.5% of GDP) and increased by 9.1% yoy. Domestic credit – was 58.420 billion BGN and increased by 5% yoy.***
- ***At the end of June 2019, the four leading indexes of the BSE - Sofia rose asd followes: SOFIX to 587.81 points, BGTR30 to 116.33 points, BGBX40 to 512.30 points and BGREI to 512.30 points.***
- ***In May 2019, the aggregate net profit of the banking systemin Bulgaria amounted to BGN 762 million, and increased by 48% yoy due to one-off effects related with dividend income.***

Table of content

GLOBAL TRENDS

ADVANCED COUNTRIE'S ECONOMIES

Eurozone

The IHS Markit Eurozone Manufacturing PMI for euro area came in at 47.6 in June 2019, slightly weaker 47.7 in the prior month. The IHS Markit Eurozone Services PMI advanced to 53.6 in June of 2019 from 52.9 in the previous month. The Business Climate Indicator (BCI) for the euro area declined to 0.17 in June 2019 from 0.30 in the previous month. The euro area seasonally-adjusted unemployment rate fell to 7.5% in May 2019 from 7.6% in the previous month. It was the lowest jobless rate since July 2008 as the number of unemployed continued to decline. Considering the European Union as a whole, the unemployment rate edged down to 6.3% in May from 6.4% in previous month. The annual inflation rate in the euro area stood at 1.2% in June 2019, unchanged from the previous month. It remained the lowest inflation rate since April last year, due to a slowdown in cost of energy. 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 increase to 1.1% in June from 0.8% in the prior month.

The IHS Markit Eurozone Manufacturing PMI came in at 47.6 in June 2019, slightly weaker than a preliminary estimate of 47.8 and 47.7 in the prior month. The reading pointed to the fifth straight month of contraction in factory activity, amid ongoing global trade tensions and political uncertainties, plus ongoing weakness in the autos industry.The IHS Markit Eurozone Services PMI advanced to 53.6 in June of 2019 from 52.9 in the previous month and above flash estimates of 53.4. The latest reading pointed to the strongest growth of activity since October 2018. The Business Climate Indicator (BCI) for the euro area declined to 0.17 in June 2019 from 0.30 in the previous month and below market expectations of 0.23. That was the lowest reading since October 2014, as managers' production expectations, as well as their views on overall and export order books and the level of stocks deteriorated.The euro area seasonally-adjusted unemployment rate fell to 7.5% in May 2019 from 7.6% in the previous month and below market expectations of 7.6%. It was the lowest jobless rate since July 2008 as the number of unemployed continued to decline. Compared with April, the number of unemployed in the Euro Area decreased by 103,000 to 12.348 million. Compared with the previous year, it fell by 1.133 million. Considering the European Union as a whole, the unemployment rate edged down to 6.3% in May from 6.4% in previous month and from 6.9% a year ago. That was the lowest rate recorded in the EU28 since the start of the EU monthly unemployment series in January 2000. There were 15.653 million people unemployed, a decrease of 71,000 from the previous month and of 1.277 million from May 2018. Among EU Member States, the lowest unemployment rates in May were recorded in Czechia (2.2%), Germany (3.1%) and the Netherlands (3.3%). The highest unemployment rates were observed in Greece (18.1% in March 2019), Spain (13.6%) and Italy (9.9%). Compared with a year ago, the largest decreases were registered in Greece (18.1% from 20.2% between March 2019 and March 2018), Spain (13.6% from 15.4%) and Cyprus (6.5% from 8.3%). The youth unemployment rate was 14.3% in the EU28 and 15.7% in the euro area, compared with 15.1% and 17.0% respectively in May 2018. The lowest rates were observed in Germany (5.1%) and the Netherlands (6.3%), while the highest were recorded in Greece (40.4% in March 2019), Spain (31.7%) and Italy (30.5%). The annual inflation rate in the Euro Area stood at 1.2% in June 2019, unchanged from the previous month and in line with market expectations, a preliminary estimate showed. It remained the lowest inflation rate since April last year, due to a slowdown in cost of energy. Prices should eased for energy (1.6% from 3.8% in May); and non-energy industrial goods (0.2% from 0.3%). On the other hand, cost of food, alcohol & tobacco is expected to advance to 1.6% from 1.5% in May, driven by unprocessed food (0.8% from 0.4%) while processed food, alcohol & tobacco is projected to stand at 1.9%. Also, price of services is expected to accelerate (1.6% from 1%).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 increase to 1.1% in June from 0.8% in the prior month and above market consensus of 1%.

Italy

The European Commission concluded on 3 July 2019 that Italy was no longer breaching the EU's fiscal rules after the government reduced public spending by 7.6 billion EUR in a last-minute effort to escape a sanction procedure. As a result, Italy's deficit is expected to reach 2.04% of GDP in 2019, as previously agreed with Brussels. The structural deficit will improve by around 0.45% of Italy's GDP (around 8.2 billion EUR). As a result, the Italian deficit shifted from a deterioration of 0.2% to a structural improvement of 0.2%. The biggest test is in the autumn, when Italy has to deliver its 2020 budget, which to seek compromise with EU Commission. Government's income tax plan would bring the total amount of extra deficit in 2020 up to more than 40 billion EUR. Italy's annual inflation rate came in at 0.8% in June of 2019, the same as in the previous month. It remains at its lowest level since April of 2018. The seasonally adjusted unemployment rate in Italy fell to 9.9% in May of 2019 from a 10.1% in the previous month. It was the lowest jobless rate since February of 2012.

The European Commission concluded on 3 July 2019 that Italy was no longer breaching the EU's fiscal rules after the government reduced public spending by 7.6 billion EUR in a last-minute effort to escape a sanction procedure. Italy was facing a new excessive deficit procedure, due to its insufficient efforts to cut down public debt, which is expected to reach 135% of GDP next year. The Commission also predicted that the country's deficit would surpass the 3% GDP threshold next year, by half a point. A sanction procedure could have led to a fine amounting to around 3.4 billion EUR (0.2% of Italy's GDP).

The government in Rome reviewed its 2019 budget on 1 June, including a correction amounting to EUR7.6 billion, or 0.42% of Italy's GDP in nominal terms. As a result, Italy's deficit is expected to reach 2.04% of GDP in 2019, as previously agreed with Brussels. Before the mid-term budget review, the Commission alerted in spring that the deficit would have reached 2.5%. Excluding the impact of the economic cycle and one-off measures, the structural deficit will improve by around 0.45% of Italy's GDP (around 8.2 billion EUR). As a result, the Italian deficit shifted from a deterioration of 0.2% to a structural improvement of 0.2%. The structural effort is the most relevant indicator once countries exit the strict surveillance of the excessive deficit procedure. The package put together by Italy is a mixed bag. Part of it simply notes that more money is flowing into the government's coffers thanks to the introduction of electronic invoicing, which appears to have curbed tax evasion. But the government has also cut the amount of money to be spent on its flagship reform: A lowering of the retirement age and an income support scheme (whose take-up has been lower than expected). This is not the end of the road, as the country will have to include further adjustments in its draft budget for 2020. Italy has to find more than 20 billion EUR in savings to meet its deficit targets, or else increase VAT by the same amount. The government has insisted that it won't allow this VAT hike to happen. But the government is also planning a 15 billion-euro income tax cut. Government's income tax plan would bring the total amount of extra deficit in 2020 up to more than 40 billion EUR. The biggest test is in the autumn, when Italy has to deliver its 2020 budget, which to seek compromise with EU Commission. Italy's annual inflation rate came in at 0.8% in June of 2019, the same as in the previous month while markets were expecting a decrease to 0.7%. It remains at its lowest level since April of 2018, as inflation was steady for both food and non-alcoholic beverages and health. The seasonally adjusted unemployment rate in Italy fell to 9.9% in May of 2019 from a 10.1% in the previous month and below market expectations of 10.3%. It was the lowest jobless rate since February of 2012.

United Kingdom

Uncertainty surrounding the Brexit negotiations and the new Tory leader will continue to weigh on sentiment and investment decisions. Brexit withdrawal negotiations will eventually, but most likely after substantial postponement, result in an outcome that is acceptable for both the UK and the EU, without fully derailing economic momentum. The IHS Markit/CIPS UK Manufacturing PMI fell to 48.0 in June 2019 from 49.4 in the previous month. The IHS Markit/CIPS UK Services PMI fell to 50.2 in June 2019 from 51 in the previous month, missing market expectations of 51. The CBI Business Optimism Indicator for the UK increased to -13 in the second quarter of 2019 from -23 in the previous three-month period. It was the highest reading since the third quarter of 2018, mainly due to the Brexit delay. The UK unemployment rate stood at 3.8% in the three months to May 2019, its lowest level since the October to December 1974.

Uncertainty surrounding the Brexit negotiations and the new Tory leader will continue to weigh on sentiment and investment decisions. Nevertheless, until now the British economy has been more resilient than expected. However, the British economy will continue to suffer from Brexit-related uncertainty as well as disruptions to supply capacity in the medium to longer run. Brexit withdrawal negotiations will eventually, but most likely after substantial postponement, result in an outcome that is acceptable for both the UK and the EU, without fully derailing economic momentum. The IHS Markit/CIPS UK Manufacturing PMI fell to 48.0 in June 2019 from 49.4 in the previous month and well below market expectations of 49.2. The latest reading pointed to the steepest contraction in the manufacturing sector since February 2013 as production contracted at the fastest pace since October 2012 and new orders dropped the most for almost seven years, amid high stock levels, ongoing Brexit uncertainty, the economic slowdown and rising competition. In addition, employment fell for the third straight month and backlogs of work dropped at one of the fastest rates for six-and-a-half years. Looking ahead, business optimism dipped to its third-lowest level in the series history during June. The IHS Markit/CIPS UK Services PMI fell to 50.2 in June 2019 from 51 in the previous month, missing market expectations of 51. The latest reading pointed to higher risk aversion due to ongoing Brexit uncertainty. New orders decreased for the fifth time in the past six months. Meanwhile, job growth has been recorded in three of the past four months, linked to staff recruitment to long-term business expansion plans. On the price front, input price inflation accelerated boosted by higher transportation costs and wage pressures while output prices rose at the second-slowest rate since June 2017 due to competition for new work. Finally, confidence dropped amid domestic political uncertainty and concerns that subdued global economic conditions would continue to hold back corporate spending. The CBI Business Optimism Indicator for the UK increased to -13 in the second quarter of 2019 from -23 in the previous three-month period. It was the highest reading since the third quarter of 2018, mainly due to the Brexit delay. Sentiment regarding export prospects for the year ahead fell, but to a lesser extent than in the previous quarter. However, the proportion of firms citing political/economic conditions abroad as a factor likely to limit export orders in the next three months was at its highest since January 1983. The three months to April saw an unprecedented acceleration in the growth of stocks held by the manufacturing sector. Stocks of raw materials, work in progress, and finished goods all grew at their fastest (respective) paces on record. The UK unemployment rate stood at 3.8% in the three months to May 2019, its lowest level since the October to December 1974 period and in line with market expectations. Unemployment dropped by 51,000 to 1.29 million and employment increased by 28,000 to a new all-time high of 32.75 million. Meanwhile, total pay growth picked up to 3.4% from the previous period's 3.2%.

USA

The ISM Manufacturing PMI in the US fell to 51.7 in June 2019 from 52.1 in the previous month, beating market expectations of 51.0. Still, the latest reading pointed to weakest pace of expansion in the manufacturing sector since October 2016. The US annual inflation rate fell to 1.6% in June 2019 from 1.8% in the previous month. The core inflation rate, which excludes volatile items such as food and energy, edged up to 2.1% in June from 2% in May. The US unemployment rate rose to 3.7% in June 2019 from a 49-year low of 3.6% in the previous month.

The ISM Manufacturing PMI in the US fell to 51.7 in June 2019 from 52.1 in the previous month, beating market expectations of 51.0. Still, the latest reading pointed to weakest pace of expansion in the manufacturing sector since October 2016. Comments from the panel reflect continued expanding business strength, but at soft levels; June was the third straight month with slowing PMI expansion. Demand expansion ended, with the New Orders Index recording zero expansion, the Customers' Inventories Index remaining at a too-low level, and the Backlog of Orders Index contracting for the second straight month. New export orders remain weak. Consumption (measured by the Production and Employment indexes) continued to expand, resulting in a combined increase of 3.6% points. Inputs — expressed as supplier deliveries, inventories and imports — were lower this month, due to inventory contraction and suppliers continuing to deliver faster, resulting in a combined 3.1% point reduction in the Supplier Deliveries and Inventories indexes. Imports registered zero expansion. Overall, inputs indicate (1) supply chains are responding faster and (2) supply managers are again closely watching inventories. Prices contracted for the first time since February. Respondents expressed concern about U.S.- China trade turbulence and the global economy. Overall, sentiment this month is evenly mixed The US annual inflation rate fell to 1.6% in June 2019 from 1.8% in the previous month and in line with market expectations. The core inflation rate, which excludes volatile items such as food and energy, edged up to 2.1% in June from 2% in May, beating market consensus of 2%. On a monthly basis, consumer prices gained 0.1% in June, the same pace as in May and below expectations of 0.2%. Core consumer prices increased 0.3%, the largest increase since January 2018 and also above forecasts of 0.2%. The US unemployment rate rose to 3.7% in June 2019 from a 49-year low of 3.6% in the previous month and above market expectations of 3.6%. The number of unemployed increased by 87 thousand to 6.0 million while employment went up by 247 thousand to 157.0 million. The labor force participation rate, at 62.9%, was little changed over the month and unchanged over the year. In June, the employment-population ratio was 60.6% for the fourth month in a row.

Japan

The Bank of Japan's Tankan index for big manufacturers' sentiment fell to a near three-year low of 7 in the second quarter of 2019 from 12 in the previous period. The Jibun Bank Japan Manufacturing PMI was revised lower to 49.3 in June 2019 from a preliminary estimate of 49.5, pointing to the second month of contraction in factory activity, amid US-China trade frictions and subdued global automotive sector trends. Japan's consumer price inflation fell to 0.7% yoy in May 2019 from a six

month-high of 0.9% in the prior month. The seasonally adjusted unemployment rate in Japan stood at 2.4% in May 2019, unchanged from the previous month.

The Bank of Japan's Tankan index for big manufacturers' sentiment fell to a near three-year low of 7 in the second quarter of 2019 from 12 in the previous period, missing market consensus of 9. Meanwhile, big firms plan to raise their capital spending by 7.4% in the financial year to March 2020, against forecasts of an 8.9% increase. The Jibun Bank of Japan Manufacturing PMI was revised lower to 49.3 in June 2019 from a preliminary estimate of 49.5, pointing to the second month of contraction in factory activity, amid US-China trade frictions and subdued global automotive sector trends. Output dropped the most since March and export sales decreased for the seventh successive month and at one of the fastest rates since mid-2016, amid lower sales to clients in China. Also, employment growth eased to its weakest for just over two-and-a-half years, while unfinished work fell the most since January 2013. On the price front, input cost inflation hit its lowest in two-and-a-half years, while factory gate prices fell for the first time since December 2016. Japan's consumer price inflation fell to 0.7% yoy in May 2019 from a six month-high of 0.9% in the prior month and in line with market consensus. The slowdown in headline inflation was mainly led by electricity, transportation & communication and housing. Meanwhile, prices of food rose for the second straight month. The seasonally adjusted unemployment rate in Japan stood at 2.4% in May 2019, unchanged from the previous month and in line with market estimates. Meanwhile, the jobs-to-applicants ratio inched lower to 1.62 in May from 1.62 in April and slightly below consensus of 1.63.

China

China Q2 GDP Growth Weakest in 27 Years. The Chinese economy advanced 6.2% yoy in the Q2 2019, slowing from a 6.4% expansion. It was the lowest GDP growth rate since the Q1 1992, amid persistent trade dispute with the US, weakening global demand and alarming off-balance-sheet borrowings by local governments. China's economy expanded 6.3% in the first half of the year. Industrial production grew 6% from a year earlier in the January to June period. Retail sales rose 8.4% yoy in the first six months of the year. China's fixed-asset investment increased by 6% yoy to 29.91 trillion CNY in the first half of 2019. Figures released earlier showed exports edged up 0.1% yoy in the first six months 2019. For June only, sales fell 1.3% from a year earlier to USD 211.8 billion, after tariffs on 200 billion USD of Chinese goods were raised from 10% to 25% by Washington in May. China's annual inflation rate stood at 2.7% in June 2019, unchanged from the previous month's 15-month high. Food inflation rose to its highest since January 2012, as pork prices were persistently high following an outbreak of African swine fever. US President Donald Trump and Chinese President Xi Jinping secured trade truce in their meeting at the G-20 in Japan in 28.06.2019. Trade negotiations for a new agreement will resume. The US will temporarily freeze additional tariffs on 300 billion USD of Chinese goods. China committed to import more US agricultural products. US President said he would allow for now the continued sale of US technology to Huawei.

China Q2 GDP Growth Weakest in 27 Years. The Chinese economy advanced 6.2% yoy in the Q2 2019, slowing from a 6.4% expansion and matching market expectations. It was the lowest GDP growth rate since the Q1 1992, amid persistent trade dispute with the US, weakening global demand and alarming off-balance-sheet borrowings by local governments. China's economy expanded 6.3% in the first half of the year, with final consumption accounting for 60.1% of the GDP. The value added of the primary industry was up by 3.0%; the secondary industry by 5.8%; and the tertiary industry by 7.0%. Industrial production grew 6% from a year earlier in the January to June period. For June only, factory output expanded 6.3%, after a 5% growth in May, beating market consensus of 5.2%. That was the strongest yearly growth in industrial production since March, amid a faster rise in output of both manufacturing (6.2% vs 5% in May) and utilities (6.6% vs 5.9%) and a pick-up in mining output (7.3% vs 3.9%). By industry, output growth accelerated for chemicals (5.4% vs 3.5%), ferrous metals (13.7% vs 11.7%), general equipment (2.6% vs 2.5%), transport equipment (14.5% vs 8.3%), machinery (11.3% vs 8.8%), and power equipment (5.6% vs 5%). Meanwhile, production slowed for non-metal minerals (9.5% vs 9.9%), and communication (10.4% vs 10.6%). Retail sales rose 8.4% yoy in the first six months of the year. For June, retail sales rose by 9.8%, accelerating from 8.6% advance in May, well above expectations of 8.5%. That was the steepest growth in retail trade since March 2018, as sales grew faster for garments (5.2% vs 4.1% in May), cosmetics (22.5% vs 16.7%), jewelry (7.8% vs 4.7%), personal care (12.3% vs 11.4%), home appliances (7.7% vs 5.8%), office supplies (6.3% vs 3.1%), furniture (8.3% vs 6.1%), and oil/oil products (3.5% vs 3.1%). In addition, sales of automobiles surged (17.2% vs 2.1%) and those of building materials rebounded (1.1% vs -1.1%). China's fixed-asset investment increased by 6% yoy to 29.91 trillion CNY in the first half of 2019, following a 5.6% rise in the first five months of 2019, beating consensus of 5.6%. Private investment growth accelerated (5.7% vs 5.3% in January-May) and public investment continued to grow (6.9% vs 7.2%). By sector, fixed-asset investment advanced faster for: manufacturing (3% vs 2.7% in January-May); transport, storage and postal industry (5.1% vs 5.0%); and water conservancy, environment and public facilities management (2.5% vs 1.4%). Meantime, fixed-asset investment expanded at a softer rate for mining (22.3% vs 26.1%) amid falls in investment of utilities (-0.5% vs 0.8%) and agriculture, forestry, animal husbandry; fishery (-0.8% vs -2.7%).

Figures released earlier showed exports edged up 0.1% yoy in the first six months 2019. For June only, sales fell 1.3% from a year earlier to USD 211.8 billion, after tariffs on 200 billion USD of Chinese goods were raised from 10% to 25% by Washington in May. Imports shrank 4.3% in January to June. For June only, purchases dropped 7.3% to 161.8 billion USD. On a quarterly basis, the economy grew by 1.6% in the second quarter. It was the strongest pace of quarterly expansion since the September quarter 2018. China's annual inflation rate stood at 2.7% in June 2019, unchanged from the previous month's 15-month high and matching market expectations. Food inflation rose to its highest since January 2012, as pork prices were persistently high following an outbreak of African swine fever. The politically sensitive food inflation jumped to a 7-1/2-year high of 8.3% in June from 7.7% in May. Non-food price inflation fell to 1.4% in June from 1.6% in May. Annual core inflation, which strips out volatile food and energy prices, came in at 1.6% in June, unchanged from the previous month's near 3-year low. On a monthly basis, consumer prices fell 0.1% in June, after being flat in May. China's producer price index unexpectedly was unchanged from a year earlier in June, after a 0.6% gain in the prior month and below market consensus of a 0.3% rise. It was the lowest producer inflation since August 2016, when prices declined 0.8%. US President Donald Trump and Chinese President Xi Jinping secured trade truce in their meeting at the G-20 in Japan in 28.06.2019. Trade negotiations for a new agreement will resume. The US will temporarily freeze additional tariffs on 300 billion USD of Chinese goods. China committed to import more US agricultural products. US President said he would allow for now the continued sale of US technology to Huawei. The trade truce is temporary and substantial trade contradictions remain.

Turkey

The Turkish lira TRY slumped more than 3% after Turkish President Recep Tayyip Erdogan's shock decision to replace the country's central bank. We expect the Central Bank of Turkey to start the easing interest rates in July 25 2019 and this will increase probability of depreciation of the Turkish lira TRY, an increase in inflation, the transformation of foreign currency loans into bad loans, deterioration in the financial statement of Turkish banks and double-dip recession at the end of the year. Moody's cut Turkey's sovereign credit rating deeper into "junk" territory on June 14, saying the risk of a balance of payments crisis continued to rise, and with it the risk of a government default. Moody's said the continued erosion in institutional strength and policy effectiveness on investor confidence was increasingly outweighing Turkey's traditional credit strengths including its large, diverse economy and the low level of government debt. In response to the financial crisis, the government introduced the New Economic Program for 2019-2021, with targets for the fiscal deficit of 1.8% of GDP in 2019 and 1.9% in 2020. However, these are based on overly optimistic projection of GDP growth. Overall, fiscal policy remains unpredictable, non-transparent and lacks credibility. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, slowed to 14.86% in June, the lowest since last July, from 15.87% in May.

The Turkish lira TRY slumped more than 3% after Turkish President Recep Tayyip Erdogan's shock decision to replace the country's central bank Governor. Turkey's stockmarket index fell by 1.5%. Turkish President used his executive powers to dismiss the Governor of Central Bank of Turkey over the weekend, potentially undermining the regulator's independence. Deputy Governor Murat Uysal was named as a replacement. During a closed meeting after the decree came out, Erdogan told lawmakers from his ruling party that politicians and bureaucrats all need to get behind his conviction that higher interest rates cause inflation, the opposite of economic theory. All signs now point to Mr. Erdogan's forcing interest rates lower. The biggest immediate threat to the economy remains loans in foreign currency. Corporate debt in Turkey has more than doubled since the Global Financial Crisis, driven by heavy borrowing and financed by foreign capital inflows. As a result, a high share of the debt is denominated in foreign currency and thus vulnerable to shifts in market sentiment and exchange rate fluctuations. We expect the Central Bank of Turkey to start the easing interest rates in July 25 2019 and this will increase probability of depreciation of the Turkish lira TRY, an increase in inflation, the transformation of foreign currency loans into bad loans, deterioration in the financial statement of Turkish banks and double-dip recession at the end of the year. KBC forecast for GDP in Turkey in the end of 2019 is contraction of -1.5%. EU Commission forecast in the end of 2019 is a decline in GDP of -2.3%, IMF forecast is a decline in GDP of -2.5% and OECD forecast is a decline of -2.6%. Moody's cut Turkey's sovereign credit rating deeper into "junk" territory on June14, saying the risk of a balance of payments crisis continued to rise, and with it the risk of a government default. Moody's said the continued erosion in institutional strength and policy effectiveness on investor confidence was increasingly outweighing Turkey's traditional credit strengths including its large, diverse economy and the low level of government debt. "It remains highly vulnerable to a further prolonged period of acute economic and financial volatility," the statement said, adding that foreign exchange reserve buffers are weak. 2019 from 18.71% in the previous month. It was the lowest inflation rate since June 2018. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, slowed to 14.86% in June, the lowest since last July, from 15.87% in May.

Moody's said external pressures are exacerbated by the row between Turkey and the United States over Ankara's purchase of S-400 missile systems from Russia. The EU also has threatened sanctions against Turkey if the drilling for gas in disputed waters near EU member Cyprus goes on, which could see cuts in EU aid and a freeze on European Investment Bank lending. The government introduced a set of extensive fiscal and quasi-fiscal stimulus measures in late 2018 and early 2019 to boost domestic demand ahead of the March local elections. These included consumption tax cuts, administrative price reductions, food price discounts, job subsidies or loan restructuring measures for firms and households by public banks. These ad-hoc measures strongly contradict the previous government commitment to fiscal discipline. In response to the financial crisis, the government introduced the New Economic Program for 2019-2021, with targets for the fiscal deficit of 1.8% of GDP in 2019 and 1.9% in 2020. However, these are based on overly optimistic projection of GDP growth. Overall, fiscal policy remains unpredictable, non-transparent and lacks credibility. Turkey's annual inflation rate declined to 15.72%t in June 2019 from 18.71% in the previous month. It was the lowest inflation rate since June 2018. Annual core inflation rate, which excludes energy, food and non-alcoholic beverages, alcoholic beverages, tobacco and gold, slowed to 14.86% in June, the lowest since last July, from 15.87% in May. On a monthly basis, consumer prices advanced 0.03%, after a 0.95% rise in May.

POLICY OF THE CENTRAL BANKS

European Central Bank (ECB)

Eurosystem staff macroeconomic projections for the euro area, June 2019. Although real GDP growth was stronger than expected in the first quarter of 2019, recent indicators point to weaker growth in the second quarter and a moderate increase during the remainder of 2019. Altogether, real GDP growth is projected to decline from 1.8% in 2018 to 1.2% in 2019 before increasing to 1.4% in 2020 and 2021. HICP inflation is expected to moderate this year but to recover thereafter. HICP inflation is expected to moderate this year but to recover thereafter. Inflation is projected to reach 1.3% in 2019, 1.4% in 2020 and 1.6% in 2021. Energy inflation will continue to decline in the short term, on the back of downward base effects and slightly declining oil price assumptions, and stabilize thereafter. HICP inflation excluding energy and food will pick up gradually, supported by the envisaged economic expansion.

Eurosystem staff macroeconomic projections for the euro area, June 2019.

Although real GDP growth was stronger than expected in the first quarter of 2019, recent indicators point to weaker growth in the second quarter and a moderate increase during the remainder of 2019. Economic sentiment indicators have continued to worsen across euro area countries over recent months, notably in sectors exposed to global trade. This reflects the ongoing weakness in global trade in an environment of continued global uncertainties (such as threats of an escalation of protectionism and the possibility of a disorderly Brexit). These factors weigh on export order books and on production expectations in the manufacturing sector, and are likely to continue to hold back euro area activity in the near term. At the same time, sentiment in the domestically-oriented services and construction sectors has been more resilient in recent months and the labour market situation has continued to improve. Overall, the fundamental domestic factors that should support the euro area expansion, namely the very accommodative stance of monetary policy, rising wages and some fiscal easing, remain broadly in place. In addition, foreign demand is expected to gradually recover during the course of 2019 and to provide a stronger impetus over the remainder of the projection horizon. Altogether, real GDP growth is projected to decline from 1.8% in 2018 to 1.2% in 2019 before increasing to 1.4% in 2020 and 2021. Compared with the March 2019 projections, real GDP growth in 2019 has been revised up slightly, as the upward impact of a stronger than expected first quarter more than offsets downward revisions to growth in the following quarters, mainly due to more persistent weakness in global trade. This implies a weaker carry-over into 2020. In addition, the medium-term projections have been revised down marginally. HICP inflation is expected to moderate this year but to recover thereafter. Inflation is projected to reach 1.3% in 2019, 1.4% in 2020 and 1.6% in 2021. Energy inflation will continue to decline in the short term, on the back of downward base effects and slightly declining oil price assumptions, and stabilize thereafter. HICP inflation excluding energy and food will pick up gradually, supported by the envisaged economic expansion. At the same time, past increases in labour costs will feed into prices and profit margins will recover. Compared with the March 2019 projections, HICP inflation has been revised marginally upwards in 2019 due to higher oil prices and marginally downwards in 2020 due to a more steeply downward sloping path of the oil price assumptions. HICP inflation excluding energy and food is revised down slightly in the near term reflecting weaker data outturns.

Bank of England (BoE)

Bank of England Financial Stability Report July 2019. The perceived likelihood of a no-deal Brexit has increased since the start of the year. The UK banking system remains strong enough to continue to lend through the wide range of UK economic and financial shocks that could be associated with Brexit. Most risks to UK financial stability from disruption to cross-border financial services have been mitigated. In the absence of further actions by EU authorities, some disruption to cross-border financial services is possible. The Financial Policy Committee judges that underlying domestic vulnerabilities, apart from those related to Brexit, remain at a standard level overall and global vulnerabilities remain material. As set out in the November 2018 Report, the UK economic scenario in the test was sufficiently severe to encompass the wide range of UK economic and financial shocks that could be associated with Brexit. The Financial Policy Committee also judges that the test on global exposures was of a severity that encompassed a worst-case scenario for global trade tensions.

Bank of England Financial Stability Report July 2019

The Financial Policy Committee of Bank of England continues to judge that the core of the UK financial system, including banks, dealers and insurance companies, is resilient to and prepared for the wide range of risks it could face, including a worst-case disorderly Brexit. The perceived likelihood of a no-deal Brexit has increased since the start of the year.The UK banking system remains strong enough to continue to lend through the wide range of UK economic and financial shocks that could be associated with Brexit. Actions by businesses and authorities since November have resulted in some improvement in the preparedness of the UK economy for a no-deal Brexit. However, material risks of economic disruption remain. The Financial Policy Committee continues to judge that its 2018 stress test of major UK banks was sufficiently severe to encompass a worst-case disorderly Brexit. Most risks to UK financial stability from disruption to cross-border financial services have been mitigated.

The measures put in place by firms and authorities ahead of March will apply at the end of October. Firms have taken further mitigating actions in recent months. It is important that they continue to do so during the extension of the UK's membership of the EU to further reduce the risks of disruption. In the absence of further actions by EU authorities, some disruption to cross-border financial services is possible. Although such disruption would primarily affect EU households and businesses, it could amplify volatility and spill back to the UK in ways that cannot be fully anticipated or mitigated. Financial stability is not the same as market stability. Significant market volatility and asset price changes are to be expected in a disorderly Brexit. However, sterling markets have proved able to function effectively through volatile periods. Irrespective of the particular form of the UK's future relationship with the EU, and consistent with its statutory responsibilities, the Financial Policy Committee will remain committed to the implementation of robust prudential standards in the UK. This will require maintaining a level of resilience that is at least as great as that currently planned, which itself exceeds that required by international baseline standards, as well as maintaining UK authorities' ability to manage UK financial stability risks. The Financial Policy Committee (FPC) aims to ensure the UK financial system is resilient to, and prepared for, the wide range of risks it could face — so that the system can serve UK households and businesses in bad times as well as good. The Financial Policy Committee's assessment of risks to financial stability reflects:

• The level of underlying vulnerabilities in the domestic and global economies. These determine the scale of the future challenges the financial system could face in the event of an adverse shock and therefore drive the severity of stress scenarios that the Financial Policy Committee tests the system against.
• The ability of the UK financial system to withstand those potential challenges.

The Financial Policy Committee judges that underlying domestic vulnerabilities, apart from those related to Brexit, remain at a standard level overall and global vulnerabilities remain material. These vulnerabilities were reflected in its 2018 stress test of major UK banks. Where it identifies specific shocks that could generate challenges for the financial system, the Financial Policy Committee assesses whether those challenges are encompassed by the stress scenarios that major UK banks have already demonstrated their resilience to. It continues to judge that, as set out in the November 2018 Report, the UK economic scenario in the test was sufficiently severe to encompass the wide range of UK economic and financial shocks that could be associated with Brexit. The Financial Policy Committee also judges that the test on global exposures was of a severity that encompassed a worst-case scenario for global trade tensions.

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.

USA Federal Reserve

Monetary Policy in the Post-Crisis Era Chair Jerome H. Powell Speech Since the trough of the Great Recession 2008, average inflation and output growth are around 1% point lower, and the 10-year Treasury rate has averaged 2.4%. These declines are not unique to the United States. Average inflation rates for the other major advanced economies have declined by almost half, while the inflation rates of major emerging market economies are less than one-fifth of what they were. Indeed, with few exceptions, Federal Reserve is all facing lower rates of interest, growth, and inflation. In a number of countries, including the United States, these declines have been accompanied by strong labor markets and a much lower unemployment rate. Standard estimates of the natural rate of unemployment—u*—and the neutral rate of interest—r*—have been declining for 2 decades, and particularly since the crisis. A second important feature of this new world is the tools central bankers now have to fight recessions. A legacy of the crisis is that policymakers now have a broader range of tested tools to turn to the next time the effective lower bound is reached. Finally, the crisis and Great Recession brought into stark relief the need for transparency and accountability for central banks.

Monetary Policy in the Post-Crisis Era Chair Jerome H. Powell Speech At "Bretton Woods: 75 Years Later—Thinking about the Next 75," a conference organized by the Banque de France and the French Ministry for the Economy and Finance, Paris, France.

The U.S. economy is now in its 11th consecutive year of growth. Unemployment has steadily declined from its 10% post-crisis peak and has now remained at or below 4% for more than a year, the longest stretch in a half century. A strong labor market with plentiful job openings has supported labor force participation. After rising only grudgingly early in the recovery, wages have moved up the past few years. Many people who have struggled to stay in the workforce are now getting an opportunity to add new and better chapters to their life stories. Solid growth has sustained this strong labor market. Most recently, U.S. gross domestic product (GDP) increased at an annual rate of just over 3% in the first quarter, similar to last year's strong pace. But first-quarter growth was driven largely by net exports and inventories—two volatile spending categories that are typically not dependable indicators of ongoing momentum. Indeed, overall growth in the second quarter appears to have moderated. Growth in consumer spending, which was soft in the first quarter, looks to have bounced back, but business fixed investment growth seems to have slowed notably. Moreover, the manufacturing sector has been weak since the beginning of the year, in part weighed down by the softer business spending, weaker growth in the global economy, and, as our business contacts tell us, concerns about trade tensions. Despite low unemployment and solid overall growth, inflation pressures remain muted. After running close to the Federal Open Market Committee's (FOMC) symmetric 2% objective over much of last year, both overall consumer price inflation and core inflation moved down earlier this year. Federal Reserve currently estimates that the change in the core personal consumption expenditures (PCE) price index was 1.7% over the 12 months ending in June. In our baseline outlook, Federal Reserve expects growth in the United States to remain solid, labor markets to stay strong, and inflation to move back up and run near 2%. Uncertainties about this outlook have increased, however, particularly regarding trade developments and global growth. In addition, issues such as the U.S. federal debt ceiling and Brexit remain unresolved. FOMC participants have also raised concerns about a more prolonged shortfall in inflation below our 2% target. Market-based measures of inflation compensation have shifted down, and some survey-based expectations measures are near the bottom of their historical ranges. Many FOMC participants judged at the time of our most recent meeting in June that the combination of these factors strengthens the case for a somewhat more accommodative stance of policy. Federal Reserve is carefully monitoring these developments and assessing their implications for the U.S economic outlook and inflation, and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2% objective. Federal Reserve will also assess these developments in the context of the broader structural changes monetary policymakers have been facing since the Great Recession. I will focus on three tonight: the changed macroeconomic backdrop, the expanded toolkit, and the heightened focus on communication and transparency. In the United States, from the mid-1980s to right before the Great Recession, PCE inflation averaged 2.6% a year, GDP growth 3.4%, and the interest rate on a 10-year Treasury note 6.5%. Since the trough of the Great Recession 2008, average inflation and output growth are around 1%age point lower, and the 10-year Treasury rate has averaged 2.4%. These declines are not unique to the United States. Average inflation rates for the other major advanced economies have declined by almost half, while the inflation rates of major emerging market economies are less than one-fifth of what they were. Indeed, with few exceptions, Federal Reserve is all facing lower rates of interest, growth, and inflation. In a number of countries, including the United States, these declines have been accompanied by strong labor markets and a much lower unemployment rate. Such changes in the macroeconomic environment are significant because the long-run normal levels of inflation, output, interest rates, and the unemployment rate are important structural features by which Federal Reserve guides policy. Standard estimates of the natural rate of unemployment—u*—and the neutral rate of interest—r*—have been declining for 2 decades, and particularly since the crisis. Many factors are contributing to these changes—well-anchored inflation expectations in the context of improved monetary policy, demographics, globalization, slower productivity growth, greater demand for safe assets, and weaker links between unemployment and inflation. And these factors seem likely to persist. If that happens, the neutral rate of interest will remain low, and policymakers will continue to operate in an environment in which the risk of hitting the effective lower bound is much higher than before the crisis. This proximity to the lower bound poses new complications for central banks and calls for new ideas. It is true that many of these features have been with us for some time. Trend inflation, productivity, and interest rates were declining well before the crisis. But, for monetary policymakers in that era, the threat of high inflation felt proximate, the hard-fought battle to control high inflation having been just recently won. Technological progress seemed likely to continue to sustain rapid increases in productivity—an outcome Federal Reserve continues to await. And the effective lower bound for interest rates was mainly a theoretical concern, except of course in Japan. The changes to the macroeconomic environment may have been in train earlier, but the crisis seems to have accelerated the process. The world in which policymakers are now operating is discretely different in important ways from the one before the Great Recession. It should also note, as is fitting given this event and this audience, that since the crisis policymakers are even more keenly aware of the relevance of global factors to our policies. The global nature of the financial crisis and the channels through which it spread sharply highlight the interconnectedness of our economic, financial, and policy environments. U.S. economic developments affect the rest of the world, and the reverse is also true. For example, the stresses surrounding the euro crisis and, later, the China-related volatility events in 2015 and 2016 led to a general pullback in demand for risky assets that put downward pressure on U.S. interest rates and weighed on U.S. confidence and growth.

In addition, Federal Reserve has seen how monetary policy in one country can influence economic and financial conditions in others through financial markets, trade, and confidence channels. Pursuing our domestic mandates in this new world requires that Federal Reserve understands the anticipated effects of these interconnections and incorporate them into our policy decision-making. A second important feature of this new world is the tools central bankers now have to fight recessions. In the face of the dramatic economic and financial collapse during the crisis, policymakers quickly exhausted conventional monetary policy tools and employed a range of unconventional measures to support their economies. In the United States, these measures included new forms of forward guidance and a range of balance sheet policies. Broadly across different economies, so-called unconventional monetary policies have generally been successful at lowering interest rates and supporting economic recovery, though cyclical and structural headwinds have made achieving our inflation targets a challenge. A legacy of the crisis is that policymakers now have a broader range of tested tools to turn to the next time the effective lower bound is reached. Federal Reserve must continue to assess additional strategies and tools to bolster our economies and meet our inflation and employment mandates. Finally, the crisis and Great Recession brought into stark relief the need for transparency and accountability for central banks. Central bank communication is increasingly important and increasingly challenging. It is important because clear, transparent communication about the economy, the risks, and our policy responses is critical for the effectiveness of our tools and for our accountability to the public in a democratic society. Where does this leave us, and how should policymakers adapt to this new environment? Recognizing challenges posed by the changing structure of the economy, the need for effective policy responses, and the importance of clear communication, central banks are taking a closer look at their strategies and the range of tools currently at their disposal. For example, the Bank of Canada examines its framework every five years as part of the renewal of its inflation-control agreement with the federal government. Canadian officials have announced the bank will "assess a broad range of monetary policy frameworks ahead of the renewal in 2021" of this agreement. The Bank of England commissioned a review over the past year of the future of the United Kingdom's financial system and what it might mean for the bank's agenda, toolkit, and capabilities. For the part of Federal Reserve it is conducting, for the first time, a public review of the strategy, tools, and communications that Federal Reserve use to promote its goals of maximum employment and price stability. The heart of this review has been a series of Fed Listens events around the country, in every Reserve Bank District, to hear directly from the constituencies Federal Reserve serves. These events have been live-streamed on the internet. Last month, Federal Reserve hosted a research conference at the Federal Reserve Bank of Chicago to explore ways to more effectively and sustainably achieve our mandated goals. Beginning soon, the FOMC will devote time at its regular meetings to assessing the lessons from these events. Federal Reserve will publicly report the conclusions of our discussions, likely during the first half of next year.

Bank of Japan (BoJ)

Summary of Opinions on Monetary Policy at the Monetary Policy Meeting of Bank of Japan on June 19 and 20, 2019. Although it will take time to achieve the price stability target, it is necessary to persistently continue with the current powerful monetary easing as the momentum toward 2% inflation is maintained. Although downside risks warrant attention, it is appropriate for the Bank of Japan to continue with the current monetary policy stance given that the main scenario regarding economic activity that Japan's economy is likely to continue on its moderate expanding trend is unchanged and the momentum toward 2% inflation is maintained. The Bank of Japan needs to constantly consider measures that enhance the sustainability of monetary easing. Amid changes in the external environment such as growing expectations for monetary easing in the United States and Europe, the Bank of Japan+ also needs to strengthen monetary easing. In addition, it is necessary to further consider in depth the feasibility of a wide range of additional easing measures, as well as their effects and side effects.

Summary of Opinions on Monetary Policy at the Monetary Policy Meeting of Bank of Japan on June 19 and 20, 2019. Although it will take time to achieve the price stability target, it is necessary to persistently continue with the current powerful monetary easing as the momentum toward 2% inflation is maintained. Despite high uncertainties regarding overseas economies going forward, the Bank of Japan, in a situation where a policy mix of monetary and fiscal policies are being sustained, should aim to achieve the price stability target by persistently continuing with the current monetary easing policy while paying closer attention than before to the side effects on the functioning of financial intermediation and the market functioning. The Bank of Japan should persistently continue with the current monetary policy stance with the aim of continuously encouraging the virtuous cycle of the economy to take hold and achieving the price stability target. Although downside risks warrant attention, it is appropriate for the Bank of Japan to continue with the current monetary policy stance given that the main scenario regarding economic activity that Japan's economy is likely to continue on its moderate expanding trend is unchanged and the momentum toward 2% inflation is maintained.

The Bank of Japan needs to constantly consider measures that enhance the sustainability of monetary easing. It is necessary to closely examine the effects of such factors as deterioration in firms' and households' sentiment on the inflation momentum. If there is concern that such momentum will be lost, the Bank of Japan should consider implementing necessary policy measures appropriately. While central banks have been vigilant regarding the slowdown in the global economy and heightening uncertainties over it, the key to overcoming deflation is for the Bank of Japan to maintain its stance of taking some kind of policy responses if some changes emerge in the baseline scenario of the outlook for prices. All policy measures -- including adjustments in short- and long-term interest rates, an acceleration in the pace of expansion in the monetary base, and an increase in the amount of assets to be purchased -- should be deliberated when considering additional easing. Amid changes in the external environment such as growing expectations for monetary easing in the United States and Europe, the Bank of Japan also needs to strengthen monetary easing. In addition, it is necessary to further consider in depth the feasibility of a wide range of additional easing measures, as well as their effects and side effects. While banks' profits have been deteriorating, lending rates seem to be approaching the levels of the so-called reversal rates, which reverse the effects of monetary easing and decrease the amount of bank loans. If base rates for bank loans decline further, there could be a decline in the amount of bank loans, which constitute an important transmission channel through which the effects of monetary policy spread to the real economy. Regarding the provision of funds with negative interest rates by central banks to financial institutions, there is a risk that it will not lead to an increase in the amount of bank loans and concern that it will bring about downward pressure on interest rates, depending on developments in economic activity and financial conditions.

PBoC

The People's Bank of China (PBOC) renewed 188.5 billion CNY (about 27.4 billion U.S. dollars) of medium-term lending facility (MLF) loans which were due on 15.07.2019 and injected another 11.5 billion CNY via MLF to small and medium-sized banks. The MLF operations totaled 200 billion CNY and will mature in one year at an interest rate of 3.3%. The PBOC announced it would conduct the third phase of a cut in the reserve requirement ratio (RRR) to free around 100 billion CNY in long-term funds on 15.07.2019. On June 25, the Monetary Policy Committee of the People's Bank of China (PBOC) held the second quarterly meeting in 2019 in Beijing. The sound monetary policy will be maintained appropriate in intensity, money supply will be properly managed, and massive liquidity injection will be avoided, so as to ensure that the growth of M2 and aggregate financing to the real economy is in line with the nominal GDP growth. The PBC will continue to deepen the financial system reform, improve the two-pillar regulatory framework underpinned by monetary policy and macro prudential policy, and further improve the transmission mechanism of monetary policy. The PBOC will deepen interest rate liberalization reform, keep the RMB exchange rate basically stable at an adaptive and equilibrium level and promote the stable and sound development of economy. Effective measures will be taken to prevent and defuse financial risks, so as to achieve risk prevention while facilitating high-quality development, properly manage the intensity and pace of risk resolution, stabilize market expectations, and hold the bottom line of preventing systemic financial risks.

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The international economic and financial situation has become more complex, and external uncertainties and destabilizing factors are adding up. It is agreed at the meeting that the PBOC will continue to closely monitor profound changes in the economic and financial situation both at home and abroad, be more mindful of the difficulties ahead, maintain its strategic resolve, innovate and improve approaches to macro control, make timely and appropriate countercyclical adjustments, and enhance macro policy coordination. The sound monetary policy will be maintained appropriate in intensity, money supply will be properly managed, and massive liquidity injection will be avoided, so as to ensure that the growth of M2 and aggregate financing to the real economy is in line with the nominal GDP growth. The PBC will continue to deepen the financial system reform, improve the two-pillar regulatory framework underpinned by monetary policy and macro prudential policy, and further improve the transmission mechanism of monetary policy. Meanwhile, based on the requirements of deepening supply-side structural reform in the financial sector, efforts will be made to optimize financing and credit structures, to provide stronger support for high-quality development, and to boost the compatibility between the financial system and the supply and demand systems. The PBOC will improve financial services offered to small and micro businesses as well as agriculture, rural areas, and farmers, to enable private enterprises to get financial support that matches their contribution to the economic and social development, to facilitate the formation of a triangular framework in which the supply system, the demand system, and the financial system support each other, and to drive the overall virtuous circle of national economic development. Moreover, measures will also be taken to further expand the high-level two-way opening-up of the financial sector, consolidate the capability of managing economic and financial situation and preventing risks in an open market, and enable stronger capacities to participate in the international financial governance. A combination of monetary policy instruments will be used to keep liquidity at reasonably adequate level. The PBOC will deepen interest rate liberalization reform, keep the RMB exchange rate basically stable at an adaptive and equilibrium level and promote the stable and sound development of economy. Effective measures will be taken to prevent and defuse financial risks, so as to achieve risk prevention while facilitating high-quality development, properly manage the intensity and pace of risk resolution, stabilize market expectations, and hold the bottom line of preventing systemic financial risks.

Central Bank of Turkey

In response to a full-blown currency crisis in mid-2018, the Central Bank of the Republic of Turkey (TCMB) raised the interest rates to 24.00% in September 2018. The result is declined of the inflation – it declines to 15.72%t in June 2019 from 18.71% in the previous month. It was the lowest inflation rate since June 2018. However, Turkish President Recep Tayyip Erdogan's decision in July 6 2019 to fire the central bank Governor liquidates central bank independence. These controversial steps further eroded the TCMB‘s credibility. We expect the TCMB to start the easing cycle on the meeting of the Monetary Policy Committee in July 25 2019. We expect the lira TRY to depreciate substantially after interest rate cut and consequently a sharp rise in inflation, deterioration in the financial statement of Turkish banks, decline in GDP and increase in unemployment over the coming months

In response to a full-blown currency crisis in mid-2018, the Central Bank of the Republic of Turkey (TCMB) raised the interest rates to 24.00% in September 2018. The TCMB further indirectly tightened monetary conditions prior to the March 2019 local election to support the weakening lira (rising effective funding rate to 25.5%). In addition, the TCMB forced local banks to reduce the supply of TRY abroad, pushing short term rates sharply higher (O/N rates at 1000%). The result is declined of the inflation – it declines to 15.72%t in June 2019 from 18.71% in the previous month. It was the lowest inflation rate since June 2018. Annual core inflation rate, slowed to 14.86% in June from 15.87% in May, the lowest since last July. On a monthly basis, consumer prices advanced 0.03%, after a 0.95% rise in May. So the disinflation in the first half of the year was the result of the restrictive policy of the TCMB. However, Turkish President Recep Tayyip Erdogan's decision in July 6 2019 to fire the central bank Governor liquidates central bank independence. These controversial steps further eroded the TCMB‘s credibility. The central bank has been struggling with a lack of independence from political pressure. The TCMB lacks any firepower to defend the lira TRY (foreign reserves-to-foreign short-term debt ratio around 60%; an import coverage ratio at four months). Given the anticipated disinflation path in 2H 2019, we expect the TCMB to start the easing cycle on the meeting of the Monetary Policy Committee in July 25 2019. The risk remains around the timing of the first interest rate cut, i.e. a possible premature easing, which could lead to another TRY selloff. We expect also relatively high interest rate cut with 4% (400 bp) and decrease of basic interest rate from 24% to around 20%. The development of USD/TRY exchange rate is the crucial variable in the TCMB‘s reaction function. We expect the lira TRY to depreciate substantially after interest rate cut and consequently a sharp rise in inflation, deterioration in the financial statement of Turkish banks, decline in GDP and increase in unemployment over the coming months.

INTERNATIONAL COMMODTITY PRICES

Petrol

Oil prices stabilize on 18.07.2019 after falling back in the previous session. The official data on 17.07.2019 showed that stocks in the US from products like gasoline rose sharply last week, suggesting weak demand during the peak travel season. Crude oil rose 0.31 USD/BBL or 0.55% to 51.85 on Thursday 18 July from 56.66 in the previous trading session. Brent oil prices rose 0.45 USD/BBL or 0.71% to 60.61 on Thursday, July 18, from 63.78 in the previous trading session. Oil prices as a whole are down this week as worries about conflict in the Middle East have fallen, oil production in the Gulf of Mexico has rebounded, and China's growth concerns remain. Weekly Crude Oil fell by -5.36% and Brent fell by -3.44%.

Oil prices stabilize on 18.07.2019 after falling back in the previous session. The official data on 17.07.2019 showed that stocks in the US from products like gasoline rose sharply last week, suggesting weak demand during the peak travel season. Gasoline stocks rose 3.6 million barrels, compared with 925,000 barrels of analysts' expectations. Crude oil rose 0.31 USD/BBL or 0.55% to 51.85 on Thursday 18 July from 56.66 in the previous trading session. Brent oil prices rose 0.45 USD/BBL or 0.71% to 60.61 on Thursday, July 18, from 63.78 in the previous trading session. Oil prices as a whole are down this week as worries about conflict in the Middle East have fallen, oil production in the Gulf of Mexico has rebounded, and China's growth concerns remain. Weekly Crude Oil fell by -5.36% and Brent fell by -3.44%. US President Donald Trump and Secretary of State Mike Pompeo mitigated the tune over Iran. Newsweek quoted Pompeo as saying that "for the first time Iranian authorities are ready to negotiate their missile program." Mike Pompeo's comments came after US President Donald Trump has told his administration that he has made progress in talks with Tehran and that he does not want a war or regime change in Iran. China recorded its slowest quarterly growth in the economy over the past 27 years, exacerbating concern for demand from the world's largest crude oil importer. Demand on the domestic market and abroad has declined under the pressure of the US-China trade war.

Agriculture products

Earlier this month, the US Department of Agriculture (USDA) shocked grain traders with surprisingly high data on US-sown areas of maize, which drastically diverged from market attitudes. The US Department of Agriculture report broke the sharp rise in corn prices in the United States. Expectations for sowing cuts have raised the price of maize in Chicago in the second half of June to the highest values since June 2014. Prior to the USDA report, the July contract for feed grain was traded in Chicago at USD/ton 179, but after the high-priced announcement, the price collapsed to about USD/ton 162. This is the biggest daily price fluctuation in Chicago for four years. The rise in cereal quotations on the US market in recent weeks was due to the sharp rise in maize, while the fundamental factors in wheat were mostly negative for price development. This period 02-05.2019 in Chicago, the price dropped USD 16.00 a week to USD/ton 224.00, in Ukraine USD 10.01 to USD/ton 199.99 in France, EUR 14.00 to EUR/ton 177.00. The price of corn in Chicago fell naturally by USD 10.00 to USD 192.00. In France and Ukraine, corn retained its levels from last week at EUR/ton 182.00 and USD/ton 190.00. Barley prices fell by USD/ton 4 in Ukraine to USD/ton 175.00 and by EUR/ton 17 in France to EUR/ton 158.00. Rape in the European Union / Euronext / fell by EUR 1.50 to EUR/ton 364.75.

International grain markets since the beginning of 2019 have been characterized by climatic price shocks, the uncertainty surrounding US tariff policy and, in particular, the US-China trade war. Earlier this month, the US Department of Agriculture (USDA) shocked grain traders with surprisingly high data on US-sown areas of maize, which drastically diverged from market attitudes. The US Department of Agriculture report broke the sharp rise in corn prices in the United States. Expectations for sowing cuts have raised the price of maize in Chicago in the second half of June to the highest values since June 2014. Prior to the USDA report, the July contract for feed grain was traded in Chicago at USD/ton 179, but after the high-priced announcement, the price collapsed to about USD/ton 162. This is the biggest daily price fluctuation in Chicago for four years. The wheat futures on the last business day of June also went down. The rise in cereal quotations on the US market in recent weeks was due to the sharp rise in maize, while the fundamental factors in wheat were mostly negative for price development. This period 02-05.2019 in Chicago, the price dropped USD 16.00 a week to USD/ton 224.00, in Ukraine USD 10.01 to USD/ton 199.99 in France, EUR 14.00 to EUR/ton 177.00. The price of corn in Chicago fell naturally by USD 10.00 to USD 192.00. In France and Ukraine, corn retained its levels from last week at EUR/ton 182.00 and USD/ton 190.00. Barley prices fell by USD/ton 4 in Ukraine to USD/ton 175.00 and by EUR/ton 17 in France to EUR/ton 158.00. Rape in the European Union / Euronext / fell by EUR 1.50 to EUR/ton 364.75. The price of unrefined sunflower oil in the Rotterdam exchange rose by USD 8.00 to USD/ton 750.00 and refined sugar fell USD 8.40 to USD/ton 320.30 on the London stock exchange as the August delivery month. In the "Grain" sub-index of Sofia Commodity Exchange AD there are still quotes on all contracts, the prices are slightly higher. Wheat from a place is offered at BGN / ton 340.00, the demand is 290.00- BGN / ton 320.00. At this high performance, prices ranged from BGN/ton 330.00-360.00 "buy" to BGN/ton 370.00-390.00 "sell"

BULGARIA

EXTERNAL SECTOR

Balance of Payments

In January – May 2019 Bulgaria's current and capital account was positive amounting to 1,432.9 million EUR (2.4% of GDP), compared with a surplus of 26.9 million EUR (0.05% of GDP) in January – May 2018.

According BNB data the current and capital account recorded a surplus of 424.1 million EUR in May 2019, compared with a surplus of 31.7 million EUR in May 2018. In January – May 2019 the current and capital account was positive amounting to 1,432.9 million EUR (2.4% of GDP), compared with a surplus of 26.9 million EUR (0.05% of GDP) in January – May 2018. The current account was positive amounting to EUR 328.6 million in May 2019, compared with a deficit of EUR 2.9 million in May 2018. In January – May 2019 the current account was positive and amounted to 1,040.1 million EUR (1.8% of GDP), compared with a deficit of 75.6 million EUR (0.1% of GDP) in January – May 2018. The balance on goods recorded a deficit of 115.8 million EUR in May 2019, compared with a deficit of 273.4 million EUR in May 2018. In January – May 2019 the balance on goods was negative amounting to 558.6 million EUR (0.9% of GDP), compared with a deficit of 1131.6 million EUR (2.1% of GDP) in January – May 2018. Exports of goods amounted to 2,389.9 million EUR in May 2019, growing by 239 million EUR (11.1%) from May 2018 (2,150.8 million EUR). In January – May 2019 exports of goods totalled 11,623.2 million EUR (19.6% of GDP), growing by 1,080.2 million EUR (10.3%) yoy (from 10,541 million EUR, 19.1% of GDP). In January – May 2018 exports grew by 0.01% yoy. Imports of goods amounted to 2,505.7 million EUR in May 2019, growing by 81.5 million EUR (3.4%) from May 2018 (2,424.2 million EUR). In January – May 2019 imports of goods totalled 12,181.8 million EUR (20.6% of GDP), growing by 509.2 million EUR (4.4%) from January – May 2018 (11,672.6 million EUR, 21.2% of GDP). In January – May 2018 imports grew by 5.9% yoy. Services recorded a positive balance of 203.3 million EUR in May 2019, compared with a surplus of 181.6 million EUR in May 2018. In January – May 2019 services recorded a surplus of 734 million EUR (1.2% of GDP) compared with a positive balance of 563.8 million EUR (1% of GDP) in the same period of 2018. The net primary Income (which reflects the receipt and payment of income related to the use of resources (labour, capital, land), taxes of production and imports and subsidies) recorded a surplus of 63.8 million EUR, compared with a deficit of 72.4 million EUR in May 20183. In January – May 2019 the balance on primary income was positive and equated to 28.9 million EUR (0.05% of GDP), compared with a deficit of 321.9 million EUR (0.6% of GDP) in January – May 2018. The net secondary income (which reflects the redistribution of income) recorded a surplus of 177.3 million EUR, compared with a positive balance of 161.3 million EUR in May 2018. In January – May 2019 the net secondary income was positive amounting to 835.7 million EUR (1.4% of GDP), compared with a positive balance of 814.1 million EUR (1.5% of GDP) in the same period of 2018. The capital account recorded a surplus of 95.5 million EUR, compared with a positive balance of 34.6 million EUR in May 2018. In January – May 2019 the capital account recorded a surplus of 392.8 million EUR (0.7% of GDP), compared with a positive balance of 102.5 million EUR (0.2% of GDP) in January – May 2018. The financial account recorded a positive balance of 101 million EUR, compared with a positive value of 432 million EUR in May 2018. In January – May 2019 the financial account recorded a net inflow of 599.4 million EUR (1% of GDP) compared with an inflow of 982.2 million EUR (1.8% of GDP) in January – May 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 13 million EUR, compared with a negative balance of 46.5 million EUR in May 2018. In January – May 2019 direct investment recorded a positive balance of 220.2 million EUR (0.4% of GDP), compared with a positive balance of 4.7 million EUR (0.01% of GDP) in January – May 2018. Direct investment – assets grew by 11.4 million EUR compared with an increase of 89.7 million EUR in May 2018. In January – May 2019 direct investment – assets grew by 218.2 million EUR (0.4% of GDP) compared with an increase of 289.3 million EUR (0.5% of GDP) in the same period of 2018. Direct investment – liabilities dropped by 1.7 million EUR in May 2019, compared with an increase of 136.3 million EUR in May 2018. In January – May 2019 direct investment – liabilities dropped by 2 million EUR, compared with an increase of 284.6 million EUR (0.5% of GDP) in the same period of 2018. The balance on portfolio investment was negative amounting to 23.9 million EUR, compared with a negative balance of 58.5 million EUR in May 2018. In January – May 2019 the balance was positive and equated to 316.9 million EUR (0.5% of GDP), compared with a positive balance of 808 million EUR (1.5% of GDP) million in January – May 2018.

Portfolio investment – assets grew by 44 million EUR, compared with a decline of 28.4 million EUR in May 2018. In January – May 2019 they rose by 283 million EUR (0.5% of GDP) compared with an increase of 492.8 million EUR (0.9% of GDP) in January – May 2018. Portfolio investment – liabilities grew by 67.8 million EUR compared with an increase of 30.1 million EUR in May 2018. In January – May 2019 portfolio investment – liabilities dropped by 33.3 million EUR (0.1% of GDP) compared with a decline of 315.2 million EUR (0.6% of GDP) in January – May 2018. The balance on other investment was positive amounting to 139.4 million EUR, compared with a positive balance of 263.7 million EUR in May 2018. In January – May 2019 the balance was positive and equated to 438.4 million EUR (0.7% of GDP), compared with a positive balance of 957 million EUR (1.7% of GDP) in January – May 2018. Other investment – assets decreased by 78.6 million EUR, compared with a decrease of 32.5 million EUR in May 2018. In January – May 2019 they grew by 684 million EUR (1.2% of GDP) compared with an increase of 1,114.4 million EUR (2% of GDP) in January – May 2018. Other investment – liabilities decreased by 218 million EUR compared with a decrease of 296.2 million EUR in May 2018. In January – May 2019 they grew by 245.7 million EUR (0.4% of GDP) compared with an increase of 157.3 million EUR (0.3% of GDP) in January – May 2018. The BNB reserve assets decreased by 13.5 million EUR, compared with an increase of 260.4 million EUR in May 2018. In January – May 2019 they dropped by 339 million EUR (0.6% of GDP), compared with a decline of 876.5 million EUR (1.6% of GDP) in the same period of 2018. The net errors and omissions were negative amounting to 323.1 million EUR compared with a positive value of 400.3 million EUR in May 2018. According to preliminary data, the item was negative totalling 833.5 million EUR (1.4% of GDP) in January – May 2019, compared with a positive value of 955.4 million EUR (1.7% of GDP) in the same period of 2018.

Bulgaria: Balance of payments	May 2018	May 2019	Change in EUR million	January- May 2018	January- May 2019	Change in EUR million
Current and capital account	31.7	424.1	392.4	26.9	1432.9	1406.0
Current account	-2.9	328.6	331.5	-75.6	1040.1	1115.7
Trade balance	-273.4	-115.8	157.6	-1131.8	-558.6	573.2
Services, net	181.5	208.3	26.8	563.8	734.0	170.2
Primary income, net	-72.4	83.6	156.0	-321.8	28.9	350.7
Secondary income, net	161.3	177.3	16.0	814.1	835.7	21.6
Capital account	34.6	95.5	60.9	102.5	392.8	290.3
Capital transfers, net	11.2	58.5	47.3	92.4	260.8	168.4
Financial account	432.0	101.0	-331.0	982.2	590.4	-391.8

Source: BNB

Foreign Direct Investments

In January-May 2019 the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a negative value of 55.9 million EUR (0.1% of GDP) in January – May 2019, dropping by 147.1 million EUR from January – May 2018 (positive value of 91.2 million EUR, 0.2% of GDP).

According to BNB preliminary data, the net flows of foreign direct investment in Bulgaria presented according to the directional principle recorded a negative value of 55.9 million EUR (0.1% of GDP) in January – May 2019, dropping by 147.1 million EUR from January – May 2018 (positive value of 91.2 million EUR, 0.2% of GDP). Foreign direct investment in Bulgaria recorded an outflow of 2.8 million EUR in May 2019, compared with an inflow of 80.5 million EUR in May 2018. Equity (acquisition/disposal of shares and equities in cash and contributions in kind by non-residents in/from the capital and reserves of Bulgarian enterprises, and receipts/payments from/for real estate deals in the country) recorded a negative value of 539.2 million EUR in January – May 2019, dropping by 293.1 million EUR from a negative value of 246.1 million EUR in January – May 2018. Real estate investments of non-residents recorded a positive value of 2.5 million EUR, compared with 10.3 million EUR in January – May 2018. The largest inflow of real estate investment was from Russia (0.6 million EUR), the Netherlands (0.4 million EUR), Kazakhstan (0.5 million EUR), Latvia (0.4 million EUR), and Germany (0.4 million EUR). 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 173.3 million EUR, compared with a positive one of 81.5 million EUR in January – May 2018. The net flow on debt instruments (the change in the net liabilities between affiliated enterprises on financial loans, suppliers' credits and debt securities) totalled 656.6 million EUR in January – May 2019, compared with 255.8 million EUR in January – May 2018. The largest net direct investment inflows in Bulgaria for January – May 2019 were from the Netherlands (206.3 million EUR), Germany (92.3 million EUR), and Hungary (43 million EUR). According to preliminary data, direct investment abroad recorded a positive value of EUR 164.4 million (0.3% of GDP), compared with a positive value of 96 million EUR (0.2% of GDP) in January – May 2018. It totalled 10.2 million EUR in May 2019, compared with 34 million EUR in May 2018. According to preliminary data, the stocks of foreign direct investment in Bulgaria stood at 43,277.8 million EUR at end-March 2019, compared with 43,035.6 million EUR at end-2018. Equity and reinvestment of earnings totalled 33,819.5 million EUR, declining by 49.2 million EUR from 33,868.7 million EUR in December 2018. Debt instruments amounted to 9,458.3 million EUR, increasing by 291.3 million EUR from December 2018 (9,166.9 million EUR).

Bulgaria: Direct investments	May 2018	May 2019	January-May 2018	January-May 2019	Change in EUR million, mom	Channge in EUR million, yoy
Direct investments, net	**-46.5**	**13.0**	**4.7**	**220.2**	**59.5**	**215.5**
Direct investments in abroad	**34.0**	**10.2**	**98.0**	**164.4**	**-23.8**	**66.4**
Equity	-4.6	1.0	-0.3	93.4	5.6	93.7
Reinvestments of earnings	0.7	0.0	4.9	2.4	-0.7	-2.5
Debt investments	37.9	9.3	91.4	68.5	-28.6	-22.9
Direct investments in a country	**80.6**	**-2.8**	**91.2**	**-55.9**	**-83.4**	**-147.1**
Equity	-33.4	-1.2	-246.1	-539.2	32.2	-293.1
Reinvestments of earnings	0.9	0.0	81.5	-173.3	-0.9	-254.8
Debt investments	113.0	-1.6	255.8	656.6	-114.6	400.8

Source: BNB

Foreign Reserves

In June 2019, Bulgaria's international reserves amounted to 49.3 billion BGN (25.2 billion EUR) and rose by 1.4% mom and by 1.7% yoy, respectively.

According to BNB data at the end of June 2019, Bulgaria's international reserves amounted to 49.3 billion BGN (25.2 billion EUR), increasing by 1.4% mom and by 1.7% yoy, respectively. Cash and deposits in foreign currency amounted to BGN 18.9 billion, increasing by 2.8% mom and by 1.7% yoy, respectively. Monetary gold amounted to 3.1 billion BGN, increasing by 6.6% mom and and by 6.8% yoy, respectively. Investments in securities amounted to 27.1 billion BGN and increased by 1.1% yoy and reported a slight decrease of 0.1% mom, respectively. On the liabilities side, the money in circulation amounted to 17.4 billion BGN, increasing by 1.3% mom and by 3.5% yoy, respectively. Liabilities to banks amounted to 12.9 billion BGN and decreased by 5.1% mom and by 9.7% yoy, respectively. Commitments to the budget amounted to 10.8 billion BGN and increased by 10% mom and by 12.8% yoy, respectively. Liabilities to other depositors amounted to 2.3 billion BGN and grew up by 8.3% yoy and reported a decline of 1.3% mom, respectively. The bank's deposit exceeds 5.7 billion BGN, increasing by 3.5% mom and by 3.7% yoy, respectively. Bulgaria's international liquidity position, calculated as a ratio of foreign reserves to short-term external debt is high at a level of 288.8% at the end of April 2019 against 306.9% at the end of 2018 and 284.5% at the end of April 2018.

Cover Ratio: Foreign reserves/Short term foreign debt (%)	Apr 2018	May 2018	June 2018	July 2018	Aug 2018	Sep 2018	Oct 2018	Nov 2018	Dec 2018	Jan 2019	Feb 2019	March 2019	Apr 2019
Short-term foreign debt (EUR mn)	7915.6	7 715	7794	7 903	8 105	8 052	8161	8 365	8168.7	8 206	8293.3	8427.2	8573.0
Foreign reserves (EUR mn)	22 518	22 825	23 510	23 731	23 960	24 540	24 137	24 161	25 072	24 398	24 767	25 026	24 760
Cover Ratio FR/STD(%)	**284.5**	**295.9**	**301.6**	**300.3**	**295.6**	**304.8**	**295.8**	**288.8**	**306.9**	**297.3**	**298.6**	**297.0**	**288.8**

REAL SECTOR

Business Climate

In June 2019, the total business climate indicator decreases by 1.3 percentage points to 29.9 index points in comparison with May as a result of the more unfavorable business climate in industry, construction and service sector.

According NSI data in June 2019, the total business climate indicator decreases by 1.3 percentage points to 29.9 index points in comparison with May as a result of the more unfavorable business climate in industry, construction and service sector.

Industry. The composite indicator 'business climate in industry' decreases by 1.1 percentage points, which is due to the shifting of the industrial entrepreneurs' expectations about the business situation of the enterprises over the next 6 months from 'better' towards preserving 'the same'. At the same time, the inquiry registers certain improvement of the production assurance with orders, which is not accompanied by increased expectations about the production activity over the next 3 months. In the last month the unfavorable influence of the factor 'shortage of labor' is strengthened, which shifts to the second place the difficulties of the enterprises, connected with the uncertain economic environment.

Construction. In June the composite indicator 'business climate in construction' decreases by 1.8 percentage points as a result of the slightly worsened construction entrepreneurs' assessments and expectations about the business situation of the enterprises. Their forecasts about the construction activity over the next 3 months are also more reserved. The shortage of labor, competition in the branch and uncertain economic environment continue to be the most serious problems limiting the business.

Retail trade. The composite indicator 'business climate in retail trade' remains approximately to its May level. The retailers' opinions about the volume of sales and orders placed with suppliers (from both domestic and foreign market) over the next 3 months are optimistic. The factor, limiting with the most extent the enterprises' activity remains the competition in the branch, as in the last month strengthens of its negative impact is observed. In second and third place are the insufficient demand and uncertain economic environment.

Service sector. In June the composite indicator 'business climate in service sector' drops by 2.1 percentage points, which is due to the more unfavorable managers' assessments and expectations about the business situation of the enterprises. Concerning the demand of services, the present tendency is assessed as slightly improved, as their expectations over the next 3 months remain favorable though more reserved compared to the previous month. The competition in the branch continues to be the most serious obstacle for the business development. At the same time an increase of the unfavorable influence of factor 'shortage of labor' is registered, which shifts to the third place the difficulties, connected with the uncertain economic environment.

Bulgaria: Business conjunktion indicators	6.2018	7.2018	8.2018	9.2018	10.2018	11.2018	12.2018	1.2019	2.2019	3.2019	4.2019	5.2019	6.2019
Total busiess climate indicator (%)	32.2	32.1	29.2	27.7	25.8	26.4	25.9	27.8	27.7	28	29.9	31.2	29.9
Business climate in industry (%)	31.8	29.6	27.7	27.6	25.2	27.0	24.3	28.4	26.1	25.7	27.7	27.5	26.4
Business climate in construction (%)	33.7	35.3	31.5	25.7	28.3	26.1	26.5	27.7	29.0	29.0	30.3	37.2	35.4
Business climate in retail trade(%)	43.3	44.0	40.0	40.1	37.6	38.6	41.8	40.1	39.7	42.3	42.7	44.8	44.7
business climate in services (%)	20.5	21.8	19.0	17.3	12.8	13.2	13.0	14.2	17.6	17.5	20.9	18.7	16.6

Source: NSI

Industrial Production Index

According to the preliminary data in May 2019 the Industrial Production Index, seasonally adjusted, remained at the level of April 2019. In May 2019 the working day adjusted Industrial Production Index rose by 0.6% in comparison with the same month of 2018.

According to the preliminary data in May 2019 the Industrial Production Index, seasonally adjusted3, remained at the level of April 2019. In May 2019 the working day adjusted4 Industrial Production Index rose by 0.6% in comparison with the same month of 2018. In May 2019 as compared to April 2019, the seasonally adjusted Industrial Production Index increased in the mining and quarrying industry by 9.5%, while the production fell in the manufacturing by 0.4% and in the electricity, gas, steam and air conditioning supply by 0.1%. The most significant production decreases in the manufacturing were registered in the repair and installation of machinery and equipment by 8.4%, in the manufacture of computer, electronic and optical products by 4.4%, in the manufacture of basic metals by 3.9%. Major increases were seen in the manufacture of tobacco products by 15.4%, in the manufacture of leather and related products by 11.3%, in the manufacture of furniture by 7.1%, in the manufacture of chemicals and chemical products by 6.0%. On annual basis in May 2019 Industrial Production Index calculated from working day adjusted data rose in the mining and quarrying industry by 9.7% and in the manufacturing by 0.9%, while the production went down in the electricity, gas, steam and air conditioning supply by 5.4%. In the manufacturing, the more considerable increases compared to the same month of the previous year were registered in the printing and reproduction of recorded media by 22.8%, in the manufacture of other transport equipment by 20.4%, in the manufacture of leather and related products by 11.6%, in the manufacture of motor vehicles, trailers and semi-trailers by 10.0%. Important decreases were seen in the manufacture of basic metals by 16.0%, in the manufacture of fabricated metal products, except machinery and equipment by 14.1%, in the manufacture of furniture by 8.2%, in the manufacture of wearing apparel by 7.3%.

Retail Trade

According to the preliminary seasonally adjusted data in May 2019 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices decreased by 0.2% compared to the previous month.

According to the NSI preliminary seasonally adjusted data in May 2019 the turnover in 'Retail trade, except of motor vehicles and motorcycles' at constant prices decreased by 0.2% compared to the previous month. In May 2019, the working day adjusted4 turnover in 'Retail trade, except of motor vehicles and motorcycles' marked an increase from 0.4% in comparison with the same month of the previous year. In May 2019 compared to the previous month, decrease of turnover was observed in the 'Retail sale of food, beverages and tobacco' and 'Retail sale of non-food products except fuel' - by 1.6% and 0.3%, respectively. A growth was registered in the 'Retail sale of automotive fuel' - by 2.7%. In the 'Retail sale of non-food products except fuel' was reported a more substantial rise in the 'Retail sale of textiles, clothing, footwear and leather goods' - by 2.8%. A more significant turn-down was observed in the 'Retail sale of audio and video equipment; hardware, paints and glass; electrical household appliances'- by 2.4%. In May 2019 compared to the same month of 2018, the turnover increased in the 'Retail sale of automotive fuel' (by 4.7%) and 'Retail sale of non-food products except fuel' (by 1.4%), while in the 'Retail sale of food, beverages and tobacco' was observed a decrease by 2.7%. 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' - by 21.1%. A decline was reported in 'Dispensing chemist; retail sale of medical and orthopaedic goods, cosmetic and toilet articles' - by 5.8%.

Construction

According to the preliminary data, in May 2019 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.4% below the level of the previous month. In May 2019 the working day adjusted index of production in construction increased by 2.6% in comparison with the same month of 2018.

According to the NSI preliminary data, in May 2019 the index of production in section 'Construction' calculated on the base of seasonally adjusted data was 0.4% below the level of the previous month. In May 2019 working day adjusted data showed an increase by 2.6% in the construction production, compared to the same month of 2018. In May 2019 the construction production index, calculated from the seasonally adjusted data, was below the level of the previous month. An equal decrease was observed in the production of building construction and production of civil engineering - both by 0.4%. On an annual basis in May 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 6.4%, while in the civil engineering was registered a decline by 2.3%

Inflation

Bulgaria's consumer price index for June 2019, compared to May 2019, was 99.4% or monthly deflation of 0.6%. Inflation from the beginning of the year is 1.2% and annual inflation is 2.8%. The average annual inflation rate for the period July 2018 - June 2019 compared to July 2017 - June 2018 was 3.3%. In the second half of 2019, the projected increase of regulated prices of heating by 3.5% and of electricity by 2.9% will accelerate inflation. Our forecast is that inflation will reach 2.5% in 2019, 2.3% in 2020. and 2.1% in 2021.

According to NSI data, the consumer price index for June 2019 compared to May 2019 was 99.4%, ie. monthly inflation is minus 0.6%. Inflation from the beginning of the year is 1.2% and annual inflation is 2.8%. The average annual inflation rate for the period July 2018 - June 2019 compared to July 2017 - June 2018 was 3.3%.In June 2019, food prices fell from 5.6% to 4.6% on the previous month, with vegetables being the main factor. Since the beginning of the year, this group's appreciation has been two-digit, and in June it has dropped sharply to 6.9%. On a monthly basis, the prices of vegetables decreased by 14.5% and in fact there is deflation. Another factor for the lower inflation rate in June is fuel. Liquid fuels, for example, are cheaper by 0.6% yoy and fuel and car-based lubricants for cars - by 1.9%. At the same time, higher heat and natural gas prices continue to pull the overall benchmark for inflation, as their level is between 12% and 15% higher than last year. The price of hotel services also continued to accelerate, with annual price increases of 7.5% in June, and on a monthly basis by 10.1%. The Harmonized Index of Consumer Prices for June 2019 compared to May 2019 is 100.0%; monthly inflation is 0.0%. Inflation from the beginning of the year is 1.5% and annual inflation is 2.3%. The average annual inflation for the period July 2018 - June 2019 compared to July 2017 - June 2018 was 3.0%.

Bulgaria: CPI	2018 Weights (%)	June 2019 Change mom (%)	June 2019 Change yend 2018 (%)	June 2019 Change yoy (%)
Total CPI	**100.00**	**-0.6**	**1.2**	**2.8**
Foods	31.55	-1.6	3	4.6
Non-foods	35.206	-0.3	1	0.7
Catering	5.363	0.6	2.5	5.1
Services	27.881	0	-0.7	3
Source: NSI				

Forecast: *In the second half of 2019, the projected increase of regulated prices of heating by 3.5% and of electricity by 2.9% will accelerate inflation. Our forecast is that inflation will reach 2.5% in 2019, 2.3% in 2020. and 2.1% in 2021. By comparison, according to the EC, inflation in Bulgaria will slow down to 2.4% in 2019 and to 1.7% in 2020.*

Producer Price Index in Industry

Total Producer Price Index in May 2019 remains unchanged compared to the previous month; compared to the same month of 2018 the prices rose by 2.8%. Producer Price Index on Domestic Market in May 2019 fell by 0.1% compared to the previous month; compared to the same month of 2018 the domestic prices grew by 3.4%.

The Total Producer Price Index in Industry in May 2019 remains unchanged compared to the previous month. Higher prices were registered in the electricity, gas, steam and air conditioning supply by 0.5%, while the prices decreased in the mining and quarrying industry by 1.8%, and in manufacturing by 0.1%. In the manufacturing the manufacturing of basic metals by 1.2%. Prices went up in the manufacture of rubber and plastic products by 0.9%, in the manufacture of wearing apparel by 0.6%, in the manufacture of chemicals and chemical products and in the manufacture of basic pharmaceutical products and pharmaceutical preparations - both by 0.5%. The Total Producer Price Index in May 2019 increased by 2.8% compared to the same month of 2018. The prices rose in the electricity, gas, steam and air conditioning supply by 7.6% in manufacturing by 1.6%, while in the mining and quarrying industry prices went down by 1.1%. In the manufacturing the most significant increase in prices were seen in the manufacture of leather and related products by 4.5%, in the repair and installation of machinery and equipment by 4.4%, in the manufacture of wearing apparel by 3.5% and in the manufacture of food products by 3.3%, while the prices decreased in the manufacture of basic metals by 1.8%.

Producer Price Index on Domestic Market in May 2019 decreased by 0.1% compared to the previous month. The domestic prices went down in mining and quarrying industry by 3.8%, in the electricity, gas, steam and air conditioning supply the prices went up by 0.3%, while in manufacturing the prices remained unchanged. In the manufacturing compared to the previous month the prices went down in the manufacture of basic metals by 2.7% and in the manufacture of tobacco products by 0.6%. The domestic prices went up in the manufacture of chemicals and chemical products by 1.0%, in the manufacture of other transport equipment by 0.9% and in the manufacture of wearing apparel by 0.8%. Producer Price Index on Domestic Market in May 2019 increased by 3.4% compared to the same month of 2018. The prices rose in the electricity, gas, steam and air conditioning supply by 6.6%, and in manufacturing by 2.1%, while in the mining and quarrying industry the prices went down by 2.7%. In the manufacturing compared to May 2018 more compelling price increase was reported repair and installation of machinery and equipment by 6.7%, in the manufacturing of chemicals and chemical products by 4.7%, and in other transport equipment by 4.4%. The prices fell in the manufacture of basic metals by 0.8%.

Producer Price Index on Non-domestic Market in May 2019 remains unchanged compared to the previous month. In the manufacturing the non-domestic prices fell by 0.2%. More significant price decrease was reported in manufacture of basic metals by 0.9%, and in the manufacture of food products by 0.5%. Prices went up in the manufacture of rubber and plastic products by 1.3%, in the manufacture of basic pharmaceutical products and pharmaceutical preparations by 1.0%, and in the manufacture of tobacco products by 0.9%. Producer Price Index on Non-domestic Market in May 2019 increased by 1.9% compared to the same month of 2018. In the manufacturing, the prices went up by 1.2%. The non-domestic prices rose most dramatically in the manufacture of leather and related products by 5.4%, in the manufacture of rubber and plastic products by 4.4% and in the manufacture of other non-metallic mineral products by 3.9%. The prices went down in the manufacture of basic metals by 1.9% and in the manufacture of chemicals and chemical products by 0.6%.

Bulgaria: Producer Price Indexes 2015=100	5.2018	6.2018	7.2018	8.2018	9.2018	10.2018	11.2018	12.2018	1.2019	2.2019
Total Producer Price Index	106.0	106.8	106.0	105.8	106.2	107.6	107.2	106.4	106.0	107.8
Total Producer Price Index on Domestic Market	104.9	105.4	105.5	105.7	106.0	106.8	106.9	106.4	106.6	108.2
Total Producer Price Index on Noin-domestic Market	107.7	109	106.7	106.1	106.5	108.8	107.7	106.4	105	107.3

Sopurce: NSI

LABOR MARKET

In June 2019, the trend of decreasing registered unemployment in Bulgaria is maintained, with the level in the middle of the year standing at 5.2%. There is a decrease of 0.1 percentage points compared to the previous month and by 0.5 percentage points on an annual basis.

According to the Employment Agency, the tendency for decreasing of the registered unemployment rate in the country remains in June 2019, with the level in the middle of the year standing at 5.2%. There is a decrease of 0.1 percentage points compared to the previous month and by 0.5 percentage points on an annual basis. More than 123 410 unemployed registered with the Labor Offices started working in the first six months of 2019. During this period, the number of the persons registered on the labor market compared to the number of registered unemployed increased by 1.1 percentage points compared to the first half of 2018. Entry to work in June were 19,898 unemployed, with 82.2% of them in the real economy. Another 689 of the retirees, learners and employees also found their new job. At the end of June the registered unemployed in the labor offices were 169 659 people, with the decrease compared to May with 5 740 persons. Compared to June 2018, they are 18,917 less. Newly registered unemployed in June were 21,404, of which 1708 were inactive. Since the beginning of the year, the employees of the labor offices have activated 9019 people by organizing information events, meetings with the graduates of the career centers, as well as through the work of youth, Roma, labor mediators and others. As a result of the implementation of active measures to promote employment among the unemployed from the risk groups on the labor market, 3,536 persons were employed in subsidized jobs during the month.

FISCAL SECTOR

Budget balance

In January-May 2019 Bulgaria' CFP balance on a cash basis is positive, amounting to 3,025.8 million BGN and presented 2.6% of forecasted GDP. The fiscal reserve as of 31.05.2019 amounts to 11.3 billion BGN. Based on the preliminary data and estimates, the Consolidated Fiscal Programme (CFP) balance on a cash basis as of June 2019 is expected to be positive, amounting to BGN 3,198.3million (2.8% of the projected GDP).

According MF data the CFP balance on a cash basis as of May 2019 is positive, amounting to 3,025.8 million BGN (2.6% of forecast GDP) and is formed by a surplus under the national budget of 2,832.8 million BGN and a surplus under EU funds of 193.0 million BGN.The CFP revenues and grants as of May 2019 stand at 18,719.6 million BGN, or 42.7 % of the annual estimates. Compared to the same period of the previous year, tax and non-tax revenues have grown by 2,239.8 million BGN, (14.5 %), while grant proceeds (mainly grants under EU Programmes and Funds) have increased by 501.4 million BGN. Tax proceeds, including revenues from social security and health insurance contributions, total 14,777.3 million BGN, which is 42.8 % of the annual plans. Revenues from direct taxes amount to 2,931.9 million BGN, or 44.7 % of the annual estimates. Indirect tax revenues amount to 6,971.1 million BGN, or 42.4 % of the annual plans. The VAT proceeds amount to 4,647.8 million BGN, or 42.9 % of the plan. The amount of the non-refunded VAT as of 31.05.2019 is 131.7 million BGN. The excise duty revenues amount to 2,205.5 million BGN, (41.4 % of the annual estimates). Custom duties revenues are 96.7 million BGN or 40.8 % of the annual plan. Proceeds from other taxes, including property taxes and other taxes under the Corporate Income Tax Law, amount to 636.5 million BGN, or 54.4 % performance of the annual estimates.Revenues from social security and health insurance contributions are 4,237.8 million BGN, or 40.8 % of those planned for the year. Compared to the same period of the previous year these revenues have risen by 11.6% in nominal terms. Non-tax revenues amount to 2,952.7 million BGN, or 44.6 % of the annual estimates. It should be noted that as regards non-tax revenues there is a baseline effect in the part of revenues to the budget of the Energy Security Fund due to the amendments to the Energy Law which entered into force on 01.07.2018 and changed the mechanism of collection of revenues to the Fund's budget. For this reason the revenues to the Fund's budget for the first five months of 2019 were higher than the revenues for the same period of 2018. Proceeds from grants amount to 989.5 million BGN. The expenditures under the CFP, including the contribution of the Republic of Bulgaria to the EU budget, amount to 15,693.8 million BGN as of May 2019, which is 35.3 % of the annual estimates. For comparison, the expenditures for the same period of the previous year were to the amount of 14,556.8 million BGN. Compared to May 2018, the nominal increase is mainly due to the higher 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), 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), etc. Non-interest expenditures amount to 14,691.4 million BGN, which is 34.7 % of the annual plans. Non-interest current expenditures as of May 2019 amount to 13,630.4 million BGN, and capital expenditures (including net increment of state reserve) amount to 1,049.8 million BGN. The current and capital transfers to other countries amount to 11.2 million BGN. Interest payments amount to 403.2 million, BGN or 60.2 % of those planned for 2019. The part of Bulgaria's contribution to the EU budget, paid from the central budget as of 31.05.2019, amounts to 599.2 million BGN. Fiscal reserve as of 31.05.2019 is 11.3 billion BGN, including 10.3 billion BGN fiscal reserve deposits in BNB and banks and 1.0 billion BGN receivables under the EU Funds for certified expenditure, advance payments, etc.

Bulgaria: Fiscal reserve (BGN million)	31.01.2019	28.02.2019	31.03.2019	30.04.2019	30.05.2019
Total fiscaal reserve, including:	**10518.8**	**10 417.5**	**10 333.4**	**10 617.6**	**11 307.6**
I. Fuoiscal reserve on deposits	**9333.3**	**9 993.3**	**9 974.0**	**10 065.6**	**10 293.2**
Fiscal reserv deposits at BNB	8920.8	9 591.8	9 578.5	9 669.6	9 839.0
II.. Receivables from EU funds for certified expenditures, advances and others	**1184.7**	**424.2**	**359.5**	**552.0**	**1 014.4**
MF National Fund	153.1	140.9	177.9	151.9	137.0
Paying Agency under State Fund Agricultural	1031.6	283.3	181.6	400.2	877.4
Source: Ministry of finance					

Projection: *For the first half of 2019, the surplus of revenues over expenditures under the CFP is expected to be BGN 3,198.3 million (2.8 % of the forecast GDP). Based on preliminary data and estimates the revenues and grants under the Consolidated Fiscal Programme (CFP) as of June 2019 are expected to be 50.8 percent of the annual plans. Revenues performance for the six months of the year is in line with the plans for the period as well as with the specificities of the tax calendar on the basis of which a significant part of the annual proceeds from certain taxes (the corporate income tax, the personal income tax, etc.) are concentrated in the first half of the year. It is also for this reason that the revenues for the period traditionally exceed 50 percent of the annual plan.The performance of the annual plan in the part of the expenditures under the CFP for the first half of year is expected to be 42.9 percent. It is evident that the utilisation of expenditures is lagging behind the performance of revenues which is also the reason for the surplus of revenues over expenditures for the period. The planned pension indexation, as envisaged in the annual estimates, will be applied in the second half of the year. Furthermore, a large part of the capital expenditures planned for the year takes place in the second half of the year due to the construction season and other factors.In view of the above reasons, the budget performance in the first half of the year is traditionally characterised by an excess of revenues over expenditures, while in the second half and in particular in the last quarter of the year the budget balance is negative. Therefore, the budget balance for the six months of the year cannot be referenced to the annual fiscal target envisaged in the estimates within the 2019 State Budget of the Republic of Bulgaria Law*

Government debt

In January – May 2019, Bulgaria's central government sub-sector debt amounted to EUR 11,565.1 million and accounted for 19.6% of projected GDP. On 19 June 2019 the Ministry of Finance held two auctions for the sale of 10.5-year and 20-year BGN-denominated government securities (GS) maturing on 21 December 2029 and 21 June 2039. GS totaling BGN 300.6 million, incl. BGN 200 million for 10.5-year GS and BGN 100.6 million for the 20-year GS, were offered successfully at the auctions. The average weighted yield of the auctions was 0.41% for the 10.5-year GS and 1.60% for the 20-year GS. 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 as at end-May 2019 Bulgaria's central government sub-sector debt stood at EUR 11,565.1 million. Domestic debt amounted to EUR 2,509.2 million and external debt – to EUR 9,056.0 million. At the end of the reporting period the central government debt/GDP ratio was 19.6 %, with the share of domestic debt being 4.3 % and of external debt – 15.3 %. In the central government debt structure, domestic debt at the end of the period amounted to 21.7 %, and external debt – to 78.3 %. As of 31 May 2019, the central government guaranteed debt was EUR 78.2 million. Domestic guarantees amounted to EUR 34.5 million and external guarantees – to EUR 43.7 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-May 2019 the government debt reached EUR 10,761.3 million, being 18.2 % of GDP. Domestic debt amounted to EUR 2,305.8 million and external debt – to EUR 8,455.6 million. Government guaranteed debt in May 2019 amounted to EUR 937.9 million. Domestic guarantees amounted to EUR 34.5 million, the government guaranteed debt/GDP ratio being 1.6%. On 19 June 2019 the Ministry of Finance held two auctions for the sale of 10.5-year and 20-year BGN-denominated government securities (GS) maturing on 21 December 2029 and 21 June 2039. GS totaling BGN 300.6 million, incl. BGN 200 million for 10.5-year GS and BGN 100.6 million for the 20-year GS, were offered successfully at the auctions. The average weighted yield of the auctions was 0.41% for the 10.5-year GS and 1.60% for the 20-year GS. The total subscribed amount of the securities maturing in 2029 reached BGN 472 million, which corresponds to a bid-to-cover ratio of 2.36. The subscription for the 20-year GS amounted to BGN 248 million, or a bid-to-cover ratio of 1.24. The reported spread to the analogous German Bunds is 73 basis points for the 10.5-year GS and 151 basis points for the 20-year GS. The yield for the 10.5-year GS is a record low for this maturity segment. The new issue of 20-year GS is the most long-term issue of government bonds issued on the domestic market by auction.

Bulgaria: Central Government Debt Amount (million EUR)	31.12.2018	31.01.2019	28.02.2019	31.03.2019	30.04.2019	31.05.2019
Domestic debt	3 121.40	2745.4	2595.6	2574.8	2532	2509.2
External Debt	9093.9	9094.3	9093.6	9093.6	9080.1	9056
Central Government debt, total	12 215.30	11 839.70	11689.2	11668.4	11612.1	11565.1
Total Centrral government debt/GDP (%)	22.1	20.1	19.8	19.8	19.7	19.6
Domestic central government debt/GDP (%)	5.7	4.7	4.4	4.4	4.3	4.3
External central government debt/GDP (%)	16.5	15.4	15.4	15.4	15.4	15.3

Source: MF

***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.*

MONETARY SECTOR

At the end of May 2019 broad money (monetary aggregate M3) amounted at 95.445 billion BGN (82.5% of GDP) and increased by 9.1% yoy. Domestic credit – was 58.420 billion BGN and increased by 5% yoy.

In May 2019 broad money (monetary aggregate M3) increased by 9.1% yoy compared to 11.1% yoy as in April 2019. At the end of May 2019 M3 was 95.445 billion BGN (82.5% of GDP) compared to 95.784 billion BGN(82.8% of GDP) in April 2019. Its most liquid component – monetary aggregate M1 – increased by 13.5% yoy in May 2019 (15.6% yoy growth in April 2019). At the end of May 2019, deposits of the non-government sector were 79.483 billion BGN (68.7% of GDP), increasing annually by 8.6% (10% yoy growth in April 2019). Deposits of Non-financial corporations were 23.179 billion BGN (20% of GDP) at the end of May 2019. Compared to the same month of 2018 they increased by 6% (9.4% yoy growth in April 2019). Deposits of financial corporations increased by 29.5% yoy in May 2019 (32.4% yoy growth in April 2019) and at the end of the month they reached 3.521 billion BGN (3% of GDP). Deposits of Households and NPISHs were 52.784 billion BGN (45.6% of GDP) at the end of May 2019. They increased by 8.5% compared to the same month of 2018 (9% yoy growth in April 2019).

Net domestic assets were 58.988 billion BGN at the end of May 2019. They increased by 7.6% compared to the same month of 2018 (9.5% yoy growth in April 2019). At the end of the month their basic component – domestic credit – was 58.420 billion BGN and increased by 5% compared to May 2018 (6.9% yoy growth in April 2019). In May 2019 claims on the non-government sector increased by 7.9% yoy (compared to 7.7% yoy increase in April 2019) reaching 60.574 billion BGN. At the end of May 2019, claims on loans to the non-government sector amounted to 58.931 billion BGN (51% of GDP) compared to 58.633 billion BGN (50.7% of GDP) at the end of April 2019. They increased annually by 7.1 % in May 2019 (6.9% yoy growth in April 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 382 million BGN. On an annual basis, loans sold by Other MFIs were 382.1 million BGN (of which 7.7 million BGN in May 2019), while the amount of repurchased loans was 0.1 million BGN (there were no loan repurchases in May 2019). In May 2019, loans to Non-financial corporations increased by 4.8% annually remaining unchanged compared to April 2019 and at the end of the month amounted to 33.418 billion BGN (28.9% of GDP). Loans to Households and NPISHs were 22.491 billion BGN (19.4% of GDP) at the end of May 2019. They increased by 8% compared to the same month of 2018 (7.9% yoy growth in April 2019). At the end of May 2019 loans for house purchases were 10.984 billion BGN and increased by 11.7% yoy (compared to 11.8% yoy growth in April 2019). Consumer loans amounted to 9.559 billion BGN and compared to May 2018 they increased by 10.8% (10.9% yoy growth in April 2019).

CAPITAL MARKET

At the end of June 2019, the four leading indexes of the BSE - Sofia rose: SOFIX to 587.81 points, BGTR30 to 116.33 points, BGBX40 to 512.30 points and BGREI to 512.30 points.

According to BSE-Sofia at the end of June 2019, SOFIX rose by 5.3% to 587.81 points on a monthly basis. The index of the most liquid companies BGBX 40 increased by 0.6% to 116.33 points in June. For a period of one month, the equally weighted BG TR30 rose by 6.4% to 512.30 points in June. BGREIT, the property developer, rose 4.3% to 125.83 in June. Turnover in June 2019 on BSE-Sofia fell significantly to BGN 3,702,621 or BGN 2,222,041 less compared to the fifth month of the year when BGN 5,924,662 was reported. In June 2019, transactions over a value of over BGN 1 million were realized only with shares of Doverie United Holding (BGN 1 152 745). The first fifth is completed by Eurohold Bulgaria (518 970 BGN), Sopharma (319 784 BGN), Real Estate Fund Bulgaria. In June, Sopharma retained its leading position in market capitalization (BGN 459,660,836), followed by: Graudus (419,984,505 leva), Chimimprot (416,984,505 leva), Eurohold Bulgaria (410,853,248 leva) and CB First Investment Bank (BGN 360,800,000). In SOFIX, after 18 March, there are six holding companies, including four companies in profit: Eurohold Bulgaria (+ 12.43%), Doverie United Holding (+ 9.09%), Industrial Holding Bulgaria (+ 2.56%) and Stara Planina Hold 1.77%). At loss there are two: Sirma Group Holding (-3.60%) and Holding Varna (-0.48%). The company with the highest turnover for June 2019 is 235 Holdings AD, with a volume of BGN 2 001 510. Futures Capital AD ranked second with a total value of BGN 1,400,000. In the ranking there are two representatives of the special investment purpose companies - Sopharma Real Estate REIT and Real Estate Fund Bulgaria REIT. The smallest number of deals in the ranking are 235 Holdings AD, Futures Capital AD and Synttica AD, and with the largest Doverie United Holding AD, CEZ Distribution Bulgaria AD, Sopharma AD and Real Estate Fund Bulgaria REIT. The most profitable company in June 2019 was Exclusive Property REIT, which achieved double digit growth of 30.00%. Advance Equity Holding AD ranked second, followed by Bulgarian Stock Exchange with a growth of 16.67%. The last two companies in the ranking also registered two-digit growth, respectively, Chimsnab Bulgaria AD with growth of 15.05% and Doverie United Holding AD with a growth of 13.04%. The losers цомпаниес in June 2019 are Sopharma Trading AD with a decline of 5.63%. Second is Stara Planina Hold AD with a decline of 4.17%, followed by M + S Hydraulic AD, which registered a decrease in June of 3.85%. The last position in the ranking is Sirma Group Holding AD with a decrease of 3.60%.

Bulgarian Stock Exchange Indexes on Monthly Basis

Date	SOFIX	BGBX40	BGREIT	BGTR30
05.2018	636.6	126.3	115.5	528.3
06.2018	634.3	124.9	116.2	525.4
07.2018	634.0	122.7	115.9	525.5
08.2018	631.8	122.3	117.1	521.6
09.2018	624.4	121.9	117.8	520.3
10.2018	596.8	117.0	117.2	499.3
11.2018	592.1	115.1	117.5	489.6
12.2018	594.5	115.9	121.1	496.1
01.2019	585.8	115.0	120.8	492.0
02.2019	585.4	116.1	120.9	506.0
03.2019	583.9	116.3	120.6	506.0
04.2019	575.1	114.8	120.8	504.0
05.2019	582.5	115.7	121.5	505.9
06.2019	582.5	115.7	121.5	505.9

Source: Bulgarian Stock Exchange-Sofia

BANKING SECTOR

In May 2019, the aggregate net profit of the banking systemin Bulgaria amounted to BGN 762 million, and increased by 48% yoy due to one-off effects related with dividend income.

According to BNB data at the end of May 2019, the aggregate net profit of the banking system amounted to 762 million BGN and increased by 48% yoy under the impact of one-off effects, mainly from dividend income. Impairment costs of financial assets not reported at fair value through profit or loss at the end of May amounted to 130 million BGN (compared to 183 million BGN a year earlier).

Indicator (BGN 000)	30.05. 2018	30.05. 2019	Y/Y (%)
Interest Income	1 243 864	1 266 521	1.8
Interest Expence	126 349	119 281	-5.6
Net interest Income	**1 117 515**	**1 147 240**	**2.7**
Impairment	183 429	129 711	-29.3
Divident income	15 143	130 810	763.8
Fee and commission income	495 455	536 479	8.3
Fee and commission expenses	68 166	82 727	21.4
Net fee and commission income	**427 289**	**453 752**	**6.2**
Administration costs	685 290	682 246	-0.4
Personal cost	347 652	367 132	5.6
Total operating income, net	1 514 470	1 750 937	15.6
Net Profit	**515 217**	**762 297**	**48.0**

Source:BNB, UBB's Calculations

Total banking system assets on a monthly basis decreased by 0.3% to 108.2 billion BGN and accounted for 94% of the full year projected GDP. On an annual basis, the assets of the banking system increased by 9.8%. Credit and advances, investments in subsidiaries, joint ventures and associates and tangible assets increase. During the reporting month, portfolios of securities, non-current assets and disposal groups classified as held for sale and other assets decreased. The position of money, cash balances with central banks and other demand deposits decreased by 2.3% mom and at the end of May presented 17.4% share of total assets. Securities portfolios retained their share of 12.4%.In May 2019 the gross loan portfolio to customers increased by 0.5% mom and by 9.5% yoy, respectively to 63.8 billion BGN. Their relative share in GDP was 55%. Household loans grew up by 1.1% mom and by 13.2% yoy, respectively to BGN 23.9 billion. Loans to other financial corporations increased by 4.5% mom and by 36.3% yoy, respectively to 3.4 billion BGN. Loans to non-financial corporations decreased by 0.2% mom, with growth of 4.8% yoy, respectively to 35.7 billion BGN. At the end of May, deposits from customers in the banking system amounted to 86.3 billion BGN, recording a monthly decrease of 0.1% and an annual growth of 8.5%. Their relative share in GDP is 74.8%. Deposits of other financial corporations increased by 5.1% mom and by 26.5% yoy, respectively to BGN 3.8 billion. Household deposits grew by 0.2% mom and by 8.5% yoy, respectively to BGN 54.7 billion BGN. Deposits of general government increased by 0.3% mom and by 15.3% yoy, respectively to 2.7 billion BGN. A decline was recorded for deposits of

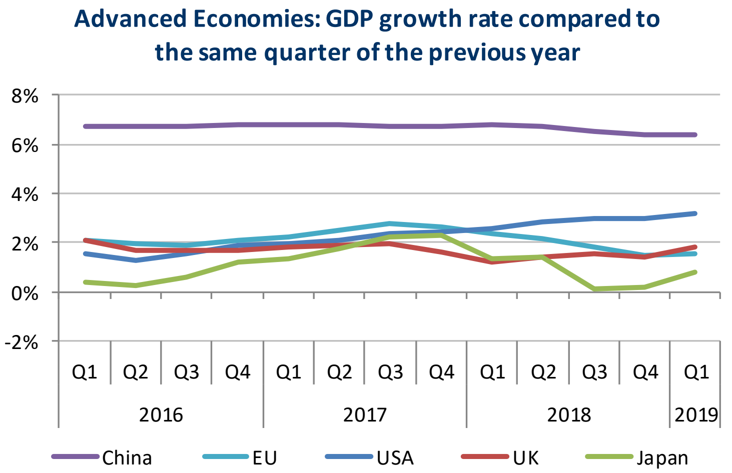
Bulgaria Intermediation Indicators	31.05.2018 BGN '000	31.12.2018 BGN'000	30.04.2019 BGN'000	31.05.2019 BGN'000	Change m/m (%)	Change y/y (%)	Change yend (%)	Share in GDP (%)
BANKING SYSTEM TOTAL ASSETS	**98 525 059**	**105 556 619**	**108 533 835**	**108 200 141**	**-0.3**	**9.8**	**2.5**	**94.0**
Loans to central governments	590 912	741 199	774 047	774 218	0.0	31.0	4.5	0.7
Loans to non-financial corporations	34 048 065	34 871 435	35 749 818	35 678 653	-0.2	4.8	2.3	31.0
Loans to financial corporrations	2 523 237	3 220 084	3 290 723	3 439 274	4.5	36.3	6.8	2.9
Retail loans, incl.:	21 115 850	22 075 378	23 631 880	23 899 947	1.1	13.2	8.3	20.5
Mortgage loans	10 106 507	10 906 245	11 359 046	11 472 311	1.0	13.5	5.2	9.8
Consumer loans	9 925 098	10 332 669	11 723 171	11 850 918	1.1	19.4	14.7	10.2
Microcredits and other loans	1 084 245	836 464	549 663	576 718	4.9	-46.8	-31.1	0.5
TOTAL LOANS	**58 278 064**	**60 908 096**	**63 446 468**	**63 792 092**	**0.5**	**9.5**	**4.7**	**55.0**
ATRACTED SOURCES FROM CLIENTS, incl.:	**79 524 742**	**84 571 339**	**86 363 081**	**86 298 474**	**-0.1**	**8.5**	**2.0**	**74.8**
Local government deposits	2 374 422	2 696 635	2 730 447	2 737 408	0.3	15.3	1.5	2.4
Non-financial corporations deposits	23 752 353	25 277 991	25 396 989	25 054 794	-1.3	5.5	-0.9	22.0
Financial corporations deposits	3 028 938	3 213 474	3 644 227	3 831 262	5.1	26.5	19.2	3.2
Households and NPISHs deposits	50 369 029	53 383 239	54 591 418	54 675 010	0.2	8.5	2.4	47.3
Equity	11 887 188	13 857 523	13 845 580	**14 010 675**	1.2	17.9	1.1	12.0
Net profit (annualised)	**515 217**	**1 677 846**	**454 096**	**762 297**		48.0		
BANKING INDICATORS (%)								
ROE	10.4	12.1	9.8	13.1	-1.2	0.4	-1.2	
ROA	1.3	1.6	1.3	1.7	-0.1	0.1	-0.1	
Capital adequacy	n.a.	20.4	n.a.	n.a.				
Liquidity coverage(%)	363.9	294.1	265.9	262.9	-3.0	-101.0	-31.2	
NPL	n.a.	7.6	n.a.	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				

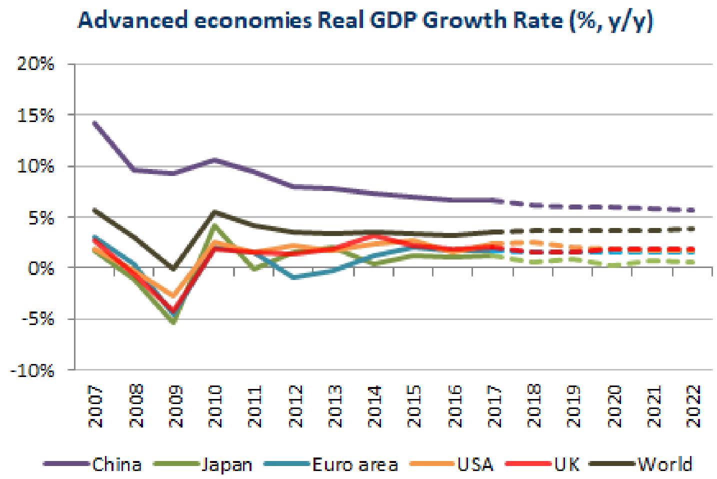
Source: BNB, MF, UBB Calculations

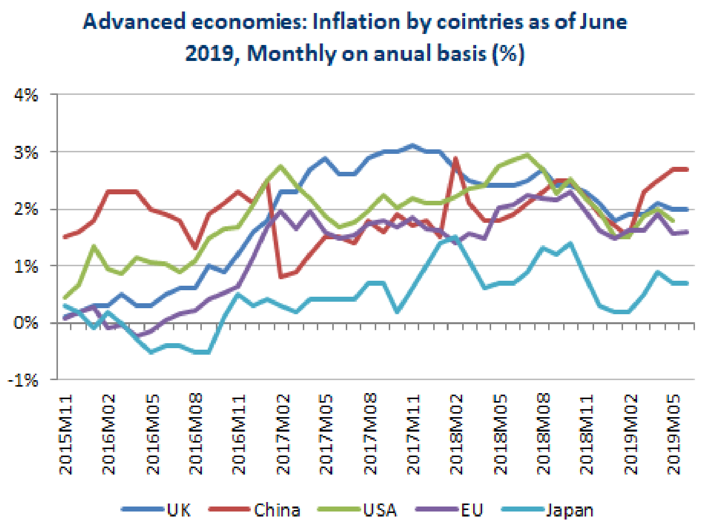
The liquidity coverage ratio at the end of May 2019 was 262.9% (compared to 265.9% at the end of April). At the end of the reporting month, the liquidity buffer amounted to 27.7 billion BGN and net outflows amounted to 10.5 billion BGN. In May 2019, equity in the banking system's balance sheet on a monthly basis increased by 1.2% to 14.0 billion BGN.The reported growth is driven by increases in profits and paid-up capital.

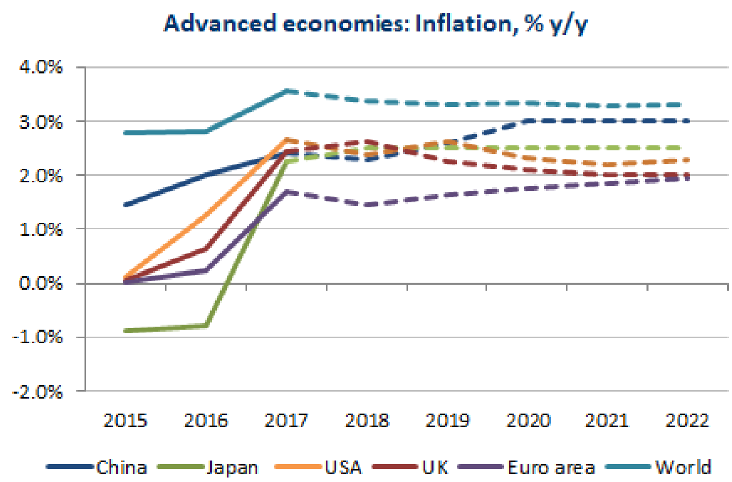
Appendix

ADVANCE ECONOMIES KEY INDICATORS



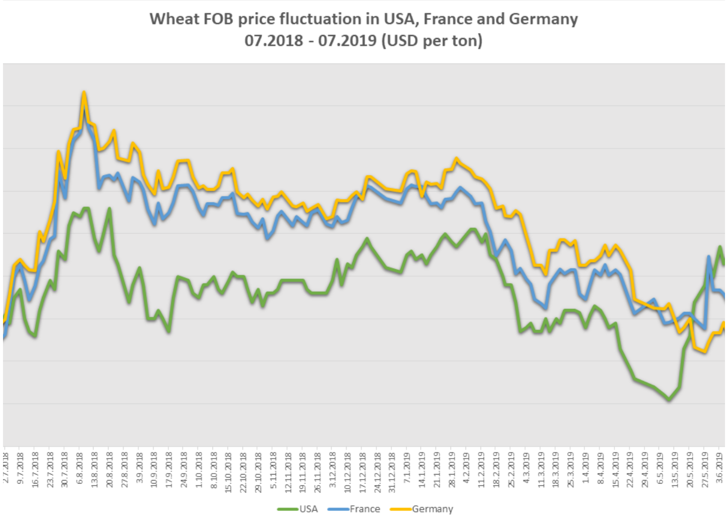


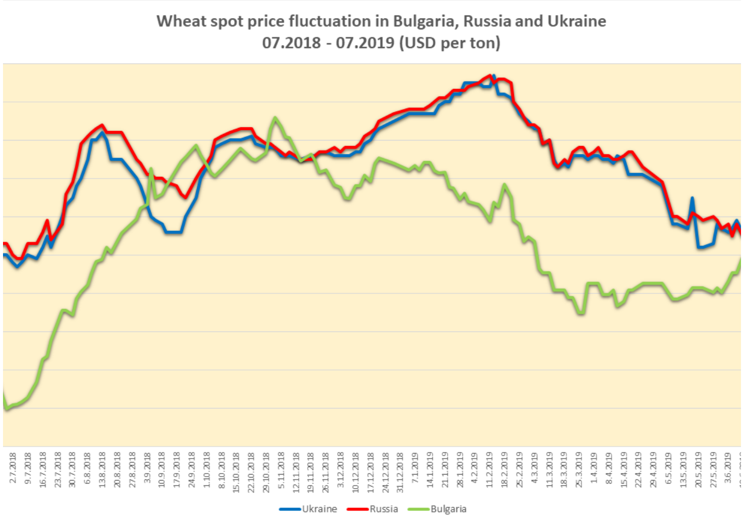


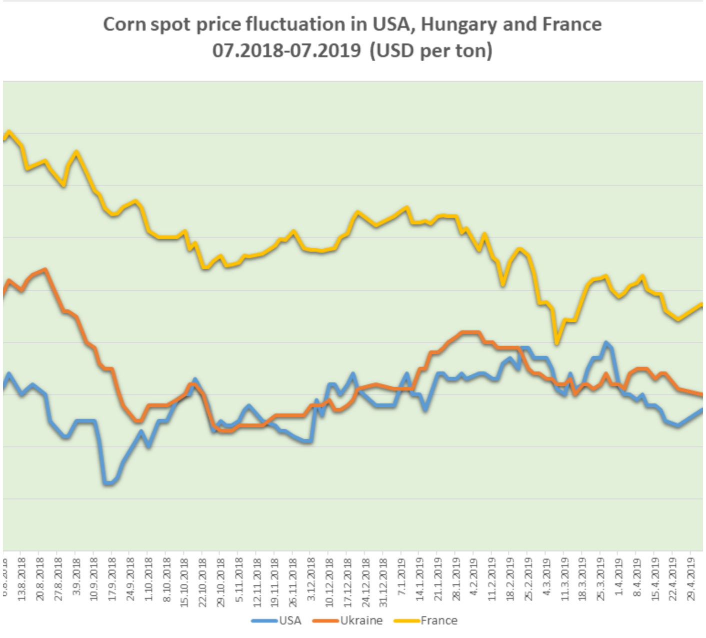


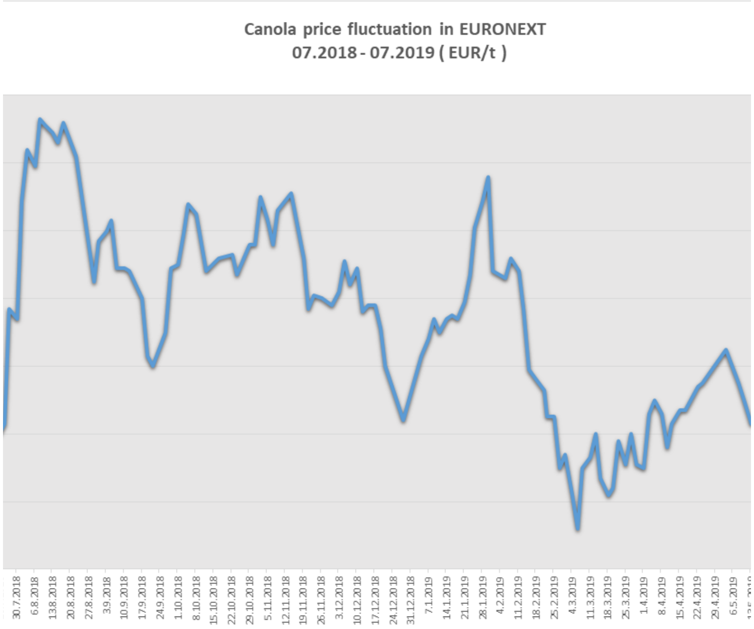
Source: IMF

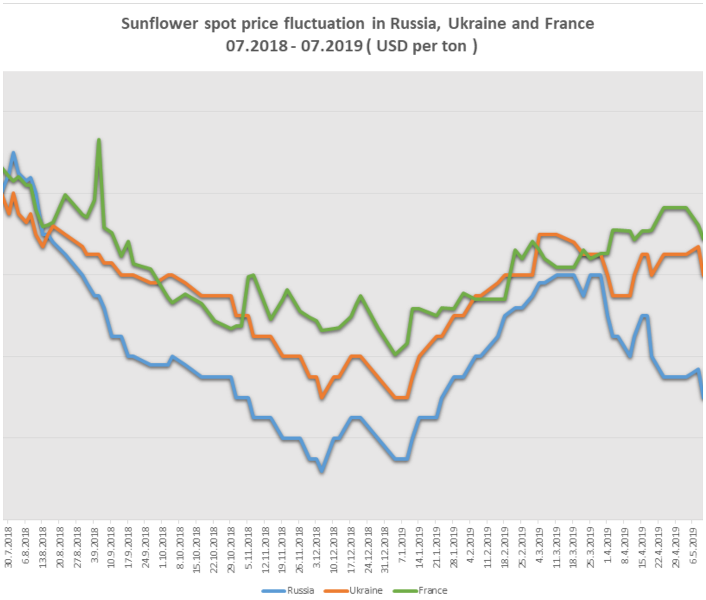
International Prices of Agriculture Products

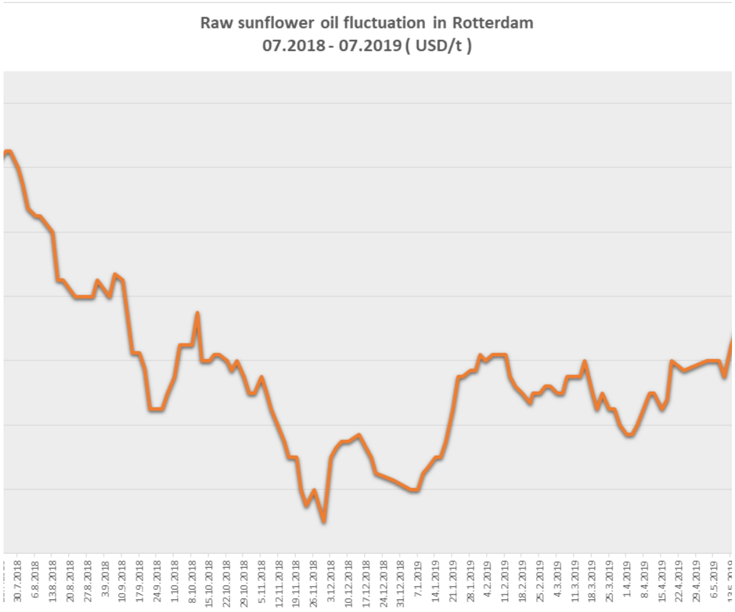








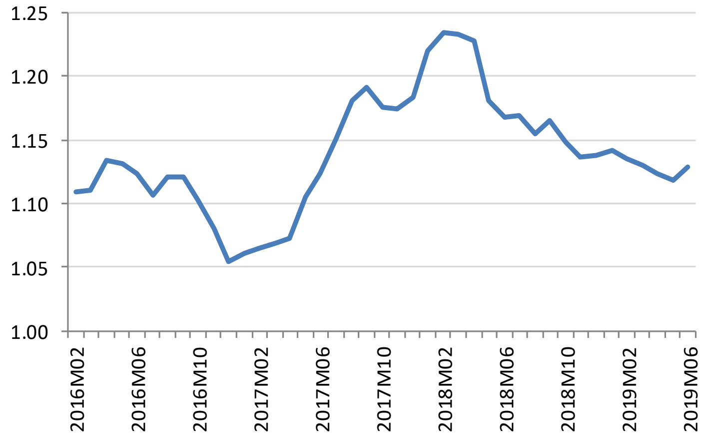




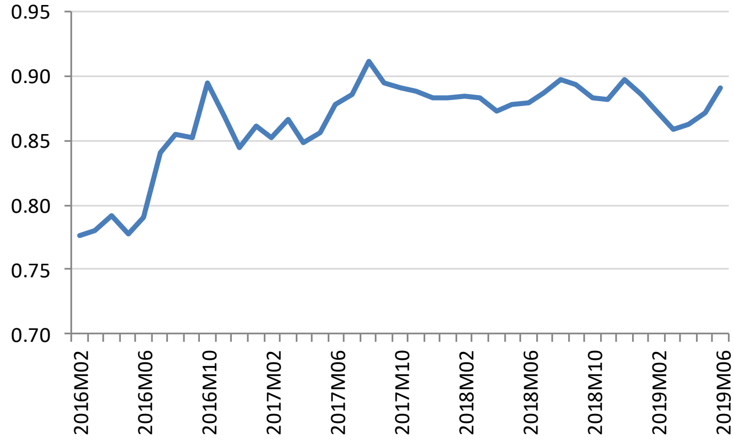
Source: SCE

Overseas FX Rates

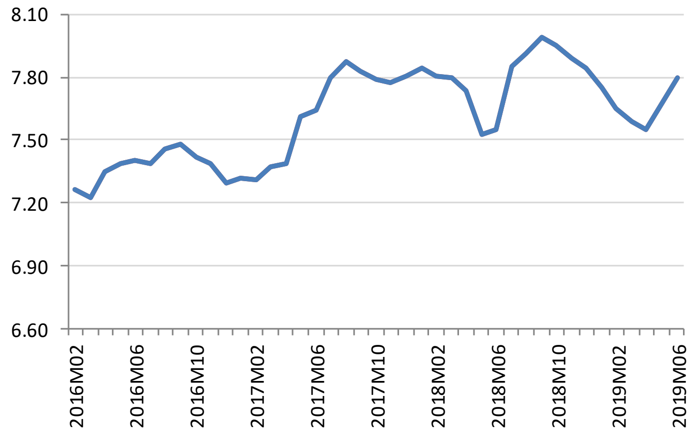
EUR/USD



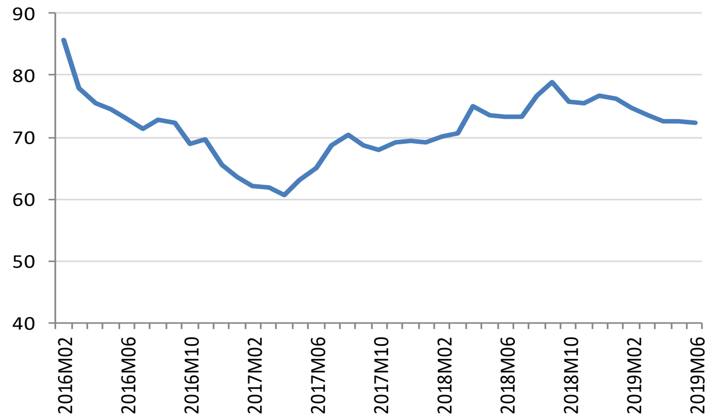
EUR/GBP



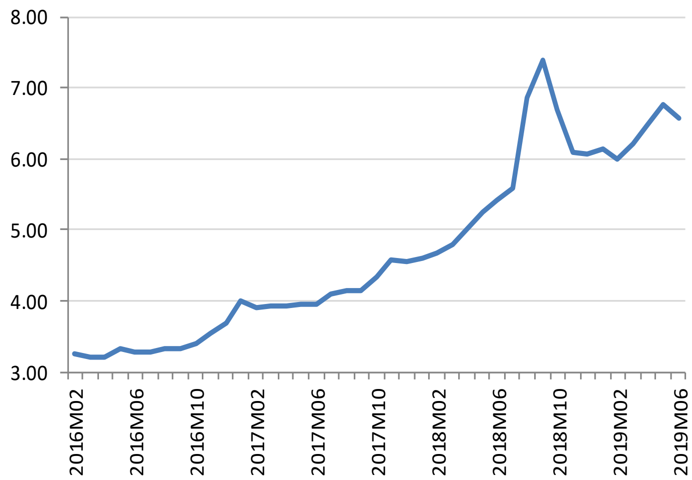
EUR/CNY



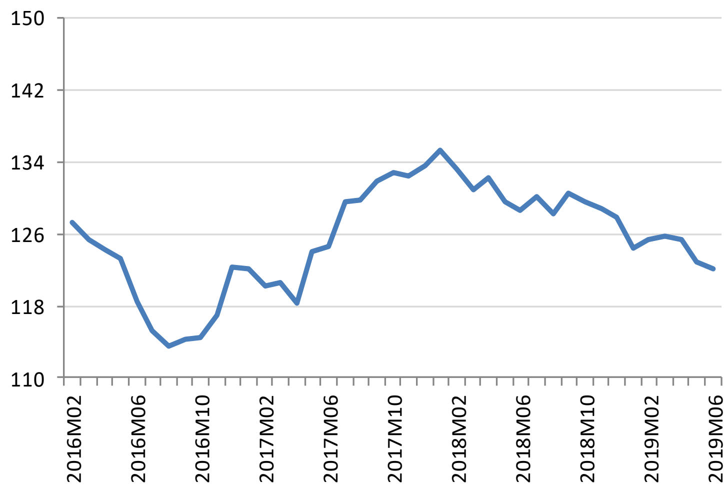
EUR/RUB



EUR/TRY

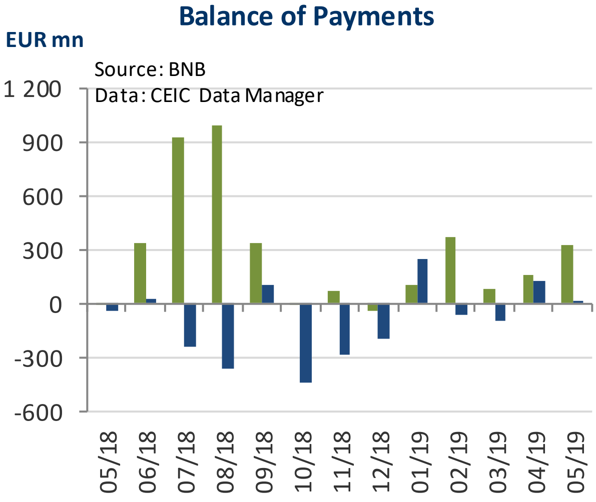


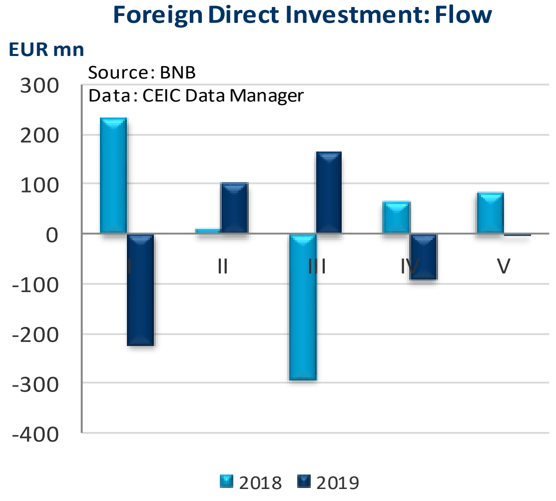
EUR/JPY

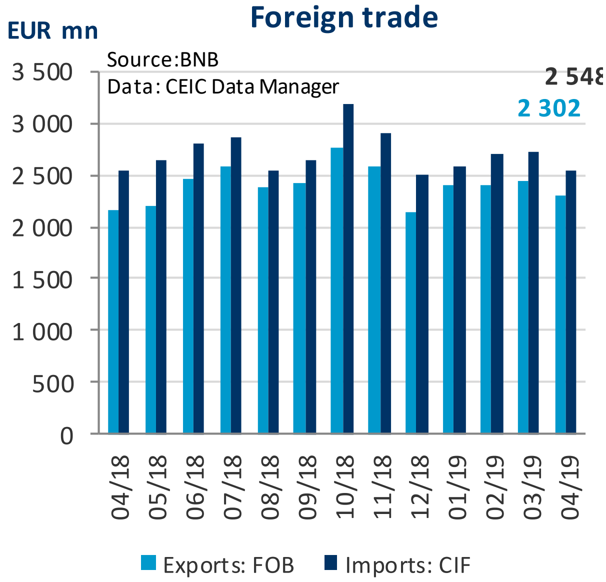


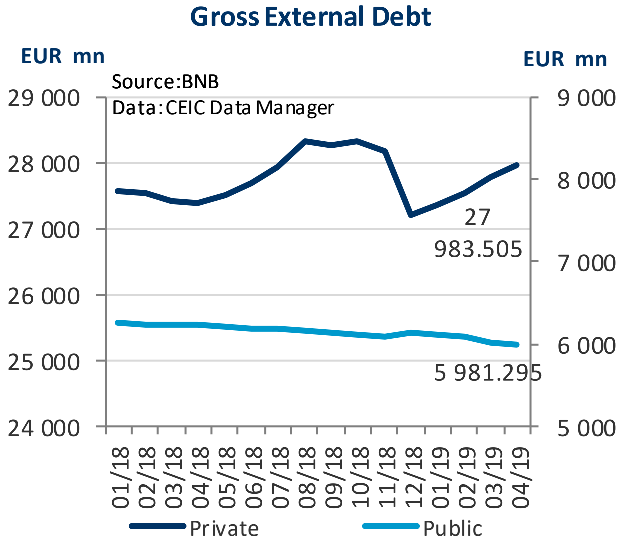
Source: ECB

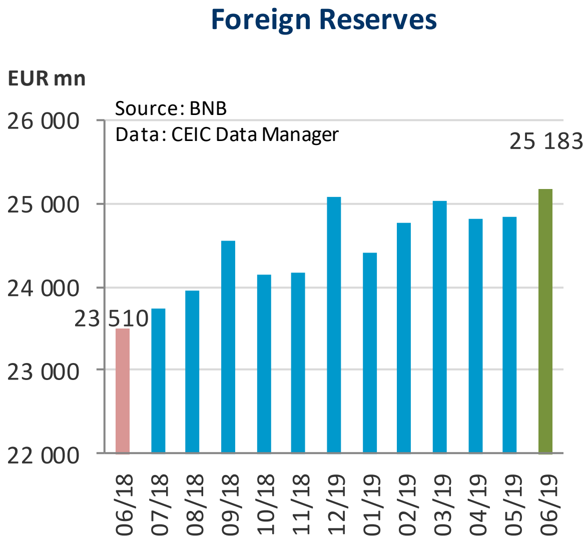
Bulgaria: External Sector Indicators





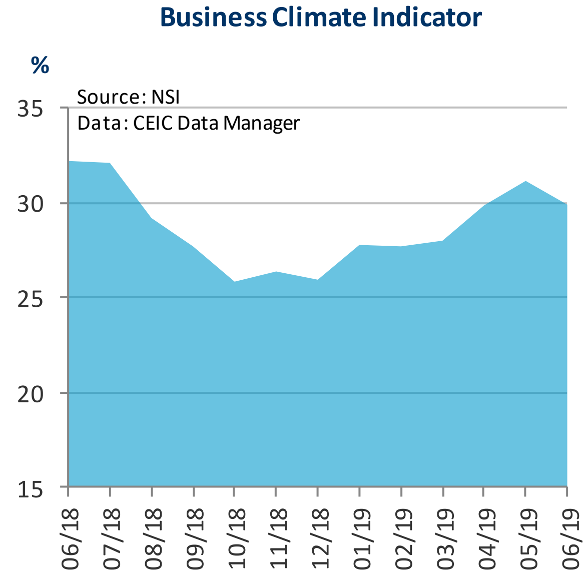


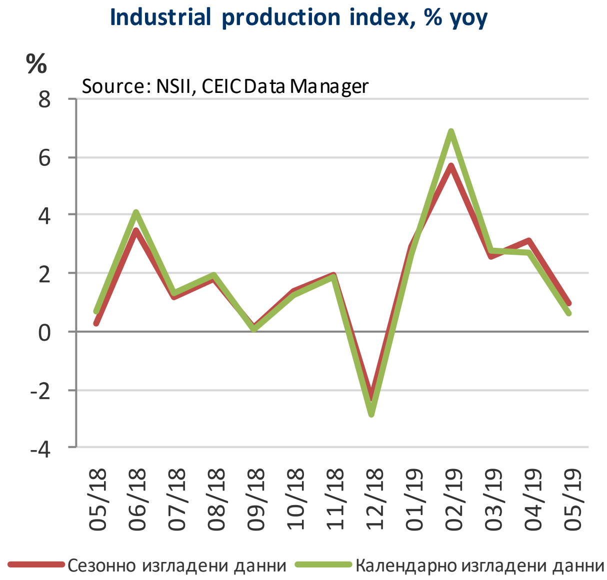


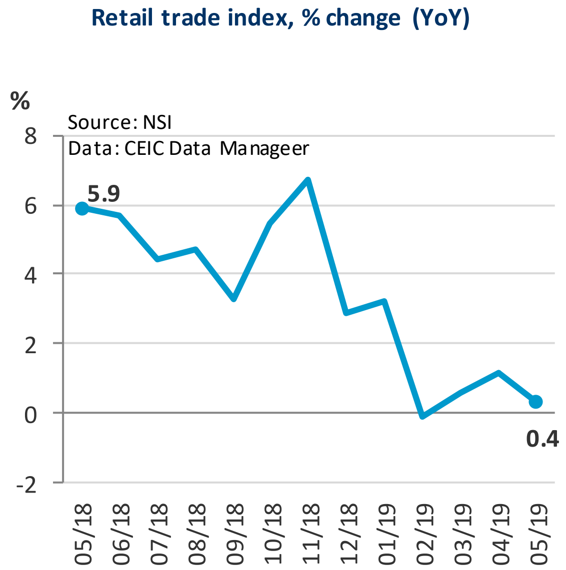


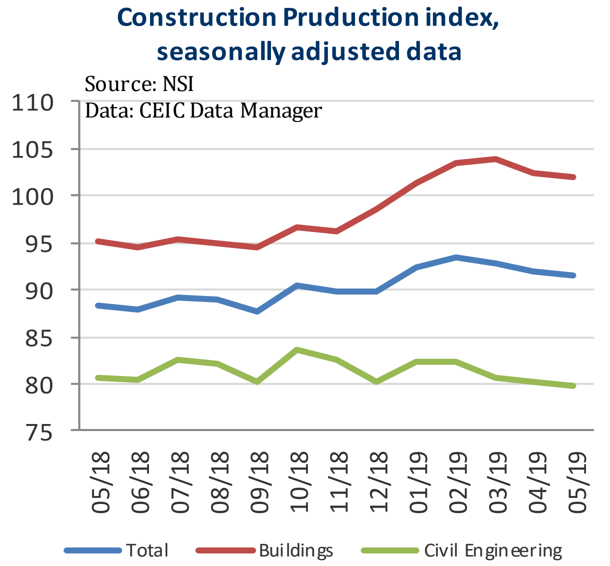
Source: BNB

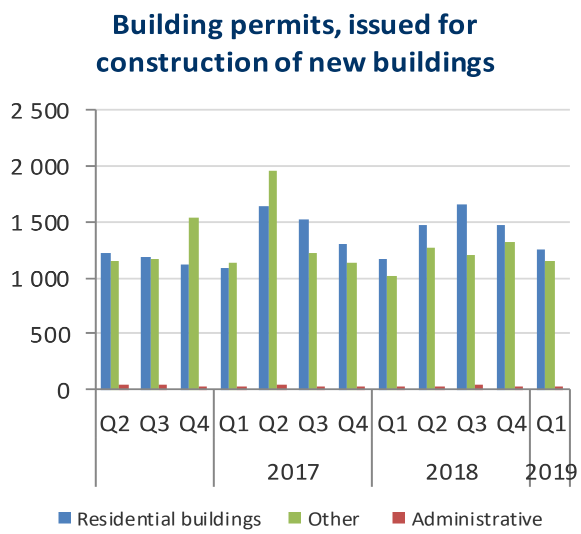
Bulgaria: Real Sector Indicators

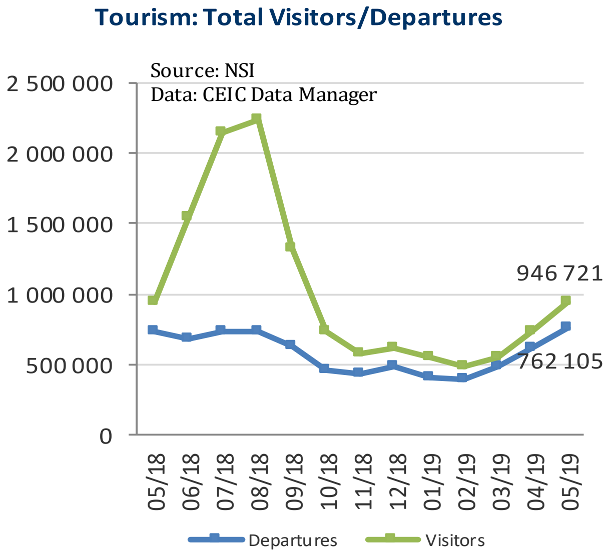






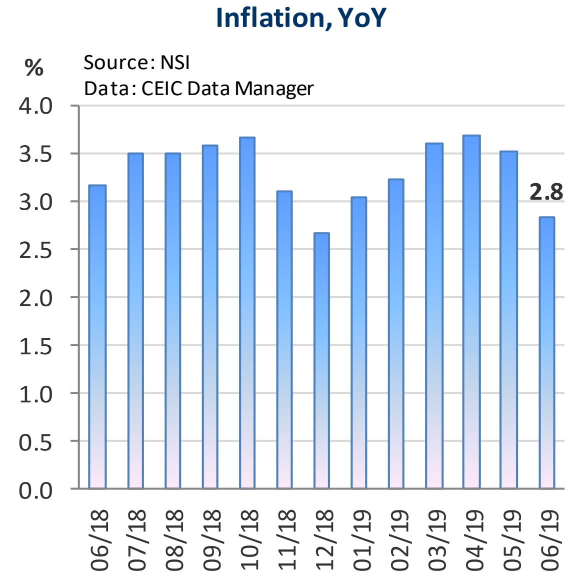


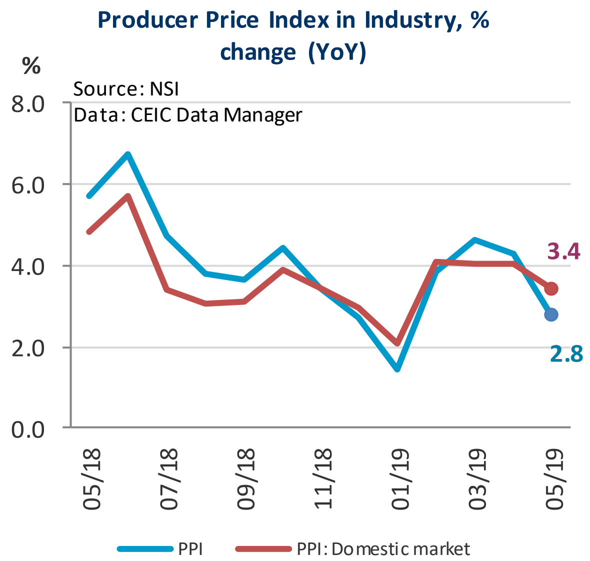


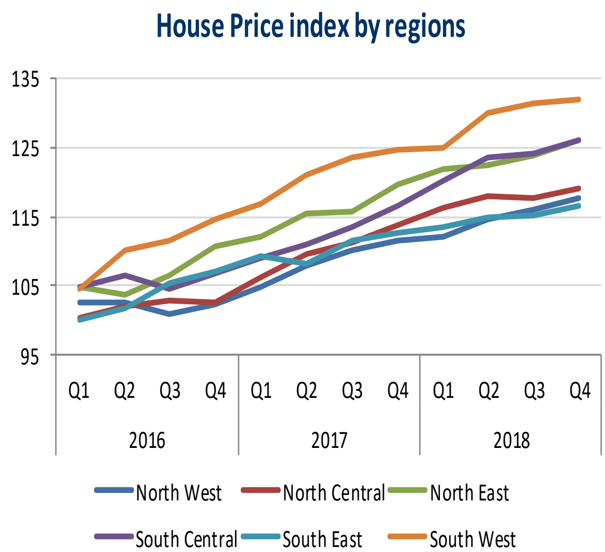


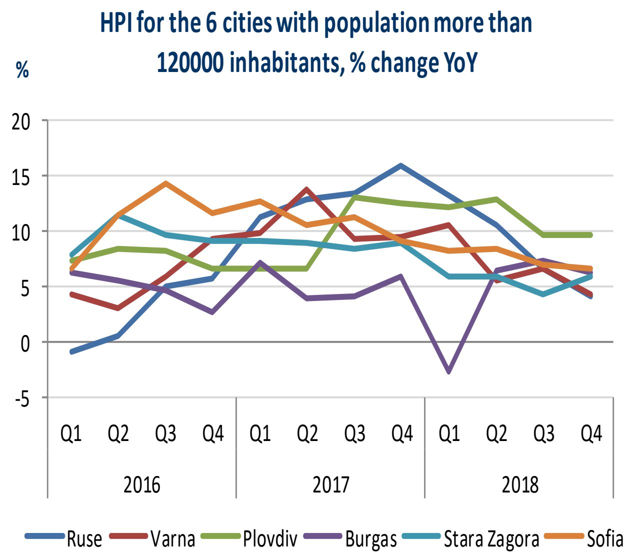
Source: NSI

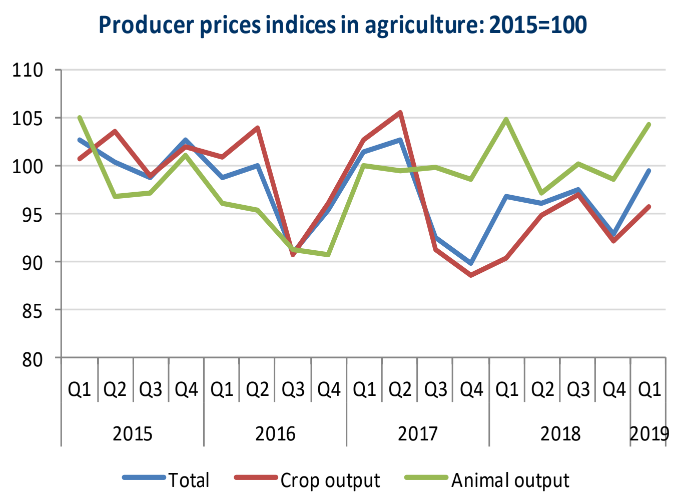
Bulgaria: Prices Indicators





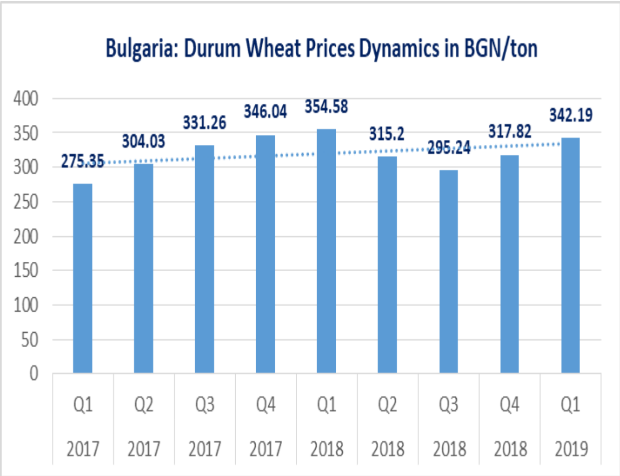


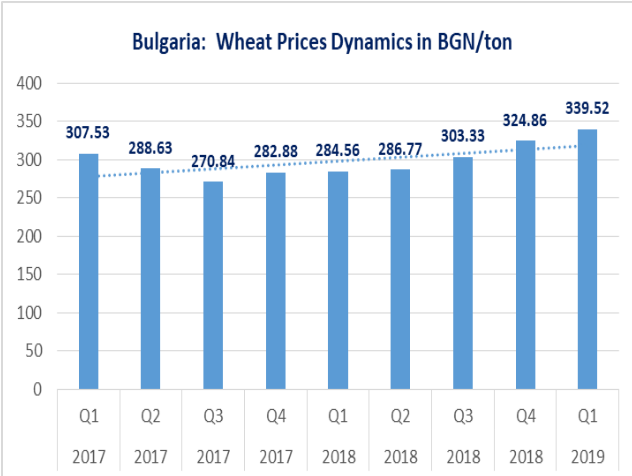


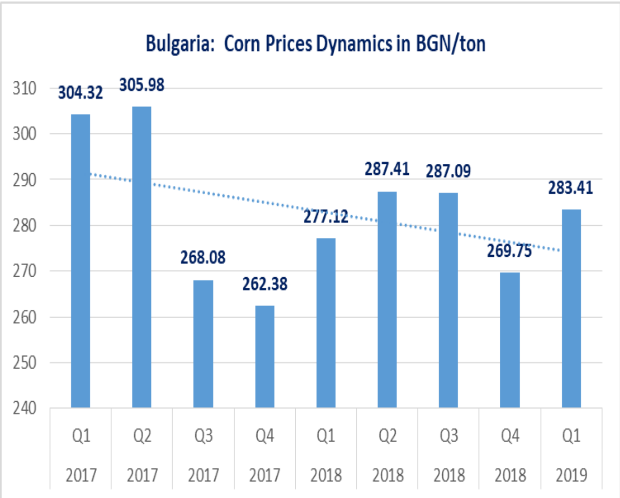


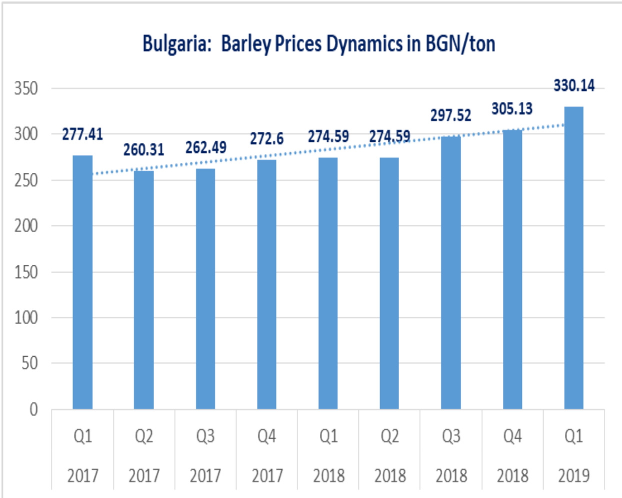
Source: NSI, EC

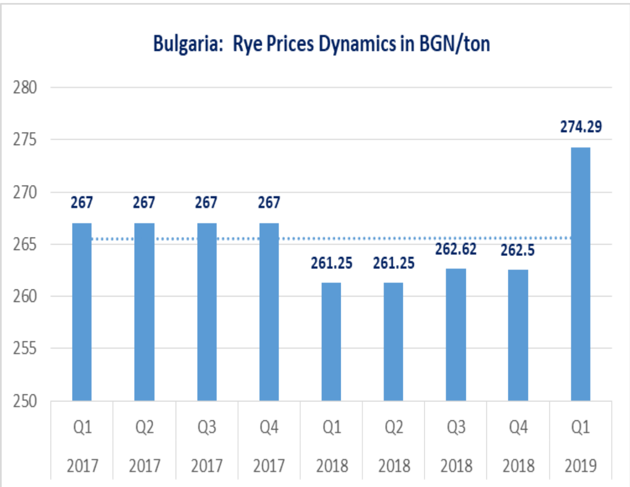
Bulgaria: Cereals Prices

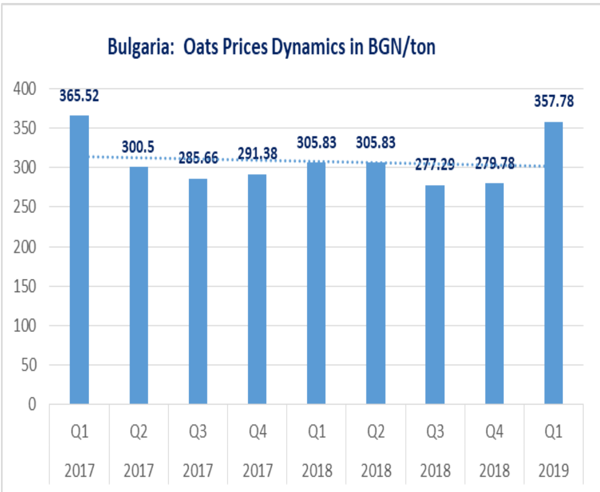






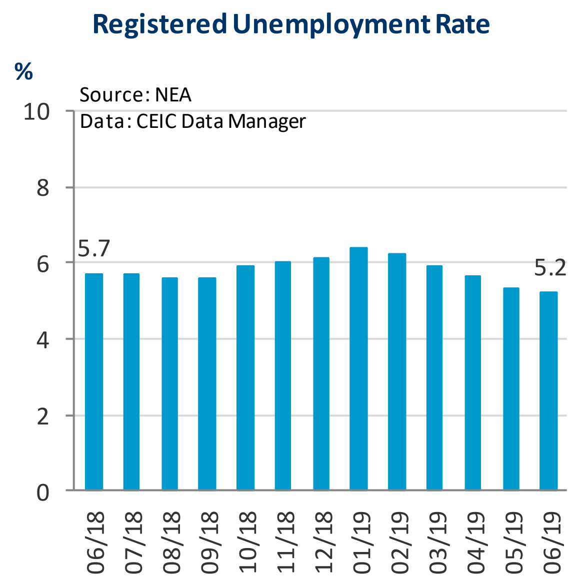


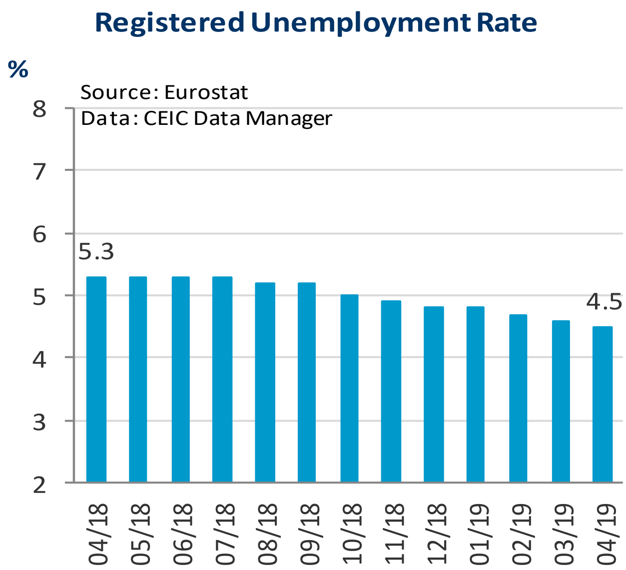


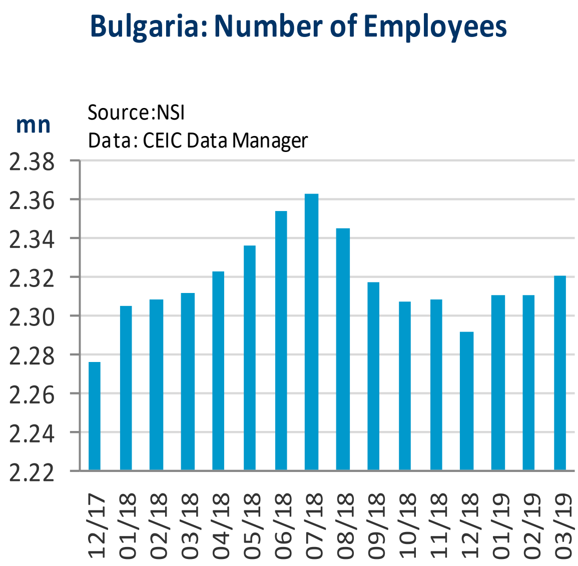


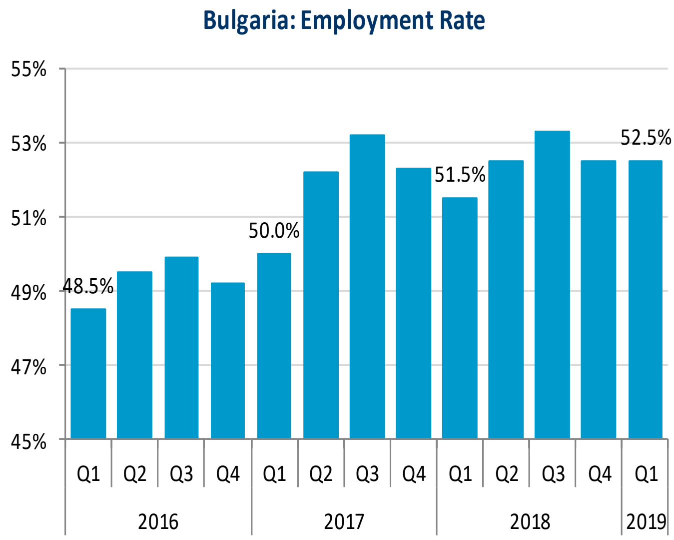
Source: NSI

Bulgaria: Labor Market Indicators



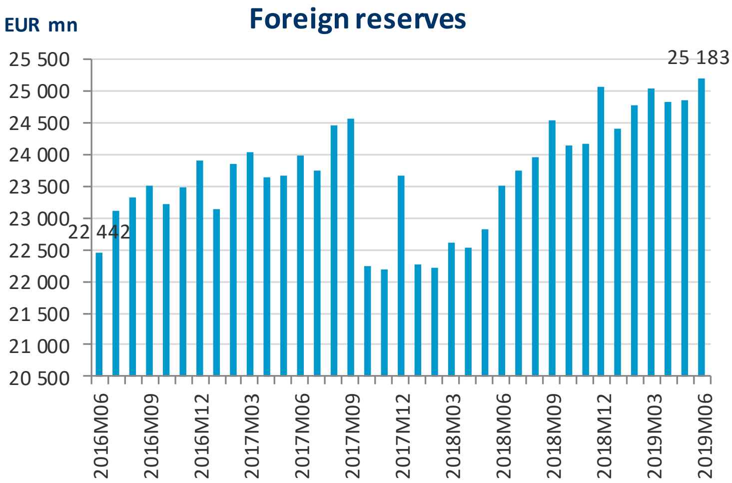


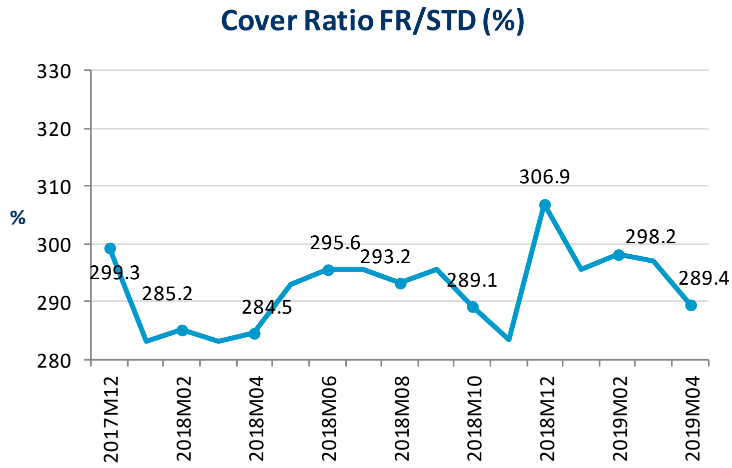


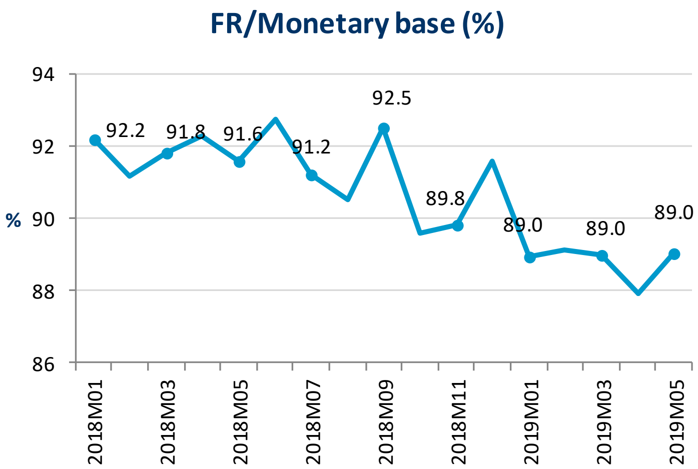


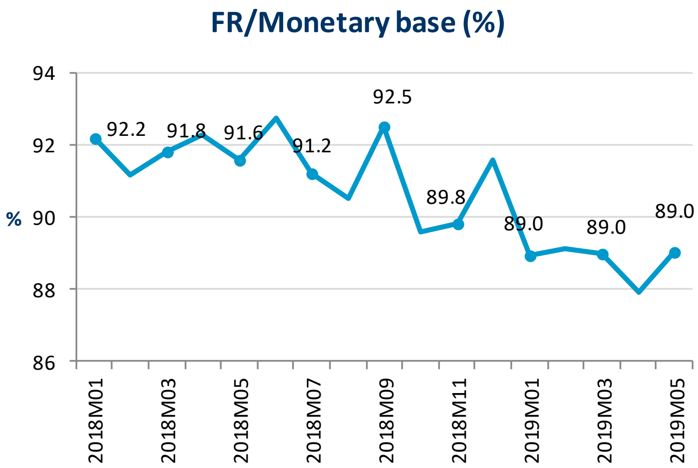
Source: NSI, EC

Bulgaria: Monetary Sector Indicators





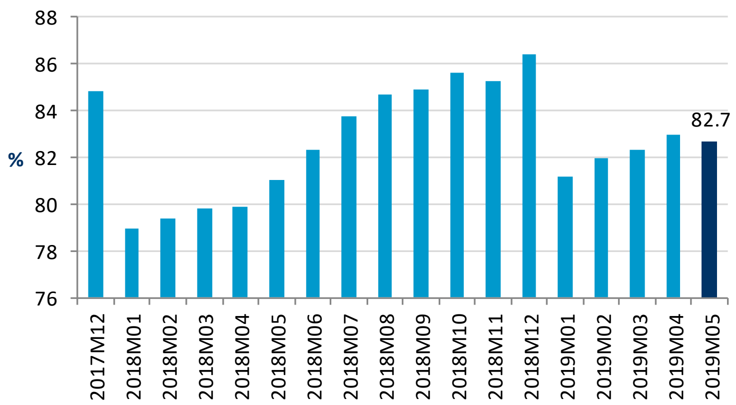




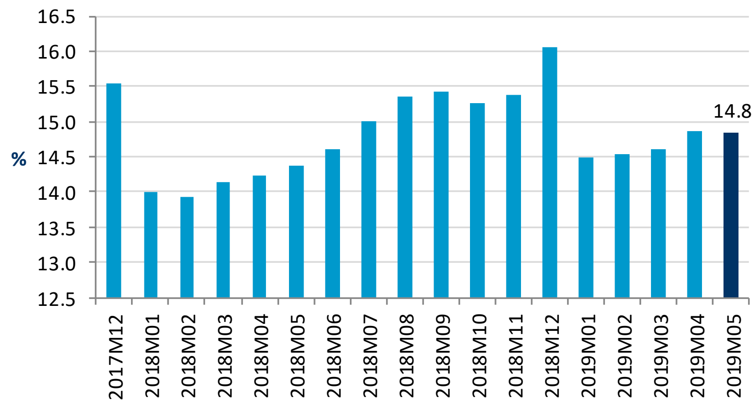
Source: BNB

Bulgaria: Monetary Sector Indicators

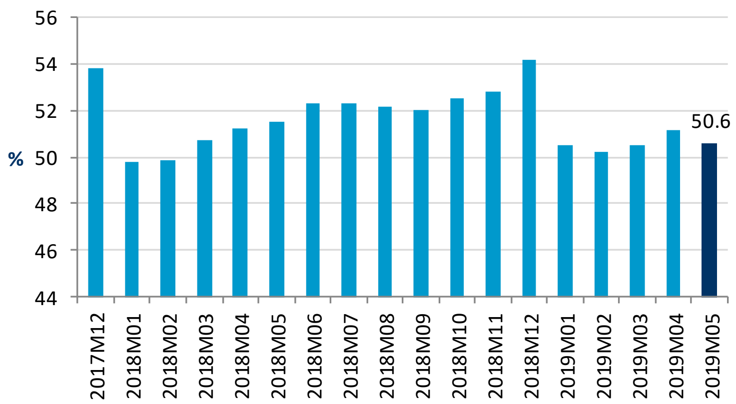
Broad money (monetary agregate M3)/GDP (%)



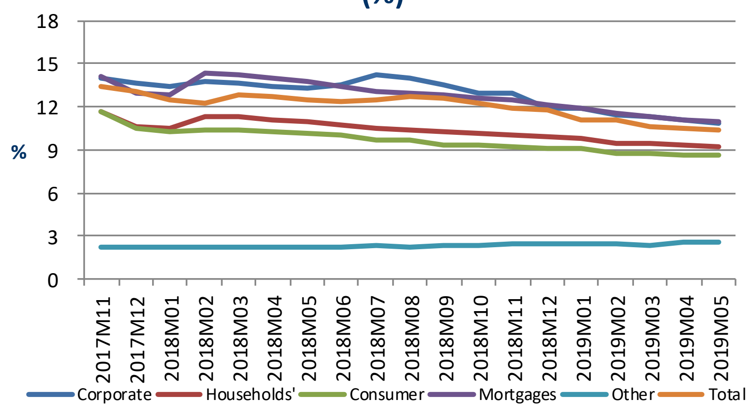
Money in circulation/GDP (%)



Domestic credit/GDP (%)



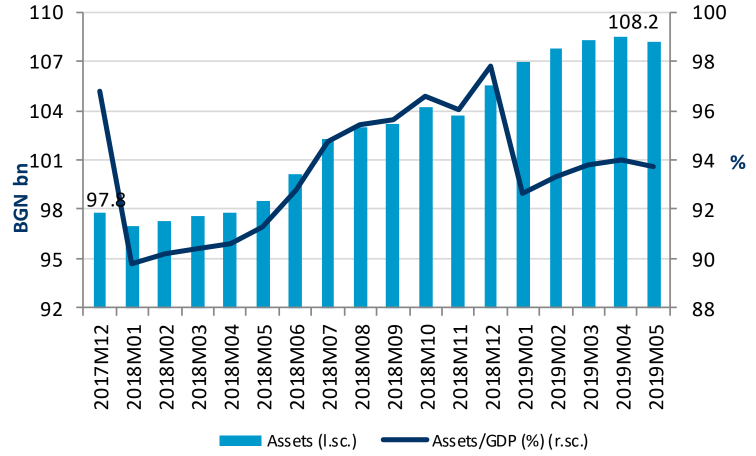
Banking sector: Bad and restructured loans (%)



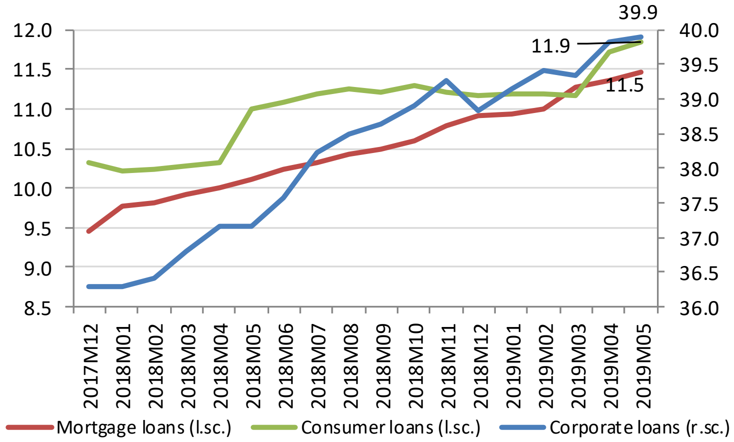
Source: BNB

Bulgaria: Banking Sector Indicators

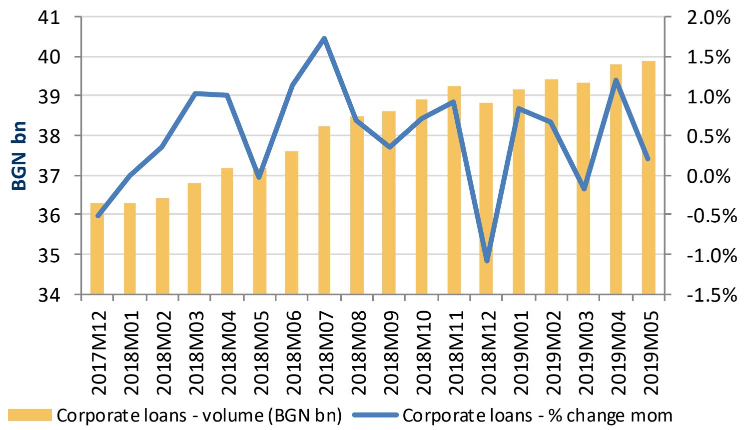
Assets



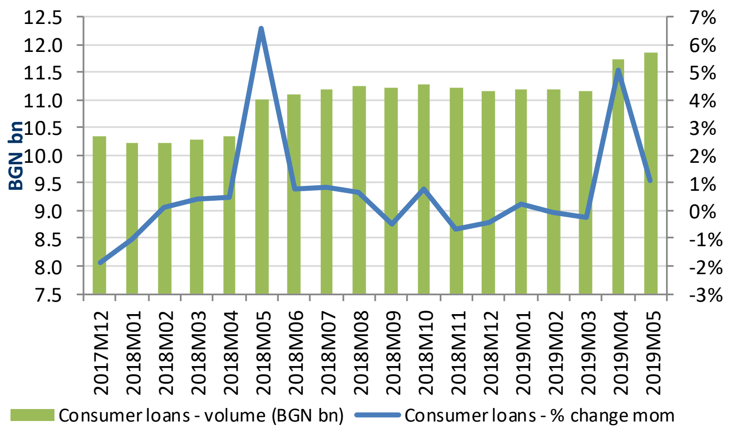
Loans (BGN bn)



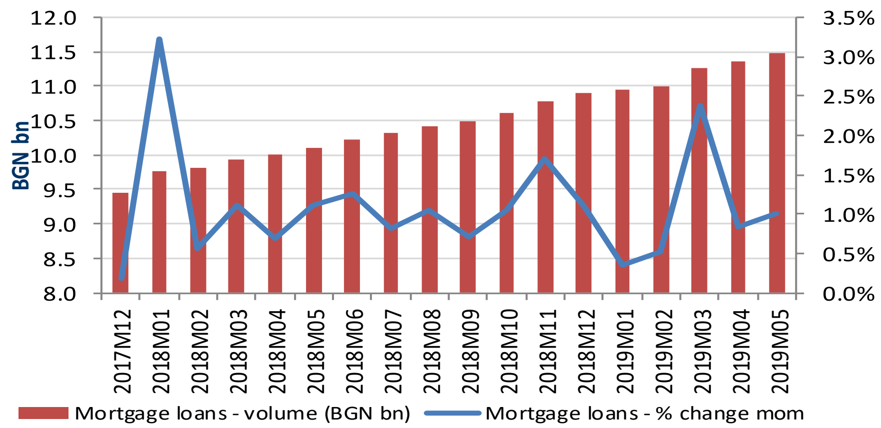
Corporate Loans



Consumer Loans

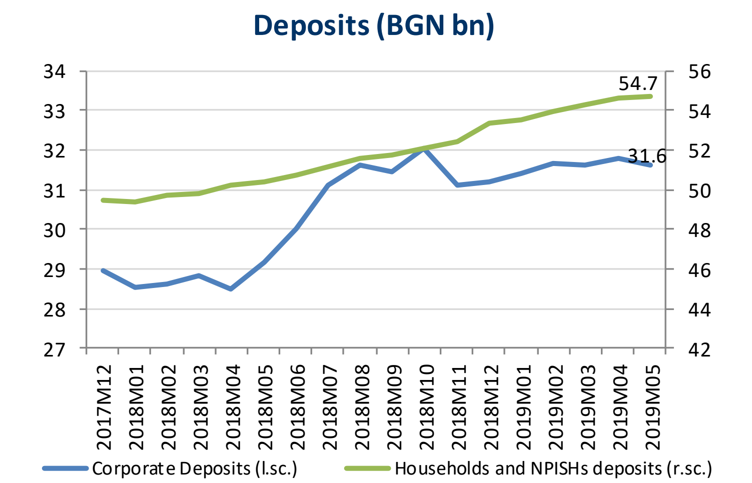


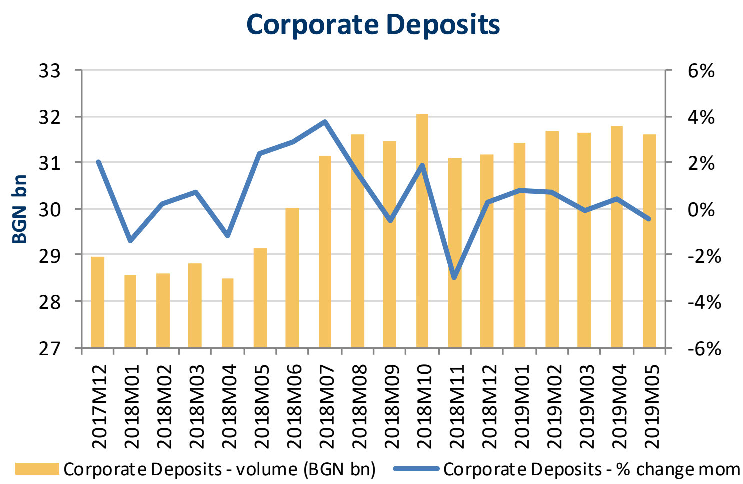
Mortgage Loans

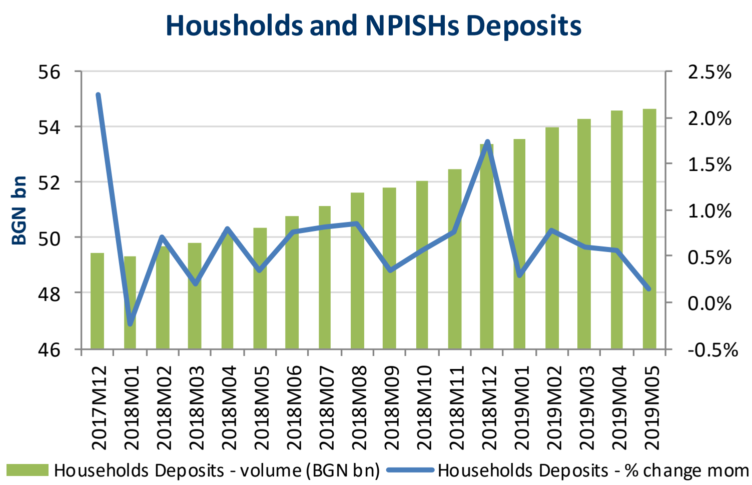


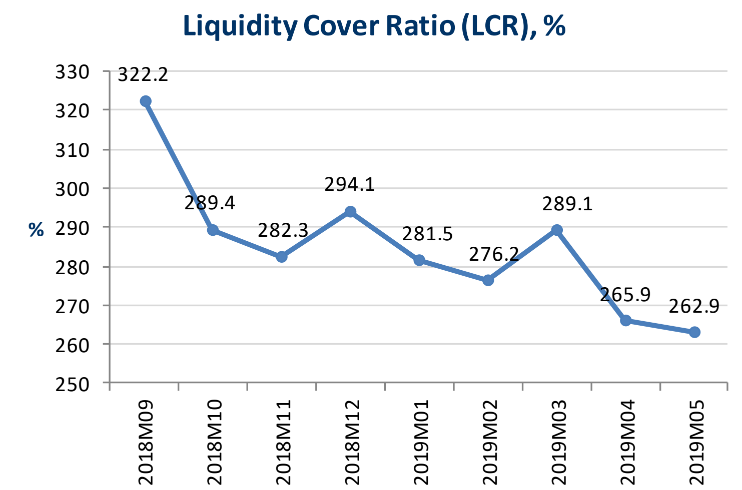
Source: BNB

Bulgaria: Banking Sector Indicators



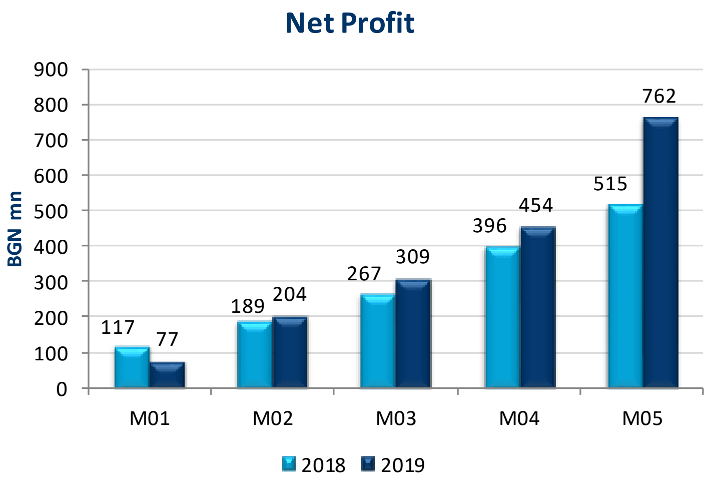


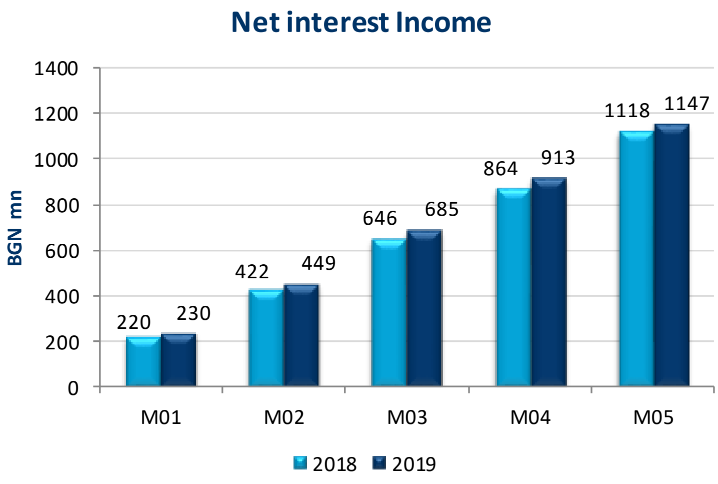


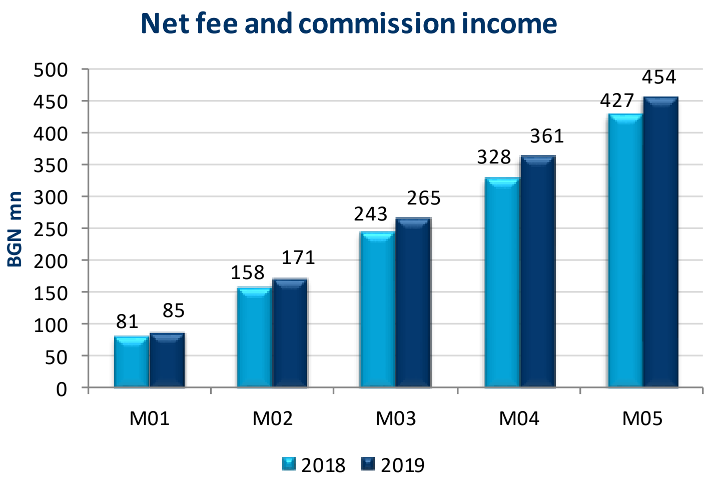


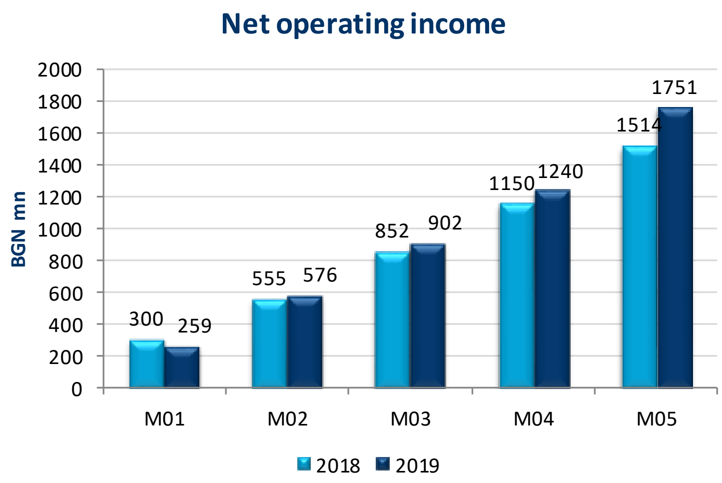
Source: BNB

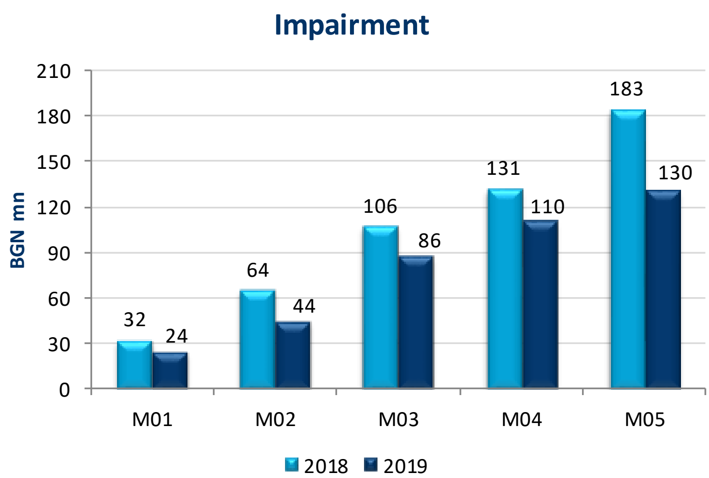
Bulgaria: Banking Sector Indicators





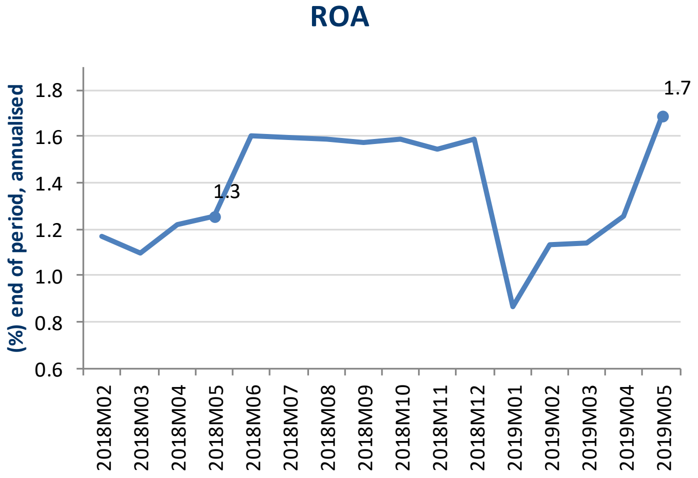


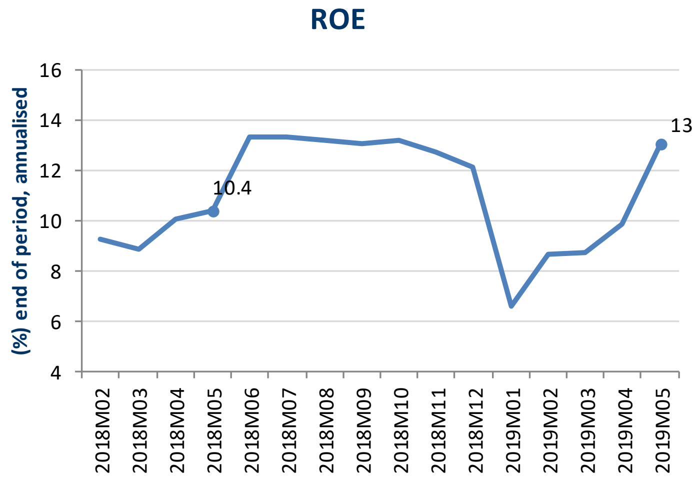


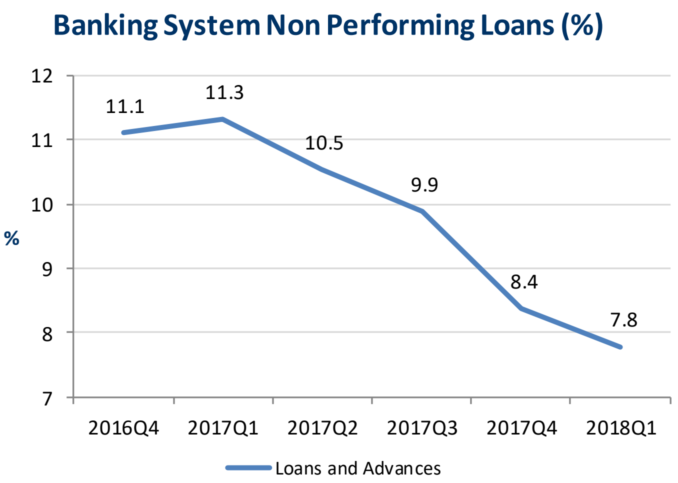


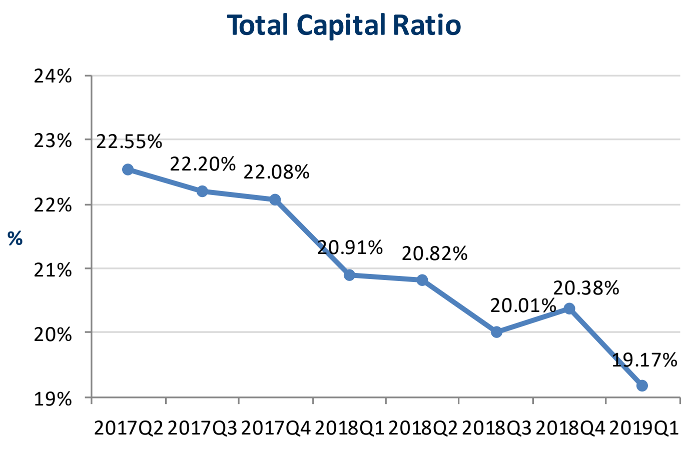
Source: BNB

Bulgaria: Banking Sector Indicators



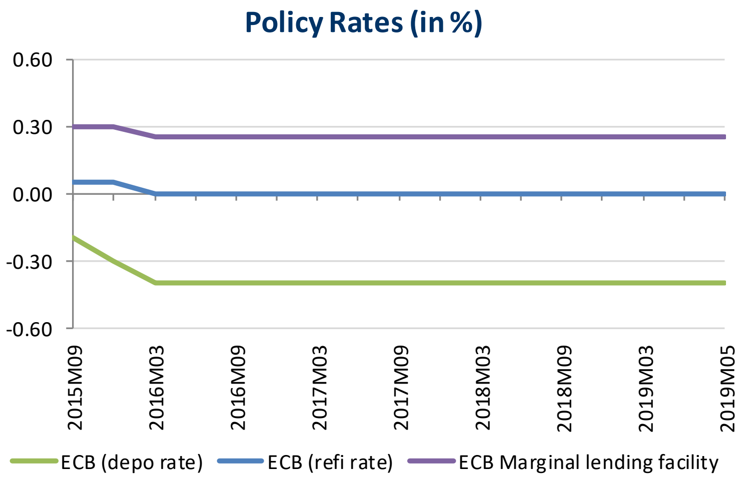


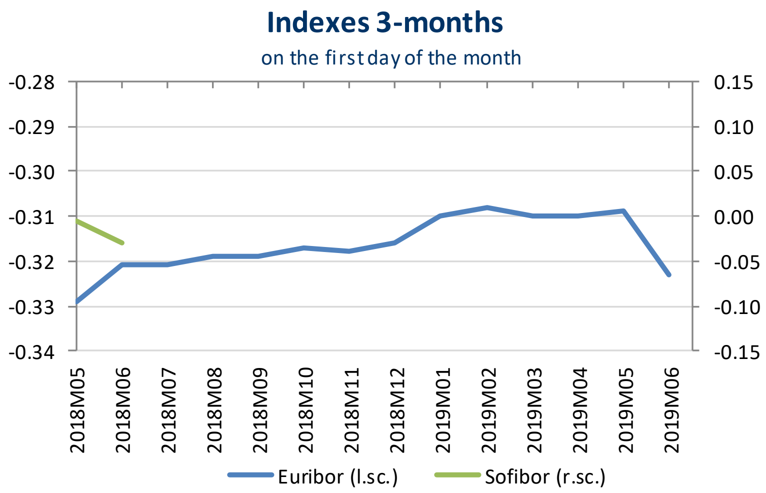


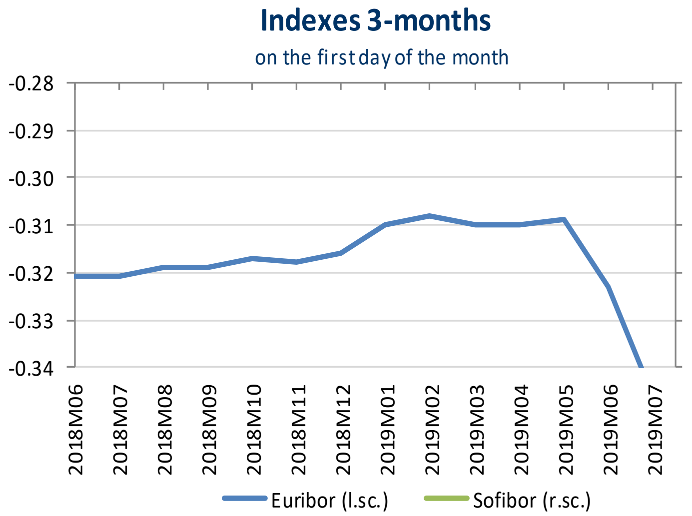


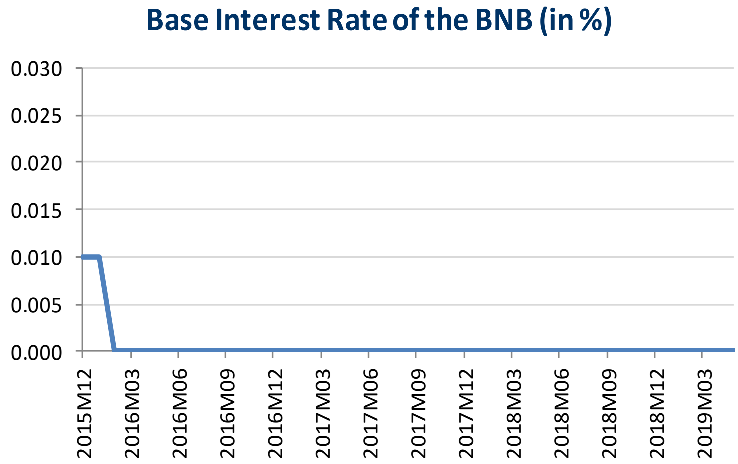
Source: BNB

Bulgaria: Indexes and Interest Rates



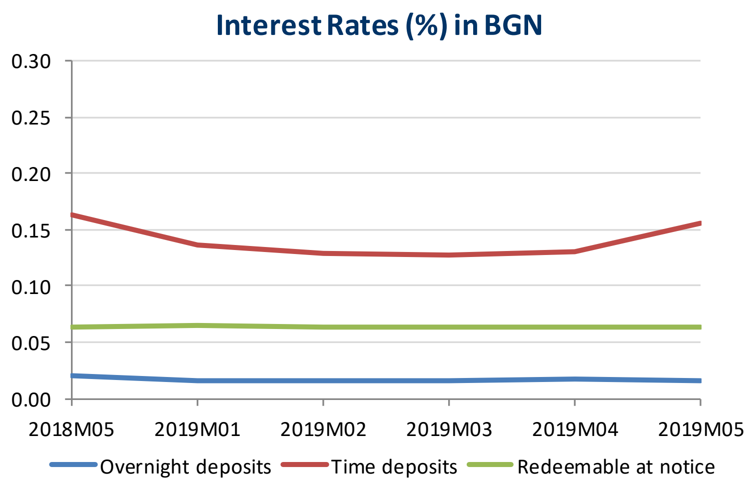


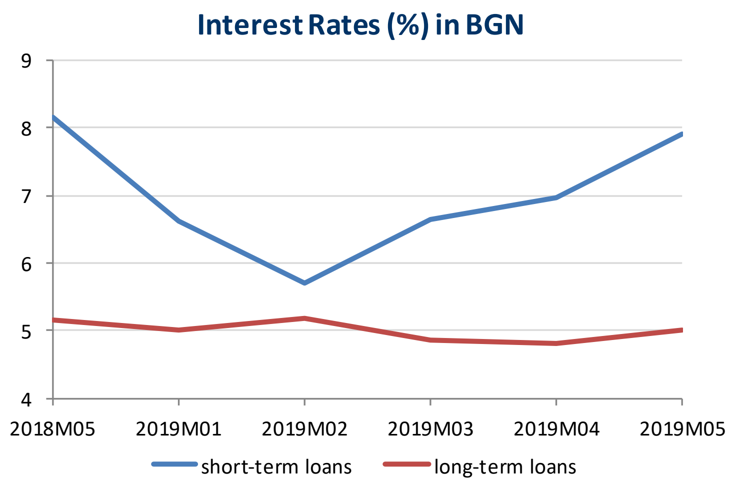


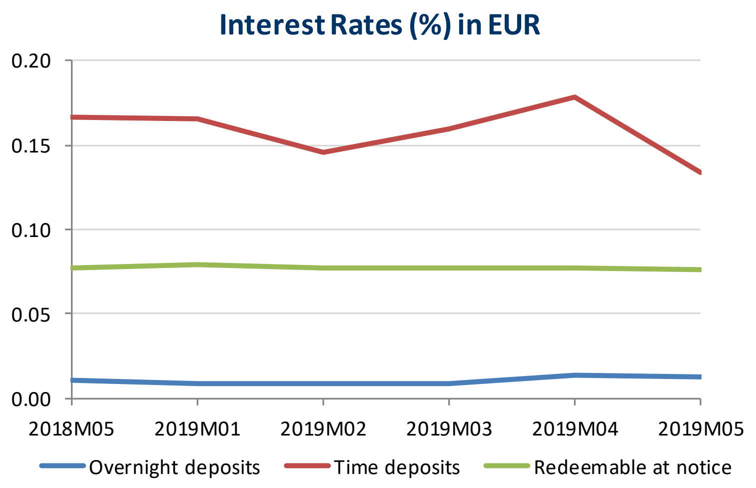


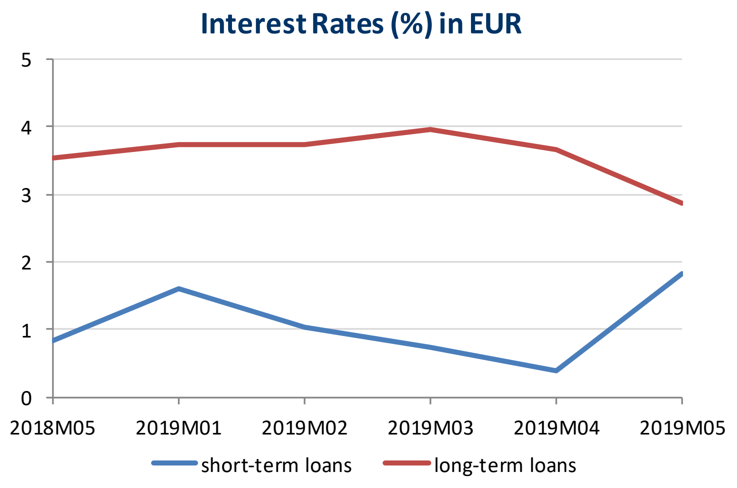
Source: ECB, BNB

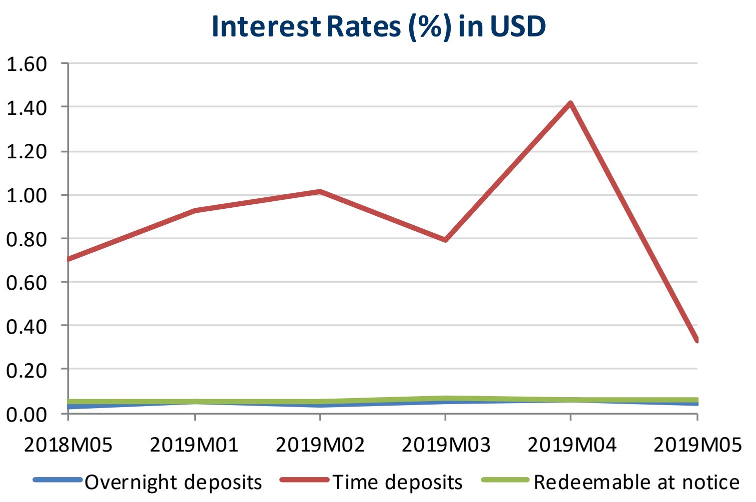
Bulgaria: Interest Rates of New Business on Deposits and New Loans Interest Rates

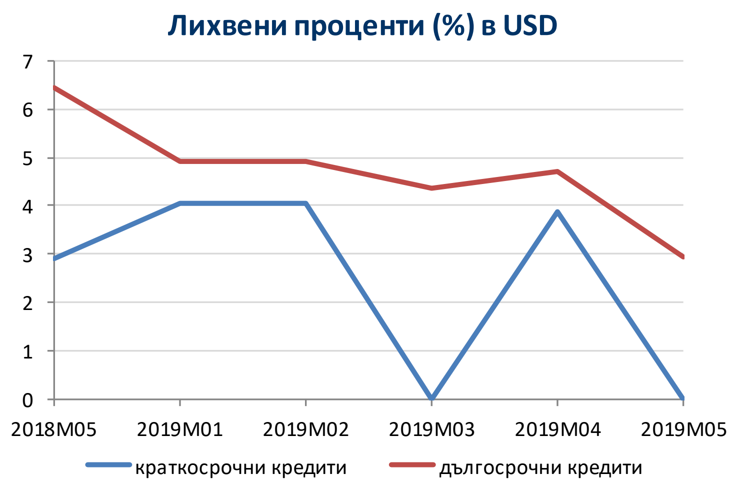






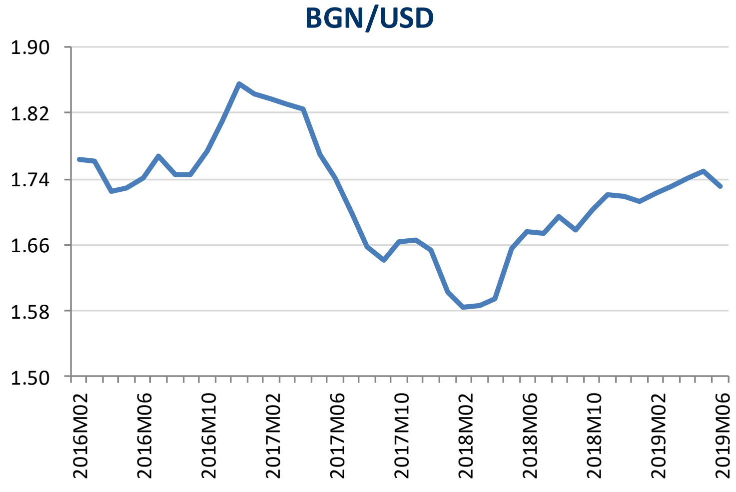


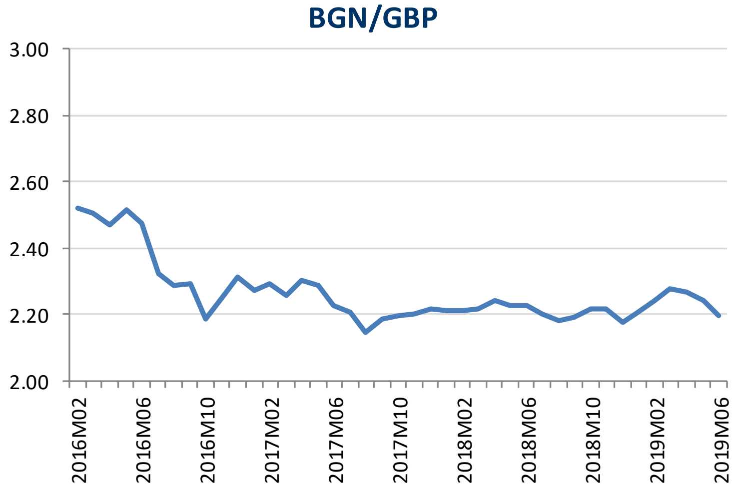


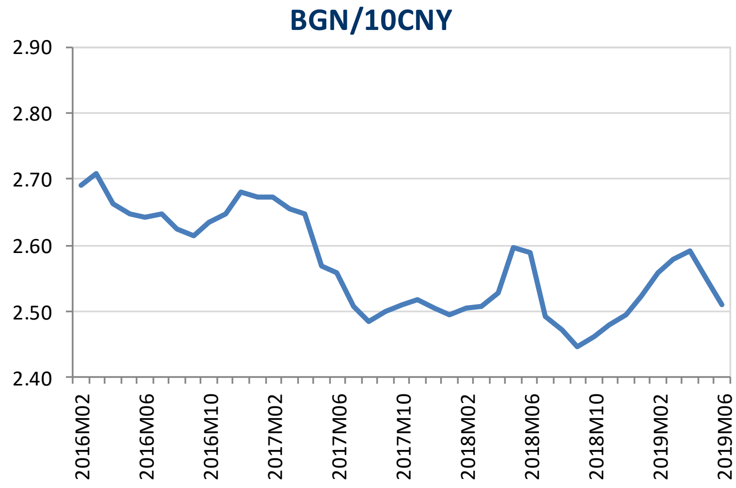


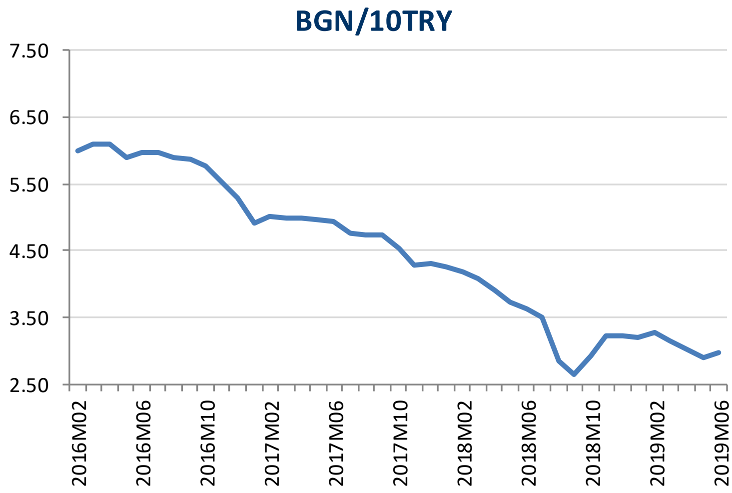
Source: BNB

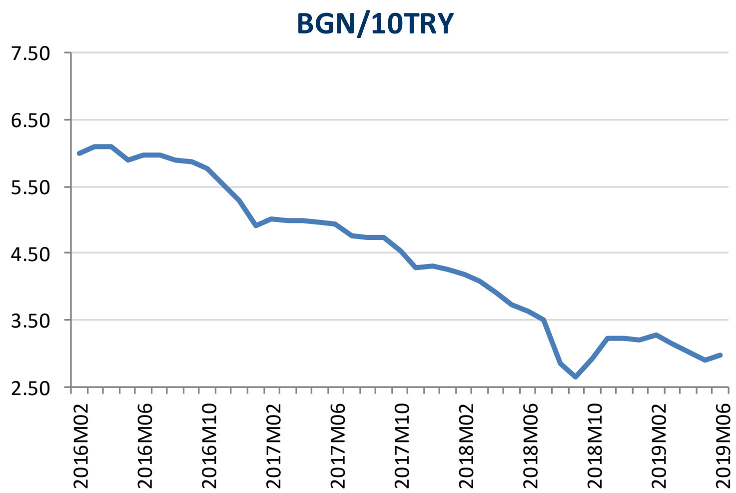
Bulgaria: FX Rates

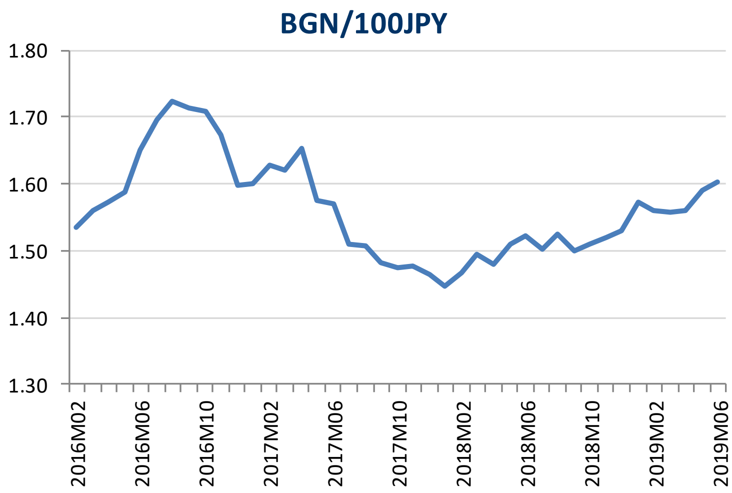












Source: ECB

DEFINITIONS AND METHODOLOGICAL NOTES

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

EXTERNAL SECTOR

CURRENT ACCOUNT

Starting from April 17th 2015, in accordance with the Statistical Data Realease Calendar, BNB starts the regular dissemination of monthly balance of payments data, compiled in accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual. The implementation of the new methodological requirements of BPM6 by the EU countries was coordinated by the European System of Central Banks (ESCB) and the European Statistical System (ESS). With the implementation of the Sixth Edition of the Balance of Payments and International Investment Position Manual (IMF,2008) significant methodological changes in the reporting of trade in goods and trade in services were introduced. Based on their economic nature, certain items were reclassified from Goods (exports and imports) to Services (exports and imports), and vice versa. These methodological changes resulted in differences between the data on goods (exports and imports) compiled by the BNB for the balance of payments statistics, and the external trade statistics compiled by the NSI. Thus, the exports, imports and trade balance data compiled by the NSI do not equate to the exports, imports and trade balance data compiled by the BNB for the purposes of balance of payments statistics. According to external trade statistics, exports of goods amounted to EUR 3,483.1 mn in January – February 2015, growing by EUR 249.1 mn (7.7 %) year-on-year (compared with EUR 3,234 mn in January – February 2014). Imports of goods amounted to EUR 3,856.9 mn in January – February 2015, growing by EUR 58.9 mn (1.6 %) year-on-year (from EUR 3,797.9 mn in January – February 2014). The trade balance recorded a deficit of EUR 373.8 mn (0.9 % of GDP) in the reporting period, dropping by EUR 190.2 mn year-on-year (from a deficit of EUR 564 mn, 1.3 % of GDP in January – February 2014). Taking into consideration the analytical importance of the data on goods (exports and imports) in the external trade statistics, the BNB shall continue its practice of preparing a short text on the external trade dynamics, and maintaining the relevant data series. These materials are included in the Balance of Payments publication, and are published on the BNB website. More detailed information on these methodological changes is available in the material Compilation of the balance of payments in accordance with the methodology of the sixth edition of the Balance of Payments and International Investment Position Manual. As far as the direct investment data is concerned, the sixth edition of the Balance of Payments and International Investment Position Manual introduced principally different approach for their presentation – the Asset/Liability presentation. Taking into consideration the analytical importance of the directional principle presentation (based on the direction of the initial investment), the BNB shall continue disseminating the direct investment data according to it in the Annex Direct Investment of the Balance of Payments monthly publication as well as in the direct investment tables. In accordance with the directional principle presentation, foreign direct investment in Bulgaria amounted to EUR 53.9 mn compared with EUR 94.7 mn in February 2014. In January – February 2015 the foreign direct investment in Bulgaria inflow equated to EUR 128.2 mn compared with an inflow of EUR 137.7 mn in January – February 2014. Direct investment abroad recorded a net increase of EUR 9.4 mn in February 2015, compared with an increase of EUR 5.7 mn in February 2014. In January – February 2015 the direct investment abroad decreased by EUR 16.6 mn, against an increase of EUR 108.7 mn in the same period of 2014. More detailed information on the direct investment is available in the annex Direct Investment (January-February 2015) and in table 10. Direct Investment of the monthly Balance of Payments publication. The Current Account comprises the acquisition and provision of goods and services, income, and current transfers between the country and the rest of the world. The flows recorded on the credit side represent that part of the gross domestic product, which is provided to the rest of the world (exports of goods and services), as well as the provision of factors of production expressed by income receivable – compensation of employees and investment income (interest, dividends, etc.). Recorded are also offsets for non-refundable real and financial resources received (transfers). The flows on the debit side represent the gross product created in the rest of the world and acquired by the domestic economy (imports of goods and services), as well as the acquisition of factors of production expressed by income payable. Recorded are also offsets to non-refundable real and financial resources provided. The Goods component of the BOP Current Account covers movable goods for which changes of ownership between residents and non-residents occur. The data on imports and exports FOB (Free on board) is based on customs declarations, as the codes used in them are after the Harmonized System for Description and Coding of Commodities of the World Customs Organization, introduced in 1988 and supplemented in 1992. With the January 2006 data the Bulgarian National Bank and the National Statistics Institute jointly apply developed by them methodology for compilation of imports at FOB prices and receipts and payments regarding the freight transportation.2 The methodology is based on the analysis of the CIF-FOB correlations for the imports of goods depending on the different imports delivery categories, as well as on the different mode of transportation and nationality of the carrier.

The geographical breakdown of the Goods item of the BOP is based on the following principles:

For the intra EU trade in goods:

- In case of exports (or dispatches) is the country (or Member State) of final destination of the goods - In case of imports (or arrivals) is the country (or Member State) of consignment of the goods.

For the trade with third countries (outside EU)

- In case of exports – partner country is the country of final destination of the goods - In case of imports - partner country is the country of origin of the goods.

The Services component comprises transportation, travel, and other services. The Bulgarian National Bank derives the data on freight transportation from foreign trade data and the data on passenger transportation from travel data on the basis of estimates. With the January 2006 data the BNB introduced a new methodology for compilation of receipts and payments regarding the freight transportation. The freight transportation receipts are set up on the basis of estimated receipts of resident carriers related to the country exports of goods. The payments are calculated as an estimation of the payments made by residents on behalf of non-resident carriers related to the country imports of goods. The receipts and payments are estimated according to mode of transportation and nationality of the carrier. With the introduction of the system INTRASTAT with the January 2007 data changes in the way of compilation of receipts and payments regarding the freight transportation of Bulgaria with the rest of the EU member states took place. Due to the delay in receiving the detailed data on trade of Bulgaria with the rest of the EU member states from the NSI, as of the date of publication of the preliminary balance of payments report for the corresponding month (42 days after the close of the reporting period) the preliminary compilation of receipts and payments of freight transportation is based on data for preceding years. These estimates are subject to revisions after receiving the preliminary detailed data (with breakdown by trade partners and by type of goods) on trade with the rest of the EU member states for the reporting month.

Travel covers goods and services, including those related to health and education, acquired by travelers for business and personal purposes. By the end of 2006 the data on travel is based on data from the Ministry of Internal Affairs on the number of travelers crossing the borders and on estimates of per capita expenditures, the latter based on the methodology for estimation of the receipts and expenditures from travel services – "Methodology For Estimation of the Receipts and Expenditures from Travel in the Bulgarian Balance of Payments" (Bulgarian National Bank, Ministry of Trade and Tourism, 18 November 1999). As of the beginning of 2007 data for the number and the structure of foreigners who visited the country are based on information from the border police and NSI estimates. With the January 2010 data the BNB applies new methodology for estimation of the receipts and expenditures for travel and passenger transportation. The estimation model for the Travel item is based on the product of the number of travelers and the expenditure respective for a certain type of purpose of the travel (for more detailed information and questions, related to the methodologies applied, please contact us through the following e-mail: press_office@bnbank.org). The estimates of the expenditures (receipts) by purpose of the travel are based on the data collected during the Border Survey among Traveling Bulgarians and Foreigners conducted by the BNB during the period July 2997 – August 2008. The new methodology was applied for the first time with the data for January 2010, with back data revisions for the months of 2007, 2008 and 2009.

Other services item covers receipts and payments related to services other than transportation and travel (communication, construction, financial, leasing, insurance, cultural, sport and recreational services, etc.).

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

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

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

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

CAPITAL ACCOUNT

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

FINANCIAL ACCOUNT

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

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

of the direct investment enterprise. Direct investment is reported on a directional basis: direct investment abroad – as an asset, and direct investment in the reporting country – as a liability.
The sub item Mergers and Acquisitions shows the transactions related to mergers and acquisitions. The purpose of its inclusion was to eliminate the influence of such deals over the reported foreign direct investment data. The international practice shows that these transactions have hardly any real impact on the production capacities and employment and the conclusions drawn from the interpretation of foreign direct investment data in which data on mergers and acquisitions are included might be misleading about investment flows, developments, branch and geographical structure. ("European Central Bank, Eurostat, Foreign Direct Investment Task Force Report", March 2004, para.332).
Portfolio investment includes portfolio investment, assets and portfolio investment, liabilities. Portfolio investment covers transactions in shares and equity if the investor's share in the capital is less than 10 %, transactions in bonds, notes, money market and other tradable securities.
Other investment covers trade credits, loans, currency deposits, and other assets and liabilities.
According to the balance of payments conventions trade credit arise from the direct extension of credit from a supplier to a buyer, i.e this is a credit extended by a trade partner without issue of a tradable security. Loans item includes received and paid principals on short- and long-term loans between non-bank financial institutions, insurance companies and pension funds, the Bulgarian National Bank and the Ministry of Finance.
Other investment covers trade credits, loans, currency deposits, and other assets and liabilities.
According to the balance of payments conventions trade credit arise from the direct extension of credit from a supplier to a buyer, i.e this is a credit extended by a trade partner without issue of a tradable security. Loans item includes received and paid principals on short- and long-term loans between residents and non-residents if no issue of a tradable security is involved with these loans. Transactions concerning disbursements and repayments of principals on IMF loans and disbursements on loans on BOP support are not included in the item Loans. They are recorded in the relative items of group E. Reserves and Related Items.
The Currency and Deposits component presents on the assets side the changes in the residents' currency deposits held abroad, and on the liabilities side – the changes in the liabilities of the resident banks to non-residents in domestic and foreign currency. Following the basic accounting principle and conventions set in the "Balance of Payments Manual" (IMF, 1993), when compiling that item the Bulgarian National Bank excludes any changes therein due to exchange rate changes.
Items Other assets and Other liabilities includes all transactions on miscellaneous accounts receivable and payable not included elsewhere and transactions in arrears. The Net errors and omissions component is an offsetting item. This component exists in the BOP presentation because the compilation system used by the Bulgarian National Bank is not a closed one but is a combination of different sources of information. Unlike other statistical reports, such as for example the monetary statistics, the collecting of the data necessary for the balance of payments compilation could not be restricted to the accounting records of the banks as the only source of information.
The fluctuations in the Net errors and omissions, both in sign and in size, are mainly due to: (i) revisions of export and import data, (ii) the development of the methodology for compilation of certain balance of payments' components and (iii) the existence of objective obstacles to the collection of data on certain balance of payments' items.

RESERVES AND RELATED ITEMS

Reserve assets include those external assets that are readily available to and controlled by the central bank (government) for direct financing of balance of payments imbalances. The reserve assets comprise monetary gold, SDRs, reserve position in the Fund, foreign exchange assets (consisting of currency and deposits and securities), and other claims. The entries under this category pertain to transactions in the BNB's external holdings which are administered by the Issue Department. The data on reserve assets changes included in the BOP table excludee valuation changes, due to exchange rate and market price changes.
This group in the analytic presentation of the balance of payments includes also Use of Fund credit and the item Exceptional Financing. The exceptional financing comprises the BOP support as well as deferred/rescheduled payments and payments on arrears, resulting from balance of payments difficulties. In accordance with the methodology for accounting the exceptional financing transactions ("Balance of Payments Manual", Fifth Edition (IMF, 1993), p. 454), the principal repayments on the BOP support credits are included in the Financial Account – Other investment – Liabilities – Loans – General Government.

REAL SECTOR

Gross Domestic Product - production approach

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

GDP - INCOME APPROACH

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

GROSS DOMESTIC PRODUCT BY FINAL EXPENDITURE

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

BUSINESS SURVEY IN INDUSTRY, CONSTRUCTION, TRADE AND SERVICE SECTOR

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

CONSUMER SURVEY

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

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

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

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

INVESTMENT ACTIVITY IN INDUSTRY

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

INDUSTRIAL PRODUCTION INDEX; INDUSTRIAL TURNOVER INDICES

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

TOURISM

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

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

The purposes of visiting a country are the following:

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

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

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

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

CONSUMER PRICE INDICES (CPI)

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

HARMONIZED INDICES OF CONSUMER PRICES (HICP)

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

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

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

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

Statistical unit

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

Data sources

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

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

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

Calculation of average prices

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

Type of index and calculation

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

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

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

Classifications

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

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

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

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

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

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

MONETARY AGGREGATES

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

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

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

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

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

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

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

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

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

MONEY SUPPLY MECHANISM

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

CAPITAL MARKET

SOFIX Index:

Initial date: 20 October 2000; Initial value: 100

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

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

BG REIT Index:

Initial date: 03 September 2007; Initial value: 100

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

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

BG 40 Index:

Initial date: 01 February 2005; Initial value: 100

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

BGTR30 Index (BG Total Return 30):

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

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